"Adani Gas Limited Q4 FY'20 Earning Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Adani Gas Limited Q4 FY'20 Earning Conference Call. We have with us today on the call, Mr. Suresh Manglani -- CEO from Adani Gas and Mr. Parag Parikh – CFO, Adani Gas. 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 would now like to hand the conference over to Mr. Suresh Manglani. Thank you and over to you, sir.

Suresh Manglani: Good afternoon, everybody. Hope all of you and your families are staying safe and taking due care during this challenging time of COVID-19. As all of us are experiencing and these are challenging times for the world and we have seen several businesses are completely closed, Adani Gas on the other hand has continued its uninterrupted supply of pipe gas and CNG across all geographical areas. We have also ensured continuity of our operations and emergency services, teams working round the clock 24x7. In addition, we have significantly enhanced digital solutions to allow our consumers to stay safe at home. We all at AGL have transformed our homes as offices and work is continuing as usual, perhaps with better productivity.

Now, coming to the subject of a today's call, let me take pleasure informing you all that Adani Gas has once again delivered all round superior, financial and operational performance, both for Q4 as well as financial year '19-20.

The Board of Directors of Adani Gas met today… it was an e-board meeting and has approved the financial results for fourth quarter FY'20 and the financial year '19-20.

During the Q4 FY'19-20 compared to corresponding quarter of previous year, overall volume grew by 3% to 145 mmscmd. Operating EBITDA grew by 20% to INR168 crores and profit before tax has increased by 30% to Rs.156 crores.

Just to appraise you all and you are fully aware that this Q4 result also has an impact of March a few days of the COVID impact. Despite that the result has been positive of a growth of a 3% in the volume.

During the full year '19-20 compared to corresponding period of previous year, overall volume grew by 8% to 582 million standard cubic meters. Operating EBITDA grew by 31% to Rs.595 crores and profit before tax has increased by 54% to Rs.547 crores.

Let me now give you a little more detail on the results: In the Q4, pipe gas volume grew by 8% whereas given the COVID situation in the month of March last 10, 12-days, CNG volume marginally declined in this quarter by 2% as compared to the previous year quarter. Overall volume grew by 3% to 145 million as against 141 million in the corresponding period last year. During this quarter, revenue from operations decreased 1% YoY to Rs.490 crores as against Rs.494 crores of previous quarter. Our operating EBITDA grew by 20% to Rs.168 crores versus Rs.140 crores in the previous quarter. Operating EBITDA margins were very healthy at 34%.

Profit after tax for Q4 FY'20 increased to Rs.122 crores versus Rs.76 crores in the previous quarter.

Now, let me come to the full year performance '19-20. Our CNG volume grew by 5% and PNG volume grew by 10%. Overall, our volume grew by 8% to 582 MMSCM as against 540 MMSCM in the corresponding period last year. During FY'20 revenue from operations rose by 9% to Rs.1,991 crores versus Rs.1,823 crores of the previous year. Operating EBITDA grew by 31% to Rs.595 crores versus Rs.455 crores of the previous year. Operating EBITDA margin for a whole year was at 30% as compared to this quarter, which was 34%. Profit after tax for financial year '20 increased to Rs.436 crores versus Rs.229 crores in the previous year '18-19.

On the infrastructure front, our total PNG connections have now increased to 4,40,000. We added 56,000 new homes this year. We added 33 new CNG stations. We have also added close to 500 commercial customers and 240 new industrial customers in this year. Overall, we now have 4,500 commercial, industrial customers on board.

On CNG front, our CNG retail outlets are now 115, we started with 82 and now we are at 115. So in a year we have increased 33 CNG stations. On the new GA's operations, CNG commercial operations have now started in nine geographical areas out of 15 geographical areas, which were allotted to us under 9th and 10th round of CGD bidding. You are all aware that we got five geographical areas in Gujarat in the 9th round and you will be pleased to know that all five geographical areas are now operational in Gujarat.

The construction work was going on in the full swing prior to the COVID commencement, but post COVID with the restrictions coming in place, our work is now currently stopped in all geographical areas including existing operations areas. However, we hope that the moment we are allowed to start our construction work, post-COVID or along with the COVID, we are hopeful to recommence the construction work and also put everything possible to fast track the development.

I am confident that with continued support from all stakeholders and motivated team at Adani Gas, the journey ahead will be much more exciting and successful. We would like to acknowledge the role played by our shareholders, customers, dealers, suppliers, employees, investors, community, business partners and we are thankful for their trust and continued support. Thank you, everyone.

And now please raise your questions one-by-one. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Pinakin Parekh from JP Morgan. Please go ahead.

Pinakin Parekh: Just a couple of questions. First, can you give us more details about your gas sourcing in terms of how much of it would be spot, how much would it be contract and what are you seeing in terms of the pricing at this point of time?

Suresh Manglani: We have a mix of gas sourcing, we do short-term agreements or contracts as well as spot. Also, we won the bidding volume from Reliance gas field . So, we are developing a portfolio of gas sourcing. We are taking the required benefit or optimization of a cost with the new development of softening in the prices as well as we are seeing excess terminal capacity and we are seeing excess supply. So, Adani gas is completely in sync with the market and we are trying to source our gas at the optimized cost.

Pinakin Parekh: So, just following up on that, in terms of the domestic gas sourcing, do you see the domestic gas production which you have signed with Reliance to come on time or given the lock down, you will be forced to secure more from imports?

