



Economy News

- ▶ Railway ministry has withdrawn the hike in passenger fares for all classes including suburban trains. Price hikes would have raised an additional Rs 40 bn for the Railways (ET)
- ▶ The finance ministry is exploring setting up an exchange-traded fund, or ETF, to sell stakes in state-run companies as it seeks to ensure that its disinvestment plan does not get affected (ET).
- ▶ The industry ministry is planning another round of consultation on the proposal to allow foreign airlines to invest up to 49% in the country's aviation sector, potentially delaying any infusion of capital in cash-strapped domestic carriers (ET).

Corporate News

- ▶ **Unitech** has sought about \$150 million from Norway's Telenor to sell its 32.7% stake in their telecom joint venture and end the bitter dispute between the two partners (ET).
- ▶ The government has approved **Reliance Industries** \$1.529 billion plan to produce over 10 million standard cubic meters per day of gas from four satellite fields in the flagging KG-D 6 block (ET).
- ▶ **Parsvnath Developers** is raising Rs 1.2 bn from domestic PE Fund for a new Rs 1bn integrated township project on Sohna Road in Gurgaon. PE Fund will have 20% stake in the special purpose vehicle that will develop the unnamed project (ET).
- ▶ **L&T** has obtained orders worth Rs 11.2 b in the construction segment. In power transmission and distribution it has secured orders worth Rs 5.4 bn from Abu Dhabi Water & Electricity Authority, UAE (BL).
- ▶ Novelis, flagship company of **Hindalco Industries**, has been selling its loss-making assets for a while, even if it means selling a smelter in a high-growth market like Brazil. It is selling three aluminium foil manufacturing plants in Europe to American Industrial Acquisition Corporation (AIAC). The plants are located in France, Luxembourg and Germany (BS).
- ▶ **Thermax** said it has acquired the steam division of Virgo Valves & Controls Ltd, India and its German subsidiary company Rifox-Hans Richter GmbH, a leading steam traps and allied steam accessories manufacturer. The acquisition was completed on March 21 for Rs 1.34 bn (euro 2 million) (BS).
- ▶ **Tata Communications** has said that it has completed the world's first round-the-world fibre optic cable network. This happened with the launch of its Tata Global Network - Eurasia (TGN-EA) cable (BL).
- ▶ **Indian Oil Corporation** is constructing the integrated terminal which will use Ennore port for its LNG handling. The Rs 45 bn integrated liquefied natural gas (LNG) terminal at Katupalli near Chennai will come up by December 2015 (BL).

Equity

	22 Mar 12	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,196	(2.3)	(4.9)	9.3
NIFTY Index	5,228	(2.5)	(4.6)	10.9
BANKEX Index	11,712	(3.4)	(4.8)	22.9
BSET Index	6,012	(1.2)	(4.2)	5.9
BSETCG INDEX	10,041	(3.4)	(7.7)	23.1
BSEOIL INDEX	8,012	(2.7)	(9.0)	1.1
CNXMcap Index	7,611	(2.4)	(0.5)	23.0
BSESMCAP INDEX	6,600	(1.7)	(4.4)	17.5
World Indices				
Dow Jones	13,046	(0.6)	0.5	6.1
Nasdaq	3,063	(0.4)	3.6	17.0
FTSE	5,846	(0.8)	(1.6)	6.0
NIKKEI	10,127	0.4	4.5	19.4
HANGSENG	20,902	0.2	(3.1)	11.2

Value traded (Rs cr)

	22 Mar 12	% Chg - Day
Cash BSE	2,899	(9.0)
Cash NSE	14,112	6.9
Derivatives	198,220	31.7

Net inflows (Rs cr)

	21 Mar 12	% Chg	MTD	YTD
FII	652	233.2	8,466	44,773
Mutual Fund	(35)	(53.1)	(1,103)	(5,121)

FII open interest (Rs cr)

	21 Mar 12	% Chg
FII Index Futures	15,636	(4.3)
FII Index Options	48,662	(1.5)
FII Stock Futures	30,035	(3.4)
FII Stock Options	1,533	(3.7)

Advances / Declines (BSE)

22 Mar 12	A	B	T	Total	% total
Advances	18	672	189	879	29
Declines	183	1,530	302	2,015	67
Unchanged	1	76	29	106	4

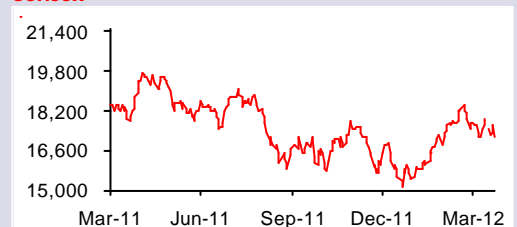
Commodity

	22 Mar 12	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	105.6	0.3	(2.0)	6.0
Gold (US\$/OZ)	1,642.1	(0.6)	(7.8)	2.5
Silver (US\$/OZ)	31.4	(2.6)	(11.0)	8.3

