Everest Kanto Cylinder Limited

Q3 & 9M FY22 Earnings Conference Call

February 17, 2022

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

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 Q3 & 9M FY22 . 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 Q3 FY '22 results presentation that has been sent out earlier. I now request Mr. Puneet Khurana to start the proceedings of this call.

Puneet Khurana: Good evening, everyone, I warmly welcome you to the Everest Kanto Cylinder earnings conference call to discuss the operating and financial performance of the quarter ended December 2021.

I would like to start with a quick introduction to the company for the benefits of those who are new to the EKC. Our company is the largest manufacturer of seamless steel gas cylinders in India, and has significant international presence. Our products have applications in sectors such as automobiles, healthcare, manufacturing, aerospace, defense, among others.

The gas economy continues to expand rapidly across the world. With the prices of crude oil rising considerably and climate change becoming mainstream to the global agenda, an increasingly large number of countries are looking at developing the gas ecosystem as the future of economic expansion. This includes India, that is targeting gas contribution to the country's primary energy mix to increase from 11% in 2010 to 20% in 2030. The underlying infrastructure in terms of gas pipelines and city gas distribution networks is being developed rapidly. Domestic gas production also looks to expand over the next few years, creating an integrated structure for steady increase in usage till the turn of the decade and expand even beyond. We see industrial demand in India grow in a secular manner, linked to the forecasted improvement in nominal GDP expansion compared to the growth weakness in the recent period. Industrial demand has traditionally been the key consumption base for our businesses.

In addition, CNG is quickly emerging as a key demand driver with continuous expansion in the city gas networks across the country. CNG availability is expanding far and deep. The government has also instituted several policy initiatives to support CNG growth in the country, including one nation one gas grid, implementation of BS-VI and vehicle scrapping policy. The recent round 11 of CGD auctions covered 65 additional geographical areas targeting 96% of the population and 86% area coverage in the country. 430 bids were received for these 65 GA's, indicating the significant interest in participating in the potential growth opportunity.

The number of gas stations operating in India have already tripled in the last six years to March 2021, crossing the 3,000 mark. It is now expected that we will have close to 9,000 stations operational in the next 4-5 years with deep presence in every part of the country. CNG vehicle adoption across passenger vehicles and commercial vehicles is already visible, this trend will only accelerate over the next several years. Similar initiatives are also being undertaken globally and EKC is fully geared to participate.

Now to cover the Q3 performance, EKC has delivered strong operating and financial performance with positive contribution from all geographical locations. Revenue was up at 88% to Rs. 464 crore in Q3. In India and UAE, growth has been driven by CNG adoption in the auto sector whereas US growth has been based on acceleration of industrial activities.

Margins have expanded to 21% despite absorbing raw material and other cost escalations, including power and costs. logistic costs, factory expenses. Profit before tax excluding exceptional items and forex variations was higher by 143%.

Our brown field expansion initiatives have increased production capacity in India to about a million cylinders annually. The second phase of brownfield expansion is expected to complete by the second quarter of FY23. We have also recently acquired 54 acres of land parcel in Mundra, Gujarat for our planned greenfield expansion. This site is about 30 kms away from our Kandla facility and its proximity is expected to drive operating efficiencies and shared cost benefits.

Our balance sheet has supported the expansion capex as well as the larger working capital requirement in a growing business. As a result, the ROCE has expanded to 32% and we see potential for further improvement as we continue to deliver as per plan. We now see near term growth being driven by several factors. Firstly, we see continuous volume expansion from the increased utilization and brownfield initiatives already implemented. Secondly, higher pass through and new contracts will improve realization. This will be followed by the second leg of brownfield expansion to be ready in six to seven months from now.

In FY24, we see the Mundra greenfield facility increasing revenue capacity in India and projects in Hungary also been commissioned. As I indicated, Q3 financial performance has absorbed elevated raw material prices and sharply higher cost structures. Moving ahead, we are looking for improved realization resulting in further margin firmness in a strong demand environment.

I would like to indicate that we are focused on growth in absolute EBITDA even more than revenue growth. This is the matrix that we track internally as well because EBITDA reflects our ability to scale up volumes, increase the contribution from the value-added products and absorb raw material cost volatility. Whereas revenues see the reflection of volumes, realizations, as well as raw material volatility. Along with EBITDA, we are focused on improving return on capital to create more value for stakeholders.

To close, I would like to reiterate that we now see several years of growth visibility as gas usage continues to expand across the world. At EKC, we are positioned strongly within the emerging framework and will look to leverage our established framework and expansion initiatives to drive profitable growth.

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

Moderator: The first question is from the line of Krishna Agarwal from Niveshaay. Your line is unmuted; you may please go ahead with your questions.

Krishna Agarwal: We are seeing Time Technoplast is continuously focusing on composite cylinders. So what kind of trend do we see on composite cylinders.

