GAIL (India) Limited

"GAIL (India) Limited Q1 FY-23 Earnings Conference Call"

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GAIL (India) Limited

ICICI Securities

CHORUS CALL®

MANAGEMENT: MR. RAKESH KUMAR JAIN – CFO
MODERATOR: MR. PROBAL SEN – ICICI SECURITIES

Moderator: Ladies and gentlemen, good day and welcome to the Gail India Limited Q1 FY23 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen only mode. And there will be 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Probal Sen. Thank you and over to you sir.

Probal Sen: Thank you, Seema. Thank you everyone for making the time to attend this post Q1 23 Financial Results call of Gail India Limited, we are pleased to have senior members of GAIL India's management led by Mr. Rakesh Kumar Jain – the CFO with us. I will hand over to him immediately for some opening remarks and a brief on the numbers, and then we can move into the Q&A. Sir over to you.

Rakesh Kumar Jain: Thank you Probal. Good afternoon, Mr. Probal from ICICI Securities and my dear friends, from investors and analyst community. A very warm welcome to GAIL's earning call for Q1 financial year 23. We are thankful to you all for showing keen interest in this earning call. The results for first quarter have been declared earlier today. And I'm sure that you would have gone through the same.

Before I give insights on the financial performance, I'm happy to inform you that our Company has received nil comments from CAG on the accounts of financial year 21-22. This is the 13th consecutive occasion when the Company has been able to achieve this.

Now let me take you to financial highlights:

GAIL achieved gross turnover of 37,536 crores in the current quarter as against Rs.26,909 crore in Q4 financial year 2022. This is an increase of almost 39% and the increase is mainly due to higher natural gas marketing and transmission module. A higher gas prices both domestic RLNG, higher LHC prices, LHC prices are higher by average almost 12,000 per metric tonne, higher petrochemical prices, this is higher approximately by Rs.18,500 per metric tonne. This is partly offset by lower PC sales quantity in Q1 23 due to annual shutdown of petrochemical plant in the current quarter, that is quarter one. Profit before tax increased to Rs.3,894 crore in current quarter as against Rs.3,546 crore in Q4 financial year 2022. This is an increase of 10% and increase is mainly due to the reasons, as I said with respect to revenue, the improved performance of gas marketing segment. This is partially set off due to reduced profitability in gas transmission, liquid hydrocarbon segment due to increase in price of domestic gas used in internal consumption. That increase is well known to you that is $2.9 per MMBTU to $6.10 per MMBTU.

Petchem profit also reduced in spite of higher prices and realization and this reduction is due to lower production ,as I said, in Q1 23 and higher cost of input gas during this quarter.

Profit after tax increased to Rs.2,915 crore as against Rs.2,683 crore in Q4 22, financial year 22 and this is an increase of 9% and are on similar account that I stated with respect to PBT.

Segmental performance for the current quarter versus previous quarter:

Our gas marketing volume stood at 100.84 MMSCMD in the current quarter, as against 94.69 MMSCMD in previous quarters. The increase in volume is driven by our RLNG sales and also overseas sales. The natural gas transmission volume stood at 109.47 MMSCMD in the current quarter as against 107.56 MMSCMD in the previous quarter. The capacity utilization in NG pipeline is 53% as compared to 52% last quarter. Polymer production stood at 132 TMT as against 194 TMT in last quarter. And this 132 is almost same if we compare with the Q1 FY22 because we had annual shut down in both the Q1 FY22 and Q1FY23. However if compared with the Q1 of last year, surely, we have experienced a very high PC prices, as I said and current quarter the average PC price is Rs. 1,26,000 per metric tonne.

With respect to LHC, the production stood at 227 TMT as against 212 TMT in previous quarter, the capacity utilization was 64%. Liquid hydrocarbon price increased significantly and the average realized price in the current quarter was Rs.74,100 per metric tonne. Cost of input gas for LHC segment is primarily driven by domestic gas prices. From April 22 the cost of input gas prices increased to $6.10 per MMBTU from $2.90 per MMBTU which led to increase in cost of production.

In respect of LPG transmission was 1055 TMT as against 1065 TMT in previous quarter almost the same. The capacity utilization was at 110%.

And coming back to the consolidated financial of Q1 23 as compared to Q4 22 financial year 22. The consolidated turnover in the current quarter stood at Rs.37901 crore versus Rs.27263 crore in the previous quarter almost 39% up. The PBT in the current quarter is 4230 crore versus 4375 crore in Q4 financial 22 down by 3%. The PAT is Rs.3253 crore versus Rs.3454 crore in Q4 financial year 2022 down by 6%.

With respect to GAIL CGD i.e. the six CGD we are operating in GAIL and in terms of infrastructure we have 120 CNG stations in terms of DPNG connection we have 2,18,000 DPNG connections and during the quarter Q1 23, one new CNG station and 17,000 new DPNG connections were added.

And now with respect to GAIL gas, during the current quarter the gross turnover stood at Rs.2658 crore as against Rs.2102 crore in Q4 financial year 2022. This is an increase of 26% and again mainly driven by increase in average gas price. The PBT was marginally down at Rs.97 crore in current quarter as against is 103 crore in previous quarter. Profit after tax also declined marginally to Rs.72 crore as against Rs.74 crore in previous quarter.

