



“ONGC Limited Q2FY15 Results Conference Call”

14th November 2014



SPEAKERS:

Mr. A.K. Srinivasan, Executive Director, Chief Corporate Finance.

Mr. Sidhartha Sur, Executive Director, Chief Corporate Planning.

Mr. Alok Saha, GM(F&A), Head Corporate Accounts

Mr. J.B. Bansal, GM(F&A), ONGC Videsh Limited

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Moderator:

Very good evening ladies and gentlemen. I'm Yogesh Sharma, the moderator of this call. Thank you for standing by and welcome to Q2 FY'15 earnings conference call of ONGC Limited. For the duration of presentation, all participant lines will be on listen-only mode. And we have a Q&A session post the presentation. And now, without any further delay, I'd like to hand over the proceedings to Mr. A. K. Srinivasan. Thank you and over to you, sir.

Management:

Good evening ladies and gentlemen. I, A K Srinivasan, ED-Chief Corporate Finance, on behalf of ONGC, I welcome you all in this ONGC Earnings Call for Q2 FY'15. Thank you all for joining us on the call. I'm here joined by my colleagues, Mr. Siddhartha Sur, ED Corporate Planning, Mr. Alok Saha, GM-Head Corporate Accounts, Mr. S. Ranganathan, Investor Relation Cell, and also my colleagues from ONGC Videsh, Mr. K. S. Pandey and Mr. J. B. Bansal.

The financial results for the second quarter and half year ended September 2014 have been taken on record by ONGC's Board today, i.e. 14th November 2014. The results have been released through a Press Note and sent to the stock exchanges. This has also been sent to the analysts who are there on our mailing list. Let me give a synopsis of the results.

The company has earned a net profit, i.e. profit after tax of ₹ 5,445 Crore during the second quarter of FY'15 as against ₹ 6,064 Crore during second quarter of FY'14, a decrease of ₹ 619 Crore (i.e. 10.2%). However, the profit after tax for the first half of FY'15 is ₹ 10,227 Crore as against ₹ 10,080 Crore during the first half of FY'14, an increase of ₹ 147 Crore (i.e. 1.5%).

The decrease in PAT in Q2 FY15 is mainly due to lower crude and gas sales realization by ₹ 1,797 Crore and ₹ 448 Crore respectively. Further the decrease in PAT is attributable to decrease in non-operating income by ₹ 342 Crore and increase in DD&I cost (₹ 28 Cr).



However, this decrease was off-set by decrease in the Government of India's share of profit petroleum (₹ 268 Cr), decrease in operating expenditure (₹ 160 Cr), decrease in exploration cost written off (₹ 159 Cr), decrease in provisions and write off (₹ 491 Cr.), decrease in statutory levies (₹ 387 Cr), decrease in tax burden (₹ 534 Cr). Further this decrease in PAT was off-set by an increase in interest and dividend income (₹ 221 Cr) and increase in VAP sales realization by ₹ 28 Crore

The increase of PAT in H1 FY15 is mainly due to higher crude and VAP realization by ₹ 236 Crore & ₹ 366 Crore respectively and decrease in Operating Expenditure (₹ 1,261 Cr), provisions and write off (₹ 941 Cr.), loss due to Exchange fluctuation (₹ 211 Cr), and statutory levies (₹ 128 Cr). Further the increase in PAT is attributable to decrease in the Government of India's share of profit petroleum (₹ 181 Cr),

However, this increase of PAT in H1 FY15 was partly off-set by lower Gas sales realization by ₹ 196 Crore, Further, this increase has been off-set by reduction in non-operating income by ₹ 423 cr. Increase in exploration cost written off (₹ 2,101 Cr.), DD&I cost (₹ 257 Cr.) and tax burden (₹ 113 Cr).

Our share of subsidies towards under recoveries of oil marketing companies during Q2 FY15 stood at ₹ 13,641 Crore as against ₹ 13,796 Crore in Q2 FY14. The same for the first half of the current fiscal stood at ₹ 26,841 Crore as against ₹ 26,418 Crore for the first half of FY14.

The gross sales revenue for Q2 FY15 is lower by ₹ 1,959 Crore, a decrease of 8.7% at ₹ 20,425 Crore as against ₹ 22,384 Crore in the corresponding quarter of previous year mainly due to negative price variance of Crude, negative quantity variance of Gas & VAP amounting to ₹ 2,474 Crore, ₹ 510 Crore and ₹ 108 Crore respectively, off-set by a favorable quantity



variance of crude (₹ 677 Cr), price variance of Gas (₹ 62 Cr) and Value Added Product (₹ 136 Cr). However this decrease was off-set by decrease in the profit petroleum surrendered, by ₹ 268 Crore.

