"Hindustan Oil Exploration Company Limited
Q2 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, Good day. Welcome to the Q2 FY2020 Earnings Conference Call of Hindustan Oil Exploration Company Limited. As the 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 "0" on your touchtone phone. Please note that this conference is being recorded. 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 a warm welcome to our quarterly call for Q2 FY2020. I have with me our CFO and Whole Time Director, Mr. Jeevanandam and Stellar IR Advisors, our Investor Relation Advisors. I hope you all have received the updated investor presentation. We have also uploaded the same on our website for your reference.

During the second quarter of FY2020, gas consumption by end consumers of Assam recovered in full from the lows of Q1, thereby leading to better offtake. Gas production from Dirok was at its full capacity, delivering a record average daily sale of 37 million standard cubic feet per day during Q2. The Hollong modular gas processing plant recently completed 100,000 man-hours of operation with zero down time and zero LTI.

Gas offtake from PY-1; however, is yet to reach its full capacity after the simultaneous shutdown of two power plants in last quarter. One of them is back online and hence the offtake has improved partially but is yet to reach the full capacity of 10 million standard cubic feet per day.

Updates on Tamil Nadu Power Generation Corporation indicate that the power plant is expected to be restarted by December 2019 on arrival of imported spares from USA. This prolonged shutdown is an entirely unexpected event that constrained our offtake for most of Q1 and Q2 FY2020. To protect HOEC's production offtake against such market influences, we have initiated increased market engagement with the end consumer in both the Northeast and in PY-1. We plan to take advantage of the gas pricing and marketing freedom in northeast by exploring direct supply of additional gas to end consumers.

We are progressing our efforts in this direction by preparing to lay a direct pipeline from Kusijan to the gas market hub of Duliajan so that we can have the infrastructure available to supply natural gas to end consumers directly. In this quarter, we have commenced ROU acquisition for this purpose.

Turning to B-80, all through Q2 FY2020, our primary focus was on achieving the necessary progress towards first oil from B-80. Toward the same we are gearing up for the two well subsea campaign in B-80. For well drilling and completion services, we have an integrated well services contract with GE Baker. The drilling rig for this campaign by name Parameswara from shelf drilling is already in India. All the tangibles have been ordered and are under mobilization.

Geophysical survey is now commenced in offshore B-80. The weather window normally opens in the first week of November 2019 but considering the prevailing inclement weather, we plan to spud the well in first week of December 2019. The contract for designing, installing, operating and maintaining the oil and gas process plant in the mobile offshore process unit, called MOPU, has been awarded to EXPRO UK. Design and fabrication of equipment is currently ongoing and is on schedule. Zentech USA who are our project management consultants, our industry leaders in MOPU conversion projects is managing the KGB conversion to MOPU at Lamprell Shipyard, Dubai.

During FY2020, we have been exploring the possibility of using floating storage and offloading tanker instead of evacuating the oil through ONGC pipeline to about 11.5 km from our facility to optimize the cost. This option will require less lead time and would offer more flexibility to market the produced crude oil to any refinery along the coast. This is being considered keeping with our earlier track record of low cost, fast track development and will be another significant achievement once successfully executed. The concept schematic is available in our investor presentation.

On the marketing front of oil and gas from B-80, we have initiated discussions with possible consumers and will progress the commercial discussions in the coming months while keeping you updated on the same. Beyond B-80, we are progressing development projects that are in our three-year pipeline, Dirok and Kharsang. In Dirok, we are focused on executing RFDP of drilling three additional wells to increase the production to 55 million standard cubic feet per day from Q1 of FY2022. Drilling appraisal well in North Dirok has the possibility to increase available hydrocarbon resources for development. In Kharsang, we are preparing to execute the first phase of revised development plan to drill 18 wells and increase the production to 1,800 barrels of oil per day from Q2 of FY2022.

In PY-3, consequent to the acquisition of HEPI by Invenire Energy, operatorship of the field is now retained by HEPI under the new management. Subsequently, in a management committee meeting held on October 15, 2019, PSC extension of the field has been unanimously recommended for approval by the Government of India. The PSC was to expire in December 2019 which is now expected to be extended for another 10 years. That will allow the revival of production from this oilfield located adjacent to PY-1. Further updates on schedule and costs will be known once the JV meets again after receiving the PSC extension letter from GoI. HOEC has 21% stake in PY-3.

