



# MAHANAGAR GAS LIMITED

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To,

<b>Head, Listing Compliance Department BSE Limited</b> P. J. Towers, Dalal Street, Mumbai - 400 001 <b>Scrip Code/Symbol: <u>539957; MGL</u></b>	<b>Head, Listing Compliance Department National Stock Exchange of India Ltd</b> Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 <b>Script Symbol: <u>MGL</u></b>
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**Sub: Transcript of Earnings Conference call on Unaudited Financial Results for the quarter ended June 30, 2017.**

Dear Sir/Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that an Earnings conference call on Unaudited Financial Results for the quarter ended June 30, 2017 was held on Wednesday, August 09, 2017 at 16:30 hrs. (IST).

Please find attached herewith the transcript of the aforesaid Earnings Conference call. The same has also been placed on the website of the company i.e. [www.mahanagargas.com](http://www.mahanagargas.com).

Kindly take the same in your records.

Thanking You,

For Mahanagar Gas Limited

  
**Alok Mishra**  
**Company Secretary and Compliance Officer**



Encl.: As above



**“Mahanagar Gas Limited  
Q1FY18 Earnings Conference Call”**

**August 09, 2017**

**MANAGEMENT:**     **MR. RAJEEV MATHUR – MANAGING DIRECTOR – MAHANAGAR  
GAS LIMITED**  
**MR. SUNIL RANADE – CHIEF FINANCIAL OFFICER –  
MAHANAGAR GAS LIMITED**  
**MR. RAJESH WAGLE – SR. VICE PRESIDENT (COMMERCIAL) –  
MAHANAGAR GAS LIMITED**

**ANALYST:**           **MR. JAL IRANI - EDELWEISS SECURITIES**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Mahanagar Gas Q1 FY2018 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jal Irani from Edelweiss Securities. Thank you and over to Sir.

**Jal Irani:** This is Jal Irani from Edelweiss Securities. Welcome all to Mahanagar Gas’s first quarter FY2018 post results conference call. It is our honour and privilege to have none other than Mr. Rajeev Mathur, Managing Director of Mahanagar Gas, Mr. Sunil Ranade, Chief Financial Officer and Mr. Rajesh Wagle, Senior Vice President (Commercial). Without much further ado, I would like to hand the call over to the management. Many thanks.

**Management:** I would like to mention that some of the statements made in today’s discussion may be forward-looking in nature and we believe that expectations contained in the statement are reasonable. However, their nature involves a number of risks and uncertainties that may lead to different results. The risks and uncertainties relating to these statements include but are not limited to risks and uncertainties regarding fluctuations in sales volumes, fluctuations in foreign exchange rates, other costs, and our ability to manage growth. I urge you to consider that quarterly numbers are not a reflection of long-term trend or an indication of full year results, they should not be attempted to be interpolated or extrapolated into the full year number. Over to you, Sir.

**Management:** A very good evening to all of you and once again, welcome to Mahanagar Gas Limited’s Q1 FY2017-18 Earnings Conference Call. I would again like to thank you all, those who have connected for our earnings call today.

As you all know in the last decade, the demand for natural gas has gone up due to increased availability, development of natural gas transmission and distribution infrastructure and the environment friendly characteristics of natural gas. The Government of India is also encouraging the use of this green fuel.

MGL is fast expanding its CNG network in the existing areas of operation. Currently we have connected more than 9,75,000 households with PNG, and operating 206 CNG stations



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supplying CNG to more than 5,64,000 vehicles. We have a steel and PE pipeline network of 4,890 kilometers. Since we last discussed, as far as GA3 Raigad is concerned, gas supply commenced in June 2017 for households in Uran and we plan to cover 1,000 houses in that area during this year.

Work has also commenced and is in advanced stages of completion of supply of gas to upcoming townships of reputed builders along the National Highway-4 in Raigad. One CNG station has also been set up in Raigad at Karjat, and work is going on for adding another one in Uran during the current year. Also plans are there to finalize for adding stations along the Mumbai - Pune Expressway during this year.

In the first quarter of 2017-18 APM gas cost was reduced from \$3.06 per MMBTU gross to \$2.48 per MMBTU gross compared to the corresponding quarter in previous year by the Government.

