Hindustan Oil Exploration Company
Q2 FY21 Earnings Conference Call
November 12, 2020

Moderator: Good morning, ladies and gentlemen. Welcome to the Q2 FY21 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: Thank you, good morning everyone and a warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors, we represent the investor relations for 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 second quarter and first half year ended of financial year 2020-21. Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's conference call 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 beliefs as well as assumptions made by and information currently available with 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. Now I would like to introduce you to the management participating with us in today's call. We have with us Mr. P Elango - Managing Director and Mr. R Jeevanandam- Executive Director and Chief Financial Officer. Without much delay, I request Mr. P 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 Q2 FY21. Hope all of you continue to remain safe. I have with me, our CFO and Whole-time 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 your reference. In the midst of uncertain times caused by the global pandemic, the oil industry in particular is fraught with the twin challenges of supply glut and demand slump. Though oil prices are stabilizing in the range of $40-45 per barrel, there is now increasing uncertainty in light of the second wave of the pandemic in Europe. In India while the fear over COVID seems to be receding, the threat remains high with different levels of risk in different parts of India, forcing challenges in executing projects. Our management philosophy has always been to focus on the things that we can control, which in the context of our business are two; volumes and cost. Following strict protocols, we have kept our production operations continuing safely with lean teams at all our operating sites and we continue to accord first priority to safety of our personnel and the facility. In Dirok, we have stepped up to the rising demand for natural gas in the region and have produced at an average of close to 40 million standard cubic feet per day in Q2 FY21. This is the highest ever average production achieved in Dirok. This was achieved using the existing infrastructure of 4-inch KOPOU pipeline in addition to the 12-inch pipeline; no additional investments were made to increase the capacity. Dirok field has consistently set new standards in terms of project planning, execution, safety and now it has in terms of production as well. It was a matter of great satisfaction to all of us in Team HOEC that the public hearing for Phase-II of the Dirok project was conducted successfully last month in Tinsukia, Assam. Phase-II of Dirok development envisages drilling of three additional wells and increasing production to 55 million standard cubic feet per day. This successful public hearing was conducted against the challenging backdrop of Oil India's Baghjan blowout and genuine concerns regarding the hazards of Oil & Gas operations in the minds of the local community. This is a testament to the goodwill, which HOEC has generated in the minds of the local community, the safety record being maintained and the impactful CSR projects executed in the vicinity of our Hollong Modular Gas Processing Plant. The continuing demand for additional gas to be produced in the region, by the consumers, gives us further confidence in the long-term performance of this asset.

On the policies front, though no announcement has been made on gas pricing, Government has recently come up with guidelines for e-bidding of natural gas produced in the country, to standardize the price discovery process across regions. This is encouraging for Dirok, where, as part of Phase-II development, Dirok JV is laying a 35 km pipeline to reach Duliajan gas market hub. Once Dirok JV has the infrastructure to supply gas directly to end consumers, a standardized e-bidding mechanism and price discovery process will help Dirok gas receive market-linked pricing. We expect major consumers to participate in this bidding, including Oil India, who is our sole customer currently.

In PY-1 offshore field, prolonged customer shutdown and inconsistent offtake have adversely impacted the performance of our wells. This situation continues with declined production from the wells. To improve production, rig-based well intervention, in the form of workover of existing wells and drilling of new wells will be required. Geological studies are ongoing to plan the next drilling campaign in this unique fractured basement reservoir. Application for environmental clearance has been filed and it is under process. Plan is to commence drilling in PY-1 after 'First Oil' from B-80. On a related matter, I am pleased to share that the PSC for PY-1 block was granted extension to continue operations till 4th January 2021, while the addendum to the PSC for 10-year extension is being processed for execution by the Government. This was achieved by both, Government and HOEC agreeing to refer the outstanding matter of the method for calculation of royalty being at wellhead value or on realized sales price, to the Dispute Resolution Committee. To update you on the arbitration award matter of PY-3 block, the company's appeal has been taken on record in the appropriate court in Malaysia. In the High Court of Gujarat, the company's application for vacating the ex parte interim order was heard and the interim order was vacated, consequent to the withdrawal of the petition by Hardy. Hardy then filed a new petition for enforcement of foreign award. After hearing both the sides, the matter is adjourned till 22nd January 2021. Coming to B-80, our asset of focus for this year, we are well positioned to execute the final leg of the project during the current West Coast weather window that continues till end April-early May. As you all are aware, our second well had to be drilled during the lockdown. This global pandemic has adversely impacted the lead time for several critical equipment and materials required to complete the project. We had to embark on a global search to source items from inventory. We have now sourced all of them from different parts of the world. Two of the most critical items being the flexible pipelines required to export both, oil and gas, and the Single Point Mooring System called SPM to moor the floating storage and offloading vessels. We are preparing now, to mobilize the MOPU from Lamprell Shipyard in Sharjah, to site starting early December 2020. Contract for flexible pipelines is awarded and they are to be mobilized from USA. The umbilicals are ready to be transported from Brazil, the Single Point Mooring System is sourced from Batam, and discussions are on to finalize the installation contract with those who are mobilizing the marine spread for ONGC projects in Western Offshore. For evacuation, FSO 'Prem Pride' is purchased by our group company, Hindage Oilfield Services, and is getting ready for dry docking in Sri Lanka.

