“GAIL India Limited
Q2 & H1 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to GAIL India Limited Q2 & H1 FY2020 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Tiwari from Antique Stock Broking Limited. Thank you and over to you Sir!

Nitin Tiwari: Thank you Nirav. Good day. On behalf of Antique Stock Broking Limited, I welcome everyone to GAIL India's second quarter earnings call. We have the pleasure of having with us today the senior management team from GAIL, led by Mr. A.K. Tiwari, Director of Finance. Without much ado, I hand over the floor to GAIL's management. Over to you, Sir.

A.K. Tiwari: Thank you. Thank you, Nitin. A very good evening to everybody and belated happy Deepavali and Chhath Puja to all of you.

The physical and financial performance for the quarter ended September 2019 are already with you, and the same has also been made available on the GAIL website. I presume that all of you have gone through the same. I would like to state that the management is concerned to maintain the profitability at its best and working regularly to arrest the cost to improve the operational efficiency. Various cost-cutting and efficiency measures, timely completion of projects, retain and increase the customer base has been a continuous focus area, and GAIL is also following highest standard for safety and upkeep of its assets. Further, I would like to emphasize that the company has taken various risk mitigation measures against challenges that exist in internal and external environment. Besides this, the GAIL management ensures the transparent corporate governance principles to their stakeholders and shareholders.

Now let me give some insight for the quarter. There has been robust physical performance during Q2 in almost all segments as compared with the previous quarter Q1. Polymer production increased by 93,000 metric tonnes from 135,000 metric tonnes to 228,000 metric tonnes. Polymer sales increased by 81,000 metric tonnes from 136,000 metric tonnes to 217,000 metric tonnes. LHC production increased by 31,000 metric tonnes from 298,000 to 329,000 metric tonnes. LHC sale increased by 33,000 metric tonnes from 296,000 metric tonnes 329,000 metric tonnes. Gas transmission has increased by 3.3 MMSCMD from 105.4 MMSCMD 108.7 MMSCMD. LPG transmission by 172,000 metric tonnes from

827,000 metric tonnes to 999,000 metric tonnes. However there is reduction in gas sales by 1.83 MMSCMD, mainly due to scheduling of cargeo, which will be improved in coming quarters and is cyclical.

I feel proud to state that GAIL Pata got first position in 16th National Award for Excellence in Cost Management 2018 organized by the Institute of Cost Accountants of India under category Mega on account of various measures taken in efficiencies and costs. Further, I am pleased to inform that overall capacity utilization in petrochemicals for the second quarter is 112%, with capacity utilization of Pata 2 at 109% and the Pata 2 has achieved 100% capacity for the first time.

The operational efficiency is ratified from the point that after attaining the highest ever polymer production of 79,982 metric tonnes in the month of August 2019, GAIL has surpassed this highest and made new record of 80,488 metric tonnes in the month of October 2019. The improved physical performance has given positive contribution of Rs.278 Crores in petrochemicals, Rs.36 Crores in LHC, Rs.39 Crores in gas transmission and Rs.27 Crores in LPG transmission. Total LNG cargeo sold outside India is 9 in Q2 FY20 as against 13 cargoes in Q1 FY20, mainly due to fewer cargeo from Dominion Cove due to seasonal shutdowns.

The profitability depends upon both external and internal factors. Although company has improved upon internal factors, but there were various external factors that are price, oversupply, economic slowdown, which were not in favor of GAIL and has adversely impacted overall profitability of the company. The average price realization of polymer has decreased by Rs.6,300 per metric tonnes to Rs.70,370 per metric tonne during Q2 in comparison to Rs.76,676 per metric tonne in Q1. Similarly, the average price realization of LHC has also decreased significantly by 25%. That is Rs.10,100 per metric tonne to Rs.30,220 per metric tonne in Q2 as against Rs.40,329 per metric tonne in Q1. Such negative trend of price has reduced the profit of petrochemical and LHC. The main reason for reduction in petrochemical prices are capacity additions in global markets and consistent lower crude price, less demand due to economic slowdown, global economic conditions and environment, U.S.-China trade war and weak market sentiment on news of ban on single-use plastics.

As we are aware that the movement of gas price depends upon the demand and supply factors, the amount of natural gas production and its availability in the global market, geopolitical situation, availability of other fuels and economic growth decides the demand

and supply prices of natural gas. During the quarter ended September 2019, the price of spot gases are continuously on the lower side due to its oversupply. DES West India prices during the quarter were lower than the prices in previous quarter. In order to retain the market, some of the volumes were sold at lower price in domestic and international markets. These reasons resulted in lower profitability in the gas marketing segment.