Puneet Khurana: So composition cylinders are used for a specific niche market. We definitely have products that are focused on gas transportation. Time Technoplast products are more expensive in nature. So there's a small little niche market for this. So at this current moment, we don't feel that we would like to focus on these products. The cylinders we are making is where we want to stay focused on.

Krishna Agarwal: We are seeing that Maruti Suzuki and Tata Motors they are continuously reporting good numbers and CNG variant vehicles. In my understanding, we are not supplying to Maruti Suzuki.

Puneet Khurana: We don't supply to Maruti but we supply to all other OEMs in India. Suzuki.

Moderator: Thank you. The next question is from the line of Mohit Khurana from Banyan Capital. Please go ahead.

Mohit Khurana: What exactly is the raw material mix for you? – Is passing on raw material pricing to the customer is going as of now, do you need to raise prices? We haven't seen that in margin.

Puneet Khurana: We are importing only one kind of raw material that is seamless steel tubes and of course, we are always passing on the cost ahead to the customers. Our suppliers mainly to the OEMs. There is a system, there's a formula that we follow, our raw material plus our cost of processing plus the margin, and then we pass it on to the customer.

Puneet Khurana:

Mohit Khurana: So, is it fixed rupee margin that you make? Or is it in percentage terms that you are allowed to?

Puneet Khurana: It's more a percentage.

Mohit Khurana: More of a percentage, fair enough. And seamless steel tubes that you're importing, they basically come from China, I believe.

Puneet Khurana: They come from China and Europe.

Mohit Khurana: What percentage of the total raw material costs they form?

Puneet Khurana: About 85%.

Mohit Khurana: We have seen your margins improving to around 21% in the most recent quarter, EBITDA margins to be specific, how do you see these margins going ahead, because the margins uptick has largely started from the COVID onset, do you think this might reverse to a more normalized level going forward?

Puneet Khurana: **We should be** able to maintain healthy margins.

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

Sunil Jain: One, you had said that you are looking to reprice some historical contracts. So, this is related to India or international and in which sector you're looking at that?

Puneet Khurana: In India.

Sunil Jain: But that is in which sector like industrial or auto sector? Or across the board?

Puneet Khurana: There will be a mix between industrial and CNG.

Sunil Jain: So, we had seen gross margin coming off at the consolidated level this quarter. So is it possible to bounce back to the previous quarter level of around 50%. This quarter, it has come down to 45%.

Puneet Khurana: I think we've always said that Q2 was a little special, but definitely margins will continue to be strong.

Sunil Jain: We can see some improvement from Q3 level, or no?

Puneet Khurana: Yes, of course.

Sunil Jain: Okay. So, another question relating to international operations. Whatever revenue we had seen in the US since last two quarters, is that sustainable?

Puneet Khurana: Yes, that should be sustainable.

Sunil Jain: Can we see some growth? How is the demand over there?

Puneet Khurana: US has been hit because of COVID. So they are just coming back, say the last few quarters have seen some comeback. We are hoping that this will maintain.

Sunil Jain: What kind of order book we see in US ?

Puneet Khurana: We have a very strong order book, but because these are long term contracts, all defense contracts, sometimes due to policy of government or something like this kind of event that happens, just delays the things. So you know, US always has an order book because the whole company there works only on order book. We don't have any standard products that we manufacture there. So the order book is still very healthy there, but only thing is you know execution of the order book and any events that happens like this. Since last two quarters things are coming back so we hope it should remain in the same line.

Sunil Jain: And last question related to UAE, what is driving demand in UAE? It is local demand or export demand or which country is driving this demand?

Puneet Khurana: UAE is mainly an export base there is not much sale we do in UAE. So mainly this kind of demand comes from countries like Africa, Egypt, South America and Europe. These are the main countries that we export to from UAE. Not specific South America but there's so many countries like Brazil, Peru, Colombia, Argentina and to Europe in countries like Germany, Italy, Hungary, there are so many many countries. We have a distributed network so we have the product goes to probably say to Germany, and then it gets spread all over Europe. So, something that goes to say in Peru and South America and then gets spread all over South America. So, this is the way the business is done, but it sends to many countries there in that region.

Sunil Jain: And there again, it is demand driven by auto or industrial.

Puneet Khurana: This is this is more like auto. So, say Dubai is being driven mainly by CNG.

Moderator: Thank you. The next question is from the line of Dixit Doshi from Whitestone Financial. Please go ahead.

Dixit Doshi: Thanks for the opportunity. Actually, I'm attending this call for the first time. So some basic questions I have. Firstly, in the domestic market I assume your capacity is around 10 lakh units. Correct?

Puneet Khurana: Correct.

Dixit Doshi: So, can you give the average realization per cylinder we get.

Puneet Khurana: It is very difficult to do that because we make a wide variety of products, we make cylinders that are very small and cylinders which are very large, and it's very difficult to kind of give an average price of the product.

Dixit Doshi: Okay, but is it fair to assume that this Q3 numbers on a standalone revenue, we are running almost like at peak capacity?

