



"Everest Industries Limited Conference Call"

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**MANAGEMENT: MR. MANISH SANGHI
MR. RAKESH GUPTA**

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY'13 Earning Conference Call of Everest Industries Limited. As a reminder for the duration of the conference all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Manish Sanghi. Thank you and over to you Sir.

Manish Sanghi: Good afternoon, ladies and gentlemen. I am very glad to be part of the second conference, which we are doing. We had a wonderful Q1, a wonderful season time and we had a very good Q2 as well. Traditionally, Q2 is a tough period for us, but we had a good run with strong volumes, strong pricing in all our product lines. If I were to start with highlights of the Fiber Cement Industry, the demands of Fiber Cement Industry continues to grow and remain strong on account of growth in rural income and an aspiration for better quality living. The prices are sustaining from previous quarters and that gives us much comfort, the demand for this year will be better than last year.

We believe strongly that the rural demand will continue to sustain and there is an election which is likely to happen any time soon or latest till 2014, and by past records we have seen that the rural liquidity spending by the government is normally high in the period leading up to that. So we are hopeful that rural spending will continue to grow and as I just mentioned we are seeing signs of that in our results for the last six months. Along with that is the general growth in the industrial sector, which seems to be climbing itself for an increased demand and that is also reflected in the better results for the PEB or the steel building business. Recently CRISIL has released a report which talked of that sustaining the rural consumption boom, highlighting the rural consumption has outpaced urban consumption and few of the key points like they mentioned are

- Rural consumption per person grew at 19% compared to 17% of urban consumption in the last two years
- There is a strong increase in rural incomes led by rising non-form opportunities in rural areas
- The MGNREGA, the Employment Guarantee Scheme, and other social sector schemes have fueled job creation and provided the opportunities to rural households to supplement the traditional income. Large portion of rural population is expected to catch up in terms of income and consumption patterns with their urban counterparts and they will obviously move up the consumption ladder.

With the government focus on rural development for various schemes like Indira Awaas Yojana and Bharat Nirman Yojna, NREGA, the growth momentum for our roofing business which is predominately rural in nature is sustainable. The boards and panels business is the second part of

our presentation and we are finding it being increasing accepted as an alternative to wood-based product and also as means of doing faster construction in various different segments of commercial and industrial sector.

Our other business segment, which is Steel Building, has shown good growth. We believe the industry will grow at 20% to 25% growth rate per annum. This segment is mainly driven by growth in industry, warehousing and infrastructure. While there are doubts about how much infrastructure would grow, we are finding a very robust industry demand and we believe this demand is coming from one; the companies are investing more, but also from the fact that there are more and more people who want to rely on a reliable method of building rather than the traditional civil constructions. We are getting a bigger share of the industrial buildings than before as a product category PEB.

On the capex side, the Greenfield expansion of 100,000 metric tonnes at Balasore in Odisha is progressing well and we expect to complete it and go into full production by mid 2013. Post production, our total capacity of building products will increase to over 810,000 metric tonnes. As you are aware, the workers at our Nasik plant are on strike since November 2011. We have had many meetings with union members and during September 2012 at one of the meetings at the district level labor commissioner, there was an incidence of assault on our senior executive. The executives, who were injured by the assault, have now recovered and are back to work, but the fact is that they were seriously hurt and had spent a significant time in hospital.

The management is working towards early resolution of this strike and bringing the operations of the plant back to normal. Since the start of the strike in November, the production at the plant is continuing with the help of the officers who are working over there. These are the broad guidelines and broad information I wanted to share with you. I will now hand over to my colleague Mr. Rakesh Gupta, our CFO, to take you through the financial performance of the second quarter.

Rakesh Gupta:

Thank you Manish and good afternoon friends. I will take you through our quarterly results, which we have circulated in the presentation that had been mailed to you. We have recorded a revenue of Rs.222 Crores, which is 20% higher compared to Rs.186 Crores in Q2 of last year. Building project segment contributed Rs.160 Crores to the topline, whereas the steel building segment contributed Rs.62 Crores. EBITDA for the quarter is Rs.23.6 Crores, a growth of over 77% over the corresponding period of the previous year.

Net profit for the quarter is Rs.12.5 Crores registering growth of 108% over Rs.6 Crores for corresponding period of the previous year. In terms of segment-wise performance, I am happy to share that our return on capital employed in building product segment has improved from around 22% last year to 28% this year while in steel building we have sustained ROCE of 28%. The

second quarter is generally weaker quarter due to monsoon for building product segment. This year building product segment has registered 15% growth in revenue mainly on account of sustained higher prices. The EBIT for the quarter was Rs.19.3 Crores up by 92% over last year; the EBIT margin stands at 12.1 percent.

