

Hindustan Oil Exploration Company Limited
Q1 FY21 Earnings Conference Call
8 September 2020

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY21 Earnings 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. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir.

Anuj Sonpal: Good morning everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the investor relations of HOEC Limited. On behalf of the company, I would like to thank you all for participating in the company's Earnings Conference Call for the first quarter ended of financial year 2021.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's Earnings Conference Call may be 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 beliefs, as well as assumptions made by and information currently available to Management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making 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 Limited participating with us in today's Concall. We have with us Mr. P. Elango – Managing Director and Mr. R. Jeevanandam – Wholetime Director & Chief Financial Officer. 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 and a very warm welcome to our call on quarterly results of Q1 FY21. Hope all of you are safe. I have with me our CFO and Executive Director – Mr. Jeevanandam and Valorem Advisors, our Investor Relations Advisors.

I hope you all have received our updated Earnings presentation. We have also uploaded that on our website. For the last couple of weeks, the company has been in the news for wrong reasons. The issues raised about the liabilities of the company are important to all stakeholders, and naturally so. We believe that this Earnings Call is the right forum rather than media to state the facts, clarify specific issues and address any remaining concerns, and we will spend as much time as required to do so.

But first, please allow me to update you with highlights of Q1 FY21. Our Dirok field in Assam continues to set new benchmarks on safe operations. The field is producing at its full capacity, safely, amidst rising COVID cases in the region. From producing around half of its capacity in April 2020, Dirok production has increased, gradually, reaching full capacity in June 2020. Average daily Dirok gas sales during Q1 was 28.3 MMSCFD. Increasing demand from consumers in the region for additional gas, gives us confidence to achieve consistent long-term performance in Dirok asset. However, further investment to expand the capacity will have to await policy reforms on free market gas pricing. Industry has represented to the government to do so, before gas prices for the next six months, effective, 1st October 2020 are announced.

In PY-1, in the South there has been prolonged customer shutdown and inconsistent off take, which have impacted the performance of our wells, that need some workover. This situation continues with the COVID related lockdowns that resulted in reduced demand for power; gas-based power plants continue to run low in the power purchase merit order in Tamil Nadu. During Q1, we had to temporarily suspend the operation for 10 days as a safety measure. Overall, PY-1 average gas offtake during Q1 was 1.5 MMSCFD. To enhance production, workover of existing offshore wells and new wells will be required. Geological studies are ongoing to plan the next Drilling Campaign in this unique fractured basement reservoir. Applications for Environmental Clearance have been filed and are under process. Plan is to commence drilling in PY-1 after 'First Oil' from B-80.

In B-80, Mumbai Offshore, our project planning is gearing up to mobilize men and material, when the monsoon window opens in November 2020. We are currently in the market to source Flexible Oil and Gas Export Pipelines and the Calm Buoy Mooring System. The Mobile Offshore Processing Unit called MOPU is ready to sail from the Lamprell Shipyard in Sharjah. Floating Storage and Offloading Tanker, Prem Pride, is in Sri Lanka and it will undergo dry-docking soon. Considering the prevailing uncertain operating and business environment, our 100% focus is to complete the ongoing project works, and to install and commission all the facilities during the November-April weather window, to deliver 'First Oil' from B-80 as soon as possible. Let me now turn to a few important issues raised in the public domain about HOEC.

First, did the company delay in disclosing about the interim order of the Honorable High Court of Gujarat. The answer is no. We received the order by mail only on 25th August 2020, and promptly made the disclosure. Second, what is the amount quantified in arbitration award, was it Rs. 27 crores? The answer is again, no. Estimated amount of award involving HOEC share is

\$1.65 million. The award amount included certain ancillary items subject to reconciliation among all parties in regard to cash calls, payments and other credits between parties.

If this reconciliation effort fails, the matter needs to be referred to the arbitrators for determination. So far, no reconciliation effort has commenced. Third, when ONGC could reach a settlement on the award with Hardy, why did HOEC choose to appeal? The award by majority was in favor of claims made by Hardy against the three non-operators, namely ONGC, HOEC and TPL. TPL and Hardy are controlled now by the same group. ONGC and HOEC were to jointly appeal, but then Hardy made an exclusive settlement offer to ONGC, waving claims of more than half of the award sum.

Details of the settlement have not been shared with us, yet. We will seek them in the appropriate JV forum. HOEC, based on legal opinion, believes that there are multiple grounds to challenge the award and has already filed the appeal in the High Court of Malaysia. Fourth, from where did this Rs. 722 crores liability figure crop up and what are the correct liability numbers? Section 9 of the Arbitration Act allows a successful Claimant to secure an award if it has reasons to believe that the Respondent would be unable to pay the award sum, if and when the award becomes enforceable, at the end of an Appeal process.

It is the matter of public record that HOEC has a group balance sheet strength of over Rs. 1,000 crores, net worth of Rs. 665 crores and cash balance of Rs. 171 crores, as on 31st March 2020. The amount being claimed by Hardy was only Rs. 27 crores, without any details. The Claimant can request Court to order appropriate security to secure the awarded sum. Instead, Hardy chose to file an Affidavit clubbing all current liabilities, non-current liabilities, contingent liabilities, claims not admitted by the company as sums payable, to arrive at Rs. 722 crores. These items are not homogenous; apples and oranges cannot be clubbed and counted in one category.

Company has made a detailed disclosure providing a breakup of current, non-current and contingent liabilities. The sums under these various heads cannot become payable together at any single point in time. Let me explain the largest single item in the basket of contingent liabilities, so that you all can understand and appreciate the probability of its occurrence. Demand for Service Tax was received by operators of Un-incorporated Joint Ventures, by wrongly treating operators such as HOEC as contractors who provide services to the government and JV partners. Demand Notices running to several hundred crores were slapped on multiple operators, to pay Service Tax on work programs executed by operators on behalf of JV, cash calls issued to partners, and royalty and profit petroleum paid to the government.

Industry made a series of representations and Ministry of Petroleum supported the stand of the industry and wrote to Finance Ministry to issue clarifications that operators as co-owners with participating interest cannot be treated as contractors rendering service to companies.

Operators would not provide services to government either. Including interest, the demand on this account is Rs. 173 crores and it is appearing as a contingent liability.

Also, part of this sum pertains to Joint Venture, and not this company alone. On merit, the companies have a strong case, and held, all avenues including legal remedies, if required, will be pursued in due course of time. On all such liabilities that are contingent in nature, the Management will continue to make its judgment, explain the rationale to its auditors and classify them appropriately, following standard accounting and industry practices, and never ever will seek to hide anything from any of its stakeholders.

I wish we had the time to get into details on each item; we do not. So, I would make two broader points and we will address specific questions in the Q&A session. Ever since the opening of Upstream sector for private players in the mid-90's, there have been three policy regimes – Pre-NELP, NELP Regime under Production Sharing Contracts, and now HELP Regime under Revenue Sharing Contracts.

Under Production Sharing Contract model, two legacy issues are – (i) penalty for unfinished minimum work programs, and (ii) disputes on calculation on eligible cost petroleum, to determine cost recovery and profit petroleum. Under Revenue Sharing Contract model, there is no cost recovery involved and liquidated damages for unfinished work programs is quantified as \$1 million for onshore wells and \$3 million for offshore wells.

Since, in PSC, liquidated damages have not been provided, almost every operator in the country has several ongoing legacy issues on this account. Many representations have been made to the government and the government has made several process improvements to govern future blocks under HELP, but unfortunately, legacy issues of Pre-NELP and NELP blocks linger on. It will take a long time to bring these issues to closure.

