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“GAIL (India) Limited Q2 FY16 Earnings Conference Call”

November 3, 2015



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along with other Senior Officials**



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Moderator: Ladies and gentlemen, good day and welcome to the GAIL Q2 FY 2016 earnings conference call, hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen-only mode. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Ahuja from ICICI Securities. Thank you and over to you Sir!

Rohit Ahuja: Good evening everyone. Thanks for logging into the call in such a late evening. We have with us GAIL management team, led by Mr. Subir Purkayastha and Mr. R.C. Gupta and the other finance team. I hand over the call to Mr. Gupta now for starting comments and then we will start with the Q&A.

R.C. Gupta: Thank you, Rohit and at the outset, I must tell you that our Director (Finance) Mr. Subir Purkayastha is busy in some other ministry meeting, so because of that he is not available, so I will start the proceedings and then I have a full team from finance, marketing, projects and other departments, so all the questions of the participants will be answered by our team

So to start with, now let me at the outset a very good evening to everybody and wish you a very happy and prosperous Diwali in advance. The physical and financial performance for the quarter ended September 2015 is already with you and the same has also been made available on GAIL's website. I presume that all of you have gone through the same, however, for the benefit of the audience, let me reiterate the following few highlights for Q2 of the current financial year. Some of the physical highlight for Q2 of the financial year 2015-2016: Number one, the imported cargoes on mid term and spot arranging cargoes are 13 as compared to five in the last year quarter two.

Total cargoes in the first half of the current year are 22 cargoes, LNG cargoes. Number two there is an increase in the Gas marketing volume from 69 MMSCMD in Q2, FY2015 to 74 MMSCMD in Q2 of the current year. This is a mix of increase and decrease in certain areas, so there is an increase in the gas supply under power pooling which is around 5.82 MMSCMD under transmission it is only 1.92 MMSCMD. So, there is increase in the gas supply, but in transmission there is a less quantity. Increased in spot volumes by 3.2 MMSCMD, increase in APM and ONGC, MDP volume by 0.7 MMSCMD, decreased in long-term LNG is 3.9 MMSCMD and mid-term is also down by 1.7 MMSCMD due to lower off-take by customers, due to soft spot LNG prices and also due to expiry of mid-term contrast with GDF in December 2014.

The next is the transmission volumes have decreased from 91 MMSCMD in the Q2 of the last year to 90 MMSCMD in current quarter. Polymer production is 85 TMT in the current quarter as against 119 TMT in Q2 of the last year and the fall is mainly due to plant stabilization after annual shutdown and integration of GPU I and II and partly due to low availability of gas due to shutdown taken by ONGC at Hazira in July/Aug 2015.

The next point is the LHC production has also come down in Q2 to 256 TMT from 322 TMT in Q2 of the last year. Mainly due to shut down taken at Vijaipur, Vaghodia plant, because of shut down by ONGC at Hazira. Plant stabilization and integration issues at Pata, Usar plant being put under preservation and transfer of Lakwa plant to BCPL with effect from April 1, 2015.

Next, there is decrease in LPG transmission volumes during Q2 of the current financial year due to decrease in availability from Jamnagar and pipeline repair work in VSPL. The volume is 687 TMT in Q2 against 701 during TMT in Q2 of the last year. GAIL share and LNG production from Myanmar has increased to 4.1 million MMBTU in Q2 FY2016 from 2.6 million MMBTU in Q2 FY2015.

Coming to financial highlights, the turnover is almost at the same level. It is Rs.14088 Crores in current quarter of the financial year 2015-16 versus Rs.14063 Crores in Q2 of the FY2015. The profit after tax is reduced to Rs.441 Crores in Q2 FY2016 from Rs.1303 Crores in Q2 of the FY2015. The prices of the petrochemical and LPG has adversely affected the profitability of the company. The average price of petrochemical which in Q2 of the last year was Rs.1,10,944 per metric tonne has come down in the current quarter to Rs.91,264/MT. If you see the prices in currently hovering around Rs.88000 per metric tonne. For the H1, the average was Rs.94187 per metric tonne. Similarly, the prices of the liquid hydrocarbons including LPG have also come down sharply. It was in the last year Q2 Rs.52984 per metric tonne, which has come down in the current quarter, Rs.29312 per metric tonne. So there is a sharp decrease in the prices and that is affected our profitability.

The next highlight for the financial area is power pooling scheme for supply of gas to standard gas based power plants has started with effect on June 2015. This scheme has contributed Rs.1180 Crores turnover, but contribution to profitability is only Rs.8 Crores in gas transmission and Rs.6 Crores in marketing margins. So the contribution to profitability is low in this scheme. There has been increase in depreciation and finance cost in petrochemical segment by Rs.71 Crores and Rs.82 Crores respectively due to capitalization of the petrochemical plant at Pata and Vijaipur.

Ship or pay charges have been billed to Rs.175 Crores during the Q2 FY2016. A provision of Rs.149 Crores has also been made in respect of the differential APM, non-APM gas price, a provision has been made for that.

Total loan has been paid Rs.358 Crores in Q2 financial year 2016 and so far in the current year Rs.547 Crores has been repaid. Revenue from Myanmar has been Rs.150 Crores as against Rs.105 Crores in last year Q2. The maiden dividend has been received from South East Asia Gas Pipeline Company of Rs.17.28 Crores. Our total investment in this company is Rs.106 Crores. With this, I would like to finish the briefing and would request to start Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: Thank you for the opportunity Sir. I wanted to understand the couple of things. I just wanted to reconfirm the number of Myanmar share that we spoke about in terms of exact that the share of cash production that is accruing to us?

