"Gail India Limited

1QFY24 Earnings Conference Call"

July 31, 2023

**MANAGEMENT:** **MR. RAKESH KUMAR JAIN – DIRECTOR FINANCE – GAIL INDIA LIMITED**

**MODERATOR:** **MR. VIVEKANAND – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to Gail India Limited 1QFY24 Earnings Conference Call hosted by Ambit Capital. 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 and operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vivekanand from Ambit Capital. Thank you, and over to you, sir.

**Vivekanand:** Thank you, Seema. Good evening, everyone. It is my pleasure to welcome all the participants and the management of Gail India Limited, led by Shri Rakesh Kumar Jain, Director Finance, along with other senior executives. On behalf of Ambit Capital, it's a pleasure for us to receive all of you this evening.

I would now like to request Shri Rakesh Kumar Jain to give you his initial comments and then we can move on to the Q&A. Over to you, Rakesh, sir.

**Rakesh Jain:** Thank you, Mr. Vivekanand from Ambit Capital. My colleague sitting with me here in our boardroom. My dear friends from investors and analyst community, a very good afternoon and warm welcome to Gail's earnings call for 1Q 2024. At the outset, I thank you all for attending this earnings call. I am pleased to share with you that Gail received great comments from CAG with respect to financial statements for financial year '22/'23 which is 14th year in a row.

Further, our Gail, Vijaipur Unit received 18th cost excellence, first position in manufacturing sector, public medium category from the Institute of Cost Accountants of India. Also, by acquisition of JBF Petrochemicals Limited, it has successfully become wholly owned subsidiary with effect from 1st June 2023 and the name has been changed to M/s Gail Mangalore Petrochemicals Limited.

Gail has seen a very challenging business environment in previous quarters of financial year 2022-23 for reasons explained to you during various calls and communications. The stress seems to be easing and going forward we expect a favourable outlook and better business prospects.

Gail’s results for quarter ended 30th June 2023 have been declared today and physical performance in gas marketing, gas transmission, petrochemicals and LHC segment has improved in 1QFY24 as compared to previous quarter.

Gross turnover for the quarter stood at INR32,138 crores. PBT stood at INR1889 crores, an increase of 220% over the previous quarter, PAT at INR1,412 crores, an increase of 134% over previous quarter.

On a consolidated basis, Gail clocked a turnover of INR32,755 crores in 1QFY24 versus INR33,086 crores in previous year, down by 1%. PBT is up by 231% to INR2,283 crores and PAT is up by 150% to INR1,793 crores.

The capex for 1QFY24 is approximately INR2,400 crores. and this on pipelines. To be specific INR967 crores on pipelines. Petrochemicals approximate INR530 crore, CGD approximately INR69 crores, operational capex INR135 crore, equity contributions to JBF and others INR660 crores etc. The company has also embarked upon alternative energy like green hydrogen, renewable energy and biofuel projects which are of national importance and would provide a transition to sustainable future.

Now I would like to share the performance highlights of 1QFY24. Financial highlights, Gail's turnover stood at INR32,138 crores in 1QFY24, as against INR32,684 crores in 4QFY23. There is marginal decrease of 2% due to natural gas pricing being settling down.

Profit before tax during the quarter increase to INR1,889 crores as of INR591 crores in 4QFY23, up by 220%. Mainly due to better performance by our gas marketing segment on account of increase in gas marketing spread, decrease in inventory loss, increased tariff realization in gas transmission along with better performance of petrochemical and LHC segment. The PAT during the quarter increased to INR1,412 crores as against INR604 crores in 4QFY23, up by 134% mainly for the reasons explained above.

Now I come back to the physical performance for the current quarter versus previous quarter. Physical numbers for our business segment during the quarter are as under. Gas marketing volume increased to 98.84 MMSCMD in current quarter as against 96.46 MMSCMD in previous quarter. The increase in volume is mainly due to increase in RLNG sales on account of relaxation in downstream cuts on resumption of SMTS supply and offset with the decrease in overseas volume. Natural gas transmission volume increased by 8.1 MMSCMD to 116.33 MMSCMD in current quarter as against 108.23 MMSCMD in previous quarter.

The capacity utilization is 56% during the 1QFY24. The increase in transmission volume is attributed to increase in RLNG sales on account of relaxation in downstream cut on resumption of SMTS supply.

Polymer production increased to 164 TMT as against 147 TMT in last quarter. The plant load was ramped up post resumption of supply by SMTS. Capacity utilization was 82% for the quarter. LHC production increased to 243 TMT as against 232 TMT in previous quarter. The capacity utilization was 69%.

LPG transmission stood at 1073 TMT as against 1079 TMT in previous quarter. On account of Jamnagar Loni LPG pipeline capacity augmentation by 750 TMT, Total LPG transmission capacity increased from 3,830 TMT to 4,580 TMT and capacity utilization was 94% during the quarter.

Now, with respect to consolidated financials for Q1 as compared to Q4 financial year ‘23, the consolidated turnover in current quarter stood INR32,755 crores as against INR33,086 crores in Q4 financial year 2023, marginally down by 1%. The PBT in current quarter is INR2,283 crores as against INR689 crores in Q4 financial year 2023, up by 231%. The PAT is INR 1,792 crores versus INR634 crores in Q4 financial year ‘23, up by 183%.

