



**MAHANAGAR
GAS**

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, 2021

Dear Sir/ Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we submit herewith the transcript of the Earnings Conference Call on Unaudited Financial Results for the quarter and half year ended September 30, 2021 held on October 27, 2021.

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

For Mahanagar Gas Limited

Atul Prabhu
18/11/21
Atul Prabhu

Company Secretary & Compliance Officer



P.W.
Encl.: a/a



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“Mahanagar Gas Limited
Q2 & H1 FY2022 Earnings Call”

October 27, 2021

ANALYST: MR. HARSH DOLE – IIFL SECURITIES LIMITED

**MANAGEMENT: MR. SANJIB DATTA - MANAGING DIRECTOR
MAHANAGAR GAS LIMITED
MR. SANJAY SHENDE - DEPUTY MANAGING DIRECTOR -
MAHANAGAR GAS LIMITED
MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER -
MAHANAGAR GAS LIMITED
MR. RAJESH WAGLE - SENIOR VICE PRESIDENT,
MARKETING - MAHANAGAR GAS LIMITED
MR. RAJESH PATEL – VICE PRESIDENT, FINANCE -
MAHANAGAR GAS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Mahanagar Gas Limited Q2 & H1 FY2022 Earnings Call hosted by IIFL 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, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh Dole from IIFL Securities. Thank you and over to you Sir!

Harsh Dole: Thank you. Greetings everyone. On behalf of IIFL Securities I welcome you all for the second quarter earnings call of Mahanagar Gas. We will discuss the results in detail and share the outlook. We have the entire senior management team of the company. It is my pleasure to introduce you to Mr. Sanjib Datta, Managing Director, Mr. Sanjay Shende, Deputy Managing Director, Mr. Sunil Ranade, CFO, Mr. Rajesh Wagle, SVP Marketing, Mr. Rajesh Patel, VP, Finance. I would first request the management to make opening remarks subsequent to which we can have the Q&A. Over to you Jill.

Management Representative: Thank you Harsh. Before we begin I would like to mention the 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 the number of risks and uncertainties that may lead to different results. The risks and uncertainties related 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. Please note the quarterly numbers are not reflection of long-term trends or an indication of full year results and they should not be attempted to be extrapolated or interpolated into full year number. With this I will hand over to the management for their opening remarks. Thank you and over to you Sir.

Sanjib Datta: Thank Madam. Good afternoon and welcome to the earnings conference call of Mahanagar Gas Limited for the second quarter of the FY2021-2022. I would like to thank all of you who have connected for our earnings call today. The outbreak of COVID-19 pandemic in 2020 and its second wave in April 2021 resulted in significant disturbances and slowdown of economic activities. The company's operations were impacted due to the lockdown, this has resulted in reduction of sales volume across all categories except for domestic PNG where it is used mainly for cooking. Subsequently the overall COVID-19 pandemic situation has improved considerably and economic activities have returned to normalcy to a large extent.



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As far as the gas sector is concerned, India's domestic natural gas production in Q2 of FY2021-2022 was 8.57 BCM which is an increase of 23% compared to the same period in last year. However, spot LNG prices also witnessed a steep rise primarily fuelled by high demand and shortages in Europe, China, and other regions. PNGRB under its 11-bid ground has floated a tender on September 17, 2021, inviting application cum bid documents for grant of authorization for 65 geographical areas across India. The last date for submission of bid is December 15, 2021.

Coming to MGL operations, I may mention that we are continuously expanding our CGD network in the existing license areas. During the quarter, 78,214 domestic households were connected and thus we have established connectivity for nearly 1.71 million households. We have laid 49.36 kilometers of steel and PE pipelines thereby taking the aggregated pipeline lengths to over 6000 kilometers. We have added three new CNG stations and with these, we currently have 277 stations.

We have also added 77 industrial and commercial consumers and thus as on quarter end, we have 4219 industrial and commercial customers. In order to expand the footprints of CNG where land availability is a serious constraint, we have deployed a mobile refueling unit at Ajivali in Navi Mumbai. Subsequently MGL issued an advertisement inviting request for proposal from interested parties to put up more MRUs in Mumbai, Navi Mumbai, Thane and Mira, Bhayander area. Response has been received from 11 parties which are being evaluated.

Additionally, in order to expand the user base in CNG, MGL is proactively promoting adoption of CNG in long haul commercial vehicle, this has been made possible with availability of type 4 CNG cylinders in the market. MGL is in advanced stage of discussions with MSRTC for retro fitment of buses from HSD to CNG with type 4 cylinders. Parallely MGL is also trying to promote retro fitment of few trucks and trailers belonging to prominent fleet owners of Mumbai as a proof-of-concept study. MGL is also exploring the possibility of retro fitment of large-scale commercial vehicles from single fuel that is HSD only to dual fuel that is HSD and CNG.

In respect of our Raigad GA, we are connected to 45617 domestic households and 21 CNG stations are currently operational. During the quarter, we have laid 13.12 kilometers of pipeline in Raigad GA thereby taking total length of pipeline to 281.93 kilometers.

