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Sub: Transcript of Earning call for Q3 FY2023

For Everest Kanto Cylinder Limited

Sanjiv Kapur
Chief Financial Officer

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CYLINDER
LIMITED**

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of high pressure
Seamless
Gas Cylinders**

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Everest Kanto Cylinder Limited

Q3 & 9M FY23 Earnings Conference Call Transcript

February 15, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Everest Kanto Cylinder Limited earnings conference call.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Aesha Shah from CDR India.

Aesha Shah: Good afternoon, everyone and thank you for joining us on Everest Kanto Cylinder Limited Q3 and 9M FY23 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 have been included in the results presentation shared with you all earlier.

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

Puneet Khurana: Good evening everyone and thank you for joining us for the earnings 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.

During the quarter our performance remained subdued on a Q-o-Q basis. This was primarily due to the decrease in demand in the CNG cylinder industry which continued to affect our business. Additionally, the negative impact on our performance was intensified by the decline in the high-margin commercial vehicle CNG segment. However, a steady contribution from the industrial segment partially offset the decline and supported our performance.

On a consolidated basis, the revenue came in at Rs. 256.4 crore in Q3 FY23, EBITDA stood at Rs. 14.5 crore with a margin of 5.7%. And on a standalone basis, revenue from operations stood at Rs. 143.2 crore in Q3 FY23. EBITDA stood at Rs. 12 crore

with the margin at 8.4%, PAT stood at around Rs. 10.5 crore. On a consolidated basis performance was impacted owing to the one-off exception cost rupees Rs. 19.94 crore. This was an account of a penalty levied on CP Industries Holding a step-down subsidiary of the company by its customers on account of non-fulfillment of the agreement in the contract. We are contesting with the customer, but in the interest of long-term business engagement with a large customer, we decided to settle the matter.

The CNG segment saw a decline of 61% year-on-year to 45% of revenue at the consolidated level. Additionally, our subsidy in Dubai, UAE contributed positively to consolidated results.

We believe the potential of CNG in India remains strong with the government focused on increasing the use of natural gas in India's energy mix and most of you will be aware that they have taken several measures to promote the use of CNG vehicles. Unfortunately, the reduced price difference between CNG and other fuels has primarily led to a fall in the usage of CNG vehicles in this fiscal year. We believe this change in the price difference between CNG and other fuels increases going forward.

To conclude, we have witnessed some demand uptake in the CNG segment in Q4. We hope the trend will continue in QoQ and the demand environment will improve starting from Q1 of the fiscal year. We do, however, need to monitor the price difference between CNG and other fuels as our key commercial vehicle sales will remain subdued. The customer in this segment is highly sensitive to price differential and it certainly determines their buying decisions. As and when the demand environment improves, we believe we will be positioned to capitalize on the given leadership position, strong balance sheet, and expanded production capability. Thank you.

Moderator: The first question is from the line of Harshwardhan Kumar from Porcelain PMS. Kindly proceed.

Harshwardhan Kumar: I would like to know, in the India business we dropped another 27% quarter-on-quarter in terms of our revenue, but I think we were expecting flat sales numbers. What is the reason for the drop in domestic sales and how much is the volume and realization decline for Q3 if any?

Sanjiv Kapoor: If you look at our figure there has been a drop in the CNG segment which on quarter to quarter also, because of the slowdown in the CNG segment, even the Cascades business dropped a little and that affected us, though we can see a pickup in the auto sector happening. But still, it did not match what we foresee as a good quarter. . Going forward, we believe that this would obviously come back and we expect the CNG prices also to cool down. Obviously, the off-take would obviously pick up thereafter.

Harshwardhan Kumar: Okay, but could you please give me any numbers for the volumes and the realization, please?

Sanjiv Kapoor: We are having normal realizations only as per the last quarter.

Harshwardhan Kumar: Only the volumes have dropped.

Sanjiv Kapoor: There's a slight pickup in the auto sector, but it got offset by drop in the Cascades segment. Both Cascades and auto sector comprise of CNG.



Hashwadhan Kumar: My next question is what is the current domestic capacity utilization? In Q2 I believe it was 60% domestic capacity.

Sanjiv Kapoor: We are continuing at 60% in this quarter too.

Hashwadhan Kumar: Also, in terms of the mix of industrial and CNG revenues right now on a standalone basis, could you give me also the split between the CV and PV in the CNG segment? After you give me the industrial and CNG split?

Sanjiv Kapoor: So CNG was 50% and industrial was also 50%. Both are at 50% in the current volume and price. The total value wise is 50%.

Hashwadhan Kumar: Between the CV and PV in the CNG, do you have anything on that?

Sanjiv Kapoor: In PV we are still working on it as this was not the area that we had concentrated on before and accordingly now we are pushing PV with the OEM's. We believe that going forward we may be able to push for the PV segment also.

Hashwadhan Kumar: Okay. Also in the past, our promoters have bought from the open market at around the current prices. Is there any intention of the promoter to buy from the open market now? I anticipate that this would send a very strong signal to the market.

