Oil and Natural Gas Corporation Limited (Revised)
July 29, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,242.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	13,723.00	CARE AAA; Stable / CARE A1+ (Triple A ; Outlook: Stable / A One Plus)	Reaffirmed
Short Term Bank Facilities	8,035.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	25,000.00 (Rs. Twenty-Five Thousand Crore Only)		
Non-Convertible Debenture (NCD)	7,500.00	CARE AAA; Stable [Triple A; Outlook:Stable]	Assigned
Total Long-Term Instruments	7,500.00 (Rs. Seven Thousand Five Hundred Crore Only)		
Commercial Papers	10,000.00	CARE A1+ [A One Plus]	Reaffirmed
Total Short-Term Instruments	10,000.00 (Rs. Ten Thousand Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The initial rating assigned to the proposed NCD and reaffirmation of the ratings assigned to the bank facilities/instruments of ONGC consider its majority ownership by the Government of India (GoI), experienced management and its 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 and its and comfortable financial risk profile marked by low gearing, healthy debt metrics and strong liquidity position. The ratings, however, remain susceptible to inherent risk related to E&P business, regulatory and geo-political risk for overseas operations, and large capex requirements to replace reserves.

Rating Sensitivity:

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

- Reduction in shareholding of government of India below 51%.
- Higher than expected debt funded capital expenditure or acquisition thereby resulting in consolidated overall gearing beyond 1.0x.
- 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, 2021, the GoI held a 60.41% stake in the company. It continues to have a singularly 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 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 and C2/C3. ONGC's significance to the GoI is further supported on account of the taxes paid by it to the exchequer.

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[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Experienced management: ONGC is managed by an experienced team of management. Mr. Subhash Kumar, Fellow Member of Institute of Cost Accountants of India and Associate Member of ICSI, is the Chairman and Managing Director of the company has diverse and rich experience of over 36 years in diverse activities across the Exploration & Production (E&P) value chain. He took charge of the post of Chairman and Managing Director (CMD) on April 01, 2021. Mr. Rajesh Kumar Srivastava, Director (Exploration and offshore) has over 35 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 32 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. Dr Alka Mittal, Director (HR), is a post graduate in Economics, MBA (HRM) and Doctorate in Commerce and Business Studies. With an experience of over three decades in training and mentoring, she has trained more than 11000 GTs of ONGC since 2001 on corporate governance as part of their induction program. 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 maintained its 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 10 discoveries (3 in onland, 7 in offshore) during FY21 in its operated acreages. Out of these, 6 are prospects (1 in onland, 5 in offshore) and 4 are pools (2 in onland, 2 in offshore). As a result, in FY21, the company has added 51.17 Million Metric Tonne Oil Equivalent (MMTOE) reserves (2P) on standalone basis and 60.94 MMTOE on group basis. Thus, the company was able to maintain the Reserve Replacement Ratio (RRR) of 1.19 during FY21 (PY: 1.19) which has remained above unity for the 15th 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 FY21, ONGC drilled 100 exploratory wells as compared to 500 exploratory wells drilled in FY20.

Presence across the hydrocarbon value chain: With its five direct subsidiaries, 28 joint ventures (JVs) and 13 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 integrated forward 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 80% of revenue of ONGC (consolidated) is from refining and marketing segment in FY21 (PY: 76%)

Improvement in profitability margins albeit decline in income: The consolidated total operating income of the company has moderated by ~14% to Rs. 370914.69 crore in FY21 mainly on account of reduction in realizations and less offtake due to COVID-19 pandemic coupled with lower production. However, the company earned PBILDT margins of 16.12% in FY21 as against 14.20% in FY20, thus, witnessing an increase of 192 bps primarily on account of improved margins in refining & marketing. The company earned a PAT margin of 5.75% in FY21 as against 2.66% the previous year.

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 situations and market sentiment. After a range-bound couple of years of crude price movement, the crude price (brent) has fallen sharply since early March 2020 and has fallen as low as ~USD 10/bbl. The fall was triggered on account of a supply glut in the market by Saudi Arabia and Russia which was later aggravated on account of a decline in demand for petroleum products due to COVID-19. However, recently crude prices have recovered to the level of around $71/bbl.

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 unfavorable policies such as resource nationalization adds to the geo-political risks in the host countries.

Large capex requirements: During the last couple of years, 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. Capex in FY22 is expected to be around Rs. 29,800 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, 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 OMCs which may impact the income and accruals of ONGC.

Liquidity (Strong): Liquidity position of ONGC remained strong with a total free cash and current investments of Rs.26190.67 Crore as on March 31, 2021 (PY: Rs. 23030.57 crore). Further, ONGC has unutilized fund-based facilities of Rs.4905 crore as on March 31, 2021. The company has projected healthy cash accruals against scheduled repayments in FY22. ONGC derives financial flexibility from its low gearing ratio and parentage of GoI with strategic importance and dominant market position which provides it easy access to funds at attractive rates.

