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“GAIL (India) Limited. Q1 FY2018 Earnings
Conference Call”

August 10, 2017



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ANALYST: MR. SWARNENDU BHUSHAN – MOTILAL OSWAL SECURITIES LIMITED

MANAGEMENT: MR. SUBIR PURKAYASTHA , DIRECTOR (FINANCE) AND OTHER SENIOR EXECUTIVES



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Moderator: Ladies and gentlemen good day and welcome to the GAIL India Limited Q1 FY2018 earnings conference call hosted by Motilal Oswal Securities. 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. Swarnendu Bhushan from Motilal Oswal Securities. Thank you and over to you Sir!

Swarnendu Bhushan: Thanks, Raymond. Good evening, to all of you. On behalf of Motilal Oswal Securities, we would like to invite you all the participants to Q1 results con call of GAIL. We are really thankful to the management of GAIL that it takes out time to discuss the results with the investor community every quarter. From the management, we are honoured to have Director - Finance, Mr. Subir Purkayastha; Director - Marketing, Mr. Gajendra Singh; and other senior officers of GAIL management. We would now like to hand over the call to the management for their initial comments. Post which, we can have the question-and-answer session. Over to you, Sir!

Subir Purkayastha: Thank you very much. It is a very good evening to all my dear peers and colleagues and the participants who are connected to this conference call. The physical numbers have also now been uploaded in our websites and I hope that you have had an opportunity to have a look at that. In case you have not, we would be very happy to provide those physical numbers to you during this course of conference. Now so far as the physical performance is concerned, on performance of the quarter on year-on-year basis, on the gas transmission, volume side growth of about 4%, and LPG transmission 26%. The natural gas sales were by and large flat, so to say. Petrochemical segment showed an increase of 19% growth on a year-on-year basis and liquid hydrocarbon again showed a robust growth of 24%. So far, this was with respect to comparison a year-on-year basis but on a quarter-on-quarter basis, the natural gas transmission was slightly lower it was at 99.91 as compared to 101.50 in the preceding quarter that is Q4 of FY2017. LPG transmission was 890,000 metric tonnes as compared to 913,000, down by about 3%. Natural gas sales were 78.43 million cubic metres of gas per day as compared to 82.45. Petrochemicals, there was a reduction in the production because of the shutdown in the month of April, May for installation of certain equipments. It was 121,000 MT as compared to 175,000 MT in the previous quarter that is Q4. On liquid hydrocarbon, there was an improvement. It was 293,000 metric tonnes as compared to 276,000 MT. So far as the price is concerned, the average price realization both on the liquid hydrocarbon side and on the petrochemical side was slightly lower as compared to Q4. The total turnover of the quarter was Rs 11,540 Crores and we ended up with a net profit of Rs. 1026 Crores. Some of the salient features in this quarter was that there has been a reversal of Rs. 159 Crores on account of employees' cost which was accounted for in Q4 2017. And after the notification issued by the government of India on 3rd and 4th of August 2017, we have reversed about Rs. 159 Crores on account of excess provision made in Q4. So this has impacted, also



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contributed to the bottom line to some extent. And on the physical side, as you would be all aware, the power pooling was discontinued. It had its impact on the total volume but we are nevertheless trying to make it up through contracts with all the power companies, who were earlier taking gas. So we have achieved quite a good amount of success. So about 2.71 million cubic meters of gas contracts have been signed up in this particular quarter, which were earlier taking the gas under the PSDF scheme. Going forward, so far as the polymers segment is concerned, we hope that in Q2 and in subsequent quarters, the production levels will be higher than what we have observed in Q1. As I said before, Q1 production so far as polymers are concerned was impacted due to the shutdown taken for connecting certain equipments into the system, which was part of the planned program. And there was a shortfall of about 55,000 tonnes that we could have produced in addition to what we have produced. But those things are now in the past and we hope that going forward, this will be the positive side. Gas production again has shown a growth. This is on the back of 2 factors. One, increased gas coming in from the Daman area at Hazira. And secondly, also on account of the fact that the quality of the gas is much better than what we used to get and therefore, the because of the rich, higher fractions of rich components in the gas, we have been able to increase our liquid hydrocarbon production as well. So we hope that this phenomenon will continue in the future quarters also, and we should be able to gain on these particular segments. On the gas segment side, as you must have noticed, our challenge particularly with PSDF scheme gone. But we are not dependent, at the same time we are making all of our efforts to tie up to customers wherever it is possible to convert these short-term customers into long-term customers and also, adding new customers in the process. So this process is on and therefore we hope that in the subsequent quarters, particularly in Q2 and Q3, we should see better a performance both in terms of financial and in physical terms. So this is in short the performance highlights I thought that I would share with you before we start the question-and-answer session. Thank you so much.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Mayur Patel from DSP Blackrock, please go ahead.

Mayur Patel: I have two questions. One, what is our current utilization levels in the petrochemicals unit as we speak?

Subir Purkayastha: This quarter's overall capacity utilization was about 72%. But as I said before, this had been impacted because of the shutdowns – planned shutdown taken in the month of April, May. Our target was 90%-plus in this particular quarter, but of course, after making adjustments for the shutdown period, it was about 72%.

Mayur Patel: How is the utilization in July and August?

Subir Purkayastha: Currently it is nearly 100%. July, it was nearly 100%.



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Mayur Patel: And Sir second question is, last three, four months, have you signed any new contracts to sell more of US LNG, any incremental off taker into it?

Subir Purkayastha: Yes, this process is very much on. We are not only looking at the domestic market, we are also scouting and finding success in the international market as well. So that process is on. It would be very difficult for me to share the details of those but to give you a comfort on this aspect, yes, we have been successful in tying up some volume of the US gas, which is likely to come in the next calendar year.

Mayur Patel: So last 3, 4 months you have signed some new contracts, right?

Subir Purkayastha: Yes.

Mayur Patel: And is it possible to give us overall idea that out of 5.8 million tons, how much - what proportion whether 50% or 60% or how much of that you are comfortable currently where you have visibility of selling?

