



MAHANAGAR GAS LIMITED

(GAIL, Govt. of Maharashtra & BGAPH Enterprise)

Ref: MGL/CS/SE/2017/115

Date: November 15, 2017

To,

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Scrp Code/Symbol: <u>539957; MGL</u>	Head, Listing Compliance Department National Stock Exchange of India Ltd Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 Script Symbol: <u>MGL</u>
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Sub: Transcript of Earnings Conference call on Unaudited Financial Results for the quarter and half year ended September 30, 2017.

Dear Sir/Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that an Earnings conference call on Unaudited Financial Results for the quarter and half year ended September 30, 2017 was held on Thursday, November 09, 2017 at 15:00 hrs. (IST).

Please find attached herewith the transcript of the aforesaid Earnings Conference call. The same has also been placed on the website of the company i.e. www.mahanagargas.com.

You are requested to take the above information on your records and disseminate the same on your website.

Thanking You,

Yours Sincerely,

For Mahanagar Gas Limited


Alok Mishra
Company Secretary and Compliance Officer



Encl.: As above



“Mahanagar Gas Q2 FY2018
Earnings Conference Call”

November 09, 2017



**MANAGEMENT: MR. RAJEEV MATHUR – MANAGING DIRECTOR –
MAHANAGAR GAS LIMITED
MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER –
MAHANAGAR GAS LIMITED
MR. RAJESH WAGLE – SENIOR VICE PRESIDENT
(COMMERCIAL) – MAHANAGAR GAS LIMITED**

IR REPRESENTATIVE: MS. JILL – MAHANAGAR GAS LIMITED



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Moderator: Ladies and gentlemen good day and welcome to the Mahanagar Gas Q2 FY2018 Earnings Conference Call, hosted by IDFC Securities. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Probal Sen from IDFC Securities. Thank you and over to you Mr. Sen!

Probal Sen: Thank you very much Karuna. Good afternoon to everyone who has taken the time out to attend this conference call to discuss the Q2 results of Mahanagar Gas. We have with us the senior management from Mahanagar Gas including Mr. Rajeev Mathur, Managing Director, Mr. Sunil Ranade, Chief Financial Officer and Mr. Rajesh Wagle, Senior Vice President of Commercial without taking any further time, I will hand it over to management for their opening remarks and then we can open it up for questions. Mr. Mathur!

Jill: Before we begin, I would like to mention that some of the statements made in today’s discussion may be forward-looking in nature and we believe that expectations contained in the statement are reasonable. However, their nature involves a number of risks and uncertainties that may lead to different results. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding fluctuations in sales volume, fluctuations in foreign exchange rates, other costs, and our ability to manage growth. I urge you to consider that quarterly numbers are not a reflection of long-term trend or an indication of full year results, they should not be attempted to be interpolated or extrapolated into the full year numbers. Over to you, Sir!

Management: A very good afternoon to all of you and once again I welcome you all to Mahanagar Gas Limited’s Q2 FY2017-2018 Earnings Conference Call. I would like to again thank you all those who have connected with us today for our earnings call.

As you all know in the last decade, the demand of natural gas has gone up due to the increased availability, development of natural gas transmission and distribution infrastructure and the environment friendly characteristics of natural gas. The Government of India is also encouraging the use of this green fuel especially in the cities.

MGL is expanding its CGD network in the existing areas of its operation. Currently we have connected more than 985,000 households with piped natural gas and we are now



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operating 207 CNG stations supplying CNG to more than 570,000 vehicles. We have a steel and PE pipeline network of more than 4900 kilometers in place.

Work is in advanced stages of completion for supply of gas to upcoming townships in our GA3 Raigad area where some reputed builders we are in touch with and along the National Highway-4 in Raigad. Soon we will be supplying gas to some townships. In addition to one CNG station, which has already been set up in Karjat, work is going on for adding another three, four stations in Raigad district during the current year. The gas supply to Karjat town is also planned through virtual pipelines during this year. MGL is also finalizing plots for setting up gas supply facility in and around Khalapur in GA3.

This quarter on account of the GST, there was some subdued economic activities, which impacted our industrial volumes marginally. Slightly lower contribution of CNG sales was there from STUs and because of change in gas price, etc., it also led to a marginal impact on our CNG volumes growth.

