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“GAIL India Limited Q1 FY17 Earnings Conference Call”

September 08, 2016



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**MANAGEMENT: MR. SUBIR PURKAYASTHA - DIRECTOR (FINANCE),
ALONG WITH OTHER SENIOR OFFICIALS**

MODERATOR: MR. MEHUL THANAWALA – JM FINANCIAL



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the GAIL India Limited Q1 FY17 Earnings Conference Call hosted by JM Financial Institutional 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 this 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. Mehul Thanawala from JM Financial. Thank you and over to you, sir.

Mehul Thanawala: Thank you. Good morning to all of you and on behalf of JM Financial I would like to thank the Management of GAIL for sparing their time and would also like to take this opportunity to welcome all the participants. Today we have with us from GAIL India Management Team lead by Mr. Subir Purkayastha – Director (Finance), along with other Senior Officials. I would now like to hand over the call to Mr. Subir Purkayastha for his opening remarks, and after that the floor will be open for Q&A. Thank you and over to you, sir.

Subir Purkayastha: Thank you, Mehul. And welcome to dear investors who are on the call. Good morning to all of you. The results had been out yesterday and I am sure that all of you must have gone through it and we are here today to respond to any of your questions or query or clarifications that you may like to ask.

But to just reiterate the Financial Results for the quarter ending June 2016, as we must have noticed on the top-line the turnover has been pretty lower, it is 15% down on a year-on-year comparison and about 8% down on a quarter-on-quarter comparison. And this is mainly on account of the call in cash prices and weak commodity prices that we saw in this particular quarter as compared to the comparing quarters in the last financial year. However, on the bottom-line, so far as the PAT is concerned there has been an increase of about 244% if you compare on a year-on-year basis and about 70% if you compare on quarter-on-quarter basis.

Of course, as you all are maybe aware of, there has been a one kind of gain in this particular quarter and that is the partial disinvestment that took place with respect to the equity shares held by GAIL in Mahanagar Gas. So the net gain out of that sales proceeds was about Rs. 489 crores and that is reflected in the bottom-line of the Company, if you consider or try to exclude this element from the profitability or the profit for the quarter, there is still an upside so far as the profit growth is concerned, the profit in that case would be up by 118% on year-on-year basis and about 8% on quarter-on-quarter basis. So, so far as the financial numbers are concerned, so there is an uptake so far as the financial performance is concerned. But however, on the physical side as such the liquid hydrocarbon segment, the other segments had seen positive movement so far as petrochemical performance is concerned. So far as Natural Gas Transmission, LPG Transmission, Natural Gas sales, Petrochemical sales, all have been up as compared to the quarters of the relevant previous years. Prices have also been up, except in the



case of liquid hydrocarbon where particularly the LPG prices have been subdued, in fact it has been lower than the comparable prices of the last financial year. This is how where we stand.

Giving you an indication going forward, the petrochemical plant is within a stage of gradual stabilization and we hope that the production levels in this financial year would be higher as compared to what we had witnessed in the last financial year. So there is a positive bearing on this account.

And with these opening remarks I would now hand over back again to Mehul to carry on this conference. Thank you very much.

Mehul Thanawala: Thank you, sir. Thank you for your opening remarks. And we will now open the question-and-answer session.

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

Probal Sen: I had three questions. One was you mentioned the stabilization of the petrochemical plant on a gradual basis, is it possible therefore to get any guidance on utilization for the full year FY17?

Subir Purkayastha: Our total capacity right now after the commissioning of Phase-II is close to 800,000 tons per annum, so we expect that we should reach north of 600,000 tons at the end of this year.

Probal Sen: That would be the exit rate we are talking about sir, or that is the production that we expect to...?

Subir Purkayastha: No, total production for the full year. How does it ramp up, I mean, it is too early at this stage because the element of stabilization still continues, grade stabilization, grade acceptability are issues which are important, they are being handled? So, hopefully we would be able to produce somewhere above 600,000 tons by the end of the year.

Probal Sen: Sir, the other small question was with regards to the petrochemical volume sales for this quarter, they have actually declined on a sequential basis, obviously on a year-on-year growth it is very-very strong. So, it is more of a seasonal impact, any one-offs in this or how is it?

Subir Purkayastha: Yes, it is more of a seasonal impact, there are two important factors to this. Normally we see a subdued kind of a sales during the first quarter of the financial year and this is basically more due to the hangover of the pile up which is being done by the customers at their end to meet certain targets. And secondly, as I said that the production from quarter two, the grade need a bit of stabilization so we are testing the market for its acceptability so far as the quality and performance is concerned, so that is the process. And therefore in this particular quarter there it has been accounted if you compare with Q4.



