

August 17, 2022

To,

BSE LIMITED
P.J. Towers,
Dalal Street,
Mumbai - 400 001
BSE Scrip Code: 532684

National Stock Exchange of India Ltd.
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400051
NSE Symbol: EKC
NSE Series: EQ

EVEREST KANTO CYLINDER LIMITED

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of High Pressure
Seamless
Gas Cylinders

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Dear Sir(s),

Sub: Transcript of Earning call for Q1FY2023

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015, please find enclosed herewith transcript of the Earning Call held on August 11, 2022.

The same has also been uploaded on the Company's website and the same can be accessed at <https://everestkanto.com/investors/recent-updates/>

This is for your information and records.

Thanking you,

Yours faithfully
For Everest Kanto Cylinder Limited

Reena Shah
Company Secretary and Compliance Officer



Encl: a/a





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Everest Kanto Cylinder Limited

Q1 FY23 Earnings Conference Call

August 11, 2022

Moderator:

Ladies and gentlemen, good day, and welcome to the Everest Kanto Cylinder Limited - Earnings conference call. As a reminder, all participants' lines will be in the listen-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 Aesha Shah from CDR India. Thank you.

Aesha Shah:

Good evening everyone and thank you for joining us on Everest Kanto Q1 FY23 Earnings Conference Call. We have with us today, Mr. Puneet Khurana, Managing Director; Mr. Sanjiv Kapur, Chief Financial Officer of the company. We will initiate the call with the opening remarks from the management, following which, we'll have the forum opened for the question-and-answer session.

Before we begin, I'd like to state that some statement made in today's call may be forward looking in nature and the 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. Thank you.

Puneet Khurana:

Good evening everyone, and thank you for joining us on our earnings conference call. I trust all of you and your families are keeping safe, and in good health. I will initiate the call by talking you through the operational and financial performance after which, we will open the forum to have a Q&A session.

The company has reported subdued results during the quarter owing to muted demand witnessed in the CNG cylinder segment. Based on the order book from the Auto OEMs and their respective production schedules shared with us, we were expecting to report healthy volume in Q1. While demand in the month of April was as per expectations, we saw some slowdown in May, and we are hoping this would revive in June. Unfortunately, instead of an uptick, we witnessed our customer significantly de-stock their inventory and push their production schedules back. This impacted our volume leading to lower than anticipated topline performance in Q1.

On a consolidated basis, revenue stood at Rs. 380.5 crore in Q1 FY23 and on a standalone basis revenue stood at Rs. 270.4 crore. In the standalone business, the CNG segment contribution stood steady at approximate 75% in Q1 FY23. However, the key Auto OEM CNG contribution to the standard revenue declined to around 43% in Q1 from 54% in Q4 FY22. This was much lower than expected by us before the start of the quarter. Demand for Auto OEM, CNG cylinders continue



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to remain soft in Q2 and as of now, we are only expecting a rebound the volume in Q3 onwards. Nevertheless, in this segment, we will depend on demand from large Automakers in the country. So, we will be in a better position to update you on the situation our post Q2 results.

Lower revenue combined with raw material and other cost escalations further affected our margins in Q1 FY23. On a standalone basis in Q1 FY23, EBITDA stood at Rs. 49.6 crore with a margin of 18.3%. PAT stood at Rs. 35.0 crore. And on a consolidated basis, EBITDA stood at Rs. 60.5 crore with margin of 15.9%, PAT stood at Rs. 38.7 crore. Overall, if the demand strengthens going forward, we hope to improve our margins performance as well.

Coming to our capacity expansion plan the brownfield and greenfield expansion in Kandla and Mundra respectively are progressing as expected. The second phase of our brownfield facility is expected to be operational soon, increasing our capacity by 1 lakh cylinders, taking the total weighted capacity to about 1.1 million cylinders per annum.

Over the past few years, we have notably strengthened our balance sheet on the back of healthy cash flows and as on 30th June 2022, our total debt at a consolidated level stood at Rs. 128 crore and our total net debt stood at Rs. 80 crore. I am happy to share that the CARE Rating has been upgraded the long-term rating from the bank loan facilities to CARE A-/ stable, and reaffirmed the rating for our short-term instruments at CARE A2. We believe such strong balance sheet will enable us to navigate any transitory challenges we witness in the near-term.

To conclude, while the demand of CNG cylinders was unexpectedly soft in the past few months, we continue to believe in the long-term potential of the industry. The central government remains to be committed towards goal in achieving net-zero emission, and has set targets to expand the share of natural gas in the primary mix to 15% by 2030. Accordingly, there has been a huge thrust on developing CNG infrastructure. As some of you will be aware, the government has recently shared a plan to establish 3,500 additional CNG stations in the next 2 years, taking the total to 8,000 stations. This should have a huge network effect and significantly drive demand in our industry. Overall, on the back of such strong industry tailwinds and the leadership position, we remain confident of delivering healthy results as the demand scenario normalizes.

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

Moderator:

Our first question is from the line of Jimesh Sanghvi from Star Union Dai-ichi Life Insurance. Please go ahead.