During the quarter we have seen a growth of about 4% on an overall sales volume basis over the corresponding quarter in the previous year. CNG sales volume grew by 3.2%, domestic sales volume grew by 11.4%, the commercial sector grew by 5.8% and there was a marginal drop of 0.4% in case of our industrial sector.

Overall the PNG volumes grew by 6.3%. Gross margin has also improved to 55.4% as compared to 48.1% in the corresponding quarter in the previous year.

The improvement in the gross margin is mainly due to better price realization linked to alternate fuel prices in case of industrial sector - commercial customer category, reduced cost of gas mainly due to domestically produce gas being available at \$2.48 per MMBTU in the quarter as opposed to \$3.06 earlier and a favorable exchange rate.

The operating EBITDA was higher by 24% at Rs.200.29 Crores as compared to Rs.161.53 Crores in the corresponding quarter in the previous year. EBITDA margin was 37.5% as compared to 31% in the corresponding quarter in the previous year.

The net profit after tax grew by 22.1% from Rs.102.24 Crores in the corresponding quarter of previous year to Rs.124.79 Crores during this quarter. I am happy to inform you that recently the excise department which had filed an appeal with the Supreme Court against the CESTAT Order dated 24th August 2016, which was in favor of the company for the



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disputed show cause cum demand notice issued by the department towards the excise duty not paid on trade margins to the OMCs has gone in our favor. This excise duty demand along with the applicable interest and penalty was shown as a contingent liability in the books of MGL as the department had an option of going for further appeal in the Supreme Court. This appeal was dismissed on merits by the Supreme Court vide order dated 3 November and this rests the case for this matter in our favor.

The total amount inclusive of basic duty demand, interest and penalty to be removed from the contingent liability is Rs.172.57 Crores as of 30 September 2017. It includes Rs.128.41 Crores CESTAT order is favor of the company and balance appeal pending with CESTAT will be dropped based on the Supreme Court order.

With this, I will like to conclude and will now like to open the floor for questions. So thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Gaurav Khandelwal from Ambit Capital. Please go ahead.

Ritesh Gupta: Hi, this is Ritesh from Ambit. A couple of questions, first one is on the volume growth rate, so this quarter we saw volume growth rates of close to 4%, how do we see it going forward, what kind of vehicle additions you are witnessing right now and going forward with expansion into Navi Mumbai etc., what kind of growth rates expect and what kind of incremental volume basically expected Sir Navi Mumbai side? The second bit is on the margin side. What kind of headwinds do you see on the margins going forward because if I see your margins versus other CGD entities, they look substantially high. Of course, a lot of credit has to be given to your operating efficiencies, but apart from that anything else we should be worried about going forward.

Management: So on the volume front you are right, this quarter we did 4% but our expectation is that the volumes will pickup during the rest of the year and we should be in a position to be higher by at least 1% or 2% points before we end the year. Over last month or two, things are looking up, we hear that about 100,000 new three wheelers are getting the new registration done by the ministerial authorities in the Maharashtra RTO, etc., so they will come onboard progressively over the next six months or so and we should see some more volume growth happening because of the induction of these autos, etc. Similarly, we are going into newer areas in GA3. So in those areas also we will see an upsurge of both three wheelers as well



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as four wheelers. Where we do not see much growth happening is the state transport undertakings, there some of the buses have gone out of business, newer one's induction is getting delayed and they have also been experimenting with other electric vehicles, etc. So all that leads us to believe that the growth from the STUs in the next couple of months may not be there, but the volumes will remain as sales were happening in the past, that is about the volumes. On the margins, Mr. Ranade will be able to give you the numbers.

Management:

I think for Q2 we have seen EBITDA margin of little more than Rs.8, it is as compared to Rs.6.75 for Q2 of previous year. There will be divergent factor when it comes to margins in respect of CNG and domestic going forward no substantial change should be seen on account of any gas cost increase because the next hike in APM gas will only take place from 1 April. So, on that front there are not much things to worry. Another factor which will be important to watch for CNG and domestic margins will be what happens to forex rate, in Q1 and Q2 it was around 64.5 plus, if the forex rate continues in the similar range, the margins in domestic and CNG business could be steady. As regards, industrial and commercial margins, two important factors will be what happens to the sale realization and another is the spot gas prices, compared to Q1 of 2017-2018 or even for that matter Q2, currently we see prices bit hardening, spot gas prices hardening, which is basically feed stock for industrial and commercial, however maybe three to four months down the line, situation can further improve as regards to spot gas prices are concerned. On the other hand, there could be positive signals on sales realization as you are aware of oil levels are moving upwards, it has touched almost 60 point or kind of region which means there could be upward movement, maybe there could be a lag of one month or so, but there will be upward movement in case of alternate fuels used by our industrial, commercial customers such as LS/HS or FO or for that matter commercial LPG or 19 kg cylinder LPG for commercial restaurant categories and that should benefit the company. So all these put together we will have to see how the margins move forward but probably substantial changes may not be seen immediately, as it will take company in totality into consideration.

