

August 21, 2023

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, 2023.

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 16, 2023 for discussion on Unaudited Financial Results (Standalone and Consolidated) of the Company for the quarter ended June 30, 2023. 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 and Compliance Officer

Encl.

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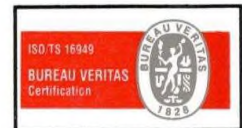
Registered Office
204, Raheja Centre,
Free Press Journal Marg,
214, Nariman Point,
Mumbai 400 021.

CIN L29200MH1978PLC020434

Tel. : +91-22-3026 8300 / 01

Fax : +91-22-2287 0720

Website : www.everestkanto.com





Everest Kanto Cylinder Limited

Q1 FY24 Earnings Conference Call Transcript

August 16, 2023

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

As a reminder, all participant lines will be in a listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and 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.

Aesha Shah: Good afternoon, everyone, and thank you for joining us on Everest Kanto Cylinder - Q1 FY24 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 the 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 all earlier. I would now request Mr. Puneet Khurana to make his opening statement.

Puneet Khurana: Good evening, everyone, and thank you for joining us for our earning conference call. 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.

Softening demand for CNG Cascade segments in the domestic market and lower traction in the international market primarily impacted our revenues and profitability in Q1 FY24 compared to Q4 FY24. As most, you would have been aware our base for Q1 last year was still high as the CNG sales started declining last year from the June month onwards. So, the Q1 FY23 was still a relatively better quarter. In Q1 F24, our OEM CV CNG sales remained stable on a Q-o-Q basis, providing support to our performance.

On a consolidated basis, revenues stood at ₹ 268 crores in Q1 FY24 compared to ₹ 298 crores in Q4 FY23 and ₹ 381 crores in Q1 FY23. On a standalone basis, revenue stood at ₹ 166 crores in Q1 FY24 compared to ₹ 180 crores in Q4 FY24 and ₹ 270 crores in Q1 FY23. In standalone business, the CNG segment stood steadily at approximately 60% in Q1 FY24.

Our probability was impacted owing to negative operating leverage due to lower revenue. On a standalone basis in Q1 FY24, EBITDA stood at ₹ 18.2 crores with a margin of 11%. PAT stood at ₹ 9.6 crores. And on a consolidated basis, EBITDA stood at ₹ 36.9 crores, PAT stood at ₹ 9.6 crores. And on consolidated basis, EBITDA stood at ₹ 36.9 crores and with the margin of Rs. 13.7%. PAT stood at ₹ 21.8 crores. Overall, we've been able to register better revenue performance going forward. We hope to improve the consolidated margin to around 14% to 15%.

Despite the challenges, we hold a positive view of the prospect of CNG cylinders within India. The government is clearly looking to encourage ecofriendly natural gas through fiscal incentives and implement the policy that can result in structural and reduced CNG prices compared to other fuels.

Furthermore, the ongoing expansion of CNG distribution network throughout the nation signifies the government effort to promote sustainable growth and reduce greenhouse gas emissions and pollution. The government plans to grow CNG network from around 5000 CNG stations to over 16,000-17,000 CNG stations by 2030 means that the demand for ecosystem of CNG centers should grow in the future.

As we move forward, we recognized that the current market challenge is impacting our businesses. Our team is focused on leveraging our core competence and engaging with both domestic and international customers to drive our business, building our strength on CV CNG market. Our team is actively working strategically to enhance penetration in PV market and is committed to quality and customer satisfaction. We believe that we will position to capitalize on the future of the CNG vehicle market.

On that note, I come to an end to my opening remark and would request the moderator to open the forum for any questions. Thank you.

- Moderator:** The first question is from the line of Ravi Naredi from Naredi Securities, please go ahead.
- Ravi Naredi:** Sir, company is going downward continuously. No recovery for long. So, will you say few words when it starts recovering in the near future?
- Puneet Khurana:** We just want to tell you the situation of the business currently and we'll continue to update you if there are any changes that are happening in the business.
- Ravi Naredi:** So, what is the current situation? Can you update, and say few words on the current scenario?
- Puneet Khurana:** The company's focus has been on CNG where we have seen the prices of CNG have risen from around ₹ 50 per Kg to about ₹ 83. So, this is currently impacting the overall scenario in the industry which was growing quite well. So, this has been the major factor. The war that is taking place in Ukraine, where the natural gas prices internationally have also gone up. So, this has had a major impact that we are facing in the business. But the positive side is that the CNG infrastructure is already in place. And going forward, the movement of CNG hasn't stopped, but it's slowed down. So, it's a matter of time before you will see that the business revival will happen. The only thing is this has just been longer than everybody expected, and of course, there's still uncertain when this will come to an end, but whenever it does that the prices of everything will like at least natural gas prices will come to some realistic terms and also globally what is happening is lots of development on new fields is coming up, new LNG terminals are coming up, so the prices of natural gas probably going forward will more stable and there will be the availability of natural

gas coming from other countries as well. So, dependence on certain markets like Qatar and Russia and other places will definitely reduce going forward.

