



MAHANAGAR GAS LIMITED

(GAIL, Govt. of Maharashtra & BGAPH Enterprise)

Ref: MGL/CS/SE/2018/216

Date: November 28, 2018

To,

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Scip 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>
---	--

Sub: Transcript of Earnings Conference call on Unaudited Financial Results for the quarter and half year ended September 30, 2018.

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 Unaudited Financial Results for the quarter and half year ended September 30, 2018 was held on Wednesday, November 14, 2018 at 4:30 PM (IST).

Please find attached herewith the transcript of the aforesaid Earnings Conference call. The same may also be accessed 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

Alok Mishra
Company Secretary and Compliance Officer



Encl.: As above



“Mahanagar Gas Limited
Q2 FY2019 Earnings Conference Call”

November 14, 2018



ANALYST: MR. JAL IRANI – EDELWEISS SECURITIES LIMITED

MANAGEMENT: MR. SANJIB DATTA – MANAGING DIRECTOR – MAHANAGAR GAS LIMITED
MR. GOUTAM GHOSH – DIRECTOR (TECHNICAL) – MAHANAGAR GAS LIMITED
MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER – MAHANAGAR GAS LIMITED
MR. RAJESH WAGLE – SENIOR VICE PRESIDENT (COMMERCIAL) – MAHANAGAR GAS LIMITED



*Mahanagar Gas Limited
November 14, 2018*

Moderator: Ladies and gentlemen good day and welcome to the Mahanagar Gas Limited Q2 FY2019 Earnings Conference Call, hosted by Edelweiss Securities Limited. 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 assistance during the conference call, please signal an operator by entering “*” then “0” on your touchtone telephone. I now hand the conference over to Mr. Jal Irani from Edelweiss Securities. Thank you and over to you Sir!

Jal Irani: Hello everybody, welcome to the MGL call. I would like to introduce the management first. We have Mr. Sanjib Datta, the Managing Director; we have Mr. Goutam Ghosh, the Technical Director, we have Mr. S M Ranade, the Chief Financial Officer; we have Mr. Rajesh Wagle, SVP Commercial. At the outset, I would like to congratulate the MGL management on a very solid volume growth and without any further delay I would like to hand over the call to the management.

Management : Thank you Jal. 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 of risks and uncertainties that may lead to different results. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding fluctuations in sales volume, fluctuations 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 trend indication of full-year results, they should not be attempted to be extrapolated or interpolated into the full-year numbers. Over to you, Sir!

Management: Thank you and good afternoon to all of you and welcome to Mahanagar Gas Limited Earnings Conference Call for the Second Quarter of Financial year 2018-2019. I would like to thank all of you who have connected for our earnings call today.

As you would be aware, domestic natural gas production accounts for about half of India’s total gas consumption. Due to such inadequate domestic production, India’s LNG imports have witnessed significant increase during last few years. On the other hand, demand for natural gas is expected to increase due to high growth in energy demand arising out of high rate of economic growth and large-scale developmental initiatives.

Besides, WHO report of May 2018 also mentions that 14 out of 15 of the most polluted cities in the world are from India. If this situation is to be reversed for getting a cleaner and healthier environment for the citizens and if India is to fulfill its COP21 commitments to reduce emissions there has to be larger penetration of natural gas in Indian energy basket.



*Mahanagar Gas Limited
November 14, 2018*

Government of India's stated declarations to move to a more gas based economy also has the potential to boost extensive gas usage. We are of the view that much of the anticipated increase in gas demand would come from the retail segment or from the CGD sector. And some of the following factors would have positive effect on the long-term business outlook of CGD sector.

Firstly A favorable policy framework and guidelines in terms of CGD footprint expansion, mission PNG, smart cities, green corridors, etc., have been put in place.

Secondly, the recently concluded ninth round of CGD bidding, which offered 86 new geographical areas in 174 districts witnessed very enthusiastic participation amongst industry players.

Thirdly, more OEM fitted CNG variants of cars are being launched by Automobile manufacturers.

Fourthly, on 6th November 2018, PNGRB has announced tenth round of CGD bidding for 50 new GAs covering 124 districts.

Lastly, NITI Aayog has laid out plans to add additional gas pipeline network of over 10000 kilometers to the existing pipeline network of about 16500 kilometers and increase the coverage of City Gas Distribution and CNG network to about 326 cities and towns by 2022 to maximize the reach of natural gas across the country.

Now coming to MGL, I may mention that MGL is expanding its CGD network in the existing areas of operation. During this quarter, we were able to connect more than 26,000 domestic households and we have today more than 1.1 million connected household customers.

We have added over 88 industrial and commercial consumers and thus as on date, we have over 3,710 industrial and commercial customers. We are now operating 221 CNG stations, supplying CNG to more than 650,000 vehicles and our aggregate of steel and PE pipeline network stands at 5,130 kilometers.