The gross sales revenue for H1 FY15 is higher by ₹ 573 Crore, an increase of 1.4% at ₹ 42,238 Crore as against ₹ 41,666 Crore in the corresponding first half of previous year again mainly due to favorable price variance of gas and VAP by ₹ 495 Crore and ₹ 671 Crore respectively and favorable quantity variance of crude by ₹ 543 Crore off-set by a negative quantity variance of gas & VAP (₹ 691 Cr & 305 cr.), and negative price variance of crude (₹ 307 Cr) and finally due to decrease in the profit petroleum surrendered, by ₹ 181 Crore.

The gross billing for crude during the second quarter of the current fiscal was at USD 102.13/bbl as against USD 109.03/bbl in the same period of last year, that is a substantial decrease of 6.3%. However, after allowing discounts by way of our contribution towards the under recoveries to downstream marketing companies, the net realization for crude oil in this quarter was USD 41.35/bbl as against USD 44.86/bbl in the same period of last year which amounted to a decrease of 7.8%. Similarly, the gross billing for the first half of this year stood at USD 105.69/bbl as compared to USD 105.91/bbl for the first half of last fiscal. The net realization after discount for the first half of the current year was USD 44.16/bbl vis-à-vis USD 42.58/bbl in the first half of last year. The exchange rate of rupee versus dollar stood at ₹ 60.59 vis-à-vis ₹ 62.13 in the second quarter of FY14. Thus the post discount realization for crude in rupee terms stood at ₹ 2,505/bbl in Q2 FY15 vis-à-vis ₹ 2,786/bbl in Q2 FY14 which amounted to a decrease of 10.1% in INR. However, the net realization in rupee term increased i.e. from ₹ 2,516/bbl in H1 FY14 to ₹ 2,658/bbl in H1 FY15 being an increase of 5.6%.



Interest and dividend income has increased by ₹ 221 Crore in Q2 FY15 from ₹ 1,008 Crore in Q2 FY14 to ₹ 1,229 Crore in Q2 FY15. However, there is no change in the interest and dividend income in H1 FY14 and H1 FY15 at ₹ 1,964 Crore.

The operating expenditure of Q2 FY15 has decreased by ₹ 160 Crore to ₹ 3,765 Crore from ₹ 3,925 Crore and during H1 FY15 the operating expenditure has decreased by ₹ 1,261 Crore to ₹ 7,291 Crore from ₹ 8,552 Crore mainly on account of the decrease in Manpower, Work-over Expenditure, Pollution Control, Administrative Expenses, Transportation of oil and gas, Un-allocable Rig Cost and Research & Development Expenditure. This decrease in first half of FY15 is partly off-set by increase in Water Injection.

DD&I cost for Q2 FY'15 stood at ₹ 2,454 Crore as against ₹ 2,426 Crore in Q2 FY'14 i.e a marginal increase of ₹ 28 Crore.

However, the increase in DD&I cost in H1 FY15 is ₹ 5,016 Crore as against ₹ 4,759 Crore in H1 FY14 which is attributable to increase in depletion by ₹ 408 Crore and off-set by a decrease in depreciation by ₹ 145 Crore.

The exploration cost written off has decreased in Q2 FY'15 to ₹ 1,912 Crore as compared to ₹ 2,071 Crore in Q2 FY'14, a decrease of ₹ 159 Crore. The decrease is on account of lower unsuccessful well cost of ₹ 135 Crore and survey expenses by ₹ 24 Crore in Q2 FY15. However, the exploration cost written off has increased during H1 FY15 by ₹ 2,101 Crore i.e. from ₹ 3,639 Crore in H1 FY14 to ₹ 5,740 Crore in H1 FY15. The increase is on account of higher unsuccessful well cost by ₹ 2,351 Crore in H1 FY15 off-set by decrease in survey expenditure by ₹ 250 Crore in H1 FY15.



Provisions and write off has decreased by ₹ 491 Crore i.e. from ₹ 550 Crore in Q2 FY14 to ₹ 59 Crore in Q2 FY15. The decrease is mainly due to provision of an amount of ₹ 483 Crore made in Q2 FY14 towards VAT/ Octroi/ CST deduction by refineries on discount on crude oil from ONGC. Similarly provisions and write off has decreased by ₹ 941 Crore in H1 FY15 i.e. from ₹ 1,014 Crore in H1 FY14 to ₹ 73 Crore in H1 FY15. Again the decrease is mainly due to provision of an amount of ₹ 919 Crore made in H1 FY14 towards VAT/ Octroi/ CST deduction by refineries on discount on crude oil from ONGC.

