RESULT PREVIEW √

Mid-Caps

Long-term growth remains intact…

The need to diversify energy sources coupled with emission concerns has led to increased demand for compressed natural gas (CNG) and bio-fuels. However, the recent decline in crude oil prices could dampen demand in the current situation. Nevertheless, we believe the demand for alternative energy sources would remain intact in the long run on the back of volatile fuel prices and sustained governmental initiatives. Hence, we maintain our positive outlook for our mid-cap coverage universe.

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Highlight of the quarter

CNG, ethanol to emerge as cleaner and cheaper alternatives

In the wake of growing environmental concerns and volatile fuel prices, CNG and ethanol have emerged as cleaner and cheaper alternative fuels. In order to avail of their benefits the government has taken several initiatives to promote their usage. The usage of CNG has been made mandatory as an auto fuel for heavy vehicles in New Delhi and 28 highly polluted cities. Alternatively, the Union Cabinet has cleared the national policy on bio-fuels, which set a vision of 20% blending of bio-fuel and ethanol with diesel and petrol respectively by 2017. We believe these measures would benefit three of the mid-cap companies in our coverage universe.

Price performance (%)

	1M	3M	6M	12M
Everest Kanto Cylinders	15.0	-19.7	-33.1	-47.7
Nitin Fire Protection	49.9	2.2	-40.5	-66.2
Praj Industries	8.4	-31.4	-67.8	-75.7

Improved gas infrastructure to accelerate CNG demand

Although the demand for CNG along with piped gas in households in India is forecast to more than treble at 7% of total gas demand in the next five years, CNG is offered at only about 1% of India's 35,000 retail outlets. With the availability of CNG in India set to double in the next three years aggressive plans have been chalked out in order to launch city gas distribution projects in over 230 cities. With natural gas becoming easily available and CNG infrastructure improving we believe the demand for CNG vehicles will also rise. This, in turn, will boost demand for CNG cylinders. Additionally, the growing demand for CNG cylinders in Pakistan, Iran, China and Argentina pose untapped opportunities for Everest Kanto and Nitin Fire Protection Industries.

Decline in crude to raise doubts on viability of CNG and ethanol

The sharp decline in crude oil prices has brought into question the viability of CNG and ethanol in the current scenario. However, we believe this radical drop in crude oil prices is a short-term phenomenon. Going forward, it will remain firm above US$60.

Broad outlook for the sector for Q3FY09E

We believe the strong order book of Everest Kanto and Nitin Fire Protection Industries will boost topline growth. Additionally, the availability of cheaper raw materials will enhance EBITDA. However, the steep fall in crude oil prices could curtail the demand for ethanol and, hence, impact the revenue growth for Praj Industries.

Exhibit 1: Coverage Universe

	Sales (%) change			EBITDA (%) change			PAT (%) change		
Company	OND09	Y-o-Y	Q-o-Q	OND09	Y-o-Y	Q-o-Q	OND09	Y-o-Y	Q-o-Q
Everest Kanto Cylinders	193.2	53.9	-13.3	60.4	31.6	-16.2	35.5	20.6	-18.1
Nitin Fire Protection Industries	66.0	66.9	-0.7	13.0	67.8	-3.8	9.2	47.0	-9.3
Praj Industries	208.0	15.5	3.9	38.5	2.1	-11.5	32.0	18.1	5.9

Source: Company, ICICIdirect.com Research

Everest Kanto Cylinders (EVEKAN)

Established in 1978, EKC is the largest domestic player and among the leading global manufacturers of high-pressure seamless gas cylinders for industrial as well as CNG applications. The company has five manufacturing facilities located across India, Dubai, and China, with a total installed capacity of one million cylinders.

1) Revenues are expected to grow by 53.9% YoY to Rs 193.2 crore in Q3FY09E from Rs 125.5 crore in Q3FY08 due to high volume growth from the recently commissioned Chinese facility. EBITDA margins are expected to dip to 31.3% from 36.6% in Q3FY08 on the back of higher manufacturing overheads. However, net profit is expected to increase by 20.6% YoY to Rs 35.5 crore from Rs 29.4 crore in Q3FY08 on the back of higher EBITDA.
2) Concerns: Given the drastic fall in crude prices the viability of CNG has been brought into question in the current situation. This could adversely affect the demand for CNG as an alternative fuel.
3) With the ongoing organic as well as inorganic expansion, we believe the company is well capitalised to capture the significant growth potential of the market for high pressure gas cylinders, driven largely by increasing CNG penetration both domestically and abroad. However, the drastic fall in crude prices and the global liquidity crunch pose concerns, going forward. At the current price of Rs 175, the stock is trading at 11.9x its FY09E EPS of Rs 14.7 and 10.7x its FY10E EPS of Rs 16.3. We value the company at 15x its FY10E of Rs 16.3 to arrive at a price target of Rs 244.

Exhibit 2: Quarterly financials **(Rs crore)**

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1Y09	FY09E
Sales	193.2	125.5	222.9	53.9	-13.3	412.8	796.5
EBIDTA	60.4	45.9	72.1	31.6	-16.2	133.9	258.2
EBIDTA margin (%)	31.3	36.6	32.3			32.4	32.4
Profit	35.5	29.4	43.3	20.6	-18.1	78.2	149.1
Profit margin (%)	18.4	23.4	19.4			18.9	18.72
EPS (Rs)	3.51	2.9	4.3	20.8	-18.3	7.7	14.7

Source: Company, ICICIdirect.com Research

Nitin Fire Protection (NITFIR)

Nitin Fire Protection (NFPL) was incorporated in September 1995 as a company offering fire security services. Currently, the company provides an array of products and services in fire security from basic level fire extinguishers to sophisticated gas-based suppression systems. Apart from fire security, NFPL has also developed expertise in implementing electronic security systems and intelligent building management systems (IBMS) projects.

