



EVEREST KANTO CYLINDER LIMITED
Clean Energy Solution Company

Everest Kanto Cylinder Limited

Q4 & FY22 Earnings Conference Call

June 01, 2022

Moderator: Ladies and gentlemen, good day and welcome to Everest Kanto Cylinder Limited's earnings conference call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note, that this conference is being recorded.

I now hand the conference over to Ms. Aisha Shah from CDR India. Thank you, and over to you, ma'am.

Aisha Shah: Good evening, everyone and welcome and thank you for joining us on Everest Kanto Cylinder's Q4 & FY22 earnings conference call. We have with us today, Mr. Puneet Khurana, Managing Director; and Mr. Sanjiv Kapur, Chief Financial Officer of the company.

We will initiate the call with opening remarks from the management, following which will have the forum open for question-and-answer session. Before we begin, I would like to state that some statements made in today's call maybe forward-looking in nature and a disclaimer to this effect have been included in the presentation shared with you all earlier.

I will now request Mr. Puneet Khurana to make his opening remarks. Thank you, and over to you, sir.

Puneet Khurana: Good evening, everyone, thank you for joining us on our earnings call. I hope all of you had the opportunity to go through our results documents that provided details of our operational and financial performance for the quarter and year ended 31st March 2022.

We are delighted to share that we have registered a record performance during the year delivering a robust top line growth of 79%, EBITDA growth of 127%, and a PAT growth of 189%. Our India business has delivered strong growth drivers by expanding CNG ecosystem that is driving secular demand. As some of you are aware, leading gas infra companies are aggressively establishing CNG pumps across the country and backed by this expansion. Auto OEMs are expanding their CNG portfolio to tap the demand from end consumers. On a standalone basis our revenue expanded by 69% to Rs. 1,268 crore in FY22.

Our overseas operations have also delivered a sustained turnaround during the year, led by a global shift towards gas adaptation. Our consolidated basis revenue

stood at Rs.1,699 crore, higher by 79% in FY22. While the overseas performance during Q4 was impacted, if you look at it from a year perspective, the subsidiaries have contributed positively to our results as compared to previous years. So, we believe our overseas businesses can continue to contribute positively to our performance going forward as well.

Accordingly, looking at the demand from the high potential Egyptian and African market, we are happy to share EKC's wholly-owned subsidiary EKC International FZE has formed a Joint Venture in Egypt to establish a CNG cylinder production facility. With our UAE facility operating at healthy levels, we believe, this facility should help us target the growing CNG opportunity due to the region's major push towards the consumption of cleaner fuels.

On margin front, we have witnessed volatility on Q-o-Q basis during the year owing to the change in product mix and increase in overall costs. It is difficult to comment on margin performance on quarterly basis. However, we anticipate our sustainable EBITDA margin shall be in the range of 20-24% on a full year basis. On standalone basis, FY22 EBITDA was higher by 93% to Rs. 351 crore, with a margin at 28%. PAT was up by 122% to Rs. 228 crore, and on a consolidated basis, EBITDA stood at Rs. 392 crore, higher by 127% with a margin at 23%, PAT stood at Rs. 265 crore higher by 189%.

Over the past few years, we have notably strengthened our balance sheet, as well as prudently deployed capital for capacity expansion. This has enabled us to generate healthy free cash flow during the year. Accordingly, in line with our dividend policy, the Board of Directors have recommended a dividend of Rs. 0.70 per share.

Coming to our capacity expansion plan, during the year, we expanded our annual production capacity to over a million cylinders on the back of our brownfield expansion in India. The second phase is also on track to be commissioned by Q2 of FY23. This will add about 1 lakh cylinder capacity and should assist us to drive further growth in this year.

In addition to our Greenfield expansion in Mundra is progressing well, and we remain on track to commission the facility by FY24. The initial phase of this project will increase our production by two lakhs annually.

To conclude, India has made a structural shift towards building a cleaner gas-based economy with a huge thrust on developing the CNG infrastructure. In addition, Indian Government recently announced its National Green Hydrogen policy with the goal of meeting climate change and making India a green hydrogen hub. As per some studies, India hydrogen demand is expected to increase five folds to 28 MT by 2050 from 6 MT in 2020.

Overall, this showcase, over the next few years, the decades, the use for gas across industries, including transportation is only going to accelerate. This will be a huge opportunity to the entire gas cylinder industry. And given EKC's leadership position, we believe we are well poised to tap this opportunity and create substantial value for stakeholders in the future.

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

Moderator: The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Thank you very much to give so fantastic result in this year and quarter. Sir, my question is, what is our order book at present and from which sector we are having these orders?

Puneet Khurana: So, I think the order book is quite strong and mainly CNG is the segment where the order book is coming from.

