Everest Industries Limited
Q2 FY-19 Earnings Conference Call
26th October, 2018

Moderator: Ladies and gentlemen good day and welcome to the Everest Industries Limited Q2 FY19 Earnings Conference Call. As a reminder all participants' 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 please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you Imba. Good morning everybody and a warm welcome to you all my name is Anuj Sonpal 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 H1 and Q2 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 risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions. 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 conference call. We have with us Mr. Manish Sanghi, Managing Director and Mr. Nikhil Dujari, Chief Financial Officer. I request Mr. Sanghi now to give his opening remarks. Thank you and over to you, sir.

Manish Sanghi: Good morning and thank you Anuj for the introduction. We would like to welcome you to the earning concall for H1 and Q2 FY19. The company has experienced a robust quarter performance, despite apparent macro headwinds ~~they~~ we have continued to witness strong demand especially from rural markets. A relatively normal monsoon, implementation of the latest ~~MFP~~ MSP guidelines, are amongst various reason for growth and demand. Inflation while it has increased has remained below the target of RBI which is implicitly aided demand and sentiment further. The second quarter of last year was underlined by the landmark shift to the GST regime. Reflecting on this past year we have witnessed improved performance across business segments. We have seen an increase in market share across product segments, ~~so~~ through deeper market penetration and improved operating performance. We are ~~state~~ staying true to ~~a~~ our philosophy and have been continuously introducing unique value added products. Better management of inventories, seamless value change management especially in the ~~PEV~~ PEB business has **–3:17** performance of the company. On the macro front there ~~has~~ have been a lot of developments. ~~this~~ This past quarter has been ~~y~~ear marked by a depreciating rupee and the apparent liquidity crises amongst other things. Foreign exchange fluctuation has significantly impacted our bottom line along with rising ~~metro~~ petrol product prices. We have not faced any tangible obstacles in our business operations given~~,~~ healthy growth in income-~~-~~levels ~~stable the~~ sustaining the~~ir~~ growth trajectory as these are low ticket necessary items. A shift from organized to unorganized segment continues. And most businesses have now comfortably shifted to new ~~test~~ tax compliant ways of doing business - what I meant to say that shift from unorganized to organized sector continues and more people are becoming ~~text~~ tax compliant and the initial implementation hiccups are really in the rear view mirror. Credit growth, bank and commercial was at a 5 year high at 16.7% Y-o-Y in August. Currency in circulation is at 8% which is above the pre-demonetization levels. This should ~~order~~ augur well for the rural India. On the building product segments we have witnessed significant growth in volumes to 1.54 Lakh tons which has present a growth of nearly 20% on a Y-o-Y basis. Utilization levels have nearly reached optimum levels around 90% from 85% earlier. Boards and panel segment we have achieved better volumes in boards in panels as compared to Q2 and Q1 particularly in domestic markets. Following the enhanced operational utilization of plants, better volumes ~~and~~ in boards and panels segment ~~have~~ has been achieved as compared to the earlier times. ~~Improved s~~Stable ~~and stable~~ raw material prices in building product segments have further helped in reducing cost. However, we have been witnessing a continued downturn in export markets on account of local manufacturing setups in Saudi Arabia. In steel building segment in Q2 FY19 we have delivered close to 16,000 metric tons, improved macro-economic factors are now beginning to show up in the ~~PEF~~ PEB segment. We are meanwhile committed to timely handover of projects to customers with industry benchmark quality in order to create and maintain brand awareness and customer stickiness. We are experiencing a perception shift from conventional construction to PEB across all industries all geographies. The order book as on 30th September, stood at around 24,000 metric ton. I am sure you have a lot of questions lot of clarifications but before we get to that let me hand it over to Mr. Nikhil Dujari for the financial highlights.

Nikhil Dujari: Good morning ladies and gentlemen and thanks Mr. Sanghi. Our revenue for the quarter changed from the last year of 261 Crores to 314 Crores which represents a year-on-year increase of about 20% on a quarterly basis. EBITDA has grown from 14.4 Crores last year to 19.5 Crores in the corresponding quarter this year. EBITDA margins have improved from 5.5% to 6.2% representing an increase of 70 bps. PAT has considerably increased about 95% from 4.5-5 Crores last year to 8.7 crores in the second quarter of this year and margins PAT has increased from 1.7% to 2.77%, 105 bps increase. On a yearly basis on a revenue increased 14% to 732 Crores sorry half yearly basis. EBITDA has increased 64 Crores for the half year representing a growth of 33%, margins have improved by 121 bps to 8.72%, PAT increase 78% to 38 Crores. On the building products segment our topline was 177 Crores versus 153 Crores last year 16% increase and on an EBIT level it improved from 15.3 Crores to 22.5 Crores which represents an increase of 47%. Volumes for the quarter risen from 129,000 metric tons to 154,000 metric tons. And on the steel building segment our topline for the quarter grew by 28% to 136 Crores from 107 Crores and EBIT has improved significantly from 2.5 Crores to 6 Crores which represents a jump of 130%. On volumes the quarter recorded volumes increase from 14,000 metric tons to 16,000 metric tons this year. So that is briefly summing up the financial performance and thank you with that we would like to open the floor for the questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. Anyone who has a question may press star and one. Ladies and gentlemen we will wait for a moment while the question queue assembles. Our first question is from the line of Manish Poddar from Reliance AIF. Please go ahead.