With respect to our Raigad geographical area, connectivity has been established to supply gas to about 3,000 domestic PNG consumers in Uran. Gas supply to 6 to 7 major towns in the geographical area like Pen, Ulve, Karjat etc., is being planned through the virtual pipeline network. Six CNG stations are operational in Raigad as on date.



*Mahanagar Gas Limited
November 14, 2018*

During the quarter we have seen a growth of 9.5% in overall sales volume over the corresponding quarter in the previous year. CNG sales volume grew by 9.2%, Domestic sales volume grew by 10.1% while the industrial and commercial sector sales grew by 10.3%.

Overall, the PNG volumes grew by 10.2%. Gross margin has declined to 48.6% as compared to 55.4% in the corresponding quarter in the previous year. Adverse Rupee Dollar exchange rate, increase in RLNG prices and increase in APM gas price affected the gross margin.

In addition, PNGRB vide its Tariff Order number TO/02/2018 dated 27th September, 2018 has notified levelised final initial unit natural gas pipeline tariff for DUPL-DPPL Natural Gas Pipeline Network as Rs.37.78/MMBTU on GCV basis as compared to Rs.24.65/MMBTU on GCV basis with effect from 1ST April, 2018.

Pending the receipt of invoice from GAIL (India) Limited, the company has provided for an amount of Rs.11.08 Crores in the current quarter. Gross margin is higher in value terms in current quarter despite challenges because of higher volumes in CNG and PNG and better price realization across all customer categories.

EBITDA margin was 31.8% at Rs.221 Crores in the current quarter as compared to 37.5% at Rs.200 Crores in the corresponding quarter of the previous year. Net profit after tax grew by 9.2% from Rs.124.79 Crores in the corresponding quarter of previous year to Rs.136.29 Crores in the current year.

During the quarter, overall sales volume grew by 4.2% compared to the sales volume of immediately preceding quarter. CNG sales volume grew by 3.8%, Domestic sales volume grew by 0.6% and the Industrial and Commercial sector grew by 9.3%. Overall the PNG volumes grew by 5.1%. Gross margin has decreased to 48.6% as compared to 52.4% recorded in the immediately preceding quarter.

The Company; however, has improved EBITDA to Rs.8.13 per SCM as compared to Rs.8.07 per SCM in the previous quarter. The drop in margins has been more or less due to same reasons I mentioned earlier. Net profit after tax grew by 6.2% from Rs.128.33 Crores in the preceding quarter to Rs.136.29 Crores in the current quarter enabled by improved EBITDA per SCM and sustained volume growth.

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

Moderator:

Thank you. Ladies and gentlemen we will now begin the question-and-answer session. We have the first question from the line of Nilesh Dubey from HDFC Securities. Please go ahead.



*Mahanagar Gas Limited
November 14, 2018*

Nilesh Dubey: Good-Evening Sir, my question is on volume guidance, post the 4Q FY2018 you guided 6% to 7% volume growth for FY2019-2020, so after this first half performance would you like to change that volume guidance and if suppose it is upwards, from which segment you are expecting more volume growth?

Management: No doubt this time, from the volume point of view the performance was very good. Both PNG and CNG almost 10% growth we have seen; however, this being short-term we still maintain the earlier stand and if you are talking about medium-term to long-term we should continue to take the guidance at 6% plus. Yes, maybe one or two quarters further we may see this kind of a trend there have been improvement in the PNG conversion, pretty impressive conversions were there, maybe there is also an increase in the per capita consumption of the customers particularly on CNG segment, but it remains to be seen because there is a possibility the increase in per capita consumption might have been enabled even by the factors like traffic jams and other things which we see. So we would like to see may be a couple of quarters further before the medium-term or long-term guidance is revised.

Nilesh Dubey: Sir to capitalize on the CNG growth how many dispensers you are planning to add; particularly Mumbai and Thane region because we already have more than 140 CNG stations in Mumbai and Thane region. So how many further CNG station you will put up in the coming two years?

Management: See per annum we will be at-least aiming at 20 odd stations. Definitely the planning is already on for 35 odd stations, but since lot of permissions are required to setup and commission the outlet we expect at least 20 number per annum to achieve.

Nilesh Dubey: Only in Mumbai and Thane, excluding the New Mumbai and Raigad area?

Management: I think a big chunk of these numbers will be from Mumbai and Thane, very few relatively will be there in Raigad, Raigad we are just penetrating the market and the conversions are happening relatively slowly, most of the load in demand is in Mumbai and Thane. So that is where we are currently concentrating upon.

Nilesh Dubey: Sir my last question is on the selling price, what was the selling price for a commercial and industrial in 2Q and have you taken any price hike for these two players; commercial and industrial in 3Q?

Management: We cannot give you the specifics, but general realizations we can talk about Q2 realization, say for example in case of industry the realization was average Rs.35 per SCM and in case of commercial it was nearly Rs.40 per SCM and the way the pricing formula or philosophy works is these prices are linked or benchmarked to alternate fuel prices. For example, in case of industry



*Mahanagar Gas Limited
November 14, 2018*

in general it is benchmarked to FO/LSHS which are predominantly used fuels in the Mumbai and the surrounding region whereas restaurant category that is commercial category, generally it will be the 19 kg cylinders of LPG, which will be benchmarked to those prices and for restaurant category over the benchmark prices we do offer 10% discount whereas in case of industrial customer category it is almost at parity. So depending upon the price movement happening in oil prices I mean alternate fuel prices, which in turn will depend on crude oil prices, the realizations will also reflect the changes.

