Ref: MGL/CS/SE/2020/375

Date: December 04, 2020

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, 2020.

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 and half year ended September 30, 2020 was held on Tuesday, November 17, 2020 at 3:00 PM (IST).

Please find attached herewith the transcript of the aforesaid Earnings Conference Call. The same may also be accessed on the website of the company i.e. www.mahanagargas.com.

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

For **Mahanagar Gas Limited**

Atul Prabhu
Compliance Officer

MAHANAGAR GAS LIMITED MUMBAI

Encl.: As above

"Mahanagar Gas Limited" Q2 FY21 Earnings Conference Call"

November 17, 2020

MANAGEMENT: **MR. SANJIB DATTA – MANAGING DIRECTOR, MAHANAGAR GAS LIMITED**
MR. DEEPAK SAWANT – DEPUTY MANAGING DIRECTOR, MAHANAGAR GAS LIMITED
MR. S.M. RANADE- CHIEF FINANCIAL OFFICER, MAHANAGAR GAS LIMITED
MR. RAJESH WAGLE, SVP, MARKETING, MAHANAGAR GAS LIMITED

MODERATOR: **MR. MANIKANTHA GARRE – AXIS CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY21 Earnings Conference Call of Mahanagar Gas Limited hosted by Axis Capital 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. Manikantha Garre from Axis Capital Limited. Thank you and over to you, sir.

Manikantha Garre: Thank you, Rituja. Good afternoon, everyone and festive greetings to all of you. On behalf of Axis Capital, I welcome all the participants to the conference call. Today, we have with us Mr. Sanjib Datta, Managing Director; Mr. Deepak Sawant, Deputy Managing Director; Mr. S.M. Ranade, CFO and Mr. Rajesh Wagle, SVP, Marketing.

We will start with brief overview of the company's performance for Q2 FY'21 and then we can have a Q&A session. And thank you, Over to you, Richa.

Management Representative: Thank you, Mani. Good afternoon, everyone. Before we begin, I would like to mention that some of the statements made in today's conference call may be forward-looking in nature and we believe that expectations contained in the statement are reasonable. However, the nature involves a number of risks and uncertainties that may lead to different results. The risks and uncertainties regarding fluctuations in sales volumes, fluctuations in FOREX and other costs, and our ability to manage growth. I urge you to consider this quarterly numbers are not a reflection of long-term trends, or any indication for full year results. They should not be attempted for a long-term trend or any indication for full year results. They should not be attempted to be extrapolated or intrapolated in future numbers.

With this, I would now hand over the conference to M.D. sir for his opening remarks. Over to you, sir.

Sanjib Datta: Thank you, madam. Good afternoon to all of you and welcome to the earnings conference call of Mahanagar Gas Limited for the Second Quarter of the Financial Year 2020-2021.

I would like to thank all of you who have connected for our earnings call today, and Wish You All Happy New Samvat Year 2077.

As we overcome a health and economic crisis of very large proportion, let us hope that things get back to normalcy at the earliest. Nationwide lockdown implemented in last week of March 2020 to combat COVID-19 adversely impacted the company's operations from the first quarter of 2020-2021. Internally, MGL has successfully faced the challenges by safeguarding our human resources, shifting all support services to function through the company's IT backbone to undertake work from home and by observing the prescribed safe practices. Though there have been easing of lockdown restrictions, even today, presence in our office establishments is to the extent of 30%. Issues with regard to restricted work environment and compliance requirements in respect of pandemic continue.

As a responsible corporate citizen, we have continued to pay all our dedicated contractual manpower, the minimum wages applicable during this period of lockdown. This has enabled better productivity from all service providers. We have also provided monetary incentives to bring back migrant contract labor. Though reasonable number of contract laborers are available, mobility within the city is constrained as local trains are not fully operational. Besides, access to societies and prompt grant of permissions by statutory authorities still remain a practical constraint.

Gas supplies to all our PNG customers and to the CNG stations have remained operational 24x7 during the lockdown. Our emergency control room and customer services have also remained operational for meeting all emergency needs and for ensuring 100% customer support while adhering to the required safety and social distancing guidelines.

We also continue to fund various social initiatives under CSR project for people impacted due to COVID-19 and the prolonged lockdown.

