GAIL India Limited 1QFY'19 Earnings Conference Call

Friday, 10th August 2018

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Operator: Ladies and gentlemen, thank you for standing by. And welcome to Gail India Limited first quarter fiscal year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you that this conference is being recorded today Friday, 10th August 2018. I would like to hand the conference over to your first speaker today Mr Sanjay Mookim. Thank you. Please go ahead, sir.

Sanjay Mookim: Thank you, Kareena. Good evening, ladies and gentlemen. My name is Sanjay Mookim and I am the oil and gas analyst for the Bank of America Merrill Lynch in India. We are pleased to have with us today AK Tiwari, ED Finance of Gail India and his team to talk about Gail's 1Q FY'19 results. May I now hand over to Mr Tiwari for opening remarks which will then be followed up a Q&A session. Please go ahead, sir.

AK Tiwari: Good evening, Mr Sanjay. I am AK Tiwari, ED Finance from Gail and our Director Finance Subir Purkayastha will join in between. I will update some of the highlights financial as well as fiscal highlights for the updation. So, the fiscal and financial performance for the quarter ended June 2018 are already with you, and the same has also been made available on Gail's website.

I presume that all of you have gone through the same. However, for the benefit of audience, let me reiterate the following key highlights for Q1 FY'19. So, I will first read the physical highlights for Q1 FY'19. There is increase in the gas marketing volume by 18.73 MMSCMD from 78.43 MMSCMD in Q1 FY'18 to 97.16 MMSCMD in Q1 FY'19 due to the following reasons. Number one, overseas sales volumes of US LNG have increased around to 11.92 MMSCMD, increase in sale of RLNG by 6.76 MMSCMD mainly due to additional tie-ups.

Now lower supply of domestic sources was also there. Secondly, overall transmission volume has increased by 7.12 MMSCMD from 99.91 MMSCMD in Q1 FY'18 to 107.03 MMSCMD in Q1 FY'19. The capacity utilisation of LNG pipeline has been around 52% in Q1 FY'19 as against 49% in Q1 FY'18. Polymer production is 173 TMT in Q1 FY'19 versus 121 TMT in Q1 FY'18. The rise is mainly due to a ramp-up of PC-2 and lower shutdown. LHC production has increased by 16 TMT mainly due to the reason that there was a shutdown in LPG plant in Q1 FY'18. There is increase in LPG transmission volume by 11 TMT, mainly due to the increase in the availability from OMC.

Further financial highlights of Q1 FY'19 are gross sales for FY'19 is 17,262 crores versus 11540 crores in Q1 FY'18 which is an increase of 50% mainly due to an increase of gas marketing and transmission volumes on start of supply from US and Gazprom.

PAT for Q1 FY'19 is 1,259 crores versus 1,026 crores in Q1 FY'18 which is there is an increase of around 23% mainly due to number one, the profit in gas marketing profitability has increased by Rs. 215 crores mainly due to a better margin and increase in gas volumes. Gas transmission segment process has increased by 47 crores mainly due to the increase in gas transmission volumes around 7.12 MMSCMD and decrease in finance costs.

Profit in PC segment has increased by 191 crores, increase in the PC production by – due to the increase in the PC production by 52 TMT, an increase in average price realisation which is approximately 6600 per metric tonne and decrease in the finance costs. Profit in LHC segment is flat and mainly due to the reason that positive interest impact of increase in average sales price dipped by 2300 per MT.

Profit in LPG segment transmissions has decreased by 13 crores mainly due to the increase in the employees' costs. And these are the basic highlights. Besides that, we have already shared in the main highlights that Gail imported first cargo of LNG from Gazprom on June 4, 2018 at PLL-Dahej. So, all the sources of gas from different geographies for LNG have started.

So, these are the brief highlights which I wanted to share with you. Now I hand over to you for further questions. Thank you very much.

Sanjay Mookim: Kareena, can we have the Q&A session?

Operator: Sure sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Please note there may be a short pause as the questions are being collated. We thank you for your patience. Our first question comes from the line of Rohit Ahuja from BOB Capital Markets. Please ask your question.

Rohit Ahuja: Hi, thanks for the opportunity. So, on the petrochemicals you had a very good quarter. So, can you clarify it's just some one-off here or this kind of numbers would be sustainable down the year?

AK Tiwari: Yeah, our petrochemical too has stabilised a lot. And there is an increase in the production also as well as – the price realisation was again better because around Rs. 9600/MT which has impact of around 159 crores. So, these are the main reasons for this petrochemical higher profit. However, we are expecting that sustainability in terms of the production will be there in the coming period.

Rohit Ahuja: All right. So, you are saying that the discounts that you used to have on petrochemical products in previous quarters has not continuing any more as the demand environment has improved and your operations have normalised?

