"Hindustan Oil Exploration Company Limited Q3 FY2019 Earnings Conference Call"

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MANAGEMENT: **MR. P. ELANGO – MANAGING DIRECTOR**
MR. R. JEEVANANDAM – CHIEF FINANCIAL OFFICER & WHOLE-TIME DIRECTOR

Moderator: Good day and welcome to the Hindustan Oil Exploration Company Limited Q3 FY2019 Earnings Conference Call. 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 now hand the conference over to Mr. P. Elango, Managing Director, Hindustan Oil Exploration Company Limited. Thank you and over to you, Sir!

P. Elango: Thank you. Good morning everyone and a very Happy New Year to all of you and a very warm welcome to our call on Q3 earnings FY2019. I have with me our CFO and Whole-Time Director Mr. R. Jeevanandam and Stellar IR Advisors, our Investor Relations Advisors. I hope you all have received the updated investor presentation. We have also uploaded that on our website for your reference.

In Q3 FY2019 first we consolidated the production ramp up in our key assets. Second, we made substantial progress to maintain delivery of our development projects on schedule and third we continued to see the opportunities to grow our unique portfolio of discovered resources.

On the production front, gross average daily production achieved during Q3 is 8,942 barrels of oil equivalent per day, which is in line with Q2 production performance. In both Dirok and PY-1 our well and reservoir performance continue as per expectations giving us confidence to continue to deliver the committed production.

In Dirok, we have maintained the average daily production at 33 million standard cubic feet per day, in Q3, in line with Q2 performance. In PY-1, we are pleased that production post the two well re-entry campaign has now stabilized to allow us to comfortably deliver 10 million standard cubic feet of gas per day. We maintain the average daily production of 9.4 MMSCFD in Q3 against 9.8 MMSCFD in Q2. This production performance is close to our full capacity. Since 90% of our current production is gas, continuous marketing engagement to ensure consistent off-take is critical. Jeeva will later outline the impact of policy changes on royalty and cess.

Turning to development, a key area of focus for us has been to ensure efficient execution of our pipeline of rolling three-year development projects and maintain the growth trajectory. During Q3, we have achieved significant progress, on this front, and I would like to highlight the following:

On our top priority B-80 development project in offshore Mumbai, we remain on track to achieve first oil in Q1 of FY21. We have identified a suitable rig for conversion to mobile offshore process unit and are finalizing contracts for purchase and its conversion to a mobile offshore process unit. We have also made significant progress towards planning for a two well development drilling campaign in FY2019-2020. We have completed a study with ONGC that establishes the feasibility of tapping into exiting ONGC offshore pipelines for evacuation of both oil and gas.

Planning for executing the tie-ins and the laying of pipeline as per project schedule is also ongoing. With the progress being made on all key elements of the project, we remain confident of achieving first oil by the target date of Q1 FY2020-2021. I would also like to highlight that in line with our philosophy of lean and cost-effective project execution, we continue to pursue innovative contracting models that minimize upfront capex requirements, leverages contractor's expertise and capacity for efficient execution.

Exploiting the considerable additional potential in our prolific Dirok block remains another key area of priority. We are working closely with DGH to secure approval of the revised plan of development by March 2019. In parallel, we have progressed a planning for drilling four new development wells, expansion of the Hollong Modular Gas Processing Plant, laying of 35 km long Margherita Gas pipeline to Duliajan hub. This will enable us to directly connect with existing as well as new customers, take benefit of marketing freedom by seeking a premium, eliminating transportation tariffs by owning this critical infrastructure.

In onshore Kherem block, we have secured approval of the forest clearance by the Arunachal Pradesh state body and are expecting the PML transfer by Q1 of FY2019-2020. Kharsang block where we have a 30% interest, both directly and indirectly, through the geopetrol acquisition remains another area of focus for us. Kharsang JV have submitted the application for PSC extension including the plans for further infill drilling and testing of additional deep gas potential.

In a big relief, the long pending forest clearance issue has been resolved with the State Government of Arunachal Pradesh and it now awaits final approval by Union Ministry of Environment and Forest. On a related matter, our resolution application under the IBC process for acquiring JEKPL, which holds 25% stake in Kharsang in addition to other assets, is still valid and we remain hopeful that the ongoing litigation process will be resolved soon.

Our growing portfolio of Northeast assets enables us to operate at scale. In one of the most prolific and prospective petroleum regions in the country through integrated planning and deployment, we remain focused on efficient development of the resources in these blocks. The development of Northeast gas pipeline grid will be a key enabler connecting our producing assets to the growing gas market.