R.C. Gupta: That share is 4.1 million MMBTU in terms of physical numbers and the revenue is 150 Crores in Q2.

Probal Sen: The impact of gas pooling that you spoke about Rs.1180 Crores in revenue & is about Rs.14 Crores in profit?

R.C. Gupta: Yes.

Probal Sen: That is about Rs. 8 Cr. and 6 Cr. This is net profit or this is EBIT? This is the net profit contribution from?

R.C. Gupta: Correct EBIT.

Probal Sen: So can you share with us what is the volume that is trending for this current quarter? Any sense we can get?

R.C. Gupta: Mr. Rajeev Singhal he will answer.

Rajeev Singhal: For this quarter, minimum expected is around 8 MMSCMD and it can go up to 11 and 12 MMSCMD.



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- Probal Sen:** This is obviously in the trading portion. So for transmission it would be what, about 2 to 3 MMSCMD then, sir?
- Rajeev Singhal:** No, this volume will be for power pooling you asked me.
- Probal Sen:** Yes, I am talking about which segment it will make a difference. Sir, spoke about 5.8 MMSCMD getting into gas marketing and then only about 1.9 flowing through to transmission. So I was asking on that sense?
- Rajeev Singhal:** Yes. Tariff in this power pooling is 25%. So entire volume will contribute to that pipeline tariff, but to the extent of 25% of the applicable tariff rate for that particular length.
- Probal Sen:** 45%?
- Rajeev Singhal:** 25%.
- Probal Sen:** 25%, so about one-fourth essentially. Okay. And Sir, lastly what has contributed to the increase that we have seen in the EBIT.
- Rajeev Singhal:** Marketing margin is 25%, transportation is 50%, sorry.
- Probal Sen:** Right.
- Rajeev Singhal:** Marketing margin is 25%.
- Probal Sen:** Okay.
- Rajeev Singhal:** Actually there were two components, one was marketing margin and one is transportation.
- Probal Sen:** Last question, Sir, just what has contributed to the increase in EBIT on QOQ basis from the gas transmission segment. Just the increase, about 2.5 MMSCMD increase in volumes or the realizations improved?
- R.C. Gupta:** In the transmission segment you are talking?
- Probal Sen:** Yes Sir. The EBIT from this segment is about Rs.5.7 billion for the quarter. If I look at the previous quarter, it was about Rs.3.9 billion Sir. Just want to get a sense of what caused this 46% improvement QOQ?



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- R.C. Gupta:** This is because the last year there was some tariff reversal, so that was there last year which is not there in the current year and there is a ship or pay billing of around Rs.180 Crores in this quarter.
- Probal Sen:** Which was not there in the first quarter, Sir?
- R.C. Gupta:** Which was not there in the first quarter, yes.
- Probal Sen:** Okay. All right, Sir, thank you very much. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** Sir, thank you for taking my question. I have two. Firstly on the petrochemicals side, could you please help with the current gas mix at Pata during the quarter? That is spot, long term or domestic? The second part of the question is what do you intend to use for the incremental production. And the second question I had was could you please, sorry, repeat the bit about the transmission QOQ Sir, the take or pay?
- R.C. Gupta:** Transmission?
- Badrinath Srinivasan:** Sir, the ship or pay, was that there for last quarter and this quarter?
- R.C. Gupta:** This quarter is Rs.175 Crores and last quarter it was around Rs.40 Crores.
- Badrinath Srinivasan:** Right Sir. And the first question I had was for the petrochemicals current gas mix at Pata and what we intent to use for incremental production as the plant ramps up?
- R.C. Gupta:** This is subject to availability, so whatever is available. We use it so the exact mix we do not work out separately, because it depends on what is available in the basket. So obviously, the more share is market driven prices.
- Badrinath Srinivasan:** Right, Sir. So you mean mostly the long-term LNG continues to be used?
- R.C. Gupta:** Not necessarily, it may be spot, it may be long-term LNG may be mid-term, it may be domestic non-APM, it is a mix the gas which is available.
- Badrinath Srinivasan:** Thank you very much Sir.