Now, coming back to Gail CGD, Gail is having infrastructure of 154 CNG stations and approximately 270,000 DPNG connections. During the current quarter, one new CNG station and approximately 7,000 new DPNG connections were added. The physical volume is 0.3 MMSCMD during the quarter. In the next two years, Gail targets to add over 100 new CNG stations and 200,000 new DPNG connections.

Now coming back to our wholly owned subsidiary, Gail Gas Limited, during the current quarter, gross turnover stood at INR2,192 crores as against INR2,522 crores in Q4 financial year 2023, a decrease of 13% and this is mainly on account of decrease in natural gas prices and bulk trading quantity.

PBT stood at INR102 crores as against INR90 crores in Q4 financial year ‘23, increase of 13%. PAT stood at INR76 crores as against INR67 crores in Q4 financial year ‘23, increase of 13%. The physical volume during the quarter remained flat at around 5.26 MMSCMD. During the current quarter, 1600 new DPNG collections were added. Gail Gas along with its JV subsidies has infrastructure of 870,000 DPNG collections and 456 CNG stations.

Another subsidiary company, Bengal Gas Limited as on 30th June 2023, Bengal Gas Company Limited is having 12 CNG stations, 213-kilometer pipeline and 8,000 domestic PNG connections (infrastructure made available). During the current quarter 2 new CNG station and 22-kilometre pipeline was added.

Now coming back to the project performance. Mumbai/Nagpur Jharsuguda pipeline, this pipeline is total length of 1,755 kilometre. Activities are moving in full swing and Mumbai-Nagpur section of 698 kilometres are expected to be completed by December '23.

Regarding Jagdishpur/Haldia, Bokaro-Dhamra pipeline, 2,550 kilometres out of total pipeline length of 3,293 kilometres have been commissioned and the remaining part is expected to be progressively completed by June '24. Srikakulam to Angul main pipeline of length 423 kilometres is likely to be completed by December '23. PNGRB had authorized to Gail on 11 July '23 to lay the Gurdaspur/Jammu Natural Gas Pipeline, having length of 160 kilometres within 36 months.

Regarding Dhamra/Haldia pipeline, length of 253 kilometre, Odisha portion of the -- length around 150 kilometres expected to be completed by December ’23. Barauni-Guwahati pipeline, 363-kilometre section out of 717 kilometre has been commissioned, the less portion is expected to be commissioned -- completed by October '23.

Now let me give you some outlook about our various segment and this outlook is short to medium term. In respect of natural gas transmission, company has implemented integrated tariff with effect from 1/4/2023 post implementation of integrated tariff of INR58.61 per MMBtu.

The transmission revenue have seen an upside of approximately INR660 crores in Q1 financial year '24 and this increase is expected further increase with the volume ramp-up, which is expected to grow by 6% to 7% from existing level of 116 MMSCMD. Let me tell you, once again, currently, we are flowing around 116 MMSCMD volume and it is expected to grow by 6% to 7%.

Increase in transmission volume from 116 MMSCMD to 123 MMSCMD. We expect by the end of this financial year, we will be reaching transmission volume at the level of 123 MMSCMD. Further, during next 2 to 3 years, there will be increase in transmission volume by around 15 MMSCMD, that means we are expecting the transmission volume will be somewhere around 130 to 140 MMSCMD.

Further, the company has submitted a representation of a review of the moderation done by PNGRB in the tariff order as integrated tariff of INR68.55 was committed to the regulator, gas tariff of INR58.61 per MMBtu was approved. You may recall that Gail submitted tariff 68.55 regulator approved INR58.61 and the major reduction regulator has done on account of fuel cost which is INR5.76, and they consider the fuel cost at the rate of $3.61 and that price does not exist.

So, there are some more parameters, but this is a significant parameter that I saw that bring to your notice and we expect that tariff will be increased and INR5.76 was on the date of issue of order on an NPV basis, it will further increase.

Gas marketing for financial year '22-'23 has witnessed challenges in profitability of gas marketing segment and various mitigation efforts were put in place, despite all challenges Gail able to cloak gas marketing profit of INR3,000 crores during financial year '22/'23. Global gas market is settling down, as many of the negatives such as elevated spot price, shortfall, geopolitical situation is improving. This is visible from the volume ramp-up in domestic conjunction.

Let me remind you that during the analyst call we had in Mumbai at the end of the financial year in May 2023, we said that we expect to earn marketing margin of approximately INR3,500 crores and today, we maintain the same -- that at least we'll earn marketing margin of INR3,500 crores in financial year '23/'24 as informed earlier. And this is also evident and supported by the fact that during the current quarter, that is Q1, FY '24, we earn marketing margin of approximately INR1,000 crores.

Gail is planning to source long-term natural gas supplies approximate to the tune of 7 MMTPA to 8 MMTPA from sources in staggered manner by 2030 and do not intend to depend on one country for more than 1 to 2 MMTPA of volumes. This will help to protect from sudden shocks like steep hike in a spot prices SMTS -- disruptions like SMTS supply disruption we had.

Polymer production stood at 164 TMT as against 147TMT in last quarter. The production has increased on account of plant being operated at higher load further during the year 23-24. It is expected that we may touch the nameplate capacity of around 8,10,000 metric ton. Liquid hydrocarbon production stood at 243 TMT in Q1 financial year 24 and during the year, production is estimated at a same previous level production also to protect the margin in LHC segment.

Gail is effectively involved in hedging of LHC prices LPG prices I beg pardon. That's all from my side regarding the overview of performance of various segments and project progress. The management of the company is available, and we'd like -- we'll be glad to clarify on any questions that you may have. Over to you, Mr. Vivekanand. Thank you.

