



“Gujarat Gas Limited Q1 FY’25 Earnings Conference Call”

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COORDINATOR: Ms. SETU MATHUR – ANURAG SERVICES LLP

Moderator: Ladies and gentlemen, good day and welcome to the Gujarat Gas Limited Q1 FY25 Earnings Conference Call. As a reminder, all the 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 the coordinator, Ms. Setu Mathur from Anurag Services LLP. Thank you and over to you, ma'am.

Setu Mathur: Good afternoon and welcome to the Q1 FY25 Earnings Conference Call of Gujarat Gas Limited.

From Gujarat Gas Management, we have Mr. Rajesh Sivadasan, Chief Financial Officer and Head of Investor Relations, Mr. Sandeep Dave, Company Secretary and Mr. Dipen Chauhan, Head of Commercial & Marketing and Business Development.

We will begin the call with "Opening Remarks" from the Management, post which we will have a question and answer session.

Thank you and over to you Mr. Sandeep Dave.

Sandeep Dave: Good afternoon, everyone. A very warm Welcome to Q1 FY24-25 Earnings Call of Gujarat Gas Limited. I am Sandeep Dave, Company Secretary and Head of Corporate Communications of Gujarat Gas Limited.

To give you a brief background about Gujarat Gas, GGL is the largest city gas distribution Company in India. The Company is operating in 27 geographical areas spread across six states and one union territory.

We have a good mix of matured and emerging CGD areas. We have developed a pipeline network of more than 40,000 Kms, which provides natural gas to more than 21,50,000 households, 4,400 industrial customers and 15,200 commercial customers. We also operate 811 CNG stations and serve approximately 4,00,000 vehicles per day.

We are happy to inform that we have achieved highest ever CNG volume of 2.98 mmcmd in Q1, which is 14% higher than the Q1 of previous year.

GGL aims to deliver affordable, reliable and cleaner energy by operating responsibly and performing with excellence while considering environment, social and governance factors. As part of our commitment to ESG initiative, we have taken various measures, which includes hydrogen blending pilot project, which we have completed with 5% blending. Now, we have increased the blending level from 5% to 8%. We are aggressively setting up CNG infrastructure as well as upgrading CNG infrastructure to promote use of clean and green fuel. We have also started injecting biogas into GGL system.

We have embarked on major digitization drive across various business operations and processes.

Our major contribution to the environment is that by virtue of promoting use of sales to industrial consumers in Q1, we have reduced burning of approximately 17,285 Metric Ton of coal per day. Further, through our CNG sales outlets, we have reduced combustion of approximately 2,946 kiloliters of petrol per day during this Q1 of FY 24-25.

At Gujarat Gas, we adhere to highest standards of safety and a strong culture of safety. GGL is an ISO certified organization for integrated quality, occupational health, safety and environment management system. We build, operate and maintain a safe and reliable gas network in our areas of operation.

With this brief background, I now request Mr. Dipen Chauhan to share Business Updates of GGL. Over to you, Dipen.

Dipen Chauhan:

Thank you, Sandeep. Good afternoon, everyone.

First, I will update on domestic and commercial segment. We are seeing a positive growth in the domestic segment. GGL customer base is more than now 21.52 lakhs domestic customers. We are able to add 37,400 customers in the quarter.

The commercial segment is showing a steady growth in connection number. We expect the number in domestic and commercial segment to increase over a period of time as the new areas mature. GGL at present has a customer base of 15,200 commercial customers spread across our geography.

Now, let me Update on the Industrial Segment, In the industrial segment Sales volume increased to 7.25 mmscmd for the quarter ended 30th June 2024. That was 5.88 mmscmd for the quarter ended 30th June 2023. That is an increase of 23%. The Morbi volume increased by 37% from 3.82 mmscmd in Q4 FY24 to 5.21 mmscmd in Q1 FY25. In non-Morbi market, volume increased by 2.5% from 1.98 mmscmd in Q4 FY24 to 2.03 mmscmd in Q1 FY25. The Morbi volume increased by 30% from 4.01 mmscmd in Q1 FY24 to 5.21 mmscmd in Q1 FY25. The non-Morbi volume increased by 8.5% from 1.87 mmscmd in Q1 FY24 to 2.03 mmscmd in Q1 FY25.

We have been tracking the business environment across all our operating areas wherein we understand that the export market for ceramic industries is expected to remain subdued on account of multiple factors including an increase in the freight cost. Further, the Morbi volume shall be affected due to the present August month that is on account of festival of Janmashtami and ongoing strong monsoon across our operating areas. However, GGL is hopeful that the market will improve by the end of Q2 FY25.

