

**Everest Industries Limited**  
**Q4 FY19 Conference Earnings Call.**  
**06<sup>th</sup> May, 2019**

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**Moderator:** Ladies and gentlemen good day and welcome to the Everest Industries Limited Q4 FY19 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 the conference call please signal an operator by pressing \* then 0 on your touchtone phone. I now hand the conference over to Mr. Pranav Khandwala from Valorem Advisors. Thank you and over to you sir.

**Pranav Khandwala:** Thank you. Good morning everybody and a warm welcome to you all. My name is Pranav Khandwala from Valorem Advisors. We represent the investor relations of 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 Q4 FY19/ FY19. Before we begin I would like to mention a short cautionary statement as always. Some of the statements made in today's earnings concall may be forward looking in nature. Such forward looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's belief as well as assumptions made by and information –**1:33 accurately** available to management. Audiences are caution not to place undue reliance on these forward-looking statements and make 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 participating with us in today's earnings concall. We have with us Mr. Manish Sanghi, Managing Director and Nikhil Dujari, CFO. Without much ado I request Mr. Sanghi to give his opening remarks. Thank you and over to you sir.

**Manish Sanghi:** Good morning and thank you Pranav for the introduction. We would like to welcome you to the earnings concall for Q4 FY18-19. The company has experienced a descent quarter in performance, the quarter began in the backdrop of election period which is happening right now. We have continued to witness strong demand for building products business, the performance of the business has benefited from the stabilization in industrial demand post the stabilization of GST. Reflecting on this past year we have witnessed improved turnover across business segments. We have seen an increase in market share across product segment so deeper market penetration and improved operating performance.

We have stayed true to our strategy of introducing unique original value-added products we have also built up inventories to cater to our customers in various markets during the peak pre-monsoon summer season. We believe that this money is well invested. The PEB business witnessed an increase in turnover mainly due to an increase in steel prices and our selling prices consequently. On the macro front there have been a lot of development in the past quarters, I have witnessed the depreciating rupee, an increase in raw material prices and in apparent liquidity crises amongst other things. We on the other hand have not faced any major tangible obstacles in our business operations. given healthy growth in income levels due to increased MSPs and a good monsoon in the earlier part of the year rural India has improved demand level. GST implementation hiccups are now in the rear-view mirror. PEB demand has picked up particularly from the auto and auto ancillary food processing and consumer goods sector.

In our building product segments, we have witnessed significant volume growth which of the order of 10.47% on a year-to-year basis. Utilization levels have nearly reached optimum levels of 90 plus percent. The increase in volumes are due to the focused marketing efforts, strong product mix within an added stimulus on value added products and expanded distribution network and reactivation of outlets in identified markets. In Board and Panels business we have achieved bigger volumes as compared to Q4 FY18 as well as Q3 FY19 in domestic markets as well. With the rebound in oil prices we expect market in the Middle East to pick up once again. Increase in raw material prices have impacted the probability of the business marginally as the markets have not really picked up the price increases. In the Steel Building segments in Q4 FY19 we have delivered roughly 15,000 metric tons. Our effort in managing the supply chain in the PEB segments have borne fruit. We are committed to timely handover of the projects to customers with industry benchmark quality in order to create and maintain brand awareness and customer stickiness. We are experiencing a continues perception shift from conventional construction to pre-engineered steel structures. In this business as on 31<sup>st</sup> March 2019 we have an order book of 20,000 metric tons in pipeline. This is marginally lower due to slower decision making during an election year. Project execution is expected to pick up after elections are over and we expect profitability to improve driven by improvement in execution cycles and large ticket size projects which we will be completing in FY19-20. I am sure you have lot of questions, but before that I would like to hand you over to Mr. Nikhil Dujari our CFO to discuss the financial performance of the company.

**Nikhil Dujari:**

Good morning gentlemen and ladies. Our revenue for the quarter increased from the last year of 344 crore to 369 crore a year-on-year increase of 7.2% on a quarterly basis EBITDA has gone down from the last year of 29 crore to this year of 26 crore mainly due to higher raw material prices emerging out of higher exchange rates and PAT has decreased from 19.8 crore to 14.7 crore mainly on account of one time recognition of MAT credit recoverable in the last year. On a year-on-year basis revenue has increased 10.3% to 1410 crore, EBITDA has increased 14% to 113 crore from 98 crore. EBITDA margins improved 29 bps to 8%, PAT has

increased 26% to 64.2 crore and PAT margins have improved 58 bps. On the building products financials, our Q4 financial year 19 building products top line was 236 crores as supposed to 215 crore in the last year a 10% jump on the EBIT level it declined from 27.1 crore to 24.3 crore. Volumes for the quarter rose from 1,91,000 metric tons to 2,11,000 metric tons an increase of 10.5%. On the steel building segment our top line had grown by roughly about 4% to 131 crore from 126 crore and EBIT decreased from 3.8 crore to 3.2 crore which is a slight de-growth considering the volumes. The volumes have decreased from about 16 metric tons in the corresponding quarter last year to 15,000 tons metric tons this year. Thank you, with that we would like to open the floor for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

**Saurabh Ginodia:** Sir if you can guide us in terms of demand after Q4, how has the demand trend been, and what kind of volume estimate do you foresee in the building product division for FY20?