Jimesh Sanghvi:

Yes, sir. Can you throw some more light on this demand outlook say, because in terms of Auto sales we haven't seen any slowdown at this point of time in fact, but the improving supply on the semiconductor side, the Auto volumes are in fact picking up wherein you are guiding for a slower Q2 as well, and probably Q2 is also a festival month. So, what is it that actually is affecting the demand on our end, if you can throw some more light on that.

Puneet Khurana:

So, you know, for CNG volumes, they haven't given us any schedules. I mean the schedules are there, but the pickup and the go ahead for the schedules are not there. So, the CNG sales is down at their end, that's the reason.



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- Jimesh Sanghvi:** So, you were talking about more about the cascades and the pumps?
- Puneet Khurana:** No, I'm talking about the CNG vehicle uplift in the commercial vehicle segment, where the CNG cylinders go at the Automakers, that's where the schedules are. We have the schedules there, there is a lot of schedules, but the pickup is not there.
- Jimesh Sanghvi:** In terms of kind of ramping up in terms of our volumes and utilization, can you share what were the volumes this quarter on a sequential basis, was it down?
- Puneet Khurana:** The volume was definitely down but all I could say is that utilization has been around 65%.
- Jimesh Sanghvi:** Okay. And with this kind of a slower demand, will you still be optimistic about the capacity addition and commissioning that you have planned?
- Puneet Khurana:** Sure you know, it's a matter of time, see there is no stoppage on growth of infrastructure on CNG. It is just a blip that we have there at the OEM level, but it is a matter of time that you will see that volumes will bounce back. They have to bounce back, this kind of the business is strong. It is just a matter of time where these volumes will come back.
- Jimesh Sanghvi:** Okay. And do you foresee these increasing prices on the ground, the pump prices, will it start also affecting us in any which ways in terms of demand?
- Puneet Khurana:** Which prices?
- Jimesh Sanghvi:** The CNG prices have been increasing, right? The pump prices.
- Puneet Khurana:** That also impacts the movement of CNG vehicles, yes the customer definitely realizes the gap in the diesel and CNG prices.
- Jimesh Sanghvi:** Honestly speaking, when we listen to the commentary from IGL, MGL, they are all seeing a significant conversion in terms of CNG vehicles.
- Moderator:** The next question is on the line of Sunil Jain from Nirmal Bang Securities private Limited. Please go.
- Sunil Jain:** Sir, according to you, what could be the reason for these OEM to not to purchase products from you, is it that steel prices have come down and they want lower price?
- Puneet Khurana:** No, no they will not do such a thing. I mean, they can't, they will not hamper their production because of steel prices. Only thing is that sales hampered on their vehicles that's because they're not picking up. Otherwise, there's no reason. I mean, steel prices have been going up and up. You've seen in last 2 years of steel run up so much so that has never been the issue. The volumes not picking up; the genuine issues at their sales end that this is not moving and the things are going slower.
- Sunil Jain:** What we see that CV sales in the industry has grown substantially in this quarter. In fact, it's not having any positive impact, on the contrary having negative impact?
- Puneet Khurana:** They might be having more of diesel vehicle sales in this quarter and then probably this is something also that they've taken from last quarters and just finishing the material also there could be many things at the OEM level what's happening.



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- Sunil Jain:** And even in this sort of July and half of the August you are not seeing situation improve?
- Puneet Khurana:** The situation seems to be delayed on the volumes, yes, at the OEM front.
- Sunil Jain:** On cascade and all, how much is the cascade sale?
- Puneet Khurana:** There is no change in the number on the cascade business that continues. So that gives you a sense that people are still bullish on building infrastructure on CNG. So it is a matter of time that the volumes will bounce back. It's just a matter of time.
- Sunil Jain:** And about order book in cascade, that is also okay?
- Puneet Khurana:** Order book is good for the cascade.
- Sunil Jain:** Because one of the OEMs has taken to this composite given order to one of the companies, so definitely that will reduce some impact on it?
- Puneet Khurana:** No see composite cylinders, they are right now just being introduced and they are used for a very special purpose, but our CNG cascades go on every station. So, the composites are used mainly for transporting gas over a long distance. So, when you have a large CNG station, which is 100-200 kilometers away, that's where they use the composites. But within cities, they only use steel cylinders on the station. So, 95% still is all steel; more than 95%, maybe 98% is all steel at the moment in the industry.
- Sunil Jain:** Yes. But one of the companies is indicating that they got very good orders for the current year. That is FY23.
- Puneet Khurana:** Okay. Okay. They might have, see because this business is, like I told, the cascade business, the business is growing and we are also getting continuous orders. So, the business is growing. So, wherever the segment, where this kind of products are required, they're also growing in that segment.
- Sunil Jain:** So, are you also thinking of bringing in the composite cylinder to India?
- Puneet Khurana:** Yes.
- Sunil Jain:** Because you got customers in Europe.
- Puneet Khurana:** Yes. Yes, of course, we are. Of course, we are.
- Sunil Jain:** Okay. So, once you bring it over here, the technology, how much time it can take to bring the commercial output ?
- Puneet Khurana:** So, when you bring it, definitely it'll be a commercially only viable. Otherwise, there's no point setting up the facility.
- Sunil Jain:** No, no. My question like, suppose you start thinking of introducing that, then the required levels for approval process
- Puneet Khurana:** Yes, yes, of course, of course, approval processes required.
- Sunil Jain:** So, what can be the timeline for that? It takes 1-year, 2-year, 3 years?
- Puneet Khurana:** Yes. Yes. It could take that much time, yes.



