



Everest Kanto Cylinder Limited

Q1 FY22 Earnings Conference Call Transcript

August 27, 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 and operator by pressing '*' then '0' on your touchtone phone. 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: Good evening, everyone and thank you for joining us on this Earnings call organized to discuss the financial and operating performance of Everest Kanto Cylinder Limited for the quarter ended 30th June 2021. We have with us today Mr. Puneet Khurana - Managing Director and Mr. Sanjiv Kapur - Chief Financial Officer of the company.

Before we begin, I would like to state that some of the statements made in today's call may be forward-looking in nature. A detailed statement in this regard is available in the Q1 FY22 results presentation that has been sent out earlier. I now request Mr. Puneet Khurana to start the proceedings on this call.

Puneet Khurana: Good evening, everyone I warmly welcome you to the Everest Kanto Cylinder's earnings conference call to discuss the Operating and Financial Performance for the quarter ended June 30, 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 Q1 FY22 financial and operating performance and the key underlining business drivers.

EKC has been in the business of manufacturing seamless steel cylinders over the last four decades. In this period, we have delivered over 20 million industrial gas and CNG cylinders and we are leading manufacturers in India with aggregate capacity of more than 900,000 cylinders annually. Of this about 7 lakh cylinders capacity is in India and 2 lakh cylinder is aggregate across our overseas operations in UAE and United States. Here I would like to add that we have recently undertaken some incremental de-bottling and CAPEX initiatives that have



optimized production and allowed us to deliver more volume than the stated capacity. This is reflected in increased revenue turnover.

Our product range includes industrial, CNG, and jumbo cylinders used for high pressure storage of gases that have application in fire suppression systems, medical establishments, aerospace, defense, and automobile. Production lines are fungible, which means that production can be directed to fulfill our customer's requirement in any of the key demand areas.

During Q1, we have moved into a current financial year FY22 on a strong note. We have witnessed further expansion in demand across every geography of our presence, thereby strengthening our position in the Indian market, while at the same time the overseas operations have seen improvement that we believe are sustainable. In Indian operations, as indicated earlier, we have grown our output by making production processes more efficient and by identifying and removing bottlenecks. This has allowed more output and turnover without any significant capital expenditure, resulting in quick scale up and high ROI. While these initiatives have provided the bandwidth to address near term demand growth visibility, we also continue pursuing the expansion in Gujarat that will further add our production capacity by 2 lakh cylinders. In this new facility, we propose to use some of the available equipment so that the project costs will be significantly lower at Rs. 45 crore and will be financed largely by from internal accruals.

In addition, both UAE and US operation delivers substantial improvement in revenue, allowing for an overall contribution to the financial numbers. In our UAE operations, we are catering to a large number of market growing CNG demand from Egypt and other emerging markets in Africa and South America. The UAE subsidiary is also moving forward on expansion plans in Hungary. Fiscal support from the government and local authorities will make the expansion even more lucrative while the EU base production improves customer acceptance and our competitiveness in significant markets. During the quarter, we have recorded strong growth of 95% year-on-year in the consolidated revenue. Growth was based on demand from multiple sectors. It was partly driven by growth by orders from medical oxygen sector, as we remain committed to support the country's fight against COVID.

As a second wave surge to the country, we also saw substantial demand from the auto OE and gas infrastructure companies. As the demand for CNG based mobility expands and the whole ecosystem comprises additional gas pumps and new CNG car models across the country. We see a circular growth opportunity in this space. Over the next several years as the market leading manufacturer of high-pressure gas cylinders in India, we are supporting the government plan to bring gas into the mainstream of the country's energy mix.

At the same time, demand for medical oxygen is seen to be short term and we look forward to the vaccination drive resulting in virus cases reducing overtime. Coming to the financial performance. During Q1 FY22 EKC consolidated revenue grew by 95% to Rs. 335 crore. EBITDA was higher by 182% to Rs. 88.4 crore. EBITDA margin expanded from 18% to 26.4% mainly driven by topline growth on a stable operating base. Profit before tax before exception item and foreign exchange variation was up by 425% to Rs. 79.8 crore. During the quarter PAT expanded by 962% to Rs. 69.2 crore but this includes the benefits of all paycheck protection loan waivers in the US that is an exception item of Rs. 16.7 crore and explaining Q1 result documents.



Overall Q1 performance, we present a significant improvement, and we expect business visibility to maintain in each geography even as demand for medical oxygen cylinders is scaled down considerably. We are focusing on a higher value product, which should allow margins to maintain across every region. Margin comfort also comes from the raw material prices pass through mechanism that we operate with our customers. Going forward our outlook remains positive as economic and environmental considerations drive the growth of gas fueled economies globally. With wider vaccination drive being carried across the country, we expect more normalized economic activities to return sooner than later.

