



“Mahanagar Gas Limited
Q1 FY 23 Earnings Conference Call”

August 08, 2022



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MODERATOR:

MR. PROBAL SEN - ICICI SECURITIES



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Moderator: Good afternoon, ladies and gentlemen, and welcome to Mahanagar Gas Ltd. Q1 FY23 Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need any 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 will now hand the conference over to Mr. Probal Sen from ICICI Securities. Thank you and over to you, sir.

Probal Sen: Thank you, Ryan. Thank you everyone for making the time to attend this post Q1 FY23 results discussion call with Mahanagar Gas Limited management. We are privileged to have with us the senior management from Mahanagar Gas including Mr. Sanjib Datta, the Managing Director; Mr. Sanjay Shende, the Deputy Managing Director; and Mr. Rajesh Patel, the Chief Financial Officer of the company to discuss the results.

Without further ado, let me hand it over to Neha who will give us the mandatory disclaimer regarding the results and then the management will give you opening remarks. Over to you, Neha.

Neha: Thank you, Probal. Before we begin, I would like to mention that some of the statements made in today's discussion, maybe forward-looking in nature and we believe that the expectation contained in the statements are reasonable. However, the nature involves a number of risks and uncertainties that may lead to different results. The risks and the uncertainties related to these statements includes, but are not limited to risk and uncertainties regarding fluctuation in sales volume, fluctuation in foreign exchange, other costs and our ability to manage growth. I urge you to consider that quarterly numbers are not a reflection of long-term trends or an indication of full year results. They should not be attempted to be extrapolated or interpolated into a full year number. Thank you and over to you, sir.

Sanjib Datta: Thank you, madam. Good afternoon to all and welcome to the earnings conference call of Mahanagar Gas Limited for the first quarter of the financial year 2022-2023. I would like to thank all of you who are connected for our earnings call today.

Over the past few months all of us have witnessed India's resilience and recovery in economic activities after COVID. Accelerated pace of vaccination, uptick in consumer and business confidence with better outlook on the general economic situation, have resulted in greater degree of optimism. However, adverse residual effects of the pandemic across the globe coupled with continuing major geopolitical upheavals have resulted in a surge in commodity prices matched by high inflation.

First quarter of FY23 has been a testing time for MGL and the entire CGD industry due to high input gas cost, mainly due to geopolitical factors and supply shortages across the world. Besides price of APM gas was revised from USD 2.97 per MMBTU to USD 6.14 per MMBTU with effect from 1st of April 2022.

To meet the growing demand of the sector and to bridge the gap between APM allocation and demand from the priority sector Ministry of Petroleum and Natural Gas issued revised guidelines for domestic APM gas allocation on 6th of May 2022. The guidelines were implemented with effect from 16th May 2022 and since then, APM gas is being provided to all CGD entities at uniform base price or UBP for domestic PNG and CNG in transport. This is a very positive step which provides assurance to CGD industry for 100% gas availability, for meeting the demands of the priority sector. This would also go a long way in meeting the commitment of government of India to take the share of gas in the primary energy basket from present 6.5% to 15% by 2030.



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Prior to the issuance of our guidelines APM gas was allocated for meeting the CNG in transport and domestic PNG requirements of a CGD entity based on half yearly consumption in previous half year plus 10%. However, under the new guidelines, APM allocation is revised on a quarterly basis by considering consumption of previous quarter plus 2.5%. This helps the CGD entities to grow their demand by using market determined price gas for a quarter and in subsequent quarter get APM allocation against such volume.

However, UBP is determined and notified every calendar month. UBP of pooled gas was declared as USD 8.04 per MMBTU for May 2022 and USD 8.05 per MMBTU for June 2022. MGL continues to create CGD infrastructure across its existing license areas. During the quarter 62,075 domestic households were connected and thus we have established connectivity for nearly 1.93 million households. We have laid 65.21 kilometers of steel and PE pipelines, thereby taking the aggregated pipeline length to over 6,285 kilometers. We have also added 2 new CNG stations and with this we have 292 CNG stations as on the end of the quarter. We have also added 69 industrial and commercial customers during the quarter and thus as on quarter end we have 4,366 industrial and commercial customers.

In respect to our Raigad GA, we are connected to 56,690 domestic households and 23 CNG stations are currently operational. During the quarter, we laid 12 kilometers of pipeline in Raigad GA, thereby taking the total length of pipeline to 358 kilometers. This expansion of our pipeline network has created a very good ecosystem for CNG and PNG in Raigad area and will enable expeditious unlocking of the demand in Raigad once our CGS that is city gate station at Savroli is operational.

Coming to MGL's operations during the quarter, we achieved overall average gas sales volume of 3.448 MMSCMD, an increase of 8.8% over previous quarter volume of 3.170 MMSCMD. Compared to the previous quarter, sales volume in case of CNG has increased from 2.277 MMSCMD to 2.539 MMSCMD which is an increase of 11.5%.

In case of industrial and commercial sales, volume has increased from 0.418 MMSCMD to 0.439 MMSCMD, an increase of 4.9%. Sales for domestic PNG for the quarter was at 0.470 MMSCMD as against previous quarter volume of 0.474 MMSCMD. Current quarter EBITDA is INR 286 crore compared to previous quarter EBITDA of INR 215 crore, which is a growth of 32.5%. EBITDA margin is at 19.63% for current quarter as compared to previous quarter EBITDA margin of 19.83%. Net profit after tax has increased by 40.5% to INR 185 crore for the quarter as compared to INR 132 crore in the previous quarter.