Manish Poddar: Just had few questions on the building product segment. So, this pricing decline which you have been witnessing for the last few quarters what is the outlook on that~~.~~?

Manish Sanghi: I am not sure, I fully understand what you said.

Manish Poddar: If I look at the revenue growth of the building product segment, and compare that with the volume growth and understand there will be a mix of products but so the difference between the two we have been witnessing a pricing decline of ~~mix~~ mid single digit to high single digit in different quarters. So, I am just trying to understand what is the growth outlook for the building product segment probably.

Nikhil Dujari: So we continue to expect robust growth. ~~outlook on~~ On the pricing front there has been a variety of reasons, so the reasons could be attributed to whether we are selling with rates without rates or inclusive of GST, excluding GST in certain cases. The way the things are represented here what is also happening simultaneously that a couple of our plants did enjoy some exemptions from duties and taxes which have now expired in the current quarter and a part of that is also to do with the way things are accounted for under GST, but I must assure this is how it is actually represented in the accounts but I must assure you the corresponding bid also goes down on the cost and therefore in terms of the profitability it does not have an impact.

Manish Sanghi: We are not really experiencing a down turn in pricing, ~~in both the roofing,~~ particularly in ~~the~~ roofing. In ~~the~~ boards the prices have not moved up they have gone down a little bit for sure yes. But, overall my realization particularly in the roofing section has improved.

Manish Poddar: Okay. And what is the steady state~~.~~?

Manish Sanghi: Is a mixed one across products and geographies. So, we are not really sensing any such trend.

Manish Poddar: So what is the steady state margin once you look at this for the building product segment going ahead~~.~~?

Manish Sanghi: We expect that the sustainability of the margin is possible and we expect things to be steady of course this will be impacted by two big factors and which we witnessed in recent past, one is the FOREX fluctuation and the second is the petro product prices we will have to keep a continuous watch and see how we can kind of continue to leverage on that front.

Manish Poddar: Sir if I look at last year you did about 12.5% odd EBIT margin and this year in the first half you are clocking somewhere around 15%. So is this 15% sustainable or would it go back to the 12.5-13% given that~~.~~?

Manish Sanghi: As of now we should be able to sustain it. But it will depend a little bit on we are all going for price increases based upon the because most of our products are on delivered price basis. So, to take care of the hike we have increased some prices in the market place. We have ~~to~~ till now, and the worst period is actually over, this Q2 is traditionally the worst quarter for most of our building products. If we have been able to manage over here we believe we should be able to do better in the coming quarters.

Moderator: Thank you. Our next question is from the line of Hardik Sodha from Cresita Investments. Please go ahead.

Vijay: I just wanted to understand two things one is basically on the steel side, given the price increase continuing despite that we had a good quarter in terms of the margin compared to the last. So now, with the increase price environment do we be able to sustain this kind of margin or do better than this or it will continue in the same fashion~~.~~? Secondly, coming to the growth side given there is mix reaction in the market from the growth perspective so how you see the season which is like last quarter or this quarter coming up for you in terms of the asbestos sheet~~.~~?

Manish Sanghi: On the steel building side ironically we have seen a small decline in my order book and this decline in order book is actually helping us and the reason for the decline also has been that, people have been taking deliveries and asking us to deliver their buildings quickly. And I have repeatedly said that we are not really exposed to pricing fluctuations if everybody picks up their orders when they have committed to. We have seen that as a trend happening and that is one big reason why we are seeing slightly better performance in steel building. A steady increase does not harm my business, it is the sharp fluctuation up and down which hurts us and if we look at the steel price trend over the last six months we find that there is a small increase from Q1 to Q2 but the prices have been relatively steady. We believe that this will be the pattern unless and until the rupee depreciates further because ~~there is~~ alot of steel ~~people~~ manufacturers actually try to benchmark their price to global prices. And as the rupee depreciates they keep increasing the prices. So that factor obviously is not in our hands, but the good part for us is, people taking deliveries quickly and I not having a ~~bloatage~~ bloated order book so that I am exposed to a lot of fluctuation in same prices. The second part which is related to building products. It has been an experience of ours over past quite a few years that an election ~~here~~ is generally a good year for rural products particularly. A lot of investment, a lot of concession, ~~subsidiaries~~subsidies, lot of work gets done over there and that generally ~~occurs~~ augurs well for building products. Number two, we do different EBIT on the monsoon and except for a few places the monsoon has generally been very good. Number three, is the steel price increase which hurts me to some extent or which affects me steel buildings, it helps me in the case of building products. Under the GST regime one the anomaly which existed between steel products and our roofing got removed. So, from a tax stand point we are treated at par with steel roofing. And steel roofing has been increasing in price steadily while our raw material prices have been steady except for the impact on account of the FOREX. So, we are very placed as of now to continue the growth trend which we have been witnessing so far. So, the industry has grown we have done a little better than the industry. ~~our~~ Our market shares ~~have~~ has gone up ~~but~~ and we expect this trend of both the industry and Everest continuing to do well in the next few quarters for sure.