Subir Purkayastha: Very difficult to give those numbers at this time, but it is sufficiently good number I would say at this point of time. Although we would also like to say that we had not reached the desired level of 100% but still, we are moving towards that.

Mayur Patel: And Sir, last question. With gradual increase in domestic gas production, is it fair to assume that your LPG production can go up to 1.4 million tonne annualized run rate?

Subir Purkayastha: You are right. Because of the increased domestic production and particularly because of the quality has been improved in terms of the higher fractions of gas and those new set of volumes, it will certainly increase but I doubt it will reach to 1.4 million. It would reach somewhere 1 to 1.2 million tonnes.

Mayur Patel: Thank you all the best.

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

Amit Rustaji: Sir, could you give us the understanding that when you sign a swap arrangement which we have already announced with the Gunvor, so how does it work? Is it a pricing swap arrangement or just a volume swap arrangement? So exactly how it works.

Subir Purkayastha: We have entered into a time swap arrangement whereby they would be selling us certain volumes in this calendar year. And in turn, they would be buying certain volumes from us in the next calendar year.



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- Amit Rustaji:** So will there be price transaction on that or it is a cargo to cargo transfer? Like, you have got 1 cargo this year and they will buy our US LNG cargo next year, there is no pricing transaction with each of other?
- Subir Purkayastha:** No, it is both price and cargo. So even on the price part, we would be on the positive side.
- Amit Rustaji:** Okay. So they will be buying our US LNG cargo at the US whatever - at the FOB price of US and this year, they are giving us some cargo at the current prices? Is that right?
- Subir Purkayastha:** Yes, that is right, Amit.
- Amit Rustaji:** And Sir, have we signed more of swap arrangements going forward? Because this swap, which we discussed, was only for a period of one year, like I think for 8 cargoes only. So have we signed more swap arrangements or we have sold more of domestic volume in the country? Like last time, we discussed that we are talking to the fertilizer companies. So any of the discussion with fertilizer companies got materialized or any of the discussion with the power companies got materialized?
- Subir Purkayastha:** I would not name the company or the sector at this point of time but I can only give you the comfort that, yes, we have been successfully able to tie up some more volumes, both in the domestic front as well as in the international front in the quarter gone by.
- Amit Rustaji:** Okay, and Sir now PNGRB has got new members, so what is our strategy on that front? Are we going to see some progress on the tariff determination? Or we will go for like one network, one tariff sort of thing? And if that gets implemented, then what is it the tariff we are looking at... can go up from here?
- Subir Purkayastha:** It is very early to make any comment how the PNGRB would be dealing because at this point of time, one of the member is going out and one member has come in. We need another 2 members to constitute a quorum for the board to take any decision. So we are still waiting for complete membership in the board, whereby they would be able to take any decision. So in any case, our request with respect to revision in tariff and other aspects is already in place with the regulator. Only time will be able to tell at what point of time and in what manner, things would evolve. But we are quite hopeful because of the change in regime in PNGRB. Things should be much better than what it had been in the past. This is our hope and I think our hope will not be denied.
- Amit Rustaji:** Just on the same question, I am just trying to understand that how much tariff increase potentially can happen if we go for one network, one tariff kind of regime? Because the cabinet has already approved that sort of stuff for us.



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- Subir Purkayastha:** It will depend upon all the calculation, which is to be done, and it is quite lengthy and complicated calculation. But we are thinking that it would give us a positive result if it goes through.
- Amit Rustaji:** Thanks a lot Sir and best of luck.
- Moderator:** Thank you. We have the next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Is there anyway our pet chem profitability is impacted because of government of Gujarat's November order where they are not giving the input tax credit on LNG?
- Subir Purkayastha:** Your understanding is correct but that has been since December 2016 because there was a change in the notification by the Gujarat Government. The tax incidence on the gas consumed and being supply from State of Gujarat had gone up and therefore, it has certainly increased the cost of gas, which is being consumed at part for the production on polymers. So you are right to that extent it has impacted the profitability of the petrochemical unit.
- Maulik Patel:** What could be the, sir, extent of the impact?
- Subir Purkayastha:** Extent of impact, I do not have the numbers right now, but it is a good enough number.
- Maulik Patel:** Sorry?
- Subir Purkayastha:** It is quite a good number, so to say. There is an increase in gas price because of this decision.
- Maulik Patel:** And let us assume that the gas becomes part of GST in the future, then our profitability will improve because we will be able to get full input tax credit, is that correct?
- Subir Purkayastha:** Okay. Mr. Patel before moving to to the next question. I have got the numbers with me. I am being told that the impact of this the increase of the tax by the Gujarat Government is nearly Rs. 100 Crores a year.
- Maulik Patel:** Okay Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Niraj Mansinka from Goldman Sachs. Please go ahead.
- Niraj Mansinka:** I had one question. There was the gas increase from ONGC. Can you share some thoughts on how you see the marketing rights being distributed? And how the allocation of the gas you see will happen



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for those increase of gas from ONGC? Let us take in a hypothetical number, say a 10 MMSCMD over next two years, how you see things evolving in this sector being consumed?

Subir Purkayastha: No, there are two concerns. One is the APM gas and the other is the non-APM gas. So for the APM gas there is a shortfall which we stuck to the allocation and the supply. So it will go to meet those shortages and then there are other gases, which are part of non-APM, where they have the right to market the gas. So they are - ONGC will be going for a bidding process to sell their gas.

Niraj Mansinka: Okay, sir. But the marketing rights would come to whom for those gas?

Subir Purkayastha: For the non-APM gas particularly in the case of KG Basin, where they indicate that there would be an increase in the gas source. It is up to ONGC how they market their gas. They would be entering into contracts with prospective customers or they may go for a bidding round. I mean, the government has nothing to do so far as allocation is concerned with respect to those volumes.

Niraj Mansinka: Related questions, two questions. One is if the APM gas comes in, so you are saying in one way, the fertilizer, whatever is incremental is not taken by City Gas will go to the fertilizer, is that the right way to look at it?

