"Everest Industries Limited Q4 FY-15 Earnings Conference Call"

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MANAGEMENT: MR. MANISH SANGHI – MANAGING DIRECTOR, EVEREST INDUSTRIES
MR. RAKESH GUPTA – CFO, EVEREST INDUSTRIES

Moderator: Ladies and gentlemen good day and welcome to the Everest Industries Limited Q4 FY15 Earnings Conference Call. We have with us on the call today Mr. Manish Sanghi-Managing Director, Everest Industries and Mr. Rakesh Gupta-CFO, Everest Industries. As a remainder all participant lines will be in the listen-only mode. 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. Thank you and over to you sir.

Manish Sanghi: Thanks and a very good morning friends. We welcome you to the conference call to discuss the financial performance of the quarter and the year ended March 31st, 2015. I have with me our CFO – Mr. Rakesh Gupta and Stellar IR Advisors our Investment Relation Advisor. I hope you have all received updated investor presentation. We have also uploaded that on our website for all of you.

In the past one year we have seen the government taking initiatives and steps towards economic development and a wider financial inclusion. We believe that these efforts are likely to pay dividends in the coming year. This is quite evident in recent projection of IMF wherein the project that India can grow at 7.5% which is actually higher than China and we expect that this revival in growth will benefit us across all the business segments that we operate in. And just as a reminder we really operate in three major business segments, one is the rural segment of the Indian economy, the second is the industrial segment of the economy and the third I would call is urban segment of the economy. So there are these three distinct segments and we expect all of them to benefit with the India growth. The popular campaign of the 'Swachh Bharat' and the 'Make in India' campaigns we believe are going to be the drivers for the economy and for Everest in particular. The "Swachh Bharat" Abhiyan that focuses on construction of an exclusive village sanitary complexes in rural India give us an opportunity for our building products business. The government has promised total sanitation by 2019. We are starting to see traction and as things actually happening on this particular front and few of our product lines we expect it should benefit a great deal over there. The Make in India campaign will be a major growth driver for our steel building segment. From our experience we have seen that the companies establishing manufacturing units would like to achieve commercial production in the shortest possible time and with this kind of plans for them time and money both are extremely important and steel buildings made the pre-engineered way becomes a very obvious choice and we are starting to see this no longer is being a concept, we are seeing this as a trend all across the country. The government's one of the big focused area is construction sector. Our rural population is very high and urban is very low so there is a lot of emphasis on improving the urban infrastructure. The government is in the process of launching a new urban development mission, they talk of whole lot of smart cities, and we believe that they would want to do it in double quick time and that's where the ready-made product solutions that we have should become handy for everybody.

If I were to talk about different businesses that we are in and let me first start by talking about the building products. The earnings for the full year continued to grow compared to last year. We saw good volume growth in our roofing business but we were unable to really take any price increases in the last quarter. We believe that looking at volume growth in the year as a whole and the trends which we are witnessing now we should be able to do well on volumes and typically a higher volume and a volume growth results into better pricing as well. Our Boards and Panels business continued to grow in FY-15. The demand in both domestic and overseas market is growing consistently and that augurs well for the expansion which we are taking up in this business. An interesting point for us has been that we have two kinds of product lines here, our standard product lines, and the value-added product line. The contribution which is coming from the value-added product line is growing every quarter and we believe that this trend will continue with time. As mentioned in the last call we are setting up a 72,000 metric tons per annum Fiber Cement Boards plant in UAE through our wholly owned subsidiary in Mauritius. The new manufacturing plant in UAE will cater to the international market which is currently being catered by manufacturing facilities India**.** Therefore taking the location advantage the new capacity will help in saving logistics cost and will help enhance the customer servicing and satisfaction. The progress of the project is as per schedule. There was one other factor which I had mentioned in the last quarter result and that was regarding the uncertainty and the turbulence in Russia wherein the Ruble went up and down. Things seem to have stabilized over there and as of now we do not anticipate any trouble on that particular account.

