"GAIL (India) Limited Q3 FY22 Earnings Conference Call"

February 3, 2022

MANAGEMENT: **MR. RAKESH KUMAR JAIN – DIRECTOR (FINANCE)**
MR. A KAVIRAJ – EXECUTIVE DIRECTOR (INTERNATIONAL LNG)
EXECUTIVE DIRECTOR OF BUSINESS DEVELOPMENT
EXECUTIVE DIRECTOR OF CSPA
EXECUTIVE DIRECTOR OF PETROCHEMICALS MKTG
EXECUTIVE DIRECTOR OF FINANCE

MODERATOR: **MR. HARSHVARDHAN DOLE, IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY22 earnings conference call of GAIL (India) Limited hosted by IIFL Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Harshvardhan Dole from IIFL Securities Limited. Thank you and over to you, sir.

Harshvardhan Dole: Greetings everyone. On behalf of IIFL Securities, I welcome you all for the 3rd quarter earnings call of GAIL. Before we start the call, I would like to congratulate GAIL for a stellar performance and would like to introduce the senior management team of GAIL represented by Mr. Rakesh Kumar Jain who will be first giving his opening remarks, subsequent to which we can have the floor open for Q&A. Over to you, sir.

Rakesh Kumar Jain: Good afternoon to you from IIFL and my dear friends from the investors and analyst community. I have with me my senior colleagues; executive director of business development, executive director of CSP, executive director of petrochemicals, executive director of finance, executive director of international sourcing. We have all the colleagues available here to answer and other senior friends. We are thankful to you for showing a keen interest in the performance of GAIL. The results for and up to 3rd quarter have earlier been declared today and I'm sure you must have gone through the results and must be happy with GAIL's performance in the last quarter in particular and 9 months in general. I take pleasure to state that for upto Q3 2022, GAIL has achieved highest ever turnover, highest ever PBT, and highest ever PAT.

To give the financial highlights, GAIL achieved gross turnover of Rs. 25,688 crores in the current quarter, i.e., Q3 as against Rs. 21,477 crores in Q2FY22. This is an increase of 20% and this increase is primarily driven due to higher natural gas price which is on an average around $1.6 per MMBtu, higher LHC price which is around $12,700 per metric ton and higher petrochemical prices around Rs. 7,000 per metric ton.

If you see our 9-month basis, GAIL achieved a turnover of Rs. 64,517 crores in financial year 2022 versus Rs. 41,057 crores during the corresponding period in the previous year that is up by 57%. And if we talk of profit before tax, it increased to Rs. 4,308 crores in Q3 financial year 2022 as against Rs. 3,682 crores in Q2 financial year 2022, an increase of 17% primarily due to improved marketing spread, better prices of petrochemical and LHC and improved operating efficiency in petrochemical and LHC. On a 9-month basis, GAIL achieved profit before tax of Rs. 10,044 crores in financial year 2022 as compared to Rs. 3,774 crores during corresponding period in the previous year. This is up by 166%.

Profit after tax jumped to Rs. 3,288 crores in Q3 financial year 2022 against 2,863 crores in the Q2 of financial year 2022, an increase of 15%. On a 9-month basis, GAIL achieved profit after tax of Rs. 7,681 crores in financial year 2022 versus Rs. 2,983 crores during the corresponding period in the previous year and this is up by 158%.

Coming to the segmental performance, if we talk of gas marketing, gas marketing stood at 96.56 MMSCMD in Q3 as compared to 97.72 MMSCMD in Q2 financial year 2022. Gas marketing profit increased from Rs. 1,073 crores to Rs. 1,745 crores, mainly due to increased gas marketing spread. And now if we talk of the gas marketing, likely volume in the future if we talk about coming 2 to 3 years, next year we expect the volume to go up by 5 to 6 MMSCMD, but if we consider the average, it will be around 4 MMSCMD in the coming next 2 to 3 years.

Coming back to the natural gas transmission, it stood at 114.28 MMSCMD as against 114.32 MMSCMD in Q2 financial year 2022. The capacity utilization remained at 55% in both Q2 and Q3. The gas transmission volume is expected to increase by 5% to 6% per annum for the coming couple of years and this increase will primarily be driven by increase in supply to CGD and the upcoming fertilizer plants of JHBDPL. These all customers will be coming on the JHBDPL, that means that the consumer will be paying the tariff upstream pipeline like HVJ and thereafter JHBDPL. Therefore, the weighted average of the revenue will also be higher as compared to this year.

Polymer production stood at 234 TMT in Q3 financial year 2022, as against 216 TMT in Q2 financial year 2022, an increase of 8%. The plant is currently running smoothly, and during the current quarter the plant operated at 114% as compared to 106% in Q2 and we are quite confident that the plant will be able to achieve its 100% production capacity this year as well. Polymer sales stood at 217 TMT in Q3 financial year 2022 as against 221 TMT in Q2 financial year 2022, a decrease of 2%.

We have witnessed very good petrochemical prices in the last quarter, and if you talk of average price in the last quarter, it is around 104,000 per metric ton. We expect that price to remain stable, robust even in the near future.