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- Moderator:** The next question is from the line of Ayush Agarwal from Mittal Analytics. Please go ahead.
- Ayush Agarwal:** Sir, thank you for the opportunity. I have 2 questions. My first question is that can you break up the number of a non-auto and auto in the CNG segment for FY23 in this quarter?
- Puneet Khurana:** Non-auto and auto, yes, you said? Yes, did you say non-auto and auto?
- Ayush Agarwal:** Yes. Yes. Yes.
- Puneet Khurana:** Yes, for 60% is in auto and 40% is in non-auto.
- Ayush Agarwal:** By non-auto, do you mean the city gas distribution or the industry?
- Puneet Khurana:** No, no, non-auto means industrial.
- Ayush Agarwal:** Okay. So, I was basically asking for onboard vehicles and non-onboard vehicles in the second half.
- Puneet Khurana:** That we don't have those numbers right now with us.
- Ayush Agarwal:** Okay. No worries. So, sir, my second question would be that while you have rightly pointed out that in the last 3 years steel prices have gone up, but currently, they have come down quite a lot in the recent months, right? So, how have realization shaped up in the last 2- 3 months for our products, like are they lower than they were before?
- Puneet Khurana:** See, the steel prices have come down, but for our product, because this is specialized steel, the steel prices haven't come down so much. So, we are going to see, it is going to be a small and slow progression where the prices keep coming down. So, all the specialized steel that we are in, that hasn't come down substantially, because we are not like a commodity steel where the prices come down quite sharply, they are specialized steel, so it takes some time for the prices to come down.
- Ayush Agarwal:** So, realizations haven't really come down for us, is it?
- Puneet Khurana:** Realizations would still hold, yes.
- Ayush Agarwal:** Understood. Understood. And so, you mentioned that 70-30 is the ratio between industrial and auto? All right. And what was this number last year?
- Puneet Khurana:** Should been the same. Maybe CNG went to 70%.
- Moderator:** The next question is from the line of Yogesh Bathia from Sequent Investments. Please go ahead.
- Yogesh Bathia:** Yes. So, sir, actually you explained that in Q1 there was destocking of old inventory by the OEMs. Can you please throw some more light, as I'm not able to clearly understand because, Q4 we didn't feel that anything as such.

- Puneet Khurana:** Yes. We did not feel anything in Q4. Yes. So, this is something that is even during April-May everything seemed like everything was going okay. But then suddenly the sharp, I mean, because we get our indication from the Automakers that this is the projection for the coming quarters. But then the projections just were taken away. There was a sharp decline in the volume offtake.
- Yogesh Bathia:** Okay. Okay.
- Yogesh Bathia:** And if I may ask, who are your top 4- 5 OEM buyers?
- Puneet Khurana:** You could say it's TATA, VEV, Bajaj, Hyundai, Mahindra & Mahindra, and Ashok Leyland so we are catering to most of the OEMs.
- Yogesh Bathia:** So Q2, can we expect India sales to be around the same 272 - 280 levels? Or is there any indication for that
- Puneet Khurana:** I think there could be some 10% variations, it could go anywhere.
- Yogesh Bathia:** Okay. On either second?side
- Puneet Khurana:** Yes. Yes.
- Moderator:** The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.
- Sachin Kasera:** Okay. Yes, my question is on this remark that you mentioned for your current drop. I'm saying for our benefit, if you could tell us what was the drop?
- Puneet Khurana:** It was a large drop. It was a very large drop.
- Sachin Kasera:** Yes. Can you quantify like 20%, 30% 40%, how much it was?
- Puneet Khurana:** Yes, you could take that, about 30% drop from our sales.
- Sachin Kasera:** Okay. But you said that the June would have actually call us, because I think in April there was no – it wasn't that bad.
- Puneet Khurana:** Yes so, by mid of May, or end of May, the things probably at the OEM level just changed drastically. So, there are probably the CNG volume sales, did not pick-up. So, then they had to immediately stop. Yes.
- Sachin Kasera:** So is that same situation continued in July, and its already now initial times of August, what are the sense you are getting?
- Puneet Khurana:** Similar sense we're getting right now, that the volumes are still, we are still waiting for the volumes to pick up.
- Sachin Kasera:** Sure. Secondly there has been report that because of the sharp pricing in case of CNG and on the part diesel price have not gone up so much, because of government has charge excise and VAT. It has become unattractive. So, do you think that is the key reason why it has happened? And then what gives you the confidence that eventually the sales will revive?
- Puneet Khurana:** You could say one of the reasons of a slowdown, but what's happened is CNG has started being recognized as an alternative fuel. So, it's not that it's completely the customers stop buying. It's only what's happened is that today also the OEMs are

making vehicles, but the volume that they were making has slowed down, but there is that requirement and as infrastructure keeps growing, customer will start realizing that CNG is a more preferred fuel than diesel. So, we have a temporary situation where this fuel pricing has affected, but in the long-term, definitely this will, CNG will definitely come back, bounce back quite well.