AK Tiwari: Yeah, our production – our plant at Pata has normalised – is getting normalised day by day.

Rohit Ahuja: So, as for the marketing side, you had a very good quarter in terms of earnings. So, was there any one-off here like cargo which is booked last quarter now being booked for revenues or this kind of the numbers you are seeing kind of sustainable throughout the year?

Speaker: Yeah, there was no one-off as it was there in the last quarter. But those were on the negative side actually. So, for this quarter we did not have any negative side that we had to calculate two cargoes because of non-stabilisation of DCP plant in the last quarter. So, this quarter was smooth and normal. So, this is the situation.

Rohit Ahuja: So, this kind of earnings is more or less normalised and should continue down the year?

AK Tiwari: You can expect so. You can expect so.

Rohit Ahuja: So, lastly on your contract with Dhamra port that you signed recently for the gas capacity, could you specify what sort of tariffs that you would be paying for the contract?

AK Tiwari: It will be around PLL tariffs which is there or let's say that – it will be maybe slightly more on the PLL Dahej tariffs, you know, around that will be there.

Rohit Ahuja: And on similar terms like a 5% escalation every year, something like that?

Speaker: 5% escalation, yeah, it is there. Escalation is there.

AK Tiwari: There are a few good terms are also there, but more or less the contract is like PLL only.

Rohit Ahuja: Right, thanks a lot.

AK Tiwari: Thank you.

Operator: Your next question come from the line of Probal Sen from IDFC Securities. Please ask your question.

Probal Sen: Yeah. Thank you for the opportunity, sir. Just you mentioned the improvement in most metrics on a year-over-year basis, but just wanted to ask on a quarter-to-quarter basis, sir the LPG transmission volumes has actually declined quite sharply. And the other part was that in terms of petrochemicals also the run rate we need to understand what actually gradually improved to about 185,000 to 190,000 tonnes on a per quarter basis. What we're really seeing is that it is still at about 175 TMT odd kind of a mark. Any guidance you can give us in terms of trends we can expect in both these sectors going forward?

AK Tiwari: You are talking about the petrochemicals?

Probal Sen: Yeah, I was talking about both the segments, sir, LPG transmission – yeah, can you hear me, sir?

AK Tiwari: Yeah, I am hearing you. In the petrochemical segment shutdown was less in comparison with the Q1'18 and Q1'19. And in the LPG segment, shutdown at the LPG transmission you were asking – shutdown in caverns. So that has resulted in – yeah at – yes, yes, at Visakhapatnam there was shutdown in caverns at VSPL, it was shut down.

Probal Sen: Okay.

AK Tiwari: But that was the main reason for lower transmission, yeah. Please go ahead.

Probal Sen: So, we can expect the run rate to get back to 950 odd thousand tonnes in the following quarters?

AK Tiwari: Yeah, yeah that will be there. Yeah, yeah that will be there.

Probal Sen: And sir, in petrochemical, can I get a sense of the full-year guidance that you're still maintaining, overall volumes? Should we touch or would we able to touch more than 700,000 tonnes for the full year?

AK Tiwari: Yeah, more than that.

Probal Sen: More than that. So, the run rate should be improve to 180,000 to 185,000 tonnes per quarter?

AK Tiwari: Yeah, around that.

Probal Sen: Okay. And sir, last question in terms of the natural gas trading, I could not quite catch the number you mentioned for the overseas gas sales. I think you mentioned the percentage number. Can I get the absolute number of the overseas gas sales via trading that we have done in this quarter?

AK Tiwari: 11.92 MMSCMD we have sold in the overseas, 11.92 MMSCMD gas sales.

Probal Sen: Okay. And sir, for the rest of this year, will this number go up or will it somehow remain at this level?

AK Tiwari: I think it is going to be –

Speaker: Slightly up, little better.

AK Tiwari: It will up only depending upon the demand and depending upon the contract we make.

Probal Sen: Okay, sir. I will come back if I have more. Thank you so much for your time.

Operator: Our next question comes from the line of Maulik Patel from Equirus Securities. Please ask your question.

Maulik Patel: Any Update on the unification tariffs after the open house?

AK Tiwari: Pardon? Unification, yeah.

Maulik Patel: Update on the unification tariffs?

AK Tiwari: No, no. Can you repeat the question, please?

Maulik Patel: The question is sir, is there any update on Unified Tariff – can you share any update on the unification of the tariffs?

AK Tiwari: So, that process is going on in the PNGRB and we have submitted the paper wherever required. And that process is on. And we had said by end of next year by March 2019 something will come out.

Speaker: Okay. And it will be more from a – if I understand, there is also a committee has been set up under the PNGRB to resolve the various issues between the industry and the regulator. So, this committee's response will be added in the path of unification of the tariff.

AK Tiwari: You can add, yeah.

