"Adani Gas Limited Q3 FY-19 Earnings Conference Call"

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MANAGEMENT: **MR. SURESH MANGLANI – CEO, ADANI GAS LIMITED**
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Moderator: Good day Ladies and Gentlemen and a very warm welcome to the Adani Gas Limited Q3 FY19 Earnings Conference Call. We have with us today on the call Mr Suresh Manglani, CEO – Adani Gas, Mr Rajiv Nayar, Group CFO – Adani Group, Mr Yogiraj Navathe, VP – Adani Gas, Mr Preyash Jhaveri, AGM – Adani Gas and Mr Vimal Dhami, Investor Relations.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Suresh Manglani – CEO of Adani Gas, thank you and over to you Sir.

Suresh Manglani: Good afternoon everyone, thank you for participation in the conference call. Today we have announced the quarter 3 results, as we are all aware that shares of Adani Gas were listed on 5th of November, Q3 '19 is the first quarter for which results are being announced by the company out of the listing.

The board of directors met today and adopted financial results from the third quarter and the nine-months period ended December 2018. We have very encouraging all round performance both for nine-month period and third quarter of FY2019. In the third quarter of current fiscal, Adani Gas volume grew by 13% to 138 million standard cubic meter as against 122 million standard cubic meter in the corresponding period last year. Similarly, for the nine-month ended 31st December 2018, gas volume increased by 14% to 399 million standard cubic meter as against 349 million standard cubic meter in the corresponding period of nine-months last year. We have achieved a growth of 22% in new household connections on pipe-gas from December 2017 to December 2018.

On the CNG front, our CNG retail outlets have now increased to 77. During the third quarter; October to December revenue from operations grows by 39% to Rs. 485 crores versus Rs. 349 crores in Q3 FY 2018. Similarly, operating EBITDA grew by 26% to Rs. 107 crores versus Rs. 85 crores in Q3 FY 2018. Operating EBITDA margins were healthy at 23%, Profit after Tax increased by 22% to Rs. 46 crores. On the nine-month basis, revenue from operation grows by 34% to Rs. 1329 crores versus Rs. 990 crores in nine-month period FY 2018. Operating EBITDA grew by 15% to Rs. 315 crores versus Rs. 274 crores in nine-month period FY 2018. Operating EBITDA margins were healthy at 25%, Profit after Tax increased by 26% to Rs. 153 crores. Our financial results as you may see, as you have heard me reflect growth in operating performance across various segments in geographies.

The operations are running well with a strengthen base of customers at four geographies areas in Gujarat, Haryana and Uttar Pradesh. We have a JV with Indian Oil Corporation called Indian Oil Adani Private Limited. That JV has already operationalized six geographical areas and the project implementation work at remaining three geographies is progressing well as per the schedule. Post 9^{th} round of our bidding, Adani Gas along with its JV has authorization for 35 geographical areas covering almost 7.5% population of India. Adani Gas has participated in 10^{th} round in 19 geographical areas, in addition our JV partner IOAGPL has participated in seven geographical areas. So in total we have participated in twenty six geographical areas. At Adani Gas we are committed to adopt best health, safety and environmental practices and enriching customer service will always be our priority. We continue to focus on selective business opportunities with value enhancing profile to deliver on our growth plans. Thank you very much. Now we can start, if you have any questions please you can raise your question and we will start it.

Moderator: Thank you very much, Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nilesh Ghuge from HDFC Securities, please go ahead.

Nilesh Ghuge: Sir if I look at the quarterly performance, the interest rate has gone down significantly, not only Y-o-Y but the sequential also. So can you share the current debt and why the interest rate has gone down significantly during this quarter, any specific reason for that?

Management: Yes, you have asked the debt, so today we have an outstanding debt of Rs. 408 crores as on 31st December 2018 and second question was?

Nilesh Ghuge: Significant decline in interest to just Rs. 104 million from 369 a year ago and …

Management: See this is because of, you know that Adani Gas got demerged from Adani Enterprise, so the whole account has been reinstated in accordance with accounting standard and that is where this you are seeing the re-stated accounts and you are seeing the reduced number of interest cost.