In the steel building segment we clocked revenue of Rs.62.1 Crores versus Rs.46.5 Crores in the last year, a growth of 34%. The EBIT for the segment is at Rs.4.2 Crores up by 59% over the last year. Briefly touched already by Manish, we are currently implementing the Greenfield capacity expansion in which we have already spent approximately Rs.9 Crores and we are within the cost and implementation time estimated for this project. We do not expect any overrun either in terms of cost or in terms of time. As on September 2012 we have a total debt of Rs.134 Crores, which includes Rs.83 Crores of ECB term loan for capex and buyers credit of Rs.41 Crores. The complete cash and bank balance stood at Rs.87 Crores, which includes fund parked in fixed deposits with company's banker. We can now have the questions and answers from the participants.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Natarajan from IndSec Securities and Finance. Please go ahead.

Rohit Natarajan: Thank you for taking my question. Congratulations for this wonderful set of numbers. I just had two questions. You said that the outlook for the building product segment seems to be very strong; however, in a situation of poor monsoon and poor agricultural output do you see this getting impacted to your capacity utilization in the coming quarters by any chance?

Manish Sanghi: We were very worried about the monsoon part as well, but I think in the latter part, the monsoon surged and the situation became much better. While the monsoon crop might get impacted a little bit, the winter crops, because of the delayed monsoon, will actually do better and secondly, we are all aware that the dependence of the agriculture sector on monsoon has declined over a period of time and my past experience says that whenever the monsoon has been a little weak, the effect on our sales has really reduced significantly and this late surge really I think has made up for it.

Rohit Natarajan: My second question will be related to the steel building segment because during Q1 FY'13, the order book stood at somewhere around Rs.200 Crores if I am not mistaken and now it has come down to Rs.160 Crores and we have done a Rs.62 Crores topline this quarter. So somewhere down the line do we see a poor order inflow in this quarter or can it be recovered somewhere down the line?

Manish Sanghi: There is no significant difference actually in the order book in terms of tonnage. The order book value varies a little bit depending upon the price of steel. We have seen a strong order book through the entire six months period and in fact even in the last quarter and as I just mentioned in my opening remarks. The industry sector is somehow using more of PEB today, so we are getting a bigger share of the pie, so while we keep reading in the newspaper and everywhere a slowdown

and all, we are not experiencing it at all, we are getting orders from a very diverse segment of customers, and there is no let up. We are not seeing any slow down as of now.

Rohit Natarajan: Thank you, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of K G Lakshminarayanan from Catamaran. Please go ahead.

Lakshminarayanan: Good afternoon Sir. Thanks for the opportunity. Sir, I have a couple of questions; number one you mentioned about some kind of a labour issue in Nasik. May I know, what is the contribution in terms of revenues or profits from that particular plant?

Manish Sanghi: Nasik is a big plant. Nasik has one roofing and two board clients, so out of the nearly 7 lakh tonnes of capacity, which we have, it contributes to nearly 180,000 odd tonnes of capacity, which results in a turnover of close to anywhere between Rs.175 to Rs.190 Crores.

Lakshminarayanan: Also just to understand your geographical mix, may I know, which are the key states that actually contribute to your topline and if you can just help me to understand, which states contribute almost like 70% to 80% of your revenue?

Manish Sanghi: Actually there is no single state, which contributes 70% to 90%, but if I were to talk which are typically the big states for us, we do a lot of business in Tamil Nadu, we do a lot of business in Bengal, we do a lot of business in Maharashtra, Madhya Pradesh, we do a lot of business in UP. This is as far as the fiber cement products are concerned and as far as the steel buildings are concerned, it is more spread out, but the big states still would be Maharashtra we do a lot of work, Haryana we do a lot of stuff, but frankly we never really look at it in geographic terms, we look at it more in terms of customers and where his interest realisation is happening right now.

Lakshminarayanan: For the other steel segment are you actually in the same space as the Pennar and Tata Bluescope?

Manish Sanghi: Absolutely.

Lakshminarayanan: I think this is fine Sir. I think I will come back in queue for more questions.

Moderator: Thank you. The next question is from the line of Janak Merchant from Validea Stocks Management Private Limited. Please go ahead.

Janak Merchant: Hello Manish. How are you?

Manish Sanghi: Good. Thank you.

Janak Merchant: Manish, I think you started with a very happy and optimistic tone. I have about two questions. Due to delayed monsoon sale of asbestos cement sheets might have been higher in the second

quarter, now does this mean that lower sale of asbestos cement sheets in the third as well as the fourth quarter? My second question is in the first half what is the capacity utilization at your Nasik Plant?

Manish Sanghi: The monsoon is now well and truly over. I agree with you that the monsoon got delayed a little bit into July and partly in August, but we are still seeing strong demand continuing and good pricing continuing as we have moved into October, and if I were to really forecast from here, I would think that things should remain strong going forward. As far as capacity utilization of Nasik is concerned, we operate three different lines over there and utilization level is anywhere between 70% and 80%-odd.

Janak Merchant: What are the average realizations nowadays in the asbestos cement sheet industry?

Manish Sanghi: Average realization when you speak, I am assuming you are talking in terms of after freight and after... It varies a lot from area to area.

