"Hindustan Oil Exploration Company Limited Q3 FY20 Earnings Conference Call"

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MANAGEMENT: MR. P. ELANGO – MANAGING DIRECTOR

MR. RAMASAMY JEEVANANDAM – CFO

Moderator: Ladies and gentlemen, good day, and welcome to the Hindustan Oil Exploration Company Limited Q3 FY20 Earning 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 '*' then '0' on your touchtone telephone. I would now like to 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 call for Q3 FY20. I am joined by our CFO Mr. Jeevanandam and Stellar IR Advisors, our Investor Relations Advisors. A short while ago we uploaded the Investor Presentation on our website and circulated.

In Q3, gas offtake in Assam was adversely affected due to local strike and unrest. All major gas consumers had to reduce or stop receiving gas forcing partial and full shutdown of our plant as well for few days. While the local situation is improving gradually, a major safety incident in one of the plants of Brahmaputra Valley Fertilizer Corporation, BVFCL, forced Oil India, who is our buyer to reduce the offtake from Dirok. Due to these factors, average gas offtake from Dirok during Q3 FY20 was 29.5 mmscfd while we had the production capacity to deliver 36 mmscfd. We view this as purely a short-term issue as all our major consumers are public sector units.

The North East gas sector development got a big boost with over Rs. 5,000 crores of viability gap funding for the North East gas pipeline to connect to the National Gas Grid. In addition, Oil India has also planned to lay a 60 km pipeline from Kumchai near Kharsang to connect it with Duliajan. We are also progressing with our Margherita gas pipeline to bring Dirok gas to Duliajan which is the marketing hub for North East gas. Overall, we firmly believe in our strategic focus on North East where we hold 5 blocks with potential resources. I can assure you that we will carefully monitor the gas infrastructure, development, gas offtake consistency and allocate capital to our portfolio of blocks prudently.

Similarly, at PY-1, while the Tamil Nadu Power Generation Corporation's plant came back online toward the fag end of Q3, we are yet to get assurance on consistent offtake. To move away from this dependence on power sector, we have executed a conditional MoU with a private end consumer to sell 1.2 mmscfd of gas on fallback basis at a premium over our current gas price. This is subject to the consumer executing a gas transportation agreement with GAIL. The idea is to step up our direct marketing engagement with end consumers to discover market prices in the Cauvery region.

On B-80, the primary focus for HOEC's next phase of growth, we are happy to inform that we have drilled the first well to the target depth of 2,730 meters safely and successfully. We expect to conduct the well test for flow in the next couple of days. We will update the results through a release as soon as we have them. In parallel, the conversion of jack-up rig to a mobile offshore processing unit, MOPU, is now nearing completion on schedule at Lamprell Shipyard. The MOPU will be ready to sail out of Dubai in March 20, on target. It will be available on time for completion of second well for hook-up**.**

On the export system, we have now sourced a floating storage and offshore unit, FSO unit, with large oil storage capacity. This FSO will require dry docking and a calm buoy mooring system deployed in B-80. This system will offer more flexibility to market the produced crude oil to any refinery along the Indian Coast securing market determined premium prices. Natural gas from B-80 will be taken to the Gujarat market through ONGC's Hazira plant. We will construct a gas pipeline from the MOPU to ONGC's gas pipeline post monsoon 2020. We are continuing the discussion with potential gas consumers in Gujarat gas market. As the gas to be produced from B-80 enjoys full gas marketing and pricing freedom, we expect to realize a premium gas price. Jeeva will explain the B-80 development cost and funding arrangements made to maximize and retain the value of B-80 within the group companies of HOEC.

In another major development, the production sharing contracts for PY-1, PY-3, Kharsang and Asjol field have been extended for another 10 years. This allows for redevelopment of these fields over the long term. While the execution of PSC for R2 area in Cambay has been further delayed, we were the highest bidder for the 4 Pre NELP marginal onshore fields in Gujarat auctioned by GSPC. As required under the PSC, GSPC has offered the participating interest in the 4 blocks to JV partner GNRL for first right of refusal. We are in discussion with GNRL to farm-in with joint operatorship for 50% participating interest in each of the 4 blocks.

Our immediate focus will be to complete the testing of the first well and move the rig safe to drill the second well in B-80 safely and successfully. In parallel, we will mobilize MOPU in time for hook-up of both wells, complete the dry dock of FSO for class and will endeavor to install the oil export facility. If weather permits, our endeavor will still be to commission all the facilities other than the gas export system pre monsoon that is by mid May 2020. If not, installation of export system and commissioning can be done only post monsoon to commence first production by December 2020.

With this, I request Jeeva to take you all through the financials.

