



**“Mahanagar Gas Limited  
Q3 & 9M FY23 Earnings Conference Call”**

**February 03, 2023**

**MANAGEMENT: MR. ASHU SHINGHAL – MANAGING DIRECTOR,  
MAHANAGAR GAS LIMITED  
MR. RAJESH PATEL – CHIEF FINANCIAL OFFICER,  
MAHANAGAR GAS LIMITED  
MR. RAJESH WAGLE – SENIOR VICE PRESIDENT  
(MARKETING), MAHANAGAR GAS LIMITED**

**MODERATOR: MR. VARATHARAJAN SIVASANKARAN– ANTIQUE  
STOCK BROKING**



*Mahanagar Gas Limited  
February 03, 2023*

**Moderator:** Ladies and gentlemen good day and welcome to the Mahanagar Gas Limited third quarter FY23 earnings conference call hosted by Antique Stockbroking. As a reminder all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to turn the conference over to Mr. Varatharajan from Antique Stock Broking. Please go ahead.

**Varatharajan S.:** Thank you Rico. A very good evening, everyone. I'd like to welcome all the participants as well as the management of Mahanagar Gas represented by Ms. Ashu Shinghal – Managing Director, Mr. Rajesh Patel – Chief Financial Officer, Mr. Rajesh Wagle – Senior Vice President, Marketing. I'd like to request Mr. Ashu Shinghal to provide a brief and then we can move on to the Q&A.

**Runjhun Jain:** Thank you, Varatharajan. Before we begin, I would like to mention that some of the statements made in today's discussion are maybe forward-looking in nature and we believe that the expectations contained in this statement are reasonable. However, these statements involve a number of risks and uncertainties that may lead to different results. The risks and the uncertainties related to these statements include but are not limited to fluctuations in sales volume, fluctuation in foreign exchange, other costs and our ability to manage those. I urge you to consider that quarterly numbers are not a reflection of long-term trends or an indication of the full year results. They should not be attempted to be extrapolated or interpolated into full year numbers. Thank you and over to you sir for your opening remarks.

**Ashu Shinghal:** Thank you, Runjhun. I am Ashu Shinghal, Managing Director, Manager Gas Limited. A very good afternoon to all of you who joined through the call and I once again welcome you all on this Q3 of the financial year 2022-23. I would like to thank all of you for attending today's Earnings Call.

Due to continuing geographical situation and supply shortages across the world with respect to the natural gas, third quarter of this financial year also remained challenging for MGL and the entire CGD industry because of the high gas input which we all have faced during the quarter. As per the domestic gas pricing policy, the price of domestic gas for the period of October '22 to March '23 is around \$8.57 per MMBTU which is around 40% higher than the previous half year that is April '22 to September '22. The present pool gas allocation, i.e., pooling of APM, CBG and HPHT gas is approximately 91% of CGD requirements of the total priority sector which has marginally reduced compared to the previous quarter. Now gas allocation shall be revised on a quarterly basis, depending upon the total domestic gas available for the CGD sector.

One of the good developments is that Kirit Parikh Committee has recommended deregulation of India's administrative prices for the natural gas by 2027. They have announced floor and ceiling



*Mahanagar Gas Limited  
February 03, 2023*

rates and several other reforms which is aimed at boosting the investors investments in cleaner fuel. The panel suggested for linking of APM gas of ONGC and OIL with import price of Indian crude basket which is a deviation from the existing policy. Further, in order to bring balance between producers and consumers, dynamic ceiling of \$6.5 per MMBTU and then increment of \$0.5 per MMBTU every year for the next 5 years and a floor price of \$4 per MMBTU is also proposed in the report. The recommendation is under review by Ministry and it is expected that by the end of this financial year they will come up with the revised natural gas pricing notification and they may be slightly earlier than that also.

Recently, Ministry has also notified that HPHT that is high pressure high temperature areas, gas will be allocated to CGD entities for domestic as PNG and CNG consumption on priority and that means that the priority will be first given to CGD followed by Fertilizer, LPG and Power. This is a good action of Government of India which helps CGD entities in replacing costly RLNG which is being used in CNG and domestic PNG segments with HPHT gas because HPHT gas is much cheaper as compared to the spot gases. This will help in reducing overall gas costs of the CGD entities, which also reduces the CNG and the D-PNG prices which will further boost consumption in CGD sector.

