MAHANAGAR GAS

MAHANAGAR GAS LIMITED

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To,

Head, Listing Compliance Department **BSE Limited** **P. J. Towers,** **Dalal Street,** **Mumbai – 400 001** **Scrip Code: 539957**	**Head, Listing Compliance Department** **National Stock Exchange of India Limited** **Exchange Plaza, Bandra –Kurla Complex,** **Bandra (East),** **Mumbai – 400 051** **Symbol: MGL**

Dear Sir/ Madam,

Sub: Transcript of Q2FY25 Earnings Conference Call for the quarter and half year ended September 30, 2024

This is in continuation to our letter dated October 21, 2024 and October 25, 2024 and pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('**Listing Regulations**'), read with Schedule III of the Listing Regulations, we submit herewith the transcript of the Earnings Conference Call held on October 25, 2024 on the Unaudited Standalone and Consolidated Financial Results and operational performance of the Company for the quarter and half year ended September 30, 2024.

The said transcript is also available on the website of the Company at https://www.mahanagargas.com:3000/Mahanagar%20Gas%20Q2FY25%20Earnings%20Call%20Transcript_Final.pdf

You are requested to take the above information on record.

For **Mahanagar Gas Limited**

ATUL TRIMBAK PRABHU

Digitally signed by ATUL TRIMBAK PRABHU
Date: 2024.10.30 16:59:42 +05'30'

Atul Prabhu
Company Secretary & Compliance Officer

Encl.: a/a

Mahanagar Gas Limited

Q2 FY25 Earnings Conference Call

October 25, 2024

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

MODERATOR: **MR. PROBAL SEN – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Mahanagar Gas Q2 FY '25 Earnings Conference 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 * and "0" on your touchphone telephone. Please note that this conference is being recorded.

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

Probal Sen: Thank you, Palak. Welcome, everyone, to the post Q2 FY '25 earnings call of Mahanagar Gas Limited. With us, we have members of the senior management, including Mr. Ashu Shinghal, Managing Director; Mr. Sanjay Shende, Deputy Managing Director; Mr. Rajesh Patel, Chief Financial Officer; and Mr. Rajesh Wagle, Senior Vice President of Marketing Division.

Before starting the call, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature, and we do believe that expectations contained in the statements are reasonable. However, these statements do involve a number of risks and uncertainties that may lead to different results. So we urge you to consider that quarterly numbers are not a reflection of long-term trends or indication of full year results.

With that said, I will now hand over the call to the management for their opening remarks, post which we will have a Q&A session. Over to you, sir.

Management: Very good afternoon. I'm Ashu Shinghal. I'm Joined by my colleagues here. A very good afternoon to all the investors and posing confidence on the Mahanagar Gas Limited and all the analysts who are on this earning call of MGL for the second quarter of the financial year '24, '25. At the outset, I would like to thank you all for attending this call and wish you a very happy Diwali, an precious occasion for all of us and a prosperous new year in advance.

MGL continues to create CGD infrastructure across its business segments in the license area. During the quarter, 58,845 domestic households were connected and thus, we have established connectivity for nearly 2.58 million households. We have laid 70.59 kilometers of steel and PE pipeline, taking the total length to over 7,124 kilometers. We also added 5 CNG stations during this quarter. And with this, we have 352 stations as on 30th September '24. We also have added 99 industrial and commercial customers during this quarter. And therefore, as on 30th September, we have 4,920 industrial and commercial customers.

In respect of our RA Raigarh GA, up to September, we have connected 83,364 domestic outsourced and 49 CNG stations, which are currently under operation. During the quarter, we have laid 10 kilometers of pipeline in Raigarh, thereby taking the total length to 433 kilometers. With respect to UEPL, that is Unison Enviro Private Limited, a wholly owned subsidiary, the company has added 7 CNG stations during this quarter and a total of 64 CNG stations as on 30th September. During the quarter, 1,890 domestic households were connected and accumulated household connections at 29,229 for UEPL and they have 59 industrial and commercial customers as on 30th September.

We also commissioned first LNG station in Aurangabad in month of October under the joint venture company, which is Mahanagar LNG Private Limited. This LNG station was set up within 6 months from the availability of land, one of the fastest commissioning of LNG stations.

Coming to MGL operations during the quarter. Overall average gas sales volume was -- for the Q2 of the current year compared to the corresponding Q2 in the previous year has increased to 4.042 mmscmd from 3.575, which is an increase of 13.07%. Q2 volume consists of CNG volume of 2.886, Domestic PNG of 0.528 and 0.628 mmscmd was supplied to industrial and commercial segment. Compared to Q1 this year, overall sales volume for Q2 has increased by 4.75%. Current quarter EBITDA is INR399 crores compared to previous quarter EBITDA of INR418 crores. Net PAT is INR283 crores for this quarter as compared to INR285 crores in the previous quarter.

Coming to UEPL during the quarter, company achieved an overall average sales volume of 0.164 as against 0.168 mmscmd in the last quarter. The current quarter volume consists of CNG volume of around 0.152 and CNG volume of 0.012. Therefore, MGL as a consolidated entity has achieved total sales volume of the quarter of 4.206 mmscmd.

On October 7 this year, MGL has entered an indicative and nonbinding term sheet with International Battery Company USA for setting up an EV battery cell manufacturing facility in India under proposed joint venture company, which is called International Battery Company Private Limited. The plant initial capacity is 1 GWh, which will be developed in 2 phases of 500 MWh each. The proposed equity investment by MGL in the range of INR385 crores in this joint venture with the equity stake of approximately 40%.

The Board has also approved the scheme of merger of Unison Enviro Private Limited with MGL. The scheme is subject to necessary statutory and regulatory approvals from NCLT and other regulatory authorities under applicable laws.

