



Everest Kanto Cylinder Limited

Earnings Conference Call Transcript

February 18, 2021

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 conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo from CDR India. Thank you and over to you, Sir.

Shiv Muttoo: Thank you Lizann. Good Afternoon everyone and thank you for joining us on this earnings call organized to discuss the Q3 FY21 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 will be forward-looking in nature. A detailed statement in this regard is available in the Q3 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: Thanks Shiv. Good Afternoon everybody, I warmly welcome you to the Everest Kanto earnings call to discuss the operating and financial performance of the quarter and nine months ended December 31, 2020. I hope all of you are all staying well and safe. I would like to start talking briefly about the background of the company for the benefit of those who are interacting for us for the first time or have been following the company recently. I will cover the Q3 FY21 financials and operating performance and the key underlying business drivers. EKC has been in the business of manufacturing seamless steel gas cylinders over the last four decades. In this period, we have over 20 million Industrial gas and CNG cylinders in service and we are leading manufacturers in India with aggregated capacity of 900,000 cylinders per annum. Our range of products include Industrial cylinders, CNG cylinders and Jumbo cylinders used for the storage of gases with application manufacturing of fire suppression, medical, aerospace, defense, and automobile. With India's expanding focus on largely gas-fueled economy, EKC is well poised to benefit. The country targets 15% contribution of natural gas in the primary energy mix by 2030. Several initiatives have undertaken to meet this objective by a progressive Government.

In addition two announcements have been made recently in the union budget, one is the launch of the hydrogen green energy mission for generating hydrogen for green power for households and commercial use, and second is the hundred districts for CNG with expansion of CGD networks in the next three years are very positive development for the Company and of course the economy. Lately, we

have seen a scale up of demand for cylinder cascades from several prominent gas infrastructure company that are not setting up CGDs. Following their participation in previous rounds of auction conducted by the Government, these expansions will be executed over the next few years. To commit this timeline and the network of gas infrastructure, we expect increased demand in the CNG segment. We are already seeing rising demand in the automobile segment as OEMs, they are also scaling up the CNG vehicle production. We expect to see a large number of cars with factory fitted petrol and CNG hybrid injection system being used in the Indian market.

At the same time, we continue to support the healthcare infrastructure expansion across the country by supplying our medical oxygen cylinders for fighting against COVID. As the virus pandemic is prevalent, the country is committed to structural improvement in the healthcare facility and we will continue to support these initiatives. Currently our plants are operating at around 90% capacity utilization and we undertake several debottling initiatives to drive manufacturing efficiencies. We also planned an expansion for another 200,000 in phased manners, which will allow us to meet the growing demand for our products and maintain our prominent market position. At this new Greenfield facility, we plan to use core manufacturing machinery available with us thus reducing the overall CAPEX, the estimated project cost will therefore be significantly lower to Rs.45 crore to be financed from internal accruals. In addition, we have concluded the transaction of disinvestment of our Chinese subsidiary and the consideration of Rs.105 crore will add to the liquidity on the balance sheet allowing us to achieve substantial debt reduction.

Coming to the financial performance, Q3 marked another period of strong performance of EKC wherein we recorded our highest ever revenue exceeding Rs. Rs.200 crore in the India business along with robust margins expansion. As discussed, domestic performance is running on multiple drivers including supplies to several gas infrastructure companies, OEMs, auto OEMs, industrial usage and healthcare sector. While our overseas operations firm up their strategy growth, initiative, strength at the consolidated level is reflecting in revenue expansion of 29% year-on-year to Rs. 247 crore, EBITDA margin expansion almost 100 basis point to 19.4%. Profit before tax has increased by over four times to Rs.33.7 crore. Our strong financial performance is backed by structural opportunity and our leading position as the manufacturing in high-quality seamless gas cylinders. Along with the growth, we are driving strong cash flow and debt reduction is another key objective for us. Overall, we look forward to deliver our potential and drive value to the stakeholders. On that note, I come to an end to the opening remarks. We are open to your Q&A.

- Moderator::** Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Nishit Shah from Equitas Investments. Please go ahead.
- Nishit Shah:** Sir, I wanted to understand for our four-wheeler OEM sales, so can you quantify how much increase have we seen quarter-on-quarter?
- Puneet Khurana:** I will not be able to give you any numbers, but definitely there is an increase in the four wheeler segment.
- Nishit Shah:** Okay, and Sir what I understand is that we do not supply to Maruti, right?
- Puneet Khurana:** Right.

Nishit Shah: And Maruti what I read is that they sold like 19,000 CNG vehicles last month, so do we have any plans of now doing a discussion or any tie-ups with them?

Puneet Khurana: We are already part of their vendor list, so whenever Maruti launches new model or when they require a third vendor, they will definitely be looking to us for supplies.

Nishit Shah: Okay understood, Sir now coming to this industrial segment for us, so how has the demand been and what is your outlook over there?

Puneet Khurana: Industrial segment is directly related to the economy and we are seeing a strong growth in the economy, so the industrial segment is definitely growing quite well, lot of projects, lot of development happening in the country so we are definitely seeing quite a robust growth there also.

Nishit Shah: Okay, so earlier healthcare was contributing significantly, so now has that gone down and other parts have picked up?