Our sales volume for Q2 FY2021-2022 is at 3.124 MMSCMD and is higher than pre-COVID average of 2.951 MMSCMD for the FY2019-2020. Average sales volume for Q2



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FY2021-2022 of 3.124 MMSCMD is consisting of CNG volume of 2.234 MMSCMD, domestic PNG volume of 0.451 MMSCMD and industrial and commercial volume of 0.439 MMSCMD.

There is an increase of 30.3% in the overall sales volume compared to previous quarter, as April and May 2021 were impacted due to the second wave of COVID-19. Compared to the previous quarter sales volume in case of CNG has increased from 1.551 MMSCMD to 2.234 MMSCMD which is an increase of 44.1%. In case of industrial and commercial sales volume has increased from 0.380 MMSCMD to 0.439 MMSCMD an increase of 15.5%. However, sales volume for domestic segment has marginally reduced from 0.468 MMSCMD to 0.451 MMSCMD which is a decrease of 3.6%, mainly due to normalcy coming back and work from home has reduced.

Current quarter EBITDA is Rs.302 Crores compared to previous quarter EBITDA of Rs.304 Crores. EBITDA margin is at 36.35% for Q2 compared to previous quarter EBITDA margin of 49.39%. Reduction in margin is mainly due to increase in spot gas prices observed from July 2021 onwards whereas alternate fuels linked to Brent did not have similar increase resulting in drop in industrial and commercial margins. Besides due to a sudden spurt in gas consumption in the priority segment due to ease in lockdown post May 2021, the requirement of gas went up more than the domestic gas allocation. The gap was bridged through use of spot gas for priority sales in the interest of consumers resulting in marginal drop in gross margin for CNG and domestic PNG.

Net profit after tax for the quarter is at Rs.204 Crores same as the previous quarter. The government notified price of domestic natural gas has been revised from \$1.79 MMBTU to \$2.9 MMBTU with effect from October 1, 2021, a rise of 62%. In order to recover full impact of change in priority gas first, retail prices have increased in two tranches on 5th and then on October 14, 2021, for CNG and domestic PNG.

Mr. Sunil Ranade, our present CFO is superannuating on October 31, 2021. Post his superannuation Mr. Rajesh Patel, Vice President, Finance who is working with the company for last 12 years shall take over as the CFO with effect from November 1, 2021. Many of you are acquainted with Mr. Ranade and have come across his proactive approach in dealing with the issues which are important for the investor community. With this I conclude, and I would now like to open the floor for questions. Thank you very much.



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Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question-and-answer session. We will take the first question from the line of Probal Sen from Centrum Broking. Please go ahead.

Probal Sen: Thank you very much for the opportunity. I have two or three questions. One was this problem for the domestic and CNG segment, has that problem has resolved now, is it now back to 100%, 110% requirement as is a policy?

Company Speaker: Are you talking with reference to the availability of APM gas for priority sector?

Probal Sen: Yes sir.

Company Speaker: We have requested through GAIL to the ministry that some consideration should be given because there was obviously some shortage of supply. We are hopeful that some solution should be in sight in short time maybe it could be in the month of November also, we may have positive news.

Probal Sen: But as of now Sir, how much is the shortage, is it possible to share of percentage or a range of how much you are having to supply from LNG to the priority sector?

Company Speaker: In the second quarter, around 5% was supplied through RLNG in the priority segment.

Probal Sen: And the same shortfall has continued as of now at least?

Company Speaker: Maybe it might have marginally increased also.

Probal Sen: As volumes have gone up even more so?

Company Speaker: Rise in the volume has been very sharp in CNG.

Probal Sen: Okay and Sir, the second question is a followup given the kind of LNG prices increased and yet we are keeping 5th as well as the 14th price increase in mind, is there a further margin softness that you are looking at for Q3, I know it is early days but given that commercial industrial margins are benchmarked to LPG, at least the prices, is there still a leeway to pass on this huge impact or we might have to take a little bit of a hit given the kind of LNG prices we are seeing right now at least in Q3?

Company Speaker: We will have to see on both front. One is on priority segment and another is as you rightly said industrial and commercial category. Priority segment we have already increased the



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prices in order recoup the cost, which was there in the APM price itself, we have already taken two price rises which I think MD has already described in his speech in the month of October. There is definitely an ability to pass through even further, but whatever increase was there from \$1.79 to \$2.90 almost we have passthrough already with respect to priority segment and we can till consider depending upon various factors whether third price rise will be required, this is as regards priority segment whereas in case of industrial and commercial category, yes it has been our sales price philosophy, selling price philosophy that we have been benchmarking our price indexed to alternate fuel prices. However, the contract has certain provisions where there will be further flexibility in the pricing also. We will be taking a call in that respect soon, but we will have to consider both the thing, we will have to balance it out. One is the margin perspective and another is obviously the volumes, but there will be a possibility and flexibility exists in the contract if we wish to do something further.

