“Everest Industries Limited Q1 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Everest Industries Limited Q1 FY17 Earnings Conference Call. We have with us today on the call Mr. Manish Sanghi – Managing Director, Everest Industries and Mr. Rakesh Gupta – CFO, Everest Industries. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I'll now hand the conference over to Mr. Manish Sanghi. Thank you and over to you sir.

Manish Sanghi: Thanks and good morning friends. I welcome you all to the Earnings Conference Call of Q1 for FY2017. I have with me Mr. Rakesh Gupta – CFO and Stellar Investor Relation, our advisor for investor relation. We have uploaded the investor presentation on our website and I'm sure you have received and have gone through the same.

To start up, I would say I am personally very disappointed with this kind of numbers which have churned out. We have a lower topline. We have a lower bottom line. There is a lot of work which we had done during the quarters and during the last 6 months, which is not getting reflected in the numbers which are there for everybody to see.

The numbers do not reveal the fact that we managed to save a lot of costs, in our raw material. The numbers do not indicate that we made major gains as far as our distribution network is concerned in many parts of the country. The numbers do not talk of the gains which we made in the throughput in the steel building section. The numbers do not indicate that we managed to go outside and develop new vendors for steel. The numbers do not indicate the 9 months of a major project Parivartan Effort which we had put in, which I had also shared with you at the last time around.

I expect that going forward that these efforts, which are more permanent in nature would show through and the numbers will really start reflecting what we have really achieved, what we have really developed over these past few months.

Looking at our building product segment in particular, I was disappointed with the industry growth. We were expecting industry to grow, but the industry actually did not – so while our market share did go up, but as a total the price realizations were not very great. Once again I had shared with you that we expect this market to start showing some signs of growth that hasn't really happened. It continues to be in doldrums. As a result, we continued to lose the export volumes. Because of volumes on the price as well, those downturns continue and do not expect any major improvement in that front as of now. I believe strongly that the good work which we have done around procurement, the good work which we have done around making our manufacturing process better in roofing as well as in steel building will start showing results. Interestingly enough, we recorded the highest production done in a month in the roofing segment during this quarter. We also had high production at least in 1 month as far as steel building is concern. We also have had a major improvement and kind of a rebound as far as order book is concerned in the steel building segment and that should help us improve the situation going forward.

In steel building, one of the things which hit us badly was the MIP, the minimum import price, which was unexpected and it cause a significant increase in steel prices suddenly. We work with fixed price contract. These fixed price contracts were taken at a time when the prices were low and the MIP impacted them. We have used up. We have finished a lot of those projects, but I really will start expecting improvement in steel building segment. From Q3 onwards, Q2, there would be still some pain left.

We're starting to see an increase in IIP numbers. We're starting to see some effect of Make in India. What we're witnessing right now is that the capacities which were idle are slowly getting filled up. We're starting to get calls from people for further capacity additions. I expect this particular process to continue and this should result into steel building becoming better in terms of volume and hopefully in terms of margins as well. We also expect an era of stable steel prices henceforth and that should be good for business.

Once again as I shared with you in the past that we have evolved a new sector as far as steel buildings are concern, so while earlier we were doing factories and warehouses, today we're doing a large number of educational institution offices, exhibition halls, hospitals and mass residences for the army or people like NTPC and bigger infrastructure project. I'm sure you would want to discuss a lot of these in more details and we can do that during the question-answer session. I would now request our CFO, Mr. Rakesh Gupta, to cover the financial performance and then we can get down to the real question-answer session. Thank you so much.

Rakesh Gupta: I will quickly take you through our results, which we have circulated in the presentation that has been made for you. During Q1 FY17, we recorded a revenue of Rs. 354 crores as compared to Rs. 407 crores recorded in the corresponding quarter last year. During the quarter, our sales volumes were around 2.26 lakh tons in the building product segment and 12.5 thousand ton in steel building segment. EBITDA recorded for the quarter is Rs. 25 crores within EBITDA margin of 6.9%. The net profit for the quarter is Rs. 11.8 crores as compared to Rs. 22.9 crores recorded in the corresponding quarter last year. Net profit performance was impacted due to lower sales and increase in raw material cost in steel building segment during the quarter. The drop in Q1 FY17, net profit as compared to corresponding quarter in the last year was also impacted because of an income of Rs. 5.5 crores on income tax refund that we got last year. The return on capital employed on a trailing 12-month basis is 15%. I think this is briefly what I had to share. With your permission, we can take the question now.

Manish Sanghi: Yes, let's do that.

Moderator: We will now begin with a question and answer session. The first question is from the line of Mitesh Jain from Axis Capital. Please go ahead.

Mitesh Jain: Sir, my question is on this like you may be aware that this SOx and NOx, new environmental pollution norms are there, which the industrial enterprise they have to comply with, so for example if you look at cement or some of the other industries, now they have to store all these raw materials under the covered shades. So my question to you is have you witness any inquiries from all these like for example from these cement companies for our steel fabricated business or how you look at this as an opportunity.

