GAIL (India) Limited

"GAIL India Limited
Q2 FY2019 Earnings Conference Call"

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GAIL (India) Limited

ANTIQUE

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Moderator: Ladies and gentlemen good day and welcome to GAIL India Limited Q2 FY2019 earnings conference call hosted by Antique Stock Broking Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Tiwari from Antique Stock Broking. Thank you and over to you Sir!

Nitin Tiwari: Thank you Raymond. Good evening and I wish everybody a very Happy Diwali. On behalf of Antique Stockbroking Limited, I welcome everyone to GAIL India's Second Quarter Earnings Call. It is my pleasure to have with us, Mr. Subir Purkayastha, Director (Finance), Mr. A.K. Tiwari, ED (Finance) and other senior executives from GAIL's Management Team. Without much ado, I would now hand over the floor to GAIL's management. Over to you Sir!

Subir Purkayastha: At the very first, I would like to convey my good wishes for a Happy and Prosperous and a Beautiful Diwali, which is just a day earlier from us from today. I think the results are also in sync with the Diwali, and a pleasure to say this quarter we have recorded the highest ever profit in the history of GAIL's financial performance particularly the segment of Gas Trading has done outstandingly well and has contributed significantly to the bottom-line of the company.

So once again a very good evening to everybody. The fiscal and financial performance for the quarter ended September 2018 is already with you and the same has also been made available in the GAIL's website. I presume that all of you have gone through the same; however, for the benefit of audience, let me reiterate the following two highlights for Q2 of FY2019.

As I mentioned earlier, this quarter is one of the best in terms of physical and financial performance. The highest quarterly turnover of Rs. 19,096 Crores is one of the highlights of this result. It also recorded as I mentioned the highest ever PAT of Rs. 1,963 Crores in this quarter. This was also largely supported by revision in tariffs in the four Pipelines the impact of which we will discuss later on as we move on the various details of the financial performance.

The company also received favorable judgment with respect to various taxes which were otherwise like in average it has been reflected in the contingent liability so about 7600 Crores worth of favorable decisions have come in the company's way. So we will have a cleaner and sharper vision as we move forward.

On the excellence side, I am happy to share with you that GAIL received the 15th National Award for Excellence in Cost Management from Institute of Cost Accountants of India.

Now coming on to the physical numbers, physical numbers have increased by 11.5 to so far as the gas marketing segment is concerned. It was 96.16 million cubic metres in Q2 and this was mainly contributed by the overseas sales of US LNG, which was close to about 11 Indian cubic metres of gas per day. Increase in the domestic supply of gas, which was close to say about 0.5 million cubic metres of gas per day and also increase in the sales from mid and short-term spot cargos. So overall transmission volumes as you must have noticed increased marginally by 0.22 million cubic metres of gas from 105.63 to 105.85 million cubic metres of gas per day and capacity utilization therefore increased to about 51% from just below 50% in the previous quarter.

The polymer production increased by 13 TMT, it was about 195,000 metric tonnes in this quarter as compared to about 182,000 metric tonnes in the quarter of the previous year and this sales was really achieved due to better coordination and operation of the Pata plant, which did not see any bottleneck or any untoward disturbances in the operations.

The LHC production increased by 9,000 metric tonnes, which was 341 thousand metric tonnes as compared to 332 thousand metric tonnes in the previous year's quarter and it was mainly due to the higher processing at the Pata plant. There was also an increase in the LPG transmission volume by about 101,000 metric tonnes and it was mainly on account increased availability made available by the OMCs.

On the financial highlights, as you must have noticed, Turnover of Rs 19,096 Crores which was an increase about 54% on a year-on-year comparison basis and as I mentioned earlier mainly due to the increase in supply comes in the gas front, the average price was also high and rupee depreciation also added to the higher sales number.

The profit before tax was Rs.2,897 Crores versus Rs.1,927 Crores in the comparable yearly quarter that is an increase by about 50%. Similarly the PAT was about Rs.1,963 Crores as against Rs.1,310 Crores in the previous quarter of the last financial year.

The increase in profitability on a year-on-year basis if we have to compare there are a couple of factors that we will go one-by-one on them. The profit in gas marketing profitability was up by 625 Crores mainly due to GAIL being able to realize better margins, looking at the international crude scenario and other factors, increase in gas volumes and long pending settlement of one of the claims with one of our major power customer.

The gas transmission segment profit increased by about 59 Crores on account of revision in four pipelines and the decrease in finance cost which was offset to the extent by the increase in employee cost which was mainly on account of the one-time provision we made towards gratuity due to the revision in the limits of gratuity payable from 10 lakhs to 20 lakhs per person. There was also some increase in the fuel cost mainly on account of pressures from the rupee devaluation, the increase in R&M cost, the increase in depreciation because of capitalization of some pipelines in the previous financial year, Profits from PC segment increased by about Rs.104 Crores and this increase was led by mainly PC production going up by 13,000 tonnes, increase in average price realization of about nearly Rs.14,000 a tonne as well as decrease in finance cost by about 26 Crores, decrease in power consumption expenses but it was again actually offset by increase in average price of the input gas for petrochemical plant.

Profit on the liquid hydrocarbon segment increased by a substantial amount of Rs.300-odd Crores and this was mainly on account of better price realization which is in standard with the rise in the crude prices but this was slightly offset by the increase in domestic price of the gas and increase in the employee cost as I mentioned earlier mainly on account of gratuity provisions.

Profit in the LPG transmission segment decreased by about 4 Crores mainly due to the impact of one-time impact of the employee cost otherwise it is higher than what it was in the previous financial year. The profit in Un-allocated segment decreased by Rs.124 Crores mainly due to the increase in the employee cost on account of basically provision, decrease in E&P profitability owing to disturbances in SEAGP pipeline and increase in other expenses.

