November 19, 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**

Dear Sir(s),

Sub: Transcript of Earning call for Q2FY2023

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 November 15, 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 TEJAS SHAH
Digitally signed by REENA TEJAS SHAH
Date: 2022.11.19 11:51:08 +05'30'

Reena Shah
Company Secretary and Compliance Officer

Encl: a/a

EVEREST KANTO CYLINDER LIMITED

Manufacturers of High Pressure Seamless Gas Cylinders

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

CIN L29200MH1978PLC020434

Tel. : +91-22-4926 8300 / 01

Fax : +91-22-4926 8354

Website : www.everestkanto.com

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Everest Kanto Cylinder Limited

Q2 & H1 FY23 Earnings Conference Call Transcript

November 15, 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 listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during a conference call, please signal an operator by pressing "*" then "0" on your touchtone phone,

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

Aisha Shah: Good evening, everyone, and thank you for joining us on Everest Kanto Cylinder Q2 & H1 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'll initiate the call with the opening remarks from the Management following which we will have the forum open for the question and answer session.

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

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

Puneet Khurana: Good evening, everyone, and thank you for joining us on our earnings conference call. I will initiate the call by taking you through the operation and financial performance, after which we will open the forum to have a Q&A session.

Our performance during the quarter remains soft on account of the low demand witnessed in key the commercial vehicle CNG cylinder segments. Weak CNG demand seen in the month of June, continued throughout the second quarter impacting our revenue. Lower revenues along with significant drop in contribution from higher margin CV CNG segment further impacted overall profitability during the quarter.

Our consolidated basis revenue came in at Rs.339.7 crore in Q2 FY23. EBITDA stood at Rs. 35.9 crore with a margin at 10.6%. PAT stood at Rs. 18.5 crore. And on a standalone basis, revenue from operations stood at Rs.

195.7 crore in Q2 FY23. EBITDA stood at Rs. 24.4 crore with margins at 12.4%. PAT stood at Rs. 15.3 crore.

On consolidate basis, the CNG segment witnessed a drop of 46% on Q-o-Q basis. In our Industrial segment, we have reported a growth of 29% on Q-o-Q basis, which aided overall performance during the quarter. Further, due to increase in sales of Jumbo cylinders, our U.S. subsidiary reported healthy growth during the quarter.

On operation front, our second phase of brownfield expansion is now operational, increasing our total capacity by 1 lakh cylinders to about 1.1 million cylinders per annum. In current demand environment, we are going slow on our greenfield expansion at Mundra. As we witness some positive leads for our customers, we will accelerate the investment and commission the initial phase of 2 lakh cylinders in FY24 itself.

To conclude, as we have discussed over the years, the government is focused on its vision to increase the usage of gas in the energy mix of India, And on the back of the government policy, many private and public sector companies have made huge investments towards hard assets on the ground.

Moreover, we have recently seen most leading automakers launching a wide range of CNG-powered vehicles in both PV and CV segments. So we believe that the current difficult phase in CNG is transitory in nature, and we hope to see the price gap between eco-friendly CNG and other polluting fuels widen sometime in the future.

This will bring the end of consumers of CNG vehicles back into the market. Hence, even as the demand environment for CNG cylinders is anticipated to remain soft in the near term, we expect the demand to improve over the long term. In the interim, we have consolidated our leadership position in seamless cylinder industry through our strong balance sheet and well prepared for the opportunity in the future.

This brings me to the end of my opening remarks and I would now request the moderator to open the forum for any questions or suggestions that you may have. Thank you.

Moderator: We have our first question from the line Deepan Shankar from Trustline PMS.

Deepan Shankar: I wanted to understand this fall in volumes for us in this commercial vehicle CNG cylinders. So this is mainly due to debottlenecking by OEMs or do we expect some volume improvement in the coming quarter from these commercial vehicle cylinders?

Puneet Khurana: Definitely, we expect some improvement in the situation, but I didn't understand the debottlenecking. What do you mean by that?

Deepan Shankar: So they already have some inventory at OEM and they don't want to take more volume from us.

Puneet Khurana: Yes, yes, of course. There must be an inventory pile-up at their end due to the situation suddenly coming up of these price increases and the demand shift, once they liquidate, there will be an opportunity again for them to start making these vehicles.

Deepan Shankar: So when we talk about these intermediate commercial vehicle categories, what kind of tonnage vehicle do we supply cylinders to?

