Hindustan Oil Exploration Company Limited
Q1 FY 2022 Earnings Conference Call
August 16, 2021

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY 2022 Earnings Conference Call of Hindustan Oil Exploration Company Limited. As a reminder, all participant lines will be in a 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 touch tone phone. I now 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 very warm welcome to you all. My name is Anuj Sonpal from Valorem Advisors. We represent the Investor Relations of HOEC Limited. On behalf of the company, I would like to thank you all for participating in the company's earnings conference call for the first quarter of financial year 2022.

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

Now, let me introduce you to the management participating with us on 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 & Chief Financial Officer. Without any further delay, I request Mr. 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 Q1 FY 2022 earnings call. Jeeva, our CFO & Whole-Time Director is also with me. And Valorem Advisors, our Investor Relations Advisor 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. After a year of singular focus on B-80, Q1 FY 2022 was about adjusting to realign for first oil from B-80 in Q3 FY 2022. While we are dealing with the time and associated cost overrun issues through renegotiation, we are excited about the prospects of the field over the long term. We already announced the much-awaited updated reserves number from B-80.

With the multi-fold increase in the 2P reserves, B-80 has emerged as the anchor asset which will transform HOEC. The reason for such increase is on account of post-development drilling, whereby HOEC revised the B-80 3D geological model by applying all the data from the field, which includes the previous wells drilled by ONGC, as well as the current two additional development wells drilled by ONGC. We have initiated engagements with the market to identify potential contractors to mobilize a suitable marine spread to complete the remaining project works post monsoon and bring the field to production in Q3 of this year.

On the marketing front, our plan is to roll out an e-auction for gas sales. And we will store the oil initially to carry out sampling and assay of settled crude to discover the best market prices and sell the oil at the delivery point in the FSO. At Dirok, we continue to operate without any downtime due to COVID pandemic, despite severe restrictions in the area. That further demand for Dirok gas exists is being proven both operationally as well as through the e-auction that was conducted for Dirok gas earlier. To achieve further production from Dirok, expansion of processing facilities would be required at Dirok which is part of the Phase 2 execution plan. As indicated in our last call, our focus in Dirok now is value over volume. To achieve this, we've conducted the e-auction in June and are now in the final stages of contract conclusion with the buyers.

We expect gas sales for these contracts to commence from Q3 FY 2022 onwards. Expected increase in the six-monthly government notified prices will positively impact the revenue realization from these contracts. This is a significant development and has a potential to increase the realized gas price from Dirok from Q3 onwards. The current arrangement will continue with OIL India to ensure a 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 modalities are being worked out. This pioneering e-auction has helped to discover natural gas pricing in the Northeast, especially upper Assam. We are in parallel preparing for the Northeast market being opened for the rest of India as the Northeast 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 effort to revive the well to original production capacity was not successful. The field will now require rig-based intervention to increase production. All geological studies have been completed to plan the next drilling campaign in this unique fractured basement as well. 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 remain confident of bringing the field back to producing to full 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 much-delayed execution of R2 PSC in our Palej block is in its final stages of approval. Similarly, there has been further progress in Kherem to secure the PML with the consent of the state government of Arunachal Pradesh. Overall, our plan is to continue our focus on delivering first oil from B-80, while progressing the planning and regulatory processes in all other assets and take up execution immediately after first oil from B-80.

Updates on a couple of other matters are firstly, amendment of B-80 revenue sharing contract to reflect the increase in HOEC's participating interest from 50% to 60% has been cleared by the law ministry and is in final stages of execution. Second, PY-3 arbitration award is still under challenge in Malaysian High Court, next hearing is expected in September. In a parallel matter initiated by Hardy for enforcement of award, the Gujarat High Court directed HOEC to file its objection. HOEC requested for review on the premise that till award becomes final, post Malaysian High Court verdict, it is not correct to ask HOEC to file its objection. On 10th August, Gujarat High Court rejected HOEC's request for review, action is underway to appeal to Supreme Court. We have also made a disclosure in the results about this, you can refer that.

I now invite Jeeva to share the financials.

Ramasamy Jeevanandam: Thanks, Elango. We report that the company has made a revenue of Rs. 27.56 crores in the current quarter against Rs. 24.19 crores in the previous quarter. In the consol account, it is Rs. 31.79 crores against Rs. 29.68 crores in the previous quarter. Increase in revenue is mainly from increase in the sale gas in Assam and higher realization of oil prices. This profit on standalone is worth Rs. 11.71 crores against Rs. 6.59 crores in the previous quarter. In the consol accounts, profit after tax for this quarter is Rs. 10.93 crores against Rs. 5.54 crores in the previous quarter.

And the expense side if you look at, including DDA, it is Rs. 15.85 crores comparing Rs. 17.6 crores in the previous quarter.

Before, working capital change is Rs. 14 crores comparing Rs. 11 crores in the previous quarter. And in the consolidated accounts, the operating cash flow stands at Rs. 16 crores comparing Rs. 12 crores in the previous quarter. Investment of all-inclusive is about Rs. 619 crores are in the capital work-in-progress. And on commencement of revenue from these assets it will move to oil and gas producing assets. A better number would reflect on the commencement of cash flows from these assets which would provide a new impetus to the business. In effect, one-third of the oil and gas assets are in production and two-third is capital work-in-progress, which will yield better numbers once the B-80 is put on production. Thanks, Elango.