For gas export through ONGC pipeline, execution of engineering works is being firmed up in consultation with ONGC. To sum up, we are gearing up to mobilize all the project materials from December 2020 to January 2021, and to commence the offshore installation work in February. We estimate the period of installation to be 45-60 days, depending on the prevailing weather conditions. We expect to complete the installation work between end March and mid-April 2021. As soon as the export facilities are installed and commissioned, we will be ready to deliver 'First Oil'. Therefore, despite the challenges, we have so far managed to maintain the project on track. We stand committed to make our best endeavour to produce 'First Oil' by April 2021.

On gas marketing, we will follow the e-bidding procedures to be published by the Government and a similar method will be followed to determine fair market price for crude oil. Both oil and gas produced from B-80 enjoy free marketing rights within India. Our full focus is on bringing B-80 to production and to start realizing the revenues from this field. Until then, we would defer any other significant capital outlay in view of the current business environment caused by the pandemic. I now invite Jeeva, to take you through the financials.

R Jeevanandam: Thanks, Elango. We report that the company made a revenue of Rs. 33 crore in the current quarter against Rs. 27 crore in the previous quarter. In the corresponding quarter in the previous year, however it was Rs. 62 crore in the standalone accounts. In the consolidated accounts, it is Rs. 36 crore against Rs. 29 crore in the previous quarter. This increase in revenue is mainly due to better offtake from Dirok. This quarter profit on standalone is Rs. 10 crore against Rs. 13 crore in the previous quarter. In the consolidated accounts the profit after tax for this quarter is Rs. 12 crore against Rs. 12 crore in the previous quarter; there is not much variation. Total expenses on standalone accounts is Rs. 23 crore comparing to Rs. 14 crore in the previous quarter. Statutory levies include an additional payment of royalty of Rs. 3 crore paid under protest for PY-1. Other costs are reckoned to the increase in production such as depreciation, depletion and the notional exchange loss of about Rs. 2 crore. Out of the increase of Rs. 9 crore, Rs. 3-4 crore are related to non-cash items. For this quarter the total expenses including depreciation and depletion on the consolidated accounts is Rs. 24 crore comparing Rs. 18 crore in the previous quarter. Operating Cash Flow, standalone for this quarter is Rs. 29 crore comparing Rs. 19 crore in the previous quarter. In the consolidated results the Operating Cash Flow stands at Rs. 28 crore, comparing to Rs. 19 crore in the previous quarter. The company's standalone cash and cash equivalent is about Rs. 85 crore as on 30th September and the cash and cash equivalent of consolidated accounts is Rs. 110 crore. In case of B-80 development, Mobile Offshore Processing Unit is ready to move from yard in Dubai and FSO is to be dry docked, while the single point mooring system is to be procured and is to be installed before the end of this financial year. These facilities are resourced through our own subsidiaries with borrowed capital of about Rs. 85 crore, out of which Rs. 43 crore are yet to be drawn to meet the costs towards SPM and installation. These assets such as MOPU and FSO are movable assets, which will add substantial value to the service business of the subsidiary during their captive use in B-80 field. Our current liability in the standalone accounts is Rs. 87 crore as on 30th September and our current assets, excluding subsidiary loan and inventory are about Rs. 154 crore. In the consolidated accounts, our current liability is Rs. 152 crore and the current assets, excluding inventory are Rs. 192 crore. This means that we will easily meet our obligations. We are confident that we will meet our obligations and would monetize the B-80 investment in the ensuing financial year. All our subsidiaries will be on revenue mode from the next financial year. With this, we will embark on an unhindered overall growth of E&P assets of HOEC, as well as the oilfield services of our subsidiaries. Thanks, Elango.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone wishing to ask a question, may please press '*' and '1' on your touchtone telephone. If you wish to remove yourself from the question queue, you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Sir one point I wanted to check on Dirok is that because of the Oil India Field fire incident, could the incremental volumes be coming from that demand, or is there actual underlying demand growth in the region?

