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“GAIL (India) Limited Q2 FY17 Earnings Conference Call”

November 15, 2016



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MR. M. B. GOHIL, EXECUTIVE DIRECTOR (PC-O&M)
MR. R. C. GUPTA, EXECUTIVE DIRECTOR (F&A)
MR. MANOJ JAIN, EXECUTIVE DIRECTOR (GAS MKTG)
MR. ANIL KUMAR SAHNI, GENERAL MANAGER (F&A)
ALONG WITH OTHER SENIOR OFFICIALS

MODERATOR: **MR. HARSH DOLE – INDIA INFOLINE LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the GAIL Q2 FY17 Earnings Conference Call hosted by India Infoline 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. Harsh Dole from India Infoline Limited. Thank you and over to you, sir.

Harsh Dole: Thank you. Hello, Everyone! On behalf of IIFI, I welcome you all to the Second Quarter Earnings Call of GAIL. Today to discuss the performance of the quarter gone by and share outlook on the forthcoming quarters, we have the senior management team of GAIL, represented by Mr. Subir Purkayastha -- Director, Finance, along with his colleagues. I would request the Director, Finance first to basically comment on the quarter gone by followed by his remarks on the subsequent quarters, then we shall throw open the call for the Q&A. Over to you, sir.

Subir Purkayastha: Thank you very much for the introduction. A Very Good Evening to all of you. I am Subir here along with my colleagues, Mr. P. K. Gupta; Mr. M. B. Gohil, Mr. R. C. Gupta, Mr. Manoj Jain, representing various departments and sections to respond to your queries. So once again, welcome to this conference.

I presume that you had the opportunity to look at the physical and financial numbers; the physical numbers have been put on GAIL's website, nevertheless, we will be going through it as we move on.

To begin with, I would like to state that this particular quarter has been quite exciting and quite positive for us in the sense that the physical performances have been on the positive side. We have clocked higher physical numbers as compared to the previous quarters and obviously, on half year basis or on a quarterly performance on year-on-year basis, it has been a positive sight. So buoyed by this typical performance, the company has been able to report higher profitability in this Q2. Although in Q1, we had a profit of about Rs.1,335 crores, but that included a one-off kind of item in the form of sale of MGL shares, which contributed nearly Rs.500 crores. If we take out that, the Q1 profit would be at around Rs.850-odd crores as against this, we have accounted for Rs.925 crores. In this Rs.925 crores, there are two major provisions which have been made -- One is the write-off of dry well amounting to Rs.94 crores and another is a provision with respect to VAT liability which is about Rs.64 crores. So these are the two negative items which has impacted the profitability of this quarter. After accounting for that, as I said, our profitability for this quarter is about Rs.925 crores. So, on the turnover side, on quarter-on-quarter basis, the turnover has been up by 11%, and on the profitability side, negating the one-off kind of benefit in Q1 for the MGL shares, the profits are up by 9%.



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On Segmental basis, Petrochemical segment has been one of the performing segments so far as GAIL is concerned so is also the Liquid Hydrocarbon segment, that has also showed some improvement in this quarter. The profit has also been helped by a fact that we have been able to prepay some of the loans, as a result of which the interest cost in the Petrochemical segment have been lower by Rs.31 crores. So that has led to the contribution of Petrochemical segment. The Petrochemical segment saw a profit of about Rs.104 crores as compared to Rs.9 crores in the previous quarter. So all in all, I would say the profitability has been in line with our expectation.

With that, I would now go back to you and start the proceedings so far as the Q&A is concerned.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. We will take the first question from the line of Dhaval Joshi from Emkay Global. Please go ahead.

Dhaval Joshi: Sir, just wanted to know, is there any change in your Petrochemical guidance versus what you have given in the last quarter? Second, what is the average cost of gas during this quarter in Petrochemical and how much quantity you use currently considering your current production run rate?

