Everest Kanto Cylinder Limited
Q2 FY'21 Earnings Conference Call
November 26, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Everest Kanto Cylinder Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thank you. Good evening, everyone, and thank you for joining us on this Earnings Call organized to discuss the Q2 FY'21 Financial Performance of Everest Kanto Cylinder Limited.

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 Q2 FY'21 Results Presentation that has been sent out earlier.

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

Puneet Khurana: Good evening, everybody. I warmly welcome you to the Everest Kanto Conference Call today. We are going to be discussing the Q2 FY21 Results.

I would like to just begin with a brief history of the company." We started this company in 1978. This company has decades of legacy as a global leading manufacturer of Seamless Gas Cylinders. Till date we have manufactured around 20 million high pressure gas cylinders and CNG cylinders that are in service.

We have two locations in India, two locations in Dubai. Our locations in India are in Tarapur outside Mumbai and Kandla SEZ. In Dubai, we are located in Jebel Ali Free Zone. We are also located in Pittsburgh, US.

Our total capacity is about 900,000 cylinders per annum. These include industrial cylinders, mainly the application is medical oxygen, hydrogen, and CNG cylinders for compressed natural gas. We also make cylinders for large applications and large scale transportation of gases. Our focus is also on Aerospace and Defense. Given our strong position in Indian market, we have wide acceptance in several international markets built over four decades. We are poised to continue to increase our presence in the CNG segment, and in the Automobile segment.

Just to give you a little highlight on what is recently happening in the business:

As you know the Government of India has recently announced the 9th and 10th bidding rounds for CGDs. And that has given a lot of opportunities for gas companies to participate in this bidding. Government has also planned to have around 10,000 CNG stations in the coming five to seven years. This will be widely spread all across India. Presently, most of the CNG infrastructure is based out of Maharashtra, Gujarat and around Delhi NCR area.

So, we believe that CNG business and CNG fuel vehicles are going to be growing in large numbers. There is also a large need for infrastructure for CNG stations.

As of today, with a lot of challenges that we face with COVID, as you know COVID is a lung disease and medical oxygen cylinders are a need and first defense to this disease. We are obliged and privileged to be supporting this fight against COVID and supporting all the hospitals and government health ministry in supplying our medical oxygen cylinders.

We also have operations in UAE. We are targeting more markets in South America, Middle East, Europe. Our business spanned out in the US which is largely focused on government and defense supplies. We see business improving going forward in the international operations. We have current capacities and headroom to grow in both these businesses.

I would also like to put a little highlight on the consolidated financials. We grew around 39% this year-on-year with equal contribution from CNG and industrial demand. CNG includes businesses like auto OEMs, cylinders sold in the aftermarket, the gas infrastructure business and industrial segments including our healthcare segment.

Our EBITDA margin expanded from 8.6% to around 17%, based on improved product mix, operating leverage from the greater scale achieved. EBITDA stood at Rs.43.6 crore as against Rs.15.40 crore in Q2 FY'20.

As discussed earlier, our strong performance was driven by a wide range of demand dynamics in India and some improvement in business in overseas subsidiaries.

At the profit level, we see significant turnaround from the last year. PAT during the quarter stood at Rs.29.5 crore against a negative of Rs.1.8 crore in FY'20.

The cash flow from the operations expanded to cover the working capital required to drive growth.

The process of debt reduction continues, overall on a consolidated basis it decreased from Rs.294 crore to Rs.259 crore in the first six months of FY'21. We firmly remain committed to rationalizing debt on continued cash flow generation from operations with strong momentum in performance achieved in the first half of the year.

We maintain positive outlook going forward as well. EKC is a well-established player in the high-pressure gas cylinder segment. We feel the demand continues to be in medical equipment, in automotive segment, all across the economy, across all applications. Many demand drivers are there for the business as we cater to a large audience of customers.

With that I come to the end of my opening remarks.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: My question pertains to two things. One is on your overseas subsidiary, how things are shaping up there? And if you can just delve more on the transaction that was to get completed two years back on the Chinese subsidiary, what is the status on the same? And secondly, same on the Thailand side? And if you can just delve on the performance of each of the subsidiary? Just looking at the overall trajectory, the CNG market as well as the opportunity size in India, can you just give a brief on how the competitive intensity there is on the ground, and how things will shape up? Definitely, we can see good number of announcements coming from the government. But eventually till the time there is a directive from the government to compulsorily go for… like what they have done in Delhi and other places. I think, like basically, whatever we can see general local transportation, public transportation as well as the taxis and all that go in the initial round and then subsequently, once people see the infrastructure around then they go for the CNG. So how is your experience if we get expanded to multiple cities, how fast the demand will come up for you?

