Everest Industries Limited
Q4 FY'17 Earnings Conference Call
08-May-2017

Moderator: Good day, ladies and gentlemen and welcome to the Q4 FY'17 Earnings Conference Call of Everest Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to you sir.

Anuj Sonpal: Thank you, Margaret. Good morning everybody and a warm welcome to everyone. My name is Anuj Sonpal - CEO of Valorem Advisors. We represent the investor relations for Everest Industries Limited. On behalf of the company and Valorem Advisors, I would like to thank you all for participating in the company's earnings conference call for Q4 and FY'17.

Before we begin, I would like to mention a short cautioning statement. Some of the statements made in today's concall may be forward looking in nature. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ from those anticipated. Such statements are based on management's beliefs as well as assumptions made by and information currently available to management. Audiences are cautioned not to place any undue reliance on these forward looking statements in making any investment decisions. The purpose of today's earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter and year under review.

I would now like to introduce you to the management of Everest Industries Limited participating in today's conference call with us. We have with us Mr. Manish Sanghi - Managing Director and Mr. Nikhil Dujari - Chief Financial officer. Without much ado, I request Mr. Manish Sanghi to give his opening statements. Thank you and over to you sir.

Manish Sanghi: Thanks, Anuj and good morning everyone. We welcome you all to the earnings conference call of Q4 2017. I have with me Mr. Nikhil Dujari – our CFO and of course you heard Anuj at the Valorem Advisors team.

We have circulated the Q4 FY'17 earnings presentation and I hope you have received the same and have gone through it. It is also available on our website.

For Q4 FY'17, our financials are good recovery vis-à-vis the quarter before. In the building product segment and particularly roofing, we increased our market share in a rather turbulent quarter of Q4, our market share improved to 15% plus as compared to 14% last year. The impact of the demonetization appears to be over and the demand has picked up particularly during the month of March versus the previous year and this helped sales return to normal levels. Sales volumes for this quarter were at 174,000 tonnes versus 188,000 metric tonnes last year. However, versus the last quarter, there has been a marked improvement, wherein Q3 the volumes were only 127,000 tonnes. Plant utilization improved due to sustained demand. The company has also undertaken initiatives to improve the working capital management over last year resulting in a decline of total borrowing by INR 58 crores. We maintained no credit policy in building product segment despite pressure from the trade during the post demonetization period. The company has also undertaken a relook at the distribution in view of the ensuing GST initiatives which would help us improve our distribution and logistics. Also, our proactive approach to educate the trader community and to make them proficient in cashless models of transactions post demonetization has paid us rich dividends in terms of increased loyalty. The company has launched Everest Super Color, a premium colored fiber cement roofing sheet with special antifungal and water repellent properties and strategic market with a plan to grow this category across the country in the next financial and times to come.

You know, in exports market, we continue to face headwinds on account of poor economic and political scenario in the middle east. We hope that situation changes and the demand revives soon. Going forward as the Indian economy returns to normalcy post demonetization and a good harvest season will aid in increasing the demand for roofing products. The IMD's forecast for a normal monsoon will also boost the demand from the rural economy and help in improving the realizations for the company. With the increase and time bound focus on the implementation of smart city by the central government, we believe that there is demand for both boards and panels from the urban and semi-urban areas have increased as smarter, safer and superior construction method would be required. We will continue to work towards educating architects, trainers and other influencing communities through different channels for using modern methods of construction.

In the steel building segment, volumes were higher at around 16,000 metric tonnes in this quarter versus 14,000 metric tonnes in the corresponding quarter last year. The company has worked with its customers to introduce risk mitigation clauses for future contracts. This will help the company to maintain its margins. Protectionist measures by the government like the MIP and anti-dumping duty may keep pushing steel prices on higher side going forward. Our expectation is that we will have a relatively stable steel price regime with a slight upward bias. The demand scenario continues to remain healthy. The government plans to develop 200 low cost airports in tier II, III towns across the country and which will help Everest to promote its modern steel building technologies. We have continued with the trend of executing the value-add structures in addition to the conventional steel structure. Our order book on 31st March 2017 stands at 32,000 metric tonnes. As I had said last time, this is the kind of ideal order book that we desire. The company continues to work towards enhancing the utilization levels across all these plants. I am sure you guys will have a lot of questions to ask. But for now, I would hand over to Mr Nikhil Dujari, our CFO to talk about the financials.

