

Q1FY11 Post Result Conference Call Transcript

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Moderator - Faizal

Ladies and gentlemen good afternoon and welcome to the ONGC Q1FY11 Results Conference Call hosted by Prabhudas Lilladher Pvt. Ltd. As a reminder, all participant 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. If you should need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. Joining us on the call today from Prabhudas Lilladher is Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors. I would now like to hand the conference over to Mr. Nishna Biyani. Thank you and over to you sir.

Mr. Nishna Biyani - Prabhudas Lilladher

Thank you Faizal. Good afternoon ladies and gentlemen. I am Nishna here and we at Prabhudas Lilladher are very pleased to hold this Conference Call for the First Quarter FY11 results of ONGC. Today we have the senior management from ONGC led by Mr. D.K. Sarraf, Director Finance, Mr. B.L. Ghasolia, Advisor Finance, Mr. Vijaya Rangan, and Mr. L. Nelson, Chief Manager, IRC. The call will begin with some observations by Mr. Sarraf and the management team followed by a Q&A Session. Over to you sir. Thanks.

Mr. D.K. Sarraf - Director Finance, ONGC

Thank you. Good afternoon ladies and gentlemen. I welcome you all in this ONGC Earning Call for Q1FY11. I am joined by my colleagues Mr. Ghasolia, Advisor Finance, Mr. Vijaya Rangan, General Manager, Planning, Mr. Nelson, Chief Manager who looks after Investor Relations. And we will shortly be having someone from ONGC Videsh Ltd. with us.

The financial results for the first quarter of 2011 have been taken on record by the Board of directors of ONGC yesterday i.e 29th of July 2010. These results have been posted on ONGC's website as well as given to the print media for publication. However, for the benefit of everybody, let me give a synopsis of these results.

Gross revenues stood at Rs13,710 crores as against Rs14,922 crores in Q1FY10. The net PAT is Rs3,661 crores against Rs4,448 crores that is a decrease of about 24.5%. The decrease in PAT is mainly due to increased share of under recoveries of Oil marketing companies amounting to Rs5,515 crores which we have been asked to bear during this quarter as against Rs429 crores during the corresponding quarter of last year. This has adversely impacted our PAT by Rs3,119 crores. Gross billing for crude oil was US Dollars 80.80 per barrel as against 60.58 in the same period last year. However, after giving discount by way of subsidy, the net realization for crude oil in this quarter was 48.04 per barrel as against 58.25 in the same period last year. That means there has been a decline in the net price of crude oil by more than US\$10 per barrel. In addition, the strengthening of Indian Rupees during the first quarter of this fiscal has also impacted our gross revenue. The exchange rate of Rupee versus Dollar was 45.67 vis-a-vis 48.67 in the first quarter

of 2010. So that means for each Dollar billing we earned Rs3 less. As a result, the post discount realization for crude oil in Rupee terms was Rs2,194 per barrel in the current quarter as against Rs2,835 per barrel in the corresponding quarter last year. This had an adverse impact of Rs862 crores on the sale revenue.

Friends, as you are aware, Government of India has revised the price of APM gas with effect from 1st of June 2010 at the level of \$4.2 per mmbtu which includes royalty also. This has favourably impacted our gas revenue by Rs539 crores in the first quarter though the impact during this quarter was only for 1 month. Revenue from value added products has also gone up by Rs282 crores in this quarter. Income from interest and dividend has come down by Rs380 crores mainly on account of less yield from investments. The average yield during the corresponding quarter of the last year was 11.48% which has come down to as low as 6.14% during this quarter under review.

During 2009-10, ONGC board has decided not to charge any interest from its 100% subsidiary i.e., ONGC Videsh Ltd with effect from 1st of April 2009. This has had a negative impact of Rs290 crores during this quarter of this fiscal. Also, the decision was effective from 1st of April 2009, but the adjustment was made in Q3 of last year. That means for the 1st quarter and 2nd quarter, we have made the provision of interest receivable from ONGC Videsh which was reversed during the 3rd quarter. The operating expenses during the first quarter of this year has increased by Rs408 crores mainly on account of increase in man power, water injection, repair and maintenance, and transportation cost. At the same time, there is a marginal reduction in work-over expenditure, administrative expenditure, and pollution control expenditure. Overall, the operating expenditure but for the expressed variation are almost equal to the last year's level.

There has been no increase in the overall DD&A cost which stood at Rs3,113 crores as against Rs3,179 crores during the first quarter of last year. However, there has been some increase in depletion and depreciation cost mainly due to addition in Rajasthan Block and other physical infrastructure. At the same time, survey and dry well cost has significantly come down from Rs1,911 crores last year to Rs1,470 crores in the first quarter of this year.

In terms of physical performance, the gas production has been more or less static at 5.76 bcm during this quarter versus 5.75 bcm in the same quarter last year. However, there is a marginal reduction in oil production at 6.05 mmt in the first quarter of this year as opposed to 6.12 mmt during the first quarter of last year. That means there is a decline of about 1% in the crude oil production. The production of value added products namely LPG, Naphtha, C2-C3, SKO which was 864 tmt in first quarter of last year was 801 tmt in the current quarter. Of the domestic JV, the production of crude oil has seen an increase of above 22% from 0.43 mmt last year to 0.55 mmt in Q1 of this year. The gas production has more or less been stable for the joint ventures at 0.65 bcm in this quarter versus 0.64 bcm in same quarter of last year. Minute details about the financial results are already available on our website and hence I would request you to have a look at the same. I would be happy to take questions from all of you ladies and gentlemen. My colleagues Mr. Ghasolia, Mr. Vijaya Rangan, Mr. Nelson, and now we have also been joined by Mr. Rakesh Sharma from OVL and we would all try to clarify whatever points you are having. Thank you and over to you.

