

“Hindustan Oil Exploration Company Limited Q4 FY’20 Earnings Conference Call”

June 2, 2020

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY’20 Conference Call of Hindustan Oil Exploration Company Limited. As a reminder, all participants 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 phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Thank you, Aysha. Good morning everybody and a warm welcome to you, all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations for Hindustan Oil Exploration Limited.

On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the company’s earnings conference call for the financial year ended 2020 and the fourth quarter of financial year ‘20.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today’s earnings conference maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management’s belief as well as assumptions made by information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements and make any investment decisions. The purpose of today’s earnings conference call is purely to educate and bring awareness about the company’s fundamental business and financial quarter under review.

I would now like to introduce you to the management of HOEC participating with us in today’s earnings call. We have with us Mr. P. Elango -- Managing Director and Mr. R. Jeevanandam -- Executive Director and CFO.

Without much delay, I request Mr. Elango to give his opening remarks. Thank you and over to you, sir.

P. Elango: Thank you, Anuj and good morning, everyone. Hope you all are safe and fine. We extend a very warm welcome to our call on Annual Results for FY’20. I have with me our CFO and Whole-time

Director, Mr. R. Jeevanandam and Valorem Advisors as Investor Relations Advisors. We welcome team Valorem who joined us this April.

I hope you all have received the updated 'Investor Presentation'. We have also uploaded that on our website for your reference.

All of us are witnessing unprecedented times. This global pandemic has brought uncertainty to businesses across sectors. In oil and gas industry, we face the added challenges of price crash, excess supply and demand cut. Through the lockdown, we have managed to continue our production operations at all our operating sites. We could secure the permits to continue since oil and gas production falls under essential services. We took all the precautions required to protect the health of our employees and associates. We also helped the communities around our operating areas both in Assam and in Tamil Nadu. However, production had to be curtailed significantly due to end consumers shutdown. Subsequently, Dirok off-take has improved during May to touch the near normal production rates during the last few days. During FY'20, various offtake issues at Dirok and PY-1 field, due to the lockdown during the last week of March, prevented us from delivering to our full production capacity. HOEC produced an average of around 7,800 boepd (gross) during the year. This is 20% lower than our production capacity. Unlike oil, gas production will continue to be determined by end consumers offtake. In B-80, we have safely and successfully completed and tested our second well. This was done by continuing the drilling operation through the COVID lockdown despite formidable challenges. However, lockdown and other operational issues stretched the campaign duration resulting in time and cost overrun. Results from the second well have been much better than expected. As a team, we at HOEC are delighted that we could identify a block with resource potential, bid, win, plan, fast track, drill and test to demonstrate its production potential. These two wells have been completed with subsea systems using a jack up rig for the first time in India. Obviously, we would have been happier to have established such an excellent resource base in western offshore at a different price and business environment. In the current uncertain environment, we wish to proceed prudently, source more diligently to optimize the remaining CAPEX commitments. In parallel, we await announcement on fiscal relief and incentive packages from the government that can help to bring down the breakeven price below \$35 per barrel. B-80 field has now demonstrated production potential of 8,000 boepd from both the wells. When brought to production, this will double HOEC's current gross operated production level. FSO- 'Prem Pride' meant for B-80 is mobilized to Sri Lanka. Dry dock and other refurbishment and additional fittings work can commence only after the lockdown is lifted. We will place orders for flexible pipelines and calm buoy mooring system once the current lockdown situation is ceased. We will also watch out for post monsoon installation work in western offshore so that the cost can be optimized by sharing required installation marine spreads. Our endeavour would be to undertake all the installation work post monsoon in November and complete as soon as possible dictated by weather conditions. We expect B-80 gas to fetch a better gas price. This is because Gujarat gas market is supplied through imported LNG by a long-term contract at

premium prices. Since the current gas market conditions are not conducive, we will delay our marketing tender and float it at an opportune moment.

Considering the current uncertain environment, we plan to focus only on bringing B-80 to production. We will defer any other significant capital outlay until the market and prices stabilize and the government reviews its current gas pricing policy and formula.

Our short-term strategy therefore for this year is to focus on reducing operating costs and working with the end consumers to improve gas offtake from Dirok and PY-1 field.

In Kharsang, we are optimizing production and reducing cost in close collaboration with the operator, GeoEnpro. We will choose an opportune time to execute Phase-I involving drilling of 18-wells.

The industry has requested for fiscal relief from the government involving reduced royalty, cess, profit petroleum and free market pricing for gas. The government has constituted a committee to suggest relief measures for upstream oil and gas companies. Irrespective of the decision of the government on fiscal relief, we will continue with our production operations and complete the B-80 development project to deliver first oil.

I now invite our CFO, Mr. Jeevanandam to take you through the financials.

R. Jeevanandam:

Thanks, Elango. We report that the company made a revenue of Rs.35 crores in the current quarter against Rs.51 crores in the previous quarter and for the year the revenue is Rs.201 crores comparing Rs.247 crores in the previous year in the standalone accounts. In 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 Limited in Dirok and the reduction in PY-1 production. Profit before tax was exceptional item of Rs.140 crores comparing Rs.150 crores in the previous year. Profit after tax including exceptional item of Rs.26 crores which includes a write-back of Rs.22 crores and two decade old tax refund order of about Rs.4 crores. This profit on standalone is Rs.19 crores against Rs.30 crores in the previous quarter. In the consolidated accounts, profit after tax for the year is Rs.137 crores against Rs.157 crores in the previous years, there is a reduction of about Rs.20 crores. Total expenses of standalone is Rs.87 crores comparing Rs.99 crores in the previous year. For the quarter it is Rs.17 crores against Rs.21 crores in the previous quarter. Statutory levy such as royalty, cess, depreciation and depletion are linear to production which is the reason for reduction in the cost. For this quarter the total expenses including depreciation and depletion in the consolidated account is Rs.30 crores comparing Rs.24 crores in the previous quarter. In the consolidated accounts, the total expenses for the year is Rs.113 crores comparing Rs.123 crores in the previous year. Operating cash flow for this year is Rs.149 crores comparing Rs.177 crores in the previous year. In the consolidated accounts, the operating cash flow stands at Rs.154 crores comparing Rs.190 crores in the previous year. The company standalone has working capital