Janak Merchant: What is the approximate rate Sir?

Manish Sanghi: I would say it would vary anywhere between Rs.9000 and Rs.10,000 a tonne.

Janak Merchant: That is all. Thank you very much.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Techno Shares & Stocks. Please go ahead.

Abhilasha Satale: Sir, this 20% improvement that you have posted during the quarter year-on-year basis, just wanted to know how much is volume driven and how much is price driven, like how much price increase you have taken in due course and how much is volume growth posted during this period?

Manish Sanghi: Abhilasha, you are asking what is the breakup of the sales revenue growth between volume and price? It is essentially a growth which is coming by a better pricing. We are operating at higher capacity utilization, so we really did not have much scope for volume growth. So I would not have the exact proportion with me right now but majority of it would be really price driven.

Abhilasha Satale: Sir, in regard with margin, what do you think that this margin improvement we have seen in the first half of the year, it is quite enormous, so what do you think, going forward we will be able to maintain margin because we fix our raw material quantity for the year, so I just wanted to know that outlook on margin for the second half of the year?

Manish Sanghi: Our margin depends on two things. We are very highly dependent upon raw material. So cement and fiber, these are the two basic raw materials and the third is freight if I might call it a raw material because it is a big part of our expenditure. The second obviously is the selling price.

Unless the dollar behaves irrationally and goes to levels of 60 or something like that happens, I expect the raw material prices to remain safely stable in the next few months or till the end of the year and as I mentioned in the opening remarks as well, we are seeing a fairly strong demand outlook from across the country, it is not really regional dependent, I am seeing it in south, I am seeing it very strong in east, fairly good in north, so the margins which have improved I see no reason why they should be reducing in the next few months.

Abhilasha Satale:

Thank you. That is it from my side.

Moderator:

Thank you. We are going to take our next question. It is from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni:

Thanks for taking my question. Sir, in your presentation, I can say that your volumes have been declined to 133,000 metric tonnes against 139,000 metric tonnes. So I just want to understand what was the reason for the decline in the volumes?

Manish Sanghi:

We were really focused on better price realization. To some extent you can say that we sacrificed volume in order to get a better price realization. The second part of it is related to some bit of our board volumes. We had lower exports compared to the previous quarter, previous year and that is what has contributed to the decline, but most of it I say would be as for a plant we wanted to keep the prices up rather than push volumes into the marketplace.

Rahul Soni:

So you want to say that artificially you have created this?

Manish Sanghi:

I do not know whether should call it artificially it is, you play with prices to get volumes; we did not do that.

Rahul Soni:

But the thing is like there are other players also, same segment you are operating, so do not you think that since you have produced a lower volume than last year then others might have taken benefit of this?

Manish Sanghi:

I would not know their numbers, so I would not be able to comment upon what the increases or decreases have happened with them, but our plan was revenue maximization and profit maximization during this period and as far as production is concerned we actually did better in the period. Our production went up by close to 9% as far as the building products are concerned and 21% increase in steel buildings and even if I go to look at the half year; our production is up by 6% on building products.

Rahul Soni:

What was your capacity utilization?

Manish Sanghi:

All our plants are running. We have not stopped any plant other than for maintenance, so to that extent like somebody asked me the question about Nasik utilization, because of the ongoing

trouble over there we produce less than what was the capacity, but at other places we are close to full capacity.

Rahul Soni: I am asking about the average utilization in this quarter and last quarter in the building product segment?

Manish Sanghi: The average capacity utilization would be in the tune of something like 90% odd. Our stated capacity for the year is 710 and what we produced on a pro-rata basis was 706, so all our factories are operating to virtually full capacity, we have not taken any shutdowns of any kind.

Rahul Soni: Last year in the same quarter?

Manish Sanghi: Last year in this quarter we produced 158,000 tonnes versus 172,000 tonnes this year, so it is up by close to 9%.

Rahul Soni: Can you tell me during last one year when you have taken the price increase do you see any scope of price increasing in the rest half of the year?

Manish Sanghi: Rahul, I am not too sure whether there would be further price increases which will happen in rest of the year. The price increases happened in case there is stimulants for that and the stimulants in the past had been the increase in the dollar, the increase in freight prices, so unless and until there is an external stimulant of this kind, I do not see the prices really going up any further from here.

Rahul Soni: What is your guidance on volume for the second half?

Manish Sanghi: We are operating to capacity that is the maximum number, which I can tell.

Rahul Soni: As for you the volumes might remain flat?

Manish Sanghi: The volumes will not increase significantly except for the fact that we are producing more than last year, so to that extent our volumes will go up.

Rahul Soni: Can you give me the figure for the second half of 2012, production figure?

Manish Sanghi: Production figure will be similar to the first half, which is 353,000. The production figure will be similar 353,000. Sales figure should be marginally higher.

Rahul Soni: More or less same?

Manish Sanghi: Yes, it should be similar.

Rahul Soni: Thank you.

