



"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 Q3 FY13 Earning Conference Call of Everest Industries Limited. As a reminder for the duration of the conference all participant lines are 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, M.D. of Everest Industries Limited. Thank you and over to you Sir.

Manish Sanghi: Good afternoon friends. We welcome you all to our discussion on Q3 FY'13 Earnings. Along with me I have our CFO, Mr. Rakesh Gupta and Strategic Growth Advisors SGA, our Investor Relations Advisor. We have prepared and circulated analyst presentation and same is uploaded on our website too. I am hoping that you have already seen that.

This quarter also we saw a strong demand across our product lines. The demand was better than what we had seen in the same quarter last year and we are pretty confident that the demand for the next three months for the remaining year will continue to be strong. As far as the roofing business is concerned and as I mentioned in our previous call our roofing products have been witnessing strong growth in demand mainly due to the social development schemes of the government, aimed at uplifting the quality of living in rural India. Increasing employment opportunities in rural India rising minimum support prices, higher wage rate, the government scheme like NREGA have been driving the demand for our roofing products. Also the desire of the rural India to have a better living condition a lot of them moving from the thatched roof to a better roof have been the major drivers.

We also strongly believe that the upcoming election in 2014, should also play a positive role and we have seen this in the past as well as in general the spending by the government and rural India goes up in the election year or the year before the election.

Boards and panel business is essentially an urban application and we are seeing a strong demand over there as well. It is interesting that while the urban real estate is stagnating to some extent, the demand for our products in the urban segment it still increasing mainly because of the desire of the people and their need to build faster and to build in a readymade fashion and that is the thing which we fulfill. We also continue to have a strong demand for our boards and panels in the export market of the Middle East region.

We had a strike at our Nasik Plant for a very long time. The strike at the Nasik Plant was called off and all workers of the Everest family are back on regular work schedule from January 18. We are still having a discussion with the union on a final long-term settlement. The workers were on strike since November 2011 onwards the plant work running during the period as it is automated and a lot of our officers joined the floor working on the floor to support us in running the plant.

Our Steel Building segment has shown a good growth this quarter. We believe the industry will continue to grow at 25%-30% growth rate per annum. This segment is mainly driven by growth in industry, warehousing and infrastructure. We also believe that the FDI approval in multibrand retail will help us in increasing the demand for warehouses across the country. Just to add to this we have build a lot warehouses for Wal-mart for their cash and carry business and we believe this can become a major segment. An improvement in the investment cycle in the industry will and can give for the boost to industrial building construction activity where PEB buildings are becoming the preferred choice. This quarter we have completed a lot of different projects for many companies and some of them like Honda CL and Whirlpool.

We also interestingly build a design centre at our own factory in Bhagwanpur. The highlight of this was designed to final usage of the building it was completed in 44 days and it was inaugurated by the Chief Minister of Uttarakhand as the first of its kind, fast completion project in the state. Continuing on the speed been the Limca Book of Records in his latest edition is featuring an institute done by themselves in Lucknow, we did a building of 60,000 square feet in 90 days from design to commissioning.

On the Capex side as you are aware we had undertaken a green filed expansion of 100,000 metric tons for roofing sheet at Baleshwar or Balasore in Odisha. The civil's construction has been completed and the plant and machinery installation is a progressing well. We will be in a position to have production by mid 2013 as planned. Post expansion our total building product capacity will go up to over 810,000 metric tonnes. These are the broad guidelines and information I had to share I will now hand over to my colleague Mr. Rakesh Gupta, our CFO to take you through the financial performance of the third quarter.

Rakesh Gupta:

Thank you Manish and good afternoon friends. I will take you through our results, which have been circulated in the presentation that has been mailed to you all. We have recorded revenue of Rs.258 Crores in the preceding quarter, which is higher by around 23% as compared to Rs.210 Crores in Q3 of last year.

The EBITDA for the quarter is Rs.19 Crores a growth of over 19% over the corresponding period of the previous year. Net profit for the quarter is around Rs. 9.6 Crores, which when compared with the net profit during the corresponding quarter of the last year showed a growth of 32%. Building product segment contributed Rs.187.7 Crores to the topline whereas the steel building segment contributed Rs.70.5 Crores.

In terms of the segment wise performance, return on capital employed in both the segments have shown improvement, which in case of building product improved from 23.1% last year to around 28% this year 27.8% to be precise. The segment, which comprises of fiber cement, roofing sheet, board and panel, the volume grew by about 8.4% and the turnover at Rs.187. 7 Crores was up by 22% over last year, which indicates a better pricing in the market.

