



Everest Kanto Cylinder Limited

Q2-FY21 Earnings Conference Call Transcript

November 22, 2021

Shiv Muttoo: Good evening everyone and thank you for joining us on this earnings call organized to discuss the financial and operating performance of Everest Kanto Cylinder Limited for the 2nd Quarter ended 30th September 2021. We have with us today Mr. Puneet Khurana - Managing Director and Mr. Sanjiv Kapur - Chief Financial Officer of the Company.

Before we begin, I would like to state that some of the statements made in today's call may be forward-looking in nature. A detailed statement in this regard is available in the Q2FY22 Results Presentation that has been sent out to you earlier.

I now request, Mr. Puneet Khurana to start the proceedings of this call.

Puneet Khurana: Good evening, everybody. I warmly welcome you all to the Everest Kanto Cylinders Earning Call, to discuss the operating and financial performance for the quarter ended 30th September 2021.

As you know, our Company is the largest manufacturers of seamless steel gas cylinders in India and have significant international presence. Our products have applications in sectors such as automobiles, healthcare, manufacturing, aerospace, and defense, among others. Over the last four decades, we have delivered over 20 million industrial and CNG gas cylinders. Currently, we have an aggregate capacity of about 1 million cylinders annually in India, UAE and United States. We are currently in process of expanding capacity in India. With India targeting 15% contribution from gas in the country's fuel mix consumption of gas across the wider economy is expected to expand substantially over the next decade. Given the economic and environmental benefit of gas usage similarly, trends that are gaining traction across the world largest economic regions. In India, we are seeing rapid expansion of country's City Gas Distribution network that are slated to achieve deep and extensive nationwide coverage over the next few years. This will provide easier access to CNG for all substantial number of vehicle owners in the country.

Alongside this, all the leading automobile manufacturers are making available a wider range of cars, buses and other vehicles fueled on CNG. We see an entire ecosystem scaling up across the country driving secular demand growth for our products.

The other key dimensions of the recent demand has been from medical oxygen cylinders for healthcare sector. We have thus contributed to the best of our ability in India's fight on COVID since April last year, supplying cylinders to government agencies, hospitals and NGOs across the country in time of crisis. Currently, our India plant has been operating at close to optimal levels. Having undertaken a de-bottlenecking initiative over the last few months, we are expanding capacity to move to the next level of growth.

We are taking forward brownfield projects at our plants located in Tarapur and Kandla that will add capacity of 400,000 cylinders annually, with a capital commitment of Rs. 35 crore which is to be financed completely from the internal accruals and executed over the next eight months. This expansion is in addition to the Greenfield capacity of two lakh cylinders that we are pursuing in parallel, which is also expected to be financed from business cash flows.

At our UAE production facility, we are targeting a growing number of emerging markets such as Egypt, other African countries, and South America. This is beginning to deliver positive results as we see further scope of penetrating these regions going forward. Our plans in Hungary are progressing and we see a local production unit in European Union allowing deeper access to larger markets in the coming years. Also in the U.S. we are seeing improved operating performance and recent announcements around infrastructure investments, open new expansion opportunities for us. For one of these increasing adoption of hydrogen globally which is an exciting new area that is likely to gain traction in the years to come.

Coming to the financial performance during the Q2FY22, EKC maintains a strong momentum of business growth and margin expansion. Consolidated revenues expand by 71% to Rs. 421 crore. EBITDA was higher by 136% to Rs. 112 crore. EBITDA margin expanded from 19.2% to 26.5% on year-on-year basis, as operating leverage allowed margin expansion across geographies. Profit before tax and before exceptional items and foreign exchange variations was up by 209% to Rs. 103 crore. Profit after tax increased by 145% to Rs. 71 crore. Earnings per share was Rs. 6.33 in Q2FY22 and Rs. 12.50 in H1FY22. Revenues in our Indian, UAE and U.S. operation increased by 58%, 133% and 84%, respectively, indicating growth across all geographies, segments, margins have also seen substantial uptake in each of these geographies.

Debt has reduced from Rs. 203 crore in March 2021 to Rs. 133 crore as on September 2021. Based on substantial cash generation from the business, net of cash and bank balance, our outstanding debt stood at Rs. 64 crore at the end of half year.

To close, I would like to say, we look forward to the future with positivity. We see several years of growth visibility as gas usage continues to expand across the world. We are poised strongly within the emerging framework, and we look to leverage an existing platform to drive profitability growth. We are simultaneously executing expansion programs and several organization improvement to drive long-term and value-creation across all our initiatives.

On that note, I come to an end to our opening remarks and would request the moderator to open the forum for any operational and strategic-led questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pratik Kothari from Unique Portfolio Management Services. Please go ahead.

Pratik Kothari: Two to three questions from my side. One, on the capacity, I believe that de-bottlenecking that we were undertaking is done as of date, right?

