Hindustan Oil Exploration Company Limited
Q3 FY21 Conference Call
February 09, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY21 Conference Call of Hindustan Oil Exploration Company Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone 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 very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of HOEC or Hindustan Oil Exploration Company Limited. On behalf of the company, I would like to thank you all for participating in the company's third quarter and nine months ended of financial year 2020-21 earnings conference call. Before we begin, I would like to mention a short cautionary statement as mandatory. Some of the statements made in today's earnings 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 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 participating with us in today's earnings 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. Good morning everyone. Happy to connect with you all on this Q3 FY21 earnings call. R Jeevanandam - our CFO and Whole Time Director is with me and Valorem Advisors - our Investor Relations Advisors are also on the call. I hope you all have received our updated earnings presentation. We have also uploaded the same on our website for your reference. I'm sure you all have noticed that oil prices have touched sweet 60 yesterday, prices have been steadily rising and global oil analysts expect the trend to continue during 2021 and 2022. In India, the vaccine launch has turned the corner and outlook for economic recovery is positive. However, the challenges of executing projects on the ground still remain and incorporating strict COVID-19 protocols is critical to manage operations and to execute projects. With this in mind, we have kept our production operations continuing safely with lean teams at all our operating sites. Our first priority has been to ensure safety of our personnel and the facility. In Dirok, we continue to maintain the high production levels achieved earlier in the year. We are now confident of producing at these levels on a consistent basis. The average production of gas from Dirok in Q3 FY21 was 39 million standard cubic feet per day.

Performance of Dirok reservoir has been very promising. Our endeavor has been to deliver more using the existing infrastructure. Towards this we have been using the 4-inch KOPOU line and process facility of Oil India in Kusijan, to meet additional demand in excess of our plant capacity of 36 million standard cubic feet per day or 1 million standard cubic meters per day. Our biggest hurdle to better value creation in Northeast has been the low gas prices at $1.79 per MMBtu. Prices since October 2020 have been the lowest ever hitting our revenues badly despite good volumes. To discover better prices from the market we are preparing to launch e-bidding for Dirok gas as per the Government of India's guidelines on the e-bidding process.

We are encouraging major consumers in the region, including Oil India and IOC to participate in this bidding. We are in consultation with our JV partners to launch it in this quarter and to discover a new premium price over the government notified prices that will be effective from 1st April, 2021. Depending on the response, our target is to have new sales agreements in Q1 FY22. The current arrangement will continue with Oil India, to ensure smooth transition using the pipeline infrastructure of Oil India. In PY-1 offshore field, inconsistent off take earlier had adversely impacted the performance of our wells. This situation continues with the declined production from the wells. To improve production, Rig-based well intervention in the form of work over of existing wells and/or drilling of new wells will be required.

Geological studies have been completed to plan the next drilling campaign in this unique fractured basement reservoir. Application for environmental clearance has been filed and the plan is to commence drilling in PY-1 after 'First Oil' from B-80. Our current focus is on executing the installation project in Western Offshore, B-80 for 'First Oil' before the current West Coast weather window. In the context of pandemic induced supply disruptions, procuring project materials to meet our schedule had been a big challenge. We had embarked on a global search to source items from inventory. All critical items have now been procured from various parts of the world. Flexible pipelines have been picked up from USA and UK and are in transit to the location. Calm Buoy has been sourced from Batam and is now undergoing final refurbishment in India. MOPU works have been completed and class certifications have been obtained to move it from Sharjah to Mumbai. Contractor for installation of gas export into ONGC's line has been finalized. For evacuation of oil, FSO Prem Pride is purchased by our group company Hindage Oilfield Services and is getting ready for dry docking in Singapore to meet the project schedule.

We had hoped to commence the installation works in February 2021, but logistical delays have pushed it to March. We are still facing visa related challenges to mobilize domain experts from different parts of the world. We are now fully geared up to commence installation works in March to complete it before monsoon. Overall, we are confident to find alternative solutions to complete the project and deliver 'First Oil' and Gas during Q1 FY22. On the marketing front, we would soon be launching the e-bidding process targeting gas consumers and aggregators in Gujarat and for oil we have initiated preliminary discussions with refineries. I now invite Jeevanandam to take you through the financials.