Nikhil Dujari: Thank you so much. Good morning friends. Quickly taking you through the financials on a standalone basis. Q4 FY'17, our total revenue was 325 crores compared to 253 crores last quarter and corresponding quarter last year we have 338 crores. EBITDA reported was 30.1 crores against loss of 7.9 crores in the previous quarter and 28.7 crores profit in the last quarter of the last year. So in Q4, we reported a net profit of 14 crores versus a net loss of 14 crores in the last quarter and a net profit of 11.9 crores in the last year same quarter. So for financial year '17, the total income was 1,164.5 crores as compared to 1,326.3 crores for 2016 and EBITDA reported for financial year '17 was 46.3 crores compared to 99.7 crores for '16. So financial year '17, we recorded a net profit of 2.5 crores versus a net profit of 35.3 crores for the financial year '16. On a consolidated basis, our total revenues were 1,177 crores as compared to 1,326 crores last year and our EBITDA was 45.3 crores as opposed to 98.9 crores last year. For financial year '17, we recorded a net profit of 1.2 crores versus a net profit of 34.5 crores in financial year '16. Thank you so much. Over to you.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: My question is regarding the order book that you said which is of 32,000 metric tonnes. Can you just divide the split between the building products and the steel buildings?

Manish Sanghi: This is the order book for steel building only. We really do not have an order book for the building products.

Dhruv Agarwal: Okay and sir last week like you said National Steel Policy coming up, so any positives that you find, you have to share with us regarding that, like what policy does it have for the steel consumer as well as you in particular?

Manish Sanghi: We believe that government is going to push for faster construction and more steel construction. Construction is one of the biggest consumers of steel in India and in case they push for that, it should help us out. That is a broad connect which I see for us. Normally it should also help us with an increase in capacity, the prices should also go down, but I am not so confident of it because the government has also been adopting a protectionist policy towards steel. So I am not sure whether they would allow the prices to go down.

Dhruv Agarwal: For the last few years, we have seen that your EBITDA margins were in the range of 6.3 to 6.7. Now this year, they have almost halved to 3.2%. So going forward for the next year and beyond, do we see your EBITDA margins coming back to normal levels?

Manish Sanghi: We internally are seeing the year '16-'17 is kind of a year which is not really in the line of normal business. There were too many black swan events which happened this year. So it should be back and our effort would actually be to improve the EBITDA levels from the earlier levels as well.

Dhruv Agarwal: Sir just one last question, out of the total raw material expenses what is the percentage of steel that you consumed? Basically what would have been the biggest component of the raw materials in terms of percentage?

Nikhil Dujari: We purchased steel of the order of around 50,000 tonnes and the total value be in somewhere between 225 odd crores. I can send you the specific number separately if you require.

Dhruv Agarwal: Okay because I love to have the breakup of raw materials, so that 50,000 tonnes of steel purchase worth 225 crores, is it?

Nikhil Dujari: Yes.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Sir couple of questions. First is on our asbestos cement business, we being the market leader in the space for really long time. If you compare our profitability with other large players in the segment, they have seen a significant gain from raw material and others expanding the overall profitability and margins. So what has been different for us in the last one year versus not really helped us moved up margins in building products?

Manish Sanghi: So building product is a combination of roofing and the boards and panels business. In the roofing business, we are not really the number one. As I said earlier, the market share is of the order of around 13%. There are two companies which are bigger than us in that segment. We got impacted one, by what everybody got impacted which is the demonetization policy wherein rural demand declined very significantly in many markets. We had also undertaken some projects during the year which we believe will help us in the coming periods and it is already working, helping us increase market share and those who have one time kind of cost which happened during the year. The third bit of it which happened is that, boards and panels business, we are selling quite a bit in exports and we are strong, Everest is the market leader in the Middle East market. And we saw a very sharp decline in volumes and in price in those markets and that affected us adversely and we are making efforts to retrieve the lost ground in those markets and we will not have the one time kind of costs which happened in ’16-’17. So yes, you are right. Our results are below par compared to some of our peers, but we expect the situation to be different. We are already seeing a little different in Q4. I really can’t comment about others, but we will see an improvement in our results going forward.

Viraj Kacharia: And can you quantify this one-time cost and probably the margin drag because of this export weakness in February?

Nikhil Dujari: So, in respect of the exports, there are various things. One is the total quantities; the second is the pricing as well. I would believe that getting into specific details of everything may not be feasible in this call, but realistically the one-time costs that we had were close to about 9 crores and on top of that, we had the reduction in the stock which has had an accounting impact. So these are things that will go off during the years to come.

Viraj Kacharia: Second thing is, you know broadly from a corporate perspective, what is the broader capital allocation policy? And how do we look at different businesses within average, so we have sheet roofing and we have also asbestos cement products and then we have the cement, fiber building products and panels. So basically where do bulk of our focus lie incrementally, how do we look at different businesses?