Puneet Khurana: Say, from 1 ton to 5-ton, 9-ton,12 ton, 15 ton up to 40 tons. All the vehicle categories are there in this.

Deepan Shankar: So how will the cylinder capacity per vehicle be more on a tonnage basis or what would be the cylinder capacity for the vehicle?

Puneet Khurana: Yes, you're right because you are consuming more CNG because the vehicle going higher will not have such a large capacity because it's a 1-tonner. But a 15 or a 16-tonner will have much more cylinder capacity and more cylinders.

Deepan Shankar: So, our profitability per ton kind of cylinder, so that will be more as the capacity increases?

Puneet Khurana: Yes

Deepan Shankar: Okay. So, in the larger ton capacity, we are seeing a higher decline. So that's the reason for our profitability coming down, right?

Puneet Khurana: Yes

Deepan Shankar: And so how is the industry for these ICV vehicles? So that fall in volumes decline and our volume decline is in similar lines, or we have fallen more than these intermediate vehicle

Puneet Khurana: So, the customer has decided to go for the diesel vehicle. So, instead of the CNG, which was the preferred fuel maybe six-eight months back. Because of the existing crisis that the world is going through, in Russia, gas prices have increased substantially. So, this is the reason, that the customer's choosing diesel, to go in for as a better option today than CNG.

Deepan Shankar: We falling in line with the industry volume decline, or we are more than that? That's what I wanted to understand.

Puneet Khurana: No I think we are falling in line.

Deepan Shankar: And lastly from my side, so how are we linked. Our price margins are linked to steel cycle. So, we have seen when the steel cycle was on the peak, so we were making 25% plus kind of margin, and now the cycle has turned downward, so we are facing some kind of margin pressure.

Puneet Khurana: When you are supplying to most of the OEMs, it is more the prices linked. The customer is always updating the steel prices. So, there is not really a kind of an advantage that we can keep when it comes to steel prices. So, we are always updating the prices to the OEMs so there is not much there. And since we have sold less to the OEM, that is the reason our margins have shrunk.

Deepan Shankar: So generally, what is the time lag between we take up the price and give up the price for OEMs?

Puneet Khurana: I think maybe every quarter it has to be revised, depending again, if the situation doesn't change, if the steel prices don't change and the process cost doesn't change and the dollar doesn't change, then we don't really need to visit the OEM again.

Moderator: We have next question from the line of Anurag Patil from Roha Asset Managers.

Anurag Patil: So sir, margins have fallen from almost 20% to 10% in the last two quarters. So, what is the reason for such a sharp decline?

Puneet Khurana: So it's mainly that the CNG business has declined substantially from our portfolio. So you can see the top line is also affected, and of course, the impact of the cost is larger because our volumes have been reduced. So, volumes have reduced, and your products which were fetching you a better margin have reduced. So, this has impacted.

Anurag Patil: Okay, so compared to Industrial, the CNG business has a much better margin. So that is the reason for the margin decline.

Puneet Khurana: Yes.

Anurag Patil: So, sir, when do see this recovery happening, next quarter or somewhere toward the end of this quarter? Any idea?

Puneet Khurana: It's very difficult to give a timeline on this when this will happen because this is like a global scenario that is happening. So it's very difficult to say when the gas prices will finally come down, and everything will normalize. This is very difficult to give you a specific timeline. But what I can tell you is that there is a bunch of customers who prefer CNG vehicles and there will be continuity in buying CNG vehicles.

The only thing is that the volumes will come down, but there is an industry that has been created, infrastructure that has been created, and, that will continue to roll out vehicles of CNG. The only thing, the volumes that were there in the last year will only come back when there is a substantial advantage to the customer. CNG demand is not going to completely disappear, we will have sales every month, but the volumes that we were seeing can only happen when the situation in the gas prices internationally cools down.

Anurag Patil: Okay. So based on the current situation, Q3, shall we continue to see a decline in the revenues and volumes?

Puneet Khurana: Yes, it might be similar

Moderator: We have next question from the line of Sandeep Dixit with Arjav Partners.

Sandeep Dixit: So my question is given that large part of the problems, the headwind that you faced is macro in nature, is there something that the Company or the Management can do to sort of at least dampen the impact?