Gas transmission volume has increased by 3.29 MMSCMD from 105.41 MMSCMD to 108.7 MMSCMD during Q2. However, there were onetime impact in the profitability on account of the provision towards fixed monthly transmission charges of Rs.186 Crores to various customers. All fixed charges and spur line charges have been subsumed in the final tariff of integrated HVJ natural gas pipeline notified by PNGRB in June 2019.

In pursuant to Section 115 BAA of Income Tax Act announced by the Government of India to its taxation laws, the company has irrecoverable option of shifting to lower tax at 25.17% from 34.94%, along with the consequent reduction in certain tax incentives including lapses of accumulated MAT credit. The company is evaluating the adoption of new tax option and has not exercised this option for current period.

Considering the above, during the quarter ended September 30, 2019, GAIL has achieved gross sales of Rs.18,010 Crores in Q2 FY2020 versus Rs.18,276 Crores in Q1 FY2020. That is decreased by 1%. PBT of Rs.1,535 Crores in Q2 FY2020 versus Rs.1,981 Crores in Q1 FY2020, decrease of 22%. The PAT is Rs.1,064 Crores in Q2 FY2020 in comparison to Q1 Rs.1,288 Crores, decrease of 17%.

During half year ended September 2019, Capex achieved is Rs.2,400 Crores mainly in pipeline including equity contribution of around Rs.150 Crores. The expected Capex of FY20 is Rs.7,000 Crores, and for FY21is also around Rs.7,000 Crores, mainly on pipelines.

The total Capex in JHBDPL projects, including VAPPL up to H1 FY20 is over Rs.8,000 Crores, and total commitment has been to the extent of around Rs.13,000 Crores.

We have received the capital grant of Rs.3,221 Crores up to date. The project of Dobhi-Durgapur section of JHBDPL is going on and likely to be completed in FY2020, 345 kilometers and sale to Matix will start for up to 2.5 MMSCMD.

With the inauguration gas supply in Ranchi on 23rd August 2019 and recently at Jamshedpur on 1st November 2019, the gas supply of all 6 CGDs awarded to GAIL, that is

Varanasi, Patna, Cuttack, Bhubaneswar, Ranchi and Jamshedpur, has started. The commissioning of KKBMPL section 1 is commissioned and balance pipeline up to Mangaluru is under advanced stage of completion and targeted to be completed and commissioned by December 2019. Further, pre-commissioning activity at Ramagundam Fertilizer and Chemical Plant has already started and the plant is likely to be commissioned in FY20 and with this the gas supply to the extent of 2 MMSCMD will start. The tender for breakwater facility of KLPL is under process, the bid received are under price bid stage and the tender may be awarded in this month. Now I have finished my briefing here and would request to start question-answer from the investors. Thank you very much.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: In terms of your gas transmission business, can you give us some sense in terms of which are the pipelines where you have some room for expanding volume, say, in the second half and which are the new section which we can expect to start in, say, in FY21-FY22?

A.K. Tiwari: Most of the pipeline, which were in Q1 FY20, the same pipeline were there in Q2. We are going to add in the Jagdishpur-Haldia pipeline, which is getting commissioned and we are adding to the Matix fertilizer.

S Ramesh: Okay. So in terms of volume growth in the transmission business, what is the kind of volume growth we can expect in the second half and, say, the next two, three years?

A.K. Tiwari: The volume growth will be slightly more with the commissioning of the fertilizer plants as well as other CGDs which are there and the growth will be there. We cannot give you a fixed number for that, but it will be a growth.

S Ramesh: Okay. And the second part is, in terms of the overall gas market, do you see any potential for the underutilized gas-based power plant reviving and would that be a segment where you see some additional growth coming in?

A.K. Tiwari: You are talking about the standard power plant?

S Ramesh: Yes.

A.K. Tiwari: So we are taking up the matter with the Power Ministry, and we are trying to find out some solutions whether they can use more gas in the standard power plant. So some mechanism is being worked out and we have also on our own have started giving gas to some of the standard power plant.

S Ramesh: But can you give us a sense in terms of how much is the growth this year in the power plant because traditionally, they are operating at about 23%. But in the June data, we saw some increase in the gas-based power plant. So is that a trend we can expect? What is the volume in MMSCMD you have seen this year in terms of growth in the power sector?

A.K. Tiwari: We are ready with the pipeline and we are ready with the gas. It is up to the power plant consumers, they have to take. So we are also trying to find out how best we can do it. We have everything. We have gas. We have pipeline. Ultimately, they have to check their economics.

