



“Everest Industries Limited Q4 FY14 Earnings
Conference Call”

May 02, 2014



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Moderator

Ladies and gentlemen good day and welcome to the Everest Industries' Q4 FY14 Earnings Conference call. As a reminder all participants' 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 the 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, sir.

Manish Sanghi

Good morning friends. We welcome you to the discussion on our quarter and full year-ended March 31st, 2014. Along with me I have our CFO – Mr. Rakesh Gupta; and Strategic Growth Advisor - SGA; our Investment Relations Advisor. We have prepared and circulated our result update presentation and the same is uploaded on our website as well. We had seen a sluggish performance for the company for the last four quarters. The results for this quarter are not up to our targets and objectives but are relatively better. More important is the improvement trend we have been witnessing over the last two, three months.

FY14 as a whole have been a very difficult year. The year was severely affected by high inflation; erratic and volatile dollar rupee movement; liquidity crunch in the economy and a reluctant from the part of the investor community to start new projects. All these obviously resulted in lower demand and low prices. I am first taking the building products. Q4 FY14 has been better compared to last quarter and to the same quarter last year. We are witnessing an improvement in demand across the country except in Southern region. The improvement is on account of good crops and good prices of Agri products. We expect the demand to be better than last year. It may get a further boost if we all together managed to elect a strong and stable government at the center.

Our Boards and Panels division continued with its focus on value added product lines. We are seeing a continuous shift in consumer preference from conventional construction methods. We export nearly half of our Boards production to countries in Middle East, Africa, and Europe. The customers in these markets continue to prefer Everest products over other competitors. We commissioned our Balasore plant during the year. I am happy to report that the plant has stabilized well and is working at high capacity in the capacity utilization is continuously increasing. On the steel building segment the PEB industry growth actually slowed down during the year on account of a slowdown in the economy. We are however seeing an increase in new projects in the last few months.

The PEB industry grew even in a recessionary economy as more and more people opted for the PEB way of construction rather than the conventional methods. As per our estimate the PEB industry grew by 5% to 6% during the year. Our expectation however is that the industry should get back to the 20% plus growth this year with improvement in investment climate. We have a strong order book of 33,000 metric tons and to meet the demand have set up 30,000 metric tons capacity plant at Dahej in Gujarat. I am once again happy to report that the project



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is proceeding as per schedule. This plant is strategically located near the market and raw material sources. It will help us in servicing our customers in west particularly Gujarat, MP and Maharashtra as well as Southern India more competitively and efficiently.

On the key raw material fronts our key raw materials are basically four which are chrysotile fiber, cellulose pulp, cement, and steel. The first two that is the chrysotile fiber and cellulose pulp are imported and there is stability in the landed price of these imported components on account of a stable dollar. Cement prices have been relatively stable during the year we expect the prices to vary as usual during the FY14-15. Steel prices saw an increase of nearly 10% during 2013-14. We however expect them to remain stable during this financial.

I would now handover to Rakesh for taking you through more details on the financial numbers and thereafter we can continue with the question answer session.

Rakesh Gupta

Thank you Manish. I will take you through our results which we have circulated in the presentation that has been mailed to you. Let us first discuss the quarter Q4 FY14 numbers. In Q4 FY14 we have recorded a revenue of Rs. 306 crores which is up by 27% as compared to Rs. 241 crores in the corresponding period last year. The EBITDA for Q4 FY14 is approximately Rs.14 crores as compared to Rs. 12 crores, an increase of 16% Year-on-year. In terms of segment financial in Q4 FY14 building product segment contributed approximately Rs. 212 crores to the topline whereas the steel building segment contributed approximately Rs. 94 crores. In terms of the segment building product segment we did a volume of 171,000 metric tons in the current quarter as compared to 148,000 metric tons in the corresponding quarter last year. A growth of around 15.6%.

The sale revenue for this quarter was up by 22% at Rs. 212 crores as compared to Rs. 174 crores in the same quarter last year. The EBIT in this quarter was Rs. 9 crores and it was 4.3% on sale. In steel building segment revenue for Q4 FY14 is at approximately Rs. 94 crores against Rs. 67 crores in the same quarter last year. The volume this quarter was around 11,000 metric tons as compared to around 6,000 metric tons in the same quarter last year. EBIT at Rs. 5 crores as compared to Rs. 4 crores in the corresponding quarter last year and up by around 25%.

