



**“Mahanagar Gas Limited Q2FY17 Earnings
Conference Call”**

November 28, 2016

**MANAGEMENT: MR. RAJEEV MATHUR – MANAGING DIRECTOR,
MAHANAGAR GAS LIMITED
MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER,
MAHANAGAR GAS LIMITED**

MODERATOR: MR. RITESH GUPTA – AMBIT CAPITAL PRIVATE LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to Mahanagar Gas Limited Q2FY17 Earnings Conference Call hosted by Ambit Capital Private Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ritesh Gupta from Ambit Capital. Thank you and over to you, Mr. Gupta.

Ritesh Gupta: I would like to thank MGL management for taking out time to discuss Q2FY17 Results. Today we have the management team of MGL represented by Mr. Rajeev Mathur, Managing Director, MGL and Mr. Sunil Ranade, CFO, MGL I would like to hand over the call now to the MGL team for the opening remarks. Thanks, and over to you, sir.

MGL Representative: Good evening and welcome to Mahanagar Gas Limited's Q2FY17 Earnings conference call. I would like to thank all those who have connected to our earnings call. 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 volumes, fluctuations in foreign exchange rates, other costs and our ability to manage growth. I would urge you to consider that quarterly numbers are not a reflection of longer term trends or indicator of full year results and should not be attempted to be either interpolated or extrapolated into the full year number.

I will now hand the floor to the managing director Mr. Rajeev Mathur for his opening comments. Over to you, sir.

Rajeev Mathur: Good evening and welcome to Mahanagar Gas Limited's Q2FY17 Earnings Conference Call. I would like to thank all those who have connected to our Earnings Call.

In the last decade, the demand of 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. In consonance with this objective, MGL, along with our existing areas of operation

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such as Mumbai, Thane, Mira Bhayandar and Navi Mumbai, is also spreading our network in authorized areas of Kalyan, Dombivli, 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. In this regard, we have identified six different pockets to initiate supply of gas in Raigad. Initially, Uran area has been planned to be fed through cascades for domestic customers. The line link work has already commenced and we are targeting to start gas supply within this financial year.

Also, we have tied up with reputed builders to supply gas to their upcoming projects on NH4 in Raigad area. For CNG, we have identified few sites in Karjat and on NH4 where we are planning to start CNG supply within this financial year through daughter booster stations. We are hopeful to get permission from the statutory authorities for commencing our steel line laying network in a few stretches in Raigad. However, the challenge remains for some of these stretches in terms of MPCB clearance in eco-sensitive zones.

As of 30 September 2016, we have connected 8.97 lakhs connections households and operated 192 CNG stations supplying CNG to more than 5.1 lakh vehicles. We have a steel and PE pipeline supply network of over 4,700 kilometers. In the next five years, we plan to add 83 CNG stations and 675 kilometers of steel and PE pipelines. As you are aware, in the month of April 2016, the local gas cost was reduced from \$3.82 per MMBTU on GCV basis to \$3.06 per MMBTU on GCV basis in view of the formula prescribed by the government and this has continued till the end of the second quarter.

Also, the average cost of RLNG in H1 was less compared to the corresponding H1 and previous year in view of the comfortable supply position globally. We have adopted the Indian accounting standards IND-AS with effect from 1 April 2016 and, accordingly, the results for the quarter ending 30 September 2016 and all other periods reported have been prepared in compliance with the same.

During H1, we have seen a healthy growth of 6.1% in the overall sales volumes over the same period in the previous year. CNG sales volume grew by 6.3%. Domestic sales volume grew by 7.2%. The commercial and industrial segment also grew by 9.1% and 1% respectively. Overall, the PNG volumes grew by 5.7%. Gross margin has also improved to 48.5% as compared to 38.4% in the corresponding H1 in the previous year mainly due to reduced gas costs.

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Other expenses have gone up by 9% over the corresponding H1 in the previous year mainly due to CNG volumes related expenses like power cost, dispensing charges, LCV transportation and operating and maintenance costs. Normal increments for personal and marginally due to other overheads and CSR.

EBITDA was higher by 27.5% at Rs 314 crore as compared to Rs 246 crore in the corresponding H1 of the previous year. EBITDA margin was 31.3% as compared to 23.4% in corresponding H1 of the previous year. Net profits after tax grew by 27.7% from Rs 150.81 crore in the corresponding H1 of the previous year to Rs 192.53 crore. During the quarter, we have seen a healthy growth of 5.2% in overall sales volumes over the previous quarter. CNG sales volume grew by 5.1% domestic sales volume grew by 3.1% the commercial and industrial segment also grew by 7.4% and 6.9% respectively. Overall PNG volumes grew by 5.3%. Gross margin is 48.1% and almost the same as compared to 48.9% in the previous quarter. EBITDA was higher by 6% at Rs162 crore as compared to Rs152 crore in the previous quarter.

