



“Everest Industries Limited Q2 FY 2017
Earnings Conference Call”

October 25, 2016



MANAGEMENT: **MR. MANISH SANGHI – MANAGING DIRECTOR**
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Moderator: Ladies and gentlemen good day and welcome to Everest Industries Limited Q2 FY-17 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 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 telephone. 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 good morning friends. We welcome you all to the Earnings Conference Call of Q2 2017. I have with me Mr. Rakesh Gupta, our CFO, and Stellar Investor Relations our advisors for Investor Relations.

We have circulated the investor presentation and I am sure you have received the same and have gone through the same. The Q2 numbers are disappointing. We are however in line with our expectation.

As forecasted we had a great monsoon. The good monsoon in the short-term however is not so good as the construction activity slows down. The roofing season ended early, many of our PEB sites were water logged and we could not dispatch material to them. The good monsoons of course should result into better crops and as I had mentioned last time we should see better demand from November onwards. We have continued the initiatives which we talked of last quarter. We continue to work hard on expanding our distribution network across the country and the full impact of this will be felt once the demand picks up. We have significantly improved our service levels to the network; typically there is a reduction of up to 75% in our response time to them in terms of supplies, breakage claims and other such issues. We are also in the process of a major overhaul of our logistics which should result in better service and cost control.

The boards and panels market continues to be good domestically and terrible internationally. Our exports are down by 60 odd percent for the quarter and as of now there are no signs of an upturn. Our UAE project continues to be on board.



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We felt the need and went ahead with appointment of a senior professional from a well known consumer product company to look after this business. He brings with him a thorough understanding of the Indian market and the experience of launching multiple products. As you are aware there are lots of new players entering the doors markets and we expect them to expand the market significantly by operating in different segments, some of them come from different building products businesses which should definitely help in expansion of the market. In the steel building segment we had faced a problem of MIP and a depleted order book, the MIP in fact is more or less over. We have also been able to beef up our order book and it now stands at 38000 metric tonnes which is more than six months at full capacity we should start seeing what is the improved performance from around Q4 beginning onwards.

We believe that there is a definite upturn as far as industrial climate is concerned. The enquiry level has picked up and the conversion rate is much higher than before. As you would have noticed in the presentation we continue to do the nonconventional PEB structure, we are doing IT centers, we are doing schools, we are doing colleges, we are doing commercial buildings and these are relatively more value-add than the typical factory and warehouse buildings. We will continue to do a lot more of them in future and we believe this should add to the contribution which we are having.

I would now request Mr. Rakesh Gupta to cover the financial performance and then we go down to question and answers. As I had mentioned before that is where the real meat of the conference is and it also tells us a lot more of the expectations of the market and guidance on what we should be doing going forward. Over to Rakesh!

Rakesh Gupta:

Thank you Manish and good morning friends. I will quickly take you through our results which we have circulated in the presentation that has been made for you.

During Q2 FY 2017 we recorded revenue of Rs.227 Crores compared to Rs.287 Crores recorded in the corresponding quarter last year. During H1 FY 2017 revenue was at Rs.580 Crores as compared to Rs.694 Crores in H1 of FY 2016.



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During the quarter our sales volume was around 121700 tonnes in the building product segment and 10250 tonnes in the field building segment. EBITDA reported for H1 FY 2017 is Rs.19 Crores as compared to Rs.42 Crores in H1 of FY 2016. We recorded loss after tax during quarter of Rs.9.4 Crores as compared to loss after tax of Rs.2.3 Crores recorded in the corresponding quarter last year. For H1 FY17 we recorded a net profit of Rs.2.4 Crores as compared to Rs. 20.7 Crores in H1 of FY16.