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- Moderator:** Thank you. The next question is from the line of Sujit Lodha from B&K Securities. Please go ahead.
- Sujit Lodha:** Sir, just continuing to the previous question, Sir. This Rs.175 Crores of ship or pay charges, Sir, what volume is pertaining to, which customer have not taken the volumes which were there in the last quarter and not there in this quarter?
- R.C. Gupta:** The point is it is based on the reconciliation with IOCL. Mostly it is pertaining to IOCL.
- Sujit Lodha:** Sir, and also in the LPG business, what we understand, this quarter the domestic gas supply to the LPG business was lower compared to the previous quarters and that has led to primarily because that is the reason for the lower gross margin. Sir, was the domestic mix significantly different from the previous quarter, the domestic gas and LPG business?
- R.C. Gupta:** LPG is the APM, which is used for LPG production.
- Sujit Lodha:** Sir, I understand that. So what was the proportion of APM in the total gas mix, in just the LPG business?
- R.C. Gupta:** In LPG domestic gas is 100%.
- Sujit Lodha:** It is 100%. Sir, so the margins have significantly reduced compared to the last quarter, quarter on quarter.
- R.C. Gupta:** Margin reduce is the factor of the pricing as well as the production. The production is also low if you see and then the prices as I told in the beginning if you see the last year price, it was Rs.52984 per metric tonne and in the current quarter it is Rs.29,312 per metric tonne.
- Sujit Lodha:** Not last year, I am talking about the previous quarter that is first quarter FY2016. Our realization was somewhere around Rs.33000 which has fallen to Rs.29000.
- R.C. Gupta:** Yes, it is fallen to Rs.29,000/MT, last quarter it was Rs.34,000/MT.
- Sujit Lodha:** I agree, Sir. But the profits have fallen. The gross margins have fallen down by Rs.7000. So they have fallen from Rs.10000 to Rs.3000, because what we understand is that the domestic gas supply in the LPG business was lower compared to the last quarter. So is there something of that, Sir that has caused this fall in the margin?



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- R.C. Gupta:** That is not the reason. The reason is that decrease in production is quite substantial if you see. In the first half of last year it was 649 TMT, which is now 534 TMT.
- Sujit Lodha:** Okay, Sir. Not a problem. That would be it. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Avadhoot Sabnis from CIMB. Please go ahead.
- Avadhoot Sabnis:** Sir, the annual report gives us the number of the internal consumption in terms of quantity and value. So it was I think in FY2015 2,224 MMSCMD was the volume and Rs.6807 Crores. Could you give us comparable figures for second quarter or the first half of this year?
- R.C. Gupta:** This number is not available right now.
- Avadhoot Sabnis:** Okay. Once again coming back to this issue of the drop in LPG production, Is there an impact because of the drop in the TMT volumes, i.e. are we going to see some recovery or you mentioned earlier that part of the drop was because of the ONGC Hazira shutdown. But what kind of recovery are you looking at? Will we be able to go to the run rate of over 3,00,000 going forward, or is it going down to more like 2,80,000 kind of level in subsequent quarters?
- Rajeev Singhal:** Actually the complete, it will not be possible to basically make it up. But considerable portion it will be possible to make it up. The number is difficult to be given.
- Avadhoot Sabnis:** Okay. And Sir, could you give us a little more colour on the progress on the Kochi-Mangalore pipeline. Have we managed to mobilize workers and give out contracts on that? Have we made any progress at all on that front?
- A K Singh:** Actually our Kochi to Mangalore sector, we have already gone for tendering and four bids have been received. And we are in the process of evaluating towards this. In the meantime, with the help of the state government in the field, we are in the process of doing the Panchanama activity to contact with all the farmers and record the details about their farmland and the compensation to be paid. So far there is a good progress except two districts we are still facing problems, particularly in the Malappuram and Kozhikode district. There is some Panchayat election in this month and the state government has advised us that they will go full-fledged next month, after completion of this election. So we are quite hopeful on progressing and watching the progress in those two districts. If it is okay, then we will further proceed.



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- Avadhoot Sabnis:** Okay and Sir lastly just could you repeat part of your earlier commentary on I think some charge on APM versus non-APM cash price you mentioned Rs.145 Crores and what was that Rs.175 Crores on ship or pay charges something...?
- R.C. Gupta:** Ship or pay charges.
- Avadhoot Sabnis:** Sorry, could you repeat that?
- R.C. Gupta:** Ship or pay charges.
- Avadhoot Sabnis:** Okay that is Rs.175 Crores and Rs.145 is basically APM versus non-APM?
- R.C. Gupta:** That is a provision of Rs. 149 crore.
- Avadhoot Sabnis:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Thank you very much Sir. My first question is on the gas transmission ship or pay. Sir that Rs.175 Crores was essentially a benefit that accrued to GAIL in this current quarter, right, versus the previous quarter?
- R.C. Gupta:** Yes.
- Pinakin Parekh:** To that extent this is nonrecurring in nature, so going forward, we should not assume that this will recur in the next coming quarters.
- R.C. Gupta:** Absolutely, you are right.
- Pinakin Parekh:** Understood. And sir, my second question is on the petchem end, the LPG business. If crude prices remain where they are and hence product prices remain where they are, is the 2Q profitability a better indicator of where earnings would stabilize or can they fall further from here as either the utilizations are lower or costs increase?
- R.C. Gupta:** Can you repeat it your question?



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Pinakin Parekh: Yes, Sir. Essentially if crude remains at \$50 and hence the LNG, the LPG and the petrochemical product prices remain where they are, then is 2Q profitability indicating that this is where earnings should bottom out, or can they fall further from here?

R.C. Gupta: It is difficult to comment.

Pinakin Parekh: Okay, understood. And Sir, my third question is regarding the take-or-pay RasGas contracts. It is a calendar year contract and we are in November already. So after, after the calendar year ends in around six quarters time or so, irrespective of when the final resolution takes place, from an accounting perspective, would GAIL need to make any provision on its P&L or Balance Sheet for the March quarter, pertaining to the period CY2015 or would any provision be made only after the actual details only after the actual details are thrashed out? How will it work from an accounting perspective?

R.C. Gupta: See the point is that the issue is currently under discussion, number one. Number two, GAIL will not have any impact of take or pay because we have the back-to-back contract with the consumers. So if we have any kind of a claim from PLL, then we will pass it on to the consumers, so GAIL balance sheet will not be impacted by this.