Sanjiv Kapoor: Promoters are deciding that, but nothing yet.

Moderator: Thank you. The next question is from the line of Sandeep Agrawal from Naredi Investment. Kindly proceed.

Sandeep Agrawal: My question is what is the negligence on the part of the company regarding this penalty Rs. 19.9 crore and any more penalty will occur in future, or this is one time?

Sanjiv Kapoor: This is the one-time penalty only which has come, and it's still not finalized absolutely. We are still negotiating with them. Since it is in the pipeline, we have made a provision for it.

Sandeep Agrawal: Okay. And so, what is the capacity utilization guideline for next financial year? Any view regarding this?

Sanjiv Kapoor: No, as the business grows, I mean, we have enough capacities to grow. All are aware that we've done our capacity expansion also.

Sandeep Agrawal: Okay, what is the purpose of, we have land acquire during this six month and we have a land investment approximately Rs. 23.67 crore in books. So what is the purpose?

Sanjiv Kapoor: We has acquired land to set up a project.

Sandeep Agrawal: Why are you showing as an investment?

Sanjiv Kapoor: No, it's not an investment, it's for a project. We have announced a project where we are going to expand capacity. Currently, since the market scenario is a little subdued, we are going slow with our project.

Sandeep Agarwal: What is the bifurcation of other assets? Rs. 111 crore as of 30th September?



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Sanjiv Kapoor: I don't have the figures at present, but I would provide you later.

Moderator: Thank you. The next question is from the line of Vishal Shrivastav from Svan Investment. Kindly proceed.

Vishal Shrivastav: I have one question regarding our US business. Last quarter we have seen a good growth in the US business and you said the trajectory of the revenue will improve from here on. But this quarter there has been sharp drop. is it because of some we have lost some recurring business because of the penalty which has been imposed or can you throw some light on the same, please?

Sanjiv Kapoor: No, the penalty is not going to reduce the business because that's why we've settled the large customer so that they continue with the business. I believe that the business will continue the way it is. Yes. Obviously, in one of the quarters we have some old outstanding orders which got executed and since it's a project-based environment, the orders being completed on an appropriate date only can be invoiced. Obviously, there is little variation in each quarter.

Vishal Shrivastav: Okay, so what kind of trajectory you are seeing for US business in the near term in next few quarters?

Sanjiv Kapoor: They are doing well, and they would obviously be at least doing up from what they could done in the last quarter.

Vishal Shrivastav: Okay. Are you seeing some kind of decent growth from that business, or it will be around a flattish trajectory?

Sanjiv Kapoor: It will be flattish.

Vishal Shrivastav: Okay. Sir my second question is regarding the margins in both US and UAE business has been too volatile. This quarter we have seen some improvement in the UAE business and US business has gone, there is a drop. Can you give some guidance in terms of what is the margin we would like to have in both the businesses? Will it be similar to the lines of the India business that you aspire for and if yes, by when do you see margins would be in that trajectory?

Sanjiv Kapoor: Margins will always come back once our sales improve. I mean going by the comparison between the US and Dubai entity, vis-à-vis India entity, in the past and also in present India has been doing better than the others. But obviously yes, they would also try and catch up with us in terms of OPEX and EBITDA.

Vishal Shrivastav: Okay. Any timelines you are targeting that some restructuring program you are doing internally so that in next one year or so we would be somewhere near to the Indian business margin levels?

Sanjiv Kapoor: The market in which they sell is a little different, so we can't really say they would be able to have similar margins than us, but obviously their margin would be a little lower than ours.

Vishal Shrivastav: My next question is little about the bookkeeping side, and I want to know what is the total debt on the books by December 2023, bifurcated into short term and long-term debt?

Sanjiv Kapoor: On the debt part its Rs. 114 crore, this is on consolidated basis which is short term.

Vishal Shivastav: Are you seeing some improvement in the auto CNG space as the CNG prices, although they are on the elevated level have stabilized? So is there some improvement you are seeing and which segment you are seeing the improvement?

Sanjiv Kapoor: We are seeing improvement.

Moderator: The next question is from the line of Harsh Saraswat from Investore. Kindly proceed.

Harsh Saraswat: I have a few questions. Can you little bit reiterate on the natural gas prices which have fallen, as a trend what you see happening going forward? Can we see the CNG prices going back to where they were one year ago?

Puneet Khurana: The government has issued a new recommendation from the committee to keep the gas prices in the range of \$4 to \$6 from the old fees. If that happens, there will be a correction in the price. But internationally, the situation of gas prices, they have been increasing so they're looking like there will be some kind of correction happening in probably you will see in March or April there will be some friction on the downward trend to the gas prices.

Harsh Saraswat: Okay, so by that, can we go with the fact that Q3 would be our worst quarter and from next quarter we should see some improvement in revenue and margin?

Puneet Khurana: When gas prices correct, there will be an immediate response from the customer on, from the off-take of CNG from all over. So there will be an impact.