Speaker: It is a separate exercise has been done by PNGRB. It has constituted a committee consisting of members from different entities. And from Gail's side one member is there at the AG level. That is under active deliberation of the PNGRB. It is not sure whether the PNG will include in the unification process or not. But Gail's stand is that if you consider – considering the change in regulation – proposed change in regulation in the unification.

Maulik Patel: Okay. Sir, can you just give us the Capex number for this year? And basically, when you are planning to complete the three phases of this Haldia Jagdishpur pipeline? And let's assume that first phase will be completed, will you capitalise that into the books or you will still probably as a part of capital work in progress.

AK Tiwari: So far as FY'19 – 2018-2019 Capex is concerned, it is around 6500 crores in taken together including the Jagdishpur, Haldia, Vijaypur, Auraiya as well as the Kochi KKMBPL pipeline. And we have already completed a part of the first phase and we have reached up to the Varanasi and that has also been capitalised to that around 350 crores. So, we expect to complete the phase one by December 2018. And in progressive way, we are planning to complete by 2020 or maybe 2021 March. That is the plan. And the progress is going well there at every segment.

Maulik Patel: Last question. Is there any update you can share on the Kochi Mangalore section of the pipeline?

AK Tiwari: Kochi-Mangalore pipeline is going well. And the progress is good. And we expect that by February it will be completed. Due to recent, some rain or some heavy rains, some disturbance may be there. It may slip for 15 days or maybe one month like that. But we are going to complete by February or March 2019.

Maulik Patel: Okay, sir.

Operator: Your next question comes from the line of Amit Rustagi from UBS Securities. Please ask your question.

Amit Rustagi: Sir, good evening. Could you explain us that how many US cargos we have imported in India and how many of them have been used in our petrochemical business, and will that be sustainable going forward?

Speaker: So, the exact number I do not remember as of now. But yes, we will be importing most of this volume for petrochemical segment. But it is not that only US volume is going for petrochemical segment. It's a mix of all types of gas which goes to the petrochemical segment.

AK Tiwari: We have had the eight cargos of the destination swap and 16 cargos total we have traded in Q1 FY'19. And part of that has come to India also around eight cargos.

Amit Rustagi: India?

AK Tiwari: In India.

Amit Rustagi: Eight cargos – how many has come to India?

AK Tiwari: 16 cargos has come to India. And out of that, this US volumes cargo is eight, yeah.

Amit Rustagi: Sir, what percentage of gas is US in our petrochemicals for the current quarter?

AK Tiwari: There is no such – it is a mix part of the gas is there. There is no such specific US volumes. It depends upon the pricing and availability.

Amit Rustagi: Okay. And sir you just mentioned about that we – like we had no loss, like last quarter we had loss in two cargos. So, what is the volume in metric tonnes we have received in total from US and will that run rate continue in the coming quarters?

Speaker: Yeah, see, we have eight cargos roughly means about half a million tonnes we have imported in India and that has been sold abroad. Half a million tonne per quarter and we expect this to increase a little – this should increase a little more, by a little amount going forward. As the domestic consumption keeps increasing, we will reduce our sales, international sales and keep importing and increase the exports.

Amit Rustagi: But sir, we have 5.8 million tonnes annually. So, half a million tonnes we have in India, half a million tonne we have traded. So, one million tonnes we have done. So, this analysed to four million tonnes. So, this means still we have yet to receive more volumes from US like either Cheniere or Dominion Cove?

Speaker: No, no. We have sold more. See, international traded volumes are about 11 – 12 cargos. So, half a million we have brought to India and 12 means roughly 0.75 we have traded internationally. And see, BCP plant has stabilised but still it is not running at 100% capacity. Okay so production is also slightly less. So, therefore, this volume is slightly less. It may increase a little bit by about 10-15% to 20%.

Amit Rustagi: Okay, sir. And sir, what is the total Capex we have done in the first few months – first quarter or last – and what is the target for this year, capital expenditure target?

AK Tiwari: We have, up to date, we had done around 900 crores to 950 crores up to date. In totality, we have a target of around 6500 crores.

Amit Rustagi: 6500 crores, this is before capital subsidy on the Jagdishpur Haldia?

AK Tiwari: Yeah.

Amit Rustagi: Yeah, capital grant of 40%

Speaker: Yeah.

Amit Rustagi: Yeah, okay, sir. Thanks a lot.

AK Tiwari: Thank you very much.

Operator: Your next question comes from the line of Amit Shah from BNP Paribas. Please ask your question.

Amit Shah: Hi, sir. Actually, I have three questions. First one, last quarter you said that the Kochi-Mangalore pipeline would be completed by November of 2018 and now it's being pushed to almost March of 2019. So, was weather related the only issue for the delay?

AK Tiwari: Yeah, partly weather related and partly some local issues was there, but we are trying to complete by end of this year. But we expect that reasonably it would be completed by February. So, that number we have given.

