

Everest Industries Limited
Q2 FY20 Earnings Conference Call
October 25, 2019

Moderator: Ladies and gentlemen, good day. And welcome to the Q2-FY20 Everest Industries Earnings Conference Call. As a reminder, all participant lines will be in a 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 touch tone 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: Thanks, Karuna. Good afternoon, everyone. 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 I would like to thank you all for participating in the company's earnings conference for Q2 FY20.

Before we begin, I would like to mention a short cautionary statement as always. Some of the statements made in today's earnings phone call maybe 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 any undue reliance on these forward looking statements and 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 call. We have with us Mr. Manish Sanghi – Managing Director, and Mr. Nikhil Dujari –Chief Financial Officer. Without much delay, I request Mr. Sanghi to give his opening remarks. Thank you and over to you, sir.

Manish Sanghi: Good day. And thank you, Anuj, for the introduction. We would like to welcome you to the earnings con-call for the first half and the second quarter of the current financial year. This was a strange quarter, and a subdued quarter, to say the least, on account of a variety of factors. But let me let me start out by listing, since this is the single biggest issue with these numbers, of the main issues which were impacting us.

Q2 has always been a weak quarter, on account of the monsoon activity which affects construction in all segments. So we had a bountiful monsoon, which is good news. But this bountiful monsoon extended beyond the normal period, and that is the problem. So, the sales which should have picked up did not pick up to the usual level because of monsoon activity continuing, frankly, till even now, it was raining in Bombay yesterday. And that kind of subdued the demand, but it also subdued activity at our sites, wherein we could not erect buildings because of slushy ground conditions, our cranes couldn't move and erection became a massive challenge.

So, the slowdown is on account of two major factors. One, as I said, the macro factor being the economic slowdown about which we read a lot in the newspapers. And second, as I said, on account of the extended rainfall which affects the construction industry in particular. Our effort in this quarter was that we should sustain our volumes, we should try and increase our market share and ensure that we perform better than the industry at large. We believe very strongly that this slow demand should bounce back, simply because there should be pent up demand which is there. We are not really expecting that this downturn to continue.

The other big factor which happened during the quarter was related to the competitive or the alternate which are available to us. The biggest competing industry to our segment roofing is steel roofing. The quarter also saw a sharp reduction in price of steel, which made the steel very competitive. This resulted in us having to adjust our pricing, and that puts a big strain on the selling cost or the selling price of our product line, particularly in the roofing segment. And while we were able to more or less keep our volumes intact, we could not do so on the price front and which resulted in a big decline in contribution levels in our building products business.

We continue to make efforts to increase the sale of our value added products, particularly our colored business which is moving steadily. We have introduced new variants, now instead of three colors, at least in some parts of the country we now offer six colors. And at the wholesale level they are priced at between Rs. 35 to Rs. 100 differential over normal product line, the margins are significantly superior in these product lines. And we are doing a lot of activities to increase their usages. The adoption rate varies a lot from geography to geography, but interestingly two states at two different ends of the country have been the pioneers for us, Punjab and Tamil Nadu having the highest adoption rates for us.

In Q2-FY20, we delivered roughly 13,400 tons in the steel building segment. We are continuously making efforts to enhance utilization levels, take on larger size orders, and have better contract management across the various sites which we are doing. We are committed to timely handover the projects to customers, with industry benchmark quality in order to create and maintain brand awareness and customer stickiness.

There is a slowdown in more capacity addition happening. And while we are currently executing a large number of orders in the automobile industry, we are doing components, we

are doing vehicles, two-wheeler and four wheeler, we are doing tyres. We do not expect this trend to continue and we are expecting a slowdown in the auto sector new capacity addition. We do not see a slowdown happening in the other parts. So, be it white goods, be it FMCG, be it foods, we believe that the investments in this space will continue to be steady as before.

The process of conversion from the conventional to PEB is now happening almost continuously and there is hardly any projects now where a PEB is at least not considered seriously. There are times in heavy construction where people still go for the conventional way of making buildings, but PEB is at least in contention in most of them.

The logistics sector continues to be robust, continues to grow, with large format warehouses coming up across the country. The clients are very exacting, very rigorous standards since these are let out to MNCs like Amazon and Walmart or Flipkart, and they require extremely tight timelines and extremely high quality.

The order book continues to be around 22,000 metric tons. And while we witnessed some slowdown in this battle because of waterlogged sites, we expect that situation to change in the coming few months.

