



MAHANAGAR GAS LIMITED

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Date: 10th August, 2023

To,

Head, Listing Compliance Department BSE Limited P. J. Towers, Dalal Street, Mumbai - 400 001 Scrip Code/Symbol: 539957; MGL	Head, Listing Compliance Department National Stock Exchange of India Ltd Exchange Plaza, Bandra –Kurla Complex, Bandra (East), Mumbai - 400051 Script Symbol: MGL
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Sub: Transcript of Earnings Conference Call on Unaudited Financial Results for the quarter ended 30th June 2023

Dear Sir/ Madam,

Pursuant to provisions of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we submit herewith the transcript of the Earnings Conference Call on Unaudited Financial Results for the quarter ended 30th June 2023 held on 04th August 2023.

The transcript of the Earnings Conference Call uploaded on the website of the Company can be accessed through the web link: https://www.mahanagargas.com:3000/Mahanagar%20Gas_Q1FY24%20Earnings%20Call%20Transcript_Final.pdf

The Earnings Conference Call was attended by following attendees on behalf of the Company:

Name of Management Attendees	Designation
Mr. Ashu Shinghal	Managing Director
Mr. Rajesh Patel	Chief Financial Officer
Mr. Rajesh Wagle	Senior Vice President, Marketing

Further, we wish to inform that no unpublished price sensitive information was shared/ discussed in the call.

We request you to take the above information on your records.

Thanking You

Yours faithfully,

For **Mahanagar Gas Limited**

Atul Prabhu
Company Secretary & Compliance Officer

Encl.: a/a



“Mahanagar Gas Limited
Q1 FY '24 Earnings Call Conference Call”

August 04, 2023



MANAGEMENT: **MR. ASHU SHINGHAL – MANAGING DIRECTOR**
MR. RAJESH PATEL – CHIEF FINANCIAL
OFFICER
MR. RAJESH WAGLE – SENIOR VICE
PRESIDENT, MARKETING

MODERATOR: **MR. Probal Sen – ICICI Securities**

Moderator:

Ladies and gentlemen, good day, and welcome to Mahanagar Gas Limited Q1 FY '24 Earnings Call hosted by ICICI Securities. 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 then zero on your touchtone phone. Please note that this conference is being recorded

I now hand the conference over to Mr. Probal Sen from ICICI Securities. Thank you. And over to you, sir.

Probal Sen:

Thanks, Yusef. Thank you, everyone, for making the time to attend this post-Q1 FY '24 results call of Mahanagar Gas Limited. With us from the management, we have the senior leadership team represented by Mr. Ashu Shinghal, the Managing director of MGL; Mr. Rajesh Patel, the Chief Financial Officer; as well as Mr. Rajesh Wagle, the Senior Vice President of Marketing.

I will first handover to the E&Y IR team of MGL to make their disclaimer remarks, and then we can go to the management for their pre-summit remarks. Runjhun, over to you.

Runjhun:

Thank you, Probal. Welcome to the participants on this call. Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and we believe that the expectations contained in the statements are reasonable. However, these statements involve a number of risks and uncertainties and may lead to different results.

The risks and the uncertainties related to these statements are included, but not limited to fluctuations of sales volume, foreign exchange or the cost and ability to manage growth. I urge you to consider the quarterly numbers as not a reflection of long-term trends or indication of full year results. They should not be attempted to be extrapolated or interpolated into a full-year number.

With that said, I would now hand over the call to the management. Thank you. And over to you, sir.

Management:

Thank you and on behalf of Mahanagar Gas, I'm Ashu Shinghal, Managing Director. So once again, welcome, and very good afternoon to all who have joined this earnings call of MGL for the first quarter of the financial year 2023-'24. I would like to thank you all for attending our call today, and I will give you the brief of the results.

Before that, as you're already aware, APM gas prices and market determine gas prices be it the term contract or the spot gas prices have softened during the quarter and this has given very good respite to most of the CGD companies.

With APM gas prices now capped at \$6.50 per MMBTU for 2 years, it is providing a very good stability in our gas cost. Further, MGL has also participated in e-tendering process of HPHT gas, which has come through initially IGX and later on through direct bidding. And we have secured long-term gas supplies which has resulted in optimizing gas sourcing portfolio and significantly reducing our reliability on high-priced imported RLNG. Earlier we used to take a lot of spot RLNG, now it has come down substantially.

During the quarter, MGL has signed 2 Memorandum of Understandings, one for the compressed biogas with BMC and the other is for the setting up of LNG dispensing stations across various places.

For CBG plant, MGL has entered in MOU with BMC; that is Brihanmumbai Municipal Corporation, for setting up around 1,000 tons per day of CBG plant in Mumbai. This initiative will add several benefits. Some of them are like reducing the emissions of methane from landfills, develop alternate sources for the natural gas, making Mumbai a greener city and healthier space, and helping in generation of local employment, development of circular economy and towards achieving our sustainable development goals.

One more MOU has been signed for setting up LNG stations with Baidyanath LNG, who was the first company to set up LNG stations in India and this will be in Maharashtra and outside Maharashtra also. This will help in developing the supply side LNG corridor ecosystem. On 18th May, MGL also launched a mobile application MGL-TEZ in partnership with the BEST, the transport company in Mumbai to facilitate convenient refueling for CNG commercial vehicle owners, that is bus, truck, tempo, and cabs, mostly targeting the commercial segments.

MGL continues to create CGD infrastructure, its business segment in the licensed area. During this quarter, 41,580 domestic households were connected. And we have established connectivity for nearly 2.2 million households. We have also laid 77 kilometers of steel and PE pipelines whereby making the aggregate length of 6,612 kilometers. We have 312 stations operating as on 30th June. We also added 76 industrial and commercial customers during this quarter. And as on 30th June, we have 4,589 industrial and commercial customers.

