



GAIL (India) Limited



GAIL India Limited

Q1 FY2021 Earnings Conference Call

August 13, 2020

ANALYST

MR. Harsh Dole – IIFL Securities

MANAGEMENT

MR. A.K. TIWARI – DIRECTOR (FINANCE) & Other Sr. Executives

GAIL - 1QFY21 Earnings Call
4pm IST, 13 August 2020

- **Mr. Harsh Dole, IIFL**

- I will first request Director Finance GAIL to give an opening statement, subsequent to which we can have the floor open to Q&A. Without much of a delay, I hand over the line to you sir. Thank you.

- **Mr. AK Tiwari - Director Finance, GAIL**

- I have with me Mr. Rajeev Mathur, ED Corporate affairs, Mr. Rajeev Singhal, ED Marketing, ED Finance Mr. Aseem Rai, ED Marketing Mr. Sanjay Kumar, ED Finance Mr. RK Jain, and all other colleagues. Whole team is here to respond to you and discuss with you.
- A very good afternoon and welcome to the earning call to discuss the Q1 FY20-21 performance of GAIL. I hope you and your families are safe during this pandemic. We have declared the result of the first quarter of the current fiscal year today, and you must have already received the same. I would like to give you a brief insight of the company's performance to bring more clarity. Here I would like to say that I will touch the details so that many queries could be responded to you. I will give the overview, so it will take little bit of time.
- First of all I would like to inform you that the provisional demand notice of Rs. 1,83,076 crores raised by the department of telecommunication towards AGR dues have been withdrawn by DOT. So as of today there is nothing payable and dues are settled. So far as the fiscal performances are concerned, as you know that the country is still resisting against coronavirus and has badly impacted the business during first quarter of June 2020. GAIL has maintained to survive in this terrible time but some situations don't remain under the control of the company. Due to lockdown of related industries, the fiscal performance of the company witnessed a decline across the segments. I would like to repeat once again, due to lockdown of related industries, the fiscal performance of the company witnessed a decline across the segments.
- The gas marketing segment volumes stood at 81.16 MMSCMD in Q1 FY21, as against 97.76 MMSCMD in Q4 FY20, decline by 17%. The gas transmission stood at 90.2 MMSCMD as against 108.99 MMSCMD in Q4 FY20, decline of again 17%. And the capacity utilization reduced to 45% as against 53% in Q4 FY20. The polymer production stood at 134 TMT in Q1 FY21 as against 208 TMT in Q4 FY20, decline of 36%. And the capacity utilization reduced to 66% of our petrochemical plant, as against 103% in Q4 FY20.
- The polymer sales increased to 183 TMT in Q1 FY21, as against 174 TMT in Q4 FY20, increase of 5%. The LHC sale stood at 265 TMT as against 302 TMT in Q4 of last fiscal year, decline of 12%, and the capacity utilization was also reduced to 76% as against 85% in Q4 FY20. The LPG transmission stood at 963 TMT in the current quarter as against 1,040 TMT in Q4 FY20, a decrease of 7%. The capacity utilization was 99% as

against 109% in Q4 FY20. So you have seen that there is a decline in the physical performance in all the segments as well as the capacity utilization of the various plants as well as various services.

- I would like to give the trading and transmission segment outlook first. There was sharp reduction in the domestic gas production from ONGC; it reduced from 46 MMSCMD to 41 MMSCMD. GAIL faced a reduction of around 30% in gas sales and transmission volume during this quarter or maybe during the peak season of the pandemic. There has been significant impact in CGD sector. The consumption was reduced by 50% in April 2020 and around 40% in the month of May, low demand in steel and other manufacturing sectors as most industries operated at reduced capacity. However, fertilizer and power became stable during the terrible time.
- I would like to give you the consumption pattern of gas. During Q1 FY21, domestic gas sales have reduced by over 4.4 MMSCMD as compared to Q4 FY20. RLNG sales have declined by 7 MMSCMD and shippers' transmission volume reduced by 7.4 MMSCMD due to reduction in supply to refineries and fertilizer plants. Overseas sales of U.S. LNG was also impacted by more than 5 MMSCMD. Further, it is pertinent to mention that commencement of RLNG supply to various fertilizer units i.e Matix fertilizer, where the plant already commissioned and pending connectivity from JHBDPL pipeline, Ramagundam fertilizer (plant is under pre-commissioning), and Mangalore Chemicals & Fertilizers (pending connectivity from KKMBPL) is also delayed owing to various reasons. It is expected that situation may improve from Q3 FY21 onwards.
- There has been a steady improvement in the consumption due to credit relaxation in the lockdown and increase in economic activities across all segments. Though the initial impact on natural gas demand was around 30%, the average impact during current quarter is approximately 17% due to consistent improvement in the offtake. Currently, GAIL is operating at more than 95% of FY20 trading and transmission volume, and we expect that in the next 1 to 2 months' time we will surpass the FY20 level.
- I would like to give you just current position, yesterday's position wherein we have our volumes as to 87.29 MMSCMD for gas savings, and we have transmissions around 111 MMSCMD. So we have almost crossed pandemic level of the volume trading as well as the transmission.
- I would like to give you the outlook of the petrochemicals. Due to non-availability of the transportation for our polymers after the announcement of a lockdown, there was an inventory buildup due to which we had to take shutdown of our plants, both at Pata-1 and Pata-2 with effect from 1st April, 2020. After the start of vehicles movement, the plant restarted with effect from 18th April, 2020, at partial capacity. The polymer plant regained its full capacity in the middle of May '20 and the total production loss due to lockdown shutdown was approximately 65,000 metric tons. The demand picked up after the relaxation in lockdown and sales volumes were 183 TMT in the quarter, recording an increase of around 5% over the last quarter.