We have initiated a number of campaigns in the steel building segment on the theme of an integrated buildings solution, wherein we are marketing our steel buildings along with rooftop solar, along with our Rapicon wall panels, so that the customer doesn't have to go to multiple vendors in order to complete their buildings. We are witnessing a very strong interest in these offerings. Because the customer does see a value in one company doing job which otherwise would be done by three, four different vendors.

I believe that going forward our building products would see a robust demand, even in this difficult quarter we were more or less able to maintain our volumes. So, when things return back to normal, it does not rain and we start moving into November, December, the demand should spring back. With the reduction in the corporate income tax, we believe that there would be a fillip to the investment cycle and we should see new projects happening. And that should help us because we continue to be one of the major players whenever there is a talk of new investment being made in the country.

Our initiatives with the new product line in boards are proceeding smoothly. We, had shared last time that we had launched a finished wood product, which we call as Arte Wood. The initial responses you got in terms of sales is extremely encouraging. And we have been able to convert a significant part of our unfinished product and move them up the value chain to finished products. Our effort on our boards business is to continuously upgrade our customers to move to more decorative products, to move to more retail orientation, to move to individuals, rather than only with OEMs or large projects.

I am sure you would have a lot of questions to ask and we would try to answer them to the best of our ability. But for now, I would like to hand you over to Mr. Nikhil Dujari to discuss the financial numbers for the company.

Nikhil Dujari:

As you have already read, on a standalone basis, our operational revenue stood at Rs. 286.3 crores as against Rs. 312.8 crores on a quarter-on-quarter basis in the last year comparison, which is a decrease of roughly about 8%. On a quarterly basis, EBITDA stood at loss of Rs. 1.8 crores as against a gain of Rs. 18.3 Crores in Q2-FY19. On a half yearly basis, operational revenue stood at Rs. 717.8 crores compared to Rs. 729.5 crores in Q2-FY19, which is a year-on-year decrease of 1.6%. And EBITDA stood at Rs. 39.2 crores in H1-FY20 as opposed to Rs. 61 crores in H1-FY19, representing a fall in the margins of about 290 basis points on half year basis.

The company made a PAT of Rs. 18.7 crores in H1-FY20 as compared to Rs. 38 crores in H1-FY19, which is a decline of about 50% versus last year and this is primarily on account of increase in the effective tax rate. On a consolidated performance basis, our operational revenue stood at Rs. 286.2 crores in Q2-FY20 as against Rs. 313.7 crores in Q2-FY19, more or less the same. On a quarterly basis, PAT on a consolidated basis stood at loss of Rs. 6.6 crores in Q2-FY20 as against a gain of 8.1 Crores in Q2-FY19.

On a half yearly basis, operational revenue was Rs. 718.4 crores compared to Rs. 732.6 crores, which is a decrease of 1.9%. And EBITDA stood at Rs. 38.1 crores as compared to Rs. 60.3 crores, representing larger decline. Company made a PAT of Rs. 17.9 crores compared to Rs. 37.4 crores last year, which was primarily because of the decline in tax rate, and due to the loss in the second quarter.

For the building products business, for Q2-FY20, our building products top-line was Rs. 174.5 crores as opposed to Rs. 176.7 crores, which represents a marginal decrease of 1.7%. On an EBITDA level, however, we declined from Rs. 22.5 crores to Rs. 3.1 crores. And volumes for quarter rose from 154,000 metric tons to 155,000 metric tons.

On the steel building segment, our top-line was Rs. 111.8 crores versus Rs. 136.1 crores last year, which is a slight decline due to the factors that were already mentioned by Mr. Sanghi. EBIT has declined from Rs. 5.9 crores to Rs. 3 crores. And volumes for the quarter have degrown from about 15,600 tons to 13,400 tons.

Thank you. With that, we would like to open the floor for questions.

Moderator:

Thank you very much, sir. Ladies and gentlemen, we will now begin our question and answer session. The first question is from the line of Vaibhav Barjatya from HNI Investments. Please go ahead.

Vaibhav Barjatya: Can you let me know in terms of gross margin in steel buildings basically the revenue minus RM cost, has it improved during the quarter or it has not improved?

Manish Sanghi: The gross margin numbers have marginally improved, and they will improve probably a little more in the coming months. Because the steel prices have declined. The impact of the decline has not fully been factored in yet into our numbers, because we were carrying old inventory. Now, as old inventory gets replaced by the new one, we will see that effect. The steel price decline as compared to last quarter was around Rs. 3,700 per ton. And this has been a secular decline which is happening for the last six months in steel pricing. So, while the new order we take would factor in this price, but the old orders which we are carrying in our books, at least some of them would have better margins than before.