During Q2 FY15, the statutory levies stood at ₹ 5,512 Crore as compared to ₹ 5,892 Crore in Q2 FY14, that is a decrease of ₹ 387 Crore (6.6%). Similarly during H1 FY15, the statutory levies also decreased by ₹ 128 Crore (1%) from ₹ 11,532 Crore in H1 FY14 to ₹ 11,404 Crore in H1 FY15. One of the main reason for decrease in statutory levies is on account of crude oil royalty by ₹ 392 Crore which is mainly attributable to decrease in average selling price of crude oil in Q2 FY15 coupled with decrease in royalty on natural gas by ₹ 49 Crore on account of decrease in quantity from 4.886 BCM in Q2 FY14 to 4.344 BCM in Q2 FY15.

Well, friends, with this I finish my briefing of the second quarter results for Financial Year 2014-15. We will be very happy to take questions from you. I and my team members would try to answer your questions.

Moderator:

Thank you so much, sir. Participants, with this, we start the Q&A interactive session. So I request you all, if you wish to ask any question, please press “0” and “1” on your telephone keypad and wait for your name to be announced. First question, we have from Mr. Tarun from Kotak Security. Your line is open. You can go ahead and ask your question, sir. Thank you.

Tarun:

Thanks for taking my question. I just wanted to know that your subsidy discount per barrel in the quarter is



about \$ 61/bbl. So what is the reason for the decline in subsidy discount as versus last quarter? And sir, we have not received the volume numbers yet, so we are really not sure how the production has been in the quarter, I mean, in the sales volume in the quarter.

Management: Basically what happened is that there is a decline in condensate volumes which has just attributed to the decrease in my allocation of the cost of subsidy.

Tarun: Okay. Okay, that's it from my side.

Moderator: Thank you so much, Mr. Tarun, for your question. So once again I request all the attendees, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. Once again, I request all the all the attendees, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. The next question we have from Mr. Vidhyadhar. Sir, your line is open, you can go ahead and ask your question. Thank you.

Vidhyadhar: Yeah, thanks. Just wanted an update on the KG deepwater block. I think there have been some press reports that there have been commerciality of the discoveries has been accepted by the regulator. And also at the approved gas price of 5.61, would these discoveries be viable?

Srinivasan: Recently the volume what has been given, I mean at the price which has been given by the government, as \$ 5.61 per mmbtu definitely discoveries are viable at this price considering that we will be producing oil also from KG DWN 98/2 block. Also what we look at the price is going to be a dynamic price. I mean, the 1st November onwards the price starts. And April onwards the price again gets revised. And we hope that price will go up as it is dynamic price. So by the time the volume is really coming or going to be produced, we are expecting the price to be much above the present level. So at that particular point of time, it looks more attractive for us to produce that volume.



Vidhyadhar:

What about update on KG 98/2 it is very clear that your gas from this block will not be eligible for this premium which is entitled to deepwater and ultra-deepwater blocks which provision is there in the new gas pricing order.

Management:

No, actually what has happen the orders states that all the discoveries which are prior to this notification will not attract any premium. However, we don't know what going through the course of action that is likely to happen. They are considering some premiums on the deepwater blocks which are likely to be there, but whether that will apply to the existing blocks or not, we cannot make the comments right across.

Vidhyadhar:

But there is a possibility?

Management:

It's very difficult to give an answer right now. There can be a possibility. We'll have to pursue with the government to get it even for the existing blocks because deeper zones to exploit oil and gas is a very tough job. And definitely the price which they have set may not be really workable. And definitely they need to relook and re-visit. But right now we cannot make a comment whether they will consider or not. But we hope the request definitely can be taken in board and we will look into it.

Vidhyadhar:

Yeah, my first question was on the more details on the status of the blocks, commerciality being approved by the DGH, and if any details you can give latest on the production when it will start, volumes.

Management:

See, already FDP is under preparation now. And we expect the FDP to be in place by March 2015. And we are working on that press release will be coming for approval of the board. And in the meantime, the DGH is also cleared the DOC. And the FDP will be put up to them for their approval. And we expect the deepwater production to start by 2018-19. And initially we'll be producing gas and then oil which will be peaking up to 90,000 barrels by 2020-21. The gas volumes will start by 2018-19 and it will be peaking around 22 mmscmd



by 2020-21. So we have production starting by 2018-19, and the DOC is in line with that.

Vidhyadhar: Thank you.

Moderator: Thank you so much for your questions, sir. The next question we have from Mr. Harshad from Motilal Oswal. Your line is open, you can go ahead and ask your question, sir. Thank you.

Harshad: Thank you. Sir, can you give your production targets for FY15 and FY16 both in oil and gas, standalone as well as JV?

Management: FY14-15?

Harshad: Yes, sir.

Management: It is 23.51 MMT for crude ONGC standalone. And next year will be 24.03 MMT. And gas 24 BCM for 2014-15. And for 2015-16 will be 25.26 BCM.

Harshad: 25.26?

Management: Yeah.

Harshad: Okay. And, sir, what would be the JV number?

