May 31, 2019

ONGC Videsh Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Bond Programme	370.00	370.00	[ICRA]AAA (Stable) reaffirmed
Fund Based Limits	50.00	125.00	[ICRA]AAA (Stable) reaffirmed
Non-Fund Based Limits	1544.55	1557.60	[ICRA]A1+ reaffirmed
Short Term Limits-Unallocated	405.45	317.40	[ICRA]A1+ reaffirmed
Total	**2370.00**	**2370.00**	

Instrument details are provided in Annexure-1

Rationale

In reaffirming the ratings, ICRA has taken a consolidated view of ONGC Videsh along with 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. With the issue of acquiring energy security assuming importance for India as well as ONGC, ONGC Videsh has participation either directly or through wholly-owned subsidiaries/joint venture companies in 41 projects across 20 countries, of which 15 are producing properties. These countries include Vietnam, Russia, Sudan, South Sudan, Iran, Iraq, Libya, Myanmar, Syria, Brazil, Colombia, Kazakhstan, Azerbaijan, Mozambique, Bangladesh, New Zealand, Venezuela, Namibia, the UAE and Israel. Out of 41 projects, ONGC Videsh is the operator in 11 projects and the joint operator of six. A substantial part of the operations of ONGC Videsh have so far been funded by either equity or loans advanced by ONGC. ONGC converted about Rs 14,000 crore of its unsecured loans to ONGC Videsh into equity during FY2013 to FY2017 collectively to keep the latter's gearing at a relatively healthy level. Accordingly, ICRA believes that ONGC to continue to support its subsidiary through equity or loans in the future as well. ICRA, however, notes that ONGC Videsh is faced with increasing challenges to add reserves at competitive costs and grow its production, 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. ICRA notes that disruptions at three producing projects (Al Furat Project in Syria as well as in Block 5A and GPOC Projects in South Sudan) had dampened production. While production from GPOC recommenced from December 2018 and that at Block 5A is expected to recommence in the near term, there is no visibility for the start of production from the Al Furat Project. Additionally, volatility in international crude oil prices have impacted the revenues and cash accruals of ONGC Videsh given that it derives more than 75% of its revenues from operations from the sale of crude oil. ONGC Videsh 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 ONGC Videsh would entail incurrence of new project implementation risks and additional debt. ICRA notes that in FY2019, ONGC paid dividends totaling Rs 6.25/share and bought back 25.29 crore equity share at a price of Rs 159/share with the combined cash outgo being about Rs 15,500 crore. Additionally, in January 2018, ONGC has completed the acquisition of GoI's 51.11% stake in Hindustan Petroleum Corporation Limited (HPCL). The total consideration for the share purchase was Rs. 36,915 crore (i.e. Rs. 473.97 per share). The acquisition was funded by a mix of internal resources and short-term debt. Though the credit profile of ONGC Group at a consolidated level remains robust, its financial profile is weakened somewhat by debt taken to fund the HPCL acquisition as well as decline in its cash reserves. Additionally, any further large debt funded acquisitions, which impacts its capital structure and coverage metrics adversely, could put pressure on its credit profile especially in view of the pressure on the net cash accruals of ONGC Ltd in the domestic operations emanating from low domestic gas prices and high dividend payout.

Outlook: Stable

The outlook on the rating is Stable given the large sovereign ownership, strategic importance to the GoI and healthy international prices of crude oil. The outlook may be revised to Negative in case of any large debt funded acquisition that would weaken the company's capital structure or any substantial decline in crude oil prices impacting profitability and cash accruals.

Key rating drivers

Credit strengths

Strategic importance of ONGC Videsh to ONGC: ONGC Videsh was set up in 1965 as a wholly-owned overseas E&P arm of ONGC. The overseas E&P strategy of ONGC is executed through ONGC Videsh to bridge the widening energy-supply gap from domestic production. ONGC has amply demonstrated its commitment to ONGC Videsh through its funding assistance, additional equity infusion and extension of managerial support. ONGC collectively converted about Rs 14,000 crore of its unsecured loans to ONGC Videsh into equity during FY2013 to FY2017 to keep the latter's gearing at a relatively healthy level.