**Moderator:** Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Mr. Amit Rustagi from UBS. Please go ahead.

**Amit Rustagi**: Yes, sir, thanks for this wonderful performance on the transmission and other segments. Sir, I have two questions. One is, can we assume in the transmission segment, that's the revenue we have earned on 116 MMSCMD volume, this kind of revenue run rate will be maintained even in the Q2 to Q4 and can we analyze this revenue, and it will -- it is adding towards INR10,000 crore plus on an annualized basis?

**Rakesh Jain:** Second question...

**Amit Rustagi:** And the second question is, can you give us a breakup of the transmission costs because in this quarter also, we have witnessed higher transmission costs. So, can you give us a breakup like how much was the fuel cost and how much was the normal expenses in this quarter on the transmission side?

**Rakesh Jain:** Okay. With respect to your first question, we expect that this transmission revenues not only to be maintained, but to further increase and your expectation of INR10,000 crores we are likely to achieve.

**Amit Rustagi:** Okay.

**Rakesh Jain:** And with respect to transportation costs there are -- as we said in our Annual Earnings Call that we were carrying costly gas, that is the US40 per MMBtu, which we purchased some time in last quarter -- last quarter of calendar year '23 in order to meet the immediate reduction in the allocation which we had. So, that is one impact, which we had during this quarter, and if you want the amount, we can also share that is one impact that we are having -- that is around

INR172 crores, we have booked extra cost during this quarter, which is no more going to exist in coming quarters.

Second, we also made a provision of around INR60 crores on account of one arbitration case the company had. So, that is another one-off in this segment. So, around INR233 crores to be precise is one-offs or costly gas, which we don't see in coming quarters.

**Amit Rustagi:** Okay. Sir, can you give us like annual run rate because there has been a significant increase in revenues. However, there has been a significant increase in cost, even if I adjust this INR233 crores. So, for example, like I am assuming 1.5 MMSCMD gas consumption in the transmission segment at an annual -- at a cost of around USD12 per MMBtu. Will that be a correct estimate for the fuel and power cost or the compression costs in this segment?

**Rakesh Jain:** Yes, for the reduction in the allocation of APM gas, the INR12 or sub USD12 will be the cost, which we are likely to be booked to our fuel – as a fuel to our compressor.

**Amit Rustagi:** Okay, sir got it. Sir, just one question more on the city gas distribution. So, are we looking to monetize any of our city-gas distribution assets because we are seeing a significant amount of profitability coming from MNGL even our Gail gas is doing well. So, what is the plan on outlook on monetization of any of the entities in the city gas distribution?

**Rakesh Jain:** The one is our wholly owned subsidiary, certainly that call we can take, and we are evaluating. Another is a joint venture. So, two promoters have to sit together and take a call. Nevertheless, we are reviewing and considering the same for monetization. So, that evaluation part or the examination part is in hand.

**Amit Rustagi:** Okay, sir. Got it, sir. Got it. Sir thanks a lot for this. I'll come in the queue. Thank you, sir.

**Rakesh Jain:** Thank you.

**Moderator:** Thank you, sir. We take the next question from the line of Mr. Probal Sen from ICICI Securities. Please go ahead.

**Probal Sen:** Thank you for the opportunity. Congratulations on the strong sort of numbers. I just had a couple of questions. One is, with respect to the trading segment, sir, do you now have any volumes available for overseas sales to take advantage of the arbitrage and basically it on the fact that now with the Gazprom new subsidiary, I presume all of the lost volumes are now actually flowing through into our company, all the 8.5 MMSCMD, 9 MMSCMD. So, are there any volumes available for hedging or opportunistic sales outside the country?

**Rakesh Jain:** Whatever volume we have from overseas, we have intent to bring all the volumes to India. So, therefore, in terms of the availability of volume, certainly, we don't envisage any trading of volumes in the international market, except to what we have done in past for the current year and next year. And -- but this -- when I'm making this statement, this does not mean that we will not do it, but in case some arbitrage is available. We find that we can take the advantage of the situation, certainly, U.S. volume being flexible volume. We'll continue to do that. But in terms of requirement, there is no extra additional or we have any surplus volume available, which we think that we will not bring to India. We intend to bring 100% volume to India.

**Probal Sen:** So, no such sales actually happened in Q1, sir, is my understanding correct?

**Rakesh Jain:** We have not done any trading specifically. As I said, whatever contracts we did in past in terms of swaps and all those are continuing, and we have not done any specific cargo trading in Q1.

**Probal Sen:** Right. One housekeeping question, sir. Can we -- you spoke about the capex that has been done in 1Q of around INR2400 crores. I just wanted to get a sense of what FY '24 capex guidance is for the overall year?

**Rakesh Jain:** We intend to expand around INR9,000 crores to INR10,000 crores as a capex during current financial year.

**Probal Sen:** Sir, would it be possible to break it down on segments. Is there any change from the presentation what was made?

**Rakesh Jain:** I'm coming to the specific figures. We intend to invest around INR5,000 crores on pipelines, INR1,400 crores in petrochemicals and operational capex in the same range then equity around INR1,000 crores and E&P around INR300 crores and city-gas distribution around INR200 crores. This is around INR9,100 crores we are estimating as of now.

