“Mahanagar Gas Limited Q1 FY 2017
Earnings Conference Call”

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ANALYST: **MS. SIMRAN KAUR - KOTAK SECURITIES**

MANAGEMENT: **MR. RAJEEV MATHUR - MANAGING DIRECTOR**
MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER
MR. RAJESH WAGLE – SENIOR VICE PRESIDENT, COMMERCIAL

Moderator: Ladies and gentlemen, good day and welcome to the Mahanagar Gas Limited Q1 FY 2017 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Ms. Simran Kaur from Kotak Securities Limited. Thank you and over to you Ms. Kaur!

Simran Kaur: Thank you. Good evening and welcome. We are pleased to host Mahanagar Gas Limited for their Q1 FY2017 earnings call. From the management we have with us Mr. Rajeev Mathur, Managing Director, Mr. Sunil Ranade, Chief Financial Officer and Mr. Rajesh Wagle, Senior Vice President, Commercial. I will now hand over the call to the management for opening remarks.

MGL Representative: Ladies and gentlemen, we do not provide any specific revenue or earnings guidance and anything said on this call, which reflects our outlook for the future, which could be construed as a forward-looking statement must be reviewed in conjunction with the risks that the Company faces. I would now like to hand over this call to Mr. Rajeev Mathur, Managing Director of the Company, for his opening comments.

Rajeev Mathur: Good evening and welcome to Mahanagar Gas Limited's Q1 FY2017 earnings conference call. I would like to thank all those who have connected to our first earnings call after we listed on the stock exchange last month.

In the last decade, the demand for natural gas has gone up due to increased availability, development of natural gas transmission and distribution infrastructure and environment friendly characteristics of natural gas. The government is also encouraging the use of this green fuel.

Along with our existing areas of operation i.e. Mumbai, Thane, Mira Bhayander and Navi Mumbai we are also spreading our network in authorized areas of Kalyan, Dombivali, Ambernath, Badlapur, Ulhasnagar, Bhiwandi, Panvel, Taloja and Kharghar. We plan to increase penetration in Mumbai and its adjoining areas by reaching out to new customers.

Mahanagar Gas Limited,
MGL House, G 33 Block,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051
T: +91 22 66785000
Corporate Communications: n.asthanaphate@mahanagargas.com
CIN U40200MH1995PLC088133

We have identified six different pockets to initiate supply of gas in Raigad. Initially the Uran area is planned to be fed through cascades for domestic consumers during this year.

CNG supplies are planned in Karjat, Uran and on National Highway-4 through daughter booster outlets. The challenge of gas through pipelines including Pollution Control Board of Maharashtra clearance for laying lines in eco-sensitive zones is always there, but we are going to overcome that.

Currently, we have connected more than 882,000 households with PNG and operate over 193 CNG stations supplying CNG to more than 497,000 vehicles. We have a steel and PE pipeline supply network of 4,695 km and in the next five years we plan to add 83 new CNG stations, 675 km of steel and PE pipelines in our network.

The Petroleum and Natural Gas Regulatory Board, PNGRB has identified several new areas for future bidding and we will bid for some of these areas selectively. In the month of April 2016, local gas cost was reduced from $3.82 per million BTU to $3.06 per million BTU GCV basis, in view of the formula prescribed by the government. The average cost of RLNG in the quarter was also less compared to the corresponding quarter in the previous year in view of comfortable supply positions globally.

We have adopted Indian Accounting Standards (IND-AS) with effect from April 1, 2016. Accordingly, the results of the quarter ended June 30, 2016 and the comparable quarter of the previous year have been prepared in compliance with the same. During the quarter we have seen a healthy growth of 7.5% in the overall sales volume over the same quarter in the previous year. CNG sales volume grew by 8.3%. Domestic sales volume grew by 7.2%. The commercial and the industrial segments also grew by 9.6% and 0.1% respectively. Overall the PNG volumes grew by 5.5%. Gross margins have improved to 48.9% as compared with 38.9% in corresponding quarter in previous year mainly due to reduction in gas costs.

EBITDA was higher by 20.4% at Rs.152 Crores as compared to Rs.126 Crores in corresponding quarter of the previous year. EBITDA margin was 31.5% as compared to 24.6% in corresponding quarter of previous year. Net profit after tax grew by 19.1% from

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Rs.77.87 Crores in corresponding quarter of previous year to Rs.92.73 Crores. With this, I would now like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Amit Rustagi of IDFC Securities. Please go ahead.

Amit Rustagi: Good evening. This is Amit Rustagi from IDFC. Sir, my question pertains to how many vehicles or new cars we are seeing getting converted and can we get a sense of this 8.5% volume growth in the CNG segment? Which vehicles are driving this growth?

