

**Twenty-first Annual General Meeting of
MAHANAGAR GAS LIMITED
Statement of the Chairman**



**Dr. ASHUTOSH KARNATAK
Chairman
September 26, 2016**



Dear Shareowners,

On behalf of the Board of Directors of Mahanagar Gas Limited ("MGL"), I extend a warm welcome to you at the Twenty-first Annual General Meeting ("AGM") of your Company. Firstly, I would like to share one major development in the history of Mahanagar Gas Limited that, your Company has been successfully listed on both the stock exchanges i.e. BSE Limited and National Stock Exchange of India Limited (BSE & NSE) on July 01, 2016, by way of diluting 25% stake by its promoters (GAIL & BGAPH) through an offer for sale (OFS) of equity shares to public. I am glad to inform you that the Company has received overwhelming response from public and the issue was over-subscribed by around 64 times. As on date i.e. September 19, 2016, the equity share of the Company having face value of ₹10/- each is quoted at ₹608 which is showing the market capitalisation / valuation of MGL as more than ₹6,004 Crores and the total strength of shareowners as more than 80,000 in numbers. I would like to thank all those shareholders who have reposed confidence in us, for their contribution to the success of the IPO and our Company. This year also marks the second year of my active association with MGL. The Annual Report containing the Directors' Report and the Audited Financial Accounts along with the Auditors Report thereon for the year ended on March 31, 2016 have already been circulated to you.

With your permission, I would like to take these as read.

Financial and Physical Performance

I am glad to share that your Company has shown overall progress and growth in its performance during the Financial Year 2015-16.

During this fiscal year, your Company has been successful in achieving a Profit after Tax of ₹309 Crores, as compared to ₹301 Crores in the preceding Financial Year. The net operating revenue for the Financial Year 2015-16 was ₹2079 Crores, as compared to ₹2095 Crores in the preceding financial year mainly due to reduction in input cost of gas. Consequently, the Basic Earnings per Share of the Company for the financial year 2015-16 stands enhanced at ₹34.55 as compared to ₹33.69 per share for the preceding financial year. Considering the overall good performance, your Board has recommended a dividend of 175% (Including special dividend of 75%) i.e. ₹17.50 per equity share of ₹10/- each, subject to the approval of the shareholders in its 21st AGM for the financial year 2015-2016.

I am happy to inform you that your Company continues to be amongst one of the largest City Gas Distribution (CGD) companies in India in terms of consumer base. During the year 2015-16, the Company continued its efforts to achieve a healthy growth in developing Piped Natural Gas (PNG) and Compressed Natural Gas (CNG) infrastructure. During the financial year, the peak gas sales in a day increased to 2.76 MMSCM from 2.65 MMSCM during the previous financial year, which is an improvement of 4%. The average gas sales volume of your Company during the FY 2015-16 has increased to 2.43 MMSCM per day.

During the year 2015-16, your Company has made substantial investments in network expansion in its existing authorized areas of operations for laying, building and developing CGD infrastructure.

On the CNG and PNG front, the business continued to grow during the year under review. Apart from Domestic connections, your Company has also made progress in adding new Commercial and Industrial consumers. The details are as follows:-

CNG

Your Company added 13 new stations to reach the present total of 193 CNG stations. More than 49,220 vehicles were converted to CNG during the FY 2015-16 taking the total number of vehicles converted to CNG to over 4,70,478 numbers since commencement of CNG business by your Company. The daily sale of CNG reached a peak of 14.69 Lacs Kg during the financial year, as compared to 14.66 Lacs Kg during the previous financial year 2014-15. The average CNG sale during the financial year 2015-16 increased to 12.70 Lacs Kg per day, as compared to 12.32 Lacs Kg per day registering a growth of about 3% over the previous fiscal year.

PNG

About 60,978 new homes were provided with the convenience of PNG taking the total number of Domestic connections by your Company to over 8.62 Lacs. Your Company has re-located the call centre at the vendor's location at Navi Mumbai, which is now operative 24x7. Redressal of customer grievance will always remain on top priority for your Company.

Gas Distribution Infrastructure

Your Company continues to expand its gas distribution infrastructure and by the end of FY 2015-16, it has cumulatively laid around 415 Kms of steel pipeline and around 4232 Kms of polyethylene pipeline with growth in gas distribution infrastructure by around 5% as compared to previous financial year. Your Company shall focus on Asset Integrity and endeavour to use new technologies, wherever feasible and to the extent possible.