- So far as the LPG and LHC segments are concerned, though the LPG demand was intact and its movement was not impacted being covered under essential services, the demand for other LHC products like propane, pentane and naphtha were impacted due to lockdown.
- Now I would like to give you the financial highlights in comparison to Q4 and this quarter. GAIL achieved gross turnover of Rs. 12,060 crores as against Rs. 17,709 crores in Q4 FY20. There is decrease of about 32% mainly due to lower physical numbers, as explained, due to COVID-19, lower petrochemicals, LHC and natural gas prices. Prices of petrochemical reduced by 2,000 per metric ton and LHC reduced by 12,000 per metric ton. So, these have impacted the profitability of our Petrochemical and LHC segments. The profit before tax stood at 356 crores in Q1 as against 2,556 crores in Q4 FY20, decrease by 86%, mainly due to lower physical numbers, number one; number two, lower prices of petrochemicals by around 2,000, as explained, and LHC by 12,000 per metric ton and lower gas marketing split.
- GAIL registered PAT of Rs. 256 crore in Q1 FY20 as against 3,018 crores. Here, I would like to inform that the Q4 PAT of 3,018 crores had an impact of adoption of lower tax so that is why the profit was not comparable, PAT is not comparable in that way because it has impact of around 1,800 to 2,000 crores on the PAT.
- Let us now give you insight into the segment-wise analysis from drop in the profitability. I know that our investors, our people connected are more concerned about the gas marketing. So I would like to share our gas marketing segments in detail. Gas marketing segment PBT reduced from a profit of Rs. 6,000 crores in Q4 FY20 to a loss of 547 crores in Q1 FY21. The primary reason for such sharp decline is reduction in the gas marketing spread due to reduction of gas demand in the country during Q1. This is the main reason. GAIL has taken various measures to accommodate fall in RLNG sales because of outbreak of COVID-19, and GAIL canceled/deferred some of the cargoes to reduce the nomination and reduce the nomination under PLL volume. CGD sector, which consumes around 14 MMSCMD of domestic gas, was reduced to 6 MMSCMD. Further, due to subdued prices in spot market, some customers are inclined for current RLNG market. Hence, in order to retain the customers, the company has also taken its steps to keep the prices aligned to the current market prices. There is a decline in the spread in current quarter due to lower crude and spot prices leading to lower sales realization without commensurate decline in the purchase cost of imported gas.
- Here, I would like to once again mention that our volume at pre-COVID situation, trading was 84 MMSCMD which had reduced to 72 MMSCMD. But we have ramped up the volume as already I have explained earlier.
- GAIL received 20 LNG cargoes during the quarter as against 23 cargoes in Q4 FY20. The situation for the gas marketing was exceptional. And in spite of all the measures taken by GAIL to minimize the impact, GAIL suffered loss in the segment, which was primarily driven by sudden crash in the demand and prices. However, as already stated earlier, the demand has picked up, and we are already supplying more than 95% of FY20 levels.

- In NG Transmission segment, the PBT was down from Rs. 870 crores in Q4 FY20 to 702 crores, a decline of 19%, which is largely in line with the decline in the physical volumes. In petrochemicals segment, the PBT decreased from Rs. 71 crores in Q4 FY20 to a loss of 164 crores, primarily on account of the loss of production due to shut down and marginal decline in the average price realization by Rs. 2,000 per metric ton. The demand has picked up, and we are able to sell around 183 TMT in the quarter as against production of 134 TMT. The petrochemical plant is now operating at full capacity.
- The PBT in LHC segment has reduced from Rs. 528 crore to Rs. 266 crore, primarily on account of the lower price realization. The price, as already explained to you, reduced by Rs. 12,000 per metric ton.
- I would like to share the GAIL Gas performance. The turnover and profitability of GAIL Gas has dampened significantly in Q1 as demand in CGD sector was severely affected due to the impact of lockdown. The CNG volume for the quarter declined by 68% and bulk industrial volume declined by 24% in the quarter as compared to Q4 FY20.
- This quarter, GAIL achieved Capex of Rs. 401 crores, which primarily includes equity contribution, operational Capex and pipeline. In spite of the low Capex during Q1, we estimate to achieve the Capex of around Rs. 5,000 crores to Rs. 6,000 crores for the full year. We have a plan to spend around 9,000 crores in the next fiscal year, mainly on pipeline, equity and petrochemicals.
- I would like to share the projects' performance. On account of the projects progressed, there was significant impact during the quarter. Work has started in all our ongoing projects. However, there are some restrictions because of the social distancing and the local containment area related issues. On Kochi-Mangalore pipeline section, work has fully started, and we are almost in the last stage of completing the section. HDD work in only small segment of Chandragiri River is going on, rest is complete. We expect to complete it shortly, post which the supply of NG will commence in Mangalore.
- On the Pradhan Mantri Urja Ganga, the total commitment as on date is over Rs. 13,600 crores, and the actual Capex till date is 9,800 crores. We have been receiving the capital grant from the government regularly and till date the total capital grant received is Rs. 3,609 crores as against the total grant of Rs. 5,176 crores.
- I would like to touch upon the construction progress. The Dobhi-Durgapur line up to Matix is expected to be completed shortly within coming 2 to 3 months; Dhamra-Angul mainly by June '21 and Paradip spur-line by December '21. Bokaro-Angul mainline we expect to commission by December '20 and spur-line by June '21. Durgapur-Haldia pipeline we expect to commission by December '21. Vijaypur-Auraiya is expected to be commissioned by March '21. For the Barauni-Guwahati section also, our progress has started. As of now, we feel that we will be able to maintain the progress and make up the lost time, and we'll be able to maintain our original schedule of December '21. Apart from these, the City Gas aspect also GAIL

CGD as well as the GAIL gas geographic area, the work has started in almost all the areas. Presently GAIL is supplying gas to all CGDs with infrastructure of 41 CNG station and approximately 56,000 CNG connections.