Sachin Kasera: Secondly, you had mentioned that the demand from the cascade side holds and end up well. So how is the auto booking there, and is there some work growth?

Puneet Khurana: The order booking there is good. So, infrastructure growth still continues to be good, we continue to get new orders on the cascade front. So, there is that the gas companies committed on a long-term basis. And you know, what happened is that vehicle population comes very quickly. So, if you rolled last 3 months, if you see how much of vehicles are rolled out, it's very difficult for infrastructure to catch-up. So, they will keep pumping infrastructure, because the kind of amounts of vehicles that has come in the last year, it's very difficult for them to even accommodate all of them. So, infrastructure will continue to grow they will continue to invest in infrastructure, all the gas companies.

Sachin Kasera: So basically, from what I understand, there are three segments to your revenue growth, one is the industrial demand. Second is this cascade demand from the infrastructure side. And third is the demand from the auto?

Sachin Kasera: Yes. You think it's only the auto OEMs that have severe demand contraction.

Puneet Khurana: Yes, exactly, exactly, exactly. That segment has been affected.

Sachin Kasera: So, sir, because there's so many moving parts, and I think within Auto, there is passengers, there is cargo. I would please request that starting with some more disclosure, it's very difficult process for an investor to get a hang in getting these types of info

Puneet Khurana: We had a call with investor call in the 1st of June. We ourselves were very confident on the 1st of June that things are going, okay. Everything looked normal on that day and only thing is that the thing has come so suddenly, but we have not been able sort and obviously we will not be allowed to comment on things that we are not supposed to comment, but we try to be as transparent as we can. And we come out and tell people that this is a circumstance, but you understand that this has come, now we are giving you some idea on the next quarter because we can see things, and we are more clear on what's happening.

But in the last quarter, we were completely taken by surprise because the first 2 months nothing seemed to, and you know always the first quarter always starts slow because the OEMs are coming back, and March ending has happened. It's always slow, but we still started decently in the first month of April, things started decently, May was decent. Then by the end of May, things just started going out of control and the OEM started completely saying that, no, no, please don't make any supplies because they have a problem at their end of pick-up from the customer and all sorts of reasons. So, this has completely come as a surprise. We also don't want to because we are committed to the stakeholders, we are here for long term. We don't want that the investors should feel that we are here only because you've seen the company in the last 5 years has come from a long way. So, we have built up the company brick-by-brick a solid company. We don't want to mislead the investor after such a long journey. We don't want to do that.



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- Sachin Kasera:** Sure. But sir, will it be possible to share, for example, this quarter, what was the revenue from industry and how much revenue was from supply to infrastructure?
- Puneet Khurana:** 60-40, 60% still comes from CNG 40% industrial.
- Sachin Kasera:** Yes. But of that 60%, what was the breakup from supply to OEM
- Puneet Khurana:** You can yourself figure out now what I'm trying to tell you. I might not have the figures, but it is quite clear that where are the sales coming from now on CNG front?
- Sachin Kasera:** Two more things. One is, then in case of this slowdown are still going ahead full blast with expansion, or you want to put a brake on that?
- Puneet Khurana:** See ours is a long-term vision to the company and we don't see that we should stop expansion because of these small issues, because we see that the fundamentals are strong and you've seen last 3 years the amount of CNG vehicles have been built in the country. So definitely this kind of business just can't disappear overnight, and the kind of commitment that government has, and the kind of investments that's going in the sector, we just can't back off, because definitely there is just a matter of time, and it could come in such a way that again, we will be discussing something else probably in later time, that we are not able to manage it again.
- Sachin Kasera:** Sure. So, your presentation also mentions that the margins were impacted because of high input costs. Now, from what we're understanding that the steel prices have started to come down, but I'm sure we will have some inventory, which is high cost. So, when do think, we can start seeing the benefit of low cost?
- Puneet Khurana:** I don't see that being such an issue. The issue mainly is that the volume impact has really created other things to look now very bad.
- Sachin Kasera:** Okay. But sir, from your sense, when can we start to see any benefit on the gross margins or from benefit to margin from this lower raw material cost, because steel prices have down quite a bit in the last couple of months.
- Puneet Khurana:** Our steel is a little high valued steel, so it doesn't really drop so fast. It takes some time to drop.
- Sachin Kasera:** We understand that, so I'm just saying when, will it be Q3- Q4, so which quarter, should we see some benefit, which quarter should we see the benefit of this drop in steel prices?
- Puneet Khurana:** See, as the volumes pick up, you'll see benefit everywhere. It's just a matter of the volumes picking up
- Sachin Kasera:** Sure. And there was one presentation by Maharashtra Seamless, in which they mentioned that one of the peers have started to take the material from them and in the presentation that they have started to produce.
- Puneet Khurana:** Yes. Yes. So, we have taken some trial lots from them, and we are looking at exploring more and more too, but these things take some time, but we are definitely looking at that.
- Sachin Kasera:** And this localization will help you reduce both inventory days as well as also give you better price, or it'll only help you in terms of better supply chain?
- Puneet Khurana:** Only better supplies.



