

Everest Kanto Cylinder Limited. (EKCL IN)

Q4FY11 Results

CON-CALL TRANSCRIPT

Operator:

Thank you for standing by and welcome to the Q4FY11 Conference Call of Everest Kanto Cylinder Limited presented by Systematix Shares & Stocks Limited. At this time, all participants are in listen-only mode. There will be a presentation followed by Question-and-Answer session. Please be advised this conference call is being recorded today. I would like to hand over the conference to Mr. Eric Martins. Over to you, sir.

Eric Martins:

Thanks, Vikas. Good evening everybody. On today's conference call, from the management team, we have Mr. PK Khurana who is the Chairman and Managing Director. We have Mr. Kishore Thakkar who is the Finance Controller. We have Ms. Chanda Makhija, the Company Secretary; and Mr. Puneet Khurana, the Whole-Time Director. To take this call forward, first there will be opening remarks from the management team, followed by a detailed Q&A Session. So, I would now like to hand over this conference call to the management team and then we can start with the Q&A Session. Over to you, sir, if you can start off with an opening remark that you have to make.

Kishore Thakkar:

Sure, I'm Kishore Thakkar from Everest Kanto. Good afternoon to all. During the year, financial year 2010-11, we produced 8,84,000 cylinders against 6,87,212 in the corresponding year. The sales turnover was Rs. 776 Crores against the 650 Crores. The average utilization per cylinder was 8,800 per cylinder compared to 9,453 in the corresponding year. Our EBITDA was 132 Crores against 56 Crores the previous year. Profit before tax was 75 Crores against 18 Crores previous year and profit after tax stood at 70 Crores against 13 Crores. Our inventory level had come down to 276 Crores from 339 previous year. Debt level came down to 371 Crores against 502 Crores. Available cash in hand with the group companies and EKC is about 105 Crores. So, now we would like to invite questions and answers.

Eric Martins:

Vikas, can we start the Q&A session?

Operator:

Sure. Participants, at this time if you wish to ask a question, please dial "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you wish to ask a question, please dial "0" "1" on your telephone keypad and wait for your name to be announced. Our first question is from Mr. Sohail Kapoor from Crisil Equities. Sohail, your line is unmuted. You can go ahead and ask your question.

Sohail Kapoor:

Good evening, sir, and congratulations for the strong performance of the company. Sir, we wanted to have a broad sense as to what has led to the increase in sales of cylinders across the various regions in Q4.

PK Khurana:

You know, as on today when we are talking, we are talking not only the Q4, we are talking the performance of the whole year because we are giving the results for the whole year now. So, as on today, there is a reasonable demand increase in the Middle East. There is a demand increase in India to a large extent. Of course, there are the sales in China. They have grown better but, of course, last year USA was a dampener. That is why our overall profits have come down. And the driving force for the sales is mainly industrial cylinders as well as good demand for CNG conversions.

Sohail Kapoor:

Okay, fine, sir, that would be for the overall, but if I look at the segmental revenues which you have reported, especially in Q4 if I look, the revenues from Dubai have really increased a lot. So, over here, just wanted to have some sense as to what is driving the demand, sir.

PK Khurana:

Because the Dubai is a... we have an order book from the OEMs for almost a period of one year and we are supplying them every month a reasonable quantity. And we have jacked up early production capacity also there, and that is the reason the sales have improved there.

Sohail Kapoor:

Okay, and sir, what is the scenario with respect to the Indian OEMs?

PK Khurana:

Last year Indian OEMs, the demand was much lesser, but, of course, we are keeping all the OEMs in our fold and almost 80% of their requirement is being met by EKC. The demand was less last year because of the conversions of lesser [Unclear] into natural gas in the last year.

Sohail Kapoor:

Okay, thanks, and I will come back with more questions.

Operator:

Thank you, Sohail. Participants, once again, if you wish to ask a question please dial "0" "1" on your telephone keypad and wait for your name to be announced. I repeat if you wish to ask a question please dial "0" "1" on your telephone keypad and wait for your name to be announced.

Then next question is from Mr. Raj Gandhi from Principal Mutual Fund. Mr. Raj, your line is unmuted. Kindly go ahead and ask your question.

