



MAHANAGAR GAS LIMITED

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To,

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Script 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 Unaudited Financial Results for the quarter and half year ended September 30, 2019.

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, 2019 was held on Wednesday, November 13, 2019 at 4:00 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.

For Mahanagar Gas Limited


Anand Upadhyay
Company Secretary and Compliance Officer



Encl.: As above



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**“Mahanagar Gas Limited
Q2 FY2020 Earnings Conference Call”**

November 13, 2019

ANALYST: MR. DAYANAND MITTAL - SBICAP SECURITIES LIMITED

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



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Moderator: Ladies and gentlemen, good day and welcome to the Mahanagar Gas Limited Q2 FY2020 Earnings Conference Call, hosted by SBICAP 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 pressing “*” and “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dayanand Mittal from SBICAP Securities Limited. Thank you, and over to you!

Dayanand Mittal: Thank you Steven. Thanks everyone for joining in today's call. We have with us the senior management team of Mahanagar Gas represented by 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). So, with this I would like to hand over the call to the management for the opening remarks, which we will then be followed by Q&A. Over to you Sir!

Company Speaker: 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 volumes, 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 or an indication of full year results, they should not be attempted to be extrapolated or interpolated into full year numbers. Over to you Sir!

Management: Thank you Madam. Good afternoon to all of you and welcome to earnings conference call of Mahanagar Gas Limited for the Second Quarter of the Financial Year 2019-2020. I would like to thank all of you who have connected for our earnings call today.

As you would be aware, India currently imports about half of the gas it consumes. Imported gas accounted for 51.2% of local needs higher than 48.7% in the first half of the last fiscal year. Natural gas output was 16 billion cubic meters, 1.5% less than in the first half of last year. However, the government has plans to raise the share of gas in India's primary energy mix to 15% by 2030 from the present level of about 6%. Natural gas pipeline expected to expand to 28000 km by 2023 end from the current aggregate length of about 16000 km. And the capacity of LNG import terminals are also planned to be doubled to about 55 million tonnes per annum in the next three years.



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On the consumption side, the power sector consumes about 31% of the locally produced gas while the fertilizer and city gas sector consume 25% and 22% respectively. Domestic gas production has its own challenges but with favorable government policies availability of domestic gas for the CGD sector is likely to continue in the foreseeable future. As industrial and commercial customers supplied with imported gas, procurement price of market priced gas will be the key factor rather than availability of gas for this segment.

The price of locally produced natural gas based on government set formula has fallen to \$3.23 per MMBTU for the period from October 2019 to March 2020. The price was \$3.69 per MMBTU during April to September 2019 period.

On the current demand supply scenario of LNG spot gas prices witnessed downward trend for almost two quarters. Our conscious decision to rely more on spot gas than on mid term or long-term contracts has helped us to improve margins in industrial and commercial categories.

MGL today has a strong incumbent in the CGD sector with significant strengths and core capabilities. MGL has presence in attractive and contiguous portfolio of geographical areas of Mumbai, Thane and Raigad where there are significant opportunities to capture growth in both CNG and PNG sectors.

Now coming to MGLs' operations, we are rapidly expanding our CGD network in the existing license areas. During the quarter 32241 domestic households were added. Today we have established connectivity with more than 1.2 million household customers for supply of pipe gas. In the second quarter we had a net addition of 47 industrial and commercial customers and thus as on quarter end we had 3923 industrial and commercial customers. Besides as on quarter end, we had 244 CNG stations supplying CNG to around 7 lakh vehicles and our aggregate of steel and PE pipeline network stood at 5393 kilometers. With respect to our Raigad geographical area, we added more than 4300 domestic PNG connections in the license area during the quarter. Gas supply to major towns like Pen, Uran and Karjat is planned through the virtual pipeline network to begin with.

Early this year, the company has received critical permissions from various authorities for laying pipelines in Raigad GA. At second quarter end, 13 CNG stations were operational in Raigad. CNG sales in Raigad reached the level of 30460 kg per day and is expected to go up when some more CNG stations become operational in coming months. During the quarter, we have seen a growth of 1.3% in overall sales volume over the corresponding quarter in the previous year.



