



“ONGC Q2 FY11 Earnings Conference Call”

October 29, 2010



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Moderator: Ladies and gentlemen, good afternoon and welcome to the ONGC Q2 FY'11 Earnings Conference Call hosted by Daiwa Capital Markets India Private Limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Jaideep Goswami, Head of Equity, Daiwa Capital Markets. Thank you and over to you Sir.

Jaideep Goswami: Thank you Melissa. Good afternoon every one. This is Jaideep Goswami along with analyst, Atul Rastogi, and Nirmal Raghavan from Daiwa Capital Markets. I welcome you all to the Q2 FY'11 Earnings Conference Call of ONGC. It is a pleasure to have with us today Mr. D.K. Sarraf, Director (Finance), ONGC and his senior management team to elaborate on the second quarter results and outlook for the company. I would now like to hand over the proceedings to Mr. Sarraf for his introductory remarks and thereafter we can have the Q&A. Thank you and over to you Mr. Sarraf.

D.K. Sarraf: Thank you Jaideep. Good afternoon ladies and gentlemen and I welcome you all for this ONGC Earnings Call for Q2 FY'11. Here with me are Mr. Ghasolia, Advisor (Finance) ONGC, Mr. Vijayarangan, Head of Corporate Planning, and Mr. Nelson from the investor relation cell and from OVL also I have Mr. Rakesh Sharma and Mr. A.K. Chaturvedi. Concise results of the second quarter of FY'11 have been taken on record by the board of ONGC yesterday and necessary intimation has been sent to the stock exchanges. The advertisement for the same would be appearing in the newspaper tomorrow, it could not appear today. Let me begin with some of the synopsis from the results. The gross sales revenue was higher by Rs.3,105 Crores, which is 20.52% at Rs.18,239 Crore during the Q2 as against Rs.15,134 Crore for the corresponding quarters during the previous year, which was mainly due to positive price variance of Rs.455 Crores for crude oil and Rs.1,735 Crore for natural gas because of realization of increased gas price for the full quarter. There was negative quantity variance for gas, which is a small number amounting to Rs.145 Crore. As far as the crude oil billing is concerned, during the quarter our billing price was \$79.21 per barrel at gross level as against \$70.49 per barrel during the same period last year. However, after giving discount by way of subsidy, the net realization for crude oil in this quarter was \$62.75 per barrel as against \$56.41 per barrel during the same period last year. Incidentally, the crude price which we realized at net level was highest ever in the history of the company in terms of rupees per barrel. In addition, strengthening of the Indian rupee during Q2 FY'11 has also impacted adversely our gross revenue. The exchange rate of rupee vis-a-vis dollar stood at Rs.46.50 as against Rs.48.42 during the second quarter of 2010. However, the post discount realization for crude oil in terms of rupee was Rs.2,918 per barrel in Q2 FY'11 as against Rs.2,732 in Q2 FY'10, an increase of 6.8%. On the profit, the PAT increased by 5.9% despite higher under-recovery, and stood at Rs.5,389 Crore as against Rs.5,090 Crore during the corresponding quarter of the previous year. Increase in PAT was contributed mainly by higher



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crude price as well as higher gas price, which was largely offset by increase in statutory levies to the extent of Rs.877 Crore and also by increase in dry wells cost which is quite a disturbing factor for us as well as for the investors to the extent of Rs.1,786 Crore. The share of under-recoveries of oil marketing companies during Q2 FY'11 stood at Rs.3,019 Crore as against Rs.2,630 Crore during the same quarter last year, which has adversely impacted our PAT by Rs. 1,721 Crore. But for the under-recovery adjustment, our PAT for the current quarter would have been Rs.7,120 Crore as against Rs.6,581Crore in the corresponding quarter of last year. On the Opex side, the good news is that there is overall reduction in operating expenses, which is contributed by work over expenditure to the extent of Rs.146 Crore, water injection expenditure to the extent of Rs.84 Crore; idle rig cost has also decreased by Rs.73 Crore which is a very good sign. At the same time, there is some increase in the manpower expenditure to a very small extent of Rs.21 Crore, consumption of material Rs.29 Crore and pollution control expenditure about Rs.25 Crore, but these expenditure increased, as compared to total overall operation are negligible. Just as I said that the total Opex had decreased by Rs.73 Crore, which is a very good sign. For the Q2 of this year, the DD&A cost (depreciation, depletion, and amortization cost) stood at Rs.4,399 Crore as against Rs.2,356 Crore, which amounts to an increase of 86.7%. This increase was mainly due to increase in dry well cost, which has gone up to Rs.2,441 Crore in Q2 as compared to Rs. 655 Crore in the same quarter previous year. As I just said that this is a sign, which is quite disturbing for the management as well as for the investors and we will be further looking into that. In terms of physical performance, there is an increase of 3% in the crude oil production at 6.846 million metric tonnes vis-a-vis 6.631 million metric tonnes during Q2 of FY'10, mainly contributed by increase in production from the joint venture. However, the gas production was lower by 3% at 6.251 billion cubic meter vis-a-vis 6.455 bcm during the corresponding quarter of FY'10, and this was largely due to a reduction of our share from joint ventures due to shutdown of production from Panna Mukta for repair of pipeline and I am told that this repair has now been completed so in the coming quarter the gas production would be normal. Production from the field has now resumed. I would like to finish my briefing here and would be happy to answer the questions, which all of you have, and my colleagues will help me in clarifying your points. Thank you and over to you.

- Moderator:** Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Rajesh Aynor from Metlife. Please go ahead.
- Rajesh Aynor:** My question is regarding the cash balance and investment, which are reflected in the six-month statement. Basically the cash has gone down by almost Rs.8,000 Crores and we have seen almost similar tune of investments increase, so can you please throw some light on which assets we are showing here as investments?
- D.K. Sarraf:** The cash and bank balance have gone down because of the payment of dividend during the month of September, 2010, and I presume that the dividend was paid before September last year.