Management: JV will be 3.63 MMT for this year.

Harshad: 3.63 oil, this year.

Management: Yes and gas will be 1.34 BCM.

Harshad: 1.3, okay. And next year?

Management: Next year it is 3.24 MMT. And 1.08 BCM for gas.

Harshad: Okay. And, sir, what's the planned CapEx in FY15, standalone as well as OVL?



- Management:** Presently, the level of CapEx will be in the range of about ₹ 36000 crore. And the same trend will be continuing for the next year also.
- Harshad:** Okay. Thank you. That's all from my side.
- Moderator:** Thank you so much, sir, for your question. The next question we have from Sabnis, CIMB. Your line is open, you can go ahead and ask your question. Thank you.
- Sabnis:** Sir, news reports indicate that the government is looking to divest your shares in a few weeks' time? Are investors likely to get any clarity on the subsidy sharing mechanism before this divestment takes place?
- Management:** It's very difficult to answer from our side. Definitely we hope something will come out. And government is also working on the policy. As such we just can't say whether it will come before the divestment or will it come later. But it's very difficult to say. But something is being worked out by the government.
- Sabnis:** Okay. And, sir, just on the production targets that you've given out, I mean, if I look at the number for oil, you're looking an increased rate to last year, same for gas, whereas if I look at the numbers for the first half, there's a decline in the numbers, especially for gas it's like a decline in numbers. So are you looking like a massive increase in the second half now?
- Management:** Yes, basically the offshore has already started producing. In the first half, if we look at my numbers, I think the numbers have not been put on. But definitely there is an increase in volumes in the offshore in Sept 2014 as compared to April, 2014. And we expect this to increase further. However there has been a setback on the onshore which has led to a drop in the volume numbers, if you compare on a half-yearly basis. But definitely the volumes in the offshore are picking up and we expect these volumes to take us on an increasing trend by the year end. And majority of the volumes are likely to come from the offshore. If we look at the Mumbai High run rate, it is more than 3,15,000



barrels a day now, vis-à-vis which was around less than 3,00,000. So that itself is showing a trend of increase.

Sabnis: And lastly, sir, given the sharp fall in oil prices, can you give us some earning sensitivities, sir, for the oil price fall, especially for, let's say, the overseas production which is completely linked to the oil price?

Management: My colleague from OVL will be able to answer.

Management: Well, Sabnis, the prices today, I think, is USD 74 or 75 per bbl, Brent was USD 78 or 79 per bbl today. At this price all the offshore production is economically viable. It's not a concern as of now.

Sabnis: No, no, Bansalji, what I wanted to know, as, is for a dollar change in oil price, is it possible to give any idea at all on the likely PAT impact for ONGC Videsh?

Management: Well, right now, I don't have the readymade number. But definitely I think I can give it later, not an issue. Yeah.

Sabnis: Okay. Thank you.

Moderator: Thank you so much for your question, sir. The next question we have from Mr. Neil Gupte from JP Morgan. Your line is open, you can go ahead and ask your question. Thank you.

Neil Gupte: Thanks for the opportunity here, sir. Just wanted to check, the CapEx number of ₹ 36000 crores, it includes OVL CapEx?

Management: No, OVL will be about ₹ 14,000 crore.

Management: Roughly OVL CapEx is anything about \$ 1.6 to \$ 2 billion. And that does not include any acquisition, because acquisition we can't have certain in advance. But going by our strength, technical and financial, acquisition is not a concern. And any acquisition, \$ 2 billion is not a problem for us. But this CapEx of \$ 1.6 to \$ 2 billion every year is pure ongoing projects. And



₹ 36,000 crores what Mr. Srinivasan gave a few minutes back, that is only ONGC standalone.

Neil Gupte: Okay, thank you.

Moderator: Thank you so much, Mr. Gupte, for your question. Before we go in and take the next question, once again I request all the attendees, if you wish to ask any question, please press “0” and “1” on your telephone keypad and wait for your name to be announced. The next question we have from Rakesh from Morgan Stanley. Your line is open, you can go ahead and ask your question. Thank you.

Rakesh: Yeah, thanks, sir, for the opportunity to ask a question. Sir, two, first question is on, there's some media reports suggesting government is looking to work out a subsidy formula based on capping the LPG subsidy and SKO subsidy at about 50% between you and the government. Now, have you heard any clarity, has the government sort of involved your senior management on a dialogue on this thing? And second question is, sir, what is your expectation on OPaL? When do you think the plant will be up and running? And what has been your investment in that project so far?

