February 19, 2019

To,

BSE LIMITED P.J. Towers, Dalal Street, Mumbai – 400 001 **BSE Scrip Code:** 532684	**National Stock Exchange of India Ltd.** Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400051 **NSE Symbol:** EKC **NSE Series:** EQ

EVEREST KANTO CYLINDER LIMITED

Manufacturers of High Pressure Seamless Gas Cylinders

Registered Office :
204, Raheja Centre,
Free Press Journal Marg,
214, Nariman Point,
Mumbai - 400 021.

CIN L29200MH1978PLC020434

Tel. : +91-22-3026 8300 / 01

Fax : +91-22-2287 0720

Website : www.everstkanto.com

Dear Sir/Madam,

Sub: Revision in the credit rating by CARE (Credit Analysis & Research Ltd.) for bank facilities of Rs. 225.91 Crore availed by the Company

In terms of Regulation 30(4) read with Schedule III Part A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that CARE has revised the Credit Rating as per the following table vide their letter dated February 12, 2019;

Facilities	Amount (Rs. Crore)	Revision in Rating
Long Term Fund based Bank Facilities (Yes Bank Term Loan)	79.99 (reduced from 84.99)	Revised from CARE BB; Positive (Double B; Outlook: Positive) to **CARE BB+ ; Positive (Double B Plus; Outlook: Positive)**
Long Term Fund based Bank Facilities (EXIM Bank Term Loan)	--	**Withdrawn**
Long Term Fund based bank facilities (Cash Credit)	91.00 (enhanced from 81.00)	Revised from CARE BB; Positive (Double B; Outlook: Positive) to **CARE BB+ ; Positive (Double B Plus; Outlook: Positive)**
Short Term Non-Fund based Bank Facilities	54.92 (enhanced from 44.92)	**Reaffirmed as CARE A4+ (A Four Plus)**
Total	**225.91**	

EVEREST KANTO CYLINDER LTD. MUMBAI

The Rating Revision letter dated February 12, 2019 as received by the Company on February 18, 2019 for the above mentioned revision of credit is attached herewith as Annexure

Thanking you,

Yours faithfully,
For **Everest Kanto Cylinder Limited**

P. K. Khurana
Chairman and Managing Director

Encl: a/a

Received 18.02.2019

CARE Ratings
Professional Risk Opinion

CARE/HO/RL/2018-19/4824

Shri P.K. Khurana
Chairman & MD
Everest Kanto Cylinder Limited
204, Raheja Centre, Press Journal Marg,
214, Nariman Point,
Mumbai – 400021

February 12, 2019

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY18 (Audited) and H1FY19 (Unaudited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term fund based bank facilities (Yes Bank Term Loan)	79.99 (reduced from 84.99)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Revised from CARE BB; Positive (Double B; Outlook: Positive)
Long-term fund based bank facilities (EXIM Bank Term Loan)	-	-	Withdrawn
Long-term fund based bank facilities – Cash Credit	91.00 (enhanced from 81.00)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Revised from CARE BB; Positive (Double B; Outlook: Positive)
Short-term non-fund based bank facilities	54.92 (enhanced from 44.92)	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	**225.91 (Rs. Two hundred twenty five crore and ninety one lakh only)**		

[1] *Complete definition of the ratings assigned is available at www.careratings.com and other CARE publications.*

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by February 13, 2019, we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

CARE Ratings Limited
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8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

[Ravi Nayak]
Deputy Manager
ravi.nayak@careratings.com

[Pulkit Agarwal]
Dy. General Manager
pulkit.agarwal@careratings.com

Encl.: As above

Disclaimer
CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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Annexure 1
Details of Rated Facilities

1. Long-term facilities

1.A. Secured rupee term loans

Sr. No.	Name of Bank	Rated Amount (Rs. Crore)	Debt Repayment Terms
1.	Yes Bank Ltd.	79.99	Last installment in October 2020
	Total	**79.99**	

1.B. Fund Based limits sanctioned

(Rs. crore)

Sr. No.		Fund Based
	Name of Bank	CC*
1.	State Bank of India	54.00
2.	ICICI Bank Ltd.	7.00
3.	Yes Bank Ltd.	20.00
4.	Proposed	10.00
	Total	**91.00**

*CC=Cash credit

Total long-term facilities (1.A +1.B): Rs. 170.99 crore

2. Short-term facilities

2.A. Non fund based limits

(Rs. crore)

Sr. No.	Name of Bank	Non Fund Based Limits
		LC/BG*
1.	State Bank of India	21.00
2.	ICICI Bank Ltd.	13.92
3.	Yes Bank Ltd.	20.00
	Total	**54.92**

*LC=Letter of credit; BG=Bank guarantee

Total short-term facilities: Rs.54.92 crore

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Annexure 2
Press Release
Everest Kanto Cylinder Limited (EKCL)

