



Oil and Natural Gas Corporation Limited
Q2 FY23 Earnings Call

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Q&A PARTICIPANTS:

- | | |
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| 2. Puneet Gulati | : HSBC |
| 3. Sabri Hazarika | : Emkay Global |
| 4. Varatharajan Sivasankaran | : Antique Stock Broking |
| 5. Vipulkumar Shah | : Sumangal Investment |
| 6. Vishnu Kumar | : Spark Capital |
| 7. Mayank Maheshwari | : Morgan Stanley |
| 8. Abhishek Nigam | : B and K Securities |
| 9. Hemang Khanna | : Nomura |
| 10. Sumeet Rohra | : Smartsun Capital Pvt Ltd |

Moderator

Good morning, ladies and gentlemen. I'm Pelsia, moderator for the conference call. Welcome to ONGC's Q2 FY23 Earnings Conference Call. We have with us today Mrs. Pomila Jaspal, Director Finance and her team who will interact with investors and analysts to discuss Q2 earnings. As a reminder all participants will be in 'listen only' mode, and there will be an opportunity for you to ask questions after the brief synopsis of the results concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Madam Pomila Jaspal. Thank you and over to you.

Pomila Jaspal

Good morning, ladies and gentlemen. Just to introduce, I'm Pomila Jaspal, Director Finance, ONGC. I welcome you all in this ONGC Earnings Call for Q2 and 6M FY23. Thank you all for joining us on the call. I am joined here by my colleague, Mr. Vivek Tongaoankar, our Chief Corporate Finance, and K. P. Ramesh, our Chief Accounts and Financial Reporting Services. Mr. Anil Kumar, our Chief Commercial. Mr. Pawan Agarwal, our Chief Corporate Planning and Strategy, Mr. Sanjay Bharathi from our Corporate Accounts team, Mr. Nirmal Kumar, and Mr. Chandrashekar from ONGC Videsh Limited and Mr. Prakash Joshi from Investor Relation and Corporate Budget Section.

You will be happy to note that ONGC has compiled its financial results for the quarter and six months ended 30th September 2022 which have been reviewed by the statutory auditors. The financial results have already been released on 14th November 2022 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. Here is a brief synopsis of the results.

The Company has earned a net profit that is profit after tax of INR 12,826 crores during the Q2 of FY'23 as against ₹18,348 crores during Q2 of FY'22, a decrease of ₹5,522 crores, that is 30.1%. During Q2 FY 2021-22, the company had decided to opt for lower tax regime under Section 115 BAA of the Income Tax Act 1961 with the effect from FY2020-21. Accordingly, the company has recognized provision for tax expenses and re-measured its net deferred tax liabilities. The net impact due to availing the option had resulted in decrease in deferred tax by ₹ 8,541 crore in Q2 FY21-22.

The profit after tax i.e. PAT for H1 FY'23 has increased by ₹ 5,350 crores that is 23.6% from profit after tax, PAT of ₹ 22,682 crores in H1 FY'22 to ₹ 28,032 crores in H1 FY'23. The increase in net profit during H1 FY23 is on account of higher sales revenue i.e mainly due to higher crude oil, natural gas and VAT price realizations, then higher other income, that is interest and dividend income.

The sales revenue for Q2 FY'23 and H1 FY'23 has increased by INR 13,908 crores, i.e. 57.3% and by ₹ 33,092 crores i.e. 70.1% as against the corresponding quarter and H1 of the previous year.

The billing net of VAT and CSD for the crude during the Q2 in the current fiscal was at US\$95.49 per barrel, as against US\$ 69.36 per barrel in the same period of last year i.e. an increase of \$26.13 per barrel. The exchange rate of Rupee versus Dollars stood at ₹ 79.81 viz a viz ₹ 74.09. Thus, realization for Crude in rupee terms stood at ₹7,621 per barrel in Q2 FY'23 viz a viz ₹5,139 per barrel in Q2 FY'22 i.e. an increase of ₹2,482 per barrel in the INR terms.

Similarly, gross billing for crude during the first six months of the current fiscal was at USD 101.98 per barrel as against US\$67.45 per barrel in the same period of last year i.e. an increase of US\$ 34.53 per barrel. The exchange rate of rupee versus dollar stood at ₹ 78.55 viz a viz ₹ 73.92. Thus, realization for crude in rupee terms stood at ₹8,011 per barrel in H1 FY'23 vis-a-vis, ₹4,986 per barrel in H1 FY'22 which amounted to an increase of ₹ 3,025 per barrel (60.7%) in INR terms.

The expenditure on statutory levies, that is royalty, cess and excise duty have increased during Q2 FY'23 by ₹ 8,514 crore (139.2%) and in H1 FY'23 by ₹13,160 crore (108.9%) in comparison with similar period of previous year. This increase in statutory levies is actually attributable to increase in sale price of crude oil and natural gas and levy of special additional excise duty by Government of India on production of petroleum crude at a rate revised on every fortnight based on International crude price. This SAED on crude have been levied with effect from 1st July 2022 which amounted to Rs. 6,452 crores in Q2 FY'22.

