



“Everest Industries Limited Q1 FY-15 Earnings Conference Call”

August 5, 2014



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EVEREST INDUSTRIES LIMITED**



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Moderator

Ladies and gentlemen, good day and welcome to the Everest Industries Limited Q1 FY15 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Sanghi, Managing Director Everest Industries. Thank you and over to you sir.

Manish Sanghi

Thanks and good morning friends. We welcome you all to our discussion on our first quarter financial year 2014-2015. Along with me I have our Chief Financial Officer, Mr. Rakesh Gupta and Strategic Growth Advisors, SGA our Investor Relations Advisor. We have prepared and circulated a result update presentation and the same is uploaded at our website too. I am sure all of you have a copy of it and have gone through it. We ended Q1 on a positive note. We have started seeing good traction in all of our business segments. We see positive signs of the consumer and business confidence improving. The consumers in rural and urban India both have cautiously started returning to their normal buying behavior. The first quarter this year was a sharp contrast to last year particularly in terms of demand. We achieved our highest ever quarterly sale in Q1. The profits though significantly better than last year have not been commensurate with the revenue increase and we hope them to be better. Let me talk about each business segment.

Roofing business, earnings in Q1 FY15 have been good compared to same quarter last year. We were able to take small price increases during the quarter backed by higher volumes all across the country with the notable exception of Southern India. The key question is whether this demand will persist and a key determinant of that is the monsoon besides crop prices and general economic climate. The current year's monsoon has been a mixed bag so far, the monsoon in some parts of the country has now come into the normal range of long-term average while in some other part it was still a deficit range of long-term average. But with the latest data coming in it seems as if the monsoon is covering up for the last round and it should be normal growing forward.

Looking at the current scenario, we expect the demand to remain strong going forward. Along with this the government's will to push for economic growth should help in and economic revival and this should increase the demand for roofing product. Our large distribution network which has their ears very close to the ground is also confident about the trend having turned having turned positive. The performance of our boards and panels division has also improved in Q1 FY15 as compared to Q1 of last year. The domestic market has picked-up and there is a strong demand in export markets. The gradual shift in consumer preference from traditional material is visible from the better volumes we are currently witnessing in the domestic market. As you are aware, nearly 50% of our boards and panels business is exports, which is again growing at a healthy rate, we expect that to continue in future as well. We commercialized our



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roofing plant at Baleshwar, Orissa in September 2013 and it is now running at optimum capacity utilization which have helped us service our Eastern market much more efficiently.

Talking about steel building segment, the pre-engineered building solutions industry depends a great deal on the investment and particularly the industrial investment climate in the country. The industry was continuing to grow despite a major slowdown in industrial investment on account of conversion from conventional building methods to PEB. We expect this trend to continue and we expect the growth to pick-up with an improved investment climate in the coming months. There were quite a few industries where there were virtually no capacity additions in the last year and one of the major ones among them was auto industry. In recent weeks, we are starting to see renewed activity across various industries like cement, food, warehousing, FMCG, there are positive signs that even auto industries will start expanding after a few months. We have started a Greenfield expansion of a manufacturing capacity to meet the customer demand and also in anticipation of an improvement in industrial investment climate. The new manufacturing plant of 30,000 metric tons is being set up at Dahej in Gujarat at an investment of Rs. 50 crores. We have already started the trial production which is at satisfactory level. This plant will help us in saving freight cost both on the input and ST side which is an important cost component, it will help us service our customers in west and south better with lower turnaround times.

We now have three manufacturing facilities for making PEB and its components and they are located in North, in the Haridwar district, Bhagwanpur plant, in West in Bharuch District, Dahej and in East in Jharkhand at Ranchi. This makes us very well positioned to exploit and take part in the growth story as we move forward. Talking of some of the key raw materials, our key raw materials for roofing is chrysotile fiber by which forms nearly 65% to 70% of raw material cost and it is fully important. Last year due to the rupee weakening, the raw material cost had gone up putting the margins under pressure, besides also an increase in the material cost in dollar terms. The price of chrysotile fiber in dollar term is stable now and we expect the rupee to also remain stable, this will help take up some pressure from the profitability in the coming years. I am sure all of you are aware of this steel pricing situation. The steel prices have remained stable for the last few months after a significant increase in the earlier quarters, we expect a similar scenario to continue. The cement pricing has again more or less remained stable though it is erratic at times and it will depend a great deal on how the infrastructure sector behaves but we are expecting a long-term stable pricing trend. Freight is a major cost component with us; the steady increase in diesel prices has increased our freight bill considerably. We are working on various strategies to control this cost component.

