"Gail India Limited
Q3 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2024 Earnings Conference Call of GAIL India Limited hosted by ICICI Securities. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Probal Sen from ICICI Securities. Thank you and over to you Sir!

Probal Sen: Thank you Adhitya. Thanks everyone for taking the time out for back-to-back calls to attend the GAIL's post Q3 FY2024 result call. We have with us from the management, Sri Rakesh Kumar Jain, the CFO of the company along with other members of the senior management of GAIL so without further ado, I will hand over to the management for their opening remarks and then we can get into the Q&A. Sir, over to you.

Rakesh Kumar Jain: Thank you Probal and a very good afternoon to all of you. I have with me my colleagues from various departments who are heading critical departments like sourcing, marketing and colleagues from finance. Once again good afternoon and warm welcome to GAIL's earning call for Q3 FY2024. At the outset, I thank you all for attending this earning call. GAIL's results for quarter ended December 31, 2023 have been declared today. I will touch briefly on the major highlight for quarter and then we can open the question and answer session.

GAIL's gross turnover increased by 8% to Rs.34,168 Crores in Q3 FY2024 as against Rs.31,728 Crores in Q2 financial year FY2024. The major reasons for the increase are the robust physical performance by all the major business segments of GAIL. This quarter witnessed increase in natural gas prices and better realization in liquid hydrocarbon segments. Profit before tax during the quarter increased to Rs.3694 Crores as against Rs.3130 Crores in Q2 FY2024 and this is up by 18%. This is mainly due to increase in LHC price realization, higher petrochemical sales, improved gas marketing margins and reduction in input gas costs for petrochemical segment. Further, during this quarter, we received higher dividends as compared to Q2. We received Rs.403 Crores as against Rs.270 Crores in Q2 FY2024. Profit after tax during the quarter increased to Rs.2843 Crores as against Rs.2405 Crores in Q2 of FY2024, that is up by again 18% and the reasons are same as I enumerated for profit before tax. If you talk of nine month basis, GAIL clocked the turnover of Rs.98,034 Crores as against Rs.1,11,292 Crores in corresponding period of the last year and there is a decrease of 12% and this decrease is mainly due to decrease in gas prices as compared to last nine months of last financial year. However, this is partly offset by an increase in transmission tariff, volumes in natural gas marketing, natural gas transmission and petrochemicals. There is increase in profit before tax by 45% to Rs.8713 Crores as against Rs.5993 Crores and PAT by 42% to Rs.6660 Crores as against Rs.4698 Crores.

Physical performance if I have to share with you total gas marketing volume was 98.14 MMSCMD in Q3 as against 96.96 MMSCMD in Q2 FY2024 and this increase is mainly due to increase in overseas volume. Natural gas transmission volume was 121.54 MMSCMD in Q3 as against 120.31 MMSCMD in Q2. The average capacity utilization was 58% approximately the increase in transmission volume is attributed to increase in shippers volume by approximate 1.26 MMSCMD. Polymer production increased by 45 TMT to 205 TMT in Q3 FY2024 as against 160 TMT in Q2. Capacity utilization in last quarter that is Q3 was 101%. Liquid hydrocarbon production was 249 TMT as against 238 TMT in previous quarter. The capacity utilization was 69%. LPG transmission was almost flat that is 1095 TMT as against 1114 TMT in previous quarter and capacity utilization was 95%. The consolidated financials for Q3 as against Q2, the consolidated turnover in the current quarter stood at Rs.34,678 Crores versus Rs.32,952 Crores up by 5%. PBT in the current quarter is Rs.4075 Crores versus Rs.3138 Crores in Q2 up by 30%. Profit after tax is Rs.3195 Crores versus Rs.2444 Crores in Q2 that is up by 31%.

For nine month basis consolidated financials, the consolidated turnover for nine months in FY2024 stood at Rs.1,00,385 Crores versus Rs.1,12,445 Crores in the corresponding period in previous year. The profit before tax for the nine months in FY2024 up by 45% to Rs.9496 Crores as against Rs.6567 Crores in corresponding period of previous year. Profit after tax is up by 49% to Rs.7431 Crores for nine months in FY2024 versus Rs.4982 Crores in corresponding period for the previous year.

