



**“Everest Industries Limited Q2 FY-16 Earnings
Conference Call”**

October 23, 2015



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*Everest Industries Limited
October 23, 2015*

Moderator: Ladies and gentlemen good day and welcome to the Everest Industries Limited Q2 FY-16 Earnings Conference Call. We have with us today on the call Mr. Manish Sanghi – Managing Director, Everest Industries and Mr. Rakesh Gupta – CFO, Everest Industries. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Sanghi. Thank you and over to you, sir.

Manish Sanghi: Thanks and good afternoon friends. We welcome you to the Q2 FY 16 earnings conference call. I have with me Mr. Rakesh Gupta - CFO and Stellar Investor Relations our advisors for Investor Relations. I hope you have received the updated investor presentation of the quarter. We have also uploaded it on our website.

Q2 is normally a weak quarter for us, but the results are below ours and I'm sure your expectations. As you must have noticed the two business segments, building products and steel buildings performances in vast contrast to their performance in the same quarter last year. Last year the building product has done well and the steel building had not done too well and this year it is opposite. The steel building results are on expected lines and I will be talking about that a little later, while the building product results have deteriorated. In the building product segment the quarter was marked by the following: very low rural demand across the country and the low demand was essentially on two counts, one was the crops damage on account of unseasonal pre-monsoon rain which damaged the crops a great deal and low crop prices. Having said that, there is one silver lining which is in southern India where after a long period we are seeing an improvement in demand particularly in Tamil Nadu.

The second major factor was the depreciation of the Indian rupee against the dollar by something like 3% during the quarter, this resulted in rewriting the dollar loans in our books besides an increase in the raw material cost. The total impact of this change during the quarter was 4.7 crores, again the silver lining over here is that since the close of the quarter the rupee has appreciated against the dollar and some of this will get written back during this current quarter.

The third important point is the reduction in the price for galvanized steel which is a competing product, this did not allow us to increase prices to pass on the raw material increases which have taken place, just to give you a perspective the price for galvalume dropped from Rs. 64,000 per ton to Rs. 55,000 per ton during the last one year and this has made steel products more competitive and restricting our ability to increase prices.

The fourth one is I'm hoping a temporary measure but I thought it is worth mentioning that there was a reduction in export volumes of boards and panels, some of it was on account of reduction in the oil prices but the immediate big reason was unfortunate accident in Mecca

which resulted in review of safety measures at all construction sites and a lot of work has been put on hold. We are expecting the hold to go away once this review is complete and demand to come back to normal.

There was a healthy increase in the boards and panels volumes in the domestic market and this was as a long-term trend we are seeing that despite there being more competition our sales in domestic market are steadily increasing because more and more people are adopting the boards and panels way of construction. Very specifically in this quarter we got an additional volume on account of Swachh Bharat Abhiyan on account of which we did set lot of projects around the toilets across the country.

The Everest team has embarked on many initiatives in the last couple of months to improve the situation, these initiatives include a dramatic increase in the distribution network so that we can service or we can be nearest to the customer and the first shop which a customer encounters is an Everest shop. Negotiate, reduction in the raw materials prices we have been successful to some extent with the asbestos fiber people and this is not a one-time issue and our efforts will continue with not only this fiber but other all raw materials as well.

The third initiative is around the reduction of rejects and breakages, our roofing product is a fragile product it is brittle and it naturally encounters some breakages in transit and in storage and we are taking some new measures to reduce this particular instance.

The fourth one is we had launched as I had shared last time the Everest super color which is our pigmented roofing sheets we are going all out to increase the sale of this value added roofing product along with our non-asbestos high-tech product in the marketplace. There is a separate team which has been constituted for this and we have had significant success in getting our non-asbestos product specified with a lot of government departments like MES, CPWD, Railways, RDSO and so on which should give us good results. We are sure that these initiatives will help us turn around the performance in the short term as well the long term.

We continue to do some very interesting and exciting work in the steel building segment our new plant in Bharuch, Gujarat which we call Narmada works has stabilized well. The quality and the ramp up on volumes are proceeding satisfactorily, one of the most interesting project that we completed this quarter is India Exposition Mart, it is an exhibition hall in greater NOIDA near Delhi, the order was placed on us in December 2014 for an extension measuring something like 4.5 lakh square feet and they required us to complete it in nine months. This has been handed over to them and the big Auto Expo which happens in January would be held in this particular hall in January 2016.

Everest steel buildings today have become the preferred choice for all those who want to make their factories, warehouses, educational institutions, exhibition halls, site residences quickly, efficiently and reliably. We are sure that we will move from strength to strength in this particular sector. A whole lot of initiative which the Government of India has launched to

increase the demand factor some of them being the Make in India campaign, the Housing for All campaign, the Smart City Campaign, the Pradhan Mantri Awas Yojana all of them are starting to show some effect. It's going to take some time but the results are definitely there. The IMF continues to project a growth rate of 7.5% for India for the current year and making us the fastest growing G20 economy in the world. We are sure that we will be able to gear up and exploit all the opportunities that are there ahead of us and build on both the sectors. As I have always said we are part of the India's story, if India is growing we will definitely grow faster along with that. I'm sure we will add a lot more and am sure you will have a lot more questions to ask and we can specifically answer that later. I will ask our CFO Rakesh to cover some of the financial numbers and then we move forward from there. Thank you.

