



“Adani Gas Limited Q1 FY20 Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to Adani Gas Limited Q1 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vimal Dhami from Investor Relations team of Adani Gas Limited. Thank you and over to you.

**Vimal Dhami:** Thank you. Good evening everyone. I welcome all the participants to the first quarter FY2020 Earnings Conference Call of Adani Gas Limited. Speakers on today's call are Mr. Suresh Manglani - Chief Executive Officer of Adani Gas Limited; Mr. Yogiraj Navathe - Vice President, Adani Gas; Mr. Preyash Jhaveri - AGM, Adani Gas Limited.

During the call, management will be referencing and discussing first quarter FY2020 result which is available on our website at [www.adanigas.com](http://www.adanigas.com) in the investor relation section and at the website of the stock exchanges.

Before we start, I would like to mention that some of the statements made in today's conference call may be forward looking in nature and that could be affected by certain risks and uncertainties. This could lead to material difference between the actual results, financial situations or performance of the company from such forward-looking statements. The company assumes no liability whatsoever to update these forward-looking statements or to confirm them to the future events or developments. Now, I would like to request Mr. Manglani to provide an update on the key developments and the financial performance of the Adani Gas Limited. Over to you, sir.

**Suresh Manglani:** Hai, I am Suresh Manglani. Thank you, Vimal and once again welcome to this conference call and thank you for participating. I am pleased to inform you all that Adani Gas has once again delivered an all-round good financial and operational performance for the quarter 1 of 2020. During the quarter 1 financial year 2020 compared to corresponding quarter of previous year, overall volume has grown by 9% to 137 million standard cubic meters. Operating EBITDA grew by 32% to Rs. 135 crores and profit after tax has increased by 43% to Rs. 79 crores. I will give a little more detail about the results before we start taking your questions.

Our CNG volume grew by 9% and PNG volume by 10%, so overall it came 9%. We have achieved volume of 137 million as against previous year quarter, it was 126 million. During quarter 1 FY2020, revenue from operations rose by 21% to Rs. 479 crores versus Rs. 396 crores in quarter 1 FY19. Operating EBITDA grew by 32% to Rs. 135 crores versus Rs. 103 crores in Q1 FY19. Operating EBITDA margins were quite healthy at 30%. Profit after tax for Q1 FY20 increased by 43% to Rs. 79 crores as I stated earlier.

On infrastructure front, I am pleased to inform you all that now we have crossed 4 lakh PNG consumers across our 5 geographies and our CNG stations, outlets have now increased to 84. I will now leave the platform to all of you to raise the questions and I will answer one by one. Thank you very much.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Rohit Ahuja from BOB Capital. Please go ahead.

**Rohit Ahuja:** Sir, could you please press us on a recent news that Total would be buying some stake in entire gas business, so could you provide some detail like how this arrangement is working out on that?

**Suresh Manglani:** I think you had read some media news. As you know, as Adani Group and Adani Gas being a progressive and dynamic group, we keep looking all the opportunity which comes across to us, whether for investing our company or we taking over some investment in some other parts, so currently it is in the media. The moment it gets materialize any opportunity, we shall certainly share with stock exchange and media. Thank you very much.

**Rohit Ahuja:** Sir secondly, on your operations, we see your EBITDA in terms of rupees per unit seems to be trending much higher than your peers in the industry and if I see your volume mix, about 37% of it is industrial and 51% is CNG, so could you share how come you are able to outperform your peers' end margins?

**Suresh Manglani:** I am sure you have been participating in our earlier calls as well as the investor conferences where we participate. We have been maintaining consistently that we have a leadership on our OPEX optimization. We have very strong discipline in our OPEX. Second, because of group dynamics, we get lot of benefit of achieving the cost optimization plus our excellent strategy on gas sourcing, so these two major components of the cost help us to maintain much better leadership on margin than perhaps peers as you are quoting.

**Rohit Ahuja:** So, is that a case where the utilization of your pipeline infrastructure is much higher than your peers in the system?

**Suresh Manglani:** Yes, definitely our utilization also is excellent in terms of even throughput of CNG if you see. Throughput is also very good as compared to perhaps many other CGDs, so overall that is the reason on throughput side, asset utilization ratio, optimization of cost, optimization of a gas sourcing, so put together everywhere we try to bring some saving or some betterment and that in compounding manner brings this result which we are seeing.

**Rohit Ahuja:** This would specify like what would be the percentage utilization for CNG infrastructure and your PNG infrastructure?

**Suresh Manglani:** As regards CNG infrastructure is concerned, it is around 70 to 75% of compression capacity which is very high, generally 50 to 60% is a trend.

**Rohit Ahuja:** And for PNG sir?

**Suresh Manglani:** PNG is basically function of pipeline capacity, so PNG we are running around 50% you can say because it is always designed on considering the future volumes pipelines and design considering 25 years volumes. What matters is end connectivity and what you deliver at the customer end, how effectively, how efficient to deliver a customer end, may be a CNG station and other customers.

