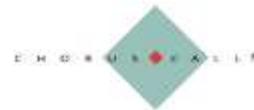




“Adani Total Gas Limited
Q1 FY2023 Earnings Call”

August 04, 2022



ANALYST: MR. VARATHARAJAN SIVASANKARAN - ANTIQUE STOCK BROKING LIMITED

**MANAGEMENT: MR. SURESH MANGLANI – CHIEF EXECUTIVE OFFICER – ADANI TOTAL GAS
MR. PARAG PARIKH – CHIEF FINANCIAL OFFICER – ADANI TOTAL GAS
MR. PRIYANSH SHAH - HEAD IR - ADANI TOTAL GAS**

Moderator: Ladies and gentlemen, good day and welcome to Adani Total Gas Limited Q1 FY2023 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varatharajan Sivasankaran from Antique Stock Broking Limited. Thank you and over to you Sir!

Varatharajan S: Thank you. Good evening everyone. It is my pleasure to welcome all the participants to this first quarter FY2023 post conference call of Adani Total Gas Limited. We have with us the senior management of Adani Total Gas represented by Mr. Suresh Manglani, CEO, Mr. Parag Parikh, CFO and Mr. Priyansh Shah, Head IR welcome to this call Sir and welcome all the participants over to you for your initial remarks.

Suresh Manglani: Good evening everybody. Thanks Varatharajan. Let me at outset extend a very hearty welcome to all our investors, analysts and fund analysts friends for taking out their time and participating in today's call on ATGL's Q1 FY2023 results.

As we have been stating that ATGL we adhere to the highest safety standards and inculcate a strong safety culture and safety is a precondition to work at ATGL. This helps us to build safe and reliable CGD network across India. With our continued efforts on training to all our employees and contractors, partners and their employees, ATGL has continued his track record of 0 fatality and in this quarter even a zero injury.

The Board of Directors of the company met today and approved the first quarter results. This quarter has been a challenging time for the CGD sector where we have seen a significant rise in gas input cost, due to several factors, we could see a geopolitical situation internationally, we also are seeing countries after countries in European Union or other countries, rushing to store more and more gas for a safe winter. We are also seeing increased in the domestic gas prices. APM gas prices also have gone up. Besides APM price going up which has now become UBP/Unified Gas Price. There is a shortfall in supply of APM gas to the CDG industry. So those all challenges we are trying to overcome.

We have been conscious on passing onto our consumers and have taken calibrated approach and doing a same source to protect our consumers from sudden price stocks or increases so basically at Adani Total Gas we have always been maintaining this policy but while we will be facing this volatility in the gas prices as far as the end consumer is concerned we will ensure that we calibrate it in a manner that we see consumers affordability as well. We also keep in mind alternate fuel prices so keeping all those aspects we have been passing through the prices in the phased manner even if have some cost on our margins.

At ATGL the focus as we have been narrating in every call and the results that our focus has been continued accelerate our infrastructure development now we have 33 geographical areas with 95 districts so our responsibility has increased and that is what we are doing continually. In this Q1 of the milestone which you achieved is crossing 600,000 PNG consumer mark. We added close to 32250 new homes on a pipe natural gas. We also added 209 new businesses industries, smaller and larger commercial consumers which put together are making our numbers from to crossing the 6 lakhs.

We also setup 15 new CNG stations which have now taken total number to 349 as on June 30, 2022. One of the aspects which I had been stating every call is that while we are focusing and developing CNG station, we are also emphasizing to our teams to develop more and more CODO, company on dealer operator for a DODO, dealer on dealer operated stations and I am very happy to inform you all that in 349, we have 65 now full branded Adani Total Stations across the country. We hope to increase these numbers significantly in the future.

On the pipeline side, we have laid close to 100 kilometers of steel pipeline in this quarter. Also we laid over 250 kilometers of an MDP pipeline so almost 3 kilometers of a pipeline has been laid every day in ATGL. That is the kind of a focus we are putting on developing infrastructure to, backbone steel one the last mile connectivity, the stations, the home connection, the connections to the businesses.

Coming to our volume side overall our volume stood at 183 MMCM, which is 31% higher than on year-on-year basis as compared to the same quarter last year our CNG volume grew significantly as compared to last year by 61% at 109 MMCM. PNG volume grew only 3% because there were supply constraints from supplier and from our side consequentially to our industrial consumers.

