Hindustan Oil Exploration Company Ltd.
Q4 FY21 Earnings Conference Call
June 30, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY21 Conference Call of Hindustan Oil Exploration Company Ltd. 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. I would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

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 of HOEC Ltd. On behalf of the Company, I would like to thank you all for participating in the Company's earnings conference call for the fourth quarter and financial year ended 2021.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings conference call maybe forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information currently available to management. Audiences are precautioned 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, let me introduce you to the management participating with us in today's earnings conference call and give it over to them for opening remarks. 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 Q4 and Annual FY21 Earnings Call. Jeeva our CFO and Whole-Time Director is with me and Valorem Advisors our investor relation advisors are also on the call. I hope you all have received our updated earnings presentation. We have also uploaded that same on our website for your reference.

For us in HOEC, FY21 has been a year of singular focus on B-80. In April 2020, we were drilling our oil wells in B-80, in western offshore even as the pandemic wave 1 was sweeping across the country. Despite many challenges, we did not give up and completed the wells, both the wells together flowed during testing 8000 barrels of oil equivalent per day. Then to bring the field on production working from home we had to plan and source multiple long lead project materials and import equipment from many parts of the world. Finding no suitable vessel in India, we mobilized an expensive new generation DP vessel to lay the pipeline and the construction barge to execute the project during the limited weather window. We could complete the mobilization and commence the project execution only in March. As the installation works were in full swing, second wave hit us. We again did not give up. We continued by implementing a strict COVID protection code including incurring additional cost and time. We had completed over 95% of the work that pushed us into rough weather window of May. Finally, when just one week work was required to install the CALM buoy, we received the warnings of cyclone Tauktae and immediately evacuated all our men and vessels to safety. We waited and remobilized again post the cyclone not wanting to give up, but the vessel was rough and visibility was poor. We finally had to give up. I am narrating this to share our deep sense of disappointment. We promised we would deliver and we did not. All I can say is we tried our best but failed to achieve the target date. The CALM buoy now is safely docked for the monsoon season, post monsoon we will remobilize the marine spread, install the CALM buoy, connect it to the FSO and commission the process facilities to deliver 'First oil' in Q3 of this year.

At Dirok too, challenges on the ground of running safe operation during a pandemic year continued. Our first priority has always been to ensure safety of our personal and the facility. Despite the challenges, we continue to produce consistently at high production levels at Dirok, average production of gas from Dirok for FY21 was about 35 million standard cubic feet per day which is close to the full plant capacity of one million standard cubic meters per day. The performance of Dirok reservoir has been promising and consistent. While we have delivered volume from Dirok over the last 3 years, our focus has now been to increase the value from the gas produced in the context of low government notified gas prices of $1.79 per MMBTU. As earlier announced, just a few days back, we concluded successfully the first ever e-auction of natural gas produced in the North-East region. The results of the e-auction indicate a very healthy demand with approximately twice the amount of volume available being bid for. The volumes are bid at over $1 premium to the existing 6 monthly government notified prices. This is a significant development and has a potential to increase realized gas price from Dirok by more than 50% from the current levels. We have provided the details and an illustration in the investor presentation. Please take a look at that.

The current arrangement will continue with Oil India to ensure smooth transition using the pipeline infrastructure of Oil India. Once we move to the new arrangement, Oil India will act as a transporter for Dirok gas for which the modalities are being worked out. We are now awaiting DGH and JV approval and hope to complete this process of transition in three months and expect incremental revenues from Dirok to start from Q3 of FY22. This pioneering e-auction discovered the market potential for natural gas in the North-East region and in particular upper Assam. We are in parallel preparing for the North East market being opened up for the rest of India as the North East gas grid Indradhanush is progressing at a rapid pace and is expected to commission the Guwahati Numaligarh pipeline portion in 2023. In PY-1, production has declined and the offtake has been inconsistent during the pandemic year. Our geological studies have been completed to plan the next drilling campaign in this unique fractured basement reservoir. The next drilling campaign in PY-1 will be planned after 'First oil' from B-80. Although the current production from PY-1 is very small, we are hopeful of bringing the field back to producing to its potential after the drilling campaign. Final investment decision will be taken after independent technical assessment and de-risking. In our Cambay assets, we have initiated the environmental clearance process to drill additional wells and the execution of R2 PSC in our Palej block is in final stages.

