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“Gail India Limited  
Q3 FY2019 Earnings Conference Call”

February 05, 2019



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**Moderator:** Ladies and gentlemen good day and welcome to the GAIL India Limited Q3 FY2019 earnings conference call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal 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. Tarun Lakhotia from Kotak Securities. Thank you and over to you Sir!

**Tarun Lakhotia:** Thank you. Good evening everyone. It is our privilege to host the senior management of GAIL India for their Q3 FY2019 results conference call led by the new Director Finance, Mr. A. K. Tiwari. Without any further ado, I hand over the call to the management for their opening remarks, which will be followed by Q&A session. Thank you and over to you Sir!

**A.K. Tiwari:** Thank you very much. My dear respected investors, analyst, and shareholders very good evening to all of you on this earning call of Q3 FY2019. The physical and financial performance for the quarter ended December 2018 has already been uploaded on the GAIL website. I presume that all of you have gone through the same; however, for the benefit of audience let me reiterate the following few highlights of Q3 FY2019.

Number one, in the period up to Q3 FY2019 we have clocked PAT of Rs.4903 Crores and with this we have already surpassed full year of PAT Rs.4618 Crores of 2017-2018. The turnover up to Q3 FY2019 is Rs.56101 Crores as against Rs.38294 Crores in the corresponding period up to Q3 FY2018. GAIL registered highest ever quarterly turnover in Q3 FY2019 at Rs.19743 Crores whereas the previous highest was in the last quarter Q2 FY2019 at Rs.19096 Crores. Today I am happy to announce that the company has declared interim dividend of Rs.6.25 per share.

As far as our loan portfolio is concerned during period up to Q3 FY2019, the company has repaid loan close to Rs.1100 Crores and with our current loan outstanding stood at Rs.1000 Crores which leads to the debt to equity ratio of 0.03 times, so at this point in time we are company with practically debt free balance sheet.

I would like to share with you that in this quarter we have witnessed bounceback in our E&P profitability on account of restoration of our gas supply to the customers, which was disrupted in the month of June 2018 on account of blast in the China section of Southeast Asia gas pipeline.

The supply continued to remain disrupted during the second quarter, which was restored in this quarter leading to a jump of around Rs.75 Crores in the profitability of this segment. To mention that our US volume in the period up to Q3 FY2019 we have received a total 58 LNG cargo from our US



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suppliers and out of this 31 has been sold in the international market to various parties and the remaining 27 has been brought to India via various destination swap arrangement. It is also worthwhile to mention that till the end of this quarter Q3 FY2019 we had imported 47 cargos in India and out of these 47 cargos, 12 have been re-gasified at our Dabhol terminal and out of these 12 cargos 9 were-regasified at our Dabhol terminal at this very quarter itself.

Capex during the quarter was Rs.2592 Crores and out of our yearly target of Rs.6400 Crores we have already made capex of around Rs.5500 Crores for the period up to Q3 FY2019. We are very much on schedule as per our project execution and capex plan are concerned and we are very bullish about meeting all the stipulated deadlines of the project which are under execution.

On the capital grant front, we have received capital grant of Rs.578 Crores in this quarter and our total capital grant received till date is around Rs.2000 Crores. With this we have received close to around 40% of the total capital grant of approximately Rs.5200 Crores approved for Jagdishpur-Haldia, Bokaro Dhamra pipeline project. Further GAIL's petrochemical unit at Pata created history by being first in India to produce the value-added Metallocene film grade in this month.

If I talk about the physical performance highlight for this quarter as compared to the corresponding quarter of the previous year Q3 FY2019 vis-à-vis Q3 FY2018, our gas marketing volume has gone up by 8 MMSCMD mainly due to start of overseas sale of US LNG, which has led to an increase of around 8 to 9 MMSCMD in our volume. Our transmission volume has decreased marginally of approximately 1.49 MMSCMD from 109.22 MMSCMD in Q3 FY2018 to 107.73 MMSCMD in Q3 FY2019 and the capacity utilization of our NG pipelines remain around 50% to 53% of our total pipeline capacity. In this quarter, our polymer production continues to remain robust along with the successful introduction of Metallocene grade. As far as the LHC production is concerned, we have observed an increase of 12 TMT in this quarter as compared to corresponding quarter of previous year and our LPG transmission volume is up by 101 TMT.

