Oil and Natural Gas Corporation Limited

1st Quarter Financial Year 2021 Earnings Conference Call of ONGC Ltd.

September 2nd, 2020

SPEAKERS:

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Mr. G.K Valecha, ED- CCF,
Mr. G. Sanklecha, ED- CCA,
Mr. Akhil Verma, ED- CP,
Mr. Rajarshi Gupta, GGM Head Strategy
Mr. Sanjay Bharti, DGM (F&A) Corp. Accounts,
Mr. B. Mandal, DGM CP&S, OVL
Mr. Prakash Joshi, DGM (F&A), Investor Relation.

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Moderator: Good morning everyone. I'm Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to first quarter financial year 2021 earnings conference call of ONGC Limited. For the duration of the presentation, all participants' lines will be in listen-only mode. We will open the floor for Q&A post the presentation. I would like to now hand over the proceedings to Mr. Subhash Kumar, Director (Finance). Over to you, sir,

Subhash Kumar: Good morning, ladies and gentlemen. I am Subhash Kumar, Director (Finance) ONGC and on behalf of ONGC, I welcome you all in this earnings call for first quarter FY'21. I also thank all of you for joining the call and in this very difficult time of COVID. I wish all are safe and they continue to remain so. I'm joined in this call by my colleagues Mr. Valecha, ED, Corporate Finance; Mr. Sanklecha, ED, Chief Corporate Accounts; Mr. Akhil Verma, Chief Corporate Planning; Mr. Rajarshi Gupta from Corporate Planning and Strategy; Mr. Sanjay Bharti from Corporate Accounts; and Mr. Prakash Joshi from Investor Relations. Mr. B. Mandal my colleague from ONGC Videsh is also there in the room to answer any specific issues if you may have on ONGC Videsh. So practically, you have everybody who needs to be available on call in this room. So as far as first quarter FY'21 is concerned, ONGC has compiled its financial results for the quarter ended 30th June 2020, which have been reviewed by statutory auditors. The financial results have already been released on 1st September, i.e. yesterday, through a press note and sent to the stock exchanges. These have also been sent to the analysts who are there on our mailing list. Let me give a brief synopsis of the results.

The company has earned a net profit that is profit after tax of INR 496 crores during the first quarter FY'21 as against INR 5,980 crores during the first quarter of previous fiscal. This translates into a decrease of INR 5,484 crores, which is a reduction of around 92%. The decrease in net profit during the current quarter is on account of lower sales volume, which is marginally lower, but largely because of the lower crude oil price realization and lower gas prices also and our other income has also been lower. But major contributor, as we would see later, is the lower crude oil prices.

Sales volume for Q1 of this fiscal has decreased by INR 13,522 crores, which is a reduction of roughly 51%, and is at INR 12,934 crores during this quarter against INR 26,456 crores in the corresponding quarter of the previous year. The sales volume in the current quarter has decreased mainly on account of lower sales revenue by crude oil. In fact, INR 9,817 crores is attributable to lower sales revenue from crude oil. Natural gas revenues are lower to the extent by INR 2,221 crores and value-added products are short by INR 1,650 crores.

The billing that is net of VAT and CST billing price for crude during the first quarter of current fiscal was USD 28.72 per barrel as against $66.32 barrel in the same period of last year. And if we talk of this actually translates to a decrease of $37.60 per barrel and in terms of percentage, this is a reduction of 57%. The exchange rate of rupee versus dollar stood at INR 75.86 to $1 versus INR 69.56 in the first quarter of FY'20. Thus, the realization of crude oil in rupee terms stood at INR 2,179 per barrel during the first quarter of this fiscal versus INR 4,613 in Q1 of previous fiscal, which actually also amounts to reduction of INR 2,434 per barrel in INR terms, and actually, this is lower by around 53% compared to the previous reference.

The amount of profit petroleum has consequentially decreased by INR 211 crores. This is a reduction of almost similar magnitude of 55% from INR 383 crores to INR 172 crores in Q1 of this fiscal. The decrease is mainly at RJ-ON-90/1 by INR 143 crores and PMT by around INR 80 crores.

The operating expenditure has decreased by INR 626 crores. This is a reduction of 13.1% from INR 4,784 crores in Q1 of previous fiscal to INR 4,158 crores in Q1 of FY '21. The decrease in Q1 FY '21 is mainly on account of decrease in workover expenditure, which has come down by INR 74 crores; repair and maintenance by INR 102 crores, mainly at Western offshore; manpower expenses by INR 110 crores due to decrease in traveling, training and other staff-related expenses, I mean, the part of it is attributable to whatever restrictions have come in the wake of COVID; transport expense by INR 72 crores; consumption of materials by INR 242 crores pertaining mainly to Dahej plant where actually we purchased LNG for the purpose of consumption at C2-C3 plant. This has been partly offset by increase in CSR expenditure. And as you would know, we contributed INR 300 crores to the latest fund setup by government of India to PM CARES Fund and the transportation of oil and gas mainly at Western offshore INR 34 crores.

