

Everest Industries Limited
Q3 and Nine Months FY 2017 Earnings Conference Call
January 30, 2017

Moderator: Good day, ladies and gentlemen, and welcome to the Q3 and Nine Months FY 2017 Earnings Conference Call for Everest Industries. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone.

I would now like to hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, sir!

Anuj Sonpal: Thank you, Mallika. Good morning, everyone, and a warm welcome to you all. My name is Anuj Sonpal -- CEO of Valorem Advisors. We represent the Investor Relations for Everest Industries Limited. On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the Company's earnings conference call for Q3 FY 2017.

Before we begin I would like to mention a short cautionary statement. Some of the statements made in today's concall may be forward-looking statement in nature. Such forward-looking statements are subject to risks and uncertainties, which would cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's conference call is only to educate and bring awareness about the Company's fundamental business and financial quarter under review.

I would like to now introduce you to the management of Everest Industries Limited participating in today's conference call with us. We have with us on the call today Mr. Manish Sanghi-- Managing Director; and Mr. Nikhil Dujari -- Chief Financial Officer.

With much ado, I request Mr. Manish Sanghi to give his opening comments. Thank you and over to you, sir!

Manish Sanghi: Thank you and a very good morning, friends. We welcome you to the earnings conference call for Q3 FY 2017.

I have with me Mr. Nikhil Dujari our new CFO. Nikhil Dujari joined us recently, and he earlier worked with Fiat, New Holland, Alstom, E&Y, and Pricewaterhouse. We welcome him into the Everest family and I am very happy to introduce him to all of you.

Nikhil Dujari:

Thank you.

Manish Sanghi:

We also have a new set of investment advisors, Valorem Advisors and I am happy to introduce them to you as well.

We have circulated Q3 FY 2017 Earnings Presentation and I hope you have received the same and have gone through the same. If not, it is also available on our website.

As you have seen, the Q3 FY 2017 revenues were muted and the profitability for the quarter was poor impacted due to demonetization and the increase in steel prices. Realizations in the building segment fell along with the volume. Volumes for this quarter were at 127,000 metric tonnes versus 140,000 metric tonnes last year.

The demonetization has impacted the overall AC roofing industry sales by around 13% while for Everest its impact was around 11% on a year-on year-basis. The major impact was felt in December 2016 wherein the rural market had no cash to buy anything.

The demonetization also impacted the retail business in boards and panel. The exports of boards and panels had grown compared to what they were few months back. But they are still below path, below the last year's volume.

To counter this impact, in retail market the Company conducted 30 plus dealer meets pan India with an objective to prepare, advise, and train them on different types of digital transactions and also with the eminent implementation of the GST.

For boards and panels we also took an exhaustive district wise analysis of the dealer network and will initiate activities to expand the network to cover more districts in the next 18 months.

These two aspects, demonetization as well as GST are major events and their impact are going to be significant. The way business is being done virtually 100% of our final customer purchase the product in cash. And with the disappearance of cash from the market the impact was going to be significant. It is taking time for the new method of transaction to come in. But there is slow and steady increase in the way in digital transactions as well as cheque transaction from the final customer to the dealer.

We also expect the GST to have a major impact on the way business gets done in the country. We at Everest are fully prepared to handle the challenge and have done major exercises across our network to ensure that when it comes we are fully prepared to handle it.

Going forward, we expect that buoyant rural economy and a healthy crop season will aid demand for the AC roofing products.

In the last concall, I had mentioned that I expect a buoyant demand to be there for rural market from November onwards. We actually saw it for the nine days before the demonetization impact really hit us hard.

As I mentioned things are moving to normal and the basic positive factors have not gone away. The crops have been good after couple of years of drought and so, we expect the demand to pick up. Liquidity situations seem to improve as the impact of demonetization starts normalize which will also help in picking up the sentiment.

In the last quarter, we have also test marketed new variants of AC roofing products which we intend to launch progressively over the next six months. We expect an improvement in demand from housing, infrastructure, educational, and government driven sanitation, smart city, and affordable housing for all projects which will also help our boards and panels business. The government has allocated more funds for rural housing and that should directly benefit us.

We are constantly undertaking newer initiatives to improve the marketing and distributions for the boards and panels the benefits of which we hope will accrue going forward.

In the steel building segment, we are impacted by the rise in steel prices this quarter, input prices rose significantly between October and December. Volumes for the quarter were marginally lower at around 14,000 metric tonne versus 15,000 metric tonne in the same quarter last year.

The impact of demonetization also led to a marginal postponement of projects. Interestingly a lot of industry expect there to be a rebound and we are currently witnessing a surge in demand, the orders which we are having, people coming back and saying please sent to us as quickly as you can, as far as steel building is concerned. The current demand scenario remain healthy, we have continued with the trend of executing more of value add structures versus conventional steel structure.

