"Everest Industries Limited Conference Call”

July 30, 2013

MANAGEMENT: MR. MANISH SANGHI
MR. RAKESH GUPTA

Moderator: Ladies and gentlemen good day and welcome to the Everest Industries Q1 FY14 Earning Call. As a reminder all participant lines will be 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 "*"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 at Everest Industries. Thank you and over to you Mr. Sanghi.

Manish Sanghi: Thanks and a very good morning to all of you friends. It is a nice change to be talking in the morning rather than in the sleepy afternoons. We welcome you all to our discussion on our results for the quarter ending June 30, 2013. Along with me I have our CFO, Mr. Rakesh Gupta and Strategic Growth Advisors SGA, our Investor Relations Advisor. We have prepared and circulated the analyst presentation and the same is uploaded on our website for your reference as well.

The first quarter of financial year 2013-2014 saw a mix performance across our product lines and I am going to take hit up one-by-one. Starting with the roofing business, the Q1 FY14 saw a slightly sluggish demand mainly on account of an inflationary pressure, which resulted in people pushing back their investment decisions for their housing or poultry, or cow sheds and waiting for a little while still they gather enough money. The early onset of the monsoon this year also impacted the demand particularly in the month of June. We however very strongly believe that the good monsoon in current year will have a very positive impact on demand in the coming quarters. There has been a strong correlation of demand vis-à-vis a good monsoon and the forthcoming election should add to that as well. The government has been increasing focus on rural development for quite sometime now and the effects are quite apparent. India is a developing country and they need for infrastructure along with agriculture, will play a key role in the economic growth of the country. The spending on the infrastructure by government will boost demand for boards and panels as well as the pre-engineered steel buildings. We are in a sweet spot to capitalize the economic growth of the country. We have a steady market for exports in Middle East and North African region for our boards and panels. The domestic demand for boards and panels is growing at a steady phase as more and more architects and builders are using our products. We have seen quite a bit of competition coming in, in the boards and panels field and we find it actually very encouraging as there are larger number of companies working towards increasing the market size, this is of course also held by great deal by the shortage of bricks, sand and skilled labor. We expect good things to be happening on the boards and panels front in the next few years.

Talking of CAPEX, as you are already aware we have set up a new roofing plant at Baleshwar in Odisha. The project implementation has been completed as per schedule and as per budget. The trial production is currently going on extremely well and the commercial production is expected to commence in a few weeks. The quality of the product is wonderful and we have received tremendous market response to trial production output. This expansion will take our capacity of building products to 810,000 metric tons from the current 710,000 metric tons. The steel building segment, our steel building segment has shown a good growth this quarter, we believe that the industry itself should grow at, at least 15% per annum. In the current economic environment the construction sector is probably not doing very well, but the share of pre-engineered buildings in the whole construction sector has been increasing steadily. There is a very definite shift happening from concrete structure to pre-engineered buildings in varied sectors like infrastructure, logistics, retail, manufacturing, etc. With the increasing importance of small and medium enterprise in the overall economic growth the demand for PEBs has gained acceptance over the conventional structures. To capitalize all growth potential in the PEB segment we have taken up a greenfield capacity expansion of 30,000 metric tons in the steel building segment at Dahej, Gujarat at a total project cost of Rs.50 Crores. We have already procured the land and the project designing is currently going on and the project implementation is planned to be completed by mid 2014. The new state of the art plant will service orders from western and southern India and help in saving freight cost and improve customer service including faster deliveries to customers. I would just like to mention at this point of time that our order book is strong and our capacity to build is lower than our capacity to sell and that is why the increased capacity will come in very handy.

On the raw material front one of the key raw materials for our roofing business is chrysotile fibre for, which pricing is fixed annually. For the current year the vendors had reduced the price by 4% to 6% in dollar terms, which would impact the margins positively, however we all know that the rupee has depreciated against the dollar and right now we are negotiating with them to work on further discounts. As you might have read that we are proposing to setup a subsidiary in Mauritius. We have a steady export market where we have been operating for the last several years and in order to give further impetus to our export business in our existing market and new markets of Africa and Europe and to develop this as a more focused business segment we are setting up this subsidiary. These are a few of the key points I wanted to share with you, now I will hand over the call to my colleague Rakesh Gupta who is the CFO and he will take you through the financial performance and numbers of the first quarter. Over to you Rakesh.

