

August 22, 2024

BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 Scrip Code: 532684	National Stock Exchange of India Limited Listing Department Exchange Plaza Bandra-Kurla Complex Bandra (East), Mumbai 400 051 NSE Symbol: EKC NSE Series: EQ
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Dear Sir(s),

Sub: Transcript of Earning Conference Call pertaining to the Financial Results for the quarter ended June 30, 2024.

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Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we enclose herewith the transcript of the Earning Call held on August 14, 2024 for discussion on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended June 30, 2024. The same is also uploaded on the website of the Company.

This is for your information and record.

Thanking you,

Yours faithfully,

For Everest Kanto Cylinder Limited

Vishal Totla  
Company Secretary & Compliance Officer

Encl.

## EVEREST KANTO CYLINDER LIMITED

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of High Pressure  
Seamless  
Gas Cylinders**

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**EVEREST KANTO CYLINDER LIMITED**

*Clean Energy Solution Company*

## **Everest Kanto Cylinder Limited**

### **Q1 FY25 Earnings Conference Call Transcript**

#### **August 14, 2024**

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**Moderator** Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Everest Kanto Cylinder Limited.

I now hand the conference over to Mr. Anoop Poojari from CDR India. Thank you and over to you, sir.

**Anoop Poojari** Good evening, everyone and thank you for joining us on Everest Kanto Cylinders Q1 FY25 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 we will have the forum open for a question-and-answer session.

Before we begin, I would like to state that some statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the results presentation shared with you earlier.

I would now request Mr. Puneet Khurana to make his opening remarks.

**Puneet Khurana** Good evening, everyone, and thank you for joining our earning conference call. I will start by sharing our operational and financial performance followed by a Q&A session.

We are pleased to report a strong start to the year, driven by rising demand in both domestic and international markets. In Q1 FY25, consolidated revenues reached Rs. 343 crore, reflecting a YoY increase of 28%. EBITDA was Rs. 41 crore, with margins at 12%, and PAT at Rs. 28 crore. On a standalone basis, Q1 FY25 revenues were Rs. 192 crore, up by 18% YoY, with EBITDA at Rs. 18 crore, margins at 9%, and PAT at Rs. 12 crore.

As we have discussed in the past, we continue to remain very confident in the long-term growth potential for seamless gas cylinders in India. The government's strong commitment to eco-friendly natural gas, along with fiscal incentives and ongoing infrastructure development, including the expansion of CNG stations nationwide, supports an increasingly favorable environment for CNG vehicles. Additionally, the government's focus on expanding green hydrogen applications across transportation, industry, and energy storage presents a significant long-term opportunity for EKC to leverage its expertise in manufacturing high-pressure cylinders for hydrogen, further enhancing its position in this emerging market.

Building on the momentum in the CNG sector, a major advancement has been the launch of the world's first CNG motorcycle in India by a leading manufacturer. This groundbreaking bike offers a cost-effective and eco-friendly alternative to traditional petrol motorcycles and is poised to transform the two-wheeler market. The adoption of CNG vehicles continues to expand across both the passenger and commercial segments, reinforcing the sector's growing importance in India's transportation landscape.

Given our long-term bullish view on the industry, we are further enhancing our manufacturing capabilities with the development of advanced facilities in Egypt and Mundra, India. These state-of-the-art plants will focus on producing seamless high-pressure CNG and industrial gas cylinders. Additionally, the Mundra facility will also include lines for manufacturing composite cylinders, expanding our product range. Both facilities are on track to begin operations by the end of this fiscal year. These greenfield expansions strategically position us to meet future demand and capitalize on market growth.

To conclude, we remain committed to strengthening our market leadership and advancing the transition to cleaner energy solutions, both globally and in India, with a particular focus on CNG and hydrogen. With our well-established capacities and strong financial position, we are well-prepared to tap growth opportunities and drive sustained success in the evolving energy landscape.

With that, I end the opening remarks and invite the moderator to open the floor for any questions.

**Moderator** Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

**Jagvir Singh** 2 years back there was a quiet demand in the industry in CNG vehicles. Then it has gone down. Now I think looking at the numbers, it is reviving now. What is the outlook for the next 9 months?