P Elango: Chintan, it is both. We see a trend where the underlying demand also seems to be growing and of course, on an interrupted basis, the Baghjan incident also ensured that Oil India was not able to make its full commitment, so they were drawing higher quantity from Dirok. We supply only to Oil India, Oil India in turn manages the local demand, but we also see the trend in increase in the underlying demand.

Chintan Sheth: Okay and secondly, on PY-1, you did give a hint to us that post B-80 we will take up the project for the additional well drilling etc., but Sir, how confident are you that the 10-year extension will be secured and what are the orders right now with the Government on the royalty and additional revenue sharing issue, which you had talked about?

P Elango: Yes Chintan, we have received the letter of extension for the next 10 years. We engaged with the Government and reached a consensus on the condition put forth by them, which is with regards to the outstanding issue on how to calculate the royalty on Gas - whether on wellhead basis as we have been doing, based on statutory notification, or on basis of the realized sales gas price. We both agreed to refer this matter to a Dispute Resolution Committee and this matter has now been referred to Dispute Resolution, so there is no other hurdle. It is simply now the process of getting the amendment signed within the internal process of the Government. That is ongoing, therefore, the Government parallelly gave us a written authorization to continue operations, as they process the case for the formal amendment execution of the PSC for the next 10 years. This is a practice that the Government has followed in all other blocks as well. So, we are absolutely confident that there is no risk to the extension of the PSC as such.

Chintan Sheth: Any committed CAPEX we have to incur, to get the extension or is this the only issue which is being reviewed currently?

P Elango: No, this is the only issue which was there and this now having been referred to the Dispute Resolution Committee, it is a matter of process for signing the amendment.

Chintan Sheth: Right and lastly on Kharsang, we booked some additional royalty there I think, and I see some softness in the overall volumes in Kharsang too? If you can provide an update on that part, and the extension there as well?

P Elango: Yes, Kharsang also is ongoing. It is a matter of public record that the Government in its extension policy had put one of the conditions that whatever be the outstanding demands of the Government from the contractors will have to be settled before the extensions are granted. So, several legacy issues come up before the extension and in respect of Kharsang, there was an issue related to the treatment of delay in obtaining statutory approvals in the past in terms of cost recovery limits. Now, that was debated in the Management Committee, but meanwhile the Government gave authorization to the contractor to continue with the production operations, and in fact the mining lease for Kharsang also has been issued for the next 10 years.

The formal amendment will be done after the issue related to the cost recovery is resolved. That is ongoing in the Management Committee, and is handled by the operator of the field as such. So, we do not see any risk to the extension there. Any investment as you are alluding to, by any contractor will be made only after a formal amendment is executed between the parties; that is understood by both, the Government and the contractor. On a day-to-day operations basis, Kharsang has a slightly different environment compared to Assam, where the lockdown situation and pandemic situation is slightly different. Right now, the field is operating and producing an average of around 600 barrels per day, and further investment in the field will be made only after these issues have been resolved and the amendment is executed.

Chintan Sheth: Okay and lastly, on liability, we saw a sharp drop from March to now. I believe some part of that is related to the payments made to the vendors for B-80. Can you highlight and clarify, if there is any other specific reduction in liability?

R Jeevanandam: We have settled with most of the contractors and only one contractor has gone to arbitration, which we will also settle by the year end. We have got adequate cash at the moment in the bank, to settle all our liabilities and we have no issue thereon.