- Probal Sen:** Got it Sir, last question if I may if we can share likely with the quarterly industrial and commercial volume separately for the quarter and the sale price on an average for both segments?
- Company Speaker:** Commercial volume was 0.153 MMSCMD for this quarter, industrial was 0.286 MMSCMD and price realization in case of restaurant category was Rs.46.67 per SCM whereas the industrial it was Rs.42.43 SCM.
- Probal Sen:** Thank you so much Sir. I will come back if I have more questions. Thank you.
- Moderator:** Thank you. We will take a next question from the line of Somaiah V from Spark Capital. Please go ahead.
- Somaiah V:** Thanks for the opportunity. Continuing the alternate fuel prices, could you just provide the alternate fuel prices for the last quarter as well as what was the average this quarter versus the last quarter?
- Company Speaker:** Right now, readily we do not have the data but we believe it should be available from the portals of the oil marketing companies.
- Somaiah V:** Second question is with respect to new GAs, the 11 bidding round. So now that 60 odd new GAs have been put in, so what would be your approach? Would it be something different from what we did in the 9th and 10th bidding round? How would we approach your thoughts on the same.



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Company Speaker: The approach is likely to be similar, we will be selective in our bidding and we have our benchmark with respect to financial aspects as well as non-financial aspects. But there is no problem with reference to contiguity, we will be open on pan India basis also, fortunately there are some GAS which are in the State of Maharashtra also, but that will not be a limitation for MGL for sure. We will try our best to put in whatever we consider as aggressive bid.

Somaiah V: One last question if I may any update on the margin increase asked by the OMC any update?

Company Speaker: There has been discussions even at ministry level what has happened is, the discount price or trade discount increase which has been asked by the OMC has been pretty steep so in fact almost entire CDG industry has represented with MoPNG, there has been a meeting chaired by the secretary MoPNG as well, he had kindly heard both the sides, oil marketing companies as well as CGD industry and he has also promised that he will look into the issues and try to show some guidelines to OMCs as well as to CGD industry and try to sort out the matter. However, we feel away further directions and thereafter the decisions will be taken.

Somaiah V: Thank you Sir. I will join back in the queue.

Moderator: Thank you. We will take the next question from the line of Amit Rustagi from UBS. Please go ahead.

Amit Rustagi: Good evening Sir. Could you help us understand that when we will have some timelines on this MSRTC and this heavy truck retro fitment because I think we have been hearing these things for quite a long time now, do we have some timelines in mind that when we will have some clarity?

Company Speaker: MSRTC has come out with the tender for retro fitment of those buses, they had done something similar few months back, but they could not go through the tender because probably all the pieces did not fit together, because you have to have type 3 or type 4 cylinders supplier, you need to have person who will do the retro fitment. But good thing is MSRTC has secured funding for these buses, the state government has given a grant. Diesel prices are so high, we believe that if everything falls in place, these could be retrofitted in a timeframe of about six to eight months.

Amit Rustagi: How many buses they have come out for tender with?



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Company Speaker: Tenders for 1000 buses, but all 1000 are not necessarily in MGL's geographical areas, 1000 is spread over five, six different locations, where we know in other areas of Maharashtra also CNG is available, so out of the 1000 may be roughly probably half of them could be in our geographical areas.

Amit Rustagi: And Sir second thing I would like to ask about the allocation of domestic gas for the priority sector, so could you explain us what will be the way out, how and like when you expect the increase in the domestic supplies to CGD sector and will that be like any change in formula or allocation from six months to three months or something like that? What will be the modalities if you have some clarity?

Company Speaker: Few weeks back the CGD industry had a VC with secretary petroleum and we had represented our case saying that the normal formula of ministry they do a six monthly average and basis your actual sales they give 110% of your actual sales as the allocation for the coming six months. This exercise for H1 we have been promised will be completed may be in the first or second week of November because GAIL is involved in data collections, the CGD industry has to give all the data and PPAC is also involved in the analysis. The other request which all the CGD companies made was that the second wave of COVID impacted sales volumes in April and May of this year, so industry requested rather than taking a six monthly average if the government could consider taking the Q2 average sales volumes to formulate the basis of allocation for the next half year and both GAIL and the secretary of petroleum have at least verbally assured that yes, they will do all that they can do to make sure that domestic gas is available in sufficient quantities to meet the demand.

Amit Rustagi: I think that was pretty clear. Thanks a lot for all the answers and I wish all the time management team. Best of luck and Happy Diwali. Thank you.

Moderator: Thank you. The next question is from the line of Kirtan Mehta from BOB Caps. Please go ahead.

Kirtan Mehta: Thank you for giving this opportunity. First question is would you be able to sort of share the quantum of spot LNG that has been used during the quarter and the average price for this?

Company Speaker: Quantum I think we already answered earlier it is approximately 5% in this Q2 which we have required to push in and as regard average price, it will be somewhere around \$12 MMBTU.