Ravi Naredi: Okay. Can you give any numbers, how much order portions we are having?

Puneet Khurana: Maybe about Rs. 350 crore to Rs. 400 crore.

Ravi Naredi: Rs. 350 crore to Rs. 400 crore. And how much more volume we produce? What is capacity utilization on Q4?

Puneet Khurana: Capacity utilization I think should be around 90%.

Ravi Naredi: And our ROC will be same in current year also?

Puneet Khurana: Yes. I think it should improve.

Ravi Naredi: U.S. and UAE are not giving so much margin in compared to India, why we are expanding there and want to continue the project?

Puneet Khurana: See, definitely this year it has been quite good compared to previous years in U.S. and UAE. Going forward, COVID is behind us and I think the performances should be much stronger and there is a growth in international market, for CNG is also growing quite fast. As CNG becomes more and more popular around the world with fuel prices going up, plus green fuel as a large push from all over the world. So, I think this is the right time for us to look at these opportunities which are coming up and I think it should be quite fruitful in the coming years, for these expansions that we are planning to do.

Moderator: Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.

Bhavesh Chauhan: Sir, can you throw some light on any guidance for FY23 in terms of sales growth?

Puneet Khurana: Volume like I said around 10% to 15%.

Bhavesh Chauhan: Okay. And in terms of margin, we will sustain the current level?

Puneet Khurana: I think 20% to 24% we believe is achievable and doable and sustainable.

Bhavesh Chauhan: Sir product mix how do you see that going forward from here?

Puneet Khurana: So, I think it should be around maybe 60-40. CNG will become 60%, because CNG seems to be growing quite well, and industrial will be around 40%.

Bhavesh Chauhan: And sir, I believe on CNG we have higher margins, right?

Puneet Khurana: I think the margins are quite similar, or maybe CNG a little bit higher, but margins industrial also are quite decent.

Moderator: Thank you. Next question is from line of Deepan Shankar from Trustline Portfolio Management Service. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity. And congratulations for good set of numbers. So firstly, on the one side, we are seeing these CNG prices are going up and on the other side, oil prices are expected to come down further. So, the spread is continuously narrowing. So, do we foresee the CNG conversions getting impacted during short to medium-term?

Puneet Khurana: I think see, now what's happening is that with more and more infrastructure growing, definitely people are realizing that is the fuel which works. It's giving benefits to the customer and environment. So I think you're going to see more and more push towards CNG. So, I mean growth should continue with CNG.

Deepan Shankar: What is the kind of price gap between now CNG and petrol?

Puneet Khurana: Petrol is much higher.

Deepan Shankar: And beyond what level do you see, if this gap continues to narrow, what level of spread will get impacted? CNG convergence will get impacted?

Puneet Khurana: See, even if the gap narrows or whatever happen, these businesses completely depend on infrastructure. As long as infrastructure keeps on growing, the customer base will also continue to grow with it. So even if the gap is narrow, it all depends upon the policy of the government to promote green fuels. So, this is the best way to do it. So definitely, I think today also, there is a 25%- 30% gap between CNG and diesel that's still encouraging people to convert. The benefit is still there. It's a better economic to run on CNG and plus, the infrastructure is getting built every day. CNG is going to be a business that's going to be there for a long time as long as infrastructure is available. So it's going to become like any other fuel that you go to fill a diesel vehicle or petrol vehicle, people are going to start filling CNG vehicles. So, I think it is going to be something that's going to be there now.

Deepan Shankar: In passenger we understand that customer can switch between CNG and these gasoline oil, but the similar kind of provision available for even these ICVs kind of vehicles?

Puneet Khurana: No, no. They are completely dedicated.

Deepan Shankar: Okay. So, if it is a CNG vehicle, it will be purely on CNG

Puneet Khurana: Yes. Yes. Only CNG.

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

Deepak Poddar: Sir, I just wanted to understand firstly on the realization front. So, what sort of price hikes we would have taken over the last one year for our products on an average?

Puneet Khurana: I don't have the numbers in front of me, but definitely, whenever the steel prices are going up, we're definitely approaching the customer. Now, I don't know how many

times in the year the prices have gone up of steel. So, don't have those numbers with me.