The finance cost has decreased by INR 154 crores. That's a reduction of 31.36% from INR 646 crores in previous fiscal Q1. It has come down to INR 492 crores in this quarter. This decrease is mainly on account of decrease in short-term loans and commercial paper borrowing. Actually, it's a function of both, the magnitude of borrowing as well as the rate. We have started getting very, very low prices in terms of interest cost.

DD&A cost for Q1 FY '21 stood at INR 3,822 crores as against INR 3,738 crores in Q1 of previous fiscal. That actually translates to roughly an increase of around 2% and in absolute terms, it's an increase of INR 84 crores. The increase is due to increase in depreciation by INR 83 crores, increase in impairment by INR 347 crores and decrease in depletion by INR 346 crores. So the figure is within 2 percentage points. Increase in depreciation is mainly due to implementation of

Ind AS 116 and depreciation on addition of other property, plant and equipment. The decrease in depletion is mainly at Mumbai offshore by INR 541 crores due to decrease in production and up-gradation of reserves as on 31/03/2020. The increase has been partially offset by INR 309 crores due to down gradation of reserves at Assam asset and other onshore fields, which actually have consequentially resulted in higher depletion.

During Q1 of this fiscal, the statutory levies stood at INR 2,981 crores as compared to INR 6,237 crores in Q1 of previous fiscal, that's a decrease of INR 3,256 crores and roughly of the same magnitude as the oil prices. This is a reduction of around 52%. The decrease in royalty on account of crude is INR 1,529 crores and cess by INR 1,554 crores is mainly attributable to decrease in average selling price of crude from INR 34,517 per metric ton in Q1 FY'20 to practically less than half at INR 16,373 per MT in Q1 of FY '21. Well friends, with this, I finish my briefing of the first quarter results in financial year 2021. We'll be very happy to take questions from you. We would request you to restrict your questions mainly on financial results. Thank you. Thank you very much.

Moderator: Thank you so much sir. With this, we will open the floor for Q&A interactive session. So participants, if you have any question, please press '0' and then '1' on your telephone keypad and wait for your line to be unmuted. I'll repeat, to ask a question, you need to press '0' and then '1'. First question of today we have from Pinakin Parekh from JP Morgan. Your line is unmuted. Please go ahead.

Pinakin M. Parekh: Sir, the first question is that the board has taken large approvals to raise funds. Now, sir, can you walk us to, what is the requirement of this funding in terms of capital spend and what is the company's view? And second, how should we look at the balance sheet? Because on a stand-alone basis, ONGC has always been cash-rich. So should we now look forward to ONGC adding more debt on its books?

Subhash Kumar: Okay. I think that's a good question because it did create a bit of confusion when that statement was submitted in stock exchanges. Let me put it this way. Actually, we have had a number of approvals as far as the borrowings were concerned. So there was one approval which we obtained in 2017 AGM, which was for the purpose of issuing the secured debt to the extent of INR 25,000 crores. So then when we took over HPCL in January 2019, there was further enhancement in the debt raising capacity. So that was resolution #2. So when we issued EMTN there were another set of board approvals. So what we have done this time, since there is a substantial change in the regimes and requirements and compliances, some of the compliances which were required in 2017 are no longer required, and some of them have been upgraded. So what we have done is we have done nothing different, but taken all the previous approvals and merged all of them into one document. So just to allay the apprehension, there is No. 1, this limit is no more than what we were entitled to do the previous day. It is just an integrated or aggregation of all the approvals, three-four approvals, which we have had. And we have put them in single resolution, so that #1, the board is fully aware and from corporate governance perspective also the limits are revisited. So as far as INR 45,000 crores overall limit is concerned, it was a pre-existing limit, probably in three-four approvals, which has been brought in single approval, so it's an aggregation process. So as far as what we are talking today, our debt position remains on a stand-alone basis perfectly healthy. In fact, we are at around debt-to-equity ratio of around 6% to 7% or so. And at a consolidated level also, we are comfortable. So there is no immediate plan of anything as of today. That's the time frame.

Pinakin M. Parekh: Understood. And sir, just to follow up from there, in this context and given the view that oil remains at $40-45 for the next couple of years, sir, can you give us a broad overview of the Capex plans at the stand-alone and the consol entity for this year and next year? What is broad Capex plans and where does the company intend to spend?

Subhash Kumar: Okay. So company has been spending, let's say, around INR 30,000 crores to INR 32,000 crores on an annual basis. We had planned to spend some INR 32,000 crores plus as far as ONGC is concerned for the current fiscal also. But I believe that COVID itself will put restriction on the quantum of activities we can pursue during this current year. We have had run a quick test of what actually may not be possible. Even if we wanted because practically quite a few of our projects are in open places and some of them are also affected because of international supply chain dynamics. So consequently, some of the projects are likely to get delayed, and consequently, the Capex flow or the money to be paid for them would actually get shifted to the next year. So when we did a quick analysis, we thought that, that figure of INR 32,000 crores plus will come down to INR 26,000 crores plus. That is one part of it. And as far as the Opex is also concerned, there are going to be decreases on the Opex side also, we believe that we would be able to have some savings on Opex side also. So these are the quick estimates. So as such, even if we were not to make a conscious effort to reduce the Capex, in fact, that has not been made because India does not have luxury of too much of oil. So we are not in the same situation as some of the other entities globally. But as it is also, given the time period lost and given the disturbances in international supply chain as it is also, it is likely that Capex will get reduced by around INR 6,000 crores.