Ravi Naredi: And what is the gas price currently hovering in India?

Puneet Khurana: So, the government has had some changes and they have kept the gas price around \$6.5.

Ravi Naredi: So, it converts into the Indian rupee, what will be the cost now?

Puneet Khurana: Cost is what you see on the CNG station. This is the price of the CNG. Now, getting into certain details on where it should be and these things are again, the prices are decided by the MoPNG, so we really don't have much say on the pricing. The business fundamental is very strong, it is a sustainable business model, so it is a matter of time before you will see that the business will come back.

Ravi Naredi: And this high-value addition, are you making in the manufacturing process, how it help us to capacity increased utilization in the future and what is the capacity utilization we are working on at present?

Puneet Khurana: So, it currently is around only 55%.

Ravi Naredi: And you just showed in the investor highlights, how value additions are you making in the manufacturing process, how it helps us to capacity utilization to increase?

Puneet Khurana: For value addition, we are introducing new products like composite cylinders and other things that we are working on, so definitely they will add more value add to the business.

Ravi Naredi: Can you tell me something about this FY24, how we will perform, or how we will deteriorate more because this is the very big question?

Puneet Khurana: Let me give you some perspective that what is happening is that when things started slowing down and changing prices started moving up, there was a lot of inventory blocked at the CV customer end, now that inventory has freed up. So, you can get some perspective that now that the market is free the market may not be at that level, but the market is coming back and so the sales will reflect.

Ravi Naredi: So, this FY24 you mean to say it will improve day by day?

Puneet Khurana: It should improve day by day.

Moderator: Thank you. The next question is from the line of Abhishek Ketam from Alpha Invesco. Please go ahead.

Abhishek Ketam: I meant that on the OEM sales, our exposure is mostly with the LCV guys or the last-mile delivery ecosystem, is that the right understanding?

Puneet Khurana: So, we are applying to all sorts. In the CV segment, all sorts of vehicles are being made on the CNG, we are supplying cylinders to that.

Abhishek Ketam: But the CNG sales also in the CV are mostly in the LCV segment.

Puneet Khurana: It is all, in trucks, buses, and LCVs in every segment, now CNG is available in every segment.

Abhishek Ketam: What would be our split B between buses and then CV?

Puneet Khurana: We don't have that detailing of the split.

Abhishek Ketam: Sir, another channel check suggested that the waiting period on CNG CV is around 30 to 40 days and on diesel CV is around 10-15 days, so do we see a destocking sort of coming in this segment and then we can have a couple of few good quarters or how is that scenario?

Puneet Khurana: So, the inventory level right now at the CV level has become very low. So, now, what they are doing is they are manufacturing, another thing is, because the business was growing so fast that the CV, the inventory levels went very high. So, they took some time to liquidate the inventory. So, now what you are doing is, now they are only manufacturing what they are selling. So, there I don't think the gap between the customer and the product is too much.

Abhishek Ketam: But sir, they making something and only to order, so there is a long waiting?

Puneet Khurana: Now it might be just on an order basis only, make-to-order only.

Abhishek Ketam: So, make to order, so that will elongate the buyer's time, right?

Puneet Khurana: Yes, probably because the situation doesn't stabilize because gas prices like this sudden surge that nobody expected that this kind of surge, a product that is at ₹ 45-50 has suddenly become ₹ 85, nobody expected this kind of surge.

Abhishek Ketam: Sir, if OEM sticks to make-to-order, so what is exactly when I spoke to dealers what they are indicating is since this made-to-order or waiting dates are long, customers are sort of preferring to move to diesel because the availability is faster, so do you think this will hamper the OEM sales growth for us?

