



“Gujarat Gas Limited Q1 FY-24 Earnings Conference Call”

August 03, 2023



**MANAGEMENT: MR. NITESH BHANDARI – CHIEF FINANCE OFFICER.
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**MODERATORS: MR. NITESH VAGHELA, ANURAG SERVICES
LLP**



*Gujarat Gas Limited
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Moderator: Ladies and gentlemen, good day and welcome to Gujarat Gas Limited Q1 FY 2023-24 Earnings Conference Call.

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 briefing from management concludes. Should you need assistance during this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Nitesh Vaghela: Thank you. Good afternoon and welcome to the Q1 23-24 Earnings Conference Call of Gujarat Gas Limited.

From Gujarat Gas management, we have Mr. Nitesh Bhandari – Chief Finance Officer and Mr. Sandeep Dave – Company Secretary.

We will begin the call with opening remarks from the management, post which we will have a question-and-answer session. Thank you and over to you Mr. Sandeep Dave.

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

Today, the buzzword in the market is “Credit Rating”. We have seen a lot of volatility in the market in recent times due to the credit rating revision. In this background, I am happy to inform you that this year GGL has secured the highest possible credit rating of AAA from AA positive outlook.

Just to give a brief background on Gujarat Gas. Gujarat Gas is the largest city gas distribution company in India with gas sales volume of 9.22 mmscmd that is million metric standard cubic meters per day. The company has 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 around 36,000 kilometers which provide natural gas to more than 19,30,000 households, 4300 industrial customers and 14,000 commercial customers. GGL operates more than 800 CNG stations, serving approximately 3,75,000 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 a part of our commitment to ESG initiatives, we have taken various measures. We have successfully completed a pilot project on hydrogen blending with NTPC and we are planning to

increase the hydrogen concentration level. We have also undertaken a digitization drive internally. We have also provided gas supply to replace polluting fuels and scarce natural resources.

At Gujarat Gas we adhere to the 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 details of financial performance.

Nitesh Bhandari:

Good evening, ladies and gentlemen. I am Nitesh Bhandari – CFO at Gujarat Gas. Trust all of you who have gone through our Financial Results which were reported yesterday.

To start with on the business side, we have achieved 10% growth in industrial volumes per day, and a 4% overall growth in the current quarter that is Q1 FY 23-24, Despite the impact of Biparjoy cyclone. Sales volumes have increased from 8.86 mmscmd in Q4 FY22-23 to 9.22 mmscmd in the current quarter, which is Q1 FY23-24. Industrial volumes have increased from 5.36 mmscmd to 5.88 mmscmd. Morbi volumes have increased to 4.01 mmscmd. In line with our stated strategies, we continue to balance volumes and margins. This quarter, we had an opportunity of increasing volumes due to much softer RLNG compared to the levels that we saw in 2022. Higher propane levels from March 2023 gave us room to push volumes in Morbi. So, with the softening of spot RLNG gas prices and availability of cheaper domestic sources of gas. We've adjusted our selling prices to retain and regain customers at Morbi and other industrial customers, Albeit with a temporary reduction in margins.

We have achieved the highest ever CNG volumes of average of 2.61 mmscmd, in the first quarter of 2023-24. This is on the back of investment that we made in the CNG station infrastructure, which is now grown from 400 CNG stations to 800 CNG stations in the past three years. This has not only increased the accessibility of CNG to customers but has also improved the experience in terms of reduction in waiting time. With the increase in company fitted CNG models, some of them even changing design to increase / retain boot space, reduction in diesel variants and higher competitiveness to alternate fuels, the CNG sales are expected to grow in times to come. We have made significant progress in putting CNG infrastructure in the new GAs as well. We have commissioned around 169 CNG stations in the six new GAs of bid round 10 in the various states of MP, Rajasthan, Punjab and Haryana. An important milestone we have crossed one lakh kgs of CNG sales in Palghar and Thane rural GA.

There was a growth of 12% in SCB category of three-wheeler commercial vehicles and passenger car segment, the CNG vehicles have grown by 3% as compared to last quarter. This quarter, we have been able to connect more than 46,000 domestic customers, which is around

33% higher than the previous year same period. CGD industry has received good and much needed support from central government in terms of implementation of the recommendations of Kirit Parekh committee in terms of domestic natural gas pricing. As per the changed guidelines, domestic natural gas shall be 10% of the Indian crude market price. The APM price shall have an initial floor and ceiling of \$4 per MMBtu and 6.5 per MMBtu respectively. The ceiling would be maintained for the next two years and then increased by \$0.25 each year. APM there by cost has reduced from \$8.5 per MMBtu to \$6.5 per MMBtu increasing the competitiveness of the same vis-à-vis alternate fuels. GGL has promptly passed on the benefit of this reduction to its customer. So, post implementation of revised APM pricing, savings to CNG customers over alternate fuels have increased to 45% and to 50%. It is pertinent over here to note that the government of Gujarat has also reduced VAT on CNG and domestic PNG from 15% to 5% in October 2022. So, this reduction in APM price coupled with the lower VAT is expected to give strong growth momentum to conversions both in domestic and CNG sector.

On the industrial front, central government from 1st of July has increased the customs duty on propane and LPG increased from effectively 2.75% to 19.25% which has helped us or provided a much-needed level playing field to gas, it has increased competitiveness of natural gas compared to propane and LPG. Our company has reported revenue from operations of 3,924 crores in the current quarter of financial year 23-24. This reduction compared to the previous quarter of the previous financial year; first quarter previous financial year was mostly on account of reduction in selling price. Approximately 84% can be attributed to the reduction in selling price and the balance around 16% is on account of reduction in volumes. This was also a challenging quarter from the perspective of profits as we had to reduce industrial selling prices to compete with lower alternate fuels mainly propane in the Morbi area.

