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**“Gail India Limited 3QFY2018 Post Results Analyst
Conference Call”**

February 12, 2018



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OTHER SENIOR EXECUTIVES OF GAIL (INDIA) LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to the GAIL India Limited 3QFY2018 post results analyst conference call hosted by Ambit Capital Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes.

Ritesh Gupta: Dear friends, good evening. I welcome you all on behalf of Ambit Capital. I would like to welcome GAIL Management represented by Mr. Subir Purkayastha, Director Finance, Mr. Manoj Jain, Executive Director Marketing, Mr. A K Tiwari - Executive Director Finance and Accounts and other senior executives of GAIL. I would like to handover the call now to the GAIL management for their opening comments.

Subir Purkayastha: Thank you so much and first of all a very good afternoon to all of you and welcome to this concall. I hope that the physical and financial performance of the quarter which have been uploaded has been with you now for not very long, but for some time now. With that I would like to start the opening remarks stating that the physical performance had been on the higher side as compared to the previous quarter but on the financial side, on the bottomline side, the profits are slightly lower as compared to 2Q and as we move forward, we will give you the results why it is slightly lower than what we had achieved in the last quarter i.e. ending September 2017. So, I would very quickly therefore now proceed to question and answer session and as we move on, we will be responding to all the queries.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. First question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Thank you for taking my question. I have just one. In the notes to accounts you have made a reference to two provisions that were made, one in ship or pay and other in settlement and execution of dues with the customers. So, I just wanted to double check is this the impact that we are seeing on a sequential basis on the natural gas transmission segment?

Subir Purkayastha: No, this is one-off kind of a provision which we have made, we had certain ship or pay claims against a particular customer which has been under settlement for quite sometime. We have been able to reach a settlement in the month of November and against the total amount which was due from the customer, the settlement has been short of Rs80 Crores and therefore we have made a provision with respect to that amount. So this is not a recurring kind of phenomena, this is just a one-off item, the long pending settlement which was there and which has been completed in this quarter.

Bhavin Gandhi: Sir any other adjustments which have been made in the transmission segment because of which on a sequential basis, if I look at the gross margin number as well seems to have fallen from Rs1,040



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Crores to Rs853 Crores on a sequential basis despite volume going up, so any particular other provisions or something that has been made?

Subir Purkayastha: So far as the transmission segment is concerned, this is the only provision which has been made. There are no other provisions for this particular segment.

Bhavin Gandhi: Any particular reason why drop in the profitability despite higher volumes, on a sequential basis 2Q FY2018 to 3QFY2018?

Subir Purkayastha: It is mainly on account of, major of course, it is a factor of the provision and the others are on account of increased operating cost both on the repair & maintenance costs and on the employee costs.

Bhavin Gandhi: Okay, would it be possible to quantify that number?

Subir Purkayastha: Both these together, the R&M cost and employee cost add up to about Rs57 Crores, so that is another major reason.

Bhavin Gandhi: Alright Sir. That is it from my side. Thank you Sir.

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

Maulik Patel: Thanks for the opportunity. Sir any progress we have on this unification of the tariff?

Subir Purkayastha: Progress on the unification of tariff, yes there has been good progress on this front as you would be aware, PNGRB had called for the comments from the various stakeholders and those have been received by PNGRB and it has also been recently posted on the website. What we understand from PNGRB is that shortly enough perhaps they would be going for a public consultation on this and only thereafter some decision would be taken. So, we are on to that extent so far as the information of unified tariff is concerned, but we are hopeful that sooner or later this issue would be deliberated in the board. What the information that we have gathered is that PNGRB Board is currently more occupied with the award of new CGDs and therefore they have not been able to take up this matter immediately. But I think it is only matter of time that this item would come up to the board for the deliberation.

Maulik Patel: Your understanding is that once the unification let us say in what you have suggested to the regulator in terms of the document which is available on a regulator's website. Then, overall revenue pie should go up right from the current level, if you look at the annualised run-rate of around close to Rs5,000 Crores, there could be a significant increase in the overall revenue from the transmission right, is this your understanding?



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Subir Purkayastha: Yes.

Maulik Patel: Next question is first basically on the LNG agreements. Recently this Gazprom news came out, on which you have given the press release and this shale volumes. Can you just give us is that all volume going to come down to country or in case of share you probably have certain swap agreement, but do you think the demand is rising so far that can absorb entire additional sourcing volume?

Subir Purkayastha: Which volumes are you talking about the Gazprom volume?

Maulik Patel: Gazprom and Shale volumes.

Subir Purkayastha: You are right I mean as of current situation the total volume of US would not be able to be absorbed within the country and therefore we have been looking for quite sometime, the export of those LNG cargos outside India. we have been mentioning in the past that we have made quite a good amount of success and quite a good number of cargos have been sold outside India as well and we are also bringing in some cargos to this country based upon our assessment of the demand which is currently there and which may likely to go up in the near future. So this is how we are planning, obviously to the extent we do not find market there, we would be then looking at the market outside India.

Maulik Patel: But in that case, there will be significant impact on the profitability or it will be more like nonevent from the profitability perspective when you try to sell outside India?

Subir Purkayastha: A couple of months back if you had asked me this question I would have definitely said that yes there could be adverse impact, but today looking at where the prices are particularly the crude prices, we are quite comfortably placed in the sense that we feel that the kind of loss if you mean large is no longer there, but as you know the prices are sometimes very volatile and it is very difficult that one would be able to give a precise forecast on this, but if you were to ask me as on today, we are not anticipating any losses as such on the contrary we may end up on the insight.

