“Gail India Limited

Q3 FY ‘23 Earnings Conference Call”

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MODERATOR: MR. VARATHARAJAN SIVASANKARAN – ANTIQUE STOCK BROKING LIMITED.

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY '23 Earnings Conference Call of Gail India Limited, hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero 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. Thank you, and over to you, sir.

V. Sivasankaran: Thank you, Michelle. Good evening, everyone. It's my pleasure to welcome all the participants and the management of GAIL India Limited, led by Shri Rakesh Kumar Jain, Director Finance, along with these other senior executives.

On behalf of Antique Stock Broking, it's a pleasure for us to receive you all this evening. I would like to request Shri Rakesh Kumar Jain to give you his initial comments, and then we can move on to Q&A. Over to you, sir.

Rakesh Jain: Thank you, Mr. Varatharajan. Good afternoon, everybody, my dear friends from investors and analyst community. A very warm welcome to GAIL's Earnings Call for Q3 financial year 2023. The physical and financial performance for the quarter ended December 2022 is already shared with you and same has been made available on the GAIL's website.

As communicated by us from time to time during various earnings calls and various meetings that the company is into a very challenging business environment for reasons known to all. The disruptions in supply of LNG cargo by GMTS continued during this quarter also.

However, we have taken a lot of mitigation measures in order to maintain the supplies and to protect our profitability. During the quarter, we have witnessed high volatility in spot LNG prices where the prices moved from approximately $45 per MMBtu in the month of October 2022 to $20 per MMBtu by the end of December 2022, there's a swing of almost $25, which has actually led to significant inventory loss.

This is to the tune INR 1,100 crores. This is one-off which we never saw. This is one of the major item in this Q3, we booked inventory loss of around INR 1,100 crores. For the unsold volumes, which is equivalent to approximate two cargoes, which we purchased during October 2022 at that time, prevailing market price.

Now I would like to share the performance highlights of this quarter. GAIL's turnover stood at INR 35,316 crores in the current quarter as against INR 38,440 crores in Q2 financial year '23. There is a decrease of approximately 8%, and this is mainly due to lower volumes in natural gas marketing, natural gas transmission and petrochemicals segment, along with decrease in average natural gas prices. If you see the average natural gas price which we sold in quarter 2 has decreased by almost $1, which was average 13.27 in Q2 has gone down to 12.27. Decrease in average price realization in petrochemical and liquid hydrocarbon segment by INR 11,700 per metric ton and INR 7,300 per metric ton, respectively.

The PBT during the quarter decreased to INR 223 crores as against INR 1,876 crores in Q2 financial year '23. This is down by 88%. And this is mainly due to decrease in gas marketing spread, and I also shared just now booking of inventory loss, which is one-off. Lower PC and LHC price realization and increase in fuel expenses, natural gas transmission on account of deallocation of domestic gas that is to the tune of 0.45 MMSCMD from Gas Transmission segment.

You may be aware that our -- there is allocation of APM gas of 1.55 -- there was allocation of 1.55 MMSCMD, which has reduced to 1.1 during August. As since this has happened all of a sudden, so therefore, we had to purchase spot gas in order to meet the requirement of compressor fuel, which we are booking. And of course, this is available as a transmission tariff when the regulator revise the tariff. But for the current quarter and also some what we booked in last quarter. The transmission segment has been hit by approximate INR 400 crores on this account -- INR 400 crores plus.

The PAT during the quarter decreased to INR 246 crores as against INR 1,537 crores in Q2 for financial year '23, down by 84%. And if we talk on 9 months basis, GAIL clocked a turnover of INR 1,11,292 crores as against INR 64,517 crores in corresponding period of the last year, thereby registering an increase of 73%, if you compare with last year, and this is again mainly due to increased gas price, higher price realization on 9 monthly basis in petrochemical and LHC segment, which is partly offset by a decline in volume in natural gas marketing, natural gas transmission, petrochemicals and LHC segment. There is a decrease in PBT by 40% on a 9 monthly basis. PBT is INR 5,993 crores as against INR 10,044 crores and PAT gone down by 39% to INR 4,698 crores as against INR 7,681 crores.

Coming back to physical performance. Gas marketing volumes stood at 89.89 MMSCMD in the current quarter as against 92.54 MMSCMD in previous quarter. The decrease in volume is mainly due to our mitigation efforts. As you know, the GMTS volume is not coming, therefore, we have put supply cuts. And that is why it is resulting into the decrease in gas marketing volumes.

This has been -- there was a decrease of approximately 5 MMSCMD, but this has offset by increased overseas sales. So, all in all, around 2.5 MMSCMD overall basis marketing -- gas marketing volume has gone down. Natural gas transmission volume stood at 103.74 MMSCMD in current quarter as against 107.71 MMSCMD in previous quarter. The capacity utilization was 50%. Again, a lower transmission volume is attributed to, again, the same reason GMTS supplies.

The polymer production stood at 68 TMT as against 95 TMT last quarter. The production has decreased due to operation of plant at reduced load to manage shortfall of volume arising due to supply disruptions. LHC production stood at 247 TMT as against 228 TMT in previous quarter. The capacity utilization was 69%. LPG transmission remains almost flat, 1,101 TMT as against 1,100 TMT in the previous quarter and the capacity utilization was at 115%.