Subir Purkayastha: Dhaval, it may not be possible to give you the complete answer because all the information is not readily available with me at this point of time, maybe at a later point of time, we can have a one to one discussion with my team. So far as the guidance on Petrochemicals, as compared to Q1, both production and sale has gone up in this quarter and just to state at this point of time, the month of October in this quarter has been really good, but we have to wait and watch how the next two months they perform. As you know, because of demonetization, there are changes happening in the downstream sector as well. There could be some logistic issues somewhere which needs to be resorted out. Therefore we are keeping our outlook on November and December under watch and we will see in the next couple of days how things plan out.

Dhaval Joshi: But correct me if I am wrong, your physical performance is not yet uploaded in your website at this point in time. So, can you give us the physical performance of across the segments in terms of volumes basically?

Subir Purkayastha: I have been told it has been uploaded in NSE.

Dhaval Joshi: I will just check it from there. Interest costs on Q-o-Q, it has declined. Is there a repayment happened during the quarter and that is why we have seen decline in interest cost?

Subir Purkayastha: We have prepaid I would say nearly Rs.400 crores in this quarter which has contributed to lower interest cost as well.



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- Dhaval Joshi:** Going forward also, do you see the similar repayment in the quarterly or...?
- Subir Purkayastha:** Normal repayment was about \$150 million of loan which was existing has been paid in addition to the prepayment which has been made. Going forward I think we will continue to have this normal repayment. Prepayment at this point of time is slightly unlikely.
- Moderator:** Thank you. The next question is from the line of Probal Sen of IDFC Securities. Please go ahead.
- Probal Sen:** Just wanted to get a sense if I can in terms of the Petrochemical business., you obviously spoken about volumes and sales both being higher, but maybe get a sense that have the margins also improved a bit in the quarter?
- Subir Purkayastha:** Yes, that is reflected in the profitability in this particular quarter from the Polymer segment. As you would have seen that in the last quarter, we had a profit of about Rs.9 crores only, and in this quarter our profit rose to Rs.104 crores. That was on account of mainly increased sales volume as well as some reduction in the cost of production and beside the interest cost of course.
- Probal Sen:** The other question was about the US contracts that we have for the offtake of LNG. May we get more update in terms of whether our swap arrangements, have we actually managed to tie up more volumes from and when can we actually start receiving the first gas?
- Subir Purkayastha:** Contractually, those gas are to come in the first quarter of calendar year 2018. So far as the tie-up is concerned, this is going on. Since this conference is limited to discussion on the quarterly results, I would like to limit myself on that.
- Probal Sen:** On the LPG price trends, we have actually seen quite a bit of improvement as far as Q3 prices are concerned. Just wanted your views on whether you are seeing margins actually improving? You already spoke about the higher numbers for the LPG and Liquid Hydrocarbon segment. But what we have seen is that 3Q trend seem to be even stronger.
- Subir Purkayastha:** Margin is going to come mainly from the lower cost of production. In fact, if we were to compare between Q1 and Q2, the LPG prices were lower about 7% in this particular quarter. But what has saved the day and what has maintained the profitability is the fact that cost of production has also been lower. So that is where we have gained on this account.
- Moderator:** Thank you. The next question is from the line of Aditya Gupta from Narnolia Securities Limited. Please go ahead.
- Aditya Gupta:** Sir, I want to know the CAPEX in second quarter of 'FY17?



