



MAHANAGAR GAS LIMITED

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Date: June 20, 2020

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Scrip Code/Symbol: <u>539957; MGL</u>	Head, Listing Compliance Department National Stock Exchange of India Ltd Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 Script Symbol: <u>MGL</u>
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Sub: Transcript of Earnings Conference Call on Audited Financial Results for the Quarter and Financial Year ended March 31, 2020

Dear Sir/Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that an Earnings Conference Call on Audited Financial Results for the Quarter and Financial Year ended March 31, 2020 was held on Thursday, June 11, 2020 at 1600 hrs (IST).

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

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

Thanking You,

Yours Sincerely,

For **Mahanagar Gas Limited**

Saghan Srivastava
Company Secretary and Compliance Officer

Encl.: As above





**“Mahanagar Gas Limited Q4 FY-20 Earnings
Conference Call”**

June 11, 2020

**MANAGEMENT: MR. SANJIB DATTA – MANAGING DIRECTOR
MR. DEEPAK SAWANT – DEPUTY MANAGING
DIRECTOR
MR. S. M. RANADE – CHIEF FINANCIAL OFFICER
MR. RAJESH WAGLE – SENIOR VICE PRESIDENT
(MARKETING)**

**MODERATOR: MR. VIVEKANAND – AMBIT CAPITAL PRIVATE
LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Mahanagar Gas Limited Q4 FY20 Post Results Conference Call hosted by Ambit Capital. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 now hand the conference over to Mr. Vivekanand of Ambit Capital. Thank you and over to you, sir.

Vivekanand: Good Evening everyone. On behalf of Ambit Capital, I welcome all the participants to this conference call today. We have with us the senior leadership team of Mahanagar Gas Limited. Mr. Sanjib Datta - Managing Director; Mr. Deepak Sawant - Deputy Managing Director; Mr. S. M. Ranade – Chief Financial Officer and Mr. Rajesh Wagle – Senior Vice President (Marketing).

We will start with a brief overview of the company's performance for Q4 FY20 and then we can switch over to our Q&A session. But before we begin the proceedings, I hand it over to Jill for the disclaimer. Thank you.

Management Representative: Thank you, Vivekanand. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and we believe that expectations contained in the statement are reasonable. However, the nature involves a number a risks and uncertainties that may lead to different results. The risks and uncertainties relating to the statement include, but are not limited to the risks and uncertainties regarding fluctuations in sales volumes, fluctuations in foreign exchange and other costs and our ability to manage growth.

I urge you to consider that the quarterly numbers are not a reflection of long-term trends or the indication of full year results. This should not be attempted to be extrapolated or interpolated in future numbers. Over to you, sir.

Management: Thank you and good afternoon to all of you and welcome to the earnings conference call of Mahanagar Gas Limited for the fourth quarter of the Financial Year 2019-20. I would like to thank all of you who have connected for our earnings call today. As you are aware in March 2020 the World Health Organization characterized the outbreak of a strain of the new Coronavirus COVID-19 as a pandemic.

This outbreak is causing significant disturbances and slowdown of economic activities. Due to the nationwide lockdown announced by the Government of India since last week of March 2020 to combat COVID-19, the company's operations have been impacted resulting in reduction of sales volumes except for gas consumed in household kitchens.



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During the lockdown, the company has been able to receive gas supplies and has also maintained the supply of gas to all types of consumers as per their requirement. Considering continuation of gas supplies during lockdown volumes recorded and now with partial easing of lockdown it is estimated that sales volumes are likely to pick up gradually due to increased vehicular movements, opening up of restaurants, commercial establishments, industries and other businesses that are using gas.

Daily sales volume have increased from 25% in April 2020 to 42% in June 2020. Compared to normal volumes recorded in pre-lockdown periods. With around 73% of normal volumes coming from CNG we expect MGL is better placed to bounce back fairly quickly post easing of lockdown. Commercial sales volume may improve more gradually.

The impact of COVID-19 on our operations may turn out to be different as compared to the estimates drawn up as of today. But the company will continue to closely monitor future changes. Considering the possibility of prolonged disturbances and in order to safeguard lives of our human resources we have enabled IT arrangements to work from home particularly for service functions like finance, HR, Procurement, Engineering and Planning, CRM etcetera. For functions like Projects, O&M, Marketing where work on the field is necessary observation of the prescribed safe practices are being ensured.

MGL today is a strong incumbent in the CGD sector with significant strength and core capabilities. MGL being a debt free company in spite of likely adverse impact on our earnings in the current financial year, growth of infrastructure will not be hampered due to want of funds. However, remobilization of contractors, migrant labor, permissions from housing societies as well as from other authorities could pose some challenge.

We are rapidly expanding our CGD network in the existing license areas. During the recently concluded quarter 32,582 domestic households were added. Today we have more than 1.26 million household customers who are being supplied with piped gas. We had a net addition of 24 industrial and commercial consumers this quarter.

And as on quarter end, we had 4,021 industrial and commercial customers. Besides as on quarter end we had 256 stations supplying CNG to around 7.51 lakhs vehicles and our aggregate of steel and PE pipeline network stood at 5,630 kilometers. With respect to our Raigad GA we added more than 4,200 domestic PNG connections in this quarter and to fulfill the minimum work program targets for providing domestic PNG connections.

Fourteen CNG stations are currently operational in Raigad and average CNG sales in Raigad had reached 38,000 Kgs per day in pre-lockdown period. As a result of lockdown during quarter 4 we lost sales volumes in March 2020 resulting in reduction in overall sales volumes



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for the quarter by 8.77% compared to previous quarter. As a result current quarter's EBITDA is Rs. 244 crores as compared to previous quarter's EBITDA of Rs. 259 crores.

On the margin front, EBITDA was 35.5% for Q4 and marginally higher compared to previous quarter's EBITDA of 34.8%. Net profit after tax was Rs. 167 crores in the quarter as compared to Rs. 186 crores in the previous quarter. For the full year 2019-20 overall sales volume had a marginal increase of 0.05% on year-on-year basis. However, for the year 2019-20 EBITDA increased to Rs. 1,053 crores from previous year's EBITDA of Rs. 885 crores.