The performance was impacted due to drop in export revenue to the tune of Rs.10.3 Crores in Q2 and Rs.24.2 Crores in H1 FY17 with a resultant drop in profit. Onetime expense of Rs.2.3 Crores in Q2 and Rs.6.9 Crores in H1 FY17 on Project Parivartan also impacted the profitability. The drop in H1 FY17 net profit as compared to corresponding period last year also widened because of the interest income of Rs.6 Crores on income tax refund that we received in H1 of FY 2016.

Our total borrowings have dropped by around Rs.12 Crores during the half year mainly on account of drop in working capital borrowing. I think this is briefly what I have to share and with your permission we can take the questions now.

Moderator:

Thank you. We will now begin with the question and answer session. We take the first question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi:

Sir, just wanted to understand on this Project Parivartan impact around 4.5 Crores in Q1 and another 2.3 Crores in Q2 so what exactly would this translate into and what are the further recurring costs which is expected over next few quarters?

Manish Sanghi:

The number one Project Parivartan was a onetime exercise in which we had engaged a consultant, BCG, helping us with improving our roofing business and our procurement processes. This is a onetime expense, we do not expect any major payouts to happen in this regards in future. Having said that the basic objective of Project Parivartan was actually to work on various levels to improve our sales in terms of volumes, improve our realizations, reduce procurement cost, reduce logistics cost, we expect the benefits of these two to accrue over long-term. We are already starting to see some benefit and it would be evident as we go forward, we



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are already seeing an upturn in our market share in various markets to have gone up. We have been able to negotiate better prices. We have been able to add more suppliers to our kitty. As I said we are doing an overhaul of our logistics so that it becomes more efficient not in terms of just service but also most cost efficient, so I expect the results to be over the long-term but the costs have all been absorbed, there may be something small here and there but the major cost is done.

Rajesh Ravi: Secondly sir in terms of the margin benefits what sort of margin benefits because of the fiber cost reduction we have seen currently over the last two quarters?

Manish Sanghi: That I think we had indicated even in the last presentation we were able to negotiate because I think of the commodity price drop across the world the better cost for the asbestos chrysotile fiber, chrysotile fiber itself dropped by something depending on various rates between 15% to 20% towards the price reduction, the costs are really great, typically till last year it was forming 70% of my raw material cost, so this has meant something like a 4% reduction of my overall cost price, this has flowed into the P&L but right now it got offset by so many other things which happened during the quarter.

Rajesh Ravi: So even if we have just this 2.3 Crores on the recurring profitability and so we still saw a compression in margins so what exactly went into, could you give the volume in this business volume growth and the boards volume growth separately as you have mentioned the export volumes please?

Manish Sanghi: Typically I go and get into my board volumes and roofing volumes but let me say that that my roofing volume were almost constant, over the half year there was virtually no change in the numbers, it was some 2000-3000 tonnes virtually the same. The big change happened in the case of boards over the half year have dropped by nearly 30% and decline has essentially happened in the case of exports.

Rajesh Ravi: Sorry sir versus six months the results were...

Manish Sanghi: The decline is primarily in exports.



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Rajesh Ravi: So basically 30% overall volume in the boards business we saw a drop in the first half right.

Rakesh Gupta: Yes.

Rajesh Ravi: So as a percentage of your total boards what would be the export sir and percentage of total volume?

Manish Sanghi: It used to be 50:50 till last year now of course it has dropped very significantly.

Rajesh Ravi: And broadly for six months basis if you could just share out of this total volume which we did approximately what portion would be the boards volume, see we did a total volume of around 350000 tonnes in first half in the building products so what portion of this would be cement boards and...

Manish Sanghi: Our total volumes and building products was close to 350000 tonnes so it is around 15% of that.

Rajesh Ravi: So this is the 15% would be the boards volume.

Manish Sanghi: Yes.

Rajesh Ravi: Because we are seeing on a total volume base at least for this quarter there is a 10% volume decline so that is where we want to understand.