Rajeev Singhal: And one more addition just to this, that the contract between PLL and RasGas is slightly different compared with the contract between PLL and GAIL.

Pinakin Parekh: Understood, Sir. And the key difference would be what? Lastly Sir, in terms of the gas pooling that was done, Rs.14 Crores was the profitability benefit in Q2, is there something which can scale up from your or is this more like under the current set of pooling volumes and the condition, this is what will accrue on a quarterly basis?

Rajeev Singhal: This will definitely go up, because we are expecting increase in volumes. In fact, this will go up in higher than the proportionate levels, because what is expected is that Andhra-based plant will get started. So, which are at a partial distance from reclassification plant, so transmission margins earned will be more if Andhra plants are getting started.

Pinakin Parekh: Understood Sir. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Sir, you mentioned about the contract between PLL and RasGas is different compared with the contract between PLL and GAIL. So what would be the difference, Sir?



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- Rajeev Singhal:** We cannot disclose it, these are commercial contract, but these are slightly different. So the way PLL will be exposed we will be not. That is all.
- R.C. Gupta:** We have some material because we have back-to-back commitments with consumers. So the point is that GAIL is not exposed.
- Maulik Patel:** We are not exposed. Sir, coming to the petchem volume, so do, this 84 KTPA volume, which we have done, are we seeing some signs of improvement in volumes? Or is there any strategy in place, if let us say, crude remains at low and we are not making a profit at the spread level, is there we will not do in the plant? Or what is the strategy there?
- R.C. Gupta:** Strategy is that this volume is going to be up and because there was a new unit is being commissioned and we are going to start the production from that also and we are also basically working on this feed mix, actually how to make it quite competitive and so that quite conducive for our entire business, so the volume will go up.
- Maulik Patel:** Sir, our entire requirement of petchem volume for the expanded and it will be through the LNG?
- R.C. Gupta:** Again the point it is I have already clarified that it is the mix of different kinds of gases, which are available with GAIL, and depending on the availability we will use it. We will try to see that we get the competitive price of gas for the petrochemical plants. Because we have to run to make it profitable also, so we have to source is required gas separately for that also. So that is the strategy we will have to make quarter-on-quarter.
- Maulik Patel:** Okay, I understood. But when do you expect Sir that full utilization for the new unit to come?
- R.C. Gupta:** The Pata plant is expected to start production by this calendar year end. So most probably from December onwards, we will be producing from the unit two and for one quarter we should be able to get production.
- Rajeev Singhal:** Basically we are going to get this production in this very financial year and then it will be basically subjected to close to 100% production in the next year.
- Maulik Patel:** Okay, I understood that. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Rakesh Sethia from Morgan Stanley. Please go ahead.



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Rakesh Sethia: Thank you Sir, for the opportunity. In terms of the power pooling volumes, if I remember correctly, Dabhol plant could not take any volumes because of shutdown. Do you expect this 8 to 12 MMSCMD of volumes, which you are expecting, will entirely be moved to Dabhol this quarter?

Rajeev Singhal: A little bit of this will be because of Dabhol also, but 1 MMSCMD is expected from Dabhol and 3 to 4 MMSCMD from Andhra-based power plants.

Rakesh Sethia: So both Andhra base as well as the Dabhol plant own requirement to be moved, would be fulfilled from the Dabhol LNG terminal itself?

Rajeev Singhal: Correct, from Dabhol LNG.

Rakesh Sethia: Secondly, in terms of the Kochi pipeline, you did mention there is some progress on the ground. Let me ask in a slightly different way. Do you think once let us say the elections are over or you have the right-of-way agreement or a large sort of agreement with you and the farmers to get the right of way uses on that?

A K Singh : Actually this Kochi to Mangalore length is 500 kilometer and we have been able to establish contact with the farmers for a length of around 250 kilometers. So everyday there is a progress of around 2 kilometers, we are in the process of making Panchanama and things are progressing nice except these two districts what I mentioned. So we are also keeping finger crossed after election and how the things are moving particularly in these two districts in the month of December and then accordingly further decision will be taken to go ahead with the full-fledged execution of this project.

Rakesh Sethia: One more question on the same issue. In the earlier times, GAIL management had said that they will go ahead with the pipeline only if they had 100% of ROW on the same. So does that mean that, even in the present context, you will start construction only after you get the 100% ROW? Or how is it going to work this time?

A K Singh: Actually if you pay the legally acquired ROW is available with GAIL. The issue is that people are opposing at the ground level. So, the entire state machineries are in a process of convincing those people. We are also having the quite aggressive PR campaign and almost every village to village, the district administration has formed the committee where the revenue personnel from the state governments are going along with the GAIL people and we are hopeful that things will improve, but definitely Kerala things are not so easy to go full blast and full fledged to a state government is rising up how to move in different district to district and out of seven district, five districts we have been able to convince the people

and quite good progress is going on. Only two districts, there are issues still that we are hoping that it will be resolved in coming month and then we will take a call.

Rakesh Sethia: One last question on the RasGas contract. You said that you have all the back-to-back agreements with the customers of yours. Could you remind two things; first how much of the volumes of the 4.5 million tonne, which I think is with you, is on sign-on back-to-back basis with the customers? Secondly, what sort of guarantees do you have from the customers that even if they refuse, you will be able to recover money from your own customers?

