"Hindustan Petroleum Corporation Limited
Q2 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Hindustan Petroleum Corporation Limited Q2 FY2024 Result Conference Call hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varatharajan Sivasankaran from Antique Stock Broking. Thank you and over to you, Sir!

Varatharajan: Thank you Akshay. Good morning everyone. I would like to extend a very warm welcome to all the participants and the top management of HPCL. We have with us Mr. Pushp Kumar Joshi - Chairman & Managing Director, Mr. Rajneesh Narang – Director Finance, Mr. K Vinod – Executive Director Corporate Finance, Mr. Lokesh Chhabra - General Manager Corporate Finance. Without much ado I would like to hand over the floor to the HPCL management for the initial comments followed by the Q&A. Over to you, Sir!

Rajneesh Narang: Thank you Varatharajan. Good morning everyone. I am Rajneesh Narang Director Finance, HPCL. On behalf of HPCL team we welcome you all to post Q2 results con call. Some of the statements that we will be making during the con call are based on management assessments and we believe that these management assessments and statements based there upon are reasonable. However considering that the future is uncertain and oil being a geopolitically sensitive commodity, the management assessment might not pan out in an exactly similar manner. Further this is a quarterly result con call so we request that you may kindly restrict your questions to quarterly results. Now I request Mr. Pushp Kumar Joshi our Chairman and Managing Director who is chairing this call to make his opening remarks and set the context for today's meet.

Pushp Kumar Joshi: A very good day to all the friends present here. First of all let me begin by expressing our gratitude to all of you for participating in this con call. I am grateful to all of you. During this con call our attempt would be to share as much details as possible and as director finance mentioned, this would be our assessment of the situation and we would also like to share with you the details of where we are, what exactly our plans going forward. So let me begin by saying that we have had a very good H1 and as all of you may be aware by now that this was the record profit HPCL has made in its history and this is even higher than our annual profit in the past few years or in the past years, so therefore this is a good thing and we thank everybody for the support which we have got for this.

Now looking at the international situation going forward all of us understand the geopolitical situation which is playing out and which is impacting our operations in terms of our fuel procurement, in terms of product cracks. Nevertheless our attempt has been threefold in the past few years. Number one is strengthening the quality and both the capacity of our assets and I am very happy to share with you that whatever capex which we have done in past five years has started yielding results and at the outset I also want to share with you that in past few days we have very successfully commissioned our new hydrocracker unit at Visakhapatnam which would help us in enhancing our diesel production. It will help us in improving our distillate yields and this is one of the largest facility, most energy efficient facility in the country and possibly in top five in the world so that is one in terms of enhancing the capacity of our assets and the quality of our refining assets so in that one is our Visakha refinery expansion where we are going from 8.33 million tonnes to 15 million tonnes. We have already expanded our Mumbai refinery from 7.5 metric million tonnes to 9.5 metric million tonnes and I am happy to share again that unit has stabilized and we are refining our throughput is higher than 9.5 if you calculate on annual basis. Third is in terms of our pipeline infrastructure, last year we have commissioned two major pipeline projects one is our pipeline connectivity from Hassan in Bangalore to Cherlapally that is Hyderabad so now we have seamless connectivity from our import terminal at Mangalore to Hyderabad. This pipeline is going to help us in optimizing our logistic cost. Similarly post our Vizag refinery expansion for the product evacuation we have expanded our pipeline network from Vijayawada to Dharmapuri in Tamil Nadu. Both these pipelines are successfully commissioned and are operating at optimal level that is as regards to the core assets as I said. The second facet is that in order to provide stability to our balance sheet we have also forayed and ventured into new areas or the areas which we were not having significant presence. One area of that is petrochemical. We have started marketing of petrochemical in our own brand name and after our Rajasthan refinery commissioning we will have substantial presence in petrochemical arena also and Rajasthan refinery project is on track. We have already completed 72% of physical facilities there. Some of the major refinery units are in advanced stage of mechanical completion and we expect that we would start commissioning of the refinery in phases in the next calendar year so that would give us significant presence in petrochemical. Second area is natural gas, we have already commissioned our 5 metric million tonnes regasification and storage terminal at Chhara which would give us a significant presence in natural gas value chain so we will have presence in storage and regasification. We already have share in pipeline in terms of transportation of natural gas and at the customer end we have presence in 23 geographies across the country in city gas distribution and also we are marketing gas to industrial customers directly so that is the second facet after petrochemical.