Moving to our financial performance of this quarter as compared to the corresponding quarter of previous financial year that is Q3 FY2019 vis-à-vis Q3 FY2018, our gross sales has increased by 37% from Rs.14371 Crores in Q3 FY2018 to Rs.19743 Crores in Q3 FY2019, this is mainly due to the increase in gas marketing volume, upward tariff revision in the natural gas pipeline, better physical performance of PC, LHC and LPG transmission segment and healthier product price realization. PBT has also increased by 35% from Rs.1858 Crores in Q3 FY2018 to Rs.2507 Q3 FY2019 and same is the case with a PAT, which has witnessed and increased of 33% from Rs.1262 Crores in Q3 FY2018 to Rs.1681 Crores in Q3 FY2019.

The increase in profitability is mainly due to better performance in our gas marketing gas transmission and in LHC segment. So I have concluded highlights of the financials of this quarter and



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giving overview whatever the challenges, whatever the points are there. With this I came to end of this highlight and would like to open the house for question and answer session. Thank you very much.

**Moderator:** Thank you very much. Ladies and gentlemen 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. Congratulations on a strong kind of numbers. I had a couple of questions. One, with respect to the trading volumes, Sir obviously the volumes are being sort of received as per the contract, but I just wanted to understand Sir a little about what is the percentage of volume that you said was received in India, is under destination and swap contracts?

**A.K. Tiwari:** As you know that we have already started US volume coming here in India as well as we have also sold in the international market. As I have told that we have sold in the international market volume to that extent of around 18 cargos, 18 cargos we have sold in the international market in Q3, so total upto Q3 is 60 and out of destination swap upto Q3 is 27 and in the overseas up to Q3 we have sold 33 cargoes

**Probal Sen:** 18 cargos sold internationally Sir and then destination swap is 27 cargos

**A.K. Tiwari:** Taking Q1, Q2 and Q3, total is 60 cargos out of this we have done around 27 destination swap cargos and we have sold 33 cargos overseas

we had 18 cargos for this quarter i.e. Q3 FY19 only

**Probal Sen:** Q3 is 18 of which again 10 is swap and 8 is overseas sale, is that correct?

**A.K. Tiwari:** Correct.

**Probal Sen:** The other question I had was broadly on a little bit of guidance I mean obviously this year till date we have seen about 107 MMSCMD of volume. Any guidance you can give us in terms of next year's prospects given that there are some additional LNG terminals that are now being commissioned, what can we actually expect for next year in terms of transmission volumes?

**A.K. Tiwari:** I think the transmission volume will almost remain same or it may increase 5% to 7%.

**Company Speaker:** There are couple of new large customers coming up in fertilizer sector, hopefully this will grow by a couple of percentage points that is what we take this at the moment.

**Probal Sen:** Somewhere around 110 MMSCMD is the number that we should work with?



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- A.K. Tiwari:** There will be increase.
- Company Speaker:** All depends on power sector also, this quarter actually if we compare with the previous year, this quarter number is lower mainly because this quarter there was hardly any consumption this year by power sector whereas last year power sector has taken lot of RLNG. So in case if power consumption keeps growing and domestic coal cannot meet the pace then things can grow, otherwise also third party transmission of gas has not picked up in the manner it was expected hopefully next year third party transmission would also grow, so we could see close to the number that we are talking about.
- A.K. Tiwari:** Even with the open access that we have given for this booking of the capacity, it is almost flat you can say.
- Probal Sen:** Last question if I may, on the Petrochemical business you mentioned about the new grade that you have now been the first to launch, if I look at this quarter numbers is it fair to say that it is only the metallocene that has resulted in the higher of it?
- A.K. Tiwari:** We will be shifting to the Metallocene grade in coming quarters, shutdown was taken in the last quarter, but the production is started in this month means January only, so we have started this grade in this month.
- Probal Sen:** For FY2020 should we building in full capacity utilization of around 8000?
- A.K. Tiwari:** 100%.
- Probal Sen:** With better price realization because acceptance is coming gradually for the new grades?
- A.K. Tiwari:** Metallocene grade as you know is a value added product.
- Probal Sen:** Thank you very much Sir. I will come back if I have more questions.
- 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. Now Sir for the remainder of the calendar year 2019 basically, Q4 FY2019 and three quarters of FY2020 so can you give us the sense of how many cargos is GAIL obligated to pickup from all its overseas contracts and versus that how many cargos has already entered into a swap or a hedge position?
- A.K. Tiwari:** Yes, annually we get about 8687 cargos from US and 12 cargos this year we are supposed to get from Gazprom. Rest of the volume comes through PLL. So if we take this and then another RasGas 15 contract, so that will be another 4.5 cargos, so 16.5 cargos other than US and 86 cargos from US, so



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out of this I think we have arranged, either we have swapped it or we have sold it up to 76 cargo, only 9 or 10 cargos we have yet to decide that we have purposely kept open because we are not sure of the demand in the country, so if the demand is good, it is almost about a cargo per month for the remaining of the year where we are open that we are keeping ourselves and we keep doing it three months in advance like up to April we are done, so 9 cargos are left for the month beyond April. So this calendar year we are talking about, not the financial year. In case if demand is there we will bring the cargo here, otherwise we will sell in the international market.