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- Rajesh Aynor:** And Sir, the investment which has increased from almost Rs.5,500 Crore to Rs.15,000 Crore, which investments are these? Are these producing assets or these are only cash and cash equivalent type of investments?
- D.K. Sarraf:** I think, there would be certain classification issues between the investment and cash & bank. The increase is towards cash investments.
- Rajesh Aynor:** Okay. My other question is more on the exploration activity that we are now taking up, if I look at the dry well write off it is much on the higher side, can you explain where exactly all these dry wells being written off, and geographically which are the areas we are focusing more in terms of our current exploration activity, in the Eastern coast and which places in the Eastern coast, can you explain that?
- D.K. Sarraf:** Yes, the major increase of dry well which has come during the current quarter is from the deep water, which has increased significantly during this quarter, vis-a-vis last year. As you would be aware that deep water well cost significantly and one or two deep water wells going dry can make a big difference. Also to tell you further, some of the deep water wells which have gone dry, were tested during the month of October, but as per our accounting policy we consider even those dry wells which have been tested and status known by 15th of October so that means, during the next quarter it is possible that incidence of dry well is lower.
- Rajesh Aynor:** Okay, in which areas we are currently focusing on in terms of exploration, so that what kind of news flows do we expect in the 6 to 9 months, is there anything possible on that side?
- D.K. Sarraf:** The wells, which will come as far as deep water is concerned is in East Coast including Mahanadi also.
- Rajesh Aynor:** Okay, on the Eastern as well as the Konkan region and southern of western coast, is there anything which we are currently doing in those regions?
- D.K. Sarraf:** Currently we are focusing on appraisal well drilling at both KG-98/2 as well as Mahanadi block. We hope to get something that is within this year we will definitely come to know something.
- Moderator:** Thank you. The next question is from the line of Amit Rustogi from Antique Stock Broking. Please go a head.
- Amit Rustogi:** Can you highlight about the progress of KG-98/2 because just now you have mentioned we are doing appraisal drilling there, so when we can expect filing of development plan and production from this block as well as Mahanadi?
- R. Vijayarangan:** We have started appraisal in the last quarter only, so may be the appraisal will take at least one to one-and-a-half years' time. We are drilling the second well/ third well only right now and should take may be another two to three quarters, then at the completion of the appraisal phase we will



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be able to say exactly where we will be standing. The similar case is with Mahanadi. In Mahanadi also appraisal is going on simultaneously and only when we drill a few more wells we will be able to say where exactly or what will be the kind of potential in those two blocks.

Amit Rustogi: Sir, but this appraisal drillings are also written off as dry well?

R. Vijayarangan: Yes, if we do not find them useful, we do not re-enter them, then it will be written off.

D.K. Sarraf: In fact, what happens, accounting polices are very stringent, which we follow. Even if the well is successful, that means it is hydrocarbon bearing, but after the completion of the successful well, we may have to cap it, because it was not intended to be a development well, it was intended to be exploration well, even then we write off that well and take the full charge to our profit and loss account. That is why the quantum of dry wells which appear in our books of accounts could be higher than what the technical people would suggest.

Amit Rustogi: Okay. Can you comment on the sundry debtors, because I can see that sundry debtors amount is going up from year-on-year basis as well as from the last balance sheet. It is currently Rs.5,829 Crore against Rs.3,058 Crore as on 31st March.

D.K. Sarraf: As far as sundry debtors are concerned, it could be an aberration because some of the invoices might not have come, but we have no concerns on sundry debtors. All the debtors are being received on time and absolutely there is no concern over sundry debtors. In fact, we have instituted a very robust system on realization of the sundry debtors. The main reason for increase is on account of increase in net realizable price for Crude – post declaration of under-recoveries (subsidy).

Amit Rustogi: Okay sir and these will be largely oil marketing companies?

D.K. Sarraf: Yes, these are oil marketing companies as well as GAIL.

Moderator: Thank you. The next question is from the line of Vidyadhar Ginde from DSP Merrill Lynch. Please go ahead.

Vidyadhar Ginde: Why are these value-added products volume gone down by 15% in the current quarter, has it got anything to do with Panna Mukta or what is the reason?

D.K. Sarraf: There was an accident in Uran and because of that the capacity of the value-added plants had to be cut down by almost 30%, because of that mainly the value-added product production has come down, and this particular job of revival has already been completed and within the next couple of weeks everything would be back to normal. In addition to that, due to Panna Mukta accident, the supply of condensate was lower than what it used to be, which has already resumed being normal.



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- Vidyadhar Ginde:** So, does this mean that even in the current quarter there will be some impact because both these problem as you suggested seemed to have continued in October also?
- D.K. Sarraf:** There would be some impact in the current quarter also, but not to this extent.
- Vidyadhar Ginde:** A couple of other questions, one is on this drilling which you are doing in KG-DWN-98/2 now, which part of KG-DWN are you drilling, is it the southern part. Because I think in northern part you have given us more details in the last quarter about the recoverable reserves and all that things. Is it in the deeper portion than the southern part of the block?
- R. Vijayarangan:** It is UD-1 and UD-2 that is the area where we are drilling right now.
- Vidyadhar Ginde:** And this is where you suggest that it will take two to three more quarters to get better idea is it?
- R. Vijayarangan:** That is right.
- Vidyadhar Ginde:** Lastly, you were supposed to get two deep water rigs; one in the end of the current calendar year and one in early next year, does that look on schedule?
- R. Vijayarangan:** Yes, as of date, the status stands so, we have not revised the programme as such. We will get the rig at the end of this year.
- Moderator:** Thank you. The next question is from the line of Sanjay Mookim from Credit Suisse. Please go ahead.
- Sanjay Mookim:** I was wondering if it is possible for you to split the royalty paid this quarter on the Cairn's Mangala field.
- D.K. Sarraf:** Yes. The royalty which we paid for the Rajasthan block, we can divide into two parts. Rs. 137 Crore relates to the 30% share of ONGC crude and another Rs. 319 Crore relate to 70%, which is the crude of the operator in India.
- Sanjay Mookim:** Right, so can we then assume that the total of 319 plus 137 is 20% of revenues booked for you this quarter? If we add 319 and 137 that is 20% of the revenues that you have booked on account of the Mangala field?
- D.K. Sarraf:** No, because royalty is not 20%, royalty is 16.67%, because it is 20 divided by 120. Secondly from the sales revenue, we have to also deduct the post well-head cost, which could amount to may be around \$10 or whatever. For example, if the price is \$70 and post well-head cost is \$10, balance would be \$60 and on 60, 16.67% would be paid as royalty, which works out to \$10, and the 20% of the \$70 works out to \$14.