Rakesh Gupta:

Thank you Manish and good afternoon friends. I will quickly take you through our results which we have circulated in the presentation that has been mailed to you. As Manish explained the second quarter was a challenging quarter for us mainly due to poor demand scenario and sharp depreciation in rupee, primarily on account of external factor but nonetheless it impacted us, however increasing contribution from steel building business have helped us to reduce the impact.

On number, during Q2 FY 16 we recorded a revenue of Rs. 287 crores which was up by around 17% as compared to Rs. 246 crores recorded in corresponding quarter last year. During the quarter our sales volume in building products segment was around 134,000 tons and around 13,600 tons in the steel building segment. We have witnessed a strong growth of around 70% in steel building segment on account of the higher volume driven by the new plant, new steel building plant at Dahej. In building product segment we have witnessed a degrowth of around 5 to 6% due to lower demand from rural market which resulted in low volume for roofing.

EBITDA reported for the quarter is Rs. 4 crores within EBITDA margin of 1.5% in the current quarter, the margin in steel building business has improved significantly as I said on account of higher volumes which led to better absorption of overheads and lower steel prices. The ROCE in the return on capital employed was on a trailing 12 months basis was at 20%, we as have already maintained that we look at reasonable ROCE and that we continue to track and that we use for assessing our business performance. Our ongoing CAPEX at UAE is progressing well as per schedule and we hope that in the middle of next year we will start seeing the production commencing on that, I think this is briefly what I had to share and we can take the questions.

Moderator:

Thank you. We will now begin with the question and answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah:

What is the order book on the PEB side?

Manish Sanghi:

Order book is a six months order book, we have something like 31,000 metric tons of order book, I should also say over here that the order book size of anything more than six months is a

problem for me. My basic promise to my customers is speed and my ideal order book is something like 4.5 to 5 months, slightly higher than that right now but that is okay I would like to maintain it at this level considering a capacity of something like 5000 tons per month.

Kaushal Shah:

In building products this quarter and in the last two quarters what we've seen is very tepid, very modest kind of, in fact this quarter in building products we have seen a slight decline in volumes, also in realizations again in building products we have some kind of pressure, wanted your views on both of these parts.

Manish Sanghi:

I think I tried explaining, my ability to increase prices was limited on account of not merely competition in the field of asbestos cement manufacturers but also because another competing product Steel actually the prices have declined significantly over the last one year. This is a trend which I do not have control over steel prices only way I can work around is increase efficiencies, buy better and become competitive. Also we are doing a campaign which is saying why would somebody be buying a fiber cement roofing over a steel roofing so there are subtle changes in the way the position of our product, we used to call our product positioning line was "Mazbooti Ki Misaal Chale Saalon Saal", typically if I were to translate it in English "An Example of Strength Which Lasts Many Years" changed it to "Baahar Mazbooti Andar Aaraam", "Outside Strength Inside Comfort" essentially saying that vis a vis steel roofing our cement roof is more comfortable it is less noisier, it is less hot and that's why people should opt for it. This campaign is rolling out right now by Everest, we would be coming on television before the season with this new commercial and so on. Also the association of asbestos cement product manufacturers did a similar campaign in eastern India to boost to the category as a whole, there ads are obviously are going to be different and their positioning is not this but they did that.

Kaushal Shah:

Since we are done with half of the year for the first half our sales volume numbers have been fairly flat, so would you like to hazard a kind of guidance where you see building product volume numbers going this year and possibly next year?

Manish Sanghi:

As a policy we normally do not give guidance numbers but, I would say realistically we should be looking at numbers which are not very different from last year.

Kaushal Shah:

On the steel building side in the recent past, you mentioned that there is a decline in steel prices, are we witnessing benefit of that because in the past we had a scenario where we were hit in the past in the PEB segment because steel prices had risen, now that we have a situation which is the contra of that are we getting some kind of benefit in terms of margins little expansion because of the decline in prices?

Manish Sanghi:

Very definitely so, there would be some advantage which would happen on account of that but again if you look at the steel prices, the HR side of it has declined if I take a one-year trend some 46,000 to 38000, it has declined by 17-18% kind of number. So we do get an advantage

out of it but the good part for me is that new orders which have been booked are also has at healthy margin. The situation where we were taking orders at poor pricing is not there.

Kaushal Shah: So going forward what you are saying that the margin profile should be on a kind of an upward curve?

Manish Sanghi: It should be, we should do similar or better. There is a fundamental shift in the consumer preference and PEB is becoming main line, it is not something which is thought of later, this is a thought which comes first and somebody may then decide no I'd not want it done this way and move some other way but this is now initial contenders for the kind of building which he wants.