Main driver for this EBITDA growth was improved gross margin on account of lower spot gas prices during the year compared to previous year. Coupled with improved gross margin and reduction in corporate tax rates profit after tax has increased to Rs. 793.5 crores in financial year 2019-20 from Rs. 546.39 crores in previous financial year registering a growth of 45%. The board of directors have declared a final dividend of 255% subject to approval of shareholders at the forthcoming annual general meeting.

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

Moderator:

Thank you very much. We will now begin with the question-and-answer session.

The first question is from the line of Vidyadhar Bhide from ICICI Securities. Please go ahead.

Vidyadhar Ginde:

A couple of questions. First, if you could give us some idea on how you expect the ramp up of volumes and when do you think you might get back to normal volumes during the year? And the second question is on the regulatory side there were some steps being taken by the regulator on allowing competition. What is the progress on that, what is the latest on that if you could share with us, thanks?

Management:

Volume, I think MD has already indicated something in his speech. No doubt volume was impacted sizably in the month of March, particularly last 8, 10 days. However, we have seen improvement in April and May. May almost to the extent of 42% volume as compared to total normal volumes we have come back to. So there will be further improvement we expect in June. However, precisely indicating the percentage when we should back to normal is a bit difficult at this stage.

We will have to observe how lockdown phases come out with and what are the responses of public at large also. It will depend upon that. But I think some indication of April and May we have already given to you. Can you repeat the question on regulatory front?



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- Vidyadhar Ginde:** There was this draft regulation which the regulator had issued last year and then I think in one of the earlier calls you guys had said that there was an open house by the regulator. So what is the development on that, what is the latest on that? Have you heard, what is happening on that, if you could share, if you are aware of it?
- Management:** No, actually from the last time we had this conversation; there have been no fresh developments on that front. Probably because the regulator's office was also closed down for some time but again the regulator will be the best answer to that.
- Vidyadhar Ginde:** Okay. And just to clarify I did not catch, so what was said in the commentary that May volumes are 42% of pre lockdown and how much was April mentioned as?
- Management:** Approximately 25%. And important point to note over here is, I think you must be already aware. On an average compared to if 100 is our volume normal volume of company 73% odd comes up from CNG. So we hope as the un-lockdown process starts, things should bounce back pretty faster for MGL because first thing which will start after unlock down is the obviously transport sector. So we are hoping for the best, but right now bit difficult to precisely indicate because obviously that is not in the hands of the company.
- Vidyadhar Ginde:** How many CNG stations are open right now or all are operating?
- Management:** Out of 256, about 220 are operating.
- Moderator:** Thank you. The next question is from the line of Vaibhav Goyal from SBI Life Insurance. Please go ahead.
- Vaibhav Goyal:** Sir, primarily what I was trying to understand because there is the difficulty level which we feel in the shared mobility and for us the autorickshaw becomes one of the major chunk of contributor in the CNG volumes. So you believe how things will normalize as per you and probably what can be done to mitigate this kind of effect or to provide better things there?
- Management:** Well, if you look at the autorickshaw population, there are more than 300,000 autorickshaws running in our authorized areas. Now as the lockdown gets lifted gradually in phases, autorickshaws will start coming on the road. Now if the norms of only one or two passengers per rickshaw continue we do not know how long it will continue, but if they continue presumably the number of trips the autorickshaw will need to make may be higher to transport the same number of passengers, which could be a potential upside. However, there are also reports that lot of autorickshaw drivers have left and gone back to their villages, as many of them are migrants.



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So when will they come back and the autorickshaw numbers on the roads will come back to normal that is something which is very difficult to say right now.

Vaibhav Goyal: Okay. And on the commercial side and Industrial side because now in last 10 days things have eased. So how has been the progress there on the volume front?

Management: The industrial side has picked up so and it is picked up pretty well. However, the small commercial, which are the restaurants they still have not been opened up, so they are still at a very, very number there. And the large commercial customers which are these are 5 star hotels and bigger establishments; they are also facing a lot of challenges. So these two segments we foresee will relatively take a little more time to come back to normal compared to the other segments.

Vaibhav Goyal: So in short on the industrial side we would be at 80%, 85% kind of a level pre-COVID kind of now in last say 10, 15 days and commercial around 50% that would be a fair number, or it is vaguely different from what I said?

Management: Lifting up has just happened a few days but on the industrial yes, the number could be in the range we are talking about. The commercial numbers would be much lower because we do not have, we have thousands of these customers so we have not been able to actually get many meter readings also because for the smaller customers especially even there is no automation, you have to physically go and check the reading etcetera.

But we do know that many of the restaurants are closed. Only ones which are offering home delivery and takeaways they are the ones who are being allowed to operate and using some gas.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Aggarwal: Sir, one question I just wanted to check on the CNG stations that we will be targeting or to add on this 256 this year. Lot of them will be on the works where the progress may be stopped because of lockdown. What is in the second half of this year or this full year how many stations do you think you can add to this 256 number?

Management: At current estimate is about 15. Again a lot of depend on how the situation unfolds, equipment, labor, materials how soon it resumes back to normal levels etcetera. But again if we have to make a guess today we would say maybe 15.

Anubhav Aggarwal: Okay. And also want to check on this National Green Tribunal, they like in the previous quarter before the lockdown they have identified 70 severe and critical polluted areas some of



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them were in areas also. Has there been any progress from their side from the State Pollution Control Boards, etc., on the entire thing?

Management: Well, the National Green Tribunal had identified three or four areas where they had said that gas needs to be available. Our gas is already available in three of those four areas, and the fourth area we are ready to supply through virtual pipelines. But we have not heard any more additional movement on the ground probably because of all these problems which are being faced currently because industries are facing a challenge, many of them are trying to reopen but they are facing challenges with social distancing norms for labor, getting material etcetera.

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

Pritesh Chheda: Just one question. In this 73% contribution from CNG, what would be the shared mobility as a percentage there and where we can include the buses, autos and the four-wheelers which are on the shared basis, what proportion of this 73% should be these three, four areas?