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- Probal Sen:** Sir secondly, with regard to the status of tariff orders, can we just get the status of what are the tariff orders pending with regards to pipeline and any timelines we can put on that in terms of when we can expect those?
- Subir Purkayastha:** I will call my colleague, Mr. Rakesh Jain who is here who will be able to explain this point.
- Rakesh Jain:** Good morning. Actually we have received six tariff orders till now and remaining tariff orders we have filed all the tariffs except for HVJ and we expect that PNGRB will be processing these order soon and hope that this financial year we should receive that.
- Probal Sen:** Sir, if I can get some flavor in terms of which are the major pipelines that are pending for the orders?
- Rakesh Jain:** The major pipeline is DUPL/DPPL, Mumbai Regional Network, Gujarat Regional Network, Agartala Regional Network and the major one HVJ.
- Probal Sen:** Sir, HVJ when are we looking to file our application?
- Rakesh Jain:** We are yet to submit those because there are certain issues with respect to those submissions i.e. their capacity determination by PNGRB, they are yet to determine the capacity of the combined network. So, because it is actually pending at their end we have flagged that issue because unless they give the capacity to us so the filing will follow after the capacity determination by PNGRB.
- Probal Sen:** Sir, last question from my end. With regards to the PSDF volumes which are flowing to the power sector, we have seen that in the latest bid rounds about 10 MMSCMD has been bid for. Can we get a sense of how much is flowing in that scheme currently?
- Subir Purkayastha:** It is around 7 million cubic meters per day.
- Moderator:** Thank you. We have the next question from the line of Raj Gandhi of Sundaram Mutual Fund. Please go ahead.
- Raj Gandhi:** Sir, in this quarter your petrochemical realizations are up significantly QonQ whereas regional realizations are largely flat for petrochemical, you have seen about \$130 increase in realization. So, any particular can you give some sense on this?
- Subir Purkayastha:** In this quarter?
- Raj Gandhi:** Yes, your realization in petrochemical is up by \$230 QonQ, so any particular...
- Subir Purkayastha:** No, there is no particular reason as such, I mean, this is the market price if we could achieve.



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- Raj Gandhi:** So, as in any particular change in grades or anything?
- Subir Purkayastha:** Any change in?
- Raj Gandhi:** Anything different during the quarter why your realization could possibly would have been much higher than the benchmark realization?
- Subir Purkayastha:** I think you should give credit to our marketing team that they have been able to fetch a higher price.
- Raj Gandhi:** Sure sir, but if you could just throw some light so it would just give us some confidence on and sustainability of the same.
- Subir Purkayastha:** Hopefully we will be able to sustain but as you know it is too early in the day so far as the financial year is concerned, our efforts would certainly be there to have better realization.
- Raj Gandhi:** And sir, just given that today in petrochemical most of the gas being used is the Qatar long-term gas which is being used?
- Subir Purkayastha:** It is a combination of both long-term, short-term.
- Raj Gandhi:** And sir, just all this fixed network tariffs which have come through, so have you given them the effect during the quarter or how does it work like?
- Subir Purkayastha:** Yes, the fixed tariffs have come through by the end of March and in this very quarter, another reference. And those orders are effective from 1st of April, 2016, so they have been given effect to in this particular quarter in the financial results.
- Raj Gandhi:** So for the full quarter they are there?
- Subir Purkayastha:** Yes.
- Raj Gandhi:** And sir, just in your transmission segment itself, the OPEX is quite low versus your trend, so any particular reason for the same? Are you seeing in transmission segment itself? Because of this System use Gas (SUG) being lower now with lower gas price.
- Subir Purkayastha:** Actually the main reason is the fuel consumption which happens in the compressor station, so in this particular quarter the domestic gas prices have come down as compared to the last quarter and therefore the impact of that has been reflected in the lower costs of operations. And of course there are also some reduction in repair and maintenance cost and other costs but the biggest chunk of the fall in the operating cost is because of the lower fuel price which are being consumed in the couple of stations.