R. Jeevanandam: Thanks, Elango. We report that the company made a revenue of Rs. 51 crores in the current quarter against Rs. 62 crores in the previous quarter in the standalone accounts. In the consolidated accounts, it is Rs. 55 crores against Rs. 67 crores in the previous quarter. This reduction in revenue is due to poor offtake by OIL India in Dirok field and the reduction in gas price. Profit before tax and exceptional Rs. 31 crores comparing Rs. 36 crores in the previous quarter. Profit after tax including exceptional items is Rs. 52 crores against Rs. 39 crores in the previous quarter.

In the consolidated accounts, the profit after tax for this quarter is Rs. 53 crores against Rs. 40 crores in the previous quarter. Other income is increased from Rs. 5 to Rs. 6 crores in this quarter which is mainly from the short-term investment of cash surplus. The exceptional income of Rs. 22 crores relates to write back of liability towards ENI India Limited for the disputed invoices related to the period of 2010-14.

Operating cost of producing asset standalone is Rs. 6.5 crores comparing Rs. 6.7 crores in the previous quarter. Operating cost of the company is not linear and is not varying much with increase or decrease in production. Royalty and cess quarter-on-quarter is Rs. 5 crores against Rs. 7 crores in the previous quarter on standalone basis. Depreciation and depletion is Rs. 6.29 crores comparing Rs. 6.94 crores in the previous quarter. Royalty and depreciation and depletion is more linked towards the actual production. Total expenses for this quarter including depreciation and depletion on the standalone account is Rs. 21 crores comparing Rs. 27 crores in the previous quarter.

In the consolidated accounts, the total expenses is Rs. 24 crores comparing Rs. 32 crores in the previous quarter. The Taxation Laws (Amendment) Ordinance 2019 provides substantial relief to HOEC on MAT considering the carryover depreciation and loss, the company may not be subjected to any corporate tax till the taxable income exceeds about Rs. 1,000 crores. Operating cash flow standalone for this 9-month period is Rs. 107 crores comparing Rs. 124 crores in the previous period. In the consolidated results, the operating cash flow stands at Rs. 115 crores comparing Rs. 135 crores in the previous period.

Revenue from Kharsang is Rs. 4.38 crores and the net cash from operation is Rs. 1.85 crores. The company standalone has a gross working capital of about Rs. 349 crores with cash and cash equivalent of about Rs. 149 crores as on 31st December 2019. In the consolidated accounts, the gross working capital is Rs. 338 crores and the cash and cash equivalent is Rs. 176 crores as on 31st December 2019.

In case of B-80 development, support services are required for processing the oil such as mobile offshore production unit and a storage and offloading through a single point mooring system and a floating storage offshore is required. These facilities are normally procured through service companies with long-term contracts. Considering the reasonability of returns, these facilities are resourced through our own subsidiaries with a borrowed capital of about Rs. 80 crores which levers the subsidiaries around 33%. It facilitates our subsidiaries to embark on oil field services which could unlock about 20% post tax return and provides leverage in B-80 operations.

The envisioned capital outlay of Rs. 230 crores is with a debt capital of Rs. 80 crores and Rs. 150 crores through equity. Overall, growth of E&P assets in HOEC and its subsidiaries and oil field services would be funded by internal accruals and asset backed borrowing through subsidiaries. Thanks, Elango.

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

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Sudhir Vedha from Right Time Consultancy. Please go ahead.

Sudhir Vedha: Sir, in the investor presentation for the next year, you have given the net production of 7,500 increasing from 4,500 in current year, boepd. Will this come entirely from B-80? That is the question number one. And the next question, whether the problems with the downstream consumers which you face in Q3 will get over and are you looking for alternate customers for Dirok Field? What kind of level do you expect next year from Dirok and will it operate in a full capacity?

P. Elango: The next year revenue increase would really come from B-80 depending on when we start the first production. On Dirok, as we said, we see this as only a short-term reduction in offtake. We expect to see the customer coming back to consuming full volume over the next quarter or so. We expect the change to occur possibly from March-April onwards.

Sudhir Vedha: So that means, the entire revenue uptick will happen only from B-80 and there won't be any increase in the production from the existing fields for the next year, isn't it?

P. Elango: For the next financial year, there will be no increase from production from the existing fields, all incremental production would come only from B-80.

Moderator: Thank you. The next question is from the line of Raj Mahadevya, Individual Investor. Please go ahead.

Raj Mahadevya: Question is regarding the topline. When I look at topline of Rs. 55 crores on a consol level for Q3 versus Rs. 77 crores for the same quarter previous year, can you explain the Rs. 22 crores negative differential in topline and break it up into price impact and volume impact?