The capex made during the quarter was about Rs.2,000 Crores which was mainly on the pipeline segment and the cumulative capex so far is about Rs.2,900 Crores in this financial year so far. So with this I would now make the discussion open for any further questions and answer session. I hand it back to Mr. Tiwari once again. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Rohit Ahuja from Bank of Baroda Capital Markets. Please go ahead.

Rohit Ahuja: Thanks for the opportunity. Sir, on the transmission tariff, I believe, there was, order for, 4 of the pipelines needing to increase in tariff. So can we say the average tariff that comes up for the first half numbers would be the recurring trend going forward?

Subir Purkayastha: The tariff has been revised with the retrospective effect from April 1, 2018, so the implication of this increase in tariff for this half-year is close to about 200 Crores and the safe assumption you can take 50% for the first quarter and 50% is for the second quarter, so Rs.100-odd Crores would be repeated in the quarters to come by.

Rohit Ahuja: This can be the recurring tariffs?

Subir Purkayastha: Yes.

Rohit Ahuja: Right. So, Sir, secondly, again, we saw the tariff orders that the PNGRB has given a much lower tariff than what you had asked for. And it seems to be part of an earlier tariff mechanism, wherein we are going to see some kind of a change in the tariff mechanism as we have been talking about unified tariff coming into play? So now how do things work from here on? Do you intend to appeal to appellate against this tariff order because they have not taking a lot of assumptions that you had asked for? Or you feel that, okay, the regulator is transitioning to a unified tariff, so we do not need to do anything until that comes out?

Subir Purkayastha: It would be too early to comment on the part of unified tariff when it is going to happen and what we are saying is that based upon the modification by the regulator specifically into major areas of considering the net fixed assets and the volume for determination of the tariffs, these are the two significant areas. There are other areas as well, which are also under the consideration of the regulator and that may take some time because there could be some other issues pending with the regulator, but we are by and large satisfied, but our contention with the regulator in many other issues still remain and we would continue to pursue them.

Rohit Ahuja: So but any status you can share that, is the regulator going ahead with the unified tariff mechanism? Or that is at least put on the backburner? How do we see that going forward?

Subir Purkayastha: My guess would be as good as your guess because you also certainly would have been having some interaction with the regulator, so we are not in a great hurry. That would have its own upside what we think as of now, but I think the best way to take it is to move one step at a time and see what goes ahead.

Rohit Ahuja: Right,. Sir, secondly on gas trading business, we saw very good improvement in the earnings from that segment. Were there any one-offs? And what segment of contract led to this kind of an increase in earnings? Was that a U.S. contract or the RasGas contract? If you can clarify that?

Subir Purkayastha: Trading margin is a matter of, there are two parts to it, one is the marketing margin and the other is the trading game that we have. Trading games is always subject to the market conditions, one cannot predict that to say linear kind of prediction that one can make. It is basically your smartness in trying to sell your goods services at the most possible prices, so we have created certain opportunities. We came across certain opportunities whereby we could leverage our position in our international market. That has helped. Second has been that most of our contracts, procurement is concerned if the US volume comes in is on handy basis whereas many of our customers are happy to take gas on crude link basis. So, with the rise in crude prices, which has moved in our favour, so we have been able to get good trading gain. How this will pan out following as the crude prices remain over a certain level I think we will continue to enjoy the benefit and also will depend upon how and we have behaved in the next couple of months as the winter approaches so there could be some dynamic play in that particular situation. So it is very difficult to give a straightforward answer how it will pan out like any other trading activity we look for opportunities, wait for opportunities, and then you try to make your money. So this is how we will look at it. But certainly, there is some level of critical mass in the trading margins that we have been able to create for ourselves in the last couple in the last 2 quarters in particular, I would say. So yes, in this quarter particularly there has been substantial increase because some good trading could be made. How it pans out, it will again depend upon the situation that we see going ahead. I will request Rajeev if he has to further add anything to this.

R K Singhal : Yes, see, these kinds of opportunities in international markets we hope will keep coming. But not on or may not be on regular basis. These are the cycle, which depends. Spot market prices keep moving up and down. The takeaway should be that we are now well positioned to capture the margins or capture the opportunities if it comes in international market. That has been the achievement of last 2 quarters that we are able to trade in international market at a, I mean, cashed opportunities.

Subir Purkayastha: What, Rohit, has happened with the peaking in U.S. volumes, it has given us the breadth to operate at a wider scale than what we had been able to do in the past. This pressure of to tie up the U.S. volume has been an experience in our advantage as well because at some point of time, there was looming concern that this would be a huge setback to the GAIL's financial. But as it turned on, it has been the other way around. So it has given us the opportunity to place ourselves in the international markets. More players are aware of our presence; more people are interacting with us. So it has opened up a new vista, I would say, in our international trade. So this is it is up to us now how smartly and efficiently we are able to leverage our position, our assets in terms of the long-term contracts that we have as we see in the near future. The mid and long-term, of course, things could possibly change. But that is something where the marketing department would be coming off with its own efforts and solutions.

Rohit Ahuja: So Sir, out of the 96 MMSCMD trading volumes, how much would be from the U.S.?

Subir Purkayastha: So what is for U.S.?

R K Singhal: So we have sold on 13 cargoes in the international market. It is around 8 to 10 MMSCMD roughly 10 MMSCMD.

Rohit Ahuja: So I think the overall contract size is around 22. So can we say your offtake is still not yet at the optimum level of contracted volumes?

