

ANNEXURE - I

Management's Discussion and Analysis forming part of the Directors' Report for the year ended on 31st March, 2019

A. INDUSTRY OVERVIEW

India's GDP is estimated to have grown at 7.3%¹ in FY 2018-19 driven by strong industrial as well as agriculture growth and strengthening investment. In fact, as per BP Energy Outlook 2019, by mid- 2020s, India may surpass China as the world's largest growth market, accounting for over a quarter of the growth in global energy demand over the Outlook period.

It is expected that India's overall energy consumption will rise to 1,928 Million Tonne of oil equivalent (MToe) in 2040 from 754 MToe in 2017 with an average per annum growth rate of 4.2%². The share of natural gas is expected to grow at an annual growth of 4.5%³ from current level of 6% in 2018.

In India today, the role of Natural gas cannot be undermined to meet the increasing energy requirement. With domestic gas production insufficient to meet the burgeoning energy requirement of the Country, LNG would continue to play a pivotal role in matching the supplies.

Domestic gas production marginally increased (on y-o-y basis) accounting for almost 50% of the total gas consumed in the Country. Natural gas consumption stood at 149 MMSCMD during FY 2018 - 19.

Retaining its position as the 4th largest LNG Buyer in the World, LNG imports in India were pegged at 74.0 MMSCMD⁴ during 2018-19, an increase of around 3% on annual basis.

LNG imported during FY 2018 -19 was the highest since its inception accounting for around half of the total gas consumed in India, as LNG prices touched a new low in the later part of FY 2018 -19.

Government of India emphasis on Natural Gas Infrastructure

With a goal of increasing the share of natural gas to 15% by 2030 by promoting a Gas Based Economy, the Government of India (GoI) has put strong emphasis on (i) development of additional pipeline network as a part of integrated National Gas Grid (ii) expansion of City Gas Distribution (CGD) network coverage (iii) development of new /expansion of LNG terminals across the Country.

a) National Gas Grid

Currently, around 16,770 Kms natural gas pipeline is operational in the Country and over 14,200 Kms of additional gas pipelines are being developed to increase the availability of natural gas across the Country.

You would be pleased to know that GSPL India Gasnet Limited (GIGL), a subsidiary of your Company, has successfully commissioned 440 Kms of pipeline sections namely (i) Palanpur-Pali (ii) Barmer-Pali and (iii) Jalandhar-Amritsar of the Mehsana-Bhatinda-Jammu Pipeline Project awarded by the PNGRB.

These sections, duly inaugurated by the Hon'ble Prime Minister of India in September 2018, shall enable gas supply in various regions including Banaskantha, Sirohi, Pali, Jalore, Barmer, Jalandhar, Kapurthala, Gurdaspur and Amritsar districts.

Further, GIGL has also awarded EPC contract for construction of several segments sections totaling to 930 kms in March 2019 which is expected to be completed by end of 2020.

b) Expansion of City Gas Distribution network

City Gas Distribution (CGD) networks ensures the supply of cleaner fuel to households (PNG), Industrial & commercial units as well as transportation fuel (CNG) for vehicles. It is pertinent to note that CGD segment consumption accounted for over 17%⁵ of the total gas consumed in India and over the next decade, CGD sector would act as a prime driver for natural gas consumption in India.

While Govt. of India had already accorded priority to CGD segment by providing 100% allocation of domestic gas to CNG and PNG segments, in FY 2018-19 PNGRB launched the 9th and 10th rounds of CGD bidding process to boost the CGD sector.

In the 9th round, the PNGRB granted authorization for developing 84 GAs covering 174 districts across 22 States and UTs. Further, in the 10th round, the PNGRB granted authorization for developing 50 GAs covering 124 districts across 14 States and UTs.

Moreover, after the 10th round of CGD bidding 70% of the total population of the Country is expected to be covered by CGD network.

c) LNG Regasification

Though efforts are being made to increase domestic gas production, the same are yet to materialize substantially and accordingly LNG imports have increased by 158% over the last decade.

