MAHANAGAR GAS

MAHANAGAR GAS LIMITED

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To,

Head, Listing Compliance Department **BSE Limited** P. J. Towers, Dalal Street, Mumbai - 400 001 **Scrip Code/Symbol: 539957; MGL**	**Head, Listing Compliance Department** **National Stock Exchange of India Ltd** Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 **Script Symbol: MGL**

Sub: Transcript of Earnings Conference Call on Unaudited Financial Results for the quarter ended December 31, 2022

Dear Sir/ Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we submit herewith the transcript of the Earnings Conference Call on Unaudited Financial Results for the quarter ended December 31, 2022 held on February 09, 2022.

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

For **Mahanagar Gas Limited**

28/02/22

Atul Prabhu
Company Secretary & Compliance Officer

MAHANAGAR GAS LIMITED MUMBAI

Encl.: a/a

“Mahanagar Gas
Q3 FY2022 Earnings Conference Call”

February 09, 2022

ANALYST: **MR. S RAMESH - NIRMAL BANG EQUITIES PRIVATE LIMITED**

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

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Mahanagar Gas Limited hosted by Nirmal Bang Equities Institutional Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Ramesh from Nirmal Bang Institutional Equities. Thank you and over to you Sir!

S. Ramesh: Thank you. Good evening ladies and gentlemen. On behalf of Nirmal Bang Institutional Equity, I have great pleasure in inviting all of you to this Q3 FY2022 earnings conference call with the distinguished management of Mahanagar Gas Limited. Representing the company, we have Mr. Sanjib Datta, Managing Director, Rajesh Patel, Chief Financial Officer and Mr. Rajesh Wagle - Senior Vice President, Marketing. I would now request the management to make their opening remarks followed by Q&A.

Management Representative: Thank you Ramesh. 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 the expectation 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 the uncertainties relating to this statement includes but are not limited to risk 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 trends or an indication of full year results. They should not be attempted to be extrapolated or interpolated into a full year number. Thank you and over to you Sir!

Management: Thank you. Good afternoon and welcome to the earnings conference call of Mahanagar Gas Limited for the Q3 of the financial year 2021-22. I would like to thank all of you who have connected for our earning call today.

The outbreak of COVID-19 pandemic in 2020 and its second wave in April and May 2021 had resulted in significant disturbances and slowdown of economic activities and the company's operations were impacted due to restrictions that were imposed in our operating areas. However, from June 2021 the situation has progressively improved as economic activities have returned to normalcy to a large extent. While this has been a welcome development, the shortage in supplies of APM gas coupled with very high spike in international spot gas prices during Q3 of FY2021-22 have had a deleterious effect.

Geopolitical tensions in Ukraine, uncertainty of Russian gas supplies to Central Europe, issues with the Nord Stream 2 pipeline, low storage inventories and strong gas demand owing to cold and long winter in the northern hemisphere fueled the rise in spot gas prices which breached US

$35 per MMBTU level in Q3 against an average price which was at around US $14 per MMBTU during the previous quarter.

With regards to creation of infrastructure, I may mention that MGL continued to expand its network in the existing license areas. During the quarter 75,247 domestic households were connected, thus, we have established connectivity for nearly 1.79 million households. We laid 87.47 kilometer of steel and PE pipelines thereby taking the aggregated pipeline length to about 6,096 kilometers. We have added two new CNG stations and with these we currently have 278 stations. We also added 77 industrial and commercial customers and thus, as on quarter end we have 4,254 industrial and commercial customers.

In respect of our Raigad GA, we are connected to 49,389 domestic households and 21 CNG stations are currently operational. During the quarter we laid 37.68 kilometer of pipeline in Raigad GA, thereby taking the total length of pipeline to 319.61 kilometers.

I am happy to announce that in January 2022, the company has achieved the cumulative inch kilometer target as per PNGRB's minimum worth program target for Raigad GA. You may recall that we had already achieved the cumulative number of domestic connection targets as on March 31, 2020. With this the company has fully achieved its minimum work program targets for Raigad. Possibly MGL is the only CGD company which has completed its minimum work programs against a paid-out license area. This shows the company's sincerity in adhering to its commitment.

In the recently concluded 11th CGD bidding round, conducted by PNGRB, MGL had submitted its bid for Nagpur District, Chandrapura and Wardha district and Baloda Bazar, Gariaband and Raipur Districts. The bids were opened on January 14, 2022 and despite having put in aggressive bids we have not been successful in securing authorization for any of the three GAs for which we had put in our bids.

MGL hopes that the eight-year minimum work program commitment basis which the authorizations are being won by CGD entities get fulfilled, else the very objective of award of such authorization would get defeated.

Coming to MGL's operations, average sales volume for nine months ended December 31, 2021 is 2.944 MMSCMD whereas it was 1.989 MMSCMD in the corresponding period last year. There is an increase of 48.02% in the overall sales volume compared to previous year nine months.

