



**“Q1 FY16-17 Earnings Conference Call”**  
**7<sup>th</sup> September**



**SPEAKERS: Mr. A. K. Srinivasan, Director (Finance)**  
**Mr. A. R. Patel, ED- Chief Corporate Finance**  
**Mr. Yash Malik, ED-Chief Corporate Planning**  
**Mr. A.K. Bansal, ED- Chief Corporate Accounts**



**Moderator:**

A very good evening, ladies and gentlemen. I'm Souradip, your moderator for this session. Thank you for standing by and welcome to the first quarter 2016-2017 earnings conference call for ONGC Limited. For the duration of presentation, all participants' will be in listen-only mode, and post that we'll have a Q&A session. And now without further delay, I would like to hand over the proceedings to the ONGC management. Thank you and over to you, Sir.

**Srinivasan:**

A very good evening. This is Srinivasan, Director Finance. I'm very sorry that our financial results got delayed and that's why we could not get the con call as per schedule which we had tied up at 5 o'clock, and this has caused a little bit of delay. We are sorry for starting it late.

Good evening, ladies and gentlemen. I'm A. K. Srinivasan, Director Finance, ONGC. And on behalf of ONGC I welcome you all in this ONGC earning call for Q1FY17. Thank you all for joining us on the call. I'm joined here by my colleagues, Mr. Yash Malik from Corporate Planning, Mr. A. R. Patel from Corporate Finance and Mr. A. K. Bansal from corporate accounts, and other colleagues of ONGC.

The company has adopted Ind AS and accordingly the financial results have been prepared in accordance with the recognition and measurement principles of Ind AS prescribed under section 133 of the Companies Act 2013 read with relevant rules issued thereunder. The financial results of Q1FY17 have been taken on record by ONGC board today 7th of September 2016. And results have been released through the press note and sent to the stock exchanges. It has also been sent to the analysts who are there on the mailing list. Let me give a synopsis of the results.

The company has earned a Profit after Tax of ₹4233 crores during the first quarter of FY17 as against ₹5368 crores during the corresponding quarter of the fiscal 2016, a decreased on ₹1135 crores, that is 21.1%. Under IGAP previously reported figure was ₹5460 crores during the first quarter of the fiscal 2016.



Decrease in PAT was mainly due to losses in realisation in respect of crude oil, that is, ₹3007 crores, and gas ₹1251 crore, and VAP reduction by ₹560 crore. However, this lower sales realisations have been offset by decrease in statutory levies by ₹1359 crores, decrease in operating expenditure ₹803 crore, decrease in survey cost by ₹209 crore, decrease in dry well cost by ₹380 crore, and finally lower tax burden to the extent of 723 crore.

The sales revenue for Q1FY17 was lower by ₹4829 crore, that is, 21.5% at ₹17,670 crore as against ₹ 22,499 crore in corresponding quarter of previously year mainly due to negative price variants of crude ₹ 3007 and gas ₹ 1251 crore. This unfavourable impact on sales revenue is again increased by unfavourable quantity variants of crude ₹ 259 crore, gas by ₹344 crore, and unfavourable price variants of VAP by ₹560 crore. This decrease is further supplemented by an increase in profit petroleum share with Government of India as per PSC in respect of JV for Q1FY17 by ₹193 crore.

Net realisation for crude oil during Q1FY17 was at USD 46.10 per barrel as against USD 59.08 per barrel in the same period last year; a decrease in 21.97%. However, there is no discount in this current quarter. The average exchange rate of INR vs. Dollar stood at ₹ 66.93 vis-a-vis ₹63.50 in the first quarter of 2015-16. The increase in net realisation in terms of USD has decreased realisation in terms of INR by 17.77%, that is, from ₹ 3752 per barrel in Q1FY16 to ₹ 3085 per barrel in Q1FY17 in addition to increase due to weakening of rupee by 3.43 per USD, i.e 5.4%, during the current quarter.

Interest and dividend income has increased by ₹52 crore from ₹625 crore in Q1FY16 to ₹677 crore in Q1FY17. The increase is mainly due to the increase of interest on Bank and PSU deposits by extent of ₹62 crore. There is also an increase in other interest by ₹23 crores. This increase has been offset by lower dividend on mutual funds by ₹13 crores which are attributable to lower weighted average investments and also due to reduction in average rate of interest and return from mutual funds during Q1FY17. Further, the increase has also been offset by decrease in



interest on loan to MRPL due to repayment of loan by MRPL.

Other non-operating income in Q1FY17 has increased by ₹ 38 crore as compared to Q1 FY16 that is ₹238 crore to ₹ 276 crore mainly on account of increase in miscellaneous receipt.

The operating expenditures in Q1FY17 have decreased by ₹ 803 crore i.e from ₹ 4979 crore in FY16 to ₹ 4176 crore in FY17. Major decreases have been on account of reduction in work over activities and water injection, and the reduction for those two volumes accounts for ₹ 415 crores and ₹ 228 crores respectively.

