



**EVEREST KANTO CYLINDER LIMITED**

*Clean Energy Solution Company*

## **Everest Kanto Cylinder Ltd. Q4 & FY21 Earnings Conference Call June 29, 2021**

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of Everest Kanto Cylinder Ltd. 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 '\*' 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, Steven. Good evening, everyone, and thank you for joining us on this Earnings Call organized to discuss the financial and operating performance of Everest Kanto Cylinder Ltd. for the Q4 & FY21 ending 31<sup>st</sup> March 2021.. We have with us today Mr. Puneet Khurana – Managing Director and Mr. Sanjiv Kapur – Chief Financial Officer of the Company.

Before we begin I would like to state that some of the statements made in today's call may be forward looking in nature. The detailed statement in this regard is available in the Q4 & FY21 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 welcome you all at the Everest Kanto Cylinder earnings call to discuss the operating and the financial performance for the quarter and financial year ended 31<sup>st</sup> March 2021. I would like to start by talking briefly about the background of our Company for the benefit of those who have not followed the Company closely in the recent period. I will then cover the Q4 & FY21 financial 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 delivered over 20 million industrial and CNG cylinders and we are leading manufacturers in India with aggregate capacity of over 9 lakhs cylinders annually. Of this about 7 lakhs cylinders capacity in India and 2 lakhs cylinders capacity aggregated across our overseas operations in UAE and United States.



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Our range of products includes industrial, CNG and jumbo cylinders used for high pressure storage of gases that had application in manufacturing, fire suppression systems, medical establishments, aerospace, defence and automobiles. With India expanding focus on large gas fueled economy, EKC is well-poised to the benefit. The country targets 15% contribution from natural gas in its primary energy mix by 2030.

Driven by economics, environment and efficiency led objectives as a result adoption of gas in Indian economy across various diverse application is visible and will believe this trend will continue to take shape in the visible future. This includes rapid expansion in country's City Gas Distribution network over the next few years with extensive nationwide coverage that has provided easy access of CNG to a substantial number of vehicle owners in the country, linked to this is the expansion of vehicle ecosystem that is resulting in leading automobile manufacturers developing more models and producing more volumes of CNG vehicles, buses and other vehicles fuel on CNG. As availability of CNG scales up across the country, with 1000s of pumps being set up, we expect secular demand growth in this space.

At the same time in our position as a leading manufacturer of high-pressure gas cylinder in India, we are proud to remained fully committed in India to fight against COVID since April 2020. During this period, we have supplied over 4 lakhs medical oxygen cylinders to the central government agencies, defence establishments, several state governments as well as hospitals and NGOs across the country thus making a positive contribution in securing the health of our people and community in times of crisis. Simultaneously, we have also maintained a considerate view towards the safety of our staff and their families who have supported all our initiatives with complete dedication.

Currently our plants have been operating at optimal capacity. To expand output, we have invested in several de-bottling initiatives to drive manufacturing efficiency at our Tarapur and Kandla SEZ. These investments have yield strong ROI by allowing rapid expansion of output within existing production framework and allowing us to address key pockets of demand. From our perspective, there also creates a bridge that allows us to grow as a business as it takes forward our new greenfield expansion, announced earlier that will further expand capacity to 2 lakhs cylinders. As indicated, we proposed to use of the available equipment for this project cost will be significantly lower at Rs. 45 crore to be financed largely from the internal approvals.

Coming to the financial performance:

During FY21 EKC's revenue expanded by 25% to Rs. 949 crore which is by far our highest turnover ever in more than 4 decades of operation. EBITDA was higher by 72% to Rs. 164 crore. Profit before tax, before exceptional items and foreign exchange variation was up 362% to Rs. 106 crore. These are strong growth numbers and we believe that our revenue visibility remains positive in the current year and margins are sustainable based on the demand outlook from the multiple segments. Also in Q4, we recorded the highest ever quarterly turnover in India business as well as on consolidated basis. Gross margins and operating margins have remained strong in the domestic business as we gain scale based on several de-bottling initiatives. I talked about it earlier.

Reported Q4 profits on consolidated basis have been subdued based on some year-end provisions and exceptional items. In subsidiaries, we have some one-time



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provisions during the Q4 related to inventory write down and contingencies. However, we see a visible improvement in the outlook of the business in both these geographies in the current year and forward, I look forward to substantial progress in the near term. As you know EKC International in Dubai our wholly owned subsidiary will be partnered with Rev Gas Industrial Ltd. to set up a state-of-the-art high pressure cylinder vessel manufacturing plant in Hungary. We owned 80% of the JV that will address EU market for the industry cylinders which we estimate at 2 million units annually. The project will be supported by cash backs and tax rebates available from the local government as well as low interest bank loans. These initiatives make the business case even more stronger as we get the opportunity to establish in EU as a home market.

To close:

I would like to say that the overall, while we look forward to leveraging our position to drive profitability growth, we also continue to focus on structural organization improvements to drive the framework from a longer-term value creation across all various initiatives.

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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Venkat Mody from OHM Portfolio. Please go ahead.

**Venkat Mody:** Sir, could you please share volume numbers for this year, volume sales numbers for this year and last year in standalone as well as consol?