Now, coming to MGL'S operation, we are rapidly expanding our CGD network in the existing licensed areas. During the quarter, 16,223 domestic households were connected, thus we have established connectivity for nearly 1.5 million households. We have laid 18.52 Kms of steel and PE pipelines, thereby taking the aggregated pipeline lengths to more than 5,650 Kms. We have added three new CNG stations and with these we have 259 CNG stations. We also added 28 industrial and commercial consumers and thus as on quarter end we have 4,046 industrial and commercial customers.

With respect to our Raigad geographical area or GA, we are connected to more than 26,500 domestic households and 15 CNG stations are operational. CNG sales in Raigad reached the average level of 30,900 Kg per day in the month of September 2020 in spite of movement restrictions. It is expected to go up when some more CNG stations become operational in coming months. In Raigad GA, we have laid 7.82 Kms of pipeline during the quarter thereby taking the total length of pipeline in Raigad to 109.82 Kms.

Despite the impact of COVID-19, during the quarter, we achieved overall sales volume of 2.073 mmscmd consisting of CNG volume of 1.276 mmscmd, domestic volume of 0.463 mmscmd and 0.334 mmscmd supplied to the industry and commercial segments. Significant volume recovery trend is seen with an increase of 86% in overall sales volume compared to previous quarter.

In case of CNG, sales volume has reached from 0.48 mmscmd to 1.276 mmscmd, which is an increase of 166%. In case of domestic sales, volume has increased from 0.429 mmscmd to 0.463 mmscmd, which is an increase of 8%, while in case of industry and commercial segments, sales volume has increased from 0.204 mmscmd to 0.334 mmscmd, an increase of 64% compared to the previous quarter. As a result, current quarter EBITDA is Rs.221 crores, which is 176% higher as compared to previous quarter EBITDA of Rs.80 crores.

A new high is reached on the margin front with EBITDA being at 43.6% for Q2 compared to previous quarter EBITDA of 30.6%. Net profit after tax has been Rs.144 crores in the quarter as compared to Rs.45 crores in the previous quarter, representing a 220% increase.

Now, let us look at some recent developments and implications thereon. Firstly, the company had requested PNGRB to extend the timeline for achieving the Minimum Work Program or MWP in respect of inch kilometer on account of slowdown due to COVID-19. PNGRB has issued public notice dated November 5, 2020 extending the MWP timeline due to COVID-19 lockdown for various geographical areas, and extension of 251-days for Raigad GA has been granted. The extension will surely help MGL to meet its inch kilometer target.

Secondly, PNGRB has also notified Petroleum and Natural Gas Regulatory Board guiding principles for city or local gas distribution network as common carrier or contract carrier regulation 2020 wide notification dated September 30, 2020. Access code and tariff regulations await notification. However, we believe that many clarities will have to emerge before these principles and regulations are finally implemented on the ground.

Thirdly, the oil marketing companies of OMCs have raised the demand for a steep hike in trade discount while selling CNG from their retail outlets. We hope to settle the matter through negotiation and involvement of other stakeholders.

In Raigad GA, we have recently received permission to lay pipeline of 8.5 Kms from PWD at Rasayani to Panvel, further permissions to lay 23 Kms of pipeline on NH-166D, that is Khopoli Main Road and 5.5 Kms on NH-17 that is Goa road from Palaspe Phata to Aswad petroleum are in process. We have procured land for setting up a City Gate Station or CGS for receiving gas from GAIL’s pipeline at Savroli in Raigad GA and are likely to complete the CGS connectivity in a year’s time from now.

MGL seems to be at a takeoff point for rapid progress in next three to four quarters in view of new highs in margins, sales volume reaching 3 mmscmd in November, and infrastructure getting ready in Raigad to tap industrial load.

The factors like spot gas prices, Brent level and rupee/dollar exchange rate remain favorable, we can look forward to steady or even improved EBITDA margin per unit.

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 Amit Rustagi from UBS Securities. Please go ahead.

Amit Rustagi: I have two questions; first question relates to the volume recovery in the third quarter. So, could you help us in understanding how has been the volume in the month of October and November and which segments are doing well or which segments are still lagging behind?

Management: The volume recovery continues into the third quarter and domestic segment always been taking a bit more than average because of less eating out and more cooking at home. Industrial segment has also more than fully recovered. They are going full blast. CNG is also showing an increasing trend. And it is the commercial segment which comprises of large five-star hotels plus restaurants which is relative to other three segments that is showing slower volume. But in November, in 13-days when we have crossed 3 million sales. That shows an improving trend. Pre-COVID also we are averaging slightly above 3 mmscmd.