Puneet Khurana: It has been around since '97 when we started. So I feel that the industry now has come to a lot of maturity over the years. So, a lot of regulatory, infrastructure, technology, stakeholders, all these things have come together. And now we have a much more mature industry and the government's policies have been the primary driver in the last three years, where the CGD business has been licensed in a very systematic manner. Government is going all out and we are in the 9th and 10th bidding rounds now. And a lot of changes over the last 10-15 years on how these things are to be done. So, today when you see this, actually there's a lot of work over the last 15 years from the government, also making natural gas available in every town, city, laying trunk pipelines. So this is a much more mature place now as per regulatory framework, pricing of the product. So, I think going forward, with lots of big players now participating in the CGD business, it shows a lot of seriousness that is coming in, and the kind of investments that are being made in this sector. So, it seems that we are in for some long-term, more sustainable growth that we can see in this business.

On your question was on the subsidiaries, because COVID has been a thing that has hit the international business, this quarter definitely looks like things are improving now. The businesses coming back well, Dubai is doing fairly well, they will continue to pick up because international business will continue to come back and a similar situation should be in the US subsidiary also where they have the orders in place. This business is fundamentally quite strong, and it is just a matter of time when you will also see the US subsidiary come in line with expectations.

Vijay Sarda: What is happening on the China subsidiary, the money has come to escrow account or what is the status?

Puneet Khurana: There is a lot of regulatory framework that we needed to go through before we could get this money and plus the COVID situation didn't help so there is delay. Now, we are very, very close on closing this transaction, and we are hopeful that this thing should be done now. I think this is a done deal now, it should happen very soon.

Vijay Sarda: In terms of the overall margin and business, what we have seen in the last 10-15 years, for the first five years, margins were quite okay, in between there was a patch of five year where we have not been able to perform the way we expected, and last 3-4 years have been very good. So, how is the situation…?

Puneet Khurana: What has been happening is that – one thing is the economy. Economy has been doing extremely well, second is the entire government focus on having a gas economy is very structured. If you look at this entire gas infrastructure and how CNG and other things were seen in the past five years back. Now, in the last five years, there is a very structured regulatory framework, things are working. Any CGD player you look at, where there are awarded licenses, you see that business plans are in place, investments have been in place. Investments are being done and you have PSUs who are participating now in city gas distribution and very serious kind of investments going in here. So, it has completely changed, industry is much more mature than you saw it in the past. So, we are quite confident that it is more sustainable, and I would say we are just at the beginning. In India today, you might have say around only 3,000 CNG stations and every day CNG stations are being built in the country. So, going forward, this infrastructure continues to grow quite rapidly.

Vijay Sarda: Can you just spell out your debt reduction plan, do we need to do capex for the next 2-3 years if we grow by 10-15% or our capacities will take care of this.

Puneet Khurana: Debt has been reduced by Rs.50 crore this year, and long-term debt is more or less going to be gone soon maybe by next quarter. That has been the real initiative that we have been taking and today I do not think that as much of a worrying factor for us anymore. As far expansions are concerned, we are reviewing it, we are looking day-by-day how things are improving and we are definitely going to be looking at something maybe in March when the board takes a call on what they think going forward on the expansion plan.

Moderator: Thank you. We take the next question from the line of Rajesh Agarwal from Moneyore. Please go ahead.

Rajesh Agarwal: My first question is on Dubai. Suppose the demand in India far exceeds the supply, can we bring in CNG from Dubai and supply to India?

Puneet Khurana: What happens is that usually these products are local market products. I mean we do not move much of steel around. More customers like delivery just in time. And the product mix is such that it can get quite complicated to try to import the product. The customer also does not feel very comfortable having to wait to import the product, when you get it readily available in India. So our initiative is continuing to make it as much as possible available here in India.