There is an increase of ₹ 2022 crores in exploration costs written off in Q2 FY'23 and ₹ 2069 crores in H1 FY'23 vs corresponding quarter and half year period of previous year. This increase is due to complete charging of exploration wells amounting to ₹ 2,140 crores lying in the fields falling under contract areas offered under the DSF-III by DGS and awarded to the winning bidders.

The operating expenditure has increased by ₹ 242 crores, that is 4.8% from ₹ 5025 crores in Q2 FY'22 to ₹ 5267 Crores in Q2 FY'23. The increase is mainly on account of an increase in repairs and maintenance by ₹156 crores, transportation expenses by ₹ 64 crores, mainly at Mumbai offshore due to increase in activity and rates. Similarly, the operating expenditure in H1 that is 22-23 have also increased by ₹838 crores from ₹9,823 crore in H1 FY'22 to ₹10,661 crore in H1 FY'23. The increase is mainly on account of the increase in workover operations, ₹ 131 crores. Water injection ₹161 crores due to increase in activities and Repair and Maintenance cost ₹ 276 crores mainly at Mumbai offshore.

Depletion, depreciation and impairment costs for Q2 FY'23 and H1 FY'23 stood at ₹2,595 Crores and ₹7,104 crores respectively as against ₹3,943 crores in Q2 FY'22 and ₹ 8,108 Crores during corresponding year of previous year. This decrease is due to reversal of impairment of ₹ 2,129 crores on certain discovered fields, small fields of the company falling under 10 contract areas which were awarded by DGS to the winning bidders.

Well friends, with this, I finish my briefing of the Q2 results for FY2223. We will be very happy to take questions from you. We would request you to restrict your queries on financial results only.

Thank you.

Moderator

Thank you, Madam. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles.

The first question comes from Probal Sen from ICICI Securities, please go ahead.

Probal Sen

Thank you for the opportunity, Sir. Am I audible?

Moderator

Please go ahead, Sir.

Probal Sen

Yeah, so two questions. One, was with respect to the windfall tax, is there any sense we get in terms of what the minimum floor rate in mind of the government? Can we assume that the net realization's at somewhere between \$75-76 level, if something that is targeted and therefore, respective of where crude is right now, that sort of the net realizations we should be accrued in for the near term?

Pomila Jaspal

Your question regarding the windfall tax, regarding the floor rate and the rate under which conditions, so the government is levying this tax, although officially they have not given any rate, but then in the discussions they have been and that's what we have seen in the seven revisions which have taken place till date, starting from 1st July 2022, that they are keeping our floor rate or something around \$75-76 per barrel. And they are not going lower than that. That is what I would like to say.

Probal Sen

Okay. Secondly, again, on pricing we have the Kirit Parikh committee recommendations that can come at any time, from what we understand, in any, any sense you can give us in terms of what kind of pricing they are looking at? And on the flip side for us, given how low prices used to be till

recently, is it fair to assume even if the price stays at somewhere around, let's say, \$6.5-7 that's something that is more than comfortable for us, at least for the legacy asset, of course, the pricing for KG basin asset value will be different. That will be based on the premium gas price. So, is that a fair way to look at it?

Pomila Jaspal

Yeah. Mr. Probal, I think our relevant person who is going on attending the meetings also, so, he's right here, Mr. Anil Kumar. So, he would like to give an answer to this.

Anil Kumar

Yeah, good morning, myself Anil Kumar, that's correct. The government has constituted a committee headed by Economist Mr. Kirit Parikh and they have conducted, I think they have hold around five meetings. If you see the mandate of the committee, that say that the committee should suggest market-oriented pricing regime for India's long-term vision for ensuring gas-based economy. So, the mandate itself says that the price should be remunerative, so that there should be investment in the oil sector and there should be growth in the oil sector or gas sector particularly.

In the meeting, they have consulted all the stakeholders including association like FICCI, SHM and CII. And everybody is of the view that there should be marketing and pricing freedom and we have been also pursuing that there should be marketing and pricing freedom because all the new gas, there is a marketing and pricing freedom. So, we are expecting marketing and pricing freedom, so, that there should be growth in the industry.

Probal Sen

Okay. One last question if I may on the KG basin assets, any progress you would like to share, any fresh guidance in terms of what volumes could be by the end of this year and maybe for FY24 from the KG division of it.

Pomila Jaspal

This KG division, definitely we have now the volumes with us also and what I would like to share is that, that our FPSO that is likely to sail to Indian waters from Singapore yard and that will be reaching sometime in January or February and accordingly after hooking up the other the subsea hinges and other equipment, we will be ready to have a first oil and the gas. So, what we are projecting is our first oil we will be getting in May 23 and as regards the volumes are concerned, I think, our Pavan Agarwal, he is our Chief Strategy, so he would like to answer that.

Pavan Agarwal

Okay, in the 98/2, we are waiting for the fair-weather season which will be starting from January till April and will be undertaking many activities during this period. FPSO will be arriving. We'll be hooking up our all the subsurface and we expect our first oil to be coming up by May' 23 and during this year 23-24, we envisage to get something around, in the balance of the year of 23-24, we will be getting the oil of something around 1.935 MMT from May till March 24 and increment to gas of around 2.784 BCM.

Probal Sen

Sorry, how much BCM, Sir?

Pavan Agarwal

2.78 BCM.

Probal Sen

2.78BCM of gas and 1.93 MT of oil post May 23. Alright, I will come back if I have more questions. Thank you so much for the detailed answers. Have a nice day.

