



GAIL (India) Limited

“GAIL India Limited 3QFY20 Earnings Conference Call”

February 10, 2020



GAIL (India) Limited



**MANAGEMENT: MR. A. K. TIWARI, DIRECTOR (FINANCE), GAIL
(INDIA) LIMITED & OTHER SENIOR EXECUTIVES**

MODERATORS: MR. DEEP SHAH – AMBIT CAPITAL PRIVATE LIMITED



Moderator: Good day, ladies and gentlemen and welcome to the 3QFY20 Earnings Conference Call of GAIL India Limited hosted by Ambit Capital. 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. Deep Shah from Ambit Capital. Thank you and over to you, Mr. Shah.

Deep Shah: Welcome to 3QFY20 Results conference call of GAIL India Limited. Today we have from the management Mr. A. K. Tiwari – Director-Finance and other senior executives.

Now I would like to handover the call to the management for opening remarks post which we can open the floor for questions. Thank you and over to you, sir.

A K Tiwari: The New Year has brought a lot festivities with it. I take this opportunity to wish you belated happy Makar Sankranti, Pongal, Lohri, Basant Panchami and our national festival Republic Day.

A very good evening to everybody and welcome to GAIL's first earnings call of the decade. At the outset I would like to thank all the esteemed members of the investors and analysts fraternity that you have taken out your precious time and shown keen interest in the result and performance outlook of GAIL (India) Limited.

We have already declared the Q3 FY20 results earlier today and the same is also available on GAIL website. I am sure that you had an opportunity to go through the same.

I would highlight the segment wise physical and financial performance of GAIL for the quarter ending 31st December, 2019 along with major factors contributing the same.

As you know that the oil and gas have witnessed subdued prices over the recent past, mainly due to supply overhang and bleak demand outlook. The price realization particularly of polymer and liquid hydrocarbon prices have been stressed during the past few quarters. I want to share with you that even in such volatile environment, GAIL has been able to perform fairly well in the given circumstances.

The performance we have achieved during the quarter and the year-to-date was not without our share of challenges. Not only we have faced them, but also succeeded to build a robust organization capable of delivering under adverse conditions.



Now let me give some insight for the quarter. I would like to share the physical first. There have been robust physical performance during Q3 in almost all segments as compared with the previous quarter Q2 of FY'20.

Gas Trading has increased by 1.3 MMSCMD from 94.72 MMSCMD to 96.02 MMSCMD. Total LNG cargoes sold outside India is 12 in Q3 FY '20 as against 9 in Q2 FY '20. Gas Transmission has increased by 1.7 MMSCMD from 108.7 MMSCMD to 110.35 MMSCMD, mainly due to increase in the shippers' volumes.

LHC production is fairly stable during this quarter. LHC sales has also shown marginal increase. LPG transmission also increased fairly by 44,000 metric tons. So the physical performance during this quarter in almost all the segments was up.

I would like to share the financials now. During the quarter ended December 31, 2019, GAIL has achieved gross turnover of Rs. 17,735 crores versus Rs. 18,010 crores in Q2 FY '20, which has decreased by 2%. PBT is Rs. 1,872 crores in Q3 FY '20 versus Rs. 1,535 crores in Q2 FY '20, increase of 22%. The PAT is Rs. 1,251 crores in Q3 FY '20, in comparison to Rs. 1,064 crores in Q2 FY '20, increase of 18%.

Here, I would like to highlight the fact that up to Q3 FY '20 versus up to Q3 2019, the prices of polymer has reduced by approx Rs. 19,500 per metric ton, which alone has an impact of Rs. 1,100 crores on the profitability.

Similarly, for LHC segment, the prices have gone down by approx. Rs. 7,000 per metric ton, which has impacted the profitability of around Rs. 600 crores up to Q3 FY '20 versus Q3 FY '19. Even with such major setback on account of external factors, GAIL has been putting all-out efforts, including cutting the input costs, operational efficiency, etc. to mitigate the impact and maximizing the profit.

I am pleased to announce and inform that the Board of the company has today approved an interim dividend of Rs. 6.4 per share, which will entail a dividend payout of Rs. 2,886 crores. This is the highest-ever interim dividend payment by the company in terms of total dividend amount. Up to Q3 ended December 2019, GAIL has achieved CAPEX of Rs. 3,818 crores, mainly in the pipeline and other contributions toward equity.

The cumulative Capex of JHBDPL project, i.e., Jagdishpur-Haldia & Bokaro-Dhamra Pipeline up to Q3 FY '20 is Rs. 8,800 crores. And the total commitment is around Rs. 13,000 crores, of which we have received the grant of Rs. 3,221 crores from the government.

The project of Dobhi-Durgapur section of JHBDPL is going on, and the connectivity to Matix Fertilizer is likely to be completed by end of financial year. And sale of approx 2.5 MMSCMD to Matix Fertilizer may start.