Management: Volume perspective it is a bit difficult to predict because how they will operate also. What if it helps you at the most we will be able to tell you that whatever CNG volumes comes through in the normal circumstances what are the kind of break ups of vehicle numbers. For example if we say 7,50,000 is the total CNG vehicles, maybe three-wheelers account for nearly 3.5 lakhs, private cars are around 3,20,000 odd, taxis in the region of 66,000.

These are some major numbers in the total vehicle population. And of course buses those numbers is that way small but since per capita consumption is higher there are nearly 2,500 or more than that, buses also.

Pritesh Chheda: Okay. So I just wanted to understand Ola so that is the taxis and autos, and buses like say these three things should be 60%, 70% of the consumption you are seeing of the CNG, more than 70%?

Management: I think if you break down the vehicle population into private vehicles and public transport, then yes public transport would be in that range.

Moderator: Thank you. The next question is from the line of Nitin Tiwari from Antique Stock Broking. Please go ahead.

Nitin Tiwari: So first one is a book keeping one. If you can give me a breakup of commercial and industrial volume how much is that for the quarter?

Management: Volume for the quarter you are saying?



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- Nitin Tiwari:** Yes, industrial and commercial.
- Management:** Commercial was 0.173 MMSCMD, industrial was 0.212 MMSCMD for this quarter.
- Moderator:** The line for the current participant dropped, so we move to the next question, which is from the line of Rohit Ahuja from BOB Capital Markets. Please go ahead.
- Rohit Ahuja:** Can you tell me what is the CAPEX for FY'20?
- Management:** FY'20, it was in the region of around Rs. 415 crores.
- Rohit Ahuja:** Okay and how would it be divided between for CNG stations and for pipeline networks?
- Management:** CNG could be in the region of around Rs.60 crores and rest are for steel, medium pressure pipelines and so many other things. CNG around Rs. 60 crores odd.
- Rohit Ahuja:** Okay any change in guidance for this year?
- Management:** Difficult to predict. I mean no doubt we are aiming for higher but there will be certain challenges which will be there on the front of contractors particularly for pipeline activity and on CNG front probably some times on equipment availability. We are aiming at least for similar or even higher but it is bit too premature to say right now.
- Rohit Ahuja:** And for the six months period starting from April, do we see better margins given the domestic prices were cut also LNG prices are also hovering lower?
- Management:** I mean as you said there are different, different factors. It will depend upon if we talk particularly industrial commercial then one is the net realization which are dependent on alternate fuel. If front levels improve obviously realizations will improve that will be some benefit coming up. What has definitely dropped down substantially, if further drop continues then it will add up to the margins.
- Rohit Ahuja:** So if we were to compare margins between different products, would CNG be the highest of the product mix in terms of margins?
- Management:** I mean at particular point of time it could be different but generally per unit or percentage point of view generally restaurant category is highest followed closely by domestic and CNG marginal difference, and last ranking point of it is in the industry.
- Rohit Ahuja:** Right so CNG will be 73%?



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- Management:** Gross margins not at PAT or EBITDA level. It is almost impossible to talk at EBITDA or PAT levels.
- Rohit Ahuja:** Right, so with CNG being 73% of your overall volume mix, do you see margin pressures till the time it normalizes?
- Management:** Not really, I mean number one, it will depend on what kind of gas cost increase we are expecting if at all we are expecting for APM gas I am talking about and even price rises if at all I think ability to pass through is there with the company obviously.
- Rohit Ahuja:** No, I was talking in terms of volume mix so given the CNG will take much longer time to recover to normalcy till that time it covers your margins would be under pressure?
- Management:** No, CNG in fact we are expecting it should bounce back faster because once things tend to be normal or un-lockdown is announced even gradually, as you know maybe industry, commercial these things may take some time whereas we expect transport segment will start picking up pretty fast. People have to move obviously. In fact things should improve quite faster in CNG volume perspective point of view.
- Moderator:** Thank you. The next question is from the line of Manikantha Garre from Axis Capital. Please go ahead.
- Manikantha Garre:** Sir, just to continue with the earlier line of question on margins. I am just wondering how are the discussions with the industrial customers post easing of the lockdown? Was there any request from them to reduce their pricing given the weak spot in their prices or at least in the near term would there be any change in strategy for you in terms of pricing for them given the financial hit they would have taken during this time? That is my first question.
- Management:** Pricing to the industrial customers is benchmarked to the predominant liquid alternate fuel they use. So because the oil prices had come down, alternate fuel prices also had come down. Automatically they got some relief in their gas purchase prices.
- Manikantha Garre:** So the discount that you are maintaining has been more or less maintained with your alternate fuels is what you are saying?
- Management:** I did not get your question.
- Manikantha Garre:** So the discount that you are maintaining to the alternate fuels for industrial customers has been more or less maintained, there is no change in that is what you are saying, right sir?
- Management:** Yes, in the last quarter we have not changed any discount.



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- Manikantha Garre:** And in the April and May months sir is there been a change in that?
- Management:** Only change is a lot of these customers were not able to off take volumes because of the lockdown and they requested us for relief on that front which we considered and gave them.
- Management:** There are some requirements of minimum guaranteed off take in contractual customers, so there some concession we have given, or we will be giving.
- Manikantha Garre:** Sure sir and if I can ask a second question. Just wanted your thoughts on the dividend policy going forward given our payout has been 36% in FY'19 and it has been increased substantially to 44%. And our net cash levels also have been continuously r rising. So can we expect the similar level of dividend payouts for the next couple of years?
- Management:** See this time one has to remember when we have talked about final dividends of Rs. 25.50, there is also inclusion of special dividend which we announced for Rs. 15 per share. This is obviously due to the fact that no doubt margin front it was better but substantial benefit has come from corporate taxation and the benefit which we have got from spot prices remains to be seen whether similar benefits continue in near future also.
- It is not just one factor on which this payout ratio or for that matter dividend distribution will be dependent upon. There will be obviously CAPEX considerations, there are some slightly bigger amounts of contingent liabilities are also there probably you must have read notes to the account. We are hopeful that the status will be in our favor, but at the same time we need to be careful and cognizant of the matter that there are contingent liabilities.
- There were questions obviously on expansion areas like GA3, Raigad there are some minimum work program requirements given by PNGRB. All these will require definitely lot of funds. On the other hand the cash generation for the forthcoming years obviously is going to be impacted and it may not be possible to come out with same results obviously the way it was in this year. At least right now we cannot predict in that manner.
- Hence, we will be taking cautious approach we have dividends but you will appreciate I mean whenever the opportunities arise board is cognizant of the treasury surplus which we have and you will see this time the total dividend rates which we have declared is 350% versus 200% which was there for last two years. So hopefully that should give some clue to you.
- Moderator:** Thank you. The next question is from the line of Janish Shah from Quantum Advisors. Please go ahead



