



**MAHANAGAR
GAS**

MAHANAGAR GAS LIMITED

GAIL, Govt. of Maharashtra & BGAPH Enterprise

Ref: MGL/CS/SE/2019/280

Date: August 26, 2019

To,

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Scrip Code/Symbol: <u>539957; MGL</u>	Head, Listing Compliance Department National Stock Exchange of India Ltd Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 Script Symbol: <u>MGL</u>
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Sub: Transcript of Earnings Conference Call on Unaudited Financial Results for the quarter ended June 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 ended June 30, 2019 was held on Friday, August 09, 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

Arvind Kumar
Company Secretary and Compliance Officer



Encl.: As above





**“Mahanagar Gas Limited
Q1FY2020 Earnings Conference Call”**

August 9, 2019

ANALYST: MR. VIVEKANAND SUBBARAMAN - AMBIT CAPITAL

**MANAGEMENT: MR. SANJIB DATTA – MANAGING DIRECTOR –
MAHANAGAR GAS LIMITED
MR. DEEPAK SAWANT - 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**



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Moderator: Ladies and gentlemen good day and welcome to Mahanagar Gas Limited Q1FY2020 Earnings Conference Call, hosted by Ambit Capital. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vivekanand Subbaraman from Ambit Capital. Thank you and over to you Sir!

V. Subbaraman: Thanks, Tanvi. We at Ambit are pleased to host the Q1 FY2020 earnings conference call of Mahanagar Gas Limited. Representing the management of MGL are Mr. Sanjib Datta - the Managing Director, Mr. Deepak Sawant - Deputy Managing Director, Mr. S. M. Ranade - Chief Financial Officer and Mr. Rajesh Wagle - the Senior Vice President (Marketing). I now hand over the call to the Mahanagar Gas management for a discussion followed by Q&A.

Management: 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. Good afternoon to all of you and welcome to the Earnings Conference Call of Mahanagar Gas Limited for the first 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 are aware, in India the City Gas Distribution industry has a share of about 17% of the total consumption of natural gas. With the completion of the tenth CGD bidding round by the PNGRB, CGD would be available in 228 geographical areas comprising of 402 districts, spread over 27 States and Union Territories covering approximately 70% of India’s population and 53% of its geographical area.

As per Vision 2030 report of PNGRB, natural gas demand will go up to 746 MMSCMD while its supply will go up to 475 MMSCMD in 2029-2030. Hence, meeting the growing demand of natural gas in coming years is going to be a big challenge. In CGD sector, household and CNG customer categories are supplied with domestically produced gas. Domestic gas production has its own limitation, 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



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customers are supplied with imported gas, procurement price will be the key factor rather than availability of gas.

Under current demand supply scenario of LNG, spot gas prices witnessed a 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 margin in industrial and commercial category.

Now coming to MGL's operations, we are rapidly expanding our CGD network in the existing license areas. During the quarter, 26,638 domestic households were added. Today, we have more than 1.17 million household customers supplied with pipe gas. We had a net addition of 42 industrial and commercial consumers and thus as on quarter end, we had 3,866 industrial and commercial customers.

Besides, as on quarter end, we had 240 CNG stations, supplying CNG to around 7 lakhs vehicles and our aggregate of steel and PE pipeline network stood at 5,367 kilometers. With respect to our Raigad GA, we added more than 3,200 domestic PNG connections in Uran and adjoining areas in this quarter. Gas supply to major towns like Pen, Uran and Karjat is being 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 the Raigad GA. Three CNG stations were added during the quarter and with this, 13 CNG stations were operational at quarter end in Raigad. CNG sales in Raigad reached the level of 24,684 kgs a 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 3.3% in overall total sales volume over the corresponding quarter in the previous year. CNG sales volume grew by 2%, domestic sales volume grew by 9.4% while the industrial and commercial sector sales grew by 4.7%. Overall the PNG volume grew by 7%. Gross margin is higher in value terms in the current quarter as compared to corresponding quarter in the previous year because of higher volumes in CNG and PNG and better price realization across all customer categories and lower prices for spot gas. EBITDA margin was 36.6% at INR 277 Crores in the current quarter as compared to 34.1% at INR 211 Crores in the corresponding quarter of the previous year.