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- Subir Purkayastha:** The CAPEX for this quarter was about Rs.450 crores.
- Aditya Gupta:** What are the major expansion plans which are ongoing this time?
- Subir Purkayastha:** You must have read in the newspapers about the cabinet approving the Jagdishpur-Haldia, Dhamra pipeline. So that is the project worth Rs.12,000 crores, of which 40% will be through capital grant from the Government of India. So we are already in the status of executing the Phase-I which is entailing capital expenditure of about Rs.3,500 crores. So that is very much on. Shortly, we will be taking the necessary approval from the Board for going for Phase-II for the rest of the pipeline system which would be the balance expenditure from this Rs.12,000 crores project.
- Aditya Gupta:** What will be the expected date of completion of this project?
- Subir Purkayastha:** There are two timelines, it will start from December 2018 onwards in phases going up to December 2020.
- Moderator:** Thank you. The next question is from the line of Raj Gandhi of Sundaram Mutual Fund. Please go ahead.
- Raj Gandhi:** Sir, just on this Transmission tariff revisions, any update from the PNGRB side, where are we on various pipelines?
- Subir Purkayastha:** During this quarter, there has been no further intimation of the tariff from PNGRB. There was one in Q1 which we have already accounted for. But in Q2 there has been no further announcement so far as the tariff is concerned.
- Raj Gandhi:** Any progress on any other pipeline?
- Subir Purkayastha:** There are not much of progress on that front.
- Raj Gandhi:** Sir, just in some newspaper article read that, our new Petchem facility is operating at 90% utilization in October. So could you possibly confirm this?
- Subir Purkayastha:** Yes, it is confirmed, in the month of October the plant operated on an overall capacity utilization of about 90%, old plus new, combined.
- Raj Gandhi:** Sir just that segmental numbers are out, the EBITDA over the previous year does not match. Is there any revisions per se, like gas Transmission you saw in the corresponding quarter being at Rs.770 crores on the thing uploaded today, whereas the sales...I will just clarify that later.



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- Subir Purkayastha:** There could be some change because of the implementation of IND AS effect from 1st of April '16. So there must have been some readjustment done on that.
- Moderator:** Thank you. The next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.
- Mayur Patel:** Just want to confirm one thing, you mentioned the current utilization in your PATA plant is 90%, including the new one?
- Subir Purkayastha:** Yes.
- Mayur Patel:** The units have stabilized in terms of the utilities and other things?
- Subir Purkayastha:** Yes.
- Mayur Patel:** I tried checking on NSE but I did not get any document on the volumes. Can you just give me just one number, this natural gas Transmission volumes were how much for this quarter?
- Subir Purkayastha:** Transmission volumes for this quarter was 100.86 mmscmd.
- Mayur Patel:** Was there any provisions or write backs anything in this quarter in Transmission segment?
- Subir Purkayastha:** In this segment, there was no provision or write-offs.
- Mayur Patel:** In other segments?
- Subir Purkayastha:** In the LPG segment, we had a provision of about Rs.64 crores, that is as I said towards the VAT demand from the tax departments which is being challenged of course. The other one was the dry well write-off which is in the other unallocated segment which was about Rs.94 crores.
- Subir Purkayastha:** One point I thought that should be fair on my part to also tell you that we also received dividend of about Rs.200 crores in this quarter which was not there in Q1.
- Mayur Patel:** This is from which subsidiary?
- Subir Purkayastha:** These are the final dividend which has been paid by all the joint ventures and Equity Investment.
- Mayur Patel:** Listed investments?
- Subir Purkayastha:** Yes.



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- Moderator:** Thank you. The next question is from the line of Vaibhav Goyal from SBI Life Insurance. Please go ahead.
- Vaibhav Goyal:** So we have increased our 10 mmscmd Transmission volume. Some brief on the sectors which have taken that on YoY comparison basis?
- Subir Purkayastha:** I will get the information just after a couple of minutes.
- Moderator:** Thank you. The next question is from the line of Badrinath Srinivasan from Credit Suisse. Please go ahead.
- B Srinivasan:** On the East India pipelines, will you be waiting for your major offtakers to also start seeing some progress or do you intend to spend the CAPEX as per our schedule?
- Subir Purkayastha:** As per the CCA approval, these fertilizer plants which are the major anchor customers which are likely to come, they are to be in synchronization with the commissioning of the pipeline. So we are also therefore keeping a watch on the progress of setting up of these fertilizer plants. So yes, our view is that we should be trying to incur the CAPEX in synchronization in tandem with the fertilizer plants which are likely to come up somewhere around 2019 or so.
- Moderator:** Thank you. The next question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.
- Pinakin Parekh:** Two questions sir: There seems to be a very sharp reduction in the implied Petchem production cost on per ton basis on Q-on-Q basis. Sir, just wanted to understand the split between the benefits from lower feedstock vis-à-vis the ramp up benefits and are these steady cost or can they decline further from here?
- Subir Purkayastha:** So one of the major factors is because when you work out per ton basis, obviously the production numbers are very important. So on the fixed cost side, the moment you have higher production, the fixed cost per unit comes down. Secondly, we have been also able to reduce the gas cost per unit, because as you know, as I said, in July, we have been able to by and large stabilize the plant, and therefore the energy required per unit has also been lower as compared to the previous quarters. Of course, besides that, as I said, we have been also able to source slightly cheaper cost gas for the petrochemical plant.
- Pinakin Parekh:** Sir, I was just trying to understand from here, for some time we had seen spot gas prices move up in line with higher crude prices. So has the cost of production bottomed out at the Petchem plant from mere marginally take higher or you expect this cost to sustain at these levels or even move lower?