Moderator

Thank you. Next question comes from Puneet Gulati from HSBC please go ahead.

Puneet Gulati

Thank you so much. My first question is with respect to you know, the increase in repair and maintenance and the activity that you readied at Mumbai offshore. Is it likely to result in increased volume from that field, is it just to prevent the downside, if you can give some color there.

Pomila Jaspal

Actually, this has been a preventive maintenance only. So, that is what it has been happening because during the COVID time and of course the Tauktae also because certain things were, our platform and facilities, there was some kind of you can say, damage to them also during Tauktae and those repair and maintenance are also happening and it will be not in the form of you can say

increase in the incremental production, but it will be more like a regular repair and maintenance and it is a part of OPEX solely, mainly in offshore

Puneet Gulati

Right.

Pomila Jaspal

And after getting the repair and maintenance, so, we will be then getting by the company also to the extent to which the part, which was surveyed and which has been, considered as a damaged part because of Tauktae.

Puneet Gulati

Okay, got it. And from the Vankoda left, is there any indication as to what kind of dividend are you likely to receive and in what currency etc.?

Pomila Jaspal

I will just like to call our Nirmal ji from OVL and he will be the right person to give the reply to this.

Nirmal Kumar

As far as dividends of Vankorneft is concerned, the last dividend was, we had already repatriated that. The interim dividend that we have received recently, that is lying with our Russian banks. And we are working on mechanisms to repatriate that to Singapore which is where our holding company for the Vankorneft asset is there. Because Singapore is presently designated as a unfriendly country by the Russian authority, we have certain issues with repatriation, but we have received the dividends and they presently remain in rubles without Russian bank account.

Puneet Gulati

And then what is a quantum?

Nirmal Kumar

Equivalent of USD 42 million.

Puneet Gulati

Okay. The next question is on this, liability with respect to the note four of your accounts. You have deposited close to some 10,000 crore as service tax and GST. Can you talk a bit about, if this and you've still recorded it as a contingent liability. What is the risk that ultimately that you'll have to pay this fully and if you can give more color around the note four?

K.C Ramesh

Good morning. Basically, we have recognized, we have shown a contingent liability of around 16,000 odd crores and against which we have a deposit of 10,000 odd crores. This deposit is basically like we have made to safeguard ourselves against the interest which can come later on. But we are pretty sure of getting this refund from the government because the cases which were there at the different High Courts, they have not given anything on the law, but they have referred it to the Supreme Court special bench and on the part of, the legal point, we are pretty sure that we will be getting the refund if the case will be in our favor.

Puneet Gulati

And lastly, you can give some guidance on both the oil and the gas production for fiscal 23 ending and 24.

Pomila Jaspal

Oil and gas production, yeah, we have our projections for that.

Management Team

For fiscal 23-24 and 24-25, it will be happy to note that we are going reversing the declining trend of the ONGC production.

Praveen Gulati

And also, if you can, fiscal 23.

Pavan Agarwal

Yeah, the actual production of 21-22 was 21.707 MMT which we envisage to achieve up to 22.823 MMT for 22-23 and 23-24, it will be 24.636 MMT and for 24-25 it will be 25.689 MMT.

Praveen Gulati

Separately, if you can give the breakup.

Pavan Agarwal

And secondly for the gas part, in 21-22 we had produced 21.680 BCM of gas, in 22-23, we envisage 22.099 BCM, 23-24, It will be 25.685 and 24-25, It is around 27.529 BCM of gas.

Praveen Gulati

That's all from my side. Thank you so much and all the best.

Pomila Jaspal

And so, we are on the rising trend.

Moderator

Thank you, Ma'am. Ladies and gentlemen. If you have any question, please press * and 1 on your telephone keypad. I request the participants to ask two questions in the initial round and join back the queue for more question. Next question comes from Sabri Hazarika from Emkay Global, please go ahead.

Sabri Hazarika

Good morning, Ma'am. So, I have two questions. Firstly, an accounting question I mean, if we calculate the windfall tax per metric ton based on whatever we put around 6,400 crore divided by standalone and JV sales, so, the number comes somewhat lesser than what has been like given in the, I mean, in the Gazette press release. So, is there any adjustment on the same?

Pomila Jaspal

So, you mean to say that the windfall tax amount is 6,400 crores. So, what is the issue in this?

Sabri Hazarika

So, if we divide it with your total crude sales. So, it comes something like Rs. 13,500 per metric ton whereas, if we take the average from the government website then it comes to around Rs.

16,200 per metric ton. So, just wondering if there's some kind of like conversion sector, something on that?

Management Team

No, with that, we explained earlier there are different rates applicable for different periods. So, whether you have taken one single rate and done the conversion based on what is there in the government site or whether you're done the actual?

Sabri Hazarika

We have taken the average.

Management Team

That would probably be the reason

Pomila Jaspal

And secondly, you might be considering averages you have evened out, but during the first 15 days of production, maybe little more and then adjustment would be there in the later, so exact calculations may not be in that way very sacrosanct in that way if we take it average,

Sabri Hazarika

Right, but this is like fully accounting for whatever is there in the in the government thing, right? And cess has been like, the OID cess has been netted off, whereas the royalty is on full gross level. That's right, right?