Net profit after tax grew by 32.7% from INR 128 Crore in the corresponding quarter of previous year to INR 170 Crores in the current quarter. Compared to immediately preceding quarter, there is a slight decline in current quarter total sales volume by 0.2%. CNG volume is lower marginally by 0.3%, the industrial and commercial sector is lower by 2.7%. However, domestic volume grew by 3.4%. Gross margin is 53.8% as compared to 48.9% recorded in the immediately preceding quarter. There is a sharp increase in EBITDA, which grew to INR 10.25 per SCM as compared to INR 7.91 per SCM in the previous quarter.



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EBITDA per SCM has primarily increased due to substantially higher gross margin in the industrial and commercial customer categories. Better sales realization and prudent decision to feed these sectors through spot gas rather than midterm and long-term contracts helped us to achieve such margins. Also opex was higher on an account of CSR, repairs and certain year-end provisions in the previous quarter. Net profit after tax grew by 27.6% from INR 133 Crores in the preceding quarter to INR 170 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. 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. Two questions from my side, one with respect to the volume growth, it has been a little bit lower than the last three or four quarters average where we have seen particularly strong growth. So I just wanted to understand that is it a base effect that has played out or any other specific reason and the second part to this question is, given the ferocity of the monsoon one has seen in Mumbai in July and continuing in August, are we seeing any impact of that in terms of CNG volume offtake? that is the first question, Sir?

Management: From the CNG volume offtake, yes base effect has contributed a bit. Last year the CNG volume increased almost 9.5%-10% and our guidance has been CAGR of about 6% or so. So, some part of that base effect has played in. The other factor which probably has played in is that there has been about 12% decline in the volumes of CNG sold to state transport undertakings basically because they have scrapped some old buses and are yet to induct new buses that has contributed to the decline in volumes.

Probal Sen: Sir, with respect to let us say what you are seeing in July, is there any monsoon impact that we are seeing, should we be looking at Q2 also being slightly muted for the CNG sector? Is that a fair way to look at it?

Management: Q2 is typically better than Q1. Q1 has a seasonality as you have summer vacations kicking in then, so CNG volumes typically tend to go down, so in the months of April and May what we observe is that some industries in the MIDC area face partial water cuts, so production comes down, Q1 is seasonally with the low volumes. In Q2, even with any kind of monsoon, there should be an improvement. But how much of an improvement, that time will tell.

Probal Sen: Second question I had of course was on the margins. We have reported pretty much record margins- as well as both gross margins and EBITDA per SCM. Our estimates suggests that the gross margins for the commercial & industry have actually increased very sharply in Q1. So, just wanted to understand that are we seeing the same trend, given the spot LNG prices remain low



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and the second part is that can we quantify how much spot LNG is there in our portfolio? We understand that earlier it was around 0.2 to 0.3 MMSCMD of spot that we were consuming. Is it at that same level or has that gone up?

Management:

First about the margins, industrial and commercial, you are right, margins have improved significantly. Those are on two accounts, both on net realization as well as on the procurement cost of the gas. As you know, the pricing policy that the company follows with respect to industrial and commercial category is linking with alternate fuel prices. Now since depending upon the oil level, prices of LSHS, FO these kind of alternate fuel were up and that has benefited us on the realization front, but more importantly whether it is as compared to Q4 of previous year or Q1 of previous year, there has been a substantial drop in the procurement price that is rupees MMBTU term for spot gas and entire supply has been through spot gas. There was no long-term or midterm contracted gas, so the full benefit of downward trend in spot gas prices we could get it and that is how you see the impact of better margins in the industrial and commercial. This is what has happened as of now. Now, your next question was, how should be the trend going forward, I think the answer obviously lies in what is going to happen on crude price levels and spot gas prices. It appears that prices of spot gas may continue to be softer at least for a couple of quarters. There is a bit of dip in oil prices. The price realisation will be dependent upon obviously the prices of alternate fuel.

Probal Sen:

Got it. The one way to conclude would be that the realization might see a bit of a drop given the crude prices and therefore alternates have dropped, but spot prices if they remain at this level that benefit will continue at least in the foreseeable future, is that a fair way to look at it?

Management:

Yes, obviously.

Probal Sen:

Alright. Thank you very much, Sir. I will come back for more questions.

Moderator:

Thank you. The next question is from the line of Amit Rustagi from UBS Global. Please go ahead.

Amit Rustagi:

Thank you for the opportunity. Sir, could you explain us about the volume sold to State Transportation Corporations? How much is it as a percentage of CNG sold and what is the outlook on this volume, given the BEST is now talking about addition of new CNG buses in Mumbai?