Ritesh Gupta:

Right, so basically commercial and industrial margins can further improve from hereon because effectively your competitive fuels are becoming more expensive.

Management:

That is on positive side on sales realization whereas we have also seen some upward movements in spot gas cost.

Ritesh Gupta:

Got it Sir.



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- Management:** So depending upon the proportion of increase, impact will be seen in the margin.
- Ritesh Gupta:** Okay and what is the number of pump additions that you are looking for in rest of FY2018.
- Management:** Can you repeat please?
- Ritesh Gupta:** What kind of pump additions you are looking for in FY2018?
- Management:** Pump additions, CNG stations we said 20, so we are on course to have 20 new stations in place.
- Ritesh Gupta:** Okay Sir. That is all with my questions Sir. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Aditya Makharia from Motilal Oswal Asset Management Company. Please go ahead.
- Aditya Makharia:** Yes, Sir just coming back to your point on gas prices which are now on the spot market, crossed \$9 on the commercial offtake and industrial offtake, I believe we use spot gas right?
- Management:** Right.
- Aditya Makharia:** So in that sense that is what could impact the margins?
- Management:** On the procurement side whereas there will be positive impact on sale realization side, the fact that oil levels are going up, it means prices of other alternate fuels are available to our customers like LSHS, FO or in restaurant category 19 kg cylinders, these prices will also be soon going up we believe and which will be to the benefit of the company in the industrial and commercial customer category.
- Aditya Makharia:** Essentially what you are referring to is customers would not substitute gas for FO and the others ...?
- Management:** That is one thing and probably attractions for the new customers to switch onto PNG will also be there.
- Aditya Makharia:** Right. Okay. Got it. Thanks.



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Moderator: Thank you. Next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir I wanted to know the gas cost expense last year per MMBTU or whichever the new MMBTUs first half this year and what is the spot going? What was it last year in your annual numbers, what was it in first half and what is the spot price currently?

Management: The APM prices are in public domain to look at this year currently the prices are \$2.89 per MMBTU before that in the first quarter it was about \$2.48 per MMBTU and in the previous year, it ranged at between about \$2.50 to \$3.06 per MMBTU. So till the first quarter of this year, there had been a drop in APM prices and just now it is the first time that APM prices bottomed out and it has crept up from 2.48 to 2.89.

Pritesh Chheda: And what was it in Q2 but?

Management: Q2 of?

Pritesh Chheda: This year?

Management: 2.48, the price changed on 1 of October this year.

Pritesh Chheda: Okay, 2.48 was in Q2, first half was also 2.48?

Management: Yes.

Pritesh Chheda: Okay. Thank you very much Sir.

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

Sabri Hazarika: Good afternoon Sir, actually I logged in late, so I am sure whether this question was asked or not? Actually I wanted to know about the commissions to OMC and dealers, has there been any increase in the commission rates or is there an increase likely?

Management: No, the negotiations in the oil marketing companies are currently ongoing, so historically yes over time because of inflationary pressures, etc., costs go up, your minimum wages go up, so the trend has always been on the upside, so yes when the negotiations conclude, we will know at what level the new agreements will be at.



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Sabri Hazarika: Okay Sir right now it has not... I mean last one to two quarters it has not moved anyway right, it has remained more or less constant?

Management: For our own dealers, there has been a marginal increase and that they have been benefited with but with OMCs going forward as I said we are in negotiations once we conclude there may be an upside in terms of the commissions that we give them or the trade discount that we give them.

Sabri Hazarika: Okay and Sir I mean if I look into your realization it fell by around Rs.1 per scm, so any specific reason that, is it because of the mix or something specific behind this?