Puneet Khurana: Yes, healthcare is still contributing a bit, but definitely other industrial segment and automobile segment have also come back.

Nishit Shah: Okay and Sir are you seeing incremental demand from retrofitting of CNG?

Puneet Khurana: Yes, we are, because now what is happening is the infrastructure is spreading nationwide. First, we were restricted in very few cities, so now what is happening every month CNG stations are opening across the country, across regions, so there is a demand coming from many new areas.

Nishit Shah: Sir, can you please quantify over here how much growth or in terms of quantity how has this been?

Puneet Khurana: I will not be able to give you any numbers, but this is a nationwide phenomenon so definitely there is a growth, and you know what is happening is another factor is that the petrol prices if you see are at an all-time high, so wherever CNG is available, all I can tell you is that there is a requirement from people to convert vehicles.

Nishit Shah: Will that be higher margins for us versus supplying to OEMs directly?

Puneet Khurana: Yes.

Nishit Shah: Sir, I wanted to understand performance of subsidiaries, so what is the outlook over there for Dubai? Are the current number sustainable and for USA do you feel there would be a turnaround?

Puneet Khurana: The order book in the US is very good, but the COVID situation has hit our international business quite badly. Dubai also is consolidating every month and I think if we keep doing well from now onwards, it will be much better than this quarter. Business in the US and Dubai should be better going forward.

Nishit Shah: Sir, my last question is I wanted to understand because of this container and freight issues, are we facing any issues for our import of raw materials and export of our finished goods or we are not impacted much?

Puneet Khurana: We are impacted by slowing down of freight and other things, but what is happening is that because our raw material has been ordered in time and since our raw materials are imported, we always keep about three to four months of schedule with the suppliers. So now what is happening is I am just trying to pre-pone my shipments because of the issues with the vessels, so nothing gets disrupted. We have just asked for more material to come when we feel there is going to be any shortage of vessels availability.

Moderator: Thank you. We will move onto the next question from the line of Keshav Garg from Counter Cyclical Investments Private Limited. Please go ahead.

Keshav Garg: Sir, first of all many congratulations for excellent numbers and now we only hope that these numbers are sustainable because on standalone basis we did 25% operating margins and now steel prices are also at multi-year high. So, do you think that these margins are sustainable and these numbers are profit after tax that we did in Q3?

Puneet Khurana: Yeah, I think it should be quite sustainable.

Keshav Garg: Sir, this margin also you think that it should sustain?

Puneet Khurana: Yes, I think the margin also should sustain.

Keshav Garg: Sir, raw material price is not an issue for us?

Puneet Khurana: You know raw material price of course is always an issue, but what has happened is here we are in a position to pass it on to the customer, so we do not usually have an issue with that.

Keshav Garg: Sir, also your investor presentation mentions that you are already at 90% utilization and your greenfield plant will come in FY '24 so then in the interim in next two years, how does the company grow?

Puneet Khurana: Our de-bottlenecking will allow us to at least grow 15% more in India, so we will be able to at least manage some of the growth right now and then we will take up this initiative of expansion.

Keshav Garg: Sir, from change in product mix also can we expect some increase in turnover?

Sanjiv Kapur: Yes, product mix will ensure that we have a higher turnover.

Keshav Garg: Sir, also last con call you mentioned that you are operating in two shifts, so are there any plans to start working in three shifts and is it even possible?

Puneet Khurana: Yeah, we are working in three shifts.

Keshav Garg: Okay Sir, you are working in three shifts now?

Puneet Khurana: Yeah, the plant is working 24 hours, so it all depends on which plant we are talking about, but our plants work 24 hours.

Keshav Garg: Okay, sir. That is great. Lastly, our consolidated since FY '16, there is a decline not just about COVID in our Hungary, USA, Dubai operations, in the past four years

there has been a consistent decline, so it pre-dates COVID and also if you see the consolidated inventory, three times standalone inventory, so any plans to reduce that?

- Puneet Khurana:** Yeah, of course, we are definitely looking at that – it is a concern for us, so we are definitely working on reducing inventory across the company wherever it is piled up. As our material does not deteriorate so quickly, it can be used even after two years or three years, so that is not an issue. But definitely having a larger inventory is a problem for us and we are continuously monitoring and trying to reduce the inventory.
- Keshav Garg:** Okay, sir. Lastly, since now we have got finally the proceeds from China in this quarter Q4, our balance sheet is totally deleveraged, I think we might end the year with below or around Rs. 100 crore of consolidated debt. Are there any plans to do a share buyback?
- Puneet Khurana:** I cannot comment on any share buyback, but I do not think there is any plan for share buyback.
- Keshav Garg:** At least dividend the shareholders deserve after a long, long time?
- Puneet Khurana:** These are matters at the Board level and we will definitely put up your suggestion to the Board and see what they feel about this dividend policy.
- Moderator:** Thank you. The next question is from the line of Rajesh Agarwal from Moneyore Investment Advisors. Please go ahead.
- Rajesh Agarwal:** Sir, my question is on US, in spite of the order book and all, why we are not able to execute, why the US is not turning around?
- Puneet Khurana:** The thing is that there is lot of delay in the pickup of the orders. We have lot of orders from defense and other applications, so there is a little slowdown of pickup of these orders. Maybe there is delay in some mega projects, so we are little delayed plus the COVID-19 situation just made the pick-up slow.
- Rajesh Agarwal:** Is the order delayed or the execution is delayed?
- Puneet Khurana:** The orders are available and we are in a position to execute, but the thing is that the customer has not picked up material which has been already made, so that is where we are stuck now.
- Rajesh Agarwal:** Sir, at what turnover US will breakeven. Suppose, we are doing this quarter Rs. 24-25 crore turnover, at Rs. 45-50 crore US will breakeven?
- Sanjiv Kapur:** Breakeven for the year in US would be at 18 to 20 million USD.
- Rajesh Agarwal:** What is the status of Dubai orders?
- Puneet Khurana:** Dubai orders are picking up, and hopefully in coming quarters, we should see some much better traction from that.
- Rajesh Agarwal:** It is export orders to Egypt and all countries?

