“Everest Industries Limited Q3 Financial Year 2014 Conference Call”

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MANAGEMENT: MR. MANISH SANGHI
MR. RAKESH GUPTA

Moderator: Ladies and gentlemen, good day and welcome to the Everest Industries, Q3 FY 2014 Earning Conference Call. As a reminder all participant lines are in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. I now hand the conference over to Mr. Manish Sanghi, Managing Director of Everest. Thank you and over to you Sir!

Manish Sanghi: Thanks and a very good morning friends. We welcome you all to the discussion on our quarter and nine months ending December 31, 2013. Along with me I have our CFO Mr. Rakesh Gupta and Strategic Growth Advisors, SGA our Investor Relations Advisor. We had prepared and circulated the results update presentation and the same is also uploaded on our website. I am assuming that you have all gone through that. Q3 has been a mixed quarter. In many ways it was a below par performance. It was below our expectations but it was much better than Q2 and the improvement was on account of an improvement in volumes and cost control measures which we have put in place. We are seeing and particularly in January that is post the Q3 signs that things are improving, however after having said that if I were to talk only of Q3, the economy in Q3 continued to be sluggish. There continued to be issues regarding liquidity in the market and government spending surprisingly continued to be low. If I were to talk of roofing in particular the roofing volumes was particularly subdued in south and eastern India, south was low on account of the winter monsoon not really being that great for the last two, three years in Tamil Nadu and Tamil Nadu power crisis. Orissa faced the cyclone fury and large parts of Southern Bengal had major floods. As I said there was slowdown as far as government spending was concerned. I am seeing demand peaking up from the second half of January and I expect it to become pretty strong in North, East and West. We have had good monsoons. The crops are good, the pricing is good and traditionally we are seeing all these issued combined together to turn in to a good demand. Also, we believe that a lot of people have postponed their purchase decision and they will see a pent up requirement which is there in the market place which we should be seeing coming forth in the next few months. The boards and panels part of the business continues steadily both in domestic and export market, however value added products like the designer ceilings, planks and solid wall panels are being increasingly well accepted in the marketplace and we are extremely bullish about them and they have started contributing significantly to our bottomline as well as on the revenues there. On the steel building side the general industrial activity is slow but there are two factors which are continuing to happen, one the pre-engineered buildings are taking a larger share of the pie, that is of all the industrial buildings and warehouses that are being made, more are being made the pre-engineered buildings way and that is increasing every year so despite a slowdown in industrial activity our part of the business continues to grow. In addition to that we have done better on account of a very, very intense marketing effort. We are signing on an order book of close to 37,000 metric tonnes and this constantly increasing. Our new project at Dahej in Gujarat, Dahej is in Bharuch district in between Baroda and Surat with an investment of Rs. 50 Crores is progressing as per schedule and within budgets. We will be starting our production, the trial production in March 2014. Once this project is fully commissioned we will have a total capacity of over 60,000 metric tonnes. We are extremely excited about this project and we believe this can potentially make us very, very competitive in the western and southern pre-engineered buildings market where our presence so far has been relatively limited. We have already started our launch activity, so there is a large series of customer meetings, scientific meet, print advertisements and so on which are taking place to attract business for the new project.

On the raw material side I thought I would just mention it that on the roofing side one of the key raw material is Chrysotile fiber which forms depending upon the exchange rate anywhere between 70 to 75% of our material cost. This is bit of a concern, the rupee has been behaving erratically, so what impact how rupee will behave in future will impact our cost price.

On the steel side there has been an increase in the last few months of steel prices, we are not really expecting the trend to persist but we need to wait and watch as we go forward. The impact on us should not be really very high because steel is purchased on a spot basis and our orders are not really that long term. We have initiated a major cost initiative and under that initiative we are looking at all aspects of the cost including inventories, processes, methods, alternate raw material and so on and we believe that the effect of that will also start showing in the subsequent quarters. I would leave the rest to the question and answer which we will have but I am handing over to Mr. Rakesh to give you more details on the finance numbers.