The physical volume during the quarter remained flat, approximate 6 MMSCMD. GAIL gas along with it's JV subsidiary infrastructure of 8 lakh DPNG connection and 341 CNG stations during the quarter two new CNG station and 21,000 new DPNG connections were added.

In terms of CAPEX:

GAIL achieved CAPEX of approximate Rs.1975 crore during the current quarter, this is mainly on account of pipelines, petrochemicals, CGD, projects operational CAPEX, equity contribution and EMP. We have planned to spend approximately Rs.7500 crore in current financial year and mainly on again, pipeline, petrochemical, CGD and equity.

With respect to project performance:

121 kilometer of Bokaro-Angul mainline commissioned on 30th June 2022, 412 kilometer was commissioned till March 2022. So, Bokaro-Angul pipeline now will be making total 533 kilometer, was inaugurated by Honorable PM on 12th July 2022. The work along various projects TP, projects for Pata, PDH PP at Usar is going on as per schedule.

That's all from my side. Regarding the overview of performance and projects. The management, the team of Executive Directors from all the segments are available here. And we will be glad to clarify on any questions that you may have.

Now, over to you Mr. Probal.

Probal Sen: Thank you very much sir. Seema we can open up the floor for the Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. We take the first question from the line of Maulik Patel from Equirus. Please go ahead sir.

Maulik Patel: This is regarding the LNG volume, for the quarter can you see how much of the cargoes you have received from the US and Gazprom?

Rakesh Kumar Jain: Q1?

Maulik Patel: Yes.

Rakesh Kumar Jain: We cannot give the exact breakup of the Q1, but overall, we did purchase from both the US and other suppliers with the brent-linked contracts. And we did also purchase some spot cargoes to meet our spot gas requirements in the market.

Maulik Patel: This is with respect to this media that Gazprom has declared the force majeure and with a 2.5 million tonne of contract they are not supplying the cargoes month of June, so what can be the impact of that, wanted to know that as you sold out of this 2.5 million tonne how much of the volume has been sold to the customers and in this contract, whether it was mentioned that it is on the Gazprom volume and the force majeure from the Gazprom will also applicable to the customers or not?

Rakesh Kumar Jain: Yes, let me take this question. As you know that we have total portfolio 14 MMTPA of LNG. For current year, Gazprom is supposed to supply 2.5 MMTPA of LNG that if you work out it will, they actually are supposed to supply almost 36 cargoes during this calendar year, because the LNG contracts are on calendar year basis. But they have certainly supply disruptions and it has happened since late May 2022. Till almost May the cargoes were coming. And if you talk to me till date, till date Gazprom has not supplied almost eight cargoes, eight number of cargoes if you talk to me till today. Cargo supply disruptions started sometime in May but in between also we have received one cargo in June. So, this is what about the current situation, the portfolio what we have total, the contract we have with Gazprom and the supply situation till date.

Maulik Patel: So, Gazprom has not declared the force majeure, that they are not able to supply the cargoes?

Rakesh Kumar Jain: Gazprom what they have said basically, this is now become a Company based out of Germany because we had a contract with Gazprom during this constitution of parent changed. So, in order to secure the supply for Europe, they are not certain about supplying LNG under this contract, they have not said no, they will not supply, but they are not scheduling at the moment.

Maulik Patel: How are they dealing with the situation because eight cargoes are not a small number, it has impacted our volume and we have probably sold a large part of this two and a half million tonne to the customers. So, are we obliged to meet this volume from the other sources of gas from GAIL or how the situation with customer and how are you dealing with that?

Rakesh Kumar Jain: Yes, you are there, the situation is certainly an area of concern if I talk to you today, I cannot say what will happen in future if I talk to you right now when I'm talking to, certain it's a concern. So, what GAIL is doing, GAIL is actually honoring it's contract, what we are doing in order to honor the contract, all contracts have take or pay levels, so 'take or pay' levels are normally for the user there is a lower level also, 'supply or pay'. So we have started supplying our volumes at the take or pay level. So, that take or pay level is enabling us., This is one solution I'm telling you right now, how we are mitigating that take or pay level is enabling us to deal with the situation partly. Secondly, we ourselves have cut down the load for our petrochemicals so, that is also helping us. Thirdly, what we have done, we have started though we are otherwise doing this as a course of risk mitigation or bringing cargo in advance or taking later. So, we have been doing some fine steps. So, we are advancing our cargoes through swaps, which are supposed to come say in 23 we have done some of the transactions that is third. Fourth what we have done, we had some unallocated cargoes at United States. So, we have hired ships for that so that the unallocated cargo, which we were thinking at that point of time, we can use the arbitrage, sell in international market, we are thinking that with those ships we will bring the cargoes to domestic market in order to mitigate the situation. And lastly, if we still feel that there is some shortage we will go for spot purchase if required.

Maulik Patel: So, this has impact on our profitability in a significant manner given that we are, the Gazprom contract that whatever 13% of the oil price and you are buying some of this volume which is in the spot market which is substantially higher will this impact our profitability in a significant manner?