Average sales volume for nine months ended December 31, 2021 of 2.944 MMSCMD consists of CNG volume of 2.061 MMSCMD, domestic PNG volume of 0.464 MMSCMD, and industrial and commercial volume of 0.419 MMSCMD.

Compared to the previous year nine months, sales volume in case of CNG has increased from 1.216 MMSCMD to 2.061 MMSCMD which is an increase of 69.47%. In case of industrial and commercial sales, volume has increased from 0.306 MMSCMD to 0.419 MMSCMD which is an increase of 37.04%; however, for domestic PNG sales, volume has decreased marginally, mainly due to reduction in work from home, from 0.467 MMSCMD to 0.464 MMSCMD, which is a decrease of 0.63%.

Current nine months EBITDA is Rs.709 Crores compared to previous year nine-month EBITDA of Rs.618 Crores. EBITDA margin is at 28.66% for nine months compared to previous year nine months EBITDA margin of 43.06%.

Net profit after tax for the nine months is Rs.465 Crores compared to net profit after tax for previous year nine months of Rs.407 Crores.

During the quarter, government notified price of domestic natural gas was revised from US $1.79 per MMBTU to US $2.9 per MMBTU with effect from October 1, 2021 and was further revised to US $2.97 with effect from December 1, 2021. This is an increase of 66%.

Further, APM allocation for priority sector which was based on COVID-19 impacted period in the first half of the year resulted in substantial shortage as priority sector sales volumes ramped up very fast since July 2021 and the gap was very high during the quarter. Thus, such gap during the quarter had to be catered to through purchase of spot gas ranging from 12% to 16% of priority sales volumes. Spot gas prices have remained very high due to various global factors discussed above. Thus, shortage of APM gas allocation, increase in APM price, and unprecedented increase in spot gas prices all have substantially put pressure on the margins for priority sector during the quarter.

The company undertook upward revision of CNG and domestic PNG prices four times during the quarter from Rs.51.98 per kg to Rs.63.50 per kg and from Rs.30.40 per SCM to Rs.38 per SCM respectively. Further in January 2022, we have revised CNG prices to Rs.66 per kg and domestic PNG to Rs.39.50 per SCM.

In case of industrial and commercial supplies, high RLNG costs had put pressure on margins as industrial and commercial sales prices linked to alternate fuels did not have similar increases. The company has partially recovered the increase by charging premium over alternate fuel linked prices. The company has entered into a contract for purchase of term gas during the quarter for a period of 18 months to reduce dependence on spot gas.

Coming to quarter-on-quarter comparison, average sales volumes for Q3 FY2021-22 is at 3.303 MMSCMD and is higher than previous quarter average of 3.124 MMSCMD, average sales volume for Q3 FY2021-22 of 3.303 MMSCMD consisting of CNG volume of 2.392 MMSCMD, domestic PNG volume of 0.473 MMSCMD and industrial and commercial volume of 0.438

MMSCMD. There is an increase of 5.73 in the overall sales volumes compared to previous quarter.

Compared to the previous quarter, sales volume in case of CNG has increased from 2.234 MMSCMD to 2.392 MMSCMD which is an increase of 7.06% and in case of domestic, it has increased from 0.451 MMSCMD to 0.473 MMSCMD which is an increase of 4.85%.

In case of industrial and commercial, sales volume has marginally decreased from 0.439 MMSCMD to 0.438 MMSCMD, a decrease of 0.11% which is mainly due to selling prices of industrial and commercial segments at premium.

Current quarter EBITDA is Rs.103 Crores compared to previous quarter EBITDA of Rs.302 Crores. EBITDA margin is at 10.03% for Q3 compared to previous quarter EBITDA margin of 36.35%.

Net profit after tax for the quarter is Rs.57 Crores compared to net profit after tax for previous quarter of Rs.204 Crores.

Though profitability for the quarter has not been commensurate to the company's track record but we feel that the situation on the gas availability and gas pricing front, will improve in near future and the company will be able to deliver better results.

Confidence in our ability to deliver better performance has prompted the company in declaring its interim dividend at Rs.9.50 per share which is in line with interim dividends declared in previous financial years.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Aishwarya Agarwal with Nippon India. Please go ahead.

Aishwarya Agrawal: Thank you very much. Good evening Sir; first two questions one is how do you see with this APM gas prices which we expect to increase from first of April to say $6 and maybe from first of October again so with such a steep price hikes in the APM gas, how do you think that you will be able to cope up that is one and the second is this long-term gas which we have contracted what is the price of that gas and what is the volume?

Management: Well, the APM gas price is expected to go up on first April and first October of course but if you look at the quantum of the expected increase, we are expecting that the current high levels of RLNG which are prevailing, the drop in them over the next one or two quarters will probably compensate for this increase in APM. So, on overall weighted average cost of gas basis, hopefully, we do not see too much of an increase and if there is any increase, we can pass that through. We are also hopeful that maybe in the coming couple of months or so the APM allocation would be revisited and revised, that has been pending for a few months now. Once that happens it will reduce our weighted average cost of gas because our actual sales in the CNG and domestic PNG segments have increased quite significantly compared to the old allocation level which we have for this APM gas, as a result of which once the government formula for re-allocation kicks in, we will get substantial relief is what we believe. As regards long-term gas, the pricing is confidential. We cannot disclose the price formula.

