

December 17, 2014

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex,
Bandra (East),
Mumbai-400 051

NSE Symbol: EKC
NSE Series: EQ

Dear Sir,

Sub: Revision in the credit rating by CARE (Credit Analysis & Research Ltd.) for bank facilities aggregating Rs. 506.28 Crore availed by the Company

In terms of Clause 36 of the Listing Agreement, we hereby inform you that CARE has revised the credit rating for the bank facilities aggregating to Rs. 506.28 Crore availed by the Company as per the Rating Letter dated December 12, 2014 communicated to the Company on December 15, 2014 (attached herewith as Annexure 1).

The Rating Rationale dated December 17, 2014 is also attached herewith as Annexure 2.

Thanking you,

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


P. K. Khurana
Chairman & Managing Director

Encl: a/a

**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.everestkanto.com



No. CARE/HO/RL/2014-15/1500

Mr. P. K. Khurana,
Chariman & Managing Director,
Everest Kanto Cylinder Ltd.
204, Raheja Centre,
Free Press Journal Marg,
214, Nariman Point,
Mumbai – 400 021

December 12, 2014

Confidential

Dear Sir,

Credit rating for bank facilities

On a review of recent developments including operational and financial performance of your company for FY14 & H1FY15, our Rating Committee has reviewed the following rating:

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term fund based bank facilities (Yes Bank Term Loan)	295.17	CARE D [Single D]	Revised from CARE BB+ [Double B Plus]
Long-term fund based bank facilities	150.19	CARE C [Single C]	Revised from CARE BB+ [Double B Plus]
Short-term non-fund based bank facilities	60.92	CARE A4 [A Four]	Revised from CARE A4+ [A Four Plus]
Total	506.28		

2. Refer Annexure 1 for details of rated facilities.
3. The brief release-cum-rationale for the rating will be communicated to you separately.
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.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

5. CARE reserves the right to suspend/withdraw/revise the rating assigned on the basis of new information or in the event of failure on the part of the company to furnish such information, material or clarifications as may be required by CARE. CARE shall also be entitled to publicize/disseminate such suspension / withdrawal / revision in the assigned rating 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.
8. CARE ratings are not recommendations to sanction, renew, disburse or recall the concerned bank instruments.

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

Thanking you,

Yours faithfully,



[Rushabh Doshi]
Manager

rushabh.doshi@careratings.com



[Divyesh Shah]

Asst. Gen. Manager

divyesh.shah@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 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 assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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.

ANNEXURE 1
Details of rated bank facilities

1. Long-term bank facilities

1. A. Rupee Term Loans

		(Rs. crore)
Sr.No.	Lender	Rated Amount
1.	Yes Bank	295.17
2.	EXIM Bank of India	27.19*

*USD 5 million

1. B. Fund based limits

		(Rs. crore)
S.No.	Name of Lender	Cash Credit
1.	CITI Bank	22.00
2.	ICICI Bank	7.00
3.	State Bank of Hyderabad	54.00
4.	Yes Bank	10.00
5.	Proposed	30.00
	Total	123.00

Total long term facilities (1.A+1.B)

Rs.445.36 crore

2. Short-term instruments

		(Rs. crore)
S.No.	Name of Lender	LC/BG*
1.	ICICI Bank	13.92
2.	State Bank of Hyderabad	27.00
3.	Yes Bank	20.00
	Total	60.92

*LC=Letter of credit; BG=Bank guarantee

Total short term facilities

Rs.60.92 crore

No. CARE/HO/RR/2014-15/1201

Mr. P. K. Khurana,
Chariman & Managing Director,
Everest Kanto Cylinder Ltd.
204, Raheja Centre,
Free Press Journal Marg,
214, Nariman Point,
Mumbai – 400 021

December 17, 2014

Confidential

Dear Sir,

Credit rating for bank facilities aggregating Rs.506.28 crore

Please refer to our letter dated December 12, 2014 on the above subject.

2. The rationale for the ratings is attached as **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.
3. A write-up (brief rationale) on the above ratings is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II**.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



[Divyesh Shah]
Asst. Gen. Manager

Encl.: As above

Rating Rationale
Everest Kanto Cylinder Ltd.

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term fund based bank facilities (Yes Bank Term Loan)	295.17	CARE D [Single D]	Revised from CARE BB+ [Double B Plus]
Long-term fund based bank facilities	150.19	CARE C [Single C]	Revised from CARE BB+ [Double B Plus]
Short-term non-fund based bank facilities	60.92	CARE A4 [A Four]	Revised from CARE A4+ [A Four Plus]
Total	506.28		

Rating Rationale

The ratings revision takes into account ongoing delays in servicing debt obligations for one of the bank facilities availed by Everest Kanto Cylinder Ltd. (EKCL), liquidity crunch in the company weakening of its debt servicing ability and heightened business risk with continuation of slump in demand leading to drop in operating income and increasing losses. The revision in ratings also factors in delays in reducing or refinancing high cost debt burden as envisaged earlier.