That is the overall update of our business operations during FY21. I would take few more minutes to briefly outline our growth strategy. At the macro level, effective supply control measures from OPEC and sharp revival in demand are strengthening the oil prices and this trend is expected to continue as more economies get back to normalcy. In India, government policy thrust is focused on monetization of assets held by public sector units. In upstream exploration and production sector, HOEC is in an advantageous position to capitalize this opportunity with its edge in operating offshore fields. In highly capital and manpower intensive sector, we chose the right asset and lean team model. Our idea was to emerge as the Uber of oil and gas sector by building world class competencies in both geo science and drilling. Both these functions are held by professionals with global experience, Mr. Krishnan and Mr. Robert White. We chose Expro UK as our strategic partner to build, operate and maintain oil and gas process surface facilities both in Dirok and in B-80. This strategy has served us well with less than 100 employees contributing about 8000 barrels of oil equivalents per day to India's domestic production. Developing a discovered resources field -B-80 in a pandemic environment during a limited weather window has been a significant experience. We gained expertize in western offshore and learned a few lessons too. HOEC is at the cusp of transformation, looking at a multifold increase in revenue from third quarter onwards after we bring B-80 into production.

In FY21, HOEC's net entitled production was about 2300 barrels of oil equivalent with production mix of almost 90% gas and 10% oil. When B-80 is on full year production in FY23, HOEC's net share production will increase to over 7000 barrels of oil equivalent with a production mix of nearly 50% oil. To drive the next level of growth, we have discovered resources within our existing portfolio that has potential to double this HOEC net share production to 14000 barrels of oil equivalents per day. Further we aim to add more resources by participating in the recently launched DSF bid round 3, we will also look for opportunity that shows up from the asset monetization policy of the government.

Growing to the next stage is not without its challenges. We have some immediate cost overrun issues to deal with and there are legacy PSC issues to overcome. What I have outlined is a broad strategy. We will develop and roll out a clear roadmap and business plan over the next few months.

I now invite Jeeva to share the financials.

R. Jeevanandam: Thanks, Elango. We report that the Company made a revenue of 24 crores from the current quarter against 27 crores in the previous quarter. However, for the year the revenue is 111 crores comparing 201 crores in the previous year. In consol accounts it is 30 crores against 31 crores in the previous quarter and the annual number is 125 crores in the current year against 224 crores in the previous. Virtually there is a reduction of 100 crores in the revenue. The reduction in revenue is mainly from reduction in prices of Assam gas and the volume reduction in PY-1. The profit on standalone is 65 crores which includes an adjustment towards the exceptional items, against 141 crores in the previous year. In the consolidated accounts, the profit after tax for this year is 53 crores against 138 crores in the previous years. The total expense of standalone is 74 crores comparing 87 crores in the previous year, operating costs are not linear to the production except statutory levies such as royalty and cess which is advalorem. In the consol accounts it is 89 crores comparing 113 crores in the previous year. Operating cash flow for the year before working capital change is 65 crores comparing 140 crores in the previous year. In the consol results operating cash flow stands at 54 crores comparing 132 crores in the previous year. The Company cash and cash equivalent of about 60 crores as on 31st March 2021 and the consol accounts cash and cash equivalent is 92 crores. We have a secured loan facility of 150 crores to meet the capital towards additional 10% participating in the block and the capital expenditure thereon which has been fully utilized. And investment on B-80 MOPU and SBM and Floating storage offshore would be on revenue mode only after the commencement of production from B-80. Having substantial investment yet to be put on production, get on to revenue mode, a meaningful number would be reported after the commencement of B-80 production.

Thanks, Elango.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hardik Jain from White Stone Advisors. Please go ahead.

Hardik Jain: Sir, in your opening remarks you mentioned in the statement where you said that both the wells were tested and they flowed like 8000 barrels of oil equivalent per day. Can you just elaborate on this?

P. Elango: So, we drilled two wells which is D1 and D2 in B-80. We tested these wells and both the wells will produce both oil and associated gas. Overall both the wells together during testing produce 8000 barrels of oil equivalent per day.

Hardik Jain: Sorry, I lost your voice in the last statement. Can you please repeat?

P. Elango: I said both the wells together produce 8000 barrels of oil equivalent per day which means basically oil and gas together.

Hardik Jain: So, when we said that it flowed**,** that means we tested it.

P. Elango: Correct.

Hardik Jain: The probability of us not getting that much quantity of oil and gas reduces after the test to a great extent?

P. Elango: Correct.

Hardik Jain: And sir, when we see in our balance sheet the capital work in progress is around 275 crores and we have one weeks' more work that we have to do, we have been installing the CALM buoy and FSO. So how much more investment will be done overall?