Pinakin M. Parekh: Understood. Thank you very much sir.

Subhash Kumar: Okay.

Moderator: Thanks for your question. Next we have Nafeesa Gupta from Bank of America. Your line is unmuted. Please go ahead.

Nafeesa Gupta: Good morning, sir. Sir, my question is on the KG-98/2 gas. Sir, could you tell us how much gas are we getting as of now? And at what rate is it being taken?

Subhash Kumar: So I'll request one of my colleagues to answer the question, Mr. Rajarshi Gupta.

Rajarshi Gupta: We started this production in February-March of last financial year and it was on a trial based testing for one of the wells, which has been completed and it was running. However, due to COVID situation, the GAIL offtake was stopped during this period. So we are completing the other wells in the meantime and as soon as GAIL start offtake, the production will resume. But on the first well, on a trial basis, the production was 0.24 mmscmd per day.

Nafeesa Gupta: And sir, what rate, what is the price?

Rajarshi Gupta: Price, I'd not like to share, but it is a pricing and marketing freedom gas. So we are getting good price in the market, and we are happy with what contract we could enter into for the long term.

Nafeesa Gupta: And sir, just on this gas prices being there is the possibility of them going lower in October. So will it have any impact on the volumes of KG Basin?

Subhash Kumar: So it has to be looked at this way, that for oil and gas projects, actually, they are long lead time projects. So when you have already spent and made commitments as far as CapEx is concerned, then variable cost of production is much lower. So it does not make sense to stop the production midway simply because prices are likely to be lower. And as far as what you are probably referring to are the prices of nomination gas. Also since LNG prices have been low, there would be an impact on the ceiling also. But we are also hopeful that entire issue of pricing relating to gas should be under active consideration of the relevant authorities, and at some time needs to be got addressed. Because today different molecules from different fields, depending on the source, they are getting priced through different regimes. And consequently, there is no long-term certainty for any investor to look at the price which he can realize from the gas business. So we believe that there will be low prices will also stir thinking on this part, and probably, there will be some freedom, some deregulation on this account. Consequently upstream should at one or the other point be able to extract a price which is remunerative and safe for the investments which have been made. So low prices actually could end up being a breather, which gives scope for rethinking on the policy front.

Nafeesa Gupta: Got it, sir. And another small question, sir, we've not adopted the lower tax rate yet. Sir, could you give the amount of MAT credit that we have? And also your views on whether we will adopt it or not likely in this year also?

Subhash Kumar: Okay. So actually, we have had MAT credit, and don't hold it against me if I'm wrong with the figure. In last year, actually, if I remember correctly, it was of the order of magnitude of around INR 5,000 crores. So if our preliminary assessment for that figure was that we would need to take a review on the matter by around December accounts this year, so because it is dependent on so many factors, including what prices hold from going-forward basis. Prices had touched $15-16 in a particular month, and they have revised to plus $45 also or plus $40 in any case. Now from this point onwards, whether they stay here, they go up and what is the tax implication, that is something we plan to look at once we are clear about earnings by third quarter. So around about the December timeframe, we will start looking at whether we need to make a transition or not. That's the time line.

Nafeesa Gupta: Got it sir. Thank you.

Moderator: Next we have Sabri Hazarika from Emkay Global. Your line is unmuted. Please go ahead.

Sabri Hazarika: Yeah, good morning, sir. Actually, I have a couple of questions. The first one is, of course, on the cost so the cost has seen a substantial drop around 50% drop Q-o-Q and Y-o-Y is also around 20%. So how much of this drop can you attribute because of COVID situation and how much because of lower oil prices in the savings?

Subhash Kumar: So actually, let me answer the last question first, which is the easier one. Around 31% of our top line goes into major statutory levies, which is royalty and cess. So consequently, since the prices have been low, so the 31% element or 32% element of it has been low. So that's a very, very large impact. Second is that, as you know, the COVID has reduced the movement to the bare minimum, and the supply chain in certain respects has also been challenged, requiring people to come out with imaginative solutions as far as delivery of products and services are concerned. What it is going to what impact COVID is going to play on a going-forward basis is anybody's guess because everybody is entitled to his opinion. My personal opinion would be, this may not be organizational opinion, that the world has changed forever. Whenever COVID actually situation relaxes, still people will be very reluctant to travel. Technology will become the mainstay and consequently, cost on this account will come down drastically. Internally, I can tell you for ONGC itself, we have already launched a major initiative to create a scenario where all our projects are able to operate in kind of location-agnostic scenario. For example, if something similar happens in the future, so we at least support services, entire support setup, in, let's say, one example, if I pick up in Assam, we should be able to operate from anywhere in the country. So that's the kind of technological leaps we are intending to make within next six months or so. In fact, we have tested our systems. I believe around 95% of it we were successful and people were able to operate from home and still effectively discharged the function. So we are already there. But the gap between 90% to 100% and a lasting one is responding in a crisis and other is creating a lasting culture of change that will happen within a year or so. So we will be for all practical purposes except for the people in the field, we will be location-agnostic in a year or so. So that's what I'm saying in our own context, which is considered to be a very brick-and-mortar context. So for rest of our value chain, the changes expected are far more dramatic, which will expectedly result in savings as far as cost is concerned. But these are some of these are my thoughts and I trust going forward basis, there would be substantial savings in terms of manpower, improvement in supply chain and all.