Suresh Manglani: From a domestic source, given the lockdown situation, there may be some time delay here and there, but we see that the suppliers are gearing up for producing the gas. But we are not actually completely dependent on what will come out from one gas field actually. As we said, we have well placed contracts for a spot as well as the short-term agreement quantities. So, when that quantity is coming, we will be able to adjust our portfolio. We have good contracts in place to take the full benefit of the market.

Pinakin Parekh: There are different kinds of news flow in terms of how are the terminals operating because apparently there was force majeure declared, the terminals were locked down. So, at this point of time, sir, in terms of RLNG imports, how feasible it is and which terminals are operating, are you able to secure that gas?

Suresh Manglani: You see Adani gas, we buy RLNG from Indian suppliers. We are not directly importing LNG. So in terms of buying RLNG, we are not seeing any challenge. We are getting supplies from all the suppliers, terminals are operating to that extent, our supplies are continuing currently, and as I said in my opening remarks, Adani Gas is continuing uninterrupted supply of piped gas as well as CNG for both APM gas which we are getting for home and CNG as well as RLNG for industrials, and a few take away commercials and home delivery commercials must be working. So we are not seeing any issues in terms of supplies from the suppliers.

Moderator: Thank you. The next question is from the line of Manikantha Garre from Axis Capital. Please go ahead.

Manikantha Garre: Just wanted to check with you, you have mentioned that we have seen in the newspapers that there is going to be an extension that can be given from PNGRB for the minimum work program on the GA that we are developing. So can you quantify how much it could be -- Could it be six months to one year, or it could be much lesser?

Suresh Manglani: Thank you for a very pertinent question. I am sure it must be in the minds of many from the investor community. COVID is a force majeure situation. Adani gas as a responsible corporate has invoked force majeure clause under the PNGRB regulation. Your question was “What is going to be the time period?” There is more unknown today than the known we have. We do not know what is going to be the intensity of this COVID. We are not aware about the duration of the COVID. We are also looking forward the solution to come and then solution to be administered to the entire population of this country. So, all these factors are being appreciated by regulator as well. So, in my view, this whole time period is an issue of more deliberation, collaboration between PNGRB and CGD entities. And I am sure PNGRB will appreciate. Also, we need to see what will be the rippling effect of this post-COVID or along with the COVID when we start working on the ground, what new conditions will come. So all that we will appraise the regulator on a continuous basis and I am sure regulator will appreciate and grant us the suitable time which is reasonable for both.

Manikantha Garre: In relation to that only you have mentioned in the PPT also that you have raised force majeure with respect to supply agreement as well as you yourself have invoked force majeure under PNGBR regulation towards MWP applications. So are you going to incur any cost? I understand that for the first few months, there is not going to be impact from the force majeure, but if it prolongs there is going to be some impact on force majeure also. Would it be possible to comment on force majeure of their work if it gets prolonged?

Suresh Manglani: Force majeure per se the provision which is put in the contract is to ensure that you do not incur cost because it will relieve you from those obligations. So, when actually you had obligations and now you want to get relieved because of something which is beyond your control like COVID, that is the reason Adani Gas has acted very swiftly and quickly and invoke FM in PNGRB regulation as well as in the gas sourcing, where we have a take or pay clauses in a short-term agreement as well as on the transmission of the gas . So, we are trying to protect which any entity will do in a normal course and that we have invoked FM clauses. Now duration part will depend upon the COVID continuity and COVID intensity. But we are protecting. So, actually we are in fact saving this cost which will come if we do not invoke the FM.

Manikantha Garre: Sir, my question is more with respect to, if this gets prolonged and if we keep on raising the force majeure, at some point would there be impact, is my question, but I think as per the clauses…

Suresh Manglani: That is where we are seeing. So, as an agile company, if there is a prolonging of the FM, let us say I take your scenario that there is going to be a prolonging, while everyone, governments, industries are looking forward for some sort of reopening or recommencement of economic activity and I am sure we will walk on that path very soon. But let us take your example of prolonging the FM. So, one is that we will be relieved from the obligations which are contractually binding upon us either under PNGRB regulations or under gas supply contracts. Second would be our own running operating cost. So, there also if it is going to be prolonging, while as an essential utility, we will have supplies continuing for some sectors, we will make sure that there is an optimization of a cost. So, that is the way we will be working to see that to the extent feasible we continue to optimize our cost.

Manikantha Garre: Sir, have you got any cost savings from commodity price declines, for example, the steel pipelines you would be laying, infra that is required for domestic PNG connection, the GA that you are developing, have you got any cost reductions and would there be any downward revision of CAPEX that would be required there over the next 5, 7-years, have you achieved some cost savings there as well?

Suresh Manglani: In fact, if you ask any investor community you will find that Adani is known for ensuring to keep the hand on the pulse of the market. So, we actually take the full benefit of cost optimization, whether OPEX or CAPEX and this is a continuous process and Adani as a company as well as a group, that we ensure that if there are commodity prices are going down, we take the benefit of a commodity price going down, in case any services prices are going down, we will take the benefit. So, we work on a continual basis. For example, steel price is down, we are taking the benefit of while procuring steel. So, it will be difficult for quantifying exactly what will be the saving, but there will be definitely a cost optimization, as a private entity we do take the full benefit of it.