Pomila Jaspal

And something more to add, I think Mr. Anil Kumar, if you can add.

Anil Kumar

Regarding this levy of windfall tax or special additional excise duty, you can see this is a production levy, and that was first time it was implemented from 1st July. So whatever quantity was available in my storage space which was produced prior to 1st July, there duty was not paid. So that's why there will be discrepancy in the working.

Sabri Hazarika

Okay. Got it. So, it's like the inventory sales, which was like produced prior to that and so, but this will be on your sales only right, not on your production because...

Anil Kumar

Excise duty is production levy, it is not sales, sales tax is sales levy.

Sabri Hazarika

Okay. So, we have to take the crude oil production, from there, we have to like multiply that, right?

Anil Kumar

The quantity produced from first July, we have paid the duty.

Sabri Hazarika

Okay, so got it. Thank you. Second question is relating to your dividend payout? So, so I think historically, you have been at the, what you call, 45% kind of an average range. Last year it was less, but it was because of the taxation, why the profit was inflated. So, is it fair to assume that we would be somewhere like 45% kind of payout only, considering that the financials of the company has improved significantly? We have we are now net cash also right now. And I think the CapEx is more or less range bound only at around 30-32,000 crores? So, is it fair to assume 45% payout?

Pomila Jaspal

I think our Chief Corporate Finance would like to address this issue.

Vivek Tongaonkar

So, normally, what we are doing is we are keeping this dividend payout to be between 40 to 55%. And we hope to maintain that depending upon what would be our results in the subsequent quarters also. So, as of now, we will not be able to confirm whether we are going to keep a particular level. But yes, we will try to do it. And hopefully we may be able to do it. Depends on how the pricing or the oil and gas prices behave. And if any levies are there

Sabri Hazarika

The minimum would be 40%. That's what you're saying. Right?

Vivek Tongaonkar

No, that would also depending upon, we have tried to do that, normally we have paid it but we can't confirm that.

Pomila Jaspal

We can't confirm that. We have to see our CapEx plans and the actual profits that will happen during the next two quarters.

Sabri Hazarika

Right. Thank you so much and all the best.

Pomila Jaspal

Thank you.

Moderator

Thank you. Next question comes from Varatharajan Sivasankaran from Antique Stock Broking. Please go ahead.

Varatharajan Sivasankaran

Thank you for the opportunity, Ma'am. Two questions. Firstly, we talked about oil, first oil coming in the month of May. Should I assume first gas is also going to come in the month of May, in which case when will we be doing the auction, and have we worked out the methodology, so, that last time auction problems what we faced is not repeated?

Pomila Jaspal

Mr. Varath, you are talking about auction of gas or crude?

Varatharajan Sivasankaran

Gas Ma'am, KG gas.

Pomila Jaspal:

Gas, KG gas,

Anil Kumar

Yeah, whatever ceiling gas coming, that we are auctioning through IGS or MJunction, depending upon the nature of tenure of the contract because IGX is pertaining for short term sales. So, in case of 98/2 there was a price premium quoted by different agencies. There was, so we have returned back to the, we have discontinued the trading, but again we have subsequently we have already auctioned the same quantity and we have already finalized.

Varatharajan Sivasankaran

So, just to clarify that, Sir, the first gas is coming in the month of May?

Management Team

No. We are already producing the gas from three wells of U field and from May 23. We'll be getting the first oil.

Varatharajan Sivasankaran

Yeah, so, sorry, my mistake. So, incremental gas production will happen in the month of May simultaneously along with the oil. Is that right?

Management Team

That's right, along with the oil production, there will be associated gas production also.

Varatharajan Sivasankaran

In terms of auctions, are we going to also sell that in the IGX, or you will have a separate auction for the gas?

Management Team

There will be separate, in IGX there is condition that you can sell through IGX only 10% of the total production or 500 FPM . So, there's a limitation and over and above the IGX, there is a sale

for the contract period of maximum three months, Of course, at present we are selling only for 15 days or one month. So, there is restrictions in IGX.

Pomila Jaspal

So, what we have to do is we will have to auction it and maybe some quantity we can auction on long term basis also then some quantity we can do through MJunction, as this auction will be through MJunction, on long term basis.

Varatharajan Sivasankaran

And the potential timing Ma'am, most likely in Feb, March or that will be later.

Pomila Jaspal

It will be in May also. Increase of the gas. May. Because some associated gas will come and the activity which we will be doing during our fair-weather window, so that will also give us the results.

Varatharajan Sivasankaran

No, I was talking about the auction timing Ma'am.

Management Team

See, so the question is whether we'll be doing any auction, that is, is that the question for us?

Varatharajan Sivasankaran

Yeah, we will be doing an auction anyway and what would be the timing of the auction?

Vivek Tongaonkar

Whenever the gas is available, depending upon once we are sure about the gas and the quantity that we are going to get, which would be closer towards May, we would be carrying out the auction and sell it on the long-term basis through auction only. We are already selling gas to HPCL and GAIL and so similarly after auction will sell it to whichever party is comes out of that auction.

Varatharajan Sivasankaran

Sure. My second question was on the update on global assets usually what will be the current update? Starting with Russia, specifically Sakhalin?

Nirmal Kumar

Specifically, to Sakhalin?