The current order in the PEB is around 34,000 metric tonne and the slight reduction has actually been on account of good off-take in the last two months. But my ideal order book is of the order around five months which makes it around 30,000 metric tonne. So, I am very comfortable over there.

We are working towards enhancing the utilization level across all our plants in the steel building segments. The rising steel prices does remain a concern and we are looking at ways and means of how to address the situation.

These are a set of opening remarks and now, I would hand over to Nikhil to very briefly discuss the financials before we go on to a detailed discussion.

Nikhil Dujari:

Thank you, Mr. Sanghi, and good morning friends. I will quickly take you through all our results.

During Q3 financial year 2017, we recorded a total income of Rs. 251 crores compared to Rs. 282 crores in the corresponding quarter last year. We reported a net loss of Rs. 14 crores versus a net profit of Rs. 3 crores in financial year 2016.

For the nine months 2017 total income was Rs. 831 crores as suppose Rs. 976 crores for the similar period last year. The EBITDA reported for nine months were Rs. 16 crores as opposed to Rs. 71 crores for the similar period last year.

So, in aggregate for the nine months' period, we recorded a net loss of Rs. 11.6 crores as Oppose to a net profit of Rs. 23 crores for the similar period last year.

We now hand over the call to the participants for their questions.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi:

If you could give us, like you said industry volume dipped 13% Y-o-Y in asbestos flooring and you could arrest it at around 11%. But on a regional basis which are the regions where you saw this decline and which markets per se we are relatively better?

Manish Sanghi:

Where I can say the decline was essentially on account of how well was the banking in various segments. So, south and west is relatively lower decreases and the bigger decreases happened in eastern India and northern India and I directly relate it to the banking penetration in these areas.

Rajesh Ravi:

But there was no growth in any of the markets?

Manish Sanghi:

There was no growth in any of the markets.

Rajesh Ravi:

Okay. Industry you are talking about?

Manish Sanghi:

All the areas.

Rajesh Ravi:

You are talking about the industry.

Manish Sanghi:

As I said it varies, yeah.

Rajesh Ravi: And similarly for the board sir, what is the current break-up between your domestic sales and exports like if you could give for the nine-month broad break-up of your sales into domestic and exports.

Manish Sanghi: Okay. Let me answer this question a little bit differently in the sense that because the situation is changing virtually every month. At an average last year, we were roughly 50-50, right now it is more like one is totwo. So, domestic is twice the size of exports. But the exports are increasing, the domestic is increasing but exports is way below the levels of last year.

Rajesh Ravi: Okay. But domestic you are seeing the growth on a Y-o-Y basis on the domestic?

Manish Sanghi: Domestic we are seeing a growth on Y-o-Y basis that is right.

Rajesh Ravi: Okay. So, currently your export should be what proportion, not for a one month or two month, may be for last nine months per say because all these nine months we would be hit by the Gulfslow down.

Manish Sanghi: Broadly the number would be something like 30%.

Rajesh Ravi: Okay. And in the domestic sir, you are also planning to do debottlenecking Brown field expansion. What are your current status on the same and what are your thought process on CAPEX across....

Manish Sanghi: We were going to do an exercise of quality improvement and volume improvement in the boards business at both our plants in Nashikas well as in Roorkeethat is underway and we had envisaged the total expenditure of around Rs. 25 odd crores, we would be going through with those.

Rajesh Ravi: Sorry, by when that will be completed sir?

Manish Sanghi: It will be completed by the end of this fiscal.

Rajesh Ravi: Okay. So, that is on track.

Manish Sanghi: Yeah, it is on track, we see no reason of....

Rajesh Ravi: How much capacity expansion you have expected to see post this?

Manish Sanghi: Yeah, there would be a small capacity expansion. The purpose was quality and quantity both.

Rajesh Ravi: Okay. So, what I wanted to understand is what sort of incremental revenue we can get post this exercise?

Manish Sanghi: My capacity in boards will move up to around 14,000 tonnes a month which adds up to something like 165,000 odd tonnes for the year. Right now I am not capacity constraint, I am demand constraint on account of my lower exports. So, the revenue increase on account of increase in capacity will not happen automatically, it will happen only sell more and we are making significant effort actually in both domestic and export market to make that happen. But right now it is demand constraint rather than supply constraint.

Rajesh Ravi: Correct, sir. And any thought on...because currently most of the cement panel sales is happening into instructional market commercial and institutional project. So, any thought on the industry moving towards more of retail penetration?

Manish Sanghi: Actually our domestic sale is 50-50. 50% goes into institutional and 50% goes in retail trade. We expect both of them to grow. We do not think that this particular pattern will really see a major change.

Rajesh Ravi: Okay. And earlier, you had this debottlenecking this volume expansion that you are targeting is around 24,000. So, now you are saying that would be around...