- I would like to touch upon the outlook. The total pipeline infrastructure in the country, as you know, is around 17,500 kilometers, around 12,500 kilometers of GAIL, around 5,000 kilometers of other entities. Aligning with the government's objective, GAIL and GAIL JVs is building pipeline of around 8,400 kilometers and around 8,000 kilometers being undertaken by other entities. The major new pipeline projects undertaken by GAIL are Srikakulam-Angul pipeline, 700-kilometer investment of 3,000 crores, completing period 36 months by July '22. Mumbai-Jharsuguda pipeline, 1,705 kilometers, investment of 7,800 crores, completion by May '23. Dhamra-Haldia pipeline, 240-kilometer, investment of 1,200 crores, completion by '22. And gas pipeline infrastructure in Northeast states of over 1,650 kilometers at project cost of 9,300 crores.
- So far as the unified tariffs are concerned, GAIL has suggested to PNGRB for determination of the unified tariff for all the pipelines. Under the mechanism, a single tariff would be applicable to all the consumers and will provide level playing field and enable the reach of the gas at far-flung areas. PNGRB has web-hosted the public consultation document on a new methodology for fixing unified tariff. Entities have submitted their comments on the consultation document, and we expect that this will be completed soon.
- I have given the brief introduction of the financial results, outlook and the reasons. I once again, thank you for the time and patient hearing. I'll request now if you have any questions, clarifications, that can be asked. Thank you very much. Over to Harsh.
- **Vaishnavi Iyer - Moderator**
- Thank you sir. Harsh you are in mute.
- **Harsh Dole**
- Well, as we assemble the queue for the Q&A, I would request all the participants to ask two questions each so that we can cover as many participants and more diverse subjects along with management of GAIL. So the moderator will now announce how to ask the questions, and you will assemble in a queue, so that the Q&A can be taken ahead. Over to you moderator.
- **Vaishnavi Iyer - Moderator**
- Thank you Harsh. Thank you sir. So we will just go in a sequence and the moment I go ahead and announce your name, you would be allowed to see a phone icon. Please click on that phone icon, and then you could go ahead and put up your questions once you click on that phone icon. And I would just like to give this opportunity to Mr. Bansal. (Harsh if you may please go on mute. Thank you.) From Franklin Templeton, so Mr. Vinod, I am just going to give you the access to the

phone. If you can just click on that phone icon, and please go ahead with your questions. Mr. Bansal? If you can click on the phone icon please.

- Okay. I think while Mr. Bansal joins us in, I'll go next to Juhi ma'am, who has requested for the access. Just a second. Juhi ma'am, your phone icon will also be enabled. If you can please click on it. And for others for raising the question please raise your hand. There is a phone icon on the left hand side beside the wave icon. Please click on that. You should be able to join using your computer audio, or you could also dial us in. Thankyou ma'am, you are on the unmuted line.

- **Ms. Juhi**

- Okay. Am I audible now?

- **Vaishnavi Iyer - Moderator**

- Yes, ma'am, you are.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yeah please go ahead.

- **Ms. Juhi**

- Hello, sir. Thank you so much for this meeting and call. I actually have 2 very precise questions to ask you. One would be that I have seen GAIL has had a pattern of issuing bonus on 1:3 ratio. And last year, we have seen it to be a 1:1 ratio to its shareholders. And going forward it is going to be -- with such heavy bonuses being given out it is going to be more and more difficult for GAIL to maintain its additional shareholders to increase the profitability to ensure that the shareholders' wealth is only increasing, and the bonus does not lead to a reduction in the shareholders' wealth going forward. So 1 question is that what are the steps GAIL is taking in that direction? And then is bonus a primary part of GAIL's strategy going forward to keep its shareholders happy? Or is it just a means for GAIL to just circulate some additional surplus funds that they have? That is one question. And the second question I have is that the price-to-book of your company has been very low. If I talk about last 5 years, even after good performance barring this quarter -- if we are barring this quarter, the returns, that profitability generated by GAIL has been very good in the last 5 years, but the company's share price has not been able to go beyond its book value till date. So I am not able to understand why is it that the company is doing well and generating repeatedly good results, yet the book value is something that it is not able to cross. So these are my 2 questions.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Thank you. Thank you very much. Issuance of the bonus is not -- Hello?