Now let us have a quick look at our annual numbers. In F14 we recorded revenue of Rs. 1,035 crores as compared to Rs. 1,014 crores, an increase of approximately 2% year-on-year. The EBITDA is Rs. 40 crores as compared to Rs. 98 crores last year. The EBITDA for the year was mainly affected by lower volume in building products due to sluggish market condition impacting the demand generally. The higher cost prevailing in the economy particularly the freight cost seeing a significant increase. On the opportunity side lower production gave us an opportunity to undertake maintenance and upgradation of our plants which obviously meant increased cost coming in.



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In terms of segment financials for the year building product segment contributed Rs. 758 crores and steel building segment contributed Rs. 276 crores. Volumes for building product segments were lower by approximately 5% at 619,000 metric tons in FY14 as compared to 652,600 metric tons in FY13. The turnover was lower by approximately 1% at Rs. 758 crores as compared to last year. EBIT for the segment is Rs. 36 crores with an EBIT margin of 4.7%. Steel building segment in FY14 this segment sold approximately 32,400 metric tons as compared to 26,000 metric tons in FY13 an increase of 25% Year-on-Year.

Revenue for FY14 is approximately Rs. 276 crores versus Rs. 246 crores in FY13. EBIT for this segment came in at Rs. 9 crores. The order book for this segment is around 33,000 metric tons of over Rs. 270 crores as at 31st March 2014. In terms of our balance sheet as on 31st March 2014 the gross debt is Rs. 243 crores including the current maturities of long term debt. Out of total gross debt Rs. 77.63 crores is long term loans taken for CAPEX and Rs. 71.63 crores is the buyers' credits. But ECB is at that is outstanding in the books which is taken from DBS is fully hedged for principal as well as interest payment and the interest cost is 10.3%. But cash in bank balance stood Rs. 25 crores. As briefly touched by Manish already the new plant at Balasore was commissioned in September 2013 with the addition of new capacity the total grouping capacity has now increased to 700,000 metric tons. The capacity expansion of 30,000 metric ton in our steel building segment is also progressing well.

I think that is briefly what I have to share and we can now have the Manish if you permit the question answer from the participants.

Moderator

Thank you very much, sir. Participants, we will now begin with the question and answer session. We have the first question from the line of Neeraj Marathe from HU Consultancy. Please go ahead.

Neeraj Marathe

Sir, first question I had was on the raw material side. In your opening remarks you were talking about the landed price of the raw material the imported ones having stabilized. In our quarterly results however we have had almost a 300 basis point increase in the raw material consumption. So can you just comment on that and what do you think the situation would be going forward because our realizations are not down still the raw material cost totally has increased. So just wanted some color on that?

Rakesh Gupta

You know our results actually comprise of two major segment building products and steel buildings. The raw material cost as a percentage-to-sale have a direct bearings of the proportion between the two businesses. During this Q4 of FY14 our steel building as a percentage of total sale was 31% and raw material as a percentage to 62% if we include the increase, decrease in the inventory also. So because the proportion of steel buildings have gone up that is the reason raw material as a percentage-to-sale increases. Like if we were to look at the Q3 FY14 the proportion is 25% and the raw material is 51%. This is the direct correlation that if the steel building business goes up the raw material as a percentage-to-sale also goes up.