Debt / forex market

	22 Mar 12	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.38	8.39	8.22	8.32
Re/US\$	51.3	50.7	49.2	52.7

Sensex



MANAGEMENT MEET UPDATE**Sanjeev Zarbade**

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EVEREST KANTO CYLINDER**PRICE: Rs.33****TARGET PRICE: Rs.41****RECOMMENDATION: ACCUMULATE****FY13E P/E: 11.7x**

- ❑ **Iran sanctions continue to plague the company's Dubai operations.**
- ❑ **Outlook for US operations has improved but the company continues to bleed in China. EKC is contemplating on disposing in part or full its Chinese operations.**
- ❑ **The company's FCCB is up for redemption in Oct 2012. The outgo on maturity would be of the order of USD 50 mn (Rs 2.5 bn). The company plans to repay the FCCB through combination of ECB (around USD 30 mn) and interal accruals (cash flow from operations of Rs 1.0 bn in FY13). However, interest outgo would shoot up in FY13 as the FCCB would be replaced by ECB.**
- ❑ **Valuations are undemanding at 3.6x FY13 cash earnings per share. But due to near-term pressures on earnings and balance sheet, we prefer to remain cautious. Maintain ACCUMULATE with a target price of Rs 41 (Rs 43 earlier).**

Summary table - Consolidated

(Rs mn)	FY11	FY12E	FY13E
Sales	7763	6849	7464
Growth (%)	19.5	(11.8)	9.0
EBITDA	1296	1144	1287
EBITDA margin (%)	16.7	16.7	17.2
PBT	746.1	(50.4)	344.1
Net profit	740	545	299
EPS (Rs)	6.9	5.1	2.8
Growth (%)	516.6	(26.3)	(45.1)
CEPS (Rs)	13.3	6.9	9.8
BV (Rs/share)	70.8	71.7	72.9
Dividend / share (Rs)	1.8	1.2	1.2
ROE (%)	10.7	7.1	3.9
ROCE (%)	6.5	5.5	4.8
Net cash (debt)	(3,210)	(3,878)	(3,364)
NW Capital (Days)	167	243	234
EV/Sales (x)	0.9	1.1	1.0
EV/EBITDA (x)	5.3	6.6	5.4
P/E (x)	4.8	6.4	11.7
P/Cash Earnings	2.4	4.9	3.4
P/BV (x)	0.4	0.4	0.4

Source: Company, Kotak Securities - Private Client Research

Risks and Concerns

Low return ratios and high working capital.

Business Update

- The main concern for the company's business stems from the disruption in its supplies to the highly profitable Iran geography. The company indicated that the demand for gas cylinders is huge due to abundant gas availability. Iran has the world's second largest gas reserves after Russia but is short in terms of refining capacity. As a result, while it has surplus gas it is one of the largest of importer of petrol (gasoline). We understand from the management that the demand for cylinders is currently unmet by local manufacturers.
- EKC caters to the Iran market from its Dubai manufacturing facility. This is the most profitable market for the company as it gets higher realization of ~ Rs 13000 per cylinder vs Rs 9000 per CNG cylinder in the Indian market. Consequently, during optimum capacity utilization, the company makes a EBITDA margin of roughly 30-35% from its sales to Iran.
- However, due to the sanctions on doing business in Iran, the company is having problems in maintaining payment security as banking channel is almost frozen. Thus, the company's sales volumes to Iran has dwindled to 20000-22000 cylinder per quarter compared to 60000 cylinders per quarter. The company has now indicated that the regime in Iran is open to settling part-payments in cash. The balance could be settled through Rupee trade mechanism.
- In the domestic market, the company caters to the auto CNG (OEM and after market) and industrial cylinder market. There has been softening of demand for Auto CNG due to factors like delays in rollout of the CGD network in cities, increase in price of CNG in Ahmedabad and overall decline in auto demand. Price increases by city gas distribution network (CGD) have also diminished competitiveness of CNG vs Diesel has diminished in the very important Gujarat market.
- Under the Petroleum Ministry's "Vision 2015 document for consumer satisfaction and beyond", the CNG network will be expanded to 200 cities from the present coverage in 35 cities. The PNGRB had called for EOI for rolling out CGD networks in several cities but actual implementation has been dismal partly due to regulatory issues. Hence, despite the advantages of CNG, development of cylinder market in India has been stymied (penetration substantially lower than even Pakistan).