Puneet Khurana: No, it's still underway. And the Rs. 35 crore that we have been talking is an additional effort that we are putting in the de-bottlenecking initiative.

Pratik Kothari: So this Rs. 35 crore also gets us another 4-lakh cylinder capacity, right?

Puneet Khurana: So there is already initiative that we have taken in the past. Adding to this initiative, we are also taking equipment that is already available in the Company and trying to expand capacity as soon as possible to see this opportunity that's available.

Pratik Kothari: If I have the numbers correct, one, that installed capacity is about 9 lakh as of date. We are doing one brownfield of 4 lakh which will come in I believe next financial year. We have another 2 lakh which will come in FY24, which is a Greenfield capacity. And the rest plan of about 2 to 2.5 lakhs in Hungary.

Puneet Khurana: Correct.

Pratik Kothari: And in last concall you had mentioned that we will share more details about Hungary plant. Today, so do we have more information in terms of what capacity, what CAPEX that we will be doing there?

Sanjiv Kapur: So, I will update you on that, the total CAPEX envisaged around Rs. 134 crore. And the investment from EKC Group would be up to Rs20crore. And we expect to complete this in the next 18 months.

Pratik Kothari: So this also will come on stream in FY24.

Sanjiv Kapur: We are wanting to push this earlier, say by mid '23.

Pratik Kothari: For the past few times you have been mentioning this huge opportunity that we see because of adoption of gas in India and CGD. So if you can just explain across the whole value-chain, when India as a country adopts more of, or we expand more on the CGD adding more cities. So, where all in the value-chain are we present and how do we benefit?

Puneet Khurana: So in the value-chain of course, we are providing cylinders for the onboard on vehicles. So all the vehicles that run on CNG require a cylinder to carry the gas, that is one area that we are. And all CNG stations, they are using a bank of cylinders as an intermediate storage. And also in India, we have a mother-daughter system. So, whenever a CNG station has been set-up and some cities that don't have a pipeline, they depend on the mother station which is connected to the pipeline to supply to satellite stations. So, there also we are supplying our bank of cylinders cascades that are going to setup smaller satellite stations. So, this is where we are in the value-chain.

Pratik Kothari: And on the auto side, I believe, you had said that about 60% of our sales come from auto and 40% on the industrial side. And on the auto side, all of it will be to the OEMs or we do --

Puneet Khurana: Yes we have both, mainly to OEMs, and small percentage even goes in the aftermarket in the existing conversion that is happening.

Pratik Kothari: But that will be a small number.

Puneet Khurana: Yes.

Pratik Kothari: We mentioned about this hydrogen opportunity, we being present. So, is it a substantial contribution now or where are we --?

Puneet Khurana: Hydrogen is just something that is coming up around the world. And we just want to kind of put our heads-up and be ready for this opportunity when it comes. But definitely it seems, because in the U.S. and in China, in other countries the initiatives of hydrogen are moving quite fast.

Pratik Kothari: So our product is already tried and tested, we have commercially supplied it to someone on the hydrogen side.

Puneet Khurana: It's more at development stage I would say, we don't have a product that is ready for onboard application for high pressure hydrogen.

Moderator: Thank you very much. The next question is from the line of Nirav Savai from HDFC Securities Ltd. Please go ahead.

Nirav Savai: Just to continue the previous participant's question, what would be the kind of competition landscape which we have for the India business now, CNG we understand is a decade story, so who do we compete in India?

Puneet Khurana: So India, we compete with a company called Rama Cylinders, we compete with a company called Jay Fe, FJM, Sahuwala, Euro Cylinders so there are about five to six competitors, if I am missing somebody.

Nirav Savai: And in terms of capacity, where do we stand in the market share right now?

Puneet Khurana: We have the largest capacity in India. I don't know if that answers your question?

Nirav Savai: No what is the total capacity which is there in India on the CNG --?

Puneet Khurana: Total capacity, how much is it in India?

Nirav Savai: Yes, I mean, there are five, six competitors so if you have any data which you can share.

Puneet Khurana: Okay, I need to total that up. I can definitely give you that number, not a problem. I don't have it right now off hand. But EKC has 50% market share.

Nirav Savai: Okay, 50% market share. And then also on the margin side now, for the last two quarters, we have been doing exceptionally well. So are those kind of margins