Subir Purkayastha: No, I have not understood your question. Can you make it somewhat clearer what it is?

Niraj Mansinka: So whatever is the incremental APM gas will after meeting the need of the City Gas, it will go to the fertilizer plant, is it the right way to look at that way?

Subir Purkayastha: Yes, yes.

Niraj Mansinka: And Sir, regarding HPSD, would it be viable for you to buy the HPSD gas or import LNG gas for your petrochemicals?

Subir Purkayastha: No. As I said, I mean it is a negotiated position. I will buy only if I find a market at the price at which I buy. I will be certainly comparing it with my competing sources. If the imported LNG is much cheaper, so the price will be reflected so far as the price, which will be offered to ONGC.

Niraj Mansinka: On the current gas price, any thoughts like on the HPHT gas, the S1 would reach I guess and the current LNG prices...

Subir Purkayastha: No, there is no thought as I said, it is a market determined price. Whatever the price is affordable to the ultimate customer is what would be the price, which will be offered to ONGC.

Niraj Mansinka: Okay Sir. That is all. Thank you Sir.



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Moderator: Thank you. The next question is from the line of Maggie Sun from Hermes Investment. Please go ahead.

Maggie Sun: Just two questions. The first one is what is the reasons of the increase in the LPG profitability and the decrease in the gas trading profits? And my second question is to your gas trading. You mentioned that you are converting some customers from the short-term to long-term contracts? How has the success been so far? Can you tell us the percentage of customers that you are converted?

Subir Purkayastha: Okay, to respond to your first question with respect to how the profitability of liquid hydrocarbon LPG segment has gone up, it has gone up mainly on account of higher production in this particular quarter as compared to the previous quarter, as I said, because of the better quality of gas being available in terms of the C3 component and also because of the increased quantity of gas being made available. So we are able to run our LPG plants at a much higher capacity than what we have done in the previous quarter and which has resulted in higher production as well as increased profitability from this particular segment.

Your next question was the conversion from short-term sources to long-term sources. I think you cannot really give precise numbers as to the number of customers. But we can only give an indication is that we have been achieving fair success on this particular front, in converting the erstwhile customers who were on sources on a short-term basis into long-term basis. So this effort is on. I mean, we have been able to - quite a few good customers on that particular aspect. And therefore although the - as I said, the PSDF volume had come down, we have been able to mitigate much of the losses on account of the withdrawal of the PSDF policy.

Maggie Sun: Sorry, just I want to get further information on the LPG profitability. You mentioned that there are more high quality of gas available for the production. Is it sustainable or you think It is more like a temporary positive factor? Why has the gas trading profits decreased this quarter?

Subir Purkayastha: Coming to your first question, we feel that it is on a sustainable basis. The quality of gas and the quantity of gas is going to last for quite some time now. And this is coming from new sources and we see that a longer kind of visibility so far as the quality and quantity of the gas is concerned.

Maggie Sun: And how about the LPG prices?

Subir Purkayastha: Quarter basis, the LPG prices have come down from Q4 to Q1 of this financial year. There has been the fall of about 9% in price realization in Q1 as compared to Q4 of FY2017.

Maggie Sun: Okay. And why did gas trading profits decreased this quarter?

Subir Purkayastha: Gas trading profits? Yes, as I said....



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- Maggie Sun:** Yes. Compared to the same quarter last year.
- Subir Purkayastha:** As I said, as we move from short-term to long-term contracts with our customers, obviously there would be an impact on the trading margins and which has reflected in our results.
- Maggie Sun:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- Badrinath Srinivasan:** I have 2. First on the pipeline segment, could you help us with the progress of the East India network as well as the Kochi pipeline network?
- Subir Purkayastha:** Sorry? I mean, can you come back?
- Badrinath Srinivasan:** Sir I meant, with the progress on the East India pipeline in terms of how much is completed, how much tendering is left, are we on course for the various targets?
- Subir Purkayastha:** So far as the Eastern pipeline is concerned, there are 2 phases. So far as phase 1 is concerned, we have placed all the orders for procurement of pipes and material and also for the execution of laying of pipeline is concerned. And so far as the second or the third part is concerned, the procurement activity so far as the line based are now ongoing. Simultaneously, we are in the process of awarding laying contracts as well and also, other construction with respect to the setting up of terminals, etc. So this has just started. I mean in the next 2 to 3 quarters is that we hope that we will be placing major orders so far as the land and as well as procurement of pipes are concerned.
- Badrinath Srinivasan:** And phase 1 still remains on track for the December 2018 schedule.
- Subir Purkayastha:** Yes, yes. That is true. We are quite confident that we will be able to complete phase 1 by December 2018.
- Badrinath Srinivasan:** And second part of the question on the Kochi one, we have all right-of-way for all segments and all contacts ordered?
- Subir Purkayastha:** We have awarded for the entire length of the pipeline so far as Kochi to Mangalore segment is concerned. So all the contracts for the entire stretch of pipeline has been awarded so far.
- Badrinath Srinivasan:** Right, sir. And the second question, is it possible to share how much Gorgaon and RasGas of we will have took in this last quarter?