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- Neeraj Marathe** Second question was on the debtors. So basically just wanted to understand whether this has happened because may be stockists are expecting the pent up demand coming through and lot of people are stocked up on our products and is that why the debtors have gone up and how does this impact the sales for the next quarter if people have already stocked up just wanted to understand that thing?
- Manish Sanghi** I think if once again I need to go back to the same thing which Mr. Gupta mentioned. Our debtors have gone up on account of a lot of LC transactions which we are doing on our steel building business. They are not really gone up on our building products. On building products we virtually operate on a cash and carry basis.
- Neeraj Marathe** Last question was sir, just wanted to have a broader understanding. Out of our total building products sales which happened approximately how much percentage do you think now goes to the industry and how much percentage to non-industrial use?
- Manish Sanghi** On the roofing business the industrial segment today contributes something like 10% to 12% of the sales.
- Moderator** Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar** Just wanted to check what is your outlook on realizations for the coming year?
- Manish Sanghi** This is a good question which I also keep toying with. In our case actually the realizations and the volumes go hand-in-hand and our expectation is that we should see a small increase not a major increase in realizations in the current year because we are expecting a stable raw material prices. I expect realizations to go up marginally on account of the fact that demands will go up and because of that there would be increase in prices. Some of it will get offset by increase in diesel prices but otherwise a small increase not a very high increase.
- Baidik Sarkar** So the logical following question is given that Q1 is seasonally our best quarter and we are already one month in to Q1 how do you see the quarter shaping up and when exactly do you see traction towards the end of May or in June if you could just explain how Q1 actually plays out and how it was being playing out it would help us place the entire financial year in context FY15?
- Manish Sanghi** First of all I should say that roofing today accounts for something like 60% of Everest. So you have to keep that in context. The season has actually began well particularly in terms of volumes. I cannot share specific numbers but really speaking it peaks in May and June the buildup starts in March and from March onward this keeps increasing till June and from around mid-July it starts tapering off.



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- Baidik Sarkar** So what is the lead indicator on the ground pointing to I mean because last year Q1 was extremely weak so are we expected to do significantly better than last year's Q1 because it is coming up very low level or what is your sense?
- Manish Sanghi** The last year was an unusual year in which we ended up with stocks at the end of the quarter. That is really very unusual for the roofing business. From the looks of it as of now that is unlikely to be repeated. Having said that I should also say that virtually every company is carrying much lesser stocks of finished goods today than what they did last year. So the ability to let us say have an increase in volume by 25% to 30% is really not there because the raw material the finished goods stock which we are carrying is limited.
- Baidik Sarkar** So what you think will drive spending this year will it be the usual safeguarding from monsoon or what do you think will drive spending? I mean I am more concerned structurally are we seeing spending patterns shifting from asbestos roofing to more concrete roofing is that a structural concern?
- Manish Sanghi** I do not think so. The basic mechanism remains the same. The AC roof continues to be the lowest cost permanent roofing methodology available to a consumer in the rural markets. The gap between AC and concrete and AC and a good quality metal continues to remain fairly high. There can be some change which may happen in the urban areas but that is very small part of the business and there is a larger number of people I expect to be shifting from the more traditional roof or the kutchra roof if I may call so either hay or tiles their first vote of call or their first preference is going to be the AC roof.
- Baidik Sarkar** Just a couple of other bookkeeping questions. Is it fair to assume that the EBIT margins we have witnessed for both our segments will continue for the rest of the year?
- Manish Sanghi** I am sorry I did not get your question?
- Baidik Sarkar** I just want to figure out the EBIT margins that we have seen on both segments for this quarter is it fair to assume that we will not see any further deteriorations over the next financial year? Is it fair to assume similar margins for the entire year because you have said there is very little scope for realization uptake so I am just trying to figure out that this is the new normal?
- Manish Sanghi** I do not think it should be coming down.
- Baidik Sarkar** But it also would not go up significantly from here, right?
- Manish Sanghi** It can go up a little bit. As I said I can see a small increase in realizations and on account of higher volume as well.
- Baidik Sarkar** So what is I would like to step back and understand it is the entire realization dynamic you along with competition if you have to hike up realization are we seeing demand falling off?