Nilesh Ghuge: So does that mean that the interest cost will remain in this range only; Rs. 104 million per quarter?

Management: Yes, so long as this….

Nilesh Ghuge: Any guidance on the volume growth from the existing four areas where you operate, will that be in the range of 13%, 14% going ahead or will that be more than this?

Management: So if you, I think you have participated in our investors' calls as well. Again, maintaining that guidance on the volume will be in double digit from an existing, so you can, the way you stated the number it should be around the similar number.

Nilesh Ghuge: Okay that is great, and Sir can you split the volume mix, particularly for the PNG as you have mentioned the PNG volume for this quarter is around 67 SCM, so can you split that into domestic PNG and Industrial/Commercial?

Management: Overall our volume mix is 50:50. So we have roughly 51% CNG and we have 49% PNG. In the 49% PNG you will have around 36% coming from industries, 8%, 9% coming from domestic and rest coming from commercial, predominantly industries and domestic you know the numbers are 3 lakh sixty thousand, something in the PNG predominantly it comes from industry which is around 38%, so 38% off 49% comes from, sorry 38% is the total volume comes from industry, 8% comes from domestic and 3% comes from commercial and 51% from CNG, so this makes your 100% mix.

Moderator: Thank you. The next question is from the line of Shirish Rane / Probal Sen from IDFC please go ahead.

Probal Sen: I had a couple of questions; one if we can get a sense of the net revenue from CNG and PNG, if you can bifurcate that?

Management: Yes. See for the nine-months period, the revenue will be Rs. 621 crores from CNG and Rs. 693 crores from PNG.

Probal Sen: This is for nine-months, Sir and for the quarter, if you can give?

Management: For the quarter, it will be Rs. 224 crores CNG and Rs. 256 crores will be PNG; Rs. 256 crores and Rs. 224 crores.

Probal Sen: And the second question was with respect to operational areas that you mentioned that the IOACL JV is in the process of 6 GAs being operationalized and 3 more under process, any timeline we can put on this in terms of when we can expect meaningful volumes to start flowing through from the JV?

Management: I think next year certainly will be a meaningful period because this is the year was a development year, this period and now we are, see one of the thing which we are going to do now, which is going to be positive for the business for Adani gas as well as more importantly for IOAGPL because they have nine areas where they have recently operationalized. We are launching a CNG builder policy, the dealer owned dealer operated policy. Very shortly you will all start seeing newspaper rights, etc. we are inviting the offer for proposals from the people who own the lands, like petrol pumps. So, that will overcome this issue of land availability in the areas like Chandigarh, etc, so we expect in 19-20 there will be a good increase in the volume in IOAGPL.

Probal Sen: Right, so it possible to get a number of what the volumes are from the JV as of today?

Management: As of today, JV numbers are, the volume is roughly 34 million for the 9 months. Revenue is Rs. 100 crores, EBITDA is Rs. 18 crores.

Probal Sen: And sir what about the new areas that we have on our books, the standalone, I mean those are obviously in the new bid rounds mostly, in the 9th bid round, any update you can share in terms of?

Management: Yes, I will share you. So, in fact we must be the only CGD company who has already signed the Gas Supply agreements for 5 geographical area in the Gujarat and on the verge of signing remaining 8 geographical areas very shortly by March end. So, the progress is going as per our schedule that we are first completing the job of connectivity with the transmission lines, so the formality of signing hook up agreement, getting the orders placed for a skid and signing the gas supply agreements is getting completed, that is one side. On another side our intense work is going on financial closure which we have 270 days, till May, we hope to complete much before May and the third target which we have already done the market surveys are going on and some market survey was done before bidding and now actual demand survey is going on, so we can have network mapping done, so that is going on. We have also done complete material estimation, so that we can have a communicate scale because we have scale on the material procurement, so that is also you will see some light, recruitment is going on in a reasonable manner that we are recruiting senior and all the level of the people, particularly having CGD and also fresh people whom we can groom to CGD professionals. So, on all fronts we have strategy in place, we have teams in place, one good part is that we have been operating for last 14-15, so we have got very senior management team available, who are working on operationalizing at the earliest and we are also trying to make a plan where we can do some early monetization of some of the Gujarat areas.