EBITDA margin was 31% as compared to 31.5% in the previous quarter. Net profit after tax grew by 10.3% from Rs 92.73 crore in the previous quarter to Rs 102.24 crore.

With this I, would now like to open the floor for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We have the first question from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: I had a couple of questions. One, if we look at the volume growth that has been consistently growing healthily, just looking forward because of this whole demonetization exercise, has there has been any impact on CNG sales particularly to the smaller vehicles like auto rickshaws and all that we have seen in October? And the second question was sir, if I look at the CNG net realizations, just purely based on the volumes versus the CNG revenue reported, there seems to be growth in terms of a quarter-on-quarter basis. Just wanted to understand sir, is it because discounts to the OMCs have been less because I do not believe there has been any fresh price hikes that have been done in Q2?

Rajeev Mathur: So, with regards to the demonetization effort of the government and its impact on CNG sales, for the first few days, people were short of cash because most people were buying CNG on

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cash. So, there was some amount of impact which cannot be denied. But as we go along we have seen lot of people converting to cashless modes and we have provided all kinds of cashless modes at our CNG stations. Also in the last fifteen days or so we have been accepting the Rs1,000 and Rs500 old notes. So, that impact yes was there only for a couple of days and as we go along we believe that people will come back to using the CNG fuel in the manner they were doing prior to the demonetization effort.

Probal Sen: So, sir, sorry to ask a follow up, is it fair to say that on Q3 volumes growth might be impacted to a certain extent because of this whole issue or do we think that the traction remains strong and, therefore, these few days the impact will not really matter for the overall cost?

Rajeev Mathur: So, our belief is that we have still more than a month to go and whatever volumes were short for a certain period of time should be squared up before the end of the quarter.

Probal Sen: Right sir, and as for the second question sir for the CNG realizations?

Sunil Ranade: You were talking sales realization Q2 versus Q1?

Probal Sen: Yes sir.

Sunil Ranade: Okay there is a slight improvement because of the sales mix the way we get it, as you may be aware there are different channels through which we sell. There are our own outlets, franchise outlets, OMC outlets, there are some sales which happen to state transport unit. So, in all these cases the prices are different. Also, depending upon geography like New Mumbai, Greater Mumbai, these types of things also affect the prices because of the Octroi or LBT depending upon the sales mix which we get in respective quarters, that is how you will see the difference in net realization.

Probal Sen: Right sir, so there is no price hike or something other than the one that we took in October or rather there was a small price hike we took on 18 September, I believe to account for some duty changes, right?

Sunil Ranade: The VAT change was affected in September but it was almost I think middle of September, so impact is negligible for that. It is mainly the impact of the sales mix that we get.

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- Moderator:** Thank you. We have the next question from the line of Rohit Ahuja from Religare Capital. Please go ahead. Seems that we have crossed the line for Rohit. We will move to the next question, that is from the line of Vidyadhar from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Couple of questions. One is various players have indicated that in recent weeks, the spot LNG price is higher than contracted RasGas. So, if that is indeed the case, then do you see a possibility of your industry and commercial margins coming under pressure in second half of the year or will you be able to pass it on and maintain margins? And the second question is do you expect the second half volume growth to be better than first half or any guidance on that?
- Rajeev Mathur:** So as far as prices of LNG are concerned, yes, they have slightly firmed up in the recent past. But our belief is it is because of certain external factors in Japan, Korea, etc., and the kind of supplies that are coming up; our belief is prices may not remain firm for very long. Secondly, prices of crude have also looked up. So, our belief is that there is not going to be a significant impact as far as the margins on commercial or industrial are concerned in the near future.
- Vidyadhar Ginde:** What about the second half guidance? Any indications on how second half volume growth would be compared to the first half and second quarter, which was somewhat weak?
- Rajeev Mathur:** So, we cannot judge how external factors come to play in the second half but if things go as they are, we should maintain the same trend as we have done in the past during the year.
- Moderator:** Thank you. We have the next question from the line of Chinmay Gandre from Future Generali. Please go ahead.
- Chinmay Gandre:** Sir, our growth in Q2 was marginally lower as compared to what we saw in Q1. So, any specific reason you would like to attribute to the margin? I mean we got around 5% growth in CNG versus around 8% in Q1, so any particular reason you would like to attribute to it?
- Sunil Ranade:** Number 1, it also depends on what kind of performance there was in the earlier quarter in the previous year. Additionally, a few things we can say, for example, for CNG, in Q1 the addition which we had done was 20,229 vehicles all four categories put together, whereas in Q2 it was slightly less, it was 19,209 CNG conversions.
- Rajeev Mathur:** So, I think on PNG, there were lot of vacations and other things and people may not have used the same amount of volumes during the holiday period or the festival period, that might have been one of the reasons where there is a marginal change in the volume numbers.