On the financial front let me brief you that revenue for this quarter was 1100 Crores. There was a significant increase in the revenue as compared to the last quarter of the same year primarily because of the price rise which took place by passing through some of the gas costs which we have done. There has been a significant upside in the gas cost and which we need to pass through and that took cost the prices higher. While there was a 31% increase in the volume as compared to the last year, the EBITDA grew by 6% that reflects our calibrated approach that volume goes up by 31%, EBITDA only has gone up 6% and EBITDA for this quarter was 228 Crores. Profit before tax and profit after tax has remained on the similar level as last year which means 185 Crores profit before tax, 138 Crores profit after tax for the quarter Q1 FY2023.

Now despite as I stated rise in the volume significantly but due to the unprecedented increase in the gas cost, we were able to sustain our profitability at the normal level. ATGL continues to have focused approach on sustainability difference so basically as our approach has been to develop ATGL as a holistic personification so besides focusing on our infra number development, on our business operations, on project execution, cost optimization we are also driving on sustainability part.

We have launched a Greenmosphere there is a complete detail we have provided on the website. It is a unique initiative to develop a low carbon society in all geos where we work so we are under this initiative we have set planting saplings. In this quarter we are planted 4000 additional saplings. We have also continued our program on solarization of our assets so this time we have solarized 36 locations and put together 650 kilowatt of solar power is being generated by our solarized assets. 5 of our offices of ATGL have been certified by CII as single use plastic silicon installations. Over 60% of our vehicles with the trucks which you are using for carrying the CNG cascades to from mother to daughter, 60% of those fleet is now on CNG and we hope to touch the mark of 100% soon in the future.

Our focus is very clear on ESG part. We are strengthening each component of ESG environment, social and governance. Friends despite turbulent times ahead, I am confident that the continued support from all the stakeholders, government in particular and motivated team Adani Total Gas Limited the journey ahead is going to be much more exciting and successful. I would like to end knowledge and be thankful the role played by our shareholders, consumers, dealers, suppliers, business partners, investors and all stakeholders who are associated with Adani Total Gas for their trust and community support. Thank you very much and we will be very happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: Good afternoon Sir and congratulations for a good set of numbers. Of course like your margins have been quite strong during Q1 considering the challenges but I just wanted to know that gas cost continuously rising and right now if you look I am not sure about you but if I look at Bombay itself I think CNG prices have reached almost Rs.86 per kg right now and going ahead if there is another round of APM gas price hike and followed by a winter level spike in spot LNG prices then is that possibility that CNG may become as costly as petrol itself so looking at such a scenario what do you think could be the viable solution even if the government so possibly they may be thinking something about it what do you think could be the way out from this gas cost challenge which sector is facing right now?

Suresh Manglani: Sabri Ji first of all I must compliment you the first question itself will answer I think many of the viewers who are on the call I think very pertinent and very well set by you for all of us to answer and I am your question contains the challenges which are there with the industry and in fact I stated that industry is passing through challenges not only CNG but oil and gas as a whole not only in India but across the world, you are absolutely right the prices are going up and coming closer and closer to the liquid fuel price. You said it is Mumbai, yes Mumbai had raised the prices now at Rs.6 to Rs.86. One another thing as I stated that is the challenge we also face that how much to pass through so that is where we calibrate while Mumbai increase six so far we only increase Rs.3.48 paise in Ahmedabad so that is where we do that we do calibration. We are also same as seen through the challenges that October as you stated if things continue the way they are continuing, APM price is likely to go up, HT prices going to go up then we are seeing

the LNG prices also going up but we also know that all the authorities and stakeholders are conscious. The CGD program is a part of a very strong vision of the Government of India and Honorable Prime Minister himself. 6.5% of a natural gas share has to go to 15%. I think in the whole journey CNG is going to play a significant role. The pain which our consumer are facing because of the increase in the price is now being known and everybody has understood further is increase would as you said will surpass this CNG prices to liquid fuel which industry is conscious of not moving forward so we are all working together as an industry, with all these stakeholder and we are hopeful that we would be able to overcome this critical path of not burdening further the customer and ensuring that the growth part which has been set as a part of agenda of a government continues the way momentum has built up we just see for the last few months how many stations have been added today we are close to 4500 stations, a few years back, two years back it was only 1000 or three years back something I think there is a huge momentum and we see everywhere that momentum building is being promoted and supported so while what you see and we see the same thing that there are prices rises are again expected that we are sure that there will be solution coming around to make sure that consumer interest is kept in the larger public interest is protected that is where I hope given you the answer in that sense challenges are there and at the same time industry together is working to find the solution and making sure that we continue to grow and we continue to protect the consumer interest. If you have supplementary question please ask do not go unsatisfied.

