MAHANAGAR GAS

MAHANAGAR GAS LIMITED

Ref: MGL/CS/SE/2022/447 **Date:** November 18, 2022

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 and half year ended September 30, 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 and half year ended September 30, 2022 held on November 14, 2022.

The transcript of the Earnings Conference Call uploaded on the website of the Company can be accessed through the web link: https://www.mahanagargas.com/UploadAssets/UploadedFiles/_mgl-q2fy23-earnings-call-transcript_099d497054.pdf

The Earnings Conference Call was attended by following attendees on behalf of the Company:

Name of Management Attendees	Designation
Mr. Sanjay Shende	Deputy Managing Director
Mr. Rajesh Patel	Chief Financial Officer
Mr. Rajesh Wagle	Senior Vice President, Marketing

Further, we wish to inform that no unpublished price sensitive information was shared/ discussed in the call.

We request you to take the above information on your records.

For **Mahanagar Gas Limited**

ATUL TRIMBAK PRABHU Digitally signed by ATUL TRIMBAK PRABHU Date: 2022.11.18 15:42:03 +05'30'

Atul Prabhu
Company Secretary & Compliance Officer

Encl.: a/a

“Mahanagar Gas Limited
Q2FY23 & H1FY23 Earnings Conference Call”

November 14, 2022

MANAGEMENT:	**MR. SANJAY SHENDE – DEPUTY 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:	**MR. ANKUR AGRAWAL – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Mahanagar Gas Limited Q2 FY23 Earnings Conference Call hosted by PhillipCapital (India) 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. Ankur Agrawal from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Ankur Agrawal: Thank you Renju. Good evening to all the participants. On behalf of PhilipCapital India, it is my pleasure to welcome you all to the Mahanagar Gas Limited's Q2 FY23 and H1 FY23 earnings conference call. Today we have with us the senior management team of MGL. They're represented by Mr. Sanjay Shende – Deputy Managing Director, Mr. Rajesh Patel – Chief Financial Officer and Mr. Rajesh Wagle – Senior Vice President, Marketing. They will share the initial remarks on the quarterly performance of the company and that will be followed by the Q&A session. Before that I would now pass it on to Mr. Diwakar Pingle for reading out the disclaimer. Over to you sir. Thank you.

Diwakar Pingle: Thank you Ankur. Welcome to the participants in this call. 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 contain in the statements are reasonable. However, these statements involve a number of risks and uncertainties that may lead to different results. The risk and uncertainties related to these statements are included but not limited to fluctuation sales volume, fluctuation foreign exchange or the cost and ability to manage growth. I urge you to consider the quarterly numbers are not a reflection of long-term trends or indication of full year results. They should not be attempted to be extrapolated or interpolated into a full year number. With that said I will now hand over the call to management. Thank you and over to you, sir.

Management: Good afternoon and welcome to the earnings call of Mahanagar Gas Limited for the Quarter 2 of financial year '22-23. I would like to thank all of you for attending our earnings call today. Due to continuing geopolitical situation and supply shortages across the world with respect to natural gas, Q2 of '22-23 remains challenging for MGL and for the entire CGD industry due to high input gas costs. To meet the growing demand of the sector and to bridge the gap between APM allocation and demand from the priority sector that is essentially CNG and domestic PNG, Ministry of Petroleum and Natural Gas issued revised guidelines in May '22 and pooled gas was being provided to all CGD entities at uniform base price or UBP for priority sector. Under these guidelines, pooled gas allocation was revised on a quarterly basis by considering consumption of previous quarter plus 2.5%. This helps the CGD entities like Mahanagar Gas to grow their demand by using market price gas for the quarter and, in subsequent quarter, get pooled gas allocation against such increase in the volume. However, within pooled gas APM allocation was done based on the availability of the domestically produced gas. During the period, pooled gas mixed with market price gas which included LNG was supplied at US$8.91 per MMBTU for

July '22, $10.52 per MMBTU for the first fortnight of August '22 and from 16th August '22 practice of mixing market price gas, essentially RLNG, was discontinued and since then CGDs are required to bridge the gap on their own. The present pooled gas allocation which is essentially nothing but APM and CBG or some portion of HPHT that is high pressure, high temperature gases is approximately 90% of the CGD requirement for the priority sector.