Methods of calculating cost petroleum, profit petroleum, statutory levies such as royalty and cess, and Service Tax computations are complex, and their details give rise to claims and counterclaims. On such common issues, the company works with the industry to seek policy relief from the government. The company is actively involved in these industry matters. We realize that we cannot let these legacy issues linger on forever.

We will have these matters legally examined and seek resolution of issues, including through Dispute Resolution Committees constituted by the government. This will be a time bound and cost-effective way of resolving the long outstanding issues that add up as contingent liabilities. Finally, I would like to recall that when we began the turnaround journey of this company in 2015 with Rs. 36 crores cash balance, without raising new capital or borrowing, team HOEC has developed fields and acquired companies, to grow the gross operated production from 750 barrels of oil equivalent per day to 7,500 barrels of oil equivalent per day, and is set to double that once B-80 is on production.

In B-80, our G&G team have been diligently working, even during the lockdown, on interpreting a large volume of critical new data that we acquired by drilling 2 new wells with 5 existing wells' data. These internal interpretations have now been completed and the results meet more than our expectations. These are, right now, being reviewed in London by Gaffney Cline & Associates (GCA), a globally reputed firm that carries out independent assessment of reserves and resources.

We expect this to be completed over the next few weeks and would present it for review by DGH and share the results publicly. Overall, the company is managed by professionals who value integrity more than anything else in life. We have an eminent Board to guide the Management. We assure you that the company has sufficient cash and revenue streams to meet all its liabilities, present and future. We will continue to focus on our operations, bring B-80 to production, while following best practices in our accounting, reporting and communication.

I now invite our CFO, Jeeva, to take you through the financials. Thank you.

R. Jeevanandam:

Thanks, Elango. We report that the company made a revenue of Rs. 27 crores in the current quarter against Rs. 35 crores in the previous quarter. In the consolidated accounts, it is Rs. 29 crores against Rs. 40 crores in the previous quarter. This reduction in revenue is mainly due to reduction in the gas price realization from \$3.57 per MMBTU to \$2.64 per MMBTU in the current quarter.

Though the production was mostly stable, the price has impacted this reduction. This quarter profit on standalone is Rs. 13 crores against Rs. 19 crores in the previous quarter. In the consolidated accounts, it remains the same level. Total expenses of standalone is Rs. 14 crores comparing Rs. 17 crores in the previous quarter. Statutory levies such as royalty, cess and some other costs were optimized resulting in the reduction for this quarter.

For this quarter, the total expenses including depreciation and depletion in the consolidated accounts is Rs. 18 crores comparing Rs. 30 crores in the previous quarter. Operating cash flow, standalone for this quarter including interest income is Rs. 18 crores comparing Rs. 20 crores in the previous quarter. In the consolidated result it remains the same. The company's standalone cash and cash equivalent is about Rs. 128 crores as on 30th June 2020. In case of B-80 development, Mobile Offshore Processing Unit is ready to move from Yard and we will be settling all the liabilities thereon.

Similarly, Floating Storage and Offloading Tanker, Prem Pride is to be dry-docked in Sri Lanka and we will be able to meet their obligations to make the vessel ready to receive the oil in the field. These facilities are resourced through our own subsidiaries with borrowed capital of about Rs. 85 crores.

These assets, such as MOPU and FSO, are mobile assets and there is a value uptick, when they are used in the field. This will enable us to operate the B-80 field with a marginal cost which ensures optimal recovery from the field. We submit that our current liability and the consolidated accounts as on 30th June are Rs. 221 crores and the non-current liabilities, such as provision for site restoration are Rs. 143 crores, which includes a site restoration deposit with the State Bank of India for Rs. 66 crores.

Our contingent liabilities as on March 2020, which have been discussed are mainly on Service Tax demand on the cost petroleum of Rs. 59 crores and cash call from the JV partners of Rs. 28 crores, which makes the total of Rs. 87 crores; and the equivalent amount as penalty, which makes the total of Rs. 174 crores for the period from 2010-11 to 2014-15. We submit this is an industry issue. You are aware that Service Tax is subsumed under GST but no GST on this as on date.

A clarification on this issue is needed from the Ministry of Finance and it is recommended by MOPNG that it is not leviable on cost petroleum and cash calls assets. On 5th August 2019, the MOPNG sent a letter to Ministry of Finance stating that as per circular number 12th February 2018, cost petroleum is not a consideration for service, therefore, no Service Tax should be leviable.

It has been taken as a contingent liability and disclosed that the demand exists in form, but in substance it would not test the law as a liability, as all the inputs which constitute the costs are already subject to Service Tax, which was duly paid. Hardy arbitration contingent liability already exists for Rs. 16 crores; and for ongoing arbitration by Hardy and Aban Offshore, as we are a partner there with 21%, an amount of Rs. 15 crores is also considered as a contingent liability.

The Hardy award, as Elango rightly said, is challenged in the Court of Malaysia. PY-1 royalty demand was Rs. 13 crores. As per the PSC, as per the subsequent circulars, it should be on the wellhead price, not on the realized price. This issue has been since the commencement of the production in 2009 and our claim for refund of excess paid is Rs. 15 crores.

This issue starts from 2009-10. In case of CB-OS-1, immediately before surrendering the block, ONGC carried out a soil survey and made a claim along with G&A cost for Rs. 12.45 crores, which was disputed, and the matter is before the Tribunal with a counterclaim of Rs. 65 crores. In Arunachal Pradesh, in the block called Jairampur (AA-ONN-2003/2), Geopetrol, even after constructing the drilling pad could not drill the well, as the foundation collapsed being a hilly area.

The estimated liability thereon is \$4 million and \$2.23 million has already been paid; in the books we still carry a liability of \$1.64 million. The demand in addition to \$1.64 million is not tenable, and this is also shown in the books as a contingent liability to the tune of Rs. 12.36

crores. This makes the total contingent liability of Rs. 244 crores. In a news item related to Kharsang block, it was implied that a demand letter was issued on 4th June 2020 for \$18.6 million as principal and \$6.2 million towards the interest, on a dispute related to the cost recovery limit. It is to state that cost recovery limit and enhancements for 85 months government delay and fixing the base year as 92-93 as opposed to 95-96 is a two-decade old dispute.

This was immediately refuted by the operator on 10th June 2020 itself, saying that the demand has no basis. Immediately thereafter, an MC was called by the DGH on 15th June and agreed to consider about 5-6 years of delay by the Government of India and agreed for the indexation of the cost recovery limit. The computation of the liability is yet to be worked out by DGH and we are awaiting it.

As per the operator's estimation, the share of Geopetrol is less than Rs. 2 crores payable, and the dispute through DRC is about Rs. 8 crores. Block RJ-1 was surrendered under the policy, with no cost for minimum work program not completed, because there was a delay in government clearance for more than three years. In RJ-2 block, Oil India Limited is the operator and the estimated liability created by the operators for our share is Rs. 6.7 crores, which has been duly accounted for in the books of accounts.

We are confident that we will meet all our obligations, with overall growth of E&P assets in HOEC and its subsidiaries in Oilfield Services. This could be met by cash in hand, internal accruals and asset backed borrowing through its subsidiaries.

Thanks, Elango.

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

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Hi sir, just a couple of questions. On B-80, can you just run us through the timelines for when we expect to start production of 'First Oil', and how is the ramp up schedule when you look at it, and how long would it be for us to be at 100% production levels?

P. Elango: Thank you, Riddhesh. In B-80 as we said earlier, there are 3 modules to the project. The first module is the Mobile Offshore Processing Unit, which is completed and right now undergoing some minor modifications in Sharjah, Lamprell Yard, and it will be mobilized once the weather window opens in November. The second module is actual drilling of the wells, which have been completed, tested and wellhead trees have been installed.

