

Everest Industries
Q1 FY18 Earnings Conference Call
July 31, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY18 Earnings Conference Call of Everest Industries. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing * then 0 on your touchtone phone. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you, Mr. Sonpal.

Anuj Sonpal: Thank you, Sid. Good morning everybody 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 Q1 FY18.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's concall maybe forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause the 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 them. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decision. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

I would now like to introduce you to the management of Everest Industries Limited participating in today's conference call with us. We have with us Mr. Manish Sanghi – Managing Director and Mr. Nikhil Dujari – Chief Financial Officer. Without much ado, I request Mr. Sanghi to give his opening statement. Thank you and over to you, sir.

Manish Sanghi: Good morning and thanks a lot, Anuj for the detailed introduction. We welcome you to the earnings concall for Q1 FY18.

Q1 has not been a normal Q1. The big issue was GST in the minds of all businesses, industries, traders. There was uncertainty all around as everybody grappled with conflicting advice. The best news of the quarter for all of us at Everest was that all our major products have been

classified at 18%. It effectively brings down the tax rate for roofing and boards by 8% to 9% while it remains constant for the PEB business.

This tax rate will bring our fiber cement roofing industry at par with metal roofing. This will make the industry competitive and allows the customer to make the right choice among the alternatives available to them. We also expect a whole lot of other benefits to accrue; benefit relating to logistics, benefit relating to CST, benefits relating to unorganized sector players not competing unfairly, benefit relating to uncertainty about the tax rate particularly in the case of PEB across various states.

We strongly believe that the new tax rate, the new tax system will be good for the economy and for Everest as well. However, it is going to take some time for things to settle down. This may take a quarter or more before the new set of logistics, the new mind behavior settles down and the pricing starts showing some stable trends. So, I would really look at a Q3 kind of a situation before the benefits start really accruing to not this Everest, but all the industries in the country.

In the quarter, our sales volume in the buildings product was 226,000 metric tonnes which is almost the same as last year. We continue to be plagued by problems with the exports. The demand there continues to be low on account of the low oil prices. The economy is continuing to be extremely sluggish and building activity has slowed down considerably over there.

As I just talked, the month of June was plagued by uncertainty in the trade and even though this was a season month for us particularly in roofing that the trade was advised not to have stocks at the end of the quarter. So, a whole lot of trade stocked down and that affected our sales to some extent. We believe this to be temporary phenomena and do not expect it to play out over the long-term.

The domestic market of boards and panels continue to show growth with product acceptance increasing across the country. We are increasing our portfolio of value-added products and solutions and we expect them to contribute more and more volumes as we move along this particular fiscal.

I had talked last time about Everest's Super, a premium fiber cement roofing sheet with anti-fungal and water repellent properties, we have now launched it across 4 plants in North, East, West, and South. This happened towards the fag end of the season, but we have received enthusiastic response from customers. As I had said before, this is the first time that an innovation has been made in the traditional roofing product and traditional roofing products always enjoy trends and long life, now will have aesthetics build into it. We believe that a lot of discerning customers will opt for it.

The company continues to work towards educating architects and other influencing communities through different channels for using modern methods of construction. These are continuous efforts and in customer focus meets most for the higher end designers, interior designers, architects as well as on the ground contractors. We are very bullish about a program called Pehchaan which is intended to cover a very large number of contractors for our boards and panel product range across the country.

Going forward with the GST rollout, we anticipate a spurt in building products segment. We anticipate occasional logistic cost to come down due to the multiple effect of smoothing the flow of material and optimization of the requirement, but as I said before, it is going to take some time before these effects start showing up.

In the steel building segment, the volumes were higher at around 13,000 metric tonnes in this quarter versus 12,000 tonnes in the same quarter last year. The company has worked with its customer to introduce risk mitigation clauses for future contracts in case of significant changes in steel prices due to delay of government policies. Post GST rollout, the customer offtake seems to be returning back to normal. There was an initial period of 10 odd days at the beginning of the month when everybody was unsure about the new GST and who were configuring their system. So the sales did take a hit in the first 10 days, but the system seems to be stabilizing now.

The order book as on 30th June 2017 for steel building stands at 26,000 tonnes approximately Rs. 250 crores. This is a pipeline of around 5 months which is the ideal pipeline for us. It is important for us to now get orders equivalent to 5,000 to 6,000 metric tonnes every month so that this particular pipeline is maintained as we move forward.