There has been a reduction in pollution control expenditure to the extent of ₹150 crores. This primarily has happened due to regrouping of expenditure of Multipurpose Support Vessel to repairs and maintenance. The CSR expenditure has reduced by ₹105 crore; administrative expenditures have come down by ₹100 crore mainly due to payment of arrears, salary amounting to ₹80 crores towards regularisation of Class IV employees based on Supreme Court judgment in FY16. Decrease in operating expenses are partly offset by increase in consumption of material cost by ₹ 135 crores for consumption of LNG at Dahej C2-C3 plant.

The DDI depletion, depreciation and impairment cost for Q1FY17 stood as ₹2739 crore as against ₹ 2970 crore in Q1FY16 and decrease of ₹231 crore, that is 7.78%. Decrease in DDI cost is due to decrease in impairment by ₹ 138 crore which is mainly due to write back of impairment of exploratory wells in progress of marginal fields and decrease in depreciation by ₹76 crores, which is mainly due to reclassification of facilities to oil and gas assets. The exploration cost written off has decreased in Q1FY17 to ₹ 960 crore as compared to ₹1549 crore in Q1FY16, a decrease of ₹ 589 crores which is on account of decrease in expenditure on dry well by ₹ 380 crore and decrease in survey cost by ₹ 209 crores.

During the Q1FY17, the statutory levies stood at ₹ 4107 crore as against ₹ 5466 crores in Q1FY16, a decrease of ₹



1359 crore is primarily on account of reduced realisation prices of the crude oil. This decrease is mainly due to the decreased in royalty and CESS and also the selling price due to the change of CESS which was earlier at ₹4500 per metric ton to 20% ad valorem with effect from 01/03/2016.

Provisions and write off has decreased by ₹ 14 crore from ₹ 59 crore in Q1FY16 to ₹ 45 crore in Q1FY17. This is mainly due to decrease in provision for non-moving inventory.

In terms of physical performance, there is a decrease of 2.10% in oil production at 6.345 MMT in first quarter of this fiscal as against 6.481 MMT in the same quarter last year. But also we would like to say the sales volumes in the Q1 has been higher than, even though the production has been lower, this is primarily due to the lower reconciliation factor as compared to Q1 FY 16. That's why the sales are more in this current quarter. However, the gas production has been lower by 5.55% at 5.494 BCM in this quarter vis-a-vis 5.817 BCM in corresponding quarter of the previous year. With these highlights, I complete my briefing of the first quarter for the FY16-17. We wish to hear your views, Q&A and I wish all my team members will also associate in answering Q&A. Thank you.

**Moderator:**

Thank you very much, sir. So, participants, with this, we open it for Q&A session. Should you wish to ask any question, please press "0" and "1" on your telephone key pad. I repeat. Participants, should you wish to ask any question, please press "0" then "1" on your telephone keypad. We have the first question from Mr. Prabal Sen from IDFC Security. The line is unmuted, you may please go ahead and ask your question.

**Prabal Sen:**

Good evening, sir. Just one clarification on your opening remarks. You said that despite production decrease y-o-y, sales volumes are still higher. I did not quite understand the explanation you provided for that.

**Srinivasan:**

Basically what happened, there is a reconciliation factor between the production and the sale. And earlier these numbers used to be on a little bit of a higher number. Now,



the reconciliation factors have been improved upon. And now we have the ranges reduced. So, thereby what has happened, whatever we are able to produce, that we are able to put to sale now, maximum volumes.

- Prabal Sen:** How has this reduction come about, sir?
- Srinivasan:** By basically treating our volumes at BS&W level.
- Prabal Sen:** Okay. And sir, can we get some sense given that production has been lower? What are the kind of targets we are looking for FY17 and FY18 if I may get for oil and gas?
- Srinivasan:** Basically I think my colleague from Planning can tell the numbers.
- Malik:** Production target for 16-17 is 25.726 MMT. It includes JV production.
- Prabal Sen:** And how would that be, sir?
- Malik:** JV is 3.306 MMT.
- Prabal Sen:** Okay. And same for gas, sir?
- Malik:** For gas, our target is 25.726 BCM.
- Prabal Sen:** Okay. And JV would be how much?
- Malik:** Sorry, for gas, our target is 23.839.
- Prabal Sen:** Sorry, 23.839, again...
- Malik:** 23.839 BCM.
- Prabal Sen:** And how much the JV share, sir, within this?
- Malik:** 1093
- Prabal Sen:** 1093 MMSCM. So, 1.09 BCM, is that correct?
- Malik:** Yeah, that's right.