Management:

STU volumes are about 8% or so of total CNG volumes and BEST is talking of they have come out with a tender for 500 CNG buses, so hopefully those volumes of STU go up again in the coming quarters.



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- Amit Rustagi:** Sir, second question remains that how do we look at the bidding opportunities? like our MD has just explained that India has a great opportunity in terms of CGD sector, but if you see we have restricted ourselves to 2 to 3GA's only and not able to get any new GA in the last few bidding rounds. So, are we going to be more aggressive in terms of or going into some joint venture with the cities which have already been awarded? What is our strategy of growth outside the existing GA's?
- Management:** Currently we are in a wait and watch mode. , but premature to say exactly how things will pan out, having said that there is sufficient potential in our existing area, the residual potential is huge. If you look at a GA like Raigad, the new airport and other development is happening there, we do not see any lack of opportunities for growth.
- Amit Rustagi:** Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Rohit Ahuja from BOB Capital Markets. Please go ahead.
- Rohit Ahuja:** Sir, thanks for the opportunity. Just wanted to know about your volume growth strategy. What are we doing to increase the rate of volume growth?
- Management:** Volume growth usually follows infrastructure growth. We are focusing on opening more and more CNG stations, connecting more and more customers. The demand is there, but of course there are some challenges also in laying infrastructure in a city like Mumbai. It is highly congested and permissions are difficult to come by but effectively the strategy is to create more on infrastructure will give you the volumes.
- Rohit Ahuja:** Would the Metro construction and then commissioning of the Metro lines over the next 2 to 3 years be a challenge to this CNG volume growth in Mumbai?
- Management:** Not really, in the short-term, there could be some because of traffic congestion, etc., but we have not seen any marked impact. In the long-term, if you go by Delhi as a precedent, Metros do not impact CNG volumes of transportation fuel volumes much, that is because there is so much latent demand for transportation, the number of people moving increases.
- Rohit Ahuja:** Sir, secondly, how do we see EVs especially push for EVs for buses and three-wheelers? Do we see them as a threat? or do you see it more of a long-term?



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- Management:** In short-term we do not see any impact, long-term they could take a small flak of a diesel market probably, but we believe that CNG has a sustainable fuel both in terms of economics and its environment freindliness.
- Rohit Ahuja:** Do we see the recent trend of negative numbers for auto sales or the automobiles in the industry impacting our volume growth over the next 2 to 3 years?
- Management:** Not really. Despite overall automobile sales slowing down, number of vehicles adopting CNG is steady at around 5,000 to 6,000 a month. We have not seen any appreciable drop in those numbers.
- Management:** In fact, we had oppportunity to meet Maruti Suzuki people recently for some other joint initiatives. The data disclosed by them on CNG vehicles in fact was impressive, there was an increase year-on-year, so hopefully that should continue.
- Rohit Ahuja:** Sir, lastly I remember you did give some detail on margins but do we see the current level of margins. We ask this question every quarter and even last year we asked that do we see expansion in margins? So, would you be looking at every opportunity to expand margins given that volume growth has slowed down?
- Management:** See, rather than I think always take whenever such question come up, the objective of the company is to expand its network and expand the customer base. In case of margins right now, the improvement which has come in picture has been predominately helped by industrial and commercial customer categories and the answer lies in the pricing philosophy which we follow. On one hand because the net sales realizations have gone up because prices of alternate fuels have gone up whereas predominant benefit we have received because of the procurement cost benefit. This time, we have strategically taken decision that we will rely entirely on spot gas rather than on midterm or long-term contact for gas which has helped us a lot because there was a considerable drop in the spot gas prices that has helped, so, the margins from particularly industrial and commercial point of view it, will be dependent upon what happens to the crude level prices or alternate fuel prices and procurement cost of the gas whereas CNG domestic, yes, we do take conscious calls and we ensure that any increase in the cost, at least at periodical level, we probably pass through.
- Moderator:** Thank you. The next question is from the line of Yogesh Patil from Reliance Securities. Please go ahead.
- Yogesh Patil:** Thanks for giving me an oppportunity, Sir. In July 2019, OMCs have reduced the LNG prices. They reduced the nonsubsidized LPG cylinder prices by substantial amount. Is this fall in LPG



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prices creating competition on Mahanagar Gas CNG commercial prices and have you taken any price cut on CNG commercial product recently?