Business Initiatives

In addition, it gives me immense pleasure to share some of your Company's significant achievements in its effort to grow its business during the FY 2015-16.

- Day to day efficiency in gas sourcing, gas supply management, fund management and operations undertaken by your Company led to an overall control on costs.
- Your Company has successfully completed re-certification of OHSAS 18001:2007 – Occupational health and Safety Assessment Series and ISO14001:2004 - Environmental Management System.
- Your Company received Golden Peacock Award for Corporate Social Responsibility, 2015.
- Your Company received 2nd Pt. Madan Mohan Malviya Award (Silver Award) for Best CSR Practices in Education, 2015 for our project 'MGL Unnati'.
- Your Company received 5th annual Greentech CSR Award in the Gold Category in CGD sector for outstanding achievement in Corporate Social Responsibility.
- Your Company received the Rashtra Vibhushan Award, 2015 in Gold category in social development for its outstanding contribution for National Economic and Social Development.
- Your Company signed a Term Regasified Liquefied Natural Gas (RLNG) contract (0.15 Firm + 0.15 Fall back) for gas supplies commencing effectively from January 01, 2016 and the term is valid till December 31, 2016. Firm RLNG would help security of gas supplies to your Company and reduce its dependence on Spot RLNG having high volatility of prices.
- Your Company introduced an online portal FuelmyGaddi.com (FMG). It provides CNG fuelling solution for private CNG cars owners. Under this new initiative, FMG drivers will pick up subscriber's CNG car in the night, ferry it to the nearest CNG pump, fill it with CNG and park the car back at subscriber's premises the next morning.
- Your Company launched MGL Connect Mobile App for its Domestic PNG and CNG consumers.





- j) Your Company successfully implemented new Web and Mobile GIS application – ‘myWorld’ for all GIS users.

Opportunities and Challenges

The world economy encountered challenges at many levels last year, these include significant volatility, Eurozone instability, depression in crude oil and commodity prices, currency depreciation in emerging markets, and a lingering slowdown in China. The medium to long term economic outlook in India continues to look promising and it is heartening to see the Government’s drive to liberalise the economy. The Indian economy too faced challenges from slow agricultural growth with two consecutive poor monsoons and sharp contraction in exports.

The decision of the Government of India (GoI) allowing supply of domestic gas upto 110% of domestic gas allocation for CNG (transport) and PNG (domestic) segments of your Company is immensely helpful in maintaining competitiveness of CNG and PNG against competing alternate fuels. This decision would enable your Company to meet fluctuations in demand and cater to most of the incremental demand in these segments from domestic gas supplies.

The ability to source market priced gas from all major sources through physical connectivity with GAIL’s Dahej-Uran pipeline network and the large demand potential in the existing authorized areas of your Company, provides a tremendous scope for growth.

Your Company has established its operations in one of the largest metro city of India, i.e. Mumbai. With its basic infrastructure in the city of Mumbai substantially in place, your Company can now increase its volumes by adding new customers which will only need relatively small last mile connectivity capex. The ever expanding customer base coupled with large unserved population in the city provides a strong opportunity for growth levels. Over the next five years, your Company would focus on increasing the penetration in the current authorized geographical area through higher number of domestic and commercial connections and more CNG stations along with expeditious rollout of CGD infrastructure in the newly authorized Raigarh district.

Your Company is continuously screening opportunities to enter into new markets by participating in the bids invited by PNGRB for implementation of the CGD network across the country in upcoming CGD bid rounds. Also, your Company is exploring various opportunities for inorganic growth such as equity stakes in other existing CGD entities and also looking at synergic opportunities abroad.

Your Company also plans to carry forward new initiatives such as Hybrid CNG / Diesel vehicles, CNG in two wheelers, CNG applications in Railways etc.

Your Company is in the process of expanding the CGD network in the Geographic Area of Raigarh District (Maharashtra) authorized by the PNGRB with 300 months of infrastructure exclusivity and 60 months of marketing exclusivity commencing w.e.f. April 01, 2015.