Turning to Cambay Basin, Cambay Basin in Gujarat has been in production since the mid-60s. We have been exploring ways and means to step up all activities in Cambay Basin with a view to increase production volumes. Following are the positive developments in that direction. Number one, the production sharing contract for Asjol field has been extended up to 2030. Number two, the PSC for the R2 area which has seen procedural delays is in the final stage of government approval process and we hope to execute the PSC by December 2019. Thirdly production from Palej field is planned to be enhanced with electric submersible pump subject to approval of JV partners. On success, we expect to replicate this model in other blocks in Gujarat.

HOEC had also submitted bids for four onshore blocks in the bid round conducted by GSPC to sell their participating interest in 12 blocks in Gujarat. These are pre-NELP marginal fields with existing small discoveries and minor production. Bids are been opened and are under evaluation. We hope to emerge as the successful bidder in all the four blocks and will update you as soon as we are formally notified. Adding continuous value to our stakeholders will remain our goal. Our immediate focus and priority is to sort out the offtake issue in PY-1 as soon as the power plant is restarted, maintain the high sales momentum in Dirok and focus on successful drilling and completion of two wells in B-80. Planning for success we intend to make our best endeavor to install all the required facilities within the season subject to fair weather to deliver 'First oil' in June 2020. With this I request Jeeva to take you all through the financials.

Jeevanandam: Thanks, Elango. We report that the company made a revenue of Rs.62 Crores in the current quarter against Rs. 53 Crores in the previous quarter in the standalone accounts. In the consolidated accounts, it is Rs.67 Crores against Rs.61 Crores in the previous quarter. If you compare the half yearly consolidated accounts of 2019-2020, the revenue is Rs.128 Crores comparing Rs.117 Crores in the previous half year account of 2018-2019. However, comparing the second quarter of 2019-2020 with 2018-2019 the revenue realized is less by Rs.6 crores. This reduction in revenue is due to poor offtake by GAIL in PY-1 field, as TNEB is yet to make the plant operational, which was shutdown in July 2019. This reduction is not attributable to the performance of the reservoir and is an offtake issue.

Profit after tax for this quarter is Rs.39 Crores including exceptional income of Rs.4 Crores in the standalone accounts comparing Rs.31 Crores in the previous quarter. Half yearly profit for the company for the current financial year is Rs.69 Crores comparing Rs.67

Crores in the previous year. In the consolidated accounts, profit for the six-month period is Rs.74 Crores comparing Rs.70 Crores in the previous year. Other income has increased from Rs.4 to Rs.5 Crores in this quarter, which is mainly from the short-term investment of cash surplus.

Exceptional income of Rs.4.1 Crores relates to the refund orders received from the Income Tax Department for the assessment year 1996-1997, 1998-1999 and 2006-2007. This closes out two decades old tax issues and we have no more tax issues with the department as of now. Operating cost of all producing assets standalone is Rs.6.67 Crores comparing Rs.6.6 Crores in the previous quarter. Half yearly cost as on September 2019 is Rs.13.28 Crores and for the corresponding period is Rs.13.27 Crores. Operating cost of the company is not linear and is not varying much with the increase or decrease in production. Royalty and cess for this quarter is Rs.7 Crores against Rs.5.23 Crores in the previous quarter on standalone basis. Depreciation and depletion is Rs. 6.9 Crores comparing Rs.6.76 Crores in the previous quarter.

Total expense for this quarter including depreciation and depletion in the standalone account is Rs.27.13 Crores comparing Rs.22.6 Crores in the previous quarter. This increase is mainly due to one-time bonus of Rs.3 Crores to executives and increase in royalty by about Rs.1.73 Crores. In the consolidated accounts, the total expense is Rs.31.77 Crores comparing Rs.27.27 Crores in the previous quarter. This increase is mainly to the reasons as stated above. The taxation laws amendment ordinance 2019 issued on September 20, 2019 provides substantial relief to HOEC on MAT. Considering the carryover depreciation loss of Rs.1,045 Crores, the company may not be subject to any corporate tax till the cumulative taxable income exceeds Rs.1,045 Crores in the ensuing years.

Operating cash flow standalone for this six-month period is Rs.78 Crores after incurring additional cost towards royalty and cess on three blocks, comparing Rs.80 Crores in the previous period. In the consolidated results, operating cash flow stands at Rs.84 Crores as on September 2019 comparing Rs.87 Crores as on September 2018. Revenue from Kharsang is Rs.5.63 Crores and the net cash from operation is Rs.2.25 Crores for this quarter. The company standalone has a gross working capital of Rs.323 Crores with cash and cash equivalent of about Rs.189 Crores as on September 30, 2019. In the consolidated accounts, the gross working capital is Rs.338 Crores and cash and cash equivalent is Rs.218 Crores as on September 30, 2019. We are committed to unlock the potential of existing assets and the acquisition of assets, which has upside potential.