Management: In Industrial and commercial market segments, our prices are correlated or index alternate fuel prices. So if those prices would have fallen, our selling prices also would have fallen.

Yogesh Patil: Based on our understanding you have long-term and short-term LNG sourcing contracts, which are mostly crude linked. So, in the last 6 months spot LNG prices are lower than the crude link LNG prices, so are you planning to negotiate your long-term and short-term LNG purchase contracts and is there any clause in your contract?

Management: No, we never had any long-term contracts, our short-medium terms contracts expired sometime back, currently we are on spot gas, so there is no question of renegotiations of any LNG prices.

Yogesh Patil: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Manikantha Garre from Axis Capital. Please go ahead.

Manikantha Garre: Thank you for the opportunity, Sir. The 240 CNG stations that you have mentioned earlier also includes the 13 stations at Raigad?

Management: Yes, it includes.

Manikantha Garre: What is the target for CNG stations addition in this year, Sir?

Management: This year target is of 46 new CNG stations. We will be doing in year 2019-2020.

Manikantha Garre: How easy or difficulty is it for OMCs you have some tie ups with OMC stations, so easy or difficult it is for them to add more dispensers if at all the PNGRB's new regulation on the marketing exclusivity getting over gets implemented?

Management: Actually, these regulations are yet to take its own shape. PNGRB have developed the concept paper and that is still going on under debate with all the stakeholders and in the interested entities, so what will be the outcome of that concept paper is still not known, but nevertheless we are also expanding in other areas than OMCs we are having our own dealer owned stations as well as we are also searching for our own land, so to make it comfortable to meet the demand, so that is a parallel planning that is already going on.



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- Manikantha Garre:** Sir, I can just follow up to that question, how many of this 240 CNG stations are in collaboration with OMCs as of now?
- Management:** As of now, 170.
- Manikantha Garre:** Sure, Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** If you could just give the LNG delivered cost last quarter and currently what is the price that you are getting at?
- Management:** We do not discuss this data openly, but approximate figures we can talk about. The basic price procurement was in the last quarter was somewhere around \$9 per MMBTU whereas it has dropped down almost to \$6 per MMBTU. that kind of range it was.
- Vishnu Kumar:** For the entire last quarter it was \$9 and now it has dropped to \$6?
- Management:** Approximately ,yes.
- Vishnu Kumar:** For the industrial and commercial customers, what is the lag factor with which you revise down prices, every month or 15 days?
- Management:** Every month.
- Vishnu Kumar:** And if you could just roughly give us what percent in terms of absolute rupees per SCM, how much have you reduced it by quarter-on-quarter? If you have some rough numbers?
- Management:** Reduced what?
- Vishnu Kumar:** The industrial and commercial pricing for June quarter and let us say currently as we are in August, how much is the reduction in prices to them from June quarter to now?
- Management:** In fact, realizations have improved.
- Vishnu Kumar:** Ok, But crude has been correcting from about 68 now to 58, so with that it should be coming down?



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- Management:** That we will see in the forthcoming quarter if any changes are happening. If you talk about LSHS which was predominantly used fuel for industry it was around Rs.35000 per tonne whereas in the Q1 of 2019-2020 LSHS was around Rs.37000 per tonne.
- Vishnu Kumar:** Ok, Thank you.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.
- S. Ramesh:** Good evening gentlemen. Thank you very much. First of all in terms of your industrial and commercial segments, what is the discount based on the current price relative to the commercial LPG and LSHS?
- Management:** Discounts range up to 10%, in some sectors we are selling at parity, some we give 5% to 10% discount.
- S. Ramesh:** Sir, if crude prices fall by another 5% to 10%, it means your realization in industrial and commercial segments would follow that trend, to understand correctly?
- Management:** Yes, usually liquid fuel prices are correlated with crude oil prices, if crude oil prices fall, liquid fuel prices tend to fall.
- S. Ramesh:** So, if you look at the domestic LPG segment, what is the current discount related to the subsidized LPG?
- Management:** It should be at about parity or may be a couple of percentage points premium.
- S. Ramesh:** Sir, if we are looking at in the next 1 to 2 years, when CNG I think will have some headroom related to petrol and diesel prices, in the PNG segment if we were to see oil prices continuously falling because the global demand doesn't seem to be strong, what is your company strategy to remain competitive because if you have to match, particularly in the subsidized LPG segment or the Fuel oil segment in the sense of product discount, what is your strategy going forward in terms of remaining competitive in the piped gas segment?
- Management:** Our strategic priority is volumes, so what we tend to do is that we take the price risk, but we take very little volume risks, our selling prices track the prices of alternate fuel and we maintain parity of small discount level there, but that ensures that we keep aggregating volumes overtime.
- S. Ramesh:** Sir, if we are looking at the vehicle population of 7 lakhs and the annual run rate or the monthly run rate, we are talking about, what percentage is the normal conversion of private cars?