Rajesh Agarwal: Second question is that USA has been making a loss for 5-6 years. How soon do you feel the US may turn around or we have any plans to dispose of the US plant? The capital employed there is Rs.200 crore, we are making a loss of Rs.20 crore and then we are paying Rs.20 crore interest on that. So, if USA goes away from the company, we can save Rs.30-40 crore per annum. So, what is your view on that?

Puneet Khurana: This company has a very good product line; it has a very good business line and good customer base. So, it is just going through a little bit of a difficult period, and in a difficult period, if you try to sell your business, it will just not fetch you anything much. Further, we believe in the business, we believe that there is value here. So, I think, yes, definitely, we have to work on costs and try to reduce costs as much as possible so it does not bring too much burden to the books. That is definitely the initiative. And once business is back to doing well, I think all options can be explored. So, at this moment, it is too early to make any rash decisions.

Rajesh Agarwal: So what is the issue – order book or the turnover? There is more operating leverage. Why not at least try breaking even in that business?

Puneet Khurana: I think what has happened is that they have a lot of orders which have been held back because of governmental issues related to defense and other things. So, the order book is good, the order book is not an issue, the only thing is that it is delayed. Maybe because of COVID, government projects are delayed. So, because this company deals a lot with the US defense, with NASA, a lot of things have been delayed. So that is the reason we are facing this scenario in the US.

Rajesh Agarwal: Do you feel it will turn around soon in next six months, one year?

Puneet Khurana: Yes, surely, definitely it has to turn around.

Rajesh Agarwal: And the next question is, suppose raw material price starts going up, can we pass on the raw material when the demand scenarios improve, can the EBITDA margins sustain?

Puneet Khurana: So what happens in our case is because we are dealing with most of the automobile industry, they do appreciate any dollar rise and any raw material price increase, and we have been lucky because our raw material steel prices have not really shown a sudden spike. The hikes have been very small and the supplier base is also quite decent. We are able to get very competitive, stable pricing for a long time. And also, when we are in a 3-4 months cycle usually, we have at least four months before a shock can be given to them. Only dollar is something that we have to keep passing on to the customer when it moves but otherwise raw material pricing, when we are dealing with the automobile industry, we cannot make changes every month, we have to make every quarter. If there is an increase, we have to come back to them every quarter. So we get enough time, and these seamless steel tubes – our raw material – does not move so drastically, it is not like a regular commodity product, it is a very specialized steel product. So it moves in a very structured, very systematic manner. So we do not get impacted very quickly.

Rajesh Agarwal: Any scope of improvement in working capital, inventory, receivables?

Puneet Khurana: There is always scope of improvement in everything, and definitely that is the initiative, that is a continuous initiative that the company is taking in improving all areas, wherever we can, because the faster we grow, we need to keep these things in check – raw material, working capital, cash flow, receivables. So, all these things, our finance team, our marketing team is looking at on continuous basis, because now everything is increasing on a month-on-month basis. So we need to be quite aware on our planning and collections.

Rajesh Agarwal: What is the capacity utilization in percentage terms in India?

Puneet Khurana: So, I would say around 80-85%.

Rajesh Agarwal: So then we have to do capex in maybe another six months?

Puneet Khurana: That is what, we have some headroom. We will definitely review that maybe in the March board meeting, what we want to do, what is the strategy for the company, but I think we have headroom. So, we are not in much panic that we need to expand. Every expansion will take time, money, so it is a decision that we need to take in a very, thought-out process, because what I am focusing on today is more debottlenecking, wherever we can, where we can get quick results.

Rajesh Agarwal: In the last two quarters, have we seen demand from oxygen or has it been from CNG or is it a mix of both?

Puneet Khurana: It is from both; last quarter CNG is coming back, first quarter was a lot from medical oxygen.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Swan Investments. Please go ahead.

Sachin Kasera: Regarding revenue break up, one, if you could give us some sense on what is the current revenue breakup between CNG auto, medical and industrial, that will be very helpful?

Puneet Khurana: I would say around auto and industrial is 50%, 50%.

Sachin Kasera: And how much will be medical?

Puneet Khurana: That would be a part of industrial.

Sachin Kasera: Because of COVID, we could see some significant increase, so is it contributing a large part?

Puneet Khurana: There has been a significant increase due to COVID from the medical segment.

Sachin Kasera: Secondly, you mentioned regarding CNG being a very big opportunity, can you just tell us a little bit about what is like the addressable opportunity because of these various initiatives being done by the government? Who are our competitors and how are we placed in terms of competitive positioning to capture that opportunity?