Subir Purkayastha: No, offtake is almost 97%, 98% kind of. But rest of the volume has been brought to India.

R K Singhal: Much into the Indian market.

Rohit Ahuja: Okay. So you are currently offtaking around 20 MMSCMD?

Moderator: Sorry to interrupt you, Mr. Ahuja. May we request you to return to the question queue for follow-up questions as there are several participants waiting for the questions?

Rohit Ahuja: Sure, sure, Just one point to clarify then I am done. So then we can say that, okay, your optimal U.S. utilization is 97%. Out of that, half of it is what you are trading in the international markets. And that's what led to the margin expansion that we're seeing?

R K Singhal: Correct.

Moderator: Thank you. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.

Amit Shah: Just couple of questions, they are very quick. So the fact that you guys are able to make such trading gains. Does that even mean that when the tide turns you will be exposed to huge trading losses as well? So does this now become a very volatile segment, which becomes a little unpredictable than how it was in the past? That's the first question.

Subir Purkayastha: See, we have domestic market also available for us. So if international market prices are favorable, then we will be able to optimize by taking some volumes procuring from nearby places for domestic market and trading this volume in international market wherever it can be sold profitably, okay? If international market is not in favor then we can bring more volume to India.

Amit Shah: Okay. But you are confident about that people in India would take that while the guys in the international market may not?

Subir Purkayastha: We have tied up long-term contracts wherein we are reasonably certain that volume will be taken up in the Indian market.

Amit Shah: Okay. So in simplified terms, it is very unlikely that you'll have a huge trading loss in any quarter?

Subir Purkayastha: Yes. As of now, unless…, one cannot predict 5 years down the line, or 3 years down the line.

Amit Shah: No, no, of course. Like, we are just talking in way things that are currently.

Subir Purkayastha: In fact we look from a one-year perspective or even 2 years' perspective. We are sure and clear on that front.

Amit Shah: Okay, great. And then just last question on, you mentioned that there was a onetime gain from settlement on a long-standing power customer. What was the amount for that in the gas trading business for this quarter?

Subir Purkayastha: Rs.133 Crores.

Moderator: Thank you. The next question is from the line of Probal Sen from IDFC Securities. Please go ahead.

Probal Sen: I have 2 questions. One, if I one looks at the transmission volumes, what kind of run rate should we be looking at for the rest of the year? Transmission? I mean, will it is it fair to say that it will remain flattish and growth, if any, will only start to come in from next year?

Subir Purkayastha: So, no, I think growth will come. Growth will be a continuous process and numbers should keep growing slowly.

Probal Sen: So, yes, I mean, my point is that over FY2019, therefore, the second half, is it fair to assume, somewhere in the range of 106 to 108 MMSCMD that kind of a range? I mean there is no incremental big growth that is expected in the second half?

Subir Purkayastha: Yes. There will be some incremental volume.

Probal Sen: Okay. And, Sir, the other question was any timeline you can share in terms of the remaining pipeline tariff order? I am sorry, if you addressed this earlier. So for the major pipelines for the HVJ and some of the other larger pipelines, I believe some those tariff orders are still pending. So any communication you have received in terms of when we can have those orders coming through?

Subir Purkayastha: See, we have not received any formal communication, but we understand that the regulator is working on that. And hopefully, by Q4, we should be able to get some more announcements from the regulator. Not in this quarter, most likely, but you never know, but some may come in Q4.

Probal Sen: Okay. And Sir, lastly, I know this is difficult to answer, but there have been so many reports in terms of separation of the transmission and trading businesses, listing them separately and so on and so forth. Sometimes we hear it is about city gas, sometimes about petrochemicals. Any update you can share with us, anything that that has been put the board formally? Or any proposal you are even considering right now?

Subir Purkayastha: Look, at this point of time, there is no formal proposal as such with respect to any divestment of any of these segments. But the company is always prepared for any kind of eventualities and this is what it should do, any management should be prepared for any eventuality. We also would be ready for any eventuality. But officially, there is no proposal with the board as of now.

Probal Sen: Given that separation anyways exists in terms of I know at least you are accounting for it separately. Will it change your life anyways even if they are actually separated out into a separate legal entity?

Subir Purkayastha: When you say your life, what actually it means?

Probal Sen: I mean, in terms of, Sir, margin trends and the existing business relationship. Let us say, between the Petrochemicals segment and your gas transmission segment, for example. Does it change anything? If the petrochemical business sits in a separate legal entity, is my limited question?

Subir Purkayastha: I do not think it will be entering substantial impact on the company as a whole. I think things would run the way it is by and large. We do not foresee any major works in that respect.

Moderator: Thank you. The next question is from the line of Rakesh Seth from HSBC. There seems to be no response from the line of Rakesh Seth. We will move to the next question. Next, we have Vidyadhar Ginde from ICICI Securities. Please go ahead.

Vidyadhar Ginde: A couple of questions. One is in terms of this based on the replies you have given until now, wondering if the U.S. LNG volumes, which you sold in the international market, were they more profitable than in India?

Subir Purkayastha: See, again, yes, there were opportunities, wherein we could realize good prices. So that is why we sold those volumes. So wherever we have the flexibility, we'll try to optimize.

Vidyadhar Ginde: So are you saying that they were more profitable not just because they were international, but that opportunity happened to exist internationally? Is that the correct way to look at it? So I was wondering whether see, where I was coming is was it basically because if it was closer to the U.S, is it a savings in the freight which contributed to the incremental profitability or that is where what I am trying to ask?

R K Singhal: So actually what has happened spot prices have gone up, so we could capitalize on that by utilizing flexibility within the system?