Sabri Hazarika: So, sir, if I look into your expense head leaving say statutory levies, if I look into other expenditures, exploratory dry-well write-off and say so for example, depreciation and depletion. These are three of the major P&L expenditures head. So you had a close to INR 20,000 crores of other expenditure in FY '20. So this is just for the quarterly fluctuations. Now so again this INR 20,000 crores of other expenditure and possibly around INR 7,000 crores to INR 8,000 crores were dry-well write-offs and another INR 18,000 crores to INR 19,000 crores was DD&A. How do you see it in FY '21-'22, if you have any rough-cut estimate or rough-cut guidance on the same? These three items in particular other expenditure?

Subhash Kumar: I think DDA&I are more related to the historical costs because the figures have been capitalized in the past. As a result, actually, there may not be a substantial decrease in the elements of this kind, which is DDA&I. As far as rest of expenditure are concerned, which are on current basis, for example, starting from workover expenditure, water injection, pollution controls, which are incurred based on the contracts entered into recently and directly, these are expensed. There will be a substantial reduction. What we also think is that wherever there are certain items like unallocated rig costs, etc. With improvement in technology and reduction in the, let's say, footprint size of administration, this should also come down drastically, while that has been a cost in the past. So whatever are the current expenses, DDA&I would probably remain the same or because of the capitalization of some of the project costs, which are in capitalization state, it could impact also end up going higher, but we won't mind that because then it's a function of production being sustained at the same level because ultimately it would have something to do with that. But rest of the elements, which are current expenses, they are likely to come down significantly.

Sabri Hazarika: Right and just two very small questions. First is, what was the debt level at standalone level as of June end?

Subhash Kumar: So we did declare debt when we made the COVID announcement. So it's not materially different from that. Just a minute, I think...

Sabri Hazarika: INR 13,000 crores, INR 14,000 crores? Right?

Subhash Kumar: Yeah, it was around INR 15,000 crores.

Sabri Hazarika: Sure sir.

Subhash Kumar: Yeah, around INR 15,800 crores or so. INR 15,812 crores to be specific.

Sabri Hazarika: Right. And sir, you mentioned that you have paid profit petroleum on Panna-Mukta and Tapti. Now that it has been like in nominated block pricing, so still the profit petroleum regime is there?

Subhash Kumar: That part you reminded me, actually I'll check. It actually is there, but I need to cross check. The reference was for last year, I trust that in last year we had paid. As far as from 21st of December, we are not paying it. So it was more in context of what we did versus the first quarter of previous fiscal. That explanation was more in terms of why it was higher in the previous fiscal.

Sabri Hazarika: Right sir. Got it, sir. Thank you so much and all the best.

Subhash Kumar: Okay. Have a nice day.

Sabri Hazarika: Thanks.

Moderator: Next we have Swatantra from Axis Capital. Your line is unmuted. Please go ahead.

Swatantra: Yeah, hi sir. Thanks for providing me the opportunity. Just a couple of questions here. Were there any incentives you have received from the government during the lockdown? Or do you expect to get any incentives as we move out of it? That's the first question. And second question is if you can give me what is the nameplate production capacity of our total products other than the crude and gas production, which is LPG, naphtha, C2-C3, and SKO and other products? So if you can give me that number. And what are the plans here to ramp up?

Subhash Kumar: Okay. So I think first question, as far as the support from government is concerned, so immediately when prices fell to below $20 kind of things, there was a lot of consultation with government and the different organs within the government and there was a very active engagement. And there was sympathy that upstream operations need to be supported and they deserve the support. So that process had started. Our request for support on cess and royalty, which was widely covered by press not materially different from what was covered by the press, how much was expected. I would not confirm or contradict any one of them. But the proposal was sent and it was under active consideration. I believe that the same is still under active consideration, but the only factor could be that the prices have revived since then. So it may not in opinion of the relevant authorities receive the same kind of attention, which it was likely to receive, let's say, in April timeframe. That is point #1, and I'm making it very clear comment. Second point is that second aspect, which I'll tell you is that notwithstanding this part, the progress has not been there, nothing concrete has come. Yet the government is making all of efforts to streamline the functioning of upstream E&P sector. So you would have heard, government has taken very active steps to create a gas exchange. They have constantly pursued the revival of activity in all projects. Ministry of Petroleum is putting a lot of emphasis on increase in pipeline capacity in the country as far as gas is concerned, then through Atma Nirbhar Bharat also, they are wanting to expand the domestic petrochemical production and all. So government is conscious of the matter and in this respect only I told a little while ago that we believe that as part of this discussion, which is a more of a policy change, we do anticipate that pricing and allocation regimes on oil and gas should be a matter of history after this process is over. And sooner or later, different molecules of gas could be entitled to a free pricing, which would be the right way of going through as far as the pricing for gas is concerned. So that's point #1. As far as the point #2 is concerned, actually, our production capacity of these value-added products is directly commensurate with the kind of gas production we have and largely from offshore. And historically, we have stayed in the range of around 3 million to 3.5 million tons. That's the kind of range in which we will operate. We are in the process of upgrading some of the units, which were set up in the past at Hazira. So, these could go up by around another 10% when you have the better upgraded facility. We have naphtha production of around 1.3 million tons, LPG of around 1 million ton and C2-C3 of 1.5 million ton. So some effort is going on to upgrade and improve the yield a little bit. And I think the in peak we had done at around 3.64 is what we did in 2018-19. We believe that we will remain within 10% of it. So even if improvise the facilities if we put I think we could touch 4 or so. That's likely to be the maximum. But it's a function of how much liquid is there actually in the gas, which comes to these installations.