Management: Quantity is around 0.15 MMSCMD for the new contract which we entered during this quarter, and we already had around 0.1 MMSCMD earlier, so roughly it is 0.25 MMSCMD is the term gas contract. The contract which is entered in this quarter is for around 18 months.

Aishwarya Agrawal: Sure. This is a very informative. Now see our gas price hikes which we have taken and the progressively of the APM gas price further increase, our not increasing the gas prices so the CNG prices are dependent on that the spot either goes down or we start getting this incremental gas which you have contracted, so when do you anticipate that gas will start coming to you or it has already started, this long-term gas?

Management: The long-term gas which is contracted has already started in December. It is not exactly long-term; it is mid-term.

Aishwarya Agrawal: 18 months contract. So, despite that gas coming in we end up increasing the gas prices, that means you have been able to replace 100% of your spot procurement for the CNG and domestic PNG with this term gas?

Management: No Not really because the domestic gas which we get for CNG and domestic PNG, as per the government circulars, that gets reallocated every six months and CGD entities are supposed to get whatever is their prior period sales level in these two segments. They are supposed to get that much and a little bit more in the coming forward six months. So considering that, there is a technical difficulty in contracting long-term or medium-term firm take or pay gas for these segments because the minute the reallocation happens, then there is a risk of take or pay on your firm contracts, which we have to do, we have to take a bit of spot, which does not attract take or pay or for which your exposure is maximum for one month and also you have to optimize on the pricing by periodically entering into trenches of firm medium term gas which we continue to do.

Aishwarya Agrawal: Sir I can see that around 2.9 MMSCMD gas is meant for the CNG and domestic PNG out of 2.9 how much APM are we getting at this point of time?

Management: Around 2.5.

Aishwarya Agrawal: So, 2.5 is what we are getting and 0.25 is the additional this midterm gas and the remaining is spot?

Management: But you cannot directly assign this to priority or non-priority. This is what we are saying at the company level we have the term gas. Having said that, we have taken almost four price increases in the quarter and those were step up price increases and full effect of that will come in the subsequent quarter that is Q4 as well as in the first quarter of the next year. So there will be a good amount of recovery of the gas costs which has already happened and for the full volumes for Q4 and Q1 of the next financial year, so that will also help us in further improving the profitability, even some impact due to price APM price getting revised. Looking at the past trend, it is all up to the government to decide how much APM price they will declare, not necessarily that it will be based on formula driven, they can have a call on what is to be the final price. So, we have to wait and watch how things span out in the month of April and maybe subsequently the month of October 2022.

Aishwarya Agrawal: When we say that the APM gas reallocation needs to be done so any of that it is it is being delayed supposed to happen in the month of November, we are in February, now it has not happened yet and you guys are suffering with low APM supplies and tomorrow if there is reallocation which sector is likely to suffer and someone has to give up because the APM gas volumes are not increasing.

Management: While the APM domestic gas volumes may not be increasing, I think the government is trying to arrange some mechanism through which the CGD companies can get their requirement. If required by pooling a little bit of market price gas into the APM gas and give it to the CGD at a relatively lower blended cost so even if that happens then that will be much cheaper than the price of LNG which can be spot or mid term.

Aishwarya Agrawal: The last question is how do you see the EBITDA per SCM because you have seen you people were doing some Rs.12 of the EBITDA per SCM which has gone down now to below Rs.4. Where do you see it is going to, not in this quarter; again this quarter will be a transitory quarter, the next, next quarter from April onwards?

Management: It will be a result of multiple factors but having said that there will be profitability improvement due to the price rise already taken so it will definitely improve compared to the present level. But again, how much exactly it is very difficult to put a number to it, because a lot of factors result in that final numbers so when the factors are basically very difficult to predict or pin down.

Moderator: Thank you. The next question is from the line of Anubhav Aggarwal with Credit Suisse. Please go ahead.

Anubhav Aggarwal: One question is on the industrial segment there are two variables here for profitability – one is reduction in LPG spot prices which has already started coming down in the current quarter. The second is you guys passing through more for taking more price increase in the industrial segment so just taking that post this quarter have you taken more price increase in the industrial segment which is helping your industry profitability?

Management: You mean for Q3?

Anubhav Aggarwal: Q4. Q3 we have already seen the number. I am just trying to say and the profitability was significantly lower in the maybe my number suggests it was a big loss in the industrial segment so just trying to understand that after Q3 have you guys been able to take further price increase in this portfolio?

Management: As you said, the RLNG prices are coming down so either we will maintain or we will reduce if the prices go further because it will be a trade-off between volumes, if you see my Q3 volumes because of the premium charge have gone down compared to Q2 so looking at the overall profitability we will balance out between the price and the volumes so we may either maintain or reduce if the RLNG prices further comes down from the levels today.