Manish Sanghi: No, we had never planned for a 24,000 tonne capacity.

Rajesh Ravi: No, this is both the locations expansions.

Manish Sanghi: No.

Rajesh Ravi: So, now you are saying that from 10,000 monthly capacity run rate that you have...

Manish Sanghi: Yeah, it is a marginal increase in capacity debottlenecking, 24 really means setting up new facilities.

Rajesh Ravi: No, 14,000 you are saying would be the expanded capacity post...

Manish Sanghi: Yeah.

Rajesh Ravi: Versus 10,000 currently?

Manish Sanghi: Currently it is around 11,000.

Rajesh Ravi: Okay, sir. And any thought process on this PEB segment? You said that you are looking towards improve the profitability, so what basically would go into that which can give a steadiness to the margins?

Manish Sanghi: What is hurting us is the very volatile steel prices. Our business model is of a fixed price contract and we assume because our project happens in a short duration of time within a

period of four months, five months that project gets delivered from order to final handover that prices will not change significantly during that period. But whenever the prices either go up or go down it impacts our results significantly. There are a few ways of changing this, one is by keeping very high inventory but it cuts both way and it adds to your interest cost. So, we have chosen not to work with the high inventory solution. The other solution really lies in executing the projects faster. So, that your exposure to steel prices comes down as much as possible. My exposure is not really for the period of five months because my exposure is only till the time the metal is received in the plant. So, we are trying to cut that period down to less than two months so that, we do not get affected by volatility. Let me also add over here, that this particular period depends upon how acute, how quick is the requirement of the customer. If the customers requires the building quickly all my approvals, all the preparation for the building happens or the payment happens quickly and I am able to maintain it. But in case of a downturn in the market for his product, not for my product, for his product, so he is making biscuits or he is making cars. If there is downturn over there they postpone their demand, their requirement and this two months' period between order and all the metal being there in the plant it becomes high and that starts hurting me. So, right now we are witnessing that customer requires a building very-very quickly and I am right now constrained by my ability of how much I can supply. So, in the PEB building right now the constraining factor is not the demand but the capacity or our ability to manufacture. I hope I answered the question.

- Rajesh Ravi:** So basically, you see there is no change to the fixed price contracting across the industry?
- Manish Sanghi:** No, we do not unless the project is a very-very long duration project we do not see this changing, this is one of the big benefits of PEB so, we do not really see it changing.
- Moderator:** Thank you. Next question is from the line of Yash Agarwal from Crest Wealth. Please go ahead.
- Yash Agarwal:** Sir, I wanted to understand like as in the month of January, how is the demand situation in both the segments, are you seeing any growth do you know any basically hint on that?
- Manish Sanghi:** Yash, as far as the building segment is concerned I am witnessing it to be virtually same as last year. I am not witnessing an increase compared to last year January but compared to December it is definitely better.
- Yash Agarwal:** Okay. And sir, what is your sense and when do you expect the full recovery to happen in demand by when do you see, by the end of this quarter or something?
- Manish Sanghi:** I am expecting a gradual recovery and I think we should start doing better than compared to last year. By March or April, we should definitely be better because the positive factors that are there, it is just money supply right now and as money supply comes and people start

becoming comfortable with the money which they have and they do not fear that it can get constrained again. I think, those are the few important parameters to be kept in mind and the retail demand will pick. We are also witnessing an interesting fact that people are starting to buy with cheque books which was virtually was not the case and we are witnessing a very high percentage of transactions actually happening by cheque at the retail level. So, this is a major change in the way people transact businesses and we think that this will be good for all of us in future.

Yash Agarwal: Sir, any incentives that you are offering to your dealers or something to push sales in this tough time or something, in this quarter or last quarter, you have done anything in terms of the credit period and all?

Manish Sanghi: We debated it a lot and we decided not to extend any credit in retail markets.

Yash Agarwal: Okay. And sir, in terms of the geographical split domestically how much of our sales will be from north and east?

Manish Sanghi: How much would be in north...

Yash Agarwal: What percentage as in of your total sales?

Manish Sanghi: Northern east will amount to something like 35%, 40%.

Yash Agarwal: So, you are more exposed to the southern and western region?

Manish Sanghi: Sorry. North and east will amount to 50%, west and south will amount 50% we will be virtually sailing.

Yash Agarwal: And sir, in terms of margin and building product segment it is only the lower sales which impacted or there was an impact on gross margin as well?

Manish Sanghi: There was an impact on gross margin as well. In the case of building products, the price and volume move in tandem and so both volumes and price went down.

Yash Agarwal: Okay. So, when do you expect that to recover the realizations as in, will it recover to the normal levels?

Manish Sanghi: We have witnessed a small increase in the month of January. As the volumes build up, we think February should be better than January and March hopefully a little better.

