

Management Discussion

Varatharajan Sivasankaran - Analyst, Antique Stock Broking Limited

Thanks Alaric. Good morning, everyone. It's my pleasure to welcome all the participants, as well as the top management of HPCL. Today, we have Mr. Vikas Kaushal, Chairman and Managing Director; Mrs. Srividya Venkataraman, Director, Finance; Mr. S. Bharathan, Director Refineries; and Mr. K Vinod, Executive Director of Corporate Finance with us. I'd like to take this opportunity to congratulate Mrs. Srividya Venkataraman on taking charge as Director Finance, and wish her all the best in the role.

I'd like to hand over the call to Mr. Vikas Kaushal for the opening remarks.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Good morning, everyone. Pleasure connecting to you early in the morning -- on a Friday morning. Hopefully, look -- Thursday morning. I was thinking it's Friday, but maybe I need the weekend soon. This is our first quarter one analyst call. Before I get started, as it was introduced, I'm joined by Mr. Bharathan, Director Refineries. Srividya, who's just joined us as Director, Finance recently. We are very privileged to have her as part of our Board, and this is her first call, and I'm sure you're going to hear from her now and even going forward. K Vinod, you know from the past and all the other colleagues.

I was preparing my opening thoughts for this and we'll follow the same pattern which we have been doing in the last call. I'll speak for five, seven-odd minutes and then open it up for Q&A. So we last spoke on 13th of May. And I was reflecting last night as I jotted down some points on what the quarter was. It seemed to me circle of life and twice over in this quarter. It almost seems to have lived a lifetime. Why did I make that comment? Well, we had the Rajasthan refinery, there was a high on 20th July waiting for the inauguration, an incident on -- sorry, 20th April, waiting for the inauguration. Incident of a small fire in the CDU, we had to postpone it. And then we recovered from that. And July 4th, we dedicated that asset to the nation. That was one circle of life. The second one was on the performance. 13th we spoke on a high of INR17,175 crores of FY '26 to the negative of this quarter, which I'm sure you have analyzed ad nauseam since last evening. That's the second circle of life.

These are times we live in. You all have also agonized it on Excel sheets. We have agonized on it on a daily basis over the last quarter. A lot of challenges. We'll talk about it, but very proud of the way our team fought it on a daily basis bravely and managed to keep the supply chains going in times of high uncertainty. At moments like these, we take high and low in our stride and move forward.

Coming to the current situation, I will not talk much about it. All of you track it. We know the uncertainty which prevails. Just one benchmark talks about it, what was crude 30, 40 days ago, what was it 20 days ago, what is it now? So that's a highly uncertain situation. It poses four key challenges to any team like ours, which is operating on it. First, extreme uncertainty on price. I talked about crude. At one point in time, you are taking a benchmark, which is going -- Brent is going into 110s and 115, you are buying it in one and a half, two months in advance. And then suddenly it drops \$25. So what do you do with that inventory? And by the time you figure that out, it goes up to \$96. So extreme uncertainty on prices. And also -- not only on the crude, also on the cracks. So cracks have been less volatile, though they have been consistently high.

Second, on an operating basis, we had to take, or any refiner had to take a lot of decisions based on availability rather than optimization. So during this period, most refiners, most certainly us, could not

run the most optimal crudes we would have want to run for our assets, for a very simple reason, some of them were sitting on the other side of Strait of Hormuz. There is no way of getting them out. So a lot of nonregular crudes. The idea was to keep the throughput going. And as a refiner, which is refining and marketing company, which is working to keep the wheels of motion -- wheels of the nation in motion, we had to make sure the throughput was there. So we didn't have that option of going down our throughput or we didn't exercise that option.

Third, there were demand pressures. If some of you've tracked the industry, there have been spike in the demand. There were days when our supply chain was required to put in 40% more product into the market. Those are not things which are usual. You can all imagine what kind of challenges exist on the supply chain.

And last point I want to say, it's a constant challenge. Many of us in services industry, I belong to that industry, often get Saturdays and Sundays. I would say our teams don't get that also. And the fact that it has been now going for 120 days is not -- it needs a lot of wear and tear. Having said that, I will once again reiterate that I'm extremely proud of the way HPCL has performed, notwithstanding the numbers. And I know we will get a lot of questions on the numbers. We are ready for that. The organization has delivered under the crisis, kept the assets running and it's managed to keep the customer expectations going. As I said, it takes a lot of effort to manage the crisis, and the teams are focused on it. Yet as we were doing it, we are also keeping an eye on the future and taking some fundamental improvement initiatives. The numbers are all there, and I'm sure everybody has looked at it. I chanced upon at least three or four flash reports from analysts, I read them and very fair observations by many of you, and we'll address those questions in our thing.

What I wanted to cover in the remaining part of my opening dialogue are just two things. One, just a couple of key events which have happened in the recent past. And then I want to talk about, which I'm sure you want to hear, what is our response strategy to the current situation. On the event, the biggest one was HRRL. Finally, we have a running refinery in Rajasthan, Rajasthan's first refinery. We declared scheduled commercial operation on 22nd June. The refinery is ramping up. As of now, CDU is running at 60% capacity utilization. And slowly, we will get other trains of downstream units going up, diesel, MS and a lot of other units are there. And likely today, tomorrow, PFCCU, which is one of the money-spinner units of the refinery is also going to be in line and a lot of effort has gone on there. We are expecting the refinery to ramp up to the full capacity in quarter three and petchem by end of the financial year. But the refinery gains -- and running the CDU at full capacity would be at quarter three. During this period, we have already tested the CDU at a full capacity run for a period of a couple of days. So right now, we are running it at 60% utilization.

Second was an exciting small pilot, but I wanted to highlight it because it shows you the mindset on what we are operating at. Some of you might have got the news of our latest LPG product called HP Navya. It was launched on 15th July, which was our 52nd foundation day. It's an on-demand premium LPG product sold through new channels, new look of cylinders, new delivery mechanisms, new channels. In Bangalore, we are piloting it with Swiggy. Right now, it's available in a radius of 5 kilometers, but slowly will be ramped up. In Mumbai, we have started it through our own channel. We are expecting to hit five more cities by 31st July and 25 cities by 31st August. And pan-India -- it will be mostly urban-centric, so pan-India, about 200 to 250 cities by Diwali, which is again -- the idea is to move some of the -- for people who are willing to look for comfort, who are willing to look for better service and pay a price for that, LPG will be available in a different mechanism, a different mode in India, no longer wait and no longer you'll have to call up people to get an LPG cylinder. You

can go and pick it up from your neighbourhood shop. There are some other interesting pilots which we are doing on use of biomass and fuel. I'll not talk of it there. In subsequent meetings, we'll probably cover that.

Obviously, we have -- I'll come to the second point, which is the response strategy. You've all seen the numbers. As a management team, any such numbers disappoint. They don't surprise. You can always say there was a margin of surprise in the end because of, I would say, inventory write-downs, etc. But we knew what was coming, and we have prepared our response strategy on it. There is a seven-pronged response strategy, which we are working on, and I will elaborate that. At the end of it, then I'll stop and open it up for questions.

First is about improving our balance sheet. What gave us strength at this point of time was the fact that last four years, we have improved our balance sheet. Those of you who have been on the calls would recall that our debt-equity had changed from 1.43 at the beginning of last year to 0.8

At the end of the year. That gave us the headroom to withstand this crisis. Right now, it has risen up to 1.5 again. The debt is INR72,000 crores. And as we speak, we added about INR1,900 crores a week during this period, last 13 weeks. But this organization knows how to correct it. At the Ukraine crisis, the debt-equity went up to 2.33. It came down to 0.8 in about three years. I'm very sure it will come down faster this time. And this will be one of our first objectives on making sure we climb down on the debt-equity and create that headroom again. Very difficult to give a forecast given the prices there. But obviously, this is on top of the agenda for Srividya, me and other corporate finance team, which will be looking at it on a daily basis.