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- Subir Purkayastha:** Gorgon and?
- Badrinath Srinivasan:** RasGas, how much were offtake in this last quarter?
- Subir Purkayastha:** We have taken all the contracted at quantities during the quarter.
- Badrinath Srinivasan:** Right, Sir so we have taken the full contracted amount and not the 90% or any other lower amount?
- Subir Purkayastha:** No, no. We are not in default. I mean, just to, I have got some additional feedback with respect to the question asked by the previous speaker, why the trading margin has come down in this particular quarter. So just to update on that. In the last quarter, there was a one-off provision which was made, a reversal of provision was made pertaining to that segment which had boosted the results of Q4 so far as the gas trading segment is concerned. So that was quite a substantial amount of about Rs. 170 odd Crores. So which had improved the results of trading segment in Q4. Of course, since there are no such adjustments being done in this particular quarter, this is more of a realistic number, what you see now.
- Moderator:** Thank you. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.
- Amit Shah:** Quick question. On the - can you give some guidance on the transmission volume? And as compared to last quarter, the transmission margins were higher, so was there any increase in tariff or how should we look at it? Was there a certain section which was - which earned more?
- Subir Purkayastha:** So far as the transmission volume is concerned, this quarter, we are down by 2%. This quarter we are 99.91 as compared to 101.50 in the previous quarter. So it is...
- Amit Shah:** I know. Despite that the price profits are higher, right, so That is what I am asking as to why?
- Subir Purkayastha:** Now what I had mentioned during my opening remarks also, we have made a provision of about Rs. 159 Crores towards the employee cost. And which we have also mentioned in our notes to which has been put on the SEBI website which is with respect to reversal of employee cost. So as a result of this, there is an impact of decrease in employee cost in the transmission segment of about Rs 110 Crores. So this has therefore, increased the profitability of this particular segment. In fact, the repercussion of this had been all across the segment in the transmission segment, in the petrochemical segment as well as the LPG segment but the highest impact has been on the transmission segment, which is about Rs. 110 Crores. So this has resulted in higher profitability in this particular segment in this quarter.
- Amit Shah:** Okay. And Sir, one last. And guidance on the transmission volume for FY2018 and 2019?



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- Subir Purkayastha:** For FY2018, I think we will be around - somewhere around 100, 101.
- Amit Shah:** Okay. And FY2019?
- Subir Purkayastha:** FY2019, certainly it should increase because we will have the US volumes also coming in. But the share of US volume coming into India and outside India, we have not worked out the numbers as of now. So you can consider certain reasonable increase in the transmission volumes for FY2019 as well. But to be honest with you, I do not have the numbers in my front at this moment.
- Amit Shah:** Okay no problem. Thank you sir.
- Moderator:** Thank you. The next question is from the line of Sanjay Mukhim from Bank Of America. Please go ahead.
- Sanjay Mukhim:** A couple of questions. So what is the minimum amount of US gas that you are obligated to take in the 2018 calendar? While you have 5.8 of contracts, is there some flexibility in your ramp-up? so to understand the point is, what is the minimum absolute amount that you must take from the two contracts that you have?
- Subir Purkayastha:** The estimated commitment for the calendar year 2018 is about 5.2 million tonnes.
- Sanjay Mukhim:** Okay, Sir. we read that the train for Cheniere has started, there is no reason for you to start pre-poning those budget, they will happen only from Jan 2018.?
- Subir Purkayastha:** So far as the Cheniere volumes are concerned, those are likely to start from March 2018. And the other contract, which is the Dominion contract, they are going to start from January 2018.
- Sanjay Mukhim:** Just the other question was on the update of the Dabhol terminal and the demerger and further investment in it, could you provide us some update what is happening there?
- Subir Purkayastha:** On the demerger side, the case was heard by the NCLT towards the end of June, somewhere around 28th or 29th of June. The hearing is complete, the decision is also by and large known but because of the pending number of cases with NCLT, we have not received the order as yet. We hope to receive this order by the month end. So once that is done, the legal process will start and then, of course, whatever administrative actions and other actions are to be taken with respect to demerger will happen.
- Sanjay Mukhim:** And just a follow-up on that. Can we look at a higher utilization of the Dabhol terminal this year, it has barely been used?



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Subir Purkayastha: This quarter, there was only one month, so to say, which was available to use the Dabhol terminal. So we have brought three cargoes into Dabhol in this quarter. And a quarter is not a correct indication because it is virtually one month. May and June, we could not bring because of the restrictions imposed in that particular area, but we hope to restart the cargoes into Dabhol from end September onwards. And of course, our estimation is that we will bring the same number of cargo as we did in the last financial year, which will be about 15 to 16 cargoes.

Sanjay Mukhim: Alright thank you very much.

Moderator: Thank you. The next question is from the line of Aishawariya Agarwal from Reliance Mutual Fund. Please go ahead.

Aishawariya Agarwal: Sir, just want to know this tariff, how should we see the transmission tariff and what is - I mean, how the things will shape out in terms of increase in tariff and the same tariff across India? So how we should see it and how much it will boost our profitability?

Subir Purkayastha: You see, the idea of one tariff is with a view to make the gas affordable to the customer. That is the overall objective. It serves quite a few number of purposes because as you lay new pipelines away from the sources and as you know, the auditing process of tariff is quite burdening for the customer at the end of the pipeline. So that is one thing which will happen if it so happens, it is accepted and decided by PNGRB is basically reduce the burden of tariff so far as the customer who is coming up at the end of the pipeline. So that is one, it will be sort of a socialization of the cost and increase the affordability and the acceptability of the gas. On our side, it brings reasonable return in the sense that I will be neutral which section of the pipeline is running at 90% or 100% and which section of my pipeline is running maybe at say, 20%. So I will be neutral to that. So therefore, in the long run, we hope that this would be beneficial for both the consumer as well as the transporter like GAIL. And how and when it happens is of course, a big question to answer at this point of time. The CCI has already recommended that this sort of a structure should be introduced. But as you know, the PNGRB is the ultimate authority, which has to come up with the decision. And since there are not sufficient members in the PNGRB, in the immediate future, we are not able to comment that when it will happen. But we are still hopeful that once the members come in and when the real exercise starts as per the procedure of PNGRB, we should see everything starts in a fair time. We should see the results for the end of the year. How much that impact could be, that is again a precaution because it will all depend what the tariff would be and what would be the implication with respect to the differential tariffs of this pipeline. So it is very difficult at this point of time to quantify the numbers. But certainly on an overall basis, we feel that it should be financially beneficial to both the customers as well as the transporter like us.



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Aishawariya Agarwal: And Sir, what does that hold. What is the minimum number of members needed and how long does it generally take to do the exercise?

Subir Purkayastha: I understand at least three members are required for the quorum to take any decision by the board.

Aishawariya Agarwal: And right now we have just...