Manish Sanghi: We look at all products differently. So in terms of focus, frankly the focus is on every product which the company makes. But we see an evolution of different products in a different manner. The roofing is rural in nature. The effort which we are making over there is increasing our geographical penetration. Second, effort which we are making is to transition people to better products than what they are used to now. We believe that the market would respond positively to it. So we did some test marketing in the last quarter and now the Everest Super Color is across four different plants and it is starting to move into the market. We believe it will be a game changer as we move forward which should yield us better revenue and better profitability, both of it. So our effort in roofing is value add products, if the customer really gets an opportunity to get something better which he did not have so far. The second effort is to be as near as close to the customer as possible in areas of our choice. Quite obviously we can’t be doing it at every place. We will do it where it suits us, around our factories and areas which have low freight. The efforts in the boards and panels is a different challenge altogether. Over there, the big issue with us is how do we get people to specify our products. So we are targeting the architect and the interior designer community. We are doing a major program around them and we are doing a major program around teaching the carpenters, the aluminum erectors to understand and learn how to use board, there is a big exercise which is underway around that. The third question is the same, as in roofing but in a different geography, that when we carry out an analysis, we find that more than probably 75% of districts in the country really do not have a fiber cement board's presence. So we have to create a presence there, but it is the first two factors which need to go in first and only then would we be able to appoint dealers and distributors in those markets. So there is a very comprehensive program which is happening in the boards and panels business to increase the size of the market and increase the number of people who can use it. The steel building segments on the other hand, we have been hit by sharp changes in the steel pricing. So our effort is two-fold, one how can we insulate ourselves from sharp changes by building protection clauses in the contract and second one is really related to better project execution and stopping the wastages at both of our factories and sites. So we have implemented to large extent the protection clauses. The effort on better productivity and lower wastages is an ongoing kind of an effort. It's difficult but will show up gradually. I doubt there will be sudden transformation, but there would be a transformation.

Viraj Kacharia: What will be your capacity utilization see in asbestos cement, boards and panels and steel building, roughly?

Manish Sanghi: On the last year as a whole, there was a utilization of the Fiber cement business as close to 80%.

Viraj Kacharia: And asbestos?

Manish Sanghi: No, I am taking of both building products of roofing and boards put together and in the steel building segment, again it is difficult to talk of a demand as such, but it would be around 75%.

Viraj Kacharia: Given the nature of products and other two categories, steel building and cement roofing, we traditionally have some margin volatility in-built and given the kind of, as you highlighted that the scope and potential of cement boards and probably the scope of branding given our leadership position there, would it be right to say that we are focusing more on incrementally bulk of our efforts in terms of the CAPEX investments into the P&L is more towards building products than the other two segments, is that the right way to think about it or?

Manish Sanghi: So one is that, as of now, we are not doing any greenfield rather than the project which is happening in the middle east which is on hold, but as and when the project comes up, we compare the options available at that point of time and which is giving me better NPV is what I would go for.

Viraj Kacharia: Right. So the reason I highlighted is because as you said we have a market leadership position in cement, boards and panels and this is a category where we are seeing a lot of new players entering and expanding and setting up capacity, given the kind of volume we have in that space, are we really looking into the scaling up this space, that could be a potential establishing and further strengthening our own brands in the space, but that is really not the case in other products where traditionally the nature of the product is very commoditized?

Manish Sanghi: We are constantly looking at options in this space.

Viraj Kacharia: So what is your ambition be in this space from medium-term perspective?

Manish Sanghi: I think you are asking primarily about my boards and panels business?

Viraj Kacharia: Right.

Manish Sanghi: If I were to talk in broad terms, countries which are significantly smaller than us, take in Australia, take in Thailand consume boards which is at least 10 times the quantity compared to India and so if you look at per capita, the numbers are histronomical. However the construction practices need to change? The value of steel, the value of light structures need to get established. Till such a thing happens, the transformation would not really takes place and that means educating the decision makers in the government, educating the decision makers in terms of architects, engineers, interior designers, but for me more importantly is having a large pool of people who can use this product in large projects. We are trying to club all these aspects under the large team which is working on it. We expect that by the time we enter Q3, we would start seeing a big differential in the way the business is done.

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

Rajesh Kumar Ravi: Sir, first one housekeeping question, what would be the current maturities of long term debt and second if you could discuss on the overall the industry performance in the asbestos segment for FY'17 and the board segment, that would be great?

Nikhil Dujari: So the long term debt we are talking of currently as of 31st March matures over the period up to 2022. That is to answer the first question because there are many loans within that, so within this call I would prefer not to go loan by loan, but just to add on, I mean, whenever there is a positive cash flow, we have the ability to make a prepayment.

Manish Sanghi: And during the year we actually retired some of the long term debts as well.