On consolidated financials for Q3 '23 as compared to Q2 financial year '23, the consolidated turnover in current quarter stood at INR 35,870 crores versus INR 38,674 crores in previous quarter, down by 7%. PBT in current quarter is INR 662 crores as compared to INR 1,675 crores in Q2 financial year '23, down by 60%. The PAT is INR 414 crores as compared to INR 1,315 crores in Q2 financial year '23, down by 69%.

Consolidated financials for 9 monthly basis, the consolidated turnover for 9 months up to Q3 financial year '23 stood at INR 1,12,445 crores versus INR 65,373 crores in corresponding period in previous year, up by 72%. The PBT up to Q3 financial year '23 stood at INR 6,567 crores as against INR 11,088 crores in corresponding period of previous year, down by 41%. The profit after tax stood at INR 4,982 crores for 9 months in financial year '23 as compared to INR 8,802 crores in corresponding period -- previous year, down by 43%.

In terms of capex and funding, GAIL has incurred capex of INR 2,311 crores during quarter -- the current quarter and INR 6,278 crores on 9 monthly basis from April to December, mainly on pipeline, around INR 3,648 crores; petrochemicals around INR 675 crores; operational capex around INR 620 crores; CGD projects around INR 160 crores; E&P INR 210 crores; equity contribution, INR 965 crores.

We have planned to spend approximately INR 8,000 crores in the current financial year on pipeline, petrochemicals, CGD equity, etc. Further, during the quarter, GAIL has raised funds of INR 1,575 crores by way of issuing bonds for 5 years at a very competitive rate that is at the rate of 7.34% per annum, which is better than even the AAA rated corporate bonds, PSU bonds and the rate discovered of various PSUs at the time in the range of approximately 7.45% to 7.59%.

The total outstanding loans as on 31 December is INR 10,164 crores. For GAIL CGD business, GAIL is having infrastructure of 124 CNG stations and 2,34,000 DPNG connections. During the financial year '22-'23, five new CNG stations and around 32,700 new DPNG connections were added. The physical volume supplies to these GAIL CGDs is 0.22 MMSCMD during the year. In the next 2 years, GAIL's target to add over 100 new CNG stations and 2,50,000 DPNG connections.

Let me talk something about the GAIL Gas. During the current quarter, the gross turnover stood at INR 2,623 crores as against INR 2,716 crores in Q2, a decrease of 3%, and again, mainly due to the decrease in average sales price. The profit before tax has increased to INR 112 crores in current quarter, as against INR 101 crores in previous quarter. Profit after tax has increased to

INR 87 crores as against INR 71 crores in previous quarter. The physical volume during the quarter remains flat, almost 5.5 MMSCMD.

During the Q3 financial year '23, 8 new CNG stations and 9,500 new DPNG connections were added. During 9 months period ending December 2022, 19 CNG stations and 39,000 DPNG connections were added. Out of these 10 CNG stations have been added at Bangalore locations. GAIL Gas along with this joint venture subsidiary has infrastructure of 8,18,000 DPNG connections and 358 CNG stations, out of which Bangalore contributed 79 CNG stations and 2,28,000 DPNG connections as of 31 December 2022.

With respect to project performance, Mumbai-Nagpur-Jharsuguda pipeline is -- that is of 1,755 kilometer, activities are moving in full swing. And Mumbai-Nagpur Section is expected to be completed by May '23. Regarding Jagdishpur-Haldia and Bokaro-Dhamra Pipeline, 50% of -- that is 1,770 kilometer out of total pipeline length of 3,384 kilometer have been commissioned, and remaining part is expected to be completed by June '23. The SAPL a trunk-line is likely to be completed by July '23.

Further, in relation to PDH/PP plant at Usar, presently be tendering activities, other enabling activities are in full-swing and project expected to commission by April '25. Regarding PP plant at Pata, various LLIs tendering activities and site-enabling activities are in full swing and project expected to be commissioned by April 2024.

Now just I wanted to give you some outlook on our various segments. As I shared, the natural gas transmission business. Because of these supply cuts in current financial year, almost 10% transmission, almost approximately 10%, there is a downfall of 10%. And in view of reduction of APM supplies for compression fuel, there is an impact of another 0.45 MMSCMD.

These 2 are the reasons which are impacted, and we hope that next year, we will be able to achieve our normal normative volumes, which we could not do this year. So, this has an impact -- both have an impact of almost INR 1,000 crores this year and hopefully, this will be taken care in next financial year.

Well, coming back to the gas marketing. This year, we faced -- because this was all of certain activities, geopolitical situation, GMTS supply. So, we are in the market for sourcing of gases, we are in discussion with various suppliers. And we hope that we will be able to enter into a deal for meeting our increasing supply, increasing demand for our downstream customers. Apart from that, we are also in discussion with GMTS so that the supply is restored to a normal level.

One more thing I will -- as supplies to Jagdishpur-Haldia-Bokaro-Dhamra pipeline is increased, our average tariff realization has increased during this year, which used to be INR 39.78, has gone up to INR 43.46 per MMBtu. And going forward, the supplies to the Jagdishpur-Haldia pipeline or rather use of multiple pipelines LMC's therefore, there will be increase -- therefore we further increase in tariff realization.