Manish Sanghi: It is indeed an opportunity and we have got orders around it for sure. We have done work with ACC. We are doing work with Emami. We're talking to a few other cement companies. Earlier this was not a necessity, now it has. Yes, it is becoming good business for us.

Mitesh Jain: Yeah, I have gone through your presentation. The presentation doesn't talk about this point at all, so I was wondering whether you think it's too small for it to mention or…

Manish Sanghi: No. It's not too small, but it's just as I mentioned, but we have been doing work with them for some time.it wasn't anything new for the quarter.

Moderator: The next question is from the line of Rajesh Kumar Ravi from Centrum Broking, please go ahead.

Rajesh Kumar Ravi: Could you give us a region-wise breakup of demand for the asbestos segment and in terms of similarly cement boards, how was the regional demand versus exports.

Manish Sanghi: Let me talk of the roofing business first. when we're doing in the past 3 months back, we had mentioned that we're witnessing an improvement in demand scenario as far as east and south is concerned. We had said that west and north are lagging behind. That trend continues. During the season, we had relatively good demand from east and south. The north and west regions are continued to lag behind. North, typically the season lasts longer because the rains comes a little later, but the rainfall has been plentiful this year. They have not really been delayed, so the north demand has been lower than why we call normal, so it's the case of west as well. As far as the regional demand is concern, as far as the boards and panels are concern, the domestic market is expecting the boards extremely well. They're really discovering in many ways the true worth of the fiber cement boards and are applying it in many more applications than before, so the market over there is growing and increasing. The exports where the product is well-established, however, this is in a downturn because of the oil impact and also probably for the fact that there are a lot many more players taking part in market over there than before, so we have our Indian competitors who are there and a couple of or at least one local company which is selling products over there. So this had impact on exports, but we expect the Indian market really to continue to do extremely well. So there is a natural growth which would happen and we're going to be doing a lot of activities around it to boost that natural growth and we should see good numbers over there.

Rajesh Kumar Ravi: Boards as a percentage of what would be the revenue contribution in the building products segment and what would be the export component out of that?

Manish Sanghi: My boards revenue is around 45 odd crores. We don't really give out numbers between boards and the export is very small this time. The export is small percentage.

Rajesh Kumar Ravi: As a percentage, it would be how much, 30%, 40%?

Manish Sanghi: It used to be 50%. This time it would be more like 25%.

Rajesh Kumar Ravi: Okay. So from 50% it has come down to 25%, then that is very, you know, impact on the growth would be from this segment sharp decline in exports. In the asbestos, what would be your like – as there has been any pricing pressure sequentially because I understand that June would be a very strong month in terms of sales for the asbestos this time in June because of the good monsoon coming in the month of June.

Manish Sanghi: Interestingly, monsoon is something which we all look forward to and the monsoon helps me in the subsequent year. Right now the monsoon coming on time, frankly it's a bit of a problem because as soon as the rain starts coming in, my sales shutdown. So the monsoon will start yielding dividend to me when the crop comes in and really the crop money comes into the farmer's hand. It could happen around month of November or December. That's when we should start seeing the impact of the good monsoon on this year.

Rajesh Kumar Ravi: Okay. So in terms of pricing, how had this current situation, has there been any change in the asbestos pricing versus exit March, was there any pressure or things have remained the same?

Manish Sanghi: Because the demand has been low, the pricing has remained relatively flat. Typically, we see an increase in the product pricing in the Q1. That has not happened this year. As our realization per ton basis has come down.

Rajesh Kumar Ravi: Okay. Sir, cement prices going up because cement companies have raised prices significantly on a YOY basis, now north, central. Primarily the northern half of the market has seen good price uptake. So has that partly moderated the benefits of the chrysotile fiber coming down?

Manish Sanghi: Yeah, but the chrysotile advantage was significant, so that has flowed into the results, but for it, the results would have been worse than what they are.

Rajesh Kumar Ravi: Right sir. I'm just talking about cement prices because this is also another critical raw material for the roofing segment.

Manish Sanghi: As a percentage, it is still a much smaller percentage than…

Rajesh Kumar Ravi: Okay, the savings from chrysotile fiber, okay. CAPEX that you had, you know, your client for the board capacity in India to be expanded this year, what is the status on them and on the UAE project.

Manish Sanghi: We're not really doing any greenfield project as far as board is concerned. All that we were doing is a major modernization and a small capacity enhancement exercise at our board's plan. The way it was reported in the press was little different, but this was really happened in Q4 of the year.

Rajesh Kumar Ravi: That Nashik plant capacity expanding by 20%.

Manish Sanghi: Yeah, it will be in Q4.

Rajesh Kumar Ravi: By Q4, it will be there. CAPEX outgo for that would be 30 crore, earlier you were guided, so that remains?

Manish Sanghi: It will be around that number.

Rajesh Kumar Ravi: The UAE plant you're saying is currently on hold, right?

Manish Sanghi: Currently on hold, that's right.