The company reported a PAT of 215 crores compared to 381 crores that we did in the previous year, same quarter. The Company's EBITDA was at 397 crores and the per SCM EBITDA was Rs.4.73 per SCM. We endeavor to retain or maintain our EBITDA in the range of around Rs.4.5 to Rs.5.5 per SCM on a long-term basis. And we continue or endeavor to strike a balance between volume and margins. EBITDA in percentage terms was 10.6% in Q1 compared to 11.9% in the Q1 of the previous year. Our sales mix now is tilted towards CNG and PNG-Domestic, with the increase in CNG sales. So, CNG, PNG- Domestic now account for 35% of Company's total sales vis-à-vis 31% in the Q1 of the previous year.

The Board of GGL has approved an investment of Rs.100 crores in GSPC LNG Limited. The acquisition aims to have better synergy and integration into the gas value chain. GSPC LNG Limited is engaged in the business of LNG receiving, storage and regasification at Mundra in Kutch, Gujarat having a capacity of five MMTPA. GSPC LNG's commercial operations started in March 2020. GGL currently sources around 4 to 4.5 mmscmd of imported RLNG to serve its customers, which is roughly around 20% to 30% of the current capacity of this GSPC LNG Limited. Mundra LNG terminal can be used to supply RLNG to the nearby regions, including

Morbi industrial cluster having significant natural gas demand. This will also help us optimize the gas transportation cost with the unified tariff now having zonal tariffs. The government has set up a target to raise the share of natural gas in the energy mix to 15% by 2030, which means a two and half times increase from the current levels, leading to an increased reliance on imported LNG. And thereby LNG terminals. The US and other developed economies are increasing liquification capacities and increasing their exports of gas where in having an LNG terminal would be an advantage.

During Q1, GGL credit rating was upgraded to AAA the highest credit rating level from AA+/positive by India rating and CARE rating. CRISIL has already upgraded the credit rating to AAA in December 2022. With this, all agencies have rated Gujarat Gas with the highest credit rating. We continue to be a zero-debt company. For Ahmedabad Rural GA, PNGRB has extended both the marketing and infrastructure exclusivity. The timeline to achieve the MWP target has been extended from June 2023 to March 2027. We now continue to aggressively invest into CGD infrastructure, to tap this lucrative market both in terms of CNG and PNG - domestic, commercial and industrial demand. Thank you and with this, I now open up for the Q&A sessions.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: Just had a couple of questions, first is if you can give a sense from Q2 onwards, what is the point of volumes that we are seeing for Morbi at the moment and if we can get a sense of what is the sort of total gas equivalent demand today at Morbi, if you have a rough idea, and what portion of that sort of has the ability to switch between propane and gas, if you can give us any sense on that?

Nitेश Bhandari: Probal, to respond to your first question. The gas volumes at Morbi currently in the range of 4 mmscmd, propane is around 30 lakh SCMD currently.

Probal Sen: And sir is my understanding correct that typically at full capacity if everything is going well. Thus, overall gas equivalent demand can be as high as around 8, 8.5 mmscmd, I am talking total including gas and propane? Is that a fair assessment?

Nitेश Bhandari: That is a fair assessment 8, 8.5 is the universe.

Probal Sen: Alright. And within that around 50% has the ability to switch back and forth between us and propane. Roughly around is that a fair assessment.

Nitेश Bhandari: Roughly yes.

Probal Sen: Alright. My second question sir, this was a slightly broader question, I understand the basic point about the acquisition that has been done. But forgive me for asking, but synergy in terms of transporting, or sourcing volumes from this terminal to Morbi, could it have been done even without the acquisition, since the terminal is also sort of part of the GSPC group also has a face or support in this terminal, I am just trying to understand what the requirement was for taking the equity, how does it help us more than what if it would not have?

Nitesh Bhandari: So, Probal we are getting a part of our volume that we serve to Morbi from Mundra even today. So, we do have that volume that we are off taking via GSPL transportation pipelines, which are coming from Mundra. The idea of investing into or putting a stake into Mundra was that we also, it was a strategic decision to invest into terminals, from a long-term perspective, wherein the growth in gas, gas as a percentage of energy basket is expected to increase. And the LNG terminals will have to come in if we are looking at a two to two and a half times fold increase in the share of natural gas energy. So, it is not only about storage, but it's also about loading and distribution. So, this Mundra terminal is not only a, so one is it may help us in storage. And second is, it will also help us in loading facilities. So, long-haul vehicles, all LNG is now the new thing or the new demand that is coming up. And that we will be able to cater and serve through this Mundra LNG also more efficiently for the Saurashtra part.

Probal Sen: Alright. And sir last question, if I may. Just a couple of housekeeping questions, kindly give us some capex guidance for this year. And if we can split it into your existing or rather older areas and new areas that would be really helpful.

Nitesh Bhandari: Sorry, can you please repeat sorry, we missed you, Probal.

Probal Sen: I was asking if you can give us some guidance on CAPEX plan for FY24 and 25 and if you can split it between new areas and the existing areas, some guidance on that?

Nitesh Bhandari: So, in terms of CAPEX, we will be in the range of 1000 to 1200 crores for the next three years. And, we will have them funded through internal or cash accruals. So, all of them, except let's say for a small point when you are trying to advance our CAPEX for some specific demand pockets where you might need bridge loans, most of it will be through internal accruals. This should be split almost equally into three parts, the new GAs, the existing GAs and CNG.

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

Maulik Patel: Thanks for the opportunity and I really appreciate that management took the initiative to hold the call. I request management to have this kind of calls post every quarter and share the update about the business. I have two questions. One is on change in strategies, so last year we were more focused on margin expansion, the profitability and this year as you said in your opening

remarks that we want to go for in a volume. In that case, will you be able to hold your earlier guidance which go on a margin side that you will be able to make around five plus or minus Rs.0.50 given that priority is now volume?