Coming to the steel building segment pre-engineered steel building continue to grow. However I will have to say it's that this growth is linked very strongly with the industrial growth and the GDP growth rate of the country. The industry is expected to grow better and we are going to be part of the India growth story. The policy initiatives taken by the government are expected to revive the economy and we are starting to see signs of the CAPEX cycle begin. Unlike in earlier years when PEB was really accepted only in some sophisticated industry, today PEB method of construction is all pervading and be it a FMCG, logistics or farmer or a food company all of them or an infrastructure company for that matter all of them use PEB. We are also starting to find new segments for our steel buildings like educational institutions, coastal guest houses, industrial accommodations, etc. We have seen an increase in order enquiries which give us the confidence that we will be able to continue to grow our order book. It's the results of the steel building segments are muted and I think as we discussed last time essentially on 2-3 accounts during the year we saw an increase in the steel prices though from then on the prices have now come down but our prices, our orders were fixed priced orders and we lost money on some of these orders. We have exhausted a large number of those orders but some of them still remained on our books and it will probably take a couple of quarters more before it's all of those orders are completely exhausted. Our current order book is close to 37,000 tons which will amount to something like 300 crores and the kind of inquiry we are getting from a current as well as prospective customer seems to indicate that our decision to set up the Greenfield facility of 30,000 metric tons at Dahej was appropriate. All of you are aware that in the last few years we have been building capacity and in anticipation of revival of the India growth story we are starting to see signs of that happening and this increased capacity should come in handy. We have already commenced the production at the facility. In Dahej we announced the commercial production in January and with this our total capacity in the steel building segment goes up to 72,000 metric tons per annum.

These were some of key points I wanted to address. I will hand over the call to Rakesh our CFO and he will take you through the financial performance of the Quarter and for the year as a whole. Over to you Rakesh.

Rakesh Gupta: Thank you Manish and good morning friends. 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 full year numbers and then they will talk about the Quarter 4 Financial Year '15 numbers. In Financial Year '15 we recorded a revenue of 1230 crores which is higher by around 19% as compared to 1035 crores for financial year 14. The EBITDA for FY15 is Rs. 81.9 crores as against Rs. 39.9 crores in FY-14. The EBITDA margin for the year is 6.7% that is 280 bps increase over 3.8% that we achieved during FY-14. The improvement is mainly on account of growth in volume, lower raw material cost, in lower raw material cost savings our optimization and transportation cost and tight control over the overhead that were the measures due to measures that we had initiated during the year. We achieved an ROCE return on capital employment of around 21% as compared with around 8.6% in the previous year. During the quarter we recorded revenue of Rs. 318.5 crores which is higher by around 3.9% as compared with 306.5 crores in the corresponding quarter in the previous year. EBITDA in Q4 FY-15 is 25.2 crores as against Rs. 13.5 crores in Q4 of FY-14. The EBITDA margin for the quarter is 7.9%. In terms of segment in the full year our building products segment contributed 867.2 crores to the top line whereas steel building segment contributed Rs. 363.3 crores. In FY-15 in building products segment our sales volume was around 703,000 ton and in steel building at 41.500 ton.

In Q4 our building products segment contributed Rs. 212.8 crores to the top line whereas steel building segment contributed around 105.7 crores. In Q4 FY-15 in building products segment our sales volume was around 178,000 ton and in steel building segment around 12,000 ton. The growth in revenue is mainly driven by strong demand during the year in building products segment and Orissa plant has contributed an increase in volume of building product. Steel building segment also grew on account of improved order book though generally the market was a bit sluggish. Balance sheet size as of 31st March 2015 the gross debt on our books is 280 crores which includes the 63 crores term loan borrowing that we have availed for part funding of our CAPEX and for the UAE plant and this is yet to be deployed fully. The cash and bank balance stood at Rs. 64 crores which includes a part of rupees from the above loan and has been kept in fixed deposits with the company's bankers.

The commercial operation at steel building plant at Dahej has commenced as mentioned by MD in January this year during the quarter. We will be investing around Rs. 100 crores in the Boards plant being set up in UAE and this will be funded by a total debt of 72 crores and internal accruals of around 28 crores. We have already tied up the term loan for this borrowing that I mentioned just now. The borrowing is going to be un-hedged. The tenure is around 80 years and the payment will be in 24 quarterly installments after a moratorium of two years. The new plant will cater to international market and the existing plants in India will cater to domestic market and for exporting for the value-added product. The advantage of the new Boards plant in UAE will be significant saving in logistics cost and improved customer service that will include the faster response time and catering to full gamut of customer. I think this is broadly I had to share and now with your permission Sir we can take questions.

Manish Sanghi: I am sure all of you would have quite a few questions and would be happy to answer to the best of our ability.

Moderator: Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Kaushal Shah from Dhanki. Please go ahead.

Kaushal Shah: Good morning so, congratulations on the good set of numbers. Sir I have two questions, one is that in building products in the last two quarters we have seen some kind of slowdown in the volume growth. The year on year of volume numbers is have slowed down from an average of 15-20% kind of growth that we saw in the prior quarters, the growth has come down in volumes, in addition to that this building products segment we're also seeing some kind of a correction or a downward trend in our realization so if you can kindly comment on these two points?