Moderator: Thank you. The next question is from the line of Yogesh Patel from Reliance Securities. Please go ahead.

Yogesh Patel: Sir, my question is related to higher employee expenses and other expenses in this quarter. So any specific reason?

Suresh Manglani: Just thank you very much for complimenting. It is a team Adani Gas as I said has delivered a very good result. On the cost being on a higher side, I will request Parag Parikh to give you the response.

Yogesh Patel: I have a second question related to raw material prices or cost of gas. But if you could please answer these questions on employee expenses and other expenses.

Parag Parikh: As you have noticed, I think the company has been at a very strong inflection point and operating 4 GA's, now it has taken upon itself, building up and rolling out 19 GA's. Along with that even the existing 4 GA, there is a continuous effort year-on-year in terms of maximizing and expanding within the existing licenses. For example, you see a large senior team now joining Adani Gas as you see me, Mr. Manglani, all of us together. And this is all a part and parcel of the process of wanting to take almost close to Rs.6,000 crores of CAPEX over the next five to six years. So, that is where you see this expenses coming in. However, you should not see just the quarter as an aberration. So, quarter is slightly a more aberration because obviously there are certain one-time expenses which are also factored as a part of these administrative and other expenses. So, to that extent, you may not look at the fourth quarter as a guidance for future, but yes, I think the overall expenses, if you were to compare Adani Gas from a pure OPEX perspective, where you would add in all the entire O&M costs for servicing the existing licenses as well as people cost, administrative cost, honestly, Adani Gas would actually stand as one of the lowest ones in a very agile entity in terms of OPEX comparisons. Lastly, you should also compare a little bit more from a volume perspective, because as you are aware, with the falling gas cost… and I think that is the second question which we will answer, but with falling gas cost, there is also a falling revenue, simply because we want to look at passing on these benefits to the end customers.

Suresh Manglani: Just to add what Parag was saying, before Yogesh gone to second question, you are seeing that this year we have opened new 11 offices in new geographical area. This is the year of a building the organization. We have also operationalized 24 CNG stations in new geographical area. So, initially, the operational cost would be slightly higher because we are also putting this as an investment for ecosystem development. As Parag was saying to see in a little longer term perspective, because these very much investment which we are doing or OPEX we are doing, will start generating revenues in the coming quarters.

Yogesh Patel: Thanks for clarifying this, but I have a second question which is related to raw material prices. So, in current scenario where the spot LNG prices are lower than domestic APM gas prices, will you prefer to buy spot LNG for your CNG and PNG household business instead of domestic gas? So, you are aware that sir the spot LNG prices in a global market or on the Gujarat coast is available around $1.8, $1.9 per mmbtu, at the same time domestic APM gas prices being set around $2.4 per mmbtu for first half of FY'21. So, are we going to take the advantage of that falling for LNG prices for your CNG and PNG household business, because already you have reported EBITDA per SCM around Rs.11.6 in this quarter. And so I am looking from that point of view, if you are going to take advantage of that lower spot LNG prices definitely at least in 1Q FY'21. The volume might be might be impacted by the COVID-19 situation, but the EBITDA might get improved. So I just wanted a clarity on that side.

Suresh P Manglani Yogesh, thank you very much for beating your heart for us actually and doing very fantastic analysis and I can tell you we have fantastic analyst inside as well and we are fully aware about the gas cost which is happening in the market and what we are sourcing. As regard to switching on and switch off from an APM, this home PNG and home CNG, is a government allocated gas, is a policy stated. There are repercussions if you keep switching on and switching off because this is a gas quantity which have been allocated to you and the nodal agency is working. So while we are alive to the situation, and I am sure the government is also alive and the suppliers are also alive, I think we need to wait for some more time to take these decisions on very quick switch on, switching from the APM gas to the known APM.

Yogesh Patel: Just wanted to clarify one more point from my side. The situation is like that you have seen the average spot LNG prices for the month of April is below than the domestic APM gas prices. So are you still thinking to switch from domestic APM to spot LNG or have you planned anything and it will happen in 1Q FY'21, I just wanted a timing clarity?

Suresh Manglani: That is precisely, Yogesh, I was telling you, seeing at one cargo price for a month of April of a particular index versus the average price which are coming … you have existing contracts which has a time lag of averaging of the pricing, you need to honor the existing contracts and plus, this is a stated policy of a government that you will be taking APM gas which all along all the CGD entities have been taking when the prices were very, very high and the APM price was very low and we have been taking full benefit of it. So I am saying we need to see as an entity in that perspective that switching off and on whether policy will permit, number one. Is it good for a longer-term period because APM is going to be the better pricing mechanism or it is going to be sustaining as an known APM RLNG pricing for the domestic home and CNG. So we need to see the situation unfolding little more longer-term and then only the call has to be taken.

Yogesh Patel: So shall I understand like that the policy is restraining you from taking a call, is that a correct…?

Suresh Manglani: I am saying currently we are looking at a situation that led this sustainability of very low prices. Let us see that how long we are able to make the case of it and then only we can take up of this part that we should now switch. So if you switch for three months, and after three months, if you see the pricing moving backward, and then you want to come back and then you are not able to do that, then how will you do. So I think the situation needs to be seen a little more on a holistic and longer-term perspective. That is what I was telling you.

Moderator: Thank you. The next question is from the line of Malik Patel from Equirus Securities. Please go ahead.