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 already. We have recorded revenue of Rs.299 Crores in Q1 of FY14 this is up by 2% as compared to Rs.293 Crores in corresponding quarter last year.

The EBITDA for the quarter is Rs.27.6 Crores it is lower by 37% as compared to the corresponding quarter end last year. The EBITDA for the quarter was affected by primarily two three reasons, which are lower volumes and building products on account of sluggish market due to inflationary condition prevailing in the economy, early onset of monsoon this year and increase in material cost due to price increase administered by fiber suppliers last year. The net profit for the year is Rs.13.7 Crores, which is lower by 48% as compared with the net profit in the previous year corresponding quarter. Building product segment contributed Rs.232 Crores to the topline whereas steel building segment contributed Rs.67 Crores adding up to total 299 Crores. Building product segment, which comprises of fiber cement roofing sheet boards and panels the volume were lower by approximately 8% and the turnover at Rs.232 Crores was lower by approximately 6% as compared to corresponding quarter in the last year. The EBIT for the quarter was Rs.25.8 Crores and the EBIT margin stands at 11.1%.

In the case of steel building segment our revenue for the quarter one of FY'14 Rs.67 Crores is up from Rs.46 Crores in the last year and the EBIT for the segment is Rs.3.3 Crores up by approximately 110% over the corresponding quarter last year. In this segment we have an order book of approximately 30,000 tonnes for current date and this amounts to Rs.250 Crores of which order for 10,000 tons has been booked in last three months, there has been a steady flow of orders that we have in this segment.

As briefly touched upon already by Manish, the capacity expansion at Baleshwar has been completed, the trial production has started and the commercial production is due to be commencing very shortly in three, four weeks from now. The capacity expansion of 30,000 metric tons in our steel building segment is progressing as planned. We are currently working on project designing activity the project implementation is expected to be completed by mid 2014. This briefly is what I had to share in terms of numbers for the quarter. Now I think we can have questions and answers from the participants.

Moderator: Thank you very much. Ladies and gentlemen we will now being the question and answer session. First question is from the line of Bharti Gupta from Sushil. Please go ahead.

Bharati Gupta: Thank you for taking my question. My first question pertains to the PEB segment wherein they have reported close to 35% to 36% volume growth and we do have a capacity constraint of 30,000 metric tons. So how are we going to support this growth in the current year?

Manish Sanghi: Thanks Bharati for joining in again. We have been outsourcing our production to certain extent for a little while now and that is how the growth will be supported this year. We are also been doing a little bit of debottlenecking at our plant in Bhagwanpur and that should help, but really speaking we do need capacity expansion and that is why we would try to hurry up the Dahej unit as much as we can.

Bharati Gupta: I do understand that because Dahej is likely to come up in FY15 that is mid of 2014, so for the current fiscal when we are already having close to 30,000 MT order book in hand and we have delivered close to 9,000 tons of steel building in the first quarter. So in order to maintain this run rate we will at least need to expand the capacity to say somewhat about 35,000 to 36,000 and if that is correct then are we looking for any third shift at the existing plant or increasing the, what would be the maximum capacity that we can reach in this particular year?

Manish Sanghi: Let me put it this way that the steel building group as a whole comprises of three different product lines which is PEBs, something which we call as smart steel buildings, and metal roofing. So these three put together form what we call as a steel building segment. We have adequate capacity as far as roofing is concerned we also have another new plant in Ranchi, which is already commissioned and is just awaiting really speaking commercial production is not yet been declared but otherwise it is ready. So I would have enough capacity over there. We have tied-up with some significantly players for buying out the PEB buildings and we believe with that in place this particular growth would not be a problem, but the current arrangement cannot take us to the next level and that is why Dahej would be required.