On the demand side, MGL continues to create CGD infrastructure across its business segments in the licensed area. During the quarter +62,000 domestic households were connected and thus, we have established connectivity for nearly 1.99 million households in our licensed area. We have laid the 39 kms of steel and PE pipeline, thereby taking the aggregated pipeline length to over 6,325 km. We have also added 5 new CNG stations and, with these, we now have 296 CNG stations as on the end of the quarter. We have also added 86 industries and commercial customers during the quarter and thus on the quarter end we have 4,427 industrial and commercial customers. In respect of our Raigad GA, we are connected to 60,320 domestic households and 23 CNG stations are currently operational. During the quarter, we have laid approximately 7 kms of pipeline in Raigad GA thereby taking the total length of pipeline in Raigad GA to 365 kms. This expansion of a pipeline network has created a very good ecosystem for CNG and PNG in the Raigad area and will definitely enable expeditious unlocking of demand in Raigad once our City Gate Station at Savroli is operational.

Overall, average gas sales volume for H1 of the current year compared to the H1 of the previous year has increased to 3.453 MMSCMD from 2.76 MMSCMD an increase of over 25%. CNG volume has also increased to 2.540 MMSCMD from 1.89 MMSCMD which is an increase of 34.51%. Industrial and commercial sales volume has also increased to 0.442 MMSCMD from 0.410 MMSCMD, an increase of 7.8% and the sales volume for domestic PNG has increased to 0.470 MMSCMD from 0.459 MMSCMD, an increase of 2.4%.

Coming to MGL's operation during the quarter, we have achieved an overall average gas sales volume of 3.459 MMSCMD, an increase of 0.3% over the previous quarter volume of 3.448 MMSCMD. Compared to the previous quarter, sales volume in the case of CNG has increased from 2.539 MMSCMD to 2.541 MMSCMD which is an increase of 0.1% only. In the case of industrial and commercial sales volume has increased from 0.439 MMSCMD to 0.447 MMSCMD, an increase of 1.8%. Sales for domestic PNG for the quarter has increased to 0.471 MMSCMD as against the previous quarter volume of 0.470 MMSCMD, an increase of 0.3%. The current quarter's EBITDA is Rs. 253 crores compared to the previous quarter EBITDA of Rs. 286 crores. EBITDA margin is at 16.18% for the quarter as compared to the previous quarter EBITDA margin of 19.60%. Net profit after taxes is at Rs. 164 crores for the quarter as compared to Rs. 185 crores in the previous quarter. With this I conclude and would now like to open the floor for questions. Thank you very much.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: If you can explain to what extent the price increase you have taken in CNG and PNG in November as offsetting the increase in gas cost? That will help us understand how this will help you maintain or improve margins in this quarter.

Management: I think this is a question pertaining to current quarter that is Q3 and our current prices at 89.50 per kg in case of CNG and Rs. 54 per SCM in case of domestic.

S. Ramesh: To what extent does it help you offset the increase in the gas cost or is it some more price increase required to offset the increase in gas cost? That was the question.

Management: If you look at the availability of APM gas coupled with requirement of market price gas to be mixed with this catering to CNG and domestic, the cost keeps on changing. We have more or less passed on. Maybe some marginal amount might not have been passed on, keeping in view the current diesel price and the petrol prices. However, we will always review that and see how do we best maintain our margins.

S. Ramesh: And what will be the share of spot LNG in your overall gas purchase basket?

Management: So far on average we have been getting 90% of our requirements and it has been going up to at times up to 93%-94% as well.

S. Ramesh: In terms of the CAPEX and the incremental upside in your future growth in the CGD volumes, can you give us some sense how much you will spend this year and over the next couple of years and how would that help you grow your volume over the next 2-3 years?