With a sharp bounce back in economic growth expected this year, we remain confident that to continue robust performance. While we are looking forward for leveraging our position to drive property growth, we will also continue to focus on structured organization improvement to drive framework for a long-term value creation across all various initiatives.

On that note, I come to an end to my opening remarks and request the moderator to open the forum for any operational and strategic lead question that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: I have two-three questions. First of all, you said that the demand in the US and UAE the sales over there are sustainable. So, what is that we did this quarter because if you see the UAE sales, which is highest in last seven, eight quarters. So, what has changed over there and similar is the case with the US also and whether these sales of the Rs. 340 crore are sustainable? Just to confirm that.

Sanjiv Kapur: In respect to UAE, and the European countries earlier it was affected by COVID and now since COVID has sort of dried down, have help the business to grow. We expect that they will continue to go ahead with similar quarters and complete a good year for them.

For US also the same reason because COVID had really affected them. And now they are back to normal lines. And we again believe that they will also continue to do as good as done in this quarter.

Sunil Jain: So, in US we supply to all defense side, but in past we were facing problem like we were not lifting the material. So, that has now come back?

Sanjiv Kapur: Yes, that has started now.

Sunil Jain: Okay. And second question related to gross margin. If I see your gross margin, indifferent quarter, it varies a lot. It went down to as low as 42% in some quarter and this quarter it has come up to around 51%-52%. So, why this variance comes? Is it because of product mix or any specific reason for that?

Sanjiv Kapur: Yes, one of the reasons is product mix and otherwise, also there are various other factors. But today, I mean prices are all under control, because we are able to factor in the price for the market. So, we expect that we will have similar margins available to us going forward.



Sunil Jain: But whatever been achieved in last one or two quarters, that is over 50%, that gross margin is sustainable you mean to say?

Sanjiv Kapur: Yes.

Sunil Jain : And whether the pharma has a higher margin, or it is a similar or auto has a higher margin?

Sanjiv Kapur: Auto is always having a higher margin.

Sunil Jain: Okay, fine. Another question was this Hungary expansion, what is the status and when it can start production and similar is the case with Gujarat when you can start production?

Sanjiv Kapur: In case of Hungary, they are still reviewing the process and requirements and more clarity shall be available in the following quarters.

Sunil Jain: Okay. So, once you get all that clarity, then it will be a process of a year or so?

Sanjiv Kapur: Yes. That will be a year at least.

Sunil Jain: And then the plant needs to be approved by the consumer and all?

Sanjiv Kapur: Yes. I mean, obviously, since it is a safety product, it needs to go through various processes and we will be able to establish all those process during the timeline of setting up the project.

Sunil Jain: Okay, and what about the Gujarat project when it can start because I think that should start sooner?

Sanjiv Kapur: Yes, Gujarat also, I mean we are trying to focus clearly on the immediate action plan of de-bottlenecking and getting more revenues Since, market is very robust and we want to focus on what we can immediately do. Hence, at present we are focusing on de-bottlenecking and enhancing capacities, which is very, very effective and that is visible also in our results. Going forward yes, that we will take it up in due course of time.

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

Jimesh Sanghavi: Sir, on the de-bottlenecking, in the opening comments, you said that it has helped volume growth. So, if you can share some numbers out there and whether this momentum can continue?

Puneet Khurana: It will be around a 10% to 15% benefit that the company will receive with this kind of de-bottling.

Jimesh Sanghavi: So, from the top line perspective, you expect this to kind of growth to be continue?

Puneet Khurana: Yes, of course, it will continue.

Jimesh Sanghavi: Because Q1 will have probably some bit of this medical oxygen demand also. So, should one expect some bit of a drop in Q2 and Q3 since the medical oxygen volumes would again go away?

Puneet Khurana: I think the business has been little misunderstood. See our business has always been contributing 50% of Industrial cylinder. Industrial cylinders have lots of gases like oxygen, nitrogen, and hydrogen. Recently because of COVID situation medical oxygen is seems to be a front runner and you see a lot of talk about it, but this has always been the business of the company.

So, industrial cylinder is always there, but the growth that we have seen over the last five years is all coming from CNG. The growth in the numbers that you are seeing is all coming from CNG. So, that will continue because CNG is of course, going to grow much faster and again, CNG is growing so fast so any reduction which I do not see because industrial cylinder will also continue to grow because the economy is growing.