Malik Patel: Sir, a couple of questions. I missed your opening remark. Could you suggest what could be the drop in volume post-lockdown and what kind of recovery we have seen in PNG and overall volume?

Suresh Manglani: So actually even after opening remarks, I was giving the answer to some of the question and I was saying as far as impact on the volume or when are we going to start construction, how the construction will be delayed, what is going to be FM period, all that I was responding is that the COVID situation is currently continuing. And we are yet to ascertain…we means, all of us we need to yet to see whether the intensity is over or intensity is going to come, what is going to be the duration, whether we are going to be allowed completely to do business as usual the way we did earlier. So, there are various unknown factors and duration is also not known. So, we actually are still ascertaining on the impact part. But, yes, I will tell you that as an essential utility, one good benefit of Adani gas or CGD companies that we continue to supply our gas to homes, many, many industries which are manufacturing essential commodities who are allowed to operate today and similarly CNG is also being supplied across to all our CNG stations. So, there are good volumes coming. As far as exact quantum, I think we should wait for some clarity to come on these unknown factors.

Malik Patel: In your area of operations, particularly, the Faridabad and Ahmedabad which are the two large areas you have and given that the way the fall in oil prices in recent weeks and probably the way particularly spot LNG portfolio which you have been buying, do you think that there is any scope for the industries to switch from gas to the liquid fuel, is the liquid fuel become cheaper than the gas in the current context?

Suresh Manglani: As I said, this is a dynamic situation where industries switching on, switching off vis-à-vis one is a pricing which is a benefit to the customer about natural gas versus liquid fuel and all of us also need to make sure that there is a calibration of a pricing because there is gas cost optimization happening for us and you have seen last month itself we have passed through some pricing optimization to the customers. So if you speak to our consumers, they will tell you natural gas is not purely on account of a pricing. There are several other benefits of operational efficiencies, as well as the environmental benefit which comes and there are certain areas where use of natural gas or use of pollutants which are not permitted. So, there are different dynamics for the uses of natural gas, not alone price, but having said, price does become a factor where Adani Gas has always been the market if you see.

Malik Patel: Sir, last question is the PNGRB concept paper on regulations of the tariff for the CGD and what update we have last from the PNGRB and any timeline you can what stage that particular regulation is there?

Suresh Manglani: You are perhaps referring to the open access regulation if I am right. So actually, it has been a long drawn process and open access regulations, all of us have provided our comments to the regulator. There has been an open house. There also all CGD entities have given their comments. There are litigations going on in the court from some CGD entities. There are certain lot of home work which PNGRB is yet to complete in terms of coming with code of conduct of this CGD companies. So to our mind, open access regulations completely coming in full force, still there is a long time. So currently the regulator has been saying that they are still looking into all the comments, they are reviewing it and then they will take a call, how do they come out with a regulation when the litigations are pending. So, I think we need to wait for what regulation comes in.

Moderator: Thank you. The next question is from the line of Rohit Ahuja from BOB Capital. Please go ahead.

Rohit Ahuja: Sir, at a micro level, wanted to know versus 1.57 MMSCM that we did in Q4, how are the volumes right now? I know the situation is pretty much out of control because it is more like force majeure, but if you can let us know how are volumes currently so that we have a clear picture about the extent of the impact?

Suresh Manglani: The way I was referring that prior to COVID, in fact, we had touched the highest volume of even above 1.9 which was an exit volume, fourth quarter average volume is 1.60 But that has impacted with the COVID coming in, we are seeing it in a short-term impact, we are seeing ourselves with the volumes coming back in the phased manner. So, we will rather wait for the scenario to unfold and then we give you the guidance of the complete volume in the coming quarters.

Rohit Ahuja: But I think it is safe to assume that CNG would be the segment being impacted the most in this kind of …?

Suresh Manglani: So, I will give you a little more clarity. The three segments which are getting impacted, one is CNG because there are empty roads, so vehicles are not there, so, CNG definitely is impacted. So, we are seeing some volume coming in CNG as well across all geographic areas because vehicles are plying. Second is industries. The good part for CGD business is that we also have a small scale in MSME Industries which are manufacturing essential commodities. So, we have more than hundred industries actually today using pipe gas even today. Similarly, hotels and commercial which is a very small portion of the demand which we get. There we see the impact, but also we see some takeaway, home delivery continue. So, impact will be on three segments: CNG, Industry and Commercial. And yes, you are right, CNG impact will be a little higher.

Rohit Ahuja: At the policy level now, you said PNGRB does give you some extension for the new GA's, or if this COVID disruption gets extended, you might have an option to opt out of a particular GA's because things are beyond control, is that what you meant I think from the earlier discussion?

Suresh Manglani: No, the license for a geographical area, you hold the infrastructure exclusivity virtually in perpetuity, though it is 25-years. So you should not come out because CGD business or a network you build is for generations, you build for a couple of decades. This is a temporary phase which has come. All I was telling is that we have invoked force majeure provisions of the PNGRB regulation. PNGRB is now seized not only ours, there are several applications which have been received by the PNGRB. They are looking at the applications which have come, they are also waiting to see the intensity of the duration of COVID, how the post-COVID working is going to be there, what kind of new conditions are going to be coming from government authorities, plus what will be the post-COVID or along with the COVID rippling effect. There is a rippling effect of what is you need to have a social distancing, workers have to be maintained very differently. So, all that we need to ascertain what is going to be the impact and I am confident that regulator in a CGD industry will work in a cohesive manner and work out a reasonable period which will help CGD industries to continue to build infrastructure. At least this MWP obligations will not be applicable, but we will not come out.