Apart from that, the tariff for Jagdishpur-Haldia pipeline as on date has been worked out considering the Phase I capex which was approximately INR 2,000 crores and if we reduce the subsidy around INR 1,200 crores to INR 1,300 crores. Whereas total expenditure, net of subsidiaries is around INR 10,000 crores. So once the regulator takes care of these -- the tariff for the Jagdishpur-Haldia pipeline, which is currently around INR 65 per MMBtu is certainly going to be double. We already filed our tariff petition with PNGRB and PNGRB is reviewing the same.

Apart from that, we have also filed the tariff in line with the revised parameters which notified by PNGRB also with respect to integrated tariff notified by PNGRB. PNGRB is reviewing the same. Just to take you through and recap. The PNGRB has recently made changes in their tariff regulation. I would like to highlight some of them. They have given -- earlier, the volume ramp-up benefits were available for the first 5 years from the data commissioning of pipeline, now that it has been increased to 10 years.

And apart from that, what they have done, it will be available phase-wise. So, our at least 3 pipelines will have a benefit of that. That is KKMBPL, Dabhol-Bangalore, Jagdishpur-Haldia pipeline. Second, PNGRB, through an amendment to tariff regulation, has also given that the benefit of reduced -- basically GAIL has adopted the reduced corporate tax rate. So earlier there was apprehension that tariff will be revised. So -- because earlier tariff normative rate was considered was 33%-34%, apprehensions was that will be set up to tariff through adjustment and revision in tariff by 25%.

Now PNGRB has given that benefit that it will only be adjusted from the financial year '22-'23, so that significant benefit is now available. Third, the PNGRB through its amendment in tariff regulation has also allowed the benefit of transmission loss, a normative loss 0.1% without any subject to adjustment. Basically, it will be available actual throughput. Fourth, PNGRB, if you have gone through the regulation in terms of PNGRB regulations, the volume denominator is considered as normative, whereas fuel consumption is considered on actual basis.

Now PNGRB has again revise its regulation. The fuel consumption will also be almost normative. In terms of regulation, it will be subject to maximum 2% of volume divisor considered instead of actual. One more regulatory amendment, which PNGRB has done that earlier miscellaneous income were used to be set up through the expenses. Now the miscellaneous income will not be set up until and unless we reach to the level of 12% post tax return or 75% volume, not post tax 75% volume. That 75% volume anyway provides the 12% post-tax return.

As we shared in the last as on 31 May 2022 during the analyst meet at Mumbai on 31 May that we will be getting at least INR 2,500 crores of marketing spread in gas marketing. I'm happy to share that on 9 monthly basis, in spite of all those challenges, we have achieved at least INR 2,500 crores of marketing spreads. And primary reason is that out of 5.8 MMTPA volume, we sourced from United States, almost more than 50% we have signed on Henry Hub-linked contracts. So, those kind of risk has been mitigated, more and more customers are coming forward to sign Henry Hub-linked contract, and that will further taken care the risk of basis risk will further be taken care.

GAIL is now active participant to exchange. We are sourcing the good amount of gas from exchange. And in last Q3, we have sold almost 120 MMSCM of gas for exchange at a very competitive price. One more positive, which is going to happen in next year that we sold half MMTPA of gas in international market for 5 years, that 5 years is already over. So those 8 cargoes, half MMTPA gas will be extra available to be sold in the domestic market.

I think this is broadly from my side. And 1 more positive which will come from -- for LHC segment. As we all know that if Kirit Parikh Committee has recommended for a cap price for LHC, which is around 6.5. Currently, the price is around 8.57. So input costs for our LHC has gone up significantly. If these recommendations are accepted, then assuming all parameter remains same, it has a significant upside around INR 1,000 crores to INR 1,200 crores. Thank you very much.

Moderator: We have the first question from the line of Probal Sen from ICICI Securities.

Probal Sen: Yes. Thank you for the detailed explanation of why the results have been a bit early for this quarter, that is very useful. I have two questions. One was, sir, the disruption in the gazprom supply happened a few quarters back, from what we understand. So volumes anyways have fallen from about, I think, 114 MMSCMD levels for about 107, 108 for the last 3 quarters?

Just wanted to get a sense that the additional 3 to 4 MMSCMD fall in this quarter, that is the result of what you were talking about when you said you had high-prized cargoes, whereas the current prices have dropped. So the inventory loss is also one of the drivers part of volumes not being sold, and therefore, transmission volumes were also lower this quarter?

Rakesh Jain: Probal, I think -- just don't see that this quarter independent. We actually started reducing cost to downstream customer, in fact, sometime in August -- July 2 fortnight, and also, we have ramped down our Pata Petrochemical sometime September and then for a moment -- for few -- or for almost 30 days or so, we stopped during October. So, the impact in quarter 2 was there, but not to that extent. But the full impact of supply cuts actually has happened in Q3.

That is the reason. If you see -- compare quarter 2 to quarter 3, you will not arrive at that figure because quarter 2 was not fully comparable, supply cut was for a partial period, Pata was running, it is quarter 3 which has seen the actual impact.

Probal Sen: The second question was around the measures and the things that you spoke about on the tariff front. Obviously, all of these measures will be particularly positive. Just -- is it possible to put any sort of percentage? Now you mentioned, of course, about landed tariff going from INR 39.8 to around INR 43.5.

Rakesh Jain: Actually, it will not -- I got you. It will not be right idea for me to give you exact number, but because it is regulator to decide. But if you talk to me on a ballpark figure, because there are a lot more adjustment apart from this, because there will be capex adjustment, opex adjustment, past over recoveries. But if you talk to me, independent of these factors, it is INR 10 per MMBtu, at least.