Now I will share the performance of GAIL CGD. GAIL is having infrastructure of 165 CNG stations and ~2,90,000 DPNG connections in the 6 GA allotted to GAIL. During the current quarter, eight new CNG stations and approximate 16,000 DPNG connections were added. The physical volume is 0.3 MMSCMD during the quarter. In the next two years, GAIL targets to add over 100 new CNG stations and approximate 2,00,000 new DPNG connections. I will share now the performance of GAIL gas. During the current quarter Q3 FY2023–24 turnover stood at Rs.3145 Crores as against Rs.2745 Crores in Q2 FY2024. There is increase of 15% mainly on account of increase in bulk trading quantity by 12%, and CNG quantity by 11%. Profit before tax stood at Rs.153 Crores as against Rs.57 Crores in Q2 FY2024. There is increase of 168%. Profit after taxes stood at Rs.113 Crores as against Rs.42 Crores in Q2 FY2024 increased by 169% for reasons as explained above. The physical volume increased to 7.18 MMSCMD in Q3 FY2024, an increase of 10% mainly on account of increase in bulk trading quantity by 12% and CNG quantity by 11%. During the current quarter, GAIL Gas along with JV subsidiaries has added 17,731 new DPNG connections and 29 CNG stations and having infrastructure of 9,06,000 DPNG connections GAIL Gas as a group company. If I have to talk about Gail Gas, GAIL Gas has almost 5,00,000 of DPNG connections. Bengal Gas Company Limited as on December 31, 2023, BGCL is having 13 CNG stations, 237 kilometer pipeline and 8000 numbers of domestic PNG collection infrastructure is made available. During the current quarter one new CNG station and 22 kilometers pipeline were added.

Project performance. Mumbai-Nagpur-Jharsuguda pipeline activities are moving in full swing and the pipeline is anticipated to be completed by October 2024. Jagdishpur-Haldia-Bokaro-Dhamra pipeline out of 3289 kilometer, 2951 kilometer pipeline have been commissioned and the remaining part is expected to be completed progressively by June 2024. Srikakulam to Angul main pipeline project there is a 420 kilometer. Work is under progress and likely to be completed by June 2024. The spurlines are anticipated to be completed by September 2024. Gurdaspur-Jammu Natural Gas Pipeline, this pipeline is having a length of 160 kilometer and is likely to be completed by July 26. Dhamra-Haldia Pipeline length is 253 kilometer. The work is under progress and expected to be completed by June 2024. PDH-PP at Usar, as you know, capacity of this plant is 500 ktpa is expected to be completed by April 25, PP at Pata, capacity 60,000 ktpa was expected to be completed by July 2024, IPA at Usar 50 ktpa expected to be completed by December 2025, GAIL Mangalore Petrochemicals Limited capacity 1250 ktpa completion date by March 2025. Capex for Q3 FY2024 is Rs.1730 Crores mainly on pipelines, petrochemicals, CGD projects, operational capex and others.

Now I would like to share some segmental outlook for short to medium term. So far in the financial year, our gas marketing business has exhibited robust performance. In earlier conference call, we had given a guidance that no matter what GAIL, will be able to earn at least to Rs.3500 Crores as a marketing margin from gas marketing segment during FY2023-FY2024. In nine months period ending December 31, 2023 due to better arbitrage, various optimization measures like time swaps, destination swaps and shipping optimization, we have already earned gas marketing margin of Rs.4300 Crores. We just surpassed our earlier guidance. With these revised numbers, our gas marketing margin is expected to exceed Rs.5500 Crores mark by the end of this financial year. In the similar way, we believe that the gas marketing spread for 2024-2025 will be around Rs.4000 Crores and for financial year 2025-2026 will be around Rs.4500 Crores and that will be minimum we expect to earn. Gas transmission volume for FY2023-24, it is expected to be 120 MMSCMD on an average basis. I am talking of yearly average and we also expect when we close this financial year, we will be having exit rate of at least 123 to 124. In this regard, I would also like to inform to my investors community that in Q3 FY2024 average transmission volume stood at

121.54 MMSCMD that is up from 120.31 MMSCMD Q2 FY2024. In next quarter we expect to transmit slightly higher volumes so as to reach an average of 120 MMSCMD for full financial year. For that during next two to three years there will be increase in transmission volume by 12 to 15 MMSCMD. Polymer production stood at 205 TMT as against 160 TMT in last quarter. In this quarter we were able to post a PBT of Rs.62 Crores as against loss of Rs.160 Crores as we have been mentioning to our investor/analyst community that we expect when we end this financial year, we will be around at breakeven level on yearly basis for petrochemical plant. This has happened due to optimization of cost, input graph cost, and improved operational efficiency because we are able to run the Pata plant at more than 100% capacity. For the Q4 of FY2023-24, we plan to optimize further our gas sourcing and as I said likely to close at breakeven level. For next financial year not only normalize petrochemical operations but we expect to earn a reasonable profit from Pata Petrochemicals. Liquid hydrocarbon production stood at 730 TMT during nine months of FY2024 and during Q3, we were able to post a PBT of Rs.257 Crores as against loss of Rs.17 Crores in Q2 due to better price realization. In FY2024, production level is estimated to be slightly higher as compared to previous years. Also, to protect our margins in this segment, GAIL has effectively involved in taking hedging for LPG products. I think that is all from my side regarding the overview performance of project status now I invite you to have any clarification or questions on the results for Q3 and nine months ending December 31, 2023. Thank you. Over to you Probal.

