

# Everest Kanto Cylinder Ltd

## Bleak outlook owing to Iran standoff

**Fundamental Grade** 3/5 (Good fundamentals)  
**Valuation Grade** 5/5 (CMP has strong upside)

**Industry** CNG & Industrial Cylinders

Everest Kanto Cylinder Ltd's (Everest Kanto's) Q3FY12 performance was disappointing with a 27% y-o-y decline in revenues and significant margin contraction. The Indian operations were impacted by less offtake of cylinders by OEMs and Dubai operations were impacted by lower offtake owing to the on-going political turmoil in Iran, which is the key market for Dubai operations. Our earnings estimates for FY12 and FY13, consequently, have been reduced. We maintain our fundamental grade of 3/5 since we expect the situation to improve gradually over the coming quarters. However, we remain cautious about the uncertainty surrounding Iran and lower-than-expected traction in the Indian market.

### Q3FY12 result analysis

- Revenues declined by 27% y-o-y to Rs 1,451 mn. Revenues from India declined 26% y-o-y to Rs 600 mn and from Dubai by 64% y-o-y to Rs 282 mn. The decline was partially offset by US revenue increasing by 40% y-o-y to Rs 395 mn and that from China by 15% to Rs 176 mn.
- EBITDA declined 59% to Rs 154 mn due to lower sales and lower operating profitability (due to higher costs). EBITDA margin declined 844 bps to 10.6% from 19% in Q3FY11. At the EBIT level, we were expecting the China and US divisions to be loss-making but the Indian operations too posted losses, contrary to our expectations.
- The company was in the red with a net loss of Rs 222 mn. Apart from lower operating profitability, the loss was compounded by the restating of the company's FCCBs worth US\$35mn due to rupee depreciation (the FCCBs were issued in FY08; due for redemption in FY13). Adjusted for this, the company recorded a profit of Rs 45 mn.

### Valuation: Current market price has strong upside

We continue to use the discounted cash flow method to value Everest Kanto. Due to lowering of estimates and higher risk perception, our fair value is lowered from Rs 74 to Rs 53.

### KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	8,585	6,564	7,819	6,765	7,704
EBITDA	2,748	658	1,424	1,106	1,165
Adj PAT	1,299	(14)	576	354	295
Adj EPS-Rs	12.8	(0.1)	5.4	3.3	2.8
EPS growth (%)	26.6	(101.1)	NM	(37.9)	(21.5)
Dividend yield	1.2	1.2	2.3	-	0.9
PE (x)	9.3	NM	14.3	12.4	14.9
P/BV (x)	2.0	2.0	1.1	0.6	0.5
RoCE(%)	20.9	0.8	7.0	3.7	3.5
RoE(%)	23.6	(0.2)	8.3	4.6	3.7
EV/EBITDA (x)	6.5	25.3	7.8	7.2	6.1

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

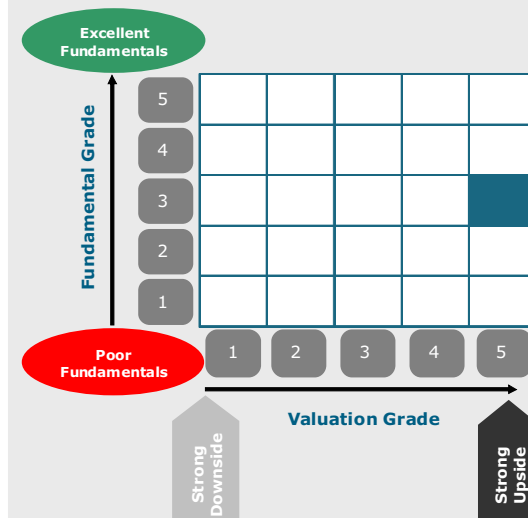


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Fair Value Rs 53

CMP Rs 41

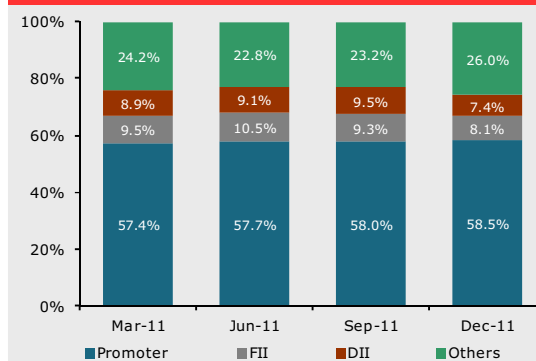
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY / SENSEX	5418/18145
NSE / BSE ticker	EKC
Face value (Rs per share)	2
Shares outstanding (mn)	107.2
Market cap (Rs mn)/(US\$ mn)	4,410/90
Enterprise value (Rs mn)/(US\$ mn)	7,619/155
52-week range (Rs) (H/L)	97/25
Beta	1.3
Free float (%)	41.5%
Avg daily volumes (30-days)	1,503,350
Avg daily value (30-days) (Rs mn)	58.0

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Everest Kanto	29%	-5%	-44%	-45%
NIFTY	3%	8%	6%	-5%

### ANALYTICAL CONTACT

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