Puneet Khurana: Yes, export to South America, export to Europe, export to Egypt, Dubai is mainly for export only.

Rajesh Agarwal: You are expecting Dubai to pick up?

Puneet Khurana: Yes for sure.

Rajesh Agarwal: Capex which we announced Rs. 45 crore – that can give us what level of top line?

Sanjiv Kapur: 200,000 cylinders would give us an average of around Rs.200 crore.

Rajesh Agarwal: And we can maintain the same EBITDA margins what we are maintaining now in that order?

Sanjiv Kapur: Obviously, initially because there will be a pickup with the plant, EBITDA margins will not reach this level on the initial startup.

Rajesh Agarwal: So it will be in phases?

Sanjiv Kapur: Yes.

Rajesh Agarwal: Sir, how has been the working capital this quarter?

Sanjiv Kapur: We have been able to control our working capital requirements and we are well within our limits; we are not absorbing the full limits.

Rajesh Agarwal: Okay, number of days has reduced compared to last quarter because it is purchaser's or seller's market?

Sanjiv Kapur: Yes, they are reduced.

Moderator: Thank you. We will move onto the next question from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: I had a few questions, one was regarding this expansion that you announced in India wherein you mentioned that it will be in FY24. When will the first phase be commissioned? First of all, since it is a brownfield expansion, is not three years looking like a very long timeframe for us? And secondly, when you say first phase Rs. 45 crore and 200,000 cylinders is the first phase or there are two-three phases in this?

Puneet Khurana: No, 200,000 cylinders will be the first phase and there will be only expansion right now for us.

Sachin Kasera: Sir, why does it take three years for a brownfield expansion?

Puneet Khurana: Three years at least I think, Sanjiv are we talking about three years.

Sanjiv Kapur: It is not three years. It is like when you start it will be closer to two years by the time the full production capacities are achieved. It is a spillover to the following year.

Sachin Kasera: Secondly, if you could share with us the figures of the net debt as on December quarter on both standalone as well as consolidated basis?



Sanjiv Kapur: On a standalone basis, debt is Rs.135 crore as on 31 December and it is Rs. 245 on a consolidated basis.

Sachin Kasera: Is this net of cash that is there in the balance sheet, this is gross or net debt figure?

Sanjiv Kapur: No, it is gross.

Sachin Kasera: What would be the net debt, how much cash would be there, sir?

Sanjiv Kapur: We are comfortable in our cash position.

Sachin Kasera: Okay, not a very large number, basically?

Sanjiv Kapur: I think you can talk to us separately for such numbers.

Sachin Kasera: Sure, from what I understand from the release, this China money, part will come to India and part will go to Dubai. So, India money can definitely go to reduce debt. In terms of the money which will go into Dubai, will it be used for expansion into Hungary or you will be able to remit back to India and reduce debt. How will this work?

Puneet Khurana: No, that money first will be reducing debt. In Dubai also they are holding some debt, so the first thing they will be reducing their debt.

Sachin Kasera: Okay, how much is the debt in Dubai, sir?

Sanjiv Kapur: They will be reducing Rs.30 crore. They have total Rs.56 crore of debt as on December.

Sachin Kasera: So the money in Dubai will basically go to reduce debt in Dubai?

Sanjiv Kapur: Yes.

Sachin Kasera: In Dubai, what will be the utilization levels currently, Dubai would be working at what type of utilizations?

Puneet Khurana: They are working at much lower utilization, I think it is around, 50-55%.

Sachin Kasera: As the utilization picks up in Dubai, say once we reach 80-90%, can Dubai achieve 14-15% EBITDA margin?

Puneet Khurana: No, much higher margins they can achieve..

Sachin Kasera: Sir, what is your policy, whenever they start making profits, can we repatriate the entire profit as dividend?

Puneet Khurana: Sure, that is again something that can be looked at that time for sure, if they start making profits, we can.

Sachin Kasera: Just one last question, it has been mentioned regarding Hungary. Again, Europe is a high cost economy. We are already struggling with China that we exited, then in USA also we are struggling, so at this point of time what is the rationale of again looking at new investment?