Ratings

Facilities	Amount (Rs. crore)	Rating[2]	Rating Action
Long-term fund based bank facilities (Yes Bank Term Loan)	79.99 (reduced from 84.99)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE BB; Positive (Double B; Outlook: Positive)**
Long-term fund based bank facilities (EXIM Bank Term Loan)	-	-	**Withdrawn**
Long-term fund based bank facilities – Cash Credit	91.00 (enhanced from 81.00)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	**Revised from CARE BB; Positive (Double B; Outlook: Positive)**
Short-term non-fund based bank facilities	54.92 (enhanced from 44.92)	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total Facilities	**225.91 (Rs. Two hundred twenty five crore and ninety one lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities factors in the continuous improvement in operational and financial risk profile of the company. The revision further takes into consideration the expected cash flow arising out from the sale of its Chinese subsidiary by March 2019 and utilization of the same towards debt reduction. The rating continues to derive strength from the promoters experience, established market position of the company in high pressure seamless cylinder industry, diversified customers mix and healthy order book position. The ratings also take into account the improving demand situation and capacity utilization.

These rating strengths are however, tempered by working capital intensive nature of operations and exposure to volatility in commodity prices/ foreign exchange rates. CARE also factors in the allegations made by the Ex-CFO against EKCL and its promoters and company's reply against the same.

The ability of the company to further improve its profitability, capital structure and increasing its capacity utilization are the key rating sensitivities.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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Outlook: Positive

Outlook is positive as CARE believes EKCL's financial risk profile is likely to improve over the medium term, backed by improving business performance and reduction of debt.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive nature of operations: EKCL's operations are inherently working capital intensive in nature due to procurement of its entire raw material (Seamless Steel Tubes) requirement from China which takes a lead time of 3- 6 months coupled with relatively smaller credit period and maintenance of inventory.

Volatility of raw material prices and foreign exchange fluctuation risk: Raw material (imported seamless steel tubes) constitutes majority of operating expenses of EKCL. Fluctuations in raw material prices, therefore, tend to impact the Profit Before Interest Leases Depreciation and Taxes (PBILDT) margins. Any adverse change in the exchange rate between the US Dollar and the Indian rupee will have a negative impact on EKCL's results of operations and financial condition as the seamless steel tubes (basic raw material) are fully imported. EKCL does not hedge its foreign currency exposure thus exposing itself to currency risk.

Key Rating Strengths

Experienced Promoters: EKCL has an experienced management headed by Mr. P.K. Khurana, who has over three decades of experience in the cylinder manufacturing business and is ably supported by his sons, Mr. Pushkar Khurana and Mr. Puneet Khurana (CEO) both of whom have been in the business for about 15 years. Top officials of EKCL have been associated with the company for a long period of time which provides depth and continuity of management.

Established market position in High Pressure Seamless Cylinders: EKCL is the largest player with highest market share of high pressure seamless cylinders in India on account of its long history in business with limited competition due to high entry barriers.

High entry barriers and regulated nature of industry: There are high entry barriers on account of the regulated nature of the high pressure seamless cylinders industry requiring number of approvals from different departments depending on the use of cylinders. Further, company has to follow stringent quality standards for manufacturing the cylinders.

Diversified customer mix: EKCL has diversified customer mix consisting of OEMs like Bajaj Auto Ltd, Tata Motors Ltd, Ashok Leyland, etc, industrial gases manufacturers like Linde India, PraxAir, Inox, Air Liquid, etc, fire fighting companies like United Tecnologies, Tyco, Siemens, Minimax, etc and city gas distribution companies like Adani Gas, Mahanagar gas, Gujarat Gas, Indraprashta Gas, etc. EKCL exports to over 25

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countries all over the world including countries in South East Asia, Middle East, Africa, US, Europe, South America and CIS countries.

Improving financial profile: EKCL has comfortable financial profile with overall gearing improving on consolidated basis at 0.84x as on March 31, 2018 from 1.28x as on March 31, 2017 due to prepayment of long term loans from the proceeds of the sale of Gandhidham facility in FY18. With the reduction of interest cost, combined with improved operational performance, the interest coverage ratio improved to 2.58x in FY18 as compared with 1.72x for FY17. Further, EKCL will sell its wholly owned subsidiary i.e. EKC Industries (Tianjin) Co. Ltd in FY19 and will utilize the proceeds for part payment of long term loans as well as towards capital expenditure/working capital requirements.

Improving operational performance: The total operating income on a consolidated basis de-grew from Rs. 575 crore in FY17 to Rs. 554 crore in FY18 despite selling more units (540,232 units as compared 493,225). However, PBILDT and PBT before exceptional items improved from Rs. 81 crore and Rs. 2 crore in FY17 to Rs. 94 crore and Rs. 32 crore in FY18, respectively. PBILDT margins expanded from 14% in FY17 to 17% in FY18 due to improvement in product mix.

On a standalone basis, the operational performance of EKCL has shown increasing trend with total operating income improving from Rs. 174 crore in FY16 to Rs. 254 crore in FY17 and finally to Rs. 339 crore in FY18 due to increase in demand for CNG cylinders in Northern India for controlling the pollution due to recent ruling by National Green Tribunal for not registering Diesel Vehicles and demand from City Gas Distribution companies. Similarly, PBILDT also improved to Rs. 55 crore in FY18 and Rs.45 crore in FY17 as compared to loss before interest leases depreciation and tax of Rs. 20 crore in FY16. PBILDT margins improved from 18% in FY17 to 19% in FY18.