Rajeev Singhal: 100% of this volume has been tied up with downstream consumers and most of the default is actually happening from government companies, so which we expect to recover and where we do not really need those kind of guarantees and the private sector, which is at default, the major volume is from big corporate, so there we do not again expect major default.

Rakesh Sethia: From your corporate customers, government customers, do you have any commercial bank guarantees in place to protect your interest, or it is just basically, let's say, a bilateral understanding between both the parties?

Rajeev Singhal: No, we do not have any guarantee, but these are the signed contracts with the government company.

Rakesh Sethia: Okay. Thank you very much Sir. This is really helpful.

R.C. Gupta: Nobody gives guarantee for the take or pay. It is the guarantees for the usual commercial, periodical, sale position, sale of the goods. So those guarantees are available for a periodicity of say two to three fortnights of the consumption by the customers. So that is the position, so nowhere these kinds of guarantees are provided in such contracts.

Rakesh Sethia: Okay. Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Sabri Hazarika from Phillip Capital. Please go ahead.

Sabri Hazarika: Yes, good evening Sir. Sir, I just wanted to know, on your natural gas marketing business, despite higher volumes in gas trading, the marketing EBITDA has actually come down QOQ. So what is the scenario out there? How is the demand panning out so far as LNG is



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concerned, and has there been any weakness in overall margins or any pullback in demand; anything of that sort?

Rajeev Singhal: Actually see, market has definitely has become a little more competitive than earlier, so margins are under pressure, but then, a lot of our volume is RasGas related volume also where prices are coming down every month because of the formula, so thing should improve after certain level.

Sabri Hazarika: Okay so and what about your mid-term contract; how is the pricing there? It is at around 13%, 14% slope most likely so...

Rajeev Singhal: Mid-term contract is anyway closing in December 2015.

Sabri Hazarika: Okay.

Rajeev Singhal: So only two more months left.

Sabri Hazarika: Okay. And have you tied up any customer for your US contracts, LNG contracts, considering they will be starting by FY 2018. So probably you must be looking into tying contracts?

Rajeev Singhal: Yes, we have tied up some customers.

Sabri Hazarika: You have tied up from India itself?

Rajeev Singhal: Yes, within India also and outside India also.

Sabri Hazarika: So these are like x of agreements, or are they back-to-back contracts, I mean binding agreements?

Rajeev Singhal: These are binding agreements, wherever we have signed are binding agreements.

Sabri Hazarika: All of them are binding; okay. Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Purvesh Sailedkar from Bank of Baroda. Please go ahead.

Purvesh Sailedkar: Thanks for the opportunity. Most of my questions are answered, but one specific question is about the pipeline. I want to know where GAIL's pipeline today has gone up to? In the



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sense, has it gone up to in Uttarakhand, in a place called Kashipur? Many of the power plants which are there, they claim that your pipeline has gone there. Is it true, Sir?

Rajeev Singhal: Yes, it is true.

Purvesh Sailedkar: Means your gas station is there in Kashipur place, so Gamma in fact is one of the power plants, which claims that you are going to supply gas to them, to the extent of something like 2.87 MMSCM for generation of 13 Crore power units.

Rajeev Singhal: Yes, they are under discussion with us.

Purvesh Sailedkar: They are under discussion with you and the pipeline is there, so there is no issue about the transportation, right?

Rajeev Singhal: Absolutely.

Purvesh Sailedkar: And the gas is available to be supplied to them, Sir?

Rajeev Singhal: Yes, gas is definitely available. It is a matter of price, at what level it will be economical or viable for them so that is also being worked out and it is expected that shortly it will happen.

Purvesh Sailedkar: They mentioned that there is PSDF support of about Rs.1.45/unit as subsidy. That is also part of this?

Rajeev Singhal: Yes. See, they have that choice. All power plant operators have the choice that they can go ahead with this power pooling scheme or they can have it separately also.

Purvesh Sailedkar: Okay. But this 2.87 Crore SCM for generation of 13 Crore power is a factually possibility, right Sir?

Rajeev Singhal: Yes that much is possible definitely.

Purvesh Sailedkar: Okay Sir.

R.C. Gupta: That is possible, provided they are willing to take the gas at the market price or under the Power Pooling Scheme.

Purvesh Sailedkar: That is possible. They are subject to take the gas at the market price?



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- R.C. Gupta:** Market price or under the schemes, if they get the allocation.
- Rajeev Singhal:** They have been allocated, but they have yet to sign the agreement.
- Purvesh Sailedkar:** Sir, the agreement to this effect will be signed when, Sir?
- R.C. Gupta:** It will take some more time because they are some issues with the party.
- Rajeev Singhal:** Under discussion.
- R.C. Gupta:** Under discussion that is going on, so it may take some time.
- Purvesh Sailedkar:** Thank you. Thank you very much for the clarity Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of David Hewitt from Credit Suisse. Please go ahead.
- David Hewitt:** Thanks for the opportunity to ask a question. I want to come back, if I can, to the Petronet supply. Now, Petronet said last week that their back-to-back to you, and you have just said that you are back-to-back to your customers. If we just take an example, if we say that there is a payment under the take-or-pay that is required in January of next year, and let us say the total amount is Rs.1.5 billion and yours is 50%, so let us just say, I have got yours. I beg your pardon Petronet's is Rs.750m so yours is Rs.750m under that. Would Petronet pay that in January? Would you pay them immediately, and then would you wait for your customers, or would you have to get the money from your customers before you paid Petronet under that take-or-pay requirement, back-to-back, back to back as it were?
- R. C. Gupta:** We cannot assume that the take or pay claim is coming, when it will come we will take action accordingly. First of all, you should also be aware that the discussions with RasGas by PLL and other off-takers are going on and we hope that this will be avoided, but if it happens, we will deal with it at that time.
- David Hewitt:** So there is not any clarity on who pays whom first, at this point, under the contracts?
- R. C. Gupta:** That we cannot say at this point of time.
- David Hewitt:** Gentlemen, thank you so much for the clarity. Thank you.



