

Containers

Mav 25, 2007

ICICIdirect Code: EVEKAN

Company Profile

Corporate Office

501 Raheja Center,
214, Nariman Point,
Mumbai – 400 021

Website: www.everestkanto.com

Chairperson & MD: Prem Kumar Khurana
Business Group: NA

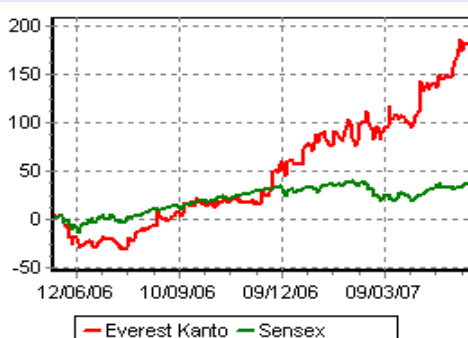
Shareholding Pattern (31/03/2007)

Major Holder	%
Promoters	61.81
Institutional Investors	18.77
Other Investors	12.76
General Public	6.66

Stock Data

Market Cap (Rs cr)	2258.17
Shares Outstanding (cr)	1.95
52-week High (Rs)	1202
52-week Low (Rs)	269
Average Volume	102350
Absolute Return 3m (%)	33.52
Absolute Return 12m (%)	17084
Sensex Return 3 mth (%)	1.87
Sensex Return 12 mth (%)	33.55

Performance Chart



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Everest Kanto Cylinders BOOK PROFITS

Current Price
Rs 1063

Everest Kanto Cylinder (EKC) is India's largest manufacturer of high-pressure seamless steel gas cylinders. We initiated coverage on the stock with a PERFORMER rating. Our price target of Rs 870 has been achieved.

EKC posted robust results for the year ending March 2007, on back of its huge capacity expansion leading to high volumes. The company is planning to increase its overall capacity to 1.5 million cylinders per annum in the next 3-4 years. EKC bagged export orders worth Rs 220 crore recently for the supply of specialized cylinders. It is also planning to invest USD 60 million in the first phase of its China operation.

Key Highlights

- ❑ EKC reported a growth of 80.41% in net sales for FY07 to Rs 425.05 crore from Rs 235.5 crore, led by volume growth after the commissioning of the Gandhidham facility, which has a capacity to produce 3.4 lakh cylinders per annum. The company sold 510,000 cylinders across all categories during the year.
- ❑ Operating margin during FY07 was up by 190 bps at 26.9% primarily due to better realization. A higher capacity utilization resulted in lower cost per unit and increase in profitability. The company was also able to pass on the hike in raw material prices to its customers, which helped in maintaining margins.
- ❑ The company charged higher depreciation of Rs.17.78 crore in FY07 due to the addition of the Gandhidham facility.
- ❑ Net profit margin for FY07 increased by 319 basis points to 16.88%. This was mainly due to its subsidiary in Dubai with a capacity of 196,000 cylinders on which there was no tax liability.

Exhibit 1: Key Financials

(Rs crore)

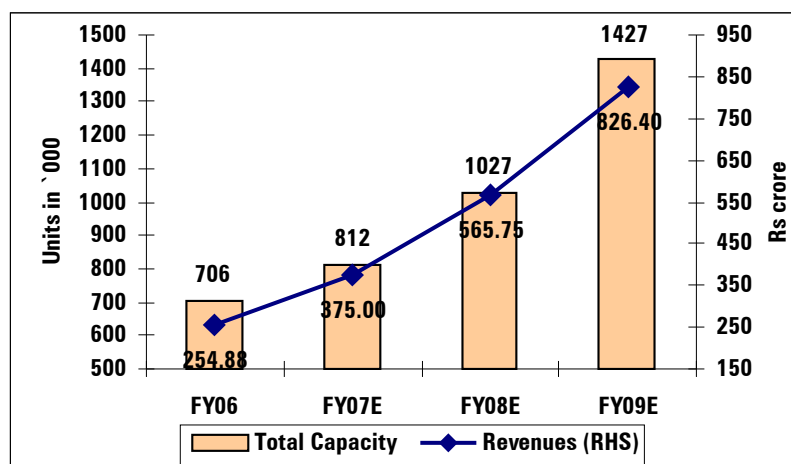
	FY07	FY06	% change
Net Sales	425.05	235.59	80.41
Other Income	3.97	2.22	78.82
Total Income	429.02	237.72	80.47
Total Expenditure	310.58	176.73	75.73
Operating profit	118.44	61.08	93.90
Interest	5.32	3.77	41.10.
Depreciation	17.78	9.76	82.17
Tax	23.59	15.20	55.19
Net Profit	71.75	33.49	114.24
OPM (%)	26.93	25.89	
NPM (%)	16.88	13.69	
O/S Shares (crore)	1.95	1.76	
EPS (Rs)	39.0	18.50	110.81

Source: ICICIdirect Research

Events Update

- EKC has bagged exports orders worth Rs 220 crore for the supply of specialized cylinders.
- The Company has formed a separate wholly owned subsidiary '**EKC Industries (Tianjin) Co. Ltd.**' for its operations in China. It is investing US\$ 60 million in the first phase for which it has already started the construction work. The plant will have a capacity of 2 lakh cylinders per annum and is expected to commence commercial production by December 2007.
- EKC has taken a decision to source its raw material requirements from China, which should help it reduce the overall costs.
- The board of EKC has approved a split in its shares in the ratio of 1:5; whereby the face value of its shares will decrease from Rs 10 to Rs 2 each. Currently the company has 1.95 crore shares outstanding.
- The company has hived-off its Dubai division into a fully owned subsidiary company to avail the tax benefit prevailing in that country.

Exhibit 2: Capacity Expansion & Revenue Growth



Source: ICICIdirect Research

Valuations

The company is getting export orders on regular basis for the supply of specialized cylinders. Demand for CNG cylinders in both the domestic as well as global market is the main driving force for the company. However at the current price of Rs 1063, the stock is richly valued at 20.79x its FY09E earnings per share of Rs 51.12. We believe that investors should book profits.

Exhibit 3: Valuations

	FY09E	FY08E	FY07
EPS (Rs)	51.12	40.96	39.00
Book value per Share	231.6	183.97	146.52
Enterprise Value (Rs cr)	2346.45	2298.28	2280.23
EV/Sales (x)	2.84	4.06	6.08
EV/EBITDA (x)	12.79	16.14	24.60
Market Cap/Sales (x)	2.71	3.95	5.96
Price/Book Value (x)	4.94	6.22	7.81
Operating margin (%)	24.14	25.17	26.61
Net profit margin (%)	13.13	15.37	16.88
RoNW (%)	22.07	22.26	17.51
RoCE (%)	28.60	29.74	26.82

Source: ICICIdirect Research

RATING RATIONALE

ICICIDirect endeavours to provide objective opinions and recommendations. ICICIdirect assigns ratings to its stocks according to their notional target price vs current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is 2 years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer: 20% or more;
Performer: Between 10% and 20%;
Hold: $\pm 10\%$ return;
Underperformer: -10% or more.

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Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" of the aforementioned offer documents.