Amit Rustagi: Sir, did you said that CNG is on a recovering trend, but are we like around 90% of CNG volumes or we have already recovered the past year levels, if you can help us with some numbers?

Management: In spite of CNG volume is between 90% and 95%, our overall volume is more than what we were having pre-COVID. So recovery in other sector is also very impressive. So CNG volume is also poised to grow. So definitely the growth will be on the much positive side.

Amit Rustagi: Second question relates to this OMCs negotiation. So, where you think that the matter can be settled? And since we have not made any provision, is this amount likely to be significant, and is this amount coming because of open access regulations are under-proposed or draft sales from the regulator side?

Management: OMC trade discount increases, number one. Okay, it may have something to do with access code or something that can be better answered by them. But it is a part of a normal negotiation every day, these negotiations do take place. Earlier also such negotiations have taken place. Right now, the basis, based on which this increase has been requested by OMC, is not yet with us. So, it will be a bit unfair to comment upon the justification of the increase. But once we receive more details how they have calculated, how they have gone about it, we definitely be negotiating with them and we hope the matter will be amicably settled the way it has been in the past also, you will recollect earlier also in 2015, 2018 such kind of negotiations were there, and ultimately at a properly level settlement had taken place. So, we are positive this time as well. And all said and done, we should also be cognizant of the fact that whatever increasing may come in, probably MGL has the headroom and ability to pass-through the gas cost, if the need so arises.

Moderator: Thank you. The next question is from the line of Nafeesa Gupta from BOA Securities. Please go ahead.

Nafeesa Gupta: In the quarter we see that the CNG price realization was kind of flattish sequentially QoQ basis, but even though we took a price hike of Re.1 in the quarter in July, so, just wanted to know how…?

Management: There are a couple of reasons for that, first of all this price rise which we had taken was done almost in the fag end of July. So, it is only effect of August and September will be there, that is point number one. Secondly, there are three, four channels through which we sell our CNG, there will be OMC, one through our direct outlets, another through STUs, all different categories, the net sales realization differs. So, depending upon which channel has sold more as compared to other quarter, sometimes you will find such kind of changes in the net realization.

Nafeesa Gupta: Next question is that previously when we revised the trade discount to OMCs, have we done any kind of pass-through to customers or has it directly impacted our sales?

Management: No, we had passed through the costs entirely. There could be slight time lag, that possibility could be there, but otherwise, after the conclusions are there on prospective basis, all these price rises are taken care.

Nafeesa Gupta: Sir, any trade discount that you increase to the OMCs will be passed on to the customers?

Management: We believe so.

Nafeesa Gupta: And any overall guidance on your EBITDA margin for the full year and maybe next year given that Q2 was very-very high?

Management: Yes, I think guidance is pretty positive. And there are reasons that you have seen already with the levels of current EBITDA margin plus with increase in volume over Q3 and Q4. As the volume increases, the cost per unit particularly administrative and other fixed costs will drop on per unit basis. So that is also going to help us. Either so margins could be steady or even improvement can be thought about. A lot will also depend on what are going to be the oil price levels or maybe the spot gas cost and rupee/dollar exchange rate. Now, no doubt the spot gas cost has been hardening a bit, but I think some similar changes have been seen in oil price levels also. In fact, in Q2, the sales realization in industrial and commercial was quite impressive as compared to Q1. So, assuming such scene continues at Brent's level, spot gas level and even rupee/dollar exchange rate, I think all these things augurs well for the company, coupled with the volume increase also we will soon now see. In fact we have already reached… I think M.D. covered in his speech that 3 million level mmscmd basis we already reached in the month of November.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Bharti AXA Life. Please go ahead.

Chinmay Gandre: With respect to OMC trade margins, currently how many rupees per Kg are we paying right now to them?

Management: It is a range, it depends on which geography we are talking about, particularly in Mumbai and outside Mumbai, ranges from approximately Rs.3.70 per Kg to Rs.4 per Kg, that is the range in which we are paying.

Chinmay Gandre: Sir, post our settlement in July 2018, so, the rate which you are mentioning Rs.3.7 to Rs.4 is basically after adjusting the inflation and regulated indexation, that is how the current rate has been come up to, right, which we are providing in our P&L?