Rajesh Kumar Ravi: Okay. So in terms of visibility at least, this year there would be no incremental cash flows for that plant?

Manish Sanghi: There will be no incremental cash outflows.

Rajesh Kumar Ravi: Cash outflows for that plant, okay. Lastly on the PEB segment, how is our order book now and what sort of revenue numbers because we were doing around 120 crore top line every quarter and we were expecting this to grow. So first like with Q1 steel prices, why is the revenue come under pressure, the revenue numbers have come under pressure? Second, in terms of are you facing…

Manish Sanghi: I think revenue has to be seen in conjunction with volumes. If you look at it, my steel building volumes declined by 11%, but my revenue declined by 22%. And that revenue decline is essentially on account of a lower steel price, which we got compared to the same period last year.

Rajesh Kumar Ravi: Okay. At least revenue volume decline is not 11%.

Manish Sanghi: And 11% on account of steel prices being low.

Rajesh Kumar Ravi: No, what I'm saying is this volume decline is lower, right, because this number was restated.

Manish Sanghi: I'm not sure I am understanding it.

Rajesh Kumar Ravi: This volume decline, see this year, we've done around 12.5 thousand tons of sales pre-engineered sales.

Manish Sanghi: And we did 14,000 earlier in the same quarter last year.

Rajesh Kumar Ravi: Because the number we were having is around 12,900, so.

Manish Sanghi: There could be a typo there. I think 12,900 was a typo, which I shared in the last quarter presentation also we were talking about, that have been corrected now.

Rajesh Kumar Ravi: Okay. So now as you look forward in terms of we said there could be some pain also left in Q2, so would that imply again?

Manish Sanghi: Some orders which were taken before the MIP was imposed are still pending with us. We are obliged to supply them at the price as we pre-contracted because we have fixed price contract, but a bulk of that got exhausted during the quarter. And by the third month of Q2, we should be really having a fresh order book which is based on the steel pricing as it exists today.

Rajesh Kumar Ravi: Okay. And current order book position would stand at what level sir? It was around 180 crore in March.

Manish Sanghi: So it will be in the range of 180, 200 crores, but what I'm seeing it depleted our order book in the last 4, 5 months, it depleted it. We have seen it's growing once again. So in between even in these 3 months, in the first month of the year, it went down even further, but we have seen a process in terms of inquiry as well as in terms of conversion from inquiry to others, of an improvement in the order book.

Rajesh Kumar Ravi: Okay. And just lastly in terms of this volatility impacting the margin significantly like what is the lag in terms of order booking when we, we quote the contract and when we concurrently secure the raw materials in the steel, what is the amount of lag in terms of time line which is why the margins get adversely impact.

Manish Sanghi: ideally a contract should get done between 4 to 5 months of being given…

Rajesh Kumar Ravi: Right that this execution.

Manish Sanghi: Yeah, I mean from that time, an order is given, you do various steps, you first design the building, then you manufacture the building, and then you erect the building, so there are the three big steps. You can procure the material only after the building design is complete.

Rajesh Kumar Ravi: But we can secure raw material before that or is that not possible like when…

Manish Sanghi: Yes and no because there are some sizes which are fairly standard, so that you keep in stock, but there would always be some odd size which you will really buy only if there is specific requirement of it. Okay and one of the other efforts which we have been doing is to really cut down, the working capital cut down on inventory. And incidentally during this last 3 months' period, we worked hard. And compare to last year on the working capital front, we're down by close to Rs. 50 crores on account of inventory as well as on debtor. So it's a mix between – so we don't buy steel till the time we require it.

Rajesh Kumar Ravi: I just wonder is there any forward contract sort of arrangement which is possible.

Manish Sanghi: There are no forward contract in steel.

Rajesh Kumar Ravi: Okay, so basically there will be some volatility which always need to be absorbed sometime positively, sometime…

Manish Sanghi: In both ways.

Rajesh Kumar Ravi: Both ways, right, correct.

Manish Sanghi: When steel prices go down…

Rajesh Kumar Ravi: Right sir, last year we had the benefit. Great sir. I'll come back for more questions.

Moderator: The next question is from the line of Dharmendra Grover from SBI Mutual Fund, please go ahead.

Dharmendra Grover: My first question is regarding the steel volumes. I think even in the presentation, it says 12,900 for first quarter last year and not 14,000. Can you please clarify is it 12,900 or is the figure different?

Manish Sanghi: First quarter last year. So the figure is 13.9.

Dharmendra Grover: Secondly, can you please take us through the volumes for this year as to where all the declines have happened if you can give us some more light on that in the building product segment.

Manish Sanghi: In the building product segment, my…

Dharmendra Grover: Building product segment, more geographic segment.

Manish Sanghi: As far as my roofing is concern, I'm more or less at the same volume as last year. As far as my domestic boards is concern, I'm the same as last year once again. It's in the case of exports where the big decline has happened.

Dharmendra Grover: So how much is the decline in exports?

Manish Sanghi: Exports are less than half of last year.