MGL continues to create CGD infrastructure across its business segments in the licensed areas. During the quarter 87,845 domestic households were connected and thus we have established connectivity for nearly 2.08 million households. We have layered 82.36 km of steel and PE pipeline thereby taking the aggregated pipeline length to over 6,407 km. We have also added five new CNG stations and with this we have 301 CNG stations as of the end of the quarter. We have also added 82 industrial and commercial customers during the quarter and thus on the quarter end we have 4,465 industrial and commercial customers. In respect of our Raigad geographical area, we have connected 63,509 domestic households and 24 CNG stations are currently operational. During this quarter, we laid 8 km of pipeline in Raigad thereby, taking the total length of pipeline to 373 km. This expansion of our pipeline network has created a very good ecosystem for CNG-PNG in the Raigad area. The first CGS and first mother filling station in Savroli in GA-3 that is Raigad, near Khopoli, is technically ready and we are awaiting some statutory approvals to commence the commercial operations. This will enable expeditious unlocking of the demand in the Raigad area.

Coming to MGL's operations:

Average gas sales for the nine months ending December 31<sup>st</sup>, 2022 is 3.439 million standard cubic meter per day whereas it was 2.944 MMSCMD in the corresponding period last year, an increase of 16.8%. Sales volumes in the case of CNG has also increased from 2.061 million standard cubic meter per day to 2.518 MMSCMD which is an increase of 22.21%. In case of industrial and commercial sales, volumes have increased from 0.419 MMSCMD to 0.441 which is an increase of 5.3%. Sales volume for domestic PNG has also increased from 0.464



*Mahanagar Gas Limited  
February 03, 2023*

MMSCMD to 0.48 which is an increase of 3.37%. During this quarter, overall average gas sales volume growth was flat at 3.412 MMSCMD as compared to the previous quarter's volume of 3.459 MMSCMD. Sales volume in the case of CNG is at 2.474 MMSCMD as compared to the previous quarter of 2.541. In the case of industrial and commercial sales volume is at 0.439 MMSCMD as compared to the previous quarter of 0.447. Sales for domestic PNG is 0.449 as against the previous quarter of 0.471.

The current nine-month quarter EBITDA is Rs. 794 crores compared to the previous year's nine months EBITDA of Rs. 709 crores. The current quarter's EBITDA is Rs. 256 crores as compared to the previous quarter's EBITDA of Rs. 253 crores. Net profit after tax for the nine months is Rs. 521 crores compared to the net profit after tax for the previous year's nine month of Rs. 465 crores. Net profit after tax or PAT is Rs. 172 crores for the quarter as compared to 164 crores in the previous quarter.

I'm also happy to announce that the Board of Directors has approved an interim dividend of Rs. 10 per equity share for the current financial year 22 -23. With this I would like to conclude my opening remarks and open the floor for the questions. I will hand it over to the operator please.

**Moderator:** Thank you sir. Ladies and gentlemen at this stage we will begin the question-and-answer session. The first question we have is from Yogesh Patil from Centrum Broking.

**Yogesh Patil:** My question is related to your PNG industrial and commercial volume. Could you please provide the volume breakup of 0.44 MMSCMD, how much PNG industrial and how much is the PNG commercial?

**Rajesh Wagle:** Industrial was about 0.315 and commercial would be 0.121. 0.318 is industrial, not 0.315.

**Rajesh Patel:** I would like to add generally these categories may keep on changing depending on the customer side requirement and sometimes, so it's not very important to have a break up because many a times and in the last few months there has been a lot of change, so they are not comparable with the earlier period numbers. Please make a note of that.

**Moderator:** The next question is from Shivansh Naik from Anand Rathi.

**Shivansh Naik:** Could you please give me the number of conversion of vehicles for the quarter.

**Rajesh Patel:** Total vehicles during the quarter is roughly 16,900.

**Shivansh Naik:** From the LCV?

**Rajesh Patel:** LCV number is roughly (+1700). And taxis and cars roughly 12,200. 2,900 is around three wheels and some small amount of trucks are there around 33 trucks.



*Mahanagar Gas Limited  
February 03, 2023*

- Shivansh Naik:** And my second question was could you please give something about CNG differentials between petrol?
- Rajesh Wagle:** Currently, CNG is (+40%) discount to petrol. It should be about 45%. And against diesel it's about 9% now. So, after factoring in the recent Rs. 2.5 price decrease which we took.
- Ashu Shinghal:** And also, the better mileage of CNG over petrol.
- Moderator:** The next question we have is from Abhilasha Satale from Quantum AMC.
- Abhilasha Satale:** I just wanted to understand your sourcing in terms of APM, HPHT and how much would be your spot sourcing and if Kirit Parikh Committee recommendation is implemented then what will be the impact on our sourcing cost?
- Rajesh Patel:** As far as I think MD covered in his opening remarks, last quarter roughly we have got around 90%-91% APM gas and rest was through Spot and other sources which we have used for catering to CNG and domestic. As far industrial and commercial is concerned, we have our term contracts in place through which we have been catering to. Coming to the question, if the Parikh Committee report is implemented as it is, I think the committee has suggested cap of \$6.5 immediately and floor of \$4. So, compared to the current price of APM which is \$8.57 per MMBTU, there is likely to be decrease of \$2 per MMBTU. Having said that already there is a new notification by the Ministry whereby HPHT allocation priority has been given to CGD. Some amount of HPHT gas will be available and we are already using HPHT gas through exchange in the current month. Both these have given us an advantage in terms of cost compared to the existing cost. HPHT is already being used and once Kirit Parikh Committee mostly by this year-end or 1<sup>st</sup> April if it is implemented, will also give an advantage of better costs going forward.
- Abhilasha Satale:** Currently how much is the HPHT sourcing, in that 19% how much will be HPHT?
- Rajesh Patel:** This is in the range of around 0.27 to 0.275.
- Ashu Shinghal:** Around 0.3 MMSCMD
- Abhilasha Satale:** Regarding our CAPEX plan, how much we have spent till day and how much we are likely to spend in FY24-25.
- Rajesh Patel:** Up to December we have almost spent around 460-475 crores. We look forward to another 200 crores. We may end around 650 crores by this year end. That's our estimate. Of course, depending on the available permissions and other things, we should be in a position to touch figure of 650 crores odd this year end up by March '23.