Amit Shah: Okay and on the Dhamra terminal right, you said that you are getting similar to PLL tariffs.

AK Tiwari: The new terminal will be charging more tariffs. This is the negotiated strategy is there and we have –

Amit Shah: Hello.

AK Tiwari: It will be slightly higher than the PLL tariffs terminal.

Amit Shah: Okay. So, because I'm just confused does the new terminal would probably be able to give –

AK Tiwari: Naturally the Capex is more and other – yeah –

Amit Shah: So, the IRR would be very poor then in that instance for that – from a terminal perspective?

AK Tiwari: Correct.

Amit Shah: Okay. And then the last question for me is the petrochemical sales were substantially lower on a q-on-q basis, right, from 191 million metric tonnes it was down to 166 and yet the profitability improved a lot. So, I understand A, one is the fact that realisation prices were 9600 per metric ton. And was the lower gas price also instrumental in higher profits, and what was the average gas price for the quarter?

AK Tiwari: Yeah, so far as the sale quantity is concerned, it was due to the ban in the western zone for – this polythene ban was there. So, that was the reason for the decrease in the sales. And second, was that you have asked about realisation. So, realisation – this per metric tonne realisation was more in comparison with the other quarter, so means in Q4 which was 9600 per metric tonne more on an average. So, that has increased the profitability also.

Amit Shah: And what was the gas cost in this quarter in the Petchem?

AK Tiwari: It is market price only, but – it was same as that of the last quarter. It was there. So, there is no much increase in that.

Amit Shah: What was same, the gas costs?

AK Tiwari: Yeah, gas costs.

Amit Shah: So, how much would that be? I'm sorry if you can share?

AK Tiwari: This gas cost we can't share that way, but it was market price that is there.

Amit Shah: Okay, but it is LNG, right?

AK Tiwari: Yeah, we don't think there –

Amit Shah: Okay. And I am sorry I got a little confused with the whole US cargos being traded. So, eight, how many cargos in total? 12 cargos were traded and eight were imported to India, is that correct?

Speaker: Correct.

AK Tiwari: Correct yeah.

Amit Shah: Or 16 cargos were traded? Hello.

Speaker: Yeah, look, see, eight were imported in India. Hello, what I told is eight were imported in India. That is about half a million ton, right. And 12 were traded internationally, so 0.75 plus 0.5 – 1.25 million tonnes. Okay.

Amit Shah: Okay, so 12 more were traded internationally, so total cargos were 20?

Speaker: 20 yes. 8 plus 12.

Amit Shah: So, 20, okay, perfect. Thank you so much.

AK Tiwari: Yeah, thank you very much.

Operator: Our next question comes from the line of Rakesh Bhatia from HSBC. Please ask your questions.

Rakesh Bhatia: Hi. Thank you, sir, for the opportunity. Firstly on – if you can remind us what are the total number of cargos which are scheduled to be imported or which we have commitment for this year in calendar 2018 as well as calendar 2019? And if you can split that into how many are from US and how many are from Gazprom?

Speaker: See, from US, there will be roughly about 90 cargos every year. Okay? So, out of this – in first quarter we have received about 20 cargos. So, we can say about 7-8% less because of ramping up of one of the plant, Dominion Cove plant. So, even if it goes to 100%

extent, it is unlikely to increase above 23-24, okay? Now, from Gazprom – and the mix will keep changing depending on where do we get the better price realisation. If we get better price realisation in US by selling it FOB volume, then we will sell FOB. And if we get – and we can purchase alternately from spot market in India, then we will do that. Wherever we find better realisation, we will be changing our positions.

Rakesh Bhatia: Okay.

Speaker: Okay.

Rakesh Bhatia: Sir, second on petrochemicals if I look at your revenue, your revenues are largely flat quarter on quarter basis, and your sales volumes has actually declined. Yes, your EBITDA has gone up. And you have said that the cost of gases remain largely the same. If the entire savings has come from lower operating cost, is this the right way to understand or has the – so what are those expenses that have gone down with such a significant margin?

AK Tiwari: The price realisation was up by Rs. 9600 per metric tonne in comparison with the last quarter. That is the main reason of EBITDA up.

Rakesh Bhatia: So, your top line revenue is flat. Whatever increase in the price realisation happened, that probably has gone down in terms of lower sales volume and therefore your revenue is flat quarter on quarter. And yet your EBITDA is higher. And you have also said that cost of gas is largely the same. So, therefore, I am trying to understand sir, is the cost has production has gone down? And if yes, which are these heads which has gone down by such a significant number?

Speaker: It's partly – cost of production has come down, and secondly, the price stabilisation was better. These are the two factors.

Rakesh Bhatia: Okay. Thank you, sir.