Vaibhav Barjatya: Sir, basically the decline in PBIT margins that we are seeing in steel building is primarily because of the operating leverage impact of lower revenue due to construction activities going down.

Manish Sanghi: I would tend to agree with it. And various lot of different sites faced huge problems with our ability to build, in fact, not just the ability to build, we were not even able to dispatch material because there are no place to keep it at site after site, be it Pune, be it in Gujarat, be it in Tirupati, be it in various parts of the country we face this as a major constraint.

Nikhil Dujari: I mean the way the cycle goes is the customer would not pay us and then because he says, in any case, you can't construct it so why should I pay, so he won't pay us so we can't bill it. We assume that this should go away.

Vaibhav Barjatya: Right. And for our building products business, we have seen steep prices impacting the competitiveness. So from a longer term perspective what is happening in last six months in terms of pricing in our building products business is kind of indicator to the fact that independently our product doesn't have a pricing power, because people are ready to shift to steel roofing, given the attractive price. So is my assessment correct or is there something that I am missing on this front?

Manish Sanghi: I mean, I think to put it in such a simple way is probably not easy or not feasible. There are geographies where the cement roofing is predominant and where the conversion is very small, but there are geographies where the usage of steel as roofing is much higher. And we find that the impact in those areas is significantly higher, because the cement roofing or cement sheets are a very small, are a minority over there. But it does have an overall impact for sure. In fact, there are two things which have an impact on us, one is steel pricing, the other is the cement pricing. So an increase in cement price normally results into a reduction in our price, because people think of us as a cement product, so if cement goes down then our prices should go down. Even though technically that's not correct because the large part of our cost is actually in the reinforcement fiber which goes inside. But this is a popular perception.

We don't know where steel is heading. We are told by steel mills that it is not really possible for them to lower prices any further so we are probably talking off the trough, we are talking of the lowest point which they have on. And from here on either it will remain at this level or it will certainly go up. My own thinking is that it will gradually creep up, even if you look at the past trend, this levels of prices have not really been there for a longish period of time.

Vaibhav Barjatya:

Okay. So, this is the last question on the pricing. So first is that, the price reduction that we have seen is specific to our company or generally the industry has seen price reduction? And secondly, whatever is the price reduction, has it happened from the start of the quarter or it has happened from the middle of the quarter? And third and the last point on the price is that, after a price reduction is it we are on par in terms of cost to consumers with respect to a steel roofing or is there still a difference which we have to bridge going ahead?

Manish Sanghi:

Let me answer the last question first. Steel sheeting is still costlier than us, but I think I mentioned it in earlier conferences. Steel is not one single product, unlike cement roofing which is one single product with one profile with one thickness, and so it is fairly standard in terms of its form. Steel varies a lot in terms of thickness, in terms of what is the galvanizing which is done on it. And the third is, whether it is painted or not. So, steel in general, I would say continues to be significantly higher, but the gap between steel and our product has declined.

The second part of the question is regarding our pricing versus the industry pricing. At an average, we believe that Everest sells at the highest price in the market. If we consider our variants which we have, the color variants which we have, that difference is fairly significant. Having said that, there maybe a few geographical locations. As per our data, there are three states in the country, I won't mention them, but there are only three states in the country where our pricing is lower. We are not the highest price, we are number two priced. But other than that we would be the highest price player in the market. In fact, generally the industry would take its pricing cue from us. So, we don't believe that we are in any way lower or anything compared to others in the industry. Have I answered or have I missed one question?

Vaibhav Barjatya:

One question was that, is the price reduction done during the middle of the quarter or it was effective from the start of the quarter?

Manish Sanghi:

So as I said before, Q2 is a quarter of range, and so the pricing goes down, but typically we see a pattern in which the pricing starts improving. But that improvement didn't happen. So I would say that pricing has not really gone down but the pricing which should have gone up hasn't gone up. Normally, I would have expected pricing from July to August to be better and August and September to be better, that has not happened.

Moderator:

Thank you. The next question is from the line of Kunal Sukhwani from Crescita Investments. Please go ahead.

Vijay Sarda: Hi sir. This is Vijay Sarda here. Sir, my question is regarding the overall demand outlook. Basically, what you highlighted is the function of the price differential between steel and cement, but overall over this monsoon do you see next two quarter the demand environment again to come back? And as you are positive sounding while speaking to the steel players that the pricing in the steel has already come to trough. So, do we see some positivity coming ahead or are we sensing some as we speak now, because some crops have already started coming on. So, can we expect some good positivity in next two quarter to come?