R. Jeevanandam: The total investment in the project including all the facilities because we have a model of outsourcing at the field level, outsourcing at the corporate level, we will have an investment of about $100 million there onwards for our 60% investment. And the additional investments which we are looking for it, how to optimize the cost, whether the existing facilities are in that vicinity or we have to mobilize the additional facility from somewhere else. Once we have clear idea we would be able to estimate the cost properly. It will not be more than 2-3 million dollars.

Hardik Jain: My last question is regarding PY-1 because the production in PY-1 has been erratic for last few quarters. So is there a possibility where we will have to take some write off or it will impact our balance sheet because the asset is not efficiently producing.

R. Jeevanandam: I have nothing in the balance sheet, virtually I have got only $12 million over an investment of $383 million made in the block.

Hardik Jain: So the pending cost that remains towards PY-1 is only $12 million.

R. Jeevanandam: Little more than $12 million, if you want the exact number it is about 90 plus crores.

Moderator: Thank you. The next question is from the line of Rohan Shah from Alpha Enterprises. Please go ahead.

Rohan Shah: I had a question on the survey that we were about to publish on B-80. So, any update on that status and I also had a question on PY-1. I noticed in the notes in the results this time that the extension has not been granted for the next decade. So any idea of when that will happen and any idea of, is there any risk that this may not happen?

P. Elango: Let me answer the PY-1 question first. The government has rolled out an extension policy under which there are two important criteria. One is related to the remaining economy of the field which the contractor has to demonstrate through a field development plan which we have submitted and got it approved as well. So, we have a field level plan which demonstrate the government's satisfaction both economically and technically that the field can continue to produce for 10 years. The other requirement is the contractor should not owe any amount to the government. We have issue on the method of calculating the royalty. So, that matter has been referred to the dispute resolution committee. So, on that basis the government has been giving us ad hoc extension. This is a method government is following in respect of almost all the blocks where the contracts has come to an end where there is a subsequent extension involved. So, we don't see any risk in securing that extension, once this issue is resolved, I think government would extend it for next 10 years as such. And the question of B-80, I think you are referring to the reserve studies. We told earlier that we have engaged GCA to do the reserve estimate. Finally, GCA required the field to be on production to confirm our full model as such. But mean time we have thought we will complete all the facilities and bring the field on production during this quarter. But with this delay we have got an initial report which we have taken into account while doing our own assessment of the reserve which will be published as part of the annual report.

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

Sunil Jain: Two questions from my side. One is related to the postponement of start of production. So how much cost overrun will be there because of that?

P. Elango: As you all know we were in the field till mid-May or third week of May. Since then we have been under lockdown. We just began re-opening. We would complete the total cost assessment and get it in quarterly call.

Sunil Jain: My second question is related to e-auction in Dirok, so you said that we will be realizing $1 extra, so how much volume we can sell through e-auction and when we can get full benefit of the same?

P. Elango: We went for the e-auction with the full volume under two categories. One is what is called firm commitment, the other is fallback basis. Fallback essentially involves no specific contractual obligation to take or supply the committed volume. Strategy was really not to disturb the existing arrangement we have with Oil India. Currently, whatever production we have, whatever we are producing which is about 35 million standard cubic feet per day during the last financial year, the entire volume was being sold to Oil India. Oil India in turn was commingling the gas there and then distributing. When we went for e-auction we put two options both fall back and firm. On the firm basis, we have received bid for 30% of 1 million cubic meters per day which is roughly about 10 million standard cubic feet per day. Whatever we are producing, 30% can be sold on a firm basis on a $1 premium over the government notified prices. As and when the government notified prices changes or increases or decreases, the base price will change. But at every point in time, there will be a $1 premium. That's a firm committed one. The fallback got bids for almost 70% of the volume. In fact, the total volume demand we received was close to 2 million cubic meters which is close to double of what we offered. Those will be on a fallback basis which means we will stay connected with those customers and whenever they have a demand, this gas will be diverted to meet that demand.

Once again, the premium under fallback with higher ranges from about $1.25 million to $1.75 million over the government notified prices. So, on an average, we expect to basically clear the entire volume through this method. Of course, fallback doesn't have any specific obligation. Whenever they don't take, it will be delivered to Oil India. So, the idea was before we go ahead and expand the capacity of Dirok facilities, we wanted to test the market and discover the market price. Obviously, what we have got in return is, demand has been confirmed for almost 2 million cubic meters per day, which is 70 million standard cubic feet per day and the premium of between $1 to close to 1.75 per MMBTU.