We are debt free and no intension to lever the company unless there is a compelling inorganic acquisition. Thanks, Elango.

P. Elango: Thank you, Jeeva. We will now open for questions, please.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj Mahadevia from IIFL. Please go ahead.

Viraj Mahadevia: Congratulations on stable and up trending results. Couple of questions from my side; one is to Mr. Jeeva. Can you elaborate more on the financial side, the point you brought up on tax, you went through it in a pretty rushed manner, but from my understanding it sounds like you will have no tax whatsoever for the next couple of years, is that right?

Jeevanandam: **W**e carry over loss to the extent of about Rs. 1,000 Crores. Now with the amendment, we are not claiming any exemptions. We are not subject to any MAT, so till we reach Rs. 1000 crores of cumulative taxable income, we have no tax liability.

Viraj Mahadevia: Which means for the foreseeable future, for the next three to four years you have zero tax?

Jeevanandam: That is right.

Viraj Mahadevia: Right, okay. This is a deviation from the previous 20% MAT that you had expected?

Jeevanandam: That is right.

Viraj Mahadevia: Okay. Second question is regarding ability or propensity to pay dividends in the future. I notice that there has been substantial cash flow generation during the first half of this year. Your cash on books is up roughly Rs.70 Crores and this is while you are incurring a capex and you are still in this growth and investing phase. You have incurred a capex of about Rs.26 Crores. As I look at your business, two to three years from now when you have completed this capex cycle, predominantly B-80, you will have substantial cash flow generation assuming you do not have inorganic investment opportunities or further capex. Are we as shareholders likely to see a fair amount of dividend payments?

Jeevanandam: The major outflow of B-80 starts from November. November 2019 to July 2020 there will be substantial expenditure we have to incur on B-80 and after that immediately we will be doing work on our PY-1 field. Then we have a substantial work program lined up for our Cambay blocks. As Elango rightly said, if we are a successful bidder there in GSPC, we will be operating a total of eight blocks in Cambay. We plan to drill a substantial number of wells to bring a meaningful business unit of Cambay that will produce at least 1,000 barrels. So, we will be able to meet all these capex commitments with the cash we are generating currently and if we do not find any inorganic opportunity, we will consider dividend payout after execution of our project pipeline.

Viraj Mahadevia: Helpful. Can you clarify what is the planned capex for FY2020, so you have incurred 26 Crores so far, and you said you will have a fair amount of B80 expenditure during this financial year what is the incremental or the total capex lined up for FY2020 and if you can give us a sense of what is the capex plan given all these other various expansions and debottlenecking for FY2021 and 2022.

Jeevanandam: The capex plan for financial year 2019-20 is about Rs.245 Crores.

Viraj Mahadevia: Of which we have only spent about 30?

Jeevanandam: Yes, that is right. If we factor the PY-1 development and Cambay block, we are talking about another Rs.150 Crores.

Viraj Mahadevia: Right, this is in FY2021?

Jeevanandam: 2021.

Viraj Mahadevia: Right. Okay and 2022?

Jeevanandam: FY2021-2022 it depends on the success of B80. Then again, we might have to drill a couple of more wells in B-80. And then we have got Dirok development which will be completed in 2021-2022. That is a three well program and then we have Kherem, then Kharsang is lined up and one more exploratory block near to the Dirok. We have fully committed capex for our organic growth itself.

Viraj Mahadevia: Understood. So, it sounds like you have a fairly intensive capex program but decreasing in intensity over 2020, 2021 and 2022. Presumably after that, if you do not have either inorganic growth opportunities or further investment then you should really turn into a cash flow machine?

Jeevanandam: We have to maintain a combined average growth rate for our shareholders. So, we would look for more opportunities to invest both in our existing block as well as inorganic acquisitions.

P. Elango: Viraj, if I may add our portfolio is majorly discovered resources. So, the strategy we have been following is to really focus on one project at a time in the past three years. We started with Dirok then we did PY-1. The biggest one is B-80. We are very focused on completing the project and as Jeeva pointed out and we are developing a pipeline of projects across our current portfolio to ensure that we continue to drill and monetize our resource base both discovered and yet to be discovered in onshore as well as in offshore.

Viraj Mahadevia: Thank you. That is it from my side. Thank you. Good luck.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Family Investments. Please go ahead.

Ravi Sundaram: We were discussing about the substantial capex that we would undergo over the next couple of years. On the B-80 block, where we are about to start the drilling campaign, what is the actual potential and what would be the rough revenue potential for that block?