Puneet Khurana: Yes.

Dixit Doshi: Okay. Now, in terms of capacity expansion, we have given one table there you have mentioned that brownfield capex is four lakh cylinders, of which phase one is completed. So, how much was the Phase One out of four lakh?

Puneet Khurana: About 75% you can say is already completed and one lakh cylinders is left.

Dixit Doshi: Okay. And in the same slide you've mentioned that for like cylinder capacity can make annual potential revenue of Rs. 300 crore, but at the same time 2 lakh brownfield can give it Rs. 200 crore revenue. So is it mainly because of the product mix? Because the realization differs in both the cases?

Puneet Khurana: Yes.

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

Deepak Poddar: Yes, thank you very much for the opportunity. So, firstly, I wanted to understand some differences in steel cylinders with composite cylinders. From what I understand the differential which earlier used to run at around 30% - 40% has now reduced to maybe only 10% to 15% maybe because of the hike in steel prices. So how do you see that, I mean, composite being the lighter...

Puneet Khurana: See the thing is composite cylinders I don't think they are 10% to 15% more expensive, they are much more expensive. They might be at 25% - 30% more expensive than steel and composite cylinders have a different kind of customer base. So, these are carbon composites with plastic liners inside. We are using all steel, a little bit more rigid to use, easier for the customers to use, much more strength, while in plastic cylinders, of course, the risk of strength and the way you use it, and there's a lot of care that needs to be taken while using these products.

Deepak Poddar: Do you see competition to our business?

Puneet Khurana: We feel that steel cylinders will be there. I told you composite cylinders have a niche market, where the customer needs to have gas transportation market where these kind of products have a market. We are continuously watching this market so we are also keenly looking, in case we feel that the market has matured, we'll definitely be taking some position, some actions to be a part of it too.

Deepak Poddar: **On t**he EBITDA margin front, you did mention that we do expect some firmness in margin going forward, may be driven by higher realization. So I think in the past, we have given 22% to 24% kind of EBITDA margin outlook. So, is that the range that we're looking at going forward or there has been some change because of this raw material.

Puneet Khurana: Higher than that, but yes.

Deepak Poddar: Okay, okay, any kind of growth outlook we are expecting for next year?

Puneet Khurana: Growth outlook, there will be growth. Because brownfield is coming. So, definitely there will be growth. We will be completing the brownfield.

Deepak Poddar: No, so, that is what I wanted to understand you're saying that there will be growth, now, we are at 1-million cylinder capacity and working at about 100% utilization level. Now, the next brownfield, I think one lakh is expected to come by mid of this year and the greenfield will come in 2024.

Puneet Khurana: Right.

Deepak Poddar: We are already running at 100% utilization. So what will drive the growth then? For next six months or maybe two, three quarters.

Puneet Khurana: We will be focusing on value added products.

Deepak Poddar: Okay, but, that value added product focus might increase our growth might be 5% to 10% not more than meaningful growth?

Puneet Khurana: Yes with even the Brownfield 100,000 cylinders, the growth might go to 15% - 20%.

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

Sachin Kasera: Congratulations for a good set of numbers. On the auto, can you give us a sense of how the market is shaping up on passenger as well as cargo? Because from what I understand, I think even the cargo market is starting to do well. So, while most of the articles focus on the increasing trend of CNG on the passenger side, can you give us a sense on how the cargo opportunity is shaping up.

Puneet Khurana: Cargo, you mean like the ACE model? Is that what you're looking at?

Sachin Kasera: I'm talking about LCVs or MCVs.

Puneet Khurana: Of course, those are growing very fast and this has been happening for the last two years now.

Sachin Kasera: Can you give us some sense, like, for example, two, three years what will be passenger and cargo and what would be the mix now? Broad sense?

Puneet Khurana: Yes, say like three years back the CV market was like maybe 10% of the production of the OEMs. Now you're talking about 30-35% of the production moving to CNG.

Sachin Kasera: I am saying, how did you see this trend in the next 2-3 years? Will cargo continue to grow faster than passenger?

Puneet Khurana: No, both of them will grow equally fast, it all depends on the CNG infrastructure. If government is committed to a larger investment on CNG infrastructure. And the way the plan looks, today we are at 3,000 stations. If we are going to 9,000 stations, definitely infrastructure is available and the vehicle population will keep on increasing.

Sachin Kasera: That is well understood. My question was while both will grow, will cargo grow faster than passenger in the next 2-3 years?

Puneet Khurana: I think both of them will grow fast. To put a percentage means I've already told you, that you're already coming from a very low base to a very high base now. So, you see the trend is happening. See, there is already a change in the customer base and buying behavior. A customer that used to buy diesel vehicles already started to buy CNG. So every 10 vehicles that are selling, three are already CNG. So, there is that mindset and the behavior of the customer to already go in for the CNG vehicle. So, that change is already happened. What will drive the growth is how fast is infrastructure built. When a customer buys a vehicle, he sees that there is a CNG station available. Now, if that growth of CNG stations is not happening as per the plan, definitely this growth will not happen, because it all depends on infrastructure.