- Finished Goods inventory has gone up significantly in the domestic CNG segment to almost Rs 3.0 bn at the end of Q3 FY12. This was on the back of domestic demand turning out to be lower than anticipated.

Quarterly volumes

(Cylinders nos)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
India	166,226	174,901	158,447	125,827	108,233
Dubai	45,240	72,077	63,118	44,427	18,175
China	6,650	24,903	21,393	26,767	7,021
USA	326	472	559	530	506
Total	218,442	272,353	243,517	197,551	133,935

Source: Company

- The US geography has shown signs of improvement due to low gas prices compared to gasoline prices. Thus, there appears to be a realization towards increasing usage of CNG in automobiles. This is getting reflected in expanding order backlog in the US facility. The company expects significant improvement in profitability (~10-15% EBITDA margins vs 0-5% in FY12) in the US in FY13 aided by higher volumes. The company expects US operations to turnaround in FY13.
- Apart from US, the company's China operations are also in the red. The company indicated that it is looking at a possibility of disposing in part or completely its manufacturing operations. We believe, the proceeds from divestiture could relieve some pressure on the balance sheet.
- The company's cylinder manufacturing facility at Kandla makes cylinders from steel plate, which is costlier than the traditional tube based manufacturing. However, the cylinder is lighter and hence is preferred in automobiles as it generates fuel efficiency. The market for this product is not developed in India but the company is making efforts at penetrating the European bus market.

Manufacturing Capacity

(Cylinders nos)	Jumbo	CNG	Industrial
Gandhidham	1000	230000	140000
Tarapur	0	100000	60000
Dubai	0	196000	0
China	1000	200000	0
US	3000	0	0
Kandla	0	300000	0
Gandhidham II	0	0	200000
Total	5000	1026000	400000

Source: Company

Forex Risk - Rupee appreciation in the quarter may lead to gain on forex fluctuation in Q4FY12

In the current quarter, the INR is up ~ 4.2% against the USD, which if sustained, should result in forex fluctuation gain in the quarter.

EKC primarily imports its raw material (tubes) from suppliers in South America and China. These imports are also denominated in USD. Thus, the INR appreciation in Q4FY12 should also ease raw material cost pressure on the company.

Outstanding Foreign Currency borrowings

	USD mn	Repayable
FCCB	35	Oct-12
ECB	7	Mar-2012 and Sep-2012
Working Capital	20	
Total	62	

Source; Company

Financial Outlook - Interest burden to depress profitability in FY13

- The company has FCCB outstanding of USD 35 mn convertible at Rs 271 per share and maturing October 2012. Given that conversion appears unlikely, the company will have to redeem the bonds which on maturity amount to USD 50 mn (Rs 2.5 bn).
- The company plans to refinance the USD 50 mn payment through a fresh ECB loan of USD 30 mn. It expects to repay the balance USD 20 mn (Rs 1.0 bn) through internal accruals.
- Redemption premium paid on FCCB shall be accounted as securities premium reserves in the balance sheet.
- The company has increased its capacity substantially in the past two years and foresees minimal capex in FY12 and FY13. Thus it expects to generate adequate surplus to meet the repayment.
- Since the company is not booking any interest on FCCB loan, we expect interest expenses to go up in FY13 as the company would be refinancing the FCCB with an ECB borrowing. We forecast interest expenses to grow 193% in FY13.
- Tax rate is likely to remain between 20-25% since the company's Dubai operations enjoy zero tax status and its operations at China may continue to remain in red. Thus, we project 45% decline in earnings in FY13.

Earnings Revision

Post our meeting with the EKC management, we believe that business environment remains challenging for the company. The company is struggling due to external (Iran issue) as well as internal (debt repayments) problems. Thus, we have moderated our volume assumptions for FY13 mainly in Dubai and India. We forecast earnings to drop to Rs 2.8 per share in FY13.