Anubhav Aggarwal: But as of now Sir whatever were the Q3 prices as of now you have not changed, let us say from end of December to February now you have not changed the industrial pricing right now?

Management: We are maintaining whatever was the price in the month of December currently. We will be reviewing it further.

Management: Current pricing, actually, we really cannot discuss on the call, if questions pertaining to the quarter. On the other comment what I can make of it is that if you look at the overall trend of oil prices, they have been creeping up higher so that is helping us in getting a better realization on our I&C sales.

Anubhav Aggarwal: Got your point absolutely. Second question I had was on this mobile refueling unit just to get it right is there only one unit right now on the ground or is there more than one unit on the ground right now?

Management: Right now, we are on the verge of giving out LOIs for at least three more mobile units this should happen in the next couple of weeks that number could go up to maybe five or six. I mean time will tell but as of now, we are reasonably sure that at least three more LOIs will be given to set up these kinds of units.

Anubhav Aggarwal: This three will be for which GA this will be for Mumbai, Thane or Raigad which GA.

Management: No, we are not looking at Raigad right now because the advantages of these MRUs accrue where you have very little space and you cannot put up a conventional station there and where you know demand density is high so that is that those conditions are only prevalent in Mumbai and its surrounding areas, Thane, Navi Mumbai, etc., so these are the geographies where we are targeting to place MRUs. GA3 is relatively easier to get, land and we can open it conventional station there.

Anubhav Aggarwal: Once you give out advice for the MRUs to be on the ground and functioning, when could that be? Is that a six months process or three months process.

Management: Yes, I think that could be a fair estimate because of lot of regulatory approvals are required to get these operational; Once we give LOIs the people who are setting this up will process their approvals, they start the procurement of the equipment etc., then, of course, the assembly of the MRU is much quicker compared to construction of a conventional CNG station because that will happen in a workshop but the critical part will be on the regulatory permissions for setting up the station.

Anubhav Aggarwal: Sure, and just last questions is on the EV buses, the new policy of the state government basically them targeting 100% of the new buses by 2027, as EV buses how significantly will that impact growth for us? I think last time we talked, about 10% of your total volumes come from the bus segment?

Management: Yes, but then if you look at that announcement carefully BEST is talking of increasing their fleet. Now 100% of the fleet we do not know; we are not sure. Yes, they are talking of getting in a lot of EV buses but they are over and above the current 2400-odd CNG buses which they have and we believe that if BEST actually goes to those kind of numbers, the logistics will be very difficult to work out because charging that many buses, looking at the amount of time it takes to charge, and the impact on their operations because ideally BEST wants all the refueling or recharging to happen between 12 midnight and 5 am so that the buses can be on the road for remaining 18 hours which is just not possible in an EV scenario. So, the number of buses on the roads, if they go for EV, will actually be only about 70% of their fleet size whereas when it is on CNG it is on 100% of the fleet sizes on the roads every day; so operational issues are there. Having said that, whatever diesel buses they have right now they will definitely go out of the system and the benefit of that will accrue we believe both to CNG and EV going forward again depending on the subsidy levels involved and sustainability of maintaining or giving that kind of subsidy, we believe that the market will be shared both between CNG and EV's at the expense of diesel.

Anubhav Aggarwal: Just one clarity in your response, out of this 2400 total CNG buses today how many new CNG buses is BEST adding each year roughly?

Management: In Q3, around 670 buses are added.

Anubhav Aggarwal: But on an annual basis?

Management: Currently, BEST is inducting another 200-odd buses. They had given out tender for 500 buses seven eight months back out of which above 300 have been delivered progressively. There has been a bit of a problem on the OE side because of a lot of issues with availability of chips and cylinders etc., but apart from these additional 200, BEST also actively considering converting the full fleet of about 800 odd existing diesel buses to CNG. Currently, the CNG bus fleet of BEST is about 2400 and they have over 800 diesel buses and about 200 EV buses right now. That is the total fleet size.

Anubhav Aggarwal: Very helpful. Thank you.

Moderator: Thank you. Thank you. The next question is from the line of Vishnu Kumar with Spark Capital. Please go ahead.

Vishnu Kumar: Good evening. Thanks for your time Sir. Sir, if you could just help us understand out of the 3.3 that you have done this quarter, 2.5 you mentioned is APM. For the rest what was the spot and some medium term or long-term volumes you had and after taking the new contract what would the volume be this quarter?

Management: Roughly 50:50. Whatever is the other than priority sector, volume of around 0.43 to 0.45 50% is from term gas and 50% is spot.

Vishnu Kumar: So last quarter of 3.3 and 2.5 the 0.8 gap you are saying 0.4 going forward you will have or at least 0.4 you have some contracts rest 0.4% is spot?

Management: No, 0.25 is term contract, rest is spot.

