"Hindustan Oil Exploration Company Limited Q1 FY20 Earnings Conference Call"

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MANAGEMENT: **MR. P. ELANGO – MANAGING DIRECTOR**
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Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Oil Exploration Company Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. I would like to state that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. I now hand the conference over to Mr. P. Elango – Managing Director of Hindustan Oil Exploration Company Limited. Thank you and over to you sir.

P. Elango: Thank you. Good morning everyone and warm welcome to our results call on Q1 FY20. I have with me our CFO and whole-time director, Mr. R. Jeevanandam and Stellar IR Advisors, our investor relation advisors.

I hope you all have received the updated investor presentation. We have also uploaded that on our website for your reference. After strong performance in FY19, Q1 of FY20 was a challenge with major customer shutdowns, both planned and unplanned at two of our producing fields namely Dirok and PY-1 simultaneously. This is an unexpected rare event where we had to curtail gas production due to limited off-take. I wish to clarify that wells were online to deliver full capacity of 35 mmscfd and 10 mmscfd from Dirok and PY-1 respectively. Overall, off-take was lower by 27%, therefore our sales volume and revenue numbers reflect the constraint imposed by downstream customer shutdowns of both power plants in PY-1 and a major fertilizer plant in Dirok, Assam. The fertilizer plant is now fully operational in Assam and the average gas off-take from Dirok for July 2019 is over 35 mmscfd. The situation at PY-1 has resolved partially with one of the power plants coming online. The average production from PY-1 for the month of July is 5 mmscfd that is 50% of our production capacity of 10 mmscfd. We expect the other power plant to come on stream soon and are working closely with GAIL to expedite. Such simultaneous shutdowns are indeed a rare occurrence. We expect gas off-take to be over 85% of our production capacity of 35 mmscfd and 10 mmscfd on an annual basis from Dirok and PY-1 as guided earlier respectively.

To avoid such surprises, we plan to step up our market engagement to ensure consistent gas off-take. We will take advantage of the gas marketing and pricing freedom, granted to the North East by exploring supply of gas to expanding refining capacity, CGD networks and CNG stations and are confident to sell any additional gas at a premium. During this quarter, we have made significant headway to deliver our top priority B-80 project on time. To this end we have secured drilling rig Parameswara for a drilling campaign of 90 to 120 days from Shelf Drilling. The rig is already in India and the campaign will commence by December 2019 and is expected to last 90 to 120 days. We plan to drill two wells and complete them with sub-sea wellheads.

We have partnered again with GE Baker to provide all well drilling and completion services. This follows our successful model of integrated well services contract that was executed at PY-1 by GE Baker. We have awarded fabrication and insulation of top sides for the Mobile Offshore

Processing Unit to Expro, UK with whom we have a successful existing partnership at Dirok. Engineering and fabrication work on topside are ongoing at Dubai giving us confidence on the delivery schedule. We have shortlisted two shipyards in Middle East for marine works on the MOPU. Contract will be finalized later this month in consultation with Zentech, our project management consultant, with rich experience and credible reputation in MOPU conversion projects. We have shortlisted contractors for supply and insulation of sub-sea flow line, the study required to be conducted by ONGC for the same has been conducted already. The gas will be transported to ONGC Hazira plant and oil to ONGC's Uran plant for further transportation downstream. We have initiated the marketing exercise for both oil and gas and we will provide further update as we make progress.

HOEC is focussed on delivering 'First Oil' from its maiden project in Mumbai High B-80 by June 2020. To ensure this, we are engaging with reputed vendors and partners with global expertise. In parallel, we are strengthening our own project management and technical teams. After successful execution of B-80, B-80 will transform HOEC by adding 2500 barrels of oil per day to our net production and share of oil in our production mix will grow from 13 to 37% with corresponding positive impact on our operating revenue. Beyond B-80, we are on track for delivery of additional gas from Dirok by Q1 FY22. Revised FDP for Dirok is now approved by the management committee. We plan to drill 3 development wells, thereby increasing the production from 35 mmscfd to 55 mmscfd. This campaign will include an appraisal well in North Dirok also were there are prospects to prove additional hydrocarbon resources. We have initiated discussion with our trusted partners, Expro UK for expansion of the Hollong Modular Gas Processing Plant capacity to handle the additional volumes. We have also applied for required regulatory clearances to lay 38 km pipeline to connect Dirok field with the marketing hub of Duliajan. This pipeline once completed will give us access to customers directly and take advantage of the marketing and pricing freedom granted to the North East.