Finally, let me update on the CNG Segment:

I would like to highlight that we have achieved highest-ever CNG sales volume of 2.98 mmscmd in Q1 FY25. In Q1 FY25, CNG sales in Gujarat increased by 12% YoY and by 2% QoQ. While outside Gujarat, sales surged by 27% and 9% respectively. Overall CNG sales across the region grew by 14% annually and 3% quarterly. CNG maintains a significant price advantage being approximately 47% cheaper than petrol and 50% cheaper than diesel.

During this quarter, we have added three new CNG stations enhancing accessibility to the customer. This performance underscores a positive investment outlook driven by increasing consumer adoption and strategic infrastructure development, positioning CNG favorably in the energy market.

This is all business updates from my side. Now, I will request Rajesh to brief further.

Rajesh Sivadasan :

Thanks, Dipen. Good afternoon, ladies and gentlemen. I welcome you all to the Earnings Call of Gujarat Gas Limited for the 1st Quarter for the Financial Year 24-25.

I would like to thank you all for attending this call today. I trust you would have gone through our financial results of the Q1 for the Financial Year '24-25, which were reported on 6th of August 2024 and the Investor Presentation which has been uploaded on our website.

Expanding the geographical coverage and expansion of the gas network has led to a drive in the CNG volumes. We have been able to grow the volumes at 19 % from 9.2 mmscmd in the corresponding quarter of Q1 in '23-24 to around 10.98 mmscmd for the Q1 Financial Year '24-25. The current quarter has seen an overall volume increase of 13% as compared to the Q4 of the Financial Year '23-24. During the quarter, the Company has connected close to 37,400 new domestic customers making a total PNG domestic connections of more than 21.52 lakhs. The Company has commissioned new industrial customers having 2,00,000 scmd volumes in the Q1 of the Financial Year '24-25

During the quarter, the Company has invested close to 206 crores in the gas infrastructure. The Company is presently having 40,200 Kms of PE and steel pipeline network along with 811 CNG stations, which is the backbone of our business.

In terms of revenue, the Company has registered a revenue from operations of ₹ 4,615 crores during the 1st Quarter of Financial Year '24-25 as against ₹ 3,924 crores for the corresponding quarter of '23-24. The Company has reported a profit after tax of ₹ 330 crores during the Q1 of Financial Year '24-25 as compared to ₹ 215 crores in the corresponding quarter of the previous year. That is an increase of close to 53 percentage. The Company's EBITDA for the Q1 for the Financial Year '24-25 stands at ₹ 574 crores as compared to ₹ 412 crores in the corresponding quarter of the previous year, an increase of close to 39 percentage.

In terms of rupee per SCM EBITDA margin, it stands at a close to ₹ 5.75 per SCM as against ₹ 4.91 in the previous quarter of the previous corresponding year.

We are closely monitoring the propane future trajectory of near to medium term and accordingly, we'll stick to our strategy to calibrate and strike a balance between volumes and margins for the quarters to come.

The various government initiatives by the way of reducing VAT is helping CGD companies to grow volumes and compete with alternative fuels. During the quarter, the CNG volumes have grown to 2.98 mmcmd as compared to 2.61 mmcmd in the corresponding quarter of '23-24. That's an increase of close to 14 %. GGL is currently operating around 811 CNG stations. During this quarter GGL has added three new CNG stations.

The Gujarat Gas continues to have a credit rating of AAA/stable for the long term and A1+ for the short term from CARE, CRISIL and India Ratings, which shows the holistic consensus and the trust on the operation capability of GGL.

We have already uploaded our Investor Presentation in the GGL website. We hope you have gone through the same.

With this, we open the floor for the question-and-answer session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Probal Sen from ICICI Securities. Please go ahead.

Probal Sen: Firstly, with regards to Morbi, I think it was mentioned that due to the festival, the weather as well as some slightly slower exports at least in the second quarter, numbers could be a bit more muted. Is it fair to therefore assume that overall volumes of at least on a QoQ basis you probably see a slight decline? Of course you can't share the numbers, I understand. But is it possible to share the current run rate of volumes of Morbi at this point of time?

Management: Yes, this as I mentioned earlier means there are basically five major reasons as of now going in the Morbi market, #1 is of course the geopolitical situation, #2 is the propane price, #3 is the festival season, which is very important in the Morbi market that is of Janmashtami, #4 monsoon is somehow very strong this year, #5 is the shipping. I think our customers are facing some issues concerning the shipping because of, of course the disturbance in the Middle East and that part of the world. But we are expecting there will be a dip of 30% to 40%, that will be temporarily for this quarter.

Probal Sen: 30% to 40% will be the Morbi volume, right?

Management: Yes.

Probal Sen: Sir, the second question was a broader one in terms of CNG. Is it fair to assume that this quarter CNG station addition is slightly lower than what we have been maintaining for the last 6-7 quarters because the rate of addition of CNG stations has been very aggressive from what we

have seen in the last two years. This quarter's number of just three stations, any reason it has dropped off and what are the plans for the rest of the year?