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- Janish Shah:** I have a question on your licensing basically the Mumbai MMR region license is getting due for renewal. Can you just share what is the progress on that? I think it got expired somewhere in March or April. So if you can just give an update on that?
- Management:** Right now the exclusivity issue of Mumbai is subjudice, so we really cannot comment too much on it.
- Janish Shah:** You are talking about network exclusivity or like?
- Management:** Both I mean there was a challenge in the Delhi High Court about three, four years back on this exemption from purview of common carrier as well as exclusivity and the whole exclusivity regulations were challenged in fact in the court.
- Janish Shah:** So do you mean to say that I mean till the time so this renewal there are no processes defined right now for the renewal of the license, right?
- Management:** No, there are no regulations in place for any process or any such thing.
- Janish Shah:** So till the time you get a court verdict this will not move forward, is it the way we should understand?
- Management:** Yes, you can say we are waiting for some legal clarity on the matter and in the meanwhile if PNGR or something then we will have to wait and watch but we are not expecting any material adverse kind of an impact on our business because of this issue.
- Janish Shah:** Okay and I just want to get a clarification. You said 70% of the CNG volume is back, right?
- Management:** No, 70% of the industrial volume was back in the last maybe June or so.
- Management:** In fact 42% is back.
- Janish Shah:** 42% as on May end you are saying of the total volume, right?
- Management:** Yes, as compared to normal total volume.
- Janish Shah:** Yes, but how do you see like in last after June at what level currently the CNG volumes are now being picked up?
- Management:** Around 40%.
- Moderator:** Thank you. The next question is from the line of Vikas Jain from CLSA. Please go ahead.



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- Vikash Jain:** I just wanted to understand what just Janish was asking anyways was so this 42% of overall volumes you think is where you are operating, 42% of pre Covid level, for all kinds of customers put together. Is that what you mean by that statement?
- Management:** Domestic we are doing pretty well.
- Vikash Jain:** Yes, so domestic is about 15% that should be about close to 15%, almost 100% there. The remaining 10% is industrial and commercial that you are saying at 70%. So 15% plus 7% is 22%. So only about 22% for the 73% of CNG is where you are operating roughly 30% kind of level. Is that what you mean?
- Management:** I think you have almost answered we cannot be too specific obviously.
- Vikash Jain:** So this 42% of normal is for overall which means much lower for CNG obviously?
- Management:** 42% is total sales as compared to the normal total sales.
- Vikash Jain:** Correct and so if I were to further specifically focus on say the industrial part you were saying that you have kind of managed to reach around industrial about 70% or so. So that you are hopeful will get close to normal in the couple of months, is that how you think of it?
- Management:** Again it will depend on how events unfold and how the economy and industrial sector recovers. Our sales volumes updated with the level of industrial activity in all regions.
- Vikash Jain:** Okay and sorry I think you did mention something about commercial but for commercial is very low in terms of utilization or versus the normal level right because restaurants and most hotels are hardly operating, is that what you said, right?
- Management:** Yes.
- Vikash Jain:** Okay so commercial is clearly the worst hit, then is CNG, industrial is much better than what it was in April and of course PNG is not touched much I mean it is not much impacted.
- Management:** Yes, correct.
- Moderator:** The next question is from the line of S. Ramesh from Nirmal Bang. Please go ahead, sir.
- S. Ramesh:** The first thought is dwelling on the low volumes. If you were to see 60%, 70% volumes how does it impact your costing in terms of the relative to absorb the fixed costs so just to understand how the numbers will move this year? Out of your say other expenses because



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employee cost will not change so what proportion of the other expenses remains fixed irrespective of the volumes?

Management:

This expenditure with respect to CNG customer category considerable portion is variable. For example in the region of Rs. 125 crores to Rs. 150 crores will be the power related expenses which are 100% variable with reference to CNG business. Similar is there is something called gas carrying which we say we have to transport gas for our daughter booster stations. Those charges are also variable. The commission or whatever share we give to our CNG franchisee operator is also dependent. It is 100% almost variable with reference to sales.

So CNG most of the expenditure is in the variable nature leaving aside of course maintenance activities of CNG. There could be definitely some planned maintenance activity of CNG and sometimes obviously breakdown or unplanned expenses. So those will remain as some sort of fixed expenditure.

Similarly, maintenance activities on PNG will also be on fixed nature. So you are right, maybe employee cost is one thing but apart from employee cost maintenance related expenditure you might find in accounts if you go through expense schedule. Maintenance related expenses are likely to be continued. That is quite likely whereas otherwise most of the CNG related expenditures are variable in nature.

S. Ramesh:

So if I go to the cash flows you know given your capital expenditure commitment, broadly you think you should be able to generate the cash and you will not need any external financing. Am I correct in this assessment?

Management:

Yes, as of now we think so.

S. Ramesh:

Okay and then one more thought on the longer term plans. Now you are talking about Raigad and the last time you discussed the peak volume of 0.6, now given the kind of local market conditions do you still think that 0.6 is achievable say in 4, 5 years in terms of the number of vehicles and the household customers? Is there any change in the trajectory to that peak volume in Raigad? Any other area where you think you can get some traction in terms of growth?