Current operational regasification capacity in India is around 26.7 MTPA which is expected to double in the next 5 years, facilitating additional LNG imports in India.

Gujarat assumes special importance in LNG import infrastructure by virtue of being home to almost over 90% of total LNG imports which are through LNG regasification terminals in Gujarat. Further, there being opportunity for development of more Greenfield LNG import infrastructure along the coast of Gujarat, gas from the Gujarat terminals would flow to northern hinterland through extensive gas network developed in the State, including by your Company, making it the "LNG hub of India."

B. REGULATORY FRAMEWORK

PNGRB has determined final tariffs of your Company's pipelines. The Regulator announced a 28% upward revision in tariff for the High Pressure Gas Grid of your Company.

C. OPPORTUNITIES AND CHALLENGES

Keeping up with the growth trend of past 3 years, your Company saw a growth in transmission volumes this year, as well. Your Company registered a 10% (y-o-y) growth in transmission volumes, in tandem with growing demand for gas, as a competitive fuel, in the State.

Your Company also witnessed volume growth owing to seamless connectivity achieved with Vedanta's RJ Block in Rajasthan through its subsidiary, GSPL India Gasnet Ltd.

Having already established connectivity to GSPC LNG's Mundra LNG terminal your Company will continue to develop pipeline connectivity with new terminals / new gas sources to ensure

connectivity with all sources in Gujarat for providing choice of source to its consumers.

Your Company is in the process of connecting the upcoming terminal at Jafrabad and has also made a request to PNGRB for connecting to Chhara Terminal. Your Company shall be the only Company to have pipeline infrastructure to evacuate gas from these new terminals. Further, as these new terminals are developed, your Company would expand the capacity of its Gujarat Gas Grid. Your Company expects significant capacity expansion for its Gas Grid due to new LNG terminals and also to support cross country pipelines of its subsidiaries for expansion outside Gujarat.

Moreover, commissioning of the Gana compressor, also provides requisite operational flexibility / capacity to your Company's grid for meeting growing demand of gas in the State.

Gas supplies have started in Geographical Area of Amritsar. Ground works for development of CGD network in Bhatinda is progressing steadily.

D. OPERATIONS AND FUTURE OUTLOOK

Your Company owns and operates the largest gas transmission network in Gujarat totalling to approximately 2621 Kms (as on 31st March 2019). The gas grid of the Company has reached 25 of 33 Districts in Gujarat.

Performance highlights of Subsidiary, Associate & Joint Venture Companies:

GSPL India Gasnet Limited (GIGL) & GSPL India Transco Limited (GITL):

GIGL commissioned 440 Kms of pipeline section of its Mehsana Bhatinda Pipeline Project (MBPL) network and Gas is being transported from Vedanta's gas field in Rajasthan through GIGL's network. Also, gas is being transported to Amritsar CGD network through Jalandhar-Amritsar section of MBPL.

GIGL has received all major statutory clearances for implementation of balance sections and has accordingly also awarded EPC contracts for seven sections comprising of approx 930 Kms which is expected to be completed by 2020.

GIGL has been making concerted efforts to promote natural gas in regions enroute its network, through various business development activities. GIGL has been regularly meeting small & medium industries / industrial associations in Rajasthan and an interactive session was also organized to create awareness amongst industries / small enterprises about the multi-fold benefits of the natural gas pipeline project to the State.

In GITL, work for 363 Kms pipeline and associated facilities from Kunchanapalle Dispatch Terminal, Andhra Pradesh to Ramagundam Fertilizers & Chemicals Limited's Plant at Ramagundam, Telangana is in the advance stage of commissioning.