Probal Sen: Just as an indicative range, that is the different value. Last question...

Rakesh Jain: Yes. For only these factors, I'm tapping independently that is coming not less than INR 10.

Probal Sen: Yes, of course, the regulator can always sort of diesel out some expenses here and there and so on. That could happen?

Rakesh Jain: Disallow, may allow -- almost 25% of current tariff.

Probal Sen: The last question, if I may. On the petrochemical front, utilizations have dropped quite a bit. So, for FY '24, given that we do have some visibility from -- maybe from some domestic sources, and I think earlier guidance was that volumes ideally should go up, improve from these levels gradually. What sort of utilization level should we be building in or should we be working with for the petrochemical business. Assuming some gas once again starts to become available and you don't have to sort of cut utilization this sharply for FY '24?

Rakesh Jain: For FY '24, look, we are currently running our Pata Petrochemicals at almost 40%. And the reason is that we want to continue to supply to end consumers. At least, we are able to satisfy them, and they continue to remain with us. As far as your question, what level we look for '24? We are actually working on sourcing of gas, and we are hopeful that we will be successful. And why should I give you a number of 40 to 80 or 70. We intend to run at 100%.

Moderator: We have the next question from the line of Amit Rustagi from UBS.

Amit Rustagi: Sir my first question relates to the tariff, you highlighted that around 25% tariff increase. So, are we looking at the integrated tariff to be 25% higher than the current realized one? And broadly, if we can assume that this will have 15 year or 20 year of life or what are the assumptions in that?

Rakesh Jain: I have not considered any integrated tariff benefit which will be available. As I said, I have only considered those factors, which have come through regulatory amendment. And by putting on the model, what kind of impact they may have, I indicated the ballpark impact, if I say for INR 40 average tariff today, they may have around INR 10 impact of these factors.

Integrated tariff when it comes, it will have a different kind of benefit. Apart from the increase in revenues, it will also benefit of market expansion. What -- we, as a company, look integrated tariff as a market expansion tools because now market is in -- it's away from source, away from the Western region. It is more in a northern and eastern part of the country. So we look integrated tariff from different perspective, apart from the benefits which are available as an integrated tariff that we have not worked out.

Amit Rustagi: And sir, what are the expected timelines? Can we expect all these tariff orders to come before March 31?

Rakesh Jain: Yes. So, we have submitted our tariffs. As we understand for PNGRB, they are in the process of making public consultation document. If -- based on our understanding, if everything goes right, by end of this month or maybe next month, public consultation document will be available, and that will give you a fair idea about the tariff submissions, tariff good moderations or what way the tariff will go.

But let me not focus onto this. Actually, this anyway will happen, what you analyst investor should look -- as I said, Jagdishpur-Haldia pipeline, tariff has yet been notified, which was notified sometime in 2018-'19, considering only capex of around INR 1,500 crores, I don't have a right figure right now because INR 2,000 crores was total capex, then the subsidy was reduced from that.

Whereas total capex for this pipeline is INR 15,000 crores. INR 5,000 crores if you reduce subsidies, INR 10,000 crores we have almost incurred. Now on an NPV basis for last 3 to 4 years, tariff is going to go substantially up. Currently, tariff is 65. Even if you consider on a conservative side on independent pipeline, it will not be less than INR 125, INR 130.

Amit Rustagi: So, you have already...

Rakesh Jain: Because that is the factor because that is the major thing. Let us forget the tariff regulation amendment, the integrated tariff. This is anyway available to us. Apart from that, KKMBPL tariff is also due for revision. The public consultation for the same was done in 2019. It has also good upside. The Chainsa-Jhajjar pipeline, Dadri-Bawana pipeline, for which consolidation also was done in 2019, we expect there will be some kind of upside available than the tariff regulation amendment, and then you come to the integrated part.

Amit Rustagi: And sir, my second question relates to the US LNG contracts. So now you mentioned that 0.5-million-ton additional LNG we'll be bringing. So, in total, how many cargoes we bring -- we are likely to bring in 2023 in India? And what is the average landed price including the spot transportation cost we have? And how much this is like over and above 2022?

Rakesh Jain: So we have almost 90 cargoes from the United States and we intend to bring all of them to India. And coming back to your transportation costs, actually, it depends because we are not directly bringing all these cargoes through our charter ship. We are using a lot of optimization mechanism like time swap and the destination swap, FOB swaps and DES Buy, which gives us a lot of flexibility and savings in transportation costs. So that depends on what kind of deal we click. But if you talk of normative transportation tariff, it ranges from $2 to $2.5.

Amit Rustagi: Sir, given this scenario, now shall we expect that CGDs, which were getting almost 50%, 60% cut in the US LNG contracts tied up with GAIL, they will start to get the full LNG because you will bring more cargoes in '23?

Rakesh Jain: CGD are not getting cut because of the U.S. gas. It was because of GMTS.

Amit Rustagi: But their contracts were, I think, linked to Henry Hub, right? So...

Rakesh Jain: No, no, no. Most of CGDs -- there may be some, but we have not put the cut because of the Henry Hub.

Moderator: We have the next question from the line of Puneet from HSBC. Please go ahead.

Puneet: Yes. Thank you so much for the opportunity. My first question is with respect to the loss that you booked on the transmission, INR 400 crores, when do you think you'll get the approval from PNGRB to book it back in -- as income in your P&L?