Moderator: Thank you sir. We will now begin with the question and answer session. Our first question is from the line of Puneet Gulati from HSBC. Please go ahead Sir.

Puneet Gulati: Thank you so much and congratulations on great numbers. My first question is on your guidance for FY2025? Why betting for lower marketing margins for FY2025 versus FY2024 or are you just being conservative?

Rakesh Kumar Jain: Puneet we have shared the minimum marketing margin which we are likely to earn. For this year if I have to share, we said that we will earn at least Rs.3500 Crores So we are saying this will be minimum which we expect to earn and then based on the market situations, the arbitrage available and the optimization we are able to do, we may be better off than this, but for guidance purposes, we are considering a number of Rs.4000 Crores.

Puneet Gulati: So it is fair to assume that there is a 100% probability of Rs.4000 Crores marketing margin?

Rakesh Kumar Jain: That is what we expect.

Puneet Gulati: Secondly, you can also talk a bit about what is driving the improvement on the petrochemical side? If it was decent improvement? What is the optimization that you are doing that you talked about in your opening statement?

Rakesh Kumar Jain: Actually first when we were we were running the plant before this quarter it was suboptimal production capacity we were running. So in last quarter we were able to operate the plant at 101%. Once you operate the plant at full capacity or more than the full capacity, lot of positive things happens and one of the positive things is that specific energy consumption in terms of per MMBTU consumption for one metric tonne has gone down significantly. Second the fixed cost allocation is to a higher quantity. Third, through our portfolio because in our portfolio we have options to make available the gases which suits the Pata petrochemical project production and the viability we are able to do that. So all these factors have enabled the profitability in Q3 for Pata petrochemicals.

Puneet Gulati: Lastly, if I may, if you can also talk about the opportunities on increasing your volume for marketing business? Are you sourcing new gas? What kind of gas contracts and gas pricing are you are experiencing there? What is the new volume tie up that you expect to do over there?

Rakesh Kumar Jain: So our Chairman has already said on various occasions that we intend to source 7 to 8 MMTPA of additional gas for our portfolio and maybe one to two MMTPA on yearly basis. In this regard already there was an announcement that we have signed a contract for one MMTPA which is going to be available to us from calendar year 2026. We are also in advanced stage of discussions with various suppliers and very soon we may be able to inform you when we conclude these deals. So we are on the job to source the gas, so as to have broader portfolio and do more marketing.

Puneet Gulati: Okay excellent. That is very helpful. Thank you so much and all the best.

Moderator: Thank you. Our next question is from line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: Good afternoon Sir and congratulations on good set of numbers. So I have two questions. The first one is relating to marketing so from what we understand generally the marketing margin in APM gases something like Rs.200/MSCM which is like around $0.1 per MMBTU and in LNG it ranges somewhere around 20 cents per MMBTU, so if we do a rough cut calculation we can end up at around Rs.2000 Crores to Rs.2500 Crores kind of marketing EBITA for the year so I am just wondering that when you are like sighting Rs.4000 Crores so does it mean that any of this arbitrage opportunity. They are like more recurring in nature or do you think has there been any like material increase in gas marketing margin or anything of that sort that has happened?

Rakesh Kumar Jain: Actually you are arriving at these numbers based on the sales price which includes certain fixed or some fixed kind of marketing margin. That is one part of it, but our portfolio does not include the APM gas and RLNG which we market at fixed margins. Our significant portfolio also includes wherein we have an option and opportunity where we are able to market the gas on a midterm to long term basis on a higher marketing margin than what you have estimated that is one thing, but apart from the marketing side, it is also sourcing side. I also narrated during my brief that we are able to do lot of things through which we are able to reduce our cost of gas sold like time swaps, destination swaps, a ship to ship transfers, a lot of things which we do and all these things and then taking this position in financial markets. The paper positions because we have a lot of portfolio available to us. So all these things enables us to have at least a number of Rs.4000 Crores which we have seen in last two to three years because every year when we are giving guidance we are working out these numbers like before we said Rs.3000 Crores we surpassed even the worst kind of situation. This year we said Rs.3500 Crores. We again went back to our calculation and we achieved it and then we have done it. So similarly for next years, we see that the gas marketing volumes are growing. Growth is there in the business and also we are able to take the benefit of lot of options which we are exercising because we have a lot of flexible gas at least from United States.