R. Jeevanandam: Gas price has reduced from $4 to $3.5 in Dirok. Also, the volume produced has reduced to about 0.9 BCF. In effect, this has reduced the total revenue by about 22% considering the previous quarter. Then come to PY-1, if you compare, revenue of Rs. 35 crores in the previous year has come down to just Rs. 10 crores. In PY-1, the price remains constant, but revenue has had an impact due to production loss.

Raj Mahadevya: So just to summarize across our fields, how much is coming from price and how much is coming from volume?

R. Jeevanandam: The volume reduction is higher compared to the price reduction. If you want me to quantify, Volume reduction is roughly around 60% and the contribution of price reduction is around 40%.

Raj Mahadevya: Price reduction obviously is not entirely in our hands, it is a function of government pricing and oil prices. But 50% impact which is volume, we are saying should start to normalize in Q4 and certainly going into Q1 of the new financial year?

R. Jeevanandam: Right.

Raj Mahadevya: Second one is employee benefit expense line, Mr. Jeeva. There is a lot of volatility around this expense line over the last 3 quarters. Also, our 9-month employee cost base is up almost 60% over 9 months of the previous year. Just trying to get a sense of what is happening there?

R. Jeevanandam: There was a one-time bonus of about Rs. 3 crores given to executives during September 2019. If you remove that from the equation, the cost is varying from Rs. 75 to 80 lakhs. The amount on the expense line depends on the amount that is charged to the joint venture partners. Since the number of blocks have increased, the cost to company on employee benefit expenses can reduce because substantial time allocation will take place. Otherwise, if you look at the 9-month period ended on December 2018, it is about Rs. 3 crores; December 2019 is about Rs. 4.3 crore, if you knock out the Rs. 3 crore that was given to executives, it is Rs. 1.63 crore. Rs. 1.63 crore from Rs. 2.93 crore, there is a Rs. 1.3 crore reduction. This reduction is mainly because of charging the expenditure to various blocks. Effective utilization of the management and employee’s time and increased distribution of cost due to increase in number of blocks is the reason for this drop.

Raj Mahadevya: Understood. So, if I understand you correctly, you said this was a one-time bonus of 3 crore. It was absolutely one time?

R. Jeevanandam: Yes. Absolutely one time.

Raj Mahadevya: So actual employee cost on an annual basis subject plus or minus of charging to JV partner is under Rs. 2 crores.

R. Jeevanandam: Total would be around Rs. 3 crores, not more than that. It is at the similar level of the previous year.

Raj Mahadevya: My last question is regarding depreciation and amortization. There also we are seeing a very interesting trend where the D&A is coming down meaningfully over the last 3 quarters shown in your financials, from Rs. 12 crores to Rs. 8 crores to Rs. 7.6 crores. Sir, I am trying to understand what is happening there and what is the likely steady state D&A not accounting for any major capacity expansion such as B-80 which will come online and obviously push DD&A up.

R. Jeevanandam: Now if you look at the main reason for the DD&A is the volume of reserves we are carrying in the books. Assam is about 220 BCF of gas and a bit of oil. Accordingly, the unit rate of depletion would get changed year-by-year. Every year we will reevaluate the same at the year-end based on the reserve reports generated by the third parties and the in-house reserve reports. Based on the reserve reports, we arrive at the unit rate of depletion. The unit rate of depletion, in Assam and PY-1 are both less. PY-1, if you remember, we have charged off most of the assets. We have virtually only the abandonment provision in the books of accounts plus the investment made in the last year for PY-1 though we have incurred a total expenditure of more than $350 million in the block. So, considering the depletion, the unit rate of production will come down. If we drill a well that has increased the reserve base of the company, then that year the unit rate of production will come down. That is why the depletion rate is not a constant if you are continuously working on the block.

Raj Mahadevya: Right. So that is going to be a little complex to predict…

R. Jeevanandam: I think next presentation we will give you how we get the unit of production rate for each year.

Raj Mahadevya: Right, okay. And just last question you mentioned that you have found an alternative consumer for PY-1 and you said Dirok should normalize starting Q1 onwards. So, for Q4, are we expecting any sort of normalization between Dirok and PY-1?

R. Jeevanandam: I don't think so. We would be at the same revenue base of this quarter. We are already a month into Q4.

Moderator: Thank you. We take the next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Sir, my question is related to B-80 only. If I take this oil field development, how long this can continue with the current two wells?

P. Elango: Overall, we are looking at a field life of about 5 to 7 years. This would involve drilling additional wells in future depending on the results of these two wells.