- sustainable assuming we are operating at optimal capacity? So how do you see this, for next two to four quarters?
- Puneet Khurana:** See the margins I think realistically some 27% to 29% is something that we feel is something sustainable.
- Nirav Savai:** And the last question, see there are a lot of new geographic areas where CNG is going to come in next 5 to 7 years. Now with your experience when there is a new CNG station, how long does it take to scale up as in, CNG cars have to come, so we know till that station is there are no CNG vehicles. So how long and what is the time lag required? Does it happen in six months, one year, I mean with your experience?
- Puneet Khurana:** Now, what has happened is that people are very familiar with what CNG is. Today what has happened is because diesel and petrol prices have gone up so much and you suddenly see a CNG station in your small town and then you see Rs. 50 or Rs. 55 rupees of CNG, and you see diesel at such a high price, you know that the technology is proven in Delhi and Bombay and Ahmedabad and Bangalore and you see major cities have been quite successful. So, customers are inclined as soon as they see a station now you don't really need to talk about CNG to customers now.
- And the ecosystem, all the automobile manufacturers have a model. So, if you are looking at the smallest town and somebody decides to buy a Suzuki or a Hyundai or a Tata truck or a bus or Bajaj Auto autorickshaw, they are immediately available.
- Nirav Savai:** Total India business, how much would be coming from CNG right now in revenue?
- Puneet Khurana:** I think 60%.
- Nirav Savai:** Now with this incremental capacity which is going to come by next year and next-to-next year about we understand what six lakh cylinders will be coming. So, what can be the optimal revenue from India business?
- Puneet Khurana:** I think maybe around Rs. 300 crore. This does not include the Greenfield this is just purely the --brownfield
- Nirav Savai:** Brownfield and debottlenecking four lakhs. Alright, so by FY24, this can be the optimal revenue, or maybe, next two to three years?
- Puneet Khurana:** It would be around there somewhere around there.
- Moderator:** Thank you. The next question is from the line of Akshay Chheda from Perfect Research. Please go ahead.
- Akshay Chheda:** At the current run rate of our business performance, do we expect to be debt free in a years' time? And once you have paid up the debt and other stuff, what is the dividend payout ratio that we can expect?
- Puneet Khurana:** From debt point of view, I think we are targeting that only. We should be debt free by another year. And dividend is allowed as per the policy of the Board, this is really the decision of the Board.
- Akshay Chheda:** And next question would be, while the revenues from the U.S. and Hungary have grown on a QoQ basis. Can you throw some more light on the fall of margins?

Puneet Khurana: I think it's a lot of mix of things that our business consists of. But this is more of a realistic margin where we find ourselves in, because we have a lot of product mix and value-added products or some quarters you may have a lot of value-added products in mix, but I would like you to keep in mind that we will go with a realistic margin of say 27% to 29% on standalone. I think this is something that you can see going forward.

Akshay Chhedha: And the third question would be, what is the threat from imports of CNG cylinder?

Puneet Khurana: See nowadays what happened is because the products from international markets are also become expensive so we don't see much of a major threat.

Akshay Chhedha: How much capacity has been expended by our domestic competitors given the increasing opportunities as you mentioned, in CNG cylinder?

Puneet Khurana: See they have also been expanding capacity, but I will not be able to comment specifically on this -- everybody is looking at the opportunity as we are.

Moderator: Thank you. The next question is from line of Dixit Doshi from White Stone Financial Advisors Pvt. Ltd. Please go ahead.

Dixit Doshi: You said that CNG cylinders contribute to 60% of the revenues. Is it? And how much would be the industrial and medical contribution?

Puneet Khurana: Yes.

Dixit Doshi: And how much would be the industrial and medical contribution?

Puneet Khurana: I think around 40%, medical has been reducing over the period of time. But industrial has always been with the Company. So, industrial segment is a segment that is always been with the Company and will remain to be a part of the product.

Dixit Doshi: So, after CNG industrial would be a big part of the revenue.

Puneet Khurana: Yes, it will always remain, industrial has always been a contributor.

Dixit Doshi: So it would be around 25% to 30%.

Puneet Khurana: No, around 40% now, industrial is today at 40%. The faster growth is coming in CNG. So, all our initiatives now on the expansions are towards CNG, most of it.

Dixit Doshi: So broadly CNG and industrial put together at 90% to 95% of the volumes, and in medical, fire, composite would be a small part.

Puneet Khurana: Yes, but usually medical will come into industrial, I don't have the breakup right now, between (a) industrial --

Dixit Doshi: Medical is a part of industrial.

Puneet Khurana: It is always considered part of industrial only.

Dixit Doshi: And so what is the typical life of this cylinder?

Puneet Khurana: So for CNG the life is around 20 years. Industrial cylinder life is, it doesn't, they don't specify a life for the product, but because of the use and tear and wear you can say, around 15 years.

Dixit Doshi: So, basically the demand for industrial would be driven by CAPEX, and for CNG the demand will be driven by the CGD network expansions.

Puneet Khurana: Exactly.

Dixit Doshi: And you also mentioned in your speech, that in the gas stations, they also have some kind of cylinders which they keep for storage. So, would that be a big part of the demand, how many cylinders does one station?

Puneet Khurana: It is a very important part of our business.

Dixit Doshi: So, if one gas station is put up, they would require at least what 30 to 40 cylinders or 10 to 20 lakhs worth of cylinders.

Puneet Khurana: Yes, you could say that.

Dixit Doshi: And major raw material prices have seen a lot of rise in in last few quarters. So, how easy, or difficult is it to pass on the cost to the customer?