**Puneet Khurana** What happened was that, of course, the CNG price increase has impacted the entire growth of the commercial segment. But now what's happening is that customers are realizing that this is a better fuel, a more efficient fuel, and the market is growing even at a higher rate of CNG. There is growth, and so we can see that there is a sustainable industry that can sustain even at a higher price of CNG. Now, there was a gap because the increase was too much, so there was a big shock for the customer. They had kind of stopped their purchases, and inventory buildup was huge at all the OEM dealer networks and at the OEM level. But now, over a period of time, all that inventory has gone into the market, and fresh purchases have started to come back.

**Jagvir Singh** And sir, if we talk about electric vehicles, demand penetration of electric vehicles in the commercial vehicle side is going fast compared to the passenger vehicles. CNG also has the same customer profile. So, mostly commercial vehicle users are using CNG vehicles. What is your take on this?

**Puneet Khurana** Definitely, electric vehicles are growing, but the electric vehicle infrastructure, the cost of vehicles, and the development of this entire infrastructure are going to take a lot of time. Even in other international markets where electric vehicles exist, growth is happening, but it's going to take time. The entire infrastructure will take a long time to develop. I believe that CNG will still have a great future for at least the next 15 years in India.

**Jagvir Singh** And margins are still lower compared to the last quarter. What will be on the margins?

**Puneet Khurana** The margins will definitely improve. As the business is growing, the margins will definitely improve.

**Jagvir Singh** Any forecast for the full revenue growth and EBITDA margin for the full year?

**Puneet Khurana** We expect revenue growth to be at least 15% to 20%, and accordingly, EBITDA will move in line with that.

**Jagvir Singh** EBITDA is 13%-14%, what kind of EBITDA is for the full year?

**Puneet Khurana** You can consider what we have today and then maybe some growth on the topline, definitely it will have some improvement.

**Jagvir Singh** Sir, any update on this two-wheeler launch by the Bajaj CNG bike?

**Puneet Khurana** Yes, the two-wheeler launch has just happened, and we are all very anxious that it looks like a very exciting opportunity. I think in the next six months as the vehicle gets launched in the market and as the customer response comes, you will have a better view of it and maybe in the next six months I could give you an update on exactly how this is panning out.

**Moderator** The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

**Darshil Jhaveri** Firstly, congratulations on a great set of numbers sir. I just wanted to maybe ask something what the earlier questioners already asked. In terms of margin, like I think last Q1, we had a lower revenue, but higher operating margin. Just wanted to know how things are moving like what's impacting our lower EBITDA?

**Puneet Khurana** No, what is happening was previously the product mix was favoring the margins. But as the entire commercial segment business went through a difficult period, so did the margins. Now the commercial business segment is coming back slowly, and we are hopeful that the margins also will start to improve with that.

**Darshil Jhaveri** Would we be able to see like the 14% margin for the full year? Will that be possible as what we did last year?

**Puneet Khurana** We will definitely try and work towards that.

**Darshil Jhaveri** Fair enough, sir. And I just wanted to now like just to understand, like now the industry dynamics, like you're saying in the commercial business can come back. Like even in this quarter, I think we've gone over 25% of growing, I think 27% to be more precise. Why are we still guiding revenue of 15%-20%? Are we trying to be conservative or how do you see?

**Puneet Khurana** Yes, definitely. We are trying to be conservative, but things are looking much more positive than in previous quarters and last year for sure. It will be improving, but we don't want to build up the hopes of the investors unless we are confident that we will deliver what we are saying.

**Darshil Jhaveri** And sir, any, like maybe things are positive, but do we see any kind of risk, like, in terms of the market conditions or currently, I think everything is in our favor.

**Puneet Khurana** We believe the risk is already being taken on; this war is already being discounted because, as the war started, it raised the prices from Rs. 40 to Rs. 80. I think

everything is hopefully considered as far as CNG prices are concerned. I think things can only improve from here if the global situation regarding the Russia war changes because that is where I think the prices started to build up. I think the war in Russia and Ukraine can only improve from here. I mean, we've already been 3 years into the war. We feel that this will probably lead to the end of the war, maybe in another 6-8 months it should end. These are some risks that we can perceive, and we don't see any other risks that could potentially hurt the business.

