

Everest Kanto Cylinder

Flash

Sector Relative View/Sector Weightage: Marketperform/Underweight

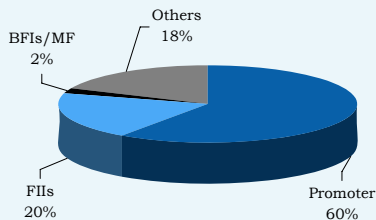
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Key points

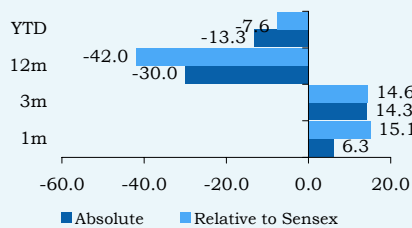
- Consolidated volumes up 31.1% yoy led by growth across segments except USA
- Realization declined 26.2% yoy due to fall in input cost
- Change in method of depreciation from WDV to SLM

CMP	Rs125
Reuters code	EKCL.BO
Bloomberg code	EKCL IB
Shares o/s (mn)	101
Mkt Cap	Rs13bn/US\$0.3bn
52 wk high / Low	Rs238/108
Avg daily trad vol	1.52(mn shs)
BSE Sensex	16,388
Nifty	4,917

Shareholding pattern



Performance



Share price movement



Volumes on up tick but margin under pressure; one time adjustments boost profit

Everest Kanto Cylinders (EKCL) declared its 4QFY10 and annual results. The following are the key highlights

4QFY10 highlights

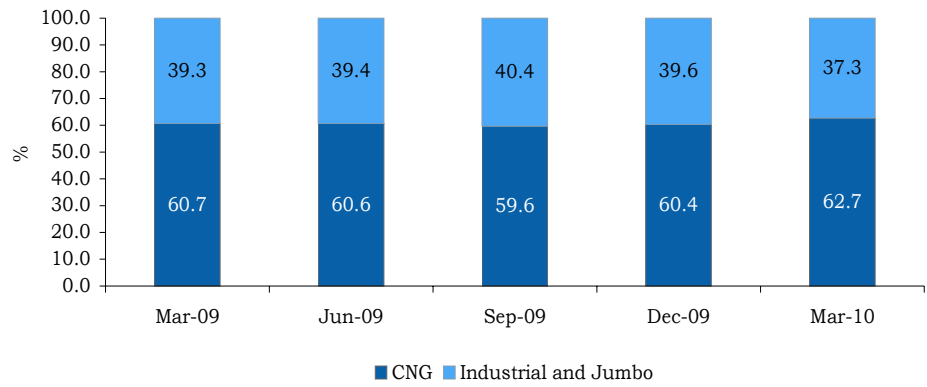
- The consolidated net sales declined 3.2% yoy to Rs1.89bn led by 31.1% volume growth and 26.2% decline in realization.
- The consolidated volumes stood at 202,977 cylinders. The volumes in India grew 38.3% yoy to 140,505 cylinders, while that in Dubai grew by 11.4% yoy to 55,430 cylinders and in China it grew by 115.6% yoy to 6,782 cylinders. However they declined 25.3% yoy in USA to 260 cylinders.
- The consolidated average realizations stood at Rs9, 349 per cylinder as compared to Rs12, 664 same period last year. The decline was mainly due to falling input cost. The realizations excluding jumbo cylinders stood at Rs7, 505 per cylinder (down 29.8% yoy). In terms revenue-mix, CNG cylinders accounted 64%, followed by jumbo and industrial cylinders accounting 20% and 16% respectively.
- The revenues from India grew 23.2% yoy to Rs902mn led by revival in off take of cylinders from OEMs. CNG cylinders accounted 46% in volumes and 65% in value of Indian operations in the quarter.
- The revenues from UAE declined 19.9% yoy to Rs766mn led by 28.1% decline in realization. Revenues from CP Industries, USA grew 21.5% yoy to Rs376mn led by 62.6% realization growth. Revenues from China stood at Rs26mn.
- The company reported loss at the EBIDTA level mainly due to increase in raw material cost (due to high cost inventory). The forex gain in the quarter stood at Rs104mn on account of translation adjustments.
- The EBIT margin was negative across all segments except UAE. While they stood at 6.5% in UAE; in India, China and USA they stood at -4%, -29% and -25.6% respectively.
- Net profit adjusting for change in depreciation policy from existing WDV to SLM, stood at Rs289.1mn.* *Please refer below*