During the quarter, we have seen the growth of 2.7% in overall sale volumes over the corresponding quarter in the previous year. CNG sales volume grew by 1.4%, domestic sales volume grew by 12.7%, the commercial sector grew by 4.3% and there was a marginal drop of 0.3% in case of the industrial sector.

Overall, the PNG volumes grew by 6.7%. Gross margin has improved to 56.2% as compared to 48.9% in the corresponding quarter in the previous year.

Improvement in the gross margin is mainly due to better price realization linked to alternate fuel prices in case of industry, commercial customer category, reduced cost of gas mainly domestically produced gas from \$3.06 to \$2.48 per MMBTU in the quarter and favorable exchange rate.

The operating EBITDA was higher by 33.4% at Rs.203 Crores as compared to Rs.152 Crores in corresponding quarter in the previous year. EBITDA margin was 38.3% as compared to 31.5% in the corresponding quarter of previous year.

Net profit after tax grew by 34.1% from Rs.92.73 Crores in the corresponding quarter of previous year to Rs.124.33 Crores.

With this, I conclude and will now like to open the floor for questions. Thank you.



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**Moderator:** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

**Tarun Lakhotia:** Thanks for taking my question, I have couple of them. One, Sir your CNG realization as we calculate based on revenue divided by the disclosed volumes has gone up sequentially on a rupees per SCM basis. So is there some adjustment because of SCM to KG conversion, or calorific conversion or anything like that?

**Management:** Number one, apart from any other reasons, just remember there are different categories of customers in CNG, for example, we sell through the channel of OMC. We are also selling to different STUs - Navi Mumbai Transport Association, BEST, Thane Municipal Transport and of course, there are certain sales, where we sell it directly also to different customers. So, in all these channels, the net realizations can be different and depending upon the proportion which we have in a particular quarter, the realization may be different.

**Tarun Lakhotia:** So, it is a mixed benefit basically, because the prices have not really changed on a QoQ basis.

**Management:** You are right.

**Tarun Lakhotia:** Second, related to that, correct us if we are wrong in this, but there was an element of octroi and local body taxes, which were paid on the gas which you get and which you sell to the customers in Mumbai region, correct?

**Management:** Right.

**Tarun Lakhotia:** So now that that has been abolished, we have not really seen any reduction in CNG and PNG prices, in fact a week ago I think you have increased your prices to pass on the GST impact to the end consumers. Could you just help us understand that?

**Management:** One is I think this indirectly talking about the GST impact also on the company. You are right that since octroi has been abolished, wherever those particular prices were applicable in, say, Navi Mumbai or Thane or wherever it is, we have passed on benefit to the customers to that extent. Actually while calculating, we have removed the element of octroi, which we were required to charge, whereas there has been some increase in our cost due to the input credit we are going to lose under the GST framework since there are a lot of



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purchases of goods and various services including consumables we do which will attract, in most of the cases, GST, whereas input credit for those purchases we will not be entitled to, because natural gas is not under the framework of GST. So, some amount of increase in our cost calculation has taken place for losing this input credit whereas there are benefits like octroi even on purchase of gas, there was some benefit, which had accrued to us for that we have given beneficial treatment apart from charging the octroi to the customers so it is a combination of all these three, which has resulted into whatever announcements we had made recently.

**Management:** Just to add that, if Thane and other areas where Octroi was applicable, prices have actually come down from what they were earlier.

**Tarun Lakhotia:** Okay, correct, that is true, understood Sir. Going forward then, this Rs.8.7 per SCM number we should start working out for the margins for this year, given that GST impact at least has been passed on to end consumers so can we expect this momentum to continue for the remaining part of the year as well?

**Management:** Margin is a function of selling prices, sales realization and gas cost, it is very simple. There are a variety of factors which will come into play, prominent will be obviously the foreign exchange rate - there have been some benefits we could get as compared to Q4 of 2016-17. Similarly the case is with Q1 of 2016-17. So, it remains to be seen whether exchange rate benefit continues in rest of the year - that will be one of the important factors to see. Second factor in case of industrial and commercial customer category would be the rate at which we are able to procure spot gas, what we call it, imported gas. There has been reduction in the prices of spot gas, particularly in the Q1 of 2017-18 as compared to Q4, I mean, there have been in the month of January-February spot prices touching even up to \$11 or \$12 per MMBTU, whereas in this current quarter we could get it around \$7 per MMBTU. So that benefit has definitely come to us, it remains to be seen whether that benefit is likely to continue even the global demand and supply position probably that will likely.