Puneet Khurana: Customers have been kind and we have been able to pass on the cost, to the customers.

Moderator: Thank you. The next question is from the line of Prakash Chandrabhakar, an individual investor. Please go ahead.

P. Chandrabhakar: I just have like a follow-up, a remark to make. In the last investor call we spoke about kind of reducing, I know you are reducing the debt, but reducing specifically the debt of the promoters, so I would just like to remind about that. And also one small suggestion I wanted to make, so investor circle and those kind of things. I think EKC could make an effort to be seen more as a Last Mile Enabler of the Green story of India, which is a very important especially after the COP26 and those kind of things and not be seen just as a pressure vessel manufacturing, which is kind of thermal checking. So that's kind of an observation for the management to think about and probably run a communication campaign around that.

Puneet Khurana: So I think this is our plan now. I think we have kind of retired most of the debt and we have done most of the expansion, the money that is required has been, to put year mark. So maybe another year, we would like to just close on that.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investments LLC. Please go ahead.

Tushar Sarda: I wanted to understand a little more on CNG for auto, what is the breakup between onboard vehicle and in gas stations of the 60% business that you have?

Puneet Khurana: I don't want to put these numbers out.

Tushar Sarda: Second was, you mentioned 4 lakh cylinder we are adding as Brownfield. Is that right, because I think in the last con-call it was 7 lakh plus 2 lakh in Greenfield, so this 4 lakh is new CAPEX?

Puneet Khurana: Yes.

Tushar Sarda: What is the CAPEX amount for this?

Sanjiv Kapur: The CAPEX amount, Rs. 35 crore is what is earmarked, but there is a lot of equipment available within the Company that we are using to add to this CAPEX. Further, already a lot of investment has gone into debottling over the period of time.

Tushar Sarda: And by when would this be operational?

Puneet Khurana: I think 8 months.

Tushar Sarda: And last question from my side, on your international business. It is mostly industrial right, there is no auto?

Puneet Khurana: No, there is in Dubai, I think 70% of their businesses contributed by auto, by CNG auto.

Tushar Sarda: In U.S and Hungary, both in U.S. and Europe both.

Puneet Khurana: More in the Dubai. U.S. is more for the aerospace and defense and industrial gases.

Moderator: Thank you. Next question is from the line of Chetan from Alpha Invesco Research Services Ltd. Please go ahead.

Chetan: As we just mentioned that our capacity will be going up by 4 lakh cylinders over the next 8 to 10 months and most of it will get absorbed in the CNG or let's say auto OEM market. How much of it can go to three-wheelers versus four wheelers? And what is our existing revenue composition? When you say 50% to 60% of the revenue is coming from OEMs, how much of it is going for three-wheelers versus the passenger vehicle?

Puneet Khurana: I don't have those numbers with me here.

Chetan: But any ballpark idea, let's say --

Puneet Khurana: But the expansion is definitely, portion will be going into industrial and portion will be going into CNG.

Chetan: But out of our current CNG sales, what ballpark what number is going for the automobile, the passenger vehicles versus three-wheelers?

Puneet Khurana: I don't have the breakup with me right now, but we can give it to you. But definitely the three-wheelers and four wheelers all of them are growing quite fast. Three-wheelers have come a long way, three-wheelers used to be growing much faster before because of the cities like Delhi, Bombay, lots of three-wheelers have already come into major cities, because three-wheeler has been around for the last 7 to 12 years, it has been there in the market. So, four-wheelers is the one where not too

much activities happened. So, now, you see that the four-wheeler growth is much faster than the three-wheeler growth.

Chetan: But just to continue my point on three-wheelers, what percentage of three-wheelers in India which are getting sold are currently CNG fitted? I think the number is very small right now. So what I am trying to understand is --?

Puneet Khurana: I think the OEMs can give you a better number someone like Bajaj or Piaggio, somebody, but I can tell you, it's a large number, I think around 40% to 50% of their production is going into CNG now.

Chetan: Why I am asking this again is because three-wheelers are one of the first category which might just get disrupted because of electric, because the adoption is happening quite faster on that side. So what are your views on that risk? And how do you --?

Puneet Khurana: I think, CNG is quite affordable and if you are looking for power in your vehicle and electric vehicles on three-wheeler, I haven't seen much vehicles right now on electric, but CNG definitely is a preferred fuel at this moment, because you do have three-wheelers being used, but mainly for smaller distance travel, but if you are looking at larger, more power vehicles, carrying more, maybe a commercial three-wheeler that are still on CNG. And CNG is more preferred, because kind of road infrastructure in India still not very good for electric vehicles. And again infrastructure for electrical vehicles is not much, because electric vehicle have been now in India for the last almost 4 to 5 years, I have been seeing electric vehicles; as three-wheeler and two-wheeler are concerned, they have been here for some time now.

Chetan: So our Auto OEM sales are currently around 60%, CNG sales is currently around 60% of the revenues, right.

