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Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst

* Vishnu Kumar A.S.

Ladies and gentlemen, good day, and welcome to the Bharat Petroleum Corporation Limited Q1 FY '20 Earnings Conference Call, hosted by SBICAP Securities Limited. (Operator Instructions) Please note that this conference is being recorded.

I now hand the conference over to Mr. Dayanand Mittal from SBICAP Securities. Thank you, and over to you, sir.

Thank you, moderator. Thank you, everyone, for joining in today's call. So we have with us the senior management team of BPCL, represented by Mr. Vijayagopal N., Director Finance; Mr. S. K. Agarwal, CGM Corporate Treasury; Mr. V. R. K. Gupta, GM Corporate Finance; Ms. Jenny C L, CSM, Pricing and Insurance; Mr. Ganesan Jaibal, Senior Manager, Pricing and Insurance; and Mr. Girwar Bhattad, Manager, Pricing and Insurance.

So with this, I would like to hand over the call to management. Over to you, sir.

Thanks, Dayanand. Good morning, one and all. It's my pleasure to share with you that BPCL has climbed up 39 ranks this year to the 275th position on the Global Fortune 500 list 2019.

Before we begin with our call, I would like to mention that some of the statements that we would make during this con-call may be forward looking in nature, and we believe that the expectations contained in such statements are reasonable. However, their nature involves number of risks and uncertainties that may lead to different results. Forward-looking statements represent only the current expectations and beliefs, and we do not provide any assurance that such expectations will prove correct. Our results were published last Friday, and we had circulated the handout containing the major highlights immediately thereafter.

On the physical front, our refineries throughput for this quarter stood at 7.45 million tonnes, over than the 7.74 million metric tonnes we processed in the corresponding quarter of the previous year, mainly due to the planned shut down at Mumbai refinery. Kochi refinery's throughput at 4.36 million metric tonnes was about 10% higher than the comparable quarter.

These yields were better at 84.98% as compared to 83.5% in the comparable quarter. We have closed the Q1 FY '20 quarter with a profit after-tax of INR 1,075 crores as against INR 2,293 crores in the comparable quarter last year. Profit before tax was at INR 1,352 crores for the quarter as against INR 3,382 crores for Q1 FY '19. Earnings before interest tax depreciation and amortization, EBITDA, amounted to INR 2,718 crores for the quarter versus INR 4,423 crores for Q1 FY '19.

Our weighted average GRM for the 2 refineries for this quarter stood at \$2.81 per barrel as compared to \$7.49 per barrel for the same quarter last year. GRM was slower due to lower cracks as compared to the comparable quarter. Another major reason for variation in EBITDA was on account of adventitious gain/loss on inventory. Inventory losses for the quarter amounted to INR 452 crores as against a gain of INR 2,679 crores in the same quarter last year.

Gross under-recoveries on sale of SKO PDS were at INR 139 crores for the quarter as against INR 250 crores for the corresponding quarter last year. Net under-recoveries after accounting subsidy have been 0 for the quarter.

CapEx for the quarter has been at INR 1,760 crores. We expect to spend around INR 8,000 crores in CapEx in FY '20.

On the market front, our domestic sales were slightly higher at 11.11 million metric tonnes as against 10.97 million metric tonnes in the comparable quarter. The growth was mainly led by petrol around 9%, diesel 0.2% and LPG 1.13%.

We are now open for the question-and-answer round. As this is a post results conference call, we request you to kindly request -- restrict your questions to the quarterly performance alone, please.

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Questions and Answers

Operator [1]

(Operator Instructions) Our first question is from the line of Amit Rustagi of UBS Securities.

Amit Rustagi, UBS Investment Bank, Research Division - Analyst [2]

My question pertains to how much outstanding we had from the government at the beginning of the year? And where do we stand now on 31st July, that how much we have received out?

Unidentified Company Representative, [3]

As on March 31, 2019, our outstanding was INR 8,700 crores. We have added INR 2,301 crore during the quarter. During the quarter, we received INR 6,799 crores, and balance as on 30th June is INR 4,272 crores.