Vidyadhar Ginde: Okay. So those opportunities could well have been in India. They just happened to be so what I'm trying to understand is that if that in the current environment, are sales outside more likely to be profitable? Not necessarily, you said just happened to be opportunities?

R K Singhal: It depends. It depends upon the opportunity.

Vidyadhar Ginde: Okay. Secondly, in terms of the as we have seen in the last 2 quarters, both quarters, the trading EBITDA has been pretty good, but there's a lot of volatility there. So going forward, the marketing EBITDA is if we assume that oil prices and gas prices U.S. and India prices remain roughly at same levels, which we've seen in the last 2 quarters, then is the profitability more likely to be in sync with what we saw in the first quarter or second half, somewhere in between?

Subir Purkayastha: It can be expected.

Vidyadhar Ginde: More like Q2?

Subir Purkayastha: If everything remains the same.

Vidyadhar Ginde: So what are the key variables? Are high spot LNG prices something, which will work for you?

Subir Purkayastha: You see, we have got some strategy made with us, which I may not be able to share in detail.

Vidyadhar Ginde: Do not share the strategy, but...

Subir Purkayastha: But the subjective is that I should have the flexibility and room to take market opportunities, benefit from market opportunities. So now we were now with this U.S. volume and our past experience, as I mentioned, our spread with respect to international trade has substantially increased. So we are in talks with so many people at the same time. And in as you know in international trade, opportunities come in seconds and go in seconds. So it is only how you are able to take advantage of those situations. So we are gaining experience and expertise on this front. So it will as they say, the early bird catches the worm. That is an old adage. But then somebody says, provided the worms also come up early in the morning. So that's the way it is. If the opportunities come, one should be ready to take advantage of the situation. Trading is like that. So but at the same time, having said that, only issue is that the incremental gain that we have got from the gas trading, that may vary but there is a minimum level of trading margin that we'll continue to get because of the contract that we have finalized for the U.S. volumes and other volumes.

Vidyadhar Ginde: There was some suggestion that in the first quarter, the trading profit may have been higher. But there were some volumes, which were swapped internationally last year at break-even levels. So are those kind of these break-even levels contracted volumes? Is that proportion has that proportion gone down in Q2 and is it further likely to go down compared to Q1 levels?

Subir Purkayastha: So those things are still going on.

Vidyadhar Ginde: But are they.. are the proportion of those volumes gradually declining?

Subir Purkayastha: They will decline. As of now, it is more or less same.

Vidyadhar Ginde: Okay. So will it be next year or most of which is when those volumes will be sharply low? Although if oil prices remain at high levels for another year, can one expect the trading profit to be at least higher than in Q1 because of those kinds of contracts not being there?

Subir Purkayastha: Yes it should. It should.

Vidyadhar Ginde: Also next year if oil prices remain high, it should be better than Q1?

R K Singhal: Yes.

Moderator: Thank you. The next question is from the line of Miten Lathia from HDFC Mutual Fund. Please go ahead.

Miten Lathia: Just one question for me. Over the next 30 months, what would be the extent of net long term volumes unhedged that GAIL would have as a portfolio?

Subir Purkayastha: It is very difficult to answer this question. We are attuned to very difficult questions. These complicated questions are very difficult to answer.

Miten Lathia: It will just help us understand because we are all scratching our heads around the trading profit that GAIL has made this quarter.

Subir Purkayastha: Our position is no worse than yours sometimes. So anyways, 30 months is a very, very long time. So what we can give you a directional indication is that a large portion of our volumes for the next 24 months is, by and large, have been contracted for. We have or at the same time kept certain volumes for us for making taking advantage of those volumes in situations such as now. So this is how we have thought to go ahead, as I mentioned earlier, one step at a time.

Miten Lathia: At a portfolio level, this volume that you are referring to, which is the one that you want to take advantage of and depending on opportunities in the market, what percentage of your total volume is that, if I may sort of ask that?

Subir Purkayastha: It is very much less than 50% volume, I would say much less than that. Say, maybe 20% you can say.

Miten Lathia: This is the last time we are going to have you on this conference call. So wish you a very happy Diwali and good luck for future

Subir Purkayastha: Thank you, thank you so much. It has been a pleasure talking to all of you. Sometimes we are not in a position to state certain things in so very clear terms. There are limitations, as you know which are there. But by and large, my, in particular, attempt has been to give you at least some sense of direction where the company would be meeting and I hope that I have been able to do just to that philosophy.

Miten Lathia: Definitely, you have been very helpful, Sir. I wish you all the best for the future.

Moderator: Thank you. The next question is from the line of Amit Rustagi from UBS Securities. Please go ahead.

Amit Rustagi: Sir, there are 2 questions. One relating to the Petrochemicals business. On the petchem side, we have seen a decline in the realizations, while as we see the INR rupee depreciation has gone up and as well as international petrochemical prices were higher, so what could be the reason for that? Is there quality deterioration? Or some odd exports or some other trend?

Subir Purkayastha: Are you Amit there? Are you new to GAIL? Amit, this question was not expected from you, about quality deterioration. The big thing is that, as you have already mentioned..

Amit Rustagi: I think the LLDPE versus HDPE.

Subir Purkayastha: Why do not I ask Kamal?

Kamal Tandon: HDPE prices are higher. As you see, LLDPE is sold at premium prices, so that will increase the realization.

Subir Purkayastha: You see, the realization of petrochemical profitability has still...

Amit Rustagi: What is the LLDPE sold?

