

Everest Kanto – ADD

Auto

18 May 2009

Disappointing set of numbers

- 4QFY09 operational results well below our expectations, but PAT higher than our estimate on account of write-back of tax provisions
- Revenues below our estimate, as slowdown in domestic business intensified and overseas markets (Iran and Pakistan) also began to slow down
- Looking to develop new markets like Thailand and Colombia, but this would take a while
- Key positive trigger: Allocation of KG basin gas for city gas distribution
- **Sharp slowdown in CNG volumes:** The company sold a total of 157,714 cylinders in 4QFY09, down 2.5% QoQ. Worse still, the mix shifted towards low-margin industrial cylinders. Domestic demand had already slowed down in the previous quarter, but in 4Q, key overseas markets like Pakistan and Iran were also lacklustre. Iran was expected to review its policy of converting all vehicles to CNG in March which led to a slowdown in demand from Iran. As a result, production at the Dubai plant was sufficient to meet this demand. This, coupled with a slowdown in Pakistan, led to a decline in exports from the Indian plants. CNG cylinder sales from the Dubai plant declined 11% QoQ to 49,757 units, while those from India dropped 19% QoQ to 41,085 cylinders.
- **Margins decline as realisation per cylinder falls:** Realisation per cylinder declined ~20% QoQ to ~Rs12,500 on account of: i) shift in product mix towards industrial cylinders; ii) pricing pressure on account of slowing demand. Lower realisations led to a 700bps QoQ and YoY decline in EBITDA margins. A segment-wise analysis reveals that while margins in the Indian business recovered, margins in the Dubai plant declined and the US business made a loss. US results were hampered by a Rs50m write-off on goodwill and a Rs67.5m write-off of acquisition expenditure.

CMP	Rs141
12-mth Target price (Rs)	166 (17%)
Market cap (US\$ m)	290
Bloomberg	EKCL IN
52Wk High/Low (Rs)	356/84
Diluted o/s shares (m)	101
Daily volume (US\$ m)	1.0
Dividend yield FY09ii (%)	0.9
Free float (%)	72.1
Shareholding pattern (%)	
Promoters	59.8
FII's	13.9
Domestic MFs/Insurance cos	3.7
Others	22.7

Price performance (%)

	1M	3M	1Y
Everest Kanto	-9.3	15.8	-59.8
Rel. to Sensex	-19.7	-19.3	-29.6
Nitin Fire	-2.2	44.2	-52.6

Stock movement

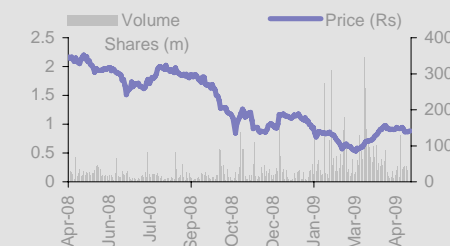


Figure 1: 4QFY09 results – sharp fall in revenues

(Rs m)	4QFY08	3QFY09	4QFY09	% YoY	% QoQ
Net Sales	1,642	2,512	1,978	20.5	(21.2)
Raw Material	882	1,087	1,087	23.3	0.0
Employee costs	62	207	145	133.7	(29.8)
Other Expenditure	223	493	314	40.7	(36.3)
EBIDTA	475	725	432	(9.0)	(40.4)
EBIDTA Margin	28.9	28.9	21.8	-707 bps	-702 bps
Depreciation	39	212	205	424.9	(3.2)
Interest	26	71	54	108.1	(23.3)
Other income	11	8	166	1,364.7	2,025.6
PBT	421	451	339	(19.4)	(24.8)
Tax	57	69	(81)	(241.1)	(216.8)
Adjusted PAT	364	382	420	15.4	10.0
Adj. PAT Margin	22.2	15.2	21.2	-94 bps	602 bps
Reported PAT	243	382	420	73.0	10.0

Source: Company, IIFL Research

Figure 2: Consolidated annual financials

(Rs m)	FY08	FY09	% YoY
Net Sales	5,287	8,566	62.0
Raw Material	2,718	3,913	44.0
Employee costs	217	661	204.9
Other Expenditure	778	1,330	71.0
EBIDTA	1,575	2,661	68.9
EBIDTA Margin	29.8	31.1	128 bps
Depreciation	215	693	222.4
Interest	71	272	282.7
Forex loss	49	189	288.5
Other income	80	89	11.9
PBT	1,320	1,597	21.0
Tax	243	156	(35.7)
Adjusted PAT	1,078	1,441	33.7
Prior Period Adjustments	35	66	
Reported PAT	1,043	1,375	31.9

Source: Company, IIFL Research

Figure 3: Standalone annual financials

(Rs m)	FY08	FY09	% YoY
Net Sales	3,336	3,530	5.8
Raw Material	1,812	1,891	4.4
Employee costs	145	173	19.8
Other Expenditure	543	562	3.5
EBIDTA	836	903	8.0
EBIDTA Margin	25.1	25.6	52 bps
Depreciation	163	227	38.8
Interest	48	55	14.7
Forex loss	(38)	206	
Other income	87	163	86.6
PBT	750	579	(22.9)
Tax	243	140	(42.3)
Adjusted PAT	508	439	(13.6)
Adj. PAT Margin	15.2	12.4	-280 bps
Prior Period Adjustments	35	66	
Reported PAT	473	373	(21.2)

Source: Company, IIFL Research

Figure 4: Segment-wise annual financials

	FY08	FY09
TOTAL REVENUE		
INDIA	3336	3530.2
UAE(DUBAI)	2763.9	3752.3
CHINA		167.5
US		1503.2
Total	6099.9	8953.2
Less: Inter Segment Revenue	812.5	387.7
Net Sales/Inc. from Ops.	5287.4	8565.5
RESULTS before tax and interest		
INDIA	672.9	686.2
UAE(DUBAI)	711.3	1234
US		-74
CHINA		165.9
Total	1384.2	2012.1
Less: Interest	71	271.7
Less: Forex loss	48.6	188.8
Net un-allocable income	55.8	45.6
Total Profit Before Tax	1320.4	1597.2

Source: Company, IIFL Research



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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