Management: We are aggressive in fact, but we are developing on so many fronts. For example, we have planned 22 new CNG stations this financial year, and we have planned 62 upgradation in this financial year. Apart from that we have just introduced a new scheme called "FDODO" that is fully dealer-on-dealer operated scheme where everything CAPEX and everything will be done by the dealer and Gujarat Gas will provide all kind of support and gas to them. We have received more than 600 applications for them under this scheme and we are about to issue a letter of intent sometime next week. So, once everything will be on the line I would like to say that exponential growth in year-end.

Probal Sen: On margin guidance, is there any thought of changing your efforts because if I remember correctly you mentioned the range, I think of 4.5 to 5.5 earlier, we have done 5.7 as was indicated this quarter. So, any thoughts in terms of what a realistic guidance could be for '25 and '26? And what is the CAPEX guidance for this year and the next?

Management: Yes, we'll go by the earlier guidance of 4.5 to 5.5. And with respect to the CAPEX, we will be achieving close to 1,000 crores of CAPEX for '24-25.

Moderator: The next question is from the line of Yogesh Patil from Dolat Capital. Please go ahead.

Yogesh Patil: I have a few questions. Sir, as per your press release, the Company has signed a volume of 0.63 mmscmd which will be commissioned in the coming days. But my question is when do you expect this consumer will fully start consuming a volume, how many months they will consume it and is there any pricing terms which you have signed with them related to propane and the PNG industrial?

Management: First, we would like to let you know that within six months customers will be commissioned. So, we'll achieve that volume target. That's what we have.

Yogesh Patil: My second question is again related to during the month of March 2024, you had offered a cheaper PNG industrial pricing formula compared to the propane and you were expecting more ceramic industries will tie up for at least one year in PNG industrial volume. How many industries entered into the contract under this formula, any update really helpful?

Management: We have received more than 150 responses to our EoI at this stage and we are progressing on this signing the agreement and I think we'll do it soon.

Yogesh Patil: 0.63 mmscmd is included under that EoI also?

Management: No, it is not Included in this EoI.

- Yogesh Patil:** Sir, could you please share a proportion of APM gas that you received for the priority segment during the Q1? And if possible, can you give us more details on the non-APM gas sources right now you are getting gas for your PNG industrial and the commercial side?
- Management:** We are getting nearly 75% of our allocated volume and the rest is from the market.
- Yogesh Patil:** So, can we get a breakup of 25% from where you are sourcing, is it HPHT or any contracted LNG?
- Management:** See, we have long-term sources. From long-term sources we are getting close to 27% of the entire volume. And from the spot which practically we are getting 49 %.
- Moderator:** The next question is from the line of Vivek Anand Subbaraman from Ambit Private Limited. Please go ahead.
- Vivek A Subbaraman:** So, extending a question that Probal asked on CNG volumes, so from 1 mmscmd to 2 mmscmd volume, it took you around seven years to move there, add that one double the volumes. Now it seems that you are on a faster trajectory as far as CNG is concerned. Could you help us understand or think through the ramp up of this business given that you are now more keen on expanding infrastructure, both within the state and outside the state. Is there any guidance or aspiration, let's say next three years or five years that you would like to provide? Secondly, on CNG itself, if you look at, let's say the current infrastructure and the way you are deriving volumes here, the volume trajectory with the current infrastructure, is there a way to look at it on like-for-like basis the current existing stations, the volume growth or say big cities volume growth versus say, new areas volume growth within the CNG business itself, that perspective will help us think through the volume ramp up of CNG better?
- Management:** As a Company, historically we are very bullish on the CNG market. We are very aggressive also means just to increase our speed of developing new infrastructure, we have introduced this FDODO scheme. Apart from that, we are in a major process of upgrading at least 60 plus CNG stations this year and we are going to add our own 22 stations this year also. So, if you just count the number, I won't be surprised that by year end we will add triple digit CNG station numbers in this financial year.
- Vivek A Subbaraman:** Would you like to discuss about volume aspirations given that you are now disclosing things within Gujarat, outside Gujarat, can you help us understand how volumes could scale up in the next few years, any targets that you have?
- Management:** The way we are moving aggressively in the market, I think we are going to issue at least 200 LoI in the first stage for our FDODO scheme. Apart from that, if you see the market, so many OEMs and everything, the ecosystem the way it's developing, we are expecting at least 1 mmscmd of volume addition in the coming years at least.

Vivek A Subbaraman: And these FDODO stations, are they coming up mostly in Gujarat or outside of Gujarat, if you can give us some color, are they in the city, highway where are they coming up?

Management: If you just count the number percentage wise, I think more than 60% to 75% stations are coming in Gujarat where ecosystem is already developed where customers are already aware, at the same time we have got the good response from outside Gujarat also.