- Prabal Sen:** Can I get the similar numbers for FY18 sir, if anything has been fixed as of now?
- Malik:** No, 18 is not fixed as of now.
- Prabal Sen:** Okay. Fair enough, sir. I'll come back if I have more questions. Thank you.
- Moderator:** Thank you very much. I would like to repeat. Participants, should you wish to ask any question, please press "0" then "1" on your telephone keypad. I repeat, it's "0" then "1" on your telephone keypad. We have the next question from Mr. Amit from PNB Paribas. Your line is unmuted, you may please go ahead and ask your question.
- Amit:** Hi, sir. A couple of questions from me. Are there other expenses kind of substantially declined on a q-on-q basis? And you also mentioned in your opening remarks that the operating cost was one of the reasons, declining operating cost was one of the reasons. So, could you tell us how did that come about, and is that sustainable?
- Srinivasan:** Actually the operating cost compared to the last quarter, we had the reduction of about ₹803 crores. The water injection activities had come down, and particularly the work over has come down in this particular quarter and there has been a reduction of ₹415 crores on that account. And the similar situation will definitely continue and we expect the operating cost to be on a lower end for this particular year.
- Amit:** Okay. And I think just the earlier question, I didn't get the number. The gas target you said was how much in BCM for FY17?
- Srinivasan:** 23.839.
- Amit:** BCM, right?
- Srinivasan:** Yeah.
- Amit:** And for oil total including JVs, you said it was 25.72.
- Srinivasan:** 25.726, yes.



- Amit:** Do you think that's on the higher side considering the run rate that we are doing in this quarter both for oil and gas?
- Srinivasan:** No, actually, we are expecting some new projects to come to stream. And volumes are likely to increase during the third quarter and fourth quarter.
- Amit:** Any particular reason which project will bring that increase in gas volumes?
- Srinivasan:** One is Daman, it will be adding to the new volume. And Vasai.
- Amit:** And for oil?
- Srinivasan:** Oil, again, we'll be putting Daman and Vasai as there is associated condensate. We also are developing some redevelopment project we have taken up, Mumbai north and south. So, we'll be getting some incrementals from there.
- Amit:** And just one more question. So, the CESS, as data is being paid on the net realisation, right? So, it's around 17%, correct, the CESS rate?
- Srinivasan:** Yeah, yeah.
- Srinivasan:** It is around 20% on the sale price.
- Srinivasan:** Yeah, 20 by 120, it is 16.67. So, you are right, your presumption is right.
- Amit:** Okay, thank you.
- Moderator:** Thank you very much. I would like to repeat. Participants, should you wish to ask any question, please press "0" and "1" on your telephone keypad. We have the next question from Mr. Sanjay from Bank of America. Your line is unmuted, you may please go ahead and ask.
- Sanjay:** Thank you. Sir, good evening. I just wanted to go back to the original questions on how the difference between the



production and sale volumes have changed. I didn't quite understand the explanation, please.

**Srinivasan:** See, what used to happen, earlier the production numbers had a lot of BS&W i.e basic sediment, & water used to be there. Now, those have been properly handled, and now the crude oil reported numbers and the sale volumes are almost close to the sale numbers itself. So, we are able to sale more from a production volume. Earlier, if you look at the reconciliation, reconciliation used to vary around 8-9% between the production and the sale. Now that has come down to almost 5%.

**Sanjay:** So, just to be clear. Is that your production numbers have gone down or is your sale numbers have gone up? Which way has the things solved?

**Srinivasan:** My sale numbers have gone up.

**Sanjay:** Okay. For the same production volume you are now selling more?

**Srinivasan:** More, yes.

**Sanjay:** Okay. Thank you, sir. And can we get an update on OVL, sir, what sort of production we managed this quarter, what is the outlook?

**Srinivasan:** The annual target was about 9 million. For this quarter, oil was 1.608 MMT and gas was 0.874 BCM. So, the run rate which is going is 2.482 together.

**Sanjay:** Right. And does it include any volume from the Russian acquisition yet, sir?

**Srinivasan:** Yeah, Vancouver it includes.

**Sanjay:** Yes, all right. Okay, sir. Thank you. Those were my questions.

**Srinivasan:** But further increment on Vancouver will be added to the volumes by 11% stake.



**Sanjay:**

Right. And when it start, that is in September, right?

**Srinivasan:**

The process is on and the volumes are likely to get accounted in Q2 FY17.

**Sanjay:**

All right, sir. Thank you.

**Moderator:**

Thank you very much. We have the next question from Vishnu from Spark Capital. The line is unmuted. You may please go ahead and ask your question.

**Vishnu:**

Good evening, sir. Thanks for your time. Sir, can you give some CapEx targets that we have in mind and any revisions compared to when we spoke earlier?

**Srinivasan:**

CapEx targets were in the range of ₹ 29,307 crore, and we expect to maintain these targets even for the full year now. We don't look at any revisions now.

**Vishnu:**

Okay. So, this has been the same about six months ago also, right, there's no reduction?

**Srinivasan:**

We are maintaining targets. All our Capex activities are happening. So, nothing is held back.

**Vishnu:**

Got it. Sir, FY18 would be a similar number?

**Srinivasan:**

FY18 yes, we'll be definitely looking at those numbers because my 98/2 investment are likely to take off in 17-18. So, we'll definitely be having some investments from 98/2 coming into that.

**Vishnu:**

Got it, sir. And can you give us some idea on the royalty to be paid on the gross... I mean if you could just give us some appraisers on the current status of the case?

**Srinivasan:**

On the Gujarat royalty?

**Vishnu:**

Yeah.