**Tarun Lakhotia:** Sir, at least currency remaining where it is, I think this is the new normal, guess we assumed that?

**Management:** Rather than giving a straightforward yes or no answer, I would suggest we should look at the different factors as the exchange rate we already we talked about, spot rate we already talked about, obviously there will be question about domestically produced gas, there is



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government set formula at which we are able to get the domestic produced gas so at what price we are going to get it that will also impact us. Last but not least, general oil price level that is BRENT, or whatever we called it, will probably determine the prices of alternate fuel particularly industrial and commercial customer category, that will also impact our industrial and commercial sales realizations so these are variety of factors not to forget opex and there could be some inflationary impact in opex also. So, depending upon the impact, which we see or the changes we see in this factor, we will have to think about the margins prevailing in the rest of the year.

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

**Amit Rustagi:** Sir, I would like to know what could be the reason for such a slow growth in CNG, like we have grown only 1.36% and this is because of we have added less number of outlets in this quarter or like how many outlets we have added or what is the target for the year?

**Management:** On a macro basis, the volumes of CNG used is a reflection of the general economic activity happening. That said, during the first quarter, there are holidays and then there are schools which are closed so some buses do not run, people go out on a vacation so there are several seasonal factors, which come into play, in addition to the economic activities which are happening, so a compounding of these could result in the volume getting impacted in some manner or other.

**Amit Rustagi:** I am sorry, but these activities or the slow down of activity, would also be there in the last quarter, because we are comparing YoY.

**Management:** One additional factor that you need to take into account here, is gas quality of specifications typically do not remain constant over a long period of time, so it is our belief that in this current quarter, we had received gas probably with a slightly higher density. So, if you look at our sales in terms of kgs, there the growth would have been between 4% and 5%, but because of the difference in gas specifications, it is not translating in volumetric increase.

**Amit Rustagi:** Higher density of gas is because of increased output from the Daman offshore any rich?

**Management:** The quality of gas depends on where it is coming and whether it is totally processed or not. There is some volume, which comes unprocessed, then the quality differential happens.





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- Amit Rustagi:** Sir, how many outlets we added and target for the year?
- Management:** So, this year our target is that we will add between 20 to 25. We have already in this quarter done 3, and we are on course to do the rest during the rest of the year.
- Amit Rustagi:** Sir, my second question is how many vehicles are there in Mumbai like what is the change in the vehicle addition for the quarter like cars, autos, and buses like we used to get this number?
- Management:** The CNG vehicle conversion is more or less steady, there is no material change, so earlier every month we have seen between 5,000 and 6,000 additional vehicles coming on to the road CNG vehicles, which is comparable to what we had seen in the last financial year also.
- Amit Rustagi:** I am saying you used to give that there are total number of buses, cars, and autos, so if you can give that kind of breakup that how many new buses or new autos or new cars?
- Management:** Typically, this quarter about 1,000 or 1,100 new autos have been added every month and roughly between 4,000 and 4,500 private cars, but these private cars include aggregator cabs.
- Amit Rustagi:** As well?
- Management:** Yes as well, so that many new added, so that gives you roughly about 5500 and maybe 100 or max 200 of combination of meter taxis and commercial vehicles, etc.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thank you. Just understanding the reasons for margin increase, which you stated in that you stated that the CNG mix varies, so are the margins the highest on sales through your own stations?
- Management:** You are right.
- Vidyadhar Ginde:** What we have seen is that over all the quarters since you have got listed, I think the margin has been creeping up and is this trend going to continue because are the sales from your





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own stations as a proportion of our entire sales will it keep rising - will that be a largely secular trend?

**Management:** It is difficult to predict that way. It all depends on different factors, through which channels we are selling.