Rakesh Gupta: I think with all these numbers what I am trying to say is that we saw a decline in essentially the big differentials in terms of volumes was export volumes and as I said before I am not seeing an upside on that happening in the short term. I expect an upside on the domestic boards. We have taken a lot of different steps in that direction and the so I have capacity now I was running out of capacity for expanding in the domestic market now I have capacity to expand and we are focusing on increasing the demand in the domestic market.

Rajesh Ravi: In the PEB segment where are we now currently in terms of what sort of as you said your order book has now significantly improved vis-à-vis last total three quarters when we had come down to 20000 tonnes end of March 2016 so what



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should this translate into, should we see a quarterly run rate of 15000 tonne plus recovering or we would still be...

Manish Sanghi: I would start seeing a significantly better performance from Q4 onwards; as I said Q3 should be less better than Q2 but the real impact starts happening in two to three months after the order booking happens, much of the order booking happened in late September early October and it takes three months for the impact to really start showing.

Rajesh Ravi: And in terms of margin profile sir do you see this again reverting Q3 onwards?

Manish Sanghi: Our problem was not really the typical individual margin, our problem was volume which we were delivering and the fixed cost ate up the contribution which we were having on account of the door volumes. If the volumes pick up we will be back to making good numbers.

Rajesh Ravi: So what sort of volume would cover this contribution that we have mentioned in the presentation what would like Q1, Q2 we did around 12%?

Manish Sanghi: In Q2 we did a volume of 10200 something to 44 tonnes. We should be able to increase it by 25%, 30% at least in Q3 and hopefully even higher in Q4, we have the order book to be able to achieve it: the only question which would remain is the releases from customer which I do not think should be a problem.

Rajesh Ravi: So from a breakeven perspective at operating level play what sort of number, if we move back to first quarter numbers?

Manish Sanghi: If steel prices remain constant nothing happens over there my break even volume is of the order of around 11000 odd tonnes in a quarter.

Rajesh Ravi: Just on the pricing front because we are seeing the steel price volatility impacting severely so what is the strategy now sir, what sort of margin safety, is there any scope for building in margin safety or will be vulnerable to the volatility in steel prices.



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Manish Sanghi: We believe that for acute volatility there is no counter to it and I have I think repeatedly mentioned project durations are short in nature they normally would not extend beyond five months and within five months we do not really unless it is administered by an external stimulus like a MIP or some crash somewhere else we do not expect prices to vary too much. We have also tried and it was suggested even in one of the earlier calls that why not we cover steel. We find that the grades of steel which we use cannot be hedged. There are only two options available to us one is we buy steel and keep, the second is that we buy as we require it, the policy which we have adopted is we buy as we require it, first all my buildings are 100% customized and the kind of steel which I may require varies a lot so I use steel varying from 4 mm thickness to up to 40mm thickness so if I buy and keep I can end up with a non usable stock and the cost of it can be very high so our policy is for some running sizes we buy based upon regular requirement but for all other sizes it is purely based upon the design requirements.

Rajesh Ravi: So what should be your margin outlook which you are looking forward to sir, once we normalized Q4 onwards?

Manish Sanghi: I am not getting into forecasting of numbers because that is a dicey one and so we are not giving forward looking numbers but we should definitely be doing far better than what we have done.

Rajesh Ravi: This Director General Anti Dumping has recommended antidumping duty on the import of color coated sheets, so would that have a positive bearing for the asbestos business where we have been seeing lot of competition from the Chinese profile sheets?

Manish Sanghi: It should have, already we are think two particular trends which are happening, number one the steel prices as I mentioned even in my presentation have strengthened in the last six months and we are seeing the impact of spending even in our PEB, so while in one business we want it to go down in the other business we want it to go up but in the EC business one the prices are **(inaudible) 21.52** second we are also seeing a very distinct trend people not very happy while using the colored sheets, they are suffering on three different accounts, one is the heat, second is sound, third is leakage and we believe with the passage of time these



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issues will become big enough that people will migrate that to the fiber cement roofing. The reverse trend is very, very clear and if I might share something very interesting which we noticed in the market place you know the market is clearly showed that when a person wants to do his house he is back to using AC sheets he would not use metal sheets but when he does a verandah or in a shop extension in front which is visible he is using metal sheet. So the core market we are back we have captured it back and I think as we launch more aesthetic product and you would find and mention of that in the presentation where we launched **(inaudible)23.21** color we are very excited by the response which we have received for it, we believe we can convert it back fully.