Bharati Gupta: Okay got it Sir and Sir my next question is coming to the building product segment. We have reported close to 8.5% de-growth in the volumes for the building product that is primarily because of sluggish demand and early onset of the monsoons, but I would just like to understand a brief breakup if you can share between within the building products would be the cement roofing sheets and the boards and panels, because what I understand is because of the monsoon we have boards and panel growth should not be affected and we are seeing kind of a consistent growth in the boards and panels segment that is what we have guided for. So if you can just share the brief breakup between these two product lines as and in terms of grow that the boards and panels has done better or any sort of guidance.

Manish Sanghi: Bharati first of all what you say is absolutely right, the reduction is really on account of roofing business and not on account of boards business that is the fact and boards are holding steady and that is an encouraging sign for me, particularly in view of the fact that there are lot more competitors in the market and yet the volumes are holding steady and are on a positive side. On the roofing itself as I was saying earlier there were two reasons June the monsoon came much earlier than last year, last year we had a delayed monsoon this year the monsoon came early. So to some extent the last year’s numbers were inflated and this year is a little behind but the comparison looks a little worse and because of this effect. The other one as I said when we speak to people they say that the general higher level of inflation is making them push back their decisions on their buildings and this is also being borne out by the fact that the demand for cement and steel is also coming down, I have been seeing the results of some of the cement companies and I find that in volume terms they have slipped back as well and we all know the woes of the steel companies, but the good part for me is that anybody I talk to in the market place thought that this is a great monsoon, it is something which will turn the whole situation around by the time we start touching the third quarter. So the income from this monsoon which will comes early in the October, November timeframe we should see a turnaround.

Bharati Gupta: Okay, but if you can just share the de-growth numbers per se on the cement side, cement sheet side.

Manish Sanghi: About 7% decline in volumes.

Bharati Gupta: In the cement sheets.

Manish Sanghi: In the cement sheets yes.

Bharati Gupta: Okay, but that indicates that we also have a dip in the boards and panels side.

Manish Sanghi: No that is steady there is no change.

Bharati Gupta: Okay, because your total volumes in Q1 FY14 versus Q1 FY13 stood at close to 192,900 MT and it shows a dip of close to 8.4% and if we are having 7% de-growth in the cement sheets then.

Manish Sanghi: I am sorry the number is close to 8.5%.

Bharati Gupta: Yes, 8.5% is the overall volume decline.

Manish Sanghi: Roofing decline is between 8.5% and 9%, which is resulting into an overall decline of 8.4%.

Bharati Gupta: Okay got it.

Moderator: Sorry to interrupt Ms. Gupta after this question could you please return back to the question queue.

Bharati Gupta: Sure I will do that, just one more thing on your subsidiary part where you are setting up a subsidiary in Mauritius. So would it be more pertaining to the boards and panels segment or it would also include your cement sheets.

Manish Sanghi: No, we do not intend to export our asbestos roofing sheet. No, but we do make non-asbestos roofing sheets as well and they do find a market in many countries so it will be aim towards boards and panels for sure but also a non-asbestos roofing sheet.

Bharati Gupta: So will that be a trading arm of Everest Industries.

Manish Sanghi: We are still finalizing how exactly we would work it out and I would be happy to share details once we have made more progress on that.

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

Baidik Sarkar: Good morning gentlemen obviously a very disappointing quarter. My question is in your outlook you mention that good monsoons might lead to a spillover of consumption into the following quarters. So I would like to understand given that we have already completed one month in Q2 are you seeing any kind of issues in volume growth and is demand looking any better.

Manish Sanghi: This is typically a period of high rainfall and the good monsoon frankly does not have an impact on Q2 the good monsoon effect really starts form Q3 because the impact is really when the money start flowing into the farmer and in the agri economic. So I would not really read too much into a Q2 kind of a performance and the July month itself.

Baidik Sarkar: Could you give a sense of how inventory is looking for the industry as such, because I am assuming everybody must have volume de-growth so a sense of how your inventory levels wherein physical and value terms as well as for the industry as such?