Yash Agarwal: And sir, one more question the other unallocable expenditure, it has been steadily rising quite a lot. So, on what account is this? Is there any one-time cost involved in the other that line item?

Manish Sanghi: Yes, there is. On the nine months basis we had under taken a major exercise the Project Parivartan which was essentially aimed towards increasing the profitability of the roofing business, that project is now over and we expect to get the results out of it over the next few years actually. The other big one is on account of the foreign exchange which again we see it as one-time we have returned some of the ECBs which we had taken and so, there was a hit which got taken because of that. We were not using some of the funds which were there with us so, we actually went in for prepayment and reduce our debt.

Yash Agarwal: So, what would be the quantum of these one-time numbers? This one-time expenditure on Project Parivartan and the ECB retirement?

Manish Sanghi: For the nine months' period?

Yash Agarwal: Yeah, for the nine months' period.

Nikhil Dujari: For the nine months' period this will be around Rs. 3.5 crores.

Yash Agarwal: Sir, Rs. 3.5 crores?

Nikhil Dujari: The numbers firmly not available at the moment, so we can get it offline.

Yash Agarwal: FOREX hit is how much.

Nikhil Dujari: FOREX hit is about 1.6 in this line item.

Yash Agarwal: For the year?

Manish Sanghi: Yes, for the nine months' period.

Manish Sanghi: Can we come back to this particular question on the Project Parivartan and the FOREX details I will give you the specific numbers.

Yash Agarwal: Sure. Thank you.

Moderator: Thank you. We take the next question from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: Sir, could you help me walk through the P&L account for each of the two-business segment you have in terms of percentages. So, what is the gross contribution, what are the other manufacturing costs, what is the overhead and not for this quarter or nine months but what do you think is steady state the P&L break-up of each of the two segments?

Manish Sanghi: Nikhil, can you take that?

Nikhil Dujari: In terms of the contributions we have for the nine months' period.

Manish Gupta: No, sir, I am not interested in nine months because this has been a bad year. What you think would be a typical year for you, right, not a great year because you are not hedging your prices.

Nikhil Dujari: Typical year, at any given point in time we should be making about 18% to 20% gross on building product and about 9% gross on our PEB.

Manish Gupta: Sir, can we take this segment-by-segment? Let us talk about the PEB first. So, for our typical project sir, how would you price the project at what gross margin?

Manish Sanghi: The way we price the project is actually we do not work on percentages, we work on value add and the value add in case of PEB works that every ton of steel that I supply I should get a gross contribution and when I say gross contribution. In my case I really mean the revenue minus taxes, minus freight, minus erection, minus the raw material cost. It does not subtract the conversion cost, okay. So, I work with a number of between Rs. 20,000 to Rs. 22,000 to cover all these expenses. So, when my selling price becomes Rs. 80,000 this is 25%, if it becomes Rs. 1 lakh then it is 20%. So, I cannot because of the volatility of the steel prices I cannot work on a percentage margin basis, I work on an absolute number.

Manish Gupta: Okay. And what is the overhead of this division?

Nikhil Dujari: That data I think currently is not in public domain and will therefore prefer not to get onto the kind of overheads actually. We are getting all our numbers to all our competitors.

Manish Gupta: Okay. So, the struggle is to understand given the amount of volatility, how does one thing through fundamentally what is the return on capital of each of your two business segments on a steady state business, I am not interested in short-term this quarter, how does one think about that?

Manish Sanghi: Yeah, you are absolutely right, it is an important question. We believe that in the case of steel building, we should steadily be doing an ROCE of around 25% if all the projects happen on time, if customers give approvals on time, I should be able to achieve that because I work with a pretty good advance from customer. I do not extend credit to customers and with these two I should work with that. On my building project segments, I should again be around 25% on ROCE terms but I am not talking of this year but I am talking of what it should be rather than what it is.

Manish Gupta: Fair enough and this is before your expenses that you do not allocate to the segments?

Manish Sanghi: Yeah.

Manish Gupta: So, this is prior to that, right?

Manish Sanghi: Yeah.

Manish Gupta: And therefore, at the company level what ROCE do you target? What you should earn not what you are earning?

Manish Sanghi: The effort is that my unallocable numbers come down as much as possible, that is number one. My main unallocable are actually on account of head office expense, people like me and Nikhil who do not get allotted into any particular segment and the purchase organization and the manufacturing, R&D, and people like that. The FOREX hits which we take on account of loans which we have taken. So, typically the number on ROCE should not be going below 22 odd percent.