These were few of the key points I wanted to share with all of you. I will now hand over the call to Mr. Rakesh Gupta, who is our CFO and he will take you through the financial performance of first quarter. Over to you Rakesh.

Rakesh Gupta

Thank you Manish and good morning friends. I will take you through our results which have circulated in the presentation that has been mailed to you. Let us first discuss the Q1 FY15

numbers. In Q1FY15, we have recorded revenue of Rs. 388 crores which is higher by around 30% as compared to Rs. 299 crores in the corresponding quarter last year. The EBITDA for this quarter Q1 FY15 at Rs. 38 crore, as compared to Rs. 28 crore in the previous year, is an increase of around 38% year-on-year. The EBITDA margin at 9.8% for Q1 FY15 as compared to 9.2% in the corresponding quarter last year, is an improvement of 60 basis points. In terms of segment financials, our building product segment contributed approximately Rs. 292 crores or 75% to the topline whereas steel building segment contributed Rs. 97 crores or 25% of the topline. In building product segment, our volume at 230,000 metric ton in Q1 FY15 as compared to 193,000 metric ton in the corresponding quarter last year is a growth of around 19%. The sales revenue is higher by approximately 26% at Rs. 292 crores as compared to Rs. 232 crores in the quarter year back. EBIT at Rs. 39 crores for Q1 FY15 as compared to Rs. 26 crores in Q1 FY14 is a growth of around 50%. The EBIT margin improved by around 220 basis points at 13.3% in this quarter as compared to 11.1% in the quarter year back. In steel building segment, revenue was higher at Rs. 97 crores for Q1 FY15 as compare to Rs. 67 crores in the same quarter last year. The volume in Q1 FY15 is 10,900 metric ton as compared to 6,900 metric ton in the same quarter last year. EBIT this year was Rs. 1 crores were mainly affected by higher steel prices. The order book for this segment is approximately 31,000 metric ton or over Rs. 260 crores as on June 30, 2014. The depreciation collectively for both the segments is lower due to revise useful life of fixed asset as mandated by Schedule 2 of the Companies Act 2013, this has been accounted for in the current quarter. The capacity expansion at the Dahej is progressing well and trial production has already started as mentioned by Manish in his part of speech and the quality of production is shaping up well.

I think that is briefly what I had to share and we can now have with your Manish question-and-answer session from the participants.

Moderator

Thank you very much sir. We will now begin the question and answer session. We have first question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar

Obviously we are benefited from demand returning both in the urban and the semi-rural areas. Just want to understand given that Q1 historically been your strongest quarter for the year and in the context that monsoon have hit India one month late, I wanted your take on the current demand consumption pattern in a sense have we seen the entire demand fructify in Q1 or do you see any demands spilling over to the early months of Q2 as well, just wanted your take on that?

Manish Sanghi

In ideal scenario for us is actually a monsoon which is delayed and is wholesome and the rain gets concentrated to a short period of time, so if you ask me that is probably an ideal kind of scenario. In many ways we are seeing that panning out right now in a sense that in most part of the country the monsoon has now turned to be near to normal and it seems to be concentrated in nature. To answer your question more specifically, is a delayed monsoon helping me in the month of July? The answer is probably yes, to some extend yes. And but it will depend upon how long does it continue, weather if it continues raining heavily in August, the sale will



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obviously come down. But I am seeing strength which are not just related to that, there were a lot of talk and I was seeing my network kind of moving away from the product not having enough confidence and that is why I actually included it in my speech as well because I believe they have their ears very close to the ground, they are meeting customers on a daily basis and I am really hearing a lot of positive words from them.