The EBIT for the quarter was Rs.14.6 Crores up by 16% over last year. The EBIT margins stands at 7.8%. In steel building segment, our ROCE grew from 28.7% last year to 39.7% this year due to better inventory management. The segment's revenue at Rs.70.5 Crores versus Rs. 57 Crores in the last year showed a growth of approximately 24% and the EBIT for the segment at Rs. 44.3Crores is up by 52% over last year.

In terms of the ROCE for the company has a whole there is an improvement from 23.4% to 25.3% in the current year. As briefly touched upon already by our M.D. the capacity expansion at Baleshwar is progressing well. We have already spent around Rs.23 Crores in civil construction and plant and machinery. There is no cost or time overrun the plant will be operational by mid 2013. As on December 2012, we have a gross debt of around Rs. 121 Crores including a buyer's credit of Rs.21 Crores, which is availed purely for interest cost and income optimization. The ECB of USD 12 Million is fully hedged within all included cost of 10.3%. The company's cash and bank balances, which stood at Rs.70.54 Crores, which includes a fixed deposit of Rs.47.26 Crore with the company's banker. We can now take the question.

Moderator: Thank you very much. We will now being with the question and answer session. We are going to take our first question from the line of Rahul Agarwal from Systematix. Please go ahead.

Rahul Agarwal: Thanks for giving me the opportunity. My first question pertains to an opening comment by you wherein you said that the socialist company from government is feeling demand for roofing products in rural areas. So when this demand is growing then all the players in the industry would be adding capacities, so would you be. So, going forward we have a scenario where the government reduces the spending or cuts on a spending so what happens to the excess demand? How much time does it take for us to recover the cost we have incurred in expanding the additional capacity? So, generally what is the breakeven period and what is the payback period for a new plant and what happens to the excess capacities that gets treated in this process?

Manish Sanghi: First of all the government cannot stop, according to me the plan for the rural India and for the poor. You keep having bursts, operate in which the activity by the government becomes more than normal, but the second is that there is an increase in prosperity and if you look at a long-term trends that graph is only going upwards where their rural incomes are going on increasing. So the only thing, which can change is the rate of growth. The direction is not really going to undergo a change. The second part is that we are talking of India as a whole as a very large country on a very, very large base and over that base the capacity addition, which happens an increasingly over a period time as the industry has grown the rate of capacity addition is not so high anymore. So, a few plants here and there do not really make a too much of a difference to the demand supply matrix of the industry. In terms of the payback period it varies upon where the plant is and depends upon the input cost and the pricing in that particular geographical area and I would say it varies anywhere between three and six years depending upon where it is.

- Rahul Agarwal:** So, the new plant is which we have at Baleshwar so what is the pay back period you expect for that plant?
- Manish Sanghi:** If things go well I should do anywhere between four and five years.
- Rahul Agarwal:** Now my next question is on your results in Q3, we have seen a sharp increase in raw material cost that is 56.28% vis-à-vis last year it was in fact if I compare last quarter it was 51.2% so what is there in the raw material cost which lead to such high variations quarter on quarter?
- Manish Sanghi:** We use very limited amount of raw material so it is actually very easily identifiable. Our big raw material is imported and it is fiber, which we get from abroad and we are hit by the Dollar exchange rate. When compared to last year it is the Dollar exchange rate, which has hit us very significantly and also there have been price increases done by the suppliers. Also to some extent we are hit, because he deal in bulky material our freight cost of getting the raw material in also gets factored in as a raw material increase.
- Rahul Agarwal:** What has been the increase in asbestos price vis-à-vis last quarter and other cost, actually in Q2 FY'13 our raw material cost was 51.2%. So there has been a 5.6% increase there?
- Manish Sanghi:** The fiber price per se has not really changed too much from last quarter to this quarter, but the way we use of the fiber you have in your inventory some old fiber and new fiber so that particular mix has changed and that is what is really reflecting in the increase in the cost price which you are noticing.
- Rahul Agarwal:** There has been no change in inventory methodology. You still maintain FIFO or LIFO?
- Rakesh Gupta:** Yes, there is no change.
- Manish Sanghi:** We actually do the raw material inventory valuation on the weighted average basis. So as old material gets consumed the weighted average price keeps changing with the new material coming in so the weighted average price there could have been come in. Number two, when you look at raw material as a percentage to sale we have to also factor in that we have two major segments which is one is steel and the other is building product. Steel inherently has a huge portion of raw material cost and the building product has in a mixed up scenario deriving conclusion on the basis of one singular number may not be fully in place.
- Rahul Agarwal:** Sir when we are importing excess stock what are the payable terms you have and how do you hedge the import cost?
- Rakesh Gupta:** There are two three suppliers. The terms vary from each one of them. They are no standard terms with the suppliers and as far as hedging is concerned our positions on imports remain open.
- Rahul Agarwal:** I will get back in the queue for more questions.