Manish Gupta: Okay. Sir, my next question was that earlier on the call you mentioned that in your PEB business you are constrained by your ability to deliver. Now the question is sir, that right now I read in some of your earlier calls that you are unable to hedge your steel price because you do not have some benchmark which you can use to hedge. If you are constrained for size how do you think about the tradeoff between certainty of profitability vis-à-vis growth the point I am trying to make is that if you were to keep inventory for whatever period you needed to keep it there would be an inventory carrying cost of course. But you are constrained for size the tradeoff could be and I am not suggesting you do this the intent is to understand. The other way to look at this is that you could keep the inventory have the hit. However, instead of taking 10 projects you take 7 projects but you could price them a little higher so that you are earning enough margin to cover the interest cost. So, at least there is some certainty to earnings. Otherwise the model seems it does not seem to be that you are in firm control of your destiny as far as margins are concerned.

Manish Sanghi: I am responding it virtually off the cuff right now. But number one, I make customized building, okay. Each building is unique in nature and when I say it is unique in nature it means that the raw material I used for it is not standard. I used plates for making my built-up section which can vary anywhere from something like 6mm and thickest one can go up to 40mm. There are sizes which are more popularly used and one carries an inventory of those. My problem does not occur as I had mentioned earlier when everything goes as per schedule my problem starts happening only and only if the customer delays the project or there is black swan event which happens which is MIP or something which forces all steel manufacturers to change pricing by 15%, 20% in one go. I would call it a rare event. This whole business works on a ROCE model. The margins in business per se are low. So, by increasing inventory beyond a certain number I am sacrificing the viability of the business per se. I do not have ability to hedge because the movement of plates as well as movement of galvalumes is very-very different from the way the longs and the flats and rebars move in the market place. So, one, I do not have a benchmark. Second as I said, I do customized building. So, I do not know what I

am going to require. My key lies in execution better and better execution, faster and faster execution which will bring in more predictability and more steadiness In the business. we are working hard towards it, one key factor of course also is an order book which is executable. In the past we observed at times that while we are having order book customers were not taking delivery because their own business was uncertain I do not know how to remove that bit of uncertainty from the business because if somebody does not want to produce the car then he does not want to produce a car. But by making my execution more robust I am going to eliminate a whole lot of uncertainty and I think we have moved quite a bit in that direction. There is a major effort which is undergoing at my plant level in terms of clean manufacturing, in terms of implementation of PQM, Toyota Production System, all of those in order to cut down the time taken, the error so that my throughput can improve and my site can become much better so, that if the errors are lesser sequential supplies are there. So, the focus is on operations in this particular case.

Manish Gupta: Okay. Sir, my limited point is that if you had lower top-line but you had more pricing power because you said you do customized buildings so, one would assume that if you are customizing there should be a little bit of pricing power. So, my limited point was that if we compromise a little bit on the top-line could we have a healthier bottom-line and a higher return on capital. But we could debate this offline.

Nikhil Dujari: To answer that wherever feasible we actually make sure we maximize our profitability and wherever there is also a sustainability something so, if you get something where you are making money you should not sacrifice that either. So, within priorities we decide on a demand and supply situation dictate.

Manish Gupta: Okay, sir. One more question please. On the other business sir, what is our ability to pass on raw material price increases to trade?

Manish Sanghi: Yes, just come again. Sorry, I did not get you.

Manish Gupta: Sir, in the other business, the roofing business. How much pricing power exists in that business? If you have increase in raw material prices can you immediately pass them onto trade or do you tend to absorb those?

Manish Sanghi: It is passed on to the trade with a small lag.

Moderator: Thank you. The next question is from the line of Rajesh Ravifrom Centrum Broking. Please go ahead.

Manish Sanghi: Before you ask your follow-up question, the FOREX loss for nine months is Rs. 4.2 crores and the pay out for the Project Parivartan is Rs. 7 crores.

Rajesh Ravi: Sir this FOREX loss is accounted in a particular quarter or this has been distributed? I think this quarter would be maximum hit?

Manish Sanghi: For this particular quarter is 1.6, for the nine month period it is 4.8.

Nikhil Dujari: This is the unallocated portion, it is also specific to business that we are so, in aggregate the FOREX is much higher actually and it is accounted for as and when we experience the exchange rate changes so, it is in line with the accounting standards.

Rajesh Ravi: Okay. And would it be possible for you to discuss the EBITDA margin netting off reallocating and on segment basis for both the segments?

Nikhil Dujari: Could you repeat, I did not understand question.

Rajesh Ravi: EBITDA margins for both the segments, what would be your EBITDA margins for both the segments that are building products and the engineered building solutions?

Nikhil Dujari: If you look at the investor presentation in the slide number 4th, there are specifically the EBITDA margin is given for the quarter and for the nine months' period.

Rajesh Ravi: No, I am asking for the segment sir, both the segments. Separately for the segment sir.

Nikhil Dujari: So, if you were to look at it in proportion to the segment revenues and segment results you can divide it.

Rajesh Ravi: That will be EBIT margin, primarily if I have to look because unallocated expenses overheads that we are talking about has to be looked into in context with which business are those related to it be?