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- Subir Purkayastha:** You are right, although we have been using spot LNG for our petrochemical plant also and that is therefore the cost of production is subject to the vagaries of the movement of the spot prices, but we are trying to also source some alternative sources as well, we have been sometimes using some domestic gas as well for this which is not under the APM. So for a brief moment, we will enjoy this benefit, but it may not be a lasting kind of situation, therefore there could be a tendency that the cost may go up slightly once we lose these spot prices and if they continue to be higher as compared to what we saw three months back.
- Pinakin Parekh:** Sir, in terms of the gas imports, can you give us a sense of what is the volumes that GAIL purchased from RasGas this year as part of their annual contracts because we understand it has to be 90% now of the annual or is it still 80%?
- Subir Purkayastha:** No, our commitment with them is 4.8 mtpa with Petronet with respect to the RasGas volumes.
- Pinakin Parekh:** Sir, how much has been purchased through the year so far?
- Subir Purkayastha:** We have taken the entire quantity proportionate to the month of October. There has been no default on that account.
- Moderator:** Thank you. The next question is from the line of Maggie Sun from Hermes Investment. Please go ahead.
- Maggie Sun:** I have several questions: So first of all, can you give us some color on why the Transmission volume increased? What kind of gas contributes positively to the natural gas trading margin and why was it, is it likely to stabilize? What is the outlook for the LPG... what is the kind of utilization level at end of the year? I know that you do not really give the guidance on the Petrochemicals price. Just wondering do you see the spread of the Petrochemical is going to be stable to the end of the year?
- Subir Purkayastha:** To your fourth question, yes, we are moving towards that direction only. The upheavals that we saw in the last financial year and also to some extent in the first quarter of this financial year perhaps a thing of the past and we would see stabilization so far as the cost of production is concerned, of course, there would be some vagaries with respect to the spot LNG prices, which are **(Inaudible) 26:26** of polymer production. To that extent, yes, there is that impact on the margins which will happen. But going forward, the margins will depend upon how the Polymer prices behave as we move forward as it is between Q1 and Q2 we saw slight dip in the price realization and whether it will continue in the Q4 as well is something which we have to wait and watch. Our feeling is that the current level of prices should remain without there being further devaluation in the prices. So margin by and large within a range of I would say 10% should be stable.



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Maggie Sun: What the utilization level for the LPG production by the end of the year, I know it has been bad for three quarters?

Subir Purkayastha: The LPG production in this quarter has been slightly lower than what it had been in the last year's quarter, but it is slightly better if you compare on Q1 versus Q2 kind of a situation. So the LPG productions are likely to be stable at the Q2 levels. Going forward, we anticipate certain improvement in margins due to two factors -- One, better price realization and secondly, due to lower cost of production.

Maggie Sun: How do you lower the cost of production?