Second, in response to the time is the capex control. As it is, we have set a lower capex. Most of you who have tracked us for a long time know that we are at an end of a long capex cycle. Things are starting to fall in place. Taking a bit more time than we would have liked in terms of stabilization. But nevertheless, they are falling in place. We don't have to spend that much of money. As a result, our annual target, which we have agreed with Government of India, if I remember correctly, is somewhere INR9,700 crores or in that ballpark. In the first quarter, we spent about INR1,700 crores roughly. And all of that is -- I would say most of that is essential thing. You still have to spend on turnarounds and you have to plan for your turnarounds, etc. You have to buy the cylinders, all of its growing capex. So at this point of time, we are really focused on -- especially in the short-term money outflow on really critical capex. It's very tightly managed and prioritized. If the current situation prevails, we would expect the capex to be lower than INR9,700 crores also. We want to conserve cash as a management team.

Third response strategy is interest costs. With the rising debt, we do have interest costs, though they have been very tightly managed. And last year, you saw how we came down on the interest cost there. Right now, a couple of things we are doing, looking at all kinds of avenues for our parent balance sheet and also the HRRL balance sheet, which is the bigger subsidiary debt or joint venture debt we have, obviously, leveraging the ECB window, etc., some of those things. But the idea is to get our interest costs in control. The seriousness of this you can know from -- if you track our receivables, you'll see how they have come down and have stayed down.

Fourth response strategy is profitability improvement, making up assets work more. You have tracked us on the Samriddhi Program last year. We came in with about INR1,600-odd crores. I don't remember exactly the split between recurring and one-time, but the recurring ones have already been baked into this year's plan. Of course, with what happened in the first quarter, a lot of plans got topsy-turvy like last minute movements, etc. But nevertheless, we have reinitiated after a hiatus

of about three months in the crisis. We have reinitiated Samriddhi 2.0. We already are working on 100-plus idea. We have taken -- despite only nine months left in the quarter or three quarters left in this year, we have taken an aggressive target of INR1,500 crores on a run rate basis, and we are going to aim for INR1,000 crores on accruals in this. This would come in, in three or four forms. There is obviously cost takeouts. There is also an emphasis on a top line improvement. Again, happy to give you details now or later in the call on one-on-one discussions. And then there are also some of the things we are trying to do more on intermediate movements, which can saturate our refineries, etc. better. More on that topic in my -- one of my next response strategies.

The fifth one is winning in retail. Some of you tracked, we are at the end of a marketing company. Very proud that we have been listed in top 20 brands in India across all sectors, across all companies. We have continued our efforts on increasing on the retail side. Last year, we talked about retail improvement Abhyuday. We have done it about 4,500 outlets. It wasn't the most successful program. As a management team, we would have liked it to perform better, but we learned a lot from it, and we have launched Abhyuday 2.0 at 4,900 retail outlets, and we have been at it for the last three months. Of course, if I just wanted to give a metric of volume increase and without doing anything, my volume -- throughput of my retail outlets increased because of the demand state-owned enterprises had on their retail outlets. But we measure apple-to-apple and getting good early results.

From the measurable set, we are getting about 100 to 150 basis point higher growth on our 4,900 retail outlets. This is over and above the market growth, which is, I would say, the tide rising, but our Abhyuday outlets are starting to outperform the non-Abhyuday outlets in the market. So -- parallelly, we are also focused on nonfuel. It's a small part of our bottom line, but nevertheless, something which starts adding to bottom line. And we are very hopeful by end of this March, we will start seeing this as an additional line on our P&L in terms of contribution.

The sixth area is refinery improvement. That is obviously one of the biggest ones. We do have headroom on our refineries to improve further. There are three or four things which we are aiming at. First, in the next three quarters, as our refineries sort of settle on to the new paradigm, we are going

To be increasing sourcing for our internal things. One of the things which has hit us this quarter is our need to satisfy our marketing footprint by buying from third-party players. That dependence is going to slowly reduce. In fact, if I count my own refineries and the joint ventures, by end of this year, I would be almost self-sufficient, maybe surplus on some products by taking in total of my own refineries and joint ventures. Two major efforts on this. We talked about HRRL ramp-up, and I'm sure there is -- we're going to have questions on RUF. That also we have been in the process of stabilizing. So RUF technology, we've had a couple of, I would say, unexpected technological challenges on it because it's a high pressure, high temperature kind of a situation. Dealing with tons and tons of catalysts becomes difficult. But we are mastering that art slowly, and this will start giving us both product and consistently addition on the bottom line.

In an essence, we are making our assets work more. Our turnarounds are much sharper. They finish bang on time now. We are making a very concerted effort on energy cost because between the two refineries on our balance sheet, we probably will be spending close to INR2,000 crores or even more crores on energy. So that's one effort -- it will be actually much more if I add fuel and losses. That's one effort we are doing. And I talked about intermediate stream leverage. There are some interesting experiments we have done on buying intermediates to satisfy some of the units where

there was potential to look at it. So whether it is VGO or PyGas, we have been making those efforts. Last but not the least, with three refineries fully working and then even joint venture of HMEL in the fold, we are looking at even crude optimization across our refineries a lot more. Having a significant storage capacity at Mundra for HRRL gives us the flexibility of doing innovative things like bringing in VLCCs there and shipping it to Mumbai in a different fashion. So there's a lot of effort going on, on our refinery performance. The last but not the least is the effort we've been talking about is on the digital side. Again, it's not only about just the fancy world of AI, but it's hardcore using digital to improve efficiencies. We've been talking in every quarterly call. From the last time to this time, we have launched the supply chain optimization solution. We are working on it. This will help us optimize our movements much sharper in a state-of-the-art tool. And a lot of digital and analytics use cases are being worked on and focus is on efficiency measures.

So those were the seven, I'll recall; improving our balance sheet, capex control, lowering the interest cost, profitability improvement program, Samriddhi 2.0, winning in retail, refinery optimization and improvements and digital. How do we look at the future? As a management team, we look

At the future with a lot of confidence. I can look at the last quarter and say there is this negative. That's fine. It is there. I can't do anything to undo it at this stage, but we are very confident of our future. Lot of foundational elements, some which we will talk and some which we will not talk in this call are in place. The ones we will not talk, we want the world to see them down the line and some of you guys to find it out yourself on how this happened. But we look at the future with a lot of confidence. We will be turning around the current situation. Hopefully, by the time quarter call -- second call happens, you all would be happier with the numbers. We are coming out of the crisis stronger, with a more balanced portfolio and hungrier.

That's all I have to say in my opening comments. Thank you for your patient hearing and also the continuous interest in HPCL. As I said, keep your detailed reports flowing. Even if you praise us or critique us, all of them are very valuable. I did mention earlier, all the reports which came my way on WhatsApp since last night, the flash reports, I have personally gone through all. Very interesting comments and good analysis. So keep that coming. And of course, we are happy to take questions now, me and my team. And also if anybody wants to meet us later, we are more than happy to meet you separately later.

Thank you. And over to Varatharajan and the team for moderating the call.

Questions & Answers

Operator

[Operator Instructions] The first question comes from the line of Probal Sen with ICICI Securities. Please go ahead.