Puneet Khurana: So obviously what we are doing is we are focusing more on the industrial aspect, pushing the industrial business further so that we can continue to grow that, whenever CNG segment sees any movement happening, we try to push the product. We're also very closely working with the OEM so that any opportunity comes up where they can make some vehicles we will be taking that opportunity. So there's a lot of work happening across to see that we push the product. We understand that this is happening, and so we are finding other ways of getting the sale up and pushing the product.

Sandeep Dixit: So a couple of follow-up questions, if I may. The first is that in terms of the market penetration, is there something that we can look forward to improving

Puneet Khurana: Yes, see these are all continuous processes that we do and ours is a bit of a long-term business because when you're dealing with OEMs and other things, we will not be able to kind of cannot switch off so quickly. I mean, you cannot have a vehicle design and everything it's a little bit of a process. So whatever OEMs that we are working with, we continue to push them only. That is probably the best option in that we have right now.

Sandeep Dixit: Got it. And in terms of the fixed cost, is there any possibility of sort of assuming for a moment that the macro stays as it is for the rest of the year.

Sandeep Dixit: Can we expect an increment in margin from the fixed cost?

Puneet Khurana: Right. So we are definitely taking lots of actions. We were also hoping that the situation improves, but now we realize that it is taking longer than we expect. So, we are taking a lot of actions at our end to reduce the costs and see how we can help the margins.

Sandeep Dixit: Would you like to give us any guidance on margins or top lines or anything?

Puneet Khurana: Very difficult to give you any guidance at this moment, there's a lot of work going on and the results will be there. There will definitely be some results.

Moderator: We have next question from line of Nishith Shah with Aequitas Investments.

Nishith Shah: Sir, I want to understand what is the mix of Industry and CNG in revenues right now on standalone basis?

Puneet Khurana: It's 50-50

Nishith Shah: So sir, is the Industry side of the business also not doing well?

Puneet Khurana: No, no. Industry side of the business is doing well. CNG was 70% previously. Now, it has come down to 50%. CNG was dominating.

Nishith Shah: Okay. And sir, how do we see execution in our international operations going forward?

Puneet Khurana: So international business, this quarter also U.S. has rebounded. They had a lot of inventory pile up because of COVID and a lot of order delays. So that's actually one positive thing happened that they were able to double the EBITDA and double the sales. So that is one positive thing that's come out of the U.S. business. Dubai also, this quarter because of, again, some hold up on the order front, but now I think they're releasing the order. So again, the next quarter will be looking much better.

Nishith Shah: So U.S., can we expect to contain these kind of revenues?

Puneet Khurana: Yes, it should have better revenues.

Moderator: We have next question from the line of Karan Asli with Maximal Capital.

Karan Asli: A few questions from me. Could you give us some idea on how the demand is from the Cascades segment? While I understand OEMs is under pressure, but I need traction on the Cascades front.

Puneet Khurana: Cascade, it's because the overall effect of the vehicle population not increasing, due to gas price. The gas companies have also slowed down their projects on further infrastructure. Obviously, there are some orders in the pipeline, which are being executed as we speak, but they have slowed down the offtake of the major projects that were going on.

Karan Asli: Sure. But would you expect that to take off quicker? Because I understand they've slowed down, but there is still some activity

Puneet Khurana: Yes, as the scenario turns around, as they see some hope, then this will be the first thing that will take off again.

Karan Asli: Sure, sure, sure. Exactly. And how do we see the retrofitting market doing versus OEMs.

Puneet Khurana: No, over past two-three years retrofitting market is almost finished, we anyway wanted to focus our entire business on OEMs.

Karan Asli: Any particular reason why?

Puneet Khurana: Because we knew that the retrofitting market is not going to be a very long-term play and that's happened, so retrofitting market is because the new regulations have come, so it's become more of Euro VI vehicles' conversions have become more complicated. So, I think it's come to a standstill, the aftermarket.

Karan Asli: Okay, understood. And any thoughts on the competitive scenarios in some of the markets? I think we have about 11 lakhs of capacity. Yes, yes, yes, yes. What would this be in terms of market share, either in capacity or production terms? And how do you see this competitive scenario sort of shaping up going forward? Do you see consolidation happening since the market is in quite a tough space right now?

Puneet Khurana: Could happen It's a possibility that people will see what to do. It might happen.

Karan Asli: Okay. But at this time, maybe over the past few quarters when things have been slightly rough. Have you seen any change in this matter? Has it increased and increased?

Puneet Khurana: I think situation is getting a little better than the previous quarters. We can see some hope there.

Moderator: We have next question from the line of the Deepan Shankar from Trustline PMS.