Rakesh Jain: Puneet, let us not look it at a loss. This year, we booked more expenditure of INR 400 crores. Actually, the tariff revision takes place in a period of five years, and we can go to regulator even earlier if there is a significant change in parameter. We have already gone to the regulator for considering these fuel expenses apart from other factors. What I have said earlier also the tariff petition has already been submitted. They are under process. They are reviewing. PCD is likely to be available maybe by next month, if not this month. And then normally, it takes 3 to 4 months to -- PNGRB to finalize the tariffs. So safely next financial year, April or May, we will be able to see the revised tariff.

Puneet: And then you can book it back in your P&L?

Rakesh Jain: Yes, then revenues are available. Actually, what is happening, it has a double impact. This year, we have booked, say, INR 400 crores expenses extra, which is not available. Next year, this INR 400 crores will not be there because now we have a time to source cheaper gas. Because that time, the prices were 40. Now you can buy gas at 20, 15. So those extra expenses will not be booked next year. Apart from that, we will have increased revenue on account of revision in tariff considering this apart from other aspects.

Puneet: And that will be booked as onetime income or is that -- will that depend over a longer period of time...

Rakesh Jain: No, no. It will be over economic life, because when they work out the tariff they spread it over economic life. So, INR 400 crores will not be available at one time in next year, INR 400 crores expenses may not be there next year, but the revenue will be available in a period of economic life depending upon the life of the pipeline. In this case, HBJ, which has a life till 2033.

Puneet: My second question is how much cash is now going via the Jharsuguda pipeline?

Rakesh Jain: No, no, nothing. Pipeline is still under construction.

Puneet: Okay. Nothing. So that the normative tariff that you talked about will start -- you're seeing that -- in fact, that number will go up later only?

Rakesh Jain: That is without pipeline, there will not be any change in tariff of Mumbai-Nagpur-Jharsuguda pipeline.

Puneet: And on the inventory loss of INR 1,100 crores at what LNG price was that determined? And is there a risk of more loss going into this quarter as well?

Rakesh Jain: We have almost booked that because we purchased around $40. I don't have the exact data. And already, we have booked – we have valued the inventory as on 31 December price, which was around $20, $21, $22. So, majority of loss we have booked. So, we don't expect that it will happen again.

Puneet: Okay. But there's still a reduction, you said it's about $14, $15. So, $5 further down, right?

Rakesh Jain: Already say $21, $22, we have valued it. So, what will happen now, if you see, it will be $14, $15 or if price increase, spot price increase, we may not require to book any loss. So, $20, $21 is not a very significant price.

Moderator: We have the next question from the line of Pinakin Parekh from JPMorgan.

Pinakin Parekh: My first question is just trying to understand the inventory loss better. So essentially, the loss arose because GAIL took an open position without a back-to-back contract with a buyer in this environment. And hence, there is a price loss?

Rakesh Jain: No, no. You know that during October, the prices of LNG were hovering around $45, and we purchased at a better price, not at $45, lesser than the $45. And you also note that on a quarterly basis, fertilizer bidding comes. We purchased 3 cargoes, and we got the contract. We supplied some of the quantity to them. but in view of significant volatility, the fertilizer came out with the -- another bidding in December, they did not take the volume at that price.

So that's how that volume remains. So, we did not take any specular or open position. Certainly, this is a continuous affair that fertilizer bidding comes, you have to quote that. And based on your likely volume available you purchase at -- but what has happened, by December, the prices went down, so there was less offtake.

Pinakin Parekh: So essentially, sir, with the fertilizer segment as a buyer, the price risk is essentially born by GAIL because if tomorrow, there is another price drop because LNG prices are expected to remain volatile, then that inherent volatility will be there on a quarter-to-quarter basis, especially in an environment like this. There is no price sanctity with the fertilizer segment?

Rakesh Jain: No, no. This was -- on a routine supply, which is 90% we are supplying on our contract, there is no volatility involved. There is no price risk involved. It is only when we bid through EPMC, then we take positions. But this has never happened in past. So, this is one-off situation, which has happened that price went down from $45 to $20. So that's why it happened now. We also have seen the market, how market behave. So accordingly, we will be taking position, but we also don't expect that prices will move such like the $45 to $20 because this was a unique situation.

Pinakin Parekh: Sir, my second question is just trying to understand the petro-chem segment utilization better. Now if we -- if oil prices were to remain at this level through the year and hence -- and petro-chem prices were to remain at these levels, then at what spot LNG prices can utilization go back to 100%? At $20, can you operate at 100% or you need a lower LNG or you can operate at a higher LNG?

Rakesh Jain: If the price petrochemical price remains at current level, we will be able to operate our plant at 100% around $16 plus.

Pinakin Parekh: $16. So, at 2021 sir, then the utilization to come off?

Rakesh Jain: That's what I was telling in response to earlier question that why we expect 40% to 80%, we expect 100% because we don't expect price to remain at that level.

Moderator: We have the next question from the line of Sabri Hazarika from Emkay Global Financial Services.

Sabri Hazarika: So, my first question is regarding the LNG scenario right now. So how has been the experience so far in terms of like getting long-term deals as a replacement to Gazprom and also to add to your portfolio? So there is some news regarding, I think that you are almost close to signing a deal with ADNOC also. So just wanted to know some idea on this?