FY10 highlights

- The consolidated net sales declined 23.7% yoy to Rs6.57bn due to 23.2% decline in realizations. The volumes declined marginally 0.6% yoy to 687,213 cylinders.
- EBIDTA margin declined 2180bps yoy to 9.6%. Consequently EBIDTA declined 76.7% yoy to Rs630mn.
- * EKCL changed its depreciation policy from existing WDV to SLM. Consequently, the profit for the year was higher by Rs461mn on account of a) surplus of Rs294.3mn (net of tax) in respect of earlier years credited to P&L account and b) depreciation for the current year being lower by Rs218mn.
- The forex gain in FY10 stood at Rs223mn against loss of Rs188mn on account of translation adjustments.
- Net profit declined 69.9% yoy to Rs414.3mn, translating into an EPS of Rs4.1. The company would have reported net loss of Rs46.5mn without adjusting for change in depreciation policy.

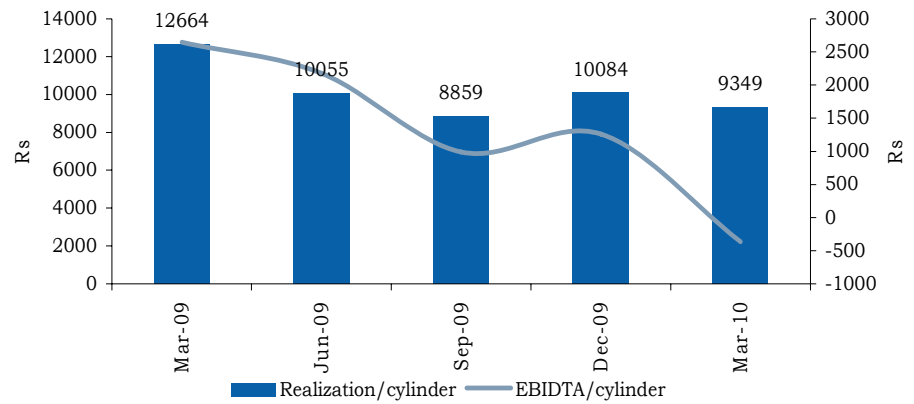
We will release detailed update post conference call scheduled on 27th May 2010.

Exhibit 1 - Volume-mix



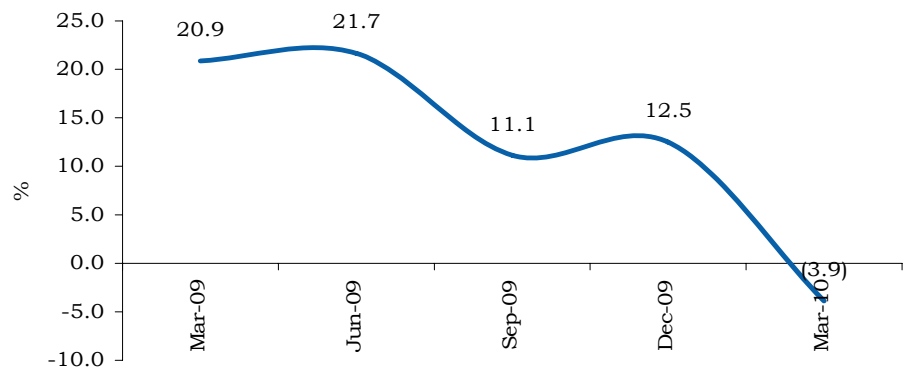
Source: Company, Alchemy Research

Exhibit 2 - Realization and EBIDTA (Consolidated basis)