Management: As far as CAPEX is concerned, up to September we have already spent around 300 crores, little less than 300 crores and since our actual construction season starts post monsoon, we will be doing CAPEX in the range of around 650 to 800 crores. That is our endeavor. But actual CAPEX will always depend on the availability of permissions and other things. Our budget and our preparedness is there up to 800 crores. We should watch and see how much we actually do it.

S. Ramesh: Can we get some sense in terms of what is the upside in volumes you we can expect, how do you spend 800x3 or 2,400 crores of CAPEX? How much will it help you in terms of your future volume growth?

Management: We maintain the guidance on growth in the range of around 6% CAGR, 3-to-5-year CAGR. It may be little more this year because of last year impacted by COVID. So compared to last year's average of 3 MMSCMD, today we are already touching almost 3.45 to 3.5 MMSCMD. However, on a 3 to 5 year’s period, we will maintain the guidance at around 6% with our City

Gate Station getting set up in GA-3.and slowly, we will convert some of these stations which are currently running on daughter booster mode or non-online mode to online. You will see growth coming from GA-3 as well as CNG and industry as well in that region. Also, we are adding new customers in GA-1 and GA-2 and more and more vehicles switching onto CNG will help us the growth in the range of around 6%.

Moderator: Next question comes from the line of Varatharajan Sivasankaran from Antique Limited.

V. Sivasankaran: What has been the vehicle conversion numbers and we are still quite surprised by the flat volume growth QOQ. Is there any reason why it was so?

Management: If you look at vehicle conversion numbers in Q2, they're marginally lower. Overall, around 15,500 vehicles have come on to CNG this quarter as against probably around 19,000 vehicles in the last quarter which includes more or less similar number on account of commercial vehicles, roughly in the range of around +2200. There is an addition of even private cars 11,300. Even taxis have been added, around 200 and small number of buses around 20. This is the number, so overall around 15,500 is the number added during the quarter.

V. Sivasankaran: In this context when we have these kind of numbers though it is down QOQ but still surprised the volume numbers are absolutely flat quarter-on-quarter. Any specific reason for it or is it only kind of monsoon or some such….

Management: If you look at the CNG volumes in particular, price has been steadily increasing from Q1 to Q2. The cost of CNG what we hear from reports pinching the autorickshaw drivers and taxi drivers etc. Our guess is that they are driving more conservatively, previously when they used to run a lot of dead kilometers looking for passengers to pick up etc. That has gone down. So, there is a chance that per capita consumption might have dropped a little bit. The other thing is look at this 15,000-vehicle number which are added in the quarter that is actually a relatively very small number when you compare it to the (+8) lakh vehicle population which is on CNG. This quarter-on-quarter increase, flat, decrease, jump, that is very difficult to micromanage or explain on that granularity. However, if you look at it on annual or CAGR basis, you will see the consistent growth which is there.

V. Sivasankaran: What is the midterm contract supply? Was there a significant cut, what was the actual volume vis-à-vis the contracted volume?

Management: Generally, it is observed that if there's a term contract which has some proportion which is on best endeavor then during the time when spot prices are comparatively higher, the supply is restricted to supply or pay, more or less. So, there was a cut during this quarter. It was not supplied over and above the supply or pay level at least one or two contracts.

V. Sivasankaran: Understood but what was the number? Could you give us some indication?

Management: Roughly we must have, got around all put together in the range of around 0.45 to 0.47.

Moderator: Next question comes from the line of Aditya Suresh from Macquarie.

Aditya Suresh: First is in terms of your margins, is it fair to say that at the current CNG price of 89.5, oil is constant in the current environment even we are able to protect your existing margin, even in the next quarter or do you see that margins should fall given where we are from a pricing perspective?