Baidik Sarkar

Could you give a sense of your inventory sir as on the quarter end?

Manish Sanghi

We were on a hands to mouth situation when we ended quarter one, virtually nothing in finished goods.

Baidik Sarkar

Okay. And could you please break-up your growth in both PEB and building products from a volume and pricing prospective?

Manish Sanghi

I think it is there in my presentation but let me just repeat it. In the case of building product segment the volume growth was 19% and revenue growth of 26% and in the case of steel building we grew 6,900 to 10,900 metric ton so, 4,000 tons increased.

Baidik Sarkar

I got that. In your in opening comments you mentioned that you have taken realization hikes in this quarter. Could you give me a sense of what kind of hikes in percentage term we are able to effect?

Manish Sanghi

Overall increases if I, see we calculate prices in two different ways, one is in hike for the customer and if I talk of that particular criteria, the hike was depending upon in area but it varied anywhere from 10% to 15%. The other part is we look at hike in terms of what we are realizing in the marketplace that is after I have removed the tax and the freight component and as I mention freight has increased significantly, so then the hike would have been in the region of anywhere between up to 5%.

Baidik Sarkar

Okay, after 5%. And you know for the rest of year given that you know demand is much better then what it was in the previous year. Do you think there is a case for us to hike realizations going forward in the coming quarters?

Rakesh Gupta

Baidik, if you also look at it in terms of the volume increased by 19% while the revenue actually increased in the building products by 26%. So that is an indicator that the prices did go up but some of these did not translate into profit because some of it went away in freight.

Baidik Sarkar

Yes sir but then for the rest of year, is there a price hike roadmap that we have, given that FY14 for the entire year we were not able to effect any kind of price hikes, I am just trying to understand what is your sentiment?



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- Manish Sanghi** The sentiment is frankly a function of demand, how good is the demand and pricing is very very demand related. The demand has to persist for the price hike to remain or further price increases to be taken. As of now I feel, yes it should happen but it is very demand dependent.
- Baidik Sarkar** So, given the strong exit rates for Q1, what kind of demand growth are you seeing internally for the entire year FY15? What Building product and PEB?
- Manish Sanghi** See, the two scenarios are in a way similar in the sense that in both places we are going to have new capacity which we are built in. So our growth is market related, and so supply related. This year we did well also because we had a new plant in Orrisa and we were to supply the Eastern market. As of now we believe that a growth rate of something like 15% to 20% has been witnessed in the first quarter should persist to at least further coming two quarters.
- Baidik Sarkar** Okay. And could you please comment on the very low EBIT margins basically in the PEB segment?
- Manish Sanghi** That was a very obvious question, it is in sharp contrast to the building product. I think there is a very, it has got something to do with the national picture as well. You have been attending our conference and every time we have been saying that we have a large order book which is there with us. In this quarter we were actually able to supply a lot of that order book. People had placed orders on us and then they were going on getting delayed because investment climate was not good, so people were delaying putting up their plants. And we saw in this quarter and to some extent in March as well that people were in a hurry to put up the capacity. So a lot of these bold orders started getting fructified in this period. We work on a fixed price scenario and in between there were a big steel price increase and we suffered on account on that. And also to some extent that our new plant was not ready, so we were outsourcing a lot of our production and that brought down the margins.
- Baidik Sarkar** Okay sir. But then going forward you see the reversing or will it take some time I mean are those contracts, have you already serviced those contracts or we still have a lot of fixed price contracts left?
- Manish Sanghi** Some inventory of the old contract, all of them have not been exhausted. Some them we have renegotiated to get at better prices but my belief would be that we should start seeing real effect of the new pricing from third quarter onwards.
- Moderator** Thank you. We have next question from the line Neeraj Marathe from HU Consultancy Pvt. Ltd. Please go ahead.
- Neeraj Marathe** Sir, I had a just a follow-up question on the PEB segment. Earlier if I am not wrong in earlier conference call, you were saying that in most cases steel has always has been a pass through for us, so it should not affect the margins. Now we are talking about fixed price basis of working. Anything has changed in the past?