Maulik Patel: Great Sir, thanks. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from Bank of Baroda Capital Market. Please go ahead.

Rohit Ahuja: This is Rohit Ahuja. On the petrochemical side, what we are seeing is your realization of PE seems to be at a discount to the prevailing market rate from the international exchanges. So is there a particular reason you are selling it at a discount?



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- Subir Purkayastha:** Rohit before I answer that or I let my colleague from the petrochemical side to respond on this. Can you give me a sense how much discount are we selling as compared to the market? What is your sense of discount to the market?
- Rohit Ahuja:** I think it is coming at about 6% to 7% discount?
- Subir Purkayastha:** Okay, I will request my colleague Mr. Makwana to respond on this or Mr. Tandon.
- Kamal this question is posed to you, he says that what is the reason that your prices are at a discount to the market 6% to 7%? First of all do you agree with that statement or you do not agree with the statement? So if you do not agree just explain. So I am requesting my colleague Kamal Tandon, who is the head of marketing for the petrochemical segment to respond to this question.
- Kamal Tandon:** When you say discount you have something like say some benchmark or something?
- Rohit Ahuja:** What is available on the Bloomberg, the exchange prices it is coming to around \$1,200 per tonne and what you seem to have realized this if I exclude the GST component, it comes to around \$1,100 per tonne?
- Kamal Tandon:** You have taken today's average in hand?
- Rohit Ahuja:** No, I am taking average realization based on the number that you have given on the sales volume and on the revenue side?
- Kamal Tandon:** Average realization if you say that is the last nine months average.
- Rohit Ahuja:** No, December quarter average.
- Subir Purkayastha:** Rohit, more relevant question perhaps would have been, if you are at a discount to our competitors or it is there discount to the Singapore benchmark?
- Rohit Ahuja:** To the competitor if you can throw some light, would you be at a discount to your competitors?
- Subir Purkayastha:** I have no idea about the competitors. I thought that it was with respect to other competitors that we are selling at a discount which I thought it was not, so I will request Kamal to continue with his explanation.
- Kamal Tandon:** One is that if you take the prices as on today what are the prices. After the crude oil has gone up, the prices are also moved up, what do you say today is that \$1200, \$1180 come in that way and accordingly if you see our present prices I think last one month itself our prices have been increased



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by close to Rs6,000. So if you are taking the average of quarter that is something different but if you are comparing with today's price then you have to compare with today's domestic price.

Rohit Ahuja: No, I am talking from the average of the quarters, your gross margin at Rs200 Crores is lower despite your overall volumes increasing? So is it also to do with increase in LNG cost?

Subir Purkayastha: Certainly there is an impact of the input cost of the gas as well as compared to the previous quarter, because the average price increase I am saying that impact of which was about Rs32 Crores then there was some small store chemicals expenditure which increased by about Rs8 Crores. So about Rs40 Crores has been the incremental cost on account of price of input gas as well as stores and spares?

Rohit Ahuja: And Sir when do you expect to touch the production of 200000 per quarter because again the production came in at around 188000, so I believe you have mentioned that you will be close to 100% realization, so how do we see that?

Subir Purkayastha: On a per day rate basis we have achieved the 100% production capacity for few number of days, a couple of days back we were producing more than 2500 tonnes a day which is slightly more I would say than the designed capacity, but yes on a overall basis the total production does not add up to those kind of numbers, it is quite low than what we had budgeted for, in this particular quarter. Going forward, Q4 also we hope that similar kind of numbers would be achieved. As far as production rate is concerned, to give the comfort, that we have been able to achieve the 100% capacity rate per se and it can be converted into sustainable production rate, so which has not happened as yet, hopefully going forward in the month of March, I think we would have complete full rate production for all the 31 days in the month, so this is where we are now, unfortunately yes 2017, 2018 has not been that right year so far as Petrochemical is concerned as we had anticipated, but during this period we had been subjected to lot of unforeseen kind of situation in the plant some which we could not have anticipated and some beyond our control as such. So as a result of that the production capacity utilization would be somewhere around 90% on an overall basis, but the point is that the way things look at this point of time, we are confident that 100% capacity utilization is something that would be easily achievable in the next financial year starting say from March itself.

Rohit Ahuja: Secondly on gas trading, do we see US volume being captured there from this quarter like 4Q?

Subir Purkayastha: US volume has not started as yet, it could be starting in this quarter and I think the first cargo that we expect to receive is in end of March.

Rohit Ahuja: Given the current spreads between Henry Hub and Asian LNG would this be..., can we assume you will be making profits on that contract?