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Vijay: Last time during some of our analyst meet that you said few government companies who were not taking the product are now enquiring and you are in a process of getting approval from the government for the usage of this product is that happening?

Manish Sanghi: ~~The government is not, m~~My ~~fail~~ salea to government directly is virtually zero as far as my roofing sales are concerned, although from our total sales it ~~was~~ will not even be 1%. So frankly that does not matter to me at all, but as an industry we find that it stays in bits and pieces the whole lot of government sponsored schemes, people buy our products indirectly that trend continues to be there. I am not sensing any significant change in it over the last one year.

Moderator: Thank you. Our next question is from the line of Anshul Mittal from ~~KIPMS~~Care PMS. Please go ahead.

Anshul Mittal: Sir, I have couple of questions. You said the industry is growing so I just wanted to know the amount at which the industry is growing and your rate at which, how efficiently you are running compared to the industry. And, I would also like to know about the non-asbestos product focus. So, if you are planning to shift your focus towards non-asbestos or changing your product mix in non-asbestos and sir last question is, is there any price hike are you able to pass the pricing hike of depreciating rupee at your product is it with the lag.

Manish Sanghi: ~~If the industry is growing, t~~The industry is growing at ~~the~~ a rate of this year about 11%. And we are growing around 20%. So, but the industry growth numbers I should also add our estimates to us it may be off by a couple of percentage so we believe we are doing better than the industry but the good thing for me is that the industry is growing as well. The second part which you asked is are you able to pass on an increase in the market place. Since the price increase is not specific to Everest, it is on account of rupee depreciating and it is also on account of fuel prices growing, ~~up~~ it is affecting all manufacturers equally. So we believe that the price increase should go through and generally other building products like steel and to some extent cement are also witnessing an increase in prices that creates an ideal scenario for price increases to take place. Having said that I should also mention that typically the pricing for roofing particular declines from Q1 to Q2, that has happened this quarter also but the decrease is not as steep as it normally is from Q1 to Q2. And so, while there is a decrease from Q1 to Q2 some part of it has not declined on account of the increase in cost pressure. The third question regarding the non-asbestos portfolio of Everest. Our non-~~-~~asbestos portfolio roughly accounts for between 45 to 55% depending upon quarter to quarter of~~f~~ the total turnover of the company. So, to that extent we have a fairly robust non-~~-~~asbestos portfolio but I guess I think what you are talking about is primarily in the building product segment. We are fine ~~that~~ because we have had non-~~-~~asbestos roofing products for many-many years. We are fine in that the product has some acceptance in the industry segments particularly in industries where there is a corrosive atmosphere or where there is high ~~sheet~~ scope of humidity. Otherwise most of the industrial applications have moved to metal. But that market is a very-very small market we have not been able to make much headway with non-~~-~~asbestos fiber cement roofing in the retail segment, because there is a big pricing difference between the products – the non- asbestos roofing sheet is between, depending upon the physical location, 50 to 75% costlier. And customers at least as of today are not really seeing any major benefit in making this change. The other part of my non- asbestos portfolio is the fiber cement boards business where we are seeing good growth particularly in the domestic market. And we are also doing a lot of work over there with lot of product additions, lot of new product launches, lot~~s~~ of activities in the market place. So, I hope this answers your question.

Anshul Mittal: Yes, sir thank you so much. And sir you also talked about the market share point, so just wanted to know roughly about market share in building products and steel products if you can share the number steel building.

Manish Sanghi: Steel building is a very difficult one I frankly believe that our market share is between 7-8% but there are no reliable numbers over there, there is no industry association, there are whole lot of unorganized players so this is a difficult number to talk about. On the roofing side our market share is close to anywhere between 16 to 17% and in the case of boards our market share vary from between 20 to 24% that is a range in which it moves.

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

Vikrant Kashyap: My first question pertains to steel buildings. Sir in last call you have mentioned that 30 to 35% of the order book of steel building are of old orders whereas steel prices were factored at competitively lower prices. Does the current order book has any such orders or it is executed~~.~~?

Manish Sanghi: Most of it is executed where the price differential is very high - that kind of order book would not be more than 15-20%.

Vikrant Kashyap: So will it be executed in this quarter, do we see that order book will be zero by end of this year~~.~~?