The Dhamra-Angul Pipeline, Bokaro-Angul Pipeline, Vijaipur-Auraiya Pipeline are expected to be commissioned by December '20.

The section 1 of KKBMP, i.e. Kochi-Koottanad-Mangaluru Pipeline is already commissioned, and Kochi-Koottanad-Mangaluru section is under advanced stage of completion and commissioning, which will be commissioned by March 2020.

Further pre-commissioning activity at Ramagundam Fertilizers & Chemicals plant has already started. GAIL is supplying gas to plant for pre-commissioning activity and after commissioning, the gas supply to the extent of 2 MMSCMD will commence.

After inauguration of CGD at Jamshedpur on 1st November 2019, the gas supply of all 6 CGDs awarded to GAIL, i.e., at Varanasi, Patna, Cuttack, Bhubaneswar, Ranchi and Jamshedpur has started and volume are slowly ramping up.

There was a request from the analysts to include performance of GAIL Gas Limited. I am happy to share with you that, up to Q3 FY '20, GAIL Gas has achieved a turnover of Rs. 2,675 crores, PBT of Rs. 167 crores and PAT of Rs. 109 crores. I wish to state, this profit for 3 quarters of FY '20 is more than the profit for the full year FY 2019. In FY 2019, GAIL Gas has earned PBT of Rs. 126 crores and PAT of Rs. 81 crores.

During the 3 quarters for the current year, GAIL Gas has added 13 new CNG stations and more than 50,000 new domestic connections has been connected. The performance of GAIL Gas has been excellent and is expected to improve over the year on account of ramping of new CGD volumes.

Further, I would like to inform and share that the Cabinet Committee of Economic Affairs has approved the transfer of administrative control of Brahmaputra Cracker and Polymer Limited (BCPL), our subsidiary from Department of Chemical and Petrochemical, to the Ministry of Petroleum and Natural Gas. The government has granted a feedstock subsidy of Rs. 4,600 crore for 15 years to BCPL in order to maintain the IRR at 10%. Rs. 930 crores in Q3 FY '20 has been accounted on account of the feedstock subsidy in the books of accounts of BCPL. So you will find that in the consolidated accounts of GAIL, there is a jump.

GAIL, along with other companies through JV company, M/s Indradhanush Gas Grid Limited (IGGL), is implementing the gas pipeline infrastructure in Northeast states for over 1,600 kilometers with project cost of around Rs. 9,265 crores to push the development of gas infrastructure in Northeastern states. The government has approved the viability gap funding of 60%.

Government of India has given an irreversible option to adopt new tax rate i.e. 25.168% during FY '19/'20. The new option is under evaluation, and a final decision will be taken before the close of the annual accounts.



I would like to share the impact of Union Budget on GAIL. In the Union Budget 2020, the Finance Minister announced extending the National Gas Grid from the current 16,200 kilometers to 27,000 kilometers. This indicates continued emphasis of the government on expanding the footprint of natural gas in the country.

GAIL is already undertaking projects having a total length of around 5,000 kilometers. This should provide impetus to the expansion plan of national gas sector, and GAIL being a dominant player in the natural gas will remain in focus. Government's continuous emphasis on CGD will further help to enhance the natural gas market in India.

I would like to add here the environment, social and governance (ESG) issues. The company places significant emphasis on environment and sustainability. GAIL has been included in FTSE4Good Index series for third year in a row. GAIL's major sustainability initiatives includes reuse of treated Effluent Treatment Plant water at GAIL Vijapur, leading to saving of 1 lakhs liter of water per day; enhancement of recycling water pipeline network of GAIL at GAIL Vijapur, leading to saving 3 lakhs liter of water per day; development of Rich-Lean natural gas corridor, resulting in flexibility in operation and optimization of pipeline operations, higher recovery of products at plant and for achieving fuel and energy saving.

We believe in building trust among our key stakeholders and assure them transparent corporate governance, principles and efficient and responsive services.

I would like to state that GAIL is following highest standard for safety and upkeep of its assets. We have been achieving all physical targets of LHC and polymer production with zero major reportable incidents. HSE Score has been devised on measurable parameters against each element of HSE Management System. Monthly HSE Score for the year 2019/'20 is computed 96, against the excellent target of 94.5.

The company takes risk management very seriously. It has a formal risk management structure in place and so it is reviewed regularly by the top management. And various risk-mitigation measures are taken against challenges that exist, be it internal and external environment. As a responsible corporate citizen, GAIL has taken various initiatives under CSR. The total spending of GAIL on CSR projects is higher than the mandated 2% of the profit.

I would like to mention that the management is taking all possible efforts to improve the profitability while continuing to maintain its operations safe and sustainable. The company is targeting to optimize cost and to improve the operational efficiency. Superior performance, extraordinary customer services, timely completion of projects and cost optimization are our key focus area. With proper focus on cost, efficiency and innovation, I am confident the company will be able to boost margins and scale to new heights.

