"Gujarat Gas Limited

Q2 FY '24 Results Conference Call"

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MODERATOR: **MR. SADASHIV VISHNU – ANURAG SERVICES LLP**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and half yearly 2023-24 Earnings Conference Call of Gujarat Gas Limited. From Gujarat Gas Management, we have with us, Mr. Nitesh Bhandari, Chief Finance Officer, Mr. Sandeep Dave, Company Secretary, Mr. Dipen Chauhan, Senior Vice President, Marketing, Business Development, IT and ERP and Mr. Vikas Gangal, Senior Vice President, Domestic and Commercial Segments of PNG.

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 star and zero on your touch-tone phone. Please note that this conference is being recorded. We will begin the call with the opening remarks from the management, post which we will have a question-and-answer session.

I now hand the conference over to the coordinator, Mr. Sadashiv Vishnu from Anurag Services LLP. Thank you and over to you, sir.

Sadashiv Vishnu**:** Thank you. Good afternoon and welcome to the Q2 and half yearly 2023-24 earnings conference call of Gujarat Gas Limited. From Gujarat Gas Management side, we have Mr. Nitesh Bhandari, who is the Chief Financial Officer, Mr. Sandeep Dave, the Company Secretary, Mr. Dipen Chauhan, Senior Vice President, Marketing, Business Development, IT and ERP and Mr. Vikas Gangal, who is Senior Vice President, Domestic and Commercial Segments of the PNG. We will begin the call with the opening remarks from the management side, post which will be having a question-and-answer session. Thank you and over to you, Mr. Sandeep Dave. Thank you.

Sandeep Dave: Good afternoon, ladies and gentlemen. I am Sandeep Dave, Company Secretary of Gujarat Gas Limited. A very warm welcome to Q2 earnings call of Gujarat Gas. To start with, I thank you all for taking out time and attending the call.

To start the call, we have recently witnessed introduction of draft electric vehicle policy by Delhi government in recent times, as well as its impact on CGD companies. In this background, it is important to have a balanced portfolio of customers driving volume growth. Volume growth for GGL is not dependent on any one segment of customers.

Since we have a very balanced portfolio of customers from different segments, that is industrial and commercial segments, in addition to CNG sales. For the quarter ended on 30th September 2023, the company's sales volume increased by 22% to 9.32 mmscmd from 7.62 mmscmd during same quarter in previous year. The industrial sales volume has increased to 5.86 mmscmd for quarter ended on 30th September 2023, from 4.47 mmscmd for same quarter in previous year.

That is an increase of 31% in industrial sales volume. Further, CNG sales volume has increased by 13%. During the quarter, the company has added 53,000 new domestic customers, 221 commercial customers and commissioned 61 new industrial customers with a cumulative volume close to 83,000 scmd.

As on 30th September 2023, the company has signed volume of 542,000 scmd, which is yet to be commissioned. Just to give a brief background on Gujarat Gas, Gujarat Gas is the largest city gas distribution company in India. The company is operating in 27 geographical areas spread across six states and one union territory.

We have a good mix of matured and emerging CGD areas. We have developed pipeline network of more than 37,200 kilometres, which provide natural gas to more than 20 lakh households, 4,300 industrial customers and 14,700 commercial customers. GGL operates more than 806 CNG stations, serving approximately 375,000 vehicles per day.

GGL aims to deliver affordable, reliable and cleaner energy by operating responsibly and performing with excellence while considering the environmental, social and governance factors. As part of our commitment to ESG initiatives, we have taken various measures. GGL has commissioned its fourth LNG storage and regasification facility for PNG supply to predominantly industrial customers, along with domestic and commercial customers at Alang.

The company has embarked on major digitization drive across various business processes, which covers our PNG, CNG, LNG tanker movement, billing, collection, vendor invoicing submission, etc.. At Gujarat Gas, we adhere to highest standards of safety and a strong culture of safety. There is a prerequisite of building a safe and reliable safety network in our areas of operation. There is zero fatality or lost time injury to GGL employees. GGL is an ISO certified organization for integrated safety management system.

Now I request Mr. Nitesh Bhandari, CFO, to take us through the details of financial performance.

Nitesh Bhandari: Good afternoon, ladies and gentlemen. I am Nitesh Bhandari here, CFO at Gujarat Gas. I trust you would all have gone through our financial reports, which were reported yesterday.

As Mr. Sandeep Dave talked about the volumes, we have been able to grow volumes from 7.62 mmscmd for the quarter ended 30th of September 2022 to 9.32 for the quarter ended 30th of September 2023. The increase was primarily led by industrial volumes, which increased to 5.86 mmscmd from 4.47 mmscmd. We have sustained the industrial volumes almost in tandem with the Q1 of the current year.

In terms of the revenue, the company has registered revenue from operations of INR 3,991 crores during the quarter ended 30th of September 2023, as against INR 3,924 crores for the quarter ended 30th of June 2023. The company has reported a PAT, profit after tax, of INR 298 crores compared to INR 215 crores in the previous quarter of this year. The company's EBITDA for Q2 is INR 507 crores compared to INR 397 crores in the first quarter of the current year.

