

Everest Kanto Cylinder Limited

September 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	20.00	CARE BBB+; Positive	Assigned
Long-term bank facilities	124.00	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	46.00 (Reduced from 62.76)	CARE A2	Upgraded from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating assigned to bank facilities of Everest Kanto Cylinder Limited (EKCL) factors in its established track record and the favourable market position in high-pressure seamless steel cylinder manufacturing industry, its diversified and reputed customer portfolio which includes key auto original equipment manufacturers (OEMs) and city gas distribution (CGD) entities. In FY24, the company maintained its revenue at ₹1,223 crore (PY: ₹1,281 crore) with around 18% increase in sales volume, while there was decline in sales realisation in line with softening in steel prices. The sales volume is further expected to increase given the favourable price of compressed natural gas (CNG) compared to other alternative fuel, increasing awareness of reducing carbon emission and government's thrust on expanding the infrastructure network. The newly launched CNG-driven two-wheeler in the market is further expected to open up more revenue stream for the company. The economies of scale continue to benefit the company in terms of healthy operating margin. The high barrier considering stringent regulation and comfortable debt metrics continue to benefit the company.

Revision in the short-term rating assigned to bank facilities of EKCL factors in its improving liquidity position in terms of healthy gross cash accruals (GCA) and hence sufficient headroom availability in utilisation of its bank facilities.

The above strengths continue to remain partially offset by its exposure to raw material price volatility and foreign exchange risk given that the company majorly imports the raw materials. The on-going capex, especially in Egypt remains a key monitorable in terms of implementation and stability in operations. In addition to this, the industry is working capital intensive with high inventory holding period.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent healthy operating profitability (PBILDT) margin above 13% and 5% compounded annual growth rate (CAGR) growth in revenue over FY23-FY25.
- No incremental debt than that envisaged.

Negative factors

- Deteriorating debt metrics with net debt to earnings before interest, taxation, depreciation, and amortisation (EBITDA) above 0.75x.
- Substantially declining revenue and operating profitability.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) continues to consider consolidated financials including all its subsidiaries since they are in the similar line of business and are under the same management. Subsidiaries considered for consolidation are listed in Annexure-6

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Outlook: Positive

Revision in outlook from stable to positive is backed by expected improvement in company's performance in medium term backed by volume growth across its existing and new product segment. Moreover, its established market position and long-standing relationship with customers continues to benefit the company in bagging repetitive orders. All these factors are expected to support its healthy accruals and improve the liquidity further.

Detailed description of key rating drivers:**Key strengths****Extensive industry experience of promoters with established market position**

The promoters have more than three decades of experience in manufacturing CNG, industrial cylinders, and cascades of capacities. EKCL is one of the leading players in the domestic market and enjoys established relationships with suppliers and customers.

Stable scale of operations

The increasing switch towards eco-friendly fuel such as CNG and pricing differentiation between CNG and other alternative fuels is expected to benefit the company in maintaining the scale. Additionally, the government's thrust in maintaining the availability of cleaner fuel and addressing the climate change is further expected to create more market for the company. In accordance with this, more CNG stations are expected to be set-up in India. With CNG being almost 54% revenue contributor of EKCL, the company is expected to benefit from all these measures. The company's on-going capex, both in India and Egypt, is further expected to support its performance in medium term. Moreover, the launch of CNG-based two-wheeler has created a new market segment and is expected to drive the company's volumes.

The company reported significant revenue growth in COVID-19, given the spike in oxygen cylinders. However, despite subdued demand in the same, post COVID-19, the company has been able to maintain its revenue above ₹1,200 crore based on its existing core product segment. The company is in process of building more capacity both India and abroad, which is further expected to boost its revenue and improve operating margin in medium term. The total income from operations stood at ₹343 crore in Q1FY25 (Q1FY24: ₹268 crore; FY24: ₹1,222.96 crore). The improvement of ~28% in Q1FY25 is backed majorly by increase in volumes. A marginal 5% decline in revenue was observed in FY24 as compared to FY23 due to lower realisation; however, on sales volume picked up by ~18%. The operating margin is expected to remain healthy given the expected improvement in revenue driven by volumes. The operating margin in Q1FY25 stood at ~12% (Q1FY24: 14%; FY24: 13.32%).

Diversified customer portfolio with moderate customer concentration risk

The company's diversified and reputed customer portfolio and its long-standing relationship with its customers continues to benefit the company in terms of bagging repetitive orders. The reputed customer list includes OEMs such as Bajaj Auto Limited, Tata Motors Limited, Ashok Leyland Limited, Ve Commercial Vehicle Limited, and Mahindra & Mahindra Limited, among others. The company also supplies CNG storage cascades to CNG stations and City Gas Distribution (CGD) vendors such as Torrent Gas Private Limited, Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL), Adani Gas Limited, among others. The customer concentration risks continue to remain moderate with the top five customers contributing around 36% of the total sales in FY24 on standalone basis (FY23: 25%).

High entry barriers and regulated nature of industry

The existing stringent regulation with respect to testing and clearance at multiple levels per the directive of Petroleum and Explosive Safety Organization poses an entry barrier to new entrants to the high-pressure seamless cylinder manufacture. The companies also need to take approval of the Chief Controller of Explosives (CCOE) for import in India. Additionally, the companies operating in this industry need to follow stringent quality standards for manufacturing the cylinders. Thus, the industry is exposed to high entry barriers considering the aforesaid parameters.