In another positive development, the DGH and government have taken a fresh lead to revive the certain production from PY-3 by assigning the lead responsibility to ONGC. ONGC in turn has responded positively and HOEC will actively support and access to revive the production by extending its resources and infrastructure. We expect series of JV meetings to take place over the next few weeks and we will keep you all updated.

Overall, we are keen on opportunistically growing our unique portfolio of discovered resources and we will be actively participating in discovered small field bid round two that closes by this month end. The opening of the Indian ENP space provides HOEC plenty of opportunities for growth. We remain committed to navigate this space with financial and technical prudence to ensure profitable growth of our portfolio. I would now pass on to Jeeva to update you on financial performance and plans. Jeeva.

R. Jeevanandam: Thanks, Elango. We are happy to report that first time in its history of 35 years, the company has made a profit after tax of Rs.100 Crores in the quarter ending December 31, 2018. We are pleased to state that the revenue from operations for this quarter has increased to Rs.66 Crores from Rs.64 Crores in the previous quarter.

We are happy to inform that the total revenue for the period ending December 31, 2018 is Rs.165 Crores with a hope that we will cross Rs.200 Crores of revenue for the FY2018-2019 after a gap of seven years.

Dirok field in Assam posted a revenue of Rs.39.24 Crores in this quarter comparing Rs.36.54 Crores in the previous quarter. Likewise, PY-1 has posted revenue of Rs.25.56 Crores against Rs.26.35 Crores in the previous quarter.

Revenue from Cambay assets are about Rs.1.2 Crores comparing Rs.1.5 Crores in the previous quarters. Small reduction in PY-1 and Cambay is attributed to reduction in oil prices though the wells are performing in the expected lines.

Other income has increased mainly due to the short-term investment. The return on short-term investment, which has increased from Rs.2.1 Crores to Rs.2.74 Crores. This being the revenue let me grow through the cost.

Operating cost of producing asset is Rs.7.81 Crores in the current quarter comparing Rs.7.1 Crores in the previous quarter. This is mainly due to some increase in employee cost due to bonus paid consequent to PY-1 and Assam success. There is an increase in statutory levies of royalty and cess from Rs.2 Crores to Rs.8.56 Crores and this increase is attributed to two pre-NELP blocks, Dirok and Palej. The impact of Dirok is more and Palej is very negligible. The Government of India has notified that all pre-NELP blocks where the royalty and cess paid is by the licensee, ONGC and Oil India for 100% of the field production will now be shared by all the parties to the PSC in proportion to their participating interest.

This means that the royalty and cess now becomes an additional cost to all contracting parties for the pre-NELP blocks. However, it is clearly stated that additional levy on the companies are cost recoverable, which was not considered for cost recovery earlier for OIL and ONGC. In our case, the blocks, which get affected, are Dirok in Assam and Palej at Gujarat though this is an additional cost and creates substantial value platform for these two pre-NELP blocks such as the costs are mitigated as the total exposure by allowing for cost recovery and therefore the profit shared to Government of India is reduced.

Effective cost over the field life is only about 50% to 55% of this additional cost. Having impact on the computation of investment multiple, it reduces the impact of time value of money. To facilitate the extension of PSC, it puts OIL/ONGC and other companies on an equal footing. Now the economics of all the parties are aligned, which spurts the investment in the block. It was an irritant to NOC as the returns were different between the companies and the NOCs.

Now you are aware that JOA mandates unanimous decisions, which would now be easy to secure with OIL and ONGC. Many marginal small discoveries can be monetized. Marginal cost plays an important role now on for these two blocks. Risk and return being equal, aggressive exploration, appraisal and development in the blocks are facilitated. Though this is an additional cost as seen immediately eventually it would increase the value of the blocks. Overall, return of the block will be more than the return it has lost due to its additional levy particularly to the block Dirok and Palej. Effectively this additional levy reduces the IRR of the Dirok project by about 2.5% and the effective cost is roughly about 55% of the total additional levy. Therefore, no major impact is expected over the project lifecycle considering the potential value maximization and its associated return.

Costs such as employee cost and other expenses, unwinding of discounts and decommissioning, depreciation, depletion and amortization remains in the same order of the previous quarter. The stock adjustment overall cost for this quarter is Rs.34 Crores comparing Rs.24 Crores in the previous quarter.