Gujarat Gas Limited:

Gujarat Gas Limited is the largest City Gas Distribution Company with its presence spread across various Districts in the State of Gujarat, Punjab, Rajasthan, Haryana, Madhya Pradesh, Maharashtra and Union Territory of Dadra and Nagar Haveli distributing natural gas to various industrial, commercial and domestic residential segment customers. Further, GGL is also engaged in the business of distribution of CNG to transport segment customers through CNG filling stations.

Gujarat Gas Limited has been continuously growing and expanding its horizon by venturing into new geographic areas and is committed to reach every possible natural gas users across its licensed expanse of around 1,69,500 square kilometres through its ever growing pipeline network spread across 41 Districts.

Gujarat Gas Limited has aggressively rolled out the expansion plans to develop networks to tap the unexplored CGD potential in new geographies within its operational areas. GGL has total 25 CGD licenses spread across 41 Districts which accounts to almost 11% of total CGD licenses issued by PNGRB in India and 1 pipeline license.

Gujarat Gas Limited is supplying natural gas to more than 13.5 Lakh residential, over 12,300 commercial and non-commercial segments and around 3,500 industrial customers as on 31st March, 2019.

Gujarat Gas Limited also supplies natural gas in the form of Compressed Natural Gas (CNG) through 344 CNG stations catering to the automotive sector in the operational areas.

Your Company has a total shareholding of 54.17% in Gujarat Gas Limited as on 31st March, 2019.

During the year ending 31st March 2019, Gujarat Gas Limited contributed to approx 16% of total transmission revenues of your Company.

Sabarmati Gas Limited:

Sabarmati Gas Limited (SGL) is engaged in the business of development of City Gas Distribution networks in Gandhinagar, Sabarkantha and Mehsana Districts of North Gujarat. SGL has also been granted authorization by PNGRB for undertaking CGD Business activity in GA of Patan District and accordingly the Company has initiated activities to develop CGD Network in Patan District. The sales volumes of the Sabarmati Gas Limited from all the segments have increased to 9.25 Lakh SCMD during the Financial Year 2018-19 as compared to 8.25 Lakh SCMD during the previous Financial Year. SGL has network of 437 Kms of steel pipeline and 4584 Kms of MDPE pipeline and customer base of 154938 domestic customers, 326 industrial customers and 725 commercial customers as well as 88 CNG stations as on 31st March, 2019.

Your Company has a total shareholding of 27.47% in Sabarmati Gas Limited as on 31st March, 2019.

During the year ending 31st March 2019, Sabarmati Gas Limited contributed to approx 3% of total transmission revenues of your Company.

E. PERFORMANCE PROFILE

The Company continues to expand its gas grid to reach new markets and connect to new supply sources.

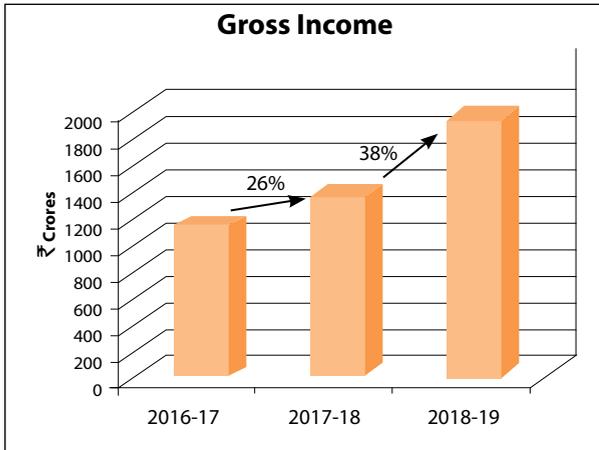
The infrastructure developed by the Company enabled the flow of LNG and domestic gas from various sources, including gas from Rajasthan fields, to reach various regions of Gujarat.

The Company has managed with a lean manpower strength on account of its well thought out strategy of developing major pipeline projects on EPC (Engineering, Procurement and Construction) Model.