**Manish Sanghi:** It's only been one month in the Q1 for the year so our own expectation is that we should be able to continue the work pattern which we had last year. So, early signs yet but I expect the growth pattern to actually be happening. The Q1 is impacted to some extent by this very long election which we are having so various parts of the country go on a blink for a couple of days that is what we are witnessing and for me little difficult to guess what will be the impact of the cyclone in Orissa as well. From a own expectation is and forecast is that we should be growing at least by 10 odd percent and probably a little more in the Q1. So the demand scenario looks pretty good, a little bit will obviously depend up on the monsoon which happens this year as far as building products are concerned but over a period of time we have seen the impact of monsoon actually not being as high as it used to be say 10-15 years back. So, I hope I have answered your question.

**Saurabh Ginodia:** Yes, and sir in the last quarter you had highlighted that we are in dialogues with entering into contracts for our raw material requirement specifically for Chrysotile fiber so if you can update what are the correct price trend for the raw material and do you have any plan for taking any price increases.

**Manish Sanghi:** Let me try and answer the last question first which is planning for the price increase, we are in a very dynamic competitive market. The increase prices is tricky and so far we have actually not been able to pass off the increase in raw material to the customer. On the other hand I should also share that the pulp prices have the global pulp prices have actually declined from the high of nearly 900 odd dollars per metric ton to around to the 700-750 odd level. There are no yearly contracts as far as pulp is concerned it is on a spot buy basis. All of the virgin pulp is imported and I think I shared with you last time most of our purchases come out of Russia but we also buy a small quantity out of US, Chilly and once in a while out of Australia and New Zealand as well. As far as Chrysotile fiber is concerned one factor which is going to

result in an increase in the price is the exchange rate itself. The average exchange rate during 18-19 was around 64, except if I in fact don't take in to account the last quarter it was around 64 it was steady around 64-65 level. The new level for the exchange rate is 69 so we are talking of something like 6 odd percent increase on account of foreign exchange. As far as the basis price is concerned we have witnessed a small increase in price in fiber of the order of around 5%. So, combined 5 and 6 so there is a 10 what percent increase in raw material price as far as Chrysotile is concerned.

**Saurabh Ginodia:** 5% increase is on a Y-o-Y basis.

**Manish Sanghi:** It's for Y-o-Y basis.

**Saurabh Ginodia:** Okay. One question I had on the steel building. You have achieved a sizeable top line of around 500 crore in this business. Just wanted to understand directionally over a long period of time what is the peak turnover you can do in this business with the current level of capital employed and what would be the margins picture look like. Thanks.

**Manish Sanghi:** This is a business which is very high turnover by asset ratio. So, we currently have two plants which make steel building one is in Bhagwanpur that is in Roorkee and the other in Bharuch in Gujarat. We believe that by debottlenecking and without any significant capacity, capital investment we can take the current capacity level which is around 5000 metric tons per month by something like 20% to 6000 metric tons a month. This should happen fairly easily without any major CAPEX happening. But as I said a plant for adding even if I were to do a new green field and establish a plant for 3000 tons a month capacity it will and which should result into a turnover of around 350 odd crore it should not cost us more than Rs.50 to Rs.60 crore if it were green field. Having said that as of now we have no plan for green field on steel buildings we will first do the debottlenecking at our two plants and then probably look at a new site and new project. On the profitability size this business is dependent a lot upon the steel price fluctuation the order book which is there with us. As, I mentioned in my earlier remarks we witnessed that a lot of people were holding back the orders because people want to be sure of the government policies before they commit themselves to a new project. So, we expect that from June or probably more like July onwards we should be seeing the order book improving going forward. The margins in this business probably are not going to be exceptionally high, we expect a margin of around 5% or so and if I look at it in terms of capital employed we should be looking at anywhere between around 20% is what our target is.

**Saurabh Ginodia:** Okay. The 5% margin guidance is for this year FY20 or for FY21?

**Manish Sanghi:** I am talking about this year.

**Saurabh Ginodia:** Okay. And are the contracts in this segment do they have any price variation clause.

**Manish Sanghi:** Typically there is no price escalation clause. Except on account of change in statutory taxes. But, I should also that the projects are of short duration. Normally a project is not expected to last beyond six months.

**Saurabh Ginodia:** Okay. And at given point of time how many projects you can execute?

**Manish Sanghi:** The number really depends upon the tonnage of each project so that is not a constant factor. I am doing projects which are 6000 tons and I am doing projects which are 15 metric tons. So, that will depend upon the distribution of the projects at that point of time. So, but to answer your question as of today I have 40 sites which are open where the construction erection work is going on.

**Saurabh Ginodia:** Okay. And my last question would be, what kind of top line growth can we expect in this business segment for FY20?

**Manish Sanghi:** We are targeting a growth of around 10% but we have in the recent past seen a spate of large orders so I hope we can better it.

**Moderator:** Thank you. The next question is from the line of Anirudha Bhandari from Sixteenth Street Capital Private Limited. Please go ahead.

**Anirudha Bhandari:** My question is with regards to boards and panels business. So, as we have a significant presence in North and West is there any plans to enter Southern region and if there is what is the current capacity utilization and how are we going to expand to South and East?

**Manish Sanghi:** We have two clients as you probably know in North and West. But rest would probably be the market leader in North, West as well as Eastern India. South is where we are relatively weak. We are focusing on that market right now and our current capacity utilization on boards is somewhere between 85 to 90% and as far as plans for capacity enhancement are concerned we are regularly working on it but as of now I have no announcement or nothing to tell you on that.

**Anirudha Bhandari:** So, no capital near future for Southern region or in terms?

**Manish Sanghi:** I have no announcement to make right now.

**Anirudha Bhandari:** Sure. And second question is regarding your value added products so what marketing efforts are we putting in that product segments.