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CNG sales volume grew by 1%, Domestic sales volume grew by 4.5% while the industrial and commercial sector sales grew by 0.2%. Overall, the PNG volume grew by 2.2%. Gross margin is higher in value terms in the current quarter as compared to corresponding quarter in the previous year mainly due to marginally higher volumes in CNG and domestic PNG segments with better price realization and lower cost of spot gas used for industrial and commercial sectors.

EBITDA margin was 34.9% at Rs.273 Crores in the current quarter as compared to 31.8% at Rs.221 Crores in the corresponding quarter of the previous year. The company elected to exercise lower tax rate of 25.17% as introduced by the taxation Law Amendment Ordinance 2019 during the quarter. As a result, after accounting credit for reduction in opening deferred tax liability of Rs.56.7 Crores. Net profit after tax grew by 98.6% from Rs.136 Crores in the corresponding quarter of previous year to Rs.271 Crores in the current quarter.

Compared to immediately preceding quarter, there is an increase in current quarter total sales volume by 2.2%; CNG volume is higher by 2.8%. Industrial and commercial sector is higher by 4.6%; however, domestic volume is lower by 3.8%. Gross margin is 51.4% as compared to 53.8% recorded in the immediately preceding quarter. Industrial and commercial price realizations linked to alternate fuel were lower as price of bulk LPG, LSHS and LDO dropped in the range of 7.5% to 13% compared to previous quarter.

With marginal increase in exchange rate and supply disruption from ONGC end for few days during August and September, volumes were impacted. As a result, there is a marginal drop in EBITDA from Rs.276.8 Crores in Q1 to Rs.273.4 Crores in Q2. Net profit after tax grew by 58.96% from Rs.170.2 Crores in the preceding quarter to Rs.270.6 Crores in the current quarter.

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 the question and answer session. The first question is from the line of Probal Sen from Centrum Broking. Please go ahead.

Probal Sen: Good afternoon Sir. Thanks for the opportunity. I had two questions. One you have earlier also maintained that the long-term volume growth guidance remains at between 5% and 6% from CAGR respective for the next let us say three to five years, but obviously in the first half we have seen that volume growth has slipped a little bit. Any even rough cut indication you can give in terms of H2 run rate that we can expect, that was my first question and the second question was that in this quarter you already mention the ONGC disruptions that



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caused volume decline. Can we also look at the way that the rainfalls have come and have persisted over much longer than normal? Has that had an impact on the CNG volumes as well in Q2? Those were my questions.

Management: Run rate for H2 you first question, hopefully the numbers should pick up. H1 of course was lower than expected for the reasons we have already stated. As regards the rainfall, we really do not think that has had any material impact on sales volume as such. ONGC interruption did affect a little bit.

Probal Sen: So, if I can just ask a small follow up there Sir. Is it possible to quantify the ONGC interruption impact on the overall sales volumes for this quarter?

Management: Not really. It is a pretty complex CNG kg and scm vary differently the calorific value changes, MMBTU was different, volumes are different. It is not really easy to accurately say that X% or Y% but yes general outcome has been lower volume.

Management: And in addition to this gas disruption, particularly in industrial category, there were some other reasons also, there were three industrial customers who requested for terminating the gas supply due to their own reasons, also nearly if 15 plus CNG industrial customers, their consumption pattern as compared to earlier period has dropped a bit. These have also contributed to the lower volumes.

Probal Sen: That is all from me for now. I will come back if I have more questions. Thank you for your time.

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

Lokesh Manik: Good afternoon Sir. Thank you for the opportunity. My question was regarding the statements made by the Minister of Petroleum and Oil & gas regarding freeing up of the gas prices. So, given that our business model is very sensitive to and is dependent on the APM gas for the CNG business and how would this play out if the gas prices are freed up, I mean would our margin get impacted in that front?

Management: One thing I think there was some qualifiers in the statements from the authorities. They said that they would do it on a phased manner and may be do somewhere after three years, but you look at it in a different way, the government has already announced pricing and marketing freedom for prospective discovery, normally for old nomination of fields ONGC has been producing since 20 to 30 years the price is guided by the current formula.