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- Manish Sanghi** No, there is no change Neeraj. Steel is still a pass through in a sense that we work on our margins per ton rather than working on profitability. Okay, so I do not base my margin that I will make 5%, I say I will make let's say Rs. 10,000 or Rs. 20,000 per ton of steel. So the steel price to that extent makes no difference. Normally a PEB order is of a very short duration that you get the order and everybody is in a hurry that the building will be supplied immediately and the turnaround time is three to four months in which the steel price variation is minimal. But what we saw happening right now was that a lot of old orders, people coming back and asking about that to service. So it is not something normal, there is no change in accounting practice or no change in policy at all, it is just a change of circumstances and I expect this to be temporary.
- Moderator** Thank you. Aksh Vora from Praj Investment. Please go ahead.
- Aksh Vora** Sir I just wanted to know other operating income has been increased significantly year-over-year, so what is the reason for that sir?
- Manish Sanghi** I will just ask Rakesh to answer that question, he can do that better.
- Rakesh Gupta** You know other operating income basically includes like which directly relates to the operations like sale of scrap, exporting, incentives and things like that. And this year there was as you saw there was increased volume in the steel building where the valuable scrap is generated, there is a higher sale of scrap in that because we had our volume which was something like 50% to 60% higher than the corresponding quarter in the last year. Basically that is the reason for the increase.
- Aksh Vora** Okay. And sir another thing is like we said because of increasing steel prices we have a hit on the EBIT margins and we have kept a fixed price, we did not have negotiating prices. So what would be the impact of increase in steel prices? Means, the volume have increased by 58% and margins we are seeing lower than 1% also. What ...
- Manish Sanghi** Aksh as I said two things happened, one we outsourced. So as soon as I outsource my manufacturing, I pay them some of the profit. The second was related to the steel price, what is the component of steel prices versus outsourcing, I do not have that specific number in front of me but if I were to guess, that will be like 70% of decline on account of a steel price, 75% and 25% on an account of outsourcing, 25% in outsourcing.
- Aksh Vora** So is this one off kind of thing, is this over or we will be seeing a little more impact in second quarter as well?
- Manish Sanghi** I think there would be some impact in the second quarter as well. I expect the situation to come back to normal from Q3 onwards or it was significantly reduced by Q3.



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- Aksh Vora** And sir we have seen a very quarter, June is generally a good quarter but have we seen demand fully coming back from last year what we were seeing. Do we see the demands sustaining over the rest of the year sir?
- Manish Sanghi** As I mentioned earlier, first of all the demand has come back except in South, South India continuous to be slow and particularly in Tamil Nadu where we have large stakes, we have a factory over there. And so to that extent it is not all across the country. Whether we expect it to persist, as of now all indications point to it remaining at this level, yes.
- Aksh Vora** And sir lastly, just we have commissioned a new plant Dahej, so what would be the freight cost reducing over the period of the year, rest of the year? Like what would be the reduction in the freight cost, so if you can give it in a percentage terms, right now and what is the freight cost as a percentage to sales right now?
- Manish Sanghi** Aksh it is a little difficult question to answer but let me try to give you a prospective. Last year we were shipping material from our far away factories, we were shipping them to Orissa in order to seize the market and prepare it for the new facility, okay. So we were incurring freight anywhere from Rs. 2,000 to Rs. 3,000 a metric ton. That sale has now been replaced by a local plant where the freight ranges anywhere as the average freight would around Rs. 600 a ton. So, I would say that the freight saving on the component which is being served by the new plants is at least of the order Rs. 1,500 a ton. But on an overall basis the freight has gone up because of the diesel price increases.
- Aksh Vora** But that would be temporary phenomena, right?
- Manish Sanghi** Which one?
- Aksh Vora** The freight cost increase due to diesel price increase that would be...
- Manish Sanghi** Diesel price are growing up by Re. 1 every month.
- Rakesh Gupta** And that is around 10% last year and there is a current deficit of Re. 1.30 on the cost.
- Manish Sanghi** Actually last year the diesel prices were going up around 1% every month that means an annual increase of round 10% in the diesel cost. This year they say that the deficit which is still yet to covered is around Rs. 1.30, so I expect that this year the price increase in diesel should be not more than 3% price because rupees also stabilized and the deficit in the diesel cost in the diesel at which it is sold is only say around 3% less. So we do not see significant cost increase in some of the diesel cost going up. Thereafter now it will be question of how efficiently we can now, what kind of efficiently we can bring in by our distribution model to extract from savings that is something we will have to see. But that impact will not be as high as it was last year that is what I feel will be the scenario.