Nikhil Dujari: If you look at our segment results we have certain profit and loss numbers right so, if you take the nine months number segment results before tax and finance cost right, here the depreciation is the only element that you will add and by in large as a percentage of sales our depreciation is relatively smaller number to about 2.5%. So, if you were to take that then it should be related of P&L before tax.

Rajesh Ravi: Okay. And this Parivartan expense was this related to roofing segment or more to do with boards and panels?

Manish Sanghi: It was mainly roofing.

Rajesh Ravi: And total CAPEX we have incurred in this year and what will be our thoughts for next year including maintenance?

Nikhil Dujari: So, typically the CAPEX has not been significant during this quarter, we have had wherever there was a need for alignments, improvement, deployment that has been done and so, to that extent. Repairs and maintenance again is about 10% lower versus the last year.

Manish Sanghi: Basically because of the downturn we are conserving cash, we have also carried out a major exercise on inventory reduction, loan retirement so that we are in a healthier situation. So, actually after demonetization we decided to shut-down our plant pare inventory bring it down and even thought it means that a lot of my overhead expenses actually went and start in the P&L we went ahead and did that. But we are in a healthier position, healthier cash position than we would have been otherwise.

Rajesh Ravi: Okay. See, this interest cost which is higher on a Y-o-Y basis is primarily on account of this FOREX loss that you have accounted here.

Nikhil Dujari: Yes, substantially there we have also repaid ECB so, we repaid about \$4 million in ECB and there is variation in exchange range 31st of March was close to about 65% in aggregate and that is included we are in the borrowing cost.

Rajesh Ravi: So, basically that is where your profitability was low you have cut down on your inventories and all interest cost is appearing higher.

Nikhil Dujari: Yeah.

Manish Sanghi: Yeah, we decided that hence forth we will factor in the exchange in the financial cost.

Moderator: Thank you. Next question is from the line of Apurva Kulkarni from Nine Rivers Capital. Please go ahead.

Apurva Kulkarni: I wanted to ask what is the sort of steel price hike that is seen in this quarter compared to last quarter or may be third quarter FY 2016?

Nikhil Dujari: Investor Presentation, we already have a graph there on slide number 9. Slide 9 if you look there is a price average.

Manish Sanghi: So, over the period if I take it from August, I was at Rs. 37,000 and by December I was Rs. 46,000 so, Rs. 9,000 per tonne.

Apurva Kulkarni: Rs. 9,000 per tonne.

Manish Sanghi: Yeah, so that is something like 22%-odd.

Apurva Kulkarni: Sir, also I wanted to understand that we enter into a fixed price agreement in this segment. What is generally the time taken since the time we take an order and the time when it is executed, I just wanted to understand that so, that how would we...

Manish Sanghi: That is what I was trying to explain earlier. So, there are three distinct steps of growing the PEB building. When I get the order I have to make a design, I said it is a 100% customized building so, you have to make a detailed design. Based on that design you do a procurement then you do the manufacturing and then you do the erect. So there are design stage, the manufacturing stage and the erection stage. If everything happens smoothly the design should get done in a month's time, the manufacturing should get done in typically not more than three weeks to four weeks and I should take around eight weeks for doing the erection. So, I have four, four plus eight weeks which makes at around 16 weeks, right. But this is typical it would change depending upon the size of the building, the site conditions and so on.

Moderator: Thank you. Next question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: So, the FOREX loss on the ECB, we did not take a hedge.

Manish Sanghi: We have not taken a hedge. When we took the loan we had factored that the rupee will depreciate at a level of around 5% to 6% per year. The cost of hedging was coming out higher so, we have decided not to take hedge on this particular ECB. We have another ECB which we are currently servicing which is fully hedge.

Manish Gupta: But sir, is not this speculation. You assumed the rupee will depreciate 5% or 6%. That means the management team is actually speculating on FOREX and interest rates.

Manish Sanghi: No, I do not think that it can be termed speculation. I think there is a long-term trend which is here for a very long period of time. I am not doing anything for two months, three months, four months. I am looking at it over a long period of time. So, this cannot be termed as speculation for sure.

Manish Gupta: So, that means every time you have taken an ECB you have not hedged it or do you sometimes hedge sometimes not hedge?

Manish Sanghi: There was only one ECB, we have an experience of four ECBs by now. In three of them we had not hedged, in one we have hedged.

Manish Gupta: So, there you go sir, I am saying your policy is differing. Why is not there consistency? I mean you could argue for example that you have got some export earnings based on which you have got a natural hedge and hence you do not need to hedge the ECB but if you are hedging

some of them. If you are not hedging the others then it is almost as if you are speculating or it is not clear which way you want to go.