R Jeevanandam: Thanks, Elango. We report that the company made a revenue of 24 crores in the current quarter against 30 crores in the previous quarter. In the consol accounts it is 28 crores against 33 crores in the previous quarter, volume of oil and gas is almost similar and the reduction in revenue is mainly from reduction in prices of Assam gas from $2.64 to $1.79 in the current quarter, which is about 25% reduction and the same is reflected in the reduction of revenue. This quarter profit on standalone is 7.8 crores against 10.33 crores in the previous quarter. In the consol accounts, the profit after tax for this quarter is 8.44 crores against 11.7 crores in the previous quarter. Total expenses of standalone are 19 crores comparing to 23 crores in the previous quarter. Operating cost are not linear to the production except statutory levies such as the royalty and cess which is ad valorem.

In the consolidated accounts it is 22.58 crores comparing 24.42 crores in the previous quarter. Operating cash flow, standalone for this quarter is 13 crores comparing 10 crores in the previous quarters. In the consol accounts operating cash flow stands at 14 crores; the company's standalone cash and cash equivalent is about 121 crores as on 31st December and in the consol accounts the cash equivalent is 141 crores. In case of B-80 development, offshore installation processing unit is ready to move to B-80 field, FSO which is an Aframax oil tanker is to be dry docked, while the single point mooring system is being refurbished at an Indian yard. The whole system is expected to be ready for installation before the end of this financial year. These facilities are resourced through our own subsidiaries with a borrowed capital of about 85 crores and about 38 crores are yet to be drawn.

These assets such as offshore installation, which is a self-elevating unit and FSO being an Aframax tanker are removable assets and will add substantial value to the service business of our subsidiaries during and after the captive use in B-80 field. We have secured a loan facility of Rs.150 crores from Vyoman to meet the capital costs towards additional 10% participating interest in the block. We have undrawn facility of Rs.100 crores to meet the funding needs of B-80. We are confident that we will meet our obligations and B-80 would be on revenue mode in the ensuing financial year. All our subsidiaries will be on revenue mode with the production from B-80. With this, we will embark on overall growth of E&P assets of HOEC, as well as oilfield services of our subsidiaries. We have repayment provisions for our loans and we will ensure that your company is debt free again within 12 to 18 months of production from B-80. Thanks, Elango.

P Elango: Thank you Jeeva. Anuj we can open the floor for questions.

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: Just wanted to get an understanding of any risks which are there with regards to us being able to actually commercialize B-80 before the rains start and any other contingency risk in the longer term in the execution which could happen?

P Elango: Riddhesh, now that we have managed to source all the project material, and as I explained, mobilize them with all the material arriving by end February - first week of March, we will ensure that we commence the installation in first week of March. So, as we had earlier estimated the total installation time could be, depending on whether it can be completed, in 45 days to 60 days' time. Therefore, with all the mobilization that is being now fully committed, we are confident we will be able to complete it before this season. Exact date of completion is really determined by how the weather would behave. And, depending on that number of days to completion will vary. But, otherwise, we are confident that we will complete it in this weather window.

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

Varatharajan: Two, three questions. One, can you please elaborate on that 10% additional stake that we are supposed to acquire? Secondly, can you elaborate on the PY-1 situation and how we can actually look at the production going forward, and what kind of a CAPEX one is looking at in terms of additional drilling of wells? Is there some visibility on PY-3? And finally, the crude quality in B-80, what should we use as a benchmark, should we use Brent minus something or some other benchmark?