Vishnu Kumar: For the commercial, why are you not tying up any gas; why is there no contracts for that 0.4 MMSCMD.

Management: We do not attribute the tenure of the contracts to different market segments as such. Now if you look at it in one way for the industrial and commercial contracts since they are to be necessarily fed by market price gas, if you attribute all the term gas to them so majority of it, we are buying at term. The issue with CNG and domestic PNG is that the government has issued 100% allocation of whatever is your sales level, given that policy, some implementation delays happening for the first time this time, it is difficult to take a call to sign a medium term contract for this because we need to keep in mind all these medium term contracts come with a firm 'take or pay' clause. If we contract on a firm basis for even one and a half or two years to feed the CNG and domestic demand and in case there is an increase in our allocation which is current government policy be it come and let it come from you know curtailment of APM gas to some other sector or let it come from pooling of gas by the government. It will put us at a risk of take or pay on these term contracts because we will be having more firm gas than we can sell. So that is the balance which we have to try to maintain.

Vishnu Kumar: 0.4 assuming everything you get future APM also out of 0.4 this commercial and initial 0.25 is what your contract and 0.5 will remain a spot?

Management: Nothing firm as 0.5 will remain as spot or anything. Every month we keep looking at the market, we test out, we see, we look to get offers for medium term one year, two year gas etc., we look at the spot prices, we look at what is happening on the exchange and we try to balance out. In this process, till now, we have signed two such medium term contracts for market price gas for take or pay.

Vishnu Kumar: On the commercial and industrial what was the price increase that was taken as in the December quarter and it would be right to say that because your spot prices are way higher than probably the price hikes you would have taken would there be probably remarkably low profitability or a negative profitability there, if you could help us understand on this side on the price increase and the profitability?

Management: One the price is linked to alternate fuel and the during the quarter we have taken a premium in the range of 10% to 30% the depending on the different type of customer. You are right, there was a pressure on the margin and at times when the RNLG was very high price, we have gone into marginally negative also per SCM.

Vishnu Kumar: Rough indication would it be possible Sir if you could say that this any indicative margins you would have probably earned in this segment and what would be now on a per SCM basis anything that you can help us understand to understand for us to the magnitude of reversal?

Management: Actually, that is difficult because that will involve allocating term and spot gas to different segments, so this is done at a company level, so I do not know if it is possible to give.

Vishnu Kumar: But one thing you are confirming is that this segment was a negative for us this quarter?

Management: There are different pricings applicable to industrial and commercial segments so there are some categories where there are profit and somewhere there could be because they are linked to different alternate fuels but overall, we are currently in the money.

Moderator: The next question is from that line of Kishan Mundhra with Antique Research. Please go ahead.

Kishan Mundhra: Sir in the notes of accounts you have mentioned about MoPNG issuing guidelines on the trade discount. Sir, if you could throw some more light on what was the demand raised by OMCs and how much was accounted for in the books of accounts?

Management: The original demand before the Ministry issued the guideline or Ministry came into picture was quite substantial. We will not be able to disclose the number. From that number it has been brought down to almost 35-40% level. Of course, the numbers are different for different class of cities. There are different rates applicable to metro city, B class city, C class city, so ministry has given a guideline with respect to different cities what should be the level of trade discount.

Kishan Mundhra: Let us say OMC is demanding the trade discount to be increased to Rs.8 but you are saying that you have brought it down to 35%-40% so what is the issue about because in the notes of accounts you mentioned that the discussion has been given back to MoP&NG to take some decisions?

Management: Right so you are saying if it was Rs.100 it has been brought down by around 35% by Ministry itself, the guidelines are like that and depending on the different class of cities the rates are different.

Kishan Mundhra: So where was this provision accounted for? Is it in the other expenses or is it in the gross margins, where was it?

Management: Trade discount is allowed as reduction in the topline. It was reduced from the topline.

Kishan Mundhra: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Tiwari with Yes Securities. Please go ahead.

Nitin Tiwari: Good evening Sir. Thanks for the opportunity. My first question is a bookkeeping one if you can give me the bifurcation of industrial and commercial volumes?

Management: Commercial is roughly 0.17 to 0.18 and industrial is around 0.26.

Nitin Tiwari: Thank you Sir and Sir next question is basically a clarificatory one so what you just mentioned about OMC trade discount so you said that it has been brought down by 35% and not to 35% of what was demanded, right?

Management: By 35% and not to 35%. I am giving an indicative figure. It is different for different cities because Ministry guideline is talking about pan India settlement of this issue. It is not only pertaining to MGL as a single company. It is between OMC and all other CGD's put together; it is pan India intervention which is based on that guidelines they have been issued by MoP&NG.

Nitin Tiwari: Last question Sir what is the level of penetration when it comes to GA 1, 2, and 3 for us because mostly after eleventh round of bidding, I think this is what we are looking at in terms of allocation that we have is GA1, 2 and 3. What is the level of penetration in terms of CNG and basically PNG when we look at these 3 GAs that we have, if you can help us with that understanding?