In terms of rupee per scm, EBITDA is 5.92 compared to 4.73 in Q1. We would endeavour to maintain our EBITDA in the range of 4.5 to 5.5 per scm on a long-term basis as we continue to endeavour and strike a balance between volumes and margins. We have already uploaded our investor presentation and I would like to briefly take you through that.

On slide number 3, it talks about GSPC Group, of which Gujarat Gas is a part of. GSPC Group is a leading natural gas trading company. It has a subsidiary, GSPL, which is India's second largest natural gas transmission company.

Gujarat Gas forms a part of the same and is India's leading city gas distribution company. On slide number 4, we have shareholding pattern, wherein the promoter shareholding is 60.89% and the other major ones are also displayed out there. On the fifth slide, we are talking about 27 CGD authorizations that we have.

We have around 37,200 kilometres of gas pipeline network, around 806 CNG stations, around 20.25 lakh PNG domestic connections, 14,700 PNG commercial connections and 4,300 plus industrial connections. On the sixth slide, we have a map depicting the areas that Gujarat Gas has in terms of the city gas licenses, which span across six states and one union territory. On slide number 7, we have talked about the CNG stations, which are in Gujarat and outside Gujarat.

We have around 554 CNG stations in Gujarat and 252 stations outside Gujarat, which include Punjab, Madhya Pradesh, Rajasthan, Maharashtra, Haryana and the union territory of Dadra and Nagar Haveli. In terms of gas sales volume, we have put in comparative bar charts for Q2, which is the previous year Q2, for Q1 of the current financial year and Q2, which is the current quarter.

So, in terms of sales volume, we had clocked around 7.6 mmscmd of volume in Q2 previous year. In the first quarter of Q1 FY ‘24, we had a volume of 9.2 mmscmd, which we have grown to 9.32 mmscmd in the current quarter, which is Q2 FY ‘24.

CNG sales have also increased to 2.6 mmscmd. PNG industrial sales is 5.9 mmscmd, PNG domestic is 0.7 mmscmd and commercial is 0.14 mmscmd in the current quarter. The revenue from operations in the current quarter is INR 3,991 crores, EBITDA as we talked about is INR 507 crores, profit before tax INR 401 crores and profit after tax INR 298 crores.

On the slide number 10, we are talking of a few business updates. This quarter, we have achieved a milestone of connecting 20 lakh domestic customers in the current quarter, highest ever CNG volumes of 2.62 mmscmd in the current quarter. This is on the back of station infrastructure that we have invested over a period of time. This is 13% higher than Q2 FY 2023.

Gujarat Gas has also won the Supply Chain Champion Award in the oil and gas industry category. This is given/ awarded by the Institute of Supply Chain Management of India in its ninth edition of the annual ranking. GGL credit rating has been reaffirmed at the highest level, which is AAA Stable with the increase in rated fund - non-fund-based limits from INR 8,550 crores to INR 12,050 crores. We have embarked upon mass digitization initiatives across various business areas and processes.

As Sandeep Dave was mentioning, PNG and CNG integration with ERP, LNG tanker management, billing collection, vendor invoice submission are a few areas to name. We also declared highest ever dividend of INR 6.65 per share at a face value of INR 2 per share, which has been approved by the shareholders in the AGM and has now been distributed in the month of October.

We have consumer-friendly policies to help sustainable growth in both CNG and PNG, supported by the government, APM price is capped at $6.5 per MMBTU for the next two years, the current year and the next financial year. And the VAT reduction by the government of Gujarat from 15% to 5% should also help support growth in both CNG and PNG residential.

The key operational indicators in FY ‘19, we had an industrial customer base of 3,541, which has grown up to 4,365 industrial customers in FY 2023. Domestic customers have grown from 13.5 in FY ‘19 to 19.3 in FY ‘23. CNG stations have grown more than doubled, rather, from 344 in FY ’19 to 808 in FY ’23. And the commercial connections have grown from 12,320 to 14,394 in FY ‘23.

Slide number 12 talks about the sales volume. It was 4.5 mmscmd in industrial volume in FY ‘19, grew up to 7.9 mmscmd in FY ‘22, and that was at 5.1 mmscmd in FY ‘23, primarily on account of lower volume in Morbi, this was an exceptional year with exceptionally high LNG prices. Domestic volumes have grown from 0.53 mmscmd in FY19 to 0.68 mmscmd in FY23. CNG volumes have grown from 1.4 mmscmd in FY19 to 2.4 mmscmd in FY23, while commercial volumes have grown from 0.11 mmscmd in FY19 to 0.14 mmscmd in FY ‘23.

Here we talk about the CAGR. We have clocked a CAGR of 21% in revenue from operation, a 25% CAGR in EBITDA in terms of rupees crores, a 38% CAGR in profit after tax, and in terms of EBITDA per SCM, we have grown from 4.2 in FY19 to almost 8 in FY ‘23, with a CAGR of 17%. Slide number 14, Gujarat Gas is now a zero-debt company. All the prepayments have already been done of loans in FY ‘23 itself, and we are now a zero-debt company, thereby improving various matrices in terms of EBITDA and debt upon EBITDA in terms of multiples.

Shareholder value creation in terms of the capex and cash flow from operations, from FY '19 of 540 and 964 crores respectively, it has grown to 1,098 and 2,378 crores respectively. The return on equity has grown from 20% in FY19 to 24% in FY23. Dividend per share was around INR 1 in FY '19, it has grown to INR 6.65 per share in FY '23. In terms of market capitalization from INR 10,000 crores in FY19, it is now INR31,645 crores at the end of FY '23.