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- Moderator:** Thank you. The next question is from the line of Harshad Borawake from Motilal Oswal Securities. Please go ahead.
- Harshad Borawake:** Thank you for the opportunity. Sir, on the petchem plant, you mentioned that, going forward, depending on the availability, you will change the mix. But can you just help us understand what was the gas mix in the first half of this year for the petchem plant, the actual mix?
- R.C. Gupta:** No that we cannot disclose.
- Harshad Borawake:** Okay. On the other income side, the increase in this quarter versus the Q1, so is it largely as a result of this take-or-pay from IOC or there is some other one-off items?
- R.C. Gupta:** In other income, unallocated?
- Harshad Borawake:** Yes. So you reported Rs.3.8 billion total operating plus other income. So what was it; why was that such a large increase?
- R.C. Gupta:** That is dividend. Dividend also is there in this quarter. Rs.163 Crores dividend has been received.
- Harshad Borawake:** Lastly this take or pay which you recognized from IOC, so this pertains to which period?
- R.C. Gupta:** That is basically for four years time, 2010 to 2014.
- Harshad Borawake:** Is there any more, which you could recognize going forward?
- R.C. Gupta:** This is a total reconciliation for the past 10 years.
- Harshad Borawake:** Past 10 years?
- R.C. Gupta:** Yes. This is as per the contract.
- Harshad Borawake:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Abhijeet Vora from BNP Paribas. Please go ahead.



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- Abhijeet Vora:** Can you guide for the CapEx for the full year FY 2016? And what was the same in Q2 FY 2016?
- R.C. Gupta:** Capex is Rs.623 Crores is the capex up to this September actually.
- Abhijeet Vora:** First half?
- R.C. Gupta:** First half yes.
- Abhijeet Vora:** Okay. And full year how, what, how it may go up or how it may look?
- R.C. Gupta:** See, it will be less than Rs.2000 Crores.
- Abhijeet Vora:** Like petchem utilization rate, what, the production you did around 85 TMT, so it was solely on the older capacity of 110 TMT right?
- R.C. Gupta:** Yes.
- Abhijeet Vora:** I missed up on some initial remark of like, you mentioned that the spot volume were 13 MMSCMD versus 5 MMSCMD in Q2 of FY 2015. Can you just brief me on that part?
- R.C. Gupta:** Which one?
- Abhijeet Vora:** In the opening remark you mentioned that you, the spot mix, or like you were, I missed upon the opening remark when you mentioned that 13 MMSCMD was in Q1.
- R.C. Gupta:** That is 13 cargoes. We put 13 cargoes during the Q2 and in first quarter, there was 9, so total together is 22 cargoes.
- Abhijeet Vora:** In first half?
- R.C. Gupta:** Yes.
- Abhijeet Vora:** Thank you. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Miten Lathiya from HDFC Mutual Fund. Please go ahead.



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- Miten Lathiya:** Good evening, Sir. Sir, you mentioned that the decline in the LPG production will be restored. What will be the source of the gas by which you will restore that LPG output again?
- R.C. Gupta:** See, LPG production was reduced because of the shutdown by ONGC, so there was no availability. Now, going forward, it will be better I think.
- Rajeev Singhal:** Essentially this is a source; this was the shutdown by the ONGC, so that is why certain volume could not be processed for LPG production and now, in the coming time, this particular volume would be available to us. To that extent, the production will go up.
- Miten Lathiya:** What would that be on a normalized basis; I mean without a shutdown, where would you hope to stabilize production?
- R.C. Gupta:** The total production is more than 1 million tonne during the whole year, so I think we will be able to achieve that.
- Miten Lathiya:** So it is well above a million tonne; you almost do 1.3 million every year, including the liquid hydrocarbons?
- R.C. Gupta:** Yes.
- Miten Lathiya:** So is there some damage to that output, or is that the sort of number that you hope to maintain?
- R.C. Gupta:** See, to the extent that Lakwa has been transferred and Usar is under preservation, so to that extent that will not be able to recover and depending on the gas supply, the balance we should be able to recover.
- Miten Lathiya:** Okay and Sir Lakwa and Usar would be how much output?
- R.C. Gupta:** Usar was basically about 22 to 23 and lakwa was also of something like that 25 to 26.
- Miten Lathiya:** So about 50,000 tonnes has been lost permanently.
- R.C. Gupta:** About 50.
- Miten Lathiya:** Thank you. Thank you very much.