Rakesh Gupta: Thank you Manish and good afternoon friends. I will now take you through our results which we have circulated in the presentation that have been mailed to you. We have recorded revenue of Rs. 231 Crores in Q3 of FY 2014; this is lower by around 11% as compared to Rs. 258 Crores in the corresponding period last year. The EBITDA for Q3 FY 14 is Rs. 7.7 Crores. This shows an improvement over Q2 FY 14 which was Rs. 9 Crores but certainly less than Rs. 19 Crores that we achieved in Q3 of the previous year. The EBITDA for the quarter was mainly impacted by lower volume in the building product as compared to last year on account of sluggish market conditions and the increase in material cost due to significant rupees depreciation and the continuing increase in freight cost due to increasing diesel prices. Building product segment contributed Rs. 173 Crores the topline whereas the steel building segment contributed Rs. 58 Crores. In the building product segment which comprises of fiber cement roofing, sheets, boards and panels the volumes were lower by approximately 13.8% and the turnover at Rs. 173 Crores was lower by around 8% as compared to the corresponding quarter in the previous year. EBITDA of the segment for Q3 FY 2014 was Rs. 6.4 Crores with an EBIT margin of 3.7%. In the case of steel building segment our revenue for Q3 FY 2014 is Rs. 58 Crores versus Rs. 70 Crores in the corresponding quarter last year. The volume in Q3 FY 2014 is higher by around 2% as compared to corresponding period last year. In Q3 FY 2014 the EBIT for the segment is Rs. 1 Crore. In this segment we have an order book of approximately 37,000 metric tonnes or over Rs. 310 Crores as on December 31, 2013. We expect the volumes to improve going forward. Post monsoon, civil construction activity at project site have picked up. The capacity expansion of 30,000 metric tonne in our steel building segment is progressing well. The plant building has been constructed and equipment installation is in final stages. We expect to start trial production during the current financial year. I think this briefly what I had to share and we can with Manish concurring can have a question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Hi, good morning gentleman, the first question your optimism on pent up demand translating to sales has been there ever since Q1 FY 2014 but it obviously has not translated in Q2 and Q3. What indicators are currently there in the ground that make you believe that the demand pipeline is still intact and that it will translate to say in Q4 and Q1 FY 2015 and has not evaporated for good, just wanted to understand the lead indicators that you are following that makes you believe so?

Manish Sanghi: We do a pipeline analysis wherein we try to measure what has been the retail offtake rather than the primary offtake the pattern of the demand very often in the marketplace states that trade stocks up a lot during this period during Q3 a lot of stocking takes place in the marketplace and that is subsequently offloaded in Q4 and Q1 of next year. So, when I look at primary sale number that is the primary sale which is from the company to the trade that has declined but the sale from the dealers to the final customers is showing an increasing trend, so what we are reading it as that because the demand declines the trade is a little reluctant to hold stocks but the basic demand from the consumer is very much intact and the pipeline is becoming empty. Having said that I should also say that South continues to be an area of concern and we need to watch out for that, I think everywhere else we are seeing very definite signs of things picking up.

Baidik Sarkar: What is your inventory position as on date and what kind of capacity utilization you are running at?

Manish Sanghi: If you ask me in the month of January we ran virtually excepting south we ran plants to capacity. Are you talking about raw material, or finished goods or what kind of inventory are you talking about?

Baidik Sarkar: Both segments, finished goods both segments.

Manish Sanghi: The total inventory was Rs. 262 Crores a year back was Rs. 226 Crores.

Baidik Sarkar: Will you continue to run at fully capacity utilization expecting a robust Q1 because just in case you miss Q1 FY 2015 you have to carry forward the inventory and there will be a reasonable hike in carrying cost for the reminder of the year, so just wanted to understand your inventory management last year this point in time?

Manish Sanghi: By very nature of our product one on roofing we have to carry a large inventory because 21-23 days is what is required for curing, so if you have capacity of 60,000 metric tonnes per moth production in roofing I am holding over 40 odd thousand tonnes necessarily as WIP, so there is no choice but to do that. The other is that we have added capacity in the Eastern market which used to be a deficit market for us and we are now reducing our inventory what we would have normally carried in to Q1 of the next year, we would be carrying relatively a lesser inventory of FG.

Baidik Sarkar: What is the capacity utilization at your new Orissa plant as on date?

Manish Sanghi: The plant is stabilized. The plant has an ability to produce 10,000 tonnes ultimately and our schedule was that it should reach something like 75% installed capacity by the end of the year; we are on track for that.

Baidik Sarkar: So you are saying we will do about 75,000 metric tonnes by the end of December 2014.

Manish Sanghi: No there are two parts of it, I think I am misleading you, I wanted to say that one is an ability to produce that is the plant having technically stabilized that part has happened, we have the ability to produce but last few months Orissa has been troubled, East has been troubled by the cyclone and the very extensive floods in the southern part of Bengal because of which we have taken shutdown over there.

Baidik Sarkar: So you are not producing anything in that plant right now?

Manish Sanghi: No as of today it is running at full capacity.

Baidik Sarkar: So the Orissa plant is running at full capacity.

Manish Sanghi: Yes.

Baidik Sarkar: Sir just wanted to check what kind of realization we are witnessing in the current quarter vis-à-vis the previous quarters?

Manish Sanghi: If you are talking of pricing in the market there is no significant change from Q2 to Q3, they are at the same level.

Baidik Sarkar: I am sorry if I missed this in your opening remarks, what is the forex impact on this quarter?