Nitesh Bhandari:

So, Maulik to answer your questions, we continue to balance between volumes and margins, as I mentioned in the opening remarks, this quarter we had a benefit of cheaper or softer LNG which we could blend and serve to our customers and the propane levels were also decent. Here I must also mention that summers are the times when the propane levels are the lowest. So, we have gone through the worst part of the propane mix for the year and from winter onward it is anyways looking at an upward trajectory. In terms of propane in terms of the margins versus so, propane is increasing as you can see from the forwards for September as well and beyond that, and in terms of the other part which is about EBITDA even in this quarter we have a fair EBITDA of Rs.4.73 per SCM. So, we have still within the band that we have been talking about. And we continue to focus on volumes also, because having volumes also provide you the flexibility to source spot gas which is currently cheaper. So, we can source cheaper spot and blend it to reduce our weighted average cost of gas. Hope that answers.

Maulik Patel:

Sure. Can you just give us what kind of, so you have done on a priority segment volume which is CNG and household which was close to around 3.2 and then how much of the APM you received, or how much of this spot you have mixed for this priority segment volumes?

Nitesh Bhandari:

So, in terms of the sourcing around 32% of sourcing is the APM gas and within Dom CNG, the total Dom CNG volume was 3.22 mmscmd versus 3 mmscmd that we did in the previous year same quarter. In terms of the APM shortfall, APM shortfall was in the range of around 10 odd % with we are taking it through HPHT gas and some blending it whenever the spot or cheaper spot was available.

Moderator:

Sir, the line for the participant dropped. Next question is from line of Manthan Bhadiyadr, Individual Investor. Please go ahead.

Manthan Bhadiyadr:

So, I have two questions. So, one is, what is the Company's long-term strategy to compete propane competition in Morbi region. And second is the Company's plan to expand more customer in the industrial segment. I see in the press release, this quarter we have 0.11 mmscmd volume from new customers and 0.43 yet to be commissioned. So, that 0.43 will that reflect from Quarter 3, and overall plan to add more clusters like Morbi?

Nitesh Bhandari:

Manthan to answer your question, first is that, as we mentioned in the previous question or our response to the previous question, propane is sort of as of now looking at an upward trajectory, and that should help us in terms of pushing volumes and at the same time looking at some fair margins on the industrial segment. In terms of the industrial segments and getting into new areas, we are looking at major two new areas are Thane which is the Vasai-Virar area, Thane rural area



Gujarat Gas Limited
August 03, 2023

including Palghar and at the Ahmedabad rural which is the newly acquired area. So, we are aggressively putting in infrastructure to reach the various industrial demand pockets. As we speak now our commercial and marketing team is in Rajasthan to push for industrial volumes at Rajasthan in our newly acquired areas of Sirohi, Jalore and also at Dungarpur.

Moderator: Thank you. Next question is from line of Moksha Shah from YellowJersey Investments. Please go ahead.

Moksha Shah: My question was, could you please throw some light on how do you foresee the industrial demand and how are the prices between propane gas and the prices you offer expect to go forward?

Nitesh Bhandari: Moksha, industrial, as we have been mentioning, summers is a time when propane is slightly cheaper and with winter's coming in, they are expected to be having an upward trajectory which is reflected in the forwards of propane as well. We will continue to see if we can blend cheaper spot if available and place it profitably to our industrial customers. In terms of and we continue to push for volumes not only in terms of Morbi but in other areas as you were discussing and mentioning in other areas specific two or three being the Thane rural area, which is Vasai-Virar and Palghar area, the Ahmedabad rural area and also the new areas in Jalore and Sirohi in Rajasthan.

Moderator: Thank you. Next question is from the line of Rajesh Aynor from ITI Limited. Please go ahead.

Rajesh Aynor: Sir my question continuing on one previous question that was asked about sourcing, how much is our spot gas sourcing in Q1 and what's the outlook going forward in terms of how much is available supply from PMT and other term contracts that is there with us apart from APM?

Nitesh Bhandari: Okay, we talked about the sourcing when it comes to domestic and CNG. So, we got around 90% APM gas and the 10% balance was the shortfall, which we source through a mix of HPHT and spot. And the next part is about industrial and commercial, we are in industrial commercial we sourced around. So, in terms of the sourcing mix around 32% is the APM and around 20% is non-APM domestic this was for Q1, around 34% was the long term RLNG and around 14% was the short term RLNG.

Rajesh Aynor: And what was the price at the short term, this is the spot volume or is it the short term RLNG?

Nitesh Bhandari: The spot was in the range of around \$12 to \$13 per MMBtu.

Rajesh Aynor: And currently what is the price at which we are sourcing let say Q2 what's the environment like or next 2 quarters, what's the outlook?