Moderator: Thank you. The next question is from the line of Kartik Keyan from Suyash Advisors. Please go ahead.

Kartik Keyan: Good afternoon Sir. Just wanted to clarify one point with regard to the profitability of the steel building segment, is there scope for further improvements here and related question would be what is the pricing environment that you see in steel building business currently, if you could clarify on these two issues?

Manish Sanghi: Steel building is very highly volume dependent, so any increase in volumes results in a disproportionate increase in profitability over there and that is the difference between the first quarter and the second quarter. In first quarter somehow our approvals from customers have not come through, so we took a dip in volumes and that is why the profitability went down a great deal. Right now, the order book is robust. The pricing varies a lot depending upon the kind of projects which are there in the market place. We are very selective in what we do in the market. We do not necessarily run after large projects, so payment terms and realizations are the two key factors based on which we do our selection and we operate in the market. I do not expect any price pressure whether profitability in terms of pricing will go up I do not think so, but if we are able to ramp up our volumes, the profitability of the division will definitely be going up. In addition, in the steel building we have started doing metal roofing as well and that is also adding to the topline and I expect that to do much better in the next half of the year.

Kartik Keyan: Very best of luck Sir. I will come back if I have any other questions.

Moderator: Thank you. The next question is from the line of Aparna Shankar from SBI Mutual Fund. Please go ahead.

Aparna Shankar: Good afternoon Sir. Congratulations on a good set of numbers. I was just looking at this quarterly numbers of ours, looking at EBIT per tonne for the last year first half and this year, with the flat volumes also the EBIT per tonne has improved a lot, maybe from last year same quarter around 720 to 1450 in building products and similar, maybe little, not so robust case is in the steel building, so was there something which was not normal last year and the things have normalized this year or any other attributes you would like to point out which you have contributed for the better profitability?

Manish Sanghi: I would like to think that it is essentially on account of better realization and better realizations one on account of better marketing. We are selling much closer to the production facilities than before it is a very conscious effort to abandon some markets and to adopt some more markets which are closer by. There was nothing very special if you think in terms of was there anything adverse last year, no there was not anything specific, which was adverse except that in this particular quarter, one, struggle for volumes and when you are struggling for volumes you tend to lower the prices. We very deliberately decided that we will sell closer and we will sell it at our pricing and we were able to manage that.

- Aparna Shankar:** I take your point, but I see realizations improving by 20%. If you take September 2011 quarter to September 2012 quarter, the EBIT per tonne has almost doubled or is it a wrong way to look at it?
- Manish Sanghi:** I do not think it is a wrong way to look at it, it is the right way. EBIT increases disproportionately when the pricing goes up. The pricing went up for everybody, so there was a general inflationary environment which was there for the product pricing and in that environment we were able to do with marketing effort a better job.
- Aparna Shankar:** I think Mr. Gupta mentioned about ROCE in these two different segments for it is closer to around, improving in building products from 20% to 28% and steel building at around 28%. What kind of target ROCE do you have and this kind of robust ROCE usually invites for a competition, so what is your view on that?
- Manish Sanghi:** I would actually ask Rakesh to answer that question in more detail, but before I do that, one is that, the ROCE going forward would probably not remain as high once the new plant is on stream, once Balasore comes on stream at least initially the ROCE would take some dip because there would be a new capital and there would be some ramp up time which will be there for the new projects and as far as increasing competition is concerned there is a lot of competition in both fiber cement and in PEB. In PEB there are close to 15, 16 organized people and another 25 odd unorganized players. So there are at least 40 to 50 players who are there in the marketplace. In Fiber Cement also there are close to 17 players in the marketplace. So the competition does exist and competition is good for the industry I think. Rakesh, do you want to add something to it?
- Rakesh Gupta:** I think you have clearly covered. Basically better price administration is the thing, which is the freight optimization and things like that.
- Aparna Shankar:** Okay and Balasore total capex is how much Sir?
- Manish Sanghi:** Balasore total capex expected is Rs.45 to Rs.50 Crores.
- Aparna Shankar:** Rs.9 Crores you have spent out of that?
- Manish Sanghi:** Actually that is a spend, which has physically happened. All the equipment is on order and we will be spending much more of that in the next couple of months.
- Aparna Shankar:** Sorry I could not hear the last comment.
- Manish Sanghi:** I said that we have spent that much, but all the equipment is on order and now that will start coming in. So the spend on the project would really be much higher in the next few months.
- Aparna Shankar:** Thanks a lot and all the best.