Management:

No, there is no change in that number as of now, but again five years down the line yes, that is our current estimate.

S. Ramesh:

Okay, and just one final thought. In terms of your business plan over the say in next 3, 4 years what will be the annual recurring CAPEX for your new projects?



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- Management:** Now this impact of Covid how long it is going to continue with the prolonged effect but if we temporarily leave aside that, the range is obviously around Rs. 450 crores to Rs. 500 crores at least.
- S. Ramesh:** That will be the annual CAPEX?
- S. Ramesh:** Yes, it will be.
- Moderator:** Thank you. The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.
- Sabri Hazarika:** I have a few housekeeping questions. First, what was the commercial and industrial price for Q4 and what is it currently?
- Management:** Net realizations you are talking about?
- Sabri Hazarika:** Yes, sir.
- Management:** Commercial as a customer category put together net realization was Rs. 36 odd per SCM.
- Sabri Hazarika:** This was in Q4?
- Management:** Yes, Q4 2019-20 and Industrial it was slightly lesser than Rs. 29 per SCM.
- Sabri Hazarika:** Okay and what would it be currently?
- Management:** Currently maybe slightly lower marginally.
- Sabri Hazarika:** Okay sir and secondly you said that in Q4 the impact of Covid lockdown started in the last 8 to 10 days of the quarter. So at that point of time what was the kind of I mean do you have any quantifiable number was it down 40%, 50% for that last 8 to 10 days? Any number on that?
- Management:** Actually volume had come down to around 20% of the original volume and we have lost almost 25 to 30 MMSCM of gas which could not be sold.
- Sabri Hazarika:** In the last 8 to 10 days of previous quarter?
- Management:** Yes.
- Sabri Hazarika:** Okay and just one last thing. Sir, CNG volumes in million kg do you have that number for the quarter?



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- Management:** Yes, for this quarter you want?
- Sabri Hazarika:** Yes sir, in million kg?
- Management:** Okay I have in crore I mean you can translate it. Almost Rs. 13 crores for this quarter.
- Moderator:** Thank you. the next question is from the line of Jeet Gala from Centrum Advisors. Please go ahead.
- Jeet Gala:** I wanted to know what is the sourcing of your gas I mean where is it coming from? How much it is coming from APM, non-APM and how much is the imported LNG?
- Management:** All our requirement for the CNG and domestic household segments come from domestically produced gas. All our requirement for the industrial and commercial customers comes from imported RLNG. APM or non-APM the price is the same, so it does not really make any material or too much of a difference.
- Jeet Gala:** Because your end users CNG and domestic again which is why the price has changed?
- Management:** No, it is just a technical nomenclature which ONGC or GAIL is using. The gas is the same, the price is the same. Some part of it they are terming as APM, some part of it they are terming as Non-APM.
- Jeet Gala:** Okay, but it is a regulated pricing?
- Management:** Yes, it is a formula driven price. Formula is notified by the Government of India.
- Jeet Gala:** And sir, can you help me understand how the buildup of cost happens? So from ONGC till the stage where it supplies fuel to our gas stations, so how much basically \$2.39 per MMBTU on gross calorific is the regulated pricing as on today. So on that how much is added, so that you basically convert it into a net calorific value plus so what is the plus, plus cost adding up to and if you can explain to me?
- Management:** This is the only cost which gets added on to ONGC's gas first is the regulated transportation charges of GAIL. They are different for different pipelines systems and the Mumbai regional network of GAIL has a particular tariff, GAIL's Dahej one pipeline has got a particular tariff which is also zone wise. So depending on the source of the gas, so regulated pipeline tariff got added up and these tariffs are available on the website of the regulator.
- Jeet Gala:** And my second questions is how many ways are there to put up a CNG station if the company owned, the dealer owned, dealer operated so what are the different models in which you can



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run a CNG business with respect to you know the amount of investment which goes into each particular model versus the fixed charges which you would otherwise have to pay in some other way of operating? So if you could just explain me that part?

Management:

We have CNG stations with various channels. Majority of our stations are at oil marketing companies where we co locate our CNG facilities along with their petrol pumps. We also have a lot of stations with transport undertaking like BEST or Thane Municipal Transport etc. This is for the captive use of their bus fleets. In some of those stations we also have got a small parcel of land from where we can do sale to outside vehicles also. So that is the second channel.

The third channel is we do get a few plots not too many, from the government agencies, the state government or agencies like MIDC, etc., and we acquire those parcels of land and set up CNG stations there ourselves. And the fourth mode is where we partner with private entrepreneurs and industries and set up CNG stations in their land. And so whatever scope and roles and responsibilities of the different parties varies slightly depending on whether it is a transport undertaking or oil marketing company or a private dealer or MGL on its own.

Participant:

And sir, one last question. Sir, whenever the prices are falling I mean the ones which we are seeing right now your margins are expanding because the price of alternate fuels are probably not dropping as much as your sourcing is dropping versus whenever the prices do increase in future, when crude was \$60 a barrel, at that time you get a chance to hike your prices and recover the hike from the end users. So which situation is ideally more profitable for the company where the global prices are down or when the global prices are up?

Management:

See one thing you have to remember; one is at a given point of time what are the movements happening both at front level and spot gas price levels. And another important point to note over here is the price movement sales realizations is not a conscious choice which MGL is exercising in industrial and commercial sector. As per our pricing philosophy, the price is benchmarked with alternate fuel prices.

So automatically the realizations drop down, our customers get benefited whenever alternate fuels price drop. In case the drop in spot prices is proportionately higher than the drop in alternate fuel prices, then MGL tends to gain, that is true.

Moderator:

Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi:

Sir, just wanted to understand how much gas would be flowing from Raigad now? I am just saying before the COVID impact?