MGL is a company which has been following higher safety standards with respect to its operations. MGL follows its Code of Practice for safety requirements which includes 16 lifesaving rules, work permit system for 13 critical activities, mandatory safety and technical competency training for all contract staff, monthly safety meeting and third-party engineers mentoring sessions. MGL is an ISO 45001 certified organization.

As a result of implementation of its safety standards, practices and unique initiatives in the area of Transport Safety Management System, the company has won the prestigious FICCI Road Safety Award 2021 amongst all the top names who contested for the award. The award was received from the hands of General VK Singh, Honorable Minister of State Ministry of road transport and highway and Ministry of Civil Aviation of Government of India.

Further, MGL continues to work on ESG front. I would like to share that as of today we have installed renewable solar facilities at four of our offices and two of our CNG stations having installed capacity of 107 kilowatt, almost all our vehicles used by senior management and pool vehicles run on CNG. Further, we have been switching to CNG from diesel for LCVs used for transportation of CNG from mother station, and currently 95 out of 167 LCVs are running on CNG and we plan to be completely shifting to CNG within a short span of time after expiry of the existing LCV hiring contract.



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The company has been doing a lot of work in the area of CSR and was recently awarded Apex India CSR Excellence Award 2021 by Apex India foundation for dedicating to public the MGL Cardiology Ward at Topiwala National Medical College and BYL Nair Charitable Hospital.

With this, I conclude and would now like to open the floor for questions. Thank you very much.

Moderator: Our first question is from the line of Krati Sankhela from Credit Suisse.

Krati Sankhela: Sir, CNG prices today are at only 20% discount to petrol and only 10% discount to diesel and future cost increases will need even more price hikes. So, would it be correct to assume that now for a new customer, there is no advantage to shift to CNG or maybe after the price hikes that are going to come, there'll be no advantage?

Rajesh Patel: I think a very good question from your side. Many of the listeners will have this question in mind good that you asked. Let me clarify that you know 20% discount is probably the minimum discount with respect to petrol vehicle and our CNG vehicle. If you consider energy equivalent, I think you have simply taken the price difference and arrived at the discount. When you compare it in mileage form, it goes anywhere between 30% or 30% plus, okay, depending on the type of vehicle you're using, because CNG gives better mileage per kiloliter of gas compared to petrol, kilo of gas instead of petrol.

Secondly, when we look at you know, prices as MD said in the opening remarks, this is a unprecedented time where we have seen the increase in the all commodity prices and so, is the case with natural gas. So, I don't think that one of such instance will put that kind of fear in the mind of consumers. We believe that in the long run, the prices will -- the gap between liquid fuels and CNG will always remain. Also, as you said the prices are at a very high level today it is at INR 86 per kg in the city of Mumbai and across India if you see at various CGDs similar or even higher prices are being there.

So as a CGD entities we have been making representation to the government on this front. And government is also cognizant about the fact that having put in so much of money in the sector by the CGD companies in last few years if you look at number of CNG stations in last three years they must have at least tripled from 1000 stations to almost 3000 plus stations. Similar is the case with pipeline infrastructure which has been put in place and going forward that kind of Capex is also going to go in the sector.

So first, this is a temporary phenomena, we may have to wait maybe another six months to a years' time. However, I think over a longer period of time, once all the commodity prices tapers down, I think the difference between CNG prices also will come down. And further I think the petrol and diesel prices have been I think there is a loss which oil marketing companies and other oil companies are making and it has been kept on hold which also customer realizes. So, we think that there will be a gap and we will have of course currently it's a tough time and as MD said, it's a challenging time for all the commodities including CNG.

Sanjib Datta: I would just like to add to what Rajesh has said is that some additional production, domestic production from HPHT fields are likely to come into the market and CGD companies have taken up very strongly with this government that since the sector carries a higher priority, so some part of the HPHT gas should be allocated and blended with the existing pool of APM gas. And this is under serious consideration at the end of the Government of India, Ministry Petroleum and we are quite hopeful that some additional quantity of HPHT gas which will have a much, much you know though it will be higher compared to the APM gas, but it will be much lower than what you know the long term contract of the spot, where the spot prices are.



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So, it is going to have a very beneficial effect on the overall pool price. And we are quite confident that part of this gas which is going to likely to come into production will find its way into the CGD pool.

Rajesh Patel: Further, the numbers of vehicles which are converted during the quarter Q1 is similar to what has been the trend. We have got almost 19,000 plus vehicles during the quarter added on to CNG which includes OEM as well as conversion of diesel and other vehicles. And similar trend even continues now.

Krati Sankhela: Thank you for such a detailed answer. Just one follow up in mileage terms what is the indifference point for the customers both for petrol as well as diesel?

Rajesh Patel: So, if you will say a liter of petrol gives you mileage of let's say 18 to 20 kilometers per liter, CNG should be giving at least 4 to 5 kilometers extra or even more when it comes to smaller size car like Wagon R or something like that will give average of 26 kilometers per kg of gas. If you look at the pamphlets published by the OEMs for CNG variant and petrol variants, you will see that difference. So that is where another 10% to 20% benefit comes out of the CNG use.

