August 30, 2023

BSE Limited Department of Corporate Services Phiroze Jeejeebhoy Towers Dalal Street Mumbai 400 001 Scrip Code: 532684	National Stock Exchange of India Limited Listing Department Exchange Plaza Bandra-Kurla Complex Bandra (East), Mumbai 400 051 NSE Symbol: EKC NSE Series: EQ

EVEREST KANTO CYLINDER LIMITED

Manufacturers of high pressure Seamless Gas Cylinders

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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.everestkanto.com

Dear Sir,

Sub: Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015.

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, as amended, we wish to inform that CARE Ratings Limited vide its Press Release dated August 29, 2023 has revised its ratings for the Company as follows:

Sr. no	Credit Rating Agency	Facilities/Instruments	Existing Credit Rating	Revised Credit Rating
1.	Care Ratings Limited	Long-term bank facilities	CARE A-; stable (A minus; stable)	CARE BBB+; stable (Tripple B plus; stable)
2.		Short-term bank facilities	CARE A3+ (A3 plus)	CARE A2

The press release along with Rationale as received from CARE Ratings Limited is enclosed for your information and records.

Thanking you,

Yours faithfully,
For Everest Kanto Cylinder Limited

VISHAL SURESH TOTLA Digitally signed by VISHAL SURESH TOTLA Date: 2023.08.30 13:38:04 +05'30'

Vishal Totla
Company Secretary and Compliance Officer

Encl.

ISO/TS 16949 BUREAU VERITAS Certification

Everest Kanto Cylinder Limited

August 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	124.00 (Reduced from 134.00)	CARE BBB+; Stable	Revised from CARE A-; Stable
Short-term bank facilities	62.76 (Reduced from 75.55)	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Everest Kanto Cylinder Limited (EKCL) factors in deterioration in the operational performance of the company during FY23. EKCL reported a total revenue of ₹1,274 crore in FY23 as compared with ₹1,712 crore in FY22, i.e., decline of around 25%. The decline in the revenue was on account of decline in sales volumes by around 27%. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin declined to 12.57% from 23.68% in FY22 mainly due to increase in input cost (majorly imported seamless steel tubes) and lower absorption of expenses on account of declined revenue. The sharp increase in compressed natural gas (CNG) prices in FY23 narrowed the pricing difference between CNG and other fuels thereby reducing the cost competitiveness of CNG usage, impacting the sales volume for the company during FY23. CARE Ratings Limited (CARE Ratings) notes that, the company is mainly catering to the highly price-sensitive commercial vehicle (CV) segment, which was impacted during FY23, and the original equipment manufacturers (OEMs) have deferred purchases of CNG cylinders due to excess inventory, in turn attributing to lower-than-anticipated sales offtake. Furthermore, volumes were also impacted on account of lower offtake of medical oxygen cylinders, which had witnessed exceptionally high demand in the previous two years on account of COVID-19. The company's inventory level has also remained elevated as compared to the previous years with the inventory days increasing from 103 days as at end-FY22 to 163 days as at end-FY23.

CARE Ratings notes that demand prospects of CNG are expected to improve in the near term with the adoption of a new pricing policy which has already resulted in lowering of CNG prices vis-à-vis petrol and diesel and made it more competitive. However, CARE Ratings will closely monitor the performance of the company and its ability to increase the sales volume.

The ratings continue to derive strength from the promoter's extensive experience along with established market position of the company in high-pressure seamless cylinder industry, diversified customer mix, high entry barriers in the industry on account of its regulated nature, and comfortable capital structure. These rating strengths are, however, partially offset by working capital intensive nature of operations, exposure to volatility in commodity prices, and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in the total operating income (TOI), thus increasing it over ₹1,500 crore.
- Sustained improvement in PBILDT margins over 18%.
- Sustained improvement in return on capital employed (ROCE) over 20%.

Negative factors

- Any large debt-funded capex/ acquisition thereby deteriorating the total debt / earnings before interest, taxes, depreciation and amortisation (EBITDA) above 1.5x on a sustained basis.
- Decline in PBILDT margins below 10% on a sustained basis.
- Stretch in the operating cycle over 150 days.

Analytical approach: Consolidated

CARE Ratings has considered consolidated financials including all its subsidiaries since they are in the similar line of business and are under the same management. The list of companies considered in consolidation along with their holdings by EKCL as on March 31, 2023, is provided below:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Name of the subsidiary	Country	Holding
EKC International FZE	UAE	100
CP Industries Holdings, Inc.	USA	100
Calcutta Compressions and Liquifaction Eng. Ltd.	India	100
EKC Hungry Kft.	Hungary	100
Next Gen Cylinder Pvt. Limited	India	100
EKC Europe GmbH	Germany	100
EKC Europe Zrt	Hungary	80
EKC Egypt (S.A.E)	Egypt	80

Outlook: Stable

The stable outlook reflects CARE Ratings' view that the company is likely to maintain steady growth in its sales volume while continuing its satisfactory financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Extensive industry experience of the promoters with established market position

The promoters have an experience of over 30 years in manufacturing of CNG, industrial cylinders and cascades of various capacities. EKCL is one of the leading players in the domestic market and enjoys established relationships with suppliers and customers.

