ONGC Videsh Limited

December 21, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	5,000.00	CARE AAA; Stable	Assigned
Non-convertible debentures	5,000.00	CARE AAA; Stable	Assigned
Commercial paper	5,000.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities/instruments of ONGC Videsh Limited (OVL) draw primary comfort from its strong parentage of Oil and Natural Gas Corporation Limited (ONGC; rated 'CARE AAA; Stable/CARE A1+'), a 'Maharatna Company', OVL's strategic importance to ONGC, being its overseas arm for prospecting oil and gas outside India, and accounting for sizeable portion of ONGC's oil and gas production (on a consolidated basis). As such, OVL enjoys strong operational, managerial and financial linkages with the parent wherein entire outstanding debt on the books of OVL (excluding lease liabilities and loans from promoter) is backed by corporate guarantee from ONGC.

Further, the rating derives comfort from its long track record in overseas exploration and production (E&P) industry, robust infrastructure and proven technical capabilities. The ratings also factor OVL's strong market position backed by large and diversified portfolio of oil and gas projects, its experienced and professional management as well as comfortable financial risk profile.

The ratings are, however, constrained by inherent risk associated to E&P business, large capex requirements to replace reserves, susceptibility of profitability to volatile crude oil and natural gas prices and geopolitical risk for different geographical locations with varying regulatory frameworks. The ratings further factor in moderation in financial performance of OVL in FY23 (refers to the period April 01 to March 31) and H1FY24 in view of reduction in oil and gas production mainly due to geopolitical conditions in Russia, shutdown in Brazil, expiry of contract in Colombia, and heavy floods in South Sudan. Going forward, with expected resolution of issues at the major producing asset - Sakhalin 1 project in Russia, the financial performance is expected to improve in the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Deterioration in the credit profile of ONGC.
- Weakening of linkages of OVL with ONGC.

Analytical approach: Consolidated along-with factoring linkages with Parent, ONGC.

Consolidated financials of OVL have been considered owing to strong operational and strategic linkages with its subsidiaries/ joint ventures (JVs) along-with notching based on linkages with its parent, viz, ONGC. The list of all the entities getting consolidated has been placed in **Annexure-6**.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that OVL would continue to remain strategically important to ONGC and shall continue to receive operational, managerial and financial support from the parent leading to maintaining its credit risk profile.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key strengths

Strong parentage of ONGC with whom it has close linkages
Being a wholly-owned subsidiary of ONGC, OVL derives significant managerial, operational, and financial benefits from its Maharatna public sector undertaking (PSU) promoter.
There are operational linkages, with OVL operating in the same segment and contributing around 19% to total oil and gas production of ONGC during FY23 and 40% to total 2P reserves of ONGC as on March 31, 2023, on a consolidated basis. With large 2P reserves, OVL is of strategic importance to ONGC, as it is an upstream producer in the international market and has its presence in 32 projects across 15 countries. OVL, being second-largest oil and gas E&P company, after its parent ONGC, also holds strategic importance to the Government of India (GoI) for ensuring energy security.
ONGC has extended corporate guarantee for all the debt o/s on the books of OVL (excluding lease liabilities and loans from related party). Furthermore, both ONGC and OVL also share a common name which shall also persuade ONGC to provide need-based financial support to OVL. In the past, ONGC had converted unsecured loans of ₹14,000 crore extended to OVL into equity towards OVL's investment requirement towards acquisitions.
The chairman of ONGC is also the chairman of OVL. Furthermore, functional directors of ONGC are special invitees to the board of OVL. Being a 'Navratna' Schedule "A" Central Public Sector Enterprise (CPSE) of the GoI under the administrative control of the Ministry of Petroleum & Natural Gas, OVL enjoys greater financial autonomy and delegation of powers, allowing it to take independent decisions related to capital expenditure, investments, and human resources management.

Experienced management
OVL is managed by an experienced management team. Arun Kumar Singh-the Chairman and CEO of ONGC is also the Chairman of OVL. He has over 37 years of experience in oil and gas industry, in India and abroad. Mr. Rajarshi Gupta, Managing Director and CEO, has over 33 years of experience in the industry. Mr. Sanjeev Tokhi, Director (Exploration), is B.Tech. (Geophysicist) with around 33 years of vast experience including Acquisition, Processing and Interpretation (API) to Petroleum Basin Modelling and Petroleum Economics. Furthermore, the senior management of the company has vast experience in the oil and gas industry and functional directors of ONGC are special invitees to the board of OVL leading to strong management team.