Both the revised development plan and PSC extension have been recommended by the management committee for Kharsang and our pending approval by government of India. 18 wells are planned to be drilled in the first phase of Kharsang drilling campaign which is expected to take the production from current level of 650 barrels of oil per day to 1800 barrels of oil per day from Q2 FY22. Under the IBC process for disposal of JEKPL which has 25% stake in Kharsang field, the reconstituted committee of creditors sought this from both HOEC and Atyant Capital. COC ranked the all cash bid component higher and have now recommended Atyant Capital as a successful resolution applicant for approval by NCLT Allahabad. The submission is posted for hearing on 7th August 2019. Revised field development plans have also been submitted for redevelopment of our Cambay onshore assets namely Asjol and North Balol. Signing of PSC for R2 area in Palej is also in the final stages and is expected to be executed soon. We have well thought out forward plans for all our producing assets and are progressing them while remaining sharply focussed on delivering 'First Oil' from B80. A robust pipeline of low risk, short cycle projects are to be executed in the coming 3 years keep us excited. We are confident of doubling our net production by FY22.

On the corporate front, HOEC signed a conditional SPA to acquire HEPI with Hardy oil and gas PLC for a full cash consideration of $1.5 million. The only condition to be fulfilled was approval from shareholders of Hardy. After this transaction was made public by Hardy, Invenire Energy Private Limited made an unsolicited offer and Hardy executed another SPA with Invenire Energy for a significantly higher consideration without dealing with SPA sign with us. The longstop date for closure as publicly disclosed by Hardy is 20th September of this year.

Opportunity landscape of oil and gas sector is expanding with the new government pushing for a greater role for private sector. Latest development is, ONGC and Oil India are offering over 65 fields for production enhancement contract. We will continue to evaluate all such organic and inorganic opportunities to drive continuous growth, add value to our stakeholders. I now request Jeeva to take you all through the financial highlights.

R. Jeevanandam: Thanks, Elango. We report that the company made revenue of 53 crores in the current quarter against 75 crores in the previous quarter in the standalone accounts. In consolidated accounts, it is 61 crores against 81 crores in the previous quarter. If you compare the corresponding quarter of previous year, it is increased by 15 crores. This reduction in revenue is due to poor off-take by GAIL in PY-1 field and Oil India Limited in Dirok and has nothing to do with the performance of the reservoir. As explained by Elango, the off-take by OIL India has resumed and offtake by GAIL at PY-1 is partially restored. This gives a sense of confidence that we would be able to catch up with this revenue target of the previous year, if not more than that. Therefore, the profit after tax for this quarter has reduced from 48 crores to 31 crores in the standalone accounts and in consolidated accounts, it is 33 crores from 49 crores. However, if we compare the corresponding quarter of the previous year, it has increased by about 7 crores. Other income is maintained at the level of Rs. 4 crores which is mainly from the short-term investment of cash surplus.

Let us go through the operating cost. Operating costs are producing 6.6 crores comparing 7.1 crores in the previous quarter. Operating cost of the company is more or less fixed and is not varying much with increase or decrease in production. Royalty and Cess for this quarter is 5.23 crores against 8.44 crores in the previous quarter on standalone accounts. As there is reduction of sale gas, the depreciation and the depletion stand reduced from 10.5 crores to 6.76 crores. As we carry deferred tax and MAT credit, there would be no tax liability expected in the current financial year. Operating cash flow standalone for this quarter is 35 crores comparing 52 crores in the previous quarter excluding the working capital adjustment. In the consolidated results, the operating cash flow stands at 39 crores as on June 2019. Revenue from Kharsang is 7.38 crores and the operating cost is 4.75 crores which includes the depletion and depreciation of 1.4 crores. This leaves with an operating cash of about 4.03 crores for the period which will be utilized for the development of the field in the ensuing financial year.