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

Rajesh Kumar Ravi: In the asbestos roofing sheets which are the markets where the sales were mostly impacted?

Manish Sanghi: The good market was Tamil Nadu, I'm assuming when you say affected you mean both good and bad, not just the bad ones. The good part was in Tamil Nadu, we did well in Odisha where we got impacted badly was in West, was in Bengal, was in Madhya Pradesh and Chhattisgarh.

Rajesh Kumar Ravi: You are seeing most of these because of the poor crops and poor earnings of these rural demand..

Manish Sanghi: I do not think the effect of monsoon really is that high, the monsoon on an overall basis was not frankly that bad. It was a pre-monsoon unseasonal rain which damaged a lot of crops, so the money which would have come in to people during the season, that is what we saw if you remember that while April was good but May, June after this rainfall happened in many parts of the country that demand suddenly dried away or reduced significantly. We are continuing to see that impact, I am convinced that monsoon per se was deficient but not really that bad. So I don't expect the impact to continue for flowing into the next season. The other reason probably can be the crop pricing, general deflation the prices did not increase, support prices did not increase so people were a little slow postponing their purchase decisions from things like housing which is the discretionary expense.

Rajesh Kumar Ravi: On pricing, was there also any pressure sequentially your realization did it decline in QOQ?

Manish Sanghi: QOQ means from first quarter?

Rajesh Kumar Ravi: Yes from first quarter to second-quarter

Manish Sanghi: Yes it declined, it always declines.

Rajesh Kumar Ravi: So how much was the moderation in the asbestos?

- Manish Sanghi:** On a realization basis it would be something like 8-9%.
- Rajesh Kumar Ravi:** Versus Q1?
- Manish Sanghi:** Yes. It is an annual trend.
- Rajesh Kumar Ravi:** So YOY it would be lower because of the weak demand?
- Manish Sanghi:** It is marginally lower on YOY basis.
- Rajesh Kumar Ravi:** And because of this 4.7 crore dollar appreciation impact which you have booked what part of this is reflected in the pre EBITDA level and what could be as interest costs level?
- Manish Sanghi:** Can I ask Rakesh to answer this?
- Rakesh Gupta:** Can you repeat your question please?
- Rajesh Kumar Ravi:** Sir had mentioned in the opening remarks that 4.7 crore was the impact because of the rupee depreciation so what part of this is reflected in the operating expenses and what part of this is into the interest.
- Rakesh Gupta:** There are two kinds of liability that exist in my books on dollar denominating term, one is ECB's that that I have taken from a UAE project which is current outstanding is 10 million the impact will be somewhere close to 2.5 crore and the balance will be in terms of my asbestos import liability, that'll be the balance amount. Good part is from 30th September to current phase there is already rupee strengthening which has coming in and there will be, if the things remain where they are even then there will be a reversal that will be getting captured. So whatever hit we have taken part of it has already got reversed and if fundamentally the rupee remains more or less there.
- Rajesh Kumar Ravi:** But where do you account for them because today interest cost for the quarter itself is 4.3 crores
- Rakesh Gupta:** It comes in other expenses, forex fluctuation and it is a part there.
- Rajesh Kumar Ravi:** So all the 4.5 crores is sitting in the other expenses?
- Rakesh Gupta:** Yes.
- Rajesh Kumar Ravi:** Why I want to understand is that if this is purely because of dollar in next quarter you will have these numbers partly reversing at operating level itself?
- Manish Sanghi:** Yes but I frankly do not want to count too much upon the movement of the rupee versus the dollar, that is an uncertain one out of my control, if it happens great.

Rajesh Kumar Ravi: If it happens it will be there in the operating numbers also visible at EBITDA.

Manish Sanghi: Yes because the raw material prices going up, that is not figured for separately, that is going into raw material part.

Rajesh Kumar Ravi: You are saying because of the raw material purchases it is getting reflected in the raw material cost.

Manish Sanghi: Yes that is right.

Rajesh Kumar Ravi: Bought in dollar terms and mark to market losses are getting in the other expenses.

Manish Sanghi: Yes.

Rajesh Kumar Ravi: You said that there was some savings you could negotiate with the suppliers of asbestos fiber, how much is that and when would that impact being seen if at all?

Manish Sanghi: I do not want to comment on how much it is, but I expect the impact to start showing by around December.

Rakesh Gupta: Actually we normally take inventory of this year which is about 2-2.5 months, took 3 months also so what I think Manish is trying to say that when that inventory get consumed and when we will start seeing the impact of further renegotiation.

Rajesh Kumar Ravi: This high cost dollar was there any major inventory which has been built in when dollar appreciated in August?

Manish Sanghi: I mean inventory of what I'm not sure I'm able to understand ?

Rajesh Kumar Ravi: During this period when in second half August dollar had appreciated ...