- **Ms. Juhi**

- Yes sir. You are audible.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Issuance of bonus, is not the strategy. You can say whenever we want to give more shares to the investors or the shareholders, then we issue the bonus. I think somebody can unmute, please. See, we are issuing the bonus as per the DIPAM guideline, but there is no policy as such for issuance of the bonus. So far as the prices are concerned, yes, thank you very much for asking this question. In fact I ask this question to the investors more often that why the prices -- in spite of our better performance, why the prices are not lifting or are not moving ahead. See, these are I feel is not very much related to each other because most of our investors are static. The government owns around 52%, and FII are there. So I feel trading may not be that much in the market, number one. Number two, may be investor may be viewing the GAIL's performance differently, but though our performance are better than the expectations, as we have already told about the physical performance and the consistent performance in various areas. So these are the questions I often ask with our investors, why this -- why our prices are not moving as we are also performing better. So this question is still not known to me how to reply.
- **Vaishnavi Iyer - Moderator**
- Thank you sir. We have the next question from Mr. Rohit Ahuja. Mr. Rohit I have unmuted you. Please go ahead with your question.
- **Mr. Rohit Ahuja**
- Hi sir. Thanks for the opportunity. Sir just 2 questions from my side. One on the natural gas transmission and one on the gas trading. So natural gas transmission, coming to that, we've seen your volumes have been at around 90 MMSCMD for the quarter, while for the industry data that we get from PPAC, the average volumes for the industry were around 152 MMSCMD on gas consumption. So our market share comes to around 60%. And usually, we are at around 70% to 75% in terms of market share. Any specific reason why our volume decline is there despite industry volumes being flat?
- **Management - GAIL**
- Okay. So if you look at today's transmission figure, today, we are actually pumping about 109.5 million cubic meters. The Q1 was not representative of the actual performance. And presently, we are pushing around 109.5 million cubic meters per day; presently means in last few days. So we are on track. During the COVID period, some part of the market were locally working, and that is why that figure of 150 on the website of PPAC and 90.22 because most of the customers , particularly CGD companies were badly affected. They went down by about 75%, 75% to 80% during lockdown in Q1. That is the reason.
- **Management - GAIL**

- I want to add to this. See, actually, if you see Reliance Refinery -- Reliance consumes it for the refinery only, which was not affected being at coastal, and they were exporting their produce. So their consumption was more or less 90% plus. Similarly, some of the power plants, like Torrent power plant, that was running, so they were consuming full. And Gujarat Gas, they don't have that much CNG sales as we have. So their CNG sales was also affected, but ours was in a big way because we are pan India, CNG and -- because of lockdown, CNG was shut down completely. So because of all that, percentage share might be showing lower one.
- **Management - GAIL**
- So effectively, some local markets were still performing, like Gujarat and some coastal areas. But GAIL pipelines are going deep into hinterlands, and there the demand pattern was badly affected. That is the reason for that.
- **Management - GAIL**
- Now we are back to 70% or more.
- **Management - GAIL**
- So we are now -- now we are pushing about 109.5 million cubic meters per day, which was the usual before COVID struck.
- **Vaishnavi Iyer - Moderator**
- Okay thank you. Thank you Sir. Rohit I am going to unmute you. Any other questions before we go next?
- **Mr. Rohit Ahuja**
- Yeah. I have 1 question on marketing. Sir, we were assured in the last call that most of our U.S. contracts volumes are hedged. And despite a lot of questions were there in the call that time that there wouldn't be much of a hit to our earnings, given the differential between the spot LNG rate and the U.S. rate. But what has changed this quarter that led to you reporting more than 500 crore loss at the gross margin level?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yes. Rohit, we were not knowing that this COVID is going to come. So it has come, it has impacted. As I have already told you that consumption has reduced. Our marketing, which was there and the volume which was there, which we had to consume was not done. So all these have impacted the commodities affect and we have to align with the market in some of that because the spot prices were less. So we had to align for our sale also for -- aligning with the spot prices. So a couple of reasons combined together and this unprecedented COVID situation has forced us to have less consumption as well as stress sale in the market also. So all these are combined together has led to this situation. This is unprecedented and we expect, as already explained by my colleague, that we are going to touch new volumes in terms

of our gas marketing as well as transmission. So particularly, in the case of the gas marketing, we are going to touch that.

- **Vaishnavi Iyer - Moderator**

- Thank you sir. May I request Mr. Aishwarya to join on the audio line by clicking on the phone icon? So everybody whoever has raised your hand, you have been given a two way line. Just a housekeeping check. So please click on the phone icon and connect using the computer audio so that I can unmute your line. So while Mr. Aishwarya tries to join us, we have a question from Mr. Amit. So Amit, you are on the unmuted line.

- **Mr. Amit**

- Yeah thank you sir for giving me an opportunity. Sir, my first question pertains to Urja Ganga project. So could you give us a target about the volumes because now you have significant clarity on the completion time lines of this large project, and with particular names of the customers and their potential volumes in this segment? And then I will come back to the second question.

- **Management - GAIL**

- We expect the volume to be about 10 million cubic meter in the first year of its operation with 4 fertilizer plants getting online. And thereafter, the refineries, once the refineries are getting online, we expect it to reach capacity, which is 16 million cubic meter per day. The first phase is likely to be completed by December 2020, this is what Director Finance, Mr. Tiwari told in his introductory remarks, and the second phase later in next year, next calendar.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yes, just to add to this because this -- we have -- our project has been impacted because of this COVID situation. Some of the volume, we could have sold, like Matix plant, as I've already told that this is already ready. And the project is impacted as well as the other completion of the fertilizer plants has been impacted. So ultimately, we are going to have 10 MMSCMD around plus...

- **Management - GAIL**

- In fact, we expect the first customer at Gorakhpur to be connected in September now. They might start commissioning. You will hear it independently in the press because they have been talking to us about putting up the meters in on phase and all that.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yeah. Yeah Amit.

- **Mr. Amit**

- Sir, could you give us the names of these 4 fertilizers and refineries? And when you mentioned 10 MMSCMD, which year you think that after full completion of the pipeline or maybe FY23 -- '23 or '24?