So, the industrial market will also grow and CNG will also grow but CNG will grow much faster, because it is of course CNG is replacing the existing diesel requirements. So, it is a much faster growing area. So, that is going to continue, but medical oxygen as such is not going to, we already seen reduction from this quarter. We are almost 50-50,50% from CNG and 50% has come from industrial.

So, we are already seeing that it is coming to because this way if you realize one thing that businesses were working. There was no lockdown on businesses as such. In the first wave you had a lot of lockdown and that is the time where medical was very prominent in the Q1 of last year, where only medical that was very prominent that medical had driven the company, but in this quarter the industry was working even though there was second wave which was very bad, but still industry was allowed to work. There was no disruption happening at the industry level.

So, automobile also, they continue to manufacture may not be at 100%, but they were working at 40%, 50% levels. So, industry was continuing in the second wave. And so, we saw that CNG had a quite a good run in the second wave. Even the conversion market, if you see our cylinders are also used in the aftermarket where there are existing old vehicles are converted. And that was also continuing. There was no stoppage in the conversion. People were still converting because diesel prices were rising. So, people were still converting their vehicles into CNG.

Jimesh Sanghavi: Yes, so on the USA, Hungary segmental revenue, we have seen a sharp jump up from around Rs. 20 crore to Rs. 41 crore. So, as you said, that this particular segment, you foresee it to be stable. So, should one build in this kind of a number? And were there any one-offs in the US, Hungary operations out there?

Sanjiv Kapur: No, in this quarter there were no one off, except for that income, which we got in US, which has been very clearly shown separately where there was a waiver of a loan in US of Rs. 16 crore.

Jimesh Sanghavi: Yes, that is the exception items, right?

Sanjiv Kapur: Yes.

Jimesh Sanghavi: But from a top line perspective, that Rs. 20 crore to Rs. 40 crore jump, there is no one off kind of a thing?



Sanjiv Kapur: No, there is no one off. Now this will be stable. In fact, this is what we are expecting. I have already remarked that this is how we look forward and they may continue to have similar quarters.

Jimesh Sanghavi: And on the Hungary operation, you said that you are looking at expansion. So, at what utilization rate is the plant operating right now?

Sanjiv Kapur: No, Hungary, we have not said it expand. Hungary is a project which has to be set up. The question was on the project being set up. So, it is still in a nascent stage. And going forward, yes, by next quarter, we will have everything in place where we know that once the startup happens, then within some time, we will be able to complete that project. It is a project, it is not an existing operation.

Jimesh Sanghavi: I understand that it is a new project that you, but you see that kind of demand growth actually coming in this particular market, because in the past this was the regions, probably wherein we were kind of hit in a bad way. And we had losses coming out of this particular segment?

Sanjiv Kapur: There is ample market out there. The advantage which we will have, is that this product has more acceptability because it is being manufactured in an EU country. So, EU gives it an added advantage and another thing is that when something is manufactured within Hungary, it saves on customs duty. So, with these advantages we will foresee a good market.

Jimesh Sanghavi: Okay. And sir, on the segmental side on the USA, Hungary, is the exceptional item reported out here in the EBIT number?

Sanjiv Kapur: In the EBIT, yes, it will include that exceptional item also.

Jimesh Sanghavi: Okay. So, overall, from a volume perspective, one can expect a 10% to 15% volume growth for this year, because of the debottlenecking, right?

Sanjiv Kapur: Right.

Moderator: Thank you. The next question is from the line of Akshay Chheda from Perfect Research. Please go ahead.

Akshay Chheda: Sir, I wanted to know what are your views on the revenue specifically on the domestic front-end? And sir, at the given rate, can they touch Rs. 1,000 crore for the entire FY22?

Puneet Khurana: I think this can be sustainable the rate that we are on right now.

Akshay Chheda: Can it cross Rs. 1,100 crore or something like that?

Puneet Khurana: I can just tell you that at this rate that we have done this quarter, it is sustainable.

Akshay Chheda: Okay. Sir, I also wanted to know whether the EBITDA margins of 10% is possible for at the subsidiary level?

Puneet Khurana: Which has been continue to improve on their margins. So, whatever margin exists as of now, yes, going forward, there will be improvement.



Akshay Chheda: The range or something like that please?

Puneet Khurana: We cannot predict the range. But yes, there will be improvement.

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

Naitik Mody: Sir, on India, I just wanted your comments on the margins for India as well as your global business? So, in India, what is a realistic sustainable margins? And similarly, what is it for the global subsidiary business that we have?