Amit Rustagi, UBS Investment Bank, Research Division - Analyst [4]

Sir, did we received any money after INR 4,200 crores in the last 1.5 months?

Unidentified Company Representative, [5]

INR 1,800 crores during the quarter, and we have not received any payment.

Amit Rustagi, UBS Investment Bank, Research Division - Analyst [6]

Okay. And sir, recently, we have seen the trend of refining margins going up regionally, so do we see the benefits accruing to us in the coming quarters for both Mumbai and Kochi refinery?

Unidentified Company Representative, [7]

Margins have slightly improved during the month of July, improvement in cash, but the price of crude has gone down, if you see in the last week. And this -- if the trend continues, we might have certain amount of inventory losses during the quarter. I'm not sure, we can't comment.

Amit Rustagi, UBS Investment Bank, Research Division - Analyst [8]

Okay, sir. And sir, last question, the numbers for Bina Refinery and Numaligarh Refinery, if you can give us the GRM and the profitability?

Unidentified Company Representative, [9]

Bina Refinery GRM was \$7.5 during the quarter, and the net profit was 98 -- INR 81.78 crores. And for NRL, GRM was \$10.67, including ED benefits. Northeast benefit was \$15.69 NRL. Total GRM with ED benefit was \$26.36 per barrel. Profit after-tax was -- NRL was INR 415.64 crores.

Operator [10]

We'll take our next question from the line of Vidyadhar Ginde from ICICI Securities.

Vidyadhar Ginde, ICICI Securities Limited, Research Division - Oil and Gas Analyst [11]

Yes. What was the CapEx in -- during the quarter?

Unidentified Company Representative, [12]

CapEx during the quarter was INR 1,760 crores, and for the year is around INR 8,000 crores.

Vidyadhar Ginde, ICICI Securities Limited, Research Division - Oil and Gas Analyst [13]

So 17 -- okay, INR 1,760 crores in the quarter.

Operator [14]

Our next question is from the line of Varatharajan of Systematix Shares.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [15]

Sir, I wanted to understand a big shift in the crude mix towards -- in terms of the sulfur content. And secondly, what is the BORL effective ownership we should be looking at as of now? Any incremental guidance on how you are going to progress?

Unidentified Company Representative, [16]

There is no change in the BORL ownership. Some of the news items which appeared, I think, they have themselves denied having such discussions with us. We don't anticipate any changes in the ownership structure for the next, at least, 6 months.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [17]

And shift in crude mix towards low sulfur?

Unidentified Company Representative, [18]

Shifting from high sulfur to low sulfur depending upon the economics. So with the Brent-Dubai differential coming very low for the April-June quarter, it was around \$1.04 at an average, but there were times when differential was quite low or even negative. Depending up on the economics, there is -- there will be a shift between high sulfur to low sulfur or vice versa.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [19]

But just wanted to delve on this BORL ownership once again, what should we take as a effective ownership as things stand today, sir?

Unidentified Company Representative, [20]

Effective ownership.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [21]

Sorry?

Unidentified Company Representative, [22]

50% from BPCL.

Operator [23]

Our next question is from the line of Manikantha Garre of Axis Capital.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [24]

Can you please update us on the petchem project at Kochi refinery, the status of that?

Unidentified Company Representative, [25]

Petchem project phase 1 which is TDPP, the sales commissioning will start somewhere from third quarter onwards. Project will consume around 250 KT of polypropylene, which is being produced from KR. Benefits will start accruing from the first quarter of 2020-'21.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [26]

So could that mean the IMO benefit also maybe delayed for us in Kochi refinery? Or that is a different thing..

Unidentified Company Representative, [27]

IMO benefit will accrue in terms of improved cracks for gas oil. And since KR is not producing any furnace oil, whatever the benefits will come in terms of improved cracks will accrue to BPCL.

Operator [28]

(Operator Instructions) We'll take our next question from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika, Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [29]

I have two questions. The first one is on -- regarding the LPG subsidy mechanism. So currently, I think there has been no reporting of subsidized LPG prices as well as price build up or anything, so has it remained change or has there been any change in the same?

