

Don't let ONGC Petro additions Ltd. turn into a failure

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"THIS plant has emerged and earned the important place in SEZs (Special Economic Zones) of the world,"

stated Prime Minister Narendra Modi on 7th March 2017 while dedicating to the Nation ONGC Petro Additions Limited (OPaL), Dahej, Gujarat.

A press release available at cmogujarat.gov.in quotes PM as saying that OPaL

"has created employment opportunities for lakhs of youth residing across India. This is the biggest success in the history of India ever." A PIB release quoted him as saying: "OPaL is like an anchor industry. It is the largest petrochemical plant in the country. "

So far so good. A lot has changed since PM's 2017 speech. A **shuddhi yagya**, (purification worship) on OPaL is thus required to respect his call for constructive criticism, articulated time & again. The **Yagna** should also be performed keeping in view Mr. Modi's passion and vision for exports.

Yagna should also help resolve long-pending matter of transforming OPaL from a tripartite joint venture (JV) into ONGC subsidiary. In the JV, the original promoter Oil and Natural Gas Corporation (ONGC) has 49.36% stake, GAIL (India) Ltd has 49.21% stake. The balance 1.43% shares are held by Gujarat State Petroleum Corporation Limited (GSPC).

OPaL's delayed financial restructuring is intertwined with indecision on its conversion into ONGC subsidiary or induction of private strategic partner(s). Indecisiveness on this matter conflicts with the Government's repeated claims that it believes in speed and scale in the decision-making process. More on OPaL's financial crisis later in this column.

The multi-facet Yagna can help prevent OPaL from going down in the history as the biggest failure on certain counts - the chief being exports, which is its foremost objective. The company's own estimates show a negative net forex exchange (NFE) earnings of Rs 18856.83 crore over 10 years ending 30th July 2025.

This is a 2020 estimate submitted to the Government. An updated figure might be lower if OPaL's proposal to exit SEZ scheme does not suffer more delay. An SEZ is statutorily required to earn positive NFE for which the Government offers it multiple benefits including indirect and direct tax incentives.

It is not that OPaL can't ramp up exports to at least achieve this mandatory norm. The company finds margin on exports too low as compared to margin it earns on domestic sales. It appears the OPaL would sink if it focused on ruthlessly competitive global market.

As put by the Company last year:

"In view of changes in market dynamics over the years, the demand for petrochemical products has increased in domestic market and India is now a net importer of polymers. Therefore, company is selling its majority of products in domestic tariff area (DTA), thereby substituting the imports and saving foreign exchange outflow of the country. However, Basic Custom Duty is applicable on sale of products from SEZ to DTA which is directly impact the margin of the company. Therefore, Board of directors has accorded approval to make an application for voluntary exit from SEZ."

OPaL escaped with a paltry penalty of Rs 85 crore imposed by the Government in 2020 for its failure to achieve positive NFE during the first block of five years.

Dismissing OPaL's appeal against the penalty, Director General of Foreign Trade (DGFT) last year noted that under Foreign Trade (Development and Regulation) Act,

"adjudicating authority could have imposed a penalty upto five times the value of the goods for which contravention has been made."

DGFT's order dated 5th April 2022 continued:

"In the instant case, the shortfall in NFE is Rs 8481.11 crores. Therefore, the penalty amount could have been upto Rs 42405 crores whereas the Adjudicating Authority imposed a penalty of Rs 85 crores only, which is approx. 1% of the shortfall in NFE."

The company wants to shift to relatively easy-to-comply scheme called Export Promotion Capital Goods (EPCG). This can happen only if it overcomes herculean challenge of exiting SEZ.

CRIL Ratings in a note dated 30th September 2022 observed:

"The expected exit of OPaL from special economic zone (SEZ) has been facing continuous delays and prolonging the benefits that would accrue on an annual basis."

OPaL first applied for in-principal approval (IPA) to exit from Dahej SEZ Limited (DSL) on 13th September 2018. After obtaining IPA during Jan 2019, the former shared with latter on 28th September 2020 the road map for exit. OPaL is currently in process of obtaining other approvals from State and Central authorities in sequential manner.

The JV operates a mega petrochemical complex which enjoys flexibility to use either naphtha or natural gas as feedstock. These primary raw materials are largely sourced from ONGC including its gas fractionation unit. This facility itself is an SEZ. ONGC is also a promoter of DSL.

The dual-feed cracker has capacity to produce to 1,100 kilo tonnes per annum (KTPA) of ethylene and 400 KTPA of propylene. These two intermediates are used by the Complex's downstream units to produce certain plastics. The complex also produces certain other chemicals such as butadiene and benzene.

The SEZs Board, which functions under the Commerce Department, issued letter of approval (LoA) to OPaL to set up a petrochemical complex as SEZ in October 2007. After suffering massive time and cost overruns, the complex started commercial production on 31st August 2015. It is spread over 503 hectares within Dahej SEZ Limited (DSL) in which are located several SEZ units of different companies.

The project cost has been revised due to slippages in project planning and execution and due to certain other reasons. In February 2008, The ONGC Board had approved project with estimated cost of Rs 12,440 crore. In March 2012, OPaL Board approved the project at an estimated cost of Rs 21,396 crore with debt-equity ratio of 70:30. In July 2014, the Board approved revision of project cost to Rs 27,011 crore with debt-equity ratio of 66:34 up to December 2015 and thereafter debt-equity ratio of 58:42.