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Aksh Vora Total freight cost percentage to sale, what was the percentage last year?

Rakesh Gupta It was around 10% but let me just confirm, it was around 10%, slightly more than 10%. The outward freight you are talking about?

Aksh Vora Yes.

Rakesh Gupta It was around 10% but let me just confirm.

Aksh Vora So we will be expecting it to lower it down in FY15?

Rakesh Gupta I do not expect it to change.

Moderator Thank you. We have next question from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta Sir would it possible to say as to what proportion of steel would be as a percentage of total cost in any project?

Manish Sanghi What is the percentage of steel?

Falguni Dutta As a total cost of a project?

Manish Sanghi Total cost of a project means what? You are seeing, I am talking only in terms of a building?

Falguni Dutta Yes, like in your Annual Report you had mentioned about this modern office complex being built by you of some steel manufactures requiring that to be built. So let's take that as an example, so how much steel would be as a percentage of total cost?

Manish Sanghi If we take our contract, the contract which we do for others, typically the percentage of steel is between 60% to 65% depending upon the kind of building and 10% is on account erection. So these two are the major component of cost for us of my billing price 60% to 65% is steel.

Falguni Dutta 60% to 65% off? I missed you.

Manish Sanghi 60% to 65% of my billing price.

Falguni Dutta Is steel?

Manish Sanghi Yes.

Falguni Dutta And sir second question is on demand in South, I mean what is the reason of the demand being so slack in South given whole of last year we saw quite a bad demand in South and now the things are looking up a bit, South is still lagging behind?



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- Manish Sanghi** There were two primary factors for demanding low in South. One was a very long-standing power crisis in Andhra as well as in Tamil Nadu. So virtually no investment was taking place in any manufacturing and a lot of our products do end up going into the industrial sector particularly in Southern India. The second one is in Tamil Nadu particularly there has been a persistent draught, again as all of us are aware that Tamil Nadu has a winter monsoon unlike the rest of the country and for last three years continuously there has been a deficit rainfall. So, the farmers there are in bad shape, they grow paddy which does require a lot of water and crops have suffered. So virtually all activities, whether construction activity whether it is rural or urban has slowed down very significantly in South. Also gone out by the numbers if you would see of cement manufactures particularly the South based people.
- Falguni Dutta** Okay. And sir last question for you, what would be in asbestos fiber sheet, which segment would earnings the top buyer for you?
- Manish Sanghi** For me the residential segment is a top buyer on a country wide basis.
- Falguni Dutta** But residential meaning rural?
- Manish Sanghi** Rural housing, yes. But it varies a little bit depending upon the place, some places it is workshops and garages but on an overall country wide basis it will be rural housing.
- Moderator** Thank you. We move on to the next question from the line of J Daniel from Corporate Database. Please go ahead.
- J Daniel** Sir what is the total market share of the top five asbestos sheet manufacture at present? And expectations of capacity increase on the current year for the industry? And do industry players have some level of coordination among themselves?
- Manish Sanghi** It is a very competitive industry and we are all out to gain market share at each other's expenses, I am not very sure what kind of coordination you are talking about here. As far as top five market share concerned, it would be roughly around 70%.
- J Daniel** And what would be the capacity increase expected in the current year and percentage terms to say over the previous year end?
- Manish Sanghi** There are not really many projects on the anvil as of now.
- J Daniel** Because you said you are in the position on where you are having stock outs, I mean you do not have...
- Manish Sanghi** But it is seasonal phenomena. So while it is happening in the first quarter I am not very sure that it would happen for the rest of the year. As of now there does not seem to be any announced increase in capacity so I will not be surprise if some of the plants which have shut down get revised once again.