Puneet Khurana: EKC has always been a leader for the last four decades, and our focus has been on product development, customer relationships. Today, the company has 90% business to multinational companies, we have great relationships. Being a regulated business, lots of approvals, lots of agencies involved in approving the products, a lot of work goes in development. So, I think we have a competitive advantage in this line. Competition has always been there, but, we have been able to successfully take leadership position as customers always prefer better service, better quality, better pricing. So we have been able to do that with large scale of infrastructure that we have. Like I said, this industry has been working in the last 15-years, lots of work on regulatory framework, government initiatives on gas economy policies. Now, the government wants to go from 3,000 to 10,000 CNG stations, might even exceed 10,000 CNG stations. Our neighboring countries, which are much smaller in size as per vehicle population, have 3,000-4,000 stations. So, I think Indian potential on the CNG front is massive, we have so many cities, so many districts, population, vehicles, the need for infrastructure. I think the opportunity is enormous in India and the policy of the government is very clear, going forward with Euro-VI. I feel even more positive on the CNG front because CNG becomes a more viable fuel because with Euro-VI, petrol and diesel quality has to be much better, the vehicle cost will increase. With CNG, nothing changes for the last 20 years, CNG is going to be the same fuel. So, not much investment in technology needs to be done, technology is established, vendors are available, everybody is ready, industry is geared up to deliver. So, I think it is a great time for this industry.

Sachin Kasera: But can you quantify, is it like 5,000 cars, 10,000 cars, what is the requirement of cylinders or something like that?

Puneet Khurana: I do not have those numbers with me and it would be difficult to quantify, but everything is available in our data. I mean, you can go through the company data in the last 3-4 years, everything is available on how the numbers have gone up. Because I can only comment on what I am doing, I cannot comment on what the other people are doing. So, this is the overall picture and will give you a sense of where the industry is going.

Sachin Kasera: What would be your market share?

Puneet Khurana: I think our market share should be around 45-50%.

Sachin Kasera: In case of subsidiaries, when can the money from China be received and in the case of US, do you intend for an eventual exit, once it becomes profitable, or you continue to believe in the long-term potential?

Puneet Khurana: We only have one business, that is manufacturing cylinders. This is our core business, this is what we do, we do nothing else. So, exiting would be really a big decision that we will have to take if we do not see a future in this business. But we do see a future and this is something we do understand and this is the core business that the company has. So, those decisions are difficult to take, maybe at a later date. We understand the business, we believe in the business and the order book is there. We believe in it only because a genuine order book exists in this US business, it is not something that we are hoping will come. It’s just delayed.

Sachin Kasera: China money will be used for debt reduction, right?

Puneet Khurana: Yes.

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

Anil K Sharma: I have two more questions. One is, there is a small stigma on the company. One rating agency is frequently giving in the press that we are not cooperating. That is the main reason institutional investors are not coming in. Can you please throw some light? Every year they say we are not cooperating, though it is a small amount.

Puneet Khurana: So, definitely, we will take a note of this and see why this is coming and make sure that such things do not come up again, because we are very open to being asked any questions. Maybe they need information that we are not allowed to disclose, but we are publishing to investors, we are informing the stock exchange about the results, about the further information, we are putting up presentations. So, we are trying to disclose as much as possible.

Anil K Sharma: It is improving day-by-day. We are thankful to you for this also. Sir, my second question is medical cylinder business is going good, but do you think is it temporary or it will continue, after corona it may diminish?

Puneet Khurana: I think in a country like India, medical infrastructure is anyway lagging behind. So, I would not say the demand will disappear, but definitely because of COVID there is a surge. It will definitely come down. For us, this is just an extraordinary push, but other business segments are also growing. So, company will not be affected too much even if this is coming down because we have other segments which are growing quite well and as everything in the economy opens up, all our segments will start doing well. Specifically, I could just highlight even this quarter, medical oxygen is there, may be smaller… and you have to keep in mind that what medical is not a very high value-added product. There are other higher value products that we are doing in CNG segment and other industrial gases. So, definitely, medical oxygen has added value and in the first quarter actually it helped us a lot getting through the difficult times.

Anil K Sharma: We are not having Maruti as our client, do they have some other source?