**Manish Sanghi:** So there are for each of the businesses we are doing a lot of work on this value added products so let me just go one by one. On our roofing business we had launched a variant of the product called Everest Super we had launched it in three colors red, green and yellow. In last month we launched three more colors over there so now I have a variety rang of six

different colors and we are finding that the market is responding in a very positive manner to these range of colors. We believe that we have the ability to change the look and feel of rural India in times to come with this initiative. We also have this product which is a non-asbestos variety called Everest Hi-Tech. We continue to grow steadily in it, it is higher price than the conventional product so there are limited markets for it but people who have export houses, people who have to meet regulations they are regular buyers for that particular product. On the board side we are currently in the launch phase of a product called Artwood. Artwood is a wood lookalike product which offers multiple variety prefinished in three or four different colors right now. And it can be used for interior of the house as well as for external facades. Again very-very enthusiastic response from the market place and we believe that this will allow us to get into the decorated market in India and really enter the urban Indian homes. On our steel building sides there is very interesting initiative which is underway right now. Which is called the integrated building solutions. So we were selling only the pre-engineered steel buildings, we have taken it upon ourselves that we will not restrict our offering to only the PEB, along with that we are doing three things. There were some masonry wall work which was being done by the clients, and we used to find that very often that our projects were getting delayed because the conventional masonry work for the wall would take a long time, so we have a product called the Rapicon which are sandwich aerated concrete panels so we are offering that along with the PEB. Number two, there was always a production office which used to happen along with the factory and while we had the ability to do it but we never really bid for it now we are looking at it as a potential market and the third bit is around roof top solar. All the PEB which are manufacture we have been marketing it for some time but we have started seeing more traction on that particular solution from our customers. So, in each of the three businesses of our effort is that we have to take the customer to a higher level. We wish to deliver him more value and our idea of more value is not by reducing our price but by increasing the value which is delivered to the customer be it in terms of esthetics or functionality.

**Moderator:** Thank you very much. The next question is from the line of Vijay Sarda from Crescita Investment Management Private Limited. Please go ahead.

**Vijay Sarda:** My question is related to two part, one is on the growth usually the Q1 is the best quarter for us, so now what you said in light of election and all that there seems to be some bit of slower sale so it's not like you said still 10% will be the growth that can be achieved, but will that impact margins basically what we see in the first quarter in terms of the margins as well as the general growth. So, last quarter we have seen some erosion in margin basically CFO highlighted on the raw material and exchange side. So do this pressure still continuing on the margin side, and secondly in the balance sheet side we have seen a good kind of growth in inventory so inventory has raisin to 80 crore and same is in the trade payable has also increased. So any update on the same?

**Manish Sanghi:** Nikhil would you like to answer?

**Nikhil Dujari:** Yes, sure. You are right that in the Q1 we do anticipate our raw material prices to continue to be impacted by the exchanges but there has been a marginal cooling off of the exchange rates in the last couple of months, shall we go back into November when it touched a high of Rs.74.50 to a dollar the Indian rupee has actually come back to about Rs.69.50 in the current period. So, to that extent one would expect an element of cooling off on the raw material prices. The other aspects is in respect of the fiber prices where Mr. Sanghi has already highlighted in the earlier question the increase in prices that we are expecting. The third part, would also come on how do we look at it on a year-on-year basis because in Q1 in the last year our exchange rates were more in the region of average of Rs.65 as oppose to the current Rs.69 so I think that answers the question on a raw material prices. Having said that.

**Vijay Sarda:** But sir this might have regularize so basically last year last year it was 65 to 69 but now as quarter passed by I think that if I look at start then it is now its inching on higher side only. So if I look at starting from June onwards the rupee has seen improvement so it has moved from 65 odd to 75 .

**Nikhil Dujari:** That is right. So when you asked me on how does Q1 look like versus on the raw material price so, the average last year was more 65:50 versus that when this year we are looking at the average of 69:50 that gap clearly gets visible with not so much of a increase on the selling price, so that is number one. Number two is increase in inventories and payables. So the second inventories of course we are a seasonal industry. With our peak season coming between March, April, May, June so at any point in time if we notice September when we look at the inventories which is half the year end our inventories are lower significantly versus March right. So these inventories have been build up considering a strong demand perception. So we believe that this is a good investment for improvement in business and same thing applies to payables so one thing that we have seen in the last couple of quarters is that in the PEB segment the contract sizes on an average has become much larger. When you execute larger players you are working with larger customers as well. So, in the light of the larger customers and larger contracts payment terms would be more long term contract like as opposed to those where you are working with the smaller customers where you can actually say that, so there is an element of customers that are low credit rated or non-credit rated in which case we would request for a payment upfront while with a better credit rated customer and for larger contracts the payments are more scattered over the period of the contract and that is what is actually reflected in the receivables and payables. Now, on the backdrop of a higher activity you also notice that our payables are higher. Because naturally when we were manufacturing more we were buying more. So naturally to that extent on the basis of average credit period our payables will also increase so when you look at the whole situation you would also notice that you are moving in higher orbit.

**Vijay Sarda:** Correct. Sir just one thing on this other expense side there is a sharp increase in other expense as well if I consider last quarter as well as the year-on-year so what pertains to other expenses increased from 89 crore odd to 110 crore and in December it was 83 crore so what?

**Nikhil Dujari:** Absolutely. So, I think as you noticed we said that we have improved on our volumes by about 10% with a resultant increase in freight by about 3 crore then, when we improved on our volumes on production we will also incur higher expenses in respect of various consumables, etc so what all is activity related in this 20 crore is roughly about 12.5 crore right. Then on top of that, during the period we did more erection work as compared to the earlier year right so when we look at that when you do a higher element of erection your revenue increase and correspondingly your cost also increase. So, we have had a higher travel and erection cost of about 5 crore and that I think by and large accounts for the increase in other expenses.