Unidentified Company Representative, [30]

So prices are being adjusted by PPAC on its website. We are also giving the nonsubsidized price because price that is being charged to the customer is the nonsubsidized price. That is what is being displayed to

ensure transparency for the customer.

Sabri Hazarika, Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [31]

Right. But there's been no change in mechanism or nothing of that sort, right? And the uncompensated cost element is also -- it is also continuing?

Unidentified Company Representative, [32]

Yes. Uncompensated cost is continuing.

Sabri Hazarika, Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [33]

Okay, sir. And second question is regarding the volume growth outlook, so first quarter was quite weak, almost flat growth across the board, but July has been looking up around 3% growth, Y-o-Y growth was reported for the month of July. So how do you see the volume outlook of oil demand in the country for the next 1 to 2 years, at least?

Unidentified Company Representative, [34]

We don't know, because the growth in the first quarter was very muted.

Sabri Hazarika, Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [35]

Hello? Hello?

Operator [36]

Sir, this is the operator, we are not able to hear you clearly.

Unidentified Company Representative, [37]

What we have found is that in the first quarter of this financial year, the growth has been very muted, especially

(technical difficulty)

We expect the numbers to go up as our economy grows and automobile sector, which is now facing difficulties.

So is 2% to 3% growth rational enough to be taken? Or it could be lesser than that for the year?

Unidentified Company Representative, [39]

We feel that the ESIL growth has to be at least 3% to sustain a GDP growth of 7%, 6.5% to 7%.

Operator [40]

(Operator Instructions) The next question is from the line of [S. Ramesh from Nirmal Bang Equities.]

Unidentified Analyst, [41]

Just two, sir. One is on the petrochemical business, what will be the margins you capture on the propylene transfer in the refining margins? And secondly, in terms of the ballpark upside in terms of revenue and EBITDA margins assuming the 60% to 75% capacity utilization for (inaudible) projects. If you can give us some color on that?

Unidentified Company Representative, [42]

See, in case of petchem, what improvement will happen is that propylene which is being downgraded to LPG will start getting consumed as propylene. So it will have certain improvements in GRM for refinery. As far as petchem is concerned, that is a separate activity, and for that whatever margins will accrue that will depend on the market condition and import parity price of those products which are being manufactured. Currently, it is difficult to give any assessment regarding the margins which are likely to accrue. But we hope that it should definitely accrue, we should get a better margin, but numbers cannot be assigned at this moment.

Unidentified Analyst, [43]

Okay. My second thought is on the losses you are sustaining in the upstream (inaudible) through BPRL. When do you think we can see these losses getting eliminated and generate some cash?

Unidentified Company Representative, [44]

In E&P business?

Unidentified Analyst, [45]

Yes. Bharat PetroResources.

Unidentified Company Representative, [46]

First quarter of this year, BPRL consolidated level that is on a profit because we are getting dividend from the registered investment. We don't expect a significant profit from BPRL in the near future because it has to wait until our investments in Mozambique start earning results, which is expected in 2023, '24, but already our investments in western assets is giving profit and the first quarter results from BPRL is showing a profit at a consolidated level.

Unidentified Analyst, [47]

Sir, so that would CapEx you are planning over the next 2 years, how much of the INR 8,000 crores will go towards the E&P business?

Unidentified Company Representative, [48]

It is not included in Mozambique.

Unidentified Company Representative, [49]

Can you just repeat your question?

Unidentified Analyst, [50]

So -- yes, in terms of your CapEx commitment for E&P, how much of the INR 8,000 crores will go towards BPRL or E&P?

Unidentified Company Representative, [51]

See, INR 8,000 crores is capturing only maintenance CapEx of INR 500 crores for the upstream. It does not include any amount towards Mozambique, the FID which was announced in June.

Unidentified Company Representative, [52]

Actually, BPRL will be able to raise its own loans for funding the Mozambique investment. Our CapEx only captures the equity contribution which is required to be given to BPRL in the first year. Mozambique FID has been announced, and we expect that, that the consolidated level to incur a CapEx of about \$2.5 billion up to '23, '24.