Raj Gandhi:

Good afternoon, sir. Thanks for taking the question. Just one thing, this quarter, US and China have come down. So, is this now sustainable turn around that you achieved in this operation?

PK Khurana:

No, last year USA was very bad and the reason being that the order book had gone negligible. And now, of course, in the last quarter, say, the quarter ending March, the sales have picked up and we are receiving very large orders. Our order book as on today there is to the tune of about \$30 million. So, now that shows the next year's sale is assured because even the year has not started and our order book is full, almost for seven to eight months.

Raj Gandhi:

Okay, what has led to this thing? Where is the demand coming from?

PK Khurana:

There is a demand of natural gas jumbo cylinders in USA and we have got certain international orders also.

Raj Gandhi:

Which segment specifically? Like you are referring to few high value orders from oil India segment. Any specific segment which is leading this?

PK Khurana:

You know that these are some different types of orders which we cannot explain but it is supplied between the industry and natural gas, both.

Raj Gandhi:

Okay, but, sir, if you would just notice till about Q3, our turnover in US was increasing but so were the losses, and also in China you were increasing the turnover but the losses were increasing. So, this quarter you achieved a higher turnover with significant reduction in losses. So, anything specific in Q4 and can you expect breakeven next year in both of these operations from Q1?

PK Khurana:

You know, the USA will give a positive surprise. So, there is no problem at all. As far as China is concerned, [Unclear] this year. The profits, we may be able to forecast in the later part of the year.

Raj Gandhi:

Okay. And sir, you mentioned about increasing capacity in Dubai also. Could you just highlight a bit because your sales number also this quarter was quite high, as in 72,000 cylinders from Dubai? So, has there some debottlenecking being done there because you referred to increasing capacity in Dubai?

PK Khurana:

No, we are increasing the Dubai capacity by 50%. It will be installed before the end of the year.

Raj Gandhi:

How much? 50%?

PK Khurana:

Yes, by 50%.

Raj Gandhi:

Okay. So, will it kick in second half of next year or it will be much later?

PK Khurana:

It will be the start of the year 2012, the January month.

Raj Gandhi:

Okay, but how much volumes can we expect from Dubai next year based on the current capacity?

PK Khurana:

You can add another 25%.

Raj Gandhi:

Okay, 25% growth in Dubai next year. Okay, sir, the India cylinders are still not recovered in the sense this quarter you saw good volumes in CNG, but in India the CNG realizations have not picked up.

PK Khurana:

Now the petrol prices have gone up by at least Rs. 5 a litre, the demand has picked up and maybe we will get a better demand this year and a better realization as well.

Raj Gandhi:

Okay, and industrials also you expect this kind of run rate to continue in India, the kind of volumes and realizations that you achieved because in India the industry realization was also quite high? It is Rs. 6000 per cylinder this quarter. So, is it sustainable?

PK Khurana:

We are international player. So, there will be always some countries better, some countries you need... because in international trade the local systems also matter. But, of course, in India we see a good increase and now we are working about 78% capacity. I feel by the year end the capacity utilization will be increased.

Raj Gandhi:

Okay, and sir, any volume guidance for China next year that you can give from now?

PK Khurana:

I think more than 50% in China now onwards.

Raj Gandhi:

Okay. And the update on the expansion in the billets and CNG plate cylinders in Kandhla, any update on the expansion there?

PK Khurana:

As are already commissioned and the samples have gone for the approvals, we are expecting a reasonably good sale this year from that sector also.

Raj Gandhi:

You already started booking sales from billets?

PK Khurana:

No, we have sold some sample quantities. The order for the production will roll out very soon.

Raj Gandhi:

And in the plate-based CNG cylinders, when is that expected to be commercialized?

PK Khurana:

It is the plate cylinders only and plate cylinders are going to be used only in CNG.

Raj Gandhi:

Right. I thought that you are speaking about the billets based industrial cylinders wherein the samples have been sent and then commercialized. When is Kandhla getting commercialized?

PK Khurana:

With billets we started commercial production and are coming higher. So, we are changing over to a different fuel and it will take another two to three months to be in full production.