Rajesh Wagle: This 8.3% increase primarily has come from private cars and auto rickshaw segments, because there has been no significant addition of buses or heavy commercial vehicles and the taxi population also has not increased. But over the last quarter, couple of thousand of the Ubers and Olas also have started converting so this growth has primarily come from private cars, auto rickshaws and these Ubers and Olas.

Amit Rustagi: How many conversions are you seeing per month?

Rajesh Wagle: We are seeing about 6,000 to 7,000.

Amit Rustagi: 6,000 to 7,000 conversions per month in the vehicles?

Rajesh Wagle: Yes.

Amit Rustagi: Can we get a sense that now when we see that the waiting time at the CNG outlets has been increasing consistently and how many new outlets are we looking to at by this financial year as well as next financial year? You mentioned five-year guidelines, guidance of about some 83 outlets?

Rajeev Mathur: This year's plan is a minimum of 20 stations and a maximum of 25 stations.

Amit Rustagi: Over 193?

Rajeev Mathur: When we last spoke to you, we were around 190. We have already commissioned three stations, around six or seven more are in the progress during the next two or three months

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and by the end of the year, we plan to achieve a number of around 20. We can even go up to 25 depending on the clearances and other things.

Amit Rustagi: Next fiscal.

Rajeev Mathur: Next fiscal again we have planned around 20 stations.

Amit Rustagi: We are seeing that when gas cost is declining, so October 1st the gas prices are also likely to decline. What is our view on the margins from here that every time when the gas cost decline, will we expand our margins or how we should look at the things?

Rajeev Mathur: As we had talked last time, our objective is to acquire, retain and maintain customers and provide them with a quality service, deriving some value out of it. So let us assume, if the gas prices go down we would look at passing on some of the benefits to the customers but at the same time we will look at our cost, margins and how much value a customer needs to get out of reduction in price so taking all those factors into account, some benefit will definitely accrue to the customers.

Amit Rustagi: Thanks a lot Sir.

Moderator: Thank you very much. We have the next question from the line of Ritesh Gupta of Ambit Capital. Please go ahead.

Ritesh Gupta: Thanks for taking my questions. First one is what is your capex guidance for this year is. How much do we intend to spend this year on capex? And secondly on number of vehicles that you added, what was the percentage growth in terms of number of vehicles added this quarter?

Sunil Ranade: As regards to capex we plan to spend in the region of Rs. 225 to 250 Crores for this year which will be inclusive of GA1, GA2, GA3 i.e. all areas put together. CNG vehicles number, which we have converted for this quarter, is around 20,000 and as on date we are around 4.9 lakhs.

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Rajesh Wagle: It is about 4.5% to 5% of the vehicle numbers and roughly assuming the base was about 4.5 lakhs we added about 21,000 comes to about 4.7%.

Ritesh Gupta: On your sales decline of about 6%, I think the CNG prices were down about 2% - 3%, so what could explain the CNG sales decline by about 6%? What has driven the extra delta? I mean the CNG prices decline and the Sales decline basically is not the same. There is some 300 -400 basis points gap between that? Is that the rental that you pay to OMCs has also increased on a Y-o-Y basis?

Sunil Ranade: As you rightly said the first element is obviously price reduction, which had taken place. The selling prices differ obviously from categories-to-categories like through OMCs we are selling and there are sell through own CNG stations and franchise stations so depending upon the percentages sold the realization will differ. Also there are different geographies having some price differences with respect to octroi etc., so depending upon the combination that delta may emerge.

Ritesh Gupta: But if you can just tell us what was the rental you are paying to OMCs last year and what are you paying this year?

Sunil Ranade: The rate has remained unchanged. It is 2.74 per kg and that is what we have continued for this quarter as well.

Ritesh Gupta: You are adding about 20 - 25 pumps this year how much of that is going to be in GA1?

Sunil Ranade: It is difficult to specify for a specific GA; however, we can say the Raigad contribution will be minimal, predominant expenditure will be in GA1 and GA2.

Ritesh Gupta: That is very helpful Sir. Thanks so much.

Moderator: Thank you. Next question is from the line of Niraj Mansinka of Goldman Sachs. Please go ahead.

Niraj Mansinka: I just want to know, have clarity on some industrial volume potential in the Raigad district and the places that you plan to connect in the next few quarters?

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Rajesh Wagle: In the industrial segment, we are currently facing a challenge because there is no environmental or any government mandate on industries to burn clean fuels. In our operational areas we have to compete against fuels like coal, briquettes, and FO, LSHS etc., which are pretty cheap. Now having said that we are still managing some very small growth but that is against the face of industries continuously closing down and moving out of Mumbai. Now we do not see currently too much of an upside there unless there is some movement on actually enforcing environmental norms and laws etc. However, if we manage to break into these markets, if you talk of the potential, we have the potential to double our industrial volumes. That is the kind of potential which is there untapped potential but we are not getting them today because we are basically on cheaper alternative fuels and of course if oil prices go up that also will give us an opportunity to get more of these volumes and of course I am saying oil price goup and LNG prices stay where they are, then our ability to compete on price becomes a bit better that also can give an upside.