Varatharajan Sivasankaran

Yeah, Sakhalin, starting with Sakhalin, of course an update across all the global assets.

Pomila Jaspal

Update, yes, our people, they will address the issue.

Nirmal Kumar

So, Sakhalin, what is the last information that you have so that I can give you that update accordingly.

Varatharajan Sivasankaran

Sakhalin, our information is that the production has gone down sharply. Almost down to zero.

Nirmal Kumar

Okay. So, let me clarify here. The reason for the production has not just gone down, the production was stopped altogether. And it has got nothing to do with upstream issue. This was basically a Fallout of the Ukraine conflict. Because of Ukraine conflict, The P&I Club insurance, which is an international insurance club for all seaborne vessels, especially crude oil vessels, this, the owner of the Sakhalin. One Consortium Vessels came under sanctions and insurance was withdrawn, because of which the vessels could not sail the high seas and therefore, there was a tank-top situation and production was shut down. Subsequent to that, in Sakhalin in October, early October, the Government of Russia issued a decree transferring the assets of Sakhalin to a Rosneft owned entity under a holding structure and an option was given to all the foreign participatory interest holders to exercise their rights, which we have done, and we have also received a confirmation that our consent to participate has been accepted.

So, this is the situation as we stand today. Situation will develop further because there are a lot of formalities that needs to be completed on paper for our re-entry into the Sakhalin project. However, we understand that production has already resumed and we will be getting formal updates of that once we are formally back in the consortium.

Varatharajan Sivasankaran

Incremental concern on the insurance front, so, we should look at.

Nirmal Kumar

No, No. now that you have to understand that till today, the operator of Sakhalin was a Western oil major who was unwilling to move out of the Western P&I Club insurance. Now that it has been taken over by the Russian authorities, there are multiple options for insurance including sovereign guarantees and Russian crude is being delivered all over the world through Russian flag vessels and the same thing should be applicable for Sakhalin also, so that question is not going to be an issue.

Varatharajan Sivasankaran

Thanks Sir. How would be other assets?

Management Team

Which assets in particular, we have 33 of them. So, I'll give you the major ones Vancor. Vancor is another asset in Russia, which as far as production is concerned, it has not been materially impacted for the very simple reason that the Russian National Company, the operator of the project continues to produce for the conflict, all the inputs are national and within the country. So, production has not been majorly affected. There has been some issues with outsourcing the materials due to which there has been drop in production of around 10%. But given the volumes in Sakhalin, that is not a major concern. The concern exists for us to repatriate the dividends as and when they happen, which I've already informed before.

Apart from that, the other major asset will be CPO 5, which in this particular half year is our largest revenue generator and net cash flow generator. This is an asset where ONGC is the operator and it's also producing from this field; the order of magnitude is around 25,000 barrels per day of oil production. This was virtually zero 3 to 4 years back. So, it's a major drill bit success. We will be expanding our operations there, drilling additional 5 to 6 wells every year till 2030. We hope to reach 30-35,000K barrels by 2030 should everything go well. Apart from that BM seal four and exploratory block in Brazil, we have given declaration of commerciality and we hope to along in conjunction with operator Petrobras to bring the project online in the next few years. So, that is few of the major projects.

Varatharajan Sivasankaran:

Thanks a lot.

Moderator

Thank you. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. I request the participants to ask two questions in the initial round and join back the queue for more question. Next question comes from Vipulkumar Shah from Sumangal Investment. Please go ahead.

Vipulkumar Shah

Hi, Sir. So, my question is, when will we reach big production in KG basin and what will be the volumes when we reach the peak production for oil and gas? Yes, sure.

Pavan Agarwal

In 98/2, we will be reaching our peak production in 24-25 and that will be to the tune of around 45,000-barrel oil per day and 12 mmscmd of gas.

Vipulkumar Shah:

Would you repeat gas figure Sir, please?

Management Team

It will be around 12 mmscmd, 12 million Standard Cubic Meter per day.

Vipulkumar Shah

Okay and that gas will be subject to any price ceiling or price revision?

Management Team

This gas from 98/2 is getting a higher price as per the price ceiling of the deep waters which is currently 12.46 And it's subject to revision on half yearly.

Vipulkumar Shah

So, I mean ceiling will be 12.46.

Pomila Jaspal

Ceiling is 12.46.

Vipulkumar Shah

Okay, Sir. Thank you, Sir. Thank you very much.

Management Team

Thank you.

Moderator

Thank you, Sir. Next question comes from Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar

Thanks for time. So, on the OVL, just coming around, I heard the updates from you, Sir. But will our production go back to something like 2.1, which we were doing last year on oil, 2.1 million ton we were doing we're currently at about 1.4-1.5. Can we go back to this 2.1 level in about a year's time from now?

Pomila Jaspal

Just wait.

Vishnu Kumar

Yeah.

Nirmal Kumar

So, when you speak about this 1.8 or 2.1? Are you speaking about one particular asset? Because in...

Vishnu Kumar

No, I'm just talking about the overall oil production, which was last year, during the quarterly run rate of about 2, 2.1. We are currently at 1.5 on oil. With the restart of some of the assets that we are talking about, can we get back to that level of 2, 2.1?