Krati Sankhela: Understood, sir. But there is a difference in the maintenance, the Capex, the size of the tank, etc. So, at what percent, let's say right now in mileage terms, you said it's a 30% plus difference. If the difference falls to about 20%, will the customer be indifferent between the two variants?

Rajesh Patel: Probably your concern is right. In the immediate term, this could be a concern. But when we see a long term, we don't see that as a concern. And you know, it depends on how much is the utilization by an individual of his own vehicle. So, somebody who is using his vehicle for larger number of kilometers he will still be willing to come on to CNG, and it depends on the type of vehicle also. So, what we gave, a range of saving, is a ballpark number considering what can be the average.

Moderator: Our next question comes from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika: I have a few questions. Firstly, with respect to this pool prices and your margin scenario. So, you gave us the number for May and June but what would be the number for July and August for this pool gas price?

Rajesh Patel: It has gone up by at least \$1-\$1.5 since then.

Sabri Hazarika: That is for July, or that is for August?

Rajesh Patel: July and August both I'm saying. Roughly \$1 was in the month of July, later on it has been further increased by another \$1-\$1.5.

Sabri Hazarika: And the share of like spot in this mix will be something like 20%-25%, is that right?

Rajesh Patel: It's very difficult to I think come up like that, but I would say, you know, if overall industry is having a requirement around 21 to 22 MMSCMD of gas against that if there is a supply of around 18 to 19 MMSCMD, it could be in the range of around 15% or so.

However, the price of gas, what is blended all that is not available with us. So, it is our guess that whatever increases happen, you can see that it is in line with the spot gas today. So, I think as of today or maybe in the month of July and August GAIL is yet to come up with HPHT or any other term gas looking at the current market scenario. So, in the long run or in times to come GAIL may be able to bring in the cheaper gas. But currently it appears based on whatever



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is the crude price, it appears to be spot blending which is being done at the end of GAIL, mostly.

Sabri Hazarika:

So, you're saying 15% to 20% of that pool gas prices will be spot LNG.

Rajesh Patel:

So, what is the mechanism followed is, you know, every month the data is taken from all CGD companies and then the requirement is seen and so based on whatever the sale which is happening, there can be fluctuations in some part of the city where tourism is high or there's a festival so, it can keep on fluctuating. So, we can't be very sure how much is the gap. And depending on the domestic production and the source through which they are blending, the UBP is declared. . All the data which are given and the price is vetted by PPAC before it is declared by GAIL.

Sanjib Datta:

See, we understand that GAIL who has been tasked to do this pooling exercise, it is blending part of the volume from its term portfolio. And part of it is you know they're procuring spot and also blending and we have read in the media that Gazprom has defaulted on some of its term supplies with GAIL. So, it appears that there is a higher percentage of spot going into it. But Gail balances this portfolio by its availability and the demand number that they collect from the customers. And then, you know, does the balancing and then arrives at the pool price which is submitted to PPAC for vetting, which they do as per the circular issued by the MoPNG and eventually a price is notified at beginning of the month.

Rajesh Patel:

Our view is, you know, currently GAIL is not able to put in term gas or HPHT gas because of the current geopolitical conditions. The moment the situation slightly favors the industry, I think there will be substitution of low price gas compared to spot, which is currently being pooled. So, that will help going forward maybe I think very difficult to predict the time but it should be very soon that is what our guess is.

Sabri Hazarika:

And second question is, you mentioned in the last call that your target is to go to FY20 kind of an EBITDA per SCM level. So, in FY20 your EBITDA per SCM was around INR 10. Now, in Q1 FY23 you are already at around INR 9.1 per SCM EBITDA. Now, if I look into the current quarter say we are in July and August. So, considering the price hikes that you have taken, I think it is quite commendable that you have been able to pass on unlike others, are we like fully passing on this increase in pool gas price or is there any I mean, are we still at around this 9 to 10 range or at least for till now in July and August or is there any kind of margin pressure considering the pressure like rupee and all also currently somewhat unfavorable?

Rajesh Patel:

Let me correct you. I think, I never mentioned that we have a target of going up to FY 19-20 margin. What I said in the last call was 2021 was a very favorable year for the CGD industry and the gas prices were all time low. That was a high margin. And I said that you know slowly we are almost making margin which is margin of FY 19-20. I was trying to give you a comparison that let's not compare 2021. We don't say that it is our target. We will always you know keep margins and the pricing, keeping in mind how the new vehicles come on to CNG and we would like always balancing between number of people switching on to CNG and we grow. So, there can be growth in terms of margin of the bottom line as well as in terms of the volume. So, we would always like to balance both. And I think current numbers you can always see for the Q1. However, with respect to July and August I think it's a matter of next quarter. Let's wait and then it will be revealed in times to come.

Sabri Hazarika:

So, but you were fully passing on I guess the price hike, right? Is it safe to assume that or?

Rajesh Patel:

I think it's a very simple calculation which you can also do, what is the increase per SCM when our price goes up by \$1 or so. So, at times we pass on at time we see how do we balance out. And as in the first question, the gap between liquid fuels and CNG we have to maintain and we have to put on the table value for the consumers as well. So we will evaluate both the options of how do we maintain that momentum of vehicles coming on to CNG.