Puneet Khurana: See, at this moment, we see an opportunity and this is right now at a very nascent stage of discussion. The Board has just given us an approval for evaluation of the opportunity. So, the rationale is there but we will definitely give a more detailed reply once we get a complete evaluation done and study done. Then we will be in a better position to give you a proper reply on this. We are still in a very nascent and evaluation stage at this moment.

Sachin Kasera: Is there a minimum IRR or payback period that we look at?

Puneet Khurana: The shorter the better. So, definitely I think four years is something that we should look when we are talking about this kind of business. Since we are at very nascent stage, we cannot provide a clear picture.

Moderator: Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.

V. P. Rajesh: Thanks for the opportunity, I am new to the company so my question maybe a little basic. First, I am just trying to understand, you said that in the US, how much revenue are we getting and why is it taking so long for us to get to the break-even point?

Puneet Khurana: The problem we are facing in the US is because of COVID, lots of orders that we have and lots of the work that we have already done has been stopped by the customer. So, the pickup from the customer has stopped in some of the orders. That is why we are facing a little bit of a problem on getting the numbers. The order book is good, but pickup from the customer is slowed down due to COVID.

V. P. Rajesh: Okay. My second question is on the industry side. There is a lot of talk about bio-gas stations coming up, so I am curious what is your view on that?

Puneet Khurana: I think this is very positive for us because all this bio-gas has to be stored and transported in the form of CNG. So, definitely it is very positive. We do supply some products in the bio-gas space also but I do not consider bio-gas as a major segment in our business. There is some development happening but not at that pace. It is a small segment, so whatever comes, its very good.

V. P. Rajesh: What I meant is that it is not to a point where you can start putting up a new plant?

Puneet Khurana: Definitely not. Bio-gas is a long way to go I think. It has started, there is lot of activity happening, but I would not make any business projections or give my team any projection on bio-gas if you ask me.

V. P. Rajesh: What has to happen before you start thinking about that?

Puneet Khurana: Bio-gas has to have complete infrastructure. Lot of bio-gas plants have to come up. They are still happening but not at that pace. There was a lot of talk about it, lot of Government support is there but it has not picked up. I have not seen many bio-gas plants, like the way they are talking, but not so many plants have come up.

V. P. Rajesh: Okay, and what is our current capacity utilization, I am sorry if you answered that already?

Puneet Khurana: In India, we are about 90%.

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

Sunil Jain: Good afternoon, sir and thank you for taking my question. My question relates to your Dubai operation. If I see your segmental results, the profitability in Dubai is quite high this time, is it extraordinary or it is a regular business operation?

Sanjiv Kapur: It is on account of China subsidiary being sold, the profit has been added into Dubai subsidiary.

Sunil Jain: Because of that it got added in the segmental result?

Sanjiv Kapur: Yes.

Sunil Jain: Second thing, how we are seeing the demand in Dubai, like which country we are getting orders?

Puneet Khurana: Dubai is catering mainly to Europe, Egypt and South America, so there is demand coming from Europe and from Egypt. Actually, internationally the COVID situation has really hit businesses very badly. India is a different story, where businesses are doing reasonably well. But international businesses are very badly affected by COVID everywhere, as Dubai and US are completely dependent on businesses there, they have been affected.

Sunil Jain: No, like you are thinking of expansion in Hungary, are we are seeing good demand in Europe?

Puneet Khurana: We are at very initial stage of the study. The European market has huge demand. To cater to that we have informed the Board that we would like to do the expansion. We are in process to evaluate the project and we will take a better decision once we are definitely clear, with all the details in place.

Sunil Jain: Agree. I appreciate. My point was that like we got some extra capacity in Dubai, you must be seeing some good demand that is why you are thinking of expansion as that can be easily met from Dubai?

Puneet Khurana: The thing is that because ours is a safety product, lots of countries are quite conservative about importing these kind of products. So, in Europe also they are having some policy changes. That is why I told you this is very initial, let us come back to you on a complete detailed plan of this project.

Sunil Jain: No issues, I appreciate that. Another thing is about the US market, we are seeing some stagnancy at a lower level for quite a few quarters. Are we seeing any green shoots or some positive development happening?

Puneet Khurana: In the US, there are a lot of positive developments. Like I said, we have a good order book. Now, the thing is that everything is growing and this order book has slowed down. The problem is that the customer should pick up the order, lot of the material is ready but the customer is not picking up. Maybe, this COVID situation or Government policy has slowed down the projects but once all this is behind us, we definitely will start seeing the numbers again. So, again the order book is there, there is no issue that we do not have business. This business itself is a 100-year-old company and we have been making reasonable profits here. When we bought the company, it was making a good \$ 7-8 million profit. So the company will be able



to do business in the US but now we are facing this kind of sudden slowdown. We believe that maybe it is a matter of one quarter or two quarters and then you will again start seeing that the business is coming up.

Moderator: Thank you. We will move onto the next question from the line of Anil Kumar Sharma, an investor. Please go ahead.

Anil Kumar Sharma: When can we expect company to be debt-free? And any guidance on dividend payout?