Manish Sanghi: So, I always say that monsoon is a double edge sword for us. Monsoon stops my sales in the short-run, but then a lack of monsoon stops my sales in the long run. So a good monsoon and a bountiful monsoon should logically the result into better demand in the coming months. The key is going to be the general economic condition, of course, but also if the steel prices remain at this level, then that's an area of concern for me. As far as roofing business is concerned, I am very happy about it in my other business, in the steel building business. So I am in steel business as well. But over here, I would remain cautiously optimistic is how I would put it. I expect the demand to pick up. As an industry we are currently below last year sales in this quarter. We believe that we should be able to bridge this gap in the coming quarters. I don't think we will be able to grow the industry, but we should come back to last year levels.

Vijay Sarda: Sir my second question, as you rightly said on the steel business, now given the scenario where our entire business in the steel revolves on the pricing, so in last few quarters we got affected as the prices were rising. Now, as the prices are falling we are not seeing the commensurate benefit coming in. So last quarter also when the margins came around 5%, I think the mood was optimistic that a margin of 5% will remain, may not improve so drastically but this level is to be sustained. But again this quarter we have seen the same. So what's the reason there? For a year as a whole, do we see the level of 4%, 5% margin sustaining by the steel of business?

Manish Sanghi: So in the large contracts that we have, we had a price clause wherein any significant change in prices was to be adjusted by the customer.

Vijay Sarda: But sir that you said some contract 50%, 50% are backed in, 50%, 50% are open.

Manish Sanghi: Exactly. So the entire impact won't be coming both ways, it going up or coming down, it will show us that was effort which we had made in the past. Right now, it is probably going to affect us a little adverse, but I think that's the right direction to move to. The second is, as I said that we had inventory so the steel which we are currently buying let's say at around Rs. 73,800 a ton is not fully factored into our costing, because we do an average costing of inventory and we consume it like that. So, as we move forward in the next couple of months we should see that impact. In the Q3 particularly we should see that impact, probably by Q4 or Q1 next year we would be taking, the orders we will be exhibiting will be the one which we have taken at the lower price, so the impact would be gone. So, Q3 and to some extent Q4 is where we should see the impact.

Vijay Sarda: Okay. Sir, just last thing in terms of this working capital, because of the sluggish environment the volume has not got affected but in working capital has that elongated or the receivable period has increased?

Manish Sanghi: So, we have two very distinct business segments, the buildings product segment we virtually deal in cash, except probably for some let's say not more than 5% of our total sales would be on credit, 90% or 95% would be our outstanding days would be minus one day or zero days. So, that has not been affected, we continue to operate on that particular credit level only. On the steel building side, the credit cycle has been affected. The payments are slower and coming in. And more than payments being slowed, as I said, I ended up accumulating a lot of stock because we couldn't dispatch the material to sites. So my working capital in my steel building segment, I had some issue over there. In the building products it was only to the extent of carrying some because of lower than our expected, we were targeting a growth which didn't happen. So I carried stocks to that extent. So some of my working capital remained stocked over there, but otherwise, in the market, in the building products, no impact at all, some impact in steel buildings.

Vijay Sarda : Sir, lastly in terms of building product, keeping aside asbestos segment side, are things on the building product good or they are ahead certainly because of the reinstate?

Manish Sanghi: They are not struggling, but their expected growth is not happening at the rate at which we assume it would. It is still continuing to grow, but at a slightly lesser rate than what we had envisaged. We were thinking that a domestic market should grow at something like 20%, 25%, let me not take specific few months, see August, September rains and all causes slowness and everything, but otherwise this rate instead of being 20% is something of the order of 12% odd.

Moderator: Thank you. The next question is from the line of Anshul Mittal from CARE Portfolio Managers. Please go ahead.

Anshul Mittal: Sir, I actually wanted to ask a question that, see the demand and the results which we have seen two years back, so I just wanted to ask what is the stay on that and was that the peak or do you think that we can achieve that growth again in future in terms of volume and also in terms of margin? So in the steel side also I am asking the question, what is you say on that?

Manish Sanghi: Sir, two years back was a special condition, two years back was a condition where the GST got introduced. And the GST gave us a benefit of something like 8% or 9% in the tax rate. Though we passed on almost all of it into the market, but it made us relatively much more competitive against steel. So, while we didn't keep that incentive, our volumes jumped up because as an industry we became a more competitive industry.