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

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question & Answer session. Our first question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: My first question is on Dirok. Sir, could you help us with what would be the aggregate investment in Dirok, I was trying to calculate the investment multiple. Also, what would be our CAPEX if we go ahead with the expansion of capacity from 36 to 55, and maybe five years down we look at increasing it to 75 mmscfd?

P Elango: In the first field development plan, we made investment of roughly about $60 million, gross investment, in developing this Dirok Phase 1 of the field. In the second development, which has already been approved, the initial investment is about $60 million and our share would be less than $18 million. The second phase of the development involves a 38-kilometer pipeline, drilling of two wells as well as expanding the existing process capacity in a modular format. So, what we had, our existing infrastructure itself is capable of producing about 40 million cubic feet on demand. We have delivered more than 40 million cubic feet of gas per day. So, our plan is to first implement the e-auction contract in place and recommence the sales directly to the end customers using the oil and gas infrastructure. And then pick up the Phase 2 development, and we have some flexibility to initially decide on the number of wells and expand it. So overall, for the entire Phase 2, including the pipeline portion is about $60 million gross, and our share of that will be less than $18 million.

Akshay Satija: Okay. So, as per our April 2016 Investor Presentation, our total reserves for PY-1 stood at somewhere 31.5 Bcf. Now, we extracted somewhere around 5.5 Bcf in last five years. So, does our current reserve stand at 26 Bcf or we are looking at this the wrong way?

Ramasamy Jeevanandam: When you look at PY-1 reserve, it was basically whatever we were producing at that point in time. We had estimated P-90 resources then. Now, the P-50 reserves is much higher than that, So the reservoir model is being worked out now. And we have got a new expert geologist, he is working on it now. With the revised numbers and with the revised number of wells, we will come up with a new plan. Because whatever you would have seen in 2014, 2015 and 2016, we have impaired most of the assets thereon and we kept it bare minimum in the books of accounts. Now, we have to revisit the whole thing with the revised numbers that will be classified under the P-50 reserves, and after drilling the wells we move into P-90.

Akshay Satija: So, one more thing from this. Sir, when we actually report our reserves in the annual report, the reserves were actually the initial reserves, or we actually keep them updating every year considering whatever we have depleted or removed that year?

P Elango: Every year the reserves will be re-casted which will be based on the new data. Then we must adjust with the production numbers. That is the way reserves are revalued at every year end based on actual production i.e., on 31st March of the year, we will revalue the reserves, and production is adjusted thereon. And based on that, the balance recoverable reserves will get reported.

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

Rohith Potti: A couple of questions on B-80. So first is, I mean, we have mentioned in the past that the net PAT for us, as far as crude oil is concerned is around $23 on a $50 crude oil price. But could you share a broad calculation for the gas that we will be producing there, I think we will produce around 17 mmscfd there?

P Elango: Yes. The gas, we expect the total production to be about 15 million standard cubic feet per day. And the sales volume will be about 12 million standard cubic feet per day. Or 12 million standard cubic feet in terms of mmbtu is about 12,000 mmbtu. So 12,000 mmbtu we expect the price discovered for that would be roughly about $4 per mmbtu. And primarily, the operating cost really gets covered from the oil price limitation, no separate operating cost for gas as such.

Rohith Potti: Okay, that was helpful. And sir broadly, my second question is on the royalty calculation itself. So in the previous, I mean, not in this presentation but I believe in the previous quarterly presentation we had given a calculation for B-80 based on both the lower revenue point and the higher revenue point. So, I mean, I was hoping if the management could explain that a little better, because I am not understanding how to calculate the government share of revenue, let's say, if it is $60 how do we go about calculating this.

P Elango: Under the Revenue Sharing Model, the way it works is, if a daily value of the gross production is less than $10,000, the government's share would be 12%. If the daily gross value of the production from the field is more than $1 million per day, then the share of government goes up to 56%. So, on an average, for the current production rate of 5,000 barrels of oil and 15 million cubic feet of gas per day production., let's say the price Is $50 per barrel, 10% of which will go towards royalty, which is $5. Then roughly about 20% to 22% will go towards the revenue share, which is roughly about $10. Then the operating cost, then the balance is the net back. On that basis only we indicated this $23 per barrel as net back.

Rohith Potti: So that was helpful. So am I right in thinking that this percentage increases a little nonlinearly with the higher revenue generation or higher oil prices? So let's say if it is $60, so the royalty will remain constant at 10% but the revenue share will be higher than 20% to 23% that you indicated?

P Elango: The revenue share will increase linearly, depending on the value of the oil price realized.

Rohith Potti: So let's say, if it goes into from $50 to $60, we are looking at let's say about 25% of revenue that is shared, is that right?