Operator [53]

(Operator Instructions) Our next question is a follow-up from the line of Varatharajan with Systematix Shares.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [54]

Sir, any update on the Numaligarh refinery expansion?

Unidentified Company Representative, [55]

Numaligarh refinery expansion has been approved and majority of clearances have also been received, and the project will start some time in third to fourth quarter, the groundwork will start from that time.

Varatharajan Sivasankaran, Systematix Shares & Stocks (India) Ltd., Research Division - Research Analyst [56]

Any indication on the CapEx and time of completion, sir?

Unidentified Company Representative, [57]

CapEx is proposed to be around INR 22,000 crores, and the timeline is 48 months from the start.

Operator [58]

We'll take our next question from the line of Manikantha Garre of Axis Capital.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [59]

Sir, can you please give me an update on the west coast refinery project? Recently, there has been a news that there is an escalation cost from \$44 billion to \$60 billion? That's my first question.

Unidentified Company Representative, [60]

West coast refinery project is still in initial stages. We have not finally decided actually the configuration, and we are awaiting, first of all, the allocation of sufficient land to setup this refinery. Thereafter, configuration studies are going on. We are not in a position to tell exactly when we will be able to announce the final configuration and that depends -- that will actually be the basis of our final investment amounts for that project.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [61]

Okay. But the commitment from Saudi Aramco and ADNOC is still there or...

Unidentified Company Representative, [62]

Very much there.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [63]

Sure. And the second question, sir, can you please give an update on your CGD business? What's happening from the new set of geographical areas that have been awarded and the previous ones that you have, how much is the contribution and on the progress there?

Unidentified Company Representative, [64]

We have total budgeted CapEx of around INR 5,000 crores for all the CGD areas which have been awarded. And as you know that it takes slightly longer time to start incurring CapEx because you have to get land for developing the city gas station, that main station where the gas will be received from the trunk pipeline. And we are progressing well as far as project is concerned. Certain projects which were started like we have already commissioned Mahbubnagar where we have started selling LNG, CNG both. So there are in various stages of progress.

Manikantha Garre, Axis Capital Limited, Research Division - Assistant VP of Energy [65]

And this INR 5,000 crores is over which period, sir?

Unidentified Company Representative, [66]

5 years. We have committed CapEx as per PNGRB guidelines. We have committed that over a period of 5 years, we will achieve certain milestones. And for those milestones, the CapEx is proposed to be INR 5,000 crore.

Operator [67]

Our next question is from the line of Rakesh Sethia from HSBC.

Rakesh Sethia, Morgan Stanley, Research Division - Former Equity Analyst [68]

Two questions from my side. First, if you could talk about a bit on your expansion plan on the marketing outlet side? How many marketing outlets you're targeting to build over next few years? And secondly, if you could talk about the private competition from other players (inaudible). There have been a couple of deals where international players have taken stake in your competition. And do you think the competition scenario now changes, it increases, and therefore, the risk to the margin emerges? Or how do you see this entire competition landscape now relative to what it was, let's say, a couple of quarters down the line?

Unidentified Company Representative, [69]

We have proposed that we will be commissioning around 6,000 retail outlets over a period of next 3 years. There's approximately 2,000 retail outlets every year. Focus area for these retail outlets is largely on rural side plus on highways. We have already started commissioning outlets out of this new lot of LOIs, which we have issued. Around 60 outlets of that we have already commissioned during the first quarter. So as far as we are concerned, we are progressing well in terms of our expanding our retail network.

As far as competition from private player is concerned, we have to still see that how this development pans out. This announcement has come only a few days back. The last few quarters, we have not seen any major development happening on the front of private competition. While they have been growing in certain markets where they have already established, but rest we are not seeing any major development happening. We have to wait and watch for how future development pans out of the new alignment which has happened.

Rakesh Sethia, Morgan Stanley, Research Division - Former Equity Analyst [70]

So if I can just add one more follow-up. Do you think there is a large opportunity still in the country even after 60,000 outlets of what we have to add a significant amount of capacity? Do you think there's a lot of growth still available in the country in that context? Or you think growth would be selective? How to think about essentially the growth and where this outlet should be?