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So, when I said, my current number of vehicles getting added in this quarter also a similar number as Q4. So I'm saying if Q3, Q4, Q1 all these three quarters were tough, we don't see that you know, that is going to be the time for next at least 1, 2, 3, 4 quarters. So, let's hope for the best. Too early to predict.

Sabri Hazarika: Just one small question. In Raigad, you mentioned that the CNG outlets have remained flat Q and Q at 23, right?

Rajesh Patel: Yes, there was no addition as far as number of CNG stations are concerned in Raigad GA, you're right.

Sabri Hazarika: And industrial volumes is how much, sir, industrial PNG?

Rajesh Patel: Industrial and Commercial volume, currently we are at 0.438.

Sabri Hazarika: No, I'm talking about the breakup between industrial and commercial for Q1 FY23?

Rajesh Patel: Only industrial is roughly 0.262 and rest is commercial.

Moderator: Our next question is from the line of Varatharajan Sivasankaran from Antique Limited.

Varatharajan: So, the CV convergence momentum, do you see a question problem in terms of queuing at the outlet and seen signs of it build up?

Rajesh Patel: You're asking whether I'm seeing queuing at the outlet?

Varatharajan: That's correct. Especially with the CVs volume picking out?

Rajesh Patel: CV, Commercial Vehicles? You are saying Commercial Goods Vehicle?

Varatharajan: Yes, that's correct. Because the size is bigger so lot of outlet may not be in a position to cater that.

Rajesh Patel: Yes, number of CVs continues to be, more than 2500 every quarter and this quarter also the number is in the similar range almost you know, 2700 commercial goods vehicle including LCV and HCV has been added in this quarter. See, these are I think vehicles are getting added at different pockets or different areas within our GAs. So, we don't see really, you know, queuing up specifically for HCV and this kind of vehicle.

In fact, when an HCV comes in, in one fill, they consume more gas, and it helps out and we have added so many stations in the GA 2, GA 3, etc. So, there could be queuing felt in some of these outlets, but not at all stations. And they come at different timings as well. So, depends on the time at which they come to the stations. But yes, you can see at some of the outlets queuing during the day.

Sanjay Shende: And going forward what we're doing is we're planning to have big stations which will cater to predominantly LCV HCV section. And also, you will know that there is a difference in the dispenser for a CV versus for a normal car. So, we are designating few of the dispensing points only for the CVs. So, that we are in a position to cater to this kind of segment, CV segment and accordingly also we are going at strategic points like suppose we are talking about Thane Ghodbunder Road we have specifically created these outlets for such commercial vehicles, because that is a key route for going from Gujarat to Maharashtra and vice versa.



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- Rajesh Patel:** Also, you know we have added last year 24 new stations and almost similar number we have upgraded the capacity that is helping us out in terms of availability of capacity at the stations.
- Varatharajan:** Yes, when you talk about the upgradation levels how many stations have been upgraded during the quarter?
- Rajesh Patel:** During the quarter?
- Sanjib Datta:** Upgradation?
- Varatharajan:** Yes.
- Sanjib Datta:** Two and three.
- Rajesh Patel:** Two new stations and three upgradations.
- Varatharajan:** And MRU sir.
- Sanjib Datta:** MRU?
- Varatharajan:** Yes, MRU.
- Sanjib Datta:** MRU we had three LOIs and we had sought the expression of interest and after that three letters of intent have been issued and the parties are in the process of setting up the facilities.
- Rajesh Patel:** One party has already identified land and we are in the process of seeking statutory permission required. However, I think all this to actual setup and you know getting volume out of the station may be seen in another five-six months.
- Moderator:** Our next question is from the line of Saurabh Handa from Citigroup.
- Saurabh Handa:** Yes, thank you for the opportunity. Sir, you mentioned that the CGDs have made a representation to the government and you spoke about looking for additional HPHT allocation. Is there anything else that you have also requested? I mean, this is in the context of some press reports, saying that the oil ministry is considering, you know, reducing the APM allocation to the power sector and allocating it to CGDs. Is that proposal that is being seriously considered and do you think it can be implemented?
- Rajesh Patel:** Let me tell you know HPHT gas blending by GAIL is already mentioned in the circular dated 6th May which MD referred in his opening remarks. So, that will come up as and when HPHT volume comes up for bidding and GAIL will try and get it.
- Sanjib Datta:** As far as diversion of APM gas from fertilizer or power, we are saying please maximize the quantity of APM gas into the CGD pool but from where it will come no such specific request has been made to the ministry.
- Saurabh Handa:** Sir, the reason I'm asking is because right now your pooled gas as we understand the UBP is around \$10, \$10.5. APM prices will potentially go up by \$3, \$4 in October. So, you're staring at UBP potentially increasing to \$13, \$14 before HPHT if it comes also maybe it comes only in December-Jan. So, you could still be staring at a pretty sharp increase in your gas costs in the next couple of months. So, I mean, that's what I was coming from. If none of this happens, then what you will have to take like a CNG price potentially go to almost INR 100 in that scenario?
- Sanjib Datta:** I think ministry is cognizant that in some places CNG prices have even crossed petrol prices and diesel prices, there is differential between CNG and petrol is got squeezed to a very large



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extent. And we know that there is something in the ministry that they are working on. And we expect that some favorable dispensation for meeting the demands of CGD in terms of pricing as well as availability are being considered within the Ministry and we hope to see that some positive announcements are made in coming days.