As far as our Raigad GA is concerned, we have connected 69,106 domestic households and 29 CNG stations are currently operating there. During this quarter, we laid 6.5 kilometer of pipeline in Raigad, taking the total length to 6,389 kilometers. This expansion of our pipeline has created a very good ecosystem for CNG and PNG in Raigad area.

Our Savroli station, which is having LNG dispensing facility also was recently commissioned. And we have started filling LNG into the vehicles from the Savroli station. Coming to MGL's operations during this quarter, we have achieved overall average sale volume of 3.412 mmscmd as against 3.372 mmscmd in the previous quarter, which is an increase of 2.3%.

Current quarter volume consists of CNG volumes of 2.481 mmscmd and domestic CNG volume of 0.496 mmscmd. And industrial and commercial segment's volume is 0.435 mmscmd. Compared to previous quarter, sales volume in the case of CNG has increased from 2.41 to 2.481 mmscmd, which is an increase of 3%. However, in case of industrial and commercial, sales volume has decreased from 0.452 to 0.435. That is a decrease of 3.7% and sales volume for domestic CNG has decreased from 0.51 to 0.496 mmscmd, which is a decrease of 2.9%.

The financial numbers: Current quarter EBITDA is INR 521 crores compared to previous quarter EBITDA of INR 390 crores. EBITDA margin is at 33.9% for current quarter as compared to previous quarter EBITDA margin of 24.2%. Net profit after tax is INR 368 crores for this quarter as compared to INR 269 crores in the previous quarter. Therefore, there's an increase of 36.8%.

We are continuing with our initiative in area of environment safety and CSR. I'm very happy to announce that MGL was awarded the best CGD company of the year by Navbharat Environment Conclave Awards in 2023. The award was conferred by Honorable Union Minister Sri Nitin Gadkari Sahab. MGL was also conferred with Greentech Award at the hands of Honorable Former Chief Justice of India and Additional Commissioner of Delhi Traffic Police under the category Construction Safety from Greentech Foundation.

With this, I conclude my opening remarks, and we'll be happy to take any questions. Thank you so much.

Moderator: First question is from the line of Amit Rustagi from UBS.

Amit Rustagi: First is on the volume. Sir, what could be the reason for a Y-o-Y drop, the volumes in CNG this year?

Management: Last year, Q1, one reason is the prices, if you have noticed, they were around INR 60 at time. This time Q1 we started off with INR 79. Now again, we may not have very very scientific accurate answers for this. But what we're trying to give you is what we perceive to be the reasons. Second could be -- probably later part of this year we have been getting slightly relatively richer gas. So, when you convert it in SCM terms, the volume shows a smaller number. The kg drop may not be that much.

Management: In fact, just to add to what Rajesh is saying, the kg number has slightly improved over the last Q versus Q comparison, whereas in SCMD there is a shortfall of around 2.3%. So as there are few reasons, one that although their numbers have been added by the vehicles, but the volume has not grown because the prices were higher in the last quarter, this quarter Q1 versus Q1 comparison. The other part is that maybe the price differential with the adjoining state.

Management: And the other additional observation we had was the sales volumes of BEST in Q1 last year were higher. So, the number of CNG buses have dropped marginally. That has contributed to a small decrease. Lastly, what we have observed is the number of medium and heavy commercial vehicles converting on to CNG, when the price started increasing dramatically, we used to get a few, I mean, 300, 400 of these about a year back, that number dropped. So, their contribution also would have decreased. And these are the 3, 4 things which come to mind.

Amit Rustagi: Okay, sir. Got it and sir, with respect to the developments with the MSRTC, I think you have been highlighting that you have a successful agreement with them on getting some buses. So, could you give some progress on that? And what could be the target for this year and next year on that front?

Management: So MSRTC currently, they are running about 120-plus buses from what used to be double-digit numbers until about 1 or 2 months back. And we are expecting 450 more buses to be inducted in 8 MSRTC depots in our geographical areas by November or December of this year. So about 50, 60 or so will add on every month. We have recently commissioned online CNG filling facility for the vendor Vithalwadi Depot. And we are in the process of setting up CNG infrastructure in 6 more of their depots which are at: Panvel, Karjat, Pen, Roha, Alibaug, Uran. So those 450, 500 buses will definitely contribute to volume addition over the next 2 quarters.