Jeevanandam: The targeted production is 5,000 barrels minimum. The revenue depends on the oil price. You can multiply the daily production by 365 and then by the oil price. That would be the potential. Our net would be 50% of the total revenue.

Ravi Sundaram: I recently noted that from October 1, the revised gas prices was around 3.23 from 3.69. This domestic gas price is going to be there for next six months. How does it impact our upcoming quarter's revenue?

P. Elango: The gas price, as you all know, is determined by a cocktail of global gas prices that is determined on a six-monthly basis. We have two major gas producers. One is in Dirok which is governed by this pricing formula. The other is PY-1, where we hold 100% PI and the gas price is not governed by this formula. It is a fixed \$3.65 per MMBTU price. So, part of a gas portfolio is determined by a fixed gas price model of \$3.65 per MMBTU. In the North-East, the government has given the marketing freedom to operators. You also have this challenge of ensuring payment security. Preference is to sell the gas to the public sector and large organizations who ensure payment security. All these companies use only the government determined pricing model, so we are following that. What we do differently in Assam, Dirok plant is keeping our operating costs very low, we have an operating cost model in which we pay a fixed fee per month to the operator irrespective of the volume and the throughput. So, we have increased the volume to mitigate some of the risk on the pricing. Overall, there is a 12% reduction in the gas price and at this stage we do not know how the next six-month outlook would be.

Ravi Sundaram: Okay. That was clear. I will wait in the queue Sir. Thank you very much.

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

Varatharajan S: On B-80, I want a clarification about the latest amount of capex and the lease model. What is the size of it because this has been changing over a period?

Jeevanandam: Our model for offtake is one through MOPU. The MOPU is partially leased, partially owned and in the similar manner we would look for an FSO. For the FSO, the lease exposure would be about $20,000 a day. This will substantially reduce the capex. So, we are evaluating the option of putting a capex investment for a pipeline of about 11.5 km and paying tariff to ONGC compared to the floating storage offshore model on lease. So, the net to net is about $10,000 impact against the capex. This we are evaluating now.

Varatharajan S: Fair enough, Sir. What would effectively be the capex committed to the B-80 before First Oil?

Jeevanandam: The total committed capex is about Rs.177 Crores which we will be spending within six months' time.

Varatharajan S: Fair enough, Sir. My other question was on the extension pending, when are we likely to get that?

P. Elango: I think government has started issuing the formal extension letters. We have got an extension letter for one of our blocks in Cambay. We have already received the letter and, I saw in the newspaper, the extension letter for our field in Cambay. So, I think over the next three to six months' time we should start receiving the extension letters for all eligible blocks. In terms of what we need to do as an operator, we had to present the revised field development plan and that gets reviewed by the management committee to make the recommendation for PSC extension. In all our blocks, this step has been completed. All the recommendations are with government and we expect the government to start issuing the letters over the next three to six months period.

Varatharajan S: Great Sir. Thanks.

Moderator: Thank you. The next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.

Chintan Seth: Thanks Sir. Good morning and congrats on good set of numbers. From Q1 we recovered a fair bit of volumes back. Employee cost is high because of the ESOP, is that correct?

Jeevanandam: No. It is not ESOP. Employees have been granted a one-time bonus. ESOP has been accounted last year itself.

Chintan Seth: Okay. So, this is one-time bonus. How much was that?

Jeevanandam: Rs.3 Crores was paid to the executives. But that is exceptional.

Chintan Seth: Okay and there was in the standalone cash flow statement, loan of Rs.14 Crores to subsidiaries. What is that pertaining to?

Jeevanandam: Geopetrol Mauritius is our wholly owned subsidiary which is owning the Jack-Up Rig called Key Gibraltar, which is being converted into the MOPU, which will be deployed in B-80. For that funding, we are giving an intercompany loan to our 100% owned subsidiary. This is what the Rs.14 crores is pertaining to.

Chintan Seth: So, this MOPU, you earlier mentioned that is partially leased and partially owned. So, the investments you made, do we consider it as an investment or capex?

Jeevanandam: This is totally a capex investment. The top side facilities are being leased out, which is the basically production facilities to be mounted on the Jack-up rig converted to MOPU. These equipments are on lease.

Chintan Seth: Okay. Field-wise capex you mentioned B-80 to be Rs.245 Crores and PY-1 you mentioned Rs.150 odd Crores. So, could you further explain and provide data on the three-well program in Dirok, Kherem and Kharsang. What will be the capex you are planning out and this Rs.245 is our own share?

Jeevanandam: It is our own share.

Chintan Seth: Okay. So, if you can give us numbers for Dirok, Kherem and Kharsang.