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- Kirtan Mehta:** You mention 5% within the priority sector, so within the industrial and commercial segment what would be the sort of the percentage which would have been used this spot LNG?
- Company Speaker:** There is no question over there because it is always supplied through RLNG itself industrial and commercial.
- Kirtan Mehta:** Right apart from the point one MMSCMD in the allocation that you have with from Reliance correct?
- Company Speaker:** Yes, you are right absolutely.
- Kirtan Mehta:** Second question was about sort of could you update on the plan of addition of gas-based buses by BEST basically seeing the CNG buses by best? There has been a plan for around 500 buses that you have talked previously about what is the status on progress?
- Company Speaker:** 500 buses, some of them have started coming and what BEST has told us is in the coming two months or so, all the other buses should be in. We have upgraded our CNG facilities in couple of depots to receive these buses and one or two other depots work is going on. Apart from these buses, we are also in active discussions with BEST to retro fit 185 of their diesel buses to CNG. We are in talk with both BEST and Tata Motors to get this done. The timeframe for that could be around six to eight months, so the Tata Motors has already started on the proof of concept all the design and engineering part of it and BEST offered to send some buses if they want to do any trials or get any testing done.
- Company Speaker:** One correction with respect to what rate which you asked RLNG prices it is not \$12; it is around \$14.5 per MMBTU for the quarter.
- Kirtan Mehta:** Thank you. If I can add one more question just to understand from the industrial and commercial space, what proportion of be volume has an ability to switch to an alternate fuel at this point of time?
- Company Speaker:** Roughly about 70% to 80% of the volumes, they have ability to switch.
- Kirtan Mehta:** Thank you Sir. Just going by to my first question, is it a point one MMSCMD allocation or is it point three MMSCMD allocation?
- Sanjib Datta:** Slightly less than 0.1.
- Kirtan Mehta:** Thank you.



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Moderator: Thank you. We will take a next question from the line of Aishwarya Agarwal from Nippon India. Please go ahead.

Aishwarya Agarwal: Thank you. I just want to understand the second quarter was a bit weaker when we talk about the margins on a gross level versus the Q1, so how we should look at the margin trajectory going forward when I am asking margin, my focus is on gross margin and plus how do you see the recovery or the margins which we have lost in the last quarter, will we be able to recoup that.

Company Speaker: Gross margin will comprise of gross margin from priority sector and gross margin from industrial commercial sector. As regards gross margin for priority sector I think we have already taken price rise twice in October itself that would help us to tide over the cost increase in the APM gas purchase what we have done. Also there is an ability to passthrough even further if it is required, so in case of priority segment, I think the margins can be steady or slight improvement can also be seen with respect to gross margin and in case of industrial commercial we are trying multiple ways to improve the margin, one is definitely we are looking for some midterm gas, no doubt it will take some amount of time, but we are thinking of or exploring the possibility of tying some midterm contract for our LNG that is point number one, also there are some possibilities or flexibilities which we earlier mentioned that in contract with industrial and commercial customers, there are flexibilities available in exceptional circumstances we can further consider some different pricing scenarios than the normal scenario of benchmarking or indexing to alternate fuel prices. So, we will try to do our best in case of industrial commercial also to take care of the margin, but right now a lot is going to depend on the scene on the front of prices of RLNG both definitely in terms of spot gas and also to some extent on long term or middle term prices, the scene which will prevail in Asia as well as particularly in India.

Aishwarya Agarwal: I directionally understand but my question was more with the referral to the gross margin which we have reported in the Q1 versus number which reported in Q2, so that definitely I understand it will move up, but what I want to understand at what level those margins be, or what is your goal in terms of getting the margin for that you take that you get price hike manage the gas contract and come back to target which probably would want to have the margin or over than that?

Company Speaker: Specifying number is typical because probably nobody will be able to exactly predict the prices of spot gas and what has happened not only in case of industrial commercial prices of RLNG are important, but you must have heard earlier discussion in that some amount of RLNG we were required to feed into priority segment also, so we are hoping with the



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ministry granting some concessions to us or being considerate on the formula for APM gas pricing, the situation will improve definitely in priority segment and please note that priority segment account for nearly 86% of our total volume, industrial commercial no doubt has bit of a challenge, but 86% of our volumes will be coming through domestic and CNG put together so that I think gives some definitely good chances for us to improve the margins at overall level as compared to whatever margins are prevalent right now and EBITDA front, there will be an advantage no doubt you are asking question from gross margin point of view, but on as far as EBITDA level is concerned I think as volume ramp up per unit opex will also go down and the improvement in margin at EBITDA level will obviously a bit higher than the rise which we can see in the gross margin level.

Aishwarya Agarwal: Sure Sir. One more question I have if you allow, how do you see the volume growth from here, we are already back to pre-COVID volumes at this point of time, how do you see the volumes ramping up in next one year or so?