Rajesh Kumar Ravi: So basically wanted to know what is the gross debt outstanding at the end of March '17?

Nikhil Dujari: So long term plus short term, plus our limits and everything, my gross debt is 198 crores as at 31st March 2017 as compared to 255 crores as at 31st March 2016 and 300 crores as at 31st March 2015.

Rajesh Kumar Ravi: And second on the asbestos business for the industry per se, FY'17 how was the year and which markets grew and which are the markets where there was, pain is what the industry felt.

Manish Sanghi: The industry de-grew and it went down by something like, 12%-13%. The decline is frankly all over, we actually saw one of the markets which is doing badly was in South market in early part of the year it did well, but I am a little apprehensive about South once again considering that Tamil Nadu is facing one of the worst droughts in the history. So I am a little apprehensive about Tamil Nadu market in particular and Everest is strong in Tamil Nadu. We are the market leaders in Tamil Nadu. So we are a little concerned about that. The markets currently are doing extremely well in the northern part of the country.

Rajesh Kumar Ravi: In FY'17, do you mean doing well in FY'17 or?

Manish Sanghi: I am talking of last few months, I am not talking of FY'17. I am talking of what is happening right now. So markets of UP, Punjab, Haryana, Madhya Pradesh, these are the markets, Bihar, these are the markets which are doing well. Markets in south are lagging behind and east and west are kind of normal right now.

Rajesh Kumar Ravi: But in FY'17 this 12% decline was largely led by which market, sir, north, east, west, south? If you could highlight on that, that would be useful.

Manish Sanghi: The market which declined most were east and west.

Rajesh Kumar Ravi: Okay and north and south would be what? Any positive growth in any of the markets or all markets you saw was a decline?

Manish Sanghi: I am actually not carrying the state-wise market share with me, markets right now. So let me take this question offline and you connect with me I can provide you that.

Rajesh Kumar Ravi: Just you discussed also on the one-off expenses which bloated up the cost items. In FY'17 if I take as the year as a whole now which Q4 you have seen those numbers rationalizing and the profitability looking more of a normal performance. So I missed on those parts. There were some discussion on the 9 crores expenses, so broadly which are the costs which will not be, which are behind us and hence what we issued be a normal profitability.

Manish Sanghi: We had undertaken a major exercise for project Parivartan which was to enhance our sales and profitability. So since it was a big exercise, the cost of it happened in few quarters while the result of it will really be felt over a few years. So this project Parivartan is the one time cost which will not happen hence forth.

Rajesh Kumar Ravi: And what is the amount of that sir?

Manish Sanghi: I think, I may go into another project of a different kind but as of now there is no such plan.

Moderator: Thank you. The next question is from the line of Rishi Jain from IND Capital. Please go ahead.

Rishi Jain: Sir, I just wanted to learn you have just said that there was few particular regions which were showing a decline in the roofing business and one of them is West India. So what are the reasons for downtrend in West India especially Gujarat and Maharashtra when both the states are performing well on a GDP level. Secondly what are the new marketing initiatives you are doing? Whatsoever you said about marketing just now is done by Sahyadri, Visaka everybody, every next try. So what is new we are doing and what kind of ROAs or how you change the strategy I just wanted to learn if you can give us some brief about that?

Manish Sanghi: The West India market saw a much bigger penetration of metal roofing and that is an underlying cause of West not doing so well. We believe and we have done a lot of market research to understand that, that particular trend of people moving to metal is slowing down because inherently the products are not as comfortable as the fiber cement products. So we have to constantly keep working on our category as a whole. Just incidentally during the year, we carried out campaigns as an association to promote our category. We carried out campaigns in Southern Indian and Eastern India. So these were TV campaigns which happened in these markets. We haven't done that in Western India so far but probably we would take it up in the next few months. The second question was how am I different from Tatas and how am I different from others. I respect Tatas and Tatas has done a fantastic good work particularly with respect to these roofing products and if I can just do what they did and copy it, it would be absolutely fabulous. But circumstances and product lines are different. So our focus right now is improving our realizations, improving our margin through value add products, which is Super Color which, is Everest Hi-Tech. We believe in the market we have two unique product lines which my competitors do not have so far. They also benefit, they had a price which is not very attraction for the customer and all our promotional efforts are centered around Everest Super Color. Right now I am having a TV campaign going on in the Eastern part of the country for my product and we believe that it will pay dividend. I really can't share the specific of my marketing strategy, and plan but, I can just reassure that we are working on a few different projects for different geographies and we internally have seen that results and I think when the quarter comes out you will probably notice them as such.

Rishi Jain: And sir can you please share your email ID. I want to send some specific questions to you?