Sunil Jain: Okay and thereafter it will get completed in that period or it can still continue with more drilling?

P. Elango: It depends on how much resource we can establish. On that basis, further development will take place.

Sunil Jain: Okay. But what is the probability?

P. Elango: This is a marginal field and what we expect is 5 to 7 years. We are going with all facilities keeping in mind the 7-year period.

Sunil Jain: Okay. And second thing, Jeeva sir, you were talking about management with the subsidiary. Can you explain a bit more, I was not able to get it properly?

R. Jeevanandam: In effect, 3 facilities are required. To process, store and offload. This is normally outsourced to other service companies. Service companies typically charge around $60,000 to $70,000 per day. Now we have a subsidiary company sitting with us called Hindage Oilfield Services. When we looked at the economics, we thought it is prudent to use this subsidiary and resources within the company rather than outsource to a contractor. The MOPU is a Jack-up unit which means it is a movable, saleable unit and it can be used anywhere else also, not necessarily at B-80. The investment is around $15 million. $15 million means roughly around say Rs. 100-105 crores. Similarly, we have to look for an SBM which is also a removable structure and then we need a floating storage offshore unit. This floating storage offshore is a vessel, it is an Aframax tanker which can be used as a vessel carrying oil or chemicals. It is basically an oil tanker and it is built with all facilities. This can not only be deployed at B-80**,** it can be deployed elsewhere as well. The total expenditure of the FSO, SBM and MOPU put together costs us around Rs. 230 crores. Out of this Rs. 230 crores, we would fund Rs.150 crores through in-house funding and Rs. 80 crores through asset backed financing. It gives us a post-tax return in the order of 20%. This would provide captive usage of this facility for 5 to 7 years and that would facilitate these companies to embark on oil field services in a longer-term period because there is no substitute company available in India. So, these subsidiary companies can provide oil field services after 5 years depending on how the field performs at B-80**.** And second thing, this being a resource, you now have an ability to work on a marginal cost basis for the B-80 field that will enhance the B-80 field life also. I hope this clarifies.

Moderator: Thank you. We take the next question from the line of Shriman Dudoriya from Unifi Capital. Please go ahead.

Shriman Dudoriya: First question is on the PY-1 field. You had mentioned about having MoU with a private consumer with the premium pricing, so just a clarification, this premium pricing is based on the existing fixed price of PY-1 that we have currently or is it on the prevailing government prices?

P. Elango: No, the premium would be over and above the existing gas price that we have with the GAIL for PY-1**.**

Shriman Dudoriya: And you also highlighted that the Tamil Nadu Power Generation unit has come on stream, but then you also said that the production is not fully ramped up. So just wanted to understand little more of where are the hiccups here and when could we expect the production ramping up for the full potential in PY-1?

P. Elango: In PY-1, we are producing from 2 wells. One well we drilled recently through a sidetrack. So, what has happened due to the prolonged shutdown of this power plant, we had to shut down the well. Frequent closing and opening of wells would affect the reservoir performance in the long run. So, we had asked the consumer, which is GAIL, that they must make a firm commitment to lift a certain volume of gas on a consistent basis. And we cannot be used as a peak demand producer because this being an offshore gas, frequently opening and closing would affect. Still, the plants have not fully come onstream. On top of it, you have CPCL Narimanam refinery, one of the major consumers for GAIL has shut down for an expansion plan. This is a long-term shutdown for almost couple of years. So, we thought we should get back to the market directly and start engaging with customers. We made a beginning for a small volume with this particular customer. For even that to happen, the customer has to sign a gas transportation agreement with GAIL, but we are discovering the prices and we see a momentum in that. We would perhaps sign similar contracts with few other customers as long as it is a premium over the current price. Parallelly, we will insist GAIL to take the gas on a more consistent basis. I think it will take a quarter or more before we see normal offtake from PY-1.

Shriman Dudoriya: For PY-1 field to operate at an efficient level so that the reserves do not go down, what should be the run rate one should expect?

P. Elango: Post our last drilling campaign, we are able to produce about 10 million cubic feet of gas per day. Anything above 5 should be comfortable for us, anything below 5 is a challenge.

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

Sushil Agarwal: I am very happy with the progress on the B-80 field. I have few questions, firstly on the delay in signing of PSC agreement for R2 and Kherem field. Can you tell us something on this sir?