- Moderator:** Thank you. The next question is from the line of Manav Vijay who is an individual investor. Please go ahead.
- Manav Vijay:** Sir I just have a couple of questions to understand. First of all if we were to take first half of this year versus first half of last year on a volume growth we were almost flat. So let us see if we had higher volumes to sell and considering the strong price environment that we had we would be in a position to sell all that, let us say if we had more capacity to build?
- Manish Sanghi:** Manav, in the first half of the year the volume has actually gone up in tonne terms by 6%. So if I were to have extra volumes I would definitely be able to sell additional volumes. My ability to grow right now is constrained by my ability to produce. We are experiencing of a very strong rural demand and there is very high liquidity at the bottom of the pyramid really speaking and that seems to be increasing. The so-called food inflation, which we often talk about and we talk about it in negative terms contributes to this liquidity and I see no signs of it having away in the times to come.
- Manav Vijay:** So my second question actually comes on the first question. So if we had more capacity to manufacture we do have the market to sell so now we were trying to expand our capacity one is Balasore and second is Nasik. Nasik due to an unfortunate event I believe that expansion is on hold as of now. Am I right?
- Manish Sanghi:** There were not plans for capacity expansion in Nasik of any kind.
- Manav Vijay:** There was a Rs.100 Crores expansion plan. One is Balasore which is 50 Crores and then we had one more expansion plan of Rs.100 Crores.
- Manish Sanghi:** No, we had not announced any plans for Nasik. The only other expansion, which has been announced, is a small plant in Ranchi for Metal Roofing, but there is nothing planned at Nasik.
- Manav Vijay:** Now considering that we have enough market to sell till Q1 we had spend around Rs.6 Crores on Balasore, Q2 we are at Rs.9 Crores is it not possible to actually I should speed up the Capex?
- Manish Sanghi:** We will go into production towards end of this year. Physically as of now it is not possible to speed up the project any further. It took time to get various government approvals and really speaking we cannot do much about it. So this capacity will be realized towards middle of next year. Next season, which is there we should be seeing Balasore in operation.
- Manav Vijay:** So we should have commercial production from Balasore I should say in which quarter?
- Manish Sanghi:** I would really consider as Q1 of next year.
- Manav Vijay:** Q1 of next year?

- Manish Sanghi:** Q1 of next year it should start production and it will ramp up thereafter.
- Manav Vijay:** I believe that is all from my side. Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Bharti Gupta:** Sir this is Bharti Gupta from Sushil Finance. Thank you for taking my question. First of all congratulations to the management for such good set of numbers. Sir my first question is on the raw material front, if you can just share the blended rate of Chrysotile Fiber?
- Manish Sanghi:** Average rate per tonne would be close to Rs.4000.
- Bharti Gupta:** In dollar terms?
- Manish Sanghi:** Dollar terms you will have to just divide it. It will be around \$74.
- Bharti Gupta:** Sir this would be per tonne?
- Manish Sanghi:** It is per tonne of my sheet. I am not talking of per tonne of the fiber.
- Bharti Gupta:** I was speaking in per tonne?
- Manish Sanghi:** So, if you were to do that it will be 75 X 12 which will be close to \$900.
- Bharti Gupta:** \$900.
- Manish Sanghi:** It will be between \$850 and \$900. It again varies a lot from plant to plant. The plants which are nearer the coast have it cheaper, the plants which are inland have it higher but this will be the broad range.
- Bharti Gupta:** If you can just share the raw material volume details if you may have that is fiber, cement and steel that we have consumed?
- Manish Sanghi:** I do not have it frankly right now but typically we use 9% to 10% of Chrysotile in the roofing and in the steel building it is all of steel so the production volume is the steel consumed. So in this quarter we consumed close to 5,600 tonnes of steel, because there is nothing really much other than steel in steel buildings.
- Bharti Gupta:** True, so our production of steel buildings would be like we have sold close to 7300 of steel buildings in tonnage terms. Production is close to 5,600?

- Manish Sanghi:** It is 6600, rest would be some inventory, which has got reduced in this quarter and I think we did some outsourcing we bought from some people and sold it.
- Bharti Gupta:** Sir but we have done the outsourcing, is it because of the capacity constraints that probably we are facing because we believe that last year we did it close to about 23,420 tonnes of production and sales. So the capacity utilization stands close to 70% to 75% so going forward it is why have we gone for outsourcing any particular reason for that?
- Manish Sanghi:** We do outsourcing for many different reasons. At times it is for capacity, and capacity at that point of time. It may not be capacity on an overall basis. If suddenly you are flooded with orders and in that short period of time you are required to supply a lot you might choose to do that. Second part of it once in a while it happens that you want a source, which is closer to your customer, so you may do some outsourcing for that purpose as well. So it is a different reason at different points of time. It is not really the same reason.
- Bharti Gupta:** Sir, in our PEB division what would be the order book in terms of volume?
- Manish Sanghi:** We have orders, which are confirmed of close to 20,000 metric tonnes.
- Bharti Gupta:** What is the average execution period?
- Manish Sanghi:** Average execution we are doing currently close to 2200 to 2300 tonnes a month. So this is an order book, which is good for around eight odd months.
- Bharti Gupta:** Any major order inflows that we have seen during the quarter?
- Manish Sanghi:** We have seen a steady inflow. We are getting from all kinds of customers, if you talk of a specific pattern there is not really much of a pattern which is there. My typical customers continue to be Godrej, Britannia, Honda, GM, we once again did some projects for Wal-Mart. We had done earlier a lot of projects for them. We once again did some projects for them. It is a varied set of people. We are doing projects for Whirlpool. We did some projects for Wardaman. These are ongoing projects.
- Bharti Gupta:** Sir just one last question on your Forex since a significant portion of a raw material cost of dollar denominated have we reported any kind of forex gain or loss during this quarter in our financials?
- Manish Sanghi:** There is no significant loss or gain and as far as our loans and all are concerned the forex loan which we have taken is fully hedged. So there is nothing open over there.
- Bharti Gupta:** At what rate are we hedged for the loans?
- Manish Sanghi:** You are talking for hedging for which one the forex loan?