The LHC sales stood at 275 TMT in Q3 financial year 2022 against 262 TMT in Q2 financial year 2022, an increase of 5%. The capacity utilization increased to 77% in Q3 as compared to 74% in Q2 financial year 2022. The price realization in Q3 was up by 26%. There is a significant increase of price in Q3 of 26% as compared to Q2 which led to the significant increase in the margin of LHC despite increasing input cost. If you remember that input cost increased from $1.79 per MMBtu if we are talking of APM prices allocated to LPG segment.

Cost of input gas from LHC segment is primarily driven by domestic gas price for April 2022 based on the current formula. We expect the cost of input gas will go up, but considering that the LHC prices are at a very good level and were we see the future, that are likely to remain at a very good level. Therefore, the pressure on our margins will not be to that great extent.

LPG transmission was 1,057 TMT in Q3 financial year 2022 as against 1,054 TMT in Q2. It is almost flat as compared to 1,057 versus 1,054. And the capacity utilization is 110% both Q2 and Q3.

Coming to the consolidated financial results, the turnover in Q3 financial year 2022 is Rs. 26,084 crores versus Rs. 21,739 crores in Q2 financial year 2022, up by 20%. The profit before tax in Q3 financial year 2022 is Rs. 4,820 crores versus Rs. 3,728 crores in Q2 financial year 2022, up by 29%. The PAT in Q3 financial year 2022 is Rs. 3,781 crores as compared to 2,883 crores in Q2 financial year 2022 that is up by 31%. On 9-month basis, GAIL achieved a consolidated turnover, PBT, and PAT of Rs. 65,373 crores, Rs. 11,088 crores, and Rs. 8,802 crores respectively and turnover up by 57%, PBT up by 146%, and PAT up by 141%.

Coming back to the cargo details, during the quarter, GAIL received 22 LNG Cargoes from US (14 from Sabine Pass and 8 from DCP). Out of these, only 6 cargos were sold in the overseas market, and because of the increased demand, we brought remaining cargos to India directly or through destination swap.

GAIL CGD: The profits from GAIL CGD business have increased. This is picking up. In the last quarter(Q#3) it was Rs. 9 crores as compared to the Q2 of Rs 3 crores. GAIL is having infrastructure of 92 CNG stations and approximately 1,65,000 domestic PNG connections with cumulative CapEx spent is Rs. 1,000 crores. In the next 2 years, GAIL targets to add over 100 new CNG stations and 2,50,000 new DPNG connections. The Q3 sales is approximately 0.16 MMSCMD and we expect the sales to grow by 20% in Q4 and is expected to double in the next 2 years.

With respect to GAIL Gas, during the quarter 3 of financial year 2022, the gross revenue from operations stood at Rs. 2,057 crores as against Rs. 1,478 crores in Q2 financial year 2022, an increase of 39% mainly driven by increase in volume and average gas price. PBT remained flat at Rs. 103 crores in Q3 versus Rs. 105 crores in Q2. The profit also remained almost flat, 77 crores, as against 78 crores in Q2. Gas sales has increased from 4.99 MMSCMD in Q2 to 6.13 MMSCMD in current quarter. And this mainly has happened because of addition of one bulk consumer and increase in CNG and DPNG demand.

GAIL Gas along with its JV subsidiaries has infrastructure of 7,50,000 DPNG connections and 268 CNG stations. GAIL Gas plans to incur a CapEx of around Rs. 4,000 crores in the next 3 years on expansion of network in the existing cities of Sonipat, Meerut, Kota, Dewas, Taj Trapezium, Bangalore, and GAJ lines and tenth biding round. The sales volume is expected to grow by approximately 10% per annum over the next 3 years.

Coming back to the CapEx details, GAIL has achieved over Rs. 5,000 crores of CapEx up to December 2021 mainly on account of pipelines, petrochemicals, CGD projects, operational CapEx, equity contribution, and E&P. We have planned to spend Rs. 7,500 crores in the current financial year and similar amount in financial year 2022-23 and mainly on pipelines, the petrochemicals, CGD, and equity.

Just to share with you the project performance, on the Pradhan Mantri Urja Ganga, the total commitment is over Rs. 15,530 crores and the actual CapEx upto Q3 financial year 2022 is Rs. 12,815 crores. We have been receiving the capital grant from the government regularly, and till date, the total capital grant received is Rs. 4,549 crores as against a total grant of 5,176 crores. The GAIL along with JV is executing various pipeline projects for approximately 7,500 km entailing total cost of approximately Rs. 37,000 crores. GAIL is executing PP project at Pata and Usar with a total cost of Rs. 10,000 crores. The EPMC contract and license selection has been done and the work on project is going on as per the schedule.

Just to share another recent development - the OTPC. GAIL acquired equity stake of 26% in ONGC Tripura Power Company which owns and operates 726.6 megawatt gas-based combined cycle power plant at Palatana, Tripura. The stake has been acquired from IL&FS group of companies over a consideration of Rs. 319 crores.

That's all from my side regarding the overview of performance and projects. The management of the company is available. We would be glad to clarify regarding any questions that you may have. Over to you, Mr. Harsha.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Vishnu Kumar with Spark Capital. Please go ahead.