The second part of it is, is there something which is achievable, is there something, the volumes and margins can we revisit them? I think the answer to that is a little nuanced, as far as industry

is concerned. With value added products, the answer is very definitely yes, we cannot just match it, we can surpass it very significantly with a better product line, which we are having and which we are promoting. In fact, all our advertising, all of our promotions, everything centers around color. So, Everest Super Color is what we really sell. And, frankly, our grey sheets, we don't promote them. They sell, but we don't really promote, we really promote only our colored product lines.

I strongly believe that our volumes as well as margins, and I am not talking industry, I am saying Everest. Because even in this downturn, our volumes didn't take a hit. We were able to, while the industry took a hit on volume terms, we were able to sustain because of a much better product range and much higher investment on the Everest brand per say.

Anshul Mittal: That's great. And I also wanted to know that as Brazil has stopped exporting fibers, so has it impacted us in any way?

Manish Sanghi: Come again, I am sorry, I didn't understand you. We never in the exported fiber.

Anshul Mittal: No, Brazil. Brazil was top supplier of chrysotile fibre. So I just wanted to know that has it...

Manish Sanghi: So, as it happened, our purchase from Brazil was very small, as a percentage of our total purchase of fiber, Brazil formed probably something like 5%, 7% of our total numbers. So we have not been affected in terms of availability. We have to wait and watch what will happen because of reduced fiber availability in the market. There are two suppliers in the market now, how will they behave we all will have to wait and watch.

Anshul Mittal: Okay. Thank you, sir. And just last question I wanted to ask, I am not sure that...

Manish Sanghi: I just wanted to say that while there are two suppliers in the market, we are kind of mutually dependent on each other. India forms a very significant part of their sale, I think as a country we are nearly 25% or 30% of their total sales. So, we are very mutually dependent on each other. We depend on them and they depend upon us.

Anshul Mittal: Okay. And sir I am not sure like completely understood that why are building products margins have taken a hit? So, I just wanted to, if you can repeat on that that how much decline have we taken on our pricing front, in the building product segment, if you can explain them.

Manish Sanghi: So, when we say margins being reduced, it happens on account of a price. It happens on account of where we are selling. So it's not so easy for me to say how much price reduction we have taken. There are markets in which the pricing is much higher than others. And it so happened that in the last quarter the sales decline was the highest in areas where our margins were the highest. So it's not a linear relationship is how I would like to put it.

Moderator: Thank you. The next question is from the line of Dhiral Shah from Phillip Capital. Please go ahead.

Dhiral Shah: Sir, I have few questions regarding your building product segment. So in that, what was the growth of Boards and Panels?

Manish Sanghi: I think we have been able to maintain our quantities in Boards and Panels. Typically through in terms of quantities by roughly about 5%.

Dhiral Shah: So there was across the line de-growth, right, maybe even in your roofing sheet as far as boards and panels.

Manish Sanghi: So boards and panels grew by 5% is what I said. And roofing was slightly lower than last year. Overall volume continued to be more or less the same as last year. So there has not been de-growth is what we want to again reemphasize.

Dhiral Shah: Okay. And sir you talked about the raw material price impact. So this fiber and cement prices, so how much it went up during Q2, sir, on a YoY basis?

Manish Sanghi: So typically if I have to look at the cement prices, my cement prices in Q2 per metric ton were somewhere in the region of Rs. 4,680, while in the same period last year these prices were something like Rs. 4,300. So, I would say this was close to about a 10% increase in price. And on fiber there is, one, the price; second, the price increase is also adding on to the exchange rates. So, on an average, last year during the second quarter, when I was dealing with \$1 I was dealing with it at Rs. 64 to Rs. 65, while what we were dealing with this year is between Rs. 68 and Rs. 69.

Dhiral Shah: So due to foreign exchange there has been a rise in fiber, so fiber prices have not gone up but the foreign exchange have impacted the overall pricing?

Manish Sanghi: Fiber prices have gone up and the exchange rates have also gone up, this is having a duo impact on the pricing of fiber is what I am trying to explain.

Dhiral Shah: So how much it has gone up, fiber prices also?

Manish Sanghi: These are contracts that are subject to confidentiality clauses with the suppliers and therefore we will not be able to talk about what percentage, what prices...

Dhiral Shah: Sir, I believe these contracts are revised on an annual basis, right, or maybe during the month of January?

Nikhil Dujari: Typically they are revised on an annual basis, but this year it has not been so, they have been revised in the middle.

Dhiral Shah: Okay. And sir you talked about there has been a price gap between steel product and the cement product, so how much it has been reduced now, and how much it used to be, a normal gap?