Management: In fact, in the last quarter the oil prices were relatively high and the rupee also was pretty badly depreciated. So even the alternate fuel prices were dollar denominated in a sense, so yes our realizations would have improved slightly.

Nilesh Dubey: Sir you have taken any price hike in third quarter for these two players?

Management: We are not required to take any specific price rise for industrial, commercial category because as we said the contracts which we sign with these customers have a built in index formulas whereas in case of Domestic and CNG, yes we have to take the specific calls on pricing.

Nilesh Dubey: Thanks a lot Sir.

Moderator: Thank you. We have the next question from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: Thanks for the opportunity. First question was with respect to industrial and commercial would it be possible to get the split of the volumes for this quarter?

Management: Yes, for Q2 industrial was 0.237 MMSCMD whereas commercial it was 0.180.

Probal Sen: Sir, the second question was about the realizations. Now I understand that commercial and industrial of course saw traction because of alternate fuels. In CNG also Sir if I take the net revenue reported by you and the volumes it seems that on a quarter-on-quarter basis realizations have actually gone up. Now my understanding is that there was no specific price increase that was taken in 2Q. So where has this realization come from sir; just wanted to understand that.

Management: No there was price rise, if you recollect in the month of June also we have taken price rise.

Probal Sen: So that was entirely due to the June price rise, there is no other, I mean no lower discounts to the OMCs or anything like that?



*Mahanagar Gas Limited
November 14, 2018*

Management: No, there is an improvement in realization obviously, so that has got nothing to do with discounts per se and price also can change to some extent because of the different channels through which we dispense CNG, there are some direct channels we dispense at our own stations, there are franchisee stations, there are state transport units at which different price levels may emerge after discounts and of course the dispensing majority which happens through oil marketing companies, so depending upon the mix which we have in the different quarter that may also have some impact on the realization.

Probal Sen: Sir, just to take that forward a little bit in Q3 we know that fairly sharp price increase has already happened. When you took the price hike, is it possible to share what kind of rupee was actually assumed into the calculation?

Management: We will not be able to state that specifically and it is not just rupee dollar exchange rate; there were some other factors also as you know OPEX also has a tendency to increase, the general inflation rate itself is 7%, there are some planned maintenance activities also which we take into consideration. So there are different reasons cost related; other than exchange rate also which we take into consideration and based on that the price rise decisions are announced.

Management: There was an increase on the APM price itself that plus the PNGRB increased the DUPL tariff that was the reason.

Probal Sen: Sir last question I had the MD mentioned the upcoming CGD round ten, given that we are obviously looking for new areas when the details will be available for the bidding of round ten. And secondly the bidding conditions remain the same in terms of bidding parameters as round nine?

Management: Yes, as per our understanding they remain the same, the details are there on the regulators website all the 50 GAs etc. The sample bid document is also there, you can have a look at it, not much has changed now; the formula and all remain the same.

Probal Sen: That is all I will come back if I have more questions. Thank you so much.

Moderator: Thank you. We have the next question from the line of Rohit Ahuja from BOB Capital Markets. Please go ahead.

Rohit Ahuja: Thanks for the opportunity. Sir, I was expecting to know how would your current LNG purchase contract structure; considering that we have seen recent crash in oil prices so I believe most of the LNG pricing would be linked to that. So how do we see it benefiting us or how do we see the traction there in terms of margins in Q3 and Q4?



*Mahanagar Gas Limited
November 14, 2018*

Management: For our LNG procurement we do not have any long-term take or pay contracts, which are typically the ones which are oil linked. We go more for a mix of short-term and spot procurement. Currently, the procurement is predominantly skewed towards spot. So oil price level unless it translates into change in gas price in the spot market will not have any material difference in our procurement price.

Rohit Ahuja: So if we see the scenario of falling oil prices and along with rupee strengthening do we expect to do better in margins over the next two to three quarters?

Management: It has been the impact of multifold actually, rupee strengthening can potentially reduce our gas cost but it can also potentially decrease our revenues on industrial and commercial segments because alternate fuels are also dollar denominated and so gas prices fall in tandem with oil where there is a general correlation in oil price and gas prices. The spot market behaves slightly differently, so it is at that point of time and that particular geography whatever level of supply and demand determines the spot price of that day. So it is really difficult to predict exactly what the end outcome will be.

Rohit Ahuja: Sir you mentioned that most of your commercial and industrial pricing is linked to the LPG price movement?