Management: **See** It's not appropriate right now to guess or comment on the Q3 margins. However, I can say that compared to Q1, Q2 margins we have been either able to improve or maintain more or less as far as CNG and domestic PNG is concerned. Both these margins have been well maintained. In fact, we have realized a little more compared to Q1. And as far as industrial and commercial is concerned, since our pricing is linked to alternate fuels, in view of alternate fuels coming down, on an average the basket fuels have seen a reduction of almost 20%-22%. The realization there has gone down compared to Q1, though it still remains good in terms of earlier corresponding previous year same quarter or something. But Q1 of this year was exceptionally good as far as realization was concerned. At the same time, the gas-cost overall index be it Henry Hub, be it Brent contract, the gas cost, especially Henry Hub has increased. So overall, gas cost has increased and realization in case of I & C has been under pressure because of the linkage to alternate fuels. In spite of charging premium, we have not made as good realization as it was in Q1.

Aditya Suresh: Sorry for the basic questions as well but APM has gone from 6 to 8.6 and our pricing has gone as a CNG retail outlet from 85 towards 90. I guess in that context volume of that margins we'll see more on downside compared to where we are today. Is that a fair understanding of situation or if you can just help us?

Management: I would certainly say that margins are under pressure because as you are saying 40% APM price has gone up. We have to now watch and see how much allocation of APM is available and what is the price of market price gas which comes up in this quarter or the subsequent quarters, that will more or less decide the margins. Our endeavor will be always to maintain the margin. However, we will always look at that we don't cross the limit where we don't put anything on the table for the customer vis-à-vis diesel and petrol. So certainly, margins are going to be under pressure. Also, another factor which is contributing to the cost is exchange rate – rupee devaluation is also impacting.

Aditya Suresh: Is there a floor margin that you all think about? That's why we've seen some prioritize margin over volume, so if you were to prioritize margin?

Management: We don't have any such practice as a floor margin.

Aditya Suresh: I guess the final question was that at 89.5, it's really palpable that as you were saying as well that the users of CNG have been watchful in terms of demand patterns but can you speak about the ability to further increase prices given where we are today and given some of the kind of feedback you're getting from your customers?

Management: Currently, we are comfortable with the kind of price rise we have taken but we'll have to wait and watch how spot prices move going forward and we'll take a call accordingly. If you look at it, currently the spot prices have started tapering little bit but one can't say with very high confidence how long that price will remain.

Moderator: The next question comes from the line of Maulik Patel from Equirus.

Maulik Patel: Do you have anything on this medium-term contract which you signed last year? Can you just tell us what's the validity of those contracts, for how long those contracts are there?

Management: Out of the term contracts we have one contract which is medium-term and it's roughly ending somewhere in 7-8 months. Next 7-8 months.

Maulik Patel: So, you have three contracts which I think you mentioned in the last con-call.

Management: Yes. Other two are for 5 to 6 years. This one was a shorter tenure it is having balance 7-8 months from now.

Maulik Patel: Any updates you have to share on related to with this Kirit Parikh committee which government has set up and also with this ministry notification which was there in mid of August that subsequently going forward the APM gas allocation will be linked to the increase in number of the PNG connection?

Management: Regarding the Kirit Parikh committee, we are eagerly awaiting the outcome of the report and subsequent approval of the same by the government. As far as the 10th August circular is concerned, there were two circulars on 10th August. The second circular doesn't talk about linking it with PNG. So, PNG connection, we presume that is not on the table as of now.

Maulik Patel: Should we need to get it around 94% or 90%-91% of your requirement as and when the APM gas from the government.

Management: APM gas and blended with some amount of high pressure, high temperature gas as well as CBG that is compressed bio gas. The price at which it is being sold today is around $6.26 up to Q2, I am saying.

Maulik Patel: Can you just repeat the last term, what is 6.26?

Management: That is uniform based price for APM gas which includes APM, CBG, HPHT. Currently, it should be somewhere around I think 8.57 is APM, so the blended CBG, HPHT is somewhere around 8.75 or so. But that price is declared every month.

Moderator: Next question comes from the line of Saurabh Handa from Citigroup.

Saurabh Handa: My first question is on these term RLNG contracts. You said you got around 0.45 MMSCMD and in Q2, how much is the contracted quantity across these three contracts?

Management: Roughly around 0.66.

Saurabh Handa: This excludes the KG gas of 0.1, right?