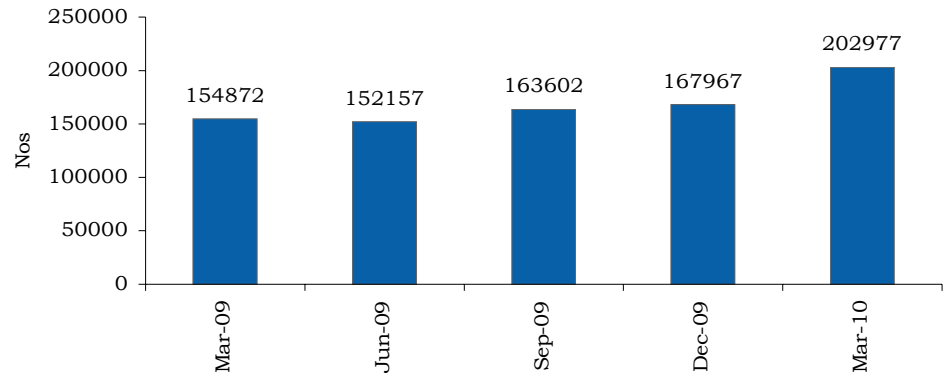
Source: Company, Alchemy Research

Exhibit 3 - Consolidated EBIDTA margin



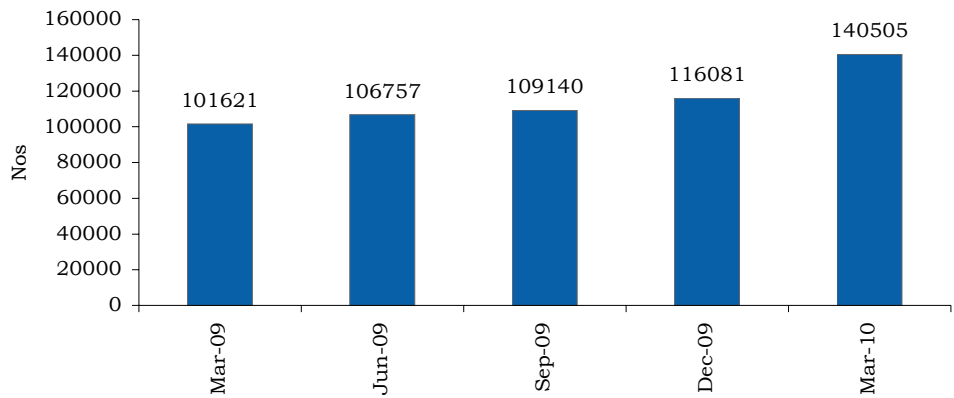
Source: Company, Alchemy Research

Exhibit 4 - Consolidated Volumes



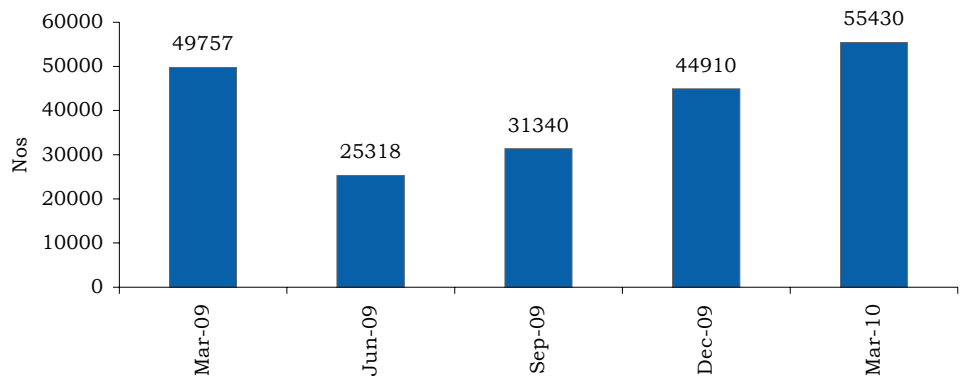
Source: Company, Alchemy Research

Exhibit 5 - India Volumes



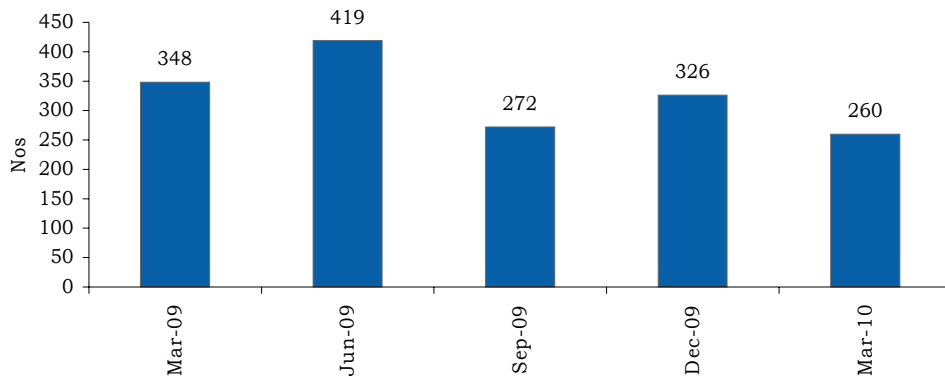
Source: Company, Alchemy Research

Exhibit 6 - UAE Volumes



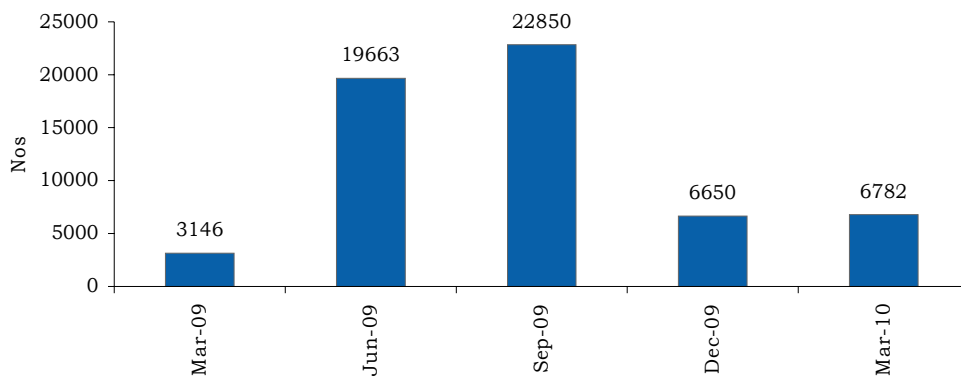
Source: Company, Alchemy Research

Exhibit 7 - USA volumes



Source: Company, Alchemy Research

Exhibit 8 - China Volumes



Source: Company, Alchemy Research

Exhibit 9 - Quarterly results

Net sales declined 3.2% led by 31.1% volume growth and 26.2% decline in realization

(Rs mn)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Net Sales	1961.3	1530.0	1449.3	1693.8	1897.6
YoY (%)	19.9	(19.1)	(34.4)	(32.3)	(3.2)
QoQ (%)	(21.6)	(22.0)	(5.3)	16.9	12.0
Total Expenditure	1551.7	1198.7	1287.8	1482.1	1971.6
Raw Material Consumed	1492.4	820.1	1001.0	1319.1	993.5
Stock Adjustment	(403.1)	(30.3)	(148.0)	(270.1)	343.4
Purchase of traded goods	2.2	0.0	0.0	0.0	149.3
% of sales	55.7	51.6	58.9	61.9	78.3