Niraj Mansinka: There is a second question on the Mumbai - Pune. Can you share your thoughts on how you plan to connect the long distance travel between Mumbai and Pune and what is the status on that?

Rajeev Mathur: On the Mumbai - Pune highway we already have about five stations from Sion onwards up to the 35^{th} kilometer already are in place and running. So any vehicle going towards Pune can already get CNG filled on the expressway to Pune up to the 35^{th} kilometer. We are planning additional three stations on that highway which are going up to the last point of our GA which is the 70^{th} kilometer. So both on the old Mumbai - Pune Highway and the New Expressway up to the 70^{th} kilometer we shall have dispensing facilities in place in the next 365 days. Once that is there the distance between Mumbai and Pune, where there is no CNG facility available would reduce to 55 kilometers only and our belief is that there is nobody who stops to get fuel filled mid-way, so we will have enough capability on this side of the highway and on the other side, for both vehicles going and coming to get CNG filled either here or as they reach Pune. On the other side, the Pune facilities are also getting created right up to the expressway.

Niraj Mansinka: Thank you.

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Moderator: Thank you. Next question is from the line of Gokul Maheshwari of Allard Partners. Please go ahead.

Gokul Maheshwari: Thanks for taking my question. Just on the GA3 you are spending on capex this year but would it be contributing to volumes also this year?

Sunil Ranade: Gas sales will commence in 2016-2017, that may not be very material but they will be sale starting in 2016-2017.

Rajeev Mathur: So just to kick-start the sales in Raigad area we will start dispensing gas through cascades there, and as our pipeline reaches it will then take over from the cascade. So initially we are planning to start off during the financial year 2016-2017 with some of the townships in Uran and in the Raigad district, which we have identified. And also we will try and set up at least one CNG station as I said which is in the highway and also in Raigad so that will start generating revenue from this year onwards while as the construction of our main pipeline and the grid happens.

Gokul Maheshwari: Just a clarification, was there any impact of IND-AS on depreciation where some line items have come out of depreciation or come in out of depreciation?

Sunil Ranade: No material changes with respect to depreciation.

Gokul Maheshwari: Thanks. All the best.

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

Sabri Hazarika: Good evening Sir. If I go deeper into your sales volume, what we notice is that in Q1 FY2016 your volume was 2.32 MMSCMD and by Q4 it has already risen to around 2.48 MMSCMD. So basically it is in the second quarter and third quarter of last financial year when we might have seen a very good jump in the volumes. So can you attribute the reasons behind that because of private vehicles compression at that point of time or was there something specific?

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Rajesh Wagle: The major contribution came from CNG. One factor you need to keep in mind while making this quarter-on-quarter volume comparison especially in CNG is that typically the first quarter of the financial year i.e. April to June is also vacation time, CNG consumption dips marginally keeping all other things constant, vehicle numbers constant, everything else constant because there are vacations and people go out etc. So may be the rickshaw, taxies would be running a little less. School buses are off so going by that, figure this 2.50 I mean in any other quarter might have been 2.55 or something like that.

Sabri Hazarika: So basically it is that Q1 is one of the seasons which is basically a lean season for Mumbai CNG market?

Rajesh Wagle: Yes, right.

Sabri Hazarika: Second thing is on your commissions and on your rental agreement with the OMC, what is the time when does it come for revision generally? Is there a revision clause in it or it is like random in nature?

Rajeev Mathur: We keep on engaging with OMCs because all of us are cognizant that they incur some costs in terms of wages, their own rentals, property tax etc. Those minimum wages for example tend to increase in every six months so do land related costs etc. So we do not have any fixed period as such, but every now and then a year or a couple of years we sit down together and come out with whatever is appropriate and agreed between us.

Sabri Hazarika: So this Rs.2.75 a kilo when was it revised last? And from what level has it been raised to 2.7 to 2.75?

Rajesh Wagle: Currently it is at 2.74; about a year or a bit more before that it was about 2.62 from again 1.5 year before that it was about 2.42.

Rajeev Mathur: So typically on an average first the agreement with the OMCs is till 2018, which is extendable by another ten years or so, so on that count they shall continue to dispense volumes that we provide them. It is only the rate of commission that periodically get changed based on the labor costs and other costs that they directly incur and that is the

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number that has already been told and from time-to-time we sit with them to correct it according to market requirements.