The ratings are further constrained by decline in net worth with continuous losses, stretched operating cycle of the company and foreign currency risk.

Going forward, revival in demand for EKCL's products resulting in improvement in its operational performance may weigh positively on the credit profile of the company. At the same time, EKCL's ability to reduce its high cost debt burden continues to be key rating sensitivity.

Background

Incorporated in 1978, EKCL has three facilities to manufacture cylinders located at Tarapur in Maharashtra and Gandhidham & Kandla in Gujarat. Apart from its domestic operations, EKCL has developed presence in the international high pressure seamless cylinders market through

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

various subsidiaries (including step-down), with manufacturing facilities in Dubai, China & USA and marketing offices in Thailand & Germany.

EKCL's products find application in various industries such as automobile OEMs, CNG cylinder retrofitters, gas distribution companies, healthcare, defence etc.

Credit Risk Assessment

Continuously weak operational performance

EKCL's standalone (India) operations continue to face slump in demand since FY12 (refers to period from April 1 to March 31) on account of industrial slowdown and policy logjam resulting into slowing down of setting up city gas distribution networks. EKCL's operations were further impacted with drying out of revenues for its Dubai arm (EKCL's biggest profit contributor in the past) following sanctions imposed on its key market of Iran by the USA and the European Union and steep local competition in the Chinese market.

The drop in demand translated into pricing pressure affecting profitability for the company. Profitability is further impacted by high cost term loans, which the company was expected to repay/refinance, leading to cash losses in FY14 and H1FY15.

Stressed liquidity with delays in reducing high cost debt burden

EKCL has been considering various options to reduce its high cost debt burden either via refinancing or through prepayment of loan with sale of some of its assets in order to arrest its cash outgo. However, no concrete measures have been taken in this direction; which, along with consistently weak operational performance (continuous cash losses since FY13) has led to substantial stress in EKCL's liquidity.

Weakening financial profile

Capital structure of the company continued to deteriorate following erosion of net worth over the past three years as a result of continuous losses and rise in borrowings. Gearing stood at 1.32x as on September 30, 2014 as compared to 0.97x as on March 31, 2013. At the same time,

operating cycle of the company is significantly stretched with substantially high inventory levels.

Financial Performance (Consolidated)

	(Rs. Crore)		
For the period ended as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Working Results			
Net Sales	669.11	530.37	484.66
Total Operating income	683.31	554.16	499.03
PBILDT	79.28	-16.07	-13.39
Interest	20.91	41.21	58.34
Depreciation	66.81	69.63	68.30
PBT	-3.45	-123.42	-138.02
PAT (after deferred tax)	4.69	-131.81	-138.16
Gross Cash Accruals	63.34	-53.79	-69.92
Financial Position			
Equity Capital	21.43	21.43	21.43
Net worth	736.82	565.68	471.63
Total capital employed	1266.71	1174.46	1102.93
Key Ratios			
<i>Growth</i>			
Growth in Total income (%)	-13.53	-19.18	-9.95
Growth in PAT (after D.Tax) (%)	-93.33	NM	NM
<i>Profitability</i>			
PBILDT/Total Op. income (%)	11.60	-2.90	-2.68
PAT (after deferred tax)/ Total income (%)	0.69	-23.79	-27.69
ROCE (%)	1.04	-6.70	-7.08
Average cost of borrowing (%)	5.05	8.18	10.31
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.40	0.65	0.76
Overall gearing ratio (times)	0.62	0.97	1.23
Interest coverage(times)	3.79	NM	NM
Term debt/GCA (years)	4.60	NM	NM
Total Debt / GCA (years)	7.21	NM	NM
<i>Liquidity</i>			
Current ratio(times)	1.21	1.94	1.31
Quick ratio(times)	0.36	0.64	0.51

For the period ended as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, A)
Turnover			
Average inventory (days)	227	301	263
Average collection period (days)	63	70	71
Average creditors (days)	49	39	33
Operating cycle (days)	241	333	301
NM: Not Meaningful			

Details of Rated Facilities

1. Long-term bank facilities

1. A. Rupee Term Loans

(Rs. crore)

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Total long term facilities (1.A+1.B) Rs.445.36 crore

2. Short-term bank facilities

(Rs. crore)

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Total short term facilities Rs.60.92 crore

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Annexure II Brief Rationale

CARE revises ratings assigned to bank facilities of Everest Kanto Cylinder Ltd. (EKCL)

Ratings

Facilities	Amount (Rs. crore)	Rating ²	Remarks
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various subsidiaries (including step-down), with manufacturing facilities in Dubai, China & USA and marketing offices in Thailand & Germany.

EKCL's products find application in various industries such as automobile OEMs, CNG cylinder retrofitters, gas distribution companies, healthcare, defence etc.

During FY14 (refers to period from April 1 to March 31), EKCL registered total income of Rs.499 crore and net loss of Rs.138 crore. For H1FY15, net loss stood at Rs.55 crore on total income of Rs.230 crore.

Analyst Contact

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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.

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