Sabri Hazarika: Right in marketing volumes will also grow by around 5% to 6% or it will be even more than that?

Rakesh Kumar Jain: We expect getting volume to grow at least by 5% to 6%.

Sabri Hazarika: Okay and second question is relating to your transmission business so the KG basin tariff order just came sometime back and they have like increased the gas cost, gas pricing assumption in the quarter? I think they have taken some long term average of HPHT and also? This is the final or do you think there could be further upside to the gas cost assumption?

Rakesh Kumar Jain: I understand you are talking of KG basin tariff, is that right.

Sabri Hazarika: Yes that is right. I mean that is why they have taken that assumption but does it mean that even for unified tariff and integrated tariff also that assumption may be taken?

Rakesh Kumar Jain: I think you go back to the tariff order. There is no implication of any gas assumption in KG basin tariff because there is no compressor station. There is no fuel consumption in KG basin tariff so that has no link with the tariff of HBJ which is part of the unified tariff where compressor fuel is being used. That is a separate issue.

Sabri Hazarika: I am talking about the gas price?

Rakesh Kumar Jain: Gas price, how will it impact in tariff unless it is used as a compressor fuel or transmission loss. Only these two things happen.

Sabri Hazarika: Okay got it. Got it, Sir. Thank you so much. So it is under review only and will come separately for you?

Rakesh Kumar Jain: Right.

Sabri Hazarika: Thank you so much and all the best.

Moderator: Thank you. Our next question is from line of Maulik Patel from Equirus. Please go ahead.

Maulik Patel: Thanks for the opportunity. Sir a few questions. Sir now you do not have any of this APM gas for your gas transmission business so is this on normalized cost on transmission segment?

Rakesh Kumar Jain: If I understood you, you are telling there is no gas allocation and at what cost we are booking is that right.

Maulik Patel: Yes?

Rakesh Kumar Jain: So since there is no gas allocation we are sourcing the gas for our compressor fuel. We are trying to source the gas from domestic sources to the extent it is available or else we use the RNLG for our compressor fuels which is at prevalent market size.

Maulik Patel: You are using around 1.7 MMSCMD of gas for the compressor business right approximately?

Rakesh Kumar Jain: Right.

Maulik Patel: Now in this quarter onwards it will be in market prices? There is HPHT or it will be in export LNG?

Rakesh Kumar Jain: Right. Export LNG or the gas available out of our portfolio.

Maulik Patel: Okay and Sir when do you expect that order to come now because earlier the assumption was that within a year the regulator will revisit the assumption what they made into this integrated tariff happened at ~$3.5 when do you expect that to have it again?

Rakesh Kumar Jain: Actually we are following with PNGRB and we expect them to take a decision soon, but we understand that there is issue of member legal there. Probably that is delaying that process.

Maulik Patel: Got it. Sir last questions, this is on the on the petchem side? Now you have turned into that again profitability and this quarter the spot LNG prices are again lower than the previous quarter? Is this fair to assume that your profitability will substantially improve in this quarter and Sir any update on that the acquisitions what we have done a couple of quarters back that Rs.2000 Crores which we are supposed to spend when do we plan to start operation in that?

Rakesh Kumar Jain: Yes. So it is fair to assume that profitability for petrochemical project or plant where Pata with certainly improve as compared to Q3 and we expect it to be the level of PBT or rather we will be at breakeven level for Pata petrochemicals on yearly basis. Second question is with respect to the plant which we have recently acquired that is erstwhile JBF Petrochemicals. We expect that plant to be commissioned by March 2025.

Maulik Patel: Okay and so will this be around about Rs.2000 Crores in that right?

Rakesh Kumar Jain: We have acquired that through NCLT process at approximate Rs.2100 Crores and then we are expected to incur around Rs.2000 Crores to bring it to the commissioning level.

Maulik Patel: Sir the PDH plant will also commission around that time only next year?

Rakesh Kumar Jain: Yes PDH will be commissioned mechanically by April FY2025.

Maulik Patel: FY2025 so commercial will be take another six more months to complete it?

Rakesh Kumar Jain: Maybe three months.

Maulik Patel: Okay great Sir. Thank you. Thank you very much.

Moderator: Thank you. Our next question is from line of Vikas Jain from CLSA. Please go ahead.