- **Management - GAIL**

- See, the names are well known. These are the fertilizer plants at Gorakhpur, Barauni, Sindri and Durgapur. And the refineries are at Barauni and Paradip and Haldia. These are the major anchor load customers of this pipeline, in addition to about 20 CGD entities, which will come up online, whether it is in Odisha, West Bengal or Bihar or Jharkhand. Some of these CGD entities have already started operation, like Patna has started operation, Banaras has started operation. And Jamshedpur and Ranchi have started operation through cascade mode. So all the market seeding job is going on, and Kolkata is about to start in next few weeks. Bhubaneswar and Cuttack are already working. Puri is also working and Jharsuguda is also working. All these -- the pipeline mode is only to Patna and Banaras. All other CGD entities are likely to get connected in next 12 to 18 months. So these are the bonus for this pipeline. We expect the pipeline to clock 10 million cubic meter in first year, which will start sometime by end of this year. So the commissioning should be over by March or June of 2021. In the second phase, the refineries would come up.

- **Mr. Amit**

- Okay. And sir, my second question pertains to now PNGRB is talking about opening up CGDs, where marketing exclusivity is already over. And do you think that you would like to enter some of these markets like maybe Morbi? And if you don't get any pipeline access for reaching out to these markets, then what are the options before us, if given open access by the regulator?

- **Management - GAIL**

- That is a strategic matter. And as of now, we are more concentrating on developing demand in our authorized GAs. We are, at the same time, working on the aspect that you have raised, we would not like to divulge it now.

- **Mr. Amit**

- Okay. Thanks sir and thanks for giving detailed answers to my questions. Thank you.

- **Management – GAIL**

- Thank you.

- **Vaishnavi Iyer - Moderator**

- Thank you Amit. So we have next question from Probal Sen sir. I am just unmuting you. You are on the unmuted line.

- **Mr. Probal Sen**

- Hello? Am I audible?
- **Management – GAIL**
- Yeah, yeah please go ahead.
- **Mr. Probal Sen**
- Yeah, how are you doing sir? Thank you for the opportunity. Sir, just on the -- staying on the gas trading, I'm sorry to come back to that segment. You obviously mentioned about the damage due to probably lower volumes as well as you mentioned that you had to maintain -- align with the lower spot LNG prices. Now my question was more about what are you seeing from 2Q onwards? And any sort of outlook you can draw, assuming that the world continues to sort of unlock, albeit on a gradual basis, and the price trends that you see. Any guidance you can give for the next 2 quarters in terms of what we can expect? Because obviously, the numbers have been far too volatile to get a handle on how to sort of look at this segment from an earnings perspective.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yeah. We have already given the outlook of our current trading as well as whatever the volumes we are going to -- we have caught up. And prospective, we have given that volume will be more in the coming periods. So that way, you can assume that it will be better. But we can't give you any fixed outlook because we do not know the prices; prices, which are volatile, and we do not have any much anticipation. We have our spot prices, we never expected this will fall like this. So all these, we can't clearly give you any outlook, but volume, we have already given, and that will tell what could be the scenario in the days to come.
- **Management - GAIL**
- But empirically, you may be aware that in the market, the spot prices have gone up by more than \$1 now. And the long-term contract prices-- are looking up now, they are higher by \$1.50. So that way, you can make out what will be Q2.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yeah Probal.
- **Mr. Probal Sen**
- Petrochemical segment you mentioned about, obviously, and the prices have obviously dropped by a little bit. But if I were to look at the margins, it seems that the cost on a per unit segment have also gone up. Is it purely a function of the fact that volumes are so low and there is some element of fixed cost there? Because they seem to have actually gone up quite sharply, the operating cost for the segment for this quarter?

- **Mr. AK Tiwari – Director Finance, GAIL**
- Which segment are you talking?
- **Mr. Probal Sen**
- The Petrochemical segment, sir?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Petrochemical, obviously, if the production will be low, then the fixed costs, obviously, will be more. And you have -- as I have already mentioned that we have lost around 65,000 metric tons in the last quarter. So obviously, the cost of production will be more. That's very quite natural. But since we have reached 100%, we expect to have a better realization in this quarter and further.
- **Mr. Probal Sen**
- And have we seen some improvement in pricing also, sir, in Q2, in July and August?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yes. Yes. Yes.
- **Mr. Probal Sen**
- So pricing is also better than the Q1 levels, is what we are seeing?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yes, yes.
- **Mr. Probal Sen**
- Alright. That's all from me sir. Thank you so much for your time.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Thank you very much.
- **Vaishnavi Iyer - Moderator**
- The next question is from Mr. Aditya Suresh. You are on the unmuted line.
- **Mr. Aditya Suresh**
- Yeah thank you sir. Sorry to come back again on LNG marketing. But I just want to understand this issue a bit better. So did you make a loss on the -- an inability to kind of place your cargoes. So basically distressed sales were in the U.S. or were they Rasgas Qatari volumes, which you brought to India, and there's kind of a timing

mismatch because of the lockdown what have you? So I'm trying to understand where did you make the loss? Was it in the U.S. or in India on your Qatari volumes? That's the first question. The second question is could you just give us an update on the proportion of your volumes, which you have swapped for 2021? Thank you.

- **Management - GAIL**

- See, we sell about 47 - 48 million cubic meters of gas, of which 10 million is sold in the international market, and there was a bit of loss there; not much. Remaining volume is sold in the domestic market, which is about 37 - 38 average. This is a normal market scenario. So we have not -- specifically, we have not made any loss on Qatari volume. There is no loss on that. It is the other part where what happens is when there is something as bad as COVID, the sales starts going down, and a customer has 2, 3 contracts, he may actually stop taking gas of some contracts, which are slightly higher priced. And may be the reason may be that he is not able to produce to his liking. He doesn't have transportation agreement for his fertilizer or for his steel or something like that. So specifically, we can't point out the losses were related to some of the cargoes that we had to cancel as was informed by Director Finance shortly sometime before. And some of the loss, it came in our inventory, and we could not sell it, so we had to devalue it. All those financial losses are there. Some of it, we may be able to recoup it in the coming quarters.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Sir, just to -- just to add, Aditya, just to add to it. This COVID, as you know, the consumption has declined. So if overall consumption declines, there will be hit somewhere...