P Elango: Thank you. On the first question of additional possession of 10% from our JV Partners, we announced that the transaction between the partners has been completed. And right now, we have sought the final approval from Government of India. It has been cleared at the DGH level and it has gone for a final approval by the Government, which we expect to receive over the next few weeks' time. So, that completes the acquisition and we will then formally have 60% stake in the project. As we had outlined earlier, under this arrangement, we will carry the Partner till 'First Oil'; once 'First Oil' commences, from that point onwards all the operating expenses would be shared with the ratio of 60% and 40%. That is on the additional 10%. We will also be using this fund to own the MOPU on a 100% basis and that will be owned by one of our group subsidiary companies, a fully owned subsidiary company. That is on B-80. On PY-1, what we have experienced is that due to a prolonged shutdown and consumers' inconsistent offtake from the wells, the wells have declined, and this will require mobilizing a Rig to drill new wells in the region. We have completed all the geological studies and identified the location, we have got an FDP approved by the Government for drilling two to three wells, and our plan is to now complete B-80. After we get the environmental clearance and all other approvals, we will take up the drilling in PY-1. Exact timelines we have not yet firmed up; our effort is now to execute B-80. On the quality of crude, we've got the detailed analysis and we'll be sharing the same with the refineries, and maybe in the next call we'll be able to give you some idea about the prices that it can secure. On PY-3, the operator is making an effort, but right now we don't have any clear plans on when the production will commence.

Varatharajan: One, final question on the debt cost, what is the kind of debt cost we're looking at?

R Jeevanandam: The debt is an overall cost of 12% per annum.

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

Rishabh Tambi: So, need to understand the update on the Kharsang field. Are we on track for production in Q2 FY22? Also, on Kherem what is the update you can give?

P. Elango: Rishabh on Kharsang, right now, the final clearances of forest and clearances for the next campaign are still outstanding and the Government has extended the PSC for a shorter duration pending resolution of certain cost recovery issues as such. So, once those issues are resolved, further investment and drilling in Kharsang will take place. Right now, the field is producing around 600 barrels of gross production per day and with the oil prices strengthening, the revenue from this field will also be better. Otherwise, the production is going on and the next part of the Drilling Campaign will happen after the PSC gets a full-term extension. This, in principal, has been agreed to by the Government and they are waiting on certain cost recovery issues to be resolved with the operator.

Rishabh Tambi: Revised FDP is pending and not the forest clearance and mining lease, that the company has already received right?

P. Elango: Extended PSC term is pending. The PSC has been extended on an ad hoc basis. And on Kherem, once again the forest clearance is pending and after that only the PML will be issued. The issue in Arunachal Pradesh Government is that they would not issue mining leases without the forest clearance being pre-issued. On this matter, the DGH is also following up with the state government. But it has still not been secured.

Rishabh Tambi: Sir any update on the Cambay Basin, we were looking at R2 area etc. in CB-ON-7?

P. Elango: Yes, regarding the R2 area the final PSC execution is in advanced stages, it's been delayed for quite some time. Recently, there was a meeting held by the Ministry to clear that. We hope that PSC will be executed hopefully in this quarter because it has got a push from the government as well now. In anticipation of this, we got the Field Development Plan approved for our other fields, North Balol and Asjol in Cambay. We have filed environmental application and commenced the EIA study to secure our environmental clearance, thereby preparing ourselves for the Drilling Campaign in Cambay basin combining all the three fields.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Sir, regarding PY-1, as you mentioned because of erratic offtake from the customers, the wells have become less efficient. So, is there any risk of writing off any expenses in PY-1, because we had to do some kind of write off earlier too with one of our wells?

R. Jeevanandam: We are already on the bone of it and we don't have much to write off in this because we are keeping only the minimum asset value there, which has always been evaluated on a annual basis. And we don't plan any impairment of those reserves, the underlying reserves remain the same. We don't expect any impairment in the current financial year.

Hardik Jain: So, what would be the asset value that we have on the balance sheet for PY-1?

R. Jeevanandam: Total value put together is less than about $12 million.

Hardik Jain: Okay. And some of the North East the price has reduced from $2.64 to $1.79 dollars. So, this is due to the Government mechanism of price discovery or is it the market linked prices?

R. Jeevanandam: This is the price fixed by the government because they are using a sophisticated formula obtained based on the National Balancing Point, Henry Hub, Alberta and Russia. Now, from these prices of the conglomerate, they picked the lowest price of $1.79. With the current trend, if you look at it, even with this we will be able to have a better price from 1st April onwards. So, this will vary every six months in the current mode, unless we get marketing freedom and the gas can be sold at the exchanges.