Unidentified Company Representative, [71]

Growth pattern, if you see in the -- if you see diesel growth has been very muted in the last few quarters. The last quarter, the growth was only 0.5%. So we are not seeing any major growth unless until there is a good revival in the economy. See, otherwise, the auto sector is going through a very negative growth pattern. Until there is a revival in economy and manufacturing sectors, we don't see that diesel growth will happen, which is a major chunk of the product, which is being sold. While some growth is happening in the east and northeast sector, which is still underdeveloped, I think where we are focusing currently on expanding our network.

Rakesh Sethia, Morgan Stanley, Research Division - Former Equity Analyst [72]

Understood, sir. One housekeeping question, if I may. What was your refinery operating cost for the last quarter, excluding depreciation?

Unidentified Company Representative, [73]

Our refinery operating cost is in the range of \$2 to \$2.5. To be precise, it was \$2.06 per MR -- \$2.5 per MR because of certain extra expenditure in terms of CapEx and the lower throughput. So if you look at per

dollar -- per barrel, it is higher. But because throughput was lower due to shut down, it is gone -- it just appears to be on higher side, whereas KR is \$2.2 per barrel.

Operator [74]

Your next question is from the line of [S. Ramesh] of Nirmal Bang Equities.

Unidentified Analyst, [75]

Yes. If you look at the share of associates, it's declined compared to the first quarter last year. So are there any of your associates missing? Also, is there a slowdown in some of the executing gas ventures? And how do you see it shaping up going forward for the next 3 quarters?

Unidentified Company Representative, [76]

You're looking at consol profits?

Unidentified Analyst, [77]

Yes. Under consol profit, your share of profit on equity at foreign investment has come down from [INR 479 crores] to INR 393 crores.

Unidentified Company Representative, [78]

Generally, if you see that BORL profit was at INR 393 crores in the first quarter last year. This year it is only INR 81 crores. And in case of NRL, also the profit was at INR 490 crores last year in the first quarter, it is INR 415 crores. So these are the ones which have had the major impact as far as the consolidated profits are concerned.

Unidentified Analyst, [79]

Sir, can you please repeat the BORL profit for the first quarter last year, INR 180 crores?

Unidentified Company Representative, [80]

INR 193 crores.

Unidentified Analyst, [81]

[INR 190 crores]. No, but these are included in the center for minority interest, sir. I'm talking about the share of profitable equity accounted investment. I presume in NRL and your BORL come in the adjustment of the minority interests, right? Am I correct?

Unidentified Company Representative, [82]

(inaudible) subsidiaries, there only, we (inaudible) investment. BORL is not a subsidiary, they are neutral.

Unidentified Analyst, [83]

Okay. So it's in the share of [joint ventures], okay. And so in terms of your -- in the gas ventures, presumably captured in the share of associates, what was in the outlook we have for this year in terms of the growth in profit or the volume growth? And how do you see it going over the 2, 3 years?

Unidentified Company Representative, [84]

(inaudible) BORL profitability anyhow (inaudible)

Unidentified Analyst, [85]

No. I'm not talking about BORL. I'm taking about the city gas associates. That's also reflected in the share of equity accounted investments, right? Hello?

Unidentified Company Representative, [86]

In our profitability, we are not expecting any significant changes.

Unidentified Analyst, [87]

Hello?

Unidentified Company Representative, [88]

Hello, are we audible?

Unidentified Analyst, [89]

No, I'm not able to hear you.

Unidentified Company Representative, [90]

We're expecting the same similar level of profitability from the joint ventures. There is no significant changes that we are expecting from the joint venture profitability.

Unidentified Analyst, [91]

Including the city gas venture?

Operator [92]

Sir, if you are speaking right now, we are not able to hear you. There's audio break, I suppose.

Unidentified Company Representative, [93]

Profitability, we are expecting at the similar level only, even from the city gas distribution joint ventures. We're not expecting any significant changes in the profitability.