Saurabh Handa: Sir, and my next question was just on your industrial and commercial, could you tell us what was your realization in each of these in the quarter in commercial and industrial?

Rajesh Patel: Linked to the alternate fuel, realization as far as industrial and commercial compared to Q4 it was a very good realization. So, an average realization in case of commercial was in the range of almost INR 43 per SCM, I'm sorry, Commercial A was very high i.e. INR 80 plus. Other than that, around INR 65 or so and industry also in the similar range of around INR 65 per SCM.

Saurabh Handa: Okay. And that is a pretty significant increase because I think these numbers used to be around the 40s and 50s.

Rajesh Patel: Yes, especially Q1 compared to Q4 has seen a good realization and we did remove even premium in the month of June, which we were charging earlier in Q4 and slowly we reduced it in April, May and then we completely removed also.

Saurabh Handa: So, industrial on 65 and commercial?

Rajesh Patel: Roughly I'm saying, yes, Commercial A, LPG 19 kg prices were high, so it gave a very good realization during the quarter.

Saurabh Handa: Fair enough. And we can assume that these will be lower this quarter right because LPG prices commercially has come down, oil prices have come down?

Rajesh Patel: Yes, I think there is generally a lag between the alternate fuel prices and the Brent. Let's see how it pans out. Yes.

Saurabh Handa: And sir, one last question, if I may. Is there any update on the OMC commission issue, not heard about it in a while?

Rajesh Patel: The commission is as I said, I think the last call also more or less we have started giving trade margins as per the guidelines issued by Ministry. However, with respect to class of cities, there is some demand by the OMC which is few paise higher than the Ministry guideline. So we are just sorting out that. Subject to that, I think it was fully settled and we have started billing them. So, it's a small gap between their interpretation of the ministry guidelines and probably ours. So, value as well as in terms of quantum it is very small, not very significant. It's very normal.

Moderator: Our next question is from the line of Maulik Patel from Equirus Securities.

Maulik Patel: Thanks for the opportunity, Couple of question. First is that you had this last year, November or December you sourced some medium term contract of LNG. I think it was around 0.1 MMSCMD. And at that time, you were using that for the shortfall of APM in CNG and household volume. When 16th of May onwards, Government has announced the CGD pool, so where has this 0.1 MMSCMD volume you're shifting that to, the entirely to the industrial or have you used this take or pay contract you probably had with GAIL and you limit the volume?

Rajesh Patel: We have you know different term contracts, roughly three term contracts. Overall, term quantity has been structured in such a manner that at MGQ level or minimum take or pay level, we are able to cater our full industrial and commercial segment. And if anything above that is taken, then we are able to use it for our priority sector if there is a shortfall. So, technically, post 16th of May, when 100% allocation has been given to us as CGD there was no take or pay



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or anything of that sort, full term contract minimum quantity is getting consumed for industrial and commercial requirements.

Maulik Patel: Is it fair to say this 0.44 MMSCMD of industrial and commercial has entirely been met with the term LNG or is there any spot LNG part of that?

Rajesh Patel: Fully met through term contracts, there could be some minor operational requirement which can be you know, which we have to keep it ready through spot. As you know November, December 2021 we had signed one and then in the late March 2022 we signed one Henry Hub based contract. So, all the contracts put together we are able to cater to I&C fully through these term contracts.

Maulik Patel: And is there any guidance on number of CNG stations you would look to add in this financial year?

Rajesh Patel: Roughly similar numbers, I think our endeavor is to put more station but minimum 25 new stations and minimum 25 upgradations. And we are working on many more proposals at land and other stages. But very difficult to say number but I think this is what we have budgeted for quite a high number. We should be able to do around 25 new and 25 upgradation in this year.

Maulik Patel: This is the last question that given that MGL had not been able to add any GA through the PNGRB auctions in the past last couple of rounds, are you're looking for any M&A opportunity or are you open to look for an any M&A opportunity that may come to you from the existing, there are so many operators, GA operators which are in a process to sell out their stake?

Rajesh Patel: We have been always open and yes that should be the endeavor. But one has to see which areas and how it benefits, our existing GAs and all that. So we will be open to all kind of opportunities which is available at a good price and which adds volume and value to the business.

Moderator: Our next question is from the line of Soumya B with Spark Capital.

Soumya B: So, first question at today's price of INR 86, the August UBP price of \$10 plus is fully passed on and what is the Forex that is getting factored into this INR 86 today?

Rajesh Patel: See we have factored in both exchange increase which was hovering around 76-77 to today at 79-80 as well as the increase in the UBP or the uniform based price. But I won't be able to bifurcate how much for this because it's a combined price rise which one does for all elements of cost, including exchange rate as well as gas costs and if there are any others like power and fuel, etc.

Soumya B: No, not power and fuel. Looking for the bifurcation that rather this \$10 plus of UBP in August that's getting passed on at INR 86? That's what I wanted to understand.