Management: These are the rates which are currently prevalent, which actually we pay in cash terms basis to OMCs.

Chinmay Gandre: But this would have increased in terms of the inflation which is based on the formula post your settlement in July 2018, right?

Management: This will be one of the factors which will be taken into consideration while settling the prices.

Chinmay Gandre: Any timeline when we can see you guys coming to end of negotiation with the OMCs?

Management: It is a bit premature to predict right now, number one, there are three oil marketing companies which we need to deal with. But more importantly than that, whatever increase they are expecting, we are yet to receive the full details of it. I think the progress in negotiation will be much better once we receive the detail from these OMCs.

Chinmay Gandre: In 2017-18 time also, the trade margins would have been in the range of 3, 3.5%?

Management: It was a step-by-step increase.

Management: On average, the increase over the last five, six years was about 9% p.a.

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

Vishnu Kumar: Sir, in your opening remarks, you mentioned that if certain parameters play out, you will increase on the current margins that you had kind of reported this quarter. We understand LNG prices, currency. Just wanted to understand the broad trajectory of margins which we will continue to maintain over the next couple of years, so will we breach the Rs.10 range going forward if you could give us some idea and guidance on that, if not a guidance, at least color on how we should see this?

Management: See, obviously, it is very difficult and may not be right also being price-sensitive information to predict some figures and those kind of thing, but what we can always look at is what are the factors which help us and sometimes do not even help us. So, like if you compare Q2 versus Q1, I think our margins improved considerably in case of industrial sales. One of the primary reasons was the alternate fuel prices, for example, majority of our industrial customers use LSHS as alternate fuel, on average basis, let us say for Q1, LSHSs was in the region of around Rs.24,000 per ton, which increased to nearly Rs.32,000 per ton on an average basis in Q2. And with the kind of pricing philosophy which we have built in, it helped us to get a substantially higher sales realization in industrial customer category. No doubts, spot gas cost did increase a little bit, but I think increase in net sales realization was proportionately much more higher. Similar was the case, in case of restaurant category or commercial, what we call it. One of the important alternate fuel over there particularly with restaurant category is 19 Kg LPG cylinders. There also price of alternate fuel had increased a bit and that helped us to get a better sales realization and ultimately better gross margin also. So, number one, I am saying the oil price level is very important for us from the pricing point of view. So, equally important is spot gas cost. If you observe last two, three years, there have been a substantial drop in spot gas price level which definitely helped us and we now need to see how going forward the spot gas prices are going to reflect. And it is also important to see the proportionate increases in oil price level and spot like currently the situation is no doubts spot gas is slightly hardening. But as long as your oil price levels also move in and assuming the proportion of increasing oil price level is higher, you may still to gain in industrial commercial sector. So, that is point number one. If we are talking about let us say in rupee/dollar exchange rate, I believe right now it is reasonably at a settled level assuming the pandemic situation over the world remains reasonably static or improves further, then whatever other geopolitical factors are also there, depending upon that the rupee/dollar exchange rate stability will be known to us and that will be very important to us, for the simple reason we buy entire gas in dollar terms, whereas sell in rupee terms, hence the rupee/dollar exchange rate is also another important factor for us. And finally, if we are talking about EBITDA margin, I think whatever even right now we have achieved is with much lesser volume. As the volume increases, the advantage is averaging fixed cost and all that, rupees per SCM basis, fixed costs will definitely drop down, that will further help us to improve the margin. So, we are quite hopeful that the things are quite good in the days to come, hoping for steady margins unless whatever macro factors we talked about go altogether wrong, otherwise, things are looking quite positive now.

Vishnu Kumar: Would it be possible to give the industrial gross margin for the last two quarters at least whichever has gone by and let us say MRP also for this segment?

Management: This margin we do not disclose customer category wise, but your second question probably I can answer, realization for industrial, for example, in Q2, this is I think net basis, it is Rs.29.23 per SCM in industrial category as against Q1 it was 22.80 whereas in case of predominant restaurant category, current quarter was in the region of Rs.32 per SCM whereas Q1 was around Rs.28-odd.

Vishnu Kumar: This is net numbers, not with the taxes?

Management: These are net realization, yes.

Vishnu Kumar: Between these two quarters at least on the gross margin level for your CNG, is it more or less flat? You do not have to disclose the number.