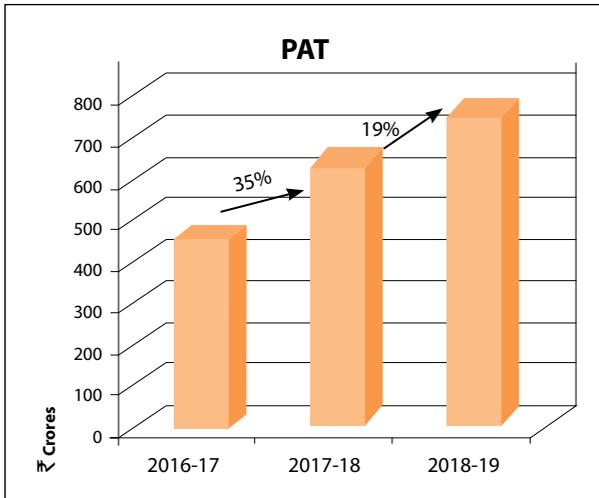
The Company transported 12618 MMSCM of natural gas during the year, an increase of 10% over last year's volumes transportation of 11511 MMSCM.

Income from transportation of gas for the year was ₹ 1832.42

Crore, increase of 42% over last year's Income of ₹ 1286.73 Crore. Gross Income has increased by 38%.



Profit After Tax for the year was ₹ 794.67 Crore as compared to ₹ 668.43 Crore in the previous year, recording an increase of 19%.



The Net Worth of the Company has increased from ₹ 5065.04 Crore to ₹ 5744.01 Crore. During the year, Gross Block of Assets increased from ₹ 3651.20 Crore to ₹ 4324.50 Crore.

The Company continues to have a healthy Debt Equity Ratio of less than 1.

Wind Power Project:

Your Company believes that renewable energy sources can offer enormous economic, social and environmental benefits and India has the highest potential for effective use of the renewable energy sources like wind power.

Considering the cost benefit which a Wind Power Project can offer, your Company ventured into and has successfully completed commissioning of the Wind Power Project of 52.5 MW at Maliya Miyana, Rajkot and Gorsar & Adodar, Porbandar in the State of Gujarat.

The Company has generated 11,85,38,758 units of power from the same which resulted in the revenue of approx ₹ 41.73 Crores in the year.

F. KEY FINANCIAL RATIOS:

1. Interest Coverage Ratio for the year was at 6.22 compared to 25.25 of previous Financial Year. Due to higher Interest expenses during FY 2018-19 there is significant change in Interest Coverage ratio.
2. Debt Equity Ratio was at 0.41 as compared to 0.60 of previous Financial Year. Due to repayment of (net) ₹ 691 Crores of the outstanding loan during current financial year, there is significant change in the Debt Equity Ratio.
3. Return on Net Worth for the year increased from 0.14 to 0.15 over the previous year due to increase in Profit After Tax during the Year.

Other Financial Ratios:

1. Debtors Turnover Ratio as at 31st March, 2019 is 11.32 vis - a - vis 10.99 as at 31st March, 2018.
2. Current Ratio as at 31st March, 2019 is 0.39 vis - a - vis 0.40 as at 31st March, 2018.
3. Operating Profit Margin Ratio for the year is 0.82 vis - a - vis 0.86 for previous year.
4. Net Profit Margin Ratio for the year is 0.41 vis - a - vis 0.48 for the previous year.

G. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Risk Management:

Your Company is in the process of adopting a comprehensive Risk Management System which identifies and documents business risks as well as provides for appropriate controls to mitigate these risks to the best extent possible across all aspects of the Company's business.

The said Risk Management System is based on the principle by which risks are currently managed across the Company. All functional teams address risks relevant to the assets, projects or functions and also work towards identifying appropriate mitigation strategies. Moreover, the Company has always focused on developing a "risk culture" that encourages all employees to identify risks and associated opportunities and to respond to them with effective actions.