Management: Not really, we have segmented the industrial and commercial markets depending upon what is the predominantly used alternate fuels. As the CFO said sometime back for large industries they tend to use heavy fuel oil or LSHS or heavy stock fuel so we benchmark our prices to the prevailing price of heavy fuel oil, for small commercial customer like a restaurant he would typically be using the commercial unsubsidized 19 kg cylinder, LPG cylinder the price of that also changes every fortnight or every month so we have benchmarked our selling price; the small commercial segment to that cylinder price. In some other cases where customers use a mix of fuels like large commercials like hospitals we use a basket of fuels as a benchmark.

Rohit Ahuja: Sir lastly on the volumes. You mentioned earlier that there has probably been an increase in per capita consumption of CNG now would that be more from the commercial vehicle side that is the taxis like Ola, Uber or you are in general seeing increase in the consumption.

Management: The perception is that it is more of a general trend and probably correlated to the worsening traffic situation in the city. Last year it would take you maybe an hour to travel 10 kilometers now it will take you an hour and ten minutes on an average. So idling time has gone up, the fuel consumption has gone up. So it would probably be across all segments.



*Mahanagar Gas Limited
November 14, 2018*

Rohit Ahuja: Sir any outlook on which segments of vehicles we have seen increase conversions like last time you had mentioned about auto rickshaws, lot of additions are happening but anything you can guide on that and how it is in other segments as well like Ola, Uber, Taxi or is there any addition of new buses?

Management: New buses are very, very few, the majority of the conversions which we get are from autorickshaws and private cars and as far as the aggregators go we have seen a steady inflow of about 700 to 800 every month right now coming on to CNG. The remaining and total about 6000 or so convert every month. So the remaining 5200 typically are evenly split between auto rickshaws and private cars.

Rohit Ahuja: So this 6000 includes autorickshaws as well.

Management: That is right.

Rohit Ahuja: Thanks for this.

Moderator: Thank you. We have the next question from the line of Jigar Shah from Negen Capital. Please go ahead.

Jigar Shah: Thank you Sir for taking my question. Sir my question is on the APM mechanism. So if the subsidy is revised can we pass it on to the consumer straightaway or would it have some impact?

Management: Sorry I did not get your question?

Jigar Shah: Sir we buy the gas based on the APM prices, so what if there is a revision or the subsidies taken away so how could we pass it on?

Management: There is no element of subsidy in the APM gas price formula, the APM gas price gets revised every six months based on a formula which has been notified by the government, that formula basically links Indian APM gas price to price of natural gas in four different hubs across the world. So gas prices around the world go up our APM price goes up, if those gas prices go down our APM price goes down so there is no subsidy as I mentioned.

Jigar Shah: So can we pass it on straightaway?

Management: Yes, we have been passing it.

Jigar Shah: Thank you Sir.



*Mahanagar Gas Limited
November 14, 2018*

- Moderator:** Thank you. We have the next question from the line of Nitin Tiwari from Antique Limited. Please go ahead.
- Nitin Tiwari:** Sir my first question is related to procurement of LNG. So is the procurement done through your promoter GAIL or you bid for it independently and are you using any US LNG one is that?
- Management:** No we procure our RLNG on a competitive arms length basis from all suppliers who are operating in the Indian market.
- Nitin Tiwari:** So is there any element of GAIL's US LNG cargo also present in the LNG mix that you are using.
- Management:** No we are indifferent to that, in fact it does not matter because as I said earlier we are buying almost all the gas from a spot basis, so that being the case whether the molecule is coming from the US or it is coming from Qatar or anywhere else, so it does not matter whoever is providing us the most competitive gas at that point of time we are buying it from them.
- Nitin Tiwari:** Sir my second question is related to your industrial sales volume. So I supposed there is a strong 15% Y-o-Y growth in your industrial gas segment. So in the previous quarters you have seen and you also guided that this is the segment, which has not done very well because most industries are shifting out of Mumbai and the surrounding regions so what has led to the strong growth in the industrial segment in this quarter. Any particular one off volume?
- Management:** A good part of it is actually kind of one off volume what happened is we have a few large customers who use alternate fuels which are solid fuels, briquettes etc. There was some supply chain problem in that supply of briquettes so as a result of that in one particular month the volume went up substantially. Of course apart from that also general volume increase have been up 5%,6% even when we discount that one off thing, this is not very far away from our long-term guidance of 3%,4% on a CAGR basis.
- Nitin Tiwari:** Sir what is the name of the alternate fuel you mentioned where there was a supply disruption.
- Management:** Briquettes, bagasse, compacted bagasse.
- Nitin Tiwari:** Thank you Sir. That is all from my end.
- Moderator:** Thank you. We have the next question from the line of Vineet Maloo from Birla Sun Mutual Fund. Please go ahead.