Management: I'll just answer your first question. As far as the subsidy mechanism, there are a lot of options being worked out by the government. There is no firm saying about sharing of 50-50 subsidy. These are all media news which are floating around. But what exactly the policy is going to be taken up by the government will be clear shortly. But definitely they are collecting a lot of inputs from the company for different options. Which is the option they are finally going to suggest possibly a recommendation, we are not clear about it. Second question is on OPaL. OPaL the pre-commissioning activities are already put in process. And the plant is likely to be commissioned by June 2015. And the project is almost completed about 95%. And approved cost of the project is about ₹ 27,000 crores.



Rakesh:

Sir, one follow-up question on, actually two follow-up questions on this. Has there been any cost escalation on this, I mean over and above this ₹ 27,000 crores? And secondly, have you thought about what sort of equity partnership situation finally you have in this project, because I think the initial plan was to take 26%. But what I understand is equity has presently come only from ONGC side.

Management:

Definitely the equity from ONGC is 26%. And there is GAIL which is holding about 15.5%. And GSPC is about 0.05%. And definitely we are looking and scouting for strategic partners. And the negotiations are on with multiple agencies. And I think something should be happening in that particular domain. So presently ONGC holds only 26% on that.

Rakesh:

Thank you, sir.

Moderator:

Thank you so much, Mr. Rakesh, for your question. The next question we have from Mr. Probal Sen from IDFC Securities. Your line is open, you can go ahead and ask your question.

Probal Sen:

I wanted to just understand if any progress can be shared on the Mozambique acquisition that we have done. And secondly, on the KG block, I mean obviously the DOC has been now cleared. What would be the next steps? Can we get some color on what would happen activity-wise for FY16 onwards.

Management:

Mozambique will be shared by my colleague from the OVL, Mr. Pandey. And in the mean time, I'll just answer 98/2. See, we have already engaged agency for preparation of the FDP. And that FDP is likely to be submitted to the company by March, 2015. And after receipt of the FDP, we'll be putting up this FDP to DGH for approval, which is a parallel activity that needs to be carried out. And internally also the company will be looking into the entire FDP, and taking the approval of the Board. So we'll be parallely working on all this so as to cut down the total time. The tendering needs a lot of time and there is a gestation period of almost two to



three years of putting into the production. So all this will happen after receipt of the FDP from the agency.

Management: Mozambique.

Management: Yeah, we will now respond to your query on Mozambique.

Management: In fact, likely production is going to be started by 2019 in Mozambique. And approvals are already there from the Mozambique government. And there are further issues, that's why FID is likely to be cleared by March '15. And for the production, we had declared by 2017-18, but there will be a slight delay. So by one year, we are hoping by 2018-19 production to commence.

Probal Sen: Just one follow-up on that, sir. Have all the fiscal terms for the LNG portion of the project also been decided in terms of taxation and things like that, or those are the only things that are holding up the FID?

Management: Yeah, first the FID will be approved. Then the working with the numbers.

Probal Sen: Okay, thank you very much.

Moderator: Thank you so much for your questions, sir. The next question we have from Mr. Badrinath from Credit Suisse. Your line is open, you can go ahead and ask your question, sir.

Badrinath: Yeah, thank you for taking my question, sir. Firstly, could you please share the production targets for OVL for FY15 and '16, please?

Management: Yes, yes. '15 we have revised very recently. Now our target is the 8.73 MMtoe. And for the '15-'16, we had kept 8.29 mmtoe.

Badrinath: Sir, could you please give us split of oil and gas in these two numbers?



Management: Yeah. RE for the oil 5.63 mmt and gas 3.11 BCM. For '15-'16, we have kept 5.152 mmt and gas 3.142 bcm.

Badrinath: Right, sir. My second question, so which projects do you specifically expect to drive domestic production growth for FY16? And also could you please share the current production level at D1?

Management: Present D1 is producing at the rate of about 31,000 barrels a day and it is likely to peak to round 40,000 by March'15. And next year the average on this will be around 45,000 bopd

Badrinath: Right sir. And could you also help with the other major projects which can drive production growth for FY16?

Management: There are several projects lined up. One of them, major, is the Daman development, Daman development in the western offshore. That's going to drive our gas production up significantly by about 10 to 11 million cubic meters per day in the coming two-three years. That is one of the big players waiting to come up. And there are some redevelopment projects also which are coming up in the next two to three years, that is, Mumbai High north redevelopment, which is already approved, and Mumbai south, which is also in the pipeline. And apart from these, there were other in the East coast which will be parallelly taken up in two to three years' time and we will see the growth in several of the onshore fields redevelopments as well.

Badrinath: Right, sir. Actually I meant is, say, B193 or WO16 or Cluster 7 had any more upside next year, y-o-y?

Management: Cluster 7 has the potential of upside, because it is producing significantly now. And it has potential to improve further in the next two months, with the addition of the FPSO which is likely to come shortly.

Management: It is already in the field now producing.

Management: So there's tremendous potential in Cluster 7.



Management: B193, we are almost somewhere in between middle and the peak, almost at the peaking level now. But in Cluster 7 there's significant potential.