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- Moderator:** Thank you. The next question is from the line of Saurabh Handa from Citi Group. Please go ahead.
- Saurabh Handa:** Thank you, Sir, for the opportunity. Sir, firstly, just on gas trading, could you just explain once again why the PBIT for the segment was down compared to the first quarter? So PBIT basically was down from Rs.342 Crores to Rs.192 Crores?
- Management:** There was a decreased spread that we could achieve during this quarter.
- Saurabh Handa:** So this is basically on your, on the spot LNG, or it would also be on the term RasGas LNG?
- Management:** No this will be on the spot and mid-term LNG that we sell.
- Saurabh Handa:** So what should we look at as a sustainable number, because, on a quarterly basis, it is a very volatile number?
- Management:** During the quarter there was just one provision that we had made for the ONGC APM, non-APM price differential of Rs.149 Crores. This is non-recurring in nature. Otherwise that will always depend on the spread that we can achieve during the quarter and that depends on the prices that prevail.
- Saurabh Handa:** Okay. So this Rs.149 Crores is nonrecurring going forward?
- Management:** Yes, nonrecurring.
- Saurabh Handa:** Thank you. Secondly, on the US LNG, you said you have signed some binding agreements. Could you give us some sense of what quantity they pertain to; how much volumes?
- Rajeev Singhal:** No, we cannot tell it at this stage, but, yes, we have signed several contracts.
- Saurabh Handa:** Are these going to be for the entire duration of your US contract or they are medium term like three, four, five years?
- Rajeev Singhal:** Some of these are for the entire period, entire 20-year period.
- Saurabh Handa:** Okay, but any sense of the 5.8 million tonnes? Is it 10% or 50%? Is it at the lower end?
- Rajeev Singhal:** No, we cannot.



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- R. C. Gupta:** That we will tell at the right time.
- Saurabh Handa:** Okay, but these are firm binding agreements.
- R.C. Gupta:** There are some elements, which have been done and they are ranging from 5 to 20 years, and the exact volume and other things we will share after sometime.
- Saurabh Handa:** On the dividend income, you said there was some dividend income, which was received from China Gas as well? Could you repeat that?
- Rajeev Singhal:** So the dividend income has come from mainly the MGL, then the China Company, that, PLL, IGL, ONGC. So it is put together it's Rs.162 Crores in quarter two.
- Saurabh Handa:** Of which China was the first, first time ever.
- R.C. Gupta:** This is from the South East Asia gas pipeline company and China gas is again Rs.18 Crores, so Rs.35 Crores is from these two.
- Saurabh Handa:** Sir, my last question, I know this has been asked a few times, but in Pata in the past, you have mentioned on the call that 80% to 85% of the gas mix was LNG. Can we assume that it is still at those levels, or has that gone up a bit now, because this 80%, 85% is a number, which you all have said before in the past?
- R.C. Gupta:** See, gas mix is changing every month and what we can tell you is that we are, we will not depend on the long-term LNG only.
- Saurabh Handa:** Right, okay, but meaningful portion of this would be a long-term LNG at this stage right?
- R.C. Gupta:** No, no. It will not be.
- Saurabh Handa:** So it is predominantly short-term or spot LNG?
- R.C. Gupta:** Wherever we find, because long-term LNG, if customer is not taking, we are also not taking. So there is no question that why Pata will take long-term LNG.
- Saurabh Handa:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Aishwarya Deepak from Reliance MF. Please go ahead.



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- Aishwarya Deepak:** Good evening, Sir. Just want to know that this decline in volume for this RasGas lifting, so who are the key segment, key customers where you see this decline? Is it power fertilizer or is it non-power fertilizer?
- R.C. Gupta:** Majorly power.
- Aishwarya Deepak:** Okay.
- Rajeev Singhal:** Typically NTPC is the company, wherein we are having major shortfall.
- Aishwarya Deepak:** Other than power fertilizer, which I guess is some 60%, 70% of the total volume, where do you see the pain? Which other customers who are not taking the gas?
- Rajeev Singhal:** More than 60% of the default is because of NTPC actually.
- Aishwarya Deepak:** More than 60% that means, out of 32% default, some 20% alone is coming from NTPC?
- Rajeev Singhal:** Correct.
- Aishwarya Deepak:** Thank you, Sir. That is very helpful. Second is, what is our exposure to RasGas, because we are using, we have been using RasGas for gas marketing or using it for our petrochemical feed. So that thing will come to us, or how it will be treated? I know it was given to NTPC at one point of time, but GAIL have done, deal it very well in the last few years in the marketing segment?
- Rajeev Singhal:** See, we will be, we are continuously in dialogue with NTPC on this issue. And once this, suppose some settlement is reached with RasGas, wherein we expect prices to fall substantially, and if that happens then probably NTPC may also start lifting its volume.
- Aishwarya Deepak:** So should I understand that the RasGas is in a position to negotiate and they are comfortable even if the price?
- Rajeev Singhal:** Something is being worked out, which we expect will be acceptable to both the parties.
- Aishwarya Deepak:** Sir, for this new petrochemical plant, which gas feed, because I understand that it is very difficult to get the APM gas, even for the existing petchem. I have seen in the last two quarters consistently our petrochemical operations are, our utilization levels are very low. I guess that is because of the feed or non-viability of running the petrochemical plant on the costly gas. So now our existing plant is not running and we are coming up with a new plant.



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So I am not able to appreciate that, how the new plant will run if we cannot run the existing ones?