MGL has been awarded 4 Golden Star under National Safety Council of India Safety rating for our occupational safety, health and environmental management system at CGS Mahape.

With this, I conclude and would now like to open the floor for the questions. Thank you very much for your patience.

Moderator: Thank you very much. The first question is from the line of Amit Murarka from Axis Capital.

Amit Murarka: My first question is on this APM gas allocation reduction. So I understand that there's a change in classification of the APM gas by ONGC, which has led to this. My thought was that if all the new production is going to come from -- I mean, it's going to come from the wells, which will be priced higher, does it mean that the $6.5 gas that comes to you will keep falling now every quarter from even the current levels? So could you just help understand that?

Management: I mean the point is well taken that at a one point APM reduction has happened, but this is not a very regular phenomenon because maybe there are certain decisions and the government has taken a call for the onetime reduction. After this, it will be gradual on year-on-year basis. This is not expected to be sudden cut on the APM.

Amit Murarka: No, but the new production that comes in will be from the newer wells, which do not qualify under the $6.5 gas. So even if you get the domestic gas, it will all be higher priced at, let's say, $9 or so. Is that understanding correct?

Management: Yes, that is correct. Because the APM production is in 2 categories. One is the old wells and the second is new wells for which ONGC and other producers are putting more money into it. So as per Kirit Parikh recommendations and as per the guidelines approved by the cabinet, the new wells will qualify for a different price regime, which is around 12% of the Indian oil basket. So whatever new gas will be coming will be priced higher. But again, CGD is getting priority there also, like in HPHT. The full gas, which is available from new well will be allocated on CGD and priority before giving to other companies.

Amit Murarka: Sure. You'll get the volume, but basically, it will be at a higher price then?

Management: That's right. And HPHT volumes are also expected as and when they come on or the older contracts are expiring, that gas will come on the bidding. And there again, CGD will get the first priority.

Amit Murarka: Right. But like I'm sure you must be taking this up with the ministry, but if, let's say, the gas price is going to go up consistently, and I mean, the blended gas cost because of the newer wells issue, how do you kind of stay competitive versus the liquid fuels and also kind of push LNG -- push gas into new markets?

Management: So as I think MD said, whatever cut is there of that almost 50% will be available to CGD on a priority basis at 12% of the Indian crude basket, okay? That could be, as you said, maybe around $9 or so. So it will increase the weighted average cost to a certain extent definitely right now.

So we will be attempting how do we optimize our cost by -- initially, we may have to blend spot, but we will slowly optimize by signing a mid-term contract. and we'll work upon how do we devise our long-term gas sourcing strategy so that -- and one more point I would like to bring is, yes, we were always prepared as a company or as a city gas industry also people are prepared that this is likely to go down. But yes, it has happened a little faster.

So all of us are working on strategy in the long term, how do we have our sourcing contract strategy in place, which gives you an edge and our dependence reduces day by day on the APM, which was a scenario already known. But yes, the speed has with this cut slightly gone up.

Management: Just to supplement that, since you asked how we would be placed against alternate fuel. Currently, our CNG prices are the lowest in the country. So by a corollary, the headroom which we have is more comfortable compared to what other people have. So that also helps a little bit.

Management: Just one more point I would like to add on to what CFO and Rajesh Wagle has mentioned is that our gas, whatever we are getting new well gas is linked to oil-linked prices. And the alternate fuel for industrial and commercial is primarily linked to oil-linked prices. Plus CNG is competitive to petrol and diesel, which again is oil-linked prices. So obviously, there will be costly procurement in terms of APM allocations. But still, as far as we are concerned, our one-to-one competition with the alternate fuels will be more in tandem.

Amit Murarka: Sure. And just last question. Is there any baseline margin that you look to protect that not go below this?

Management: Not be given a number that this is what we target, but general guidance, which we have given is INR10 to INR12 EBITDA per SCM, which we have still maintained. If you have even seen our Q2, still we are at around INR11 per SCM. So that margin, that range we expect to continue for some more time. And let us see how the prices vary of LNG and APM gas and Indian crude basket and petrol and diesel, plus we will keep an eye on the volume growth, which we think, as you might have seen in the results, the volume growth has picked up quite substantially in this particular quarter.

And last year -- last quarter -- quarter-on-quarter, we had more than 2%. This year -- this quarter-on-quarter, we have more than 4%. So the whole last year-on-year growth was 5.5%, whereas in 1 half yearly, we have seen a growth of 7%. So this has come out because we have launched CNG schemes also. Our prices are very competitive as compared to petrol and diesel. So it is a mix of all these factors that we will decide on the margins. It is not that we have a set number in our mind.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global.

Sabri Hazarika: So a few questions. Firstly, I think the opex per SCMwas also higher during this quarter. So any particular reason or is it the normal run rate.

Management: The operating expenses marginally higher, you're right, around INR0.25 per SCM, okay? There were 1 or 2 one-off items during the quarter. In case of employee cost, there was an actuarial valuation hit that has slightly increased in the quarter linked to revision in the gratuity policy of the company linked to income tax limit being increased from INR20 lakhs to INR25 lakhs. So that has given some increase. Also in this quarter, there was an ex gratia payment, which has been accounted. So these 2 items are costing maybe around INR7 crores, INR8 crores in a quarter, which is a one-off item.

Apart from that, there were some costs booked on account of repair maintenance, we have taken up some aggressive repair maintenance and improvements in the network for monitoring the consumption geography-wise within GA, DRS-wise or so, so that we have a better control. And some small amounts have been spent at least in this quarter towards marketing or promoting the CNG vehicles, okay? So maybe our expenses on promotion of CNG will continue for some time to come. But these are some of the onetime initiatives to ensure the long-term volumes by capturing more and more vehicles and making these systems more robust.