of Rs.185 crores with the cash and cash equivalent of about Rs.141 crores as on 31st March 2020. In consolidated accounts, cash and cash equivalent is Rs.176 crores as on 31st March 2020. Testing of 2 wells is done and completed and is ready to flow as stated by Elango. Processing and evacuation facilities are to be mobilized and installed. Mobile offshore processing unit is ready to move from yard in Dubai and FSO is to be dry docked which will be connected to the Single Point Mooring planned to be installed in the last quarter of this year. We will make a reasonable return even at oil price of \$35 per barrel and our post tax rate of return on this project even at \$35 would be 25%-plus. These facilities are normally procured through service companies with long-term contracts. These facilities are resources to our own subsidiaries with borrowed capital of about Rs.85 crores which leave us with around 33%. Facilities such as mobile offshore processing unit and FSO are movable assets and there is a value uptick when it is put to use in the field. These facilities are owned and operated by our own subsidiaries which could unlock about 20% post tax return at the current market prices. This will enable us to operate the B-80 field with the marginal cost which ensures more recovery from the field. The overall growth of E&P assets in HOEC and its subsidiaries in oil field services could be funded by internal accrual and asset-backed borrowing through its subsidiaries. Thanks, Elango.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: First question on the fourth quarter consolidated OPEX which increased sharply from Rs.2 crores run rate quarterly to Rs.8 crores this quarter. Can you point out what led to such a sharp increase? And second, on the CAPEX we have spent around Rs.300 crores on the consolidated account this year. What will be the CAPEX in FY'21 we have planned?

R. Jeevanandam: The first is on the consolidated accounts, you could have seen that Rs.6 crores increase. We made a provision for one of the disputed liability which being with the government, we have made a provision for it. So that is a non-cash item we have made a provision for about Rs.6 crores. That is why the other expenses you could have seen from, it has increased from Rs.2 crores to Rs.8 crores. That is the only major increase. Otherwise, you look at the cost and share of operating expenses remain the same. And royalty and cess has reduced and employee expenses as benefit expense has increased because some of the allocation cost of the GeoEnpro has to be made into the books. There is no increase in any of other expenditure which you can see from the accounts.

Chintan Sheth: So I can see in the cash flow, unwinding of discount on decommissioning liability of Rs.5.35 crores, that is what you are referring to which was accounted for this quarter?

R. Jeevanandam: No, you go to other expenses. The previous quarter was only Rs.2 crores, that has increased to Rs.8 crores. This gives us a twin benefit because we have to pay tax for GeoEnpro, So that gives us the tax cushion. So we accepted that as a liability in the books, but it is a long-drawn dispute and there is no cash outflow on this. On the CAPEX as such, we have to incur this financial year about \$14 million to \$15 million additional for our share. From April to year end we will be incurring cost on the facilities, well connection about \$15 million from our side, and then the balance would be funded by the partner.

Chintan Sheth: So, in total will be around \$30 million dollars?

R. Jeevanandam: Right.

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

Ravi Sundaram: My first question is on B-80. So your recent press release was very informative. But when are we expecting that the first oil will flow and being commercialized, any timelines on that?

P. Elango: As we explained, the remaining part of installation work can start only after post monsoon which is after November. Sometime depending on when the weather window sets in, we will commence the installation work. The work in itself is about 45 to 60-days duration. But as we pointed out in my opening statement, we will look for what level of activity is going to occur in western offshore so that we can possibly share the mobile offshore spread to optimize the cost. So, in terms of time duration it is 45 to 60 days of work. It will require some offshore installation prep which we would look for. In any event, we expect everything to be done by end of this financial year for sure. It can happen by January, if we find the right resources in November itself and complete it in November, December and by end December we can start or if we have to delay by a month or so we would do that. The idea is to ensure going forward CAPEX is fully optimized and we do diligent sourcing.

Ravi Sundaram: One quick follow up. So when we say first oil, I think they are also talking about gas as well, right, I mean both become commercial at the same time. Is that what we are saying?

P. Elango: Correct, both become commercial at the same time.

Ravi Sundaram: The second question is something related to what you had mentioned in the opening remarks. From our industry is there some pitch that being made to the government about reducing the cost of production, to reduce royalty or related cost that we pay to the government. Is there some progress on that?

P. Elango: I think there are two different bodies. One is Association of Oil and Gas operators which predominantly consist of all the private operators including public sector companies. There is another forum called FICCI which is dominated by all the public sector companies as such. Both the forums have made representation to the government. In fact, the average breakeven price for major producers in the country is about \$45. That is the representation they have made. And the government has reviewed the representation, they set up a formal committee to look at the representation from the industry. We do expect some relief to come from the government, but as always it is something that one cannot be certain with any timeframe. Specifically, for B-80, what we had earlier advised was our breakeven price would be below \$35. So our focus is to bring it down further by optimizing the remaining CAPEX and as Jeeva explained we have got a fairly flexible OPEX model because in both the mobile offshore process unit as well as the FSO, the 100% subsidiaries of HOEC would have an ownership stake. So, there is flexibility to ensure that the breakeven point is further reduced.

Moderator: Thank you. The next question is from the line of Sreemant Dudhoria from Unifi Capital. Please go ahead.

Sreemant Dudhoria: Firstly, a few questions on the B-80. While your current breakeven price is \$35 and if you are looking to start the first oil in the month of say December or January, if the prices remain at the same level, would you be looking to commission this project or would you be looking at better pricing?