Vivek A Subbaraman: Last question on CNG is you mentioned that the volume trajectory outside Gujarat is much faster than inside Gujarat. I think you said 14% in Gujarat and 27% outside of Gujarat. Can you help us understand how current CNG volumes are split across Gujarat and the rest of the markets?

Management: I would like to say that currently, whatever the market we are there outside Gujarat are in proximity of few already developed CNG markets and that's helping us a lot. For example, Maharashtra. Bombay is well developed, Punjab and Haryana, that is also close to Delhi and northern India, where CNG is there for more than a decade or two decades. So, that is helping us a lot. It's not just Gujarat, all markets which is near to this developed CNG market, that is also bringing growth to the Company.

Vivek A Subbaraman: The splits between CNG volumes, Gujarat and outside Gujarat, would you be able to help with any sort of percentage volume mix? We know the number of stations that you disclosed Gujarat versus outside Gujarat. Volume wise?

Management: More than 87 % is in Gujarat and the rest is outside Gujarat.

Moderator: The next question is from the line of Sabri Hazarika from Emkay Global. Please go ahead.

Sabri Hazarika: So, two questions. Firstly, you said about the Q1 CAPEX. I couldn't get it properly. How much was it?

Management: Rs.206 crores.

Sabri Hazarika: So, overall in terms of volumes whatever you have mentioned, so I think earlier you have mentioned that almost like 14%, 15% could be the CNG volume growth target that you may be like looking at. So, does it remain that way or it could be higher than that because if you say that you would be adding one mmscmd, then the CNG volume growth could be like close to 20%, 25%. So, what could be the right number to assume?

Management: What has been told is basically the FDODO scheme would be adding that volume of 1 mmscmd, that will span out over a period of one, one and a half to two years. So, that's not going to come in entirely in this financial year. So, that 14% guidance for the CNG still remains as it is.

Sabri Hazarika: And what about the overall guidance now?

Management: Overall guidance now looks like around 5% to 7% on a volume growth overall.

- Sabri Hazarika:** On an average level, 5% to 7%?
- Management:** Yes. On a year-on-year basis.
- Moderator:** The next question is from the line of Varatharajan Sivasankaran from Antique Limited. Please go ahead.
- V Sivasankaran:** Just wanted to dwell on this procurement which you mentioned 49% you are getting from outside. If you can give us some kind of a split on the overall volume what you have done and then like what has been the mix in terms of which contract? And incrementally when you're growing, will you be looking only at procuring incrementally spot volumes or do you have plans or already something in progress in terms of contracts for the incremental growth volumes?
- Management:** See, we procured close to 11.09 mmscmd of gas this quarter. Of that close to 2.69 mmscmd came from the APM and approximately 3 mmscmd came from the long-term sources and the rest was sourced from the spot. Basically, if you look at this quarter the spot was cheaper in terms of even the long term. So, that's practically the breakup of the sourcing mix.
- V Sivasankaran:** Going forward, one can expect the incremental volumes to be also spot?
- Management:** No, no, ultimately, see, there is a fluctuation in the volumes with respect to industrial volumes which is coming in. So, basically once we have stability in that, basically we will be getting into long term but again we are in search of getting into long term agreements anyway.
- V Sivasankaran:** And in terms of this margin, once again I wanted to highlight like you were talking about that 4.5-5.5. But if CNG growth is going to be higher, can we expect this number to shift closer to 6 because CNG obviously is more profitable than industrial?
- Management:** I think you need to look at our portfolio mix practically. We have industrial, CNG, PNG and commercial. So, if you look at it, the EBITDA guidance is based on average of that.
- V Sivasankaran:** And finally, is on the non-Morbi industrial part. What is the kind of growth one can actually look at because outside of this 5% to 7% overall growth what you're referring to, you also had this Ahmedabad rural as Creek Road area and you had already tied up some amount of MoUs out there. So, you would have a better visibility of that market volume contribution over the next year or two. So, in that context, like the non-Morbi volume growth, can we expect it to be higher than that or you want to still stick to overall volume of 5%?
- Management:** I think non-Morbi volume growth will almost be the same with respect to the guidance. Yes, if at all we are adding new Ahmedabad rural, Thane area and the DNH area we are expecting better volumes. But yes, there is a competition which is there with the alternative fuels, etc., So, that's the reason we have kept the volume guidance at 5% to 7%.