Jeevanandam: Kharsang we are talking about investment of about Rs.60 Crores which is our share. And Dirok we are talking about drilling of three wells and with the total paraphernalia of facilities about another Rs.60 Crores. Kherem and other small development is about Rs.30 Crores. So, for the Northeast about Rs.150 Crores program pipeline. That is for 2021-2022.

Chintan Seth: Okay. And PY-1?

Jeevanandam: PY-1, we are evaluating the resource base over there. Once that is completed, after completion of B-80 development program, we will be embarking on first well drilling and after the success of the first well we will be drilling two more wells, so three-well program in total. Each well will cost around $10 million, so roughly, that program is about Rs.150 to Rs.180 Crores. It all depends on the success of the first well drilling.

Chintan Seth: Right. Dirok extension was pending right, Sir?

P. Elango: Dirok, FDP has been approved but Dirok extension is not due now, we are expecting it in 2024. It will be due for extension later only. In 2020, extension is due for PY-1. And 2019 extension due was for PY-3.

Chintan Seth: Right. I will join back in queue. Thanks.

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

Vishal Gupta: What is the cost curve likely to be for the gas as well as the oil. How much would be the cost of production?

Jeevanandam: See our development capex we are expecting to be in the order of $10 to $11 per barrel.

Vishal Gupta: That would be the running operating opex?

Jeevanandam: No. That is our capex. The operating cost we are expecting in the order of about another $7 to $8 which is what we are in the process of optimizing as much as we can.

Vishal Gupta: I think $7 to $8 would be the production opex and in addition there is the royalty and revenue share that the government gets. So that linked to the overall pricing formula which was mentioned in the presentation. But production opex is just $6 to $7 per barrel of oil. What would it be for gas?

Jeevanandam: Actually, it is the combined facility. Gas it is more of a by-product. Overall for both Oil and Gas, per barrel, it would be about $7 to $8 for opex and the netback for us would be a minimum of $20 per barrel.

Vishal Gupta: Sorry I did not get that, what would be the $20 per barrel.

Jeevanandam: Netback to us after meeting all our expenditures, royalty, cess and government share we expect per barrel $20.

Vishal Gupta: Got it. That would be the profit assuming the current level of oil prices?

Jeevanandam: That is right.

Vishal Gupta: Understand. In the last couple of concalls you mentioned that the ongoing capex in the next two years would be Rs.250 to Rs.300 odd Crores how much of this is for maintaining the current level of production in Dirok and PY-1?

Jeevanandam: It is for enhancing the production, not for maintaining the current level of production. Current level of production the plateau for Assam is about 10 years, for other blocks it is about three to four years. This is basically to enhance the production from the current level.

Vishal Gupta: So, you need maintenance capex on an ongoing basis for any of these projects?

Jeevanandam: We do not expect any major workovers or any maintenance capex in the immediate.

Vishal Gupta: Understand. With the Dirok expansion that you are planning which is to come on stream in Q1/Q2 FY2022, you had mentioned that you could have free marketability there. But in that area, most of the consumers are PSUs, who are used to the regime of government nominated prices. So, when you are doing your estimate, are you budgeting government prices as the one that you would be able to realize, or do you think that you will be able to get better commercial terms?

P. Elango: Our effort would be to get commercial market determined prices for the incremental volume. We are looking at it two ways. Current production is around 35 million cubic feet per day. Through these three well campaigns we expect to increase the production to 55. For the additional 20, our target is to secure a market determined price. Where we are really focusing on is one of the major developments - Numaligarh refinery expansion (NRL). Though it is a PSU, the expansion is currently being planned on imported LNG through a gas grid that being developed within the state of Assam. So, we expect to compete with that and secure a better price. The target is to realize market determined prices which would be higher than what we are getting now.

Vishal Gupta: Understand. That makes sense. On the B-80 project, I know that it is a discovered field and there are not too many risks there, but in terms of execution, and in terms of actually being able to start production there, do you see any risks in terms of implementation or in terms of actually being able to explore that field, or do you think it is certain and it is only the matter of executing it?