Puneet Khurana: Correct.

Chetan: 60% of the revenues or the production.

Puneet Khurana: You could say revenue.

Chetan: And production will be lesser than that.

Puneet Khurana: Yes.

Chetan: So currently let's say if it is at 60%, can it be 80% going forward --?

Puneet Khurana: Yes, it can, definitely, it will. It will become because the expansions and our initiatives are all on CNG right now. We also have to commit to our customers. So we are also committing to lots of customers on what our plans are going to be because they are also growing and expanding according to our plans.

Chetan: Because I think, we have a big opportunity, because I was just looking at the CNG vehicle population on road, it is currently at 3.5 million, which is nothing given the context that we have six - seven crore registered vehicles on the road, but number is very less. So can the retrofitting or aftermarket become really big going forward -- becoming bigger than the OEM business.

Puneet Khurana: I don't think it will be bigger than the OEM business, because OEM has a wide range of products. The aftermarket is definitely going to be there for a long time. But again, it all depends, usually customer doesn't keep a vehicle for very long five years, four years, till then new models are coming. Now things have changed so much with vehicle owners. So I think OEM definitely is going to surpass, yes in the past maybe three, four or five years back that was the scenario but the scenario has changed now, and especially when the diesel prices and petrol prices have gone up so much, customers want a CNG vehicle and preferred an OEM vehicle.

Chetan: So, let's say if you need to measure or let's say if you need to understand from where the growth will come from. So, from our conversation, what I understand is, we should look at the passenger vehicles and the three-wheelers or passenger vehicles.

Puneet Khurana: Everywhere, passenger cars, three-wheelers your buses, trucks, all of them, your commercial vehicles everywhere.

Chetan: Just one last question for my end. What can be your peak capacity utilization, can it be let's say close to 100 more than 100 because in some cases --?

Puneet Khurana: I think 90 is what the best I think, because these are all hot working equipment. So 90% is what something you can safely take.

Chetan: So, in our existing capacity also we are expanding from seven lakh to 8 lakh via debottlenecking. And on top of 8 we are adding 4 lakh more Brownfield and followed by 2 lakh in Greenfield for which we are still looking for, I mean the announcement is not concrete yet, right, is that the fair understanding? Can we just give, so this debottlenecking is already in place and it is up and running.

Puneet Khurana: So 4 includes one of debottling.

Chetan: So actually it is 7 plus 4 plus 2. So total capacity after everything that has been announced, will be 13 lakh and not 14 lakh.

Puneet Khurana: Yes, correct.

Moderator: Thank you. The next question is from the line of Sunil Jain from the Nirmal Bang Securities Pvt. Ltd. Please go ahead.

Sunil Jain: First of all about the margin, you were indicating that 27% to 29% that is at India standalone level or consolidated?

Puneet Khurana: Standalone, Yes I stand corrected, standalone.

Sunil Jain: Another question about Saudi operation, what is the capacity we have there or how much peak revenue we can generate from there?

Puneet Khurana: Around say Rs. 300 crore.

Sunil Jain: And how is the order booking because we are seeing some revival over there in last two three quarters. So how is the order booking over there?

Puneet Khurana: It is very good; order book is very strong there.

Sunil Jain: So whatever the revenue we have achieved, we can improve or can it be sustained at those levels?

Puneet Khurana: Yes.

Sunil Jain: And last question about the U.S. operation, so we had seen last two quarters revenue improved. So is that pickup from the defense side and all is continuing?

Puneet Khurana: Yes, it looks quite positive. So I think it will continue.

Sunil Jain: So if you can just explain a bit on U.S. side, how the things are improving we were facing a lot of problems over there.

Puneet Khurana: U.S. business is all based on projects, and the projects are coming back, the order book is moving which was not moving before now it's moving. The orders are there, but it was not moving because of many reasons like COVID, Government change, lots of certifications. There were a lot of things that were happening locally, but now everything is streamlined and we are quite positive that things should continue.

Sunil Jain: So the Rs. 40 crore to Rs. 50 crore revenue what we are doing over there, so we have enough order booking for that and even now --

Puneet Khurana: Order book is not a problem in the U.S. they always have an order book, only thing is, customer pickup because see we are supplying to lots of different projects, lots of other things. So, if the big projects are delayed then definitely we are a part of a big project. So, definitely that will hamper our supplies to the customer.

Sunil Jain: And now the order book are getting executed?

Puneet Khurana: Yes, exactly the order book is moving now.

Moderator: Thank you. The next question is from line of Jimesh Sanghvi from Principal India Mutual Fund. Please go ahead.

Jimesh Sanghvi: Couple of things one, you said that one lakh tonnes, we have kind of done through debottlenecking, and that is already operational, right. So, if I have to look at say June quarter to September quarter, what has been, is that one lakh tone fully operational or is it partially operational? How has that been? What was the CAPEX that we have incurred for this one lakh tonne that was one? Second is because the earlier guidance that you had given was Rs. 45 crore for a two-lakh tonne capacity.