Manish Sanghi: We don’t have any forex loss.

Moderator: The next question is from Dhananjay Mishra from Sushil Finance, please go ahead.

Dhananjay Mishra: Sir my question is regarding the steel building segment, in terms of volume we have increased 2.5% but in value term it has actually fallen from Rs. 70 Crores to Rs. 58 Crores and as you said that you procure steel on a spot business as and when you get the order, is it like we are getting orders at a lower price that is why this and also if I consider the realization it is Rs. 71,360 for this quarter against last quarter of Rs. 91,000 so what is happening in this segment?

Manish Sanghi: I would not say there is any major change. The tonnage and the value realization really depends upon the mix of the order, depends on the kind of building which we have supplied. Our building contain if I were to talk essentially one built up section which is the fabricated section and then the covering the cladding which is going around the building. The typical difference between the cost of the two is something like 40%, so whenever we have a heavy building that is the building is required for wherein heavy material is to moved, lots of cranes and so on then the fabricated sections become heavier, the cladding remains relatively light, so that building will give on a per tonne basis a lesser revenue. On the other hand a godown kind of a building would give on a per tonne basis a higher realization, so it is really to do with the mix of the orders which we would have supplied during the quarter; there is no fundamental change otherwise.

Dhananjay Mishra: How are the new orders for you from 30,000 metric tonnes to 37,000, you have added about 7,000 so how is that order, this is in terms of mix?

Manish Sanghi: I don't have specific data but we are not seeing any real change in the mix. It is a mix of industry and not much of automobile happening right now, much more of food industry, dairy, FMCG is the kind of orders which we are getting.

Dhananjay Mishra: In terms of EBIT margin do you still maintain the 5-6% kind of margin in this segment go forward?

Manish Sanghi: What we work with is on a order to order basis really look at the value add, the value add finally translates in to EBIT, I expect it to become a little better as we go forward because last two quarters we were impacted by the steel price increase and while we were having orders at old prices, so that backlog would have reduced and so it should improve a little bit.

Moderator: The next question is from the line of Neeraj Marathe from HU Consultancy, please go ahead.

Neeraj Marathe: Good morning sir, three questions sir, first question was as per news reports Reliance Industries has come out with a fiber which is a substitute to asbestos, as per reports one of our competitors has already substituted about 20-25% of their asbestos with this fiber, are we looking in to the same or anything happening on that front?

Manish Sanghi: This fiber frankly has been there for long. It is not a complete substitute for asbestos. It can replace some quantity and we use some of it and we keep trying out various other kinds of things on a constant basis. If it results in to a better product then a reduction in cost.

Neeraj Marathe: Since I am not a technical person wanted to ask you there will be no scenario where a large part of our raw material in terms of asbestos will be replaced by this fiber?

Manish Sanghi: There is another product line which we can make which is made with synthetic fiber totally; we call it Everest High Tech which is made with an imported fiber called PVA and a very specialized PP. It is replaced over there but the price of that is higher and that has a limited market.

Neeraj Marathe: My Second question sir we are seeing an increase in interest cost for this quarter so most of it is due to increased working capital requirement, working capital debt?

Manish Sanghi: One reason is that the projects got capitalized, so the interest costs are coming in P&L rather than going in the capital account.

Neeraj Marathe: But has there been any significant increase in debt we are witnessing December 31, 2013.

Manish Sanghi: As compared to last year yes but not really much of a change from quarter-to-quarter?

Neeraj Marathe: If I could have a figure sir if it is handy?

Manish Sanghi: Can we do that offline because I am not having it handy with me right now.

Neeraj Marathe: Last question was sir in this quarter on the cement roofing sheets segment have we taken any price hike or no price hike at all?

Manish Sanghi: There is no change in realization. For the customer there is a price increase to the extent that we are spending more on freight, so that part at least is getting recovered but otherwise there is not really any significant change in price.

Neeraj Marathe: Sir, if I could just get a sense of all India capacity in this segment as well as the current total sales that happens just a rough idea, I wanted to understand if there is a significant over capacity in this segment which leads to absence of any price increases?

Manish Sanghi: The total capacity in the industry would be around 6 million tonnes per annum. If I were to assume all the plants working at 100% capacity but the current utilization normal cases in a normal year the utilization is to the order of around 85, 88% and this year it is down by 15% compared to that. The industry compared to last year is down by 17% as per the numbers available.

Moderator: The next question is from the line of Sunil Jain from Nirmal Bang, please go ahead.

Sunil Jain: Good afternoon sir, my question relates to first of all you had explained that steel building realization which has come down by around 20,000 rupees from Q2 to Q3 will that be so much because we don't have such high margins in any of these two different products whether it is fabrication or cladding, so is this material cost difference because ultimately both the things are using steel?

