Everest Kanto Cylinder Limited

February 15, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term fund based bank facilities (Yes Bank Term Loan)	79.99 (reduced from 84.99)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE BB; Positive (Double B; Outlook: Positive)**
Long-term fund based bank facilities (EXIM Bank Term Loan)	-	**-**	**Withdrawn**
Long-term fund based bank facilities – Cash Credit	91.00 (enhanced from 81.00)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE BB; Positive (Double B; Outlook: Positive)**
Short-term non-fund based bank facilities	54.92 (enhanced from 44.92)	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total Facilities	**225.91 (Rs. Two hundred twenty five crore and ninety one lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities factors in the continuous improvement in operational and financial risk profile of the company. The revision further takes into consideration the expected cash flow arising out from the sale of its Chinese subsidiary by March 2019 and utilization of the same towards debt reduction. The rating continues to derive strength from the promoters experience, established market position of the company in high pressure seamless cylinder industry, diversified customers mix and healthy order book position. The ratings also take into account the improving demand situation and capacity utilization.

These rating strengths are however, tempered by working capital intensive nature of operations and exposure to volatility in commodity prices/ foreign exchange rates. CARE also factors in the allegations made by the Ex-CFO against EKCL and its promoters and company's reply against the same.

The ability of the company to further improve its profitability, capital structure and increasing its capacity utilization are the key rating sensitivities.

Outlook: Positive

Outlook is positive as CARE believes EKCL's financial risk profile is likely to improve over the medium term, backed by improving business performance and reduction of debt.

Detailed description of the key rating drivers:

Key Rating Weakness

Working capital intensive nature of operations: EKCL's operations are inherently working capital intensive in nature due to procurement of its entire raw material (Seamless Steel Tubes) requirement from China which takes a lead time of 3- 6 months coupled with relatively smaller credit period and maintenance of inventory.

Volatility of raw material prices and foreign exchange fluctuation risk: Raw material (imported seamless steel tubes) constitutes majority of operating expenses of EKCL. Fluctuations in raw material prices, therefore, tend to impact the Profit Before Interest Leases Depreciation and Taxes (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 does not hedge its foreign currency exposure thus exposing itself to currency risk.

Key Rating Strengths

Experienced Promoters: EKCL has an experienced management headed by Mr. P.K. Khurana, who has over three decades of experience in the cylinder manufacturing business and is ably supported by his sons, Mr. Pushkar Khurana and Mr. Puneet Khurana (CEO) both of whom have been in the business for about 15 years. Top officials of EKCL have been associated with the company for a long period of time which provides depth and continuity of management.

[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: EKCL is the largest player with highest market share of high pressure seamless cylinders in India on account of its long history in business with limited competition due to high entry barriers.

High entry barriers and regulated nature of industry: There are high entry barriers on account of the regulated nature of the high pressure seamless cylinders industry requiring number of approvals from different departments depending on the use of cylinders. Further, company has to follow stringent quality standards for manufacturing the cylinders.

Diversified customer mix: EKCL has diversified customer mix consisting of OEMs like Bajaj Auto Ltd, Tata Motors Ltd, Ashok Leyland, etc, industrial gases manufacturers like Linde India, PraxAir, Inox, Air Liquid, etc, fire fighting companies like United Tecnologies, Tyco, Siemens, Minimax, etc and city gas distribution companies like Adani Gas, Mahanagar gas, Gujarat Gas, Indraprashta Gas, etc. EKCL exports to over 25 countries all over the world including countries in South East Asia, Middle East, Africa, US, Europe, South America and CIS countries.

Improving financial profile: EKCL has comfortable financial profile with overall gearing improving on consolidated basis at 0.84x as on March 31, 2018 from 1.28x as on March 31, 2017 due to prepayment of long term loans from the proceeds of the sale of Gandhidham facility in FY18. With the reduction of interest cost, combined with improved operational performance, the interest coverage ratio improved to 2.58x in FY18 as compared with 1.72x for FY17. Further, EKCL will sell its wholly owned subsidiary i.e. EKC Industries (Tianjin) Co. Ltd in FY19 and will utilize the proceeds for part payment of long term loans as well as towards capital expenditure/working capital requirements.