Manish Sanghi: No, our purchases was not very high.

Rajesh Kumar Ravi: It was more to do with the mark to market losses.

Rakesh Gupta: It goes like this, when we are at off season took to pay purchases also come down so it is kind of a blessing in disguise that during this period our purchases were low.

Rajesh Kumar Ravi: What would be the segmental margin EBITDA level margins which you shared at EBITDA level could you break up the numbers, EBITDA numbers from both the segments?

Manish Sanghi: We shared the EBITDA number, we will talk about EBITDA separately, you can put a mail to me and I will provide the details, I do not carry that right now.

- Rajesh Kumar Ravi:** Because of this Mecca impact you are saying that the exports would get slightly delayed or there would be some impact at least on the export side in the boards and panels?
- Manish Sanghi:** Yes because there was the big review of safety procedures and all ongoing constructions projects were stopped now they will resume once the issue is over it should come back to normalcy.
- Rajesh Kumar Ravi:** What is the market sales that would be impacted in terms of...
- Manish Sanghi:** Our total exports account for only around 10% of our turnover.
- Rajesh Kumar Ravi:** Okay so 10% by that much there will be some delay in the volumes, and by when that review would be over?
- Manish Sanghi:** I am expecting it to be over within this month.
- Rajesh Kumar Ravi:** In the PEB segment volume growth has been strong sequentially despite being seasonally weak quarter for erection activity and all on the site, subsequent quarters the volume should also pick up on QOQ bases?
- Manish Sanghi:** Yes it should pick up, the only dependent factor would be that the credit disbursal by the banks to various industrialists should keep happening smoothly. At times in the past it has been a constraint that while everybody was ready the credit disbursal did not happen, so industrial projects is dependent upon credit disbursal, we are hopeful that, that will happen and it should be strong.
- Moderator:** Thank you. The next question is from the line of Vivek Mahajan from Aditya Birla Money. Please go ahead
- Avinash:** Hi this Avinash. Two questions, the first is in your commentary you have said that certain dollar loans were repriced which has led to some P&L impact this quarter what was that amount?
- Rakesh Gupta:** I mentioned that may be about 2.5 crores. Are you talking about ECB or entire forex fluctuation?
- Avinash:** Entire forex loan?
- Rakesh Gupta:** That is around 4.7 crores.
- Avinash:** Any significant steel write off we have taken in this quarter as far as inventory is concerned?
- Manish Sangi:** No. Absolutely.
- Avinash:** What is the kind of in tonnage inventory we carry on average on a monthly basis?

Manish Sangi: On steel?

Avinash: On steel for pre engineering.

Manish Sangi: We carry an inventory anywhere between 45 days to 60 days of production.

Avinash: Okay. Mostly when we do negotiate these are all typically 9 months to 12 months completion contracts, so we buy steel as on where basis so we will be buying at all price points, I just want to understand the procurement positioning we have taken for steel.

Manish Sangi: Everest takes short cycle contracts rather than long cycle contracts so they would normally not account for 9 to 12 months most of them come into 6 to 9 or 4 to 9 months kind of a time cycle. That is number one, our purchasing policy is buy as you require it.

Avinash: I was asking the same thing, I was not saying whether you take it on 6 months nine months basis, so as and when required, typically every month price you will pay.

Manish Sangi: That is right, absolutely right because you buy lots of different kinds of steel even though I may buy steel I use a lot of plates varying from 4 mm thickness going up to 40 mm thickness and each project may require a different combination, we buy it as based upon what is the production plan for that month.

Avinash: As regards the building product, are we seeing the same demand pattern as far as the competitors are concerned?

Manish Sangi: I would think so yes.

Moderator: Thank you. The next question is from the line of Raj Gandhi from Sundaram Mutual Fund. Please go ahead

Raj Gandhi: Off late the steel prices have been falling very sharply, when you take order is a fixed price order and typically when you start buying steel it will be at least one or two months after the order?

Manish Sangi: Typically if it is a fast track project, because it varies from project to project but in most projects the design work would get done with in the first 20 days, so the way we do is as soon as the project order comes and we are confident that the projects will proceed smoothly without a problem it would go into manufacturing within one month of the order being received by us.

Raj Gandhi: So in general lower steel prices will help you, you would have priced based on current steel price when you're taking...