Sabri Hazarika : So every year it comes and probably it increases marginally by around 20, 25 paise.

Rajeev Mathur : So that periodicity is not every year it may be every 18 months you can say.

Sabri Hazarika: Sir just one last question in Raigad you plan to set up a city gas station so what is the status of that?

Rajeev Mathur: In Raigad our approach is totally different. We are not setting up one city gas station. In fact, we have identified six different clusters and six different points or nodes where we shall take gas from the main trunk line of GAIL. So there will not be a single station but there will be at least six of them where we will be supplying gas in the cluster adjoining that area where we are going to get gas from.

Sabri Hazarika: Who are the customers in Raigad?

Rajeev Mathur: We will look at new townships which are coming up in Raigad, new smart city which is coming up in Raigad and the industrial load in MIDC Industrial Estate, for which surveys been done by our people and number of customers have been identified so all those will form the customer base as we go along.

Rajesh Wagle: Initial volumes will probably come from the CNG segment so we are opening up the one or two daughter booster stations first. First volumes will come from CNG and some of the domestic segments where we are again supplying some housing complexes through cascades and as and when the pipeline system develops then we will be able to capture the MIDC industrial customers etc.

Sabri Hazarika: That is all from my side. Thank you so much.

Moderator: Thank you. We have the next question from the line of Saurabh Handa from Citigroup. Please go ahead.

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Saurabh Handa: Thank you Sir. I had a couple of questions firstly when you spoke about 6000 to 7000 conversions per month. Could you give us a sort of breakup as to how many of these autos and private cars and your Uber, Ola etc.?

Rajesh Wagle : The majority of the numbers for this quarter would be auto rickshaws because the State Transport Department released some additional permits, which allowed new auto rickshaws to come on the roads. As regards private vehicles and Uber, Ola's put together the number would be about 2,000 or so.

Saurabh Handa: So that means almost 4,000 to 5,000 auto permits have been coming every month.

Rajesh Wagle : Yes, somewhere in that range.

Saurabh Handa: Is this something, how long is this expected to continue. How much is the total number of permits that are expected to be released?

Rajesh Wagle : It is very difficult to put a handle on that number because this has been going on in last two years but our expectation is about 25,000 – 30,000 of these will come.

Saurabh Handa: Additional?

Rajesh Wagle : Yes.

Saurabh Handa: Just on the Uber, Ola do we have a sense of how many taxies are there in GA1 and GA2 and how many are already on CNG just to understand the potentials?

Rajesh Wagle : How many numbers are there? That is a very closely guarded number which Uber, Ola do not disclose but again what we understand from other sources is it could be about 15,000 or so and the number for converted on CNG is about 2,000 and we understand they have also placed orders for another couple of 1,000 to convert in the next two, three months.

Saurabh Handa: Do you think the potential is for what percentage of the 15,000 to convert?

Rajeev Mathur: So in a city like Delhi the entire fleet is getting converted onto CNG because of various regulatory issues. Our belief is that in Mumbai based on the economics and the differential

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between the price of CNG and the price of diesel for that matter, which is more than 30% will drive people to get kits fitted into vehicle which are running on petrol or for that matter newer vehicles coming into the Uber, Ola fold because their running rate is quite high and the margins would increase significantly if they go onto CNG.

Rajesh Wagle: So those are the economic reasons but then there are some other reasons also why we believe that a big chunk of these come on to CNG. You would have read in the papers, yesterday there was auto rickshaw strike etc., all these taxi and auto union guys are demanding that the government regulate the Uber's and the Ola's and there is a document called the City Taxi Scheme which is under consideration of the state government, which will define in what form and manner these things will be regulated. We understand the current version of that scheme mandates that any aggregator or be it Uber or an Ola anybody will have to run their vehicles on a clean fuel. Now in clean fuel they have kept three options or rather two options, which is petrol and LPG or CNG. So once the diesel option is out the economics clearly will predominantly favor CNG. Anyway there is no LPG, auto LPG infrastructure in the city so LPG is not a viable option. So faced with a choice of petrol or CNG, when you already have OE manufactured dual fuel petrol plus CNG vehicles we think that is the way the things will move.

Saurabh Handa: I mean how far away or how close are we to this city taxi scheme being implemented. What is your best sense?

Rajesh Wagle : Again there is another angle tied into this. There is also a case going on in Delhi and I think some central level committee has been formed to take a call on these cab aggregators vis-à-vis the Motor Vehicles Act. The Transport Commissioner of Maharashtra is also one of the members of that committee. So our guess is, it would take about two to three months for that committee to come out with their recommendations followed by what our government probably accepting and adopting them.

Saurabh Handa: Of these 83 new stations you are targeting how many of these are planned to be your own outlets versus the OMC?