Overall profit after tax was for this quarter is Rs.34.74 Crores comparing to Rs.42.81 Crores in the previous quarter. As we carry substantial deferred tax credit and MAT entitlement there will be no tax liability in the current financial year.

Operating cash flow for the period ending December 2018 has increased to Rs.124 Crores comparing Rs.40 Crores in the previous financial year ending on March 31, 2018. Operating cash flow for the current quarter is Rs.44 Crores and this trend is expected to continue in the forthcoming quarters.

Revenue from Kharsang is not consolidated, which is about Rs.23.82 Crores and the operating cost including the share of profit oil is about Rs.7.65 Crores. This leaves an operating cash of about Rs.16.17 Crores for a nine-month period, which will be utilized for the development of the field in the ensuing financial year.

The company has a gross working capital of Rs.167 Crores with cash and cash equivalent of about Rs.107 Crores as on December 2018. With the existing working capital and the expected revenue from Assam and PY-1, we are ready to execute the B-80 development and other ongoing actives without any borrowing.

The company is debt-free and will be debt free to monetize all the existing assets. We do not hesitate to lever the company to a minimum extent to fund any value proposition through inorganic opportunity as and when it arises. Thanks, Elango.

P. Elango: Thank you. We can now open for questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Couple of quick questions on the effective offtake - do we have a long-term offtake agreement for all our production in PY-1 and Assam and where we able to do 100% in Q3?

P. Elango: We have offtake agreements for all our gas sales both in PY-1 as well as in Dirok. In Dirok, there is no minimum guaranteed offtake because the agreement is with Oil India where we would be able to supply all the gas that we produce. As you all know, the gas produced by us as well as by Oil India is comingled and the entire gas is supplied to BCPL. BCPL extracts the rich component and supplies back the lean gas to Oil India, which is then supplied to all other downstream customers, so generally it is a very tightly linked supply chain in which if and when there is any offtake disruption by any customer that would impact. So, overall, we have been able to achieve and as we guided earlier, we expect to achieve about 85% of the production capacity, which is 35 million cubic feet per day and from a production front, we are very comfortable to maintain that production rate from all the six wells, which are drilled and completed in Dirok. So, we are able to maintain a very good uptime and any disruption is due to temporary shutdowns of any customer in the value chain.

In PY-1, we have a signed contract with GAIL at a fixed price of $3.66 per MMBTU- that does not vary, and GAIL has got pipeline connected to our facility and supplies to multiple customers. The other supplier to GAIL is ONGC. So, in Tamil Nadu, generally, the customer plants are run consistently. Last quarter we had a couple of customer shutdowns. There is no problem on the production front. Overall, we expect to achieve about 85% of the gas production capacity in both the fields and do slightly more and which is what is the global norm as well for the gas supplies.

Riddhesh Gandhi: Got it. Understood. Can you highlight anything regarding potential financial benefits of restarting PY-3 would be?

P. Elango: In PY-3, we had earlier given an integrated revival plan on which our share was about $5 million. That is using our infrastructure, which is already available in PY-1, so we would be pushing for that plan to be adopted by the JV now.

Riddhesh Gandhi: How large would be the production?

P. Elango: In PY-3, the field before shutdown seven years ago was producing about 3,000 barrels of oil per day and gas about 10 to 12 million cubic feet was being flared. The new plan will involve monetizing the gas as well and bringing the production to the PY-1 onshore plant. Under the development plan submitted by the JV, which is under review by DGH, the production can go to about 7,000 barrels of oil by drilling additional wells.

Riddhesh Gandhi: Understood. Got it. Just to understand with regards to Kharsang, it has achieved Rs.16 Crores of operating free cash flow for the nine months is effectively the amount that is attributable to us or this is for 100%?

R. Jeevanandam: This is attributable to us.

Riddhesh Gandhi: This is attributable to us. Got it, so effectively this will then show up in the consolidated numbers for FY2019 effective?

R. Jeevanandam: It will be entered in the topline and the bottom line depends on the depreciation, depletion the other things.

Riddhesh Gandhi: Understood and just a last question. So effectively the way we should be looking at the overall run rate from a quarterly perspective it would be in the range of about Rs.40 Crores and B-80 plus Kharsang plus additional benefits which we get from PY-1 and then effectively speaking when we look at B-80 that would of course be upside, which would accrue from Q1 of FY20-21. Is that the right way of looking at it?

P. Elango: For B-80, I would say to take it from Q2 FY21, Q1 we expect to kind of complete and deliver. From Q2 onwards B-80 should start producing.