Moderator: Thank you. We move to the next question from the line of Rohit from BOB Capital. Please go ahead.

Rohit: Sir can you guide on what sort of CAPEX would be there in for your core business and JV business for how much you have done for 9 months and what kind of guidance we have for the next 2-3 years?

Management: So, I think largely, your question if I take liberty to state that you are asking for the new geographical areas, correct?

Rohit: That's right and also for existing areas.

Management: So, from a new geographical perspective we have been stating that overall we expect that we will be investing Rs. 8000 crores for the Adani Gas areas in the next 7-8 years, now since we have been doing deep dive in a shorter period, so in the next 4-5 years we expect around Rs. 5000 crores investment in the total 13 geographical areas. So, that is our current estimation we have been arrived at and that is where we have been trying to do the financial closure. And in the existing geographical areas, we have generally a run rate of Rs. 200-250 crores and that is what will continue currently also, this year also we expect Rs. 250 crores and next year we will be putting in the existing four geographical areas for continuous expansion of the geographies. And coming to the how much CAPEX already committed for the 13 geographical areas, we are yet to commit the capital investment, other than the market survey which are going on, the other studies which are going on, so in terms of actual ground breaking ceremony is yet to happen because currently the permissions part and the Gas Supply agreements and the hook up agreements, signing is going on. So, once the preliminary work or preliminary or pre operative work is done, then we will soon start on the CAPEX part.

Rohit: Right sir and how you intend to fund this CAPEX sir?

Management: We will be funding as we said last time also, investors meet we have been saying, we will be funding through debt equity, balance debt equity portion in 65:35 portion, 35% will be the Equity.

Rohit: So, I was going through your presentation in one of your websites, where you are talking about an aggressive volume growth over the next 4-5 years, you intend to go up to 10 MMSCMD from currently out 2. So, actually in the history we have not seen any CGD company ramp up so fast, so has it derived from the fact that we have enough gas supply now available in the system with so many LNG capacities coming in?

Management: Yes, same presentation if you see there is a slide which tells you that today CGD is getting around 24 million, which is roughly 28-29% of our current domestic production and going till 22 Financial year or even going beyond we are expecting 50 million and our production domestic production continues to remain 100-130, so still we maintain that we will be in the similar proportion what we are today because we do expect there are certain discoveries under exploration, which will also bring domestic production for own and CNG our approach is largely we will supply to the domestic production and we are not expecting any major constraint on domestic gas supply, except the areas which are not connected and we hope there will be LNG supply but it will be pooled with the APM Gas.

Rohit: And so recently you know there was some rumors and there were some recommendation from EPI of their media has been publishing that they are asking for domestic gas allocation for CNG and domestic PNG to be cancelled and that gas be diverted to power. So what do you see that as a material risk to your projections if that were to happen?

Management: See it is too early today, if you see the same your own analyst reports, while they have been reporting that there are recommendations on the going on a market price and direct benefit transfer to the customer, at the end they are concluding almost everyone; the Nomura's or anybody's report you will see at the end they are concluding that this is not real. It is unlikely in the near future this will happen because of the government push and push-hold, one is they have been pushing with huge ambition to aspirate the domestic pipe gas and CNG in the entire country, the 400 districts are undergoing CNG, CGD implementation today with the tenth round getting over by month end. Second is, there is the commitment by the government that they will enhance the share of natural gas from 6% to 15% initially and eventually 24%. So if need to achieve these ambitions or these plans or goals, we feel government will be cautious in implementing such report which has now been put before the government by the Niti aayog or some of the senior committee members who have signed out and this is yet to come in a public consultation, it is going to take lot of time and we need to see how that shapes up. Currently we are not seeing in the near future that risk.

Rohit: So you are saying that you do not see this getting implemented and your projections of bidding in that domestic supply will continue for CNG booking.