Moderator - Faizal

Thank you very much sir. Ladies and gentlemen, we will now begin with the Question and Answer Session. At this time, if you would like to ask a question, please press "*" and then "1" on your touchtone phone. Please use only handsets while asking a question. The first question is from the line of Mr. Niraj Mansingka from Edelweiss Securities. Please go ahead.

Mr. Niraj Mansingka - Edelweiss Securities

Good afternoon sir. This is regarding the sales data. The sales to production ratio for the company have come down dramatically. Could you throw some light on that how your sales ratio has come up?

Mr. Vijayarangan - General Manager Corporate Planning, ONGC

Good afternoon. The ratio of sales to production has more or less been the same in last quarter as what has been reported. This time, it so happened that some of the refineries had some technical problems simultaneously like shut down of the Numaligarh refinery in Assam, the Koyali refinery in Gujarat, and HPCL refinery in Bombay. Therefore the off-takes were less than normal. And because of this, there was a stock build up of roughly 0.138 million metric ton during the quarter. And that is the actual increase besides the normal drop which we see in production.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Nipun Sharma from Mirae Asset Securities. Please go ahead.

Mr. Nipun Sharma - Mirae Asset Securities

Good afternoon. _ Kindly let us know of your exploration, development, and targets for the full year and how many were achieved in Q1 11?

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

In this current fiscal FY11, we are planning to drill 154 exploratory wells and 216 development wells. And we have a production target of 25 million metric tonne of oil from the domestic operation, 2 million metric tonne from our share in the domestic JV, 23 bcm of gas from our domestic operations and 2.2 bcm of gas from the joint venture.

Mr. Nipun Sharma - Mirae Asset Securities

And could you please give me the split between how many exploratory wells, development wells have been drilled already in the first quarter?

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

First quarter, we have drilled 28 exploratory wells and 54 development wells.

Mr. Nipun Sharma - Mirae Asset Securities

And the capex for the full year and how much has been spent in the first quarter?

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

We have the capex figure for the full year, but actual spent for the quarter is yet to be known. We require some more time to compile that data.

Mr. Nipun Sharma - Mirae Asset Securities

Okay. No problem. What's the full year target?

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

Full year Capex for FY'11 is Rs26,523 crores.

Moderator - Faizal

Thank you. The next question is from the line of Prabhu from IDFC. Please go ahead.

Mr. Prabhu - IDFC

I just have a couple of questions. One was on OVL. I know it's not part of the results. But if you can throw some colour on how production has progressed in OVL and what is the outlook for production for the rest of the year? And the second question was what are the kind of estimates you are getting at the moment of subsidies for the rest of the year of the total subsidy burden? ONGC share will perhaps be again a majority of that 33%. But what are the estimates for the total subsidy burden for the year?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

I'll answer the first part. That's the OVL production. Q1 production in this financial year has been about 2.3 million tonnes of oil and gas both put together, which has about 1.7 million tonnes of oil and remaining is gas. And throughout the financial year we expect more or less similar kind of production for oil that we had in first quarter.

Mr. Prabhu - IDFC

So that would be around 6.8 million tonnes of oil and about 2.5 bcm of gas. Am I correct?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

Yes. Something very close to that. What we are targeting is about 8.6 million tons of both oil and gas put together, factoring in various things that might happen in the next 9 months where we would have some wells which would have a lower productivity or we would be putting on some other wells into the production stream.

Mr. Prabhu - IDFC

And the subsidy?

Mr. D.K. Sarraf, Director (Finance), ONGC

During the quarter, the under recoveries were down which ONGC has given is Rs5,515.54 crores against the total under recoveries which were borne by the upstream were Rs6,690.66 crores. Now couple of things has happened in the recent past towards almost the end of the quarter. Firstly, the government has increased the price of petroleum products and government has deregulated the prices of petrol. So this will have some policy impact on the total under recovery positions. And during the current quarter, it was not possible to account for any contribution from the government because of the low budgetary support. So the less allocation is expected to come during Q2 or Q3. And at the same

time, we expect that the subsidy contribution for upstream would be lower than what it has been in the first quarter. So overall, I would say that the subsidy impact for the whole of the year is expected to be better than first quarter. But how much it would be is difficult to say. It would depend on various factors, including the global prices, the ability of the government to take certain strict actions on decontrol of petroleum products and so on. And also very importantly the contribution in terms of either oil bonds or cash which comes from Ministry of Finance.

Mr. Prabhu - IDFC

Sorry. Just a small follow up question sir. The share irrespective of the government cash in terms of the timing and the mechanism of the government contribution, up stream would be still probably 33% of whatever burden it is for the rest of the year. Is that correct?

Mr. D.K. Sarraf, Director (Finance), ONGC

It is difficult to say whether upstream contribution would be 33% or not. In the past several years the trend has been towards Upstream sharing 1/3rd of total subsidiary contribution. But it is difficult to say whether past trend would be repeated or not. It would depend on various factors.

Moderator - Faizal

Thank you. The next question is from the line of Raj Gandhi from Principle Mutual Fund. Please go ahead.

Mr. Raj Gandhi - Principle Mutual Fund

Good afternoon sir. Sir I just would like to know how do you account for the royalty that you pay in the Cairn field. Because 100% right now is accruing to you.

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

As per the production sharing agreement, 100% of the royalty is to be paid by ONGC. And therefore, we are accounting for 100% of the royalty as expenditure. And also taking only 30% of the crude oil into ONGC's books.