Vikas Jain: Thanks for taking my question Sir. So couple of questions firstly on your volumes? Now this 121 volume that we are seeing, could you just remind us how much of this is outside the main pipeline which is the, the unified pipeline how much of this is outside that like the Kochi, Mangaluru and I think?

Rakesh Kumar Jain: Maybe 10% of the volume is out of the unified network. KKMBPL and KG Basin is the large volume. Rest are very, very minimal. So KG Basin maybe around four to five again this four to five is KG Basin, so 9 to 10 million volume. 8 to 9 and then another Agartala region which are small networks which are not part of this unified tariffs.

Vikas Jain: No because what I am asking is that if the kind of growth that we are talking about, if we are at about 110 or so, we get another 8 to 9 MMSCMD of growth, then we would be already at 75% utilization right for the main network so in that case incremental volume increase could also lead to tariff adjustments or how does that work?

Rakesh Kumar Jain: Vikas you know the tariff regulation. At least we do not expect for few years that incremental volume will lead to reduction in our revenues because regulations are such that any under recovery of past years, we have a right to recover from any over transmission in coming years. So there will be years when we have under recovery. In past we had years so those under recovery will be first offsetting from over supplies if whenever it happens so there is no question even if we reach 75% level that we need to pass on.

Vikas Jain: Okay that is useful clarification and the other thing was this opex that we see for this for gas transmission segment that has gone up significantly so this is because all of this quarter the complete allocation has gone or there was part of it that was around?

Rakesh Kumar Jain: This quarter Vikas the allocation has totally gone now in two stages. One I think in October 1st and second is December 16th. So with effect from December 16, we do not have any allocation of APM gas for use in compression fuel.

Vikas Jain: So that is December 16th so next quarter if anything opex will be even higher because why I am asking that Sir is we are right now, I mean last year there was this thing about the opex being one off because there was much higher price for LNG $40 spot LNG that you had to use and all of that but even now that I see most likely next quarter opex from gas transmission will be at a much higher level because you said that December 16 when it the full effect will be in January to March, is that?

Rakesh Kumar Jain: It will be higher because the quantity reduces only 0.2. Yes it will get higher level, not at much higher.

Vikas Jain: So 0.2 of a base of 1.7, right?

Rakesh Kumar Jain: Right.

Vikas Jain: So 1.5 say 1.7 so that is what that just so about 10% to 15% kind of an adjustment.

Rakesh Kumar Jain: Yes.

Vikas Jain: And any reason why LPG realizations look a little low? Any reason you can think of that you can because this appears to be a little bit of a discount to what I thought was the market price?

Rakesh Kumar Jain: Can you come back again Vikas?

Vikas Jain: LPG segment realization any reason why they appear to be a bit low or you do not have any specific reason you can think of?

Rakesh Kumar Jain: No we do not have because it is all market driven, import parity price and we do not have any control over it. So there is no specific reason international prices are in that range.

Vikas Jain: Okay and finally where do you see, so when you say this 12 MMSCMD growth that in your opinion is more you are talking because I think you said over the next three years average of 10 to 12 MMSCMD growth is what you see so that is more like we should be thinking of more from a perspective of CAGR rather than specifically next year 10 to 12 MMSCMD coming is that how you think about it?

Rakesh Kumar Jain: Yes let me tell you. Currently there is a disruption in supplies from one of pipeline Dadri to Panipat supply, right. So we expect that three MMSCMD volume at least to come back. Increase in offtake. Every year there is a growth in CGD by 12% to 13% even if you take roughly 70% of our market share three MMSCMD will come from there. IOCL Barauni we expect to come 0.5 and the general increase. So we have the bigger data from where this 10 to 12 will be available. I have given only two to three to you.

Vikas Jain: Why I say that Sir, because 10% increase when you are increasing 10%, Indian gas demand is also rising effectively close to that. That is something that we have not seen for many, many years and there have been?

Rakesh Kumar Jain: You are right. We have not seen. For many, many years the position in our country remained stagnated but this year if you have seen there is a good amount of growth.

Vikas Jain: Which is of a low base? A lot of those prices sensitive?

Rakesh Kumar Jain: I agree with you.

Vikas Jain: Sir the very high prices of last year due to the spot LNG prices being?

Rakesh Kumar Jain: Right but we expect that is possible.

Vikas Jain: Thank you so much Sir. Thanks a lot.

Moderator: Thank you. Our next question is from line of Vivekanand Subbaraman from Ambit Pvt Limited. Please go ahead.