- Deepak Poddar:** A total quantum like, will it be in the range of 5% to 10% increased?
- Puneet Khurana:** It is very difficult to give any numbers. I'll have to go into the details to see where, how the steel prices have behaved over the year. But definitely, steel prices have been going up and sometimes, they're stable and sometimes they are going up. So, it is very difficult to kind of give you a percentage, that what has happened. But we do have those studies. I mean, I could dig it out and give it to you offline maybe sometimes, if we have a discussion.
- Deepak Poddar:** Sure. Understood. And regarding the volume growth that you mentioned about 10% to 15%, right?
- Puneet Khurana:** Right.
- Deepak Poddar:** So, we are already at maybe 90% capacity utilization in the Q4 and I think expansion is coming only in the second half of about 1 lakh that is about 10% capacity increased. So, basically only maybe 50,000 will be available in FY23, what will drive the incremental volume? Either our capacity utilization has to go back to 100% for the existing facility in FY23?
- Puneet Khurana:** What will happen is definitely, wherever the opportunity for higher value products will be the one that will be focused once this capacity comes online.
- Moderator:** Thank you. The next question is from the line of Rajesh Agarwal from Moneyore Capital. Please go ahead.
- Rajesh Agarwal:** Hello, sir. My question is, is there a threat of CNG cylinders being imported? Is there threat of CNG cylinders getting imported?
- Puneet Khurana:** See, CNG cylinders might be imported, but again, nothing comes cheap nowadays.
- Rajesh Agarwal:** But CNG cylinders are supposed to be 20% cheaper?
- Puneet Khurana:** No, no. They're not cheaper than what we are selling. If we are selling against imported cylinder, definitely, our product is preferred by the customer.
- Rajesh Agarwal:** Okay. So, we are getting better margin than the imported cylinders?
- Puneet Khurana:** We are getting better margins, plus, what happens is, the customer also like an OEM and all, they would just prefer to buy a product locally. Lots of different capacity sizes, storage needs and, just in time needs to be done, so there is definitely a preference. I mean, an OEM wouldn't like to import and wait if the product is available locally. Yes, definitely, there might be some gaps that might be filled in by imports, but on a long-term basis, definitely the local production will be the one that becomes preferential for the customer.
- Rajesh Agarwal:** Cascades also can't be imported?
- Puneet Khurana:** Cascades, it becomes uneconomical to import those things.

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

Sunil Jain: My question relates to two things. One, if you can talk about your JV in Egypt, if you can give more detail about that? And what about the status of Hungary expansion which you are carrying on?

Puneet Khurana: The JV in Hungary, because of the current situation in Russia, we are just waiting and watching the situation to improve.

Sunil Jain: So, the project execution is being halted for some time?

Puneet Khurana: We just delayed it for some time, till this Russian situation doesn't become clear, because, Hungary is also a country that will depend on Russia for many things like gas and other things. So, we want to let the situation become a little clear till the time we start going ahead and making the large investment there.

Sunil Jain: So, have we done any investment over there or no?

Puneet Khurana: Not yet.

Sunil Jain; And about JV in Egypt?

Puneet Khurana: What is happening in Egypt is, Dubai is selling a lot of cylinders to Egypt today, and Egypt CNG business is growing very fast and we are not able to cater this business from Dubai and we feel that we need to have this manufacturing facilities in Egypt to cater to this large growing market. This is the update we have, at this moment. Plus this is very recent development that has happened we are just at JV signing stage right now. Then the feasibility study will be done more in detail. It's a period where I think another two years where we can see the project in place.

Sunil Jain: And sir, third question regarding how you see competition coming up from these composite cylinders

Puneet Khurana: See, composite cylinders are definitely a complementary product to the industry. They are actually being catered as a segment t-and we are not in that segment. So, it is not really a competition. Steel cylinders are catering to a different segment and composite cylinders are catering to a different segment. So, they don't compete with each other as such. They are filling a gap, which is there in the market for specific need, for gas transportation, but steel cylinder still contributes to 95%-98% of the CNG cylinders sold globally and in India also.

Sunil Jain: Okay. And sir, last question relating to U.S. operation. If I see your segmental result, U.S. again, has dip into this losses. So, is there any one-off in that or how you expect this business to move forward from here?

Puneet Khurana: So, there has been some year-end provision, but definitely, COVID is behind us. So, definitely now, the U.S. business should pick up. It is mainly a lot of business that comes from defense and other things were delayed, but there has been definitely a pickup and you'll see it. You will see the improvement there going forward.

Moderator: Thank you. Next question is from the line of Viraj Individual Investor. Please go ahead.

Viraj : Hi, Puneet, Sanjiv. Congratulations on steady and inspiring results.

Puneet Khurana: Thanks. Thanks, Viraj. How are you doing?

Viraj : Few questions from my end, Puneet, Sanjiv. The last one or two quarters we've seen compression in gross margins, or contribution margins and EBITDA margins. So that's been dilutive to the overall FY22. I think a couple of quarters ago, you mentioned that there's a lag in passing on RM price increases to the clients. And also, you're looking to take price increases generally across some of your older clients. So, has that already happened in Q3 and Q4 and can we expect margins to sort of trough out what we've seen in Q4 and hopefully start improving from Q1 - Q2 onwards?

Puneet Khurana: So, Viraj, the gross margins you're saying, right? The gross margin seems to be consistent, right?