Hon’ble Supreme Court in its judgment dated July 01, 2015 declared Regulations pertaining to determination of network tariff for city or local gas distribution network and compression charge for CNG, as ultra vires. Such verdict of Hon’ble Supreme Court provided respite and clarity about non applicability of retrospective impact of tariff calculation, if any.

Also, the outcome in the ongoing legal cases (i) in Hon’ble High Court of Delhi on natural gas marketing exclusivity in Mumbai and its adjoining areas, (ii) in the APTEL between MGL and PNGRB, GAIL and ONGCL, on applicability of additional Transportation Tariff of ONGCL’s Uran Trombay Pipeline levied by GAIL may have an impact on your Company.

A challenge before your Company would be to roll out its CGD infrastructure in a time bound manner to meet its regulatory targets in newly authorized Raigarh district covering over 6800 Square Km area consisting of diverse topography of rocky terrain & forest land.

Your Company is having challenges relating to the Human capital, young talent is being attracted towards other similar business houses, hence specific initiatives have been taken for retention of talent. Skill development is another area of concern in today’s competitive environment. A focused approach will help us in developing our talent pool as well as career progression for the employees. To make further improvement in productivity of the people, the Company has specific and transparent initiatives which are expected to yield results for achieving the organizational goals.

Employees in leadership roles will be developed through capability building programs by partnering with top Management Schools; this will help in building a high performance organization.

Health, Safety & Security Environment

Your Company is in the business of supplying Piped and Compressed Natural Gas (PNG & CNG) that is environment friendly and safe. To facilitate this, your Company constructs and operates pipelines in the city of Mumbai and its adjoining towns. Whilst doing this, your Company adheres to high standards of Health, Safety, Environment and Security and as the Company believes that “Outstanding Business Performance requires Outstanding HSS&E Performance”. Your Company complies with all legal and statutory requirements applicable to its operations as a minimum standard and aspires to attain recognised world class performance.

As a part of your Company’s drive for continuous improvement in safety, various steps have been undertaken to raise general awareness in the relevant community and operating environment such as PNG awareness campaign in residential societies, MGL Emergency Management Systems awareness for local Fire Brigade offices, District Disaster Management Cells, Police personnel in various police stations, CNG awareness campaign at various auto stands, B.E.S.T. depots and gas safety awareness programs in public schools. A campaign on “Life Saver Excellence” with a series of workshops has been conducted across the Company in different districts to raise HSE awareness among employees and contractors.

Your Company has taken very good steps in “Occupational Safety Excellence” with the relentless implementation of Petzl System for Working at Height activities especially for Riser installation at project sites, continuous improvement in the Compliance to MGL Lifesavers, implementation of Safety Technical Competency training policy-“NO STC NO WORK” and CNG filling policy- “NO Metal Plate NO Gas”. Your Company has implemented Online Action Tracking System to evaluate and close out the recommendations related to the incidents and Senior Management Audits in a methodical manner. Your Company is going forward to implement ‘E-permit’ system and ‘Defensive Driving Management’ system. Your Company has an emergency control room with toll free number 1800 22 99 44 which is available 24 Hours, 365 days a year. Besides this “Dial-before-Dig”, a continuous pipeline surveillance and mapping of entire pipeline network on Geographical Information System (GIS) also contribute to safe working environment.



In order to match with business expansion with rapidly diversifying security threats, security as a function has graduated from basic guarding function to three distinct verticals - Surveillance Assurance, Asset Protection and Security Support; each complementing & reinforcing each other. Surveillance assurance process was augmented by bringing in quantum improvements in CCTV coverage by incorporating all Company owned CNG Retail Outlets in its CCTV network. An "App-based Surveillance Mechanism System" for monitoring Patrolmen activities is in the pipeline for implementation. Implementation of this project will provide real time data related to pipeline surveillance. Steps are also on to incorporate security guards of housing societies and other citizens residing in the vicinity of gas pipelines to act as eyes and ears for gaining information about pipeline through implementation of incentive driven plans. In order to achieve the desired results in security assurance process, a state of the art "Security Control Room" for continuous surveillance of pipeline, VTS monitoring, monitoring patrolmen activities, remote monitoring of DRS and continuous surveillance of all asset locations and major offices is planned.

This year also saw new initiatives in vigilance function. The 'Vigilance Mechanism' of the Company was approved and implemented in the Company. A definite mechanism is at present in place to deal with matters related to fraud & unethical practices.