Puneet Khurana: So, I think current margins we can say they are quite sustainable for India.

Naitik Mody: Even India?

Puneet Khurana: Things we are just coming back in the US and in the UAE, and we feel that things will only get better. So hopefully the margins will also improve once the business starts coming back. They have been quiet, last year has been quite difficult for them.

So now I feel that it will definitely improve going forward. Margins also and the overall business will also improve.

Naitik Mody: Sir, what is I mean so, are we looking at a certain number percentage that, can we do 10% or 15% for our global businesses, so what is our internal working?

Puneet Khurana: The internal working of course I mean we.

Naitik Mody: No, I mean there has to be a sustainable or realistic number that, okay, this is what we can achieve?

Puneet Khurana: See we do that but what has happened over the last year, because of this COVID situation things have got a little bit disturbed in the international market. So, it has been a little difficult because of customers not picking up the material because of the COVID in the international market and things were lot disturbed with the steel prices also going up at the same time, and a lot of things happened.

So, it was very difficult to kind of achieve what we set out to do in the international business. But like I said, the things are improving and hopefully it will look up going forward, as we can already see that the topline just started going up. So, I think from next quarter, hopefully even this kind of discussion could be done.

Moderator: Thank you. The next question is from the line of Parag Parameshwar from AG Securities. Please go ahead.

Parag Parameshwar: I am referring to your standalone results. Your sales have gone up in to Rs. 245 crore in Q1 compared to Rs. 232 crore in Q4. But your other expenses have come down from Rs. 36 crore to Rs. 24 crore. So can you just explain where this Rs. 12 crore savings have happened because it is almost 5% net, 5% to the EBITDA margins?

Sanjiv Kapur: There were some one-time hits in the last quarter, which we do not have this quarter.



- Parag Parameshwar:** Okay. So, this Rs. 24 crore is a sustainable number?
- Sanjiv Kapur:** Sure,y there will be some increase in the expenses obviously, I mean going forward, but yes, we will try to maintain at such levels.
- Parag Parameshwar:** Okay. So, you mean to say the margins standalone margin, which has gone up from 26% to 34% on two accounts 2% on account of raw material and 6% on account of other expenses, 34% kind of margins are sustainable on standalone level?
- Sanjiv Kapur:** Going forward, there can increase in prices, and there can be other events which you have but our aim is to ensure that we try and maintain what we normally have. So yes, we will try our best to try and maintain margins.
- Parag Parameshwar:** Some of Q1 sales and Q1 margins in standalone that we can take this as a guidance, and it is a sustainable?
- Sanjiv Kapur:** See you can say the best is you are the best person to calculate. So, I would not want to.
- Parag Parameshwar:** A couple of percentages here, we understand that is usually possible, but sales are possible Rs. 245 crore that kind of sale like 5%?
- Sanjiv Kapur:** We are doing good business so we believe that we will be able to map up lot many things.
- Moderator:** Thank you. The next question is from the line of Prakash Chandra Prabhakar, an individual investor. Please go ahead.
- Prakash C Prabhakar:** I just want to follow up on three questions that I had during the last investor communication. So, my first question is that, there are three things that we have discussed. One thing that we discussed that, would you have an outlook, a different outlook on treating the promoter's unsecured loans in the business because the promoters are supposed to be managing the business and not getting interest on their loans?
- That was the first question I wanted to follow up on. Is there a management outlook on that? The second thing that I wanted to kind of ask is that what is the status of the blacklisting that the Government of India subsidiary had done? Is there a movement on that and you have been able to kind of get that thing absorbed kind of removed? Or where do we stand that? And the third one is, of course, that that the like, I am very, very upbeat about your business in the US market.
- So, in terms of your internal projection, internal management, MIF management information systems, have you changed your projection for the US market in terms of what we are envisaging it to be earlier, and what we envisage it to be now, especially in light of that point that the US is going to have a lot of focus on. And now that that, like, the bipartisan deal is also through, and all those expenses will happen? Is there a shift in the outlook on the US?
- Puneet Khurana:** First thing on the unsecured loan to the promoters, we are definitely putting in our plan to return all the money back to the promoters as the cash flow improves this is what we plan to do.



Prakash C Prabhakar: Can we have a timeline around that?

Puneet Khurana: Maybe say this financial year, we will try to do that and on the black-listing see that we are in continuous touch with the Government agency, and we feel that we are making some headways, and hopefully, we should see some good outcome from this in the next, maybe in the next two months.

Prakash C Prabhakar: Okay. You have not had any follow up communication from them, which was adverse in nature?