Robust infrastructure and proven technical capabilities with large crude oil reserves
With 2P reserves of 485 million metric tonne oil equivalents (MMTOE) as on March 31, 2023, OVL is the second-largest oil and gas producer after ONGC. The company has 14 producing assets, 4 discovered/developing assets, 11 assets at exploration stage, and 3 assets in the pipeline as on March 31, 2023.
The oil and gas industry is a capital-intensive industry, which requires large funds and time to develop a sound infrastructure. With its long track record of operations, the company has been able to develop robust infrastructure providing it an advantage over newer players in the industry. The company has an extensive international presence and operates in multiple countries, giving it a diversified portfolio of assets. The company possesses significant technical expertise in exploration and production activities, enabling it to operate in challenging environment. It has established strategic partnerships with national and international oil companies, gaining access to resources, technology and market opportunities. Some of the leading majors are ExxonMobil, Equinor, BP, Rosneft, Total Energies, Shell, Repsol, Petrobras, Petróleos de Venezuela S.A. (PDVSA), CNPC, etc.
The company is of strategic importance to GoI for ensuring energy security as OVL's production of oil and gas (in MMTOE) contributed 16% to the national production of India. The company has developed significant onshore and offshore production facilities, pipelines, gas processing, drilling and work-over rigs, storage facilities, well stimulation units and other infrastructure located throughout the principal oil and gas producing regions.

Comfortable financial risk profile
OVL's financial risk profile is marked by overall gearing of 0.76x and 0.78x as on March 31, 2023 and September 30, 2023, respectively. Over the past five years, the overall gearing of the company has witnessed an improving trend on the back of no major acquisitions.
The debt protection metrics moderated marked by PBILDT interest coverage of 2.37x (FY22: 9.35x) and total debt/PBILDT of 8.77x during FY23 (FY22: 3.15x) on the back of moderation in the profitability during FY23. Going forward, with no acquisition approved as on date and expected improvement in profitability with re-contribution of Sakhalin project, the overall gearing and debt coverage indicators are expected to improve further.

Liquidity: Strong

The company's liquidity is supported by free cash and bank balance of ₹5,253 crore as on September 30, 2023 (₹5,668 crore as on March 31, 2023) and NIL utilisation of its sanctioned fund-based working capital limits. Principal debt repayment obligation of ₹4,457 crore in FY24 has already been refinanced by OVL. Furthermore, the company has large principal debt repayment obligations of ₹19,353 crore during FY25 wherein OVL has plans to refinance a large portion well in advance.

The company derives considerable financial flexibility due to its parentage of ONGC which facilitates easy access to loan markets for refinancing its debt as witnessed in past. Furthermore, almost entire outstanding debt (excluding lease liability and related party loan) is backed by corporate guarantee from ONGC.

Key weaknesses

Moderation in the revenue and profitability during FY23 and H1FY24

The company had participating interest (PI) of 20% in Sakhalin-1 (S-1) project (located in Russia) through Production Sharing Agreement wherein the company's share of production from S-1 project was 2.88 mmtoe during FY22 which reduced to 1.416 mmtoe during FY23. The same was reflected in reduction in the company's total oil and gas production which reduced from 12.32 mmtoe during FY22 to 10.18 mmtoe during FY23. On the back of Russia-Ukraine war, the operator of the S-1 project viz., Exxon Neftgaz Ltd (ENL), a US major Exxon Mobil subsidiary declared Force Majeure in April 2022 resulting in production curtailments and production was altogether stopped in September 2022. However, in October 2022, Russian Federation Government issued Resolution, transferring all rights & obligations of Sakhalin-1 Consortium to a newly formed entity; Sakhalin-1 LLC (S-1 LLC). The Government of Russian Federation, approved for ONGC Videsh to retain its existing PI in the project, subject to fulfilling obligations towards the transfer of accumulated abandonment funds to Sakhalin-1 LLC's account which is under process. Due to restrictions on Russian banks, the company is in discussion with Sakhalin-1 LLC for identifying likely alternatives for fulfilling the condition. The company expects this transaction to be completed by end of FY24, and accordingly, post allocation of its shares in S-1 LLC, the company is likely to be entitled to have its share in profit unlike its earlier share in the revenue. Hence, currently, the company is not accounting for any revenue/profit from S-1 LLC as the shares are yet to be allocated. Due to change in the model from PSA to dividend income, the revenue from operations will be impacted (as seen in FY23); however, net profitability should not be impacted once the company is entitled to receive dividend income. As on March 31, 2023, the project production levels were back to normal levels of approximately 200,000 barrel oil per day (bopd) and drilling activities have also resumed.

Risks related to E&P business and volatile crude oil prices

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 engineering and geological interpretation.

Furthermore, the company is also exposed to commodity price risk since OVL derives majority of its revenue from the sale of crude oil (around 90%) and natural gas (around 10); hence, any decrease in the price of the crude oil may hamper the profitability of the company. The prices of international crude oil is a function of many dynamic markets and fundamental factors, such as global demand-supply dynamics, geo-political stability in countries with oil reserves, Organization of the Petroleum Exporting Countries (OPEC) policies, foreign exchange rates, market sentiments, among others.