Vishnu Kumar: Congrats for a superb set of numbers that you have delivered. My first question is on the transmission business. Especially, if you could just update us on the new fertilizer plants that are coming up and when do you expect all of the 4-5 plants that are already there to reach good volume utilization

Rakesh Kumar Jain: You are talking of the new fertilizer plants which are coming up. If we talk of HURL Gorakhpur, pre-commissioning of this plant is in progress. They are currently drawing 0.1 to 0.2 MMSCMD of our LNG, and we expect commercial production to take place in April-May 2022. If you talk of HURL Barauni, again, the gas supply for pre-commissioning started in December 2021. Currently, the plant is drawing 0.1 MMSCMD, and we expect commercial production to take place sometime in October to December 2022. Coming back to HURL Sindri, gas supply for pre-commissioning started in December 2021. Currently drawing almost approximately 0.1 MMSCMD of our LNG. Commercial production is expected again in October to December 2022. And with all 3 plants apart from drawing transmission of about 2.2 MMSCMD, we have a contract for 1.87 MMSCMD for supply of gasses through GAIL.

Vishnu Kumar: So, is it fair to say that by October, each plant will be drawing almost close to 1.87 by October to December quarter. All of them will be running closer to their capacity?

Rakesh Kumar Jain: Yes, that's what we expect.

Vishnu Kumar: Second question is on the Other Expenses that you report on the P&L, that number.

Rakesh Kumar Jain: We will come back to you. We are not immediately ready with that.

Vishnu Kumar: My final question is on the gas usage across various segments. If you could just tell us how much of APM gas is being used at each segment. Just trying to understand because cost is going up.

Rakesh Kumar Jain: Each segment by GAIL or by country?

Vishnu Kumar: For GAIL internal consumption let us say we are using in the gas transmission. In LPG, how much you use the domestic gas in case you use any domestic gas, all the individual segments, internal consumption.

Rakesh Kumar Jain: There is allocation of APM gas to GAIL, is for LPG and the fuel consumption in the compressor. The allocation for compressor is 1.33 and for LPG it is 1.92.

Vishnu Kumar: At a steady state basis, you are using only 1.9 + 1.3, that's about 3.2 MMSCMD of APM. To this extent, we will see cost increase from April?

Rakesh Kumar Jain: No. One cost is pass-through cost. If we talk of compressor, the fuel consumption cost is passed through tariff. So, there is no increase which is going to impact GAIL.

Coming back to the LPG, yes, to the extent the APM price increases, certainly input cost as I also said in my initial remarks, the input cost is going to go up, but considering the LPG price currently and likely price increase or likely price scenario in future, it will impact, but it is not going to impact significantly.

Vishnu Kumar: Sir, the transmission, we thought whatever tariff is getting reported, that will be the number, but you are saying that whatever PNGRB given number + incremental cost will also be transferred. Is that the right understanding on the transmission side?

Rakesh Kumar Jain: The tariff for natural gas pipelines are cost plus. So, any increase in cost is passed through.

Moderator: The next question comes from Amit Rustagi with UBS. Please go ahead.

Amit Rustagi: Super congratulations for a strong set of numbers. Sir, I have 2 questions; one relating to your gas marketing. Could you give as an outlook for gas marketing US cargos for the next financial year that how many are you planning to bring in India and how many are you going to sell internationally and what kind of arrangements we have? Because I think one clarity which investors need today is like the volatility in the gas trading business is quite huge. So, if we can get confidence that the volatility is reducing, that will be quite helpful for the investors.

Rakesh Kumar Jain: Amit, just I want to understand how the volatility is getting addressed by bringing cargo to India?

Amit Rustagi: Because internationally, we understand that the prices are fluctuating versus your Henry Hub prices and so we really don't know whether you have sold those cargos at a profit or at a loss. That is one. Second is, if you are selling more volumes in India, my understanding is that that brings quite a lot of stability. So, only we will be subject to some basis this because I think in India you sell the cargos at oil-linked pricing and while the cost of the cargos is linked to the Henry Hub pricing.

Rakesh Kumar Jain: I will request the Executive Director, International LNG, to just give you the details about the cargo which we will sell in the international market and for the next year.

A Kaviraj: For a moment, keep the volatility aspect aside. So far, the reason why we sold LNG cargos in the international market was that we didn't have a commensurate demand in the domestic market. So, it was more of a mitigation measure which we have been undertaking ever since our US volume started physically in early 2018. But now, with time, the domestic tie-up which we have done with the fertilizer sector as well as in the other sectors, they are slowly getting fructified. So, the time has come where we feel that the erstwhile mitigation measure which we undertook is no more required. On the contrary, we have to preserve our every volume. Whether it is US or Gazprom or ExxonMobil, we have to preserve it to cater to the Indian market. This is the broad outlook. But at the same time, whatever volume which we have sold under the mitigation measure in the past, that we will continue to honor. To put a number or an assessment, they are hardly few now. And that commitment was made till March 2023 only so far. Anything beyond March 2023, I don't think there is any number, but till March 2023, cargos are sold under some contract. If I have to broadly quantify these numbers, it will be around 15 to 20 cargos. This we have to honor it. The rest everything is being brought and will be brought to India only henceforth.