Manish Sanghi: The observations are quite obviously based on numbers so they are correct, the growth has been slower compared to the earlier two quarters. Some bit of it probably have to do with the base number referred there in the year before but more than that at least in the last quarter it probably had something to do with in northern India and extreme winters and a very uncertain kind of a climate and we actually saw very few footfalls in some markets, people were just not coming out. But we are seeing an interesting trend happening now that normally what would happen in the month of May when there is rush on the shops we are seeing it happening in the month of April. So I don't know whether the demand has really moved from the last quarter of into earlier this quarter, there seems to have been a shift of some kind. There has not been really any change in pricing levels and the downward trend, it can only be due to the mix of where we sold, how much where the realization changes but it's also a fact that prices have not gone up and as I mentioned earlier there is a deep relationship between volumes and prices. Normally when the volumes go up the prices go up and I'm hoping that 1st Quarter we will see better recovery on prices. This incidentally on the Boards side we were able to take price increases so there we actually expected good price increases but were not able to do that on the roofing side.

Kaushal Shah: For the PEB segment now that new plant is up and running what kind of a volume growth are we looking at for this year, again in PEB segment 4th Quarter was a little slack in terms of volumes so what is our growth trajectory as far as the volumes are concerned for this year and the next year?

Manish Sanghi: I would like to answer this question in two parts, number one as Everest we never had a shortage of orders, we had a healthy order book in fact we probably had the healthiest order book amongst the entire competition, our problem during the year has been that people were not picking up the produce. So the order book was there, they had confirmed orders with advances but people were not taking it. That particular trend has now changed and people are demanding supplies to be made to the extent that we are actually under a lot of pressure to deliver from our factory. In terms of capacity we have from our two plants of Roorkee and Dahej a total of around 60,000 metric tons of PEB production which can come through. Ranchi is incidentally only a roll forming line for roofing and that contributes some 10,000-12,000 so my theoretical capacity is 60,000. What we actually produce depends a lot upon the mix of the order depending whether it's heavy building or a light building, complex building and so on so there are those parameters but I'm hoping for something like 85-90% capacity utilization to happen over the year. Though I should also say that Dahej is not yet hitting the capacity mark and right now it is lower but as time goes by we should start hitting those numbers.

Kaushal Shah: What is the demand visibility that we are seeing for building products particularly given the fact that this year monsoon is expected to be a little weaker than normal and this is a rural or semi-urban kind of a product so are we seeing any possibility of a slowdown in the building products segment because of this factor?

Manish Sanghi: Kaushal this is a frankly million dollar question. There are two weather reports which have come, one talks of it being okay, the IMD one talks of it being a deficit. What actually happens is probably a third thing, difficult to say this year the season months are not going to be really affected by the monsoon, the intensity of the monsoon. I can get only affected in the season if the monsoon comes early. Our dream monsoon is a one which comes late, is in plentiful, and ends soon so that's my dream monsoon. We will have to wait and watch and if it is a poor monsoon it will probably impact the post-season performance more than the season performance unlikely to have effect on the 1st Quarter but going forward I won’t really bet on it either way what would happen with the monsoon is the difficult one to say.

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

Falguni Dutta: In the building products segment we would not have seen any volume growth YOY right?

Manish Sanghi: YOY for the quarter is a very small growth but if we talk on an annual basis the volume growth is close to 14%.

Falguni Dutta: I was mentioning about the quarter so as we see that top line in the building products segment both the quarters was roughly like this quarter and same time last year and Q4 was 212 crores so what has led to the substantially higher profits in the building products segment this quarter?

Manish Sanghi: There were quite a few initiatives on which we have been working for some time and these were really related to improving our efficiency, we had picked up parameters like we will sell nearer to our factory, we will try to reduce freight cost, we will try to sell directly rather than through our depots, we had lots of projects on reject control and they all are having a combined impact. It is difficult for me to single out any one of them but all of them are starting to have an impact and we expect that this is going to be sustainable as we go forward in the year. Other one has been a stable FOREX which is a major part of our raw material and also a fairly low I should say cement prices. The cement prices have remained depressed that has also helped and we all know diesel prices went down. The freight costs haven't gone down in the same proportion but they did go down to some extent.

Falguni Dutta: If you were just to say which was the top contributor to this would it be fair to say asbestos fiber prices and cement?

Manish Sanghi: I would tend to agree with you, yes.

Falguni Dutta: As you mentioned that now you are seeing a rush of buying earlier in April which normally happens in May so if you could just tell us which are the areas in rural where people meaning application areas where the demand is coming from meaning what kind of usage are people buying the product for in asbestos fiber sheets?