In terms of growth opportunities, we are looking at accelerating intrinsic growth in various existing areas. We are supported by various government industrialization efforts, be it about Vibrant Gujarat, DMIC, BFC, Dholera SIR, or the new investment zones.

To fast-track investment in high-potential areas like Thane Rural, Ahmedabad district, which is the rural part, the Union Territory of Dadra and Nagar Haveli and Jaghadia phase 2 are primarily the most potential areas in terms of industrial volumes. We have got conducive investment policies in terms of encouraging the investment in green zones. We are expanding CNG horizon and CNG infrastructure to cover various towns, villages, and highways.

Now, CNG is being used in LCVs, HCVs, and dumpers. Various new gas-based applications to aid volume growth include setting up LNG facilities -- at shipbreaking in Alang and other foundries. We are also maximizing on the digitization initiatives by adopting ITES and IoT Internet of Things for being future-ready and cost-optimization. Sustainable long-term volume growth will be driven also from the new market that we have won in the 9th and 10th bidding rounds. On slide 17, these are a few achievements / recognitions that we have got for operational excellence.

I would now open the session for question-and-answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is on the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: Thank you for the opportunity. Hello, sir. Just have three quick questions. One with respect to this quarter results and the way that propane prices are shaping up and the price increases that we have taken. You had previously given a broad, I think EBITDA guidance, if I'm not mistaken, of INR 4.5 to INR5.

But in light of the operational environment that we are in, is it logical to may be expect you to exceed that number for FY '24? How do you look at the margin profile going forward for the business, particularly now that CNG, which is a much higher margin segment than your traditional, industrial segment, how does it sort of shape up? That was my first question.

Nitesh Bhandari: Okay, Probal. To answer your question, in terms of the guidance, we continue to mention, we continue to have that guidance of around INR 4.5 to INR 5.5 per SCM in terms of EBITDA margin. We have been positively surprising and would be happy to do that again -- as and when the opportunity does arise. Volumes and margins -- we continue to carefully balance to make sure that we have an optimum value creation for all our stakeholders and shareholders as well.

Probal Sen: Okay, fair enough. The second question was with respect to the CNG growth, which you just highlighted in the presentation as well. Now, if we look at the way that volume mix has been essentially changing for our business, CNG obviously has been gaining prominence in terms of percentage of the overall volume. Is it possible to sort of give a guidance on where you sort of expect CNG to be as a percentage, let's say, in another couple of years if this kind of growth continues?

Is it feasible to assume that CNG could be as much as 28%, 29% of our volumes even? It is already at 28%, but on an annualized basis, how much more can it sort of reach given that some of the newer areas are CNG heavy and you're focusing on this?

Nitesh Bhandari: Probal, you are right. We are already at 28% in terms of CNG as a percentage of the total volumes. And yes, the new areas have a huge CNG potential, much higher than the industrial part. So, that also agreed. Having said that, our philosophy and our strategy out here in Gujarat Gas has always been to increase volumes in all the segments, all the areas, be it about industrial, CNG, domestic or commercial. So, the relative percentage mix, while we do expect that it will go up, we would also want industrial and domestic and commercial also to grow and retain the same -- retain the composition.

Having said that, I agree with the point that CNG is growing faster, and so the mix could slightly tilt towards CNG in the years to come.

Probal Sen: Understood, sir. Last question, if I may. Just a housekeeping question. Any guidance on volumes you can give for FY '25 and any exit rate guidance you can give for FY '24? And if you can kindly bifurcate the industrial volume this quarter into Morbi and others? That's all from my side, if you can? Thank you.

Nitesh Bhandari: So, Probal, in terms of the volumes, we continue to maintain that we will be looking at a volume growth of around 10% on an year-on-year basis. This barring exceptions which have happened, let's say, last year, wherein we had this abnormally high LNG prices. Morbi volumes have remained at, in the current quarter we're around 3.91 mmscmd. We expect that volumes to be in the range of 4 mmscmd in the coming part as well. I'm talking of Morbi right now.

Probal Sen: Understood. All right, sir. Thank you so much, and congratulations on a good set of numbers, and all the best.

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

Amit: Yes. So, thanks for taking my question. So, can you give us what was the average realisation in Morbi last quarter, and where are we right now after taking the pricing increases in the month of October and November, what kind of pricing increases we have taken?

And second, if you can give us an understanding on the gas cost breakup for the industrial segment, like how we should look at increasing volumes, how the gas cost will move from here?

Nitesh Bhandari: So, in terms of the realisation from ceramics and ceramic sector, which is basically Morbi, that was on an average of around INR 41 to INR 42 per SCM. In terms of the non-ceramic, it was slightly higher. Can you please repeat your next question?

Amit: Sir, where are we -- like what are the pricing increases we have taken in ceramic and non-ceramic this quarter in October and November?

Nitesh Bhandari: from 1st of November, we have taken a price increase of INR 2.25 per SCM, excluding tax, in the month -- from the 1st of November.

Amit: And no pricing increase in October? No price change in October?

Nitesh Bhandari: No price increase in October.

Amit: And sir, this was for ceramic or non-ceramic or both? INR 2.25 increase?