P. Elango: Our effort would be to continue to complete the project and commission it because in addition to the oil, the field will also produce some gas. So broadly over next couple of months we will be able to determine gas prices, enough demand for the gas in the Gujarat market, we expect the gas price to be in the order of \$4 or so and with that revenue meeting the operating cost of the facility will not be a problem. So, we are not planning to wait for the prices to turn around. We will continue and see how we can focus on reducing the cost further.

Sreemant Dudhoria: So based on our assessment and the initiatives that you are taking to bring down the costs for the field, what are the realistic kind of assumption, how much could the cost come down to for your further investment in this field?

R. Jeevanandam: The project to be executed is around \$12-14 million. This \$12-14 million we can optimize the cost when there are vessel movements taking place in the last quarter of this year. That will reduce at least about 10% of the total cost. Every penny saved is good for us. Second thing this block is having a potential to produce about 8,000 barrels of oil. In essence, the project return is more than 25% post-tax. On the top of it, at least six months production can be stored in that facility. So floating production storage offshore, the vessel which we purchased, can hold about a million barrel as such. So, we are not in a hurry to sell the oil immediately. We would like to store the

oil for an appropriate price. At a right price we can sell and we are not forced to sell oil at any price which is there in the market.

Sreemant Dudhoria: So if I connect the statements made to the first query that I had, once you commission the project in the month of say December, January, if the prices remain at the current level, you would be looking to store it for five, six months because you have that much of storage capacity and maybe you will wait for a better pricing. Is the understanding right?

R. Jeevanandam: Your understanding is absolutely right. That is what we will do it also.

Sreemant Dudhoria: So then the actual realization maybe coming in a few months after taking the first oil from the field?

R. Jeevanandam: That is right.

Sreemant Dudhoria: Secondly, coming to the PY-1 basis, sir, I think the production level have come down drastically in PY-1. How are things now – is there increased offtake by your clients? Earlier you have also guided that you are looking to partner with a few more clients in this field. What is the current status here?

P. Elango: The current status, look, at least in this part of the country, there is a huge drop in the demand for power sector. And because the gas price in PY-1 is fixed at \$3.65 per mmbtu, any gas based generation from this gas has obviously come far below in the merit order in addition to the overall demand in the power sector. The gas can only be sold to power sector players in Tamil Nadu because they are the only consumers, we do not have anyone else. The second issue that we are facing is because of the inconsistent offtake. At a much lower offtake the well productivity has also come down. We are facing two different challenges here -- one is that the offtake level, is very low, the other is well productivity has come down. Therefore, this will require us to mobilize a rig for intervention which we will not be able to do immediately. We will look at along with the overall drilling programs to access additional resources in PY-1. A lot of technical work is going on to prepare for a full field development for PY-1. With that, we should be able to address both the marketing and production issues.

Sreemant Dudhoria: So, given the vagaries of production at this field, how much production level capacity has come down? Earlier, it was about I think 10-11 mmscfd. What is now the peak production on the field?

P. Elango: If the offtake is consistent, we should be able to do about 40% percent of that capacity.

Sreemant Dudhoria: It has come down to about 6 mmscfd?

P. Elango: It was doing about 8 to 10. Now it can do about four to five

Sreemant Dudhoria: You had plans to kind of increase spend for the CAPEX in this period. You are expecting that the rig cost would actually come down and the current scenario would help you to expedite the CAPEX in PY-1. Is there any change of plans in PY-1 because you had earlier mentioned in your opening remark that you will hold on all your further CAPEX in the near-term?

R. Jeevanandam: If we bring a rig for the work over, we would rather be drilling a couple of wells in the nearby vicinity. So, these wells are the shallow wells which is around 1,600 metres which can be drilled at cheaper cost. Current market is the right time to develop this type of a field. The gas price is prefixed and your cost is getting reduced, it gives an opportunity to develop this block. Our G&G group is seriously working on this block. They will come out with the location and then we will work out an economic model and then we will see that sometime in the year end, we will start planning to drill some wells depending upon the availability of the rig in the vicinity. We do not want any mobilization cost. If a rig is available in the east coast, we would like to mobilize it and puncture some holes and we will ramp up the production back to the previous level.

Sreemant Dudhoria: Which is about 8 to 10?

P. Elango: Yes.

Sreemant Dudhoria: So in the next say in the first half of the current financial year the production from this well should we expect at the same levels as that of Q4?

R. Jeevanandam: Yeah, I think probably that would be the best way to look at that.

Sreemant Dudhoria: Coming to the Dirok field, you have mentioned in your opening remarks that the offtake from this field has come back to near normal levels. There were some disruptions at your client level in this field. Is it all back to normal or have you found out new customers in the Dirok field?

P. Elango: There are no new customers that have been added. Existing customers are Oil India who are coming back after the lockdown so the demand has picked up.

Sreemant Dudhoria: I meant customers for Oil India itself, your indirect customers?

P. Elango: Yes, correct.

Sreemant Dudhoria: On PY-3, any further developments there?

P. Elango: There is no further update on PY-3. We do not know the viability at the current price level.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from SMI Investments. Please go ahead.

Vaibhav Badjatya: We have been mentioning about the breakeven cost of production for various fields. So can you just highlight as to what is the breakeven cost of production for all the fields and including and excluding the depreciation and amortization charge so that we can have an idea as to at what level different fields will at least recover its cost?

R. Jeevanandam: One way is looking at the marginal cost and marginal revenue. If you do not look at the development cost, sunk cost for all our gas, any price, more than one dollar we are viable. And in case of an oil, but for the government levies, at \$35 we make 25% post tax return. In absolute cost terms, we will be able to operate around \$20-22 comfortably.

Vaibhav Badjatya: This is including the amortization charge?