Management: Cannot say flat as such because there is some price rise also we had taken, no doubt, it was bit late and net realization was late, because we implemented in July-end almost, so only August, September we have seen the benefit, but I think Q3 onwards we should see some improvement in there as well.

Vishnu Kumar: Have we increased the commercial and industrial prices in 3Q?

Management: So, there is a pricing philosophy which we follow and there are contracts signed with the customers. So, the price movements take place in line with the contract, generally, very simply explained, it moves in line with the oil price levels, that is alternate fuel prices.

Vishnu Kumar: Which means crude is more or less at the same level and more or less the price should hold whatever you mentioned in 2Q…?

Management: It depends on alternate fuel prices, I mean, and there could be some slight time lag of say one month or so, but otherwise broadly in line with oil prices, if oil prices drop, then it can drop also.

Moderator: Thank you. The next question is from the line of the Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Just wanted the exact quantum of volumes that we are doing from OMC outlets today, I mean, on a steady state basis, if you can give us the last year number?

Management: It will be between 60% and 65% of the total CNG.

Bhavin Gandhi: Also, in the initial remarks, it was mentioned that the access code notification is pending, but even after the notification, some clarifications would be required. If you can elaborate on what clarification is MGL seeking?

Management: Some of them are legal in nature, some of them are technical in nature. Just to give you an example, Draft Access Code Regulations stipulate that authorized entity does not connect the shipper in time or does not give connectivity, etc., then the shipper can lay his own infrastructure to connect to customers which is going totally against the concept of authorization. Any common carrier or any CGD-related infrastructure in a geographical area, they actually have to go through a whole process of authorization. Just because he is a shipper and he has got hold of some imaginary customer who is not getting connected, that does not automatically give them authorization to lay infrastructure. Some technical points regarding the percentage of open access, how exactly that is to be calculated, how exactly is the capacity to be determined. Again, regulations are saying something on it, but none of it has happened on the ground. Something called a capacity determination assessment group which has to be formed by the regulator. Many places, the entities do themselves things which the regulator or somebody else is supposed to do as per the regulations. Even in the tariff regulations, for example, current draft says that authorized entity needs to determine his own tariff. Only if there is a challenge or dispute, then the regulator will step in. Again, that is totally against the scheme of the Act. There are challenges around open access.

Bhavin Gandhi: Any update on the progress so far on infrastructure activity extension?

Management: This whole thing will get cleared only after the legal burner is resolved. That COD regulation is also sub judice. So unless that is resolved, it is status quo.

Moderator: Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.

Vidyadhar Ginde: Just wanted some clarification in future if and when there is competition when it comes in and let us say the OMCs are the competitor, so, as per your current arrangement with them, is there anything which prevented them from just putting their own CNG dispenser in a CNG station where they have your dispenser currently?

Management: How this whole thing plays out, only time will tell, and the courts will finally dictate. But you also need to keep in mind one thing, the current draft regulations releasing only up to 20% of capacity. And even if we lose the whole 20%, you will earn some tariff on that because we are central government authorized, pre-PNGRB entity. And, again, any loss in volume share or margin, etc., there is enough headroom in the prices of CNG, etc. We do not think that is a material a disadvantage. In cities like Mumbai, supply side is usually the constraint. So even a few more players come in and open up CNG stations, it will only help in releasing some more pent up demand.

Vidyadhar Ginde: But technically, as things stand, they can just put another dispenser, Nothing preventing them from doing anything as things stand?

Management: Again, as of now, I mean, there are places where PNGRB has gone on record saying that the whole CNG station is a part of the regulated infrastructure. Again, there are a lot of legal challenges around…

Vidyadhar Ginde: Because in the interest of consumers also, it does not make sense for a newcomer when he is ready to go and create infrastructure where again, there are these issues like you are saying the pipeline he cannot create because everywhere you seem to be raising questions, making it difficult for the newcomer to do? I am not sure PNGRB is probably thinking exactly the other way around because they want the consumer to benefit.

Management: Consumer benefit everybody wants, we also want it Only thing is it has to be in an effective way. Today the authorized entity is only one who is selling CNG in its area. Look at any large established cities, metros, etc., majority of the retail outlets belong to the three oil marketing companies. If somebody claims that CGD entity has got monopoly today, and if they open up, it will effectively become a duopoly or three people who have got the whole market with them. Other thing is any monopolistic situation prevail, that has to be proven abuse of monopolistic power. Today, we are selling CNG at less than half the price of petrol on energy efficiency basis.

