ONGC Videsh Limited

December 03, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities/instruments of ONGC Videsh Limited (OVL) continues to 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 where entire outstanding debt on OVL's books (excluding lease liabilities and loans from promoter) is backed by corporate guarantee from ONGC. Further, ratings factor in OVL's satisfactory financial performance in FY24 (refers to April 01 to March 31) and H1FY25, considering higher oil and gas production and better profitability from JV/Associates.

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

However, ratings are constrained by inherent risk associated to E&P business, large capex requirements to replace reserves, profitability susceptible to volatile crude oil and natural gas prices and geopolitical risk for different geographical locations with varying regulatory frameworks. Further, OVL is yet to resolve transfer of holding issues at the major producing asset - Sakhalin 1 project in Russia. The company has not recorded contribution from this asset since October 2022 and resolution of the transfer of abandonment funds and subsequent receipt of share of income/profit is likely to improve the financial performance 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 and factoring linkages with parent, ONGC.

OVL's consolidated financials have been considered owing to strong operational and strategic linkages with its subsidiaries/ JVs and notching based on linkages with its parent, ONGC. List of entities getting consolidated has been placed in **Annexure -6**.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes 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.

Detailed description of key rating drivers

Key strengths

Strong parentage of ONGC with whom it has close linkages

OVL being wholly owned subsidiary of ONGC, 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 ~20% to total oil and gas production of ONGC in FY24 and 40% to total 2P reserves of ONGC as on March 31, 2024, 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

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

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 OVL's books (excluding lease liabilities and loans from related party). Further, 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 in equity towards OVL's investment requirement towards acquisitions.

ONGC's chairman is also OVL's chairman. Further, ONGC's functional directors are Special invitees to OVL's board. Being a 'Navratna' Schedule "A" Central Public Sector Enterprise (CPSE) of the Government of India 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 38 years of experience in oil and gas industry, in India and abroad. Rajarshi Gupta, Managing Director and CEO has over 34 years of experience in the industry. Furthermore, the company's senior management has vast experience in the oil and gas industry and functional directors of ONGC are Special invitees to OVL's board leading to strong management team.

Robust infrastructure and proven technical capabilities with large crude oil reserves

With 2P reserves of 476 million metric tonne of oil equivalents (MMTOE) as on March 31, 2024, OVL is the second largest oil and gas producer after its parent, ONGC. OVL has stake in 32 projects across 15 countries including Azerbaijan (2 projects) Bangladesh (2 projects), Myanmar (6 projects), Russia (3 projects), Vietnam (2 projects), UAE (1 project), Mozambique (1 project), South Sudan (2 projects), Brazil (2 projects), Colombia (4 projects) and Venezuela (2 projects) and five projects across Iran, Iraq, Libya which are dormant.

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 possess 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 leading majors are ExxonMobil, Equinor, BP, Rosneft, Total Energies, Shell, Repsol, Petrobras, Petróleos de Venezuela S.A. (PDVSA), and CNPC, among others.

The company is of strategic importance to the 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 throughout the principal oil and gas producing regions.

Satisfactory financial performance and comfortable financial risk profile

The company's total operating income (TOI) (consolidated) increased from ₹11,305 crore in FY23 to ₹12,080 crore in FY24 backed by increased production levels across majority joint ventures and associates. Improved profitability was supported by share of profit of equity accounted investees where it increased to ₹2446.97 crore in FY24 from a loss of ₹539.46 crore in FY23. The cash flow from operations also stood positive in FY24 mainly led by improved operating performance.

In H1FY25, the company reported TOI of ₹4,834 crore (against ₹5,036 crore in H1FY24), and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 74.74% (62.19% in H1FY24).

OVL's financial risk profile is marked by comfortable overall gearing ratio of 0.77x and 0.73x as on March 31, 2024, and September 30, 2024, respectively. Debt protection metrics improved slightly marked by PBILDT interest coverage of 2.57x (FY23: 2.37x) and total debt/PBILDT of 6.00x as on March 31, 2024 (March 31, 2023: 8.79x), considering improvement in profitability in FY24. With no major acquisition approved as on date, the overall financial risk profile is expected to remain comfortable.

Liquidity: Strong

The company's liquidity is supported by free cash and bank balance of ₹4,245 crore as on March 31, 2024 (₹5,668 crore as on March 31, 2023) and ₹1,964 crore as on September 30, 2024, and nil utilisation of its sanctioned fund-based working capital limits. Out of principal debt repayment obligation of ₹11,339 crore for FY25, ₹6,889 crore (USD 830 Million due in July 2024) has been refinanced to the extent of ₹6,640 crore (USD 800 Million) by OVL while balance is paid through internal accruals.

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. Further, almost entire outstanding debt (excluding lease liability and related party loan) is backed by corporate guarantee from ONGC.