- Manish Sangi:** Our estimate is based upon whatever was the rolling steel price and if the steel price comes down yes I would benefit or the other way round, in case steel prices go up I would suffer as well.
- Raj Gandhi:** And sir just given that lets say in a quarter the steel prices have fallen by about Rs. 3000 a ton, how come we don't have inventory losses in that sense when steel prices are falling so sharply?
- Rakesh Gupta:** Actually as Manish mentioned we have a raw material inventory of around 45 days kind of thing. I am not carrying inventory which is a year old. If in the year the depreciation is say about 8%-10%-15% in a short span of month, month and a half the depreciation it in the is so much that there is a revaluation required.
- Manish Sanghi:** I am just looking at some numbers for the last 2-3 months for various categories of steel and the depreciation is very small in the last three months. There was a big decline which took place from November '14 to around June '15 and after that the prices have been relatively stable.
- Raj Gandhi:** So during that period did you take any inventory write-off?
- Manish Sanghi:** No we were running of no inventories, we are having contracts and I'm not in the business of trading steel.
- Raj Gandhi:** And you mentioned that this galvanized steel roofing and all is giving you a bit of competition, broadly with any other competing products?
- Manish Sanghi:** In roofing segment primarily divided into four categories, thatched roof, AC and GI which we cover, tiles and the concrete roof so these are the four different categories which are there. Most of the people who have decided to go for a concrete roof will not really go for either GI or AC roof. So most of our conversion takes place from tiles, thatched, people upgrading themselves and they may consider GI or AC though having said that particularly for residential purposes a cement corrugated roof is far more comfortable because it's not so hot, it is not noisy and same is the case if I were to look at your poultry or a tractor shade. So anything which is required for living beings if I might say so, a cement corrugated roof is a definite better option.
- Raj Gandhi:** What would be your selling price be when you said their selling price is at Rs. 54,000 a ton, what would be your selling price?
- Manish Sanghi:** No I don't think we should compare in terms of tonnage, that's not the right comparison. Our price in terms of tonnage maybe around Rs.13,000-14,000 a ton.
- Raj Gandhi:** But you are lighter so your usage also will be lighter?

- Manish Sanghi:** Yes my usage is more so on a per square meter basis the difference is depending upon thickness going from (-10%) to (+25%) for metal. Metal comes in many shapes and sizes unlike our roofs.
- Raj Gandhi:** So your pricing is (-10%) to 25% higher based on which....
- Manish Sanghi:** No metal roof if I were to take, cement roof as a data, it can go up to (-10) and it can go on the other side to (+25%), 30%, 40%.
- Moderator:** Thank you. The next question is from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.
- Saurabh Patwa:** I had asked this question previously also but I think our employee cost has been going up rapidly last 2-3 quarters. I think partly the reason was earlier because of the Dahej plant but last 2 quarters again it has expanded almost like 20% Y-o-Y so just wanted like how much of it would be fixed in nature and is it a part of which is variable or just your thoughts on that?
- Manish Sanghi:** We have an increment cycle which starts in April and the average increment would be of the order of 7%-8% so that is a definite cost. The second cost as you rightly said was Gujarat plant cost. We have a variable element which at least from the officer's side would amount to something that an average 10% of the CTC of a person which depends upon the company, the individual, his department, all of these factors put together. The current increase we are seeing when we ourselves did the analysis, we found that it's a combination of the increment and Narmada work; there is no other third factor.
- Saurabh Patwa:** So going forward how do you foresee the employee expenses it was like...
- Manish Sanghi:** I would want employee expense to go up, people should get more but as a percentage of revenue it should go down that we sell more. So the solution around it is sell that our top line needs to grow faster than what it has done. We grew by 17% on the back of one business, if we had grown on the back of both our businesses it would have been higher as it was in the last quarter because the amount was similar but as a percentage it was lower.
- Saurabh Patwa:** As it was in last quarter because amount was similar but as a percentage it was lower.
- Manish Sanghi:** Yes.
- Saurabh Patwa:** Apart from that the other expenses have grown up very sharply in last 2-3 quarters so part of which you said like some 5 crores was because of the Forex is accounted over here, so any other large component which has come up in last 2-3 quarters?
- Manish Sanghi:** There is nothing specific which has taken place.
- Saurabh Patwa:** Because see it used to be around 60 crores, now last quarter it was around between 65 and 70...

- Rakesh Gupta:** Actually the steel building as Manish mentioned they may have gone by something like 70%. One of the major components of the costs apart from raw material is the erection cost so that has gone up.
- Saurabh Patwa:** As the share is increasing as a percentage of the showing an increase.
- Manish Sanghi:** Typically erection cost would be 9% to 12% of the order value.
- Moderator:** Thank you. The next question is from the line of Aksh Vora Shah from Praj Financial. Please go ahead.
- Aksh Vora:** Sir I just wanted to know that you mentioned that PE had a bit of decline in the realizations but in building products I think for last quarter it was 11,900 and now it is 12,200, so we have seen any decline?
- Manish Sanghi:** It's a product mix issue as well, when the roofing declines the proportion of boards goes up, so while the roofing prices realization was poorer but in the total mix my boards was higher so that's what boosts the realization as a total.
- Aksh Vora:** Another thing was in this quarter the freight cost is up around 41%.
- Manish Sanghi:** Yes this is something which intrigued us as well because in reality the freight cost is actually has come down with lower fuel prices. This is more to do with the freight cost of the corresponding quarter last year which was unnaturally low on account of a change which we had done in the way we account for freight. So it's a quarter to quarter comparison which is showing up this number, in reality it's an accounting treatment issue and henceforth we won't be seeing it.
- Aksh Vora:** But do you see overall freight cost should be coming down in near future?
- Manish Sanghi:** I don't know we somehow didn't see the freight costs coming down in proportion to the decrease in fuel prices. They declined but not in proportion to the fuel prices so as of now we are not expecting a major reduction from hereon in fuel prices. We expect fuel prices to either remain constant or move maybe a little bit up. So I am expecting a steady freight cost on a per ton basis.
- Aksh Vora:** Another thing in building products the demand is particularly weak actually but for the rest of the year do you see the same kind of demand? Is it spread geographically the demand is seen good somewhere or not seen good in any other areas?
- Manish Sanghi:** The demand varies from area to area-to-area. Areas as somebody else also asked which are particularly bad are Maharashtra, Maharashtra is one of the worst, MP, Chhattisgarh, some parts of UP. But there are areas which are good as well and Tamil Nadu, Orissa are areas where the demand has improved significantly so it's going to be a mix. I expect on an overall