Subir Purkayastha: And in some cases it is important that the member legal is there in the quorum, without anyone if there are other three members, again there could be a limitation on taking decisions. If in any of the decision-making process, the presence of member legal is compulsory. So if there is something like that, then I really do not have the finer details. But I am told there is something like that. But otherwise it is three members which forms the quorum for the board to take any decision.

Aishawariya Agarwal: And how long generally - because you have so many pipelines for which you got the tariff orders. So how long does it take for them to do this exercise?

Subir Purkayastha: Very difficult to say. I mean one can go by past experience, you know how much time do they take to come out with a tariff decision.

Aishawariya Agarwal: And Sir one more thing, how we de-risk ourself from this US supplies because there will be some price difference and there is not much of demand? How we will de-risk ourselves from the US supplies? Because this US gas has a price and to have that kind of demand at that price. So how are we mitigating that risk?

Subir Purkayastha: Well, we are trying to mitigate by coming up with new kind of marketing solutions to address those issues.

Aishawariya Agarwal: Can you give some colours on that, that will be helpful.

Subir Purkayastha: It maybe helpful for you but may not be helpful for me to disclose at this point of time?

Aishawariya Agarwal: Well fine Sir. It is up to you.

Subir Purkayastha: Yes. That was on the lighter side. But, as you know, these are things, which cannot be discussed over a teleconference.

Aishawariya Agarwal: Sure. Thank you sir. Best of luck.

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:** Sir on the volume front, if you could give us the breakup of the 78 MMSCMD, all volumes, which you sold this quarter? How much of them would be LNG and how much of it was from domestic sources? And secondly if you could provide some colour on of the 78 MMSCMD how much of this is on the long-term basis and probably can infer that probably would be on the short-term basis?
- Subir Purkayastha:** Out of the 78 million cubic metres of gas per day, domestic is 50 - 50 is domestic gas, rest is imported gas.
- Rakesh Sethia:** Of the remaining 28 MMSCMD, if I remember correctly, in the past conference call, we have been mentioning that the last part of these volumes are now shifting from short-term to long-term. So if you could give us some colour of these 28 MMSCMD volumes how much of these are now on the long-term basis?
- Subir Purkayastha:** Out of the 78, you mean?
- Rakesh Sethia:** Of the 28, the LNG contracts?
- Subir Purkayastha:** Out of the - it is around 20 million cubic meters of gas which is on a long-term basis and the rest is on short-term basis. Short-term only, not mid-term. So 20 is from the long-term and about the balance, 8 million, from the short-term.
- Rakesh Sethia:** Sir, and other - if you could give some colour for example, when you place these volumes either on long-term or short-term to your customers - I appreciate that the pricing could be different for different customers. But is it mostly oil linked or how the pricing is being done? Is it closer to, let us say, the RasGas contract if you could give us some colour on the pricing front?
- Subir Purkayastha:** You see, what we have seen predominantly, the acceptability of the pricing formula is crude link that it is mainly brent linked. But we have also been successful in selling volumes also HH link basis. But predominantly I would say it is linked to crude brent that is, it is crude linked.
- Rakesh Sethia:** Sir, one followup question on the gas sourcing for the future. If I remember correctly, in the analyst meet it was mentioned that since many fertilizer plants are coming in the country, those plants would require a lot of gas. So has any been - let us say, contracts been signed on a firm basis with those plants? Or is there something the - or government authorization, which is given to GAIL that all the new plants which is coming, for example, would source gas only from GAIL? Is this something if you could throw some colour on, of this the four fertilizer plants, which are due for revival?
- Subir Purkayastha:** Yes. I mean although there is a sort of mandate from the government also that the new fertilizer plants enter into a gas sales and transportation agreement with GAIL. Therefore, you can say there is some sort of a push from the government. But at the same time, there are other fertilizer plants who have



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been ramping up their facilities as well. So there we have been also talking to them to sign contracts with us and we have found quite a good success in that front also.

Rakesh Sethia: Sir, just to confirm. When you say the plants have asked by the government to sign a GSTA with GAIL, so that means they cannot source from any other alternative supplier if it is available? Is this something, the right understanding? Or GAIL is the exclusive supplier, is going to be for those plants?

Subir Purkayastha: It is like this. When the investment approval was given for the CCEA, particularly the grant - with 40% grant, which was approved by the CCEA, there was the provision that new fertilizer plants would enter into a gas supply and transportation agreement with us. So there is not a specific letter to these companies, but it is flowing out of the CCEA approval, which has been in favor of GAIL when this decision was made.

Rakesh Sethia: Thank you Sir.

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

Probal Sen: Just wanted to understand. You said that the petchem plant is operating at 100% now in July. So what sort of volume run rate should we be then building in? About 180,000 tonnes is what you should be able to do on a quarterly basis if the utilization stays close to 100% or can it be even higher?

Subir Purkayastha: It would be around 180,000 as you said.

Probal Sen: On a quarterly basis, sir, that should be a reasonable number build for the values of the year, right?

Subir Purkayastha: That is correct.

Probal Sen: And Sir, if one looks at the - what is the reason for the kind of increase in costs on - if I just try and calculate the cost on per tonne basis, that has gone up. Is that because the shutdown related costs have affected numbers and we should look now...?

Subir Purkayastha: Because the production was slower in Q1, particularly in the month of April and May. So as a result of that per tonne cost would have gone up in your calculation.

Probal Sen: Because there are certain costs which are sort of fixed, semi-fixed.

Subir Purkayastha: Some costs are fixed.