**Vidyadhar Ginde:** But in terms of new stations, most of them tend to be your own stations?

**Management:** Of the new stations almost 50% are either owned by us or franchised by us and the rest are either OMCs or STUs.

**Vidyadhar Ginde:** And that has been the trend in the few years and that is likely to be the continuing trend, is it?

**Management:** Yes, it should continue.

**Vidyadhar Ginde:** Is there any some trend in terms of is the throughput higher at your stations own stations? Are OMC stations typically both liquid fuels, that is petrol and diesel plus CNG?

**Management:** The OMC stations have a combination of MS, diesel as well as CNG whereas typically our stations are exclusively CNG stations.

**Vidyadhar Ginde:** Your stations do they tend to be less crowded because you will just have the CNG consumers, so is throughput generally higher in your stations?

**Management:** Yes, the CNG throughput is higher because typically, we are able to place more compressors and dispensers because space availability is more.

**Vidyadhar Ginde:** So, does it mean that every year, only half the stations added that are, let us say out of 20, 10 are your own, those 10 stations would tend to give you more volumes than 10 at OMCs?

**Management:** Yes, in general, yes.

**Vidyadhar Ginde:** So, this probably is one of the helpful trends, which is supporting margins I guess?

**Management:** Well, that can be one of the reasons.



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**Vidyadhar Ginde:** And last question is the same context of margins, so you discussed about currency, so does it mean that you are not passing on the impact of currency whether it depreciates or appreciates?

**Management:** We take periodic calls. Generally, it is a six monthly basis call we take be it appreciation or depreciation.

**Vidyadhar Ginde:** So, does it mean that if the rupee remains strong you will actually pass that on to the customers at some stage?

**Management:** That depends, other factors are also there. Margin is a combination of opex, what are other discounts to be passed on, and at what price we are acquiring the gas so many factors are there so all put together we take a pricing decision. Exchange implication is just one of them.

**Management:** We also look at what is the rate of additions of new CNG vehicles. As we had mentioned before, the primary focus is on acquiring more customers and retaining them.

**Moderator:** Thank you. The next question is from the line of Aditya Makharia from Motilal Oswal Asset Management Company. Please go ahead.

**Aditya Makharia:** You mentioned something about having CNG stations on the Mumbai-Pune Expressway, so what are our thoughts here - are we trying to build some sort of a corridor?

**Management:** So what we are trying to build is a green corridor between Mumbai and Pune. We already have a couple of stations. Now on the expressway where OMC stations are already existing, we are going to co-locate some CNG dispensing point there on both sides of the highway, as we go from Mumbai to Pune and on the other side the Pune franchise or the authorized entity is also doing the same. As a result, our expectation is that vehicles moving on this expressway and highways would also utilize more CNG or may like to run on CNG because of the operating cost and other economics.

**Aditya Makharia:** Sure, so have we bid for this route or how are the dynamics played out?

**Management:** There is no bidding. Already they are going to be co-located, so the model is that the oil companies will own these stations. We will setup our dispensing points there and we will



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dispense CNG and for that we will give them a discount or whatever mechanism is there for our being able to dispense CNG there.

**Aditya Makharia:** So, this is beyond the GA2 and the GA3 areas, which we have?

**Management:** No, they are all within our own GAs. They are within the GA2 and GA3.

**Aditya Makharia:** So right from here to Pune all the way that is what you are saying?

**Management:** Till the point where we have our geographical area we are going to setup these stations.

**Moderator:** Thank you. The next question is from the line of Rohit Ahuja from BOB Capital Markets. Please go ahead.

**Rohit Ahuja:** Thanks for the opportunity. Sir, you mentioned about CNG volumes in kg terms have shown a higher growth. Could you share the numbers in million kg for this quarter, and comparative last year's quarter just for our business?

**Management:** For this quarter, it was 12.37 crores kgs for this quarter. Which else you wanted?

**Rohit Ahuja:** Last year's Q1 FY2017?

**Management:** 11.85 crores kgs.

**Rohit Ahuja:** Sir, can you share the same number for the Q4 FY2017?

**Management:** 12.15 crores kgs.

**Rohit Ahuja:** Sir, secondly on the margin side, I know we are seeing a lot of questions on that, but in your press release, you had mentioned there was improvement in margins for your industrial customers as well the volumes that you sell, you had mentioned I remember in your earlier conference calls that the pricing is benchmarked to commercial LPG. Could that be the reason for margin expansion there?