The company continues to remain committed towards smarter, safer, and speedier construction technology which is fast catching momentum in India. The government focus to connect tier 2 and tier 3 cities with roads, rails and air should help us promote the modern building methods across the country.

I would end my statement over here and I would really want to answer much more of your questions and so I would hand over to our CFO, Nikhil Dujari for further details. Just one more point I wish to add, we had through our subsidiaries in Mauritius and Middle East planned a project for making fiber cement boards in the Middle East. As I have been sharing with you the demand in Middle East has been extremely sluggish off late and this has forced us to put the project on hold. We do not believe that the demand is going to come back in the near future and so we have essentially decided not to go ahead with the project. You would notice in our accounts amount of 1.65 crores towards cost, but this is not the total cost of the project which would have to be taken care of. We have made adjustment as we move to Ind-AS in the opening balance sheet of 2016-2017 and an amount of roughly 10.4 crores could be adjusted in the opening reserves over there. There might be subsequent cost of winding up

the project which can come and be an expense for us as we move forward, but the details of it we will know as we move forward.

Over to you, Nikhil.

Nikhil Dujari: Thank you. Very good morning friends. Quickly taking you through the results. On a standalone basis, during first quarter 18, we recorded a growth income of 379.3 crores compared to 325 crores in the last quarter and 379 crores in the previous year same quarter. So on EBITDA, the reported Q1 financial year 2018 was 33 crores as against 30 crores in the previous quarter and 30 crores in the corresponding quarter of the last year and in Q1 financial year '18, we reported a net profit of 17 crores versus a net profit of 14 crores in the previous quarter and a net profit of 12 crores in Q1 2017. Thank you, handing over to Mr. Sanghi.

Manish Sanghi: So I am keen to hear your questions and hopefully answer all of them. Over to you, Anuj for the questions.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Sir, can I just get the excise duty number offer this quarter and the last quarter in Q1 and with the breakup for both the business segments?

Nikhil Dujari: Excise duty for the current year, first quarter was 26.4 crores corresponding to 26.9 crores for the same period last year. In terms of the business wise breakup, it follows the trajectory of the turnover, only benefit that we derive on the steel building business is that sometimes you have areas that are exempted from duties and taxes and so to that extent, if there is an infrastructure sector project that we have executed till we get out of the project.

Rajesh Ravi: Okay. But the breakup if possible for boards and PEB separately for excise?

Nikhil Dujari: The excise duty rate is the same, so even the proportion of the turnover. Since we have not given that breakup at the moment in the financials, I would say that the rate of excise duty continues to be 12.5%.

Rajesh Ravi: What was the volume growth for Q1 in terms of region wise and India like North, East, West, South, so if you can give me like a breakup of how the growth was in Q1 for asbestos sheet sir?

Manish Sanghi: The numbers are very similar. As we said between the two quarters, there is very little difference which is there. But broadly speaking, the laggard has been South.

Rajesh Ravi: And in terms of any number, if you could throw me some color on any number which you can give me for the regions will be very helpful.

Manish Sanghi: No, I do not think I am giving region wise breakups of sales over here.

Rajesh Ravi: And in terms of outlook here, in terms of FY18, we could expect a similar trajectory for which we have seen in Q1 in terms of growth?

Manish Sanghi: As I mentioned over here, we are more competitively placed in the market place today as a category. We will have to wait and watch to see how the market pans out. Logically, it should result into growth for the industry as a whole which was not in Q1.

Rajesh Ravi: And in terms of board segment, so what was the share of exports and the total volume for Q1?

Manish Sanghi: The export was around 25%.

Rajesh Ravi: So 75% from domestic, 25 from exports.

Manish Sanghi: Yeah.

Rajesh Ravi: And in terms of PEB, this quarter there was EBITDA margin loss, right sir, this according to my calculation. So any reason for EBITDA margin loss on PEB segment sir this quarter?

Nikhil Dujari: No, if you look at the segmental, we have got some lakh profit on the PEB and that is post depreciation, so EBITDA level cannot be a loss.

Rajesh Ravi: So the 5 million which is there which is EBITDA?

Nikhil Dujari: That is a profit.

Manish Sanghi: He saying it is a low profit.

Nikhil Dujari: Yes, it is a low profit, yes, but if we compare to last year same period, we have Rs. 4 crores loss and since we are working on relatively longer term contracts, the losses to recover to a profitability I think is a positive sign.

Rajesh Ravi: So this is on PAT level or EBITDA level, 5 million profit which you are saying?