Manish Sanghi: In asbestos fiber we are not seeing any change in pattern of sales, the pattern of usage varies from area-to-area so while in the Eastern India it is predominantly residential, in northern particularly in Punjab, Haryana it is I would call it agri-commercial in the sense it is cow-sheds, such as small godowns and so on. Same is the case in Western India we are seeing some revival of demand in Tamil Nadu after very long time so that's a very definite positive which we were really not having for last two years. But there is no shift in the pattern of sale, it is what it was.

Falguni Dutta: Will it be possible to give a rough percentage as to what would this Board and Panel B as a percentage of a building product in value terms?

Manish Sanghi: In value terms, Boards I am actually, my Boards business for the year would be about 200 crores.

Falguni Dutta: Just to understand building product would be Board, Panel and Asbestos Fiber sheet and some sulphur heating element that's right?

Manish Sanghi: Yes.

Falguni Dutta: And panel would it be a substantial number?

Manish Sanghi: No it's a small number. When we say Board we say Boards and Panels put together, Panels per se are a very small product.

Falguni Dutta: Which is included in this 200, more or less?

Manish Sanghi: Yes.

Falguni Dutta: And given the way things are of course it is not very easy to predict but whatever stands now the demand situation do you think that a similar kind of volume growth of 14% can be achieved coming year?

Manish Sanghi: I am actually very hopeful of it and if the economy is slated to grow at 7.5% and it does happen in that particular fashion I think these numbers should be achievable.

Moderator: The next question is from the line of Akshat Vyas from Karvy Stock Broking. Please go ahead.

Akshat Vyas: Just on the operating front I just had a query if you see on a yearly basis your margins have been fluctuating in FY-13 from 9.6 to 3.8 currently 6.7 for the reasons which you mentioned here so what would be the sustainable margins now going ahead?

Manish Sanghi: The fluctuation is really on account, we are seasonal company so our volumes go up and down quite significantly from month to month and that's why the margins keep fluctuating.

Akshat Vyas: So what would be the normalized margins if you look going ahead?

Manish Sanghi: Our operating margin this year was around 7.9% in the quarter and around 6.7% for the year. We look to improve that depending upon how the price situation pans out and we have seen that somewhere around 7 to 8% should be something that we can look at but it is subject to whole lot of factors, the pricing, the volume and this is what we look at something best we can achieve in the year to come.

Moderator: Thank you. The next question is from the line of Ankur Kulshrestha from HDFC. Please go ahead.

Ankur Kulshrestha: Just wanted to get some more granularity on demand, I know you mentioned that Tamilnadu, there has been a demand revival and you mentioned that in total sanitation projects there has been an action visible on the ground. Which are the areas we have seen this traction specifically if you could shed some light?

Manish Sanghi: When I'm talking of the "Swachh Bharat" campaign really speaking our orders are coming through, we have done a lot of specification work with various NGOs and CSR departments of various companies so if I were to give an example, let me not take names. So it will depend upon that particular company where they are prominent and where they are undertaking the projects so my orders are not going to be a reflection of where the activity is happening. It's more a reflection of the activity with a specific organization either an NGO or a corporate is doing so I'm not seeing any real pattern around it but broadly speaking I am expecting it more to happen in the Eastern side of the country.

Ankur Kulshrestha: So that would be more in line with the residential nature of demand there?

Manish Sanghi: Yes and I was talking specifically over here for the "Swachh Bharat" that toilet one program but if you were to talk of the roofing business there is no pattern. We are seeing it all across; if anything it is a little sluggish in Western India but other than that it is so far good everywhere else.

Ankur Kulshrestha: You have mentioned the Boards and Panels contribution to the revenues about 200 crores per annum what would be the kind of margins you enjoy in this business similar to the overall?

Rakesh Gupta: Yes they would be similar and really speaking we don't look at it separately as a separate segment so we don't carry those numbers but they are not very different. In ROCE term they are not different.

Ankur Kulshrestha: On your CAPEX what are the kind of numbers you are looking at for FY-16 and 17, I know you have given to projects specifically but what could be the spread across years?

Manish Sanghi: You are talking of '15-16 or '16-17?

Ankur Kulshrestha: Sir '16-17 I think.

Rakesh Gupta: The CAPEX plans for '16-17 are frankly not frozen but '15-16 the big CAPEX is happening in UAE which is a big Boards plant which happens there.

Ankur Kulshrestha: Right, so sir the entire 100 crores amount is likely to be spent in the current year itself?