P. Elango: Vishal, as you pointed out, being a discovered field**,** where ONGC had drilled four or five wells and the data related to the actual discovery of oil is available, we do not see any Geological risk as far as this campaign is concerned. Number two in terms of operational risk in the west coast, what we have done is to mitigate our risk by partnering with the best in the industry, so the rig that we have secured is one of the best rigs from Shelf Drilling, the well services are being provided by GE Baker, we have hired a very experienced and talented team to manage this operation. So, we have planned it well in advance, and we hope to be confident that we would be able to execute the entire campaign successfully. One issue that we are continuing to monitor is related to the weather. Normally the weather window opens in Mumbai between mid October and early November, but this year it has had a delayed start, we are hoping that it has a delayed end to it. So, we would monitor that. Our initial focus is to successfully drill both the wells and complete the conversion of MOPU project which is on track and the drilling program is all set to commence in early December. All the approvals have been secured, all the materials have been ordered and mobilized and the third element as Jeeva was explaining on the evacuation side we are looking at an opex kind of model using a Floating Storage and offloading unit and shuttle tankers.

Vishal Gupta: Great. Understand. That is helpful. So just to summarize on B-80 front you are saying that 5000 barrels production is what you would be targeting. $20 per barrel of profits at current prices is what you expect. You have 50% share there and, in your mind, this is certain, given that the field is a discovered field, would that be a fair summary?

P. Elango: Yes.

Vishal Gupta: Okay. Thank you so much Sir. These are the questions that I had.

Moderator: Thank you. The next question is from the line of Samir Patel from Savvy Capital Advisors LLP. Please go ahead.

Samir Patel: Good morning everyone. Thanks for this opportunity. Many of my questions have been answered but I will just touch up on couple of more. Sir these blocks which you got with GSPC, are we looking at many more such type of new blocks?

P. Elango: I think as Jeeva pointed out, we have been keen on enhancing our footprint in Cambay basin. As you know, we have been in Gujarat for long, but we have been producing very,

very marginal volumes from there. So, we have been looking at expanding our footprint in Cambay but unfortunately in the discovered small field rounds, the bids have reached a very highly competitive level, so we could not secure any field in those rounds. But we saw an opportunity in the GSPC blocks bid where we could take on some of the fields and bring in some innovation both in technology and the investment to drill more wells and improve the production. We found the terms to be very attractive, because these are all pre-NELP terms, which gets attractive fiscal terms. Therefore, we have submitted the bid and since we have emerged the highest bidder in those four blocks, we thought it is appropriate to update you, but we are still waiting for a final formal notification by GSPC which we expect over the next two weeks' time. So, once we have that then we will share more details about our work program and other details. Our overall target is to take the net production in Cambay from the current level of less than 100 barrels to about 1000 barrels. This will be an important milestone. With a portfolio of seven blocks, we should easily be able to achieve and exceed the target over the next two years' timeframe.

Samir Patel: Good Sir. Good to hear that. I think few other PSUs were also contemplating such type of small fields, is that correct?

P. Elango: Nothing formally known other than the GSPC's bid. But currently with this addition if you look at our portfolio we have got in offshore east coast a presence through PY-1 and an exposure in PY-3, in west coast with B-80 we will be present in a material manner and Northeast we have a portfolio of assets were we have a project pipeline. We felt in Cambay there is a need to expand so we thought this is a right opportunity. Now the next step would be to execute all the projects before we look at adding more.

Samir Patel: Right Sir. Regarding B-80 pricing, oil we can understand, what about gas, what is the kind of pricing?

P. Elango: Yes. Gas is a free market pricing. Interestingly, the B-80 gas will be tied into ONGC's existing line which goes to Hazira which targets the Gujarat market which is the best premium market available in the country for gas. We really expect to realize a good price. The market has remained premium for gas, but we have only done some initial work and we want to wait till the first well is completed which will give us more detail about the quality and quantity of oil and gas before we can get into the any commercial discussions with the potential buyer. What we have assessed is there is adequate demand and the infrastructure is already available in the form of GAIL pipeline connected to Hazira as well as the GSPC pipeline very adjacent, so the connecting network is very much there to realize better prices.

Samir Patel: Sir if I am not wrong, the Gujarat pricing could be close to $6?

P. Elango: You are not wrong.

Samir Patel: Okay, Sir. Next question is, PY-3 output as and when it comes on stream what is the kind of output we are looking at?

P. Elango: Before the field got shutdown, the wells were producing about 3,000 barrels of oil per day, so the priority would be to revise that production. Then drill additional wells to take the production further and we would know all the details after we get the PSC extension and the JV meeting would be called in after that.

Samir Patel: Okay. How long do you think it is going to take?

P. Elango: The management committee meeting was held on October 15, 2019 after a gap of several months because of uncertainty that was prevailing earlier. In the meeting two things were decided, one is that, HEPI under the new management will continue as the operator, and number two, to seek the PSC extension, recommendation was approved unanimously. So, because the PSU was expired in December, we expect by end December the letter from government may come or may be after a month or so the meeting will take place. So, I think by the next quarter call we should be able to give you further update on PY-3.