Operator: Our next question comes from the line of Pinakin Parekh from JP Morgan. Please ask your question.

Pinakin Parekh: Yeah, thank you very much. Sir, going back to the marketing segment, essentially there is roughly 400 crores increase in the segment EBITDA on a quarter-on-quarter basis. And the new thing is that 20 cargos were effectively traded, so 1.25 million tonnes. So, would it broadly be correct to assume that this entire sequential increase in the marketing segment EBITDA is because of this 20 cargos and the trading gains associated with it or is there some other element as well?

AK Tiwari: No, other element in terms of increase in sales. See, sales increase is happening, then we will procure cargos. It may be in US volume or from spot volume. Even if this US volume was not there, we would have bought it from international markets from spot purchasers. So, the basic reason is increase in sales. So, most of the profit is coming due to increase in sales quantum, okay?

Pinakin Parekh: Okay. This was because of the price realization. So, now the question is that if tomorrow –

AK Tiwari: Hello.

Pinakin Parekh: Yes, sir. So, the question is sir, if tomorrow crude prices were to go below \$60 to \$65 a barrel, then should we assume that instead of this large gain that we saw on the

P&L, we could actually be seeing an EBITDA loss? I mean I am just trying to understand the US cargos and how would they affect profitability. Is there profits going to be the function only of the crude prices going forward at least for the next couple of years?

AK Tiwari: See, we are also hedging our sales volumes to ensure the realisation. So, it is not that if crude prices starts falling back, we will be hit. We are trying to – most of our sales are back-to-back crude linked. We purchase from crude and sell on crude. And whatever sales is there which is based on – which is backed by handling a purchase, that is yes, it is a little bit giving higher margin at present, but we keep locking those trades or those profit margins through hedging also. So, at least for a period of – to some extent over a period of next two years whatever we can be hedged, whatever can be hedged without losing much price benefits or without giving much cost of hedging. So, that is being carried out continuously.

Pinakin Parekh: Understood. So, just to clarify. You said 90 cargos in a year that need to be brought from the US and we have done 20 cargos in this quarter. So, of the 70 cargos remaining for FY'19, sir, how much is open and how much are hedged?

AK Tiwari: See, that depends upon our means how much we have been able to tie up. But you can assume that around 40% or so maybe hedged also depending upon the price volumes.

Speaker: Parekh, we do not have anything open – All our cargos are allocated.

AK Tiwari: It may be around 40% depending upon the underlying.

Pinakin Parekh: It's just a final clarification. If crude prices tomorrow were to fall $10 a barrel, in your view, this 550 crores of EBITDA that we saw from the marketing segment would broadly sustain even if in a $60 crude environment as it was in a $80 crude environment?

AK Tiwari: That we can't say specifically at this present, calculation we don't have this. But we are partly – means we are trying to maintain the bottom line in a sustained way.

Pinakin Parekh: Understood. Thank you very much, sir.

Operator: Our next question comes from the line of Avadhoot Sabnis from CIMB. Please ask your question.

Avadhoot Sabnis: Yeah, sorry, again coming back to the marketing side. There are two statements which I thought were a bit contradictory. One is you are saying that the volumes purchased from the US are all sort of backed by back-to-back contracts with customers. And at the same time there is a statement saying that you could shift volumes to the domestic market depending upon your – you will move to domestic market if the demand increases at the domestic market. So, I'm trying to understand how could it be so flexible that you could have both – if you could clarify on that point?

Speaker: Look, see, for this year, if you say '18-'19 we are balanced, which means our sales and purchase is matched, like international sales which we have taken up say based on crude. So that even if crude goes down, it doesn't make any difference to us. It is purchased at HH and sold at HH, all right? And a part of the sales which is being sold – brought to India, that can be flexible, that we can either bring it to India or we can sell that in international markets and buy locally. But that much sale is there in the domestic market in the country. So, there is no surplus volume. Am I clear?

Avadhoot Sabnis: Not exactly. So, let's say now you had basically eight cargos sold in the domestic market and rest in US, basically that you are saying it has to be sold in the Indian market that you sold for the US; but if I've understood it correctly, those eight cargos could be sold internationally as well and you could have sold for Indian market from a spot market as well depending upon what was more profitable; am I right?

Speaker: Yes, you are right. But this strategy is not decided in the same quarter. We keep doing it on a rolling basis for our calendar year.

Avadhoot Sabnis: I understand. So, where I am struggling is, you said eight cargos were sold in the domestic market and the balance whatever is 12 cargos were sold internationally. Now this assuming demand and supply in India for let's say ten cargos, let's say in the next quarter [inaudible] what you said earlier is that the international portion is already sold on a back-to-back basis. How can you move it to India towards the additional demand, isn't it right?