Rakesh Jain: My colleague, Mr. Kaviraj is Executive Director LNG, will share the details. But news, let us not go by news. We are not only talks with ADNOC. We are in talks with a lot many parties and probably we'll be getting a good deal. But with a specific answer to your question, I request Mr. Kaviraj to tell you.

Management: As our Director of Finance, sir, rightly said, we should not go by news articles. But fact remains that we are actively in discussion with a couple of long-term LNG suppliers. And the discussions are at various levels with different parties. But since this being a long-term contract and market is also quite volatile, we are -- and it is taking more than an expected time, but we are expediting it. Hopefully, we should be able to conclude at least 1 contract shortly.

Sabri Hazarika: And second question is on your overall gas volumes outlook. So, we have seen that dip, but I think with spot LNG prices also cooling down, if we look into the numbers which have been stated by PLNG. So, I think they have also been back to something like 80%, 81% utilization.

So, are you seeing better numbers in Q4? And what is your guidance for FY '24 as a whole, both transmission and marketing?

Rakesh Jain: Let us not immediately look that Q4 will have miracle. We expect that Q4 certainly will be better than in Q3, but in '24, we at least -- we are hoping that we'll be back to normal.

Sabri Hazarika: Normal is in 110 plus for transmission?

Rakesh Jain: Yes. Anyway, we are still running 104, 105, so 110, why 110, why not 113, 114?

Sabri Hazarika: And your marketing EBITDA number is also like based on, say, 9,500 volumes, right, of INR 2,500 crores number that you have given?

Rakesh Jain: Yes. So whatever number I have given for 9 months is based on the current level, which are actual numbers.

Sabri Hazarika: Right, right. So -- but minimum INR 2,500 crores for FY '24 also you are pretty confident...

Rakesh Jain: So anyway, what happens when I made this statement of 31 May 2022 because investors and analyst community has concern about of gas marketing that you cannot -- do not look at as a sustainable segment. But we said in that meeting that you can look for at least INR 2,500 crores PBT from this segment.

Under the current volatile market, we have been able to maintain INR 2,500 crores in 9 months. So, we expect that in '24, we do far better than this, particularly because we will have more supplies, that's what we expect. Second, we have signed a lot of back-to-back contract thereby avoiding the price risk. So we expect that we should do better as compared to this year, even in gas marketing.

Moderator: We have the next question from the line of Yogesh Patil from Centrum Broking.

Yogesh Patil: So the question is related to current gas trading environment. Looking into the January average Henry Hub prices, which is much lower and India's landed price of Henry Hub would be lower than $9 per MMBtu considering the $2, $2.5 per MMBtu transportation cost. So, what we understand, sir, the same gas is being sold to various consumers at $12 to $13 per -- $12 to $13 slope to Brent. So, it suggests that GAIL is making hands-up trading margins on Henry Hub, is it the right understanding?

Rakesh Jain: As I shared with you, more than 50% contract for Henry Hub gas we have signed back to back. So irrespective of Henry Hub's level, we remains neutral, okay? And this we signed in order to avoid the price volatility makes the segment consistent.

Now remaining 50%, yes, there may be upside, there may be downside. But what we do, we take positions in paper market. Because in order to avoid this price risk of crude versus Henry Hub volatility, we take time to time positions in paper market. And therefore, we avoid those risks and try to remain consistent. So, we don't see any windfall or any extraordinary profits, but certainly, we will be able to maintain our profit.

Yogesh Patil: The second question is related to, again, INR 1,100 crores inventory losses on the trading side. So, can you please provide the same like-for-like inventory losses or gain in the previous quarter, if happened in the Q2 FY '23 or Q3 FY '22?

Rakesh Jain: I don't have any figure readymade, but I can say this was -- I think not, but it was not -- even if it was, it was not significant. That's what I'm not able to remember. So, there was nothing which was considerable. I think it was not there, but it was not considerable even if it is because significantly anyway we ourselves shares with you.

Moderator: We have the next question from the line of S. Ramesh from Nirmal Bang Securities.

S. Ramesh: And so going back to the tariff regulations and the outlook for the gas transmission business, when you indicated the current tariffs and the potential increase in the tariff, these are gross tariffs before operating expenses in line with the regulator announces or these are at the EBIT level? How should we read them?

Rakesh Jain: These are gross.

S. Ramesh: And sir, if you're looking at the economic life, according to the new regulations, the economic life is 25 years. So, this new economic life of 25 years will apply only to the new pipelines and HBJ will remain at 2033?

Rakesh Jain: Well, let me tell you. Economic life always has been 25 years. There is no change in regulatory provisions. But what is -- the regulatory provision is that if -- one is the regulatory provision, one is practice what PNGRB is doing. When PNGRB notified tariffs in 2018 and '19, even though in terms of regulation, the economic life is 25 years, for the purpose of computation of tariff, they consider 30 years. Second, there is another regulatory provision that after completion of economic life, there is a provision for extension of economic life by 10 years.

So if you see HBJ was first commissioned in August '87. If you go by those regulations, the economic life was over in 2012, but regulator has increased the economic life, say, around 2033, it means they have increased the economic life more than twice. So economic life -- provision of economic increases there in the regulation and which is being done by PNGRB whenever they work out the tariff. If required that economic life is over, they increase after assessing the health of the pipeline.