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- Chinmay Gandre:** And what is the vehicle conversion rate right now that is there?
- Sunil Ranade:** It is 6,000 plus right now.
- Chinmay Gandre:** Okay, and what will be the total in terms of percentage to sales? What would be the state transport contributing to the CNG sales?
- Sunil Ranade:** State transport unit contribute around approximately 12% of the CNG volume.
- Moderator:** Thank you. We have the next question from the line of Arya Sen from Jefferies. Please go ahead.
- Arya Sen:** If you could repeat some of the numbers you gave on number of CNG stations and number of PNG connections?
- Rajeev Mathur:** Okay, so as of 30 September, we have talked of 8.97 lakh connections, which have now gone up to 9.05 lakhs; this is the recent number that I have. Also, CNG vehicles are 5.16 lakhs vehicles running today. And on the CNG stations we have 194 in operation as of now.
- Arya Sen:** Right sir and what are the targets for each of these for the full year? I mean is there any change in that because especially on the households you seemed to be going at a slightly slower rate than the 100,000 for the full year, right?
- Rajeev Mathur:** So, we have done about 40,000 connections as of now. But conversions have been 50,000, which means that we have been able to reach 60,000 houses by now but 12,000 people or houses are either locked or you know people are not ready to move in. We expect another 60,000 or so by the end of the year and if the conversion rate remains the same, we should be close to 95,000 to 100,000 or 90,000 to 95,000.
- Arya Sen:** Right and what about CNG stations? What is the target for the year end?
- Rajeev Mathur:** For CNG stations, the target is 20 stations during this year. We have already done six by now, two are on the verge of commissioning within this month and we have another 12 or so in the offing. So, depending on the clearances and permissions that we are able to get we are on course to do close to 20 during this year.
- Moderator:** Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

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- Vishnu Kumar:** Is it possible to split the growth between GA1 and GA2, sir? I mean how much of CNG growth has happened in GA1 and GA2?
- Rajeev Mathur:** We do not keep GA wise data on CNG.
- Vishnu Kumar:** Okay but directionally?
- Sunil Ranade:** I think CNG can be slightly on the higher side, depends on of course vehicle categories also since GA2 we have commissioned relatively later the auto rickshaw conversions either right now could have been little higher or will be higher in GA2. There are also couple of industrial connections which are coming up in GA2 area because we have reached Badlapur, Dombivli these nearby MIDC areas whereas no industrial growth immediately is expected in GA1. I think in GA2, with regards to domestic connections, more-or-less it should be equal.
- Vishnu Kumar:** Okay, but what would be the share of CNG between GA1 and GA2 sir?
- Sunil Ranade:** Approximate ratio will be 70:30, 70% GA1, 30% GA2 which is approximate.
- Vishnu Kumar:** But it is fair to assume that GA2 probably is growing by at least 2% or 3% points higher than GA1?
- Rajeev Mathur:** Yes, it is fair to assume that.
- Vishnu Kumar:** Okay got it sir, and secondly on the recent increase in the dollar rate from about 67.5 you know to 68.5, I mean will MGL consider increasing prices or will we hold on our gas pricing at this price point?
- Sunil Ranade:** We take price rise decision in totality, it is not only forex cost, there are other costs also we consider. At the same time, as you are aware, on 1 April, gas cost had gone down to some extent, gas cost had also gone down on 1 October. So, there are negatives and positives which we take into consideration and thereafter pricing decision is made.
- Vishnu Kumar:** Okay, so in the near term, are we considering any increase sir?
- Sunil Ranade:** We cannot right now predict anything like that.
- Moderator:** Thank you. We have the next question from the line of Yusufi Kapadia from Edelweiss. Please go ahead.

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Yusufi Kapadia: My question is regarding the conversion which you saw during the quarter, as you mentioned like it is 6,000 a month right now. So, does this include the new auto rickshaws as well because in Q1 you mentioned that around 3,500 new auto rickshaw licenses were awarded every month. So this 6,000 is excluding those auto rickshaws or is it including that? So is it just the pure conversion by private cars or does it include new autos as well?

Sunil Ranade: This Q1 whatever 3,500 is there which in fact totals to 10,746 to be precise, these were all three wheelers but it was a combination of new licenses which might have been issued plus also GA2 new conversions that were happening. I mean not just because of licenses but since we have reached GA2 relatively later the additional conversions which were happening. So, it is that number 3,500 whatever we gave you was entirely for three wheelers. Private cars, just for your information, for Q1, were around 8,500 vehicles whereas for Q2 it has improved to around 11,500 vehicles.

Yusufi Kapadia: Is this the total number? Sorry, can you please repeat the number again for me?