**Puneet Khurana:** Volume numbers of?

**Venkat Mody:** Cylinders being sold.

**Puneet Khurana:** 7.8 lakhs cylinders.

**Venkat Mody:** Compared with last year what was the number?

**Puneet Khurana:** Around 6.8 lakhs.

**Venkat Mody:** What is the number in consol, sir?

**Puneet Khurana:** That is it. I am giving consol numbers only.

**Venkat Mody:** And could you please elaborate on the Hungary opportunity that you recently ventured? So, what is the market size there? How was the demand-supply dynamics and what is going to be our overall investment there?

**Puneet Khurana:** So, on the investment part we are still finalizing everything. The value and all the details are still being getting together as per the value is concerned. But as per the European market has a demand of around 2 million cylinders. So, the demand is there quite huge for cylinders.



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**Venkat Mody:** So, I understand our role will be that of manufacturing, so what would be our partners over there? Are they just financial investors or they would have some sort of roles?

**Puneet Khurana:** They are in both strategic and financial. They are also in the industrial gas business. So, they obviously become direct consumers of the product.

**Venkat Mody:** But part from that would they be acting as distributors?

**Puneet Khurana:** Yes, kind of. You could say that, yes. Because it is a strategic partnership. So, definitely that will be one of the, because you will have some commitments or buyback from, you know they are gas suppliers, right? So, they have filling plants and other things. So, they will definitely be, it will be like a strategic partnership where they buyback whatever capacities we manufacture, some percentage will be bought back by them.

**Venkat Mody:** And sir, could you please give us sales breakup between industries? How much is auto, how much are the other industries?

**Puneet Khurana:** You could say it is around 60:40.

**Venkat Mody:** 60 is auto?

**Puneet Khurana:** Yes.

**Moderator:** Thank you. The next question is from the line of Samar Srivastav, an Individual Investor. Please go ahead.

**Samar Srivastava:** I wanted to understand the issues in the US business, because we have been saying for a while that things are looking up, but we are not seeing it in the numbers and this quarter had a significant goodwill write off. So, if you could just spend some time explaining what is going on there? Why are still sticking to it? What opportunity you see and how soon do you really see things improving? Can you be a little specific on that?

**Puneet Khurana:** So, I think US business, COVID has been a big reason why the business has been affected very badly. US business has always been predominantly focused on defence sector, industrial gases. So, that has been the, all the orders that the company had had been delayed because of this COVID and lot of government projects went on hold. But now also US had a change of guard, there is a new President. So, all these things had been an issue had slowed down the US business. But now we see that things are coming back and we are quite optimistic that it will be much better.

**Samar Srivastava:** Were things better in the April-May-June quarter compared to Jan-Feb-March?

**Puneet Khurana:** Yes, it will be better.

**Samar Srivastava:** Could you explain the goodwill write down and is that a one-time thing or could we be seeing more goodwill write downs, more inventory write offs etc. going forward as well? I just wanted to understand is that done or we could see more?



- Sanjiv Kapur:** This is Sanjiv here. See, the goodwill write offs normally as per the accounting standards prevalent in India and US are different. So, US has done it now, whereas in the past, on a consol basis we have already affected the goodwill write downs in in 8 years, it is starting from 2008. So, it is a onetime obviously. It won't be repeated because we have written off the goodwill.
- Samar Srivastava:** And things like the inventory write downs, is that done and over or could we possibly see more of that?
- Sanjiv Kapur:** Yes, it is done and over because it is one time, that is what we are saying.
- Samar Srivastava:** I had some, with regards to Dubai, why your cylinder volumes were lower. Your topline did fine and I think before accounting for the China money that business made a profit. So, I just wanted some sort of outlook for the Dubai business for this year as well.
- Puneet Khurana:** Definitely COVID has been a big, it has affected the international business. So, definitely you will see things a lot different going forward.
- Samar Srivastava:** And last question on the dividend payout. The company earned a fair bit this year and we were expecting or at least I was expecting a slightly higher amount. So, I just wanted to under your thought process on the rationale because I think you have enough.
- Puneet Khurana:** I think, we have started to go down this road. I think we will continue to keep, we would like to, the Board also would like to see a consistent policy where the company shows they are consistently going to be dividend paying out company not just a one-time thing. So, that is why they would like to have this kind of dividend declared at this time and be consistent about it.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.
- Sachin Kasera:** I have two-three queries. One if you could just quantify, you mentioned regarding certain one-offs in Dubai and USA. So, if you could just quantify them either for the quarter or for the full year that would be very helpful?
- Sanjiv Kapur:** Are you talking specifically about the exceptional items?
- Sachin Kasera:** Yes, because what we are seeing is, for example when we see the segmental numbers that you reported, it looks like for example when we see Dubai while the turnover has gone up from 29 crore to 34 crore in the December to March quarter from 12 crore the EBITDA has become 10 crore.
- Sanjiv Kapur:** Probably I will have to give a full reconciliation because this is not the appropriate time to bring out those numbers because there are lot many entries which are there.
- Sachin Kasera:** But sir, those are not adding up. So, if you without giving a specific breakup, if you could for example when I see the segmental numbers it is a little confusing when we start taking...



**Sanjiv Kapur:** I think I can separately share all the numbers with you because here I mean it will be taking long time to explain how the numbers go. On consolidation, lot many GAAP adjustments are always there.

