NEWS

BMR Advisors

OVL in talks with Novatek for 15% Yamal stake

Source: Mint
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An Indian consortium led by ONGC Videsh Ltd (OVL), the overseas arm of state-owned Oil and Natural Gas Corp. Ltd, is in talks with Russia's OAO Novatek to acquire a 15% stake in its subsidiary **OAO Yamal LNG** for developing a natural gas field. The transaction will also include tie-up for a natural gas liquefaction project and joint marketing of liquefied natural gas (LNG). OAO Yamal LNG has the licence for exploration and development of the South Tambeyskoye field, and a stake purchase would help boost India's energy security. OAO Novatek, which owns 80% of the unit, is offering a 29% stake for participating in the project. France's Total has a 20% stake in OAO Yamal.

"We are doing due diligence," said an OVL executive requesting anonymity. "There is a huge amount of gas. The project requires huge investment. It is a multi-billion opportunity." A second OVL executive confirmed the development.

OVL has already appointed investment bankers and lawyers for the proposed transaction. *Mint* had reported about India's initial plans on 26 November 2010, and the intention for submission of a non-binding offer on 31 May 2011. The other members of the Indian consortium are GAIL (India) Ltd, Indian Oil Corp. Ltd (IOC) and Petronet LNG Ltd (PLL).
Questions emailed to Novatek on 15 January remained unanswered until press time on Tuesday; GAIL executives declined to comment.

According to information available on Novatek's website, its "upstream activities are concentrated in the Yamal-Nenets region, which is the world's largest natural gas-producing area". The region, located north-west of Siberia, accounts for nearly one-fifth of the world's natural gas production and supplies 90% of the demand in the country.

While a pipeline from the South Tambeyskoye region goes to Europe, the Russian government is concerned that gas demand in Europe is not increasing because of recession. This has led to the development of new markets through creation of LNG capacities.

With the Russian government in favour of the project, OVL is expected to get incentives in the form of exemption from a mineral extraction tax (MET) introduced in 2002. After taking into account MET, export duties and transportation tariffs, a producer is left with around 20% of the produced value of gas.

With the Russian government offering exemptions from levies for certain regions, explorers across Russia are trying to claim such breaks to help meet operational expenditure and earn a return on investments.

India's investments in the energy sector in Russia include a 20% stake in the Sakhalin-I hydrocarbon block through OVL. Indian investments in Russia, mainly in the hydrocarbon sector, total $4.25 billion (Rs. 21,250 crore). OVL paid $2.1 billion for its most expensive acquisition, **Imperial Energy Corp. Plc**.

India believes that, unlike in Africa, it has a strategic advantage in Russia over China, its main rival for overseas oil and gas assets, because of its historical ties with the country.
“OVL will be keen to replicate the success they have experienced with the Sakhalin-I project in Russia. The warming of bilateral ties should be positive for the potential transaction. OVL need to be watchful of the asset valuation,” said Gokul Chaudhri, partner at audit and consulting firm BMR Advisors Pvt. Ltd.

India currently imports more than 80% of its energy requirements and the consumption of energy in India is likely to double by 2030 to the equivalent of 833 million tonnes of oil, according to a forecast by the International Energy Agency. India’s demand for liquid petroleum products and gas would grow by 4.7% and 14%, respectively, over the next five years, according to the petroleum ministry.

India’s Russian efforts are targeted towards diversifying its import basket. Russia produces 9.93 million barrels per day of oil and 546.8 billion cu. m of gas. It has proven oil and gas reserves of 79 billion barrels and 47.57 trillion cu. m, respectively.