The company on standalone has a gross working capital of Rs. 262 crores with cash and cash equivalent of about 160 crores as on 30th June 2019. With the existing working capital and the expected internal accruals, the capital for executing B-80 development would not be a major challenge. We are a debt-free company, we are committed to creating value by unlocking the potential of the existing assets and acquisition of assets which has upside potential with low risks. We have no intention to lever the company unless there is a compelling inorganic acquisition to create value. Thanks, Elango.

P. Elango: Thank you. We can now open the forum for questions please.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Yash Shah, an Individual Investor. Please go ahead.

Yash Shah: What is the effect of the gas price which is going down internationally as on today because I think it was around $2.90/mmbtu and now it is around $2.1/mmbtu, so what will be the effect of that on the future and also the effect of dollar going down, I think it was 73 or 74 in last quarter and then came down to around 68, so what is the effect on the profitability?

P. Elango: On the gas price, as you know the gas price formula is decided by the government based on a cocktail of gas market prices across different markets globally, so the current price is $3.69 per mmbtu on a gross basis. On a net basis, we realize about 10% more. Our realization is about $4 per mmbtu and secondly any new additional volume that we bring to the market anywhere in India now are eligible for free market pricing. Particularly in North East, it has been announced, in other areas also under new field development plans, any new production is eligible for free market pricing. As you know, the prices in India at different regions varies and it can be as high as $8 per mmbtu in Gujarat. Almost 50% of the gas that India uses is imported by way of LNG because there is a larger market that is available to secure a premium from this base level pricing. So, we expect definitely to achieve price realization for our increased volumes in future more than what they are realizing now.

Yash Shah: And what about the dollar effect?

R. Jeevanandam: You could have seen our revenue is more than the cost, so obviously any increase, all the prices are fixed in US dollar, any increase brings more value.

Moderator: Thank you. The next question is from the line of Varatharajan Sivasankaran from Systematix. Please go ahead.

V. Sivasankaran: I just have a question about Cambay basin you were mentioning something, can you just expand on that please?

P. Elango: In Cambay basin, we have got three fields and all of them are coming under the PSC extension phase now. In one of the blocks, we have already submitted the field development plan as well as got the initial extension letter. On the other one, North Balol, we have submitted the field development plan. On Palej R2 area where the PSC was pending execution for quite some time, now that has been initialled and final review is being undertaken by the MoPNG, so what we intend to do is, with the PSC extension coming through in the Cambay block, we expect to focus our attention on Cambay blocks and drill the additional committed well for which we have just initiated the long lead process of securing the environmental clearance. In terms of when the actual drilling will be taken up, we will update you in the next quarter once we have all the development plans approved as well as the PSC extension secured because it is important to consolidate all the well requirements in Cambay and do one campaign leveraging the synergy.

V. Sivasakaran: Any indication on the potential?

P. Elango: Not for now, we will update you once we have the development plan fully approved.

V. Sivasankaran: And about the other FDPs which have been already submitted and have been pending for a while, was it election which delayed it or was there any other reason?

P. Elango: This quarter, we have got FDP approved for Dirok, Kharsang as well as PY-1 and one block in Cambay also, so 4 FDPs have been approved, so it is going on at the right pace only. You are right, there was some delay during the election process, but now they are all back in full flow.

Moderator: Thank you. The next question is from the line Viraj Mahadevan from IIFL Asset Management. Please go ahead.

Viraj Mahadevan: Can you elaborate a bit more on the nature of the shutdown at GAIL and Oil India, are these routine in nature or they are one-offs?