Subir Purkayastha: Yes, so it is mainly as I mentioned earlier, there is an impact of the dollar rupee depreciation that is there. The price realization has not been, or the increase in price realization has not been in tandem with the rupee devaluation. It has been there over the last quarter, but in this particular quarter, in fact, there is a slight reduction. On the other hand, our cost of production went up because of the cost of gas going up, one. And two, we made a substantial provision of about INR 40 crores. This is a sort of a onetime provision, which has been made in the Petrochemicals segment towards employee cost of gratuity, as I mentioned earlier. So if you were to negate this impact of Rs.40 Crores, I think our profitability in spite of the increased cost of gas, of production, cost of production for polymer, would have been around the same number as we saw in Q1. So going forward, Q3, we expect that there would be no such onetime expenses to be booked. Also, I would also like to share with you that we're trying to introduce a new grade in the next in this financial year and the trial run for that would happen somewhere around the end of this month, early next month. So as a result of which, our PC-2 would be taking a planned shutdown. And there would be some reduction in the production in this particular quarter. But the flip side is that, if we are able to successfully demonstrate the production of that particular grade, we expect better price realization in our product in the quarters to go forward. Kamal, would you like to add something on to this?

Kamal Tandon: Yes, because there are some grades like metallocene. which are value-added grades and not being produced in India so far. And they are likely to realize better margins. So that is what Head of Finance is saying, we need to do a little bit of modification in the plant and produce those grades. And I think with those grades in the kitty, it will add on, some value addition will be more and will add on to the bottom line.

Amit Rustagi: Okay, great, sir. And the second question pertains to U.S. LNG. So how much of the U.S. LNG volumes are contracted outside India? And how much of them have been contracted for India over next, maybe 2 to 3 years, because we had been in the process of signing contracts for the last 2, 3 years. So if you can give us an update on bifurcation between India and outside India?

Subir Purkayastha: I will just give an indication how it pans out. I will leave it to Rajeev to give any further information on this.

R K Singhal: See, in international market, we are capturing opportunities more on a short-term basis, varying from 1 to spot market to 1 year or 2 year. And 1 or 2 are there for 5 years also, but those are relatively small. Major tie-ups have happened in domestic market.

Amit Rustagi: Well, how much percentage, like out of 5.8 million tons, if we are to like we used to get a number earlier, 2.5 million to 3 million ton, so that number has increased in the last 1 year, in terms of domestic to...?

R K Singhal: Domestic, yes, that number would have increased a bit, definitely. In the domestic market tie-up, the number of tie-up would be…

Amit Rustagi: Yes, the LNG domestic market tie-up.

R K Singhal: The domestic market would be more than 2.5 slightly more than 2.5.

Amit Rustagi: Okay. This is the U.S. extra U.S. based LNG sold in India?

R K Singhal: Correct. See, we were also importing, one thing which needs to be understood, that we have been importing 4, 5 cargos per month, before the start of U.S. volumes, which were largely procured from spot market. So that volume which was procured from spot market is now being replaced by U.S. volume. Plus, there are some additional buyers. So if you take this into account, both the things, the volume that was bought on regular basis from the spot market, that itself was roughly 2 million tons plus 2 million tons per year. So that procurement has now gone down substantially. We're not buying that many spot cargoes, because U.S. volumes have started. So 2 million tons is roughly being, going to the spot market, which earlier was earlier coming from spot market and 2.5 here additional tied up. So this makes roughly 4.5 million tons and we have assumed that 1.5 million tons is what is left for international market, which is being contracted, part of it is for 3, 4 years; part of it for 1 year; part of it for 2 years, like that.

Amit Rustagi: And Sir, in this quarter, the major profit in gas trading, would you like to allocate it to this 4 million to 4.5 million tons U.S. LNG which is sold in India? Or you will allocate more profit attributed towards this 1.5 million ton, probably, sold in international market?

R K Singhal: See, more will be due to domestic market, but the spike has come because of international market. But on the sustainable basis, profit will remain from domestic market.

Amit Rustagi: Okay. So I think, initially, DF made a comment of trading gain and marketing margins. So you could say that some part of trading gain is attributed for the international markets, but marketing margins are attributed for the domestic sales?

R K Singhal: Marketing margins...

Amit Rustagi: It will be for...

R K Singhal: Marketing margins also for domestic markets. That is also there.

Amit Rustagi: Yes, which will be attributable to us on a quarter-to-quarter basis, because spot LNG, now we're replacing with the long-term LNG?

R K Singhal: Correct.

Moderator: Thank you. The next question is from the line of Pinakin Parekh from JPMorgan. Please go ahead.

Pinakin Parekh: Yes, just 3 quick questions, sir. Just want to confirm, of the 5.8 million ton U.S. contracts, as of now, the company has tied-up long-term contracts for roughly 2.5 million tons. Essentially whatever the indexation might be, but the rest is either sold in India at spot, or sold abroad for spot. That understanding is correct, Sir?

R K Singhal: Partly. Because we also have tied up, we have been tying up continuously for a long-term basis, not from U.S. volume also, but otherwise also, for all these years, so which was sent from through spot purchases.

Pinakin Parekh: Understood, understood. Second question is, sir, just trying to understand how quickly would earnings react to changes in spot prices? So for example, from the month of, end September, early October, we have seen spot LNG prices fall 16% to 20%, around $2 MMBTU. We have seen crude-linked contract prices fall. Now you are, as a company, already halfway into the quarter. Now that impact of the decline of around $2 per MMBTU, should it flow through in the December quarter trading earnings, when what is the open position? Or does it flow through the March quarter earnings?

R K Singhal: See, I do not expect this fall in spot price to make any impact on our profitability, which is due to domestic market. Rather okay, at all if it has to be, it will be rather positive. Then on the international market, yes, we will.. we may not get those good opportunities if the spot prices remain low.

