Oil and Natural Gas Corporation Limited
Q3 FY'24 Earnings Conference Call

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CORPORATE PARTICIPANTS:

ONGC:-

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Mr. K. C. Ramesh - Chief Financial Officer,

Mr. Pavan Agarwal - Chief Corporate Planning,

Mr. S. K. Dwivedi - Chief BD&JV,

Mr. Devendra Kumar - Chief Commercial,

Mr. B. R. Subudhi - Head Corporate Accounts,

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ONGC Videsh Ltd.

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Q&A PARTICIPANTS:

1.	**Varatharajan Sivasankaran**	: Antique Stock Broking Ltd
2.	**Amit Rustagi**	: UBS Securities
3.	**Probal Sen**	: ICICI Securities
4.	**Mayank Maheshwari**	: Morgan Stanley
5.	**Sabri Hazarika**	: Emkay Global
6.	**Gagan Dixit**	: Elara Capital
7.	**Vikash Jain**	: CLSA
8.	**Somaiah V**	: Avendus Spark
9.	**Manish Ostwal**	: Nirmal Bang

Moderator

Good afternoon, ladies, and gentlemen. I am Pelsia, moderator for the conference call. Welcome to ONGC's Q3 FY'24 Earnings Conference Call. We have with us today, Mr. Manish Patil, Director HR, holding additional charge of Director Finance and his team who will interact with investors and analysts to discuss Q3 earnings. As a reminder, all participants will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Manish Patil. Thank you, and over to you, sir.

Manish Patil

Good afternoon, ladies, and gentlemen. Just to introduce I am Manish Patil, Director HR, holding additional charge of Director Finance, ONGC. I welcome you all in this ONGC earnings call for Q3 and 9M FY'24. Thank you all for joining us on the call. I am joined here by my colleagues from ONGC. Mr. K. C. Ramesh, Chief Corporate Finance and Accounts, who has been designated as CFO; Mr. Pavan Agarwal, Chief Corporate Planning; Mr. S. K. Trivedi, Chief BD & JV; Mr. Devendra Kumar, Chief Commercial; Mr. B. R. Subudhi, Head Corporate Accounts; and Mr. Prakash Joshi, Head Corporate Budget and Investor Relations.
Mr. Vinod Hallan, Head Finance, and Mr. Mukul Bhatnagar, Head Planning and Strategy have joined me from ONGC Videsh Limited.

ONGC has compiled its financial results for the quarter and 9M ended 31st December 2023 which have been reviewed by the Statutory Auditors. The financial results have already been released on 10th February 2024 through a Press note and sent to stock exchanges. This has also been sent to the analysts who are there on our mailing list. Here is a brief synopsis of the results.

The company has earned a net profit, that is profit after tax of INR 9,536 crores during the Q3 of FY'24 as against INR 11,045 crores during the Q3 of FY'23, a decrease of INR 1,509 crores, that is 13.7%. The profit after tax for 9M FY'24 has decreased by INR 9,310 crores, (23.8%), i.e. from profit after tax of INR 39,077 crores in 9M FY'23 to INR 29,767 crores in 9M FY'24. The decrease in net profit during Q3 FY'24 and 9M FY'24 is on the account of lower sales revenue mainly due to lower crude oil, natural gas, and VAP price realizations and provisions of GST on royalty.

The sales revenue for Q3 FY'24 and 9M FY'24 has decreased by INR 3,721 crores that is 9.7% and by INR 15,408 crores that is 13% as against the corresponding quarter and 9M of previous year.

The billing (net of VAT/ CST) for crude oil during the Q3 of the current fiscal was at $81.59 per barrel as against $87.13 per barrel in the same period of last year, that is a decrease of $5.54 per barrel. The exchange rate of rupee versus dollar is stood at INR 83.27 vis-à-vis INR 82.20. Thus, realization for crude in rupee terms stood at INR 6,794 per barrel in Q3 FY'24 vis-à-vis INR 7,162 per barrel in Q3 FY'23, that is a decrease of INR 368 per barrel, (5.1%) in INR terms.

Similarly, gross billing for crude during the first 9M of the current fiscal was at $80.92 per barrel as against $96.99 per barrel in the same period of last year that is a decrease of $16.7 per barrel. The exchange rate of rupee versus dollar stood at INR 82.71 vis-à-vis INR 79.77. Thus, realization for crude in rupee terms stood at INR 6,693 per barrel in 9M FY'24 vis-à-vis INR 7,737 per barrel in 9M FY'23 which amounted to a decrease of INR 1,044 per barrel that is 13.5% in INR terms.

The expenditure on statutory levies, (royalty, cess and excise duty) have decreased during Q3 FY'24 by INR 1,625 crores, 14.6%, and in 9M FY'24 by INR 8,629 crores, that is 23.7% in comparison with similar period of previous years. This decrease in statutory levy is attributable mainly to decrease in sale price of crude oil and levy of special additional excise duty SAED by Government of India on production of petroleum crude at a rate revised on every fortnight based on International crude price. This SAED, on crude have been levied with effect from 1st July 2023 which amounted to INR 9,435 crores in 9M FY'23 and INR 6,710 crores during 9M FY'24.