So overall, this quarter we will be doing all the transition because we don't have the pipeline to the customer's facilities. We'll have to use the Oil India pipeline by paying some tariffs to them. We are in that process. From Q3 onwards, we expect to commence the sales under this methodology and realize better prices over and above the government notified prices, which should be minimum $1 more.

Sunil Jain: Sir, you said, Q3, you will be starting this process of bidding.

P. Elango: Yes.

Sunil Jain: And whether Oil India will have any objection to this or any?

P. Elango: Oil India being our joint venture partners, they hold 40% stake in Dirok. They are also co-sellers. So we were able to persuade them that this is in the best interest of all the parties to realize better market determined prices. Unfortunately, Oil India, for the gas that they produce, they cannot sell it at a price other than the government notified prices. So everything is being done with full support and cooperation of Oil India.

Sunil Jain: And once the prices increase from 1st October, of notified price by the government, so we will be getting additional $1 for that 30% committed.

P. Elango: Correct.

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

Riddhesh Gandhi: I just had a question with regards to your B-80. Just to clarify, do you guys have externally certified reserves that you haven't received and are you going to be sharing that in the annual report or this is your own internal estimate that you will be sharing in the annual report?

P. Elango: In the annual report, we'll be sharing our own internal estimate, which is verified by the external party.

Riddhesh Gandhi: So it is effectively equivalent of a certified reserve, is it?

P. Elango: Yes. The reserves in the Annual Report will indicate the total reserves held by the Company across all its assets. The B-80 one which forms the material majority of it has been independently verified by the independent third party.

Riddhesh Gandhi: But any reason we are holding off until the Annual Report if it's already ready and we have already started disclosing it?

P. Elango: So normally we disclose the results, that is the practice all the companies also follow, along with that of the annual report. So we just wanted to follow the same practice.

Riddhesh Gandhi: And just to understand, $1 higher price is applicable on how much percent of your Dirok production and for how long is the agreement, given it's starting in Q3, and let's say, as expected, there will be a revision in prices in October which are being indicated to be reasonably higher, 50% of 70% higher than where they are right now, so will it be $1 higher than that amount?

P. Elango: Yes, it will be higher $1 than that amount. And the contract we are initially signing is for a two-year period with all the customers. Because the demand received was close to 175% of the volume that we offered, we expect to sell almost the entire volume through this method. The only thing to understand is, one, 30% is on a firm basis when there is a take or pay or firm commitment by the customers. The other 70% is on a fallback basis, so we would be meeting depending on the demand, but generally what the e-auction confirms to us is there is unmet demand from the existing customers. All these are existing customers. None of them are new customers. All of them are existing customers of Oil India. Most of them are major players like NTPC, NRL, BCPL, major public sector undertakings. We are not talking about tea estates and smaller players. Therefore, we expect the volume to be taken at the premium of at least $1 more than the government notified places, whatever that may be.

Riddhesh Gandhi: Which is in any case will be lower than what would be the market price.

P. Elango: Yes.

Riddhesh Gandhi: And just a last question, if you could just give us an update on Kharsang.

P. Elango: In Kharsang, this year's production is on an average around 550 barrels per day. With the oil prices strengthening, that revenue should increase. As far as PSC extension, that field also got ad hoc extension pending resolution of some of the cost recovery issues, some forest clearance confirmations, etc., and the operator of that field is handling those lines.

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

Nirbhay Mahawar: Sir, just wanted to follow up regarding your production growth. You mentioned 2,400 barrel of net production will move to 8,000 post B-80 and 14,000 through other organic field expansions. Is this correct?

P. Elango: I said 2,300 will go to about 7,000, but it has the potential to go to 14,000 once we make additional investment in existing portfolio. So, what I wanted to outline was our existing portfolio has the capacity to deliver volume. Obviously, this will involve additional investment by way of drilling well, etc.

Nirbhay Mahawar: So, B-80's cash flow, would it be fair to assume that we should be able to do it largely through internal accruals?

P. Elango: Post B-80, we will be able to phase it in a manner.

Nirbhay Mahawar: And wanted to understand your perspective on potential of DSF 3, what kind of opportunities exist for a company like HOEC?

P. Elango: After take feedback from the industry, the government has increased the individual acreage size of each block than what it used to be in the previous bid round. So the acreage size is large. Overall, there is close to 13,000 square kilometer of discovered area across the country are on offer. We, as a company having experienced both in Western offshore and Eastern offshore would be looking at opportunities, particularly in the offshore area as such, which more of fall in the high-risk, high reward category where the competition also would be lower.