Pinakin Parekh: Okay. But, sir, just trying to understand the point on the domestic market, because if you are, as a company, replacing 2 million tons of spot cargoes with U.S. cargoes and selling them to the local customers who are buying on spot, then effectively, there's a $2 decline in realization, right? Because the spot LNG prices have fallen Then how does the profitability be immune, Sir? We are just trying to understand that point.

R K Singhal: See, all of that is not on spot. We are not selling all of that volume in spot. What I was saying, that we have been tying up long-term contracts for all these years.

Pinakin Parekh: Okay.

R K Singhal: So which were spread by spot volume also.

Subir Purkayastha: Let me clarify. It is not that when we sign this contract, we will say we sign a contract for 1 year or 2, right? So I have the option to service that consumer through a long-term supply or procure it from spot. So the procurement is independent of the selling price. So when I will finalize the contract with the customer, for example, he signs a crude-linked contract. So whether I bring it from spot sources or my long-term sources or mid-term sources is different. But it otherwise helps in determining the margins. So most of the contracts, which were being earlier, catered through spot purchases is now being catered through the long-term contract of Henry Hub. So long as Henry Hub prices remain subdued, there will always be some margin available, because most of the customers have tied up on crude basis. So it is very important that what to know to what level of crude will stabilize. Current levels are very good for us. It is only when it falls very sharply then there could be a matter of concern if it falls below $50 or so. So otherwise, things are quite safe.

Pinakin Parekh: Understood. And sir, my last question is this, that this year there was, as you said, U.S. volumes are earning at 97%, 98%, so 5.8 million tons. There was some Gorgon, which has come through. Now sir, if we move to CY2019 versus CY2018, what will be the additional LNG volumes that GAIL would have to place between all its different sourcing that we have, different contracts we have?

Subir Purkayastha: Somewhere at a 0.25 million contract.

R K Singhal: So roughly another 0.25 million ton, that is it.

Pinakin Parekh: Another 0.25 between the Russian contracts, Gorgon, and the U.S.?

Subir Purkayastha: Yes.

R K Singhal: Yes, yes.

Moderator: Thank you. The next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Sir, very little from gas trading. If you could just give us some, the numbers in the gas transmission business, our EBITDA our gross revenues moved from 1,300 to 1,500? You did mention Rs.200 Crores coming from this tariff revision. Plus, you have, you mentioned about Rs.130 Crores of reversal. So we get a net of 330, whereas EBITDA is only 170-movement. Can you just explain that, what are other incremental costs that have come, partly maybe through the gratuity?

R K Singhal: Transmission volume has increased marginally.

Subir Purkayastha: No.

R K Singhal: But there is an increase in the tariff also.

Subir Purkayastha: You see, you are talking about the rise in the EBITDA in the transmission volume, is it not?

Vishnu Kumar: Absolutely, sir.

Subir Purkayastha: Yes, so that, as you rightly pointed out, in this quarter, Rs.200 Crores has come from the tariff revision, right?

Vishnu Kumar: Yes.

Subir Purkayastha: And then we have...

Vishnu Kumar: You mentioned Rs.130 Crores from the reversal.

Subir Purkayastha: Rs.133 Crores is not a reversal; it is an income in the trading segment.

Vishnu Kumar: Income from the trading segment, is it?

Subir Purkayastha: That is the trading segment. So it is mainly comes from tariff revision, which is about Rs.200 Crores that is the most important part. But it has been impacted due to the gratuity cost to the extent of nearly Rs.70 Crores, all right?

Vishnu Kumar: Got it, Sir. So Rs.133 Crores you mentioned in the trading segment?

Subir Purkayastha: Yes, yes. There is a positive of Rs.133 Crores in the trading segment. That is the positive one.

Vishnu Kumar: Got it, Sir. And just on the trading again, the only question I have is that you did mention you have about 2.5 long-term contracted, plus you are moving whichever earlier you are buying spot cargoes for some long-term contracts, so you are moving that as well to the U.S. LNG. So on a net basis, on a full year, you will run anywhere about 75% to 80% would be mostly committed and probably 20% would be a rough spot. Is that a right understanding?

Subir Purkayastha: Even that 20% will not be spot. 20% is something, which we will leave ourselves for either sale in domestic market to meet spot requirement or sell it in the international market. We are not going to buy a single extra cargo for on spot basis.

Vishnu Kumar: Got it. No, my question is that on the entire volume that is coming from international, you will have committed volumes at least for the demand to the extent of 80%, balance 20% will be you kept for flexibility. You will sell in the spot market or depending on the demand.

Subir Purkayastha: Wherever the market gives us the better opportunity, we would look at that.

Vishnu Kumar: Okay. Sir, one final question on the LPG business. Do you have any incremental upside in the volumes? Or the 330, 340 million thousand metric tons is the peak?

Subir Purkayastha: Yes, I mean, I cannot say it is a peak. It is entirely due to the price hike, which has happened on the LPG, produced. So if our average realization is about 40,000-plus. So if it goes up further in December, so it will further increase. It will all depend upon the price factor you see. Generally, you see a trend of increasing prices as we move into the future.

R K Singhal: As far as the volume is concerned, it will almost remain the same.

Subir Purkayastha: So as far as the volume, yes, volume, there won't be any growth, because there are no additional facilities. The incremental volume growth has happened and I think it could it is, by and large, capitalized, because this growth came due to the higher rich component that we got. We're not expecting any further additional volumes with higher fractions of Q3, Q4. So, so far as quantity is concerned, by and large, it is at the peak of its, I mean, performance. And it would be only the price factor, which would be playing more important role in the quarters to come.