Anuj Sonpal: You can address those questions to us. Or we will contact you after the call please. Domain like this, we can get in touch after the call.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: My question relates to first of all about the fiber prices, in the new contract in the current year how the prices has moved?

Manish Sanghi: So, there are two aspects of the asbestos prices: one is dollar price and then the price of the dollar itself. The price of the dollar has reduced. So all of you are aware how dollar has changed over the last few months and in terms of our purchase price, it is better priced compared to last year. The amount of reduction is not significant as it was there between 2015 and '16 but it is still between '16 and '17 it has reduced some bit.

Sunil Jain: You mean to say the new prices which starts from the current year has come down and plus we are getting some benefits because of that overall?

Manish Sanghi: That is right.

Sunil Jain: And normally how much stock do we carry of the fiber?

Manish Sanghi: Our target is to carry a stock of not more than 45 days.

Sunil Jain: And sir just want to see, how is the demand scenario in the April month for the current year?

Manish Sanghi: I thought the call was about last year, but I will answer that question. April, the demand is strong. The season should be good, is how we see unless something changes during the course of the year. April, I do not have the industry figures, but as far as I know the industry is up by some 5%-7%, but I do not have the collected industry numbers right now.

Moderator: Thank you. We will move to the next question which is from the line of Senthil Kamaraj from Newberry Capital. Please go ahead.

Senthil Kamaraj: Sir, my question is with respect to the GST and its impact on the AC roofing segment and how do you see the unorganized segment there and whether it will impact our sales?

Manish Sanghi: So there is still a lot of lack of clarity on the GST. We still do not know which slab we are going to be slotted in. The scenario will change quite a bit, if we have put in 28% vis-à-vis 18%.

Senthil Kamaraj: How would it change, if it is 28 or 18? I mean, what do you see the impact in either of the cases?

Manish Sanghi: If it is 18%, then I would benefit. My customers will have to pay a lower price and as a category we should be able to expand significantly. Quite obviously all these will not happened in case I'm at 28%.

Senthil Kamaraj: My second follow up question is where do you see asbestos, I mean the threat of any regulation clamp down on using asbestos or anything in India? Do you see any foreseeable threat in near future?

Manish Sanghi: We recently had a conference in Geneva where the issue was whether there should be any restrictions put on the movement of asbestos and the Indian government very strongly opposed this particular resolution and Indian Government opposed it based on solid evidence with them that in the Indian context and particularly in the fiber cement context there is absolutely no harm whatsoever which happens to workers, to users, to transporters or to anybody involved in handling the AC roofing sheets. So we do not expect any regulatory change or pressure as regards to the roofing products.

Moderator: Thank you. The next question is from the line of Yash Agarwal from Crest Capital. Please go ahead.

Yash Agarwal: I want to know what was the sales of boards and panels for the full year in FY'17? Boards and panels in the building product segment?

Manish Sanghi: We normally do not talk about numbers but it is sort of 110,000 tonnes.

Yash Agarwal: I wanted to ask you, what is the outlook generally for this building product segment for the next year, given the good monsoon is predicted, so what sort of growth rate are you projecting?

Manish Sanghi: My own expectation is that the industry itself should grow by at least 10% and we should do better than the industry.

Yash Agarwal: And also finally on the steel building segment, how should we look at your margins basically, what sort of numbers you are targeting or you should build in, given the volatility has subsided substantially at least in domestic steel prices?

Manish Sanghi: So we believe that the volatility which was there on account of government intervention is now factored in and we should be seeing a relatively stable regime of steel prices and as I said earlier I expect a slightly upward bias, though logically that shouldn't be the case the dollar weakening, imports should become easier but the government seems to have taken a call that imports are not really welcome into India, steel import, so that lower cost of steel will probably not bring down the domestic prices. So one, steel price becomes stable. My margins in the business should become stable as well. I see my steel business essentially as a low capital business on which the return is high. I do not really see there is return on revenue, but return on capital employed and our target return on capital employed is in excess of 20% from this business.

Yash Agarwal: And what was the total capital employed in this business?

Manish Sanghi: Our current capital employed is close to 120…

Nikhil Dujari: The fixed asset gross block is about 120 crores.

Yash Agarwal: And what is the volume growth outlook for steel buildings basically for the next year depending on the order book and the opportunity that you see?

Manish Sanghi: I really do not want to give forward looking numbers over here. But we expect to do better than this year.

Yash Agarwal: And finally what is the CAPEX amount for FY'17 and FY'18 also how much would that be, the capital expenditure?

