

RESULT UPDATE ✓

Everest Kanto (EVEKAN)

WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 244 to Rs 196
EPS (FY09E).....	Rs 14.7
EPS (FY10E).....	Rs 16.3
RATING.....	OUTPERFORMER

Current Price Rs 125	Target Price Rs 196
Potential upside 57%	Time Frame 12-15 months

OUTPERFORMER
Sanjay Manyal

sanjay.manyal@icicidirect.com

Ritika Shewakramani

ritika.shewakramani@icicidirect.com

Slackening demand impedes growth...

Everest Kanto's Q3FY09 earnings were in line with our estimates as the bottomline grew 29.7% to Rs 38.2 crore. The company reported 99.1% growth in topline to Rs 251.2 crore on the back of higher realisations from jumbo cylinders. Average realisation stood at Rs 12307 per cylinder, 56.8% higher than the corresponding quarter. Sales from the US operations also started contributing to the topline after EKC acquired the jumbo cylinder division of CP industries. Raw material costs rose by 91.2% to Rs 108.7 crore this quarter. The EBITDA margin declined to 28.9% (QoQ) from 32.3% in Q2FY09 on account of a 191.7% rise in operating expenses.

Highlight of the quarter

The company reported a 135.8% jump in interest cost to Rs 7.1 crore on account of higher interest rates. Depreciation provisioning also rose 153.6% to Rs 21.2 crore as the company altered the depreciation accounting policy of the Chinese and US operations to the written down value method, in line with the Indian operations, which lead to a one-time provision of Rs 4.6 crore.

Valuations

The drastic fall in crude prices coupled with the bleak economic scenario will result in a concomitant slowdown in growth for the company. This, in turn, will lead to a contraction in the valuation multiple of the stock. At the current price of Rs 125, the stock is trading at 8.5x its FY09E EPS of Rs 14.7 and 7.7x its FY10E EPS of Rs 16.3. Consequently, we value the company at 12x its FY10E of Rs 16.3 to arrive at a price target of Rs 196.

Stock data....

Market Cap.	Rs 1353.0 Cr
Debt	Rs 204.0 Cr
Cash (FY08)	Rs 64.0 Cr
EV	Rs 689.0 Cr
52 week H/L (Rs)	359 / 129
Equity capital	Rs 20.2Cr
Face value	Re 2
MF Holding	3.2%
FII Holding	13.8%

Price performance (%)

Company	1M	3M	6M	12M
EKC	16.0	-15.8	-34.4	-50.5
Nitin				
Fire	-7.5	0.4	-44.2	-68.5

Exhibit 1: Key Financials

(Rs Crore)

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr.	QoQ Gr.	YTDFY09	FY09E	FY10E
Net Sales	251.2	193.2	126.2	222.9	99.1%	12.7%	660.4	796.5	956.7
EBIDTA	72.5	60.4	46.6	72.1	55.5%	0.6%	206.4	258.2	284.3
EBIDTA Margin	28.9%	31.3%	37.0%	32.3%			31.2%	32.4%	29.7%
Depreciation	21.2	10.4	8.3	15.6	153.6%	35.6%	48.8	48.5	47.0
Interest	7.1	5.7	3.0	4.7	135.8%	50.0%	21.8	26.1	31.1
Other Income	0.8	1.8	2.1	1.2	-63.6%	-35.0%	4.2	9.7	7.4
Reported Net Profit	38.2	35.5	29.4	43.3	29.7%	-11.8%	116.4	149.1	164.9
EPS (Rs)	3.8	3.5	2.9	4.3	29.7%	-12.2%	11.5	14.7	16.3
Valuation									
PE (x)	-	-	-	-	-	-	-	8.5	7.7
Target PE (x)	-	-	-	-	-	-	-	13.3	12.0
EV to EBIDTA (x)	-	-	-	-	-	-	-	5.0	4.2
Price to book (x)	-	-	-	-	-	-	-	3.2	2.5
RoNW	-	-	-	-	-	-	-	26.9%	22.9%
RoCE	-	-	-	-	-	-	-	32.3%	27.5%

Source: Company, ICICIdirect.com Research

Result analysis

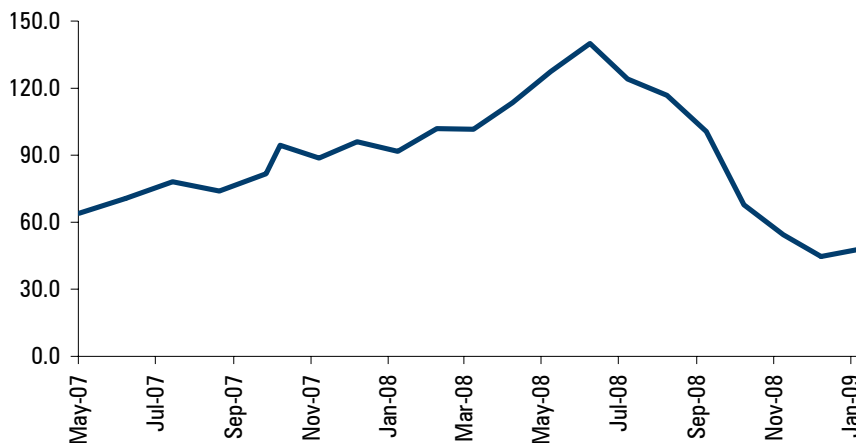
Sluggish auto sales dampen sales of the Indian operations

