Everest Kanto Cylinder Limited

November 25, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	81.00 (Reduced from 91.00)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB-; Positive (Triple B Minus; Outlook: Positive)
Long Term Bank Facilities	0.00 (Reduced from 12.57)	Withdrawn	Withdrawn
Short Term Bank Facilities	74.47 (Enhanced from 69.92)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Short Term Bank Facilities	2.70	CARE A3+ (A Three Plus)	Assigned
Total Facilities	158.17 (Rs. One Hundred Fifty-Eight Crore and Seventeen Lakhs Only)		

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Everest Kanto Cylinder Limited (EKCL) reflects sustained improvement in the operating performance reported during FY21 and H1FY22, The improvement was majorly driven by the growth in the demand of industrial cylinder majorly in form of oxygen cylinders during the pandemic, volume growth in CNG (Compressed Natural Gas) cylinders sold to OEMs (Original Equipment Manufacturers). Growth was also driven by increased volume of sales coupled with higher realizations.

The ratings continue to derive strength from the promoter's experience, established market position of the company in high pressure seamless cylinder industry and diversified customers mix, growth in operations during FY21 & H1FY22 along with improvement in profitability. The ratings continue to consider the comfortable capital structure and debt coverage indicators which is expected to improve further. The company has prepaid its entire term loan and has no plans to take any new term loan. The entire upcoming capex is expected to be funded by internal accruals. EKCL has divested its china subsidiary while dissolving its Thailand based subsidiary

These rating strengths are however partially offset by working capital intensive nature of operations and exposure to volatility in commodity prices & foreign exchange rates.

Rating Sensitivities

Positive Factors

- Improvement in revenue with total operating income increasing to above Rs. 1400 crore on sustained basis
- Maintaining its profitability margins with PBILDT margin above 22% on sustained basis
- Improvement in Total Debt/GCA (Gross Cash Accrual) below 0.6 times
- Improvement in operating cycle to 120 days on sustained basis

Negative Factors

- Any large debt funded capex/ acquisition and opening of new subsidiaries thereby deteriorating the Total Debt / GCA (Gross Cash Accrual) above 2.2 times
- Decline in revenue below Rs. 800 crore and PBILDT margins below 16% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: EKCL was incorporated in 1978 by late Mr. P.K. Khurana, who had an experience of over four decades in the cylinder manufacturing business. Presently, the business is managed by his sons, Mr. Pushkar Khurana (Chairman) and Mr. Puneet Khurana (Managing Director), both have been in the business for about 15 years. The key management personnel have been associated with the industry since more than 2 decades and thus have been instrumental in business expansion and forging client relationships.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Established market position in High Pressure Seamless Cylinders and diversified customer mix: EKCL is one of the largest players high pressure cylinders in India with presence of over 4 decades in the industry. Revenue has grown at a compound annual growth rate of around 10% in the past 3 years through March 2021, driven by healthy demand. Further, EKCL has diversified customer mix consisting of OEM (Original Equipment Manufacturers) consisting of Bajaj Auto Limited, Tata Motors Limited, Ashok Leyland etc. The customers also include some of the large industrial gas manufacturers like PraxAir, SML ISUZU, etc. Firefighting companies such as Unite Technologies, Tyco, Siemens, Minimax, etc and City gas distribution companies like Adani Gas, Mahanagar Gas, Indraprashta Gas etc. Further, the company has manufacturing facilities in Dubai and USA apart from India. EKCL exports to over 25 countries in South East Asia, Middle East, Africa, US, Europe, South America and CIS countries.

High entry barriers and regulated nature of industry: The existing stringent regulation w.r.t testing and clearance at multiple levels as per the directive of Petroleum and Explosive Safety Organization poses an entry barrier for new entrants to the high-pressure seamless cylinder manufacturing industry. Further, the companies also need to take approval of the Chief Controller of Explosives (CCOE) for import in India. Also, the companies operating in this industry are to follow stringent quality standards for manufacturing the cylinders. Thus, the industry is exposed to high entry barriers.

Healthy growth in operations during FY21 & H1FY22
EKCL's Total Operating Income (TOI) on a consolidated basis grew by 25% on a YoY basis to Rs.959.75 crore in FY21, driven by volume growth in CNG (Compressed Natural Gas) cylinders sold to OEMs (Original Equipment Manufacturers). Growth was also driven by better realizations & increase in volumes, Company was able to pass on the increase in raw material prices of steel tubes & pipes, which are the key raw materials for the company & company was able to pass on increase in price by way of higher realizations & along with higher sales volume, led to a higher revenue growth in FY21. During H1FY22 the company on consolidated basis recorded revenue of Rs. 761.19 crore.

Sharp improvement in profit margins
EKCL on consolidated basis, reported a sharp improvement in the PBILDT margins in FY21 to 18.16% as against 13.46% y-o-y. Improvement in PBILDT margins was driven by higher sales realisation led from increase in the demand of cylinders majorly industrial cylinders along with CNG for Auto application & city gas distribution.