Mr. Raj Gandhi - Principle Mutual Fund

So is that fully reflected in your accounts?

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC

Yes. It is already reflecting in the accounts; this means it is on the conservative side. Whereas, we have already represented to the Government of India for reimbursement of the royalty which we pay on behalf of the operator Cairn. And we expect that some resolution should come in the near future.

Mr. Raj Gandhi - Principle Mutual Fund

Sir this net of royalty, what was your profit or loss from that Cairn JV?

Mr. D.K. Sarraf, Director (Finance), ONGC

No, I don't have the separate number for how much profit or gains we have made from the Rajasthan (Cairn) JV. The fact remains that it would not be a profitable venture if we continue to bear 100% of the royalty against 30% of the revenues. But we are doing all our best and we expect some resolution of the problem.

Mr. Raj Gandhi - Principle Mutual Fund

Right. Your KG field FDP is approved. Will you write back the provision made earlier? Because the KG well UD-1 you have already written it off. But once the FDP is approved, will you have to write it back? Sir this UD well which you drilled, even though it was successful, because you were not about to drill in that block for the foreseeable future. You had written off that expenditure of I think about Rs900 crores.

Mr. D.K. Sarraf, Director (Finance), ONGC

Yeah, that's a very good question. We have made a provision and have not written off. Had we written it off, then there was no question of writing it back. Since it is a provision we need to take a call depending on various factors

Raj Gandhi - Principle Mutual Fund

Have you already filed for the FDP or you are about to file for the FDP for KG?

Mr. D.K. Sarraf, Director (Finance), ONGC

We have not filed the FDP as yet. There are two parts of the block, the northern part and the southern part. As far as the northern part is concerned, we have filed the document on 16th of July this month which is called declaration of commerciality. For northern discovery, we have filed it. For southern discovery, also we have filed DOC. And once DGH approves this declaration of commerciality to develop northern part which we call NDA, northern discovery area, along with certain discoveries in the nominated blocks, we have already framed a scheme and would perhaps go forward.

Mr. Raj Gandhi - Principle Mutual Fund

Okay. Sir, what is the amount of Capex and production envisaged in the declaration that you made?

Mr. D.K. Sarraf, Director (Finance), ONGC

It is too early to say that what is going to be the Capex, but as per the documents which we have filed with DGH, the Capex is expected to be approximately 5 billion US Dollars.

Mr. Raj Gandhi - Principle Mutual Fund

And the production envisaged under this?

Mr. D.K. Sarraf, Director (Finance), ONGC

Again the production, as we go forward, would need to be fine tuned both from the NDA which is NELP block as well as the nominated block. But production which we have envisaged at this point in time is 86.97 almost 87 bcm of gas production and 4.5 million MT of crude production over the field life. And the peak production is expected to be in 2016 which is about 13 bcm of gas plus about 0.8 mmt of oil.

Mr. Raj Gandhi - Principle Mutual Fund

Okay. And sir just what is the gas price that you filed, gas price under which the working has been done for this declaration?

Mr. D.K. Sarraf, Director (Finance), ONGC

These are matters of commercial nature. And at this stage, we would not like to divulge that.

Mr. Raj Gandhi - Principle Mutual Fund

Okay. And sir for the southern area, how soon are you supposed to file the declaration?

Mr. D.K. Sarraf, Director (Finance), ONGC

We have already submitted the DOC in December 2009 for the Southern area.

Moderator - Faizal

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

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Yes. Good afternoon. On the Rajasthan scene, as and when the government accepts your suggestion, is it going to be the compensation and is it going to be retrospective? And when do you expect a resolution? Will you expect it in the current year?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Vidyadhar, we have been trying for a resolution since 1998. It is 12 years. So for me to say today that how much time it will take is very difficult. But what I can say is that we have discussions with the government in various ministries and are at a very advanced stage. And now there has been a realization in the government also that what ONGC has been saying all these years is quite reasonable. And ONGC has agreed to develop this block in the national interest based on certain promises which were made by the government. And hence it needs to be reimbursed to ONGC. But it is difficult at this point in time to put a timeline that how much time it will take. And obviously we have asked for the reimbursement from retrospective years.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Okay and the second question was again relating to KG, though lot of it has been answered. Two clarifications. One is that the number which you mentioned of recoverable reserve. Are they only relating to the northern portion and what was the oil recoverable number? Was it 4.5 million tons or what was it?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

I will repeat that. First of all, the numbers which I just said they are of recoverable reserves. That is the cumulative production profile of the discoveries. And the discoveries here are the northern development area of the KG block plus certain other discoveries from the nomination block. So we would be combining these two areas which would be one of the first in India to have a development of the nomination block as well as the NELP block. The cumulative production of oil over the field life is 4.5 million tonnes and the peak production again happens in 2016 which is 0.841 million tonnes.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Last question in this context is that, are you likely to still have 65% stake in this field with your farmed out stakes to players which I think at least one or both of them have farmed out. so what is the status on that? Are you likely to have 65% stake or higher?

Mr. D.K. Sarraf, Director (Finance), ONGC

These details are getting worked out. Today, practically we own 90% of the participating interest in this field and going forward, how much we own and how much we farm out, if any, both details are getting worked out. We are in discussion with the different companies. But nothing has been finalized as yet.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Thanks. When is the production expected to start oil and gas from this northern development area?

Mr. D.K. Sarraf, Director (Finance), ONGC

As per the documents which we have filed with the DGH, it is 2016 calendar.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

So it starts in FY16, is it?

Mr. D.K. Sarraf, Director (Finance), ONGC

I think it is 2016 calendar. One minute, my other colleagues might have better information on this 2016 calendar.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

But I thought that was the peak year, that's the start year is it?