*Mahanagar Gas Limited
November 14, 2018*

- Vineet Maloo:** I just wanted to know what your plans of opening new stations are this year and the next and the capex involved?
- Management:** I think we mentioned earlier as regards CNG outlets minimum 20 stations per annum that is what we will be aiming at though the planning is on which is much more maybe 30, 35 stations we are working on but depending upon the different approvals we receive we are aiming at, at least 20 odd stations per annum. As regards capex indications it could be in the range of 300 Crores plus per annum.
- Vineet Maloo:** Out of this how many would we have opened already in H1?
- Management:** We have opened three but we have upgraded about seven or eight.
- Vineet Maloo:** Then this 20 is actually 20 new only or does this includes upgraded also.
- Management:** 20 new.
- Management:** And equal number of upgrades we would be targeting.
- Vineet Maloo:** So we have done only three till now, so we expect to do 17 more in H2.
- Management:** But we have upgraded 8 in this H1.
- Vineet Maloo:** No so you are counting upgrades also as within that 20 is it.
- Management:** Yes, this total is 11, 8 plus 3, 3 new and 8 upgrades.
- Vineet Maloo:** So upgrades plus new 20 per annum this is how we should take it?
- Management:** No, 20 plus another 15 anywhere between 35 and 40.
- Management:** In the first half of the year we also have some monsoon period in it which is the lean season for construction etc., so typically you would see that infrastructure creation and growth in H2 is invariably higher than in H1.
- Vineet Maloo:** What is the capex that we have incurred on this in H1?
- Management:** The capex we have incurred around 150 Crores on total infrastructure not just CNG outlets. I am talking whole company point of view, which includes pipeline, steel, infrastructure PE pipeline, CNG outlets related capex, some other administrative and civil related capex all put together.



*Mahanagar Gas Limited
November 14, 2018*

- Vineet Maloo:** Sir could you breakup this 300 Crores in roughly what is just maintenance and what is related to your infrastructure and different, different areas, so between maintenance and between infra plus CNG outlet?
- Management:** Anyway 300 Crores is an indicative figure it can differ here and there but that apart whatever “x” amount of capex which we will talk about generally 12% to 15% is likely to be maintenance capex rest all will be project related capex.
- Vineet Maloo:** Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Varun Basrur from AQF Advisors. Please go ahead.
- Varun Basrur:** Sir as reference in the opening remarks several new GAs will be coming online over the next few years will the domestic gas production be sufficient to supply all the new GAs or will there be reliance on some RLNG for this?
- Management:** The expectation of the domestic gas availability will not be a constraint because you have to keep in mind that the domestic gas will only provide for the domestic household and CNG segments which are truly retail in nature, each domestic customer takes only a 0.5 cubic meter or less or CNG vehicle autorickshaws will take 2 or 3 kgs and a taxi may take 4 kgs. So growth takes a long time, it is a very long and steady growth profile. Currently the amount of gas, which is domestic gas to utilize in these priority segments, is just about maybe one-third or one-fourth of the total domestic gas production and the government has accorded the highest priority to these segments. So even if our domestic gas production does not increase the expectation is that the lowest priority customers who are getting APM gas they would start getting less and less of it, but the CGD segment the household and transport segments which are top priority as far as the government and the regulator are concerned there should not be any issue on availability.
- Varun Basrur:** So hypothetically even if there is 30 to 35 billion cubic meters produced domestically going ahead let us say there is not much growth still even with the additional GAs coming on you are saying there will not be a supply constraint because CGD has priority allocation for domestic gas, right?
- Management:** Yes.
- Varun Basrur:** Thank you.



*Mahanagar Gas Limited
November 14, 2018*

- Moderator:** Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** On the industrial and commercial the price reset happens every month is that a right understanding?
- Management:** Yes, because of the benchmark formula.
- Management:** The 0.4 MMSCMD, which you source both for commercial and industrial we source mostly this will be spot and again is that also right or we have some long-term as well.
- Management:** No we do not have long-term we never had any long-term it is either spot or a mix of spot and short-term.
- Vishnu Kumar:** And let us say if you want to place LNG for the month of December how ahead of time you have to procure it or at least to get the price fixed?
- Management:** The requirement of December we would typically go out in the market in the third week of November.
- Vishnu Kumar:** So it is a very short window we have now for that?
- Management:** Yes, because that is the nature of the spot market we cannot go too much in advance also and at the same time you need to give some reasonable time for suppliers also to quote. So typically we finalize the supply in the last week of the month for the gas required in the coming month.
- Vishnu Kumar:** Sir and just one final question on the 1Q you had mentioned that PNGRB had given about 100 Crores kind of a potential penalty for not complying with the timelines so any update on that you have given some commentary but just if you could just give some additional thoughts on it?
- Management:** Well we have given our catch up plan to the regulator and as of now we are in line with the catch up plan so we have not heard anything further from the regulator we are just focusing on hitting the targets.
- Vishnu Kumar:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Bhavin Gandhi from Batlivala and Karani Securities. Please go ahead.