The third module, which is to be installed is really related to the Export System, which is the gas pipeline will have to be connected to the existing ONGC pipeline system and the oil pipeline will be connected to the FSO, Prem Pride, along with the Calm Buoy Mooring System. All these works, we expect to take about 45 days to 60 days and can only be done during a fair-weather window, which typically in Western Offshore commences sometime in November and goes on till end of April. We already are in touch with major installation contractors who have contracts with ONGC and would be mobilizing the spread to fit the right schedule, to complete these installations.

So, our endeavor would be to do all of them before March 31st of this financial year, so that the production can commence from 1st April. We do not expect much ramp up time to achieve the target production rate of 5,000 barrels of oil and 15 million cubic feet of gas. The ramp up will be fairly quick, but the work on installation is complex and will be done following the right processes.

Riddhesh Gandhi: And how much is cost of extraction for the oil and gas in B-80? Increment of cost after the production starts?

R. Jeevanandam: There are two elements of the cost. One, is the development cost. Development cost to us is about \$55 million. If we achieve 10 million barrels on average, without giving a time value of money, it is \$5.5/bbl development cost.

The operating cost would be around \$16/bbl. If we produce around say 6,000 barrels, it is \$10. If we produce 8,000 barrels, it will be around \$8 to \$9. So, the total cost basis would be on without giving time value, which should be around \$14 to \$15.

Riddhesh Gandhi: Got it, and the last question which I had was on the lines of this Service Tax and liability and the claim for operators. Effectively there should be a claim which would be on all operators, and for others, Reliance and all this number would be extremely large. So, is that accurate in terms of is this a claim on all operators effectively or only ours?

P. Elango: It is on most of the operators, but these demands are issued by different regions and for us we understand, that such a demand has been made on several other players. I do not want to name them all, but ONGC is clearly one of them, and all the major operators have received the demand.

Riddhesh Gandhi: Got it. But our view is that there is an extremely low likelihood that we are going to have to pay this?

P. Elango: Yes.

Riddhesh Gandhi: Thank you. That is all from me, and all the best.

P. Elango: Thank you, Riddhesh.

Moderator: Next question from the line of Sumit Bhalotia from MK Ventures. Please go ahead.

Sumit Bhalotia: First part of the question you have already responded in terms of timeline of B-80. Secondly, I wanted to get some more color on the quality of output and quality of crude oil that we are expecting from B-80, in terms of whether any processing is needed before loading, API and Sulphur content. One is that. And secondly, on the realization front that the numbers that you had shared in the last quarter, I think they were based on the vision of oil being at \$30-\$35. So, assuming \$45 price realization of crude oil, how does the government sharing change and what could be the possible numbers from B-80?

P. Elango: See, first on the quality of oil, it is sweet waxy crude oil, there is no Sulphur content, it is light. We have sent the samples for detailed analysis and once the results come, we will share it with the refineries, to determine the pricing on the quality of oil. As far as the cost goes, as Jeeva explained, we are looking at a net back of about \$20 to \$25 per barrel in the \$40 to \$45 regime.

Sumit Bhalotia: The government sharing would be the same or change accordingly?

P. Elango: Revenue sharing with the government is on a percentage basis. The daily revenue, we expect the average to be in the range of about 23%-24%, over the life of the field. It starts with the lower end of 12% and goes to 55%. When the revenue per day is more than \$1 million, it is 55%, and when the gross revenue per day is less than \$10,000, it is 12%. So, average you can take about 24%.

Sumit Bhalotia: Okay sir, one more question about the cash numbers, maybe I missed out or misread the numbers. The cash equivalent that we have as of March end was around Rs. 171 crores. And I think you mentioned that cash equivalent as of June end is around Rs. 128 crores. Is that right?

R. Jeevanandam: It is on standalone accounts. And in consolidated accounts it is a little more than that, it is about Rs. 156 crores.

Sumit Bhalotia: Okay, so the movement in cash balance on standalone from March to June will be how much?

R. Jeevanandam: The reduced movement I can tell you; with Rs. 140 crores it becomes Rs. 128 crores. There is about Rs. 13 crores reduction, and after adjusting the Rs. 18 crores cash inflow, it is about Rs. 31 crores.

Sumit Bhalotia: Okay, and this has been used for?

R. Jeevanandam: About Rs. 20 crores, we spent on the B-80 development.

Sumit Bhalotia: Okay, in this quarter?

P. Elango: Yes.

Sumit Bhalotia: Thank you so much for the information.

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

Varatharajan: Hello, sir. Thank you for taking my question. The employee expense as well as other expenditure for the quarter seem to be down quite sharply so any reason why that is so?

R. Jeevanandam: It is not very sharp, Rs. 17 crores we have reduced to about Rs. 14 crores. We are trying to optimize all the possible costs during this lockdown period. That has reduced the expense by about Rs. 3 crores, roughly about Rs. 1 crore per month.

Varatharajan: So, should we take this as a run rate from here on?

R. Jeevanandam: If it all gains momentum then we will have some travel and other expenses as well. We can say that Rs. 17 crores is our base, and these three months because there has been no movement at all, the offices stand closed, and overall, we are only maintaining our field operations.

Varatharajan: Sure, the second part was on the production rate at both Northeast as well as PY-1. Northeast you are claiming it is almost back to normal. Should we take it as sustainable from here on, no threat to that production?

P. Elango: Yes, it is.

Varatharajan: Okay as far as PY-1 is concerned that plant off take issue remains, but you had created a contingency; some other player who could potentially take it. Any update on that, sir?

P. Elango: In the current situation, there is no other willing player as such, so we will have to wait for a workover to increase production from PY-1, and then look at making alternative arrangements. Right now, no.

Varatharajan: These guys do not seem to be coming back online any time soon?

P. Elango: No.

Varatharajan: Okay, sir. Thank you.

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

Ashwin Reddy: Thank you for the opportunity. I have a question on the Dirok gas field. Can you clarify if the scale up to 55 units which you have planned, is linked to the freeing up of the gas pricing?

P. Elango: What we have done Ashwin, is we are continuing with the project, but we are focusing on the critical path items like getting the Forest Clearance and also focusing on laying the pipeline along the route. So, we have ordered for the pipes and the pipes have arrived. We have commenced the project, but further investment, which is to take it to 55 MMSCFD, we will wait till this month end, to see what kind of policy decision the government makes on the gas pricing side.

There are two elements to the project. One is laying the pipeline, for which we have started the work because that is a long lead item. The other part is investing to expand the processing facilities, for which we have not made the commitment. But we have completed the engineering work. We know the contractor will be the same company, EXPRO, because it is a modular concept and we should be able to do that in nine months.

So, there are two things we want to watch out for, one is the consistency in off take which we are seeing now. In fact, as we speak, the volumes have further increased and then the second part is what the government finally decides on the pricing front.

Ashwin Reddy: Okay, I understood. And the off take which has come back, is it back to the same fertilizer plants which used to take it before, or have we found any new clientele and that is how it has come back to a higher level now?

P. Elango: These are the same consumers like BCPL, Fertilizer manufacturers, and Power Plants, and there are no new consumers; but these consumers are continuing to take gas and it is partly driven by the oil blowout in the Baghjan field. Therefore, Oil India is unable to supply the full volumes and that is helping us to supply more.

Ashwin Reddy: Okay understood. And finally sir, in terms of the Dirok field revenue sharing which has changed from July 1st 2020, can you explain in detail about the impact on the P&L and the cash flow from this field based on the new terms from July 1st?