**Vijay Sarda:** So sir this 5 crore travel cost is pertain to basically will that be.

**Nikhil Dujari:** No. I would like to differ this is erection cost and travel cost. So when I actually look at my erection cost and travel cost these are all directly related to the volume of activity that is going on respective sides and each location.

**Vijay Sarda:** Basically sir, it mean to say it is basically the cost has incurred now once the revenue kick in the margin in the subsequent quarter will be higher because we already incur some on execution and all that.

**Nikhil Dujari:** No, I fact in this business the account for revenue on a percentage of completion method right. So to that extent when my cost will increase my turnover is also increased is what I mean to say.

**Vijay Sarda:** Okay, got it. So majorly the function is of, there is a freight and travel expenses that is involved more on the other expenses side.

**Nikhil Dujari:** So there are manufacturing and freight expenses which are directly related to the volume sold and volume produced and there are erection in traveling expenses which are directly related to the volume of turnover and tonnage that you do respective sides.

**Vijay Sarda:** Okay. So that majorly pertains to PEB business?

**Nikhil Dujari:** The freight and store spares and manufacturing expenses could be divided more queued towards the building products business while the erection cost and travel cost are more queued to the PEB business.

**Moderator:** Thank you very much. The next question is from the line of Ashutosh Garud from Avendus Wealth Management Private Limited. Please go ahead.

**Ashutosh Garud:** Sir first if you can explain why was the depreciation so low in this particular quarter as compared to all the other quarters.



**Manish Sanghi:** In a accounting cycle you continue to depreciate assets until they have achieved a 5% valuation of their original cost. So there is certain plant and machinery that we started off with our Bhagwanpur plant in 2007-08 so a relevant of plant and machinery achieved a 5% valuation and therefore they no longer continue to get depreciated any further. And that is the reason why there is a decline in depreciation. It is also to do with an element of efficiencies that we factored in running the plant sometimes on a single shift basis. So on overall basis a plant can run lesser on a dual shift basis resulting in lower depreciation.

**Ashutosh Garud:** Sir in the previous quarter you had mentioned about the period before the elections being very positive for your product because many people have cash in hand in the rural areas.

**Manish Sanghi:** Yes.

**Moderator:** So the line of the participant got disconnected. We will move to the next participant. The next question is from the line of Siddharth Rajpurohit from JHP Securities Private Limited. Please go ahead.

**Siddharth Rajpurohit:** Sir any freight on the shift of units from UAE to Asia. The shift refer to mothball and unit from UAE to India any update sir?

**Manish Sanghi:** We are in active, we will shortly be going ahead with using that particular product but when and where I will probably have to wait for it couple of months before I can tell you that.

**Siddharth Rajpurohit:** Okay, sir. And the 5% margin guidance sir is it at EBIT level or EBITDA level sir for steel building?

**Manish Sanghi:** It has to be at an EBITDA level.

**Siddharth Rajpurohit:** We are very optimistic but at business.

**Manish Sanghi:** I wish your optimism translates into reality we also look forward to that and work towards that but for the moment I think that is where we are.

**Siddharth Rajpurohit:** Sure sir. Sir, what is sustainable EBITDA margin in the building products in the roofing and the boards and panel sir.

**Manish Sanghi:** I believe that we have been working on a sustainable EBITDA level right since our inception. And that is how we have kind of sustained as a company but, if you notice in the last couple of years we have significantly improved on this and we expect this to continue to sustain and save and accept any significant changes on the raw materials because to that extent the ability of the market to absorb the increases is slower than the pay set which it increases. And simultaneously when the prices go down the ability for the market to discount prices is also

sometimes slower. So that business cycle impact will continue but we are on a sustainable basis.

**Nikhil Dujari:** Yes, but I also think that with more value added products the general margins should go up now it depends upon we are putting a lot of effort to increase the proportional value add in our overall revenue mix. There is a big difference profitability so we have to see how much this shift from vanilla products to the value add products takes place.

**Siddharth Rajpurohit:** Right sir, that will be big thing. Sir, one final question. Any specific reasons for merging the subsidiary sir?

**Manish Sanghi:** Yes, we established the subsidiary a few years back because customers, because of the tax structure in various places, wanted to place orders for erection and supply to two different companies. With the coming up GST there was no need for this need got obviated and so we just, that is the reason why there is no need for it to be there.

**Moderator:** Thank you. The next question is from the line of Dhiral Shah from ACM Investments LLC. Please go ahead.

**Dhiral Shah:** Sir my question is regarding your building product because in FY19 we have seen good more than 20% growth overall in volume terms do you expect this kind of growth to be sustainable in coming years?

**Manish Sanghi:** It's a healthy growth. We are doing everything we can to that we have currently an ability in terms of production capacity to be able to reach close to that number and we are planning around that.

**Dhiral Shah:** And sir we have delivered 10% growth right in Q4 FY19 in volume terms?

**Manish Sanghi:** Yes.

**Dhiral Shah:** Okay. And sir you just stated that foreign currency have impacted the margins right, so what is the percentage of import in overall the raw material we purchased?

**Manish Sanghi:** Our overall import bill for the full year would be about 240 crore. Anywhere between 220 to 240 crore on the current turnover so that is how you can co-relate it.

**Dhiral Shah:** In the current turnover?

**Manish Sanghi:** Yes.

**Dhiral Shah:** And sir what is the percentage of value-added product in the overall revenue, you said the business of value added is going up so this will also improve margins, what is the percentage of value added products?