Comfortable and improved capital structure and coverage indicators
EKCL's financial risk profile has improved with improvement in overall gearing to 0.35x as on March 31, 2021 vis-à-vis 0.59x as on March 31, 2020 on a consolidated basis, led by improvement in profitability and lower reliance of working capital. The coverage indicators have also improved with TD/GCA improving from 6.25x in FY20 to 1.41x in FY21. The company has prepaid its entire term loan and has no plans to take any new term loan. Going forward the overall gearing is expected to improve further given that all the new capex will be funded through internal accruals.

Improving liquidity post sale of multiple subsidiaries:
Some of the overseas subsidiaries were not performing at the expected levels. The company had closed its China & Thailand subsidiaries, during FY21 & FY22 respectively. The proceeds amounting to Rs.94.11 crore was received in March 2021 for China subsidiary and Rs. 19.47 crore in October 2021 for the Thailand subsidiary. Thailand subsidiary was sold off as the subsidiary was set up for a project with Tata Motors, however, as the project didn't take off as estimated, it was a better option for the management to dissolve the operations.

Key Rating Weaknesses
Working capital intensive nature of operations: Absence of seamless steel tubes manufacturers in India who meet stringent quality specifications has compelled EKCL to source its raw-material requirements from other countries like China, Italy, etc. Import of raw materials would normally take a lead time ranging from three months to six months, therefore EKCL piles up raw-material to meet immediate and prompt customer requirement. The net working capital as a percentage of total capital employed continues to remain high at 40-50%, indicating high degree of capital intensiveness.

Volatility of raw material prices and foreign exchange fluctuation risk: EKCL's profitability is impacted due to fluctuations in raw material prices. Raw material costs (imported seamless steel tubes) account for nearly 60-70% of the EKCL's operating expenses. Fluctuations in raw material prices, therefore, tend to impact the PBILDT margins. Any 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 fully imported. EKCL enters into foreign currency hedging on a selective basis.
The prices of imported steel pipes and tubes is provided below which continue to remain on the increasing trend along with volatility.

Liquidity: Adequate - Liquidity is marked by sizable accruals against no major term loan repayment obligations. The company has cash to the tune of Rs.60 crore as on March 31st, 2021 on consolidated basis. With a gearing of 0.35 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Capex of around Rs.35 crore in FY22 will be funded through internal accruals

Analytical approach:
Consolidated. While arriving at the rating Care has considered consolidated financials as all its subsidiaries are in the similar line of business and are under the same management. Following are the list of companies considered in consolidation along with their holdings by EKCL as on March 31, 2021 is provided below.

Name of the subsidiary	Country	Holding
EKC International FZE	UAE	100
CP Industries Holdings, Inc.	USA	100
Calcutta Compressions and Liquifaction Eng. Ltd.	India	100
EKC Industries (Thailand) Co. Ltd.	Thailand	100
EKC Hungry Kft.	Hungary	100
Next Gen Cylinder Pvt. Limited	India	100
EKC Europe GmbH	Germany	100

Applicable Criteria
Criteria on Consolidation and Factoring Linkages
Criteria on Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis- Non-Financial Sector

About the Company
Incorporated in 1978, EKCL is engaged in the manufacturing of high pressure seamless cylinders for industrial gases and CNG applications, large diameter high pressure seamless vessels, large seamless cylinders, jumbo cylinders and jumbo skids for the storage and bulk transportation of CNG and various other industrial and specialty gases like Nitrogen, Helium, Argon, etc. The products manufactured by EKCL find application in domestic and international markets like aerospace, chemical processing, construction, food production, industrial controls, medicine, nuclear and power propulsion systems, CNG City Gas Projects, etc. The company has two facilities to manufacture cylinders in India (located at Tarapur in Maharashtra and Kandla in Gujarat) as well as Outside India (located at Dubai & USA).

Brief Financials (Rs. crore)	FY20(A)	FY21(A)	H1FY22 (A)
Total operating income	763.09	959.75	761.19
PBILDT	93.26	174.31	204.83
PAT	6.73	91.57	140.18
Overall gearing (times)	0.59	0.35	0.19
Interest coverage (times)	2.55	6.75	43.40

A: Audited, Financials are classified as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	81.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	74.47	CARE A3+
Fund-based - ST-Term loan		-	-	March 2022	2.70	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Positive (17-Dec-20)	1)CARE BB+; Stable (19-Feb-20)	1)CARE BB+; Positive (15-Feb-19)
2	Fund-based - LT-Cash Credit	LT	81.00	CARE BBB+; Stable	-	1)CARE BBB-; Positive (17-Dec-20)	1)CARE BB+; Stable (19-Feb-20)	1)CARE BB+; Positive (15-Feb-19)
3	Non-fund-based - ST-BG/LC	ST	74.47	CARE A3+	-	1)CARE A3 (17-Dec-20)	1)CARE A4+ (19-Feb-20)	1)CARE A4+ (15-Feb-19)
4	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (15-Feb-19)
5	Fund-based - ST-Term loan	ST	2.70	CARE A3+				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact-1
Group Head Name: Mr. Arunava Paul
Contact No: +91-22-6754 3451
Email ID- arunava.paul@careratings.com

Relationship Contact
Name: Mr. Saikat Roy
Contact no. +91-22-6754 3404
Email ID: saikat.roy@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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