Sabri Hazarika: Secondly, regarding this volume, it has been like 3 quarters now that your volume growth is very strong and you have always maintained the 6% of the guidance. So is there a relook into the guidance and also the fact that what exactly is driving so much of growth? And both CNG as well as industrial, I think both of them are growing very rapidly. In CNG you have said the marketing schemes and all. But any other sector in industrial market and Industrial volume?

Management: Industrial in the last couple of quarters, we have managed to add on some large volume customers. In fact, one of our largest volume customer has ramped up to his full volume requirement in September. That happened in some phases. So these customers whom we have reached out and managed to connect in GA-2 and GA-3 especially, have contributed to this.

And this is the outcome of almost a 1.5, 2-year initiative, which we have been pursuing by convincing these industries to switch from liquid fuel to gas by giving them a guaranteed 10% discount to FO, whatever fuel they burn. That has paid off -- started paying off, and that is giving a double-digit increase in industrial volume.

Sabri Hazarika: So guidance remains same or is it now further up from 5%, 6%.

Management: I mentioned earlier also, 5.5% was the overall volume growth year-on-year. This first half, we have clocked 7%. So our guidance was around 7%, 8% by the year-end. Now first half, we have around 7% growth on the volumes as of 31st March this year and 30th September this year. So by year-end, we expect another 2%, 3% to grow. So we will be touching around double-digit number for the year-end. And for next year, we'll see how it rolls out, but the momentum is there.

As mentioned earlier that we have launched certain CNG Mahotsav, very recently once again. And we are promoting PNG also very aggressively in domestic and industrial and commercial. In fact, industrial and commercial has grown by more than 10% last year. And this year, again, we expect it to be in double digit. So these initiatives and competitive costs have made the fuel more viable for all the segments.

Sabri Hazarika: Okay. And a couple of bookkeeping questions. What was UEPL revenue and EBITDA for the quarter -- sorry, revenue and PAT?

Management: Yes, for H1, it is around INR173 crores and EBITDA was in the range of around INR11 also. PAT INR6 crores for the quarter.

Sabri Hazarika: APM allocation for the quarter was how much by percentage for MGL?

Management: So 71% was the overall CNG and PNG, we were getting 105% as per the government policy. So CNG has come down in this last reallocation to around 57%, 58%.

Sabri Hazarika: You mentioned 69% in Q1. So that has become 71% in Q2, but now it has gone down to 57%, 58%. Is that right?

Management: Overall APM, that is domestic plus CNG, both put together is around 71%, okay? And on an overall basis, around 16%, 17%. But if you consider only on CNG after allocating full requirement for domestic towards -- out of APM, then on only CNG when you consider it is 20% down.

Management: 20% from the earlier allocation. Overall 13%, 14% down from earlier in absolute numbers.

Moderator: The next question is from the line of Nitin Tiwari from PhillipCapital.

Nitin Tiwari: Sir, my questions are partially answered, but just staying on that topic of deallocation of APM gas and how the strategy would evolve post that reallocation because as you also pointed out, this reallocation has just accelerated the change, which was already happening, right? So essentially, it all boils down to how we are going to price the products I mean CNG particularly in order to maintain our growth and margin.

So again, I mean, like we want to question you on do we maintain our -- are we going to maintain our guidance of 5% to 6% growth that we were looking at earlier and along with a margin of INR10 to INR12 because I mean, the way we look at it given this reallocation, a broad sense is that INR5 to INR6 revision in CNG price might be required for you to maintain the margin.

And when that happens, I mean, the gap certainly closes with a petrol price and a lot more with the diesel price. So would that not impact conversion of vehicles and growth of volumes? And I mean, this is certainly a near-term problem. A corollary to that is that essentially, this change was any which was happening. So what's your strategy like 4 to 5 years down the line when your APM allocation would be really low and you would largely be dependent on imported gas or expensive gas. So how do you see the scenario panning out then? If you could throw some light on that, sir.

Management: Your question is primarily divided into 2 parts. The first part is which we have already discussed that the volumes in this year has already touched 7% growth from 31st March of 2024. So in 6 months, 7% growth is seen, which we were thinking about whole year 8% guidance was there. So in the remaining 6 months, we can see another growth of 3%, 4%. So we will be touching around more than 10% of growth for this particular year.

Now coming to the long-term perspective, yes, you are right. APM will be definitely not available to the extent it is available right now. And we have sufficient legroom available, one, and we have our operational efficiencies coming in place. We have our assets which are slightly depreciated. We have volumes in our place. We are doing procurement efficiencies. We are going to different sources.

We keep on examining what are the alternate available like Brent link, Henry Hub link, HPHT, Newville Gas, APM gas, which is not connected to the grid can get connected and that can get allocated to CGD. So overall, if you see, we have been selling CNG and PNG at the cheapest in the country. And we have some margins are also in the reasonable range of INR8 to INR12 or INR13.

Now having said that, we don't think that we will not be able to manage these cuts in APM in the future. And as and when things roll out, it also depends how crude moves, how gas moves, what is the delta between the 2 and how the petrol and diesel supplies and how CNG -- because once the CNG vehicle is in, it is there to stay for 15 years.

We don't expect that CNG vehicle will be sold out or whatever happens because see, petrol, again, there are projections about oil getting costlier and gas getting cheaper because gas several terminals are coming across the globe, mostly in Qatar is adding capacity. Australia has already added capacity. U.S. has already come on board.

So we have a scenario where gas costs will be competitive as compared to oil prices. And so we feel that we will be able to manage, but it's very difficult that down 4 years down the line, what will be the margin. So we can't predict anything on that. But nevertheless, we are prepared to have position in different scenarios which unfold over a period of time.