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- Probal Sen:** Okay. And Sir as far as the LPG and liquid hydrocarbons segment is concerned, you did mention that 1.2 million tonnes is something that one can see. Does that sort of build in an estimate that gas production would increase from current level or will continue at the same level?
- Subir Purkayastha:** You are estimating on the current level of flows.
- Probal Sen:** Okay. And Sir last question was with regards to this KG Basin higher gas output that is expected to come from ONGC by maybe FY2021 or thereabouts. Is it reasonable to assume that this will basically flow through to us and transmission volumes could go up as a result?
- Subir Purkayastha:** Yes, 2021 of course is quite a long way off, 4 years from now. But certainly when it is more likely than not likely to be flowing through our transmission system.
- Probal Sen:** What I wanted to understand, Sir, is there a regulatory process while which this gas will be allotted to GAIL for transmission or any other pipeline can also make a bid for it?
- Subir Purkayastha:** No, there are two different things. One is the marketing rights and one is the transmission rights. There is no such thing as allocation of transmission through GAIL. There is no such thing. It is only the marketing of the gas, which is subject to some kind of authorization. But in this particular case, it is high temperature, high pressure gas. So the ONGC would have the marketing freedom and it can follow any process it may enter into direct discussions, or it may seek offers from parties to sell the gas, anything of that sort. I do not think so government would be interfering in the sale process of those volumes.
- Probal Sen:** Sir, apologies, I was not implying marketing rights. What I meant to say was is there any competing pipeline network that can even get into the transmission of these volumes? Or it can be safely assumed that as and when the gas starts flowing, transmission will anyways be happening through GAIL's existing pipeline network? That was my limited question, sir.
- Subir Purkayastha:** I will request my colleague Mr. Manoj Jain to answer that question.
- Manoj Jain:** The quantity which we currently are looking at in 2021 in that KG basin network will require upgradation if it has to carry that volumes. So under the present capacity probably it can carry only part of the volumes, which may flow in 2021 onwards. And ONGC can as far as Sir has already told that it can sell on FOB basis 20 customers based on bid outcome or its post arrangement with the customer. Then the customer's freedom he can take the gas through any of the pipelines, though presently ours is the only pipeline available in that region. But by 2021, it has to be seen whether if other players are also interested in laying of the pipes.
- Subir Purkayastha:** Fair enough Sir. Thank you very much for your time.



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- Moderator:** Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.
- Miten Lathia:** As you mentioned of the 28 MMSCMD of LNG that you are marketing, 20 is sold to long-term customers and 8 to short-term customers. Is that the correct understanding, or is that incorrect?
- Subir Purkayastha:** What I said was that out of 28, 20 has been sourced from long-term sources and 8 is being sourced from short-term sources.
- Miten Lathia:** Okay. You are referring to sourcing and not to the end customer itself?
- Subir Purkayastha:** Yes.
- Miten Lathia:** So if one were to look at the mix of that 28 in terms of the customers, what would that be then?
- Subir Purkayastha:** In terms of what? I could not get the question. What do you mean by...
- Miten Lathia:** No, no sir. On the customers who are taking LNG from you, there will be customers who have long-term contracts and there will be customers who take short-term volumes, which are...?
- Subir Purkayastha:** No, I can give you only a directional answer that most of the time if we are selling long-term volumes, it is for a long-term contract and if it was a short-term then sold through the short-term contracts. It is like if my customer is for a short period that we would be more likely supplying thorough short-term sources. Whereas if there is a long-term contract, definitely I would like to have a long-term source available with me to meet the obligations.
- Miten Lathia:** Sure. Sir at the analyst meet you had provided some idea of where the volume can potentially get sold. But as things stand today, of the 5.8 million tonnes potential replacement within our system of volumes is just 8 MMSCMD of short-term that you mentioned that you can replace with the US LNG. So 5 plus will be more than 18 MMSCMD of gas that we are looking at. Are we still sort of confident that we will be able to place that entire volume because we now are talking about six months odd to go before we can...?
- Subir Purkayastha:** You are right in this current situation that we see, substantial increase in the domestic consumption will be a tall task. So therefore we will be more approaching and concentrating our efforts on the international market.
- Miten Lathia:** Okay. And I mean can you sort of, not your own contracts, but can you sort of refer to other international contracts based on the prior volumes that have been sold out of Cheniere in the international markets. Would they result in you being able to select back-to-back without any impact



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or would those contracts mean that there would be an impact, even if we were to look at the international markets?

Subir Purkayastha: No, see it would be a mixed some of them would be on a back-to-back basis. Some would be at a premium, and some could be also at a discount. Depending on the contract that we finalize.

Miten Lathia: Sure Sir. Anything at all that you can help would give out us clarity on this would be helpful to us, but I understand that you are restricted.

Subir Purkayastha: No, no. I mean it is a very fair question and we understand that this is a burning question with respect to GAIL regarding disposing this volume. But the only confidence that I would like to give my investor friend is that we are working on it. It is a work in progress. We have offloaded a significant volume but yes, there is quite some distance still to go and we will really come to know when the year is over where do we stand but our effort is on and we are not done as of yet. Yes, the pricing could be an issue, but how much of that would be an issue, we will gradually only come to know. So far we are on the positive side. So far whatever we have been able to market outside India is on a positive note. But yes, the entire volume, as I said, may not happen that way. There could be some setbacks in terms of price realization and some of it could be also on a sort of back-to-back basis. So how that mixture works out, we will really know. As I said, It is a work in progress and yes, we have a mountain to reach.

Miten Lathia: Sir that is useful and assuring as well. Could you also share something about how shipping has been tied up for this 5 million tonne volume at least in the medium-term, maybe longer-term you might have a different plan, but for the next year or two, how would shipping work for this volume?

Subir Purkayastha: No. The tying of the shipping activities are very much on. So we are tying up the shipping requirement through Shipping Corporation of India. We have made arrangements with them. As you know, we have also entered into some time slots. So to that extent we have got time swap contract. We do need the ships for those volumes. And as we move on and depending upon the need, what sort of contract that will finalize whether it is on a FOB basis set to sell outside India, or it is on DS basis that we sell outside India, we will actually determine how much of the ships would be required for our transportation of the volumes from this.

Miten Lathia: But for the time being it would be a spot charter and not sort of long duration charter.

Subir Purkayastha: Yes.

Miten Lathia: Thank you very much for the answers.

Moderator: Thank you. Next question is from the line of Pinaken Parekh from JP Morgan. Please go ahead.