Mr. D.K. Sarraf, Director (Finance), ONGC

That is the start year as well. In fact, we have plans to drill few more wells. So in the first year itself we achieve peak production. And the only thing I am not very sure whether this 2016 refers to the calendar year or the financial year. Perhaps it is calendar year.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Rakesh Sethia from Morgan Stanley. Please go ahead.

Mr. Rakesh Sethia - Morgan Stanley

Thanks very much sir for the opportunity. Sir, my question is regarding the inventory built-up which has happened in the western area. When do you think this would translate into sale? Whether this will happen quicker or it is going to take 1 quarter or it will take some more time and spread over a few quarters?

Mr. R. Vijayarangan, General Manager (Corporate Planning), ONGC

These are very temporary phenomena which always happen sometime in the oil industry. Some of the refineries they do go for planned shut downs. Even unplanned shut downs also take place in the refineries. So we have some storage capacity. The refineries also have some storage capacity. So in this quarter there were some problems with respect to the heavy oil in Gujarat in the Koyali refinery as well as in the North East there was problem in Numaligarh refinery, plus the off take from the existing refineries was below their normal offtake. That's why the inventory was there. And we expect that it would come to normal very soon. It is not a cause of concern to us.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Amit Shah from BNP Paribas. Please go ahead.

Mr. Amit Shah - BNP Paribas

Good afternoon. Just a couple of questions. One on the KG Basin field, where Petrobras and Norsk Hydro have backed out, what is the status on that? And how soon do we see partnership happening and what is the outline of the production if there is any and by when do you expect it? And second question is on how do you expect the gas growth? Would it be flat YoY for FY11 and the next couple of years? If you can explain?

Mr. D.K. Sarraf, Director (Finance), ONGC

So far as the the exit of certain partners in the KG block is concerned, they expressed their desire to quit the block. We are ok with it as it was their decision. As far as entry is concerned, as of date, we are working on various proposals, but no decision has been taken. But let me assure you that we are ourselves capable technically and financially to complete the development and we are taking necessary actions towards that. About the question on gas production, as I just said that there are 2-3 areas on which the gas upside would come. Roughly in 2011 end and 2012 beginning the production from Tripura would increase substantially once the power plant of ONGC Tripura Power Company is commissioned. It would consume from 1.5 million cubic meters per day to almost 6 million cubic meters per day. Then we have an increase in C-series_gas production, which at present is 1.1 million cubic meters per day and perhaps it would increase to 3-4 million cubic meters per day. This would happen in the short term. The two which are there in

long term horizon is one is NDA happening in 2016. As well as we have substantial increase in gas production from Daman_ area and west coast development. Plus on the east side, we will have GS 15 and G1 which is likely to commence production from 2011-12 which is likely to be 2 million cubic meter per day.

Mr. Amit Shah - BNP Paribas

Okay, great. Thank you. And one more question on what was the Cairn share that ONGC was recorded this quarter? As in, basically the Cairn production. What is ONGC's share from the Cairn field this quarter?

Mr. D.K. Sarraf, Director (Finance), ONGC

Yeah, Cairn's Participating interest is 70% and we have 30%. So we have accounted for 30% of the revenue. But so far as royalty is concerned, we have accounted for 100% of the royalty in our account.

Mr. Amit Shah - BNP Paribas

Okay and just one more on the KG field, what was the reserve number that was approved recently?

Mr. D.K. Sarraf, Director (Finance), ONGC

No, we have not put any reserve. We have only submitted a document called Declaration of commerciality to DGH, but we are yet to account for any reserve from this block.

Mr. Amit Shah - BNP Paribas

Okay and that was something around 2.5 TCF right if I am correct?

Mr. D.K. Sarraf, Director (Finance), ONGC

I am not aware of any reserve.

Moderator - Faizal

Thank you. Ladies and gentlemen if you wish to ask any questions please press "*" and "1" on your touchtone phone. There is a follow up question from the line of Prabhu from IDFC. Please go ahead.

Mr. Prabhu - IDFC

Just one small thing. The recent approval that has happened of the drilling moratorium._Just wanted to understand is there any immediate near term impact, any drilling activity or development activity that will accelerate because of this?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

As the national oil company, we were very certain that this drilling moratorium would come. And we have not scaled down our drilling program very significantly. So I don't think that there would be any upside in our drilling program because of drilling moratorium being announced.

Moderator - Faizal

Thank you. The next question is from the line of Raj Gandhi from Principle Mutual Fund. Please go ahead.

Mr. Raj Gandhi - Principle Mutual Fund

Just if you can elaborate a bit, what is the difference between this declaration of commerciality and the stage where in you actually file the FDP and you know plans are concrete.

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Okay. Initially a document called Declaration of commerciality is to be filed. And after that DGH and the government have to approve that. Once they approve it, then the operator gets further time to file the document which is Field Development Plan. This is a detailed document which covers things like: how many platforms will be there, how many wells would be there, what would be the production quantity, where the production would come, what would be the production profile as also about the costs which are fine tuned in terms of Capex as well as Opex. So all these details are there. Declaration of commerciality is a brief document based on the technical results which we have filed recently.

Mr. Raj Gandhi - Principle Mutual Fund

Okay. And sir just an update on the Mahanadi block wherein we did have discovery. But I think we have been quite silent on that since quite some time. Any work going on there?

Mr. Sanjiv Kumar - Chief Manager - Corporate Planning ONGC

Actually we had planned for 3 to 4 appraisal assessments in the Mahanadi basin. And that will be taken once we are done with this KG 98/2. Ideally, one or two wells are being planned during next 2 years. Based on that we will go for the assessment.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Vishwas from HDFC Standard Life. Please go ahead.