**Sachin Kasera:** No issues. Secondly in terms of the cash flow from operations when we see, despite a much higher EBITDA what you reported on a consol basis is 85 crore versus 105 crore last year mainly because of the sharp increase in trade receivables. So, if you could just highlight something on that, is it like a one-time phenomenon or is it that we have changed the credit terms just to increase the sales?

**Sanjiv Kapur:** It is like, our debtors turnover is quite matching, if you see our turnover, it has expanded substantially from the last year. So, when you compare obviously the comparison is bound to, it is quite in line. The debtors turnover is quite in line, sir.

**Sachin Kasera:** And lastly this volume that you gave of 7 lakhs cylinders that you said was consolidated. So, could you give us a breakup between India and Dubai?

**Puneet Khurana:** I think we just would like to just keep it under consolidated basis only, the volumes.

**Sachin Kasera:** And this 45 crore CAPEX that is the phase 1 or phase 1 will be much lower. This 45 is all three phase put together, the CAPEX that we have mentioned in the presentation?

**Sanjiv Kapur:** Yes, all three phases.

**Sachin Kasera:** How much in the phase 1 cost us, sir?

**Puneet Khurana:** 15-15-15

**Sachin Kasera:** And all three phase cumulatively is 2 lakhs cylinders, right?

**Sanjiv Kapur:** Yes.

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

**Sunil Jain:** Sir, my question relate to more of other expenses which has increased substantially in this quarter both year-on-year. I am talking about consolidated results. So, it is at around 57 crore odd. So, any specific reason or any exceptional is there in this particular item?

**Sanjiv Kapur:** See, one is you have to consider that it is in line with the turnovers. So, once you add the turnovers, then only there is a little additional amount which is because of various provisions we have taken. So, there are some provisions which have come in.

**Sunil Jain:** That is all one-time?

**Sanjiv Kapur:** Yes, all one-time.



**Sunil Jain:** Can you quantify that amount?

**Sanjiv Kapur:** I don't have the figures with me right across.

**Sunil Jain:** Approximate figure. Because it is a jump of almost from 37 to 57, so 20 crore it has increased. So, the turnover is not...

**Sanjiv Kapur:** One-time expense is around 10 crore.

**Sunil Jain:** And sir, second thing, in India at what plant capacity utilization we are running in Q4 or whatever the figure you say?

**Puneet Khurana:** It has share of 90% and you know what we have done last year, we did a lot of efforts on de-bottling. So, that has given us some good results.

**Sunil Jain:** So, that was my next question. Like our new plant will be coming will be after two year or so. So, till that time we will be stuck up with lower capacity. There is an opportunity and we are not able to tap that.

**Puneet Khurana:** Yes, right. That again, this year also we will further continue the de-bottling and may be able to at least get maybe 15% more through this process. So, we will continue to do what max we can do and then finally we will have to wait for the new facility to come.

**Sunil Jain:** So, at least 15% volume growth can be expected.

**Puneet Khurana:** Can happen now from here..

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

**Jimesh Sanghvi:** Sir, you said the existing capacity of new capacity will be added about 45 crore. What will be the amount under in terms of capacity that will come under the first phase out here?

**Puneet Khurana:** It has 2 lakhs cylinders.

**Jimesh Sanghvi:** That is, first phase itself will be 2 lakhs cylinders or over the three phases it will be 2 lakhs cylinders.

**Puneet Khurana:** See, the total capacity is 200,000. So, investment is staggered. So, we just put it that there will be a 200,000 cylinder capacity and it is just that we have to set the plant up and other things. So, we have just put it in phases. So, it will eventually come in a period of 18 months.

**Jimesh Sanghvi:** So, in terms of our ability to sell volumes, will we be able to kind of sell some volumes out of that in FY24 or it will be only after all the three phases are completed that will be able to sell some volumes from this?

**Puneet Khurana:** After completion only.





**Jimesh Sanghvi:** After completing all the three phases?

**Puneet Khurana:** Yes.

**Jimesh Sanghvi:** And secondly, with the kind of increase that we have seen in steel prices, will we see any kind of a hit in terms of margins going ahead or probably that is largely a pass through?

**Puneet Khurana:** It is largely a pass through, yes, we are able to pass it through.

**Jimesh Sanghvi:** And just one clarification. You said other expenditure included 10 crore of one-offs, right?

**Sanjiv Kapur:** Yes.

**Moderator:** Thank you. The next question is from the line of Deepak Mishra, an Individual Investor. Please go ahead.

**Deepak Mishra:** Sir, my question is, can you just mention the current debt and how much we are expecting to reduce them?

**Sanjiv Kapur:** On consolidated basis it is Rs.200 crore and on standalone basis is Rs.114 crore. We have reduced closed to Rs.50 crore of our debt. All our long-term debt in India has gone.

**Deepak Mishra:** Sir, what is your growth expectation for FY22?

**Puneet Khurana:** I think 15%-20% we can take.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** Sir, firstly I am referring to this news articles sometimes at the end of May wherein it had been mentioned that the central medical services society health ministry has blacklisted the company for two years for cancellation of some 44,000 oxygen cylinders. So, could you throw some more light on the same and its impact on our further being L1 in government orders?

**Puneet Khurana:** During this COVID time we have been taking a lot of initiatives to meet all orders from all agencies and we have been facing a lot of challenges on oxygen supply and other things. So, there has been some unavoidable delays in meeting the schedules and commitments. That is the reason why this kind of thing has come up.