Third is in terms of biofuels. We are the largest blenders of ethanol in the country in MS and we have touched 12% blending targets and blending we are doing across the country with a robust infrastructure for transportation of ethanol through rail wagons, through pipeline, through road so that is the third area. As you are aware we already have two sugar mills operating in Bihar and from there we are getting ethanol and from various other places we are getting ethanol. We have also got into CBG - compressed biogas. We have commissioned one of our first plant in Uttar Pradesh in Budaun where we have started working. We are in the advanced stage of commissioning of CBG facilities there also, so this will be third area so we will have petrochemicals, we will have natural gas, and we will have biofuels and for this as you are aware we have already made plans to have a wholly owned subsidiary looking after the green business of the company and the formation of that wholly owned subsidiary is in a very advanced stage of its formation so that would give us that kind of stability to our balance sheet. Now third area is in terms of renewable, in terms of EVs, and in terms of hydrogen and fourth facet there is from crude to chemicals so all these areas we are working on.

Our next five years investment is going to be around enhanced facilities in renewable, in gas, in biofuels and also in terms of certain value added products in our refineries for asphalt and bitumen and things like that so these are the facets. Now we are over the last year's upset or challenges which we were having and you would notice that our financials have improved substantially. Our debt equity ratio is in excellent range now, so these are the plans and as I said in the beginning the focus was on capex and that capex has started yielding results. Our major capex now is in our Rajasthan refinery and I am very happy to share as I mentioned the progress of that we have already completed 72% of physical progress. All the orders have been placed. The work is going-on on war footing and as I said earlier that during the next calendar year we will be progressively commissioning those facilities also. As regards the results of the H1, only few points I want to mention that our physical performance has been of record level both in terms of our refining throughput, Our refining throughput not only we have increased the throughput, we have been able to optimize and our fuel loss has come down drastically. In terms of marketing, we have gained market share amongst the industry including the challenges which we face in terms of private players coming in but there also company has been successful in ensuring that we gain market share and also a concentration is there on non-fuel retails in exploiting our retail network where we have today close to 22,000 retail outlets across the country. Similarly in the facet of LPG, we have close to 9.3 crores LPG customers and we have been growing in the facet of LPG. What I would be more interested in is answering your queries after I have given this very brief detail. As we go forward, as we address your questions, as we address your feedback, we would be trying to exemplify and give more details on whatever I had mentioned. So, thank you very much, this is the initial brief I wanted to give. Thank you very much. The floor is open to questions now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Amit Rustagi from UBS. Please go ahead.

Amit Rustagi: Sir, congratulations for posting super results in the first and second quarter. I have two questions, one is relating to the demerger or relating to the news of lubes business so could you give us more details that what is the update on that, what is the format we are going to follow in terms of lubes business going forward and where are we in terms of approval then I will come back to my second question.

Rajneesh Narang: The progress as regards to the new carve out which we had announced along with the board meeting in the annual results. See the formation of a new company for a PSU requires a certain regulatory approval from the Government of India so those we have already started and we are waiting the final approval from the respective regulatory authorities for the new company, but nevertheless the objective of carving out the company was to ensure that this lube business which is an independent unit, free from all controls and having very free and fair pricing this is one which will enable HPCL to utilize its assets of lubricants and the market reach which we have. We are the market leader as regards to lubricant is concerned and we sell almost 650 TMT of lubricant products in the country every year, so we intend to carve out this company into a separate unit. We have various options which we can follow either we can list this company, come out with an IPO or we can get in a strategic partner. So currently the discussions are on about the various options and at the most appropriate time, the decision would be taken.

Amit Rustagi: Sir when you are going to get the clarity on the carve out process like are you going for the IPO or listing or any joint venture when we will get that clarity because it is almost now 7-8 months we discussed last time.

Rajneesh Narang: This financial year we will be getting and in the meantime you see that we have made various progress as regards to increasing the market reach for lubricants, we are tied up with Caltex. We are manufacturing and marketing their products also here and we have also set up a fully owned subsidiary in Dubai DAFZA FZCO. We are marketing their products into MENA region Middle East and Africa region and the company is performing well and new volumes and geographies are being added.

Amit Rustagi: Okay and Sir my second question relates to Rajasthan refinery so how much capex has been incurred, what has been our equity contribution to that and how much equity contribution is yet to be contributed and when are we expecting the project mechanical completion and commissioning both timelines if you can provide us.

Rajneesh Narang: See the total project cost for this refinery is 73,000 Crores. As regard to capital expenditure as on date we have done almost 37,000 Crores of capital expense and as regards to commissioning or the progress on the project, chairman has already covered as regard to physical progress 72% of project is over. Several units are in advanced stage of commissioning maybe in near future with a progressive manner the units will start getting commissioned. We are hopeful that the refinery would get mechanically completed in March and the petrochemical may follow thereafter, so the next calendar year would be the year where we will start getting some product out of this refinery. As regard to the total equity contributions, the total project of 73,000 Crores would be funded 48,600 Crore from loans and balances from the equity and the total equity contribution from HPCL would be around 18,000 Crores out of that we have already contributed 9,500 Crores and in addition to this around 26% has been contributed by the Government of Rajasthan.