**Srinivasan:**

So, now what has happened, now government has come out with new guidelines wherein they have told all these states like Assam, Andhra Pradesh, wherever the impacts are



there, to pay uniform royalty on the pre-discount basis, right from 1st of February 2014 onwards. And it is in the same analogy of what we are doing it for the Gujarat, the same activities we are maintaining for other states also. So, based on that, we had released about 300 crores to state of Assam. And we had earlier paid some amounts to Andhra Pradesh. Now, they tend to recover those adjustments due to this new rate of pricing. So, overall we are paying to Assam, Gujarat and Andhra Pradesh at the pre-discount prices from 1st February 2014.

**Vishnu:** Okay. I mean the status of the amount prior to '14, the case on that side.

**Srinivasan:** That is still sub-judice and Supreme Court's decision is awaited.

**Vishnu:** Okay. When is it expected, sir?

**Srinivasan:** Basically the government has to file the rejoinder and the state of Gujarat, both are supposed to work on that. Till such time, this may still remain as a contingent liability in the book.

**Vishnu:** Okay. Sir, OVL, possible to give any profitability numbers for the first quarter if in case you finalise the numbers?

**Srinivasan:** Actually, the OVL makes its balance sheet on a half-yearly basis. So, we have not compiled the numbers for them.

**Vishnu:** Okay. Wonderful, sir. Thank you.

**Moderator:** Thank you very much. You have the next question from Mr. Amit from PNB Paribas. The line is unmuted, you may please go ahead and ask.

**Amit:** Hi, sir. Just one follow-up question with regard to royalty as you just mentioned. So, what is the amount that you already paid? Sir, from here on you are paying on the pre-discounted price and the retrospective amount is already being paid?

**Srinivasan:** Correct.



- Amit:** Okay, all right. And also I just couldn't probably get, I think Sanjay was asking that question on the difference between the production and the sale volume, right? I couldn't get the reason as to what changed.
- Srinivasan:** No, there's no change. Actually what has happened, earlier while production quantities were produced, there are a lot of other sedimentary impurities used to be a part of that production. Now, we are able to treat or improve the processing so that whatever production we are getting it now, and most of the impurities are going away and we are able to sell maximum volumes out of what we are producing. That's the intent of that total reconciliation.
- Amit:** Sir, have you done something different, because, this is, of course, a good thing, but suddenly this has happened. So, I was just curious as to...
- Srinivasan:** No, nothing new has been done, but it's only proper processes have been put in place so that these are improved. And equipments, everything has been put in place properly. The calibration, the flow meters everything has been put in place so that these are all taken care. Earlier the volume numbers would be higher and the sale used to be lower. This is a more positive side of the company.
- Amit:** Absolutely, yeah. So, from here on you said the difference would be around 4%, right?
- Srinivasan:** Absolutely. And our endeavour is to still further come down.
- Amit:** Okay, perfect. Thank you so much.
- Moderator:** Thank you very much. We have the next question from Mr. Harshad from Motilal Oswal. The line is unmuted, you may please go ahead and ask.
- Harshad:** Hi. Sir, can you give us the debt and cash and cash equivalent position as of June and also if you can give an update on the KG 98/2 development. Thank you.



**Srinivasan:**

Cash and cash equivalent, we have about 13,000 crores as on June. And 98/2 development as far as the activities are concerned, the tender documents are getting ready. We expect to put them on sale by end of September. And by early March we are intending that the project should get awarded for the major areas of activity which are more time-consuming. Rig contracts are getting in place for engagement of the rigs, for taking up the drilling activities. So, these are the major components. And particularly on the offshore side, basically there are two major components, that is one is SPS and that particular tender is at a very advanced stage of activity. Apart from that, there is a FPSO which needs to be hired for that. The tender is also in advanced stage. So, more or less all critical activities which will be critical for achieving the production of gas 2019 July and oil by 2020 are all getting in line with what the target timelines are with us.

**Harshad:**

And just the debt number, sir, on the balance sheet?

**Srinivasan:**

My debt number still continues the same what it was. Definitely there is an additional one billion loan has been raised by OVL for honouring that 15% Vancouver deal. So, to that extent, from ₹53,000 crore the loan would go up by another 6000 on the books.

**Harshad:**

Thank you. That's all.

**Moderator:**

Thank you very much. We have the next question from Mr. Rohit from Religare. The line is unmuted. You may please go ahead and ask your question.

**Rohit:**

Hi, sir. Thanks for the opportunity. Sir, just on the royalty issue with the Gujarat Government, I believe the hearings have not started in the Supreme Court ever since that order came after Feb...

**Srinivasan:**

Absolutely no hearing there because the Supreme Court has asked the rejoinders on Government of India and Government of Gujarat to file the issues. But these two governments are yet to act upon it. And therefore, the court is in a stalemate condition.