- Amit Rustagi:** Sir, just to add on this, when our commissioning will be over in the bus depots? And second is, what is the average consumption of 1 bus because it could be significantly higher than the average of other buses maybe?
- Management:** So, these buses will take about 80 kgs per day.
- Amit Rustagi:** Okay. And when you will complete the stations at these depots?
- Management:** The stations will all get completed by, say, November, December. And if there is any small mismatch between the buses come before, let's say, a few weeks or a month before our station is ready, we have offered MSRTC private retail outlets where they can fill their bus, which are very close to their existing depots or which are on their routes which they run.
- Moderator:** Next question is from the line of Kunal Thanvi from Banyan Tree Advisors Private Limited.
- Kunal Thanvi:** My question was largely on our pricing strategy, especially on the CNG side. So, as you alluded to the fact that our sourcing costs have come down significantly, and we have got benefited out of it in terms of our profitability. But when I look at the pricing differential between, say, diesel and CNG continues to be much lower than our historical averages. So what is our strategy in terms of pricing? Are we looking like in order to improve volumes, does it make sense to take a price cut? Or how do management look at it from a longer-term perspective?
- Management:** The current discount is, I think, good enough compared to petrol. And as far as diesel is concerned, also a very good discount is there in the range of around 16%. So currently we have seen the numbers also increasing compared to last quarter where around 13,500 odd vehicles came on CNG. This quarter, around 14,750 vehicles have come on board. And this trend is increasing. So, in April, May, June. June, we have seen the more conversions.
- So having reduced price in April, I think it may take some time. However, we are open, as you were saying that on gas cost front, there is very good improvement. Since now, very good stability and visibility is there with respect to APM prices at \$6.5, it is capped. Also, HPHT is available, plus currently spot is also at a very good level. So, we can consider some price reduction as well.
- However, our strategy to enhance volume will be in dual manner, in a target by increasing our marketing effort and sales promotion effort to these segments and the customer or vehicle type where we see currently small penetration and penetration can be increased with targeting specific type of vehicles. So, we will be doing a 2-pronged strategy of targeting specific segment and also considering price revision as and when required.
- Kunal Thanvi:** Sure, so just a follow-up on that. So basically, what you're alluding to that is at this price also it is attractive from the customer perspective. That's what you are saying?
- Management:** Good traction and the numbers are increasing. So current quarter we have added around 14,750 vehicles and the monthly trend was increasing.

Management: Another observation there, what we have analyzed is the adoption of CNG in the commercial goods vehicles has dropped compared to about 2-3 quarters back and they are the ones who have relatively high per capita consumption, and the contribution is accordingly higher in volumes. So, we are looking to target these segments by some direct marketing initiatives, trying to catch hold of aggregators, fleet owners, etcetera, and incentivize them to use CNG.

Management: Or we may try, one fill larger volumes discount kind of a thing, so that the specific segment can be targeted for capturing the volumes and conversions more incentivized.

Kunal Thanvi: Sure. Yes, because this segment, which you're saying is dropping down is more price-sensitive because they are fleet owners and they would want to have a better pricing composition. Sure, makes sense.

Management: Add to Mr. Wagle's, though commercial vehicles are slightly, numbers are less, we are seeing very good number of private cars getting converted, maybe because of the OE vehicles models are available. So there we don't need to push much, it appears. But yes, if it's target-specific vehicle type, mainly commercial, through specifically devised schemes, it will help us better in future.

Management: And in the long term, we are also trying to increase the infrastructure reach out and trying to bring digital initiatives and more CNG stations in the areas wherever we can put so that the queue is reduced. We are also looking at the turnaround time and other initiatives to address some of the issues related to the queuing in the CNG stations. So, all these things put together, we expect that the volume should improve from here on.

Kunal Thanvi: Sure, and second, if I can squeeze is, on our profitability. If I look at this quarter number, right, like if I look at like unit economics, our EBITDA is like INR 16 per SCM. Any thoughts on the sustainability of the same? And what should one look at from a medium- to long-term perspective, what is the profitability that we are kind of working with?

Management: So this quarter, in terms of managing the gas cost was very good. So probably we could time it very well in terms of buying spot when it was cheaper than HPHT and then later on tying up little more quantity of HPHT as well. So maybe this quarter the EBITDA margin is very good or gross margin in case of CNG is very good.

And this quarter has been very good with respect to even industrial commercial realization and the gas cost in for industrial commercial because most of the term contracts, majority of our term contract for industrial commercial is linked to Henry Hub and the index was quite low that has given us a very good benefit.

This is probably one of the best margin, gross margin as well as EBITDA margin kind of a quarter. You may see a little reduction going forward depending on how the indexes move, how spot market moves and how we are able to optimize our gas costs.

Kunal Thanvi: Okay. Sure. And from a longer-term perspective, we continue to hold on that 5%- 6% volume growth and what level would be our EBITDA per SCM like from a longer-term perspective?

- Management:** I think longer-term perspective, INR10 average you should consider as EBITDA margin. So, in case we have to do a little more and aggressive marketing, we will not shy away from doing that. But we will try and secure more vehicles and future volumes. So that should be our strategy. That is what our current plan is.
- Kunal Thanvi:** Sure, and 5%- 6% volume growth is what we are targeting, right?
- Management:** We are targeting a higher number. But then can, in business as usual scenario case or whatever, if you look at past trends, 5% to 6%, we are confident of getting, but we'll be attempting more.
- Moderator:** Next question is from the line of Yogesh Patil from Dolat Capital.
- Yogesh Patil:** Congratulations on the good set of numbers. Sir, can you please share APM share in the priority segment for the quarter 1? And if possible, can you please provide a detailed breakup of your gas or LNG contracts?
- Management:** By priority segment, you're saying APM availability?
- Yogesh Patil:** Yes, sir.
- Management:** We have got APM to the tune of, for the Q1 it was around 89%. There was a shortfall of around 11%. Some part of it was met through HPHT and some part of it was met through spot gas, slight reduction compared to Q4. Q4 was having APM allocation of around 91%.
- Yogesh Patil:** Okay. And if possible, can you please provide us a detailed breakup of your gas or LNG contracts, mostly non-APM?
- Management:** Non-APM, we have one RIL contract, which is old HPHT. Oil-linked, Brent-linked and around 0.5 Henry Hub, 2 contracts, 0.4 we signed earlier and 0.1 we signed later on. So these are the 3 contracts which primarily suffice our requirement for I and C. They have a good threshold for a ramp up and ramp down with take or pay. And 0.2 from RIL (HPHT gas).
- Yogesh Patil:** Okay. This newer 0.2 mmscmd recently you bagged in the recent auction. Am I correct?
- Management:** Yes, in 2 stages, we took I think initially 0.1. And then later part of the June, we have signed one more 0.1 HPHT gas.
- Yogesh Patil:** So in total we have close to 0.8 mmscmd kind of a non-APM gas contract?
- Management:** No, no. Yogesh, the last 0.1 and 0.1 HPHT is specifically for priority, you cannot use that for I and C.
- Yogesh Patil:** Yes, sir. And second question is regarding vehicle addition. As you mentioned, 14,750 vehicle addition during the Q1. Can you please give us an idea how much improvement you have seen on a month-on-month basis because the April, May and June. So the May and June, you might have some jump into the volumes. So can you share some thoughts on that side? And secondly, you also mentioned that the commercial vehicle addition has a little bit slowdown. Can you share us a number how much was during the quarter?