Amit Rustagi: Okay great Sir. Sir thanks for answering my question. Wish you all the best and wish the entire team a happy and prosperous Diwali.

Moderator: Thank you. The next question is from the line of Somaiah from Avendus Spark. Please go ahead.

Somaiah: Thanks for having this call Sir. Sir on Vizag currently on a run rate basis we are 11 million tonne so how would the progress be of reaching 15 million tonne, how much of ramp up this year and how much of ramp up next couple of years.

Rajneesh Narang: See in the month of March 2023 we have commissioned the CDU IV that is the new 9 million tonne unit so since then we have been operating the facility at 11 million metric tonne. Now in the opening remarks our chairman had stated that we have commissioned the FCHCU that is fully convertible hydrocracking unit. Now with the commissioning of this unit our secondary processing capacity will increase further now we will be ramping up this refinery and the refinery would be running at around 13.5 to 13.7 million metric tonnes and once the RUF unit that is the bottom upgradation unit is commissioned then it will go beyond 15 million metric tonnes.

Somaiah: The 13.7 will we be able to achieve next year Sir.

Rajneesh Narang: No this quarter itself we will be operating at that level. So I can only say that as I speak today even now also we have started accruing the increased capacity of this new unit and we will get additional 2 million tonne on an annual basis, pro rata we can calculate.

Somaiah: Got it Sir. Sir also in terms of our marketing volumes so of the diesel petrol that we sell in terms of what we take from our own Vizag and Mumbai apart from the rest of the sourcing can you just give a breakup so where do we take it from and those are adjusted for export duty also we will be getting it relatively at lower price.

Rajneesh Narang: See if I have to give you a current mix of the sourcing of the product. Like in case of MS currently almost 43% is from my own two refineries. I get around 24% from HMEL which is again our JV wherein we have a 50% share and 34% is what we source it from outside and similarly as regard HSD is concerned it is 47%, 31%, and 21% is what we take it from outside. Now subsequent to the enhanced capacity of Vishakh refinery, once the Vishakh and RUF facilities are also completed 61% would be in house that is our two refineries for HSD and 16% from HMEL so balance 23% is what we are going to source from outside, but once the Rajasthan refinery comes in, the entire HSD would be internal only between HPC or HPC JV companies. As regard MS is concerned after Rajasthan refinery is there 49% would be from both our refineries and 10% would be from HMEL and 12% from HRRL so what is left out is around 29% would be sourcing it from other refiners that is standalone refiners it includes both the Reliance, Nayara, MRPL, NRL and all those.

Somaiah: Got it Sir very useful. Just one last question from my side so on the Barmer refinery by utilization when we probably be around say 80% or so when is your expectation.

Rajneesh Narang: You are talking about the progress of the capital.

Somaiah: Ramping up of the facility and reaching close to 80% of utilization.

Rajneesh Narang: 80% by another three to four months, Barmer is right now around 72%. Utilization in one year we will be reaching that after commissioning.

Somaiah: So we expect mechanical completion by March of next year and maybe say in FY2025 end or FY2026 is something that we can get to 80% is that right understanding.

Rajneesh Narang: Yes you are right.

Somaiah: Thanks for the opportunity. Thanks.

Moderator: Thank you. The next question is from the line of Sumeet Rohra from Helios. Please go ahead.

Sumeet Rohra: Hi Sir, very good morning to you. Firstly wish you a very, very happy Diwali to you Chairman Sir to Director finance and entire team at HPCL and all your families as well Sir. Sir firstly I would like to congratulate you. You have done an incredible job at HPCL and clearly the physical performance of HPCL has actually doubled virtually in the last maybe four to five years where we have grown from basically 15-16 million tonne to today 36 and maybe after Rajasthan we will go to 45 so excellent work on the company point of view, excellent work you did for the nation as well last year by whatever we did cumulatively as the oil marketing companies so very good stuff on that. So Sir I would like to now just touch upon, I would take about two minutes of your time, so Sir I would just like to touch upon now we on the investors right because ultimately the objective of all investors is to make healthy returns and one thing Sir we clearly see is that the performance of the return of the shares is clearly disproportionate to the infrastructure created, the financials delivered, I mean let us come to think of it. We are a 25% ROE company okay and we are trading at two times PE multiple. I mean I do not find any company in the world you can check this on Bloomberg or Reuters or any financial medium a company of having a 25% ROE would trade at two times multiple. I mean it is absolutely absurd right so there is clearly something which is not connecting between the investor confidence but the reality of life is that you guys are doing a splendid job and not many companies in the world can deliver what you people are doing so it is extremely commendable and it is clearly showing in the throughput and in the capacity enhancement etc. Sir I just had a few suggestions if you could take on board and a few questions as well so. Sir firstly because of the fact that last year we had abnormal period of losses or whatever so Sir historically HPCL always pays out about 30-35% dividend so can we expect that because last year we have not paid dividend so this year we can actually expect a significantly higher payout than the 30-35 which means that can we do like 40-50% payout ratio. Secondly Sir today as you said that our capex phase I mean is now virtually finished and we are now basically entering a payback period so my humble thought process and can you correct me if I am right on this that our incremental EBITDA is now going to be sharply higher than our capex because all companies always talk about capex, but nobody ever talks about how much are we going to generate as EBITDA so I would humbly request that can you please also talk about what