P. Elango: Let me deal with the Dirok portion first. As you all know the entire production from North East, the gas that is produced by Oil India as well as the gas produced by HOEC, both are mixed and delivered first to BCPL Petrochemical Plant. Then the lean gas after a shrinkage of about 15% is taken over by Oil India for marketing to multiple other customers. We supply only to Oil India, not directly to any customers. When they supply the lean gas to multiple customers, if there is any shutdown planned or unplanned happens in any of the major customers, then there will be a corresponding reduction across the chain because the volume when they are not able to deliver the lean gas, they will bring down the production. So, in this instance, the shutdown is not that of BCPL, BCPL is functioning normally, the shutdown was of BVFCL which is the Brahmaputra Valley Fertilizer Corporation. Triggered by an accident which made one of the plants non-functional, it took them longer time than normal, and this also clubbed with some planned shutdown that they had, they clubbed along with that, so that is behind us now. Since July, the plant is functioning normally, and we are delivering full capacity as such. Overall, having shutdown simultaneously in both areas is certainly a rare event. We don't expect such an event to recur again, but individual shutdowns are part of the gas off-take system, so therefore we have always guided that a good number to consider is 85% of our production capacity.

Viraj Mahadevan: And Brahmaputra has how much of the offtake?

P. Elango: They take about 1.7 million cubic meters per day which is almost double of our production capacity, so they are a large customer.

Viraj Mahadevan: They are a large part of that pie.

P. Elango: And similarly, in PY-1 Tamil Nadu, the major customers are 2 power plants of Tamil Nadu Electricity Board and there is one power plant of Pondicherry Electricity Board. These are the three major customers who take the gas both from ONGC as well as from HOEC. Again, two of the TNEB power plants had been shut down at the same time that reduced our offtake subsequently. Now, one of them is back online, therefore in July we were able to deliver about 50% of our capacity. We expect over the next few weeks the other plant also to come on stream, so you will see at least from September onwards, we should get back to full normalcy.

Viraj Mahadevan: You talked about the new production getting free market pricing which is likely to be higher but how about the gas pricing for the existing production? How is that likely to be impacted by the global drop in natural gas prices?

P. Elango: On a 6-monthly basis, the numbers are revised. What we are now applying is the current price will be applicable till September end and effective 1st October only, the new price will prevail. We should be able to give some guidance on that in the next call, but overall what I would like to emphasize is our operating costs are very low in Assam and PY-1 is covered under a firm contract with GAIL where our price is fixed at $3.66 per mmbtu, so that doesn't get affected by any down turn in gas prices.

Viraj Mahadevan: In PY-1?

P. Elango: Yes, PY-1 is secured through a firm price of 3.66 irrespective of the global movement. In Dirok, it will be subject to what prices the government finally announces. There is also representation being made by the industry where government to revise this formula, but these are work in progress.

Viraj Mahadevan: Understood and lastly can you provide an update on Jubilant Energy through NCLT?

P. Elango: Yes, I will just reiterate what I said. After it went through the legal process, finally a reconstituted committee of creditors was appointed, and new RP was appointed. PWC was the new resolution professional. They followed the due process of inviting bids from both the previous participants namely HOEC and Atyant Capital and in the bid, Atyant Capital submitted all cash bid which was ranked higher and they have been recommended for the disposal of JEKPL. This is subject to approval by the NCLT in Allahabad on 9th August 2019. Final result will be known by 9th August.

Moderator: Thank you. The next question is from the line of Jitendra Kumar, an Individual Investor. Please go ahead.

Jitendra Kumar: My question is like, I was listening to your earlier call, so let us say third quarter it should normal, 100% production, is that right?

P. Elango: Yes.

Moderator: We take the next question from the line of Sameer Patel from Sawy Capital. Please go ahead.

Sameer Patel: You have mentioned that the net production in FY20 will still be higher compared to 19, so are we looking at getting back this production which we have lost in the first quarter?

P. Elango: We are seeing better off-take from Dirok and we hope to improve the off-take from PY-1 also over the next two quarters, so overall, we are still maintaining our target range.

Sameer Patel: Sir, can you please throw some more light on this revised FDP for PY-1, I mean what we are looking at and in what time frame?