R. Jeevanandam: When I talk about \$35, I talk about the project return which is including the capital cost incurred thereon to it. When you talk about the marginal cost, then my operating cost alone comes into the picture. None of our fields are operating at a high cost, that is at the low cost operation even in B-80, our operating cost per barrel is only \$10. So at \$20, we will be posting some cash revenue to the company.

Moderator: Thank you. The next question is from the line of Sharath Sharma, individual investor. Please go ahead.

Sharath Sharma: Sir, the pricing of 2.39/mmbtu, till now is not kicked in Q1 also, right, the first effect will be from 1st October through 30th September 2021, is that correct?

R. Jeevanandam: No, this 2.39 has kicked in effective 1st April.

Sharath Sharma: When would the effect last in our books – would be 12-months through 31st March '21?

P. Elango: Till September end will be this price for Dirok. For PY-1, it will be that 3.65.

Sharath Sharma: But Q1 and Q2 of this year, we will have a marginal hit of around 20, 25% due to the Dirok pricing, correct?

R. Jeevanandam: Two things. If the government comes out with some reduction or removal of the royalty and cess that will get compensated. That is the industry demand at the moment.

Sharath Sharma: For 31st March 2020, what is the impact of stock valuation or something just given the oil prices are crazy? And what would be the quantum of writeback?

R. Jeevanandam: We have only small volume of oil which we will take it on the 31st March price itself. So there is no problem there.

Sharath Sharma: So no write-downs in March as such?

R. Jeevanandam: Yeah.

Moderator: Thank you. The next question is from the line of Nirbhay Mahawar- N Square Capital. Please go ahead.

Participant: Just wanted to understand B-80 further. In the press release, you have mentioned that in our D2 well we got output of around Rs.3,300 to 4,600 boepd and in D1 we have got 7,000 barrels plus output. So, if you put together, I think this number comes around to 10,500 barrels and we are talking about 8,000 barrels plus. So, what is the disconnect?

R. Jeevanandam: There is no disconnect. Test conditions might be different from actual production conditions. Our reservoir modeling will advise us the optimal production rate to produce at. So that is why we have not put the entire volume because that would be a much higher number. So, we have to reduce the number to maintain the reservoir pressure and the overall health. Studies are still going on regarding the same. But for all practical purposes we should take it as 8,000 barrels of oil equivalent.

Participant: So we are trying to give conservative guidance?

R. Jeevanandam: That is right.

Participant: What would be the breakup of this 8,000 barrels in terms of gas and oil?

P. Elango: Oil is about 5,000 plus barrels and gas is about say 3,000 oil equivalent.

Participant: So around 20 mmscfd would be gas?

R. Jeevanandam: Around 15 to 18 we are talking about.

Participant: What is the total CAPEX of this field?

R. Jeevanandam: The CAPEX of this field is coming around \$50 million. On top of this, there are the two facilities which we are going to mobilize, that is MOPU and FSO, that would cost additional \$35-40 million. But these are movable assets which are usable elsewhere and which are saleable also.

Participant: So, let us say if we take an assumption of around \$4 gas realization and \$35 oil price, would it be fair to assume that next year onwards we can have close to Rs.600 crores field level revenue from this?

R. Jeevanandam: Your assumption is absolutely correct, that is Rs.600 crores plus would be the revenue from this field. Our share would be Rs.300 crores. The cost would be about Rs.125 crores; Rs.75 crores will go to our subsidiary in Assam, because they are putting in the facilities. And we have to give about some Rs.45 crores to the government. So, total put together, all will be Rs.170 crores, we will be making a profit which is in the order of say Rs.100 to 100+ crores.

Participant: So when we say breakeven price of \$35, this includes capital cost also?

R. Jeevanandam: Yes, capital cost and the returns are risk capital.

Participant: Sir, I was just trying to understand this revenue sharing model. So, you got government share of revenue at LRP is around 12% and it goes up to 55%. So how will it move just to get a sense? So, in the initial phase, you will be sharing 12% or how is it?

P. Elango: If the revenue per day is below \$10,000 from the project, then it is at the lowest point which is 12%. If the revenue per day is more than a million dollar per day, then that will be at the highest point. The revenue in our case if you take about \$200,000 per day, since it is linear, on an average we had guided about 22-23%.

P. Elango: You look at our presentation. We have put the model there. You can just refer that also.

Participant: Also, what is your field life estimation based on the current data?

R. Jeevanandam: This field is having good potential because our geologists have carried out all the test and the data required for any geological model. But this does not include the northern side new lead that we have got in the drilling. We now have to include that in our geological estimates as well. So we will be looking at a little bigger reserve than what we initially estimated. They will come out with the geological model which will be vetted by an independent third-party also and we will come out with the authenticated number to you in another three months down the line.

Participant: So the number which is mentioned in your environmental clearance thing of 30 bcf and around 1 million barrel, this could be much bigger than that is what...?

P. Elango: Because it was a discovered field, so when the government announced these blocks, they had ONGC's estimates in the block area. Subsequently, we have carried out our initial assessment prior to drilling the well and then went with the field development plan with our resource estimate which is what we have shared in our presentation. Now, what I was explaining is, post drilling of these two wells, we have got much more data about the well and the team is working on revising the estimate. What we are confirming is it will be more than whatever was advised initially. We will complete our internal work and we will review with DGH, post that we will also have independent third-party view of that and then come with the final numbers related to B-80.

Participant: Just one more question regarding PY-1. In the presentation, you have mentioned that PY-1 is operating at a below normal level. So over a medium period of let us say three, four years, what kind of output we can target from PY-1?