**Pinakin Parekh:** Thank you Sir. Just to understand this further on the 76 cargos, which is basically swapped, hedged or sold forward, has GAIL locked in the trading profit or will that be a function of some underlying basis risk in terms of how the prices move or have we locked in whatever trade margin?

**A.K. Tiwari:** Most of it is locked. Just to give overview of that whatever the cargo we are sourcing from DCP or where the price indexation is there, what we are doing we are either selling to the internal market or we are swapping or we are putting to India, but depending upon the price movement we are hedging also, so we are locking our price wherever we feel the price movement and forward movement will be there, so that way we are synergizing and that is why you are seeing the good profit in this quarter as well as the last quarter that is the result of that.

**Pinakin Parekh:** Understood and Sir lastly of the 8 cargos that were brought into India in this quarter, and I think you said 27 for the year upto Q3, , Sir how many the GAIL consume internally in its petchem plant?

**Company Speaker:** Utilisation is done for whatever has been brought in and there is no specific cargo destined only for internal consumption.

**Pinakin Parekh:** Okay, understood. Thank you very much Sir.

**Moderator:** Thank you. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.

**Amit Shah:** Sir just further carrying and just one more clarity, you said that of the 86, the 76 are already are contract and the rest you keep it in open market, but even for that the next three months are always contracted, so basically open only from FY2020 onwards, for Q4 entire 87 or basically the entire quarterly output is locked in?

**A.K. Tiwari:** Yes.

**Amit Shah:** Is it fair to say that the Q3 gas trading profits are reflective of what Q4 should also be?

**A.K. Tiwari:** We cannot say we do not know the price movement. It depends upon the price.



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**Amit Shah:** Some margins because that is locked in right, you said the margins are locked in, so then, the revenue might defer, but the margin would be the same right?

**A.K. Tiwari:** Margin as per the price we have taken as forward that has been locked and it depends again which price we have locked, so there are the different cargos because you know that if you see the trend of FY2017 the crude price was \$49, FY2018 \$58 for the full year on an average and now for the Q3 for nine month only the average price is \$72, so it depends, where we are, which price we have locked, each cargo, spot cargo, everything has a different strategy as well as a hedging portfolio, so that way, it will have an incremental thing.

**Company Speaker:** But you can take it that we are reasonably hedged, more than very well hedged and it should remain more or less.

**Amit Shah:** Yes, what I am trying to get that is that if say oil price is further correct from here right and is it a chance that Q4 profits can be cut by half for gas trading as compared to what they were in Q3 or the fact that you have enough hedges in place to give you the visibility that there will not be such a big volatile swing or decline in profits in oil price is correct?

**Company Speaker:** There would not be.

**A.K. Tiwari:** I cannot give you any specific number for that, but you can presume that whatever was in Q3 it can be more or less that way, but it depends again with the marketing and as well as the hedging what we have done, but it will be almost same.

**Amit Shah:** Okay, all right. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Avdoot Sabnis from CGS CIMB. Please go ahead.

**Avdoot Sabnis:** Sir in relation to Petrochemicals the commentary we have been hearing is we were unable to stabilize output in earlier quarters largely because of the technical issue being able to produce the required grades, now that you are saying that this grade Metallocene has been produced in January can we take it from you that all the technical issues have been fully sorted out and now there is really no sort of hiccups we expect going forward that all the past two year's history and now we be looking at sort of full output with a required grades everything we produce?

**A.K. Tiwari:** Yes, the plant is stabilized unless some technical other things come up, otherwise the plant is totally stabilized and our production from January onwards whatever the period we have taken the production start it is moving steadily and there is a continuous growth in the production profile.