Deepan Shankar: Sir, what is a margins difference we have for this CNG CV cylinder versus PV cylinder?

Puneet Khurana: I might not be able to give you such this kind of answer.

Deepan Shankar: Even broad sense could be helpful.

Puneet Khurana: I think CV will be higher.

Deepan Shankar: Yes. That we understood, but what kind of higher is what we want to know.

Puneet Khurana: I don't think we'll be able to give you that kind of information.

Deepan Shankar: It'll be 2 times of PV? That we can assume in terms of margins could be?

Puneet Khurana: You're talking about margin?

Deepan Shankar: Yes.

Puneet Khurana: No.

Deepan Shankar: Are realization 2 times of PV kind of realization?

Puneet Khurana: PV has only one cylinder and CV might have three - four. So we're not comparing apple to apple, kind of product is different also. So, margins also will be different . PV uses more of a kind of a basic standard product. So, it's very different to kind of put in, say, the margin what will be the margin difference.

Deepan Shankar: Okay. So we are trying to get a sense, like even if this CV doesn't pick up and we make up the similar volumes to cylinders, so will our margins improve to 18% 20% levels?

Puneet Khurana: No, no, definitely margins will improve. If that situation happens, definitely margins will improve.

Deepan Shankar: So 18% 20% achievable with the PVs, if we achieve full utilization?,

Puneet Khurana: I can't give you an exact number on that, but definitely there will be, because again, higher value added products, better margin. Yes there will be a change. If PV business occupies most of the capacity, you will see. Again, the fixed costs get absorbed now, what's happening is the fixed costs are now getting absorbed to certain extent because of these sudden decline.

Deepan Shankar: And PV margin should be definitely higher than industrial margins, right?

Puneet Khurana: Yes.

Deepan Shankar: So what is the current utilization for this quarter?

Puneet Khurana: 60%

Deepan Shankar: Okay. So, do we expect Q3 to stand at this current utilization rate or volumes or are we expecting a further drop in Q3 and Q4?

Puneet Khurana: It can be in the similar lines, because nothing has changed from last quarter. I mean, there's no real change. I mean, we can all see that the gas prices nothing has changed. The global situation continues to be the same.

Deepan Shankar: So if CV side, if things remain same, and so we try to improve on in industrial cylinders and passenger vehicles, so by when we can again, get back to 90% 100% utilization, in how many quarters?

Puneet Khurana: It very difficult for me to give you any time specific timeline that when this will come back.

Deepan Shankar: Because we could see that PV, the CNG space is growing at a good pace.

Puneet Khurana: We are communicating on a regular basis, we'll definitely informed if any such there are changes, we'll definitely communicate to everybody that this is happening. Once the order book and things start getting more and more clear, we'll indicate it.

Deepan Shankar: Okay. So current quarter UAE business margins has turned negative. So any specific reason for that?

Puneet Khurana: I think the, hold up. Dubai had a lot of inventory hold up because of some orders that were supposed to be executed did not get executed. So now I think this quarter, I think it'll normalize.

Deepan Shankar: Okay. So it'll be back to that Q1 kind of margin?

Puneet Khurana: Yes.

Deepan Shankar: And the U.S. business has been growing well, but U.S. margin seems to be quite low. So will we see some improvement in the margins of U.S business?

Puneet Khurana: Yes, I think it should it should improve.

Deepan Shankar: It's currently around 5%- 5.5%, even in India level, currently we are at 10% EBIT levels.

Puneet Khurana: Yes.

Deepan Shankar: So, it can go up to 10% level?

Puneet Khurana: I don't know about 10% level, but there will be improvement.

Moderator: We have next question from the line of Prakash, an Individual Investor.

Prakash: Keep the chin up and I think the numbers will also start looking better. I think one thing that I had always thought about EKC was that at some point of time, the margins should start to get rationalized.

Given the kind of business that it is, it's not possible to sustain those kind of margins, I would think. It's not a rocket science business, as I want to put it. So, I think from an investor point of view, like I'm not too much worried about the margins coming down because they should expectedly come down. I think the more important thing is that the alignment of expectations is more important between the company and the investors. So just because you had one year as an outstanding year doesn't mean that every year will be an outstanding year.

Puneet Khurana: Yes.

Prakash: However, like in a previous couple of investor calls, some people had raised this concern as to why your presence is not there in the PV segment. And I think that suggestion from the investor would be kind of hitting you hard at this point of time as you kind of try to spread and go beyond the commercial vehicle segment, and you would adhere to it.