Company Speaker: Volume recovery have been pretty strong, and we have exceeded our pre-COVID volumes also, so Q2 numbers we already stated by the Managing Director, if we look at beginning of this month, the volumes have increased a bit may be in 7% to 8% approximate increase in sales volume.

Company Speaker: In fact at current level just say latest information which is available, yesterday we had clocked a volume of 3.44 MMSCMD which is encouraging sign for us and CNG has improved in fact overall we have seen the improvement in almost all customer category except probably domestic category rise is there, but relatively it was less, but all other categories have increased I think 3.44 is the pretty good level as compared to 3.10 level which was prevalent in February 2020.

Company Speaker: Out of that 3.44 will be weekday sales as well so if you factor in holidays and weekend etc, the average sales volume is roughly about 3.35 or so.

Aishwarya Agarwal: That is very good. The volume has a very good traction, but this is the current one, but how do you see going forward, do you see this trend to continue going forward also in terms of very good growth come again?

Company Speaker: Yes, that is some moment we are seeing especially on the commercial vehicles front you know Maruti, and other OEMs have started tapping this small commercial and medium commercial segment and prices of diesel are almost touching Rs 105 per liter in Mumbai. Lot of these transporters are looking to you know use CNG.



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Aishwarya Agarwal: How do you see the threat of this EV vehicle especially on your bus segment that is something which is generally being talked a lot, but I do not know how meaningful it is going to impact on your CNG volume or the growth in bus segment.

Company Speaker: I mean if you look at the buses the biggest operators is BEST and in the last one or two months they have been making some noises about inducting a lot of electric buses, but I think the key point there is they are talking of an expansion in their overall bus fleet. So when the new buses which they end up would be EV but we see a bit of issue there because of the scale at which they are talking about they do not have that kind of charging infrastructure whereas our CNG infrastructure which is there is currently utilized at only about 25% so we can you know easily double the number of CNG buses and supply run with the same infrastructure and we are encouraging them to move to CNG because EVs at the end of the day they will have to depend on, the money will have to come from somewhere. The initial funding required is huge. BEST is cash trap so we have been trying to explain to them that CNG makes more sense.

Moderator: We will take the next question from the line of Rakesh Sethia from HDFC AMC. Please go ahead.

Rakesh Sethia: Hi. Thank you for the opportunity. My question is regarding the APM gas price which probably would increase significantly in the upcoming revision which probably would be in the month of April. So, I am just trying to understand how will you manage your CNG pricing any preparation for that? Would you wait for the actual price increase to happen and then take a large price increase or are you thinking of taking any preemptive price hike?

Company Speaker: I think price rise is something happening in April, right now maybe a bit early to talk about. The initial price rise which we may take very soon will be in a targeting for this reallocation of domestic gas you know at what level it will come in and you know will we will be able to fully mitigate I mean get full volume for our CNG growth which is happening you know quite rapidly so that is something we will be looking at in near future.

Rakesh Sethia: Sir the reason I am asking this is you know the 10 months of data is available to us. I mean even if one assumes there is going to be significant price correction in the global gas prices for the remaining 2 months, we are talking about you know gas prices probably going up to \$5 maybe even higher if the gas prices does not correct and that would require a significant price hike just from the CNG perspective and on top of that you have already mentioned about the cost pressure on the LNG side. I am just trying to understand that you know should we expect the margins for the next few quarters would be lower before they start to



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normalize and as you take gradual price increase, or you think that the margin in the near term will be maintained or probably would improve as you are alluding in the earlier remark.

Company Speaker: To answer your first question there is nothing which forces us to wait till first April to you know increase any price. So, we could take especially we estimate that the jump is going to be significant we could do it in steps to avoid any kind of price shock to customers, but again that call will be taken somewhere a month or two down the line. It is not something which is immediately on the radar.

Rakesh Sethia: And Sir if I heard it correctly about the impact of LNG on your priority volumes, did you say that 5% of your priority volumes were met through the spot LNG prices is that the correct understanding.

Company Speaker: Yes right.

Moderator: Thank you. We will take our next question from the line of Vivekanand S from Ambit. Please go ahead.

Vivekanand S: Thank you very much for the opportunity. Can you give us a sense of what are the current conversion that are happening especially on a monthly basis and little bit more on the segment level trends? I think we have discussed a little bit about the commercial vehicles, but if you could give a broad overview with some numbers.

Company Speaker: Actually, in this quarter roughly about 16800 CNG vehicles have been added into the systems and majority of them were private cars about 12600 odds. Now commercial vehicles about 2500 of them added on in the quarter. Then couple of hundred trucks have come into CNG and about 1500 three wheelers also added.

Vivekanand S: And if you could give sense on the base of commercial vehicles and possibly some sort of understanding of the opportunity for conversion in FY2023 that would also be helpful.