Unidentified Analyst, [94]

Okay. Sir, if I may ask something about your thoughts on the proposal by the [NDR vehicle] discuss fixing tariffs for net losses that go out of marketing, I suppose they would be. How do you see that shaping up? And we expect competition once (inaudible) in Mumbai and (inaudible) in terms of competition under open access.

Unidentified Company Representative, [95]

Question is that process of declaring these entities, like IGL and MGL as open ended and is free to -- for all. That situation is not likely to happen very near future. Whatever decision has been taken by PNGRB has been already challenged by IGL in the court. So we are not sure. It will take time for anything to happen. And even if it happens, it is not going to be very easy for any other player to enter into this market.

Operator [96]

We'll take our next question from the line of Vipul Shah from Sumangal Investments.

Vipul Shah, [97]

Can you give the Kochi refinery and Mumbai refinery GRM for this quarter?

Unidentified Company Representative, [98]

(inaudible) GRM was 3.49.

Vipul Shah, [99]

For Mumbai? Hello, hello?

Unidentified Company Representative, [100]

Hello?

Vipul Shah, [101]

Yes, Mumbai?

Unidentified Company Representative, [102]

Mumbai is 3.49.

Vipul Shah, [103]

And Kochi? You are not audible, sir. I'm sorry.

Unidentified Company Representative, [104]

It is [0.33].

Vipul Shah, [105]

3.33.

Unidentified Company Representative, [106]

[0.33].

Vipul Shah, [107]

Okay. So is Kochi performing as per the expectation?

Unidentified Company Representative, [108]

Kochi, as far as throughput is concerned, it's performing as per expectations.

Vipul Shah, [109]

But as far as GRMs are concerned, is it performing as per expectations?

Unidentified Company Representative, [110]

GRM, if you look at based on the assumptions, it is supposed to process an advantage in terms of (inaudible) differential for low sulfur versus high sulfur. The difference between these 2 groups have been very low and at times, have been negative. To that extent, the benefit which is supposed to accrue to [GRM] has not been accruing. Otherwise, the performance of GRM is going well.

Operator [111]

Our next question is from the line of [Sumeet Rohra] from [Smart Sync].

Unidentified Analyst, [112]

Sir, just a couple of questions I wanted to ask you. How many outlets do we have currently? Because I heard that you're looking to add about 2,000 outlets every year. So how many outlets do we have currently? I mean the reason I ask this, sir, is because of the deal just announced yesterday. It clearly seems that the fuel outlets in India are considered to be very precious asset, but unfortunately, I mean, I don't see that happening as investors for our companies. So if you can please give some light on the outlets and what's the marketing strategy we have basically going ahead?

Sir, second -- my second question to you is on GRM. We've seen a very good revival in GRMs over the second quarter of this financial year. So can we assume that we should be close to Singapore benchmark GRMs or even slightly higher, I mean, for the quarter?

And sir, thirdly, can you please also give a little bit of update on your marketing margins? Because I see that marketing margins have been faring quite decent and, in fact, one of your peers also had a conference call and they have guided very good marketing margins for the rest of this year as well. So can you please throw some outlook on the following 3 topics, sir?

Unidentified Company Representative, [113]

It would have been better if you'd asked one question after the other because these 3 questions [are repeated]. I'll try to take the first question. As far as the retail outlets are concerned, we have today about 14,900 outlets. Within 3 years, we are actually planning to set up 2,000 outlets each.

And the other question was on the marketing margin, we are having a normal market (inaudible). We have some ups and downs in certain days or certain weeks. But otherwise, what happened in the first quarter, we have had only normal normalized marketing margins of around INR [1,495] per liter for both these (inaudible).

Unidentified Analyst, [114]

Okay.

Unidentified Company Representative, [115]

Are there other question, which has remained unanswered?

Unidentified Analyst, [116]

Sir, the other question was on the Singapore GRMs. Sir, currently, I mean, we've seen GRMs averaging about \$6 so far. So should we basically be able to be equal to the benchmark or are slightly higher?

Hello?