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- Management:** Private cars, about 2,000 odd convert every month and we cannot call it conversation because majority now are OE fitted passenger vehicles, but the OE and retrofit put together is 2,000 plus every month.
- S. Ramesh:** That is about third of the monthly addition. Thank you very much.
- Moderator:** Thank you, Sir. The next question is from the line of Nilesh Ghuge from HDFC securities. Please go ahead.
- Nilesh Ghuge:** Sir, my question is on capex. What is our planned guidance for this year for the capex?
- Management:** It will be in the range of INR 350 Crores to INR 400 Crores.
- Nilesh Ghuge:** INR 350 Crores to INR 400 Crores?
- Management:** Depends on the different permissions that we receive, but that is the aim of the company.
- Nilesh Ghuge:** Sir, what are the industrial and commercial prices? because last quarter also you shared this number, so retail prices for the industrial and commercial?
- Management:** Net realization we can talk about because we do not disclose specific pricing structure as such, but for the current quarter commercial put together was around INR 38 per SCM whereas in case of industrial it was around INR 33 per SCM.
- Nilesh Ghuge:** Can you share the split between the industrial and commercial in terms of volume in MMSCMD or SCM? whatever you have?
- Management:** Yes, approximately it is 8% and 6% to the total volume.
- Nilesh Ghuge:** 8% for commercial?
- Management:** Commercial.
- Nilesh Ghuge:** Thank you. Thanks a lot, Sir.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thanks. Good afternoon, just wanted to check there is a belief that if this exclusivity were to go and the private players have to come, it is possible only if the PNGRB act is amended. Do you agree with this on the Supreme Court ruling in the case of IGL in 2015?



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- Management:** Well, may be the regulation may need some amendment or reenactment, but in general the act does contemplate marketing competition.
- Vidyadhar Ginde:** So, you are basically saying that PNGRB can handle it at its own level?
- Management:** Yes, but they will need to frame some new regulations.
- Vidyadhar Ginde:** Which they can, the government does not need to play any role, because if the act has to be amended, I presume the government will have to?
- Management:** No, the government also would probably have a role to play in setting what could be a marketing eligibility guidelines.
- Vidyadhar Ginde:** Getting gas at a similar price?
- Management:** Sorry, can you repeat that?
- Vidyadhar Ginde:** So, are you talking about government's role in ensuring that the new player gets gas at similar price to the incumbent, because otherwise even if the regulations are in place probably no competition will come, are you talking in that sense or are you also saying that in modifying the regulations, the government needs to do something?
- Management:** No, regulations are framed and modified by the regulator and not the government.
- Vidyadhar Ginde:** Correct, so basically there PNGRB can do that.
- Management:** Yes, PNGRB have got the powers to do that.
- Vidyadhar Ginde:** So, let us say PNGRB were to come with these regulations and they allow competition where the exclusivity period has ended, you are not likely to challenge that in the court or something?
- Management:** See, regulations if they are coming out of this Act and are compatible with that Act, then only they can implemented, but what has been found earlier is that this regulation have been challenged on this ground that they are not as per the Act, so is to be seen whether PNGRB is in a position to make such regulations. As of now, the regulation on this introduction of third party has not come and this third-party entry and the tariff regulations have already been challenged, because they are not compatible with the act.
- Vidyadhar Ginde:** So, you are saying this has already been challenged?