Vidyadhar Ginde: If CNG tax is as much as petrol, diesel then?

Management: No, if you look at it pure economic angle…

Vidyadhar Ginde: Because of the government policy…

Management: On a marginal basis, I can sell CNG at Rs.80 or 75.

Vidyadhar Ginde: In fact, my worry is the way your margin has been galloping up over the last few years, if the regulator does come out with something on competition, and you challenge it in court, I think the fact that your margin has been like right now, even in case of CNG, I understand your volumes were down, but you did not pass on the fall in gas cost to the consumer. Similarly, Panna-Mukta and Tapti gas when it fell, the price went down, you did not pass it on for a few months. So do you not think this will work against you if you legally challenge because I am sure the courts are going to look at consumer interests above everybody else’s interests? So this focus on margin which you have right now… on the industrial commercial side, it is fine because there even the gas which comes to you… even there probably an argument can be made, if there are more than one player probably the consumer will get a better deal but certainly from 2014 you started getting first top priority for domestic gas, the clear notification guidelines on the government was that any fall in gas cost will be passed on to the consumer. That has not happened. Don’t you think it will work against you at some stage in its own process?

Management: We were getting domestic gas before 2014 also 100% of our requirement.

Vidyadhar Ginde: That was not the case for IGL. It was different for different people. That was again one of the changes which happened at that time. So, you are lucky to get entirely domestic gas. Even the IGL, I am fairly certain in FY'14 before this change came in, had to use some LNG even for supply to the domestic consumers. Where I am coming from is that the margin which we are doing right now is great. But I think if regulator comes out with competition, allows and then you take it to court, which you probably will, I think the way you are trying to ramp up your margin, it might work against you in court. Don't you think that is something that you should consider?

Management: Practically if you see across the country, our pricing almost same Of course, there are tax regimes are different in different states, the transportation tariffs are different, but net of that practically…

Management: Costs are pretty competitive and other…

Vidyadhar Ginde: That is true All of you are making money, it is not just…

Management: It is now for a special treatment, that may not hold out.

Management: Other way to look at it is, okay, MGL margin might have increased a bit, saving has gone up from Rs.20 to Rs.40 per liter.

Management: Part of it is because of our own increased efficiency also, not simply that we are charging.

Management: All over India, the CNG prices are in the same region and same goes with the oil marketing companies also, they are also making profits out of their MS and HSD.

Management: Wherever they are independently marketing in their own GA, I think there is no great difference.

Management: Oil marketing companies are also in CNG business, they are also having this type of prices.

Moderator: Thank you. The next question is from the line of Sabria Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: I have two questions; first one is relating to Raigad. So, currently, you mentioned that around 30,000, 40,000 Kgs of CNG you are selling, but what is the total volume comprising both CNG in industrial, commercial and domestic PNG in Raigadcurrently? And what is the total potential in the next say five years in Raigad?

Management: Currently, more than 95% of the volume is CNG. There is some industrial sales, there are some domestic sales, commercial is not there. If you are Looking at a five to six year horizon, we would be looking at 0.5 to 0.6 mmscmd kind of a volume ramp up, predominantly happening in CNG and industries.

Sabri Hazarika: So, in five years, you are expecting a 10x kind of a volume growth from Raigad?

Management: Yes, but base is low.

Sabri Hazarika: I know that it is a contiguous area between say GA-2 and GA-3 because it is both part of Navi Mumbai, but how do you see the mix, I mean, of this 0.5, 0.6, how much of this will be CNG and how much PNG?

Management: Roughly half of industrial and CNG, may be 5% of the total could be domestic and commercial.

Sabri Hazarika: Out of remaining 95% which will be 50:50 CNG and industrial, right?

Management: Yes.

Sabri Hazarika: Second is just a bookkeeping question. How much was the industrial PNG volumes for the quarter and CNG volumes in kilogram?

Management: Industrial sales volume for Q2 was 0.233 as against Q1 was 0.146 and CNG sales for Q2 is 8.47 crores… Kg, as against 3.20 crores kgs in Q1.

Moderator: Thank you. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: First of all, if you look at the second half, if you see the spot gas prices have gone up and you have already taken a price reduction I understand after the October, domestic cycles were announced for the APM gas, so, assuming that your CNG volumes are pretty stable, is there a risk of the industrial and commercial segment margin dipping because especially the oil prices fall, because there is an increase in your input cost based on the spot LNG prices?