Moderator: The current participant has placed the call on hold. We'll move on to the next. That is on the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: Thanks for taking my question, sir. So, first question is related to the cost of gas per unit. So, despite an increase in crude link LNG prices and spot LNG prices on a sequential basis, your cost of gas has declined. Can you please tell us the reason? Per unit?

Nitesh Bhandari: The cost of gas has -- per unit has declined because the the spot was much better in the Q2 as compared to Q1. And that was the reason why the overall gas price has reduced. We were able to get cheaper spot which would blend with our long-term LNG and put it to our customers.

Yogesh Patil: Okay. The spot LNG is the reason behind the decline in the cost of gas.

Nitesh Bhandari: Yes.

Yogesh Patil: Thank you. Sir, second question related to what is your current demand of overall gas at Morbi, including the PNG industrial plus propane at Morbi?

Nitesh Bhandari: So, Morbi, the total universe in terms of the market is around 8 mmscmd to 8.5 mmscmd. And here I must also mention that currently the Morbi market is not working at 100%. It's around 75% to 80%, primarily because of some impact of domestic market, primarily and the war, and it's basically in wall tiles. So, here we are selling around 4 mmscmd currently, and the rest around 3.5 mmscmd is being sold by propane, 3 mmscmd to 3.5 mmscmd.

Yogesh Patil: So, sir, so we have seen a sequential basis improvement in a gross margin per unit. Which segment has shown a sharp improvement in a gross margin on sequential basis, CNG or PNG industrial?

Nitesh Bhandari: So, in terms of gross margins, just give me a minute. So, in terms of gross margins, we have grown primarily in industrial, which was on the back of spot prices. Domestic and CNG have remained flattish.

Yogesh Patil: Okay. And, sir, last question from my side.

Moderator: Sorry to interrupt, Mr. Patil. May we request that you return to the question queue? There are participants waiting for their turn.

Yogesh Patil: Thanks. I will come back.

Moderator: Thank you. The next question is from the line of Abhishek Nigam from Motilal Oswal Financial. Please go ahead.

Abhishek Nigam: Yes, thank you so much for the opportunity. So, can I check, how much is the spot exposure right now in your overall gas mix? So, that's my first question.

Nitesh Bhandari: So, Abhishek, it's currently at around 35% odd in terms of spot compared to the overall mix. But, of course, as we all know, it will keep varying based on the total demand.

Abhishek Nigam: Fair enough. And what is the volume mix in terms of, Gujarat versus elsewhere, like, places like Punjab, for example?

Nitesh Bhandari: It's primarily still Gujarat. New areas are getting developed but are still in higher single digit in terms of the total revenue.

Abhishek Nigam: Okay, so 90% still is coming overall from Gujarat only?

Nitesh Bhandari: Yes.

Abhishek Nigam: Okay, fair enough. And so, last question, any new industrial clusters that you're targeting elsewhere that could come up, say, in three years' time?

Nitesh Bhandari: So, we are looking at a few industrial customers in Punjab. We are also looking at industrial areas in MP. At the same time, there are, our pipelines are now laid in the areas of Ahmedabad rural, where we do expect some industrial volumes to come in, and also in the areas of DNH and Dahej.

Abhishek Nigam: Okay, fair enough. Thank you so much. That's it from me.

Nitesh Bhandari: Yes. Thank you, Abhishek.

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

Kirtan Mehta: Thank you, sir, for this opportunity. I had one question about the gross block of the company. Is it possible to divide the gross block into the pipeline operations in Morbi, pipeline operations in the other regions, as well as the total CNG gross block? Some broad indication would be useful to understand the profitability of different segments.

Nitesh Bhandari: Well, it's sort of difficult to look at Morbi and non-Morbi. While I can talk about CNG, CNG would be roughly around – the total gross block is around INR10,000 crores, and CNG would be roughly around 20% to 25% of the same. 20% odd percent of the same. Is that something that supports or helps?

The major gross block or the major investment continues to be in pipeline infrastructure, and there we lay pipeline which connects to various segments, including CNG. Right. So, it's about laying of pipeline infrastructure, the steel and the polyethylene pipelines, and then going up, right up to GI, right up to the customer connection or the customer's house. But what I wanted to mention out here is that, it will be difficult to look at this in isolation because the same trunk pipeline infrastructure also supports CNG.

Kirtan Mehta: Understood, sir. And is it also possible to sort of break down just the gross block in the two, Morbi and non-Morbi areas on an overall basis for all the segments?

Nitesh Bhandari: Morbi and non-Morbi is not how we look at it because, there will be areas where you have industrial demand or pockets. There will be other areas where you will have, other demand in terms of CNG or other areas. And again, so that's, we look at this as a holistic pipeline network and not as, like, Morbi, non-Morbi. That's how, that's not how it should be looked at, Mr. Kirtan.

Kirtan Mehta: Right, sir. Just one more related question in terms of the operational cost. Is it possible to give sort of a broad indication of the operational cost that goes in CNG operations and the overall pipeline operations?

Nitesh Bhandari: So, in terms of the operating cost, see, CNG has a variable cost attached to it. So, there are costs in terms of, compressing the gas, which will have a power cost attached to it, the compressor cost attached to it, the operational maintenance cost attached to it, and also the forecourt areas that will be there, which will have to be taken care of. Again, if it is a daughter booster station or a daughter station, it will have an MCV or transportation cost, which is about feeding from the mother station to the daughter station.