Chintan Sheth: So, any payment we made to Hardy on this front?

R Jeevanandam: Hardy, we have not made any payment. We are not required to make any payment at the moment because this case has been deferred up to 22nd January next year, and it is depending on the outcome of the Malaysian court and then against about the Indian court. Our contention is that this award is partial, so it takes its own course of time. When the court asks for deposit, we are capable of depositing the money immediately.

Chintan Sheth: Okay, so it is purely related to B-80 vendors mostly?

R Jeevanandam: That is right.

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

Tejas Shah: The oil production of B-80 will only commence around April 2021, so what is the revenue you are looking at from there? And currently, the gas prices have gone down and production is only from Dirok. So, is this the same run rate we will see up to March 2021?

R Jeevanandam: Yes, as Elango has said that next year only we will be commencing our production – next financial year only B-80 production will start. Till that time, we will be having the current level of production and the current level of revenue, which would be lesser than the previous level of revenue because the gas price has reduced.

Tejas Shah: What is the hit that we are looking at? This quarter?

R Jeevanandam: Current price is about \$1.79 per MMBtu and hopefully there should be some revision, following which there will be improved results in the last quarter of this financial year. We expect the third quarter to be a little lesser than the current quarter.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Thank you for the opportunity and thank you for the detailed remarks in the beginning. My first question is on Dirok Phase-II. When is it expected to be commissioned?

P Elango: Yes, Rohit what we are doing currently is to get all the regulatory clearances that are required for the project. There have been delays because of the pandemic situation. The most important one was the public hearing, so that was something initially planned for some time in March 2020, but it got postponed and finally took place on October 23rd. Then the process of environment clearance will go through, and secondly, the forest clearance for the 35 km pipeline. The application is under process; there have been some delays due to the current situation and we also felt, given the current overall pandemic situation, doing onshore projects, which are outside the confines of our operating plan, exposes the company to unmitigable risk as such. So, what we thought was to really focus on the offshore project in B-80, complete that, and in the meantime get all the required statutory clearances and then execute the project. As for the project per say, you have seen from this quarter that we already have facilities to deliver about 40 million cubic feet consistently against the planned capacity of 35 million cubic feet. To increase the production, we primarily require drilling of the wells, which will be undertaken only when the pandemic situation improves. So, we are not really expecting the additional production through additional drilling to come in the next financial year; it will be after that only. We will give you a clearer indication of the timeline for Dirok Phase-II, once we obtain the regulatory clearances and the pandemic situation improves.

Rohith Potti: Okay understood, that was helpful. The next question is on PY-1. While it has ramped up after you and Jeeva Sir took over, it has been quite erratic in comparison to your other assets. So why the focus? We have done a workover and increased production and then again because of weak offtake the production has fallen again. So, if you could expand a little more on why we are focusing on this asset next after B-80, and if the offtake is so erratic, is it related to a pipeline issue, is it related to a customer issue and how do you expect this to be resolved given that we are going to focus on this next?

P Elango: So, Rohit, the first thing to remember is, PY-1 is 100% owned by HOEC and we already have all the development and infrastructure, which has the capacity to handle much higher volumes in terms of the processing capacity and pipeline capacity. What is really required is to drill the wells. Obviously, these being offshore wells and this being a very unique fractured reservoir, which is one of its kind in India, has got its own technical challenges. But, what we thought was the issue related to marketing is really only until you reach a higher production threshold. For example, this plant is located next to the PPN Power Project, where initially 100% of the PY-1 gas was going, but that plant requires a minimum of 17 million standard cubic feet per day. If the volume is below that, they cannot operate the plant. Therefore, when our volume reduced to below 10 levels, GAIL diverted it to small consumers in the region, including some power projects as such. So, what we believe is, if we could drill the additional wells and increase the volume, we can then look at a different marketing strategy, if required, with some additional investment to take the gas to the market. We are also seeing in the context of the Ennore LNG plant, which is set up in Chennai. IOC is also increasing the pipeline capacity, grid network, in and around that region. So, you are right, we would take the investment finally, based on both, the technical risk as well as the marketing part, both of which, we believe have got a potential; particularly, in the context of growing city gas distribution in the region, where several new licenses are being awarded by the Government. So, we see the scope in the area of city gas distribution and therefore, once the volume is revised, marketing is not going to be a real challenge, that is what we believe.