Based on the current economic scenario affecting the Oil & Gas sector and the prevalent regulatory regime, these are the major risks being faced by your Company:

1. Affordability and Availability of Natural Gas:

Current estimates and outlooks for natural gas availability are positive and the likelihood of over-supply is nil. However, for an emerging economy like India, affordability of natural gas vis-à-vis other fuels, especially in the wake of rising oil prices is definitely a concern. In fact, the biggest risk for gas is its affordability in key demand sectors, such as Industries and Power. It is believed that rebalancing of global oil prices could also reduce the attractiveness of LNG usage by these sectors.

Moreover, considerable investments by upstream players in further developing gas fields shall also need consistent support from the Centre in form of fiscal / tax incentives. Decline in domestic gas production can adversely affect the gas market.

2. Regulatory Risk:

The Petroleum and Natural Gas Regulatory Board (PNGRB) constituted in 2007, regulates midstream and downstream activities in the petroleum and natural gas sector. It protects the interests of consumers and entities engaged in the specified activities and ensures uninterrupted and adequate supply of petroleum, petroleum products and natural gas in all parts of the country to promote competitive markets.

PNGRB has been working towards operationalizing a gas trading hub/exchange. However, there are several decisions / policy initiatives / consultations that the Board shall have to delve into prior to establishment of the hub, including creation of an independent TSO, standard gas transmission agreement, coverage of natural gas under GST, quantity for gas trading, bidding criteria / tariff determination for new infrastructure.

Your Company believes that it is important that all critical issues are addressed in a way that it does not lead to market distortion in favour of a dominant player. It is expected that improved regulatory scenario would ensure more investments in the sector.

3. Safety and Operational Risk:

The changing technologies and the natural ageing of existing facilities like Pipelines and stations pose a risk as aged Pipelines are prone to unplanned shutdowns, increased maintenance and operating costs. Deployment of new technologies in line with Pipeline Integrity Management Systems and ongoing maintenance processes are the key to enhance the reliability of operations and reduction in operating costs as well as for maximising the life of assets while improving the safety of operating conditions. Pipeline system's safety is also a major challenge and even minor operational issue and safety issues may cause major safety hazards, disrupt operations at large levels, pose danger to life, property and safety of people and penalties from statutory/regulatory bodies and reputation of the organisation may also be at stake.

Internal Control Systems:

The Company has a proper and adequate system of internal controls commensurate with its size of operations and nature of business. The Company's internal control systems are further supplemented by extensive programs of audits, i.e. internal audit, proprietary audit by the Comptroller & Auditor General of India (C&AG) and statutory audit by Statutory Auditors appointed by the C&AG. The internal control system is designed to ensure that all financials and other records are reliable for preparing financial statements and other data and for maintaining accountability of assets and compliance with statutory requirements.

The Company has mapped a number of business processes on to SAP system, thereby leading to significant improved controls & transparency. Your Company also continues to invest in Information Technology to support various business processes.

H. HUMAN RESOURCES

During the year, the Company did not experience any strikes or lockouts.

The increasing human capital aspirations and the competitive environment are a major challenge for the Company in terms of attracting and retaining the human talent. In order to remain competitive, it is imperative that Company has to hire and retain sufficient number of skilled talent so as to strengthen its technical and project management skills.

The Company employed 230 employees as on 31st March, 2019 (Previous year: 221 employees).

The Company believes that training and personnel development is of vital importance to create a climate where people maximize their technical skills and inner potential which can help the Company in capitalizing the emerging business opportunities through their involvement. During the year, employees were sent for various training programs and seminars in line with the Annual Training Calendar to enhance employee skills/knowledge.

The Company has in place an attractive policy of performance linked incentive to encourage and reward employee performance.

Forward Looking Statements:

This Annual Report contains forward-looking statements, which may be identified by words like will, believes, plans, expects, intends, estimates or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth and market position are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that the assumptions and expectations are accurate or will be realized. The Company's actual results, performance or achievements could differ materially from those projected in any such forward looking statements. The Company assumes no responsibility to amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or event.