*Mahanagar Gas Limited
November 14, 2018*

- Bhavin Gandhi:** Thank you. Firstly, Sir is it possible for you to split the domestic gas between APM and PMT and non-APM, a rough percentage will do.
- Management:** If 100 is total supply for priority sector approximately 22% will be from PMT and almost rest of the things from APM.
- Bhavin Gandhi:** Second is Sir with this tariff increase coming through the 11 Crores that we have provided are we looking to raise prices to pass this onto the consumer?
- Management:** We have in the beginning of October whatever price rise we have taken predominantly due to the gas cost increase which had happened we have taken care of this DUPL cost, which we have booked already has been taken into consideration.
- Bhavin Gandhi:** Just one final thing Sir, this 20 outlets that you mentioned all of them will be OMC stations?
- Management:** No there will be a mix of OMC, private franchisee and our own.
- Bhavin Gandhi:** Sir this Ola, Uber strike has had any impact in this third quarter?
- Management:** Yes, for a few days there was a slowdown in CNG sales.
- Bhavin Gandhi:** Sir roughly how many days' impact if you can share?
- Management:** No, we have not got the exact numbers.
- Bhavin Gandhi:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Abhijeet Bora from Sharekhan. Please go ahead.
- Abhijeet Bora:** Sir Can you give the conversion numbers from Petrol to the CNG variant car for the previous quarters that was from Q2 FY2018 and Q1 FY2019?
- Management:** You want Q2 versus Q2.
- Abhijeet Bora:** Yes.
- Management:** That total number for this current Q2 was 21,000 plus whereas for previous year Q2 it was around 10,000.



*Mahanagar Gas Limited
November 14, 2018*

- Abhijeet Bora:** No Sir you mentioned about there is almost 6,000 monthly conversions to CNG variant cars?
- Management:** You are right so it is 6,000 per month we have mentioned earlier. I have told you just now quarterly figure that is three monthly figure for the current year Q2 it is 21,000 odds which is almost 7000 plus. Whereas previous year it was considerably low it was around 10,000.
- Abhijeet Bora:** What was the same figure in Q1 FY2019?
- Management:** Q1 was also around slightly higher than 21,000.
- Abhijeet Bora:** This 11 Crores is the one time impact you have booked on the P&L or is this regarding the tariff revision?
- Management:** See that way the charge is permanent it will continue but what has happened is the 11 Crores if you split into let us say 5.5 Crores for each quarter suppose because it is right from April to September which we have booked into the half yearly accounts. So while for Q2 obviously that charge is natural whereas Q1 has also booked into the Q2 results to that extent it is a one-off so 5.5 Crores maybe mathematically we can treat it as one-off item.
- Abhijeet Bora:** And can you throw some light on the ramp up at the Raigad district I missed upon that part?
- Management:** Sorry can you repeat the question please?
- Abhijeet Bora:** Your plan for Raigad district like how do you plan to ramp up the CNG stations and PNG penetration?
- Management:** In Raigad district we have already opened six CNG stations and they are selling about 2000, 2500 kgs each roughly we are also supplying gas to about 700, 800 customers and our plan is to connect about 7000 to 8000 domestic customers by the end of this year and open maybe another four or five CNG stations.
- Abhijeet Bora:** Thank you.
- Moderator:** Thank you. We have the next question from the line of Ayushi Mohta from CD Equisearch. Please go ahead.
- Ayushi Mohta:** Good evening Sir. Sir what are the broad criteria which determine who would win bids in PNG CGD bidding rounds?



*Mahanagar Gas Limited
November 14, 2018*

Management: Well the criteria is defined by the regulators. 80% of the weightage goes to how much physical infrastructure you will commit to put up in the first eight years and 20% is for how lower network tariff you would take for providing third party access post marketing exclusively.

Ayushi Mohta: Sir what is the margin guidance given its recent fluctuations?

Management: See margins we hope to maintain at Rs.8 plus on EBITDA basis. What exactly should be the number will be dependent on the variety of factors, important factors being there has been quite an amount of fluctuation in exchange rate so that remains to be an item to be observed also the changes in the RLNG or spot prices of RLNG that also remains to be seen because our realizations or margin in industrial and commercial sector will be dependent upon the price at which we are able to procure RLNG. So these obviously will be the important factors to see but rest all other factors remaining same we hope to maintain this margin of Rs.8 plus.

Ayushi Mohta: Sir Do we not hedge our currency exposure?

Management: As a policy we do not hedge currency fluctuation; however we do take care of it in our pricing decision for example we had revised prices in the month of June beginning as well as in October beginning in both these price levels whatever changes have affected exchange point of view have been taken into consideration and of course it is being spread over full year.

Ayushi Mohta: Sir Do we pass on the entire increase to the customers; are we able to do that?

Management: Yes, we are able to and we have passed on in the price rise which we have taken; there could be slight time lag but over a period we do recover.

Ayushi Mohta: Thank you so much.

Moderator: Thank you. We have the next question from the line of Rajesh Agarwal from Moneyore Investment Advisors. Please go ahead.

Rajesh Agarwal: Sir the conversions have increased from 10,000 to 21,000 why there is not a commensurate increase in the volumes?

Management: Sales have grown by 10% in CNG also.

Rajesh Agarwal: But this quarter the volumes have gone away 3.5% in CNG volume growth.

Management: Quarter one to Quarter two that we already mentioned conversions are at similar level almost.