**Probal Sen:** Understood.

**Rakesh Jain:** Let me correct you. There is a -- let me give a revised figures. Let me come back again. So, what I said about pipeline around INR4,000 crores and petrochemical around INR3,000 crores. In anecdotally I told you the figure of 22-23. So, pipeline INR4,000 crores, petrochemical around INR3,000 or to be specific INR3,200 crores, and we also intend to incur operational capex INR700 crores and then CGD INR200 crores, and then the equity contribution -- substantial equity contribution is there during this year around INR3,500 crores. As you know that we have acquired JBF-Petrochemicals already, we have paid INR2,100 crores as equity contributions. So, this is what we plan for the 23-24.

**Probal Sen:** All right sir. I'll come back if I have more questions. Thank you so much for your time.

**Rakesh Jain:** Thank you.

**Moderator:** Thank you sir. We take the next question from the line of Mr. Abhishek Megam from B&K Securities. Please go ahead, sir.

**Abhishek Megam:** Yes. Thank you so much for the opportunity. So, first question is on the petrochemical loss. So, my understanding is, I mean, if I look at your volumes, you are now operating almost close to 80% or so utilization. The loss has reduced on a Q-on-Q basis, but it still remains. So, if you could just give us some clarity on what is happening there? So that's my first question.

**Rakesh Jain:** Unfortunately, the petrochemical prices in international market has come down significantly. Even if you compare with the Q4 last year, it has come down by INR8,000, and if you compare with the whole year, it has further come down. That's what is hurting us though still we are able to reduce the loss. We are not only able to recover variable costs, but also to some extent, the fixed cost part of it.

And as we produce both because Q1, we did not produce to be capacity, we will further able to recover our fixed cost. And second, the -- this is the history. But future, what we expect that this is -- there has been a significant drop in the LNG prices. We are capable of sourcing the better gas at a better price. So, therefore, the -- this significant improvement as we close the year, but it is actually difficult to give me a precise figure will be better off than Q1 '24.

**Abhishek Nigam:** Fair enough. So that's very helpful. And the second question from me is on the tariff revision. So, as you mentioned that in Gail we allowed a lower tariff, and they took into consideration lower fuel costs, and we were trying to tell them to come up with a more realistic tariff number. Sir, is it possible for you to sort of give us a sense of the timing when this further revision could come through? I know this is tough because it's really the PNGRB, but any clarity would be very helpful?

**Rakesh Jain:** Actually, the moment the tariff order was issued within the timeline, we've made our submissions to PNGRB. They heard us once and then now put the date for hearing us again in November. Of course, they have given a very delayed date. So, we have action in hand, we'll go them and expedite that date to be earlier date because the sooner they do, it will helpful from the customer's point of view because you know the tariff is calculated on DCF basis, the delay will means Gail will get its share, but customer will get loaded because of the net present value of the money.

So, we are concerned also from a customer point of view. We will get the money maybe by November. But if not by November, certainly, we should get by the end of this financial year. But as you already said, it's difficult because if the regulator's job when they take up it, our job is only to expedite and which we are doing.

**Abhishek Nigam:** Sure. Sir, that's very helpful. Thank you so much. That’s it from me for now.

**Moderator:** Thank you, sir. We take the next question from the line of Maulik Patel from Equirus Securities. Please go ahead, sir,

**Maulik Patel:** Thanks for the opportunity. Sir a couple of questions. One is on the volume side. This 116 MMSCMD volume has been one of the highest. Can you just give some kind of guidance or the colors and where we can see this volume because there is a couple of auctions happened in the domestic side, particularly MGL, where the volume is still ramping up, and what do you expect this by the end of this financial year, the volume can be for the classified segment? That's the question number one, sir.

**Rakesh Jain:** So, as I said in my opening remarks, currently, we are transmitting 116, and by the end of the year, I said and your question is, we will expect to reach by 123 MMSCMD.

**Maulik Patel:** This growth is coming from this segment?

**Rakesh Jain:** Yes. So, growth will come because, as you know, that we were not running Pata plant to its full capacity, we expect 1.5 MMSCMD to come from there, and when I said 116, it does not include the volumes. So, HURL Barauni and Sindri, which they were in shutdown for past 1 week. So, they take 4 MMSCMD. RCF Thal was drawing almost 1 MMSCMD less and restoration of Dadri-Panipat pipeline. As you must have gone through the papers, news that there is a disruption in supply through Dadri-Panipat line. So, almost 4 million volume has gone there and increase in offtake by CGD.

As you know, that CGD is ever-growing business -- so these are the areas we expect the volume will come, but there will be one negative. Currently, NTPC is taking almost 5 MMSCMD of volume because of the seasonal demand of power. So, that will go down. If you net of all these things, we will reach more than 123.

**Maulik Patel:** Got it, sir. Got it. Second question is on Dabhol. The breakwater facilities were supposed to be completed. So, do we expect it to be completed by this year and the next year, you may not require to use Dahej or Dabhol will be available throughout the monsoon?

**Rakesh Jain:** Yes. That's what we are expecting this weather should be the last weather where we are not having breakwater not able to run at full capacity. And from next year onwards, after this monsoon, we'll be able to run at full capacity.

**Maulik Patel:** Approximately how many cargos you shift from monsoon from Dabhol to Dahej?

**Rakesh Jain:** Can you tell?

**Management:** On an average 4 cargos per month.

**Maulik Patel:** That will be the most around 12 cargos to 16 cargos in that monsoon period?

**Management:** During this monsoon period.

**Maulik Patel:** Okay. Thank you. Thank you very much and wish you all the best.

**Moderator:** Thank you sir. We take the next question from the line of Sabri Hazarika from Emkay Global. Please go ahead.