Company Speaker: Look what we are hearing from the OEs is that the CNG variants of the commercial vehicle wherever they are available are basically the models which are selling. The diesel models are not selling anymore because of the price of diesel. And we are also you know launching some incentive schemes to promote conversion of existing diesel commercial vehicles onto CNG. So we are planning to give you know preloaded fuel card kind of a thing. We are also trying to arrange financing for the conversion of these vehicles because you know these are



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already preowned diesel vehicles and so we have already spoken to two, three of vehicle finance companies to you know encourage them and to make use of this opportunity. The diesel prices today are putting a lot of pressure on the fleet operators and commercial vehicle operators to switch and save money.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from L&T Mutual Fund. Please go ahead.

Rahul Agarwal: My question again is with respect to the gas cost increase, so this quarter we have seen the cost increase from eight and half to around 13 and the next quarter with this quarter ending where it is we might be seeing this number move to somewhere around 20, 21 kind of a number. So this kind of increase and your comment about that the margin should be healthy and staying upwards in the near time. So, I was just trying to understand this kind of increase are we planning to pass on because the priority sector increase, I understand has been to the extent has been around four and half so how should we look at this.

Company Speaker: I think we touched upon this aspect. One is that ability to pass through gas cost in case of priority sector that is CNG and domestic is pretty good. Also, there will be most probably some good news to be heard by entire CDG industry with respect to supply of APM for CNG domestic to the extent it is required from say mid November onwards. So, I think margin front on CNG and domestic there should be reasonably comfortable scenario prevailing and at least with respect to MGL, CNG and domestic accounts for nearly 86% of volume. Now industrial and commercial will be only 14%, yes there is a concern about the rising spot prices and in case of industrial and commercial 100% quantity through spot prices except that RIL source which we have which could be around 25% of the total industrial commercial requirement, there are some flexibilities available with us as we mentioned earlier in the context with industrial and commercial customers. So we will be taking a judicious call with respect to some price increase vis-à-vis retention of volume which will also be one of our primary mottos.

Rahul Agarwal: So, shall we take that this level of gross margin is something should be the base and below this should not be in the coming quarter or the years moving ahead.

Company Speaker: It is difficult to specify the numbers as I said earlier but I think the scene could be quite good or encouraging on domestic and CNG front. There could be some challenge on industrial commercial. This is with respect to gross margin, but as volumes will ramp up further, the operating cost are going to drop on per unit basis so while the gross margin it



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could be steady on only some improvement which we will see. Definitely proportionately higher improvement we will see in EBITDA margin on per SCM basis.

- Rahul Agarwal:** Thanks a lot, and all the best.
- Moderator:** Thank you. We will take our next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** Yes, one question on the industrial segment only. So are you profitable right now in October when you are servicing currently?
- Company Speaker:** October we obviously right now cannot talk. This call is basically for quarter two and on an average basis yes we were in profit.
- Anubhav Aggarwal:** Thank you Sir. That was my only question.
- Moderator:** Thank you. The next question from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** So in September PNGRB has come out with a public notice on the declaration of common carrier, contract carrier for Mumbai GA. So how do you see this thing moving forward?
- Company Speaker:** Currently the whole exclusivity thing is sub judice in Delhi high court, so entities have challenged it including us. It will be a drawn-out battle. I think legal battle will be there. Of course, PNGRB currently does not have forum, does not have member legal so they do not really have the ability to do anything, but assuming that difficult goes away in the coming weeks and month there is still that legal challenge to be surmounted.
- Vidyadhar Ginde:** So how do you see it what is the possibility that allowing competition and seen by the government and petroleum ministry as a way to protect the consumer as gas prices move up, APM is also going to go up sharply next year. One of the best ways to take care of the consumer who probably is the most important concern would be to allow competition.
- Company Speaker:** Opening up will definitely be the case in the medium and long term. However, what will be the outcome of that and if you have seen the November 2020 regulations on the existing stations, they have given CGD companies protection until that date, so whatever CNG stations etc. we are opened until November 2021. There are about 260 odds of them, they will continue to remain with us. So, it is only the new incremental volume and station which could be at risk, biggest volume segment is CNG almost 74% of our volume. Domestic we



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see relatively less risk because it is very pain staking job you know to supply 0.4 SCMD to few million customers. Industrial and commercial yes that could be some competition where large industries may choose to buy from other suppliers or they may opt to buy gas from the exchange, but then we will address back as and when it happens.

Vidyadhar Ginde:

Sir the CNG whatever PNGRB regulations they are not permanent; we have seen them change their own regulation in the past like for example in the case of gas pipeline for old pipelines they were using 100% utilization as the volume divisor. When it was changed what they have said last November is also not permanent because we are heading towards extraordinary situation in the next few months and we were not aware that in fact things have got somewhat right now only because of the spot LNG which we have to use for domestic. So we are getting into a phase where the government itself will have to take some tough decision and next year we have several elections in important states. So consumer interest will again be something which will be topmost and you guys are sitting on. If you go back to look at over the last 7, 8 years you started getting APM gas as complete, all of your margins have gone up very sharply.