**Saket Kapoor:** Sir, what is the status right now. We would be blacklisted for the two years that has been mentioned.

**Puneet Khurana:** We are definitely in talks with all related parties, and we are taking up this matter to explain our situation and you know the circumstances of the company has been going through during this period and because this has been a challenging time for everybody and we have been because the company has not been receiving liquid oxygen for manufacturing manpower issues, COVID issues, so we have been and





plus pressures from all other governments agencies to supplies. There has been a lot of overwhelming pressure on us. So, definitely we are trying to highlight this point to the CMSS and trying to explain to them again and again that this has happened and please understand the circumstances that this was involving around this situation.

**Saket Kapoor:** One very small understanding, sir, what kind of business have we done with this with the government authorities especially the CMSS over a period of time or is it, was it during this second wave period only that we were awarded...

**Puneet Khurana:** We have been supplying to CMSS in the past also. We have been supplying, we have supplied around 40,000 cylinders last year also to CMSS.

**Saket Kapoor:** That is around more than 10%-15% of our volume?

**Puneet Khurana:** Yes, less than 10% but we have supplied that to them, last year.

**Saket Kapoor:** As of now we won't be able to participate, until and unless clarity is there.

**Puneet Khurana:** We are in continuous discussion with them on this matter and trying to resolve this issue.

**Saket Kapoor:** And when can we hear more about it, sir, anything in the anvil, any date or anything if you could share?

**Puneet Khurana:** These things definitely what we will do is we have your contact details and anything good news on this we will definitely send out a mail or something.

**Saket Kapoor:** Sir, on the raw material sourcing front sir, as in your presentation, this seamless tubes part has been mentioned, so are we sourcing the same domestically what portion has been sourced domestically with seamless tubes and what is

**Puneet Khurana:** Domestically we have recently just kind of started. We have not really, it is still under a lot of development. I would say just in development stage. You could say that. I cannot give you some percentages have been started sourcing; it is just under development stage at this moment.

**Saket Kapoor:** Because we were reading about this United Seamless also, now also, now coming up with this cylinder in seamless also.

**Puneet Khurana:** So, we are definitely working closely with, we are trying to work with these partners closely to see that this development can happen.

**Saket Kapoor:** And sir, lastly sir, if you could give me the mix of our customers. I missed it in the earlier commentary, out of this 7 lakhs of this our customers to whom we are servicing CNG?

**Puneet Khurana:** 60% would come from the CNG and 40% would have come from industrial.

**Saket Kapoor:** And sir, what is our cost of fund sir, blended cost of fund, the long term as well as the working capital requirement and what is our currently working capital requirement?



**Puneet Khurana:** Cost of fund is about 11% last year.

**Saket Kapoor:** And lastly about your ratings also. How is our debt rated? What is the rating we have garnered? And when is the next review due?

**Sanjiv Kapur:** As of today it is BBB minus. I think on basis of the balance sheet the rating agency would take up our case.

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

**Sachin Kasera:** Sir, this 10 crore one-time, that is for the full year, for the quarter that is mentioned?

**Sanjiv Kapur:** This is for the full year. It is appearing in full year. Maybe some part has come into consol, in quarter.

**Sachin Kasera:** And you mentioned that you can squeeze up 15% - 20% more that you are referring on a full year basis because Q1 you did 125 crore and this quarter was like 250 crore. So, when you are referring, you are referring on a full year basis and when we say look at the Q4 number you are at almost full capacity, can we assume or even in Q4 we had some scope to improve?

**Puneet Khurana:** It will grow from there.

**Moderator:** Thank you. The next question is from the line of Bhavin Salot, an Individual Investor. Please go ahead.

**Bhavin Salot:** Sir, my question is, you mentioned that there is a total debt of 200 crore and the China money came exactly on 31<sup>st</sup> March. So, out of that 50 crore debt has been reduced as we stand now. So, my question would be that now the debt is close to 150 crore. Is my understanding right?

**Sanjiv Kapur:** Sir, in fact we had settled the debt earlier only. But yes, Dubai subsidiary repaid around 31<sup>st</sup> March.

**Bhavin Salot:** If I am not wrong, 55 crore came to India. So, can you give us the number what was the amount paid on 31<sup>st</sup>?

**Sanjiv Kapur:** India had paid earlier only.

**Bhavin Salot:** So, the debt which you say 200 crore is still now the 200 crore only, right?

**Sanjiv Kapur:** Yes, right.

**Bhavin Salot:** And with the debt paid in the last year, the effect would be seen in this year. What would be the interest saving that would be there? Could you quantify that number or there will be no saving because of the growth, that month you will be utilizing the growth?

**Sanjiv Kapur:** Since we are holding some cash in hand there maybe saving because our limits have been underutilized.



**Bhavin Salot:** And sir, when you say that 7 lakhs is consolidated capacity of the whole EKC, around the globe, right?

**Puneet Khurana:** This was the cylinders manufactured.

**Bhavin Salot:** Yes, that was the cylinder manufacturing capacity, right?

**Sanjiv Kapur:** Sir, capacity is different. This is what they asked us to, the gentlemen asked us the volume. So, we had given him the volume that was manufactured.

**Bhavin Salot:** So, then what is the capacity which you have in India, if you can throw that number? What is the India capacity maximum output in which you can come to?