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- Lokesh Manik:** No. It was mentioned that these would be for pre-NELP and post-NELP blocks also.
- Management:** So even if that happens, we do have some headroom in pricing so it is not that the entire impact will be reflected in our margins, and second thing is for the coming few years at least even the market price of gas alternate RLNG is not too different from domestically produced gas. PMT gas is around \$6 MMBTU which spot has been lower than that. So, it would have been a different matter had the market price gas in \$10 to \$12 or something but immediate our future, we do not see too much a risk on that.
- Lokesh Manik:** Then for CNG we have APM which is at \$3 that you mentioned right now, \$3.69 which is from down to \$3.23.
- Management:** Yes. True.
- Lokesh Manik:** This would be versus if the gas prices are freed up would then command or hover somewhere around the spot about \$5 to \$6 per MMBTU, I mean it would just increase the, today it would be something around \$2 per MMBTU, if I am not mistaken 2.5 to 3 So there is a double impact I mean, our margins could get really impacted by that?
- Management:** In the history of MGL, there were times maybe almost four to five years back, even APM price was around \$5 plus. That time also business was viable. Yes, to some extent margin might get impacted but that scenario also we have seen, at least \$5 scenario I also remember four to five years back such kind of things were prevalent.
- Lokesh Manik:** Okay. So, then competitiveness with the alternative fuel will reduce basically, it would not be very high then?
- Management:** The discount levels will be available to customers may reduce a bit. Currently we are selling in CNG at Rs.49; petrol is about Rs.78 or so in Mumbai. So, there is a huge headroom even - \$2 MMBTU increased an import price, may translate into may be Rs.6 or Rs.7 at MRP. Not that so the headroom is there. But again we will make a conscious choice to look at the volume growth and customer acquisition also, then taking a decision what to do if the import price changes.
- Lokesh Manik:** Right. That is it from my side Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life Insurance. Please go ahead.



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- Chinmay Gandre:** Yes Sir. Thank you for taking my questions. Sir in the previous call, you had mentioned that the state transport buses I think Best mostly I mean there were buses which were scrapped because of which there was a loss of volumes. So, this was in Q1 so I mean have new buses been brought up by the State Transport Corporation or in Q2 also we had impact of that and what is the status of the same?
- Management:** Additional buses did not materialize in Q2 also but they are materializing in Q3. BEST has around a few weeks back initiated the dialogue with us. They are planning to put these buses in four, five depots. There are 500 buses coming in over end of this month December, January, etc., that will be followed by another tranche of 500 more may be in the coming year.
- Chinmay Gandre:** So, you are saying by end of November or December 500 buses would be added by them and they have got the buses for that and additional 500 more in FY2021 right?
- Management:** Yes. Initial 500 of placed orders. Deliveries are expected to start end November December, maybe some may spill into January.
- Chinmay Gandre:** Okay and I think last you were commented those are like contributing to around 8% of the volumes in the Q1, similar number would be there for Q2?
- Management:** That was total number for STUs, which includes BEST, NMMT Navi Mumbai transport.
- Chinmay Gandre:** Yes. All put together.
- Management:** All put together and that numbers pretty good numbers 3300 or something odd, so it is total figures of that we had talked about whereas right now we are talking only 500 buses.
- Chinmay Gandre:** Yes. So anyways I think it would have dropped down by from 10 to 12% to around 8% right now, the contribution?
- Management:** Contribution has remained same in Q1 or Q2 about 8% % or so.
- Chinmay Gandre:** And in your initial comment you mentioned that three industrial customers have terminated gas supply, so there were like major drawers and the situation is continued in the Q3 also or they are back.
- Management:** Yes. That situation has continued.