Company Speaker:

Well, our understanding is at least as of now the government is very supportive of CGD because they understand that this gas allocation and whatever they are doing is essential ingredient and they want more infrastructure to come in place. A lot of people who invested in CGD bidding round and upcoming bidding round, it is all anchored on the assumption of some relatively cheaper gas would be available for the priority segments. Government has to balance out its priority.

Vidyadhar Ginde:

No. Actually, you will get APM gas. You will get APM gas, but the point is that the next year the APM gas itself will be at much higher price that is the problem. Which is probably one year problem because year thereafter probably prices are going to go down again maybe not to the levels we had in the past, but significantly lower is a possibility FY2024 and unfortunate decision on this issue might get taken next year.

Company Speaker:

Prices will go up and down and there is no predicting for that. There were times when you know spot was available for \$2. There were times APM was more than \$5.

Moderator:

Thank you. We will take the next question from the line of Manikantha Garre from Franklin Templeton. Please go ahead.

Manikantha Garre:

Good evening Sir. Thanks for the opportunity. So I understood from your earlier comment you were having a discussion with the ministry on the reallocation of APM gas may be



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some mid November onwards so on that line wanted to check with you if there any discussion with the ministry on the APM, the upcoming sharp rise in APM gas prices and the kind of price hikes not just you but the entire CGD industry will have to take in priority sector or domestic PNG so would there be first of all were there any discussion with respect to that and would you think that the ministry would be okay with sharp price hike you may end up taking finally.

Company Speaker: I think the government has gone on the record saying that you know pricing in CGD full freedom is available to the operator to decide on pricing. So there is nothing like what you are saying on the cards at least not that we are aware of.

Manikantha Garre: And what about discussion part. Was there any discussion with respect to this sharp rise in APM gas price, is it going to happen? Were there any discussions at all on this.

Company Speaker: Are you referring to the APM prices going forward in the month of April, the formula. There is no discussion as such of changing the formula as of now.

Moderator: Thank you. We will take the next question from the line of Vikas Jain from CLSA. Please go ahead.

Vikas Jain: Sir. Thanks for the opportunity. Sir I wanted to understand this 5% that you are talking about. Firstly the \$14.5 per MMBTU that you talked about. That will be average for the quarter but a large part of the volume jump that you would have seen might have happened in September so that 5% blended number that you are talking about could actually be a higher number than 14 and half also is that understanding correct?

Company Speaker: Can you repeat I am not very clear. The figures are right around 5% RLNG required in priority in quarter 2 \$14.5 price is also correct, but what is that you are exactly asking.

Vikas Jain: So even with 5% and 14.5 essentially that would itself mean that your overall raw material cost for priority sector would be 35% or so higher than what the APM price was, so again that is a pretty big hit and if you say that this 5% has increased even more in October you know I mean the proportion has increased a little bit and more than anything the price if anything nearly double of that 14.5 because October LNG prices are almost double of average of last quarter so if that is the case then that itself would mean price, your raw material cost would be higher by almost about something like 65% plus. Is that broadly correct and I mean if that is the case then the October margins could take a pretty big hit.



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Company Speaker: But I think when it comes to margin we suggest we should not take a very short-term views like monthly margins and that sort of thing plus as we already discussed the request has already been launched with the ministry and hopefully in November itself we should hear something good, say I mean 100% APM quota being made available to CNG and domestic that news should be forthcoming anytime according to us.

Vikas Jain: I understand that, but with October and at least half of November getting hit so badly the quarter could be pretty bad one in terms of overall margin so even if you get by mid November.

Company Speaker: You are right, but you know we have taken price rise also, October twice we have taken. We are not ruling out a possibility that we will not take further price rise that also exists and we are obviously keeping interest of the customers in also mind and not just short-term interest but the long-term interest of the customers also, but there are pricing I mean ability to pass through cost definitely exist with the company. Only thing we are taking a little cautious call because we might have seen now which has never happened for in the history of MGL that in this quarter the light commercial vehicles numbers are 2500 LCVs are added when such good movements are happening and as you know the potential is pretty high in LCVs, we are bit cautious, I mean raising prices could be matter of just few seconds for us but when such kind of things are happening that even LCV segment is looking at coming to CNG in a full-fledged manner, definitely OEM sales have gone up and with some incentives which we are likely to offer or even financing scheme, a good volume jump could be seen in CNG so at least some extent whatever could be reduced on per unit basis we should be able garner some volume increase point of view that is what we could say right now.

Vikas Jain: I mean I am pretty much with you but your focus should be longer term and I am not denying that but from a shorter tem perspective since you requested the ministry to take Q2 as the average if there is a bigger volume jump and even if ministry agrees to the request by middle of November what it will mean is that beyond the 10% there will be significant negative operating leverage in terms of eating into margins at least for the second half of fiscal. Yes, you are correct. Your approach is absolutely right that you are thinking about long term but that could really be a near term pain point if my understanding is correct, is that right.

Company Speaker: I mean in short term. If we are specifically talking about October month for example or maybe initial November also then your understanding calculation is right no doubt that.