Probal Sen - Analyst, ICICI Securities

Good morning, sir. Thank you for the opportunity and thank you for the very detailed and extremely useful briefing at the beginning of the call. I just had a couple of questions, perhaps from a slightly near-term perspective. You had, I think, spoken in detail last quarter in terms of the sourcing that you had in place and the kind of number of days of inventory. Can we just get a sense, given the flare-up in the crisis again, how you are looking at sourcing? Q2, I assume, would have anyways been mostly tied up at this point of time, but looking forward to Q3, are you facing any fresh challenges in terms of arranging for sourcing, given what is happening in the Strait of Hormuz right

now? And, what's the strategy and what's the kind of mix, if you can provide any color in terms of how your crude sourcing is looking at, specifically now that your Rajasthan refinery is also up and running. So obviously our crude requirements have gone up to that extent.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yes. Thanks, Probal. This is a dynamic time and just to be very predictive on what we are going to do on sourcing is very difficult. Just to give you a sense, at the beginning of the year, we always do a term and spot mix. This time in the first quarter, we hardly got anything from our term contracts because a lot of the term contracts are sitting on the other side of Strait of Hormuz. Having said that, we are very well covered for our crude till end of August fully. In fact, yesterday, we were starting to buy for September. There is always barring one cargo, which is stuck here and all, but those are operational things we are able to handle. I'm first talking of crude only, then I'll talk of LPG itself.

I think crude availability is not an issue. Pricing, of course, goes up and down and it's very difficult to handle given -- you're always buying dated Brent and five-month pricing or two months prior pricing. So less of a challenge on crude sourcing side. So we don't anticipate an issue on crude sourcing at this time. So we don't anticipate an issue on crude sourcing. There is enough crude which is available. In terms of mix, I think with what is happening and moment HRRL is at full steam, actually, the mix plays more into our hands right now because if you look at it, both of our bottom Upgradation, RUF is still in stabilization phase, as I said, and Rajasthan -- while delayed coker has started, but a couple of units have to get on stream for us to get it full there. But moment HRRL -- RUF is stabilized and HRRL is at full capacity on the refining section, we actually will be even more stronger positioned because we can buy even dirtier crude. So on crude, I don't see an issue.

On LPG, I think it's once bitten twice shy. All OMCs have worked very hard to diversify the mix. One of the things -- pre-crisis, all of our ships used to be looking at Strait of Hormuz and buying and turning up and down there. We've been buying a lot of cargoes from US and other places also. So I think LPG is much more -- I think we have learned the drill. There is lot of muscle memory now on how to do it. Of course, the situation is very dynamic. Things could -- bombs flying all over, it is a difficult thing. So we'll adapt as it is. But I'm not worried about sourcing of either LPG or crude at this point of time. Pricing, of course, is a concern.

Probal Sen - Analyst, ICICI Securities

Got it, sir. And with respect to just the inventory movement that you mentioned, it's fair to assume that there would probably have been a negative inventory impact in the quarter, both for the refining and marketing segment, and that will probably reverse in this quarter given the kind of spike we're seeing in prices, or it's too simplistic to look at it in that way at this point of time?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yeah, I think part of the statement is absolutely correct, Probal. We did have a significant amount of inventory, and also two things happened in this quarter. You should remember that it was very uncertain times to secure more inventory. At least we carried more than usual inventory with us. That was a conscious call we took because, as I said, we were first looking at keeping the throughputs going. And also during the month end, some cargoes which are stuck in Suez, they landed. So we did carry more crude into our tanks on 30th of June. Obviously there is a write-down on those given where the prices are, and one can say, you would have anticipated that drop. But I will be wrong in saying if I would have thought the crude will drop \$25 in a matter of two weeks there. So to that extent there will be a reversal automatically. How much, very difficult to predict

because it is now again going up at \$95. If it goes to \$120 there is a different reversal. If it goes down to \$75 there is a different thing. But July onwards we are carrying a reasonable amount of marked down crude. We did carry a lot of marked down crude, so July we have been running markdown crude.

Probal Sen - Analyst, ICICI Securities

Got it. Sir, one last question if I may, just a housekeeping one. What was the LPG loss on a per-cylinder basis for the quarter and what is the kind of level we are seeing right now?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I don't have the quarter number. June it was INR680 per cylinder, July it dropped INR490 per cylinder. Quarter things my team can give it to you later, if you want the averages. I just have the June and July number with me.

Probal Sen - Analyst, ICICI Securities

No problem, sir. Thank you so much and all the best.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Vinod is giving some additional numbers. 510 was for the whole quarter?

K. Vinod - Executive Director, Corporate Finance, Hindustan Petroleum Corporation Limited

For the three months?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

For the three months, it was 510 per cylinder loss.

Probal Sen - Analyst, ICICI Securities

All right, sir, that is very, very useful. Thank you so much. I'll come back.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thanks, Probal.

Operator

The next question comes from the line of Puneet Gulati with HSBC Bank. Please go ahead.

Puneet Gulati - Analyst, HSBC Bank

Yeah, thank you so much and great effort on managing the supply chain in these tough times. My first question is, if you can help me understand how should one look at the refining margin which you say is without the SAED impact? When you transfer it within the firm from your refinery piece to your marketing piece, do you adjust for an impact of SAED for transfer, or is it full price? How should one think about this?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yeah, this is adjusted for SAED. The reported numbers are adjusted For SAED. Sorry, Srividya is just giving an additional data point.

Srividya Venkataraman - Director - Finance, Hindustan Petroleum Corporation Limited

Even when our own refinery is transferred to the marketing, it's done after writing down the SAED. So it's net of SAED, the transfer happens.

Puneet Gulati - Analyst, HSBC Bank

Okay. So even when you transfer it within the domestic universe, it's an ex-off impact. Okay. And secondly, on the product side there was this price increase on petrol, diesel. would it still have resulted in marketing gains, or is that still counted as -- at the same price?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

See, for the whole quarter, there is a significant under-recovery on this. This has been said even on the public platforms by a lot of people, including high-ranking government officials. So there has been a significant -- just to give you a sense, the marketing under-recovery for the whole quarter was upwards of INR26,000 crores, 20 of which was -- and these are rough numbers -- was on MS and HSD put together, and about -- remaining was on LPG. So it was a significant under-recovery for the whole quarter. Every liter which you and I were buying from petrol pump was being subsidized by one of the three OMCs.

Puneet Gulati - Analyst, HSBC Bank

Understood. And can you give a sense of -- obviously the pricing has moved up again. Is there still significant under-recovery at this point of time? And if we account for a combined margin, are you in a better state and in a positive territory at your refining spread with your marketing loss?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yeah, I think this is a very, very dynamic situation. Just in last three days, the crude has gone up -- three working days -- it's gone from 85 to 96. So it's a very difficult one to predict. And given that -- as it is, we have not given too many forward-looking guidances, though we gave some last year. But this is the least time as a management team we would want to give forward-looking guidances. Having said that, I will say that we were happier with July. We hope we'll be happier with August. I would say -- no point getting into specific numbers because you guys can do your own backward calculations. You are very smart around it. But it's a very dynamic time. Before we speak tomorrow, if anybody caught the news today, one Saudi product tanker is on fire in the Red Sea. Houthis have done that. So that's at least floating around in the media right now. I don't know whether true or wrong. So it's a very dynamic situation. Crude could go \$100 tomorrow, or it could drop \$10. So we'll have to take it as it comes, but we were happy with July.

Puneet Gulati - Analyst, HSBC Bank

Understood. That's very helpful. Thank you so much and all the best.

Operator

[Operator Instructions] The next question comes from the line of Amit Murarka with Axis Capital. Please go ahead.

Amit Murarka - Analyst, Axis Capital

Yeah, hi, good morning and thanks for the opportunity. So, firstly, on the quantum of inventory movement, would you be able to ballpark provide that as to how much was lost at crude or marketing?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

See, same question Amit was asked last time, again, you leave that with us as a number. All I would say, and I made the statement earlier, we were carrying higher crude inventory and we also were keeping sufficient product. So in a normal situation, I wouldn't have carried that much of crude in my

tanks, which I was carrying on 30th of June, because we were apprehensive that war could go anywhere all the time. So it is a significant number. I'll give you one more cue. My team is going to kill me after that, but if you net it off, the loss number would have been on the other side of five-digit number by a good margin. Remaining you can calculate yourself.