Management: So just to give you commercial vehicle number was around 1,200 , whereas Q4 it was around 1,300 . Whereas during this quarter, private car is around 9,750 out of 14,770 . Whereas private car last quarter was around 8,800 . So there is an increase of 1,000 numbers in the case of car and some marginal reduction in case of commercial vehicles.

Yogesh Patil: Okay. Sir. And monthly jump, any idea on that?

Management: So if you look at June, highest number of small vehicles are there, more than around 450, whereas in the earlier month it was around 350. As far as car were concerned, cars were almost 3,700 was in June, whereas in the earlier month they were in the range of 3,000. So maybe post price reduction, it will take some time for people to realize and then maybe booking and then actually vehicle coming on the road may take time because there's vahan portal where vehicle registered on CNG data is available.

Yogesh Patil: Yes. And the last one from my side, sir. Can you provide us the capital expenditure details during the quarter? How much we have spent.

Management: Spent roughly INR150 crores capital expenditure during this quarter.

Yogesh Patil: And what is our target for FY '24?

Management: '24, we are targeting more, but minimum, I think INR 600 crores we can spend and maybe it can go up to INR 800 crores, depending on availability of sites for construction of the CNG stations, permissions for laying pipeline, etcetera.

Moderator: Next question is from the line of Niharika from Aequitas Investments.

Niharika: So my question is based on the biogas plant. What kind of investments are we looking for this? And what kind of revenue do you see getting generated?

Management: See, the biogas, we have signed an MOU. The process is on for finding a partner to come up with technology and setting up the plant. It is expected that another 1.5 to 2 years will be required to complete the plant and start commissioning it because, first, the land has to come in place, then grading of the land and then setting up the plant and then commissioning it. So the top line from it depends; it will not be a very big number, but maybe in the range of 50 to 60 CR will be there once the plant is commissioned and similarly, the profitability will be in the range of 20% to 25%.

Niharika: Okay, and in our annual report, you're betting that we are working with MSRTC to ensure the conversion of 1,000 buses to CNG next year. So how are we on that at front?

Management: I had answered that some time back. There are 120-plus buses right now out of that lot which are already running and out of these 1,000, we are expecting 500 to 600 of the buses to be operating within our geographical areas. Those 500, 600 buses will all come on the road by November or December of this year, by which time we will have set up infrastructure in 8 more of MSRTC bus depots to cater to filling these buses.

- Niharika:** Okay. Understood, and my last question would be are you looking for any more reduction in prices from Europe, passing any more price?
- Management:** This question also we answered I think in the beginning itself. So we may consider some price reduction depending on how the volumes journey takes from here. But our target will be to give impetus to vehicle segment where current penetration is low and which is a high-potential segment. So, we will do a 2-prong strategy of promoting those vehicles or giving them more discount and if required, consider a price reduction, depending on how gas cost moves here onward. Of course, Q1 was very good with respect to gas cost, and that is reflected in our profitability as well.
- Management:** Just to clarify on your last question that the CBG plant is expected to make 50-60 crore top line in the 500 tons plant. And if we go to 1,000 tons plant, in a phased manner, it will go to 100 crore per annum and 20% around EBITDA margins are expected.
- Niharika:** And how much of cash are we carrying in our books as of now?
- Management:** So roughly carrying INR1,800 crores to INR2,000 crores of cash.
- Moderator:** Next question is from the line of S Ramesh from Nirmal Bang Equities.
- S. Ramesh:** So if you look at the numbers you're talking about for vehicle additions and the addition of the MSRTC buses, is it fair to assume that once they are all in operation on an annual basis in full potential, should be able to increase your CNG volumes by about 1 million to 1.5 million cubic meters a day. And that means you will possibly talk about 5 million cubic meters a day in the next 1 or 2 years. Is that a fair assessment? Because buses itself will firstly add about 9 to 10 lakh kgs. So is that a fair calculation?
- Management:** Ramesh, I think your question is not clear. Can you repeat it again?
- S. Ramesh:** Yes. So based on the numbers you've shared in terms of the addition of MSRTC buses and the monthly run rate of CNG vehicle additions. So the CNG vehicle additions will go up to the extent of the buses being added and your weighted average consumption of CNG will increase. So if I do a back of the envelope calculation, I get a number of around 1 million to 1.5 million cubic meters per day of additional CNG consumption. So that should take your volumes close to 5 million cubic meters a day, maybe in the next 1-2 year. Is that a fair assessment?
- Management:** No, no, no. These 500 additional MSRTC buses, if you take an average of 80 kgs per day fill, that is 40,000 kgs per day.
- Management:** Which is roughly 0.06 mmscmd or maybe 0.055 mmscmd.
- Management:** But Mr. Ramesh, you're right in terms of if the existing vehicle plus these buses are added roughly 55,000 cubic meters gets added on a daily basis.
- S. Ramesh:** On cumulative basis you are saying it will add about 55,000 to 60,000 cubic meters a day, okay.