Hardik Jain: And you mentioned something about launching some bidding mechanism for new clients and the terms with Oil India remaining as it is. So, can you just elaborate on this?

P. Elango: Yes, what we plan to do is, as you know currently, whatever is the total gas production from Dirok is being sold to Oil India, who are also our partners in the venture. So, they buy the gas from us and distribute it to their customers mixing it with their gas. Oil India is allowed to sell the gas only at Government notified prices. With the new policy that has been brought out by the Government, we have the marketing freedom for Dirok gas, but it can only be currently sold within the Northeast region with limited infrastructure. So, we have persuaded Oil India and our partners to launch this e-bidding process to discover what could be the market prices within the existing customers as such. We do expect some amount of premium, but it will not be like Gujarat or so. So, that exercise we are hoping to launch in March itself to discover the new price. Now, if the prices come out to be better and the customers are reliable customers, we will migrate into that regime. As a backup, we already have an ongoing contractual arrangement with Oil India, which will continue. The whole idea is: if not the entire volume, at least part of the volume we will put in the market with the support of Oil India, because their infrastructure will be required to sell it directly to the customers. We are in discussion with them with regards to the same. The Government mandate is also clear to discover gas prices through this process only. So, we would be launching that and depending on the outcome, we would take the call.

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

Tejas Shah: We had cash of around 160 crore odd on our books, if I am not wrong. Then why will you need to take an additional loan of around 250 crore?

R. Jeevanandam: Cash balance in the company which is in the order of 141 crores at the moment, but we are having a capital program which comes on it. We increased our participating interest from 50% to 60%, so there is a 10% capital outlay and some say 70-80 crores goes up from there, we have a mobile offshore processing unit which is more than 175 crores, and an Aframax tanker and the SPM installation, which is about 150 crore out of a 400 crore capital outlay. For that we are securing only 150 crore cash and you cannot run an oil and gas company without cash in-hand. That is the reason we are having the capital. You cannot be on the bone every time and hence, we have had adequate cash. We wanted to have a minimum of at least 100 crores cash-in-hand in every quarter. The reason we took this loan is because we are getting it at 12%, we are getting reinvested back at 6%, and so the net exposure is only 6% per annum.

Tejas Shah: Okay. Any plans of capital raising then?

R. Jeevanandam: No plan for capital raising and we have no plan for any equity dilution.

Tejas Shah: Okay, if you can throw some light on B-80 now. The production should start from April, so, in Indian rupees what is the expected volume and profit from there? Now the oil prices have gone up. We were looking at an average price of $45 in the last concall. Has the outlook changed to $55, or $60 and what would be the revenue or bottom line impact?

R. Jeevanandam: If we have a 12-month production period, at $50 oil - as a conservative estimate, we will not go beyond that; even if it is $60 we will take a price of $50 as the benchmark for ourselves, the total net revenue that we shall receive back is about 300 crores. Out of that, the amount which will reflect on the balance sheet, in the P&L account should be 200 crores. So, there are two caveats: one is production, and the second is price. With this, we should be able to hit a target of 300 crores net back and a 200 crore profit on the P&L account.

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

Nirbhaay Mahawar: Sir our MOPU was expected to move from Sharjah from December onwards. While you have mentioned that it is ready, are we purposely delaying the movement because of the other things getting delayed?

P. Elango: Yes, correct. What we thought was, once we bring the MOPU, we wanted to synchronize the movement of all materials so that the project can commence without any avoidable expenses. Because, the moment you bring the MOPU here, you need to have a support vessel mechanism. We felt that the MOPU is safe there and the cost to retain it there is much lower. Now that we have specific dates on each of the project vessels and materials, we have got all the permissions required to move. We expect the MOPU to move, if not today, tomorrow from Sharjah. It will arrive before other materials arrive. So, this way we will be able to manage the support cost better.