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- Chinmay Gandre:** Okay. And in terms of the 15 industrial customer also which you said there is a change in pattern so that has also continued in the Q3 or there is some change?
- Management:** It is too early to comment on that, maybe if there is any seasonality pattern in their consumption maybe they may revive the daily authorized quantities.
- Chinmay Gandre:** Okay. Thank you for taking my questions.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.
- S Ramesh:** Good evening. Thank you very much. First thing can you give us some update on the status of the concept paper for the open access for city gas networks?
- Management:** The concept paper, PNGRB had an open house sometime back in which lot of entities, both CGD operators as well as gas consumers attended. So, it is the ball is in the PNGRBs' court so they have to move ahead so difficult for us to say what, when and what shape this will pan out.
- S Ramesh:** Okay. Fair enough. Sir in terms of the growth prospects, if you are looking at the buses incrementally if you are looking at growth in Mumbai and Raigad and Thane, would you see private cars driving that or would it be the buses you are talking about where would the incremental comes from over the next six months to one year and then longer term if you would not achieve the 5% to 6% growth, what is the kind of mapping, you are doing internally in terms of the vehicle population when that will drive that growth?
- Management:** In the near term, the growth is coming from private cars from the aggregators, Uber, Olas and a bit from auto rickshaws. If we are talking on next three to six months or 12 months or so, and will be coming from state transport undertakings, BEST buses, etc., which will come up. If you are talking of three, five year kind of a timeframe, then CGD infrastructure, mushrooms all over the country, and maybe a lot of intercity traffic can shift on the CNG. Once the availability and consumer confidence increases.
- S Ramesh:** Okay and one final question in terms of your capex, what is the kind of capex you have expected in the second half and for FY2021?
- Management:** For second half it could be in the region of Rs.300 Crores plus and 2021 also it will be in the range of Rs.500 Crores.



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- S Ramesh:** Okay Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thank you. Just wondering if this gas price increased if it were to happen, of deregulation of gas, and if that is accompanied by new players being allowed, it is a possibility that the thinking of introducing new players, so as to put it interest of the consumers so that the entire gas cost is not passed on to the customer. Do you see something of that happening and what kind of timeframe, anyone if the gas cost were to go up, do you expect it to go in one shot or over a period of time, mix of cheap gas?
- Management:** That is a call that is difficult for us to take. That is something which government policy and the regulators, they will decide, but again we are hoping that with the lot of CGD infrastructure, lot of investment already committed in the sector, the government and the regulator, our expectation is they would not be doing anything to majorly disrupt this prospective investment.
- Vidyadhar Ginde:** But the competition will be only in areas where the exclusivity period is over. Isn't it? For new areas whereas 9th to 10th round that they have their own exclusivity period, so the competition is only from the legacy areas like yours
- Management:** Well that PNGRB is looking into and they are running some process, the regulations.
- Vidyadhar Ginde:** The question is basically both were to happen together then the risk on margins is much more, is not it?
- Management:** Difficult call because again one is government policy, other one is a regulatory thing, both turn adverse at the same time, probably the impact would be high, but only time will tell when that happens.
- Vidyadhar Ginde:** Okay. Any idea on the timeframe on PNGRB, nothing of that nature was stated in the open house or thereafter?
- Management:** Not really. Only thing is in the open house, the PNGRB did say that they are conscious that there are lot of legal issues and subjudice matter, etc., associated with this. So they tried to take a balance view taken out the way and whatever best they can.
- Vidyadhar Ginde:** Okay. Thanks.



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- Moderator:** Thank you. The next question is from the line of Rajesh Agarwal from Money Advisors. Please go ahead.
- Rajesh Agarwal:** Sir recently LPG prices have down, so are you seeing a shift from PNG to LPG for the industrial uses and for the auto also?
- Management:** No. Not really. Because our pricing is market linked, so we sell those using LPG, we sell them gas index to LPG.
- Rajesh Agarwal:** Okay. Is it LPG cheaper than CNG?
- Management:** If you are talking about auto LPG?
- Rajesh Agarwal:** Auto LPG.
- Management:** No Auto LPG in Mumbai.
- Rajesh Agarwal:** Okay. Is it cheaper?
- Management:** Really we would not be able to comment on the auto LPG prices elsewhere.
- Rajesh Agarwal:** No. Because Gujarat and all, industrial players are using LPG more. Second question, what is the conversion seen from old vehicles to new for the CNG?
- Management:** You are asking for the conversion rate?
- Rajesh Agarwal:** Yes. Conversion rate.
- Management:** Historically, there have been getting about 70000 odd conversions every year. When I say conversion is not necessarily conversion and also includes OE factory fitted passenger cars.
- Rajesh Agarwal:** Okay. 70000 a year.
- Management:** Yes, that has been our historical run rate.
- Rajesh Agarwal:** Do you see an increase in that?
- Management:** Sorry. Can you repeat the question?
- Rajesh Agarwal:** Are we seeing the increase in the conversion?