Manish Sanghi: No the orders which gets delayed unduly often they are very unpredictable the reason that they have been delayed so much is normally on account of that customer ~~is~~ not getting the funds or not getting project approvals or some land issue. So it is very difficult to predict that those orders will go through and we are seeking price increase from them in any case. Most orders which we are having are or current nature now.

Vikrant Kashyap: So in the third quarter we are executing orders from the current pipelines not from the older pipelines am I right?

Manish Sanghi: Primarily if there are, the percentage would be very-very small.

Vikrant Kashyap: Less than 5%?

Manish Sanghi: Less than 10% is let me put it this way I do not have that number with me but I would guess it would be less than 10%.

Vikrant Kashyap: Okay. And you had talked about rising crude oil prices and in last concall you have also mentioned that around $70 per barrel you are very comfortable. But since it is hovering around 73 and if it hovers around current level or goes further how will you manage the impact on the performance of company~~.~~?

Manish Sanghi: I think currently we should look at it more from a $80 per barrel situation. And it is having an impact and that is exactly what we have mentioned in the opening remarks, crude prices are having an impact on our profitability yes you are right.

Vikrant Kashyap: So if it hovers till 80 you are comfortable or you have still some pressure on you.

Manish Sanghi: I get impacted by oil prices essentially on account of freight. I do not use crude oil or petroleum product as a raw material in any of my product lines. So the impact to us is only account of freight price increases. The impact to us on it's overall basis freight contributes something between 12 to 15% of our total cost. We believe that we should be able to pass it on into the market place because it is affecting the entire industry uniformly.

Vikrant Kashyap: Right sir. And my last question on wood~~en~~ panels, you mentioned it has been major volume growth and better. So how much you are factoring for later half of the year.

Manish Sanghi: We are seeing a trend which is very robust, we are seeing a trend and I think I have said it in past, I would say it again that the market is moving towards bigger elements of construction so rather than have one brick and then put cement, sand water on it and then allow it to dry up and then put plasters on it~~.~~, ~~Do~~ do a repeated exercise of this time we are finding that people want work to be done in a quicker manner without ~~the~~ hassles or procuring so many different ingredients which go towards making a wall or a partition or a floor of things like that. We are seeing that trend, although it is still a very early stages, very nascent stages, ~~but~~ we are seeing a general trend towards bigger building elements from the small humble brick which was a traditional method of construction. As long as that trend continues on we would be in business and we would benefit by it. If compared to a brick our ~~elements~~ products are 8 feet by 4 feet so, the speed of construction goes up very significantly the weight of construction comes down very significantly. And we are seeing a trend that structural engineer, architects are factoring these lower weight in designing the building and this should be good for everybody who is into this light weight fast construction method.

Vikrant Kashyap: Right sir. So would you like to put any number any growth number, anything you are ~~faxing~~ factoring in~~.~~?

Manish Sanghi: We are looking at a growth rate of minimum 20 odd percent.

Moderator: Thank you. Our next question is from the line of Ashutosh Garud from Avendus Wealth. Please go ahead.

Ashutosh Garud: In case of the capacity utilization levels you mentioned that quarter the utilization level was 90%.

Manish Sanghi: Yes, about 90% yes.

Ashutosh Garud: So, I just wanted verify this because if you see seasonally this is not the quarter where we ideally would be producing at that same level because last quarter we did a top line of 400~~0~~ Crores plus where I think we mentioned about 85% kind of utilization level so if you can just give me some context of the product and sales maybe.

Manish Sanghi: Typically we shut down plants in this quarter, but if you also look at our balance sheet you will find that the FG inventory has gone up. Compared to the same period last year and that is in anticipation of good demand in the next three quarters, so we have built up inventory and that is why our plants ran to capacity of course better demand and better expectation of demand is what has led to that.

~~**Ashutosh Garud:** Sorry go ahead.~~

Manish Sanghi: So my total inventory in building products on a FG level would be of the order of around 45 odd days, 45 to 50 days depending upon the product. And it depends upon which month I am taking, I am taking the peek month and saying of that one and a half month.

Ashutosh Garud: Okay. So how many days of shutdown you took this quarter?

Manish Sanghi: 0

Ashutosh Garud: Okay. You mentioned you take some shutdown.

Manish Sanghi: Usually we do but this year we didn't.

Ashutosh Garud: Okay. Given the demand and the kind of utilization so what is the maximum full year revenue you can do with your current capacity at the current prices let say~~.~~?

Manish Sanghi: At the current prices, it is very simple, our steel building plants they can do 60,000 tons of sales, 6~~.~~0,000 tons of sales roughly translates into, considering Rs.1 Lakh a ton, around Rs.600 Crores. And our building product sales we a~~c~~t full capacity, and considering a typical mix of value add and non-value add products, we can do around another Rs. 1000 - Rs.1100 Crores. So we can go around Rs. 1700- Rs.1800 Crores.