Key weaknesses

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 revenue from the sale of crude oil (~83% in FY24) and natural gas (~17% in FY24); hence decrease in the price of crude oil may hamper the the company's profitability. 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, and 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. 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 company's projected cash flows and future growth plans. 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 among others 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, OVL had acquired 20% PI in Sakhalin-1 (S-1) project, a major oil and gas field in far-east offshore Russia through Production Sharing Agreement (PSA) in July 2001. However, following the Russia - Ukraine conflict, operator declared Force Majeure on April 21, 2022. In October 2022, Government of Russian Federation directed transferring all rights and obligations of Sakhalin-1 Consortium to a newly formed entity; Sakhalin-1 LLC. OVL gave consent to retain its stake in the project in November 2022, which was approved by the Government of Russian Federation, subject to fulfilling obligations towards the transfer of accumulated abandonment funds to Sakhalin-1 LLC's current account. Due to restrictions on Russian banks, the company is in discussion with Sakhalin-1 LLC for identifying likely alternatives for fulfilling the condition. As on 31st March 2024, an amount of US$ 630.64 million (₹5257.03 crore) is held by the company on behalf of Sakhalin-1 LLC, in a special purpose bank account opened with permission from the Reserve Bank of India. This has limited dividend income in FY24 or H1FY25.

Also, the company is exposed to regulatory risk as the government's policy and decisions, considering 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 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% Participating interest (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 H2FY25. Total cost of the project is expected to be US$ 16 billion which has been finalised with Export Credit Agencies (ECAs)/ Commercial Banks. Resumption of operations of this project shall be key rating monitorable as Area-1 Mozambique accounted for 42% of total 2P reserves of OVL as on April 01, 2024.

Furthermore, the company has increased its stake in Azerbaijan's offshore Azeri-Chirag-Gunashli (ACG) field (Participation Interest increasing from 2.31% to 2.93%) and in Baku-Tbilisi-Ceyhan (BTC) pipeline company through its subsidiary, ONGC BTC Limited (Participation Interest increasing from 2.36% to 3.10%).

OVL's average capex requirement on annual basis is ~₹5,100 crore which is mainly spent towards developmental projects. This trend is expected to continue in the ensuing years.

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

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation
Factoring Linkages Parent Sub JV Group

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Energy	Oil, gas and consumable fuels	Oil	Oil exploration and production

OVL is a Navratna Schedule "A" Central Public Sector Enterprise (CPSE) of the Government of India 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 of India. OVL was incorporated as Hydrocarbons India Private Limited in 1965 and its name was rechristened to OVL in 1989. OVL's primary business is to prospect for oil and gas acreages outside India, including exploration, development and production of oil and gas.
The company's oil and gas production stood at 10.52 MMTOE in FY24 while its total 2P reserves were estimated at ~476 MMTOE as on March 31, 2024.

Brief Financials (₹ crore)-Consolidated	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	11,305	12,080	5,294
PBILDT	4,390	6,448	3,106
PAT	1,660	639	787
Overall gearing (times)	0.76	0.77	0.73
PBILDT Interest coverage (times)	2.37	2.57	2.13

A: Audited, UA: Unaudited, Financials are reclassified per CARE Ratings' standards.
Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Annexure-2

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/ facilities

Name of the Instrument	ISIN	Date of Issuance	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	NA	5000.00	CARE A1+
Debentures-Non-convertible debentures	-	Not yet placed	NA	NA	5000.00	CARE AAA; Stable
Fund-based - LT-Term Loan	-	-	-	30-01-2027	5000.00	CARE AAA; Stable

*There is no CP outstanding as on November 21, 2024

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 2024-2025	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
1	Commercial Paper-Commercial Paper (Standalone)	ST	5000.00	CARE A1+	-	1)CARE A1+ (21-Dec-23)	-	-
2	Debentures-Non-convertible debentures	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Dec-23)	-	-
3	Fund-based - LT-Term Loan	LT	5000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (21-Dec-23)	-	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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

Annexure 6: List of Subsidiaries of OVL: As on March 31, 2024

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	ONGC Nile Ganga B.V.	Full	Subsidiary
2	ONGC Narmada Limited	Full	Subsidiary
3	ONGC Amazon Alaknanda Limited	Full	Subsidiary
4	Imperial Energy Limited	Full	Subsidiary
5	Carabobo One AB	Full	Subsidiary
6	ONGC (BTC) Limited	Full	Subsidiary
7	Beas Rovuma Energy Mozambique Limited	Full	Subsidiary
8	ONGC Videsh Rovuma Limited	Full	Subsidiary
9	ONGC Videsh Atlantic Inc.	Full	Subsidiary
10	ONGC Videsh Singapore Pte Ltd	Full	Subsidiary
11	OVL Overseas IFSC Limited	Full	Subsidiary
12	Mansarovar Energy Colombia Ltd.	Proportionate	Joint Venture
13	Himalaya Energy (Syria) B.V.	Proportionate	Joint Venture
14	ONGC Mittal Energy Limited	Proportionate	Joint Venture
15	Petrolera Indovenezolana S.A.	Proportionate	Associate
16	South-East Asia Gas Pipeline Company Limited	Proportionate	Associate
17	Tamba B.V.	Proportionate	Associate
18	Falcon Oil & Gas BV	Proportionate	Associate
19	Petro Carabobo S.A.	Proportionate	Associate
20	Carabobo Ingeniería y Construcciones, S.A.	Proportionate	Associate
21	JSC Vankorneft	Proportionate	Associate
22	Moz LNG1 Holding Company Ltd.	Proportionate	Associate
23	Bharat Energy Office LLC	Proportionate	Associate

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

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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in