Speaker: See, now whatever is be brought to India, that is also a good quantum. Even if we sell at eight cargos – actually it will be more, much more. But even if we see eight cargos per quarter, so it's about 22 cargos per year. So, that much volume we have a choice always, okay?

AK Tiwari: These are the dynamics and flexible situations we monitor. We can't give any specific way that we are doing. So, it depends upon the synergy which is there and it depends upon the demand as well as the tie ups.

Speaker: And we have also taken into account, see, if the sales is increasing what way sales we are expecting to increase. So, accordingly, we intend to bring more volumes to India depending on the domestic sale ramp-up.

Avadhoot Sabnis: So, I understand that. What I am trying to understand is how that flexibility is there, in the sense that if a particular – you know how much cargos are going to come from the US, let's [inaudible] right? And you have already locked up a particular level of cargos sold outside India, okay, on a back-to-back basis. So, the cargoes remaining [inaudible] in advance like you can't change that, okay. So, what I am trying to understand, so if there is more demand in India then obviously you'll have to – for that additional demand, you'll have to source from the spot market right rather than [inaudible].

AK Tiwari: Yeah, that we are doing.

Speaker: Yeah, we – it will be purchasing from international market on spot basis.

Avadhoot Sabnis: Exactly.

AK Tiwari: This year we have done six – six cargos we have purchased [inaudible]. So, that we are doing wherever required.

Avadhoot Sabnis: So, that means would it be right to say that what the total [inaudible] what you have sold in terms of LNG in India is six spot cargos, eight cargos were US. Anything else, basically the balance from Gazprom or whatever?

Speaker: 16 cargos in total we imported.

AK Tiwari: 16 we imported in the US and six is spot in India and two long-term from Gazprom. Gazprom we have also purchased two cargos this quarter.

Avadhoot Sabnis: Okay. Thank you so much. Thank you so much.

AK Tiwari: Thank you.

Operator: Our next question comes from the line of Bavin Gandhi from BNK Securities. Please ask your question.

Bavin Gandhi: So, most of my questions has been answered. Just if you can share the Pata 1 and 2 utilisation separately, please?

AK Tiwari: In Petrochemical Segment at Pata. We have Pata 1. This quarter, Pata 1 utilisation was 93% – 82% and Pata 2 is 73%. So, put together it was 79%.

Bavin Gandhi: Sure, sir, got it. Yeah, and sir, just one more thing. Will you be able to share some details on the delivered cost of LNG – US LNG now that you are importing into the country?

Speaker: In the – it will be about – it varies from around 8$ you can say at Indian shore.

Bavin Gandhi: Sure, thanks.

Operator: Our next question comes from the line of Vinit Joshi from Goldman Sachs. Please ask your question.

Vinit Joshi: Hi sir. Can you update us on the Dabhol breakwater and expansion plans?

AK Tiwari: Yeah as you know this RGPPL demerger scheme has already been approved. And this Dabhol the breakwater contract is going to be awarded between I think within two to three months. So, this KLPL, new company will award the job. And then in the coming three years, it will be completed.

Vinit Joshi: And what is the Capex for this pre-quarter and is there any further expansion plans beyond this as well?

AK Tiwari: No, there is no such further expansion plan except that the pre-quarter completion. And the Capex is around 700 crores at current estimates which we have.

Vinit Joshi: Okay. And sir, can you just talk a bit about the demand centres for the Jagdishpur-Haldia pipeline, that 16 MMSCMD pipeline that you are building. So, as we understand you are also doing a lot of CGD projects there and then you have a few refineries and some fertiliser plants. So, can you just size the opportunity there for the various buckets, and the timeline like when do you expect that to come through?

AK Tiwari: Yeah, this pipeline is going to be completed in a phased manner. And possibly these fertiliser plants in route are also being synchronised with that. And in route is the Barauni and then Sindri – but Barauni, Gorakhpur, Barauni are in route that way and then Matix we're also tying up. So, put together around 10 MMSCMD or like that or is the volume which is being tied up besides the CGD and other entities, which will come in the periods to come. So, that is being ramped up slowly means in a phased manner.

Vinit Joshi: Can you give any rough colour on the CGD potential say over the next five years?

AK Tiwari: That, you know, ninth – the ground is there. So, good colour is there, and you can also estimate that way we have also participated for CGDs through our JVs and through our subsidiaries. So, that is going to ramp up in the coming days, in the coming period. It will be when the CGD will be sent up further.

Vinit Joshi: Okay, thank you, sir.

AK Tiwari: Thank you.

Operator: Your next question comes from the line of Maggie Sun from Hermes Investment. Please ask your question.

Maggie Sun: Hi my first question is on the transmission. Can you just give us more colour on – which is actually behind the year-over-year increase in transmission volume and tariffs? What is your full-year guidance for the transmission volumes? Given that both volume and tariffs have increased for transmission, why has the margin being down by five percentage points year-over-year? Can you just explain? Thank you.