Rajeev Mathur: Out of this 83 this year we are going to do between 20 and 25 and we have got 7 parcels of land which have been allocated to MGL where we intend setting up these stations. And in

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addition, we are looking at some franchisees also bringing in parcels of land which will be leased out for CNG purposes. So in effect 50-50 ratio for stations setup along with OMCs and the land owned by MGL or leased out from private franchisees. That is the kind of projections that we have.

Saurabh Handa: Just my last question I think the government has set a sort of targets to add almost one-lakh domestic connections every year for most city gas companies. So is that something you think it is achievable or what realistically?

Rajeev Mathur: You will be glad to know we are one of the few companies which are bang on target and we feel that we should be able to comfortably achieve that one lakh figure.

Saurabh Handa: That is great. Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Chinmay Gandre of Future Generalli. Please go ahead.

Chinmay Gandre: Good evening Sir. Regarding your employee cost, the absolute figure has come down on a QoQ basis like from almost 16 Crores like 14.5 Crores in Q1. So I mean what could be the reason for the same.

Sunil Ranade: There is some yearend bonuses involved, which we account in last quarter that is one of the primary reasons as compared to March 2016.

Chinmay Gandre: Even the other expenses have fallen down. So I mean so other expenses will be primarily your electricity charges right?

Sunil Ranade: Yes, predominantly expenses include power and fuel. There are some store and spare consumptions in respect of plant and machinery i.e. compressor, dispenser and there are other repairs and maintenance with respect to PNG i.e. non-CNG related expenditure. CSR obviously in view of the statutory guidelines there is certain provisions also we are making. These are the prominent expenses generally. As regards quarter-on-quarter it is not a uniform thing. There are differences we do, we do come across from quarter-on-quarter.

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Chinmay Gandre: So is the current quarter like I mean so in Q4 were there any one-off or I mean this is part of normal aberrations that happen quarter-on-quarter?

Sunil Ranade: Trend is generally Q4 that is last quarter tend to be little higher as compared to other quarters. Over the past many years, we have observed the trend. One of the reasons is whatever repairs and maintenance activities we need to take up generally those happen in post monsoon era. That is one of the reasons I can site. Regarding employee cost I already told you these are the primary reasons why generally Q4 you may find slightly higher figure in opex.

Chinmay Gandre: Thank you Sir.

Moderator: Thank you. Next question is from the line of Vidyadhar Ginde of ICICI Securities. Please go ahead.

Vidyadhar Ginde: Thanks. Just wanted to ask on the relationship between gas cost and margins. At some stage when the gas cost start rising especially the domestic gas cost, are margins likely to remain stable or they could go down.

Rajeev Mathur: So we take a call on what is our buying price and other costs while pricing the product. While we want the price to remain competitive versus alternate fuels but if need be then we look at increasing the prices also to offset the added costs that are there if any.

Vidyadhar Ginde: So what is the experience in the past that whenever gas cost had gone up?

Rajeev Mathur: If you have seen the trend, in last couple of years we have increased the prices also.

Vidyadhar Ginde: Was it fully passed on increase in cost?

Rajeev Mathur: Yes, generally we have been able to pass on everything.

Vidyadhar Ginde: Thanks. That's it from me.

Moderator: Thank you. Next question is from line of Rohit Ahuja of Religare Capital. Please go ahead.

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Rohit Ahuja: Thanks for the opportunity. So on PNG volume growth, actually from domestic is at 7% but it seems to be lagging what is happening in Delhi and also this is lower in CNG. Usually it is the other way around. Could you throw some light on what is happening in Mumbai and how do we see this growth over the long-term?

Rajesh Wagle: Last year we had a slight problem on the domestic PNG front in terms of there were some issues with meters and compliance with some legal meteorology issues. So we probably could not convert as many domestic customers as we might have wished. But then this year as our MD has said we should be doing more than a lakh. So this number should jump up again.

Rohit Ahuja: So compared to Delhi you are seeing Bombay seems to be more difficult in terms of PNG expansion because of local approvals.

Rajeev Mathur : What happens in Mumbai is four months in a year you are not allowed to work during the monsoon time. So all what we need to do we have to do within the eight months' time, get clearances, NOCs and approvals etc. That makes it slightly more challenging than probably Delhi where the entire year is there for them to do the same amount of job but as I said we are on target and we should be able to achieve as much as they do in Delhi in eight months' time.

Rohit Ahuja: You are talking about one-lakh connections or something, but would most of them start contributing to volumes or volumes from these would ramp up over a period of year or two?

Rajeev Mathur : As soon as they get connected they start using it. So the revenue sale starts flowing the day they have gas in their house. Of course there are certain houses which are builder driven and where people are not living but that may not be more than 5% - 10% I guess.