Rohith Potti: Okay understood, that was helpful. So, as of now, is there any constraint on the pipeline side, your capacity of pipeline or in that area?

P Elango: No, as of now the real constraint is two folds; one is the power plants – in Tamil Nadu they go in merit order. Our gas price is $3.65/MMBtu, this is a contractually committed gas price, therefore, when you look at the merit order in the rest of the country based on the APM or the domestic gas price, the guideline is about $1.9, whereas this is at $3.65. Hence, in the merit order, this gas-based power plant comes lower, so we need to look at a segment which is outside the power sector, particularly city gas distribution to market the gas which can absorb a better price.

Rohith Potti: My last question, the start of the Indian Gas Exchange that happened a couple of months back, how do you see it impacting producers like us?

P Elango: It is a very positive development, particularly for our field in B-80. Hazira has been declared as one of the delivery points under that Exchange, which means anyone in Gujarat who is ready to take delivery of gas at Hazira, can bid for it and take at a premium price; certain volumes can be sold with the delivery happening at Hazira. Our gas will, through ONGC system, go to Hazira. Hence, we see it as a positive development. In fact, we are actively following it up; we have made some suggestions to have a similar Exchange in Duliajan. So, it is a very positive development and in my opinion, the way the power segment got transformed with the Exchanges, this is good for the long-term future of this industry.

Rohith Potti: So, does this reduce the marketing efforts, which you were initially planning once B-80 came onstream, because this pattern I am thinking would be used for transportation of gas and there is no issue, procedural or any other, on that front, is it? Am I right in thinking this?

P Elango: Yes, Rohith. This really clarifies the position, particularly on the back of the recent Government guidelines on e-bidding, it makes it very very transparent for us and quite competitive.

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

Kishan Mundhra: Hi sir, two questions from my end. Firstly the employee benefit expenses, the total quantum looks a little low compared to the size of your company and compared to the amount that you spent last year, so could you throw some light on that? Is it the case that some of the payments that you are making are classified as consultants' payment, and hence, getting included in other expenses or is it actually so low?

R Jeevanandam: The employee expense last time was the one-time bonus given to executives, that is about Rs. 3 crore, but for the total number of employees that are working on projects within the group as such, where we are the operator, we are able to charge most of our expenses to the respective joint venture partners because they are non-operators. So, that is why our employee cost for the company per say has come out to be much lesser. This would be the trend in the future, as we are embarking on many online projects now.

Kishan Mundhra: Okay, and our share of the employee expense, do we have to charge it to profit and loss, or do we capitalize this?

R Jeevanandam: Depends on the project. If it is a project where the production has started, we will be charging it to P&L. If it is on a construction project like B-80, or any other new development in Assam or PY-1 where there are people associated with the development, it will be capitalized.

Kishan Mundhra: Okay understood. My second question is, you made a payment of Rs. 3 crore for the Dispute Resolution, so where have you classified that in the profit and loss account?

R Jeevanandam: That has been charged to P&L account. This being a royalty payment, normally it is paid under protest; you can take it as a receivable because till the dispute is resolved, assuming that would be in our favor, on conservative and prudent basis, we have charged it to the P&L account at the moment and that is why the current year profit is reduced by Rs. 3 crore.

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

Chintan Sheth: Hello, thanks for the opportunity. One question on the e-bidding side. If you can elaborate on how the earlier contracts would be impacted because of this, because earlier the gas marketing freedom was not there in few of the PSCs, but e-bidding will allow marketing freedom, so how does this work in the new regime?

P Elango: Chintan, basically, marketing freedom has been allowed for any Field Development Plan anywhere in India that is approved after 1st April 2019. As for discovery of pricing, the Government wanted to come up with a clear guideline so that the discovery process is transparent and efficient. So, the guidelines basically, would specify and notify the detailed procedures on which are the Exchanges and how you will discover the gas price through market participation. But, wherever the marketing freedom is not provided, there the existing contractual arrangement will continue. For example, in PY-1 we have an existing contract for gas sales with GAIL, that will continue. For B-80, we enjoy full marketing freedom, so we will have to use the Exchange to discover the price.