Nitin Tiwari: Fair enough. That's very helpful what you pointed out. We were just looking at it from the perspective back like once the gap really closes with petrol, I mean when your breakeven time period basically increases substantially and starts like inching closer to maybe a productive life of the vehicle. So I mean, correct me if I'm wrong, a CNG vehicle is about INR1.25 lakh costlier than a petrol vehicle, right? And essentially, the breakeven right now would be at about 4 or 5 years roughly. So given the gap between CNG and petrol prices. I mean once this gap closes and your breakeven reaches 8, 9 years or more than that, then certainly, I mean, it doesn't make any sense to own a CNG vehicle.

So like again, a second part to that question, would you also then start looking incrementally more at LNG as a sales product rather than focusing purely on CNG? And what is happening, sir, on the tax front? I mean we did hear some rumors or media bites during July about the price cut or possibly like inclusion of natural gas in GST. So any incremental development on that front, if you can throw some light on that aspect as well.

Management: In the volume, let me respond first and while we see that it sustain in the coming years also. There are 3 primary sources from where the CNG volumes are coming. Number one, private cars, attributed OE. A lot of OEs now are pushing and encouraging and the percentage of CNG cars sold out or the total cars sold in the country is continuously increasing. Today for a new car buyer, CNG is offering almost 50% lower fuel cost compared to petrol today's price. Tomorrow even if that goes down to 40% or 30%, there still remains a substantial incentive to CNG. This is about the private car segment.

Second is volume from three wheelers. Savings are very attractive. The last segment where we are getting traction, especially in the last few months is the commercial goods vehicles and especially in the intermediate and heavy commercial goods vehicle segment. And we are -- even though the competition there is diesel, we are targeting those segments by giving very attractive discounts, fuel cards, etcetera. incentives in the favor the transport or the buyer.

So we still believe that there is enough of a long growth runway to maintain this 6%, 7% or whatever, even in the head of a fuel pricing challenges, which are, again, these are commodities, there will be times when they'll move one way, there will be times when they move the other way. But the volume growth will be there without too much of a problem.

Management: Coming to your 2 questions, which you mentioned right now that the one that CNG vehicles cost versus petrol vehicle, there is. So there are different costs involved in different segments. If we talk about passenger vehicle, the delta could be in the range of INR50,000, INR60,000 from petrol versus CNG. If you go to commercial vehicles or heavy segment of around 18 tons, 20 tons trucks and the delta could be in the range of INR3 lakh, INR4. So in bikes, it is different. In 3-wheelers, it is different.

So the payback also depends on the running of the vehicle. If it is a commercial vehicle, the payback could be less than a year. If it is a passenger vehicle, the payback could be as long as 3 years. But definitely, it is not in the range of 8 years. And over a period of time, if you see the history back in 10 years also, the CNG and petrol delta has been maintained quite substantially over a period of time despite fluctuations in both petrol versus CNG prices or oil versus LNG prices. So going forward also, we think a substantial delta should be available at least in petrol vehicles.

In case of diesel vehicles, the technology is improving, the infrastructure is improving. And we are funding, as Rajesh correctly mentioned, that part of the upfront capex we are funding for diesel commercial vehicles. And also, we are promoting retrofit of the diesel or diesel in commercial vehicles from diesel to CNG because in Mumbai, after 8 years, you can't run a commercial vehicle on diesel in the municipal limits.

So they necessarily either have to sell those vehicles or take it as -- either we have to sell those vehicles outside Maharashtra or they have an option to retrofit it. And in case of retrofit, we are funding 50% of that cost. That's a very good incentive for the owner of the truck because here, trucks are sometimes owned by a single person, and it's not a very big fleet. So they are very sensitive to the price. And if it gives a delta of around 15% to 20% also over diesel, they will be more than happy to continue with CNG.

The other part related to excise cut and GST, this has been under discussion for quite some time. GST, again, is a GST conscious subject and the excise cut was talked about during the budget also. So let us wait. If that happens, it will be very good for the industry.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: Thanks for taking my questions. Sir, as you mentioned, the EBITDA margin guidance of INR10 to INR12 and we are still waiting for the CNG price hike, which is due. So this guidance is considering the CNG price hike or without CNG price hike? That's one.

Management: See, EBITDA margins right now, we have INR11 for the half year basis. Now we have still 6 months to go. What we are doing is we are evaluating all the options of getting the gas at the cheapest price. Also, we are taking operational efficiencies, the volume efficiencies are with us. So we will see, but INR10 to INR12 guideline is still we can maintain. We hope that we will be able to maintain it. But even if it is certain hit has to be taken to maintain the volumes and to maintain the price stability for giving confidence to the customer, we will always be for it. But as of now, we think INR10 to INR12 is the margins after considering the allocation cuts.

Yogesh Patil: Sir, quickly reframe my question. Suppose we do not pass on the gas cost to the consumer, what kind of hit will come to our gross margin level overall basis because of this reduction in APM gas allocation? Any ballpark number if you have?

Management: See, the point is industrial and commercial any which way are going from LNG contracts, which we do have. The PNG is getting 100% allocation. The main effect on the deallocation is on CNG segment. As we said earlier, we are trying to figure out that how the cost gas can be procured at different sources. We are also going for procurement tenders. The rate discovered will determine about how we can -- how much we can retain with ourselves and how much we have to pass on.

And what is the volume growth we want to see, what is the EBITDA margins, which is in the comfortable range.

It is not a very strict range, that INR10 to INR12 is some sequent number. It is just a guidance. It can go up or it can go down also, depending on the cost of procurement of gas because we will be floating the tenders. There will be gas which will be coming on HPHT, there is gas, which is on new well gas, which further will be enhanced on the exchange. Then there is IGX, then there is Brent link contracts, there are Henry Hub link contracts. then the spot is available. So all these things are very dynamic in nature. So as I said that we are still comfortable with INR10 to INR12, but it can vary slightly up or down as a few months go by and we get more clarity on what the procurement cost is.