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- Management:** So Raigad the majority of the sale happened in the CNG segment. And we used to sell about 38,000 kg per day pre-COVID times.
- Bhavin Gandhi:** Sir, second I wanted to understand post BS-6 has there been any change that we are contemplating as far as CNG pricing is concerned?
- Management:** No, on the pricing front, no.
- Bhavin Gandhi:** But is it right to assume that your ability to price will be better given that diesel variants will not be available for the customer?
- Management:** Yes, to some extent our ability to pass through cost or increase prices will improve a bit because it is expected that diesel vehicle's cost will go up.
- Bhavin Gandhi:** Sure and sir, just one last part. Of the Rs. 400 odd crores CAPEX, what is the kind of maintenance CAPEX that we need and what is the growth CAPEX rough break?
- Management:** It could be in the range of 10% to 15% maintenance CAPEX.
- Bhavin Gandhi:** Of the Rs. 400 crores?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.
- Yogesh Patil:** My first question is related to Mahanagar Gas contract negotiations with the private CNG pump owners. Sir, in last month news flow we read that gas supplies has been stopped to 4 to 5 CNG stations. So, any update on that side, sir?
- Management:** Yes, we are in discussion with them and we are hoping to conclude something quickly.
- Yogesh Patil:** Okay so that 4 to 5 stations are not operations as of now?
- Management:** No, as of now they are not.
- Yogesh Patil:** And the second question is on the side of CNG sales volume. If CNG sales volumes takes more time to recover from the lockdown levels, then are you planning to raise the CNG prices to recover your fixed cost and other operating costs like the IGL has did in last month?
- Management:** No, we will wait for some time and watch. The other point to note that when the gas prices dropped in April, IGL has substantially dropped their prices whereas we have done a calibrated



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reduction in our prices. And just on your previous point regarding the stations, I think in a day or two those stations will be getting reopened and we will be having dialogue to resolve whatever issues they have.

Yogesh Patil: Okay sir, and last question from my side. Sir, if you could provide sales volume guidance for FY21? We know that it will be down as compared to FY20 but any ballpark number from your side? And mostly on CNG sales volume?

Management: It is very difficult at this juncture may be we will have to wait actually still Q1 end.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: My question was mainly on the upcoming gas exchange that we are hearing about. Just wanted to understand the benefits it could offer us in terms of sourcing requirements. Do you see that it can lead to better price discovery than what we have right now in the international markets?

Management: Time only will probably answer that question. So MGL is concerned it can be taken as one additional option for us to source our gas in case we decide to source from there.

Lokesh Manik: Okay and this will be obviously from catering our industrial customers that is on the spot RLNG, if I am not mistaken?

Management: Yes.

Lokesh Manik: So this is just another avenue for you? You are not really sure it that it would provide better price discovery?

Management: So we are watching the developments very closely and if that make sense we will avail that opportunity. But again I think we will have to give it a few months. So I think once the exchange actually starts see what is the market acceptance and what are the sellers and buyers how are they doing on that platform.

Lokesh Manik: And any difficulties you might face in terms of regulations certain taxes being included, excluded in these contracts or are they all sorted out?

Management: No, I do not think there are any tax related issues. It is just a normal gas purchase and sale transaction which is expected to happen.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.



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- Siddharth Rajpurohit:** Sir, can you please give me the breakup of prices for APM, non-APM and PMT and spot?
- Management:** From the APM and non-APM are priced the same. PMT has stopped for many months now and spot prices are I mean now about \$3, \$4 per MMBTU kind of a range.
- Siddharth Rajpurohit:** So \$3, \$4 is landed, right, at your place including network charges?
- Management:** In fact may be landed may be a bit more.
- Siddharth Rajpurohit:** And sir, PMT is discontinued but that volume for you is been now under APM, right?
- Management:** Yes, the volumes are been replaced by mix of APM and non-APM.
- Siddharth Rajpurohit:** Okay but sir, are our CNG and PNG volumes 100% guaranteed by APM? Means how is that contract sir?
- Management:** Policy of the government once the policy is there the volumes are assured.
- Siddharth Rajpurohit:** Okay because domestic gas is a very scarce resource so. Okay so given the future growth also it is guaranteed under the priority sector?
- Management:** Yes, at least for the foreseeable and next few years definitely we do not foresee any issue.
- Siddharth Rajpurohit:** Okay and sir, anything that your plan because your network exclusivity has ended and if any new partner who would like to enter how will you decide the prices for them, anything on your end, sir that you have decided?
- Management:** Can you be a bit louder and repeat that questions please?
- Siddharth Rajpurohit:** Sir, the network exclusivity for us has ended now. So have we done any calculation if any new partner wants to enter the market what will be the network charges for him?
- Management:** The network charges regulations are yet to be notified by the regulator. And there are some legal challenges which are ongoing on this issue. So again it is only with some passing of time we will come to know how that plays out.
- Siddharth Rajpurohit:** PNGRB has lost the case in Delhi High Court against IGL for pricing. So does it indicate that PNGRB does not have that much amount of authority in deciding any pricing?
- Management:** Yes, PNGRB does not have jurisdiction on the pricing of gas. That was the final ruling and the final decision which got headed by the Supreme Court about 5, 6 years back.



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- Siddharth Rajpurohit:** So it is also applicable for network charges also, it is not specifically for the MRP, this is also for the network charges?
- Management:** The regulator does have the jurisdiction to determine the charges which will be paid by a third party shipper or a marketer. So for transportation services or gas distribution services in a regulated business the regulator is entitled to set the tariffs.
- Siddharth Rajpurohit:** But that is for the interstate, right, for GAIL specifically that we supply from the source to the destination?
- Management:** No, we acquired for both transmission pipeline as well as gas distribution networks.
- Moderator:** Thank you. The next question is from the line of Soumaya V from Spark Capital. Please go ahead.
- Somaiah V:** Sir, my question is on the margins. Your Q4 margins on the gross margins if I look at your per unit number it has increased substantially. So I mean is it a right read that the industrial has been the key driver for this because I see as per the numbers commercial and industrial realizations I see that it is probably grown up Rs. 3 per SCM on a quarter-on-quarter basis? Is this probably driving big chunk of the gross margin improvement sequentially?
- Management:** Yes, you are right. Both in industry and in restaurant category also there was an advantage on sales net realization front at the same time spot gas prices advantage was also there. So coupled with these two things obviously the gross margin has gone up.
- Somaiah V:** Sir, when I look at on a quarter-on-quarter basis for Q4 the Brent prices have come off so which means the alternate prices will also would have come down. So in this environment if there is a price increase from our side, is it because of lag effect that we have in terms of price settings, is that the driver?
- Management:** Could be. For example if we talk about LSHS prices, I have some averages for Quarter two, three LSHS per ton was something around Rs. 29,660 whereas the average price LSHS for Q4 was Rs. 31,000 odd per ton.
- Somaiah V:** Sir, and is there any timeline that we have in terms of getting these prices reset on the industrial and commercial front or is it like it is variable it is depending on how global crisis changes so we take a call or is there any fixed time attached to it? We reset it at once a month or something?
- Management:** Usually we do at about once a month.