Ramasamy Jeevanandam: See, I would like to explain to you, this is a two-element component. the royalty is stagnant at 10%, Revenue share to the government is more on a progressive model, that is, when your revenue is up to $ 10,000 it will be a 12% you share with the government. If your revenue is $ 1 million per day, then you should be progressing it according to it. So, what will happen that your proportion rate is, your increase in the revenue would be actual revenue divided by $990,000. So, it is a progressive model, it is not a linear expansion model, right, it will be progressing at a slower rate actually. So, if you set up a revenue model in such a way you keep the price that your revenue share to the government to pick up a number, say around 20% or 21%. Then accordingly, you adjust your volume of production. So, your price is low, you increase your volume through a desired level. If your price is high, you reduce your volume, in a manner that you keep the government take in an order of around 20%, and royalty is 10%. So, 30% of the revenue goes to the government. If you look at any revenue, any price profile, you can say roughly 30% goes to the government, the balance comes to the company assets to meet its operating costs as well as the net back for its capital expenditure. I hope this is clear?

Rohith Potti: This was very, very helpful. Basically we try and maintain the total value of production from that field at a broadly stable level, so that the payment to the government is roughly 30% of the total revenue on a daily basis.

P Elango: Absolutely, that is the way it is.

Moderator: Thank you. Next question is from the line of Manan Patel from Airawat Capital. Please go ahead.

Manan Patel: Sir, first of all, I wanted to understand our revenue stream from the subsidiary investments that we have made, we have made around Rs. 250 crores to Rs. 260 crores in the subsidiary. So, I wanted to understand what kind of revenue stream will come from that? And is my understanding correct that the $10 OPEX or $12 OPEX that we are considering, part of that revenue will flow to the subsidiary itself? So, if you can throw some light on that.

Ramasamy Jeevanandam: These are the two wholly owned subsidiaries, because basically we get into a model of keeping this field less from the clutches of the contractors, because this being subsea production, and looking into the volatility of the prices, we wanted to run this field for longer years. So, that is the reason to resource this facility through our in-house assets. So, when you look at these, assets are normally put on to an IRR in the order of 30%. So, this is a normative return to those types of assets. So, let's say $100,000 is an OPEX expenditure, 70% will flow back to the group asset and only $30,000 goes to the outsiders. So, these prices are currently which is in the order of some $80,000 plus for these two facilities, it would be more of a market driven, This being related party transactions, we will take relevant benchmark prices in the market, then we will decide the price, then we will fix the price thereon in a way that we are not profiteering from the subsidiaries. At the same time, we are not subsidizing to the field as such.

Manan Patel: That's very helpful. And sir, just a clarification on the previous question on the royalty, so that is on the revenue or the production? Because I understand you mentioned around 15 mmscfd of gas production versus sale of 12 mmscfd. So, I just wanted to clear that. So royalty will be calculated on production or the sales?

Ramasamy Jeevanandam: See, in India, all the royalty is calculated based on the revenue realized, not on the volume of production. Whatever the sales which we make, based on the sales royalty is payable on it.

Manan Patel: Okay. And sir, last clarification. So you mentioned initially from B-80 production, we will sample the oil and then. So like, will it take a long time for that oil to get converted into revenue?

P Elango: No, the storage capacity of the FSO is about 900,000 barrels, which could store potentially six months of the production. What we thought was, rather than taking the sample based on the well testing, we will do the initial production, let's say, for a couple of weeks, and then take the sample. And this whole exercise can be done within two or three weeks' time. Then we will have a right parcel size to load a tanker, let's say, typical a tanker load is about 240,000 barrels, and we will offer it for sale to the interested refining companies. So, it doesn't have to wait till the end. But the idea was, you will realize better value or understand the properties much better if the sample is taken from what is known as settled crude.

Moderator: Thank you. Next question is from the line of Hardik Jain Jen from ISJ Securities. Please go ahead.

Hardik Jain: So, in B-80, you said we will produce around 15 mmscfd of gas per day, and how much will be the oil per day that we will produce from it?

P Elango: It will be 5,000 barrels of oil per day.

Hardik Jain: Okay. And this will be around $3 to $4 discount to the Brent?

P Elango: We haven't really done, but what we know so far based on the initial assessment is, our oil is closer to, in terms of quality, closer to Brent. Then once we take the crude assay, we will engage in negotiation with the buyers to arrive at the price.

Hardik Jain: Okay. Now we understand that after the monsoon very little work is left that we have to do, so should we expect that by the end of October we should start the production from B-80 hopefully?

P Elango: Not really, we will just stick to the Q3 guidance, because one is to exactly figure out the end of the monsoon period, with the kind of changing weather the exact date needs to be first understood. Then, we actually mobilize the marine spread. We don't want a situation where we incur huge cost, where we mobilize the spread and the environment is not right for the job. So, we will rather like the weather to settle properly first and then mobilize. We will keep you updated as we make progress.

Hardik Jain: So, whenever we start the production, October, November, whenever, how much time will it take us to reach to the 5,000 barrels of oil per day production and 15 mmscfd gas per day production? Will it take long time to ramp up the production or it happens immediately?

P Elango: Once production starts, the gas sale goes immediately to the revenue realization, gas is not getting stored either in the pipeline or anything, it gets into the terminal for sale. In case of Oil, we look for a minimum parcel size, so the first parcel size is taking about say two months. So, after the two months we will start the first offtake, then it will be a continuous offtake every 30 days, 40 days, depending upon the availability of the shuttle tank from there. Initial first revenue realization from the oil will take about two months, the first offtake will be made after the two months, then we will take about 30 days to realize the revenue thereon.