- V Sivasankaran:** Non-Morbi, is it a structural growth we should assume over a longer period of time, or do you think after a growth in the next two to three years it could moderate and stay flat beyond that?
- Management:** Yes, we need to develop those areas. They have some alternative fuels over there. We need to replace them. We have to basically educate them. Yes, that's a long-drawn process as you rightly said.
- Moderator:** The next question is from the line of Kirtan Mehta from BOB Capital Markets. Please go ahead.
- Kirtan Mehta:** Just taking forward on the non-Morbi volumes, while we have been sort of signing the volumes for some time, we had indicated 0.8 mmscmd plus, but when we look at the non-Morbi volume growth YoY, it has increased only by 0.2 mmscmd so far. So, are we losing any volume in the non-Morbi areas, and which is getting replaced by the new volumes?
- Management:** Not exactly. We are developing the infrastructure as Rajesh has mentioned in Dadra Nagar Haveli, Thane, Ahmedabad rural and Pitampura which is near Indore. And of course we are developing the infrastructure in Kutch West also. We are facing some challenges the way we face challenge in developing infrastructure, but whatever the numbers we have projected, I think we'll be able to achieve it soon.
- Kirtan Mehta:** So, at this point of time, you are guiding for 5% to 7% growth in non-Morbi area for next couple of years, correct?
- Management:** Couple of years, no, but at least first two, three quarters I can say.
- Kirtan Mehta:** In terms of the FDODO scheme that we are offering, how much basically, the margin we will be offering, would it be higher than what we offer to OMCs at this point of time?
- Management:** We have mentioned it. If you just see it on the website or you registered with us, we are offering almost double the margin.
- Kirtan Mehta:** So, it's quite attractive from the dealer perspective?
- Management:** Yes.
- Kirtan Mehta:** And in terms of Morbi, you mentioned sort of the 35% to 40% pullback in the volume in the coming quarter. So, what is currently sort of the total demand rate and how is the split between NG and propane at this point of time?
- Management:** I think the total volume in Morbi with respect to the fuel is close to six. And with respect to NG close to 2.5 to 3, that's the NG volume which is there.
- Kirtan Mehta:** And about the competitiveness versus propane at this point of time? We are at Rs.44 or so.

- Management:** Yes, I think we are costlier by close to Rs.4.
- Kirtan Mehta:** And this could continue through the winter season as well or do we expect this to change?
- Management:** We expect this to change. Let us see how the winter pans out, because every month and every quarter, things are changing now. So, basically let us see, that's the thing which we are always into and look out for that.
- Kirtan Mehta:** In terms of a gas purchase mix, we said we are purchasing around 3 mmscmd from long term contract. If I remember we had around 5 mmscmd of the long-term contract. So, have some of them expired or we have backed them down because propane was cheaper.
- Management:** So, this is the procurement which we have done. The total contract is close to 4.3. What I told you is the actual one, not the contracted volumes.
- Kirtan Mehta:** Just last question in terms of the ROEs have taken a beating of around 15% from around 24%, 25% level that we have seen, and this is more on the back of margin correction that we have seen in the industrial volumes and looking forward also our guidance is 4.5 to 5.5. So, is this 15%, 16% margin trajectory something that we are going to live with for next 2-3 years or do we see this coming back to 20% plus level?
- Management:** We have to have a balance between the price and the volume. So, if you look at this quarter we had a volume of close to 7.25 in industrial. That could be achieved because we had some leverage on the margin. So, basically we will be balancing both the things going forward.
- Kirtan Mehta:** What would be your target on ROE to sort of with this balanced approach?
- Management:** I think it will be around 15, that's the level we are looking at.
- Moderator:** The next question is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.
- S Ramesh:** When you discuss the Morbi volume in 1st Quarter, what was your PNG price and what was the propane price?
- Management:** Could you get back? We could not hear you.
- S Ramesh:** In the 1st Quarter the volumes you have reported out of 7.25, what was your PNG price and what were the propane price in the 1st Quarter?
- Management:** You're talking about industrial thing or entire thing?
- S Ramesh:** In Morbi.

Management: In Morbi, natural gas price was Rs.42 per SCM and while propane was Rs.41 per SCM equivalent.

S Ramesh: Currently after the price increase, your price is 44 and propane is 40?

Management: Yes,

S Ramesh: So, if you look at your CNG station split between Gujarat and outside Gujarat, 30% are outside Gujarat. But you're saying the CNG volume from outside Gujarat is only 13%. So, do you see per station throughput or the number of vehicles increasing in the GAs outside Gujarat, how do you see that playing out over the next two to three years? And what is the profitability of the new GAs based on the current volumes and pricing there?

Management: I think this is the new GAs has been developing in a very Greenfield area. So, basically the entire ecosystem for natural gas is being developed by the government along with the CGD companies. For example, if you look at Gujarat Gas, in Gujarat, it has taken time to basically develop the entire ecosystem. So, that ecosystem is being developed over there and gradually the growth will definitely come in. And we being the first player over there and basically the infrastructure being there, we'll definitely get the benefits of the growth.