Continuance of comfortable debt indicators and coverage

The company is in process of incurring capex both in domestic (Mundra) and global market (Egypt). The total capex cost is estimated to ~₹307.00 crore, inclusive of interest capitalisation. Around 61% of the capex is scheduled to be funded by bank borrowings over FY25-FY26. Despite this addition of term loan, the company's overall gearing is expected to remain below unity in coming years. This is due to healthy GCA strengthening the company's net worth. Given the healthy cash and bank balance and overall low debt, the company's net debt position is nil as on March 31, 2024. However, due to debt-funded on-going capex, same is expected to increase in upcoming years. Overall gearing as on March 31, 2024, stood at 0.06x (As on March 31, 2023: 0.12x) and interest coverage stood healthy at 16.18x in FY24 (FY23: 11.45x).

Key weaknesses

Risk associated with capex in Egypt

Of the total capex, majority of capex is scheduled in Egypt via its step-down subsidiary, EKC Egypt. This makes the company vulnerable to economic and political risk of the said country as this will have a direct impact on the company's financial performance. The operation in the said entity is expected to commercialise by FY26 and same remains to be key monitorable.

Working capital intensive nature of operations

Absence of manufacturers of seamless steel tubes in India capable of meeting the stringent quality specifications and specific tube dimensions has compelled EKCL to source its raw material requirements from other countries such as China, Italy, among others. Import of raw materials and company's policy to maintain an inventory of ~four months to avoid disruption in meeting the customer requirements is the reason for higher inventory. The inventory days continue to remain high at 186 days in FY24 (FY23: 163 days), which has resulted in stretched working capital cycle at 221 days (FY23: 198 days).

Exposure to raw material price volatility and foreign exchange fluctuation

EKCL's is exposed to risk associated with raw material price volatility. Raw material costs (imported seamless steel tubes) account for nearly 60-70% of the EKCL's operating expenses. CARE Ratings further observes that adverse change in the exchange rate between the US Dollar and the Indian rupee will have a negative impact on EKCL's results of operations and financial condition as the seamless steel tubes (basic raw material) are majorly imported. EKCL does foreign currency hedging on a selective basis and is thus exposed to some volatility in exchange rate fluctuation.

Liquidity: Adequate

The company's liquidity is expected to remain adequate and improve further with healthy GCA expected above ₹130 crore in medium term. In addition to this, EKCL's average maximum utilisation of its working capital limits (inclusive of fund based and non-fund-based limits) is comfortable at ~34% for last 12 months ended June 30, 2024. Moreover, the company's free cash and bank balance was ₹64.9 crore as on March 31, 2024. Against all these sources of funds, the company currently has no principal debt obligations; however, given the debt-funded capex both on standalone and consolidated basis, the repayment is expected to start from FY26-FY27 onwards. Despite the elongated working capital cycle due to high inventory days, considering the company's healthy gross accruals, the EKCL's liquidity is adequate to service the upcoming debt obligations.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Industrial Products

Incorporated in 1978, EKCL is engaged in manufacturing high-pressure seamless cylinders for industrial gases and CNG applications (to CV segment and for city gas distribution), large diameter high-pressure seamless vessels, large seamless cylinders, jumbo cylinders and jumbo skids for the storage and bulk transportation of CNG, and other industrial and specialty gases including nitrogen, helium, and argon, among others. The products manufactured by EKCL find application in domestic and international markets of aerospace, chemical processing, construction, food production, industrial controls, medicine, nuclear and power propulsion systems, CNG city gas projects, among others. The company has two facilities to manufacture cylinders in India (located at Tarapur in Maharashtra and Kandla in Gujarat) and outside India (located at Dubai and USA).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,281.20	1,222.96	343.00
PBILDT	166.93	162.92	41.00
PAT	82.60	97.60	28.00
Overall gearing (times)	0.12	0.06	NA
Interest coverage (times)	11.45	16.18	20.50

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	81.00	CARE BBB+; Positive
Fund-based - LT-Cash credit		-	-	-	43.00	CARE BBB+; Positive
Fund-based - LT-Term loan		-	-	September 2029	20.00	CARE BBB+; Positive
Non-fund-based - ST-BG/LC		-	-	-	46.00	CARE A2

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (25-Nov-21)
2	Fund-based - LT-Cash credit	LT	81.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (29-Aug-23)	1)CARE A-; Stable (27-Jul-22)	1)CARE BBB+; Stable (25-Nov-21)
3	Non-fund-based - ST-BG/LC	ST	46.00	CARE A2	-	1)CARE A3+ (29-Aug-23)	1)CARE A2 (27-Jul-22)	1)CARE A3+ (25-Nov-21)
4	Fund-based - LT-Cash credit	LT	43.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (29-Aug-23)	1)CARE A-; Stable (27-Jul-22)	1)CARE A3+ (25-Nov-21)
5	Fund-based - LT-Term loan	LT	20.00	CARE BBB+; Positive				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	EKC International FZE	Full	Subsidiary with 100% shareholding
2	CP Industries Holdings, Inc.	Full	Subsidiary with 100% shareholding
3	Calcutta Compressions and Liquifaction Eng. Ltd.	Full	Subsidiary with 100% shareholding
4	EKC Hungry Kft.	Full	Subsidiary with 100% shareholding
5	Next Gen Cylinder Pvt. Limited	Full	Subsidiary with 100% shareholding
6	EKC Europe GmbH	Full	Subsidiary with 100% shareholding
7	EKC Europe Zrt	Full	Step-down subsidiary with 80% shareholding
8	EKC Egypt (S.A.E)	Full	Step-down subsidiary with 80% shareholding

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Achin Nirwani Director CARE Ratings Limited Phone: 912267543566 E-mail: Achin.nirwani@careedge.in
Relationship Contact Ankur Sachdeva Senior Director CARE Ratings Limited Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Arunava Paul Associate Director CARE Ratings Limited Phone: 912267543667 E-mail: arunava.paul@careedge.in
	Ragini Surve Lead Analyst CARE Ratings Limited E-mail: Ragini.Surve@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information,
please visit www.careedge.in**