*Mahanagar Gas Limited  
February 03, 2023*

- Abhilasha Satale:** Even like '24 we have similar plan of spending.
- Rajesh Patel:** Yes. In fact, for next year, we have budgeted for a higher number and it should be in this range between 600 to 800 crores if all the permissions, availability of land and other things are in place.
- Moderator:** The next question we have is from Probal Sen from ICICI securities.
- Probal Sen:** First question was with respect to this HPHT areas being putting CGD on priority. Just wanted to understand since the HPHT gas sales happen on a bidding process, how will this priority actually work I mean on bidding prices remaining the same CGD will be allocated the gas or how will it exactly work? Just wanted your sense of it.
- Rajesh Wagle:** When it's purchased from the exchange what is happening that the exchange only opens bidding up for CGD companies first for that volume. Typically, what has been observed is everybody bids at the ceiling and since other buyers are not there or CGD has put in this requirement for priority he gets that full volume. Only after that if any other volume of HPHT is remaining then the next second priority for fertilizer, followed by LPG and then propose in that order. This is on the exchange.
- Ashu Shinghal:** Actually, just to add to what Rajesh Wagle has said that Reliance has come out with a 6 million auction. But they withdrew that auction at the last moment. I think this development which government issued the order. What we expect that as and when Reliance or ONGC will come out with their next auction, they will follow the guidelines of the government of India that whenever everything is at par then the first priority will be given to CGD, followed by fertilizer, followed by LPG, and then followed by power. That means that whosoever CGD companies are eligible for the priority sector, they will be able to take as much quantity as is required depending on and expecting that Reliance and ONGC is expected to come out with good amount of gas and that much of growth is not expected to come in CGD companies. So, 10% volume which is balanced, and which is currently being used from long term or other spot gases will be substituted by HPHT for almost all the CGD companies. Once that is exhausted, then it will go to fertilizer and LPG and then power.
- Probal Sen:** So, the second question if we can get a sense how much of spot LNG was consumed by us in total in Q3, including for priority as well as industry and commercial segment?
- Rajesh Patel:** It has been ranging from 0.27 to 0.35 depending on the peak requirement. But now with HPHT that quantum is coming down in the current month.
- Probal Sen:** Balance basically shortfall between let's say what we are getting from APM and adding this 0.3-0.35 spot, the other is basically on some sort of term contract that we have plus the HPHT that we are also getting from the exchange, is that the correct way to look at it?