Manish Sanghi: Prices have come down on an average of around Rs. 5,000, Rs. 6,000 a ton. As I said that, it is not easy for me to tell you in terms of running meter price. Our price varies between various parts of the country from Rs. 150 to Rs. 190 a meter, it is not the same across the country. And the prices depending upon the thickness would vary between Rs. 150 and Rs. 400 a meter. So it is very difficult for me to give you a like-to-like comparison. But the gap, if I take 0.5 millimeter as one standard colored product, if the earlier gap between that and our sheet was Rs. 225, that gap would now be something like Rs. 190. But it varies a lot between brand to brand, how much galvanizing is there, what is the quality of the paint, because steel comes in many different forms.

Dhiral Shah: And you also talked about there has been an expanding of a national footprint, so how much we have increased our distribution network?

Manish Sanghi: We have been making an effort to increase our footprint, particularly for our boards business in urban areas. So, we are saying that compared to any other product line in our field, we should be the most easily available. We say, the way we measure it when a person moves out of his house or first shop, he should encounter for this material should be an Everest shop. This objective of ours, that's the way we measure it, we have achieved this objective to the extent of something like 60% we were at 50%.

Dhiral Shah: So, out of 6,500 dealer outlets...

Manish Sanghi: 6,500 relate to roofing. So this is true for roofing but I was talking of boards actually.

Dhiral Shah: Okay. So our roofing network is around?

Manish Sanghi: No, our roofing network is 6,500 - 7,000 outlets which we have in the marketplace. I was saying was that the criteria we as a business keep is, if a person sets out from the house, which is the first shop which he encounters. And that number should be ideally 100%, we were at 50%, now we are at 60%.

Dhiral Shah: Okay. Understood. And lastly, my question is regarding your color roofing sheets, so how much it has grown during the quarter?

Manish Sanghi: The growth is very small, the growth as it has grown only to the extent of the grey sheets, so is virtually flat. But it hasn't declined either, despite all this hardship we have been able to maintain the price gap between Rs. 35 to Rs. 100 per meter.

Dhiral Shah: And sir, how much it is contributing to the overall revenue, in percentage terms?

Manish Sanghi: I wouldn't want to share that number, please.

Moderator: Thank you. The next question is from the line of Ranjeet Dey from Cap Stocks. Please go ahead.

Ranjeet Day: Sir, mine is actually two point question. My first question is regarding how much of a total sales does Andhra Pradesh account for?

Manish Sanghi: Okay. I don't know why this particular question, but let me say that Andhra Pradesh is our weakest state.

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

Vikrant Kashyap: Sir, you talked about our stake continues to grow large forward, warehouses coming for us coming from Amazon and likes of Walmart. Sir, how are we getting such kind of orders and does it parts of our order book?

Manish Sanghi: I think we were much stronger in the factory space. And our presence in this large format warehousing was smaller. But we have refocused our efforts in the last three, four months. And we have started getting orders in this particular area. But I would say that, earlier our focus was really on manufacturing plants. And that's what we were doing, our large format was not really much in our portfolio. But in the last, if I see my order book, orders won in the last three months, they would account for something like 40% of the total orders. I am saying only in the last three months, I am not saying on an aggregate basis. But we are starting to focus on it and all the big names in the logistics industry are... we have done some work or the other for them, but we are not consistently getting orders from them. But we have started focusing on it now, and I think our share with them would be much higher in the next six months.

Vikrant Kashyap: Because since it's getting important for us because auto ancillary and auto components or auto industry itself, we also think that it's going down.

Manish Sanghi: Absolutely right, yes.

Vikrant Kashyap: And more and more CAPEX is coming in. Most of our steel building orders are from there only, tires is doing well. So we have to seek our focus and we have to garner orders from there also, because that will keep our momentum going, right?

Manish Sanghi: I fully agree with you that our share of logistics, large format logistics business needs to increase. In the past, our share used to be something like 60:40 where 60% would be manufacturing and 40% logistics. We think that now it should to get reversed. We should probably be having 60% from logistics, that means a 50% increase in the percentage of logistics. That's what we are working towards.

Vikrant Kashyap: Right. One thing sir, you mentioned that there was a 5% growth in boards and panel. Sir, we understand that asbestos sheet got a hit because of lower steel prices, but boards and panels being a new industry, lower market, lower numbers, why it got hit? It had nothing to do with steel prices, if I am right.

Manish Sanghi: No, it has absolutely nothing to do with steel prices.