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- Moderator:** Our next question is from the line of Darshan Jhaveri from Crown Capital. Please go ahead.
- Darshan Jhaveri:** Good evening and thank you for taking my question. Sir, so my first question would be, based on the first quarter of what outlook could we give for the full year in terms of revenue and margin? I understand Q2 seems to be a bit slow, but do we feel that we will come back to our previous numbers in Q3?
- Puneet Khurana:** Definitely, there will be something that we will be better in the Q3-Q4. I think volumes will bounce back.
- Darshan Jhaveri:** So, sir, the new capacity that's coming in, how much ramp-up, how much benefit could we gain from that?
- Puneet Khurana:** Definitely, we will gain benefit in Q3-Q4, if the volumes are back, definitely will gain from that.
- Darshan Jhaveri:** Yes. So, I just wanted to ask it's a Rs. 100 crore additional revenue, so it'll take some time to ramp up to its full potential. So, which quarter do we expect it to be operated?
- Puneet Khurana:** Yes, I think we have projected, Q3-Q4. We have projected only Q3-Q4 from before only.
- Darshan Jhaveri:** Sorry sir, so you mean Q3-Q4, additional Rs. 100 crore of revenue could come in from the new capacity?
- Puneet Khurana:** Yes.
- Darshan Jhaveri:** So annually this capacity will add Rs. 100 crore?
- Puneet Khurana:** Yes.
- Darshan Jhaveri:** Okay. And sir, at what level do we feel, sorry, my question not might be a bit naïve, but what kind of volume would we require to go back to 20% margin?
- Puneet Khurana:** I think March quarter volumes, I think that would be right.
- Moderator:** The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.
- Tushar Sarda:** Okay. Sir, I just wanted to understand, you said the demand has collapsed, is it on the passenger vehicle side or the commercial vehicle side?
- Puneet Khurana:** The commercial vehicle.
- Tushar Sarda:** So, is it that the commercial vehicles have shifted to composite cylinder, and therefore your demand is down?
- Puneet Khurana:** No, no, no. They're not shifted to composite. It is it that the offtake, it slowed down.
- Tushar Sarda:** So, is it across all manufacturers or some specific companies?
- Puneet Khurana:** Yes, all manufacturers, commercial vehicle all manufacturers, on the CNG front, there offtake has slowed down.

- Tushar Sarda:** Okay. And what is the CNG sales, because in one of the questions you said it's 43%, and then you said that is 60-40, so a bit confusing. So, the number, they have tally, right? Because if you're saying last year, it was 60-40 CNG and industrial, and this quarter, if CNG has fallen, is it still 60-40 or has it come down?
- Puneet Khurana:** No, no, CNG still strong, but the volume, CNG has been quite strong like in March quarter, CNG would be 70%, now it's come to 60%.
- Tushar Sarda:** So, this means that your industrial has fallen right in this quarter?
- Puneet Khurana:** No, no, no. Industrial has not fallen. I'm just giving you a breakup of sales. I'm giving you what my sales were.
- Tushar Sarda:** Sir, how much is CNG sales last year? How much is CNG sales this quarter?
- Puneet Khurana:** You want CNG sales alone, that's what you're trying to say?
- Tushar Sarda:** Yes. Auto sales.
- Puneet Khurana:** Yes. So, what we're doing is we are not giving out these numbers for specific reasons, we are only giving breakup percentage.
- Tushar Sarda:** The percentages that you're giving are approximate, they're not precise, and that creates confusion. So it's very difficult for us to judge as to actually what is the real situation.
- Moderator:** The next question is from the line of Anubhav Mukherjee from Prescient Capital. Please go ahead.
- Anubhav Mukherjee:** Sir, I just have one question. How has the industrial demand this quarter, like compared to last quarter and compared to the Q1 last year also?
- Puneet Khurana:** Yes. It's in line.
- Anubhav Mukherjee:** So, sequentially, there was no drop in the industry?
- Puneet Khurana:** Yes, There's no drop in industrial.
- Anubhav Mukherjee:** So, can we get on this, so we could compare to Q1 FY22, did see any growth, because overall the industrial production is doing very well. So, are we seeing year-on-year growth in that portion?
- Puneet Khurana:** Yes. Obviously, they still include, so our growth is there. Yes, yes. Year-on-year growth is also there. Yes. We have year-on-year growth also in industrial.
- Anubhav Mukherjee:** Just the year-on-year percentage in industrial? What are the key industries we supply too?
- Puneet Khurana:** We supply to fire industry, we supply to oxygen, hydrogen.
- Anubhav Mukherjee:** Okay. Oxygen would be medical oxygen?
- Puneet Khurana:** Oxygen could be for industrial use also, it's not only for medical oxygen.