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

Sabri Hazarika: Just two brief questions. Firstly, the tariff that you said is for four pipelines, does it include the Dahej-Uran-Dabhol-Panvel pipeline?

R K Singhal: Yes, these are the pipelines. Four pipelines are DUPL, and DPPL, Gujarat Regional network pipeline, Agartala Regional pipeline and Dukli-Maharajganj natural gas pipeline. These are the 4 pipelines, which are there.

Sabri Hazarika: So going forward, we have got only the HVJ, the DVPL, which is left for tariff, besides higher volumes from Jagdishpur-Haldia, which will add up to the earnings, right?

R K Singhal: Yes, that is going on, yes.

Sabri Hazarika: Okay. And second question is, in Q4 FY2018, you had some force majeure issues in your gas trading results, because apparently, the U.S. suppliers are not supplying you, to which your trading numbers were quite low. So you said that time that you would be trying to recover that take-or-pay or whatever that was due. So have you done it? Or are you planning to do that?

R K Singhal: Q4 2018, so we have got back whatever was there as per contract from Dominion Cove.

Subir Purkayastha: So it has been dealt as per the contract.

R K Singhal: We have been able to.

Sabri Hazarika: So you have received that amount?

R K Singhal: That is earlier quarter.

Subir Purkayastha: We came out as well, mentioned to...

R K Singhal: It is force majeure happened, that is in Q2, not April to Q1 of this year.

Sabri Hazarika: Q1 of CY2018?

R K Singhal: No, Q1 of 2018-2019.

Sabri Hazarika: Q1 of 2018-2019.

R K Singhal: March numbers, March results.

Subir Purkayastha: The U.S. pressures were Q1.

R K Singhal: Q1 of 2018-2019.

Subir Purkayastha: So far as Dominion is concerned, it started in Q1 of this financial year.

Sabri Hazarika: Right, but your trading a bit was Rs.340 Crores in Q3, it fell to around Rs.158 Crores in Q4. So that time you said that some force majeure issues were there.

R K Singhal: So that was not a force majeure, actually, it was a kind of a delay in production from one of the plants. So as a result, what happened that we were forced to purchase a few cargoes from spot markets, and spot market was at a very high price. So our profit was low because of that reason. The plant, which was supposed to start production from January, it started from April 9. Because of the tie up, that we were entitled for some dues against that. There was a window earlier there, intimated, to start production from January, but finally, it happened on April 9. In these kind of big projects, it does happen.

Sabri Hazarika: Right. But you said that the loss that you incurred at that time, you would be recovering it in the future. So I just wanted to know, was it done already?

R K Singhal: See, in April, there was some issue, which for which we have recovered in the Q1 itself Q1 of 2019-2020, that we have recovered in Q1 itself.

Moderator: Thank you. The next question is from the line of Sanjay Mookim from Bank of America. Please go ahead.

Sanjay Mookim: Just an accounting question. The Rs.208 Crores increase in gratuity onetime, could you give us a segmental split of it? Which segment has got which additional cost?

R K Singhal: We have worked out for that, yes. We have segmental working. Yes, so gas transmission is around Rs.68 Crores and LPG transmission is around Rs.12 Crores. Petrochemical is around Rs.41 Crores. And then you have LHC around Rs.10 Crores. Unallocated, we have around Rs.62 Crores. These are the average distribution of the different segments.

Sanjay Mookim: Right. And if I may ask the question, I know gas trading has been a popular subject, but if I can ask it a bit differently. Of all the U.S. Henry Hub volumes that you get, how much is sold on a fixed margin basis? As in, where is GAIL not exposed to fluctuation in either oil price or spot LNG price and if there are any such contracts? And on what sort of volumes do you still have exposure on the revenue side to spot LNG prices or oil prices?

R K Singhal: I think the ratio will be very high because mostly what is acceptable in Indian market is crude-linked volume. So now we only we have started tying up HH-based also. But I will say, of the total tie-up in Indian market, domestic market, roughly 80% of the tie-up will be on crude-linked and 20% of HH-linked, approximately. That should be the ratio. So HH-linked, we are not exposed, it is back-to-back, on crude-linked, yes.

Subir Purkayastha: No, but we are, again, we have, in a number of cases; we have taken a hedge position.

R K Singhal: We have taken hedge positions for reasonably good long periods. So we are secured.

Subir Purkayastha: At a good price.

R K Singhal: At a very good price, yes.

Sanjay Mookim: That is my question following up on this. Your hedge positions, given that oil had gotten to $86, were you able to add to the proportion that you have hedged in the higher-price environment? Also, the exiting hedge position, is it better than the entry hedge position for the quarter?

R K Singhal: No, hedging is not gambling. So we have to work out whatever the position is there. So we cannot say that at current price, we will hedge and unwind our hedged position. That is not there.

Subir Purkayastha: No, we have been you see it is like this, when we are in a position to take hedge, so we keep a watch on how the crude prices and other factors can move. So it is a continuous watch process. And instead of that, we take a hedge onetime and then rest for some time. It is a continuous process of monitoring and from time-to-time, when we feel that our calculations support us, that we, at this quarter. And our view of the movement of crude is like this. So we take a hedge position. So we have been taking hedging positions in the past, not of very late. So most of the hedging has been done.

R K Singhal: Up to we have taken as late as when crude was $85, $86.

Subir Purkayastha: $85, $86. So this was somewhere in September.

R K Singhal: That was around last week of, I think, September.

Subir Purkayastha: Last week of September.

R K Singhal: So that time also, we have taken hedge positions.

Subir Purkayastha: So maybe it is not that entire volume, but some portions from time to time, we keep on taking the positions. So I do not have the numbers readily available with me. So there could be some in $80, $85; some could be in $78; some could be in $75.