Management: Yes, there are different reasons as you rightly said one prominent reason is mix as well because there are different discount levels available to different customer categories like Thane Municipal Transport is there or Navi Mumbai similarly NMT is there Navi Mumbai Transport, BEST is there in Mumbai and OMC is another category and of course there is franchisee or direct sale from MGL. So it depends on from which category, the sales is happening or the proportion is changing from one quarter to another or no. For example, in Q2 as compared to Q1, the proportion between OMC versus STUs are changed and the proportion of OMC has comparatively gone up. So, that could be one of the reasons where the price realizations get impacted and in case any specific discount arrangements are changing then that also we will take into account. So it is a mix of all these factors put together will get reflected in the sales realization.

Sabri Hazarika: Okay and what were the CNG sales in million kgs for the quarter?

Management: For Q2?

Sabri Hazarika: Yes, Q2 FY2018 and Q2 FY2017 also.

Management: 1.400 million kgs per day for Q2.

Sabri Hazarika: 1.4 million kg per day. Okay and what was it in Q2 FY2017?

Management: Q2 FY2017, it was 1.354.

Sabri Hazarika: And one more bookkeeping question is, the industrial and commercial volumes for the quarter actually, industrial volumes should do for the quarter?



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Management: Industrial for Q2, it is 0.206 versus the industrial for same quarter previous year was same in fact, 0.206.

Sabri Hazarika: Okay, 0.206 and the remaining will be commercial from the industrial...?

Management: Yes, commercial was in fact 0.177 at this time as compared to 0.167.

Sabri Hazarika: Okay, so up around 8%, I guess. Okay. Thank you so much.

Moderator: Thank you. Next question is from the line of Vishwa Kumar from Spark Capital. Please go ahead.

Vishwa Kumar: Good afternoon Sir. Thanks for your time. Sir just wanted to understand from the new cities that PNGRB has come up with the list, I have just a few questions on that. Firstly, we do understand that the current building mechanism has been heavily skewed towards the bid bond amount. Let us say if MGL were to help the government with the revised new set of rules that can potentially be implemented, how do you think it best can be changed, so that it aids for competitive structure rather a balance sheet driven kind of a structure?

Management: So you are absolutely right, we have taken up with the PNGRB that this bid bond business and the financial muscle it should not be the basis of determining who should get a geographical area or not and it should be the expertise, the experience, the roadmap or the plan that a company has in creation of an infrastructure and trying to provide the service to as many people as possible over a defined period of time. So these are some of criteria, which the PNGRBs also seized off. Hopefully in the next 200 cites that they are talking about the bid bond business will go away, it will remain the nominal bid bond that everybody would have to give but then they will have to workout a business plan, they will have to create a roadmap of the infrastructure, how much they are going to spend on creation of that and things like that and there will be periodic monitoring, etc., etc., and the experience that the organization will bring onboard to create such infrastructures those will have much, much higher weightages than all these things. So hopefully that will change the skew from anybody with deep pockets to enter the sector versus people who know the business and can implement it.

Vishwa Kumar: So you are saying that the probably a weightage of in terms of the number of years of industry experience like MGL or IGL or Gujarat Gas, these kind of companies will benefit



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and they will also have to show how much of capex they will probably invest. That will probably be a higher weightage factor, is that a right understanding Sir?

Management: Absolutely.

Vishwa Kumar: But just trying to get a sense does this not allow a lot of private companies to probably get in because today they are relatively a smaller number in terms of experience at least?

Management: So let them I mean see there are 200 cities we do not see 200 people with this kind of a background able to implement these kind of projects in the time span the government wants to do. More people with this kind of an experience and the ability to expand the network are welcome.

Vishwa Kumar: Okay, got the point Sir. Sir in your assessment how many cities probably would have a 0.1 or 0.2 MMSCMD kind of a target volume and if you have to select the city with the 0.1 or 0.2, broad average capex how much we need to invest over a three or five year horizon?

Management: I think there is a list of 200 that the PNGRB has come out with very recently, so we will be analyzing these places,

Management: Out of the 200, maybe 70% may be in the range of 0.1, 0.2, 0.3, less than 0.5 kind and the 30% may be above 0.5 of which maybe 5% or 10% maybe above a million or so. That is the kind of range, broad numbers, but we are doing the analysis to see what the exact numbers are.

Vishwa Kumar: Got the point Sir. Sir in case if we need to get a city which say anywhere between a 0.1 or say 0.5 MMSCMD kind of a volume range, what could be an indicative capex that one may have to invest over a three to five year horizon.

Management: So it is city specific, the kind of city the spread of the city, the density of population, I mean as you know industrial and all those things come into play, difficult to say offhand.