Puneet Khurana: Again, definitely your suggestion, also earlier there was a request for dividend. Definitely, we will put up this request to the Board and I hope they allow us to give dividend. It all depends on the Board, how they perceive the situation of the business. On the debt, I think as far as long-term debt is concerned, in India we are almost debt free. We will be paying our long-term debt anytime, we have some small agreements that are taking place, but long-term debt should be zero soon.

Anil Kumar Sharma: Sir, one more question regarding this hundred cities, how you are getting the business from there?

Puneet Khurana: So what happens is that the gas distribution companies, this was a part of the Government plan to cover these large cities, and they are just trying to pre-pone the plan. Already, we are seeing a lot of activity on the ground as CNG stations are coming. Lot of activity, lot of cities getting covered by natural gas distribution. So, the Government has actually just pre-poned the plan. The plans were always there, but the Government is pushing more and more towards a gas economy.

Anil Kumar Sharma: What business are we getting from there?

Puneet Khurana: So, what is going to happen is that as soon as more cities get covered under the CNG infrastructure, more stations will come up. As more stations come up, there is more opportunity for us to sell CNG cylinders to all the vehicles that are getting converted into CNG. Also, what will happen is that this will drive the cycle of providing equipment to the CNG stations. We are also providing CNG cylinders for automobile customers. So, all these things will drive the demand for all the three CNG segments.

Moderator: Thank you. The next question is from the line of Aditya Shrimankar from Ishti Advisors LLP. Please go ahead.

Aditya Shrimankar: My question is can you give us a breakup of the sales in terms of percentage for CNG industrial, medical, and hydrogen cylinders?

Puneet Khurana: What I can tell you is we break it up in two segments, industrial and CNG. So, you could say they are about 60:40, CNG would be at 60%, industrial would be at 40% because industrial is also very large. We service the fire industry, industrial gas manufacturers etc, so the segment is quite large. It is very difficult for us to sit and breakup all of them, so we just categorize them into two.

Aditya Shrimankar: How has this breakup moved over the last five years, has CNG always been at 60%?

Puneet Khurana: CNG has been growing faster of course, but if you see what is happening is that my top line has also been growing. So, both the segments have been growing

together. Last year, it would have been around 50:50 but CNG is slowly taking over because CNG is a segment that can grow much faster than the industrial segment. Industrial segment depends on the economy, so industrial always grows at a very decent pace. If you are tracking the company, you can see for yourself how the top line has been moving up, so both these segments are at a growth stage.

Aditya Shrimankar: Okay, and what would the split be may be in 2017, say about five years back for industrial versus CNG?

Puneet Khurana: In 2017, I think it would be around 50:50.

Aditya Shrimankar: Okay even then, so this is a first time that we are seeing CNG sort of coming ahead of industry?

Puneet Khurana: Yes.

Aditya Shrimankar: My next question is, what is your view on hydrogen as an automobile fuel and how do you think EKC can benefit from this?

Puneet Khurana: Hydrogen is definitely a future. All the natural gas infrastructure is going to go to hydrogen in the future. But hydrogen needs very expensive infrastructure. A lot of regulatory framework should be in place, lots of things need to happen. Many countries like China and Europe have already started talking a lot about hydrogen. Government policy has to be in place. The Government has just started to talk about it today. If you recall, we started talking about CNG in the 90's, so it has taken this industry around 20 years to find some maturity. And CNG, I can tell you, is fairly simple compared to hydrogen. Hydrogen is quite complicated. So, it will take its time definitely because everybody wants a zero pollution fuel. Hydrogen is a zero pollution fuel but it definitely has its challenges.

Aditya Shrimankar: Okay, how can EKC benefit?

Puneet Khurana: Again, as we are making cylinders for CNG, we will continue to make cylinders for hydrogen. So, this way we can benefit in the hydrogen space.

Aditya Shrimankar: Okay, what would your number or volume be for hydrogen cylinders as of last year or this year?

Puneet Khurana: Very little, I think the number is not even in percentage. Our sale in hydrogen is for completely different applications. We are not selling anything in the hydrogen automobile space today. It is mainly for hydrogen used in industry.

Aditya Shrimankar: What industries would there be right now?

Puneet Khurana: Like vanaspati industry, other chemical plants. So, these are the kind of applications for which they are using hydrogen. Maybe from our US plant they are selling something for automobiles but in India we do nothing for hydrogen at the moment in the automobile segment.

Moderator: Thank you. The next question is from the line of Bhavik Shah from Emkay Ventures. Please go ahead.

Bhavik Shah: Sir, just a follow-up question, wanted to get clarity on the debt part. What is the consolidated debt number?

Sanjiv Kapur: Sir, I had given a figure of Rs.245 crore.

Bhavik Shah: Okay, what will be the split of this – long term and short term?

Sanjiv Kapur: Long term debt is Rs. 83 crore on a consolidated basis.

Bhavik Shah: Have we repaid any amount of debt from the proceeds we received from China subsidiary?

Sanjiv Kapur: China subsidiary proceeds are yet to be received. We have repaid debt with our own internal accruals.

Bhavik Shah: Sir, can you give any guidance for FY22, like revenue and EBITDA guidance?