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- A K Tiwari:** It depends on the prices prevailing in the next quarter, this quarter yes there were some positive but now since the cargos will start coming only by end of March and April, May, June is the period when the indices will be lower, but it needs to be seen how both the indices will behave, so it is very difficult to say which way it will happen, but to the extent we have hedged the volumes that will be firm.
- Rohit Ahuja:** So you think the precise impact would be known from next quarter onwards from the next financial year?
- Subir Purkayastha:** What he is trying to say is that if I have to take a view today what the situation is, we are on the plus, but yes, nobody knows about how the indices would behave in the future particularly as we move into summer month in that kind of situation how the things would be something that we have to wait and see, but so far as the hedged volumes are concerned, the cargoes which have already been hedged. We would by and large be on the positive side for hedge which are sold.
- Rohit Ahuja:** Any more progressive on incremental contracts for selling LNG volumes?
- A K Tiwari:** For the current financial year almost the entire volume has been tied up except for a few cargos kept for operational reasons.
- Subir Purkayastha:** We have been looking at opportunities as I mentioned in the opening remark that the opportunities were within the country and outside the country, yes there has been some more tie ups particularly there has been a few tie ups outside India as well, so this is the continuous process and we are trying to reduce the number of cargos which at present do not have a fixed home.
- Rohit Ahuja:** Thank you Sir. I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.
- Amit Shah:** Three questions from my side. First one on the transmission, I just wanted to confirm you said that the reason why the transmission profitability was down was because there was higher cost to the tune of Rs53 Crores as well as the Rs80 Crores one time, so there was almost Rs.130 Crores lower realization for this quarter is that correct?
- Subir Purkayastha:** Yes.
- Amit Shah:** And the second one is on the petchem, is there any shutdown which is right now going on in Pata or it is fully operational?



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Subir Purkayastha: Both yes and no. Pata I and II were both operating at nearly 100% capacity rate as I mentioned earlier that is producing more than 2500 tonnes a day, but a couple of days back there was a power trip in the sense that you know the transmission line which is coming from the nearby NTPC station got snapped and as a result of which there was disruption in the power supply. As a result of which, although Pata I continue to run in its full capacity may be I would say at more than 100% capacity, Pata II came to a standstill. By today or tomorrow I think that should be over and again gradually we would see Pata II comes back. So to answer your question yes, Pata I has been fully running to its full capacity may be more than full capacity, but Pata II for the last one week of February till today has been disrupted because of the non-availability of power system coming in from the grid.

Amit Shah: So effectively you would say Pata II for 4Q would lose around five to seven days of supply production volume that is all?

Subir Purkayastha: Likely more maybe 10 to 12 days.

Amit Shah: So 10 to 12 days of total shutdown at Pata II?

Subir Purkayastha: Pata II.

Amit Shah: And just last question on the LPG business, did really well back on higher crude prices and is that something that is continuing for this quarter as well for Q4 as you see because all prices have continued to remain on the higher side?

Subir Purkayastha: What is the situation for this quarter? I am told that it would be at current levels only, so we foresee until unless there is a change in the month of March, it should also again result into a good performance?

Amit Shah: Alright, that is it. Thank you.

Moderator: Thank you. The next question is from the line of Amit Rustagi from UBS. Please go ahead.

Amit Rustagi: Good evening Sir. Could you explain this item which is below our PAT, which is net movement on cash flow hedges gain, loss which is a Rs.216 Crores loss appearing and then we have taken some income tax effect on that, so what is this and what is the purpose of making this provision?

Subir Purkayastha: Let me clarify this is not a provision. Tiwari Ji would you like to reply to this?

A K Tiwari: We have hedged our volumes and this is other comprehensives in terms like when this and other things are shown, so the volumes which we have hedged and derivatives which we have taken as per



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the hedge accounting policy, we have shown in the other comprehensive income. So it is over the profit and loss account which is shown like other comprehensive income.

Amit Rustagi: What are those items which led to this kind of hedging loss of Rs200 Crores?

Subir Purkayastha: Let me further elaborate on this what Tiwari has said. We have adopted the hedge accounting which comes under Ind-AS 109 from October 1, 2017. So the hedging contract that we had entered into in this particular quarter, so we have gone by hedge accounting. So as per the hedge accounting, the M2M gain or loss on the date of balance sheet has to be booked in other comprehensive income and unlike in the case of derivative accounting which will not be accepted in the profit and loss account, so this is an item which has been accepted as other comprehensive income because all this hedged M2M losses are only notional losses or notional gains and they get reversed over the period. So the management thought that since the number of hedge transactions has been increasing off late. We have carried out nearly 37 transactions in this very quarter as compared to about 10 transactions in the last one year before September 30. So since we are now quite active in the derivative market and the number of such transactions are going to increase as we go forward. It was felt that time has come that we should have hedge accounting as our accounting principle, as our accounting policy so far as the derivative transactions are concerned. So as a result of that we have worked out the M2M gain or loss, it was worked out to about Rs.216 Crores of loss on an M2M basis which has been reflected in the other comprehensive income below the PAT.

Amit Rustagi: And Sir just one question on the petchem also you explained that there is some shutdown, so what was our MoU target for this year in Petrochemicals and what is our MoU target in terms of output for next year for both LPG?

Subir Purkayastha: As far as MoU target is concerned, there was no target for petrochemical production, but we had certain internal target for ourselves which was about 730 KTA.

Amit Rustagi: How much we are likely to achieve this year out of 730 KTA?

Subir Purkayastha: So out of that in the first three quarters, we have achieved about 491 KTA and we would I think land up close to about 700 KTA by the end of the year.

Amit Rustagi: And what is the target for next year FY2019?

Subir Purkayastha: It is 800 KTA

Amit Rustagi: And LPG?