**Management:** Particularly for customers in restaurant category, that is precisely the reason. Earlier the 19 kg cylinders prices were a little down. Once those things improved, our margin in that particular category has also improved.



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**Rohit Ahuja:** In the volumes that you have given 33 MMSCMs for industrial and commercial, how much would be industrial and how would be commercial on that?

**Management:** Approximately 7% to 8% each in industrial and commercial, compared to total volumes.

**Rohit Ahuja:** So that is where I think the major category where the expansion and margins happen and CNG would be the other reason?

**Management:** Apart from realization there was also prices of spot gas, the price at which we had procured spot gas for industrial and commercial, that has also helped us if we are comparing Q1 to Q1 and substantial benefit has also come from domestically produced gas, particularly when we talk Q1 versus Q1 2016-17 because at that time, the price was I think \$3.06 something MMBTU, whereas right now it is \$2.48 per MMBTU, so there also we got benefitted in domestic and CNG customer category.

**Rohit Ahuja:** So, on a like-to-like basis Sir, we have seen about your EBITDA per unit growing at 30% YOY to 8.7, I think this will be the highest we are having in the country for any CGD company in terms of margins, and is it safe to assume that this is the level where you will sustain in the near future and very difficult to continue to expand your margins at the current pace of 30% from next year onwards?

**Management:** I think we did answer this question earlier also, but just to repeat it anyway the EBITDA margin will depend on a variety of factors like exchange rate is there, rate at which we procure spot gas, price of domestically produced gas also as per government set formula, price realizations for alternative fuels, prices of alternate liquid fuels and accordingly our price realization in industrial and commercial, some inflationary impact, which can be seen in the opex. All these factors go into decide finally the EBITDA margin per unit and what we can definitely say is that the focus of the company is always on acquiring more and more customers and retaining the existing ones. Yes, it does not mean we will not be conscious of margin, but the focus will always be to acquire or add more and more customers and retain the existing ones for the simple reason that penetration is relatively low in different, different customer category and it makes sense to keep on adding the customers by offering them value propositions.

**Rohit Ahuja:** When do you see volumes recovering back to 4% to 5% kind of a growth trajectory?



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- Management:** That recovery has already happened. In July already, the volume has increased.
- Rohit Ahuja:** Are the margins stable, what we have reported?
- Management:** I think let me not talk about margins right now, but may be since the month has passed, at least I told you about the volume.
- Moderator:** Thank you. We have the next question is from the line of Nitin Tiwari from Antique Limited. Please go ahead.
- Nitin Tiwari:** Good evening. Thanks for taking my question. While most of them have been answered, just wanted to understand that post implementation of GST are we seeing any challenges from commercial and industry offtake of natural gas?
- Management:** Nothing very material, I would say. Our industrial volume growth anyway has not been very high. There is an industrial degrowth in Mumbai because of various other reasons, and we have usually been supplying, you know these industrial customers are typically relatively large stable established names. At least from a gas purchase perspective, there have not been too much of an impact on volumes, but yes growth rate might have gone down a bit but then people are talking of may be a couple of percentage points.
- Nitin Tiwari:** No, actually that is where I was coming from because in earlier calls as well you had mentioned that growing the industrial volume is particularly challenging in the Mumbai region because of several factors. So, given that now GST has been like added as one of the factor, which could be a challenge I was just thinking if there is a challenge that we are facing. Secondly, I just wanted to get the bifurcation you had perhaps given the percentage growth in industry and in commercial segments on YoY basis. I just wanted to get the exact volume, the breakup of 33 MMSCM that we have sold during the quarter.
- Management:** Current quarter you are talking?
- Nitin Tiwari:** Yes, current quarter, the breakup between industry and commercial volumes.
- Management:** Industrial is 0.195 MMSCMD, commercial is 0.164 MMSCMD.



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**Moderator:** Thank you. The next question is from the line of Probal Sen from IDFC Securities. Please go ahead.