Nikhil Dujari: No, that is a segment level profit. It takes into account the depreciation. There are unallocable costs of the corporate office and others which have not taken into that. So the basis of allocation remains the same.

Moderator: Thank you. The next question is from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: Sir, just two questions, one is on PEB business. Is the legacy order, whatever the kind of legacy order are behind and what is the kind of margin we can expect going forward on a sustainable basis in the business on the PEB side? And secondly on the Board, as you said, the taxes have been reduced by almost 8% and all that. So do we need to take a hit or do our dealer or all that inventory where it is already been accounted for at the higher, is there going to be a hit in terms of some one time kind of write back or some?

Manish Sanghi: Let me try and answer the second question first. We have carried out one major exercise for the benefit of our trade that we provided them with excise bills, not merely from our factory but from our depots as well. Just incidentally it meant making 40 of our depots excise compatible tailoring the system everything, so that they can carry that credit into the GST regime. So there is no hit, in fact there is going to be a game for them as we move forward. So there is absolutely no question of a hit coming back on account of the old stocks sitting with the trade.

Vijay Sarda: Okay. And for us there is no, because until and unless we bill the taxes it will not be levied. So for us it is a neutral and for it is, it is beneficial, so new incremental good can be dispatched at a lower rate.

Manish Sanghi: That is right. But what I was trying to say is that my dealer would also make margins on the stocks which he was carrying when he moved into GST regime. That is what we assured him, that is what we manage by giving him excise invoices across all our depots. So roughly 50% of the sale happens through depots, 50% happens from factory. Traditionally only the factories issue excise invoices. But for that one month before GST roll out, we ensure that all the depots also made excise invoices.

Vijay Sarda: Okay. Sir, just last thing on this Board side, in terms of like what we have been seeing for industry as well as for ourselves, the Board sales usually happen in last two quarters, Q4 and Q1. So do you see some kind of change because now again the product portfolio of ours is also diversified to great extent than Roofing. We do provide various services. So any which way just leave apart Q2 because it is kind of a slow season. So do we sense like things to improve and sales may not be that skewed towards the Q1 compared to what we have been seeing the trend off late?

Manish Sanghi: You are absolutely right in saying that with a more reverse portfolio of products the skew in Q1 should not be there. The seasonality is the highest as far as roofing is concerned. The seasonality is much lower in the case of Boards and Panels as well as the PEB business. Roofing forms roughly 50% odd of our total turnover. So while the skew I expect will not go away from there, but it is definitely much lesser in the other two. So going forward and even

in the last few years if you notice while the skew has been there and profitability in the topline, the skew has reduced very significantly.

Vijay Sarda: Correct. On my PEB side, PEB question?

Manish Sanghi: Yeah. We have dispatched well and as I said whole lot of the legacy orders are now over. I do not have an exact count but that would be hardly anything which is left now. So our future profitability is going to be dependent upon the order intake in the coming period and execution of the orders which the 25,000 tonnes that we are carrying out of a place we are carrying with us. This is a very volume sensitive business and it is also a very raw material sensitive business. We as of now do not see any reason for volatile steel price movements and we expect steady volumes. There is a capacity build up which is happening across various industries Far more pronounced if you ask me in the case of auto, food, these are the industries which seem to be building cost more than others. So our margin should not just be maintained, we should do better, only is this that my order intake needs to be steady.

Vijay Sarda: But have we seen the lows in the business on the PEB because ultimately the margin, because this quarter, at least you have broken even after quite long time. So has those like what all legacy and all that what we discussed is now behind if I need to understand?

Manish Sanghi: I would think so, yes.

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

Falguni Datta: I just missed your comment on the GST impact on asbestos fiber sheets, so could you please just tell me once again, the initial comment?

Manish Sanghi: The GST rate has come down to 18%. Earlier it used to be around 26%-27% varied across the state. This decrease in rate and subsequent pricing should bring us at par with metal roofing in the market place and should help for demand.

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: My question is, what is the contribution to the Boards and Roofing business from our PEB business?

Nikhil Dujari: So contribution for Boards and panels business meaning you in terms of the turnover?

Siddharth Rajpurohit: Yeah. In terms of turnover, what will be the contribution from the PEB business to our main business, sir?

Nikhil Dujari: The PEB business turnover is already there in the...

Manish Sanghi: So these two building products and steel building are quite independent of each other. There are very few cases in which the PEB business sources roofing sheets and boards from the building segment, but the number is frankly not very significant.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from Kedia Securities. Please go ahead.