Our action plan is nothing to do with the volatility because our ultimate market is India and we are here to serve Indian market and tie-up has been made and pipeline investment has been made accordingly. So, we have to fulfill those obligations.

Amit Rustagi: Really good to hear this. Could you tell us that now incrementally are you able to sign more cargos, more volumes in long-term contract from US portfolio in India and what is the pricing you are looking at? Is it Henry Hub plus or is it still linked to oil?

A Kaviraj: I will not be able to specify anything, but yes, there is a mood internally that we have to revisit our demand-supply position because we feel that there is a scope for sourcing additional volume to meet the emerging requirement, but we have not yet finalized. How much volume and from whom we have to source it, we are yet to finalize it because it all depends on the schedule of the balance demand fructifying.

And if you have any opportunity which can give a good slope, please let us know.

Rakesh Kumar Jain: Amit, just I would like to add to what Mr. Kaviraj has said. We will be able to bring most of the cargos to India as the demand is increasing because we have commitment for fertilizer plants. With respect to your question whether we have planned to source, let me give one thing. When we are bringing the cargos to India, we are creating a space for ourselves. The space which we were occupying in international market, we were marketing certain volumes. So, apart from the sourcing of cargos for Indian market, perhaps we can also fill that space of buying cargos to maybe serve the international market. That is also being analyzed internally.

Amit Rustagi: That would be quite an interesting move. Sir, my second question relates to the CGD sector. GAIL is one of the largest players in city gas distribution, but now of late, we are seeing that some gas allocation issues being raised for the priority sector. How do you think that these things will settle down? Because incrementally we are seeing more and more volume growth like you are seeing yourself. GAIL Gas is growing pretty fast. Your own CGDs including MGL and IGL are growing pretty fast. But they are not getting commensurated to APM supplies which they were supposed to get, and hence their cost has gone up, and there will be further cost pressures from April when the APM prices go up. So, do you think that these businesses would still remain that much profitable as they were and would the government give a similar support which they were providing earlier?

Rakesh Kumar Jain: Amit, because this question is based on a hypothesis what will happen in future, and going by the hypothesis you have assumed that there will be less allocation or there will be different pricing mechanism for that. Certainly, if input price increases, the margin will be under pressure. In CGD sector, the prices are mostly based on alternate fuel price. So, to the extent, they will increase, but if that margin is lower than the input gas, certainly there will be pressure, but that is one part of it. The other part of it is that the CGD sector is a growing sector. So, even if there is a little bit pressure on their margins hypothetically, but then they are growing and their business is going to increase, and the size when increases, that will give another efficiency. In my view, that will compensate that. So, that pressure may not be to the extent which is being envisaged if this happens.

Amit Rustagi: But do you think there will be a continued support in terms of 100% APM gas allocation for the sector?

Rakesh Kumar Jain: Yes, that's the priority sector. It is in the list of priority sector as on date. There is no change.

Moderator: The next question comes from Avadhoot Sabnis with InCred Capital. Please go ahead.

Avadhoot Sabnis: Sir, firstly, you gave the status on the 3 fertilizer plants on the east coast pipeline. Could you give the status of the remaining two which is Matix and Ramagundam where we also are going to supply LNG?

Rakesh Kumar Jain: Actually, I said on the status which were in progress, but if you talk of Ramagundam, Ramagundam commercial production happened in March 2021 and the plant is currently consuming 1.7 MMSCMD of gas and the plant is of course yet to be stabilized. Full gas offtake is likely to happen sometime in March-April 2022. Because it started, so I did not share. With respect to Matix Fertilizers, Durgapur, supply commenced in August.

Avadhoot Sabnis: If it is 1.7 right now, on full offtake, how much would it increase to?

Rakesh Kumar Jain: 2.2, got it?

Avadhoot Sabnis: Yes. I am sorry to interrupt.

Rakesh Kumar Jain: Supply commenced - I am talking now of Matix - in August 2021 and currently drawing at full quantity, i.e., 1.5.

Avadhoot Sabnis: My question was as such just to get the background for an overall question which is that if I look at the gas sales volume which is 96.56 in the current quarter, it is virtually flat compared to let us say what it was 2 years back - December 2019 quarter, the last peak of covid quarter. If I look at your transmission volumes, 114, they compare to 110, and all the addition of 4 I would say can be attributed to the Reliance volumes. So, basically your own customers broadly have not taken up more at all in the last 2 years. And what I wanted to ask is, a) If you can give us any color on that. 2) Especially on the LNG cargo, as you have explained in the past, you'll have to do forward scheduling in terms of planning for how much volumes get sold in the Indian market as per the contract for you to be able to schedule everything. From that perspective, this volume that you have sold - or rather I will put it this way - the long-term contracts that you have signed were supposed to come through in the 3rd quarter. Has it been lower than what you thought it would be in March and April? And consequently, if it was lower, then you had more volumes to offer in the spot market comparatively. Would that be a right assessment?

Rakesh Kumar Jain: In the background, our volumes are flat as compared to the peak which we had in December 2019 and now. Yes, that's correct, but then, we have all the contracts which we had in the past which we shared like all the 5 fertilizer plants. And I shared in the opening briefing that these all plants will come in stages and therefore the plants will take gas on an average. If we talk of peak, the increase will be 6 MMSCMD, but on an average, there will be 3 to 4 MMSCMD of gas sales which is going to be increased and consequently the transmission will also increase. In March-April, the marketing volume and the transmission volume both will increase.