Vivekanand S: Thank you for the opportunity. I have two questions. The first one is on Petchem business? Sir, are you able to share the price of gas, the input gas that you sourced in 3Q and what is the assumption that you have made for FY2025 as far as the guidance on full year profitability is concerned? The second thing, could you help us understand the status of the volumes that were under dispute, the shortfall that you had from the Gazprom trading entity and is there any compensation you received there and resolution plan there? Thank you.

Rakesh Kumar Jain: We expect that firstly, it is not the input gas based on which we can assume that Pata will be profitable on yearly basis. It is a function of both the sales price and also the input gas cost. So if you were to ask me at based on current level of pricing \$8 to \$9 is a very good price input gas cost for Pata Petrochemical and we are able to source and supply at that level to Pata Petrochemicals. Second assumption is that the pricing levels of petrochemical were low even in this quarter as compared to Q2. Even if you maintain the price level of Q2, which were higher by Rs.8000 per metric tonne, we will be at a good profitable level in Q4 and also the next financial year.

Vivekanand S: Okay so just to clarify at \$8 per…

Rakesh Kumar Jain: Not \$8, it is \$8 to \$9 because it is always varying.

Vivekanand S: At current spreads \$8 to \$9 will be the breakeven point in FY2025 is that?

Rakesh Kumar Jain: Breakeven level is higher than nine. We are able to source and supply 8 to 9 that is what I told.

Vivekanand S: Sorry I am unable to understand. You said that your petchem business will break even in FY2025? My question was at what input gas price that you are assuming for this break here?

Rakesh Kumar Jain: I never said that our FY2025 we will break even. I said we will be in profit in next financial year first thing. I said that in order to have the profitability we need a function of two things. One is the selling price and second is the input gas cost. We are able to source and supply to Pata Petrochemicals around $8 to $9, sometime $9 to $9.5 and sometime 8.5 and what I also said that during this quarter our petrochemical prices were low. Even if you compare by Q2 by Rs.8000 per metric tonne, so even if we maintain those prices of Q2 level, we expect those prices to be available and if we are able to supply at $8 to $9, we will be not breakeven, we will be in a reasonable profitability for Pata Petrochemical.

Vivekanand S: Understood very clear. My other question is unanswered.

Rakesh Kumar Jain: What is that?

Vivekanand S: That is on the on the gas what is the legal resolution there till now and also on the marketing side?

Rakesh Kumar Jain: Compensation sorry I missed that. So that case is sub judice I cannot say anything on that.

Vivekanand S: Okay and is there any assumption that you have made with respect to any resolution in the guidance given for FY2025 on the marketing side?

Rakesh Kumar Jain: Any?

Vivekanand S: Any resolution and what about the cargoes are we getting it now?

Rakesh Kumar Jain: Anything which are contingent we have not considered.

Vivekanand S: Okay and lastly, are you getting cargos now from the new entity?

Rakesh Kumar Jain: Yes.

Vivekanand S: Okay but no shortfall is being met, right? The cargoes that were not available?

Rakesh Kumar Jain: Shortfall is not yet supplied by them.

Vivekanand S: Okay all the best.

Moderator: Thank you. Our next question is from line of Mayank from Morgan Stanley. Please go ahead.

Mayank: Sir this is Mayank. A couple of questions. On the capex side first, can you just talk us through in terms of your full year capex for FY2025 and how much of that will be incrementally now spent on the petchem front and secondly, if you can just talk about a bit around the long term sourcing contracts, obviously you signed one but how does that kind of impact the overall spreads that you were talking about on the marketing side? Thank you.

Rakesh Kumar Jain: The new contracts you are talking about how it will impact.

Mayank: Yes, so when does that impact kick in, in terms of earnings for you I think FY2026 or onwards or does it?

Rakesh Kumar Jain: The supplies are to start from 2026 onwards, so therefore those impact will only come from 2026 onwards.

Mayank: But Sir will there be back-to-back contracts as well or you think there will be kind of like we have seen over the last five to seven years some of that could be?

Rakesh Kumar Jain: Actually the back-to-back era is over. Though it is always good for you to have a sustainable kind of thing and we also wish to have that. We will try to do that but nowadays you have a lot of opportunities available. It depends what kind of prices you are sourced and what kind of market it is there. There are a lot of markets here so we expect because we have a good price under that contract, we expect to have not back-to-back. We expect to have more than what marketing margin we are earning today.

Mayank: So Sir just out of curiosity in terms of the volumes that you are thinking on a portfolio basis now like in five years time or so, what percentage could look like on back-to-back and what percentage you will take exposure on your balance sheet?