**Manish Sanghi:** It would amount to in the building product segment around 21%.

**Moderator:** Thank you. The next question is from the line of Harsh Shah from Dimensional Securities Private Limited. Please go ahead.

**Harsh Shah:** Sir the first question pertains to the building product when you guided growth of 10% so can you just give us bid between roofing and the board and panels?

**Manish Sanghi:** We have not done that in the past and we would prefer to maintain it like that because when we look at the business we look at it as one business coming out of the distribution channels by and large the same.

**Harsh Shah:** Okay. But could you tell us that whether B&P would grow faster than roofing?

**Manish Sanghi:** Yes, it will grow faster than roofing. It is nothing like growing faster than roofing even in last year it has done better and even this year it would do better.

**Harsh Shah:** Okay, fair enough. And another question pertains to the engineering division. You mentioned that you saw order inflows from the auto and auto ancillary sector. That is quite surprising because the auto numbers are conveying something else. So going ahead.

**Manish Sanghi:** I don't think people's investment decisions of large companies were taken by short, people were running out of capacity just six months back it's only in last three months, four months that we are saying that Maruti product is cut down or Hero's production has cut down. I do not think it's really impacting their investment cycles they are going ahead, that's the understanding we have and most are from the, so people are establishing new projects. Ikea is coming in, Hero is expanding, Maruti is expanding, so and there ancillaries are establishing new green fields project. So, our expectation is a short term variations are not really going to impact the capacity creation which the industry is looking for.

**Harsh Shah:** Okay, fair enough. I would just like to make a small request pertaining to your presentation in the steel building side the volumes which you are giving can you put it in most absolute terms because when you mention 16 and 15,000 the decimal goes missing and it makes a difference around 8 to 10% because 16 can either be more than 15.5 or less than 16.5.

**Manish Sanghi:** Okay. We will take care.

**Harsh Shah:** It is difficult to calculate the realization.

**Manish Sanghi:** Sure.

**Nikhil Dujari:** So just to give you flavor our steel building business during the last quarter has done total tonnage of 15,290 metric tons and versus last year this was about 15,920.

**Moderator:** Thank you. The next question is from the line of Rajesh Ravi from HDFC Securities Limited. Please go ahead.

**Rajesh Ravi:** I have few questions, first on the reported numbers the employee cost and depreciation this quarter have come down so what would be the normal recurring run rate that we should factor in.

**Manish Sanghi:** The normal employee cost should be going up by something like 8% year-on-year we should factor in that. On the depreciation I think, Nikhil already explained.

**Nikhil Dujari:** Depreciation is also a function of the number of ships that the plant operated and the fresh CAPEX investment that we will be putting in during the period so as some debottlenecking cost get capitalized we expect depreciation to marginally revert back towards the earlier numbers should be anywhere between the current and the earlier numbers.

**Rajesh Ravi:** Okay. And sir on the building product segment we are delivering very strong in terms of volume growth. However, despite industry being a fairly consolidated between four, five players this quarter also we are seeing sequentially the realizations are down. So what is driving that, given the context that Chrysotile fiber you mentioned that year-on-year we are seeing 10% inflation currently and even pulp prices though it has come down it's on the elevated level itself so what is the thought process and cement prices also have gone up between February to now across markets so all these three the fiber, pulp and cement were key raw materials and they going up, how do you see the impact of them the margins?

**Manish Sanghi:** As I said maybe five players budget is intensely competitive they are all similar sized companies with very small difference in market shares between the top 4-5 companies. So, price increase because price is a function of demand if the demand goes up, prices will growth up, if the demand does not go up the prices will not go up so I would think that it is more to do with the industry as a whole not really dependent upon an individual company. At an individual level what I can do is pop up more value to the customers by doing what I mentioned before on a industry wise demand will have to play the so we are doing everything to stimulate the demand of the industry. As Everest we are doing lots of test particularly on the boards in panels side which includes training a very large number of people. Our monthly training numbers now runs into a 2000-3000 people whom we train on using our goals every month and the whole idea is to increase the industry size because we are still a very-very small industry on a per capita basis when I compare it to many other counties around the world. So, and I think as the customer awareness picks up we would also

prefer to buy a product which is finished, which is cut to size, which is painted, which is shaped in the right form, which is esthetic in nature and that is why we should be benefiting. We are seeing signs that this particular effort of ours is bearing fruit. The newer products are getting very good response not just from the customer but from the certified community as well which is the interior designers and architects. For me this is a way forward as far as the pricing is concerned. This is what I can do on the pricing side.

**Rajesh Ravi:** Okay. But what is the industry demand growth and utilization currently in Q4 or maybe for FY19.

**Manish Sanghi:** The industry growth is of the order of around 5%.

**Rajesh Ravi:** FY19 you are implying?

**Manish Sanghi:** Yes.

**Rajesh Ravi:** And utilizations you will be operating at good utilizations currently and others would be at.

**Manish Sanghi:** Industry level utilization should be upward of 80% but I don't have specific numbers around.

**Rajesh Ravi:** I think that is a fairly good utilization to people to be more cognizant on off margin. Is it a right understanding?

**Manish Sanghi:** Yes, you are right but as I said if the competitive market with people having different objectives.

**Rajesh Ravi:** Agree sir that is true.

**Moderator:** The next question is from the line of Aditya Nahar from Alpna Enterprises. Please go ahead.

**Aditya Nahar:** Sir in your investor presentation you mentioned that you are doing to start increasing your share of higher average ticket size order than working towards better improving their margins in that product and in those products. So, could you just talk about that sir if you don't mind?