Rohit Ahuja: Lastly, can you give the absolute revenue breakup between the four segments; CNG, within PNG industrial, domestic and commercial?

Parag Parikh: In terms of breakup, today, our portfolio is breaking up between CNG and PNG as almost 50%-50%. So half is coming from the CNG side, half is coming from the PNG side. Within the PNG, the three segments are industrial, domestic and commercial, they are in that order of priority with industrial being the larger one, commercial being a very, very small one.

Rohit Ahuja: So, can you share revenue breakup?

Parag Parikh: Just to share with you between CNG and PNG, it will be a similar trend of 50:50.

Rohit Ahuja: Revenue breakup is similar to the volume breakup?

Suresh Manglani: Largely, to be the same.

Rohit Ahuja: On the macro side, the Mundra terminal has started operations which is I think one of your group companies. So, can you explain that before the COVID what percentage utilization there?

Parag Parikh: Honestly, that is part of the overall group, but not within Adani Gas. So I do not think we will be the right people to answer that question.

Moderator: Thank you. The next question is from the line of Nitin Tiwari from Antique. Please go ahead.

Nitin Tiwari: Sir, my question is related to domestic gas supply that we are getting for CNG and domestic PNG. So, as we discussed in the call as well that right now the sales are not perhaps at optimum level and it has fallen from the level that that we have seen in fourth quarter because of the lockdown which is going on. So, in terms of like the volume that we are offtaking, so how are the contractual norms with the nodal agency -- so, is there basically a time flexibility that is there or do we have to like take or pay, if you can throw some light on that?

Suresh Manglani: If you see our 'Investor Presentation', which we have uploaded in our website and is available, there is the last but one slide on "Business Impact of COVID" and you will find third or fourth bullet point, which states that we have taken two actions –One, as I was explaining, we have invoked force majeure under PNGRB regulation; Second, we have also invoked force majeure under gas supply contracts as well as gas transmission contracts. So, as far as take or pay is concerned, once we invoke FM, take or pay goes away, it will be a fuel quantity basis and we are, I would say, very cohesively working with the gas suppliers and they are also cooperating, not for us, for every CGD company because this is a force majeure situation. So, take or pay will not be there, but on actual supply basis.

Nitin Tiwari: Actually, I asked this question because I was in doubt about whether force majeure involves complete closure on the volume offtake or some offtake of volume is still allowed along with force majeure because typically force majeure would mean inability to conduct business and therefore inability to take any volume for that matter, hence the confusion and that is why I sought the clarification.

Suresh Manglani: I think your understanding is absolutely correct and in a normal course, that is the way it happens that either you are in or you are out, but in the city gas distribution business, whatever we are able to take the volume and whatever is inability, should be able to demonstrate to the supplier. So, I think there is a very clear cut demonstration now that instead of 100, we are taking x, differential is because of COVID, not because of our unwillingness to take it.

Moderator: Thank you. The next question is from the line of Aishwarya Agarwal from Nippon India Mutual Fund. Please go ahead.

Aishwarya Agarwal: Can you just help us in terms of industrial volume? This is a very significant chunk of volume; 40%, roughly as per presentation. Just want to understand how sustainable are this volume and the customers who are using this volume, whether there is any regulation which is asking them to use gas or they are free to move to the other fuel, and if yes, then at what price or maybe which other fuel is a competing fuel for them?

Suresh Manglani: As I was responding to earlier questions, there is a different dynamics to different areas and different industries, for example, may have different to Faridabad then to Ahmedabad. To answer to your question is that yes, 35%, 40% of PNG volume, 35% comes from industries, there is a continuity of supply now, large number of industries are still working, while large number is still not working. So, there is a significant number of industries which are still using gas and they are working. Yes, some of the industries will have the ability to switch to the alternate fuels, but as I said, pricing is one aspect and since we are an agile entity, we do work with the customers to make sure that we are a beneficial partner for the customer. But besides pricing, there are several other factors which allows him to continue to use the natural gas. So I think we do not work as a customer and a supplier, we work as a partner, we are working with all customers and customer engagement is continuing. Once the gas cost is getting softening, our prices are also being calibrated accordingly. So, we are not seeing much of an issue on people going away for alternate fuel. If the industry will work, they will work on a natural gas, that is what is our understanding now.

Aishwarya Agarwal: In your past experience and so far you are dealing with these customers, how you find this volume sustainability with them?

Suresh Manglani: There are two things: As far as industry is concerned, they have a strong desire to go back to the business. Everyone is trying his best to see that they come back what they had earlier business because they also have fixed cost to sustain. Second word would be that now how the whole demand comes back for them, how government stimulus comes for the industries. All that would make position better for all of us to see how industry demands come back. So, our large number of industries are SSI and MSME. So we hope that there will be overall a better environment for them in the post-COVID or along with the COVID, which will facilitate them to continue to draw the gas from us.

Aishwarya Agarwal: What kind of margins are we making on this volume on a per scm basis or will it be aligned with the average industrial margin for the company?