- **Management - GAIL**

- Some part.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Some part, it will be hit. And you can better understand that, so far as the domestic production are concerned, though there was a little bit decline in the domestic production, but that has been consumed. And that over impact will be on the RLNG. So that impact has come on our balance sheet because of our not off taking or you can say stress sale, whatever you can say. So these are the primary reasons on a very thumb rule we can say that these are the reasons for our decreased profitability.

- **Mr. Aditya Suresh**

- Sir, can you just like elaborate a bit on the inventory markdown, as you said, I think that makes a lot of sense. But if you can put any light on the numbers there?

- **Mr. AK Tiwari – Director Finance, GAIL**

- Numbers is already reflected in the result. As I've already told that we had a profit of around 600 crores in Q4. And now we see a loss of 557 crores, so the numbers are already given.
- **Mr. Aditya Suresh**
- Sorry. Within that, what was the inventory loss? Like how much of that loss is because the inventory?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Inventory markdown was around 250 crores.
- **Mr. Aditya Suresh**
- Okay. That's clear. Thank you. And the second question was, what's the swapped position for 2021 on your U.S. volumes?
- **Mr. AK Tiwari – Director Finance, GAIL**
- I could not get.
- **Management – GAIL**
- U.S volumes...
- **Mr. Aditya Suresh**
- What proportion of your U.S. cargoes is swapped in 2021?
- **Management - GAIL**
- So for 2021, as we have also informed in the last annual meeting about 9 - 10% volume is unsold. Rest all is sold.
- **Mr. Aditya Suresh**
- Okay, thank you.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Thank you very much. Thank you Aditya.
- **Vaishnavi Iyer - Moderator**
- Thank you Mr. Aditya. So before we go to the next person who has raised a question, I would request the participants who would like to raise a question, please join on the audio line so that I can unmute you. I do see a couple of people who have tried to raise your hand. But if you please click on the phone icon, you can also join us on

the audio line. So next, we have questions from Mr. Vikas Jain. So Vikas Jain, you are on the unmuted line.

- **Mr. Vikas Jain**

- Yeah hi. Am I audible?

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yes, please, Vikas. Yes, go ahead, please.

- **Mr. Vikas Jain**

- So just staying with gas marketing itself, what is actually a little disappointing is the fact that the last call we had was on 25th June, which is when the quarter had almost ended and a lot of -- at that point of time, at least the expectation -- I mean, it did not, at least to me, appear that there was so much problem, which was going through during the quarter. So that was where, I think, is it just that the ability to predict this is so poor that even after the quarter ending, we were not really so aware about it. That's something which is a bit of a negative surprise, clearly.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yes. So I think I have already told about the volume, which was stressed during our discussions on 25th June. And that give an indication that is there -- there is going to be some consumption, which was less. And that has reflected into our Q1 results. So I don't think any disappointment on that part is there because you were knowing the volume, we were knowing the volume, volume is an indicator for that. And the COVID is everywhere. All industries are affected, so that has impacted GAIL's performance in this Q1. And it was well known. I don't think any disappointments should have been there. Really, we are feeling disappointed because we have not given you the better results. And you can understand our pain, and you can understand that in spite of our best efforts, we could not do it better. So we are feeling that way not very pleased, you can say that, to announce this result.

- **Vaishnavi Iyer - Moderator**

- Thank you sir. We have next question from Mr. Maulik Patel. Mr. Maulik you are on the unmuted line.

- **Mr. Maulik Patel**

- Thanks for the opportunity sir. Sir, I have one question. You have earlier mentioned that the PNGRB will announce this intimation of the tariff. Can you just go more in detail, what's your expectation? And post-unification, how the tariff for this HVJ will be paid out? So adding more color on that would be really helpful.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yes. We can't give you any figure at this stage because PNGRB is evaluating the total scenario. And I think soon within coming 2 to 3 months, they are going to settle this unified tariff. Once this is known, then we will inform you. We have only provided the details and whatever our queries are there or whatever our information could have been there. So we can't give you any number at this stage.
- **Management - GAIL**
- Also sir, they have already conducted the open house, and they have put the draft regulation on their website. So you can think -- understand the direction that PNGRB is taking. And as Director Finance was telling, within 2 to 3 months, we should be able to get their final regulation on this.
- **Management - GAIL**
- Yeah. As a principle, it should be revenue neutral.
- **Management - GAIL**
- Yeah. Any unified pipeline should get 12% return, post-tax return. We don't know what comes there.
- **Vaishnavi Iyer - Moderator**
- Thank you sir. Sir, we have next question from Mr. Pinakin Parekh. You are on the unmuted line.
- **Mr. Pinakin Parekh**
- Thank you very much sir. Sir I was just trying to understand the gas marketing loss a bit better. So the reported loss is 517 crores at the gross level. Now obviously, there was -- there would have been a profit for the domestic marketing of ONGC gas. This basically relates to the cargoes, which are imported. You mentioned inventory loss was around 54 crores or so. So basically on the cargoes on which the company incurred a loss, what was the per dollar spread in terms of MMBtu? Was it \$3, \$4, \$5, which translates into this loss? The average spread loss?
- **Mr. AK Tiwari – Director Finance, GAIL**
- See, first of all, I would like to correct the inventory loss. I had told 250 crores, not 54 crores. So it was 250 crores.
- **Mr. Pinakin Parekh**
- Understood, sir.
- **Mr. AK Tiwari – Director Finance, GAIL**
- And second, we can't give you any number per cargo losses because it depends upon the market dynamics and situations, whatever is there. So whatever the trading has

been done and whatever the market aligned prices where we have to sell to the customers, that way the booking is done. So we can't give you any fixed number. But the resultant, I have given you is 547 crores loss. Do you want to add anything?