S. Ramesh: So, I know because one of the other companies in transmission suggested that the regulator will look at the entire gas grid and fix an economic life uniformly for the entire system. That's why I asked that question. So you are saying...

Rakesh Jain: So, there is no entire system as on date. As on date, pipelines are individual pipelines. If you see economic life of HBJ, I say around 2033. If you see the Dabhol-Bangalore, it is around 2038;

KKMBPL, around 2038. So, it is pipeline to pipeline. I'm not aware which grid they are talking about. But what is the current situation, I have shared with you.

S. Ramesh: And if you are looking at your petrochemical and LPG and hydrocarbon business, when you talk about the potential upside, say, in LPG and hydrocarbons from the reduction in APM gas prices. What is the kind of outlook you have for your end product prices, given that there is some volatility in oil prices in LPG market? Do you expect the current end product prices to sustain? What is the outlook there?

Rakesh Jain: Actually, I cannot predict about LPG price, what will remain in future. But what can I see, current prices, if you see historically, in winter, LPG price goes up. But this is the unique year where LPG price has gone down in winter. So, if nothing happens, this price may be sustainable price, but future I cannot predict what will be the LPG price.

S. Ramesh: So one last, since the OMCs have got some compensation for under return on LPG, is it possible that you can also make a similar claim or because it's based on the increase in its gas prices and these LPG is going to the public distribution system. Is there a case for GAIL to have that which.....

Rakesh Jain: No, no. We don't have -- no proposal is there. No such proposal is there with us.

Moderator: The next question is from the line of Mayank Maheshwari from Morgan Stanley.

Mayank Maheshwari: Just one question from my end, and this was regarding the GMTS supply. I think you were sharing around -- your strategy around trying to kind of get your long-term contracts. Can you just give us a bit more detail of by when this 8, 9 MMSCMD volumes you'll be able to kind of fully get back on a long-term basis?

Rakesh Jain: Actually, we are also not clear where we'll get back. We are pursuing or in discussion with the supplier and those outcomes still are inconclusive. We are still under discussion. So until those are concluded, it will be difficult for us to predict when will we get the full supplies.

Mayank Maheshwari: Sir, I was referring to not just from the original supplier, but to the other factors, other contracts that you were trying to kind of negate off this effect. Is there a thinking process around when you can at least get to long-term supply contracts with some other suppliers to kind of negate off the pain on GMTS?

Rakesh Jain: Yes. One is GMTS, which we discussed. But anyway, Indian economy is needing more and more gas. Even if GMTS would not have happened, we were in the market for sourcing gas, but GMTS circumstances has forced us more that not only we source to increase market demand, but we source a little more than that, so that even if the GMTS comes, we are able -- even if GMTS is getting delayed, we are able to serve the market.

And even if GMTS comes in full, we have flexibility to pay in the international market. You must have seen that in past, we have seen -- we have sold almost 10 MMSCMD of gas which is almost equivalent to GMTS volume in international markets because that ability we have because of the FOB contracts from United States.

So we are in a better position that even if we source equivalent to GMTS, a little less than GMTS apart from increased demand, we will be able to not only supply to our Indian market, but we will be able to play more in the international market.

Mayank Maheshwari: So is it fair to say whenever your contracts come in and you are able to source alternative supplies, it will be mostly linked to Henry Hub kind of contracts rather than any oil-linked contracts?

Rakesh Jain: No. We are not particular about Henry index. We look for as a portfolio, as a gas major in the country, we look for all kind of index as long as the prices are affordable to customers in India.

Moderator: We have the next question from the line of Aditya Suresh from Macquarie Asset Management.

Aditya Suresh: I have two specific questions on gas marketing. First is on the entire kind of supply issue, right? So obviously, the Gazprom contract is 2.5 million tons. Our US supply is 5.8 million tons, right? So I guess what I'm trying to get at is how much of your US volumes becomes available to offset Gazprom and by when? Or if I had to rephrase it differently, you said that your US volume, about half of it is kind of free, that would then tell me that you can offset fully Gazprom from exposure by bringing those volumes to India. So can you just give us some understanding of that, how much -- when can they give US volumes, so they kind of go off these hedges where you can offset the exposure from Gazprom?

Management: We are not clear what you mean by 50% is free. Can you just elaborate?

Aditya Suresh: I think in your remarks, you had mentioned something about some of our US volumes are already kind of placed, some of it is hedged, etcetera. So I was a bit unclear about the comments that you made. But the broader question there is simple. Gazprom, your exposures 2.5 million tons and you have a few cargoes right now. US, your supply contract is 5.8 million tons. By when do you get at least 2.5 million tons available to offset this Gazprom exposure?

Management: Yes, efforts are on. But since we have to tie-up on a long-term basis, it will take its time.

Aditya Suresh: From my understanding -- sorry to push on this, but my understanding about the US volumes you've placed also were more short-term hedges, maybe at best about a year in terms of some of these time swaps, inflations swaps, etcetera. So is that understanding the incorrect then?

Management: No. We are not able to understand you first. There's nothing -- I mean, don't link hedging and physicals.

Aditya Suresh: How much of your US volumes can you bring to India today and in FY '24?

Rakesh Jain: All, we will be bringing to India. All 90 cargo, approximate 88 to 90 cargo we'll all be bringing to India.

Aditya Suresh: And with that therefore the fully offset the Gazprom exposure?

Management: No. Otherwise -- our sales not have gone down, isn't it?

