Oil and Natural Gas Corporation Limited

July 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	4,000.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long term / short term bank facilities	15,500.00 (Reduced from 17,000.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Short term bank facilities	5,500.00 (Enhanced from 4,000.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**25,000.00 (₹ Twenty-five thousand crore only)**		
Non-convertible debentures	7,500.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total long-term instruments	**7,500.00 (₹ Seven thousand five hundred crore only)**		
Commercial paper	10,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**10,000.00 (₹ Ten thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities/instruments of Oil and Natural Gas Corporation Limited (ONGC) continue to consider its majority ownership by the Government of India (GoI) and the company's strategic importance to the GoI, as the company plays a key role in the energy security for the country. The ratings further derive comfort from ONGC's dominant position and a long track record in the domestic exploration and production (E&P) industry and its experienced and professional management. Furthermore, the ratings also derive strength from its sound and resilient profitability margins backed by robust E&P infrastructure and proven technical capabilities with presence across the hydrocarbon value chain, presence in downstream activities through subsidiaries and the company's comfortable financial risk profile marked by low gearing, healthy debt metrics and a strong liquidity position.
The ratings, however, remain susceptible to the inherent risk related to E&P business, regulatory risks, geopolitical risk for overseas operations, and large capex requirements to replace reserves.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade: NA

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in shareholding of GoI below 51%.
- Higher than expected debt-funded capital expenditure or acquisition thereby resulting in deterioration in consolidated overall gearing beyond 1.0x on a sustained basis.
- Sustained decrease in reserve replacement ratio below 1.0x.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and strategic importance to GOI: ONGC, a Maharatna PSU, was set up by the GoI in 1956 to plan, promote and implement programmes for the development of petroleum resources and the production and sale of petroleum and petroleum products. As on June 30, 2022, the GoI held a 58.89% stake in the company. ONGC continues to have a high strategic importance for the GoI, as a key player in ensuring energy security for the country, given it is the largest oil & gas company of India. Besides, ONGC plays a crucial role in implementation of GoI policies in the oil & gas sector, with its presence across the hydrocarbon value chain. The company is the country's largest oil and gas producer with a share of nearly 77% in India's total production of crude oil and natural gas (including share of JVs). It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO), naphtha, ethane, propane, C2/C3 etc. ONGC's importance to the GoI is further supported on account of significant taxes and dividend paid by it to the exchequer.

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

Experienced management: ONGC is managed by experienced team of management. Dr. Alka Mittal is the Director (HR) for ONGC as well as is handling additional charge as the Chairperson and Managing Director (CMD) of the company. She joined as a Graduate trainee in 1985 after completing her MBA (HR) and Doctorate in Commerce and Business studies. She has diverse and rich experience of over 37 years in diverse activities across the head HR-ER functions across regions including Vadodara, Mumbai, Delhi and Jorhat value chain. She took additional charge of the post of CMD on January 04, 2022. Mr. Rajesh Kumar Srivastava, Director (Exploration and offshore) has over 36 years of experience, Mr Srivastava is an expert in up-stream hydrocarbon exploration from well site operations, development geology, seismic data interpretation to monitoring and planning of exploration. Mr Om Prakash Singh, Director (T&FS), is a mechanical engineer with more than 34 years of experience, Mr Singh has built a deep industry understanding and proven management experience across the technical and commercial roles he undertook during his career. Mr Anurag Sharma, Director (Onshore), has a career spanning over 36 years in the company in various positions including those of asset manager of Cauvery Asset and has made major contributions in business development and project management for ONGC Videsh. Furthermore, the senior management of the company has vast experience in the oil and gas industry.

Dominant market position backed by large crude oil reserves: ONGC, as India's largest oil and gas E&P company, has had a dominant position historically and continues to maintain its position even after the introduction of New Exploration and Licensing Policy (NELP) and thereafter Hydrocarbon Exploration and Licensing Policy (HELP), which increased private participation in the oil and gas sector of the country. The company has the largest proven reserves in India discovered over the past six decades since its inception. The large reserves base provides the company an abundant and stable long-term source of hydrocarbons for crude oil and natural gas production. It has declared total 4 discoveries (2 in onland, 2 in offshore) during FY22 (refers to the period April 1 to March 31) in its operated acreages. As a result, in FY22, the company has added 40.82 Million Metric Tonne Oil Equivalent (MMTOE) reserves (2P) on standalone basis and 73.18 MMTOE on group basis. Thus, the company had Reserve Replacement Ratio (RRR) of 1.01 during FY22 (PY: 1.2) which has remained at/above unity for the 16th consecutive year thereby reflecting ONGC's strong exploratory capability and healthy long-term revenue visibility.