Samir Patel: Great, sir. Last question from my side on the presentation you were saying that the output which we are expecting from the second half of financial year 2020 is higher, is my understanding?

P. Elango: Yes, correct. Our target remains to commence production from B-80 by June 2020 assuming that the second half volume would go up. Though we have some catch up to do in terms of the current year of what we have forecast.

Samir Patel: Sir, I am asking in this current financial year. Page 14 in the presentation shows that our volumes are going to be much higher than we have done in the first half?

P. Elango: Yes, I mean we have not changed the forecast. The model that we have followed was that the beginning of the financial year, we have given a forecast. The first two quarters have not been according to the forecast. We may not be able to achieve the full volume, but we expect the last quarter to come close to that. There is no point in changing the forecast every quarter. We have kept it as it is.

Samir Patel: Sure. Okay. All the best.

Moderator: Thank you. The next question is from the line of Sushil Agarwal from NPCC. Please go ahead.

Sushil Agarwal: Thank you very much. I am Sushil calling from NPCC Abu Dhabi. In your presentation this MOPU mobilization has been shown as Q4 2020. So, in Q4 2020 means we are expecting around March 2020, this work will be finished on Lamprell and then it will be mobilized to site?

P. Elango: It will be finished before that. We have indicated, we are expecting it anytime between January and March.

Sushil Agarwal: January to March okay. So, then it would be on time to start our production by June 2020.

P. Elango: Correct.

Sushil Agarwal: Oil Evacuation through pipeline is cheaper if it is a long-term field. What is the lifetime of the B80 field?

P. Elango: It is a discovered small field. We are planning all facilities for a period of about seven years and at the end of this two well drilling campaign, we would assess the resource base. I mean there is flexibility from the contractual side to produce as long as you can but how long we produce depends on the resource base that we establish as well as the number of wells we choose to do. It will be known at the end of this two well drilling campaign starting December over the next four months.

Sushil Agarwal: **My** point is that for this FSO the cost will be something like 26 million for us and 26 million for the partners, so total 50 million, with the pipeline this cost would have been cheaper. It looks to me like the pipeline option would have been better?

P. Elango: Mr. Agarwal, there are two things. In the pipeline option also, we would be required to pay a tariff to ONGC for using their system. So, this amounts to around 3 to 3.5 dollar per barrel. And the other advantage of the FSO option is you would be able to sell the crude oil to any of the coastal refinery giving us some chances of realizing, slightly a better realization. With the pipeline options, obviously, you stay connected to whoever are the buyers of ONGC crude as such. We evaluated both the options. We felt the FSO appears to be a better option for us.

Sushil Agarwal: Other thing is the rig (KGB) for this MOPU is it already in Lamprell for fabrication work or presently drilling is going on and it will be coming to Lamprell after sometime?

P. Elango: No. The rig is very much in Lamprell yard now.

Jeevanandam: 20% of the work has been completed.

P. Elango: Completed, yes. Strengthening work is going on and all the top side of the rig equipments have been removed. The flooring and things required for installing the production equipment are being done. So, we are on schedule. It is work in progress there.

Sushil Agarwal: I congratulate you. I know lot of work is going on. On R2 and PY-3, I know there are delays due to government controls and government approvals. But if we can progress on these fields then it would be an excellent achievement. Thank you.

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

Tejas Shah: Two things. One is in the last quarter you have sold some shares to apply for ESOP. That is the reasoning that you have given, can you elaborate on that?

P. Elango: That is the reason, but Jeeva will explain more detail.

Jeevanandam: See normally, when the ESOP is allotted, immediately you must take based on the current market price, you must pay the income tax. Now that income tax is not on the short-term capital gains capped at 10% but it is based on the total income and we must pay 42% tax. To pay the tax, we have no other options, but to sell some of our existing holding.

Tejas Shah: Okay and any plans of again re-procuring it since the company is in a growth phase, I think you have sold it in the range of I think about Rs.100.

Jeevanandam: We have sold it. If we plan to buy more, we will inform you then.

Tejas Shah: There is a problem of offtake from the existing customers. So, for how long is this going to be a problem and even once we start drilling B-80, will the problem keep persisting because right now we have the product available, but then there is no offtake from the existing customers?

P. Elango: On the gas front, as far as Assam is concerned, they are well diversified there, because we use Oil India's pipelines and we sell the gas to Oil India. Oil India has many customers, so unless there is a major customer shutdown, we should be able to manage that. In Tamil Nadu, the major customers are few of the power plants owned by the Government of Tamil

Nadu. There we are exposed to how well they are managed. GAIL is laying additional pipelines, identifying additional consumers to mitigate risks. But all over the world, gas offtake is always in the range of about 80% of the committed contracted volume, because customers do have their maintenance shutdowns, etc., so there is an element of an inherent risk in that. I would say we are fully covered in as far as the north east is concerned, and in Tamil Nadu, I think things will improve for the better over the next few months.