Dharmendra Grover: Okay. Just one observation while – I think if I'm tracking it for last 2, 3 years while the potential exists something or the other happens which actually takes away the sheen from this whole thing. Can you please tell us why there are so many – is it impossible to see all the parts moving in one direction?

Manish Sanghi: I think that's what I started with. I'm personally very disappointed with what is appearing and you're right, at some point of time, all the three businesses move in the same direction, the kind of number which would emerge can be significantly different. There are different sentiments to some extent that is kind of beyond my control. But with a good GDP growth, with more acceptance of this and for a moment if I forget the exports' market because I don't see immediately change happening on that front, but at least on roofing, domestic boards and steel buildings in the coming times I expect that they should move in tandem and we should feel better.

Dharmendra Grover: This year when leaves out the export market and only focus on the domestic, you expect all the three segments to start moving in similar direction.

Manish Sanghi: I expect them to move in similar directions. But as I said I expect that to happen not in Q2, but on Q3.

Dharmendra Grover: I understand. When we speak about and when we go even in the past also, one aspect is the volumes of the three segments moving in one direction and second is the volumes and the margins moving in similar direction. So you expect by third quarter, again will the margins move in a similar direction?

Manish Sanghi: As far as sir, I don't really expect the prices to move now, so the margins really would have to come from better operations and better managements of our supply chain. Because the steel building as well as in roofing, the pricing is unlikely to go up because it's also constraint to some extent by the competing alternates which are there in the marketplace. So the focus right now by us is majorly on operations part of the business as how do we reduce the cost, so the margins go up. There is another particular effort towards margin which we're constantly doing, which is how much quantity of value add can I sell. Even though it's a small number but we introduce a new sub-brand in our roofing products called Super Color and then only one of our five zones. In that one zone, I'm achieving something like 10% of the volumes. I'm getting through that at subvariant today. I in turn doing it across – I in turn introducing more sub-variant, more variant for the products and also spreading it across other zones in the next couple of projects, so that should help me. Same in the case in boards whereas the value-added plants which we do, the heavy duty boards which we do aware the margins are significantly better. As a percentage of revenue, they are going up. And we intend putting in a lot more effort for this purpose and we have made a lot of organizational changes, structural changes in order to make that really happy.

Dharmendra Grover: Currently in the building product segment, how much is the value add and where do you think it'll be.

Manish Sanghi: As I said as far as roofing is concern, the value add is only in one zone and only 10% of that particular zone, so the right now the number is very small, but our…

Dharmendra Grover: But how small is it?

Manish Sanghi: I mean you can say indeed enough, more than 2%, 3% of the total sale.

Dharmendra Grover: Okay. Where do you expect it to go?

Manish Sanghi: I would ideally want to see it in the next – if I were to not take a short-term scenario, but if I were to take something like 15-20 months' scenario, I would want it to be between 15% to 20%.

Dharmendra Grover: And in boards, how much would be the value add?

Manish Sanghi: In terms of revenue, the value add products contribute something like 22% of the total worth sale, but it predominantly in the Indian market, it is not so in the exports market.

Dharmendra Grover: In the roofing products when you say value add, what does it mean in terms of margins or in pricing?

Manish Sanghi: Obviously I expect better margins out of it. Yeah.

Dharmendra Grover: No, but what have you expected right now?

Manish Sanghi: It's a chicken and egg. I get better margins when better volumes happen. At lower volume, cost of production is high, so I need volume.

Dharmendra Grover: But in a steady state basis, what…

Manish Sanghi: In a steady state basis, it would increase contribution by at least 25% to 30% over the standard products.

Moderator: The next question is from the line of Aditya Wagle from Aequitas. Please go ahead.

Aditya Wagle: I just like to know what are the cement prices at the moment per bag, what are they going like last quarter, I think I had mentioned around Rs. 285 to Rs. 290 per bag.

Manish Sanghi: Aditya, I'm not having the cement prices in front of me right now and I will handle this question a little later.

Aditya Wagle: Sir last quarter you had also said for steel buildings, you're targeting a 30% volume growth in FY17. Do you still maintain that or…..

Manish Sanghi: What we have done in the first quarter, I don't think a 30% growth number is going to valid. I would have to tone it down significantly.

Aditya Wagle: What do you expect?

Manish Sanghi: Not really think of it beyond 10%.

Aditya Wagle: All right. The Iran market, you said it's opening up and you're looking to explore it.

Manish Sanghi: Yeah, we're doing exploration, yes, but right now it has not resulted into any volumes.

Moderator: The next question is from the line of Jaineel Jhaveri from J&J Holdings. Please go ahead.

Jaineel Jhaveri: My question is in the engineered building segment. There is a competitor of yours which is also listed called Pennar Engineering. Now their margin seemed to be much higher at the EBITDA level than compare to Everest. Is there any particular reason why and do you see them competing on much higher value add kind of stuff whereas Everest is doing much lower value add kind of products?

Manish Sanghi: No. I do not think there is any difference in the kind of projects that we end up doing very similar kind of projects. Their profitability surprises us. We are making an effort to understand where we need to improve too match their numbers.