The project cost now stands at Rs 30,000 crore. It is an over-leveraged and is unable to service its debt on its own. OPaL confessed in agenda for an EGM held on 7th September 2020:

"OPaL is facing acute financial crisis mainly attributable to its current capital structure relies heavily on around 85% interest-bearing funds incurring losses quarter on quarter. Internal accuals of OPaL are not sufficient to meet its entire interest obligations."

OPaL has, however, survived due to comfort letters from ONGC to lenders guaranteeing repayments in event of OPaL's failure to repay debt. ONGC currently provides backstopping support towards repayment of principal and coupon of Compulsory Convertible Debentures (CCDs) issued by OPaL.

The timelines for conversion of CCDs into equity shares has been extended repeatedly. Similar is the story with warrants issued to ONGC on right basis. Prior to this, GAIL & GSPC had declined to participate in the right issue of equity shares. This shows something is fundamentally wrong with the co-promoters perception about prospects of OPaL.

ONGC has invested about Rs 4400 crore as equity and warrants in OPaL. As a Maharatna PSU, it is permitted to invest only upto Rs 5000 crore in a JV. ONGC board approved OPaL's conversion into a ONGC subsidiary in September 2019 subject to government approval.

At Government's behest, ONGC constituted an experts committee to

"review the present position and recommend bringing integration of various business of ONGC group so that the benefits of synergy may be actualized to become a global integrated oil & gas company. It is expected to have the directional input by the end of the financial year," according to ONGC agenda for OPaL's extraordinary general meeting (EGM) held on 11 th April 2023.

In preceding EGM held on 22nd February 2023,

"Looking to the current scenario, equity induction may take time. Hence, warrants conversion timelines may be extended up to 18 months to maintain status quo on its equity structure."

Government's indecisiveness on capital restructuring of the company is contributing to its cumulative losses. Accumulated losses touched Rs.13000.3 crore on 31st March 2023. As noted by the Company's auditors, OPaL is "

facing negative working capital of Rs. 70750 million as of that date. Net worth of the Company has reduced to Rs.6207.99 million as at March 31, 2023 as compared to Rs.45837.20 million as at March 31, 2022. In spite of these events or conditions which may cast doubt on the ability of the Company to continue as a going concern, the management is of the opinion that going concern basis of accounting is appropriate in view of the cash flow forecasts and the plan management has put in place along with other facts ."

To the response given by the management, the auditor has remarked - **"Our opinion is not modified in respect of the above matter."**

The cumulative losses would skyrocket once it bears massive cost of exit as customs duty and other taxes. OPaL's annual report for 2021-22 has computed the cost of exit from SEZ at Rs 2734.4 crore. This amount does not include provisional duty computed by specified officer, Dahej SEZ on immovable properties and provisional VAT amount estimated by State tax department.

As put by the Report,

"Decision on exit and actual outflow on account of SEZ exit and its quantum is contingent upon the terms and conditions on which various approvals are granted."

Exit timing is not the only open-ended issue casting shadow over the future of the company. OPaL has also left open the subject of finalizing its debt-equity structure that is evident from repeated extension of the tenure of compulsory convertible debentures (CCDs) issued by the company.

This issue has been pending with the Government ever since ONGC Board's nod for OPaL transformation into subsidiary. The decision on this issue would pave way for capital restructuring of OPaL.

The decision of two co-promoters, GAIL & GSPC to not subscribe to the rights issue of equity shares during 2013 is baffling. The proposal to induct strategic private investor has been in the works for more than a decade. These and other issues have been X-rayed well by Comptroller and Auditor General (CAG) in its reports submitted over the years.

ONGC has, in fact, a fascinating history of missed opportunities and goof-ups in the oil & gas value chain. (See Gassing around! - Boxed story in Hobbling a champion June 2011 story: <https://bit.ly/42yV89f>)

Time is now ripe for Mr. Modi to take the nation into confidence as to whether indecisiveness and mismanagement, both in OPaL and ONGC as well as in the Government, led to erosion of export competitiveness of the Complex. Let OPaL be the trigger for long-overdue SEZ reforms. [Also read - [Shuddhi Yagna on SEZs calls for a DESH Ordinance](#) .]

It is here apt to recall what Mr. Modi stated in a webinar on "Make in India for the World" held on 3rd March 2022. PM stated: **"The reform in the Special Economic Zone Act will give a great boost to our exports ..."**

Mr. Modi can in fact turn OPaL as launch pad for his export vision for Amrit Kaal. Interacting with Heads of Indian Missions abroad & trade representatives during August 2021, Mr Modi stated:

"Our ambitious target regarding exports can be achieved only through a holistic and detailed action plan. Not only do we need to accelerate our existing exports, we also have to work to create new market destinations for new products ."

He added: **"I think this is a better time to have bigger targets for exports and achieve them."**

The public also expects Mr. Modi to explain why his dollars harvesting mantra failed in case of OPaL and several other projects in Gujarat. Mr. Modi, as Chief Minister, expounded this mantra as: ***"Gujarat is a state where you sow a rupee and reap a dollar"*** at Hyderabad on 8th January 2008.