There is an increase of INR 721 crores in the exploration cost written off in Q3 FY'24 that is from INR 1,607 crores in Q3 FY'23 to INR 2,328 crores in Q3 FY'24. This increase is mainly due to increase in unsuccessful wells charged off mainly at Western Offshore and Mahanadi Basin.

The operating expenditure has increased by INR 105 crore, that is 1.7% from INR 6,275 crores in Q3 FY'23 to INR 6,380 crores in Q3 FY'24. Similarly, the operating expenditure in 9M FY'24 has also increased by INR 1,524 crores, that is 9%, from INR 6,935 crores in 9M FY'23 to INR 18,459 crores in 9M FY'24. The increase is mainly on account of the increase in contractual payment by INR 101 crores mainly at KG-98/2. Other expenses INR 356 crores, transport expenses INR 61 crores, power and fuel by INR 79 crores mainly at western offshore assets, repairs and maintenance INR 323 crores, and water injection by INR 227 crores mainly at western offshore due to increase in activities.

D&I cost for Q3 FY'24 and 9M FY'24 stood at INR 5,078 crores and INR 14,785 crores respectively as against INR 4,855 crores and INR 11,959 crores respectively during the corresponding period of previous year. The depreciation for 9M FY'24 has increased mainly at eastern offshore 98/2 by INR 966 crores due to depreciation on ROU asset of FPSO. Similarly, the impairment for 9M FY'24 has increased due to reversal of impairment amounting to INR 2,129 crores last year on certain discovered small fields of the company falling under 10 contract areas which were awarded by DGH to the winning bidders.

The company at a consolidated level has earned a net profit that is profit after tax of INR 10,748 crores during the Q3 of FY'24 as against INR 11,665 crores during Q3 of FY'23. That is a decrease of INR 917 crores, 7.9%. Similarly, the company at a consolidated level has earned a net profit, that is profit after tax, of INR 44,685 crores during 9M FY'24 as against INR 27,076 crores during 9M FY'23. That is an increase of INR 17,609 crores, (65%). This increase in profit can be mainly attributed to our subsidiary HPCL, MRPL and OVL.

Board has approved second interim dividend of 80% that is INR 4 on each equity share of INR 5. The total payout on this account will be INR 5,032 crores. This is in addition to payout of INR 7,234 crores. First interim dividend of INR 5.75 per share, 115% declared earlier in November 2023.

Lastly, before I finish, I would like to add that to counter the decline in production from some of the matured and marginal fields, ONGC is taking proactive steps by implementing well interventions and advancing new well-drilling activities. The decline in production from matured fields will be compensated in upcoming quarters with commencement of additional production from upcoming projects which are under various stages of development.

Crude oil production, as you are aware, has already commenced from KG-98/2. Hopefully, we would be better placed with oil in the last quarter of this FY and gas in the coming FY'25. We also wish to inform that the price for the gas in the coming financial year would better improve as compared to this year.

Well friends, with this I finished my briefing of the Q3 results for the Financial year 2023-24. We'll be very happy to take questions from you. We would request you to restrict your queries on financial results only. Thank you.

Q&A

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. I repeat. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. First question comes from Varatharajan Sivasankaran from Antique Stock Broking Limited. Please go ahead.

Varatharajan Sivasankaran

Thanks for the opportunity, Sir, you mentioned about the production issue. If you can elaborate a little more on that. So, our understanding is that KG basin obviously is contributing to the oil increase this time around and will contribute to the gas increase next year. But subsequently, effectively in terms of compensating for the declining production in the other field, what would be the situation in FY26 or FY27 with regard to the developments in the new reserves which you have found over the last few years as well as any IOR/EOR activities? So, what is the kind of indication we can get in terms of a sustainable production both on oil and gas?

Pavan Agarwal

With respect to your question about the future growth projections, with the start of first oil from the KG-98/2 project and the upcoming program, we envisage that we will be ending this year on a similar number as we were having in the FY'23 or slightly better than that. But however, moving forward we hope to have an increase by around 15% in the next three years by FY 2026-27. And we have got a number of projects which are lined up. We have got something around 22 development/ infrastructure project with a CapEx outlay of around INR 60,000 crores, and those projects will also contribute to our growth trajectory. And secondly, as you know that we have got the old mature field where we have got around 6-7% decline.

So, we are making the consistent efforts to maintain those productions and to reverse this declining trend. We have given a focus on few of the activities on the water injection prioritization, on the equipment availability, on the operational efficiency improvements, on the resource augmentation with respect to the drilling rigs, the vessels or the helicopters, and the induction of the state-of-art technology in the drilling rigs. So, these are the few measures which we are taking up on an aggressive basis to arrest the decline from the old mature field. And secondly, we have got a number of development projects which are lined up, which will be contributing towards our growth trajectory.

Varatharajan Sivasankaran

Thank you, sir. My second question was on the 20% premium to the incremental gas production which Kirit committee has proposed. I understand it has still not been cleared and notified, but as and when it comes, what is the proportion of our APM production which will be eligible for this kind of premium pricing currently? And it can give some visibility as to how it can potentially increase over the next two to three years.

Pavan Agarwal

Currently, as per the definitions of the gas premium pricing, any well intervention or the new well which is coming up in the existing nomination field will be eligible for this 20% gas premium pricing. Currently, during this year FY'2023-24, it is contributing something around 3-4% of our current gas production. And moving forward in the next three years, we hope that the contribution from this new gas towards the premium pricing will be in the tune of around 20%.