Management: See another aspect you will see that if there is some tweaking on the price, there is elbow room available for us to park through to some extent, so we need to see how the scenario is going to emerge and how are we mitigate that risk if it is going to come up on the CGDs.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from J.P. Morgan. Please go ahead.

Pinakin Parekh: Sir my question is theoretically if the government were to decide to move the entire CNG allocation to market pricing and distribute that as subsidies on baggage and basis while it is a big hit but if it were to happen do you think that the growth rates we have been used to mean seeing in the CNG business can come off sharply or even with a much higher CNG gas pricing the growth rates can sustain?

Management: See there are couple of things we need to see together; one is the recommendation from the committee on going on a market price or giving a direct subsidy to the customer, we do not know from CNG we are not, I think we have heard that in domestic there is a direct transfer, not on a CNG this is one aspect, so we need to see find prints of the report. Secondly, we also need to see that court after court; NGPs have been intervening and suggesting the use of a CNG as a first priority. We need to see how these two things are going to be adopted by the government and when there is a judicial orders or when there is a necessity, in fact the environmental necessity that CNG has to used and if it is dues incentivized in such a manner that people have no attraction to go and convert for a CNG. How those goals will be achieved? So we feel there will be lot of deliberation, recommendations on this aspect and eventually the environmental influences will definitely affect the governments thinking and government will continue to hold this policy, maybe slightly tweaking which will be a room for us to achieve a pass through.

Pinakin Parekh: Understood Sir and in your view between CNG and PNG, I mean this market pricing and the direct targeting of subsidies, which do you think your view would be relatively easier to implement because I just struggle to understand how can you transfer subsidies in the CNG and for the auto-fuels but I guess in the PNG there can be more directed or targeted subsidies you have examine in LPG.

Management: Yes absolutely, your understanding is correct that on a PNG like LPG there is a direct transfer facility. PNG if from an implementation point of view you are asking, PNG it will be feasible because there is a direct relationship of a home and a connection, on a CNG front we need to see. So we need to still see the fine print of the report, how it is taken by the government, it has to come to the public consultation, the stakeholders have to comment on that, we need to see the court rulings in the past on this when the government has committed uniform pricing, so various aspect should be seen on implementation. Currently it is too early for us to impact to give us as a corporate view on this actually.

Moderator: Thank you. We will take the next question from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Sir my question is related to the recent; the High Power Committee recommendation is there any mention in the ninth round while your government is bidding this ninth round than the tenth round, is it that you will get domestic gas for domestic PNG and CNG, is there any mention of such a kind?

Management: See Nilesh, there is one part is the regulated business another is a non-regulated, so commodity is not a regulated business, infrastructure development and the infrastructure services; for example, the network transmission or this completion business, these are regulated business under PNGRB. So regulator will not be able to mention anything on the gas pricing because it is not within their domain, the PNGRB Act does not permit them to regulate the end price to the customers. And what then happens is that on one part we are participating in the bidding as per the regulatory requirement or a regulatory regime; on the other hand there is a government policy today in applicable which says that we will be getting gas required for our domestic which means what we are supplying to homes and a CNG at a uniform price and the pricing is what is applicable for currently entire country whether it is a fertilizer or whether it is CGD. The priority is a first to the CGD business, for a home it is CNG. So that is the way the regime operates. So there is no, if you say the PNGRB then we cannot mention that we will give you at this price, it is a government policy which is invoked.

Nilesh Ghuge: So does that mean if suppose government want to implement these recommendations, if they want to then does that mean that they have to change actually the gas allocation policy of 2014 and only they can do that?

Management: No, the way two things will happen; the allocation policy can still continue to be the same, which will all ifs and buts, I have not seen, we have not seen the pricing policy because it is not on a public domain. I am sure you may not have seen it.

Nilesh Ghuge: Yes.