GAIL has taken several digital initiatives to make company technology-driven, moving towards the Digital Yatra during the quarter. We have taken various measures to digitize employee's claim as well as for payment to the contractors and suppliers.



Further, GAIL organized industry meet on digital transformation and the significance of building greater synergies in leveraging emerging digital technologies such as machine learning, advanced analytics, cloud and IOT for the mutual benefit of individuals, organizations as well as the industry was emphasized.

I would like to say something on the burning, (you can say) the very important issue which is coming in the news - regarding the AGR. GAIL received the notice wherein DOT, (Department of Telecommunications), has shown an outstanding amount of Rs. 1.83 lakhs crores including interest and penalty, computed on the entire revenue of GAIL. As already intimated by GAIL, the company has refuted the claim being an unrelated matter to the terms of license.

Based on the legal opinions sought and fact of the case, the company is of the view that the claims are not legally tenable and no amount is due or payable under the said notice. The company has also filed an application with the Honorable Supreme Court on 23rd of January for seeking clarification on judgment passed.

I think I have covered the major highlights of the company, and now our team will be happy to take your questions. Thank you very much.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Yash Gupta from Angel Broking. Please go ahead.

Yash Gupta: My question is on the long-term contracts. That the long-term contracts are linked to the Hub; and how do supplier link to the demand in India? And at what rate they are links too?

A K Tiwari: You were asking about the long-term contracts which we have entered into?

Yash Gupta: Yes, sir.

A K Tiwari: So we have tied up customers here itself as well as we are selling in the international market, wherever the opportunity is there.

Management: Back-to-back tie-up is there.

A K Tiwari: Back-to-back tie-up is there. And some of the volumes, we are also selling into international markets. And depending upon the volatility, we are also hedging. So it is a continuous process.

Yash Gupta: Sir, we have taken that particular risk in our hand?

A K Tiwari: Where it is showing risk? I think we have presented the results. And where the Gas Trading is there, you have seen the margin, you have the segmental profit. So where is the risk?



- Management:** The contracts add natural hedges. So if there is a back-to-back agreement, it is a pass-through as far as we are concerned.
- Yash Gupta:** Okay. And sir, in past 6 months, the natural gas prices significantly come down. So in this long-term contract, do we have any renegotiable contracts, renegotiable clause?
- A K Tiwari:** With the supplier?
- Yash Gupta:** Yes.
- A K Tiwari:** No, we do not.
- Management:** These are all term contracts and binding on all parties, whether it is upstream or whether it is us or whether it is a downstream customers.
- Moderator:** Thank you. The next question is from the line of Probal Sen from Centrum Broking. Please go ahead.
- Probal Sen:** Sir, first question was with respect to the Petrochemical segment performance. You did mention about optimizing the sort of OPEX and costs for the segment. I just wanted to understand. Has there been any change in terms of the gas mix for the segment this quarter? Have we managed to get some lower-priced LNG in this segment? Or has there been mostly been fixed overheads which are now delivering operating leverage because of the higher throughput?
- A K Tiwari:** Both are there. Even with the production ramp-up, more than 100% capacity production that is number one. Number two, we are mixing the portfolio, taking the portfolio which is the cheapest gas for petrochemical, depending upon the situation. So both has resulted that way. The price, as you know, and as I have already explained to you, that the price was relatively very stressed. So that has affected. That is the main reason.
- Probal Sen:** And sir, have you seen any improvement at all in the Petchem prices in the fourth quarter? I mean in the first two months so far, what you have seen? Has there been?
- Management:** Yes, there is a marginal improvement not the extent of what fall have we seen in quarter 3.
- Probal Sen:** No, of course not. I was talking QoQ, sir, based on the Q3 numbers. On that number, has there been any improvement?
- Management:** Yes, but I think we have recovered by about 20%- 25% (of the decline in Q3).
- Probal Sen:** And sir, last question was with respect to the natural gas trading business, where, on a Q-o-Q basis, of course, our numbers have shown a sharp recovery. But what we have seen in Q4 is Asia LNG prices have dropped even further. So does it impact the U.S. LNG portion at all? Or



are we anyways well positioned even at these low levels to continue to sort of show a stable performance from these levels? Or will it remain as volatile as it has been in the last 3 quarters? Any guidance, any color you can throw on this, sir?

Management: In last one month when we are seeing this corona virus, because of which, the prices are going down. We have been performing the contracts in the upstream side, which is the seller selling to us. And we have seen the similar this thing happening in the downstream side also; buyers are also buying from us. In India, we do not see any performance issue and hence, the prices are usual. Whatever the cargoes which are now being discharged, their prices were decided quite a few months ago. So there is no change in our operation as of now.

Probal Sen: But is it then fair to extrapolate and say, as and when these prices start to become the base, let us say, maybe 2 or 3 months down the line, if such softness persists, then there could be some challenges for placing U.S. cargoes?