Management: Including.

Saurabh Handa: It includes, so the LNG part will be around 0.55.

Management: You are saying overall spot RLNG.?

Saurabh Handa: This 0.66 includes the KG of 0.1, is that correct? So, excluding the KG would be 0.55 of term LNG?

Management: Yes.

Saurabh Handa: My second question was on industrial and commercial realizations in the quarter. Could you give us the numbers how much they were in Q2?

Management: You are saying sales price realization?

Saurabh Handa: Yes, the realization.

Management: It has ranged between, on an average, Rs. 60 to Rs. 66 per SCM.

Saurabh Handa: This is across both industry and commercial?

Management: Average of all industrial and commercial.

Saurabh Handa: On the committee, on the Kirit Parikh committee are there any timelines that you are looking at? That's one. Secondly, are you also hopeful for any sort of relief on the allocation side because obviously 94% has come down to maybe around 90% now. I'm guessing the absolute volume number is not changing and as their volumes grow the percentage will keep coming down. One is on timelines and secondly anything on the allocation itself that you are hopeful about?

Management: The timelines are a little uncertain, but we definitely look forward to the outcome of the Kirit Parikh report because it was especially constituted for taking into account the aspirations of the city gas companies in the country. And as far as the present APM allocation or uniform base price allocation is concerned, a couple of months back, we understand that GAIL had added some more quantity by cutting from the priority sector of power, but we are not aware of any further upside to that kitty as of now.

Saurabh Handa: But so, you're hopeful still that maybe there can be development on this as well on further allocation?

Management: If there is any HPHT gas which comes in the market and GAIL sources it then yes that will be added to the kitty going forward.

Saurabh Handa: But not from the power sector.

Management: We are not in a position to comment on this question.

Management: I think you can pose this question to GAIL India Limited.

Management: Or the government.

Moderator: The next question comes from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika: First question is regarding this ONGC-GAIL pipeline tariff issue. So, you'd be like fighting this out in higher courts, right? So just wanted to know I mean this court appeal would be the last one of it or you have room, if by chance if something comes against your favor then is there any further chance or it is like the final forum?

Management: Certainly, we will be fighting out this case and it can go up to Supreme Court as well.

Sabri Hazarika: This will be in the Bombay High Court?

Management: No. This will be initially in Delhi High court.

Sabri Hazarika: And then if not then you can…

Management: We don't have right now hearing on this matter.

Sabri Hazarika: And have you got a hearing?

Management: No not yet. We are yet to file our appeal.

Sabri Hazarika: Secondly one small bookkeeping question. Industrial PNG volumes for the quarter, not industrial, commercial just industrial and also CNG sales in Kilogram?

Management: Actually, for industrial and commercial sales, if you note down the figure together it will better because we have been doing some reclassification of the customer categories. Especially this quarter, we will not be able to give separate figures. The industrial and commercial put together is 0.447 and CNG 3.459 MMSCMD. You can convert it by factor of around 1.4.

Sabri Hazarika: It will be 1.4, right?

Management: Yes, little less than 1.4 or 1.39 or so. Kg should be around 1.826 kgs.

Moderator: Next question comes from the line of Abhilasha Satale from Quantum AMC.

Abhilasha Satale: We are awaiting this Kirit Parikh Committee report and most probably there is a rumor that there will be some downside to the APM prices. As and when it happens what will be our strategy? Will we pass on the benefit to improve discount to the alternative fuels and improve the conversion rate or we are in a position to retain large part of the benefit which will come through us from the cost side?

Management: Certainly, if the price comes down, we would like to pass on. How much passthrough that I think that we'll have to wait and watch. Wait for the exact numbers to decide that but we will have to balance out between value proposition for the customer to come on to CNG and then take an overall decision. There will be pass on to some extent and we will have to decide based on the numbers which comes out. As of now I think commenting on this is very difficult.

Abhilasha Satale: But in case if we pass it on then would we see incremental conversion? I mean as such even at this rate we are not seeing that substantial conversions have gone down or that proportion, that scenario is not there. If we pass on some of the benefit then is there a possibility that we will see increase in conversion rates?