Avadhoot Sabnis: No, I am so sorry. Maybe you didn't understand my question. I was asking the other way around. When planning in March 2021 saying okay how much LNG will you sell in India based on the long-term contracts, you would have factored in some volume from the fertilizer units and from all your long-term customers. Has the actual volume been lower in 3rd quarter compared to what you had planned initially and consequently, you had more to offer in the spot market?

A Kaviraj: Volumes from suppliers were as expected. There was no shortfall from international suppliers.

Avadhoot Sabnis: I'm asking from your customers' perspective.

A Kaviraj: From customer perspective….

Avadhoot Sabnis: Let me put it this way. In some of the earlier quarters, whenever…. You had explained for example that you had expected a new plant to start off in let us say 1 quarter or 2 quarters and that plants didn't really start. There were some issues and stuff like that. So, whatever long-term volumes you had reserved for that particular plant, you are forced to sell in the spot market. That would happen, right? Effectively, everything is planned well in advance all these things. So, according to your earlier plans, has the long-term volumes been lower and accordingly you had to sell more in the spot market? Let me be more explicit in terms of what I am saying. If the volumes have not really moved and if you are still making higher profits from cash trading, then obviously margin has gone up, right? And that margin can go up only if, as I said, more is sold in the spot market at whatever prevailing higher prices. I am trying to get a logic on that.

A Kaviraj: Okay, I will try to explain. If you actually look at the physical numbers, there is an increase. You are deriving inference based on delay in the anchor plant coming up. But all along in the past, besides the long-term volumes, there have been occasions where we have been sourcing LNG from spot market to meet the spot requirements. But unfortunately because of the spike in prices in the previous quarter, we didn't have scope for buying spot volumes for cargos, but the molecule inflow expected under the long-term contracts, that came in. So, it's a matter of how we re-appropriated or bifurcated between long term and the sport.

Avadhoot Sabnis: That precisely is my point. Effectively, in the 2nd quarter, for argument's sake, let us say you are selling 10 cargos in the Indian market to long-term customers and another 10 cargos to the spot market by procuring spot. Now, if you are substituting, then obviously, the long term has to go down, right? In terms of somebody who is not taking. That's why, you can substitute. Otherwise, how can you substitute?

A Kaviraj: There is no such case here in this quarter that nobody was willing to take. All we can say is that we didn't have the opportunity to buy cargos from the spot market.

Avadhoot Sabnis: So, would it be right to say that there is a substantial…. as against the general impression that most of the volumes sold in the Indian market or the LNG sold in the Indian market is all linked to oil pricing? At least in this 3rd quarter, there would have been a reasonable amount of volume sold at spot pricing?

A Kaviraj: Come again.

Avadhoot Sabnis: I think the general impression is that whatever LNG volumes you are selling in the Indian market is all sold at oil pricing, basically RasGas pricing. Would it be right to say that….

A Kaviraj: Not all, substantially.

Avadhoot Sabnis: Okay. Is there more of spot? Let us say in this quarter, more volumes sold at spot in the current quarter relative to history?

A Kaviraj: No.

Avadhoot Sabnis: Can you give us any color at all as to then how effectively margins could have gone up so dramatically quarter on quarter?

A Kaviraj: Because the margin doesn't have to always necessarily go with increase in the volume, isn't it? We sold less volume in the spot market but at a very high price. The volume sold in the spot market is less than the preceding quarter, but the realization has been much higher than what it was in the preceding quarter.

Avadhoot Sabnis: Okay, understood.

A Kaviraj: Your question is valid. For the same physical how you are having a higher margin. This is the reasoning I can give.

Avadhoot Sabnis: In that sense, you realized the same kind of spot pricing in India as you would have realized selling in, let us say, Asian markets. Would that be fair sort of assumption?

A Kaviraj: No. It is very difficult to give that analogy, which may not be true always. Sometimes it might be true. Because global market and Indian market need not be and may not be….

Avadhoot Sabnis: What I am trying to understand is, as you rightly said, you sold certain spot volumes in the Indian market. When you sell spot volumes in the Indian market, the benchmark would be the Asian spot price, right? That's what I meant.

A Kaviraj: Yes.

Avadhoot Sabnis: That's what I meant. Instead of selling, you would get the same realization in India as you would get in Asian markets.

A Kaviraj: By selling the LNG as liquid in the global market you're saying?

Avadhoot Sabnis: Yes.

A Kaviraj: Yes, that is possible, but we didn't do that. We brought the volume into the Indian market.

Avadhoot Sabnis: That's what I'm trying to say, sir, that instead of bringing it into the Indian market, even if you had sold in the Asian market at Asian spot, the realization would be the same, right? You have sold in the Indian market also at the Asian spot price.

A Kaviraj: It depends on when we undertake the sales. In the international market, we have to decide the sale much in advance, but in the Indian market, it is just 1 week before also, we can sell it. That's the difference. To sell a cargo in January, we would have decided by the month of November, but to sell a volume in the Indian spot market, we can decide even during January. That's the difference I'm trying to tell.