A K Tiwari: We cannot.

Management: It is a going concern, we think that these prices are very temporary. This is mainly because of so many ships, LNG ships going to China and then they are not able to getting discharged there. They have to be sold elsewhere. We think things will normalize in the next 30 days.

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

Maulik Patel Can you give an update on the Kochi-Mangaluru pipeline?

A K Tiwari: As I have already told that the Kochi-Mangaluru pipeline is under advanced stages of commissioning. Only a few section of few meters (around 50 meters) or some other places are stuck up. That is being completed. And by March end we are expecting to be fully commissioned.

Maulik Patel: And some bookkeeping numbers. What has been the CAPEX so far in this particular quarter?

A K Tiwari: Up to December Q3, around Rs. 4,000 crores CAPEX.

Maulik Patel: And sir, what is the CAPEX for the full year, which we have envisaged?

A K Tiwari: It is around Rs. 6,500 crores to Rs. 7,000 crores.

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

Avdhut Sabnis: This is in relation to dividends. It is great news that you have declared a high interim dividend of Rs. 6.4 versus I think just Rs. 4 for last year. Does it represent a major change in your



payout strategy? Because in the last few years, you have been sticking to virtually the minimum payout ratio compared to higher payout ratios given by the other oil companies. So can we see or how should we look at this? Is this a one-off thing to be given? Or is it something in terms of a change in strategy in terms of how much you want to pay out on a consistent basis going forward?

A K Tiwari: See, as we have told that as per our government DIPAM guideline, we have to pay 30% of PAT and 5% of net worth; that you know this is the DIPAM guideline which is applicable. This time, we have been asked to pay more by the government, so you are getting more.

Avdhut Sabnis: Sir, I get that, sir, but I presume you have been asked to pay more virtually every year in the past as well, right? So what I am trying to understand is, this paying more would it can we take I mean, presumably every year the government will ask you to pay more. Can we look at the higher payout as being largely now consistent policy?

A K Tiwari: It will not be consistent. This is one-off, I think.

Avdhut Sabnis: And secondly, you are maintaining your CAPEX guidance despite CAPEX being relatively lower in the first 9 months. So is that consistent? Is that how you are looking at this big jump in the fourth quarter, is it?

A K Tiwari: Yes, because most of that we will maintain. We have already spent Rs. 4,000 crores up to Q3. And the balance, we are around Rs. 2,000 crores, Rs. 2,500 crores will be completed in the 3 months.

Moderator: Thank you. The next question is from the line of Vijayant Gupta from Edelweiss. Please go ahead.

Vijayant Gupta: My first question is on Transmission. So if you could share some volume estimate for the Urja Ganga pipeline for FY '21 and '22. And what would be the tariff for this pipeline?

A K Tiwari: See, for Urja Ganga pipeline up to Dobhi, some tariff has already been announced around Rs. 63 per MMBtu. And the commissioning up to Matix is under advanced stage and the volume is likely to flow by March. I cannot predict that way for FY'21, '22, but it would be around 8 MMSCMD to 9 MMSCMD. Going forward, other fertilizer units will also get commissioned. So it will be 4 to 5 or 6 MMSCMD. Slowly, it will ramp up, depending upon the commissioning of various fertilizer plants.

Vijayant Gupta: And this tariff has been determined by PNGRB or is this bilateral?

A K Tiwari: PNGRB, yes.

Vijayant Gupta: And this would be applicable for the entire space?



- A K Tiwari:** No, for Phase-2 and Phase-3, they will further calculate and then give us. This is up to Phase-1.
- Management:** Up to Patna.
- A K Tiwari:** Up to Patna or Dobhi, you can say.
- Vijayant Gupta:** And second question on trading. So we have seen a rebound in trading margins. So what happened to those cargos which were supposed to be sold at oil-linked prices to the fertilizer units? I mean, are they being sold at spot prices and because of higher spot, we have seen the rebound in margins or has the supply to those fertilizer units resumed?
- A K Tiwari:** It is back-to-back contract. There is no such, spot has no impact on that.
- Management:** So these are winter months, so some of the outside India FOB sales from our U.S. projects, they have fetched slightly higher margin. And mainly because of that and also we have been able to get some better margin in the in-country sales within India. That has led to this higher margin.
- Vijayant Gupta:** Okay. And is there any update on those 5 fertilizer units? You had mentioned last quarter that the cargos bound for those units were sold in the spot market. When can we see those units resuming operations?
- A K Tiwari:** No, such transaction is not there in this quarter.
- Management:** No, so next year.
- A K Tiwari:** Next year, they will come up.
- Management:** Gorakhpur and Sindhri will come up next year and Barauni thereafter. And Matix will come at the end of this quarter, in Q1 of 2020-21. And Ramagundam is about to also get commissioned now shortly within the next 1, 1.5 months, it should get fully commissioned. These are the 5 plants.
- Moderator:** Thank you. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.
- Amit Shah:** I just have one question. In the past, you guys have mentioned that you actually hedge 9 to 12 months forward. So I am guessing, taking advantage of the higher crude prices in the third quarter, would you have the visibility to say that the next 2 to 3 quarters from a gas trading perspective should look as good as how the third quarter looked? Or there is no way to say something like that?