S Ramesh: So, if you're looking at your overall CNG volumes and the number of vehicles per day, is it possible to give a split of the category of vehicles because on an average, it looks like you're selling 7.5 SCM per day per vehicle, so is it possible to give a split across the categories of vehicles?

Management: I would like to say that mainly it's four wheelers and three wheelers but the way you are asking the breakup is difficult to give.

S Ramesh: So, if you're looking at your spot gas price, what is the current spot gas price and you're looking at say third quarter once Morbi normalizes, would you be able to get back to this Rs.5.5 margin based on the current gas mix and the spot gas prices?

Management: Presently, if you look at the spot prices, it's around 13 and even our long-term sourcing prices are around 13 to 14. So, basically we need to get back to Morbi at all the propane practically gets closer to that.

S Ramesh: So, finally, if you're looking at your CNG pricing -?

Management: Just let me complete. What I am telling is based on today's forward curve. Going forward the changes can occur in the forward curves wherein we can become cheaper also. So, that's the thing.

S Ramesh: So, based on the CNG price increase you've taken, increased it by Rs.2, right, as of 1st August, so based on the current growth in CNG, to what extent can you make up the shortfall in Morbi

volume in terms of the overall revenue and EBITDA you can generate for second quarter or EBITDA per SCM?

Management: I don't think so we are here to basically get a price from CNG to compensate for the industrial volumes, or the margins which we're losing over there. I think we have been maintaining price stability over a period of time. Even in previous years also such type of cycles have happened and basically we have got over that and maintaining that pricing stability which is there.

S Ramesh: I understand that because there is a cut in part. So, just trying to understand in terms of the impact on the second quarter, to what extent the CNG volumes and the increase in prices can offset that? So, if you look at, say, the second half based on the CNG price increase and normalize d volumes, you should possibly be back on trajectory in terms of the year-on-year growth and the EBITDA, right?

Management: No. With respect to the CNG volumes, I don't think we are coming down on the growth number because CNG is a product which practically everybody has to use it just as petrol, you have an inelastic demand over there. So, with respect to industrial, basically the customer has the option of switching it off and basically switching to the other fuel.

S Ramesh: So, if you look at the longer-term trajectory in the biogas blending, how does the economics work and what is the target for biogas blending in your network, say over the next two years and based on the current price that is payable to the bio gas producers, we understand that bio gas is actually cheaper than APM gas. So, does it improve your overall margins for the CNG segment or on a blended basis?

Management: If you see that biogas is mainly operated under the SATAT scheme and so many factors are being under the control of the producers. We are just off taker. We have biogas in our pipelines means we are off taking it from few suppliers, but pricing and everything is controlled by SATAT scheme. So, I don't want to comment on that.

S Ramesh: Similarly on hydrogen blending like you are talking about 8% blend. Now, how does the economics there work because there is a certain cost you have to incur for hydrogen, right, so how is that being priced, what is the hydro average impact on your overall gas cost if I may ask?

Management: See, as on date, basically it's a pilot project with NTPC which we are doing only for that NTPC has put up the hydrogen generating unit over there and it is only being supplied to the staff quarters and for the requirement of NTPC at a really specific level. So, we are seeing this is a pilot project to test the effectiveness of hydrogen blending to the pipeline, etc., So, basically we are doing the testing of the pipelines, etc., whether how much blending can be done or not.

S Ramesh: So, during the pilot phase, will it be booked in the P&L or it will be capitalized, that's the sense one wants to get?

Management: So, it's a pilot project. Hydrogen is being given by NTPC because it's their project. We are just blending it in the system.

Moderator: The next question is from the line of Faisal Agarwal from Desvelado Advisory. Please go ahead.

Faisal Agarwal: Sir, your Company has provided guidance to set up 200 plus CNG stations over the next two to three years, around 25 to 30 stations is planned to be added in FY25. But in the recent quarter we saw add-on of only three CNG stations. So, if this guidance is still in place and seems achievable? Also, please elaborate on the factors contributing to slower than expected rollout and how Company plans to accelerate the pace to make the long-term target?

Management: Actually, if you have studied our scheme, FDODO, where we are going to participate with so many business partners and CAPEX and project management, everything will be done by the applicants or our business partners. And that's the reason we are hopeful that we will increase the speed of developing infrastructure for CNG station. That's why we have targeted this number and we are going to implement it from next month.

Moderator: The next question is from the line of Pratyush Kamal from InCred Capital. Please go ahead.

Pratyush Kamal: So, a couple of questions. First, would be again you said that about 45%, 46% of the sourcing volumes are coming from the spot. So, I just wanted to understand the reasoning for having that dependency on spot given the fact that the spot prices are too volatile in the market, and we have seen it across the years from 2020 to 2024? Second would be I think that there is some Qatar gas contract which needs to be renegotiated in the middle of 2025 if I am not wrong. So, what is the update on that? I think the current contract is at 14% of slope. So, do you think it would come down to 10% or 12% or would it remain the same?