Varatharajan Sivasankaran

Thanks a lot.

Moderator

Thank you. Next question comes from Amit Rustagi from UBS Securities. Please go ahead.

Amit Rustagi

Thank you. Sir, thanks for posting a great set of numbers. My question relates to KG basin field. Like, what is the CapEx we have incurred till date? What is our remaining CapEx in this field, and how are we going to see the cost of production both for oil and gas? Will it increase our DD&A expense as well? So, if you can help us understanding these aspects.

K. C. Ramesh

As you are aware, the total CapEx that we had planned for KG-98/2 was around $5 billion and the substantial part of which we have already spent. So, around 28,000 is the amount, the progress till date that we have incurred on that. There are some small cost escalations happening because of some change orders and things like that, but they are not very substantial. So, in terms of cost, we are comfortably placed as far as KG-98/2 is concerned.

Coming to your second question was with respect to cost of production. The cost of production as you know is, basically the offshore is generally the cost is more, but it is a function of the production quantity that we get. So, the per unit cost is normally like depending totally on the quantum of production. So, considering that the current production that we are expecting from there, it is expected that it will be on a slightly higher side than the western offshore, but it will be the range which is expected for the offshore.

Amit Rustagi

Can you give us a total cost like what is the FPSO cost per day so that we know what is the production and we can calculate on ourselves?

K. C. Ramesh

Yes, FPSO, the day rate is currently including GST, USD 7,18,000, that is the per day cost for FPSO. Apart from that as you know, we have the normal other operating costs like material consumption would be there. Then there could be some work over operations, the normal typical E&P industry costs which we incur for producing. So, those would be there. There could be some water injection costs as well.

So, the overall cost picture will be clear once we start producing fully. I mean, the gas production is now we are expecting, as earlier Mr. Pavan was saying that in the first half of next year somewhere, maybe June, July. So, based on that, the cost will crystallize. But yes, the substantial part of the cost there for oil is the FPSO. The other facilities are yet to be installed over there. So, once it is installed, we'll have a clearer picture on that.

Amit Rustagi

And sir, DD&A, yes.

Pavan Agarwal

I think the cost into FY25-26 when we'll be having the full-scale production for the field.

Amit Rustagi

How you're going to appropriate the $5 billion cost over how many years, basically?

K. C. Ramesh

Yes. Normally the CapEx cost that we allocate is through by way of depletion. As well as the cost pertaining to FPSO is concerned it's like Ind AS 116 on the base of the lease. So, we have already started booking the depreciation and depreciation part through the lease part. So, you might have seen that there's some substantial increase in the depreciation in the current quarter as well due to the lease booking which you have already done for the FPSO. So, some part of the hit we have already started taking on that.

So that would be a regular expenditure by way of booking through lease and the facilities that we are going to install that would be on the base of the reserve there, and reserve to production ratio. Normally, on average, around 10% is the reserve to production ratio. So, 10% annual, the expenditure that we incur on the CapEx is by way of depletion.

Amit Rustagi

Okay, sir. Got it. And sir, I have a question relating to the offshore rigs. Basically, we have around 40 offshore rigs. Could you give us, I think we were able to achieve a major cost saving program over 2021 when the rig rates were actually down. But now we have started to see rig rates moving up. So, how much of it is already being renegotiated and how much of it need to be renegotiated over the next one year? If you can give us some color on that.

K. C. Ramesh

See, relatively, we have a longer contract periods, normally in the range of three years. So, the total rigs that you're talking about, 40, is distributed over some of the costs which we had. The rates which we are currently having, they are continuing with the past contracts, and some of them are new. So, it's a mix of new and old. As of now, the rates which are going on. So, as far as the rig cost is concerned, whatever cost that is incurring, it's increasing on the base of the current contract raise, it's compensated by the contracts which we had already entered in the previous year. We don't have any system of renegotiating the rates as such. Normally, what we do is we enter into a new contract once the earlier contract expires. But yes, if there are opportunities where we can extend the current contract at a cheaper rate, that also we look into.

Amit Rustagi

But what I'm trying to ask is that, if there is any increase in cost because of renegotiation in the last one year, because when you entered into contracts in 2021, they were substantially at a lower rate. But now I think the markets have moved up quite a bit on the rig side. So, what are the increase in rate we are experiencing right now in renegotiating the contracts?

K. C. Ramesh

No, we don't renegotiate. But if you are asking that with respect to the new current contract that we are entering, what is the rate, and that is in the range of around. Just one second. Currently, the rates that we are getting on the new jack up rates that we are hiring is around in the range of $70,000 to $90,000 per day. That is the operating rate that we are getting. Yes, you know that during COVID period, it was around $45,000 to $50,000 around that. So that is the increase that is coming currently in the market. But we are expecting that based on the projections, the rates could cool down in future.

Amit Rustagi

Okay, great sir. Thanks for answering my questions and best of luck. Thank you, sir.

Moderator

Thank you. I request the participants to restrict with two questions in the initial round and join back the queue for more questions. Next question comes from Probal Sen from ICICI Securities. Please go ahead.