- Moderator:** Thank you. We are going to take our next question from the line of Sathyamoorthy from Sundaram Mutual Fund. Please go ahead.
- Sathyamoorthy:** Thanks for taking my question. This question again pertains to the raw material price increase. If you could just give an idea of what has been the other cost components apart from asbestos as to what has been the price increase in cement and the other raw materials that are involved?
- Manish Sanghi:** First of Sathyamoorthy thanks for joining the call and I hope you have a good visit to our Roorkee plant. The main raw material, which goes into our product are the asbestos fibers, the cement, the fly ash and the pulp and though it is not directly a raw material but I still call it a raw material it is freight because it becomes a significant input to the products. If I were to talk of a variation between last quarter and this because of the way Mr. Rakesh just explained how the inventory valuation changed the cost of the fiber part of it. The cement price has been varying up and down and if you ask me right now it is fairly range bound. We are not seeing major movement in it up and down. We are not seeing an upward trend on the cement prices as of today. So, that is consistent. The freight part of it has gone up quite a bit and I am not very sure how the new dual pricing policy of diesel is going to effect as we still need to understand it in a greater detail. But that impacts the fly ash cost for us because in fly ash the major component is freight, but otherwise I would say the input cost has been fairly consistent power has gone up for little bit but there are not really very significant changes.
- Sathyamoorthy:** So, going forward do we have to look at similar levels of raw material cost as a percentage of sales or do you think the percentage will decline in the next few quarters?
- Manish Sanghi:** On the pricing front typically the Q3 is one of our worst quarters because in Q2 you still have reminisce of the season months still rolling into that Q2 results. Q3 is not really having that so normal price trend shows that from Q4 to Q1, there is an increase in demand and the subsequent increase in pricing so I would hope for a raw material percentage declining to a certain extent in the coming period.
- Sathyamoorthy:** Couple of other data points could you tell us the utilization levels for the building and steel products segments?
- Manish Sanghi:** Right now we are operating at virtual full capacity on all the businesses.
- Sathyamoorthy:** Thanks a lot Sir.
- Moderator:** We are going to take our next question from the line of Bharti Gupta from Sushil finance. Please go ahead.
- Bharati Gupta:** Sir, I have the same question on the building product margins. Should we assume that the margins that we have reported in the third quarter that is about 7.8% will continue to be at these sustainable levels for the coming quarters the marginal 100 basis points increase?

- Manish Sanghi:** I would think so.
- Bharati Gupta:** So, on a sustainable basis your blended margins on the building products would be in the range of 8% to 9%?
- Manish Sanghi:** I see no reason why it should be anything different. In season months it may go up little bit but otherwise it should be sustained.
- Bharati Gupta:** Sir, as far as steel building is concerned we are doing very good in terms of the execution part is concerned because since quarter two we have been doing an excess of 7,000 tonnes. So, if this momentum continues then will be reaching almost about 93% utilization levels on a full year basis so do you have any expansion plans in place for the steel buildings?
- Manish Sanghi:** We are considering expansion but as of today we have not taken a final call on it.
- Bharati Gupta:** Because our current capacity stands at 30,000 tonnes so will we be going in for third shift to increase the capacity 45,000?
- Manish Sanghi:** We have partially started a third shift and we are working towards debottlenecking and increases the though put through out Roorkee plant.
- Bharati Gupta:** So what kind of increase should we factor in for the next financial year? Should we assume that the capacity is gone up to about 35 to 40-odd K in terms of tonnage for the steel unit?
- Manish Sanghi:** I would answer the question in two different ways. My ability to sell and my ability to produce are two different things and we are working on these two independently. We believe we will definitely be improving on our sales side much more and we would source that material. Also in a small way, I am having one small plant, which is coming on stream in the first quarter of next financial year at Roorkee, which will also help me increase the steel building capacity. It is a small plant essentially for roofing but it will help me enhance the capacity. This is coming up at Ranchi. It is a small one.
- Bharati Gupta:** The capex is about 4-odd Crores that you have stated earlier?
- Manish Sanghi:** That is right.
- Bharati Gupta:** Sir as far as the Nasik plant is concerned; you have stated that in your presentation those long-term settlement discussions were underway at the Nasik plant. So, if you can just share some more insight into this like what will be the incremental volume that will be coming from the Nasik plant and the kind of revenues that we be generating and what is the current capacity of your Nasik plant?