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- Management:** Currently no. But we are actually seeing is an increase in the ratio of OE fitted cars compared to retrofitted.
- Rajesh Agarwal:** Okay. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Kunal Kothari from BP Equities. Please go ahead.
- Kunal Kothari:** My questions have been already answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah. Please go ahead.
- Dhaval Shah:** One question. Just need some understanding, the BEST buses in Mumbai, they all are not on CNG, am I correct?
- Management:** Sorry.
- Management:** All BEST buses are not on CNG?
- Management:** No. About 1800 are on CNG.
- Moderator:** Mr. Shah Can you speak closer to the handset please.
- Dhaval Shah:** Yes. So that would be roughly what, 50%-60% of the entire fleet?
- Management:** About two thirds.
- Dhaval Shah:** Okay. So why would government not make it compulsory given their drive to make it a gas economy, what is stopping it, given Delhi has a compulsion rule of CNG, so what is stopping in Mumbai?
- Management:** One is, what has happened in Delhi is the outcome of the recent case on the Supreme Court, pursuant to the orders of the Supreme Court and to some extent, the NGT and there is one Bhure Lal Committee for monitoring all this. So, it is not a government directive or something. It is actually judicial directive.
- Dhaval Shah:** But the taxis, not the Ola, Uber, the regular taxis, so they are supposed to be on CNG.
- Management:** Yes. The black and yellow taxis, black and yellow auto rickshaws supposed to be on CNG.



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- Dhaval Shah:** Now that rule has been made compulsory by whom?
- Management:** That was done by the State Transport Authority, because what happened was, the original thing was the old petrol and diesel taxis and rickshaws are not allowed. There was an order in somewhere around 2002 by the Bombay High Court that the public transport vehicle older than eight years cannot run in Mumbai. They have to buy a new one or go to CNG. But then the public transports auto rickshaws and taxi was found converting to CNG so lucrative that they started inducting brand new vehicles itself on CNG.
- Dhaval Shah:** Got it. So, all that old Fiat, Padmini models got converted into...
- Management:** Yes, CNG.
- Dhaval Shah:** Yes, CNG.
- Management:** Over a time, when the transport department saw that CNG has been voluntarily adopted and literally nobody is on petrol or diesel then they calculated their tariff cards also accordingly and made it a rule saying if you want to run in Mumbai it has to be on CNG, but that has been well accepted by the auto and taxi drivers also because there is huge economic benefit for this.
- Dhaval Shah:** Yes. Make sense. There are no expectations also something will happen same for the BEST buses that government or court judicial system would interfere and make it compulsory.
- Management:** It is a possibility and nobody can say for sure this way or that way, but having said that BEST has inducted a 500 more buses and they have placed orders in the coming quarters.
- Dhaval Shah:** Yes. But on the side, they have inducted new mini buses which run on diesel, so even their strategy is pretty not clear that which way they want to move, they are adding electric buses on one side, diesel on the other side and also CNG?
- Management:** What we understand from BEST is that they have a policy of not being dependent on this one fuel or one energy source. So, over the years they have maintained this 2:1 ratio of CNG versus diesel, but years passed almost 3000 buses were on CNG, then the total fleet of 4500. Now the whole fleet size has come down to about 2800 of CNG, 1800 on CNG, but then going ahead, end of thing both some diesels, some CNG, electric is in mind, negligible.
- Dhaval Shah:** Sure, and even the entire Ola, Uber fleet is on CNG?