R. Jeevanandam: This will impact us by say about 7% to 8% of the revenue, and the gas price impact also would be around some 12% to 13%, we estimate. In total, there would be an impact of 20% of the revenue, but that has now been offset by the increase in volume. So, overall, the topline would be a reduction of about Rs. 4 crores to Rs. 5 crores, and the bottom line would be about Rs. 2 crores, that is what we expect.

Ashwin Reddy: So, because this happened from July 1st you are saying as compared to Apr to Jun; June to September quarter is what you are saying right in terms of the revenue?

P. Elango: That is right.

Ashwin Reddy: Okay, alright, sir. Thank you so much. That is all from my end. Good luck.

Moderator: Thank you. The next question is from the line of Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah: On the Dirok field, I think the peak outflow normal was 33 MMSCFD or 40 MMSCFD? Where you said I think, peaked, as in last year?

P. Elango: Correct, the full production capacity of the Hollong Modular Plant is about 36 million cubic feet which is equivalent to 1 million cubic meters per day.

Tejas Shah: So, will it reach to that level, or you are saying 29 is peaked out?

P. Elango: No, 29 average was for Q1. In the current quarter we are doing better than that. It has increased further.

Tejas Shah: To what level, if possible?

P. Elango: Almost full capacity we are doing, which is about 35, say, kind of ranges average between 30 to 33, 34. And some days, it goes up further. Just to explain further, we have also opened up an additional 4-inch pipeline that we had. Some of you would remember, in Phase-I, when we commenced production, we used the old well and supplied the gas through a 4-inch existing line to Oil India facility. Once the new plant got commissioned, we had laid a 12-inch pipeline through which the new plant output was going.

Whenever we see a demand which is beyond the 36 million cubic feet, on odd days, we also have the ability to open the 4-inch line, so that we are able to deliver on a single day, up to 40 million cubic feet also. And that happens occasionally. The idea is to ensure that on an average basis we are maintaining well above 30 million cubic feet per day, which we are able to do in this quarter.

Tejas Shah: Okay, another thing, I think B-80, operationally you are saying it will take around 2 months' time, to deploy everything, correct? Starting window is around November?

P. Elango: The window for weather starts in November. The work involved, first to bring the Mobile Offshore Processing Unit from Sharjah to Mumbai and position it at the designated site near the wells. That is the first activity. Then we will have to lay a pipeline, which is what we call a flexible pipeline, between the wells and the Mobile Offshore Processing Unit; that is similar to an infield pipeline. Then, from the MOPU to ONGC's existing gas pipeline; that is basically a pipeline. Thirdly, we will deploy a Calm Buoy Mooring System and bring the vessel, which is in Sri Lanka, which will undergo dry-docking over the next 3 or 4 month period and have the mooring system installed. Finally, the oil pipeline will be connected to that system. So, the scope of the work per se, includes 5 kilometers of pipeline in total. It is not a large volume in terms of scope, but the spread that is required is very similar. Suppose if we are laying a 100-

kilometer pipeline in Mumbai High, the type of vessel you need is similar to the type of vessel for this operation. These are very sophisticated vessels, which can lay the pipes, as such.

To mobilize the spread exclusively for this kind of small work would be very expensive, and remember we are developing a marginal field in Mumbai High, which ONGC thought is not economical to develop. So, obviously, we need to kind of do our own set of innovation. We are in touch with the contractors who are already mobilizing a spread for ONGC work. We will look for a window of opportunity and get our work done. That will be the cost-effective way. That is why, I am unable to specifically state, by which month we will finish. But the stop date is April because the weather window ends then. Our endeavor would be to finish by end of March, which is still doable.

Tejas Shah: Okay, another thing is, last time you had shared that B-80 is a free pricing market for gas and you will be getting some clients from Gujarat, which we will be at \$4 plus pricing for natural gas. So, any update on that?

P. Elango: It is a free-market pricing. There are no pricing controls when it comes to B-80 gas and the gas will flow through the ONGC pipeline system, to reach the Gujarat market, specifically Hazira. A couple of interesting developments since our last call. The Indian Gas Exchange, which is like the power trading exchange platform, has already been launched and a small volume of trial trade has been done as well. Hazira is a designated delivery point, which effectively means you could trade some of the volume in the exchange for physical delivery at Hazira.

And there we have seen prices at around \$4 in the exchange. We have not concluded the pricing discussion. We thought we will look for what signals the government is going to send with any gas pricing reform, which we expect by end of this month, hopefully, and based on that we will conclude arrangements. But we have established that there is enough demand -, confirmed by GSPL, as well as by GAIL and some direct consumers also. But we will most likely be partnering with an aggregator like GSPL or GAIL, to ensure our off take is there. As I was saying, we will commit, let us say, 70%-80% volume under this model and keep about 20%-25% volume to try and do the trading, where the trend is now a premium price. Whatever is the prevailing market price, at the trading counters it draws a premium, but we will take a call as we come closer.

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

Chintan Sheth: Thank you for the opportunity, sir. First on the Hardy issue. In your opening remarks you mentioned as well as in your clarification, the total sum of all the contingents and the reported liabilities adds up to Rs. 600 odd crores, as per your Monday morning clarification. But, if we look at the news articles, they are stating Rs. 722 odd crores. In your opening remarks, you

mentioned that this is not an apple-to-apple comparison; they have also included the claims, which the management has not yet put a word on, and that is not getting reported.

So, I am just trying to reconcile the differential amount of Rs. 122 odd crores which the newspaper articles are suggesting. That is first part of the question, and second is on the contingent liabilities, the counterclaims; if you can put out a separate press release for what Mr. Jeeva has already pointed out in his opening remarks. If you can put out a separate press release, citing, that these are the claims on the company and these are the counter claims on the company, just to get more clarity on our company stand. That is the second part of the question.

P. Elango:

I will answer the second part and ask Jeeva to answer the first part. In terms of going public on counter claims, on individual court cases, or dispute resolution arbitration will not be a correct thing to do. On the overall, your first question, Jeeva will share the details.

R. Jeevanandam:

We have given the full details in the Annual Report, which has been circulated. You can refer to that. We have stated about each claim, what is the nature of the claim, what is the claim made, what is the counter claim made by us, it is all there. Now, you wanted to have the reconciliation; the total, we have created current liability, it is an undisputed fact, the current liability is Rs. 214 crores, the non-current liability is Rs. 142 crores and Rs. 244 crores is the contingent liability, as on 31st March 2020.

The difference of Rs. 722 crores if you look at it, we have already captured about Rs. 600 crores, Rs. 122 crores I will explain what those amounts are. In PY-1, Royalty demand is based on the wellhead value. But the government has demanded it on the gross price of sale. This has been going on from 2009-10 since the field has been put on production. We made an excess payment thereon and made a counter claim of around Rs. 15 crores thereon to it.

Now, the liabilities there are, we put them into the books of accounts as a contingent liability, disputed liability is Rs. 13 crores. For that, this newspaper item which says actually Rs. 41 crores, there is Rs. 22 crores that fits there into it. And, similarly, when you look at our contingent liability on account of the Service Tax, we take it as a demand notice to the company and do not pass on to the same thing, because it is not a liability in substance thereon; so, we want to dispute with the department and we do not pass on that to our JV partners, and take this as only my liability, that is to be a liability held and so on and so forth. If that is the case, my Rs. 173 crores liability is only Rs. 123 crores. But, in a similar case, Hardy claims there is about Rs. 12 crores liability thereon, the Service Tax there on 2010 and 2011, when they shut the field down. So, that is the liability of Rs. 12 crores there, Rs. 11.9 crores to be exact. Then, there is a block called RJ-1, which we have 25% participating in. The block has 4 parties, one of them is Jindal; they walked away from the block in the beginning, then we carried out the seismic and after that there was no clearance from Defense Ministry for a period of 3 years.