- Anubhav Mukherjee:** So, sir, what's the outlook on the industrial part, because that is also 40% of our sale in industrial?
- Puneet Khurana:** So, outlook, industrial is always a business that's always consistently there with the company, that's our bread-and-butter business. That's always there with the company.
- Anubhav Mukherjee:** But do we see like, a good or substantial growth in that in the coming quarter, can it like help with the like balance the de-growth in the auto segment?
- Puneet Khurana:** No, no, no, no, no. See, CNG is the one where the growth is always much stronger in the CNG and faster.
- Anubhav Mukherjee:** Okay. And sir, how are the margins in both the segments? Are they similar or like auto?
- Puneet Khurana:** No, CNG margins are higher.
- Moderator:** The next question is from the line of Viraj Mahadevia as an Individual Investor. Please go ahead.
- Viraj Mahadevia:** Very well, very well. Disappointing quarter to say the least, hopefully it's only a hiccup in a long growth journey for you.
- Puneet Khurana:** Yes.
- Viraj Mahadevia:** But as you think of these kinds of shocks, one or two things come to mind. One is, why does your sales/BD team not have a pulse of this ahead of time, if they're talking actively engaging with long-time customers, so you can foresee some of these shocks down the road and act accordingly. And the second one is, why not derisk some of your sources of revenue, for example, cascades continues to grow as you have suggested, because that's government funded or petrol pump funded. That is a steady growth business. Additionally, there's the passenger vehicle, for example, in TATA Motors, which has grown very well, and we are completely absent from there. So how do we derisk ourselves from some of these shocks, so we don't get surprised in the future?
- Puneet Khurana:** So, I mean, first thing, coming on that, our team is, obviously we are in continuous touch with the OEMs, and what we do is we also monitor the stocks and inventory at outside the plants, because our, when we sell, we have a system that goes just in time to the customer. So, there is a complete trace, we are tracking the inventory very regularly, so of course, and we have large volumes that are going say to a TATA or a VEV, there a large volume going. Now there is a sudden stop, because the customer is here in a case where the customer continues, tell us, no, no, no, please, please send, please send, there is nothing, nothing, nothing. And then suddenly, in April everything is okay, May everything, suddenly in May end the customer realizes that the vehicles that they're trying to push at their dealer end has a problem. And then, they need to slow down production.
- So, it's been , because if we could see this, we would also not send out inventory where the customer would, we would, why produce if it's going to lay at the inventory point. So, this quarter has been a little bit, I think it's come as a shock to even the customer, to us. So that's been a bit of an issue in the last quarter that we couldn't really do much because the schedules were given, and everything for us is about planning. We can't just do things without a plan. We have to plan everything.



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Suppose we have to deliver in June, we need to be ready by mid-May production. Everything should be in the WIP, everything should already be going towards. So, it's very difficult to kind of just stop everything. so that's one thing.

Now, we have obviously been originally a very focused company on CV business because that's where our sales have been going up and up and PV business is there, but our presence in the PV business has been limited because the companies have been focused on CV, but of course now like you said, now going forward, we also try to understand that these kinds of shocks, because we always thought that CV is a more consistent business to be in. And PV business is always very volatile. So of course, we also will going forward also we'll try to focus more on where we can put something in the PV and something in the CV. So, we don't kind of get caught up in this kind of situation.

Viraj Mahadevia:

Absolutely Puneet. So, I think, we just live in a very volatile world, where demand and variations happen across segments, across geographies. So, the more you can de-risk across product categories, granted CV is your mainstay, and it's probably a higher margin business than PV, but sometimes you need to have a leg in the door in PV, because if you need to pivot and CNG demand rise up over a 6, 9-month period, then you can at least ramp up PV from, without starting at ground zero, right?

Puneet Khurana:

Yes, yes, yes, yes. So, yes, yes, you're right. You're right. And it's been a choice for the company not to kind of focus on some segments because we couldn't cater to the market. I mean, we were so busy in doing what we were doing and thinking that everything is going to continue to grow the way it's growing. But anyway, I mean, we learn from something and we see how we will do this in the future.

Viraj Mahadevia:

Correct. And I hope as performance picks up into the latter half of the year, the favourite thing that I love requesting for now that your debt is low, share price is even lower, you will revisit the buyback conversation.

Puneet Khurana:

Yes, yes, yes, of course. You know, we'd do anything for the stakeholders, what benefits them is definitely benefiting us.

Moderator:

Thank you. The next question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

Jagvir Singh:

Thanks for the opportunity. I just wanted to know when do you see we will return markup quarter volumes in the CNG?

Puneet Khurana:

I think , Q3-Q4 should be, will be more promising, but again, we will have again a chat with everyone.

Jagvir Singh:

Okay. And my second question is, what was the reason why VEV and TATA Motor's commercial slow down, any idea because I have joined late the call.

Puneet Khurana:

So, only thing is that their volumes from their offtake, from their dealers have slowed down, they have become slow.

Jagvir Singh:

But any reason which you would reason for slow down?

Puneet Khurana:

There could be some changes in the CNG pricing that could be a reason that has slowed down, could be just too much of pile up of inventory at the dealer end and the offtake has not happened.