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- Raj Gandhi:** So, here sir we use basically, because it is significant that Rs. 100 per TSCM has come down, so would it be possible to just give what is the internal fuel consumption as a percentage of overall transmission, if you could just give us a point or whatever, some percentage if you could just give there?
- Subir Purkayastha:** We can discuss in person when we meet.
- Raj Gandhi:** Sure. And sir just last question from my end, your LPG production volume, LPG plus liquid hydrocarbon has seen quite a bit of drop, it has seen a consecutive quarter of drop there, so any particular reasons?
- Subir Purkayastha:** In production, on the liquid hydrocarbon side?
- Raj Gandhi:** Yes sir.
- Subir Purkayastha:** No, if you look on quarter-on-quarter this is up by about 4%.
- Raj Gandhi:** I am looking at more on a YoY basis, this is the fifth quarter of reduction.
- Subir Purkayastha:** YoY basis it is by and large the same, it is nearly flat.
- Raj Gandhi:** See, if I were to look liquid hydrocarbon plus that other liquid plus your LPG, it is down 12% YoY from what we can see, it is at 244,000, so it is down 12%, in the last year itself you were down 15%...
- Subir Purkayastha:** As per our information it is just down by 1%, if you include LPG also you mean to say?
- Raj Gandhi:** Yes.
- Subir Purkayastha:** You are right, I was just looking at the other liquid hydrocarbons excluding LPG, yes it is down by about 10% - 11%. And that is mainly on account of the fact that the Gandhar and Vaghodia plant there has been lower production and because mainly for the Vaghodia we have shifted our processing, most of the gas from Vaghodia to Vijaipur for better operational and efficiency reason. And Gandhar have been impacted by the low volume of gas available from ONGC as well as the downstream consumers which sometimes are not available which then disallows us to process the entire volume of gas which comes in. So we are trying to find a solution to that so that our production facilities are not impacted by such kind of vagaries. And hopefully in the second part of this financial year we would be able to overcome this situation.
- Raj Gandhi:** So for Gandhar any other alternate source of gas possible, given that even LNG prices are low now?



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- Subir Purkayastha:** No, at present there are no alternative sources, if you look at our domestic gas until and unless we make arrangement to connect it with our aggregate system. And secondly, also I would like to add to the reason which I just mentioned that there was some shutdown period in Gandhar also, some scheduled maintenance was there which also resulted in lower production at Gandhar.
- Raj Gandhi:** So how far is it from HVJ, if you were to able to connect this Gandhar plant?
- Subir Purkayastha:** It is close to 100 kilometers.
- Raj Gandhi:** And the other plant which you mentioned you have moved it to Vijaipur, so that is yet to complete...?
- Subir Purkayastha:** No, we have not moved the plant to Vijaipur, we are having an option to process either the gas at Vaghodia or at Vijaipur, what we have observed is that after the commissioning of our C2, C3 plant at Vijaipur which is a much more efficient processing plant, it is much more economical and prudent to process that particular volume which is flowing in the system in Vijaipur as against in Vaghodia.
- Raj Gandhi:** Okay, so there is no loss of volume, it has just moved from one place to another?
- Subir Purkayastha:** No, there is no loss of volume.
- Raj Gandhi:** So, it is mainly this Gandhar plant which is...
- Subir Purkayastha:** Gandhar, yes.
- Moderator:** Thank you. We have the next question from the line of Bhavin Gandhi of B&K Securities. Please go ahead.
- Bhavin Gandhi:** Sir, just wanted to check if you can highlight what is the status on BCPL and OPAL, when do we expect commissioning of OPAL?
- Management:** I do not have the mandate to speak on behalf of OPAL, although we are one of the co-promoters but it has been plagued with so much of delays that it is wiser not to comment at this stage.
- Bhavin Gandhi:** And sir, what about the BCPL?
- Management:** BCPL, as you know it has been commissioned in January 2016, it is currently operating at around 60% capacity.



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- Bhavin Gandhi:** Sir, would it be possible to highlight any financials of that company?
- Subir Purkayastha:** The financial of BCPL has not come to us as yet as you know it is not a listed company. So, they are not under this obligation to prepare and get their audited accounts on a quarterly basis. So in any case, these numbers have not come to us as yet, we will be able to tell you something on those numbers as and when we get it, at present we do not have those numbers.
- Bhavin Gandhi:** And sir, in your note to accounts the point number three you have mentioned about the provisional tariff orders which are being contested, so which are these pipelines that we are talking about in that note?
- Subir Purkayastha:** Just let me request Mr. Rakesh Jain to answer this question.
- Rakesh Jain:** So far, PNGRB had issued with six orders which are final orders, initially they issued the provisional order and now they have finalized the orders. We have contested all the Final orders which have been issued by PNGRB and we have already filed with Appellate Tribunal.
- Bhavin Gandhi:** So even the final orders have been contested by GAIL again?
- Rakesh Jain:** Yes, our major issue with respect to volumes and capital employed and other issues that can get accounted get remained, they are yet to be taken care. So, therefore we have again went to this Appellate Tribunal.
- Bhavin Gandhi:** So, sir despite our appeal we have gone ahead and implemented those orders, is it?
- Rakesh Jain:** Yes, we have implemented but we are implementing provisionally, though they are final orders but in our invoices we are saying it is provisionally we are implementing, subject to the outcome of the court.
- Bhavin Gandhi:** And just one final question, on the LPG realization front, internationally if I look at the trend there seems to be a drop in the realization but in our calculation it does not seem that there has been any drop in the overall realization in the LPG and liquid hydrocarbon segment, so any particular reason for that?
- Subir Purkayastha:** No, if you look at our results on a year-on-year basis it is down by about 22% and on a quarter-on-quarter basis it is down by 10%.
- Bhavin Gandhi:** This is both LPG and liquid hydrocarbon, both put together?
- Subir Purkayastha:** It is the same.