Yogesh Patil: So sir, during the quarter, how many CNG vehicles are added? And if possible, please provide a breakup of vehicle additions in terms of the taxis, 3-wheeler and personal cars. And if you have any updates on the 2-wheeler additions, that would be helpful.

Management: In the quarter, we have added 23,000 vehicles, around 15,000 are private cars, 6,000 are 3-wheelers and rest are all put together, small commercial vehicle and few MSRTC buses are there, taxis are there. Two-wheelers, around 1,200 2-wheelers have been added this quarter, which as Bajaj has launched. So if you see the whole year, last year, we have added 77,000 vehicles. And now this half year itself, we have touched around 44,000 vehicles.

So we have seen a traction. But more than the absolute numbers, what is more typical is the commercial vehicles, which are getting added because each commercial vehicle can take much more CNG volume as compared to, say, 3-wheeler addition. So I mean, we are very hopeful. And the 2-wheelers are again a new segment which has opened up for CNG. And 2-wheeler running cost is almost 40% of a petrol 2-wheeler. So this we find is a segment which is going to attract some volumes going forward, maybe 2 years, 3 years down the line. Anything, Rajesh, you want to add?

Management: No, volume addition we have been seeing has been maintaining momentum. And with the relaunch of our incentives for commercial goods vehicles in this month, October, we are hopeful of seeing the momentum continue.

Yogesh Patil: Sir, lastly capex during the quarter and planned capex for FY '25-26'?

Management: Half year capex has been a little more than INR400 crores, and we maintain our capex in the range of INR800 crores to INR900 crores depending on availability of pipeline laying permissions, availability of plots for setting up CNG stations, etcetera. So we are confident that we will do around INR800 crores. If things move positive, we'll be more than that also. As far as budget is concerned, we are geared up to do around INR1000 crores.

Moderator: Thank you. The next question is from the line of Nirmal Gore from Aditya Birla AMC. Please go ahead.

Nirmal Gore: My question is about the APM gas reallocation. Just wanted to know why there was a sudden reallocation done because considering the fact that the allocation towards CGD was any which was declining, but the sudden decline of 20%. I just wanted to know why this was done, what was the rationale? And in addition to that, if you could throw some light on where this APM gas has been diverted?

Management: I think we are not the right agency to answer this question in particular because the government at a macro level looks at all these aspects about where to allocate the gas at what price. So pricing and allocation is a prerogative of the ministry. So we don't want to comment much on it, and we don't have really to what the information about where it has been allocated and why it has been allocated to any segment.

Moderator: Thank you. The next question is from the line of Hemang Khanna from Nomura. Please go ahead.

Hemang Khanna: Sir, again, just going back to the APM allocation. I wanted to get a sense on the raw material side, following the cut and with the sourcing efficiencies you're currently employing, what is your current increase in raw material prices or gas sourcing currently? And a follow-up to that is that do you -- what is the view that -- do you believe that you'll be allowed to fully pass on the impact of the higher input cost to consumers? We appreciate that you're the lowest cost CNG provider in the country right now. But even in that landscape, will you be allowed to fully pass on this impact to consumers?

Management: There are two parts of it. One that you mentioned about what is the cost impact or procurement cost impact. So that we are still working out. As I mentioned earlier also, we are -- we will be going to quote for some inquiries, get the rates from the market about Brent, HPHT gas, New Well gas. So that portfolio will be determined depending on the bids we receive maybe next month or so. And then we will take a call on what will be the procurement cost.

Coming to your question on the ability to pass on, I think that question is very well understood by the market that it's an independent decision of the Board of the company or the delegated powers of the Board of the company to decide on pricing, depending on the alternate fuel price, cost of procurement, operational costs, our volumes and the margins which we want to have and overall strategies of the company.

So I don't think we are under any compulsion to pass on or not to pass on. It is a pure business decision taken by each individual company. Also depends on what the other CGD entities are doing, what is the price in the adjacent geographical areas, what are the volumes. All those things are taken into consideration before taking a call on price hike or price reduction.

Hemang Khanna: Got it, sir. Got it. And just as a second question, what do you -- what are the current volumes which are currently in the network?

Management: It's around 4.05 mmscmd for the whole quarter, Q2. And on a year-on-year basis, it is 3.95 for the whole half year basis as compared to 3.6 for the financial year -- full financial year '23-'24 and 3.5% for H1 of the last financial year. So we have seen a growth of around 13% on Q2 of last financial year versus Q2 of this. So you see the amount of effort we are putting to make the volume grow.

And that is one of the main reasons that we decide on when to price or pass on the price or not to pass on the price because the customer has to be given a very comfort that their interests are protected. A person who takes a decision to purchase a CNG vehicle or a diesel vehicle or a petrol vehicle is very critical for the company because then he is hooked up for 15 years with the fuel. So therefore, those decisions are taken by -- as a business decision by the company. Like we have launched this CNG 2 Mohotsav scheme, which almost subsidized or pass on the 50% cost to the -- is taken by the company to make sure that the more volumes are attracted.

Hemang Khanna: Got it, sir. No, definitely. Your volume trajectory in the past few quarters has been exceptional, and that's clearly visible. Just as a last bookkeeping question, could you just help with the EBITDA for UEPL I missed that?

Management: EBITDA for UEPL. Around INR10 per SCM EBITDA.

Moderator: Thank you. The next question is from the line of Kartik from CLSA. Please go ahead.

Kartik: I had one question on what do you think is the current discount versus diesel in percentage terms? And based on your experience, what is the level of discount that you think customers are finding so that your volumes are not impacted?