Rakesh Kumar Jain: So, again we are talking as of today, so you can say that profitability certainly will hit not significantly. let me again explain you in detail, certainly there will be an impact of profitability no one can deny if the situation remains like what we are talking today. And that's how we are mitigating this situation or overcoming this situation through various measures, we are avoiding by doing these measures we are avoiding purchase of spot cargoes, but what has happened this volume which is not coming from Gazprom is almost 7% to 8% of our total portfolio. So, to that extent now that we have started using take or pay level. So, suppose because there are different take or pay levels in different contracts suppose we are reducing to 90%. So, to that extent the marketing volume and transmission volume has come down as of today and the situation persist certainly will be there low in tomorrow. Tomorrow, I cannot say what will happen, but I am only hypothetically supporting this situation, but as of today, yes we have cut down the supplies to take or pay level. So, to that extent certainly there is an impact.

Maulik Patel: Sir you mentioned that it is 7% to 8%, this is actually 14%, 15% right, you are a 14 million LNG commitment and this is 2.5 million tonne, so approximately 15% kind of a number?

Rakesh Kumar Jain: Yes, let me tell you. I said in terms of total volume if you go over RLNG, yes it's 15%. So, if it is 15%, 10% if you're cutting through take or pay then we are doing other measures which I explained you in detail.

Maulik Patel: Got it. Sir one more question, if you allow me. Sir, how do you see this international prices which has gone through the roof spot and country is also having consumption is also coming down particularly the volume at CGD are under pressure given that the blend has gone up to around $10.5 MMBTU. And these industries are not able to afford this kind of how do you see this overall gas demand in the country and also in the context of upcoming NG filled auction, which Reliance probably will do in next couple of months. In that context, how do you see this LNG demand or LNG import in the country to you?

Rakesh Kumar Jain: If we talk of today spot LNG price, nobody is going to come up as far as the new conversion certainly will take a hit. For the plants which are already on gas will somehow are taking because they are on long term basis, they have some spot contracts, but if you talk of new conversion, certainly there will have an impact on new conversion until the situation improves.

Moderator: Thank you sir. We take the next question from the line of Pinakin Parikh from JP Morgan. Please go ahead.

Pinakin Parikh: Sir, just to continue the previous point to mention implementing take or pay in in view of the lost Gazprom cargo. So, what does that mean sir, you are paying the consumer the differential in price?

Rakesh Kumar Jain: At pay or pay level, is for consumer, if consumer does not take that quantity, we have a right to take or pay gas price but there is one more lavel supply or pay which is normally below take or pay level. So, in terms of contract, we are complying the contract we are supplying the quantity more than the quantity we are required to comply the contract. So, there is no question that GAIL will pay for differentials.

Pinakin Parikh: Understood. So, it means that assuming that 2.5 million tonne Gazprom cargo is not available through the course of F23, the quarter one trading gas marketing EBITDA should sustain for the rest of the year on a quarterly basis around 2500 crores?

Rakesh Kumar Jain: So, quarter one EBITDA will have some concern, if you talk of quarter two, let me tell you very frankly, because quarter one did not have that impact, on basis of hypothesis, that Gazprom cargo will not come in Q2, if we continue with that hypothesis. So, certainly more number of cargoes will not come in Q2 and to that extent, our marketing and transmission volume will have an impact and certainly will have an impact on our marketing EBITDA or marketing spreads, whatever you call it.

Pinakin Parikh: Okay. Sir marketing EBITDA will turn lower versus Q1 because of the lack of Gazprom volume, but to give you a sense last year second quarter marketing EBITDA was 1100 crores this year, it is 2400 crores. So, it's fair to say that the second quarter should be somewhere in between even without the loss of Gazprom?

Rakesh Kumar Jain: Actually again, it's a very, very tough, or very, very difficult question to answer. We said in one of the earnings call for yearly earning call in Mumbai and also, Mumbai or investors meet that on a yearly basis, we said we will be able to earn Rs.2500 crore at least on marketing margin, that we said. But if we talk of Q2 certainly 1100 crore we should achieve, but again it depends on what will happen on all those accounts. Because we don't know the LNG prices are behaving really it is tough to give you any number.

Pinakin Parikh: Sure, sir my last question is at this point of time till the Gazprom cargoes don't normalize, we should expect petrochemical utilizations to remain low because that is one area where you will be cutting down consumption?

Rakesh Kumar Jain: As of date yes our plans that if Gazprom cargo does not come and we are not able to source alternatively then certainly we will continue to keep the Pata plant production at the current level or around that level.

Moderator: Thank you. We take the next question from the line of Sabri Hazarika with Emkay Global. Please go ahead.

Sabri Hazarika: So, I have two questions first relates to this Gazprom only. So, you mentioned that the hit will mostly be on the transmission marketing and petchem volume. So, compared to Q1 run rate, what is the current rate, what kind of a decline are we seeing as of now, as of today?

Rakesh Kumar Jain: In transmission volume, marketing volume and also, in petrochemical you are asking everything?

Sabri Hazarika: Yes, all.