Sabri Hazarika:

Thank you. I mean of course not hazard a guess on the steps but definitely that everybody is coming together is heartening to know. Secondly Sir as a bookkeeping question despite charge increasing APM gas prices, your blended gas cost has declined sequentially that is from Q4 to Q1 so can you give us throw more light on this?

Suresh Manglani:

Two things you will find getting more and more efficient and we hope we continue this trend in future even the turbulent times we try one is we have a very strong support of our partner total should we do a good care sourcing is it not necessary that we buy from them but we at least know how do we develop a strategy what source we should buy what tenure we should buy from where to buy at least that kind of ties we get access immediately so I think it is a mix of a guest we have been developing various sources and during that period also we could buy some of gas, we could buy some GCC gas so those indexes indices have helped us and there was some increase if you see what was being expected the shortfall there was some allocation increase in the APM that reduces our shortfall so put together since APM blended volume came little more put together we saw there was an efficiency on the gas side. We could certainly provide more and more details but you will find in our investors presentation as well and the other side which because we know that we have this irresponsibility as a part of Adani group in total energy company that we should pass as less as possible to the consumer we have undertaken a major initiative on the cost optimization either capex and opex both and I am sure since you are keeping show updated you will see our numbers volume versus the cost etc., you will certainly find there is optimization happening which is getting benefited to the consumer as well as to our profitability.

- Sabri Hazarika:** Thank you so much Sir and all the best.
- Moderator:** Thank you. The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.
- Kirtan Mehta:** Thank you for giving this opportunity. What are the challenges we now gases leave supplied by roughly 10% to 20% basically on this spot basis, how do you see that this post the question was basically that the currently 10% to 12% of the priority sector volume is sourced by GAIL on a spot basis, how are your discussions getting with GAIL and duties and switching this volume from a spot basis to some sort of a medium term volume with linkages which could reduce the burden of the spot prices?
- Suresh Manglani:** Yes this is the only question here any other question Kirtan Ji?
- Kirtan Mehta:** Yes.
- Suresh Manglani:** I think you are connectivity is in support but I understood the question but in two days the earlier we used to call APM now we call it UBP Unified Base Price, there is a blended price which also includes the shortfall being met through the spot LNG by GAIL and I think your question was this is causing a price rise significantly and what is that going on in the future, I think if I understand your question so let me respond and you can raise the supplementary question if you heard me correctly in the answer which I gave in the first question when Mr. Hazarika raised I said the same thing when you see apparently it looks like prices are going up, the shortfall goes up, GAIL as more shortfall, RLNG a spot prices it again hurts our gas costs and consequences price rise and that is what I was saying that now all the industry players as well as the authorities has seized of this part that this if we further do the injury to this part there would be an issue of CNG prices going beyond liquid and causing a demand destruction so I think all of us we are engaged together there is a lot of discussion and work is going on. We are hopeful that we will find a solution which wins the customer, it is a customer win not the industry win is what we are looking at and that is what we are appraising the authorities, we are appraising the GAIL and everybody and they are also conscious because they will see demand destruction nobody wants that to happen it is just wrong agenda but CNG has to grow so I think we like to give some more time all of us we are seized, we are also quite conscious that this has to be done on the topmost priority and the whole work is going on to see whether we bring some solution and we will keep you posted as we keep giving you the results which comes to and we next time again you will see some more news will be coming which will be positive for the sector.
- Suresh Manglani:** If I may add I think the good part over the last few quarters one of the challenges that the industry was facing was on the APM shortfall if you notice as much as in our results that was one of the reasons why our margins had got down I think the good part is over this quarter, the shortfall at least has been made-up so to that extent shortfall is reduced now it is more about the price at which this shortfall is being supplied that.