S Ramesh: Yes. So I am just trying to understand, can you just give us the number in terms of the incremental potential there? Is there an improvement?

A.K. Tiwari: Up to date, I think we are giving around 2 to 3 MMSCMD of gas to this standard power plant additionally. But going forward, there is good potential we see and it depends upon the power plants if they want to utilize.

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

Amit Rustagi: Sir, could you explain us this provision of Rs.180 Crores in the transmission segment? What is the recurring impact of this and why it has occurred?

A.K. Tiwari: Okay. This Rs.186 Crores is fixed monthly transmission charges, which was earlier subsumed in the final tariff of integrated HVJ. This is one-time only and we have to refund to the customers. This has come after we got the tariff order of HVJ and DVPL. This is one-time only, not recurring.

Amit Rustagi: So there is no recurring impact of this because when you are refunding, this means that there has to be some recurring impact?

A.K. Tiwari: No, there is no recurring impact. This is one-time from the past. We have to refund it because of the tariff order, which is there. Fixed monthly transmission charges, we have not to charge further, and we have to refund which has already been charged.

Amit Rustagi: Okay, Sir, on your gas marketing business. So we have sold around 94 MMSCMD gas. So could you give us a breakup, like how much gas is sold in India? And what is the source of that, like U.S. gas and RasGas and maybe Gazprom?

A.K. Tiwari: See, total sale is 94 this time and up to H1 is 95.63. So APM is around, you can say, is 44 MMSCMD. PMT is around 3.8. RLNG, which is there, is around 22 MMSCMD and in between, we have taken the spot also, 7.12 MMSCMD. Our overseas sale is 10.52 MMSCMD. So up to H1, 95.6 MMSCMD is there.

Amit Rustagi: Overseas is also included in this 95?

A.K. Tiwari: Yes. Naturally, this is our sales.

Amit Rustagi: Yes. So then, APM, you mentioned 44; PMT, 3.8; RLNG is 23.

A.K. Tiwari: 21.5

Amit Rustagi: Yes, okay...

A.K. Tiwari: And then there are ONGC and others also, too and midterm is there around 6.42. Spot is 7, that way.

Amit Rustagi: 3.42, midterm? so, how much is ONGC?

A.K. Tiwari: ONGC is, again I have told you, about 43.99 and it includes others also.

Amit Rustagi: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin M. Parekh: Just continuing on the marketing segment. I think that you mentioned during your opening comments that some cargoes had to be sold at a lower price. So I am just trying to understand how have the U.S. cargos being placed in this quarter and how do we understand the very, very sharp decline in segment profitability from Rs.860 Crores to Rs.250 Crores in the marketing segment. Was it related purely to the U.S. cargoes? And were there any issues in terms of prices over there?

A.K. Tiwari: So far as the U.S. volume is concerned, around 90 cargoes we have to take during the year and we have taken around 42 cargoes this time up to September. There are cyclical things where if some shutdown was there, so some cargoes we have not taken. We are going to take the total volume, whether we are selling in the international market or we are bringing in India. So that way, the committed volume which is there, we are taking. Now, as you know, that West India price, which is the spot prices is ranging around $4 to $5. And sometimes, in order to retain the customers, you have to bid. So sometimes, what happens, some of the volumes we have to sell at a low price in comparison with the spot price. So, that has given negative impact, but it does not mean that cargo to cargo wise, we are going to make profit. Overall, there is a marketing segment improvement, and though it may not be in comparison with the Q1, but overall, we are going to have plus in this year.

Amit Rustagi: Sure. So just trying to understand this point better. So how many cargoes in this quarter were sold at prices below the Henry Hub prices? I mean, essentially, I would assume that these are the unhedged cargoes and to that extent, the realizations in order to retain the customer was below the Henry Hub price. So going forward, so can we get a sense of broadly the number of cargoes you think will be sold at market prices or spot prices?

A.K. Tiwari: See, it is a very dynamic situation. It is very difficult to give cargo to cargo wise number, because we are doing destinations swap, we are doing time swap, then we are doing hedging also, and then depending up on the volume, we are procuring spot also. So in totality, the kitty, is on the plus side and depending upon the spot prices, sometimes you have to bid with the customers to get the volume. So, some hits are there. So it is very difficult to say cargo wise, it is because we have around 200 cargoes in total. So it depends upon the price volume, as I have already told that many factors, internal and external are there. But ultimately, we are derisking many things. Sometimes we have to sell the cargoes on losses also. This is a business cycle.

Amit Rustagi: Understood, thank you very much.