Vishwa Kumar: But would it be at least a Rs.50 Crores to say a 300 kind of number or it will be...because are you trying to get a sense of the rough numbers, I am not asking an accurate number, but indicatively...

Management: So it will be anything ranging between Rs.50 Crores to Rs.500 Crores.



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Vishwa Kumar: Okay. Got the point Sir and what would be the rough payback in all of these let us say with concentrated housing, industrial and say in terms of CNG and PNG, you see some equal spread of all three, then what would be your indicative breakeven that you think will happen?

Management: It is equally difficult to city wise or give any specific number what is clear is that CGD project could be pretty attractive where it is a combination of industrial, commercial, CNG and domestic put together because these customer categories complement each other a lot maybe in the initial stage of the company since per capital consumption is much higher in case of industry, you are able to gather maybe critical marks pretty quickly whereas in the later period though domestic or CNG will be slightly slow growth rate, but the margins could be better in that area, so the CGD which where the mix of all these customer categories there could be ideal probably.

Vishwa Kumar: Okay. Thanks a lot Sir. Thank you.

Moderator: Thank you. Next question is from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: Thanks. Good afternoon Sir. Sir on the basically you spoke about the fact that--what I was saying Sir was you mentioned that the second half growth you expected to be better than what the first half look like, just want to understand from a slightly longer term perspective we have given guidance earlier of between 5% to 6% growth that is sort of the targeted number maybe slightly higher or lower, but are we sort of maintaining that guidance as of now based on what we really see in terms of private vehicle conversion and state transport demand trends. Is the 6% sort of growth still sort of the target that we are maintaining over FY2018-2019 and maybe even 2020.

Management: So even at the sake of repetition let me say that the second half is likely to be better than the first one, our belief is we can do maybe a couple of percentages points more than what we have done and that should be able to lead you to those kind of numbers that we are talking about.

Probal Sen: Right, Sir the other question I had was with regard to the gas cost, now obviously it was mentioned by Ranade Sir that LNG prices going up per se does not affect demand as long as the alternate fuel prices are also going up, is it sort of feasible to sort of look at a level I mean given the current crude prices what sort of discount or premium would be alternate



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fuels be at in our markets let say in FO, Naphtha any sense you can provide us in terms of what sort of differential exist even today?

Management: Our endeavour has always been to acquire and increase our customer base, be it industrial, commercial or any other segment. That being the case we typically benchmark our selling prices to the price of the alternate liquid fuel, alternate energy option available to the customer and our endeavor has been typically to keep that price in a range from a discount of 10% up to maybe parity with alternate fuel. Since we follow that principle and it is more conducive, it helps the customer because whatever be the price of his alternate liquid fuel, he knows that there is some saving he can get the mobile gas from us and it will take care of his switching cost and other issues. So that is why the margin as Mr. Ranade said is a function of two relatively independent things, one of them which is, what is the current price of spot LNG or any other market price LNG and what is the current level of the alternate liquid fuel price which determines the range of our selling price.

Probal Sen: Okay. Sir I will come back in the queue if I have more. Thanks. That is all from me is for now.

Moderator: Thank you. Next question is from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: Sir thanks for taking my question. Just continuing from your previous discussion where you are talking about principal for pricing of industrial and commercial segment customers, do you also have some principal for pricing of CNG and residential PNG customers, I mean do you try to benchmark with the petrol, diesel in some form.

Management: For household customers which is PNG, the first slab is linked to the price of subsidized LPG cylinder in the market today and we were conventionally at a discount of about 2% to the subsidized LPG cylinder for first slab and for the CNG traditionally our price has been at a discount of between 25% to 30% as opposed to the alternate fuel price in the market that is the range in which we work.

Tarun Lakhotia: Sir as I understand right now the discount is significantly higher than that so is there from scope for you to expand margins beyond what you are earning right now?

Management: See it is a function of how much margin is there versus how much volume growth is the aspiration. So, one has to balance between the two things and traditionally as I said the



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historical numbers I have given you which create a balance between the volume growth as well the spread.

Tarun Lakhotia: Okay. I understood. Sir last thing on that bit, so at least from October the price increase which you have taken you have passed on the entire increase in domestic gas price to end consumers?

Management: Yes, absolutely right.

Tarun Lakhotia: While I mean, I am assuming you would be working at an exchange rate at closer to the levels which we are at right now?

Management: Yes, that is the underlying assumption.