Rakesh Kumar Jain: So, let me tell you if we have supplied on an average basis, marketed 100 MMSCMD in Q1. So, the straight RLNG cut by 10%, 6 million cut we have already done. So, out of 100, five we have cut so almost 90 to 95 million we maybe marketing, somewhat difficult, but a range can certainly be shared, because we have cut down by 5 million or so. And in terms of transmission also similar cut will come and apart from that not only that cut will come and Pata Petrochemical consumption 2 million we keep at current level. So, that will be a 7 million as compared to marketing because that transmission includes internal consumption as well.

Sabri Hazarika: Sir Pata I didn't get it, you said that, how much of Gazprom was being supplied in Pata earlier?

Rakesh Kumar Jain: No, we are not a very specific to any particular supply to Pata. We have always been maintaining that we are a portfolio holder, we use to supply Pata out of our portfolio. Gazprom is part of our portfolio, Gazprom is not coming. So, therefore, there are issues in our portfolio. And that's how we have stopped or reduced the supplies to Pata because overall availability. But there were no specific allocation per se to Pata.

Sabri Hazarika: Right sir. And sir second question is on your petrochemical realization versus the South Korean benchmarks have expanded significantly in Q1. So, is it some specific grades you're selling or something of that sort or is it like normal line of business?

Rakesh Kumar Jain: Just hold on because this is very, very specific questions.

Management: I didn't get your question; will you repeat it please?

Sabri Hazarika: If I compare the petrochemical realization the revenue divided by this volume, so that number we compare with the South Korea benchmark, in terms of Bloomberg. So, it used to be 15%, it has gone up to more than 30% now. So, your products are being sold at a premium versus the Korean benchmark. So, any reason behind that?

Management: The things is that during Q1 and this thing there were domestic plants shutdowns were there and the domestic prices were not in line with international platts report. So, the domestic player whichever were the reasonable price and today now slowly this marketing is correcting and now it is taking the adjustments.

Sabri Hazarika: Okay. So, the domestic prices were at a premium during Q1?

Management: Yes, exactly.

Moderator: Thank you. So, we take the next question from the line of Krati Sankhlecha from Credit Suisse. Please go ahead.

Krati Sankhlecha: Two questions. One, PNGRB has not picked any tariffs for Phase-2 of Urja Ganga, so right now what is the volume that is going to phrase two, what the tariffs have been charged for the same?

Rakesh Kumar Jain: So, yes, you're right what has happened in sometime in 2019, PNGRB has fix the tariff Urja Ganga for considering the CAPEX of around 1600 crore and capacity of 7.44 MMSCMD. So, it was based on that and that is the tariff available to us for charging to the customer. So, we are continuing to charge the tariffs as approved by PNGRB. When we have interest of contracts, we have a clause that once the tariff is revised by PNGRB we will charge the revised tariff. That means in order to you explain in further detail, that this pipeline has a CAPEX of almost 15,000 crore if we reduce the capital grant of 5000 crore almost 10,000 crore I am talking on broad basis. So, that pipeline tariff has to be worked out considering the differential CAPEX of almost 8000 crore in capacity addition of from 7 to 16 that is almost 9, if I'm talking about total capacity not so, that tariff is significantly going to go up, because on NPV basis further impact. So, tariff will be around 140 or 150 subject to review and approval by PNGRB. So, those tariff once approved by PNGRB available to us, until then we are charging the tariff for phase one.

Krati Sankhlecha: Okay. And sir in the transmission segment, the profitability was very weak this time, the volume was higher, the realization was also higher but still the EBITDA was lower Q-o-Q seems to be higher OPEX, I did not understand why higher OPEX?

Rakesh Kumar Jain: It's not due to higher OPEX let me tell, you must know the GTG we use for running the compressor they are Gas turbine generator, has an allocation of APM gas. APM gas used to be at a price of $2.9 per MMBTU which has gone up to $6.1 per MMBTU. So, we are booking the cost at a higher level and the same is available through tariff adjustment when it is announced, actually that is announced. So, our OPEX certainly will be higher and therefore, even though revenue increases, the margins will be lower.

Krati Sankhlecha: Okay. And sir just last one question number on the LPG volumes, the LPG volumes have been consistently weak for many quarters now, till FY21, FY20 actually we used to be 300,000 million tonne per quarter, now we are hardly 200, 250 what has changed here?

Rakesh Kumar Jain: Nothing changed except the availability of gas from ONGC.

Krati Sankhlecha: Okay, so can you help me with what gas was allocated in 1Q, the APM gas?

Rakesh Kumar Jain: 1.75 MMSCMD.

Moderator: Thank you. We take our next question from the line of Sujit Lodha with Birla Sun Life Insurance. Please go ahead.

Sujit Lodha: Sir, first question will be regarding going back to the Gazprom model. So, what are the terms with both Gazprom and your customers in case if they tend to deliver the promise, how do they make up for that, is it over the course of time they have to make up for the same. And similarly, how do you make up a few fall short of supplying the volumes to your customers?

Rakesh Kumar Jain: Actually, your voice is not coming that clearly, I'm sorry you have to repeat once again.

Sujit Lodha: Sir so basically on the Gazprom contract what are the conditions with Gazprom if they fail to deliver so how do they make up for it, is this on the balance tenure of the contract that they have to make up for the volume. And also vice-a-versa how do you make up in case if you tomorrow fall short of supplying your volumes, the minimum take or pay volumes as also to the customers. How will you make up for that and what are the terms?