Manish Sanghi: Let me put it this way. There are in the steel building segment two, three things which go in to it. As I said one is built up section, built up section steel for that is bought at something like 48,000 rupees a tonne, for cladding you buy it as something like 64,000, 65,000 rupees a tonne, so and as I said it is a mix issue, to some extent it is a pricing issue as well in case the raw material prices are down, my selling prices also come down, the third is that we also do metal roofing and in that we do pure in the cladding part of it. It is a mix which really determines what is the revenue per tonne.

Sunil Jain: To be more specific on this since we had not seen this type of realization in many quarters if I see last 10-12 quarters this type of realization has never come, so can we consider this more of this particular quarter specific or this can even occur in the future also?

Manish Sanghi: I think I will have to check out and give details; I would not be able to give more details on it right now. We have actually not noticed any trend, any major change and I would need to look at these numbers separately to understand.

Sunil Jain: Sir how much is the percentage of sales to the southern region which is comparatively weak right now, in our overall sales how much is the south region sales?

Manish Sanghi: I have a total of seven roofing lines and two of them are in southern India, you can assume all of them to be of similar capacity. Out of 7 lakh tonnes nearly 2 lakh tonnes come from southern India.

Sunil Jain: Around 30% plus.

Manish Sanghi: Yes.

Sunil Jain: Apart from this fiber prices since New Year has started has there been any change in fiber prices?

Manish Sanghi: So far there is no change in fiber prices.

Sunil Jain: Anything expected or it is already negotiated?

Manish Sanghi: No contracts of any kind have been signed.

Sunil Jain: So, there is a possibility that there could be some change?

Manish Sanghi: I don't really expect change in terms of an increase.

Sunil Jain: We book order sales right now in steel building the order is 37,000 tonnes and you said that you don't carry risk of steel prices since we had booked 37,000 order means we have booked for almost one year, so definitely we are carrying risk of steel for long term orders.

Manish Sanghi: A lot of this order booking has been done expecting our new plant to start which as I said is going to start next month. The second part of it is the orders which are large and have long delivery periods there is always price variation clause in them and in case a customer delays, I mean a person places an order on us today, gives us an advance, that is when we call it an order but for some reason the project is delayed and he picks it up after one year then he is liable to give you the changed pricing.

Sunil Jain: Sir apart from this in the building product how you see demand in the fourth quarter, last year we had seen decline in demand from third quarter to fourth quarter, we had seen decline in sales, are we expecting decline or maybe pick up from here from third quarter?

Manish Sanghi: As of today my expectation is we will be seeing an improvement. We will not be seeing a decline we should be seeing an improvement.

Sunil Jain: Sir any possibility of increase in price for building product?

Manish Sanghi: I suppose it is related with demand in many ways and typically the pricing and the demand move in tandem, so we hope that the pricing will improve. I really cannot comment much on that.

Sunil Jain: Sir, this time we had seen a very good improvement in gross margin, what was the reason for that since we were holding, I was assuming like we are holding higher cost of chrysotile fiber inventory and the other cost nothing has come down, how we were able to improve gross margin to a large extent.

Manish Sanghi: As I said we had initiated a cost program and somebody earlier mentioned looking at raw material mix and so on so we had done that, the second is that volumes go up and volume increases have a disproportionate impact on the margin.

Sunil Jain: Even gross margin as well?

Manish Sanghi: Yes, because you are factoring in and the fixed costs remains really the same irrespective of the volume.

Sunil Jain: I was just calculating gross margin as inventory or raw material cost total and minusing it from sales, not looking at any fixed cost or anything factory cost.

Manish Sanghi: Some part of it would go on account of more efficient production and more efficient product mix.

Moderator: The next question is from the line of Paras Adenwala from Capital Portfolio Advisors, please go ahead.

Paras Adenwala: I was just looking at your average realizations from the numbers that you have given and you know it is very simplistically calculated as sales turnover divided by volumes and I see a 7% increase in building products and almost the whole of decline in other segments, steel segment is coming from reduction in realizations, so could you just explain this please?

Manish Sanghi: Steel is a passthrough business in many ways. What we monitor is really, internally what we really look at is Net Value Add, so we focus a lot on how much value are we adding, we don't really look internally at the absolute revenue over there. In terms of the value add which we have done really speaking there is no change which is very similar and I said earlier I probably have to go back and look at this numbers once again because I don't have a good reason for the question whch you have raised. On the building products side we have sold more of our value added products in last quarter. We have sold more of our designer boards, our planks, our solid wall panels, more of our high tech and those sell at significantly better realization.

Paras Adenwala: Also do you expect this trend to continue or?

Manish Sanghi: I am expecting this trend to continue very definitely.

