

Everest Kanto Cylinder Limited

July 27, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|-------------------------------|--|---|--|
| Long Term Bank Facilities | 53.00 (Enhanced from 2.70) | CARE A-; Stable (Single A Minus; Outlook: Stable) | Reclassified and Revised from CARE A3+ (A Three Plus); Stable outlook assigned |
| Long Term Bank Facilities | 81.00 | CARE A-; Stable (Single A Minus; Outlook: Stable) | Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) |
| Short Term Bank Facilities | 75.55 (Enhanced from 74.47) | CARE A2 (A Two) | Revised from CARE A3+ (A Three Plus) |
| Total Bank Facilities | 209.55 (₹ Two Hundred Nine Crore and Fifty-Five Lakhs Only) | | |

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The upward revision in rating assigned to the bank facilities of Everest Kanto Cylinder Ltd factors in the improvement in scale of operations and cash accruals during FY22 due to higher adoption of CNG in automobiles along with increased demand for cascades for CNG stations and City Gas Distribution. The ratings consider the favourable industry scenario characterised by positive demand outlook for high pressure seamless steel cylinders.

The ratings continue to derive strength from the promoter's extensive experience along with established market position of the company in high pressure seamless cylinder industry and diversified customers mix which includes reputed automobile OEMs (Original Equipment Manufacturers) and City Gas Distribution (CGD) entities and high entry barriers in the industry on account of its regulated nature. 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.

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 – Factors that could lead to positive rating action/upgrade:

- Improvement in revenue with total operating income increasing to above Rs. 2000 crore on sustained basis
- Maintaining its profitability margins with PBILDT margin above 20% on sustained basis
- Improvement in operating cycle to 90 days on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any large debt funded capex/ acquisition and opening of new subsidiaries thereby deteriorating the Total Debt / GCA (Gross Cash Accrual) above 1x times
- Decline in revenue below Rs. 1500 crore and PBILDT margins below 15% on sustained basis
- Stretch in operating cycle to more than 120 days on sustained basis

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Extensive industry experience of the promoters with established market position

The promoters have an experience of over 30 years in manufacturing of CNG, industrial cylinders and cascades of various capacities. EKC is one of the leading players in the domestic market and enjoys established relationships with suppliers and customers.

Diversified customer mix

EKCL has diversified customer mix consisting of OEM (Original Equipment Manufacturers) like Bajaj Auto Limited, Tata Motors Limited, Ashok Leyland etc. The company also supplies CNG storage cascades to CNG stations and CGD players. The customers also include Torrent Gas, HPCL, IOCL, Safepro, Ecofuel etc. The customer concentration risks are low with top five customers contributing around 35% of total sales in FY22.

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

Significant improvement in scale of operations and cash accruals during FY22

EKCL's Total Operating Income (TOI) on a consolidated basis grew by 78% on a YoY basis to Rs.1712.44 crore, driven by volume growth in CNG (Compressed Natural Gas) cylinders sold to OEMs (Original Equipment Manufacturers). Further, the capacity at Kandla Plant has been increased during the year due to debottlenecking initiatives (Brownfield Project) undertaken by the Company. The installed capacity is fungible to produce industrial and CNG cylinders. The company added extra machines to resolve the timeline issues and optimize production that allowed to deliver more volume and cater to increasing demand. The PBILDT margin of EKC improved to 23.68% in FY22 vis-à-vis 18.16% in FY21.

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 to new entrants to the high-pressure seamless cylinder manufacture. 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 on account of the afore said parameters.

Favourable demand for CNG-fuelled vehicles

CARE expects the demand for CNG vehicles to improve over the near to medium term driven by the price differential between gas and liquid fuels, regulatory push and roll out of city gas distribution (CGD) network. The growth in the CGD will lead to growth in the requirement of cylinders to store and transport the natural gas across the country leading to growth in the revenue visibility and scope for domestic cylinder manufacturers. EKCL being one of the leading players in the manufacturing of cylinders will be benefiting out of this leading to a sustained revenue visibility over medium term.

Key rating weaknesses

Exposure to volatility in raw material prices and foreign exchange fluctuation

EKCL's profitability may be 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. Further 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 majorly imported. EKCL does foreign currency hedging on a selective basis and thus is exposed to volatility in exchange rate fluctuation.

Working capital intensive nature of operations

Absence of seamless steel tubes manufacturers in India who meet stringent quality specifications and specific tube dimensions has compelled EKCL to source its raw-material requirements from other countries like China, Italy, Singapore, etc. Import of raw materials would normally take a lead time ranging from three months to four 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. The operating cycle have however improved over the period FY20-FY22 from 195 days in FY20 to 120 days in FY22 mainly on account of rationalization of inventory holding.

Liquidity: Adequate

Liquidity is adequate marked by strong accruals against negligible repayment obligations. The company have no plans to raise term loan in the next couple of years and all the capital expenditure is expected to be funded out of internal accruals. The operations continue to remain working capital intensive with operating cycle of around four months. The utilization of fund based working capital limits is around 56% for the 12 months ending May 2022 and is adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Consolidated

Care has considered consolidated financials as all its subsidiaries since they 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, 2022, 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 Hungry Kft. | Hungary | 100 |
| Next Gen Cylinder Pvt. Limited | India | 100 |
| EKC Europe GmbH | Germany | 100 |
| EKC Europe Zrt | Hungary | 80 |

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

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

[Rating Methodology - Manufacturing Companies](#)

About the company

Incorporated in 1978, Everest Kanto Cylinder Limited (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 Consolidated Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | Q1FY23 |
|---|--------------------|--------------------|--------|
| Total operating income | 959.75 | 1712.44 | NA |
| PBILDT | 174.31 | 405.56 | NA |
| PAT | 91.57 | 264.53 | NA |
| Overall gearing (times) | 0.35 | 0.15 | NA |
| Interest coverage (times) | 6.69 | 38.12 | NA |

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-----------------------------|------|------------------|-------------|---------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 81.00 | CARE A-; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 75.55 | CARE A2 |
| Fund-based - LT-Cash Credit | | - | - | - | 53.00 | CARE A-; Stable |

Annexure-2: Rating history for the 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 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (25-Nov-21) | 1)CARE BBB-; Positive (17-Dec-20) | 1)CARE BB+; Stable (19-Feb-20) |
| 2 | Fund-based - LT-Cash Credit | LT | 81.00 | CARE A-; Stable | - | 1)CARE BBB+; Stable (25-Nov-21) | 1)CARE BBB-; Positive (17-Dec-20) | 1)CARE BB+; Stable (19-Feb-20) |
| 3 | Non-fund-based - ST-BG/LC | ST | 75.55 | CARE A2 | - | 1)CARE A3+ (25-Nov-21) | 1)CARE A3 (17-Dec-20) | 1)CARE A4+ (19-Feb-20) |
| 4 | Fund-based - LT-Cash Credit | LT | 53.00 | CARE A-; Stable | - | 1)CARE A3+ (25-Nov-21) | - | - |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities
Not Applicable**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 | 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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Arunava Paul
Phone: 9820904584
E-mail: arunava.paul@careedge.in

Relationship contact

Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About us:

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