Ashutosh Garud: And on the tonnage front building products at max you will be at what like 90% you are saying. You cannot go beyond 90% you are saying.

Manish Sanghi: 90% beyond that unless and until you carry out some debottlenecking you normally cannot and I think I have mentioned last time we have taken up some debottlenecking. The result of which will really accrued to us not in this fiscal but next fiscal.

Ashutosh Garud: So should we consider at max you can produce like 7 lakh tons out of the 7 lakh 80 which you have right now for building products.

Manish Sanghi: Yes, I would say that would be about right.

Ashutosh Garud: So this is the maximum you can go with current capacity you are saying.

Manish Sanghi: Yes.

Ashutosh Garud: Okay. And when you give this volume of 16000 tons for the quarter, so this is only building products or this is like combined?

Manish Sanghi: No, 16000 tons is steel buildings only.

Ashutosh Garud: Okay. So what would be for building products.

Nikhil Dujari: 1,54,000 tons.

Ashutosh Garud: 1,54,000 tons in this quarter. And what was this Y-o-Y last year same quarter.

Nikhil Dujari: 1,28,000 tons.

~~**Ashutosh Garud:** This is CS right?~~

~~**Nikhil Dujari:** That is right.~~

Ashutosh Garud: And what would be the production growth. What would be these similar numbers for production Y-o-Y~~.~~?

Nikhil Dujari: We have seen about 7% production growth between the current year and the last year so last year we had about 60,000 tons in production each month, so 1,50,000 tons is our production this year, last year it was about 1,20,000 tons.

Ashutosh Garud: Okay. And this debottlenecking will add what kind of capacity to your existing capacity~~.~~?

Manish Sanghi: It goes plant by plant, line by line I think concall may not be the appropriate time. This is a longer discussion.

Moderator: Thank you. Our next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

Pratim Roy: Just want to address two to three questions, first one is that you have mentioned in the presentation that working capital loan may decrease due to the better internal funding so if you can please throw some light on this statement means what actually we are trying to do so.

Nikhil Dujari: In the last year we did earn some money which we have partly distributed to the owners and partly we have ploughed it back into the business and whatever we have ploughed back into the business is internally funded rather than funded out of debts from bankers. So vis-à-vis the last year if you look at our fund positioning so the balance sheet position have you seen 31st March, 2018 versus today.

Pratim Roy: Yes, sir.

Nikhil Dujari: So that is exactly what we are referring to in the borrowing.

Pratim Roy: Borrowings have come down significantly right.

Nikhil Dujari: That is right, that is exactly what we are referring to.

Pratim Roy: Okay. And one more thing sir, you have mentioned the growth volume growth for building products and steel building segment like PEB but if you can just give me the volume figure for the board and panel business specifically for this quarter, will be better.

Nikhil Dujari: We see the segments as buildings products and steel buildings and we continue to see that in the past I think we have not broken it down by the product but at the end of the day there tends to be no end to it there could be various SKUs within that and we run into more than about 100 SKUs so it is impossible to kind of get down into that minute detail.

Pratim Roy: Okay. And last question sir, just give me the different price trend for pulp because for board business pulp is an important raw material so what is the last six month or one year pricing for this if you can give data on that.

Nikhil Dujari: There are various categories of pulp that we use, there have been trends on that and globally the imported pulp that we use has seen a growing trend while the other categories of pulp are more or less stable.

Manish Sanghi: So it has grown very significantly the prices have gone up very significantly if I take a last two year trend it has gone up by close to 50%.

Pratim Roy: Okay, 50% growth in last two year in pulp price.

Manish Sanghi: Yes.

Moderator: Thank you. Our next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, I have attended many calls where the ~~company~~ companies ~~is~~ are operating in rural India and some of the companies have mentioned that if you exclude Kerala the monsoon has not been that great and area under cultivation is down and agri prices for many crops are below MSVs. And they are painting slightly negative picture on the agri income so I was just wondering what your comments would be for the upcoming seasons the Rabi season and subsequently and how do you see demand panning out in your rural areas. Also sir in the rural products I was also wondering your products go into housing, what is the average ticket size of such houses whoever is buying from you what is the average ticket size. Sir the discussion about the cost and inventory I was just wondering sir, I have the breakup of inventory in terms of finish products and raw materials for Q4 which is from the annual report but does the composition change significantly through the year specially after Q1 and Q3 if you can tie that up with your statement about steel prices and spike in raw materials how spike in raw material could be more detrimental to you if the off take is low or not fast enough. So, can you also tie that up with the amount of time you take to fulfill orders. ~~How does that tie up.~~

~~**Manish Sanghi:** Can we just address it one by one because.~~

~~**Nikhil Dujari:** We lost the track a little bit.~~

~~**Agastya Dave:** The first question was rural demand how do you expect it to pan out.~~

Manish Sanghi: It is an interesting input which you have given because I am actually not experiencing it.