basis the demand will probably remain similar to last year. So as of now the industry as a whole has declined for the first six months of the year.

Aksh Vora: And another thing in boards and panels, UAE, we saw a decline in volumes because of the accident happened in Mecca.

Manish Sanghi: Yes that's right.

Aksh Vora: So that was a much more significant impact on overall construction sector because I feel just one incident...

Manish Sanghi: No one incident actually resulted into a big review which halted construction and in turn halted purchases. So it's just if you have a big machine come to a grinding halt, it just takes a little while for it to start up again. There is that much inertia which is there in it so I expect it to be coming back to normal.

Aksh Vora: And in next year we see this project coming on commercializing, right sir?

Manish Sanghi: That's right, in the next fiscal it should happen.

Aksh Vora: And overall in domestic also we are seeing demand for boards and panels.

Manish Sanghi: Absolutely.

Moderator: Thank you. The next question is from the line of Deepanshu Madan from Locus Investment. Please go ahead.

Deepanshu Madan: I have a question on the realization on steel buildings, so just a clarification on this. You mentioned that from November 14 to June 15 there was a decline in steel prices which was significant and if you look at realizations in 3Q, 4Q and even 1Q 15, they went up on a per ton basis. Now because the volatility they have reduced still have seen increased realizations. But eventually do you think that these benefits have to be passed on and realization should trend down a bit?

Manish Sanghi: I don't think so, there are two factors at play, one is an absolute cost. When the person is putting up a factory or a warehouse he has a total number in mind which he starts with. When the steel pricing goes abnormally high your required to still meet that particular target number he has in mind and that results into no value and number on your side so the price reduction happens on your margins. When the steel prices go down that doesn't take place in the same fashion, you are able to meet its budgeted target. Of course if it extends over a period of time, the margins or the value add would come back to normal. But then it's also a question of demand, how hungry you are, how desperate you are to take an order. I think India is building, building factories, building warehouses and if the demand is good I expect these margins to continue.

- Rakesh Gupta:** That expands the market, if the price is lower my margin may not be high but I may be doing a larger volume.
- Deepanshu Madan:** Yes it should eventually operating generates will help in improvement of margins in the long-term once plants will utilize but I was just wondering it should have had an impact near term at least in the last 3 quarters because as you said there was a decline of about 17% if you look at the last 12 months so I thought it should sort of come up but maybe it haven't.
- Manish Sanghi:** We were passing through another bad phase, let's not forget that that there was no industrial construction activity which was happening 12 months before. So the orders which were taken at that point of time were not so lucrative either.
- Deepanshu Madan:** On the PEBS business only what percentage of steel out of that in terms of cost?
- Manish Sanghi:** Out of an order it varies a lot depending upon what is the price of the steel. But I would say it would be more like 55% to 65% would be steel.
- Deepanshu Madan:** This 55% to 65% this is of the total cost or this is of the total revenue?
- Manish Sanghi:** Total revenue.
- Deepanshu Madan:** And a question on the building products business, sir you mentioned that one of the factors impacting a decline in demand was also because other products are becoming competitive and you have cited the example of galvanized iron. So I understand that the application of that particular product in terms of coverage will be different. So could you please share what would be let's say on an average square feet or a square meter cost of construction for a galvanized iron roof versus asbestos sheet roof?
- Manish Sanghi:** This is an easy question to ask but difficult question to answer simply because the steel doesn't come in one shape and size and one variety. But let me still try and answer, typically a cement roof sheeting alone would cost anywhere between Rs.175 to 210 per square meter. This will be the cost of the sheet, a colored galvalume sheet would cost anywhere around Rs.300 of a reasonable thickness, 0.45 mm. Having said that there are other varieties so their thickness goes from anywhere between 0.2 mm to 0.5 mm. the prices which I talked of first was 0.5 mm which is commonly used in good construction. But when you go to this very thin gauge and they are as thin as you can roll them and carry them in your hand. They are virtually like 'cigarette ki panni'. There the pricing levels can go to Rs.100-120 kind of per square meter as well.
- Deepanshu Madan:** When you are comparing the competitiveness of galvanized or the galvalume colored sheet so you are saying the impact probably has come in, is it at the extreme low level layer this has impacted because if you look at the comparison at 210 to 300 that's still significant in terms of gap for someone to move the galvanized beam sheet so at the moment this impact is extreme low level is what you are suggesting?