Mr. Vishwas - HDFC Standard Life

Hello sir. Basically depletion_cost for the quarter was higher YoY. Any specific reason to it?

Mr. D.K. Sarraf, Director (Finance), ONGC

Yes, there is a specific reason to that. The first reason was commencement of production from Rajasthan Block in a significant way. And I think there was an impact of Rs60 crores of additional depletion_charge for the Rajasthan_block. The addition to the existing facilities where some more facilities have come, though the portion has not gone up significantly. So because of that also the depletion charge has increased.

Mr. Vishwas - HDFC Standard Life

Apart from Rajasthan Block?

Mr. D.K. Sarraf, Director (Finance), ONGC

We have certain other capital expenditures also

Mr. Vishwas - HDFC Standard Life

Okay and what was your share in volume terms from the Rajasthan Cairn_?

Mr. L. Nelson, Chief Manager (F&A), IRC, ONGC

From Rajasthan Block, we have taken 133,000 metric ton of oil in the 1st quarter.

Moderator - Faizal

Thank you. There is a follow up question from the line of Mr. Vidyadhar Ginde from DSP Merrill Lynch. Please go ahead.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Yeah. I wanted to ask a couple of questions. One is that of the exploration wells planned in the current year, how many are planned in NELP block and in the eastern offshore region? And the second question was as far as Rajasthan field is concerned, how much reserves, 2-P reserves have been accounted in this field out of the number which you gave us for March 2010?

Mr. R. Vijayarangan - General Manager Corporate Planning, ONGC

The first part of the question I will answer. Out of the total number of exploratory wells planned for the year, i.e., 154 roughly around 10 to 15% of the wells are in NELP areas which have been maintaining over the last 2, 3 years. So we will try to maintain the same level. Around 15% of the wells will be in the NELP block in the current year also.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

The question I had is that of the reserves which you had mentioned to as 2P reserves as of March 2010. How much of these reserves are from the Rajasthan block where you have 30% stake along with Cairn?

Mr.D.K. Sarraf, Director (Finance), ONGC

The REC (Reserves Estimation Committee) sits once in a year for estimating the reserves in the nomination blocks & for the PSC blocks. So we don't have any upgraded reserves approved. Since we have to provide depletion, we have used the reserves which Cairn has arrived at.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

But the number which you gave us in March 2010 is only of nomination blocks. It has nothing from the pre-NELP Rajasthan block

Mr. B.L. Ghasolia - Advisor Finance, ONGC

No, it has to be because in Rajasthan we have only pre-NELP block, reserves already included in the JV category.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

I know that but so therefore the number you gave us the 2 P reserves number of ONGC in India, Figure of JV as well as nomination as of March 2010. So does the JV 2 P reserves as of March 2010 include something from Rajasthan?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Yes, it does include. But as far as our reasons are concerned, they remain the same.

Mr. Vidyadhar Ginde - DSP Merrill Lynch

Then what is that amount I wanted to find out.

Mr. B.L. Ghasolia - Advisor Finance, ONGC

We do not disclose the field wise reserves.

Moderator - Faizal

Thank you. The next question is from the line of Ballabh Modani from Religare Capital Market. Please go ahead.

Mr. Ballabh - Religare Capital Market

Sir, this is Ballabh here. I have a couple of questions. One is the ramp up of the Imperial Energy. How do you see the ramp up for that? The second thing is the number of deep water wells you are going to drill this year and the next year.

Mr. Rakesh Sharma - ONGC Videsh Ltd.

Imperial at the moment is producing at the rate of 17,000 barrels a day and we expect that it is going to be more or less the same except for a little upside that we are going to have once the weather window is good for carrying out drilling of exploration wells and development wells. More or less this is going to be the case for this year end and in the next calendar in the first quarter you will see some little upside coming out from Imperial.

Mr. Ballabh - Religare Capital Market

I just want to add on to that, Initially you guided for a pretty high number. But we are seeing that the ramp up is not going as per that. So any specific reason for that?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

The first reason is that there are some technical challenges that are being faced by the reservoir. The reserves are ample over there. It is only the question of the reservoir bleeding it out to the well. Now the reservoir has just commenced production when we took it over. So this reservoir was not fully examined for its production feature. As and when we started drilling wells and going along enhancing the production, we have encountered some difficulty in the form of hydro fracturing the reservoir so that it can breathe. There are couple of skills which are still being tested. And once these tests prove right, we will implement them on full scale and that probably is going to add to enhanced production in Imperial. Till the time we are carrying out studies on hydro fracturing and to hold up the fracture so that it can breathe, we would like to retain this kind of level that we have achieved till now starting from 6,000 when we

took over today it is almost 17,000 barrels a day. So we'd like to maintain this profile as well as experiment and then take something which is very fruitful in the reservoir on a full scale.

Mr. Ballabh - Religare Capital Market

Question was on the deep water well you will be drilling this year and the next year.

Mr. B.L. Ghasolia - Advisor Finance, ONGC

This year we will be drilling 15 wells and next year also we will drill the same amount of around 15, 16 deep water wells.

Mr. Ballabh - Religare Capital Market

Do you have rig time so that to drill these 15 wells?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

We already have the rig time for drilling all these wells.

Mr. L. Nelson, Chief Manager (F&A)-IRC, ONGC.

I think we are going to have one more rig which is coming by December.

Moderator - Faizal

The next question is from the line of Mr. Harshad Borawake from Motiwal Oswal. Please go ahead.