Subir Purkayastha: The cost of production is likely to go down because the bulk of the cost of production is on account of the domestic gas which is consumed for LPG. So starting 1st of October, the domestic prices have been lowered by close to 20%. So that is likely to add to my margins so far as the LPG segment is concerned.

Maggie Sun: Why has the Transmission volume increased this quarter?

Subir Purkayastha: In this quarter, this has increased by about 5% and Transmission volume has increased mainly because higher Transmission which has been borne by the shippers, mainly BPCL and IOCL. BPCL has been able to increase their Transmission volume, particularly on the Kochi pipeline segment where they have been taking additional gas to the extent of nearly 1 million cubic meters of gas per day, and similarly IOCL has also been because they must have won some contracts under the bidding for fertilizer plant. So they have been able to increase their Transmission volume also. So all in all, there has been an increase of nearly 4 million cubic meters of gas per day and out of that, nearly 3 million is accounted by the shippers as such.

Maggie Sun: What kind of that gas contributed positively to the Natural Gas trading margin for this quarter?

Subir Purkayastha: As usual it is the spot prices because most of the long-term gas is on back-to-back basis, where we get a fixed margin. The margins therefore are merely available in the trading of spot cargoes.

Maggie Sun: Have you found any new customers for the US contracts?

Subir Purkayastha: That is work in progress.

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

Raj Gandhi: LPG Transmission side, we see a huge uptick in volumes. Any particular reason for that during this quarter? Quite some time this was seeing decline, but for this quarter, we have seen a very



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decent uptick there. We have just crossed 700,000 kt once in last five quarters, this quarter, it was 827,000.

Subir Purkayastha: So the main increase has come in from the JLPL side, there has been an increased Transmission coming in from both Essar as well as the Kandla Import Terminal of IOC. That is the main reason and there has also been a slight increase in the volume on the VSPL pipeline system as well.

Raj Gandhi: So you expect this to continue now? What is the outlook here? Have we added some pipeline here because I do not recollect us doing any CAPEX on this segment?

Subir Purkayastha: We have not really added, but in the past years Kandla terminal had been under shutdown sort of a situation. So this has now come back and with winter coming in and the winter setting in I think the LPG Transmission volumes are going to remain the way it is and may also increase slightly.

Raj Gandhi: What sort of volume uptick if at all if you could give can we see on this segment going forward?

Subir Purkayastha: On this segment, this is something which is not within our control, we are just the shippers, at the end of the day the OMC who decide upon the demand/supply kind of a situation.

Raj Gandhi: Because since LPG demand was growing, but our LPG Transmission segment if you see over last 5-6-years was going down. There was a bit of disconnect between the actual LPG consumption versus...

Subir Purkayastha: I would not say 5-6-years, but at least 5-6-quarters certainly and that was mainly because IOC went on for a shutdown of its Kandla Import Terminal. Meanwhile Reliance Jamnagar which was earlier supplying into the system also went off the line, which has now been recently replaced by Essar, Essar is now pumping in, this is what we understand. But the entire dynamics is something which the OMC would be able to explain better than we can do.

Raj Gandhi: Your Natural Gas Transmission if I were to just see your revenue per MSCM and your EBITDA per MSCM, from what you report segmental EBITDA and revenue that you report, your tariff is almost coming flattish at around Rs.1,080 range but your EBITDA has moved up from Rs.750 to Rs.900 there over the last three quarters. So, any particular reason, sir? The implied OPEX is down from Rs.450 to Rs.275.

R.C. Gupta: The point is that in the Natural Gas Transmission segment, the cost is also coming down because the internal consumption of this, the price has come down, on the other hand, some of the tariffs of the pipelines has increased, so that will continue as decided by PNGRB. So two-way impact. So this is now what is coming is going to continue.