AK Tiwari: Also more than 100%



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- Subir Purkayastha:** LPG target has been more than what has been accounted for again LPG production is not an MoU target, but we certainly do have an internal target for that. From that front we have made 30% more than our internal target.
- Amit Rustagi:** And just last one question, what is the impact of GST in our numbers now since things have stabilized?
- Subir Purkayastha:** Impact of GST?
- Amit Rustagi:** In our P&L any negative?
- Subir Purkayastha:** In actual, there is no impact of GST in our account, it is very bigger you can say it is input tax credit and other things in totality whatever we have one is around Rs.43 Crores for Pata Vijapur around Rs.50 Crores.
- Amit Rustagi:** Rs.43 Crores plus Rs.50 Crores?
- Subir Purkayastha:** No, total Rs.50 Crores.
- Amit Rustagi:** Thanks a lot Sir.
- Moderator:** Thank you. We have the next question from the line of Nitin Tiwari from Antique Limited. Please go ahead.
- Nitin Tiwari:** Good evening. Thanks for taking my question. My question is related to the transmission volumes, so there was a very healthy growth that we saw on a sequential basis whereas if I remember in the last call the understanding was that the volume growth that we had seen in second quarter that was coming from the power sector which you had guided that would be weaning off as you move into 3Q, so whereas like we have grown in 3Q, so I just wanted to understand that what has contributed to this growth and what is your guidance going forward in the transmission segment in terms of volume?
- AK Tiwari:** The power sector additional consumption continued in the month of October and till mid of November, so that was one of the contributing factor and in the month of December also, because of the some other consumers which came into our hold on the spot basis this which was more than the anticipated one so that led to some of the numbers which increased which included fertilizer customers primarily.
- Nitin Tiwari:** Sorry, please can you come again on the last part that you said?



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- AK Tiwari:** These new customers are largely fertilizer consumers who ran at higher than the normal capacity and since they produce more, they consume more gas.
- Nitin Tiwari:** Right, so like you know to sum it up it was largely the power demand over October, November and then few fertilizer players coming in the month of December which added to this growth in both November and December.
- AK Tiwari:** Yes.
- Nitin Tiwari:** How are the volumes looking now, what is your guidance from March end onwards?
- AK Tiwari:** Till date it is similarly way continuing. However, in March and late February we anticipate some fertilizer plant shutdown and then the power sector demand it also again depends on the hydro coming back to the grid hydro power plant, so that will depend on the rains in the month of May and June.
- Nitin Tiwari:** If I may ask what is the internal target for the transmission segment for FY2019?
- AK Tiwari:** We are looking at around 83, 84 on a conservative basis.
- Nitin Tiwari:** This is the trading part you said 83, 84.
- AK Tiwari:** We expect that it will be more than 105.
- Nitin Tiwari:** Okay Sir. Thank you Sir.
- Moderator:** Thank you. The next question from the line of Probal Sen from IDFC Securities. Please go ahead.
- Probal Sen:** Thank you for the opportunity. Good evening Sir. Just staying on the transmission segment, thanks for explaining the slippage on the EBITDA line, just wanted to understand this 500 million, 550 million odd cost increase that is there. Should we take that as a sustainable cost increase now, so in terms of the run rate for the cost excluding the 800 million which is one time? I just wanted to understand the increase in opex due to staff cost that has impacted our gas transmission profitability. This cost should be taking as a recurring item now on a quarterly basis in the sense that these costs are now there and will continue to be at these high levels?
- AK Tiwari:** A part of them can be but so far as the price is there that price has moved a lot, so input cost has increased that is the main reason for that, but R&M is not...
- Probal Sen:** Sorry, could not quite understand. This cost part of it is again one time is what we are saying?



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- AK Tiwari:** R&M is recurring, we cannot say it cannot come, provision is there on IOCL which we have explained is around Rs78 Crores that is one time.
- Probal Sen:** So the part other than the provision for ship or pay whatever is the opex increase that is something that is now there in the numbers and should continue at these levels, is that correct?
- Subir Purkayastha:** The employee cost around Rs22 Crores what we have mentioned could continue by and large with a variation of Rs2 Crores plus, minus. R&M cost Rs35 Crores is slightly on the higher side because of some particular overhauling must have been done, so that would be slightly moderated as we move forward? So Rs35 Crores would not be there in subsequent quarters and months.
- Probal Sen:** Right Sir. Got it.
- Subir Purkayastha:** But certainly there would be some increase in R&M cost, but would not be to the extent which has been reflected in this quarter.
- Probal Sen:** The other question I had was with regard to the petrochemical segments now in the last few quarters what we have seen is the sales volume number continues to actually lag what our production number is. Now is that sort of normal phenomenon in terms of having some inventory or had what I tried to get it is that is there complete acceptance of the quality that both our units are producing right now in the market. Are we facing any problems on that front or that is not a reason at all?
- Manoj Jain:** As on today the sales volume is higher than the production.
- Probal Sen:** That is in 4Q Sir you are saying?
- Manoj Jain:** That is in 4Q. I think it was lagging not by higher volumes but may be 5000, 6000 at the end of 3Q.
- Probal Sen:** Right.
- Manoj Jain:** And these are certain fluctuations to know plus, minus 3% to 4% which keeps fluctuating in the current market situation and as on today, we have higher type of 9000 to 10000 by over six months.
- Subir Purkayastha:** If you see the numbers, the number is not much difference is there in the production as said in between Q2 and Q3, so far as number is...
- Manoj Jain:** And there is no issue as far as quality is concerned.