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- Jagvir Singh:** Okay. And if we talk today, so what is the situation today?
- Puneet Khurana:** See, the production is there, the production at the OEM is still on, TATA and other people are still producing vehicles. Only thing is they are trying to complete the inventory that is only aligned with them.
- Jagvir Singh:** Yes. So, I think this is not a good quarter, we have around Rs. 3 - 4 EPS. So, why we don't increase that dividend pay-out, so with at least Rs. 2-3 again?
- Puneet Khurana:** We can look at that, but dividend is already done at Rs. 0.35.
- Jagvir Singh:** Because when we had paid Rs. 0.35, at that time we are earning perhaps Rs. 60 in a quarter, even so this is a bad quarter, in the bad quarter, we have earned around Rs. 3 - 3.50. So, if we analyse this quarter so Rs. 10 - 12, at least I think Rs. 2- 3 of the dividend we can pay to the shareholders.
- Puneet Khurana:** So, we will definitely take that point down, and we'll do our best what we can do.
- Jagvir Singh:** So sometimes as investors we got that trust in the numbers, in the company, so dividend is the only way or the buyback is the only way, so we can, the earnings are real end.
- Puneet Khurana:** Yes, yes. I can tell you that we are definitely here, it's a long-term story. There is this business is going to grow and you can, it's just a matter of maybe this quarter next quarter, and then maybe you will see definitely the business will bounce back and then definitely the market will kind of respond to that.
- Jagvir Singh:** And dividend in end part?
- Puneet Khurana:** We'll look at it. We're taking your point down. We'll definitely look at it. We'll definitely.
- Jagvir Singh:** Government has reduced petrol and diesel prices and are increasing the prices of CNG. So, it may be the reason for slowdown in the commercial use of CNG?
- Puneet Khurana:** Yes, yes. That definitely could be a reason also that CNG prices increased.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Yes. Let me try to make this, and thank you for this opportunity. So, just to sum up the discussion overall, and I have just a couple of points. We had a bad quarter, and that happened at the back end of the quarter, wherein the demand from the commercial vehicle segment suddenly dropped.
- Puneet Khurana:** Right.
- Saket Kapoor:** And that is the key reason why we have lower utilization levels for the Indian operation.
- Puneet Khurana:** Right.
- Saket Kapoor:** Okay. So, sir can you give outline of how the other geographies behaved, what's the outlook there and, how is the business environment currently for our UAE and operations USA?



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- Sanjiv Kapoor:** Yes so, the USA operations done fairly well, and you would've seen that in the, they were also in profits and they're doing appropriately better than the previous quarter. Same goes for, UAE, has also done quite well, and they were also in profits. In fact, all our units have earned profits this year. So obviously going ahead also, they have projected good volumes and growth. So, we believe that the other sectors also performing as required.
- Saket Kapoor:** So, can you give some more colour on the utilization levels and what's the visibility part, Dubai and USA? So, I think the USA, was there any one off for the March quarter, they were in losses, or the PBT losses of Rs. 6 crore and turned to Rs. 3 crore profit for USA and Hungary combined. So, if you would give them more colour or how the order booking ?
- Sanjiv Kapoor:** We have orders in hand of USD50 million, this will continue, because, I mean, as we already indicated a number of times that we have a project-based working there in US, and based on the project-based working, I mean, every time order gets executed, then we earn profits based on it. So, we look forward to having a good quarter there too, further down.
- Saket Kapoor:** So, you have visibility for USA for the entire year then sir, since it's project-based completely for FY23 as a whole?
- Sanjiv Kapoor:** No, I've given you an estimate of what the orders I had. So, the execution may take more than a year also.
- Saket Kapoor:** I missed the number, sir. Pardon me, sir, what did you mention about the order book?
- Sanjiv Kapoor:** Order book is more than USD 50 million.
- Saket Kapoor:** More than USD50 million means, sir, if you give a bracket USD50 million to USD60 million or more than USD50 million, any number, sir ?
- Puneet Khurana:** USD50 million can't, we all go beyond USD50.
- Saket Kapoor:** More than USD50 million, you mentioned, I didn't get. Yes, thank you. Hello, come again, sir. Hello?
- Sanjiv Kapoor:** Yes. I said USD50 million.
- Saket Kapoor:** Sir, when we come to the point of this capital allocation policy, I think sir, being in the listed space and now holding regular conference call, educating investor, taking views from them. I think so the first and foremost point for investing community comes from the capital allocation theory from the company point of view, where are you going to put the money, the cash that is you are going to generate so for the year, how much goes into capex, how much to the R&D, how much is going back to your shareholders, either in the form of different or buyback.
- So, this questions about Rs. 0.35 dividend or Rs. 0.50 go for a buyback, should be codified from your end. it is not a one-off quarter story where you will think what to do or when, it should be a strategy going ahead where the capital location is, this should be well-defined so that whoever investors today are, or who wants to invest in the company knows how the capital is going to be deployed rather than you'll think what to do after one or two quarter what to do. So that should not and my understanding is that it should come with some defined sense as SEBI has also mandated now about dividend distribution, very well you can give a percentage of



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what portion of your profits would be distributed back to your investors in the form of dividends and buybacks. So, you please think or the board should think over it again, and come up with a detailed answer to this question rather than sir ad hoc answering or looking into it, sir.

And definitely, sir, if we look now about the raw material part, you did mention that the pass-on in the raw material or the fall in the raw material prices takes a lag last time. So, are these raw materials totally sold domestically or we are also depending upon imported material?

Sanjiv Kapoor: Yes, we do buy imported material.

Saket Kapoor: Okay. And so, what portion of our raw material is, can you give a percentage system, how much percentage is there?