Rajesh Patel: Not completely I would say.

Other part of it, we have passed through, yes. Because see, it's a month-on-month feature. So UBP will keep on changing month on month. We would weigh and see how do we you know balance out the price and the conversion momentum.

Soumya B: Got it, sir. The second question is on HPHT gas that you referred to, so is the quantum that is expected to come?



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- Sanjib Datta:** Media reports generally pegs it at around 12 million cubic meter. So, but it may come in phases, progressively it will come. So, the timing and the quantum corresponding to that is not known to us. But, you know, the general sense is that the production is likely to come into on stream very soon. But it will be a gradual ramp up. It won't come like the whole quantity won't come in one day.
- Soumya B:** Got it, sir. So, the with respect to the CNG and the domestic portfolio so last quarter roughly around 2.8 MMSCMD was the consumption so, this time it's around 3 MMSCMD. So, going with a 2.3% quarter on quarter increase. So, kind of suggests that probably 5%, 6% of spot probably had to fill in the gap, is this the right understanding?
- Rajesh Patel:** Yes, you're correct. If I had a growth of let's say 8% then I would have to mix beyond 2.5% any market determined gas, it could be from the term contract or if there is nothing then I might have to go for spot RLNG as well. However, please note that once you consume that volume, next quarter you benefit because next quarter you will get the full quantity at UBP price. That's a very positive about this new mechanism. So, you have to only bear for a quarter and next quarter you get the full benefit of that. So, it makes sense putting in even slightly higher cost gas and then build up the volume so that you benefit in the longer period.
- Soumya B:** Understood, sir. One last question, if I may. So one you've mentioned in terms of CNG station additions looking at 25. So, is this a revised outlook? Earlier you were looking at adding anywhere between 10 to 15 per annum and now this is 25 is kind of a revised number?
- Rajesh Patel:** No, I think last year also we have achieved similar number and we continue to plan for similar number because to have a CNG station there is a lot of groundwork. So, we aim at that number. In actual, it will depend on a lot of local permissions and things like that. However, our aim is to always at least add these many numbers.
- Soumya B:** Got it, sir. And also the conversions that you mentioned, the 19k plus in this quarter. So you said you're seeing a similar trend between Q4 and Q1. So, I mean you're seeing the same trend bring OEM in secondary, and in secondary to your seeing that this kind of maintained QoQ or?
- Rajesh Patel:** No, I think major is OE, because of the new OE coming on in case of commercial goods, and also car. There is a lot of comfort in the mind of the consumer or the vehicle user, that his warranty will remain, there's lesser headache on maintenance, best fuel efficiency. So, I think major number is coming through OE, be it LCV or private cars.
- Moderator:** Next question comes from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited.
- Dixit Doshi:** My first question is what kind of number addition we are looking for annualized for household?
- Sanjib Datta:** We are targeting to connect 3,00,000 households this financial year. Last year, we achieved 2,62,000. So, this year, we have set our target at 3,00,000.
- Dixit Doshi:** Lastly, can you give the breakup of our source of gas in terms of what percentage comes from APM, what percentage comes from uniform gas and any other gas?
- Rajesh Patel:** See, whatever is my requirement for domestic PNG and CNG in transport sector, it's currently 100% through APM gas at UBP. In case my growth compared to the previous quarter is higher than 2.5% then balance I have to blend market determined gas or any other term contract where I have quantity left. So, it's depending on the demand.
- Dixit Doshi:** And industrial and commercial is completely spot, right?



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Rajesh Patel: Completely term contracts where also we have a combination of contracts, some contract linked to Brent and part of it is linked to Henry Hub and Reliance domestically produced HPHT gas.

Moderator: Next question comes from the line of Kirtan Mehta from Bank of Baroda Capital Markets.

Kirtan Mehta: You mentioned that you are trying to sort of balance two objectives while sort of maintaining the growth versus margin. So, to maintain that balance right, what do you think the is the right differential to have with petrol and diesel which will not prohibit future growth?

Rajesh Patel: I think rather than this I would answer it this way. Anybody using a car would look at payback in terms of roughly 18 months or so. So, depending on his use, he will come on, so somebody who's using a car daily and running a good amount of kilometers, he will be always incentivized at a price or the gap could be lesser for him, somebody using less would be different.

When it comes to commercial goods vehicle, probably people look at time period of say two years plus as a payback on the investment he is making and also currently the OEMs and be it car or be it LCV are coming OE vehicle so, that price differential is also not much and there is a good amount of incentive for them even without, lesser gap between CNG and other fuels. So, it's a very, very subjective question one needs to look at what is his own use and then one can answer.

But always, as a company, we have to put a value proposition in the hands of customers. So, since we have a one price for all kinds of customers, it's very difficult for me to answer that question. But we will always endeavor that let's say, for example, I make a very good volume growth in a particular quarter and for that to blend above 102.5% RLNG and a very high price, I will still go ahead and blend it because that will help me in the long term. We view this unprecedented price rises are very, very short lived, maximum for a year or so.

So it's all factors put together we will take a call that is what I meant when I say we will balance between the pricing and this. So, if it comes to you know bearing little higher cost in a quarter but it helps been me in the subsequent quarter then getting the better allocation for subsequent months. I would always do that at a lower margin as well.