- Manish Sanghi:** Nasik is not really one plant. Nasik is actually four different plants rolled into one geographical location and our team did a fabulous job in the last 15 months when they managed to run the production extremely efficiently even though the strike was on. So, I am not sure how much the production will go up because we were producing well in any case but we did not want this uncertainty of the strike situation to continue so the people are back and we are negotiating term for them to give us better productivity, quality we just linked to productivity so these are the various points of discussions which are happening. As of now they have come back and they are settling in. It is early days yet.
- Bharati Gupta:** How many workers have resumed or is it entire that you earlier had around 150-odd workers who went on strike?
- Manish Sanghi:** Half the workers are come back.
- Bharati Gupta:** All the workers that is around 150-odd?
- Manish Sanghi:** Roughly half of them have come back we have taken some action against others and that is a part of the settlement we will discussions which we are having.
- Bharati Gupta:** Sir just last one question on your roofing business again if you can just share what is the current industry capacity and the new capacity expansion industry where new capacity expansion that we have witnessed in the roofing space?
- Manish Sanghi:** I frankly do not have that figure readily available with me. Can I send it offline at a later date? I am not having that number with me right now.
- Bharati Gupta:** If I have any further questions, I will come back in the queue.
- Moderator:** Thank you. We are going to take a next question from the line of Baidik Sarkar from Unify Capital. Please go ahead.
- Baidik Sarkar:** Good afternoon gentlemen. Good quarter and YOY. Before I get into the numbers, could you please give us a sense of what really drives seasonality for your building product business across quarters? It would help us put the numbers for the coming quarters in context that is apart from agri and monsoon what really drives the seasonality?
- Manish Sanghi:** I understand your colleague Ravi had visited our plant in Podanur in Coimbatore and I hope the visit was good. What drives seasonality is to have a roof over your head before the rains come in, in roofing and that is the most basic fundamental reason over here. That is why the demand peaks just before monsoon. Generally, the construction activity becomes slower when the rains are happening. So, the walls do not get made that the walls do not get made the roof does not get laid so generally speaking the activity dips down a great deal during monsoon then again starts picking up. The only place, which bugs the trend, is Tamil Nadu, which has a winter monsoon

and that is why the seasonal cycle over there works in a different way compared to the rest of the country.

Baidik Sarkar: Secondly I like to get a pulse in your capacity utilization. Most of my industry colleagues have press-tuned this before and I believe you have been working 100% but you know if you just split up the numbers excluding Nasik it would give us a sense of how much excess capacity would come in given the strike is over right now?

Manish Sanghi: As I mentioned there is no excess capacity which will come in because of Nasik coming back because Nasik never stopped. Nasik plant was working all the time despite the strike. The workers that were strike, but the company was not stopped.

Baidik Sarkar: What is expected to drive topline for FY'15 apart from your new plant in Odisha coming in, what do you think will drive FY'14 revenue? I mean how would you split up realizations and volumes given that I believe we are already at peak volumes so how much of realization uptake can we expect or is there any other variable that will really drive revenue topline for FY'14?

Manish Sanghi: I had been operating at full capacity for many years. Let me just elaborate on it a little bit. A few years back when we produced 5000 tonnes out of this plant, we said we were operating at full capacity. Now we have produced 8500 tonne or 9000 tonnes we call it full capacity. So what is the capacity of the plant is not absolute. It is something which is evolving over a period of time and there exists immense scope for debottlenecking. So, whether we will be able to debottleneck to the extent of 5% or 10%, I am unable to say at this point of time but I am sure we will squeeze out more volumes out of the same plants next year as well. The second part of it is that we have a new capacity, which comes up in Baleshwar or Balasore, a small new plant which comes up in Ranchi. The third part of it is that we are focusing on some more value added products where the realizations are significantly superior and we believe that selling more of them will result into revenue growth even though it may not really be higher in terms of tonnage but in terms of revenue it will be so. This is more in the case of my boards business than the roofing business. In roofing I have two variants I have the non-asbestos roofing and asbestos roofing and we hope to increase the non-asbestos roofing as well in the coming year where the pricing is much better. We call it the Everest Hi-Tech.