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- Management:** No. Not really.
- Dhaval Shah:** So, any ballpark number like what percentage of the total fleet would be on CNG right now?
- Management:** I do not know our best guess is about may be 40%-50%
- Dhaval Shah:** 40%-50%, okay.
- Management:** I mean a large majority of the micro and mini category are on CNG otherwise it economically does not work for them. The Sedans and the bigger vehicles, the majority of them on diesel.
- Dhaval Shah:** Okay. So out of entire Ola, Uber fleet 50% would be on roughly, would be on CNG.
- Management:** That is our estimate, because neither Ola nor Uber, give out any concrete numbers of vehicles, there used to be driver partners who are sitting on both platforms also, so there is a overlap, numbers are not easy to come by.
- Dhaval Shah:** Got it and Sir you are seeing more addition happening in black and yellow cabs or Ola, Uber, in your customer list?
- Management:** What additional majorly happening in Ola, Ubers, black and yellow in fact historically has declined.
- Dhaval Shah:** Got it.
- Management:** Since Ola and Uber started offering much better service at lower cost that impacted black and yellows in Mumbai.
- Dhaval Shah:** Okay.Thanks.
- Moderator:** Thank you. The next question is from the line of Nilesh Dubey from HDFC Securities. Please go ahead.
- Nilesh Dubey:** Sir one bookkeeping question. The selling price for industrial and commercial. Can you share that and also the volume numbers for the industrial and commercial?
- Manangement:** Yes. Industrial net realization for Q2 you want correct?



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- Nilesh Dubey:** Yes Sir.
- Management:** It was around Rs.32 64 paisa per SCM.
- Nilesh Dubey:** Okay for commercial?
- Management:** **Volume** Probably we have talked about already in stock exchange filing but if you still want volume was the 0.236 MMSCMD.
- Nilesh Dubey:** Okay and Sir the price for commercial?
- Management:** Commercial put together, it will be Rs.30.5 approximately for SCM
- Nilesh Dubey:** And Sir any revision in third quarter on the industrial and commercial?
- Management:** Any?
- Nilesh Dubey:** Any revision in this quarter, in Q3.
- Management:** For industrial and commercial segments, the prices change every month.
- Nilesh Dubey:** Okay. Yes, and my second question is on margin front Sir. If you look at the first half of FY2020 versus first half of the FY2019, the EBITDA per spread have gone by about 173 BPS to about Rs.10 or so, so how sustainable it is, will you be able to make the Rs.10 in second half as well or will there be any correction?
- Management:** One liner answer will be bit difficult, we will have to see at least five, six different important parameters on which EBITDA will be dependent, but there is case of CNG, domestic, at least there is no change likely in APM price as you know, it will directly now change in on April 1, industrial price depending upon crude level or brent levels. Hopefully it should be stable. Spot gas through which we feed our industrial and commercial customers, are likely to continue to be soft for may be couple of quarters at least. The most important probably factor to note will be rupee dollar exchange rate. That is the most important factors to be observed from EBITDA point of view now barring any other unforeseen circumstances.
- Nilesh Dubey:** Okay so you will guide this range to continue suppose nothing goes wrong in terms of the rupee dollar exchange rate or rupee dollar stabilized here on.



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- Management:** Broadly it should continue of course on negative side there will be some increase in opex as well because generally second half opex tends to be little higher than first half.
- Nilesh Dubey:** Okay. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Varadarajan from Systematix. Please go ahead.
- Varadarajan:** Thank you. Sir in terms of your infrastructure exclusivity, is there any talks going on in terms of extending the period?
- Management:** Yes. The regulations do allow for our 10-year rollover.
- Varadarajan:** Any criteria required and are you meeting this criterion?
- Management:** Yes. We are qualified and there are no specified criteria as such. The general expectation is that if you are not defaulting on any of your regulatory obligations, you would get a rollover. There is one precedent on this, on Gujarat gas whatever rollover few years back for the oldest GA in Surat, Ankaleshwar and Bharuch.
- Varadarajan:** Okay Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.
- S Ramesh:** Just a follow up question. So, can you give us a breakup on the capex numbers you shared, you are talking about Rs.460 Crores for the full year and Rs.500 Crores for the next year. How much will go into CNG and how will they be split between Mumbai, Thane and Raigad?
- Management:** Very difficult to answer that because most of this expenditure particularly pipeline related expenditure steel or medium pressure which is the polyethylene pipelines. Everything depends on permissions. Even in case of CNG outlet, whatever number we may talk about, it will be ultimately dependent upon a number of permissions to be received from different, different authority, so bit difficult to talk specific bifurcation into these categories.
- S Ramesh:** Okay. So, if you were to achieve this say over two to three years, when do you see the returns being generated on this capex?



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Management: Returns are almost immediate particularly in GA1 and GA2 the returns are immediate because in most of the cases high pressure pipelines are already there, it is predominantly expenditure on last mile connectivity. It could be compressors, dispenses where the moment we invest or the station is commissioned. Sale picks up immediately that has been the past experience.