Manish Sanghi: We are not planning to make any new factories in India. We haven't announced any so far. So the CAPEX is going to be limited to carrying out modernization and small initiatives related to value added products and debottlenecking. But at the end of it, I expect that I should be creating a virtual factory by the end of this year. By virtual factory, I mean my capacity should go up on an overall basis by at least 100,000 metric tonnes.

Yash Agarwal: And what would the amount be sir for the factory?

Manish Sanghi: No. It is a virtual factory. Please understand the meaning. I am not talking of a greenfield or a brownfield. I am talking of debottlenecking across all our factories and that resulting into a capacity enhancement of close to 100,000 tonnes.

Moderator: Thank you. The next question from the line of Joshna Pukaria from Envision Capital. Please go ahead.

Joshna Pukaria: Sir, I would like to know what is the share of boards and panel revenue in our total FY'17 numbers?

Nikhil Dujari: 15%.

Joshna Pukaria: Sir, how much there was last year and how are the margins in this business?

Manish Sanghi: So last year was 15.3. The margins on the boards and panels business are significantly better compared to roofing and the steel building.

Nikhil Dujari: This year let me correct, it is about 14.2%.

Joshna Pukaria: Sir, would like to understand when we are saying that we are training people to **use** boards and panels business this would be broadly against plywood business, so what would be the economics of using boards against plywood?

Manish Sanghi: When we talk of boards, it is a replacement for plywood, it is also a replacement for bricks. So it depends upon what usage I am talking of and plywood really comes in many forms. So you have something which is called CPE which is commercial ply, you have BWP which is boiling water proof ply and you have something called marine ply. We are cheaper than BWP and marine ply. It would probably be costlier of it to be a commercial plan.

Joshna Pukaria: Sir what would be the difference against CWP and marine ply?

Manish Sanghi: We would be cheaper by a factor of, compared to BWP by something like 15%-20%.

Joshna Pukaria: Sir, is this including the installation…

Manish Sanghi: Yeah. I am talking of the installed one but that is the key, I think that is what I have been talking repeatedly about. The key is on installation. We need a large base of people who are ready to work with our product and use them as comfortably as they are using plywood and bricks and cement and motar. Otherwise, we keep running into constraints of who can do that job.

Joshna Pukaria: The bigger constraint is understanding of using this product?

Manish Sanghi: Yes, that is right.

Joshna Pukaria: Sir what would be your current capacity for this boards and panel business.

Manish Sanghi: We have three lines for making boards and two lines for making panels and capacity would be in the boards around 150,000 tonnes.

Joshna Pukaria: And sir utilization level?

Manish Sanghi: It will be around 70%-75%.

Joshna Pukaria: So we do not see any capacity expansion in near future.

Manish Sanghi: As of now, we are not going in for a greenfield venture over here. We haven't announced any.

Joshna Pukaria: And just one last. In case if I want to understand the dynamics if I want to put a CAPEX what would be the economics for boards business like how much CAPEX per tonne required and break even?

Manish Sanghi: I think, it is not a simple answer for that particular question. It will depend up on what you want to make? How much you want to make? Boards has lot of variants. The realization levels are very different to it, it is not an answer which I can give you a specific number, but typically you require about a crore for 1000 tonnes per annum. If you want very rough number, that is why I have put it.

Nikhil Dujari: Then we can't actually differential between which is the place we are putting, cost of land, cost of facilities, everything varies.

Joshna Pukaria: And logistics should be a bigger cost in this business?

Manish Sanghi: Yeah. It is a product which costs between Rs. 15,000 – Rs. 20,000 a metric tonne. So logistics have become a significant cost.

Moderator: Thank you. We will move to our next question which is from the line of Falguni Dutta from Jet Age Securities. Please go ahead.

Falguni Dutta: I have just one question on this steel contract. There you mentioned that you have worked out risk mitigation clauses, so does that mean that in case of volatility in steel prices, we would be able to pass through the cost if there is an increase and decline vice versa?

Manish Sanghi: You are right, but the clauses don't come into picture for small volatility, small changes and second, they also come into being normally if the project is extended beyond a certain time. So the way it gets worded varies across project. It is not constant. It depends upon how long is the lead time for a particular project. So for shorter, smaller project jointly it doesn't matter. It is the bigger project where it matters most and that is what we are trying to build.

Falguni Dutta: And sir, bigger project would mean about the duration to be about 6 months or longer?

Manish Sanghi: Yeah, to 9-months. They are projects which go on for 6 to 12 months.

Falguni Dutta: Sir, just one more question on this. So if there is a decline in steel prices and would that mean that our benefit also for such project would come off compared to what we would have got, in the sense we would have to pass on that benefit also likewise?