*Gujarat Gas Limited
August 03, 2023*

- Nitesh Bhandari:** So, as of now we should be getting gas cheaper to that so around \$10.5 to \$11 per MMBtu. This should possibly go up in winters, or this might go up in winters we will have to see, wait and watch.
- Rajesh Aynor:** And sir one clarification, the CAPEX plan was 1,000 crore that's a cumulative plan for next year so it's like per year 1000 crore we will be spending?
- Nitesh Bhandari:** So, 1000 to 1200 crores per annum is the plan for the next three years.
- Rajesh Aynor:** Okay, and you are saying one third of that, that means 300 to 400 crore we are planning to spend on the LNG infrastructure side, did I hear it right?
- Nitesh Bhandari:** No, I was mentioning that one third would be the CNG part, the CNG infrastructure including setting up pipelines for connecting the CNG stations, the spur pipeline.
- Rajesh Aynor:** Okay. And any more investment on the LNG project, et cetera that we are envisaging?
- Nitesh Bhandari:** Nothing immediately on the table Rajesh.
- Moderator:** Thank you. Next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.
- Sabri Hazarika:** Good afternoon Sir and Thank you so much for hosting this call. So, I have three questions. The first is basically this, Mundra LNG terminal. So, now has the equity structure been fully finalized or it is still at say 55%, 60% only which has been finalized including your stake?
- Nitesh Bhandari:** So, as of now we are almost, what we understand is we are almost at the fag end in terms of the equity investment. We need a total equity of around 1300 odd crores and out of which post the investment, we should take care of around 1200 crores so, 1200 to 1250 crores. So, after this investment Gujarat Gas will hold around 7.87% of equity in the Mundra LNG terminal.
- Sabri Hazarika:** Right and who are the other partners?
- Nitesh Bhandari:** The other partners major one is Government of Gujarat and GMB, Gujarat Maritime Board.
- Sabri Hazarika:** Okay. Because GMB is probably a related party, but it is not mentioned in the press release. So, I just wondering GMB will be having again like around 30%, 40% stake in the terminal?
- Nitesh Bhandari:** Yes, but GMB is not our direct related party.
- Sabri Hazarika:** Okay. I got it. probably not directly connected, Second question is related to your industrial PNG versus propane pricing. So, what is the pricing in July, in August currently, it has got already the



Gujarat Gas Limited
August 03, 2023

import duty impact has been factored in, but what would be the pricing of, SCM basis what is the pricing now and what will it become in September?

Nitesh Bhandari: So, industrial pricing is currently at Morbi at around Rs.38, Rs.38.5 for the current month.

Sabri Hazarika: Okay. And propane would be how much?

Nitesh Bhandari: And propane would be around 34 to 35.

Sabri Hazarika: Okay. This includes the import duty, right?

Nitesh Bhandari: Yes. The import duty is effective from 1st of July.

Sabri Hazarika: Okay, fine and next month it will go up further because my propane itself has gone to \$470 per metric tonne.

Nitesh Bhandari: Yes, very much from September forward. Yes, I agree.

Sabri Hazarika: And just a small question, what is the CAPEX in Q1?

Nitesh Bhandari: Sorry, we lost you, can you please repeat?

Sabri Hazarika: CAPEX in Q1?

Nitesh Bhandari: The CAPEX in Q1 was around 200 to 250 crores.

Moderator: Thank you. Next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: So, the first thought is, based on the current pricing and the traction you're seeing in terms of the industrial PNG Morbi, what is the kind of growth we can expect in industrial PNG Morbi say over the next nine months, based on the current differential you have, and if the differential comes down to parity between PNG and propane, what is the kind of increase in volumes you can deliver in the second half?

Nitesh Bhandari: So, see as we were discussing the total universe at the max, in terms of the total capacity of Morbi is around eight, eight and half mmscmd. That is the total universe. As of now, it's around, the volume that has been picked up is around seven, seven and a half mmscmd out of which for four mmscmd is what Gujarat Gas is doing and the balance around three mmscmd is being served by propane, I am talking of NG equivalent. If the propane, goes up or NG comes down, we can look at pushing or taking the share of propane out here and shifting and that share of propane shifting to natural gas.



Gujarat Gas Limited
August 03, 2023

S Ramesh: So, at the peak can we take it that you can go up to your normal Morbi volume of say six, six and a half out of that eight and a half say over the next one year is that possible assuming the pricing works in your favor?

Nitesh Bhandari: It seems to be possible and realistic at this point of time. However, we will have to see how the commodity markets actually move and both the spot prices and the propane price. But as of now it seems to be realistic.

S Ramesh: Yes, just two more thoughts. One is can you give us the volume you are doing in the new GA in CNG and PNG, how do you see that growing in the rest of the year and over FY25, FY26?

Nitesh Bhandari: So, in terms of the total volumes that we're doing in the new areas where I will, around half a million to around 0.5, 0.6 mmscmd. And that can grow up to around 1 mmscmd by the end of 2025.

S Ramesh: And how much of that will be CNG and how much will be PNG?

Nitesh Bhandari: These are primarily CNG focused markets. So, most of it will be CNG, small part of it will be PNG as well. So, with that, the mix of Gujarat Gas will also tilt towards CNG.

S Ramesh: Okay, so just one last thought on the CAPEX, you said part of it is new GA, part of it is exiting GA, part of which is CNG. So, can you just elaborate on that, because we don't understand so the new GA thing do you still need to invest in CNG. So, if you can just explain that will be useful?

Nitesh Bhandari: Yes, so what I was mentioning is that when we look at a total CAPEX of around 1000, to 1200, it will keep changing on a year-on-year basis in terms of the requirements of the backbone infrastructure in various GAs. So, in the new GAs that we mention that in most of the new GAs, we have put up the backbone infrastructure but still pipelines need to further go up, and then followed by the plastic branches. So, here, what we are saying is that over a period of next three years, when you look at our CAPEX, a decent share of that will go into new GA, which is around one third and CNG. When I say CNG, I'm saying that CNG is both the existing GAs as well as the new GAs. And what I would also like to add over here is that the balance will also go into existing GAs, because in our area in the CGD operations, the city keeps expanding. So, we get into newer areas and newer geography, the city keeps expanding, and then we get newer pockets of demand. As we know, Gujarat has been a destination where various industries have been coming and setting up shops and we need to sort of make sure that we are able to put in infrastructure to quickly connect them and monetize through our gas volumes.

Moderator: Thank you. Next question is from the line of Nitin Sharma from MC Pro Research. Please go ahead.



*Gujarat Gas Limited
August 03, 2023*

Nitin Sharma: Just wanted to understand how this opportunity could be in the Rajasthan GAs and the Thane, Vasai – Virar GAs in terms of volume?