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- Manish Sanghi** I really cannot comment upon the competition but right now I suppose that everybody saw a period of low demand so probably people are vary and people first want the volumes to come in before they go for the pricing change. And this is also depends lot upon what kind of results people deliver.
- Baidik Sarkar** So keeping that in perspective internally what kind of growth rates are you looking at, sir for both the segments?
- Manish Sanghi** On the steel building segment actually we are having a new capacity which would come on stream during the year. So we would target a growth rate of upwards of 25%.
- Baidik Sarkar** And the building products?
- Manish Sanghi** And on the building products we are expecting a more modest around 10% increase.
- Baidik Sarkar** And sorry for holding you up a very last question. Rakesh Ji I missed your commentary on the reasons for the spike in freight cost. Could you comment on that?
- Rakesh Gupta** Actually our freight cost during the year has seen an increase. I think freight is becoming a thing where the diesel prices have been in a gradual fashion have been moved to a decontrol and this has resulted in increase in our freight cost. Like my volumes have actually dipped but my freight cost during the year has actually increased. So that is what I was talking like my last year freight cost was around Rs. 75 crores which this year has become around Rs. 91 crores.
- Baidik Sarkar** And when is this new PEB capacity coming on track?
- Manish Sanghi** The PEB capacity is coming on track it will be during the course of the year I mean in the sense that there are some equipments which has longer lead times so it will happen during the course of the year. Some of it is already as we have mentioned in the presentation we are doing the trials with that some of it will happen during the course of the year.
- Moderator** Thank you. The next question is from the line of Shubhankar Ojha from SKS Capital & Research. Please go ahead.
- Shubhankar Ojha** So I have few questions. So basically the margin that we had in quarter 4 say 4.5% and compared to like in past we had a much better margin profile. So are we ever going to get back to those kind of margin in future or this is the new normal margin that the company is going to see going forward?
- Manish Sanghi** As I said in our case the pricing and the volume move hand-in-hand. So when it becomes less you get a double problem in the sense your volume goes down, your pricing goes down. And when the volumes go up your pricing also goes up. So really speaking I would say it is a volume gain. We are expecting volumes to go up we expect realizations to go up as I said not



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by a huge margin but a small margin. And with increase in volumes my fixed cost percentage would go down. So I would not really think this is a new normal. We should be able to get back to the earlier levels and also during the course of the year with pressure on margins we have carried out a whole lot of efficiency exercises, cost cutting exercise in the company and that should help us get back to the margins which we had in just two years back.

Shubhankar Ojha

So just a related question like you have spoken about kind of a volume guidance for current financial year. So what kind of risk involved in this kind of numbers I mean what are the reasons to this kind of assumption say FY15 is going to be a significantly better compared to FY14?

Manish Sanghi

Q1 is an important quarter.

Shubhankar Ojha

So similarly Q1 is best for us, right?

Manish Sanghi

Yes, particularly for the roofing business Q1 is very important and what we discovered there are two risks which happen with us. Our sales dropped when the monsoon comes. So from us an ideal scenario is a plentiful monsoon which comes a little late. That is the best case scenario for me. If the monsoon hits early as happened last year it is bad. So for me one is pure weather kind of an issue that in case the monsoon comes early and continues for a long period of time which is what happened last year it is extremely bad for our business. The second I would say is related to the crop pricing. The third is related to what will happen under the new dispensation to the various government schemes which are there. Now if the government disbursements slows down or stops or they start altering schemes and because of that delay some of the stuffs they it can have a negative impact. But I am talking of the negative sides of it but if you ask me generally I would say I am sensing a very encouraging environment wherever I am travelling to. Except southern India I keep saying that again and again.

Shubhankar Ojha

So what is our rural and urban mix in terms of sales number?

Manish Sanghi

If you say as a company it will be something like 50:50 but I talk of my roofing business I would say nearly 80% would be rural in nature; 10% semi-urban and 10% industrial.

Shubhankar Ojha

Sir, one related question to your margin. Basically so last quarter there was an appreciation in rupee so we should have got a benefit in terms of our raw material cost. Has that come in I mean do you get that benefit if rupee appreciates because our key raw material is basically imported?

Manish Sanghi

Yes, you do get the benefit but it takes time for the benefit to flow in to the P&L because you work on a weighted average inventory and so you have to deplete the old inventory and start using the new inventory then only the impacts will come in. So the impact has not been fully factored in yet.



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Shubhankar Ojha And I missed out on your gross borrowing numbers. You mentioned Rs. 243 crores, right?

Rakesh Gupta Yes gross borrowing it is Rs. 243 crores.

Moderator Thank you. The next question is from the line of Falguni Datta from Jetage Securities. Please go ahead.

Falguni Datta I wanted to know the chrysotile fiber contracts are they annual?

Manish Sanghi Typically they are annual in nature.

Falguni Datta And by when do we reach a contract normally which month likely?

Manish Sanghi Normally the contracts get finalized by March.

Falguni Datta Okay so this year whatever we would have negotiated would that have been lower the cost would it have been lower than last year in rupee terms?

Manish Sanghi It is definitely lower in rupee terms.

Falguni Datta And what percentage I mean just to get a sense whether we should be doing operationally better even if the volumes do not go up so much and if we are able to take a bit of price increase in in that I mean?