Manish Sanghi: You are absolutely right. We will have to forego the benefit, but as I said…

Falguni Dutta: I think it would be a better thing than it would even out our margin compared to that volatility which we see of losses and…

Manish Sanghi: Yeah. I think these clauses get triggered only when certain events and some movements take place beyond a certain limit. So, one, as I said, earlier I do not expect steel prices to be very unstable. I expect a relatively more stable steel price regime. So these are more protection clauses I don't really expect them to get triggered.

Falguni Dutta: And just to understand like the kind of mood we saw last year in steel prices, one way move, has this clause been there then we would have been better off. So just to understand in that kind of an extent movement this clause will get triggered in, if whenever we were to have such a fluctuation?

Manish Sanghi: You are right.

Moderator: Thank you. The next question is from the line of Arjun Singhal from Reliance Mutual Fund. Please go ahead.

Arjun Singhal: Sir just wanted to ask you about other expense. This quarter it is substantially reduced compared to same quarter last year and even if in the current year it is the lowest other expense compared to other quarters. So just wanted to understand the reasoning for that?

Nikhil Dujari: So, on the other expenses if you really look at it, there is a mix of what it is and so certain things that come on to other expenses relating to the consumptions etcetera are more related to the production and since our production levels and our sales levels during the year were relatively lower they are getting triggered now. So for example, if I produce less in the last quarter, my maintenance would move forward, right? So those are things that we have triggered at this stage. Additionally, we were to look at the cost of various sales promotion expenses, certain taxes, etc., all these are lower. Simultaneously when we look at the other expenses in relation to our freight etc., we are benefited again. Then we look at the other expense in relation to really the miscellaneous bit, the consultancies etc., have come down because last year we had the one-time cost. So all in all considering the results that we presented in the last couple of quarters, we have taken optimization measures.

Arjun Singhal: Thanks. And secondly sir in your gross margin, it has substantially reduced compared to the same quarter last year. So is it mostly because of steel prices or is there any other reason?

Nikhil Dujari: No. I think it is also directly a function of the quantities that you sell. So when you are selling larger quantities which was the case last year, then our overall gross margins go up.

Arjun Singhal: Okay. Why is that?

Nikhil Dujari: It is directly to do with the cost of production on a larger quantity versus the smaller quantity and the direct cost associated with the…

Arjun Singhal: No, but we are talking only about the gross margin.

Nikhil Dujari: Yes, you are right. So all the conversion cost that we incur are on a gross margin level.

Moderator: Thank you. The next question is from the line of Vinay Ratharia from White Stone Financial. Please go ahead.

Vinay Ratharia: This is in reference to as you said that we had an order book of 32,000 metric tonnes in steel building. So what will be in value terms?

Manish Sanghi: It would vary order to order, but it would be close to because I haven’t converted it, you can typically take it around Rs. 90,000 a tonne. So it will be around 290 odd crores.

Vinay Ratharia: Okay. And timeframe for execution of such orders will be generally?

Manish Sanghi: Typically I should do around between 4000-5000 tonnes a month. So it is a 6 month order book for me.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Sir, would like to know exactly how much percentage of total sales we got export in the current year?

Manish Sanghi: Our exports as I said declined very significantly. And the number was very small. It could be in some low 2.5 odd percent.

Sunil Jain: Of the total sales?

Manish Sanghi: Yeah. It is a small number.

Sunil Jain: And sir any fixed cost which we are incurring on middle east plant annually?

Manish Sanghi: The fixed costs do not happen in the standalone Everest. It happens in the subsidiary which is over there and fixed costs are related to typical security, insurance, some statutory dues and so on.

Sunil Jain: So any major figure or it is a nominal figure?

Manish Sanghi: It is not a major figure so far.

Moderator: Thank you. The next question is a follow up from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just had one clarification. You mentioned to someone on the call before about margins in cement, boards and panels. It is around 14% in FY'17. Is it right?

Nikhil Dujari: No. It was not the margin. It was the sum total of sales as a percentage of total sales.

Viraj Kacharia: When you say revenue, so revenue share is 14.2% versus 15.3 last year?

Nikhil Dujari: Yeah.

Viraj Kacharia: Yes and you also talked about capacity realization being somewhere around 70%-75%. So incrementally if at all we were close to hit the peak utilization, would we be focusing more on debottlenecking. Is there scope for more debottlenecking or we will have to go for a greenfield expansion?

Manish Sanghi: There is scope for debottlenecking always, that is there. But as things stand, we will probably have to look at capacity addition towards the end of this fiscal because it takes time for capacity addition to happen, the new plant to put up takes a minimum of a year. But as I said haven't taken a call. It will also depend upon the final decision whenever we take on our middle east plant.

Viraj Kacharia: Okay. And just lastly for this product category, the Pan India for the industry, what would be the key regions per se, I mean how is the industry split like, it is more West and South, how is it like?