Operator: Our next question comes from the line of Mayank Maheshwari from Morgan Stanley. Please ask your question.

Mayank Maheshwari: So, you talked about the utilisation impact because on the Petchem plant due to the ban on sale on plastics. Can you just talk through us in terms of how do you think about it now going ahead? Is it kind of constraining you in terms of raising the overall utilisation above 80% right now?

AK Tiwari: No, it is not constrained. That was one of the reasons for lower sales during that period. However, with the other product mix, we are ramping up with our production as well as the sales end of period till now.

Speaker: Actually, in the first quarter, there was a lot of confusion in Maharashtra ban because they started with banning everything and stoppage of the complete overall usage and production and everything. And which slowly and slowly over the three months' time, it got clear that it is not a total ban. So, that is the reason that first three months it got affected. But it is not to that extent now. It is much better. And as Mr Tiwari said that there is some changes in the production pattern also. We will be able to settle it out.

Mayank Maheshwari: So, what do you think will be the targeted capacity utilisation this year now?

AK Tiwari: It will be around 90% – 85-90% it should be.

Mayank Maheshwari: For the full year?

AK Tiwari: Yeah, for the period. We are targeting hundred percent but that may not be possible. So, we are ramping up to 90%.

Mayank Maheshwari: Okay. Thank you.

AK Tiwari: Okay, thank you.

Operator: Our next question comes from the line of Pinakin Parekh from JP Morgan. Please ask your question.

Pinakin Parekh: Yeah, sir, just one more clarification. The eight cargos that were brought to India, I mean, obviously, the company would have paid Henry Hub-linked prices. But when they are brought to India and what is not internally used and sold externally is basically sold on spot or crude link contracts, right, or has the company entered into some kind of a different arrangement with customers?

AK Tiwari: We have Henry Hub-based contracts also with customers in India.

Pinakin Parekh: Okay, but it is basically a blend of all three. So, just trying to understand that the market the – effectively the trading gains should we see across the entire 20 cargos complex and not only the 12 cargo that was sold overseas?

AK Tiwari: Absolutely.

Pinakin Parekh: Understood. Thank you very much, sir.

Speaker: Kareena, can you take one last question, please?

Operator: Sure, sir. Our last question comes from the line of Vikash Jain from CLSA. Please ask your question.

Vikash Jain: Hi, sir. Thanks for the opportunity. I had two questions and one clarification. You said there is lower shutdown during the quarter in Petchem. What exactly do you mean? I mean – so there was – basically there was a shutdown and less number of shutdown days versus last quarter. And could you give a sense of where the capacity utilisation is right now?

AK Tiwari: We have told that the capacity utilisation is around actually 79%. And the shutdown was – yeah right now – for the quarter, yeah, for the quarter, and right now it is more than 80% as on August you can say. So, that is being ramped up and the impact of shutdown was only in that quarter.

Vikash Jain: Okay. The other thing was, see, for your gas trading business, so clearly in terms of on a q-on-q basis the big change is the incremental cargos from US as well as Gazprom. And that – is it fair to say that that as been the main reason why your trading margin – and we are talking about margin, not just the volumes – is notably higher in this quarter? That is possibly because these cargos are more remunerative in the way you have placed them?

AK Tiwari: Yeah, because of the price indexation difference, you know that this US HH price index it can be purchased and then we have sold in the downstream Brent price indexation. So, that has given us the margins, these trade margins.

Vikash Jain: And just to kind of give a better more clarity on this, if crude prices were to sustain at whatever the average for the quarter was and Henry Hub prices are around at that level, which is not very different from where the spot prices are, would such kind of profitability from those US cargos, can that be – is that sustainable? Basically, there was not really [inaudible] that's the kind of sustainable level.

Yeah, okay. And one final question – and here again I – okay that's – one final question is on petrochemicals. The Opex – and I am specifically talking about Opex in US dollar per tonne or in rupees per tonne – has come off very clearly on a q-on-q basis as well as on a y-on-y basis. Is that mainly because of you being able to use – and this is the despite the fact that LNG prices were higher – this is mainly because of you being able to use better price LNG for internal consumption, that is US or Gazprom?

AK Tiwari: Yeah.

Subir Purkayastha: Yeah, Vikas, Subir here. I just joined in, yeah. Just to respond to your first question – yeah hi. With respect to the capacity utilisation on the petrochemicals plant, myself is that it is running more than 90% as of now. I mean there was a brief period where in the first quarter there was some disruption. And this disruption was not there at Pata. This disruption was more there in the Vijaypur, which could not separate certain volume of gas to Pata.

Secondly because of the sudden demand coming in from fertiliser units, particularly with respect to make this gas available to them which was a bit of a strange phenomena because the anticipated consumption by the fertiliser units, it typically comes down in the first quarter. And this was the indication given to us. But all of a sudden, they demanded more gas for the fertiliser units and the government decided that no cut should be made to them.