P. Elango: On the R2, all the paperwork is completed. There was a demand for payment of bank guarantee before execution of the production sharing contract whereas the normal practice would be that you sign a PSC and then submit the bank guarantee for the work program within a month or so. We didn't want to give a bank guarantee before the government actually executes the PSC. So, we have made a representation to Petroleum Ministry and DGH that the normal practice of signing PSC first and then demanding bank guarantee should be resorted to as such. We hope to get that issue resolved, there is no other issue there. As far as Kherem is concerned, the new rule requires that the petroleum mining lease that is to be signed by the state government of Arunachal Pradesh can be done only after we get the forest clearance. Earlier, the practice was you will get the PEL that is petroleum exploration license or PML, petroleum mining lease signed first, then based on your development plans we will go for forest clearances. Now, they have changed the rule to get that forest clearance first before they can execute the PML. The forest clearance process we have completed now. In last month, we got the forest clearance for Kherem. We expect the PML for Kherem also to be executed soon. For Kharsang, which also comes under Arunachal Pradesh, we recently executed the PML.

Sushil Agarwal: Okay, good progress on this. This other question is about PY-3, now Inveniere has taken over the share of Hardy, are there plans to expedite to start the production?

P. Elango: Right now, I think they are resolving the outstanding issues with some of the vendors which were pending. After they do that, they will come back with proposals.

Sushil Agarwal: It means there is still time, maybe 3 to 6 months to start the production or more?

P. Elango: It can be more. They have to get the regulatory clearances also.

Sushil Agarwal: I have a request for some important developments like deployment of rig, if investors can get some news update. In fact, I wrote a mail also in this regard that for important items if we can get updates in between. We get updates only in the investor presentation and then the analyst call, but it will be helpful if we get updates in between as well.

P. Elango: Okay, Noted. Thank you.

Moderator: Thank you. The next question is from the line of Abdul Karim from HDFC. Please go ahead.

Abdul Karim: Coming to the plan for the 18 wells in Phase 1 for Kharsang, what are the developments that have happened so far?

P. Elango: Okay, Abdul, there were two outstanding issues related to the Kharsang's next phase of drilling. The first one was related to forest clearance which had some legacy issues because in this field the initial wells were drilled by Oil India even before the forest act was enacted. The legacy issues around the forest clearance part which, after we acquired Geopetrol, we have been working with the operator closely and managed to secure now all the clearances including paying some penalties for the legacy issues. That has been done. The second issue was the petroleum mining lease was to be executed for the future period as well only after the forest clearance is secured. Only last month we had the signing ceremony for the petroleum mining lease with the Chief Minister of Arunachal Pradesh. So, both the petroleum mining lease as well as the forest clearance have been now resolved. The budget for the next financial year is undergoing the JV approval process and then the other outstanding issues related to the JEKPL IBC process where the final approval has been obtained and then now that all clearances have been obtained, we would be looking at commencing the drilling program in consultation with the partners.

Abdul Karim: Okay. And second question coming from the PY-3. There are ONGC, Hardy Oil and the Tata Petrodyne Limited who are the partners of this project. So, may I know what role Tata Petrodyne Limited is playing in this project?

P. Elango: The operator of the field is Hardy Oil. As you know in a joint venture, key role rests with the operator. He acts on behalf of all the parties. So, in this case, Hardy Oil was the operator and then the field got shutdown about 7-8 years ago. Now, Hardy Oil has been acquired by another Indian company. The first step was for them to be approved as the operator under the new management. The second step was to get the production sharing contract period to be extended. All JV partners had unanimously requested the government for the same and this has also now been approved. Now it is for the operator to resolve all the outstanding issues, secure all the regulatory approvals including environment clearance and then commit a plan to recommence the production.

Moderator: Thank you. We take the next question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Just had a couple of questions. One is at a steady state after these near-term disruptions end, could you give us an indication of revenue and PBT expectations out of Assam and PY-1?

R. Jeevanandam: We have given you the numbers up to 31st December. The next quarter looks like it would be similar to this quarter.

Riddhesh Gandhi: I am saying in a steady state when we expect near term disruptions to end?

R. Jeevanandam: So that depends on whether we commission the B-80 production in June.

Riddhesh Gandhi: Excluding B-80, just for Assam and PY-1?

R. Jeevanandam: Should be similar level as of the current year.

Riddhesh Gandhi: Okay. But we wouldn't expect it to be slightly higher because of the disruption we had in Q3 and Q4 of this year?

R. Jeevanandam: Even if the volume remains the same, price is not in our control and we do not know what is the price it is going to be from 1st April 2020 whether it is at current level or lesser level, we do not know. If it is more, we will make more money, but the volume of production remains the same. That is what we can say.

Riddhesh Gandhi: Okay, got it. The other question is, if you could just highlight any risks in achieving a steady state in terms of the earnings with regards to the disruption which we are seeing, are there any risks that we expect that it may stretch beyond Q1 of next year after Q4 of this year?