Badrinath: Right. Thank you very much, sir.

Moderator: Thank you so much, Mr. Badrinath, for your question. The next question we have from Mr. Shalindra Jain from BNP. Your line is open, you can go ahead and ask your question, sir.

Shalindra Jain: Hello, sir, I just wanted to ask on exploration cost, like it declined significantly from the last quarter. So what is the reason and what should we be looking for the second half of this year?

Management: See, the exploration business, you cannot predict which numbers will come in which quarter. Basically it depends on the assessment of the drilling activity. And primarily in the first quarter there was a major well which cost about ₹ 1236 crore, which has led us to higher exploration cost charge off. So it is a very unique phenomenon where such huge value of wells come up for write off in the subsequent quarters. So therefore, it is very difficult to say what will be the exact number for charge offs. It depends on the assessment of the field after carrying out all the production testing and all.

Shalindra Jain: Okay. Sir, what would be the average cost per barrel per well for exploration?

Management: Well, for overseas?

Shalindra Jain: Yeah. I mean, what is the average cost per exploration in terms of per barrel of crude?

Management: Nothing called exploration cost per barrel basically, We have different projects. And presently as far as ONGC Videsh is concerned, right now we have few of the exploration projects. And really that can't be predicted because it depends on the status of the well. ONGC and ONGC Videsh follow Successful Efforts Method of



costing. Survey cost is of course charged off as and when incurred, whereas wells are charged off exploration cost as and when status is declared as dry. So I don't think as of now we'll be able to give any exploration cost per barrel for this quarter or next quarter.

Shalindra Jain: Okay. And can you just, sir, repeat the production target for standalone and gas FY15 and 16 both?

Management: ONGC?

Shalindra Jain: Yeah, for ONGC standalone, yeah.

Management: ONGC standalone target for crude oil for FY'15 is 23.51 mmt and 24 bcm gas. And for FY'16 it has been kept as 24.03 MMT and 25.23 BCM gas.

Shalindra Jain: Thank you, sir.

Moderator: Thank you so much, Mr. Jain, for your question. We have our next question from Vishnu Kumar from Spark Capital. Your line is open, you can go ahead and ask a question, sir. Thank you.

Vishnu Kumar: Sir, can you just repeat the OVL production targets for FY15 and 16?

Management: Sure, we'll give you.

Management: For the 14-15, we have kept 8.12 MMToe. Oil is 5.363 mmt and gas will be 2.76 bcm. And for the year 15-16, we have kept total 8.29 MMToe. I mean 5.152 mmt oil and 3.142 bcm gas.

Vishnu Kumar: Sir, where is the reduction in the volumes you're seeing, because you're saying 5.363, 5.15.

Management: Vishnu, we have not budgeted for the South Sudan production. In fact, it was started in FY'13-14 and since December 2013 it has stopped producing. So there is basically a doubt, and we are not very sure when it is going to be started. Even we have not



factored this. But once clearance will be given from the South Sudan government, then it will take six to nine months for the resumption of the production. So there is an uncertainty. That's why we have not kept any target from South Sudan.

Management: But then that will be upside once the production resumes and that will be upside in our production next year. But current year revised budget estimate is higher than last year actual.

Vishnu Kumar: Okay. Sir, in terms of Russia, is there any upside that we can expect in the next one to two years? Because I was reading that Sakhalin we are having...

Management: Yeah, yeah, just I am telling, you are very right. In the Sakhalin one, Russia, there is one field, Arkutun-Dagi which is likely to... I mean first production from that field we are expecting by the end of December or in first week of January '15, because first well is under drilling. So we are expecting by the end of December, we are going to get around 20,000 barrels per day from that...

Vishnu Kumar: So what kind of... okay, 20,000 barrels for the full year or FY16?

Management: Okay, if you are talking about the entire Sakhalin, so for the '15-'16 we have kept 167,000 barrels per day.

Vishnu Kumar: 167 KBPD?

Management: Yeah.

Vishnu Kumar: This is the incremental that you are saying that will come from Russia?

Management: Yeah. Currently we have targeted for this year 152,000 barrels per day. For '15-'16 we have targeted 167,000 barrels per day.

Vishnu Kumar: So only 15,000 incremental is what you are considering?



Management: Yeah, that is because from other fields there will be decline, natural decline.

Vishnu Kumar: Okay. Sir, just seeing the FY14 numbers, the South Sudan volumes was 0.25 mmt.

Management: Yeah, it was 0.252 MMT.

Vishnu Kumar: So even if I add... if you remove that from FY15 and considering the drop and Russian volumes, there seems to be volume drop in some other fields also. Is there any other field there is decline?