Nirbhaay Mahawar: Also, on the gas pricing front, you mentioned that we would be assuming current oil prices to be around \$50, \$55. Similarly, what would be the rough range in terms of gas pricing from April onwards?

P. Elango: We have not done the full calculation, but it should be expected to be above \$2 as compared to the \$1.79. But we do not have access to detailed calculation on this.

Nirbhaay Mahawar: And we are expecting that in Dirok we will be able to get premium over this expected \$2, if we go for the e-bidding process?

P. Elango: Correct. Our bidding process itself would be what is the potential customer willing to pay as a premium over this price, that's how the bidding itself will be conducted. So, we have ourselves covered on baseline. We would see how much volume we can clear with reliable customers and what kind of a premium we can secure. That is the purpose of the exercise.

Nirbhaay Mahawar: Okay and we are entitled to sell all of it if we have got enough demand from the customers? There is no volume cap?

P. Elango: No, there is no volume cap.

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

Rohit: My first question is on the e-bidding process that you're doing in Assam. Would the whole process become much simpler, if let us say the IGX comes out with Duliajan as one of the hubs for exchange in India?

P. Elango: Correct, Rohit. In fact, we've seen Hazira in Gujarat has been designated as one of the delivery points for online trading. So, for the B-80 gas that presents a very good opportunity. As far as Dirok gas from the north-east is concerned, we have been suggesting Duliajan as a hub. It has not yet been designated. Maybe they have certain requirements. Once a full-fledged Eastern Gas Grid gets commissioned, that is likely to be a designated point, but we are not really waiting on that. We are parallelly discussing the matter with Oil India and we are proposing Duliajan as a physical delivery point to actual customers.

Rohit: Understood, so that was helpful, sir. The second question is just to clarify again, Jeeva sir said that for the 10% incremental stake in B-80, we paid 70 to 80 crores. If that is correct, how have we valued this asset, under what assumptions have we decided this valuation? If you could explain that, it would be really helpful.

R. Jeevanandam: Actually, there are two ways of looking at this. From our side we look at value perception from the seller side they look at funds perception. See, when we looked at the total cost incurred by the company as such for that and the future work program, which we were going to incur there, we looked at the cost plus basis. That's the reason we value that 10% participating interest in this way, which is around 60 to 70 crores. So, in a way, we are not going to look at any cash outflow from our side; we will be putting this money into the block for funding the Partner, that's how we have structured this transaction.

Rohit: Understood, so that was helpful, and again on the funding, I was just curious to know, I've been following the company for a while now and we have a very strong balance sheet and an excellent management with great transparency, so is 12% the best rate that we could get? I would have assumed that we would have gotten a much better rate. So, any clarity on that front?

R. Jeevanandam: Actually, we were looking at this for a very, very short term. We don't want to look at it as a long-term funding. Secondly, if I go to the bank, the minimum duration has to be three to five years, and here we are looking at a very, very short term. The moment B-80 comes on cash flow mode, all our surplus cash will go back to repaying the loan. So, it is a very, very small period of funding, as such. That is the reason we looked at 12% - it is a soft funding and without any security, so it gets to us quicker. Hence, we went for it.

Rohit: Perfect, that makes sense and it was helpful. You mentioned that B-80 has a netback. So, netback is the net profit that we intended to accrue with our share of profits? Is that what you were intending on saying?

R. Jeevanandam: Net back means without considering the depreciation and depletion.

Rohit: So, the 60% participating interest that we have, it is after all expenditure including operating expenditure?

R. Jeevanandam: That's right. 60% participating interest, the net cash accruing to the company, as such.

Rohit: So, one clarity here so, our participating interest is 60% which would mean that roughly 60% of profits will come to us, but given that we are providing pretty much all the assets and that they are on our books on a rental basis, would I be right in assuming that the net cash flow on a whole project level basis would actually be much more and 200 crores is just purely the profit from the sale of oil and gas, or is it including that amount as well?

R. Jeevanandam: It is a standalone what I told you. The two subsidiary companies as an independent entity will be earning their own revenue and have their own cost, and their margins won't be substantially higher. On their capital they will be making a return which is in the order of say 20% to 30%. So, that will be reflected in the consolidated accounts.