EBITDA are we going to generate because capex is obviously taken very negatively by analysts and investors so if you can just talk about how much EBITDA as well are we looking to generate. Sir thirdly you spoke about Barmer refinery. Sir I have a very interesting thought process here. I mean Barmer refinery is a project which was conceived maybe seven, eight years ago and at that point of time diesel cracks in the world were never about 10, it was always sub 10 right so now the matter of fact is that that diesel cracks are hovering around I would not say 30 and all that but say 20 as an average so can Barmer refinery actually be a very profitable project for HPCL which today is being construed negatively so can you please clarify a bit on Barmer and how do you see numbers shaping up on that front and Sir just one last thing I would want to ask you before I end is that Sir the lubricant part of the business I mean today you are number one player in India you also said that you are manufacturing for Caltex as well today and Sir so we are about nearly 40% and you Castrol today is about you know 15 - 18,000 Crores market cap so our lubricant business itself is worth about 20 to 25,000 Crores so just one suggestion Sir is that why not shares are given to shareholders and shareholders of HPCL get shares of the lubricant which actually will start the processing of unlocking of this great giant which you have built because ultimately market cap also should translate into reality right because I mean 35,000 Crores market cap is absolutely not fair to the good work which you are doing Sir because if you said that 70,000 Crores is to set up Barmer refinery today 45 million tonne of HPCL cannot be trading at 35,000 Crores market cap so I just want that your good work should also translate into investors rewarding Sir thank you.

Rajneesh Narang: Yes thank you Sumit. Yes I fully endorse what you are saying is the market is not giving us the right value which HPCL is deserving, but nevertheless I can only say that yes last year was a blip and those situations were different. They were testing times and fortunately our company could come out of it and right now we are again putting up robust performances and I am sure with consistent robust performance market will start valuing the shares and we will get the right valuation which we legitimately deserve and from the management side I can only say that we are making the right moves. We are taking the right steps, right investments are being made and strategically we are getting into various value enrichment areas which definitely would show off in our results and accordingly the shareholders would also immensely benefit both in terms of dividend as well as the share price improvement. As regards your question on the Barmer refinery, yes what cracks were envisaged when the project was conceived and the current cracks yes the diesel cracks currently are higher than what has been considered in the project appraisals but these things will keep on changing but yes this Rajasthan refinery is going to be of immense value to HPCL, it would give us the product security plus it will give us an entry into petrochemical business this is first integrated refinery which is being set up in India with highest petchem intensity almost 26% is the petchem intensity plus the product which will come out of this refinery they are building block products which we can use it for further enhancement and give us a further leeway into O2C and other specialty chemicals which would also contribute to the overall growth of the company as well as growth in the bottom line of the company. Now as regard the lube and the dividend is concerned, yes we have noted what you have stated but these being price sensitive information I cannot be making any comment on that, thank you.

Moderator: Thank you. The next question is from the line Manikantha Garre from Franklin Templeton India. Please go ahead.

Manikantha Garre: Thank you for providing me the opportunity Sir. Sir wanted to understand how much of debt has been used up in the Barmer refinery so far.

Rajneesh Narang: It is almost 26,000 Crores.

Manikantha Garre: Okay and can you give me some understanding on why that is not getting reflected in the consolidated balance sheet of ours.

Rajneesh Narang: That is because of the Ind-AS requirements although 74% of the shareholding is with us but various provisions of the JV agreement and all and the provisions regarding control there are one or two clauses which as per the statutory auditors and the accounting provision for the purpose of financial consolidation this will not be considered as a subsidiary that is the case with several other companies also like CPCL and IOC and so that primarily is the reason.

Manikantha Garre: Does it also mean that HPCL will not have recourse to the debt which is being taken at Barmer refinery level.

Rajneesh Narang: Recourse means the debt has been taken books of balance sheet of HRRL and HPCL and the government of Rajasthan are the sponsors for that so we have given sponsor support undertaking for those.

Manikantha Garre: I just wanted to understand to that an extent is that project ring fenced is what I was trying to understand.

Rajneesh Narang: Yes it is ring fenced because what all product will be manufactured by that, the marketing would be done by HPCL that is what the lenders had seen that although we have lended it to this new company and whatever is the output from the refinery would be taken by HPCL, so that off take guarantees are there, so accordingly the loan has been given.

Manikantha Garre: Okay thank you.