Swatantra: Sure sir and thank you so much.

Subhash Kumar: Okay.

Moderator: Next, we have S. Ramesh from Nirmal Equity Private Limited. Your line is unmuted. Please go ahead.

S. Ramesh: Hello. This is S. Ramesh from Nirmal Bang Equities. Good morning, Subhash ji. Thank you very much.

Subhash Kumar: Morning.

S. Ramesh: Yeah. So I just had a couple of questions on the results. One is there is a segment loss in the onshore segment, of INR 193 crores, and it has come down pretty sharply from the fourth quarter. So if you can explain that, would be great.

Subhash Kumar: So fourth quarter was largely attributable to the impairment provision, which had to be made. And this time, we have no further impairment losses. So that's the major reason.

S. Ramesh: Sir, but this loss of INR 193 crores is entirely due to gas or from the onshore field?

Subhash Kumar: INR 193 crores is actually a mix of losses from different fields. So it is not necessarily gas only. See, our cost of operations and production from onshore is higher compared to the cost from offshore fields. And just to give you a ballpark figure, when we used to say last year, let's say, we said these are roughly ballpark figures. When we said that our average cost is $40 per barrel, actually, for onshore, it was of the order of around $44 to $45, and for offshore, it was $36-37. So that is how, at the end of the day, it converts at $40. And with a price of around $60, actually 32% of that was the statutory royalty and cess. So consequently so onshore, actually, the cost, if we were to work out on a quick basis, it was $49 per barrel last quarter, quarter four of FY '20. And which has come down to $39.89. majorly because of the change in statutory duties which is function of price.

S. Ramesh: Yeah. I understood that. So the next question is on the consolidated segment details. So there also, if you look at the results, there is a share of JVs, which shows a loss of INR 375 crores in refining. Which refinery does it pertain to? MRPL is being consolidated as a subsidiary, if you are having a share of JVs showing a loss in the refining, what is that due to?

Subhash Kumar: I think it is referring to MRPL only. There is no other refinery in joint venture. So if it is classification somewhere, just a minute, then it’s actually refer to MRPL.

S. Ramesh: Okay. Fair enough. And if you were to look at your cost of exploration in this quarter, it has come down sharply. So is it because your overall costs have come down? Or is it a reduction in the exploration activity?

Subhash Kumar: So it's a blended situation actually. See, acceleration is carried out in open area. So consequently, the movement is lesser. So that is also a factor.

S. Ramesh: So do we see it going back to normal levels? Or would it be a function of the oil prices and your cash flows?

Subhash Kumar: Actually, see, exploration is quite seasonal in activity. One is, in the field season, actually, I think it also comes down. So as the situation improves during the third quarter onwards, probably it will pick up and come back to the normal level. But still actually you have to understand that the exploration happens in an open area and there could be certain issues when you send your manpower to open areas, and there may be a little bit of distance and we may have to operate under very restricted conditions.

S. Ramesh: Okay. So one last thought in the result notes numbers 4 and 5, one is referring to arbitration related to PMT and the second is related to GST which you have paid under protest. Can you give us some thoughts on that? And how do we really interpret that in terms of the potential impact going forward?

Subhash Kumar: So there is no progress, no change in status in both accounts as far as developments during the quarter is concerned. And we do anticipate based on the discussion that clarity could emerge on PMT part during the end of this fiscal or maybe even during the year '21, '22. As far as GST is concerned, again, there is no movement on the issue and the position remains the same.

S. Ramesh: Okay, sir. Thank you very much. Congratulations and all the best.

Subhash Kumar: Thank you. Thank you very much. Have a nice day!

S. Ramesh: Sure.

Moderator: Next we have Vidyadhar from ICICI Securities. Your line is unmuted. Please go ahead.

Vidyadhar: Yeah. Thank you. Good morning to all. So my first question is on this Opex decline. So what you are basically suggesting there is other expenditure, which has fallen in Q1 where is room to fall further from where we are?

Subhash Kumar: So I mean very difficult to comment on each element on an immediate basis.

Vidyadhar: No. No, no. I am...

Subhash Kumar: Yeah, yeah. As I go along, I do believe that the supply chain efficiency will improve and consequently, costs should come down over a period of time.

Vidyadhar: So you are saying not only it is sustainable, but it could actually go down further.

Subhash Kumar: At least it is sustainable. I would not make any statement to the effect that it could go down further, but it is likely to stay at this level at least.