Hardik Jain: Okay. So sir, net at around $60 per barrel price, how much net back can we expect for this?

P Elango: See, you can look at assets about government revenue and revenue sharing together at 30%, the balance will be OPEX and capacity investment. Out of $42, you look at OPEX of about $10 and you still make netback of $30, $32.

Hardik Jain: Thank you. Next question is from the line of Rajesh Agarwal from AUM Capital. Please go ahead.

Rajesh Agarwal: Just wanted to understand your perspective on potential of DSF Round III?

P Elango: So, in the DSF, the government has taken one important feedback from industry, which is to increase the acreage size. For example, B-80 the acreage size is about 56 sq. kilometer, industry represented to the government that for offshore in particular, the acreage size should be larger so the risks taken by the companies are properly rewarded. So, the government has come up with an average acreage size of about 400 to 500 square kilometer, particularly in western offshore. Right now, the bidding dates have been extended to the end of October. In the onshore in our past, we have seen very high competition in onshore field, but the competition is limited in offshore. We are looking at wherever there is a synergy, we will be evaluating the blocks

Moderator: Thank you. Next question is from the line of Varatharajan from Antique Limited. Please go ahead.

Varatharajan: Sir, I had two questions, one on B-80. I think somebody had asked, when we will reach 5,000 level And the same with June increase in the reserve numbers, has there been any change in your plan in terms of drilling additional wells and maintaining this production for a longer period of time? My second question is on Dirok, given the auctions which you have done, should we go ahead with a 30% of the volume growing at new pricing or should take up volumes going forward in terms of our assessment of these….

P Elango: Okay. On B-80, we will not require much ramp-up time essentially once the wells are brought on production one by one, within a month or so we should be hitting the production level. Based on the reserves increase, we are not planning any immediate investment. Our plan is to initially put the field on production maybe after a period of two years, look at additional wells to be drilled. We will be looking at both water injection and development wells, which will primarily increase the plateau period of the field, as well as results in some marginal increase in production. We will come back once we gain production history from the initial production.

On Dirok, what we have done is, our arrangement with OIL India continues. But we have got a full volume demand on a fallback basis from the customers who would be paying a premium of minimum $1 per mmbtu. One-third of it is on a firm commitment, you can reasonably assume that one-third of the current volume will be off-taken at a premium level. The balance two-third would be based on demand because they have been contracted on fallback basis, based on the demand from the market, those volumes will be sent. So, every day what we will do is, based on the demand we receive from the market and based on the pricing we will supply. And then the balance volume will go to OIL India. And the other point to note is, the industry is expecting an increase in the government notified prices also effective 1st October 2021. So, all in all, it will be very reasonable to assume at least $1 more price realization from Q3 onwards.

Moderator: Thank you. Next question is from the line of Tejas Shah from Unique Stock Broking. Please go ahead. As the current participant has kept the call on hold, we will move on to our next question, which is from the line Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir, my question is about B-80, considering the P50 reserve, what could be the life of this B-80 well?

P Elango: See, life of this field is linked to two factors, one is the price, because we wanted to have the revenue stabilization as such. The field Revenue Sharing Contract is for 20 years, that is our current prognosis of the field development. Yes, that is considering the reserves that can be the life based on the current rate of production.

Moderator: Thank you. Next question is from the line of Akshay Satija from Alpha Invesco. Please go ahead.

Akshay Satija: Sir, is it possible to please share the 2P reserves for all the different wells that we have?

P Elango: Well, I think in our announcement that was made on June 30, normally we do the reserves data as part of the annual report, but considering there is substantial increase in the B-80 number, we made a special announcement. So, whatever data is provided there, that is what will be the reserves.

Akshay Satija: Sir, also one more question on the Kherem, what would be our strategy there?

P Elango: In Kherem, when we bid for Kherem, the idea was to look at building our asset base in the Northeast region. And at that time, frankly, we assumed operating in Arunachal Pradesh would be pretty similar to operating in Assam. But what we realized is that Assam Government is far more proactive, and we are able to engage with them much more actively and the process are relatively simpler in Assam. Arunachal Pradesh Government, the large part of the area is controlled by the Forest Department. So even the initial Petroleum Mining Lease has not been issued by the Arunachal Pradesh Government, we had to take the help of Government of India. Recently, there has been a lot of discussion at Secretary Level, where further progress has happened. So, it is not a large field, our estimate for the field to produce was about 400 barrels of oil per day. The wells need to be drilled. So, once we get the PML, we will come with a field development plan and proceed with that.

Akshay Satija: Okay. Sir one more question I had, we believed the government is planning to spend some Rs. 9,000 crores in Assam for a pipeline. Can you throw some light on what sort of works will happen on that project and when can we expect the project to come on stream?