*Mahanagar Gas Limited  
February 03, 2023*

- Ashu Shinghal:** No HPHT perhaps will not be able to allocate to industry and commercials and mostly HPHT will be consumed in priority sector that is domestic PNG and CNG. Once that is exhausted then the balance will be consumed by fertilizer. I don't think industrial and commercial will be able to consume HPHT.
- Probal Sen:** No sir I was just trying to clarify that for us as a company, we mentioned earlier that we bought about 0.27 from the gas exchange HPHT gas this quarter and we are consuming 0.35 of spot LNG and 91%, is that correct?
- Rajesh Patel:** For Q2 we were consuming almost 0.27 to 0.35 spot. But now with HPHT coming, this circular has come on 14<sup>th</sup> of January. After that HPHT has almost maximum quantity is replaced except if there is anything required for industrial and commercial for our own requirement. Suppose my term contract is not sufficient for that I will still have to buy spot RLNG. That's what MD saying.
- Ashu Shinghal:** Just to add, from 1<sup>st</sup> February we have started taking HPHT which was auctioned at IGX that is an exchange, Reliance had some gas and that was not being auctioned in as per their e-bidding platform. They have given it to IGX and from there we are taking HPHT gas. It was open only to CGD companies.
- Probal Sen:** Second question was with respect to volume guidance, we have obviously earlier also mentioned the guidance of somewhere I think between 5% to 6% sustainably. This year obviously the base was different, so the numbers are sharp, so for FY24 on this kind of a base should we still build in somewhere around 5% to 6% volume growth or should it be higher because the gas costs are likely to moderate a bit. Just wanted your thoughts on that.
- Rajesh Wagle:** The 5% to 6% guidance which we give. Let me again say, we always said it on a 5-year CAGR number. It is not that every quarter or every year, 5% to 6% could be 8%-10% percent in some quarter or a year, it could be 2% in another quarter or year. It's very difficult to predict the consumption pattern of so many customers very accurately.
- Ashu Shinghal:** One thing is there if Kirit Parikh comes up and the prices are reduced then it is expected that the volumes will grow in the next financial year. Otherwise, as expected in the last year maybe 5% is a fair estimate to consider the growth.
- Probal Sen:** 5% offside risk if the Kirit Parikh Committee recommendations are accepted in full, is that a fair way to look at it?
- Rajesh Patel:** Yes, just to add to that especially for if you look at '23-'24 since we said that our City Gate Station in GA-3 Savroli is also connected. We will be immediately able to connect some of the industrial commercial load in that area and most of the stations out of 24 are daughter booster and we will start slowly laying the pipelines and convert them to online station. Almost



*Mahanagar Gas Limited  
February 03, 2023*

whichever station we are able to connect through pipeline from present gas getting transported through LCVs, the sale will almost double from an average of 3000-4000 to 6000 to 8000 kg a day. Especially in Raigad we will see a very good growth in the next year, be it CNG or be it industrial and commercial and we are seeing good growth in GA-2 as well as GA-1.

**Moderator:** The next question we have is from Amit Rustagi from UBS.

**Amit Rustagi:** I would like to understand that we had long term contracts from GAIL. How much we are getting under those contracts? What are the terms there and are we seeing this risk of HPHT being given to us now when it is going to be decontrolled maybe by end of 2025? So, how are we seeing that situation?

**Rajesh Patel:** To answer your question on the contract with GAIL on Henry Hub, currently we are getting gas at supply or pay level not the full contracted quantity.

**Ashu Shinghal:** '25 is still very far off. First of all, the Kirit Parikh Committee recommendations have still not been accepted and we don't know whether there will be some changes or there may not be some changes. Even if it is accepted as what is recommended by the committee, 2 years on we don't know what the gas prices in spot market or or the term contracts the crude prices will be and also so many other factors. We can only wait and watch, there may be some more changes when '25 approaches.

**Amit Rustagi:** What about the current contract with GAIL like you are getting at supply or pay level? Do you see that going up any time soon in 2023 and '24 because what we hear from GAIL is they're going to bring entire volume of US Gas to India in 2023 itself?

**Management:** Actually, GAIL is trying to, whatever we hear from different sources, that they're trying to source gas. One of their major suppliers has defaulted in the last few months. If that is happening and also if the gap between spot and the term prices are reduced and which is the trend which we have seen in last few months when the spot gas which was being traded at maybe \$35 per MMBTU has come down to \$18 per MMBTU. Going forward since the winters in Europe have also been quite moderate, we expect that the prices will soften up and there will be enough supply of gas. In that case, we don't know what GAIL is going to do after a few months, but the general expectation is that they will increase their supplies from supply or pay level.

**Amit Rustagi:** My second question relates to the new initiatives. Over the past 3 to 4 years, we have been hearing a lot of new initiatives taken by us. But when we look at the volumes, when we talk about, have they been implemented actually we don't see anything on the ground. Like we have been talking about long-distance buses getting converted into CNG. We have been hearing about Port Trust converting their vehicles into that. We have been hearing about LNG-CNG conversion those kind of stations or upgradation of our own station. But we are seeing the





*Mahanagar Gas Limited  
February 03, 2023*

volume per station that is being on a consistent decline now. What are we doing about addressing the long-term growth and when do you see any of these things will start to pay us any benefit or they just remain like an initiative on papers?