Improvement in overseas oil and gas production and reserves addition by ONGC Videsh in recent years: ONGC Videsh has been acquiring producing acerages abroad. In CY2016, ONGC Videsh acquired 26% stake (in two tranches of 15% and 11%) in JSC Vankorneft, which is the owner of the Vankor field, the second largest field of Russia by production. In FY2018, ONGC Videsh announced the acquisition of stake in the Lower Zakkum block. The Lower Zakum Field is an oil field 84 km north west of the Abu Dhabi Islands and is currently producing oil at an average level of 0.4 million bopd.

Balanced geographical mix of ONGC Videsh with respect to participation in 41 E&P projects in 20 countries: Over the years, ONGC Videsh has been acquiring participating interests in overseas oil and gas assets and has participation either directly or through wholly-owned subsidiaries/joint venture companies in 41 projects in 20 countries. However the top three investments (Mozambique, Russia and Brazil) accounted for the bulk of its total investments.

Credit challenges

Geological, technological and execution risks that are 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 Videsh is exposed to.

Commodity price risk associated with crude oil: As most of the revenues are derived from the sale of crude oil, ONGC Videsh remains exposed to the commodity price risk associated with crude oil. The significant decline in crude oil prices since July 2014 has adversely impacted the revenues and cash accrual of the company; however there has been a partial recovery in prices over the past year leading to improvement in cash accruals.

Significant presence in countries with a history of unstable regimes, change in fiscal terms and resource nationalisation exposes the company to geopolitical risk, although the risk is partially mitigated by GoI support and participation by way of JV with oil companies including foreign majors: ONGC Videsh's investments also suffer from geo-political risks as some of the invested countries have exhibited a history of unstable regimes, resource nationalisation, changes in fiscal laws, etc. As compared to this, highly rated E&P companies/integrated oil companies have a relatively more diversified presence in stable and unstable regions. As a risk mitigating measure, in almost all the properties it operates, ONGC Videsh has teamed up with other multinational/national oil companies, such as British Petroleum and Exxon Mobil besides which, the GoI also provides diplomatic support.

Event risks associated with the acquisition-driven growth strategy of the company, although the risk is partially mitigated by a three-tier approval mechanism for such deals: Over the long term, the company's mission is to produce 20 MMTPA by 2020 and 60 MMTPA by 2030 through organic as well as inorganic initiatives. This strategy could expose ONGC Videsh to significant event, geological, execution and geo-political risks in the host countries. ICRA, however, draws comfort from the safeguards built in the three-tier approval process (vetting by ONGC Videsh's board, ECS and CCEA) for overseas acquisitions. ONGC Videsh's status as a GoI company helps it obtain feedback from the Government's diplomatic network. The due diligence exercise of ONGC Videsh on target assets is also detailed, involving an in-house team, external reservoir consultants, investment banks and legal experts.

Moderate financial risk profile on standalone basis; risk largely mitigated, as ONGC guarantees almost all debt: The operating income increased to Rs 13,044.73 crore in FY2018 from Rs 11,929.0 crore in FY2017 owing to increase in production and higher crude oil realisations. The operating profitability declined from 64.9% in FY2017 to 59.4% in FY2018 owing to higher provisions, written off of exploration costs in FY2018 vis-à-vis FY2017. Accordingly, the consolidated net profit increased from Rs. 753.8 crore in FY2017 to Rs 979.6 crore in FY2018. The gearing was stable at 0.97 times as on March 31, 2017 to 0.96 times as on March 31, 2018. However almost all the debt on the company is guaranteed by ONGC. The debt coverage indicators remained stable with NCA/TD at 11.0% in FY2017 and FY2018.

Liquidity Position:

Considering the strategic importance of ONGC Videsh and the increasing national priority of energy security, the company enjoys significant financial flexibility. Additionally, the company enjoys considerable support of its parent ONGC, which has significant financial flexibility, given its low gearing and large liquid investments. ONGC's liquidity position has remained comfortable, aided by its large cash generation and control over receivables.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Upstream Oil Companies
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ONGC. As on March 31, 2018, the company had 38 subsidiaries and 32 associates and JVs, that are enlisted in Annexure-2.