Manish Sanghi We have a decrease of prices to the extent of something like 2% to 3% in dollar terms.

Falguni Datta And you are saying in rupee terms also there would be some decline?

Manish Sanghi I am assuming rupee will remain at the 60 to 61 levels though you people can guide me better whether?

Falguni Datta No sir, not to take any call on rupee assuming if it were to where it is today then we should be?

Manish Sanghi Assuming if where it is today we should get an upside of 2% to 3%.

Falguni Datta And sir, coming to realization as you mentioned there could be a small increase this year but so far we have not taken any increase in fourth quarter?

Manish Sanghi In the fourth quarter they have been a small increase but really speaking pricing is a fairly dynamic thing in the roofing business.

Falguni Datta See what is it like if the demand has improved and stance for Southern if the market is okay then what is it which is preventing us to raise prices and the industry to raise prices?



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- Manish Sanghi** See each one operates on its own so industry I do not know what factors they are operating what compulsions they are operating under. We have taken some price increases in the month of April we are taking some price increases in the month of May. We have increased the price of our goods last month so we are trying to do that but how much traction would the price increase have we will get to know now.
- Falguni Datta** And sir, also on the roofing sheets we have taken price increases?
- Manish Sanghi** Yes, we have.
- Falguni Datta** And sir, last question. What is the industry wide capacity utilization in this roofing sheet as of now?
- Manish Sanghi** As of now I suspect everybody is working at 100% this is the time of the year when everybody goes full blast. But if I talk of for the year as a whole there was some capacity which actually disappeared during the course of the year. So that is there are some people who stopped operating. Some of the smaller players they stopped but on an aggregate basis my estimate would be around 75% to 80%.
- Falguni Datta** And sir, so broadly speaking for the roofing business things should be better next year compared to last year assuming everything else cost and all have where they are now?
- Manish Sanghi** That is right.
- Moderator** Thank you. The next question is from the line of Aksh Vora from Praj Investments. Please go ahead.
- Aksh Vora** Sir, I just wanted to know what was the freight cost as a percentage to sale for Q4 and for year as a whole?
- Rakesh Gupta** This year it has been 8.9% as compared to last year it was 7.5%.
- Aksh Vora** And sir, do we see in coming year the freight percentage-to-sales going down because our new facilities are coming up so?
- Manish Sanghi** Which new facilities?
- Aksh Vora** Means in the age sir you will be having the production will be starting in this year and also the?
- Manish Sanghi** Yes, it should come down marginally but Dahej is really going to add new volume but on a ton basis on per ton basis yes, I think it should come down, yes.
- Aksh Vora** So can you give any ballpark figure by how much percentage can it come down or?



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- Manish Sanghi** That is a slightly tricky one because it will come down from a business in West in South and there will be no change for the business in North and East because that will continue to be supplied from the North plant and there is a transition which will happen during the year. So it is difficult for me to give you a precise number around that.
- Aksh Vora** Looking at the Q4 building product segment we have actually increased volume and turnover but if you see the EBIT margin it is still slightly lower compared to last year's quarter. So do we see improvement in coming quarters or in coming year getting back I know I am asking it again but just want to have a sense of how can we improve and get back to the levels which we had in earlier years?
- Manish Sanghi** I think margins will come up on account of three different factors. One, we say volume; second, we are talking about a small increase in realizations and the third one is some of the work which we have carried out on the cost side. We are wiser than what we were earlier. So these three factors put together should result in an improvement in margins.
- Aksh Vora** But it would be difficult to get back at around 9%, 10% levels of margin, right sir?
- Manish Sanghi** It is difficult for me to pinpoint the numbers currently.
- Aksh Vora** And sir, looking at the demand perspective do we feel like last year quarter 3 or quarter 4 was like bottoming out for demand and all the headwinds we had last year. So do you feel that it was a kind of bottoming out thing?
- Manish Sanghi** It is a cyclical business so it is bottoming out for now I would think, yes. But we would visit those bottoms once again at some point of time in life. I do not expect it to happen this year.
- Aksh Vora** And lastly sir, our debt has increased significantly in FY14 so any plans to reduce the debt in the coming year, sir?
- Manish Sanghi** We will be repaying back some of the loans and the debt is on account of CAPEX which we have been doing. There are two new plants which have come up. One in Balasore; one is Dahej in Gujarat. In fact there is a small one in Ranchi as well. We will have growth plans going forward and we will consider funding them as and when we go for it.
- Aksh Vora** And sir, lastly on I think so we had a subsidiary in Mauritius. Any light on that, sir anything any update on that?
- Manish Sanghi** We are preparing ourselves for doing things outside. So as and when something happens I will keep you updated.
- Moderator** Thank you. The next question is from the line of Karthik Mehta from Sushil Finance. Please go ahead.