Amit Murarka - Analyst, Axis Capital

Got it. And on the Vizag bottom unit, you mentioned that like you have faced some issues with catalyst handling and all. So, by when do you think you'll be able to stabilize that unit and start contributing fully to margins?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

So at 8:45 today morning, my Head of Refinery told me that he is hopeful of getting it stable very soon. Now, I don't know whether he was evading that question. That's the first call I make when I leave home to get to work. Jokes apart, I think let's also recognize that it is a a very, very technically complex asset. I've given this in the last call also. Imagine running something at 380 bars at 400-degree temperature. And I told last time, just to see how powerful that reaction is, the walls of that reactor are 25 centimeter thick. So it's a challenging situation. We are learning the art of doing it. Even Lummus as a technology provider has not run -- this is the first time they are running a unit this large there. Again, it's a technological leap HPCL has taken. The good thing, it's an engineering problem, and engineering problems can get solved more easily than financial or pricing problems. Our team is working on it. We are getting faster and smoother. We are hoping to have good run on that in this quarter itself, and in the next quarter itself, hoping to have it fully stabilized there. And I remain hopeful God will be kind to us in making our hopes get realized. It will start giving us a significant thing. It will also, as I said, significantly shift HPCL's -- with HRRL and Vizag RUF coming fully on stream.

So, on a run rate basis, third quarter onwards, I would hardly be dependent on anybody except my own refineries and my JVs for diesel. On MS, I'll probably need only 10% MS from anybody else. So we are in that phase where we are really hoping our assets will start working on it. And as a CEO, I'm impatient for RUF to get started soon, but as a practical person, I have to give my team the entire space to get it running and learn the technology. We'll get there. We are very, very confident about it.

Operator

Thank you. The next question comes from the line of Yogesh Patil with Dolat Capital. Please go ahead.

Yogesh Patil - Analyst, Dolat Capital

Thanks for taking my question, sir. Capital expenditure side, INR1,734 crore kind of a capex during the quarter, has seen a sharp reduction on the sequential basis. Could you please share the number that expected capex for FY27? And in addition to this, suppose the FY27 capex might be on a slower or lower side, considering that, kind of, higher under-recoveries and on the oil products, which segment of our company, like refining, marketing, pipeline, or CGD, will take a hit on the capex side? Any broader understanding if you could provide.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yeah, I think I gave the understanding on the broad numbers. We said 9,700 was the target we had taken for the year. We expect it to be lower than this. Obviously, we will react to the environment. If

the thing is benign in the next quarter, we will spend some money. If it is not benign, we will conserve that money. And 1,700-odd which we have spent right now also includes a lot of money which has been spent on buying equipment, catalyst, etc., for the upcoming turnarounds, which are absolutely essential for keeping our refinery running. In fact, all of the refiners have been delaying turnarounds in the last few months to keep the product flows going.

Which segments? I think a lot of it is around discretionary things, things we would want to do more. Like, I can always upgrade 200 pumps in a year, I can upgrade 1,000 pumps in a year. If I have more money, I will upgrade 1,000. If I have less money, I will upgrade 200. On the refining side, the major capex has already been done. There are a few projects going on, but for a company of our size spending 4,000 crores, 5,000 crores on a 4-year, 5-year long project is not too much of an issue. There will be periods where we can accelerate that spending. There are other things where we can spend in terms of, I would say, administrative expenses, upgrading some of our infrastructure. Those things we can always postpone, that we can do it one quarter later. So that's something the management team will take a call on, but nothing critical will be starved of funds, and yet the discretionary spends can be pushed back a bit.

Yogesh Patil - Analyst, Dolat Capital

Okay, touching to the same, any number you would like to share with us for the FY27 capex? And secondly, sir, India has oil SPR reserves of around 5.3 million metric tons. Was it available for all of these oil marketing companies or any refiner during the Q1 FY27, considering the sourcing?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

All reserves, all things were available to everyone. And all I would say, not only HPCL, every single refining company and marketing company, private and public, collaborated extensively during this period to get the country out of the crisis. The amount of collaboration which happened, I guess, none of you can even imagine. So SPRs were available, our own infrastructure was available from others, others' infrastructure was available to us. If I was running short on something, somebody else was helping me. Somebody else was running short there. It takes a lot of people to work together to get over a crisis like this. It was a non-trivial situation. Many nations balked under it, but we came out of it because all our companies, whether it is standalone refiners, whether it is private sector refiners, public sector, all of them worked very, very hard on this.

On capex, I have already given you a number. Beyond that, as I have said, this call is not about giving any guidances. We have stayed away from that. We have said the maximum we are going to spend is INR9,700 crores. If there is less money on this year, we will spend less than that.

Operator

Thank you. The next question comes from the line of Nitin Tiwari with PhillipCapital India. Please go ahead.

Nitin Tiwari - Analyst, PhillipCapital

Hi sir, good morning. Thanks for the opportunity. And at the onset, I would want to congratulate your entire team for navigating this very challenging operating environment. Sir, my question actually was related to your refinery margins. So yesterday, along with you, BPCL also reported their numbers and their refinery margins have been fairly strong as compared to our refinery margin. So I just wanted to understand in that backdrop, right, that what were our hits and misses which led to this significant variance between two similarly sized sort of peers in terms of refinery margins? That is

one.

Secondly, I mean, like you did comment on RUF stabilization and other challenges that you're facing in Vizag, which perhaps could be impacting the refinery margin. But I was looking at the data for last 20 quarters, which is like almost last 5 years, right? In this period we have rarely reported refinery margins better than our peers, IOC and BP. I'm not even comparing it with the refining margins of private peers, right? So what is that that, like is leading to this challenge in terms of our refinery operations where our refinery margins are consistently lower? Because in the past also, I mean, we have guided for like margins to incrementally turn better with expansion of capacity at Vizag and so on and so forth. So your comments on that, sir, and then I'll ask my next question.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Sure. I think on comparison with BPCL, I will leave it for you to do. Not my job to compare with BPCL. I picked up the phone and congratulated BPCL CMD on an exceptional performance from their side. Proud of -- we are turning out what the numbers are. But I have not spent time trying to dig through what were their refining margins. I have enough of work on my hand to do on what are my refining margins and where do I want to be. So I leave that comment on BPCL to you to handle. But remember, they have a higher refining capacity than we have, and there are structural things. Refining is not just an easy job to do. It's a complex thing.

On your second thing, I would turn the clock forward. One year later you should ask me the same question on the same call, and you will have an HPCL asset which will have the highest margin. See, the margins are generated by the assets we have. And if you understand refining and go deeper into that entire thing, you will understand there are like -- If I do not have a delayed coker in my Mumbai, I will not get a refining margin or uplift which, say, another refinery which has a delayed coker which will have. But I have a delayed coker which is already working in HRRL. I will get that uplift out there. Second, our uplift on RUF will happen -- Vizag will happen. That will take our distillate yields up from what it is right now to in the 80s. But there is also structural disadvantage RUF has at this point -- Vizag has two. One, if I compare it to the West Coast refinery, that's in East Coast, you always have to carry more inventory in East Coast. The crudes are more expensive on East Coast. That refinery also does not have natural gas right now, which my other refineries have. So there are -- it's not just an apple-to-apple comparison that if you look at one reported number and compare it with other and say, oh, this guy is good and this guy is bad. You have to look at what is that guy capable. I have two kids -- If I have two kids and one is capable of cracking IIT and the other one is not capable of cracking IIT, should I say that the second kid is bad? No. I have to look at what is that kid's capability and what is that kid performing on that. Having said that, we understand we need to improve that entire thing, and we are on track to improvement on that. I hope I've answered your question.