Riddhesh Gandhi: Understood. Sir, just a last question with regards to PY-3, if all goes as per plan, we would expect to restart PY-3. How long would it take to restart and produce?

P. Elango: PY-3, it depends on which weather window we are starting. If you are in the right weather window, it should not take more than nine months.

Riddhesh Gandhi: Understood. Thank you so much for that.

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

Sushil Agarwal: My question is firstly for PY-3. We submitted the plan about one and a half year back. Why is it taking a long time, PY-3?

P. Elango: I think we have kind of kept you all updated. Initially, there was a lot of resistance from the current operator for the changes. The current operator is Hardy Oil and the decisions in JV had to be taken unanimously by everybody. But now the government has stepped in recently and assigned the lead role to revive the production to ONGC. So, we expect the action to get accelerated over the next few weeks. This is late, but we are glad that it is happening.

Sushil Agarwal: Another question is for B-80 field. Whether this field development plan is fully finalized? Whether we will be putting only sub-sea wells, or we will be putting wellhead platform?

P. Elango: The plan is fully finalized, and it has been approved by the DGH. We are evaluating both the options of sub-sea or through the MOPU - drilling a dry well through MOPU. Both options are being evaluated, but we are comfortable to go with either.

Sushil Agarwal: But these details are not in FDP?

P. Elango: FDP envisages sub-sea completion of the wells, but we are free to modify it because it a revenue sharing arrangement, so we are evaluating whether it will be more cost effective if we drill the wells through the MOPU. So that technical evaluation is going on. Sub-sea can be done any time as well.

Sushil Agarwal: MOPU has been identified?

P. Elango: The rig has been identified. We have paid advance for the rig and given for conversion to MOPU.

Sushil Agarwal: Whether this Ahmedabad field agreement has been signed?

P. Elango: You mean R2.

Sushil Agarwal: Yes?

P. Elango: No. Not yet signed. It is still with the ministry and DGH. Going through the final changes.

Sushil Agarwal: When do we expect that one to be signed?

P. Elango: Hopefully by the end of this quarter. I said it the last time also, but it is taking a little more time. There is no real issue, but just the government and the DGH back and forth is happening, it looks like by March we should sign that. We have paid all the money that is required to be paid, all the approvals have been received. It is just the contract final signing of the PSC that is pending.

Sushil Agarwal: My last question is for the CB-OS-1 field, which ONGC told to give back and we represented that we can do the development. Is there any development on this side?

P. Elango: No development on that.

Sushil Agarwal: No development on that. Ok. Best of luck for the coming quarters. I am an investor in this company, and I am monitoring for two to three years and I have been in oil and gas field. So, thank you very much.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal: Any progress on gas trade exchange and is any part of gas being sold at market price currently?

P. Elango: There is no further progress reported on the gas trade exchange by the government and we are selling all our gas under contracts only. The contract in PY-1 is with GAIL on a fixed price - $3.66/mmbtu and in Dirok we have a contract with Oil India, which goes by the notified prices of the government every six months. We have the freedom to market future gases from North-East on a direct basis.

Deepak Agarwal: At the market price?

P. Elango: Yes.

Deepak Agarwal: So, what is the current market price there?

P. Elango: The market varies. In Dirok or in Assam in the northeast nobody is selling at a price higher than what we are selling, which is the government notified price. Of course, in Gujarat you will find gas being sold at $6-$7. The market price varies in different states. The government has now given us the freedom, so we have planned to explore the premium market for additional gas that we will be producing from Dirok after checking the credit worthiness of the customer, etc.

Deepak Agarwal: This notified prices, what is the basis for determining that?

P. Elango: The notified prices are determined by global market prices like Henry Hub in US, North Balance Point in UK and couple of other countries including Canada, Russia. It is a cocktail of different market prices and this is determined by the government using the published formula for every six months, so next price revision will happen in 1st April 2019.

Deepak Agarwal: Thanks. That's it from my side.

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

Tejas Shah: What is the impact of the rupee dollar equation this quarter and how much the oil prices are affecting us. It has come down from 85 to 60 and is around 60 to 61. So how does it affect us?

R. Jeevanandam: Roughly, there is about $10 reduction in the oil prices. Our oil volume in the sales component is very less. The last quarter the average price realized for condensate sale was about $71 and this time it is about $60. The effect is about 1.5 Crores on the sales revenue in Assam and a very small impact on Palej and PY-1.

Tejas Shah: What about the dollar impact from 75 to 70?

