

23 January 2009

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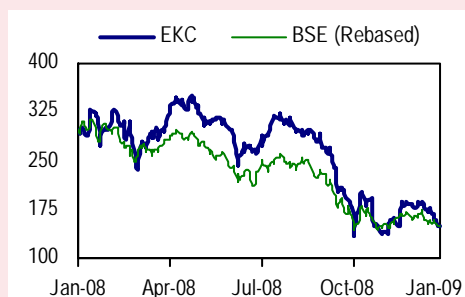
STOCK DATA

Market Cap	Rs13.8bn
Book Value per share	Rs45.1
Eq Shares O/S (F.V. Rs.2)	101mn
Median Vol (12 mths)	107,415 (BSE+NSE)
52 Week High/Low	Rs356/129
Bloomberg Code	EKCL@IN
Reuters Code	EKCL.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(17.3)	(15.0)	(49.2)
Relative	(10.3)	(5.7)	1.4

STOCK PRICE PERFORMANCE



Everest Kanto Cylinder Ltd's (EKC) Q3FY09 results were in line with our expectations as net sales grew by 99% YoY to Rs2.5bn against our estimate of Rs2.5bn. OPM declined by 797bps to 28.6% and net profit rose by 30% to Rs382mn against our estimate of Rs404mn.

● **Net Sales growth driven by Middle East market**

Net sales doubled on back of volume growth from the middle east segment and full quarter contribution from *CP Industries, USA*. Robust demand from middle eastern markets offset the slowdown from Indian auto sector in domestic sales.

● **Net profit growth impacted by lower OPM**

OPM contracted by 797bps to 28.6% on account of higher employee cost & other expenses. This coupled with higher capital charges led to net profits growing by a lesser rate of 30% to Rs382mn.

● **Order Inflows**

During the quarter, EKC booked orders of USD40mn for CNG cylinders from the Middle East market. It also booked a small order for supplying CNG cylinders locally in China. This augurs well for EKC's expansion plans in China. Continuous order inflow from Indian Defence sector for customised cylinders with higher realisations should boost margins.

● **Expansion on track**

Capacity expansion plans at Gandhidham (Industrial cylinders from billets) and Kandla (CNG cylinders from plates) are on track and should commence production by early FY10. The company is watchful on its proposed expansion of capacity in China due to lack of visibility in the current economic scenario. With regular order inflows from the Defence sector, it is expanding production capacity at Tarapur unit by 60k cylinder p.a. to be commissioned by Q4FY09.

VALUATIONS AND RECOMMENDATION

EKC is the domestic market leader in high-pressure seamless cylinder for industrial and CNG segment with a significant presence abroad in countries across M. East, S. Asia & CIS. With the acquisition of CP Industries (USA) in Apr '08, it has entered into the lucrative jumbo cylinder segment.

At the CMP of Rs137, EKC trades at a P/E of 8.1x & 6.0x for FY10 & FY11 estimates respectively. We downgrade our recommendation to 'HOLD' in light of weak domestic demand from auto sector in India & China, EKC's primary revenue segment and rich valuations which give lesser margin of safety.

KEY FINANCIALS (CONSOLIDATED)					
Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	4,251	5,287	8,872	10,307	12,475
YoY Gr. (%)	80.5	24.4	67.8	16.2	21.0
Op. Profits	1,145	1,527	2,576	2,866	3,587
Op. Marg. (%)	26.9	28.9	29.0	27.8	28.8
Net Profits	718	1,043	1,503	1,794	2,412
Eq. Capital	195	202	202	202	202

KEY RATIOS					
	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	6.8	9.8	14.1	16.9	22.7
ROCE (%)	38.0	29.3	26.1	22.8	24.6
RONW (%)	31.7	27.6	27.4	25.5	26.8
P/E (x)	20.3	14.0	9.7	8.1	6.0
EV/Sales (x)	2.9	2.7	1.9	1.5	1.1
EV/EBDIT (x)	11.2	10.0	6.7	5.7	4.0

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	9,544	8,872	(7.0)	13,201	10,307	(21.9)
Op. Profit	2,582	2,576	(0.2)	3,628	2,866	(21.0)
Net Profit	1,513	1,503	(0.7)	2,514	1,794	(28.6)
Diluted EPS	14.2	14.1	(0.7)	23.6	16.9	(28.4)