Manish Sanghi: There are no plants for making fiber cement boards in Eastern India and in Central India. The plants of various competitors and ours are based in Southern India, Western India and Northern India. So these markets have developed to some extent, but as I said earlier the penetration of the category itself in market is very low. Our current estimate is that the market is not really more than 60%-65%-70% of the market is not really serviced.

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

Rajesh Kumar Ravi: On the CAPEX front when you mentioned the capacity in the board is now around 150, so this is including the 30,000 process improvement based expansion that you were seeing in the boards?

Manish Sanghi: This is the capacity as of now.

Rajesh Kumar Ravi: Okay. FY'16 it was 120,000 tonnes. So, now it has been enhanced to 150,000 tonnes?

Manish Sanghi: I think, it all depends on how I see it, it is that we probably didn't take into account the panels business into that number. So I was talking of my boards and panels both put together.

Rajesh Kumar Ravi: So actually you are saying there is no change in the capacities over last 1-2 years?

Manish Sanghi: There is no real, major change. We have done some modernization in our Nasik factory as I had said in the earlier call. That capacity addition has happened but that is not a major one. Our focus was more product improvement than capacity improvement. So that has happened. The capacity which we didn't go ahead and do simply because the demand was not very robust. In last year our exports went down and those used to go from nothing.

Rajesh Kumar Ravi: So this plant expansion, the brownfield expansion the increase that you were talking of is not taken off late recently?

Manish Sanghi: No, it is more on quality that on quantity.

Rajesh Kumar Ravi: So next two years, FY'18-'19 what sort of CAPEX number we should build in, in our modeling sir?

Manish Sanghi: A typical boards plant, there is nothing called typical but I still say, typical board plant would probably cost today around Rs. 75 crores.

Rajesh Kumar Ravi: No, for you any CAPEX which is there in pipeline for next 2 years?

Manish Sanghi: We have not declared any CAPEX plans as of now

Rajesh Kumar Ravi: So, it will be normal maintenance CAPEX across all the three divisions?

Manish Sanghi: I can only talk of this year. What will happen next year is difficult to say right now.

Rajesh Kumar Ravi: And lastly on the boards when you talked about revenue share at 15%, you also talked about the volume to be around 110,000 tonnes. So overage relation for boards and panels will be around Rs 13,000-Rs. 14,000 per ton. So if I multiply this the revenue share should be around 20% of your total building product segment. So where am I missing is, my realization, has there been significant erosion in the realization in FY'17?

Manish Sanghi: No, Rajesh. The gap is there because of exports versus the domestic markets. So what you are missing is the export trade.

Rajesh Kumar Ravi: So what you have talked about is the domestic revenue share?

Manish Sanghi: Yeah.

Rajesh Kumar Ravi: And lastly if you could during the call or separately if you could discuss what were the total other expenses, non-recurring expenses which may not flow through, or which may not be recurring in FY'18?

Manish Sanghi: We already said that it was a Rs. 9 crores something that we talked of. So beyond that I think we already said it.

Rajesh Kumar Ravi: The project Parivartan was more than 9 crores, right?

Manish Sanghi: Yes, overall much more, but some of it went in the earlier fiscal.

Rajesh Kumar Ravi: So 9 crores is the total in FY'17 which was one off expenses, which we should not consider for future year?

Manish Sanghi: That is right.

Nikhil Dujari: There may be other projects as the MD said.

Rajesh Kumar Ravi: Yeah, obviously. They will obviously keep on coming through.

Nikhil Dujari: This year there will be GST, there will be various other things.

Rajesh Kumar Ravi: Correct. Agree sir.

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

Manish Sanghi: Thanks. Thanks for taking so much interest in Everest. We know we turned in a below par performance for '16-'17. We have taken a lot of corrective steps both in the market place and in our factories and in our offices to improve and correct the situation. We also believe that there is a very strong investment climate right now in the country. The government is also spending a lot of money in rural India and also to promote industry and we get directly affected by both of them and backed by a good robust rural demand, backed by government's dream of Housing for All, backed by the smart cities which are finally going to start getting built, backed by the Make in India campaign. We believe that Everest is really the India growth story and we should get positively impacted by the macroeconomic factor and as I said earlier, the whole lot of micro factors which are internal to Everest in nature which we have implemented during the last few months and a few more which will get implemented going forward to improve the performance of the company. I hope when we meet next in July, we can talk of how to move forward from here, how to look at future growth of the company. Your comments, your suggestions, your questions always guide me in doing my job better and I hope to retain your interest, hope to retain your involvement with the company in times to come. Thank you so much.

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.