Paras Adenwala: The second was on interest cost, you did mention that you need to really go back and look at the total borrowings number but would you say that the entire increase in interest cost is due to commissioning of your capacity or we would say partially it is also due to increase in working capital?

Rakesh Gupta: I will just try and explain that we capitalize during the quarter ended September a total of around Rs. 60 Crores which was on account of the SAP and the plant at Baleshwar. This Rs. 60 Crores, if I have to look at the interest cost as compared to Q2 would have an interest impact of Rs. 1.5 Crores, Rs. 60 Crores at an average rate of 10%, Rs. 6 Crores per annum divided by 4 for the quarter, the Rs. 1.5 Crores around it on account of the capitalization of the CWIP that was there in September end but is not there in December end. My total interest cost has gone up by around Rs. 2 Crores. Balance impact will be on account of the increase in the borrowing because of the inventory build up that was I think inquired about by one of the participant. My inventory has actually gone up, so there is some bit of working capital interest and the remaining on account of capitalization of the project.

Paras Adenwala: How are your receivables doing?

Rakesh Gupta: Our receivables are fine. General business philosophy that we follow is do not sell on credit except when it is in case of exports, in case of steel building some of the sales are against LC otherwise we have a business policy that the material is dispatched only on receipt of payment.

There is some bit of erection related debtors which are something which we have to build and realize which is pretty much under control and is not significant part of our topline in any case.

Paras Adenwala: Again looking at your turnover if you have to split up your turnover as being from retail and being from institutional how would it look like?

Manish Sanghi: Typically almost 90 plus percent of my roofing goes in to retail and 100% of my steel building goes in to institutional that is pure B2B.

Paras Adenwala: So it would be same to safe to surmise that even increase in receivables would be entirely almost entirely due to receivables from the steel division correct?

Manish Sanghi: Almost entirely yes, except a little bit which might happen on account of our exports where we have LCs as a payment form.

Paras Adenwala: Finally I am just a bit structural question, I am kind of looking at your raw material the way you really have to procure it or a large part is imported and therefore you are always kind of against a declining rupee and on the other hand you have volumes which are kind of a bit of volatile and therefore from business perspective it is a little difficult to control the business would you agree with this observation?

Manish Sanghi: Oh yes! My raw material is such a large part of the raw material is subject to foreign exchange fluctuation and we have such a volatile exchange rate it does force problem. No doubt about it.

Paras Adenwala: Rupee the way it is kind of poised you know in the last three years it has moved down by 40% and there is very little case the Rupee to appreciate?

Manish Sanghi: I do not take any bets on the Rupee.

Paras Adenwala: The trend, I am talking about the trend, trend is declining?

Manish Sanghi: Yes, the trend is declining but our stance on it is that we keep our positions open.

Rakesh Gupta: Actually if I were to add what Manish had just said, normally we have been able to pass on the increase in cost to the customer but in the current year because of the sluggishness in demand and we have not been actually able to pass on the increased cost to the market. Normally it has been like this that might cost have been going up and because there has been lot of sustained and healthy demand that we have been seeing in the market the prices were remunerative and we expect that as Manish touched upon that we are seeing some demand which is coming to on the retail side it is catching up we feel that the prices will do will certainly become remunerative and we will have reasonable sort of realization that will come our way.

Paras Adenwala: Just last two questions from my side. Are the operations at Nasik now fully stable?

Manish Sanghi: Yes.

Paras Adenwala: The last one was in the building product division how much of your demand comes from rural India?

Manish Sanghi: If I was to talk about rural and small towns, and not really rural particularly, it would be something like 75%.

Paras Adenwala: I see, so clearly this decline in volumes has got to do largely with the problems in rural India or the other smaller towns?

Manish Sanghi: Yes it is.

Paras Adenwala: Wish you all the very best and thank you very much.

Moderator: Thank you. The next question is from the line of Akash Vora from Praj Investment. Please go ahead.

Akash Vora: Sir just one question almost all questions has been answered. Pertaining to our margins except last two quarters if we see margins have always been volatile. Is it pertaining to the raw material cost or what I am actually not able to, as we have never been seeing stable margins over the period so what is it pertaining to?

Manish Sanghi: There are two three factors in our cost and revenue structure, which are volatile. One as we just discussed is the exchange part of it over which we are virtually now controlled. The second is cement, which also goes up and down quite a bit. This year has been relatively stable but otherwise it goes up and down virtually on a monthly basis. The third is our own pricing, which also in a many ways moves and is volatile depending upon the demand scenario. It moves up and down and when you combine all these three the margins start changing.

Akash Vora: Sir but right only like you said that pertaining to demand right now the demand is sluggish so we have not been pass on the price to customer but in the past we have always been able to pass on the cost to the customers. So, I think that would cover up with the margins front it should be remain little stable. I understand June quarter is your best quarter so probably in that quarter it might be a little higher or on a higher side, but rather than it should be more or less has not been stable around?