Management: Yes, I hope you are pretty clear that entire industrial commercial volumes are made through imported gas and there is no domestically produced gas element over there, whereas in the case of CNG domestic it is almost entirely domestically produced. That is number one. Probably you are asking risk relating to industrial realization or margins or commercial, that on one hand spot gas cost may harden, whereas the oil price levels may dip, I think that is the scenario you're talking about. Yes, in this sort of scenario, there could be a possibility of drop in the margins in industrial and commercial. There has been some correlation between oil price levels and gas cost, but sometimes spot behave a little differently, we believe going by the demand/supply situation available world over right now for LNG, I think even though spot gas prices hardened too much, very steep increase hopefully need not be there, I mean, this is of course, our belief let us see how the things will unfold. And third element will be suppose rupee/dollar exchange rate, though you did not talk about it, suppose that turns favorable, there are some signs of similar nature, then even that can also help us to say maintain the margin or even improve margin.

S Ramesh: The next thought is if you look at the outlook for volumes in say FY'22, can we assume that somewhere near FY'20 level we come out of this COVID and you have this 90% 95% equivalent of normal volume, from 21-days difficult to estimate that, so would a CNG volume run rate of around 2.2 and close to 1 million of PNG, something to go by say FY'22?

Management: Our present volume itself has gone above 3 mmscmd as of November. So, volume for the year, maybe around 80% of that if you go for the average volume, and next year since this 3 mmscmd is with CNG around 90 to 95, which is poised to grow around 110%. Now CNG is also constituting 70% of the total sale. So future volume growth will be much higher in '21-22.

S Ramesh: The last part on the Raigad volume. Is it contributing meaningfully to gross EBITDA margin and what is the kind of broad share of earnings we can expect from the Raigad once it is at piece?

Management: Currently, the volumes of Raigad are probably just 1% or 2% of our overall total volume. So, contribution may not be that much. But going forward, we expect the rate of growth in Raigad to be much higher in GA-1 and GA-2 because volume pace is more and the potential of relatively large compared to the current sales.

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

Yogesh Patil: So basically, if you could throw some light on CNG vehicle conversion or addition rate currently, and how do you see it would be in the future subject to start of two metro lines in Mumbai geographical areas?

Management: During the lockdown, the CNG conversions had actually stopped, in April, May, etc., they were zero. And there was some addition through the OE sales of Maruti and Santro and other OEs. Over the months, it has improved. In the month of October, we have reached a pre-COVID level of conversions of 6,000 plus vehicles. We expect that situation to continue or improve especially in the OE front, there is a good scope for improvement because more and more OEs are now coming up with factory-fitted CNG variants which typically customers prefer compared to retrofit.

Yogesh Patil: And sir, second question relates to how many CNG run based BEST buses are added to fleet in first half of FY'21, any ballpark number you have?

Management: Somewhere between March and April, about 500-buses added on which are constituting now proportion to the sales, in fact, BEST sales volume of CNG are higher than what they were six months or eight months back. And we are expecting maybe another 500 to 800 buses to be inducted over the next six months or so. BEST has come out with another tender for additional buses, that will also constitute to the volumes.

Yogesh Patil: Could you please provide a CAPEX guidance for second half of FY'21 and FY'22?

Management: We can right now tell you what we are aiming at. Considerable things depend upon how fast the statutory approvals will come through, because you must be aware that whatever this government authorities give us approvals, even municipal authorities included are hardcopy based. So, hope enough progress takes place on that, but assuming on that front things go well, we are aiming at nearly Rs.500 crores CAPEX for this financial year and may be Rs.600-plus crores for the next financial year or even more than that.

Yogesh Patil: Any target of number of CNG stations additions for next FY'22?

Management: Right now, the speed at which we have been moving last couple of years is 20-plus new CNG stations we are coming out, and not only new outlets, but we were also upgrading, nearly 15-plus or sometimes even more than that, CNG outlets have been upgraded from capacity point of view. So surely that is the rate at which we would like to move forward.

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

Rohit Ahuja: Sir, two questions from my side. On your commercial and industrial segment volumes, you said your margins were in the range of Rs.28 to Rs.32 per SCM, and given that you consume LNG volumes over there, recent spike in LNG prices to about $6 per mmbtu. Would it impact the margins in the second half of this year for these segments?