Vidyadhar: Sure. And second question was on the KG Deepwater gas. So just wanted to understand whether how much of your KG Deepwater block volume you're tied up with GAIL and is the pricing linked to the ceiling price? Is it some discount, whatever to be the ceiling price? Or what is it linked to is what I was trying to understand? And how much of this volume is tied up with GAIL and for how long?

Subhash Kumar: So I think the specific answer, I would not have immediately, but there is a one or two formulas being tried. We are coming up with a formula, which reflects the market reality. And reality is that LNG remains a kind of competition for this kind of supply, especially formula detail I don't have presently. It is compliant with as far as the existing commitment is concerned, that is perfectly compliant with the existing framework, but it has to stay within the ceiling. Proposed formula also has the same parameter, except that the constituents of formula are a little bit different. So but specifics of formula, I don't have readily with me.

Vidyadhar: And have you tied up most of this volume with GAIL or?

Rajarshi Gupta: The volume tied up is only for the 1 well, which is being test flowed now, as which is why some of there will be fresh contracts.

Vidyadhar: So the new volume pricing as well as the volume will be freshly discovered. So this will go to and as well as the pricing.

Subhash Kumar: Correct.

Vidyadhar: Okay. Now -- yeah, just a couple of other questions. One was on the -- I just wanted to find out that in the first quarter, let's say, if your gas volumes have been flat or higher, would actually have done worse? Because it's 15% fall in gas, was it actually a good thing from a results perspective?

Subhash Kumar: No, no, how can it be? Because see as far as we are not recovering, nobody understands it better than you. You are asking this question Vidya. Actually, reality remains that most of our expenditure is fixed in at least in a short term. So if you talk in terms of, for example, establishment. We have all other projects running. We were ready with to service the same level of activity, which we would be required otherwise. So if we were to sell anything more even at this price, which is not lucrative, which is not what we want, then also our top line would have increased. And the expenses would have stayed more or less the same. And especially for, you know there are two kind of gases, exclusively gas fields and then there is a kind of fields where we produce both oil and gas. So you don't create any infrastructure, you don't incur separate expenditure purely for gas except the royalty, which is very low at 10%. There is no cess on gas. So definitely, the volume would have been a substantial benefit to us. The only problem was it's not that we reduced and as you would be aware, actually, it was the off take issue. So suddenly, off take became an issue and the GAIL could not take the volumes and consequently, we had to reduce. So it was forced kind of stoppage or shutdown or lowering of the production. Not to our liking. Frankly speaking, we would have only benefited from it had we continued.

Vidyadhar: So basically you are saying that what is saved, which is royalty and probably depletion, depletion would have been higher, if your volume was higher, so that would have been more than the gas price which you are getting right now?

Subhash Kumar: Definitely, definitely. That goes without saying.

Vidyadhar: So as your volume recover, your profitability will improve?

Subhash Kumar: So that's the reverse of what we said earlier.

Vidyadhar: Yeah, yeah. Actually on OPAL, just wanted to understand two things. One is, how was the utilization in the first quarter? And if you could share some number on EBITDA profit or loss? And secondly, sir, OPAL's feedstock is concerned, how does it break up into, is there some domestic gas use? And if and otherwise, what is the domestic gas contracted LNG in spot LNG. If you give us a broad composition of your feedstock consumption?

Subhash Kumar: Okay. So I think first question is how did OPaL do during this pandemic. One is that OPaL was one of the few plants, which continued operating during this pandemic. So there were probably only two plants which continued operating, and OPaL was one of them. It did phenomenally well during this period. In fact, it benefited because immediately after some relaxation in the lockdown restrictions, their offtake picked up and margins also improved a bit, which is reflected in the fact that their Q1 losses during the previous fiscal, which were INR 511 crores came down to INR 317 crores. So that is what is also reflected in our group accounts. As far as performance is concerned, if you remember from February onwards, the plant has capacity and potential to run at around 100% capacity. It has operated at that capacity as and when required. The COVID has been a disturbance because off-take, and the entire value chain has been disturbed. So consequently, even during the period, they were operating, they had to reduce to around 45% capacity level. They have ramped it back to plus 90%, and they are doing at the same level. So OPAL is in a sweet spot when it comes to, benefiting from whatever changes happen in the product off-take pattern in the wake of COVID recovery. So OPAL is doing well, and we believe that it will improve its performance in coming quarters. There were some other question on this. So if there is anything else, you want to ask.

Vidyadhar: On the feedstock.

Subhash Kumar: On the feedstock part, actually, 1.95 MMSCMD of gas is allocated domestically. And for the rest, they depend on the market.

Vidyadhar: So and this domestic is at domestic price?

Subhash Kumar: Yeah.

Vidyadhar: It is clear. And so any spot LNG?

Subhash Kumar: Yeah. So I mean, for the additional requirements, depending on the kind of variability of production, they do contract LNG from market. So they do spot also. They enter into contracts also. So they try both the combinations.

Vidyadhar: Okay. Thanks a lot. Lastly, sir, any numbers on debt stand-alone debt in June and now, and consolidate in June and now?