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- Management:** Tariff regulations have been struck down with the Supreme Court, PNGRB is in the process of doing some public consultation going forward and the exclusivity regulations are also under challenge in Delhi High Court.
- Vidyadhar Ginde:** Which is after PNGRB came out with the?
- Management:** Yes.
- Vidyadhar Ginde:** That is a separate process by one player?
- Management:** Yes.
- Vidyadhar Ginde:** Ok, Thank you.
- Moderator:** Thank you. The next question is from the line of Anuj Jain from Value Quest Capital. Please go ahead.
- Anuj Jain:** Thanks for the opportunity, Sir. I have a query regarding Raigad, so can you provide some light on the opportunity size of Raigad in terms of total volumes of PNG or CNG. we can do, total revenues that we can get from Raigad and second part to it is that what amount of capex we have already done for Raigad and what amount of capex we have to further do to get that revenue and volumes from Raigad?
- Management:** On capex front first, we have spent so far around INR 50 Crores odd. May be in the current financial year, we will be talking about INR 75 Crores or INR 100 Crores depending upon the permissions which we get.
- Management:** Volume potential about a year back or so, our estimate was in Raigad could yield about 0.6 to 0.7 MMSCMD, split roughly equally between CNG and industrial volumes. Raigad has a very low population density, so domestic and commercial potential is relatively low, but CNG and industry is high.
- Anuj Jain:** You said that INR 75 Crores to INR 100 Crores of capex depending upon the permission. So, can you further throw some light on what kind of permissions are still pending?
- Management:** We require permission from various authorities, for example, if there are any highways coming in between, we need permission from Highway Authority. In case of any rail crossing is involved, permission will be required from Railway Authority. More importantly whatever local authorities like municipalities are there, those permissions will be required, there will be



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permissions from police and PWD. All these are the authorities through which permissions will be required.

Anuj Jain: And currently what volumes are we doing in Raigad?

Management: We are doing more than 30,000 SCMD.

Anuj Jain: Ok, Thank you ,Sir.

Moderator: Thank you. The next question is from the line of Jigar Shah from MayBank. Please go ahead.

Jigar Shah: My question pertains to the volume growth trajectory of the company given that we have seen tailwind from adoption of CNG by automakers such as Maruti and also BSVI becoming reality in the next 6 months, how do you see the potential for more mass CNG adoption by automobile users and can that really step up our growth rate? that is my question if any more light you can throw on the subject?

Management: Directionally, all the environment seems to be favorable for CNG because CNG is soon going to become a pan India phenomenon, and the OEMs are taking active interest now in coming out with CNG variants. As our CFO said, we met the Maruti people sometime back. Even though the overall automobile sector sales numbers are down, the CNG variant sales are shooting up and as this becomes more of a pan India phenomenon, there is another potential, which will open up, which is intercity transport, which can also potentially push up CNG volumes and only limited caveat in a city like Mumbai the growth in volumes will also be dependent on how many stations we can put up because it is difficult to get land for sites in Mumbai, outside Mumbai it is relatively much easier.

Jigar Shah: So, versus your today 240, how many would be an ideal situation for you as a matter of number of stations?

Management: As told earlier that we are planning 46 new stations which includes the up gradation of the old station as well, so this is our plan to include in this current financial year.

Jigar Shah: One last thing on a lot of LNG usage picking up for the automobiles, are you planning to do any joint work with anybody on this area?

Management: LNG vehicles are currently not available commercially for sales in India as far as we know, but we do have plans to set up what we call LCNG station where we will be selling CNG initially, but we will have the ability to sell LNG as and when LNG vehicles become a reality.



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- Jigar Shah:** Thank you Sir and wish you all the best.
- Moderator:** Thank you. The next question is from the line of Abhijit Bora from Sharekhan. Please go ahead.
- Abhijit Bora:** Sir, can you just specify why was the CNG volumes lower in this quarter, I understand there was base impact and there was a lower demand from the BEST, but apart from this was there any reason for the down in sales volumes?
- Management:** Broadly these are the two key reasons.
- Abhijit Bora:** Can you also guide for overall sales volume growth in FY2020, you guided for CNG volume growing at 6%, but overall what can be the growth guidance?
- Management:** We have been maintaining that our 5-year CAGR would be in the range of about 6% or so, and currently we are sticking to that guidance. We have also maintained in the past, that 6% CAGR does not mean that every quarter or year you will be at 6%, in some it could be better, some it could be lower, but the direction of CAGR at 6% is what we are still maintaining.
- Abhijit Bora:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nitin Tiwari from Antique Stock Broking. Please go ahead.
- Nitin Tiwari:** Sir, good evening and thanks for taking my question. It is related to your industrial and commercial segment, so in the beginning of the call you have mentioned that you added close to about 42 industrial and commercial consumers, so if you can just help me with the breakup of the total industrial and commercial consumers that you have, which is 3,866 in terms of one industrial and how many of them are commercial and then a related question that despite addition of more consumers, your sale in industrial and commercial segment actually went down on a sequential basis. So, was that a result of higher pricing that has been there and then I remember in one of your previous calls, you had mentioned that industrial consumer segment as a category is sort of de-growing because lot of industries are shifting out of Mumbai because of higher land prices. So, how do you see this segment going forward in terms of pricing, what is the strategy that you are following? Are you looking into growing business in this segment by offering them better pricing or you will be sweating the segment out because whatever is there has to be maximized in terms of margins?
- Management:** If you look at the industrial and commercial segments, the total number is about 3,700 odd majority more than 3,500 would be commercial the small restaurants, etc., large industries, that would be about 80 of them and then the remaining couple of 100 would fall somewhere in