P. Elango: PY-1, as Jeeva explained, we will come back with the plan. What we have done a couple of years ago, we undertook a well intervention program where we reenter the existing wells and side track them and that resulted in increase in production. Unfortunately, for us, the offtake was not consistent. What happens in offshore well, if you keep on reducing and varying the production rate, it affects reservoir production and performance. Unfortunately, we are caught in a situation where there was inconsistent offtake. Now, we are reviewing the data. We believe the resources definitely exist and we need to do a intervention which also looks at drilling additional new wells and leveraging the current environment. Right now, as I said, the focus is on B-80. Complete the remaining work and bring it on production hopefully by end of this year. On the demand question I just want to further clarify, when you achieve a larger production, then you have our option of marketing, that opens up into multiple sectors. So overall we do not believe that there would be difficulties in selling the gas if we increase the production rate to above a particular level. So give us some time to complete our work ins PY-1. We will come back.

Participant: In this field initially we had an output of up to 55 mmscfd and then it went below 10. Now, let us say what could be the potential if we are able to increase the production?

P. Elango: I am also saying, allow us to do our work and come back with the plan. I think in the context in which we are currently there, we will focus on B-80, get it on stream and then we have other resources to do whatever we wish to do in PY-1, the work is already happening now based on what you observe.

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

Chintan Sheth: On the PY-1 again, you mentioned that once the critical size is being achieved, then it is not an issue for the marketing and finding clients to sell gas. In the last call we have mentioned

about one of the power plants nearby which we are in discussion with, that will be one of the clients we are looking at, vouching for new production?

P. Elango: Correct, that will be one of the clients. Our client in Thirukadaiyur though it is located in Tamil Nadu, is very close to the Pondicherry union territory border. Due to various historical tax advantage reasons, a lot of industrial players are located in the Pondicherry region as well. Some of them are keen to source the gas either through pipeline or have a captive power plant in their respective unit and then do the power transfer as such. So, the point I am making is the volume of gas that we produce increases, then we would be able to address the market judiciously and more efficiently.

Chintan Sheth: But then you also mentioned that at a fixed price of \$3.65/mmbtu and prevailing prices being lower, that also is the offtake because the buyer will prefer the APM gas rather than buy from rather than the fixed rate gas price from HOEC?

P. Elango: That aspect applies to power producers would generate power and sell it to the state electricity board. But not players who want to use it for captive power consumption.

Chintan Sheth: So they would not mind paying a higher price but the consistent supply will be of more important for them?

P. Elango: Correct.

Chintan Sheth: On Dirok again, we were planning to explore further North Dirok, we are kind of pushing it back to FY'22, is that the right understanding now?

P. Elango: What we are doing in Dirok is there are two things. As we said, effective 1st April, the gas price for Dirok has come down to 2.39. Demand from all the major players in Northeast region which are basically ONGC, Oil India has come down and there is active representation to the government to either free the gas marketing and pricing to the companies and/or reset the formula. Because we have a lower operating cost model, we are able to generate cash surplus, but on an average if you look at cost of producing a field in Northeast region, definitely these prices will not be sustainable. So over the next couple of months, we expect policy changes in respect of gas pricing and marketing the government will allow. We expect some positive news to come there, something that we would look at. The second part is about consistency in offtake in Dirok as well to come back which we are seeing now. But if you look at the whole year last year, we were able to maintain about 75-80% offtake only because overall offtake even if we had the capacity to produce on an average a million cubic meters per day consistently. So, we are also pushing and looking at what kind of an alternative customers that we can identify in Assam and slowly reduce the dependence on Oil India. And third element is in terms of the project execution, while continuing the production

operation from a ring-fenced area is safe, spreading your resources for a project execution raises health risk which is at a different level. So overall, before we take any call on doing projects spending our resources, we need to see how this pandemic pans out, what kind of a policy support government is going to give and thirdly how consistent the offtake will be. We have not really stopped any work. We are continuing to place orders for the long lead items. We are continuing to pursue the regulatory approval process, for example, the public hearing which was scheduled to be held, could not be held due to the lockdown or that will happen I think by the next quarter we should be able to have a much more clearer picture on that. But we have not put a hold on the projects. We are focusing on the long lead item. And we will come back depending on how the next few months pan out, and form a schedule.

Moderator: Thank you. The next question is from the line of Siddharth Mishra from Fidelity Investments. Please go ahead.

Siddharth Mishra: My question is on Dirok. You mentioned that by end of May the offtake has come back to a normal level. So, the peak production used to be 35 mmscfd. So has it come back to those levels or still lower than that? And what was the trajectory over April and May for Dirok?

P. Elango: It has crossed 30 mmscfd level and we expect it to come back to 35 level going forward.

Siddharth Mishra: So this has crossed 30 right now and in April when the lockdown was there and all it was?

P. Elango: Much lower.

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

Sadanand Shetty: What has been the oil price realization for the Q4 of FY'20? Just trying to understand how did you manage to get price when oil price has collapsed. And the second question is you talked about delay in CAPEX. Can you tell us for which segment you are delaying the CAPEX?

R. Jeevanandam: The average oil price realized for the Q4 was \$46 and Q3 was \$56. Because the price started collapsing in the March, after it has been severely affected.

Sadanand Shetty: Can you able to tell us the lowest price point that you realized in that quarter?

R. Jeevanandam: The lowest price point, we have gone up to say \$37 or \$36. Regarding B-80, we are going ahead with full swing. We wanted to put the asset in production as quickly as we can in a cost-efficient manner. Delayed capex means for example, whatever we want to do additional work in the Northeastern states for drilling some of the wells, we have got an exploration block that may get delayed a little and the development well drilling

depending on the service company available in India to drill the wells because today we do not have any good drilling company available for onshore drilling. So, these are the things we have to look at carefully and after that we will put some money there, but that will take place only in the next financial year, not this financial year.

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

Sunil Jain: Sir, you said that 8,000 boepd production can be expected from B-80. So this is the pure oil or it includes gas also?

P. Elango: The oil would be 5,000 barrels plus and gas would be about 3,000 barrels of oil equivalent.

Sunil Jain: Do you see any risk in B-80 after starting production like PY-1, the production what we assume scale down because of geological reason?