Rajeev Mathur: 8,500 vehicles in Q1 and 11,500 in Q2 for cars.

Yusufi Kapadia: Wonderful sir, and what about the cab aggregators like Ola and Uber, so I believe they are around 20,000 Ola-Uber in Bombay and how much of that is currently on CNG, I believe roughly 7,000 were on CNG? So, have you seen any growth on this aggregator taxi conversions?

Rajeev Mathur: Both Ola and Uber earlier were working on may be diesel or so, but now they have come because most vehicles were owned by individuals and they had a choice of taking the vehicle or any fuel as they wanted. Now we have had discussions with them and in fact we have entered into some MoUs also with these operators. They would be funding or owning a sizable number of such cars going forward, and all of them are likely to be on CNG.

Also with the kind of economics that is there for an individual earlier lot not many variants were available on CNG but now a lot many of the new models are available. So even individuals who own such vehicles and run Ola or Uber may like to use CNG as a fuel purely based on the economics not taking into account the environmental issues and other things.

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:** Sir, the first question is actually just following up on a couple of earlier questions. If you could just repeat some of the numbers so in Q1 you said there were 8,500 private car conversions and 10,700 three-wheelers, what was the number in Q2?
- Sunil Ranade:** Right, Q2 corresponding numbers, cars is 11,454 to be precise and three-wheelers 7,348.
- Saurabh Handa:** Okay sir and the total you said was 20,300 and 19,200?
- Sunil Ranade:** Yes, 20,299 for Q1 whereas for Q2 total was 19,209.
- Saurabh Handa:** Okay sir do we assume similar run rates I mean like this quarter and next quarter, are we looking at like 11,000 cars getting converted on a quarterly basis and whatever 7,000 or 8,000 three-wheelers, is that a run rate which is sustainable?
- Rajeev Mathur:** So, with the kind of fuel attractiveness in terms of pricing if it remains and if it grows we believe that it should be possible to maintain the trend.
- Sunil Ranade:** The only caveat being in case of three-wheelers that is auto rickshaws, licenses depend on government policy, which is a bit difficult to predict.
- Saurabh Handa:** Okay sir just a related question I think this was also asked again. The CNG volume was down, volume growth was down from 8% to 5% Q1 to Q2. So, what were the reasons for this because the number of conversions are the same? In fact, your car conversions have gone up I would think cars would be consuming maybe as much or a little more than auto. So, what is the reason for the same, is that a seasonal thing that in Q2 typically volume growth will be lower? If you can just give us some color on that?
- Sunil Ranade:** You are comparing Q2 and Q1 growth versus previous year corresponding growth, is it?
- Saurabh Handa:** Exactly.
- Sunil Ranade:** I think that primarily the reason is whatever the previous year's numbers were there, at that point of time, what were the reasons prevailing for the difference between Q1 and Q2 right now we do not have, but that will be the primary reason because as you rightly said more or less Q1, Q2 conversions have been more or less same in the current year.

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- Saurabh Handa:** Okay fair enough and just the last question. Sir, any updates on this draft city taxi rule and I think they are talking about even the cab aggregators being forced to switch to CNG so are there any further updates on that, I think they were asked to provide their comments?
- Rajeev Mathur:** So as far as we understand all aggregators are pro clean fuels. So, to that extent there is no ambiguity between their understanding and what the government is looking for. Their issues are more relating to other things you know how our taxi service works and why they should be treated separately and all kinds of other things. But as far as the fuel is concerned, there is a consensus that clean fuels have to be used and amongst them CNG is probably the best in terms of economics and otherwise also.
- Saurabh Handa:** And the last time on this you had said that you do not know the exact number? Do we have a better idea how many like Ola and Uber would be in Mumbai like 25,000 or 30,000? Is that a rough guess?
- Rajeev Mathur:** Difficult to give a number I do not think.
- Sunil Ranade:** No, we do not have that exact numbers with us.
- Moderator:** Thank you. We have the next question from the line of Sabri Hazarika from Phillip Capital. Please go ahead.
- Sabri Hazarika:** Sir, I have two questions. The first one is of course on this draft the state government draft on conversions of taxis particularly Ola, Uber so what is the status of that? Last time you mentioned in your call that it was under discussion. So, any updates on that?
- Rajeev Mathur:** So, government had called for views of different stakeholders. Our belief is that the views have been submitted by everybody. Our only limited point on that was that if they had prescribed clean fuels to be utilized by the aggregators and to that extent all the aggregators are looking at using clean fuels. I am not too sure about the other provisions of the government policy and what their views on them are but then we have not heard anything from the government on what the final policy would be.
- Sabri Hazarika:** This is only related to the aggregators or it is related to broader public transport vehicles does it include smaller three wheelers and LCVs and other things?
- Rajeev Mathur:** I believe it is only for aggregators.