Nitesh Bhandari: So, Thane we already are selling one lakh kgs of gas per day. So, that's a sizable market already for us when it comes to CNG. In terms of the industrial market, also Thane has a decent bit of industrial market of almost around more than 0.5 mmscmd, 0.05 to 0.06 mmscmd we are already flowing, gas in Thane rural GA. In terms of Ahmedabad rural GA also as we know, Ahmedabad rural GA comprises of various Taluka wherein which are also pockets for industrial clusters like Chardoghar or Bavla, Sanand, where there are various industries that are already there and new industries coming up, Dholera also is a part of Ahmedabad rural GA. So, we do expect that these volumes will come up. In terms of Rajasthan, Rajasthan, the Jalore Sirohi market, we will primarily be for the CNG and domestic part, but it also includes Abu Road. So, there'll be a good amount of commercial cluster also, which will be tapped by us as we go through. And there are long highways which are connecting on both sides via Udaipur and via Pali towards Delhi. So, those areas are also something that will also help us cater to not only this the routine CNG but also as and when the DMIC comes up, the Delhi Mumbai Corridor, or the highway comes up, that point of time we will also be able to tap the LNG potential via long haul vehicles. So, this long-haul vehicles on LNG can run at almost 800 to 1000 kilometers for one filling. We also expect some rolling mills to come up in the areas of Rajasthan which we will be tapping as we progress our pipelines and infrastructure to those areas.

Nitin Sharma: So, by when the Rajasthan GA goes live or is it already?

Nitesh Bhandari: Yes, they are already.

Nitesh Bhandari: They are already commissioned and are live and in terms of volumes we have started selling around 30,000 SCMD in Jalore Sirohi already in terms of domestic and CNG, primarily CNG.

Moderator: Thank you. Next question is from the line of Umesh from Reliance Nippon. Please go ahead.

Umesh: Just need to understand, in September ARAMCO has already increased the propane prices to \$470 per tonne. So, does it mean that the propane prices which is currently at 35, 36 will become again 41 then in that case, the gap would be narrower and there is a probability that there is a scope for you to increase the prices from September onwards, which gives the visibility of better volume growth as well as better EBITDA per SCM as well?

Nitesh Bhandari: You are right Umesh, that's what our thought as well is.

Umesh: But, in August there was articles that today the price has been cut by Rs.4 per SCM right?

Nitesh Bhandari: Right.

Umesh: So, as of now the difference between, the gap between your offer, offering of gas and the propane it seems to be around 2.5 per SCM. So, again, is there any volume divergence that you will see or there is no scope as of now?

Nitesh Bhandari: So, there would be slight diversion, but as you were mentioning there are, you know statements, mentioned by the ceramic association itself, that natural gas is not only about affordability, but it's also about convenience. So, natural gas is available at the opening of the tap itself. And so, some premium, they are willing to pay for the convenience part as well. And having said that, some volumes may shift but then again, the Morbi customers are also aware that propane is on an upward trajectory from September. So, it will be like whether they really want to switch in and switch out so quickly. And that also entail the cost as well as time.

Umesh: Okay. Second this was what percentage of as of now Morbi in it switch to usage of gas, and do you see the volume may touch to 5 mmscmd in Quarter 3 and Quarter 4, because the other tile player has clearly indicated that this year again Morbi cluster would see bumper exports of around 20% higher than last year. So, do you see the scope of total volume from Morbi to touch more than 5 mmscmd from current 4 in the second half?

Nitesh Bhandari: Fingers crossed, we would want that to happen and seems quite likely that we should be able to touch that volumes, especially because of the twin factors of propane on an upward trajectory and softer LNG, also combined with the convenience part. So, we do expect that we should be able to touch levels of five and possibly grow and go beyond that with a decent or modest expansion in margins as well.

Umesh: Because you mentioned that there is a possibility that this quarter, prices in the second half will again go up because of the onset of winter in the European region, where always we see the storage would be on higher side to meet the requirement. So, don't you think there will be again the impact that you will see both on the volume side as well as EBITDA per SCM side as well in the second half?

Nitesh Bhandari: So, as of now that's what it looks like as per the forecast. Having said that, these are commodity markets and internationally linked in terms of prices. So, we will have to see how we go around it and grow around it. But yes, as of now the picture seems to be in favor of natural gas.

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

Kirtan Mehta: You have talked about Morbi as well as the new GAs, could you also sort of give us the current volumes that the other GAs in Gujarat, industrial volumes at other GAs in Gujarat and how do you see its volume growth from here, what is the current pricing also that you are charging for the non-Morbi consumers in Gujarat?



Gujarat Gas Limited
August 03, 2023

- Nitesh Bhandari:** We are at an average of around 2 mmscmd volumes which are outside Morbi, and the second question Morbi we are charging at around, the current price is around Rs.38 to Rs.38.5 per SCM.
- Kirtan Mehta:** Outside Morbi what's the price?
- Nitesh Bhandari:** Outside Morbi we are charging a bit higher in terms of premium because, so that's slightly higher and that's also linked to the alternate fuels that the consumer use outside Morbi.
- Kirtan Mehta:** And is it possible to give some volume guidance for this additional volume of 2 mmscmd how do you see it growing from here?
- Nitesh Bhandari:** So, 2 mmscmd as we discussed the major markets continue to be Thane, Ahmedabad rural and the areas possibly in Rajasthan and some parts of Punjab. So, we are pushing aggressively in terms of laying infrastructure and to these pockets of demand. Once the infrastructure reaches then we do expect that we should get some decent volumes out of these areas. Dahej is another industrial area where we have our authorization and so that also give us decent volumes, Dahej and DNH, Dadra Nagar Haveli as well.
- Kirtan Mehta:** And just a similar question on the CNG side could you, what is the current vehicle base that we are serving and what's the mix of CNG vehicles?
- Nitesh Bhandari:** So, you are talking about the CNG right, the CNG vehicles?
- Kirtan Mehta:** Yes sir.
- Nitesh Bhandari:** Okay. So, in terms of CNG vehicles, we have approximately around five to six lakhs vehicles on CNG. These are four wheelers, around two, two and a half lakh three wheelers, around 21,000 to 22,000 LCV, MCV, HCV and buses. So, total of around eight and a half lakhs.
- Kirtan Mehta:** And how are we seeing the additions per month or quarter, any indications current run rate?
- Nitesh Bhandari:** So, the current run rate is actually improving vis-à-vis what we had previously, and we are looking at an addition of around 30,000 vehicles in the current quarter.
- Moderator:** Thank you. Next question is from the line of Varatharajan from Antique Stock Broking. Please go ahead.
- Varatharajan:** The CNG outlet additions, what is the kind of numbers we are looking for the current year, next year, and maybe for these years as well?
- Nitesh Bhandari:** So, we have invested in CNG in terms of the last three years, we have doubled our CNG station capacity from 400 CNG stations to 800 CNG stations. This year, we are looking at not adding