Jaineel Jhaveri: Okay. Yeah because I mean my understanding was that there should not be too much of a gap. But on one side…

Manish Sanghi: I really can't comment upon them, but I would urge you to look at their balance sheets a little more closely than us. Maybe look at their debtor and look at some of their stuff. Maybe we've been more conservative in the way we account for things than some other people. I don't like really to comment on how they're handling this.

Jaineel Jhaveri: No, thanks so much. I understand, but what I'm trying to get is that is this business, so certain businesses I mean, you can't just have more than a certain amount of margin. From my understanding, is that like you said in your opening comments I think that that competitive forces would come in and we would not be able to raise prices beyond a certain point because then something else would become far more viable.

Manish Sanghi: That's right. Yeah.

Jaineel Jhaveri: Sir my understanding was that like your engineered building cannot have much more margins, so like it would end up being a cost plus kind of a model only where you would get this 10%, 11% if you're very efficient and 7%, 8% if you're decent.

Manish Sanghi: I tend to agree with your analysis. We see it basically as a ROC business rather than a margin business?

Jaineel Jhaveri: Correct. That's what you've always said.

Manish Sanghi: Yeah. We continue to hold that particular thing and even though there're not so many listed companies, but if you look at the results of all the companies in the segment, you can get them to achieve. You would find a similar s.

Jaineel Jhaveri: Right because on one side you're saying that you won't be able to hit even the 30% kind of growth even in volume and you're reducing your target for volumes. On the other side, we have your competitor who is saying that are we able to do much higher growth in EBITDA margins from 14% to 20%. I'm thinking it is very weird that one player is not doing well and the other one is doing extremely well.

Manish Sanghi: I had to say that this particular quarter, we have been affected by the MIP. I can say its one-off. I do not expect this kind of sharp changes in price to happen on a regular basis. A sharp increase in price of this kind is always going to be hurting. That's what had happened. One is that the numbers would improve because as I said we should run out of this kind of orders shortly. And hopefully this is one of and we will not see this kind of Government intervention once again.

Jaineel Jhaveri: Okay, and so everyone in this Industry would have the same problem or no? Or is it just very specific to you guys, this Government intervention?

Manish Sanghi: It is not specific to us, it should be happening with everybody. And to answer that particular question on Cement Pricing, our cement pricing across the various plants varies from Rs. 155 a bag to Rs. 263 a bag and if you wanted it in tons then Rs. 3080-5060 a ton, this is during the period of April, May and June, talking of this particular quarter.

Moderator: Thank you the next question is from the line of Nishna Biyani from Prabhudas Lilladher. Please go ahead.

Nishna Biyani: I just wanted to understand the CAPEX on the UAE plant which in the last quarter highlighted been deferred to FY18, so just wanted to have some highlights on that and is it fair to say that in FY17 you are looking at closer to 20000 tons of exports vis-a-vis 40000 done in FY16?

Manish Sanghi: I am still hoping that by the time the second half of the year comes there would be some improvements, they have been in the recent past oil prices which jumped up a little bit from the lower strata have been gone up. There is also this whole unrest and the government's social spending is going up in many of this markets. So 20,000 would be kind enough for lower estimate I hope I will do better than that. As far as the UAE project is concerned it is on hold. We are only incurring cost for the holding of operation in that market right now. And we are looking at various options and reviewing constantly what further to do in that market.

Nishna Biyani: And what is the current cash outgo there is it still 14 or have we incurred something more there?

Manish Sanghi: It is in the same ballpark.

Nishna Biyani: As of end Q1 what should be the debt on books?

Manish Sanghi: The total borrowing is 200 crores compared in the same quarter '15 we were at 251 crore, now we are 200 crores compared to March end where we were 256 crores, we have roughly reduced around 55 odd crores of debt. I think I was speaking sometime that we have done some work on rationalization of working capital, inventories, debtors and so on. And that's the reason why it must have bought down.

Nishna Biyani: What is the current realization on steel building not average quarter but what should be current ballpark, is it still 76 or it has moved a bit higher?

Manish Sanghi: I really do not look at the realization per ton; I look at my value at per ton. That's the way we measure business. So our target is anyway between Rs. 20,000-25,000 tons should be my value add as far as Steel is concerned. And we considered steel as a pass through. That's the way we evaluate our business because looking at realization per ton doesn't help me. If my buying price is high, then the realization will go up but it doesn't come in to the company.

Nishana Biyani: But, somehow when you look at the trend over the last 3 years, the value-add what you are saying somehow maybe coming off to some extent, so I was just wondering.

Manish Sanghi: The value-add has not changed. What hurt us this time it has obviously because of the MIP, but value add number has not decreased. The value-add number is constant. The only difference is we are starting to do many more different kinds of jobs where the scope is a little different, so probably realization numbers will look a little awry at times. We recently did a job for example Spice Gold, in Bombay where we did the foundation, glass façade cladding, aluminum cladding, and we did the tiling. We did the complete solution. We similarly did a Hospital wherein our scope was much more than this steel building. So, depending upon how many of such projects get done in a particular quarter, the realization number would change. And with more of this kind of projects happening the realization is not really a good measure to measure the performance.