Manish Sanghi: I have serious objections to the word called speculation because that is not what we do over here. we take a careful considered decision and the careful considered decision looking at what is the time period, what is of the loan outdoors of what I buy, of how much money is coming, based on that you take a call. And the fact is also that even after what looks like a FOREX loss and that is why we are reclassifying it as a financial cost is that the cost is still better than what I would have if I had hedged it.

Manish Gupta: Sir, I apologize, I did not mean to rude. So, when I used the word speculation, I am using it from the perspective of locking in certain cost vis-à-vis keeping your position open ended. So, I did not mean so, I apologize if I sounded rude.

Manish Sanghi: So, when we take an ECB in any case we compare it with domestic loan and then you take an ECB looking at the pros and cons of how the dollar is likely to be moving and what is the cost likely to be vis-à-vis the cost.

Manish Gupta: Sir, that is precisely my point that when you are taking a view.

Manish Sanghi: I think it is a business call, you at times decide because I am getting a fairly large saving even after hedging I would go ahead and do that and if you are with hedging you are not hedging. You take a decision based on that. I think it is a standard business decision and everybody takes that.

Manish Gupta: Okay, maybe we can take this offline because there is difference in opinion and the management is entitled to run the business as what they think is appropriate

Manish Sanghi: The second part of it, I think, in this particular case this particular loan was taken with a very specific intend of putting up a project in the Middle East the money was to be spend as well as repay it back in dollar terms.

Manish Gupta: Okay. Next question sir, is that when you could so much of opportunity in India right now I mean you are the leader in what you are doing, I think in PEB. There is so much of opportunity right now with again the rural opportunity and all that why would you be distracted by projects in the Middle East side? Why would not you just focus on the Indian market is not it just large enough right now relative to your size and all that?

Manish Sanghi: Yes, it is. The reason for going for a Middle East was simple that we were exporting 50% of our produced boards and panels into that market at very attractive margin and the margins could be better by producing it locally over there on account of the logistics arbitrage which was there. That was the reason for going for it. It did not pan out that way simply because the

oil price changes so the project got tapered. And I agree with you, there is a huge opportunity in India and 90% plus of my CAPEX, my revenues everything is focused on India that is not a major destruction in any case.

Manish Gupta: How do you see the Middle East market now, the oil prices coming back a little bit?

Manish Sanghi: It is improving but it will take some time before it comes back to the original sense. There are many parts of Middle East, there is UAE, there is a Qatar which continue to do very well and there is big market of Saudi Arabia which is not doing well, it is an oil based economy also at war with Yemen so, that is struggling. It is also the big potential giant Iran which we don't know much about that market is difficult. So, I do not see next Middle East market at least in the short-term to be in our performance.

Manish Gupta: Okay. And have we invested CAPEX there sir or we put the project on hold?

Manish Sanghi: We have put the project on hold but we have spent some money but the project is on hold right now.

Manish Gupta: And the money you have spent you are holding it as work-in-process right now in the balance sheet?

Manish Sanghi: It is.

Manish Gupta: Sir, can you talk a little bit about just the opportunity in India given changes that are happening the government is going to pushing a lot more money towards rural India. How do you see over the long-term demand picking up for your products?

Manish Sanghi: Interesting question and a question which I would love to answer rather than looking forward question. The Central Government, the State Government all of them are seeing housing as a basic need and they are wanting people to move from what they define as the kaccha (raw) house to a pakka (cooked) house. The definition of the pakka (cooked) house includes our roofing products. There is still very large percentage of people which live in what we can define as a kaccha (raw) house. So this transition is being aided by the government and this is a natural desire of the people. My business of roofing comes in two ways. If I may, one is people who are upgrading from a thatch proof or from simple mud tiles roof into a AC roof or people who are expanding their houses. There is a son who gets married so, there is an extension of house which gets made and there is a third part which is related to agri produce storing grain for making garage for its tractor, for storing seeds and so on. So, there are these three factors which are driving demand for me in rural India. As of now, see all these three factors continuing to do well. I compete for this market with two other categories, one is RCC, the other is metal.

Manish Gupta: Did you said metal sir?