**Puneet Khurana:** Around 7 lakhs.

**Bhavin Salot:** And we saw that in this quarter there was lot of money burn issue in US. Is there settled or can we see still something more is to be happen because that has affected the consolidated numbers?

**Sanjiv Kapur:** That was all one-time. And quite a few things are not cash burn. They were actually provisions.

**Bhavin Salot:** And sir, last question. You mentioned that there is a CAPEX of 45 crore and until all the three phases go, you will not be able to utilize that capacity. My suggestion would be that 45 crore is not that big amount and you have profitable last year, this year also will be profitable. We should try to push it forward make it faster, because otherwise...

**Puneet Khurana:** The thing is not that the funds. So, I think what we were trying to explain that the way the funds would be flowing because when you are making a building will only take a specific amount of time that will be required to make the building, right? So, when you say phase 1, phase 2, phase 3, it is actually just trying to say the way the money will move in three phases. It is not really the capacity buildup, but it is the amount, the time that we are trying to, the money that will be required in three phases. That is what we are trying to say. So, that is why we are saying the three phases. So, just to explain you how the money movement will be. But definitely we would like to spend all the money today itself if it is possible to get the capacity done. So, money is not a constraint for us, for the expansion. Money equipment is not a constraint. It is actually to get it done. To do all the activity. The time that is to be required will be required.

**Bhavin Salot:** And sir, some years back, it was mentioned in one of the notes that money was lent to Hubtown Builders. What is the update on that?

**Puneet Khurana:** I think that is closed entries. These are all done, all settled. There is nothing outstanding.

**Bhavin Salot:** Have they returned the money or what have they done?

**Puneet Khurana:** Partly the money is returned and partly the company has taken some properties.

**Bhavin Salot:** So, company is planning to sell that or utilize that properties?



**Puneet Khurana:** Of course. We are already looking at an opportunity where whichever properties which are not of any use to the company, we are definitely looking to sell it.

**Moderator:** Thank you. The next question is from the line of Venkat Mody from OHM Portfolio. Please go ahead.

**Venkat Mody:** Sir, you said that your consol volumes last year was 6 lakhs. Am I correct?

**Puneet Khurana:** Yes.

**Venkat Mody:** And your FY20 annual report says that last year you sold 6,80,000 cylinders.

**Puneet Khurana:** Yes, you are right.

**Venkat Mody:** So, what is the consol number for this year?

**Puneet Khurana:** 780.

**Venkat Mody:** So, 680 goes to 780.

**Puneet Khurana:** Correct.

**Venkat Mody:** Between Hungary and US topline, what is the Hungary sales and what is the US sales?

**Puneet Khurana:** You mean the annual?

**Venkat Mody:** Yes.

**Puneet Khurana:** 89 crore.

**Venkat Mody:** So, one thing, what is the split between US and Hungary?

**Puneet Khurana:** Hungary is just a holding company.

**Venkat Mody:** So, the entirely everything will be US

**Puneet Khurana:** Exactly.

**Venkat Mody:** And new additional capacity of 2 lakhs will be available for commercialization from when?

**Puneet Khurana:** We have already announced the expansion. That is what we are planning to do now in India and Hungary.

**Venkat Mody:** So, when will this 2 lakhs be operational? That is my question.

**Puneet Khurana:** 18 months.



**Moderator:** Thank you. The next question is from the line of Deepak Mishra, an Individual Investor. Please go ahead.

**Deepak Mishra:** My question is around the growth for next 3 to 5 years. So, you have already given some guidance of around 20% for this fiscal year. So, if we see due to CAPEX policy and BS-VI and CNG adoption and resourcing industrial CAPEX as well, so can we see in next 3 to 5 years around 20% CAGR?

**Sanjiv Kapur:** So, we are building up capacity. So, obviously once the capacities are build up, I mean you are well aware that that is the quantity which probably will add up.

**Deepak Mishra:** So, what can be the drivers? What makes you to do these CAPEX, tailwinds are good, expectation, if you can throw some light, sir, CNG or industrial?

**Puneet Khurana:** CNG is definitely the driver where we will continue to make investments.

**Deepak Mishra:** And I missed what will be the capacity for Hungary projects?

**Puneet Khurana:** It is around 240,000.

**Deepak Mishra:** And when it will be gets in production, in commencement of the factory?

**Puneet Khurana:** It is still in the working stages. I think maybe in the next quarter call we can be more clear about this.

**Deepak Mishra:** My last question, in the international market due to anti-China sentiments, are you seeing any positive business query or business opportunities? Thank you.

**Puneet Khurana:** I think things are like they were previously. So, there is not much change and we are not concerned on the India-China relationship as far as business is concerned.

**Moderator:** Thank you. The next question is from the line of Prakash, an Individual Investor. Please go ahead.

**Prakash:** Just one thing. In one of the questions you said that the steel price increase is taken care of and it may not affect substantially the profitability of the business. So, is that being captured because you are able to get a better realization from the market or is it through the profits?

**Puneet Khurana:** You see, most of our customers are all multinational companies and OEMs. So, there we are able to have some kind of system of pass through. So, we may not be able to get a larger realization from the market. We are just getting a, we will not be affected too much on the steel prices. So, we will be able to keep the margin in tact going forward.