Nishana Biyani: What happen to your other expenses QoQ or YoY? both if you could compare. That is only where you have seen an increased vis-a-vis YoY, rest all the things were well in control in this quarter, I was seeing that raw material and all you know, the benefit which would have ideally kick the bottom line this quarter is not there. So what has really happened to other expenses this quarter? Else everywhere you were in control.

Rakesh Gupta: You are talking about comparative sense which are last year was 64 this year it is 71, last quarter it was 80 crore. You are talking about those numbers. Actually this increased from 64 to 72, the item which are coming under other expenses are which are mostly fixed cost, overhead expenses which are raw material, etc., which are part of production cost go up. And these are far inflation related expenses which only come here and there is nothing which is abnormal in these. There is nothing which is unusual or onetime. If I were to give brief breakup,

Nishana Biyani: Yeah, that would help because when you look at everywhere when the revenue is down, and all other expenses are down I was just wondering that what are such kind of fixed expenses which are recurring in nature.

Manish Sanghi: I will just explain that in the mean while if there is any other question you can ask.

Nishana Biyani: I am looking at this Industry, so normally Q1, Q2 by far are the best quarters. So Q1 is kind of been a washout.

Manish Sanghi: Q2 is not the best quarter, Q1 is normally the worst quarter.

Nishana Biyani: When you see in terms of revenue, see Q1 & Q4 should be the best by far. What you are saying is right.

Rakesh Gupta: Q1 and Q4 are the best.

Nishana Biyani: When you look at the amount of profitability in the last many years Q1 has been almost the best quarter in terms of that. I was just referring in that context. So Q2 will be flattish-to-negative every year that has been the trend for last 4-5 years. So I was just wondering that now the entire year's hope rest on your Q4 quarter. So how are you gearing for that? What are your preparation and have you launched some new products in the boards and panels because I feel that lot of Everest advertising happening and Facebook also I have seen couple of ads. I was just wondering that what are this new launches which you are doing and are they meaningful contribution to the business?

Manish Sanghi: I can't reveal the launches part of it before hand but you will see some activities in the market place going forward when it happens. More than launches our focus is going to be on the application development. Application launches rather than really brand new product launches. That is the focus and there is major efforts which is going to happen, as I said we have made structure changes, personnel changes, a whole lot of changes are being done in boards business in order to really give it life.

Rakesh Gupta: And Nishana you were talking about other expenses, the increase of 6 crores primarily 3 items are there, one is the erection of building, which does not get covered in the upper part, there is an increase of 4.1 crore. There is FOREX fluctuation which is up by 2 crores during the quarter as compare to the last quarter and there has been some provisioning for debtors. These are the 3 items which are there. Erection is actually the direct expense, but by virtue of classification it gets clubbed as other expenses, we don't have too much of liberty in terms of classifying it anywhere else.

Nishana Biyani: So, is it fair to say that the interest cost is kind of coming off from here, looking at working capital requirement going down.

Rakesh Gupta: Interest cost reduction has happened.

Nishana Biyani: And anything on the Tax rate this full year?

Rakesh Gupta: Tax rate is broadly remained the same. In any case if there is the tax shield that's covered under deferred tax asset. So in terms of tax rate it will remain around 31-32% only, total tax.

Moderator: Thank you the next question is from the line of Milin Shah from Kredence. Please go ahead.

Milin Shah: The first question is when I see the presentation I saw a statement which looks a bit contradictory, because when it comes to engineered solution, we are saying that MIP has affected our business. And when it comes to the roofing solutions, we are saying that the MIP has had no impact. So, I am wondering Steel price is there have gone up and have impacted, but here your competitions have not reduced due to the higher steel prices. So why is that?

Manish Sanghi: I was frankly waiting for this question as I talk of an impact and in another segment I say…. The big increase has actually happened in plates where the global prices were significantly lower than the domestic prices. It did not happen in the case of coated products. So roofing is the coated product, so wherein you use either galvalume, PPAs – PPAZ or PPGI, in that case the increase was not really there. But in the case of Plates there was an increase of anywhere between Rs. 6000-8000 a ton.

Milin Shah: Coming to the next question, how much of your business you see an improvement if the monsoons as predicted workout to be normal or better than normal, would not that have good impact on business going forward?

Manish Sanghi: Logically, it should have positive impact, on the business going forward. If I were to be careful I would put a caveat that crop has to be great, crop prices also has to be great. I think that's what we should take for granted but typically our sales start getting impacted unlike some of the Agri inputs. I wouldn't be surprised if Agri input industry like Fertilizers and probably Pesticides and so on they would start showing growth much before the crops come out because they are Agri input. In many ways we are dependent upon Agri output and that's why I expect it to really happen in Q3. Towards December I expect to start seeing some impact of the good monsoon. The monsoon has good virtually all across the country though the newspaper report yesterday talked of deficient rainfall in some few districts on the 25 districts My report generally says it's very good.