Raj Gandhi:

Okay. I got a bit confused whether there is a tooling problem that is the billets-based plan?

PK Khurana:

I feel, those problems we have already... we had a commercial production. The cost of the production was a bit higher. We are shifting to a different fuel now which will reduce our cost of production. The project remains profitable.

Raj Gandhi:

Okay, great. And anything on the Forex gains and losses? How are you placed currently? What are the kinds of hedges that you have outstanding?

PK Khurana:

As on today, mostly our [Unclear] outstanding, the rest is all hedged against our imports and exports, the billet thing, we hedged it.

Raj Gandhi:

Okay. Thanks a lot, sir.

Operator:

Thank you, Raj. The next question is from Ms. Parineeta Poddar from ICICI Direct. Parineeta, you can go ahead and ask your question.

Parineeta Poddar:

Can you please give me the quarterly volumes and realizations from the different countries - India, Dubai, China and US?

PK Khurana:

For the quarterly or for the yearly?

Parineeta Poddar:

For the quarter.

PK Khurana:

For the year, I can give you immediately.

Parineeta Poddar:

Okay, fine.

PK Khurana:

Okay, yearly, these are the...

Parineeta Poddar:

For India.

PK Khurana:

Just a minute. India – you want volume wise?

Parineeta Poddar:

Sorry?

PK Khurana:

You want volume wise?

Parineeta Poddar:

Yes, I want the volume and the realization per cylinder.

PK Khurana:

In India, we had sold 580,000 cylinders and the total sales volume was 376 Crores and the other countries...

Parineeta Poddar:

Dubai?

Chanda Makhija:

Dubai, we sold Rs. 2,34,753 cylinders. Realization was 291 Crores.

Parineeta Poddar:

Okay. And China?

Chanda Makhija:

68,000 cylinders.

Parineeta Poddar:

Eight thousand?

Chanda Makhija:

68,000.

Parineeta Poddar:

68,000. Okay

Chanda Makhija:

Realization was 46 Crores. We sold about 1218 cylinders.

Parineeta Poddar:

1218. Sorry?

Chanda Makhija:

85 Crores.

Parineeta Poddar:

Can you please repeat the volume number? I think there is some problem in the line, for USA?

Chanda Makhija:

USA, 1218 cylinders and 85,000,000.

PK Khurana:

USA, 1218 cylinders and these are jumbo cylinders. And the total value was 85 Crores for these cylinders.

Parineeta Poddar:

So, can I have the quarter numbers offline?

Chanda Makhija:

You can call us later and we will provide you all the details.

Parineeta Poddar:

Fine, fine. Not an issue. Thank you so much.

Operator:

Thank you, Parineeta. The next question is from Mr. Sohail Kapoor from Crisil Equities. Sohail, you can go ahead and ask your question.

Sohail Kapoor:

Yes, sir. Good evening, again. Sir, I had a question with respect to Dubai. Sir, when we look at Dubai, we already see that the sales have been higher than the capacity. So, obviously the plant has been operating at over 100%. But, sir, I want to know what would be the Capex cost for increasing the capacity by another 50%.

PK Khurana:

We will be putting almost \$20 million.

Sohail Kapoor:

\$20 million, okay. And sir, is it right to assume that currently the plant is operating at about 120% capacity utilization?

PK Khurana:

Yes, you can. Yes, that is correct.

Sohail Kapoor:

Okay, fine. Sir, with respect to realization, we see that the realizations of cylinder have gone down in China and Dubai. So, sir, are we facing any pricing pressures over there? Why have the realizations come down?

PK Khurana:

No, it is not the pricing pressure. The raw material prices have come down from the previous years. That is why the sales prices stand reduced to some extent and that shows the lower value growth.

Sohail Kapoor:

Okay. Sir, since you have brought up the raw materials over a year, a question, what would be the dependence on Tenaris and what kind of strategy are we following for acquiring the raw materials?

PK Khurana:

We are depending still largely on Tenaris but we have other suppliers also. And of course, China has been streamlined now.

Sohail Kapoor:

Okay, and sir, how much of inventory would we be holding?