Puneet Khurana: We are in continuous touch with all OEMs and we are supplying to almost all OEMs in India, except Suzuki because Suzuki already has two vendors. Because when they started production of CNG vehicles, the demand was very small. So they had two vendors and they did not want to introduce more vendors. But as the demand increases and they want to introduce a third vendor, definitely we will be the preferred vendor for them.

Anil K Sharma: And it takes time also, that we understand.

Puneet Khurana: Yes, it takes time.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Can you please tell me what is India-specific capacity, how much is it utilized? And second thing, in case if there is incremental demand and we need to put up capacity, what would be the incremental capex we need to do? And if there is any thumb rule, do guide about that?

Puneet Khurana: Currently we are at more than 80% capacity and India-specific capacity maybe around 7 to 8 lakh cylinders per annum. But what happens is, this is very fungible, it is very difficult to put a number on this, because, we have such a wide range of products from industrial to CNG to different kinds of products. So, when you put a number to it, it is very difficult to say that this is the capacity, because we will decide on the high value added products. It can grow to quite a large value than just looking at these numbers of quantity as the capacity. And your question on investment, I think I have answered that, we are going to debate that later in the March quarter what our expansion plans are. Again, like I said, expansions take time, and money and market. So what my objective today is we are just trying to de-bottleneck and grow the business as much as we can. Instead of just promising a new investment that is going to come and yield us more profits and other things, I would like to tell you that we are going to grow from here, and we have some headroom to take up this market.

Pankaj Bobade: Can you please tell me who are our competitors if you could name the two vendors who are supplying to Maruti?

Puneet Khurana: I think there are two companies; one is JFE and one is FJM.

Moderator: Thank you. The next question is from the line of Avinash Prabhu from Maruti Equity Research. Please go ahead.

Avinash Prabhu: I would just like to understand where are we placed in terms of order book over the next 12-18 months on a consolidated basis from India as well as other countries? Apart from that, value in terms of the total contract and marginal increase in cost of raw materials and Make in India where we are placed. How exactly we look at ourselves over the next 12 to 18 months?

Puneet Khurana: Up to six months order book is there across subsidiaries and India. On the order book, I do not think we would be able to give any numbers on that, but definitely a strong order book.

Avinash Prabhu: Something what we have had in the recent quarter?

Puneet Khurana: It covers two quarters, yes.

Avinash Prabhu: Similar performance which we have right now, we can expect for the next two quarters, something on similar grounds? I was asking you what about the costing in terms of the raw material and the value, trying to understand what the margins that we look at because we as a company are providing cylinders to hospitals, industrial as well as CNG, so different set of customers we have?

Puneet Khurana: So, we might not be able to give you any idea on the margin front as this information is confidential, but I can only tell you that the margins on CNG are higher and as far as the costs are concerned, the raw material is quite stable in nature, and we are able to pass forward the raw material plus any currency fluctuation to the customer so that way the margins do not get affected too much.

Avinash Prabhu: I know it is really tough for you, you have been trying to tell this for quite some time that you are serving different verticals of customers. How much has been on the COVID front for hospitals and how much is going to be something on the CNG front? We are expecting big improvement in our CNG performance because the government is trying to have in total 10,000 stations across the country?

Puneet Khurana: The first quarter had a lot of medical oxygen cylinders and the second quarter had much lesser, because our CNG business had come back and we were able to cater to most of the CNG business. So, medical took a backseat and was a part of the industrial business. So, I feel this is more sustainable in nature what we are doing now and going forward.

Avinash Prabhu: Actually, CNG is on the forefront, as compared to what has been in the previous quarter, the margins are improved because of CNG performance?

Puneet Khurana: Margins have improved as the value of CNG products is much higher.

Moderator: Thank you. The next question is from the line of Ashish Gopani from Gopani Securities and Investment. Please go ahead.

Ashish Gopani: What is the gross debt and net debt as on 30th September 2020 of short term and long term both on consolidated basis?

Puneet Khurana: The net external debt is Rs .205 crore, out of this the long-term net debt is around Rs. 43 crore on consol basis.

Ashish Gopani: So, out of the money that you receive from China 100 crore, are we going to repay full Rs.100 crore for net debt?

Puneet Khurana: Yes, I think lots of it will go into reduction of debt.

Ashish Gopani: What is the working capital cycle and how much in our sales is exports and local?