*Mahanagar Gas Limited
November 14, 2018*

- Rajesh Agarwal:** Sir our new city suppose Raigad starts so how many vehicles we can get in the first year or second year, third year for CNG?
- Management:** Well it is very difficult to answer this question because it is a contiguous area there is continuous flow of vehicles in and out of the districts.
- Rajesh Agarwal:** Sir third question is what is the capex required per CNG stations?
- Management:** Typically, it will be in the range of 2.25 Crores though it depends on what type of station you have capacity, how many dispensers do you have, multiple factors are involved the amount of civil cost but for a typical station it will be 2.25 Crores.
- Rajesh Agarwal:** Sir what is the psychology now crude coming down basically what drives the consumer to convert to CNG; the price differential?
- Management:** The economics basically.
- Rajesh Agarwal:** And the availability and the queue, the queue has reduced or not?
- Management:** We are only managing to keep it at the same level opening up stations to meet the increase in conversions.
- Rajesh Agarwal:** So the queue only will get reduced by the number of sessions being added?
- Management:** So it is always a dynamic situation between how many vehicles are getting added and how many CNG stations we were adding in there.
- Management:** And also we upgrade our existing stations that also facilitates in further smoothening out the flow rate.
- Rajesh Agarwal:** Upgrade means adding more dispensing during the year.
- Management:** Yes, it could be adding more dispensing points. It could be putting in a higher capacity compressor.
- Rajesh Agarwal:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Manikantha Garre from Axis Captial. Please go ahead.



*Mahanagar Gas Limited
November 14, 2018*

Manikantha Garre: Thank you for taking my question. Sir I just want to check with you sometime back there was some news mentioning that IGL is looking to set up CNG stations in the apartments also, apartments of societies in the region. Would something of that sort is also being thought about by us?

Management: Yes, we are also looking at setting up these small footprint compact CNG stations. Only thing is Mumbai is a slightly more challenging compared to Delhi, Delhi is relatively well spread out whereas Mumbai is extremely congested there are challenges but yes we have applied for permissions for a few of these stations.

Manikantha Garre: So do we have any setup already currently?

Management: No our first setup we are not going to any apartment complex initially we are trying to do it in an existing retail outlet where there is a space constraint so conventional CNG station cannot come up so we are targeting this small footprint of station there.

Manikantha Garre: Sir if you can give me that spot LNG price that you had incurred by Q2 sorry if it has been answered already.

Management: Sorry can you repeat the question please?

Manikantha Garre: The spot LNG price that you have incurred in Q2.

Management: See I do not think we have stated.

Management: A general indication it was \$9 plus for this half-year as against previous year half year it was \$6.5 per MMBTU.

Manikantha Garre: One last question from my side the other income and employee expenses I see that have gone up significantly quarter-on-quarter if you can throw some light there?

Management: Other income is basically representing that we deploy our treasury surplus into mutual funds, bank deposits, etc. So obviously some rate improvement as well as the amount of treasury surplus invested was higher that was the reason for increase in other income as regards employee benefit expenses there were one or two one-off items like for example quarter two has some incentive given to employee recently the AGM pertaining to previous financial year was concluded so since the results were quite good for 2017-2018 some special award was given to all the employees also some element of promotion related expenditure is also included in this



*Mahanagar Gas Limited
November 14, 2018*

quarter because generally those are affected in the month of July in our company as a policy so these are some one-off items which are there from Q2 versus Q1 if we are comparing.

Manikantha Garre: Understand. If I can ask one more question. Sir was there any policy exchanges or new policies in the quarter pertaining to the CNG usage or CNG usage in the industrial commercial areas that are significant.

Management: No, I do not think any significant policies in these areas were formulated or tweaked.

Manikantha Garre: Thank you.

Moderator: Thank you. We have the next question from the line of Sunil Shah from Turtle Portfolio. Please go ahead.

Sunil Shah: Sir I have just one question which is the British Gas they have been one of the strategic investors and are on their way out so what is the role that their team was playing in day-to-day operations of our company?

Management: On day-to-day operations they were represented by the position of technical director, which was another whole time director just like managing director so that was the role played. It was more on technical front like projects and health and safety related areas as well as engineering planning related areas.

Sunil Shah: Because this safety is one of very, very important element in this entire gas distribution so how do we plan to take care of it in future meaning will this director continue; we will have some relationship with British Gas how do we take care that the safety remains in our business?

Management: This company is more than 20 years in operation earlier British Gas was with us and today Shell is also there so over a period we have assimilated all required technologies as well as best practices so no doubt that the position of technical director we will have to see over a period of time whether it continues from Shell or any other entity but that apart as I have said over a period of more than 20 years we have practiced this best practices in the HSSE area there are written SOPs also so company is not dependent on personalities but more it is a procedure driven so there is no reason why we should not be able to take forward the earlier initiatives, which we have taken.