P Elango: The Government has provided the additional fund and set up a company which is executing this Northeast Gas Grid. In Northeast the main marketing hub is Duliajan, and Duliajan and Numaligarh refinery is right now connected through existing pipeline. The first phase of the focus is to connect Numaligarh to Guwahati city, that part of the pipeline work is progressing on a rapid pace and the information that we have from them sometime by end 2023 that pipeline will be connected. The other important development is, initially this pipeline were conceived to bring gas from outside Northeast into the Northeast pocket, primarily to meet the demands of NRL expansion, which was being planned on imported LNG, regassified LNG. Coming to this now, with the increase in gas production, not only from HOEC but OIL India, the gain is keeping a provision to actually if required additional gas can also be exported out of Northeast to the Indian market. So, the whole pipeline network becomes a single market with the optionality to flow the gas into Northeast or outside Northeast, depending on the demand in the particular region. What we have seen is, in the upper Assam region where the Dirok facility is located, Duliajan has enough demand for more offtake. So overall summary is that company is proceeding on a rapid pace and the Government of Assam is supporting them very actively.

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

Nirbhay Mahawar: I wanted to understand the PY-1 potential you talked about, when we drill additional well, what kind of volume we can expect in PY-1?

P Elango: Initially we had developed the field development plan, which basically envisaged drilling of three wells, which will take the production to about 17 million standard cubic feet per day. But subsequently, further studies are going on, based on which we will revise. Which will also be vetted by an independent reserve auditor before we take the final investment decision. I think what draws continued interest in PY-1 is we all recognize it's a technically challenging field. But we also recognize it's a commercially very attractive field, because the fact that existing infrastructure is there, and we have a huge cost basket that is yet to be recovered as such. So, ideally, the investment that will be required is to basically drill the well. And as long as that investment made on drilling the well ensures adequate return, we will go for that. So, we will come with a more formal plan before we take the final investment decision on this.

Nirbhay Mahama: Sir, initial plan you mentioned what 17 mmscfd**.**

P Elango: 17 million cubic feet per day.

Nirbhay Mahama: And the pricing is fixed at $3.65.

P Elango: Correct.

Nirbhay Mahama: Another small follow-up on B-80, sir weather window starts early in the Western Coast in comparison to Eastern Coast?

P Elango: Normally it is October, November. The safer period would be November onwards. But with the kind of changes that is happening, we will like the weather to open up first before we really make any financial commitments with the contractor in mobilizing these spreads or so. But we monitor the weather forecast on a daily basis and we will move quickly as soon as we see the window opening.

Moderator: Thank you. Next question is from the line of Rohit Balakrishnan from iThought PMS. Please go ahead.

Rohit Balakrishnan: Sir, just one question, in B-80, our oil production would be you said 5,000 barrels of oil equivalent per day, that is net or gross, I just wanted to clarify that?

P Elango: The gross field production is 5,000 barrels of oil and 15 million cubic feet of gas per day. And our share in the block is 60%.

Rohit Balakrishnan: Sir, please correct me if I am wrong, have you scaled this down, because we were earlier thinking of doing 8,000 as gross and 5,000 as net?

P Elango: We have not changed any number. 8,000 is barrels of oil equivalent, that is both oil and gas together. So the breakup is 5,000 barrels of oil, about 15 million cubic feet of gas. Together, they make up for 8,000 barrels of oil equivalent, all gross numbers.

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

Ashwin Reddy: Sir, again on B-80, a clarification. So, just wanted to understand, what is the capacity that we have for production of oil? While I understand only 5,000 barrels of oil is what you are guiding for, what is the capacity that we have put up in place right now?

P Elango: In terms of the surface facilities, the pipeline and the processing capacity that we have is 10,000 barrels of oil, and we have a pretty good storage capacity as I told you.

Ashwin Reddy: So 10,000 barrels of oil, then correspondingly the gas also will go up correspondingly or just oil increases, is that the way to see it?

P Elango: Not really, the two wells that we have drilled, indicate this is more of an oil field and we will be chasing more oil in this field than gas.

Ashwin Reddy: And sir, in the light of the recent commentary on B-80, where the reserves have been revised upwards, so the impact of this would only be in the expense of life versus the revenues going up in the next one, two years, is that how we should understand?

P Elango: Yes, I think initially. We are absolutely certain that extension of the field life for a much longer period, as you have explained, beyond even the current contract period. And we have come up with a strategy that will ensure the economics and production remains for a long period. In terms of additional production, through additional well, it will be based on after seeing the production history for some time.

Ashwin Reddy: Because the reason I am asking is, you intended to use the cash flows from this well in scaling up PY-1 and other assets. So I was just trying to understand, how do you balance it out and what are your thoughts there? So in the next one, two years should we see scaling up or what I am trying to understand?

P Elango: Definitely in about two years' time we would be drilling additional wells.

Ashwin Reddy: PY-1 is 5,000 barrels of oil and gas is how we should see it for next one two years?

P Elango: Correct.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, just wanting to understand, like in terms of overall barrel of oil volume target for this year FY 2022 and FY 2023, is there any kind of indication that you have given or would like to share?

P Elango: Not really, because big change is going to be from the time we bring in B-80 into production, that as we guided will happen in the Q3. Which specifically in H1 is very difficult to predict, unless we know about the weather.

Deepak Poddar: For the next year, that will give more clarity by next year?

P Elango: Yes, true, next year. So what I have been saying earlier also is that we will focus on the net production from now onwards. So if you look at the last year, our net production was roughly about 2,300 barrels of oil equivalent, this is net to HOEC. When we bring the B-80 in full production mode, which will happen in Q3, our net entitlement production will go up to 7,000 barrels of oil equivalent, that's almost 2x more than the current level and then onwards. So that will guide the next year production.