Management: I think a period of a quarter or two quarter to comment on whether the momentum has impacted due to price or not is very difficult because a lot of vehicle booking might have been done earlier. One has to see over a little longer period of time. Certainly, if the gap between diesel and petrol, if it reduces, then some amount of impact will be there in case of commercial category. However right now we are not seeing that kind of impact maybe because it will have impact with a lag. So, looking at only one or two quarters' number it's not right to judge.

Moderator: Next question comes from the line of Yogesh Patil from Centrum Broking.

Yogesh Patil: First of all, could you please share the breakup of input gas volume in terms of gas pool, contracted LNG and spot LNG? If you could provide it in terms of percentage term that would be really helpful?

Management: Could you repeat your question, total gas?

Yogesh Patil: Yes. Could you please share the breakup of input gas volume in terms of first gas pool, second contracted LNG and third spot LNG?

Management: As far as requirements for priority is concerned, domestic PNG and CNG, we are roughly blending 10% of spot and as far as industrial and commercial volume is concerned, we are able to cater through a term contract fully.

Yogesh Patil: How it has changed compared to the first quarter FY23?

Management: First quarter actually very difficult to say because in the first quarter there was a pooled gas supply. In fact, in this quarter also it is slightly difficult to say because up to 15th of August the blending was done by GAIL and we were supplied at one price. So, our requirements from 16th of May till August was less, as far as spot gas is concerned because APM plus blended RLNG was coming through GAIL. However, there are operational constraints which have remained in Q1 as well as some part in Q2 as well. If you might have contracted something and do some adjustment of those then you may see little bit difference between the actual quantity available and actual quantity utilized through the pooled mechanism. In fact, both these quarters have a mix of pure RLNG put in by us and some part which is given by GAIL in the pooled mechanism. On an average I am saying 10% was the requirement or 90% of APM gas or APM plus CBG and HPHT was available, rest was through spot.

Yogesh Patil: Second one regarding, looking into your historical EBITDA per unit it was mostly into the double digit which was close to Rs. 10 per SCM. In this volatile input gas cost environment, what one should assume for the second half of FY23 and the upcoming period FY24? Could you please guide us on the EBITDA per SCM side?

Management: Our endeavor will be always to maintain however it is difficult to comment on futuristic numbers. It will all depend on how much APM quantity is available, what is the price of spot RLNG, how is the price of diesel and petrol fair during this period? So, all these factors put together we will be able to maintain a reasonable good margin but crystallizing or pin-pointing a number will be very tough task for anybody.

Moderator: Next question comes from the line of Somaya V from Spark Capital.

Somaya V: The question pertains to spot LNG buying in the previous quarter, Q2. So industrial more or less would have been sufficient to the mid-term contracts that we have. Just wanted to check that's a right understanding. And second in terms of the priority sector for us, the CNG part, the shortfall would have been to the extent of say 4%-5% and that too from say mid of August. Is that the right understanding?

Management: Yes, you're right because up to mid-August the blended gas was supplied by GAIL and the quantity increased after August.

Somaya V: Second question, the medium-term contracts that you have referring to the 0.66 MMSCMD that we have so the balance term for all these three contracts is 7 to 8 months, is that right? I mean though the contract period is different. One is 1-year, the other two are 5-years. But the balance remaining period is only 7 to 8 months?

Management: Correct. Up to around I think June '23.

Somaya V: All three contracts will get over by June '23?

Management: No. The other two contracts still have a good time. I do not remember the dates. Only the one contract which was mid-term is getting over around June 2023.

Somaya V: What would be the volume of this contract that is getting over in June '23?

Management: Contracted quantity should be around 1.5 lakhs.

Somaya V: 0.15 out of the 0.66?

Management: Yes.

Somaya V: The third thing. We have seen in terms of gas cost increase be it on APM front or the lower allocation or FX this has happened between say September end to October. We have increased close to Rs. 9-9.5 so far. When we increase these prices is there anything that we keep thinking in terms of the petrol spread versus CNG? And is there a point which is slightly after which we feel okay probably the spread is too narrow and it can have a rub-off effect on the volume. Is it something that we think and what that number would be?