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- Company Speaker:** We have already demonstrated by producing 100% and going beyond 100% also, this was only for production of this value added grades that this particular modification and shutdown was required and henceforth we can take it that this will be beyond 100%.
- Avdoot Sabnis:** Okay. That is great. Secondly Sir, if I just look at the production sales volumes and whatever the implied inventory at end of December seems to be all time high 40000 to 50000 units, are you reasonably confident of being able to bring down the inventory this particular quarter?
- A.K. Tiwari:** Yes, we are aiming for that and various measures we are taking to reduce the inventory level and these are the cyclical many times, so it is not very high you can say as per our visibility or the target it is as per our standard, these are the reasonable inventory that is not very high inventory, but we are liquidating our inventory and selling whatever is there.
- Avdoot Sabnis:** Sir lastly on the dividend payout given your low gearing, is there any clarity can provide that sustainable dividend payout going forward will be higher than what has been, let us say in the last four, five years?
- A.K. Tiwari:** This is the highest dividend we have paid, we have declared today the dividend 80% and you can calculate indeed it was very good, the dividend, highest ever dividend we have declared so far.
- Avdoot Sabnis:** No, exactly, we are not seeking any guidance for the overall full dividend for the year kind of stuff, normally the payout has been at best 44%, but normally it has been around 30%, 35%, are we looking at a 50% plus number going forward?
- A.K. Tiwari:** No, that as per the dividend policy, we have to pay the dividend 5% of the opening networth or 30% of the PAT, so we have declared 5% of the Networth, which is around Rs.1800 Crores approximately, so that way this is the dividend we have declared, so I think this year's dividend will be in this range only, 5% of networth.
- Avdoot Sabnis:** Okay. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Aditya Suresh from Macquarie. Please go ahead.
- Aditya Suresh:** Thank you. Just two questions, firstly on the pipeline open access, I understand this is early days, but are you able to quantify any impact of that on your business somehow broadly across the value chain and second is can you give us an update on your various tariff decisions? Thank you.
- A.K. Tiwari:** So far as the pipeline open access is concerned, whatever we were selling in the past periods almost the same quantity or same volume is being sold as of now, so that pipeline open access practically has not yielded anything.





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- Company Speaker:** After we came out with a portal where electronically people could access the pipeline system we have got above 250 responses and the hope is that in going forward quarters, more people will be able to access depending on how much they can source and whether they can market additional volumes, so the expectation is these number should grow in the coming year.
- A.K. Tiwari:** Yes, we are expecting so. As regard the status of tariff, which you have asked, these tariff declaration and tariff decision is cyclical thing, there are the various pipelines, which are there, so every five year or the periodicity, which is there it is being done. Last quarter we have already informed that this DUPL and then your Agartala network, all these product pipelines where the tariff revision was there now few pipelines, which are due are under process by the PNGRB and we expect that in the days to come the tariff order will come.
- Aditya Sirish:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rakesh Sethia from HSBC. Please go ahead.
- Rakesh Sethia:** Thank you for the opportunity. Sir if you could update us on the status of Jagdishpur-Haldia pipeline, the various you have been working on and what is the initial sort of a volume you would be targeting on those pipelines?
- A.K. Tiwari:** Jagdishpur-Haldia pipeline is having around 8 sections and the total including the Barauni-Guwahati pipe section is around 3384 kilometer with capex of around 16000 Crores. So all these sections as you know that we have already reached Varanasi and we are targeting to reach Patna this month only, Varanasi we have already started gas supply to the CGD entities and as well as we have commissioned CNG stations also, this month we are targeting to commission this Patna where the CNG and PNG will be there. All the sections are parallelly and what are the job as per the schedule is there that is progressing well and we are hopeful as per the target, as per the schedule what we have decided, we are going to complete in a progressive way excluding Barauni-Guwahati by December 20 and then Barauni-Guwahati we are targeting by December 21 and we are on schedule to means complete the whole Jagdishpur-Haldia Bokaro-Dhamra pipeline.
- Rakesh Sethia:** Sir one follow up on that, so what is the status of the Kochi Mangalore pipeline and what are the volumes you would be looking to sell out from your Kochi Mangalore pipeline in the initial years if you could clarify that?
- A.K. Tiwari:** Yes, Kochi Mangalore pipeline section 2 is around is 444 kilometers, around 87% of the physical progress has already been completed and you know that last year there were floods , which has disrupted every means our many activities, otherwise we could have completed this project by this



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time. So it may take further three, four months to complete, we are on the track and within three, four months from now it will be completed and phase wise commissioning has also started in the project.