Nitin Tiwari - Analyst, PhillipCapital

Yeah. Sir, actually what I was trying to get at is that, as you rightly pointed out, BPCL has a larger capacity, right, I mean, in terms of refining. So naturally they would also be carrying a larger inventory, while we were carrying more inventory than we usually carry. But I suppose like you should also get -- BPCL -- and I'm not getting into specific numbers.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I can't [Speech Overlap] For BPCL, you have to go to BPCL's analyst call and ask that question. You can't ask me questions on BPCL on this call.

Nitin Tiwari - Analyst, PhillipCapital

Fair enough, sir. I'm not asking that question on BPCL. I'm just trying to understand the difference in the operation of refineries which could have led to decreasing margins. And fair enough, I take your answer for that. And basically, I also wanted to understand this quarter's refinery margin somewhat in detail. So when you say it's before SAED impact, right? So if we build in the SAED impact, then what would be our refinery margin to look at? And if you can give us a -- I mean, I understand that you don't want to give an absolute number on refinery inventory losses, but a ballpark number around per unit basis would be helpful for us for our analysis.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yeah. So I think you guys are all smart to calculate the SAED impact yourself. If you need help on that, you can always speak to my corporate finance team, Vinod and the team. They can help you understand the SAED impact the way you look at. And what was the second part of that question? Inventory, I've already said what I have to say. I will not say anything further on inventory.

Operator

Thank you. The next question comes from the line of Sumeet Rohra with Smartsun Capital. Please go ahead.

Sumeet Rohra - Analyst, Smartsun Capital

Yeah, hi sir, very good morning to you and your entire team. Sir, firstly, I mean, I have to congratulate you. It's a very tough environment that you guys have basically been functioning on and kept this -- more important, kept this country alive. I mean, sir, one thing it's clearly a fact that the private guys were basically in terms of market share also small. But what you have done, I mean, all the three of you have been totally marvelous. And I'm sure the country is definitely indebted to you because you've kept the wheels of the country running.

Now, sir, my question to you is that -- the matter of fact is that you've done such great amount of work. Your balance sheet has taken a hit and of course you have done this for the country. I mean there's absolutely no question on that front, like as we've seen that our LPG today under-recoveries, or whatever the negative buffer account is about INR16,000 crore. And, your marketing also has been subsidized for the best interest of the country, which is nearly to the tune of 20,000 has been highlighted. So, sir, I'm sure that the government is obviously aware about the sacrifice, which basically the company is making. And obviously the sacrifice also comes from its shareholders, right, because the economic interest of the shareholders also is at stake.

So with the great amount of work, the physical work which you guys have put in, and the financial hit we've taken, and with INR36,000 crore of under-recovery which we've just faced in three months, which is staggering, could we expect that -- we can expect a substantial amount of government support, because this is done for the country itself? And can you please share, I mean, if at all possible, your outlook for this financial year? As you said, it's a circle of life. '22 also we faced a similar period and come four years ahead, '26. So I'm sure that what you've done is a splendid job, and I'm sure this company is becoming stronger and stronger. That is clearly evident from the refineries, from the physical throughput, from the physical outperformance which you guys have done. But sir, from the financial point, it'd be very interesting to get your perspective, is that -- and I'm sure the government looks up to you guys for the great work you're doing. Thanks, sir.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thanks, Sumeet, and thanks for your kind words. On the aspects on how -- I think many -- first, it's not my brief to talk on what the government is going to do. I think there is a different set of people who should be talking on it. So the questions probably are best addressed there. Having said that, if you read -- or there's been a lot of talk and government's been talking about the fact that there was a way things have happened and there was something which was done to keep the wheels in motion in this while. So I'm sure all those things would be taken into account. They have been taken into account in the past. And I'll draw your attention on to what was said at the analyst meet in Bombay last year, where the then Secretary and also the Honourable Minister actually talked about saying that -- how the fact that these assets are bulwarks of keeping the wheels of the nation in motion. So a lot of, I would say, support is there in different forms. What specifics, this is not the right forum to talk about that.

What's our outlook? As I said earlier, very difficult times to predict the outlook. You guys have been tracking these oil markets for the years, you will know, probably you never have seen the extreme volatility which is occurring right now. There have been eras for high prices, there have been eras of \$20 prices also, but the spikes and the troughs which are happening, the frequency of the volatile nature is kind of unprecedented. And that has its own set of challenges in giving guidance. Having said that, we are very bullish about the future. Why? Two, three things. One, we believe a lot of homework has been done, some obvious, some not so obvious, some giving results right now, some will give results in the future, which make us a stronger company. The fundamentals of the company are being worked upon, all of us are together in it, and everything which is there, we'll work on it. And just as a simple thing, while we did not share and I refuse to comment on BPCL thing, our teams have been analyzing everything threadbare because we also want to see where is the improvement area in us. And not only us, we are looking at every single results which have been declared to find out our improvement areas.

Similarly, I talked about a lot of effort going on into marketing side. We talked about the new LPG launch. All those things are things which take -- make the company stronger in the long run. I hope benign conditions come. If that looks at it, I would -- no management team ever wants a red quarter or a red year. We are also a team which are very proud, and we will also not want to have -- red quarter we cannot avoid at this time, but we would also not want to have a red year. So that's all I would say on this, Sumeet. Hopefully quarter two, the results would be better, and then we can be more sure about where the year is going to end, but very difficult to predict at this point of time.

Sumeet Rohra - Analyst, Smartsun Capital

Okay, sir, thank you so much and wish you all the very best. Because the only reason I brought this point up is because today the market cap of 80,000 crore clearly is not justified for the kind of valuable assets which the company owns, right? Today our plant and machinery value is INR1 lakh crore, whereas we are being valued at 80,000. So it just absolutely is absurd valuation. So that was the reason I just brought this up. But anyway, wish you the best of luck to you and your entire team, sir.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thank you.

Operator

The next question comes from the line of Abhishek Nigam with Motilal Oswal Financial Services.

Please go ahead.

Abhishek Nigam - Analyst, Motilal Oswal Financial Services

Yeah, hi. So just two questions. Sir, what is the landed cost today for crude? So if Brent crude is \$90, then what will be the landed cost in India? So that's my first question.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Difficult to answer in any way because it will depend on where you are buying, what crude you are buying, because you could buy an extremely light, low sulfur crude which is at premium to Brent. There are other things. There could be a seller which is in distress, wants to get rid of a cargo. So it's a very difficult question. If you ask me what is my landed crude today I'm buying for my refineries right now, I won't be able to give you that number also because it varies literally from crude to crude there. So my suggestion is, for your calculation purposes, just look at the averages rather than getting deeper because crude buying is also -- there's about 200 different type of crudes floating around in the market.

Abhishek Nigam - Analyst, Motilal Oswal Financial Services

If we just take Brent, for example, if we're just buying Brent, is it fair to just add the shipping and insurance? And is there some average number that you can give, \$3, \$4, \$6 in terms of...

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

This is like you are asking me to predict the oil prices? I was just thinking as you were asking the question, I have no way to give you an -- I will throw it open to my team if they have any better guesses, because even in this crisis there are times when we have picked up crude which are discount to the Brent. There is some other crude which is at a premium to the Brent. Every crude goes in at a different thing. There are times when the same -- today that crude is at a premium to Brent, two weeks later that is actually at Brent, one week later it might be at minus to the Brent. And everything is -- shipping and all is very standard. There is no -- of course shipping rates went up in the recent past, but that's a standard thing. So I'm not evading that question, it's just that I don't know how to answer that question. I wish I had a straightforward answer to that.

Abhishek Nigam - Analyst, Motilal Oswal Financial Services

Fair enough. And sir, just one last question. So last quarter, I think in June, there was a \$200 premium on LPG buying. It was a spot premium. Is there still something like that prevalent today, or has that completely gone away?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I think two things have happened. One, the Saudi CP price, which is one of the markers, has come down by about \$200 per metric ton. The second, as a reaction to the crisis, we have also diversified our LPG procurement mix. So there are -- like last time, we were almost in the call also said, and it's been said in public domains by a lot of people, that we were all dependent upon 90% on LPG coming from other side of Strait of Hormuz. Now that dependence -- of course, it was not available. But even otherwise, there's a systemic diversification which is happening. There are Indian time charters which are going to US to pick up cargoes, which never happened in the past. Now, because of the diversification, I'm less dependent on the spot and as a result, the spot prices have cooled down there. Now, I don't know what is today after the latest hits which have happened, but by and large they have cooled down a bit. And also, we are much more resilient in the way we are buying right now.