Management: Currently, the discount level is at about 16% or 17% to diesel. And we have empirically in the past, we have seen that as long as the discount levels are in 15% to 25% kind of a range, the traction continues and we get a continuous stream of new vehicles, new CNG vehicles and conversions. So while we are at a lower discount level, but there is still -- it's still in a do able range. And again, the discount to diesel is relevant in commercial vehicles where the competition is diesel. For the private car and for the auto rikshaw or 2-wheelers, or et cetera, the competition is petrol, where there is a very large incentive anyway for the customers.

To offset this relatively low discount and to promote heavy commercial vehicles, we have restarted this incentive scheme. But if you look at the sale number of our small or light commercial vehicles, that remains at 1,000 plus, and that has not got impacted by lowering of a discount from, I think, 1 or 2 quarters back, it would have been about 19%. Now it is down to 16%, but we haven't seen any decrease in adoption because of that.

Management: And the petrol discount to petrol is around 45% to 50% range, between 47%, 48%. So there is a substantial delta for attracting petrol vehicles. Now just keep in mind, there are several other things which are happening when a person decides to take CNG or petrol or any other vehicle is that a lot of infrastructure is getting added up. Typically, we have been adding around 25 stations every year. This year, combined with UEPL, we expect to add 85 to 90 stations this year still.

So OE models are available and there's a lot of choice, even original equipment manufacturing like Tatas and others, Marutis are very aggressive about promoting CNG vehicles. They are redesigning their vehicles. More and more CNG stations were added up by other CGD companies also. So the whole highway is getting created. What I want to say is that the whole ecosystem over the last three decades for CNG vehicles have been created. So we want to take -- make sure that this ecosystem is maintained properly for next few years, at least make sure that the volume growth is maintained and proper delta can be arranged or tweaked to make sure that the volume growth happens.

Kartik: And just to follow up, do you think customers care more about the running cost or the overall cost -- like the upfront cost that they have to bear in this, CNG versus petrol.

Management: As we just discussed some time back, there are 2 type of users. One that private car owners, if they purchase a vehicle, they see 2 things: one, that convenience to fill CNG and second, how much they run, what is the operational efficiency. Typically, private cars don't run too much. So their payback is high. For commercial vehicles, if the CNG is available, they have to be competitive in the market. That type of pressure is not there in private vehicles.

So for remaining competitive, they will always go for a cheaper running fuel. They typically take account the total cost of ownership and running kilometers is very important for a commercial vehicle. And therefore, the delta also is not very significant because if you see the life of the vehicle for 15 years, 20 years, then this original -- the upfront capex can be quickly payback in 1.5 years or less than a year for a commercial vehicle. So the decision point is what is the delta between diesel and CNG or petrol and CNG for a commercial vehicle.

Moderator: Thank you. The next question is from the line of Saurabh Handa from Citi Group. Please go ahead.

Saurabh Handa: Sir, my first question is just on this APM allocation cut. Now the perception is that the CGD sector has been singled out and bearing the brunt of this whole reallocation to, say, ONGC petrochemical plant. Now in your discussions with the government and the ministry, do you get a sense that there is indeed a shift in their stance towards the priority for the sector? Or this is just something which needs to happen and a sort of one-off. And if it was a one-off, then why not do a pro rata cut across sectors why just the CGD sector?

Management: I think, again, this was asked some time back. There are -- I mean, this is a government's prerogative at the macro level that what type of allocation and what pricing they give. If you see, it is not one single point which you can single out and take as a general -- I mean, general consensus about it. You have to look at last 15 years or so. The CGD sector has been promoted over a period of time. The first priority has also been given to CGD. The HPHT gas allocation was given to CGD. The APM prices were readjusted once we found that LNG prices have gone over the roof in terms of war and corona times.

So it's not that one decision can be taken as a general guidance for what the priorities have shifted or not. Anyway, we are not the party to decide those things. And we don't think that those are the things which we can take as a general guiding for the future also because the first priority to CGD is still there as far as the government guidance is concerned.

Saurabh Handa: Okay, sir. Fair enough. Sir, my second question is on the recent exclusivity, whatever end of exclusivity notices that have been sent by the PNGRB. Now in that, I think all 3 GAs of laws are covered. So what -- could you talk us through if there are any implications of this? Or would this again be subject to legal challenges, etcetera?

Management: I think if you have seen the public notice which PNGRB has taken out maybe yesterday, there are 73 geographical areas, which have been called for the consultation. And if you have gone through that notice, it says that the matter is subjudice and the court has asked -- I mean, they have given the freedom to PNGRB to go for consultation. But if any action is to be taken, that needs to be checked through the court in case it is having any adverse impact on the CGD. So it is the prerogative of the regulator to move ahead with the procedure, any which way the regulation allows for going for exclusivity.

So as has been discussed earlier also, exclusivity is a beneficial thing for all the sector also. We are not against it.

Only as a matter of fact, the matter is subjudice because if exclusivity is ending, there is an opportunity for us to go to other geographical areas to work upon. So we have a market to work with. And since our GAs will be covered, so we will be getting paid for the infrastructure cost plus certain returns on it. So it's not a thing which we are very much afraid of as such. But anyway, the matter is subjudice, so we don't want to comment on that. What PNGRB is doing is very well within their rights and they are doing for the growth of the sector. We are very much for it.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investment. Please go ahead.

Madhur Rathi: Sir just wanted to understand your perspective on the previous question. Sir, do we see the Indian CGD ecosystem or the gas pipeline ecosystem going towards a common carrier over the next few years, whereby we would receive some kind of rental or for the -- our infrastructure utilization by different players. So on that front from can you thrown some light.