Manish Sanghi: Yes, that is right.

Moderator: The next question is from the line of Dhavan Shah from Indsec Securities. Please go ahead.

Dhavan Shah: Actually, I have one question I mean when I am looking at the revenues for building products segment for Q4 it is almost muted year-on-year. However, we have seen some margin expansion for the quarter. So is that because of some inventory gained realized during the quarter?

Manish Sanghi: No, not really, I think I talked about it just a little while back. We have been taking a whole of initiatives to cut cost, improve efficiencies and I would really attributed to that. Also helped by depressed raw material prices.

Dhavan Shah: Changes in inventory it is almost 15 crore gain for the current quarter.

Manish Sanghi: There is no gain.

Dhavan Shah: Yes, so these changes in inventory so is it because of reevaluation or?

Manish Sanghi: No, it is a physical increase. We also talked that our volumes were muted so actually built up inventory and I built-up inventory in this quarter so, that I can cater for the season better.

Dhavan Shah: Okay. And one more question is about the sales volume realization for these both segments. So can you please tell me about this volume realization vis-à-vis the last year for the same quarter in the building segment?

Manish Sanghi: No, I will talk about the building product segment as a whole I would not have specific numbers for Boards.

Dhavan Shah: Okay. So what is your volume for this building product for this current quarter?

Manish Sanghi: Yes, my building products volumes are 178,633 tons compared to 170,000 last years for this quarter it is a growth of 4.7% in volume terms.

Moderator: Thank you. Next question is from the line of Rahul Soni from Baljit Securities. Please go ahead.

Rahul Soni: Sir you have mentioned in your presentation that improvement in the margins was mainly due to reduction in raw material cost, transportation cost, and better absorption of operating over heads. So can you please elaborate this and how sustainable this improvement in the margins going forward?

Manish Sanghi: There are few keys raw materials that we operate in if you really look at it I would say we use fiber which is imported. We use two different kinds of fiber – Cellulose Fiber which comes from Russia and America. We use Asbestos Fiber which predominately comes from Russia and Kazakhstan. Then we use cement and we buy it locally from wherever our factory is. And third big raw material in value terms is steel. All of you would have seen that steel prices in the last few months have started showing a downward trend and prices for the particular rate which we have buy have declined by Rs. 2,000 to Rs. 3,000 a ton.

Rahul Soni: But your margin in steel building has gone down on segment basis?

Manish Sanghi: No, it all depends Rahul on at what price the order was taken, okay, and I should also mention that we were setting up a new factory and we were going aggressive on volumes somehow fill up capacity and there were not too many orders available in the market so we had taken orders at lower realizations. But now that steel prices are going down some of those orders will give us some results, I would not say they will give us great results, they will give us some results. But now we have tightened up now that we have a healthy order book our policy on accepting orders has changed. Unless its fetch a certain margin we are not accepting orders any more. The cement month prices as I said also have been depressed. They typically when the summer starts coming this cement prices start going up. We are not seeing that happening this year and that is also helped us. Essentially I would say a lot of it has to do with raw material.

Rahul Soni: Okay. So if I take these three raw material products – fiber, cement, and steel. What will be percentage contribution to these three segments? What would be the raw material cost contribution of these three products in total?

Manish Sanghi: The asbestos fiber forms something between 65% of the raw cost of the AC sheet of the roofing sheet. Steel forms something like 70% of the selling price and virtually 100% of the raw material cost as far as the steel building is concerned because it is all steel. And the cement is relatively lesser. Cement will be something of 10% of the depending upon a particular product about 10% to 15% of the raw material.

Moderator: Thank you. Next question is from the line of Kalpesh Thanki from Sharekhan. Please go ahead.

Kalpesh Thanki: Sir just wanted to ask that the average cost of the asbestos sheet which you import from Russia and Kazakhstan, what will be the average price that you are importing?

Manish Sanghi: Kalpesh, the average is a difficult number to give.

Kalpesh Thanki: But sir on year-on-year comparison what will be the…

Manish Sanghi: Year-on-year comparison we were able to get a small prices reduction this year.

Kalpesh Thanki: Okay. And going ahead sir is it likely to continue?

Manish Sanghi: We do not expect any changes to happen during the course of the year. But if the currency fluctuates then I do not know. I am saying in dollar terms I do not expect a change.

Moderator: Next question is from the line of Dhwanil Shah from iWealth Management. Please go ahead.

Dhwanil Shah: Just few questions sir, one was regarding our Board unit which we are setting up in UAE. So when is that expected to start sir?

Manish Sanghi: It will start next fiscal.