Nirbhay Mahawar: So, would it be fair to assume that in this category, probably number of bidders would be restricted to 3-4-5 only, because I think very few companies in any case have participated in DSF 1 and 2?

P. Elango: In terms of the offshore, currently there are only three companies in India other than ONGC. Totally, if you include ONGC, there are only four companies in India with experience in offshore production. One is obviously ONGC, Reliance, CAIRN and HOEC.

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

Ritesh Parikh: Sir, can you throw some light on the marketing plan for B-80 gas? Have we done any firm tie up by now?

P. Elango: On B-80, one of the important thing when you do marketing particularly through the e-auction mode, one is, the government policy now makes it mandatory that you can conclude gas sales contract only by following a e-auction route, and one of the requirement in the e-auction is really about when will you produce - specific date, volume, quantity and some quality aspects as such. Now, having done the auction exercise for Dirok, we have got the whole template now, and within a matter of three weeks we will be able to complete the whole e-auction process and conclude the buyer. In terms of the infrastructure, the gas pipeline from the mobile offshore process unit has already been connected to ONGC's existing pipeline that contracting work has been completed and ONGC's pipeline would take the gas all the way to Hazira and Hazira is the delivery point. In three weeks' time, we can conclude that e-tendering process. We will do that closer to commencement of production.

Ritesh Parikh: And the e-tendering will be like a government price plus or minus kind of a pricing?

P. Elango: There is no particular methodology. The different companies have followed different, meaning one can put up LNG as a benchmark and people can quote a discount to that as such. So, different companies have followed. In Northeast, we followed this government pricing benchmark because the Northeast customers are used to the government pricing methodology. In Western, which is a much more free market, Gujarat market, I know other companies like Reliance followed a different methodology of linking the price to the Asian LNG import as a benchmark. Basically you need to provide a benchmark and then ask the bidders to bid,.

Ritesh Parikh: So it will be once we are ready with the infrastructure, we'll be able to auction, right?

P. Elango: Correct.

Ritesh Parikh: Now, coming to this Dirok for auction, I think that was very encouraging that we are getting some additional demand over there. Just wanted your thought, once we had the second phase up and running, are we under commitment to supply to Oil India or we can use this opportunity to do a direct marketing, having seen the demand?

P. Elango: We can do direct marketing. There is no obligation to supply to Oil India.

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

Tejas Shah: Can we understand the quality of oil and how much it will get a discount to the Brent for the B-80 oil?

P. Elango: The quality of oil is pretty, close to Brent. So we expect that discount, we have not done the full benchmarking. The discount will be minimum discount.

Tejas Shah: And what is your now average price realization you are looking at and what will be the revenue if you can tell me in Indian rupees?

P. Elango: We had earlier kind of indicated, at a price of about $55, the netback will be about $25 per barrel.

Tejas Shah: Now, given the prices being higher, would it be prudent to increase it to $65 or $70 or more?

P. Elango: Whatever is the prevailing price, the crude oil prices would be determined based on the prevailing international market price at point in time, right. In Q3, whatever is the prevailing price whenever we sell, we will get that. So generally, the companies take a longer-term view on that, and it's basically anyone's take on what price one wants to continue. All we can say is, we have kept our cost base such that we will be making margins even at a $35 oil price.

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

Sadanand Shetty: Mr. Elango, what is the profile of customers who have bid in e-auction? My second question is, how is the price trend? Has it been volatile since the time it began? Has there any time it has been in discount also to APM prices?

P. Elango: Just the first question, in terms of the customer profile, majority of them are Government of India public sector companies such as Numaligarh Refinery, BCPL and NTPC power plant and fertilizer plants. So the customers, majority of them are, and there is state government power companies are also. But overall, it is all central public sector undertakings. All of them are currently buying gas from Oil India, and Oil India has a track record with all of them and all the delivery facilities are already connected, stay connected as such. In terms of the movements, we have not yet commenced the sales under this model. We have just closed the e-auction bidding a few days back. We will complete all the transition formalities. But the structure of pricing is such that every six months, the government will notify the government notified prices as it was happening April to September and again October to March. On whatever would be the notified prices which are notified dollar per MMBTU basis, there will be a premium of $1 over and above that price. So there is no fluctuation for that six months period. If the government notified prices fluctuates, accordingly the realization also fluctuates. But at any point in time there will be a $1 premium over that. That's how the commercial structure is.