Rohit Ahuja: Secondly on Raigad. Could you throw some light like what you see overall potential in terms of volumes over a longer term and when would meaningful volumes start coming in from which areas?

Rajesh Wagle: As far as potential goes, business as usual case, current snapshot, we envisage about 0.6 to 0.7 MMSCMD. This is a 25-year project, so lot of things happen in 25 years and with the

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kind of development initiatives which we are seeing there take place, the new airport coming up, the new smart city all this, Delhi-Mumbai Industrial Corridor which ends there, and a were new ports coming up, then the potential cargo is much higher.

Rohit Ahuja: So you are saying every year once you have a decent connectivity, there you could add something like 0.1 to 0.2 MMSCMD to volumes?

Rajesh Wagle: That will happen at the peak ramp up phase. Initially the volumes will be very low because pipelines are not going to be there, so whatever supply will happen, that will happen through cascades.

Rohit Ahuja: So most of the growth you are saying would be primarily from GA2?

Rajesh Wagle: And GA1.

Rohit Ahuja: So this would be more in CNG we could look at and PNG also will pick up?

Rajesh Wagle: Yes, but again for domestic PNG, the population density is pretty low there, so we are only focusing on pockets where there are townships, some things like that. So domestic volumes will not be…..

Rajeev Mathur: …maybe third, fourth, fifth year onwards you will see the kind of number that we are talking about ramping up.

Rohit Ahuja: Sir, lastly on the Uber, Ola taxis is there a mandate that all the incremental Uber, Ola have to be on CNG because it is just a media report that the RTO is not giving them the licenses as they are on diesel?

Rajeev Mathur: In Delhi that is the case. In Mumbai already there is a committee made by Ministry of Transport, so those guys are working on some kind of regulatory guidelines for these entities to operate, and one of the points under discussion is that they will have to operate on clean fuels. If that comes through, then what the RTO is doing will become some kind of a regulatory requirement.

Mahanagar Gas Limited,
MGL House, G 33 Block,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051
T: +91 22 66785000
Corporate Communications: n.asthanaphate@mahanagargas.com
CIN U40200MH1995PLC088133

Rohit Ahuja: So for now it is not clear regulatory, so whatever conversions are purely on commercial basis?

Rajeev Mathur: Absolutely.

Rajeev Mathur: They have also faced the problem in Delhi where they thought they would be able to run on diesel, but the Supreme Court threw their case out. They are also perceiving that as a risk, potentially if that happens in Mumbai all of a sudden they are out of business. But today is more voluntary and economic than regulatory requirement.

Rohit Ahuja: Even 30% of BEST buses are on diesel, any sort of development there where all of them would convert to CNG eventually?

Rajesh Wagle: Currently the BEST does not have any plans of increasing.

Rajeev Mathur: See, BEST has limited budget to graduate to new buses or invest more into it. So that is probably is a larger driving force of business as usual running as they are than anything else. As and when they have opportunities probably they will look at having more buses on CNG. Also some of the buses of MSRTC, which run intercity, are on diesel. Now if we are able to provide them with the option of running on CNG say between here and Pune or here and Nasik and on the highways then they may graduate to CNG.

Rohit Ahuja: Thanks Sir. That is very helpful.

Moderator: Thank you. The next question is from the line of Abhishek Dutta from Prabhudas Lilladher. Please go ahead.

Abhishek Dutta: Thank you Sir. Just wanted the breakup of this commercial and industrial volume, which you have given 32 MMSCM. How do you split between commercial and industrial? Can you just repeat the growth volume, growth they witnessed they witnessed this year?

Sunil Ranade: Industrial is approximately 0.20 MMSCMD and commercial around 0.16 MMSCMD. Industrial, the growth scenario particularly in Mumbai region is a little limited because as you are aware many units prefer to go away from Mumbai with sky rocketing real estate

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prices; however, now we have laid our infrastructure in areas like Dombivali, Ambernath, etc., Thane District where there are MIDCs where the pipelines have reached, so some smaller industrial units will be converting. That will be a plus factor, but it will be a combination of that. Some additions happening predominantly in GA-2 and may be some reduction in GA-1 that is what it will be on industrial front, whereas on commercial front, there is a category of restaurants or eateries which is a pretty win-win situation for both those commercial units as well as Mahanagar Gas because of the good margins which we get, even from safety angle for them it is advisable to switch over because otherwise they keep banks of commercial LPG or unauthorized taking domestic cylinders, which is pretty unsafe for them and even from space point of view, it will be good for them to switch over to PNG. So some good potential we see in eateries and restaurant categories in commercial.

Abhishek Dutta: Sir, can you just repeat the growth numbers. Like you gave the volume, what was the growth YOY in each of these two segments?

Sunil Ranade: I think… the growth for industry was almost flat…. Commercial was around 9.6% and industrial was 0.1% to be precise.