Kirtan Mehta: I'll probably reword this question in terms of because the way you say it's your one price which will impact others, if unless the government is not able to sort of modify the policy in time and you are faced with a \$3 to \$4 price increase and your view is very clear that this is only for a 6 to 12 months. So what is the differential that you would maintain by taking a margin hit on your account to not deter the growth which is coming on? So what is that level that you would maintain in the next six months period, 6 to 12 month period?

Rajesh Patel: I would answer your question slightly differently. I think you have seen the quarter 3 of last year. So where we might have taken some hit. So, at any cost, we won't have dry out kind of a situation, we would always love to cater to our customers. If it is temporary, making some negative margins as well for the incremental volumes. So, we will add on to our customers and make in the long run all of them positive.

However, your question very specifically with respect to six months is quite difficult if you look at the 6th May guideline where Government has given 100% assurance that itself shows their commitment and the journey towards increasing the natural gas basket from 6.5% to 15% by 2030. So, we are hopeful that certainly there will be some solution either in terms of you know, availability of more gas or in terms of pricing which will be brought out soon by Government. What forms and what this, I think difficult to answer right now. But I think let's cross the bridge as it comes rather than you know, guessing because it is the way you are



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estimating something we are also more or less in the same boat, you know, more difficult question to answer very, very pinpointedly with numbers.

Kirtan Mehta: Understood, sir. Second question was about the basically the Capex acceleration that you plan to do. Last year, you were constrained because we were emerging out of the COVID restrictions. So, what is the sort of Capex acceleration that you could do it in this year when the impact of COVID restrictions is much lower?

Rajesh Patel: We have already done our Capex outflow around 150 crore plus in this three months. So, we will be doing better than this going forward. I would put it anywhere in the range of INR 700-800 crores Capex. Ofcourse, all this depends on availability of land, availability of pipeline, digging permissions, and other permissions. But we are ready to do that kind of Capex. And that, our outlook on Capex itself shows that we are very positive about the sector and not worried about the temporary margin pressures and all that.

Moderator: Next question comes from the line of Nitin Tiwari from YES Securities.

Nitin Tiwari: I just have a few questions. So, in terms of trade discount, that has been like, decided for the oil marketing company, so can you give us an indication in terms of how much it has gone up by as compared to what it used to be at the previous level?

Rajesh Patel: See, the new guidelines, which is given by Ministry has given different trade discounts based on the class of cities. So, lowest ranges from around 4.6 and the highest goes up around 5.4 per kg. That's the range.

Nitin Tiwari: Understood. And secondly, sir, in terms of CNG sales, so what was our sales volume in terms of kgs, not SCM but kg, in this quarter?

Rajesh Patel: In this quarter, we have sold around 1.8 million kg.

Sanjib Datta: 18 lakh kg per day.

Moderator: The next question comes from the line of Vidit Trivedi from QLJK Financials Services.

Vidit Trivedi: Congratulations for a great set of numbers. It's just an observation. I'd like to know your sense on that. I've been observing that your competitors, especially IGL, they've been expanding rapidly in the nearby states be it Rajasthan or any other state. So, what's your sense in that is, are we going to do the same thing? Are we going to expand into the nearby states as well?

Rajesh Patel: I think it's a question which IGL will be able to answer or as far as we are concerned, currently we have what are the GAs we have, so within which we can do expansion. I did not get your question, are they doing expansion in the other than their authorized GAs? It's not so, right?

Vidit Trivedi: Yes, I mean, I've seen they're expanding in state of Rajasthan. They are getting into many cities of Rajasthan. So, do we have any plans so that you know you can go to Gujrat or maybe nearby states of Maharashtra? This is what my question.

Rajesh Patel: No, I think the operations or where we go is dependent on the GAs which are authorized by the regulator in the sector. Okay. And currently we are authorized in Mumbai and up to Raigad.

Vidit Trivedi: And second question is, can you please give any specific guidance on the top line for the coming years because now we can see that as the commodity prices are cooling down the guidance which you gave last year, I mean, they won't sustain any longer if we can grow at a good percentage from now onwards. Is there anything you would like to add to this?