Unidentified Company Representative, [117]

That can be probably taken. But in terms of numbers, it would be difficult to say that refinery margins in India actually will grow related to Singapore margins because Singapore refineries are essentially (inaudible).

Unidentified Analyst, [118]

So what type of (inaudible) of GRM we should expect, sir?

Unidentified Company Representative, [119]

The margins of our -- the Indian refineries in the second quarter also could be slightly muted because of the crude prices are coming down in the -- especially in the second quarter, but especially in the month of August. Expect that crude prices for the Q2 to be slightly lower than what was the crude prices in the first quarter. But what it will reflect is some sort of inventory losses in refineries, unless the price level changes significantly from today. So that could -- I do not think that we will have a \$6 margin for Indian refineries or

our refineries in the second quarter. Expect improvement in the refining margins in the third and the fourth quarter.

Operator [120]

Our next question is from the line of Rohit Ahuja from BOB Capital Markets.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [121]

Sir, I wanted to know about Bina refinery operating costs.

Unidentified Company Representative, [122]

Bina's [total is] \$2.5

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [123]

Hello?

Unidentified Company Representative, [124]

Hello?

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [125]

Yes. It is \$2.5 you mentioned?

Unidentified Company Representative, [126]

Bina as well as the element was freight also.

Hello?

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [127]

Hello? Yes. I'm not -- it's not clear, can you please mention again about the operating cost agreement?

Unidentified Company Representative, [128]

We will just come back with it.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [129]

Okay. Any details on the expansion plan at Bina? I assume you will add some capacity there.

Unidentified Company Representative, [130]

(inaudible) has just completed its local debottlenecking project, some 6 million metric tonne per annum to 7.8 million metric tonne per annum in the last year. And we do not have any immediate plan for Bina expansion. Depending upon how demand grows, we will take a call in the near future. Having said that, Bina definitely does have space and other necessary requirements for scaling up from 7.8 to 15, but we will take a call and commit the investment once we see the growth in demand.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [131]

So from the perspective of Oman oil, are they in agreement to invest more equity in it or with the expansion plan or you're going to -- there could be some change in ownership structure there?

Unidentified Company Representative, [132]

We are still in discussions with Oman on plans to invest in their expansion plan as and when it actually takes shape. At the moment, we are not discussing with other investors for this.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [133]

Right. You also had expansion plan on Numaligarh. Could you, please, explain the status of that?

Unidentified Company Representative, [134]

Yes, but the Board has approved our investment in the Numaligarh refinery expanding its capacity from 3 million tonnes to 9 million tonnes, investment of about [INR 22,000 crores]. And we find 2 reasons to justify this investment: one is that the eastern side of the country, the growth in product consumption is much, much higher than what we experienced in the -- compared to other places. And secondly, we expect to get and continue to get the benefit of excise duty benefits, which is available to (inaudible) refinery.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [135]

So the benefits should continue on and there is no sunset clause for the benefiting? It would just continue until the time it's notified by the state owners, that's how it works?

Unidentified Company Representative, [136]

We are given to understand that there is no sunset clauses.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [137]

Right. Sir, lastly, on Mozambique. Could you explain what's the status now since that FID has been finalized? And how is the JV progressing with the CapEx plan over there?

Unidentified Company Representative, [138]

(inaudible) 2019, and the major contracts are being awarded. Most of the contracts were kept (inaudible) and we were only waiting for the FID announcement

(technical difficulty)

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [139]

Hello?

Unidentified Company Representative, [140]

Are you able to hear me?

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [141]

I didn't get it, sir. Can you please repeat that?

Unidentified Company Representative, [142]

See, we have announced the FID in the month of June of 2019, and all the major contracts and the [ESDs] were actually finalized before that, and all the major contracts have now been awarded in stages. Most of them will get awarded by the -- in this quarter itself. We expect the progress of Mozambique to be very satisfactory. And of course, we have to come out as announced by 2023, or the beginning of 2024 calendar year.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [143]

Sir, what will be your share of CapEx? And could you share what will be the funding arrangements from your side?

Unidentified Company Representative, [144]

Our CapEx for the first 2 trains development will be \$2.5 billion at a consolidated level.