Manish Sanghi: Yeah, I said metal that is galvanize ironsheets, there are distinct advantage and disadvantages which I have against both of them. RCC is probably the more desired roof in the Indian context but the cost point over there is many times higher than our roof so, a typical AC roof would cost on a laid basis, I am not talking of roofing sheet, on a laid basis would cost something like Rs. 400 to Rs. 500 a square meter. And RCC would be virtually 10x costlier. On the metal side, the price point is not the differentiator because metal comes in all kinds or shapes and sizes. So, you can have roof which are virtually wafer thin. So, you have 0.15 mm thick roof or you have the most standardized 0.5 mm thick roof. My biggest advantage over the metal roof is in terms of comfort. In fact, you can notice our tagline is "baharmajbutiandaraaram" so, I am saying that my roof lasts very long, it is essentially a threat to metal because metal rust while an AC roof virtually last forever and the second "andaraaram" because compared to a metal roof the transmission of heat, the transmission of sound both are significantly lesser in the case of AC roofs. So, we saw some movement away from AC roof into metal last year but we are finding our market research teams to indicate people particularly in the residential sector who shifted over there are finding it a big thing because it is not comfortable and for their further requirement they seem to be shifting back. So, in order to offer a better product, we have launched a new product in the market called Everest Super Color and essentially offering two major benefits to the customer. Number one is that our roofs in the past used to start looking ugly over a time. We have made a roof which would look as good as new for the next ten years because it has an anti-algae coating on top of it. The second part we have given is color. So, that it starts looking attractive which was the problem vis-à-vis the color metal roofs. So, we have added these two. We are getting a premium for it and we have not launched it across the country, we are still in kind of test marketing phase but we are very-very infused by the kind of response which we have got from the market for this particular variant of the product.

Manish Gupta: So, how much is the unorganized share in your building products market?

Manish Sanghi: As far as AC roofing if I were to call that there is nothing like unorganized but if I go into tiles than a large part of it is unorganized and I suppose same can be said for the RCC side as well. Almost all of it would be unorganized on RCC.

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

Yash Agarwal: Sir, one clarification. Rs. 4.2 crores FOREX loss is part of finance cost or other unallocable cost?

Nikhil Dujari: To the extent the FOREX loss within the accounting standards there are definitions that are laid down which says that this is the time of taking a ECB you anticipated there will be a

FOREX loss and as long as your actual rate of interest including the FOREX loss is below your current borrowing cost, you can classify it to be a borrowing cost or a finance cost. So, to that extent, it is to the extent of loans it is a finance cost to the extent of the trading P&L if there is a variation in creditors that are outstanding at my end than to that extent it is a part of the regular operating expense.

Yash Agarwal: So, sir, I mean, in absolute homes is this Rs. 4.02 crores how much would it be other unallocable expense? I am just trying to understand what steady state corporate expenses are so?

Nikhil Dujari: So, our total finance cost during this quarter I am taking only of the FOREX loss portion is close to about Rs. 6 crores.

Yash Agarwal: So, Rs. 4.2 crores is in other unallocable and Rs. 1.8 crores in finance cost is that right?

Nikhil Dujari: That is right.

Moderator: Thank you. Next question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Just your thought on this as business raw material savings that we have seen how is that going through sir? Has that helped us somewhere in our margins or that is all pricing decline is much severe compared to that, chrysotile fiber cost savings?

Manish Sanghi: I think, as I had discussed in the past, we did get a major discount in the fiber cost and it has been very helpful. So, it helped us maintain the margin to whatever extent we could in the absence of that things would have been more troublesome.

Rajesh Ravi: Okay. So sequentially, I just think pricing has recovered in March quarter marginally though do you see this realization improving marginally the margins could recover to a positive number in Q4?

Manish Sanghi: I expect that to happen, yes.

Rajesh Ravi: Okay. And in the PEB segment, do you see volume in Q4 at least the trend in January, higher on a Y-o-Y basis?

Manish Sanghi: I expect the volumes to be pretty decent in Q4, yeah.

Rajesh Ravi: So, this means growth on last year number or like sequentially whatever we have done...

Manish Sanghi: We have increased capacity so the number would be marginally better.

Rajesh Ravi: Okay. On a Y-o-Y basis?

Manish Sanghi: That is right.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Sanghi from Everest Industries Limited for his closing comments.

Manish Sanghi: Thanks for asking tough questions, it has been a tough quarter so, the tough questions are a reminder of the tough task which we have to do in the coming quarter. We recognize it and we are making a lot of effort in the market place in our own restructuring exercises to ensure that the company performs far better. We are confident that going forward things will improve for the better and my confidence is based on the general economic situation of the country. The push which the government is giving to the rural sector and to housing in particular, the "Make in India" campaign which is ensuring that there are a lot of new plants, new investments coming into the country. An initiative by us to spread the use of our boards and panels across the country there are some very major initiatives which we have taken to popularize them and we should start seeing results of that probably in the next six months' time. The Parivartan exercise which we carried out and we started selling our product in nooks and corners where we were not selling it earlier. The fact that we have increased our market share in the roofing business as well as in our boards and panel business and in fact, in our PEB business over the last quarter despite the bad results. All of them point to a fact that our performance should see an upturn in the coming times. I am sure that the coming budget by the government would be spurring the demand helping the demand grow further and GST regime would further help in making the transaction and the whole business climate significantly better for all of us. Look forward to talking to all of you at the end of Q4 and hopefully, with a much better news and much better future for all of us. Thank you so much. Bye-bye.

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