R. Jeevanandam: It is negligible.

Tejas Shah: So not much effect on the bottom line due to this?

R. Jeevanandam: Right because revenue is increasing and our expenditure is mostly on rupee basis, so the impact is less. It is a natural hedge against the dollar to us.

P. Elango: Because we invoice in dollars and we get paid in rupee based on the date of payment conversion rate, so we are naturally hedged from the exchange rate on the revenue front.

Tejas Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Sameer Patel from Savvy Capital. Please go ahead.

Sameer Patel: Good morning Sir. Thank for this opportunity. Sir my first question is PY-1, the volume production is little bit lower. Is it normal or is a production constraint or it is constrained by the demand, how should we look at it?

P. Elango: In the current Q3, one of the power plants shutdown, so it is related to the off-take for two weeks in December that has got reflected. But we are back to full production now and there is no issue on the production front, it was just a temporary shutdown by one of the major power plants in Tamil Nadu.

Sameer Patel: Okay and there we do not see any demand issue, I mean GAIL is ready to take?

P. Elango: Absolutely, no demand issues.

Sameer Patel: And Sir regarding PY-1 follow-up, when we are expecting the ramp up to happen?

P. Elango: I think in terms of our priority is really to focus and get the B-80 project up and running, as we had committed first oil by Q1 of 2020-2021. That is the first priority. Meantime this PY-3 is showing up a good prospect, if PY-3 the government moves fast we will support ONGC to revive that production as soon as possible. That is oil and that is offshore that will use the PY-1 infrastructure. Of course, we have got the follow-on work to be done both in to increase production from Dirok as well as from Kharsang. So, given all that PY-1 we will look at it little later and we have already submitted a field development plan as well as the application for PSC extension for PY-1, so we would rather wait for the extension to come before we undertake any further drilling in PY-1.

Sameer Patel: Okay. And Dirok you said the approval is expected by March. So, when do we see this ramp up there?

P. Elango: In Dirok, we are expecting the approval in March, the major part of the project is to lay a 35 km pipeline from our plant - Hollong gas processing plant to Duliajan hub. Duliajan is the central hub for all customers. So, taking the pipeline directly there ensures that we are able to sell directly to some of the premium customers and hopefully at a premium price as well as de-risk our dependence on a single old pipeline that we are currently supplying the gas through. So, in phase 2, the key component of the phase 2 is the 35 km pipeline. It goes through forest, there is forest clearance and some land acquisition, which we have already initiated. The other part is to bring in a rig and drill about four wells as part of the field development plan. The expansion of the gas processing facility is also it is not a difficult thing to do. We are doing initial analysis on that. So, timelines we will commit after we get the approvals by March. By the next quarter we will be able to indicate with more clarity on how we expect the ramp up to happen in Dirok. As I said in the past also the most important thing in Assam is to ensure the market is prepared first before you bring the volumes to the market, we are now comfortable with the way the market is able to absorb our current production and therefore, we are comfortable to bring in additional volumes and the idea is to do it along with the pipeline.

Sameer Patel: Okay Sir. Do our type of companies increase or decrease production of oil based on the price?

P. Elango: No, we do not that. Every year we are required to give a production profile to the regulator, and we decide the production profile based on what is the optimum rate under which these reservoirs can be produced, and we stick to that irrespective of the prices.

Sameer Patel: **O**n this tax rate, once we exhaust the deferred tax credit, the tax rate will be normal tax rates or how will it work?

R. Jeevanandam: Once the deferred tax credit is fully exhausted then we will be in the normal mode.

Sameer Patel: Okay, the normal tax rates?

R. Jeevanandam: Because the 80IA has been withdrawn the last two years back.

Sameer Patel: Okay. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Anshul Mittal from Care Portfolio Management Services. Please go ahead.

Anshul Mittal: Good morning, Sir. With reference to the OALP 1 is there some plan about OALP 2 also and we plan to participate in DSF round 2 as well, so can you share our company's thought process behind that and I think OALP 2 they are a large blocks and DSF I think is a smaller block, so can you share your thought process on, your plans going ahead with OALP 1 and DSF 2?

