Everest Kanto Cylinder Ltd (Revise)

November 16, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term fund based bank facilities (Yes Bank Term Loan)	84.99 (reduced from 206.96)	**CARE BB; Positive (Double B; Outlook: Positive)**	Revised from CARE B (Single B)
Long-term fund based bank facilities (EXIM Bank Term Loan)	8.50 (reduced from 32.09)	**CARE BB; Positive (Double B; Outlook: Positive)**	Revised from CARE B (Single B)
Long-term fund based bank facilities – Cash Credit	81.00	**CARE BB; Positive (Double B; Outlook: Positive)**	Revised from CARE B (Single B)
Short-term non-fund based bank facilities	54.92 (enhanced from 44.92)	**CARE A4+ (A Four Plus)**	Revised from CARE A4 (A Four)
Total Facilities	**229.41 (Rs. Two hundred twenty nine crore and forty one lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of the ratings assigned to the bank facilities of Everest Kanto Cylinder Ltd factor in significant improvement in capital structure due to reduction of debt from sale of Gandhidham facility and improved operational performance. However, the rating continues to be constrained due to subdued demand, suboptimal capacity utilization, working capital intensive nature of operations, volatility of raw material prices as well as foreign exchange fluctuation risk.

Furthermore, the rating favourably factors in EKC's established market position in high pressure seamless cylinders, diversified customer mix and experience of promoters in the high pressure seamless cylinder industry.

The ability of the company to improve its capital structure further, capacity utilization, profit margins and debt coverage indicators are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

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 to 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.

Low capacity utilization due to subdued demand: EKCL expanded its capacity very aggressively in the past in anticipation of higher demand in future which did not materialize and lead to suboptimal utilization of capacity. EKCL has manufacturing capacity to produce CNG cylinders, industrial cylinders and jumbo cylinders totaling 12.52 lakh units annually across India, China, Dubai and USA. The capacity utilization on consolidated level improved in FY17 at 39% from 36% in FY16 however, the same continues to be low.

Key Rating Strengths

Improved financial profile due to sale of Gandhidham Plant: During FY17, EKCL sold land and building along with electric installations situated at Gandhidham, Gujarat to SNF Flopam India Private Limited which improved its standalone and consolidated net worth from Rs.76 crore and Rs. 342 crore respectively, as on March 31, 2016 to Rs.148 crore and Rs.416 crore respectively, as on March 31, 2017. The proceeds from the sale of assets and infusion of unsecured loans from promoters were used by EKCL to prepay its term loan from Yes Bank and EXIM Bank to the extent of Rs.138 crore in H1FY18 out of total outstanding term debt of Rs.241 crore as on March 31, 2017 on standalone basis.

[1]*Complete definition of the ratings assigned is available at www.careratings.com and other CARE publications.*

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.

Established market position in High Pressure Seamless Cylinders and diversified customer mix: EKCL is the largest player with highest market share of high pressure seamless cylinders in India with diversified customer mix consisting of OEMs like Bajaj Auto Ltd, Tata Motors Ltd, etc, industrial gases manufacturers like Linde India and City Gas distribution companies.

Improved operational performance: The total operating income on consolidated basis increased from Rs.507 crore in FY16 to Rs.579 crore in FY17 due to improvement in volumes as demand for cylinders improved in India as well as in USA. Similarly PBILDT improved from Rs.8 crore in FY16 to Rs.70 crore in FY17. For Q1FY18, on a consolidated basis EKCL reported PBILDT of Rs.7 crore on a total operating income of Rs.125 crore against PBILDT of Rs.10 crore on a total operating income of Rs.147 crore for the corresponding previous period.

On a standalone basis, the total operating income improved from Rs.174 crore in FY16 to Rs.254 crore in FY17 due increase in demand for CNG cylinders demand in Northern India for controlling the pollution due to recent ruling by National Green Tribunal for not registering Diesel Vehicles. PBILDT improved to Rs.45 crore in FY17 as compared to loss before interest leases depreciation and tax of Rs.20 crore mainly due to reduction in raw material prices.

Analytical approach: Consolidated

Applicable Criteria

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

About the Company

Incorporated in 1978, EKCL is engaged in manufacturing 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 gasses 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, 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). During the year ended March 31, 2017, EKCL sold Gandhidham facility for $29 million (around Rs.192 crore) and shifted its manufacturing facilities to Kandla, Gujarat. EKCL has total manufacturing capacity to produce 12.52 lakh cylinders annually across India, China, Dubai and USA.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	507.07	578.67
PBILDT	7.62	70.32
PAT	-124.09	78.69
Overall gearing (times)	1.69	1.30
Interest coverage (times)	0.14	1.49

Status of non-cooperation with previous CRA: CRISIL has upgraded EKCL rating to CRISIL C from CRISIL D based on best available information.

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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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.

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	84.99	CARE BB; Positive
Fund-based - LT-Cash Credit	-	-	-	81.00	CARE BB; Positive
Non-fund-based - ST-BG/LC	-	-	-	54.92	CARE A4+
Term Loan-Long Term	-	-	May 2018	8.50	CARE BB; Positive

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	84.99	CARE BB; Positive	-	1)CARE B (06-Oct-16)	1)CARE D (20-Oct-15)	1)CARE D (18-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	81.00	CARE BB; Positive	-	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)	1)CARE C (18-Dec-14)
3.	Non-fund-based - ST-BG/LC	ST	54.92	CARE A4+	-	1)CARE A4 (06-Oct-16)	1)CARE A4 (20-Oct-15)	1)CARE A4 (18-Dec-14)
4.	Term Loan-Long Term	LT	8.50	CARE BB; Positive	-	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)	1)CARE C (18-Dec-14)
5.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (20-Oct-15)	-

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