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

Rohit Ahuja: Just a follow-up to the last question. I think, again, you mentioned you have obligation to take 90 cargoes from U.S.

A.K. Tiwari: Yes.

Rohit Ahuja: Until September, you have taken 40? Say 40 for the year, so how will you accommodate 50 in the next three months, three to four months?

A.K. Tiwari 42, we have taken, right up to September only. But scheduling and planning has already been done. So that we are not going to miss any cargo. Either we will sell in the international market or we will bring it. That is all we need to do.

Rohit Ahuja: So you are not going to, like, defer some cargoes or nothing like it?

A.K. Tiwari: Sometimes at the U.S. facility, Dominion Cove, shutdown is there. So rescheduling is always done. I am just giving you the figure. We are committed to take all the cargoes, and we will take it.

Company Speaker: Just to add it. See, we are short by 3 cargoes only for 6 months, it should have been 45. Now it is 42. That is all. 20 days shutdown was there in the plant.

Rohit Ahuja: Are we talking about fiscal year? Fiscal year target or this is calendar year target?

A.K. Tiwari: It is fiscal year, I am talking about, not calendar year.

Rohit Ahuja: Until April you have okay

A.K. Tiwari: Up to March...

Rohit Ahuja: To March. So Sir, then coming back to the question on your marketing gas trading EBIT declining so much. So you have been maintaining or commenting over the last 4, 5 quarters that most of your cargoes from U.S. are hedged. But now, apparently, you are mentioning that you have to bear losses on some of the cargoes. So do we see that your hedges which were there earlier or some have been completed? Or how is the situation currently?

A.K. Tiwari: Hedging, time swap or destination swap, these are the continuous process. It is not that it is done for now only. We have done up to FY2020, December 2021 also, we have done some of the cargoes. And up to FY2020, we have almost done everything. So we have scheduled all of this. But sometimes, what happens, we have to look into the market conditions, we have to do it. It does not mean that our spread is going to be negative, we will be positive. We will be positive and we are positive.

Rohit Ahuja: So from that, just a last question on this, particular thing. So if we see this quarter LNG prices right now around $5 versus your delivered price should be, let us say, around $8.5 for U.S. So is that the reason why you had to sell it at a negative rate?

A.K. Tiwari: No, no, no, please try to understand. I have given one of the reasons. It is not that we are selling all the cargoes linked to the spot prices or like that. It is one of the things. I have given the reasons for that. But going forward, we have back-to-back also. We have also tied up. We have hedged also. So in the third and fourth quarter, it will be plus also.

Moderator: Thank you. The next question is from the line of Raj Gandhi from SBI Mutual Fund. Please go ahead.

Raj Gandhi: Sir, just on marketing U.S. volumes itself. So you mentioned you are fully hedged. But then you said despite that, you had to kind of accommodate the customer sort of. So can you just explain this because you again repeated that you are fully hedged for FY2020? So if you are fully hedged for FY2020 then what does it mean when you say you are fully hedged for FY2020?

Company Speaker: We said that we are either fully hedged or we are fully sold. Okay? So now suppose I am selling and they have cargo based on crude and crude has fallen, total revenue was down, right?

Raj Gandhi: But in those cases, you had said that you already sold crude through that extent, so you only have...

Company Speaker: That is also what we have done. But it really depends. Some cargoes were crude to crude also. And Henry Hub to crude also. And then another thing, what happens we have sold Henry Hub to Henry Hub also. And then July, August, September. This is called shoulder month quarter, where-in the demand for heating for natural gas in western world is very low. So spot in this quarter has kept it in around $4.50. So a few cargoes, which we have left for balancing, okay. We have to sell at then prevailing comparative spot prices, but the spot prices for next quarter, which is winter months, will be $5 plus always. And U.S. volume does not cost us $8.5 in India. This is wrong. It is even below $7.

Raj Gandhi: Okay, okay. If you could just explain this. What are the charge? Because I believe also one component is if you pass that canal there are some additional over and above the shipping costs, there are some additional levies and all of that to pass certain routes. So if you could explain this, what will be the landed cost in India with the breakup of the component? It will be great and helpful.

Company Speaker: See it is, again, very dynamic. We have been able to get a cargo in India, you can take that at $0.50 also from U.S. to India, and sometimes at $1.50 and $1.75 also.

Raj Gandhi: Assuming you do not get a swap, assuming you do not get a swap or something, you have to physically get the same cargo in such a scenario?

Company Speaker: If that is the scenario then shipping costs is around $1.70.

Raj Gandhi: There are any additional levies and all of that to pass, let us say, you pass through the Suez canal. Are there any additional levies?