Nirmal Kumar

See, you have to understand that the Sakhalin itself it used to produce around 2 million tonnes of oil per year for us. 40,000 net barrels to us, O+OEG . That was what got affected due to the Ukraine crisis. As I told you, we do have information of production restarting. However, there are a lot of inputs that would need to go into the field. Going forward, these inputs will be constrained by the very fact that most of these inputs are provided by Western service providers from the likes of Schlumberger, or Weatherford or Baker Hughes or Parker Drilling. Now to maintain the production at the last level itself could be a challenge.

So, I do not expect to answer your question shortly, in Sakhalin alone from the two levels, we will consider ourselves very fortunate, by the end of this fiscal, we're able to reach 1.5 MMT and that is our target for this fiscal. However, the situation is fluid and as and when the situation evolves, the production should get reinstated in Russia.

Vishnu Kumar

In terms of the quarterly financials of OVL, despite the fall in production, our overall OPEX has not changed. In fact, it's gone up by a couple of percentage points. Just trying to understand that why would that be because between Q1 and Q2, there is a fall in revenue, but we've not seen a commensurate fall in expenses, it's probably, actually higher.

Nirmal Kumar

You are actually asking about the OpEx.

Vishnu Kumar

Correct, OpEx, operational expenditure, correct.

Nirmal Kumar

The reason for that is very simple. In a force majeure situation, we are not able to capitalize many of our expenses and actually make it to the, they get expend that year itself. So, that this is primarily has to do with the force majeure situation in Mozambique, where because we are paying holding costs for our orders at hand and also work-in-progress, this costs actually add to the OpEx. We are not able to capitalize this cost.

Vishnu Kumar

Understood, Sir. I am just trying to understand the OVL CapEx for the next, this year and next year, is there a number I mean, if you could just highlight that. What that number would be?

Nirmal Kumar

Every year, OVL have been regularly spending something like five to six, thousand crores of CapEx every year. Last year it was marginally lower at 5000 crores. But we will continue to spend this amount. This amount is purely for the CapEx for the existing projects and does not factor in any inorganic acquisition that might happen in the meantime.

Vishnu Kumar

What, okay, what is the debt at this entity level Sir?

Management Team

The debt? At present level?

Vishnu Kumar

Yes. Correct, Sir.

Management Team

Our debt is around 4.6 to 4.7 billion Dollars.

Pomila Jaspal

4.7 billion Dollars.

Management Team

This is OVL.

Vishnu Kumar

Got it. Coming to the ONGC part, do we expect any CapEx increases next year? Even mentioned that our, end of the year we said going to take a dividend policy, our CapEx also has to be considered for next year. So just trying to understand is there a thought to increase next year CapEx for ONGC.

Pomila Jaspal:

The thing is that of course, dividend policy is governed by that, but, then we generally, we have the CapEx level of 30,000 crores. But definitely we are into so many MOUs and we are, the way of rectifying those MOUs, especially with regard to the green energy. So, we have to see what all things we have to take up. So, we already have a MOU with the Greenco, that we already have MOU with, of course, that is with the approval of the government NTPC also and then SICCI also. Then we are also having with Equinor. So, we have to see that and now recently with the Rajasthan government also. So, we have to see that how we have to bring that MOU into the implementation mode and see for certain integration projects, especially with regard to the renewable energy. So, that will definitely enhance our CapEx.

Vishnu Kumar

In case, I mean, in case some of these MOUs do fructify, what would be the CapEx probably we might have to invest the next two years, three years.

Pomila Jaspal

I think Greenco itself, that is around 4 billion Dollars. So, that is upstream as well as the, then downstream also. So, they will be, manufacturing through this electrolysis process, ammonia and they will be ammonia and hydrogen. So, all that total CapEx will be around four billion Dollars.

Management Team

Correctly it could be around 1-2 billion Dollars.

Pomila Jaspal

Yeah, 1-2 billion Dollars. Next 1-2 years.

Vishnu Kumar

Okay, so today that number is not there which will probably you will confirm for next year. If you going to invest this additional 1-1.2 billion.

Pomila Jaspal

Yeah, yeah.

Vishnu Kumar

Got it. My actual question was that our dividend policy is between 40 to 55. If our cash flows, additional cash flows allow us, can we go to that 55 % of, you didn't mention about oil price, but anyways, we are around the 75 as a net realization and gas prices are also, we have more or less assuming 6 to 7 we are there, can we get to the 50-55% If this situation continues and our CapEx does not materially increase, can we get to 55%.

Management Team

Please appreciate that what we have declared is just an interim dividend. And we are keeping an eye on the prices which are extremely volatile. We may come out with another dividend depending on the realization that we get in the remaining part of the year. So, on the ultimate payout ratio, we will take a call at the end of the year.

Vishnu Kumar

Got it, Sir. Thank you and all the best.

Management Team

Thank you.

Moderator

Thank you. Next question comes from Mayank Maheshwari from Morgan Stanley, please go ahead.

Mayank Maheshwari

Yeah, hi, thank you for the call. Some, few questions from my end. First was related to the marketing freedom on oil that you guys have got from some time earlier this year. Can you just talk about, have you seen any better pricing and realizations because of this marketing freedom that you got?

Pomila Jaspal

We have really got.

Management Team

Mr. Mayank, there is a loud background noise basically, from your end, I believe.