Rohit Ahuja, BOB Capital Markets Limited, Research Division - Analyst [145]

Right.

Hello?

Unidentified Company Representative, [146]

\$2.5 billion at the consolidated level will be our share of CapEx for Mozambique.

Operator [147]

(Operator Instructions) Our next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [148]

Just wanted to understand, is there any facilitation agreement for other private players currently that, let's say, if they want to pick a product in Kelala or, let's say, in Maharashtra, they can pick it up from you or they'll have to source it on their own?

Unidentified Company Representative, [149]

It depends on the kind of commercial agreement which we can have with them and depending on our availability of product.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [150]

Okay. So currently, [SR] or Reliance, we do supply products to them in these locations?

Unidentified Company Representative, [151]

Can you repeat this question once again, please?

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [152]

I was asking, in Maharashtra and, say, in Kelala, because you have the refineries there, do we have a facilitation agreement? Or, let's say, currently, we supply Reliance and SR for their marketing division, do we supply petrol and diesel, or they have to manually or will they have to source it from the nearest -- they have resource it on their own?

Unidentified Company Representative, [153]

We are supplying (inaudible) products to Reliance and SR for their (inaudible) operations.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [154]

Oh, we are supplying to them. Got it, sir. And secondly, in general, in your understanding, are the most -- volume-wise, are all the locations taken or you still think that the heavy volume locations, a lot needs more coverage? This question is more in the light of the competition is what I'm asking.

Unidentified Company Representative, [155]

(inaudible) is actually you have mentioned, we are expanding our retail (inaudible) because we see further potential to grow in the marketing segment. Our retail outlets are really the highest in the country and we'll be players, accepting the new pilot players who are fortunate (inaudible). We have confidence that our market growth will continue. Share of the market share will grow from the present 29% to 31% as we grow in terms of numbers of (inaudible) 13%, 14% [today].

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [156]

Okay. Got it, sir. And just if you could explain the capital expenditures split for current year, this INR 8,000 crores? And also, if you could give the number for the next year.

Unidentified Company Representative, [157]

So about the INR 8,000 crores planned for the current year, petchem, around INR 1,825 crores; pipeline, around INR 300 crores; INR 2,500 crores for marketing; and all others, like research and development, JV investment put together is the remaining; the CGD and gas business, around INR 200 crores; and E&P upstream, it is around INR 800 crores.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [158]

Okay. And for the next year, if you could give a number?

Unidentified Company Representative, [159]

Next year, refinery is around INR 4,000 crores; petchem, INR 3,000 crores; pipeline, INR 670 crores; marketing, INR 2,800 crores; upstream, INR 1,200 crores; gas and CGD, INR 450 crores. Upstream will be only equity investments.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [160]

Upstream will be -- and just one final question for the Kochi side. So assuming the -- I mean, the Brent differential's widened and light heavy widens, can we -- can we go to what -- until what level can we grow - - go to in terms of crude sourcing, in terms of the heavy high-sulfur crudes?

Unidentified Company Representative, [161]

This has a potential to process 100% high-sulfur crude if prices are attractive.

Vishnu Kumar A.S., Spark Capital Advisors (India) Private Limited, Research Division - VP [162]

Got it. And then currently, at what level are we there at Kochi, sir?

Unidentified Company Representative, [163]

About 80%.

Operator [164]

As there are no further questions from the participants, I would now like to hand the conference back to the management for closing comments. Over to you, sir.

Unidentified Company Representative, [165]

Hello?

Operator [166]

Sir, back to you for closing comments.

Unidentified Company Representative, [167]

Hello?

Operator [168]

Sir, we are not able to hear you.

Unidentified Company Representative, [169]

There was a question on Bina OpEx, so Bina has an OpEx of \$2 plus a placement cost of \$1. Total OpEx for Bina is \$3 per guidance.

We thank SBICAP Sec for arranging the con call, and we are happy to interact with the investors and analysts. Thank you.

Operator [170]

Thank you very much. Ladies and gentlemen, on behalf of SBICAP Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.