- **Management - GAIL**

- See in the domestic gas that you are referring to, Pinakin, we earn only Rs.5 per MMBtu. So that is the only earning that we get. We don't get anything other than that in domestic gas. And that continues to be 60% of our volume. For remaining, we have -- on some part, we have earned 20 cents and somewhere in the other remaining volume, we may be -- we may have lost \$1 to \$1.50. And that is how this whole figure is coming. We have not worked out individual segment, individual customer profit and loss as Director Finance was telling just now.

- **Mr. Pinakin Parekh**

- So just to understand this better, spot LNG prices have moved around a dollar from the lows and oil has, whatever, been \$45. So at this point of time, if the volumes have normalized, would it mean that just EBITDA loss is difficult to be repeated in the second quarter? Or is the second quarter too uncertain to take a call at this point of time?

- **Management - GAIL**

- We would like to tell you as of now that our volumes have normalized. And we had informed you that spot prices have gone up by \$1. Long-term prices have gone up by \$1.50 now. So we can't hazard a guess what will happen in remaining 45 days of this quarter. But as of now, we think what you said is correct that this kind of loss will not -- should not be repeated.

- **Mr. AK Tiwari – Director Finance, GAIL**

- And secondly, we do not know the situation of the pandemic, which will burst or will be normal or the long-term situation, it will be more or whatever is there. So any projection at this stage with the COVID-19 situation, it is very difficult to give.

- **Vaishnavi Iyer - Moderator**

- Thank you sir. Mr. Vivekanand Subbaraman. Sorry if I misspelt your name. You are going to be on the unmuted line and there you are.

- **Mr. Vivekanand Subbaraman**

- Thank you very much for the opportunity. So just to confirm, is the domestic gas sale back to the 85 - 86 MMSCMD level, that's the normalized level? And within that, are we back at the levels, 50 and 35, 36 MMSCMD levels for domestic and RLNG sales? If you could give an update on that. Second question is on the subtle outlook that you gave on the Urja Ganga customer base, the 10 MMSCMD volume demand. So you also mentioned that you sell a similar quantity of gas in international markets. So do

you think that you will -- once the Urja Ganga demand comes, the 10 MMSCMD, let's say, midway in 2022, would you not -- you would not have to trade any cargoes, import and resell them? Thank you.

- **Management - GAIL**

- So we expect to get that 10 million converted into domestic sales instead of international sale by June '21 and not in 2022. So June '21, we should be able to get all that volume, which is being sold outside back into the Indian market in the form of RLNG. Regarding your first question, as of today, an average of last 15 days, we have been selling 45 million cubic meter of gas per day in domestic, which is domestic gas and about 39 million cubic meter of RLNG. So demand has come back, and it is strong demand. This is -- with the usual caveat, we don't know what will happen in the next 45 days because the times that we are going through is such. This is not -- we would like to continue with this performance, but nobody knows because of COVID, if something happens then...

- **Mr. AK Tiwari – Director Finance, GAIL**

- As of today, we are normal. We have reached almost to the pre-pandemic.

- **Management - GAIL**

- Only CNG demand is

- **Mr. AK Tiwari – Director Finance, GAIL**

- CNG demand is there. That will...

- **Management - GAIL**

- That is even the CNG -- even the PNG, CNG -- CGD sector, that gas demand has also come back to about 15 million, 15.5 million now. So that is how we are able to state that we are back at the pre-COVID level.

- **Mr. AK Tiwari – Director Finance, GAIL**

- Yeah please.

- **Vaishnavi Iyer - Moderator**

- We have next question is from Mr. Manoj Shah. Manoj Shah you are on the unmuted line.

- **Mr. Manoj Shah**

- My question is with respect to...

- **Vaishnavi Iyer - Moderator**

- Mr. Manoj Shah...
- **Mr. Manoj Shah**
- Can you hear me?
- **Vaishnavi Iyer - Moderator**
- Yes sir, we can.
- **Vaishnavi Iyer - Moderator**
- I think there is some challenge Manoj with your audio line. I am going to mute you again because we couldn't hear him. But anybody from the panel, would you like to address anything that you got it from him or should we go next?
- **Mr. AK Tiwari – Director Finance, GAIL**
- No. I think we could not get him. Manoj, you can contact separately to us, we will reply. We are not getting your questions.
- **Vaishnavi Iyer - Moderator**
- I think there is some network line issue from his end. No worries sir, we'll get back to you. On the other line, we have a question from Mr. Varatharajan Sivasankaran. I am unmuting you.
- **Mr. Varatharajan Sivasankaran**
- Thanks for taking my call sir. I had 2 questions. One was, June '21, when you have entire U.S. volumes being placed in India, is there a difference in the contract structure that one is the fertilizer plants are linked to crude because this contract is still linked to Henry Hub, and there could be a situation where this price variations could again lead to some kind of losses? Has it all you know completely hedged so that we can't -- we don't have to think about any kind of a loss as such for the company?
- **Management - GAIL**
- So there is some difference between the source and the contract of the fertilizer plants, and we have been managing that till now very successfully. We hope we'll be able to manage that, but the hedging that we refer to is actually that part, when we do the basis swap. So...
- **Mr. Varatharajan Sivasankaran**
- If I can just probe this a little bit. Can I understand this based on your answer that the fertilizer plant placement is linked to crude, the contract is linked to crude?
- **Management - GAIL**