**Probal Sen:** Thank you for the opportunity. Just in the backdrop of the volume growth that has come in for this quarter any thoughts in terms of guidance you have mentioned earlier that you aim to still maintain somewhere between, let us say, 6%-7% growth, does that still seem realistic in view of the volume growth that has come in, in this quarter and whatever trends you have seen in July and you did mention that July growth has come back and has recovered, is it possible to put a percentage number on that in terms of annual growth?

**Management:** Difficult to give a number per se, but our belief is that over long term we should be able to maintain those numbers.

**Probal Sen:** So, 6%-7% is still the sort of annual target that you have going forward?

**Management:** You can call that as aspirational number.

**Probal Sen:** But you are not giving any specific guidance as of now for FY2018?

**Management:** I do not think that will be advisable at this stage, but as I said July numbers have looked up and we are quite confident to do better going forward.

**Management:** And additional input is I think we have stated this before, but every year Q1 there is a bit of seasonality, volumes are usually a bit lower compared to the other quarters in a year mainly, on account of a lower CNG offtake because of vacations and other related reasons.

**Probal Sen:** Is it possible to get how much of this GAIL midterm and spot LNG did we consume in this quarter?

**Management:** No, those breakups we may not be able to give you, they are confidential contractually.

**Moderator:** Thank you. The next question is from the line of Sabri Hazarika from PhillipCapital. Please go ahead.

**Sabri Hazarika:** I will be coming back to the margin question once again, so basically differently we are having a scientific way of like determining the pricing as well as the margin, so from what



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we know is that currently the pricing cycle is six months - every six months my gas prices are changing and you adjust the rupee also accordingly. Now, the thing is that if I compare with alternate fuels I think there is a lot of leeway for you to raise prices and raise margins also, but there is differently, like as I said, there is a scientific way not to overdo it. So now, if going forward in the month of October, we will be seeing some kind of hike in gas prices at the same time we have also seen the rupee appreciate to around 63-64, so what kind of reset - actually I just wanted to understand there must be some scientific reset, which is there, so some clue on that front?

**Management:**

We will study the impact as we go along and see what is best for the company and what is best for our customers because as we said we want to retain and maintain our customers over long terms, it is not a short-term approach, a one day or one-time affair, so we will take a considered view as we go along.

**Sabri Hazarika:**

If I take a volume breakup it is like 80-85% in CNG and domestic PNG, where you have got alternate competing fuels, which are like much more costlier than CNG, so the customers are anyway better off even if your raise prices by say 3-4 rupees and raise your margins, but still there was something, which is preventing you from going for it, I think petrol is like around 30%-40% costlier, diesel is around 20%-30% costlier, so you always have the leeway, but again there is something, which may be holding you to basically go for such kind of a price hike, so just trying to understand.

**Management:**

The count levels available to vehicular consumers and maintain pricing in such a way that there is always a good incentive for the customer to switch to CNG. What we have observed historically is we have tried to price in unreasonably high just because we are at 25% discount or something, we do see an impact on the rate of conversion that goes down, which has impact on the volumes and has impact on our growth. We do not want that because CNG consumer or PNG consumer or what we have observed over the last 20 years is that once they convert they are there with us. So again, our priority of focus is converting as many consumers as many vehicles as we can and maintain pricing at a level, which is then a good value proposition and incentivizes them and more and more to convert, and we want to keep them with in our fold. It is not just a question of, you know, if I have a scope of pricing increasing Rs.3, let me increase Rs.3 on it.

**Sabri Hazarika:**

I just wanted to know one thing, you did your last change in the month of April, so what was the rupee assumption that we have built in at that point of time?