**Sabri Hazarika:** I have -- I mean, I have two questions. The first one is in your petrochemical, I think, again, the gas cost or the fixed or the fixed costs, something, I mean, that is the run rate is quite high. So, was there this costly cargo being like put in petrochemical also or is it just the normal line of business? What could be the average LNG price for the petchem segment in Q1?

**Rakesh Jain:** Average LNG price, which we have consumed...

**Sabri Hazarika:** Yes.

**Rakesh Jain:** Yes. So, we have used LNG or gas at an average price of USD13 per MMBtu.

**Sabri Hazarika:** Okay. So that is for the pet-chem?

**Rakesh Jain:** Yes.

**Sabri Hazarika:** Okay, and you expect this to go down going ahead?

**Rakesh Jain:** Certainly, market has gone down, why we will be putting higher cost gas to petrochemical...

**Sabri Hazarika:** Right, sir, and sir, second question is a conceptual question regarding the hydrogen blending that you are doing. So, this blending of hydrogen that happens in CGD network. So, this is again expected somewhere, or it is consumed in the PNG connections directly?

**Rakesh Jain:** First, we are injecting this hydrogen, the gray hydrogen, not the green hydrogen. So, our one of the CGD's pipeline Aavantika Gas Indore. We experimented by 2% reduction by volume and increased it to 5%, and it is in PNG, which is largely being used.

**Sabri Hazarika:** Right. But it is burned as fuel only. It's nothing like not a transportation as such of hydrogen?

**Rakesh Jain:** No. Actually, there is a challenge to use hydrogen beyond a certain point in CNG.

**Sabri Hazarika:** Okay sir. Got it. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Mr. Sanat Kumar Value Research. Please go ahead.

**Sanat Kumar:** Can you hear me?

**Moderator:** Yes, sir please go ahead with your question.

**Sanat Kumar:** Thank you for providing this opportunity. I have two small questions. One is currently Gail is getting revenue from 5 of their blocks. What is your projection of adding…

**Rakesh Jain:** Actually, I am not able to hear you. Can you come loudly?

**Sanat Kumar:** Just a minute. Can you hear me now?

**Rakesh Jain:** Yes, very well.

**Sanat Kumar:** Okay. So, I have two small questions. Thank you for providing me the opportunity. Question number one is related to your exploration and production business. So, currently, you are getting revenue from 5 blocks. So, what is the projection for addition of revenues from E&P going forward? That's one question. The other question is related to the cost escalation in your petrochemical project, which is somewhere around approximately increase of INR4,000 crores. So, what is the reason for such an escalation. So, these are my two questions?

**Rakesh Jain:** Yes. First question, the E&P revenues, we expect largely to revenue remain in the same range, which we are today.

**Sanat Kumar:** Okay. So, you're not expecting any additional blocks coming online for production and sales?

**Rakesh Jain:** No. And with respect to cost escalation, the -- most of the orders for the PDH-PP, process during the Ukraine war, and there -- at that point of time, there was a lot of hike in steel prices, in particular, that is one reason, and second reason is there after selection of license, we do detailed engineering. And then detailed engineering suggested some more items or some more quantity which we are required to procure, and these are the major reasons, which actually resulted into estimated increase in capex, that's all.

**Sanat Kumar:** Okay. So, there is an additional cost, which will be incurred on some external equipment that is coming because of the detailed feasibility report?

**Rakesh Jain:** There are some.

**Sanat Kumar:** Okay. Thank you so much.

**Moderator:** The next question is from the line of Mr. Yogesh Patil from Dolat Capital. Please go ahead.

**Yogesh Patil:** Thanks for taking my question... Sir, you say USD13 per MMBtu was the gas cost for the petrochemical unit, and you also mentioned that the gas cost will come down. Then at what gas cost do you expect the petrochemical you need to come back to the EBITDA level profit? And what is the current utilization rates of petrochemical unit in the July month? And have you planned any maintenance shutdown for the better position going forward?

**Rakesh Jain:** So, your first question at what level we will be at EBIT level in profit. Can you give me the price, which price will be prevailing throughout the year because it all depends on the price of polymer. So, at current prices, if you ask me specific around USD10 plus is the breakeven price for petrochemical. And below that, we will be having profit and second, the July onward, certainly, we are -- we have ramped up our plant, and we will be at normal capacity.

**Yogesh Patil:** Okay. No maintenance shutdown plans for the next few months?

**Rakesh Jain:** No, we don't envisage any because we had a lot of opportunity when we were not using our plants. So, we could carry out all those maintenance during that...

**Yogesh Patil:** Okay. My second question is, sir, the commissioning of the Dhamra LNG terminal. So, is that the correct understanding your gas requirement for the compressors of the transmission pipeline has come down because Dhamra LNG terminal has commissioned?

**Rakesh Jain:** Actually, our gas -- the gas compression requirement remains almost in the same range. There was a time we consume a little bit more, but it is not going to go down. It will remain in the same range.

**Yogesh Patil:** And what is the current share of APM gas in that total gas requirement for the compressor?

**Rakesh Jain:** Currently allocation is 0.4.

**Yogesh Patil:** Okay. So, it has come down from 0.6% to 0.4%. And do you expect that will continue 0.4 amicably?

**Rakesh Jain:** It will further go down.

**Yogesh Patil:** Thanks sir for that clarification.

**Moderator:** Thank you, sir. The next question is from the line of Mr. Raj Gandhi from SBI Mutual Fund. Please go ahead, sir.