Manish Sanghi: I think the industry has not really faced the situation. Yes there has been a decline in demand. I think all competitors must be facing issues of the inventories and cash and so on so the pricing has been erratic.

Akash Vora: I am not talking about current last two quarters but in the past also the margins have not been stable because as we said that we have always been able to pass on the pricing cost?

Manish Sanghi: I think there are two parts of it. One is if I want to take this large macro trends in a year you have the seasonal trend wherein the first six months of the year are relatively better compared to the next six months of the year and the pricing moves accordingly. In the first six months the pricing is better than the next six months. Our financial year for it the way its happens is you have the first quarter good prices, next two quarters prices are very low and in the fourth quarter is pricing going up once again. So it looks up and down.

Akash Vora: Sir one more thing what would be your freight cost as a percentage to total sales?

Manish Sanghi: On the building product side it is close to 12%. On the steel building side I think around 4%.

Akash Vora: 12% is a little bit on a higher side I feel. So it because of what reason sir, because as compared to our competitors it is little bit on a higher side 12% on building products?

Manish Sanghi: We also have in our product portfolio apart from roofing, our boards business, in which we have only two production lines one is Nasik and one is Roorkee and we supply to across the country and abroad so that is what changes the freight component for us.

Akash Vora: Anything we have working on to bring down the freight cost as a percentage to sales in the future?

Manish Sanghi: We are trying extremely hard. There are two three things, which we are doing one is that we sell closer. The second is that we negotiate better pricing. The third is that we sell directly rather than routing materials through our depots we sell material to the customer directly.

Akash Vora: Sir lastly we would be seeing from your perspective we will be seeing little uptick in demand in coming quarters right that is your view right Sir?

Manish Sanghi: That is my view.

Akash Vora: Thank you.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Sir just a follow up question, when do your primary customers with the dealer network when do they normally place their Q1 orders?

Manish Sanghi: No come again sorry.

Baidik Sarkar: In terms of timelines, I am just trying to understand that when do your primary customers, we know there is a dealer network when do they place their inventory requirements? When do they place their orders with you? I mean in other words I am trying to figure what kind of growth visibility we have for Q1 FY 2015?

Manish Sanghi: They actually place orders in Q1. We do not have a system in which a person places an order and takes a delivery three months down the line. No, any order which they place is executed in a next 48 hours.

Baidik Sarkar: So there is no order book visibility as of now that we have?

Manish Sanghi: So order book visibility to that extent that do I have orders are supply in April, no. The answer would be no.

Baidik Sarkar: I also in my earlier round I missed I was checking with you on the realization front, as you said the demand offtake – I was just checking that you mentioned that the demand offtake from the primary dealer to the end customer was actually pretty good so keeping that perspective do we have a timeline for taking your realization for taking a price hike? Do we have any indicated deadlines?

Manish Sanghi: I am not too sure I would be wanting to share my pricing strategy on this forum. We are trying for a price increase.

Baidik Sarkar: What is a channel inventory wherein your books you said was Rs. 255 Crores and what is to the channel land?

Manish Sanghi: Channel land is not my inventory.

Baidik Sarkar: I am trying to understand and to figure out, the total inventory in the at least as far as we are concerned, I was just trying to figure out the total inventory in the market? Again just on Everest, just for your channel?

Manish Sanghi: Just for Everest, I would not have that pipeline for channel inventory in front of me but if I were to hazard a guess I could be around 60,000 tonnes.

Baidik Sarkar: My last question is a bookkeeping question. Will your interest and depreciation have similar quarterly runrates for the entire FY 2015 now that the Sambalpur plant has been…?

Manish Sanghi: The current pattern will continue. The one thing, which would happen in the next financial year, is that the Dahej project will get capitalized. So whatever is the interest component on that part of the investment will also start coming in P&L.

Baidik Sarkar: That is right. So how much will that be?

Manish Sanghi: It is a 50 Crores investment we expect in interest charge to be about a Crore per quarter.

Baidik Sarkar: Thank you, Sir. All the best.

Moderator: Thank you. The next question is from the line of Parimal Mithani from Prudential Investment. Please go ahead.

Parimal Mithani: Good morning Sir. I just wanted to have update on your Mauritius subsidiary for which you wanted to export from Middle East and North Africa? Secondly in your concall on July 30 you were mentioned there was a excess capacity in the roofing industry, which has resulted in the low sales in July quarter basically for that and also in terms of I like to know the cash and cash equivalent on your balance sheet as of December 30, and net debt also?

Manish Sanghi: On the Mauritius subsidiary the subsidiary is incorporated. We are in the process of starting the operations in that not much is likely to happen in this particular financial year. We would see more activity in the next financial year.