Sanjiv Kapur: We would not like to share any guidance as it would be inappropriate.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Thank you for the opportunity. Sir, the new capacity will be coming up sometime in FY24 and you said that via de-bottlenecking you can increase the existing capacity by about 15 percent. So, over next couple of years, you mean to say that suppose if today we are selling 100 units, we will be able to sell 115 units. Is that right?

Puneet Khurana: Correct.

Jehan Bhadha: So probably by FY22, we would be having around 10-15% growth. But then FY23 growth would be capped, right?

Puneet Khurana: Correct.

Jehan Bhadha: And in terms of industry structure for cylinders when you say you have 50% market share, do you mean just CNG or is LPG also included?

Puneet Khurana: We do not manufacture LPG cylinders at all. So, yes, I include industrial also in that. High pressure gas cylinder industry – that is where we categorize ourselves.

Jehan Bhadha: Who are the other players, if you have 50% market share? Has any player entered this market over the last 10 years?

Puneet Khurana: All the players have now been there in the last 10 years only. So, there are companies called FJM Cylinders, there is JFE Cylinders, there is Euro Cylinders, there is Rama Cylinders, and I think there might be two or three small ones also.

Jehan Bhadha: So totally there would be how many approximately?

Puneet Khurana: In India, there must be eight to ten manufacturers.

Jehan Bhadha: Okay, and is it concentrated? Like you have 50%, then number two, number three players, are all the remaining ones small?

Puneet Khurana: Yeah, they would be fairly small.

- Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Group. Please go ahead.
- Anurag Patil:** Thank you for the opportunity. Do we see any threat from polymer composite cylinders in CNG segment?
- Puneet Khurana:** Not really. What is happening is that polymer cylinders are very expensive. In India, we are still predominantly using steel cylinders which are very cost effective. Polymer definitely is something that will happen in the future but in the automobile segment today also we can offer polymer cylinders but our customers are not very forthcoming. Where they want to have a large fleet with composite cylinders, definitely in the future they might come up. But again, European countries still depend on steel, China also is dependent mainly on steel. So, steel seems to be the economical and cost effective solution in countries like India. Of course, US has adopted type-4 and composite cylinders quite well because they can afford it. Because their bus costs much more, their economy is much much ahead of our economy. So, I think still there is some time before composite cylinders are going to come here.
- Anurag Patil:** Sir, what would be the cost or price difference typically?
- Puneet Khurana:** At least three to five times.
- Anurag Patil:** Sir, if we have to manufacture in future these composite cylinders, do we have the technology?
- Puneet Khurana:** Yes, we have the technology. Investment also is not very large. But the market is not there for us build to a full-fledged facility to manufacture these cylinders. Once the market is coming, we can look into these products. Because we are a large scale manufacturer, we cannot possibly set up a facility for the small quantity of the market today. It is not yet feasible for to set up a facility.
- Anurag Patil:** Okay Sir, understood. The second question, I joined a little late so it might be repetitive, pardon me for that, any commodity price impact on margins in the near term?
- Puneet Khurana:** We are able to pass on the steel prices to customers. What happens is that because our raw material is fully imported, the dollar also has come down. So, I think the total impact will be very comfortable today for the customer to absorb. Our product is a little different than the normal steel prices because it is a value-added product for our suppliers. So our price increases are not in the range of 50%. Usually our price range is from 10% to 15% so we are quite comfortable to pass it on to the customer.
- Moderator:** Thank you. The next question is from the line of C. K. Bhartia, an investor. Please go ahead.
- C. K. Bhartia:** Good afternoon Sir, thanks for the opportunity. I just want to understand that while we made some money in Dubai and lost some money in US, but in total we have made money in our subsidiary companies. So why is our consolidated profit lower than the standalone profit by Rs. 10 crore?

Sanjiv Kapur: The standalone profit, when you do consolidation, the inter-company gets eliminated plus if there is a loss, which they have done, it will be offset against our profits.

C. K. Bhartia: But while we say that we made profit of Rs. 11 crore in Dubai, lost Rs. 5 crore in US and Hungary, net level we made some Rs. 6 crore profit in Dubai and US. So our consolidated profit should have been more by this amount. Then why is it that our profit is less by Rs. 10 crore in consolidated, that is what I wanted to know?

Sanjiv Kapur: I think you are not getting the moot point here. One of the subsidiaries is not getting consolidated, so the profit of that subsidiary is getting distributed into Dubai as well as this. So on a standalone basis each balance sheet will be different and when you consolidate the effect is different.

C. K. Bhartia: Does it mean that any of the subsidiaries, which is not consolidated, had a little loss?

Sanjiv Kapur: We have booked profit on the sale of that subsidiary.

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

Sachin Kasera: Just one clarification on segmental numbers wherein you mentioned that the segmental numbers include the profit from subsidiary. So, if we understand, you have roughly Rs. 29 crore as one-time gain?

Sanjiv Kapur: Yes.

Sachin Kasera: Of that I think 5 crore you have booked in India and around 25 crore you have booked in Dubai?

Sanjiv Kapur: In Dubai, also I had to make certain provisions.

Sachin Kasera: So what is happening is that when we see the number, if we remove Rs. 25 crore as the profit from Rs. 12 crore, then we are getting a Rs. 13 crore loss, which looks like a huge loss on the turnover of Rs. 28 crore adjusted for the price?