Corporate Social Responsibility

Our substantial social investment is based on our strong belief that our success as a business entity is tied directly with the socio-economic vitality and health of the communities in which we operate. We value the partnerships we build with the communities around our units and areas of operations. Your Company has been continuously contributing in the areas of health, education and environment. I am happy to add that for us, CSR is not just a Corporate Social Responsibility, it is "Corporate Social Relationship".

One of our CSR initiatives "MGL Unnati" is an intervention designed with the objective to promote vertical socio-economic mobility through education. The project envisages coaching and mentoring of meritorious children of CNG auto, taxi and public transport bus drivers and other economically weaker sections enabling them to face competitive engineering entrance examination. Free coaching for a period of 11 months was extended to 20 students out of which 14 qualified in the IIT mains and 5 students got admission in IITs / NITs. Out of the 20 students trained under the initiative, 19 have got admissions in engineering colleges while one candidate has opted to undergo pilot training.

Similarly, 'MGL Hunar' is an intervention in line with "Kaushal Bharat – Kushal Bharat" for imparting training on employment oriented trades to youths from underprivileged background. MGL has associated with renowned vocational training institutes for imparting training in various skills to unemployed youths to make them self-reliant.

Your Company has also been supporting slum communities in their quest for seeking better prospects for future generations by adopting a community centre for initiatives like supplementary education, nutrition, health, soft skills training, IT training and livelihood related skills augmentation training to youths. It is also mentoring children from slum communities through sports to evolve positive attitude and sensitize them against the negative social practices like gender discrepancy, substance abuse, drug addiction, etc.

Your Company has supported sterilization drive targeting stray animals with the objective to reduce man-animal conflict. Facilities and infrastructure has been created to support the sterilization program. Veterinary intensive care

unit has been upgraded with modern machineries to treat diseased animals as an initiative towards animal welfare.

Your Company has been reaching out to the less blessed, roofless and rootless children through its initiative "MGL Komal Jivan". Your Company has adopted multidimensional approach towards holistic development of such children who due to a complex mix of domestic, economic or social disruption find themselves in the streets and vulnerable to multitude of abuses. Your Company has also extended support for air conditioning of Bai Jerbai Wadia Hospital a grade II-B heritage structure. MGL also extended support for training of ace shooter and an Olympic medal prospect, Ms. Heena Sidhu.

Your Company also partnered with various social institutions for empowering urban poor women for a dignified life through skill development and training and for providing relief to women in distress to encourage them to cope with difficult circumstances and situations. As a community welfare initiative, your Company has also contributed towards psychological settlement, medical care and overall happiness of mentally challenged adults, and holistic development of children from marginalized communities.

Corporate Governance

Your Company strongly believes in adherence with good and ethical governance practices to enable the management to direct and control the affairs of the Company in an efficient and effective manner. It believes in imbibing good governance practices to ensure the maximization of value and goodwill for all the stakeholders of the Company. Your Company complied with the requirements of Regulation 17 and 27 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 as applicable to the listed Companies. A separate report on Corporate Governance has been annexed to the Annual Report.

Acknowledgement

Before I conclude, I would like to take this opportunity to thank all the stakeholders including GAIL (India) Limited, the Shell / BG Group and the Government of Maharashtra, our employees, bankers, suppliers, contractors, and most importantly, our customers - all of whom have contributed to the success of your Company through their continued confidence and co-operation.

On behalf of the Board of Directors, I extend my sincere gratitude for the valuable support received from the Ministry of Petroleum & Natural Gas, PNGRB, Government of Maharashtra, Municipal Corporations of Greater Mumbai, Navi Mumbai, Thane, Mira-Bhayander, Kalyan, and Dombivli, other State and Central Government Authorities, Mumbai Metropolitan Regional Development Authority, Maharashtra Industrial Development Corporation, Police and Fire Brigade Authorities.

I thank all my colleagues on the Board for their unanimous support and immense encouragement.

In conclusion, we have all the right ingredients for a very bright future. Team MGL is passionate and fully committed and raring to go. We certainly will cover new grounds and scale new peaks in the years to come.

Thank you very much ladies and gentlemen.

Best Wishes.

Mumbai
September 26, 2016



Dr. Ashutosh Karnatak
Chairman

(Note: This does not purport to be a record of the proceeding of the Annual General Meeting of the Company)