- Rakesh Sethia:** Is it fair to say by June you would be able to connect this pipeline to your customers and the volumes would come?
- A.K. Tiwari:** Yes and total capacity of the pipeline is 16 MMSCMD out of which approximately 3 MMSCMD we have already tied up,
- Rakesh Sethia:** Thank you very much for the opportunity Sir.
- Moderator:** Thank you. Next question is from the line of Rohit Ahuja from BOB Capital. Please go ahead.
- Rohit Ahuja:** Thank you for the opportunity. Questions from my side, on the international cargos you gave a very good data for calendar year 2020, do we have similar visibility for beyond that like calendar 2019 you gave a visibility, but calendar 2020 would you have visibility and how many cargos you have already sold and how many you are pending to be sold from US?
- Company Speaker:** So the calendar year 2020 could be Q4 FY20 and three quarters of FY21, it is all work-in-progress and we are very confident that we have been able to achieve in 2019, we will be followed up in 2020 and years beyond.
- Rohit Ahuja:** When do we see bulk of the cargos from US entering India, because right now I believe you are selling 18%, 25% outside India, so are there any arrangement?
- Company Speaker:** As the demand in the Indian market increases, the cargos you will see increasingly more volumes of LNG flowing into the Indian market.
- A.K. Tiwari:** So far as the Indian market is concerned, our pipelines are in the execution as soon as these pipelines and fertilizer unit comes. In totality, the demand will increase and the volume will be consumed here, so that we will see how many cargos will come here whether we have to spot purchase or whatever the sourcing is done that way the consumption will increase and we'll be consuming more cargos in India, that is there.
- Rohit Ahuja:** I will just come to the second part of my question, so in terms of volume visibility in the system, we have so many LNG terminals coming across in Gujarat and then you have pipeline at Kochi-Mangalore as you mentioned getting commissioned, so which of these terminals do you think would be operational this year and next year and contribute meaningfully to your volumes for your transmission or your marketing?



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- A.K. Tiwari:** We cannot give any target which terminal is going to come, but so far as the sourcing of the gas from the international market is concerned, we are in a position to re-gasifying in the country and sell in the country and some of the cargos as I have already told in my highlights that we are using the Dabhol terminal also to the extent to re-gasify the cargos of our own, so far as when these are going to be commissioned that possibly I may not be able to tell.
- Rohit Ahuja:** If you look at this year we have PLNGs incremental 2.5 MMT getting commissioned. Do you think it would be able to operate fully, entire volume would be able to sell in next one, one-and-a-half years?
- Company Speaker:** We have no comments to offer on third party terminals. All we can say is we will try and optimize maximum using whichever terminals and whichever pipeline systems require that volume from international sources, we will do the optimization.
- Rohit Ahuja:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thank you. Relating to gas trading in the past you had indicated that you are comfortable if Brent is over 54 and very comfortable if it is over 60, so what I really wanted to find out or get your thoughts on is that if let us say oil from now on remains below 54 then your hedging and these tying up which we have done that will protect your margins and profitability for how long, will it only be only FY2020 or how many more quarters from here?
- Company Speaker:** We can predict two, three years down the line.
- Vidyadhar Ginde:** I am saying what are you tied up for? By tying up I presumed that even if for the first question here is that if oil goes below 54 what you already tied up, does it ensure decent profitability even because you have tied up at when oil prices were higher or some quarters at least?
- A.K. Tiwari:** Most of the cargos down line one year you can say or may be up to FY2019, we had been tying up reasonably with better forward and going forward depending upon the underlines we will be tying up the cargos wherever required, so that way it is a very dynamic situation.
- Vidyadhar Ginde:** Not that way, I am trying to find out that my impression is that given you had a high oil price environment till October and you probably tied up until October some more significant volumes for at least in the last earning call we were told that your most of the volumes up to FY2020 March tied up, so basically that would mean that even if oil were to go below 54, on a large proportion of your volumes, you were covered and you should have decent profits at least for three, four quarters, is that right?



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**A.K. Tiwari:** We have moderated the risk also that way we have protected the risk from this period, you are very correct that we have moderated that way.

**Vidyadhar Ginde:** It would hurt you in low oil a price below 54 only if in the year after next is that reasonably we are looking at it?

**A.K. Tiwari:** Why are you thinking that oil price will fall?

**Vidyadhar Ginde:** I am just trying to find out the risks that all the good work you have done is going to protect until March 2020 beyond that it may not if oil prices are lower?

**A.K. Tiwari:** We do good work. Do not worry.

**Vidyadhar Ginde:** And the related other question was therefore the fall in oil prices since October, so that as we tying up activity gone down during this period or did you bide your time for oil prices to recover or how does that play out?

**Company Speaker:** We have done that. We did not sell in distress.

**Vidyadhar Ginde:** So the tying up activity had sort of taken a backseat until oil prices recovered?

**Company Speaker:** Not tying up, hedging you can say has taken a backseat.

**Vidyadhar Ginde:** I get your point. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Mayank Maheshwari from Morgan Stanley. Please go ahead.