Sanjiv Kapur: I think I can separately give you the numbers, how it gets arrived.

Sachin Kasera: Okay, the income you have shown Rs. 29 crore as one time, so this expense of Dubai are booked in consol under other expenses?

Sanjiv Kapur: I will give you the breakup how it gets offset with each other.

Sachin Kasera: Just one follow up on the previous question on composite cylinders. You mentioned that the price is roughly five times. So what is the benefit of paying this five times price?

Puneet Khurana: Composite, the only advantage is that it is lightweight. Steel cylinders are heavier, it does not give you any other benefit as such.

Sachin Kasera: Because one of the industry players, Time Technoplast has been mentioning that eventually composite will replace even in India, and there are quite a few benefits

in terms of faster payback time and all that. So that is why I think there is some confusion in the market?

- Puneet Khurana:** If I am not mistaken, they are making LPG cylinders. For LPG cylinders, it must be a different calculation.
- Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.
- V. P. Rajesh:** You said that you made some provisions in the Dubai subsidiary, so I just want to know about such provisions?
- Sanjiv Kapur:** It is like on an individual basis that balance sheet had to have some loss so that is what this particular transaction is. I will explain it to you if you call me.
- V. P. Rajesh:** Okay, my other question is that what is our competitive advantage to be producing and selling in the US, if you can just give me some color on that?
- Puneet Khurana:** Producing and selling means, I am not able to understand.
- V. P. Rajesh:** You have a plant there, you are producing cylinders over there and you are selling in the local market. So, I am just trying to understand what is our competitive advantage, do we have a large market share?
- Puneet Khurana:** In the US, what has happened is they are supplying a lot to the Government, meaning Government agencies and also to many gas companies for specific products. So this is the competitive advantage. That is why they have a little higher margin.
- V. P. Rajesh:** What is our market share there?
- Puneet Khurana:** Their market share – in some products there is no other supplier.
- V. P. Rajesh:** But overall, let us say the way you are describing in high pressure cylinders?
- Puneet Khurana:** In the US there is only I think one other manufacturer. There are only two manufacturers for this product in the US.
- V. P. Rajesh:** Okay, we have a good market share?
- Puneet Khurana:** Yes, we have a good market share, correct.
- V. P. Rajesh:** Then in the UAE what is the competitive scenario there?
- Puneet Khurana:** UAE location gives a big advantage. When you are exporting fully then we do not need to be in India because we are 100% export and lot of customers would prefer the product coming from the Middle East. When we are supplying in the Middle East they prefer using the product in the Middle East. That was really the competitive advantage to go to Dubai.
- V. P. Rajesh:** What is your capacity utilization in Dubai and in the US?
- Puneet Khurana:** At the moment 90% in India, 50% in Dubai, and about 40% in USA.

V. P. Rajesh: In the fiscal year '23, are you suggesting that you will not have growth because your capacity expansion will not be ready by then?

Puneet Khurana: No, I still have some room to grow, definitely there is some room for us and we are also continuously de-bottlenecking, so definitely there will be some growth.

V. P. Rajesh: Okay, and this expansion, are you going to fund it through internal accruals or would you raise some equity for that?

Puneet Khurana: No, all internal at this moment.

Moderator: Thank you. The next question is from the line of Rajkumar Goenka, an Investor. Please go ahead.

Rajkumar Goenka: Good afternoon, I have got a couple of questions. In the last call, I think we heard from the management that the expectation for the India business is to grow at about 15%. And what I heard today is that it is fair to assume that the India business which in this quarter has done about Rs.200 crore of top line is expected to grow at about 15% for the next two years. At least till the time the capacity expansion kicks in maybe sometimes in FY24 and then we can maybe expect a slightly higher growth, is that the right way to look at it?

Puneet Khurana: Yes, I think so.

Rajkumar Goenka: Okay, one question – this inventory which you are carrying in the US, you spoke about the orders and that it is not getting lifted by the customers who have placed the orders on you. So how long will you wait, because if you look at it, your September balance sheet which was published, the inventory on a consolidated basis minus the standalone inventory in India, was close to Rs. 180 crore. I am hoping that a good part of it is in the US, so my question is that suppose if the end customers in the US, for whatsoever reason or for the obvious reason of COVID, ultimately shelve the project for which they had ordered. How long are you going to wait and what happens to the inventory in that case? Can it be reused, I mean are these products ready or is it like inventory which you can use for other customers?

Puneet Khurana: There will be some products which are ready. If it was for some other customer, we would not try to keep them, we would just try to immediately sell them because there is no point in keeping inventory unless it is just a delay. So, definitely, these are very specific material for specific customers, our US business works only on orders. So it is all for orders, they do not have any standard products as such. So, we need to push it to those orders only and obviously if any other opportunity comes up, if any other customer comes up with a similar requirement, definitely we will sell it to them. But if your question is that if I can bring this inventory to India and try to liquidate it, we will have to look into that and see if anything can be liquidated in India but most likely this can be only used in the US.

Rajkumar Goenka: Okay, but you do not have any kind of a clause on the customers who have placed the order and not lifting, because you are effectively running a cost of inventory?