Rakesh Kumar Jain: So, with respect to Gazprom contract. So, it is not actually right at the moment for me to give you very nitty-gritty of the contract. So, I will tell you in broad basis, if they don't supply r there are penalty provision. So, we will take up that and how we will take up that, how they will supply and what are the major, those are matters of taking a negotiation that's why it's not right on my part to go into the details of those provisions. With respect to customer, so let me tell you, it's not in most of the cases of back to back contracts with Gazprom, we have a portfolio contract. So, it's not that when Gazprom is not supplying or supplying. So, we have made portfolio contracts and till date we are not going below the contractual provisions to which we are supposed to supply. So, therefore, there is no question as on date arising that we have to make up for the gas.

Sujit Lodha: No, that I understood that you have a contract based on portfolio and they don't care whether it's coming from Gazprom or any other source. So, basically at the price you will be able to supply that is what you are saying the minimum contracted volume you will be able to supply.

Rakesh Kumar Jain: Yes, more than minimum contracted volume we are supplying as explained to other participant.

Sujit Lodha: No, that would continue in future also irrespective of where the Gazprom supply goes?

Rakesh Kumar Jain: Yes, we hope to do so, because there are lot many measures because this situation has happened all of a sudden. So, certainly when we are getting now time to overcome those situations and we are working on that.

Sujit Lodha: Okay. Sir and while obviously you cannot divulge details on the customer side but, which would be the biggest sector which will be consuming this gas?

Rakesh Kumar Jain: Sorry, biggest sector?

Sujit Lodha: Which will be the consumer for this gas?

Rakesh Kumar Jain: Again, there is no specific that's what I told you because, one of the biggest customer is fertilizer.

Moderator: Thank you sir. We take the next question from the line of S Ramesh from Nirmal Bang Securities. Please go ahead sir.

S Ramesh: I just had a couple of thoughts; one is on the pool gas purchase for the CGD sector. If you can tell us what is the volume you have purchased on behalf of the CGD companies and what is the kind of margin you would earned and is it included in your gas marketing segment in terms of the volumes and margins and what is the kind of volumes you would have purchased on behalf of CGD Company and would the margins on that be comparable to your average margins and gas marketing?

Rakesh Kumar Jain: So, last question first, our marketing margins in which we normally add is the margin we charge. There is no any significant delta or anything we can just spend our marketing margin which we charge. And with respect to what kind of volume we are purchasing for supplying to CGD, it is around 10%, 12%.

S Ramesh: 10%, 12% off?

Rakesh Kumar Jain: Total volume being consumed by CGD.

S Ramesh: So, what is the volume in MMSCMD which you have included in your marketing volume if I may understand?

Rakesh Kumar Jain: You can say it actually depends on month-to-month because CGD demand is every increasing so, 2.5 to 3 MMSCMD.

S Ramesh: And secondly how much of that gas is procured from spot market because obviously the APM gas allocation is falling short. So, what proportion of that are you buying from the spot market?

Rakesh Kumar Jain: So, this is what we are buying through spot market that's what I was selling to you, 12%, 13% whatever ratio comes 2.5 MMSCMD to 3 depending on the forecasted demand or last consumption based on the pattern we are at. So, that is the volume we are marketing as a spot or volume which we are blending.

S Ramesh: So, the entire thing is on spot volume. So, if you look at your segment EBITDA, which you've shared with us, LPG its very interesting to see that you have been able to maintain the LPG EBITDA at slightly less than fourth quarter and similar to last year first quarter, in spite of the fact that your APM gas price has gone up from $2.6 to $6.1. So, we would like to know how you have been able to achieve this sort of EBITDA numbers for?

Rakesh Kumar Jain: So, I explained in the opening remarks the LPG prices are significantly higher as compared to Q4 that is around Rs.12,000 per metric tonne higher as compared to Q4. So, you are right that the input cost has increased but it has been offset by the higher LPG prices.

S Ramesh: Sir, Rs.12,000 is not that big compared to the original price, because the gas price have almost doubled. Even if you take the fourth quarter from 2.9 to 6.1 is double?

Rakesh Kumar Jain: So, the impact of dollar increase is around 4000. So, almost it is offsetting, there may be some because if you consider 4000, $3 its 12,000.

S Ramesh: Okay. So, if I may ask you, how do we read the trend for LPG and as a hike on margins for the rest of the year assuming that the current if these gas price sustain would you be able to maintain the same sort of EBITDA?

Rakesh Kumar Jain: So, it is difficult to predict future oil and gas prices. So, I can only say based on the current prices what we are doing will we be able to do but there will be a likely increase in October of APM gas prices to that extent whatever price increase our margins will go down.

S Ramesh: Okay. So, if you were to take a slightly philosophical view on the gas sector, we are seeing very significant pain because of the high gas prices and a lot of the volumes are being sucked in by Europe. And if you look at the numbers being quoted by consultants, most of the LNG projects are all tied up with long term contract. So, how are we approaching the process of negotiating for our future contract volumes, because then petronet LNG is used for renewal of their Qatar gas contract. So, what is your reading in terms of being able to line up future gas supplies from LNG projects for long term contracts on contract prices and to what extent will we continued to be exposed to having an increase per se of our gas requirements coming from the spot market. You can share your thoughts will be grateful.