By using the policy regime of the Government of India, where there is more than a 3-year delay, without committing any work program, you can surrender the block. Using that quality, we have surrendered the block, against which they are claiming a Rs. 16 crores liability thereon. Then, in the RJ-2 block, which is operated by Oil India, they completed the drilling of two wells, after which they thought it was not conducive to drill any more wells therein and surrendered the block. In that, our participating interest is only 20%.

The estimated liability thereon is about Rs. 6.7 crores for us, as estimated by the operator. We provided it in the books of accounts. There is no further liability existing thereon. So, that is another Rs. 16 crores. Then, we come to a block called Mizoram. Mizoram is a block wherein 4 parties were there, and one of the parties submitted some wrong statements and the PSC itself has not commenced.

There is no claim entertainable by HOEC there because the PSC itself has not commenced. So, that in the statement they are saying there is a Rs. 10 crores liability in their own estimation. Then, they are talking about a block in Kharsang. This is a dispute that goes back to 1995-96.

It is a government delay of about 86 months, that is virtually about a 7-year delay, and for a 7-year delay, the cost escalation has to be granted by the Ministry. If the cost escalation is granted, then there is no issue at all. This issue has come up suddenly; it is a consideration of some \$24 million that is payable by the consortium, wherein we have got only 25%, and it has appeared on 4th June.

Immediately, it has been refuted by the operator on 10th June stating that this liability is not tenable, there is no basis for it, and that the increase in cost escalation as per the PSC had not been accounted for. Furthermore, the effective date had not been determined as 1992-93. Many of these issues have been raised in their letter on 10th June. Then, immediately thereafter, on 15th June, a Management Committee Meeting was called. In the Management Committee Meeting, the government considered that it has been accepted by the DGH that there has been a delay of 5.6-year, which is admissible. Therefore, the escalation benefit is to be given, and now, the liability has to be reworked out and then passed on to the companies, as such.

In the estimation of the operator, this liability is less than Rs. 2 crores immediately payable, and the liability which will be referred to the dispute is about Rs. 7 crores to Rs. 8 crores. So, there is no basis existing for Rs. 55 crores. Hence, the total claim of Rs. 138 crores has no relevance, whatsoever.

Chintan Sheth:

Sure, and lastly on your annual report if I look at your reserve and resource data, there is hardly any noticeable movement in that number from 19 to 20. Does this mean that we have not yet added the B-80 resources in our reserve data, or is it included?

R. Jeevanandam: In B-80, the probable reserve data, it is included therein.

Chintan Sheth: Okay.

R. Jeevanandam: And, what we are doing as such, as soon as the GCA report comes we will make it public to everyone, to know what is the volume of proven reserves, probable reserves and possible reserves there are, and the lead and quantum thereon. We will make it open to all the shareholders and it will be published on the website itself.

Chintan Sheth: Sure, sir. That is all from my end. Thank you.

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

Nirbhay Mahawar: Sir, some follow-ups on B-80. What is the total CAPEX, field level CAPEX, which you have done till now and what is the balance?

R. Jeevanandam: This is essentially a block where there is two-well development, and this two-well development will then be connected through the gas export line. The MOPU is a contracted facility through our subsidiary, and SBM and the Floating Storage Offshore are also contracted facilities through our subsidiary.

If you look at the B-80 standalone development, we have drilled the two wells. The cost of these two wells is somewhere around less than \$40 million. Now, we have to put the gas export line and there are two flow lines, two umbilicals and one export line to Floating Storage Offshore through SBM. The total estimated cost to us should be in the order of \$10 million to \$12 million. We are in the process of getting the quotes, it should be around \$10 million to \$12 million. Total project by any means is not exceeding \$55 million, for the B-80 development.

Nirbhay Mahawar: \$55 million, okay, and how much of it has been incurred, sir, already?

R. Jeevanandam: We have incurred about \$39 million to \$40 million, and in that our share is only \$20 million, because the other company has a 50% stake; they owe \$20 million.

Nirbhay Mahawar: So, close to Rs. 150 crores CWIP has come in our balance sheet?

R. Jeevanandam: I will tell you the exact number, investment in property and standalone balance sheet number. Our capital work in progress is about Rs. 156.97 crores, out of that Rs. 145 crores is for B-80.

Nirbhay Mahawar: Rs. 145 crores for B-80 and after incurring this CAPEX we have got net cash in the balance sheet, is that correct, how much is the net cash level?

R. Jeevanandam: The net cash level is about Rs. 129 crores excess, as on June, and we have certain internal accruals, which in a quarter amount to about Rs. 5 crores to Rs. 6 crores per month. So, we are slowly building up this, to meet some of the suppliers, whose payments are pending; we have to make the payments, and then the additional, about \$10 million to \$12 million. \$6 million, our share comes to around Rs. 35 crores, and before March we should spend that money.

Nirbhay Mahawar: So, all of it is done through internal accruals, and then also we have been able to maintain this deleveraged status of balance sheet?

R. Jeevanandam: Yes, and what we are deleveraging is only with reference to the facilities which we are using through our subsidiary. For example, FSO, we are taking a loan that would be deployed for B-80 itself; that is fully asset backed, our leverage is only 33% to 40% max.

Nirbhay Mahawar: Sir, another question is you have been talking about these changes in gas pricing and some reforms taking place there. What is anticipated and what could be the implication for HOEC, particularly for Dirok and B-80?

P. Elango: Nirbhay, as far as B-80 is concerned we have complete marketing and pricing freedom, so certainly it is under open market basis. Dirok, we are selling the gas based on the six-monthly pricing announced by the government. Every six months, the government announces the pricing based on an international cocktail of gas prices; Henry Hub and National Balancing Market in UK, Russia, and Japan. It is a cocktail of a formula, as such.

So, the demand from the industry has been that, provide us complete marketing and gas pricing freedom, which the government has given to all the fields, which are to be developed after the Field Development Plan was approved, effective, 1st April 2019. In other words, any FDPs that were approved after 1st April 2019, are eligible for free marketing and pricing rights. However, some of the old blocks, which were developed in the previous regime, do not enjoy that freedom.

And, particularly in North-East, we are the only private operator supplying and selling gas. You know North-East is a very limited market, where the major players are ONGC and Oil India, and the major customers are essentially central government customers. If the new policy of the government, opens up marketing and pricing freedom for ONGC and Oil India fields as well, then the whole market gets opened up and we expect market determined prices.

You would recall, at one point in time, throughout India, the market price, the uniform price for all NELP and Pre-NELP gas was \$4.2 per MMBTU. So, if you broadly take that, the market in India has accepted a price of about \$4 throughout, and therefore, if it opens up, you have to give a discount for the current economic situation; but going by that general trend, the Indian market should, in my view, be able to comfortably absorb a \$4 per MMBTU gas price.

Nirbhay Mahawar: So, for Dirok, it will have a positive impact, but what about for B-80? Can this free-market pricing translate into lower than anticipated realization, or will it?

P. Elango: No. It already enjoys free-market pricing. The B-80 gas will be sold in the Gujarat Gas Market, which is the most premium paying market in the country, where majority of the imported LNG is being consumed. In the Gujarat market, some of the long-term imported LNG prices are still high, because they are committed on a fixed basis, as such. So, overall, we expect Gujarat prices to be, on any day, better than the rest of India prices.