PK Khurana:

176 Crores.

Sohail Kapoor:

176 Crores.

PK Khurana:

176 Crores.

Sohail Kapoor:

Okay, and, sir, in case of China, you have given an indication that the production would be increasing by about 50% from the current level. Is that correct, sir?

PK Khurana:

Yes, more than that.

Sohail Kapoor:

More than that. Because, sir, the plant has a capacity of two lakhs and currently we are producing close to one lakh.

PK Khurana:

Actually, we said the capacity is two lakhs. There was certain balancing equipments which are being installed. After that installation our capacity utilization will increase.

Sohail Kapoor:

Okay, and sir, this most of the production, would it be to cater to the Chinese market itself?

PK Khurana:

We are already selling in Chinese market.

Sohail Kapoor:

So, there is no competitive pressure which you are anticipating?

PK Khurana:

This is in China. You cannot live without competition.

Sohail Kapoor:

Okay, thank you.

Operator:

Thank you, Sohail. Participants, if you wish to ask a question, please dial "0" "1" on your telephone keypad and wait for your name to be announced. I repeat, if you wish to ask a question please dial "0" "1" on your telephone keypad and wait for your name to be announced.

The next question is from Mr. Gagan Thareja from BNK Securities. Mr. Gagan, you can go ahead and ask your question.

Gagan Thereja:

Good evening, sir. Sir, if I look at the realization of CNG cylinders sold in India, there is a continuous drop from Q2 to Q4 especially a staggering drop in special cylinders from Q3 to Q4. What could be the reasons behind it?

PK Khurana:

Q3 to Q4, when you say that only in Q3 we had certain special orders which were executed in Q3 and those were absent in Q4. And further in India manufacture, small industrial cylinders, medium industrial cylinders, CNG cylinders from three wheeler to six and some quantity of jumbo cylinders also, you know, it is a mix. That sometimes if it changes, the quantities will also change.

Gagan Thereja:

No, sir, what I am saying is that even in Q2, Q2 your realizations were maximum in CNG cylinders. From there they have dropped. For example in small CNG cylinders it was almost Rs. 9778 to a cylinder in Q2 and it has gone to Rs. 5900. In special CNG it has gone from something of that range to almost half of that.

PK Khurana:

Maybe a lot of the CNG cylinders were sold for three wheelers for which we have continuous SECD and the part of this, sometimes when there is a competition, we would like to export rather than sell into the Indian market. We have to vary our quantities looking to the requirement of the company.

Gagan Thereja:

Should one presume like going into the next year your realizations will move back from what they were in the Q4 of this year?

PK Khurana:

In the Q4, definitely the realization will improve. It will improve quite reasonably well.

Gagan Thereja:

Okay. And what would be the average cost of the RM inventory that you are carrying? I think, a year or so ago when you were carrying it at very high cost, it was 2,100 USD to a ton and from there it came down to 1200- 1300 USD a ton last year. What is the average RM inventory cost that you have right now?

PK Khurana:

Such a mix, I will not be able to answer your question now. You can always check up with our office whenever you wish. And mix that, we may not like to open in details.

Gagan Thereja:

Fine, sir. And also, is it possible to understand your capacity utilization plant-wise?

PK Khurana:

Plant-wise, of course, we can give you. The average we have already given you. This year it was 78%.

Gagan Thereja:

Is it possible to understand plant-wise?

PK Khurana:

Plant-wise, I will not be able to give you these details. Again you can check up from our office.

Gagan Thereja:

Okay, and some bookkeeping questions, if I look at your balance sheet, there is an increase in investment. What is that pertaining to, sir?

PK Khurana:

There were expansions going on. In the investments, you are talking on plant and machinery or any other?

Gagan Thereja:

No, sir, I'm talking about investments as mentioned in your reported final year numbers. It is going up from 449 lakh to 3452 lakh.

PK Khurana:

No, no, it is some investment we have made in Thailand and the rest of the money which is lying in the liquid cash, that is also a part of the investment.

Gagan Thereja:

Okay. What is this investment that you made in Thailand?

PK Khurana:

15 Crores.

Gagan Thereja:

And this is pertaining to what? Is it...

PK Khurana:

We are starting with a trading company there. 100% subsidy.