Puneet Khurana: See the thing that we had said was that we have a lot of equipment available from the other plants that we have moved. So, that is where the equipment was available to us and we have added that equipment into a capacity. The cost is already there in the books.

Jimesh Sanghvi: Okay. So if I have to understand it correctly, say from 8 plus another 5, is what we will be doing, right additionally, to reach 13 which includes his four lakh tonnes plus another one lakh tonne of de-bottlenecking.

Puneet Khurana: Yes, number of cylinders.

Jimesh Sanghvi: What will be the combined CAPEX for this, when we say, because four lakhs is for Rs. 35 crore, so, additional one lakh tonne will be what additional CAPEX out there.

Puneet Khurana: Another Rs. 100 crore.

Jimesh Sanghvi: And this does not include the Greenfield one.

Puneet Khurana: Includes Greenfield.

Jimesh Sanghvi: I am getting a bit confused. So, if you can just run me through the entire expansion plan, what is it, and how it will go about along with the CAPEX if you can give me the timeline, year wise, when it will get commissioned and the CAPEX for each of these years.

Sanjiv Kapur: First we announced the CAPEX for Rs. 35 crore that is going to take us eight months. That is going to give us a capacity of 4 lakh cylinders. The Greenfield is Rs. 45 crore that is going to give us 2 lakh cylinders. Yes Greenfield is going to take early the 18 months.

Jimesh Sanghvi: Okay this Rs. 45 crore of Greenfield will take 18 months from today?

Puneet Khurana: Yes.

Jimesh Sanghvi: So this will take us to 14 lakh, right 4 plus 2 is six.

Puneet Khurana: It will take us to 13 lakh, it's 7 lakh in India now.

Jimesh Sanghvi: But you said that from Q1 to Q2, you have also done some debottlenecking. So when you say debottlenecking, are you taking that as 8 lakh tonnes or you are taking that as 7 lakh tonnes only today.

Sanjiv Kapur: No, the capacities are still at 7 lakh, by debottlenecking we are able to achieve higher output. And finally, when we have the full machinery in place on the incremental project, which we announced that will finally conclude to adding 400,000. So 700,000 plus 400,000, that would be 1,100,000 plus Greenfield of two lakh.

Jimesh Sanghvi: And for the Hungary expansion, what is the plan, what is the CAPEX out there?

Sanjiv Kapur: So, I already in my earlier statement, given that total CAPEX there would be in the region of 16 million which is closer to Rs. 134 crore. And we are going to invest closer to Rs. 20 crore.

Jimesh Sanghvi: And balance would be?

Sanjiv Kapur: Balance would be incentive from the Government and borrowings. So we will get around 4.8 million as incentives from the Government in euro.

Jimesh Sanghvi: Okay. And the 16 million is also in euros, right?

Sanjiv Kapur: Right, that's also in euro.

Jimesh Sanghvi: Hungary will be commissioned by which particular date, any timelines out there 18 months, 24 months?

Sanjiv Kapur: As we already said earlier that it's 24 months, it's like mid '23. 18 months from now.

Jimesh Sanghvi: And once we add say the 6 lakh tonnes in India and the Hungary expansion, what is the optimum revenue that we can do out here in the India operations, including the 6 lakh tonnes. And what would be that number for the Hungary plant as well, in terms of optimum revenue, in terms of based on the capacity utilization and everything or incremental revenue?

Sanjiv Kapur: I will give it to you later.

Jimesh Sanghvi: We have seen our plant running at the optimum utilization right now. So, with these capacities coming up, do we see, say a down trading in terms of our margins, which could happen because probably we will have to move a more shift in terms of our mix towards industrial and other things going forward? Or probably you are still confident about having that higher margin out there?

Puneet Khurana: Yes, I think, the CNG business is growing very fast. So I think the margins will still be there.

Jimesh Sanghvi: So, if I have to ask you, how has this percentage been, say two years back and how is the CNG percentage been today like what we talk about 60%.. what was that number say two years before?

Puneet Khurana: So do we have that number with us, two years back, what is the margin and what is the margin today, the difference?

Jimesh Sanghvi: So what I am trying to understand is because when we say that –

Puneet Khurana: We got your point; you are trying to say at this sustainable or you know what's happening?

Jimesh Sanghvi: Yes, and the other thing is, I want to also understand the kind of reason for the improvement in the margin. So basically, we have seen that CNG is 60% today and we are making 27% or 28% margin.

Puneet Khurana: Not only on CNG, this is a combined, this is a combined margins.

Jimesh Sanghvi: Yes, on a combined basis, because earlier our margins used to be around 15% odd, I guess, right?

Sanjiv Kapur: Yes, but the turnover was also quite less, I mean if you compare the turnover, once the fixed cost get covered, your incremental is only because of your material -- high level of incremental revenue, which you have.