Manish Sanghi: The inventory levels are high on account of the drop in volumes that is the case and we would be working towards however to bring it inline with our norms, but it is high.

Baidik Sarkar: Is it quantified for Everest.

Manish Sanghi: I would not know frankly the number for everybody else, but it is higher than the last year for us.

Baidik Sarkar: I am just trying to get a sense in terms of your physical unit as well as value terms would that be possible would you have a sense.

Manish Sanghi: I normally do not share those numbers, so I would not want to share it.

Baidik Sarkar: I am also requesting going forward from a disclosure perspective it will be great if you could please split up the roofing segment as well as the boards and panels segment, because for all practical purposes it is a heterogeneous markets. So as my previous industry colleague also pointed out if you could include that as a part of your disclosure practices that would be great.

Manish Sanghi: Lets think it over.

Baidik Sarkar: Right and just lastly tell a sense of how capacity utilization will ramp up in your Odisha plant for rest of the year.

Manish Sanghi: The capacity over there is around 8,000 to 8,500 tons a month we are currently doing around 6,000 odd tons we have already started touching I believe by the end of the financial year we should be working to between 80% to 90% capacity.

Baidik Sarkar: Accounting for your new Odisha plant how much would you guide for the rest of the year.

Manish Sanghi: Pardon I am sorry I did not get you.

Baidik Sarkar: No, I am just trying to understand that given that Q1 is your anchor for in terms of earnings and the Q1 has been a washout so accounting for the ramp up in Odisha the new capacity that coming in how much would you like to guide in terms of volume and value growth for the three segments, PEB and building products for the remaining three quarters.

Manish Sanghi: On the PEB front we expect to maintain the growth rate which we have achieved in Q1. On the building product side I am expecting the trend to be a little different this year wherein the proportion of Q1 will not be the same as has been in the past and that is why I am saying I am expecting things to change in Q3 and Q4 now what exactly it will be for me it will be a little difficult to call and we have not been giving guidance numbers, but I would expect that Q3 and Q4 we should do much better than last year, it is how I would put it but I am not having numbers with me here.

Baidik Sarkar: Okay, and a very last question. To the remainder of your plants are you working at full capacity or have you ramped down your capacity utilization.

Manish Sanghi: Currently.

Baidik Sarkar: Yes, currently I mean given that volume uptake has been sluggish.

Manish Sanghi: Yes we are managing production levels to keep our inventory in check and but this is something which is regular and standard every year which means out of the ordinary year.

Moderator: Thank you. Next question is from the line of Aksh Vora from Praj Investments. Please go ahead.

Aksh Vora: Good morning Sir. I just wanted to know brief on Mauritius subsidiary are we going to go on with the JV or we are going to be at a fully subsidiary company what kind of a CAPEX would be there and basically are we going to manufacture or trading purposes are over there.

Manish Sanghi: As I mentioned earlier, first of all it is 100% subsidiary the second part is right now it is something, which we have done for facilitation and it is an enabling organization, which we want to put in place. We have plans but I would share them as we firm them up I am sure I would and I would keep intern and I would keep you updating on it but we have interesting plans going ahead.

Aksh Vora: Okay, so Sir it would be means what kind of CAPEX of capacity you are planning anything.

Manish Sanghi: No as of now the CAPEX which we are planning is limited to the Dahej plant that is the one which we have announced and which is Rs.50 Crores the work will start there from August the land is already in possession with us, and other than that the CAPEX would be the standard maintenance and modernization CAPEX, but any new greenfield projects we have been done outside yet.

Aksh Vora: Okay and Sir the debt has gone incrementally higher on this FY13, so are we planning to reduce in the current year form the cash we have or whatever the plans on the debt Sir?

Manish Sanghi: As far as the Dahej project is concerned we will be doing it from the resources currently available with us and that will reduce as we keep paying back the loan but that is as things stand in case we take up something else and the financing for that will have to be seen separately. I just want to point out in this case that we have achieved a financial closure as far as Dahej project is concerned so we really would not be requiring any funding for that.

Aksh Vora: And lastly Sir what could be the incremental change we will be getting and the expanded capacity on both on Dahej and Odisha.