- Bharti Gupta:** Forex loan.
- Manish Sanghi:** All total cost of the forex loan would be around 10.3%. This is a LIBOR hedge and a forex hedge.
- Bharti Gupta:** That is it from my end Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Dharmendra Grover from Prudence Fund. Please go ahead.
- Dharmendra Grover:** I had just a couple of questions. One from the discussion that we have been having on the volumes versus the pricing during the quarter. I assume this is the B2C business where if you are vacating a certain place does it mean that the demand remains unsaturated there because you are taking a higher price and not waiting to go down on the pricing we forgetting the volume or is it that your dealer margins have gone down and that is why you have a better pricing in that?
- Manish Sanghi:** I am not sure I fully understood the question, but let me still try to answer. First of all the market does not remain unsaturated. There are too many players in the marketplace for a demand to go unfulfilled. Either it will be fulfilled by product lines or it will be fulfilled by alternate products, there are many alternate products to roofing. So it might be fulfilled by GI roof or by Mangalore tiles, or by stones or by concrete roof. So the demand would be met one way or the other but most of the times I believe the demand would be met by a competitor of mine who would choose to sell at a lower price compared to me and take that volume. I do not think the dealer volumes have really declined. The dealers are very, very resistant to change their margins. In fact we find a trend in which their margins remain virtually rock steady all across our margins, it may keep going up and down but our research shows that their margins are very, very steady. In fact the retail pricing also remains far steadier than the wholesale pricing which is there in the market.
- Dharmendra Grover:** In that sense the production that we did, we are carrying a lot of inventory at the end of September 30, am I correct to understand that?
- Manish Sanghi:** We are carrying inventory for sure and this is a trend, which has been followed for many, many years that for six months we reduce inventory and for six months we accumulate inventory.
- Dharmendra Grover:** So that is where I come to, because this was the strategic decision that you took during the quarter not to lower your prices to get the volumes, will you do that in the next half then to liquidate the inventory?
- Manish Sanghi:** Typically this quarter I would probably be accumulating some bit more of inventory and in the first half of the calendar year, which is the period January to June is when the inventory gets liquidated. If I were to divide a year into two parts January to June is the part when we liquidate, July to December is the part when we accumulate.

- Dharmendra Grover:** I agree. I am just saying from the strategic point of view when you have taken a decision not to lower your prices and give the volumes to your competitor would you change your strategy or is it in the next half or is there a substantial change?
- Manish Sanghi:** As of now I see no reason why that policy should be changed but market is a dynamic place so as of now if you ask me no. We would stick to what we are doing.
- Dharmendra Grover:** Am I correct to understand that you expect the volumes that you would have lost in second quarter you expect it to gain it back in the third quarter?
- Manish Sanghi:** First of all the volume, if any, which I have lost is very, very insignificant in nature. I would be bothered if I was losing a lot of volumes. I am not losing a lot of volumes. I have lost some 5,000 tonnes which is really nothing in the overall scheme of things. So I would be very, very if I was losing a lot of volume. I am not really losing much of volume.
- Dharmendra Grover:** My second question is regarding your imports, because it is so currency dependent. How do you hedge your imports during the year? Is it on a quarterly basis or is it on an annual contract that you would have?
- Manish Sanghi:** You are talking on the forex front only not with the suppliers?
- Dharmendra Grover:** No on the forex front only.
- Manish Sanghi:** On the forex our positions on imports remain open.
- Dharmendra Grover:** Remain open during the year.
- Manish Sanghi:** Yes.
- Dharmendra Grover:** With the suppliers?
- Manish Sanghi:** With the supplier normally there is an annual contract.
- Dharmendra Grover:** Thirdly on the Nasik front; can we understand what the issues there were and when do you expect to get it resolved and what is the status right now?
- Manish Sanghi:** Nasik is a complex issue which relates to indiscipline by workers and low productivity and we wanted to sort these two things out. There was a long-term settlement which was pending and we wanted the increases to be linked to improve discipline and a better productivity and that is what has resulted in the current situation. The strike has lasted long. It is now nearly one year since strike is going on, so obviously the issue is complex and difficult for me to predict when it will get sorted.