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J Daniel There are some eight odd plants that have been shut down, right?

Manish Sanghi That's right yes.

J Daniel Okay. And what is the approximate price differential between GI sheets and asbestos sheet at the moment? Because there were some reports that new and better GI sheet are taking market share away from asbestos sheets. Can you provide some information on this, I mean is this loss and market share permanent in nature?

Manish Sanghi Look as we are noticing now, it is not permanent in nature. There was a trend between steel prices did come down about a year and half back and we did penetrate into this market but particularly for the segment in which we operate there are significant disadvantages of using GI and let me just take a minute to mention them. One is that in a residential house roof is very low, so in summer it become extremely hot. Second is in rainy season it is like a drum beating on your head. Number three, in winter there is condensation and you actually have a dripping coming inside, so it is not really leaking but because the sheets are cold the warm air goes condenses and you know dripping inside the house. And number four is that the quality of galvanizing is particularly in low cost GI sheets is very suspect and it corrodes. And so the life of an AC sheet is typically I would say a light plywood say 30-40 years in that case that would be five years. So, a long term change I do not expect. To talk of better quality sheets, yes there are galvalume sheets which are better in fact we as Everest also market this, but they are significantly more expensive. So the difference between good quality galvalume sheet and an AC sheet would be the order of at least 50% to 70%.

J Daniel Okay. And sir my third question is asbestos fiber prices in U.S. dollar terms how have they moved in the last three years?

Manish Sanghi Last three years?

J Daniel Yes, I mean from which countries is most of this as most asbestos fiber imported, I mean is this some sort of cartel in this product?

Manish Sanghi There are, I do not know whether is cartel or not but there are only three producers, two of them are in Russia and Kazakhstan and one is in Brazil. It has remained stable over the last year and a half and now but earlier to that there was steep increases, I would think they were of an order of 10% to 15% but I do not have that specific number with now.

J Daniel But our asbestos sheet manufactures price taker when it comes to asbestos fiber because you know India must be among the largest importers, there must be very few countries importing asbestos fiber now, does this not give us some leverage in negotiating prices?

Manish Sanghi We are but then the number of suppliers is also very limited. But incidentally there are a large number of countries which do buy asbestos fiber, India is one of the large ones, but there is



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India, there is China, there is Russia, there is Indonesia, there is Thailand, there are a whole lot of South American countries. So it is not really down to three four players, there are still a good 40 - 50 countries which buy it.

J Daniel Okay. So we are still price takers as when it comes to asbestos fiber.

Manish Sanghi I would think so, that is right.

J Daniel Okay. You have an ability to pass it on or you are at time constrained to do that?

Manish Sanghi As I mentioned earlier we are a very competitive industry and normally I would love to pass it on but it is all the competitive behavior so it at times becomes difficult.

J Daniel But for the moment the prices are stable and you are enjoying the benefits of a stable rupee also?

Manish Sanghi That is right.

Moderator Thank you. We move on to the next question is from the line of Paras Adenwala from Capital Portfolio Advisors. Please go ahead.

Paras Adenwala Could you tell us what percentage of your sales comes in from South India?

Manish Sanghi My sale from South India is right now of the order of something like 15%.

Paras Adenwala 15% of building products, right?

Manish Sanghi Yes, I am talking building products only, yes. Because in steel building I am not really strong in South, it is very far from my current facility in North India, I do not really service South market. 15% is what I do, what I can do is 20%.

Paras Adenwala Okay. And as far as the rest of the country, how is the distribution like?

Manish Sanghi I have two plants in East, so my largest capacity now rests in Eastern part of the country. So if you really look at it, it is dependent upon the capacity which is there because each factory fulfills a local market, so we are distributed across six locations, so two are in east and one in North, West, South and Central.