Harsh Saraswat: Got it. On the government's part, has the government's aggression reduced in the CGD as a segment due to the rise in the prices?

Puneet Khurana: No, now also at the moment the CGD sector investment still continues even though the gas prices are high. There is still a huge population that is growing every time. The PV vehicle population may not be growing at that level, but it is growing every month. There is a huge vehicle population coming into the market still of CNG and so there is a drive and all the gas companies continue to invest because the vehicle populations keep coming in. It's of course the plan is not moving as fast as they would desire it, but it's moving because now the CNG infrastructure has been put, that industry has been set. Definitely, now before in the past, there was not so convenient to get gas, now it's now with almost 4000 CNG stations in India the availability of gas infrastructure nationwide spread is very convenient.

There is an industry which is now there is a momentum that is set. Even at these prices, you will see that the industry continues. It is not something that is just not preferred anymore. There is a market for this because the product is still quite well priced. The CNG vehicle is quite well priced. The only thing is for a commercial vehicle because commercials are mainly dependent on diesel prices. Diesel is the one that is very close to CNG. That is not becoming a motivator. But as far petrol is concerned, gasoline vehicles, they still have some preferences and some customers are still and of course, if you have an auto rickshaw where the regulatory framework is considered. So there only CNG auto rickshaws are plying, so there is a continuous flow of vehicles. You will see that as the prices get corrected that the difference between diesel and CNG becomes even at 10%-15% immediately you will see a rush of people interested in CNG vehicles.



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Harsh Saraswat: Got it. On the raw material side, I wanted to understand how are things panning out? How do you see going forward? Will margins come back?

Puneet Khurana: Sorry raw material front, I'm not able to understand. What do you mean?

Harsh Saraswat: On the raw material side, we have seen our material costs have gone up considerably in this quarter. Margins have come down. How do we feel going it forward?

Puneet Khurana: I think it's mainly due to gross margin, basically. Sanjiv, can you put any light on this?

Sanjiv Kapoor: Yes, we have some inventories which would get consumed and maybe going forward, when it averages out, with the current pricing, it'll even out. It will have better margins going forward.

Harsh Saraswat: Okay, so the lower cost inventory would be coming in next quarter.

Sanjiv Kapoor: Yes.

Moderator: Thank you. The next question is from the line of Harshwardhan Kumar from Porcelain PMS. Kindly proceed.

Harshwardhan Kumar: Besides CNG coming back, what kind of top line can we expect at full utilization of our domestic capacity and current realizations?

Sanjiv Kapoor: We don't really want to give a prediction here because the way business has moved. But yes, obviously as we have an improved quarter, it will add to the top line.

Puneet Khurana: Also, now what's happened is that with all of our Greenfield projects completed, you can estimate that definitely, there's definitely going to be a better situation than we've seen in the past also.

Harshwardhan Kumar: Okay, and just to confirm, what was the CNG contribution for Q3 FY23?

Sanjiv Kapoor: 50-50.

Harshwardhan Kumar: Is that the same for the consolidated entity as well?

Sanjiv Kapoor: Consolidated we really can't count because the US has a project business. If I add the volume, they dilute the understanding.

Moderator: Thank you. The next question is from the line of Nishit Shah from Aequitas Investment. Kindly proceed.

Nishit Shah: I would like to understand how do we see the Cascades market going forward? Since recently what we are seeing is correction and spot natural gas prices.

Puneet Khurana: Natural gas prices are dependent on a lot on government policy. The government has announced some incentives for CGD sector to cap the prices between \$4 to \$6 from gas to be available from the old fees. Of course, the major thing is the global scenario seems to be that gas prices are cooling off so we'll see some kind of correction will happen in the coming months. We'll see that.

Nshih Shah: I wanted to understand how the Cascades demand right now and are we seeing increase in demand for Cascades?

Puneet Khurana: No, the Cascades see what has happened is, there is a demand but the projects of course have slowed down. Yes, but there is a demand, there is a continuity of the business. The only thing is there is a slowdown because again the gas companies are also expanding but not at that pace that they were expanding previously.

Nshih Shah: There is no change on that front as of now, right?

Sanjiv Kapoor: Yes, look forward to improvement obviously.

Puneet Khurana: Yes, of course they will as soon as some announcement on the prices, gas prices come, then the gas companies know that this is at least a long term. At least they have a vision that in the next one year there will be no change in the price. There's a gap between diesel and CNG, so their investments become a little bit more they're more motivated to make those investments. They are making investments but they are little bit pulling back because they don't want to make too much investment today because of the situation. Like I said, the ball is rolling, the CNG business is for real. There is a vehicle population that is being rolled out every month so they cannot stop putting infrastructure because the existing vehicles are on CNG, and the new vehicles are being rolled out. There is a continuous need even at little bit higher price the gas companies cannot stop laying down the infrastructure.

Moderator: I would now like to hand the conference over to the management for closing comments.

Puneet Khurana: Yes, sure. 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 relation team. Thank you.