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Sabri Hazarika: And secondly sir, PNGRB there has been some updates on their website regarding they have asked for some transportation tariff the definition views of various stakeholders. So, is there anything happening on that front and secondly what about the access code for marketing exclusivity? Has it been notified or anything on that front?

Rajeev Mathur: No, we have not heard anything from PNGRB on this.

Management: Marketing exclusivity that hearing is going on. In fact, I think today also that hearing was supposed to be there, but since we are in the Board meeting we are not aware what exactly happened today.

Sabri Hazarika: Okay so what might happen if they come up with a notification that any third party can come in and enter your area.

Rajeev Mathur: See our belief is let us understand one thing very clearly that APM gas which is allocated to the entity who is operating in an area cannot be allocated to anybody else. So theoretically if any third party wants to come in, they will have to chip in with some imported gas. And our belief is that in no way would the economics of that imported gas work on any competitive volumes that somebody wants to push through a system and deliver to our customer.

So, this is more of a theoretical option available to people. Number 2, any player who wants to really do business in India has got lots of opportunities in several other cities that are coming up to do business. And instead of trying to create a gas-to-gas competition there is probably anybody for that matter who would be looking at selling it solely in any area and getting his margins whatever are there.

Sabri Hazarika: Sir, you said that APM gas will not be supplied to any new players. So, this is like this is forever or for the first six months or one year when they have to rely on LNG to show their sales?

Rajeev Mathur: No, let us be clear, only authorized entities are allowed these kinds of volumes reset every six months. There is nothing to say that a competitor can come and sell LNG and then ask government for it. He may be willing to ask for it but there is no government exquisite policy on this.

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Sabri Hazarika: Okay sir, and sir just one last small bookkeeping question. What was the exact numbers for industrial and commercial - the break-up between industrial and commercial like you gave last time for Q2FY16 and Q2FY17?

Sunil Ranade: You are talking about volumes?

Sabri Hazarika: Yes, the break-up between industrial and commercials for this quarter and last year same quarter?

Sunil Ranade: Yes, Q2 industry it is 0.21 MMSCMD. For Q1 industry was 0.20.

Sabri Hazarika: 0.20 for Q1 and 0.21 for Q2 and Q2FY16?

Sunil Ranade: Q2FY16 was also 0.20 for industry.

Sabri Hazarika: 0.20 for industry?

Sunil Ranade: Yes.

Moderator: Thank you. We have the next question from the line of Sanjay Shah from KSA Shares and Securities Private Limited. Please go ahead.

Sanjay Shah: My major questions are being answered. Sir, only I would like to know the growth strategy of the company from here onwards sir?

Rajeev Mathur: So, the growth strategy of the company is that we will try and connect more and more PNG customers as we go along. Also, we will induce more and more four-wheelers to come on board using CNG and we are also launching two-wheelers on CNG very soon. So, our belief is that if that takes off that will be another area of growth. So, our immediate strategy would be to launch two-wheelers on CNG which probably you will see very shortly happening.

Then we are planning to expand into Raigad as I said and during this year itself you will see lesser capex and more number of customers getting added there to begin with and you will see also our revenue stream going forward on this. And in the long run, we are looking to create a larger infrastructure to cater to more people in the areas we operate in. Also, we are looking at entering newer areas where we feel we will be able to, with whatever the benchmark we have set on ourselves for financial numbers, if we find some new GA attractive enough, we will bid for it aggressively and try and get it.

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And, you know going forward there will be opportunities for people who already have authorization unable to progress further or some new authorization coming up for somebody and trying to join hands with us, we will be looking at all those things going forward. So, these are some of the strategies we will adopt to try and increase our reach and customer base and volumes.

Sanjay Shah:

have we already done major capex of Raigad district, right?

Rajeev Mathur:

No, in Raigad our strategy is not to create a grid and then try and connect customers and then try and flow volumes into it. Instead we are looking at hub-and-spoke kind of a strategy where pipelines are already existing from those terminals we will create a kind of a node where we will supply in the vicinity of that. So, with low Capex we will get immediate volumes, some spike of immediate volumes to begin with. And as we go along, we try and connect those nodes with each other.

Moderator:

Thank you. We have the next question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia:

I just wanted to understand that if you want to set up a marketing network in some of the other cities where there are existing operators, let us take an example of Pune. Is it possible for you to do that because you as an authorized entity who can get allocation of domestic gas from the government?

Rajeev Mathur:

No, so let us be clear an entity which is authorized in one area cannot use those volumes in any other entity's authorized areas. So, if I want to enter Pune for example, I will have to base all my strategy of penetrating that market on LNG or imported LNG and then try and develop a strategy if I want to.