**Raj Gandhi:** Hi thanks a lot for the opportunity. Sir here, there was a fair bit of difference between your integrated tariff and the unified tariff, which came up and there was some 10%, 12% differential there. So, how should we read through on this differential?

**Rakesh Jain:** Their differential was on quarter one of this financial year and which we have also disclosed in our accounts. Now PNGRB has revised the unified tariff upward. So, that differential is we have started recovering. And by the end of this financial year, there should not be any outstanding. If I understood your question correctly, this is the answer.

**Raj Gandhi:** But the integrated tariff, which PNGRB passed the order, then subsequently that unified tariff came in 12% higher and then it's been further revised upwards. So, I'm just wondering on the bridge between the integrated tariffs and the unified tariffs because that zonal volume distribution is fairly different. So, the aggregate average tariff, the unified tariff comes much higher than the integrated tariff, and ideally, it is supposed to be similar to integrated tariff, right? I presume, so I'm just trying to understand the bridge between the two?

**Rakesh Jain:** Ideally, what we are telling maybe ideal only because regulation provides for distribution of revenue entitlement into zonal with based on formula and risk for change in volumes remains with the transporter -- sometimes that may be helpful to or allow to recover a bit higher for some time, it may be same or sometimes it may be near to get a little lower. So, ideally, yes, but ideally, volume does not flow in the same way the zonal distribution is done because that is done on estimation basis.

**Raj Gandhi:** Sure, sure, sure. And is there a true of the same, whether you over recover, under recover on discounts, is there…

**Rakesh Jain:** Like I said that risk of zonal distribution remains with the transporter.

**Raj Gandhi:** Okay. Sure, sure. Thanks a lot.

**Moderator:** Thank you, sir. The next question is from the line of Mr. Aditya Suresh from Macquarie Group. Please go ahead.

**Aditya Suresh:** First on your capex plan. Now in terms of the petrochemical business as loss making over the past several quarters now, what sort of return on capital employed targets are you looking at, while you're allocating a very large part of your capex towards petrochemicals. I guess the concern really is that you're spending so much on speciality chemicals, but this is going to further dilute your group strength. So, maybe some thoughts on that first?

**Rakesh Jain:** New plant, new investment, we are doing petrochemical probably whatever we have incurred. I think that should not be -- we are not in a position to discuss that, but whatever new capex we are incurring on PDH-PP, we are having -- we are meeting our hurdle rate and even beyond that. So, we are hopeful that we'll be able to earn that.

**Aditya Suresh:** Any specific targets you can share, sir, like in terms of any specific return targets or under what margin assumptions you may be able to meet those numbers?

**Rakesh Jain:** I think it's specific let us not discuss, but we can -- I can at the moment say that we are able to meet our hurdle rate based on our analysis, even with the revised cost.

**Aditya Suresh:** And then the second question was on gas transmission. So, there are clearly quite a few moving parts here on your tariffs and your opex I was wondering if you can give any guidance on EBITDA per SCM. Is that possible at all for you?

**Rakesh Jain:** Maybe he is asking EBITDA per not be revenue per SCM. We will come back actually. This data will certainly be able to give you, but let me give one statement. You should be encouraged by the performance of this transmission segment, and this segment is going to give a significant part of revenue and profit going forward, right from now.

**Aditya Suresh:** Thank you sir.

**Moderator:** The next question is from the line of Somaiah V from Avendus Spark. Please go ahead.

**Vishnu:** Sir, if I heard you right, sir, you mentioned 135 MMSCMD to 140 MMSCMD in the next few years. Is that right? And which -- is this driven by the supply increase or are you seeing some real demand that is coming from certain sectors. If you could just help us understand, where do you see this growth coming from?

**Rakesh Jain:** So, let us start from under 116, which we are transmitting today. I said that by the end of this year, we'll reach 123 and also, I provided a breakup, but for the benefit of everybody, let me reiterate once again. Currently, we are consuming almost 1.5 MMSCMD less at our petrochemical plants. So, once we are on full stream, which we are today, we'll increase 1.5 MMSCMD. Currently, HURL Barauni and Sindri which takes 4 MMSCMD volume not going that will be added, RCF Thal 1 MMSCMD, restoration of Dadri-Panipat pipeline, the incident which happened very recently, will be added to this 116 MMSCMD and CGD, as you know, our ever-growing business, at least 1 MMSCMD will come from there.

There will be 1 minus NTPC because of seasonal demand currently drawing say 5 MMSCMD will come down. So, this will make more than 123 and what do we expect in coming 2 years to 3 years, at least 3 MMSCMD to 4 MMSCMD will come from CGD business again because CGD will have continuous increase of demand. IGGL 2 MMSCMD will come, of course, it will come progressively maybe by 2035, but it will start from 25-26. Refinery NRL, which will take around 2 MMSCMD will start from 1 will reach to 2, and then major chunk will come from IOCL refineries Paradip 3.8, Haldia 1.2, Barauni 1.5, Guwahati say 0.5 million and Bongaigaon by 0.7. So, these are the areas which will provide us another at least 15 MMSCMD volumes and will take us through 138 to 140.

**Vishnu:** So, this you've seen by FY -- calendar year 25, we'll get there or...

**Rakesh Jain:** So, I told you 23-24, we will be ending up by 123 and in another 1 years to 2 years from there, will reach 140.