**Manish Sanghi:** So, I think I have to just take you back to a bit of a history around it in the sense that when we started our PEB operations we were not really well known. We came from a background of retail wherein we used to sell roofing in the market by average ticket size of a customer was less than Rs.3000 so we very we targeted small customers. Our philosophy was that I am new, I will target small customers they are more likely to move with me rather than the very large customers who would say that you do not have enough experience you have not done bigger jobs. So our entire structure of the company was made around that, that we will do a very large number of jobs, average ticket size would be small that way I would be able to diversify my risk, not be affected by the ups and downs in the market place. And this project

philosophy worked well for us, for a few years. Now we find that while we are one the bigger players and we have increased our capacities we need a better mix between the big and the small. There was a time when my average order size was something like 110 tons. Last year we were close to 300 tons of average order size and we believe that we will become higher this year. This also results into while the realizations on a bigger order are lower because they are intensely competitive and somebody is giving you a bigger order. But your cost also come down because you are doing averaging at one place, you do not have to mobilize, demobilize on a frequent basis so you get some advantage of volumes. This has been a small shift in our strategy towards the kind of orders which we do. We have been successful in getting larger orders in last few months, last year I should say and it kind of continued in this year and I will not be able to give you specific numbers where will we end up with our average order book but from the looks of it we will definitely be higher than the number last year.

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

**Vikrant Kashyap:** Sir I have two question. In the margin front you said price increase is not possible because it is industry driven and you are doing some adding more value added product it is not 21%. Where do you see this number by 2020 and what other factors where you are concentrating that will help your margin to contain that current levels and improve in 2020 or forward years?

**Manish Sanghi:** I cannot give you a number for 2020, I know you require it but what I can give you a number is for the next five years that I wanted to be 50%. And I would want for example all my roofing 100% of the roofing to become colored in the next five, six years. So short term target long terms objectives sometimes don't go hand in hand but however our strategy is that these numbers need to become significantly higher in times to come.

**Vikrant Kashyap:** Right. So on the other factor like this is one part which will help you to maintain your margin but since you cannot do anything on FOREX or pulp prices or sales deal which are likely to be elevated, so what are the factors where you are concentrating which will help you contain your margins.

**Manish Sanghi:** So there are my margins are a combination of sales price and a whole lot of cost. While we will continuously look at opportunities of how we can increase our prices. There is a lot which can happen on the cost side so while raw materials since it's virtually a duopoly as far as chrysotile fiber is concerned one cannot do much and cement industry once again, they are on an increasing trend as of now. That leads me with freight, that leads me where I wish to sell, can I sell closer to where my factory is so can I bring down my freight over there. Can I improve the payment terms which I have with my suppliers, can I become more productive, can I take out more from the same factory, can I take out more from same set of man power so these are the tools which come available to me to increase the margins so really much

more on the cost side of it by improving productivity, reducing rates, selling closer to our factory reducing customer returns and breakages and so on. So that is what we are currently putting all our efforts.

**Vikrant Kashyap:** Okay. And what is your CAPEX plan for this year?

**Manish Sanghi:** I think we were talking about how can we improve margin and I was really saying that need to focus a lot more on the cost side and we can do that by improving productivity by selling closer to our plants, by having lesser number of rejects, so these are the whole set of measures and I think I talked about each one of them. If in the absence of an ability to increase prices and standard product that is the way I go forward, see in it. Having said that, I also expect the demand to be fairly robust and as you rightly said 80 plus percent capacity utilization –1:01:05 utilization so it should result into price increase across the industry level. So we will have to wait and see how it pays out.

**Vikrant Kashyap:** Thank you sir and my last question on CAPEX numbers, any number that we have planned for 2020?

**Manish Sanghi:** Can you repeat please.

**Vikrant Kashyap:** CAPEX number for 2020?

**Manish Sanghi:** So we are carrying out a major modernization exercise in our plant for roofing in the West, we are doing some debottlenecking in three other plants. We had earlier I have talked about that we will be shortly looking at how to use equipment which we got back from the middle east but that particular CAPEX has not been frozen yet and I will have to announce it with the topic seen before I can share it with you. So, if we do not eat any green field into account. We are talking of a CAPEX of around Rs.40 to Rs.50 crore.

**Vikrant Kashyap:** Okay. And this debottlenecking of three plants is for boards and panels or it's for roofing?

**Manish Sanghi:** No, it's a combination but it is all in building product there is no such plan being done on steel building sides right now.

**Moderator:** Thank you very much. The next question is from the line of Anshul Mittal from Care Portfolio Management. Please go ahead.

**Anshul Mittal:** I just wanted to ask the question that what is the market size of the industry currently in building products and as well as in steel building segment.

**Manish Sanghi:** The roofing industry as a whole is to the tune of 41 lakh ton roughly. The board market is a little more ambiguous since I do not have specific numbers but I would think it is around 6 lakh ton. And PEB industry has two kind of players there are a whole lot of people who call

themselves PEB even we do not think they are PEB so if I were to talk of the so called organized sector industry I would think it to be around 12 lakh tons.

**Anshul Mittal:** Okay. And which one is the other player which you are talking about?

**Manish Sanghi:** The PEB industry I talked off.

**Anshul Mittal:** Yes, in PEB industry?

**Manish Sanghi:** The other industry are whole lot of small time players I do not have numbers around it but if I were to had a guess, I would think it would be more like 24 lakh ton.

**Anshul Mittal:** Okay. And what is our market share in this segment building product and boards and panels?

**Manish Sanghi:** In building product on overall basis we would have a market share of around 19-20%. And in the steel building sales be around 5-6%. But that makes us amongst the top three in the steel building it is not a very consolidated industry there are lots of players in it.