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

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Factoring Linkages Government Support
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company

Oil and Natural Gas Corporation Limited (ONGC) is a Maharatna PSU, with the GoI holding 60.41% stake in the company as on June 30, 2021. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. ONGC's domestic product including Issuer's share of production in fields operated through joint ventures represented nearly 77% of India's total production of crude oil and natural gas. It is also a significant producer of value-added products such as liquefied petroleum gas (LPG), superior kerosene oil (SKO), naphtha and C2/C3. The company undertakes exploration and production activities in countries such as Azerbaijan, Myanmar, Vietnam, Iran, Iraq, Syria, UAE, Libya, Mozambique, South Sudan etc. through its wholly-owned subsidiary ONGC Videsh Limited (OVL**).** Also, it has integrated downstream activities in India with two subsidiaries viz. Mangalore Refinery & Petrochemicals Ltd (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 18,000 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 been catered through Petronet MHB Ltd (PMHBL) which owns and operates a multiproduct petroleum pipeline to transport MRPL Refinery's products to various parts of Karnataka.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Abr.)
Total Income	4,34,587	3,70,915
PBILDT	61,731	59,808
PAT	11,560	21,343
Overall gearing (times)	0.61	0.54
Interest coverage (times)	8.82	11.78

A: Audited; Abr.: Abridged
All Figures rounded off to the nearest decimal points

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	3242.00	CARE AAA; Stable
Non-fund-based-LT/ST	-	-	-	4060.00	CARE AAA; Stable / CARE A1+
Fund-based - ST-Term loan	-	-	-	8035.00	CARE A1+
Fund-based-LT/ST	-	-	-	9663.00	CARE AAA; Stable / CARE A1+
Debentures-Non Convertible Debentures	-	Not yet placed	Proposed	7500.00	CARE AAA; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	7 days to 364 days	10000.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	3242.00	CARE AAA; Stable	-	1)CARE AAA; Stable (30-Jul-20)	1)CARE AAA; Stable (26-Jul-19)	1)CARE AAA; Stable (01-Nov-18) 2)CARE AAA; Stable (28-Sep-18)
2.	Non-fund-based-LT/ST	LT/ST	4060.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (30-Jul-20)	1)CARE AAA; Stable / CARE A1+ (26-Jul-19)	1)CARE AAA; Stable / CARE A1+ (01-Nov-18) 2)CARE AAA; Stable / CARE A1+ (28-Sep-18)
3.	Fund-based - ST-Term loan	ST	8035.00	CARE A1+	-	1)CARE A1+ (30-Jul-20)	1)CARE A1+ (26-Jul-19)	1)CARE A1+ (01-Nov-18) 2)CARE A1+ (28-Sep-18)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	10000.00	CARE A1+	-	1)CARE A1+ (30-Jul-20)	1)CARE A1+ (26-Jul-19)	1)CARE A1+ (01-Nov-18) 2)CARE A1+ (28-Sep-18) 3)CARE A1+ (25-Jun-18)
5.	Fund-based-LT/ST	LT/ST	9663.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (30-Jul-20)	1)CARE AAA; Stable / CARE A1+ (26-Jul-19)	1)CARE AAA; Stable / CARE A1+ (01-Nov-18)

								2)CARE AAA; Stable / CARE A1+ (28-Sep-18)
6.	Debentures-Non Convertible Debentures	LT	7500.00	CARE AAA; Stable	-	-	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

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-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: List of subsidiaries and stepdown subsidiaries:

Name
ONGC Videsh Limited (OVL)
ONGC Nile Ganga B.V.
ONGC Campos Ltda.
ONGC Nile Ganga (San Cristobal) B.V.
ONGC Amazon Alaknanda Limited
ONGC Narmada Limited
ONGC (BTC) Limited
Carabobo One AB
Petro Carabobo Ganga B.V.
Imperial Energy Limited
Imperial Energy Tomsk Limited
Imperial Energy (Cyprus) Limited
Imperial Energy Nord Limited
Biancus Holdings Limited
Redcliffe Holdings Limited
Imperial Frac Services (Cyprus) Limited
San Agio Investments Limited
LLC Sibinterneft
LLC Allianceneftegaz
LLC Nord Imperial
LLC Rus Imperial Group
LLC Imperial Frac Services
Beas Rovuma Energy Mozambique Ltd.
ONGC Videsh Rovuma Ltd.
ONGC Videsh Atlantic Inc.
ONGC Videsh Singapore Pte Ltd
ONGC Videsh Vankorneft Pte
Indus East Mediterranean Exploration Ltd.
ONGC Videsh Rovuma Ltd.

Name
Mangalore Refinery and Petrochemicals Ltd.
ONGC Mangalore Petrochemicals Ltd
Hindustan Petroleum Corporation Ltd
Prize Petroleum Company Ltd
Prize Petroleum International PTE Ltd
HPCL Bio Fuels Ltd
HPCL Middle East FZCO
HPCL Shapoorji Energy Private Limited
Petronet MHB Ltd

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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