**Prakash:** One more thought which I have is more of an outlook question. Sir, generally EKC has not been very successful in managing businesses, like for example EKC subsidiary in the US traditionally it has not been doing well and like the management issues, the culture issues or whatever and now you are going into European market. Do you foresee any kind of management challenges in managing businesses out of those geographies or are you confident of, is it also



one of the reasons why you have chosen to have a strategic partner in the European market?

**Puneet Khurana:** It should be correct. That is one of the reasons why we have chosen strategic partner. And of course now with more focus on, we have been like, we are out of China now. So, we are trying to only focus on the businesses where we feel that the bandwidth management can control the aspects of the business. So, I think definitely going forward that has been on the mind of the management, and we are continuously taking care that things are completely under control as per the new expansion or the existing businesses that we are doing now.

**Prakash:** So, one suggestion I have. Maybe you can try to have the same experiments run in the US markets. Actually, because I think strategically speaking you should be seeing US as a very significant market for the fact that you are in the business of manufacturing cylinders, high pressure vessels and those kind of things, that is the competency that you have and with the new administration giving tremendous amount of focus on rebuilding the US infrastructure I would sustain that a lot of gas based transportations like things there will be increased demand for your product in the US market. I believe traditionally you have been working in the US Defence Services, particularly the ships and the Navy and those kind of places. But I expect that you might expect that, there should be a good demand flow from these massive budgetary allocations that US government is wanting to make for rebuilding infrastructure to the new age infrastructure status. So, in that context, why don't you consider identifying or finding a partner in the US who understands that culture much better, you know kind of having a management which is more closer to that business culture and probably kind of gives a different outlook because obviously that market is a big market traditionally as US is a very important market and now that market size should expand further. Do you have any thoughts in this direction of trying to find out somebody...?

**Puneet Khurana:** You made a good point. Definitely we are also thinking in the similar lines and going forward we are definitely much more conscious on the investments and the opportunities there. So, definitely, these things are all on our minds going forward.

**Prakash:** Very happy to kind of label some of those things. Because I think that your business should demand kind of a more closer look at that market and the tremendous opportunity there.

**Puneet Khurana:** Yes, you are right.

**Moderator:** Thank you. The next question is from the line of Nishith Shah, an Individual Investor. Please go ahead.

**Nishith Shah:** Sir, I wanted to understand the raw material side, so are we facing any transportation issue or pricing issue or any availability issue?

**Puneet Khurana:** No, there is no transportation. There is no issue on, but I think price is an issue because steel prices have been going up. So, definitely the steel prices have been going up.

**Nishith Shah:** And that we are able to pass it on. So, our gross margins have also increased quarter-on-quarter. So, going forward do we feel that we will be able to maintain our gross margins at current levels?



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**Puneet Khurana:** I think yes, it should be okay. We should be able to.

**Moderator:** Thank you. The next question is from the line of Anil Kumar, an Individual Investor. Please go ahead.

**Anil Kumar:** Sir, my question is related to the American subsidiary, the first question. There is lot of discussion. Are you expecting this turnaround this year, or it will take longer period, number one. Number two, regarding medical oxygen, we are selling to the CMSS only or we are selling the medical oxygen through other agencies also?

**Puneet Khurana:** Pertaining to US definitely we are very hopeful that now that COVID is behind us, hopefully this things will be much better going forward.

**Anil Kumar:** In the last meeting also sir, you said the same thing. But, I know it is not in your hands always, but we are worried about that case, it is gaining...

**Puneet Khurana:** We are more confident now. Things are looking up.

**Anil Kumar:** And regarding sir, medical oxygen, due to this ban, we are banned from all the agencies or only through CMSS, all medical cylinders are sold through that agency only or we are able to sell through other agencies?

**Puneet Khurana:** I think we made the point quite clear in the last discussion.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

**Saket Kapoor:** It is very small point on the raw material front that I just missed. How is the sourcing done currently, sir? Since you are telling that from Indian producers we have already started initial dialogue and some testing quantity. So, from whom are we sourcing this thing and what is our annual requirement?

**Puneet Khurana:** Sir, our annual requirement would be around 30,000 tonnes.

**Saket Kapoor:** Our annual requirement is 30,000 in the seamless tube?

**Puneet Khurana:** Consolidated will be much more. So, yes, around you can say about 45,000 tonnes.

**Saket Kapoor:** And from where are they sourcing it?

**Puneet Khurana:** So, mainly we are all sourcing from China.

**Saket Kapoor:** Now, and with this embargo failing and all, the Chinese trade and all, do you think that going forward with one or two of the Indian companies giving the certification and putting the same thing domestically, it will be better for you to source the same thing?

**Puneet Khurana:** We welcome that the local companies can supply us the raw material, that will be the best thing that can happen.





**Saket Kapoor:** And sir, just a very small understanding that 45,000 tonnes is the requirement to generate 7 lakhs cylinders?

**Puneet Khurana:** There are lot of even cylinders manufactured in the US, Dubai, all that I am taking all that. So, it is very difficult to give you a number. But that you can just simply take the number. Because you know some cylinders are very large. Like in the US they are making a very large size cylinder. One cylinder maybe around 4 tonnes. So, it is very difficult to kind of put in a number saying that these many quantity, this much tonnage.

**Saket Kapoor:** I was just looking at the conversion part only, sir. Just to understand the conversion ratio.

**Puneet Khurana:** See, lot of cylinders have different weights and this and that. So, it is very difficult to simply just give you a number, how the tonnage is being, how do we derive that.