Tarun Lakhotia: Okay Sir. Fair enough. Thank you. Thanks a lot.

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

Abhishek Dutta: Hello Sir. Sir what will be capex for this year and next year?

Management: Capex could be in the region of around Rs.250 Crores and similar thing could be expected for next year, but it is a bit difficult to give accurate estimate because it is all dependent on the approvals which we get or permissions we get from different statutory authorities and other municipal authorities to lay our network, but this is the ballpark range.

Abhishek Dutta: Okay and Sir you have mentioned that you planned to set up around 20 CNG stations in FY2018, how many of them have been already set up in H1?

Management: So in Q1 we did four, nine are in the offering shortly as we speak and the rest spread over the next couple of months.

Abhishek Dutta: Okay and Sir any guidance like of this Rs.250 Crores what will be the capex for Raigad area Sir?

Management: Raigad, will be not material few Crores that is what it is expected right now in case of Raigad because the gas supply right now which we have commenced it say what we called it as virtual gas supply kind of thing it is through cascades in stead of pipelines which we



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have commenced the supply. So that does not involve heavy capex to begin with. Only after we acquire the land for our main City Gate Station and thereafter the network laying will commence. At that time, the substantial amount of capex will be involved.

Abhishek Dutta: Okay and Sir you mentioned that you plan to set a three to four new CNG stations in Karjat in FY2018.

Management: In Karjat in that area.

Abhishek Dutta: In FY2018?

Management: Yes.

Abhishek Dutta: And one will be at Uran?

Management: One has already been implemented in Uran that is right.

Management: There will be a couple of more on the highways between Mumbai and Pune.

Management: Two more on the highway between Mumbai and Pune Expressway, so in total may be five or six stations in that area.

Abhishek Dutta: Okay Sir. Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Bimal Sampath, an Individual Investor. Please go ahead.

Bimal Sampath: Good afternoon. Two questions. One is what is the progress on two wheelers and second what is the potential of this Kalyan-Dombivli area and by when we will be fully operational there?

Management: So first on the two wheeler, we as you know successfully launched the CNG on the two wheelers and the ones which are running has given an operating cost of lower than 58 paisa per km that has been the kind of numbers that we have been able to achieve as I opposed Rs.1.30 or Rs.1.40 paisa on petrol because all these two wheelers are on petrol, not on diesel so that we have been able to establish, in between from BS3 the specs changed to BS4 and all the approvals that are the different agencies gave us were on BS3, so the process of getting approvals on BS4 actually stalled the future conversion till the approvals



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were in place. Hopefully during this month all those approvals should be in place then the rolling out and registration of newer two wheelers on equivalent BS4 model for CNG would be possible and the hope that we should have at least 1000 of them in place in the next couple of months. Once that is there our belief is the cost of retrofitting and conversion etc., will come down because the cost of cylinder is the biggest cost and if they are manufactured or supplied in Mass then the price of that will drastically fall. Similarly, for the kits, so once it comes down to sub 10000 level and we also have a financing scheme in place, which has been worked out, our belief is that it should be able to take off sometime next year onwards, then the impact on any individual getting a CNG two wheeler will be minimal. Till then it is about 14000-15000 that somebody has to actually spent and that upfront is a big expense for people to convert and is a hindrance, so we are working on all these things hopefully next couple of months we should be able to progress much more on this two wheeler thing and as you know, the potential is about 18 lakhs two wheelers that is the target market for us, once it takes off.

Bimal Sampath:

So say by 2019 or 2020 we would have covered 50% of this potential?

Management:

No. That is your guesstimate. Our only target today is 1000 to propagate it across the city, thereafter it will be an induced effect our believe is people themselves will come forward and then we will see how much penetration happens.

Bimal Sampath:

Okay and Sir my second question about this Kalyan-Dombivli area?

Management:

Yes, Kalyan-Dombivli I mean if you compare it Mumbai or Navi Mumbai or Thane, we have entered relatively lately. As a result of that, our penetration levels are lower than the MGL average in these areas. However, on the flip side since it is relatively a new area, the growth rates are much higher than MGL average. So our volume growth, etc., there is easily in double digits, so 15%-20% at least on the CNG front etc., but then on an aggregate basis, the volumes are relatively small compared to MGL whole, so it may not contribute too much.

Bimal Sampath:

Immaterial.

Management:

But the growth rates whereas yes among the highest in MGL areas.