So, these are some of the variable costs that are attached to CNG, which are not there in other business verticals, be it about industrial or domestic and commercial. Domestic, by its bigger customer base, does have a higher cost to serve.

Kirtan Mehta: Is it possible to sort of give an average for the CNG segment in terms of what would be the opex number, rupee per SCM in terms of rupee per kg?

Nitesh Bhandari: So, it will keep fluctuating in terms of, how the various volumes have grown and how the CNG station is put up. And again, it is also about, putting up infrastructure from a long-term perspective. So, initially, the cost will be high. Then the volume starts realizing, the realization happens in terms of growing of CNG volumes at a station. The cost of that station will go down. Again, the cost of a station, which is a daughter or daughter booster, will have an incremental cost on account of transportation, which will not be there in terms of, an online station.

But again, it's also about capex and opex model, wherein, an online station will have to put in an infrastructure, not only about the CNG compressor out there, but also about the pipeline to connect the CNG station. While in terms of a daughter or daughter booster, it will be more about the opex model, where you will have an incremental cost in terms of transportation.

Kirtan Mehta: Thanks, sir. Sir, I'll probably connect offline with you to understand this in a bit more detail.

Nitesh Bhandari: Sure, Mr. Kirtan.

Kirtan Mehta: Thank you.

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

Mayank Maheshwari: Sir, I had a couple of strategic questions. Firstly, in terms of your gas sourcing right now, you said about 35% is still on spot. Is there a reason why I think you guys are still not getting into long-term contracts? Is this a function of lack of clarity around variability in Morbi demand?

Or is there something else from a strategy perspective of why the sourcing strategy still is being focused a lot more on spot market supplies? Because that had been hurting you for the last few years. So, is there a shift in thinking that it may kind of go to more long-term supply eventually once LNG markets get a bit more normal?

Nitesh Bhandari: So, Mr. Mayank, yes, that's the idea. As of now, we do expect the markets in terms of the LNG markets, as we all know, the capacities will increase and the supply of LNG will increase in the years to come. So, we are waiting for better terms than the current brent levels that are there and the current levels of spot that are there.

We are looking at better terms for the long-term contract. We have a long-term contract till 2025. And at the same time, we are also scouting for domestic gas, like RIL and ONGC. We have these tenders or bids coming up in the month of November itself. And we would like to also use that cheaper option to also sort of augment our sourcing portfolio.

At the same time, we are exploring and on the lookout for some good deals on a mid-term basis. Long-term contracts are now almost history. But yes, we are looking at some good mid-term deals. And as and when they come up, we will evaluate them. We do expect that, we will get better contracts in long-term than the current ones is what our thought or philosophy is.

Mayank Maheshwari: Got it. And sir, for these medium-term contracts, is there a target that you have? Okay, let's get to like considering about two/thirds of your demand is industrial. On that, let's take 60%- 70% as long-term supply and the remaining spot. Is there some thinking process over the next three years, four years, where do you want to reach?

Nitesh Bhandari: So, what we are looking at is that we would like to sort of have contracts in place for long-term and also at the same time have some sort of a healthy mix of short-term or spot contracts also because that also helps us align with the market. So, roughly a mix of around 70%- 30% is what we would be looking at possibly, you know, 75%- 25%.

Mayank Maheshwari: Got it. That's very clear. Thank you for that. Maybe the last question is more in terms of…

Moderator: Sorry, Mr. Maheshwari, may we request that you return to the question queue. Thank you. The next question is in the line of Yash Thakur from BOB Capital Markets Limited. Please go ahead.

Yash Thakur: Yes. So, my question is on the mix of CNG stations in terms of company-owned, OMCs and franchisees. So, what would be the same?

Nitesh Bhandari: Yes. In terms of the mix of CNG stations, primarily, it is sort of tilted towards OMC primarily because they provide readily available infrastructure to quickly plug and play in terms of the CNG station. In terms of percentages, we would be around 75%- 80% in terms of the OMCs, around 12%- 15% in terms of the franchisees, and around 7%- 10% in terms of COCO, company-owned, company-operated stations.

Yash Thakur: Right. Thanks, sir. Thanks for the answer. And another question is on the average commission given to the CNG dealers?

Nitesh Bhandari: Average franchisee commission is around INR3- INR4.

Yash Thakur: Right. Thank you. Thanks for the answers.

Nitesh Bhandari: Thank you, Yash.

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

Amit: Yes, sir. Just to continue on my last question. Could you give us a number, where is our realization now for both ceramic and non-ceramic consumers?

Nitesh Bhandari: Yes. So, in terms of ceramic, the average realization is around INR 41- INR 42 rupees per SCM. This I am talking of is the current, yes, last quarter, that is Q2. While the non-ceramic is around INR 48.

Amit: Okay. And so where is this now? Basically, as of now, where is the realization?

Nitesh Bhandari: As of now, the realization from ceramic has increased to around INR 45- INR 45.50. It has stayed at around INR48- INR48.50 for non-ceramic.