Sanjiv Kapoor: Yes, 20% is local.

Saket Kapoor: 20% is local, 80% is outside India?

Sanjiv Kapoor: Yes.

Saket Kapoor: Okay. And how many suppliers are there for us from whom we are sourcing and which geography?

Sanjiv Kapoor: Sir, 5 to 7 suppliers.

Saket Kapoor: Okay. And its spread all over the geography, can you outline?

Sanjiv Kapoor: No, they're mainly in China, Italy and Europe.

Saket Kapoor: Okay. Because sir, Italy, Europe and European region is facing a lot of energy issues. So how have we ringfenced ourselves from any disruptions from the team.

Sanjiv Kapoor: At times, there are certain customer demands where they specify the materials required. So based on that, we also get the pricing. So, we are not, let's say, worried about from where we buy.

Saket Kapoor: Okay. We have de-risk ourselves in terms of the supply side issues?

Sanjiv Kapoor: Right

Saket Kapoor: Correct, sir. So, we hope to hear much the capital allocation policy, just for the sake of repetition, and I hope that when you are coming with your 6 months number, although you have guided that this is also going to be a soft quarter, but still an overview to your investors and the analyst community will suffice a lot of worry and all the best of the team, sir. Especially, about this sudden drop in demand, so how can we see this number for your customers also, meaning which number for TATA Motor's would reflect this demand translating into their lesser vehicle way? How can we scuttlebutt the same thing, if you could give us some more colour?

Sanjiv Kapoor: Look at the CNG sales. You should look at the CNG update for the registration, I'm sure you'll come to know.



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- Moderator:** The next question is from the line of Vivek Gautam from GS Investments. Please go ahead.
- Vivek Gautam:** Sir, any word you could like to say about the recent new licenses for city gas project which was being given by Government of India, and how much will that reflect into increased demand for our product, including cascade as well as the CNG cylinders?
- Puneet Khurana:** Are you talking about some news that was come today? Or what are you talking about?
- Vivek Gautam:** I was talking about the recent city gas license distribution policy, where Adani Gas and IG, and have come up and as India is uncovered, all of such but there is no single CNG station, single State in Odisha, Bihar, Jharkhand, Northeast and other places, by when infrastructure for that coming up, it'll result in in increased demand for our products?
- Puneet Khurana:** Yes definitely, see the infrastructure is coming up very fast. All the gas companies are putting up CNG stations, every day there are CNG stations opening in India. So, the trust is there. Only thing is now wherever the, the government has allocated almost to the entire country where the licenses have been issued in the entire country. So, you will see the pockets of development even in places like, Ranchi, Jharkhand, and Bokaro, all those places CNG stations already started coming, Kolkata also you'll see a lot of CNG stations over the next 6-8 months, a lot of CNG stations will come. So, there's a lot of development happening everywhere on the CNG front.
- Vivek Gautam:** Second thing, major reason is about the under-performance, is current Ukraine and Russia crisis, which has led to sort of price of gas, I think so artificially reduce as we open Russia, and due to that the prices difference between that core diesel and gas has come down to a lower level. But the car, at least the mileage per kg of CNG is much better than petrol.
- Puneet Khurana:** Yes, definitely.
- Vivek Gautam:** Same situation in commercial vehicle and the demand is there, because the passenger vehicles are right now struggling, but they're on waiting list for CNG cars, but that's not the case in commercial vehicles?
- Puneet Khurana:** Probably not commercial vehicle is probably where different method of selling, probably, how they do their sales. Also, there must be some order book, but there is a genuine stoppage of, and at customer end there is probably some sales issues. That's why the pushback has come to us.
- Vivek Gautam:** And any update you are having with the domestic gas production, which can mitigate the import of expensive gas to a certain extent?
- Puneet Khurana:** See, these are something that's an ongoing process. It looks, there are news even today that the government is going to specially allocate domestic gas for CGDs. So definitely that will be a great help bringing the price of gas down and start the boost of the CNG business.
- Vivek Gautam:** What is the share of the domestic gas production for India's gas requirement, any idea you have?
- Puneet Khurana:** No, I don't have the figures here with me now.

- Vivek Gautam:** Because after the Reliance KG-Basin coming in and the ONGC expected to come up again in the KG-Basin, the dependence on the import of gas might reduce?
- Puneet Khurana:** Yes. Let's hope, because today we are still depending on those imports, because gas demand also in India is growing very fast.
- Vivek Gautam:** Any idea, domestic gas rate was very, very less at the \$1 or \$2 below the cost of production, but now the rate has also been increased by Government of India in a sensible step. So, what could lead to the increase in production of domestic gas in India, and what are long-term much better than us, the idea of your categories, that or not?
- Puneet Khurana:** Yes, definitely, in the long term, definitely in long term it's very promising.
- Moderator:** Thank you. Ladies and gentlemen, that would be our last question for today. I'll now hand the conference over to the management for their closing remarks. Thank you, and over to you.
- Puneet Khurana:** Thank you once again for your interest and support. We will continue to stay engaged. Please be in touch with our investor relation team, CDR India for any further details or discussion. Look forward to interaction with you soon. Thank you.
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