- Moderator** Our next question is from the line of Avinash Nahata from Parami Financial Services. Please go ahead.
- Avinash Nahata** First, we could see all the numbers in the presentation. If you can talk about some qualitative highlights, what incremental things EKC is doing. We also spoke about one of the largest passenger vehicle customer who's not with us still, and you were talking about some breakthrough. Just walk us through, if you can spend two minutes on the qualitative changes the company's seen over the last few months, few quarters.
- Puneet Khurana** The commercial segment business is starting to pick up, and that is one highlight we can talk about. In the passenger business, there hasn't been any major breakthrough yet, but we are still working on it. The other passenger car businesses are with us, and we are hopeful that they will start gaining traction and will grow. Let's hope that happens. All other segments, like the industrial segment and the Cascade business, are looking promising. There's been a lot of work done in the last two years. All segments, including this new two-wheeler vertical, are seeing a lot of positive developments.
- Avinash Nahata** If you can, not exactly or whatever way you want to, standalone revenues, which is prima facie the Indian business with 18% in the terms of topline. What would be the volume growth?
- Puneet Khurana** About 20%.
- Avinash Nahata** The prices are more or less flattish, so topline growth will be volume growth.
- Puneet Khurana** Yes.
- Avinash Nahata** Which are the segments which grew more than this and which are the segments which grew less than this if you can specifically talk about commercial like you spoke about commercial vehicle, PV?
- Puneet Khurana** I think CNG segment is definitely the one that's grown.
- Avinash Nahata** CNG segment has grown better than the average?
- Puneet Khurana** Yes.
- Avinash Nahata** And in the US, is there any cyclical in terms of the quarterly?
- Puneet Khurana** Yes, this is more of a project-based business. There is definitely a big project being dispatched during this quarter, and the order book is strong. However, sometimes, even with a good order book, the customer delays the pickup. The margins are good, everything is good, but the deliveries are delayed, so you're holding onto inventory, and your costs are building up on that inventory. However, the last two quarters have been very promising, and things are looking up, the customer is picking up goods,

projects are moving, and everything is progressing quite well. We are hopeful that this trend will continue.

**Avinash Nahata** What is the expectation out of this US business for this financial year based on whatever visibility we have?

**Puneet Khurana** You could say the last quarter could be a benchmark for how this US business will look like the whole year.

**Avinash Nahata** US business this quarter did Rs. 90 crore?

**Puneet Khurana** Yes.

**Avinash Nahata** And last quarter?

**Puneet Khurana** Rs. 80 crore.

**Avinash Nahata** Put together we have done for the last 6 months Rs. 170 crore of execution and delivery.

**Puneet Khurana** Correct, exactly.

**Avinash Nahata** What is the expectation based on the visibility, can we repeat this?

**Puneet Khurana** Like I said, you can take the Q4 figure of Rs. 80 crore and assume an average of Rs. 70-80 crore. As I mentioned, it is very difficult to predict because, while there is a very strong order book, the execution of the order book depends on the customer. For example, if they are supplying to the US Navy, and the Navy says they are building a big vessel, but it is delayed by six months, then your cylinders are ready, everything is ready, but the customer says, "No, hold the delivery." Or if NASA says they don't want the delivery now, these are all project-based situations. However, the order book is strong. We have good orders from SpaceX, NASA, and the US Navy, so the order book and the customers are excellent, but it all depends on the project timelines. That's why it's very difficult to say that this will happen consistently, which leads to these sudden one-offs in a quarter.

**Avinash Nahata** One last question from my side is you must be tracking CNG stations. So, how they are moving in the last 6 months?

**Puneet Khurana** No, definitely there is growth in the CNG station network. There is growth across all of India; CNG stations are expanding. We were probably around 4,400 stations, and we may be reaching around 4,800. At least 300-400-500 stations are being built every year consistently in India. India is definitely the largest CNG market in the world, and we are continuing to grow. Now, with the situation improving and customers adjusting to the new CNG price regime, the gas companies are definitely motivated. You can see this in their profits, I don't have to tell you how profitable these gas companies have been in the last quarter. So, you can imagine they are very bullish, and all the gas companies across the country continue to invest in CNG.

**Avinash Nahata** One book-keeping question, what has been the gross debt and cash position on the balance sheet?

**Puneet Khurana** On the consolidated basis?

**Avinash Nahata** Both standalone and consolidated.

**Puneet Khurana** There was no debt on the standalone. It was just a working capital of \$5 million.

**Avinash Nahata** And cash position?

**Puneet Khurana** Yes, maybe Rs. 50 crore.

**Avinash Nahata** This is on a standalone?

**Puneet Khurana** Yes.

**Avinash Nahata** One more question is how much spare capacity do we have right now if the demand permits, what is that we can produce out of our existing capacity?