Agastya Dave: So it's an interesting input that I got from Rallis, so the agri guys are saying this, the non agri guys are saying that for example, appliances sales demand is very good you guys are saying that you are seeing good demand, I am just trying to tie up both the sides. ~~So,~~ I am pretty sure non-agri rural economy is doing very well. So, I just want a confirmation from your side what you have seen on the demand side from your customers.

Manish Sanghi: We are seeing robust demand and we are seeing robust demand virtually all across the country. It is not limited to a specific geography but, the fact is can be also that people have to finally make a building and they are finding our product line to be a better value for money than others maybe that is what is the driving reason. So, I will be able to comment on a macro level trend of rural demand but we are seeing a robust demand. We are not seeing any downturn as of now, I hope it does not hit me with the lag or something we are not so far the answer is no. The second question was on the..?

Agastya Dave: Rural end user ticket size of houses, what kind of housing do we supply to them.

Manish Sanghi: It varies a lot, let me start by saying that our products go into a, while rural is one big segment within that there would be many sub segments so I can go into the main house, I can go into the accessory buildings of the house which means a cow ~~shade~~shed, which means a toilet, which means a tractor garage or a small godown. I also go a lot into poultry and for shop frontages so I call them rural commercial. So, I have rural commercial, I have housing and I have housing accessories. But the typical size which people make and buy a ticket size is normally 300 sq. ft. or 30 meters. For him the cost of our sheet of 30 meters is roughly

Rs.6000. And roofing firms a very small portion of the total spend on the house it is not more than, it is somewhere between depending on the kind of a house it will be between 5 to 10%. So there is lot of variation, you may put a roof but underneath if you put a tile which is Rs.30 a sq. ft. versus a roof which is only Rs.20 a sq. ft. overall cost would go up. So, believe that typically in rural housing we are talking of a house which is a less than a lakh of rupees.

Agastya Dave: Perfect, that is exactly what I was looking for sir. And sir on the inventory sir if you could tell us the raw material, just the raw material inventory fluctuations through the year because the quarters are very seasonal and on that if you can tie up with the statement that you made.

Manish Sanghi: Raw material inventory **is** ~~study~~ steady throughout the year, raw material inventory.

Agastya Dave: So Q4 is a good representation sir for the entire year~~.~~?

Manish Sanghi: I would think any quarter would be a good representation. Since you have numbers of Q4 I would say that won't be a bad one.

Agastya Dave: Okay.

Manish Sanghi: And see inventory typically is highest at the end of Q4 and the lowest at the end of Q1.

Agastya Dave: Sorry which inventory sir.

Manish Sanghi: The ~~FC~~ FG inventory typically highest at the end of Q4 and the lowest at the end of Q1.

Moderator: Thank you. Our next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Just wanted to find out if you can give us some color on the metal proofing which we had launched and so how is that doing.

Manish Sanghi: We had set up a metal ~~road~~ roof forming line at Nasik. We also have it in conjunction whether steel building plants in Ranchi and Roorkee but really we are focusing right now in Western India~~n~~. Our effort is primarily focused towards that, then we will move to North and East. So couple of things which we are seeing is that we are able to price our products at significant premiums to local players. ~~And, but~~ But we are still not at the same pricing level the leader in this business which is Tata. We get significant advantage on account of logistics because we are able to combine the various product lines which we have so we can make deliveries of small notes, faster and better. We are right now operating in a very-very sharply focused market. And in that sharply focused market we have been able to take a market share of close to 20% but it is a very small sharply focused market. Our strategy is that we will not

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spread our~~-~~self~~-~~thing, we will go deeper as deep as possible into the market place rather than opening up many new markets. And seems to be working as of now.

Kaushal Shah: Sure.

Manish Sanghi: But the number is very small so I would like to share the numbers when they become somewhat bigger.

Kaushal Shah: Okay. So in terms of volumes what you are really saying is that it is not significant enough for you~~-~~?~~to.~~

Manish Sanghi: No, right now it is not significant enough to impact the overall business of the company. We hope that one year down the line the situation will be different but right now that is what it is.

Kaushal Shah: Right. And sir we were also undertaking a capital expenditure plan so if you can give us some status on that.

Manish Sanghi: Yes, we are doing some debottlenecking exercises in various plants and some of the purchases, some of the work is ongoing right now but as I said a little earlier we will really see the impact of it in the next fiscal not really too much this fiscal.

Kaushal Shah: Sure. So in terms of capacity sir where we would stand by the end of the year let say by March.

~~**Manish Sanghi:** In terms of capacity we will go to.~~

Nikhil Dujari: We are currently about 7,80,000 on building products which will go up by another about 36,000 tons by end of the year.

Kaushal Shah: Right. And anything in the steel building side.

Nikhil Dujari: Not for the moment.

Moderator: Thank you. Our next question is from the line of Ayush from Equitas Investment. Please go ahead.