Diversified customer mix

EKCL has diversified customer mix consisting of OEMs like Bajaj Auto Limited, Tata Motors Limited, Ashok Leyland Limited, Ve Commercial Vehicle Limited, Mahindra & Mahindra Limited, etc. The company also supplies CNG storage cascades to CNG stations and City Gas Distribution (CGD) vendors like Torrent Gas Private Limited, Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL), Adani Gas Limited, etc. The customer concentration risks are low with the top five customers contributing around 25% of the total sales in FY23.

High entry barriers and regulated nature of industry

The existing stringent regulation w.r.t testing and clearance at multiple levels as per the directive of Petroleum and Explosive Safety Organization poses an entry barrier to new entrants to the high-pressure seamless cylinder manufacture. Furthermore, the companies also need to take approval of the Chief Controller of Explosives (CCOE) for import in India. Additionally, the companies operating in this industry need to follow stringent quality standards for manufacturing the cylinders. Thus, the industry is exposed to high entry barriers on account of the aforesaid parameters.

Favourable industry outlook

The growth of CNG industry is being driven by stringent government regulations concerning CO_2 emissions, as well as the increased price differential with petrol and diesel following the new pricing policy of the government introduced in April 2023. The demand for CNG is also supported by increasing need for decarbonising the transportation sector and rising demand of eco-friendly technology.

CNG prices had earlier displayed a rising trend over FY19-FY23, with average annual prices growing at a compounded annual growth rate (CAGR) of 17.1% over this period. The price rise in FY23 was sharp at 49%, reflecting the surge in gas prices globally on account of supply disruptions caused due to the ongoing Russia-Ukraine war. CARE Ratings expects the volatility to lower going forward because of the revised CNG pricing policy of the government, whereby the natural gas produced from nomination fields of ONGC/OIL, New Exploration Licensing Policy (NELP) blocks and pre-NELP blocks will now be indexed to crude oil prices and be subject to a floor and a ceiling. Considering the stated points, CNG vehicles will continue to see sustained strong demand growth, notwithstanding the steep price rise witnessed in FY23.

Key weaknesses

Decline in scale of operations and profitability

EKCL reported a total revenue of ₹1,274.49 crore in FY23 as compared with ₹1,712.22 crore in FY22, ie, decline of around 25%. The decline in revenue was on account of diminished demand of CNG cylinders for CV from OEMs and also due to the exceptionally high demand for medical oxygen cylinders witnessed in FY22 owing to COVID-19. Furthermore, in FY23, the PBILDT margin declined to 12.57% from 23.68% in FY22, which is attributed to increase in input cost (majorly imported seamless steel tubes) and lower absorption of fixed expenses on account of the declined revenue. In FY22, EKCL had reported exceptional margins of 23.68% on account of significant increase in the revenue (around 78%).

Exposure to volatility in raw material prices and foreign exchange fluctuation
EKCL's profitability may be impacted due to fluctuations in raw material prices. Raw material costs (imported seamless steel tubes) account for nearly 60-70% of the EKCL's operating expenses. CARE Ratings further observes that 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 majorly imported. EKCL does foreign currency hedging on a selective basis and is thus exposed to some volatility in exchange rate fluctuation.

Working capital intensive nature of operations
Absence of manufacturers of seamless steel tubes in India capable of meeting the stringent quality specifications and specific tube dimensions has compelled EKCL to source its raw material requirements from other countries like China, Italy, etc. Import of raw materials in general takes a lead time ranging from three months to four months, therefore EKCL procures surplus raw material to be able to meet customer requirements promptly. In FY23, on account of diminished demand from OEMs, the operating cycle deteriorated to 198 days from 123 days in FY22 on account of increase in inventory days to 163 days in FY23 (PY: 103 days).

Liquidity: Adequate
The liquidity of EKCL is adequate marked by strong accruals against negligible repayment obligations. The company has no plans to raise term loan in the next couple of years and all the capital expenditure is expected to be funded out of internal accruals. The utilisation of fund-based working capital limits is around 43% for the 12 months ending May 2023, thus providing an adequate buffer for incremental working capital needs over the next one year.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks
Environmental: EKCL faces low environmental risk as the manufacturing of high-pressure seamless cylinders does not cause significant air or water pollution.
Social: The social risk for EKCL is low as it manufactures cylinders for industrial gases, medical oxygen and CNG applications.
Governance: On account of experienced management and professional staff to carry out the day-to-day activities, the governance risk for EKCL is very low.

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipments

Incorporated in 1978, EKCL is engaged in the manufacturing of high-pressure seamless cylinders for industrial gases and CNG applications (to CV segment and for city gas distribution), 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 EKCL 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 and USA).

Brief financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,285.19	797.11	268.38
PBILDT	368.32	115.06	36.89
PAT	228.17	72.05	21.75
Overall gearing (times)	0.15	0.09	-
Interest coverage (times)	43.80	14.05	-

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	124.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	62.76	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (25-Nov-21)	1)CARE BBB-; Positive (17-Dec-20)
2	Fund-based - LT-Cash credit	LT	81.00	CARE BBB+; Stable	-	1)CARE A-; Stable (27-Jul-22)	1)CARE BBB+; Stable (25-Nov-21)	1)CARE BBB-; Positive (17-Dec-20)
3	Non-fund-based - ST-BG/LC	ST	62.76	CARE A3+	-	1)CARE A2 (27-Jul-22)	1)CARE A3+ (25-Nov-21)	1)CARE A3 (17-Dec-20)
4	Fund-based - LT-Cash credit	LT	43.00	CARE BBB+; Stable	-	1)CARE A-; Stable (27-Jul-22)	1)CARE A3+ (25-Nov-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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