Puneet Khurana: No and in the US business see, last year has been quite bad in the US business and this year, definitely, things have turned around I think the pickup also started right, which were stuck because a lot of things. US company they do a lot of defense activities.

So sometimes in defense we are a small part of a big project. So, if sometimes things get stuck then you be a part of that you also get stuck in the whole big project. So now we feel that that has started to happen that the pickup has started. So, hopefully now, we are seeing that the sales are up and the margin will also, hopefully come back.

So, we have our internal working, we have been quite conservative last year, but this year, we are a little bit more optimistic on how things are going to way out.

Prakash C Prabhakar: So, the reason why I brought this up again, because I am mindful of the fact that your concentration of the businesses in the defense sector and particularly in the Navy, and obviously because as you rightly put it, that you are a small part of a larger project, and therefore you really do not have too much of this thing.

However, if you open up other segments, like infrastructure, rebuild road construction and railway modernization, which is one of the top of the agenda of the US Government, then I think probably you will have a, probably a new segment to be looking at where your outlook would be better than what it would be in the defense because in the defense project anyways you will not be having any requirement either?

Puneet Khurana: Our product application should be there in these sectors that you are mentioning.

Prakash C Prabhakar: So, one suggestion, because I am a mechanical engineer, as well, you see, as I have heard you emphasize in the questions earlier that you are in the business of industrial gases, irrespective of whether it is oxygen, nitrogen, whatever it is. So, I cannot imagine of any infrastructure construction like rejuvenation program, work at site, which will not have a huge need of kind of operating with industrial gases. So, I think you can be rest assured that there will be a lot of need for that from a multiyear perspective.

If I ask that whether the management has a focus on kind of discovering a new segment, which is what I wanted to kind of sensitize?

Puneet Khurana: See the CPI, this company is in the US for almost 100 years now so they have a good customer base, good network, so anything that any sector that comes up will definitely they cannot ignore us, in the US. So, definitely, when any sector is coming up and any things are happening, we will definitely be a part of that.



Prakash C Prabhakar: Right, so, I do not want to be re-picking on this, and I do not want to be sounding quite sticky about it. But like, there is a difference, when you wait for the customer to come to you versus you have a management approach when you want to reach out to the customer for projection?

Puneet Khurana: You are right definitely you have given me some good thought which I will definitely put it across to my US team and ask them.

This is something that is coming up, but Oil & Gas is another sector that has always been hydrogen is another sector, so we have a lot of sectors that are very promising in the business that we are continuously monitoring and watching only thing is that the period is kind of slowed down things.

Prakash C Prabhakar: No, of course understand that. As an active investor, my purpose was to kind of re-sensitize these for different pivots to you. And finally, before I close my part of the call like, you are doing fantastically well. And I have been listening to your responses for a few kind of sessions. like, largely there is a lot of optimism in the management, as well as in the investors.

And now all this obviously, like, needs to translate into kind of better wealth for the investor as well as a promoter. I mean, I feel that you are like, now is the time when the company should be aggressively looking at some institutional investors who want to take positions in smart companies, or companies of the future. So just so like, just some thoughts on that? Are you working in those directions where some margins?

Puneet Khurana: We are putting the score on the board. That is my job now and the company is consistently delivering quarter-to-quarter. So, I think it is we are doing all the things that we are supposed to do.

Prakash C Prabhakar: Right. So sir, can we hope to see nice marquee investors on the investor list of EKC sooner than later?

Puneet Khurana: Yes sure.

Moderator: Thank you. The next question is from the line of Nisarg Vora from DC Enterprise. Please go ahead.

Nisarg Vora: As an investor I was a little concerned due to increasing imports from China market. So how large do you think it will have an impact on our business in the upcoming quarters?

Puneet Khurana: So, I do not see that being a much impact because now China is also not cheap. The products from China also not anymore cheap and so, I do not see that being a major impact on our business.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Finmart Pvt Limited. Please go ahead.

Abhishek Agarwal: Sir, my question is regarding one of the player in India market has come up with the composite cylinder. So, how do you see this product competition with us?



Puneet Khurana: See composite cylinders are a little expensive product and composites have a very special application in specific places in the market. So, steel cylinders definitely have a much larger appeal when it comes to CNG application and storage. So, you definitely globally also see steel cylinders still dominates 95% of the market. Composite cylinder definitely have their special requirements, special customers who use these products.

Abhishek Agarwal: So, sir, have you any time in past we have think on this composite cylinder, because, when we spoke last time, I think you are?