*Gujarat Gas Limited
August 03, 2023*

but augmenting the infrastructure and adding capacity to it. So, we are looking at converting daughter boosters to online and daughters to daughter boosters. And despite that, we'll be adding around 60 to 70 new CNG stations most of them in the Ahmedabad rural area, which is the new geographical area that we have got with the supreme court award.

Varatharajan:

Anything for the next year now?

Nitesh Bhandari:

So, next year we should be looking at a similar number in terms of the increase in the CNG stations.

Varatharajan:

Fair enough. On this Ahmedabad rural what would you look at the potential, do you look at a market size of 1 mmscmd, 2 mmscmd, 3 mmscmd kind of a potential based on your estimation?

Nitesh Bhandari:

So, in the initial part we are looking at first tapping it up to 0.5 mmscmd. But overall, over the next five years, yes, we do look at it going to around 1 mmscmd or possibly beyond that.

Moderator:

Thank you. Next question is from the line of Gagan Dixit from Elara Capital. Please go ahead.

Gagan Dixit:

I have just the continuance of the question regarding the supply portfolio that you mentioned, so you mentioned that around 10% of your short-term coming from for the PNG household from the HPHT gas. And you also mentioned that around 20% of your non-APM domestic gas, you are taking it. So, if I do the math, it means that non-APM domestic gas is around 1.6 mmscmd for the industrial purpose as per I get the math. So, can you tell me sir broader breakdown of this, what is the sourcing breakdown of this 1.6 mmscmd and also this long-term LNG of 1.9 mmscmd?

Nitesh Bhandari:

So, in terms of Q1 what we were saying is that around when we look at APM gas, so there are two parts one is the APM gas we get around a shortfall of around 10% and that is source through HPHT gas, when it comes to non-APM gas, that's around 20%. The LNG or the term portfolio is at around 48% and the balance 32% is the APM as we discussed.

Gagan Dixit:

Yes, so this non-APM that's mostly this Cairn Rajasthan and this KG field of the Reliance that's mostly the breakdown of it.

Nitesh Bhandari:

So, non-APM would basically this is about one is the Reliance Gas that's around 0.7 mmscmd and some part of Cairn gas as well, Vedanta.

Gagan Dixit:

Okay. And long term is the mostly Qatar and BG gas.

Nitesh Bhandari:

Very much.



*Gujarat Gas Limited
August 03, 2023*

- Gagan Dixit:** Okay. And Qatar is 0.92 mmscmd if I am not wrong?
- Nitesh Bhandari:** Yes.
- Gagan Dixit:** And sir my last, second question is about the your short-term LNG would spike actually if you try to target the full Morbi market of 8.5, 9 mmscmd that's the potential. So, do you have any plan actually to procure more long-term LNG because short term has lots of volatility in the prices something, that if you can get some outlook of it?
- Nitesh Bhandari:** So, here we are looking at, we keep on evaluating and exploring in terms of the sourcing long term or short-term gas that is available to us. So, while long term gases in terms of LNG we are exploring, but the markets and our position is that we might get, we need to hold on and possibly look for better deals. But we continue to aggressively look and spot domestic sources as well, which come on auction. So, that is another, and we are relatively cheaper. Even the spot LNG as of now is cheaper as we discussed coming at around \$11 to \$12 per MMBtu. So, a good healthy mix of long term and short term is what is the most appropriate because we do not want to be saddled with long term contracts too much. At the same time, a healthy mix is always better, because it also allows you the flexibility to blend cheaper spot as and when that spot is cheaper into the basket and reduce your weighted average cost of gas.
- Gagan Dixit:** Yes. And sir my final question is just you allow, what is your base volume in the traditional industrial geography of Gujarat Gas, the Surat-Ankleshwar-Bharuch which is a chemical and textile and how do you see the outlook there on the growth of the gas volume?
- Nitesh Bhandari:** So, that is around 1.8 mmscmd in terms of Surat, Ankleshwar, Bharuch. A lot of them have actually moved on to alternate fuels, including the cheaper coal and other. or the furnace oil the dirtier fuels but at the same time, if and when the NGT does become active, we can expect some part of this volume to come back.
- Moderator:** Thank you. Next question is from the line of Yogesh Patil from Dolat Capital. Please go ahead.
- Yogesh Patil:** Sir, could you please share the details of gas sourcing only for PNG industrial, I mean to say how much was British Gas, Qatar Gas, Reliance Gas, Rajasthan Gas and spot only for the PNG industrial purposes, can you please give us the breakup?
- Nitesh Bhandari:** Yogesh, as we were discussing, so, we do not sort of decide in terms of, we cannot actually decide whether the gas is for industrial, commercial or for domestic CNG because we blend the spot as well as HPHT into the Dom CNG also when there is a shortfall. So, in that way we, and to answer your question in terms of long term, as we discussed around 1 mmscmd is Ras Gas and around to 2 mmscmd is the BG LNG.