Mr. Harshad Borawake - Motiwal Oswal

Just wanted to recheck the number of peak production from the northern development area. Could you repeat this number?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Yeah, I said 12.96 bcm in 2016 which is gas and 0.841 mmt of oil.

Mr. Harshad Borawake - Motiwal Oswal

Second question was recently we have got dollar 5.25 for the C-series_ gas pricing. Henceforth, whatever incremental gas which we will be getting from the nominated fields will be sold at what price?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Incremental production of gas from nominated fields can be sold at market price after obtaining Government's approval.

Moderator - Faizal

The next question is from the line of Mr. Abhishekh Dutta from Quantum Capital. Please go ahead.

Mr. Abhishekh Dutta - Quantum Capital

Sir, just wanted to confirm this question that _ Imperial Energy will peak at 40,000 barrels per day. How authentic is the data?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

As I said in my earlier answer, there is a technological challenge that we have encountered. The reason is there was a little anticipation which has come up as we have gone through the project. The project was a very primary producer at the time when we took. And now there is a potential that the project has to be exploited. The numbers that you have, 40,000, it is possible in the near future. But the only in between is the technical challenge that we have.

Mr. Abhishekh Dutta - Quantum Capital

Can you clarify on this value of east coast development where you plan to produce peak production of 140,000 barrels per day. How much Capex is involved in that sir?

Mr. D.K. Sarraf, Director (Finance), ONGC

About East Coast, we said that from the NDA, Northern Development Discovery Area, the oil production would be 0.841 million metric tons per annum with the peak production in 2016, which translates to probably about 16,800 barrels a day. And the Capex of the whole of this NDA plus certain discoveries in the nominated blocks would be around 5 billion US Dollar. However, these numbers are very tentative and based only on the documents which we have filed with the DGH. The numbers may vary on a higher side or on a lower side as we go along.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Bhavin Gandhi from BNK Securities. Please go ahead.

Mr. Bhavin Gandhi - BNK Securities

Good afternoon sir. Initially you said that the government is considering the compensation in the form of cash or bonds. Is it settled whether the compensation will be in the form of cash or that's not the position?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

We are not aware of what the government is going to do. We get the news of this from media which can be accessed by anybody.

Mr. Bhavin Gandhi - BNK Securities

Could you give the status update on the Venezuela CARABOBO project and what were the reserve numbers from that project? Were they included in our reserve numbers which were given out in March 2010?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

The CARABOBO project was signed on 12th of May 2010. So whatever are the reserves they come out of a certification process where the sovereign interest of Venezuela also plays a vital role. Once they have accepted the kind of numbers that the consortium projects to the sovereign body, those numbers will be carried pro data based on the share that we have in the project in our books. Now it is very early for us to say what numbers are there. Because there is a huge process of first establishing what is the kind of reserve over there, taking it to the sovereign body, getting it certified or accepted by them, and then getting it back to the books. The numbers that probably you must have come across are the ball park numbers which normally companies take when they are trying to acquire an asset. So these still have to be established. They have to be brought out and then sovereign certifications have to be procured on it.

Mr. Bhavin Gandhi - BNK Securities

And one last thing sir, in the recent EGOM meet, the KG allocation to us was cancelled. Is there any material impact of that on us?

Mr. D.K. Sarraf, Director (Finance), ONGC

We don't see any material impact of cancellation of 0.4 million cubic meter of gas per day. It was not adding to our bottom line rather it would have added to our top line only and corresponding expenditure. So bottom line will not be affected.

Moderator - Faizal

Thank you. The next question is from the line of Mr. R.N. Sharma from BNK Securities. Please go ahead.

Mr. R.N. Sharma - BNK Securities

I wanted to know about the status of the Rajasthan refinery project which we hear that ONGC is going to take and then some interest has been shown by the EIL also to take part in the stake. So can you update on that. What's the feedback?

Mr. D.K. Sarraf, Director (Finance), ONGC

See we have always been saying consistently that we would put the refinery only if it is economically viable. And incase it is not economically viable, then viability gap_would need to be bridged by the State Government by way of direct interventions or by way of some tax concessions. So we have already taken up with the State Government on their proposal how they would bridge the viability gap. And we are yet to hear anything in final from them. In the interim, we are examining the viability report for the proposed oil refinery but that will at least take a couple of months.

Mr. R.N. Sharma - BNK Securities

Any timing has been decided or any DFR has been started for preparation. Anybody has been appointed for doing the DFR?

Mr. D.K. Sarraf, Director (Finance), ONGC

EIL is already engaged by us to prepare the DFR.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Janish Shah from Quantum Advisors. Please go ahead.

Mr. Janish Shah - Quantum Advisors

Just want to know you have given us the number of Rs539 crore of additional revenue on account of the gas price increase. Could we just have a number as to what was the net cash addition on account of this incremental gas price for you during the quarter. And the second is that are you planning to increase any kind of production in the existing APM_ fields as a result of this change in the gas price policy or any kind of more investment that you are planning to envisage in this?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

So far as the Rs539 crore increase is concerned, that is our gross revenue which comes from the increased gas price. 10% would be taken out from revenue because it includes royalty. And another 1/3rd would approximately be towards corporate tax. So balance would be the addition to the cash as well to the bottomline of the company. On an annualized basis, as per our estimates, it is will be over Rs5,500 crores of revenue and more than Rs3,500 crores of PAT would be there towards increase in gas price. As regards your second question, there could be certain increase in gas production from the APM field_ because of the increase in gas price. But I doubt that it would have any significant impact on our top line or bottom line.