R. Jeevanandam: We don't find any executionary risk. We don't find any subsurface risk. The environmental and political risks are unpredictable which we are not aware of. As such, the volume of production and the ability to produce, both are within our control. Price is not in our control. Similarly, the political environment which may shut down the field for some days or some of the offtake issues relating to our consumers, are not within our control. But for that, we are committed to produce the same volume of production.

Riddhesh Gandhi: Got it. And just to also understand with regards to the risks associated with putting up B-80 as per schedule?

R. Jeevanandam: B-80 is an offshore project, it is sub-sea development. It has its own set of challenges on execution and that is being mitigated and all the known risks are getting mitigated and we hope that we will be successful in the project.

Riddhesh Gandhi: Understood. And with regard to these new Cambay blocks etc., any idea on the execution timeline and start of production?

P. Elango: Riddhesh, what we are right now focusing on is really getting the B-80 project completed, all aspects, the whole organization. Since the commencement of drilling in mid-December, which we are very sharply focused on that. On Cambay, we have bid for those 4 blocks and we are the highest bidders in all 4 blocks. Under the PSC, the existing JV partner has the first right of refusal which they have exercised. So, we are in discussion with them because they are also keen to have us as a partner for a joint operatorship model. So those discussions are ongoing. So, we don't expect this be concluded during this financial year. Once we conclude all the agreements and successfully complete the B-80 part of the project, then we will be able to focus and give more updates.

Riddhesh Gandhi: Sir, got it. And any other oil or gas projects that we are bidding on or looking at in terms of evaluating, acquiring?

P. Elango: We bid for a production enhancement contract for Digboi field in Assam, in a tender floated by Oil India. These production enhancement contracts are different to the DSF model**.** In DSF model, you also have ownership of the field. Here Oil India will continue to be the licensee, we would be more of a service operator where we would have a share in the incremental volume that bring on production. We saw some synergies between the Digboi field and where we are present at Dirok, so we have bid for that and we will know the results maybe in a couple of months' time. Now other than that as I told you, the current focus is on B-80 and also address some of the offtake issues that we have seen in Assam. Overall in Assam, we believe as situation comes back to normal, we should see the uptake to come back to the full capacity level soon. PY-1 also, we are working on multiple alternatives. And any big opportunity valuation will happen post the B-80 project.

Riddhesh Gandhi: Got it. And just a last question with regards to Assam also, are there any alternative clients who we can reach out to with regards to potentially…

P. Elango: Riddhesh, not really because what we are trying to do is, as you know the entire gas produced in the state of Assam is being delivered to the petrochemical plant of BCPL and they will extract about 15% of the rich component and they deliver the lean gas back to Oil India. Oil India will then supply to multiple customers which are mainly fertilizer, power and some tea gardens. And what we have done to not get exposed to these end consumers is we have a gas sales contract signed with Oil India so that we don't have to take the lean gas back and it has worked out well for us. The only thing we are doing in addition is right now whatever gas that we produce in

Dirok is being delivered from a place called Kusijan to Duliajan which is about 38 kilometers by using the Oil India's pipeline. Now along this pipeline, we will be laying our own pipeline, so that our dependency on Oil India for transportation is reduced. We would then have the flexibility to tie up with some premium customers if somebody is willing to pay a premium price over and above the government notified price. Customers like NRL have shown some interest, but we cannot access them directly until we complete our pipeline to Duliajan.

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

Ashwin Reddy: My first question is on B-80. I wanted to get some more clarity on what are the milestones we need to track and what are the risks associated with monsoon and what is the probability. Because you did mention if you miss this window, then the next window would probably be the year end. So, wanted to get some more thoughts on what the key milestones are to track and what is the probability in your opinion of finishing in this monsoon season.

P. Elango: Okay, Ashwin, there are 3 modules to the B-80 development project. Module one is actual drilling of these two wells and completing them subsea**.** As we updated, the first well has been drilled, we would be doing the well test over the next couple of days and we will announce the results of the well. Following that, the rig which is already secured will move to the second well location and will drill a second well. Both the wells we are targeting to complete them by end April, that is one module which is a most important module from a de-risk perspective. The second module is the mobile offshore process unit for which we had bought a rig and that conversion which normally takes much more time we were able to successfully do it on schedule and that will be ready by early March at Middle East and will be ready to sail into the location by March well ahead of time for the 2 wells completion as such. That is the second part. The third module is the complete export system. The export system has got two elements, one is to export the oil, the other is to export the gas. The gas system will have to use the existing gas pipeline infrastructure of ONGC which will mean we will have to tap into ONGC's pipeline, which is something we will not be able to do pre-monsoon. The monsoon window closes in Mumbai High by mid-May. So, the gas pipeline cannot be done. That is clear. The second part is the oil export line. For oil export, we have sourced the floating storage offloading system that is on its way right now to Sri Lanka for dry docking. Post dry docking, we need to have some more mooring system and those need to be installed in the field. We will watch how the well completion happens and then decide on mobilizing the FSO to the field. It is totally a 4 to 6-week job if we are able to complete the well early part of April. We will still look at bringing the oil export system for installation, if not we will safely delay it to post monsoon. The milestone to monitor is how the export system, which is basically dry docking, sourcing a mooring system and signing an installation contract which we will be able to do after we get the results of the second well. So, the whole idea is to de-risk the project. What is certain is by the end of this calendar year we should see the oil flow from B-80 as well as gas**.**