Management: So we are in fact speaking on something which we both have not seen it but assuming that what you are saying that if government has to implement, allocation policy could still remain the same because there is a Supreme Court ruling that CGD will or a CNG will get a first priority, so government has to kind of see how it implicates the Supreme Court's decisions but on a pricing part, see again there is a pricing policy so there is an allocation policy which can continue to operate, CGD business can get a first priority and here is a pricing policy which we need to see how government is going to be rolling out. Currently, the pricing policy is a uniform which is also with the court intervention. Government has submitted in the court that we will be applying uniform pricing for the CGD business. So I think we need to wait for some more time before any corporate like ours, you know becoming a larger CGD company in the country to gain our opinion on this issue or our position on this issue.

Moderator: Thank you. The next question is from the line of Abhishek Dutta from Prabhudas Lilladher. Please go ahead.

Abhishek Dutta: I just wanted to know can you just give the volume details like once more, like for this quarter the total volume was?

Management: We will give you one second. See the total volume, I will give you from the quarter volume; quarter volume was 138 million you can take, so the gross breakup is 70 million CNG and 68 million PNG. If you want in PNG then there is 52 million industries, 11 million domestic and 4 million commercial. So on a macro level 50:50, CNG 50% total volume and PNG 50%, it will be 51:49 kind of a thing.

Abhishek Dutta: Is this for other previous two quarters also Sir?

Management: Yes, I will give you previous one quarter and Q3 FY17, so I gave you Q3 FY19.

Abhishek Dutta: You gave FY19.

Management: Yes ,Q3 FY19 up to December '18, correct. So I will give you FY18 Q3, so broadly it was 122 million against 138 million; 62 million was the CNG and 59 million or a 60 million was a PNG, some decimal number adjustment. And in the PNG, 46 million was industries, 9 million domestic and 4 million commercial. Do you want nine-month period also?

Abhishek Dutta: No sir. I just want for Q1 and Q2 of this financial year also.

Management: I think Vimal will send you offline; we have data for Q3 and previous year and current year.

Abhishek Dutta: Sir also if you can give the sales breakup of CNG and PNG for previous few quarters that will be very helpful. I did not find it in the presentation also.

Management: Sure, so what is your name?

Abhishek Dutta: Abhishek Dutta from Prabhudas Lilladher.

Management: So I think Vimal is taking a note, we will send it across to you.

Abhishek Dutta: Sir one more thing, the debt you mentioned of Rs. 408 crores, this is the gross debt or net debt?

Management: This is in a way gross and net you are saying Rs. 408 crores is what we need to pay to the bank; there is a Rs. 350 crores inter corporate which we need to get it, right? So net will be roughly Rs. 50 crores. Net debt, which is gross debt minus cash & bank balance is Rs 223 crores

Abhishek Dutta: Okay and presently you are operating only in four areas of Ahmedabad, Faridabad, Khurja and Vadodara.

Management: Yes only in Ahmedabad, Faridabad, Khurja and Vadodara. Largely two constituencies; Ahmedabad 61%, Faridabad roughly 30%, Vadodara 6% and Khurja 3%.

Abhishek Dutta: Okay and sir on the PNG pricing thing for the industrial and commercial part, you have any long term commitment, you have got contracts with for LNG or how do you source it?

Management: Yes, so the way actually we have been doing is, we have yearly contracts, so at each year, for example this year now we have finalized our contract for January to December 2019, so next year again in October or November we start the process October end and we finalize before December end, the process we believe that there has been a volatility so we do not want to bind ourselves with the pricing. So this year we have finalized and that price will continue to remain for us over the formulas we have agreed till December 2019 so we source clearly, our volume, we sign the contract.

Abhishek Dutta: And what is the volume you have got tied up for the current financial year, current calendar year?

Management: See today we have around 35% so that is the volume we will be tied up, so we have complete tied up of the volume, so we have around 1.5 million today, so half a million is from the RLNG, so if the volume goes up we have enable clauses that as far as our volume is concerned for industries and commercial, it is fully tied up.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Suresh Manglani for closing comments.

Suresh Manglani: Thank you very much to all the participants who took the pain in participating in this call and to have raise a very pertinent questions and hope we have been able to answer all those questions. If you still have any questions, do not hesitate, you can call us our investor relations Vimal Dhami or send us any your queries on through our websites, you have our contact details. Thank you very much.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Adani Gas Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.