Mr. Janish Shah - Quantum Advisors

I mean basically the production is from the mature fields. Are you facing any kind of a decline or which probably earlier you would not have invested because of the constraint in the prices and now you would be willing to invest and either maintain the production or try to increase it?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

As I just said, increase in gas production would be there but there may not be any significant change immediately.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Avadhoot Sabnis from RBS. Please go ahead.

Mr. Avadhoot Sabnis - RBS

Sir you provided guidance on production volume for oil and gas for FY11? Is it possible to provide similar guidance for FY12 and 13?

Mr. L. Nelson - Chief Manager Finance, ONGC

In FY12, the crude production is expected to be around 27 million metric tonne from our domestic operations and 3 million metric tonne as our share in the domestic JV. And gas production is almost continues to be at the same level of 22 bcm from the domestic operations and 2.7 bcm from our joint venture.

Mr. Avadhoot Sabnis - RBS

Is it possible to talk about FY13?

Mr. L. Nelson - Chief Manager Finance, ONGC

See for FY13, we are not ready with any numbers. Basically, you may be aware that we make plans based on the 5 year plan period, latest being from 2007 to 12. When we draw the plan for the 12th 5 year period from 2013 to 17 may be towards the end of this year or early next year there may be some guidance available.

Mr. Avadhoot Sabnis - RBS

Just now you are looking at big increase in production in FY12 itself?

Mr. L. Nelson - Chief Manager Finance, ONGC

Yes. But this will be reviewed around October. We will be seeing the completion of all the capital projects and field-wise production status and the production plan will be firmed up when the budget for the current year is revised.

Mr. Avadhoot Sabnis - RBS

My concern is that ONGC has been falling short of its target. So that's why I was wondering what the conviction level on the rise in production is because even in this year at 25 million tonnes, you are guiding for a slight increase, whereas there has been a drop in the first quarter.

Mr. D.K. Sarraf, Director (Finance), ONGC.

We are really aware of the concerns of the investors as well as we ourselves are concerned of the performance of the production. But the production may not increase significantly in the short term. Therefore, there is a certain increase in production definitely in the mid-term when the existing schemes are completed. But in the long term, due to certain schemes which we have, there would be significant increase in production especially of gas.

Mr. Avadhoot Sabnis - RBS

Sir, a 2 million tonne increase between FY11 and FY12 to me is a very big increase.

Mr. D.K. Sarraf, Director (Finance), ONGC.

I am saying that there is likely to be a very significant increase not in the short term, not in the mid-term, but in the long terms on gas. But on oil, there may not be a significant increase.

Mr. Avadhoot Sabnis - RBS

Secondly sir, I think in the earlier question, you had mentioned that the Mahanadi block appraisal well is to be drilled in the next 1 or 2 year. Would it be possible to state whether that block would be developed and produced before 2016 i. e. before the KG block or would it be after that?

Mr. D.K. Sarraf, Director (Finance), ONGC

Actually we have got 2-3 wells planned there. But after appraisal when we will go for the timeline, definitely it will be after KG 98/2 on the commencement of production.

Mr. Avadhoot Sabnis - RBS

And last question. You mentioned that you paid 100% of royalty for the Rajasthan block joint venture with Cairn. Is it possible to share what was the exact royalty figure?

Mr. L. Nelson - Chief Manager Finance, ONGC

Rs171 crores towards royalty had been accounted in the first quarter.

Mr. Avadhoot Sabnis - RBS

On 100% basis?

Mr. L. Nelson - Chief Manager Finance, ONGC

Yes, on 100% basis in respect of Rajasthan Block.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Darshan Narasimhan from Systematix. Please go ahead.

Mr. Darshan Narasimhan - Systematix

Just a couple of questions from my side. One is in the exploration plan, you said that you have guided for 154 wells to be drilled in FY11. Can you give me a breakup on this? And the second question is on guidance on well drilling_ plan going ahead.

Mr. R. Vijayarangan, General Manager (CMS), ONGC

Yeah, the region-wise breakup I don't have right now with me, but then I can give you onshore and offshore breakup. We are going to drill 106 wells onshore and 48 wells in the offshore. Out of 48 wells in Offshore, 15 wells will be in deep water and the rest in shallow water. Again, out of the total 154 wells, 38 wells will be in NELP area.

Mr. Darshan Narasimhan - Systematix

And how much _ eastern offshore well.

Mr. R. Vijayarangan, General Manager (CMS), ONGC

Yeah, that's deep water wells would be something like 10 to 15. 15 wells it will be for the current year.

Mr. Darshan Narasimhan - Systematix

And second on the guidance for FY12 and onwards

Mr. R. Vijayarangan, General Manager (CMS), ONGC

FY12 onwards we haven't made anything right now. In a month's time we should be able to give you for the next 2 years figures.

Mr. Darshan Narasimhan - Systematix

Okay. And just one more question from my side. You had earlier said in the conference call that out of 10 to 15% of these wells in NELP area and the balance in nomination. So when are your nominations likely to get expired_ and will you see more drilling happening in a year _ for the nominations. Basically I believe that now the 5th year licence is getting expired very soon. So focus will now gradually shift to nomination. Can I have your feedback?

Mr. R. Vijayarangan, General Manager (CMS), ONGC

Yeah, that is true. Right now we are almost in the terminal stages of the Nomination blocks which are in the 6th and 7th year. So whatever investment we made, we want to monetise it at the earliest possible so our major concentration is still on our nomination blocks only. And may be 2, 3 years down the line, our concentration will definitely shift more towards NELP blocks than what we are doing right now.

Moderator - Faizal

Thank you. The next question is from the line of Ballabh Modani from Religare Capital Market. Please go ahead.