Deepak Poddar: So 7,000 is what we are targeting next year, right?

P Elango: 7,000 barrels of oil equivalent, net to company in terms of oil equivalent.

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

Rikesh Parikh: Sir, can you just share this point about Dirok commercial production, how much volume we sold as per the new per sharing contract?

P Elango: Rikesh, I think what you are asking is, right now the field is producing roughly about 32 million standard cubic feet per day. Right now, whatever volume that we are producing is being sold to OIL India at the government notified prices. We went for an e-auction, where we had given the option to buyers to quote both for firm basis as well as on fall back basis. For firm basis, we got bid for one-third of the volume at the $1 premium over the government notified prices. So, from Q3 onwards, 30% of our production will be sold at $1 per premium on a firm basis. The balance two-thirds will also be sold on a premium directly to the customers, they are on fall back basis, which means effectively whenever there is additional demand by the customer, they will draw from this gas. If there is no additional demand from a specific customer, the gas will continue to be sold to OIL India. So, as we move atleast a couple of quarters, things will stabilize in terms of direct offtake by the private customer. Now, for the buyers also, like the seller, they will also first exhaust the cheap gas before they opt to take gas from premium gas like Dirok.

Rikesh Parikh: Sir, the high realization will be coming from Q3?

P Elango: Yes.

Moderator: Thank you. Next question is from Mayur Patel from IIFL AMC. Please go ahead.

Mayur Patel: Sorry, I joined a bit late, can you just reiterate, if I look at the presentation, net production of BOEPD is 2,402, this would look like 7,000 once this B-80 starts producing in Q3, is it right?

P Elango: Correct.

Mayur Patel: And what would be the breakup we should assume in 7,000 between oil and gas?

P Elango: Break up would be roughly 50% oil and 50% gas.

Mayur Patel: And this Dirok development Phase 2, when this is likely to get completed and when it will start giving additional production?

P Elango: On Dirok, the Phase 2 really evolves the important critical item of laying of 38 kilometer pipeline, and part of which goes through the forest region. For the project we have got the field development plan is approved by the government, recently we have got the environmental clearance for the project. Right now, the forest clearance for the pipeline, which is a critical path item, is under next stage of approval within the state government of Assam. We expect maybe by the end of this year, we should have all the clearances. And then within a two-year period, we should be able to complete the project.

Moderator: Thank you. Next question is from the line of Akshay Ajmera from Nirzar Securities LLP. Please go ahead.

Akshay Ajmera: Sir, when we talk about the operating cost of $10, are we also including the depreciation cost of MOPU and well amortization expecting that 10 to 12 years of the life of MOPU and the wells that we have? That is the first question.

Ramasamy Jeevanandam: It is actually charter charges, suppose any third-party vessel and you will be paying the charter charges from the field as such. But the person who's earning the revenue is a subsidiary, they will only depreciate it.

Akshay Ajmera: So, how much is the depreciation cost on our assets, like on the wells and….

Ramasamy Jeevanandam: As such we take it around 20 years, and in our case we will be taking a little lesser than 15 years actually. We will amortize based on the standard, straight-line basis.

Akshay Ajmera: That cost will come after the operating cost, that will be deducted from the…

Ramasamy Jeevanandam: Operating cost, suppose I take a higher charge, for vehicle I pay only the higher charges. The company provides only will be charging depreciation in their books.

Akshay Ajmera: And on the wells, we will take the depreciation, that will form part of our operating cost for $10?

Ramasamy Jeevanandam: Not depreciation, that is called as depletion. And being a producing asset, it will be depletion. It will get depleted depending on your production and denominator would be the reserves of the asset and your numerator would be the production thereon. So, now we know the denominator, that is the volume assets, whatever the reserves develop as such that will become the base of it. And whatever we produce from there, actually if we produce 1 million and your base is 10 million, 10% will be your depletion rate.

Akshay Ajmera: So, that will be included in the operating cost that we have calculated?

Ramasamy Jeevanandam: That's normally called as operating cost, because your capital expenditures would be recovered through that mode, like it is similar to depreciation, your capital assets is recovered through your depletion mode. So you look at it as a capital recovery factor as such. So, under normal conventional accounting practice it is depletion, as a result whatever you think is a rate of return, that will be there as the return part of it.

Akshay Ajmera: And sir, are we paying any royalty on gas also or is there any royalty on crude oil only…

Ramasamy Jeevanandam: All petroleum products which are hydrocarbons which we produced from this country is subject to royalty.

Akshay Ajmera: And when we apply the production sharing formula of say 10% royalty and maybe 10% to 12% revenue share. So, that is for the field, that is not subject to the wealth that we have created, right? That is subject to the particular field?

Ramasamy Jeevanandam: Field as such, how much production you realize.

Akshay Ajmera: And if there is any extension in the field, are there any changes in the renewal terms?

P Elango: In this revenue sharing contracts, I don't think they have fixed any formula. We do not know that 20 years down the line what the government will come up with.

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

Participant: Sir, one thing I want to ask regarding this B-80 field, when the capital expenditure that will be taking place, once we recover that expenditure amount, then the production sharing contract will start with the government, the royalty we have to pay to the government?