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- Pinaken Parekh:** Thank you very much for this opportunity. A few questions from my side. Sir going forward we should assume normalized employee cost at 200 plus 159, or at around Rs. 360 Crores a quarter or will this be the new run rate, Sir?
- Subir Purkayastha:** It would be around Rs. 350 Crores a quarter.
- Pinaken Parekh:** It would be around Rs. 350 Crores a quarter. Sure, sir. And Sir my second question is that in the financial press release, there is other comprehensive income, which is a large loss of 854 Crores on, I think, a fair value of some equity security Sir, which would this investment to be?
- Subir Purkayastha:** This is mainly ONGC's valuation, the share prices which has come down vis-à-vis 31st March.
- Pinaken Parekh:** Understood, understood. And Sir, my third question is, has, because on the Cheniere investor call also there were questions on the contract. Has GAIL officially started any negotiations or any talks with Cheniere to reprice or renegotiate the contract officially?
- Subir Purkayastha:** Such kind of news can be found only in the newspaper. As of till day for the news in newspaper side, it would be difficult for me to respond to such questions. If it were so there would be some official announcements only, but I do not go by news.
- Pinaken Parekh:** Okay. Lastly, Sir, going back to the beginning of the call, in terms of the time swap, where you said there will be different price. Sir, just to make this clear, if this year GAIL gets a cargo from the time swap party, let us say at \$5 and next year the US contract costs you is at \$6, so GAIL will be buying this year's contract at \$5 and selling next year's contract at \$6. So there would not be any compensation to gain more next year, right sir?
- Subir Purkayastha:** Yes.
- Pinaken Parekh:** Understood very much Sir thank you.
- Moderator:** Thank you. The next question is from the line of Rohit Ahuja from Bank of Baroda Capital. Please go ahead.
- Rohit Ahuja:** Sir, just two questions. A, I mean you have answered a lot on the US contracts. But just one clarification. So can we assume all the volumes in 2018 that are coming have been placed and there is no risk in - at least for the calendar year 2018?
- Subir Purkayastha:** No. I never gave that impression at all. I said it is a work in progress. So we are trying to see that volume of about 5.2 million tonne can be placed. So we have met with a good amount of success, but there are still some efforts to be done. So we are on that.



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- Rohit Ahuja:** In the 2018 calendar year, would we be having around 3 million tonnes or 4 million tonnes, or it will be more than that? And then it ramps up from 2019?
- Subir Purkayastha:** Yes, because the contract for Cheniere starts somewhere in March, so you have a lesser volume. But for calendar year 2019, it will be 5.8.
- Rohit Ahuja:** Right, Sir 2018 would be like much lower, that next year?
- Subir Purkayastha:** Yes please?
- Rohit Ahuja:** So the 2018 volume would be much lower than 5 million tonne, can I assume, sir?
- Subir Purkayastha:** As I indicated it should be around 5.2 million tonns and in 2019 it would be full 5.8 million tonnes.
- Rohit Ahuja:** Right, right. Okay. Sir secondly, on the petrochemical side, so the cost that we have reported on an absolute terms is coming to around Rs. 1200 Crores. So I assume most of this would be kind of variable with production. So is this a kind of rate around Rs. 1,200 Crores to Rs. 1,400 Crores where the cost is sustained, considering this current quarter when you add 180,000 tonnes production?
- Subir Purkayastha:** No I have not understood your question. What is it? 1,200 Crores?
- Rohit Ahuja:** The costs that have come for petrochemical, if I take the gross margin and the revenue difference for the petrochemicals segment, it is coming to about Rs. 1,200 Crores for this quarter. This is the number which will be mostly sustainable or if you can throw some light on how of this is fixed and how much variable?
- Subir Purkayastha:** You can take a thumb rule number of about 70% is variable and the rest is by and large fixed.
- Rohit Ahuja:** Right. So the margins as we ramp up production should improve by about 30% incrementally? That is fair to assume, right?
- Subir Purkayastha:** Yes, the selling prices also remain stable.
- Rohit Ahuja:** Fine Sir. Thanks for this.
- Moderator:** Thank you. The next question is from the line of Sabri Hazarika from PhillipCapital. Please go ahead.
- Sabri Hazarika:** Sir, basically I wanted some clarity on the pipeline tariffs. Firstly, you have mentioned that you have gone to APTEL to actually protest against the tariff which has been fixed for those 6, 7 pipelines by PNGRB. Is it the right thing?



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- Subir Purkayastha:** Yes, yes.
- Sabri Hazarika:** Okay. Then again, you had one writ petition that you filed before the Delhi High Court also that transmission tariff should not be under regulations if it is used for self-purpose. So what is the status of that writ petition? It has been dismissed from what we have heard?
- Subir Purkayastha:** We have filed a review petition with the Delhi High Court.
- Sabri Hazarika:** On the same grounds that it should not be regulated?
- Subir Purkayastha:** Yes, yes.
- Sabri Hazarika:** Then, thirdly, you have got the larger lines like HBJ, DVPL. So what about the tariff hike on those pipelines? How are you pursuing it as of now?
- Subir Purkayastha:** No, it is not in our court at this point of time. It is more in the court of PNGRB. And as you know, because of the lack of sufficient number of members, so hardly any decision has been taken in the PNGRB.
- Sabri Hazarika:** Have you filed your own estimates or you are still working on them?
- Subir Purkayastha:** No, we have filed our estimate. Barring the HBJ pipeline system, we have filed all our estimates in the rest of the cases.
- Sabri Hazarika:** Okay. Okay, fine. Okay. And fourthly, on this postalized tariff system, you said that the Competition Commission has basically asked you to go for a postalized tariff system but basically it has been...?
- Subir Purkayastha:** No, not Competition Commission. Competition Commission has nothing to do with it. What I said is that the cabinet.
- Sabri Hazarika:** Sorry, cabinet.
- Subir Purkayastha:** Yes. So, when this grant was approved by the cabinet, they have stated that there should be a unified tariff for all the pipeline system - cross-country pipeline system belonging to GAIL.
- Sabri Hazarika:** Okay. So, would it be financially beneficial to you or it would be same as levelized tariff?
- Subir Purkayastha:** When you say it is levelized it means what?
- Sabri Hazarika:** I think the zonal apportionment is the levelized.