**Mayank Maheshwari:** Two questions from my side. One was obviously in last quarter you had seen a lot of volatility on the hedging side, so I just wanted to get a sense of how you have managed that volatility last quarter if you can give us some subjective comments on that? Second question was more related on Petrochemical side, obviously demand last quarter was very tough, so I just wanted to understand how you have handled the marketing side on Petrochemical for you? Thank you.

**A.K. Tiwari:** So far as the volatility is concerned of the price which is there, yes, there were some interests that way that the gas price was more and as well as the Brent price was also not favorable for us. So we have strategized, which cargo is to be brought to India or which cargo is to be that way is spot purchase has to be done or whatever is there that is why we have seen the market condition and we have taken a decision including the hedging wherever it was required and for second question related to Petrochemical my colleague will tell.



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- Company Speaker:** Can you repeat the question for marketing on Petrochemical?
- Mayank Maheshwari:** I was just trying to understand obviously last quarter you had seen a lot of inventory destocking demand in the market was not that great, so just wanted to understand how the marketing efforts helped you to kind of keep your volumes, will the inventory did build a bit, but like volumes how did you sell those volumes in the market, how has been the discounting situation etc.?
- Company Speaker:** It was little tough because of fall in prices, the demand had really gone down and that the realization of the prices were affected very badly and our sales is also affected a bit, it is not much, but a bit we could not we have sold less than what we have produced in the last quarter because of that. And again, we did not go too much into distress in this sector also and at the same time continued our market efforts to push the material to our customers.
- Mayank Maheshwari:** Sir what has been the trend now quarter to date, this year like has been got better or it is still getting – remains a bit tough?
- A K Tiwari:** Prices have not really recovered, but at least say factors are stable and that has given from the marketing demand side it is taking up.
- Mayank Maheshwari:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Krishna Kumar from Spark Capital. Please go ahead.
- Krishna Kumar:** Good evening.. I just wanted to understand other comprehensive income which you have shown here, it is showing both 1100 Crores of cash flow hedges, does this represent the open hedges and the profit on this as of now?
- A K Tiwari:** It does not affect the profit because as per the accounting standards these other comprehensive income or whatever the minus is there. It reflects the price movement mainly on the ONCG prices, which was there and which has fallen so that way we have adjusted this plus whatever the forward we have taken that way we have accounted, so these are the mainly the movement of the price of the ONCG share price. That has no affect on the PAT position.
- Krishna Kumar:** Is it right to say that this cash flow hedges gains that is there most of it – I mean ONCG stock price is more or less stable or declined, so at least 80-90% of it is unrecognized hedges?
- A K Tiwari:** No, it is not unrecognized. We are not hedging this ONCG price. We are just giving a disclosure. You can say as per accounting standard the price movement plus or minus whatever is there has to be accounted in the books, the PAT, which was being, is unaffected that way. This is just a disclosure for that comfort.



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**Krishna Kumar:** I understand that part of the PAT Sir, I am just questioning one simple line item where you have net movement in cash flow hedge gains/losses and you have another line for net gain loss and equity share, I am only asking the line on the cash flow hedge gains, we have about 1100 Crores on that. The only question is that this 100% pertains to the hedges that we have in the US contracts and this 1100 Crores will be the potential gain on it that is only the question I have.

**A K Tiwari:** That is there, yes. It is based on the hedges, which we have done and as on December 31st, based on whatever the accounting and forward which we have taken that MTM loss and gain has been accounted in there. These are exactly as per the accounting standards.

**Krishna Kumar:** Got it Sir. And MTM price that you would have considered for this in terms of Brent and Henry hub if you may have that?

**A K Tiwari:** It is very difficult. We do not have that data ready.

**Krishna Kumar:** Okay. And just one final question on the value added products in petrochemicals, what percentage of our production would come on this?

**A K Tiwari:** If we talk only of Metallocene film grade it should be about 10% to 12% that closed to 12-13%.

**Krishna Kumar:** Okay. Thanks a lot Sir.

**Moderator:** Thank you. The next question is from the line of Binit Joshi from Goldman Sachs. Please go ahead.

**Binit Joshi:** Thanks a lot Sir. Sir two questions, first, last quarter you mentioned that for the two remaining pipelines, we could expect the tariff revision by end of the current quarter, so any update if the timelines around on that? And the second question is Sir can you please tell us what is the delivered cost of the different LNG that you are sourcing at the moment?

**A K Tiwari:** Yes, so far as the pipeline tariff revision is concerned, we have already submitted the tariff of this HBJ and others also of Mumbai Regional so we are expecting the order and we expected that it would have come but I think PNGRB is working on that and at any moment this can be announced. So this is that way and second question what you have asked? Various types of LNG prices delivered?