**Rajesh Wagle:**

Amit, you need to look at these initiatives in context. If you look at the last 6 months or a year, it has been a difficult time for the whole industry. The gas prices being where they are etc. Long distance CNG or Port Trust or anybody going for LNG for that matter the timing is not really appropriate. But these are long term initiatives which will drive value in the long run for us. Currently, CNG is primarily seen as a local kind of a fuel for intracity or that kind of transportation. There is a huge amount of value lying in intracity or long-distance travel which we are trying in our own way to get. Now as far as actual movement on the ground, one positive I can tell you is MSRTC has gone ahead with and awarded conversion of 800 of their diesel buses to CNG. Out of those about 600-700 are going to come in our GAs. They have already given us seven depots and we have signed lease agreements with them to take land in their depots to set up infrastructure. All this will fructify over the next 6 months, 1 year, 2 years etc. Our belief is that in the medium to long term CNG and natural gas will be competitive vis-à-vis alternate fuels and that volume growth will come. The only thing is the last 6 months, 1 year etc. needs to be seen as an exception. On the LNG part, I can add our LNG dispensing facility for liquid in Raigad at a place called Savroli. That's near the Khalapur Toll Naka on the Expressway that is now mechanically completed and ready for commissioning. We are just awaiting a few, I think one last statutory permission or something and we'll be able to commission that. We will be having the ability to dispense liquid LNG also. The last point regarding an upgradation of stations we have been upgrading a good number of stations every year and they bring us value. Typically, we would see a spurt in the throughput of that station once we have upgraded it, either by replacing an old compressor with a higher capacity new compressor and maybe adding a dispenser or two if there is space there. That partially mitigates the challenge which we have on getting new parcels of land in a city like Mumbai. It's really difficult to get new parcels of land. Whatever you currently have we're trying to maximize it through these upgradations.

**Moderator:**

The next question we have is from Pinakin Parekh from J.P. Morgan.

**Pinakin Parekh:**

I'm just trying to understand the decision by the recent Government notification of the gas for the CNG field. This seems to reverse a Government of India Cabinet decision of October 2020 which had given marketing freedom to the gas producers in the high-pressure field where basically they have said they have given the could bid for it. I'm just trying to understand how should we read this. Because this is not a Cabinet decision and it reverses the previous Cabinet decision. So, is it something which could be in limbo for some period of time being implemented?

**Rajesh Wagle:**

I think the answer to that the government is in the best position to give. But what we are seeing on the ground is yes, in the auction which happened in the beginning of this month, CGD got



*Mahanagar Gas Limited  
February 03, 2023*

first priority in the auctioning of HPHT gas. Effectively for the seller or the producer there is no difference. What was initially happening was everybody was bidding at the ceiling and because the volumes were limited everybody was getting maybe 2% or 5% of whatever volume they had quoted. The seller will land up selling....

**Rajesh Patel:** It has a very high number of buyers. Now the buyer's number will reduce and it will help even the producers.

**Rajesh Wagle:** It will help them reduce the seller's overhead also; they won't have to deal with hundreds of customers.

**Ashu Shinghal:** Financially it was going at the same price is the ceiling of HPHT. The suppliers are not losing in that respect.

**Pinakin Parekh:** Yes, but basically the suppliers will be losing if the affiliates were bidding for it. Now in this scenario the affiliates do not have a system of auctioning.

**Ashu Shinghal:** Yes, but that is their internal matter. It doesn't impact us as a CGD company. What it brings out is that because some of that gas was being resold in the exchange, that was the concern of the Ministry. That if a gas which is being sold at a cap price should not go to the non-priority sector. That's a correction which the government has done by bringing in that the first HPHT gas if it is being sold on the ceiling should go to the priority sector. That's a very well appreciated step by the Government of India.

**Pinakin Parekh:** My second question is that, so IGL in last week's call highlighted that the supply of CNG is at 20 MMSCD and going forward it will not increase and hence any incremental volume growth for the CNG would have to rely on non-APM gas. Now the government has basically to an extent reserved CNG in the high-pressure field. Going forward sir is it fair to say that the incremental growth will not be from APM gas? There is also a risk that if the government is now effectively potentially migrating CNG from APM gas structure to the high-pressure gas structure, is the first priority has been given over there?

**Ashu Shinghal:** No, I think there are two things which are getting mixed up. First that APM gas is whatever quantity is there, the efforts are being made by ONGC to increase it also. Although we can't say whether it will increase or be stagnant or come down. Whatever APM gas is being consumed mostly into a priority sector, there are certain unconnected pipelines which cannot be connected. Therefore, that gas is being sold to some other sector. Basically, APM gas is allocated to CGD, fertilizer and some power companies. Now as and when CGD consumption grows up and this APM doesn't go up, that means earlier it was that the allocation was coming down to ease CGD companies. Now to arrest that, the new HPHT gas which is going to be sufficiently available to meet whatever growth is expected from the CGD companies. Your assumption is right, one that



*Mahanagar Gas Limited  
February 03, 2023*

we don't know what will be the future of APM gas and it is fair to expect that not much APM gas will be allocated to the priority sector except that the efforts are being made by other companies to connect unconnected fields to the main grid. If that happens then more APM quantity will be available for CGD allocation. There are efforts being made to connect some isolated fields to the main grid and that will bring some more gas to APM. The second part is that even HPHT has got a ceiling which is an evolving formula and which is a fair formula and it will be giving fair prices going forward.