Puneet Khurana: In India, 90% of our sales is local. Working capital cycle is 90-days.

Ashish Gopani: Sir, you did not answer the question on how much money is required for putting up a similar plant in India. So, what are the entry barriers in this industry?

Puneet Khurana: The investment will be around Rs.100 crore for setting up a new plant.

Ashish Gopani: At what capacity?

Puneet Khurana: Maybe 2 lakh cylinders.

Ashish Gopani: What are the sustainable EBITDA margins in this industry, because our EBITDA margins are having constant fluctuation…?

Puneet Khurana: We have a very decent EBITDA margin, they are not extremely high. I think we can sustain them.

Ashish Gopani: What are the EBITDA margins that we can sustain quarter-to-quarter or year-to-year?

Puneet Khurana: What we are doing today, I think consistently we should be able to sustain those.

Ashish Gopani: In this last quarter results, 17% EBITDA margin. Is it a sustainable figure?

Puneet Khurana: Yes, I think that is quite sustainable.

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

Bhavin: Are we using two shifts or three shifts capacity for the current plant because whenever you plan to ramp up the capacity, will we see that production in the same plant can be done in two shifts or three shifts rather than going for altogether a new investment?

Puneet Khurana: At this moment, we are doing two shifts in the plant.

Bhavin: And is there any possibility that rather than putting new Rs.100 crore or whatever that amount may come to in March or in future, can we do a three shifts or 2.5-shifts?

Puneet Khurana: That is what we are doing now. We are doing everything to de-bottleneck, whatever we can to get quick results quarter-to-quarter because for large investments we have to wait before we start getting results. So that is the objective right now, but if the business continues to sustain and, this market is looking strong, eventually maybe we will have to take that call and make these investments that will be required going forward.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please, go ahead.

Deepak Poddar: Sir, just wanted to understand, since you have been talking about great opportunity in CNG, even the industrial segment is doing quite well, so what sort of revenue growth are we looking at on a sustainable basis for next one to two years?

Puneet Khurana: I think 15% to 20% should be something that we can sustain.

Deepak Poddar: And you spoke about EBITDA margin sustainability at 17% to 18%. So is there any effort that we are doing to improve upon that or is there any scope that we can further improve?

Puneet Khurana: Definitely, the initiative is there to reduce cost, and as the capacity we are able to debottleneck, definitely, these margins will look much better. Unless we have done it, we cannot comment on it. So, all efforts are there. So that is why I do not want to commit anything that if we are not able to do. I think we can sustain this.

Deepak Poddar: And by when you are targeting debottlenecking or is there any plan for that?

Puneet Khurana: This is a continuous process that we keep doing, but everything takes time. Because facilities are quite large, we have been manufacturing since a long time, so, any kind of changes take some time and you do not want to disturb the existing infrastructure. It takes time, but we are trying to do everything that we can to find quick results, we do not want to wait too long to get results.

Moderator: Thank you. The next question is from the line of Suhrid Deorah from Paladin Capital Management. Please go ahead.

Suhrid Deorah: I was tracking the company a couple of years ago and I think sometime in 2018, the China transaction was concluded, some of the money was supposed to come to India, and some was supposed to go to the UAE. So I do not know if you mentioned this in the early part of the call, I might have missed your comment. But what is the reason for the delay, why has it taken more than two years for that money to come?

Puneet Khurana: When we signed the SPA, we were not sure on the kind of regulatory framework that needs to be done in India and in China. So that took away a lot of our time. NOCs from banks, a lot of formalities that were there to do this transaction, then this COVID situation did not help at all to further delay this deal. But we are in continuous touch with the buyer, he is very positive and the economy in China has also improved substantially, and they are doing very well. So, he is optimistic that he will be closing in very soon on this deal.

Suhrid Deorah: Is it correct that the amount was about Rs.97 crore and about Rs.60-odd crore is supposed to come here and Rs.30-odd-crore to Dubai?

Puneet Khurana: Correct.

Suhrid Deorah: There was also the equipment which was in China and that equipment was to be used in India later?

Puneet Khurana: Yes, so there will be equipment available for us when we are done with the deal.

Suhrid Deorah: So, that equipment is currently in China and is there money that has to be spent on that or that equipment can be used?