*Gujarat Gas Limited
August 03, 2023*

- Yogesh Patil:** Okay. And Reliance 0.7?
- Nitesh Bhandari:** Yes, 0.7.
- Yogesh Patil:** And Rajasthan Gas sir?
- Nitesh Bhandari:** So, Rajasthan Gas is something - it's taken on a need basis as and when we need it. So, it's not something that is, so it's basically flexible.
- Yogesh Patil:** So, British gas we are getting only 2 mmscmd right?
- Nitesh Bhandari:** Yes. It's a ballpark number that I'm giving, it is around two, two and a half.
- Yogesh Patil:** Okay. And last one, please correct me if I'm wrong, your British gas LNG supply deal will end in 2024, are you planning to extend it and what will be the new terms and contract agreements for that on pricing, quantity and the period?
- Nitesh Bhandari:** So, the contract ends in 2025 and not 24. In terms of, we will take the decision nearer to the expiry date, because that's how normally the contract extensions happen. So, we will take a call nearer to the term also to decide whether we really want to extend this or we have better options otherwise.
- Yogesh Patil:** Okay. And the last one, sir you mentioned the PNG in which your prices at Morbi which is in the range of Rs.38.5 per SCM, is it including of VAT 5% or excluding of VAT?
- Nitesh Bhandari:** It's excluding VAT, these are prices excluding VAT.
- Yogesh Patil:** And Rs.34 per SCM propane prices includes all the taxes, right?
- Nitesh Bhandari:** No, they are also equivalent. So, the differential is around Rs.4.
- Moderator:** Thank you. Next question is from the line of Abhinav Ganeshan from SBI Pension Funds. Please go ahead.
- Abhinav Ganeshan:** Just one clarification I wanted is that we have acquired the stake in this LNG terminal but if I look at it from a price to sales basis, it looks at multiple of around 5.3 to 5.4. So, just I felt it was a little bit on the expensive side. So, what is the logic of paying such a high price, if you can clarify?
- Nitesh Bhandari:** So, Abhinav the shares will be issued to us at face value of Rs.10 each, we are not paying any premium over that.



*Gujarat Gas Limited
August 03, 2023*

- Abhinav Ganeshan:** Fair. Because we are paying around 100 crores and the Company's turnover right now for last year was around 20 crore, By what you have disclosed, so that's why I was just curious.
- Nitesh Bhandari:** So, I think, you missed something it's more than 200 crore, around 250 crores.
- Moderator:** Thank you. Next question is from the line of Vikash from CLSA India. Please go ahead.
- Vikash:** So, I wanted to check on this Morbi volumes. Correct me if I'm wrong you said that it's currently 4 mmscmd for gas and 3 mmscmd for propane. Is that correct?
- Nitesh Bhandari:** That's correct.
- Vikash:** And sir so you also did kind of indicate that there is a bit of a preference towards gas from these users because of convenience, is performance also any reason for gas is a better fuel for them or they're indifferent about it number one, Number two is, how would you kind of build that cost of convenience as your best judgment, what I'm trying to get on to is that if say propane price is at 35 would you say that a 5%, 7% higher gas price is something that will in the minds of the user make it equal to propane and they are likely to shift, is that how once you think about it, and what is that number, which is your best guess I know, this is a relatively newish phenomenon. So, we are also trying to discover that number, but still, what would your guess be?
- Nitesh Bhandari:** So, Vikash few things, one is that if you have propane as an alternate fuel, you have to have an entire logistics around it, because they are transported through tankers. Second is that you need to pay for that upfront to the suppliers oil marketing company or otherwise. And at times if the delivery does not come on or reach on time there is a risk of these are continuous plants, the ceramic plants, so there is a risk to production as well. And there are challenges in terms of resources to be deployed in terms of manpower. So, we do try and figure out in terms of what would be the additional cost that would be there, and that could possibly be the premium and plus some %, some small number for the convenience part. But as you mentioned, we will try and discover that sweet spot together possibly.
- Vikash:** So, when you talk about the propane prices, is that the delivered price, or is that the price then you will have to add all of this logistics costs to it, the number that you are mentioning right now?
- Nitesh Bhandari:** As of now the delta that we are talking of around Rs.3 to Rs.4 is, without adding those costs, the logistics and other transportation or manpower cost.
- Vikash:** Which in your best guess would be Rs.1 or Rs.2 or it's much more than that?



*Gujarat Gas Limited
August 03, 2023*

Nitेश Bhandari: So, as I said it's basically something that we will have to see in terms of not only that, but the convenience part and we will have to see through experience in terms of what is the possible premium that the Morbi customer or consumer market is ready to or willing to pay. But it will be different from customer to customer also because of the real estate and the space required for putting in the propane tanks.

Vikash: Okay. And you said that currently Morbi potential is about eight, eight and a half and 50% of the ability to move to propane is it that the remaining 50% are also building it number one, number two is, even the new capacities which are coming in are they coming, keeping in mind the flexibility?

Nitेश Bhandari: So, Vikash to answer your question, two things one is that in terms of eight, eight and a half is it the total potential, the total market universe. As of now, the volume that had been drawn both in terms of natural gas or the alternate fuel are in the range of around 7.5 mmscmd. And new capabilities, the new capacities that have been coming over the new factories that are coming up, as previously they were all coming on natural gas. There are a few factories that are coming up with dual facilities from a greenfield project itself, a few of them.

Vikash: Okay. And sir just one final thing, how easy is it like for example, if for two months the customers see that gas prices are expected to be more competitive than propane. Is it almost a switch on, switch off or that's something which, what is the impact if they simply move to gas for two months and seasonally and then move back to propane or something like that are most of those customers in a stage to do that kind of an easy switch on, switch off on a monthly basis at least?