- Rohit:** So, could this be considered like an implied settlement between the two governments now that they are the same...
- Srinivasan:** It's very difficult for us to make a comment on that. The governments of both the states need... I mean the centre as well as the state need to really comment on that.
- Rohit:** Considering since two years nothing has been done, so, any feedback from the government side to you... to the company or something?
- Srinivasan:** Nothing. As a company we don't know anything. So, we'll not be able to make comments on that. But we still carry them as a contingent liability till the matter gets settled.
- Rohit:** Sir, secondly on subsidies, now, so that formula of Rs. 12 per litre kerosene cap continues still or there could be a change expected...
- Srinivasan:** I can only say through the media report which I am also reading, that way nothing is in writing that government is working very seriously on creating a DBT system on kerosene. And they are likely to target about 48 districts to get it rolled out. So, eventually, apart from that, the government has already taken proactive measures of raising 25 *paise* per month on the kerosene for current period. By next ten months, they would like to increase the kerosene prices by Rs. 2.50 so that at a particular time, about a month back, if you look at the subsidy which has been shared on the kerosene was about Rs. 13.10. So, if you go forward with this, the subsidy element from Rs. 13.10 comes down by Rs. 2.50 assuming the crude prices remain at the same static level. If the crude prices keep on moving, definitely there will be a difference and will again go up. But as of now, we consider the prices are in the range of 45 to 50. And the subsidy remains around Rs. 13. Then there is a reduction of Rs. 2.50 on that. So, that itself shows the intention of the government. They don't want to raise beyond Rs. 12 and maintain that level as low as possible. So, the intentions are very clear. But since the prices are coming down and by raising this 25 *paise* every month, it is always going to be lower than Rs. 12, then no impact on



upstream likely to happen during the year 16-17 and going forward also.

**Rohit:** But the kerosene, this formula was valid until March 2016.

**Srinivasan:** They extended it up to 17 now by this mechanism. What I presume then, moreover, the entire subsidies in some prices are low. The government is picking up on both the accounts, LPG as well as the kerosene.

**Rohit:** Sir, lastly on the Vancouver production, what would be your share after July in terms of barrels per day from Vancouver?

**Srinivasan:** See, actually, if you look at it, my total production of Vancouver is about 4,40,000 barrels a day, of which my take is 15% which adds up to about 66,000 barrels. And we are also contemplating almost the decisions are there to further acquire 11% share. So, on 11% of 4,40,000 will further add to my volume of 66,000 barrels.

**Rohit:** That will be effective from July?

**Srinivasan:** Yeah, basically production should happen.

**Rohit:** All right, sir. Thanks, sir. That was very helpful.

**Moderator:** Thank you very much. We have the next question from Mr. Neeraj from Goldman Sachs. Your line is unmuted. You may please go ahead and ask your question.

**Neeraj:** Sir, I just wanted to reiterate that question about I think the sales in volumes. You say the sales has gone up. So, what happened? Was there some pilferage?

**Srinivasan:** No, no, there was absolutely nothing of that sort. There was no inefficiency about that. Basically what has happened is production which used to be there, which used to have a lot of sedimentary mixture coming along with us, and due to this, whether handling of those issues and the actual production what we are getting now and what we are trying to sell, the gaps are reduced as possible.



**Neeraj:**

Okay. So, is it right to say earlier it was a gross production to some extent, right now it's a net production?

**Srinivasan:**

No, no. The production still remains the gross only.

**Malik:**

The production is always the gross production and not the net production. So, there is an element of 0.2% BS&W (ph). But what director explained you earlier was the reconciliation factor, there is gap between these two numbers. And as we said, it's the gap between the gross production and your net production. So, this gap has been reduced now. And this gap has been reduced, as we said earlier, by better processing, metering, of course line losses are also less; and it's a combined effort and we are I'd say better in field management.

**Neeraj:**

Okay. So, what is the difference between the earlier production numbers which would have been in the earlier method of calculation or calibration and current numbers?

**Srinivasan:**

There is no change. Everything remains the same. Now whatever we are producing and what we are selling now the gap has come down from the earlier numbers.

**Neeraj:**

Okay. That come-down gap what you are saying is, what is that number percentage terms?

**Srinivasan:**

I told you, it is ranging around 4% today.

**Neeraj:**

And earlier it was how much range?

**Srinivasan:**

About 6-6.5% to 4%.

**Neeraj:**

Okay. Got it. Thank you.

**Moderator:**

Thank you very much. We have the next question from Mr. Vidhyadhar from Access Securities. The line is unmuted and you may please and ask.

**Vidhyadhav:**

Hello?

**Srinivasan:**

Yeah. Vidhya.



- Vidhyadhav:** Yeah. Just wanted to clarify on the CESS calculation. So, is the CESS also being calculated in the same manner as royalty?
- Srinivasan:** Yes.
- Vidhyadhav:** And so effective rate is not 20% but 16.67%?
- Srinivasan:** Yes.
- Vidhyadhav:** Okay. That's one. And so, that's been the case right from March, is it?
- Srinivasan:** Yeah.
- Vidhyadhav:** Secondly, on this Gujarat royalty issue, as long as the subsidy remains, just to re confirm that, as long as there is no subsidy, it doesn't matter going forward. In the last three quarters there's been no subsidy so because the gross and the net price is the same.
- Srinivasan:** Almost the same, yeah.
- Vidhyadhav:** So, basically only when subsidy kicks in, if it kicks in at some stage, it will become irrelevant?
- Srinivasan:** Yeah. That's true.
- Vidhyadhav:** Lastly, on gas pricing. Given that gas prices are likely to go down further, is there any possibility... are the upstream players trying to talk to the government and ask them to have a relook at the pricing formula?
- Srinivasan:** Yes. We have already approached the government in this account and we have said if you're going forward, the prices of gas are likely to be down. So, we would like to have a restored price of 4.2.
- Vidhyadhav:** So, you're asking for a floor price something of that sort?
- Srinivasan:** Yeah. We have been requesting the Government; at least the floor price should be maintained because this price was available to us from 2010 onwards. So, we would be



definitely pleading with the government and the government is positive let's hope some positive things will happen.