Exposed to geo-political and regulatory risk

OVL undertakes exploration and production activities mainly in Commonwealth of Independent States (CIS) and countries in Middle East and North Africa (MENA) region. OVL has 32 projects in 15 countries and operating in different geographical locations with varying regulatory frameworks and geopolitical risks poses challenges to its operations and project execution. Mid-life changes in fiscal regimes by host governments may impact the projected cash flows and future growth plans of the company. As an international JV partner, the company holds minority stake in some projects, limiting its control and decision-making authority. OVL's investments are prone to changes in policy regime, fiscal law changes, etc., since some of the countries have history of unstable regimes. Unstable government or unfavourable policies such as resource nationalisation adds to the geopolitical risks in the host countries. For instance, the company's production was impacted during FY23 and H1FY24 on the back of Russia-Ukraine war.

Also, the company is exposed to the regulatory risk as the government's policy and decisions with respect to natural gas pricing (APM Mechanism), subsidy sharing and dividend payments may have impact on OVL's profitability, cash flows and liquidity position.

Large capex requirements

OVL's major upcoming investment is Area-1 Mozambique project for developing two LNG trains of capacity 6.56 MMTPA each (total 13.12 MMTPA) where OVL has 16% PI. Following deterioration of security situation, the operator -Total Energies declared

Force Majeure in May 2021 leading to delays in the project. Currently, with improvement in security situation, full-fledge activities are expected to begin from Q4FY24 and the company expects to receive first gas from 2027 onwards. The total cost of the project is expected to be USD 16 billion which has been finalised with export credit agencies (ECAs)/ commercial banks. Accordingly, major capex towards said project shall be incurred from FY25 onwards. The resumption of operations of this project shall be key rating monitorable as Area-1 Mozambique accounted for 41% of the total 2P reserves of OVL as on April 01, 2023.
The average capex requirement of OVL on an annual basis is around ₹6,000 crore which is mainly spent towards various developmental projects. The same trend is expected to continue in the ensuing years except for FY24 wherein capex requirement is around ₹3,300 crore due to Force majeure in Area-1 Mozambique project.
The large capex requirements and long gestation periods of E&P projects have a bearing on the company's return indicators although it has a sound financial position to fund its capex requirements.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, gas & consumable fuels	Oil	Oil exploration & production

OVL is a Navratna Schedule "A" Central Public Sector Enterprise (CPSE) of the GoI under the administrative control of the Ministry of Petroleum & Natural Gas. It is the wholly-owned subsidiary and overseas arm of ONGC, the flagship national oil company (NOC) of India. OVL was incorporated as Hydrocarbons India Private Limited in 1965 and its name was rechristened to OVL in the year 1989. The primary business of OVL is to prospect for oil and gas acreages outside India, including exploration, development and production of oil and gas. OVL has stake in 32 projects spread over 15 countries, namely, Azerbaijan (two projects), Bangladesh (two projects), Myanmar (six projects), Russia (three projects), Vietnam (two projects), Iran (one project), Iraq (one project), Syria (two projects), UAE (one project), Libya (one project), Mozambique (one project), South Sudan (two projects), Brazil (two projects), Colombia (four projects) and Venezuela (two projects).
The company's oil and gas production stood at 10.18 MMTOE in FY23, while its total 2P reserves were estimated at around 485 MMTOE as on March 31, 2023

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (Prov.)
Total operating income	18,334	11,316	5,894
PBILDT	11,375	4,401	2,726
PAT	1,494	1,660	438
Overall gearing (times)	0.78	0.76	0.78
PBILDT interest coverage (times)	9.35	2.37	2.31

A: Audited, Prov.: Provisional, Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3.

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/ facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone)*	-	NA	NA	7-365 days	5000.00	CARE A1+
Debentures-Non-convertible debentures	-	Not yet placed	NA	NA	5000.00	CARE AAA; Stable
Fund-based - LT-Term loan	-	Proposed	-	NA	5000.00	CARE AAA; Stable

*There is no CP outstanding as on December 07, 2023

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial paper-Commercial paper (Standalone)	ST	5000.00	CARE A1+				
2	Debentures-Non-convertible debentures	LT	5000.00	CARE AAA; Stable				
3	Fund-based - LT-Term loan	LT	5000.00	CARE AAA; Stable				

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-6: List of subsidiaries/JVs of OVL:

Name	Holding as on March 31, 2023
ONGC Nile Ganga B.V.	100%
ONGC Narmada Limited	100%
ONGC Amazon Alaknanda Limited	100%
Imperial Energy Limited	100%
Carabobo One AB	100%
ONGC (BTC) Limited	100%
Beas Rovuma Energy Mozambique Limited	60%
ONGC Videsh Rovuma Limited	100%
ONGC Videsh Atlantic Inc.	100%
ONGC Videsh Singapore Pte Ltd	100%
Indus East Mediterranean Energy Limited	100%

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: ranjan.sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Richa Bagaria Associate Director **CARE Ratings Limited** Phone: +91-33-4018 1653 E-mail: richa.jain@careedge.in

About us:

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Disclaimer:

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