Sunil Shah: Sir one second question which I want to ask is in the ninth round the bids were open and there were ten successful bidders for some 30 odd circles so we could not get any of these circles. Sir so what is our learning what went wrong in our bidding what is that we have done in the tenth



*Mahanagar Gas Limited
November 14, 2018*

round which will be better than the ninth because eventually over a long period of time getting more circles and more geography is what will give our company structural growth story so what was it which went wrong in the ninth bid and what is it that we have rectified in the tenth?

Management: Well I would not say anything went wrong with our bid. What actually happened in the ninth round is there was a surprising amount of entrepreneurial appetite or risk appetite or whatever which a lot of entities displayed and bids which came in were extremely aggressive. At those levels of bidding we would be happy to lose actually; in our perception that is value destruction if you try to go in at those levels.

Sunil Shah: Sir just one question more the Maharashtra Natural Gas Limited it has been one of the successful bidders so how does it compete with us going forward meaning there is a difference between Maharashtra Natural Gas Limited and our company?

Management: This Maharashtra Natural Gas Limited is another entity, which is currently operating in and around Pune, and we operate in and around Mumbai so there is geographical exclusivity is there. So in that sense they are not competitors. In fact, there is almost a synergetic relation because it helps in your CNG segment that with nearby towns have got CNG or nearby cities then you get quite a bit of intercity traffic also and it helps in development of the market.

Sunil Shah: Sir then in 2020 when we lose out on our monopoly in Mumbai can this one company be a threat to us in Mumbai meaning once our monopoly is done so what happens thereafter can Maharashtra Natural Gas also come into Mumbai they can start using our infrastructure how will that work?

Management: As for the regulations there is a ten-year rollover which is available for authorized entities after the 25-year infrastructure exclusivity period is over and we are hopeful of getting that rollover and there have been precedent in the past the PNGRB have given the rollover.

Sunil Shah: So the infrastructure will be ours so even if Maharashtra Natural Gas comes in they cannot use our pipeline or anything right?

Management: No, nobody else can lay pipelines in this geography that is the meaning of infrastructure exclusivity. Theoretically somebody can use our pipelines to sell gas that is some concept called marketing exclusivity that's on theory.

Sunil Shah: Thanks.



*Mahanagar Gas Limited
November 14, 2018*

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

Vishnu Kumar: Thanks for your time again. My question is again related to the CGD bidding round number ten any cities that are there that we kind of are excited and we are bidding out of the 50 list and based on our experience are we going to be a bit more aggressive this time, just wanted your thoughts on this?

Management: It is a bit too early in the day the list has just come out a few days back and we are studying the areas so again a lot will depend on the viability, on the attractiveness, the do-ability of all these GA's.

Vishnu Kumar: But there does not seem to be anything that is linked to Maharashtra at this particular point of time very far off from your existing location would that be a constraint or you would still go ahead and bid for these GA's if you see opportunities.

Management: Since we have stated that in the past consistently we do not have any intent or logic to remain only in Maharashtra so we are open to move anywhere provided there is a good business opportunity.

Vishnu Kumar: Based on your understanding of the ninth bidding you did mention that there are some people bidding seriously have you made any conversation or any representation to the PNGRB board saying that they may not be achievable and if probably just for winning the bids these people made kind of aggressive bids any thoughts on that and will that change in the tenth bidding round in terms of the way PNGRB doles out the awards?

Management: See we had given our comments on the bidding parameters when the draft amendments to the authorization regulation was put up for public consultation and after that the PNGRB took comments from everybody and in their wisdom decided a particular methodology and certain parameters one wish to evaluate bids. So once that is notified and then that is effectively rule of the game. So you cannot really protest or you cannot really say that.

Vishnu Kumar: But are the penalties going to be very heavy if these guys do not really look at it because I still believe that we have a seven or ten-year period only then if you do not do a catch up the penalties are going to be levied?

Management: No, not really as per the regulations penalties are levied on annual basis so as soon as the year ends your annual whatever performance report or whatever you have to upload on the PNGRB



*Mahanagar Gas Limited
November 14, 2018*

website and if there are any shortfalls in your annual target automatically we have simple formula which was given on the bid document the penalties calculated and levied also.

Vishnu Kumar: Final question Sir 900 Crores of cash we have and our run rate seems to suggest that we will still have excess build up any thoughts on increasing the payouts or any preliminary thoughts that we have?

Management: See basically it will be a board decision all options would be open that is the only thing we can talk about right now and also there will be capital expenditure which will be required in Raigad since it is a new area totally Greenfield area opening up so while cash generation will be very less on the other hand capex will be required so we will have to see and then take that appropriate decision.

Vishnu Kumar: Thank you.

Moderator: Thank you. Ladies and gentlemen we will now close the question queue and that was the last question. I would like to hand the floor to Mr. Jal Irani for any comments or questions that you may have.

Jal Irani: I would like to thank Mr. Datta, Mr. Ghosh, Mr. Ranade, and Mr. Wagle for a very comprehensive update of the company and likewise all the other participants as well. Thank you.

Moderator: Thank you gentlemen. Ladies and gentlemen, on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.