Management: First of all, with respect to your question on the sourcing of gas and why short term is more. See, we were better to propane during this quarter. So, basically as I told you there's a volatility in the prices of gas and the propane which is affecting the long-term sustainability volumes in Morbi. And other problem is there is a shortfall of APM close to 25 percentage. So, these two have contributed to the sourcing of short-term gas. And if you look at the short-term, gas has come at a much cheaper price than the long-term which we are sourcing for this quarter at least.

Pratyush Kamal: And about the second part like what is the update on the Qatar renegotiation long-term contract, it's currently at 14% of slope. So, would it be coming down to 10% or 12%? Or how do you see it?

Management: I think the sourcing part, the main agreement is being done from GSPC side. GSPC is in the process of talking to Qatar. So, once it is finalized, there will be back-to-back agreement with Gujarat Gas.

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

M Maheshwari: A question is in terms of the rollout of your network. Can you just talk to us in terms of how are you seeing the rollout of network in different part of geographical areas that you're expanding and where you are seeing demand growth outperforming your own expectations and where it's being slow?

Management: As we mentioned earlier also, if you talk about the industrial market, then we are focusing on Ahmedabad rural, Thane, Dadra Nagar Haveli and Pitampura, which is near Indore and of course Kutch west. So, industrial volume focus is there on this market for new network development. For CNG stations, of course, Gujarat is a major focus, but the market we are close to Delhi and Bombay and where CNG is already developed, we are focusing in nearby GAs in those markets also. So, these are the main volume driver for us in coming quarters.

M Maheshwari: And in terms of like your expectations versus the growth that you've seen in these industrial areas, have you seen faster growth in specific areas or it's pretty much online what you have kind of thought about before when you roll out these networks?

Management: We are expecting a quick and faster growth in this market. Apart from that, all the existing market or where we are present, we are getting good growth in those markets also.

M Maheshwari: And in terms of CAPEX of about 1,000 crores, how much is getting allocated to the new areas and how much is it in the existing?

Management: It's almost 50:50, because we have to develop the newer areas. So, 50% of the CAPEX is going towards the newer areas, the new GAs and the rest is basically for consolidating our position in the existing places, especially Ahmedabad and all.

Moderator: The next question is from the line of Gagan Dixit from Elara Securities. Please go ahead.

Gagan Dixit: At the start you said that you are closely following this propane futures market. So, what I assume basically you are targeting something price difference between your industrial gas price and the propane price range you are targeting is my understanding.

Management: Ultimately the customer has the option to switch between the two fuels. So, I have to compete with propane.

Gagan Dixit: Your understanding is the premium of the gas over the propane at which you think that customer will remain with the Gujarat Gas. So, there's no risk to the demand. I think in the last quarter you indicated Morbi gas is Rs.1 costlier versus the propane, but still you get the demand. So, can I safely assume that even this Re.1 premium is that something that you are comfortable for propane over the gas?

Management: Yes, it is between Re.1 to Rs.2. After that basically the switch happens.

- Gagan Dixit:** My final question is about that this industrial volume outside Morbi that I think Morbi is around 6-7 outside is around 1.25. Can you give some broad broader breakup of outside the geographies like industrial volume and typically what is the volume growth you have witnessed on YoY basis?
- Management:** It's basically coming from Surat, Ankleshwar, Bharuch areas and Surendranagar area. These are the areas where other than Morbi is coming in.
- Gagan Dixit:** So, Surat, Ankleshwar, Bharuch is typically additional geography of the Gujarat Gas?
- Management:** Vapi is also there. There is also industrial belt over there.
- Gagan Dixit:** What's the YoY growth that's typically you have seen in these areas?
- Management:** I think Dipen talked about that growth.
- Management:** Yes, we are expecting 7% to 8% growth in this market.
- Gagan Dixit:** My final question is that in Morbi, you expect if your gas remains competitive, let's assume for the next 12 months versus propane. So, from the existing customers you expect the peak volume you can touch in the Morbi region, I mean the customer tried to take all the volume from the gas instead of propane?
- Management:** You mean to say what we should do?
- Gagan Dixit:** Yes, what's the potential in Morbi is possible?
- Management:** Total Morbi potentially is close to 8 mmscmd of gas.
- Moderator:** The next question will be from the line of Vishnu Kumar S from Avendus Spark. Please go ahead.
- Vishnu Kumar S:** Just wanted to understand the CAPEX numbers that we are likely to do over the next three to five years. What will be the quantum that we are likely to do considering all the GAS investments that require?
- Management:** I think you are talking about the next three years or -?
- Vishnu Kumar S:** Three to four to five years, what is the strategy, I mean, how much CAPEX would be required from our side to maintain our commitments?
- Management:** For maintaining commitment as per the bidding rounds, I don't think there is much of commitments which is left back except for the domestic connections which we have to do. With respect to the CAPEX, what we like to do it will be close to 1,000 to 1,200 to 1,500 crores, that's

the range which we are looking at. The plans will come in once we are finalizing the growth plans with the expansion plans in those areas where we are getting in now because these are all areas which are expanding in a big way now. So, basically all these plans should be finalized before the beginning of the year. But yes, you can expect that around 1,200 to 1,500 crores of the CAPEX going forward.