P Elango: No, this is a revenue sharing contract model. Therefore, the government is not concerned with the investment. So, from the day we start the production, the royalty will have to be paid and the revenue share will have to also be paid.

Participant: Sir, the quality of oil is sour or sweet oil at B-80?

P Elango: Sweet oil.

Participant: And secondly, sir, regarding PY-1 field, initially the previous management had built two well over there, but because of the problem they were not able to handle it properly, because we had only one customer PPN power plant, now we directly give it to Gail India, if I am not mistaken. So now the drilling is going to take place in the two initial well from where the production is going to take place? Because the plan was to drill nine wells over there, so what is your plan ahead of PY-1 field?

P Elango: It will be new wells, and you are right. Currently we have a pipeline from GAIL which is connected to the field, any new production that comes also will go through the GAIL pipeline network. And these are the new wells, as I told you earlier, we will come up with a specific plan what would be the investment, what would be the reserves, etc, before we take the final investment decision.

Participant: And secondly sir, now also we are supplying gas to the power plant or only Gail is the main agency in it?

P Elango: Only GAIL.

Participant: And secondly, regarding the Palej field, initially there was a production of about 500 barrels of oil from Palej field, but then depletion was taking place at a very fast rate. So are you planning to revive the field or what is your plan for the Palej field?

P Elango: Palej, we plan to revive the field for which we wanted certain additional acreage from government, for which government has given the approval that they will allot the additional acreage initially surrendered by the company, for which they wanted certain work program commitment as well as certain payment both of which we have made. Right now, the production sharing contract for that additional area called R2 is under final approval by the government, it has taken much longer than what we initially envisaged. So, once we have that, we will take up drilling of new wells in the area.

Moderator: Thank you. Next question is from the line of Sushil Agarwal, a private investor. Please go ahead.

Sushil Agarwal: I have two questions, my first question is, first we are telling that it will be around two months, and this will start production around November. It means we will be able to be deliver to the refinery by January or so, so it will not be reflected in the Q3 result?

Ramasamy Jeevanandam: See, it depends on whatever quantity is there, increase or decrease in the sale quantity. So, it will be part of, when you mark-to-market, it will get reflected directly into the results.

Sushil Agarwal: My point was, whether revenue would be accounted based on production or when we deliver to the refinery?

Ramasamy Jeevanandam: That's what, when you mark to the market, it will be a part of the inventory. So it will be reflected in the revenue, but the cash realization will not be there. It will be more of a working capital adjustment will take place.

Sushil Agarwal: Another question is about PY-3, because when we talk PY-3, the production was around 3,000 barrel and now oil prices are very good. Can we push for that development plan for PY-3?

Ramasamy Jeevanandam: Normally the operators are executing the project as such, and we will provide all the support to the operator when it is required as such.

Sushil Agarwal: Because now the revenue from PY-3 can be quite high.

Ramasamy Jeevanandam: Zero value we kept in the books, we have fully impaired that asset. If new development takes place, we can look at assets and what is the new value can be generated from the block. So that would be more from the operator side, they have to come up with a plan on it.

Moderator: Thank you. Our next question is from the line of Saidas, an individual investor. Please go ahead.

Saidas: Sir, I have two questions. The first question is the one-third share of revenues to the government, is this particular for B-80 or can it be generalized for all of your producing assets? That is one question. And the second question is that, why did ONGC stopped developing B-80? Thank you.

Ramasamy Jeevanandam: Normally what has happened, this is a biddable item actually in the revenue sharing contract from the discovered small fields. Previously it is based on the investment multiples in the production sharing contract. So, it is a revenue shared by the government without looking into the cost recovery model. So what happens is they put a HRR and LRR, it depends on the revenue, you can bid for it. The lowest revenue how much you would like to share and higher revenue how much you would like to share. It is moving linear as such, that is why it is roughly around 20% in our case, if somebody puts 99% share with the government, they may end up with 60% to the government.

Saidas: Okay. So it is variable and depends upon well, I mean the specific field?

P Elango: Depends on contract you entered with the government.

Saidas: Okay. And the second question is, may I know why did ONGC stop developing this B-80 field?

P Elango: We are bottom scavengers, they are big guys, that's the difference.

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

Sharad Sharma: A hypothetical question, what would be the potential impact of GST coming in on petrol production? Any HOEC impact?

Ramasamy Jeevanandam: See, when GST comes, as an impact our cost will get reduced by 18%. Whatever we are getting as a cost, 18% is cost which we are incurring on services, that will get passed on to it. There is pass through mechanism at the moment it comes on.

Sharad Sharma: Going forward cost, none of the CAPEX cost what we have done till now on B-80, no benefit to that, right?

Ramasamy Jeevanandam: See whatever it is, they cannot put it in retrospect, they can give only prospective. So, only in future CAPEX we will be able save on cost, not till now.

Moderator: Thank you. Next question is a follow up from the line of Rohith Potti from Marshmallow capital. Please go ahead.

Rohith Potti: My question is again on your answer on B-80 that you shared before. So, you mentioned that we will maintain our value of production in such a way that the government share is roughly 30%. So, I am curious, so what happens let's say, our net realized oil price is $75, $80, does that mean that we will produce less than 5,000 barrels of oil? And follow up is, what happens when we decide to increase production from B-80 to let's say 7,000, 8,000 if and when the expansion comes on stream, so how does this whole thing work out is something I am curious to know.