Bimal Sampath:

Okay and Sir you said that your capex is not mostly in Raigad so where is the capex taking place now, which area?



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- Management:** In mainland of Mumbai, in Navi Mumbai and what we called it as Thane District that is Kalyan-Dombivli, Ambernath all these areas put together that is where the major capex will be incurred.
- Bimal Sampath:** Thank you Sir.
- Moderator:** Thank you. We have a followup question from the line of Sabri Hazarika from Phillip Capital. Please go ahead.
- Sabri Hazarika:** Thank you for the opportunity. Actually I wanted to once again reconfirm you had around 206 CNG stations at the end of Q1, so currently how many CNG stations are there?
- Management:** 207 are operational at the moment.
- Sabri Hazarika:** And servicing how many CNG vehicles?
- Management:** 570,000 in last Q2.
- Sabri Hazarika:** Okay, 570,000, so that has basically led to around 6000 kind of an addition between Q1 and Q2, so has there been a slowdown in conversion?
- Management:** So as I said in my opening statement, during the quarter there were some subdued activities which led to lower growth in CNG volumes and it may have been an outcome of lower number of new vehicles getting registered post GST, etc. that may have been there, but we cannot conclude on that, but now the volumes have picked up, the numbers are much, much better and that is why I said following six months we hope to do much better on these numbers.
- Sabri Hazarika:** Okay Sir, right now we are back to the 17,000-18,000 conversion or is it lower than that?
- Management:** 17,000-18,000
- Sabri Hazarika:** Quarterly?
- Management:** Current run rate would be about 5000 or so a month.



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Sabri Hazarika: 5000 is a current monthly run rate. This is mostly private vehicles or, is there any – I mean what is the share between taxis and private vehicles on this because buses and other things I believe are relatively same only right?

Management: For commercial vehicles, buses, etc., are negotiable, so three main components of this 5000 are private vehicles, aggregator cabs and auto rickshaws.

Sabri Hazarika: Okay and how the division be, between the private...

Management: Roughly about 40% would be private vehicles, 60% would be the cabs and the rickshaws.

Sabri Hazarika: Okay. Sir 40%, okay fine. Okay Sir. Thank you so much.

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

Abhishek Gupta: Thanks for the opportunity Sir. I basically had two questions. One was regarding the policy of the company for bidding for new cities, so can a situation come for example the GAIL is bidding on its own for I mean CGD per unit then because of that MGL cannot bid for it and my second question was what is stopping the mass adoption of CNG, is there some technical limitation for the technology or it is just because of the infrastructure? Thank you.

Management: On your first question, we work at arms length with GAIL. As far as biddings are concerned, we take our own call and there have been several instances where different GAIL companies or associates have bid separately for the same GA, so even going forward our approach would be whatever appeals to us based on our own internal parameters, we shall bid for those GAs.

Abhishek Gupta: The second question was regarding the mass adoption of CNG for vehicles?

Management: Mass adoption of CNG for vehicles you see in cities everybody knows this you are reading over Delhi everyday, similar kind of pollution is happening in Mumbai, awareness is getting created and decidedly it is a cheaper and economically better fuel. The only inhabitant which I feel is that the mind in the people that there are queuing which is happening and why that queuing is happening is because limited storage capability in every vehicle. So my appeal to the automobile manufactures has been and we are in dialogue with them to increase the storage capacity in every vehicle so that the frequency of visiting our



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station goes down. If you look at Mumbai City itself there are not more than 230 retail outlets petrol and diesel. Here you do not see the queuing happening there, why because every vehicle can take up to 40 litres of petrol, so the frequency of going to a station goes down four times, five times than that of a CNG vehicle. Now if you design a CNG vehicle with adequate storage capacity with better material cylinder which are lower in weight which can carry more CNG. All these issues will go down and then there will be lot of fence-sitters are there today which will automatically convert onto CNG. Because there is no magic which requires people to understand operating cost going down drastically, a better convenient fuel available and we are also in dialogue with the government to create mobile CNG dispensing station. Once we get approvals for that, we shall then be going to where the demand is instead of people coming to those retail outlets to get their vehicles filled. So with all these things coming in hopefully in a short period of time, you will see an upsurge in CNG vehicles in the cities.

Abhishek Gupta:

Thank you.