Rakesh Kumar Jain: So, we have been sharing our thoughts in this regard, we were in the market for sourcing 0.75 MMTPA of gas for coming five to 10 years, what unfortunately, because of the current situations we did not get the response the way we were expecting. So, again, we are now scouting the market for various indices, whether it's the United States gas, or the Middle East gas, or any other source of gas. So, currently, we are in the market for sourcing long term gas not only to meet the current crisis, but also to meet the increasing demand of the country. So, as of date I can only share that we are in the market.

Moderator: Thank you. We take the next question from the line of Kirtan Mehta from BOBO Capital Market. Please go ahead sir.

Kirtan Mehta: Just to sort of take the CGD supply question further, what is your, you mentioned that you're not able to secure the long term volume or still finding the long term volume, is there any plan to sort of supplement this volume with the short, medium term volume of 12 to 18 months, which might be available?

Rakesh Kumar Jain: Let me tell you we are in the market for all kind of periodicity short, medium, long but the market today such that, short term volumes are not available at the desired price that's the challenge we are facing. Though we are there in the market, but that's the challenge we have.

Kirtan Mehta: Right. And how do you see the LNG price sort of, there could be a possibility that we might see the continued surge in LNG prices during the European winters. So, what's the plan to sort of protect the CGD sector against that additional surge?

Rakesh Kumar Jain: So, plan is that we are scouting the market what can be the other plan. So, you can always source at the cheapest available price and that's what we are doing. It's difficult to predict what will happen but we are doing that.

Kirtan Mehta: Just one more question on the Kochi Bangalore pipeline, is there any further update in terms of the finalization of the plan, Kochi Bangalore pipeline?

Rakesh Kumar Jain: There is no further change in the status.

Moderator: Thank you. We take the next question from the line of Vipul Kumar Shah from Sumangal Investments. Please go ahead.

Vipul Kumar Shah: So, sir what is your volume which is on the long-term from Qatar and Gazprom, so what is the long term and what is the short term your sourcing?

Rakesh Kumar Jain: Can you come back, what is our long-term volume from Qatar, that's what the question first you asked?

Vipul Kumar Shah: Yes, Qatar and Gazprom and all long term contracts included.

Rakesh Kumar Jain: Yes, let me tell you we have 14 MMTPA of approximate LNG contract, we have almost 4.8 MMTPA from Qatar, 5.8 MMTPA from the United States and then almost 0.42 from Gorgon and 2.5 from Gazprom, that's around 14.

Vipul Kumar Shah: So, right now only this 2.5 is the problematic area right?

Rakesh Kumar Jain: Right.

Vipul Kumar Shah: So, similarly on the sale side also all your sales is fixed price or what percentage is fixed price and what percentage is spot?

Rakesh Kumar Jain: I also don't know. Because we have all kind of contracts, we have the back-to-back contracts with marketing margin, we have the contract with the index at which we bought and we have different marketing margins. We sale on a fixed price, not for a longer period but for a periodic short contracts or month or 15 days. So, we have all kinds of contracts, but fixed price contract you're talking about is not for a longer period it's only for a smaller period of 15 days or one month or so.

Moderator: Thank you sir. We take the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead sir.

Vishnu Kumar: Sir, just to summarize out of your 100 MMSCMD that you're doing in natural gas marketing about 9 MMSCMD ideally should come from the Gazprom contract which is roughly 2.59 MMSCMD, of which three or four is roughly getting impacted, is that a right understanding?

Rakesh Kumar Jain: What you said in last three or four what?

Vishnu Kumar: No, you have 2.5 million tonne would be 9 MMSCMD, roughly?

Rakesh Kumar Jain: No, let me tell you. 2.5 you are arriving at 9 but actually out of almost 39 cargoes, 36 they are supposed to supply in terms of contracts, 3 they have right to supply or not to supply. So, we consider that 8 to 8.5 MMSCMD of gas which is supposed to come from Gazprom.

Vishnu Kumar: Okay. On a monthly run rate, or if you can just say what is the shortfall that you're seeing even on a percentage basis?

Rakesh Kumar Jain: So, in last quarter we did not receive eight cargoes, since May.

Vishnu Kumar: Got it. So, roughly almost 80% of the volume that you're supposed to get you did not get because if I take 38 or 36.

Rakesh Kumar Jain: This was the situation in last quarter, I cannot say what will happen in this quarter.

Vishnu Kumar: Understood sir. Sir second question is that normally you have some spot allocation out of your overall portfolio does this mean that you don't have any spot for the next couple of quarters assuming the current situation holds and you may have to source a little bit of spot gas and supply those few customers if required?

Rakesh Kumar Jain: We certainly source for the spot also because the bidding whether you talk of fertilizer bidding, or whether the spot customer requirement, there are customer who are also taking at this price to meet their requirements. So, we are there in the market for a spot mode sourcing and supplying side both.

Vishnu Kumar: Okay, can it be said sir that out of this 100 MMSCMD earlier 90%, 95% used to be used to say that 80%, 85% or 90% used to be contracted from 10 MMSCMD or 10% used to be on spot. Now you don't have any spot, that's the only question I'm asking.