Moderator: Thank you. The next question is from the line of Abhijit Vora from Sharekhan. Please go ahead.

Abhijit Vora: I have two questions. Firstly on, what is our cost of production for gas in MMBTU terms?

R. Jeevanandam: $1.4 per MMBTU to $1.5 per MMBTU.

Abhijit Vora: Excluding the levies, right?

R. Jeevanandam: It is including the levies and such.

Abhijit Vora: Including the levy, okay.

R. Jeevanandam: Levy here is only the royalty. There is no cess on gas.

Abhijit Vora: So there is no royalty on the gas, right?

R. Jeevanandam: What is happening is most of the facilities, most of the outflows is not variable. The cost is not varying with production. If the uptake is more and the production is more . We can look at overall price per annum should be in the order of around $1.4 to $1.5 per MMBTU.

Abhijit Vora: I just want the time lines. Like when we can achieve our production guidance which you gave for 7,000 barrels of oil equivalent per day and that can further go to 14,000.

P. Elango: The 7,000 barrels of oil equivalent per day will be achieved as soon as we bring in the B-80 on to production. From 7,000 to 14,000 would require additional investment in different fields and as I said in my remarks, we will come with a road map and plan for that.

Moderator: Thank you. The next question is from the line of Anik M from Finarthaa Research. Please go ahead.

Anik Mitra: I have a question. You mentioned regarding Kharsang oil production, that is around 550 BOPD. Sir, you were planned for doing some drilling of 18 oil wells over there, right, sir. So it will be, like the total production will go to 1,700 BOPD to 1,800 BOPD, right, sir?

P. Elango: Correct.

Anik Mitra: So what is the time line for that?

P. Elango: So right now the PSC extension part is really on an ad-hoc basis pending some resolution of some past cost recovery issues. That is being addressed. Post that, the JV will decide on the timeline of that. Kharsang is not operated by HOEC directly. It is by another operator in which we hold a stake.

Anik Mitra: And I have another one question. If I'm not wrong, there was some dip in price in Assam, like which impacted full year revenue. Can you please throw some light on that, how the price came down, as you have some base price declared by the government, so is the premium got affected or how the premium got affected?

P. Elango: But really in Dirok, whatever gas we had been producing we sell it entirely to Oil India and Oil India in turn sell it to its own customers, and Oil India can buy and sell only at the government notified prices. Now, government notifies the prices every six months based on certain international benchmark. So if you look at our presentation in the last slides, we have given the range of prices over a period of time. So, for example, in October 2014 or April 2015, for that period the government notified prices was $4.66 per MMBTU. So over a period of time, particularly from mid-2016 onwards, it has reduced. And right now, the price that is prevailing from April to September 2021 government notified price is $1.79 per MMBTU. To address this issue only, we went with this e-auction which has thrown us a premium price of roughly of $1 million over and above this. In October 2021, government will revise once again based on their formula, the prices and typically gas prices kind of catch-up with the oil prices with a lag. So we expect the government notified prices to increase, in whichever scenario, we will get $1 more premium to that.

Moderator: Thank you. The next question is from the line of Deepak Goradia from AM Investments. Please go ahead.

Deepak Goradia: Sir, you mentioned that it appears that more or less the sale of the oil will be always based on auction only. Is that the policy, which is going to remain more or less?

P. Elango: Yes. The government wants market determined prices to be determined through a transparent e-auction basis, that is the policy of the government for all across India.

Moderator: Sorry. The line of Mr. Goradia got disconnected. We will move to the next question with this one, the line of Ashwin Reddy from Samatva Investments. Please go ahead.

Ashwin Reddy: I have two questions. Firstly, regarding the CAPEX for the next six months. What would be the total cash outgo you foresee in the next six to nine months?

R. Jeevanandam: The capital for the next six months we need for B-80 and put together, we need about $20 million, which we have to raise the funds.

Ashwin Reddy: So you'll be raising more debt or would you plan to raise equity. What is the project plan of it?

R. Jeevanandam: So with whichever the cost of capital gets lower.

Ashwin Reddy: Regarding Dirok, I think you potentially take the e-auction rate for the entire current production or there is certain production, which you have to supply at the government prices only?

R. Jeevanandam: No, we can do entire production.

Ashwin Reddy: All right. And regarding PY-3, is there any progress on PY-3 because right now given where the oil prices are and given that the block did not have any issues in production in the past, is there any traction on PY-3?

P. Elango: Yes. The meetings are being held between the JV parties to agree on a forward plan. Right now we don't have anything to disclose.