**Moderator:** Next question we have is from S Ramesh from Nirmal Bang Equities.

**S Ramesh:** The first thought is in terms of your depreciation as for the nine months, is it fair to assume that you have capitalized something of the order of 800 crores and how would this capitalization help in terms of generating further revenue and profits over the next 1 or 2 years?

**Rajesh Patel:** So, whatever new CNG stations you are seeing; we have commissioned those and CAPEX for that has been added and it starts immediately giving incremental volumes or at least the compression capacities available. Depending on the vehicles and the turnaround of vehicles it will have a better impact on volumes going forward. As far as some of the steel lines and medium pressure line or low-pressure lines are concerned, that will not immediately be able to add to volumes. As and when the customers get converted on these pipeline network it will add slowly. So, it's a long-drawn process. Once a steel line or a medium pressure line is laid immediately maybe 40%-50% of the customers in a building or in that area gets hooked up and later on that process continues over a longer period of time. So, that is how this CAPEX will help in the long run. And the City Gate Station which we are likely to commission soon, awaiting some statutory approvals. Once that gets commissioned, immediately sale in the GA-3 through that station as well as the mother station will be able to cater to the daughter booster station within that geography. It will reduce the transportation cost which is being currently incurred from GA-2 to GA-3 and will also help slowly going forward connecting few more industrial commercial customers in that region and a few more daughter booster stations to be converted online. That's how it is.

**S Ramesh:** If you can share your thoughts on how much will be the cost savings on what you just mentioned and what is the kind of incremental volumes that you can expect in GA-3 Raigad say over the next 1 or 2 years?

**Rajesh Patel:** GA-3 volume growth will be quite high next year. It should be (+20%) compared to current growth which is there, current volume which is there. As far as cost is concerned even if the distance traveled was on an average 40-50 km, if that gets eliminated so cost per kg of gas transportation straight away goes away and that depreciation takes a replacement of that cost. Depreciation is a very small amount whereas recurring transportation cost is pretty high in these



*Mahanagar Gas Limited  
February 03, 2023*

stations which will also be a saving and also logistics, manpower management all that gets eliminated.

**Moderator:** The next question we have is from Hemang Khanna from Nomura.

**Hemang Khanna:** I just wanted to get a sense of what our current volumes say January or what we're currently doing versus 3.4 that we did in the third quarter? The second question or continuation with that is that say in the month of Jan you would have to have procured some amount of spot LNG to meet priority sector demand. So, is it fair to say that from Feb onwards you will not be having any incremental spot LNG purchases at least for the priority sector?

**Rajesh Patel:** No, I think some amount of spot may remain to cater to the peak we may need. So, completely you can't say that no spot will be required for priority sector.

**Rajesh Wagle:** As far as volumes go, Jan also volumes we expect to be flattish because of the high selling prices which were prevailing. But hopefully now that we have started getting and giving some relief on the high prices, we are hoping volume should pick up.

**Ashu Shinghal:** And this cost will be very minimal just to balance requirement. Otherwise, we expect that APM plus HPHT should be able to meet the priority sector requirement.

**Hemang Khanna:** Just to get a sense on the pricing, given the price cut that we've taken in February, is there any view to further bring down the pricing and improve the cost advantage versus liquid fuels?

**Ashu Shinghal:** One we have already done that Rs. 2.5 per kg of CNG prices have been reduced with effect from 1<sup>st</sup> of February. Next, we will wait and watch for Kirit Parikh Committee to be accepted by the government and as and when that comes, we'll have a relook at total cost of procurement and also what is the average weighted cost. Then we'll take a call on that.

**Moderator:** The next question we have is from Kirtan Mehta from BOB Capital Markets.

**Kirtan Mehta:** I would want to understand when I look through the data, I understand that your focus of implementation of infrastructure seems to be emphasized on GA-2 and GA-3 development. So, wanted to understand in terms of the breakup, is it translating into a higher growth in GA-2 particularly versus GA-1 and what is currently the mix of GA-1, GA-2 and GA-3 in your total volumes?

**Rajesh Patel:** Let's say on an average if you are selling around 3.5, GA-1 should be contributing around 1.8 to 1.85. GA-2 roughly 1.5 to 1.55 and around 0.1212 is being sold currently in GA-3. Going forward our expectation is somewhere between at least next year GA-2 we will see a growth of 10% in those volumes whereas in GA-3 at least (+20%) volumes we are seeing whereas GA-1



*Mahanagar Gas Limited  
February 03, 2023*

will remain in the range of around 5% to 6%. This is I'm talking about immediate 1 or 2 years till GA-3 and GA-2 peaks out in terms of the potential available in terms to geographical areas.