Amit: Okay. And sir, my second question was relating to the sourcing of, gas. So, could you give us some indicators like if the volume increases in the coming quarter because LPG prices have already gone up, propane prices have gone up. So, if we incrementally source the gas, what is the cost of gas for us? And what is the existing mix for industrial consumers we have right now?

Nitesh Bhandari: So, the existing spot gas is in, while it has sort of, it was available at around $12- $13. It has gone up in the current month primarily at around $15- $16 dollars per mmbtu. This is basically the spot that has been caused because of the geopolitical factors. We expect this to sort of come down in terms of, so that is the spot that we are looking at as of now.

Amit: Yes. So, mix of gas basically. What is the mix of gas? short term and medium term.

Nitesh Bhandari: So, mix of gas as I mentioned, So, mix of gas is around 35% is the spot and the rest is long term.

Amit: 35% is the spot. So, we are, apart from the long-term contracts we have on the LNG side, we are not sourcing any other gas from the domestic market. Like earlier we had CAIRN] and we had also HPHT gas?

Nitesh Bhandari: So, HPHT, I thought you were talking about the industrial part. So, I was talking of the industrial split -- HPHT cannot be allocated to industrial customers. I was talking about the industrial split which is about 65-35, so that was a split for the industrial mix.

Amit: Okay, and no CAIRN gas we are using in this quarter?

Nitesh Bhandari: CAIRN, no, the CAIRN supplies, there's no CAIRN gas as of now.

Moderator: Thank you. We have our next question from the line of Pathanjali Srinivasan from Sundaram Mutual Fund. Please go ahead.

Pathanjali Srinivasan: Thanks for the opportunity. So, I have a couple of questions. One is, what is the potential of the industrial volume for non-Morbi regions? Like, from a two to three-year perspective. I think currently we are close to two mmscmd. Where can this be up to?

Nitesh Bhandari: So, it will depend on, so as of now the potential that we're looking at in the next, after three years would be somewhere between 2.5 mmscmd to 3 mmscmd from the non-Morbi areas. Having said that, it will also depend on various other factors in terms of, you know, the green initiative or the ban on polluting fuels that may, you know, fast-track, or increase / spike or, you know, bring a spike to the non-Morbi market.

Pathanjali Srinivasan: Okay, sir. And just a related question. Similarly, for CNG, what is the current level of CNG fuels from non-Gujarat regions? And what is our minimum work program target there? And how much have we achieved so far?

Nitesh Bhandari: So, first talking about the CNG, the CNG, the total volumes for Q2 FY '24 were around 2.62 MMSCMD. And the split for Gujarat and non-Gujarat would be around, so non-Gujarat would be around 0.1. And if I look at the other areas like Thane, DNH, Amritsar, Batinda, and Ahmedabad rural, that would add around another 0.3. So, let's say around 0.5 comes from non-Gujarat areas.

Pathanjali Srinivasan: Okay, sir. And the station…

Nitesh Bhandari: This includes CNG and industrial both.

Pathanjali Srinivasan: Sorry, I didn't get you.

Nitesh Bhandari: This includes CNG and industrial both.

Pathanjali Srinivasan: Okay, sir. And what I wanted to know is on the stations. I asked on the station.

Nitesh Bhandari: Okay, so CNG stations, so they are around 500 for Gujarat and okay. So, that's around 554 in Gujarat and around 250 odd in non-Gujarat, outside Gujarat.

Pathanjali Srinivasan: So, that is given in the presentation. I'm asking what is the requirement as per our minimum work program for the other…

Nitesh Bhandari: So, in terms of CNG, we are ahead in terms of the minimum work program in our bid rounds, even including the 9th and 10th bid rounds as well.

Pathanjali Srinivasan: I think around 300 stations is what we had to do in total. So, we tried to target that point, or we are tyring to do more. That's what I'm trying to understand.

Nitesh Bhandari: So, that was in eight years, right? We are in the third year, second and third year. So, we are ahead of target when it comes to CNG stations.

Pathanjali Srinivasan: No, no, no. I can understand that you're ahead of target. What I'm asking is, is that, will that only be will we restrict ourselves to the 300 or will we try to do more? Is there potential that is higher than that in those regions or not? That's what I'm trying to understand.

Nitesh Bhandari: Of course, we will try and do that. I mean, if there is potential, we'll definitely put in more CNG stations and get more volumes from those areas.

Moderator: Thank you. We have our next question from the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: Thanks for taking my question again, sir. So, sir, as per the press release, the company has signed the volume contracts of 0.5 mmscmd with the industrial. And can you tell us the timeline for the commissioning of these quantum of volumes?

Nitesh Bhandari: So, commissioning will depend on the readiness of both Gujarat Gas as well as the customer. And a few of them would be, Greenfield, a few of them Brownfield. So, it will depend on that. But what we expect is if it is about the addition to the existing capacity, that should happen even less than three months or in a month or so. But at the same time, if it is Brownfield, that should take maximum three to six months, even if it is, for us to lay the infrastructure. The rest, of course, depends on the customer and his readiness.

Yogesh Patil: Okay, sir. And last one, we wanted to know about the propane landed price at Morbi compared to the PNG industrial. What is the current scenario, sir? Propane is the cheaper or PNG industrial is the cheaper?