**Vishnu:** Understood, sir. Sir, on the gas transmission business, if you could just give us the volume that you're currently utilizing, I mean, in terms of gas utilization which is using for the transmission, is it 1.27, 1.3, what is the number now?

**Rakesh Jain:** If you ask me, the average consumption in fuel is around 1.35% to 1.4%.

**Vishnu:** 1.35 to 1.4, of which 0.4 is domestic, rest is price at USD14 this quarter?

**Rakesh Jain:** Not 14, the domestic basically around USD12 because we have -- we can source from domestic sources as well as the ability to have around LNG around that price.

**Vishnu:** Okay. Got it. Thank you.

**Moderator:** Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead, sir.

**Kirtan Mehta:** Thank you, sir, for giving this opportunity. On the -- we are envisaging 135 MMSCMD to 140 MMSCMD volume in the next 2 years to 3 years. So, what would be the pipeline utilization at that point? We are currently at 56%, how would the pipeline utilization change in anticipation of the new pipeline, which are coming through? And second related question was in terms of what is the current ROC that we can earn based on the tariff formula at 56% utilization and how would that change in next 2 years to 3 years' time frame?

**Rakesh Jain:** I think let us not be specific, you can work out what ROC we are earning because capital employed and all the profitability level. But with respect to your question on capacity utilization, actually from here on, we will have two more pipelines, which will be commissioned, one in Mumbai-Nagpur and another is Srikakulam-Angul which will add to our capacity of 20 MMSCMD. And I am telling that we will be reaching around 140. So, on estimated basis will be around 60% capacity utilization.

**Kirtan Mehta:** Thank you sir. One more question was about the Bangalore-Kochi pipeline. Could you give us the latest update in terms of the last mile that is remaining to be completed when is now it's targeted to be completed?

**Rakesh Jain:** Target date, do you have target date. We actually -- let me find out the target date I think it is next year of November -- October or November next year, but I will give you the exact timeline, which we have given to ourselves, and the work is in progress. We actually -- the issue was RoU. We are aligning some of the portion of that pipeline along the roads and some through fields. So, we are using the hybrid approach to come over the situation of RoU. Exact timeline I will give, but certainly before the end of next calendar year, maybe around October, November I will find out, and you can check offline.

**Kirtan Mehta:** Thank you, sir.

**Moderator:** Thank you, sir. We take the next question from the line of Mr. Vikas Jain from CLSA. Please go ahead, sir.

**Vikas Jain:** Hi, Rakesh ji. Thanks for taking my question. So, I specifically wanted to drill a little bit deeper on cost or gas costs within the gas transmission business. If you can -- there's something which I just wanted to understand a bit better, if you could explain, last year, the average pricing of gas because it is not changed by the quarter allocation was taken away, etcetera. So, the average dollar per MMBtu price that we paid for the gas consumed within the gas transmission business, and for the 1.4 MMSCMD.

You said that there is about 0.4, which we are still getting from domestic, obviously, there is a risk that, that will also be taken away in the coming quarters. The remaining one, how much flexibility do we have to shift between spot, long term as well as the domestic HPHT gas. So, those are the two parts of the question. One is the average cost of the gas that we consumed through the year last fiscal and what did we do for this particular quarter to get an understanding of how much change would be on a Y-o-Y basis for FY'23 versus FY'24?

**Rakesh Jain:** Vikas, thank you so much. But first -- answer to first question, let me try to give you, if possible, right now or as we go offline, but yes. Satish has just worked out. No, no, last year. Last year, not Q1. Last year worked out…

**Vikas Jain:** Definitely we will have it?

**Rakesh Jain:** We will give you just hold on. We'll give you offline. But regarding our second question ability to have the switch over from the LNG to domestic -- but if you know the tariff order, you have seen the tariff order. Tariff order provides that the ceiling prices HPHT will try to source the gas from -- mostly from domestic source to meet the requirement of fueling compression. That's what is our challenge and target and which we are continuously trying to do, and I will give you answer to your first question maybe today or maybe offline, right now or offline.

**Vikas Jain:** Okay. And you said that – did you mentioned that for this particular quarter, the blended cost for that 1.4 MMSCMD or so that you are using, how much sir is that for this particular quarter?

**Rakesh Jain:** This I can give you. This quarter I think we have used more than USD16 USD16.6 around.

**Vikas Jain:** Yes, because my kind of possible guess is that your blended average cost for last year would not be so much lower -- so much higher as the one or two quarters of high gas for part of the volume kind of suggest because there was still allocation for domestic gas for the large part of the year, okay? So that is why versus 16, if we look at the current run rate versus the full average of last year, it would not be very different, that is what my guess is, but of course I have to wait and understand that clearly?

**Rakesh Jain:** We'll work out and actually compare your guess may be correct. So, this year, the cost quarter is only 16.6%, but a large part of this quarter, April and why we used the carryover gas from last year. But it will go significantly down from Q2 onwards, but it certainly will not be less than USD12, USD13 average basis.

**Vikas Jain:** Okay. Okay. So basically, whatever is the gas cost part of that within the overall opex that might fall from 16.16 to 17 or so, which is about a 20% fall just on the gas cost, right? The other parts would be largely stable unless and until your 0.4 MMSCMD allocation is also taken away when gas costs will again possibly go up?

**Rakesh Jain:** That is likely to go away.

**Vikas Jain:** So, that is actually one concern within the overall opex part in the overall profitability?

**Rakesh Jain:** Vikas the average will not go up because even 0.4 the price, we don't expect to go above 12. Rather, it will bring down on an average basis below 16 because HPHT price is going to go down, so it will go down, not go up.