Sachin Kasera: Sure, my second question was regarding the new facility we are putting up in Mundra. You mentioned that you acquired 54 acres of land, that is enough for modular expansion. So can you see over the next 5-6 years, if the demand remains strong, what actually is the potential that we can add in Mundra.

Puneet Khurana: Land is available, you keep adding as much as you want. It all depends on how the market keeps growing. So, we feel that the market is growing, but we have to go step by step. We cannot, just expand without any kind of fixed goal momentum, we want to keep a very fixed way of expansion. So, we are going in a very systematic manner for expansion. So, first we want to get over the brownfield and then we want to get into greenfield, so we want to have it in a very structured manner. Control the expansion and get best results possible.

Sachin Kasera: And can you share with me what is the net debt numbers as on December and how much is the debt reduction at the end of nine months?

Puneet Khurana: Debt is something that we have continuously worked on bringing down and this is going to continue. Rs. 150 crores on a consol basis, net debt. Rs. 137 crore.

Sachin Kasera: Yes, what was this figure as of March 2021. How much were we deducting in first nine months?

Puneet Khurana: It was the same see, what happened is the company had a very large hangover on the long-term debt that if you look at my FY20. In FY20, the number was Rs. 255 crore.

Sachin Kasera: Yes, but your profits have been very strong?

Puneet Khurana: The profits are being deployed into running of the company, into expansion. We've kept net debt at the same level, though the business is expanding, and of course, there is also further plan of reducing another Rs. 40 crore or Rs. 50 crores over a period of time. Of this also, maybe you will see that in the coming few quarters that the debts will further reduce from this level also.

Sachin Kasera: And there have been talks in between from investors to come up with a capital allocation policy from a medium-term perspective. Any thoughts on that, can you share with us how you plan to allocate the cash flows over the next two to three years, how much for debt reduction, how much for pay offs or buyback how much for capex.

Puneet Khurana: So the board is still considering this kind of proposal. Right now the company is just thinking about expansion so, we would like first to complete all the expansions and then these things will follow. Business is growing quarter to quarter so we need to manage all that in a way we want to see that we can be comfortable.

Sachin Kasera: And just one last question. Competition, do you see any risk because of this. While the demand is strong, there's a lot of capacity that comes up and eventually that puts pressure on the market in the medium term to short term.

Puneet Khurana: So, the only risk I see is the infrastructure. See, if the government has promised and committed a large infrastructure, then definitely all this capacity that are being planned or the capacity we are planning will get absorbed. Only thing is that infrastructure should continue to grow. Today, India is setting up at least four CNG stations every day so if this kind of commitment continues by all the stakeholders, then definitely this demand will continue.

Moderator: The next question is from the line of Vivek Gautam from GS investment. Please go ahead.

Vivek Gautam: Just wanted to know, we have been able to, for the last one and a half years, we were able to pass on the price increases. What happened in this quarter that we were not able to pass on the price increase. Second thing is about any new clients added by you recently.

Puneet Khurana: So you know there is a lot of things that have happened in this quarter. Some input costs have gone up, like electricity, natural gas, LPG. These kinds of costs have come in, then there have been some old contracts that needed to be honored, those have come in. Some price lag that was there that had to be done, that came in. So there's a lot of factors that came in and of course, we are taking the corrective actions that needed to be taken for the coming quarters.

Vivek Gautam: And Sir, any new clients added in India and outside India abroad, also.

Puneet Khurana: I can check up and let you know about the international new clients. In India, we haven't added any new clients. Discussion is going on with lots of automobile guys who are not yet come into the CNG play. So there's lots of work under discussion with lots of people. Anybody who's putting up a new vehicle, so there has to be a lot of prototyping and making new designs. Lot of discussion goes on in so, these things take some time to happen.

Vivek Gautam: And sir, is there fungibility in our product?

Puneet Khurana: Yes.

Vivek Gautam: Retrofitting cylinders might be required.

Puneet Khurana: Yes, correct. Correct. There is there is fungibility. Only thing is the availability of raw material should be there.

Vivek Gautam: The raw material in Maharashtra Seamless, that they started producing it in India.

Puneet Khurana: Yes, they have they have started some production. So we are considering seriously to buy from them. We have done some tests and we have found them suitable.

Vivek Gautam: So, that will help us reducing the inventory?

Puneet Khurana: Definitely, buying locally will be very good advantage.

Vivek Gautam: How much these Maharashtra Seamless people, can they meet up the whole of the demand for?

Puneet Khurana: I think they have capacity. Now, only thing is meeting the demand again, will now depend on their capacity, where they are allocating because this is a very small business for them. So, maybe if they have commitments to their oil and gas customers, we'll have to see.