About the company

ONGC

ONGC has a strong credit profile backed by its large proved reserves; globally competitive cost structure; strong financial risk profile; significant sovereign ownership and strategic importance to the country. ONGC has access to an extensive E&P infrastructure such as drilling and workover rigs and onshore and offshore production facilities that are spread across many regions in India. This is a source of significant competitive advantage, as reflected by the company's last three year average finding and development cost of $ 17.57/BOE (based on proved reserves), which is low among global E&P companies. ONGC also compares favourably against global independent E&P companies on the reserve life index (of 9.2 years as on March 31, 2018 based on proved developed reserves); full cycle costs ($ 34.99/BOE in FY2018) and leverage parameters. These are strong protective factors in an industry that is characterised by depleting assets; significant technical challenges (in reserve replacement) and unpredictable prices. The reserve replacement ratio in India (based on proved developed reserves addition) of ONGC was 65% in FY2018 and the company accreted 32.41 MMT oil equivalent of proved developed reserves of hydrocarbons in the same period in India.

The financial risk profile of ONGC is also favourable even on a consolidated basis (including the debt of ONGC Videsh and MRPL), with the gearing of the group at around 0.49 time as on March 31, 2018. The company also enjoys significant financial flexibility on the strength of its large liquid investments on a consolidated basis estimated at Rs. 35400 crore as on March 31, 2018 including investments in IOCL, GAIL and OIL (market value was around Rs 25,125 crore as on March 31, 2018) and its superior standing among lenders and equity investors. These strengths are partially offset by the regulatory risks governing subsidy sharing and control on gas prices; risks inherent in the overseas expansion strategy and risks associated with large capex plans.

The recent debt contracted for HPCL acquisitions will somewhat weaken the key credit metrics of ONGC (consolidated), and any further large debt funded acquisitions which impacts its capital structure and coverage metrics adversely, could put pressure on the ratings especially in view of the pressure on the profitability and net cash accruals of ONGC Ltd in the domestic operations emanating from low domestic gas prices and high dividend payout. Moreover ONGC has large commitments towards capex and equity investments in PSUs/group ventures, which could warrant higher debt levels in the absence of adequate internal cash generation.

On a consolidated basis, the company reported a group net profit of Rs 22,105.9 crore on revenue from operations of Rs 3,62,246.2 crore in FY2018 as against a group net profit of Rs 20,497.9 crore on revenue from operations of Rs 1,42,148.9 crore in FY2017.

ONGC Videsh Limited

ONGC Videsh Limited (ONGC Videsh) is a wholly owned subsidiary of the Oil and Natural Gas Corporation Limited (ONGC). ONGC Videsh 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 acreages 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 41 projects across 20 countries of which 15 are producing properties.

The company reported a group net profit of Rs 981.4 crore on total income of Rs 13,044.7 crore (including share of profit from equity accounted entities) in FY2018 as against a group net profit of Rs 757.3 crore on total income of Rs 11929.0 crore in FY2017.

Key financial indicators (audited) - ONGC (Consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	1,25,784.6	3,22,705.5
PAT (Rs. crore)	21,478.4	26,068.0
OPBDIT/ OI (%)	37.5%	19.9%
RoCE (%)	14.0%	14.9%
Total Debt/ TNW (times)	0.3	0.5
Total Debt/ OPBDIT (times)	1.2	1.7
Interest coverage (times)	16.0	12.8

Source: ICRA research; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Key financial indicators (audited) - ONGC Videsh Limited (Consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	11,982.9	13,044.7
PAT (Rs. crore)	757.3	981.4
OPBDIT/ OI (%)	64.9%	59.5%
RoCE (%)	2.7%	3.4%
Total Debt/ TNW (times)	1.0	1.0
Total Debt/ OPBDIT (times)	5.9	5.9
Interest coverage (times)	6.9	3.5

Source: ICRA research; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2019	Date & Rating in FY2018 April 2018	July 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 June 2015
1	Long Term Bond Programme	Long Term	370.00	370.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Fund-Based Limits	Long Term	125.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Non-Fund Based Limits	Short Term	1557.60	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short Term	317.40	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website 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
INE064K08020	Long Term Bond Programme	06-Jan-10	8.54% payable annually	06-Jan-20	370.00	[ICRA]AAA(Stable)
	Long term Fund Based Limits	-	-	-	125.00	[ICRA]AAA(Stable)
	Non-Fund Based Limits	-	-		1557.60	[ICRA]A1+
	Short term- Unallocated				317.40	[ICRA]A1+

Source: ONGC Videsh Limited

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 Caspian E&P 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)	49.44%	Full Consolidation
Mangalore SEZ Ltd (MSEZ)	26.82%	Equity Method
ONGC Petro additions Ltd. (OPaL)	49.36%	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
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
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
GSPL India Transco Ltd.	11.00%	Equity Method

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