Management: GA1 and GA2, we should be roughly at about a 35% penetration 35% to 40% depending on which market segment you are talking of. GA3 the penetration level would be maybe just about 15% -20% right now so there is still a long runway of growth available of residual potential in our existing GAs itself.

Nitin Tiwari: If you can just like you throw some more light on this issue of penetration; so when we say 35% to 40% penetration then if you can help us understand that what is the level of penetration in CNG and how do we arrive at that figure of say 35% or 40% I mean are we looking at the kind of total car park that we have or the total vehicle population that we have in GA 1 and 2 and out of that how many are CNG. So, is that how we are like calculating the penetration level?

Management: Look it depends on which market segment you are talking about, if you are talking about CNG what we do is we total up the population of all classes of vehicles, which you know historically we have seen any conversion happening so conversions have happened in private cars, all private cars part of the universe, autorickshaws, taxis of course are there, then there are light commercial vehicles, medium commercial vehicles, heavy commercial vehicles, buses, etc., all that population we consider as potential. Out of that, if we count how many have been converted currently the number is I think almost 8 lakhs or so, this whole vehicle potential number comes to around 20 lakhs for some somewhere around 18-20 lakhs so roughly the penetration if you see it is 8 by 20. What we exclude from the potential are those classes of vehicles traditionally have never come on CNG. They could be these two wheelers then your tractors or these big multi-axle trailers and vehicles like that. If you look at the domestic household segment, when we talk about penetration currently, we have reached almost I think 16 odd lakhs households and, in our estimate,, there are about 35 lakhs or 36 lakhs technically feasibly reachable households. If you look at that, we have some 40% odd penetration level is there in that segment. If you look at the industrial segment in Mumbai, there is no more industry coming so whatever is there we might have reached. In the commercial C, which is the five star category, our penetration is almost 95% barring one or two of these properties in Madh-Marve areas where we do not have pipelines yet we have we have got gas and all, all these customers. If you look at the commercial A segment which are the small restaurants etc., today we have connected more than 4000 of them and in our estimate there are about 10000 to 12000 total potential and feasibly where gas can be given so again roughly we are talking of 40% odd penetration. So, this is how if we estimate the potential. Of course, these numbers can go off plus minus 5%-10% here and there because there are difficulties in estimating this. We of course know how many customers we have on board today but in the estimate of the potential size of the universe, there could be slight by 5% -10% approximation.

Nitin Tiwari: Your point is well taken on the PNG side of penetration but when it comes to CNG so is it not like you know more prudent to look at it from the perspective of number of stations we can put and a number of stations we have already put. What I am trying to get at is that are we fully penetrated in terms of the number of sites that we can have in GA1 and 2?

Management: No. We always look for you know adding more and more stations, especially in GA1 and GA2 where our station throughput is relatively high, compared to industry average and what we have seen is the more stations we put up in the locality demand uptick is there. Last one or two years we have been opening many more stations compared to the years before that and of course it is a combination of many things diesel prices going up etc., Our historical penetration in the commercial vehicle segment was negligible but today that is one of the fastest growing segments in the CNG subsegments. So many OEs are coming up with CNG variants of their goods vehicles which previously was never the case. So, in Mumbai and immediate surrounding areas, if you create the infrastructure, we believe that the demand will come, be it from private car, be it from commercial segment, be it from public transport.

Nitin Tiwari: Thanks for answering my question. I will get back in queue.

Moderator: Thank you. The next question is from the line of Vikas Jain with CLSA. Please go ahead.

Vikas Jain: Thanks for taking my question. Wanted to check for this spot LNG, you said I think 12% to 15% had said using spot LNG even for the priority sector. What was the average cost of spot LNG which was used in place of the domestic gas which you should have got?

Management: During the quarter the price ranged between $20 and $28.

Vikas Jain: So roughly an average about $25 for the quarter is what one should assume?

Management: It went up to $28 per MMBTU roughly.

Vikas Jain: The average usage was about 12%, 13% for the quarter and that is what you needed for the priority sector? The average usage I mean the priority sector demand 12% 13% of that had to be fed by spot LNG, right?

Management: Correct.

Vikas Jain: So for this particular quarter, where it looks like, we are already in February, most likely this solution is unlikely to come before March so the problem will only get solved when you have a higher base for this half using for the next quarter so will the blended cost be lower because of the contracted volumes which would have come in later, I mean the contracted volumes would have been essentially lower priced right, I mean that would have come in later?

Management: You are right, the term gas was contracted in the later part of the quarter and as you know currently the prices are tapering down as far as spot gas is concerned.

Vikas Jain: So both of those should mean that and should we assume that this quarter perhaps volume being higher that somewhere around 15% if you do not get incremental allocation would still be fed by a spot but maybe hopefully at a lower price, spot or term whatever?

Management: 15% can be reasonable assumption.