Abhishek Nigam - Analyst, Motilal Oswal Financial Services

Okay, okay, I think that helps, sir. Thank you so much. That's it from me.

Operator

Thank you. The next question comes from the line of Maulik Patel with Equirus Securities. Please go ahead.

Maulik Patel - Analyst, Equirus Securities

Hi, thanks for the opportunity. And sir, just two questions. Sir, you already mentioned about two things which led to the subdued performance in this quarter. One, you were carrying a little higher inventory at the end of June and you had that sharp fall. And second is the Vizag upgradation refinery performance. You said that if both things normalize in your expectation, if you're not carrying a higher oil inventory and the Vizag performance would have been normalized, which you expect in Q3 or Q4 onwards, what could have been your GRM, which you reported around \$24? And just some idea on that, what could have been your number if these two things are not -- I mean, they're there?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I think difficult to give you a number offhand on that. Again, from the -- when I made that statement, you have to look at it in the context of the quarter. If those things were, I would say, things which have moved the needle a bit to the other side of a five-digit number. But remember, we were also -- we talked about the overall under-recovery of INR26,000 odd crores. That itself is a big number. And HPCL on its own balance sheet carries about 60% of our total POL and other product sales, if I keep LPG out of it. Approximately 55% is supplied through our own P&L. Some part is supplied through our joint venture. So we would always have that complexity of some of the numbers, even in the best of the times falling through the consolidated numbers and others coming through the P&L there. But let's wait for a couple of quarters when all these things are normalized, you will start seeing the uplift in the GRMs.

And right now, one thing you should all keep in mind that when you're looking at GRMs, everybody buys crude, which is on dated Brent, some with one month, I think there were some with two-month pricing. And this was unusual period. So high GRM is not only a reflection of performance of the refinery. It is also a reflection on the timing there. So just to give you a sense, again, there are days when I'm running a particular parcel, my Vizag refinery has given me above \$30 GRM. And next day, when you look at the dashboard, first thing you say, [Foreign Speech] because next day, they are starting to run a different -- which is at a different price. So can fluctuate based on the crude which you are buying. Refinery consistency and their performance is a structural thing, which can be altered over a period of time. But on a daily basis, crude -- so if I had cheaper inventory in some days on the particular fortnight, say, my GRM would be sky high.

Maulik Patel - Analyst, Equirus Securities

Sir, if you could have an access to the Middle East crude in this quarter, your Vizag refinery performance should have been much higher than what you have reported. Is that a fair understanding?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

In some ways yes, because a lot of units in Vizag -- see, you all design to certain specs. There is some part of Vizag which is designed to the spectrum. Maybe Director Refineries can add to it. He's

much more knowledgeable on this topic than I am.

S. Bharathan - Director - Refineries, Hindustan Petroleum Corporation Limited

In fact, many of our term contracts are targeted at Iraq and Saudi crudes and ADNOC also. So quite a few of them -- almost none of them came. So the alternatives are not readily available in the market with the same quality. So whatever impact that we had seen that and gone through that.

Operator

Thank you. The next question comes from the line of Gagan Dixit with Elara Capital. Please go ahead.

Gagan Dixit - Analyst, Elara Capital

Ahead. Yeah, yeah, thanks for taking my question, sir. I have the question about the Vizag refinery. So your auditor mentioned that -- highlighted that there is a INR26 billion loss in the Vizag Refinery, while your numbers at the refining level in GRM is very decent at \$24. So can you explain that [Indecipherable] versus the headline GRM?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I don't know. Yeah, did you get the question? Can you repeat the question? The line had a static in between.

Gagan Dixit - Analyst, Elara Capital

Yeah. Sir, my question is that your auditor highlighted that there is -- at the Vizag refinery, there is a 26 billion loss. It's mentioned in the notes actually. So what's the reason is that despite the very strong GRM you reported, sir?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

They're just checking up. The team is just checking up. You can take...

Unidentified Speaker

His is INR2,635 crores, that is after factoring the inventory losses at Vizag.

Gagan Dixit - Analyst, Elara Capital

Okay, sir. It's only the inventory loss. Okay, sir. And sir, my next question is that -- what is the utilization for the Rajasthan refinery in the September quarter and FY '27, sir? And, sir, how much is the product that you purchase from the third party which is expected to replace at the full utilization level.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Sorry, can you be repeat the question? It's somehow static. Or Varatharajan ji, if you had -- if you got the question, you can repeat it, because at our end we are getting some static when the question is being asked.

Gagan Dixit - Analyst, Elara Capital

Sir, my question is about the Rajasthan refinery, sir. So, what is the utilization you expect for the September quarter and also the full FY27 basis, sir? That's my question.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Sorry, please repeat, you just dropped off from the line in that period.

Operator

Gagan, in case if you are not using the phone on your handset mode, please use it on the handset mode.

Gagan Dixit - Analyst, Elara Capital

Yeah, yeah. Is it better? Is it better now?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Yes.

Gagan Dixit - Analyst, Elara Capital

Yes. So my question is that -- about the Rajasthan refinery. So, what is the utilization for the September quarter and FY27? And how much is the product third party that you purchase is expected to replace at the full utilization level?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Okay. I think utilization, as I said, we are running at around 60-odd percent right now for the whole -- it's a new refinery. So there will always be a few things here and there. But overall, we are -- for this quarter, we are expecting 50% or thereabouts utilization. We are not going to hang our team for plus/minus on that because it's a new refinery ramping up. Refineries take time to ramp up.

On third quarter of this year, maybe October onwards, we are expecting an 80%, 85% utilization run rate. And by fourth quarter, we expect it to have close to full utilization on the refinery section. Petchem, as I said, will take some time to ramp up. But till that time, we'll be able to sell the other products, including LPG, which is always the demand. So we are going to start -- literally from today tomorrow, we are going to start producing a significant amount of LPG at the refinery. On FY27, we would expect -- sorry, FY28, we would expect the full run on the refinery. We are quite hopeful of that getting stable soon.

In terms of what we are buying, so if I just look at first quarter, just take HSD as an example, we bought -- about 50% is our own. Another 27% is through joint venture, HMEL, where we have the marketing rights for the liquid products. And another 24% was bought out. If I just do fast forward to next year, 56% of that will come from my own, including the RUF thing, 40% will be from joint ventures because HRRL kick in at that point of time. And only balancing will come from third-party refineries, balancing more from -- there are some places where it might be better to buy from them because of better serviceability, especially in down South. So that's the dramatic shift we are expecting in the next two to three quarters, which will -- as I said in my opening remarks, which will structurally alter our numbers. And then obviously, with HRRL coming in and kicking in at good numbers, we would have a different set of comparisons to next year.

Operator

Thank you. The next question comes from the line of Mayank Maheshwari with Morgan Stanley. Please go ahead.

Mayank Maheshwari - Analyst, Morgan Stanley

Thank you for the call, sir. I had two questions, one for Srividya ma'am and one for you. So on the seven points that you mentioned in your opening remarks, you talked about those changes Now, when you are thinking about these dynamic markets that we are in, where do you see the maximum room for improvement? Especially you had got all these questions on refining in the previous

participants. Where do you see the maximum room for improvement and where do you think you can uplift margins, either on crude sourcing or on energy cost you talked about, but anything else you think you need to be more agile with in the refining side?