Parimal Mithani: We still see demand there right?

Manish Sanghi: Pardon.

Parimal Mithani: Do we see demand in Middle East and Africa for our product sales going ahead.

Manish Sanghi: Yes we do export a lot of our products to Middle East and to Africa. So we expect it to pickup a lot. In fact in Middle East, Everest sees the market leader in the board segment.

Parimal Mithani: What about our excess capacity in the industry?

Manish Sanghi: Come again sorry.

Parimal Mithani: You mentioned about excess capacity in the industry?

Manish Sanghi: Excess capacity continues to be there. The only thing, which has happened in the last 12 months is that a lot of the smaller players who had come with single plant they have gone away. We are seeing some kind of a consolidation happening in the industry. The consolidation so far is not resulting into on the smaller plants getting revived. Right now they are all shut down but the number of players has declined. As I said, compared to last financial year we are based on our estimates around 17% down on volume terms and Everest is down by around 12%.

Parimal Mithani: Your relations in Nashik, are they normalized now or still negotiations going on with the workers there?

Manish Sanghi: We have signed the contract with the long-term contracts which was to be done with the workers has been done, so it is a normal situation there.

Parimal Mithani: I would like to know the cash and cash equivalent on your balance sheet of December 31?

Manish Sanghi: I will ask Rakesh to answer this question.

Rakesh Gupta About cash and bank balance is Rs. 28 – 29 Crores.

Parimal Mithani: Sir was there any impact of ECB loan that you have taken, was there any forex write down on this quarter?

Rakesh Gupta No. Actually it was fully hedged at the time of draw down itself because fully hedged for currency as well as for interest, so there is no impact; it is equivalent to our Rupee loan we can say except that it was at lower rate of interest.

Parimal Mithani: What is the debt level as of December 31, net debt on the balance sheet - the level of borrowings on the balance sheet if you can highlight that?

Rakesh Gupta Okay my ECB outstanding total is about Rs. 69 Crores.

Parimal Mithani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Girish Solanki from Anand Rathi. Please go ahead.

Girish Solanki: Good afternoon Sir. My question is more about an industry level. Just wanted to understand after how many years, are we seeing this slowdown because as per my numbers you know we have not seen this slowdown at least from 2004 in terms of volume. You mentioned about we being down 17% on an industry level and Everest being down 12%. Could you put some light on this and what are the reasons because as of now we have had close to three to four calls, but we have not been able to put a firm what is the basic, why basically is this down in terms of volume the reason to it?

Manish Sanghi: In many ways all of us are looking for that reason. I think there were two three things at play over here. One is we found that a lot of our sale happens though we do not sell to the government, it happens because of the government schemes which are in place. So be it a Indira Vikas, Indira Yojana and there are similar schemes done by state government we found and this is a hypothesis that a lot of money of the government seem to have got diverted to the NREGA and programs of those kind which are not really related as housing per se, so the disbursement process slowed down very significantly in large parts of the country. The second is a general inflation. The inflation level has made difficult particularly for the relatively poorer set of people to save enough money for building houses or building a garage or building a shed so that has been at play. So the third one, which is very specific to only this particular monsoon period is that normally a person does not construct when there are rains and rains came early this year almost across the country and they went away late so monsoon period, which is typically intense monsoon is qualified here this year was more like 90 days. If I were to say so to double the period so during that time the sales suffered. What I am hoping for is that this intense monsoon will result into better crops and more money is being realized by the farmer and he having a surplus to make a house.

Girish Solanki: Sir whatever you are saying in terms of your Indira Vikas Yojana overall budget allocation has actually increased over the years its gone up from Rs. 2,200 Crores to close to Rs 10,000 Crores in FY 2013?

Manish Sanghi: I do not have specific numbers in Indira Awaz Yojana, disbursement gone up I am not sure.

Girish Solanki: I think it is 93% - 94% as of now you know even that scheme?

Manish Sanghi: Compared to last year?

Girish Solanki: It was close to that only sir it was 93-94%?

Manish Sanghi: No when I am talking to my trade. I do not have the maximum numbers so when I…

Girish Solanki: Where I am coming from is Sir I just wanted to know whether it is a structural change because from where I am coming you know in Mumbai, we have seen the roofing that we see on the Railway stations you know it was earlier it was supposed to be asbestos cement sheet but now most of it is being removed out and you have this coated steel or metal roofing that has been put which even Everest is in that business but that is what you know I want to see whether it is a structural change that is happening where asbestos business has been moving out from the government bodies from the FCI godown or from the railway stations that we see around?