Avadhoot Sabnis: A completely bookkeeping question; what was the interest capitalized for the 9 months let us say?

Rakesh Kumar Jain: We will give you offline. This is only data we'll have to take it out.

Avadhoot Sabnis: No problem, I will take it later.

Moderator: The next question comes from S Ramesh with Nirmal Bang. Please go ahead.

S Ramesh: Just to go back to the discussion on LNG margins, can you give us a sense of any inventory gains or mark-to-market gains you would have booked in this quarter given that the spot prices have gone up so much?

Rakesh Kumar Jain: There is no inventory gain in this quarter.

S Ramesh: If you look at your margins, there has been a sharp increase in the unit margins for your gas marketing business. So, if you are saying that you are going to bring additional cargo from the international market to the Indian market, on an equivalent basis, will you be able to earn the same margins in the Indian market?

Rakesh Kumar Jain: We are required to bring in from the international market to meet further demand. There cannot be the same margin because that's the market.

S Ramesh: Because the percentage margin doesn't make sense, in terms of unit margin, what is the more sustainable margin one can assume with a large marketing business?

Management: Let me try to give an answer. In trading, it will be very difficult to assign or fix a percentage of steady margin because of the volatility in commodity prices which we all have witnessed. The only thing which we can say favorably is that 90% of our volumes have been tied up under a long-term contract through a price formula and so is the case in the upswing side also. So, to that extent, the revenue is likely to be stable because both the sides are insulated from market volatility. But the balance 10% might decide the swing depending upon the market conditions.

S Ramesh: When you mentioned that you will get the benefit of HVJ and the JHBDPL pipeline for your increased gas volumes in the Urja Ganga pipeline, what happens when the unified tariff is introduced? How would that change the gas transmission margins? Can you take it on a blended basis once the JHBDPL is in its full operation?

Rakesh Kumar Jain: First, I made that statement that when these 4 fertilizer plants come fully on stream, weighted average tariff realization will increase and obviously for the current tariff mechanism which is cascading tariff or pipeline-to-pipeline tariff for end consumers. And these 4 plants being adjusted on a JHBDPL phase-2, the tariff will increase. Coming back to your question what will happen when unified tariff comes, in the current form even though that unified tariff has not yet been implemented, there are a lot of issues with that. Even if it comes in the current form, that regulation ensures revenue neutrality. It means, whatever tariff otherwise I am eligible pipeline to pipeline will be available even in the regulation which is notified that is revenue neutrality concept. So, my revenues are going to increase when these 4 plants come fully on stream.

S Ramesh: That means we can expect your return on capital employed on the pipeline business to go up. Is that a fair assumption?

Rakesh Kumar Jain: No. Some more pipelines we are laying. If you include those, it may not increase to that extent. But for this pipeline, certainly going to go up.

S Ramesh: One final thought. There is a statement that emphasizes the matter under note 5.3 about 524 crores. Is there any liability that is likely in future which we may have to write off? What does it mean actually?

Rakesh Kumar Jain: Let me take a couple of minutes to explain to you. We have a company, our own 100% subsidiary, i.e., GGUI in the United States. That company has taken a loan, 70 million, and we have provided corporate guarantee. In terms of Ind-AS, if we provide corporate guarantee, you need to account for expected credit loss. And as on date, there is no trigger that we need to provide that. We have taken the opinion from the Institute of Chartered Accountants that also suggests the same. So, what we said in our notes to account that we will examine it in the next quarter whether we need to provide any provision or some provision though there is no trigger. That company is paying its loan that are being paid regularly. There is nothing which says we should provide. But anyway, if Ind-AS and the guidance note suggests that you can keep a futustic something may happen; so, not 524 crores. may be based on some opinion comes so, we may need to provide, but there is no trigger and no actual loss.

S Ramesh: One last question. The Konkan LNG, in the consolidated number, is the margin from that accounted in the gas marketing segment? Where is it accounted in the segment earnings - revenue and EBIT?

Rakesh Kumar Jain: Gas marketing segment.

Moderator: The next question comes from Sujit Lodha with Birla Sun Life Insurance. Please go ahead.

Sujit Lodha: Sir, my one basic question would be, of the 97 MMSCMD which is reported in the trading business, can you give us a breakup of domestic and long-term LNG and spot?

Rakesh Kumar Jain: Domestic gas if we talk…. Let me say the other way around. The total 97, we have RLNG export around 45 and then we have overseas sales around 10 million (55) and the rest is domestic.

Sujit Lodha: So, almost 42 is domestic?

Rakesh Kumar Jain: Yes.

Sujit Lodha: And of this 45 and 10 that is 55, how much would be spot and how much would be long term?

Rakesh Kumar Jain: We actually almost sell 10% on a broader basis in the spot market.

Sujit Lodha: 10% of 97?

Rakesh Kumar Jain: No. RLNG, because APM gas is not spot, domestic gasses are not on the spot, right?

Sujit Lodha: No, I'm just asking 10% number is….

Rakesh Kumar Jain: 5% to 7% of total.

Sujit Lodha: So, 6-7 MMSCMD would be spot?

Rakesh Kumar Jain: Less than 5.