Milin Shah: We mention that the strongest competition in the Roofing seems to be coming from the Steel Roofing sort of segment and given that we are already into the Steel engineered segment. Is it an option to start making Steel Roofing because is that the future people are going to shift to Steel anyway as income grows?

Manish Sanghi: We have an industrial Steel Roofing business which get clubbed along with the Steel segment that is already there and wherein we take contract not just to supply but to supply and erection. We design the Roofing system and we also install it. We are toying with the idea of going into Retail with it but it would require a lot of efforts to create a name because you are competing against people who are basic Steel manufacturer so I don't have the same pricing power which they would have. They have the ability to sell it low. I can't, I would buy Steel form them and only roll farm it so the value add in roll farming is relatively small but we are looking at that option and I think I would have something to report the next time we talk about.

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

Rajesh Kumar Ravi: Sir, just one-line item first, this high unallocated expenses that we have booked in this quarter, which is around 8.8 crores vis-à-vis last year it was 1.5 crore and in March it was also 3.3 crore?

Rakesh Gupta: Last year there was income tax refund credit that we received 5.5 crore. 1.5 crore is after netting off that income because expenses are shown as net of income. So if we add that to 7 crore and 8 crore that is the difference actually.

Rajesh Kumar Ravi: So what is the recurring this unallocated expenses 8 crores?

Rakesh Gupta: Will be in operating expenses.

Rajesh Kumar Ravi: March quarterly number we were 3.3 in the other expenses, unallocated expense number?

Rakesh Gupta: Unallocated expense number in the March quarter no netting expense but as a year end there are few adjustments and reversal, etc., that come and get classified of unallocated.

Rajesh Kumar Ravi: So in Steel building what is your number in terms of the EBITDA margin?

Rakesh Gupta: 4 crore loss on 95 crore turnover will be around 4%.

Rajesh Kumar Ravi: Lastly on the business revolution as per se boards and panel is one of the promotion businesses in India. So currently they are around 14-15% of the total top line. So incrementally what are the efforts as an industry participant or an Industry as a whole doing to make this as a more acceptable product and what is the road map forward in terms of increasing our own capacities we are doing so through Brownfield debottlenecking as you said but on a broader three-year perspective if we see what is this growth opportunity in this segment?

Manish Sanghi: If I were to talk on very board term, where does the board come into the picture as far as construction is concerned is when somebody is looking for quick construction, somebody is looking for light construction, and somebody is wanting a more reliable and de-skilled method of construction. Where one is constraint for water and where one is constraint for sand. We have nearly seen this scenario panning out across many parts of the country where water is the big issue. Maharashtra recently while we have cancelled the IPL matches because of the water but you didn't come out and somebody is going to say why are you using the water and making the building, when there are alternative is available which can make the building with much lesser quantum of water. Same with the question with river sand availability of sand first say is declining across the country. Number 3 are very stringiest environment norms, which the Government is imposing on brick making. Brick making is totally unorganized sector which install no pollution control equipment. We consume the most valuable part of the upper layer of the soil in order to make brick. There are lot of restrictions which are coming out of all of these factors, that causes it slow but as and when it happens new buildings practices start becoming more acceptable to people. So we are starting to see this trend in many different parts of the country. What I shared with you, we recently did a job for Artemis Hospital in Gurgaon. Now Artemis Hospital required an extension to be done in their roof with the whole Hospital running full time. It was just not possible to do it with brick and mortar so they had to go for an alternative way of construction and that is where we came in. Over there we came in not nearly with boards but with our entire Steel building solution. So we expect this particular thing to happen more and more and a second bit of it, the interesting one is related to the speed of it. In many ways a broad is a prefabricated building element and you can describe our company in many ways as a company which deals in prefabricated building solutions even roof is a prefabricated roof compared to a concrete roof. Board is a prefabricated building element and we in a hotel I can give him one extra season, in a school I can give him one extra session, in a hospital the payback period in some of the jobs which we did is as low as 6 months. If you were to look at the incremental cost, it is virtually covered in 1 month. So that's the kind of payback which is available. More and more people are beginning to appreciate this particular payback which is available to them and we are in this strong field and in many ways we are unique because I just don't offer a board, I have an ability to run, I have an ability to manufacture, and I have an ability to erect it and really give turnkey solution to the customer. That's the strong point which Everest has which none of the other players in the business have and I expect that this will pay huge dividends in times to come.

Rajesh Kumar Ravi: And my understanding in terms of these boards lastly I want to understand. Can this be a sort of Retail product as we see plywood this being in terms of applicability being more or less similar to Plywood? As Plywood is a retail product and if there is potential to force boards and panels also becoming similar retail product in Tier-II and Tier-III cities?

Manish Sanghi: It definitely has the potential to become Retail product in some extent and many markets it is a retail product though not as planned but answer for that is yes, it will.

Rajesh Kumar Ravi: So that means it has such a detail potential to grow as a retail product, would be incremental focus for you as well as other players also will be to enhance capacities in this segments?