YoY (%)	23.8	(5.6)	(5.3)	(3.5)	36.2
QoQ (%)	0.4	(27.6)	8.0	23.0	41.7
Employee Expenses	145.3	176.2	198.0	210.8	193.3
% of sales	7.4	11.5	13.7	12.4	10.2
YoY (%)	133.6	27.2	16.3	1.8	33.0
QoQ (%)	(29.8)	21.3	12.4	6.5	(8.3)
Other Expenses	314.9	232.7	236.8	222.3	292.1
% of sales	16.1	15.2	16.3	13.1	15.4
YoY (%)	22.3	(15.5)	(30.5)	(44.3)	(7.2)
QoQ (%)	(21.0)	(26.1)	1.8	(6.1)	31.4
Operating Profit	409.6	331.3	161.5	211.7	(74.0)
OPM (%)	20.9	21.7	11.1	12.5	(3.9)
YoY (bps)	(565.1)	(1222.3)	(2498.1)	(1988.3)	(2478.2)
YoY (%)	(5.6)	(48.3)	(79.8)	(73.9)	(118.1)
Forex loss/(gain)	32.2	95.4	(13.6)	37.7	104.0
Other Income	11.8	10.6	19.0	12.0	(30.2)
Interest	54.1	37.4	29.6	27.4	19.1
YoY (%)	1287.2	(62.6)	(37.3)	(61.1)	(64.7)
Depreciation	204.7	186.3	198.4	200.0	(15.9)
YoY (%)	420.9	54.6	27.1	(5.4)	(107.8)
PBT	194.8	213.6	(61.1)	34.0	(3.4)
Tax	(80.7)	47.6	(6.1)	19.8	(6.5)
Tax / PBT (%)	(41.4)	22.3	10.0	58.2	191.2
Prior Period adjustments	(66.0)	0.0	0.0	0.0	286
PAT	209.5	166.0	(55.0)	14.2	289.1
NPM (%)	10.7	10.8	(3.8)	0.8	(0.3)
YoY (%)	(33.7)	(52.6)	(112.7)	(96.3)	(102.5)
QoQ (%)	(45.1)	(20.8)	(133.1)	(125.8)	(136.6)
Equity	202.3	202.3	202.3	202.3	202.3
EPS (Rs)	2.1	1.6	(0.5)	0.1	(0.1)