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- Sanjay Mookim:** All right. Sir, secondly if I may ask on the update on the oil production at 98/2, when are you looking at that coming in?
- R. Vijayarangan:** Appraisal is yet to be completed, only after getting the appraisal completed, we will have a firm development plan. Only at the end of the appraisal programme we will be able to give a firm update.
- Sanjay Mookim:** When we expect to end the appraisal?
- R. Vijayarangan:** Appraisal will take at least another six months to one year and then we will be able to make a development plan and then only we will be able to say exactly what would be the kind of oil/gas we can get.
- Moderator:** Thank you. The question is from the line of Probal Sen from IDFC Securities. Please go ahead.
- Probal Sen:** I just have a couple of questions, one is with regard to the production growth, and obviously major part of it perhaps is coming from your share of the Cairn field. I just wanted to know is there any other sort of source of growth going to come over the next 18 months or will Cairn perhaps be the major driver of production growth in oil. Secondly, what is the kind of CapEx that has been spent till date and projections for the rest of the year, and the number of wells, both exploration and development?
- D.K. Sarraf:** As far as the production is concerned, some of production, which would come in the near term and mid term is from some of the marginal fields, which includes D1 extension, B193 cluster, B22 clusters, North Tapti, WO series, B46 cluster, cluster 7, and B193 as well as B series . We are envisaging a production of 36,500 barrels a day in 2012 and in 2013 from the same field the production would be 112,000 barrels, so that much of production we would be adding in times to come as far as crude oil is concerned. As far as gas is concerned, the names of the fields which would be adding to the production would be North Tapti, B193 and 28 cluster, B22 cluster WO series cluster, B46 cluster, cluster 7, and again B series . The total gas production which we get from all these fields is 5.4 million cubic meter per day in 2012, and 11 million cubic meters per day in 2013, and so on. Of course, when I tell these numbers these come with a caveat and the caveat is that this is the new production, which we would be adding, but at the same time there would be some fall in the production from the existing fields. So the new production would, to an extent, offset the existing production as well as to a lesser extent it would increase the production.
- Probal Sen:** Okay. The second is about the kind the Capex plan for the rest of the year as well as for next year sir?
- B.L. Ghasolia:** The total Capex for 2011 FY is Rs.28,594 Crore that is for E&P activities. As for the breakdown of this Capex, I hope we have shared earlier also, it is about 10,000 Crore for the exploration-related activities, 3,300 Crore for development-related activities, 12,500 Crore for capital assets that means building of new infrastructure, process platforms, onshore facilities, etc., about 2,200



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Crore for our share towards the joint venture, and roughly about 400 Crores towards R&D activities.

Moderator: Thank you. The next question is from the line of Nipun Sharma from Mirae Asset. Please go head.

Nipun Sharma: I just wanted your exploration and development numbers for the quarter and the half, and if you kindly spread that between deep water and onshore. Second question was with regards to your production guidance, we understand that you were going to reassess your production goals in September. Is there any fresh guidance? I had a third question also if I may that was on OVL production. Congratulation on the strong overseas production, but I was curious to find out whether this changes your acquisition strategy. Are you now less anxious to augment your production profile through acquisitions because you are getting good production from your existing fields? That is all from my side. Thank you.

B. L. Ghasolia: As far as your second question on production guidance is concerned, yes you are right. We are right now in the process of reviewing our numbers for the current fiscal as well as next fiscal and the RE numbers are available now. For 2011 fiscal, the crude oil production is estimated at 24.55 MMT, natural gas 22.921 BCM. Our share from domestic joint ventures, crude oil 2.929 MMT and gas 2.242 BCM. Both these productions put together, it is going to be around 27.479 MMT of crude oil and 25.163 BCM of gas. As regards exploratory and development wells, number of wells, my colleague Mr. Vijayarangan will give you the numbers, both offshore and onshore.

R. Vijayarangan: We will be drilling approx 150 exploratory wells for the current year and out of which roughly around 8 to 10 deep water wells. We have 233 development wells, which we plan for the current year.

Nipun Sharma: Sir can you please give me the split between how many you have already drilled in the first half? I was wondering have the monsoons affected your exploration program at all. Should we expect a more sort of back-end loaded exploration program?

R. Vijayarangan: In the first half, we have drilled around 58 exploratory wells and 121 development wells.

Nipun Sharma: If you could again kindly give me split between deep water?

R. Vijayarangan: Deep water will be 5 wells and shallow water 15, onland 38 wells, so total 58 wells we have drilled so far. Development drilling, we have drilled 121 wells, 15 offshore and 106 onland. For overseas production I am handing over to Mr. Rakesh Sharma, who will take this question.

Rakesh Sharma: On quarter-to-quarter basis we have almost had a 10% increase in our oil and gas production, both put together. As of now for half year what we have produced is 4.561 million tons of oil and gas, of which almost 3.25 mmt is oil and 1.311 bcm is gas. Now extension to your question was with this kind of an impressive production would there be some reassess that we will perform to



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our acquisition strategy. No, that is not the case, we are on a ground, and we are looking all around for more assets which can be acquired. There is a dedicated team of people who are visiting places, who are examining proposals, and there is no break that has been put off. In fact, we would like to make it even more impressive the production that we have today.