P. Elango: In the revised FDP for PY-1, we are looking at drilling of 3 more wells and essentially these 3 wells are expected to maintain the current production rate for a longer period. That is what our first approach would be, and these three wells would help us extend the economic life of the field and extend the current production rate for a longer period. Also, add additional production of about 7 million cubic feet, so we are looking at about 15 to 17 million cubic feet of production, but our primary objective would be to extend the current plateau for a longer period. The idea is longer plateau will ensure the PSC period is correspondingly extended, so that is how we have prepared the field development plan and the FDP has been approved by the management committee. The PSC extension process has begun now, so it will be reviewed by the MC as well as government.

Sameer Patel: And sir if I am not wrong, I think we have the infrastructure there already and I think we should be able to put this plan in a much shorter time frame, is that correct?

P. Elango: Yes, what we wanted to do is essentially focus our efforts in B-80 now, this year and after completing B-80 then we will take up PY-1 and we would look for what synergies we can leverage to do a larger campaign. One of the options is to look for a partner also to come in for PY-1.

Sameer Patel: Yes, that was my next question, so are we looking at some international strategic investors in terms of any of our fields?

P. Elango: I don't think new international investors are going to be really coming into India. Our strength is our relationship with existing PSU players with whom we already have an ongoing partnership and what we really see is Cauvery basin offshore as an emerging offshore basin in India, so you have seen Mumbai High fully developed and you have seen KG basin with lot of activity with some disappointments for various players who went in. Cauvery is the next emerging offshore basin. If you have seen the HELP bid rounds, so lot of players have shown interest in Cauvery offshore, Vedanta has acquired two blocks and ONGC has taken one more block, so there is a renewed interest in Cauvery offshore. As a company which owns the strategic infrastructure in that basin, we expect to leverage that.

Sameer Patel: The PY-3 revival which we are looking at with ONGC, can you throw some more light on that please?

P. Elango: The facts are that ONGC has exercised its rights to become the operator of the field. This they had done about 3 months back and they had to give 6 months' notice period that they have exercised. HOEC as a partner has waived the notice period officially to ONGC welcoming ONGC to take over the operatorship as soon as possible. Hardy had raised objection to this takeover. This matter was under discussion between them. Now, the takeover of HEPI transaction is underway, hopefully by end of September. In Joint Ventures all decisions have to be taken unanimously, so ONGC would be unable to do anything immediately until the change in Hardy ownership gets completed, so may be in the next quarter we will be able to give a clearer plan of ONGC. We will remain a nonoperator or a joint operator depending on the developments.

Sameer Patel: And sir, coming to this Hardy deal which you bidded and kind of it looks like we have lost that would we have done anything different or do we have to take care of this in future in some particular manner?

P. Elango: I think Jeeva outlined it. Our approach to any inorganic opportunities has been only after giving priority to our organic development commitments. Three years back we had a commitment that we will develop Dirok field, we will revive production from PY-1 and we develop B-80, so we don't want to do anything that will come in the way of these 3 key commitments that we make. Inorganic opportunities are always at a particular cost level considering our own strategy of remaining debt-free company and focusing on the developments as such. So, if the question is, would I have liked to have Hardy as part of my portfolio, the answer is yes. If the question is if we could have done better than what we offered, the answer is no. I think the important thing is for an organization to develop the ability to say no when it crosses beyond what you believe is the true value.

Sameer Patel: And sir, can you again please throw some light on Kharsang which you just clarified to the previous participant, what exactly is the final outcome now?

P. Elango: Kharsang has got essentially four partners, Oil India has 40% interest and Geopetrol has 25% interest, Geopetrol has been acquired by HOEC and we have 25%. Geopetrol has 50% stake in a company called GeoEnpro which is the operator of the field, so we have a direct 25% stake and an indirect 5% stake in the block. There was the balance 25% which was under the IBC process. The process started, I think almost 2 years back where we have initially offered a bid which was down cash payment plus taking over the current loan and that went through multiple iterations because we were not treated fairly by the then RP. We complained and we took it to the NCLT and the RP got removed and debarred. Then based on the court orders a new committee of creditors were constituted and the new RP was appointed where the new RP conducted the process fairly. We have no complaint on the process followed. As I said, we have submitted our bid, the other party was able to submit the all-cash bid, the COC found that to be attractive and they have recommended NCLT for a final approval which is now expected to come up for hearing on 9th August as such. After that final stamp of approval will come in and once that new resolution applicant joins the JV, then there will be a lot of focus on redeveloping that field.