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- Probal Sen:** Why I asked this as I rightly mentioned that between 2Q and 3Q, our sales volume is actually flat while our production number has gone up by 6000 odd tonnes, so that was the only reason I asked Sir in terms of whether we should read anything or this is just normal business variation which we...
- Subir Purkayastha:** Normal cycle sale and production will be there.
- Probal Sen:** Fair enough Sir. I will come back if I have more questions. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Vidyadhar Ginde from ICICI Securities. Please go ahead.
- Vidyadhar Ginde:** Thank you. Just some idea on this US LNG volumes could you give us rough idea about FY2018 what proportion of the volumes are being resold how much swapped, how much hedge and how much of those volumes will come in India, a rough idea?
- Manoj Jain:** Out of the total cargos around 50% we expect to come in India and remaining 50% we have already done some time swapping so that will be sold that way and that will take care of around 15-16 cargos we have kept with us for operational reasons and for sale at good times when the things become more favourable.
- Vidyadhar Ginde:** So 50% in India, so 15 to 16 cargos you kept other than that everything is time swapped?
- Manoj Jain:** Yes.
- Vidyadhar Ginde:** Anything you have done for 2019 now, any of the CY2019 volumes I think there is half a million tonne which is for five year contract other than that what is the reason, is there anything for CY2019 now which has happened since the last quarter?
- Manoj Jain:** More than half of the cargos again will be coming to India because of increasing demand.
- Vidyadhar Ginde:** Okay and so that is tied up is it?
- Manoj Jain:** Yes that is tied up more than half.
- Vidyadhar Ginde:** Okay but on these volumes which come to India, there is some element of risk so you hedge and do your best, it can go either way, is that correct?
- Manoj Jain:** To the extent the fact which is not hedged but whatever we hedged, we are seeing that potential it is not going to have any risk.



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- Vidyadhar Ginde:** So in the sense and the risk element does it depend on the prevailing oil prices so if oil says about 60 or 65 then the risk is not really there or if oil comes down would that risk be there or how does it play out?
- Manoj Jain:** It depends on both, Henry Hub also yes so if both move simultaneously in one direction than the risk remains same.
- Vidyadhar Ginde:** So let us hypothetically say that Henry Rub is \$3 per MMBTU, the price, roughly what kind of oil prices are you comfortable?
- Manoj Jain:** Between 60 and 65.
- Vidyadhar Ginde:** So if Henry rub is \$3 and crude prices are lower then at 60-65 your comfortable?
- Manoj Jain:** Yes.
- Vidyadhar Ginde:** Okay thanks a lot. One last question on the petchem so in terms of petchem in 4Q what is likely to be versus 3Q in terms of your gas cost, will anything remain similar, change for the better, change for the worse and does this Gorgon renegotiation which becomes applicable from January 1, 2018 help in anyway?
- Manoj Jain:** It may remain in the same range because of two factors, one is the negative factor that the some of the spot prices were higher in the month of Jan and Feb but at the same time Gorgon prices have come down so we expect that the overall in 4Q things should largely be in the same range.
- Vidyadhar Ginde:** Okay so basically you are saying that on spot LNG, there will be a hit which will be made up by Gorgon?
- Manoj Jain:** Yes okay thanks a lot. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Avadhoot Sabnis from CIMB. Please go ahead.
- Avadhoot Sabnis:** Could you provide some more colour on the Kochi pipeline, the status, are we still looking at December 2018 for completion?
- Subir Purkayastha:** Yes the construction on the Kochi pipeline all the 6 or 7 sections the work has been awarded, the progress is relatively good under the circumstances and we expect that this should be completed much ahead of the schedule of December 2018.



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- Avadhoot Sabnis:** Coming back to the earlier point on GST negative impact being just Rs.50 Crores, can I assume that if gas does come under the GST let us say from tomorrow that the positive impact accordingly will be Rs.50 Crores?
- Subir Purkayastha:** It has not been worked out, but it will be around that. There is no such working we have done.
- Manoj Jain:** It also depends on the rate of gas.
- Avadhoot Sabnis:** Can you give us some idea as to what rate, if it comes, is going to be neutral?
- Subir Purkayastha:** So that working we have not done as so far because we have not met it that way, but if gas comes under GST then possibly it will be not much of the impact on that.
- Manoj Jain:** It will be negative impact of Rs50 Crores that we have seen in the six months post implementation of GST, one can take a safe assumption that at least Rs50 Crores will be the saved.
- Avadhoot Sabnis:** So Rs50 Crores you mentioned was for the last two quarters together combined?
- Subir Purkayastha:** Yes start of GST from July 1, 2018.
- Avadhoot Sabnis:** Okay and I think in the budget the government has provided us around Rs400 Crores only for the government grant for the East Coast pipeline so is that likely number now that you could receive in this year?
- Subir Purkayastha:** We have received Rs400 Crores in the last fiscal, in 3Q we have received Rs400 Crores already.
- Manoj Jain:** Cumulative we have received at Rs835 Crores as of now.
- Avadhoot Sabnis:** And lastly Sir, you had given a capex target of Rs3,329 Crores on your own balance sheet plus and additional equity investment of Rs932 Crores for the current year, could you tell us what are the figure for the first nine-month?
- Manoj Jain:** This capex you are talking?
- Avadhoot Sabnis:** Yes capex on your own balance sheet.
- Manoj Jain:** That is mostly related to the main pipelines which is going on Jagdishpur-Haldia, Vijaipur-Auraiya and other pipeline so mostly related with capitalization ROU and other things which we have taken land that we have taken where we have capitalization and mostly these Jagdishpur-Haldia and Vijaipur-Auraiya pipeline.