Puneet Khurana: All the equipment will not be coming because this kind of equipment will not be easy to move from there. So, some equipment will be coming. I do not think we will be spending much money on bringing this equipment. So, we will have to bring what we can bring.

Suhrid Deorah: That takes care of the expansion plans that you might talk about in March or you will have to spend?

Puneet Khurana: It will definitely help going forward.

Suhrid Deorah: In India, there was a high cost Yes Bank loan. Is that now repaid?

Puneet Khurana: Yes, more or less done.

Suhrid Deorah: So, this Rs.205 crore of gross debt or net whatever the debt figure, how much of that is in India and how much is abroad and what is the cost of that?

Puneet Khurana: Debt is around Rs.81 crore.

Suhrid Deorah: Out of the Rs.205 crore, in India it is Rs.81 crore and balance Rs.124 crore is in Dubai or US?

Puneet Khurana: Rs.64 crore in Dubai and about Rs.60 crore in the US. About Rs.27 crore is long term which is in India. More in the US. I think in Dubai nothing is left now long-term. It is only in the US that we have long term and in India. In a few months, it will be gone.

Suhrid Deorah: So let us say the money from China comes in the next 12 months, where will that get utilized?

Puneet Khurana: We will put in the business, bring the debt down.

Suhrid Deorah: And there was also the issue sometime in 2018, there was a CFO whistleblower and a forensic audit that happened around that, could you just give some color on that?

Puneet Khurana: That is all behind us, the company has replied to everything that came up and everything was clear, and we got a completely clean chit from the bankers and from everywhere. They did not find anything that was being said about the company, so everything was quite clean.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPS. Please go ahead.

Keshav Garg: Sir, first of all, I wanted to understand that we have been doing around Rs.32 crore profit after tax, do you think that we can sustain this every quarter going forward?

Puneet Khurana: Yes, I think the business is quite strong and I think we will definitely strive to do it.

Keshav Garg: What I am trying to understand is that maybe because of this COVID situation…?

Puneet Khurana: Like I said, 50% of my business in the last quarter has come from CNG and CNG being the higher margin product. In the last quarter, medical oxygen has also been there, but it has not been a very substantial part of it.

Keshav Garg: So no windfall from oxygen cylinder part of business?

Puneet Khurana: It is there, but I think going forward even if it continues to decrease, it is not going to affect the performance of the company. COVID situation is not going to stay for a long time hopefully. In the first quarter, also, the economy was not doing so well, but Q2, economy is doing well. So, all other segments are now coming back. So we are getting business from all our segments now.

Keshav Garg: Also, wanted to understand that we have so many subsidiaries abroad, but basically, there is no profit over there. So in our standalone business, the inventory is around Rs.100 crore. Our consolidated inventory is upwards of Rs.300 crore, two-third of our consolidated sales, and the international business is just one-third of our total sales. So, why is there this discrepancy? So basically, all our capital is being eaten up by foreign subsidiaries, but all the profit is being made by Indian operations, and basically…

Puneet Khurana: What has happened is, because of this COVID situation, like I said, the international business has been affected. So, that is why you see a little bit of a pile up of inventory. So, it is a matter of time when we see this unlocking. So, like I said, in the US business, particularly, the order book is there, business is just a matter of time, when the product that is made to order is going to move. It is a little bit of a hiccup because international businesses were affected because of COVID. If you see, the top line of the subsidiaries has been affected because of the COVID situation. Otherwise, this material will be rolling out and we would see much better numbers, and that is what is going to happen, as we move forward, we are going to see this unlocking.

Keshav Garg: Just wanted to understand that a decade back, we were in some different orbit of profitability. Even though this year seems to be quite good, it is not even half the profit that we made way back in 2009. So what was happening at that time and then what went wrong? And that situation might again repeat going forward. This year is very good, but I mean, going forward, we might again fall on bad times. So basically, I want to understand what went wrong?

Puneet Khurana: So, I think in 2009, if I recollect was the time when in the subsidiaries, we had a large CNG market in Iran and Pakistan, profit were coming from the subsidiaries at that time. Now Iran has been affected due to sanctions and foreign exchange issues. So that market really went flat and at that time CNG market was building up. So, now the subsidiaries are looking at other segments and have been able to achieve certain new markets, more sustainable businesses in other countries and it has taken some time for that. It is a matter of time that hopefully subsidiaries also will come and give those results. But, as far as India is concerned, I am very positive and confident that the government policy and the kind of investments that is going on the ground, we will definitely give you these results. You do not need to worry that something is going to happen. I think we have seen the cycles, we are aware now of the business, much more informed on CNG business and how it moves. So I think we are in a much better place today than we were in 2009.