Moderator: Thank you. The next question is from the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: Thank you for the opportunity Sir. Sir I have two or three questions, one if I can get a sense of what will be the product yield of gasoline, diesel, and ATF and I am mentioning these three because these three are fairly significant products in the overall slate by the end of FY2025 when Vizag and Mumbai expansion are completely commissioned can we get a sense of what the product yield would be for diesel, MS and ATF.

Rajneesh Narang: See if I have to give the product yield for both our refineries from our refineries almost 18% would be the yield of MS, as regards HSD is concerned the yield would be between 50 to 55% both refineries put together if I take only Vishakh maybe the yields would be higher and balance would be the LPG. For furnace, Vishakh there will be no furnace oil.

Probal Sen: Understood Sir. The second question was with respect to the gas business you mentioned about the Chhara terminal having been commissioned can we get a sense of what kind of off-take arrangements are already in place for Chhara, are we going to internally consume the whole of 5 MMT but I think that is unlikely so can we get a sense of what the marketing arrangements are for placing these 5 million tonne and whether we also have sourcing arrangements for those volumes as of now.

Rajneesh Narang: See Chhara terminal this is a separate wholly owned subsidiary of HPCL. We have called it HP LNG Limited. Now this company would be running on a tolling model whereby the capacity would be hired out so anyone who is interested in booking the capacity they can book the capacity. We are already in the market for booking the capacity. We have got encouraging response from prospective people who want to book capacity and once it is done we will let you know and as regard HPCL is concerned, since HPCL is also already there in this line of business, yes HPCL will also be booking capacity in this terminal and as regard the sourcing is concerned the sourcing of gas would be done by HPCL because

HPCL would be marketing it and as regard to storing that product is concerned that would be stored in Chhara terminal or any other terminal if economics work out.

Probal Sen: Alright and the third question Sir if I may was with respect to the capex you mentioned about the plan over the next five years where the focus will be on enhancing the renewable portfolio, the gas business as well as focusing on value added products in your downstream can we get a broad breakup in terms of what is the five year capex being envisaged and broken down into downstream petroleum renewable as well as the gas space.

Rajneesh Narang: If I were to give you for next five years the capex would be around 75,000 Crores around 25 to 30% of the capex would be for the renewables and the gas segment then the refinery would take another 20% and the balance would be the other marketing project.

Probal Sen: Sorry refinery would be how much Sir I did not get the percentage.

Rajneesh Narang: 20%.

Probal Sen: Refining would be 20%, renewable energy plus gas would be around 30% odd and the balance would be on the downstream marketing segment 50% is that what you are saying.

Rajneesh Narang: Yes.

Probal Sen: Understood Sir. Thank you so much for your time have a happy Diwali. I will come back if I have more questions.

Moderator: Thank you. The next question is from the line of Sabri Hazrika from MK Global. Please go ahead.

Sabri Hazrika: Yes good morning Sir and congratulations on good set of numbers. So I have two questions, the first one is with respect to the capex only so you mentioned 75,000 Crores for the next five years so does it mean that the annual capex would be something like more than 13,000 Crores.

Rajneesh Narang: Yes average what we have said average will be around 14 to 15,000 Crores.

Sabri Hazrika: For the next five years right.

Rajneesh Narang: Yes.

Sabri Hazrika: And how do you see the debt outlook right now we have got like almost like 51,000 Crores standalone debt so do you have any debt target in your mind or it will be like a resultant of whatever the scenario is down the line.

Rajneesh Narang: I can only say that looking at the current levels the peak debt is behind us. We will not be adding debt to it most of it looking into our future financial performance would be funded out of internal accrual so we will not be adding more debt on the books.

Sabri Hazrika: Do you think net debt of 46,000 Crores could be the peak levels in terms of the standalone business.

Rajneesh Narang: I think 50,000 would be the peak level yes.

Sabri Hazrika: Okay and Sir second part of the question is relating to your EV value chain so we have done some deal with Gogoro regarding what you call battery swapping and you also have got EV charging station so what are the initial findings. I mean what kind of profits are you making or do you have any number in mind. We are just trying to reassess maybe 10 years down the line as a separate segment how much this will like contribute, any idea on that.

Rajneesh Narang: See right now we are engaging with different service providers and that primarily is to see that a proper reach is reached, a proper ecosystem for EVs are there and currently we have more than 2500 such charging stations which is there on HPCL accounts we want to be in that space. We do not want to lose out when an opportunity comes so we have been tying up with several of them Gogoro is one of them. We have also tied up with Honda for battery swapping and there are other agencies also where we have tied up for charging so we will see as to what opportunities are coming into this and accordingly then we will regulate our investment in this segment and reach out and get a fair market share in this product.

Sabri Hazrika: So this existing business can you give us some unit economics any returns what you are generating or anything of that sort or is it too premature right now.

Rajneesh Narang: It is too premature to put numbers to that.