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- Moderator:** Thank you. We have the next question from the line of Amit Shah of BNP Paribas. Please go ahead.
- Amit Shah:** Just a couple of questions. The first one, could you tell us what was the implied gas price for the petrochemical business for this quarter?
- Subir Purkayastha:** Can you just explain what you mean by implied gas price?
- Amit Shah:** As in what was the gas fixed stock cost for the petrochemical concerning now this was like the first quarter when you really got the benefit of the revised pricing with RasGas.
- Subir Purkayastha:** I can give you only a directional indication, I cannot share the precise numbers. So that has been lower as compared to the last financial year whether you look on a year-on-year basis or quarter-on-quarter basis. One very important reason is that the RLNG price which we are consuming in the petrochemical plant was renegotiated as you know in December 2015 and from January 2016 we have a different price formula. As a result of which the gas price per LNG which is being consumed in petrochemical plant is certainly lower than what it was in the last financial year. So that is one big reason and then we have been also able to supplement that long-term gap through some spot purchases for our petrochemical plant which are also still lower than the long-term prices of RasGas. So these are the two important consideration which has lead to fall in the cost of production so far as the petrochemical plant is concerned.
- Amit Shah:** So, going forward you still expect that the spot purchases also will continue in the petrochemical business, right?
- Subir Purkayastha:** Yes, because as the production increases there would be more gas requirement and certainly there would be opportunities to use foreign gas and optimize the gas consumption for us. So this is the continuous exercise which we keep on making how to optimize, how to reduce the cost of gas for the plant.
- Amit Shah:** And just two more very short questions, one is, you have highlighted 600,000 tons as the average for FY17, right, for the petrochemical total capacity?
- Subir Purkayastha:** Yes.
- Amit Shah:** And can you just tell us the CAPEX for FY17 and FY18?
- Subir Purkayastha:** CAPEX program for 2016 - 2017 or 2017 - 2018?
- Amit Shah:** 2016 - 2017 and 2017 - 2018.



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Subir Purkayastha: 2016 - 2017 it should be below Rs. 2,000 crores and for 2017 - 2018 of course it will depend upon our decision to go ahead with the Jagdishpur - Haldia pipeline, how does it plan out, this is the important consideration. Otherwise it would be in the range of Rs. 1,500 crores to Rs. 2,000 crores as usual.

Moderator: Thank you. We have the next question from the line of Pinaki Parekh of JP Morgan. Please go ahead.

Pinaki Parekh: Sir, first question on the petrochemical business, if the spot gas prices do not move from here how much of a cost reduction can we see as the plant ramps up further from here or have costs broadly bottomed out?

Subir Purkayastha: Cost has bottomed out, it will all depend upon how the spot prices behave as we move forward, so that is an important consideration so far as the calculation of cost of production is concerned. If we announce the way it is, it would be at current levels that we are seeing. So, of course with increased production the weighted average cost may come down but I do not foresee a significant fall in the cost of production going forward. Of course, there could be minor fall.

Management: The cost of production as such will go down as the production goes up, but based on the variable cost if the cost of base comes down, it will go down otherwise it will remain at the levels where it is.

Pinakin Parekh: And my second question is regarding come of the long-term contracts with the US consumers, the US sellers. Sir, has GAIL started the process of trying to renegotiate the terms of contracts, if any? Or should we wait for this news flow more in next year?

Subir Purkayastha: I think you have to look at the newspapers, we cannot give you anything on this.

Moderator: Thank you. We have the next question from the line of Aishwarya Agarwal of Reliance Mutual Funds. Please go ahead.

Aishwarya Agarwal: Just want to know this new petrochemical plant is running at what kind of utilizations right now and are we able to sell the product which was the issue in the previous quarter because of the inventory?