R. C. Gupta: See, it is very clear, that for making our new plant also viable, we actually have to see that the prices of the feedstock has to be very competitive. So we are doing, and in our basket there are many options, which are there. Things are quite dynamic, and we are doing the optimization and, depending upon the availability, we are using that particular mix. So whatever strategy is there for Pata 1, the same would be adopted for Pata 2 also.

Aishwarya Deepak: But Sir, I am sorry to say, but even for the Pata 1 I am not seeing utilization is, say, 95%, and because you people have running plant at a higher capacity most of the time, but consistently, since last two quarters, it is not?

Rajeev Singhal: That was, actually this is not the reason of the feedstock, actually there was annual turnaround followed by ONGC shutdown, followed by hook-up jobs of the new units, so all those things are there, which we are mandatory in nature.

R. C. Gupta: On this, I would, further I would like to add that when we decided this plant, the situation of crude price was not there. So, and this we, again, believe that this situation which will remain not permanent. The plant is for a long period of time, so we expect that we will overcome all these difficulties, which we are facing today. One is, because of the technical reasons, like shutdown or the hook-up jobs or ONGC shutdown also. So because of that, the utilization was low. Now, going forward, we expect things to improve, we have already commissioned the plant and we have our marketing network. So we will definitely use the capacity of the plants, both plants.

Aishwarya Deepak: Will I be right to assume that from the next quarter our petrochemical production will increase from the Pata 1?

R.C. Gupta: Yes, yes, definitely.

Aishwarya Deepak: Coming to, Sir, this Dabhol facility, we're supposed to come up with the breakwater for that, it operate for the full year. What is happening there, because somehow this Dabhol is not working at optimal capacity so far?

Management: Again on the Dabhol, first of all the total company, the demerger plan is already on. So it will be, power and LNG will be separated. And then to utilize it for the whole year, the breakwater and other facilities will also be installed in due course of time. Till that time GAIL is already having a long-term contract for utilization of this terminal. So we will use



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it fully. Now, because of the power pooling and other things, the quantity of the imported LNG is increasing. So we expect to use it more than the earlier years, much more than that.

Rajeev Singhal: Dabhol is already running today at 100% available capacity.

Aishwarya Deepak: Okay. No, so, the full-year operation is what I was talking?

Rajeev Singhal: Monsoon period, we will not be able to operate, that is five months. But seven months we will be operating it at full capacity, full available capacity.

Aishwarya Deepak: Sir one last question on this power gas, power pooling, there you people are taking a cut in the tariff as well as the marketing margin and supplying the gas at a lower tariff whereas the Petronet is charging 100%, regas charges for the same gas, so there is a disparity that you are taking cut, they are not taking cut and there was some government order or what, so can we get more clarity that how we should see this, even you people can say that okay why we should supply gas at 50% of tariff like Petronet?

Rajeev Singhal: Ideally Petronet is a private company, so government cannot pass the tariff notification for Government Company, unilaterally, for a private company. So that is why it has not been implemented and the government has also realized this that PLL is a private company and similarly other companies like for RGPPL also we are charging full regas tariff. So Dabhol is getting full regas tariff similarly the way it is getting.

Aishwarya Deepak: So this thing will continue; there are no changes as such?

Rajeev Singhal: This will continue. No change.

Aishwarya Deepak: Thank you Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Ravesh Jain from IIFL. Please go ahead.

Ravesh Jain: Good evening Sir. Just a question on the transmission business. If I just compute the tariff base and the revenue and the volumes there seems to be a trending of move in terms of realization. So, first of all, what is the reason for this continuous trend-up? And secondly, what is the trend, at least, going ahead?

R. C. Gupta: This time there is one item that Ship or Pay billing. This is not the regular kind of a thing otherwise the things are as usual.



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- Ravesh Jain:** Going ahead, what would be the trend, similar rates or there is some pipeline due?
- R. C. Gupta:** Depending on the volumes, capacity available, if volume increases, this will increase revenue and profitability both.
- Ravesh Jain:** Sir, in terms of a bit of marketing segment, if you look at that segment, it has been quite volatile in the natural gas trading segment. And there's a sharp fall in this quarter, if you look at it sequentially and also YOY basis. So what is the reason for that?
- Rajeev Singhal:** See one thing is that what I have earlier also said that as such competition has increased a little, so margins are under pressure. That is one major reason and earlier prices were very favorable and we were able to take better profit on long-term volumes.
- Ravesh Jain:** Is it right to assume that the spot volumes are on much lower marketing margins than the medium term and long term?
- Rajeev Singhal:** No it is not that, actually on spot volume there is, nothing is fixed. Sometimes the margin is higher than normal marketing margins and sometimes it is lower also. So it is purely flexible.
- R. C. Gupta:** one more thing, which is there also in this trading segment is that the provision which we have made Rs.149 Crores. That is the major reason.
- Ravesh Jain:** Thanks a lot Sir.
- Moderator:** Thank you very much. Ladies and gentlemen that was the last question, I now hand the conference back to Mr. Rohit Ahuja from ICICI Securities for closing comments. Thank you and over to you Sir!
- Rohit Ahuja:** Yes. Thank you all for this call and especially thanks to GAIL Management for taking up this call and answering all the queries. Thank you and happy festive season to you all. Thank you.
- R. C. Gupta:** Thank you. Thank you so much.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.