Viraj : Actually, it's come down. Gross and EBITDA margins have come down slightly in Q3 and Q4.

Puneet Khurana: Okay. They have.

Viraj : Okay. So, my simple question is, have we now passed on the RM price increases, and are we taking price increases, which will start reflecting in improved profitability starting Q1?

Puneet Khurana: Definitely the prices increases have been forwarded on continuous basis. So, I think we will definitely see that the we get the new prices from the customers.

Viraj : That means if we've already taken price increases, then the RM increase is greater than the price increases we've taken, because it's been dilutive on margin. So, not quite getting that, but maybe I can follow up separately with Sanjiv on that. Secondly, I think Sanjiv, it would be really helpful to see somewhere on the deck, contribution margin per ton. Because there's noise in passing on of RM at the revenue level and inflation at the COGS level. It's hard to see and compare quarter-on-quarter or year-on-year. I think contribution margin per tonne would be a great metric if we could reflect it somewhere in the deck.

Puneet Khurana: We will see that.

Viraj : Yes. My next question is, I'm glad you touched upon the hydrogen opportunity, Puneet, but can you give us a sense, so CNG is here to stay for most of this decade by the sounds of it, right? With the build out in infra, petrol pumps, switch in diesel to CNG, I mean, does hydrogen eat away at your market?

Puneet Khurana: Cylinders will definitely be a very integral part of the hydrogen story. There will be some changes in the products that we are doing today and we are looking at that. But again, hydrogen is going to take some more time because as the regulations come in and the real infrastructure comes in, it will take some time, because the stakeholders all need to come together and regulation & regulatory framework, so, it will take some time. We're actually looking forward for this to happen because there'll be a lot of places that will be playing a role for hydrogen transportation, that we are already doing for industry. And, of course, for transportation for hydrogen stations also, we'll be doing. So definitely, we are looking for this opportunity. I think this is something that we are looking forward for it to come as soon as possible.

Viraj : So, effectively what you're saying is, CNG is an opportunity for many years to come, even if hydrogen comes, it's an opportunity for you and not a loss of market for you?

Puneet Khurana: Yes. So, in fact, it will become even a larger opportunity, because you got CNG, and you got hydrogen. So, there are vehicles that are getting converted on CNG, or OEMs then there'll be even vehicles getting converted on hydrogen. So, there's going to be more cylinder required in both places, because gas needs to be stored.

Viraj: You have the technology. You have the capability.

Puneet Khurana: Yes we have the capability.

Viraj: Okay. Great. And my last question is a question I ask every quarter, now your net debt is down to, you know where I'm coming to Rs. 110 crore odd with the prudent financial management of Sanjiv. Why wouldn't you buyback? I mean, you're a 30% plus ROCE business, you're trading at 7, 7.5 times PE, cheap by any standards. I mean, yes, operations and squeezing out efficiency in operations is important, but the best companies out there, financial prudence management is equally important, right.

Puneet Khurana: Yes. Of course.

Viraj : I think, think of it, investing your money in buying your share, and like putting new CAPEX in the ground, the ROI on your investment couple of years out is going to be fantastic. So why don't you do a buyback?

Puneet Khurana: Yes, definitely, we're exploring all these things. We are continuously in touch with the Board when they think it will be a right time to do these buyback and dividends and stuff like that we will. So, definitely we are considering that, like, even the promoter's debt that is being something that we have brought down. That was something that the investors didn't like.

Viraj : Fully repaid now?

Puneet Khurana: It's almost 50% done, and maybe 50% in the next quarter or next two quarters. So I think this is something that we are taking that initiative, and definitely the way it is going, the things, definitely dividends, buybacks will be something that the Board will have to look at.

Viraj : Yes. My only simple suggestion would be Puneet, it's obviously most attractive to do your buyback in difficult market conditions where you get a deal. I mean, yes, sure you can do a buyback in the next year or two when you're completely debt free. But then you're buying back at Rs. 300 a share. When you're trading at sub-Rs. 200 that is the time really to push the button.

Puneet Khurana: Yes.

Viraj : I am sure Sanjiv will make sure we're still within the norms of financial prudence during the buyback, but I would strongly encourage you to put this matter seriously in front of the Board.

Puneet Khurana: No, no, definitely. You've mentioned it before also. We are definitely looking at it.

Moderator: Thank you. The next question is from the line of Radhika Kabra from Alpha Investments. Please go ahead.

Radhika Kabra: Yes. Hi. Thank you for the opportunity, and congratulations on good set of numbers. I have two questions. First one being, as you said that we don't exist in the composite cylinder category. So don't we have revenue from cascade business of ours?

Puneet Khurana: In cascade business, we do have revenue.