Robust infrastructure and proven technical capabilities: Oil & gas industry is a capital-intensive industry, which requires significant time and funds to develop a sound infrastructure. With its long track record of operations, ONGC has been able to develop a robust infrastructure providing it an advantage over newer players in the industry who entered the industry through NELP and HELP. The company has developed significant onshore and offshore production facilities, subsea and land pipelines, gas processing, drilling and work-over rigs, storage facilities and other infrastructure located throughout the principal oil and gas-producing regions of India. During FY22, ONGC drilled 78 exploratory wells as compared to 100 exploratory wells drilled in FY21.

Presence across the hydrocarbon value chain: With its four direct subsidiaries, 6 joint ventures (JVs) and 3 associates, ONGC is present across the hydrocarbon value chain with operations in refining, petrochemicals, and LNG, in addition to its E&P activities. The company has forward integrated into downstream refining and marketing operations in India through successive acquisitions of Mangalore Refinery and Petrochemicals Ltd (MRPL) and Hindustan Petroleum Corporation Ltd (HPCL). Around 85% of revenue of ONGC (consolidated) is from refining and marketing segment in FY22 (PY: 87%).

Sizable scale of operations and resilient profitability margins: The consolidated TOI of the company has improved by ~47.52% to Rs. 5,39,199 crore in FY22. Additionally, the company earned PBILDT margins of 16.19% in FY22 as against 15.90% in FY21, thus, witnessing an increase of 29 bps primarily on account of improved realizations due to higher crude oil and gas prices. Consequently, the company earned a PAT margin of 9.14% in FY22 as against 5.78% the previous year. Going forward, the company is likely to sustain its robust operating profile. However, the impact of government regulations such as recent imposition of windfall taxes on the company's profitability profile shall remain key monitorable.

Liquidity: Strong

The liquidity of ONGC remained strong with free cash and cash equivalents and bank balance of Rs. 6840.94 crore as on March 31, 2022 (PY: Rs. 7192.26 crore). Furthermore, ONGC had unutilized fund-based facilities of Rs.8,000 crore as on March 31, 2022. The company has envisaged to earn healthy cash accruals against scheduled term debt repayments in FY23. ONGC derives financial flexibility from its low gearing ratio and parentage of GoI with strategic importance and its dominant market position which provides it easy access to funds at attractive rates, which aids the funding of its large capex partially through debt.

Key rating weaknesses

Risk related to E&P business and crude oil: 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. Although ONGC as a group is an integrated player in the oil and gas industry, any decrease in the price of the crude oil may hamper the profitability of the company. Prices of crude oil depend on various factors including policies by major producers of crude oil, global as well as regional demand variations, geopolitical situation and market sentiment. After a range-bound couple of years of crude price movement, the crude price (Brent) has risen sharply since early November 2021 and has breached ~$100/bbl. The rise was on account of increase in demand for petroleum products exacerbated by supply constraints due to the ongoing Russia-Ukraine conflict.

Geo-political risk associated with international venture: ONGC Videsh Limited (OVL) undertakes exploration and production activities mainly in Commonwealth of Independent States (CIS) and countries in Middle East and North Africa (MENA) region. ONGC's investments in OVL 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 nationalization adds to the geopolitical risks in the host countries.

Large capex requirements: During the last couple of years ended FY22, the average capex of ONGC (standalone) per annum has been in the range of Rs 30,000 crore. The same trend is expected to continue in the ensuing years. The capex in FY23 is expected to be around Rs. 29,950 crore to be funded partially from debt and internal accruals. 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

Regulatory risk: The GoI's policy and decisions with respect to natural gas pricing (APM mechanism), subsidy sharing, windfall taxes, duties, cess, and dividend payments have a significant bearing on ONGC's profitability, cash flows and liquidity position. During elevated prices of crude, the GoI may choose to pass on the fiscal burden via sharing of profits of PSUs through higher fiscal levies, higher dividend declaration or providing discounts to oil marketing companies (OMCs) which has potential to impact the income and accruals of ONGC.