Vivek Gautam: Any threat from EV and opportunity from hydrogen cylinders.

Puneet Khurana: No, hydrogen is something that is something in the future, will definitely be there, will come. EVs are still underway. I think there are a lot of discussions on EVs. But CNG definitely, there will be a co-existence of CNG and EVs.

Vivek Gautam: Our company is typically, the leader in the segment with 50% market share, and very good ratios. Except in the quarter, the margins were also excellent. But still, the price earnings for us is sort of down so mainly due to the past corporate track record of our company and Iran-US embargo which affected us badly. So, what steps are we talking to sort of increase that…

Puneet Khurana: The company has definitely done a lot of looking inside on which strategic businesses to be in. So we sold off China, we didn't think we needed to be in China. We closed our subsidiary in Thailand, we didn't think we needed to be there. So we have always been over the period looking at what needs to be done and what business the company needs to be in. See, we have come a long way of doing these exercises, reducing debt. I mean, the company 3-4 years back had debt of around Rs. 300 crore. So, now, the term debt is gone, the company has done lots of things over a period of time that have put us in this position. Now, we can focus more on growth, product development and expansion and other things where we should be doing. I think we are well placed as a company as per the profit, as per the team, as per the international operations, and I think that we are well placed to see us growing from here.

Vivek Gautam: And last thing about the opportunity size in India, what about the gas urja pipeline, Eastern India, North Eastern India.

Puneet Khurana: That is where the great opportunity lies, more the gas pipeline, the more the opportunity goes on increasing for us every day, because the more pipeline means more CNG stations. So, we will be very happy if more and more pipelines come and network gets covered by pipelines.

Moderator: The next question is from the line of Viraj Mahadevia, an Individual Investor. Please go ahead.

Viraj Mahadevia: I think you set a great foundation for growth in the years to come. My checks tell me that demand is grown at 3x to 5x across the various sub sectors, and that some CNG cylinder manufacturers are being forced to turn away or choose customers, is this true?

Puneet Khurana: I'll tell you what, the thing is that, now, let's take an example of a smaller vehicle. Where you require a small capacity of tank, right, and then you have a market where, simply let's put this way, so if you have a product that sells for, say, 7,000 to 8,000 bucks. When I can sell a product of 16,000, as the demand is large, and so everybody is really choosing who to cater to and who not to cater to?

Viraj Mahadevia: Perfect, you've answered my question. So you are picky.

Puneet Khurana: Our company, we have a policy of catering to everybody, because this is long term. We could be looking at only the profitable sectors, but that's really not something that we want to do with such a large capacity and such a large expansion plan. You have a 20-year relationship with your customer so you want to even cater to the small guy, even though the margins are small, but you need to continue doing those things.

Viraj Mahadevia: It's a balancing act.

Puneet Khurana: Yes, yes, yes, we need to do that. There's lots of options today, we could just choose to shy away, we can't do that looking at the customer relationship and things like that.

Viraj Mahadevia: Understood. Puneet, in India business, you've seen gross margins at about 47% this quarter versus 50.4% and 51.5% in the last two that you've reported. From my estimates, in repricing your current contracts and pass through of raw materials where you get a 3% bump up hopefully, in gross margins, you should be able to generate 60% to 75% - Rs. 75 crores of EBITDA on an annualized basis, for 18% to 20% higher than FY22 of roughly Rs. 350 crore, does that make sense?

Sanjiv Kapur: See we are trying our best to get the best contracts available with us. So Gross Margin itself would first give us the required EBITDA leverage. Obviously, these things make sense and we are working out on our contracts and we're trying our best to get the best pricing.

Viraj Mahadevia: Fantastic. I just want to bring out the earlier question that was asked that even with limited revenue growth of 100k or 1 Lakh cylinders coming on stream post September, your EBITDA growth can still be well over 20% for the next year.

Sanjiv Kapur: Yes, there we will be focusing more on real EBITDA growth.

Viraj Mahadevia: **In** the presentation you said Rs. 35 crore of Capex, for Tarapur expansion, has that 100% been incurred already? And are the Phase 1 additional revenues already reflected in Q3 results? Or do you have headroom in volume growth in Q4 and Q1?

Puneet Khurana: No, that's incurred.

Viraj Mahadevia: Do you have capacity headroom to show volume growth in Q4 and Q1?

Sanjiv Kapur: Yes, obviously because we are saying that we have completed 75% of this increase and obviously there is headroom for this growth, balance. We gets around Rs.100 -125 crore further.

Viraj Mahadevia: Okay, perfect. The Mundra Greenfield of Rs. 45 crore, does that exclude the cost of the 54 acres of land? Which you already bought?

Puneet Khurana: Yes it excludes (# see below).

Viraj Mahadevia: Okay. How much is oxygen cylinders as a percentage of your revenues? There's a lot of misconception about your company that you've got a bump in performance last year, because of COVID and oxygen supply? Can you put that to rest, by telling how much is oxygen cylinders as a percent of overall revenues of the company?