Management: 100% we are very sure, there is a logical 6-8% decline because all fields have matured in the entire world. But anyhow we are trying to maintain the production by drilling more and more development wells as per the operator programs.

Vishnu Kumar: Okay. Sir, lastly on the Latin American, in some countries the receivables have been pending quite a many years. Is there any policy that you're considering either to write it off or you're going to still hold the books or any thoughts on that, sir?

Management: Well, as far as receivables are concerned, all these receivables accounted are good enough. There could be some delay because of the government program as of now. And I don't think any company will write off the receivables which are received from the host government. But, yes, I don't have the numbers right now. But definitely as per the policy of the company, as a prudent accounting policy, we do make the provisions. But at least I have no doubt in my mind. And as a company we have no doubt that if money will not be coming. There may be some delay, but definitely money is good and it will come.

Vishnu Kumar: Sir, the Carabobo, what is the kind of volume increase that you can expect in the next one to two years?

Management: Yeah, currently now we have peaked 9400 barrels from 13 flowing wells. And we have targeted 12 wells to drill



in the next year. So we have kept target around 15600 barrels per day for the '15-'16.

Vishnu Kumar: Okay. So the 200,000-odd kind of bpd kind of production, we can expect this would come by?

Management: Now there is a delay because in the development and you can say because of the Venezuela government. So earlier we had predicted by '16-'17 we'll be 400,000 barrels. But it will take time. And it may go up to the '20-'21, because of the poor services and the availability of the facility. As such the oil here is very thick and needs an upgrader for such heavy oil.

Vishnu Kumar: Sure, sir. Thanks a lot for the answers.

Management: Thank you so much, Mr. Kumar, for your question. The next question we have from Mr. Sujeet from BNK Securities. Your line is open, you can go ahead and ask your question, sir.

Sujeet: Hi, sir. Sir, just wanted to know what...

Management: Can you be a little louder, please?

Sujeet: Sir, can I get the production for the marginal fields for this quarter? I mean, where are they currently averaging, D1, B193, Custer 7, so what will be the current production rate?

Management: Current production rate?

Management: B193 about 10,000 bopd. And D1 is about between 30 and 31,000 bopd. Cluster 7 is about 13,000 bopd. B22 is...

Sujeet: Sir, didn't get the last one.

Management: B22.

Sujeet: Okay. That's how much?

Management: 3500 bopd.



- Sujeet:** This is just oil production, no?
- MG:** These are oil.
- Sujeet:** Sir, and on the gas front, will it be possible?
- Management:** Gas C series is about 1.5 mmscmd, B193 is about 1.3 mmscmd. Cluster 7 is 0.4 mmscmd. B22 is 1.25 mmscmd.
- Sujeet:** Okay. Thank you.
- Moderator:** Thank you so much for your questions, sir. The next question we have from Mr. Rakesh from Morgan Stanley. Your line is open, you can go ahead and ask your question. Thank you.
- Rakesh:** Thank you, sir. My question has already been answered.
- Management:** Good. Thank you.
- Moderator:** Thank you so much, Mr. Rakesh. The next question we have from Mr. Amit from Antique Capital. Your line is open, you can go ahead and ask your question. Thank you.
- Amit:** Sir, good evening. Sir, my question relates to Assam. Have we received any notice from Assam government, and with respect to royalty and VAT, what we had seen in Gujarat. So could you give us any update on what is happening...
- Management:** We have not received any notices from Assam Govt.
- Amit:** But it's still possible to do a differential treatment because Oil India in their press release has mentioned that they received a VAT notice of ₹ 1200 crores from Assam government on discount to OMCs.
- Management:** For us, as of now no notice. And we have not carried out any provision and neither demand is there from any of the authorities.



- Amit:** Okay. And what do you think that what will be the behavior of Assam government with respect to the royalty on discount to OMCs when you are already paying it to Gujarat?
- Management:** It's very difficult to make a comment now as this is subjudice. And the case is in the Supreme Court, how the decision will happen, we'll have to wait for some time to know how things happen.
- Amit:** Sir, any proceedings have happened in that meeting?
- Management:** Supreme Court has called for some explanations from the state government as well as the central government. And that is still awaited by them.
- Amit:** Okay. And so Assam government has not joined the case along with Gujarat government?
- Management:** No, not at all.
- Amit:** Okay. And sir, second point with respect to our Mozambique, BPCL has been stating that NPV value of Mozambique could be 1 to 1.5 billion for the 10% stake. While we see that we have bought this stake for 2.5 billion. So is there any thought process basically to take a write-off on the value of investments in Mozambique?
- Management:** There is no question of write off, be sure when we took the block in this current financial year, we have carried out the analysis considering all the factors available today and likely to happen. And of course, I don't have the numbers right now what IRR was considered. And even if I have, I may not be able to share with you. But definitely all the hurdle rate what we have internal, all have been applied and it is commercially viable, that's why we acquired it. And definitely there's no question of write off.
- Amit:** At what price LNG, could you just share?
- Management:** Pardon?



