

June 25, 2021 <sup>Revised</sup>

## ONGC Videsh Limited: Issuer Rating reaffirmed and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed and withdrawn
Total	-	-	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has reaffirmed and withdrawn the issuer rating assigned to ONGC Videsh Limited (OVL) at the request of the company, and in accordance with ICRA's policy on withdrawal of rating. ICRA had placed the issuer rating on one month notice of withdrawal, in accordance with its policy.

ICRA has taken a consolidated view of OVL along with Oil and Natural Gas Corporation Limited (ONGC), considering that the company is wholly-owned by ONGC and is of strategic importance to the latter as its overseas exploration and production (E&P) arm. The rating reaffirmation takes into account the dominant market position of ONGC in the domestic crude oil and natural gas production business with large proven reserves, globally competitive cost structure, stable performance of its subsidiaries and its healthy financial position. Recovery in crude oil prices is seen from the lows of about \$20/bbl during end of April 2020 to about \$70/bbl currently along with recovery in crude oil demand with the easing of lockdowns globally. Although demand can be impacted following second wave of the Covid-19 pandemic, the impact on prices is expected to be limited owing to of the increasingly active management of production and supply by OPEC+. The ratings take into account the company's excellent financial flexibility arising from its moderate gearing, large liquid investments, its significant sovereign ownership and strategic importance.

However, ONGC is faced with increasing challenges to replace reserves and grow production, and is exposed to the geological, technology and execution risks inherent in exploration and production (E&P) activities. Besides, it is exposed to significant geo-political risks through OVL, because of its presence in some countries with a history of political instability and commodity price risk. Furthermore, ICRA notes that the company's large ongoing capital expenditure and acquisitions during past few years have depleted the cash reserves.

The company's large capital expenditure (capex) plan would entail incurring new project implementation risks even though reliance on external debt is expected to be limited and is a comfort from the credit perspective. The acquisition of a majority stake in HPCL would benefit ONGC with an improved business risk profile through forward integration, reduced volatility in earnings and increased ability for overseas E&P acquisitions. Though the credit profile of the ONGC Group at a consolidated level remains robust, its financial profile is weakened somewhat due to depletion of cash reserves and debt taken to fund the HPCL acquisition. Additionally, any further large debt funded acquisitions impacting its capital structure and coverage metrics adversely could put pressure on its credit profile.

## Key rating drivers and their description

### Credit strengths

#### **Dominant market position of ONGC in the domestic crude oil and natural gas production business with large proven reserves**

– ONGC accounted for ~66% of the country's crude oil production and ~68% of its natural gas production in FY2021. The company has explored 19 out of these 26 sedimentary basins of the country for their hydrocarbon potential via seismic survey and/or drilling and has established eight producing basins till date. These are Mumbai offshore, Cambay, Rajasthan, Cauvery, Krishna-Godavari, Assam-Arakan, Upper Assam and Asoknagar-1. With its track record of several decades, ONGC has built up significant proven reserves in both offshore and onshore regions which stood at 620.37 MMTOE during FY2020.

#### **Access to significant E&P infrastructure; cost structure competitive as reflected by low finding and development (F&D) costs**

– ONGC owns significant drilling infrastructure, resulting in its operating cost remaining competitive vis-à-vis its global peers. However, in the offshore areas the company's reliance on third-party agencies has been high. ONGC also has other infrastructure such as work over rigs, offshore logistics vessels, cementing units, logging services units and well stimulation units. With its significant infrastructure and low manpower costs, it has been able to maintain competitive F&D costs, which stood at \$12.55/boe (based on proved reserves) in FY2020.

#### **Strong financial position, characterised by robust profitability, moderate gearing, large liquid investments, comfortable debt protection metrics and high financial flexibility**

– ONGC's financial position remains strong owing to its robust profitability (operating profit margin of 15.5% in FY2020 and 15.7% in 9MFY2021), comfortable debt protection metrics with interest coverage of 8.80 times in FY2020 (10.85 times for 9MFY2021). The company enjoys significant financial flexibility, given its large liquid investments, ability to raise both debt and equity capital from the capital markets at finer rates and the large value of its investments in IOC and GAIL (market value of the investments estimated at around Rs. 15,349 crore as on May 04, 2021).

#### **Stable performance of overseas subsidiary, OVL**

– Over the years, OVL has been acquiring participating interests in overseas oil and gas assets and participates either directly or through wholly-owned subsidiaries/joint venture companies in 37 projects in 17 countries, of which 14 are producing properties. However, the top three investments (Mozambique, Russia and Brazil) drove the bulk of investments. OVL's total O+OEG production stood at 14.98 MMTOE in FY2020 against 14.83 MMTOE in FY2021.