Tarun Lakhotia:

What about industrial and commercial segments where anyway all the entities are supplying LNG in their authorized areas? Do you think that is an opportunity for you to evaluate in any other city?

Rajeev Mathur:

So, you know LNG per se competing with discounted fuel oil LSHS is a tall order for anybody. You have seen other entities losing volumes in the face of deep discounts that the oil companies have been giving. In fact, we have been very fortunate and lucky our guys have done a really good job trying to maintain volumes and in fact growing ahead in this quarter. But I do not see a third entity trying to penetrate these kinds of competitive markets with

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imported gas trying to have margins and minimizing the cost. That is going to be a really challenging thing for anybody wanting to do it.

Tarun Lakhotia: Sir, then I mean just a related thing that why is PNGRB trying to come up with these tariff calculations or regulations for the CNG networks, when it is practically not possible for anybody to compete?

Rajeev Mathur: So, that is what we have been trying to tell the PNGRB. They need to look at the ground reality and then frame policies or regulations. And one of this we have been recommending to them that you know what is good for some continent or some country may not necessarily be good for India. Look at how the country is wanting more volumes of gas; try and encourage people to invest in newer areas and try and reach more industrial and commercial customers rather than creating regulations which do not encourage people to reach newer areas.

Tarun Lakhotia: Sir, last question if I may. Is there any inorganic opportunity which you are considering given the fact that you have a fair amount of cash in your balance sheet and you do not have any other GA other than Raigad where you would be investing in?

Rajeev Mathur: So, from time to time we look at all the inorganic opportunities that come our way and we are open to it. But as I said, whatever benchmark we have set for ourselves if somebody some options pass that test, then only we pursue it further.

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

Vishnu Kumar: Sir, on the PNGRB side what is your understanding as how many cities you see coming up for bids in the next one to two years, so any thoughts on that?

Rajeev Mathur: So, the government's objective is to spread the CNG networks in at least 200 cities. So, of that at least 150 are in the offing as we go along provided the regulations are right, and the bidding parameters are proper and it is attractive enough for entities to bid and try and set up city gas networks in those cities. So, there is at least 150 cities waiting for this to happen, if things are right.

Vishnu Kumar: Across members in PNGRB stop them from coming up with a lot of new bids how do you see that?

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- Rajeev Mathur:** Can you repeat your question?
- Vishnu Kumar:** What we understand is that some of the key members about five members are required for signing anything and some of them are likely to get retired. So, the minimum quorum might not be there, is what we understand. So, will that mean until some of the key positions get filled, we may not see a lot of new bidding that can happen from PNGRB. Any thoughts on that?
- Rajeev Mathur:** Well, the ideal thing is that all five members and the Chairman are there and then they understand the ground realities and come out with regulations accordingly for people to be encouraged to bid. But in the absence of that, surely it may have some impact but then the government has an overriding right in public interest to do anything that they want to and should the PNGRB not come up to the expectation, the government may try to intervene at some stage we do not know.
- Vishnu Kumar:** Sir, one last question. Is it possible to give the split between APM and PMT for this quarter? I mean the domestic sourcing - is it possible to give a split?
- Sunil Ranade:** Approximately 75% and 25%.
- Vishnu Kumar:** Okay, sir during quarters does this volume change for a full year basis this might still hold but during any Q1 or Q2, can the volumes oscillate up and down?
- Sunil Ranade:** Right now, data is not there but more-or-less it is in the same ratio.
- Vishnu Kumar:** Okay there is a slight increase in the material cost per SCM. It is more to do with LNG or it is to do with some mix also?
- Rajeev Mathur:** Maybe something to do with the international prices of gas.
- Moderator:** Thank you. We have the next question from the line of Radhika Goyal from Karvy Stock Broking. Please go ahead.
- Radhika Goyal:** Sir, just one question on the LNG side. Do we see any kind of recovery in the industrial demand or the commercial demand for gas because the LNG prices have come down? Do we see any or do we expect that the demand from that side will increase?