Rohit: Understood, so there will be additional cash also that will be accruing to the consolidated entity because of the renting of the assets to this project, right?

R. Jeevanandam: That's right and we have a small borrowing. We would also like to liquidate that borrowing as quickly as we can. At the moment we would like to keep the cost of capital around less than 7%, that's our idea. So, we will try to work it through that.

Rohit: Perfect sir, that was helpful. The last question. This quarter I found it interesting at least on the presentation front, that we seem to have been mentioning multiple projects in addition to B-80. Specifically, on Dirok, the additional pipeline that you were talking about, you've mentioned that the initial set of pipes have already come, while you're waiting for certain approvals. Any estimated timeline on when you expect this additional capacity, which will take it from 35 to 55 to come on stream? Can it happen parallelly while PY-1 or some other project is happening, or are you still going with a plan of focusing on one big thing at a time?

P. Elango: Rohit, as we outlined earlier, our strategy in Dirok is to determine how we can enhance the value for the current volume level and minimize additional investment to the extent possible. Therefore, this e-bidding exercise is a very important strategic initiative. If you're able to get better prices in the market, you have to ensure that more volume does not put pressure on the price that you take, as such. So, ultimately, it's about what is the price the market can give you, the north-east market in this case, for the marginal additional volume as such. That's what we are trying to establish. Our nameplate capacity in Dirok is 36 million cubic feet per day or 1 million cubic meters per day, but we are able to deliver 39, 40 and on some days we have done 42 by using the additional infrastructure that is available with us in terms of a 4-inch line that we had laid earlier, as well as the spare capacity of Oil India to process the gas. So, the idea is to see how we can realize better market determined prices first and at what level the market can absorb the volume and then decide on the timing of the additional drilling of wells, as such. But in all this, we see this 38-kilometer pipeline to be a critical infrastructure because the current pipeline has got certain limitations, that pipeline is owned by Oil India. That is a pipeline which takes the gas from Kusijan to Duliajan and Duliajan is the central hub for the north-east, as such. Therefore, we are proceeding with the pipeline segment of our project and have applied for the forest clearance, which is a critical path item. In the case of forest clearances if the application is made by a public sector company, then the process is slightly simpler than a private company. Therefore, this application has been made by Oil India at our request. Depending on that progress, we would first start the pipeline part of the infrastructure, then decide on need basis on when to drill additional wells. We see the well productivity in all the wells that we already have, six in number to be precise. The three wells that we've drilled under the new campaign are very, very high productivity wells. Therefore, we will decide on further capital investment in a prudent manner, as required. Our first priority is to create more value for the volume that we already produce.

Rohit: That was very helpful, thank you for the detailed answer. And the last question from my end. Do you see any regulatory change in terms of pricing? This particular pricing mechanism we have which is taking the four points across the world and taking the lowest price doesn't seem very efficient, given we are importing a large amount of LNG into the country at much higher prices. Any thoughts on the regulatory side, which will deregulate this?

P. Elango: I believe the government is looking at setting up a committee as well. Primarily this part of it is being pushed by the public sector companies, namely ONGC and Oil India because large volumes of their gas are governed by this pricing arrangement. Most of the new fields, that is any gas field which got the Field Development Plan approved after 1st April 2019, enjoy full marketing freedom. This is to basically govern the nominated fields of ONGC and Oil India, and fields such as ours, which are Pre-NELP, which are located in an area like north-east, where you really can't easily sell at a premium, as such. I believe there is a strong push by the public sector companies to revise the formula but no other specific information is readily available. We are also waiting for that.

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

Rikesh Parikh: Sir, you've mentioned about some new lead in the Deccan Trap. Can you just throw some more light on that?