Ashwin Reddy: Got it. And the second question is on Dirok, right now has the offtake normalized or what is the broad timeline to safely say that it will get normalized?

P. Elango: I think it is safe to assume from the first quarter. As we speak, it is not normalized. Dirok is doing about 50% of its capacity only. We hope some more increase will happen sometime in March, but the full production can happen only from the next quarter.

Ashwin Reddy: Okay. So, you are saying from Q1 2020, this will normalize?

P. Elango: Correct.

Ashwin Reddy: Okay. And my third question is, on account of whatever is happening in China, there has been a sharp dip in the price of LNG and the global gas price. So, wanted to get your thoughts, based on your experience. I know it is government determined but government determines based on the basket of the global prices, right? So, is it safe to assume that the prices after April would at least be $0.5 lesser than where it is today for gas, say $0.5 to $0.75?

P. Elango: Henry Hub is one of the key indicators and it has done about average $2.5 per MMBTU during 2019. So, we would see the best-case scenario for the gas price to remain at the same level or slightly lower than what it is. The chances of it going up is virtually ruled out.

Ashwin Reddy: Right, of course. Sir, because the point is, the prices whatever we determine it is based on the 6-month lag, right? I assume whatever that comes out of the formula would be based on Oct to March. From Jan onwards atleast, the prices have declined quite sharply is what I understand?

P. Elango: Yes. So, the new price of April is likely to be slightly lower than current, that is what we are hearing. We will know that maybe in a month's time.

Moderator: Thank you. The next question is from the line of Sudhir Vedha from Right Time Consultancy. Please go ahead.

Sudhir Vedha: Sir, just wanted to know what kind of cost we will be having for per barrel of oil from B-80?

R. Jeevanandam: So, if you look at including the operating cost and a portion of the development cost, we have to pay the royalty to the government and then there is the government share of revenue, put together all we will be looking into the order of around $35 per barrel.

Sudhir Vedha: So, anything above 35 will be making on that, right?

P. Elango: Yes, that is right.

Moderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Sir, if you can just give us the sensitivity for $1 change in the APM pricing, for Dirok?

R. Jeevanandam: APM price is only around $3, you are taking out $1?

Bhavin Gandhi: No, I am just looking at the sensitivity because we are expecting around 20% decline from first of April, was just looking at a $1 sensitivity to make matters simple.

R. Jeevanandam: If you look at, there is a 20% reduction in the gas price. There would be a reduction of about 25 crores in the revenue.

Bhavin Gandhi: Okay, got it. Second sir, recently GAIL announced the feedstock viability for BCPL, will it have any implication on the realization of Dirok?

P. Elango: No, our contract is with Oil India on the basis of price that is announced by the government every 6 months, so this has no impact on our contract.

Bhavin Gandhi: Got it, sir. And sir, if you can comment on the CAPEX and secondly on this announcement that you made regarding owning the services infrastructure, will it be restricted to the current infrastructure or we will be looking at further opportunities in that space also?

R. Jeevanandam: Yes. We are looking at going for a small drilling rig also, onshore drilling rig of 750 horsepower that will also cater to the in-house requirement. Overall, we are looking at around an infused capital to these subsidiaries as well as to the block in the order of around say Rs. 275 crores. Out of Rs. 275 crores we have an in-house capital of about Rs. 175 crores and over the period we have internal accruals and hence we will be able to manage with limited borrowing.

Moderator: Thank you. We take the next question from the line of Tejas Shah, Individual Investor. Please go ahead.

Tejas Shah: The pricing right now I think running in the interest market progresses around $1.8 per MMBTU and right now what the government has allowed us in terms of the pricing is what 3.65 or something?

P. Elango: In PY-1, our prices are fixed, $3.65 per MMBTU, this is not subject to the changes that government announces on a 6-monthly basis. The Dirok gas will be governed by the 6-monthly changes in gas prices which is currently at about $3.3 per MMBTU.