Sabri Hazrika: Okay thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: Thanks for taking my question Sir. Sir if possible can you throw some light on the bottom upgrade unit commissioning which will improve your Vishakh overall gross refinery margin and how much GRM improvement can we expect post completion of this unit.

Rajneesh Narang: See once the bottom upgradation unit would be commissioned, this would be upgrading the bottoms of the product and that will not only happen on the enhanced capacity but it will happen on the full capacity that is full 15 million tonne of product which would be there at Vishakh refinery the bottom upgradation would happen and secondly as regard what would the incremental GRM on this ground, the incremental GRM will be between $3 to $4 per barrel on account of this and we are hopeful currently the activities, the progress as regard the work is going on in full swing and we expect that by January February the mechanical completion will be complete.

Yogesh Patil: So can we expect Sir in FY2025 onwards these kind of GRM per barrel can be expected.

Rajneesh Narang: Correct.

Yogesh Patil: So second question can you update us on the capital infusion in terms of the right issues, when can we expect the right issues for the HPCL or the preferential allotment.

Rajneesh Narang: See the government of India had in their budget document stated that 30,000 Crores would be although there were initial discussions on the thing a finality has not yet been reached as and when there is a development on that track we will definitely let you know.

Yogesh Patil: From your guess will it happen in FY2024 or will it be postponed for FY2025.

Rajneesh Narang: Just going by the intention of the government that was for the current financial year so it should be consummated in this financial year only.

Yogesh Patil: Okay and the last one if possible can you please share the operating expenses in per barrel terms for all refineries.

Rajneesh Narang: It could be around $3 a barrel.

Yogesh Patil: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Sanjeev Kumar Damani from SKD Consultancy. Please go ahead.

Sanjeev Kumar Damani: Good morning Sir. Sir my first question is regarding the mixing of bio agro based ethanol etc with our products so how we are economizing in the sense I mean most of the producers are located at one place and our distribution is in the entire country so the mixing plants are being set up close to the source of ethanol or how we are doing it Sir, can you kindly explain.

Rajneesh Narang: See the ethanol is being procured and it is being transported to various locations and at the location when the product is being sent to the petrol pumps that is a premixed product which is sent.

Sanjeev Kumar Damani: So mixing is not necessarily done at the refinery point only it maybe sales depot also that facilities are created for mixing it along with petrol.

Rajneesh Narang: Yes.

Sanjeev Kumar Damani: Sir we are not mixing anything with diesel so far or are we.

Rajneesh Narang: Biodiesel is there but right now there is no mixing which is happening.

Sanjeev Kumar Damani: Okay another question is regarding Barmer refinery are we putting up some solar facilities also there that being a very area where lot of solar plants are being designed in Rajasthan so are we also putting up as part of our capital expenditure and have we started producing solar power there so far.

Rajneesh Narang: As of now we have not set up but they are under active consideration but yes we will be sourcing green power for purpose of operating the refinery.

Sanjeev Kumar Damani: Okay one more thing sir that how you are viewing the use of petrol and diesel in coming days and are you seeing any reduction in the consumption because of alternative electric is available, gases are available so are you seeing any less demand right now for these products.

Rajneesh Narang: See if you see the consumption pattern of the various products be it MS or HSD you can see that there is been a consistent growth MS has been growing around 5 to 6% per annum and in case of HSD it has been around 2% growth which is there. While yes in terms of new sales the proportion there has been marginal increase in the EV cars and scooters and all but yes as of now we have not seen any significant impact on MS and HSD the growth continues to be seen in these products also.

Sanjeev Kumar Damani: Okay Sir thank you very much.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.

Kirtan Mehta: Thanks for this opportunity. Would you be able to share the financial highlights for HMEL refinery in terms of the Q2 and H1 performance as well as another related question is how is the petrochemical expansion project is doing has it achieved the full utilization and what is the contribution to the margin that it is accruing to and one more related question is whether the HMEL refinery is now able to access the natural gas as it was being planned.

Rajneesh Narang: Yes first coming to the performance of HMEL. HMEL during this H1 made net profit of almost 1,700 Crores, during this period the crude thruput was around 6.5 million metric tonnes and the GRM was $18 a barrel and what was the other question.

Kirtan Mehta: Performance of the petrochemical expansion project there.

Rajneesh Narang: The petchem facility has got commissioned and the same is currently operating at almost 70% capacity.

Kirtan Mehta: And another question related was we were planning to use natural gas upon completion of the Mehsana Bhatinda pipeline so has that natural gas access has started for HMEL.

Rajneesh Narang: Yes they started have sourcing and even HPCL has signed a contract for supply of gas.

Kirtan Mehta: What would be the volume that they will be receiving natural gas.

Rajneesh Narang: I do not have the updated numbers. We will let you know.

Kirtan Mehta: Sure Sir.

Moderator: Thank you. The next question is from the line of Vidyadhar Ginde from Sohum Asset Managers Pvt Ltd. Please go ahead.