Moderator: Thank you. We take the next question from the line of Yash Agarwal from Crest Wealth. Please go ahead.

Yash Agarwal: Sir coming back to this margin on steel buildings historically it has been very choppy so just for understanding and per tonne on your steel building how much money ideally at 11000 tonne per quarter can you make?

Manish Sanghi: We typically look for a margin in excess of Rs.20000 per metric tonne when I say margin I mean gross margin that is I am only excluding taxes, I am only excluding raw materials I am not excluding the conversion cost.

Yash Agarwal: How much would that be right now in the past two quarters?

Manish Sanghi: No we are around that number, that number has in case this is the number at the time of order booking, at the time of order dispatch the number will change depending upon the price of the steel at that particular point of time, normally I do not expect the prices to vary too much in a three to four months period.

Yash Agarwal: So sir is it the volatility in the steel price which has caused this thing and not this absolute increase in the steel price that you are talking about.

Manish Sanghi: Volatility is the one which hurts me, not the absolute number.

Yash Agarwal: Sir in your boards and panel last year what was the total contribution in terms of revenue?



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Manish Sanghi: My total boards and panels, I have the half year number in front of me it was around 110 Crores and for the year was close to 220 odd Crores.

Yash Agarwal: Okay and half of this will be exports basically.

Manish Sanghi: Yes half of this was exports last year.

Yash Agarwal: And sir lastly any Capex that you are looking at ahead like to do anything in terms of maintenance of additional Capex that you are going to do.

Manish Sanghi: There is some maintenance capex which happens as a matter of routine, the only significant capex we are doing is on the boards business essentially to upgrade our products in line with what the market requires both in the domestic market as well as in the export market, this will happen at both our Nashik and Roorkee plant but it is a modification, it is not really an addition of a line and the total expect something about 30 Crores to be expected and this will happen in Q2 of this year.

Yash Agarwal: Sir any guidance on the number for building products what sort of growth are we expecting in the next 18 months or something that you want to go?

Manish Sanghi: I would want really to experience the growth, the monsoon has been good, every pointer says that the growth should be very good but I have been bitten a few times in the last two quarters, so I would wait and see how it pans out, every pointer and our own preparation says that we should do significantly better but I would not want to give out like that.

Moderator: Thank you. We take the next question from the line of Vikram Kotak from Crest Capital. Please go ahead.

Vikram Kotak: I think most of the questions has been answered by you by the first guy who asked all questions, but let me ask a very metro question that since we all talk about the great monsoon and most people which are here in your industry as well as generally in the system they are saying there is a better next year, better next half and couple of years looks like a very, very great time for India and may be the people who are particularly placed in the rural and the semi urban market now you have opportunity on one side, another side you have the challenge on the price



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volatility and you have the challenge on the export side how is your core team working to built a medium-term strategy, what are the key couple of things which you are putting in your drawing board and you are saying these are the two or three points we want to head to get into our target and how do you build really a two or three year strategy, I am not bothered about next quarter but more keen to see from how the management thinks for next two to three years time. Thanks.