P. Elango: In the B-80 field, when we drilled the wells, we had gone deeper than the initial targeted depth level. This has been done both by us and ONGC in the past. And deeper, we found an interesting sand, which is below the original targeted level. However, we were not able to test it or come to any conclusion on it. It has certainly given us a lead that in future Drilling Campaigns, we can target it at a higher level, as such. But it is a very promising lead. In addition, as we indicated earlier that we believe that the overall resource base in this block would be higher than initially expected. With that conviction, we have gone for full investment in this block, not only from HOEC, but also, as Jeeva was explaining, investment from our subsidiary companies in our related service activities. We truly believe in the overall potential of this block; specific studies and numbers are still going on. Our third-party independent reservoir consultants wanted to have some more production history to come to a final decision on the numbers, which we will do. The revised numbers would be announced by us when we have everything lined up, in the Annual Report of the current year. So, overall, we are very optimistic about the block. But currently our focus is to get this 'First Oil' and Gas produced in this weather window.

Rikesh Parikh: Sure. And have we been able to tie up for the marketing for gas from B-80?

P. Elango: Yes, so as I was explaining, we are launching the Dirok gas bidding process. The process takes about three weeks from the launch. We are doing that first for Dirok and we will then do the same for B-80. The idea is that by 1st April the new gas price prevailing would be known, which would be seen as a bit of a benchmark, but we have full marketing freedom for B-80 gas and Hazira is a designated delivery point as well, both physical as well as on exchanges. So, we would conduct that e-bidding process as required by the Government sometime in April.

Rikesh Parikh: And lastly, when will Dirok Phase-II be operational?

P. Elango: As I was explaining, we would decide on the exact timing of Dirok Phase-II based on what kind of market prices we'll be able to determine. Right now, our capacity is close to quarter million standard cubic feet per day that we can deliver if the market absorbs it. The market is able to absorb in that range.

Rikesh Parikh: And last on the pricing front, in your view have we seen the bottom of the pricing in terms of gas pricing and have probably seen the worst, as such?

P. Elango: I agree. Today the gas prices in India are not only the lowest seen in India, but the lowest in the world, as well. I don't think anywhere else in the world you can get gas at $1.79 per MMBtu. Ten years back, the gas price in India was about $4.20 almost uniformly across the country. I don't think it can get any lower.

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

Vaibhav Badjatya: My question has been answered. Thank you.

Moderator: Thank you. The next question is from the line of Imtiaz Ali, Shareholder. Please go ahead.

Imtiaz Ali: Sir, is there any plan to have increased production from the Western Offshore going forward, once you have the B-80 'First Oil' production, let's say after a year?

P. Elango: No, initially, for the first two years, at least the production would be stabilized and delivered on this basis. As we said, this field has got potential for more drilling and we would come back to it after seeing the initial production rate.

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

Rohit: My question was on B-80. So, number one, when does the weather window close and in case, we missed the weather window, what happens next and when would you expect the setup to be completed in that case?

P. Elango: The weather becomes rougher as we get into May, but as you know, monsoon starts sometime in June. But typically, no activities are carried out beyond mid-May. Given that we have already mobilized all the resources, we are quite confident to complete it in this weather window.

Rohit: Understood. After we begin our oil production, how much time would you take to fuel up the production to the full capacity?

P. Elango: The ramp up will be quite fast. We've already tested these wells, we don't need much time to ramp up. Each well will be hooked up and brought into production.

Rohit: Okay, great. And last question. Historically, ever since the new management took over, we have been focusing on one big project at a time. So Dirok, PY-1 and now B-80. Given that the cash inflow into the company would go up once B-80 comes on stream, do we think we have the bandwidth to let's say, do two big things simultaneously, going forward to hasten the pace of expansion? Or do we still need some more time to build the managerial bandwidth for the same**?**

P. Elango: We would be able to simultaneously do more projects post B-80. In fact, as you can see, we've already moved on Dirok with all that preparation in terms of regulatory clearances, we have initiated regulatory approval process for Cambay and we have initiated regulatory approval process for PY-1. We would have the bandwidth to do more after doing B-80.

Rohit: Okay, so once B-80 is done we will be working on let's say 2-3 projects and trying to bring them online together, or simultaneously if not together?

P. Elango: We will decide the sequence, but we have initiated the process for all assets.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial Advisors. Please go ahead.