Manish Sanghi: That gap is significant but the gap has come down. So somebody who is tending towards that but could not go there because of the difference now he may think of that. But the bigger difference probably has happened at the lower level.

Moderator: Thank you. The next question is from the line of Dhawan Shah from Indsec Securities. Please go ahead.

Dhawan Shah: I have few questions, first is related to the raw material cost. If I understand we import asbestos fiber from Russia and Kazakhstan, right?

Manish Sanghi: Yes.

Dhawan Shah: And it constitutes around 60% to 70% of our total raw material cost, right?

Manish Sanghi: Yes.

Dhawan Shah: So as you highlighted earlier that now because of the depreciation of Indian Rupee by around 3%.

Manish Sanghi: 3% in the last quarter. If I go back another quarter then it is a little high.

Dhawan Shah: But I compare about the Russian ruble, it was depreciated by around 18% for the same quarter.

Manish Sanghi: No I negotiate saying this with my supplier.

Dhawan Shah: So actually your raw material costs should go down, right?

Manish Sanghi: Our pricing is in terms of dollars, not in terms of ruble. There are not too many suppliers in the world so they have an ability which is quite significant.

Dhawan Shah: But as your payment is in USD and now the Russian ruble is depreciated so you might be getting some advantage because of the depreciation of Russian ruble.

Manish Sanghi: It's just an opportunity, we negotiate pricing with them and they are trying to do that.

Dhawan Shah: Have we built up any low-cost inventory for this quarter as well?

Manish Sanghi: No we haven't built up any low-cost inventory in the quarter.

Dhawan Shah: Like if I go with the last two years or other income, it was around 5 to 6 crores kind of range for Q2. Now in this quarter the other income was around 2.3 crores only so what was the reason behind that?

- Manish Sanghi:** Can you ask me the next question so that till the time I just look up what has changed over there?
- Dhawan Shah:** So next question is about the steel building volumes. Because in the last Q2 FY15 Dahej plant was not there so because of the base effect we are seeing huge volumes. But in the next two quarters now industrial demand is almost muted so what kind of growth in terms of volume are you expecting?
- Manish Sanghi:** We expect an industrial investment to grow, we are not expecting it to remain tepid like this, and there are many factors which should be driving it. There is a reduction in interest rate; the banks have been instructed to do a credit disbursal faster though looking after their NPAs as well. We expect some FDI inflow to happen in industrial. We have a roll out which in the last 6 months, a very impressive rollout of industrial policies across many states – I have seen it in the case of Telangana, I saw recently Andhra, Orissa, we saw UP, we are seeing Rajasthan happening, we saw Tamil Nadu taking place. So suddenly there is a whole lot of states which are wooing the industrial customer. This is a marked change in attitude from what was happening till about a year or two years back. We believe that this is for investment and that means our ability to ramp up volumes would be high. Our volumes gets ramped up for 2-3 reasons, one is we have not added capacity. But we also have an ability to outsource and get it made at other plants. Having made the basic plant it won't take us very long or say a lot of resources to increase capacity in our new plant in Gujarat.
- Rakesh Gupta:** On the other income the question that you asked that if there is a drop? There are three major contributors to that – one is reduction in export incentive which is primarily on account of the lower exports. The other is on account of last year there was an income tax refund interest which was there and then last year again there was a review of the provisions that were existing in the books and there was some right backs there which obviously is not there because this year it's a business as usual kind of a thing.
- Dhawan Shah:** Going forward 3 to 4 crores kind of run rate do we expect?
- Rakesh Gupta:** Yes.
- Manish Sanghi:** This should be in that range only. I don't think there is any reason why it should go. There might be some occasional, some reason may happen I don't know about that.
- Rakesh Gupta:** But nothing extraordinary is expected to be there.
- Dhawan Shah:** Now steel prices also under pressure so for steel building do we expect that the realization will be at the same level I mean there could not be any growth in terms of realization for this year for steel building.
- Manish Sanghi:** Steel buildings realization will move along with the steel prices.

Dhawan Shah: Do we expect around 1% kind of growth?

Manish Sanghi: In volume term?

Dhawan Shah: In realization.

Manish Sanghi: I won't be able to give you these numbers, I don't have it.

Moderator: Thank you. The next question is a follow-up from the line of Rajesh Kumar Ravi from Centrum Broking. Please go ahead.

Rajesh Kumar Ravi: On the raw material cost, the impact you said for the dollar appreciation of 2 crores so basically when you already had some inventory prior to the appreciation and because this is also a lean period when you liquidate most of your old inventories, you sell-off the product. Was there any major purchase which led to this increase in the raw material cost because of the dollar?