Vikas Jain: For this quarter at least we can assume that your pricing for commercial and industrial customers would be based more on spot and not taking the advantage of the long-term contract what contracted volumes is kind of fair assumption?

Management: Pricing is linked to alternate fuel and depending on the cost how much premium to be charged that is when the management has to take a call and depending on the contract time as well. With respect to APM, I would only say that the price rise has happened in the last quarter in a staggered manner. So, at the current level of pricing in CNG and domestic. this Q4 will be fully benefited at that latest price. We have taken price rise in the month of January as well if you see so Currently, our price for CNG is Rs.66 per kg and domestic is Rs.39.50 per SCM, whereas in the earlier quarter it has gradually increased; so whatever Rs.11, Rs.12 we are increasing CNG has gradually increased in the last quarter. The current quarter Q4 will have a full benefit of that higher price now.

Vikas Jain: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Nitin Sharma with Money Control Research. Please go ahead.

Nitin Sharma: Thanks a lot for taking my question. Two quick question first what led to the increase in other expenses? Is there a one-time item there and then I have follow-up.

Management: If you look at volumes compared to the earlier quarter, the volume linked expenses have gone up like power and fuel, transportation cost, dispensing charges, etc., so mainly it is volume linked. In power and fuel, there are some tariff increase also, so mainly that and there are instances like we have increased the CSR expense in this quarter. So, it is a mix of couple of things primarily it is volume linked expenses which have gone up.

Nitin Sharma: Can you please throw some light on what went on in the 11th round of bidding and whatever progress has been made with regards to the open access discussion that happened last year?

Management: Well, I think the opening speech the Managing Director had mentioned the 11th round we had put in aggressive bids for 3 GAs but what we discovered was this time the bidding levels which the industry had were way beyond the extremely aggressive levels, which were prevailing in previous rounds. So, even though we had put on an aggressive bid we could not succeed in getting any of the GAs there.

Nitin Sharma: On the open access discussion with the PNGRB that started last to last year any progress on that?

Management: No because that matter is currently sub judice so we really cannot talk much. It is sub judice in Delhi High Court.

Nitin Sharma: Thanks a lot.

Moderator: Thank you. The next question is for the line of Maulik with Equirus. Please go ahead.

Maulik: Thanks for the opportunity. Can we just revisit for this quarter of Q3 you said that you have any 2.5 MMSCMD of APM gas which you got it now what was the breakup for the revenue? I understand it is 0.5 within spot and 0.1 is your long-term volume?

Management: 2.5 was what was available, remaining was a mix of term and spot.

Maulik: So, what was term and what was spot Sir?

Management: Term was around 0.25 MMSCMD and rest was spot.

Maulik: And this 0.25 will go to 0.35 in this coming quarter, right?

Management: No.

Maulik: You mentioned that you have done one more term contract, medium term contract which is there, which is around 0.1 MMSCMD.

Management: It was made during the quarter including that it is 0.25. We may go for further contract that is a separate aspect altogether but already contracted is 0.25.

Maulik: So, in Q4 it will be in a 0.25 of term contract then remaining whatever will be the spot volume?

Management: Unless we take a call not to do anything further, we may do also, that depends on how things move out in the fourth quarter.

Maulik: Last one question, I have is when we analyze the results of yours versus your peers particularly IGL and all have any similar kind of a pricing pressure right and input cost pressure it seems that you have done on a relatively higher price high compared to the others, but at the same time, if you see there is some significant pressure that this whatever the missing element you have this shortfall of the APM, is different across the plane? Someone is getting a 5% shortfall whereas someone is getting another 18% - 20%?

Management: That is something which we are not actually privy to. Our understanding is as per the government guidelines, it has to be non-discriminatory across all CGD companies, only exceptions being if you know somebody in the northeast and not connected to the gas grid etc., they can have a different percentage depending on the availability there, but otherwise all the CGD are required to be treated at par as far as gas allocation and pricing is concerned only the transportation cost can vary depending on the location of the CGD and the source of gas.

Maulik: Have you procured any sourcing from GAIL as a promoter, means any help from GAIL in terms of sourcing of LNG?

Management: Not really. These are both listed entities and all transactions are at arm's length. as far as APM is concerned the GAIL is aggregator and distributes on behalf of the government the government nominee so the allocation is coming from the government.

Maulik: Thank you.

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

Amit Rustagi: Thanks for giving me this opportunity. Sir do you think that the support of the government for this sector is diminishing given the entire CGD rounds have been done and within that basically we have not seen GST on natural gas and they have not talked about natural gas in maybe six months any of the policy framework so you think that the challenging times are ahead for the sector?

Management: The government policy is in government's hand. It is difficult for any CGD company to say what is going to happen in the future, but having said that in whichever way things go if there is a large shortfall in availability of gas and at least we do not have the disadvantage of serving many, many more virgin GAs and putting in huge amount of capex etc., so in that way one point of view is we are better placed compared to some other CGDs because we already have got infrastructure in the ground and with marginal last mile capex. we can get incremental volumes. Only time can tell, what direction the government will take. I think we can wait for the report of the Energy Transition Advisory Committee which has been constituted and it is likely to give its report in six months' time so that could be a fair indicator of things to come.