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- Rajeev Mathur:** So as far as the industry is concerned, larger enforcement of the emission norms in and around cities would help industries switch over to LNG or RLNG whatever, that is point number 1. As far as the commercial establishments are concerned, there is enough attractiveness for CGD companies to penetrate more and more commercial customers. Even at current commercial LPG prices, competitiveness is there. So, it is a matter of how fast one is able to reach out to the commercial customers to increase volumes and have more and more such commercial customers in the kitty.
- Moderator:** Thank you. We have the next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.
- Vinod Bansal:** Sir, you spoke about 150 or 200 new cities that could be up for bidding in times to come and you may be keen on them subject to they being attractive enough including right bidding rule?
- Rajeev Mathur:** We are not able to hear you. Can you be slightly louder please?
- Vinod Bansal:** You spoke about some 150 or 200 new cities that could be up for bidding in next few months or years and you could be keen on them subject to them being attractive enough. Could you elaborate that a bit more exactly what you look for when you go into a new city in terms of maybe volume size or the kind of infrastructure that you look up to before you decide to bid and what kind of bidding rule changes would you look up to when you say the rules have to be attractive enough?
- Rajeev Mathur:** So basically we look at the attractiveness of the players in terms of volume, capex required to be spent, how fast one can roll out, policies of the local government, and whether whatever benchmark as I said in terms of financial and other number either are we able to achieve or we think you know in short to medium term one would be able to achieve. So, those are some of the things that are deliberated and then probably a ranking is done and then depending how good or bad the place is, one looks at either bidding aggressively or passively or not even looking at it.
- Vinod Bansal:** Any sort of IRR/ROACE benchmarks that you keep in mind while you bid for a city I mean if you have to have that kind of returns?
- Sunil Ranade:** Yes, there are of course minimum thresholds we keep it in mind. But as Mr. Mathur explained it is more to do with what kind of customer mix we get, volume mix we get, maybe some size of NPV also we look for it should be reasonably big enough. And also, we look for the kind of

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topographies we have over there for laying infrastructure. These are the things we take into consideration.

Vinod Bansal: Right just one last bit on this. Do you think in India with cities that do not have a very large public transport essentially just private vehicles can such cities would those interest you I mean I presume without large public transport you may not have sizable CNG volumes which really is the cream of the business? Would those Tier 3 and Tier 2 towns be attractive in that case?

Sunil Ranade: Yes, it would depend on some combination. For example, if we have to go by our even consumer base, out of 5 lakh odd CNG vehicles which we have, nearly 215,000 are private cars. So, a similar pattern one can see, then still the project viabilities could be considered. Apart from that, we look for some industrial and commercial category customers over there.

If there are medium sized industries, particularly those who are using alternative fuels like naphtha or LPG or who are very quality conscious, who necessarily need clean fuels like gas, or there could be if the city has more eateries, restaurant category where there is a win-win situation for both gas supplier as well as those eateries. So, if this combination comes together, probably a case may come up it may not be as attractive as Mumbai, but viable projects may come up even with private cars and other things.

Vinod Bansal: And in your assessment how many such cities would be there left in India which have not been already grabbed by other CGDs?

Rajeev Mathur: So, if we take each city and try and evaluate offhand one cannot say but there are enough cities available in the country where these kinds of opportunities would be there.

Moderator: Thank you. We have the next question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: I have a follow up question related to balance sheet. So, you have about Rs. 418 crores of I mean amount in capital WIP when can we expect capitalization of the same and is it related to a particular area or where you know you have not added customers yet?

Sunil Ranade: I think we need to get clarity on CWIP in our company. It is always an ongoing process. One, when an outsider looks at it he can see that there is either flat trend or there is an increasing trend in CWIP. But which we need to take into consideration. These are often made up of literally hundreds of items. There could be last mile connectivity in case of domestic similarly

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commercial or industrial, there could be high pressure pipeline, branches of that getting laid down or getting commissioned, there will be medium pressure pipelines. So, it is a combination of all kinds of things.

In fact, if total items are hundred, the way it happens is every year 10 or 15 items can get commissioned. However, 10 or 15 new items get added. So as a result, the total figure is same in that within the CWIP there is churn which continuously keeps happening. Now one of the important changes that are likely to happen though it is a bit difficult to quantify right now but in GA2 area the areas like Kamothe or even Panvel, Kalamboli these areas we were finding so far, a bit difficult to get the government authority's approvals or municipal authority's approval due to certain reasons. There was also confusion between which area belongs to whom, like CIDCO or Panvel Mahanagar Palika and those kinds of things.

Such issues have been sorted out so in these areas we feel now permissions will be forthcoming faster and commissioning will take place. But it needs to be dealt with in depth to see which areas is exactly these CWIPs are pending. What we can only tell you right now is though the figure in totality may seem to be constant, there are within the figures churns happening.

Tarun Lakhotia: Okay. And sir what would be the level of organic capex which you may incur over the next say three to five years including Raigad?

Sunil Ranade: Including Raigad, as we have been maintaining it is around Rs. 200 crores to Rs. 225 crores annually that is the figure we can look for.

Tarun Lakhotia: Can we expect a reduction you know after once your Raigad capex is done with and probably the penetration levels in GA2 also increase, can the capex come down meaningfully if you were not to pursue any other inorganic opportunity?

Sunil Ranade: I think three to four years this rate is likely to continue because there is good amount of work still to be done in GA2 area. There are some steel grids or high pressure lines also to be laid and commissioned. Also, medium pressure lines are yet to be laid in many areas in GA2. Raigad is anyway almost a virgin area. There will be also CNG outlets that keep adding in different areas whenever we get opportunities of the land parcels either on lease basis or through government allotment or through OMCs. So, I think three to four years this Capex rate is going to continue.