**Vidhyadhav:** Okay. Thanks. That's it from me.

**Moderator:** Thank you very much. We have the next question from Mr. Panarkey from Morgan Stanley. The line is unmuted; you may please go ahead and ask your question.

**Rakesh:** Hi, sir. This is Rakesh from Morgan Stanley.

**Srinivasan:** Yeah.

**Rakesh:** Sir, on the cost front, I think I missed the discussion part. If I look at the reduction, from fourth quarter 16, the other expenditure declined almost 13 billion, and if I look at the first quarter of last year, there's another decline of about 10 billion. Could you explain what the key drivers are for these declines?

**Srinivasan:** See, one is primarily there has been a reduction in our drywell charge of expenditure. Earlier it used to be in the range of... if you look at the first quarter itself, it was about 15 billion in terms of rupees. It has come down to about 9 billion. So, there has been a reduction of 6 billion in the drywell expenditure and cost. So, this is one of the major reasons. Apart from that, there has been reduction in our certain physical activities of work-over. In the previous year we had to undertake certain work-overs for safety measures and thereby there have been more work-over activities than we really intend to do in a regular basis. So, these are the prime reduction between the two quarters if you are comparing. Earlier the reduction was there because drywell has come down over the last Quarter of previous year 15-16. In the similar line the drywell for a quarter-to-quarter comparison also has come down from the earlier quarters. So, those are the major attributes on that.

**Rakesh:** Drywell part is very clear. But if I look at the other expenditure which I think excludes your drywell charges.



**Srinivasan:**

That's what is said, work-over expenditure, which was another element which contributed in reduction in the expenditure of 1300.

**Rakesh:**

Okay. So, this 1300 quarterly reduction on the work-over charges, is this the right way...

**Srinivasan:**

No, it was in a particular quarter, but surely the work-over activities during the current year will be on a lower scale than what it was in the last year.

**Rakesh:**

Okay. Secondly, sir on CapEx front, could you give us some guidance how much you are planning to spend this year both in terms of ONGC standalone and as well as OVL?

**Srinivasan:**

ONGC standalone I have already made a reference in the earlier question. It is ₹29,307 is by CapEx for the current year. And going forward, the numbers maybe in the range of the same because we are going to bring in 98/2 capital investment into the process. So, our number of CapEx will remain the same.

**Rakesh:**

And what about OVL, sir?

**Srinivasan:**

On OVL I think it is... no, that's... again, it will be about 6,000 to 7,000 crores which will be a constant. Unless and otherwise any acquisitions do occur during the period, this will increase by that extent. If you look for last year activity, because OVL has made an acquisition of 15%, in the current quarter the CapEx utilization is much higher than the estimated.

**Rakesh:**

Sir, one last thing again on cost. So, will be fair to say whatever run rate we have seen in this quarter, the June ending quarter, can we extrapolate that in terms of for the next three, four quarters because the prices are lower? So, whatever physical activity is being envisaged at you end, this is going to be the run rate for next three, four quarters.

**Srinivasan:**

On the CapEx?

**Rakesh:**

On the OpEx front.



- Srinivasan:** OpEx we expect the run rates are going to be on the lower side because my deployment of rig rates and the new contracts which we are getting in the service contracts, they are coming at the lower price than what it was earlier, envisaged prices which we are doing in our earlier contract. So, new contracts of rig rate are coming at a lower price to us. So, these are definitely making an impact on lower cost on my activities.
- Rakesh:** Okay. Thank you very much, sir. This is really helpful. Thank you.
- Srinivasan:** Hello.
- Moderator:** Thank you very much. Yes?
- Srinivasan:** All are over?
- Moderator:** So, we still have two to three questions.
- Srinivasan:** Just close with those two, three.
- Moderator:** So, we have the next question from Mr. Tarun from Kotak Securities. The line is unmuted; you may please go ahead now and ask your question.
- Tarun:** Sir, thanks for taking my questions. I actually have a couple of them. Firstly, my apologies for digging a bit more on the sales-to-production ratio. So, as I see, from fourth quarter last year to this quarter, your production volumes are actually down about 0.8% while your sales volumes are down about closer to 3%. So, can we just say that there are certain quarterly fluctuations in terms of sales-to-production which is what is implying the kind of growth in this quarter versus Q1FY16?
- Srinivasan:** Tarun, let me clarify because what happened these production numbers to sales numbers as we would notice, the management has been taking very proactive measures of getting these things...