Rakesh Kumar Jain: Actually, I also think spot is there if you talk of EPMC contract, the fertilizer supplies which happens quarterly bidding that in spot. Sospot is there, spot will remain there, but it might reduce certainly, because some of the volumes may not come up, top up volumes may not come up at this price. But it's what is there significantly.

Vishnu Kumar: Understood, sir in the past you mentioned that some of the US contracts in 2020, we have logged in on time swaps, and they will likely roll off in a year's timeframe. So, next year, I'm just hypothetically asking that the US contracts which you have kind of entered into in terms of contracts, they will be available to you next year onwards which will ease some up the issues that you currently have?

Rakesh Kumar Jain: So, numbers is not there certainly they are available, numbers we can give you offline but yes, that's it.

Vishnu Kumar: Got it. And sir if you could just give your internal consumption segment wise gas transmission on a normative basis, petchem, LPG if you could just give the internal consumption of gas, segment wise?

Rakesh Kumar Jain: So, it's not right now I am not able to share you.

Moderator: Thank you. We take the next question from the line of Varadarajan from Antique Limited. Please go ahead.

Varadarajan: Couple of questions, one LPG allocation you mentioned 1.75 MMSCMD, that is just the allocation or the actual supply always meets the allocation or does it fall short?

Rakesh Kumar Jain: It's there, right now it's there.

Varadarajan: Right now it is meeting the supply. Secondly this CGD at the pricing, if you can just give us some insight into how the mechanism works. For example, like last time it was $ 8.95, it is $10.52 this time around, so when we budget for the increased demand, and you place an order in the spot market for the LNG, on a delivered basis what you count that and that is how this number shifts from month-to-month or how does it work?

Rakesh Kumar Jain: This number changes on month to month and the prices based on the availability of the domestic gas and the actual consumption and based, base price is calculated with the mix of domestic gas and the other spot source gas.

Varadarajan: So, the requirement is taken on a quarterly basis or on a monthly basis?

Rakesh Kumar Jain: As per the recent guidelines of MOPNG, the consumption numbers are taken on a quarterly basis and every entity is allowed to consume up to 102.5% of UBP gas and if their consumption is higher than that, they will top up with their own force RLNG or whatever and that will come up in the next consumption whenever the consumption figures are revised after a quarter that will be taken as their consumption.

Varadarajan: So, if my understanding is correct, so the requirement is the last quarter your consumption was 100, this 2.5 extra is something which you anyway playing an order for or do you consider volume month to month based on what you see as actual intent place to be by the customers?

Rakesh Kumar Jain: As I said the consumption numbers be revised after the end of the quarter. So, monthly the consumption numbers are not revised monthly.

Moderator: Thank you sir. We take the next question from the line of Yogesh Patil from Centrum. Please go ahead.

Yogesh Patil: So, both of my questions are related to current higher LNG prices scenario. So, in first case, can you please update on upcoming fertilizer plant and do you see any delay in commissioning of fertilizer plants due to the shortfall of LNG?

Rakesh Kumar Jain: Now two fertilizer plants HURL, Gorakhpur. Gorakhpur is already commissioned now Sindhri and Barauni both are under pre commissioning phase and they have their plans to light up the reformer and the commissioning is due sometime end of August or September. They have a few technical glitches, which they will be sorting out during the next one or two months.

Yogesh Patil: Okay. So, you don't see any kind of a delay in commissioning of fertilizer plants due to the higher LNG prices or shortfall of LNG on the long-term contract?

Rakesh Kumar Jain: No.

Yogesh Patil: Okay, so second question is again related to the rising gas prices or LNG prices. Do you see any deferment or postponement of the commissioning of new geographical area for the CGD sector?

Rakesh Kumar Jain: Difficult for us to say because it's individual entity will take a call commercial call, as far as gas based on UPC which is available to all the CGDs will be available to them. But now they will see their commercial viability and they will see alternative fuel prices based on which the price when they will commission or when they will supply.

Moderator: Thank you very much. We take the next question from the line of Vikash Jain from CLSA. Please go ahead, sir.

Vikash Jain: I just wanted to understand this Gazprom situation on a Q-o-Q basis. So, if last quarter anyways your volumes were much lower. Then, I understand that part of that demand was anyways offset because of your petrochemical plant functioning at a lower level. But if I were to look at that, and you maintain the petchem plant at lower utilization, and why would the situation have changed dramatically this quarter versus 1Q?

Rakesh Kumar Jain: We also not said so Vikash, we have also said that with reference to one of the question that whether you will be able to maintain same marketing spread, I said difficult or may not be possible. Then question was whether you will be able to maintain Rs.1100 crore as you maintained last time, I also said it is really in difficult situations, difficult to say with certainty. So, yes there is a challenge in this quarter.

Vikash Jain: No. So, what I mean is that last quarter that is 1Q you did not have Gazprom in any case. So, what, only one cargo was there?

Rakesh Kumar Jain: No, last quarter we had full supply until...

Vikash Jain: 1Q, you had supply.