**Saket Kapoor:** Very small point again, sir. Just going on this initial filler, as you told that now sourcing for domestically would be much easier and also economical for you, by when sir can we look forward to close the thing totally for domestic if in any. Are we looking in that direction or still they are seeing that in slow nascent stage that no commitment can be relied upon depending up on that thing?

**Puneet Khurana:** It is in nascent stage only, you could say.

**Saket Kapoor:** And certification and all, still everything is pending for that?

**Puneet Khurana:** Yes, that will take some time.

**Saket Kapoor:** As you are conducting these calls and giving us a brief, complete understanding of the business way forward, what other steps is the management taking into account to build investor confidence and create shareholders value going forward because sir, as of our, if you look at your shareholding pattern, we find there in, the absence of marquee names, whether it is the FPI or domestic, whether it is anchor investors, I think a lot of work and a lot of consistent numbers has to flow down over a period of time. Then only that confidence building exercise will get completed. That is what my understanding is.

**Puneet Khurana:** Of course. So, that is why if you see consistently over the last 5 years, company has been consistently profitable. So, I think we have been consistently giving numbers and being as transparent as possible to the investors and to our shareholders. So, I think you will find that this will continue as a practice in the company and you know now the company is also going down the dividend road. So, I think there is a complete, I think we are in line with the investor requirement, I think we are very much in line with what the investors, we are continuously talking to investors, we are in communication with them, understanding what are the needs they need for us to as a business to disclose and what are they looking for continuous communication. So, we are continuously doing that.

**Saket Kapoor:** And two very small point, sir. First point is out of the total employee cost annually, how much is being paid to the promoter director, sir, out of 89 crore, I think so that is the annual figure?

**Puneet Khurana:** Maybe about 2.2 crore.



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**Saket Kapoor:** That is the total amount that has been paid?

**Puneet Khurana:** Yes. Do you think it is less?

**Saket Kapoor:** Actually it is a good understanding that in many cases we have seen in the companies, small companies that they keep off percentage depending upon the profitability and then give a cap of say 10 crore or 15 crore. So, had the profit had been better than 10 crore-15 crore would easily get off from the company. I asked from that logic.

**Puneet Khurana:** We have kept everything for our shareholders.

**Saket Kapoor:** And sir, if we take the capacity, Petronet LNG, the kind of expansion it is doing, does that link with requirement of the cylinders?

**Puneet Khurana:** Obviously, these are all initiatives on gas infrastructure. Definitely any expansion on gas infrastructure will directly or indirectly help us.

**Saket Kapoor:** This cross country pipelines and all, everything will add towards.

**Puneet Khurana:** Yes, exactly. More and more stations, more and more gas availability to smallest parts of the country, to rural, urban areas more and more pipeline, that will just help put more CNG infrastructure, easy reach of gas everywhere will definitely boost our business. This why we are continuously you see in the last 3-4 years the company has been growing only because the CNG business has been growing so rapidly.

**Saket Kapoor:** And you told that in the presentation 50% is the market share. Who are the other players in the listed space we have or in the unlisted?

**Puneet Khurana:** They are all unlisted space.

**Saket Kapoor:** You are having the majority share, 50% is the highest I think.

**Puneet Khurana:** Right.

**Saket Kapoor:** Sir, we hope for better times and sir, any impact of this COVID second wave on our operational number for the current running period, sir?

**Puneet Khurana:** I think the second wave we were more prepared. So, the manufacturing activities I think obviously there were definitely lot more precautions that we had to take during the second wave. But we are much better prepared. After the first wave, I think we learned a lot, how we have to continue to run the operations in a smooth manner. So, I think we were able to manage the second wave much better than the first wave and there was no real lockdown at the manufacturing, like in the first wave there was a lockdown. In the second wave there was no lockdown as far as manufacturing activities are concerned. So, I think it was better managed than the first one. And people also now are kind of aware and vaccine drive as you know we had definitely taken the initiative to give vaccines to all our employees. So, we did all the initiatives of that we could do and that had been learned from the first wave. So, I think much better.



**Saket Kapoor:** Sir, you guys have made 60% changes, so out of this 40% how much goes to the industrial gas cylinder and do we count Linde India as our customer?

**Puneet Khurana:** As industrial, yes.

**Saket Kapoor:** We are catering to Linde India, there the requirements I think are of very larger size cylinders, I think those will be catering to the steel plants and all?

**Puneet Khurana:** Linde is a different business. They are manufacturing gas. So, we are supplying cylinders to them.

**Saket Kapoor:** Yes, sir. That is what I am asking. But their requirement and size would be very different than what...

**Puneet Khurana:** No, they usually have some higher pressure requirement sometimes.

**Saket Kapoor:** It is not about the size, sir?

**Puneet Khurana:** No, it is not about the size. They use standard...

**Saket Kapoor:** Only the pressure, okay.

**Puneet Khurana:** Higher pressure, different material kind of products they require.

**Moderator:** Thank you. We take the next question from the line of Vieshal Asalekar from Apex. Please go ahead.

**Vieshal Asalekar:** So, how do you see growth in this quarter, second quarter and third quarter?

**Puneet Khurana:** It is quite consistent. The growth is there.

**Vieshal Asalekar:** But the number wise, actually you are consistently improving. But the thing is industry wise now this COVID will go down simultaneously. So, you will benefit from this oxygen cylinder for this medical industries and everything will come down, 2%. So, are you planning to divert these things from, how you are planning to reduce this gap?