**Ashu Shinghal:**

With respect to your question why we are giving more focus on GA-2 and GA-3 it is primarily because GA-2 and GA-3 are more nascent areas, especially GA-3 where the network is being raised. As far as GA-1 is concerned there is hardly any space for putting our CNG station and already this steel and MDPE network is very robust in GA-1; whereas in GA-2 there is still some scope to increase some network and MDPE line and also some CNG stations. If you see our CAPEX plan for the next few years, we will be focusing more on GA-2 and GA-3. The main constraint in GA-1 is there is hardly any land which is available and whatever area is there is already covered with a very integrated network of steel and PE pipelines in GA-1.

**Rajesh Patel:**

Mr. Mehta as is in GA-1 most of the trunk line at a steel pipeline is already laid. Whatever CAPEX we are doing as far as GA-1 is concerned it is more of a security supply kind of a thing. We are doing multiple looping so that if there are any disruption etc. GA-1 area and the older area doesn't get affected. However, the last mile connectivity and the customer conversion keeps on going and we do incur sizable amount of CAPEX even in GA-1 for further branching, reaching out to the customers.

**Moderator:**

The next question we have is from Maulik Patel from Equirus.

**Maulik Patel:**

Just continuing the earlier question; you mentioned that 1.8 to 1.85 comes from the GA-1 and you expect around 5% growth in GA-1 and GA-2 you expect around 15% growth. So, the GA-2 growth is more driven by as you mentioned there is the Metro is yet to be laid down. How do you see that along with, do you have only part GA-2 with you and remaining portion of the Thane district is with Gujarat Gas. Do you see that the Gujarat Gas network will enable you to grow more faster or is it going to get some volume from your side?

**Rajesh Wagle:**

The growth rate in GA-2 is a bit higher than GA-1, it is relatively easier to lay infrastructure. There is more land available in GA-2 for opening CNG stations and it's a much bigger area compared to GA-1, GA-1 is a very mature market that way. We have been here for more than 27 years now. GA-2 is relatively new. We started off in about 2005 so 18 years or so.

**Maulik Patel:**

What is the potential for the GA-3? In 5-years where do you see this 0.1-0.12 heading to what number?

**Rajesh Wagle:**

GA-3 our demand estimation shows about 0.67 MMSCMD is the addressable market size there.

**Maulik Patel:**

Recently this Metro has started in Mumbai. Have you seen any drop in your numbers related to the past? Because the general perception is that once the Metro starts; your congestion will come



*Mahanagar Gas Limited  
February 03, 2023*

down, the traffic will come down and the cars or the taxis will spend less time on the roads relatively. So, there will be less fuel consumption. Is that thinking right?

**Rajesh Wagle:**

Look the first Metro corridor opened up quite a few years back. The Versova, Andheri and Ghatkopar one. That didn't have any impact on our volumes. The new one has just opened a couple of weeks back. You know it was inaugurated by the Prime Minister. Now we haven't seen any material change in CNG volumes or anything for that matter. But we will watch and see. Our expectation is even with so many Metro lines opening, the demand for transportation services is so high that CNG will or even liquid fuels for that matter will retain their share. It is just that the number of people traveling will increase.

**Ashu Shinghal:**

Some of them will shift from local to Metro also.

**Rajesh Wagle:**

When people see less congestion on the road some people may bring out their CNG cars to commute also. Today they will not be doing that because already it's taking them 2 hours to commute from home to work. There are lot of factors at play here so it's not necessary that Metros can potentially hit your sales. Look at IGL for an example. Delhi is one of the best Metro networks but IGL's volumes have been consistently growing.

**Ashu Shinghal:**

What is understood is that there is space for almost several fuels because the commuting will start to increase as Mr. Rajesh mentioned.

**Moderator:**

The next question we have is from the line of Somaiah V from Avendus Spark.

**Somaiah V:**

The question pertains to HPHT Gas. So, you did mention you had the 0.3 MMSCMD close to 0.3 MMSCMD. What was the total available gas at the exchange, the addressable market that was there, that's one? How do you see this kind of going up in the next 1 or 2 years in terms of HPHT volume available for CGD?

**Ashu Shinghal:**

I think the last bidding was for 3 MMSCMD in the exchange. Out of that we got some 0.27 or close to 0.3. So, what I said earlier was that the CGD companies are not expected to grow demand in tandem with what the gas is expected to come from HPHT both from Reliance and ONGC. Primarily Reliance has earlier come up with 6 million and they were news, unconfirmed news that they will come up with another tender of 6 million and also, they were news that ONGC will also come out with some more gas on their bidding. Our estimate is that CGD demand growth for priority sector will be a gradual one. It cannot be a sudden thing. As of now if we see the 10% is around 2.5 MMSCMD, we took a level of whole All India basis so that will be available straight away in the first bidding or second bidding round itself. Post that once CGD company start consuming more gas than only HPHT will be required. Our assessment is that for MGL also whatever shortfall is there will be met through HPHT.