- See, it's not just the fertilizer plant. We have several customers wherein we are selling gas linked with crude and buying at Henry Hub.
- **Mr. Varatharajan Sivasankaran**
- Yes, sir. That's what I wanted to understand. That's fine.
- **Management - GAIL**
- Most of the sale in the Indian market is linked to crude, some of the sale is linked to Henry Hub. Some of the fertilizer plant contracts are also linked to Henry Hub.
- **Mr. Varatharajan Sivasankaran**
- Fair enough, sir. My second question is on -- now that you said like the prices have improved in the current quarter, is there scope for any kind of inventory gain? We had inventory losses in the last quarter.
- **Mr. AK Tiwari – Director Finance, GAIL**
- I have not calculated that at present.
- **Mr. Varatharajan Sivasankaran**
- Is there a scope? I am sure you....
- **Mr. AK Tiwari – Director Finance, GAIL**
- It depends upon the price and at the time of our booking what would be that way. We can't give you any number at this stage.
- **Mr. Varatharajan Sivasankaran**
- That's fine sir. Thank you.
- **Vaishnavi Iyer - Moderator**
- Thank you Mr. Varatharajan. Now we have the next question from Mr. Tarun Lakhotia. I have unmuted you.
- **Mr. Tarun Lakhotia**
- Yeah hi. Can you hear me?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Yeah, Tarun. Tell me.
- **Mr. Tarun Lakhotia**

- Yes sir. Sir, I just wanted to clarify one thing that higher is your offtake of gas -- hello?
- **Management – GAIL**
- Yes, yes.
- **Mr. Tarun Lakhotia**
- Has the offtake of gas volumes being normal in the quarter, would you have earned some profits from the gas marketing segment or there would have been losses, but perhaps lower than what you have reported? Essentially, what I'm trying to see is, see, if the volumes would have been normal, of course, there would not have been any inventory markdown. But was there a pricing differential because of which you had to report losses or it was entirely because of mismatching supply and offtake and because of that, you had a loss to be accounted in the quarter?
- **Mr. AK Tiwari – Director Finance, GAIL**
- Because of the -- primarily because, as I've already explained, mismatch between the supply and consumption. So that was the prime reason and then coupled with the prices also. So prices also plays important role in our profitability, as I have told. So both things go together to have better margin.
- **Mr. Tarun Lakhotia**
- So can we put it like this that since the prices were anyways adverse in the quarter, had your volumes been normal, would you have earned higher losses also possibly?
- **Mr. AK Tiwari - Director Finance, GAIL**
- See, we cannot calculate like this because you have given the answer also to your question. So yes, obviously, if one -- consumption would have been better, certainly there could have been less loss, we can expect.
- **Management - GAIL**
- Yes, definitely.
- **Mr. Tarun Lakhotia**
- Sorry. Just one more thing, which I wanted to clarify on the same topic. You have deferred some cargoes, right? So are there any take-or-pay implications, which may be imposed by the LNG suppliers? Or like can we assume safely that given it's a -- I think you had clarified on the earlier call. So given that it's a pandemic scenario, most of the take-or-pay implications will be waved off. And if there is any such take-or-pay, which you may also have to apply to your customers in case there is something from the supplier side?

- **Management - GAIL**
- There is no -- there wouldn't be any take-or-pay liability because whatever volume we have not taken is under force majeure. So we have cancelled that volume.
- **Mr. Tarun Lakhotia**
- Okay. So there will be no -- nothing which will be imposed on your side, neither will you have to impose anything on your customer side as well?
- **Management - GAIL**
- Yes, we expect it to be like that only. But at the end of the day, we will accept itIt is likely to be like that, yes.
- **Mr. Tarun Lakhotia**
- Perfect, thank you. Thanks a lot.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Thank you very much.
- **Vaishnavi Iyer - Moderator**
- Due to paucity of time, that was the last question. Thank you team for handling it so well. I would like to hand over to Mr. Harsh Dole. Mr. Harsh, you can please unmute your line.
- Mr. Harsh Dole
- Yeah. Thank you. Sir, as we conclude the call, actually, there are 2 questions that come from few holders of the stock, who were unable to attend the webinar. First is, essentially, in the June quarter, have we paid any regas charges or have we accounted for any regas charges, which were pertaining to take-or-pay -- under the take-or-pay head? And second, essentially was towards the inventory losses that have been booked. Any scope of those getting reversed in the second quarter as we move on?
- **Mr. AK Tiwari – Director Finance, GAIL**
- The first question is your regas charges, I think we have not talked about any. There is no regas charges.
- **Management - GAIL**
- No use or pay has been paid on regas.
- **Mr. AK Tiwari – Director Finance, GAIL**

- No use or pay has been paid. And inventory losses, yes, we'll see what would be the price and then we'll account for in this quarter if something is there.
- **Mr. Harsh Dole**
- Understood. I think that answers most of the queries. There are a few questions, which are there in the queue. But I guess, for paucity of time, we'll have to skip them. I greatly appreciate GAIL management for giving us an opportunity to host this event. I sincerely thank you, sir. And I would also like to thank all the participants, who have got into the call and participated in this webinar. Thank you very much.
- **Mr. AK Tiwari – Director Finance, GAIL**
- Thank you. Thank you very much. And I would like to say that if there are any questions left and if somebody wants to ask any clarification, they can ask from my team as well as to me. And we would love to reply whatever clarifications are there. So any participants who has not been able to ask a question and if some clarifications are required, they can ask further also, and we are available. Thank you very much.
- **Mr. Harsh Dole**
- Thanks a lot, sir.

END OF RECORDING