Management:

Only from MSRTC buses if they are on target and they convert the number of buses we talked about. But our strategy is we may push more of commercial vehicles, and we will try and put more of commercial vehicles. And that will give us good volumes going forward.

S. Ramesh:

And on the LNG auto fuel plan, once you start the operation of the LNG station. So what is the number of stations you're planning and what is the kind of volume you are targeting in the next 1 or 2 years? And what is the kind of pricing and margin profile you're looking at there? You can help us understand the broad economics of that business?

Management:

To start with, we may target around 5 to 6 stations in next 10, 12 months, and pricing will be obviously whatever customer we are targeting is mainly heavy vehicles and buses, and one is the ESG agenda of most of these truck operators or whoever is using the trucks. It will be priced linked to diesel. So we will give a discount over diesel so that their additional cost of switching from diesel vehicle to LNG vehicle gets covered in a reasonable period of time. So we may price it around maybe around 15% to 20% discount, in that range.

Management:

There is a lot of potential in our view that LNG in long haul on LNG in highways will be a very suitable solution for transport because electric vehicles are still to come and electric vehicles, the battery weight is very heavy to make it a good choice for long-haul. The other option is hydrogen, which again may take many years down the line, especially the infrastructure which is required to be created.

So, the only realistic options left are, one is diesel, which is already there. But considering the environmental problems associated with diesel, we see more traction will come either on CNG or LNG. CNG again is having some issues related to the range and the number of cylinders which are required for heavy transport vehicle. So, LNG is one solution which is workable. So we are very optimistic about that and therefore, we have started this joint venture company to roll out on fast manner.

First, we want to commission 5 to 6 stations in 1-1.5 years' time and subsequently, based on our ability to get more contracts, some downstream contract, downstream customers or the aggregators, we will roll out more stations on fast basis because one station can cater only to 40 to 50 trucks and each truck carries around 450 kg of LNG. So, which is a substantial amount of filling in one go. Therefore, if we put out more stations, the volumes can pick up very quickly.

S. Ramesh:

What is the investment required for this JV? And what is the kind of LNG price which would make it attractive for you to develop that business?

Management:

So roughly per LNG session, excluding land, it should be in the range of around INR 5 crores to INR 6 crores. That's our estimate and we may try and capture two segments one is B2B. There you may have a contract and a close contract, so you may offer more discounts and there could be B2C where you may have a slightly lesser discount one-off. If a large fleet vehicle is coming under one contract, then linked to diesel we may offer better discount.

Management:

Around 10% discount to diesel is what we think is workable and which is a win-win situation to both the parties.

- Moderator:** Next question is from the line of Sabri Hazarika from Emkay Global.
- Sabri Hazarika:** Yes, sir. Firstly, so how much of the volume in kg terms in CNG?
- Management:** It is 1.84 mmkg deal, million kgs.
- Management:** 18 kg per day, 18.4 lakhs kg per day.
- Sabri Hazarika:** And sir, this MOU -- this LNG station, it is a final agreement signed with Petronet, right, for the JV -- for the joint venture company.
- Management:** Not Petronet.
- Management:** It is a company called Baidyanath LNG. This is the first company to set up the LNG stations in India. One is in Nagpur and other is in a place called Wani near Nagpur. So they were the first company to set up the LNG dispensing stations in India. So we have set up an SPV with them and the term sheet has been signed, it will be a 51% stake for MGL and 49% with Baidyanath. It will be a joint venture company with two companies joining hands.
- Sabri Hazarika:** Okay and LNG sourcing will be done by whom? It will be like taken from the bulk marketers? Or you will be involved in that also?
- Management:** It is a strategic call by a company and SPV will take a call on it. But we will optimize on the sourcing from MGL side also and try to get the best deal for the company so that the last point is to get the volumes from the diesel side to come on to the LNG side. So we will try to optimize both on the procurement of LNG and bringing MGL expertise in getting the best cost in it. The other part is to bring the infrastructure at optimum cost.
- And third is to promote the ESG agenda so that the benefits which are available to the customers on ESG side and commitment, especially if you talk about cement and steel, if any company is exporting, they have to cut down their carbon and therein comes a very good potential of LNG to support that objective.
- Sabri Hazarika:** Right, sir, and sir, second, just one small follow-up. What's the status of open access now? Anything happening there? Or it's like, again, slowed down? Because there's some paper which came a few months back from PNGRB side. Anything has happened since then?
- Management:** Matter is under sub judice. And the hearing was somewhere in May, but it is now scheduled for somewhere in September or October because of paucity of time available in the Delhi High Court.
- Management:** The matter could not be heard because the bench was saying that they need more time to hear this case, 2 days back-to-back, they have scheduled, but some other priority engagements suddenly came on that day. So, they have now given the time in either in September end or October this year.
- Moderator:** Next question is from the line of Somaiah V from Avendus Spark.