Puneet Khurana: See we have a facility in the US also making these composite cylinders and we are continuously proposing it to our customers. But customers are little resistant because of the cost. So, this product like I said it is very specific applications are there for this product.

Abhishek Agarwal: So, sir, how costly if you compared to this?

Puneet Khurana: At least three times.

Abhishek Agarwal: And in the future, if suppose there is a large demand or acceptance in the market, large acceptance for this product. So, can we able to?

Puneet Khurana: We will definitely have to look into getting into these products, when we see that the market is growing. Today what is happening is that we are already so engaged in what we are doing because our product line, with CNG business also growing quite fast and steel cylinder is dominantly easy to use, friendly to use, available, cheap.

So, this kind of product is very well accepted in the market and will continue to be acceptable at certain segments in the market. There will always be special segments where you will have these composite cylinders so there is this, but as this segment and we are predominantly steel manufacturing cylinder.

So, we are very focused right now, on growing this segment, and definitely keeping a watch on what is happening on the composite segment. So when we feel the time has come that we need to invest and get into the segment we will definitely be looking at that. So, the technology as such is available with the company.

So, there is nothing that we need to go and worry about that this technology is not available with us. Technology is available only matter is to take a decision about investment and your company, as such today, investment is also not such a big challenge to make investments into products.

So that is not a challenge, only thing is the timing has to be correct, because you make an investment, and you do not find that things running up to the levels and then you have all these overheads and then that is not a wise thing to do as you need to set up a separate plant and then you set up another facility, people, unnecessarily adding overheads and then finding yourself stranded.

So, when we want to take up appropriate time decision when we feel that this product is going to come into the mainstream and going to be a large demand, then we will probably.



Abhishek Agarwal: Sir, can you tell me that, what was our CAPEX plan if I make that?

Puneet Khurana: Yes, around Rs. 45 crore.

Abhishek Agarwal: Okay so sir, how much capacity it will bring?

Puneet Khurana: 2 lakh cylinders.

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

Anil Kumar Sharma: My question is on medical gas. Due to blacklisting are we supplying to the states or other agencies?

Puneet Khurana: So, now definitely medical cylinder is coming down, but we are supplying to states wherever because we have taken orders. So, all those requirements which are still pending are still being supplied.

Anil Kumar Sharma: We are getting further orders?

Puneet Khurana: No, new orders are coming, but as you see the COVID situation also is improving. The demand for medical oxygen cylinder is also coming down.

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

Jimesh Sanghavi: Couple of things, sir. Have we seen any product mix change for ourselves in the last one year like compared to FY21 levels the first quarter panned out? And how do you foresee that going ahead? That is one. And secondly, if you can share the quantum of inventory of steel that we maintained in our books? Was it 15-20 days?

Puneet Khurana: So, inventory we maintain around three months and as the product is very dynamically keeps changing in the sense the customer because as the vehicle models change the product also goes through some changes.

So, it is very dynamic, you will see that some products are there, some products have changed, some have been added. So, these things keep happening only standard cylinders or like medical oxygen probably will just remain a medical oxygen cylinder.

Jimesh Sanghavi: Sir, just trying to understand this more from a margin perspective, because naturally, some products will have a higher margin vis-à-vis some other products in the product basket. So, just trying to understand if there was something which helped us during the Q1 quarter, and probably on a normalized basis, probably that will not be the case. So just trying to understand, was there something which helped us to come at this 30% to 33% level of margins, which probably was not there?

Puneet Khurana: I think it is general market pricing.

Jimesh Sanghavi: And sir, any kind of an inventory gain on the steel front as well, which has helped the raw material costs probably the look or fit on the lower side. Is that a possibility, or no?



Sanjiv Kapur: The price advantage if at all, we had got it in this quarter itself. So now we are getting material on the normal rate.

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

Sunil Jain: The , finance cost which has come down from around Rs. 7.5 crore in last quarter to Rs. 2.5 crore. So, there is a substantial decline. So, any specific reason for that?

Sanjiv Kapur: We had received money from China, and also current cash flow have helped to repay the loan.

Sunil Jain: Okay. So, the total gain is on account of reduction of debt you mean to say?

Puneet Khurana: Yes, you could say that.

Sunil Jain: So, what is the current debt if you can share that figure?

Sanjiv Kapur: Yes, total consolidate is Rs. 124 crore as of June.

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

Harsha Vora: The first question was as the other states are opening with the CNG station so, for that is our company planning to set up a new production line because company is having several pending orders and not able to meet the current requirement?