So, we had to divert some gas which was otherwise going to the petrochemical plants to these fertiliser units. So, it was sort of a forced kind of a cut-off which happened to the petrochemical plants. But all those things have been restored and right now I think it is more than 90% capacity utilisation which is happening both for the part one and the part two of the facilities. Coming to the last question on the gas cost, yes, you are right.

We have been able to bring down the weighted average cost of – the cost of gas consumption in Pata, which was more than $10/ mmbtu sometimes back to much below that. So, our target and effort has always been to pin down the cost of gas for the petrochemical plant. And yes, both Gazprom gas as well as the volume gas has helped us in this correction. And our guidance in this respect is that this should continue to go forward in the future quarters as well.

Vikash Jain: If anything, Subir, in fact, if I were to kind of put together what you said as point two and point three, that you were forced to divert some gas to fertilisers, is it fair to say that since that compulsion may not be there in the coming quarters, your share of – and US gas volumes will also rise – your share of US volumes as well as Gazprom volumes, which will also raise, in petrochemical could rise which means that blended Opex or cost of gas consumed will fall further going ahead. Is that correct?

Subir Purkayastha: Yes, it will fall. But to what extent it will further fall is something we will know at the end of the quarter. But certainly, directionally it would be lower than what was there in the first quarter. But how much of that would be lower is something which we will not be able to predict as of now. But certainly, on a directional side, yes it will be.

Vikash Jain: Okay, so production will be higher, and Opex will be lower and also you believe that the gas trading profits if crude prices were around the prices were around the will also sustain?

Subir Purkayastha: Yeah, as compared to the last financial year, I had mentioned in my previous comments also and during discussions with various investors, three things which are likely to be positive on the petrochemical side. One, first of all, the kind of disruptions that we had seen in the previous financial year with respect of shutdown, we hope that we will see the back of it and those kinds of unplanned shutdowns will not be there. That would give rise to higher level of production, thereby bringing the unit costs of production down, number one.

Number two, as a result of the stabilisation of the operations of the plant, our energy costs per unit of the production of the polymer is also likely to come down we have seen in fact in 2017-2018 as compared to 2016-2017. So, this has two direct benefits which are likely to accrue as a result of stabilisation of the plant as well as the reduced disruption in the plants operation.

Third is that fortunately enough we have seen some updates on the prices. It must have been certainly discussed by the team a short while back. And third, of course, is that with the fact that we are able to substitute the high-priced spot LNG which was being used for the polymer production so we have been able to now find a different source in the form of HH volume as well as the Gazprom contract.

So, as a result of this, certainly the cost of gas consumption for the production of polymer is likely to see a downward trend as compared to the previous. But certainly, on the price front, what we are seeing going forward is very difficult to project. There could be more pressures on the price as we go forward. This quarter has been very good. But what we do not know that how long that will be sustainable.

But whatever is there in our control is what we have tried to achieve which is three [inaudible] shutdowns total production levels to bring down the cost of the gas for our top plant. Third is to improve the efficiency of the energy consumption or the fuel and gas required for per tonne of polymer. So, these are the things which are within our control and we have tried to address in the last one year or so. And as we have found success in that, our efforts should continue in the direction.

Vikash Jain: Just one last thing, Subir. So, Gazprom this stands for whatever is the pricing currently, it is actually cheaper than the landed price of US LNG; is that broadly a correct statement to make?

Subir Purkayastha: At this point of time, yes, we can say that, slightly. But not much of a difference now, a little bit.

Vikash Jain: Yeah, okay. Thank you so much.

AK Tiwari: Thank you.

Subir Purkayastha: Thank you.

Operator: I would like to hand the conference back to the presenters. Please continue, sir.

Speaker: Thank you, sir. Thank you Mr Subir Purkayastha. So, before we close there was a question from a participant that was missed on the gas transmission side. The question was on transmission volumes having gone up and tariffs having gone up. But the segment EBIT was still slightly down q-on-q. If you could address that, that will be very useful.

Subir Purkayastha: Okay, the main reason is that we have recently commissioned in the last financial year and in particular in the last quarter some capitalisation has taken place on the transmission segment. The impact of the depreciation on account of that which was not there for the full year last year has started from the very first quarter in this financial year. So, there has been an increase in the depreciation element in this particular segment. And this is one of the big reasons why the margins may not have been in commensurate with the increase in the volume as well as tariffs.

Sanjay Mookim: All right. Sir, thank you. With that, I think we will close the call. It's being a pleasure hosting you all for the results call today. And with that, Kareena, we'd like to end the call today. Have a good evening, everybody.

Operator: Ladies and gentlemen, that will conclude the conference for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]