Puneet Khurana: Oxygen cylinders has always been there with the company. I mean, see oxygen cylinders could be in two ways, you have medical oxygen cylinders and use oxygen cylinders for industrial applications.

Viraj Mahadevia: No, I mean, medical, sorry.

Puneet Khurana: Medical is not much. I mean, this quarter. I think it was hardly anything. Last quarter, there was not much. So yes, let me let me give you a revenue breakup. I think it was 70-30. For the total revenue break-up, CNG and industrial. It was 70-30.

Viraj Mahadevia: But within the 30, Puneet, I want to know how much is medical oxygen?

Puneet Khurana: I'll have to check. But yes, could be 5, 10%? I don't know. Yes, I don't have the exact number, but could be.

***#Clarification**:* The management's response regarding EKC's greenfield expansion plan was not communicated accurately. To clarify, the company has acquired 54 acres of land, the cost of which is included in the estimated capex of ~Rs. 45 crore.

Viraj Mahadevia: I have noticed that you all have repaid a large part of your Dubai owings from the India entity, I think 5 crores left . So that's great. But there's a promoter loan of 50 plus crores, which is from more difficult times? Can you tell us what rate is being charged upon that?

Clarification*: The management's response regarding EKC's greenfield expansion plan was not communicated accurately. To clarify, the company has acquired 54 acres of land, the cost of which is included in the estimated capex of ~Rs. 45 crore.*

Puneet Khurana: That is the same rate as the bank rate.

Clarification*: The management's response regarding EKC's greenfield expansion plan was not communicated accurately. To clarify, the company has acquired 54 acres of land, the cost of which is included in the estimated capex of ~Rs. 45 crore.*

Viraj Mahadevia: Why are we not looking to refinance this?

Puneet Khurana: Yes. So, what the idea was that we had made a plan where we could just simply over the next 6-8 months, just take it out from our own cash flows, we don't need to take a bank loan swap, things like that, we were considering just taking it out on our own.

Viraj Mahadevia: What is the rate of this loan?

Puneet Khurana: Rate is the same as the bank rate, at 9%

Viraj Mahadevia: Capital structure, I will borrow money Rs. 50 crores or 8% from them and repay the promoter loan. It's a good governance step to take irrespective.

Puneet Khurana: Yes, definitely we will consider it for sure.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund, please go ahead.

Bhagyesh Kagalkar: Thanks for the comprehensive PPT given here, Bhagyesh from HDFC MF. If you go to slide number 13, bottom of it you are showing the CNG installed base, which I believe for 2023 is three and a half million vehicles in India.

Puneet Khurana: Correct.

Bhagyesh Kagalkar: And that is going to one crore, so the market is almost tripling essentially over next eight years. How much market share we'll have in this and the second issue is regarding the safety norm for you and your competitors. In EV's ultimately the battery maker is responsible for any fire or anything, in India as the number goes up very sharply in commercial vehicles and even in the individual, maintenance is an issue. There will be some issues happening in terms of the safety or an accident, what are the liabilities that companies like us feel. Life of vehicle is 15 years. So how much we give the guarantee for our cylinders.

Puneet Khurana: Usually CNG as such, as now over 20 years in the country. So, it is not a new technology that is being developed. So, there is enough knowledge and safety norms and things that are already established in this product line. As per our product, we are authorized, we are supposed to be giving a life of 20 years to the product as per the standard. Every 20 years, cylinders need to be scrapped.

Bhagyesh Kagalkar: My question regarding market share from three and a half million to 10.5 million, the industry in India is going.

Puneet Khurana: I would like the market share to remain the same 50%. I think it's a very good market share, we like to keep it that way. I mean, we are continuously looking to expand capacity, and we have all resources available to expand capacity. So, definitely, we will continue to expand capacity as the market continues to look strong. So, we would, like I said, brownfield then look at the first step of greenfield, and then look again. If there is any further requirement, will definitely further expand. The kind of relationships that we have been able to get over the last 20 years in the customer base, gives us some kind of advantage and leverage over the competition, in this product.

Bhagyesh Kagalkar: But, beyond that, there's no USP for a product from the manufacturer A to manufacturer B, his product and your product, because he will adhere to the safety norm and the import is also from the same source.

Puneet Khurana: Every product has a life cycle. Definitely, we have a lot of products that are still very good, are still giving us good results and continue to be a little bit favorable than competitors, but every product has a life cycle. Probably when the competitors reach there, maybe we will have to go into some other products. So that we continue to gain the advantage that we have.

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

Prakash Prabhakar: Hi, good afternoon. Hi, Puneet, how are you? Congratulations to all of you, I just had two observations to make, the first one like investor community colleagues as highlighted upon, which is the good governance of repaying the Directors or the promoters' loans. Obviously, like you have again assured, this is something investors have been highlighting to you for some time. And I have personally also kind of raised this subject, at least in two previous quarters, and I really hope that we see some action there.