#### **Company's significant sovereign ownership and strategic importance**

– ONGC enjoys significant sovereign ownership (60.41% GoI stake as on 31st March 2021) and a dominant and strategically important position in the Indian energy sector as the largest domestic producer of crude oil and natural gas. It plays a significant role in fulfilling the socio-political objectives of GoI towards control of domestic energy prices.

### Credit challenges

#### **Increasing challenge to replace reserves and grow production, given high dependence on Mumbai High for bulk of existing production and moderate track record in terms of new discoveries and reserve replacement**

– ONGC has a large share of production coming from the offshore region both for crude oil and natural gas. While Mumbai High is a key asset for crude oil, the Bassein asset in the western offshore region is the same for natural gas. Of the producing fields, the top 15 fields account for about 80% of the production. ONGC has also been experiencing decline in production in its mature fields. To arrest this decline and improve the recovery factor, the company has launched improved oil recovery (IOR) and enhanced oil recovery (EOR) programmes. Going forward, replacing reserves and growing production while maintaining a favourable cost structure would remain a key challenge for ONGC.

OVL is also faced with increasing challenges to add reserves at competitive costs and grow its production and is exposed to geological, technology and execution risks that are inherent in E&P activities. Moreover, it is exposed to significant geopolitical risks because of its presence in some countries with a history of political instability and commodity price risk. Recently, the liquefied natural gas project in Mozambique was suspended indefinitely following insurgent attacks near the project location.

Besides the Mozambique project, disruptions at three producing projects (Al Furat Project in Syria as well as in Block 5A and GPOC Projects in South Sudan) underscores the geopolitical risks of company. Additionally, volatility in international crude oil prices have impacted the revenues and cash accruals of OVL given that it derives the bulk of its revenues from operations from the sale of crude oil. OVL has large capex plans for the exploration and development of its existing blocks as well as acquisition of participating interests in new properties. The large capital expenditure plan of OVL would entail incurrence of new project implementation risks and additional debt

**Geological, technology and execution risks inherent in E&P activities** – An upstream company is exposed to geological, technology and execution risks that are inherent in E&P activities, especially considering the vastly different geographies and geologies ONGC group is exposed to.

**Commodity price risk associated with crude oil** - As bulk of the revenues at standalone are derived from the sale of crude oil, ONGC remains exposed to the commodity price risk associated with the same.

**Regulatory risk arising from Government directives on subsidy sharing and control on gas prices** - Government policies on under-recoveries and natural gas prices and dividend payments have remained key concerns for ONGC, from the point of view of profitability and net cash accruals.

**Aggressive overseas expansion strategy may entail significant geological, geo-political and event risks; conservative bidding strategy and rigorous approval process comfort factors** - OVL's investments suffer from geopolitical risks as some of the invested countries have a history of unstable regimes, resource nationalisation, changes in fiscal laws, etc. As a risk mitigating measure, in almost all the properties it operates, OVL has teamed up with other multinational/national oil companies, such as British Petroleum, Exxon Mobil and Total S. A. Moreover, the GoI also provides diplomatic support to the company for such projects. Over the long term, OVL's mission is to produce 40 million metric tonne per annum (MMTPA) by 2040, through both organic and inorganic initiatives. This strategy would, however, expose OVL to significant event, geological, execution and geo-political risks in the host countries. ICRA, however, draws comfort from the safeguards built in the multi-tier approval process (vetting by OVL's Board, ONGC Board, ECS and CCEA) for overseas acquisitions. OVL also sets the hurdle rate for acquisitions after factoring in the geo-political risks inherent in the host country, and its status as a GoI company helps it obtain feedback from the Government's diplomatic network.

**Large capital expenditure plans, which would entail incurring of new project implementation risks; additionally, cash outflow to fund acquisition of HPCL and GSPC's KG basin asset have depleted the cash reserves:** ONGC incurs significant capex every year on exploration, development, and purchase of capital assets entailing new project implementation risks. Additionally, in FY2018 the company acquired GSPC's KG basin asset as well as GoI's stake in HPCL, which has depleted its cash reserves.

## Liquidity position: Strong

Liquidity position of the company is expected to remain strong owing to healthy cash accruals aided by control over receivables. The company is able to raise funds from banks and capital markets at fine rates. Additionally, the large value of its investments in IOC and GAIL also provide comfort from a liquidity perspective.