Gagan Thereja:

Your loans and advances have also grown at a fairly high percentage. What would be the reason for that?

PK Khurana:

No, no, our loans have come down.

Gagan Thereja:

I am not talking about loan books, sir. I'm talking about loans and advances as mentioned in your current assets. Current assets loans and advances, you will see in line item (D) in...

PK Khurana:

That is our capital work in progress.

Kishore Thakkar:

That is normal advances given against for business purpose.

PK Khurana:

Sometimes, we had to give advances against the raw material purchase also.

Gagan Thereja:

But then, it should be at least somewhere in proportion to your sales growth, it is fairly high as compared to that.

PK Khurana:

If you approach our office, we will give you the item-wise details of the advances.

Gagan Thereja:

Okay. And could you possibly indicate the Capex number for next year?

PK Khurana:

In India about 50 Crores and about another 100 Crores for other places.

Gagan Thereja:

A total of 150 Crores you are saying?

PK Khurana:

And everything will be met from our accruals.

Gagan Thereja:

Okay, your effective tax rate is also fairly low this year. What was the reason for that and what do think should be the tax rate going next year?

PK Khurana:

Again because this year, the profit from our India operations were lesser. So, that is why the tax rate is lower and going forward the tax rate will increase marginally but not in a large proportion. In USA and whatever is earned in India, it is taxed here. And Dubai and China, still we are not in the tax brackets.

Gagan Thereja:

Effectively, you are at a single digit effective tax percentage rate. Should one presume that you will get into the double digit effective tax rate or will you remain in the single digit tax rate going into next year?

PK Khurana:

No, it will be far lower than the slab what you have seen in the USA and India. It will be far lower. Overall it will be between 10% to 12%.

Gagan Thereja:

Okay. Since you have started your billet plant, I would presume that once the billet plant is started, instead of using the raw material that you procured from Tenaris for industrial cylinders, you could procure billets locally. Would that therefore imply that there is a possibility that your RM costs and logistic costs related to industrial cylinders sales will fall next year?

PK Khurana:

It will depend on how high the cost of our Tenaris and other tool supply goes up. That is the benchmark to use the billet cylinders in a large quantity. And because I told you that our fuel costs were coming higher, we kept the billet plant in abeyance for some time and now we are changing the fuel so that the production becomes cost effective.

Gagan Thereja:

Okay. And lastly if you could indicate, across industrial and CNG cylinders, both in India and outside, what should one presume as the possible volume growth that could happen next year for Everest Kanto?

PK Khurana:

Overall volume growth, we expect far beyond than 20%.

Gagan Thereja:

Are you saying they will be significantly higher than 20%?

PK Khurana:

It is. It will be higher.

Gagan Thereja:

But it will be between 20% and 30%?

PK Khurana:

Right.

Gagan Thereja:

Okay. Thank you, sir.

Operator:

Thank you, Gagan. The next question is from Mr. Arun from IDBI Capital. Arun, you can go ahead and ask your question.

Arun:

I just wanted to have a sense on your operating margins. You have come up pretty much in the last year with regards to our OPM. How do you see it panning out as a company next year?

PK Khurana:

Will you please repeat your question?

Arun:

Sir, operating margins have actually increased over 17.6% for the whole year. How do you see it going forward?

PK Khurana:

The profits will definitely be... the margins will go up in a larger manner. Once our loss making entities like USA and China, they give positive – USA is going to give a positive result. Once USA gives a positive result, the percentage will go far higher. As on today, there is profit rather than there was a loss. So, that is why the profits have come down and that is why our EBITDA and the PBT, PAT etcetera are lower.

Arun:

Sir, what kind of margins are sustainable in India?

PK Khurana:

Between 15% and 20%.

Arun:

For both the industrial and CNG?

PK Khurana:

Yes. CNG is a little better.

Arun:

Okay, and sir, one thing on your OEM penetration in India, how is that going on for CNG?

PK Khurana:

OEM, we have 80% share and we continue to enjoy the share.

Arun:

Sir, is a breakthrough with Maruti on card?

PK Khurana:

Maruti, we are trying still. We have to get large orders. All other places, we are there.