Earnings estimates (FY13)

(Rs mn)	Earlier	Revised
Revenue	7,823	7,464
EBITDA (%)	17.3	17.3
EPS (Rs)	3.3	2.8
% change		-15.0

Source: Kotak Securities - Private Client Research

Valuation & Recommendation

We maintain ACCUMULATE rating on Everest Kanto Cylinder with a price target of Rs.41

- At the current price of Rs.33, EKC is trading at 0.4x book value, 11.7x earnings and 3.6x cash earnings based on FY13E.
- In view of the lower than expected earnings, we are revising our estimates for the company. Accordingly, our revised target price works out to Rs 41 (Rs 43 earlier).
- Given the modest upside, low return ratios and high level of borrowings, we maintain **ACCUMULATE** on the stock.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
22-Mar	Alfred Herbert	Krishan Kundra & Sons HUF	B	8,515	202.5
22-Mar	Alfred Herbert	Harsh Vardhan Lodha	B	12,500	201.0
22-Mar	Alfred Herbert	Aditya Vikram Lodha	B	12,573	200.6
22-Mar	Alfred Herbert	Krishan Kundra & Sons HUF	S	8,515	200.2
22-Mar	Alfred Herbert	Raghvendra Mohta	S	25,000	200.8
22-Mar	Alpha Graphic	Avenue Dealers Pvt.Ltd.	B	200,000	27.3
22-Mar	Arman Fin Serv	Bharati Rajendra Jain	S	29,900	27.4
22-Mar	Ashutosh Paper	Panafic Industrials Ltd	B	200,000	25.0
22-Mar	Ashutosh Paper	Zarf Infra Development Pvt Ltd	B	200,000	25.0
22-Mar	Ashutosh Paper	Archit Hotels & Resorts Pvt Ltd	B	100,000	25.0
22-Mar	Ashutosh Paper	Utkrishta Exports Pvt Ltd	B	125,000	25.0
22-Mar	Ashutosh Paper	Hsi Infotech Pvt Ltd	B	60,000	25.0
22-Mar	Ashutosh Paper	Shridhar Financial Servics Ltd	B	99,700	25.0
22-Mar	Ashutosh Paper	Harish Kumar	S	280,000	25.0
22-Mar	Ashutosh Paper	Sagar Ratna Hotels Pvt Ltd	S	131,900	25.0
22-Mar	Ashutosh Paper	Pigeon Exports International (P) Ltd	S	57,400	25.0
22-Mar	Ashutosh Paper	Kpm Infotech Pvt Ltd	S	200,000	25.0
22-Mar	Ashutosh Paper	Tarini Enterprises Pvt Ltd	S	50,000	25.0
22-Mar	Atlanta	Innovate Derivatives Pvt Ltd	B	495,000	68.0
22-Mar	Atlanta	Dipak Kalyanji Tanna	S	483,275	68.0
22-Mar	CIL Nova Petro	Chiripal Exim Llp	B	500,000	20.3
22-Mar	CIL Nova Petro	Nandan Exim Ltd	S	500,000	20.3
22-Mar	Clarus Finance	Truthful Vintrade Pvt Ltd	B	150,000	29.5
22-Mar	Clarus Finance	Regal Dealmark Pvt Ltd	B	170,000	29.5
22-Mar	Clarus Finance	Mono Herbicides Ltd	B	188,489	29.5
22-Mar	Clarus Finance	Sivanta Commosales Pvt Ltd	B	100,000	29.5
22-Mar	Clarus Finance	Thermic Steel Company Pvt. Ltd.	S	100,000	29.5
22-Mar	Clarus Finance	Shree Bahubali International Ltd	S	95,000	29.5
22-Mar	Dalmia Bharat	Morgan Stanley Asia (Singapore) Pte	B	631,785	136.2
22-Mar	Dalmia Bharat	Horsell Investment Ltd	S	631,785	136.8
22-Mar	Dinesh Allorga	Safiyuddin Nurmiya Saiyad	B	20,000	76.7
22-Mar	Dolphin Offsh-\$	Pankaj Patel	B	196,538	92.0
22-Mar	Dolphin Offsh-\$	Aatash Shares & Commodities Broking	S	194,588	92.0
22-Mar	Dr Agarwals-\$	Pat Financial Consultant Pvt Ltd	S	24,500	60.5
22-Mar	English Indian-\$	Sewastuti Finance P.Ltd	B	415,335	45.8
22-Mar	English Indian-\$	Alkyone Realtors Pvt Ltd	S	404,073	45.9
22-Mar	Esaar India	Kemfin Services Pvt Ltd	S	583,783	10.7
22-Mar	Ess Dee Alum	Fidelity Multitrade Pvt. Ltd.	B	724,464	151.7
22-Mar	Ess Dee Alum	Bharat Jayantilal Patel	S	725,748	151.7
22-Mar	Essen Supp	Gaylord Commercial Company Ltd	B	91,000	22.3
22-Mar	Essen Supp	Susri Finance Pvt Ltd	B	75,100	22.3
22-Mar	Essen Supp	Portrait Vyapaar Pvt Ltd	B	50,000	22.3
22-Mar	Essen Supp	Vardhaman Textile Company Pvt Ltd	S	50,000	22.3
22-Mar	Essen Supp	Sumnex Mercantile Pvt Ltd	S	75,100	22.3
22-Mar	Essen Supp	Shiv Shankar Resources	S	75,600	22.5
22-Mar	Fame India	Gujarat Fluoro Chemicals Ltd	B	276,500	70.8
22-Mar	Goenka Diamond	Nishu Finlease Private Ltd.	B	200,000	68.7
22-Mar	Gomti Finlease	Alok Finance Pvt. Ltd.	B	51,000	70.5
22-Mar	Gomti Finlease	Dynamic Ship Recyclers Pvt Ltd	S	24,100	70.4
22-Mar	India Home	Subhash Ambubhai Patel	B	100,000	42.0
22-Mar	India Home	Chetankumar Raojibhai Patel	S	100,000	42.0
22-Mar	IVRCL Ltd	Pixel Mercantiles P Ltd	B	1,900,000	57.3