- Suresh Manglani:** I hope that answers Kirtan.
- Kirtan Mehta:** Yes they give us sort of a directional answer where how their solution could be involved so do you see as a part of the solution one of the proposal to sort of APM price itself which could sort of lower the impact on the consumers or that is not under consideration at all?
- Suresh Manglani:** I said you see when we have an engagement which are very constructive all the options what we have suggestion what governmental suggestion, what GAIL suggestion will be on the table to discuss and it will not be fair on my part to dwell on one particular option whether it is there or not there but I think all of us are the industry player we know what solutions could help the consumer to continue to use the CNG I am sure we will find some good solution along with the industry and the government that finally we continue to maintain the momentum when we come and answer your question the next quarter.
- Kirtan Mehta:** Sure Sir. One more question on the demand destruction that you were mentioning about so have seen any signs of slowdown of new vehicles in this same geography?
- Suresh Manglani:** Currently it is too early because the momentum is continuing OEMs are continuously coming on CNG vehicles because everybody is feeling this is a kind of a temporary storm which is coming and it will go away so currently we are not seeing the demand destruction in that sense like you saw the number which we gave 61% increase in the CNG volumes vis-à-vis last year so volume built up is going on infrastructure is growing we are continuously developing more and more station you saw in this quarter we added 15 more in fact six quarter-on-quarter which gives you the comfort that our commitment continues because it had developing DODO and CODO it is a larger investment awful branded station so I think it is too early if this situation continues for a very long time yes then consumer may think but currently everybody is upbeat and it is still even our price which we are offering provides a significant saving petrol it is not that we have crossed still at 135% saving vis-a-vis petrol today if you do the mileage based conversion.
- Kirtan Mehta:** Right Sir and just one more sort of a blender function how do you see that diesel related conversions coming through there had been a better for momentum pick up over the last couple of quarters, is it sustaining, is it increasing how are you seeing those surviving?
- Suresh Manglani:** No it is continuing clear as I said consumer who are planned the conversion they are continuing because they are sensing very clearly but we are working on the interest we are calibrating the prices and they know that the moment to get an opportunity we will again ensure that we moderate the prices so consumers are converting inside when I am talking to you today we saw trust converting into South over GA so convergence are happening currently I do not see that sentiment where suddenly people are deciding not to go for a CNG. CNG is still a fuel which is continuously being used and opted by the consumers as well as OEMs.
- Kirtan Mehta:** Thank you for the answer I will go back.

Moderator: Thank you. The next question is from the line of Kishan Mundra from Antique Stock Broking Ltd. Please go ahead.

Kishan Mundra: Good evening Sir. Sir first a quick question or rather small clarification Sir so there was a news item which said recently that the government is exploring moving some gas allocation from power sector to the CGD sector so are you aware of any developments on that front?

Suresh Manglani: No actually I would not be able to say except that as I said in the first two questions which I answered is that everyone is conscious of this challenges which are passing through entire oil & gas industry that gas prices have gone up not because of India policy but because of the geopolitical situation various options are being looked at set how do we bring benefit or the relief of the consumer I think in that sense you will keep reading some news article whether it is from powered to here or some other options my request would be that we wait for some more time to see a concrete proposal on optimization of a gas prices and also calibration prices to the consumers.

Kishan Mundra: Okay understood in that context so have you made any changes to your capex plan, have you trying to hold back till you get more clarification or you continue with your location?

Suresh Manglani: As I said when our consumers are not changing plan how do we change our plan because we are companies who have to have a commitment and vision very clear about the business so today we are fully committed our investment is rolling out as we have planned we see very good feature of CNG as well as pipe natural gas. We are more than confident that we will ultimately provide a good saving to the consumers as today also we are providing 30% to 35% saving vis-a-vis petrol we are sure that we will be providing good saving on alternate fuels so there is no going back on the capex front currently, any plans for us to stop or with all the reduce the capex plan?

Kishan Mundra: Understood and any initial discussions that you may be having with let us say fleet operators because what we had seen that in the first half, first half of this year in fact last year as well see we conversions had picked up massively in the country so any like doubt in their minds now I mean do you see possibly slowing down in the near term?

Suresh Manglani: No actually in fact if you see as far as Adani Total Gas plants are there we will fact do a lot of marketing intervention or the business development intervention of providing several incentives promotion with keys to convert from NS electric to CNG so that they payback improves so while on the pricing side we will be constrained to pass on some price rise because of the increase in the gas cost so the other side from a longer term perspective so the consumer base goes up and momentum is sustained in fact several schemes are run several partners which are being developed with OEMs or dealers of auto dealers to continue to maintain the growth of a CNG conversion and we are currently at least not sensing reduction in the conversion.