Baidik Sarkar: On the base of 700,000 metric tonnes on a conservative basis what is the incremental capacity addition from debottlenecking we can expect to the coming year?

Manish Sanghi: I would stick my neck out and say I should expect something like 5%.

Baidik Sarkar: The new capacity is 100,000 in Odisha and what's the capacity in Ranchi you said?

Manish Sanghi: Ranchi is a metal roofing plant. So it is the capacity there is really my ability to sell rather than my ability to produce.

- Baidik Sarkar:** Moving to FY'14 what is the incremental interest and depreciation cost we could expect towards the end once the Balasore plant up in running?
- Rakesh Gupta:** The incremental depreciation impact because of Balasore will be in the vicinity of Rs. 2 to Rs. 2.5 Crores. There will be some incremental depreciation on account of the routine capex that we keep doing for debottlenecking initiative that we take from time-to-time so if you look at the steady state, I look at next year depreciation to be up between Rs. 2.5 and Rs. 3 Crores.
- Baidik Sarkar:** And any pulse on the interest cost is well?
- Rakesh Gupta:** Interest cost I am looking next year we will have full blown impact of interest for the ECB that we have taken for funding the Balasore plant. I am expecting interest cost to be in the vicinity of Rs. 7 and Rs. 7.5 Crores. That is consolidated for the full year.
- Baidik Sarkar:** Thank you. I will wait on the queue.
- Moderator:** Thank you. We are going to take our next question from the line of Rohit Natarajan from IndSec Securities. Please go ahead.
- Rohit Natarajan:** I just have two questions. I request you to throw some light on the pricing of Chrysotile this year I mean how is it going to impact in FY'14 and that is compared to 800-900 on an average cost per tonne last year how much is the cost as per the contract for this year? If increased do you intend to pass on the entire cost or there could be a hit on margins?
- Manish Sanghi:** As of now we have no visibility on what is the kind of price increase or what is going to be the pricing for next year. So, I will not be really able to make any comment on that. We are still in negotiations, in talks with the suppliers I really do not know how it is going to pan out. As far as our ability to pass on it is a factor of demand and right now our belief is that the demand should be robust should be good and in that case we should be able to pass on if there is any increase but right now I do not know the increase and second factor of the increase always is the exchange part of it again I am unable to really comment on that or I do not have a view on it frankly.
- Rohit Natarajan:** When do you expect these negotiations to finalize Sir?
- Manish Sanghi:** Typically, it should happen in this quarter some time I suppose mid of February or so it should we should know how it is going to be.
- Rohit Natarajan:** For the understanding that we have what is the that we see that cement prices are also going up and even the freight cost are going to move up so how do you see that in will it be passed on your final product or it will there be any compression in margins?
- Manish Sanghi:** We will obviously try our level best to pass it on as the price because it directly affects us. Lot of our products is sold delivered to the customers so we have to absorb the outbound freight as well

and we would be making our best efforts to pass it on. Also any time the diesel price increase happens there are a general inflationary condition, which happens and all commodity's prices start moving up and in that scenario it is relatively easier to convince of the need to increase prices. That is what we are hoping for.

- Rohit Natarajan:** I will get back to you if I have any further question. Thank you.
- Moderator:** Thank you. We are going to take our next question from the line of Dheeraj Devata from SSK Advisors. Please go ahead.
- Dheeraj Devata:** Thanks for taking this question. What I wanted to know is could you throw some more light on the PEB market the steel building market that is we could not get too much data on that and if you could just help us explain the segment more?
- Manish Sanghi:** Dheeraj, PEB is essentially replacement of conventional factory warehouse buildings. The basic premise, which we offer to customer, is that we are going to shift the uncertainty off site to the certainty of a factory. So we will shift as much as possible work from an open site and we will do the work in the factory and at the site we will only do nut bolting rather than anything else. So the segment, which become relevant to me are warehousing and logistics. Number two is industry and when I say industry I virtually mean industry of all kinds. So for company like us I would supply to a Whirlpool, I supply to a General Motors, I supply to Britannia, to a ply company so it is fairly spread out pattern. But the linkage directly would be to industrial production for sure they would definitely be a linkage to the growth of the country.
- Dheeraj Devata:** Sir, who are the players in the segment and how do we factor in the segment what differentiates us from the other?
- Manish Sanghi:** This segment has a large number of players, but if I were to talk of the organized sector players they are multinationals here like Kirby, Blue Scope, which is a joint venture Tata, Tata Blue Scope then there is a Saudi Arabian Company called Zamil, then there are some Indian home grown companies like Interarch, Pennar and Phoenix this would comprise in a way the tier 1 of the industry.
- Dheeraj Devata:** What would you guess would be the market size and what is the scope?
- Manish Sanghi:** The second question which you asked was what distinguishes us from others? I would say basic premise which we say is it is a hassle free building that if you give the job to Everest you can relax; you can be at peace because we would take care of rest of the things. So, rather than talking to 20 different people you are talking to one organized sector player, responsible person like Everest and they would deliver the building to you on time at a fixed price.
- Dheeraj Devata:** So, it also involves the lot of cross selling of our asbestos roofing sheet or non fiber roofing sheets?