## Rating sensitivities

**Positive factors** – Not applicable.

**Negative factors** – Negative pressure on OVL's long term rating could arise if there is significant deterioration in the consolidated credit metrics of the ONGC group, and/or material weakening in ONGC's strategic importance to GoI.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Upstream Oil Companies</a> <a href="#">ICRA's Policy on Withdrawal of Credit Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ONGC. List of the companies are enlisted in Annexure-2.

## About the company

OVL is a wholly owned subsidiary of the ONGC. OVL was incorporated as Hydrocarbons India Private Limited on March 5, 1965. The company was rechristened as ONGC Videsh Limited on June 15, 1989. The primary business of the company is to prospect for oil and gas acre ages abroad. This includes acquisition of oil and gas fields overseas as well as exploration, production, transportation and sale of oil and gas. ONGC Videsh has participation either directly or through wholly owned subsidiaries/joint venture companies in 35 projects across 15 countries of which 14 are producing properties.

At consolidated level, OVL reported net profit of Rs. 435.2 crore on net operating income of Rs 16,965.4 crore (including share of profit from equity accounted entities) in FY2020 as against a net profit of Rs. 1,679.7 crore on an net operating income of Rs. 17,436.2 crore in FY2019.

## About ONGC

ONGC is a premier oil and gas company in India, accounting for 66% of the country's crude oil production and ~68% of its natural gas production in FY2021. It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO) and naphtha. GoI is the majority shareholder in ONGC, with a 60.41% equity stake at 31st March, 2021. ONGC set up OVL in 1965 as its fully-owned overseas E&P arm. But given the focus on domestic E&P during that period, OVL remained more or less dormant for nearly three-and-a-half decades. However, this changed from the early 2000s with the issue of acquiring energy security assuming critical importance for the country. Today, OVL has an equity stake in 35 projects across over 15 countries, of which 14 are producing properties. ONGC also has 71.6% equity stake in Mangalore Refinery and Petrochemicals Limited (MRPL), a standalone refinery with an installed capacity of 15 MMTPA and 51.1% stake in Hindustan Petroleum Corporation Limited (HPCL), which operates two refineries with a total capacity of 15.8 MMTPA. Besides, ONGC is also a co-promoter of a number of companies.

During 9M FY2021, on a consolidated basis, the company reported net profit of Rs. 10,314 crore (excluding the share of profit of associates and joint ventures) achieved an operating income of Rs. 2,46,404.1 crore.

## Key financial indicators (audited)

ONGC Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	421,623	396,803
PAT (Rs. crore)	30,510	10,506
OPBDIT/OI (%)	20.0%	15.5%
PAT/OI (%)	7.2%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDIT (times)	1.3	2.1
Interest Coverage (times)	14.4	8.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2022)			Chronology of Rating History for the past 3 years						
		Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
				25-Jun-21	11-May-21	24-Jul-20	5-May-20	19-Mar-20	31-May-19	6-Apr-18	
1	Bond Programme	-	-	-	-	-	-	[ICRA]AAA (Negative); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund Based-Cash Credit	-	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
3	Unallocated	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Non-Fund Based	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Issuer Rating	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable); placed on notice of Withdrawal	[ICRA]AAA (Stable)	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	-	-	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Issuer Rating				-	[ICRA]AAA (Stable); Withdrawn