Jimesh Sanghvi: So that's largely to do with the increase in the material cost right?

Puneet Khurana: No, not material, he is saying increase in the capacity. So the capacity has been increased, and the base is remaining the same. Fixed costs are more or less the same, but the revenues have gone up. So, we have been able to achieve because

of the product, value-addition, and the choice of product that we have planned to manufacture, has given us a higher sales and higher EBITDA.

- Jimesh Sanghvi:** So can you just throw some light on, how is the product mix behaved in the last two to three years, I understand one is the volume part of it. But other than volume, if I have to look at say FY20 volumes, we were at 680,000 tonnes cylinders I guess. FY19 was also something in terms of similar quantum. I am not sure how the number of cylinders were in FY21. So if you can, because my sense is that, in FY21 also it was 710,000 or something odd, in terms of number of cylinders. So naturally, there is a mix change, which has played a role out here, which has helped us in terms of margins more than the number of cylinders.
- Sanjiv Kapur:** It's all based on product mix. If you sell bigger sized cylinders, obviously you have higher margins there. If you sell CNG there is higher margin. So I think it's a mix of the product mix, which gives us incremental EBITDA.
- Jimesh Sanghvi:** So I just wanted to understand how has that mix changed in terms of value addition, percentage, or something, if you can share? What was it two years back? And what was it today, as on date?
- Puneet Khurana:** See, lots of value-added products have come into the mix, as per CNG is concerned, industry is concerned. So there is a complete mix of products, high value-added products that we put in. And so that is where you see this growth coming from.
- Jimesh Sanghvi:** Any increase in staff cost and other things that we could see along with the increase in the volumes that we are targeting?
- Puneet Khurana:** Not really, not too much.
- Jimesh Sanghvi:** So what could be the increase for say in terms of our cost metric other than the raw material cost, which probably will grow in-line with the volume growth? What are the other variable cost which could see increases?
- Sanjiv Kapur:** There will be some general increases.
- Jimesh Sanghvi:** If you can just share that revenue number, maybe later on, that --
- Puneet Khurana:** See, you can get in touch with Sanjiv, our CFO, I think he can probably, you can have one-on-one meetings with him. So you can ask all these questions, can go into more into detail.
- Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital Advisors LLP. Please go ahead.
- VP Rajesh:** So one question was wWhat was the capacity utilization in the current quarter, in different geographies?
- Sanjiv Kapur:** You could say in India, it was 90%. I think in Dubai, it was around 70%, in U.S. what was it, 40%.
- VP Rajesh:** And then the second question is you said your margin in the standalone that is Indian business will be around 27% to 29%. So, once you look at the overall margin, what is the guidance for the consolidated entity?

Sanjiv Kapur: Maybe 22% to 24%.

Moderator: Thank you. The next question is from the line of Hasmukh Jain, individual investor. Please go ahead.

Hasmukh Jain: My question is regarding the raw material sourcing, as you have mentioned that you have 100% dependence on China for raw material. So due to the power outage, what's the situation, are you facing any trouble in sourcing the raw material? And what's the price scenario?

Puneet Khurana: So raw material sourcing, definitely, there are challenges. But we have been planning much before this power outage because we were facing a lot of logistic challenges from China anyway, the delays in the vessels. So, lots of planning has gone in, on the ordering aspects. So, we are not facing as such any outage and shortage on raw material front, because, we have been planning and doing much in advance because, anyway, all of our material was imported. And so, we had to do much more planning. So, we have done that. So we are well secured as per material is concerned.

Hasmukh Jain: And what about price scenario any increase in the costs.

Puneet Khurana: Prices of steel continue to increase.

Hasmukh Jain: Any future plans to just diversify this geographical concentration for the raw material sourcing?

Puneet Khurana: Not really, because these are much larger investments, and our consumption for steel is not so large. So, we will continue to focus on what we are doing, and not go for any backward integration. I mean this is the thought process we have today.

Hasmukh Jain: So there is not much problem on this side.

Puneet Khurana: No, sourcing is not much of a problem. All our raw material are well planned, and we are receiving it. And we are tracking that every day. So there is no such issues. And the suppliers also not giving any signs of problems, even in the outage.

Hasmukh Jain: And whatever the increase in the raw material cost, you are able to pass on?

Puneet Khurana: Yes, we are able to pass it on to the customers.

Moderator: Thank you. The next question from the line of Chetan from Alpha Invesco Research. Please go ahead.

Chetan: So will it be fair to assume we will be able to maintain our gross margins beyond 45%, going forward?

Puneet Khurana: Yes.

Chetan: And just wanted your view - when we talk to most of the analysts, the popular street view, is that CNG is more like a top debt currency that I think that just a matter of time when the electric will really take off. So, there will be hyper growth for the next three, four years, after which we might see some growth challenges. So in this context, I mean, how do you view these things or is this understanding not



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comprehensive? And is there a case that CNG will continue to grow, even after next 5, 7, 8 years?