Paras Adenwala Okay, all right. And you mentioned that there was some price increase that you have taken in all markets except South, so what is the price increase like?

Manish Sanghi That is what I said earlier, if you noticed that our revenue went up by 26% against the volume increase of 19%, so that 7% is really coming on account of pricing increase.



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- Paras Adenwala** Then I am just kind of wondering on the business strategy point of view in terms of having a division which is kind of giving you top line but not giving you adequate bottom line and I was just looking at the last three to four years numbers and I am talking about the steel division. Just wondering what the rational is behind continuing to be into a business where the margins are suboptimal?
- Manish Sanghi** I think I mentioned this before but I would say our steel building business, first of all this is a move which we are making at Everest for moving, we were a single product company and we are wanting to become and in a way we have moved a lot in that direction of becoming a building solutions company. So we are taking contracts, we are doing designing, we are doing manufacturing and we are doing the project management and erection of the building. So that is a long-term strategy for the company as a whole that we want to become a building solution company, steel buildings is a part of that.
- The second is what's a rational for a steel building? The steel building profitability per se is going to be never able to match a product profitability, over there the rational had been and if you look at the earlier year, their return on capital that they always get very good returns on capital, we do not look at profitability over there, we look and measure of performance to be a ROCE. And in between it was going up to something like 30%, obviously right now there is no return so it's obviously very low.
- Rakesh Gupta** And because we are investing in the Dahej, so where the capital employed is there but there is no corresponding return, so it is appearing once the facility is fully operational then it will reach back to the normal expected levels of return on capital employment.
- Paras Adenwala** So would it fair to kind of assume that over the next few years the contribution from the institutional segment will kind of gradually keep on increasing as compared to retail?
- Manish Sanghi** We internally divide ourselves into businesses and each business has to grow. And we will do resource allocation to those businesses depending upon the plans which each one of them give. We expect both of them to grow but as the per the capacity addition which is there as in place, the steel building would probably grow a little faster because they are growing from one to two while roofing already has the fix plants.
- Paras Adenwala** Okay. Last question from my side is on the receivable condition, how has it been compared to the earlier quarter last year?
- Manish Sanghi** What specifically would you be looking for? Can I have your question again, I am not sure I get it.
- Paras Adenwala** Yes, basically the data sir, higher the number of days kind of increased as compared to last year or they are...?



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Manish Sanghi The debtors' days have increased and what we worked with is secured today, we are doing more exports, we are doing more steel buildings where we work on LCs. So my debtors have gone up to that extent that I have LCs instead of money with me.

Paras Adenwala So what has been, what are the receivable days right now?

Manish Sanghi Total debtors that I have is currently at Rs. 93 crores

Rakesh Gupta So Rs. 93 crores over Rs. 1,200-odd crores. So I would say it would be around 30 days.

Manish Sanghi And most of it will be secured either my LCs or by security deposits.

Paras Adenwala And all this incremental receivables is largely because of the steel division rather than building products, right?

Manish Sanghi And exports.

Moderator Thank you. We have next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani I wanted to know the normalized margin in steel pre-engineered section. You said it is a low right now, so is it possible to share a normalized margin either in terms of per ton or...

Manish Sanghi What exactly would you mean by normalized margin? I am not sure I understand you right.

Amish Kanani You mentioned that the current margins are not normal and the normalized margin would be better. So what I mean is in terms of EBIT or EBITDA margin, the question is one effect of steel price hike is either passed on or withered away. And the old orders which were at fixed prices you execute, what would be the normalized margin in that division is what my question is?

Manish Sanghi I should make a margin of anywhere between Rs. 4,000 to Rs. 5,000 per metric ton. So if I were to say that my building sales at around Rs. 90,000 a ton, my EBIT margin would be Rs. 4,000 on Rs. 90,000.

Amish Kanani Okay, so that is the kind of margin that you have.

Manish Sanghi That is right.

Amish Kanani And one related question was that if you take the current quarter's average realization in the PEB steel building division is nearly Rs. 90,000 per ton whereas your order book in terms of tons and value reflects your average realization around at Rs. 85,000. So my question was, is it a mix issue?