Abhishek Dutta: Sir, secondly how do you see the full year panning out like after CNG growth of 8.3% this quarter what kind of growth can we expect in CNG and PNG for the remaining year and for the next year?

Rajeev Mathur: I think we will maintain the number between 7% and 8%. That is what we are doing.

Abhishek Dutta: For both CNG and PNG.

Rajeev Mathur: Right.

Abhishek Dutta: This is for both FY2017 and 2018?

Rajeev Mathur: 2017, I am talking about, 2018 well we will try to improve over that.

Abhishek Dutta: When you say Raigad the potential is 0.6 to 0.7 this is over the medium term or you mean to say over the next five six years you are referring to?

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Rajesh Wagle: This is our view of the addressable potential we can capture in the long-term based on today's market size.

Abhishek Dutta: So any ramp up like guideline or timelines as to that you want to be over the next three four years?

Rajeev Mathur: We would like to achieve the entire potential as soon as possible, but it would take two to three years to ramp up and then may be reach all these customers.

Abhishek Dutta: Thank you so much.

Moderator: Thank you. The next question is from the line of Vishnu Kumar of Spark Capital. Please go ahead.

Vishnu Kumar: Good evening Sir. Thanks for the opportunity. Sir, firstly on the margin setting itself, if I look at the last five years, we have a gross figure of about 9.5 of SCM per unit, now obviously we have increased it to 10 to 10.3. Thanks to gas flow, gas prices. Now how do you actually look at it going forward? Is there a set number in your mind before you actually change it or how does one look at it Sir? Because has the base increased now?

Sunil Ranade: There are two factors basically. One is obviously gross margin is a function of selling prices and gas cost, and secondly our aim is always to acquire more and more customers and hold on to the acquired customers even in challenging times. So prominence is more given to additions to our customer data base but that of course does not mean that we do not give importance to the margins. As you have rightly observed the margins have improved compared to 2015-2016 or the earlier years. The reduction in gas cost has definitely given us an opportunity to improve the margins. Hopefully even in the ensuing quarters particularly for domestically produced gas, the gas costs are likely to go down, so there are good chances that some improvement can further be there in domestic and CNG front. On industrial and commercial the gas supplied is RLNG. So in view of the global position, those slight increasing trend is seen in RLNG prices, but in view of the competitive bidding which we are doing and since predominantly we are acquiring through spot gas hopefully gas cost should be under control for industrial and commercial customers and assuming the

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prices of liquid fuels our competing fuels like LSHS, FO are also hardening. Then there could be an upside for commercial industrial margins as well.

Vishnu Kumar: So the current EBITDA margins can see an uptrend in the second half if I have to probably see in that way?

Sunil Ranade: There is a possibility definitely. Of course, we will have to take a call at the given moment of time because as we said offering value proposition to customers is always our first motto and acquiring more and more customers

Vishnu Kumar: The difference between 20 paise and 30 paise might not really matter for a customer, if I am actually looking at it. If the difference is Rs.15 or Rs.16, 20 paise or 30 paise may not really matter on a Rs.15 or Rs.16 of difference between petrol and CNG.

Sunil Ranade: We have observed that not only whether it is 15 paise or 20 paise even the perceptions, I mean, earlier when oil prices were coming down, there we could see a clear adverse impact on CNG conversions and even after prices has started slightly hardening petrol and diesel, still it took some time before the trend was reversed. So perception in the mind of people is also important apart from how many paise differential is over there and of course industrial and commercial are the business people and every penny counts for them.

Vishnu Kumar: Got it Sir. On your opex cost is there any seasonality like in winter there is more power consumption for the same volume excluding the volume growth is there any seasonality in your power cost going up in certain quarters and in certain quarters it will be lower or largely the same?

Sunil Ranade: There is no seasonality as such, because number one power is basically netted in CNG customer category and so as such there is no seasonality can be seen. Of course it is almost 100% variable cost, so depending upon volumes, increases will be there, but we do not find any seasonality as such over there.

Vishnu Kumar: Sir last question, in Delhi we do have between in the night times there is a discount on pricing, you did mention that there is a committee that there is a committee that is currently working on the potential where taxis can get converted into CNG/LPG, if that kind of

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happens do you also see a scenario where they might bring in a discount scheme also where you might have to give some discounts by night times.

Rajeev Mathur: As of now we have no proposition of having differential pricing for different hours.

Vishnu Kumar: At this point, but will you be considering that that at some point?

Rajeev Mathur: No, but it gives added volume and customer base and margins then we will certainly look at it.

Vishnu Kumar: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Agarwal from MoneyOre Capital Advisors. Please go ahead.

Rajesh Agarwal: Sir, we are seeing a demand from the existing users in CNG or new additions?