Hardik Jain: Just one follow up question, sir. We had announced some time back that B-80 is really not a single isolated pool and it is a connected reservoir, and the potential from it is 8,000 barrels per day. So, what does this mean? If you can explain a little bit?

P. Elango: What we have announced is 8000 barrels of oil equivalent per day, which consists of both oil and gas, that is what we had announced. What we are confident about now is to ensure that this level of production continues for a longer period, and if we choose to drill more wells in the future, that can also be increased as well. But right now, the focus is on getting this production on stream and the resource base allows us to produce at this level for a longer period.

Hardik Jain: So, I just wanted to understand what does this connected reservoir means? Do we have to share some of our revenue with some other party in this case?

R. Jeevanandam: No, actually the connected reservoir means there is a continuity in the reservoir as such, it is not an isolated pool, which falls within the area. Basically, you make volumetric estimates in that the area that consists of the bigger chunk will decide the volume of oil and gas in place. If the area is a continuous one then your total volume estimate for the area will be much higher than in the case of isolated pools; this is called a connected reservoir.

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

Manan Patel: Sir, my first question is on the Dirok field. We have seen spikes in gas prices in the last couple of months across Asia. What is your estimate or sense of the next APM benchmark starting April?

P. Elango: APM prices have a lag of almost six months. For the period of April 1st to September end, they would take the prices of these markets that Jeeva explained based on what was the prevailing price almost six months back. Hence, there is a lag of six months in their pricing calculation, as such. So, we don't expect a very huge spike. As I said, we are expecting it to be certainly about $2/MMBtu.

Manan Patel: Understood, okay. And sir, as you mentioned, the bidding will be at a premium above whatever benchmark comes starting April, right?

P. Elango: Correct, yes.

Manan Patel: Understood, and sir my next question is on B-80. Earlier in the call, you mentioned that at $50 you would be doing revenue of around 300 crores and 200 crores of bottom line. So, that would be 60% of the share, right?

P. Elango: Correct, 60% of the share.

Manan Patel: And this is only for oil, from what I understand?

P. Elango: Oil and gas together.

R. Jeevanandam: Oil and gas together, because we take a conservative estimate. We wanted to put the field on production before we give a number and we wanted to be a little more conservative. And the exact number, once we put the field on production and depending on the gas offtake, we'll be coming out with better numbers. This is a minimum number, which we have showed.

Manan Patel: Wouldn't it be way more conservative, because even if I take 5000 barrels per day, that still comes to around 400 crores at $50 - the revenue number of our share. That is really very conservative.

Management: See we are not pumping oil on daily basis. We have a storage capacity of about a million barrels. So, we will be loading that onto the vessel. Then we have to look for the pricing and then accordingly we will off load that oil. It will not be a monthly revenue accrual to us, it will be once in a quarter. So, we looked into all conservative estimates. We looked at the price of $50, government share and everything. So, we haven't valued much to the gas at the moment, unless we get everything tied up to the last penny. So, we looked at a conservative estimate of 300 crores and 200 crores is the P&L. Out of the 5000 barrels, our share is only 60%.

Manan Patel: Right, I understand that. And sir, as you said, that as soon as the production starts from B-80, you might be debt free in a year's time, probably even lesser. But after that, there will be significant cash accrual on the balance sheet. So, do you see HOEC going the inorganic way to expand?

R. Jeevanandam: See we get organic opportunities as well as inorganic opportunities. Inorganic opportunities we can pursue once we have enough cash in the company; that will happen only at the end of the next financial year. First, we wanted to keep the company debt free. Then we wanted to pursue organic growth, followed by inorganic growth. That is the plan we have in place**.**

Manan Patel: Right, I just wanted to understand that you would be open to them, right?

Management: Yes, absolutely. We are open for it at a price.

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

P. Elango: Thank you all for joining this call. Now, B-80 being the first offshore DSF field on track for production, is receiving all the support required from the DGH, ONGC and Government. At HOEC, we have a single-minded focus and have deployed all our resources and energy into successful execution of this landmark project. We will not leave any stone unturned to complete it in this season. Thank you all.

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