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- Rajesh patel:** Typically, I think top line depends on the as you're saying on commodity prices. So, if you look at my top line in terms of value, we'll grow it because as you see, today also when I had to pass on the input gas cost price, my topline has moved, but I think more relevant should be to look at in terms of the volume of sales which we're doing, right. So, topline is a resultant figure.
- Moderator:** Next question comes from the line of Yogesh Patil from Centrum.
- Yogesh Patil:** So, question is related to increase in APM gas prices in October 2022. As per the formula, it would be near to double digit from the current level of \$6.1 per MMBTU. So, what would be the probability that the government can intervene and cap the rises in APM gas rises? Can you provide any color on the side?
- Rajesh Patel:** I think when you're saying APM you mean you mean UBP, uniform base price, right, correct?
- Yogesh Patil:** No, sir, I'm mostly talking about the APM which is coming from the nominated field?
- Rajesh Patel:** You are referring to whatever is currently 6.14, you are saying that can go more than \$10?
- Yogesh Patil:** Correct, as per the formula.
- Rajesh Patel:** And the other part what government will do is I think their decision, however there was a representation being made by CGD as industry, I think it's too early to even say that you know 6.14 will become double digit, because yet all the figures are not available, so let's wait for the actual numbers to come out. And you know, probably it may so happen that the blending which happens currently at spot, by the time October comes and there is a solution, that market determined gas could be at a cheaper cost, so, overall UBP could be still in a good range and manageable and not much higher compared to what is current level. Off course but its anybody's guess what could be the actual UBP.
- Yogesh Patil:** I mean, do you think that government will intervene and cap something on the rising prices, which is in a government hand, as of now, for the nominated field gas production?
- Rajesh Patel:** I think we can only do representation, it is in the hand of government, but looking at the past, the way UBP has come and the 100% gas has been assured to the sector. Let's hope for the best.
- Yogesh Patil:** And then, the second question is related to what was the cost of gas for the priority sector during the quarter?
- Rajesh Patel:** During the quarter, see, as one and a half months it was at \$6.14 per MMBTU, later part as said in the opening remarks by MD, roughly \$8.05 per MMBTU and in the first half, we were blending some spot RLNG or term gas available with us, partially to the extent of 12% to 15%.
- Yogesh Patil:** Okay. So, what would be that on a ballpark basis? So, was it near to \$10 or more than \$10?
- Rajesh Patel:** I think in the month of April-May, spot prices were in the range of \$26 to \$28. So, you can calculate a weighted average of around 12% to 15% of spot and rest as APM available at \$6.14.
- Moderator:** Next question comes from the line of Sanjay Agarwal from Nirmal Bang Equities Private Limited.
- Sanjay Agarwal:** Sir, at current elevated CNG and PNG prices, do we see any demand slowing down?
- Rajesh Patel:** I think it is too early to predict, just I think few days back it has happened, of course. But right now, we are not seeing any demand going down. I think that one can only see over a longer



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period of time, how does it impact the momentum of new vehicles coming on to CNG and see that. Very early to I think guess what is the trend. So far, as I said, the quarterly numbers are also in line with the previous quarter. Even current let's say July conversions are also in the similar range.

- Moderator:** The last question is from the line of Ankur Agarwal from Philip Capital.
- Ankur Agarwal:** Just wanted to check regarding the pricing for C&I customers. Q1 was particularly exceptionally strong. So, has that pricing come off during the second quarter? And we have also seen a movement downwards in the brent, so has your term contract pricing also moved in the similar quantum, if you can just quantify maybe in percentage terms? What kind of movements are you seeing for the same higher price realizations?
- Rajesh Patel:** See, we have a pricing policy of billing or pricing linked to alternate fuels. And alternate fuel prices have gone up in the current quarters. If you see per tonne of LSHS was hovering around 53,000 in the last quarter whereas it was at around 71,000 per tonne in this quarter. When you look at 19 kg cylinder it was around 1950 per cylinder in the current quarter the average was around INR 2150. So, in line with this, price is going up. In fact our realizations have improved in both industrial and commercial segment.
- Ankur Agarwal:** That's helpful. Then secondly, I mean, just there was a continuation to the previous question as well. I mean the term contract pricing would have probably moved downwards now with brent prices also coming off?
- Rajesh Patel:** You're saying, compared to Q4?
- Ankur Agarwal:** Q1 FY23?
- Rajesh Patel:** Q4 with this year Q1?
- Ankur Agarwal:** Yes.
- Rajesh Patel:** No, I think most of the indexes have gone up slightly and it must have gone up by around \$1.5 to \$2 be it Henry Hub, be it brent link contract.
- Rajesh Patel:** **In crease in** the term contract was lower compared to the realization on the sales price side that has added to the good margins in case of industrial and commercial.
- Ankur Agarwal:** This was what for the first quarter?
- Rajesh Patel:** Yes, for this this quarter compared to Q4 last year.
- Ankur Agarwal:** Then second question was that you mentioned, you have as an industry, you have made representations to the Ministry regarding the pricing of gas. As an industry is there an agreement where you see pricing, I mean whether industry would be comfortable with that particular cost of gas? Right now, we are already seeing UBP is at more than \$10 per MMBTU. So is there, as an industry I mean, do you see \$15 as a limit or let's say for \$13, \$14 a limit where you see the growth prospects of the CGD industry would not be hurt. What is the industry thinking behind when you are making representation to the Ministry?
- Rajesh Patel:** I think you know, comparatively CGD like MGL or IGL, who are old in the business or GGCL for that matter, we have made a substantial amount of investment, but you look at the new players who have come in the sector they have made in recent years good amount of investment and they have to yet meet the MWP target and make much more investment. So, for them it is a bigger concern.



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So, as an industry as a whole if one is putting so much of Capex and the kind of investment this industry requires, certainly high prices is a matter of concern. So, that has been represented to the Ministry that to make this sector more viable and based on the conditions on which the new entrants and the CGD bidding rounds have been concluded, there should be support from Government. Otherwise, how will people achieve their minimum work program and put in so much of money?

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to Probal Sen for closing comments.

Probal Sen: I wanted to say thank you to everyone, thank you to the management especially for taking the time to answer the questions and this much details sir, really appreciate it. Thank you to all the participants as well for making the time to attend this call. You can all dial off now. Thank you very much. Have a good evening.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.