**Anshul Mittal:** I also wanted to know the contribution of non-asbestos and asbestos product in our total turnover if you have the numbers. Like what is the contribution of asbestos sheets or products?

**Manish Sanghi:** Most of year roofing is asbestos. As you are aware of this and my board and steel buildings are non-asbestos. If we talk of it in revenue terms we would be close to 50-50.

**Anshul Mittal:** Okay. And sir I also wanted to know the cost percentage of Chrysotile fiber that what is the percentage, does it contribute the total raw material cost?

**Manish Sanghi:** Cost percentage of Chrysotile fiber as a percentage of raw material?

**Anshul Mittal:** Yes, sir. So the build numbers on raw material total consumption are 810 crore on which the fiber consumed is about 210 crore?

**Manish Sanghi:** Yes.

**Anshul Mittal:** Okay. And major contributor is fiber and pulp?

**Manish Sanghi:** No, this include actually steel as well. The biggest single component would be steel.

**Anshul Mittal:** Okay. Which is the steel percentage?

**Manish Sanghi:** The total steel consumption would be somewhere in the region of about 375-350 crore.



**Moderator:** Thank you very much. The next question is from the line of Alisha Bhalwal from Awareness Wealth Management. Please go ahead.

**Alisha Bhalwal:** My question was actually with respect to capacity. So, I believe earlier in the call you stated that in steel products you have a capacity of about 5000 metric tons a month and you are currently doing about 15000 tons in this quarter so this means that your capacity is completely utilized is that correct?

**Manish Sanghi:** We are using a very high amount of capacity yes on a. Having said that I should, these capacities numbers I also have a small plant which is there in Ranchi where I can do some sheeting work so that adds to capacity so talking of a total capacity is a little bit misleading at times when somebody ask me a capacity number we would say we are in steel buildings using a capacity between 85 to around 85%.

**Alisha Bhalwal:** And the peak has got to 90-95?

**Manish Sanghi:** You can normally not go beyond 90-95, yes you are right.

**Alisha Bhalwal:** Okay. Similarly on building products also earlier in the call you mentioned that you are currently at about 85-90% utilization which I believe would also be the peak?

**Manish Sanghi:** Yes, but we are talking on is lot of debottlenecking exercises and modernization exercises. In various plants and I expect that it should result into a capacity enhancement of around 10%.

**Alisha Bhalwal:** Of 10%. And sir by when can we expect it will it be throughout FY20 or in H1?

**Manish Sanghi:** The capacity increase will happen from the second half of the year.

**Alisha Bhalwal:** Okay, sir and one second.

**Ashutosh:** Hi, sir this is Ashutosh from Awareness. Sir, and also wanted to know your views because in Q3 you had mentioned that before elections is a good period for demand for your products because there is lot of cash in hand of rural customers. So, but that has clearly not reflected in your volume growth in this particular quarter.

**Manish Sanghi:** I think it is reflected in the volume growth it is not reflected in the pricing. We were able to achieve higher volumes but we were not able to increase the prices and that part is true.

**Ashutosh:** Okay. And sir, how do you see the next two, three quarters so there was also a debottlenecking of 15-20% which you mentioned that has been delayed from Q4 to Q2 of FY20 so is that on track and is it already happening or will it be happening in?

**Manish Sanghi:** Right now is I am in mid of season time, all our plants are running full capacity. So, you have to wait for the off season time so we will probably do it in July time frame.

**Ashutosh:** Yes, so we understand that you actually did not take shutdowns because this is Q4 and Q1 being a season time and so that will be happening in Q2 you are saying. So, should one expect a descent volume jump post Q2 or during same?

**Manish Sanghi:** That is why the earlier question which is asked was when do you see the impact of the debottlenecking taking place and I answered that it should be in the second half of the year.

**Moderator:** Thank you very much. The next question is from the line of Govind Saboo from Indianivesh Portfolio Management Service. Please go ahead.

**Govind Saboo:** Sir I just wanted to understand the availability of asbestos fiber because I think from Brazilian suppliers got disturbed.

**Manish Sanghi:** So effectively there are only two suppliers in the world right now. One is in Russian the other is in Kazakhstan and Russian. They have more than adequate capacity to supply the requirements around the world, they are very large producers of Chrysotile. And we do not anticipate any availability issues around Chrysotile fiber.

**Moderator:** Thank you. The next question is from the line of Ayushvi from Equitius Investment. Please go ahead.

**Ayushvi:** Sir I wanted to understand how Everest Super is doing, like can you quantify in terms of in this year what sales it had generated?

**Manish Sanghi:** I am sorry I won't be able to quantify the number for you. All that I can say is that it is some, we are making it in all our plants and it has sound fabulous expect ability in markets around the country. For the first time people are having colors to play with on their roofs and it's not just a functional product it also aesthetic and people are using combinations, people are using waves, people are using stripes, squares and using it in a 100 different ways which we had not even anticipated. We are offering to them a large variety of six and we are probably going to add a few more to that range. We understand for a company which for 80 years close to 84 years offered only one color. Suddenly our SKUs have multiplied by six times. So it has very definite complexity increase in complexity of the business and market is rewarding us for this.

**Ayushvi:** So where do we see Everest Super as a percentage of our total roofing sales going say 20 years down the line?

**Manish Sanghi:** In the next five years I expect I want it to be 100%.

**Ayushvi:** Okay, 100%. And Everest Super has better margins compared to your normal roofing sheets right?

**Manish Sanghi:** It is a better product; it delivers more value to the customer.

**Ayushvi:** Okay. And last question is so our debottlenecking exercise so how much will our boards and panels capacity increase through that?