Manish Sanghi: I can't comment upon the other player part of it but we are definitely treating we are definitely treating it like one and as I said we have made structural changes in the way business is being run so that this particular segment can be tackled forward.

Rajesh Kumar Ravi: just lastly we would come in this we have seen debt number coming down so will it lead to significant reduction in your interest cost because we also don't have major CAPEX this year barring this 30 crore for the Nasik plant so our interest outgo this year could be much lower compared to last year?

Manish Sanghi: It will be little lower than the last year on a total debt component of 250 crore has come to 200 crore. It is declined by 20% and there will some reduction in the interest cost line up in the same proportion and better cash flow available.

Moderator: Thank you, we take two last questions. The next question is from the line of Dharmendra Grover from SBI Mutual Fund. Please go ahead.

Dharmendra Grover: Just a follow on question, when you said that the pricing environment in the asbestos sheet business is getting affected and you explained why is it that the MIP has not affected the steel sheet segment but going forward do you expect any kind of an improvement coming from that side? It may not happen till now but going forward do you expect an improvement?

Manish Sanghi: As of now I don't really expect any improvement in the pricing scenario as far as the roofing is concerned. I expect that improvement in margin will really happen either by value-add or by lowering the conversion cost and raw material cost.

Dharmendra Grover: And is there any guesstimate as to what is the market share of steel sheets right now?

Manish Sanghi: In terms of square meter we think the steel segment will probably be something like 65% and (Inaudible) 1.7.7 would be 35% but this is a guesstimate. This would be roughly double the size of….

Moderator: Thank you, we take the last questions. The next question is from the line of Rishabh Bothra from JHB Securities. Please go ahead.

Rishabh Bothra: The revenue was lower on account of lower order to be executed or there was an execution problem which led to the lower revenue?

Manish Snaghi: I think you are asking this question predominantly about steel building?

Rishabh Bothra: I mean overall and in particular steel building.

Manish Sanghi: There is no order book as far as other businesses are concerned we have lesser orders to execute. So no execution issue.

Rishabh Bothra: Secondly sir you mentioned that you have a pass through? Why does our profitability or margins impact despite having a pass through?

Manish Sanghi: Pass through is only the way in the way we measure but my contracts are fixed price contract but because they are short term in nature typically I expect from the time an order is given to handing over of the building a period of worth more than 4-5 months and in fact if I were to make it even shorter by time I take an order and the time I start cutting steel I logically should have a gap of more than one month. So the steel price movement unless it is very sudden in nature should not impact me. That's why I call it a pass through the system. It is in that one month an MIP takes place, I get too.

Rishabh Bothra: My sense is let say I receive an order book of 50 crore let's say for constructing something which is related to steel building product. So I'm aware that my intake of material will be how much I place an immediate order for that particular contract?

Manish Sanghi: No, I don't work that way. I work with what is the production which I fix in a particular month. If I am to do 5000 tons production I would buy 5000 tons of Steel and keeping some buffer stocks, safety stocks as per norms.

Rishabh Bothra: Considering your presentation I understand that factory building, warehouses, guesthouses, township, healthcare, and airports these are the predominantly if you have the customers or clients which we can foresee. So which is the largest, airport would be the largest? How things pan out in terms of your client profile order book?

Manish Sanghi: Client profile as far as steel building is concerned is factories and warehouses by far the biggest two sets of people and right now I would say surely warehouse we are even better the logistics in the steel is doing far better than the basic industrial sector.

Rishabh Bothra: Just as a suggestion if you look at your Page #6 steel building you have given details but if possible can you add the tenure of completion of the that particular projects and the area which is involved in that particular project if possible?

Manish Sanghi: Next time onwards we will add it up for as your suggestion.

Rishabh Bothra: And as a suggestion to give your customer some value-added services but not retaining to your business per se, since we are building solutions company providing solutions for different kind of building materials, can there be a possibility that you advise your clients because you are taking a large size project to bring in solar panels or solar roof because that is the trend currently and that will help them in reducing their electricity burden as well and you can gain something out of it? Can there be a possibility?

Manish Sanghi: Yeah I think it can be. It's a good idea we will pursue it. Just incidentally we ourselves have installed solar projects in two of our plants at Coimbatore and Nashik wherein the usage as per our captive use.

Rishabh Bothra: I mean definitely roof tops are thing currently in trend for solar power but i think sideways buildings also lot buildings are being now made of a glass façade that can also be the potential used as powering your internal consumption.

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

Manish Sangiya: As always I would say thanks a lot for asking these questions. Your questions give us an opportunity of course to interact with you but in many ways it also shows us the way forward, showed us the path of where we should be, what the things we should be focusing on. We are working hard. We are trying a lot many new things and we hope not to disappoint you in times to come and show much better numbers going forward. There are a lot of positive things which are happening. I hope next time around the numbers would reflect the thing. Thank you so much, thanks for attending and look forward to talking to you again in three months' time. Thank you.

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