Rajesh Wagle: Demand is from both. Existing users continue to use CNG.

Rajesh Agarwal: Can you quantify how many new has been added to 20,000 for the quarter, which you told?

Rajeev Mathur: Yes, around 20,000 or 21,000.

Rajesh Agarwal: Sir, year-to-year we have grown by 9%, in terms of volume, but if you compare with January to March quarter now April to June quarter we have not grown so much, why? What is the reason?

Rajeev Mathur: I thought we said April to June quarter some volume, CNG volumes you might see a dip because of closing of colleges and people going on holidays and various other reasons. So that comes up in the subsequent quarters.

Rajesh Agarwal: If a new city starts like Raigad or something for the CNG, how much vehicle additions we can see if one city gets added?

Rajesh Wagle: Raigad is not exactly a city. It is a large district.

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Rajesh Agarwal: Now we are going for Kalyan. Suppose either you take that way, either one CNG petrol pump, suppose we have opened one new CNG petrol pump, how much gets added?

Rajeev Mathur: On an average we can do between 5,000 and 10,000 kg a day on a single station.

Rajesh Agarwal: Can you quantify to the number of vehicles? Suppose one new CNG station starts there can be addition of 10,000?

Rajeev Mathur: Average one vehicle will get six to seven kgs filled in one fill.

Rajesh Agarwal: Can for a separate city like Kalyan and all, we can expect 20000 vehicles to get added in a year's time?

Rajesh Wagle: Not just from Kalyan alone, again it is very difficult to pinpoint geographically where exactly the vehicle is coming from because they keep moving here and there.

Rajesh Agarwal: Generally, what is the psychology? Why people want to get converted? Is it a commercial reason or regulatory reason like Delhi? What is the main reason?

Rajeev Mathur: To save money.

Rajesh Agarwal: To save money and can we have a competition from suppose steel cylinder gets converted to plastic cylinders can it affect our business?

Rajeev Mathur: It will only improve our business.

Rajesh Agarwal: What are the chances of getting it converted from steel to plastic?

Rajeev Mathur: Very high.

Rajesh Agarwal: Thank you Sir.

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Moderator: Thank you. Due to time constraints we will be able to take one last question. We will take the last question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: Sir, just one question on the competitive scenario obviously with these margins your business is highly profitable in terms of return on capital. What would make OMCs not start this business on their own and do it in collaboration with you? They can earn all the money themselves rather than sharing it with you given that they already have an existing network? Why would you not see more competition from them, which is with them so far given these profits they have?

Rajeev Mathur: Each one has got an exclusivity and a process of authorization by which people get a geographical area to operate in, and the competition is already there with alternate fuels. If there is enough business for any company across India in different other cities which are going to come up to set up these kind of distribution networks, so gas to gas competition would arise in India when there is not enough for everybody to have across the country. So the potential is enough for everybody to have a piece of the cake.

Vinod Bansal: But not every city is as big as Delhi and Mumbai and because you have an existing customer base or a city that is attuned to CNG usage why should not a BPCL start using its own CNG pumps on fuel stations to sell CNG. I mean every unit of CNG sold is petrol not sold. So it is a loss of business for them?

Rajeev Mathur: Then our company would have to weigh the option of getting a Rs.2.74 from me for only letting it out and allowing me to dispense versus you know creating an infrastructure, taking a risk of getting gas, having seven contracts and you know kind of penalties and other things, and the customer satisfaction levels need to be higher; then people will shift. So weighing all that and the margins that they will get out of that versus just allowing somebody to dispense and getting a Rs.2.74 will probably determine whether somebody wants to enter the business or not.

Rajesh Wagle: Last point is current regulatory and government policy is that only entities who are explicitly authorized can run CNG stations and operate there.

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Rajeev Mathur: That is the regulatory law of the country.

Vinod Bansal: I know it is very hypothetical question, but do you sort of work with any target margins, by what I mean is that if gas prices continue to fall after a point, you would want to pass on the benefits to the consumers to gain more volumes and on the other side, after a particular level, you will raise prices to protect your margins. So is there a sort of a floor and possibly a cap that you work with, a target band, which you are comfortable with?

Rajeev Mathur: So while prices are falling, it does not mean that the margins are also falling. That is point number one. Two, we will see how much value we can derive out of reducing prices or if it comes for us to take a call that we need to increase prices to maintain whatever indices or the benchmarks you set for ourselves we will do that.

Vinod Bansal: Fair enough. Thanks a lot.

Moderator: Thank you very much. That was the last question, ladies and gentlemen. On behalf of Kotak Securities Limited that concludes this conference. Thanks for joining us, ladies and gentlemen. You may now disconnect your lines.

(This document has been edited to improve readability)

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