R K Singhal: $60, $65 also, yes.

Subir Purkayastha: What I understood from, you wanted to know that while entering the quarter, what were the suppose hedge position was x at crude, at an average, while exiting the quarter, will it be higher than x or will it be lower than x?

Sanjay Mookim: That is the question, yes.

R K Singhal: So it will be higher than x.

Sanjay Mookim: Right, and my final question, Sir, is your longest hedge, is that like a 12-month period or a 24-month period? What is the liquidity in these hedges?

R K Singhal: See, these are done on those relevant months wherever we are selling or we are hedging, it is hedged against our sell or purchase, for that particular month. So if we are taking, say, hedge for 12 months, so it will be fixed for every month. But it will be a different price for every, it may be a different price for every month. It is not a fixed price for 12 month.

Sanjay Mookim: Sir, I understand that. I am saying, what is the longest-rated hedge you have? So let us say, at the outside, is it the longest hedge you have is a 24-month hedged or a 36-month hedge, how far are you hedged, is the question?

R K Singhal: It depends if we are getting good price because crude is in backwardation. Crude is in backwardation. So if we are not getting, so what happened, like we started hedging last year and we have been hedging continuously even this year. So naturally, our hedged positions are increasing towards 2020-2021

Subir Purkayastha: The longest period, we cannot define at present, but it is maybe a maximum 20 months or so.

Sanjay Mookim: The last hedge?

R K Singhal: I think last hedge, yes, it was for a 12-month period.

Sanjay Mookim: Twelve months.

R K Singhal: It was where this time, it was done for, impact for CY2019.

Sanjay Mookim: So even for 20 months here.

R K Singhal: We have hedged positions up to even 2020 early 2021.

Sanjay Mookim: The quantity is different.

R K Singhal: The quantity is different from year to year.

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

Mayank Maheshwari: Yes, just two questions from my side. First was, Sir, can you just give us an update on the pipeline projects and where are they in terms of completion today?

S C Ray: Basically, right now, we have around 18 to 19 projects running with GAIL, amounting to around Rs.25,000-odd numbers, Crores. Basically, we go for various pipeline sections. The one which is with the Pradhan Mantri Urja, Ganga Urja, it is basically a pipeline from Jagdishpur to Haldia, right? We have divided the line into 3 sections, Section 1, 2 and 3. So basically, if we go for, because this is around 2600-odd kilometer pipeline. So Phase 1, we are executing around 750 kilometers of pipeline; Phase 2, around 900 kilometers; and Phase 3, around 1,000 kilometers. So that is the position. So basically, if we go into the details of the project, we are at, basically, for the Section 1, we are around 92% actual against the schedule of 90%. And if we go for Section 2, it is around 42% is the schedule, and we have achieved around 45% to 49%, based on the different subsections. Similarly for Phase 3, we have divided Phase 3 into 2 sections, like section 2 being very long, we have further divided, a and b, a and b, like that. So 2a, 2b, 3a, 3b, like that, we have 4 sections. So this is how we are proceeding with that. So if we go for 3a section, we are around 35% against the schedule and the actual is 35% only. Then the 3b, we are around 19% against the schedule of 17%. Similarly, Barauni-Guwahati, we have seen 7% progress against the schedule of 4.5%. So most of in the most of the projects, schedule is, means we are exceeding the schedule, correct? So that is the thing. So coming to the other section of the pipeline, like Auraiya-Phulpur pipeline, we are at 92% against the schedule of 82%.

Subir Purkayastha: So most of the projects are the major project of Jagdishpur-Haldia pipeline, we are on schedule and we are going to complete by 2020 of December. And then one of the projects is Kochi KKBMPL project, is also going to be completed by February 2019. But due to this flood, 1 or 2 months may slip for that. So all the projects which are there, are going on well and we are on the schedule to complete.

Mayank Maheshwari: Sir, the Kochi one will be completed by February despite the delays?

Subir Purkayastha: We planned for February. But due to flood, it may 1 month, 2 months maybe slipped, not more than that.

Mayank Maheshwari: Okay, and Sir, what will be the capex outlay that you can kind of help us with for FY2020 and FY2019 that you have?

A K Tiwari: This year, we have around Rs.6,500 Crores capex, which is there, including pipeline and other investments. And next year is also around Rs.6,000 Crores.

Moderator: Due to time constraints, we will take that as the last question. I would now like to hand the conference back to the management for closing comments.

Subir Purkayastha: Thank you so much. It has been a very pleasant experience to share our views, and at the same time, get your concerns known to us, because they are really helpful in trying to formulate our mind and, you know, things. So once again, I hope that we have been able to satisfy most of the questions that you have asked. Of course, there would be something which, perhaps, we may not have ready answers because at this point of time, and maybe something which we are constraint to divulge in a group format, but nevertheless, we are always open to discussion. And on a one-to-one basis, we do discuss a lot of things with each one of you, as and when we meet in various conferences or on a meeting that is scheduled with us. So I hope that this trend and cooperation would continue as we move forward. It has been my pleasure to be associated with the investors and to build up these relations over a period of time. I hope, and I am sure, that this would continue as we move forward. I would like to leave a thought with you that GAIL is in a very sweet spot as of now, so far its performance, both on physical and financial parameters are concerned, and I think it will have better performances in the years to come. So before ending, and once again, I convey my best wishes on the occasion of Diwali to you and to your family members, from the GAIL team. And hope that you will continue to have such kind of interactions as we move in the future. Thank you so much.

Nitin Tiwari: Thank you very much. On behalf of Antique Stockbroking, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.