Nitesh Bhandari: So, PNG industrial is cheaper by around two -- sorry, PNG industrial is slightly expensive by around INR 2 to INR 3 per SCM. This, I am talking of both propane and natural gas in terms of energy equivalence and the landed cost to the customer. And this is the range that we have been over the last two to three months. And we have been able to secure a volume of around 4 mmscmd from Morbi.

Yogesh Patil: So, do you expect the more volumes will come back to the PNG industrial side from the side of propane to PNG industrial? Is there any chance? What is your in-house estimation that how much price cut is required compared to the propane, then the volume will really ramp up to the PNG industrial side?

Nitesh Bhandari: So, Yogeshji, I mean, propane is looking at an upward -- as a trajectory, it is looking upwards. Having said that, we continue to balance between volumes and margins. And as of now, even the spot prices are sort of at a higher level. If and when the spot prices cool down, we will definitely look at bringing more Morbi volumes back to our fold. The current in-house estimate is that we should be able to continue with around 4 mmscmd for the next few months.

Yogesh Patil: Okay, thanks a lot, sir.

Nitesh Bhandari: If there is an opportunity, as I was saying, Yogeshji, if there is an opportunity in terms of spot, we will definitely try and capitalize on the same.

Moderator: Thank you. We have our next question from the line of Somaiya V from Avendus Park. Please go ahead.

Somaiya V: Yes, thanks for the opportunity, sir. In terms of your contract that you have for gas sourcing, can you just provide the quantum and, I mean, the time period in which it is available and also the linkage?

Nitesh Bhandari: So, we have long-term contracts from, this is basically the PLL that is Qatar and the other one is from Shell, both put together around 3- -3.5 mmscmd and both go up to 2025. And the linkage is around 14.5, around 14% to Brent.

Somaiya V: Got it, sir. So, this is the total quantum, 3 to 3.5 and the rest is what you mentioned, that 35% spot?

Nitesh Bhandari: Yes, very much.

Somaiya V: Got it, sir. Sir, and also the earlier point that you were referring to, if I understood correct, probably today PNG industrial, Morbi's 2 to 3 costlier, but still at these levels, a 4 mmscmd is something that is possible. Is that the right understanding?

Nitesh Bhandari: Yes. That's correct.

Somaiya V: Sir, and what is the, you know, point of inflection where actually the switch happens in a big way or the spread which is probably too high? I mean, is it INR4 or INR5? What you have seen in the last six months?

Nitesh Bhandari: So, we are also sort of trying to, we are sort of also exploring and evaluating as we, go by in terms of the Morbi market. But what we see is that this is sort of premium which the customers are willing to pay for the convenience of natural gas compared to propane.

Somaiya V: Got it, sir. And also, your, you know, the 10% volume growth expectation, if you could just break up in terms of the, where would this come from? Let's say it's a 9 mmscmd going into a 10 mmscmd, incremental 1 mmscmd, how are you expecting CNG, non-Morbi and Morbi?

Nitesh Bhandari: So, CNG, we are expecting CNG to lead the pack and definitely be higher than the average that we're talking of. And the rest should come from the industrial part, which is both Morbi and non-Morbi. Gujarat economy is also, and Indian economy is also doing well. And with the vision of increasing the natural gas mix from 6% to 15%, the industrial volumes will also definitely grow. And for an economy to grow, energy is definitely the basic need. And so, we will try and support the growth by providing natural gas as and when it is required.

Somaiya V: Got it, sir. And with 10% when you speak…

Moderator: Mr. Somaiya, may I request you to join back the queue, please, as we have other participants waiting? Thank you. We have our next question from the line of Abhijeet Bora from Sharekhan. Please go ahead.

Abhijeet Bora: Yes, sir. Have you passed the entire increase in the spot LNG prices in the recent price hike or there are further chances of price hike?

Nitesh Bhandari: So, Abhijeetji, we have tried to sort of, you know, sync – we have tried to pass on most of the increase and at the same time sync it with the propane prices so that our volumes remain at the current levels that they are. And we will continue to sync our selling prices in – I mean, you know, with the propane prices.

Abhijeet Bora: Okay. And also, the – with the jump in the crude oil prices, the contract LNG prices also goes up. So -- is this factored in the current price hike?

Nitesh Bhandari: It does and it has been factored in. Yes, it does and it has been factored in. Of course, it comes with some lag of three to six months.

Abhijeet Bora: Okay. So, there will be further price hike chances going forward.

Nitesh Bhandari: Yes, if required

Moderator: Thank you. We have our next question from the line of Niraj Todi from Jeffries. Please go ahead.

Niraj Todi: Thank you, sir, for taking my question. Just trying to understand based on your commentary, it seems that the propane capacity has maxed out in the Morbi area. Is my understanding correct?

Nitesh Bhandari: So, I would not say that the capacity has maxed out. What I would mention is basically that we have been competitive to propane and so we have been able to garner more than 50% of the total energy requirement of Morbi as of now.

Niraj Todi: Okay. And do you see propane capacity coming up in non-Morbi areas or it's still very small as of now?

Nitesh Bhandari: We don't expect that and it is insignificant at least as of now, non-Morbi areas.

Niraj Todi: Got it. And one last bookkeeping question. What was the APM shortfall in the second quarter and how much HPHT gas you are taking as of now?