Sujit Lodha: Sir, my second question will be regarding the trading margins. While obviously it is a very dynamic in nature of the pricing, etc., but whatever contracts we do, we have a fair bit idea of another 3 months because they have to be contracted at least 3 months in advance for your overseas cargos. What is your take on the gas trading margins? Are they expected to remain in this trajectory for the next quarter as well or do you expect any major swings from here? I'm just asking a guidance. I'm not asking a number. What could the direction be?

Rakesh Kumar Jain: I am also giving an answer. Who can predict the LNG spot price? Currently, the LNG spot price at that level, the numbers can be at that level, but nobody can predict what will happen to LNG price.

Sujit Lodha: But your overseas contract at least would be a couple of months in advance, right?

Rakesh Kumar Jain: Yes.

Sujit Lodha: So, sitting in February, we would have an idea of what it had been in January and how it is going to be in March-April. That fair bit of idea is there, right? So, are they expected to be stable at the 3Q levels or what is the guidance there? Will there be a major….

Rakesh Kumar Jain: The level was really very good. We will not be able to say that we will be able to maintain Q3 or we will be better than Q3. It will be around or a little less than the Q3.

Sujit Lodha: Okay, but in and around that 5% to 10% plus or minus.

Rakesh Kumar Jain: Cannot say 5% to 10%, but it will be a challenge to meet that level.

Sujit Lodha: My last question would be on transmission. I am sorry, I missed that number. What is the current transmission volume?

Rakesh Kumar Jain: Current means in the last quarter you are asking or average 9 months?

Sujit Lodha: No. Say for example, exit rate of 3rd quarter or if the January number if that could be possible for you to give?

Rakesh Kumar Jain: In Q3, it was 114, and the current exit rate is lesser than that. It is 105-106, and the primary reason is that few of the fertilizer plants are under shutdown for a period up to 15-20 days which has reduced our volume by 6 to 7 MMSCMD, maybe a little bit more. So, I have removed those volumes. So, it is currently around 105-106.

Sujit Lodha: And when they come out of shutdown, but we are still operating at 110?

Rakesh Kumar Jain: It will be 110-111-112.

Sujit Lodha: So, it is lower than the 3rd quarter number?

Rakesh Kumar Jain: Yes.

Sujit Lodha: These shutdowns are expected to be on till what time?

Rakesh Kumar Jain: Around 20th February.

Moderator: The next question comes from Gokul, an individual investor. Please go ahead.

Gokul: Could you give an update on the InvIT proposal that was sent to the ministry? Is there some movement regarding any going forward listing them?

Rakesh Kumar Jain: InvIT proposal is still under deliberation. As you know that two of the pipelines have been identified for InvIT, i.e., DUPL and DPPL (Dabhol-Bengaluru and Dahej-Uran-Dabhol-Panvel pipelines). We have appointed a transaction advisor to identify what can be the best mode of financing for us. Based on our analysis, we found that because we are almost a debt-free company, we are able to source it at around 5% to 5.5% and that is the better source for us in financing, and other modes are costlier as compared to this. Then, we also carried out a study through transaction advisor which suggests that another mode can be the debt securitization model. Instead of the InvIT, we can also go for debt securitization model. That is a little costlier than the current rate of borrowing. We have examined and we are still under deliberation that what is the mode actually we should go. We are discussing and nothing concrete has yet been finalized.

Moderator: The next question comes from Sabri Hazarika with Emkay Global. Please go ahead.

Sabri Hazarika: I have just one question. Currently, if I were to break up your longer term LNG volumes, how would the mix be? You said that around 55 is your LNG volume of which around 5 MMSCMD spot. So, in this 50 MMSCMD, how the breakup would look like? Qatar versus Gorgon versus Gazprom versus US (LNG)?

Rakesh Kumar Jain: We have around 4.8 MMTPA of long-term contract with Qatar (4.5 + 0.3). Then, we have 5.8 MMTPA from the United States. And currently we are having 2.5 from Gazprom and a very minimal volume of 0.4 from Gorgon. I have told in terms of MMTPA. You can just multiply it by 3.6, so you will reach to MMSCMD.

Sabri Hazarika: These are all operating at 100% currently, right?

Rakesh Kumar Jain: I have told 100% only because otherwise we have ramp-up in Gorgon. The final ramp-up is pending. So, currently this is what we are actually getting.

Sabri Hazarika: 2.5 MMTPA is the current volume and ramp-up would be to how much?

Rakesh Kumar Jain: 2.85 is the maximum.

Moderator: The next question comes from Kirtan Mehta with BOBCAPS. Please go ahead.

Kirtan Mehta: I wanted to understand about the utilization. How it would develop over the next 2 to 3 years? What I understand is, currently pipeline is sort for operating at 55% utilization and there would be 5% to 6% sort of natural gas transmission volume increase per annum over the next 2 to 3 years. At this point of time, I think we will have Urja Ganga plus sort of the Mangaluru-Kochi pipeline capacity ramping up as well. So, there would be capacity development as well. So, how do we see the average utilization improving over the next 3 to 5 years?