**Binit Joshi:** Yes delivered prices?

**Company Speaker:** Delivered, it will depend where the customer is situated, so depending on state taxes VAT, so that is a very difficult to answer

**Binit Joshi:** What I am asking is before the regasification process, landed at the terminal as what I am asking Sir?



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- Company Speaker:** Okay, landed in India that is DES. So that for US gas it will be between \$7.5 and \$8 at this point of time. And other RasGas will be about 8.5.
- Binit Joshi:** And Russian contract?
- A K Tiwari:** More or less on the same range.
- Company Speaker:** It will be in the same range. Same range +/- \$0.5 for 70 cents that is it.
- Binit Joshi:** Okay and Sir for next year what are your capex guidance?
- A K Tiwari:** Capex?
- Binit Joshi:** Yes, FY2020?
- A K Tiwari:** Yes, for this year we had around 6400 Crores, which we are increasing and which we will be catching that way and next year will be around 7000 Crores
- Binit Joshi:** All right. Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Sir just to understand on the hedging more clearly, the third quarter trading gains that were reported would have been locked in Sir how much in advance, I am just trying to understand Sir what is the legal math so what it should be in second quarter or the first quarter?
- A K Tiwari:** So only a specific number is very difficult to say but in totality we can say that the volumes as per our conjunction in India vis-à-vis the internationals selling, we have already hedged wherever required.
- Pinakin Parekh:** Understood. And Sir on the LPG segment, generally what kind of lag do we see vis-à-vis the spot global prices, is it 15 day lag or one month lag in terms of your realization?
- A K Tiwari:** LPG prices depends upon the import parity price, which is there, so lag I think one month lag is there.
- Pinakin Parekh:** Understood Sir. Thank you Sir.
- Moderator:** Thank you. Next question is from the line of Amit Rustagi from UBS. Please go ahead.
- Amit:** Sir just wanted to know in terms of value added products, what is our Metallocene film output as a percentage of total 200 KTA quarter or 800 KTA annual production of that kind?



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- A K Tiwari:** It will be around 15%.
- Amit:** 15, so if our present capacity is 800 KTA so we are targeting around 120 KTA of Metallocene film output right?
- Company Speaker:** No, I am checking our plant which can produce Metallocene that is 400 KTA and a plan is to produce anywhere between 50000 to 70000 tonnes.
- Amit:** 50000 to 70000 tonne of the new plant capacity, okay and Sir how much additional realization do we expect because of this upgrade versus what we are realizing today?
- Company Speaker:** This is very dynamic. It keeps changing but as on today's existing condition it should be about close to \$150 in term of rupees per tonne you can take it about Rs.9000 to Rs.10000 per tonne.
- Amit:** That is great and Sir second thing could you highlight that now if you look at the cost of gas in the petchem business how that is going to change in the coming quarter? So will it go into decline in light of decline in spot LNG prices and how do we look at the things back end business from here, because the profitability is somehow not coming in this business despite several efforts all around the turnaround?
- A K Tiwari:** Yes. Whatever for our petrochemical segment, we are trying to source the gas at a cheapest price available, maybe for US whatever the portfolio is there and again it depends upon the crude price and the price movement, so we cannot comment at what price it would be but we are trying to maximize the profitability by sourcing the cheapest gas for our petrochemical plant.
- Amit:** Sir I am just actually looking from a trend perspective because after decline in the oil prices, petchem realizations have declined, so which you have also mentioned that petchem realizations have been soft. Now can we expect some softness or a declining trend for the cost of gas for the petrochemical business, otherwise this is clearly indicating that our spreads on the petrochemical will decline very shortly.
- Company Speaker:** No. See cost of gas will definitely go down a bit as compared to previous quarters, reason being similar. So that some of these gases are priced at averages of last three months, six months, seven months, so average moves down slowly. So after having peaked to 85, now crude is on down, so going forward those averages are continuously coming down. So gas price will also come down and then we are also mixing spot appropriately as and when it is cheaper than our US volumes.
- A K Tiwari:** Plus the price realization again depends upon the price of the petrochemical products, which are there. So as you are seeing in the comparison with the Q2 there is a decline in the price movement by around maybe significantly maybe Rs.4000 per metric tonne, so all these are a combined effect of





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that. We are trying to maximum the profitability of the segment and being the portfolio player taking various measures to minimize the cost of the segment.

**Amit:** Sir second thing on the US energy, you explained like how many cargos are coming to India but are these cargos coming from our shipping arrangement or we are chartering some ships on spot basis as well? And what is our strategy on that?