Puneet Khurana: No, definitely CNG will grow quite fast and grow well over the. I think the electric vehicles you know. First thing the cost of the electric vehicles, the infrastructure is going to take some time before we can see a full-fledged electric vehicle kind of --. And there are a lot of other technologies that are also coming in now. So CNG I think we will coexist, they will be coexistence when it comes to larger vehicles and other type of vehicles where CNG can play an important role. CNG I think will be there.

Chetan: So, I just wanted to understand your view on this that, the truck and bus segment can be the largest segment going forward followed, by followed by passenger and followed by --, something like that. Is that the fair directional trend that I am able to understand?

Puneet Khurana: Yes, I think that that would be the business that will continue, but even the passenger cars as long as CNG continues to be affordable and vehicle cost remains in control, then there should always be a market. And infrastructure again what has been happening is this yearly infrastructure was not available five, seven years back so you could not see this kind of growth. Now, infrastructure is available, and it's growing, the kind of enlarge investments that are coming in this sector definitely will be an easy, convenient fuel for the customer in the future.

Chetan: Yes, correct, because I was just going through Bajaj Auto's conference calls they are saying for 100 CNG pumps, the market for CNG three-wheelers goes up by 10 thousands units. I mean that's the kind of numbers that they have been working with.

Moderator: Thank you. The next question is from Anil Kumar Sharma, an individual investor. Please go ahead.

Anil Kumar Sharma: We are giving good numbers for the last many quarters and our numbers are increasing. But any strategic investor, good investors are not coming, it is not in our hands or your hand. But my point is, can we go for something like investor calls at different places so that we can show the numbers to them.

Puneet Khurana: Definitely, we will take your suggestion.

Anil Kumar Sharma: All other companies, good companies are doing. And in future at least medium term to long term future is good, we can have actually the required number of investors are not coming.

Puneet Khurana: Definitely as a Company; we are trying to communicate with the investor community on a continual basis. And we are consistently giving the results. So, I think it's just a matter of time that we will have a good investor base.

Anil Kumar Sharma: Yes, just definitely numbers are good and it is just a matter of time, but from our side actually you can try, we can try so that different --

Puneet Khurana: For sure.

Anil Kumar Sharma: And from next year can we expect dividend. This time also, we could have given a dividend, much higher dividend. But next time, dividend policy should be there, so that we can expect, this is what our investors want actually.

Puneet Khurana: We will definitely keep it in mind and we will give a suggestion to the Board on the higher dividend.

Anil Kumar Sharma: Now, we are debt free, our cash flows are good, our costs are not very high, we have cash equal, it should be distributed, that gives the credit to the Company.

Puneet Khurana: Yes.

Moderator: Thank you very much. The next question is from the line of Sonal Minhas, from Prescient Capital Management LLC. Please go ahead.

Sonal Minhas: If you could give some guidance around the pickup in demand you are seeing from the CV side? How's the order booking looking? Just looking for some subjective input from you guys.

Puneet Khurana: Yes, the order book is quite strong in the CV sector for CNG.

Sonal Minhas: And is there something which you see happening maybe for a year or two or just –

Puneet Khurana: Yes, definitely, because with these diesel prices and the Euro VI norms CNG has become a preferred fuel, which the adoption can be very quick and the results --. So it's a nationwide phenomenon now, because the amount of CNG stations that are coming up on a daily, monthly basis the people can see it at large and more and more customers can come into the fold for CNG.

Sonal Minhas: And the capacity that you are adding up as you were explaining to people before is that something which will be bifurcated based on the product line or are you seeing a disproportionate allocation in one product category let's say percentage or CV which this capacity will be dedicated to just trying to understand that.

Puneet Khurana: See, we have our dedicated customers and we are committing quantities to them. And we are expanding and producing as per that. Does that answer your question, is that something?

Sonal Minhas: No, I was just trying to see the maybe to be specific, I am just asking, the disproportion part of your capacity is getting added to commercial vehicles. That's a direct question I was trying to ask?

Puneet Khurana: It's a mixed bag of lot of things three-wheelers, four-wheelers, it's a mix and we may not be able to give you exact numbers of what is going where.

Moderator: The next question is from the line of Kaushal Sengupta an individual investor please go ahead.

Kaushal Sengupta: Your other financial assets are gone from 73 crore to 142 crore. Could you please let us know, what explains this increase?

Sanjiv Kapur: It's advance to suppliers.

Kaushal Sengupta: So your business requires substantial advance to suppliers right.

Sanjiv Kapur: Yes.

Moderator: Thank you very much. I now hand the conference over to the Management for closing comments.

Puneet Khurana: Thank you, once again, for your interest and support. We will continue to stay engaged please be in touch with our Investor Relations Team, CDR India for any further details or discussion. Looking forward to interacting with you soon. Thank you so much.

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