Vikrant Kashyap: My question pertains to next 3 quarters, what is our outlook and if not improving will you be able to maintain the margins that we have given in the first quarter?

Manish Sanghi: Thanks, Vikrant. The first quarter has traditionally been the best quarter for building products company like Everest. The monsoon has been good. The demand buildup has been good. The Make in India, the IIP numbers, all are okay. I cannot say they are extremely positive, but they are all positive numbers and this should spur demand. I keep on putting one cautionary statement for all of us, is that the new tax regime is still very new for all of us to understand the impact it is going to have on intermediaries as well as the final customers. So that is one variable how it pans out which can change the demand scenario. The way it is conceived, the way it should roll out, it should be all very positive, but the devil lies in the details and for me the first one would start happening sometime in September when people start filing their GST returns and what kind of problems they face because right now what has happened on GST is that the invoicing side has been more or less streamlined. But taking the credit part and filing return as yet is unknown. And we need to see how that works out and how much it affects people's ability to do business. The second part of it for me is in the rural part, the acceptance of GST and the implementation of GST in the smaller towns and cities. It is a little tricky because a whole lot of them have never seen a computer and the only way of filing GST return is by electronic means. So it is going to take some bit of adjustment for them to find out ways and means to do that. But interestingly enough I travelled intensively in rural parts of India and I saw one very interesting trend. We were facing a problem of succession where in the younger children of our traders were all moving out to cities to do jobs and dealership after dealership I found that these children are coming back to help their parents cope up with the new GST regime and everybody was wanting to buy a software, wanting to buy a computer, so that the GST bit that is taken care of. Now my sample is small. I suppose, I cannot make predictions around it, but that is the trend that I noticed.

Vikrant Kashyap: In your opening remarks you talked about Middle East market that is what been expected doing well as per your expectation and you are rolling back your overseas plans. So I would like to address how much investments you have made over there and the kind of expense hit you are talking about, will it come into Q2 or it will come in subsequent quarters?

Manish Sanghi: See, we have taken a hit of 1.65 crores in the P&L of Q1. What we said is that we moved to an Ind-AS regime. Ind-AS regime allows us to make a revaluation of our investments as they stood on 1st of April 2016. We have adjusted our opening reserves over there to the extent of around 10.4 crores. Our total investment in Middle East was around 27 crores. So there is Plant and Equipment of around 15 crores which we are moving to India for setting up, for enhancing our Boards and Panels capacity here.

Moderator: Thank you. The next question is from Rajesh Ravi from Centrum Broking. Please go ahead.

Rajesh Ravi: Sir any plans for domestic expansion sir, this year, in FY18?

Manish Sanghi: As soon as we form up any plans, we will intimate.

Rajesh Ravi: Okay and any CAPEX guidance for this year?

Manish Sanghi: They are routine CAPEX. They are routine modernization plans which are there but specific capacity enhancements, we will come back.

Rajesh Ravi: Okay and any guidance on debt, sir?

Nikhil Dujari: So traditionally Q1 has been our best quarter in terms of cash collections and therefore debt at the end of Q1 has always been at the lowest. 31st March, our sum total of the debts, in terms of the term loans and the short term limit that we utilized was to the tune of 198 crores. We significantly reduced that in first quarter.

Rajesh Ravi: And this will be the trend going ahead sir, in the next few quarters?

Nikhil Dujari: So as I said traditionally first quarter has been the best for sales and therefore the reduction of debt. We expect that to continue.

Moderator: Thank you. The next question is from the line of Karan Gandhi from KSA Securities. Please go ahead.

Karan Gandhi: Sir I had questions regarding our growth for the FY19 considering the 6 months GST ripple effects, but going forward for the FY19 how do you see the topline?

Manish Sanghi: We expect roofing to grow on a secular basis, the industry should be back to a growth trend and I expect the industry to grow by something like 5% in the next fiscal. These are our estimates but I expect the fiber cement roofing to grow by 5%. And we should grow at that pace or higher rate than that. As far as Boards and Panels business is concerned, we have been focusing a lot on it and we are putting lot of work around it. Our own expectation in that business would be a growth rate in excess of 20% and in the case of PEB it is very dependent on how India does. It depends up on how IIP moves, it depends up on how

logistics channels are changing because a large part of my business comes from warehousing. If the warehouse is deflecting completely which I do not expect to happen, then obviously I would suffer. My expectation actually is that we would see larger warehouses coming up and that should mean a good opportunity for us. Difficult to put a number to it but it would be in a range of something like 10%-15% minimum.