Puneet Khurana: I think to see customers who are buying CNG are buying CNG because there is availability of infrastructure in their area and of course, there are lots of advantages with CNG that the customers are getting. So, the customers who are choosing CNG, but the point is it is a marketable product only thing is that the price difference the customer is just kind of in a shock situation because he didn't realize that the margin that he was making on CNG is suddenly shrunk. He is kind of in a situation where this is happening and what is the future if the policy of the government is not clear. Despite the prevailing price discrepancy, with CNG priced at 82 and diesel at 92, the margin still exists. However, it's noteworthy that the once substantial advantage that CNG enjoyed in terms of profit margin is no longer as pronounced.

Abhishek Ketam: ₹ 10 differential is not that big an advantage?

Puneet Khurana: So, now when the customer decides, it is really on the infrastructure available in that place, CNG, the benefit of CNG, so now you are finding that, but what the good thing is that you are finding a genuine market for a product. So, you are finding a competitor for fuel that has always been there. So, maybe in the future that this share will continue to grow, yes if the price or if things become okay globally, maybe the difference can be immediately affected and then you will see that diesel will eventually maybe in the next 3-5 years diesel will not be available or disappear, but because the difference becomes so less, the diesel is still existing.

Abhishek Ketam: Sir, does the difference stays at ₹ 10 or something in this range, then we might not see a very big comeback from CNG, right?

Puneet Khurana: Yes, you are right, but it is gradually hitting into the market. Yes, you might not see it, but the thing is that CNG is slowly hitting into the diesel market. So, the growth might be, the things that we are expecting to happen in 5 years might take 10 years, but it is going to happen. See, eventually diesel is a problem and everybody in the country, including the government, feels that it is a problem and CNG is a solution that they have, so they are seeing this as a solution, and they are supporting that solution.

Abhishek Ketam: Sir, don't you think if this difference stays at ₹ 10, then the incremental sales will move to EV?

Puneet Khurana: On the buses, EV is a very expensive solution today, so EV infrastructure on the charging, those kinds of things are going to take some time. So, EV on the buses is quite something that is going to take some time.

Abhishek Ketam: So, just one more on this is, what do you think will be a differential, I mean the gap differential between CNG price and diesel price, to accentuate the demand, I mean right now 10, so do you think it?

Puneet Khurana: If 25% is the difference could be a great driver because 25% is a great gain for a customer who is buying a vehicle.

Abhishek Ketam: Around ₹ 20?

Puneet Khurana: Calculating his return on investment right. He must pay EMI, he must pay, so if even 25% means his whole return on the vehicle comes much faster, this is what the customer wants because infrastructure is growing. There are 5000 stations, the government wants to go to 15,000 stations. So infrastructure is growing. The only thing is that this gap, the customers would think on this gap that the gap of 10% is not very exciting for them. It is exciting but is not making it very exciting.

Abhishek Ketam: On the cascades business, how do you think FY24-25 looking at it?

Puneet Khurana: Definitely, the cascades business should be there and we are hoping that more projects come, so cascade is more of a tender-based business, so we are waiting for more and more projects to get released. So, hopefully, it should be probably something in line with last year.

Abhishek Ketam: So, flat over last year, and then maybe FY25 we will look at some growth?

Puneet Khurana: Yes, it will continue, but the business will continue. It will be a continuous growth; it will be there.

Abhishek Ketam: So, how much growth can we expect in this business, FY25?

Puneet Khurana: As of now, it will be kind of similar only.

Abhishek Ketam: FY25 also flat?

Puneet Khurana: Yes.

Abhishek Ketam: And sir, last question was on the international side, so which geographies should do well for us FY24 or where are we focusing?

Puneet Khurana: I think in Dubai, we will have a similar kind of growth in Dubai and US you will see the similar kind of growth that you have seen last year.

Abhishek Ketam: So, our focus and our efforts should be driven to Dubai and US markets?

Puneet Khurana: Yes.

Moderator: Thank you. The next question is from the line of Vishal from Svan Investments. Please go ahead.

Vishal: Sir, my question is regarding, if you see last 3-4 quarter trend of India business, it has been declining in fact quarter-on-quarter ₹ 180 crores to ₹ 166 crores and if you commensurate with CNG prices, CNG prices have fallen from almost ₹ 90 odd per kg to almost around ₹ 80 odd per kg, so are we not seeing any traction?

Puneet Khurana: We are seeing traction, but the only thing is that the kind of impact because of this sudden change, lots of inventory buildup at the OEM level that is being kind of liquidated now, so you will see that will show up in this coming year, will have that advantage of the business that comes in.

Vishal: So, from here on if the CNG levels remain at around ₹ 80, you are seeing our high-cost inventory gets liquidated, one, the advantage from the demand side will happen and other, from the cost side also it will happen, and you may see improvement in the gross margins?