- Manish Sanghi:** No not really we are fairly independent businesses.
- Dheeraj Devata:** Sir, what would be the market size here just to understand the scope I mean a rough figure would help us?
- Manish Sanghi:** I really do not have an estimate of your market size and frankly it is evolving because virtually any factory, which can be made in the conventional way, can be made by PEB any supermarket which can be made with brick and mortar can be made with PEB. So, it is very difficult to put a number to it and interestingly a lot of people are shifting their method of building to the PEB way because they find it more convenient. So, if I were to define the market only a PEB as it exists today that is increasing at something at 25% on an annual basis.
- Dheeraj Devata:** So, just to add into that so do we have some kind of a capacity constraint in terms of what kind of revenue line we can do from this segment? Like I understand our capacities are on 30,000 tonnes in steel building, but are that a constraint or can the number of the asset can be increased to get a desired revenue line in case we have the orders?
- Manish Sanghi:** We can increase it to some extent beyond that we will probably have to create new capacities.
- Dheeraj Devata:** So, for now you are not seeing any such huge demand for, which you need to create capacities in advance?
- Rakesh Gupta:** We are continuing it, but like I said earlier we have not taken a call on it yet.
- Dheeraj Devata:** Could you also detail on that capex front for the next two years apart from the maintenance capex that keeps happening? Are we looking at any large apart from the Balasore plant and Ranchi?
- Manish Sanghi:** We have not announced any capex plans. We are in a process of working them out and as and when we take a call on it we would be ready to share it.
- Dheeraj Devata:** Sir just one last question would be in the last three four years when the other industry players were putting up a lot more capacities we did not put that many and is this a conscious shift towards the non-asbestos segment and that there is your steel building and fiber roofing?
- Manish Sanghi:** We treat each business independently and we work towards increasing the size of each of the businesses. Funding is not really that much of a constraint right now so we are looking wherein each business opportunity which comes our way independently.
- Dheeraj Devata:** That was very helpful sir. Thanks a lot.
- Moderator:** Thank you. We are going to take our next question from the line of Sunil Jain from Nirmal Bang. Please go ahead.

- Sunil Jain:** Sir, one question the incremental capacities, which other people are also putting up in asbestos sheet plant is consistently increasing. So, how do you sense that the incremental capacity, which is coming up is not going above the incremental demand, which may be coming in the coming peak seasons? So is there any threat on that and that may restrict your pricing power in the coming period?
- Manish Sanghi:** As of now we do not see a capacity build up happening, which is going to outstrip the demand build up, because as I said earlier the growth of the country is on a much larger base and we see two interesting trends which are happening one is the shift of people from thatched roof to the desired to have a pakka roof over their head and they see our roof has one of the methods of doing so. The second is in a relatively more prosperous area as the economy grows and they become more prosperous, they have a need to store more things. So, a person who becomes a little richer now starts buying a tractor. When you buy the tractor, he says I need to build a small garage for a tractor. The general economy then starts getting a tractor workshop. You start having more shops. So we are seeing a diverse set of usages for the product depending upon the stage of the economy, which is there. One of the sectors for example we are seeing a lot of usage is poultry. Poultry is expanding in a big way across the country and our products keep huge application over there.
- Sunil Jain:** You seem quite confident of passing on the increasing cost, which is happening right now in the coming period?
- Manish Sanghi:** I am reasonably sure about that.
- Sunil Jain:** Thank you very much.
- Moderator:** Thank you. We are going to take our next question that is a follow up question from the line of Rahul Agarwal from Systematix. Please go ahead.
- Rahul Agarwal:** My questions have been answered thank you.
- Moderator:** Thank you. We are going to take our next question the follow up question from the line of Sathyamoorthy from Sundaram Mutual Fund. Please go ahead.
- Sathyamoorthy:** Just wanted to know what is the freight cost as a percentage of raw material cost in Q3?
- Rakesh Gupta:** The freight paid on the input is treated as the input cost. It is not recorded as the freight cost in the books of accounts. So, the freight that you see in the quarterly results that is reported is the outward freight. Because like when we pay freight on the input like asbestos that becomes the part of the cost of that fiscal, so that does not get reported as freight in our results. That is how it is done anywhere else also.
- Sathyamoorthy:** What are the currencies we have exposure to because from where is asbestos being imported?