Management: There is no such hard number. What we have observed with the relatively high price increases which we have taken recently is that the new vehicle addition has slightly tapered off compared to let's say Q1. So, definitely there is a thought in the mind of the consumer that should we wait for some more time before buying a new CNG vehicle or what? The vehicle addition has not stopped but from about 19,000 I think Mr. Patel had said 19,000 vehicles which came on in Q1, Q2 it was only about 15,000 vehicles. Now that is a trend which ideally, we don't like to see because we are chasing volume growth here. We are hopeful that going forward with gas prices hopefully softening a bit, again the momentum on CNG volume addition will again pick up pace. Growth is still there maybe not at the previous quarter or previous half year rate. That is why we in our guidance we talk of a 5-year kind of a GAGR at quarter-to-quarter or short-term variations, we don't give too much material significance.

Somaya V: On the industrial and commercial prices, you did mention that Rs. 60 to 66 is the pricing currently I mean for Q2? How has it been trending in Q2?

Management: Q2, in Q2 and not currently, I said in Q2.

Somaya V: How has it been trending in the last few quarters compared to the alternate fuels, if you could just keep some color on that?

Management: As I said earlier, our pricing is linked to alternate fuels. Q1 was very good comparatively, compared to Q2 and let us see how these alternate fuels move going forward. And based on that there will be realization though we do charge premium over the alternate fuels to maintain our margins to some extent.

Somaya V: What would be the industrial and commercial prices currently, if you can help us?

Management: Currently, I think basic price should be in the range of Rs. 60 to Rs. 65.

Somaya V: So largely flat versus Q2?

Management: It keeps on changing month-on-month.

Management: There are quite a few segments within the industrial and commercial bucket also where typically the price to the customer is linked to the predominantly used alternate fuel by that category of customer. We have customers who are indexed to LPG also, we have customers who are linked to large bulk industrial fuels also, so it is a mix, when you say industrial or commercial it is not just one category. There are subcategories in that and there is a variation in price depending on how the alternate fuel for that category moves.

Management: The number I gave is average across all the category.

Moderator: Next question comes from the line of S. Ramesh from Nirmal Bang Equities.

S. Ramesh: If you're looking at the sensitivity of the CV segment, what is the percentage discount of CNG compared to diesel below which your conversion of CVs will possibly not be as visible? Is there a number you can share with us because that's possibly one segment which is growing exactly because if you're seeing the potential for a correction in diesel spreads and international prices how do you see that play out in the next 1 to 2 years based on your understanding on the ground?

Management: As regards commercial vehicles, there is no one number and we can't say if there is a 10% discount to diesel we'll keep selling because we need to understand that the vehicle categories are also quite diverse. Ranging from a small commercial vehicle to now even heavy commercial vehicles are coming OE fitted with gas engines and the payback period differs for different class of customers depending on not only the spread between CNG and diesel selling prices but also the spread between the initial on-road cost of the vehicle and most importantly how many kilometers that vehicle runs on an average in a day or a month. The number varies for different classes of customers. For a large transporter who runs a few 100 kms per day maybe he may be able to work with a 10% kind of a discount to diesel. But for let's say a small commercial vehicle where the on-road cost difference is not much, however the running per kg also may not be that much. So, the number could be slightly lower. There is no one number for the whole commercial vehicle category as such. It is more of a range and we are conscious of this fact that we need to keep that customer sentiment towards CNG continuing because the other good thing is now a lot of commercial vehicle OEs are coming in factory fitted CNG. They have already come in with models which is actually meeting a large need which was there in the market because before that the transporters had to rely on retrofitting which was not always reliable in terms of quality and cost. So, on an overall basis we see the trend is positive for CNG at the expense of diesel.