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between large industry and small companies. As we mentioned earlier, the industrial segment is 8% of our volumes, commercial is 6% of our volumes. If you look at the last quarter, the industrial volumes were down compared to Q4 of last financial year and as we mentioned there is a seasonality which plays and summer month typically volumes also go down

Nitin Tiwari: Sir, it is not an outcome of pricing that you are seeing because if I look at 6% say commercial volume, which would still be slightly lower than what you would have in the first quarter of FY2019, so I do not have the exact number, here I am only going by the direction that you gave, so first quarter FY2019, it was about 16.3 and this quarter it should be around 16, I am just looking at directionally?

Management: No, pricing nothing to do, as we mentioned earlier, our prices are tracking alternate fuel prices, so we have not tweaked any of our discount levels or anything, we need to get the same value proposition.

Nitin Tiwari: So, is the space sort of saturated in terms of number of opportunities we have in terms of consumers or there is still scope of growth or growing the space as a consumer segment?

Management: In the commercial segment, there is a lot of potential, we have got a 30% odd penetration level only, but Industrial segment in Mumbai there is degrowth because whatever few industries are there, they are closing and moving out, but on an overall basis we are still growing because we continue to grow our industrial volumes in GA2 and GA3.

Nitin Tiwari: Right. Thank you.

Moderator: Thank you. The next question is from the line of Chandrasekhar Sridhar from Fidelity. Please go ahead.

Chandrasekhar Sridhar: Thanks. First question is that the new Mumbai Development Control Regulation that is supposed to provide 35 slots for fuel retailing; has that actually happened and your thoughts on that and then will there be opportunities to set up stations in that? That is the first question. The second is that I think the way it looks like your input cost from October 1, it is most likely that domestic gas prices may actually trend down, if that were to happen what is the philosophy on you just on your own pricing? Would you actually lower prices then or are we keeping them where they are?

Management: As regards to your first question, yes, the development plan, we understand has been approved by the state government, but it will take definitely some amount of time before whatever places have been approved for the fuel outlet. So as and when those things will come in picture definitely CNG will also have an opportunity for co-locating at least the outlets and can you repeat your second question please?



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Chandrasekhar Sridhar: It is most likely that on 1st of October, that the domestic gas price should be likely revised lower?

Management: Yes, generally the philosophy followed by company is to share the benefits along with customers, so we ensure win-win situation. Whenever the prices drop, we do pass on some benefit to the customers. Some of it might be retained, in case we have to cover other operating cost and same way whenever there is an increase, we pass on those costs to the customers.

Chandrasekhar Sridhar: Just on the first, I am trying to understand that with the DCR how long fuel stations can actually start or get the permission to start up, how long?

Management: We do not have a firm answer on that, but typically once the site is made available, getting all the permissions and then construction takes as long as may be two years or so.

Chandrasekhar Sridhar: Thank you.

Moderator: Thank you. The next question is from the line of Reena Shah from Ashika Stock Broking. Please go ahead.

Reena Shah: Basically my first question is there has been some revision in pricing upwards; due to increase in tariff in pipeline, so I just wanted to know what kind of percentage increase in cost did you witness and what percentage of that did you pass on?

Management: There was a small increase in the regulated transportation tariff in the pipeline, but we have passed that on in the first quarter of this year.

Reena Shah: Ok, The BG stake sale, any update on the same?

Management: Yes, they were planning, as of now, we do not have any concrete answer, but it will be totally the prerogative of the promoters that is BG or Shell now.