- Manish Sanghi:** A lot of it comes from Russia but the dealing currency is Dollars.
- Sathyamoorthy:** Thanks a lot.
- Moderator:** Thank you. We are going to take our next follow up question from the line of Baidik Sarkar from Unify Capital. Please go ahead.
- Baidik Sarkar:** Thanks gentlemen. Just wanted to get your comments on the secularity of realization given that parent freight cost will only go up from here, are you confident of maintaining your margin that is vis-à-vis your realizations? Are we under threat your comments on that please?
- Manish Sanghi:** I understand the concern and I am seeing a lot of questions on this angle. As of now, we feel reasonably confident that we should be able to recover that. The input prices will go up I understand freight is going up and power is likely to go up everywhere. We believe we should be able to recover that.
- Baidik Sarkar:** Any corporate actions lined up for your cash which I believe is at Rs. 70 Crores right now even in terms of you know returning it back to shareholders or any other organic initiatives? Any you comments that?
- Manish Sanghi:** We are a fast growing company and we are going to put it into the growth of our company as of now we have no plans to return except the dividend and other than that we are not looking at returning.
- Participant:** Thank you is there anything I will get in touch with you offline.
- Manish Sanghi:** Thank you. We are going to take our next question from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** Sir, my question is on the building product front. You said that your building product margins in the third quarter, which are sequentially down compared to second quarter substantially. In the building product side, we have done a reasonably flat pricing compared to quarter-on-quarter. It is just three percent down quarter on quarter but EBIT pattern is down substantially around 39% quarter-on-quarter. So, it is mainly due to high cost inventory replacing low cost inventory. If I am wrong just correct me that we have generally three month inventory for Chrysotile and generally price hike happens at the end of the calendar year. So, it could have happened in the last January-February. The low cost inventory whatever would be there should be utilized in first quarter maximum and the second quarter should be reflecting the high cost inventory is not that true?
- Manish Sanghi:** I wish it was but it is not so. First of all the big price increase did not happen at that point of time. The price increase actually took place more like April and I had a physical stock and I actually

had a lot of material on the ship in transit and that is why it hit me to some extent in the second quarter as well but the big hit happened in the third quarter.

Kartik Mehta: I think the way the price hike happened in the case of Chrysotile last year you had enough room for increasing the product price, which you have rightly done in the due course, but now even after the at the elevated product price I mean just wanted to check your comfort that up to what extent even the further product price hike can you do considering the ground level present demand supply equation, I am sure you are not aware what would be the Chrysotile pricing environment going ahead but you can definitely by sitting in the company you can say that up to what extent price hike I can do for my finished goods?

Manish Sanghi: This is a reverse question. The demand actually has been fairly inelastic to price and at times it has surprised us as well and it is probably because the product itself though it looks very simple it is a very effective and it is a great product for usage for the application in which it is growing and given that scenario it is great value for money even at this time. Second is there is a general inflationary pressure, which customer is seeing all round him, his food cost is going up, his school costs, cost of education, cost of bus ticket and now cost of railways after a long time, all of them going up so it takes cost at a bit of in his stride. The second part of it is that we get a lot of new customer. So they are not really comparing it with a base, which existed before. They are making their own budget for their house based on the prevailing prices. So it is not that I purchase it last year at Rs.10 and this year you are asking me Rs.11 so it has gone up by 10%, he has never purchased it before particularly when you come down to retail segment. Third is we believe we have been trying to track the alternate prices and we are finding that they are going up as well.

Kartik Mehta: So my point was that have you ground tested by increasing a price hike in some of the pockets before actually Chrysotile price hits you back?

Manish Sanghi: I keep trying it all the time.

Kartik Mehta: So what is the response?

Manish Sanghi: My response is if you do marketing well if you service the market well the prices are acceptable.