Nipun Sharma: Okay, so any guidance for future production within OVL, when we can expect performance from your assets in OVL.

Rakesh Sharma: As I told you during last quarter, this year there will be similar production to the one that we had last year and in the year to come, the next financial year also we will have a similar profile with the assets that we are holding today. The potential jump we expect in 2013, when we see Myanmar coming on and when we see production from Oduputu field of Sakhalin-1 and Venezuela also coming on stream. At that time, we would be very close to 10.5 to 13 million tons of oil and gas both put together, but for now till the time that these projects come on to production we will have a fairly stable oil and gas production from the existing assets, and if we are adding some more producing assets in between, which give us quick production to add on, you would see an escalation.

Nipun Sharma: All right, that is from my side. Thank you very much gentlemen.

Moderator: Thank you. The next question is from the line of Yogesh Patel from Arihant Capital. Please go ahead.

Yogesh Patel: Sir I just wanted to know what is the total size of site restoration fund at that end of first half of FY'11 and what is the rate of interest, company received from it, and how many did you add in this quarter?

D.K. Sarraf: **The rate of interest is 6%** for the time being and this is the State Bank's rate, which it gives on fixed deposits. Last year it was 6% as on March 31, 2010 and as a matter of practice we continue with the same rate for the quarterly accounts and again we would review this on March 31, 2011, so if the rate of March 31, 2011 is in any case expected to be much higher than 6% the differential we will account for in March 2011. So far as the total deposits is concerned, it is Rs.7,403 Crore as of March 31, 2010 and after that we have not deposited any money in that account in Q1 and Q2. Again, we would review the position in the Q4 whether we need to deposit anything further in that account.

Yogesh Patel: Okay sir my second question is regarding to PMT field, I just wanted to know what is the current rate of production after restoration of normal operations from the PMT field?

D.K. Sarraf: I am told that the rate of production is 5.8 million standard cubic meter of gas per day and for oil it is 35,000 barrels per day.



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- Yogesh Patel:** And the last question sir, what is the field development cost for the shallow water and deep water gas fields?
- D.K. Sarraf:** The question is not specific, I do not know which particular field you are referring to.
- Yogesh Patel:** Sir basically shallow water development in the KG blocks?
- D.K. Sarraf:** It is yet to be worked out, after the appraisal we would come out, if we finalise the field development plans, it will be sent to the DGH and the Government of India also for approval, and at that time we would know the precise number of field developmental cost.
- Moderator:** Thank you, the next question is from the line of Bikram Mahajan from Bay Capital. Please go ahead.
- Bikram Mahajan:** Sir, correct me if I am wrong, I heard that 150 exploratory wells were scheduled for FY'11, out of which you have already drilled 58, and out of 10 scheduled in ultra deep water 5 have already been drilled. You just mentioned the numbers for your targeted exploratory wells scheduled for FY'11, vis-à-vis the work that you have done in H1, so for my understanding if you could just repeat those numbers.
- D.K. Sarraf:** We have drilled 58 exploratory wells in the first half of this year and 121 development wells in the first half, and the total plan for this year exploratory as told by my colleague earlier is about 150 and the development wells plan which has now been revised very recently, in fact the board has approved only yesterday, earlier it was planned for 216 wells but as per yesterday's revised plan the number stands as 233.
- Bikram Mahajan:** 233 developmental in total.
- D.K. Sarraf:** And the exploratory well earlier it was 154, now it is revised to 150.
- Bikram Mahajan:** And ultra deep water, 5 you have already done and five are scheduled in H2. So in terms of high dry well write off, will that continue to remain elevated or you will stick to your plan?
- D.K. Sarraf:** It is very difficult to say, it depends on the success or otherwise which we encounter in the future exploratory wells.
- Moderator:** Thank you. The next question is from the line of Sriram from BNP Paribas. Please go ahead.
- Sriram:** Just to clarify this Cairn royalty, the numbers you mentioned were for the Q2 or the H1, just the period?
- D.K. Sarraf:** The number of Rs.137 Crore for ONGC crude and Rs.319 Crore for operator crude, pertained to the Q2 of FY'11.



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- Sriram:** The question for OVL, the rate now is around 4.5 million tones for the H1. So do we see the similar profile for the H2, and for the next two years also the production will sustain at those levels?
- Rakesh Sharma:** What we have told you are the actual numbers that we have clocked in the H1. When we do plan, we are fairly aware of the kind of production that is going to come out of the fields. If we go by the number that we anticipated before the start of this year, we were trying to clock 8.2 million tons of oil and gas both put together. Now the best way for anybody to guess what could be the production is the numbers that we disclose related to the plan. Actual is some additions and deletions, which happen because of the wells behavior, because of the reservoirs behavior. It is a 10% increase of YonY basis. It could have been a 5% decrease as well, but it is for Oduptu field of Sakhalin-1, which have come on stream in mid September which has added considerable amount of oil production to us.
- Sriram:** Yeah, exactly, which means that the producing field suddenly just cannot go offline that is why I am asking it will sustain at least at these levels.
- Rakesh Sharma:** Do not go by the actual numbers. You listen to our plan numbers, which would rather give you a fairer idea for your model.
- Sriram:** Okay. So the plan numbers is it will be at least on the similar profile to last year, which was around 8.9 metric million tons of oil equivalent. Sir, coming back to ONGC core, is it possible to share what was exactly that Cairn share of production, I mean your share from the Cairn production and sales, both production and sales for the Q2 or H1, both.
- D.K. Sarraf:** I am checking with my colleague if anyone of them has got that number, just hold on. The ONGC share of production from Rajasthan block is 0.39 million metric tonnes for Q2 and for Q1 it was 0.147 million metric tonnes.
- Sriram:** Sir is it possible to similarly say the sales share?
- D.K. Sarraf:** Sales also is available, for Q2 it was 0.383 MMT and for Q1 it was almost touching 0.1MMT.
- Sriram:** Okay sir and my last question is on that this recent news that Tripura power plant is coming online by next year end, so what additional gas sales can we expect in terms of absolute quantity for the FY'12?
- D.K. Sarraf:** By the close of next calendar year 2011, the first unit of the Tripura power plant is to come and the second unit would come only by March of 2012. The total peak supply by ONGC to ONGC Tripura Power would be about 6 million cubic meters per day. So during this fiscal year '11-'12, there may not be significant supply by ONGC to Tripura Power, but during the year '12-'13 it would be between 5-6 million cubic meters per day.