Ayush: Most of my questions have been answered so just a couple of questions. So last quarter sir you mentioned that your cellulose fiber prices have gone up, have increased a lot say to a dollar per ton so what is the situation now.

Manish Sanghi: It is at the same level. It has not moved further in the last three months so last three months they have been steady.

Ayush: Okay. And my next question is regarding ~~so this~~ Everest Super what is the momentum and what percentage does it contribute this quarter to your roofing sales.

Manish Sanghi: Everest Super product which was launched ~~to cater to the bucket giving~~ as it provides benefits of moisture resistance, it won't become black and discolor. We used it for two different reason we used it one to enhance the brand image of the company. So, we plus in all our communication all our advertising around Everest Super and while it has increased the sales of Everest Super but it also helped increase the sale of our normal grey product, also helped us increase the premium in the market place. I really do not want to share the specific number of Everest Super. I do not want to do that; suffice~~s~~ to say that we are happy about the product and we continue to be bullish but I won't like to share the specific numbers.

Ayush: Okay. Sir one more thing you mentioned that you are getting into some finish product business in your board segment. So can you just through some more light on it what is that exactly.

Manish Sanghi: We are in the process of launching a product called ~~Hea~~Artewood - this is a preprinted, ~~fasad~~ façade, cladding material with a wood finish, it can be used both outdoors and indoors. We had setup a plant for this with Italian equipment and it will be going into the market place next month. We had displayed the product in some architects exhibition and all but it will start flowing in to the market next month.

Ayush: So how much sales would we expect from this segment.

Nikhil Dujari: Maximum

Manish Sanghi: Maximum, is I would like to replace all my sales with this. It is difficult one overall it if my boards, it will probably form something like 5% of my board sales. The price point will be around 3x.

Ayush: 3x of your normal boards?

Manish Sanghi: Yes.

Ayush: And so one last question would be, so currently we are only doing debottlenecking exercises so if we were to setup a greenfield plant so what is the approximately CAPEX per ton.

Manish Sanghi: Number one we do not make re-board we make Everest boards that is made by some other company. The CAPEX for a new plant is roughly 1.2 Crores per 1000 ton.

Ayush: 1.2 Crores per 1000 ton, this is for the roofing segment right?

Manish Sanghi: No, I am talking of boards you mentioned boards right.

Ayush: Okay, so boards is 1.2 Crores and roofing would be?

Manish Sanghi: Roofing would be around 0.6 to 0.7 Crores.

Ayush: 0.6 to 0.7 Crores per 1000 tons.

Manish Sanghi: Yes.

Moderator: Thank you. Our next question is from the line of Jigar Shah from ICICI Securities. Please go ahead.

Jigar Shah: Sir I wanted to know the breakup between the boards and panels and roofing segment. When you have mentioned that you have grown 20% in terms of volume so how much would be roofing and how much would be boards and panels.

Manish Sanghi: Jigar unfortunately I do not share numbers for boards and roofing separately. I would have to stick to an aggregate number I am not breaking the two.

Jigar Shah: Anything like roofing has grown higher single digit or lower single digit or something like that.

Manish Sanghi: More in boards than roofing.

Jigar Shah: And what is your outlook on the roofing segment if you can throw some highlight on the same.

Manish Sanghi: One is I think, I explained that we are seeing an industry growth of around about 10 to 12%. We believe this is driven by a reduction in GST so that we become at par with the steel industry. So this is a very basic paradigm shift and change, paradigm change which has happened in the market place and we expect this impact to carry on in the foreseeable future. So, the second bit we are also seeing a whole lot of people coming back to fiber cement from steel because of some inherent problems which are faced by steel which are related to corrosion which are related to sound, which are related to heat. So, there is a reverse trend which has started driven by people's experience with these projects and also the increasing price of that particular product. So, I remain generally very bullish about fiber cement roofing sales. Also as I mentioned earlier we have always seen that a pre-election year is good sales always become high during that period.

Jigar Shah: Due to increase in depreciation in rupee and most of our fiber is imported so your pricing must have increased in the roofing segment so what kind of impact you have seen in the roofing margins due to FOREX.

Manish Sanghi: We import the ~~**(Inaudible) 58:29**~~ chrysotile fiber it comes to us from essentially Russia, Kazakhstan and to a small extent from Brazil. The fiber forms the single largest part of our raw material cost it is more than 50% of the raw material cost of the product. The impact on a monthly basis of this increase would be around 2 odd Crores if we do not increase the prices.

Jigar Shah: Have you increased the prices recently?

Manish Sanghi: Yes we have increased the prices, so we do not believe that this increase will really affect our bottom line unless there is some other change which happens and the rupee depreciates further. I think, secondly we will also be taking up the issue with our suppliers to change the pricing~~ because the rupee has also depreciated against with other~~. So that is an effort we are going to make.

Jigar Shah: But are you able to pass on the whole impact or still there is a price hike.

Manish Sanghi: We have been so far been able to pass on some of the impact not the full impact so far.