R. Jeevanandam: Py-1 is what we call a basement reservoir. B-80 is a proven resource base as part of the Mumbai high region. We have totally seven wells in the block which has been drilled by ONGC. We drilled two wells. So there is proven oil and gas. But subsurface you cannot predict 100%. But in B-80 there is 90% probability of achieving 8,000 barrel of oil equivalent according to our geologists.

Sunil Jain: You had mentioned something like a new lead. What does that mean, Do you expect now that there will be higher reserve or something else?

R. Jeevanandam: There is a lead we have got in the Deccan Trap. Next well drilling will prove further. Then we will declare that is a discovery and then we can ascertain a reserve volume. Till the time it will be considered only as a lead.

Sunil Jain: Means, there could be another discovery?

R. Jeevanandam: Yeah, another, it will add volume in the block.

Sunil Jain: So that will come in our territory only?

R. Jeevanandam: Yeah, it is in our territory, correct.

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

Mukesh Pathik: Sir, can you share the CAPEX plan for current year and next year?

R. Jeevanandam: '2021 is a focus year for B-80. So the total investment plan is about \$30 million for the block, out of which our share is \$15 million. Other than that, small investments which we will

plan for PY-1 etc depends on the availability of the rig. As such the plan of the firm at the moment is about B-80 development.

Mukesh Pathik: And for next year?

R. Jeevanandam: The next year depends on how this year pans out. We wanted to look for a good drilling rig to do the work in the Northeastern region. If we are able to identify a better rig which can deliver what we want, then we will go ahead with that. There is a new team constituted as part of the G&G group and now they are reviewing the whole thing in a different manner as such.

Mukesh Pathik: And second, when we will start getting the gas output from the B-80?

P. Elango: It will be around the same time along with the oil we will complete all the work. As I said, post-November we will start the work. So around December, January. That is what we are targeting.

Mukesh Pathik: And the marketing we have already tied up?

P. Elango: We have had some initial discussion with two of the major players in Gujarat market. Definitely demand is there. We will discover the price post the lockdown because currently there is a very depressed situation in Gujarat market. So we will determine the right time and we will also need to complete some gas specification analysis. So we have established demand for the volume. We need to discover the price through a tendering process.

Mukesh Pathik: So in the previous call we talked about \$35 level for the crude. For gas have you decided about what price level you will be comfortable marketing?

R. Jeevanandam: Gas is actually a byproduct in this because both the wells have oil. So any price is good for us because that will reduce the cost as well as increases the overall revenue but we are not interested to sell below \$4.

Mukesh Pathik: Can you share some thought about gas prices because it has been on the downtrend?

P. Elango: There are three gas prices prevailing in the Indian market. One is the government determined prices which is as I said \$2.39. Then there are production sharing contract of private players who have the freedom to determine the pricing and marketing. Those prices are \$6-7 in the Gujarat market. I know a field which we are selling at \$8 per mmbtu on a long-term contract in Gujarat market from Rajasthan. Then the third part is the LNG. 50% of the India's gas is imported as LNG. Again, LNG is imported through long-term contracts, though long-term contract prices are in the order of \$7 or so. Although the spot LNG prices have crashed recently because of the COVID situation and there are players who use the existing LNG regas facilities in Gujarat to import LNG directly from spot market. So there is a combination of prices in the

market but Gujarat is the best gas market in the country with a lot of optionality in terms of end consumption, you can sell it to commercial units, you can sell it to CNG compressed natural gas, other industrial, commercial uses and GSPC which has got a good network within Gujarat has a lot of optionality. We are in discussion with GSPC actually and they have confirmed to us this kind of volume can be easily marketed and as Jeeva has said we are targeting price not less than \$4 per mmbtu. Our target will be to substitute long-term imported LNG consumers.

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

Ashwin Reddy: I had a question on the Northeastern Dirok field. So given that things have now stabilized after about one year, I wanted to know again in the next two years, what is your outlook in terms of volume especially considering that you are putting your own pipeline, right with the gas. So one is what is the status of gas pipeline and second, given that you are putting in the pipelines, in the next two years what kind of volumes can Dirok do?

P. Elango: Our outlook from a long-term perspective in Northeast is quite robust because as you know that the government has announced Northeast gas grid to bring imported gas from Paradip into the Northeastern region after doing a lot of studies on demand, etc. One of the anchor customers for imported LNG transported through a long distance pipeline is the Numaligarh refinery owned by BPCL. They have a large volume of demand and their economics has been imported LNG basis.

So from the long-term or medium-term perspective, we believe that the production level of 55 million cubic meters which we had considered from phase-II of Dirok can easily be marketed, but currently our constraint is we are selling it at the place called Kusijan to Oil India and Oil India has got limited capacity in its pipeline to transport it to Dulaijan. This direct pipeline to Dulaijan would take us to the central marketing hub of Assam. From there marketing gases to multiple customers will not be a problem. For the near-term, as we said, we expect Dirok offtake to remain in the range of 30-35 million cubic feet per day.

Ashwin Reddy: Just to put it differently, in case the price goes back to around \$3.5 for example, as the price for gas, what would be the volume two years down?

P. Elango: If the price goes back to \$3.5 per mmbtu, we would expedite the phase-2 of Dirok campaign and complete the project and increase our volume from 35 to 55 by drilling the additional well.

Ashwin Reddy: I am saying in the next two years?

P. Elango: Definitely. Let me explain that. There are three modules to the phase-2 of Dirok. One is drilling the additional well. Second is expanding the existing plant capacity. The plant already has a capacity to process 40 million cubic feet per day. It can be expanded to 55 million cubic feet per day with a very limited CAPEX. We do not have to build a new plant. We just need to expand. Pipeline will be needed, to take you to Dulaijan which we have already ordered the

pipes, the pipes have already arrived. So all the three components can be executed on a fast track basis but the critical path item in a project of this nature is the regulatory approval. As I said, the public hearing which was to be held in February could not be held due to various reasons...there was the citizen amendment act issue, subsequently the Corona issue. So, in terms of actual execution, it is a fairly simple project, linear project to be executed and we will be able to do that definitely within 18-months period.