Amit: At what price of LNG it is viable, and at what LNG price it will be viable.

Management: See, as far as LNG price is concerned, I share with you frankly, I don't have right now the model before me, what LNG price we consider, what transportation price we consider. But you will agree that all the LNG prices, these are long-term prices. Any project we have to evaluate, you have to consider the long-term prices. And I don't think in any case the long-term prices between the time we took Mozambique and today have changed significantly.

Amit: Sir, but there is change in the global pricing environment.

Management: Price environment. If you take the crude oil price today, which has happened during the last two months from a 110 or 108 to 78 today, that is crude oil prices. As far as gas prices are concerned, these are long-term we have to take. Again, I am saying long-term prices you have to consider, not the prices of today, or one month or 15 days.

Amit: When you're signing the HOA for LNG supply, Head of Agreements with the... so what is the expected linkages you are expecting to crude or what is expected price you are getting that we will realize on this Mozambique gas?

Management: Let us see. As my colleague explained a few minutes back that FID is yet to be submitted and signed. Let us wait and watch.

Amit: I'm talking about the HOA. See, if you look at, there have been significant announcements by Anadarko that they are signing LNG contracts with the global consumers. So what is the price indication coming from those heads of agreements which have been signed by Anadarko because I think it will be dealt at a consortium level, not at the individual company level.

Management: It is at consortium level. And I admit that I don't have the numbers available with me right now. So there's no



question that I may be able to disclose right now since I don't have.

Amit: Okay. Second is Mozambique you said that decree is issued by Mozambique government.

Management: Yeah.

Amit: So is it being approved by the parliament, because the other consortium partners are still awaiting some parliamentary approval to get the decree.

Management: Yeah, I think it will be taken by the Mozambique government on the next parliament session. Earlier we were hoping in the last session they actually passed this decree. In the next session, most likely they are going to pass it out.

Amit: Yeah. So they have not approved it. They have just basically... have they approved... the parliament has approved?

Management: No, no, they have not approved.

Amit: And, sir, about this KG deepwater block, when you said that the viability is challenging at the price of 5.61, so how do you think that the board will approve the FDP when the current gas prices are not conducive for development of the block, because you know in next six months also, looking at the global indicators, the gas price is not going to be increased by 60 cents.

Management: Hello. See, the FDP is still under preparation. Right at this particular point of time, we don't know what is the capital cost they have considered in the total development plant. But it will be too premature to comment that whether 5.61 becomes viable for that FDP or not. So we'll have to just wait for the final FDP to be put on a record, and based on which we will definitely... whether it's viable or not viable, we can make a measurement keeping the CapEx needs in mind at that point of time.



- Amit:** So historically we have maintained that this block is not viable at less than 6 US\$ at gas price.
- Management:** See, there's not only the gas volumes which are coming from 98/2, there is about 100 MMT of oil present in that. So we'll be starting the peak level of about 90,000 barrels in that. So that will also be a plus advantage, because the gas may not be the sole criteria for making the viability of the entire project.
- Management:** So this liquid will make this viable. Liquid will add to the revenue in a big way.
- Management:** Oil?
- Management:** Yeah.
- Amit:** And sir, what was the basis on what you said that 5.61 will increase by 50-60 cents every half year.
- Management:** I am just saying basically the pricing formula which has been approved by the government is still based on the sixth monthly changes. So the price which has been notified today on 1st of November is based on the moving price up to the September quarter on an ongoing basis. So 1st of April 2015, price notification will consider a weighted average price of the 12 months period ending December 2014. So this will be a dynamic price which will take into account the weighted average price of the major hubs.
- Amit:** Yeah. so in fact, sir, prices till December will be used for deciding the price from 1st of April.
- Management:** Absolutely.
- Amit:** And as of now, in the first 11 months, there is no indication that 50 cents was increased from 1st of April.
- Management:** No, no. See, I was just giving a situation. I didn't say it will increase by 50 cents. It can go without an increase also. I am saying it is a dynamic price, and not saying, it will happen with 50 cents right upfront on 1st April.



It's not possible unless the prices really come out, and we'll know by December end.

Amit: Okay. I thought basically you're referring to some data points, because these 11 months pricing is anyways available with us. Okay.

Amit: Okay, sir. Thanks a lot, sir.

Moderator: Sir, there is no more questions in the queue. So I'd like to hand over the floor back to the management for the final remarks.

Management; Yeah. Thank you very much for participating in the earning call. And good night to all of you from ONGC.

Moderator: Thank you so much, sir. Thank you all for your participation. With this, we conclude the conference call for today evening. You may all can disconnect your lines and have a great evening ahead. Thank you so much.