Sameer Patel: So basically, we are going to, I mean that 5% additional is what we are going to lose?

P. Elango: No, we already have 30%, 25 directly and 5% indirectly. We bid for additional 25% along with other resolution applicant.

Moderator: Thank you. The next question is from the line of Ashwin Reddy Samatva Investments. Please go ahead.

Ashwin Reddy: Sir, couple of questions. One you mentioned the pipeline that you are building which would enable you to market directly on your own in the North East, what is the time meant for the pipeline and you did mention that the current year revenues will still be higher than last year numbers or at least in terms of volumes, so I am assuming the pipeline would come this year, is that correct or what are the timelines for this pipeline to come into the market?

P. Elango: This pipeline would not be coming in this year. The commissioning of the pipeline and the production increase these all comes under Dirok phase II, so the phase II involves drilling 3 new wells and expanding the plant capacity from 35 to 55 and then laying this 38 km pipeline, out of which 10 or 11 km is the forest land. We have commenced the regulatory approval process. Overall our schedule is to bring the entire phase II into play by Q1 of FY22. So when we mentioned about maintaining the volume in the remaining part of this year is essentially by pushing more gas to the market through the existing infrastructure which we have got the capacity to do that, so what happens just to help you all understand, so whenever there is a lower gas off-take, we curtail our production from the individual wells by reducing the choke size. We don’t flare the gas. The gas that is not sold will remain in the well and to the extent the processing capacities can handle and to the extent the customers can uplift, we have the flexibility to increase the production for the period. We are confident that we should be able to maintain a higher off-take during the remaining part of the year.

Ashwin Reddy: And then moving on to PY-3, so what are the broad timelines now that there has been a change in the plans what we had originally. In your opinion what are the broad timelines for PY-3?

P. Elango: Currently, I would be unable to outline any timeline, so first is the operator ONGC has to indicate the timeline. They are not fully into the operating seat because they are undergoing this transition. As I said in between this transaction also has come in, so I think by next quarter we should be able to give a guideline based on what plans ONGC outline and we would be supporting ONGC fully on the execution.

Moderator: Thank you. The next question is from the line of Riddesh Gandhi from Discovery Capital. Please go head.

Riddesh Gandhi: Just a quick question was on actually B-80, is there any update on the progress and if there are any slippages for us to start the production in Q1?

P. Elango: Thanks Riddesh based on what we have committed so far, we are on track to deliver the project by June 2020, I was just updating that the rig that we had bought for conversion to MOPU is undergoing conversion in Middle East yards, the topside work is going on full swing. The yard has been shortlisted, contracts will be awarded later this month, so we are on track for getting the MOPU completed which will be a record of sorts. Then in parallel, we have already awarded the contract for drilling tangible and drilling services, secured a rig and the rig is already in Mumbai High, therefore we are confident to commence the drilling in December of this year. Our plan is to start drilling in December, drill the two wells over the next 3 to 4 months' time and by the time we complete the drilling program, we will mobilize the MOPU to the site and then do the final hook up. As of now, we are on track.

Riddesh Gandhi: The other question is that I guess with actually B-80 and the PY-3 and the incremental capacity in Dirok as well, I think for the next couple of years we are placed reasonably well to I think a little over double profitability, how does it look beyond B80? Are you expecting incremental bidding of offshore fields by the government or are the potential opportunities that you are like looking at on the M&A side or how do you think of growth beyond that?