Subir Purkayastha: Yes, as I explained in the beginning of my opening remarks, stabilization of the grades to the A1 category does take time but we have been successful in producing A grade quality in at least three to four of our grade. So this is a continuous process which will keep on happening particularly in this financial year. And of course, the capacity utilization is likely to go up from Q1 to Q2 and hereon onwards as I mentioned because our expectation is that we should be able



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to produce top of something 600,000 tons in the year and that can possibly happen if the capacity of Phase-II plant also keeps on increasing in the months to come.

Aishwarya Agarwal: Sir, my specific question was, are we running the new plant at 100% utilization now?

Subir Purkayastha: If we had been running at 100% I would have said that we will achieve 800,000 tons of total production. So obviously, Phase-I of the plant will run close to 100% but certainly Phase-II will run below 100%, because as I said that it needs some stabilization time, quality of the products are also to be accepted to the tune. And therefore it will not be 100% in this financial year for the quarter two. But our approach is that we would like to ramp up as fast as possible, subject to all the consideration that I just mentioned.

Aishwarya Agarwal: You are right sir, so definitely we have lost the time, one quarter has gone, the second quarter also two months has already gone. So, right now the Pata II is running at some 70% - 80% utilization also or we are yet to see that kind of utilization?

Subir Purkayastha: It is currently running close to 60%, but every day, every month there is an improvement.

Aishwarya Agarwal: And second sir, you just said that the customers have the petrochemical inventory which lead to lower sales in the quarter, so now that inventory thing has eased up and we are able to sell whatever we have produced or still we are facing the issue in marketing the petrochemical product?

Subir Purkayastha: You see, because the inventory level are by and large around the same level, only thing is that even at a higher level of production which we are witnessing we are able to dispose it off and therefore there is not an accumulation of inventory as such. But as we move forward we would also like to bring down the inventory from the current levels.

Aishwarya Agarwal: And one last thing, sir this gas trading business is doing pretty well, so just one thing, how we should see these EBITDA numbers going forward, is it a sustainable run rate or is it a one-off?

Subir Purkayastha: No, one has to go by the past historical performances. Of course you are right that one cannot give a certain number on this because it all depends upon the market situation, how much of the volume is available on a spot basis for sale purposes. And the opportunity to maintain these kind of levels will be tight but as usual, as always it will always be our effort and there is also a challenge on this because there could be many other players also in the market. And therefore we still hope to make reasonable profit from this particular segment, but I would be vary of giving you or hazarding a number on this particular asset.

Moderator: Thank you. We have the next question from the line of Hemang Khanna of ICICI Securities. Please go ahead.



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- Vidyadhar Ginde:** Hi, this is Vidyadhar from ICICI Securities. So, I had questions on as far as your gas transmission business is concerned, if you could give us the breakup of domestic gas and RLNG breakup and also if you could give us some sector breakup of the transmission volumes in Q1? And the other related question was that what is the outlook on growth in the rest of the year and your marketing volumes growth both YoY and QoQ is stronger than marketing, is this trend likely to continue?
- Subir Purkayastha:** The first question was, out of the total volume how much was from domestic sources and how much was from international sources, that is the question?
- Vidyadhar Ginde:** Correct.
- Subir Purkayastha:** So, in terms of percentage about 45% is from the imported gas and the balance 55% is from domestic sources. And then what was your next question?
- Vidyadhar Ginde:** If you break it up into sector wise fertilizer, like what you had given in your annual presentation, power, fertilizer, CGD, refining, others, whatever.
- Subir Purkayastha:** Of the total volume?
- Vidyadhar Ginde:** Yes of total volumes, of the transmission volumes, 96.4 breakup.
- Subir Purkayastha:** Actually what happens we may not be having ready answers so far as the sectorial breakup of transmission volume is concerned, because as you will appreciate we also carry (+20) million quantity.
- Vidyadhar Ginde:** Even if you can give trading is fine, whatever is available.
- Subir Purkayastha:** What I am going to give you is split breakup on the trading sector.
- Vidyadhar Ginde:** Fair enough, no problem.
- Subir Purkayastha:** Vidyadhar, very quick calculation that has been done by my colleagues here it tells me that about 32% of the total marketing volume has gone to the fertilizer sector and about 30% has gone to the power sector. So that makes it 62%, the balance has gone for the CGD sector and the industry.
- Vidyadhar Ginde:** Do we have breakup of CGD by any chance?
- Subir Purkayastha:** CGD would be about 17%.
- Vidyadhar Ginde:** And what about petrochemical?