Parag Parikh: I think while there are certain differences if you were to look at it in terms of margins across different segments, but largely, the margins as a blended number remain at a ebitda level of about a little around 10. Having said that, the most attractive segment within that is commercial, but commercial is a very, very small volume for us as a contributor. So, I think if we were to look at it in pecking order, and if we were to remove commercial, the balance ones are at a much lower number. So, this number what I told you is more from the most attractive segment of commercial. If you look at CNG, industrial, domestic, all the three are relatively at the same number, and these are more just above double digits.

Aishwarya Agarwal: So that means the industrial business is the business which is the most profitable one for us given that the CNG we need to invest a lot on the outlets, whereas industrial is something once you put a pipeline, then it is a consistent business and very good earnings.

Parag Parikh: As I was explaining you, you can see from our financials, there is EBITDA margin of around Rs.10, 10.5 per scm. But for industrial, as you rightly said, the volumes are significant. If you see also pricing policy we continuously calibrate pricing for industries. So it actually keeps moving with what gas cost pricing costs. We start dynamically pricing the industrial customers, while you are seeing domestic is changing once in six month generally, where industrial price also change basis what sourcing cost and other components come into picture. So keeping that in mind, we ensure that industrials customers are also benefited with the supply of gas.

Aishwarya Agarwal: Definitely, you will be passing on the benefit, but the key is that you maintain the margin with the industrial volume also.

Parag Parikh: On EBITDA level, yes, and post-EBITDA also there are several components of the cost which we need to take care . That is the reason EBITDA and profit after tax are different. But on EBITDA level, there is a margin on the industrial volume as well.

Aishwarya Agarwal: How do you see the growth? See, this is the COVID situation. Let us ignore this thing because this is probably unsustainable and in next three months or six months we will be overcoming the situation. So having a long-term perspective say for two to three years, what kind of growth do you anticipate in the different segments in terms of volume and is there any scope of margin expansion?

Suresh Manglani: As you rightly said, this aberration of COVID should be kept aside. We have consistently given this guidance that we will be registering double-digit growth. So to that extent, we would say that we are quite optimistic about the business post-COVID. We need to see how situation first, but prior to COVID always we have been giving double-digit growth and this is our track record. This time slightly because of COVID impact you are seeing the growth is overall 8%. PNG registered 10%, CNG registered 5%.Volume growth , as I said, will depend upon the dynamics of gas cost, but the selling price, alternate fuel prices, several factor will work. But yes, we have been able to maintain the healthy margin so far and we hope to maintain.

Aishwarya Agarwal: So, when you say double-digit growth, it is across the segment which is your CNG, domestic PNG and industrial?

Suresh Manglani: As Parag has been saying that two major segments, CNG and PNG. Yes, on CNG and PNG, we hope to maintain double-digit growth both the sides.

Aishwarya Agarwal: When you say PNG, it includes industrial also?

Parag Parikh: Yes, it includes domestic and industrial combined together.

Aishwarya Agarwal: We have seen some gross margin traction in this financial year because of the APM cost reduction as well as the gas price reduction, but if we look at again for a longer-term what kind of EBITDA per scm or maybe gross margin per scm you see is a sustainable margin?

Suresh Manglani: As I was saying to you, EBITDA margin currently is around Rs.10 is what you can see from the financial results. Going forward, as we said, there are dynamics which works for a pricing as well as gas cost we need to see how it functions what other component of a cost behaves. We hope to maintain healthy margin, but we do not give any guidance on the EBITDA margin for a future.

Aishwarya Agarwal: Can we have a range say Rs.8 to Rs.11 or something like that or difficult…?

Suresh Manglani: To answer your last question, as I said, it should be satisfying you that if you say that currently we are having Rs.10 per scm as the EBITDA margin which is a very good healthy margin. And we are hoping to maintain the healthy margin. I think that should give you a satisfied answer and management is optimistic of maintaining a good margin. We do not give a specific margin that it will be Rs.8 or Rs.11, that will be actually giving guidance to the margin.

Parag Parikh: And I must also add in for the benefit if you see the entity is also moving into development into newer geographical areas. And the dynamics across different geographical areas may differ. While somewhere it may be industrial concentration, while some may have a faster ecosystem being built on CNG. So, I think a little early for us and that is why we said that we do not give any guidances, but we continue to remain optimistic.

Moderator: Thank you. The next question is from the line of Manikantha Garre from Axis Capital. Please go ahead.

Manikantha Garre: Sir, a couple of questions again. Sir, recently, IEX has started Indian gas exchange idea. Suppose you are also a part of their members team. Would you be able to throw some light on how we are going to use this exchange and how is it going to add value to you in the future? Second question would be, this is a little bit far-fetched, but given the current interest rate environment wherein repo rate is at 4.4%, will it cause any downward revision of the 12% post-tax ROE that the PNGRB concept paper talked about for the infrastructure, is it part of the ROE that they are talking about is going to come down from that 12% post-tax ROE? Just wanted to check on these two questions.