Manish Sanghi: This has been a slow trend, which has happened over a long period of time that the larger orders that is the institutional orders, large industries has moved to metals and pre-engineered business. In a way we are capitalizing on that side of the story as well but on the other side in rural India a lot of migration is taking place from thatched roofs and tiles to the cement sheeting. So far the migration to metal in the industrial segment was much, much lesser than the addition, which was happening in the rural segment. See in the last nine months or as somebody said some Q1 of from January onwards we are seeing a different trend I am seeing it as a cyclic trend and not really seeing any fundamental change in buying behavior or process.

Girish Solanki: Because Sir what is happening is even though I agree to a point it is our industry is a cyclical industry but it is more in terms of not in terms of demand we have already been cyclical because of the pricing environment or people putting up one plant coming up suddenly in one location and that is the reason you know there was a price disruption of that sorts so you know utilization level has come down so from 2001 onwards till 2012 we saw that behavior happening so but our volumes are growing across the industry if we see the CAGR the volumes were decent enough in fact, we have in 2005-2006 was best years that we had 19% growth in the industry followed by 26% growth and again 14% growth but last two three years despite the government…

Manish Sanghi: I am actually told that the recession with the asbestos industry is once in 10 years so apparently it happened in 1992. I am not aware of it. Apparently it happened in 2002 and a kind of timeframe and it is happening once again so a reason for is difficult to say. The reasons I am talking of are what seem to be an effecting demand on a very immediate basis.

Girish Solanki: But in 2002 also was there such 17%- 18% type of fall in demand?

Manish Sanghi: There was a fall. I do not have precise numbers during those times but let me also say during those were times when supply was very constraint so the effect of falling demand was not really felt too much because the demand was already much higher than what we could produce, but I vaguely remember that we did see a dip in the 2001 – 2002 timeframe.

Girish Solanki: Sir how was the production level been in terms of Swastik and Konark two competitors because the Konark is anyway benefited because of the East demand coming in? How are they placed have they taken market share away from us these two players in the West and East. East we have just started a plant just wanted your comment on these two companies because even they are of substantial size they are close to 4 – 4.5 lakhs tonnes?

Manish Sanghi: I think on a market on a natural basis remained steady. As I said this year we have declined but our decline is less than what the industry has declined.

Girish Solanki: Just wanted to know in terms of a steel building have we capitalized because our capital employed have increased by around 40 Crores over there?

Manish Sanghi: Yes we are having the project going on there.

Girish Solanki: Yes, the Dahej project so have we capitalized in our books?

Manish Sanghi: We have not capitalized, but this has been in CWIP.

Girish Solanki: So we see first production out from July onwards Sir?

Manish Sanghi: From next month.

Girish Solanki: But that will be trial, sir after trial you will have another at least two three months of you know marketing?

Manish Sanghi: Yes, it will stabilize in me expect in the first four months of the next fiscal.

Girish Solanki: April or May you expect?

Manish Sanghi: Yes.

Girish Solanki: Your order book sufficient enough because currently your one plant can take?

Manish Sanghi: It can add significantly to it. We are comfortable as of now, but we will have to take in more orders in what we have been taking in. We will have to take orders to the tune of 5,000 to 6,000 metric tonnes every month.

Girish Solanki: Right, because current capacity will take care 30,000 tonnes can take care of this order that you have in hand, but if you double your capacity then obviously you require another 200 to start with and other Rs. 200 Crores of orders to start with.

Manish Sanghi: Yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Manish Sanghi for closing comments.

Manish Sanghi: Thanks. That was a set of really interesting questions. Thank you all for participating and taking interest in Everest. As I have been repeatedly saying Q3 was something of a letdown for us. We were expecting demand to increase but what we are seeing so far in the month of January and hopefully going forward good crops, good monsoon should result into demand coming back to normal. We continue to be bullish about India and the Dahej project is the result of that bullishness about India that India has to grow. India has to produce more. There will be more warehouses. There will be more colleges. There will be more industries which are going to be setup in the country and that will be setup in the pre-engineer way because customers wanted faster stronger and they wanted to look better. We have over a period of time we have been working towards it to turn ourselves from a product company into multiproduct at first stage and then a building solutions company and today we have multiple solutions and even in our existing business we are doing those extra things, which add value for the customer. Today, in our roofing business we not only supply AC roofing, we supply some accessories along with it and we have a product line of our EPDM washers, we have roof light, we have metal roofing, we take metal roofing projects, we design the roofing so the scope of activities which we are doing is all going up so that we can cater to the requirements of customer. With our boards and panels we are addressing the new emerging India which wants superior quality at reasonable price and in a timely manner. This timely manner bit of it we are seeing is becoming more and more important, which believes that our building product solutions will play a significant role in development of India. The steel building segment is seeing positive momentum and with Dahej, we would be working towards growing this segment very, very significantly. We are confident and I am sure that next time we meet we will have something far more positive to discuss. Thank you so much.

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