Radhika Kabra: So, how do you see composite cylinders as a competition in that particular segment, because as we understand the carrying capacity is almost double?

Puneet Khurana: So, what happens is that, see, that's why the growth of the composite cylinders is only in a segment where the gas transportation is required over a distant. So, over a distance, definitely composite cylinders are making more economical sense. Cascades are like on the stations and short distances. Definitely, steel cascades are making a lot more sense. So, that kind of segment is just something that is coming up. So, we don't see because our segment is also, as more and more stations grow, the more and more steel cascades will be required on every station because there is no point of putting a composite cascade on a station. Composite only has a market for transportation over a long distance.

As the infrastructure grows, the requirements for composite cascades will keep coming down because you're connected everywhere, and the distance of the travel is getting reduced. So we don't feel that our cascade business will get any kind of competition from the composite cylinder cascades. Definitely, there is a market but it's small compared to the kind of cascades the market that steel cylinder cascades have.

Radhika Kabra: Okay. So, what percentage of revenue basically comes from the cascade business of ours?

Puneet Khurana: I think maybe 10% to 12%. I don't have the figure exactly.

Radhika Kabra: Okay. Another question being, what specific reason can we come down to for the degrowth that we saw in our UAE subsidiary? Like what probably are the reasons, why are we seeing some reduction in sales in our UAE subsidiary, like the Dubai plant? Has there been any volume degrowth or any of that sort happening?

Puneet Khurana: There has been some changes in the customer's requirements in the sense the purchase requirements of the customer has changed. So, there has been some delays of material leaving the plant. So that's the reason why we saw a little bit of a dip, but going forward I don't see this an issue.

Radhika Kabra: Okay. And how do we see what is happening at our U.S. subsidiary? Like are we seeing any demand coming in any order book?

Puneet Khurana: The order book is very strong only thing is because the U.S. is a project-based business, so there always be a huge order book, maybe \$20 million, \$30 million, \$40 million order book is available, but only thing is that these orders should be executed on time. Suppose you're selling cylinders in a ship the ship project is delayed, you get delayed because you're a very small part of a very big project. So, that's what happened. That's what's been happening in U.S. business that lots of

project that were going to happen, which have been delayed. So, order book is there, but delays.

So, this is the reason why the business is been able to come back to its original position. But it's a matter of time, where things will become quite normal and we should see the business will grow more systematically and on Q-o-Q basis there will be similar kind of growth.

Radhika Kabra: Also, one last question, can you give us the sales volume to full year and Q4?

Radhika Kabra: Cylinder numbers.

Puneet Khurana: That we will not be able to share.

Moderator: Thank you. Next question is from Vivek from GS Investments. Please go ahead.

Vivek : First of all, congratulation for another set of good performance and coming back to margins in the new operation. Keep up the good work, sir. And my question is regarding any new customers we have added? And Maruti is the biggest customer for CNG and I believe the waiting list for CNG vehicles is quite long, especially in the cars. Is the situation same for the commercial vehicles also? Waiting list for CNG fitted CV cylinder is the small LCV is also quite large and do we have the full pricing power over here in the commercial vehicles, sir, which is a big demand?

Puneet Khurana: I can't say we have power of pricing to the customer. But definitely, we work with the customer as a partner and so, the pricing is done in a very fair manner. We try to give the product to the customer as good quality as we can. And of course, the business is growing very fast, and we would like to be here with the customer on a long-term basis. We are not into this kind of strategy where we can price our product in such a way that we look like dictating the price. But the volumes are growing, in all segments, also in the CV segments we will see growth in CNG.

Vivek : Maruti, are you interacting with them because they are the biggest player in the car?

Puneet Khurana: So, we do not send anything to Maruti.,

Vivek : Already your demand is being met from the other people.

Puneet Khurana: Yes, of course. We are selling to other customers.

Vivek : And second thing is sir, basically any progress on that indigenous raw material procurement from Maharashtra Seamless and steel that China import works out to be much more?

Puneet Khurana: We have made some headways. We have made a lot of progress to localize the raw material. I think we have purchased some raw materials from Maharashtra Seamless Steel . So, we are making headway there. Yes definitely, there is a good progress there.

Vivek : And basically, I was reading somewhere that somewhere the indigenous gas production in India is nearly 70% post the production of Reliance KG- Basin gas and coal bedmethane and hopefully, with ONGC KG-Basin also coming into the production soon, and there is one more opportunity because the LNG import prices

have become very high, and the oil marketing companies are not increasing, they have frozen the price of diesel, petrol for a long time but whereas the CNG is being increased on a daily basis.

Puneet Khurana: Correct.