1) We expect revenues to grow by 66.9% YoY to Rs 66.0 crore in Q3FY09E from Rs 39.6 crore in Q1SY08 on the back of growth in the fire protection business and increased trading in the industrial cylinders business. EBITDA is expected to increase by 67.8% YoY to Rs 13.0 crore in Q3FY09E from Rs 7.7 crore in Q3FY08 on the back of the high margin CNG business. Net profit is expected to grow by 47.0% YoY to Rs 9.2 crore in Q3FY09E from Rs 6.3 crore in Q3FY08 on the back of higher EBITDA.
2) Concerns: The radical decline in crude prices has currently raised doubts over the viability of CNG. This can hamper the demand for CNG as an alternative fuel. Moreover, the company's new seamless cylinder plant located at Vishakhapatnam is facing teething problems.
3) Growing emission concerns and fluctuating fuel prices have spawned the usage of CNG globally as an alternative cost efficient cleaner fuel. Additionally, sustained governmental support promoting the usage of CNG could enable the company to benefit from this surge in demand. However, the company's CNG cylinder business, which is expected to be the primary growth driver going forward, is facing teething problems at the new seamless cylinder plant located at Vishakhapatnam. This coupled with the sharp fall in crude prices pose concerns, going forward. At the current price of Rs 179, the stock is trading at 6.1x its FY09E EPS of Rs 29.3 and 4.3x its FY10 EPS of Rs 41.7. We value the company at 5x its FY10E of Rs 41.7 to arrive at a price target of Rs 209.

Exhibit 3: Quarterly Financials (Rs crore)

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1Y09	FY09E
Sales	66.0	39.6	66.5	66.9	-0.7	123.7	255.8
EBITDA	13.0	7.7	13.5	67.8	-3.8	25.0	51.4
EBITDA margin (%)	19.6	19.5	20.3			20.2	20.1
Profit	9.2	6.3	10.1	47.0	-9.3	18.0	36.9
Profit margin (%)	13.9	15.8	15.2			14.6	14.4
EPS (Rs)	7.29	5.0	8.8	47.0	-17.5	15.5	29.3

Source: Company, ICICIdirect.com Research

Praj Industries (PRAIN)

Praj Industries (PIL) was established in 1984 and became a public limited company in 1993. The company is a technology and solution provider for ethanol, brewery and related bio-cycle solutions. PIL is in the business of design, manufacture, supply and commissioning of fermentation and distillation equipment for manufacture of alcohol and ethanol.

1) We expect revenues to grow by 15.5%YoY to Rs 208.0 crore in Q3FY09E from Rs 180.2 crore in Q3FY08 and by 3.9% QoQ on account of a strong order book. EBITDA margins are expected to dip to 18.5% in Q3FY09E from 20.9% in Q3FY08 on the back of lower consultancy revenues. Net profit is expected to grow by 18.1% YoY to Rs 32 crore in Q3FY09E from Rs 27.1 crore in Q3FY08.
2) Concerns: The sudden decline in crude oil prices has brought into question the viability of ethanol as an alternative fuel. Simultaneously, the delay in 10% mandatory blending with petrol could also adversely impact the demand for new ethanol plants.
3) At the current price of Rs 56.6, the stock is trading at 8.9x its FY09E EPS of Rs 6.3. We believe that higher revenues from the high-margin overseas business and the new technology developments that utilise non-food grain feed stock to produce ethanol is creating immense business opportunities for the company, going forward. However, decreasing crude prices have raised doubts over the viability of ethanol. The global credit crisis has hampered growth in the current circumstances. Therefore, we are valuing the stock at 10x its FY10E EPS of Rs 8.9 to arrive at a target price of Rs 89, downgrading it from the earlier target of Rs 124.

Exhibit 4: Quarterly Financials **(Rs crore)**

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1Y09	FY09E
Sales	208.0	180.2	200.2	15.5	3.9	355.0	770.6
EBITDA	38.5	37.7	43.5	2.1	-11.5	62.0	138.4
EBITDA margin (%)	18.5	20.9	21.7			17.5	18.0
Profit	32.0	27.1	30.2	18.1	5.9	54.9	115.4
Profit margin (%)	15.4	15.0	15.1			15.5	14.9
EPS (Rs)	1.7	2.2	1.6	-19.0	6.3	2.9	6.3

Source: Company, ICICIdirect.com Research

Exhibit 5: Coverage Universe Valuation table

	CMP (Rs)	TP (Rs)	Ratings	M Cap	EPS (Rs)			P/E (x)			EV/EBITDA (x)			ROCE (%)			ROE		
				Rs Cr.	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Everest Kanto	175	244	OP	1706.3	11.0	14.7	16.3	15.8	11.8	10.7	10.8	6.9	5.9	31.1	34.8	29.1	26.6	26.9	22.9
Nitin Fire Protection Industries	179	209	OP	225.6	15.4	29.2	41.6	11.6	6.1	4.3	11.8	5.7	3.9	12.2	20.2	23.8	16.9	24.6	26.1
Praj Industries	56.6	89	OP	1034.0	8.4	6.3	8.9	6.5	8.5	6	6.9	7.2	5	69.5	38.0	43.5	62.2	30.7	35.1

Source: Company, ICICIdirect.com Research

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