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Vikas Jain: And Sir just one more thing. The way this allocation works if you can remind us on it. Will you also gain when volumes were falling, did you get extra gas which you were able to use for industrial, commercial during those periods that is last three four quarters. It is just the limit of 10% extra, but in other quarters you do not really gain in terms of extra.

Company Speaker: If I understand your question correctly. You are saying that when we get extra gas can we debit it to I&C

Vikas Jain: I am saying that Sir for example 1Q, 2Q when volumes fell so dramatically last year or even this year. Did you manage to get some extra gas which you have allocated based on the earlier quarters and then you know that balance you were able to use beyond CNG and residential PNG for that quarter. Is that something possible.

Company Speaker: That is not allowed.

Vikas Jain: Okay understood. Thank you.

Moderator: Thank you. We will take our next question from the line of Varatharajan Sivasankaran from Antique Limited. Please go ahead.

Varatharajan: This outlet upgradation and this entire plan of outlet upgradation and new outlets and MRUs, where do you stand in the current year as to what you have planned in the beginning of the year. As well as you know any extension on this plan for the next year.

Company Speaker: Currently we have opened 9 new stations this financial year and we upgraded about 12 stations and that is a total of 21 and we are looking at, at least a score of somewhere between 50 and 60 hopefully.

Varatharajan: For the current year and should we take a similar number for next year.

Company Speaker: Yes, for the full financial year. MRUs as we mentioned earlier, we have received 11 applications and those are under evaluation and processing.

Varatharajan: So, the 50 to 60 can we take the same kind of number next year.

Company Speaker: Yes, that will be our endeavor because for the kind of demand which is coming up now especially from commercial vehicles etc. If we want to cater to that demand yes we need to open stations, will need to upgrade more stations.



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- Varatharajan:** And Sir may I request for the breakup between the outlets.GA wise
- Company Speaker :** Breakup in what?
- Varatharajan:** In the outlet.
- Company Speaker :** In GA3 we have 21. In the city of Mumbai we have 141 and in a total of 277 I mean the remaining are in GA2, 141 in GA1, 21 in GA3, total 277.
- Varatharajan:** I was talking about the new outlet Sir.
- Company Speaker:** New outlet, the majority will probably be GA2 and Raigad. Mumbai may be slightly smaller number.
- Varatharajan:** Thank you Sir.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint we will be taking the last question that is from Yogesh Patil from Reliance Securities. Please go ahead.
- Yogesh Patil:** Sir my question related to electric vehicle charging station or battery swapping stations. Are you planning to enter into the same and if answer is yes then what would be the capex line up for the same and how many charging stations you are planning to come up in the next 1 to 2 years?
- Company Speaker:** We have done one pilot installation along with Tata Power to just you know get the feel of the business but as of know there is no concrete plan as such because you know the demand for CNG is so high there is limitation of space in our station. As it is most of our stations are operated in OMC premises so there we would not be able to put up any EV charging, but in the 50, 60 stations which we have effective control, if there is any additional space there we want to upgrade that capacity, we want to put more compressors, more dispensers because the demand for CNG is huge.
- Yogesh Patil:** Okay and my second question is related to your capex plan for financial year 2022 and financial year 2023. So how many station additions is expected in second half of current fiscal.
- Company Speaker:** You are talking about this financial year and next financial year.



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- Yogesh Patil:** Yes. Capex plan for the financial year FY2022 and FY2023 and station addition, if could give us any ballpark number for the second half of the current fiscal.
- Company Speaker:** I think station additions earlier we already mentioned I think, but total capex could be in the region of 600 Crores each, this year as well as next year also. However, significantly it will be dependent upon the approvals which we get from different, different authorities. Even as on today so lockdown lock down has eased definitely, as you know this permission which we get from different authorities are paper based. There is no electronic approvals which basis approvals are received so assuming the approvals we receive at much faster pace and what was the scenario for last nearly almost a year and more than that. Our aim is to definitely spend 600 Crores each at least, funds are not an issue. It is not only CNG outlet. There will be some security point of view, security of supply point of view. There will be steel grid pipelines will also be laid then obviously medium size pipelines will be there. We are looking at some additional office spaces also, so funds are available, definitely budget have been approved by the board of directors for all kind of capex, the question will more hinge on from the amount point of view on how fast we receive the approvals.
- Yogesh Patil:** Okay thanks a lot Sir and wish you all happy Diwali.
- Moderator:** Thank you. I would now like to hand the floor back to Mr. Harsh Dole for closing comments. Over to you Sir.
- Harsh Dole:** Thank you on behalf of IIFL Securities I would like to sincerely thank the management for giving us the opportunity to host the call and Seasons Greetings to everyone. Operator would you be kind enough to pass the line to management for final remarks. Thank you,
- Moderator:** Sure, over to management for closing comments.
- Company Speaker::** Thank you and Happy Diwali to everybody.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IIFL Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.
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(This document has been edited for readability purpose)

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