OPM was negative at 3.9% due to liquidation of high cost inventory

Depreciation is negative due to change in depreciation policy from WDV to SLM

Led forex gain of Rs104mn, and change in method of depreciation, net profit stood at Rs289.1mn

Source: Company, Alchemy Research

Exhibit 10 - Segmental results

Rs mn	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Revenues					
India	733	654	928	1008	902
YoY (%)	(32.2)	(28.3)	(12.7)	22.6	23.2
UAE (Dubai)	956	443	269	341	766
YoY (%)	(5.4)	(46.6)	(66.0)	(71.0)	(19.9)
China	18	102	176	35	26
YoY (%)	NA	584.6	143.0	(43.7)	45.6
USA	310	395	253	359	376
YoY (%)	NA	55.1	(31.8)	(36.7)	21.5
Total	2016	1595	1626	1743	2070
less: inter segmental	55	65	177	49	47
Net sales	1961	1530	1449	1694	2023
EBIT					
India	0	50	28	32	(36)
YoY (%)	(99.8)	(76.2)	(91.5)	(78.2)	(18300.0)
UAE (Dubai)	238	122	7	23	50
YoY (%)	(4.3)	(58.8)	(97.5)	(94.6)	(79.0)
China	(10)	(9)	(6)	(35)	(8)
YoY (%)	NA	174.2	(71.0)	(11.4)	(22.4)
USA	(13)	(12)	(50)	2	(96)
YoY (%)	NA	(146.4)	(165.4)	(97.7)	635.9
Total	215	151	(21)	22	(91)
EBITM (%)					
India	0.0	7.6	3.0	3.2	(4.0)
YoY (bps)	(10.8)	(15.4)	(27.8)	(14.8)	(406.2)
UAE (Dubai)	24.9	27.5	2.6	6.7	6.5
YoY (bps)	0.3	(8.1)	(32.5)	(29.2)	(1837.2)
China	(54.4)	(8.3)	(3.6)	(99.7)	(29.0)
YoY (bps)	(54.4)	12.5	26.4	(36.4)	2543.7
USA	(4.2)	(3.1)	(19.7)	0.5	(25.6)
YoY (bps)	(4.2)	(13.4)	(40.2)	(13.0)	(2138.9)
Total	10.7	9.5	(1.3)	1.3	(4.4)

Source: Company, Alchemy Research

Strong 22.6% growth in Indian operations led by revival in demand from OEMs

Margins across all regions continue to remain under pressure due to high cost inventory

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9159 91-22-6639 9126 91-22-6639 9178 91-22-6639 9161

Trade Execution

91-22-6639 9121 91-22-6639 9134 91-22-6639 9167

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