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- Management:** No, our last increase was a few days back actually.
- Sabri Hazarika:** That was basically related to the GST, but the broader increase you said that you do is every six months so that would be in April, so at that point of time what kind of rupee assumptions you have taken versus what it is now?
- Management:** No, that is a part of confidential calculation. Anyway, we also, apart from projection angle, take into account past calculations. In case there have been any substantial adverse impact, we can re-equip going forward that is also one of the methods, which we follow.
- Sabri Hazarika:** So, you will be having something like an annual escalation clause also, where past under-recoveries may have been taken care of in the future?
- Management:** Yes, if substantial under-recoveries are there, we will take it into account.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.
- Vishnu Kumar:** Thanks for your time Sir! The volume when you mentioned that density part is having sudden difference KG and your SCM computation. Just trying to understand one small thing, we pay on energy terms for buying gas, but we sell on volumetric terms, so let us say gas buying cost remains the same and the selling price also remains the same. If gas becomes more denser and because of this fluctuation, does our margin actually increase or decrease on that side?
- Management:** It is a very complex technical question that you have put forward! We do buy on energy basis, we sell somewhere on volumetric basis, we sell somewhere on mass basis, we do some calorific value adjustments on sales side depending on the type of contracts we have, so it's a big mixture of a lot of things. And when you talk of all this, then a lot of technical and engineering calculation instrumentation and lot of other things come in, so this is something, which is almost impossible for us to explain on a concall - may be separately, if possible, we can check that.
- Vishnu Kumar:** Got it. Even on a directional basis when you say that let us say if the gas prices were constant between two quarters and our hedging price also was constant between two



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quarters and the density goes up I mean at least directionally just trying to understand whether it will be margin accretive or negative to us that is all I want?

**Management:** I think we will have to get back for that only.

**Vishnu Kumar:** Got the point. On the industrial and commercial side, how often do we reset prices?

**Management:** The reset typically every month.

**Vishnu Kumar:** Every month. Given that our spot gas, which is continuing to be lower as we passed on benefits to them or just wanted to know on that side?

**Management:** Again, passing on benefit or keeping benefit, we do not target margins, we target more on the additional consumers. Primary thing we look at, is what is alternate fuel or energy source that the customer is using, what is the price of that alternate fuel and what kind of a value proposition we can give them, so it has got relatively little less to do with what price, which we are getting our spot.

**Vishnu Kumar:** Vis-à-vis the May and June prices that you have charged your commercial and industrial customers, is the price lower for July and August?

**Management:** Not materially different, and small variations happen with the fluctuations in oil price. These liquid fuel prices are correlated with general level of oil prices – Brent or other Middle East oils, etc.

**Vishnu Kumar:** Got the point. One last question, how much capex are you targeting for the current year?

**Management:** It will be between Rs. 250 Crores to Rs. 300 Crores.

**Vishnu Kumar:** This is every year?

**Management:** This year, this financial year we are talking about.

**Vishnu Kumar:** And similar numbers for the next year?

**Management:** Similar, yes, we can talk about.



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**Moderator:** Thank you. We have the next question from the line of Sunil Shah from Axis Securities. Please go ahead.

**Sunil Shah:** I have one question here. Sir, in terms of our capex we will be doing about Rs.250 Crores to Rs.300 Crores and our cash flow are at about Rs. 450 Crores or so. Sir, why we are limiting our sales to this geography - there are many cities, even in part of Maharashtra itself where CNG is not available, let us say, Nashik or some other cities like Nagpur, etc. Sir, can we not go there and expand because our volume growth on year-on-year basis is just below 3%. So, we have an opportunity, which is untapped market, we have cash flow, we have all the things going for us to drive growth to much higher numbers?

**Management:** So, to answer your question, you know these geographies where we operate are authorized by PNGRB and they have a process through which they allocate the geographies to any company. We are quite conscious that yes, we have the resources, we have the people, we have the know-how to do all that - at the end of day the PNGRB should come out with some bidding rounds, or whatever you want to call it, for us to be able to bid for those and get those geographies. So, we are conscious of that and we selectively bid for various geographies as and when they come - some of them are in Maharashtra, some of them are elsewhere, we will continue to look at newer areas. We may also look at new M&As if there are possibilities, and we will see as we go along how to increase our volume growth also.

**Sunil Shah:** Any bids, which are in the offing in the near term say three months, six months - how can you keep a track of these bids?

**Management:** It is there on the website they are available, so you can look at the PNGRB portal, but as of now there is nothing available.

**Sunil Shah:** Thank you very much. Sir, one more thought process is that at this time of CNG vehicles, one big unorganized market is the CNG conversion kit that is again a big market where Ola and Uber which we see are actually running on CNG and all that. Can we tap that as a business opportunity, because it is also one of the ways in which if it is an MGL approved CNG kit it may allow a great acceptance from the customer - they will also prefer to get their vehicles converted again we have a sticky business model as well, so is there anything that or is it something which our constitution or memorandum restricts us from getting into this activity, just wanted some sense on that as an opportunity from a business point of view?