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- Raj Gandhi:** So, basically, you are taking out APM gas for internal consumption in your Transmission segment?
- R.C. Gupta:** Obviously, for this Transmission segment, it is for the Transmission of this thing, so we are allowed.
- Raj Gandhi:** In Petchem, you mentioned that you have also used some spots and all which were way to cheaper than Qatar also. So is it possible to give gas mix how much Qatar, how much spot did you use for Petchem?
- R.C. Gupta:** What we can share is that it is in the interest of the of Petrochemicals segment that we use the gas which is the cheapest available in the market. So it is the effort of the plant to secure the gas at the cheapest price. So it is a mix which will keep on changing depending on the availability and the ability to source.
- Moderator:** Thank you. The next question is from the line of Avadhoot Sabnis from CIMB. Please go ahead.
- Avadhoot Sabnis:** The Balance Sheet you provided, there is no comparison for the March numbers. I just wanted some clarity. The investment number is given as Rs.9,672 crores. Is it comparable to the March number of Rs.4,500-odd crores? Is there that kind of increase in the long-term investments? Could you clarify if that is the case what that number is, where the additional investment has gone?
- Subir Purkayastha:** Now, we have to reflect the investments, which are not in the joint ventures at the market value. So I think this is an impact of the IND AS where we have to value particularly the ONGC shares which is there in our Balance Sheet at market price. So this was of course not there as on 31st of March 2016 and on 1st of April when we had moved over to IND AS, we had to mark the share price of ONGC and another small company at the market price which has been reflected in the results. So this is the main reason why you see an increase in these numbers, of course, although there has been no actual physical investment in joint ventures of other related companies.
- Avadhoot Sabnis:** Basically, what I am trying to understand is, when you bill customers, whether it is for gas, Petchem, etc., I do not think you would have such a long credit period, where receivables will be over 12-months due. So could you just clarify what this is exactly about?
- Subir Purkayastha:** Avadhoot, we will just come back, because we are not having further details of the numbers that we are looking at. You are comparing two numbers? I am just looking at a Rs.920.33 crores number as on 30th September and just asking why is it due over 12-months?



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- Subir Purkayastha:** In fact, on year-on-year comparison if you do, in fact it has come down by 30%. A year back, it was about Rs.1,200 crores, now it is Rs.920 crores. It is quite possible that many of them are on which we have disputes for which necessary provisions have also been made. So that perhaps could be the reason, but I need to double check on that explanation.
- Avadhoot Sabnis:** But I presume these numbers will be net of the provisions, right, this will be the net receivable even after provisions. I am asking why is any debt due more than 12 months. That could not be a normal credit period, right. I would assume your normal credit period would not be more than what, 2-3-months?
- R.C. Gupta:** These are old disputed court cases, where we are not able to recover the money. These are basically those cases.
- Avadhoot Sabnis:** But if it is due over 12-months, you are still confident of recovering?
- R.C. Gupta:** This is net of provisions. So we are hopeful of getting this money.
- Moderator:** Thank you. The next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.
- Mayur Patel:** In the current onset of winter, the LNG prices in the spot market is going up to around \$6.50, \$7. So I would like one of your marketing team members to comment on how is the market currently both for the replacing RasGas and also on the spot side, are you facing any challenges or things are pretty smooth in terms of marketing both spot and also the RasGas?
- Subir Purkayastha:** Yes, we are not facing any constraints so far as marketing of the RasGas volume is concerned, in fact, we are not facing any challenge as of now so far as the spot LNG is concerned. This is the current position. In fact, our volumes had slightly gone up if you look on quarter-on-quarter basis, so they have slightly increased. So as of now, although there has been some increase of late in the spot prices, we have not faced any problems, so customers are taking that gas. So no issue as of now.
- Mayur Patel:** Any specific trend would you like to highlight by the marketing guys in terms of offtake increase maybe in fertilizer, power or any specific sector, are you witnessing any uptick in the gas offtake?
- Subir Purkayastha:** Of course, if you see on a year-on-year basis, the offtake by the fertilizer plants has been higher and so also has been the power sector. But on the power sector side, it has been mainly on account of the PSDF support. Unfortunately, the volume offtake that we were expecting on the power side from PSDF support particularly for the Andhra Pradesh region has not taken place. So from the current levels if there is some possibility that some of the power consumers



in the south may take some additional gas going forward in the next 1-2 months, so there could be slight increase in the offtake in the Power segment.