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- Subir Purkayastha:** Petrochemical separately it is not there.
- Vidyadhar Ginde:** Petrochemical would be your volumes in any case, it should include your volumes also.
- Subir Purkayastha:** I do not have those.
- Vidyadhar Ginde:** No problem. So, a couple of other questions. One was on Dhabol, so when this breakwater issue likely to get sorted out and how many years and until then what kind of LNG import volumes can we expect in Dhabol?
- Subir Purkayastha:** As you must have seen in the newspaper reports, there is a proposal of demerger of the RGPPL company, so once the demerger happens it will be split into two companies one is the Power Block and the second is the LNG Block. Now, the challenge for the LNG Block is the absence of the breakwater and we have, in fact RGPPL has come out with a tender for the construction of the breakwater which is already in the market, the expected date of submission of bid is around 27th of this month until unless it gets extended on the request of some parties. We are hopeful that at least we will get offers from response from three to four bidders. So, depending upon that actually one of the important things for the construction of the breakwater is the availability of the fair weather for construction, because in monsoon period as you may be aware it is not available. So by January if we are able to award the work so we will have about three, four months which would typically be consumed for the purpose of mobilization by the contractor because he has to mobilize his ships and the materials, i.e. the rocks or the apricots which are required there. And therefore the actual construction of site is most likely to start somewhere in the next financial year somewhere around September, October 2017. So that purpose will continue and from October 2016 if you were to work out it may take at least three and a half years, we are targeting for three years but let us see if we can do it within that time it would be a good achievement.
- Vidyadhar Ginde:** And until then what kind of volume should we expect in Dhabol?
- Subir Purkayastha:** Till that time the Dhabol is available only for seven months and during these seven months the capacity of Dhabol is close to about 30 cargos in a year.
- Vidyadhar Ginde:** Another question is on this capacity which we have booked on Dahej, when does the use or pay kicks in? Petronet LNG indicated that for one of their power consumers whose book capacity per ramp up schedule is two years and for other contracts the schedule is shorter, so could you give us some idea on what is the kind of ramp up schedule after which you have to start paying in this use or pay kicks in?
- Subir Purkayastha:** I do not have the contract right now in front of me, but Petronet is right in the sense that the use or pay contract comes into life the moment the facilities are commissioned by Petronet LNG, which we understand is likely to happen towards the end of the third quarter. And that is



where when the contractual obligation will start. So far as the ramp up is concerned, I do not have the exact numbers with me, but there are obligations based on certain 80% kind of use or pay obligation, so we have to see that.

Vidyadhar Ginde: So, can we assume that if at all it kicks in it kicks in sometime in FY18 and not certainly in second half FY17, at least that levy is there?

Subir Purkayastha: What you mean?

Vidyadhar Ginde: What I am saying is that there is a lot of room for you to ramp up, at least in FY17 the use or pay is unlikely to kick in and if at all it kicks in it is more likely to kick in FY18, can we assume that?

Subir Purkayastha: No, even in 2017 - 2018 why do you assume that it will kick in, I mean...

Vidyadhar Ginde: No, that kicks in if you use it that is not an issue, but I am talking in terms of the provision and not in terms of the actual utilization. In terms of the contract when does it really become applicable?

Subir Purkayastha: No, as I said it becomes applicable the moment their commissioning is completed.

Vidyadhar Ginde: Couple of small other questions, one is, on this Kochi - Mangalore pipeline what is the status?

Subir Purkayastha: Kochi - Mangalore, on Kochi - Mangalore you must have seen today's newspaper, we have awarded one section, one leg of that particular section of Kochi to Mangalore pipeline system. We had actually intended to award two but for certain reasons we could award only one and we are therefore now planning to go for future rounds of bidding process for the balance sections.

Vidyadhar Ginde: So, any timeline possible or worse cases, as in how long do you think, two - three years, how far are we from this pipeline getting done?

Subir Purkayastha: Actually the biggest challenge is in one or two particular section and if we are able to see a better ground reality it could be done in two years' time. But then it all depends how cooperation that we get on the ground level, it is not at the top level and the bureaucratic level, it is the actual ground level cooperation that we are able to achieve from the people through which the ROU will pass through. And in a particular section if we find conducive conditions it should not take more than two years.

Vidyadhar Ginde: Last question, what would be the rough transportation cost for LNG from Sabine Pass and Cove Point and what is the savings you would make because you are talking of, I think you have floated a tender for some 2 million tons of swap, so what is the status on that and if



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actually if you were to extend your import LNG from these two locations, what is the likely transportation cost?

Subir Purkayastha: I mean, my guess would be as good as your guess, let me know your guess.

Vidyadhar Ginde: On the Sabine Pass website the number has, in a different presentation they have given a different number.

Subir Purkayastha: No, but what is your guess what is the number that...

Vidyadhar Ginde: I think the latest one we have seen is \$1.5 or something.