Puneet Khurana: You will definitely see the action on that.

Prakash Prabhakar: In any case 9% looks to be a little bit high for the banking interest as well, because the interest rates in India fortunately right now, are quite low.

Puneet Khurana : So what we are doing is what bank's rate we are getting, we are giving the promoters at the same rate, there is no advantage as such for promoter loan in the company.

Prakash Prabhakar: The other like, and mostly I try to bring in the things which are not really number driven, but rather strategy driven. The other two things, which I wanted to ask you, I see a lot of emphasis on your growth, from the infrastructure for gas distribution, which has been there always like, so, I would like to get your perspective on how do you see… of course, one is the setting of the infrastructure, the other is like the availability of gas itself. Of course, the prices of gas will always continue to be better than that of diesel, but like, you see any impact of the slowing down of exploration of setting up this gas infrastructure, particularly because of the geopolitical scenario which is developing, I believe that a lot of gas in India is imported as well. The other thing also, which I wanted to you to respond, and that's my next question is that in the last quarter earnings when you when you spoke, you had not given any kind of indication on the contraction of margin. So is this something which spooked you or you were anticipating this and just missed to highlight this in the last earnings call?

Puneet Khurana: I'll answer the other ones first. See, the government has been quite clear on the policy for CNG and gas infrastructure in the country. So, there seems to be no let off, you know. I mean all the gas companies seem to continue to invest in this sector, very heavy investments are going here. So, we don't see them any kind of let off as per the infrastructure layout is concerned. So, this should continue and obviously gas prices and gas coming from international avenues that is always going to happen, the gas prices will increase but like you rightly said it is obviously going to be below the diesel prices, so always an attractive fuel for the customer.

Prakash Prabhakar: Right no, I appreciate that and any reason why you are not with Suzuki, because Sukuzi is the largest market share owner of the automotive sector in India, is it because their cars are smaller and therefore the cylinder realization is low.

Puneet Khurana: No, no, Suzuki already has two vendors for the same product. So really there's no room for a third vendor.

Prakash Prabhakar: Considering that you are the market leader.

Puneet Khurana: Yes, yes, we were not able to get this.

Prakash Prabhakar: And one final thing, so the other part of the question you didn't answer that last quarter, when gave outlook on the next quarter's earnings, is it the contraction, is it something that you just had anticipated. Or is it something unanticipated that happened which spooked you kind of thing. So that's one thing. The other thing is that it would be nice to get some indication from you whether the company would be considering dividend payouts in this year or not.

Puneet Khurana: Definitely I mean, if the company consistently performs, definitely board will consider a dividend and as far the margin, definitely there are some contracts and some input costs that have spooked us a little bit and some lag in the raw material that was not able to pass through. So, definitely these things have happened in this quarter.

Prakash Prabhakar: Never mind, business has a dynamic scenario of everything that you will be able to recover from these.

Puneet Khurana: Yes, yes.

Prakash Prabhakar: We will continue to pin our hopes on your indication that the margins will improve from here onwards and we will resume back. Thank you, best of luck.

Moderator: Thank you the next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead

Ravi Naredi: Thank you very much. Different locations, what capacity we are running in the plants.

Puneet Khurana: Both locations we are running at almost 100%.

Ravi Naredi: In UAE we get 6% and US barely Rs. 2 crore profits while our margin in India is 20% so why we want to expand UAE and US facilities?

Puneet Khurana: No, we're not expanding in UAE we are not making any expansion in UAE and US we are not making any expansion plans.

Ravi Naredi: So, old expansion, whatever capacity you are having you are maintaining it right.

Puneet Khurana: Yes

Ravi Naredi: Capacity expansion plan you mentioned by 0.9 to 1.8. 6 lakh cylinder in India, 240,000 cylinder in Europe and then you mentioned million cylinders. On third number page. So in how many years it will be from 0.9 to 1.8 million.

Puneet Khurana: By 2023-24.

Ravi Naredi: How much capex will be there?

Puneet Khurana: Capex we have given about Rs. 250 crore.

Ravi Naredi: And we will not raise any equity right we will raise only internal accrual as well as the date if required, right.

Puneet Khurana: Yes, there is a plan to raise some debt.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

Pranay Jhaveri: Hi, thank you for this opportunity. So, if you can give me the number for Capex in this quarter.

Puneet Khurana: This quarter do we have any numbers?

Sanjiv Kapur: In what sense you're looking at?

Pranay Jhaveri: On the last call, you had indicated as well as on your September balance sheet, the net debt was about Rs. 65 crore and you gave a number of Rs. 137 Crore this quarter. I am just trying to understand the Rs. 65 - 70 crore number.

Puneet Khurana: The equipment's take a lot of time to come so orders would have been placed and equipments are coming in intervals and there were some outflows on account of advance payments for material.