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- Karthik Mehta** Sir, my question is pertaining to South you said that the South is not doing so well compared to rest of the region. So what is happening exactly in the South what is the trouble over there? And what was the contribution of the South in your overall business in building products?
- Manish Sanghi** South is a significant one for our roofing business and South incidentally operates on a difference particularly Tamil Nadu operates on a different seasonal cycle because most of Tamil Nadu actually has a winter monsoon rather than the summer monsoon as the rest of the country. And a large part of Tamil Nadu unlike the rest of the country is actually facing a major water shortage. So there is a drop over there and that is causing a very sluggish demand. So I mean the monsoon is not frankly due as of now. I suspect things will improve over there only towards end of the year depending upon what happens.
- Karthik Mehta** So what is the contribution of South in your overall building product revenue?
- Manish Sanghi** Thus far which is affected would contribute something like 15%.
- Karthik Mehta** You mean Tamil Nadu?
- Manish Sanghi** Tamil Nadu and parts of Kerala but primarily Tamil Nadu.
- Karthik Mehta** And we are in touch with other agro chemical companies as well as retail NBFCs who are in to lending to rural part of the country and what we are hearing that except Tamil Nadu rest of the South is seeing a light say some silver lining. So what is your take on that?
- Manish Sanghi** We are not very strong in Andhra so I am unable to talk about Andhra.
- Karthik Mehta** And Karnataka?
- Manish Sanghi** What I hear is all these disruptions because of Seemandhra, Telangana have slowed things down. But Karnataka in general is strong and good. Kerala is not as strong but decent. It is Tamil Nadu which is the slower one.
- Karthik Mehta** And have you done any assessment of potential impact of Al Nino if at all on our business?
- Manish Sanghi** On what?
- Karthik Mehta** Al Nino positive or negative?
- Manish Sanghi** Difficult for me to say. I really do not if it means that the monsoon will not be good the rain side areas particularly states of MP; parts of Maharashtra; parts of Orissa are going to be negatively affected. But up North if I talk of Western UP; parts of Northern Rajasthan; Punjab; Haryana which are canal irrigations I do not expect there to be any major impact over there. Also in the past at least I have seen that demand in Bengal and in general the coastal parts of



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the country do not get affected as much by monsoon because they at least seem to get a decent monsoon. And if I look at our AC business scenario it seems to be far more ACs as a product category it is far more popular towards the coastal side. So the impact can be there for sure nowadays we have a central zone which has no coastline. So a central zone probably would be very badly affected. So it is quite difficult for me to put any numbers around that.

Karthik Mehta Is it so that in a near term if the rainfall is less your number of days for the product purchase goes up for the customer side and then the repercussion of the lower rain fall should be reflected in year from FY16 onwards?

Manish Sanghi Typically there is a one year lag between monsoon and the sales.

Karthik Mehta So may be this year your sales would be positively seen because of the lack of monsoon and the available days are more compared to what they were?

Manish Sanghi So typically I said there is a one year lag but I do not have a specific study which can justify that.

Karthik Mehta And on the Balasore front was there any contribution in the fourth quarter volume?

Manish Sanghi Yes, there was.

Karthik Mehta How much?

Manish Sanghi I mean I can make right now growing at something like 8,000 tons to 9,000 tons a month.

Karthik Mehta You are making 8,000 tons to 9,000 tons a month?

Manish Sanghi Yes.

Karthik Mehta And on the hike of inventory front how are we positioned as of now how much inventory we are carrying still which is according to you is a high cost compared to what it would have been right now and what would be the liquidation schedule for the same?

Manish Sanghi Once again I think as I said we carry an inventory of a few items and the inventory is a weighted average it is probably by towards the end of this quarter we would be working on current prices.

Karthik Mehta End of this quarter?