Kartik Mehta: We are sitting up on increase in inventory. I think most of that attributes to building product right? So we have been consciously producing though the product is not getting sold at the high price just to take advantage in the peak season so how does your study tells you that that will be fully absorbed by this year-end?

Manish Sanghi: We run short of material every year during season time. We are carrying marginally higher inventory compared to that. We are carrying inventory on raw material as well. So that is the reason why the inventory is probably is high at this point of time.

- Kartik Mehta:** Sir any timeframe do you have that by when the Chrysotile pricing would be fixed upon?
- Manish Sanghi:** I think I expected sometime mid February or so mid February and February kind of timeframe.
- Kartik Mehta:** So, one thing is very sure that we are not going to see the margins like what we see in Q1, Q2 in the building product segment?
- Manish Sanghi:** I did not say that you are saying it. It is difficult for me to say. I would be betting upon being able to increase prices.
- Kartik Mehta:** Sir last question from me the order book if you can just explain in the steel building side?
- Manish Sanghi:** We define the order book as people who have placed orders on us and given us an advance for that. We have an order book, which runs currently close to 23000 metric tonne or roughly Rs. 200 Crores worth.
- Kartik Mehta:** Thanks a lot and good luck.
- Moderator:** Thank you. We are going to take our next question from the line of Chirag Gothi from SKP Securities. Please go ahead.
- Chirag Gothi:** Sir, my question is you are enjoying the income tax exemptions through in Roorkee facilities 100% from FY'2009 to 2013 if I am not wrong and this is the last year right?
- Manish Sanghi:** That is right.
- Chirag Gothi:** You are paying tax more than 30% tax each and every quarter and in the fourth quarter you are adjusting?
- Manish Sanghi:** Yes, I mean the wholesome call gets taken in the last quarter but mostly that trends will be similar in the next quarter also. My weighted EBIT for the current year will be in the vicinity of 28%-29% on the yearly basis.
- Chirag Gothi:** How much you are expecting EBITDA margin from the next two years and it means FY'13 and 14?
- Manish Sanghi:** Next two years we will be something that we will have to do. My income tax exemption will pan out and I will have from the unit where I was getting 100% exemption to 30%, but that it is a function of several factors and it will be more or less the same in terms of the EBITDA margins but there are several factors, which come by the determination of the profit and loss of the year-to-year.

- Chirag Gothi:** Because this is the year first year you broke out more than 10% EBITDA margin that is why I am asking you?
- Manish Sanghi:** Actually when you look at the consolidated number sometimes percentages become not very representative. Our two businesses have different dynamics on the raw material cost. In steel business it is significantly dependent upon steel prices and our major endeavor there is to ensure ROCE and returns per tonne rather than at the percentage because if there is an increase in steel price the percentages have a tendency to go down but in terms of profitability of the business that has not impacted much.
- Chirag Gothi:** Are you also enjoy and such kind of tax benefit in your Odisha plant also?
- Manish Sanghi:** We have some fiscal incentives on the VAT front but I would wait and see the way they finally get granted to us but yes there are some incentives.
- Chirag Gothi:** Through excise or income tax actually?
- Manish Sanghi:** No excise or income tax it is on VAT.
- Chirag Gothi:** Thank you.
- Moderator:** Thank you. We are going to take our next follow up question from the line of Dheeraj Devata from SSK Advisors. Please go ahead.
- Dheeraj Devata:** My question on margins has been answered thanks.
- Moderator:** Thank you. We are going to take our next follow up question from the line of Bharati Gupta from Sushil Finance. Please go ahead.
- Bharati Gupta:** I just have one question on your debt front. That is the ECB that you have taken off \$12 million in the first quarter of this financial year. Can you just explain the repayment schedule for the same?
- Rakesh Gupta:** There is a moratorium of 18 months thereafter it is quarterly installment door to door it is 5.5 years.
- Bharati Gupta:** The repayment will start towards the end of this that is FY'14 right?
- Rakesh Gupta:** Yes.
- Bharati Gupta:** Thanks.



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Moderator: Thank you. Ladies and gentlemen that was the last question. At this time I would like to hand over the conference over to Mr. Manish Sanghi for closing comments. Thank you.

Manish Sanghi: Thank you so much for showing interest in Everest and attending this call. We love to share our information with you and would be happy to answer even if there are any other questions offline and we look forward to talking to you once again in three months' time. Thank you so much.

Moderator: On behalf of Everest Industries Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.