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**Management:** Leaving aside the constitution and all that, look, one thing we need to keep in mind is MGL is not a statutory authority. The kit approving authorities draw their legal power from somewhere and they are the ones who can say this kit is OK, this kit was not OK, we can at the most try to give some flavour of 'yes, we recommend'.

**Sunil Shah:** No Sir, I am saying that can we look at that as an opportunity can we set up say workshops or something whereby cars can come approach us and get their car converted to a CNG vehicle, because end of the day if MGL is doing it then obviously the unorganized market will not be tapped by people, they will approach MGL and get the work done, so is that something, which can be looked at?

**Management:** Surely, we will take your point, we will look in to it.

**Moderator:** Thank you. The next question is from the line of Yusufi Kapadia from Edelweiss Securities. Please go ahead.

**Yusufi Kapadia:** Sir, my question is related to city taxi guidelines, which you have earlier mentioned. By the end of February 2018, the cab aggregators have been given time to possibly convert to cleaner fuels including petrol and CNG, so can you please share is there any progress towards that? You had earlier mentioned that these aggregators will possibly delay the process and they might find some route, but what was the status of that and what could be the sizeable opportunity over there?

**Management:** Look, despite whatever opposition or reluctance these people may be having, it is a fact that we are seeing conversion of anywhere between 500 or 1,000 of these vehicles onto CNG every month. So any new vehicle which is coming into this aggregator fold typically comes on CNG. The things which we will have to wait and watch for are the older diesel vehicles, which have jointed the aggregator fold, they are the ones who will probably be waiting and trying to get some relief, but otherwise they will have to move their vehicles out of this geography and take it somewhere else and induct a new vehicle here. So as long as growth is happening in the aggregator space, all that growth was happening on CNG. So, the question whether in one year or something else will happen on those limited to a limited number of pre-existing diesel aggregator vehicles. So, if they come on, fine, they do not come on we have these new CNG vehicles adding on here.



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**Moderator:** Thank you. Next question is from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

**Tarun Lakhotia:** Sir, a book-keeping question since you have shared CNG in Crore kg for the last couple of quarters - can you just share that number for 2Q2017, 3Q2017 as well?

**Management:** Right now the numbers are not available, but we can provide them to you a little later.

**Moderator:** Thank you. The next question is from the line of Deepak Sahani from Elara Capital. Please go ahead.

**Deepak Sahani:** Many congratulations on the great set of numbers. Sir, our latest interaction with one of the largest OMCs and refining companies was that they witnessed a fall in the throughput in the liquid fuels in the first quarter, as much as 30-35%, and on the other hand you had sounded that in volume terms, both in terms of kg and in terms of MMSCMD, you have shown some growth, so just wanted to know what is the reason that on Q1 you have a traditionally low volume period and perhaps I think last quarter, which was Q1 of the current year witnessed such a drastic fall?

**Management:** There is no fall whatsoever. As we said, there is a seasonality that has to be taken into account, there are holidays, there are people who go on vacation, there are buses, etc., we do not run during that period so that has to be taken into account in addition to the economic activity and how its faring, so these are some of the reasons traditionally every year we see a little bit of drop in the overall volumes every year.

**Deepak Sahani:** My sense was that perhaps from this quarter onwards things would improve and one could see a larger volume coming through, that was the pertaining question.

**Management:** I cannot talk about the OMCs, but whatever business we are in, we know in the first quarter there has been traditionally a dip and there are various reasons for that, and this is how it has happened this year also.

**Moderator:** Thank you. As there are no further questions, I would like to hand the conference back to Mr. Jal Irani from Edelweiss Securities for any closing comments.



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**Jal Irani:** Yes. I would like to thank Mr. Rajeev Mathur, Mr. Sunil Ranade and Mr. Rajesh Wagle in addition to everybody else on this call. Many thanks.

**Management:** Thank you.

**Moderator:** Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.

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*(This document has been edited for readability)*