Manish Sanghi Yes. But it is a gradual change it will not be one sudden one fine day it would not happen.



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- Kartik Mehta** Because in the past we had seen the numbers getting impacted because of the high cost inventory coming in. So similarly the positive side should be also seen when the high cost inventory goes away?
- Manish Sanghi** Yes, but if you look at it even if we talk of the dollar it went up to 67-68 then remained at 65 and remained at 63 levels. Now it is at 61 level so it has been a gradual decline it is not been the rate at which it went up it is coming down is relatively slower. So impacts will not be that dramatic.
- Karthik Mehta** My last question. Like many people have asked about EBITDA margin improvements. But I would like to concentrate on profit margin improvement on the back of the reduced interest cost with the help of proper inventory management especially in the raw material front. I think if I understand right we were working on that and what is the situation right now? I mean how much are we on the plan?
- Rakesh Gupta** We are with the season picking up obviously the inventory I mean season picking up and conscious efforts to optimize the inventory our inventory levels are reducing and that will certainly reflect upon in the interest cost that we will be incurring. There will be on the other side there will be bit of higher interest cost which will be coming to me because of the new projects that I have invested. But last year was particularly high interest cost was only on because of the poor season that we had. The cash generation was not to the extent that would have expected of that we should have got. I think as we go forward in the day better realization will also help me reduce my borrowing and therefore the interest cost.
- Karthik Mehta** Sir, round about Rs. 40 crores to Rs. 50 crores worth of borrowing should go down with the inventory management, is the right assumption?
- Rakesh Gupta** Inventory management should have already contributed around Rs. 20 crores; another Rs. 20 crores, Rs. 30 crores should happen. Then there are other things that we are doing in terms of like the inventory management is one part of the thing but there is some IT refund which has supposed to come to my way that should also save my interest cost. So there are several things we are working on.
- Moderator** Thank you. The next question is from the line of Apoorva Mehta from KSA Securities. Please go ahead.
- Apoorva Mehta** Just wanted to ask going forward what will be your product mix in both in roofing side and building product side and the PEB? So currently it is around you were telling that it will be 65:35 but going forward in the next two years what will be your product mix?
- Manish Sanghi** As you have been seeing we are increasing our capacity on both sides of our business. But the base on the steel building side is smaller. So when I add the plant over there the capacity there will go up by 100%. In the other one it will go up only by 15%. So it obviously the mix will



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change and it will be a higher percentage of other than roofing products as we go forward. We have not set any targets for ourselves is what it should be. Each of the businesses will try to grow to its maximum and as an organization we will invest in where it gives us the best returns.

Apoorva Mehta So because you are doubling you capacity so you see more order or more growth on this PEB compared to roof?

Manish Sanghi No, it is not compared. We are spending Rs. 50 crores here we spend Rs. 50 crores in doing Balasore. As far as fund allocation is concerned it is similar.

Apoorva Mehta And on the export front the realizations are better?

Manish Sanghi There is very little difference between realization in domestic and exports it is similar.

Apoorva Mehta And on the CAPEX for next two years what are we planning?

Manish Sanghi We have not sharing our CAPEX plans as of now. We have growth plans but as of now we have not announced anything.

Moderator Thank you. The next question is from the line of Deep Shah from Corporate Database. Please go ahead.

Deep Shah Sir, I had a question related to the staff cost which has reduced by 21% year-on-year as well as on quarter-on-quarter basis so can you?

Rakesh Gupta Actually in the quarter there has been some correction in manpower costs like we have a system of giving performance bonuses to employees as well as to the management which are accrued evenly over the year based on the previous years. And this year there has been scale down payment from that because of the performance that have happened during the year. So is the write back have come during the quarter. So that has impacted the number as one thing in that is the reason manpower cost is appearing lower. The other thing was that the gratuity and leave encashment provision that happened that again is something which is done by the actuarial evaluation have been slightly on the positive side for us so basically these reasons.

Deep Shah And sir, can you talk about the value-added products in the board segment how they are performing?

Manish Sanghi In fact we are doing rather well on those. When we say value added we really means we have a heavy duty board which is used for external cladding. We have cement planks we have fall ceiling systems and the proportion of those in our mix is going up and the realizations and the branding of these is definitely a plus for us.