Moderator:

Thank you. We have followup question from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen:

Thanks for the opportunity Sir. Just on the regulatory fund you did mention about the ambitious plan of PNGRB now. We have been aware that PNGRB's functioning has been hampered because sort of lack of quorum or a lack of sufficient number of members. Just wanted to get a sense anything you have heard in terms of where PNGRB stands right now in terms of it is personal situation. Are they in a position to again restart the bidding process and start giving out others or is quorum still absent there at the board?

Management:

So the quorum is not there, there is only one member at the moment, but in absence of the quorum, they are keeping things ready so that as and when the quorum is available, they should be able to launch all these 200 cities.

Probal Sen:

If I may ask how will it basically progress once again it will be like previous bidding outs where there will be 10 to 15 cities at one go or do you think because of the gap that has been there you may have a much wider auction going forward?

Management:

The question is best asked to PNGRB, but my belief is that with the government's ambitious plan of connecting one crore houses with pipe gas in cities, it is going to happen



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sooner than later and may be instead of 10 cities they may come out with many more in each round.

Probal Sen: Okay, but as of now again there is limited visibility on exactly how soon that will happen?

Management: Well, I cannot comment on that but they are prepared to you know launch it very fast. This is all I can say.

Probal Sen: Fair enough Sir. That is all from my side.

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

Vishal Asrani: Good afternoon gentlemen. My question relates to the medium- to long-term demand from CNG, do you anticipate any major shift as a result of the impetus being given to hybrid and electric vehicles?

Management: Our belief is people would sooner or later move onto cleaner fuels and this is the cleanest fuel possible next to electric vehicles. The challenge in electric vehicles is far more than that for CNG, so our belief is going forward if things moving that direction, they are only going to displace some more polluting fuels and CNG will find a wider base if not an equivalent base as it is today. So our belief is medium to long run it will be electric vehicles and CNG and which will have prominent place in the cities atleast.

Vishal Asrani: Thank you Sir. I have one more question and this relates to the infrastructure exclusivity that you have in Mumbai city up to 2020. What is the operating scenario that you anticipate post that timeline?

Management: Our understanding is that as long as we are able to beat all the regulatory obligations, there should be an automatic rollover of infrastructure exclusivity post 2020.

Vishal Asrani: And what would be the visibility of this in terms of rollover, when would your process of rollover begin and when would you know of whether it is happening or not?

Management: The rollover has given by PNGRB in blocks of 10 years, this typically happens very close to the end of the period of exclusivity, so only precedent we have seen of this is in Gujarat gas in which they got a rollover, but there I think because of some reasons they had already



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crossed the stipulated time limit, but we do not see any reason why we should not get our rollover well in time before the expiry of the exclusivity.

Vishal Asrani: Right Sir. Thank you very much.

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

Vishwa Kumar: Thanks again. On the domestic gas sourcing, can you give us the split of APM and PMT and given that PMT is going down, is there any other source that has been allocated to you?

Management: No, whatever volumes of PMT are going down, we are getting equal amount of gas from alternate sources within the country, so the APM volumes keep on going up as the PMT volumes keep on going down and our believe is that whatever is the requirement of CGD is about 15% of the entire availability of domestic gas. So even next five years or so, there should not be any issue as far as the APM requirement of CGD companies are concerned.

Vishwa Kumar: The APM earlier used to be 75, 25 split and APM used to I mean based on current prices it would probably be about 2.9 and closer to about \$6 for PMT. Now are you getting the shortfall of PMT through this cheaper gas or you are getting some other gas which is continuing to be priced at \$6?

Management: So price of gas is determined by the government, it is very clear. Everything is at \$2.89 except PMT, so whatever PMT volumes go down, they are made up by \$2.89 gas.

Vishwa Kumar: Okay, currently can you give rough split Sir, how much percentage is coming through PMT, indicative number, because earlier you had mentioned it was 75, 25, would it be some 80, 20 or say?

Management: It will be creeping up, roughly it should be 80, 20.

Vishwa Kumar: Okay. Sure Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand over the floor to Mr. Probal Sen for his closing comments. Over to you Sir.



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Probal Sen: Yes, thank you very much for everyone who had attended the call. A special thanks to the management for taking every question and providing their valuable insights on the Q2 results. I would hand over to the management for their closing remarks now, Sir.

Management: I would like to thank all the analysts and others who joined us today in the afternoon earnings conference call. Thank you once again and we hope to meet after Q3 results again. Thank you.

Moderator: Thank you very much all ladies and gentlemen. On behalf of IDFC Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.