A.K. Tiwari: No, all inclusive. These are all-inclusive.

Raj Gandhi: Okay, okay. And just 1 last question. On Supreme Court ruling on the telecom license thing. It is just a small part of the revenue license, any fallout of that ruling you see?

A.K. Tiwari: Whatever news you have seen, we have given our reply to that and there is no charges leviable to us.

Raj Gandhi: What is our stand? What is our stand on it? if you could explain.

Company Speaker: The license itself has expired in 2017.

A.K. Tiwari: We have not done any business...

Company Speaker: We have done no business whatsoever. So there is nothing that is leviable to us.

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

Vidyadhar Ginde: I just wanted a little more clarification on the discussion we had on this gas marketing. So what I am trying to understand is that you people keep some cargoes untied up, so was this less low EBITDA from this business in this quarter because of all these untied up cargoes, you are not doing well? Or is it because of some cargoes where the hedging part of the story did not go well? Or is it a combination of both?

Company Speaker: See, it is a combination of 2, 3 things and also some of the plants, which we were expecting to get commissioned in June, July, 2019 itself, they are delayed. So the volume, which thought that we will bring to India, but because those plants were delayed, we could not bring it to India, and we had to sell it at the spot market.

Vidyadhar Ginde: So have those plants started now?

Company Speaker: One was delayed. So 1 has started. Two are still not.

Vidyadhar Ginde: And so basically there is no take-or-pay with those clients?

Company Speaker: No, if they do not start, there is no take-or-pay.

Vidyadhar Ginde: So let us assume that this problem had not occurred, and these plants had started on time. Then would revenues have been much better?

Company Speaker: Yes, definitely.

Vidyadhar Ginde: So are you saying that the hit from that part is much more than from selling some cargoes at spot prices? A rough idea, if you could give us?

A.K. Tiwari: That is there, because some of the plants have not restarted, so...

Vidyadhar Ginde: Can you give us some idea as to the volumes with these plants, which were delayed, what was the volume in MMSCMD if you can?

A.K. Tiwari: Ramagundam was around 2...

Company Speaker: Out of three, two were delayed and not yet commissioned and 1 was delayed for about four, five months, rather six months, so...

A.K. Tiwari: Around six...

Company Speaker: So three plants will take up around 6 MMSCMD. So out of that, you can say that two has come up, but 4 has not yet. Still delayed.

Vidyadhar Ginde: So you are saying last quarter, you were hit to the extent of 6 MMSCMD in the volume you lost, which otherwise, you were expecting?

A.K. Tiwari: 4 MMSCMD.

Vidyadhar Ginde: And what is the situation for Q3?

A.K. Tiwari: We are going to improve that because Ramagundam is going to start...

Vidyadhar Ginde: So one leg of the transaction, which does not happen is this expected volume did not happen? And does this get compounded by the fact, then that it needs to be sold at spot?

A.K. Tiwari: To some extent.

Vidyadhar Ginde: Not all of it may have been sold at spot?

A.K. Tiwari: It depends again upon the prices. It depends upon the international demand. So...

Vidyadhar Ginde: No, I am talking on the current situation only. I am not talking in general. So basically, we probably have had a very, very weird situation where we had this such low spot LNG prices and hopefully may not have it for too long in the future again. So there is probably a one-off. So what I am trying to understand that was this situation of some of these demand not coming up together with the low spot price. So let us say these plants have not come up, but let us say spot prices were at $8. Would you still have had this hit?

Company Speaker: No, we would have made profits, a huge profit.

Vidyadhar Ginde: So basically you had to sell because these consumers did not come through, you had to basically ... I mean when do you expect all this 6 MMSCMD demand to come up? So right now you have 2 out of 6, which you could have in the last quarter and another 4 MMSCMD, those plants have to start.

Company Speaker: Next 6 months.

Vidyadhar Ginde: So all these 6 MMSCMD demand is expected to start from April?

Company Speaker: It may happen a little early also. One of the plants can happen a little early also. And 1 can take even 6-7 months.

Vidyadhar Ginde: Okay. So one means this quarter or next quarter?

Moderator: Sorry, Mr. Vidyadhar, I will have to ask you to come back in the question queue.

Vidyadhar Ginde: This is the same question.

Company Speaker: It should come up in 6-7 months.

Vidyadhar Ginde: So that is it for me. Just one last thing in this context. So if the hedging did not hurt you in any way, so it was mainly these 2 things which you hurt, it was spot and the delay in this consumption. Hedging was roughly fine.

A.K. Tiwari: Hedging was fine. And there mix of the things are there. It is very difficult to give you the number one by one. I request you come down, we will give you the details for that.