Vivek : And how the price differential and product unit economics becoming weaker. And one more thing was about, I personally experienced this compressed biogas initiative in the Western UP side, I was pleasantly surprised by it, that the compressed biogas is being made from the mud of the sugar mill. The technology is being supplied by Praj Industries and the CBG, any idea you're having compressed biogas, how effective it can be and how useful also like hydrogen also? So, any idea you can give on opportunity size of CBG and indigenous gas production?

Puneet Khurana: See, biogas definitely is going to add to the growth of CNG. So, as many biogas plants come up, but this biogas also it's a slow process, and for biogas also to produce CNG is being developed, but it has not been developed at that pace because investments are required and lot of processes are required for cleaning natural gas. Natural gas coming out of biogas directly cannot be used for CNG. It needs to be cleaned. There are lot of processes that need to be done before you can use it. So, it's happening, but it's happening at a slow pace not at a very fast pace.

Vivek : Okay. But then what about the indigenous gas production because that is also not becoming very important?

Puneet Khurana: See, indigenous gas production is something that the government is continuously trying to grow, because I mean, today, we are importing a large quantity of LNG and natural gas, whatever, wherever these resources are available, definitely government is trying to tap more and more, making larger investments now in gas. So, that is an initiative that is always on a continuous basis that all the gas companies are doing.

Vivek : The 70% figure, is that correct, sir, for the indigenous gas production? Because if that is the case, then we are in a comfortable situation, with the LNG prices which are increasing drastically. At least, the indigenous gas production prices don't increase in that severe manner.

Puneet Khurana: Yes. But I think all gas companies want to make money. So, they probably price their product, even domestic prices, and international prices.

Vivek : Yes. Domestic still much cheaper than the international prices.

Puneet Khurana: Yes. But again, these products are anyway priced at international level. And again, these are government policy matters. So again, we don't have much control or say in these matters when it comes to pricing of the gas.

Vivek : Sir, one more thing, last thing which I wanted to ask, this might not concern you directly, but see, ours is one of the best performing companies, quality small cap company, wherein, we are the leader of the segment, and the segment itself is growing very fast of CNG cylinders and the entire ecosystem is there. But unfortunately, there seems to be very little institutional interest is there, no results report is coming in. And secondly, that this 5% limit is very big irritant. Actually, lot of short-term players traders get into it, manipulate it through their whims and



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fancies, but something can be at least made representation to the required authorities that this is sort of playing havoc with the long-term investors, leave aside, but other people who are simply not touching our scripts at all, sir. So, that not concern you directly, but at least some action can be taken, sir.

- Puneet Khurana:** Sir, we will definitely see why this has been happening.
- Moderator:** Thank you. Next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.
- Anurag Patil:** Thank you for the opportunity, and congratulations on good set of numbers. This 10% to 15% volume growth that you mentioned as a guidance, is it only for the domestic side you are saying?
- Puneet Khurana:** Yes.
- Anurag Patil:** Okay. And you will also focus on higher realization products. So, can you safely say the revenue growth can be higher than 15%?
- Puneet Khurana:** Yes.
- Anurag Patil:** And sir, UAE, and U.S. also, you are expecting good growth overall. So, means at consolidate level the overall culture much stronger?
- Puneet Khurana:** Definitely.
- Anurag Patil:** Okay, sir. Out of this Rs. 35 crore Brownfield CAPEX, how much is spent as of now?
- Puneet Khurana:** All spent.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.
- Sachin Kasera:** Hi. Good afternoon and congrats for a good set of numbers. First question was regarding, Dubai. So, what is the peak revenue we can do or if you can tell us what was the utilization in FY22 in terms of the facility?
- Puneet Khurana:** Dubai peak revenue is Rs. 250 crore.
- Sachin Kasera:** I am saying, what was the utilization in FY22 or else, if you can tell us, what is the best revenue when we operate at full capacity, can we do it from the Dubai?
- Puneet Khurana:** Rs. 250 crore would be the best revenue.
- Sachin Kasera:** Which is what you have already done in FY22, right, Rs 240 crore?
- Sanjiv Kapur:** Yes, Rs. 240 crore.
- Sachin Kasera:** So, does it mean that the Dubai operations will not see any further work from here unless we add capacity?
- Puneet Khurana:** There is still some room of 20% from here.

Sachin Kasera: 20%. Okay. Second question was on U.S. you mentioned that order book is strong, but the numbers are getting impacted because of offtake. But when we see the quarterly numbers, last four quarters, your revenues are in the range of Rs. 50 crore, but your profits are very volatile. In Q1 you did a profit of Rs.14 crore, then we came Rs. 2 crore and then we recorded a loss of Rs. 7 crore. So, while the revenue has remained the same, the profit just keeps swinging from one end to another. Hence because it is very difficult to get a hang and also get confidence on this turnaround or maybe the growth of the U.S. business. Can you comment on that?