P. Elango: The government has opened up 3 pathways of growth, one is that is 24 x 7 access to the national data repository by which we can bid for any new exploration acreage particularly in areas where we are already present. That is number one. Number two, there is series of discovered small field rounds that are coming up every 6 months. Part of our strategy is to continue to add discovered resources portfolio. The third stream that has been opened up recently is both Oil India and ONGC have been advised by government to offer their current producing fields, their marginal small producing fields for operations by private sector. This is a tender that will be managed by the respective companies, not by the government and both the companies have come out with the tender and this is more like a typical service contract model where the ownership of the field will continue to remain with the PSUs. What is envisaged is successful bidder in this can take over the field and can manage the operation fully. ONGC will give a base production profile for each field and if you are able to enhance the production, you can bid how much percentage you wish to share with the ONGC or Oil India on the enhanced production and then manage the operation, so we have registered ourselves and we are reviewing the data wherever we feel there is an opportunity for us to enhance the production, we would certainly participate in that. So, in addition on the inorganic front, obviously what we are seeing is the players who have initially secured blocks without previous experience in DSF field are looking for partnerships to progress the project and we will continue to look at some of them. In Mumbai High, we have made the most progress in developing the field and once we complete B-80, we will be the first one to deliver that shortly, so we really see a good set of opportunities emerging, but having said all that B-80 is indeed a complex project, it is a large project for the size of our company. We have chosen the best of the partners and we are confident that we will execute that. So, execution of that has required a complete focus and that is what we will do, but post that definitely both our production volumes and cash flow would increase substantially to look at opportunities that are coming up.

Moderator: Thank you. The next question is from the line of Anup Babu, an Individual Investor. Please go ahead.

Anup Babu: I wanted to inquire about this company Invenire capital that seems to be coming in many of the projects that we are interested in. Is there some problem that they see in us or where they specifically going after the things that we are going after?

P. Elango: I think in our business, there is no real competition, you kind of learn from each other's success and you learn from each other's failure but may be this company is in admiration of what we are trying to do and copying us. There is enough opportunity for us not to really worry about it.

Anup Babu: And the question then is just following up on the previous participant's question, given the long lead time for new projects to develop, when can we expect your plans beyond B-80 and Dirok to be announced to us?

P. Elango: One thing if you have observed in the last 3 or 4 years, we have always been picking up short cycle projects, so we did Dirok in less than 27 months, we did PY-1 revival in less than 9 months and we are looking at B-80 in a time period of less than 24 months as such, so within the portfolio, we always look for projects that we can quickly do and we can monetise it quickly as such. Definitely, in addition to B-80 and Dirok, Kharsang would be the area of focus where we have clear possibility to triple the production by drilling about 18 wells. It still needs to get some regulatory approval which is now undergoing, and we have said we can do that increase by FY22 by the time the NCLT process also would have been fully completed. We also said we are looking to consolidate in the Cambay basin and have a sharpened focus. So, to answer your question beyond Dirok and B-80 it will be Kharsang, Cambay and of course PY-1 in the Cauvery offshore.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Barclays. Please go ahead.

Rikesh Parikh: Sir, my question is relating to Dirok field. Sir, as I understand means you have mentioned that there was curtail in the offtake because of customer shut down, so is it temporary or is it elongated?

P. Elango: It is temporary, the customer is back on stream. We delivered to our full capacity in July, so we are back to normal in Assam and in PY-1, we have partially resumed by 50% offtake. We should be back in normal zone.

Rikesh Parikh: In Dirok, we are expanding further our pipeline, so do we see that kind of off-take available in that area for the additional supply?