S Ramesh: Thank you very much.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from BOB Capital Market. Please go ahead.

Rohit Ahuja: Hi sir thanks for the opportunity. Sir I just have two questions. One what is the strategy to increase volume growth over the next few years and second with now GAIL being the sole promoter, do we see any change in strategy in terms of the way you, are going to bid for new areas and any other expansion strategies, if you could clarify?

Management: Well, the biggest pillar of our growth is going to be increased penetration in our existing GAs. Currently there is a huge amount of residual potential available in our existing GAs itself, which can get by doing just the marginal capex because main grid is laid. Of-course Raigad, additional investment will come. The second growth driver is the Raigad picking up because over the next three years, five years' time horizon, the expectation is that the international airport will be up and running and a lot of development will happen in those areas. Already we have opened a 13 CNG stations there. We are seeing good CNG demand also. Raigad the place for lot of industries so as our pipeline network gets laid, we should be able to get good industrial volumes from there etc. As regards your question about GAIL being the sole promoter and will that influence are bidding from new areas, currently the industry is not expecting any new round to come out very soon. PNGRB was pretty aggressive in rounds 9 and 10, and gave out licenses almost all over the country. So, the expectation is that all the areas probably where CGD might be viable or there is demand, might have been covered.

Rohit Ahuja: So, do you see any consolidation happening among GAIL, CGD subsidiaries and they are trying to especially contiguous like probably anything around with MNGL in Pune or something like that?

Management: That is the question you will have to ask GAIL.

Rohit Ahuja: Can you clarify what would be your penetration of PNG in GA1 and GA2 areas and CNG if you have any number on that?



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- Management:** It will be roughly 35%.
- Rohit Ahuja:** For PNG, PNG domestic.
- Management:** PNG domestic, similar number for CNG also.
- Rohit Ahuja:** Okay. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Sahil Jain from BP Wealth. Please go ahead.
- Sahil Jain:** Sir I wanted to ask we can see a dip in the employee cost on sequential basis. Can you please say why it is so?
- Management:** There was some one off provisions in the earlier quarter that is why you are looking at that.
- Sahil Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manikanta Garre from Axis Capital. Please go ahead.
- Manikanta Garre:** Wanted to check with you if there is any CNG stations being started by Gujarat Gas in the peripheral areas and have we been seeing any volumes being more to those CNG stations. Is there something sort of that happening.
- Management:** No. Not really. Other thing is if something like that happens, our expectation is that those vehicles will come here and fill because I think our selling price to CNG is much lower than Gujarat Gas.
- Manikanta Garre:** Sure Sir. That is it. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Sir in terms of opportunity from the state transport buses, what would be this opportunity size, have we expand more on Raigad, in Thane and then so conversion happens to CNG, as availability of gas is there. Anything you can quantify?



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- Management:** Our understanding is that Maharashtra State Road Transport Corporation operates about 18000 buses in the state. Now a few 100 of their buses which are running in an around Mumbai, they already converted.
- Dhaval Shah:** Okay. Few 100 would be how much like 700-800 or 200-300.
- Management:** No. Couple of 100 at most and we are hopeful that with CGD coming now almost all over Maharashtra that jointly the CGD operator should be able to sell the idea to MSRTC to adopt more CNG. But we are also in discussion with them to develop some long haul routes on CNG, which will be running a pilot shortly. It will be on composite cylinders during the buses range of 700-800 km.
- Dhaval Shah:** Okay you can retrofit it, that you can just add the kit to the bus. It can run on both diesel and gas.
- Management:** No. Bus cannot run on diesel and gas. It is either on diesel or on gas.
- Dhaval Shah:** Okay. So roughly how many buses could be added say over two-year period, what is the plan you see was possible number of buses.
- Management:** Right now, for MSRTC we have not factored in anything concrete. Concrete we know BEST, who already placed orders and they will end up things.
- Dhaval Shah:** So, the 600-800 maybe like the couple of 100 you said, whatever the number be, out of the 18000 buses, how much volume would be they were giving?
- Management:** They run about in the same range as of BEST. So could be about 60 kg for bus per day.
- Dhaval Shah:** Okay. Sir just last question. So, if the exclusivity end, and some new player comes in, so it is for the customer to choose, which supplier they want to go for, correct?
- Management:** Yes. That is the theory.
- Dhaval Shah:** That is the theory. Okay. So, then the price will be the only deciding factor for the customer.
- Management:** We do not know, service quality could be there, value added services may get bundled in.