Chintan Sheth: So, the PY-1 Phase-II PSC and Kharsang extension, because they are happening after the April 2019 date, they will enjoy marketing freedom?

P Elango: Correct.

Chintan Sheth: And Dirok Phase-I continues with the old regime?

P Elango: Correct.

Moderator: Thank you. The next question is from the line of Hitesh Doshi from Nirzar Securities. Please go ahead.

Hitesh Doshi: When will the two wells of Phase-I start production; will it be in April, as per our current schedule, or only one well will start in April?

P Elango: No, both the wells will be commencing production simultaneously, as per the current schedule.

Hitesh Doshi: Okay and what can be the potential of Phase-II? On a macro level, when can we start working on Phase-II and what timeline would be required to ramp up the production there? It is an early stage question, but if you can guide us, that will be helpful?

P Elango: Hitesh, as you said, this is a very early stage question, because we really want to focus on executing the project. So, the only thing I would say is, in terms of the facilities we are creating, the process facility is capable of handling 10,000 barrels of oil per day, the storage capacity we have in the vessel is about 900,000 barrels. So, we will not be required to put new process facilities. Depending on the performance of the wells during the first six months or one year, we will come up with a plan to drill more wells in the future, to keep the production extended.

Hitesh Doshi: Phase-II is at least one and a half years away on the production side?

P Elango: Yes.

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

Sreemant Dudhoria: Thanks for the opportunity. So firstly, on Dirok production, it is higher this quarter than the earlier production capacity there. I missed how we did that and what is the further scope there?

P Elango: Sreemant, if you recall, Dirok has got six wells - three wells were drilled earlier and three wells were drilled by us in the last campaign. So, when we wanted to bring the field quickly on production mode, for the earlier drilled three wells we laid a 4-inch pipeline to a place called Kusijan, where Oil India has got some spare processing capacity; we use that to supply the gas. So, that is how we commenced early production in Dirok initially. Then we laid a 12-inch pipeline between this plant and the Hollong Modular Gas Processing Plant, operated on our behalf by Expro. That plant has got a capacity to process about 35 million cubic feet per day, so when demand was more, we activated the Phase-I initial early production system also into operation. So, simultaneously we were transporting gas from both, the 12-inch line as well as the 4-inch line and 35 million cubic feet of gas was being processed at the Hollong Plant. The balance 5 million cubic feet was being processed at the Kusijan plant of Oil India for which we pay some transportation tariff to them. Hence, we were able to meet the full demand of 40 million cubic feet. This model we have tested now and can operate on a long-term basis also. We are confident that we can continue to meet the demand, as the demand comes up.

Sreemant Dudhoria: So, can the Oil India processing facility only process a maximum of 5 million standard cubic feet per day, or can it process more?

P Elango: No, it can only process that amount, so we would need our own facilities, including the pipeline in the long term.

Sreemant Dudhoria: On B-80, earlier we had an oil price level of about $45 for marketing it. Do we stick to the same price range or is there any revision to that?

R Jeevanandam: For B-80, we have to take the price from market, so we are comfortable even at $35; we will be able to make adequate returns to the company. Anything above $35 will add to our revenue on both, topline and bottom line.

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

Sunil Jain: Good Morning Sir. We had seen earlier that B-80 missed the weather window last time. We are starting very near April; is there any permission required now that you have got all the equipment and have to hookup everything together? Is there anything which can delay this process and cause us to miss even this weather window?

P Elango: Sunil, in terms of commitment under the contract, we will be one year ahead of schedule if we deliver the project. So, right now, as I explained in sufficient detail, in the context of the pandemic situation our focus was first to ensure that we are able to source all the material required for the project; if they were not available, the lead times would have gone all over the place. We are now comfortable, as we have sourced all the material required for the project. As I explained, we are mobilizing them and our actual job at the field is for 45-60 days only. We can even do it slightly faster, if the weather window permits. In offshore, everything is determined by the weather as such. We have got the materials and we are going ahead to commence execution, remaining confident to complete it.

Sunil Jain: Any approvals still pending?