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

Rohit Ghotia: I just wanted to know like over the last five years, you have always focused on one big project. First, it was Dirok then we had PY-1, then we had B-80. So going forward, I mean I believe our bandwidth has expanded and we can focus on one or two big things at a time. What are we focusing on next to bring on stream? I believe one would be the Dirok extension or expansion. What are the other things?

P. Elango: You are right, Rohit. We have built the organization to undertake multiple projects at the same time post B-80 and obviously B-80 has given enormous experience for us to look at some exciting opportunities in the western offshore. So we would be looking at in the DSF bid round with lot of interest. And secondly, our priority is to really get the PY-1 production back on stream by drilling additional wells. So if you really look at the portfolio, three material assets as we see are B-80, Dirok and PY-1. PY-1 is of particular interest for us because we hold 100% stake in the block.We have developed infrastructure already in place. Of course, technically, it is a challenging block. So we would do whatever it takes to derisk it and do that. So, these three are the reality in our portfolio. Of course, other than that we have Cambay and some work is going on. We have got that flexibility to really do but focus now onwards would be more on growing net production and enhancing our value over the volume.

Rohit Ghotia: The timeline of FY 23 for Dirok, do you have a similar timeline for PY-1. When do you expect the work to be completed?

P. Elango: As I said, we have done the initial planning part, approval processes has been initiated that is ongoing, but we would take the decision in capital raising only after seeing revenue from B-80.

Rohit Ghotia: My last question sir is, we have talked in the opening remarks about asset monetization of PSUs and DSF bid round 3 to be of particular interest for us. And given our expansion programs to grow to 14,000 and even more maybe in the future, do you see us requiring equity capital in future?

P. Elango: No. As we have said, once we have the B-80 on stream, then we have the flexibility to manage the capital and if required, we will look at it at that point in time.

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

Ravi Nanda: Sir, what is the free cash flow, you have generated in this year?

R. Jeevanandam: The operating cash flow is about 250 crores.

Ravi Nanda: And sir, regarding debt of the company, when do we expect to repay the debt after B-80 commissioned over or later?

P. Elango: B-80, substantial investments have got into the block, which is in the order of over 700 plus crores. So, unless these things put on production, the meaningful cash flow will not come now. This will be in the order of say 50 crores to 75 crores, because of the gas rate revision, but once the B-80 comes into the picture, then we will be reporting good numbers.

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

Manan Patel: My first question is, you mentioned that for the oil that we sell through e-auction and Dirok, we will have to pay some charges to Oil India. So I wanted to understand like what is the amount of charges would we need to pay?

P. Elango: We expect it to be marginal because even now we are paying a marginal transportation fees to them, but under this new arrangement, we haven't yet concluded an arrangement with them. Once we conclude, we will let you know, but we don't expect it to be a major issue.

Manan Patel: Sir, my second question is, well, it's great to know the e-auction demand for the Dirok gas, but we saw the other auctions that were conducted by RIL and Cairn, got significant premium to whatever the government notified prices are. So why are these given very much lower than that for Dirok?

P. Elango: Basically, India's most premium gas market is in Gujarat. If you're selling gas into the Gujarat, you can get a very high premium, whereas our delivery would be restricted to upper Assam area where the only private sector player is us other than Oil India and ONGC and the buyers are all public sector companies, predominantly and tea estates. Therefore, this system is a major breakthrough as far as we are concerned. We have kind of really made a pioneering effort in opening up the market and change the perception that northeast is not for market players.

Manan Patel: So the gas prices from B-80 which you will sell into Gujarat will be much better than for Dirok, right? Is that understanding right?

P. Elango: Correct. Absolutely.

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

Sharad Sharma: Hope you firm up the dividend policy getting into the next couple of years. Sir, a quick question. Did you have any disruption in April-May, given there was a significant lockdown? Can you spend a moment on Kherem development. I don't see anything on the deck. And what is your best estimate of the October MMBTU pricing estimate given that June is almost over and all factors should be known by now? Thank you.

P. Elango: First of all, on Kherem, the PML, the petroleum mining lease has not yet been granted by the government. Still correspondence are going on between the Arunachal Pradesh government and the Government of India. So that's why we did not give any updates. Our effective date on all commitments start only after the PML. Your second question on the gas price from October, not really have not done any calculation at this point in time, we have not really done any work on that.

Sharad Sharma: Any disruption, sir, April-May?

P. Elango: In terms of the offtake in PY-1, got disrupted during this period. We will share the details really along with the quarterly results.