Rakesh Kumar Jain: That is what I was trying to explain Vikash in last quarter until May end we had normal supply. Then for June, till June month we got only one cargo and in between there were interruptions. So, you can say that last quarter was not that greatly impacted. But in this quarter, there is no certainty as far as whatever communications we have though we are taking at all levels including the government to government level including we are talking to Gazprom. But as of now, when I'm talking to you, there is no certainty about the availability of Gazprom volume. If it comes certainly we will be better off as we were there in Q1. But it's still difficult to say as of now.

Vikash Jain: Sorry, so that was my misunderstanding. So, just to understand that so broadly, you said that your volumes would be down by roughly 6, 7 MMSCMD both on the transmission side, as well as in the marketing side, that is the impact of Gazprom?

Rakesh Kumar Jain: Yes, also currently we have already reduced almost 5, 6 million per day of volume from supply side, if transmission you consider 7 or 7.5 because internal consumption is part of transmission not the marketing volume.

Vikash Jain: Okay. So, basically whatever is the 1Q average our current transmission volumes are about 6, 7 MMSCMD lower than that and petchem at what level of utilization are you kind of running to manage the situation?

Rakesh Kumar Jain: Currently we are running around 50%.

Vikash Jain: Okay. So, basically the hit is three-way, volume of both marketing and gas transmission about 6, 7 MMSCMD and petchem being run at 50% utilization?

Rakesh Kumar Jain: Yes. And maybe little lesser than 50%.

Vikash Jain: Okay. And if, since there is this talk of Europe reducing energy imports from Russia by say from December. So, if that really plays out, would that free up more gas to be available to us or that's something that if not, that's not the way to look at?

Rakesh Kumar Jain: Free of which gas mostly they're dependent on pipe gas. So, the free up of pipe gas will not make LNG available. So, there is a challenge, \

Vikash Jain: So this is simply because of production issues or since you said that your contract with the German subsidiary of Gazprom. So, what exactly is causing this, this is a production issue?

Rakesh Kumar Jain: So, basically it's a portfolio supply and they are telling that we are not able to supply you because in order to meet the Europe, because there are some shift, some regulator is there in German, they have said that in order to meet the European requirement, we are not able to supply you from portfolio but they have not said till until they will not supply how much they will not supply that is a current situation.

Vikash Jain: So, that's why I asked that, because of that Europe reduces imports. So, essentially even that supply which is being kept by the German regulator would also get freed up or no, this is only?

Rakesh Kumar Jain: Very difficult to say what will happen, how it will happen, very difficult. So, uncertainty is there.

Vikash Jain: So, in the current scenario, automatically versus the 1Q base we are 6, 7 MMSCMD down. So, basically how do we see volumes rising from here, with these fertilizer plants coming in will allow us to get more US LNG into India and that is how volumes are rising, in a scenario till Gazprom is not addressed?

Rakesh Kumar Jain: So, we are taking a lot of actions. One is that, in order to make new plants, availability of gas for new plants, we already have the supply lined up from US that we have already accounted for plants which are likely to be commissioned. We have kept that in mind, gases available from United States. We had unallocated cargos for that we have already made arrangement for ship chartering. So, we will be able to bring the volume in order to supply that gas to those fertilizer plants for that we are already, there is no concern about that. And further in order to meet the further deficit, I was explaining to other participants that we are taking two, three, four actions. One of the action which we have been taking for last one year that we are in the market for contracting the gas on long term basis. We had invited tender for 0.75 MMTPA but there was no good response because of current situations. So, we are also discussing with some other players for sourcing of gas. We are also there in the market, United States, so volumes are available, but only challenge is that, we are getting volume in 23 than 24. There after the volumes are available, but there are some suppliers which are capable of supplying some of the volume in 23-24. So, we are working on that and hopefully let us hope for best we are working on that.

Vikash Jain: So, just one book keeping question any reason for corporate expenses to be so much lower and number two, can you tell me what proportion of your US volumes are not contracted for selling outside India in 23 versus 22?

Rakesh Kumar Jain: So, I have to check that 23 not sold.

Vikash Jain: What proportion have you kept for India in 23 and what proportion did you keep for Indian 22?

Rakesh Kumar Jain: Vikash readily it is not available.

Vikash Jain: Okay. And on the corporate expenses things, any reason why expenses are lower, corporate expenses the way you report as a segmental part?

Rakesh Kumar Jain: Actually, corporate expenses has not gone down if you have gone through our Q4 accounts, we provided a provision for ECL, financial guarantees we have given to our US subsidiaries. So, that was 170 crore and second, only that, the CSR was in December. In Q4, that was the one major 170 crore.

Vikash Jain: Okay. So, basically nothing one off here, but the sequential quarter was bloated because of that, that's what you mean?

Rakesh Kumar Jain: Yes. That's what I explained. So, this actually in Q4, it was 170 crore provision, which is not there in Q1 23. So, that one off was in Q4 last year, not this year.

Moderator: Thank you, sir. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you sir.

Rakesh Kumar Jain: Thank you very much. Hopefully, we responded most of the questions, but some of the questions we might have not responded. So, participants are free to call us offline. And we will be able to respond for the questions which we could not respond and questions which they have and they could not ask. Thank you very much for taking interest in us, that's all.

Probal Sen: Thank you very much sir for your time. Thank you to all the participants, you can log off now. Thank you very much.

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