- Vishnu:** Yes. Sir, Vishnu from Avendus Spark. So just wanted to understand this LNG, what will be the rough costing? I mean I understand gas is a component that keeps moving up and down. But let's say you get the gas and what will be the additional cost involved if we need to keep, let's say, for 15-day inventory, there's a boil-off there's electricity. What will be the additional load in terms of costs that you expect in terms of dispensing the LNG apart from the gas cost, any rough idea, if you can help us.
- Management:** Other than gas costs, I think roughly around INR 10 to INR 12 could be the cost, including boil-off per kg.
- Vishnu:** Boil-off rough rate per day, what would be the number, sir?
- Management:** It is 2% to 3%, but we have an inherent advantage available with Mahanagar Gas that if it is located in our geographical area, we can use the boil-off-gas to put into the pipeline grid. So that can be pushed into CNG or PNG segment, and therefore we don't lose that boil-off-gas. What boil-off-gas will be lost will be to the transporters account, which will be -- I mean, actually, that will also not be there because if the truck is running, then the boil-off-gas is used in the engine also.
- In case the truck is not running, then sometimes if the waiting time is more than 1.5 to 2 days, then we generate some 2% to 3% of boil-off-gas, I mean engine has to be run for 10, 15 minutes idle, then the total boil-off-gas gas for next 2 days will be accounted for. So more things are developing to optimize on BOG. But if you have a CGD company associated with the LNG station, then most of it is taken care of.
- Vishnu:** So this boil-off, 2% to 3%, got it, sir. So INR 10 to INR 12 is the overall additional cost over and above the gas is what you are seeing?
- Management:** That's a present rough estimate, yes.
- Management:** Over and above gas cost means like the opex and the capex and the margins and overheads and BOG and things like that. So that will be in the range of INR 10 to INR 12, which Rajesh has just mentioned.
- Vishnu:** But through the train you need to keep it at 160 degrees centigrade for this to be a workable option?
- Management:** 160 is the temperature at which it is taken in the LNG terminal. So, in the operating temperature when it comes to the tanker and when it comes to the tank and when it goes to the dispensing, it is in the range of minus 135 to minus 150 degree centigrade.
- Vishnu:** Okay. So this INR 10 to INR 12 includes the power cost to maintain that 130, even at 130?
- Management:** The power cost is negligible because it is in liquid form. So hardly any power is required. And therefore, what we are saying not exactly INR 10 to INR 12, it can be INR 10 to INR 13 also, INR 9 to INR 13. So it depends on several factors, but it should be in this range, yes.

Management: The LNG is not refrigerated by any electrical power or anything. It is kept in a very thickly insulated tank so that the temperature doesn't rise. The little amount of power which is required is for the loading pump – which is very small.

Management: See, in case of gas, when you have to compress from, say, 19 bar to 220 bar, there's a lot of power requirement because it is a compressible fuel. Whereas in case of LNG, it is pumping from whatever little pressure it is there and it is kept at this almost similar pressure because the liquid is flowing from one tank to the tank in the vehicle. So the power requirement is negligible as compared to CNG.

Vishnu: Understood. Sir, a rough math, we know is that between 15 -- if I take \$1 of mmbtu, it's about INR 2.5 to INR 3 in scm terms. So here, if you are looking at \$15 or \$20 gas, roughly cost between, if I take even a 15 into 3, about 45. And I -- let's take it even to 50, 55 plus 15, this will come down to about INR 70 odd in terms of fuel per kg.

Management: No, the point you are saying is if you have to take it in per kg terms, you're right. And if you take it in per kg it will be around INR65 or so, INR65 to INR70. Diesel is being sold at around INR95 or so INR90 to INR95. So this delta is available to take care of operating costs, capex, overheads, profitability and the margins. So that is the play we were talking, that 10% of discount is offered to the diesel company, diesel operators will be prompted to convert to LNG.

And the second part is the sourcing is very critical in terms of getting the right cost for LNG and which can be handled in two manners, one is that you can have a portfolio mix of Henry hub gas or the Brent-linked gas or NDP-linked gas or a mixed index so that the parity is maintained with respect to diesel and more stability is there in the procurement cost.

Vishnu: Just to ask, sir, what will be the cost of a diesel truck and a LNG truck?

Management: Currently, the gap is around INR 25 lakhs to INR 30 lakhs per truck, a 40-ton a truck or 50-ton a truck. But that is expected to come down if more OEMs from India like Tata, Eicher and Ashok. They are also trying to build it. Right now, what we are saying, the differential is primarily because the LNG kit is being imported from China and other places. So currently, Blue Energy have rolled out these trucks, which is around INR 25 lakhs to INR 30 lakhs costlier than the corresponding diesel trucks.

Vishnu: And there will not be any pulling issues which normally people are

Management: No, the traction which is available in LNG is as good as diesel or even better because LNG is having the highest dense energy which is available for burning. The issue when it comes to CNG is because if you have a low HP engine or a retrofit CNG vehicle is there, then the issue comes. But if an engine is ab initio designed for an LNG running engine, it will give you as good a traction as a diesel truck can get.

Moderator: Next question is from the line of Hemang Khanna from Nomura.

Hemang Khanna: Sir, I just wanted to check with if you can please help with what is the realization for the I&C consumers in this quarter? And post the quarter, have you -- has there been any downward

revision for realizations for the segment? And secondly, on the sourcing, could you please just repeat how much was the total gas from RIL HPHT for the I&C sector?

Management: Firstly, realization net of tax for I&C as a whole average is around INR53 per SCM, Q1 this year. And you –were asking how much was RIL gas use for I&C sector?

Hemang Khanna: Yes, for I&C.

Management: 0.1 mmscmd.

Hemang Khanna: 0.1 mmscmd, right?

Management: Yes.

Hemang Khanna: And sir, the realization for I&C INR 66 in the previous quarter, right?

Management: No. Previous quarter was roughly INR 54.5.

Hemang Khanna: INR 54.5.

Management: There is a difference. I'm talking about average in case of commercial A, which is a small restaurant category, we price linked to commercial LPG. The realization is higher. In case of industrial commercial, it is lower. So what number I'm giving you is an average of industrial and commercial put together. The difference would be more than INR10- INR12 when it comes to commercial LPG and industrial category.

Hemang Khanna: Definitely, sir. So INR 54.5 in the previous quarter is INR53 in this quarter. And after this quarter, have you all taken any further cuts on this?