P Elango: No approval pending for project related matters. We have got the environmental clearance, we have got other clearances, but obviously, when you import equipment, you need to get the routine custom clearances. Any vessel moving to offshore for work requires Naval Clearances. Those things we will get, and the Government, ONGC and DGH are fully supporting us. Remember Sunil, that this is the first offshore discovered field, to come on production under the new policy, so we are getting support from the Government, a lot of proactive reviews are taking place, so we do not see any regulatory constraints. But, these approvals have to be taken when you bring in the material only.

Sunil Jain: And hookup to ONGC pipeline, that permission we have already got?

P Elango: Yes, that permission we already got.

Sunil Jain: You said 8,000 BOEPD, so that includes 5000 of oil and balance gas?

P Elango: Correct.

Sunil Jain: So, we will be getting more than 17 MMSCFD of gas?

P Elango: During testing, we got between 15-20 million cubic feet, so when we put the field on production that is what we are expecting. Maybe the oil will be slightly more, gas will be slightly less, but overall, we are confident of the 8,000 barrels of oil equivalent.

Sunil Jain: For PY-1, we know the history and in the near term too, production came up and went down, so how confident are you that with additional wells you will be able to be successful?

P Elango: We will do adequate technical work and have it all peer reviewed by an independent third party, before we embark on the project. Our Head of Technical, Mr. Krishnan who has recently joined us, has particularly got a lot of experience in working in similar reservoirs in UK and globally, so he brings a lot of technical expertise to the table. He has been working along with his team on this, so our effort is, we will do whatever mitigation is required, but we cannot change the fundamental risk of the business that we are in. We will do whatever we can based on experience, to mitigate and take prudent steps.

Sunil Jain: Yes, but what makes the PY-1 block so attractive to the management, to invest so much money even though the asset has not performed up to expectations?

P Elango: Absolutely, I think I responded to an earlier question, what we need to remember is that the company, over a period of time, has invested over $400 million in this asset. It is a very large asset; 200 acres of land and a fully well-built gas processing facility along with a 56 km pipeline offshore. It is the only platform available in Cauvery Offshore, and very rarely will you get such developed infrastructure readily available anywhere. What is simply required is to do the technical work to de-risk and drill the wells. Once you drill the wells, there is no other capital investment required. Of course, as we discussed earlier, we will have to tie up on the marketing front as well. The advantage here is that this is a 100% owned asset and huge investment has been made in the past. Therefore, there are yet to be recovered costs, which come without any sharing of profit petroleum to the Government. Therefore, we see it to be attractive fiscal term wise. Obviously, we have to do our job of mitigating the technical risks, which we will do.

Sunil Jain: So, how much more investment we need to make to drill the well?

P Elango: We will talk about PY-1 after we deliver B-80. We will come up with all the details, because right now to make estimates on how much it will cost, in the current environment is very difficult to do. But, we will do that.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference, we request you to limit your questions to 2 per participant only. The next question is from the line of Nirbhay Mahawar from N Square Capital. Please go ahead.

Nirbhay Mahawar: Just a follow-up on B-80, you mentioned that for Phase-II expansion the total current capacity we are building for, the infrastructure is around 10000 barrels. Is this just for oil, or is this oil and gas put together?

P Elango: This is just for oil; that is the capacity of the Mobile Offshore Processing Unit that we have mobilized.

Nirbhay Mahawar: Okay and is there any constraint in terms of gas evacuation also, capacity constraint?

P Elango: No.

Nirbhay Mahawar: So, any amount of gas?

P Elango: Not any amount. It is currently designed for about 20 million cubic feet per day and with minor modification that can also be expanded in the future, if required.

Nirbhay Mahawar: Okay and is there any sense on the additional discovery, which we are expecting? Is that primarily going to be oil or gas related, the Deccan Trap which we have mentioned?

P Elango: Where? In B-80?

Nirbhay Mahawar: Yes, in B-80, new lead in the Deccan Trap formation, which you have discussed?

P Elango: Yes, that will require drilling new wells, but it appears more likely to be oil only.

Nirbhay Mahawar: On the Dirok side, in Phase-II, will it be eligible for the market-based pricing, or is there any confusion in terms of Phase-II for control pricing?

P Elango: Not any confusion. In Phase-II, the entire gas production will be eligible for market determined pricing.

Moderator: Thank you. The next question is from the line of Rohith Potti from Marshmallow Capital. Please go ahead.