Rakesh Kumar Jain: So it is difficult as on date because of the supplies are to start from 2026. I can share about current portfolios but since it is too far from today, we will start marketing for those contracts now because we have recently signed the contract. So now we will go to the market. We want those contracts to be signed on back-to-back basis with a good margin. Now when we go to the market then only we will be able to know what kind exposure we will be carrying but there will not be any exposure because that is at a very good price we have entered into those contracts.

Mayank: Got it.

Rakesh Kumar Jain: With respect to your question on capex FY2024-FY2025, we target to incur Rs.17,000 Crores of capex.

Mayank: Yes so Sir, can you just help us give us a bit of a that break up because the numbers are a bit high?

Rakesh Kumar Jain: Around Rs.3000 Crores on pipeline projects, Rs.4400 Crores of petrochemicals and around Rs.3000 Crores we target to incur on net zero, around Rs.750 Crores on operational capex and around Rs.5000 Crores equity contributions to JVs and subsidiaries.

Mayank: And Sir this Petchem capex will be largely driven on the PDH plants as well as the PTA plant? There are no shutdowns or anything for the Pata plant for fiscal year?

Rakesh Kumar Jain: Largely on Usar, whatever capex we will incur for PTA we will be forming part of equity contribution to JV subsidiaries.

Mayank: Okay clear and Sir no major shutdowns or anything planned for FY2025 on Pata correct?

Rakesh Kumar Jain: Now we are not expecting anything like major shutdown. Any routine shutdown may happen but not as of now we have not envisaged.

Mayank: Got it. Thank you.

Moderator: Thank you. Our next question is from line of Manikantha Garre from Franklin Templeton India. Please go ahead.

Manikantha Garre: Thank you providing me the opportunity Sir. I have a couple of questions. One is on the 1 million tonne LNG contract which you have with Vitol recently? Vitol is a commodity trader and this deal is probably different from other deals, any other or any LNG of take in India including you has taken so far? Is there any difference in dealing with the commodity trader versus dealing directly with the ENP Company in terms of probably slow path, destination, flexibility or any other terms because of which you are dealing with the commodity trader now? That is my first question.

Kaviraj: Yes, good afternoon. This is Kaviraj. I am heading LNG Group. To come to your question. We do not see there will be any difference between an offtake tie up done with directly a producer and the trader or for that matter portfolio okay but different players come with different plus and minus okay. In this case, we got a couple of good flexibilities which we thought would be very much useful in our LNG portfolio. So we went ahead. Nothing significant different from other suppliers.

Manikantha Garre: So can we expect that the slope here also would be more or less in line with what we are doing directly with the producers or there would be any difference there?

Kaviraj: I do not want to say anything on this, but definitely the slope is very competitive. I do not want to give a judgmental qualification saying that it is better than producer or vice versa. All I can say is it will be very competitive.

Manikantha Garre: Got it. My second question is more of a follow up to what Sabri was asking earlier on gas marketing side? Sir has mentioned that time swaps and destinations swaps and ship to ship transfers were probably the key reasons for the raise in guidance in gas marketing business and continuous outperformance than what we were expecting but if I have to go back maybe four or five years back also we were doing all of this then also, right? So what is the key change that has happened in these swaps or ship to ship transfers, that has happened over this period if you can throw a bit more color on that and also if you can along with that provide how much percentage or how much of marketing volumes were on swaps on quarterly run rate basis in FY2024 for example versus let us say three years back in FY2020?

Rakesh Kumar Jain: Actually one significant difference what you are asking five years back and today is that largely we were marketing our volume in overseas market because the demand was not to the current level. Now the demand in the domestic market is there and we are able to consume all our sourcing from international market in domestic market. So, when we were doing those swaps largely to mitigate our volume risks not to optimize the cost. That was one factor which is different. Five years back the demand as compared to today was less is that Kaviraj.

Kaviraj: Yes just to add, as our Director (Finance) rightly said in the past, we did swap for a different objective okay but currently we are doing swap as part of our LNG portfolio operations meaning thereby the swap which you do is on a case to case basis. Earlier we used to do a swap for let us say one year or two years, something like that. But today perhaps almost every alternate cargo we try to create value by doing a swap and that is the reason there is a spike in this value. Am I able to answer this?

Manikantha Garre: Yes Sir just an extension to that? Sir has started off with saying that we have transferred more volumes to India versus selling more of them earlier in international market, right so do we have to take it that we are able to earn more margins on this India sold volumes relatively than what we were getting earlier when we were selling them on international markets?

Kaviraj: Yes obviously.

