

## Oil and Gas Corporation Limited (ONGC)

March 06, 2018

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Remarks
Long term Bank Facilities	500	<b>CARE AAA; Stable</b> [Triple A; Outlook:Stable]	Reaffirmed
Long term/Short term Bank Facilities	9,500	<b>CARE AAA; Stable / CARE A1+</b> [Triple A; Outlook: Stable/ A One Plus]	Reaffirmed
<b>Total Facilities</b>	<b>10,000</b> <b>(Rupees Ten Thousand crore)</b>		
Short term facilities- Term Loan	25,000	<b>CARE A1+</b> [A One Plus]	Assigned

*\*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Oil and Natural Gas Corporation Limited (ONGC) continue to take into consideration the strategic importance of the company to and majority ownership by the Government of India (GoI), experienced and professional management along with long track record of operation in the Exploration & Production (E&P) industry and dominant position in the domestic industry. The ratings continue to derive strength from the strong financial risk profile, marked by sound profitability margins and comfortable gearing levels, robust infrastructure and proven technical capabilities and presence across the hydrocarbon value chain. Furthermore the rating takes into cognizance the acquisition of majority stake in Hindustan petroleum Corporation Limited (HPCL).

The ratings, however, remain exposed to regulatory risk and inherent risks in the E&P business.

The ability of the company to maintain its production levels and replace diminishing reserves, timely completion of envisaged projects, along with the future movement of global crude prices shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Majority ownership with GoI**

ONGC, a Maharatna PSU, was set up by the Government of India (GoI) to plan, promote, organize and implement programmes for the development of Petroleum resources and the production and sale of petroleum and petroleum products. The GoI held a 68.07% stake in the company as on March 31, 2017. It continues to be of strategic importance for GoI, as it is the largest oil and Gas Company of India and has a crucial role in implementation of policies of the GoI in India's oil & gas sector. ONGC's importance to GoI is further strengthened on account of large dividend and taxes paid by it.

##### **Experienced management**

ONGC is managed by experienced team of management. Mr Shashi Shanker, Petroleum Engineer from Indian School of Mines (ISM), Dhanbad and an MBA in Finance, is the Chairman and Managing Director of the company has diverse and rich experience of more than three decades in oil and gas industry. He is also the Director (In-charge) for ONGC Tripura Power Company (OTPC) and North East Transmission Company Ltd (NETC) besides being on the Board of ONGC Videsh limited. He is also the Director (In-charge) and Member of the High Powered Steering Committee for Government's flagship initiative 'Make-in-India'. Furthermore, the senior management of the company has vast experience in the oil and gas industry.

<sup>2</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### **Strong financial risk profile**

In FY17, the operating income remained intact at Rs 78,784 crore (PY: Rs 78, 759 crore). The PBILDT margin dipped marginally to 40.56% (PY: 42.23%) on account of increased production, transport & selling and distribution expenditure including royalties paid at pre-discounted prices however overall PAT margin have improved to 22.72% (PY: 20.49%). The company's financial risk profile remains strong marked by large net worth and zero debt levels.

### **Acquisition of HPCL**

As per the government disinvestment program, ONGC acquired 51.11% stake in Hindustan Petroleum Corporation Limited (HPCL) for Rs 36, 915 crore (Rs 473.93 per share at 11 percent premium of the 60-day volume weighted average price), ONGC Ltd borrowed Rs 24,881 crore as on January 31, 2018, however total outstanding loan as on February 22, 2018 is Rs 19,663 crore (FCNR/FCTL: Rs 8269 crore and Short term Loan: Rs 11, 394 crore).

### **Key Rating Weaknesses**

#### **Risk related to E&P business**

In addition to a highly capital intensive activity, E&P business has long gestation period. The exploration activity involves high uncertainty with respect to estimation of reserves as it is a function of the quality of the available data and the engineering and geological interpretation. In FY17, the company have achieved exploration success with 23 Oil & Gas blocks discoveries. Also, 8 on-shore discoveries were monetised in FY'17 itself.

**Analytical approach:** Standalone with notching based on linkages with the Government

### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for service companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

[CARE's methodology for Factoring Linkages in Ratings](#)

### **About the Company**

ONGC (CIN No L74899DL1993GOI054155) is a Maharatna PSU, with the GoI holdings of 67.72% stake in the company as on December 31, 2017. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. The company undertakes exploration and production activities in 17 other countries through its wholly-owned subsidiary ONGC Videsh Limited (OVL).

Also, it has integrated downstream activities in India with 71.62% equity stake as on March 31, 2017 in Mangalore Refinery and Petrochemicals Ltd (MRPL)'s 16.72 million tonnes per annum (MMTPA) refinery and planning to acquire 51.11 per cent stake in HPCL. Another joint venture 'ONGC Petro-additions Ltd' in which ONGC owns 26% equity capital [rated CARE AAA (SO)] is developing a mega Petrochemical project at Dahej which is at near completion stage.

During FY17 (Audited; refers to the period April 1 to March 31), ONGC earned PAT of Rs.17, 900 crore (PY: Rs.16, 140 crore) on operating income of Rs.78, 784 crore (PY: Rs. 78,759 crore). As per unaudited results for 9MFY18 (refers to the period April 1 to December 31), the company achieved operating income of Rs.61, 034 crore (PY: Rs.56, 194 crore) and PAT of Rs.14, 030 crore (PY: Rs.13, 560 crore).

<b>Brief Financials (Rs. crore)</b>	<b>FY16 (A)</b>	<b>FY17 (A)</b>
Total operating income (Including interest on deposits)	78,759	78,784
PBILDT	33,258	31,955
PAT	16,140	17,900
Overall gearing (times)	-	-
Interest coverage (times)	25.12	26.16

A: Audited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact**

Name: Mr Manek Narang

Tel: 011-45333233

Cell: + 91 9810596225

Email: [manek.narang@careratings.com](mailto:manek.narang@careratings.com)

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	500.00	CARE AAA; Stable
Non-fund-based-LT/ST	-	-	-	9500.00	CARE AAA; Stable / CARE A1+
Fund-based - ST-Term loan	-	-	-	25000.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	500.00	CARE AAA; Stable	1)CARE AAA; Stable (06-Dec-17)	1)CARE AAA (18-Oct-16)	1)CARE AAA (28-Oct-15)	1)CARE AAA (01-Oct-14)
2.	Non-fund-based-LT/ST	LT/ST	9500.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (06-Dec-17)	1)CARE AAA / CARE A1+ (18-Oct-16)	1)CARE AAA / CARE A1+ (28-Oct-15)	1)CARE AAA / CARE A1+ (01-Oct-14)

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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