**Tarun:**

No, I completely take your point on that. But all I'm saying is that in fourth quarter itself your sales number was quite high as compared to production. So, there could be some quarterly fluctuations. Am I correct on that or is this something?

**Malik:**

The quarterly fluctuation will be there because of the stock movement also. Because sometimes the stock is higher than... because in the quantity of production what it is. So, this ratio will not be constant for all the quarters. There may be variation because of the...

**Srinivasan:**

Not very significant variations, marginal variations.

**Tarun:**

Okay. Secondly, sir, there are lot of media articles talking about acquisition of KG Basin block of GSPC. I understand at least media is talking about that you are evaluating that transaction. So, could you just throw some light on that?

**Srinivasan:**

It's all media only I can just make a comment. Other than that we don't know anything.

**Tarun:**

Okay. So, can we say that there is no evaluation or consideration by the company at this point of time?

**Srinivasan:**

Yes.

**Tarun:**

Okay. Thanks. Thank you.

**Moderator:**

Thank you very much. We have the next question from Mr. Vikash Jain from CLSA. The line is unmuted, you may please go ahead and ask your question.

**Vikash:**

Sir, two book keeping questions. One was you mentioned something related to write back of impairment of marginal field in your opening remarks. So, what was this related to this quarter and how much is this amount?

**Srinivasan:**

No, basically there was a reduction in my impairment to the extent of 29 crores, and some of the wells which were in the marginal fields and these were not producing and we just charged them off. So, and we have to write back the impairment for those wells due to which there has been a



slight reduction in my impairment expenditure of 138 crores. That's the only thing. It's one-off issue, it is not going to be recurring activity.

**Vikash:** What is your absolute survey expenses, if you can give me that number?

**Srinivasan:** Yeah, that we can share.

**Vikash:** You said it's down 209 crores y-o-y, right?

**Srinivasan:** Yeah. Compared to the previous quarter, I mean Q1 to now. It is 335.

**Vikash:** Okay. Are any other one-offs in the quarter?

**Srinivasan:** No.

**Vikash:** No. So, basically this BS&W is simply in simple terms put the company after putting it's heads together has become much more efficient in this rather than this being... because there is a confusion I believe whether it's in the company....

**Srinivasan:** Absolutely. You have taken the right word. Efficiency parameters have been put in and this is the right time we have to put our things into tight-rope measures and work for the betterment activities.

**Vikash:** Correct. So, there is no change in the way you measure it. Rather than that, it's simply because you've improved the efficiency that is why the losses are lower, right?

**Srinivasan:** Absolutely.

**Vikash:** Okay. Thank you so much. That's it.

**Srinivasan:** Done?

**Moderator:** Thank you very much, sir. So, we have three more.

**Srinivasan:** Three, you're adding more now. Okay.

**Moderator:** All right. So, we'll take only these three last questions,



- Srinivasan:** Yeah. Please.
- Moderator:** Certainly. So, we have the next question from Mr. Alia Sen from Jeffrey's. The line is un-muted, you may please go ahead and ask your question.
- Sen:** Yeah. Hi, good evening, sir. Firstly, as you mentioned, so, reduction in work-over cost year on year was ₹415 crores, is that correct?
- Srinivasan:** Yeah. Quarter to quarter, yes. ₹415.
- Sen:** That is compared to 1Q of last year.
- Srinivasan:** Yeah.
- Sen:** And sir, you also mentioned reducing in water injection activity, that is separate from that and how much is the quantum?
- Srinivasan:** Yeah. Now it's ₹228.
- Sen:** ₹228, okay. Again on y-o-y basis.
- Srinivasan:** Yeah.
- Sen:** Sir, you also mentioned decline in pollution control expenditure. That is how much?
- Srinivasan:** No, actually what it is, pollution control expenditure was having some activities of IMR, that is Inspection Maintenance and Repairs wherein we deployed our multi-support vessel to carry out these activities. They were getting booked under the head of pollution control. We just reclassified those heads and we shifted the expenditure of pollution control to repair and maintenance.
- Sen:** Okay. So, that is still coming under other expenditure?
- Srinivasan:** Yeah. But overall there has been a reduction to the extent of about 35 crores.



- Sen:** You mentioned admin expenses have gone down by 100 crores?
- Srinivasan:** Yes.
- Sen:** That is again y-o-y.
- Srinivasan:** Yeah. Compare to y-o-y.
- Sen:** And CSR expenses?
- Srinivasan:** It has reduced by 105. Basically we had contributed something for LPG schemes of the ministry and that is not happening in this current quarter.
- Sen:** Right. And lastly survey expenses have also gone down by ₹209 crores, or that is...
- Srinivasan:** Yeah. That has come down.
- Sen:** Okay. Anything else that has gone down in other expenses if I've missed something?
- Srinivasan:** No, I think mostly you have covered everything.
- Sen:** Okay. Great. And sir, secondly on the production of gas for this year, you mentioned 23.839 or 24.839?
- Srinivasan:** 23.839.
- Sen:** And that includes....
- Srinivasan:** ONGC volume.
- Malik:** ONGC plus JV.
- Sen:** JV is 1.093.
- Srinivasan:** Yeah, JV quantities are coming down.
- Sen:** Right, And sir, the royalty, sort of past period royalty up to say March '16 which will need to be paid from 1st Feb '14



to March '16, Assam plus Gujarat plus AMP and all states put together is how much? What is that total quantum?