Mr. Ballabh - Religare Capital Market

Sir Ballabh here again. Sir just in continuation to the earlier production guidance for gas, what you have told is in FY12, there is not going to be any significant rise. But if we go by your earlier remark, it was that Tripura Power Plant is going to come somewhere by the end of next year. So in that case the production is going to go up sharply.

Mr. D.K. Sarraf, Director (Finance), ONGC

Yeah. By 2012, Tripura Power would come and the production will increase from 1.5 million cubic meter to 6 million cubic meter. In addition to that, the production from C-series would also increase from 1.1 million cubic meter per day at its present to 3 to 4 million cubic meter. Production from G1 and GS15 would also increase perhaps from 2011 and there would be 2 million cubic meter. But most significant increase would be later in the day when the KG NDA as well as west coast development projects from the nomination blocks will start producing.

Mr. Ballabh - Religare Capital Market

Sir are you seeing some production fall in your ageing means other fields at Bombay high or _

Mr. D.K. Sarraf, Director (Finance), ONGC

There is a regular decline in our fields, but then we are making up by way of our IOR, EOR, and putting new discoveries into the production phase. And that has made us maintain the production for the next 4, 5 years.

Mr. Ballabh - Religare Capital Market

This means that we can see an increase of around 7 to 8% next year in gas production.

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Yeah. That's correct. Though it is increasing but then since the decline is being made up so you don't see an increase really in absolute terms.

Moderator - Faizal

Thank you. The next question is from the line of Vishwas from HDFC Standard Life. Please go ahead.

Mr. Vishwas - HDFC Standard Life

Hello sir. I had a question for Nelson actually. He said royalty for Rajasthan was about Rs171 crores for the quarter. Have I got the number right?

Mr. B.L. Ghasolia - Advisor Finance, ONGC

Yeah Rs171 crores, yes.

Mr. Vishwas - HDFC Standard Life

Okay I just was seeing the numbers. I am sorry if I am getting it wrong but for this quarter last year, the royalty payment for onshore was Rs622 crores. And it shows that it has fallen to Rs519 crores for this first quarter FY11. Am I getting it right? Here the royalty is Rs171 crores which actually last year should have been zero.

Mr. L. Nelson - Chief Manager Finance, ONGC

The main reason is higher crude realization in the last year as compared to the current year and ONGC is paying royalty on net crude price and on ad-valorem basis. So it varies along with the movement of net realized crude price...

Mr. Vishwas - HDFC Standard Life

Okay so it is okay. Net realization basically rather than gross.

Mr. L. Nelson - Chief Manager Finance, ONGC

Yes.

Moderator - Faizal

Thank you. The next question is from the line of Mr. Nipun Sharma from Mirae Asset Securities. Please go ahead.

Mr. Nipun Sharma - Mirae Asset Securities

Yes. My question is for Rakesh. OVL is looking for properties all across the world. But in specific, can you talk to me about the interest for US Shale gas? Is that you are looking at seriously?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

See, OVL at the moment has got considerable expertise and capabilities in conventional oil and gas. Now as we move along, being a petroleum company, the growth strategy naturally should include our reach to oil and gas as well. So

something like oil sands or Shale Gas certainly are on our drawing boards. And we are looking at some of the assets that are being talked about in the market. So gradually, if we develop a good eye or if we see considerable commercial prudence in any of these and also if technology is not a barrier, certainly we would try and pick up something in Shale Gas and Oil Sands.

Mr. Nipun Sharma - Mirae Asset Securities

But sir the technology barrier can always be bridged by the way of a partnership with someone. Any plans towards a partnership towards Shale Gas or may be domestically even?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

See there are you know two sided approaches which are being done on the Shale Gas. ONGC in domestic areas is also attempting something. But certainly it is the capacity that we would be having when we go abroad as OVL. The second is that there are area specific requirements sometimes. Either it is a deeper horizon which has to be penetrated or it is a relatively tighter horizon, or the volumes are so spread out so there would be a different connotation altogether in terms of technology which might be required. What you said earlier was partnering a technology firm. Those options are also on the drawing board. Not only investing but also partnering a technology expert so that we have an edge and the capacity builds up quickly for future growth of the company.

Mr. Nipun Sharma - Mirae Asset Securities

Is it that in the near term we should only expect conventional oil and gas fields as acquisition?

Mr. Rakesh Sharma - ONGC Videsh Ltd.

Let me put it this way. In near term you should expect that OVL would be reaching out far difficult oil and gas as well.

Moderator - Faizal

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Nishna Biyani. Thank you and over to you.

Mr. Nishna Biyani - Prabhudas Lilladher

Thank you. We thank the management for taking out time to address the investor queries. Thanks a lot sir.

Mr. Rakesh Sharma - ONGC Videsh Ltd.

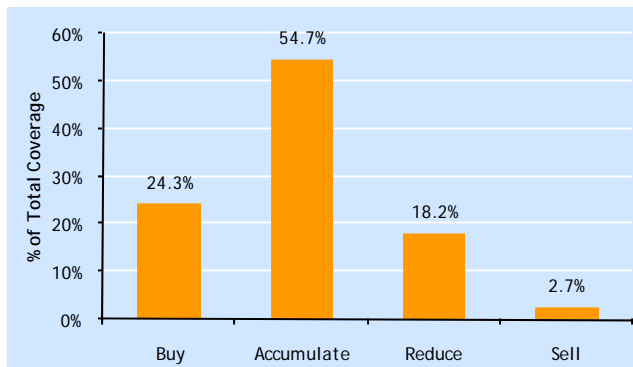
Thank you very much from all of us.

Moderator - Faizal

Thank you. On behalf of Prabhudas Lilladher Pvt. Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

END.

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