Rakesh Kumar Jain: Currently, the utilization is 55% and the phase 2 of the Urja Ganga is going to get commissioned. We are saying 55% considering their nominal capacities. The backup of 206 is considering their nominal capacities. When I am talking of nominal capacity, it is like…. In case of HVJ, it is 107; in case of Dhabol-Bengaluru, 16; DUPL, 16; considering their nominal capacities. Only in the case of Urja Ganga, the tariff has been worked out considering the 7.44 MMSCMD but the capacity is 16. Only the tariff has been determined considering the phase 1 only. So, when the volume increases like 4 fertilizer plants come, the total volume will increase and consequently the utilization percentage will increase.

Moderator: The next question comes from Amit Sanghvi, an individual investor. Please go ahead.

Amit Sanghvi: Congratulations for this best ever achievement for the Q3 in turnover, PBT, and PAT. Sir, my question is already answered in the previous discussions, but I have one more request for you, sir. If you can provide some sort of presentation before this earnings call starts, it would be better to understand the actual thing. It is my request, sir.

Rakesh Kumar Jain: What kind of presentation you expect because if financial results are already available in public domain.

Amit Sanghvi: Sir, what is available in public domain is quarterly results. What I would say that we have discussion over some quantitative details which is not a part of this public domain information. So, I just request that if you can provide some sort of presentation for the particular quarterly production and financials, it would be better.

Rakesh Kumar Jain: We will consider, we will review that.

Moderator: The next question comes from Pinakin with JPMorgan. Please go ahead.

Pinakin Parekh: Just going to go back to the trading business. Very early in the call, the management specified that roughly 15 cargos have been sold forward until March 2023 overseas. Now, just trying to understand that on those 15 cargoes, has the price already been fixed on a basis or is it linked to some kind of spot index or crude prices? What I am trying to understand is that on those 15 cargos, depending on how crude and LNG prices move, will there be a change in profits and profitability?

A Kaviraj: Just to correct, it is not exactly 15, it should be around 15 to 20. We can say around 20 numbers. These were sold maybe 4 or 5 years before. It was indexed to HH. All the volumes are indexed to HH only.

Pinakin Parekh: So, to that extent, sir, if spot LNG prices were to go to Asian spot, JKM index were to go to $50 or $10, there would not be any profit flow through on those cargos.

A Kaviraj: I don't think one would sell volume like this.

Pinakin Parekh: Sir, the cargos that are brought to India from the US, when you sell them to India, are there on spot mechanism linked to JKM or are they crude contract links? What I am trying to understand is depending on how spot JKM moves, will those US cargos that are being sold to India see a change in their profits?

A Kaviraj: I don't think industry operates that way.

Pinakin Parekh: December quarter marketing gas trading EBITDA was roughly Rs. 1,800 crores. Effectively, if most of the US cargos either being sold in India or sold overseas are linked to some kind of indexes, then it means that the December quarter surge in trading EBITDA was essentially because of a few floating cargos which would have been sold at very high spot prices, right?

A Kaviraj: Yes, one of the reasons would be.

Pinakin Parekh: So, that profit should not be repeated again or do you see that if spot LNG prices remain high, then there are enough floating cargos for GAIL to benefit from them in the March quarter as well?

A Kaviraj: Floating cargo means, can you define?

Pinakin Parekh: Floating cargos essentially, sir, where you have not forward sold to any Henry Hub linked index or to Brent linked index and the realization would be JKM spot index.

A Kaviraj: Just to clarify, we don't have any floating cargos for this current quarter.

Moderator: The last question comes from the line of Mayank Maheshwari with Morgan Stanley. Please go ahead.

Mayank Maheshwari: My question is in terms of the medium-term outlook I suppose that I am looking for. As you said, I think a lot of your cargos are getting tied up in the domestic market beyond 2023. Are you now thinking to start looking around eventually for more volume considering how good gas demand has been in the country? Is there something that the board is thinking about over more long-term solutions to source gas? Obviously, markets are high now.

Rakesh Kumar Jain: This question has already been answered and I will only repeat it that because we being a gas company continuously look for the sourcing if there is a demand in our country and we are able to meet that. Regularly we assess the demand and supply situation, and if such a situation arises, certainly we will look for that and the deliberations we have started and we are looking for those opportunities. I also said that until our volume risk was mitigated, we were also marketing the LNG in the international market. Once we start bringing those cargos to the domestic market, that space is also available for us. That means, we can source and market in the international market and based on the demand bring to India for domestic market. That's a continuous process. Being a marketing company, we continue to assess that demand and supply situation in order to meet both the demands.

Mayank Maheshwari: Good to hear that deliberations have started.

Moderator: In the interest of time, that was the last question. I now hand the conference over to Mr. Harshvardhan Dole for closing comments. Please go ahead, sir.

Harshvardhan Dole: On behalf of IIFL Securities, I sincerely like to thank GAIL management for giving us an opportunity to host the call. I also thank all the participants for joining in. In case, there are any questions which are unanswered, you can drop a line to me or reach out to the GAIL IR directly. I would like to request the management to make any final remarks if at all.

Rakesh Kumar Jain: We have tried to answer most of the questions, but 1 or 2 questions, we could not answer to our participants. Those can be referred back to us specifically, and in general if somebody has got any query, they can certainly address to our IR team and we will be responding. Thank you so much.

Moderator: On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.