Puneet Khurana: Yes.

Vishal: Sir, in terms of international business also, the US in the last 3-4 quarters has been very lumpy, starting from June it was around ₹ 58 crores, and in September last year it went to around ₹ 110 odd crores, and gradually now around ₹ 55 crores in between last quarter, it has clogged near to ₹ 80 odd crores, so what kind of run rate should we assume going forward for US?

Puneet Khurana: So, I think 50-55 we should be doing, something like this quarter current quarter.

Vishal: And a similar level for UAE as you said for the earlier call?

Puneet Khurana: Yes.

Vishal: There is a section of others, so I presume it may be other smaller countries.

Sanjiv Kapur: We have a branch that sells so that the others which come there and plus any other item which does not get reflected in any of the segments that gets reflected to others.

Vishal: It has started contributing well, in fact, the sales have almost doubled, so are we seeing any traction there, something you would like to highlight there?

Sanjiv Kapur: No, it will be normalized.

Vishal: Sir, any guidance you want to give for FY25, how are you seeing the overall in terms of how are our business heading in terms of topline growth or anything on profitability and one more last point sir, in terms of your CAPEX guidance?

Puneet Khurana: We had announced some projects. So, ₹ 40-50 crore is the CAPEX plan.

Vishal: Sir, any guidance in terms of you are seeing topline to grow in FY24 and graduating in FY25 and what is your expectations?

Puneet Khurana: We have given you some ideas on, how the business is going to look. I think you can get some idea from there that how the business will progress.

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

Sunil Jain: My question is related to this cascade business, so how much percentage of revenue come from this cascade business in our total revenue of India operation?

Puneet Khurana: Revenue comes from cascade ~30%.

Sunil Jain: 30% of total revenue or India revenue?

Puneet Khurana: Total.

Sunil Jain: Including the US, UAE, India altogether?

Puneet Khurana: Yes.

Sunil Jain: And that is likely to remain more of flattish this year?

Puneet Khurana: Yes.

Sunil Jain: And the second thing is this composite cylinder, do we have technology with us?

Puneet Khurana: Yes, so what we have done is we already launched our composite cylinders for Indian markets, so we should be expecting some good results probably this year from that also.

Sunil Jain: So, composite cylinder even in cascade also you had launched?

Puneet Khurana: Yes, for Cascades only.

Sunil Jain: And have we bid for any tender in that?

Puneet Khurana: Not yet, we have just launched, so hopefully in the coming tenders we will be there.

Sunil Jain: So, do we need to take any approval from?

Puneet Khurana: Yes, you must take a PESO approval for everything, we have PESO approval.

Sunil Jain: So, we already have approval?

Puneet Khurana: Yes, we have approvals.

Sunil Jain: All these IOC, HPCL, PPCL and all?

Puneet Khurana: Yes, everywhere. We have to take some approvals. We have those approvals in place.

Sunil Jain: cascade for composite cylinder?

Puneet Khurana: Yes.

Sunil Jain: You got this technology in US operation?

Sanjiv Kapur: Yes, something that we have been working on, so we have been closely working with the US and something in India and we have been able to put everything together and make the product ready.

Sunil Jain: So, would you anticipate that these composite cylinders even need some government approval in the sense some regulatory approval also?

Puneet Khurana: Yes, that regulatory approval is PESO, Petroleum Explosive Department.

Sunil Jain: So, that you already got?

Puneet Khurana: Yes, Petroleum & Explosive Safety Organization, PESO.

Sunil Jain: So, that we have?

Puneet Khurana: Yes, without that, you cannot do any sales in India for other products.

Moderator: Thank you. The next question is from the line of Himanshu Singh from Prabhudas Lilladher. Please go ahead.

Himanshu Singh: Can you just tell me what is the revenue split by segment for you, you said that cascade is around 30% and what would be the remaining 70% from?

Puneet Khurana: Balance 30% is the other CNG products for automobile.

Himanshu Singh: 30% from CNG for automobiles and the remaining 40%?

Puneet Khurana: 40% is industrial.

Himanshu Singh: And so more in the automotive segment, so what is your market share in the automotive segment?

Puneet Khurana: Market share, it should be around 50%.

Himanshu Singh: So, this is some like on the OEM side or aftermarket as well?

Puneet Khurana: From OEM side, aftermarket really there is not much of a market.

Himanshu Singh: So, like most 90% would be OEM?

Puneet Khurana: Yes.

Himanshu Singh: And you have your supply products to all the OEMs like top OEMs?