Jigar Shah: So you will be doing it going ahead also.

Manish Sanghi: We will be attempting to do that in the coming months yes.

Moderator: Thank you. Our next question is from the line of Jay Modi from Emkay Investment Manager. Please go ahead.

Jay Modi: Most of my questions have been answered I just had one question if it would be possible for you to provide geography wise breakup for building products.

Manish Sanghi: In the case of building products the same happens in geographies which are close to the plants. It is never viable in heavy building products to sell across long distance, so I am not answering your question directly but let's understand I have two lines for roofing in South India, I have one line in Western India, one line in Northern India, one line in Central India and two lines in Eastern India. These are more roofing lines, and the ~~series~~ sales are roughly in that proportion. And as far as the boards are concerned we have two board lines in Western India which basically feed West, South and exports. And I have one line in Northern India which feeds North, East and Central India. And I generally assume it to be singular we are not very strong in South India particularly in the board segment. That is a weak area for us so because the distance becomes very far so we are strong in Maharashtra, Gujarat. We are strong in the areas around our plants.

Jay Modi: Okay. And the debottlenecking activity that we have taken, it has been undertaken across plants or there are specific plants that we have done it for.

Manish Sanghi: No it is not that every single plant, but there is activity happening out of the seven roofing lines we have this debottlenecking would be happening at three plants. And then one major project to happen in one line so there will be three plus one that is the plan.

Jay Modi: Okay, got it. And sir have you laid out our CAPEX plan for next fiscal year.

Manish Sanghi: No, we have not from that budget for next fiscal and in case there is anything major I am obliged to inform the make a public declaration announce to stock exchange before I can talk.

Jay Modi: And sir FOREX gain or loss for first half and similar for the previous year.

Nikhil Dujari: FOREX for the first half in the current year has hit us heavily. In the last year dollar to rupee which is the major exposure that we have was more or less stable for the current quarter FOREX has hit us by quantum in ~~access~~ excess of 5 Crores so that gives you a flavor of how would this behaving over the first half. In the last year we had only about 1.25 Cr against this right so you can see the difference.

Moderator: Thank you. Our next question is from the line of Rishabh Chaturvedi from Edelweiss. Please go ahead.

Praveen: This is Praveen this side. Sir price hike in the roofing segment international segment you had taken, and you had plan to take that will cover up the entire FOREX rupee depreciation across Rs.73.4 a dollar.

Manish Sanghi: That is our intent, but it is a dynamic market place, the pricing has to be absorbed by the market place right now it has not absorbed all the changes so far.

Praveen: Last quarter how much of the price hike you had taken?

Manish Sanghi: It ~~is a very~~varies, there is no single price which I have, I have 40 different prices which are there across the country. I am saying, there is no one answer for this question, if you are saying what is the price hike I think I have mentioned that in typically in Q2 my pricing declines from Q1 to Q2 the decline can be as high as 10% at times, this year the decline is lesser than normal so in that way we have absorbed some of the cost increases by reducing the prices not as much as we normally do. Having said that I think we, what we mentioned is that the dollar has moved up from around 66 to 73 so it is around 12% kind of an increase. So, I were to talk of percentage terms we have been able to cover roughly half of it, half of it remains.

Praveen: Okay, great sir. Sir, next question relates to the demand in the rural market. Are you seeing a robust growth out there in the rural segment with now we are in third quarter and the way forward in the fourth quarter so you are seeing the healthy growth is there, or some kind of a pressure due to some external?

Manish Sanghi: No, as of now we are not experiencing any pressure on growth. We think the growth is going to be fairly robust.

Moderator: Thank you. Ladies and gentlemen due to time constrain that was the last question. I now hand the floor back to Mr. Sanghi from Everest Industry.

Manish Sanghi: Thanks and as always thank you all for taking the interest in Everest and your questions are always a source of understanding for us as to what are the key factors driving the market place and often very informative as well. I have repeatedly said we are linked to the India growth story, we believe that the country is doing well. We believe markets in all segments be it in infrastructure or be it rural or be it industrial they are on good track and we should benefit from that. Our focus continuously is on adding more and more interesting products to our portfolio so that we can make the customer happier, make the efforts of the customer lesser and make his job easier. Whether it is in making a house, whether it is making a ~~fasat~~ facade or it is in making a building. We would continue to strive in that direction and I am sure that in the times to come we would be able to meet your expectations as well as our own expectations of growth, customer satisfaction for Everest and hopefully for the country as well. Thank you so much.

Anuj Sonpal: Also to add Manishji so we have not been able to answer a lot of questions so request those participants whose questions were not answered, just get in touch with ourselves Valorem Advisors. You can email us at everest@valoremadivsors.com and we will be happy to get the comments of the management for you for that.

Moderator: Thank you members of the management. Ladies and gentlemen that concludes this conference for today. Thank you for joining us and you may now disconnect your lines.