In the midst of the prevailing financial meltdown the near term implications for the automobile sector are negative. The significant rise in interest rates coupled with a severe finance crunch on account of restrictive lending from financial institutions has crippled auto sales. This phenomenon coupled with recent production cuts announced by most original equipment manufacturers (OEMs) has led to lower volume growth causing the company to report a flat topline growth of Rs 82.1 crore in its Indian operations. Although the current economic slowdown has impacted commercial and public transport vehicle owners, the economics of conversion remain sound. While expenditure by vehicle owners is likely to be deferred, EKC expects demand to remain buoyant on account of regulatory requirements in Delhi stipulating the conversion of vans to CNG.

Viability of CNG remains strong in long run

The radical deceleration in crude prices has stemmed a major re-evaluation of the feasibility of CNG in the near term. However, we believe the sudden drop in crude remains a short-term phenomenon. Going forward, it will remain above US\$60 a barrel. Moreover, with growing environmental concerns and several sustained governmental initiatives to promote the use of CNG as a cheaper cleaner alternative, the economics of CNG remain higher than that of petrol and diesel.

Exhibit 2: Crude price (\$ per barrel)



Source: Company, ICICIdirect.com Research

Provisioning and buyback of FCCBs

The company's interest costs were significantly higher on account of rising interest rates. The company also has Rs 174 crore worth of outstanding foreign denominated debt via the foreign currency convertible bonds (FCCB) route. The board has approved a buyback of FCCBs up to a ceiling of US\$15 million (Rs 75.0 crore) by examining various options, although no definitive timeline has been set. The company also registered a loss of Rs 22.0 crore on account of foreign exchange fluctuations during the nine month period ended December 31 2008. While Rs 13.0 crore constituted translational losses on outstanding FCCBs, the balance accrued from forward contracts and other such exposures.

Forward integration into gas distribution

The company plans to foray into city gas distribution by acquiring a stake in Calcutta Compression & Liquefaction, which is expected to receive gas from the Jaria fields of ONGC and accordingly distribute gas in the region. We believe this innovative move will help the company to establish a dynamic CNG distribution network with its existing jumbo cylinders for industrial and auto use. However, since this venture is in its nascent stages we believe its benefits will accrue only after FY10.

Risk & Concern

Deceleration in crude oil prices to hamper CNG demand:

The steep decline in crude prices has stimulated a major re-assessment of the viability of CNG. This drastic fall in crude would curtail the demand for CNG as an alternative fuel in the near term. This, in turn, could adversely affect the demand for cylinders.

Sluggish automobile sales to crimp demand for CNG:

We believe the compounded effect of the slowdown in the automobile sector coupled with the plunge in crude oil prices would result in a deterioration in demand for CNG cylinders.

Valuations

The drastic fall in crude prices coupled with the bleak economic scenario will result in a concomitant slowdown in growth for the company. This, in turn, will lead to a contraction in the valuation multiple of the stock. At the current price of Rs 125, the stock is trading at 8.5x its FY09E EPS of Rs 14.7 and 7.7x its FY10E EPS of Rs 16.3. Consequently, we value the company at 12x its FY10E of Rs 16.3 to arrive at a price target of Rs 196.

Exhibit 3: Valuation Matrix

	Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY08	528.7	11.0	11.4	9.5	22.4	22.2
FY09E	796.5	14.7	8.5	5.0	26.9	32.3
FY10E	956.7	16.3	7.7	4.2	22.9	27.5

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 4: Mid-Cap Coverage Universe

Praj Industries					Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	PRAIN	CMP	50.4	FY08	701.6	8.4	6.0	6.3	62.2	69.5
		Target	71.2	FY09E	770.6	6.3	8.0	6.2	30.3	38.3
MCap	1028	Upside	41.3%	FY10E	1003.3	8.9	5.7	4.2	34.7	41.1

Everest kanto Cyliders					Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	EVEKAN	CMP	125	FY08	528.7	11.0	11.4	9.5	22.4	22.2
		Target	196	FY09E	796.5	14.7	8.5	5.0	26.9	32.3
MCap	1353	Upside	57%	FY10E	956.7	16.3	7.7	4.2	22.9	27.5

Nitin Fire Protection					Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	NITFIR	CMP	156	FY08	132.4	15.4	10.1	8.0	16.8	14.1
		Target	209	FY09E	255.7	29.2	5.3	4.8	24.5	20.2
MCap	939	Upside	34.0%	FY10E	355.7	41.6	3.8	3.2	26.1	23.8

Source: Company, ICICIdirect.com Research

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicidirect.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
Gr. Floor, Mafatlal House,
163, HT Parekh Marg,
Backbay Reclamation
Churchgate,
Mumbai – 400 020**

research@icicidirect.com

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