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- Sriram:** So we can expect in FY'13 that additional 6 MMSCMD of sales to come in right?
- D.K. Sarraf:** Yes and we hope that the plant would be commissioned on time.
- Moderator:** The next question is from the line of Harshad Borawake from Motilal Oswal Securities Limited. Please go ahead.
- Harshad Borawake:** How much Capex have we done in September end in the deep water well. What is the planned Capex for the remaining half?
- D.K. Sarraf:** We do not have the numbers separately for deep water exploration expenditure, but if you want my colleague can give you the total CapEx on exploration expenditure, which includes deep as well as shallow.
- Harshad Borawake:** I think you previously gave about 10,000 Crores for the full year right?
- D.K. Sarraf:** Yes, that is 10,300 Crore.
- Harshad Borawake:** Okay, sir I am just trying to understand this dry well for the current quarter, can you just elaborate more on the dry well policy for the deep water well?
- D.K. Sarraf:** Yes, I can elaborate on that the policy is that there are two types of wells. First type of wells are those exploratory wells, which, if successful we can get production. Second in the category is those exploratory wells even if successful we will not get production, but would be able to further help in locating future wells. So second category of wells irrespective of whether they are dry or they are hydrocarbon bearing we write off. So this is anomaly, but we have to abide by the guidance notes issued by Institute of Chartered Accountants. The second category of wells, which they call as expandable wells, we have to write off irrespective of their success or otherwise.
- Harshad Borawake:** Okay, we decide the category post the drilling of the well right.
- Moderator:** Thank you. The next question is from the line of Sandeep Varma from IIFL. Please go ahead.
- Sandeep Varma:** The first one was that Mr. Sharma recently announced that there will be reserve audit, probably before the end of FY'11. Do we expect any kind of change in the reserve numbers of ONGC 1P and 2P by the reserves audited?
- D.K. Sarraf:** It is too early to say that whether there will be any change in the reserve number present to audit or not, but as far as the experience goes we had a similar audit at the time of our IPO in March 2004 and the numbers which the reserve auditor, D&M, gave, were very, very close to the numbers which we have been certifying internally. So that is the experience of 2004. For 2011, when the report comes we would know for sure.



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- Sandeep Varma:** Further on that, Mr. Sharma also said that only probably 90% of the reserves will be audited. Does that mean there are reserves which will still not be included in the reserve audit?
- D.K. Sarraf:** Not necessarily, we only have the audit of the substantial fields, because there are so many small, small fields which may not be material, so our effort would be to cover all the major fields, covering at least 90%-95% of the total reserves of the company.
- Sandeep Varma:** Okay. Just one more thing Sir, more clarity I needed was the royalty for Rajasthan you have told is that 16.67%. Can you just a little bit elaborate on that Sir, because for the prenomination block, is not that supposed to be 20%?
- D.K. Sarraf:** The royalty is supposed to be included in the sale price, if my sale price is 100 it includes royalty, so if we work it backward at the rate of 20%, the royalty figure comes to 16.67% and the same formula is applied for the nominated blocks.
- Sandeep Varma:** Can you just repeat it once again?
- D.K. Sarraf:** This is how it works, the sale price which we get minus the post well head cost, which is somewhat similar to our operating expenditure on production, if we adjust that on the balance the royalty would be 1/6th for onshore and 1/11th for offshore fields.
- Moderator:** Thank you. The next question is from the line of Avadhoot Sabnis from RBS. Please go ahead.
- Avadhoot Sabnis:** Ghasolia Ji, you mentioned the revised production target for FY'11. Is there similar sort of revised target for FY'12?
- B. L. Ghasolia:** We have the number for FY'12, I hope you have noted down FY'11 number. Production estimates for FY'12 is 24.774 MMT of oil, 23.536 BCM of gas from ONGC fields, and our share from domestic joint venture is 3.401 MMT of oil and 1.915 bcm of gas, totaling to 28.175 MMT of oil and 25.451 BCM of gas.
- Avadhoot Sabnis:** That is fantastic. So there has been quite a cut on the oil side?
- D.K. Sarraf:** Yes, on revision. In very short run, we had some concerns on oil production, but at the same time as I just told there would be certain incremental production, which would be largely coming in 2013, when our new marginal fields would produce a little more than 110,000 barrels per day, so that would add to our production number. Of course the production from the existing fields would also decline to an extent by then.
- Avadhoot Sabnis:** I suppose the only area of concern here is that the track record has been that whatever the annual target given at the beginning of the year there has been shortfall on that target, so basically it is a target 12 months down the line is the cause for disappointment. There is obviously less confidence in the target given two to three years down the line.