Puneet Khurana: Yes, exactly, so we are continuously following up with customers but you see these are relationships that span over 30-40 years. Most of these orders are by the Government like US defense, so usually they should not fail you and we are continuously following up with these customers to take this inventory. But the customer has been probably stuck in a bigger project which is held up, so delays are happening. Our initiative is to continuously ask customers to pick up inventory.



- Rajkumar Goenka:** Thank you for the answer. My last question is that you speak about the US subsidiary largely catering to defense as well. In India also, we hear a lot about defense. Out of the existing Indian business, are the supplies going to defense and what part of the business is actually to defense? My question is that do you hope that the technology you have in the US subsidiary can that be used here to cater to defense business in India, if it is not already being done?
- Puneet Khurana:** Obviously, we are catering here to defense and we are definitely using all the knowledge available in the company to grow the product line in India. But defense requirements are very special, very different in the US and in India. Sometimes, you cannot possibly use the same product that is being used in the US in India. All our imports are from Europe and Russia. In the case of US, everything is American, so different specifications.
- Moderator:** Thank you. The next question is from the line of Prakash Prabhakar, an Individual Investor. Please go ahead.
- Prakash Prabhakar:** Good afternoon, thank you very much. First of all, congratulations on the wonderful set of numbers for the quarter and much of what I wanted to ask is largely answered in the previous question. My observation was that the US numbers are obviously not in line, if the US numbers were good then the overall numbers would have looked absolutely more fantastic and obviously I am sure the management must be working on it. Specifically, with regard to what I took away from the response that you gave in the last question, these are mostly target kind of inventory that you have, which means there are specific products made for specific customers that as you said are all long term relationships which you cannot really turn around the boat over there. But just out of curiosity I wanted to know have you ever done management accounting on these products that we manufacture for people in the defense sector to understand how much more profitable these customers are? That is first question. And especially in view of the long inventory carrying cost that you may be incurring? The second question that I wanted to ask is do you have a sectoral focus on your customers in the US or is it just defense sector, it seems that in India you have sectoral focus over here that is CNG?
- Sanjiv Kapur:** The question which you raised was whether on the management side, we understand that these project-based orders which we receive are obviously more profitable, so a sale gets recorded, the results would be visible, just that some time has elapsed that is why it is giving us a distorted picture.
- Prakash Prabhakar:** Right, and the management accounting does justify, the profitability does justify?
- Sanjiv Kapur:** Absolutely.
- Moderator:** Thank you. The next question is from the line of Sarvesh Budhani, an Individual Investor. Please go ahead.
- Sarvesh Budhani:** Sir, I had a question on the capacities we have. Is there any way we can outsource when we have a relative capacity constraint over the next two or three years?
- Puneet Khurana:** Not really, this is a very specialized product and a safety product, so a lot of regulation comes in manufacturing this product plus customer approvals. For example, a customer like Tata Motors will not just buy a product from anybody unless the facility is approved and a lot of audits and things like that have to be done because again this is a safety product. We have a lot of restrictions and constraints of outsourcing the product from anywhere.



Sarvesh Budhani: Sir, you mentioned in India, the RM inflation is a complete pass through, so what is the situation in other geographies like USA, Hungary, Dubai, can we pass it on there as well?

Puneet Khurana: Yes, you can pass it on there also, only thing is that again for example the US business is only on order, so in case if you take an order and then the delivery is delayed, you may not be able to pass it on. It all depends, if you took at some defense orders, deliveries are over three years and then steel prices suddenly start jumping and you have not procured the material. I do not know whether it is possible to pass it on or not.

Sarvesh Budhani: You mean there is no add-in pass through clause in those orders that we have?

Puneet Khurana: It all depends on the order base, so in India because we are more on the current orders, but again anything long term usually is very difficult to pass on for us.

Sarvesh Budhani: In India have we taken any price hike or do we plan to take any price hike?

Puneet Khurana: We are working on price hike with the customers and passing on the steel prices to them. This is a continuous process, always moves in a specific manner and this has happened in the past also and we were doing that, that is a not an issue.

Sarvesh Budhani: Sir, would there be any way to share the operating cash flow number for the nine months on the standalone or consolidated or both if you can?

Sanjiv Kapur: You can specifically call us for that number,

Sarvesh Budhani: Okay, Sir, thanks.

Moderator: Thank you. The next question is from the line of Parshwa Vohra from Anand Automobiles. Please go ahead.

Parshwa Vohra: In Q3 it was shown that you are trying to increase the plant capacity, so at which plant the capacity will be increased or it will be divided in certain plants?

Puneet Khurana: Today, in India we are trying to increase capacity in both the plants, I am trying to basically de-bottleneck the process wherever I can, wherever the opportunity arises. And today, another challenge is that even if you buy equipment, especially any equipment that is coming from another country, how do you install it, how do you commission it? So, lot of challenges have come up now due to this COVID situation, so the initiative is in both the plants to de-bottleneck wherever in the process we can. This is a continuous process that we are trying to increase capacity in both the plants.

Parshwa Vohra: Okay, and other thing is that what about the Aurangabad plant?

Puneet Khurana: No, at this moment we are not considering the Aurangabad plant.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the Management for their closing comments.

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