- A K Tiwari:** It will be around third quarter but hedging and all the mitigation measures as well as another ramping up of consumption in India is there. So that way, it will be around that only as you have seen in the Q3.
- Amit Shah:** Because by logic, Indian demand should probably pick up, right, considering because of China, when the prices have collapsed in this spot LNG market.
- A K Tiwari:** No, I do not think, that may be one of the factors. A factor will be our pipeline is getting commissioned more and more fertilizer and CGDs are coming up. So that will create that impact, that demand. China may be temporary, may not have much effect on that.
- Amit Shah:** So is it fair to say that does this spot LNG prices internationally at all matter to you? Like right now, it is \$3, it can be \$6. Does it change anything for you?
- A K Tiwari:** On some of the transactions, it is required. Otherwise, it has no impact because we have downstream customers tie up on the term contract or some fixed contract or whatever is there.
- Amit Shah:** Because in the past, you had highlighted that oil prices around \$55 are not the most ideal for the gas trading business. So then how does that kind of tie up? Because effectively, it all ties into the LNG price, right?
- A K Tiwari:** You are mixing two things. One is your crude prices and second, whatever the demand projection is there. The prices, which are on the back-to-back, has no impact on our profitability, right?
- Amit Shah:** The business as a whole, not specific contracts?
- A K Tiwari:** But if there is a difference between the purchase prices and these Brent prices, then, wherever required, we are also hedging. So it is a different transaction altogether. We cannot specify one point and then say that these are the only scenarios where we take mitigation measures.
- Amit Shah:** Okay. So then probably to simplify, and I am sure this is my last question. Is it fair to say that the gas trading margin in your gas trading business, which actually saw some profit erosion in the second quarter, we will not see a quarter like this at least for the next 2 or 3 quarters? Is that fair?
- A K Tiwari:** That I cannot say because nobody can predict the prices. We have to see Brent prices where it goes. But as we have already told you, that various synergies, various mitigation measures, as many times we have told you, is being taken up to arrest these. And we have shown the results. I think that is fair enough to judge.
- Moderator:** Thank you. The next question is from the line of Amit Rustagi from UBS. Please go ahead.



- Amit Rustagi:** Sir, my first question pertains to, what is the demand you are likely to see on Kochi-Mangalore pipeline? When it will get commissioned? And will it lead to higher volumes at Kochi or you think that already we have Gorgon supplies and they are sufficient to meet the demand in Mangalore?
- Management:** So the present utilization of this pipeline is around 4 million cubic meters per day, and we expect another 4 million to come up once the full pipeline is ready up to Mangalore.
- Amit Rustagi:** Sir, are you saying 4 MMCM per day, like equivalent to 1 million ton of LNG?
- Management:** Yes, 1 million ton of LNG is being sold off that terminal now.
- Amit Rustagi:** And you are saying, after Mangalore gets connected, another 1 million ton will get added?
- Management:** Yes, that is right.
- Amit Rustagi:** Okay. And sir, since we have a good mix of long-term and spot contracts, so do you see that when the regulator brings open access for the city gas distribution, we can look at some of the large industrial areas like Morbi or other geographical areas in Gujarat, which have a very high demand? And if there is any open access, what is our strategy to get the new customers on the industrial site?
- A K Tiwari:** Mr. Amit, where is the close access ?
- Management:** No, he is talking about CGDs.
- A K Tiwari:** What CGDs, Okay.
- Management:** So Amit, the CGD open access may come in future. But we are already looking at, though. Mr. Tiwari, told we are already looking at those customers, whether in Morbi or elsewhere. And we are trying to see how we can book capacity and get through to the customers because in between, there are these players who may not be giving capacity that easily.
- Amit Rustagi:** Yes, the pipeline capacity is it a big constraint or?
- Management:** There are other operators who have to be dealt with.
- A K Tiwari:** This may take time also.
- Amit Rustagi:** Okay. Sir, then what could be the modus operandi, like can we set like small scale LNG set up to supply gas in those areas?
- Management:** So all those things are going on already. We are working at many places on short-term LNG model where they install the tank and we give them LNG by road. All those things are going on already.