Probal Sen

Thank you very much for the opportunity, sir. I had one question with respect to the exploratory well write-offs. The Director sir mentioned that this was due to higher unsuccessful well write-offs in Mahanadi and the Western Offshore. I just wanted to understand does this change our assessment of reserves addition because I think Mahanadi development and the Western Offshore are two of the major development projects that we have ongoing. So, do these unsuccessful wells impact our assessment of reserve addition from these projects?

K. C. Ramesh

Not exactly. Actually, unsuccessful wells are basically though we have discovered in the Western Offshore much in the past. We keep continuing to go for further exploration there. So basically, as per the policy, like wells which we take up only for the purpose of investigation. Like expendable wells that we charge of irrespective of whether we have some find or not. You must have seen that recently we have had some fines in Mahanadi.

So, the development of the field further does not have any relation as well as the dry wells that we are booking. Dry well booking is basically based on the accounting policy that we have respect to whether a particular well has been declared dry or whether that we are not going to use it anymore like an expendable well. So that's the basis on which we write off. It has nothing to do with the reserve that we accrete from the field. Reserves are totally based on the findings and further investigation by the exploration group.

Probal Sen

So, our assessment of whatever growth we assume or we have built into our MOUs or projections, they remain unchanged as of now from these two projects, right?

K. C. Ramesh

Yes.

Probal Sen

Okay. Sir, the second question is with respect to the projections. You did mention that you are aiming still to end the year at roughly flat oil production which would be somewhere around 16.9 million tons, if I am not mistaken, and that was the run rate in FY'23. I wanted to understand for FY25 what kind of exit rate should we actually be building it realistically?

Assuming that oil production would be ramping up steadily from KG and some element of around six months of gas production should also be there. So, against the 16.9 million tons of oil and about I think 15.3 odd BCM that we should do in gas this year. What is the exit rate we should build in for FY25? If you can give any sense on that.

Pavan Agarwal

In the FY'24, as you may be knowing that earlier years we were facing a decline rates to the tune of around 4-5%. However, last year were able to manage it with around 0.5% decline. This year will be above that. We will be maintaining the numbers of the last year or slightly above that.

Probal Sen

Right.

Pavan Agarwal

And now moving forward with this 98/2 because the FY'24-25, we will be getting the partial production. So, we will be getting the peak production for the partial year. So, in FY'24 and FY25, we hope to increase our current production by around 5-6%. And we will be getting the full plateau production from the 98/2 in FY26.

Probal Sen

So, the 15% increment that we are talking about over the next three years essentially can be divided up into 5-6% increase pretty much every year that we expect over the next three years, correct?

Pavan Agarwal

That's right. In FY27, we are expecting us slightly a higher increase because by that time we will be getting another project of Daman Upside from there also we expect around 4 million cubic meter gas per day, equivalent to around 1.5 BCM. So, it will be 98/2 plus Daman Upside will be the two major projects which will be contributing towards around 14%, 15% production increase by FY27.

Probal Sen

I apologize sir, I did not get the name of the other asset other than KG 98/2. What was the other asset?

Pavan Agarwal

That is a Daman Upside project.

K. C. Ramesh

That's on the western offshore.

Pavan Agarwal

Western offshore.

Probal Sen

Daman, Daman Upside?

K. C. Ramesh

Yes, Daman.

Probal Sen

Okay. Sir, last question, if I may squeeze in. What is the kind of plateau period once the asset hits peak production of 10 MM SCMD and let's say somewhere around 40,000 barrels of oil per day from KG? What is the kind of plateau period that we are expecting for this production to sustain?

Pavan Agarwal

We envisage a plateau of around two years.

Probal Sen

Plateau of two years and then a steady decline thereafter. Assuming no other well interventions happen.

Pavan Agarwal

The other project, other infill wells will be coming up, where the KG 98/2 cluster one will be adding up in FY28, so that will make up for the early decline.

Probal Sen

Understood. Thank you very much, sir, for the detailed answer. I appreciate that. I'll come back if I have more questions. Thanks.

Moderator

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

Mayank Maheshwari

Thank you for the call, sir. There are two questions from my end. First was more related to capital allocation. Can you just talk a bit about of how are you thinking on a net cash standalone balance sheet? And I suppose you are seeing some improvement in terms of receivables on OVL as well as subsidiaries doing reasonably okay now.

Anything on the dividend policy that you can talk about in terms of how you are thinking about DPS and growth in DPS with the volume growth that you are expecting? And if you can also talk on the same page on OVL and the collections on OVL in terms of issues you had in the past, how are that kind of panning out in Russia, Venezuela or Sudan? Thank you.

Prakash Joshi

So, I think first OVL we would like to answer your question. After that, the first question will be answered.

Vinod Hallan

Yes, regarding OVL, you have asked actually the position regarding Russia and Venezuela assets, what is the current situation. So, on the Russia we still have, due to the Singapore being an unfriendly jurisdiction, our dividends are still in hold up in Russia. However, we are at advanced stage of trying to pursue with the Rosneft to accept the abandonment obligation upon OVL for getting back our 20% shares to be squared up in rubles. So, our application with the Russian authorities is expected to be heard very soon and we hope to close this transaction of meeting the abandonment obligations.