Mayur Patel: Next question is on Dabhol Terminal. Because the post monsoon Dabhol normally starts, so how the operations and number of cargoes are received, anything which you can share with us?

Subir Purkayastha: You are right, in fact, we started the Dabhol operations in September as compared to what we did last year it was started in October, but this time we could start somewhere in end of September. What really has happened as I was narrating, the offtake of gas by the southern power companies have not taken place the way it was expected as per the PSDF bidding route, and as a result of which so far we have been able to bring in only two cargoes in Dabhol, we are expecting very shortly another cargo in Dabhol. So the operation of Dabhol is slightly muted as compared to what we had expected and that has been mainly on account of the lower or low offtake by the power consumers in the southern sector for which it was planned for.

Mayur Patel: Any progress in the Kochi pipeline?

Subir Purkayastha: Yes, on the Kochi pipeline one of the section order has been awarded, the construction is in progress. Looking at the progress, how it moves, we will be shortly going for tender and award of the balance sections. So the real test is how the performance of the section which is already under execution how it pans out. But certainly, ground realities are much-much better than what we had foreseen in the past. As we move forward, we hope that we would be able to successfully award the contest for the balance sections as well. Of course, the Tamil Nadu section is still in a bit of a limbo because of the reasons you must be aware of. But on the Kerala side, certainly we are making good progress.

Mayur Patel: How much is left in terms of awarding... is that quantifiable in terms of the stretch of the pipeline?

Subir Purkayastha: There are altogether four sections in Kerala region, three sections of about 340 Kms are to be awarded, about 200-odd Kms have been awarded.

Mayur Patel: ROU is also pending for all the three?

Subir Purkayastha: ROU also barring a few areas in one particular section, things are okay, we are getting the number of panchnama, which have been obtained is also quite good. So we hope that as and when we go for the award of the balance pipeline section so we will have sufficient amount of ROU for the contractors to execute the pipeline. There could be some hitches here and there, but we hope this time with the support of the government which is much more positive and forthcoming as compared to our experience in the past, things should be in a much better condition than what it was in the previous years.



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- Mayur Patel:** Is it possible to put a deadline or target in terms of... I know it is a difficult one....are you having internally for this project?
- Subir Purkayastha:** It will at least take another 2-years I would say to complete the pipeline system.
- Moderator:** Thank you. The next question is from the line of Maggie Sun from Hermes Investment Management. Please go ahead.
- Maggie Sun:** Just two more on the Balance Sheet: I see your inventory as a whole from your Balance Sheet has gone up a bit compared to the same period last year and also compared to this last quarter. So just wondering what is that extra inventory relating to? Why is your fixed assets gone down from the previous quarter?
- Subir Purkayastha:** I will request my colleague Mr. Anil Sahni to respond to both the questions please.
- Anil Sahni:** As you are aware there has been a change in the accounting standards, as per the Indian Accounting Standard (IND AS) that has been made applicable, so we have done componentization of the assets and based on the latest guidelines, whatever assets are required to be capitalized, we have capitalized those assets and that is how there have been some changes, some movements here and there on the assets evaluation that you have reported.
- Maggie Sun:** Why is your inventory up from previous quarter?
- Anil Sahni:** Same holds good for inventory also because the position of inventory changes because of the Indian Accounting Standard provisions for the same reason. As you know the Petrochemical expansion happened, so thereafter we have done all the last mile capitalizations, so the inventories may have gone up on account of that side also.
- R.C. Gupta:** That includes finished goods inventory also and the petrochemical plant capacity has been expanded. So the production is more in this quarter and because there is certain accumulation of inventory also.
- Moderator:** Thank you. The next question is from the line of Aishwarya Agarwal from Reliance Mutual Fund. Please go ahead.
- Aishwarya Agarwal:** Sir, just want to understand how we should see the Transmission volume going forward... do you see some meaningful demands coming in from any of the sectors, it could be refining or the power or we should continue with existing run rate?
- Subir Purkayastha:** The bias is more towards the existing run rates rather than seeing any major uptake on the volumes as such. As of now this is how we see.