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

Yash Mandawewala: So, my question is on the Oilfield Services business that we are entering. What is the arrangement for the pricing at which we will lease the MOPU and the floating storage unit to the B-80 block?

R. Jeevanandam: This being related party transaction, we would like to go to the market and take the price, and we do not want to charge even a single penny more than on B-80, because we have got a partner therein. So, it would be planned.

Yash Mandawewala: So, as of yet, we have not fixed up the prices?

R. Jeevanandam: Yes, it would be an arm's length price. We know the trend in the market, and so, accordingly, we are looking at that. But the price would be for a fairly long period of about 7 years to 8 years, so, that would be at an arm's length.

Yash Mandawewala: Got it, and sir, just a second question leading up to that. We were supposed to take some asset backed loans, to fund these two units. The court order under Hardy Oil, I think, it also mentioned that we are not allowed to encumber any assets or anything of that sort. Has that impacted our ability to raise debt now, against these two assets that we need to buy?

P. Elango: No, in the Gujarat Court order, as we explained, the claimed amount by the other side is only Rs. 27 crores. As we speak, today, the matter will come up for hearing. We have sought an advance hearing on this matter. Today, it will come up for hearing. We hope to provide the required guarantees to the court, and then get this order vacated, so that we can continue with our plans.

Yash Mandawewala: Got it sir, but till we get this order vacated, we cannot avail more debt, to fund the MOPU and the FSO?

R. Jeevanandam: Part of the debt we have already availed. The two subsidiary companies there is no order, and they are not tainted. Loan is only on the subsidiary companies. HOEC, as a company, has not borrowed anything.

Yash Mandawewala: Got it. That is it from my side. Thank you.

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

Sunil Jain: My question relates to why we are making an appeal into Malaysian Court, whereas the order is from Gujarat?

P. Elango: Sunil Ji, under the Production Sharing Contract, for any arbitration between the parties to the contract, the designated venue for arbitration is Kuala Lumpur. So, this initial arbitration between Hardy as the operator and ONGC, HOEC, TPL as non-operators, therefore, had to be held in Malaysia. The arbitral tribunal sat in Malaysia, in Kuala Lumpur, and finally made the award. Therefore, any appeal to that award will have to necessarily take place in the High Court of Malaysia.

There has been several precedence of this kind, because in the initial days, the Government always wanted the seat of arbitration to be a neutral place, which neither of the parties to the Production Sharing Contract originate from. That is how Malaysia came into being. These contracts were signed in 1994. That is how the Malaysian jurisdiction assumes.

The case in Gujarat High Court is really, simply related to securing that award. Not even enforcing, just securing that award, for which the party went and got some interim relief, which, as I said, we have filed to vacate that order.

Sunil Jain: Okay, and second thing, about your view on oil prices and gas prices, that is the key thing which will drive profitability of our company?

P. Elango: As you all have seen, oil prices have been slowly moving up, almost in the range of \$40 to \$45, which works very well for us from B-80 point of view. We had stated earlier, our breakeven price in B-80 would be somewhere between \$25 to \$30. So, anything in the range of \$40 and \$45, we should be able to comfortably operate the field on the oil price front.

On the gas price, what we are really looking forward to, is the freedom for ONGC and Oil India to fix the gas price. That would indirectly help us, to compete effectively in the North-East region, where our Dirok field is located, which produces very rich quality gas, and is very much in demand by the Petrochemicals sector, as such. As I said in response to the earlier call, if you discount the current economic situation caused by the pandemic, on a normal sense, my take is that Indian markets would, comfortably be able to absorb about \$4 per MMBTU of gas price.

Sunil Jain: Further to this question, looking at the current international prices of gas, do we expect the formula-driven price to improve from 1st October?

P. Elango: No, if you look at the current scenario, if the Government chooses to continue with the current pricing formula, the price is expected to decline from about \$2.39 to about \$2.00, or \$ 1.95 to \$2.00. That is what our calculation indicates. But you would have seen that with these prices, which are at \$2.39, the gas business of both, Oil India as well as ONGC, have reported cash losses in their results. Therefore, they have made strong recommendation to the government, to allow free gas marketing and pricing.

The rest of the private sector has also been making these demands for a long time. The government is fully aware of it. We expect some decision to be taken either way by the government, by the end of this month. Obviously, we do not have any details on that, but we expect, either government will take a considered decision to continue with the pricing formula or open up the sector with certain conditions around it. We do not know, but we only hope it opens up.

Sunil Jain: Sir, you said that the realization for the gas for us was around \$2.64, whereas this price is around \$2.39, so how did we get a bit competitive with the higher premium?

P. Elango: See, our gas price in PY-1 is a fixed gas price at \$3.65/MMBTU. What we have reported, is the average realization per unit including PY-1.

Sunil Jain: Okay, sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Kishan Mundhra from Systematix Group. Please go ahead.

Kishan Mundhra: Just one question from my end, sir. You have given the bifurcation of B-80 CAPEX, but can you give us a company-wide guidance on the amount of CAPEX that you intend to spend this year and next year? So, I think you have mentioned that we have already spent Rs. 20 crores in the first quarter. So, what is the guidance for the rest of the year, and then for the next year?

R. Jeevanandam: If you look at it, by end of this year, there is about \$12 million CAPEX; our CAPEX would be \$6 million. \$6 million would be around Rs. 45 crores. That is our intended plan, thereon. And, settling the liability, thereon, to the cost which has already come into the picture.

Kishan Mundhra: And, next year?

R. Jeevanandam: Next year, see, we wanted to put B-80 into production and that is our prime focus, at the moment. Then, our people will be doing the re-working on PY-1; they will re-visit the entire thing, go back to the drawing board again and see what needs to be done in the block.

Kishan Mundhra: Okay, and any update on Kherem, Kharsang, any plans there?

R. Jeevanandam: Kharsang, is a block under production. There is some more work that needs to be done, because out of the three parties who are existing, one is Oil India, another one is Geopetrol, and another one is GeoEnpro. And one more, fourth party is JEKPL, which has gone into IBC process. Now, to our knowledge, only RP is coming and attending that. If the other parties will be taking over full control, and only if everyone is onboard, can we look at the block development, thereon.

Kishan Mundhra: Okay.

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

Sreemant Dudhoria: Thanks. Couple of questions. One, in today's presentation I think you have highlighted about the Drilling Campaign, plans for Drilling Campaign in the Cambay region. Could you please elaborate on what we are planning there?

P. Elango: Yes, in Cambay, as you know, we have these three marginal fields which are producing very small volumes of oil. A couple of the PSCs had come up for extension, and those extensions have been done. As part of the PSC extension requirement, we need to submit an additional Field Development Plan, which has been submitted.

We had two plans in mind. One, is to secure the R2 area in the block through a ring-fenced production sharing contract, which is in the final stages of approval by the government for quite some time. Once we have that, we thought we will club all the additional wells' programs in Cambay and carry out one Drilling Campaign. It is a simple onshore Rig-driven Campaign. In good earnest, we commenced the first step of applying for Environmental Clearances and preparing the activities for that. We will take a call on them, once we have the R2 PSC signed.

Sreemant Dudhoria: What kind of production levels are we planning, with the plan that we are proposing in this region?

P. Elango: These are very, very marginal fields, Sreemant. We have an overall visionary kind of a target to see if we can achieve about 1,000 barrels of production from Cambay, by adding to our asset portfolio. I had mentioned earlier, about our bidding for some of the blocks in GSPC, where we were the highest bidder, but the existing party had matched those rates and is going ahead with acquiring those assets. But, at some point in time, we do expect, based on our operating experience, that the parties will be willing to partner with us. We can develop some program, as such. However, these were plans that were really drawn up in the pre-COVID day plans. Right now, as I emphasized, our focus is 100% on B-80. We wake up thinking about B-80, we go to bed thinking about B-80. Until we deliver that, we will not be doing anything else.