Tejas Shah: In this quarter also, the problem is there or is it resolved?

P. Elango: No. As I said the plant is going to be re-commissioned only in December. They are partially back but not fully.

Tejas Shah: Another thing is there is a talk of northeast grid by the government. Can you throw some light on the same?

P. Elango: The government is proposing to import LNG from Paradip Port and then lay a pipeline grid that will connect the entire northeast. A joint venture company has been set up basically involving all the public sector companies. The company has been incorporated, they have their headquarters in Guwahati, we are in touch with them. They are doing the initial survey work related to this pipeline. It is more of a long-term vision to create the pipeline infrastructure. This should help us in a big way from a long-term perspective as well as this whole grid and customer identification demand estimate is based on partly imported gas from outside India.

Tejas Shah: Thank you so much.

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

Sadanand Shetty: What is the reason for record sales of 37 million in last quarter? Was that throughout the last quarter or part of the last quarter?

P. Elango: Almost through the last quarter. We have been doing more than 35. Basically, there is good offtake by the customers, and we were able to deliver that.

Sadanand Shetty: Right. You said your target is to maintain the high momentum, so can we assume this is a substantial trend over next several quarters?

P. Elango: It is a sustainable trend that is what we are seeing even now. We are hoping that should help us in the second half.

Sadanand Shetty: What is the timeline for Duliajan pipeline completion?

P. Elango: So that would come along with the development of the Dirok phase 2, which we said Q1 of FY2022. We are focusing on the pipeline segment first because that is the longer lead segment. We have already commenced the ROU and forest clearance etc.

Sadanand Shetty: Thank you very much.

Moderator: Thank you. The next question is from the line of Ravi Sundaram from Sundaram Investment. Please go ahead.

Ravi Sundaram: Thank you. Quick followup question, so the question is for B-80. What is the risk to this target of 5,000 barrels production? Can there be a situation where we might have lesser production?

P. Elango: 5,000 is really based on the initial test rates that ONGC had observed in the well drilled by them. We are reasonably confident of achieving that number and I think we said the first well is going to be commencing first week of December so we should have the results by January.

P. Elango: Tested results we have been able to share in the next quarter.

Ravi Sundaram: I think that would help. Second question is, we are looking at 'First oil' by June, so full potential would probably take another two quarters from June.

Jeevanandam: That initial phase of development is for two wells and depending on the well results and bit of a production performance we will look for drilling of additional wells, including water injection.

Ravi Sundaram: Okay. These are my followup question. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Sharad Sharma an Individual Investor. Please go ahead.

Sharad Sharma: Congratulations. Sir any learning from the unsuccessful attempts with NCLT and HEPI?

P. Elango: Right on the NCLT, we are learning how painful and long the process could be. The final award is yet to be approved by the Allahabad NCLT, but as we have stated in the last quarter call, we lost our bid on the additional 35% in Kharsang.

Sharad Sharma: Correct and HEPI?

P. Elango: Our business model is very different. If you look at the way, we are driving the company since 2015. Our focus is on the execution. There is enough opportunity. There is enough space for multiple players. We will buy at the right cost not at any cost.

Sharad Sharma: Got it. Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Sushil Agarwal from NPCC. Please go ahead.

Sushil Agarwal: About B-80, this pipeline from MOPU to ONGC pipeline, whether that pipeline has been finalized for some contractor?

P. Elango: Yes. Now we have identified the contractors. We identified the material for the gas line, yes.

Sushil Agarwal: Has it been awarded?

P. Elango: Discussions are going on with a couple of pipeline companies. We will be short listing one of them soon.

Sushil Agarwal: Okay. Other thing about that the well connection means through the MOPU it will be through flexible lines?

P. Elango: It is all flexible.

Sushil Agarwal: For R2 and Umatara prospects, are there any updates on the same?

P. Elango: Nothing now. We are just waiting for the PSC to be executed after that we will share with you.

Sushil Agarwal: Thank you.

Moderator: Thank you**.** As there are no further questions from the participants, I now hand the conference over to Mr. P. Elango for closing comments.

P. Elango: Thank you and as I said in my opening remarks, currently the organization is fully focused on executing the B-80 project. It is a large project and we are partnered with the best of the contractors and are confident that we will execute it successfully. Thank you.

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