*Mahanagar Gas Limited  
February 03, 2023*

- Moderator:** The next question we have is from Nitin Tiwari from Yes Securities.
- Nitin Tiwari:** My question is related to CAPEX. Can we have a breakup of the CAPEX spend in terms of GA-1-2 and 3 and also in terms of what heads they've gone into broadly whether there is investment has been in stations or basically in the pipeline? If we can give that sort of a breakup?
- Management:** I don't have the numbers readily available. If you get in touch with me offline, I will give you these numbers. You can contact our CFO – Mr. Rajesh Patel and he will be able to help you on that.
- Nitin Tiwari:** I will do that. The reason I asked that perhaps you can help me understand this better because I suppose your CAPEX intensity would be perhaps the highest historically and whereas like we are not adding as many stations or kilometers in terms of pipelines. I just wanted to understand that 600-700 crores of CAPEX in a year, how is that getting spent? That was my primary query. So, I'll certainly take it up later and on a one-on-one basis.
- Rajesh Patel:** Just to give you an idea. Around for 25-30 new stations and equal amount of upgradations we spend around 150 to 180 crores in CNG. Then let's say roughly around 300 crores odd is mainly in this medium pressure line, the last mile connectivity, GI, inside kitchen, inside customer etc. and balance...
- Nitin Tiwari:** In GA-1 and 2?
- Rajesh Patel:** So, GA-1 will have maximum of this last mile connectivity and medium pressure line whereas steel will be minimum in GA-1, steel will be highest in GA-2 followed by GA-3. Currently GA-3 has expenditures mainly on the CGS and the CNG stations and next year once the City Gate Station starts, we have planned to lay steel lines and also some more City Gate stations we are scouting land for. The cost of land also will be there in the range of around 50-60 crores for CNG as well as new City Gate stations.
- Nitin Tiwari:** Secondly, if you can help me understand the gas sourcing completely like once more because I'm slightly confused over there. You have about 91% of your priority sales as APM. I suppose you also had an allocation of 0.3 MMSCMD of RIL's HPHT gas side which you had bid for. Does that gas gets used in priority or it gets used in I&C segment?
- Rajesh Patel:** It is allowed to be used only in priority that is CNG and domestic HPHT gas. Nothing is allowed to be used industrial and commercial.
- Nitin Tiwari:** If I sum up your APM allocation and that 0.3 RIL Gas that you have you would not I think require any spot gas but you said that you source spot gas as well as plus HPHT gas from the exchange?



*Mahanagar Gas Limited  
February 03, 2023*

- Rajesh Patel:** Agreed. The demand doesn't remain the same on all days. For peaking, you do need some amount of spot gas sometimes. If the demand goes up suddenly you may have to put in spot gas. So, let us say around 2.8 is available through APM and 0.3 is available through HPHT. That makes to let's say 3.1 or so but suppose my demand picks up on some days to even 3.15 to 3.2 then I will have to have some type of spot gas. Otherwise, the stations will be starved of the gas and the pressure will fall.
- Moderator:** The final question that we have is from Iqbal Khan from Nuvama.
- Iqbal Khan:** It's a follow up question on the HPHT gas itself. You mentioned that around 0.3 MMSCMD HPHT gas allocation was done in the previous quarter, I mean by Q3?
- Rajesh Patel:** Another 6 months February, not previous quarter.
- Iqbal Khan:** So, in the previous quarter was there any allocation on the HPHT gas? I mean I have got a little confused over here.
- Rajesh Patel:** It might be very small amount through APM only. We did have one HPHT RIL gas which is a term contract of around 0.1 MMSCMD but we did not have anything what has come under the new guidelines of Government of India.
- Iqbal Khan:** So, my understanding is 0.3 MMSCMD is from 1<sup>st</sup> February 2023, right?
- Rajesh Patel:** That's right.
- Moderator:** Thank you sir. Ladies and gentlemen there are no further questions. I would now like to hand the call back over to Mr. Varatharajan for closing comments. Please go-ahead sir.
- Varatharajan S.:** Thank you Rico. It was a pleasure having you all on this call and thanks a lot to the management for giving us this opportunity to host it. This closes the call. Have a nice day. Unless Mr. Rajesh Patel, if you have anything to add?
- Management:** Thank you so much and if any investor has any further questions they can contact us directly. Thank you.
- Varatharajan S.:** Thank you everyone. Have a nice day. Bye.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking concludes this conference call. Thank you for joining us and you may now disconnect your lines.





*Mahanagar Gas Limited  
February 03, 2023*

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(This document has been edited for improving readability)

Registered Address: MGL House, G-33 Block,  
Bandra-Kurla Complex, Bandra (East),  
Mumbai – 400051, Maharashtra

Contact details: [investorrelations@mahanagargas.com](mailto:investorrelations@mahanagargas.com)

Website: [www.mahanagargas.com](http://www.mahanagargas.com)

CIN: L40200MH1995PLC088133