Improving demand and capacity utilization: Recently, EKCL has witnessed improvement in demand in domestic market for cylinders due to Governments push for using cleaner fuels like CNG over traditional fuels (ban on old diesel and petrol vehicles in Delhi) resulting into higher demand for CNG vehicles and setting up of city gas distribution centres. The capacity utilization on standalone and consolidated level improved in FY18 at 68% and 48% from 42% and 39% in FY17 respectively, however the same continues to be gradual. During H1FY19, EKCL manufactured 3,31,299 cylinders (in India) on a standalone basis and 3,85,904 on consolidated basis translating into capacity utilization of around 92% and 84% (ex-China) respectively. Further, EKCL India has current order book of Rs. 123 crore as on January 16, 2019 which gives revenue visibility in the short term.

Liquidity position

The average cash credit utilisation on standalone basis is around 96% level for past 12 months ending in November 2018. EKCL has a free cash and bank balance of Rs. 1.88 crore on a standalone basis and Rs. 6.56 crore on a consolidated basis as on September 30, 2018. EKCL has generated Gross Cash Accruals

(GCA) of Rs.18.08 crore in H1FY19 and there is no major principal repayment in FY19. EKCL India is expected to receive Rs. 60 crore from sale proceeds of China subsidiary by March 2019 of which Rs. 30 crore would be paid to Yes Bank term loan and rest would be used for working capital and capex purposes. Thus liquidity profile is expected to be improved by March 2019.

Analytical approach: CARE has adopted consolidated approach as EKCL and its subsidiaries are engaged in the manufacturing and sale of high pressure seamless gas cylinders (same line of business). As on 31st March, 2018, EKCL had (a) three wholly owned overseas subsidiary companies, viz., EKC International FZE in Dubai, UAE, EKC Industries (Tianjin) Co. Ltd. in China and EKC Industries (Thailand) Co. Ltd. in Thailand, (b) three step down wholly owned overseas subsidiary companies, viz. EKC Hungary Kft in Hungary, CP Industries Holdings, Inc. in USA, EKC Europe GmbH in Germany and (c) One Joint Venture Company in Tanzania, viz, Kamal EKC industries Ltd (d) Two Indian subsidiary Companies viz., Calcutta Compressions & Liquefaction Engineering Ltd., and EKC Positron Gas Ltd. and one wholly owned Indian subsidiary Company, viz., Next Gen Cylinder Private Limited.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1978, EKCL is engaged in the manufacturing of high pressure seamless cylinders for industrial gases and CNG applications, large diameter high pressure seamless vessels, large seamless cylinders, jumbo cylinders and jumbo skids for the storage and bulk transportation of CNG and various other industrial and specialty gases like Nitrogen, Helium, Argon, etc. The products manufactured by EKC find application in domestic and international markets like aerospace, chemical processing, construction, food production, industrial controls, medicine, nuclear and power propulsion systems, CNG City Gas Projects, etc. The company has two facilities to manufacture cylinders in India (located at Tarapur in Maharashtra and Kandla in Gujarat) as well as Outside India (located at Dubai, China & USA). The annual production capacity of EKCL on a standalone and consolidated basis is 7,17,000 (India) and 11,17,000 (India, Dubai, China & USA) respectively as on March 31, 2018.

During H1FY19, on a consolidated basis EKCL reported PAT before discontinuing operations of Rs. 19 crore on an operating income of Rs. 329 crore as compared to loss of Rs. 8 crore on a turnover of Rs. 255 crore during the corresponding period of the previous year.

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For H1FY19, on a standalone basis EKCL's total income improved significantly by 49% Y-o-Y at Rs. 109 crore from Rs. 73 crore as compared to corresponding period of previous year. Similarly, PBILDT also improved by 51% at Rs. 26 crore in H1FY19 as compared to Rs.17 cr in H1FY18.

Brief Financials (Rs. crore) (Consolidated)	FY17 (A)	FY18 (A)
Total operating income	574.57	554.37
PBILDT	80.63	94.05
PAT	78.25	23.80
Overall gearing (times)	1.28	0.84
Interest coverage (times)	1.72	2.58

A: Audited

Status of non-cooperation with previous CRA: CRISIL has reaffirmed EKCL rating at CRISIL C, Issuer Not Cooperating based on best available information vide PR dated September 28, 2018.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Oct 2020	79.99	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	91.00	CARE BB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	54.92	CARE A4+
Term Loan-Long Term	-	-	-	-	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	79.99	CARE BB+; Positive	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE D (20-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	91.00	CARE BB+; Positive	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	54.92	CARE A4+	-	1)CARE A4+ (16-Nov-17)	1)CARE A4 (06-Oct-16)	1)CARE A4 (20-Oct-15)
4.	Term Loan-Long Term	LT	-	-	-	1)CARE BB; Positive (16-Nov-17)	1)CARE B (06-Oct-16)	1)CARE C (20-Oct-15)
5.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	-	1)Withdrawn (20-Oct-15)

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