P. Elango: I think the important distinction is the OALP blocks are pure exploration blocks where you can access the data, file your expression of interest in an area of your choice as long as they are available and then every six months the government will put those blocks in which expressions of interest have been received from the industry into a bid round. Whereas in DSF they are discovered small fields where ONGC or Oil India have drilled wells, established the hydrocarbon potential either oil or gas, tested them, for some reason did not find it economical to produce it at those point in time. So, the risks of exploration is not there in the DSF blocks. Our strategy has been to build a portfolio of discovered resources where our focus is on rapid development on a low-cost fast track model. So that is our strategy and if you really look back in the last three years what we have done is just that. We have developed Dirok on a fast track basis, we have revived the production in PY-1 and B-80 should give us about 5,000 barrels of oil. 50% of it is about 2500 barrels of oil which is to HOEC. We are targeting to deliver that as well. Our strategy is whenever there is an opportunity on discovered resources which comes near our existing areas, our priority is to focus on that because we are one of the companies which can do both onshore and offshore, we have got that experience. And OALP we will continue to look at where we see there is an extension opportunity. We saw that in Dirok, so we participated in OALP round 1 and extended our area. The existing Dirok area was 110 square kilometers. This new area, which we have secured now is another 75 square kilometers, which is an extension of this Dirok area, so we will continue to look at that, but our priority is on DSF as and when the opportunity arises.

Anshul Mittal: So OALP you said that data is already available, but there is still a risk because it is not fully discovered in that sense, so then how company ensures that OALP so of course we do further seismic studies to reconfirm and then to explore, how does it really work, if you can just give a phase wise, similarly if you can give a status of OALP 1, where do we stand on that?

P. Elango: In OALP 1 we chose an area near Dirok on which we already had a survey taken in our earlier phase, this was a surrendered part of the area. It was a surrendered area, so we took the opportunity to kind of rebuild this and we have won that. Similarly, every company will look for extension of the existing block or larger companies can choose to do frontier exploration of a brand new area. What I am trying to say is at this stage HOEC's priority would be developing discovered resources that are currently in our portfolio as well as add to that portfolio of discovered resources, while as an oil company we will also look at exploration, but we look at it whenever there is a corresponding synergy. In Dirok, the core existing facilities will be used to bring in any future production from new areas as well. So, there is no one right way or other way in the current scenario. We believe the DSF is our priority.

Anshul Mittal: So, when you say we have done revenue sharing contact for that OALP block, so what is the status now, I mean what is next?

P. Elango: The next would be to really drill the well, which we will do along with the Dirok phase 2 development.

Anshul Mittal: Okay. Thank you, Sir. Thank you so much.

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

Tejas Shah: The royalty and cess how much it will affect, and I think if it gets cost recoverable, how does it workout? Can you explain in detail?

R. Jeevanandam: Previously royalty and cess was borne by the National Oil Companies like ONGC and Oil India where they are not allowed for cost recovery. Now this time they are allowing it for cost recovery to all the parties. In essence, they are putting the economics of all the parties equal, so this facilitates the investment on the one side, otherwise this being cost recoverable, it reduces the profit oil share to the government. If you look at the project lifecycle as an overall thing there are many small marginal and small discoveries now can get monetized. Previously we did not get support for that from either Oil India or ONGC as it is not economical to them, but it is economical to us. Now that situation will change. Overall if you look at it in the project lifecycle of the 10 to 15 years the impact on the return is only about 2% without considering the additional investment, which we can bring in and ramp up the value of the block, so effectively I do not think it is having a great impact rather it facilitates a lot of investment in the block and increasing the lifecycle of the block because otherwise we have to stop it at one point of time. Even if no legislation comes or no notification comes it will be effective from two years down the line.

Tejas Shah: But then every quarter now on an average we are looking at a 10 Crores royalty outgo?

R. Jeevanandam: No. The impact will be about Rs.20 Crores per annum that is roughly about less than Rs.2 Crores per month.

Tejas Shah: It is approximately 5 Crores on a quarter basis is what the royalty would come to because this quarter the royalty was higher I think correct?

R. Jeevanandam: It depends on the revenue realization. If oil price goes up, we have to cough up more, gas prices goes up we have to cough up more. That is what it is.

Tejas Shah: Okay. Thanks.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I now hand the conference over to Mr. Elango for closing comments.

P. Elango: Thank you. I would like to close by pointing out that HOEC is uniquely positioned with a quality portfolio of discovered resources and a strong operating organization with experience in both onshore and offshore. We are already a major producer of natural gas in Assam and we are well set to further add to this by expanding our footprint in the prolific northeast region. We are operating the only producing field offshore Cauvery basin and are on track to deliver significant production from Mumbai offshore block B-80 that will provide the next level of growth. We remain focused on leveraging our deep experience and technical capability to profitably grow our business and add value to all stakeholders. Thank you all for joining us.

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