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- Dhaval Shah:** Okay so value added service would be in what like you are giving like a bundle package for the car PNG and for house gas something like that?
- Management:** Let us see and currently we are yet to reach that bridge.
- Management:** I hope you are clear on physical exclusivity and marketing exclusivity aspects?
- Dhaval Shah:** Yes Sir. The new guy will have to pay the fee for using the infrastructure.
- Management:** Okay.
- Dhaval Shah:** Yes. Fine Sir. Okay.
- Moderator:** Thank you. The next question is from the line of Vardharajan from Systematix. Please go ahead.
- Vardharajan:** Thank you. Sir you are talking about the penetration levels both on domestic PNG as well as CNG, domestic PNG what would be the peak penetration you would expect, will it be around 70%-80% and when would you expect to reach that level and in the case of CNG again what is a kind of penetration level, you will expect in terms of equilibrium and how quickly you can do that?
- Management:** What we have observed in the past is if we manage to saturate the area, like some of the areas in Mumbai, where we have been there more than 10 to 15 years, predominantly almost all the buildings have almost covered. Penetration reaches roughly 70%-75%. And the residual potential is difficult to get because in Mumbai there are a lot of investor flats which are actually just locked an empty, there are some rental flats, the tenants are not really keen on piped gas, and owner does not stay in the city or something. So, these get missed out. But what we have seen is it is relatively rare that there will be a domestic household building, which is got piped gas, which will, if owner is staying there and using LPG, that combination is unlikely. The demand for the piped gas was huge. Bombay kitchens are very small. And those are double bottles two cylinder go away from the kitchen and pipe comes in. No hassle in booking cylinders or change in cylinders etc., comparable price. So, demand is there. And every year, we had about one lakh plus new gas burning customers.
- Vardharajan:** That run rate is unlikely to change to remain the same or will it increase?
- Management:** There are efforts on to increase this.



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- Vardharajan:** How about the CNG sides?
- Management:** CNG side currently we have about 7 lakhs odd vehicles running on CNG, and estimate of the convertible potential is about 22 lakhs and we are adding about 70000 every year. So, you can do the math on the penetration rates, etc.
- Vardharajan:** Any clarity in terms of how many outlets will be adding over the next three years on an annual basis?
- Management:** This year, we are expecting around 25 CNG outlets could be added. And apart from that there will be upgradation of existing stations also which will be looking at.
- Vardharajan:** This is excluding Raigad?
- Management:** All included.
- Vardharajan:** Would it be possible you to give us a breakup?
- Management:** It is difficult. It all depends on which area you get the permissions faster from different authority.
- Vardharajan:** Okay. And how about the next two years Sir from visibility?
- Management:** Similar range may be bit higher.
- Vardharajan:** Cool Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Anchal Agarwal from Care Portfolio Management Services. Please go ahead.
- Anchal Agarwal:** Considering the price cut given by PNGRB was 12%, what has been the percentage that we have passed on to our customer to the October 1?
- Management:** Sorry can you repeat that?
- Anchal Agarwal:** PNGRB has cut down the prices for the gas, 12% since October 1, if I am correct?
- Management:** So that was done by PPAC actually. And if gas price dropped to about \$3.2 per MMBTU so we had dropped our CNG MRP about by Rs.2. And on the domestic piped gas , price by about Re.1.



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- Anchal Agarwal:** So do we see any impact on the margins from this?
- Management:** No. Not really.
- Anchal Agarwal:** Can you please replace the subdued volume during the quarter, the reason a bit more?
- Management:** We have covered that at the beginning of the call. So just to recap, there were some supply disruptions from ONGC side, which led to some reduction in volume then this, the drop in the state transport undertaking that impact continued, there was some impact on the industrial volumes because of some few shutdown terminations etc.
- Anchal Agarwal:** Yes. I got cut in the middle. Okay. Thank you. That is all from me.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.
- Management:** Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of SBICAP Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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