- Amit Rustagi:** In which geographies they are more likely? Like, which geographies you are trying it or testing these models?
- Management:** Any geography where the pipeline is not available for, say, 100 kilometers or 150 kilometers, the customer is being encouraged to set up an LNG regasification system, in-situ system, wherein they install a tank and a regasifier and the internal piping. And we give them LNG through tanker. One tanker contains about 15 to 18 tons of LNG, which may be sufficient for a small customer for many weeks maybe. That is the model in summary.
- Amit Rustagi:** Okay. But do you think that model can work for Morbi as well? Because Morbi is not, maybe 150 kilometers kind of any LNG terminals?
- A K Tiwari:** When the opportunity is there, we will do that.
- Management:** Wherever the opportunity is there, we will do that. These models are available. End of the day at the burner tip the gas has to be competitive. If it becomes competitive using the LNG model, people will buy it, and we are looking at those models.
- A K Tiwari:** That is right.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** The first question is on the gas marketing business. So if you can give us an idea as to what proportion of your volumes for FY '21, they are tied up, your contracted LNG volumes? And have any volume at all, mean any cargo at all been tied up at a loss?
- A K Tiwari:** So you are asking about the U.S. LNG?
- Vidyadhar Ginde:** Yes, even if there is some other contracted LNG which is not tied up, not just U.S., but mainly U.S., I guess, how much of your long-term contracted LNG volume for FY '21? What proportion, if you could give us some idea, 10% not tied up, 15% or 5% or whatever?
- A K Tiwari:** I will give you the exact figure. Up to Q3 of FY '20, 66 cargoes have been sold. Out of 66 cargoes, 34 cargoes have been sold in the international market. Rest has come here.
- Vidyadhar Ginde:** Sir, I am asking about next year FY '21. For next year, how much of your cargoes you are tied up? I am not asking for past. I said, for FY '21, because you had said on the last earnings call that we have tied up most of the volumes until March '20 and some of the volumes until December '20. So I am trying to get some idea on what proportion of your remaining 9 months of that is April to December or best is if you can give April '20 to March '21. What proportion of your long-term volumes you have tied up with customers?
- Management:** So for the year '21, '22, the total ?



- Vidyadhar Ginde:** '21, FY '21, yes.
- Management:** FY 2021, the total portfolio of GAIL is about 14 million tons. Out of that, about 8 cargoes as of now are unallocated. Eight, only 8 cargoes. And those cargo, we keep getting demand here from our domestic marketing group. So they will come here only as of now, okay?
- Vidyadhar Ginde:** There was a second part of the question, that out of these, are any cargoes which you have now tied up? So 8 are unallocated, balance are allocated. So the ones allocated, are any of those cargoes booked at a loss or everything is either no profit, no loss or profit?
- A K Tiwari:** That way we cannot give that figure because that loss in profit it is a figures depending upon many things. So that calculation we cannot give you. We can only give the quarter-to-quarter, whatever is there. What we want to say that most of the cargoes have been tied up and some of the cargoes, which are there, will be tied up, depending upon the demand scenario and other factors.
- Vidyadhar Ginde:** And which is very small only, that are remaining you are saying, so that is very small. Now the second question was on Brahmaputra Cracker. So it is not very clear what you said about this. So you said that about Rs. 4,600 crores of feedstock subsidy has been provided, and you got Rs. 930 crores in the December quarter. So this Rs. 930 crores relates to which period? It relates to the current year or it relates to more than 1-year period?
- A K Tiwari:** Now let me further clarify to you. Brahmaputra Cracker and Polymer Limited is a subsidiary of GAIL. And BCPL is operating at in Assam, right? So in order to maintain the profitability the government has given feedstock subsidy of Rs. 4,600 crores for 15 years to maintain the IRR of 10%. So while closing the accounts, they have accounted Rs. 930.49 crores for the period, '15/'16, '16/'17 and '17/'18.
- Vidyadhar Ginde:** So how much of this is for prior period?
- A K Tiwari:** That I cannot say because this is their account. They have done it. You can easily calculate- all are prior period.
- Management:** All are prior period.
- Vidyadhar Ginde:** So all is prior period. So this is all past period. And can you give us the profit of Brahmaputra Cracker for 9 months and Q3?
- A K Tiwari:** At present, we cann't give. Wait for me 2 minutes. Let me find out, and you can ask another question. We will give the profitability. Let me find out.
- Vidyadhar Ginde:** So actually okay, then in terms of the volumes you have tied up, that includes next year, which you were talking of coming back of marketing?