**Manish Sanghi:** We are carrying out this exercise in our plants both in Nashik and in Roorkee. And we are looking at something like the 10% increase in capacity.

**Ayushvi:** 10% overall across including roofing?

**Manish Sanghi:** No, I am talking about you asked for the boards and panels.

**Ayushvi:** Okay, only boards and panels. Okay, and the pulp prices you mentioned are around \$700-\$750 right?

**Manish Sanghi:** Yes.

**Ayushvi:** So last quarter you had mentioned prices of some \$875.

**Manish Sanghi:** They have come down.

**Ayushvi:** Come down 15%?

**Manish Sanghi:** Yes.

**Moderator:** Thank you very much. The next question is from the line of Rajesh Ravi from HDFC Securities Limited. Please go ahead.

**Rajesh Ravi:** Few more questions just on the balance sheet I understand you gave answer earlier, what I see that our cash conventional cycle. My point is cash conventional cycle if I see currently FY19 is around 64-65 days which would be highest I the last four, five years. So any strategic like and most of because inventory is also short up and demand outlook at least for Q1 as you guided is not very strong during the election period. So, how should we read into it, is there any specific thing that we are missing?

**Manish Sanghi:** So at the management we decided that we should actually have higher level of stock do higher level of training and higher level of activity. Now the aspects that one would need to through at there is one, that the base prices of our raw materials itself have gone up in the first place right. So, a 10% increase in the raw material prices would naturally get reflected in the inventories as well right and evaluation itself. The second part is the quantity in

inventories so naturally we have consciously taken a call we started off in our beginning speeches which had that we have consciously created a higher level of inventory to be able to monetize there, to be able to benefit from a higher demand we are in the peak season. So it has been a conscious decision. And on the other side that you said so that is the cash conversion cycle. We have had a higher level of inventory to be able to take on in the peak season. We have also increased the average contract size so which has grown from over 100 metric tons to 300 metric tons per building. That means for us we are getting into the next level of space where you are leading the PAT with larger customers, more organized which work on specified credit terms and all that. So we believe that this is money well invested in the business.

**Rajesh Ravi:** Okay. So there you mean even in PEB you have secured your raw materials along with the order size as you are entering into a higher ticket size.

**Manish Sanghi:** No, please don't get us wrong we have not said that at all. We have not secured the size of the raw material that we will get in order or we are in an execution stage but if I were to look at my commodity price list then typically my average inventory would be anywhere about two months which takes care of orders that I generally have in hand by about 50% and the balance 50% is left open to the market to behave which typically gets frozen as and when my customers freeze the specs. So when the specifications get frozen this also gets frozen. In a year when prices of raw materials increase we suffer and in a year when they fall we also gain so one good example of that is 2016 when we had a 20 crore profit for the year for PEB.

**Rajesh Ravi:** So when the raw material like your Chrysotile fiber or pulp have you beat up on inventories on those also because your balance sheet is quite strong?

**Manish Sanghi:** No, we are on normal inventory on this, we had built up inventory basically on the LC.

**Rajesh Ravi:** On the sorry?

**Manish Sanghi:** On the LC only.

**Rajesh Ravi:** Okay, LC.

**Moderator:** Thank you. The next question is from the line Kashyap Jhaveri from Emkay Global. Please go ahead.

**Kashyap Jhaveri:** Just one question as and when this inventory which is there as it's the end of the year it starts unwinding, do we expect to sort of resume our debt reduction which has been happening for almost about three, four years now? And this year it was more of flattish slight increase but.

**Manish Sanghi:** As and when we generate cash we see it we have the option to either repay our debts or to invest the moneys into income generating assets which in this case was inventory. We look at various options available at that particular point in time and exercise it most judiciously.

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

**Siddharth Rajpurohit:** Sir just a macro question. There is a lot of news that rural market is in distress so being in the market now and being deep in it what is your view sir?

**Manish Sanghi:** I have actually. I keep hearing it, I keep reading about it but we are not experiencing it.

**Siddharth Rajpurohit:** Okay, so you are seeing it being better year-to-year?

**Manish Sanghi:** I am not finding any significant difference.

**Moderator:** Thank you very much. Ladies and gentlemen due to time constrain that will be the last question for today. I will now hand the conference over to Mr. Manish Sanghi from Everest Industries Limited for closing comments.

**Manish Sanghi:** So we are in the middle of the election and I suppose every talk has to somewhere revolve around election. My belief is that whatever may be doubt some of the election, the India growth story cannot be stopped by anybody be it an individual or be it a group of individuals the India growth story would continue all and as Everest we are very closely linked with the India growth story. Both for Urban India, Rural India and the Industrial India. So, we have high stakes with India growing, we are confident that we are going to see that happening irrespective of whom comes. There are a whole lot of initiatives which have been taken within the company in order to improve the margins. On the revenue side by offering a better portfolio of products and on the cost by improving productivity, improving quality, reducing the debts, selling closer. We have no control over some of the factor and that probably would be true for every company items like foreign exchange, items like the oil pricing, items like the cement pricing and so on. So, our focus is on what we can do, how can we do it better, how can we do it on a bigger scale and the entire organization of the company is focused on delivering that. I am confident that we would do better in this year compared to what we did last year we are back on growth track and we should see strong performance from the company in the times to come. Look forward to talking to you in three month's time. All the best to all of you. Thank you and bye.

**Moderator:** Thank you very much. On behalf of Everest Industries Limited that conclude this conference. Thank you for joining us you may now disconnect your lines. Thank you.