Vidyadhar Ginde: Thank you so my question was that after the bottom upgradation unit is commissioned and starts operating efficiently in which are the products like diesel, petrol, LPG where the production will go up by how much percentage points in the product stage and which product the production will come down. I presume fuel oil is one of them so if you could give us some numbers there so how much is diesel proportion now how much it will go after the diesel, petrol, LPG up and down fuel etc whatever.

Rajneesh Narang: If I were take this Vishakh refinery current slate the distillate yield is almost 75% over there.

Vidyadhar Ginde: No I wanted specific products.

Rajneesh Narang: Yes I am coming to that yes when the RUF unit is commissioned the distillate yield will improve from 75 to 85-86%, now primarily whatever is the increase is going to happen in HSD where the distillate yield will go from 48-50 to 60%. MS would remain at around 18% then LPG would be around 5%, Naphtha would be 5% and furnace oil would be nil.

Vidyadhar Ginde: So basically diesel will go up and furnace oil will become zero. Yes that is effective.

Rajneesh Narang: Furnace oil is a product which does not add much value that product totally gets wiped off from the slate.

Vidyadhar Ginde: And you do not produce even pet coke.

Rajneesh Narang: There is not pet coke. There will be a pitch but pitch would be used for valorization.

Vidyadhar Ginde: So pitch will be what proportion.

Rajneesh Narang: I am not having the exact number but like 2-3% not more than that.

Vidyadhar Ginde: Okay so basically you will have probably one of the best refineries in India in terms of the product slate anybody who produces does not produce fuel oil produce a substantial quantity of pet coke which instead of that you are producing just 2-3% pitch you are suggesting.

Rajneesh Narang: Yes correct.

Vidyadhar Ginde: And you said pitch you want to use for what.

Rajneesh Narang: It can be used for valorization it can use for making bitumen or we can use it for other industrial applications be it cement we are working out with various industries as to where we can add more value and have a better realization.

Vidyadhar Ginde: Thank you thanks a lot.

Moderator: Thank you. The next question is from the line S Ramesh from Nirmal Bang Equities. Please go ahead.

S Ramesh: Good morning and thank you very much so based on the information you shared on HMEL is it possible to indicate how much of the $18 is attributed to the petrochemical business and how do you see the integrated margins from the HMEL refinery once their petro chemical business ramps up to say 90-100% and similarly the Rajasthan refinery what is the kind of margin you would expect from just the refinery and what is the additional delta you can get from the commissioning of the petrochemical unit.

Rajneesh Narang: See are regard to HMEL is concerned the GRM numbers is for the petroleum products.

S Ramesh: So on once you start making profits in petrochemicals how would the profit be reported will it be included on the GRM or will you show it separately as petrochemical.

Company Speaker: It will be separately. We are different segments so accordingly it will be there.

S Ramesh: Okay and similarly in Rajasthan refinery what is the kind of EBITDA per tonne one can expect for the petrochemical business the current spreads and what is the GRM you are working on as things stand today once the refinery is commissioned.

Rajneesh Narang: See the Rajasthan refinery the GRM would be in the range of $20 a barrel.

S Ramesh: Okay and in terms of the petrochemical business what is the kind of EBITDA or gross margin per tonne.

Rajneesh Narang: That would depend upon the ruling prices of pet chem it keeps on varying.

S Ramesh: In terms of the evaluation of the project because there is a certain amount of capex you are incurring right.

Rajneesh Narang: So for purpose of evaluation of the project the EBITDA levels were around 8,000 Crores.

S Ramesh: 8,000 Crores per year from petro chemicals.

Rajneesh Narang: From the entire project.

S Ramesh: Entire project okay so just one last thought if I can squeeze in when do you expect the visibility on the cash flows from the standalone CGD units and that is about 14 right and what is the kind of volume you can expect from these units say two three years and what is the kind of EBITDA per CM or overall contribution to EBITDA you can expect from the CGD business.

Rajneesh Narang: See currently we are selling almost 0.4 million metric tonnes of CNG okay so we expect that another four, five years we will be touching around 1 million metric tonnes as regards CNG is concerned.

S Ramesh: Okay Sir thank you very much and wish you all the best. Wishing you happy Diwali.

Moderator: Thank you. The next question is from the line of Rajesh Aynor from ITO Limited. Please go ahead.

Rajesh Aynor: Thanks for the opportunity. You briefly touched upon this. My question is around the deficit between our marketing and refining production currently let us say it is around 50% where we actually buy out almost 50% of the products from other sources including our HMEL and other things after Rajasthan completion and the current ongoing expansion project you gave the exact thing. I just wanted to reconfirm that how much would be our captive diesel, petrol and LPG.