Moderator: Thank you. The next question is from the line of Probal S. from Centrum Broking. Please go ahead.

Probal S.: In terms of this gas trading business. We obviously have spoken a lot about it. But what I wanted to get a sense of was that in the next 6 months, assuming that all these plants are up and running. In the fourth quarter, can we expect a return to the normalized run rate? Obviously, I am assuming that spot LNG prices get back to their normal levels of somewhere around 10%, 11% in cash to crude, which translates to may be about $7-odd. And that kind of a price with these plants getting commissioned, can we then expect that the run rate will get back to the sort of $6, $7 in prices, which we have been doing in the fourth quarter?

A.K. Tiwari: Yes, yes. They are going to improve.

Probal S.: Okay. And second, any kind of guidance you can give of, let us say, for transmission volumes or overall gas demand in the country? What type of exit rate should we be looking at for the gas transmission business for FY2020? Because you had earlier mentioned that it will be not too much of growth, but we have seen almost a 3 MMSCMD growth in this quarter and indications for even third quarter indicate the volumes can continue to grow a little bit. So is it correct to assume that we can actually touch 110 plus by the end of the year or even earlier?

A.K. Tiwari: This year, we may touch, but coming forward, we are going to improve. More than 100.

Probal S.: That is for FY 2021, you are saying right?

A.K. Tiwari: Yes.

Probal S.: Last question. In the petrochemical segment, despite, of course, the production running ahead of estimates. Obviously, EBITDA has continued to remain muted. So is that some of newer grades that you had spoken about. It was expected to get us some more of a premium pricing, about 10% to 12% of our overall production, which is expected to be the premium grade of plastics. Is that still not getting the kind of price that you expected? And what is the outlook that you have in terms of demand scenario of pricing for petrochemicals?

Company Speaker: Actually, what has happened is overall the prices have fallen quite steeply and if you compare it with Q1, already $100, $120 plus drop has been there in all these prices. There is oversupply as well as the fall in prices, that is what is creating pressure on the prices, even on the grade premium. Overall, there is too much of a fall in the prices, which has actually given us a hit.

A.K. Tiwari: As I have already explained that the prices sharply had come down in comparison to the Q1. If you compare with the H1 prices of the polymer, there is a hit of around Rs.18,000 per metric tonne. But we are expecting from December onwards, the prices are going to increase. We are trying to mitigate these things. That way we expect better in the petrochemical segment in the days to come.

Probal S.: Last question, related to this. Can we have a sense of the gas mix that will be used by the petchem segment then? I believe that you have mentioned, it is sort of 50-50 between term LNG and short term. Is that roughly the mix there? Do you think?

A.K. Tiwari: I cannot give you the exact, but it is mixed. RLNG is there.

Probal S.: It is not possible to give in terms of what price I mean how much of short term, how much of long-term is being used there?

A.K. Tiwari: If it is best available levels, we are doing it. It goes on changing. We cannot give you any mix that, month-to-month. RLNG is there.

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

Vikash Jain: I have two of them. Number one this one-off that you mentioned of about Rs.186 Crores. So this is something which would have been adjusted with the revenues of the segment? I mean that your revenue would be lower? Or how would this be some kind of provision that you would have created, what is earlier revenue, which will now be written off? Is that how it will be?

A.K. Tiwari: This is the revenue which we have taken earlier. Now we have to return.

Vikash Jain: Now the revenue has been reduced because of it?

A.K. Tiwari: Yes.

Vikash Jain: And this is linked to earlier years? Or is it linked to the last quarter?

A.K. Tiwari: This is linked to the earlier year.

Vikash Jain: And so this is Rs.186 crores, all adjusted in this quarter. Is that correct?

A.K. Tiwari: Yes, yes. Because the tariff order came in the month of July or something like that. So we have calculated.

Vikash Jain: And Sir, a lot of discussion now on marketing. I mean just to kind of know as you had even earlier said that your hedging policy is a little complicated and all of that. So given that this first half has been made up of a very good quarter in the fourth quarter, which is this one. The current EBIT that you have for first half is about Rs.1,100 Crores or so. So do you think that this can be improved in the second half based on all the available information that you have, perhaps, these new capacities may still not come up by the time, not all of them will come up by the end of the year. So you think, because if you were to look at last year and last year, of course, we were in the range of closer to Rs.2,800 Crores plus for the full year. So this year, at least, will we be in the second half, will it be better than first half? I mean will we have a growth on a half-to-half basis?

A.K. Tiwari: A little bit better than this quarter. And overall, there will be further improvement, but it will not touch the last year.