**Puneet Khurana:** We will definitely move more capacity towards CNG. But you have to keep in mind that we are catering to a wide range of industries. It is not only medical oxygen. We cater large. So, this business was, see CNG is definitely a fast-growing business. But we always had a large content of industrial cylinders even before COVID times. So, COVID was a special time only for medical oxygen cylinders, but otherwise also we cater to industrial gas cylinders as a regular, there is a lot of demand for the industrial cylinders anywhere on a regular basis. So, I think that could come back because that has not happened in the last 6 months to 8 months because of this COVID situation. So, industrial cylinders demand has been quite subdued. So, I think it would be probably coming back once this COVID situation is over maybe in the next 6 months you will see that coming up, industrial demand is completely with the economy. If the economy is doing well the industrial demand will continue to do well. So, we feel that industrial demand will definitely be there. It is going to be there and as the economy grows you will see that number also. So, I don't think



this should go anywhere. It has always been there. It has always been there with the company it will continue.

**Moderator:** Thank you. We will take the last question from the line of Prakash, an Individual Investor. Please go ahead.

**Prakash:** Sorry, I intended to ask this question in the first row, but I missed it. I just like an apology if I have not read the annual report in as much depth as I would have, I was actually suffering from COVID. So, I could not really kind of make the sort of reading everything. One thing on capital, like cost of capital is rationalized and I heard in the call you saying that we have a lot of cash in hand and which is kind of keeping the working capital limit and all free and I understand that the cost of money for businesses has come down substantially because obviously the banks are flushed with funds and there are very few borrowers, good borrowers and obviously like EKC is one of the best borrowers in the market today for you having returned the money of Yes Bank. There are jokes about people who take money from Yes Bank. So, with that in mind, I just wanted to know how much of foreseeable utilization you see of your cash in terms of finding equity for all your growth plans and if you have surplus cash and I recollect that you have some lending to the business from the Directors or the Promoters and they are probably paying some interest on it also. So, how much of that differential of interest is there and do you have any plans of kind of rationalizing that to an extent and first of all is the cost of difference in the case of cost of borrowing from banks versus what you pay to the directors, and do you have any sense of all those figures?

**Puneet Khurana:** We have rationalized that. See, we already rationalized to the bank rate. So, whatever we borrow from the bank rate is the same rate that we give to the promoters. So, there is no difference in that. And what is happening is that today the cash flow is there to sustain even the growth and keep enough money in the company. So, we have the funds and the business is doing well. So, there is definitely, yes, you are right, there is enough cash flow in the business.

**Prakash:** Because your outlook is also very strong, right?

**Puneet Khurana:** So, we use all the long term funds for the long term issues, like the promoters. So, the money that has come in a long term basis like China and other things will be used to pay the promoters which are the long term debt. If otherwise for the short term debts I don't see that being much of a challenge for us.

**Prakash:** Not challenge, I am in fact saying that and see typically investors don't like cash to be kept idle in businesses. Either that should go in to investments, it will be funding of investments, or it should go into dividends or it should go into retiring the debts of the company. So, the point that I am saying is that if you have surplus cash on your books or your banks, what don't you consider, and this is surplus of foreseeable future investments that you intend to make. You should consider kind of retiring debts.

**Puneet Khurana:** Actually, you are right. That is the plan. That is our plan to retire all the promoter debt. Whatever funds are available we are definitely doing that.

**Prakash:** How much is the promoter debt in the company right now?

**Puneet Khurana:** I think around 50 crore.



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- Prakash:** That is almost like one sort of your profit, like I think bank debt is I think 130 crore or 140 crore something like that, correct?
- Puneet Khurana:** Yes, those are short term debts.
- Prakash:** Because you see, as an investor, the first thing that comes to your mind and this is from also because of the legacy issues of the 'Indian promoters', typically one would like to believe that the promoter of the business is there to manage the business and not lend to the business that is not the primary business of the promoter, right?
- Puneet Khurana:** Correct.
- Prakash:** So, any debt from the promoter to the business is like a red flag for a typical investor and which kind of, if you were to prepare a checklist for your roadmap with marquee investors which one of my fellow investors raised in the call that why we don't see some good marquee investors on the list of investors into the company which is doing spectacularly well, is in a leadership position, is in one of the core infrastructure sectors, so and so forth, then I think these are the red flags that we need to address on priority. You said that you have started the pathway of dividends, which is a very good thing to do. Similarly if you address this kind of things then I don't see any reason why you will not quickly find marquee investors on your annual report.
- Puneet Khurana:** Right. Definitely that is a good point and we will definitely take it under consideration and see that we will work on this.
- Prakash:** Because simply in the mind it creates inconsistency because the promoter is supposed to manage the business, not lend to the business, especially if the business is having a lot of cash.
- Puneet Khurana:** Yes.
- Moderator:** Thank you. I now hand the conference over to the management for their closing comments.
- Puneet Khurana:** Thank you once again for your interest and support. We continue to stay engaged. Please be in touch with our investor relation team CDR India for any further detail and discussion. Thanks again and looking forward to interacting with you all again. Thank you.

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