Management: Not very clear with your question, but number one, that 28 or whatever 32 something we talked about were sales realization for industrial and commercial, those were not the gross margin for those customer categories. We do not disclose the customer category wise gross margins as such. Those were net sales realization, that is point number one. Secondly, you are talking about hardening spot gas cost in the second quarter. Yes, no doubt, the rate did increase and that impact us adversely on margin. But what helped us to finally come out with better margins is this customer category, is the better sales realization, because the way our pricing philosophy works in most of the customer categories, particularly industrial and commercial, it is highly dependent on alternate fuel prices. And in industrial in our geographical area, predominantly customers use LSHS.

Rohit Ahuja: Given the way LNG prices have risen for the last two months, how would be in Q3 and Q4, do you see a decline from first half?

Management: If no change happens in alternate fuel prices, then there will be decline. If there is further improvement which is even proportionately higher than spot gas price, which cannot be ruled out altogether, then the margins may even improve.

Rohit Ahuja: Secondly, on CNG, are you already at about 90% to 95% of pre-COVID level terms of volume, currently?

Management: In the November month.

Rohit Ahuja: And when do you expect to cross pre-COVID level?

Management: To a large extent, it will depend on the local trains of Mumbai get totally opened up. That is when the last mile connectivity, auto rickshaws, which are run from railway stations to residences, that sales volume will kick in.

Management: And the offices also 30% strength as of now. So once the 100% strength will come, definitely the CNG sales will increase.

Rohit Ahuja: On that line if you can give some data on how many Uber, Olas are currently operating versus pre-COVID level?

Management: We are hearing about 70% to 80%.

Rohit Ahuja: And that would be true about auto rickshaws and buses?

Management: Buses are much more on in the pre-COVID levels because urgent need for public transport, in fact, the state government has hooked in MSRTC diesel buses also from Maharashtra, they are running in Mumbai. The BEST fleet is also running flat out. Basically, though they are trying to take as much load off the local trains as possible.

Rohit Ahuja: And autorickshaw will be how much operating versus pre-COVID?

Management: It would be around 80% or so.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: You guided for FY'21 and '22 volume growth, but seeing the overall infrastructure base and the kind of penetration level we have already reached, how do we see CNG and commercial volume base after '22 on a sustainable basis like what will drive our volume growth apart from Raigad in the current region and a new region if you could just give some sort of guidance for the longer term?

Management: Longer term guidance, we are always maintaining 5% to 6% kind of a CAGR. CNG is our biggest volume contributor. Since now, almost all areas in Maharashtra have been licensed out and authorized in places where in the neighboring areas that where there used to be no CNG, now CNG is coming up, Overall CNG ecosystem is growing. That is going to benefit everybody in this business, not only us, but the adjoining operators also.

Management: Overall potential point of view in the CNG, the penetration level is pretty low even currently. If you consider addressable potential, we are hardly at 30%-odd-plus. So, that will give us still a good opportunity to improve the volumes.

Abhilasha Satale: And in terms of CNG station additions, like in this H1 our growth rate has been lackluster, because of the pandemic situation and all. How do you see that improving from the current level say in FY'22, '23, what is a highest potential like the CNG stations we can add? And also the pipeline network, if you could just address?

Management: I think CNG outlets, we already talked about, it will be definitely 20-plus new CNG outlets which we will be aiming on per annum basis, and apart from that, there will be 15 to 20 upgradations also, capacity point of view. This is the minimum thing we are looking at.

Abhilasha Satale: You said about FY'22. So, after that also the number remains constant?

Management: Yes, similar targets will be there

Abhilasha Satale: If you could give any guidance for the industrial and commercial domestic business on how will we add this pipeline network?

Management: GA-1 and GA-2, most of our basic pipeline network main grid is already in the ground. So, typically, as we approach new customers, we only have to lay the last mile connectivity and connect the customer and then they start contributing to the volumes. To a very large extent, this is how volume growth happens in the domestic and small commercial market segments. In GA-3, there is a lot of trunk pipeline lane which is happening, which will continue for a couple of years. So there, it is a combination of both trunk pipeline laying and LMC which will get us customers.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Management: So I hope that we have satisfactorily answered the queries raised by you. And if we can, I think close the call now.

Management: Thank you.

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

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