Rakesh Kumar Jain: I said during my speech that the marketing margin is not only a function of what price you are marketing. It is also function of what gas cost, cost of gas sold you are able to arrive at. So when we did optimization, we were able to reduce our cost of gas sold significantly. So when one of the analysts were asking that you have fixed kind of marketing margin, we are not able to arrive at so they are working out from top line. I am telling we are able to reduce our cost. So both things have played role not only the gas price at which we market it and at what cost of gas sold, we are able to have our costings so those two things are working and that is how we are able to have good marketing margin and we will continue to do so.

Manikantha Garre: Understand, Sir. If I can just squeeze in one last question related to this only, how many trading hubs have you created currently globally from the gas marketing division?

Kaviraj: We have only one in Singapore.

Manikantha Garre: Okay so apart from India, there is only one in Singapore? Nothing in the US or European markets?

Kaviraj: No US they handle the operation of the LNG contracts. That involves trading of gas, upstream gas whenever we face some operational difficulties. So in true sense it is not a trading hub.

Manikantha Garre: Understand. Thank you so much for answering my questions.

Moderator: Thank you. Our next question is from line of Amarnath from Ministry Of Finance Of Oman. Please go ahead.

Amarnath: My first question was with respect to this value unlocking activities which the management and the board was thinking whether with respect to CGD or with respect to merger or reverse merger with your petrochemical side any update you can give on this regard at the moment?

Rakesh Kumar Jain: Actually we have not come out with any such kind of value creations through disinvestment of CGD or petrochemical. Yes, we are internally evaluating and we will take this call at an appropriate time. But till now we have not concluded what we will do about these investments in CGD and there is no thought about petrochemicals.

Amarnath: One thing I am just trying to understand now every year the capital expenditure towards this petro chem side is keep on increasing while the uncertainty relating to that business compared to our main business of gas transmission and marketing is quite high? As you correctly said, the output price is not in our control? The only thing we can do something with respect to our input price so what is the rationale behind so much of expansion towards the pricking side of the business and increasing the overall uncertainty business again?

Rakesh Kumar Jain: The first thing is that Indian demand of petrochemical side is lowest if we compare with the world average per capita consumption and even if we compare with the developed countries like China significantly lower. So let us talk first, there is a demand. Second with respect to uncertainty in terms of realization, the current investment which we are doing in Usar is on PDH PP, the input for which is propane and the output polypropylene is directly having correlation with propane price. So we expect to earn a certain delta of margins between input and output price. So our investment is quite conscious based on long term analysis of input and output price and like we currently have some time uncertainty about the Pata petrochemical and we will have consistent profit in the new investment which we are making for PDH PP.

Amarnath: Sir just to interrupt see making the profit is not all the thing. It is the allocation of the capital and the return on capital employed? Now you can help us to understand compared to the capital allocation towards your main business and compared to that to the petrochemical business, how much return on capital do you earn from that business of the Petchem so far on an average?

Rakesh Kumar Jain: Actually we are there to invest and currently we have been able to win all the authorizations of pipeline which PNGRB we comes out, we are not in a position to decide and lay the pipeline. We certainly can look for any opportunity for investment in pipeline projects but at least that should be available. Currently there is no opportunity available and we are the only entity in last few years who have through PNGRB won all the authorizations. We were rather sometimes single entity to bid and got the authorization. So we are there to invest in our core business that is laying, building, and operating the natural gas pipeline but at the same time, if you find there are opportunities for investment in other business segments which we continue to do because ultimately we have to find growth and if we find that growth in some of the businesses is sustainable so that is how we decide and allocate our capital.

Amarnath: Yes, I understood but that capital allocation towards your Petchem which apparently has much lower ROCE is taking your entire companies ROCE quite drastically down? That is the point I just wanted to say?

Rakesh Kumar Jain: Your experience is part of Pata petrochemicals that is how based on the availability of project at Usar which is on a different field. So in order to not to have the uncertainty, we have gone for propane dehydrogenation not gas based plant.

Amarnath: Any idea about this hydrogen plant related investment where we are and also what is your reason with respect to the expansion to that side of the business? Though it is at the very infancy stage relating to hydrogen, but last call I have understood from you that you guys are thinking kind of in diversifications towards this non gas?

Rakesh Kumar Jain: So regarding your question of hydrogen, we are only putting up a pilot project at one of the unit and then you ask why because energy transition is taking place and whether we like it or not the energy transition will happen. So in order to be future ready, so we are as a pilot project we are putting one of the hydrogen plant at one of the units.

Amarnath: Yes okay thank you Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to Mr. Probal Sen for closing comments.

Probal Sen: Thank you very much. I would like to thank everyone for sparing their valuable time to attend the call and thank you so much to the management for taking the time to give such detailed answers to all of the queries that have been put. Appreciate that. We can end the call now. Have a very nice day. Thank you.

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