S. Ramesh: On a similar line of thought in terms of the competitiveness of CNG versus petrol and diesel you have realized that has come down. So is there a threshold below which you will have to cut prices and take some sacrifice on margins say in the next 6 months to 12 months and then eventually over a period of time try to make up. What is your thought on that?

Management: The over earning priority remains to steadily aggregate volumes in the long term. Now as far as petrol goes currently also, we don't perceive any material challenge on the customer value proposition front because even at today's prices, CNG is turning out to be more than +40% economical compared to petrol, which is a huge incentive. Of course, private car owners do not tend to log in 100s of kilometers per day which impacts the payback but then +40% discount is a good payback for anybody who runs even 60-70 kms a day. And again, as I said before with factory fitted CNG variants now coming out, more and more customers are preferring to take CNG. Other thing encouraging customers is CNG now is almost a PAN-India phenomenon. Previously let's say 3-5years back CNG used to be considered by many customers and OEs also as a Maharashtra, Gujarat or Delhi centered phenomenon. But now with the number of GAs licensed out and new and new entities opening up CNG stations all over the country, there is this momentum towards CNG and long term we see a lot of growth and value proposition there.

Moderator: The next question comes from the line of Varatharajan Sivasankaran from Antique Limited.

Varatharajan S: Looking at acquiring domestic gas now that RIL as well as ONGC are planning to increase production and there will be auctions from both parties soon. Would you be looking to bid and if at all we will going to bid I am just trying to understand since your volumes grow on a continuous basis what would be the volume you would effectively bid for. Would it cover one quarter, 1-year or 2-years and how do you manage this entire volume at which you want to bid and the term of the contract?

Management: You are talking about ONGC new volumes?

Varatharajan S: Yes, ONGC as well as RIL and the new volumes come if you were to bid, how will you bid in terms of the volumes? Would you bid for a 1-year coverage or 2-year coverage? What will you do in the interim since your volume will be too high for you? Will you be allowed to trade it out for the time being? How do you work that out?

Management: For large extent the term of the contract is determined by the seller.

Varatharajan S: So then how do you match your volume in terms of how it grows and?

Management: Reliance had made the term also biddable parameter but off late we are not seeing that and we will take a call on what we think is our volume requirement estimate and accordingly, as our volumes keep growing incrementally, in case domestically produced gas does not match up with that volume ramp up we will keep buying tranches of medium term gas or something like that as long as we have a certainty of volume optics and the last bit balancing we'll tend to do on reasonable and there is spot gas has done or take or pay or something.

Moderator: Next question comes from the line of Ankur Agrawal.

Ankur Agrawal: I just wanted to check regarding the margins for the commercial and industrial segment. I mean we understand that pricing has come off from the first quarter currently but brent prices have also come off during that time. Are you seeing some ease in the input gas cost as well? How are the margins waving on the C&I side, if you could help us understand that?

Management: Compared to Q1 the margins are under pressure as far as commercial and industrial is concerned because of the realization mainly and gas cost as well as exchange rate increase during this quarter. Even going forward exchange rate may put pressure and we will have to watch out for gas costs how indexes remain and how spot prices remain going forward.

Ankur Agrawal: Compared to the second quarter if you have to talk about currently how are you managing?

Management: Current quarter, I think let us wait for some time. Maybe it is more or less same as of now compared to Q2 but we will have to watch out for the exchange rate as well as the indexes to which gas cost is linked and also spot price.

Ankur Agrawal: Just one clarification. You mentioned that currently you're getting blended gas at $8.75 per MMBTU. Is that correct?

Management: When I say blended, it is APM plus CBG and HPHT. No spot RLNG or market price gas in that.

Ankur Agrawal: On top of that you have to for the priority segment you have to add around 6% to 10% of spot LNG as well, right?

Management: Somewhere in the range of 7% to 10%, yes.

Moderator: Thank you. Due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Ankur Agrawal for closing comments.

Ankur Agrawal: Thank you to all the participants. I would like to thank the management of Mahanagar Gas Limited for taking out the time for this interactive session. I would also like to thank all the participants who joined on the call today. Thank you all. Over to you Renju.

Management: Thank you very much.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.