Sanjiv Kapur: The numbers actually vary because it's a project based. Maybe in some project we have higher margins, in some project we have lower. So, whatever finally gets applied, that's the value which will come into play.

Sachin Kasera: So, how should we look at the margin of U.S. going by the current averages?

Sanjiv Kapur: If you look at the average, we are doing quite well. And the future also we believe that they will do better than this.

Sachin Kasera: So, if you see the last 10 years sir, the best we have done is Rs. 180 crore of revenue and 5%, 6% EBITDA margin in U.S. That is like the best we have done in last 10 years, including the current year. So do you think that we can further improve or last 10 years this has been the ceiling, so we are somewhere stagnant at that?

Sanjiv Kapur: The borrowings have reduced substantially. So, there will be a substantial -saving on the interest costs. Obviously, they will do better.

Sachin Kasera: We are talking of 7% EBITDA before interest. It is in the range of 5% to 6%.

Sanjiv Kapur: Before interest, they are averaging on this basis only.

Sachin Kasera: Do you expect any improvement?

Sanjiv Kapur: See, if they have higher volume growth, they have better EBITDA.

Sachin Kasera: Okay. My next question, sir, was on the India Operations. Can you give us a sense on the CNG side what are the breakup between passenger and cargo?

Puneet Khurana: The commercial segment will be larger, maybe 65%.

Sachin Kasera: And how was this ratio two, three years back? Because from what we're hearing from the OEM commentary, they are indicating that cargo is more...

Puneet Khurana: It has been the same. Commercial has always been much stronger for our business.

Sachin Kasera: Okay. Because when I hear the commentary of the auto OEMs, they've been indicating that cargo is seeing significant growth in terms of CNG pickup.

Puneet Khurana: Right. .

Sachin Kasera: But you are not witnessing that. You are witnessing similar growth, both in passenger and cargo? No major difference?

Puneet Khurana: No, no. Cargo is growing much faster and is going to grow much faster also for us. For our business passenger is still about 35%.

Sachin Kasera: Sure. And couple of quarters back, you had indicated that you were in some talks with Maruti and you could see some progress or success. But in one of the previous questions, you mentioned that as of now you're not looking at any major business. So, is it because we are running short of capacity and hence, we are not chasing Maruti or is it that we did not have major progress and hence as of now we have dropped that?

Puneet Khurana: These projects take a long time. So, discussions go on but we don't have a clear, like SOP or something given from them, till then we cannot give a clear idea that when we will be able to start supplying. So discussions going on but we don't have a SOP in hand to supply to them at the moment.

Sachin Kasera: Sure. And my last question is on the capital allocation and the buyback and that is the suggestion of one of the participant. Sir, so one of the reasons that comes across in discussions for our low valuation is that, now that you're almost debt free, but there's no clear guidance from the company that maybe in the next, say, this year if we become completely debt free, in the next three, four years, what is going to be the capital allocation policy. In the sense, once you become debt free, will we do buyback and dividend or we'll continue to keep cash or we will continue to just invest in CAPEX? I think if you can come out with that kind of policy, in the next three, four years, what is going to be our CAPEX allocation?

Puneet Khurana: See, as we also continue to get some clarity on our expansion, clarity on the cash flow, definitely there will be I mean, we are here to reward the shareholders at the end of the day. And everybody, the Board and the management, everybody thinks the same way. So, I think definitely there is, if there is a cash available, definitely there will be ideas to give out to the shareholders, reward the shareholders.

Sachin Kasera: My humble suggestion would be, if we can give a very specific number per se, but if you can give us some broader guideline to investors and shareholders, how do you plan to use the cash in the next three, four years, I think that will be very helpful.

Puneet Khurana: I think it's a good idea. If we're allowed to do it, we'll definitely try to do that.

Moderator: Thank you. The next question is from the line of Chetan Phalke from Alpha Invesco Research. Please go ahead.

Chetan Phalke: Yes. Thank you for the opportunity. Sir would like to have some idea on the capacities at present. So as I understand after this de-bottlenecking or Brownfield expansion, our capacity has gone to 10 lakh cylinders, is that correct?

Puneet Khurana: Correct.

Chetan Phalke: And what was the utilization for the full year?

Puneet Khurana: 90%. You are saying last year, right? Yes.

Chetan Phalke: So, roughly let's say 9 lakh cylinders? Can that be the base volume for the year?

Puneet Khurana: I don't have the numbers with me here but they are definitely that.

Chetan Phalke: Okay. Okay. Because in our annual report we do disclose our standalone and consolidated production and sales volume. So, I was just wondering if I can get the sales volume number for this year or quarter four.

Puneet Khurana: I don't have them here but definitely, if they are being disclosed, we are definitely going to give it to you.