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- Avadhoot Sabnis:** So what is the total spending for the first nine-month?
- Subir Purkayastha:** For nine-month is Rs.892 Crores.
- Avadhoot Sabnis:** Okay and any additional equity investments in the first nine-month?
- Subir Purkayastha:** It is around Rs.383, we have added up till now is Rs.368 or Rs.370 Crores like that.
- Avadhoot Sabnis:** Okay thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Maggie Sun from Hermes Investments. Please go ahead.
- Maggie Sun:** May I just ask first of all why did you issue bonus or stock dividends in your recent announcement given that your interim dividends pay out was already higher than that in last year?
- Subir Purkayastha:** This is as per the government guidelines which we have to comply with and we have received communication from the government in that and as per the guidelines of the government, we are candidate for issue of bonus shares at this point of time and therefore it has been decided to give the bonus shares.
- Maggie Sun:** Okay is it like something regular that is going to happen year-on-year?
- Subir Purkayastha:** This is very difficult to answer because it will depend upon the reserve to equity ratio basically at what level it stands so that would be by and large a guiding factor to decide on the bonus issues.
- Maggie Sun:** Okay I see. So if we looking at the oil price in the last quarter, the price have been rising relatively from September to December, however if you are looking at margin of your petrochemical business and LPG business, the LPG prices expanding is the margin also expanding however petrochemical price have been shrinking on Y-on-Y basis and the margin is nearly historical 12, so why there are different price trends for products that is linked to the oil prices?
- Subir Purkayastha:** Can you please your question why is the...?
- Maggie Sun:** Yes so if we look at oil price has been rising over the last quarter, but petrochemical price dropped Y-on-Y while your LPG price increased very sharply why there are two difference scenarios?
- Subir Purkayastha:** No this is two different products polymers and liquid hydrocarbons are totally two different products catering to different customers and market so while liquid hydrocarbon prices reflect the rising crude prices and the fiscal demand that we have. On the other hand so far as the polymer prices are



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concerned besides the international prices that we have those can at best be benchmark but we have also to recognize that there is also intense competition within the country amongst many domestic players and the competition which comes in from import. Recently OPEC has commissioned its plant and its product also available in the market so there have been very aggressive pricing policy so with additional suppliers coming into the market in this very financial year, therefore there has been a bit of pressure and therefore the results that you see the financial results that you see with this petrochemical unit has not been something which we had been yearning for. Hopefully as we move forward with increase in demand such imbalances of I mean the balance would move in favour of supply in that case we expect that prices could see some upward movement in the next few quarters.

Maggie Sun: Okay so the price of the LPG is kind of like that three years peak or rise the price of petrochemicals either three year drop, what is outlook for the next quarter shall we see a reverse of price for both products?

AK Tiwari: Petrochemical is gone up by around \$100 in Q4.

Subir Purkayastha: She is saying that with respect to Reliance they see the other way around they see that the margins in petrochemicals have been higher than the liquid hydrocarbon, am I right in my understanding of your questions?

Maggie Sun: Yes Sir I am just wondering because it is kind of like three years drop for petrochemical price and just three year peak for LPG price shall we reverse for the next quarter or what is the outlook for the price of both products?

Subir Purkayastha: Okay in 4Q we have already seen some reversal of petrochemical prices, it has moved up. On the liquid hydrocarbon side, prices so far has been strong, the kind of presence that we saw in the last quarter, but there is still one and a half months to go overall all in all we feel that the performance of the liquid hydrocarbon segment in this very quarter also will be having a good performance.

Maggie Sun: Sir how about LPG?

Subir Purkayastha: I am talking about liquid hydrocarbon, which also includes LPG and on petrochemical side as I said there has been an improvement in the prices right close to about 78% increase in prices is what we have foreseen in this quarter so hopefully there should be some improvement in the performance of the petrochemical segment as well in the current quarter.

Maggie Sun: Okay Sir and for your gas transmission business apart from the provision is any other OPEX increase that will be to the margin chopped for this quarter?

AK Tiwari: In petrochemical you are talking?



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- Subir Purkayastha:** No transmission.
- Maggie Sun:** On natural gas?
- Subir Purkayastha:** In transmission, there is increase in the input cost as well as provision is there Rs.78 Crores and repair and maintenance this quarter.
- Moderator:** Thank you may I request Ms. Maggie Sun to join in the question queue for any follow-ups as we have several participants waiting for their turn. Thank you. The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.
- Sabri Hazarika:** Sir just wanted to confirm you had this Rs86 Crores of E&P provision also with it apart from other expenditure right Sir?
- Subir Purkayastha:** That provision it is basically an impairment.
- Sabri Hazarika:** Okay and second question is on your unified tariff I think the comments have come, there is detailed comment document which came in PNGRB, so many of the stakeholders have actually voiced concern about the assumption being taken by GAIL, one of them capex being steadily risen over the next say 10 to 15 years, but the volumes have slightly been kept fix so is there a possibility that the assumption may be too aggressive and there could be significant cut in the actual tariff once PNGRB determines it?
- Subir Purkayastha:** Actually the issue is not on the numbers, the issue is with respect to the policy whether you would like to move on unified tariff basis, what is the volume which has been considered, what is the opex it would be on actual basis, it is only for the sake of some calculations, some numbers would have been taken at the end of day what matters for importantly is principle under which the tariff is calculated so once the principles are set, the other things would be as per the actual or as per the norms available as per the PNGRB regulations.
- Sabri Hazarika:** Okay fine and just one last question your interest cost has fallen significantly, so any particular reason for that?
- Subir Purkayastha:** Because we have paid and prepaid substantial amount of loan over the last nine months as a result of which the interest burden has also come down.
- Sabri Hazarika:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.