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
ONGC Videsh Limited	100.00%	Full Consolidation
Mangalore Refinery & Petrochemicals Limited	80.29%	Full Consolidation
Hindustan Petroleum Corporation Limited	51.11%	Full Consolidation
ONGC Mangalore Petrochemicals Limited	89.95%	Full Consolidation
ONGC Nile Ganga B.V.	100.00%	Full Consolidation
ONGC Campos Ltda.	100.00%	Full Consolidation
ONGC Nile Ganga (Cyprus) Limited	100.00%	Full Consolidation
ONGC Nile Ganga (San Cristobal) B.V.	100.00%	Full Consolidation
ONGC Amazon Alaknanda Limited	100.00%	Full Consolidation
ONGC Narmada Limited	100.00%	Full Consolidation
ONGC (BTC) Limited	100.00%	Full Consolidation
Carabobo One AB	100.00%	Full Consolidation
Petro Carabobo Ganga B.V.	100.00%	Full Consolidation
Imperial Energy Limited	100.00%	Full Consolidation
Imperial Energy Tomsk Limited	100.00%	Full Consolidation
Imperial Energy (Cyprus) Limited	100.00%	Full Consolidation
Imperial Energy Nord Limited	100.00%	Full Consolidation
Biancus Holdings Limited	100.00%	Full Consolidation
Redcliffe Holdings Limited	100.00%	Full Consolidation
Imperial Frac Services (Cyprus) Limited	100.00%	Full Consolidation
San Agio Investments Limited	100.00%	Full Consolidation
LLC Sibinterneft	55.90%	Full Consolidation
LLC Allianceneftegaz	100.00%	Full Consolidation
LLC Nord Imperial	100.00%	Full Consolidation
LLC Rus Imperial Group	100.00%	Full Consolidation
LLC Imperial Frac Services	50.00%	Full Consolidation
Beas Rovuma Energy Mozambique Ltd	60.00%	Full Consolidation
ONGC Videsh Rovuma Ltd.	100.00%	Full Consolidation
ONGC Videsh Atlantic Inc.	100.00%	Full Consolidation
ONGC Videsh Singapore Pte. Ltd.	100.00%	Full Consolidation
ONGC Videsh Vankorneft Pte. Ltd	100.00%	Full Consolidation
Indus East Mediterranean Exploration Ltd.	100.00%	Full Consolidation
HPCL Biofuels Ltd.	100.00%	Full Consolidation
Prize Petroleum Company Ltd.	100.00%	Full Consolidation
HPCL Middle East FZCO	100.00%	Full Consolidation
HPCL Rajasthan Refinery Ltd.	74.00%	Full Consolidation
Petronet MHB Ltd (PMHBL)	75.55%	Full Consolidation
Mangalore SEZ Ltd (MSEZ)	26.82%	Equity Method
ONGC Petro additions Ltd. (OPaL)	49.36%	Equity Method
Indradhanush Gas Grid Ltd (IGGL)	20.00%	Equity Method
ONGC Tripura Power Company Ltd. (OTPC)	50.00%	Equity Method
ONGC Teri Biotech Ltd. (OTBL)	49.98%	Equity Method
Dahej SEZ Limited (DSEZ)	50.00%	Equity Method
Shell MRPL Aviation Fuels & Services Limited (SMASL)	50.00%	Equity Method

ONGC Mittal Energy Limited	49.98%	Equity Method
Mansarovar Energy colombia Limited	50.00%	Equity Method
Himalya Energy Syria BV	50.00%	Equity Method
North East Transmission Company Ltd.	13.00%	Equity Method
MSEZ Power Ltd	26.86%	Equity Method
Adani Petronet Dahej Port Pvt Ltd	3.25%	Equity Method
India LNG Transport Co Pvt. Ltd	3.25%	Equity Method
Mangalore STP Limited	18.80%	Equity Method
SUDD Petroleum Operating Company	25.00%	Equity Method
Hindustan Colas Pvt. Ltd.	50.00%	Equity Method
HPCL-Mittal Energy Ltd.	48.99%	Equity Method
South Asia LPG Co. Pvt. Ltd.	50.00%	Equity Method
Bhagyanagar Gas Ltd.	24.99%	Equity Method
Petronet India Ltd.	16.00%	Equity Method
Godavari Gas Pvt Ltd	26.00%	Equity Method
Aavantika Gas Ltd.	49.98%	Equity Method
HPCL Shaaporji Energy Pvt. Ltd.	50.00%	Equity Method
Mumbai Aviation Fuel Farm Facilities Pvt. Ltd	25.00%	Equity Method
Ratnagiri Refinery & Petrochemical Ltd.	25.00%	Equity Method
Petronet LNG Limited (PLL)	12.50%	Equity Method
HPOIL Gas Pvt Ltd	50.00%	Equity Method
IHB Pvt Ltd	25.00%	Equity Method
Pawan Hans Ltd. (PHL)	49.00%	Equity Method
Petro Carabobo S.A.	11.00%	Equity Method
Carabobo Ingeniería y Construcciones, S.A.	37.93%	Equity Method
Petrolera Indovenezolana S.A.	40.00%	Equity Method
South-East Asia Gas Pipeline Company Limited	8.347%	Equity Method
Tamba B.V.	27.00%	Equity Method
JSC Vankorneft	26.00%	Equity Method
Mozambique LNG1 Co. Pte. Ltd	20.00%	Equity Method
Falcon Oil & Gas BV	40.00%	Equity Method
GSPL India Gasnet Ltd.	11.00%	Equity Method
Moz LNG Holding Company Ltd	16.00%	Equity Method
Rohini Heliport Limited	49.00%	Equity Method
GSPL India Transco Ltd.	11.00%	Equity Method

Source: ONGC (as on Mar 31, 2020)

Source: ONGC Annual Report

Note: ICRA has taken a consolidated view of the parent (ONGC), its subsidiaries and associates while assigning the ratings.

## **Corrigendum**

Document dated June 25, 2021 has been corrected with revisions as detailed below:

In addition, in analytical approach table on page 4 - 'ICRA Policy on Withdrawal of Credit Rating' methodology has been included.

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