**Puneet Khurana** Around 30% more.

**Avinash Nahata** You're saying in terms of volume you can do 30% more?

**Puneet Khurana** Yes.

**Avinash Nahata** And any adjacency or anything you want to use this surplus cash? What do you want to, is there any strategy 1-2 year down?

**Puneet Khurana** First, the utilization should go up so we can have a better view of what we should do with the underutilized assets. We don't want to make any decisions where we infuse a lot of investment and then get stuck again. We need to see how things pan out over the next 6-8 months and then revisit the strategy.

**Avinash Nahata** Okay, let's say if you hit 80% or 85% over whatever number of quarters. Now when you are planning your next capacity, what would be that good size capacity you want to be doing and what is going to be the duration?

**Puneet Khurana** Any capacity build-up takes time. We have been expanding capacity over the last four years, and as a result, we have been able to reach our current capacity because investments have been continuously made during this period. To consider building new capacity, many factors will need to be studied, including viability and the approach to further expansion. It will be a challenge to build significantly larger capacities from here, both in terms of timeline and execution.

**Avinash Nahata** It's going to come in a new facility or the increase?

**Puneet Khurana** Yes, in a new facility. Everything has to happen in a new facility. Now whatever has to happen.

**Moderator** Our next question is from the line of Jayesh Gandhi from Harshad Gandhi Sec Pvt Ltd. Please go ahead.

**Jayesh Gandhi** I have actually 2 questions. One is, are we the sole supplier to Bajaj or there must be 2-3 more suppliers.

**Puneet Khurana** This is in a very early stage of vehicle development. Again, it will all depend on the response the vehicle receives in the market. Since this vehicle has only been launched in Maharashtra, they are still gathering customer feedback. It's too early to say whether there will be one vendor, two vendors, three vendors, or more. However, once there is a clear outlook on vehicle demand, we will be in a better position to tell you what our share of the business is.

**Jayesh Gandhi** Another question is about the margin in the working capital days. Will it be aligned to what currently we have, or it will be better or?

**Puneet Khurana** The margin will definitely improve.

**Jayesh Gandhi** And how about the working capital?

**Puneet Khurana** Working capital is in control.

**Jayesh Gandhi** It will be similar to what we have currently.

**Puneet Khurana** It is aligned to this.

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

**Anil Jain** Just in continuation of the CAPEX which you have announced, I just wanted to know what will be the CAPEX amount at both these Egypt and Mundra and when they are expected to come on the stream and what will be the capacity?

**Puneet Khurana** I think the CAPEX in Egypt is Rs. 150 crore, and they've already spent around Rs. 40 crore to date. I believe they should be coming online by June 2025.

**Anil Jain** And what will be the capacity at Egypt?

**Puneet Khurana** The plan is 200,000 per annum.

**Anil Jain** What about Mundra?

**Puneet Khurana** Mundra is a Rs. 100 crore project. Yes, we've already spent Rs. 50 crore, and the capacity will be 200,000.

**Anil Jain** And total 4 lakh, this thing will be adding?

**Puneet Khurana** Yes.

**Anil Jain** Capacity, and our present capacity is around, how much? In India, it is 11 lakh something, I think?

**Puneet Khurana** Yes.

**Anil Jain** What about Mundra's completion period?

**Puneet Khurana** By March 2025.

**Anil Jain** And what is your expectation of the EBITDA margin for the current year, FY25?

**Puneet Khurana** It should improve. It should definitely improve from here.

**Anil Jain** And after these CAPEX completions, will be debt free? Will be continuing to be debt free company or will be taking some debt?

**Puneet Khurana** Yes.



**Anil Jain** Will be completely debt free.

**Moderator** Thank you. Ladies and gentlemen, we would take that as our last question. I now hand the conference over to the management for closing comments.

**Puneet Khurana** Thank you once again for your interest and support. Should you need any further clarification or would you like to know more about the company, please feel free to contact our Investor Relations team. Thank you.

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*Disclaimer: The transcript has been edited for clarity and accuracy. The Company takes no responsibility for such errors, although an effort has been made to ensure a high level of accuracy.*