Kishan Mundra: Thank you.

Moderator: Thank you.

Varatharajan S: I just had one question, Sir the question was pointing out about the CNG conversion you had written a note also on that particular issue a month back what I was witnessing was that significant jump in the OEM CNG registrations over the last 8 to 10 months across the country specifically we did get data for Mumbai, Delhi and Gujarat assets now what we that actually wondering was that like what kind of a price arbitrage I mean what kind of price arbitrage as well as in terms of ownership cost per se what is the differential and what would actually like to be the threshold level which would actually drive this I mean fleet operators to actually prefer CNG over PNG I mean what kind of tonnage just let them normally do prefer, are we looking at even heavy vehicles move into like that?

Suresh Manglani: See actually it is very differently reason for different people it is all depends upon which city we are talking what mileage per day kilometers he is going to be running the vehicle or let us say if somebody is running 200 and 300 kilometers per day versus somebody 50 kilometers the payback and this calculation be very different, but on average I think people at commercial vehicle basis 18 months to two year to two and half year still they will look for convergence while a taxi cab owner there he looks for the 12 to 18 months because he does not have much patience he wants higher saving but the commercial vehicle owner definitely know that their vehicle life is much higher their businesses more sustainable they would like to have little longer payback is okay while everybody wishes to have lesser loan payback so people who run more and more mileage every day for a month they will still be looking for conversion over CNG even if there is a smaller saving versus the people who only make 40-50 kilometers per day everybody case will be different but two to two-and-half year probably 18 to two years payback will attract the consumer still converting on CNG.

Varatharajan S: Have you also like physically of course list this kind of jump in the CNG?

Suresh Manglani: See we do see kind of a sentiment that people are now looking for our support because they believe that we are a long-term player we are building infrastructure for the generation so they believe that we should also put some skin in the game on their conversion so this is a normal expectation of a consumer of a commercial vehicle so we do some marketing intervention depending upon number of vehicles somebody is ready to convert, we are very focused as Adani group that if it is making sense for us to give some support of a conversion we are willing to do that we are definitely willing do that because we believe that long-term interest is going to be protected if we have more and more convergent at this early stage or where we can utilize our CNG session better rather than allowing consumers to convert their own wish this currently requires little more marketing push and business development push and that is what our teams are doing.

Varatharajan S: Thanks Sir.

Moderator: We have one more question in the queue from Harsh M from Emkay Global. Please go ahead.

Harsh M: Thank you for taking my question. Basically I had two questions one was regarding would you be able to tell us what the kind of slope at which term contracts are being LNG contracts undertaken at present on approximate bench and what is the proportion of term contracts out of our volume mix if you can give an approximate number to it?

Parag Parikh: As far as our overall volumes are concerned on the term contract if you notice today we are getting APM as far as CNG and the domestic segment of CNG is concerned this itself comprises almost close to 65% to 70% of our overall volume. It is in the balance 30% where we are entering into a variety of term contracts some of them are with your the local PSU supplier as well with some private operators like Reliance and thirdly we also have Total as a partner with whom we continue to access as far as supply is concerned so it is a combination of all these three as far as our current term contracts are concerned at this juncture we have term contracts, some of them are more shorter term contracts and we look at entering into longer term over the coming calendar year.

Harsh M: Right and would you be able to put an number to the kind of icing at which term contracts are being entered like not for Adani Total Gas term in specific, but in general?

Suresh Manglani: It is markets today of course as you are aware are quite volatile and to that extent there are not many long-term contracts which have been entered into I think you may want to wait and watch to see at what prices some of these contracts are being anchored. There of course some of the other domestic tenders also which are expected to come and I think that will be a good sort of benchmark for one to know as far as term contracts happens but not yet currently of course as you are aware globally is quite volatile and therefore there is no specific benchmark.

Harsh M: Thank you so much.

Moderator: Thank you. As there no further questions from the participants I would now like to hand the conference over to the management for closing comments.

Varatharajan S: Thanks everyone for participating in the call.

Suresh Manglani: Thank you everyone for participating for the call. Look forward for any further questions. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Antique Stock Broking Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.