Management: So we are pricing linked to alternate fuels. So automatically, alternate fuel prices move upward or downward, the pricing gets adjusted. Whatever benefit or good margin you see in the current quarter in industrial commercial segment is not on account of price realization, but this is mainly on account of gas costs going down in this quarter substantially. Almost INR 8 to INR 10 we have been able to save in gas cost during this quarter because of the index Henry Hub and Brent, both were down. So gas cost was very good during this quarter.

Moderator: Next question is from the line of Nitin Sharma from M.C. Pro Research.

Nitin Sharma: Two small questions. First of all, can you please provide a breakup between the volume in commercial and industrial? And then I have a follow-up.

Management: Breakup of commercial, in volume.

Nitin Sharma: Yes, commercial and industrial.

Management: CNG was 2.48 mmscmd, domestic was around 0.49, and rest is industrial and commercial.

Nitin Sharma: No, a breakup between industrial and commercial.

- Management:** Industrial was around 0.32 and commercial 0.13 roughly.
- Nitin Sharma:** Understood, and a bookkeeping question. Is there anything that the employee cost, there's a decline of 11% to 12%?
- Management:** Yes. Last year we had pay revision. So actuarial cost was higher, which was booked, it's a non-cash flow item but actuarial liability was booked in Q4. So marginally, Q4 was higher. Otherwise, actual payments and all that is maybe little higher because of the increments in current year or new people added in the company. The high numbers seen last quarter is mainly because of provision on account of actuarial valuation.
- Moderator:** Thank you. Next question is from the line of Vikash from CLSA. Please go ahead.
- Vikash:** This is regarding volumes. If you could tell me, firstly, you said that on a kg basis, this particular quarter was 1.84 million kgs of CNG and last year, 1Q was what number, the same number, is it?
- Management:** No, no, it was 1.81 million kgs and this quarter, it is 1.84 million kgs, per day.
- Vikash:** Okay. Now what I wanted to check was that are the current volumes that you people are doing, current daily volumes, there are you seeing a reasonable pickup versus the 1Q added since you said that the cuts in price was in April and the positive impact of that would only flow out in second quarter later. Are you seeing daily volumes to be much better than what it was in 1Q? And do you think that this year you should be able to close with a 4%- 5% kind of volume growth which has been your guidance?
- Management:** See, traditionally, first quarter, because of the school vacations and other things, CNG volumes, we have seen drop, okay, especially in May and part of June. And now it has picked-up in end of June as well as July and also the number of vehicles getting added on to CNG has also gone up in the month of June comparatively to April and May. So that shows that there is a growth. Also, since prices were reduced in April, the addition of vehicles and now more clarity on stability of gas cost is reflected. So we expect that there should be good amount of vehicles getting converted from here on and it should add to the volumes in the range of 5% to 6% by year-end.
- Vikash:** Okay. No, sir, my question was if you look at the current volume trends and do a Y-o-Y comparison so that the seasonality is adjusted, does that give you a kind of confidence that 4%- 5% kind of a growth should become visible very soon and you can say that this particular quarter was something which is maybe a one-off kind of a blip and the thing should normalize to closer to the guidance of 4%, 5% volume. Is that a fair way to look at things?
- Management:** Okay, that's very difficult to make predictions in a very small range. This 5% to 6% guidance which we give is typically for a five-year CAGR. Now there can be good years, good quarters, bad years, bad quarters. Last quite a few quarters we have seen relatively flattish kind of trend. But what we are basically saying is nothing fundamental has changed in this. And we expect that, yes, that 5%, 6% CAGR, we will achieve. Whether exactly at the end of this year we'll be at 6% or 3% or 7%...

- Vikash:** No, sir. I'm not even getting on to that. But broadly in that range of 4%, 5%, 6%, you still hope to close the year at that kind of volume growth number. Because why I'm asking this question is that never other than the three - four quarters impacted by COVID, have you had a volume decline on a Y-o-Y basis. So this is the first time that that has happened.
- Management:** Actually the volumes have gone up by around 1%-plus
- Vikash:** Okay, per kg basis.
- Management:** Density factor, and we report in SCM terms, it is looking lower.
- Management:** Look, the revenue was, we get in kg terms. We were selling in rupees per kg.
- Vikash:** No, I understand. I appreciate that. But that's something which we only get to know during the - - but even it's possibly one of the most subdued quarters other than the COVID quarters, that's why from a volume growth perspective. And it's understandable because the cut happened only in April and the pickup in terms of conversions, etcetera, would take a little bit of time. But as long as it is that, then it's fine. But from a perspective of is there any other change for us to get more concerned about changing that 4%, 5% kind of a number, that is what the thought of the question was.
- Management:** Look, this, the 500 MSRTC buses, they have worked out 40,000 kgs. Now if you look at 40,000, it is 2% of our CNG volume. So, no, of course, the whole volume will get only by end of December.
- Management:** Just to put one more thing in perspective, '21-'22, we had 1.21 million kg per day. '22-'23 whole year we have 1.35 million kg per day. This first quarter we have 1.84 million kg per day. Now the last two quarters, Q3 and Q4 of '22-'23 were not good because the prices were INR 89.5 and therefore, the impact has started coming from this Q1, wherein we have seen 1.84 against 1.81 which was year-on-year Q1 versus Q1.
- Now it is slightly better Q1 versus Q1 on kg basis, but the things are going to improve now, in our view in the next three quarters, primarily because the rates have come down the more conversions we are targeting to have more segmented approach for sales promotion. Also in case required, we will go for some price cut also in case sourcing and other competitive fuel prices are there and our margins are maintained at a healthy level. So seeing all these things and putting it into the right perspective, we expect that volume growth of 5% to 6% should be achievable by the year-end.
- Vikash:** Sure. And sir, just one suggestion firstly, sir. It will be rather than this confusion of kgs, etcetera, since there could be a time variance on how rich the gas that you get could be. I would suggest that maybe if we could add that one extra line in terms of the release when we give out that volumes
- Management:** Vikash, this problem comes only in case of CNG. So henceforth, in our declaration we will give a kg per day sale also for CNG.