Suresh Manglani: Thank you for asking very futuristic questions. See, the first question let me respond and second question I will give to Parag to respond to you. The first question was on a gas exchange. Let me first give you my assessment that gas exchange is a good development for the country where you will have buyer or seller doing the transaction on the exchange, it will be good for CGD because we will be able to buy the gas on exchange, so it is a good development. Having said that, I think it is at infancy stage. We are yet to see the gas exchange regulations coming out. PNGRB is working out, the exchange is working with the regulator as well as the government. So let us wait as there are several other issues which we can discuss offline, which will be required as a prerequisite for gas exchange to actually take off. One of the very important parts would be the gas to be brought under GST, because in the current scenario where multiple type of taxes are applicable, different tariffs are applicable, somebody can buy a C form, somebody cannot issue a C form, whereas in exchange, you do not see who is selling, who is buying. So there are various issues which needs to be sorted out. But having said that, it is a good beginning and let us hope that things will develop and mature in the time to come.

Parag Parikh: If you look at today, the whole intent of the regulator is to slowly evolve and develop far longer regulations for the sector. Today, the focus of the regulator has been to continue to look at expansion. You have seen already the 9th round and 10^{th} round of CGD bidding, there is already a 11th round of CGD bidding which is under the pipeline. And at this juncture, I think from a regulatory standpoint of view, it is important that it brings in as many investors as possible into the segment. So, the broader spirit behind this ROE is to ensure that like any other regulated sector, it moves in that alignment. So, if you asked me I think whether in terms of falling interest rate regime and this could again be a temporary aberration, we do not know for how long the cycle will continue to remain there. I would believe it is too early for the regulator to start tinkering with that. Today, I would sense that the whole idea is to provide more clarity into the sector which develops confidence for the bidders, for the investors and they look at it more from an attractive perspective so that there are further investors and bidders for bidding in the future. So too early if you ask me whether the 12% will get cut at this juncture.

Moderator: Thank you. The next question is from the line of Bhavin Gandhi from B&K Securities. Please go ahead.

Bhavin Gandhi: Most of the questions have been answered. Just wanted to check in terms of our key GA's fall in, can you help us with COVID colors, which are in green or in red zone and are you seeing perceptible changes there in terms of the different zones?

Suresh Manglani: There are different dynamics. While we have a complete clarity and you will be able to see the clarity immediately on the Google, many of GA's are in orange, one or two in the red actually and actually one or two GA's in green as well, but the dynamics is actually that the whole work starting of a new geographical area, even if some GA's may be in orange, but the officials may be coming from a red zone, labor may be coming from a red zone, the contractor may be coming from a red zone, supervisory body may be coming from a red zone, we also have a third-party inspectors who have to come into the inspection of a gas pipeline, so they may be coming from red zone. So there is actually overall dynamics of this post-COVID situation. While the GA's maybe in orange or green but whether we could take off immediately is what we are assessing it. As I was committing to all of you that we are fully geared up. We have kept contractors in place. Contractors are working out on availability of migrant laborers. All we need is cohesive collaborations of a regulator as well as government authorities to allow us to start work without delay. From our side, there will be no delay. So I think there is no issue of a red, green and orange. We are fully watching the situation and every day, we review the situation. Our local teams are in every geographical area to assess whether we can start the work and if yes, we will start the next day. I think that should give you the good confidence.

Bhavin Gandhi: On the gas commitments, so we might have invoked the FM, but is the counterparty kind of agreeing to those FM as well or we are yet to hear from them in terms of whether the FM clauses have been contractually invocable?

Suresh Manglani: You see, as I said in the beginning that Adani Gas culture is that we actually work as a partnership with, whether our consumers or whether our suppliers. Even our contractors, we do not treat them as contractors. So when I said that we have invoked FM, it means we have actually executed it. So, we engage with our suppliers, we engage our customers, we engage with our contractors, we engage with our employees. So, in that sense when we invoke, we also had discussions with them and they had a discussion with us.

Moderator: Thank you. The next question is from the line of Aishwarya Agarwal from Nippon India Mutual Fund. Please go ahead.

Aishwarya Agarwal: Sir, just want to know what is the CAPEX for FY'20? And the next is as we have discussed in the current call that we have some 6,000 crores of CAPEX lined up in next six years, and I can see in the previous con calls, there was some 8,000 crores for next eight years, so, I see a meaningful mismatch in the cash flows in the longer term. So, if you can help us to understand how to look at it?

Suresh Manglani: While numbers will be given to you by Parag and he will explain to you this mismatch which you have found out, as far as the CAPEX is concerned, I was feeling and just to a lot of other investors must be listening this call that from Adani Gas perspective, we are maintaining CAPEX cycle, we are not curtailing CAPEX cycle. Our position has always been even prior to COVID and the post COVID that we are building CGDs for generations, decades to come. So, from that perspective Adani Gas is optimistic organization and maintaining the CAPEX cycle. I would request Parag to respond to you in a specific number.

Parag Parikh: So, I think you rightly sort of pointed out that the CAPEX was about 8,000 for eight years and it is around 5,000 to 6,000 crores over the next five years. So, I think the CAPEX cycle continues to remain the same. The timing of this incurrence of CAPEX will of course depend upon the current COVID scenario. In terms of our balance sheet, today Adani Gas is a very low leveraged company. It is actually at 0.3:1 in terms of its debt-to-equity. The overall debt it has today on its books is not more than Rs.350 crores. So, there is a lot of ability for us to also look at leveraging our balance sheet. And I think this we will do it from time-to-time perspective as how the COVID situation unfolds. Lastly, as I said, along with that, we are talking to lenders in terms of our 9th round, 10th round financing. So that is something which is parallely underway. And I can only tell you that we are going to be comfortable as far as the capitalization is concerned over the next 12 to 18-months. So, to that extent, we have a very strong balance sheet which we can leverage. Thankfully so whatever work that has happened as of now even in our existing or the newer GA's, we have not landed up raising any debt. The entire work so far has happened only from our existing accruals barring Rs.350 crores of debt which has been carried over a period of time.