Chetan Phalke: The remaining capacity expansion post which we will go to 1.4 million cylinders that will get completed by Q2, Q3 of FY23?

Puneet Khurana: FY24

Chetan Phalke: FY24. So, another one and a half years.

Puneet Khurana: Yes.

Chetan Phalke: Okay. And sir, I think compared to two, three years back, our working capital days have improved substantially. Currently, we stand somewhere close to let's say 170 odd days. So, can we expect some further improvement on this front and some more capital getting released via better working capital management?

Puneet Khurana: Yes, sure. As we run our business, it's a little different to kind of time everything, but definitely we are working on all aspects to improve all, purchase locally, get better terms from suppliers, better delivery period, but there's a lot of uncertainty in the environment as for supplies and disruption due to imports. So, sometimes things do get a little disturbed, but definitely, this is something that we have done in the past and we continue to focus on.

Chetan Phalke: Okay. So, is it fair to assume that you won't be crossing 180 days of working capital in '24 and it will remain in this range?

Puneet Khurana: We should not be.

Chetan Phalke: Okay. Okay. And just one last question, sir, I mean on Type 4 cylinders, one of our competitors was talking about a payback of six to seven months because the carrying capacity is doubled. As you were rightly pointing out that it is not just cascade opportunities only for the transportation. The argument that is being made is just because of the carrying capacity being doubled payback is much faster, than that one. And secondly, recently, some of our competitors have also got the approval for the onboard cylinders. They might get into trucks and CNG buses segment as well and they are trying to announce some CAPEX for that particular segment as well. So, how do you see this landscape?

Puneet Khurana: See, the competition has approval. It's not that they don't have approval. So, people have had approvals in the past also. So it's not that they don't have approval. Again, coming back to the Type 4, like I said, Type 4 segment is mainly for gas transportation, but suppose you want to just keep the cascade on the station which is not going to get transported. It's not economical to have a very expensive product on the station which is not going to move. So definitely it is very good to have where you said six to seven months of payback is only when you're transporting gas over a big distance. But when you're storing them in a specific space on the station, like suppose all the cascade is probably transporting within Mumbai, they would not be on a composite, because it doesn't make any sense because the distances are very short or you go to a smaller city, the transportation becomes less and everything becomes less. So, there again, they become



uneconomical. But they become economical in an area where the stations are very far away. But, as the network goes on growing, see, every day in India, the network of pipelines is growing fast.

Chetan Phalke: Yes, Puneet. No, I was saying, what if the carrying capacity is double, even then it doesn't make a difference, even if it's an expensive equipment?

Puneet Khurana: No, no. Yes, it doesn't, because the customer is benefited by it. Obviously, like I said, if you're traveling over a distance, instead of carrying two trucks, you're carrying one truck, definitely it is an advantage to the customer.

Chetan Phalke: Got it. Got it. Just one last question, any comments on our dividend payout policy going forward? I know you have made a couple of references regarding our CAPEX allocation going forward, but still, with respect to dividends, it is only 3% of PAT at this point of time.

Puneet Khurana: I will definitely convey to the Board about your comments on this definitely. See, it is moving in the positive direction. I think it's better than what we did previously, and hopefully if things become like this, we continue to be more positive on the dividend front.

Moderator: Next question is from Sandeep Agarwal from Naredi Investments. Please go ahead.

Sandeep Agarwal: Hello. Yes. Thank you, sir. Sir, my question is regarding our Kandla plant location, have you used this facility for export purposes or is this any specific advantages of this location?

Puneet Khurana: We have a facility; we are using it. Yes, we have the plant there and near the port. See, another advantage for the location is it is near the port. All the raw materials are being imported, so definitely, being near the port helps.

Sandeep Agarwal: There is no export from this plant?

Puneet Khurana: We do export.

Sandeep Agarwal: Okay. But sir, not material? What's the percentage of export from this plant?

Puneet Khurana: It's very less, right now. But because the domestic market is growing so fast, we do not have the capacity allocated for exports. Because domestic market has been growing and you have known in the last two years, because of COVID also lots of the cylinder manufactured were for medical oxygen requirements. So, the capacity has to be dedicated as per the government also that all this capacity needs to be dedicated for supply in India only.

Sandeep Agarwal: Sir, my next question is regarding our net current asset, currently it is at INR 603 crore. Sir, is this as a new normal inventory, current asset level or we have any target to reduce it?

Puneet Khurana: Definitely, this will get consumed in the period.

Sandeep Agarwal: And is there any specific target regarding the current asset level?

Sanjiv Kapur: Actually, we are quite good in the current scenario too. If you compare the figures, I mean they are all lower as in view of the turnover.

Moderator: Thank you. I now hand the conference over to the management for 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. Look forward to interacting soon. Thank you.

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