And on the finance question I had with Srividya ma'am was more related to interest cost. I think the JV debt plus your total debt, how much room do you see in terms of lowering your cost of interest in terms of over the next one year or so? Yeah, thank you.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

You want to take the interest question first? Srividya is going to answer first.

Srividya Venkataraman - Director - Finance, Hindustan Petroleum Corporation Limited

Hey, Mayank. So as far as the interest cost is concerned, yes, definitely, it's a major concern for us, more from the JV perspective, if you look at it from the HRRL perspective, wherein they have some high-cost rupee term loans, which they have. And as they now have completed their commissioning. So there's a two-pronged approach. One is to see as to how we could refinance a portion of it. As you are aware, RBI has come with a fully hedged ECB, which can be used for at least a portion of it, which could be refinanced. And that will definitely give them a leverage of a minimum of 1.5% in the terms of the ECB. The other one is that once that it is now that the refinery has been commissioned and there's been a stable operation, then we would be able to go back to the banks for repricing it. So this is going to be the two-pronged approach for HRRL.

As far as HPCL is concerned, in terms of the interest cost, the cost is not a concern for me. The more is in terms of the debt in the overall size of the debt, which is there. And so the entire approach is going to be in terms of how do we downsize the debt. So downsizing will automatically bring in the impact of my interest cost, the finance cost overall coming down and bringing the benefit and the improvement in the profitability. I hope that answers the question. And you can move on to...

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thanks, Mayank. And I did read your one-page flash report. I think I always like the analysis you guys put together, even when it is not favorable to what I would like it to be. But nevertheless, it was a good quick analysis. Thank you for that. Keep it flowing. I think the way you've said, I'll try to give it a more holistic answer to it. It also tells you how as a management team, we are thinking about it. See, there are -- when we are at a moment like

This, there are two things you have to do as a team, which is leading a large team, large asset base and has a lot of those things. Of course, we have to do the things of keeping everybody motivated, keeping everybody excited. So we have a different task of how do we motivate our people after the loss numbers yesterday. So we are, again, doing our town halls and talking to everybody and talking about our future there.

But as a management team, there are two things we are looking at it. One is what are we fundamentally altering. And second is what helps me immediately in the short term. And that's how I would answer your question on those seven parts. On what could help me in the short term, frankly, it is crude sourcing and optimization. More volatile the environment is, more opportunity exists for short-term optimization. And there is a lot which we have done. Unfortunately, as I said earlier, we did carry a lot more crude on 30th June, and we didn't think the bombs will stop or the crude will drop \$25 in a matter of a few weeks there. But there are some very fundamental things we have done. Like, for example, I talked about HRRL coming on stream. There's a COT which is at Mundra.

We sometimes bring in VLCCs and we use smaller ships to transfer to Mumbai, which allows us structurally to avoid crude cuts and gets it cheaper into Mumbai. Things like ship-to-ship transfer, all those kind of things which allow us structurally to alter. And there are opportunities there. There was a moment, one day we were very happy because an event happened and we had just negotiated a spot cargo. And the event happened and we renegotiated, we got \$6 off. On a VLCC \$6 off, it's a lot of money, 2 million barrels, \$6 off, you can calculate that number. So I think that opportunities exist in the short run.

Second, in the short run, Samriddhi will give me benefits, and I'll talk of Samriddhi benefits in a minute. But there are two, three things, which will be -- we're obviously sharper on costs. HPCL has a good cost consciousness. Last many quarters, we have been at it. So every bit small and big matters. Just as a context, while it's a different forum, tomorrow we have an event where 1,600 of our people have participated in a digital hackathon, 499 ideas for improvement, 30 of the final teams are going to be at our training institute. And all of us as the leaders are spending the whole day with them, looking at their ideas. So that's just building a bottom-up swell on many of these things. So those ideas will definitely give us benefit. There will be short-term spikes on -- or short-term uplifts on things like -- I talked about using VGO for something and pygas and all, those things look at it. So those are short-term lifts.

But as a management team, the second prong we are working on is the fundamental shifts which we are doing, slowly moving things. Now you might see the Navya Gas, which we have launched. Somebody might say, what will it -- if you do 9 crores cylinder. But if in a matter of 2, 3 years, if I'm able to move 50 lakh cylinders to that, I move the needle on certain other things. Similarly, there is branded fuels. Again, I don't want to talk more about it. You do your own research, but you'll find out that HPCL is doing quite well on those. It does not show up on the numbers right now, but in two years, it will start showing up on the numbers. We talked about supply chain optimization tool, which we are implementing. It will not give me results this year. If I have to do further optimization, I still have to rely on Excel sheet. But next year, when the crisis or anything happens, my team would have a state-of-the-art latest digital optimization tool, which can allow them to do unplanned movement much more faster.

Another area I'll talk of RTOs and APCs in our refineries. We are making sure that all refineries, except HRRL and we'll do it a bit later because it has to stabilize, but both our other refineries are going to have a saturation of all those units. And wherever we have started measuring, we are starting to get 0.4%, 0.5% uplift in the yield, etc. So there are a lot of fundamental things which are there. That's why I made that comment at the closing part of it, we are bullish about the future. Yes, there is a short-term hiccup, but we are very bullish about the future because there are dozens and dozens of those things, which we are doing. We have a very charged team. I told 1,600 of my colleagues participated in. There are 499 ideas which came out of it. They might be good, they might be bad. Somebody might say \$5, somebody might say \$500 and some might say \$5 million. But one-fifth of my employees participated in it. It's an exciting thing for a management team to look at it. So those are the fundamental changes we are attempting to make, which we look at it. Of course, from a quarterly results, the first bucket, opportunistic intermediates, some energy costs, some total cost takeout, those are things which will help in the short term. I hope I've answered your question.

Mayank Maheshwari - Analyst, Morgan Stanley

Yeah, thank you for that, and hope you get more \$5 million, kind of, ideas. So best of luck.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thanks, Mayank.

Operator

The next question comes from the line of Nikhil Bhandari with Goldman Sachs. Please go ahead.

Nikhil Bhandari - Analyst, Goldman Sachs

Yes. Hi. Thank you so much for the opportunity to ask a question. I've got two questions. Firstly, on the Rajasthan refinery. So when we look at the globally complex refining and petchem greenfield assets, they faced steeper stabilization curves compared to the brownfield expansion. So given your recent hands-on experience with the intricate commissioning and unit integration at the Vizag, what specific operational learnings are you carrying over to the Rajasthan complex? And also, if you can walk us through the major commissioning timelines between now and December '26 or March '27 and when you expect the refinery part to fully ramp-up for this refinery. What gives you -- just to understand the confidence this asset will beat the typical industry curve for a timely ramp-up. So that's the first question.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Sure. Nikhil, I'll attempt a quick answer, then I'll request Bharathan Ji to give more details. You all know him from asking, he knows his subject well. I think we are actually very excited with what has happened on HRRL in the recent times, especially after how our team bounced back after the CDU fire incident. See, we had a sequence -- and I'm talking in layman term, Bharathan Ji will explain in terms of technical details more detail. As a layman, I would say, we had a sequence of commissioning which was lined up, CDU and then DHDT, DCU, those kind of things which were lined up. Lo and behold, we had the CDU started. We were hoping to sort of do the commissioning at that time or at least the starting at that time and commissioning a few weeks later in April when this happened. That caused us to do rework, shutdown -- take a shutdown in CDU. But in June, we commissioned four or five major blocks within fortnight or maybe three weeks. This includes recommissioning of CDU, DHDT, the diesel hydrotreater, HU, which was always working, we have taken a shutdown, we restarted it. Then we also committed the amine systems, and the [Indecipherable] etc. So those -- we all got it going. Delayed coker, I talked about it. In fact, pet coke was the first product we commercially sold from there.