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- D.K. Sarraf:** Avadhoot, you are absolutely right and I share your concern and this is the thing which we keep on discussing in our board meeting, in our executive committee meeting, and the numbers which I have given to you just now for the incremental production are based on certain field development plans, which have already been chosen and most of them have already been awarded. The experience has been that while up to the stage of award of the contract there have been slippages, the procedure is too long and cumbersome, but at the same time once the contract for field development is awarded the number of instances that we have experienced delays are not many. So from that perspective I can say with some certainty that the numbers of incremental production, which have been given for 2013, are a fair estimation.
- Avadhoot Sabnis:** Great. The numbers now given by Mr. Ghasolia was for FY'11, FY'12, can you give any tentative number at all for FY'13?
- D.K. Sarraf:** FY'13 we will not be able to give any tentative number also because while we have the production from the new incremented fields, but we do not have estimated production from the existing fields, which are already on decline.
- Avadhoot Sabnis:** Just a question on OVL, one specific question which is that you have given earlier the first quarter OVL production numbers as well as the broad financial results, now you have given us this quarter production numbers as well. For the first quarter, despite an annualized volume increase of 7%, the annualized net profit increase was nearly 62%, would Mr. Rakesh Sharma able to shed any light on why this 62% hike?
- Rakesh Sharma:** At this point we do not have the H1 numbers and it will be very difficult for us to share a comparison of what you give for production versus the realization. What we can do is, we can address this separately through Nelson and send you.
- Avadhoot Sabnis:** Sharmaji I am referring specifically to what has already been disclosed for the first quarter only, not the second quarter. Why the first quarter run rate of profitability was so high? I just wanted to reconfirm that from your press release, you stated that Rs.846 Crore was the net profit for the first quarter for OVL compared to a full year profit of Rs.2,090 Crore for a whole of FY'10?
- Rakesh Sharma:** Let me tell you, looking at the Q1 profitability in isolation would not be a correct measure of the corporate performance for the year end, now when we close our book at the yearend there are lot of adjustments, my friend from finance is already here, Mr. Chaturvedi. He would be able to elaborate that we do a lot of adjustments and corrections, so just having a linear relationship would not be correct at this moment.
- A.K. Chaturvedi:** Yes I think that is the fair explanation because we have to look at all the developments that take place through the year, the production and more specifically the amortization that come over the year including dry wells. So at this point of time you will not be able to support that the first quarter will be prorated for the whole year. We will have to wait for the first half results and then we will have to see what would be our revised guidance.



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- Avadhoot Sabnis:** My only request Sir, if at all is that whatever for the financial results you present it would decorate if you could present them in the same format that you give for ONGC in terms of the entire breakup with the notes.
- B. L. Ghasolia:** We take a note of it thank you.
- Avadhoot Sabnis:** Last small question Sir. Sarrafji mentioned that there is some anomaly in terms of the dry well write off policy where a well could be successful and yet be written off in the accounts, has there been any such instance for the second quarter in particular in terms of the 2400 Crores write off.
- D.K. Sarraf:** We do not analyze this well by well and quarter by quarter, the statement which I gave was a generic statement and such instances happen in each of the quarter, quarter after quarter and I do not have at present the number of wells or the value of those wells, which are covered by this anomaly.
- Moderator:** Thank you. The next question is a follow-up from the line of Vidyadhar Ginde from DSP Merrill Lynch. Please go ahead.
- Vidyadhar Ginde:** Thank you. A couple of followup questions, one is I just wanted a clarification on KG-DWN-98/2. Has the appraisal of at least northern part of the discovery for which you gave us recoverable results number last quarter, has that been completed or even that has not been completed?
- R. Vijayarangan:** Not yet, appraisal is still going on, even in the northern part.
- Vidyadhar Ginde:** Is that also will take a few quarters or that was faster than UD?
- R. Vijayarangan:** It will definitely take at least two to three quarters.
- Vidyadhar Ginde:** UD would take how long?
- R. Vijayarangan:** We have started only in the last quarter, it would take at least another two to three quarters there also .
- Vidyadhar Ginde:** Couple of other questions, one is in case of these new gas production which Mr. Sarraf mentioned coming in FY'12, FY'13, in all of these cases do you expect to receive gas price which is higher than \$4.2 per million metrics or is that prepricing for that gas?
- D.K. Sarraf:** Absolutely for all the gas which we put on production after the government order, would be the non-APM market price, which could be for example \$ 5.25/mmbtu perhaps for western region offshore, like north region, Western region etc. For eastern offshore also the price would be higher than \$4.2/mmbtu.



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- Vidyadhar Ginde:** Will it be a fresh decision or recent decision of \$5.25/mmbtu for C- series that applies to or it is going to be a fresh decision?
- D.K. Sarraf:** Government has already issued guidelines in which they have said that generally the price of gas produced from the new fields would be how much, though theoretically speaking we have to go to the government for each fields to get their approvals, but since the guideline have already been issued by the government for each region, we do not feel that we will face any difficulty in getting it.
- Vidyadhar Ginde:** In the west coast likely to be more like \$5.25/mmbtu?
- D.K. Sarraf:** West coast will be \$5.25/mmbtu.
- Vidyadhar Ginde:** Last question, you have mentioned that independent experts who have been appointed to vet your reserves, are they also been asked to estimate the contingent resource numbers and will that also include the rate, will just be the 1P, 2P, 3P reserves, or it will also be contingent resources?
- D.K. Sarraf:** I do not know for sure what their precise scope of work is, but I would presume that they would not estimate the contingent resource because here the focus was on FPO and in FPO I think we do not announce the contingent resources and we give only 1P, 2P, and 3P reserves.
- Vidyadhar Ginde:** I am not absolutely sure, but I think Oil India which did the last IPO last year did give us some contingent resource numbers, if I am not wrong? What oil India did will that be one of the benchmarks for you or no?
- D.K. Sarraf:** Not necessarily because I am not again very sure whether that is a very good practice or not, but definitely we would give the 1p, 2p and 3p reserves.
- Moderator:** Thank you. The next question is from the line of Jainesh Shah from Quantum Advisors. Please go ahead.
- Jainesh Shah:** I just have a question on OVL, you mentioned that the production at OVL probably will step up at around to 12.5 to 13 million tonnes per annum in FY'13, could we just have a sense of how much investments would be required to be made all across in the existing as well as the acquired new assets in OVL during this period?
- Rakesh Sharma:** See what I spoke about was production from their existing assets that means we already have some discovered fields which are in development and they will commence production in the years to come. For the plan expenditure that we have in the last financial year we almost spent Rs.5,000 Crore on our projects, which include all the existing projects, exploration, producing, and development. For this financial year we have plans to spend almost Rs.6,500 Crore during the financial year. Similar outlay would be there for the next year, which is still in preparation.