Tejas Shah: So, what is the price likely to be for next financial year? Below $3 looking at the scenario and looking at the electric mobility also will it have an effect on us?

P. Elango: Overall, the gas prices within India are very different in different markets. If you look at the gas prices in Gujarat, it is very comfortable to get $7 to $8 per MMBTU and a lot of imported LNG is being absorbed by the Gujarat market at those price levels. For example, our B-80, if we produce some gas, that gas will go to the Gujarat market where we expect to realize a gas price north of $5 per MMBTU based on initial indications. So, then the gas price that we have in PY-1 is on a fixed dollar per MMBTU contract model. Anything that we sell to anyone here would always be at a premium over that price. The price at North-East though, we have on paper the marketing freedom, but the reality is that the customer base is limited and the customers are all public sector units who would at best prefer to source their gas from their sister public sector companies. Therefore, we strategically signed a contract with Oil India which is for the first-time buying gas so that any shortfall that they have is being made up. The advantage we have in Assam is our gas is rich, therefore BCPL would always like to take our gas through Oil India. So, the gas prices are really about where you are and in which market you are supplying the gas to.

Tejas Shah: But then when we say that we have tied up with Oil India, don't they have a pickup guarantee scheme wherein they will buy default pick up x amount of gas?

P. Elango: When you develop gas field, the first priority must be always to clear the volumes. That should be the first priority which is where we have focused. Obviously, Oil India cannot buy it at a price over and above the government notified prices. And as we guided, from the time we started production of gas in Assam, Dirok we have done more than 80% of supply on an annual basis. Obviously, there will be events that happen like the one that has happened in this quarter which nobody can predict, and Oil India had to close down their own wells as well.

Tejas Shah: When you say premium pricing, what is the definition of premium pricing over and above the government notified price?

P. Elango: You defined it rightly, it is over and above the government price, that is the definition. I will not be able to share the exact pricing detail until we have the fully signed gas sales contract with the customer. What we have signed is an MoU.

Tejas Shah: That is okay. Means, it could be 10% upwards, 20% upwards, what is the normal norm?

P. Elango: There is nothing called normal norms.

Tejas Shah: So, it is up to you. You can charge $7 also and you can charge $4 also?

P. Elango: As long as the customer is willing to pay and as long as he is a reliable customer and a credit worthy customer.

Tejas Shah: Okay. Just to enlarge on the earlier commentator, we need more clarity on the things which are happening. What happens every 3 months, we get, okay this is approved, that is approved, or this is done. It is a lag of information for us like whatever approval you get, you can by default notify the exchange saying this has gone or the plant is shutdown for whatever reasons. It is a general notification which one can give, and lot of companies are giving, why not us?

P. Elango: We hold regular 3 monthly updates as well as any material event we notify through a release.

Tejas Shah: But when you say extension of production contract for 10 years, it is a material event.

P. Elango: We have noted down your comments.

Moderator: Thank you. Next question is from the line of Shriman Dudoriya from Unifi Capital. Please go ahead.

Shriman Dudoriya: Sir, just harping a bit more on the Dirok field. So, you attributed two reasons for the fall in the volume. One was the unrest and the other one was a safety issue at a major customer. So, when did that safety issue really happen? Was it in late December?

P. Elango: Yes, late December, that is right.

Shriman Dudoriya: So given that we are expecting the quarter 4 as you have guided to be similar to this quarter, should the volumes in Dirok be significantly less in quarter 4 as compared to quarter 3 because your major customer, the offtake from that would be lesser.

P. Elango: As I said, we are doing about 50%, but other than that customer, there were other issues also and those issues are resolved now. We are seeing an increase in offtake happening. So, we will see if there is a change in March, then we should be able to make up, but broadly you can expect the next quarter to be similar too.

Shriman Dudoriya: Lastly of the total CAPEX in B-80, how much has already been spent by both the partners in the field?

R. Jeevanandam: We have spent about Rs. 150 crores as on December.

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

P. Elango: Thank you. The safe drilling of first well in B-80 and hopefully successful testing in the next couple of days, readiness of MOPU and access to FSO, altogether have substantially de-risked our flagship green development project in Western offshore. We are confident that 'First oil' will flow during second half of this calendar year opening a new stream of sustainable cash flows. Once again, thank you all for participating in this call. In case of further queries, you may please get in touch with our Investor Relations Advisors or us. Thank you again for joining.

Moderator: Thank you. On behalf of Hindustan Oil Exploration Company Limited, we conclude today's conference. Thank you all for joining, you may now disconnect your lines.