Moderator: Thank you. The next question is from the line of Rakesh Sethia from HSBC. Please go ahead.

Rakesh Sethia: Two questions from my side. First one, on the petrochemical outlook. Is it fair to say that if the prices fall further and we have already seen some evidence, November month has been sort of trending lower. Would you look to sort of rationalize your production from the petrochemical plant? Does it make sense to operate this plant if it makes EBITDA losses?

Company Speaker: Actually, I mean that is not the case till now. And we are able to recover our operating costs and we are way above the variable costs. So that is not the case as of now and all this, the reports are suggesting prices to go up from December. If you see the latest report from ICIS or any other, they are suggesting a little bit of increase from December through the next quarter, the Q1 of 2020. So we see a better outlook comparatively. But we are keeping a close watch on that.

A.K. Tiwari: Adding further, the demand is also increasing, though, there is oversupply. Overall demand is also increasing. And whatever we are producing, we are able to sell it. Though, there is a loss in petrochemical segment, but it is cyclical only, I think it will improve further.

Rakesh Sethia: Understood, Sir. If I could ask about the status of the Kochi Mangalore pipeline. Third one is obviously about the news about of breaking up the company into two parts, doing something about unwinding the transmission market, it is keeping on coming in the media. So anything you can highlight to us? Has there been any progress? Government has reached out to you? Or is there any sort of discussion, which the management is aware of and that is on the cards?

A.K. Tiwari: So far as the Kochi, Mangalore pipeline is concerned, the first section has already been commissioned and the rest sections are under its advanced stage of completion these are targeted to be completed by December 2019. So this will be operational this year. About your second question, about the news. I think whatever news you are hearing, we are also hearing. There are no such further things, we have heard through the papers, but we are intact at present and anything comes up, we will definitely inform.

Rakesh Sethia: So the government has not reached out to the management of GAIL (India) in any form? Is this a fair conclusion to take it away from this call?

A.K. Tiwari: If there is anything, we will inform, because this will be an important event, we will inform you if something is there.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC. Please go ahead.

Miten Lathia: I missed this point on the fertilizer plant. One was Ramagundam, the second is Matix and which is the third one, Sir?

A.K. Tiwari: Chambal Fertilizers.

Miten Lathia: Chambal is already commissioned, right? It is taking gas. Ramagundam, you are saying, which will happen before this fiscal year-end and Matix will be next year, is it?

Company Speaker: Something like that, yes. Besides actually, there were two more units, which were down in this quarter. Two more fertilizer units were down, Zuari and one unit of Nagarjun Fertilizer. So that volume also, we are forced to dispose of in spot market. Though we will raise take-or-pay as per contract, but that take-or-pay thing is raised by the end of the calendar year, after the end of the calendar year.

Miten Lathia: And by then, they may actually compensate the volume also.

Company Speaker: Yes, yes. That is the reason of all in the volume our performance at that volume because it otherwise tied up, crude linked, back to back, but we have to sell it in the spot market.

Miten Lathia: Also the reversal that we have taken in the transmission segment. Now the tariff order is actually applicable on a prospective basis, right? You do not have to compensate customers for the past tariff, correct?

A.K. Tiwari: Yes. but this is fixed monthly transmission charges which are additional charge from the customers. Now in this tariff, it has been subsumed. So we will not be charging further, so we had to refund this amount.

Miten Lathia: I guess it is multiple years that you have been doing this separate charging, which you are actually doing a composite charging now, and that is why this reversal has happened.

A.K. Tiwari: This was as per the PNGRG order only.

Miten Lathia: And the impact as pertains to Q1 of this year would be how much then?

A.K. Tiwari: No, there is no further impact. This is a onetime settlement only, onetime payment, onetime adjustment.

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

Vinit Joshi: I just wanted to check on LPG realization. This quarter, it has come down a lot in the current quarter, but can you just give us some color? I mean will it progress in the quarter? And what is it looking like in October? Has it gone up or has remained there? Or has it further come down?

A.K. Tiwari: The LHC prices, this LPG?

Vinit Joshi: Yes, LPG, yes.

A.K. Tiwari: Prices of LPG, including LHC, which are there, has come down by 25%. And in the month of October, this has increased by Rs.4,000 per metric tonne, so we are seeing increasing trends. But if we compare with the Q1 and Q2, there is a sharp decrease.

Vinit Joshi: Okay. So while it has gone up, it is still lower than first quarter is what you saying?

A.K. Tiwari: Yes, lower than first quarter.