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- Jainesh Shah:** Can I also get a sense on Capex on the standalone for the FY'12, if it is possible, on ONGC standalone?
- B. L. Ghasolia:** ONGC Capex for FY'12 is Rs.28,800 Crore in all for E&P activities, the breakdown of it is Rs.11,200 Crore on exploration, Rs. 4,900 Crore on development, Rs.11,000 Crore on building of new assets onshore and offshore both, Rs.1,300 Crore our contribution to joint ventures, and about Rs.400 Crore on R&D that makes a total of Rs.28,800 Crore.
- Moderator:** Thank you. The next question is a followup from the line of Sriram from BNP Paribas. Please go ahead.
- Sriram:** Just on the quarterly basis the profit petroleum is shared, is it possible to share again the shares from the Cairn block how much cost of petroleum is shared in the quantum recognized?
- D.K. Sarraf:** The Rajasthan block has not reached the stage where we need to share any profit petroleum, which is recognized.
- Sriram:** So the sales are recognized, not net of profit petroleum?
- D.K. Sarraf:** Sales are towards net of profit petroleum, but the profit petroleum is not there at the moment.
- Sriram:** There was a news on shale, there were some in-place estimates, you have been doing some technical studies through Schlumberger, around 30 TCF and around 80-90 TCF in Cambay and the Damodar Basin. What can we expect on the shale prospects from ONGC side?
- D.K. Sarraf:** These are a sort of R&D effort and we would request you not to consider any production from such initiative, but it would definitely open a total area of further commercialization at a later stage.
- Sriram:** Okay, so there will not be more color on this, because there was some news that in October end and November there will be some news on ONGC's plan for shale, so there is no incremental news on that?
- D.K. Sarraf:** If you are expecting an answer, you may have to repeat.
- Sriram:** I was just mentioning that by October end or in the month of November whatever shale drilling prospect ONGC has been having there will be some results out of it. What exactly would be the nature of the results you would be sharing with us?
- D.K. Sarraf:** Whenever we have anything which is to be shared with the investor we would definitely share that information with you all.



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- Moderator:** Thank you. The next question is a follow-up from the line of Nipun Sharma from Mirae Asset. Please go ahead.
- Nipun Sharma:** Thank you. Just a very quick follow-up on profit petroleum, I am not sure if I heard that correctly, but can you please share with me the timing of profit petroleum for the Rajasthan block. Will there be some delay in the profit and cost petroleum?
- D.K. Sarraf:** Profit petroleum is shared with the government, when certain conditions are fulfilled, which are given in the PSC, so it depends on how much is the cumulative investment and how much is the cumulative revenue. As far as the Rajasthan block is concerned, it has not reached the stage. The contractor would need to share profit petroleum with the government, so it would come in a couple of quarters' time.
- Nipun Sharma:** Right, but I am asking that will there be delay between, when you calculate the profit petroleum and when it is shared, just the timing aspect of it?
- D.K. Sarraf:** This is shared on a quarter-by-quarter basis, and it is also accounted in the same quarter even it needs to be shared.
- Nipun Sharma:** Okay, my second question is just a quick follow-up on OVL, is there any fresh guidance on the ramp up at Imperial and if you could also provide some color on the cost structure there, something going on the export duties?
- Rakesh Sharma:** Imperial, at the moment is producing almost 18,000 barrels a day and we expect that by the close of this calendar year it will touch 20,000 barrels a day, and this would be a sustainable production that we have for the short-term future. In long term, our aspirations, as we have been always saying, are still being put on execution, and our long-term aspiration on this project still survives.
- Nipun Sharma:** Okay. Can you remind me what the long-term production guidance is again?
- Rakesh Sharma:** We are planning in a medium term, we would like to achieve something like 40,000 barrels a day from this project.
- Nipun Sharma:** What exactly is medium term?
- Rakesh Sharma:** As I was narrating last time also, there are a couple of challenges that we have with the reservoir. Once the challenges with the reservoir have been broken away, we will start with the enhancement of our production. There are still some works, which are being done over there and the results are pouring in.
- Nipun Sharma:** Okay. But the very long term, I guess the production guidance here is 80,000 right?



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- Rakesh Sharma:** We can expect that, but it will be the mid term results, which will tell us what will be the long-term forecast on it.
- Nipun Sharma:** Right, understood. Any color on the cost structure at Imperial? There was some news flowing about some changes in export duties in Russia?
- Rakesh Sharma:** This is something, which is very specific to the project and there are day-to-day changes which happen or periodic changes which happen. Materially it would not affect our revenue stream that we expect out of the project, and it is fairly stable at the moment.
- Nipun Sharma:** But vaguely speaking, what is your all-in cost for producing at Imperial?
- Rakesh Sharma:** I do not have those numbers at this moment.
- D.K. Sarraf:** As a matter of policy, we do not share the cost of production from field by field.
- Nipun Sharma:** Okay. Second question with regards to Imperial is you guys had some impressive gas production growth. From Vietnam, can you please shed some light on that and what we should expect for the next year?
- Rakesh Sharma:** Vietnam gas production is at the moment very close to 14 million standard cubic meters per day and we expect this to go on for a couple of years. Within a short time, we also expect the other field, which is in that project, Lan Do, where we are planning to drill two wells. The preparations are being made and once the two wells are drilled, we will put on line with this project. So the production which may deplete in the Lan Tay, which is the existing producing field, would be made up with the production that comes from the Lan Do field. So 14 million standard cubic meters is a fairly consistent production that we have been having for quite sometime, short and medium term both.
- Moderator:** Thank you. The next question is from the line of Amit Rustogi from Antique Stock Broking. Please go ahead.
- Amit Rastogi:** Sir, can you elaborate on the participating interest in 98/2, who all are with you right now? We heard that Shell, Petrobras are no more there in the JV.
- D.K. Sarraf:** Please repeat the question.
- Amit Rastogi:** Sir, can you elaborate on the participating interest in KG-98/2 block?
- D.K. Sarraf:** It is 90% PI for ONGC and the remaining 10% with Cairn. There is no further change.
- Amit Rastogi:** So, now you are going to develop the block all alone. You are not taking any help of the MNC companies, is it?