Improving operational performance: The total operating income on a consolidated basis de-grew from Rs. 575 crore in FY17 to Rs. 554 crore in FY18 despite selling more units (540,232 units as compared 493,225). However, PBILDT and PBT before exceptional items improved from Rs. 81 crore and Rs. 2 crore in FY17 to Rs. 94 crore and Rs. 32 crore in FY18, respectively. PBILDT margins expanded from 14% in FY17 to 17% in FY18 due to improvement in product mix.
On a standalone basis, the operational performance of EKCL has shown increasing trend with total operating income improving from Rs. 174 crore in FY16 to Rs. 254 crore in FY17 and finally to Rs. 339 crore in FY18 due to increase in demand for CNG cylinders in Northern India for controlling the pollution due to recent ruling by National Green Tribunal for not registering Diesel Vehicles and demand from City Gas Distribution companies. Similarly, PBILDT also improved to Rs. 55 crore in FY18 and Rs.45 crore in FY17 as compared to loss before interest leases depreciation and tax of Rs. 20 crore in FY16. PBILDT margins improved from 18% in FY17 to 19% in FY18.

Improving demand and capacity utilization: Recently, EKCL has witnessed improvement in demand in domestic market for cylinders due to Governments push for using cleaner fuels like CNG over traditional fuels (ban on old diesel and petrol vehicles in Delhi) resulting into higher demand for CNG vehicles and setting up of city gas distribution centres. The capacity utilization on standalone and consolidated level improved in FY18 at 68% and 48% from 42% and 39% in FY17 respectively, however the same continues to be gradual. During H1FY19, EKCL manufactured 3,31,299 cylinders (in India) on a standalone basis and 3,85,904 on consolidated basis translating into capacity utilization of around 92% and 84% (ex-China) respectively. Further, EKCL India has current order book of Rs. 123 crore as on January 16, 2019 which gives revenue visibility in the short term.

Analytical approach: CARE has adopted consolidated approach as EKCL and its subsidiaries are engaged in the manufacturing and sale of high pressure seamless gas cylinders (same line of business). As on 31st March, 2018, EKCL had (a) three wholly owned overseas subsidiary companies, viz., EKC International FZE in Dubai, UAE, EKC Industries (Tianjin) Co. Ltd. in China and EKC Industries (Thailand) Co. Ltd. in Thailand, (b) three step down wholly owned overseas subsidiary companies, viz. EKC Hungary Kft in Hungary, CP Industries Holdings, Inc. in USA, EKC Europe GmbH in Germany and (c) One Joint Venture Company in Tanzania, viz, Kamal EKC industries Ltd (d) Two Indian subsidiary Companies viz., Calcutta Compressions & Liquefaction Engineering Ltd., and EKC Positron Gas Ltd. and one wholly owned Indian subsidiary Company, viz., Next Gen Cylinder Private Limited.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

Liquidity position

The average cash credit utilisation on standalone basis is around 96% level for past 12 months ending in November 2018. EKCL has a free cash and bank balance of Rs. 1.88 crore on a standalone basis and Rs. 6.56 crore on a consolidated basis as on September 30, 2018. EKCL has generated Gross Cash Accruals (GCA) of Rs.18.08 crore in H1FY19 and there is no major principal repayment in FY19. EKCL India is expected to receive Rs. 60 crore from sale proceeds of China subsidiary by March 2019 of which Rs. 30 crore would be paid to Yes Bank term loan and rest would be used for working capital and capex purposes. Thus liquidity profile is expected to be improved by March 2019.

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 EKC 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, China & USA). The annual production capacity of EKCL on a standalone and consolidated basis is 7,17,000 (India) and 11,17,000 (India, Dubai, China & USA) respectively as on March 31, 2018.

During H1FY19, on a consolidated basis EKCL reported PAT before discontinuing operations of Rs. 19 crore on an operating income of Rs. 329 crore as compared to loss of Rs. 8 crore on a turnover of Rs. 255 crore during the corresponding period of the previous year.

For H1FY19, on a standalone basis EKCL's total income improved significantly by 49% Y-o-Y at Rs. 109 crore from Rs. 73 crore as compared to corresponding period of previous year. Similarly, PBILDT also improved by 51% at Rs. 26 crore in H1FY19 as compared to Rs.17 cr in H1FY18.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	574.57	554.37
PBILDT	80.63	94.05
PAT	78.25	23.80
Overall gearing (times)	1.28	0.84
Interest coverage (times)	1.72	2.58

A: Audited

Status of non-cooperation with previous CRA: CRISIL has reaffirmed EKCL rating at CRISIL C, Issuer Not Cooperating based on best available information vide PR dated September 28, 2018.

Any other information: Not Applicable

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

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.*

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Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Oct 2020	79.99	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	91.00	CARE BB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	54.92	CARE A4+
Term Loan-Long Term	-	-	-	-	Withdrawn

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	79.99	CARE BB+; Positive	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE D (20-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	91.00	CARE BB+; Positive	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	54.92	CARE A4+	-	1)CARE A4+ (16-Nov-17)	1)CARE A4 (06-Oct-16)	1)CARE A4 (20-Oct-15)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)
5.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (20-Oct-15)

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