Aditya Suresh: So I guess -- sorry again to push, but I guess my real question is that, clearly, you're not bringing all the US volumes to India today, right, in FY '23, some has been sold...

Rakesh Jain: Let me tell you. This financial year, we are not bringing all because 8 we had already sold in the international market, that contract is over. So those extra 8 cargoes or half MMTPA will be available. That is extra from US, which is available to country.

Aditya Suresh: And just one final piece is in terms of your gas marketing volume mix today, are you able to kind of distinguish between how much is back-to-back in nature?

Rakesh Jain: So we have 14 MMTPA of portfolio. Let me give you a full breakup. We have 14 MMTPA of portfolio. 2.5 or you can say 2.85 at peak Gazprom, is not available 11 million. RasGas almost is back-to-back. Then we have signed almost 50% of out of 5.8 Henry Hub on back-to-back, okay?

And that is around, you can say, 7 million tons we have on back-to-back out of 11, if we reduce the Gazprom. So remaining, we have contract on different linkage, and we are supplying say purchasing Henry Hub of supplying or crude, but then we are taking positions to mitigate those risks.

Moderator: The next question is from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: So you mentioned that you're working on some LNG deals. What would be the indicative slopes that probably we might be getting if we conclude a deal or what is the current running rates like?

Rakesh Jain: I think we'll not be able to share even after conclusion.

Vishnu Kumar: Okay. Sir, for quite some time, we've been sourcing a lot of spot LNG for our petrochemical division. Now let's say, if you're bringing 0.5 million ton of the US gas to India or let's say, if you conclude a deal, would we insulate our petro-chem division going forward with 100% some kind of a lock-in and not rely on spot gas?

Rakesh Jain: You're right. We are looking for additional gas. That's how we are looking for additional gas. We are earlier also not relying on spot gas. So let me be very frank with you. It is only because of GMTS, which is substantial volume has gone down 10 MMSCMD. So one of the internal consumer got affected. So earlier also, we were not running Pata Petrochemical on spot, nobody will do that. No planning is done on the spot. So now unfortunate event has happened we are looking for another alternative long-term basis.

Vishnu Kumar: So whenever we get for the next volumes, we will be locking 100%, at least if not GMTS is not available?

Rakesh Jain: We always do that. It is only currently because of all of a sudden it has happened. Otherwise, we never do -- run plant on the spot.

Vishnu Kumar: And finally, for volumes to pick up in the country, what level of pricing do you think at least you see the gas demand coming back? We've seen country-level demand also come off a little. So what level of spot LNG, let's say, if you see -- if you think maybe $14, $15 or can you start to see some pickup in demand?

Rakesh Jain: A difficult question. At what level -- because every consumer has a different appetite level. If you take our fertilizer, it depends at what level fertilizer imported in the country, power, you know that it doesn't come under merit or RLNG had a challenge. CGD, it depends on alternate fuel with their source, diesel. Because they replace largely the diesel. So for them, the crude is the alternative fuel.

So if every consumer has a different level of affordability. And that's how we, in our portfolio, keep all kind of gases so that we take care of most of the customers. So no single price, I can say, which is actually okay for increase in gas market because we look for all kinds of market and try to satisfy their requirement from our portfolio.

Vishnu Kumar: And just one to confirm the previous answer that you mentioned, you expect that the PNGRB tariffs for your major pipelines to be done in the next couple of months. Is that right?

Rakesh Jain: We expect at least by April, it should happen because already we have submitted. They normally take 3 months. And we are also pursuing so that it actually is notified, say, by April, if not April, mid-April or end of April. We're hopeful that it will be done.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Varatharajan Sivasankaran for closing comments. Over to you, sir.

V. Sivasankaran: Thank you, Michelle. Sir, in case you have any comments to the final comments to make, please go ahead.

Rakesh Jain: It was pleasant talking to you all. And if we could not answer any of your questions or some of the participants might have missed. We are always available off-line and happy to answer your questions.

V. Sivasankaran: Sir, if I may, I had 1 last question.

Rakesh Jain: Yes. Yes.

V. Sivasankaran: Sir, in terms of the new regulation in terms what is highlighted for KG Basin, gas does it reduce our appetite in terms of bidding, in terms of volumes or like does it reduce our maneuverability in the overall of scheme of things in terms of placing those volumes?

Rakesh Jain: So I will ask my colleague, Sumit, to answer this, the ceiling on HPHT gas or you can repeat so that...

Management: Can you please repeat the question? Sorry, I've missed the question.

V. Sivasankaran: Obviously, we have reduced our marketing margin or restricted the marketing margin. So does that reduce your maneuverability in terms of placing those volumes? Or does it reduce your appetite in terms of bidding for those volumes?

Management: As you say, as for the new HPHT order by the Government of India, the priority in case it reaches the pro rata distribution, the priority is given to the CNG PNG segment and then the Fertilizer segment. So of course, it does ensure availability of a for as far as GAIL is concerned for our own CGD consumption to the extent of CNG PNG consumption. But yes, it does decrease the maneuverability for the trading segment and even our own consumption because the priority sector will get a higher priority.

V. Sivasankaran: Perfect, sir. Thank you, sir. And I wish to thank all the participants and the management led by Shri R.K. Jain. Thanks for taking time out to join this call. Have a nice day, everyone. Thank you.

Rakesh Jain: Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.