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

Ravi Sundaram: My follow up question was on the Deccan Trap formation which you had mentioned in B-80. So, are we at a stage to quantify it, sir?

R. Jeevanandam: We drilled the well and gas has been seen in the logs and we are doing further evaluation. We can definitely confirm the presence of hydrocarbon. It is around 7 to 10 metres. So we do not want to jump to conclusions already that this lead is a great discovery. We will be drilling a couple of wells in the next drilling campaign. That time we will be deepening those wells and we will certainly prove the same. And after that we will come back to you with the additional volume added to the block. That is the right way to do that. So we will be holding in that manner.

Moderator: Thank you. The next question is from the line of Sharath Sharma, an individual investor. Please go ahead.

Sharath Sharma: The clarification was \$2.39/mmbtu pricing. That does not include the pricing of Jan, February, March on the global markets, correct, the weak pricing of Jan, Feb, March will come in the October APM that needs to be notified, is that correct sir?

P. Elango: That is correct.

Sharath Sharma: And that pricing which comes notified in October 1st will be effective till 30th September 2021?

P. Elango: No, six months.

Sharath Sharma: But it will have a follow through?

P. Elango: Yeah.

Sharath Sharma: You have a great chart on the Investment Multiple. Just to clarify my understanding sir, so where you have a cost recovery of let us say you have 80% limit, after that that is a government share in the table below or what is that?

R. Jeevanandam: There is a cost recovery limit that has been put.
You are entitled to recover 100%, but annual limit put is the cost recovery limit mentioned.

Sharath Sharma: And those percentages are the government share, on that you pay a royalty?

R. Jeevanandam: Royalty is on the production as per the current guideline.

Sharath Sharma: But then what are those percentages sir, that a multiple let us say 1.5 to 2, is 25% up on ...?

R. Jeevanandam: What is happening is, it is basically your total revenue divided by your exploration development cost, that is considered to be the capital investment. On your capital investment, the net return for you is revenue minus all your taxes minus your operating cost, that would be the investment earned there. If the cumulative investment earned by cumulative capital is more than 1 there is a percentage, if it is going more than 1.5, there is a percentage, if it is more than 2, it is a percentage. That is what is called the investment multiple.

Sharath Sharma: Percentage, what does that signify, is that government ...

P. Elango: That is called Govt. share or profit petroleum

Sharath Sharma: So that is not part of our revenue at all. That will go to the government totally?

P. Elango: Correct. It is the government's revenue share.

Sharath Sharma: And just for Dirok and all, we are currently under one multiple as of now still I am assuming?

R. Jeevanandam: We should be getting into the profit share next year.

Sharath Sharma: I mean 10% decrease revenue that goes and then 25% and all, right?

R. Jeevanandam: That is right.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investment. Please go ahead.

Vaibhav Badjatya: I wanted to know based on the mix between oil and gas currently what would be the breakeven prices of oil and gas so that our PBT is breakeven basically it is zero?

R. Jeevanandam: If we wanted to make a 20-plus post tax return for the oil, including all my CAPEX, everything, total recovery and my investment earns a return of 20% post-tax return, I need an oil price of \$35. For gas, for making the 20% return, I should need a gas price of \$2.25.

Vaibhav Badjatya: And this is 20% IRR, that is what you meant?

R. Jeevanandam: Post-tax IRR.

Moderator: Thank you. The next question is from the line of Tejas Shah, individual investor. Please go ahead.

Tejas Shah: I think what I understand is only after January onwards our actual sales and everything will go up. What is the revenue increase and the bottom line increase we are looking forward from B-80? Because you are saying your PY-1 is gone as such, only Dirok is functional properly. The revenue what we got last quarter I think more or less will remain the same up to the December if I am not mistaken.

R. Jeevanandam: See, the last quarter revenue is about say Rs.28 - 30 crores, right. Even if the current price is holding on to it, we have a turnover of about say Rs. 200 crores, we will be having only 15% of the reduction in the turnover. So that will get compensated by the revenue base that comes from B-80 development which would be adding during the next financial year minimum of Rs.300 crores.

Tejas Shah: Only the next financial year will make more money and after this September again the price drop will come for the gas, correct?

R. Jeevanandam: That is what I am telling you. If the price reduction is say 15%, then I will reduce my 15% volume.
So today this year we make a total revenue of say Rs.200 crores. With 15% reduction, still I will come back to Rs.170 crores. So correspondingly there would be a reduction into my royalty and cess and DDA as such and my profit also would reduce only by about some 10%.

Tejas Shah: And another thing I think you have sold some stocks of ESOP's prior. Now since the prices of company has gone down, any plans of buying it back? I think you sold around Rs.90, 95. Now the price is hovering around Rs.52 which has come up from Rs.35. Your views on the same?

R. Jeevanandam: We paid the full tax to the government. Our purchase price is equivalent to more than the current price.

Tejas Shah: That is what I am saying. If you are buying from the open market, that will infuse the confidence also of the overall investors, again, the management is buying at a reasonable price?

R. Jeevanandam: We have to separately get the finance.

Moderator: Thank you. The next question is from the line of Yash Mandawewala from Mandawewala Enterprises. Please go ahead.

Yash Mandawewala: The first question is on PY-1. So at the current well productivity level of PY-1 and assuming sort of full offtake, what would be the operating cost per mmbtu?

R. Jeevanandam: See, the operating cost in this block is more or less fixed as such. It is very-very low. It is an indigenous small crew and the facilities there on to it. Our operating cost per quarter is about only Rs.3 crores. It means per month it is only Rs.1 crore. And the revenue is about Rs.2 crores.