Vikrant Kashyap: Then why is that there? Because we were growing in terms of 18%, 20% year-on-year, it's a significant decline.

Manish Sanghi: So, our boards and panels business actually sells in India and export sales sometimes. So our exports market have really not kept pace, and pricing in the export markets is not so good. And therefore, for that reason, if you balance the two markets, the blended rate is about 5%. That's one. Second also is the general liquidity situation in the economy, that's also impacting the growth rate of the boards business. And the third is, the extended monsoon where we did actually believe that the construction activity was slower, and for that reason we believe that now it should pick up. And last but not least, consequent to increase in cement prices, etc., we wanted to also increase our prices. And when you take price increases, it does take time for the customers to sometimes adjust.

Vikrant Kashyap: Okay. So in boards we have taken price increase?

Nikhil Dujari: Yes, we did. Actually in the month of both August and September we increased our prices second time per market to settle down.

Nikhil Dujari: Yes, we have. Boards and our panels business together.

Vikrant Kashyap: Okay, right. And my last point, since we have not grown significantly in the first half, given the consequences in the prevailing market conditions, do we expect second half to be better and will you be able to surpass our FY19 numbers? Will we be able to grow and maintain our margins?

Manish Sanghi: I think I cannot speculate the numbers, but that's what our effort is going to be. There are some things in our favor, there are some things not. The investment climate has to return back. We should see more better order book. Our assumption that good monsoon should result into good crops, should result into better buying, logically it should be a right assumption, but we should see it. We are putting in a lot of effort, including actually a whole rebranding etc. and all for our boards business. Plus, launching our new value add products, Arte Wood particularly, we are very, very bullish about Arte Wood. The way it has grown in the last two, three months, we hope to maintain this trajectory then we should be able to do. But I am saying it on best of my knowledge.

Vikrant Kashyap: I understand your point. Sir, can you please give me one thing, what is your contribution from valued added products?

Manish Sanghi: My value added products from something like in the boards business something like 40% of the revenue.

I just took just to correct something, we said boards grew 5%, the actual boards growth rate is more like 8%.

Nikhil Dujari: It was 8% and not 5%, that number was wrongly quoted.

Moderator: Thank you. The next question is from the line of Prabhu Reddy, an individual investor. Please go ahead.

Prabhu Reddy: My question is regarding, who are your major competitors in the building products division?

Manish Sanghi: So in building product segment I have two product lines. One is the roofing product line, the other is boards and panels product line. In the roofing business, my direct competitors are people who do exactly the same kind of roofing as we do are HIL, Ramco, Vishaka and Utkal Asbestos, UAL. There are some others, but these people whom I mentioned will together from something like 75% to 80% of the total market. But in addition to this, our competition also comes from metals. And when we talk metal, the number of players in that is extremely large, the biggest probably is JSW, but apart from that there would be Bhushan, there would be National, there is a brand called Gio, at some point of time there was Essar, I don't know whether they still exist. But there would be n-number of people who would buy galvanized sheets from the market and just roll form them and they would be whole lot of local players. So for example, in east there is Jumbo, Rhino, there's something called Dinah. So there is a very, very large number of players in a metal roofing segment.

As far as the boards business is concerned, the competition comes from similar products which are made by Visaka and Ramco, and there's a company called NCL with a brand called Bison. If I look at adjacent categories, my biggest competition comes from Calcium, MDF and Gypsum Boards.

If I talk about steel building, since you didn't ask for it, but since you wanted to know let me just continue with that. The biggest player in this industry is Kuwaiti company called KP, and along with KP comes Pennar, Zamil, InterArch, Everest, these form the top four, five companies in this industry.

Prabhu Reddy: What is your market share among all your product lines when you compare with the competition?

Manish Sanghi: Our market share varies, but at an average we are between 17% to 18% as far as roofing is concerned. And our market share in the case of our boards and panels business, it is a very difficult one to measure because, as I said, we are very, very small contribution when I compare it with plywood and MDF and all. But if I take products again exactly the same, or market share would be around 25%. And steel building is very heavy, I don't have numbers around it, but I suspect our market shares will be around 6%, 7%

Moderator: Thank you. The next question is from the line of Prakash Patel, an individual investor. Please go ahead.

Prakesh Patel: Sir any update on expansion of steel building or boards and panels capacity?

Manish Sanghi: There is no expansion which is currently planned for steel buildings. If anything, we will just do some tinkering and debottlenecking. But on our boards business, we have recently done modernization of one of our plant in Nasik and we have done an addition in capacity for our panels unit. We would also be doing a modernization of our boards plant in Rourkee. But these are all expansions and modernization. And as far as the greenfield is concerned, as soon as we take a final decision on it, we will communicate to the stock exchange.