Arun:

And, sir, Dubai, the margins have gone back to 30%. So, are these sustainable?

PK Khurana:

You know, these are the long orders from OEMs. As the orders are for a longer period, we assure the margins will be made.

Arun:

Okay.

Operator:

Thank you, Arun. The next question is from Mr. Anshuman from BCP. Mr. Anshuman, you can go ahead and ask your question.

Anshuman:

I just wanted to know, when you say that your Capex this year will be 100 Crores in India, will it be funded from internal accruals?

PK Khurana:

No, it is not 100 Crores in India.

Anshuman:

I was talking about Dubai.

PK Khurana:

Dubai, 100 Crores. About 40 Crores in India.

Anshuman:

Correct. In which case, will you borrow further to repay your SECD because you are not going to use your accrual for entering this?

PK Khurana:

No. As on today, we are not making the borrowing arrangements for Dubai as well as India. We are not planning anything to raise money. As you know, we have got cash available with us. We have 105 Crores lying in our banks. As on today, we are not trying to raise any loan and at a later stage we both can decide whatever steps we have to take whenever – we can think about taking any low cost debt if required but immediately as on today, initially for the first six months, we have no plans.

Anshuman:

Okay, thank you.

Operator:

Thank you, Anshuman. The next question is from Ms. Sarika from PLPMF. Sarika, you can go ahead and ask your question.

Sarika:

Hi, sir. Just wanted a confirmation on the billets plant. When exactly would the plant be working full-fledged?

PK Khurana:

You can say, August this year. The alternate fuel, that is the electricity, the furnace will be started and it should be on production August end.

Sarika:

Okay, so, at least we would be able to utilize 50% capacity during the year?

PK Khurana:

Again, raw material costs are the major parameters. We are trying to find a lower cost raw material because today what we are buying from Steel Authority of India or other places, they are not very reasonable. We are exploring the other sources. The raw material cost is very important in this subject because the production capacity is quite high.

Sarika:

Yes, I understand that but just a confirmation, like, 50% utilization.

PK Khurana:

I do not feel like committing. Maybe to start with, we can go ahead and commit about 30%-35%.

Sarika:

And for plates?

PK Khurana:

Plates also will be less than 40% because it is a totally new item. It is a very high end product. It has to go to only OEMs and we are targeting mostly European and other advanced country OEMs.

Sarika:

Alright. Secondly, I just wanted to confirm, the margins for next year would be over and above 20%?

PK Khurana:

It should be.

Sarika:

Operating margins. And it would be supported by the Chinese operations as well?

PK Khurana:

The Chinese operations, we are not expecting this margin but our other operations will compensate for that.

Sarika:

Okay. When I talked of the Chinese operation, is it going to break even on a big front next year?

PK Khurana:

There will be no losses in this year. It will be a cash surplus.

Sarika:

Alright. Thank you so much.

PK Khurana:

Thank you.

Operator:

Thank you, Sarika. The next question is from Mr. Pratish from NK Global. Mr. Pratish, you can go ahead and ask your question.

Pratish:

Hello sir. Just a couple of questions, if you would tell us the utilizations in China and US.

PK Khurana:

Just a minute. US was only 44% and China it was only 30%.

Pratish:

Okay. And the capacity expansion you are planning in India and Dubai only?

PK Khurana:

As on today, yes, India and Dubai only and some [Unclear] equipments and then USA also for some improvements in handling of these materials.

Pratish:

Could you tell us the market share in India and Dubai that you have?

PK Khurana:

Dubai, there are no plants and in India as on today, there are so many small, small... some small plants have come and we have such a variety of products. I do not feel because in certain items we do not want to compete also. So, I will not be in a position to tell you, but it should be 50%.

Pratish:

Both the places?

Male:

No, Dubai, there are no plants.

Kishore Thakkar:

Dubai, there is no market at all?

PK Khurana:

Dubai, there is no market. It is all exports.

Pratish:

Okay. Secondly, on the pricing side, being an industrial item, how is the pricing decided or how do you decide the pricing, is it cost plus percentage or it is cost plus absolute margin number that you look at?