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Somaiah V: Sir, one last follow up question. Sir, in terms of CNG station addition plans, over the next couple of years what would be we will be looking at and how are things changed this year something that we had planned this year it is getting pushed out to next year. So your thoughts on that will be helpful?

Management: The number of stations we had said it is and this year it is going to be very difficult to estimate. But asked to guess, where earlier in the call we have a number of 15. Definitely we are hoping next year will be more than that. And so far our past history we have been doing 20 plus new stations typically each year and also doing a good number of upgradations.

Somaiah V: Sorry sir, I did not get that number, the number that you said for this year it is what sir?

Management: If us to get we said 15 and there would be few upgradations too.

Moderator: Thank you. The next question is from the line of Rakesh Sethia from HDFC Mutual Fund. Please go ahead.

Rakesh Sethia: The question is on the regulations. You just mentioned that your infrastructure exclusivity has expired. But does the current regulation provide any headroom for you to get an extension in the infrastructure exclusivity or is that a grey area?

Management: The current regulations as they stand, has the provision of granting extensions in blocks of 10 years each. But, since the whole regulation, has been challenged and is subjudice. So it is really difficult to not to do much on it unless the judicial process runs its course.

Rakesh Sethia: So does that mean that in the scenario of PNGRB would come out with a regulation asking for marketing exclusivity and infrastructure exclusivity get expired? Would you be challenging this particular aspect?

Management: The aspect is already under challenge in Delhi High Court since three, four years now.

Rakesh Sethia: That is from the IGL side or you are also the party to the same?

Management: We had joined. IGL had started it.

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

Vidyadhar Ginde: Just wanted to confirm or get your thoughts on. So based on the discussion I think this has been discussed in your earlier questions also. But how do you see the margins for this year because it was also asked what is the volumes, fixed cost, how it you will payout you have



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some lever in terms of price hikes potentially going forward but assuming that spot LNG prices let us say stay where they are, oil prices stay where they are, also LPG price, fuel oil price everything stays what it is now. So do you see margins this year to be similar to last year, higher, lower how do you see that?

Management: If everything remains the same obviously margin per se gross margin at least is obviously going to remain same. Question will remain then.

Vidyadhar Ginde: But volume is lower, I am not saying volume will be the same?

Management: We are not talking about the PAT margins. That is what we have because I already cleared earlier. When we talk of gross margin point of view everything remaining the same it will continue to be same. Whereas if the question is okay but volumes are going to be impacted so what happens to fixed cost. I think it was a question in I think one more question was there. So, in case of CNG customer category, a sizeable amount let us say probably to repairs and maintenance is 100% variable in nature.

So it is only the plant & maintenance activities and sometimes may be some unplanned breakdown expenditure. That is what is fixed and semi fixed in nature. Similarly, maintenance activities in respect of PNG will also be fixed in nature and things like employee cost will be fixed in nature.

But the way volumes are ramping back if we can say so for example in speech MD also indicated that as compared to normal volumes in the month of May we have already recovered up to 42% odd. If this trend continues I think fair amount of fixed cost we should be able to cover up.

Vidyadhar Ginde: So you are basically saying margins are sustainable at last year level?

Management: Per unit margins, yes. I mean barring all things remaining the same.

Vidyadhar Ginde: So basically you are saying the impact of fixed cost is not that big. So volume loss is not going to, it is unlikely to have a big impact on margins?

Management: Yes, because as I said 73% is CNG business and sizeable CNG cost is 100% variable.

Vidyadhar Ginde: So margins will get impacted either by only depending on the movement in spot LNG and fuel oil and LPG prices. That is what will determine?

Management: Yes, and whatever conscious decisions we may take on CNG and domestic prices.



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- Vidyadhar Ginde:** So basically you have lot of levers in that case?
- Management:** Yes, levers are there.
- Moderator:** Thank you. The next question is from the line of Nitin Tiwari from Antique Stock Broking. Please go ahead.
- Nitin Tiwari:** Again sir, I am sorry I dropped out when I was asking. So second question basically, is related to the network expansion. So at what basically level of saturation do we stand and like as you mentioned that you will be spending close to Rs. 400 crores to Rs. 500 crores every year on a recurring basis. So what level of network actually we see is the threshold level at which the saturation would have been like sort of achieved and what is the timeframe for that? So, one question is that sir.
- Management:** Well, we are still having a lot of residual potential in our areas. So the question of reaching saturation in five, six years it does not arrives. So the rate of ramp up will depend on how faster we are able to roll out get customers and roll out our infrastructure.
- Nitin Tiwari:** But sir, there will be a threshold level, right, so we are adding CNG stations at the rate of about 20, 25 every year. So what is the number of stations at which like we would be like targeting most of the geographical spread and like vehicle population where incremental station additions would not be required? So you would have some estimate of that number.
- That is what I was trying to ask and of course like on the pipeline to domestic household front I believe we are at about 35%, right? That was the number I remember from one of our last conversations.
- Management:** Yes, that is true. We are at roughly about 30%, 35% penetration in almost all our segments. With regards to the number of CNG stations we do not think in a city like Mumbai we ever reach a situation where we will be able to say okay, now we do not need any more stations. That is because of the vehicular population is huge and opportunities are really huge and those many retail outlets sites may not be available. But however in suburbs and GA3, etc., there yes, there should be enough land to make whatever demand which comes up.
- Again so we are not targeting any final level of number of stations as such. So we will look at how the demand is coming up in various areas, where is the requirement, where is the need and then we will make targeted efforts to open CNG stations in those areas where we think they are required.
- With regards to piped gas infrastructure again we are at a 30% penetration levels where the main trunk cycle and infrastructure has already been put in the ground. So, especially in GA 1



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and GA 2 so the traditional infrastructure is largely in terms of last mile connectivity and CAPEX for that. Again that is a function of how many connections we manage to do every year.