So it probably is unheard that refinery got all the units in six weeks and -- three weeks, three to four weeks, everything got commissioned because we had the deadline of June end to get the scheduled commissioning. What we did as a team is we pulled in best of our people from Vizag and Mumbai and 150 of our people are stationed in HRRL right now to assist the teams on the ground to make sure the asset is up. As I said, PFCCU, which is the petro fluid cracker unit is literally on the block of commissioning right now. It's a matter of hours by which we will be able to commission it. With that, from my perspective, bulk of the units on refinery are commissioned. There are some units where we have a single train. Like in DCU, we have train working right now. Second train should work in next two, three, four weeks from there, but we have enough to process there. The block which is left for full commissioning is SRU, which we are hoping by end of this quarter, give or take a couple of weeks, would be there. At that stage, all refinery units more or less would be done. There could always be small things. But come October end, we would expect the refinery to run at 85%, 90%, small things here and there. But Bharathan ji, you can add with your...

S. Bharathan - Director - Refineries, Hindustan Petroleum Corporation Limited

I think timelines were given when the Chairman gave the opening remarks already. It's running at 60% now and Q3, it will be fully -- maximum utilization will come. And all the individual units also have been detailed mentioned already. We would like to also add that the MS production also started. LPG, though it's not a normal product after the petchem unit comes, right now we have started shipping out LPG also. So with this, all the fuel products which have been targeted are already under production and gradually, it will stabilize. The key challenge here for an inland refinery is any of the intermediate products get surplus, we will not be able to move out coastally. So we are overcoming that by matching all the units at the right capacities and at the right time.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

But Nikhil, just one overarching comment. We've been talking HRRL at least five or six times in this call. I'm personally very confident on the team. It's going to get it done. Remarkable job by our team. And this refinery will work, very confident about it. There will be challenges. It always comes when you start a new asset, but we are quite confident of that we have the line of sight to the full run on this refinery. Petchem, we do have a bit more work to do. But till that time, we will sell LPG and other products.

Nikhil Bhandari - Analyst, Goldman Sachs

Thank you, thank you, sir. That's very helpful context. Just another quick question I had. You mentioned about that under the stress scenarios the SPR also becomes available to all the refiners. How does that mechanism work? Is it more like you can borrow that crude from the reserves and you repay it back by crude oil at a later point of time, and you pay like an associated usage fee or a lease fee? Or is this -- or does that work on some sort of a different mechanism? Just give us -- thank you.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I think there are two, three different parts of SPR. Actually, some part of caverns which are next to SPR. HPCL owns directly some part of the caverns. We also own in Vizag the cavern ourselves. SPR, we did take crude from there and so did others. I think the crude, there is a permission. You actually have to go to ISPRL Board to do that. And you put in a requisition, they do that. It's at -- I think at the market prices and then there is some sort of agreed fee, etc., which is there. So that's one. The filling is done by government. But when we bought out crude from there, we got it out at the market prices. There is a part of SPR, which if I'm not mistaken, is one of the international oil majors stores its own crude, that might work slightly differently. I'm not fully conversant with those details. But we did buy crude. Given that what we were buying from there was -- I think cavern in Vizag had Basrah, if I'm not mistaken. You couldn't even replace Basrah because nothing was coming out of it. So -- but it was given at the market price and some fee, etc. ISPRL is a good setup for doing that, and they are very quick on it. There were times when we needed some things urgently, very quickly we got those. I think BPCL and other also took it.

Nikhil Bhandari - Analyst, Goldman Sachs

Understood. Thank you so much and all the very best.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thank you, Nikhil.

Operator

The next question comes from the line of Vikash Jain with CLSA. Please go ahead.

Vikash Jain - Analyst, CLSA

Thanks for taking my question. Just a few of them. Firstly, I must apologize to divert discussion away from the very exciting changes that you're trying to bring. So this is more mundane, regular quarter-to-quarter stuff. So sorry to disappoint on that. But just if I were to look at the way crude prices moved from the end of the quarter to now, it's about a \$20 move. If we look at that and the fact that last quarter the capex that you would have spent would possibly be on the lower end of your typical quarterly run rate given the annual guidance, would it be fair to say that the current debt would be much higher than where it was at the end of the quarter?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Current debt would roughly be similar, give or take 1,000, 2,000 here and there. It's roughly similar. I think we had -- just to give you some broad sense on the debt, I think we were looking at sort of this being -- again, very difficult to predict the future. But if today's situation holds, I think we are at the top of the mountain. I don't know whether it's a peak going down or a plateau, but it's roughly the similar at the end of the quarter.

Vikash Jain - Analyst, CLSA

Okay. And could you also comment a bit about the ATF losses? I mean, how much do you estimate that to be for the last quarter? And there was a mechanism suggested, but there were not all airlines took that mechanism. How is that working out?

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

The good thing, Vikash, on that one is there are two others who have bigger problem to solve on ATF than I have. So when this problem comes to my desk, I said [Foreign Speech] but I don't know, Srividya, if you have any thoughts on that. I'll see if my team has. Otherwise, if they don't have the details, they can give them to you offline. I'll be personally honest, I've applied myself less on ATF considering our market share is not the largest on this one.

Vikash Jain - Analyst, CLSA

Thank you.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Vinod will help address that separately with you.

Operator

Thank you. The next question comes from the line of Keshav Soni with Kotak Bank. Please go ahead.

Keshav Soni - Analyst, Kotak Bank

Hi sir, thanks for taking my question. I just want to get the number on refinery-wise GRM.

Operator

I'm sorry to interrupt, Keshav, but I would request you to be a little louder.

Keshav Soni - Analyst, Kotak Bank

Yeah. So I just wanted to get the refinery-wise GRM across all three refineries and some performance update of HMEL.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

I think on GRMs we have been very consistently giving what we have given out and we'll stick to that -- that level of exposure. And we have been very consistent with it.

Operator

Does that answer your question, Keshav?

Keshav Soni - Analyst, Kotak Bank

Yeah, sure. Thanks.

Operator

The next question comes from the line of Abhishek Maheshwari with Skyridge Fund Managers LLP. Please go ahead.

Abhishek Maheshwari - Analyst, Skyridge Fund Managers LLP

Yeah. Thank you for taking my question and congratulations for HRRL commercialization. Sir, only one question remains. Regarding accounting of HRRL, will we show it as JV only, for instance, like share in profit and loss of JV, or will it be consolidated in the financial statements?

Srividya Venkataraman - Director - Finance, Hindustan Petroleum Corporation Limited

It will be a JV accounting, it will be a share of profit.

Abhishek Maheshwari - Analyst, Skyridge Fund Managers LLP

Perfect. Thank you. That's all.

Operator

Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Varatharajan for the closing remarks.

Varatharajan Sivasankaran - Analyst, Antique Stock Broking Limited

Thank you, Alaric. Sir, like, if you have any closing remarks, Mr. Kaushal, please.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

No, I think we've said enough. I'll only say, if anybody has follow-up questions, our team is always available. If anybody wants to meet us, we are more than happy to look at it. And as you guys write your comments, do share with us. We'll also learn from whatever -- whichever way you are looking at us. I've always said, you all look at it from different perspectives. It's always interesting to look at what you have to say. So we look forward to all the comments there. Thank you for patiently listening to the thing, a lot of good and interesting discussion. I'll just sum it by saying it's been a tough time for this industry, but at the same time, tough time makes people stronger, teams stronger. And ours is a very strong team which will -- as I said, we are hungry, we are keen, we are keen to perform strongly. So, hopefully things will be better when we meet next time three months from now. Thank you all.

Operator

Thank you, sir.

Varatharajan Sivasankaran - Analyst, Antique Stock Broking Limited

And thanks, everyone, for participating in the call and for HPCL to continuously give us this

opportunity to host them. Thanks, everyone. Have a nice day.

Vikas Kaushal - Chairman and Managing Director, Hindustan Petroleum Corporation Limited

Thank you.

Operator

[Operator Closing Remarks]