Amit Rustagi: Will that delay your gas allocation further because November there was no allocation made and we are looking for allocation in May now, so if the transition report does not come we will continue to hinge upon the volumes which were done in 2021. Will that put the pressure?

Management: The allocation you are talking about will be of more near term and I think there is some discussions going on within the government on how to ensure enhance supplies or protect the quantity in the CGD sector, but you made a larger point that whether the government is encouraging the sector whether that is going down. So that is a more long-term thing which is just totally a possibly linked with the near thing of the allocation for the next quarter or you know that is much more immediate. So, we have to look at it at under two different buckets.

Management: Also, having come up with so many CGD rounds in last one or two years, to expect that government will take a stand is very, very unlikely, so many private players have entered this field so I think government will have to think twice before taking any such measures.

Amit Rustagi: Unfortunately if you look at the entire media so if you look at the media one and a half year two years back, it was dominated by the natural gas minister was going to allocate and they were running CNG buses, they were talking highway, gas highway and all that but in the last six months we have not heard any of these things and on the top of it you have this delay in the gas allocation, price hikes are coming and we are seeing the pressure on the margins across the board, this is clearly indicating that the government after getting all the GAs allocated, now they might withdraw the support given to the sector.

Management: The other way to look at it is that the bidding grounds are done with now the government also has a very strong requirement to therefore capital investment has to come in that infrastructure has to come in the ground only that will grow volumes and reduce our dependence on oil and whatever your climate commitments and you want to increase the share of gas etc. CGD is probably the one sector where there is this potential where gas can increase so that is the other factor at place. There is a compulsion on the government also that they cannot just abandon the sector or if it aligns with the sector there are a lot of things which make it align with the current government priorities be it climate change, be it reduction in import dependence or reduction in oil dependence, increase in the share of gas to 15%, in your primary energy basket, then grass root level, at district level now gas infrastructure is going to reach a lot of people so there is some mileage in that also. So just giving out licenses and nothing happening on the ground I do not think is the intent of the government.

Amit Rustagi: This was super helpful. Thank you, Sir.

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

Kirtan Mehta: Thank you for giving me the opportunity. The liability that you have provided for the OMC margins is it for this quarter or has any prior period OMC Margin been charged ?

Management: We have not provided anything for the prior period in the current quarter. We have been providing as per our internal estimates and that has been maintained.

Kirtan Mehta: Could you also indicate the capex for this time?

Management: We are already at around 500 Crores plus so by year end we could be nearly 650 Crores 700 Crores this year.

Kirtan Mehta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Yogesh Patil with Reliance Securities. Please go ahead.

Yogesh Patil: Thanks for taking my question. Sir could you please update us on the run rate of CNG vehicle conversion or addition in all three geographical areas and can you provide us the breakup of the same how many of them are taxis, autorickshaws and heavy vehicles?

Management: In the quarter, we have added about 17675 CNG vehicles, large majority of them about 11800 were private cars, about 1600 were three wheelers, about 3500 were small and light commercial vehicles, remaining was a mix of taxis, heavy commercial vehicles, mini buses, etc.

Yogesh Patil: Thanks Sir. This was helpful.

Moderator: Thank you. Due to time constraint, it was the last question. I would now like to hand the conference over to Mr. S Ramesh for closing comments.

S. Ramesh: Thank you. Before I give my thanks I just had a last thought, to the management on that, so in terms of your cash flows, we are looking at about 700 Crores of cash and this year you possibly are utilizing all that for capex, so you are looking at your cash flow and capex commitment over the next two three years, when do you see yourself having surplus cash and you have any intention to use that for acquisitions to further your growth prospects?

Management: We will be open to all opportunities available in the sector and also we will be looking at new businesses which are aligned to our CGD business. So, management is open and if you look at our new initiative we have started LNG stations also so that that there we are targeting some amount of capex, but as of now there are no firmed up proposals and we will be open to new proposals.

S. Ramesh: Thank you. With that ladies and gentlemen on behalf of Nirmal Bang Institutional Equities I thank all the participants for taking time off and making this an interactive session. Let me also thank Mr. Sanjib Datta, Mr. Rajesh Patel and Mr. Rajesh Wagle from the management of Mahanagar Gas for arranging this call and thank you and good evening. Take care and stay safe. Thank you very much.

Management: Thank you, Ramesh.

Moderator: Thank you. On behalf of Nirmal Bang Institutional Equities Private Limited that concludes this conference. We thank you all for joining us. You may now disconnect your lines.

(This document has been edited for improving readability)

MAHANAGAR GAS

Mahanagar Gas
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Registered Address: MGL House, G-33 Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai – 400051, Maharashtra

Contact details: investorrelations@mahanagargas.com
Website: www.mahanagargas.com
CIN: L40200MH1995PLC088133