- Dharmendra Grover:** So it is completely shut for the last one year?
- Manish Sanghi:** The plant is not shutdown. My executives, my officers are putting in a fabulous effort over there to keep the plant running. The fact is that the plant shut down for only a few days in the beginning since then it is operating.
- Dharmendra Grover:** You are saying that the labour is not there but your executives are running the plant, is that a correct statement?
- Manish Sanghi:** That is right.
- Dharmendra Grover:** On the contract basis that you are running the plant.
- Manish Sanghi:** We are running it with the help of officers and management staffs.
- Dharmendra Grover:** Thanks a lot Sir.
- Moderator:** Thank you. The next question is from the line of Parag Sumeshwar from Almondz Global Securities. Please go ahead.
- Parag Sumeshwar:** Mr. Sanghi good afternoon. My question has been largely answered. Just wanted to know in Q2 even without any volume growth as you explained due to better pricing power, you have been able to raise profit. Can this be a sustainable phenomenon in the third quarter, fourth quarter even in the medium term can you really keep on doing this because with just six players control I think 60% or more than 60% of the market share, so this industry can continue to do this?
- Manish Sanghi:** I see no reason why it should change. I sincerely believe that the pricing should sustain. Of course, the demand has to sustain for that and the current indications which I have from the market are of a strong demand.
- Parag Sumeshwar:** Thanks.
- Moderator:** Thank you. We are going to take the next question from the line of Grishma Shah from Envision Capital. Please go ahead.
- Grishma Shah:** Good afternoon Sir. I just wanted to know the demand supply situation for the industry as you are putting up a plant. How many other players are also coming up with capacity next year and how the entire multiply situation pans out because this year I believe the last 1.5 years nobody has put up a capacity so that they view leeway of increasing prices?
- Manish Sanghi:** Actually some plants came into production. There were plants which came up in UP. There were plants which came up in Bihar. There were plants which came up in Odisha. There was a plant which came up in Madhya Pradesh. There is a plant which came up in Himachal; there is one

extra line which came up in Rajasthan. These are some plants, which I can count off hand. So the plants did come up and I think there will be more plants which would be coming up in the next few months as well. I am expecting a plant to come up in Vijayawada. There is a plant which is likely to come up near Jaipur. There is another plant at least one more plant coming up in Bihar, one more in Bengal, and there is one more in Tamil Nadu. So there is capacity increase which is going to happen but what has happened over the years is that the base has become much larger of the industry. A few years back the industry used to be very small and a single plant used to make a big difference in the capacity demand equation. Now with the increased capacity which already exists a couple of plants here and there really do not make that big a difference and with the growth bias of the industry being sustained. So that is absolutely essential of course.

Grishma Shah: So incrementally would the capacity addition across industries be in the range of 8% to 10% or even more than that?

Manish Sanghi: It will be lesser than that. The increase in capacity would be more in the range of 5% odd.

Grishma Shah: So it is basically in line with what volume growth the industry has been doing?

Manish Sanghi: Absolutely. Finally the capacity and the market move in tandem.

Grishma Shah: Thank you and good luck.

Moderator: Thank you. The next question is from the line of Vishal Dhanraj from HDFC Securities. Please go ahead.

Vishal Dhanraj: Good afternoon Sir. My question is with regard to the steel buildings. I believe the approximate PBIT margins for the segment are in the 5% to 7% range. Now is this the sort of range that is expected to continue going forward or is there a possibility of improvement in the range?

Manish Sanghi: Just repeat this again Vishal I am not sure I got you right.

Vishal Dhanraj: I was talking about the PBIT margins in this steel building segment. They have stayed in the 5% to 7% odd range for most quarters for you, so I want to know whether that is a sort of standard range for the industry across among all the players in this segment or is this sort of something that can improve going forward.

Manish Sanghi: It can improve a little bit but not by a very large margin because in the PEB industry the steel bit of it is really a pass through. Let us say tomorrow the steel price declines, and then this margin will go up because my margin is really on conversion rather than on price of steel. So if the steel price doubles then this number may come down further. So I do not see any major change happening. As of now the steel pricing continues to be steady, slightly declining if I might say so. So I do not see much change. We expect a small improvement because of better capacity utilization.