Prakesh Patel: And sir in September, when our company did an investor personation, you said that pre-engineering steel building will be growing at 15% for next five years. So, has it visibility doubled in the next five years? And as we are targeting to increase market share in steel building, so can be outpace that in industrial growth for next five years, centralizing?

Manish Sanghi: I believe the industry growth is probably happening to some extent, it may not be 15% but more like 7%, 8%. But there are a large number of new players who have come in and a lot of them they are taking the giant share of the growth, and that is also the reason why the larger companies in this business, companies which I just mentioned in the earlier question have not really shown significant growth.

Prakesh Patel: So, as far as the next five years...

Manish Sanghi: But let me say, as the format is changing, as more demanding customers are coming into the market, particularly when we talk of customers like... so like we do a lot of work with Yokohama Tires from Japan, we do a lot of work with L&T, we do a lot of work with Mahindra, Hero and Britannia, Parle Agro and Godrej and people like that. Their standards are very, very tough, their requirements on not just the product itself, but the methodology, the process where you make it, how you make it, how you put it up are very stringent. And as the industry moves towards better standards, I think it should help organized sector players like Everest.

Prakesh Patel: So, as not industry but for Everest, can we grow like say around 10% to 15% at least for steel building?

Manish Sanghi: Yes, we should.

Prakesh Patel: And so what is, as you say, Arte Wood is growing very well. What is its sales number in this quarter?

Manish Sanghi: No, it has just been launched, it's a very small number. So right now I can't talk of growth rate in percentage terms because, see it is like, first month one, second month four, so it is kind of small right now. But the base is very small, but the value is very high. So that's why we are very excited about it. So right now the numbers are too small for me to be talking about it. But it's a very visible product, and it pitches us into a totally different segment, both in terms of the people who use it, but also in terms of the people who sell it and the people who recommended it. Our board product line has always been a kind of a hidden product, which you never really saw. With a Arte Wood and a few other products which are in the pipeline, we will become a very visible product and probably at some point of time if we can do a zoom call at an investor calls we can actually give you a glimpse of what we are really talking about. And in fact, in our investor presentation, I don't know whether we have Arte Wood, I don't think so.

Prakesh Patel: No sir, in September there was an investor meeting or something like that. At that time the company released the investor presentation. I am talking about that. And sir, previously you have said that regarding Everest Super that you are targeting in next five years, you are targeting to replace all your conventional roofing...

Manish Sanghi: That was the intention and that continues to be the intention. And we are working towards that, we are continuing to work towards that, but the progress is slower, markets are tough to crack, we are not ready to reduce the price gap, we are trying to do it by offering customers more choices, making our products more easily available. So, it's an interesting trend, there are individual shops where the conversion to 100% has happened. So, there are some dealers, but that number right now is very small. But what it tells me is that it is indeed possible and if we make more effort, this goal can be achieved.

Prakesh Patel: And sir, you know, Everest Super has a higher profit margin. Any updates on it?

Manish Sanghi: I won't have specific numbers to share on that right now, but it is a higher margin for sure. I don't have say anything.

Prakesh Patel: Okay, so last question. Sir, during this time have we gained market share in all our segments where we operate in?

Manish Sanghi: We gain market share both in roofing. I don't know about steel building business.

Nikhil Dujari: And boards and panel and roofing, both?

Manish Sanghi: Yes.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Sanghi from Everest Industries for his closing comments. Over to you, sir.

Manish Sanghi: Thanks. As always, your insights and questions makes us aware of what the market expects from us, what further we need to do. And a lot of times there are interesting suggestions which we always look at in detail, discuss them and have adopted them in the past.

I understand that the performance of the company was rooted in this last quarter. But we believe that with the kind of effort which we have been putting into the marketplace, in terms of distribution, in terms of new products, in terms of also relooking at our cost structures, increasing our productivity, modernizing our plants, we should be able to deliver a better performance in the times to come. We believe we are on a strong wicket in terms of our product portfolio, in terms of our execution ability. And our conservative financial management also allows us to look at various options more easily.

I hope that when we talk to you once again in the month of January, we are talking of an improved investment climate, hopefully a better GDP growth rate, and a much better performance not just by Everest but across the industries. Thank you so much for participating and showing your interest in us. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Everest Industries, that concludes this conference calls. Thank you for joining us. And you may now disconnect your lines.