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Manish Sanghi It is very definitely a mix issue.

Amish Kanani Okay. So it is not that you are inheriting some?

Manish Sanghi See, we have two components of the building, the built up is at a low price compared to the roofing, so it all depends upon what somebody is buying from us.

Amish Kanani Sure. So my question was it does not necessarily reflect the lower profitability of the old order, right?

Manish Sanghi No, it does not, I won't put too much importance to that.

Amish Kanani Sure. And what is the execution cycle for this order book, is it possible to give some?

Manish Sanghi With the new plant getting commissioned fully, we would have an ability to produce anywhere between Rs 4,000 to Rs. 5,000 tons of buildings every month. So the 30,000 ton is something like a six month order book for us going forward.

Amish Kanani Sure. And that is what your clients would be looking at in a sense that give your capacity to execute.

Manish Sanghi Yes, actually what happens is that client looks for a faster than this but there are some clients whose projects get delayed as the land acquisition is delayed or some issue comes up, it is very common in India. So ideally I would like to work with a minimum six month inventory of orders.

Amish Kanani Sure. And sir what is the competition like in that segment, in the sense I just wanted to know because apparently there are no listed players who are competing in the segment.

Manish Sanghi Listed players, there is one which is Pennar but otherwise there are very big players, Kirby is a MNC which is there, Tiger Steel again is a Middle Eastern company, there is Zamil, there is Tata Bluescope, there are Indian Players, Tata Entourage. So these five six firms are the big organized sector of the industry.

Amish Kanani Okay. And is it possible to quantify your share within this organized sector sir? Or are you in top three as a market share something like that.

Manish Sanghi We are in top five and this is before commissioning of our new plant.

Amish Kanani Sure. So you are packing order would be more is what you are seeing?

Manish Sanghi Yes, our pecking order should go up significantly, yes.



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- Amish Kanani** Sure. And this margin that you are mentioning is in the line with the industry margin, so my question is --
- Manish Sanghi** Actually if we look at it in the last couple of years, we are probably a little better than the industry, we had adopted a very different strategy compared to them in terms of order booking. So we are probably a little better but I would say more or less with the industry coming back to normal, this is the kind of number which should come.
- Amish Kanani** Okay. And sir one last question from my side on the other division, the asbestos division. There is this emphasis on rural housing by the new government and there is some discussion paper also which is being released by the government on the same lines. One, do you see that to be kind of game changer for our segment on that side? And from a demand perspective will it change demand on the ground and say next one or two years, something like that?
- Manish Sanghi** I do not see it as a game changer. Virtually every government which has come has put a lot of emphasis on rural housing so we had an Indra Vikas Yojna which is fairly big across rural India. I have not seen anything which is going to change that dramatically.
- Amish Kanani** Okay. So it is like as usual as of now?
- Manish Sanghi** Yes.
- Moderator** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I would now like to hand over the conference back to the management for their closing remarks. Over to you sir.
- Manish Sanghi** Thanks a lot for your enthusiastic response and participation. A lot of what I wanted to say I have actually covered during the answers but what I expect is with the higher volumes and better prices, we expect the demand to sustain over the next few quarters and hopefully years. The monsoon which has given a shiver earlier on has now panned out well and it gives us more confidence of the demand being good going forward. We are also very happy with our Baneshwar plant both in terms of quantity and quality and the acceptance of this market and Eastern market which has been a strong market for Everest, we have managed to grow there a lot. We also believe that the timing of our steel building CAPEX at Dhaej is bang on. We expect the industrial demand to be going up and virtually; however, capacities would be aligned with the increase in demand on the steel building side. As I mentioned during the course of discussion, we had set for ourselves a goal of graduating to a complete building solution provider and we are proceeding on that particular growth path. And we believe strongly that it will help us be a part of the India growth story. There is a stable government at the center, it is progressive and it is definitely turned mood into a positive and we believe that we would be able to write the economic revival wave with all the growth ingredients in place. Thanks a lot once again and all the best and I look forward to talking to you all of you in three months' time.



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Moderator

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