Yash Mandawewala: So this is excluding the royalty and the depreciation?

R. Jeevanandam: Yes.

Yash Mandawewala: Sir, if we sort of go back into history a little bit, there have been lots of problems with this particular field with regards to sort of production and there were a number of write-offs that we have taken sort of five or six years back. So strategically sir, I just wanted to get your opinion, is it still sort of making sense to invest additional capital into this, how do you think about that?

R. Jeevanandam: Additional capital which you are talking about is an addition to 400 million, right. 400 million was the investment made. Now what we are talking about is in the 400 million, our additional investment which you are talking about in the order of say 10 -12 million. Now look at that additional made to the total cost. If total cost was a sunk cost which we have written off in the books, but it is having a valuable asset sitting in the offshore with A-class platform and a pipeline and an onshore facility which can process about 50 million cubic feet of gas. So what is happening in this case is that the development cost will be much lower. Only the cost you incur is the drilling and completing cost. Even a very-very small marginal reserve can be put on production in a commercial manner. That is where the G&G team is now looking at the different pools which can make commercial sense. All of them they will come out with an idea to put one-by-one into production. Because drilling cost would not be much higher for this because it is about only 1,600, 1,800 meters drilling. In the current market we can drill it at a cheaper cost. Then we now have developed an expertise on subsea completion also. With that we can hook up this well to perform and can monetize quickly on that.

Yash Mandawewala: Next question is on Dirok. So have we seen any decline in well productivity from this field as well?

P. Elango: No, it has been producing very well.

Yash Mandawewala: Lastly, just a question on the balance sheet. So sort of year-ended balance sheet there seems to be a big increase in payables and other current liabilities. So can you sort of give some more information with regards to this and when are we likely to pay this back?

R. Jeevanandam: Most of the liabilities particularly for the month of February and March drilling expenses for B-80 has not been paid because February, it comes in the month of say March 10th or March 15th, the 30-days credit period that gets into the April actually. And similarly, March comes in April which gets paid in the month of May. And this is the way that a lot of accruals have been included in the books of accounts but you could have seen there is enough cash in the company to pay for it.

Yash Mandawewala: So we have enough cash to pay for the payables and the liabilities, but then do we need to take on fresh debt to fund the rest of the \$15 million CAPEX?

R. Jeevanandam: No, actually we are not planning for any debt for development expenditure of Hindustan Oil Exploration Company. Our subsidiary companies will be getting an asset backed financing. We buy an asset where we will put two-third of our money and one-third of the money we take it from the bank. That is what we will put those assets with less risk to the banks and no risk to us.

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

Chintan Sheth: Following up on the previous participant's question, this Rs.90 crores increase in the financial liability is basically dues payable to the contractor for Feb and March?

R. Jeevanandam: That is right. We have to recover cash money also to come from our partners.

Chintan Sheth: And sir, during April, FM has allowed a few of the projects for oil and gas in terms of this coal regasification and all. Are we looking at any opportunity in that front where the announcement has already been made?

P. Elango: We have no plan there. We have got enough on our plate.

Chintan Sheth: Sir, on the GSPC bid, we did for Cambay four blocks where we emerge at L1, any update on that front as well?

P. Elango: The other party has the right to match or bid an exercise. We were in discussion with them and we would see in the changed environment what makes sense to us.

Chintan Sheth: So we have not reached any conclusion?

P. Elango: There has not been any further progress.

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

Sadanand Shetty: This disruption in Baghjan well has an impact on our business?

P. Elango: That is a purely Oil India operated well. There is no impact on our operations.

Sadanand Shetty: Any incremental update on Hardy oil?

P. Elango: No Sadanand, we have not heard anything of late. We do not know at the current price levels what the plans are.

Sadanand Shetty: As industry is undergoing stress of COVID-19 and oil price, energy price can you state your view how the industry is doing, the player who has got just that oil field and OALP, so is there a stress or people are not going through the CAPEX, do you have any insight that you can share with us?

P. Elango: Sadanand, overall, I think these are challenging times for all the upstream players. There are two segments of them. The public sector companies itself are finding extremely challenging at the current price level both for oil and gas. And among the private sector players, you have bigger players also struggling and then you have small players who are also finding it difficult. So all that leads to the question, government will have to do reforms on gas pricing and marketing and also some kind of fiscal measures related to cess and royalty. And all the indications are there that petroleum ministry is in very much favor of that, for example, if the royalty on DSF field is removed we will benefit by 12.5% for our offshore field in B-80. 12.5% benefit is almost like \$3, \$4 per barrel equivalent. So that is kind of impact it would have there and definitely on the onshore side also any relief in terms of royalty and cess would benefit all the existing players and definitely require for any new investment to take place. Since the government is keen on new investment, we are all hopeful that something should come sooner if not to protect the private sector, definitely to protect the public sector.

Sadanand Shetty: One just follow up question. You talked about \$3, \$4 benefit that come through royalty for DSF field. In any of your conversations today did you factor that benefit?

P. Elango: No, we have not factored that.

Sadanand Shetty: That will be over and above whatever breakeven point you tend to lower?

P. Elango: Correct.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Elango from Hindustan Oil Exploration Company Limited. Thank you and over to you, sir.

P. Elango: Thank you. This is a lower for longer scenario for oil and gas yet again after 2015. Oil and gas industry in general and the management team of HOEC in particular has seen many price cycles over the years. We will adapt, survive and build our capacity to drive accelerated growth once

the cycle turns. We plan to do this by focusing on two elements - controlling cost and to build capacity. Thank you for participating. I want to assure you all that we are well prepared and well positioned to withstand this low price scenario with our track record of low cost operations and fast track project execution. For any further questions, please reach us or Valorem Advisors. Thank you, again for joining this call.

Moderator:

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