Subir Purkayastha: So I think it is the same, it is around \$1.5 to \$2 somewhere in between that.

Vidyadhar Ginde: And so if the swap could cut it down by how much?

Subir Purkayastha: You see, the swap tender is still not out in the market in the sense that we have short listed the bids but the process of finding out the counter party for swap is still to happen. So it may take some time.

Vidyadhar Ginde: But what is your guess, it will come down by half or?

Subir Purkayastha: No, it does not come down by half because each party would like to achieve its own objective for its own benefit. So everybody would like to retain some portion of the benefit. So it could be lesser than that.

Vidyadhar Ginde: But just to confirm on the entire 5.8 volumes, two I think you have resold, 2 million tons you have resold?

Subir Purkayastha: Yes.

Vidyadhar Ginde: And two you are trying to do a swap?

Subir Purkayastha: Yes.

Moderator: Thank you. We have the next question from the line of Rohit Ahuja of Religare Capital. Please go ahead.

Rohit Ahuja: Sir, on petrochemicals you see the cost which I think we have reported around Rs. 930 crores operating cost for this quarter, if you could divide this into two how much would be variable and how much would be fixed?



Subir Purkayastha: Rohit, this is a very difficult question as you would yourself realize, because some information which normally are not put in public domain, of course we have the cost reports prepared which you can visit sometime at the end of the year or by next year, so I think I will leave that question that way.

Rohit Ahuja: No, so just in terms of what we were looking at is, if as you said production will ramp up down the year and you said you will average 600,000 production for this year FY17 and for first quarter we did 127, that means the rate per quarter has to go up significantly in the next two to three. Then do we see this cost, are we excluding the additional gas consumption that would be taking, the other cost more or less would remain on at the similar level if you take out the additional costs of gas?

Subir Purkayastha: Certainly there would be a trend towards reduction in cost of production for two reasons, as I mentioned. As we increase the volume of spot cargo into the increased production, obviously we expect that the weighted average cost should come down until and unless the spot prices itself goes up, that is number one. Number two, as I said that 2016 - 2017 is much more stabilized operation as compared to what we saw in 2015 - 2016, then as we move forward the stabilization of the operation and the grades would certainly have been reducing the overall cost of various utilities, gas and things like that. And therefore there is an expectation that the cost of production would come down when we closely account for 2016 - 2017. So this is I can give you a general guidance over what is expected. How it plans out actually, we will know once the quarters are over.

Rohit Ahuja: So, for FY18 should we assume close to 800,000 production?

Subir Purkayastha: Yes.

Rohit Ahuja: So you are saying exit rate in March quarter would be 100%, that means you would be doing about close to 200,000?

Subir Purkayastha: Yes, this is the internal plan, let us see, hope for the best.

Rohit Ahuja: Sir secondly on gas marketing business, gas trading, we have seen volumes QonQ trending much higher like about 4 MMSCMD versus 2 MMSCMD increase in transmission. Now if I see polling the reverse auction for power sector pooling attracted a higher quantum, like 9.9 MMSCMD for the six months from October, would we see gas trading volumes improving further on account of that and as you also in the last question you mentioned about the Petronet LNG contract coming in for the incremental capacity, so this trading volume expands in sync with that?

Subir Purkayastha: See, in the trading our efforts always there to increase the reach of our customer and therefore this e-bidding certainly from the levels of what you saw in the first half of this year would be



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better in the second half of this year, as we have rightly pointed out the volume which has been contracted for the e-bidding higher as compared to the first half. So, certainly that would be the flip to the trading volumes. But besides that we are also making our efforts to reach to many other customers, other customers as well to find new markets as well so that the volume goes up. Although, the process is sometimes very slow but we expect that there should be some increase in the volume numbers.

Rohit Ahuja: So, in terms of margins really would we able to sustain per unit margins more or less at current levels what we did in this quarter and last quarter?

Subir Purkayastha: I will just request my colleague Mr. Gajendra Singh to respond on that.

Gajendra Singh: Yes, the trading volume, particularly what we are maintaining at this stage, we assume that it will remain the same or maybe increase on that volume.

Rohit Ahuja: No, I am talking about the margins.

Gajendra Singh: Margins on what?

Rohit Ahuja: Per unit margins, so you made about Rs. 448 crores EBITDA.

Subir Purkayastha: Rohit, this margins issue is very tricky. As I said that it all depends upon the market conditions, what is the market willing to accept. So sometimes opportunities are there, you make good margins sometimes that opportunity may not be that bright so you make less margins. So there are two elements, marketing margin and trading game, so marketing margin is by and large some numbers, those are assured numbers, but so far as the trading gains are concerned it is a situation how the market is willing to accept what kind of prices and where are we placed in terms of your availability of RLNG also.