Sharad Sharma: And hope the dividend policy can be firmed up.

P. Elango: Thank you.

Sharad Sharma: And, Dirok, sir, you were saying something.

P. Elango: No, I said Dirok was continuing.

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

Ritesh Parikh: Sir, can you just share what will be our CAPEX plan for FY22 and also the funding arrangement for it?

R. Jeevanandam: 21-22, we have a plan for putting the B-80 on production, that is in the current financial year, right? So whatever the work executed, which we have to pay for, all put together, we are expecting in the order of, say, $20 million.

Rikesh Parikh: And this will be largely funded or internally will be?

R. Jeevanandam: We have some internal accrual. We need to get some funding done which we are working on at the moment.

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

Pankaj Chanda: Two questions. One is, what would be our discovered and the proved and developed reserves? I mean, last balance sheet showed 26.5. So is there any change in that? And what would be the breakup of the two in terms of proven and probable out of the 26.5 that was reflected last year?

R. Jeevanandam: We will disclose this as part of the annual report.

Pankaj Chanda: Second is, presently PY-1 revenues are zero or in the current quarter there is some revenue on PY-1?

R. Jeevanandam: No, there is some revenue. We are doing small volume. What I said was there were disruptions in between due to pandemic as well.

Pankaj Chanda: So, is it because of demand there were disruptions or there were some technical issues?

R. Jeevanandam: It's actually both.

Pankaj Chanda: Okay. But have you overcome the fractured field issues that you have been facing?

R. Jeevanandam: We have already stated that. To revive PY-1 production, further investment in drilling wells would be required. Currently, with whatever little we are continuing the operations.

Pankaj Chanda: Okay. And the second part at PY-3 is continuing? How is it progressing on that for PY-3?

R. Jeevanandam: For PY-3, we're not the operator. So we are a non-operator. We participate in the discussion. So, as and when a firm plan is announced, we will share that.

Pankaj Chanda: And for B-80, the present estimate is 4,000 barrel equivalent when you start or would it be higher than that?

R. Jeevanandam: We said 8,000 barrel of oil equivalent and that will be from the start.

Moderator: Thank you. The next question is from the line of Abhijit Vora from Sharekhan. Please go ahead.

Abhijit Vora: I have one follow-up question. What was the mix of the oil and gas production at the next 7,000 BOPD?

P. Elango: Right now, our oil and gas production mix is, production majority is gas coming from Dirok. So it's about 90% gas and 10% oil. When we bring B-80 on production, it will be predominantly oil. Therefore the total mix will be approximately 50-50, 50% oil, 50% gas as long as net entitled production of HOEC.

Abhijit Vora: And then with the oil prices moving up, should that improve the overall profitability because of the gas we are making currently are lower profit. Will that be right assumption to make?

P. Elango: Of course, because we will get the current pricing which is international market price for oil with some discount to the benchmark crude, whatever is the agreed price.

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

Ashwin Reddy: I was asking you a question on PY-1. So after you finish your work on PY-1, can we sell gas only to GAIL on the same price or can we again have an e-auction for the gas prices that is there in PY-1?

P. Elango: In PY-1, when we drill the new well, some of them would be outside the existing field area but within our block area. So we are under no obligation to sell that volume to GAIL. But whatever we build within the existing producing area, that will be sold to GAIL under the existing contract which is fixed at a price of $3.67 per MMBTU. That's the fixed price. So once we decide the exact location, we will be accordingly determining. But there is a captive customer in terms of GAIL and they have a connected facility with our plant, so it would be to GAIL predominantly.

Ashwin Reddy: But the end users for this gas, I thought for gas power plants in Tamil Nadu and some of the industries there. So what is the demand situation like, I mean at the end user level?

P. Elango: At the end user level, I think what we recently heard is the Tamil Nadu government is kind of open to idea of getting the power not only to Tamil Nadu Electricity Board but to private players as well. So overall, with the IOC's pipeline network coming up, we are seeing an increasing connectivity in network, which was a major issue. As long as you don't have a pipeline network, we are dealing with a very limited area. So we don't see a demand issue as far as the PY-1 production.

Moderator: Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand over the conference to the management for closing comments.

P. Elango: Thank you. Thank you for joining in large numbers. With our recent transformational B-80 development experience, as a team, we are confident that HOEC will propel from a leading private sector player in northeast to a significant offshore oil and gas developer and operator with a strong balance sheet. We remain committed to add value to all the stakeholders by continuing our growth journey at a faster pace. Thank you, all.

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