Nitेश Bhandari: Vikas what happens is basically that, again as we discuss the cost and the things differ from a customer-to-customer, also as a matter of fact whether he has ready orders that he needs to deliver and also whether the orders are local or export order, which have a penalty attached to it in terms of delivery. So, various factors in terms of switch on and switch off. But as we were mentioning this switching has a cost attached to it, which includes the cost of production cycle and possibly also about the burner settings. And also deploying and arranging for the necessary logistics and manpower if he has to move to propane.

Vikash: Okay. No, I mean propane back to gas is what my question?

Nitेश Bhandari: That's easier, it's about opening the tap.

Moderator: Thank you. Next follow up question is from the line of Maulik Patel from Equirus Securities. Please go ahead.



*Gujarat Gas Limited
August 03, 2023*

Maulik Patel: So, recently that the difference would be around Rs.8 or Rs.10. I will just repeat the question, the difference between the Morbi and non-Morbi is almost around Rs.10 earlier it used to be around Rs.1.8 and we kept it constant of difference for almost four, five years. And now what kind of, is this sustainable or you will try to go back to the earlier difference of Rs.1.8 and if you keep it very high, do you think there is a risk of a loss in a non-Morbi volume?

Nitesh Bhandari: So, Maulik this is also about which alternate fuels they are using, and also about the propensity to pay by the customers. It also depends on what share of, and total cost of production is the energy cost. So, those are the things that we keep in mind when we look at this price and also the fact that, we also need to manage volumes by making it attractive to the, vis-à-vis propane when it comes to bulk volume of Morbi. So, those are the factors that will keep in mind when we look at this pricing strategy. And we are mindful of the gap that is there, and we will possibly look at how do we possibly make it more appropriate looking at the alternate fuels as well.

Maulik Patel: Got it. I have next one question on the side. Do you think that in this quarter which is gone by, you had some high cost inventory of spot cargos which probably you have sourced for the month of March, when the propane prices were very, very high that was single month, you could not consume that volume and that has hurt in terms of probably higher cost of gas, and you were not able to buy the relatively cheaper spot cargos, because you already had an relatively high inventory with you was that the case?

Nitesh Bhandari: No, that was not the case, March actually we were highest in terms of volumes of Morbi.

Maulik Patel: Yes, that I know because the propane prices went almost \$700.

Nitesh Bhandari: Yes, exactly.

Maulik Patel: No, but then you probably have sourced some more volume in anticipation of that, but then probably the April onwards the propane basis came down so the Morbi shifted back to the propane and you probably had some high cost of inventory of this model NG, which you probably have to use throughout the quarter. And you could not take any benefit of the subsequent lower spot LNG prices, was that the case?

Nitesh Bhandari: No, that was not the case Maulik. We did have cheaper spot to serve our customers.

Moderator: Thank you. Next question is from Bhaskar Chakraborty from Jeffries India. Please go ahead.

Bhaskar Chakraborty: Wanted to check if you are seeing propane competition in any industrial area outside of Morbi?

Nitesh Bhandari: Not currently, except let's say in cases of few individual customers which are high volume customers, but otherwise not really.



*Gujarat Gas Limited
August 03, 2023*

Bhaskar Chakraborty: Okay. And in Morbi where you said that 3 mmscmd is on propane, is that the maxed-out capacity of propane in Morbi today or there is more capacity like four, four and a half, whatever?

Nitesh Bhandari: Propane is also imported and served through tankers. So, you can import more and have more tankers, which can actually increase the capacity to serve so, there is no limitation in terms of that, except for the fact that you should have orders where you can import that much capacity of propane.

Bhaskar Chakraborty: But is it, propane handling capacity at the factory itself a major bottleneck in terms of who can and cannot take propane and how much?

Nitesh Bhandari: Well, I don't see that as a bottleneck it's more about we as natural gas should try and be more competitive to propane and that's how you should try and sell the natural gas which is what we are looking at currently and with the upward trajectory of propane, that should help.

Moderator: Thank you. Next question is from the line of Amitabh Vatsya from Sadhan. Please go ahead.

Amitabh Vatsya: Sir, my question is with respect to the new acquisition of this company so, is this going to help us reduce our transportation and regasification, liquification cost and in future or currently, are we availing that kind of benefits through ownership or without ownership?

Nitesh Bhandari: So, Amitabh to answer your question as I mentioned previously, we are drawing gas, some part of spot gas which is coming through Mundra via transportation by GSPL pipelines. Having said that, there would be loading facilities also at the Mundra terminal and we can use that loading facilities and to use it LNG transportation to serve other segments not only Morbi like other segments which have a fleet of vehicles be it dairy segment, be it cement segment where they have a fleet of vehicles which can be converted to LNG and also use that for long haul vehicles which as we discussed we can have vehicles which can run almost 800 to 1000 kilometers at one filling of LNG. So, that is something that will be possible with this loading facility that is available at Mundra LNG.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. Nitesh Bhandari for closing comments.

Nitesh Bhandari: Ladies and gentlemen, thank you for your patient hearing on the first ever earning call of Gujarat Gas. In terms of a few points, I thought we should leave you with. One is basically that, as Gujarat Gas we continue to balance between volumes and margins. That's a strategy we have been adopting for quite some time, it's been more than three decades that we have been successfully implementing and growing through this strategy. Propane forwards are on an upward trajectory that should help us in the months to come. And CAPEX that we are investing in new areas and CNG as we discussed has started yielding results. Both these above factors



Gujarat Gas Limited
August 03, 2023

should lead into robust and diversified growth in terms of volumes, and as well as margins. The CAPEX for the next three years of 1000 to 1200 crore per annum is primarily funded through cash accruals that's the best position for any business to be in where the existing business is funding the investment into new business. Thank you ladies and gentlemen, thank you for your patient hearing.

Moderator:

Thank you very much. On behalf of Gujarat Gas Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.