Dhwanil Shah: So in the second-half, first-half?

Manish Sanghi: Towards the end of first-half.

Dhwanil Shah: Okay. So sir and then this can do what kind of revenues at that optimum level just to understand?

Manish Sanghi: We are talking of 72,000 tons as being the capacity and over there we expect anywhere between 150 crores to 175 crores to come out of it.

Dhwanil Shah: Okay. And that we will cater only to export market?

Manish Sanghi: That is right.

Dhwanil Shah: That is right, okay.

Manish Sanghi: It is really under subsidiary and it will appear in our consolidated goods.

Dhwanil Shah: So sir in our standalone things so the domestic business is running at around says 80%-85% of utilization levels in the building products. So sir here we have anymore plans or we can do like 100%-110% of utilization levels in this front? So just to understand whether incremental growth would come from building products so we may go for expansion or what is the plan in that term?

Manish Sanghi: See one that right now we export a lot of our Boards. Once the particular capacity comes up in UAE it will release capacity in India because we are selling close to that volume even today but it is right now exported out of our factory. So it will allow the Indian market to grow. The second is constantly we have been seeing that our plans are able to produce more and more and this capacity is really a changing number. Today we talk of each plant being a 1 lakh ton plant. I would not be surprise if in a couple of years we start thinking of 120 as being a standard for each plant and that keeps happening by debottlenecking, by making some processes more efficient, and we are starting to hit those numbers in some factories.

Dhwanil Shah: And then sir just to understand on the margin between steel products and the building products so what will be normal approx. EBITDA margins in both the segments? So as you said blended is around 7% to 8%. So in building products it would be much than that, right?

Manish Sanghi: In building products the EBITDA would be 8% to 9% and steel buildings will be 3% to 4%.

Moderator: The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead.

Raj Gandhi: So sir Russia and Kazakhstan's domestic currency has seen huge depreciation some 20%-30% odd so you negotiate the contract in dollar terms with them?

Manish Sanghi: Yes, we negotiate in terms of dollar.

Raj Gandhi: Okay. So as in possible to get to some more juice out of it because in their domestic currencies the realization are up 30%-35%/

Rakesh Gupta: Raj, I wish I could, actually we asked for a 50% reduction in price. But that did not fly for too long. They said all their input cost have gone up very significantly and I suppose some of the owners probably live outside those countries. So they really want their income in dollar terms do not care about the local currency.

Raj Gandhi: Okay. And sir just given the crash in oil prices and some bit of softening of activity in Middle East so anyways you are saying that UAE plant was not meant too much for domestic market. What was the plan because domestic market obviously there would be some softening there?

Rakesh Gupta: It is meant for the consumption in Middle East. We are not seeing so far any softening of demand happening. Despite the oil prices, despite the Syrian and Iraq conflict the demand continues to be quite robust.

Moderator: Thank you. Next question is from the line of Sandeep Baid who is an Investor. Please go ahead.

Sandeep Baid: I have two questions, one how much was the contribution from exports to the revenue last year? And what kind of savings do you foresee on freight because of the UAE plant that is question number one. Second question, on the PEB business of the 37,000 ton order book that you have, how much of it is low price orders where you do not hope to make more than 1%-2% margin? And second, what kind of asset turnover ratio do you hope to achieve on the PEB business? You mentioned that the EBIT margin there will be about 3% to 4%?

Manish Sanghi: Let me start with the first question, our exports would fetch us, I am not having the exact number in front of me, but it will be around between 85 crores - 90 crores. What is the freight element which will be saved by the plant in Middle East? It is going to be a function of where we manage to sell. Our plant is in UAE so in UAE itself the freight element difference is going to be very significant but the difference will not be as significant when we move into other geographies in Middle East. But the realization would be significantly better in any case compared to what we get out of the Indian plants. The asset turn over ratio in the case of PEB we are including pre-ops cost the Dahej plant has costed us close to Rs. 60 crore and on Rs. 60 crore we will do a turnover of around 250 odd crores. So you can say it is 1:4 or 4:1 depending upon which way you see the equation.

Sandeep Baid: Does that mean that ROC in PEB business is more than 14%-15%?

Manish Sanghi: It should be a minimum of that we will obviously be aiming for a higher number.

Sandeep Baid: Okay. And sorry my other related question to PEB business was what proportion of your order book comprises of low price orders?

Manish Sanghi: As I said, we have exhausted a large number of them, the numbers which I have is not more than 20%. But I should also just say that these are the orders which are more likely to be executed upfront.

Moderator: Thank you sir. The next question is from the line of Rajesh Kumar Ravi from Centrum. Please go ahead.