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- Subir Purkayastha:** No, no in zonal only. His question is that whether it is the same as levelized tariff and was that ineffective? So there is a difference between the two, you have to understand. Zonal concept is the PNGRB concept that for a particular pipeline for every zone you have a differentiated tariff. The differential could be Rs. 1 or it could be more than Rs. 1. Or it could be Rs. 20 or Rs. 30, whatever it is. The other is concept is that you have unified system you have one postalized tariff, there is no Zonal Tariff for different pipeline. And there is no concept. There could be a possibility that for certain level of distance you could still have a zonal concept. But overall the tariff would be by and large single tariff just like the GST as they say, one tax, one tariff for whatever, something like that.
- Sabri Hazarika:** Okay. But generally since these pipelines are old pipelines and they are basically at the 12% post tax return on capital. So I was just wondering that if it would - actually it would lead to increasing tariff or compared to what it is right now?
- Manoj Jain:** Overall it will be a 12% post tax return.
- Subir Purkayastha:** In terms, obviously in certain portions of the pipeline, it will be higher and in certain portions of pipe it will be lower than what it is now.
- Sabri Hazarika:** Okay, fair enough. And secondly Sir, this Rs. 160 Crores of this employee gratuity reversal, you said around Rs. 100 Crores pertains to the transmission segment. Can you give us the breakup of the remaining Rs. 50 Crores among the various segments?
- Subir Purkayastha:** Okay. Transmission is Rs. 110 Crores as I said. Then petrochemical it is... okay. Let me make a correction here, when I say Rs. 110 Crores for transmission, it was a double impact you see. Because I had total expenditure in Q4 which was reversed in Q1. So the impact is just like accounting, if you double entry instead of crediting, and when you correct it you have to put a double number. So 110 actually is what 55 would have gone for the transmission segment in the previous quarter. But since I have reversed it, the impact is 110. So the impact of 159 is approximately about Rs. 300 odd Crores. So out of that Rs. 300 odd Crores, Rs. 110 Crores belongs to transmission, Rs. 70 Crores belongs to petrochemical, liquid hydrocarbon it is about Rs.20 Crores. Then what else? LPG transmission, it is about Rs. 25 Crores. And unallocated is about Rs. 45 Crores.
- Sabri Hazarika:** Okay, okay, so 110 is transmission, 70 is petrochemical, 20 is LPG production, and 25 is LPG transmission? And nothing on natural gas division, right?
- Subir Purkayastha:** And 45 is unallocated.
- Sabri Hazarika:** And 45 will be unallocated...Okay Sir. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Maggie Sun from Hermes Investment. Please go ahead.



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- Maggie Sun:** My question relates to the petrochemical division. Can you share with us the insights of the petrochemical prices for this quarter? And what is your opinion for the outlook of the petrochemical prices in India?
- Subir Purkayastha:** I could not get your question properly, what exactly are you seeking Mam?
- Maggie Sun:** The price of the petrochemicals. How have the prices been compared to the same period of last quarter? And what is your opinion for the prices for this year compared to the last year?
- Subir Purkayastha:** Yes. As compared to the last quarter, this quarter we have seen a 5% growth in the price realization. But at the same time, we feel that going forward these price levels could come under some bit of depression. Because of the increased capacity production available within the country, so just increasing the 5% that we have seen in Q1 vis-à-vis Q4 may not be repeated in the subsequent quarters.
- Maggie Sun:** Okay. Thank you.
- Moderator:** Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Avadhoot Sabnis from CIMB. Please go ahead.
- Avadhoot Sabnis:** Sir the release of the 40% grant for the Jagadishpur Haldia pipeline, how much of that money has already come into GAIL?
- Subir Purkayastha:** Yes, we have received Rs. 450 Crores. That was received in the last financial year. Grant would be released on a quarter-over-quarter basis. So we have made our application to the government. So we should be receiving the money from the government in the next couple of weeks.
- Avadhoot Sabnis:** So Rs. 450 Crores in FY2017, right?
- Subir Purkayastha:** Yes.
- Avadhoot Sabnis:** For the US contracts, in terms of - you just said you already have had some success in terms of disposal of the volumes. In terms of whatever has already been disposed, could you give us some guidance on how much is linked completely to Henry Hub in terms of more back-to-back and how much is not linked to Henry Hub in some other sort of pricing formula?
- Subir Purkayastha:** Whatever has been sourced has been predominantly linked to Henry Hub.
- Avadhoot Sabnis:** No, I understood. The disposal I am talking about.



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- Subir Purkayastha:** Yes?
- Avadhoot Sabnis:** The disposal, in terms of whatever
- Subir Purkayastha:** I am also talking about the disposal. Whatever I have been able to market outside India is based on link to Henry Hub only.
- Avadhoot Sabnis:** Okay. And whatever you have sold in India?
- Subir Purkayastha:** Again in India some portion - some amount we have been able to link it to Henry Hub and the balance on crude linked basis.
- Avadhoot Sabnis:** Okay. And sir whatever volumes have been sold in India, I mean are they - do the customers have - are they completely formed or do the customers have some options saying that if they get more domestic gas allocations then they can go back on the contract?
- Subir Purkayastha:** Just let me checkup. In some contracts, there is some provision for limited conversion, but otherwise, it is not so.
- Avadhoot Sabnis:** Thank you so much.
- Moderator:** Thank you very much. We will take that as a last question. I would now like to hand the conference back to Mr. Swarnendu Bhushan from Motilal Oswal Securities.
- Swarnendu Bhushan:** Thanks, Raymond. We would like to thank the management for their precious time and the participants as well. Thanks, once again, and have a nice day.
- Subir Purkayastha:** Thank you so much.
- Moderator:** Thank you very much. On behalf of Motilal Oswal Securities that concludes this conference. Thank you for joining us ladies and gentlemen you may now disconnect your lines.