I wanted to ask specifically about the Egypt expansion that you plan. Two things I wanted to ask. What is your current capacity utilization? What's happening to the capacity expansion that you are doing in India? What is expansion you had planned in Egypt and in Hungary. Are they on hold, how are things looking up on those, those lines?

And one suggestion that I wanted to make was that like of course, the answers to those questions are straightforward, and I'm sure you'll say something nice and good about it, but the more important material suggestion that I wanted to make is that see, the numbers of EKC have come down, or they're not in the outstanding range because of reasons beyond your control. These are macro headwinds. You never knew that there would be a crisis and the gas prices would start going up in a manner so, these are reasons beyond your control. There's not much you can do about it except do more marketing, have better, tighter cost controls and do what you need to do as a Management, which I'm sure you must be doing.

But just for the investor market confidence point of view, I don't know what is the present status of the promoter role into the company. So it may be a good idea because you have cash on the balance sheet. If that debt can be retired, and you could probably do some creeping acquisitions from the market, which will instill the confidence. I mean, arrest the erosion of value that is happening. Like, EKC stocks have had some legacy issues. There have been conversations about the stock prices in the market. We saw the stock go up, inch up to INR300, close to INR300, and it has come down to INR100. I think actions like that from the Management will really instill good amount of confidence in the investor community. I'm sure this tide will ebb away and things will start looking up again.

Puneet Khurana: No, it's a good suggestion. We'll discuss it and then see what can be done about this.

Prakash: See, my thought over here is that frankly, I find EKC to be a very good investment even at this point of time. Like, I don't think EV is going to be the solution for India, because even with the cut on carbon footprint it will make not much sense. So gas and CNG and those things are here, it's just that the headwinds need to pass off. And with the war with Ukraine, I mean, I don't think the world is coming to an end.

So, at INR 100 where the stock is currently priced at, I think PE of the stock is close to INR 5, like probably less than INR 5. It's a decent business, it's a well-balanced business, your intent has been nice, you have been retiring debts of all kind, you have realized all the revenues all the exceptional items that you have projected over a period of time. Everything is nice and good.

So, so like, and one Management suggestion which I can make is that you should not be spreading too thin. Like just going into new geographies, Egypt Hungary, and then you're kind of rolling back, so on and so forth. I mean, that's a suggestion which I can make from the outside.

Puneet Khurana: Fair enough.

Prakash: Of course, you'll be taking yes, I mean, so I think at this point of time, to contract the impact of erosion or value on the stock because of macro reasons beyond your control, I think it's maybe a good idea for the Management to take some actions which sends right signals to the market. And in the context of that, also start to kind of align the expectations of the investor community who have invested into EKC. Like, it's not fair for the investors to keep expecting from the Management, to keep delivering quarter on quarter outstanding outcomes. Like that's so that's, that's what I wanted to kind of say.

Puneet Khurana: Thank you.

Moderator: We have next question from Prakash Individual Investor.

Analyst: Yes, my question was not answered by Puneet. What's happening in Egypt and Hungary. And the expansion in India.

Puneet Khurana: Yes, so the expansion, we've already completed the brownfield, whatever was planned. All the brownfield has been completed in India. And in Egypt, we should get more clarity in the coming quarter about what's the progress on this because there are a lot of processes that we need to go through before we finally make the investment into Egypt. So it's still in the process documentation phase. So, there is not really an investment that gone in as if yet.

And Hungary, as it is, we had kept it on hold after this Russia crisis. So I think that is still on hold only that, I don't know whether this, when this crisis ends and what will be the situation of Europe. I cannot commend right now on anything on that project.

Prakash: What is the amount of resources that we have committed into these -- particularly these two explorations, investible explorations?

Puneet Khurana: It's only Egypt where we project team that sits in Dubai and kind of monitors the progress and kind of works on very initial stages right now. So, there's not a big deployment. Egypt, being a joint venture, so we have the partner whose also kind of supporting in all the documentation and other process before we get into serious commitment of funds.

Analyst: So, no serious of resource in those geographies?

Puneet Khurana: No, not at this moment, no.

Moderator: Thank you ladies. Gentlemen, we have reached the end of the question and answer session, and I'd like to hand the conference back 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 or would like to know more about the company, please feel free to contact our investor relation team. 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.