**Srinivasan:**

2469.

**Sen:**

2469 is including AP also or just Assam?

**Srinivasan:**

All states.

**Sen:**

Okay. 2469 is the total. And for 1Q there is obviously no liability because there is no subsidy?

**Srinivasan:**

Absolutely because the prices are low, as pre-discount and discount... post-discount has the same prices.

**Sen:**

And would you have the same number from 2008 to 2014, the other part?

**Srinivasan:**

Has remained same as the contingent liability which is there already in our balance sheet.

**Sen:**

Okay. That's all from my side, sir. Thank you so much.

**Moderator:**

Thank you very much. There is the next question from Mr. Vishnu from Spark Capital. The line is unmuted, you may please go ahead and ask your questions.

**Vishnu:**

Sorry. Thanks for your time again. Sir, this 98/2, the investment, what is the IRR, I mean the break-even price that you are working with?

**Srinivasan:**

The project has met a threshold hurdle rate which we have for the company and at the prices which we evaluated it has gone through that process of due diligence. So, it is definitely more than our threshold returns.

**Vishnu:**

So, the threshold, can we assume it is at least the current prices of oil and gas or it is slightly high?

**Srinivasan:**

No, basically there are two different evaluation processes. Now as on 21st of March 2016 the government has notified that new alternate fuel pricing mechanism for high pressure, high temperature and deep-water activities.



**Vishnu:**

Correct.

**Srinivasan:**

So, as the formula goes along and the production which we are likely to see on this, is going to happen somewhere in 2020 and 2019. So, based on these extrapolated prices, we have done the entire economic evaluations of that project.

**Vishnu:**

Wonderful, sir. Sir, one more question on the IND-AS part. I see that your interest cost is closer to about 1300 crores for FY16 whereas prior to using IND-AS it was hardly anything. Now, what is the difference if you are going to explain?

**Srinivasan:**

Yeah. My colleagues will explain to you. We'll just tell you.

**Bansal:**

See, our interest income for the first quarter...

**Vishnu:**

No, interest cost, sir.

**Bansal:**

Cost. See, this is the unwinding of discount for the first quarter which we have charged to profit and loss account as per the IND-AS requirements.

**Vishnu:**

So, if you could just elaborate a bit more, sir. Not able to understand.

**Bansal:**

Yeah. In fact, we have decommissioning liabilities in accounts for the charge in the future. Those are to be accounted for at the present value. And the unwinding of discount, that is to be charged as financing cost as per the IND-AS.

**Vishnu:**

So, this is basically the well-abandonment cost, if I'm not...

**Bansal:**

Yeah.

**Bansal:**

So, as a result what has happened, my depletion has come down, but in other form it has gone as a part of the financing cost. This is a requirement of a new IND-AS.



- Vishnu:** So, basically the interest compounding due to... the difference between the assumed interest rate and the actual, is that the difference that is coming as finance cost?
- Bansal:** No, it is not that.
- Srinivasan:** The escalation of the future and discounting to the present value.
- Bansal:** It is nothing, decommissioning liabilities you have discount to take it to the present value.
- Srinivasan:** Both the differential is booked as financing...
- Vishnu:** So, going forward, can we expect about 300 crores on a per-quarter basis?
- Srinivasan:** It'll depend, On a year basis, 15-16 we have already given the number in the public...
- Vishnu:** Okay. Sir, one final question. Is it possible to give a rough EBDITA per barrel for Vancouver say at 50 crude oil... EBDITA or any numbers that you give in terms of profitability?
- Srinivasan:** No, it's very difficult. And I think I don't have right now to share with you. But we will definitely get the OVL team to work out the numbers and give it to you.
- Vishnu:** Okay, sir. Wonderful, sir. Thanks for your time and have a nice evening.
- Moderator:** Thank you very much. So, we have one last question in the queue for today's session from Mr. Vidhyadhar from Access Securities. The line is unmuted, you may please go ahead and ask your question.
- Vishnu:** Yeah, thank you. I just wanted to clarify about this CESS thing. Is the calculation even for CESS like royalty where you are allowed some post-valid expenses or...
- Srinivasan:** No, there's nothing of that sort in this.



**Vishnu:**

Only the rate calculation is...

**Srinivasan:**

Absolutely. We give 20 by 120 and then that...

**Vishnu:**

But no post-valid expenses in case of...

**Srinivasan:**

No, no.

**Vishnu:**

Okay, thanks a lot. Thank you very much. That's it from me.

**Moderator:**

Thank you very much. With this, I would like to hand it over back to the management for any final or closing comments. Over to you, sir.

**Srinivasan:**

Thank you very much for participation in our Q&A session. And we hope to see you again in our next Q2FY16 concall. Thank you.

**Moderator:**

Thank you very much, sir. Thank you, participants. With this, we conclude this session for today. Wish you all a great evening ahead. Thank you everyone for joining. Have a good day.