Manish Sanghi: In the new plant going forward we should be producing something like 60,000 to 70,000 tons and that should mean revenue of at least Rs.75 odd Crores incremental revenue in Odisha.

Aksh Vora: Okay, is it same on Dahej.

Manish Sanghi: Dahej the revenues really would not be coming in, in this financial year, but if I were to talk of 30,000 ton capacity at full capacity the revenue should be over the order of Rs.250 Crores to Rs.300 Crores.

Aksh Vora: Would the margins be sustainable?

Manish Sanghi: Yes, they should be, in fact in some ways they should be able to cut down on the freight cost which is being incurred from Roorkee because we are servicing markets in west and south from our plant up North.

Moderator: Thank you. Next question is from the line of Bharati Gupta from Sushil. Please go ahead.

Bharati Gupta: Thank you for again taking my question. My question pertains to building products again just wanted to understand that have we taken any price hike, will we be able to successfully increase our prices during Q1?

Manish Sanghi: There was no real change in pricing compared to last year in Q1 the pricing remained steady.

Bharati Gupta: And if you can just share your gross and net debt levels as on June 30, 2013.

Rakesh Gupta: Our borrowing is similar to what we had in March that the ECBs one installment have been paid but that is in July, my long-term borrowing is same at 12 million of ECB within rupee denominated and the balance in foreign denominated and working capital our borrowings are almost negligible. So basically my borrowing is same as 31st March level.

Bharati Gupta: That would be close to Rs.173 odd Crores if I am right.

Rakesh Gupta: Yes.

Manish Sanghi: And because our ECB is fully hedged for both interest and the exchange rate so really speaking the rupee depreciation has had no impact on the debt.

Bharati Gupta: Okay that would be hedged at close to 55 odd levels if I am correct can you just help us that what rates as it hedged?

Manish Sanghi: Around 51.

Bharati Gupta: Okay, so we are completely hedge from the steep rupee depreciation our paybacks would be good.

Manish Sanghi: That is right.

Bharati Gupta: Okay, and any increase that we have observed on account of the inventory pileup, have we observed any increase in the working capital?

Rakesh Gupta: As compared to March it has actually gone down slightly because of the management of the raw material inventory that we put, the steps that were put in place SG because of bit of reduced uptake this is slightly increased but overall it has reduced compared to March.

Bharati Gupta: Sir in our initial remarks we have highlighted that our inventory cost of the chrysotile fiber cost we have renegotiated for so about 4% to 6% decline in the cost but the same will be offset by the steep rupee depreciation of about 10 odd %. So going forward starting Q3 should we assume that the raw material cost would remain more or less in line what it was last year?

Manish Sanghi: We should assume raw material cost to be the same as of Q4 of last year.

Bharati Gupta: Okay, so at least for this particular financial year our margins would continue to remain under pressure because of the high cost raw material, which we may be able to pass on in the following years considering that because of the good monsoons the purchasing power of the consumers will be back and along with that the pre-election spending will help to take the demand higher.

Manish Sanghi: You are absolutely right and there are enough pointers and enough precedence in the past to say that is how it should pan out.

Bharati Gupta: Okay and just one last question just to understand how much of the production have we done from Balasore plant during last quarter. Just to understand and take some sense on the finished goods inventory.

Manish Sanghi: I do not have the number, can I get back to you right now I do not have that Balasore numbers we are doing right here.

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

Manish Sanghi: Thank a lot for participating in our investor conference call. It is always a pleasure and at times it is a lot of guidance to us on what we should be looking for in times to come. We are convinced about the growth story of India we are absolutely convinced that a good monsoon, oncoming election should mean good business for us. We are seeing very definite signs of investment improving that lot of people who are putting up factories and plants and that is evidence from the fact that my order book on the PEB is going up. We are there to exploit and to take advantage of the opportunities which the growing India offers. We are part of the India story and I am sure that when we meet three months from now we would be discussing on how to cater to this increased demands from the market place. Thanks a lot once again you are most welcome to contact us in case you require any other information. Thanks.

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