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- Maulik Patel:** My question has been asked. Thank you.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Future Generali. Please go ahead.
- Chinmay Gandre:** Sir just one clarification, in your financial information statement Rs853 Crores gross margin for the natural gas is after reducing that Rs80 Crores provision is that understanding right?
- Subir Purkayastha:** That is after adjustment.
- Chinmay Gandre:** Okay Sir and any specific reason why the employee cost has increased on a sequential basis?
- Subir Purkayastha:** You see the wage revision has been effected in the month of November, so although we had been making some provisions in the past, but the actual numbers have come in only in this quarter when in November, the government approval was given with respect to the wage revision, which is with effect on January 1, 2017 so as a result of this additional employee cost has been accounted for in this quarter.
- Chinmay Gandre:** So this 22 or additional cost would also have impact for the whole January to November kind of year right?
- Subir Purkayastha:** Yes.
- Chinmay Gandre:** So on a continuing basis may be the employee cost would not be higher by Rs21 odd Crores, it would be little?
- Subir Purkayastha:** What I said it may be not Rs22 Crores, it may be Rs2 Crores, Rs3 Crores year and there.
- Chinmay Gandre:** Okay, thank you Sir.
- Moderator:** Thank you. The next question is from the line of Saurabh Handa from Citigroup. Please go ahead.
- Saurabh Handa:** Sir could you just tell us for fiscal 2019 what is the total amount of contracted LNG that you expect to receive, so you can exclude the Qatar volumes, but basically from US, Gazprom, and Gorgon, what is the total contracted LNG?
- Subir Purkayastha:** Total contracted quantity besides is 5.3 from US and 2.5 from Gazprom plus 0.3 from Gorgon. This is all that we have...
- Saurabh Handa:** I want to know how much of this we expect to see in fiscal 2019?



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Subir Purkayastha: Expect to receive?

Saurabh Handa: Because Gazprom I understand has a ramp up clause right so the entire 2.5 will not be coming through in fiscal 2019. I wanted to know how much of these volumes do you have to off take in FY2019?

Subir Purkayastha: Total number of cargos will be around 100.

Manoj Jain: So about 3 million tonne of volume will be coming to India, which contains the Gazprom volume as well as about 32 cargos coming from US.

Subir Purkayastha: No he is asking about the total contracted volumes? About 20% would be coming to India.

Manoj Jain: 19.75.

Saurabh Handa: Fiscal 2018-2019

Manoj Jain: 2018-2019 Gazprom would be giving us 11 cargos. From USA, we will get about 32-35 cargos.

Saurabh Handa: Okay and from Gorgon?

Manoj Jain: Gorgon supply is at about 0.4 million tonne for GAIL that is about 5-6 cargos. Actually the supply is divided into three offtakers, but for GAIL it is .4 million tonnes.

Subir Purkayastha: It is already coming for the last one year?

Saurabh Handa: Yes so that new gorgon volumes are not coming in fiscal 2019 right? Hope you have signed in other I think contract Exxon as part of the renegotiation, so none of those cargos come in, in this financial year?

Subir Purkayastha: The new contract of Exxon would start in the year 2026 or round about that...

Saurabh Handa: 2026?

Subir Purkayastha: Or near about that 2025 or 2027 something like that.

Saurabh Handa: Okay great and these the Gazprom volumes from 11 cargos in the next financial year that is in financial year 2020 will go up to how much Sir?

Subir Purkayastha: Financial year 2020 would be about 15 cargos.



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- Saurabh Handa:** Okay and US volume?
- Subir Purkayastha:** US volume continues to be same on for all years, the total liability or the volume available would be 85 to 90 cargos per year.
- Saurabh Handa:** Okay 85 to 90 per year? So your saying of this, 32 to 35 is what comes to India and the balance in financial year 2019?
- Subir Purkayastha:** Financial this past year we told?
- Saurabh Handa:** Okay so this was the total in the first year 65 out of which I think 32 will come to India is that way to look at it?
- Subir Purkayastha:** Last year about 14 cargos have been sold on time swap so for remaining 50% of the volume is coming to India which is about 32 to 35 cargos that will come to India. In the next year also the ratio would remain same just that we do not have any time swap sales.
- Saurabh Handa:** Okay and the volume which came to India and other question which was asked you said that \$60 to \$65 or something you would be comfortable so do we understand at \$3 Henry Hub that works out to around 12.5% slope to oil price?
- Subir Purkayastha:** Actually we start getting comfortable at about 54, 55 at 60 we are ensured totally comfortable so even at 55 most of our downstream sales make money, lot of money in fact.
- Saurabh Handa:** Okay and these are all tied up back to back on long-term basis should be 30-35 cargos that come to India or these on a long-term back to back or how does it work? Or is that is it linked to where the spot prices are or is it like a fixed slope I mean that is what I am trying to understand?
- Subir Purkayastha:** Can you repeat please?
- Saurabh Handa:** Sir you said these cargos which are coming to India which is 30-35 cargos you are comfortable at \$57 or \$55, are these based on particular slope to oil prices or there are just you sell it at the prevailing spot LNG prices in the market at that point of time what I am trying to understand, are they sold on a back-to-back basis already on longer-term basis to the downstream end consumer?
- Subir Purkayastha:** Each customer is a mix, all contracts are mix of in the sense it cannot be specified that clearly as to some of the sales are on Brent, some of sales are on some other indices.
- Saurabh Handa:** Okay so we can take 55 at Henry Hub of 3 as sort of break even for you?