Financial Results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	2,503	1,255	99.4	6,604	3,646	81.1	5,287
Total Expenditure	1,787	796	124.4	4,576	2,481	84.4	3,761
(Inc) /Dec in stock	(196)	(308)		(513)	(261)		(75)
Raw Material	1,282	877	46.3	3,337	2,072	61.0	2,793
Purchase of Traded Goods		-		-	25		-
Employee Cost	207	58	257.5	516	155	233.6	217
Other expenditure	493	170	190.5	1,236	491	151.9	826
Operating Profit	716	459	56.0	2,028	1,165	74.2	1,527
Other Income	17	28	(40.2)	77	68	13.2	80
EBDIT	733	487	50.5	2,105	1,233	70.8	1,606
Interest (Net)	71	29	141.4	218	71	205.6	71
Depreciation	212	83	153.6	488	176	178.0	215
PBT & extraordinary items	451	374	20.4	1,400	986	41.9	1,320
Provision for tax	69	80		237	185		243
Prior Period Items	-	-		-	-		35
Net Profits	382	294	29.7	1,163	801	45.3	1,043
Equity Capital (F.V. Rs 2)	202	202		202	195		202
Reserves(excl rev res)	-	-		-	-		4,594
Basic EPS for the Period(Rs.)	3.77	2.91		11.50	8.20		10.54
Book Value (Rs)	-	-		-	-		47.4
OPM (%)	28.6	36.6	7.97	30.7	31.9		28.9
NPM (%)	15.2	23.4		17.6	22.0		19.7
Expenditure As % of Net Sales							
Raw Material	43.4	45.3		42.8	49.7		51.4
Trading expenditure	-	-		-	0.7		-
Employee Cost	8.3	4.6		7.8	4.2		4.1
Other expenditure	19.7	13.5		18.7	13.5		15.6

Segmentwise results for the quarter & nine months ended 31 December 2008 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Segment Revenues							
India	822	816	1	2,798	2,256	24	3,336
U.A.E (Dubai)	1,176	706	67	2,797	1,754	59	2,764
China	62	-	-	150	-	-	-
USA	568	-	-	1,193	-	-	-
Total	2,628	1,522	73	6,937	4,009	73	6,100
Less: Inter segment revenue	125	266		333	364		813
Net Sales	2,503	1,255	99	6,604	3,646	81	5,287
Segment Result (PBIT)							
India	148	238	(38)	686	556	23	673
U.A.E (Dubai)	422	145	191	996	463	115	711
China	(39)	-	-	(64)	-	-	-
USA	77	-	-	179	-	-	-
Total PBIT	608	383	59	1,797	1,019	76	1,384
Add: Unallocable Income	(87)	21		(179)	34		7
Less: Interest	71	29		218	71		71
PBT	451	374	20	1,400	982	43	1,320
Capital Employed							
India	4,896	3,787		4,896	3,787		4,413
U.A.E (Dubai)	2,441	1,398		2,441	1,398		1,765
China	1,485	755		1,485	755		1,024
USA	3,080	-		3,080	-		-
In the segment	11,902	5,940		11,902	5,940		7,202
Add: Unallocable	(5,853)	-		(5,853)	-		(2,406)
Total	6,050	5,940		6,050	5,940		4,796
PBIT Margin (%)							
India	18.0	29.1		24.5	24.6		20.2
U.A.E (Dubai)	35.9	17.8		35.6	20.5		25.7
China	(63.3)	-		(42.9)	-		-
USA	13.5	-		15.0	-		-
Total	23.1	25.1		25.9	25.4		22.7
ROCE (%)							
India	12.1	25.1		18.7	19.6		19.5
U.A.E (Dubai)	69.2	41.5		54.4	44.1		51.8
China	(10.6)	-		(5.8)	-		-
USA	10.0	-		7.7	-		-
Total	20.4	25.8		20.1	22.9		25.4