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- Deep Shah** So sir, what would be the value addition proportion to overall sales is right now if you can just highlight?
- Manish Sanghi** In terms of revenue value added products today are something like 40% of the boards business.
- Moderator** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain** Sir, one question about your expansion about this PEB business. Whether we had done some capitalization in the current quarter or is still everything is carried in work in progress?
- Manish Sanghi** The Dahej project is concerned there has been no capitalization.
- Sunil Jain** And we may see this starting in the first quarter or it can get delayed or it will be a gradual start up?
- Manish Sanghi** It will be a gradual one.
- Sunil Jain** And sir, this quarter quarter-on-quarter if we see there is a decline in order booking for this PEB business. So any sign of slow down it is just the?
- Manish Sanghi** Actually there is no real decline in order booking. It is just we service more orders.
- Sunil Jain** So order intake in the quarter is comparable to previous quarters?
- Manish Sanghi** Yes, it is similar and as I said in my opening remarks we expect this build up to increase in the next few months. There is a lead times between an enquiry and an order finalization and that can take anywhere from 30 days to 180 days. By the time people start talking of a factory shed some people decide quickly; some people decide after six months. So this increase in enquiry would result in to an order book in the next few months.
- Sunil Jain** And what we were seeing earlier in the PEB business that lot of people though you got the order but people were deferring to put the plant or implementing it or somewhere they were not finally tied up. Are these problems still there or?
- Manish Sanghi** No, they have reduced a lot and that is why the volumes went up so significantly.
- Sunil Jain** And sir, the price increase in the building product is it possible to quantify how much we had taken in last three months or including May also?
- Manish Sanghi** Sunil, the price keeps going up and down. So if I were to put an aggregate number it is probably would have gone up by something like 3%, 4%.
- Sunil Jain** And was that across country or some areas?



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- Manish Sanghi** No, it would be some places more some places less. I am talking of an average number.
- Sunil Jain** Yes, but the trend across the country is up only?
- Manish Sanghi** Yes, the trend is up.
- Moderator** Thank you. We have the next follow up question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.
- Baidik Sarkar** Yes, Mr. Rakesh is going to figure out for the best case estimates for your interest provision for the entire financial year I think a couple of months earlier we had spoken considering the new capitalization that has come in it assumes something like Rs. 20 crores to Rs. 22 crores for the entire year. Just wanted to check if there will be any changes in the estimates?
- Manish Sanghi** Interest provision for the year.
- Rakesh Gupta** The interest has as I mentioned the interest is gone up because of the utilization going up and because of the capitalization of projects. There is no hike of borrowing that we have undertaken. So my cost in terms of percentage points is not higher but yes, it has gone up because of the higher and we expect the cash flows that we are now starting in to build up. The interest cost will actually come down except that when the Dahej plant gets capitalized some bit of interest will again starts in coming in to the P&L account.
- Baidik Sarkar** So any estimates you could share with us?
- Rakesh Gupta** As I mentioned to you I have my total borrowing of around Rs. 243 crores of which around Rs. 70 crores is at a relatively lower cost because it is on the buyer's credit side which is slightly lower cost because I have a policy on how do I hedge it. On a weighted average cost the cost there is lower. If I am able to reduce my borrowing by something like say Rs. 30 crores because of the efforts that we are putting in that should result in to something like Rs. 4 crores to Rs. 5 crores savings that should be directly available during the year.
- Moderator** Thank you. Participants, that was the last questions I now hand the floor back to Mr. Manish Sanghi for closing comments. Thank you and over to you, sir.
- Manish Sanghi** Thank you all for your participation and interest in Everest. The good momentum we are seeing right now gives us the confidence of demand growth for all our businesses. We have now the added capacity at Balasore; at Dahej; at Ranchi and with some improvements in some other plants to cater to the increased demand as and when we get it. Over a period of time we have transformed ourselves from a single product company in to a multi-product company and it has helped us participate in the India growth story right from the bottom of the pyramid going all the way up with a wide range of building products solutions. We believe very strongly that our building product solutions will play a significant role in development of rural and urban India



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as no other system can really match the speed, strength, and safety that we offer. I am sure that the next time we meet we will have more positives to talk about and I wish you all the best and I am hopeful that the coming period will be good for all of us. Thank you so much.

Moderator

Thank you, sir, Ladies and gentlemen on behalf of Everest Industries Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.