Pomila Jaspal

Now it's.

Mayank Maheshwari

Yeah, so sorry. I was just talking about the marketing freedom on oil that the government has given for domestic production of oil. If the better realizations that you have got on back of this now and how you're thinking about the next year and the rest of this year itself in terms of discounts that you've kind of giving historically versus now versus the benchmarks?

Anil Kumar

Yeah, thank you. The government has given complete marketing freedom. Pricing freedom was available earlier also. The marketing freedom government has given from first of October, and we have the auctioned that crude in the month of October end for the offshore and we have received a very good response in the auction process. And we see that we have get the premium in addition to reserve price, which was marked to this brand plus from markup of 50 cents. With the premium itself was around, the maximum premium we got in one of the field was 5.5 Dollar per barrel and minimum was 5 cents. So, the, there is a, you see, the market, the crude market is very volatile, and due to Russian crude coming in different parts of the world, the volatility will continue. But we are expecting better price in through auction.

Mayank Maheshwari

Just to kind of clarify the, so the 5 cents to 5 Dollar premium that you're talking about over brent, this was earlier a discount that used to get, correct? Is that fair of 3-4 Dollars?

Management Team

There was no discount. In fact, we see our pricing was linked to benchmark crude of bonilite plus the GPW differential. Now if there's no concept of differential here, because the GPW differential itself reduces the price to the extent of 2-3 Dollar per barrel. So that is, that is a net benefit we are getting through auction, because now it is benchmark to dated brent and plus premium.

Mayank Maheshwari

Okay, so, okay, so you're getting, 2-3 Dollar discount has gone away plus the premium that you're getting up to 5 cents to 5 Dollars. That's the range you're getting. Now, is it fair to say, going forward, your premium?

Pomila Jaspal

And Mayank another important point is that the pricing of crude oil, so that is based on the field-wise FA, which we carry out. And that determines quality with the poor cut method. So definitely, so, once we are into this, so definitely we will get a better price also. And that's what we have seen in this time auction price also.

Mayank Maheshwari

Interesting point, Ma'am. So, Ma'am, is there a number that you guys have in your mind on an overall portfolio basis in the domestic side of a premium nod you will be getting on your overall crude assets.

Pomila Jaspal

Yeah, I think it will be 3-4 Dollars per barrel.

Vivek Tongaonkar

But it is still premature.

Mayank Maheshwari

Okay.

Vivek Tongaonkar

Mayank, what has happened is this is the first auction that we have carried out. It is just for a period of three months only. As the market moves forward and we also come to know about the process, etc. The refineries also get to know the process, we would see how the prices move forward. However, we do expect that we should get a better price than what we were getting earlier on. The amount we would not be able to put a figure on immediately.

Mayank Maheshwari

Got it. Okay, no, that's clear. And the second question was more related to your VAP production, especially in the Dahej, we have seen that it's not yet come back to the normalized levels we had seen historically. So, any update there or when you think things can kind of come back to normal there or it's the new level, we have to now assume that is a lower production on Dahej.

Vivek Tongaonkar

No, the Hage production was lower one partially because the price, high LNG, is based on LNG and that LNG prices have shot up very high. So that was one part of the story. But we do expect that we should be as moving forward, the prices also go down and the prices of the products are better. We would be increasing our production should stabilize and should be better than what it has been in the recent past.

Mayank Maheshwari

No technical issues or anything around production at this point apart from the economic point that you've talked about.

Management Team

No. There is no technical issue.

Mayank Maheshwari

Perfect. Thank you. That's all from my side.

Moderator

Thank you. Next question comes from Abhishek Nigam from B & K Securities, please go ahead.

Abhishek Nigam

Yeah, thank you for the opportunity. So, my question was on Mozambique. And there's a, that situation is still evolving, and we still don't have clarity on when that project is going to start. And meanwhile, there is a lot of time it's got lost. There is a lot more, I've seen development that is happening now versus what was happening two years ago. So, my sense is cost would have also got increased a bit. So, in this background, is there a risk of further impairment on that project?

Nirmal Kumar

You have already detailed out the issues in Mozambique project. However, the situation is not as bleak as you made it sound in the current scenario, because there has been significant progress on the ground with regard to the security situation. SAMIM forces and the Rwandan forces have had been on the ground for more than a year now. They're managed to clear a majority of the Cabo Delgado province where the operations are taking place and there has been return of the IDPs, that internally displaced persons and also the authorities have taken over and situation has resumed.

We, the consortium and operator are very hopeful of Resumption of Construction Operations in H1 of next calendar year. That is what Total is envisaging. So, we should see significant effort on the ground. As far as impairment is concerned, we haven't taken anything for the Mozambique project for present H1. We will review the situation again during our annual accounting process. Next year.

Abhishek Nigam

No worry. Thank you so much Sir. That clarifies.

Management Team

Thank you. Can we have, because we are running short of time now, can we have last two questions, please?

Moderator

Sure, Sir. Next question comes from Mr. Hemang Khanna from Nomura. Please go ahead.

Hemang Khanna

Hi Sir, thank you for taking my question. So, you had earlier mentioned about the volume numbers for 98/2. Could you please also help us with the FY25 numbers? How you're looking at that? And in related to that, could you also share, you had mentioned that earlier, but what is the peak volume for oil and which year is expected?