Puneet Khurana: Yes. And what else is there?

Sanjiv Kapur: Yes, and some are outstanding that we cleared.

Pranay Jhaveri: Okay. So, basically on the last call, you had indicated we would become debt free in a year's time, so would that hold still true or would that timeframe now get stretched just trying to figure this out?

Puneet Khurana: Debt free in as far as the promoters debt is concerned?

Pranay Jhaveri: No total debt

Puneet Khurana: Total debt, I think we require money to run, I mean, there still be some short-term debt that will remain. Long term debt definitely you will not see but short-term debt will always be there, business is growing.

Pranay Jhaveri: Okay.

Pranay Jhaveri: Long term debt will be zero probably in a year's time

Puneet Khurana: Yes. We will try to do it in next 6-8 months.

Pranay Jhaveri: Okay. And I missed the answer of yours on your guidance for consol margin. I think in last call, you heard basically indicated 22% to 24%. Margin.

Puneet Khurana: Yes.

Pranay Jhaveri: You still feel that going forward FY23, we would be able to maintain the gross margin of about 45%

Puneet Khurana: Yes.

Pranay Jhaveri: EBITDA of 20% -24%.

Puneet Khurana: Yes.

Moderator: Thank you. The next question is from the line on Nishit Shah Equitas Investment. Please go ahead.

Nishit Shah: I would like to understand our industrial segment part. So, how is the demand over there?

Puneet Khurana: Currently industrial segment demand is also very good economy is growing very well. So there is a good demand and nothing much has happened in the last two years. So there is definitely a good demand so industries picking up very well .

Nishit Shah: Okay, are their realizations and margins equal to our divisions?

Puneet Khurana: That would be quite a bit different products, different margins. It's very difficult to give you one answer.

Nishit Shah: And what would be the mix of industrials now?

Puneet Khurana: I think industrials will be at 30%of the total revenue.

Nishit Shah: From this phase one capex do we have incremental revenue potential compared to Q3.

Puneet Khurana: Yes, we have already given that here, check in the slide 28, it is given there.

Nishit Shah: So, compared to Q3, how much more can we basically get in our revenues? Can you please share that?

Puneet Khurana: You could say may be Rs. 40 crore to Rs. 50 crores every quarter.

Nishit Shah: Relating to other expenditure in Q3 are other expenditure was slightly higher. So, was there any one off?

Puneet Khurana: No, there was no one -offs . Some may be very small one off will be maybe there.

Moderator: Thank you. The next question is from the line of Mohit Khurana from Banyan Capital. Please go ahead.

Mohit Khurana: Yes. Thank you for the second opportunity here, I just wanted to understand the client concentration in terms of revenue, how much revenue that you get from your top five and top 10 clients?

Puneet Khurana: I don't think we have those numbers with us. The business is fairly divided in a large customer base. We have a very large customer base with the concentration is quite well among the industrial CNG. So even if you have the top five or the top 10, it's not that they will be dominating the entire business.

Mohit Khurana: Okay, probably, I will get back to you on this one again, and then you spoke about the order book in the US, would you mind disclosing of what is the size of the order book there and if we work on orders in India as what is the size of book there?

Puneet Khurana: $35 million.

Mohit Khurana: In the US and India?

Puneet Khurana: Oh, India would be you can say six months of order book.

Moderator: Thank you. Thank you, question is from the line of Yogesh Bhatia from Sequent Investments. Please go ahead.

Yogesh Bhatia: I just wanted to understand a broader view that we have margins of around 20% 24% right now. So do you see any other threat other than raw material prices? Which also I think we pass one with some lag? Anything other than that, that could hamper our margins going forward?

Puneet Khurana: No, not really.

Yogesh Bhatia: And do you see any competition that could lead to the OEMs or the other players for you to compete at a better price.

Puneet Khurana: Competition has always been there in the sector. So they I think the landscape doesn't change. It’s always been the same.

Moderator: Thank you. The next question is from the line of Rishikesh Oza from Robocapital. Please go ahead.

Rishikesh Oza: How many units did we sell in this quarter versus last quarter?

Puneet Khurana: We don't really disclose the numbers.

Rishikesh Oza: Okay. So you said you were not able to disclose the realization numbers but I feel they are quite higher right now. So do you think these level of realizations is sustainable?

Puneet Khurana: Yes, I think it should be sustainable.

Rishikesh Oza: Okay. That's good. And also sorry I missed out on revenue growth guidance. Did you say a 15% revenue growth for next year?

Puneet Khurana: Yes.

Moderator: Thank you ladies and gentlemen, that was the last question for today. I would now like to have the conference back to the management for their closing comments. Members of the management you may please go ahead with your closing comments.

Puneet Khurana: Thank you once again for your interest and support. We will continue to stay engaged. Please be in touch with our Investor Relations Team - CDR India for any further details or discussion looking forward for interaction with you soon. Have a lovely evening. Thank you.

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