Regarding Venezuela, you are aware that the sanctions have been lifted and they will remain open until say 18 April 2024. And we have received a kind of proposals from the PDVSA which are under negotiations and we are also exploring the banking route and trying to open up the bank accounts for easing up the fund flow remittance, inward and outward remittance from the country. So given that the situation continues to ease up, we hope that we will be able to secure our, we are seeking barrels from Venezuela for the dividend, outstanding dividends, and we hope to actually secure those rights to receive balance. Regarding other projects also, the outlook is positive and we hope to gain positive positions in those projects also.

Prakash Joshi

Mayank ji, now, I think first question will be answered by our CFO.

K. C. Ramesh

Yes. Your question was with respect to the dividend and the capital allocation. You know that we have been a consistent dividend-paying company over the last few years, we have been paying around 40%. So current year also, if you might have seen that we have already paid 9.75, it is almost 41% in this 9M period. Maybe in the last couple of years probably it was slightly lesser. But yes, we have the plan to have that numbers continuing and being a good dividend-paying company. So that will continue. As far as the capital allocation is concerned given the current price and that we have comfortable price even after considering

SAED and as earlier were saying that on the additional gas we are going to get a substantial higher price of almost 9-10 per MMBtu.

So, with this we expect that we will have a good cash flow position going forward as well. So, whatever that we have, the normal CapEx that we have is around INR 30,000 crores annually for our normal E&P operation. So apart from that, the dividend that we are paying. So over and above that we have some surplus cash available which we going forward plan to slowly move out to venture into other areas as well apart from the conventional E&P. So, you might have already seen the announcement with respect to our investment in OPaL, green energy initiatives that we are taking. So, with all those things, we would be slowly moving ahead utilizing our future cash flows in those areas as well for the CapEx.

Mayank Maheshwari

Sir, can you just give us a guidance on the CapEx for the next couple of years for fiscal 2025 and maybe beyond of how much you are thinking about allocating each year apart? Is that the same INR 30,000 crores that we can assume now going forward?

Prakash Joshi

So, Mayank ji, what you can expect, it could rise in the current year in the range of INR 33,000 crores and next year it would be somewhere in the range of INR 33,000 crores to INR 35,000 crores. This I'm talking of the standalone CapEx. That's only for the standalone CapEx of ONGC.

K. C. Ramesh

Other than the integration projects, standalone CapEx.

Mayank Maheshwari

Okay. And sir, can you just give it a bit of a holistic picture across the ONGC group of what kind of CapEx and the shift in capital allocation between upstream, downstream, midstream and renewables that you will have, roughly a big picture sense?

K. C. Ramesh

It would be difficult for us to talk about the CapEx plans for the subsidiaries currently at this juncture. But as we said that as far as ONGC is concerned, the conventional investment of around normally INR 30,000 crores. So, INR 32,000 crores, INR 33,000 crores is the next two years as Prakash was saying now as far as ONGC is concerned. But the allocation for other investment, there are like the OVL we are planning to. I mean OVL is.

Vinod Hallan

OVL, before this FM situation in Mozambique, were having a budget of INR 8,100 crores. After that the two-year budget was scaled down and current year BE is something around INR 3,300 crores. But with the resumption likely restart in the next year, we will have a budget of around $1 billion going back to, say, INR 9,000 crores on the OVL side. And that level of budget will continue for the next three to five years.

K. C. Ramesh

And as far as renewal and green energy is concerned, we have already announced that we would be planning to spend around INR 1 lakh crores by 2030. So that plan is there. But that's a relatively a longer-term plan. So, things are being worked out in nitty-gritty.

Mayank Maheshwari

Fair enough. So, sir, just the last thing on this point on Mozambique, can you just help us understand the restructuring that you've announced and what are the implications in terms of earnings, taxes, et cetera, on the recent restructuring that you announced?

Vinod Hallan

Restructuring of the operator organization, right?

Mayank Maheshwari

That’s correct. Mozambique, yes.

Vinod Hallan

Actually, you see that restructuring has got not much to do with the taxation. It has got, rather, actually, because Mozambique is a big size LNG project with a very high level of CapEx, which was actually announced at $15.421 billion in June 2019. And this project development has been secured through project finance. So, the project finance was agreed for $16 billion. Now, to have that kind of debt on the partners or the partners books.

Holdco model, AssetCo model has been evolved, under which the assets of the project and the debt will remain in the AssetCo and will not get transferred to the respective partners books. So that actually is the purpose for which the AssetCo model has been created. Because right now the project is like Indian consumption has 30% participation in the project of which OVL holds 16% and 10% OVRL. So, OVRL has assets of 10% and our associate BRML has assets of 6%. These will get transferred to the AssetCo model company, Moz LNG and the debt will also remain in that company only.

Mayank Maheshwari

Got it, clear. Thank you, sir.

Moderator

Thank you. Next question comes from Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika

Yes, good afternoon, sir. So, two questions. First one is, what is the current oil production in KG-98/2?

Pavan Agarwal

Currently, we are producing something of 12,000 barrels per day.

Sabri Hazarika

12,000 barrels?

Pavan Agarwal

Yes.

Sabri Hazarika

Yes.

Pavan Agarwal

And gas is around 1.75 million cubic meter per day.

Sabri Hazarika

Gas is around?

Pavan Agarwal
1.75.