Sreemant Dudhoria: Sure, sir. And finally, you had mentioned about 1.5 MMSCFD from PY-1 in the first quarter. Has the production ramped up to the 4 MMSCFD to 5 MMSCFD levels in PY-1?

P. Elango: No Sreemant, unfortunately not. It is continuing at the same level.

Sreemant Dudhoria: Sure, sir. Thank you, and all the best.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirus PMS. Please go ahead.

Manan Patel: Sir, my first question is on the B-80 part, where you said you have all the data for new wells, and you have submitted that to a London agency. I just wanted to understand if all the plans of yours come to fruition, then how long will it take for those wells also to come online? And do we have to make any changes in the terms of government sharing? Or how does the government play a role in the additional part of this B-80 block?

P. Elango: Yes, Manan. When we bid for this B-80 block, we committed a one-well program only. We were supposed to drill only one well. After the analysis that we carried out, we went with a two-well drilling program, which we have completed. Now, earlier, ONGC had drilled about five wells in the block, and as part of this data package, we had access to that data. With the data gathered from these two wells, we went with the program to gather some additional new data that our team has been working on, to do a new interpretation. And, as I said, that is under review by GCA.

Now, the Revenue Sharing Contract allows us full freedom to do as many numbers of wells, as we can drill. The revenue sharing only happens based on the gross revenue that the field generates, which is, if it is below \$10,000, it is 12%, and if it is above \$1 million per day, it is 56%. Irrespective of how many wells and what is the price, only the total revenue counts, as such.

In terms of our own planning what we have done is, when we went and designed the Mobile Offshore Processing Unit, we designed it for 10,000 barrels of oil-processing capacity, the MOPU; so that we have adequate capacity, in case of any future upside in the block. Second, we bought this FSO, Prem Pride, which has got a storage capacity of 900,000 barrels. This means, it can effectively, store any volume of production and the delivery happens on a tradable parcel size only.

The pipeline that we will be having, will have adequate capacity to handle any upside volume that may come in future. All that will be required is drilling additional wells, and of course, there will be connecting systems and pipelines that will be required in future. But, we will undertake all these programs only after putting the first two wells on production, watching their performance and their behavior, before we go ahead with additional well drilling

programs; it will be at least two years, before we think about the next Drilling Campaign. Our priority is, to bring the first one to production.

Manan Patel: Understood, sir, and just one more thing on this. When you say \$10 million of the well capacity, so the new wells will have the additional capacity? Or \$10 million is for all the wells combined?

P. Elango: Not \$10 million, I said 10,000 barrels, as such. The existing wells, as we have reported the testing results, totally produce about 5,000 barrels to 6,000 barrels of oil, and the balance of 2,000 to 3,000 in form of oil equivalent gas, as such. That is what we will be producing. What I meant by 10,000 was, the MOPU, which is a surface facility, will have the capacity to handle production from any future wells.

Manan Patel: Right, I understood that part. Initially you mentioned that total cost is \$55 million and 10 million barrels is the well capacity, and you divide that to arrive at a cost of \$5.5 per barrel.

P. Elango: What Jeeva said is, he was giving an example. The total CAPEX is about \$52 million. And if the reserves are 10 million barrels, then development cost per barrel is about \$5. That is what he said. We will tell you the reserves number once the third-party audit is completed.

Manan Patel: Understood. My second question is on the vision that we initially laid out. So, by FY22 or FY23 we wanted to be a gross production of 25,000 barrels. Where on that vision are, we and do you think it will take a few more years to reach there? Or are you open to taking an inorganic route for that?

P. Elango: I think the portfolio of assets we already have, could support that level of gross operated production. The portfolio that we already have, gross operated production. In terms of execution, we want to set the priority. As we said, the most important development is B-80. As B-80 doubles the production, gross operated production of the company, depending on where the oil price and gas price is, we will increase the revenue accordingly.

That gives us the capacity to kind of execute multiple projects at the same time, which we would look at, depending on how the current COVID situation pans out and how things shape up, as such. All I am saying, is we have the resource base, to achieve that level of production. Execution really depends on first getting B-80 right, and then we will prioritize based on that.

Manan Patel: Understood, sir. Thanks a lot. That is all from my side.

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

Sadanand Shetty: Mr. Elango, what is the status of the pipeline that you wanted to link to Duliajan?

P. Elango: Sadanand, that pipeline is about 38 kilometers in length, for which we divided the work into two phases. One, is about 12 kilometers or so, going through the forest area, for which we have applied for the Forest Clearance and that is in various stages of clearance. In the non-forest area, we wanted to commence the work once we get a clear signal from the Forest Clearance side. In parallel, we have ordered the pipes, and part of the pipes have already reached the site. We have not yet commenced the work, but the planning is on. We would be laying that line.

Sadanand Shetty: Have you signed up any EPC contractor and whom have you ordered these pipes from?

P. Elango: We have ordered the pipes from Arabian Oilfield Services Company. Then, for the construction contracts, we have awarded the contract, we have selected the vendor. We have not awarded the execution work. We will do that. What happens is, in a COVID type situation, managing the operation from a closed environment like a plant is one thing, but opening up the entire front, which involves laying pipelines, mobilizing a lot of people, is a different element. We need to take care and look at the safety element, before doing that, but we have our eyes sharply focused on critical path items, so that we move accordingly.

Sadanand Shetty: Okay, one last question. Can you share your view on the state of the companies who have bagged DSF or multiple rounds of DSF oil and gas fields, especially considering COVID-19 and the liquidity situation, and do you smell any opportunity in some of those situations?

P. Elango: Sadanand, we believe that the strategy that we followed of focusing on discovered resources, and following a fast-track development model with the limited CAPEX, and converting that part of the CAPEX into OPEX model, has played well and is helping us during these times. In Dirok, the investment on process facilities was done by EXPRO, and the operation and maintenance is also being done by EXPRO, efficiently. The same model has been replicated in B-80. In B-80, on the MOPU, EXPRO has installed the oil and gas processing facilities. They will be operating and maintaining it. We invested on the remaining rig and marine facilities. We believe this model is a successful model, where we are able to maintain a low cost; so, in a situation like the current situation, we are able to comfortably operate our plant and also make some money. We believe that if we stay tuned with this model, we should be able to scale up significantly; but all after 'First Oil' from B-80.

We just want to be very clear and very sharply focused on B-80, and once we do B-80, it is not about just how much of production B-80 brings to the company. How much experience it has added to the company, in terms of executing a project. We did the two-well program, amidst the lockdown; of course, supported by all the contractors. We have done the subsea well completion using a Jack-up Rig, which is again, the first time in India by a private company. Gaining that offshore development experience, and pulling off the remaining part of the work, would be really adding a lot of competence within the organization. That should help us be part of any future developments that happen in the country.

Moderator: Thank you. The next question is a follow-up from the line of Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah: Reliance, I think, is also coming up with their gas production from their gas fields. I think, in next 3-4 months, if I am not wrong? Can you elaborate on that and how it will impact the Gujarat market?

P. Elango: I do not really have a latest update on the status of their project. But all I know; is they went in the market to determine a gas price. Obviously, the volumes are larger volumes and the target is the Gujarat market. But please remember, that India imports roughly 50% of its requirement through imported LNG. And some of them, are on a long-term contract; mostly the government companies are contracted and are supplying to government companies in the Fertilizer and Power sector. The rest of the industry is open, and therefore, any new volume that comes to the Indian market, would effectively replace the imported LNG market, and some of them on spot basis.