Subhash Kumar: So I told INR 15,812 crores is our debt on 30th of June, which has come down by roughly more than INR 2,000 crores post that. So as on date as we speak, it is less at least by INR 2,500 crores from the figure we had on 30th of June.

Vidyadhar: And anything on consolidated?

Subhash Kumar: Consolidated debt, just give me a minute.

Vidyadhar: Sure sir.

Subhash Kumar: Yeah, consolidated debt is around INR 112,000 crores.

Vidyadhar: Okay. And sir, lastly one more for OVL. So OVL at prices in the current quarter. Is OVL likely to be profitable in Q2? What is the probability?

Subhash Kumar: I think, see, $44 to $45 is the number on which they will be comfortable, in fact plus. $40 should be a number on which they start making profit that's a transition number.

Vidyadhar: So if oil stays above $40, then OVL should be in the black.

Subhash Kumar: Yeah. Yeah.

Vidyadhar: Thanks a lot, sir. Thank you very much.

Subhash Kumar: That range, you have to take it in a range, but that is a situation because it depends which fiscal regime, which country because in some of the country's take is more so consequently upside may not help that much. But in some other countries, if you are getting 100% of it, then it may matter. But since Sakhalin is our major constituent of it, so there the conditions are quite favorable to the contractor. So consequently it is likely to be $40 or below $40.

Vidyadhar: Okay. Thanks a lot sir.

Subhash Kumar: Okay.

Moderator: Next we have Varatharajan from Systematix. Your line is unmuted. Please go ahead.

Varatharajan: Thanks for taking my question. Sir, my question was on any kind of visibility or guidance you can give on production of both oil and gas? And specific to KG Basin, separately.

Subhash Kumar: So I am right now, in front of the numbers relating to the overall. So FY'20-21, we are likely to do around 22.69 million metric tons in terms of oil versus around 23.35 million last fiscal. And as far as gas is concerned, gas was 24.89 million, and we are likely to be at around the same level this year also. So that's the situation.

Varatharajan: If you would have specific on KG Basin development, sir?

Subhash Kumar: KG Basin, I think there will be some disturbance. I don't have the figures right away, but may be Prakash will provide them later.

Rajarshi Gupta: Many vendors have cited force majeure because of the pandemic. And so there is a delay. We are trying to ascertain how much will be the delay, and we are trying to minimize the effect. But as of now, still the discussions are in progress and a lot of force majeure vendors are on the table discussing with us.

Subhash Kumar: Actually, see international supply chain has got affected far worse than domestic supply chain. So while activity has picked up here, if some piece of equipment needs to travel from somewhere in Europe to India, that has become extremely difficult. And consequently, we do not have exact visibility on when these pieces of equipment's will come. And then second issue is relating to manpower actually. So since quite a few expats were involved in bringing up the project, now there has been quite a few restrictions in terms of their movement and at individual level also, there is no enthusiasm in traveling. If I were to put it that way. So the opening up would probably improve the situation there.

Varatharajan: Sir, in case we expect production to increase maybe six months down the line, when are you likely to put the gas on auction for placement. Would it be three months before or six months before?

Subhash Kumar: Yeah, yeah. I think the effort is already put. So it should be happening soon. We may be calibrating with reference to the kind of impact of these delays on schedule. So that could be the reason. Otherwise, it should be happening soon.

Varatharajan: Fair enough. Thank you.

Moderator: Next we have Nitin Tiwari from Antique Stock Limited. Your line is unmuted. Please go ahead.

Nitin Tiwari: Good morning, sir. Thanks for taking my question. I hope all of you are keeping well. Sir, my question was, so related to the production level of both ONGC and JV fields and the guidance that you've given. So if we look at the gas production, so for the first quarter, we are almost like down by about 10-odd percent or so, but you have given the guidance that you are going to maintain a flattish sort of a production for the entire year. So if you can just help us understand, how are we are going to achieve that? Secondly, crude oil production for us has been falling for a couple of quarters now. So like when are we going to see a likely change or a reversal in that trend? And lastly, sir, on the JV side, there has been sharp decline in both crude and gas production. So if you can help us understand a little bit on what is happening on the JV front and specifically with respect to Cairn's production like what is the reason that why the production has been weak? And are we going to see any reversal or changes over there? So those are my questions.

Subhash Kumar: So I think starting with gas, actually, it is not really the less production. It is a question of less offtake. It was the capacity to consume which actually restrained the production. So entire 10% of it is attributable to that. Secondly, as far as pure oil is concerned, actually, we are in the same range. And oil and condensate, we are around 3% less. So having said that actually, even otherwise, the major uptick in oil production was expected only when KG 98/2 could have come on stream and today, there is a little bit of lack of clarity of exact time lines by which actually that project will come online. So very difficult to point out but as and when KG 98/2 comes online, that part will get addressed automatically. As far as last question, JV is concerned, JV actually has come as a surprise for us also because kind of quantum of reduction there is significantly higher than the kind of production profile we have been able to maintain. And that's a discussion going on between two teams and we will know. Probably, see low prices were one of the reasons why as to some of the activities might have been shifted. But I'm very sure that with the $40, $45 nobody actually wants to curtail the production.