**Rohit Ahuja:** And sir, separately question on marketing exclusivity and the recent white paper by PNGRB on tariff for the pipelines of City Gas Distribution companies for third party use, sir I am sure you would have seen that, so any opinion on that sir, what is the thought process behind this and when do you think this would get implemented and in what fall?

**Suresh Manglani:** Thank you, Rohit and I am very happy to see that you are very informed analyst or an investor in this sector. The open access of the exclusivity concept note which we are referring, I think PNGRB has uploaded the comments given by various entities and you will find Adani Gas comments formally submitted to the PNGRB and what we have stated is that this is currently the matter is sub judice in Delhi high court. Supreme Court in the case of Indrapastha Gas has actually made tariff regulation for a CGD ultra vires. So, these are the two things which has to be seen the regulator before moving forward on the concept note or exclusivity for the CNG to be ended and the next part was, you will see our comments and comments of many other entities which I have seen. The PNGRB act itself provide that regulator has to first formulate to determine which CGDs they should open up and in what manner they will do it, what objectives they will do it and they will set up the full regulation on that and then the issue will come about capacity determination and tariff determination of the each entity, so there is a lot of work on the way. So, currently we would say that this matter is sub judice and regulator also in fact has taken note of it if you see the concept note which is published. The preamble itself says that this matter is being heard with the courts.

**Rohit Ahuja:** If it is in court, then you think this is going to take much longer than what we are anticipating?

**Suresh Manglani:** As I said one is in the court, other is as the formulation of regulation, then determination of tariff for each of the CGD, so definitely it is going to take some more time and another aspect you need to keep in there in mind that let us say as and when that eventuality happens while you may have in your perception some of the threats hovering around the CGD whereas we also had to keep in mind this will be an opportunity to have lot of other markets available to the CGD.

**Rohit Ahuja:** So, in terms of exclusivity like, we would have crossed exclusive period for Ahmedabad and Faridabad where we are operating?

- Suresh Manglani:** Yes, actually all existing areas, it is for all the companies existing areas, 5-year period which has been stated that have ended but it is going to take time that as I said if you read our paper, you are saying it is not 5-year end and then exclusivity automatically opens up. Regulator has to formulate the regulation to determine. Now, the CGD has to be taken to the open access regime. For that section 20 requires regulation to be formed.
- Rohit Ahuja:** We gave 3 options in that white paper, if you could recollect that and some of?
- Suresh Manglani:** As I am saying that entering into the debate on which option should be adopted will be only when we resolve the fundamental issues actually, sub judice issue, the formulation of the regulation issue and when we come to that which concept and whether this 3 or any other option which is available, we can start working on that.
- Rohit Ahuja:** Sir, would not that draft paper be step towards formulating a regulation taking and all the parties affected into confidence before they formulize the regulation?
- Suresh Manglani:** No actually, this itself is touching straight on the tariff, how to determine tariff and the prework for that tariff to be applicable or to be determined is that PNGRB under section 20 has to formulate the regulation itself that how to determine, which entity has to be opened up, what are the objective, then determining the capacity, then determining the tariff of the trade. So, tariff part they have given concept note for which there will be, so far we have not given our comments on detail on the the concept note options. You had touched upon the fundamental issues which are to be taken care of which in fact PNGRB has stated that these issues have to be taken care of, so we are saying first address those issues which are sub judice in nature, ultra vires of the tariff regulation, so which regulation would be applicable itself, so there are fundamental issues. My suggestion would be that now everyone's comments are there on the website of the PNGRB, MGL, IGL, Gujarat Gas and I am sure everyone including a lot of consultants. You will get a lot of good idea about what everyone is talking about it and today was an open house in PNGRB and yet to get the feedback, so we will know that what happened in today's open house.
- Rohit Ahuja:** Sir, lastly on, we had some ambitious CAPEX plans and where are we in terms of the feasibility studies of our GAs that were awarded in the last 3 to 4 rounds of CGD and how are we progressing with the CAPEX plan?
- Suresh Manglani:** No, we are actually on the track, in fact we have crossed our feasibility have been done, reckon survey have been done, contractors have been appointed, some of the GA pipeline laying has been started, so this Chittoor, Bhilwara has started. We are ready for laying pipeline in Gujarat GA, because of heavy rains we have stopped now, otherwise contractors are available, pipes are available in that area. Palwal has gone live, actually the operations are started, two CNG stations have been set up, so we are actually on the track, lot of investments have been committed. So, yes as we stated earlier, CAPEX rolling out is on and as per the plans which we have made.