Rajesh Kumar Ravi: Sir, on your debt cost this quarter has been higher significantly on a Q-on-Q basis. Could you explain that what is your gross debt and what is your interest cost?

Rakesh Gupta: Basically this year interest cost is higher because last year major part of interest cost was capitalized in the new plant that we were setting up whereas post-capitalization this year's interest cost has been fully captured. Number two, the borrowing that we have taken for our UAE plant the cost of that interest also have started hitting our P&L account. And because this will be in the form of investment this will not be capitalized in my books.

Rajesh Kumar Ravi: No, the UAE plant is still under expansion.

Rakesh Gupta: It is under implementation but my money is going out as an investment in Subsidiary, I am not capitalizing the interest cost.

Rajesh Kumar Ravi: So is this why you from 4.5 crore it is gone to 7.3 crore this quarter?

Rakesh Gupta: This quarter has taken full interest impact of the borrowing that we have done.

Rajesh Kumar Ravi: So what is the total debt that we have currently sir?

Manish Sanghi: Total debt will be about 280 crore, working capital, long-term, everything.

Manish Sanghi: It includes all borrowing actually.

Rajesh Kumar Ravi: Okay. So that works around 10% interest cost?

Rakesh Gupta: Yes, you can say on an average it is.

Rajesh Kumar Ravi: And sir this raw material that you import from Russia, America, Kazakhstan, are they any which ways hedged or you keep them open?

Manish Sanghi: We keep open positions on all our imports.

Rajesh Kumar Ravi: Okay. So like you said that your export sales happened was to 80 crore to 90 crore as in FY-15. And what would be your corresponding import cost that is incurring on this fiber?

Rakesh Gupta: My imports are the order of around 300 crores.

Rajesh Kumar Ravi: So large part of is exposed?

Rakesh Gupta: Yes, it is exposed. We have a metric which we internally look at and so far we have find that unless there are wild fluctuations, our current policy says that cost of hedging is higher than the loss which would occur.

Manish Sanghi: Actually we keep reviewing our cost.

Rakesh Gupta: Weekly review but I should say in general we have virtually never hedge our imports. We might hedge our dollar denominated loans but we have not really hedged our imports.

Rajesh Kumar Ravi: This import cellulose fiber and all that you are importing, what is the trend currently you vis-à-vis you know maybe last three-four year perspective.

Manish Sanghi: On the asbestos side it is stable with a slightly downward bias in dollar term. In cellulose is a marketable commodity and it keeps going up and down. Right now it is on a low but it is difficult to forecast cellulose part of it.

Rajesh Kumar Ravi: Okay, so like do you envisage any opportunity when these prices are lower to build-up inventories?

Manish Sanghi: No, as of today we have no intention of building up inventories.

Rajesh Kumar Ravi: Okay. And what would be inventories that you generally maintain for these cellulose fibers?

Manish Sanghi: For imported raw material we typically do not like to go beyond 45 days.

Rajesh Kumar Ravi: And the CIE revenue that you said when the new plant gets commissioned and you are talking of revenues close to 150 crores to 170 crores type of revenue potential so that is full utilization or you are expecting that to happen in first year of operations?

Manish Sanghi: That is at full utilization.

Rajesh Kumar Ravi: Okay. And that will take how many years to achieve?

Manish Sanghi: I would add just this that a lot of the revenue depends on the product mix. This is based on a standard product mix. If we manage to sell more of value-add then the revenue will change.

Rajesh Kumar Ravi: I just wanted to understand if we start in FY-17 by when you could be reaching your optimal utilization level?

Manish Sanghi: At it will take one year of operation to start getting the capacity numbers?

Rajesh Kumar Ravi: Okay. So because you are already known in that market your products is well-accepted so that could be one of the reasons.

Manish Sanghi: No, it is not the selling part, it is more the operation part because you are selling that much volume even today.

Rajesh Kumar Ravi: And sir this value-added products that are you are taking of, what does that constitute of and how different are the margins in that segment and your percentage of total sales in the building products?