Vishnu Kumar S: Over the last four or five years, we have invested close to 3,500 to 4,000 crores of CAPEX. How much of this would have been in new areas, let's say investment on CNG and let's say our current areas, any rough idea if you could help us understand?

Management: It's close to may be 40%-45% would have been in the new areas because that's the area we had a commitment to it.

Vishnu Kumar S: So, basically the question is on the volume strategy. I mean we have seen more volume growth happening up and down on Morbi, but the non-Morbi volume has been pretty static in a broader range. I mean obviously we would have made a lot of efforts. What is not really helping us gain the volume momentum in this market, any particular reasons that we can ascribe? And how confident are we, let's say on the ex-CNG volumes that in the newer areas that we will be able to convert more given our last four years we've not been able to do much?

Management: I think obviously on alternate fuel prices, we are highly competitive and in some of the markets we are allowing coal furnace oil and you know that it's very difficult to compete with those kind of things. And that alternate fuel price is the major competition.

Vishnu Kumar S: So, in the newer areas, before laying a line, I mean or investing CAPEX, any particular strategy or we will wait for any governmental action before we deploy the CAPEX, otherwise, if you're not able to draw the volumes because of the XYZ reasons, then overall investment strategy or the return ratios may not to the expected return. So, from that standpoint we would be having any second thoughts or we will still go ahead because at the end of the day there is a story, we'll have to lay the line and then volume, how do we think about that?

Management: No, Each of the projects with respect to expansions are evaluated with respect to the project viability and the commerciality. So, once we are certain of those things, then only the CAPEX plans are executed.

Vishnu Kumar S: And just one final question is on Morbi itself. Let's say, how much of the volume should be in our opinion sticky volumes, let's say, even if the price gap between the propane and gas would be more than Rs.4 or Rs.5 if the delta remains, how much of that volume can be considered very sticky, will it be 3.5 or say 2, 2.5?

Management: That depends on whether the customer source for alternative fuel or not. But that has changed over a period of time. Range may be 2.5 to 3 mmcmd or something like that. But still we are not certain on that.

- Vishnu Kumar S:** Any medium term target in terms of volumes that we have in mind over the three to four years, let's say we are currently, I mean near the 11 mark, so do we have any number in mind, let's say by three, four years we'll do 14, 15 mmscmd, any rough math given all the areas that we are having, what would be our internal target that we are probably looking at or even a range if you can help us understand?
- Management:** We will be happy with the range of around 10% plus/minus something, but problem is we have a product like industrial volume which is practically volatile. So, that practically affects the yearly volume guidance.
- Vishnu Kumar S:** Just on this new FDODO model that we are now targeting, considering the higher cost of, let's say, the transportation and the margin that we have to possibly give because of the delta between petrol, diesel and CNG has to be maintained, so the incremental volumes probably comes at a lower margin for us, is that a right understanding on CNG?
- Management:** No, that's not the right understanding, because whatever the OPEX and everything is there will be passed on to the dealer and the Company will maintain and sustain its margin.
- Moderator:** The last question for today is from the line of S Ramesh from Nirmal Bang Equities. Please go ahead.
- S Ramesh:** So, when we look at the discussions on bringing natural gas under GST, have you seen any internal discussions between the industry and the government, any sense in terms of the timeline? Would it be safe to assume that for the industrial customers, you'll be able to see the customers enjoying the benefit of that 6% VAT and that could enhance the competitiveness of CNG and thereby potentially help you grow faster, is that the way to understand the impact of GST?
- Management:** See, we will always welcome gas being part of GST because it helps the customer as well as the industry as such.
- S Ramesh:** Basically that 6% VAT will possibly be the saving for the end use customer, right?
- Management:** Yes.
- S Ramesh:** Any sense in terms of the timeline when we can expect that or is it still work-in progress?
- Management:** We are on the same page for that.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sandeep Dave, Company Secretary, for closing comments.
- Sandeep Dave:** Thank you. To summarize, we have been able to make a good comeback in this quarter as compared to Q1 of the previous financial year. We'll continue to focus on increasing volumes



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while maintaining a fine balance between volumes and margins. We continue to be optimistic about CNG volumes with planned increase in stations. Thank you.

Moderator:

Thank you, sir. On behalf of Gujarat Gas Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.