**A K Tiwari:** Own ships also hired ships for small period as well as wherever required

**Company Speaker:** Yes, so one-way movement. That is not a very optimal way of bringing volume to India, so we tried to optimize the shipping cost that is our main focus area, where we tried to optimize by doing destination swaps or some kind of simultaneous sale and purchase etc., or sometimes we do hire ships also for a short period one month, two months, three months to take up one loading or two loading where we see it is justified and then if may be even some chartered ships also. So total focus is to keep the shipping cost lowest as low as possible.

**Amit:** You mean to say that it takes 50 days for a roundtrip?

**A K Tiwari:** 45-50.

**Amit:** 45-50 days for a roundtrip as we have some arrangements for the chartering contracts which we did so, for these for how many cargos like they can organized for it and how much we relying upon this spot because I got your point that you will be optimizing based on destinations swaps as well as simultaneously selling it to in different markets but still because in US I think we have seen that charter higher cost for LNG has gone up in last two to three months so that has had some impact on our trading business at all?

**A K Tiwari:** No, it does not affect because we see our own ship can bring eight cargos a year, roughly okay, because in between now what happens, because of the ship we could not also sell volume in international market on delivered basis, we saw volume in previous quarter on delivered basis in Middle East so we keep looking for opportunities so there are both plus and minus, so if we have our own ship and then yes sometimes it may bring in some kind of inefficiency in terms of return empty voyage but at the same time it gives some flexibility to sell volume on delivered basis if the prices and opportunities there.

**Amit:** Okay and how many ships we have as of now?

**A K Tiwari:** We have only one.



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- Company Speaker:** Our own ship is one. We have right now only one ship on charter, long term charter, medium term charter but in between there was a time when we had three ships on our charter for few months. So it keeps varying, as of now there is only one ship. Shipping rates have also come down again.
- Amit:** Okay. They have come down after winters?
- A K Tiwari:** Substantially. They hit of peak of about 2-lakh dollar a day, and now they are back to 60000 dollars a day.
- Amit:** 60000 dollar a day !. Sir just last question now in South East Asia we are witnessing 7 dollar kind of spot LNG, so do we see a increased opportunity for Indian gas based power in this kind of pricing environment or do you see that power is still depended on some policies support from the government?
- A K Tiwari:** See this is purely power demand scenario, it will be decided by power demand.
- Company Speaker:** If the power can absorb this kind of prices, certainly they will use all the LNG that we can bring in.
- Amit:** Are we seeing that kind of environment right now at 7 dollar, are we seeing improved demand from the power sector in the last one month, 15 days.
- Company Speaker:** Rather as I said earlier, in October, November and December in the quarter this year was very low demand for gas in power, very low demand compared to last year. Yes compared to last year but now perhaps it depends on how much coal our Indian mines are able to produce. So if coal production can match with the power requirement, power demand, then gas would not be needed but if that is not able to match then gas will definitely be needed and yes with the prices are low, then the possibilities of getting it absorbed is higher.
- Moderator:** Thank you. The next question is from the line Chetan Shah from Comgest. Please go ahead.
- Chetan Shah:** Sir, in Dabhol, when can you expect the breakwater to come and have you ordered the same?
- A K Tiwari:** Yes for Dabhol terminal these tender have already been floated and maybe within two months we are going to award the breakwater at Dabhol terminal.
- Chetan Shah:** And it will take three years to complete?
- A K Tiwari:** Three seasons, you can say. But it can be also depending upon the progress of the project, but normally three seasons.



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- Chetan Shah:** Sir just Kochi-Bangalore section when can we expect that to start?
- A K Tiwari:** Part wise commissioning has already been started and by June it will be completed..
- Chetan Shah:** Sir I am talking about Kochi-Bangalore, not Mangalore.
- A K Tiwari:** Tamil Nadu section, that has not been started yet. This Tamil Nadu section is already on hold and we are talking with state government. We have not got any clearance for that so that way we are stuck up.
- Chetan Shah:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Tarun Lakhotia for closing comments. Thank you and over to you Sir!
- Tarun Lakhotia:** I would like to thank the senior management team of GAIL for talking time out to share useful insights of the quarter and beyond. I hand over the call to them for any closing remarks.
- A K Tiwari:** Thank you very much. We are indeed glad with the so many questions from the participants. Now I would like to thank all of you once again for participating in the GAIL earnings call, but before we disconnect I would like to wish all of you Happy Vasant Panchami to our all investors, analysts and shareholders. Thank you very much.
- Tarun Lakhotia:** Wish you the same. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Kotak Securities that concludes this conference. Thank you all for joining us. You may now disconnect your lines.