**Vikas Jain:** Yes. So, for this quarter, I understand, but whatever will be the 2Q number on that base it will obviously go up, right because this quarter, there is that USD40 gas the legacy of last year which you are suffering from, but on an overall basis, the gas cost will definitely go up by 2Q levels.

**Rakesh Jain:** Last year maybe because I don't have data. But from Q1 24, it will go down because it cannot be 16 on an average basis.

**Vikas Jain:** Sure, that's obvious and sir on Petchem this in the current…

**Rakesh Jain:** Vikas hold on you were asking about last year. So, on a ballpark basis, we last year had average of 12-plus.

**Vikas Jain:** Okay. So, the last year, full year average is about USD12 to USD13. So, from that perspective the overall segment opex for this particular year because of a very bloated up 1Q would actually -- could end up being flat to slightly higher versus last year, right?

**Rakesh Jain:** Maybe. But, last year, significant 1 cargo at USD40 is a significant, weighted average was -- but this year, either 12 or less than 12 remaining quarters. So, it should -- the average should be around 12 to 13 meaning same as last year.

**Vikas Jain:** Yes. So flattish versus last year. So, there's not likely to be any opex savings versus last year in terms of the gas transmission segment opex rise?

**Rakesh Jain:** Yes. If price remains around 12 to 13 and last year it was 12-plus. So, certainly, what you are telling is correct.

**Vikas Jain:** And if that 0.4 MMSCMD goes away, then it would actually be higher than 13.

**Rakesh Jain:** No, no, it will not be enough because that will sort at 12 or less than 12 average will not go up because the gas price will be 12 only...

**Vikas Jain:** But sir in that case your current averages should be lower than 12 because there is 0.4 of 1.4, which is a good 30% coming at 6.5 and the remaining 70% you are saying is 12, 13 right. So, the blended should be…

**Rakesh Jain:** Maybe Vikas we will give you detail, but actually that last year carryover gas has increased the price significantly, but we'll share...

**Vikas Jain:** I'm not talking about 1Q. I'm saying in 2Q onwards when you don't have that carryover problem the 1 MMSCMD out of 1.4 is obviously is about USD12 or lower, right and the 0.4 is at 6.5, so the average cannot be higher than 12, it has to be lower?

**Rakesh Jain:** It will be just – it will lower than 12 until the full gas allocation is taken out.

**Vikas Jain:** Okay. Okay, sir. And petchems as license plan right now, both for polymers and for the LNG that you're using, would all of that be giving you some kind of hope of breakeven in Q2 or we are close touch and go or even 2Q is difficult or EBIT level…

**Rakesh Jain:** Vikas, you are talking on a full-year basis or Q2.

**Vikas Jain:** No, see full-year prices prediction will be very difficult. But obviously, as current thing from an excel sheet perspective, we have to build and extrapolate the current situation are we near EBIT or EBITDA breakeven in petchem if this situation continues?

**Rakesh Jain:** In Q2, unless prices goes up, we don't expect to be breakeven. We may near to be breakeven, but unlikely to assume breakeven actually a difference of USD2 to USD3. So, we will be near to breakeven, but I cannot give you confirmation that will be breakeven.

**Vikas Jain:** So full year petchem profitability unless prices move significantly favorably is unlikely to be in the green?

**Rakesh Jain:** Or input price goes down…

**Vikas Jain:** Whichever prices move favorably either input or output?

**Rakesh Jain:** Yes. So, we -- actually, what happened in Q1, we didn't produce also because we were having inventory. So, now that issue is not there. We are producing some contribution towards fixed cost now is positive because we are producing at full level. So, that issue is not there, remaining year also we are likely to produce at full level and the prices have softened. So, the Q1, we used the higher price gas, we'll use the lower-priced gas, at least these are the certainties, and therefore, we will be better off than Q1 and Q2, Q3 onwards, we see more margins to our fixed costs or maybe towards profit, but as you also said, it is difficult because unless we know the price certainty.

**Vikas Jain:** Thank you so much Rakesh ji. Thanks for answering my questions.

**Rakesh Jain:** Thank you.

**Moderator:** Thank you, sir. We take the last question from the line of Maulik Patel from Equirus Securities. Please go ahead.

**Maulik Patel:** Sir, for the LPG segment, are we getting the full domestic gas and what kind of a gas consumption can be there for the LPG currently?

**Rakesh Jain:** For LPG, we are getting full domestic gas and the allocation is around 1.75.

**Maulik Patel:** 1.75 and we are getting this full number, right?

**Rakesh Jain:** Yes.

**Maulik Patel:** And sir, in the petchem, you mentioned that currently at a price of around USD10 per MMBtu of spot LNG, you may be breakeven, right, for the petchem?

**Rakesh Jain:** I have not told that USD10 was LNG, I'm telling USD10 to USD11 maybe deliver. So, LNG have to be lower than 10.

**Maulik Patel:** Yes. So USD10 to USD11 lower gas, you can be breakeven in the petchem side. Thank you.

**Moderator:** Thank you sir. I now hand the conference over to the management for closing comments.

**Rakesh Jain:** Thank you. Dear investors and a lot of questions. We received hopefully we were able to answer most of the questions. I know one questions or two questions we could not answer, and we'll be giving those answers offline. And thank you again for taking interest in Gail. Thank you very much.

**Moderator:** Thank you, sir. On behalf of Ambit Capital Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.