- Vishal Dhanraj:** So in terms of when you increase your utilization when you increase your volumes we can see that trickle down to your margins as well?
- Manish Sanghi:** Yes, for sure.
- Vishal Dhanraj:** In terms of the raw materials for the cement sheets how are fiber prices in comparison to the past year and cement prices in comparison to the past year?
- Manish Sanghi:** The fiber vendors have taken a big price increase this year. We have no indications from them as to what they are going to do next year. Really speaking we will start understanding it only towards December and January we will get some indication of how is the pricing going to be.
- Vishal Dhanraj:** When you say this year when did they take this increase?
- Manish Sanghi:** They took some increase in January and some from April.
- Vishal Dhanraj:** So year-on-year your margins are still up; how is that happening?
- Manish Sanghi:** By better pricing.
- Vishal Dhanraj:** So whatever raw material prices that have gone up you have been able to pass?
- Manish Sanghi:** We have been able to pass it to the market turn actually more than pass it.
- Vishal Dhanraj:** The demand continues to remain strong?
- Manish Sanghi:** That is right. Please understand that fiber cement roofing is the most economical way of having a roof over your head. There is increased liquidity in the rural sector and people aspire for a better life and one of the most basic things of that aspiration is to have a better house. There is still a very large number of people who live in what we can define as kacha houses which has straw roof or mud tiles and these are the set of people who are aspiring to go higher up in life and are adopting our roof and very interestingly this phenomena is there even in developed states where they are using it more and more for their tractor garages, for animal shelters, for storage warehouses, so we are seeing a pattern which is across all of rural India wanting to upgrade their life and willing to spend on it.
- Vishal Dhanraj:** Lastly coming to the Nasik plant, you said that in spite of the strike your management over there and your people there are still managing to run the show. So what I am trying to understand is now that has there not been any form of negative impact of it other than the few days that we were shutdown?
- Manish Sanghi:** I think it will be wrong for me to say that there has been no impact. My utilization at Nasik is lower than in other plants.

- Vishal Dhanraj:** But you still said it is above 80% odd?
- Manish Sanghi:** Yes, but at other places it was close to 100%.
- Vishal Dhanraj:** So the impact of the labor just from layman observation is 20% only?
- Manish Sanghi:** That is what it appears to be, they are highly automated plants. There are good modern Italian and Danish plants at Nasik. Two of our plants are Italian, one is a Danish plant. They are modern and they are automated.
- Vishal Dhanraj:** Just to understand now when what kind of labor issue is there in Nasik now and when can we expect it to go through considering it has almost been a year?
- Manish Sanghi:** I would not be able to give you a timeline on when will it get resolved because whether it goes for so long, it is a complicated issue. I sincerely hope, wish and pray that the workers see their benefits and the benefits of the company and till that realization is down from them resolution is difficult and frankly after this assault on our officers the things have become more difficult because you can understand that if you are attacked things become more complicated.
- Vishal Dhanraj:** Alright and now just a final point on the expansion that is going on right now, when will that approximately come into play Q1 next year?
- Manish Sanghi:** Q1 next year is when we will start seeing the production happening and it should be by middle of next year we should be seeing it in full flow.
- Vishal Dhanraj:** Okay, and what kind of capacity is it that you are adding?
- Manish Sanghi:** About 1,00,000 metric tonnes.
- Vishal Dhanraj:** That is the only capex that we have planned right now?
- Manish Sanghi:** There is another small unit which is coming up in Ranchi. It is a very small unit, it is a unit for making metal roofing and that would also come on stream in the same time period.
- Vishal Dhanraj:** As you said last time at in the same time that is going to be used largely for your steel buildings captive use itself?
- Manish Sanghi:** Actually not, we sell metal roofing as well. We have just started selling metal roofing and predominantly it will be producing metal roofing for retail.
- Vishal Dhanraj:** Okay, so now it is not going to be largely supplying to your own captive consumption?
- Manish Sanghi:** No.

- Vishal Dhanraj:** What kind of revenue can such a small unit contribute?
- Manish Sanghi:** The capacities in these plants are large, so potentially it can contribute anywhere in revenue term from Rs.50 to Rs.70 Crores, but the value addition is lower.
- Vishal Dhanraj:** Right exactly, so this is already a fairly competitive space, so what is the rationale to go into that?
- Manish Sanghi:** Everest is a very strong brand name in roofing and it enjoys a fabulous reputation in the marketplace, it also has a fabulous distribution network. I think we can leverage it in order to market this product. There is a big product difference and there is a big brand difference in this segment compared to fiber cement.
- Vishal Dhanraj:** So the users of this product are different?
- Manish Sanghi:** They are a little different because these sheets are significantly costlier compared to the fiber cement roofs typically that they will be double the price.
- Vishal Dhanraj:** Okay, so we do not expect any major cannibalization of your own fiber cement?
- Manish Sanghi:** I do not expect a major cannibalization. If anything is better I cannibalize it rather than somebody else cannibalizing it.
- Vishal Dhanraj:** That is all as of now. Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand over the conference to Mr. Manish Sanghi for closing comments. Thank you.
- Manish Sanghi:** There were a very interesting set of questions. I hope I was able to answer to your satisfaction. We at Everest are bullish about the marketplace, about the different businesses, which we are into and we think we have the right management and the right resources in place to tackle and to exploit the large opportunity whichever various businesses offers us. As I said before we are very excited about the rural Indian market, the liquidity in rural market, the bottom pyramids where the whole lot of wealth is lying and we are also very excited about the way India is building, the way India wants things done faster because that is where we come in with our various solutions and I think we have well on our way in our transformation from a single product to a multi-solution company. I am sure we will have something more interesting to share with you when we meet with you the next time. As I had mentioned the last time around we want to make it a regular feature and I hope to talk to all of you next time around coming January. Thank you.
- Moderator:** Thank you. On behalf of Everest Industries Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.