Management Team

I think I already mentioned for FY25, our oil production envisaged is 2.178 MMT and gas is around 3.831 BCM. And we envisage the peak production in the FY25 to the tune of 45,000 barrels of oil per day and 12 million Cubic Meters of gas per day.

Hemang Khanna

Got it, Sir. Thank you very much. And Sir, lastly, I know the obviously the situation is still fluid given the geopolitical issues. But what would your sense be for OVL production for FY24-25?

Management Team

For FY, which?

Hemang Khanna

FY, FY24 and FY25.

Nirmal Kumar

We are producing a little over 12 MMTA for the past couple of years, and we had planned to maintain the same going forward. However, in the present year, as you know, Sakhalin has stopped production since April, and that has majorly impacted our production, apart from a flood situation in South Sudan, which has been offset due to our increase in production from Colombia. But given the issues in Sakhalin, we would be aiming at something close to 10 MMTA of O+OEG for this financial year. For the next two financial years, it could be not the correct time to estimate, to maintain 12 MMTA of production, should come back to its original production, as it was in time of April, 2020.

Hemang Khanna

Got it. Thank you so much, Sir. Thank you for answering the questions.

Moderator

Thank you. The last question comes from Mr. Sumeet Rohra, from Smartsun Capital Private Limited, please go ahead.

Sumeet Rohra

Thank you, Madam. Hello. Good afternoon to the ONGC team. Ma'am. I would like to, just get your sense on, how do you basically see, the government's approach towards, the windfall tax? Because, I mean, if I'm, if I'm understand correctly, the government has always mentioned that, when crude prices go below 80 Dollars, it's something like they will consider to withdraw. So,

Ma'am, crude is basically now holding between 90 and 100. You know, so effectively, if my understanding is, correct, that basically for a matter of 10, or 15 Dollars, I mean, the entire governance and transparency, which was there in the oil and gas sector is now seized because of the 15 dollars, because, I mean, technically, I mean, the reason I asked you this is because we have investments in downstream as well.

So, the thing is that what's the thought process of the government right, because effectively, it's only a matter of five or 10 Rupees of diesel, which is basically the under recovery. So, what is the thought process of the government Ma'am in terms of the oil and gas sector?

Pomila Jaspal

I think government is quite supportive. That is what we have seen in the last 2, 3 months, since this levy of this additional excise. So, although we have returned to the government, that we have, please withdraw this levy because we have our CapEx plans also and we require the funds our cash flows, this is the time when we can, compensate for the other CapEx projects also. We can do aggressive exploration. Although they are seized of the matter, but at the same time, so, since it is governed by Ministry of Finance, so, definitely government is in a balancing situation. So, because that recently this 22,000 crore has been given to the downstream also out of this windfall tax only. So, that is what they have to balance it out but then even with the levy of this additional excise, our position is quite comfortable. That's what you have seen in the yesterday's financial results also.

Sumeet Rohra

Correct. Yeah. No, no, but not, Ma'am. If I can just ask one thing here. See, I mean, the thing is that all companies that are upstream or downstream, all have got CapEx plans, right? And everybody needs to invest. So, my only, humble point here is that, just for a matter of 5 or 10 Rupees of diesel, I mean, is it, does it make economic sense to hurt the economic interest of the oil and gas sector, because I mean, valuations have completely got distorted, right? I mean, whether you look at it in terms of, whichever companies in the oil and gas, even if you take ONGC's case, for example, I mean, when ONGC used to make half its profit, it was valued at twice the market cap, right. So, effectively, valuations are getting hurt by this kind of, interference by the government, right, because, on one side, they're raising gas prices, but on the other side, they're not raising the fuel prices. I mean, it's totally contradictory, right? So, my humble request is, can you, get some clarity, please hopefully, by the next call, we have?

Pomila Jaspal

We will definitely, we are already in communication with the government, and we will continue taking up with the government in this regard. And we will try to set off all that, these concerns of our investors also to some rest.

Sumeet Rohra

Yeah, because, I mean, manages Saudi, has by cutting production is, defending \$90 in oil, and if they continue to do that for the next several years, so, I mean, so the governance in this space can't be restricted because of, \$15 of crude, right. So, I mean, I think early, you should intervene in this.

Pomila Jaspal

Yeah, sure. We will definitely communicate, yesterday also, in our board, also, our government nominee was there. So, he is he's seized about the matter, and he is also very supportive. And we will continue to be doing that. Okay. Thank you.

Sumeet Rohra

Thank you so much, Ma'am. Thank you. Thank you so much. Think about your investors. Thank you, Madam.

Pomila Jaspal

Yes.

Moderator

Thank you. Now, I hand over the floor to Mr. Tongaonkar, Executive Director, Chief Corporate Finance for closing remarks.

Vivek Tongaonkar

Thank you very much. On behalf of ONGC, we would like to thank our investors, analysts over here for taking this call. And we hope that we have been able to take care of the issues that have been raised by the investors and analysts. And we hope that in future also we'll continue to meet on whenever we have our results. And hopefully we should have good results in the future also. Thank you so much. Bye.

Moderator

Thank you. Ladies and gentlemen, this concludes the conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Moderator

Thank you, Sir.

Note: 1. This document has been edited to improve readability