

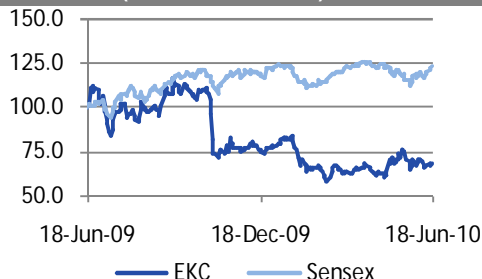
CMP Rs. 129

June 18, 2010

| | |
|-------------------------|-----------|
| BSE Code | 532684 |
| BSE ID | EKC |
| High/Low 1Y (Rs.) | 222 / 108 |
| Avg. vol (3m) | 420,927 |
| Market Cap (Rs Cr) | 1,304 |
| Net IB Debt (Rs Cr) | 437 |
| Enterprise value(Rs Cr) | 1,741 |

| Shareholding % | Dec-09 | Mar-10 |
|-----------------|--------|--------|
| Promoters | 59.78 | 59.82 |
| MFs/ Fis/ Banks | 2.35 | 2.20 |
| FIIIs | 0.07 | 0.10 |
| Public & Others | 37.8 | 37.88 |

Stock Chart (Relative to Sensex)



| Stock Perfm.(%) | 1M | 6M | 1Yr |
|-----------------|--------|--------|--------|
| Absolute | (8.4) | (8.5) | (31.3) |
| Rel. to Sensex | (15.5) | (13.6) | (54.5) |

| Financials (Rs.Cr) | FY08 | FY09 | FY10 |
|--------------------|-------|-------|--------|
| Revenue | 531 | 861 | 657 |
| y-o-y | 24.9% | 62.1% | -23.7% |
| EBITDA | 160 | 270 | 63 |
| y-o-y | 30.1% | 31.4% | 9.6% |
| PAT | 104 | 138 | 42 |
| EPS (Dil.) | 10.5 | 13.6 | 4.1 |
| y-o-y | 35.1% | 29.0% | -69.9% |
| EBITDA Margin | 30.1% | 31.4% | 9.6% |
| PAT Margin | 20.3% | 16.7% | 2.0% |
| D/E(x) | 0.50 | 1.00 | 0.81 |
| P/E(x) | 12.2x | 9.5x | 31.4x |
| EV/EBITDA(x) | 10.9x | 6.4x | 27.6x |
| ROCE | 19.3% | 16.2% | 0.5% |
| ROE | 21.7% | 22.2% | 6.7% |

Financial Year ends at March 31

| Qtry Fin | 06/09 | 09/09 | 12/09 | 03/10 |
|----------|-------|-------|-------|-------|
| Revenue | 154 | 146 | 170 | 187 |
| PAT | 17 | (5) | 2 | 29 |
| EPS | 1.7 | (0.5) | 0.2 | 2.8 |

All figures in Rs. crores except for per share data

Everest Kanto Cylinder Limited

Company Overview

Everest Kanto is the largest CNG and industrial cylinder manufacturer in India. With more than three decades of expertise, the company has significant presence in South Asia and Middle East. With increasing cost of conventional fuel, better gas distribution facilities and the government's initiative in making CNG usage mandatory as an alternative fuel, the demand for CNG vehicles is growing; EKC is well placed to benefit from such developments in India and abroad.

Key Business Highlights

Leader in CNG cylinder market in India, good presence in Pakistan and Iran

With nearly 80 per cent market share, EKC is the market leader in the CNG cylinder market in India. Moreover, it enjoys a market share of nearly 40 per cent in the overall cylinder market in Pakistan. OEMs in Iran contribute nearly 90 per cent of EKC's Iran revenues.

Capacity expansion to pilot growth

EKC has a current capacity of producing 1,012,000 cylinders annually, including a capacity of producing 6,000 jumbo cylinders, which makes it one of the leading high pressure gas cylinder manufacturers in the world. EKC's new plant in Kandla SEZ will bring on stream 300,000 CNG cylinders from 2QFY11. The plant is aimed at venturing into the market for light weight CNG cylinders mainly required by OEMs in Europe and Asia. As growth of CNG/NGVs worldwide is poised to reach 50 million by 2020 from current level of 11.3 million, EKC's expansion strategy augurs well to the anticipated surge in demand.

Plants located at SEZs benefit from duty exemptions

EKC's plants at Kandla and China (Tianjin) being located in SEZs, are exempt from paying taxes and duties in the respective locations. EKC's China plants avail a 100 per cent income tax benefit for the first two years, followed by 50 per cent benefits for the subsequent three years of operations. Moreover, the Gandhidham plant (which produces 31.5 per cent of total cylinder output) enjoys a five-year excise exemption and ten year sales tax exemption. The fiscal incentives enable EKC to achieve better margins.

Cheaper raw materials will improve performance

Currently EKC uses seamless tubes as raw material which is imported from Tenaris of Italy (~65 per cent of total raw material purchases). The company is in the process of using alternate manufacturing processes which will use Billets (costs 15-20 per cent lesser) and steel plates (provides light weight to cylinders) in order to reduce higher dependency on imports and reduce cost of raw materials.

Key Risks

- High dependency on single source for raw materials
- Competition from domestic players may restrict pricing power
- Higher commodity prices may put margin pressure

Valuations

The stock is currently trading at a P/E multiple of 31.4x on its FY10 EPS of Rs. 4.1 and 27.6x EV/EBITDA multiple based on FY10 EBITDA of Rs.63 crores.