Management: I think if we are talking about main gas grid, it is already on common carrier basis. When we talk about CGD, there are two types of exclusivity under that. One is infrastructure exclusivity, which is for a period of 25 years, and there is a provision in the act to go for 10 years extension after the expiry of 25 years. So across the globe also, we have seen that the infrastructure exclusivity is maintained in terms of geographical area, there cannot be two parties who build the physical infrastructure.

Now coming to marketing exclusivity, as discussed earlier also, the matter is subjudice. There is a provision in the regulation, that 5 to 8 years' time is given for ending of marketing exclusivity since the matter is under subjudice. So we don't know when it will end. If you say 2 years, 3 years, we can't say it is 2 years, 3 years or. It's very difficult to give any numbers when the court case will be decided and in which manner or fashion it will be decided. So let us wait for that and see how it rolls out.

Madhur Rathi: Okay. Sir, my next question was, sir, how APM gas allocation decided between different CGD? Is it based on the number of GA that a particular CGD has or has the marketing rights to or how is it decided in the CGD ecosystem?

Management: It is not on number of GAs. It is based on, one, that it is done on unbiased manner. Second, it is done on the availability and the demand. And third, it is in the last month. We are assuming 100 units in the last month. Next month, all the demand is aggregated, all the availability is aggregated and then it is divided. The percentage cut is applied to all the CGD entities irrespective of or number of GAs.

Madhur Rathi: So basically, like how much volume your station can offtake will determine how much APM gas you can bid for? Is that understanding right?

Management: No, it is actual average consumption of the last month.

Management: Last quarter.

Management: Last quarter, not -- sorry, I'm corrected. It is not month. It is the last quarter average consumption is taken as the base figure that is the demand aggregation of all CGD entities and the availability projections are then taken and demand divided by availability.

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

Kirtan Mehta: Thank you sir for the opportunity. One question to understand about the sort of our vehicle pool. Would you be able to sort of divide it into two pools where the vehicles use typically 30 kilometers, 40 kilometers of run every day and the one which have the significantly higher run of 100 kilometer plus. Is it possible to give some approximate number?

Management: Are you saying 30 kilometers, 40 kilometers or 80 kilometers? -- there are different -- I mean, passenger vehicles run maybe 40 kilometers to 50 kilometers in a day, whereas commercial vehicle will run around 200 kilometers a day or maybe more than that.

Management: And it depends on the class of vehicles. If you take, let's say, Uber or Ola, it may run 150 kilometers a day also. A typical MSRTC bus would run about 400 kilometers in a day.

Management: Commercial vehicles?

Management: Commercial goods -- again, it will depend on the class of vehicle. If it's a small light commercial vehicle doing, from Bhiwandi warehouses to city two, three trips a day, it may be about 80, 100 kilometers a day.

Management: And heavy commercial vehicles run maybe 300 kilometers a day.

Management: The highway -- the vehicles that run on the highway typically run hundreds of kilometers a day. Private individual vehicles, typically, the per capita is a bit lower because they mainly use it for commuting, et cetera.

Management: And even 3-wheelers run 100 kilometers a day.

Management: Yes, 3-wheelers also run about 80, 100 kilometers a day.

Management: Is that the question was or something else?

Kirtan Mehta: The way I wanted to understand was how much percentage of our CNG consumption will be coming from the higher usage vehicle, which would be less impacted by -- or which would be subjected to sort of the price change in the CNG. Would it be something like a 40%, 50% of the CNG consumption exposed to that very sensitive to price change?

Management: No, no, look. Once the vehicle is on CNG, the vehicle has to run with -- by CNG. It doesn't have any other choice. So typically, if the discount decreases or CNG price increases, et cetera, what tends to happen is incremental addition of new vehicles, growth rate starts dipping a bit.

Management: Just to add to what Rajesh said is that diesel vehicle, there is no choice. In petrol vehicles, there is a choice that they can run on petrol or CNG like small passenger vehicles, they can run on either petrol or CNG. But for a diesel vehicle for a heavy truck, if it is converted to CNG or if it is an OE truck, then it can run only on CNG. They don't have choice to switch back to diesel or petrol, small commercial vehicles also.

Kirtan Mehta: Yes, I do understand that. But basically, if at all, the savings enjoyed by the existing vehicle goes down, typically the addition also goes down because of the sentiment. So how much percentage of the pool would be basically in that category?

Management: It's a very small number. The commercial vehicles and heavy commercial vehicles and buses, they are as far as overall numbers are concerned, very smaller number. But the vehicle per capita consumption is high in commercial vehicle.

Management: They would not be contributing more than about 12% to 15% of our overall CNG sales. A big chunk of the CNG sales comes from private cars, taxis and auto riskshaws. They transport undertaking put together would be about 7% or 8% of the overall CNG sales.

Kirtan Mehta: Another question was about basically, we understand that short-term allocation of the new well gas has been given up to the 31st March '25. So what is the allocation that we have got for the short term till 31st March? Is it 50% of the APM requirement that we lost?

Management: Not exactly. We will come back to you on this number, but new well gas, we have also bidded and there more gas is expected to come online. So we are waiting for that also. But we did not get the full quota of new well what we quoted for.

Kirtan Mehta: Sure. And the last question was about the industrial and commercial. We are seeing very good growth in this segment. So against sort of the volume that we have agreed, how much percentage is already sort of ramped up to? And what is the balance that can come over the next year or so?

Management: We are expecting low double-digit growth to continue for at least another year or 1.5 years in the industrial segment.

Ashu Shinghal: Industrial and commercial put together, we got 12% growth last year and maybe 10% to 12% this year. So the sourcing of this volume is already done by us in terms of some contracts of LNG.

Management: We have signed contracts of new industries for a pretty good volume, which we will be connecting in the coming construction season or the ongoing construction season and next year. So that will contribute to adding new volumes.

Moderator: Thank you. The next question is from the line of Ramesh from Nirmal Bang Equities. Please go ahead.