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Moderator: Thank you. We have the next question from the line of Mihir Kulkarni, as an individual investor. Please go ahead.

Mihir Kulkarni: Sir, we have seen that the demand for our products is very good and we can see queues at our CNG stations. However, if you go to an area like Powai there is no PNG gas available at households. So how are we addressing this issue? And my second question is, if a competitor comes in so what will be the total investment required by a competitor to create a network that we have currently?

Rajeev Mathur: So, let us take the second question first. There is no option for a competitor to create a separate network. These are natural monopolies and only once the infrastructure is created across the world it is not duplicated by anybody else. On point number one, in certain areas yes, we still have to lay some steel pipeline and create the network and all that where we have not reached. So, that is why annually we are spending this Rs 200 crore and all that to intensify our network across the city. And Powai I am not too sure but Powai some areas it is already there. In some particular area, it may not be there but that will come in our work in progress and may be this year or next year it may be in our plan to connect those areas.

Moderator: Thank you. We have the next question from the line of Vipul Patel as an individual investor. Please go ahead.

Vipul Patel: I have two questions. One is on the risk side and the other is on the other revenues. See public transport CNG if policy changes from CNG to electricity, what is the percentage of these customers? And second is are you looking for any other sources of revenue like in other countries they would have a milk or a chocolate what is the counter sale which has them higher margin and better utilization of your premises?

Rajeev Mathur: So first of all electricity, electric vehicles are far away in India and across the world also although there is lot of hype on them you need large storage batteries for any kind of big offtake of these kind of vehicles. Otherwise their area of servicing is limited and the number of times they need to get charge is quite high. And, costs and other things are there. So, it may be 5 to 10 years down the line before we see some big thrust of electric vehicles going forward. And even if that happens we have an understanding to create the use of fuel cells in India and in Mumbai especially.

And those fuel cells will be run on gas and though that can generate electricity and we can look at setting up those fuel cell units across our stations in Mumbai or wherever and feed people

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with electricity 24/7 on a very, very reliable basis as compared to the grid. So, in case the electric vehicles come 5 or 10 years down the line, we will have a strategy of how to manage the markets and retain that market. That is point number one. Point number two, the space available in retail outlets here in Mumbai is limited.

We would rather set up another compressor and dispense more gas than look at setting up a chocolate unit or something. But of course, if there is enough space in some stations we will look at alternate modes like ATM and dispensing retail outlets or groceries or whatever. But essentially the space is very limited today.

Moderator: Thank you. We have the next question from the line of Bimal Sampat, who is an individual investor. Please go ahead.

Bimal Sampat: Just want to know that with you saying that 150 to 160 cities will be opened in five years, will we be in a position to double our volumes?

Rajeev Mathur: Whether we double our volumes is anybody's guess. But what we are saying is during the current year whatever trend is there we shall try and maintain that. And if there are better times we could even increase the run rate for growth. Five years is too far away for anybody to guess what numbers are possible.

Bimal Sampat: No but with these new areas, what is the potential compared to what is serviced by gas now by all the gas operators?

Rajeev Mathur: So, if 200 more cities come up I can tell you the numbers will go up two times or three times over.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Ritesh Gupta for closing comments. Thank you and over to you.

Ritesh Gupta: Sir, thanks for addressing the questions. I also had one. Sir, our margins we have seen for last two quarters the margins have been fairly strong versus what you have reported last year. And I am always thinking that would you kind of focus on keeping these margins at these levels or you would see basically some of it kind of going away in the second half because of say may be USD/INR or may be because you have seen already some bit of gas price cuts. So, what is the philosophy on the margins right now and how should we see volume growth rates given the recent competitiveness?

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Sunil Ranade:

Yes, I think partially you yourself answered; in the second half there are certain challenges which we are going to face like forex rate obviously is turning unfavorable. There was some hit on the volume as we talked earlier because of the demonetization issues also. Some hardening in spot prices also we have seen. So, these are some negative factors affecting the margin probably in the second half. Also, there could be a possibility of higher OPEX coming up because generally last few years' trend indicated that second half normally we incur a higher OPEX than first half because of the plant maintenances which we undertake.

In any case, however, as we have always been saying the focus of the company has been on acquiring more and more customers and holding on to the existing ones. So, we will be taking calls based on that principle.

Ritesh Gupta:

Thank you so much, sir. I think we can close the call now.

Moderator:

Thank you very much. Ladies and gentlemen, on behalf of Ambit Capital Private Limited, that concludes this conference call. Thank you all for joining and you may now disconnect your lines.

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