P. Elango: Yes, this time when we expand Dirok we don't plan to supply the entire volume to Oil India as we did in phase I. In phase II we are creating the infrastructure where we can connect directly with some of the major customers, so some of the major customers that are in the network now would be Numaligarh refinery which is undergoing some expansion. They also have immediate requirement for additional gas and there are power plants run by the central government which is also going for expansion, so we do see demand picking up further, mainly from the refining sector as well as by the power sector and there is unmet demand for BCPL also, so we are confident that additional volumes will get full demand as well as some premium in pricing, but having said that all over the world gas off-take is normally on 85% of the capacity, so the take or pay is always signed on a 80% to 85% model as such because while upstream plants don't really require any long shutdowns, so we don't do even planned shutdown on an annual basis, we do shutdown once in a while only clubbing with some expansion activities, but whereas downstream customers, whether it is a refinery or a fertilizer plant or a power plant have routine plant shutdown, so one of the way to mitigate the off-take issues is to slightly commit more than your production volume on a fall back basis, that is something we will continue to look at.

Rikesh Parikh: And sir, my second question is relating to PY-1 and PY-3, so PY-1 you have said that the customer is back at 50% capacity, so whenever the PY-3 comes up we will be able to utilize that fully now?

P. Elango: Yes, PY-1 and PY-3 are two different things. PY-1, our capacity to produce is 10 million cubic feet per day, off-take is currently at 5 million cubic feet which we expect to come back to 10 soon, as soon as the power plant resumes, and we are in touch with GAIL to expedite that. On PY-3 as I said, we will give specific plans once the operator ONGC outlines the plans, we will do that in the next quarter, PY-3.

Rikesh Parikh: So very specific to PY-3, it might take longer time because of the revised plan and the new partner. The agreement can take more time than what we envisaged previously, is my reading right?

P. Elango: Difficult to really mention that because it is all once the transaction part gets completed in September, it is still possible for ONGC and everybody to reach an agreement and proceed.

Rikesh Parikh: And my last question sir, what is your estimate on the revised gas pricing which will be coming in from October 19?

P. Elango: Right now, it is $3.69/mmbtu, I will be able to give some indication after we check out from the industry sources.

Moderator: Thank you. The next question is from the line of Sadanand Shetty from True Equity Advisors. Please go ahead.

Sadanand Shetty: HOEC has sought some 200 acres in Changlang district of Arunachal Pradesh. PML licence**,** so what is the update on this?

P. Elango: This is related to the Kherem field which from DSF 1 round for which we have got the forest clearance and the petroleum mining lease need to be issued by the government of Arunachal Pradesh, so that is in the final stage of issuance. See, our countdown starts after we get the PML, the petroleum mining lease and we have got about 3 years to commence production from that date. If you recall Kherem is a small discovered field which came in DSF round 1 and we have looked at the existing wells, the scope for re-entry is not there, so we will have to do a new well which we will club it with our other programs in North East.

Sadanand Shetty: What is the timeline you expect for PML approval?

P. Elango: PML approval should happen over the next 2 months definitely.

Moderator: Thank you. The next question is from the line of Yash Shah, an Individual Investor. Please go ahead.

Yash Shah: What is the quantum of revenue loss attributed to the production reduction?

R. Jeevanandam: In terms of the revenue loss is about 22 crores total.

Yash Shah: That is the last quarter which has gone by or the current quarter which will be there?

R. Jeevanandam: See it is in comparison to the previous quarter, so about 22 crores was the revenue reduction and if you compare with the previous year first quarter, then this is about 15 crores more than that.

Yash Shah: And now the current quarter which is running which is basically July to September, what is the revenue loss that you are expecting?

R. Jeevanandam: We are not expecting much revenue loss, we will be able to catch up and there would be a small reduction, not much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. P. Elango for closing comments.

P. Elango: Thank you. To conclude, HOEC has a unique value proposition in the Indian E&P sector with the quality portfolio of discovered resources and a strong operating organization, with experience in both onshore and offshore. Even as we drive growth, we are keen to grow responsibly by demonstrating innovation, creating value and be guided by the principles of sustainability, transparency and shared prosperity. In this regard, I am pleased to share with you that HOEC has published its first ever sustainability report for FY19. Report captures specific actions taken by the company to practise sustainability in its operation and outlines the CSR projects implemented in its area of operation. Report is available in the company's website and I would urge you all to read it at your convenience. Thank you all.

Moderator: Thank you. Ladies and gentlemen, on behalf of Hindustan Oil Exploration Company Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.