Sabri Hazarika

1.75 MMSCMD is gas and 12,000 barrels per day is oil?

Pavan Agarwal

Right.

Sabri Hazarika

And you are selling it also or you are like storing it right now this oil 12,000 barrels per day?

Pavan Agarwal

Oil, we are in the process of making a tie up with MRPL for the first load of the tanker.

Sabri Hazarika

Okay. So, does it mean that, I mean, you have something like 4,50,000 barrels per day of oil. So, this 12,000 will add into there, right? I mean, it will be reflected in Q4 numbers whatever whenever they come, right?

Pavan Agarwal

Q4 numbers will be reflecting this 12,000 barrels.

Sabri Hazarika

Okay, sir. And secondly, what was your 9M cumulative 98/2 gas production from 9M?

Pavan Agarwal

98/2 cumulative?

Sabri Hazarika

Gas production from 9M.

Prakash Joshi

Okay. Sabri, we will come back to you. If you have something else go ahead with that.

Sabri Hazarika

Yes. Okay. I'll touch base with you personally, sir. So, second question is regarding your windfall tax. So now it's like largely established that the government is like government has allowed you around $75 of net realization. But given the fact that we are almost like one year down the line and next year your cost and all will also go up.

So, have you gone to the Ministry or to the Government asking for an increase in this hurdle rate in order to take care of whatever cost escalation happens in the oil terrain. I know in gas, I think from FY26 onwards $0.25 is something which was given in the guidelines. But for oil, are you requesting the Government to look into this or have you got any indication or do you expect that the windfall hurdle rate will be increased from $75 from FY25 onwards?

Prakash Joshi

Just one second.

K. C. Ramesh

See, as far as SAED is concerned, it's Government policy. We have been pursuing the Government for reviewing this. But currently, it will be difficult for us to say exactly what will happen as far as SAED is concerned. But yes, we have been pursuing it with the government. But you might have seen that our cost figures also that way, like the way you are apprehending, it's not that costs are going to escalate very high. The OpEx numbers have been more or less steady as far as ONGC is concerned. So, we don't expect that the cost would be substantially higher that way. So, really the price that we are currently getting is also a comfortable price for us.

Sabri Hazarika

Okay. Any guidance on the cost side can you give? Because if I look 9M 2023, so your total other expenditure was around INR 13,600 crores. So, 9M 2024 has been like INR 16,000 crores. So, it has actually increased. So FY25, do you expect it to be similar or you see it a normal increase, or can it increase higher given that rig rates and all are like higher?

K. C. Ramesh

One major reason that you find that the expenditure in totality has gone up compared to last year is because we started taking a hit on GST on royalty last year. A substantial amount has been booked into INR 9,000 crores we took into previous years and INR 3,000 crores of last year. So, now the expenditure is around say INR 2,300 crores, INR 2,400 crores annually. That regularly now we have decided to take hit. Though we have been pursuing with the government.

And we are very hopeful that the nine bench has been constituted at the Supreme Court. And we are still hoping that we'll have a favorable decision on that. So, in the past were just showing it as a deposit and were not taking a hit in the P&L which we started in the annual accounts last year. Apart from that, if you see the expenditure that we have, the cost escalation is coming through mainly for development purpose only. Like if we say, for example, in the offshore we have decided to spend money on water injection which will result into.

We are expecting that from the existing mature field we'll have more production. So, those kinds of expenditure only. It is not like expenditure, which are in the nature of infructuous expenditure. Yes, as you said, drilling cost is one major component in the cost which in the current year it has gone up more. But we are expecting that the prices, for the rigs also, we are expecting that based on the projections, it will cool down.

Sabri Hazarika

Okay, sir. And just one small question. So, SAED is being imposed on 98/2 crude also?

Devendra Kumar

Right now we are getting it reviewed. This applicability of SAED and other taxes, is under review. Right now the preliminary view is that it may not be applicable, but it is not final. It is under review.

Sabri Hazarika

Okay, sir. Right now the rough-cut view is that SAED may not be imposed at all on 98/2 crude, that is 12,000 barrels per day. Okay. Okay, sir. Thank you so much and all the best.

Pavan Agarwal

Thank you.

Moderator

Thank you. I request the participants to restrict with one question in the initial round and join back the queue for more questions. Next question comes from Gagan Dixit from Elara Capital. Please go ahead.

Gagan Dixit

Thanks for taking my question, sir. Sir, there is a news that ONGC planning to drill a well in the Andaman Basin from May. So, what I read in the earlier DGS reports that it has a potential of like 180 million ton or 1 billion barrel something. So, am I assumed this is something of a similar resource that you are targeting from the exploratory well from that basin?

Pavan Agarwal

It's the exploratory well under the OLP background, what we have got the block there and we are taking our first exploratory well in this calendar year. And the resource estimation from this well, we will be able to communicate later on.

Gagan Dixit

Okay. Because I thought that might be you have some idea about based on your 2D, 3D surveys. So that's something minimum target that you are targeting of that.

Pavan Agarwal

It's exploratory well, you know. So, let's hope and wait and watch that we get a good result from this well.

Gagan Dixit

Okay, sir. My second question is that there's also the news that ONGC is in talks with restarting its production in the Libya that we exited 13 years back. So, any status of it, if you can point it out?