Puneet Khurana: So, yes, definitely we are planning to set up a new facility in Gujarat with 2 lakh cylinders.

Harsha Vora: Okay. Over where in Gandhidham only?

Puneet Khurana: Yes, it could be around Gandhidham only.

Harsha Vora: Okay. Another question was as Confidence Petro and MPC got the Peso permission for the production of CNG cylinders and medical oxygen cylinder, will that affect our current market?

Puneet Khurana: No, I do not think so. It should not affect our market.

Harsha Vora: Or maybe they have the higher set of numbers of production, maybe they are also 2,000, no, more than 2 lakhs or 3 lakhs cylinder capacity. And also, JFE is also planning for a new production in Mehsana?

Puneet Khurana: Okay, yes, of course, now this market is growing everybody is going to plan expansion. Market is also growing quite fast. So, I think all these capacities should be get consumed in the market.

Harsha Vora: And what about the BS-6, the approvals will not get for the aftermarkets, it will affect our market?



Puneet Khurana: No, see what will happen is, it will all become an OEM business then. So, we are currently doing OEM and BS-6 has not come. You are right, the aftermarket BS-6 has not come. So, there is definitely that business, maybe in the long run, or maybe after five years, maybe that business, if they do not get BS-6, maybe their business will not exist after five years.

Because even in India today BS-4 lot of vehicles are there still. Lakhs and lakhs of vehicles because you go to new cities and other things, there are so many vehicles that are running on BS-4 still. So, I think maybe yes if they do not BS-6, yes, definitely this is going to the aftermarket will maybe in the next five years, it will not be there.

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

Jayant: One of my colleagues also asked about this question. On the debt, you said that the debt is around Rs. 124 crore which is significantly lower on a year-on-year basis definitely. With this all the debt ratios have also improved significantly. Are you in discussion with the rating agencies because right now, your rating with CARE is at the lowest?

Sanjiv Kapur: . We are working on that. Maybe in due course of time, we will have.

Puneet Khurana: Definitely you will see that because all the commitment the company has made over the period of the last year as all fulfilled all matters that were there with the rating agencies why we were not being rated? China money has come, the performance has shown. So, I think it is a matter of time that the rating will continuously keep going up as we move quarter-to-quarter.

Jayant: Yes, because right now it is at the lowest end of the investment credit rating, which for the ratios that you all have right now for getting and leverage it deserves far much better?

Puneet Khurana: Hopefully you will see in the next quarter that will change.

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

Rahul: I just wanted to know what is the current capacity utilization at your plant?

Puneet Khurana: See we are anyway working above the rated capacity.

Rahul: So, it is more than 100%?

Puneet Khurana: It is not more than 100% but it is quite our product is little bit different. Over the last 6-8 months the de-bottling processes have gained us some benefits and that is why we are seeing some improvement in volume.

Rahul: Okay, and by when do you plan to get the new capacity of 200,000 online?

Puneet Khurana: Maybe next year.

Rahul: So, 12 months from now, or the end of financial year?



Puneet Khurana: Maybe about 18 months from now.

Rahul: And just one last pertaining to that. So, do you see the utilization in the new capacity to be at a ramping up level or you expect it to be at?

Puneet Khurana: No, it will be at ramping up level only. It will not be immediately, it is a new capacity so, it will take time to, it will take its own ramping time.

Rahul: Okay, so given that there is a huge demand like you had mentioned?

Puneet Khurana: No, see there is a huge demand, but as a new plant, it will take its own time. I will wish that we can make as many as we want, but it will take time once the plant starts and because in our products, we have a lot of approval processes. Approval from customers, approval from government agencies, being a safety product, so, that is also another little bit of a thing that needs to be done.

So, it is not only process that needs to be up and running, also approvals have to be in place.

Rahul: So, the facility, the new facility has to be approved or the company?

Puneet Khurana: Yes of course has to be approved by government agencies and plus by individual customers also. We have an approval process is quite lengthy because being a safety product there are lot of processes that we need to go through before approving the facility.

Rahul: But there is no way of increasing capacity at the current?

Puneet Khurana: The initiative the company has taken that we de-bottle whatever best we and we are seeing the results. We have debottle then we are getting benefits from that capacity increase.

Rahul: Right, maybe like, if you move out some non-core activities like storage and other things to outside facilities?

Puneet Khurana: Yes, of course, those are all sort out but as a production line they have some limitations. So, you can only go up to a certain level and then we will reach a point that only a new facility can give more.

Rahul: Okay, so just one last question is, in the current facilities, there is scope of more debottlenecking and increase capacity or you are?