- A K Tiwari:** For 9 months, the profit is Rs. 704 crores.
- Vidyadhar Ginde:** Okay. And Q3?
- A K Tiwari:** Q3 is Rs. 848 crores because which has been absorbed with the losses of Q1 and Q2. So up to Q3 is Rs. 704 crores.
- Vidyadhar Ginde:** So basically, you have received no subsidy for the current year actually? So which will come at some stage, I presume?
- A K Tiwari:** It will come. There is a process involved in that. Whatever they have given.
- Vidyadhar Ginde:** So it comes with a lag, is it?
- A K Tiwari:** The order has recently come. We will follow up.
- Vidyadhar Ginde:** Okay. Last question, what proportion of your contracted long-term LNG is tied up and is expected to be sold to fertilizer plants in FY '21? Some rough idea.
- Management:** Everything - more or less.
- A K Tiwari:** This we cannot give you.
- Vidyadhar Ginde:** But the fertilizer plants which you mentioned, which are coming up in next year or earlier, so those are the plants which are going to take the long-term contracted volumes only?
- A K Tiwari:** These are the confidential information. You come down here we will tell you everything.
- Moderator:** Thank you. The next question is from the line of Varka Ranjan from Systematix. Please go ahead.
- Varka Ranjan:** Can you give me an update on the separation of pipeline and marketing business, which we keep hearing in the media?
- A K Tiwari:** Whatever you are seeing in the media, that we are seeing in the media. So there is no such further we have to anything further add up.
- Varka Ranjan:** Okay. The second question was, post the fertilizer plants, all of them starting up, how much of U.S. volumes will still be have to be placed outside?
- Management:** Nothing, all of them will come here.
- Moderator:** Thank you. The next question is from the line of S. Ramesh from Nirmal Bang. Please go ahead.



- S. Ramesh:** Sir, if you look at your graph, transmission volume has gone up by about 3 million cubic meters per day. So can you give us a sense also where this growth has come from? And can we assume the incremental volume of that 4 million cubic meters a day you mentioned, for next year to be on the base of 110 million cubic meters a day?
- A K Tiwari:** So these are ramping up consumption. 110 million is the volume for this quarter, right? 110.35 MMSCMD.
- S. Ramesh:** Yes. So there is an increase obviously because last quarter, you had a problem in off take some of these fertilizer units. This will not draw the gas. So part of the increasing volumes due to those customers who have started drawing gas or is it from some other customers?
- A K Tiwari:** It is mix of that, customer drawing gas as well as the ramp up of volume - both are there.
- S. Ramesh:** And in terms of the FY '21 and the '22 expectation on the fertilizer plants, what is your sense in terms of the time line for the fertilizer companies commissioning? Like for Matix you said, they are ready to take gas by end of March and Ramagundam by end of March. But how are the other 3 plants? Are these projects progressing well or is there risk that there could be some delays in terms of their completions for FY '21 or '22?
- A K Tiwari:** No, all the fertilizer plants as well our pipelines are coming parallelly so that some will come in this year, some of them in next year.
- Management:** By Next year. By 2021, all these plants will come up.
- A K Tiwari:** All these, yes by 2021.
- S. Ramesh:** So they are all on track?
- A K Tiwari:** Yes.
- Moderator:** Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.
- Bhavin Gandhi:** Firstly, sir, if you can share with us the regulator has floated a public consultation document on reduction of tariff for taxation for the tax reduction. So can you quantify what could be the overall tariff reduction that GAIL might have to see?
- A K Tiwari:** We have no such figure at present.
- Management:** And moreover, whatever will be the tariff reduction will be actually reduction in the tax also. So we should not be bothered.



- Bhavin Gandhi:** Sure, sir. And the second part, sir, if you can share with us the split of U.S. LNG volumes in the quarter that was placed in the domestic market and outside India?
- A K Tiwari:** That way we do not have such figures. We cannot speak for this quarter. Whatever the volume are there had been tied up, and we are selling. It has been tied up.
- Moderator:** Thank you. The next question is from the line of Mayank Maheshwari from Morgan Stanley. Please go ahead.
- Mayank Maheshwari:** The first question I had was, in any way, are you taking advantage of the current prices in the last couple of months you have seen prices of spot LNG. Is there any way GAIL can actually benefit out of it?
- A K Tiwari:** We do not have such advantage because we have a long term tie up ; upstream and downstream both are tied up. So we do not have such advantage. Wherever, it is there we get very, very, very minimal.
- Mayank Maheshwari:** Okay. And sir, the other question was related to the LPG segment. If you look at your net realizations on LPG, they have been largely flat on a sequential basis for the past 2 quarters, despite this quarter, you have seen some improvement in LPG prices. Any specific reason for that?
- A K Tiwari:** We will come up on this later on.
- Moderator:** Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** So three questions. First, sir, can you give us a sense of the 14 million ton GAIL contracts of LNG, how much at this point of time is scheduled or hedged to be sold outside and how much will be brought into India?
- Management:** Last 12 months, 2.5 million tons was sold outside. Going forward, we estimate this quantum to go down.
- Pinakin Parekh:** Secondly, sir, at this point of time, given whatever hedges you would have entered, are any of your U.S. or any external volumes sold to a counterparty in China, which could be at risk because we have buyers declaring force majeure in China?
- Management:** No, we have not sold anything to Chinese counterparties.
- Pinakin Parekh:** My last question is that we keep on hearing about the gas exchange in India. So can you give us some color as to is there any progress on it or is this just a media hype? And if it were to take place, would it impact GAIL in any way in terms of how it sends its volumes into India?