Income Statement	2006	2007	2008	2009E	2010E	2011E
Revenues	2,355	4,251	5,287	8,872	10,307	12,475
<i>Growth (%)</i>	<i>77.9</i>	<i>80.5</i>	<i>24.4</i>	<i>67.8</i>	<i>16.2</i>	<i>21.0</i>
Total Expenditure	1,766	3,106	3,761	6,295	7,441	8,888
Operating Profit	589	1,145	1,527	2,576	2,866	3,587
<i>Growth (%)</i>	<i>104.4</i>	<i>94.5</i>	<i>33.4</i>	<i>68.7</i>	<i>11.3</i>	<i>25.1</i>
Other income	22	40	80	110	160	209
EBIDT	611	1,184	1,606	2,686	3,026	3,796
(-) Interest	38	53	71	263	237	226
(-) Depreciation/Amortisation	103	179	219	615	584	642
PBT & E/O items	476	953	1,320	1,808	2,205	2,928
(-) Tax provision	141	236	243	305	411	516
Net Profits	324	718	1,043	1,503	1,794	2,412
<i>Growth (%)</i>	<i>134.6</i>	<i>114.2</i>	<i>50.2</i>	<i>39.5</i>	<i>19.3</i>	<i>34.4</i>
Fully diluted Eq. sh. O/s (mn no)	13.7	92.0	98.9	101.2	101.2	101.2
Book Value (Rs)	14.2	28.4	45.1	58.2	73.9	95.5
Basic EPS (Rs)	23.6	7.8	10.5	14.9	17.7	23.8
Diluted EPS (Rs)	3.0	6.8	9.8	14.1	16.9	22.7

Balance Sheet	2006	2007	2008	2009	2010E	2011E
<i>Equity Share Capital</i>	176	195	202	202	202	202
<i>Reserves & Surplus</i>	1,333	2,829	4,594	5,981	7,658	9,954
Net worth	1,509	3,024	4,796	6,183	7,861	10,156
Total Debt	395	702	2,386	3,943	3,851	3,759
Deferred Tax liability	14	-	45	45	45	45
Capital Employed	1,918	3,726	7,227	10,171	11,757	13,960
Goodwill	-	-	-	974	905	835
Fixed Assets	939	1,478	2,657	3,713	4,505	4,292
Net current assets	846	2,105	4,448	5,362	6,225	8,711
Investments	132	134	122	122	122	122
Misc exp.	-	9	-	-	-	-
Total Assets	1,918	3,726	7,227	10,171	11,757	13,960

Cash Flow Statement	2006	2007	2008	2009	2010E	2011E
PBT & extra-ordinary items	476	953	1,320	1,808	2,205	2,928
Depreciation	98	178	215	615	584	642
Interest & dividend inc.	(4)	(12)	(42)	(84)	(126)	(164)
Interest paid	26	37	71	263	237	226
Tax paid	(223)	(243)	(239)	(305)	(411)	(516)
(Inc)/Dec in working capital	(107)	(1,127)	(1,738)	(1,053)	(37)	(446)
Other Items	(16)	(17)	20	-	-	-
Cash from operations	249	(231)	(392)	1,244	2,451	2,669
Net capital expenditure	(602)	(688)	(1,620)	(2,645)	(1,307)	(359)
Net investments	(107)	(2)	(184)	-	-	-
Interest & Div recd	5	12	42	84	126	164
Cash from investing activities	(704)	(678)	(1,762)	(2,561)	(1,180)	(195)
Proceeds from issue of FCCB	-	-	1,404	-	-	-
Issue of eq. shares	900	920	887	-	-	-
Change in debt	(93)	307	280	1,557	(92)	(92)
Dividend paid	(17)	(70)	(114)	(116)	(116)	(116)
Interest paid	(26)	(36)	(70)	(263)	(237)	(226)
other Adjustments	(56)	(30)	(59)	-	-	-
Cash from financing activities	708	1,091	2,328	1,178	(445)	(435)
Inc/Dec. in cash	254	181	173	(139)	826	2,040

Key Ratios	2006	2007	2008	2009	2010E	2011E
OPM (%)	25.0	26.9	28.9	29.0	27.8	28.8
ROACE (%)	36.2	38.0	29.3	26.1	22.8	24.6
ROANW (%)	34.8	31.7	27.6	27.4	25.5	26.8
Sales/Total Assets (x)	1.3	1.2	0.8	0.9	0.9	0.9
Debt:Equity (x)	0.3	0.2	0.5	0.6	0.5	0.4
Current Ratio (x)	2.3	3.1	3.5	3.8	4.0	5.0
Debtors (days)	42.6	49.4	62.7	56.0	54.0	53.0
Inventory (days)	65.6	98.8	196.5	145.0	123.0	109.0
Net working capital (days)	22.4	88.2	134.4	105.0	85.0	76.0
EV/Sales (x)	0.8	2.9	2.7	1.9	1.5	1.1
EV/EBIDT (x)	3.4	11.2	10.0	6.7	5.7	4.0
P/E (x)	45.0	20.3	14.0	9.7	8.1	6.0
P/BV (x)	9.6	4.8	3.0	2.4	1.9	1.4

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