Puneet Khurana: See we are continuously doing it. We are finding ways to increase capacity definitely we are improving everything that we can.

Rahul: So, there is no scope?

Puneet Khurana: Yes, there is not much scope, but definitely we are working on it.

Moderator: Thank you. The next question is from the line of Anil Jain from Equipassion Capital. Please go ahead.



Anil Jain: I just wanted to know what is our capacity utilization in US and UAE respectively?

Puneet Khurana: So, UAE is around 50%. See US is a project based production. So not really, we cannot the capacity they have a huge capacity. But it is more of a project based kind of industry. So, a little different way of looking at it.

Anil Jain: Okay, but if you cannot be able to give the number, can you quantify what kind of revenue we can generate yearly from US?

Puneet Khurana: What kind of revenue can we generate from US?

Anil Jain: Yes, in the current, can we extrapolate the current quarter?

Puneet Khurana: Yes, I think you can do that. Yes.

Anil Jain: Okay. And since we have now good amount of cash flows, and we have very low amount of debt remain. So, when can we expect to get debt free?

Puneet Khurana: I think for next year, it should be surely by next year.

Anil Jain: FY23 you mean to say?

Puneet Khurana: Yes.

Anil Jain: Okay. And one last from my side. Since your India capacity is already exhausted after the debottlenecking maybe by FY22. So, how do we expect growth to come from India operations in FY23 till the new capability comes on stream?

Puneet Khurana: A lot of maybe on higher value product in the product mix. Focus on those areas.

Anil Jain: So, what kind of growth you can expect from that product mix change in FY23?

Puneet Khurana: Very difficult to give you a number at this moment.

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

Viraj Mahadevia: I had a question regarding raw material prices, there is recently been a spike in steel etcetera. Do you pass it on to customers with a lag of a quarter? How does that works?

Puneet Khurana: Yes, when it comes to the OEM, yes, we do. We declare the amount of raw material and then we pass it accordingly.

Viraj Mahadevia: So, presumably next quarter or the current quarter ensuing quarter you should have a bump up in your realizations is that?

Puneet Khurana: No, I do not. Can you please repeat?

Viraj Mahadevia: See we are passing on the inflation in steel etcetera in pricing to the end customer and you should get a better price right from the end customer this quarter. So, will



you see a margin expansion in the current quarter onwards affectively is what I am saying?

Puneet Khurana: So, our product is stable. So, there is not much change in that, and we have a mechanism of working out these what you are talking about price. So, basically, we work with the OEM on the available material and so, there is a pass on in a very specific way. So, when we get the increase, we pass on increase. So, there is no as such extra realization anywhere.

Viraj Mahadevia: Will you be debt free by FY23 despite the Gujarat expansion in investments?

Puneet Khurana: Yes, Gujarat expansion is not much, we do not see because lots of the equipment is available with us. So, we do not see that being a very major investment.

Viraj Mahadevia: Are you paying out dividends Mr. Khurana or further plan that all the cash for Hungary and other expansions?

Puneet Khurana: We have declared dividend last year, which you should get after AGM. We want to keep that as a consistent when the company cash flows are good.

Viraj Mahadevia: You have a dividend policy as a present as it's on the website.

Sanjiv Kapur: It is there on the website.

Viraj Mahadevia: And does your US defense business have an order book visibility, so have you got an order book in place?

Puneet Khurana: The order book visibility is also very much there. But last year we had many instances that were on quarter-to-quarters basis we have seen the material has not been picked up.

So, visibility is there, the order book is good, it's just that last two years have been quite uncertain.

Viraj Mahadevia: We could have a visibility of Rs. 1,500 crore in US Rs. upwards 40 odd crore number going forward.

Puneet Khurana: Yes, like I said previously also that, we are a very small part of a big project. So, if you are making a submarine and government says, no, the submarine needs to be delayed for one year or something like that. And that is it. I mean entire supply chain it is stuck. So, that is the only. It does not happen often.

Viraj Mahadevia: In terms of the sales increase, you have seen a 17% sales increase from the last quarter. You mentioned, you have done some capacity debottlenecking. So, after the capacity debottlenecking have you done the 17% growth or now, that will still reflect from here another 15% going forward on a quarterly basis?

Puneet Khurana: After that.

Viraj Mahadevia: Right. So, from here you will expect stable revenues?

Puneet Khurana: Yes.



Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Puneet Khurana: Thank you once again, for all your interest and support. We continue to stay engaged. Please be in touch with our investor relations CDR India if you require any further details,. Thank you, everybody for your time.

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