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- Subir Purkayastha:** You can say 55 to 60, we start getting comfortable at 55, we are very comfortable at 60.
- Moderator:** Thank you Mr. Handa may be requested to join the question queue for any follow-ups. Thank you. The next question is from the line of Sanjay Mookim from Bank of America. Please go ahead.
- Sanjay Mookim:** Can I ask about the performance of Brahmaputra Cracker it has been up and running for a while, do you have an update please?
- Subir Purkayastha:** Brahmaputra Cracker has been running well it has nearly 100% capacity utilization yes of course sometimes there are challenges with respect to some continuous availability of Naphtha but the plant has been running at 100% capacity in fact they are already on the verge of making cash profits. By the year end I think they would end up with the cash profit so far this season performance has been on expected lines looking at the various factor that it has been, by and large its performance has been okay.
- Sanjay Mookim:** Should we still build in on accounting loss on consolidation of these BPCL for FY2018 or FY2019?
- Subir Purkayastha:** I do not think so we are anticipating any consolidated account or any loss on account this year.
- Sanjay Mookim:** Alright. Sir and going back to the cargos that you just talked about coming in from US you said 30-35 cargos Gorgon 0.4 million tonnes and so on FY2019. In total they add up to more than the spot volumes that you are doing this year in FY2018? Will you have to find more demand assuming that you will replace current spots sales with the new gas, but do you still have to look for the new buyers to dispose of all these cargos?
- Subir Purkayastha:** We have already tied up some of the new buyers and we will be gradually starting from say as early as March and to maybe by November, there will be few more consumers, which will by the time we reach November may be they will be add up to around 1 million tonne of demand.
- Sanjay Mookim:** Right Sir and the logical follow on question is that the import terminal at the Dahej is running 100% capacity where are you going to import these volumes from?
- Subir Purkayastha:** We have got Dahej and Dhabol and sometimes if required we take the help of Shell Hazira.
- Sanjay Mookim:** All right. Thank you very much.
- Moderator:** Thank you. We have the next question from the line of Tarun Lakhota from Kotak Securities. Please go ahead.



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Tarun Lakhotia: I have couple of them, first is how much is the amount of state VAT that you would be paying on gas purchases for your internal consumption in LPG Petchem segments?

Subir Purkayastha: Gujarat is 15%.

AK Tiwari: State VAT varies from state to state like where in case of purchase it is mainly from Gujarat, the rate of VAT is 15% there.

Tarun Lakhotia: That is correct Sir, can I say the raw material cost which you have, you are buying most of your gas as well as LNG including RAS gas from Petronet in Gujarat so you are paying 15% VAT on that?

Subir Purkayastha: Yes 15% VAT whatever is there and that becomes a cost.

Tarun Lakhotia: Exactly so now that if gas as and when it comes under GST, the GST whatever you pay on gas will be actually set off against LPG and petchem sales in both the segments?

Subir Purkayastha: Yes certainly.

Tarun Lakhotia: Okay so then just to confirm 15% of your raw material cost I mean on gross of basis would actually become recoverable in some sense after the gas is brought in GST?

Subir Purkayastha: Yes provided, government does not put any other condition with this.

Tarun Lakhotia: Okay but at least everything comes under GST then at least that will become recoverable. Sir my second question is related to some of the pipelines where we have not received any final tariff orders from PNGRB so now that the board is up and running, can we expect any final tariff order on pipeline like HVJ, DVPL, GREP and all of these or do you think will move to unified tariff framework skipping the final tariff order for these pipelines meanwhile?

Subir Purkayastha: It will entirely depend upon how PNGRB works. It is very difficult for me to comment or anybody of us to comment how PNGRB would be declaring tariffs, but we expect that some pipeline tariff should be declared till such time unified tariff is declared.

Tarun Lakhotia: That is what so at least for some of the older pipelines where utilization is below 75% and given that the change in divisor has already been affected by PNGRB couple of years ago so now at least we should see some final tariff orders for those pipelines before we move to unified tariff framework. Are you in discussion with PNGRB on any of these pipelines I mean because they would need to get your inputs to?

Subir Purkayastha: Not at this point of time.



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Tarun Lakhota: Okay understood. Thank you Sir. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!

Subir Purkayastha: Thank you very much for the patience hearing and I think it was quite informative and I hope that we have been able to satisfy the queries which were being asked not many other things, we of course discuss during when we meet on one to one basis and all those things can further be clarified as and when we have such kind of investor meet. So thank you once again for being patient to listen to us for replies and once again thank you so much for your time. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Ambit Capital Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.