Ramesh: So if you were to look at your plan to acquire that 40% stake in international battery, can you take us through what is in it for you in terms of your long-term business plan in that business? What is the kind of size and the profitability of this company? And can you tie in with some numbers, whichever you can share in terms of how it would help you generate the return on that investment?

Management: I think this is an opportunity which has come out from the strategy of the company to diversify into, say, non-fossil fuel segment also. We want to have at least 20%, 25% revenue bottom line on non-fossil diversified new areas. So as a matter of fact, we explored several opportunities and one such opportunity was there that we are going to set up a new battery manufacturing company, which is a cell manufacturing company.

And this will be -- I mean, one of the first in India because as per our understanding goes, all cells are getting imported in India through China, Korea and other places across the globe. What Indian companies are doing is importing the cells and packaging them to make the battery pack. So this will be one of the first company or maybe one of the few companies to start cell manufacturing in India.

The size will be -- to start with, we will have 1 gigawatt factory and it can be scaled up to 5 gigawatt factory in at least 2, 3 years' time. We will see the performance of first gigawatt. It's a Korean partner company -- U.S.-based company, which is -- which we have joint ventured with and they have set up a plant -- pilot plant in Korea. The project is out and it is being tested in Indian road condition also. The capex size in the first phase will be around INR850 crores and for Phase 2, it will be around INR3,500 crores.

The revenue once we have 5 gigawatts will be in the range of around INR4,000 crores at the top line and maybe INR700 crores, INR800 crores on the bottom line. So it's a good segment. Also depends on what is the duty structure which the government gives because government is promoting a lot of Make in India campaign. And also since almost 80% batteries are getting imported from China. So we feel that there is a likelihood to put duty on Chinese imports, especially in battery segment that will further increase the profitability of the venture.

So it depends on the product, the type of quality which we produce, the type of chemistry, the acceptability, the rate of production and so on and so forth. So it's a newer area for us, a new venture for us, and we are very optimistic and excited about this whole opportunity. And if it makes sense, then it can be a good game changer for the company.

Ramesh: So in terms of the time line, when do you expect to finalize a shareholder agreement and get started on this project? And what is the execution timeline?

Management: It's a non-binding agreement which we have signed, and we expect to close this signing of SHA in a few months' time from now.

Ramesh: Okay. So on the LNG retailing business what is the kind of road map you have for, say, 2 years, 3 years or you already talked about adding some stations. And we know that you are doing a certain amount of volume in your Savroli station. So when do you see some kind of critical mass in the LNG retail outlet in terms of number of stations and LNG volumes? And how much do you think it can add to your top line and bottom line, say, in 2 years to 3 years?

Management: It's very nascent stage. Right now, in India, around 17, 18 retail outlets are working of LNG. One is Savroli which we have already commissioned from MGL. And very recently, a few days back, we commissioned another station from Mahanagar LNG which is a joint venture company of MGL at Aurangabad. Now next 2 years, there will be several stations which are coming on board from MLPL and from other parties like GAIL. IOC, OMCs, Spectranet and so on and so forth.

So what we think that LNG infrastructure is -- I mean, the puzzles are solved in terms of regulations, in terms of safety standards, in terms of technology, in terms of OEs coming up, in terms of retail outlets coming up, in terms of giving some discount to diesel. And also, if we have to see the environmental impact, if we have to replace diesel, there are very few alternates available and one such good alternate is LNG because LNG one fill can take you to 1,000 kilometers run.

And if we talk about electric vehicles on long haul or heavy commercial vehicles, it is not feasible considering the very prohibitive capex, the range anxiety, the charging time and the weight of the battery and the replacement of the battery in a period of time. Again, hydrogen is 10 years, 15 years down the line, then you have to have green electricity to produce 60 units of units to produce 1 kg of hydrogen, again burn it or uses a fuel cell to run the hydrogen, create the whole ecosystem technology adaptability, infrastructure. So we think if we have to go for net zero compliances and almost 3% of commercial vehicle is emitting 35% of carbon CO2 emissions in the transport sector by heavy commercial vehicles to commercial vehicles. That is the segment which LNG is trying.

Maybe in 2 years down the line, if we see MGL, we will have good numbers because more and more ecosystem is getting ready. More OEs will be coming, more customers will be ready to reduce their carbon footprint. And we, as a company, find that LNG will be a good segment to work on. Exact numbers will depend on how many number of stations we put up, how much volume we are able to attract, but it will not be very substantial in the overall scheme of things in terms of revenue and profitability for at least 2, 3 years. But down the line, 5, 6 years, it can be a substantial number.

Ramesh: So when you talked about the growth outlook in the second half, you said additional 3%. Are you talking about a 10% volume growth in the second half? How should we read that?

Management: No, no, no. I think -- let me make it clear. 7% growth we have achieved from 31st March '24 till 30th September. So if we talk year-on-year from 31st April '24 till 31st April '25, it will be 10%, 7% plus 3%.

Ramesh: So for the full year, it is 10%. That's what you are saying.

Management: That's right.

Moderator: I would now like to hand the conference over to Mr. Probal Sen from ICICI Securities Limited for closing comments.

Probal Sen: Thank you, Palak. Thank you very much for all the attendees as well as the management for taking their precious time out and taking an extended time beyond the said time to answer all the questions with as much details as they could. Wishing everybody and their loved ones a very Happy Diwali. From the management side, sir, any closing remarks you would want to make. Otherwise, we'll cut the call.

Management: Thank you so much, Probal and all the investors who have joined and taken time out to have this conference. Wishing you again and your family a very Happy Diwali and a New Year, prosperous New Year. Thank you so much.

Probal Sen: Thank you, everyone. You may exit the call now.

Moderator: 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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