Pricing would really be an issue, in the sense that, depending on how the international LNG prices move, things will be determined on that basis. We also need to keep in mind that the government has really opened up the CGD – the overall City Gas Distribution network. It is expanding rapidly, and that should also help in growing the gas demand. Overall, I expect a scenario, where the gas would, over a period of time, substitute the liquid fuel in the country; and that should help the industry, as a whole. But, I really do not know the correct status or the current status of the Reliance project.

Tejas Shah: Two things. One is, will we have the same problem, like how we have lack of clients, when we start B-80 production? And second is, what is the turnover that we are looking at from April onwards, once the oil prices are also likely to go up, once the pandemic slows down, and overall, business resumes?

P. Elango: I did not understand your first question?

Tejas Shah: Will we have the same problem of clients not picking up the offtake, when we start B-80? Like in B-80, we have a capacity for 'X' amount, but then we do not have clients who are ready to pick up. Will we have the same problem over there?

P. Elango: No, we do not expect that problem in B-80. First, our volume in B-80 is not very large. It is only 15 million cubic feet, which is about 0.45 million cubic meters per day; which is roughly less than half of the Dirok output. And, because it is going to the Gujarat market, once we have identified a contractor and signed a contract, we do not expect any problem in the actual offtake, as such. What is your second question?

Tejas Shah: Second question was, from April onwards, what is the turnover we are looking at and once the oil price also goes up, it will add up to the bottom line, by March, I think. What is the expectation from April onwards?

R. Jeevanandam: Last year turnover was about Rs. 179 crores-180 crores, standalone, and if we go through the current level, we will be reducing ourselves on to that, about Rs. 100 crores plus, in the current year. If B-80 is included, it will be about, you can say, 2,500 barrels multiplied by the price, thereon; and for gas, our share is 50% of 15 million cubic feet, that multiplied by \$4. That is all driven more by the price. The volume is prefixed, and only the price is the determinant. Second thing, we have got a volume of about 0.9 million barrels, which we can store. So, we have the flexibility to ourselves, to go to the market at the right price.

Tejas Shah: Are we looking at Rs. 200 crores turnover?

R. Jeevanandam: I think till we want to put something in production, I do not want to speculate the numbers irresponsibly.

Tejas Shah: Okay. Thank you, sir.

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

Chintan Sheth: Thank you for the opportunity, again. In terms of Dirok, you mentioned once B-80 gets over, the pipeline and other facility will be taken up. Any timeline you want to provide right now, to take this 35 MMSCFD to 55 MMSCFD, that was our earlier target? Any timeline for that project?

P. Elango: I would be able to provide the timeline, maybe, in the next quarter call, because we just want to see how the new pricing pans out; if you put excess volume into the market, then, it will be detrimental to the existing volume also. But we are able to meet the current demand and we will give you guidelines, maybe, after a quarter.

Chintan Sheth: Right, and the Oilfield where there was a fire incident, how bad is it, because that is one of the reasons you mentioned, that is also helping us to ramp up our production right now. Do you think that field will come back onstream?

P. Elango: The incident itself, is controlled now. The danger associated with the incident, is controlled now, but overall, we are seeing an increase in demand trend in this sector as well, and therefore, we expect the current trend to continue.

Chintan Sheth: Sure, sir. That is all from my end. Thank you.

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

Rohit Putty: Thank you for the opportunity. Sir, my first question is on what you mentioned in the conference call, about how from April 2019 onwards, all gas production is on free-market pricing. Does it mean that all the fields that we have with us, which we have not begun work on – R2-PSC, Kherem etc., once you submit the Field Production Plan, even though, they are in North-East etc., they are eligible for free pricing?

P. Elango: Correct. The cutoff is based on the date, on which the Field Development Plan in a block is approved by the government. Therefore, for any new developments, even in the North-East, we will be eligible for free-market pricing and free pricing.

Rohit Putty: Before, I think, I believe the rule was that, if it was difficult to bring onto the stream Oilfields, or anything of that sort, it was allowed free-market pricing. Going forward, even if it is easy to produce as compared to deep water, it will be allowed free-market pricing, am I right?

P. Elango: Correct. You are right.

Rohit Putty: That was helpful to hear. Sir, second, broadly on this Hardy Oil issue. First off, thank you for explaining everything, so clearly and transparently. My follow-up is, these things tend to take, I believe, a lot of bandwidth, even though, it is not initiated at our end. Given, we have, I believe, a partnership with the said company in the Kharsang block also, and the relationship has been a little rocky in the past on couple of other bids as well, what is the Management's thought on the future in terms of the Kharsang field? Do you intend to exit, or proactively do something about it; or will you see it on an as and when it comes basis?

P. Elango: No, we intend to continue. Wherever we have invested and wherever we have a stake, our intention is to continue to develop them. There are two things. Where we are the operator, we are able to drive forward, following a particular strategy; that you have seen yourself, and the industry recognizes that. Where we are non-operators, obviously, we have a limitation, because ultimately, the operator of the block is in the driving seat to drive things. But, as a non-operator, my priorities of investment will be purely based on what kind of returns, investment in any block will give, as such. That is our view. We have no plans to exit any of the blocks.

Rohit Putty: Understood. That was helpful. And my last question. Is it a little premature to ask? As you mentioned to a previous participant that the current portfolio of assets that we have, can help us reach the vision that we had to reach, let us say, 25,000 BOEPD. So, the question I had is, is it possible to give us a broad range of the breakeven price for the portfolio of assets that we have; because I believe, for something like a PY-3, that would be higher, while the others might be lower? Is it something you could help us on?

P. Elango: It is a little premature. What I kind of really said was, to reach that level of gross operated oil equivalent production (BOEPD), which will be a mix of both, gas and oil, just based on the resource base that we are operating, we will be able to reach that kind of a number, over a

period of time. But our success really lies in focusing on one thing at a time, so that you do a good job of that, as such. We will give you individual block updates, as and when we have a clearly defined project, and obviously, it will all be undertaken, only if it makes economic sense. Now, because our cost base is low, most of the opportunities that we have, would make economic sense. It is a question of prioritizing and executing it.

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

Sharad Sharma: Sir, can you clarify about the current stay order that has frozen your assets? Is there any impact? Is there any impact on operations? If the prospective stay order does not get vacated in the upcoming hearing of September, what is the plan? And are you paying under protest, or are you just challenging the full order placed?

P. Elango: So, one is, the order basically, put a stay on any disposal, or creating mortgage of any of the company assets. It has no impact on our operations. The operations are continuing.

Sharad Sharma: So, cash is usable, right?

P. Elango: Absolutely. The second is, we have already filed a petition in the Gujarat Court. Original date of hearing was 11th September. We have sought the permission of the Court, to advance the hearing, and once we know the outcome, we would move accordingly.

Sharad Sharma: Suppose, it gets extended or something, would you be paying under protest, or would it just continue; another date or something of that sort?

P. Elango: I think, it is immature, to speculate on the Court outcome. We have moved, as quickly as possible.

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

P. Elango: We thank you for participating in the Q1 FY21 results. The last couple of weeks have only helped us, to further strengthen our commitment to follow the highest principles of transparency and continue to improve the quality of our communications with all the stakeholders. I assure you, that the company is fully focused on project execution of B-80. We are well positioned to withstand this and thrive in this 'Lower for Longer' oil and gas price scenario. For any further questions, we request you all to please reach out to us, or our investor relations advisors. Thank you all. Have a good day.

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