Nitesh Bhandari: So, the shortfall was in the range of around 10% to 12% in Q2. That while we had better deals than HPHT in terms of spot because at that point of time, HPHT was at around $12. Now that HPHT gas has come down to $9.96, around $10. We are getting HPHT gas to sort of bridge our shortfall of the APM gas.

Niraj Todi: Okay. Understood. So, it means the last quarter you didn't have HPHT but going forward you might be looking at HPHT gas given the economics?

Nitesh Bhandari: We have started using HPHT gas already from October.

Moderator: Thank you. We have our next question from the line of Manikantha Garre from Franklin Templeton, India. Please go ahead.

Manikantha Garre: Yes, thank you so much for providing me the opportunity, sir. Just have two, three questions. Firstly, can you please give any colour on the medium-term to long-term volume growth, how you are thinking about that? That's the first question.

Secondly, in your PPT, in the growth opportunity slide, you have given new volume growth from government's industrialization efforts. Can you split those opportunities which are highlighted there into near-term versus medium-term opportunities? And if possible, quantify them and the potential there. And lastly, you also talked about high potential markets there. Could you quantify the potential there as well? Those are my questions.

Nitesh Bhandari: So, in terms of the volumes, we do expect a volume growth of, in the range of average of around 10% on an year-on-year basis in the medium to long-term. And the growth, as I was mentioning, should primarily come – I mean, should be driven by CNG and also backfilled by industrial, both Morbi and non-Morbi, on the back of the normal growth in terms of economy that we are growing as a country and as a state in particular.

The government initiatives that we're talking of in terms of industrialization have been various, be it about Vibrant Gujarat or be it about DMIC or, you know, direct freight corridor. We also have a Dholera SIR where we is in our operating area. And there are also new industrial or investment zones that are coming up, like let's say the Diamond Bourse in Surat. So, we are trying to, you know, reach to those areas in terms of a pipeline beforehand and connect the customers and be ready for connecting the customers as and when they come.

So, those areas should be where we would be looking at our growth. And this sort of support in terms of the government's, you know, industrialization efforts is actually helping us capitalize on the opportunities that we have. Again, this will also sort of augment in terms of the vision of growing the natural gas share from 6% to 15%. Does that answer your question, Manikantha?

Manikantha Garre: Yes. So, from the industrialization efforts, so then that way these are more of – more than three-year kind of opportunities, nothing in the near term…

Moderator: Mr. Garre, may I request you to join back the queue, please, as we have other participants waiting?

Manikantha Garre: I guess we had a – this is just following up on another question only.

Moderator: Okay. Please go ahead.

Manikantha Garre: Yes. So, sir, I was just trying to confirm if those industrial efforts which you have mentioned, those are more of beyond three-year opportunities and nothing in the near term. Is that how one should look at it? And also, if you can quantify the potentials in those high potential markets which you have highlighted there?

Nitesh Bhandari: So, a few things, Manikanthaji. One is basically that while the government industrialization efforts are there, there is Vibrant Gujarat, which is a bi-annual, you know, event. So, it happens every two years, and that should result – that should give us some results – I mean, immediately, not necessarily in the long run.

The second one is basically about the fact that we are also getting into high potential areas, be it about Thane Rural, be it about Ahmedabad Rural District, which has Sanand, Bavla, Changodar, and other areas. We are also getting; we are also expecting good volumes to come in immediately from the Union Territory of the Dadra and Nagar Haveli and also from Jhagadia Phase II.

So, those are the areas where, you know, volume should start flowing in, as quickly – I mean, more quickly and definitely – I mean, towards – possibly towards the end of this year, if not earlier.

Moderator: Thank you. We have our next question from the line of Somaiya V from Avendus Park. Please go ahead.

Somaiya V: Thanks for the opportunity, sir. Yes. So, in terms of this 10% growth, what is the expectation for Morbi that is getting built in this? 4 mmscmd is going to about what? And is it because you expect and Morbi to grow or is it we're gaining back some of the market from propane?

Nitesh Bhandari: So, in terms of Morbi, it will be a story in terms of both gaining from the existing customers because they continue to grow. Their export market is doing quite well, especially in the vitrified section. And so, we do expect some good volumes to come in from the existing customers.

There are new capacities being built up at Morbi and even multinational companies are coming in in the Morbi belt area. So, we do expect some volumes not only from the existing area, existing customers, but also from new customers who are putting in huge factory setups or manufacturing setups at Morbi.

Somaiya V: Got it sir, just one follow-up. What would be your capex plans for FY '24 and '25?

Nitesh Bhandari: It's in the range of 1,000 crores to 1,200 crores both for FY '24 and '25.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Nitesh Bhandari for closing comments. Over to you, sir.

Nitesh Bhandari: So, to sort of summarize for the closing remarks, we continue to balance between volumes and margins to optimize value for all our shareholders. Propane is currently looking at an upward trajectory and the spot prices have already started softening after the recent spike because of the geopolitical factors. Shortfall in APM gas is now met by cheaper HPHT gas.

CNG looks promising with the growth led by new vehicle conversion and HCVFPV also sort of supported ably by the new areas where we – or new virgin areas where we put in CNG infrastructure. I would like to end the call by wishing all of you a very happy Deepavali and a very prosperous new year from all of us here at Gujarat Gas. Thank you.

Moderator: Thank you, sir. On behalf of Gujarat Gas Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.