Rohit Ahuja: So considering incremental volumes are going to be all LNG and I believe LNG you tend to make better margins than on definitely the domestic gas, so could we see...

Subir Purkayastha: This is a general observation but there are many other combinations which go into when we try to increase our LNG portfolio.

Moderator: Thank you. We have the next question from the line of Rakesh Sethia of Morgan Stanley. Please go ahead.

Rakesh Sethia: Two questions. First one on the Kochi front, could you give us some more color on the ROU status, specially on the Mangalore section, has it progressed compared to let's say what we have seen in last couple of quarters?



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- Subir Purkayastha:** Rakesh, let me relay this question to my colleague Mr. Iyer to respond on this, because he is the person on the ground.
- M V Iyer:** Yes, on the Kochi section, especially on the panchnama issue or the ROU issue, all was progressed around 80% on the ground, though we have ordered one section only but the panchnama we are progressing around 70% - 80% we have done and we are getting good support from government even some other things. So, we hope we should be able to make by the time we award the balance section.
- Rakesh Sethia:** So sir, would it be fair to say that about 350-odd kilometers of pipeline which needs to be laid, you have ROU for almost 80% on that?
- M V Iyer:** Yes.
- Rakesh Sethia:** Secondly on the US volumes, when are the volumes expected to start both on the Cheniere and the Cove Dominion?
- Subir Purkayastha:** Volumes are likely to start in the first quarter of calendar year 2018.
- Rakesh Sethia:** This is as per the latest construction update, right sir?
- Subir Purkayastha:** Yes, I mean, we do not see any change in the figures as of now, so we are hoping that is the time when the volumes are likely to come down.
- Rakesh Sethia:** Sir two more questions on follow-up, is there contractual flexibility to delay these volumes by certain time extend? And second, sir if I look at, my understanding was that the entire volumes should be brought to Asia or whichever manner through your own ships, so any thoughts on there where the contracts of the ships are and if the ships you would not get your own then how are you looking to bridge the gap between the availability of ship from your end and probably on a higher basis?
- Subir Purkayastha:** No, as you may be aware we had a very marathon tender which was running for close to two years now, and that was basically with the view to honor the government aspiration to construct at least three ships or maybe four ships in the Indian ship yard. So that was an issue which was there with the foreign ship owners, they were not feeling very comfortable on the timelines of the Indian ships and the quality. Although the foreign ship owners and ship yards were having some technical collaboration but they had put certain commercial conditions as a result of which it is becoming difficult at this point of time to proceed and award those contracts. So, if that does not happen then of course we have the option of going for short-term tenders for the chartering of LNG ships, it could be a combination of both short-term, mid-term and a long-term hiring of LNG ships. So that is one particular issue which always the management has exercised upon as of now. And hopefully by the end of this month some



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decision will be made on the aspect of what would be the structure of arrangement of the LNG ships and then we will go for the tender process or whatever process that we have to follow to engage the ships on a long-term basis or a short-term basis.

Rakesh Sethia: And is there any contractual flexibility to delay these volumes let's say by few quarters or, I am just trying to think if there is something in the contract which can be adhered to so that you get some more time to arrange the ships by probably pressing the volumes in the market?

Subir Purkayastha: It would be very inappropriate on my part to discuss on contractual terms at this point of time, because these are confidential information as you know and we are also bound by the confidentiality of the provisions which are there in the contract. So, I mean, these questions would be answered as and when there is a need to address all these issues. So, just be patient on this.

Moderator: Thank you. Due to time constraints that was the last question. I would now like to hand the conference back to Mr. Mehul Thanawala for any closing comment.

Mehul Thanawala: Thank you, Subir Sir and the team. It was a very interesting discussion. I think a lot of queries got resolved and I think these are interesting signs for GAIL India with the volumes rising again after a long time. So, thank you for your time and hope to meet you next quarter.

Subir Purkayastha: I will also like to thank all the investor friends and the analyst friends who were there on the conference call to listen to us patiently. Hopefully we have been able to answer their queries to the extent it was possible on our behalf. But of course we are always available, our team is always available to have a one to one meeting and we keep on having one to one meeting and we also do attend many of the investor conferences that keep on happening. And we are always there to provide the answers wherever it is possible to give, to whatever extent it is possible to give. Thank you very much once again.

Moderator: Thank you very much. On behalf of JM financial that concludes this conference. Thank you for joining us Ladies and Gentlemen, you may now disconnect your lines.