Nitin Tiwari: So, sir, if I understand right, your gas production was basically a function of lower uptakes on GAIL, but my question was that, we have already lost that time window of one quarter like, you know, that...

Subhash Kumar: Yeah. Yeah. No, no. That goes without saying that, you know, fact of the matter is nobody would have loved to have this situation, even GAIL would not love to have. But whatever is lost, is lost. For example, if we have not been able to carry out some activity even in terms of survey, now it is lost forever. We can't actually try and capture that activity. So time lost is measured, that's a direct COVID impact. I just wanted to add as well in case of OVL actually, the production is also curtailed in some of the countries because of the OPEC restrictions. So that was also as a direct consequence.

Subhash Kumar: But I take your points that there are certain areas where we are not immune to whatever is happening in overall economy. So gas offtake is function of what was happening in the industry at that point in time.

Nitin Tiwari: Right Sir, and in JV production, if I understood you right, like hopefully, there should be some improvement going forward. That's what you're saying, right with crude price going up?

Subhash Kumar: Even in recovery in prices suggest that the attention should come back. The specific, I won't be able to share.

Nitin Tiwari: Sure sir. Thank you so much, sir, for answering my question.

Moderator: So we have the last question of the day from Vipul Shah, Individual Investor. Your line is unmuted. Please go ahead.

Vipul Shah: Hi, sir. I just want to know what is our cumulative investment in OVL? And what was the profit last year? Because I think OVL is bleeding. And what is your view about incremental investments in OVL?

Subhash Kumar: So our cumulative investment in OVL is we have contributed equity. We are 100% owner of equity in OVL, INR 15,000 crores. Beyond that, they have taken loans and substantial part is guaranteed by us, but that's on balance sheet of ONGC Videsh. Their performance -- INR 453 crores.

Prakash Joshi: INR 454 crores.

Subhash Kumar: Yeah. Yeah. So last year, actually, their profit was INR 454 crores and prior to that, it was INR 1,682 crores. Their profit at peak was INR 4,445 crores also at some point in time. So actually, what happens is, let me put actually OVL in context. OVL, all acquisitions are through bidding. So when you acquire a property through OVL, actually you acquire that property at full value. Now when prices go down so let's say, the property is acquired at included value of, let's say, long-term included value of $45, $50. So at any price below that, we will tend to lose because you have already made the investment with reference to that. This is unlike ONGC itself, where you grow organically. So consequently, at least in few of the development your cost of production is lower and your net margin made is higher. So even if some projects end up being uneconomical on an overall basis, we make much more money than some other projects. So -- but in case of OVL, all acquisitions happen at the relevant pricing regime available at that time and also those acquisitions are at competitive prices. So they happen at the prices at which oil is trading or long-term projection at the relevant time. So consequently, OVL performance will always have a wide variation, depending on the margin it makes above the derived imputed acquisition pricing.

Rajarshi Gupta: Pre impairment income was same for '18/'19, '19/'20 at INR 3,500 crores, whereas impairment was INR 3,000 crores in '19/'20 and INR 1,500 crores in '18/'19. So the profit came back from INR 1,500 crores to INR 500 crores.

Vipul Shah: Okay. But what is the thinking on incremental investment in OVL in the scenario that oil prices are likely to stay lower or around current levels for the foreseeable future, sir?

Subhash Kumar: So as far as ONGC is concerned, it has not invested beyond its equity investment, rest are only loans taken on the balance sheet of OVL and guaranteed by ONGC. If there is a good opportunity, which makes sense even at these prices. So when prices, let's say, you are already stuck and then prices are, let's say, $45, so any acquisition would be made at least with significantly lower prices only. So if there are good opportunities, then it has to be seen as adding value, then probably ONGC could support in terms of raising the funding. Otherwise, at these prices at $45, nobody is likely to purchase a property at the prevailing price if imputed prices are same. I'm not ruling out the possibility of OVL going for acquisitions, but that can happen only when the likely oil price at which acquisition happens is significantly lower.

Vipul Shah: So what is the debt on the balance sheet of OVL? And how much of debt is guaranteed by ONGC?

Subhash Kumar: So it's close to around 7 billion. Just a minute. So OVL debt is of the order of around INR 42,000 crores. And all long-term borrowings are guaranteed by ONGC.

Vipul Shah: So in case of default by OVL, naturally, it will become the liability of ONGC?

Subhash Kumar: I mean possibility of default is remote, but what you are saying is right if there is any.

Vipul Shah: Okay. Thank you, sir.

Subhash Kumar: Okay.

Vipul Shah: Thank you, sir and all the best.

Subhash Kumar: Okay. Thank you very much.

Moderator: Sir, with this, I would like to now hand over the floor back to Mr. Subhash Kumar for final remarks. Over to you, sir.

Subhash Kumar: So ma'am, thank you very much. And we greatly appreciate everyone on the call. Actually, it's a difficult time, not only for us, it is difficult time for everybody. So each one who was there or who is listening, who is interested in listening to our performance, thank you very much. And the ONGC team wishes all the very best to everybody. Please take care and stay safe. Thank you very much.

Moderator: Thank you so much, sir, for addressing the session. Thank you participants for joining in. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant day.