Nitin Tiwari: And my next question is around PNGRB guideline which has come around setting up of LNG stations. So do you think that could be sort of basically a concern for us or like we would also want to get into LNG dispensation business?

Management: It is more of an opportunity rather than a concern. Currently we are not in the LNG business. Actually, LNG as a fuel for vehicles has not really started. But for may be one or two vehicles on pilot basis or something. So the advantage we see there is if this segment and this will basically take a chunk out of the diesel market.

And if both vehicles are developed and manufactured the engine remains the same. End of the day the engine is going to burn gas. So and whether you use it LNG or you use CNG there is not too much of a difference. So overall if it expands the market for use of gas as a transport fuel it could be advantageous for us.

Nitin Tiwari: In terms of logistics as far as LNG is concerned so the transportation from an LNG receiving terminal to the consuming areas would mostly by trucks I suppose. So would that still make it economical versus say a CNG or diesel?

Management: This actually depends on a lot of factors. The location of the terminal, the location of the retail outlet, whether there are any transmission pipelines in the vicinity where you are putting up that station so the answer will vary depending on location to location. It will also vary depending on the sales volume out of that outlet. There are a lot of variables and I do not think there is one single answer for what will be better off.

But of course with LNG getting cheaper now yes, may be this economics do improve over what it was about couple of years back. But having said that the domestic gas prices, which I use for the CNG are also pretty low.

Nitin Tiwari: And sir, lastly, like in terms of off take of domestic gas in this quarter so far we have seen lower sales in terms of the allocation that we have of domestic gas. So what is happening with respect to our off take obligation? So are there any liabilities which are coming up on us or is there like flexibility for us to defer that off take. So how is that working on? Have you basically declared a sort of a force majeure over yet?

Management: Yes, we have asked GAIL to consider force majeure because of COVID. And we understand GAIL has also raised that request on ONGC. But as things stand now currently we are not expecting to hinder any take or pay liability on those accounts.



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Nitin Tiwari: Why I asked because actually force majeure also requires a complete closure of business as such I mean in terms of legality there should not be any business conducted or it should not be in a position to conduct business. But some sales have happened, right. So around 25% was what you were selling in April. So would that be an issue or like it is broadly we are okay as far as legality is concerned?

Management: Force majeure is just one angle to it. There are a few other barriers also in place because GAIL can claim take or pay only if it is not able to place the gas in the market. So only if GAIL incurs take or pay from ONGC, GAIL takes gas from ONGC, it is not just for CGD. It goes to fertilizers, it goes to power, it goes to lot of other sectors.

So it is only on an overall basis if GAIL faces that situation and then ONGC invokes take or pay then there is an element of risk. But again there are few ways to mitigate that also through contractual measures which we are doing.

Moderator: Thank you. The last question is from the line of Ashutosh Chaubey from Centra Advisors LLP. Please go ahead.

Ashutosh Chaubey: My question is with regards to your CNG business. Could you help me understand, what is the average amount of investment that is required to set up a CNG station? Also what is the volume of business done per year the revenues that are generated from CNG station and the profit that are generated from per CNG station?

Management: It is typically the cost will be in the region of Rs. 2 crores. But it is all depends on what is the size of compressor we are putting in how many numbers of dispensers we will be putting in also separately the cost of branch lines comes in. That is from transmission line till the particular CNG outlet, how far it is located from transmission pipeline because there is a branch line which would also been involved. So, all these factors need to be considered before we arrive at a cost.

But benchmark it is Rs. 2 crores, Rs. 2.5 crores per outlet excluding branch pipelines and hopefully you are aware that there is no land cost involved whichever channel which we choose whether it is through locating our stations at OMC or let us say through franchise operators there is no land bought out deal as such involved in these things. So that is on the one hand. As regards to sales volumes it is very difficult to say any typical or average sales volume.

It all depends on the as we said number one, the capacity of compressors, number of dispensers placed over there, the customer potential available over where various factors will be involved even the type of stations. Sometimes it is the online station that is connected through pipelines, otherwise it could be daughter booster station where the gas is supplied through cascades. So it



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is very difficult to answer in respect of volumes. It will change or vary from station from station.

Ashutosh Chaubey: Sir, the second question that I have is could you help us understand how is the APM gas allocation done by the government?

Management: Well, the APM gas allocation the actual numbers come out from PCAC, PCAC and GAIL work together on doing this. So typically it is done twice a year and for the first half of the year whatever sales volumes have been achieved in the domestic for PNG and CNG segments that has taken as a base for the next half year. And in the next half year you are going to draw 110% of your previous 's half year volumes. So that is how the allocations keep rolling.

Ashutosh Chaubey: Okay so as we know out of the total India domestically produces around 70 MMSCMD of domestic gas. How much of this is allocated towards APM? Could give us a number?

Management: For the CGD business pre-COVID times it draws about 14 MMSCMD or 15 MMSCMD at the most. In the pre-COVID times the domestic gas being provided to CGDs in the country for CNG and domestic PNG was about 14 MMSCMD.

Ashutosh Chaubey: I have one last question that is APM gas only goes towards the CNG and domestic PNG, is that correct? Is there any other priority sector for that allocation is done through?

Management: Top priorities for this segment of course the fertilizer sector was also pretty high on the priorities. I think it is followed by power or LPG production or one or two steel plants. And private industry steel, even petrochemicals, etc., are the last.

Moderator: Thank you. I now hand the conference over to the management for closing comments.

Management: Thank you for joining the call.

Moderator: Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.



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