Manish Sanghi: The normal purchase we buy a lot of fiber. As somebody rightly pointed out it constitutes 60% to 70% of the raw material cost as far as roofing sheets are concerned. So it is bought on a continual basis and typically at the end of June we are on very low fiber stock and we typically would want a stock to be built up before the winter months because very often the ports get blocked in Russia, they get iced-up so you can't ship easily from there. But there was nothing extraordinary there, in the normal supplies it happens.

Rajesh Kumar Ravi: This is like how many months of inventory would you have purchased?

Manish Sanghi: On a full production basis we would be currently carrying an inventory of around 45-50 days.

Rajesh Kumar Ravi: In the cement boards the industry as a whole had taken a price increase in March end and also partly in month of August so how did it play out for your company?

Manish Sanghi: I have no idea about what others have done. In general Everest pricing on boards is a way higher than anybody else in the marketplace. We have a pricing policy of reviewing prices every six months and we have accordingly worked and taken some increases.

Rajesh Kumar Ravi: So you have also been able to take it because of the better demand that you have seen in domestic market a price improvement has gone through.

Manish Sanghi: Yes but I can't comment upon what others have done.

Rajesh Kumar Ravi: No for your company sir.

Manish Sanghi: We review it twice a year and we have done that.

- Rajesh Kumar Ravi:** And there you are already riding at almost peak utilizations so in terms of the volume growth impact of this year would largely be because of the asbestos volume which would be around 50% of your total building product portfolio?
- Manish Sanghi:** As of now we have not seen the volume growth actually.
- Rajesh Kumar Ravi:** The impact of the total sales volumes because this year you are already at peak in CVP segment, boards and panel segments, the asbestos decline would...
- Manish Sanghi:** There is no capacity change in boards. It will happen only next year whether this plant comes on stream.
- Rajesh Kumar Ravi:** And in the pre-engineered building what is your order size that you have mentioned? How much crores it is equivalent to?
- Manish Sanghi:** Something like six months order book.
- Rajesh Kumar Ravi:** So six months basis the current quarter number you are saying because next because next 2 quarters are generally better compared to September, right?
- Manish Sanghi:** Yes its six months based upon my capacity. The number would be close to 31,000 tons.
- Rajesh Kumar Ravi:** And in the realization perspective as one of the participant also asked earlier, our PEB realization on a per ton basis which you report has not seen any meaningful contraction on a Y-o-Y basis which is almost 55% to 60% of your....
- Manish Sanghi:** Can I say this that it is unlike a standard product, PEB is 100% custom made and various buildings have various constituents so when I am doing a shipyard, I am doing shipyard in Goa. It's a 45 meter high building so it has very little of sheeting in it, it has heavy columns, lots of fabrication work so the cost is high. I may have another building which has lot of mezzanine floors, lot of very heavy construction crane or I may have a simple warehouse where there is absolutely no structural steel. So the cost varies a great deal and so at times there is a difference in scope. Last quarter we had done a school building wherein we had done the entire project, we have done even air-conditioning and plumbing and everything. If I distribute that over the tonnage of steel then the price will become high.
- Rajesh Kumar Ravi:** So it's also the product, the type of number, it's not purely steel which is being reflected.
- Manish Sanghi:** It's not purely steel; there are lot of other factors which comes so tracking this per ton of steel I don't think will give you meaningful number.
- Rajesh Kumar Ravi:** And on the profitability for full-year when you said earlier that on the building product segment numbers, you were saying for the building material segment you mentioned that you



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don't see any growth in the profit numbers or as a total number you are saying things may not look materially different from last year.

Manish Sanghi: On the building product side I probably not.

Moderator: Thank you. The next question is a follow-up from the line of Dhawan Shah from Indsec Securities. Please go ahead.

Dhawan Shah: I just missed one question that is regarding the steel order book. I mean you mentioned that the order book is around 31,000 metric ton but what is the value of the 31,000 MT?

Manish Sanghi: I actually don't have that number in front of me.

Rakesh Gupta: It will be in the bulk up of around 250 crores.

Dhawan Shah: I think in Q1 as well the order book of around 28,000 metric ton and the value was 250 crores, right?

Rakesh Gupta: No it is because the prices are varying so therefore the product mix changes so there are various factors.

Manish Sanghi: But giving this is an approximation I don't have that number in front of me.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Manish Sanghi for closing comments.

Manish Sanghi: Thanks a lot for your interest and as always I feel that a lot of your questions help us focus better on the issues which really matter. We continue to be bullish on the India growth story and we are very much a part of that story in all the three product lines that we have be it roofing, be it boards, be it our steel buildings. We think the good times which were promised are yet to come, they may be late, but I think they are coming for sure. We hope we will have something better to report to you when we meet in three months' time. Thank you all very much and look forward to talking to you in three months' time.

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