- Moderator:** Thank you. Next question is from the line of Nitin Tiwari from Antique Stock Broking. Please go ahead.
- Nitin Tiwari:** First one is book keeping question, if you can help us with the breakup of the volume in terms of how much was it CNG and industrial PNG, domestic PNG?
- Suresh Manglani:** Our volume in CNG will be 71 million and PNG 67 million, so put together, you will have roughly 138 million.
- Nitin Tiwari:** Sorry, I missed the middle part, you said CNG is 71 and PNG is?
- Suresh Manglani:** 67 and total is roughly 138 million.
- Nitin Tiwari:** And if I have to break PNG up in PNG industrial commercial and PNG domestic then?
- Suresh Manglani:** Yes, so 67 you will have commercial roughly 3.84 which is 4, domestic 12 and rest is industry, roughly 50.
- Nitin Tiwari:** And basically you were like talking about your investments in the upcoming GA that you just basically bid for, so would want like more details on it like in terms of if you can help us understand that where we are in terms of our timelines and our committed work program?
- Suresh Manglani:** As I said, for the first year there is a steel dia commitments of some quantity, it is roughly around 50 km in total GAs. I was given earlier, seem to Rohit that we are on the track, we had done lot of preparatory work in terms of setting up organization, recruiting people, setting up officers, appointing contractors, placing orders on all the long lead items including pipes, compressors, dispenser, cascades. So, lot of work has been completed, in fact in couple of GAs, as I said for example Rajasthan both geographical areas, Chittoor and Bhilwara work of pipeline laying is right now going on as I am talking to you We have taken the land almost in all geographical areas, land development work is going on. So, in Gujarat, we have in fact made the plans to do more of an aggressive early monetization plan because ecosystem is already available here. Other geographical area, we are doing bit of a faster work, so that we go through that ecosystem development curve. Gujarat wants to set up CNG station, you start very quickly getting volume ramp up. So, all put together everywhere we are putting a strategy and as I said, Palwal if you see, we have started two CNG station, entire pipeline from Palwal starting point to Madura road, fully 30 km is getting laid, so right now when you go contractors are aggressively working. So, on each of the geographical area, lot of work is going on, particularly in South and East we are on currently getting to the land part, so land we identified plus we are finally negotiating the land. In terms of the signing the gas supply agreements, all done, hook- up agreements mostly done, so lot of home work has been completed.
- Nitin Tiwari:** So, what was our CAPEX during the quarter sir and what is the outlook for this year?

- Suresh Manglani:** We had planned for the next 5 year roughly Rs. 7000 crores in the new geographical area. Out of that in this financial year, in the next financial year roughly 2000 crores in current financial year and next financial year, so we are on track. In fact, quarter 1 itself, we have committed more than 400 crores. So, as I said, we wanted to give you just confidence and comfort that currently we are definitely on the track on aggressively expanding our rule out.
- Moderator:** Thank you. Next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.
- Nilesh Ghuge:** Sir, my question is on CNG revenue, how much CNG revenue for this quarter and the last quarter, can you give that number?
- Suresh Manglani:** CNG is 231 crores out of 479 and PNG is 241 crores.
- Nilesh Ghuge:** And the same number for same period last year it was sir?
- Suresh Manglani:** Last quarter would be 191 crores for CNG and 201 crores for PNG.
- Moderator:** Thank you. Next question is from the line of Manikanth Garre from Axis Capital. Please go ahead.
- Manikanth Garre:** Sir, just a followup to the previous question, can you please give the split of PNG volumes for Q1 of FY19 also?
- Suresh Manglani:** Q1 FY19 volume would be 65 million CNG and 60 million PNG whereas this quarter, 71 and 67, so 65 has grown to 71, 60 has grown to 67.
- Manikanth Garre:** The 60 MCM of PNG, can you please give the split of that into domestic, industrial and commercial?
- Suresh Manglani:** The last Q1 19 domestic was 9.4, commercial was 3.5 and industry is 47.5.
- Manikanth Garre:** Yes, I got the numbers. Sir, my second question is, can you please give the split between long term and spot LNG that you use for the industrial, commercial PNG?
- Suresh Manglani:** What we have been giving breakup is about what we are buying on a domestic gas for the PNG home and PNG is roughly 60% and LNG mix of a spot and term LNG which is bit of a dynamic, we keep utilizing spot basis now soft pricing and some commitment which were made, so that is roughly 40%, mix of a spot as well as term.
- Manikanth Garre:** You must be having a long-term LNG contract signed up..

- Suresh Manglani:** Adani Gas has been having because we need to see that we are closer to the market with the customers, so we have always do the one-year contract, we don't do a long-term contract, so that we can take benefit of softer prices difference and we have view of that this prices move in tandem with the crude and industrial customers are using mostly alternate fuel, so we maintain one year contract.
- Manikanth Garre:** If that is the case, may I ask you a follow-up question with respect to this. So, because of spot LNG prices have been so weak in the last few quarters, especially Q1 again they have fallen, do you see much increase in demand for gas in any of your industries if you can point out any customers or investors where you have seen increase in demand because of this?
- Suresh Manglani:** Yes, actually I would say that the softer pricing are actually definitely going to help us to increase our industrial segment and that is why when you are seeing we are giving double digit growth on quarter on quarter on a year-on-year basis and this softening if continues to maintain, we definitely see there will be some more demand coming from industrial customer.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Manglani. Over to you sir.
- Suresh Manglani:** Thank you very much for each of the participant for taking pain and participating this call. Hope we have been able to answer all your questions. Thank you very much.
- Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of Adani Gas Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.