PK Khurana:

You know, it is always the cost plus a profit, a reasonable percentage. And then again further, the market conditions, they also decide the pricing. And because this is the subject in industrial because we completely sold out, then we can decide our pricing looking into our standing with the customer. So, the pricing is, of course, always between 15% to 20%. More than that, we cannot expect.

Pratish:

So, if you could then give us an outlook on the pricing trends in these four markets?

PK Khurana:

You know, industrial I cannot say much on that because industrial market is growing about 15% a year. CNG, again, the margins are better and we try to maintain those margins always. Only now we will substantiate with the better capacity utilization.

Pratish:

Okay. Lastly, to what extent would you then get backward integrated through your billet and own plate? And based on the current costing that you have and current pricing, assuming that it continues for the next four or five quarters?

PK Khurana:

Plate is a costly subject. It is not cost effective. It is the higher sales value addition. Only billet is cost effective and we are trying to get a lower cost raw material and possibly I may not be in a position to commit much on that other than that will be production in the next three months.

Pratish:

But to what extent will it replace the outside purchase material for you if you are successful?

PK Khurana:

It will not replace but part of the raw material, the cost will come down for part of the material from 5% to 10%.

Pratish:

Material cost by 5% to 10%?

PK Khurana:

Right.

Pratish:

That means at the margin level, it should be about 2%?

PK Khurana:

The margin level will definitely go accordingly. And in billets, we avoid one operation of finishing so that is additional lower cost.

Pratish:

And what is the total capital that we are putting in for billet and plate?

PK Khurana:

The total Capex, we have already completed and capitalized.

Pratish:

What is the quantum, sir?

Kishore Thakkar:

It is about 35 Crores for billet.

Pratish:

And for plate?

Kishore Thakkar:

Plate will be around 180 Crores which will be capitalizing in the current year.

Pratish:

So, the CWIB figure that we see is the plate?

Kishore Thakkar:

Right.

Pratish:

Okay. Many thanks and all the best to you, sir.

Kishore Thakkar:

Yes, thanks.

Operator:

Thank you, Pratish. The next question is from Mr. Raj Gandhi. Mr. Raj, you can go ahead and ask your question.

Raj Gandhi:

Sir, from this year, sales that you have shown in India for CNG, 2,77,000 cylinders, has anything of it gone to Middle East or something or is it completely sales in India?

PK Khurana:

We are selling partly to Middle East, partly we sell to Columbia and other South American countries. Pakistan and Bangladesh are also part of them.

Raj Gandhi:

Is it possible to give the breakup. How much of it was in India and how much was high margin Middle East market where they were sold?

Kishore Thakkar:

We will provide you the details.

Raj Gandhi:

Okay. Is the Indian OME demand coming back? Any visible size of that?

Kishore Thakkar:

It is already back, OME demand. Europe was not clear and OEM demand is back.

Raj Gandhi:

Okay. Sir, just in India, you know, you hear about new entrants entering. Recently [Unclear] has declared a plant to set up for CNG cylinders probably for Maruti. Are these new guys coming in and supporting Maruti and Honda that are here?

PK Khurana:

I think that is a very small plant. And this is a very, very... we would not like to comment on the competitors. It is a very, very small plant.

Raj Gandhi:

But they plan to expand in a big way. Do you foresee this competition coming in?

PK Khurana:

The competition is already there but the competition is no threat against the demand.

Raj Gandhi:

Okay. Any update on the JV that [Unclear] cylinders had done because they had got a new partner from USA. Any rub-off effect on you? If you could just guide, how is the JV shaping up?

PK Khurana:

I would not like to comment on our competitors, please.

Raj Gandhi:

Okay, sir.

Operator:

Thank you, Raj. At this time, there are no further questions. I would like to hand over the floor to Mr. Eric. Over to you, sir.

Eric Martins:

Thanks, Vikas. On behalf of Systematix Shares, I would like to thank the entire management team of Everest Kanto Cylinder for taking out time for this conference call. Also I would like to thank all the participants for joining this conference. If there are any further queries, one can contact the management.

PK Khurana:

Thank you.

Kishore Thakkar:

Thank you very much.

Operator:

Thank you. With this, we conclude the conference call for today. Thank you for your participation and have a pleasant evening.