Reena Shah: Ok, Sir, do we see any transfer decline in cost of gas procurement to industrial or commercial customers going forward?

Management: No, the industrial and commercial customers selling prices are not a function of our purchase prices. The selling prices track the prices of liquid fuels which are typically used by those consumers, so we have a small discount on liquid fuel and that is how our prices are returned.



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- Reena Shah:** Sir, last question that the CNG conversions, you told that you expect some 2,000 private vehicles and 4,000 auto's to convert. Do you see same kind of conversions today or conversions have reduced?
- Management:** There would be a marginal drop in the conversions compared to last year, but not very significant.
- Reena Shah:** So, any number that you can give?
- Management:** I think in the first quarter, some 18,000-odd vehicles have come on board.
- Reena Shah:** Thank you so much, Sir. That is it from my side.
- Moderator:** Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.
- S. Ramesh:** Thank you once again. Just a couple of follow up questions, one is in terms of the capital expenditure, can you give us some breakup in terms of how much for CNG stations and how much for your PNG pipeline and how many stations are left to be completed in the 46 stations' target?
- Management:** Your second question is not well understood; anyway talking about your first question breakup of capex, we have talked about around 46 stations made up of new stations as well as upgradation. New stations approximately, can cost anywhere between INR 3 Crores and INR 4 Crores including the branch pipelines, which are required whereas up gradation could be in the region of INR 1 Crores to INR 1.5 Crores, so depending upon how many stations come up that will be the expenditure on CNG whereas the rest of the majority expenditure will be on steel pipeline, medium pressure pipeline, which are made up of polyethylene and of course the last mile connectivity.
- S. Ramesh:** In terms of the tax structure of the industry on the cost and the selling price, the cost of gas this quarter is coming to around INR 13, so that is primarily based on the APM gas price of INR 3.69 or so, can you give us the build up on the base price? Is it included in the cost of gas and rupee SCM percentage?
- Management:** Well on the top of the commodity price, it will have the regulated transportation tariff and then since gas is not in GST, that is another 13.5% VAT involved and that comes to CNG there is about 14% excise on top of that.
- S. Ramesh:** I believe if it is coming from Gujarat, there will be interstate VAT as well. Does it apply to your company?



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- Management:** Yes, that will be applicable and for which we will not get any set-off.
- S. Ramesh:** It is about 15%, right?
- Management:** Yes.
- S. Ramesh:** Thank you very much.
- Moderator:** Thank you. Next question will be the last question for the session, which is from the line of Jayesh Gandhi from Harshad Gandhi. Please go ahead.
- Jayesh Gandhi:** Sir, confirmation that in Greater Mumbai and Thane district we do not have any marketing exclusivity, right? And Raigad is getting over in 2020?
- Management:** Yes, as per as the PNGRB regulation that is correct.
- Jayesh Gandhi:** Do we have any competitor in Greater Mumbai and Thane district currently?
- Management:** No.
- Jayesh Gandhi:** And just a few days back, a concept paper, which has been circulated by PNGRB, it talked about tariff determination as well. I think two tariff formulas were floated. If say that one tariff of them is accepted, what can be the impact on our margins?
- Management:** Margin is the effect of whatever returns on regulatory asset as well as the margin portion which we will get on the commodity and you know that the end prices are not controlled, it was well established in the Supreme Court case many years back it took place between IGL and others versus PNGRB, also where Government of India had also filed an affidavit stating there is no intent to control end price, so per se just because the regulated tariff is decided does not mean there is going to be impact straightaway on the margins.
- Jayesh Gandhi:** So, may be the margins can still sustain even if any of the two formulas are chosen?
- Management:** That business scenario will pan out, but as answering your specific question whether there will be any change just because there will tariff decided from regulation point to of view, from that point of view the answer is no.
- Jayesh Gandhi:** Thank you, Sir. That is all from my side and best of luck for future.
- Moderator:** Thank you. I now hand the conference over to the management for closing comments.



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Management: Thank you all of you. Thank you.

Moderator: Thank you. On behalf of Ambit Capital we conclude this conference. Thank you for joining us.
You may now disconnect your lines.

Contact details :

Investor Relations:

Email : investorrelations@mahanagargas.com

Registered Address:

MGL House, G-33 Block,

Bandra-Kurla Complex, Bandra (East),

Mumbai, Maharashtra, 400051

Website : www.mahanagargas.com

CIN : L40200MH1995PLC088133