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- Aishwarya Agarwal:** Coming to this HVJ-DVPL pipeline, is tariffs are expected to get revised, and if it is so when we should anticipate that?
- Subir Purkayastha:** We really do not know when are they going to be revised whatsoever with respect to the revision of the HVJ pipeline tariff.
- Aishwarya Agarwal:** Whatever LPG production we have done in this quarter, should we foresee these volumes to continue in future or there will be any decline?
- Subir Purkayastha:** On the LPG production, by and large things could be stable, but there are two areas where we have got real challenge -- one is the availability of sufficient gas for our Gandhar LPG unit, sometimes we get erratic supply from ONGC and therefore it impacts our production, particularly in Gandhar which is quite a large plant otherwise with a large capacity. So that is one elephant in the room I would say.
- Aishwarya Agarwal:** How we should foresee the CAPEX for the next 2-3 years?
- Subir Purkayastha:** As I was mentioning, we have got the CCA approval for the extension of the HVJ system up to eastern part of India, that is a huge CAPEX of Rs.12,000-odd crores, but of course, that will be executed not in one or two years, the expenditure would be panned out over a period of 3-4 years. So that expenditure will be spread out. In addition to that there could be other investments in City Gas projects particularly in Bangalore and in other City Gas, we have also got some City Gas authorization from the government, of course, the execution of those City Gas projects will start after a year or so. So next 2-3-years in horizon, there could be some equity investments or capital expenditure for the City Gas institution projects. So these are the two immediate foreseeable areas where capital expenditure is likely to take place. So in '17-18 and '18-19, if I were to give some indication it could be Rs.4,000 crores in '17-18 and maybe about Rs.7,000 crores in '18-19.
- Aishwarya Agarwal:** This Rs.12,000 crores, you will be getting some aid from the government also or it will be. ?
- Subir Purkayastha:** Out of Rs.12,000-odd crores, we will be getting grant of about Rs.5,200 crores from the Government of India.
- Aishwarya Agarwal:** How that will be accounted sir?
- Subir Purkayastha:** It will be going as capital reserve.
- Aishwarya Agarwal:** The asset side will be Rs.12,000 crores and the reserve will be some Rs.5,000 crores, that is how it will be?



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- Subir Purkayastha:** I do not think so, I think while calculating the tariff, they will work out on that basis and that should be fair also, if I were not putting the money, why I should be getting return on somebody else's money. The whole idea is to reduce the tariff rather than build up high tariffs.
- Aishwarya Agarwal:** So effectively for this pipeline we will be spending somewhere around Rs.6,000-7,000-odd crores slightly lower than that and the City Gas will be the next major CAPEX?
- Subir Purkayastha:** Next major CAPEX, yes
- Moderator:** Thank you. The next question is from the line of Manish Kumar from HSBC Securities. Please go ahead.
- Manish Kumar:** My question is related to the petrochemical plant ramp up. You have talked about the plant working at about 90% capacity. Will it be fair to assume that Q4 of FY17 will see production volume if not sales volume of about 200 kt?
- Subir Purkayastha:** Yes, you are right, it could be close to 200,000 tons.
- Manish Kumar:** Just to confirm the volume in the Q2 gone by, was around 130-140 tons?
- Subir Purkayastha:** So production in Q2 was 146,000 tons. So it is likely to go close to 200,000 tons.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Harsh Dole from IIFL for closing comments.
- Harsh Dole:** Thanks, moderator. I would like to sincerely thank the GAIL management for letting us host the call. Sincere thanks to you, sir. All the participants thanks for logging in.
- Subir Purkayastha:** Thank you very much.
- Moderator:** Thank you very much. On behalf of India Infoline Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.