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- D.K. Sarraf:** Until any other foreign companies of our liking have been joined, we are going ahead with the work programme on our own.
- Amit Rastogi:** You have given the royalty paid on Cairn Mangala crude for the second quarter. Can you give the similar number for the first quarter?
- D.K. Sarraf:** Yes. In respect of ONGC crude, it was Rs.55 Crore. In respect of Cairn's crude it was Rs.127 Crore.
- Amit Rastogi:** This is for one quarter.
- D.K. Sarraf:** Yes, paid during the first quarter.
- Moderator:** The next question is from the line of Sayed Jaffery from Premji Invest. Please go ahead.
- Sayed Jaffery:** #1. In terms of the decline that you are talking about in standalone production, if you consolidate it, what sort of rate that you are looking at right now?
- D.K. Sarraf:** It is not feasible to give you a precise rate because we know that crude oil production has been falling year after year, because the fields have already past their peak but at the same time due to our effort in IOR/EOR schemes, we have been able to effectively arrest the decline, and the decline rate is very, very nominal, but at the same time when I say that the decline rate is very very nominal it also includes some of the production which we have been getting from the marginal field, but the development of the marginal field going forward would be much more aggressive where it was in the past, and help to the extent that the production would be looking up. How much it would look up in the year 2013 that we have not estimated because the decline rate is yet to firm up.
- Sayed Jaffery:** Okay. Sir for FY'11 and FY'12 the production guidance that you have given, can we have the breakup in what is the marginal and EOR production from both these years? Would you be able to give us that?
- D.K. Sarraf:** For the year 2012 is concerned, we have production from the marginal field to the extent of 36,595 barrels a day and since I am giving the figures in the barrels per day, this is the figure at the end of the year, not for the year, so this much of production would not be available for the whole year, it is the production potential towards the end of the year.
- Sayed Jaffery:** Okay. For FY'11 what would be that number?
- D.K. Sarraf:** For 2011, the table which I have starts from 2012.
- Sayed Jaffery:** Okay. You do not have 2011 numbers there.



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- D.K. Sarraf:** Yes.
- Sayed Jaffery:** Okay. Thank you so much for that. For OVL I had a question, for FY'13, you mentioned 13.5 MMT oil and oil and gas equivalent, can you have the split between oil and gas?
- Rakesh Sharma:** It will be the same. For the exact number, it will be 60:40. The existing ratio that we have is 80:20. It will almost turn out to 60:40 because we will have Myanmar Gas adding into our production.
- Moderator:** Thank you. The last question is a follow-up from the line of Vidyadhar Ginde from DSP Merrill Lynch. Please go ahead.
- Vidyadhar Ginde:** I just wanted to ask Mr. Rakesh Sharma on the OVL question, which had come earlier, would not higher oil price improved the first quarter, this year oil price was almost \$79 compared to less than \$70 last year. So was that one of the factors which may have boosted first quarter profits of OVL? Second question related to this is that in case of Brazil BC-10, where we are seeing incremental volume in the current year, in that is there any profit petroleum sharing at this stage, is that another factor where profit in Q1 may have been higher?
- Rakesh Sharma:** The first question that you have asked you almost had the answer in it.
- Vidyadhar Ginde:** Was that one of the factors, because this question was asked to you earlier by Avdooth, is the answer I am giving is one of the answers?
- Rakesh Sharma:** It is a known factor. Yes, it has added to our bottom line. The specifics about each of the projects, it probably would be very difficult for us to share what is the break-up of profit petroleum on BC-10.
- Vidyadhar Ginde:** To put it differently, was BC-10 one of the reasons where profit could have been higher?
- D.K. Sarraf:** No. I think my OVL colleagues would correct me if I am wrong as far as BC-10 deal is concerned, there is no profit petroleum because we have a royalty regime and PSC regime there, so there would not be any profit petroleum sharing with the Brazilian Government.
- Vidyadhar Ginde:** Okay, to put it simply as I am asking you, is BC-10 being higher volumes is one of the reasons why profit could have been higher in Q1 than in the last year on an annualized basis?
- Rakesh Sharma:** The present production remains on a like-to-like basis for both the financial years. For the one that we had last and the year before that, if you want to consider on a production basis, it is naturally the prices which are reflecting on to our profits.
- Vidyadhar Ginde:** Okay, thanks.



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- D.K. Sarraf:** After the last question, I think we have been there in the call for almost 80 minutes, so thank you very much for the keen interest which you showed in ONGC, OVL, and we believe that we have been able to answer most of your questions through this discussion, at the end let me also ask a question from you the investors or the analysts, we have been trying for the last couple of quarters or couple of years to be more and more informative in terms of the quantum of information, quality of information, and the structure in which we provide you the information, now I would like to ask you if there is anything you would like to suggest to us, what further information you would like to receive from us on a continuous basis so that your information requirements are full filled. If there are any suggestions whether that can be addressed during this call or they can be sent to me through an e-mail?
- Moderator:** Thank you. I would now like to hand the floor to Mr. Nirmal Raghavan, research analyst at Daiwa Capital Markets for closing comments.
- Nirmal Raghavan:** Thank you Melissa. On behalf of Daiwa Capital Markets, we would like to thank Mr. Sarraf and senior management team of ONGC for being with us on this conference call and taking all the queries. I am sure the investors and the analysts would send their suggestions to ONGC as Mr. Sarraf has requested. It was a pleasure to have you all on the call, and thank you all participants for logging in. Thank you very much.
- Moderator:** Thank you gentlemen of the management. Ladies and gentlemen on behalf of Daiwa Capital Markets India Pvt. Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your line.