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
22-Mar	Kaleidoscope	Mono Herbicides Ltd	B	600,000	49.2
22-Mar	Kanchan Intl	SLP Traders (Satish Vasant Ghone)	B	19,995	83.3
22-Mar	Kanchan Intl	Pankaj J Dave	B	20,700	82.4
22-Mar	Kanchan Intl	Manoj Harkut	S	18,250	82.4
22-Mar	Ken Fin Serv	Hiren Kirit Gandhi	B	30,400	55.0
22-Mar	Ken Fin Serv	Prakash Shankar Bhosale	S	29,500	51.8
22-Mar	Nikki Global	Deepak Sehgal	B	40,501	164.9
22-Mar	Nikki Global	Dheeraj Agarwal	S	37,000	153.3
22-Mar	Nivyahitsl	Bhansali Haresh Kinnari	B	125,000	10.7
22-Mar	Nivyahitsl	Mahendra Ghisulal Shah HUF	S	187,000	10.9
22-Mar	Pasupati Fin	Hitesh Jayantilal Shah	B	25,000	39.0
22-Mar	Pasupati Fin	Advance India Shares & Securities	B	156,002	39.0
22-Mar	Pasupati Fin	Nirav Nareshkumar Shah	B	30,000	38.6
22-Mar	Pasupati Fin	Anuj Garg	S	150,000	39.0
22-Mar	Pasupati Fin	Nilesh Jayantilal Shah	S	45,000	39.0
22-Mar	Poddardev	Brite Merchants Ltd	B	33,450	120.0
22-Mar	Rajeswari Found	Chatura Mahesh Rao	B	30,000	18.6
22-Mar	Rajeswari Found	Viswanathan V	S	25,000	18.6
22-Mar	Rander Corp	Scope Vyapar Pvt Ltd	B	68,000	73.1
22-Mar	Rander Corp	Ajit Kumar Gupta	B	100,000	73.1
22-Mar	Ravinay Trad	Ramesh Krishna Kulaye	B	17,000	130.3
22-Mar	Ravinay Trad	Rakesh Maneklal Jain	B	15,000	128.4
22-Mar	Ravinay Trad	Hotel Polo Towers Pvt Ltd	S	50,000	128.4
22-Mar	Raymed Labs	Fastcon Infrastructure Pvt Ltd	B	23,305	29.3
22-Mar	Reliance Chem-\$	Ramkripa Securities Pvt Ltd	B	51,173	126.3
22-Mar	Reliance Chem-\$	Asha Devi Poddar	S	50,000	126.5
22-Mar	Sawaca Bsns	Innovate Derivatives Pvt Ltd	S	200,000	84.5
22-Mar	Splash Media	Kalptaru Investments Private Ltd	S	775,500	31.0
22-Mar	Swarnasarita	Neora Consulting Pvt Ltd	B	200,000	30.0
22-Mar	Syncom Form-\$	Rasika Ravindra Sakpal	B	156,831	60.7
22-Mar	Syncom Form-\$	Sandeep Stock PrivateLtd	S	200,000	61.2
22-Mar	TCPL Pack-\$	The Indiaman Fund (Mauritius)	S	80,000	42.9
22-Mar	Trendy Knit	Clan Laboratories Pvt Ltd	S	100,000	74.8
22-Mar	White Diamond	Mahesh Mohanlal Rupani	B	75,000	41.1

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Coal India	339	2.3	1.5	6.0
Hero MotoCorp	1,945	1.0	0.6	0.4
Sun Pharma	566	(0.4)	(0.3)	1.3
Losers				
Reliance Ind	736	(4.1)	(17.4)	6.7
ICICI Bank	900	(3.7)	(12.9)	3.6
L&T	1,297	(3.7)	(8.6)	2.4

Source: Bloomberg

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