Puneet Khurana: Yes, most of the OEMs we supply.

Himanshu Singh: And how do you see this CNG penetration going forward in the automotive industry, currently it is around 10%-12%, how do you see it going forward?

Puneet Khurana: I think it will continue to grow because as infrastructure grows, it will continue to grow.

Himanshu Singh: Do you have any number in mind like next 5 years we see this 10% going to 20-25 or?

- Puneet Khurana:** Before the way it was growing so fast because the price of the CNG was perfect for this business to grow very fast, but because of the price of the CNG, the slowdown happened and it is really the mechanism of price, but what we can see is that even at this rate, there is a business that is happening. So, definitely the pace has slowed down, but it has not stopped, so there is a good market out there and it will continue to grow.
- Himanshu Singh:** And just on the timeline for your capacity expansion from 0.9 million units to 1.8, what is the timeline for that?
- Puneet Khurana:** So, where we are currently slowing down on that because the market situation, current utilization levels are not allowing us to kind of go on expanding capacity.
- Himanshu Singh:** So, it is getting delayed?
- Puneet Khurana:** It is like kind of slowdown.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Determined Investments. Please go ahead.
- Amit Kumar:** Just one set of point, I just want to understand the difference between the CV and the passenger car market from a CNG perspective because while the CNG CV market has taken a pretty sharp hit last year, the CNG passenger vehicle market has actually grown by an eye-popping 40% last year, so I think the cost of the fuel is basically the same for both CVs and the passenger vehicles?
- Puneet Khurana:** No, the problem is the diesel fuel is at 90 bucks and Petrol is 100 bucks. So, that difference for the CV market is a big impact because the CV is always comparing it to diesel, not to petrol, the PV market is always comparing it to petrol. In the PV market, the major manufacturer Suzuki where we are not catering, but we are working very closely with Suzuki in getting that business, probably our team has been having close coordination with their team. So, hopefully, we should have some breakthroughs.
- Amit Kumar:** And my second question is that traditionally you have sort of always said that CV business is more complex business, it is a more high margin business for you, but looking at the market situation, clearly the passenger vehicle side has more momentum at this point in time and still quite small, out of whatever 4.5-5 million vehicles like CV side, just about 5% or 10% earlier, PV is still 5%-6% kind of penetration, so when can we sort of expect some, not talking specifically with respect to Maruti, but they have a whole bunch of players in the market, now Maruti has an entire line up of CNG vehicles available, so everybody else will sort of follow the leader as well, so when can you sort of expect some sort of breakthrough in terms of ramping up our business on that side?
- Puneet Khurana:** So, we are working on it. Hopefully, we will have some breakthroughs this year probably.
- Moderator:** Thank you. The next question is from the line of Harshh Saraswat, an Individual Investor. Please go ahead.
- Harshh Saraswat:** So, my first question would be on the PV side, have we got any breakthrough apart from Maruti like Tata and all, and is there any volume commitment from them, something like that has developed?

Puneet Khurana: We are currently supplying Hyundai on the PV segment and Mahindra & Mahindra and we are to Tata for all models. Currently, we are in the process of supplying, yet the business volume is gradually gaining momentum. We anticipate a forthcoming growth in volume and aspire to seize this opportunity. Our efforts are directed towards securing an amplified volume within this business sphere.

Harshh Saraswat: So, my second question would be on the inventory levels, now for the last few quarters, we have been talking about the inventory which is now getting freed up. In Q4, we saw some development on the revenue side, our revenue started picking up in Q4 and now in Q1 again dent, so should we expect that this was the quarter where most all the inventory has been freed up and going forward, we should see growth in the numbers?

Puneet Khurana: Yes, slight improvement will be there definitely.

Harshh Saraswat: So, not majorly going back to the?

Puneet Khurana: Yes, but there will be some improvement.

Harshh Saraswat: And on the USA business also, I wanted to ask, what are the margin guidelines over there we saw a very big spike in the last quarter and now they have just fallen, so any guidance on that?

Puneet Khurana: Margin will probably you can take this quarter as guidance, probably some idea you can get.

Harshh Saraswat: So, should we take this as the standard?

Puneet Khurana: Yes, this.

Harsh Saraswat: So, 10% around levels?

Puneet Khurana: Yes, over there.

Moderator: Thank you. We have no further questions. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Puneet Khurana: Thank you once again for your interest and support. Should you need any further clarification and would like to know more about the company, please feel free to contact our investor relation team CDR, thank you.

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