Prakash Joshi

ONGC Videsh does not have any production asset in Libya. So, we don't have any option to produce from there.

Gagan Dixit

Okay. That's from my end, sir. Thank you.

Moderator

Thank you. Next question comes from Vikash Jain from CLSA. Please go ahead.

Vikash Jain

Hi, sir. Thanks for taking my questions. Firstly, sir, your OpEx is very-very high for this particular month. This particular 9M even after we adjust for your GST on royalty. For this particular quarter, it's at about, this 9M it's 25% up YoY, which comes on top of an 11% increase that we saw in FY'23, a full year. And this is even before Q4, which typically has been a pretty quarter where you typically have ended up booking large OpEx for the last five, six years.

So, what exactly is happening? Because my worry is that in most cases, whether it is our oil realization or gas realization, they are capped at a particular level. But if OpEx keeps rising and production anyways we've been struggling to grow it. How will profits kind of improve, if that is really the case? So, any particular reason why one can imagine that this 25% increase in 9M is a one-off? And secondly, Q4, will it again see a jump which typically it has seen in the last four or five years?

Prakash Joshi

Yes, just a second Vikash Ji.

K. C. Ramesh

Yes. You were talking about the increase in OpEx over the 9M period, right?

Vikash Jain

That's correct.

K. C. Ramesh

Basically, if you have seen that in this quarter by Q3, the OpEx increase is only about INR 105 crores. We are more or less on the same level that we had for the last year. As far as 9M is concerned, the increase is mainly because during the COVID period, the operations were down and then we had some damages happened in offshore , which happened due to cyclone. So, one-off expenditure in terms of repair and maintenance. Almost INR 323 crores is on account of that.

And then, as I said earlier to another question, now we are focusing more on water injection, which is more like a development expenditure, though we are booking that in the OpEx. So that's around INR 224 crores on water injection we are spending on the western offshore. So, these are one-off expenditure which are contributing. It's not that they are regular expenditure. In addition to that, on VAT Amnesty scheme also we have decided to go ahead with one case and where we are paying about INR 160 crores.

Apart from that, some of the old blocks that we had were we exploratory blocks where there were certain claims with respect to LD and other things which we mutually decided to go through an eminent committee on the basis of the recommendation, we have decided to pay some amount. So, most of the increase that has happened is in the nature of one-off expenditure. They are not a regular increase on the base of the production numbers. They are not directly variable with the production numbers.

Vikash Jain

Sorry. So, when you say like water injection, that would not be one-off, right? I mean, now you will account for it every quarter whenever that happens.

K. C. Ramesh

No, what I'm saying is that once we pick up a field and we decided to go. See, water injection is not something which we incur on the base of the production every year. Certain fields where we feel that the need for water injection was there, we had been postponing it for some time in the past. And now in the current year, we have decided to go for it.

Vikash Jain

Okay. So, the last part that you mentioned around some provisions that you've thought of accounting. That has all increased the OpEx number for this particular quarter, how much is that total number? I mean, is there provision or whatever you said that you have or is that an ongoing thing that you have decided to charge every quarter from your own?

K. C. Ramesh

No, not in the nature of ongoing things which we decided. Earlier, we were having certain dispute with respect to completion of some of our exploratory schemes which we could not either for reasons beyond our control, things got delayed. So, the applicability with respect to LD and other things were in dispute. So, we decided to go for a dispute resolution mechanism. And we had constituted an internal committee of eminent experts who are mostly like eminent people from this industry.

Through them we decided that, okay, let us close this. Similar to the VAT Amnesty scheme, which you are aware. So that's also one-time solution to mutually agreeable solution which we decided to go for. So, they are not in the nature of recurring expenditure. The numbers which I told is that with respect to this LD for nine plus was INR 136 crores and the VAT Amnesty scheme was around INR 180 crores, which we have booked in the current.

Vikash Jain

And sir, I mean, see, what I'm worried about is if you see a simple lifting cost has gone up for 9M versus $10 is about $12 or so, okay. And if we also look at our exploration write-offs, etc, and this is even before the Q4. Q4, typically over the five, six years has been a quarter where there's been very big charges which typically come in both in terms of exploration write-off as well as operating expenditure. So, is there any change that we may not see something like that in Q4 because even on an ongoing basis, OpEx has been higher through this 9M or that's something that this is the new OpEx number we should be working with?

K. C. Ramesh

Yes, see, as I said, you talked about the lifting cost. In fact, precisely the water injection that we are doing is also forming part of the lifting cost. Whatever the water injection that we do in the reservoir, that is basically adding to my lifting cost. So again, that is one reason why the cost has increased. As far as the exploratory write-off is concerned. In this particular quarter, we have taken a hit of about one well in Mahanadi River, which was an expendable well, that is almost INR 500 crores for one well. So, these are not the expenditure that we expect that will happen regularly, this kind of industry such things do happen. One-off expenditure once in a while do come largely, but we don't expect that the dry wells that we are going to be charged in the last quarter that you are asking me that we are not expecting it to be high.

Vikash Jain

Okay. Just one more thing. The new change in Mozambique in terms of the way the ownership has been structured. So, this will now allow us to book reserves as well. Because earlier, from what I remember, part of that 10% where 6% was owned by you and 4% by Oil India, that was in the form of an investment. So, reserves could not have been booked. So, that will change now, right? I mean, we'll be able to book reserves. Is that correct?