- A K Tiwari:** So this gas exchange, what you are listening, we are also listening. How it will come? PNGRB is deciding for that. And what would be the methodology? We cannot say which volume will be traded in that way. So as soon as something concrete will come, we will tell you.
- Moderator:** Thank you. The next question is from the line of Vikas Jain from CLSA. Please go ahead.
- Vikas Jain:** Sir, this is on gas trading. Now when you say that all your cargoes except 8 are allocated, what exactly do you mean by allocated? I mean what kind of hedges? Are we talking about hedges? Are we talking about when we are specifically talking about hedges, is it just hedging in terms of price or is it just hedging in terms of destination swaps? What could be the breakup of that? If we could have some sense on that.
- Management:** So what we cannot share is what is the share of each of these, but we can tell you there are back-to-back agreements. There are destination swaps, and there is something called a financial hedging being done. So all in all, we are able to tie up all the cargoes and sell them for the entire financial year.
- Vikas Jain:** Sir, correct me if I am wrong, but in case of destination swaps, there, the price risk would still, to some extent, remain on you. But in case of the others, of course, it will be lesser. So that is why I am?
- Management:** Only time can tell you what the risk is. If at all it is there, that also can be hedged at that point of time.
- Vikas Jain:** Okay. And sir, so why I am asking you is that it is a little bit confusing when you say that you are hedged?
- Management:** So there are two types, one is a volume risk, one is the price risk. Volume risk is already covered. And the price risk in terms of time is what may lead to some exposure, which also can be hedged.
- Vikas Jain:** Okay. Sir, I understand that there is only limited that you can share about your hedging policy. In that case, to come down to the more results of those hedging-, your gas trading profit last quarter was rather depressed. This quarter, it has picked up from the last quarter.
- So as you are seeing the trends so far, nearly 1.5, half of the quarter is over. There is no reason for us to believe that the coming quarter, where LNG prices are very depressed, that is why we are concerned, would be closer to the 2Q number. There is no reason for us to fear that. Is that a reasonable statement to make?
- A K Tiwari:** Yes, reasonably, you can estimate that way.
- Vikas Jain:** So 3Q is a better guide for the future quarters, rather than Q2 quarter?



- A K Tiwari:** We cannot give you a specific numbers at this stage because there are so many factors. Vikas, your question? Q4 is going to be as bad as Q2 or as good as Q3? What is your question?
- Vikas Jain:** My question is, which one is a better guide of future quarters? I understand that there is a move, which can happen in terms of certain quarters, one-off things happening like you were explaining last quarter?
- A K Tiwari:** The answer is that Q3 is a better guide.
- Moderator:** Thank you. We will take the next question from the line Raj Gandhi from SBI Mutual Fund. Please go ahead.
- Raj Gandhi:** You shared the GAIL GAS numbers. However, from what we understand, in your City Gas investments are spread across a lot of entities and even standalone has a few of City Gas investments. So will it be possible for you to kind of consolidate and give us some number on the City Gas? Because this is just one entity.
- A K Tiwari:** On the GAIL Gas, which is 100% subsidiary of GAIL. That is there that we can give you. And that number already we have given the number of GAIL Gas.
- Raj Gandhi:** There is no particular entity, your City Gas investment, from what I understand is spread across. So there is no as such legal entity but can you just aggregate the numbers across several entities what you have and just give one number for City Gas?
- A K Tiwari:** These are available in the consolidated way because so many JVs are there who are in City Gas, like Mahanagar or IGL, and then your Green Gas and so many other entities are there. Their consolidated numbers will be available in the consolidated financial statement. So if you want to have any specific number for any cities, that we can provide you separately. There is no problem.
- Raj Gandhi:** So let us say GAIL Gas is there, IGL MGL is available. Outside that, in your standard various subsidiaries, in your stand-alone, how much investment would have gone into City Gas by now? Any number that you can share?
- A K Tiwari:** That number I cannot give you at present because every city has a different investment number. On rough side, it is around the Rs. 3,000 crores, you can say, the total investment. But these are the rough numbers I am giving you. There may be our share or something like that we have to see.
- Moderator:** Thank you, sir. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Deep Shah for closing comments.
- Deep Shah:** On behalf of AMBIT Capital, I wish you all the very best, and thank you everyone for joining the call. I now hand over the call to the management for their closing comments.



GAIL (India) Limited

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February 10, 2020*

A K Tiwari:

Thank you very much. I think it was a nice discussion with the investors, and management has tried to give all the information, including the demand, which was there from the investors many times related to the environment safety, related to the risk mitigation and related to GAIL Gas and others. So management has tried to give all the information in detail.

And with this, I thank very much to all of you, and good evening again. Thanks a lot.

Moderator:

Thank you. On behalf of AMBIT Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.