Analytical approach: Consolidated

Consolidated financials of ONGC with notching based on parentage of GoI and strategic importance of the company for GoI.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

ONGC is a Maharatna PSU, with the GoI holding 58.89% stake in the company as on June 30, 2022. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. ONGC's domestic production including its share of production in fields operated through joint ventures represented nearly 68% of India's total production of crude oil and natural gas. It is also a significant producer of value-added products such as LPG, SKO, naphtha and C2/C3. The company undertakes E&P activities in countries such as Azerbaijan, Myanmar, Vietnam, Iran, Iraq, Syria, UAE, Libya, Mozambique, South Sudan etc. through its wholly-owned subsidiary OVL. Also, it has integrated downstream activities in India with two subsidiaries viz. Mangalore Refinery & Petrochemicals Limited (MRPL) and Hindustan Petroleum Corporation Limited (HPCL) with combined capacity of over 31 million metric tonnes per annum (MMTPA) refinery and extensive network of over 20,000 retail outlets. The company is currently the top lube marketer and second largest marketer in LPG sales in India. The presence in refining and marketing segment helps ONGC limit volatility of earnings. Besides, transportation of petroleum products is being catered through Petronet MHB Ltd (PMHBL) which owns and operates a multi-product petroleum pipeline to transport MRPL's refinery products to various parts of Karnataka.

Brief Financials - Consolidated (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23/ H1FY23/9MFY23
Total operating income	3,69,796	5,39,199	NA
PBILDT	58,806	87,311	NA
PAT	21,360	49,294	NA
Overall gearing (times)	0.57	0.44	NA
Interest coverage (times)	11.58	15.33	NA

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4000.00	CARE AAA; Stable
Non-fund-based-LT/ST		-	-	-	5061.13	CARE AAA; Stable / CARE A1+
Fund-based - ST-Term loan		-	-	-	5500.00	CARE A1+
Fund-based-LT/ST		-	-	-	10438.87	CARE AAA; Stable / CARE A1+
Debentures-Non-Convertible Debentures		-	Not yet placed	Proposed	7500.00	CARE AAA; Stable
Commercial Paper-Standalone*	-	-	-	7 to 364 days	10000.00	CARE A1+

*No outstanding

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	4000.00	CARE AAA; Stable	-	1)CARE AAA; Stable (31-Dec-21) 2)CARE AAA; Stable (29-Jul-21)	1)CARE AAA; Stable (30-Jul-20)	1)CARE AAA; Stable (26-Jul-19)
2	Non-fund-based-LT/ST	LT/ST*	5061.13	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (31-Dec-21) 2)CARE AAA; Stable / CARE A1+ (29-Jul-21)	1)CARE AAA; Stable / CARE A1+ (30-Jul-20)	1)CARE AAA; Stable / CARE A1+ (26-Jul-19)
3	Fund-based - ST-Term loan	ST	5500.00	CARE A1+	-	1)CARE A1+ (31-Dec-21) 2)CARE A1+ (29-Jul-21)	1)CARE A1+ (30-Jul-20)	1)CARE A1+ (26-Jul-19)
4	Commercial Paper-Commercial Paper (Standalone)	ST	10000.00	CARE A1+	-	1)CARE A1+ (29-Jul-21)	1)CARE A1+ (30-Jul-20)	1)CARE A1+ (26-Jul-19)
5	Fund-based-LT/ST	LT/ST*	10438.87	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (31-Dec-21) 2)CARE AAA; Stable / CARE A1+ (29-Jul-21)	1)CARE AAA; Stable / CARE A1+ (30-Jul-20)	1)CARE AAA; Stable / CARE A1+ (26-Jul-19)
6	Debentures-Non Convertible Debentures	LT	7500.00	CARE AAA; Stable	-	1)CARE AAA; Stable (29-Jul-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	NA
I.	
B. Non-financial covenants	NA
I.	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non Convertible Debentures	Simple
3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - ST-Term loan	Simple
5	Fund-based-LT/ST	Simple
6	Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

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

Annexure-6: List of subsidiaries/JVs of ONGC

Name	Type	As on March 31, 2022
ONGC Videsh Ltd	Subsidiary	100.00%
Mangalore Refinery and Petrochemicals Ltd	Subsidiary	71.63%
Hindustan Petroleum Corporation Ltd	Subsidiary	54.90%
Petronet MHB Ltd	Subsidiary	49.99%
ONGC Tripura Power Company Ltd	Joint Venture	50.00%
Dahej SEZ Ltd	Joint Venture	50.00%
ONGC TERI Biotech Ltd	Joint Venture	49.98%
ONGC Petro Additions Ltd	Joint Venture	49.36%
Mangalore SEZ Ltd	Joint Venture	26.00%
Indradhanush Gas Grid Ltd	Joint Venture	20.00%
Pawan Hans Helicopters Ltd	Associate	49.00%
Rohini Heliport Ltd	Associate	49.00%
Petronet LNG Ltd	Associate	12.50%

Note on 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.

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