Keshav Garg: Wanted to understand why are we paying such a high rate of interest of 13%, 14%? I think with our company or our financials, we should be paying…

Puneet Khurana: What has happened is that the ratings are going to be upgraded. Everybody is looking at the company very differently now. And we are quite confident on these interest rates and when we are going to pay off our debt in the few months. So interest cost will come down, total debt will come down, it has already come down. I think this quarter, about Rs.4,7 crore is the interest that we paid on debt. So, this is a continuous downtrend that you are seeing on debt. So now, like I said, we were feeling the pinch, we have worked on that and we continue to work on that. In future we will only focus on institutions, banks giving us low interest cost, because we are a manufacturing company and we need to have low cost debt.

Keshav Garg: One last request, sir. Either please write off the amount that is due from China or get that money back.

Puneet Khurana: No, no, we will get it, we will not write it off.

Moderator: Thank you. We take the last question from the line of Rajkumar Goenka, who is an individual investor.

Rajkumar Goenka: Actually, the longer-term outlook seems to be pretty robust from what I hear, not only the nearer term. And with foreign subsidiaries also improving, the consolidated EBITDA is likely to improve from what you have delivered in Q2. Is that a fair assumption?

Puneet Khurana: Yes, that is a fair assumption.

Rajkumar Goenka: What could be the downside if I look at a three year perspective for EKC?

Puneet Khurana: The downside was government policy. In the past, our CNG business has been majorly affected because of government policies. Now, this government seems to be a little bit more focused on the gas economy. In the previous government, there was a lot of confusion on the gas policy. So I think it is a matter of time when you mature. CNG, we started in '95, so, we have spent a good 25-years now in the industry, so a lot of maturity has come, how the investments should come, the regulatory framework, all the stakeholders are now in line on what needs to be done. So there is a lot of difference now than in the past.

Rajkumar Goenka: Given the fact that now the industry is mature, and we now know that it is probably an irreversible process, what do you see is the downside, I mean, whether it is…

Puneet Khurana: I do not see much downside. If CNG infrastructure is going to grow, we are already geared up, we have the customer base, we have the right order book and we have everything in line to benefit, because we are the largest in India. So we have the edge to gain advantage of this growth. What I see going forward is that my other segments are also growing, CNG is one part 50% of my business, but the other 50% is also growing quite well. Now continuously what has happened is that debt has been reducing for the company. So, I do not see any worrying factor for us, just focus on growing and keeping the cost in control. I think we do not need to do anything extraordinary, we just keep doing what we are doing, keeping the costs in control, keeping the material in check, cash flows in check, customer base in check, if we do everything right, I think we should not have any issues in sustaining this kind of growth.

Rajkumar Goenka: Can competition pin us down on margins, I mean, is it possible given our leadership position?

Puneet Khurana: The margins are not that high, anybody who comes in would not want to do business at this kind of margin. I think the margins are reasonable. I do not feel that the margins are very extraordinary – 16%, 17% in an industry. We have a wide range of products. So, it is a mix of products that actually gives us more and more value.

Rajkumar Goenka: Yes, why I ask this question is because in the last few years fluctuations that we have seen, but, of course, the demand environment may have been very difficult…

Puneet Khurana: Things have completely changed in the last 3-4 years, it has been very sustainable. So, it is not something that just happened last year. As the CNG business keeps growing, we are growing with that business. So, there is nothing that has suddenly happened. This is all built up and because the company has the infrastructure, we could take the advantage of this.

Rajkumar Goenka: I think one request from my side as an investor is that you should look at the dividend distribution policy now that we are…

Puneet Khurana: We are definitely looking at that.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Puneet Khurana: Thank you so much all of you for all your time and interest in the company. We will continue to stay engaged. We would like to engage more and more with you people to learn. This is such a learning experience for us too. I would also like to thank CDR India for arranging this call, you can contact them for any further details that you require about the company. Thank you everybody and have a lovely evening.

Moderator: Thank you very much. On behalf of Everest Kanto Cylinder Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.