Manish Sanghi:

Thanks for asking the question Vikram and you probably asked this about boards but let me broaden the question and answer it for both roofing as well as boards. In the roofing business the way we see going forward is number one to expand our product range, we have already launched a product called Everest super in the market place, we had kept in the places where I launched it I had kept a target of how much of my standard product would it replace and I had kept fairly simple targets that it should replace 15% of my sale in that particular small geography. It is priced at something like 15% to 20% premium over my current product and the margins are better thereof. It has done better than my expectation so we were surprised that people who are waiting for a better product to come into the market do not mind paying extra if I offer something extra. So far we have been trying to increase prices and increase profitability without really offering him anything new, so this is one approach which is that in roofing business we will offer multiple variants of our products and all of them are aimed towards going higher up in the product hierarchy. On the boards and panels side and I am talking really I am not talking of the backend side I am talking only on the frontend on the market side as well, I am not talking about what we will do in the factory. On the boards front the strategy is a little different. We are targeting products which are specific to a particular use, so once again there is going to be a lot of new products, but we will not be launching multiple used products, we will have very specific targeted products, we are just introducing launching a product called aqua strong for wet areas and there would be similar such product lines which we will be focusing on so that is number one that a specific product for specific use. Our biggest problem with our boards is around the people who are able to use our products. So the effort is going to be or a major effort would be on teaching people how to use our products. We believe that will give us dividends the likes of which we have never seen before, so we keep suffering from this issue that people find it easier to use plywood or MDF compared to my products and that becomes a biggest reason



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why we use plywood or MDF not because they are functionally superior, so the big exercise on this particular front but as is obvious from the nature of the exercise I cannot see dividends of this exercise in a quarter. It would happen over a period of time. The third aspect of which is we were very pleasantly surprised by the kind of traction which we are able to generate for our boards and products even in some very small towns and villages. At another forum I had shared examples of two particular small towns one Mau and one Sangamner in Maharashtra, there are 50000 such towns across the country and these towns because we put in a concerted effort because we had a willing partner and we went through all these steps we were able to ramp up volumes first 200 tonnes in a month. If I am able to do it on a larger scale I should see a significant increase in volume so it gives me least confidence that if I do things right in large number of areas it will pay me significant dividend over a period of time and second is that the product itself has great potential we have to go ahead and realize that particular potential.

Vikram Kotak: The next question may be is a short question, what will be if we do not spend anything on Capex today including the Capex which was spent last year what kind of sales you can achieve overall on building products and on the steel side what kind of total sales you can achieve?

Manish Sanghi: My Capex is not aimed right now at quantity enhancement. As is obvious I am doing lesser than last year, I am not using my capacity; buildup is not the objective of my Capex right now.

Vikram Kotak: Sir what is the utilization level as of now you have on both the sides.

Manish Sanghi: My capacity utilization in the case of steel buildings is also order of is around 60% in the case of steel building and in the case of building products it is around 80%.

Vikram Kotak: And this includes the debottlenecking which you did in the building products right.

Manish Sanghi: Yes.

Vikram Kotak: So you have a significant scope in increasing the volume.



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Manish Sanghi: I have a significant scope to add volumes without the Capex, we believe very strongly that going forward I would require to enhance capacity we are absolutely certain of that but we will do it when we decide.

Moderator: Thank you. That was the last question I now hand the conference over to Mr. Manish Sanghi for his closing comments. Over to you sir.

Manish Sanghi: Thank you so much I am actually a bit surprised because normally I have got many more questions and probably we answered the earlier questions in quite some detail when answering Rajesh and when answering Vikram in terms of strategy going forward. We continue to believe strongly that both the rural and the industrial markets are going to have an upturn in the current and the coming few quarters. We believe we are strongly tight into the India growth story. We are very definitely saying an uptake as far as the industrial demand is concerned. There are signs of people shifting back from metal into fiber cement. There are definite signs of the rural market picking up and we believe that once the crop moneys starts coming in this trend will only be increased. As I mentioned earlier we have taken a number of steps on our backend in terms of procurement in terms of our manufacturing, in terms of our logistics which should help us keep our costs in control and all of this should auger well for all our shareholders and for the company as a whole. Thank you very much for being part of this conference and I hope to see you three months from now hopefully with a much better news. Thank you so much.

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