Rohith Potti: Thank you for the follow up. Just curious to know, I think a couple of calls back you had mentioned that you might see some upside potential from what we had estimated in the past for B-80, is there any further update on that?

P Elango: Rohith, what we thought was, we will put the field on production for monitoring, but we do see the upside, as we indicated earlier and disclosed also in the deeper prospects. But, in any case, they will require drilling of wells in the future, which as I mentioned in the call, will not happen until at least 1.5 years of production history as such.

Rohith Potti: My second question is for PY-1. You mentioned you have 200 acres of land for the facility there, so are we fully utilizing the facility or is there some part which is excess and we intend to keep it within the company? Is there no plan to dispose off that excess land, if it is available?

P Elango: No plans to dispose off. We have got under-utilized capacity, in terms of the processing capacity. That is one of the reasons why we mentioned that we will continue to really look at PY-1, after doing all the required technical due diligence.

Rohith Potti: But there is excess land available at that location?

P Elango: Yes, correct.

Moderator: Thank you. The next question is from the line of Manan Patel an individual investor. Please go ahead.

Manan Patel: My first question is regarding B-80. We were planning to enter into a contract with someone for the gas, but now that it is a bidding route, will we have to look for a buyer, or can we still enter into a contract with someone in terms of volume and price can be determined through bidding?

P Elango: Yes, correct, Manan. We will enter into a contract with a buyer for a long-term basis. The price will be determined through this bidding route.

Manan Patel: Okay, so volume offtake will be ensured?

P Elango: It will be ensured, yes.

Manan Patel: Right, that is great. My second question is on your perspective on the natural gas prices globally. We have seen that they have started moving up off late, probably because of the winter season also, but in the next few years, how do you think about natural gas prices globally, in the context of what is happening to oil?

P Elango: What we see in the context of India is, that the Government is keen to open up free marketing across India, so they are doing it in phases. As I said, any field development that is planned and approved after 1st April 2019, enjoys full marketing freedom. There were some confusions about how does one determine pricing, whether affiliate company can participate or not, those kinds of issues. Now, those have also been clarified through this e-bidding process. The second thing is the Government focus on the city gas distribution where today, India imports around 50% of the gas through LNG, some of which is through short-term LNG, some of which is through long-term LNG. Overall, we see the Indian gas price definitely coming back to the previous levels. Seven years back, it was about $4.2 MMBtu across India, so I would expect it to really be in that range, for sure.

Manan Patel: In terms of APM determined pricing, do you feel like there is a chance that there will be some lower floor for that price, or what is your sense on that?

P Elango: I have no idea, because earlier there was some media report, but nothing really has happened, so I am unable to comment on that.

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

Chintan Sheth: I was just looking at our latest Annual Report where our proven and approved, developed and undeveloped reserves data has been provided. I think B-80 data is not included, because the discovery and production estimate came after the finalization of the annual report, or is it included?

R Jeevanandam: It is included in the proved and probable section. It is an undeveloped resource and is there in the books as such. We will update that on 31st March again.

Chintan Sheth: Okay, but that will revise upwards, because the potential has revised after the April drilling happened, right?

R Jeevanandam: That is right, we will be getting it supported by a third party and the third-party company Gaffney, Cline & Associates are reviewing it. That will get updated in the March accounts as such.

Chintan Sheth: Okay, but the approval last time we were talking about, that study was being carried out and would be released in a month or so. Did it get delayed, or why is that?

R Jeevanandam: It is having many iterations, because there are seven wells' data. The people are working on it, there is a lockdown in London as well. Hence, the delay.

Chintan Sheth: When are we expecting that?

R Jeevanandam: The reports are constantly being shared with our team by the team at GCA. We should be able to get it by the next quarter.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Elango from Hindustan Oil Exploration Company Limited for his closing comments.

P Elango: Thank you for participating in Q2 FY21 Results. At HOEC we are in for some hectic, challenging and exciting times with the B-80 project execution reaching its final lap. Being the first offshore field to come onstream under Discovered Small Field policy, ONGC, DGH and the Government have been very supportive. We will remain sharply focused on delivering 'First Oil' and we will keep you all fully updated. For any further questions, request you to please reach out to us, or to our Investor Relations Advisors. Before closing, let me on behalf of the HOEC team, wish you all a very Happy Diwali. Thank you.

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