- Vikash:** No. Let's give both kg and mmscmd.
- Vikash:** Yes, that is one. The other is, sir, see, I think the biggest target area where there is a lot of growth potential is like you were saying the LCV segment. Now what kind of targeted discounts, etcetera, that we could give over there to attract more conversions? You said that they kind of started going down in terms of conversions. So is there some thoughts around that, what kind of marketing effort we are kind of planning, maybe some kind of loyalty cards specifically for those customers or something on those lines?
- Management:** Yes. So, the exact schemes, I mean, a lot of thinking had already happened on this. The final touches are being given to the schemes, which we are planning to launch soon. And we're looking at a two-pronged strategy. One is maybe we could fund part of the retrofitment cost or fund part of the delta between the price of our new diesel vehicle and a new CNG vehicle.
- The second bit of course is what you're suggesting. After our targeted discount in rupees per kg through a loyalty program and card. Buyback programs also, we already started building it, and we should be ready to launch it also in a couple of months.
- Management:** See, what Rajesh is saying is that there is sometimes a delta between petrol vehicle and a CNG vehicle or a diesel vehicle and a CNG vehicle. Now the running cost is cheaper in both the cases. So therefore, we expect that if we discount or incentivize on the upfront to purchase prices in one way or other, the traction should be available for people to take on CNG commercial vehicles.
- Moderator:** Thank you. Next question is from the line of Sameer Deshpande from Fairdeal Investment. Please go ahead.
- Sameer Deshpande:** Congratulations for the excellent numbers. And I would like to know now we have the margins which we fix after our per kg cost for the gas, which we are getting suppose it is INR 100, and we have a margin of about INR 10 after that. So, if the prices go down or if your prices go up, we keep our INR 10 at the same level or we keep on changing it?
- Management:** It depends on so many things. Typically, if you see we have INR 8.5 EBITDA per SCM for '21-'22. '22-'23, we are INR 9.5. The last quarter was INR 12.5. This quarter, it is INR 16. So obviously these margins have improved over this quarter primarily because of very low cost of procurement in some of the quarters and the high-cost gas has taken off from our portfolio, and we got better margins.
- Now this should be in the range of say INR 9 to INR 11 EBITDA per SCM. However, again, we have to balance it out with the volume growth, which we are targeting the competitive prices of the alternate fuel.
- And thirdly, the whatever margins we want to keep it in what range. So obviously, some corrections will happen either in terms of launching certain schemes to get attract more volume or to maybe address the issue related to the pricing of CNG and PNG in respect to get the margins in order.

- Sameer Deshpande:** Overall, for the year, you say that we will be having a INR 9 to INR 11 as...
- Management:** That is the normal range. Since 8 to 10 years, if you see, we have been operating in a similar range, INR 9 to INR 11. But we expect the similar range to continue in future also unless something drastically changes.
- Sameer Deshpande:** Okay. Because in this quarter we had significantly higher, INR 16. So maybe going forward, they are likely to come down.
- Management:** No, no. As I said, again said, there are three things which are important for margin. One is the volume growth we are looking at. Second is the competitive alternate fuel prices. Third, the range of margins which we want to keep. So, all these three put together, we will take a decision on what are the correct margins. But typically, we keep it in the range of INR 9 to INR 11.
- Sameer Deshpande:** Okay. So overall we expect this year to be a significantly better year compared to the last year concerning the Q1?
- Management:** Q1-on-Q1, we are much better Last Q1 was INR 9, Q4 was INR 12.8, and this time it is INR 16.8. So it is much improved than the Q1 of '22- '23. But again, as I explained, we will take some correction.
- Sameer Deshpande:** Going forward, in the next nine months, there will be some averaging going on and all this thing. Things will be good for the gas sector because last year we faced lot of issue because of our sourcing, etcetera. So now all those things are behind us and the overall competitive intensity and all those things, and we also have a low base for the last year.
- Management:** Absolutely. See, the prices last year went, shooted out of the roof for spot LNG. There were lot of uncertainty related to the war which is going on and the winters which were there in the Europe. So all that has contributed to lot of uncertainty and volatility in the prices of LNG.
- Going forward, we expect this year to be much more stable. And hopefully, we have seen the worst. Now things should improve in terms of more stability in LNG prices. But having said that, companies are also more pragmatic now in terms of having a more balanced portfolio in terms of having more linked or term contracts related to Henry Hub, Brent, things like that, so that the dependence on spot is minimized.
- So that is one learning which we have also done. And the results of which can be seen in the Q1 results of this year, the cost of procurement has come down, and that has already resulted into high margins, EBITDA margins for the company.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraint, this was the last question for the day. I now hand the conference over to the management for the closing comments.
- Management:** Thank you so much for all the investors and for joining on for the earnings call. We expect that you people will be supporting us in future as well and we expect that the confidence will be maintained in the company. Thank you so much for joining in. And I'm very pleased to share that there have been some improvement in the margins, and we are taking actions to improve



the growth numbers also for volume. Other thing is also in terms of strategical initiatives also the company is contemplating about several initiatives which will be rolled out in near future. Thank you so much.

Management: If anybody has been able to not ask some questions, get back to us. We'll surely come back to you. Thank you.

Moderator: Thank you very much. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

(This document has been edited for improving readability)

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