Rajneesh Narang: After Rajasthan comes in the entire diesel it would be either from HPCL refineries or JV refineries of HPCL and as regards MS is concerned almost 70% would be HPCL and HPCL JV refineries that is HMEL and HRL, around 30% of MS we will have to outsource.

Rajesh Aynor: LPG will continue as it is.

Rajneesh Narang: LPG there is not going to be any significant change.

Rajesh Aynor: The operating cost of the two refineries in dollar per barrel let us say we get the gross margin.

Rajneesh Narang: It is $3-4 per barrel.

Rajesh Aynor: $3-4 per barrel. Thanks a lot Sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Nitin Tiwari from Phillip Capital. Please go ahead.

Nitin Tiwari: Hi Sir, good morning. Thanks for the opportunity. My questions is a clarificatory one so if we just break down the opex that you mentioned $3 per barrel in terms of refineries wise opex so would it be for Mumbai, Vizag and HMEL and what is the kind of opex we are expecting in Barmer dollar per barrel terms.

Rajneesh Narang: We will separately let you know on this.

Nitin Tiwari: Alright Sir so then in that case can we have the inventory levels in terms of either number of days or quantify for crude and products at the moment that we are holding.

Rajneesh Narang: See for crude we are holding almost 23 days of inventory and marketing inventory is almost 30 days.

Nitin Tiwari: 30 days across right and lastly Sir please update on the pipeline common carrier regulations like are they implemented or like process of implementation your thoughts on that piece Sir and how would it impact our.

Rajneesh Narang: They did what has come in the media otherwise as such there is no official communication on any such thing.

Nitin Tiwari: So there is no I mean like implementation timeline etc which has been given as such right now right Sir.

Rajneesh Narang: Neither there is a directive nor an order on that.

Nitin Tiwari: Okay but do you foresee like something like that impacting our pipeline business in any way going ahead.

Rajneesh Narang: See these things keep on coming for discussion but as such there is no regulation regulatory directive or change as of now.

Nitin Tiwari: Understood Sir for the refinery opex I will reach out to you separately in that case. Thanks for taking my questions.

Moderator: Thank you. The next question is from the line of Amit Murarka from Axis Capital. Please go ahead.

Amit Murarka: Hi good morning Sir, in any way you can provide any indicative number of the marketing inventory gains in the quarter.

Rajneesh Narang: Marketing inventory gain was almost 1200 Crores for the quarter.

Amit Murarka: And on the refining side.

Rajneesh Narang: 900 Crores.

Amit Murarka: Sure also the refinery opex that you mentioned like will that go up post Vizag bottom upgradation or will it remain the same.

Rajneesh Narang: It will be around that one because the deviser would be there because of increased throughput and units are also very energy efficient.

Amit Murarka: Okay and lastly the capex 75,000 Crores that you mentioned that excludes the Rajasthan refinery right and includes everything else including CGD and everything else.

Rajneesh Narang: It would include the balance equity contribution almost 10,000 the balance.

Amit Murarka: Got it thanks that is all from my side.

Moderator: Thank you. The next question is from the line of Mayank Maheshwari from Morgan Stanley. Please go ahead.

Mayank Maheshwari: Hi Sir two questions from my end one was more related to crude sourcing after the entire expansion projects are done how do you see your crude sourcing change and what are the advantages on the crude side that you can show up on the refining margins.

Rajneesh Narang: See primarily the crude sourcing would not go on material change but yes the Vishakh refinery would be capable of processing more heavy crude so that we will continue to be looking at opportunistic routes wherever they are available and crudes which will definitely add more value to us considering our pims model and those would be considered for processing.

Mayank Maheshwari: Sir just an extension to that question like because now there is marketing freedom on oil for ONGC has that impacted you in any form or fashion in terms of sourcing domestic crude.

Rajneesh Narang: So we have already have signed a contract with them for next three years.

Mayank Maheshwari: Okay and so the final question was more related to the five year capex plan can you just talk us through out of this 14 - 15,000 Crores that you kind of spending about almost 20% is going on the new energy side like is there a thinking process of how you kind of deploy is it front loaded, back loaded like how are you thinking about all of that.

Rajneesh Narang: See the most of the projects would be on the solar and hybrid model capacities so there the capex cycle is not a long one, so these would happen more around on consistent basis as regard to renewable energy is concerned. Every year we will be taking up new projects to increase the capacity of the renewable front and the expenditure would be more or less consistent.

Rajneesh Narang: Okay thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand a conference over to Mr. Varatharajan Sivasanka for closing comments.

Varatharajan Sivasanka: Thank you Akshay. I see a few more questions in the queue. I would request them to get in direct touch with the management or send your questions to me and I will see how we can address that. I wish to thank all the participants for taking out time to participate in this call and thanks the management for giving us this opportunity to host the call. Have a nice day.

Moderator: Thank you. On behalf of Antique Stock Broking that conclude this conference. Thank you for joining us and you may not disconnect your lines.