Manish Sanghi: See what we have done over a period of time that we have brought in variance for a lot of our product lines and let me start one by one. If I take roofing we have launched two variances one, we call as Super Color it is a roof which is frankly the first time in the country we have launched a roof which is color and it is algae resistant. So it does not become black over a period of time which has been a standard issue with a lot of the cement sheets. So this is unique product. We have launched it in North, East and Southern India and we are probably depending upon the response we receive we will do it across the country. The second product which we have launched is we call it we call it the New Hi-Tech. This is non-asbestos soffit for retail with a new profile we call it the American Profile and it has been launched in Kerala. The other variance are in the Board segment so, one of the big product lines is Ceiling Tile. So wherein we make them of 2x2 feet, we paint them, we pack them, and we sell them. The second is Everest Cement Wood Planks. So these are replacement to wood. They look extremely esthetic very-very beautiful and nice and use both for interiors and exteriors. Next time I would add some photographs you can probably look at them upon our website as well. So this is a product which is increasing virtually every single month. There is a lot of marketing efforts goes into it but it is giving us good returns. So then we do something call washers for roofing. Earlier people use bitumen washers we have an EPDM rubber washer then we have polycarbonate roofing. So there is a portfolio of products which we have in the marketplace and the idea is to offer customer a variety, offer him a solution rather than a product.

Rajesh Kumar Ravi: And sir roofing and accessories would be how much? As I said that your woods and panel comprise around 200 crore out of the total sales in this segment of around 800 crore so, remaining would be in…

Manish Sanghi: More or less it would be the roofing one that is right.

Rajesh Kumar Ravi: Okay. The remaining is almost 60%-70% is the roofing.

Manish Sanghi: Yes, all put together.

Rajesh Kumar Ravi: Okay. Sir just one last question on the demand trend that you have seen there is flattish growth that you have seen on the volume front and that has also restricted the pricing capability. So has it led with overall residential demand being slow in new housing projects and all because most of the product that you have launched is also towards like this wood panel and all that you have launched cement wood panels and all that would be more going into newer residential projects and all.

Manish Sanghi: Rajesh we are on the roofing side first the rural and urban market don't move together. They are two entirely different segments and really speaking we have nothing to do with the so call real estate segment. On the urban side of the product our share of the business is so small right now that we can grow many-many fold without the market affecting us. We are too small to be effected by market.

Rajesh Kumar Ravi: So mostly if the rural grows you will have a great propensity to show a strong volume growth. Would that be a fair assumption in the building side?

Manish Sanghi: Yes, I would think so, yes.

Rajesh Kumar Ravi: And in this PEB segment it is more depended on how the industrial segment picks-up logistics companies and all, the roofing and prefabricated units that will drive you sales growth?

Manish Sanghi: Yes.

Moderator: Thank you. Next question is from the line of Sandeep Baid who is an Investor. Please go ahead.

Sandeep Baid: Just one small question, you mentioned that you have not taken any price hike in the last quarter. Have you taken any price hike in April?

Manish Sanghi: Yes, there has been some hike.

Sandeep Baid: Okay. If you can give some idea what are the percentage?

Manish Sanghi: Sundeep it is in the roofing the pricing actually there is nothing like a national hike. It is a very regional localized market. So it varies from virtually district-to-district. It does not behave like one single market.

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

Falguni Dutta: Yes, sir just wanted to clarify on confusion that I had this pre-engineered building would be same as steel building, right?

Manish Sanghi: That is right, Yes.

Falguni Dutta: You mean they are the same thing?

Manish Sanghi: They are more or less the same thing. We actually do two kinds of steel building – one is called pre-engineered building and the other is called a smart steel building. So there is a small difference but majority or the big I will say 95% of the turnover comes from PEB. The smart steel building so far is a very-very small part of the steel buildings.

Falguni Dutta: Okay. And both of these are a part of the steel building segment only?

Manish Sanghi: That is right, absolutely right.

Falguni Dutta: And sir one more on the “Swachh Bharat” whatever we do there it forms a part of building product?

Manish Sanghi: Yes, it forms a part of building products.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Manish Sanghi for his closing comments.

Manish Sanghi: Thanks for a very enthusiastic participation not just this time but over many-many quarters. I have to say this that your participation, your question while it gives you answers, it also helps us focus on issues which can drive growth and profit in Everest. We believe that with higher volumes and the demand sustaining over coming year we should continue to be part of the India growth story. We continue to believe very strongly that building products and construction sector is the driver for the country and we have undertaken CAPEX even when the markets were sluggish with this particular belief. The Fiber Cement Boards Plant CAPEX which we have undertaken UAE will really help us make an international mark and will hopefully also help us benchmark on product internationally besides cutting down on logistics and handling cost and giving better returns. Over a period of time we have graduated to a building solutions company and we continue to strive in that direction. I am sure you will see a lot more examples of what we are capable of in the quarters to come. Thank you so much for your enthusiastic participation and your questions and thanks for being on the call. Thank you so much.

Rakesh Gupta: Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Everest Industries that concludes this Conference Call. Thank you for joining us and you may now disconnect your lines.