Aishwarya Agarwal: What is the CAPEX for this financial year?

Parag Parikh: For the year gone by, if I were to look at it in terms of the entire CAPEX, it would be somewhere in the range of about Rs.400 crores.

Aishwarya Agarwal: Also, if I look at the Rs.6,000 crores in six years and our EBITDA number is say somewhere around Rs.660 crores and maybe going up by 10%, and we have to pay the taxes also. I guess the third and fourth year is the year when we see some meaningful debt coming up in our financial.

Parag Parikh: As I said, today, we are in a very comfortable and a strong balance sheet which we could always land up leveraging in the latter years plus I think what we are not realizing that in the initial year, even when we start building up, as we mentioned earlier, even in the newer GA's, we have started some small operations. So, this is not unlike the other traditional infrastructure projects where we have to deploy our entire capital and wait for commercial operations. As and when on a modular basis we are putting our CNG stations, we are putting over network, we are parallelly generating some small sources of revenue.

Aishwarya Agarwal: We have a plan to do the CAPEX in different GA's and the way it works out that you have to do the CAPEX and eventually wait for the revenue to come. Once you put the CNG stations and eventually the cost will convert and they will take their own time and then the demand will come to the CNG, maybe the industrial is something which probably may happen immediately, but if you exclude industrial, whether it is domestic PNG or it is your CNG, take their own time, so again, I see there will be a mismatch in the revenue and the cash accruals versus the CAPEX. Had it been one place, it would have been easier, but it is very fragmented?

Suresh Manglani: While Parag will give you more detail, but I can give you my perspective, if you have understood the CGD business, the whole expansion of CGD business across the country, not only Adani Gas, but around 35, 40 entities are developing. Your assumption is correct that if you build a CNG station, people will wait, then they will convert and then the demand will come. But the way things will now start changing is that you will have a ecosystem of CNG becoming a reality across the country, you can actually travel from any place to any place in the country in the next two to three years. So, what will happen is while you will be waiting for a demand that small geographical area to develop, you actually will strategically locate your CNG station in such a manner that you actually grab a significant amount of a transient value and that will be benefiting each CGD company. Adani Gas customers also will be filling when they travel from Ahmedabad to some other places. We will also be benefited when the customers travel. So, in my view situates this whole CGD business dynamism is going to be changing in the next couple of years on CNG part. Today, people do not convert because they say if I travel outside this area, there is no CNG, but that thing will become a past, you will actually never bother about CNG, like a petrol, you will just travel because you will find some station will come in. So, in my view the ecosystem development will become much faster, demand will become much faster than the way it used to happen earlier. Rest I will leave Parag to give you more response.

Parag Parikh: Certainly so. Just to add to that, as we said that these are built for a longer period of time, but the unique feature for CGD business is that you will have some parallel revenues getting generated, to that extent it becomes actually a self-financing mechanism over a period of time. In a time of a large growth when we are talking about almost close to 5,000 crores coming in over the next five to six years, there will be some needs to raise debt, and as I mentioned earlier, we have a very strong and a healthy balance sheet; we are geared at 0.3:1 today. So that ability is always there for us to raise as and when needed.

Moderator: Thank you. The next question is from the line of Mayur Matani from ICICI Securities. Please go ahead.

Mayur Matani: Just one question on further outlook on the synergy between the city gas distribution entity and the fuel retail. Can you throw some more light on that?

Suresh Manglani: A very good question and this is more on a positive side the question you are asking. See, till now if you see the CGD business the way in the country it is going on… because you are running the business of CGD only and largely, you are actually selling your CGD through a co-located station like OMCs, Adani Gas new ambition is that we will become an integrated CGD company where we will also have a fuel retailing as part of our business meaning thereby would be that our subsidiary company… which will be coming shortly, will be building fuel retailing stations in the country. So, they will take the benefit of co-locating CNG in their fuel retailing stations, we will take the benefit of co-locating fuel retails in our CNG stations which are more Coco and the DoDo brands. So, this will actually benefit Adani Gas becoming one stop solution for the customer. Second, yielding margins from all the three business segments. Fourth, it will also enable us to set up even convenient shopping, EV, LNG. So, it will become multi fuel stations in the futures to go, not every station but many-many stations where we see the demand coming from. So, there is a good energy between two businesses.

Mayur Matani: So, may I ask you some follow up on that? So, total group will be involved in this or it will be separately as Adani gas subsidiary, so, indirectly they will have a stake in it?

Suresh Manglani: The current plan is that it will be part of Adani Gas business going forward.

Moderator: Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Suresh Manglani for his closing comments. Over to you, sir.

Suresh Manglani: Thank you, everyone, for taking out time and participating during even this COVID challenging times and raising very pertinent questions. Hope we have been able to respond to all your questions. If you have any further questions, feel free to write to us. We will be happy to respond to all your questions. Thank you very much.

Parag Parikh: Thank you very much. Stay home, stay safe.

Moderator: Thank you. On behalf of Adani Gas Limited, we conclude today's conference. Thank you for joining. You may now disconnect your lines.