Ramasamy Jeevanandam: I think what happens, when you revenue stabilization continues, if the price goes up, you will little more share with the government instead of 20% you will go with 25%. Then you increase your overall revenue to the company. And at the same time, if price hover around $60, $75, $80 in this range, then you will be maintaining, you will be adjusting and reducing the production there on maintaining and I have to maintain my field. I would like to stabilize revenue, plateau of revenue of the field for longer

Rohith Potti: Okay, understood. Sir, that was helpful. And just to reconfirm what you mentioned to a previous participant, when you include the subsidiary also into the mix, the asset that we are providing to B-80, our net return to the company would be roughly to the tune of $30 at a $50 oil price and current rental rates that are prevalent in the market, am I right?

Ramasamy Jeevanandam: So, suppose I am charging you \$100,000, assuming for the time being, out of that my operating costs comes to say around \$30,000. \$70,000 would go to my group profit as such, group cash flows thereon. So in a way, my group will make a good return, my field also ensured the longevity, and my field return also good. In a way, the company is not depending on many contractors as such to run the field. It will be standard even to the lower price, it will be much beneficial on the higher price. That's the basis of this transaction.

Rohith Potti: So the group you refer to is HOEC, that is our company?

P Elango: Yes, we have two subsidiaries, that would be HOEC as a group.

Rohith Potti: Okay. So 70% to HOEC group and 30% to whoever is outside contract. Understood sir. Thank you. That's it from me.

Moderator: Thank you. Next question is a follow up from Tejas Shah from Unique Stock Broking. Please go ahead.

Tejas Shah: What will be the quantity required to keep it under 20% or 30% total revenue going to the government?

Ramasamy Jeevanandam: Right now at the current price of \$60 we will be producing around 5,000 barrels of Oil and gas around 15 million cubic feet of gas. In that we will share the revenue with the government 20%, 21%, and the royalty is 10%, that's where the 30% comes. Now if the price moves, there we have to readjust ourselves. It is not the sacrosanct formula as such only 20% we will pay for it. If we have good prices, it will move it up to little more than to the government share and we will get more money to the company.

Moderator: Thank you. Next question is a follow up from Varatharajan from Antique Limited. Please go ahead.

Varatharajan: Sir, any update on Kharsang? And secondly on PY-1, now that the production has gone down and we have to do additional drilling or investment, how does it work with the contract existing with Gail? For the gas we will entering into a new contract or existing contract continues?

P Elango: In PY-1, once we take up the new wells in the existing field only, then the gas will go under the existing contract with GAIL. That's what we are envisaging, the wells that we are identifying, we follow that model. What is your second question?

Varatharajan: Sir, any update on Kharsang?

P Elango: Kharsang, there is no new development. Right now that our discussions going on the cost recovery limits with the government, before the government has given ad-hoc extension before extending the field, those questions are being handled by the field operator. The field is producing around 600 barrels of oil per day, with the price being good it is generating operating surplus.

Moderator: Thank you. Next question is a the follow up from Shamak Peter, an individual investor. Please go ahead.

Shamak Peter: Sir, it is regarding that one small field in Gujarat at Balol, is this operational now also or you have stopped the production of gas over there?

P Elango: We are operating in North Balol

Shamak Peter: Production is same or…

P Elango: Small volume. So, Cambay as a whole, after we get the R2 PSC executed, we will take up and we have already applied for environmental clearance process, we have initiated that.

Moderator: Thank you. Next question is a follow up from Sushil Agarwal, private investor. Please go ahead.

Sushil Agarwal: My first question is that, now with money from B-80 field, and we are bidding for the next round, whether we would be more aggressive in bidding for the future fields?

P Elango: No, we would evaluate and whatever makes commercial sense only we will do.

Sushil Agarwal: Another thing I wanted to check about Dirok actually. The Greater Dirok and Phase 2, they are separate ones, right? Greater Dirok development plans are separately being chalked up and it will be informed, I mean, how the production will start in Greater Dirok?

P Elango: Greater Dirok is basically an exploration block. Right now we are conducting some studies. We will come up with a plan and then we will update. Our current focus is on the main Dirok itself, which can give more gas.

Sushil Agarwal: But Greater Dirok, I mean, how much time, six months, one year?

P Elango: There is a timeline for drilling the well, we will combine the drilling along with the Dirok drilling campaign. This is an exploration block.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand over the conference to Mr. Elango from HOEC for closing comments. Over to you, sir.

P Elango: Thank you all for joining our call today. HOEC's next transformation will be to emerge from a strong player in Northeast to a significant offshore and upstream oil & gas player, post first oil from B-80 with strong financials. We remain committed to add value to all the stakeholders by continuing our growth journey at a faster pace. This is possible with just the existing discovered resources in our current portfolio. Beyond this, we plan to add more suitable resources as well by evaluating fields in the recently launched DSF with Round-3, which has synergies with our current portfolio. Thank you all for the time. Thank you.

Moderator: Thank you very much, members of management. Ladies and gentlemen, on behalf of Hindustan Oil Exploration Company Limited, that concludes today's conference. Thank you all for joining us. And you may now disconnect your lines.