Vinod Hallan

Yes, correct. 16%.

Vikash Jain

Sure. Thank you so much.

Moderator

Thank you. Next question comes from Somaiah V from Avendus Spark. Please go ahead.

Somaiah V

Thanks for the opportunity, sir. In terms of the new projects that we have lined up besides KG basin, can you just give some color on next three years or so what are we expecting in terms of incremental production from these projects and what is the CapEx spend related to them?

Pavan Agarwal

Incremental production from KG-98/2 or the total project what we are planning in the next three years?

Somaiah V

Outside of, I mean, KG-98, the incremental projects that are coming online next two to three years. So, what is the production expected from them and what is the CapEx that we need to spend for?

Pavan Agarwal

The total CapEx, as I earlier said, that the ongoing project is valuing something about INR 60,000 crores which will be materializing in the next two to three years. And they will be having a lifecycle gain of around 80 million ton of oil equivalent. And moving forward in the next three years we will be expecting something around 5 million ton of oil and oil equivalent from these new projects of which the major chunk will be coming from 98/2 to the tune of around 4 MMtoe and around 1.5 MMtoe from Daman Upside. Then we have got the CBM project in Jharia and Bokaro which will be contributing around 0.5 MMtoe.

We have got the S1 Vashishta which will be again contributing around 0.5 MMtoe. And we have got a few other projects of development of contact areas under the DSF-2 blocks are there. Then we have got Mumbai high redevelopment plan Phase V, which is upcoming. Daman Upside, I already told you. And there are various EOR projects which are upcoming in the onshore which will be again adding up to something around 0.3 to 0.4 MMtoe. So, these are the projects which we are looking forward to for completion in the next three years.

Somaiah V

Got it, sir. So, one question on the CapEx. This INR 30,000 crores to INR 35,000 crores of run rate that we are mentioning. Can we just give some color on? You did mention that now in terms of new projects this is a INR 60,000 crores spend. Probably over a three-year time frame. So, what is the level of maintenance, exploration in new project spend if we can give a rough breakup in this INR 30,000-35,000 crores for the next two, three years?

Pavan Agarwal

Broadly if you see that whatever our CapEx outlay is there, our development project contributes something around 60% of our total CapEx outlay in the development drilling as well as the capital project what we are taking on.

Prakash Joshi

Yes. So, to be specific, basically if you see survey would be around 11%, and exploration drilling would be somewhere in the range of 22% and development drilling would be in the range of 25-27% and the balance would be on infrastructure and other capital which would be around 37%.

Somaiah V

And, sir, also, any update on the OPaL equity infusion?

K. C. Ramesh

We have already drawn up a plan of infusing around INR 19,000 Crores of capital. The proposal has got approval of our Board and we have already submitted to the Government. But it is under active consideration at the Government level.

Somaiah V

And the CapEx number that we are saying INR 30,000-35,000 crores is a standalone level. It does not include any equity inflation.

Prakash Joshi

That includes a normal equity, not the OPaL, what sir was talking about.

Somaiah V

Understood, sir. Thank you.

Moderator

Thank you. Next question comes from Manish Ostwal from Nirmal Bang. Please go ahead. I repeat, question comes from Manish Ostwal from Nirmal Bang. Please go ahead. There is no response, sir. Thank you, sir. There are no further questions. Now I hand over the floor to Mr. K. C. Ramesh, CFO, for closing comments.

K. C. Ramesh

Thank you. Thank you all for joining this call today. It has been a pleasure for us to take all your questions. As was said in the initial remark by our Director Finance, we are expecting that going forward in this particular quarter itself, with the KG-98/2 commencing production. The production numbers that we have for last quarter of the last year we would be able to maintain in the last quarter current year, though for the first three quarters it's slightly on the lower side. But we are hoping that for better outlook and we are very confident about the future that whatever initiative that we are taking in terms of referring into other areas apart from the conventional oil industry, they would be paying us good dividends. The investments have been well planned on well thought-out basis.

So, with this, the price outlook for gas is also pretty good that we have already got based on the Kirit Parikh committee. We are expecting that the incremental production which is coming through gas would be fetching us almost $9-10 per MmBtu. So, gas would be adding substantially to our top line and bottom line as well. And with our persistence we will be trying to keep taking up with the Government with respect to the SAED applicability and take hopefully if we can get something positive on that as well. On the oil front also, we would be doing comfortably well. So, with controlling the cost is one area that we have been focusing now and we hope that we'll be able to identify certain areas where we can focus and reduce the cost as well.

So, both on the cost and revenue front, we hope that we can substantially add to the bottom line. So, with that, we hope that in future from 98/2 adding and the Daman Upside which Mr. Pavan Agarwal was saying earlier, that is also going to come. So, the production numbers as well as the new initiatives that we are taking that will pay us dividends. We keep continue to pay good dividends which we have been doing in the past as well. And the current year, we have already given an indication of where we are in terms of paying dividends. So, with all this, the outlook looks quite good for us, and we hope you all will be there with us in this journey. Thank you. Thank you all. Thank you so much.

Moderator

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

Note: 1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.