Vinit Joshi: Okay. Sir, this change in the tax rate, right? So will that impact our tariffs in any way in terms of like the post-tax IRR, which is fixed for our pipelines. Does it mean that tariffs could be revised in the future because the tax rates have been cut down? Or is that tax rate separate?

A.K. Tiwari: There are multiple issues behind that. Whether this will impact or not. The PNGRB is taking a look for that. And there are multiple prospects, they are tariff which have already been announced, and so many other factors are there. So PNGRB has not taken any call at present. If something is there, we will inform you.

Vinit Joshi: Okay. It will not be like a cash negative for you, right? Even if it is whatever call the PNGRB will take, it should not be a cash negative for you?

A.K. Tiwari: Yes, it should not be.

Company Speaker: Getting those returns. We are way below those returns now.

A.K. Tiwari: Our return is not at par with 12% post tax. So they will also consider whatever the tax is there, adjustment is there.

Vinit Joshi: Okay. I think I heard you say that you basically take gas for your petchem plant on a best case basis. So is it fair to say that everything you have taken would be spot because spot prices have been way below long-term LNG prices for quite some time now. So if you are doing this kind of a best case price for your petrochemical segment, are you taking on spot LNG?

A.K. Tiwari: No, because plant cannot run on the spot LNG and we have to tie up further.

Company Speaker: See we already have gas in the portfolio. So we will not procure spot price gas further for this plant. Okay?

Vinit Joshi: So what is the gas, which you are using for this? That is what I think the question was on the other participant. So if you know that it is tied up, then you can tell us what that gas is, right?

Company Speaker: That keeps varying. For example, now that the plants are closed, our fertilizer plants are closed. So I have two options, either to consume this in my plants or sell it in market and then again buy spot gas for the petrochemical plant, which is ridiculous, as we are unnecessarily getting double taxation on transactions on both the sides. So it keeps varying. If I have gas, sufficient gas, and other customers are not taking them, I have to divert that gas to petrochemicals. But if other customers are up and running, then I can turn this plant on up to 80%, 90% on spot also.

Vinit Joshi: Okay, okay and for LPG segment, I mean that is all domestic gas? Or does it also have some LNG in it?

A.K. Tiwari: Only domestic.

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

Mayank Maheshwari: Two questions from my side. One was regarding the petrochemical division. Can you just help us understand of how sustainable do you think now the run rates on Pata-2 will be? Do you think that this is now a steady state kind of a run rate that we can assume going ahead?

A.K. Tiwari Yes, yes, the Pata plant is stable, and it will be stable. So it will be running at this pace.

Mayank Maheshwari: There are no further shutdowns that you are expecting?

A.K. Tiwari: Could be annual shutdown or something like that, it could be maintenance shutdown. These are the planned shutdowns, which will always be there. This financial year, there is no shutdown expected.

Mayank Maheshwari: Okay, okay. And the second question was more related to the cost for this quarter. Even though you have seen good run rate, the per unit cost has not really come off materially. It is still relatively high similar to fourth quarter. Is there a reason why that is happening? Or is there a onetime cost that is associated still with the plant?

A.K. Tiwari: There is no such onetime cost. It is basically the gas cost and other costs, which are there. So I do not know which figure you were telling.

Mayank Maheshwari: Okay. So it may partly because of the gas cost itself, it is not come off, I suppose?

Company Speaker: Actually our consumption has improved per tonne of polymer production, it has actually improved over this quarter.

Mayank Maheshwari: Okay. So it should normalize if...

Company Speaker: Right, staying at the level as it is now.

Moderator: Thank you. The next question is from the line of Manikantha Garre from Axis Capital Limited. Please go ahead.

Manikantha Garre: With respect to the gas marketing division, again. Can you please explain us, in those take-or-pay contracts, which were not obliged, how do you go about claiming them? Can you explain that procedure?

Company Speaker: If a plant is closed, any plant is closed and if the plant has committed to take some volume, but they are not taking, then take-or-pay is liable or the claim is raised only at the end of the calendar year. So we say January to December, how much was contracted, how much you have taken. And then the claim is raised in the next quarter. First quarter of the next calendar year. There is no question of not raising the amount or not getting paid for it.

Manikantha Garre: So the losses that we have incurred because they were sold on spot. Can those also be claimed?

Company Speaker: There cannot be both the things.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the management for closing comments.

A.K. Tiwari: Thank you, Nitin, for this con-call and I think we have been able to tell the perspective of the management and details which are there. Thank you very much, and I thank once again to you and the entire team of GAIL that is present here. Thank you very much.

Moderator: Thank you very much. On behalf of Antique Stockbroking Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.