Karan Gandhi: Sounds good sir. And sir market share, could you help what kind of market that we have currently? Rough estimates will be good.

Manish Sanghi: See, there are no formal numbers available in these businesses. The best is estimates called Roofing is around 14.5%. I would think in Boards and Panels around 25% but we have no numbers as far as PEB is concerned.

Moderator: Thank you. The next question is from the line of Prateek Pareek from Anand Rathi. Please go ahead.

Prateek Pareek: Sir just wanted to understand what would be the size of Boards and Panels in your overall revenue and what are the margins you would make on these products?

Nikhil Dujari: So typically in the Boards and Panels business gives me a turnover of about one-fourth of my building products and that could give you an indication of the size of this thing. On the margins I think this is not separately disclosed. We prefer to for the moment treat it as a business.

Manish Sanghi: But I just want to add over here that the Boards and Panels business is not singular as a business. It has multiple product lines and it is the mix of the product line really determines the margins. And some of them are pretty good.

Prateek Pareek: Sir, if you see this currently is one-fourth of your building products business and if you expect obviously it is growing at about 20%-25%. So we obviously expect product mix to improve going ahead. So should that help our margins to improve in building products business?

Manish Sanghi: Absolutely it should.

Prateek Pareek: And the topline growth will it come from the growth in this division and also the regular building business?

Manish Sanghi: Yeah. I expect growth to happen in both the business segments. Both the building products and sheet building segments, yes.

Prateek Pareek: Okay. So the topline growth would be more or less in the range of 5%-10%, is that correct assumption?

Nikhil Dujari: We wish we will better explore with some astrology....

Manish Sanghi: We are optimistic about the coming period and I mentioned not just this year growth rate but also what we expect in FY19 and I think I will just stick by those numbers.

Moderator: Thank you. The next question is from Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir, I want to know that what is generally the time lag between the order that we take in PEB business and the procurement and the second question is that, you mentioned that you are taking price contracts also, means pass on of in the PEB business, so I want to know what is the general trend in the industry in terms of taking PEB business, is it acceptable in terms of taking price over contracts where it is passed on?

Manish Sanghi: Siddharth, the PEB contracts typically all are short term contracts. They are not typically like the contracting companies which go and do a contract for 1-2-3 years. Our standard contract from the time it is ordered to the time we handover the building should not go beyond 6 months. So within 6 months everything needs to happen, the design, the procurement, the manufacturing, the logistics and the erection, all of that needs to happen in the 6 months. The question which you asked how long does it, what is the time period between purchase of raw material and the contract typically that you start ordering stuff within 15 to 30 days of getting a contract. If everything is moving smoothly the project is on schedule. So this is what happens in most projects, but there are projects which gets stuck due to issues of funding, due to issues related to land or some indecision on the part of the customer wherein this whole equation changes and then the projects extend, they do not finish in 6 months, they can go on to 1-2 year time period and that is where our exposure to the sharp fluctuation in steel prices really becomes very high. The next one which you asked is, I am not having any pass through of steel in any contract. So when I said that we are building in clauses to protect ourselves, this does not mean a pass through, this just means that in case of a very sharp fluctuation we will be protected. So in a way I am putting a surge protector in between. It does not mean a pass through.

Moderator: Thank you. Ladies and gentlemen, as there are no questions, I now hand the conference over to Mr. Sanghi from Everest Industries for closing comments. Over to you sir.

Manish Sanghi: Thanks. As always your questions are interesting and keep telling us what our investors look for from us. We strongly continue to believe that these are tied very strongly with the India growth story. We believe that the Indian economy will prosper, will continue to do well, particularly after the GST. There might be a period of stabilization but post that it should be good going. We are working hard towards improving our product lines both in the case of Roofing as well as in the case of Boards. We are also working hard towards making us the preferred vendor, preferred supplier of PEB buildings by cutting down our supply times and

our execution times significantly. We already count one among the best. We think we probably need to take one step further and be the best over there. The continued emphasis of the government, and not just the government, but all the sectors of the economy that their buildings need to come up fast is something which it is very positive for us as all our product line really contribute to a faster, stronger and safer construction. I hope we will be back with interesting and good results for Q2. Thank you. Thanks a lot for participating and looking forward to talking to all of you once again. Thanks.

Moderator:

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