Everest Industries Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Cement & Cement Products	Rs. 287	Buy at CMP and add on declines	Rs. 263-272	Rs. 317-350	2-3 quarters

HDFCSec Scrip Code	EVERESTEQNR
BSE Code	508906
NSE Code	EVERESTIND
Bloomberg	EVI IN
CMP (as on 06 May, 16)	Rs. 287
Equity Capital (Rs crs)	15.4
Face Value (Re)	10.00
Equity Sh Outstanding crs	1.54
Market Cap (Rs crs)	440.8
Book Value (Rs)	226.2
Avg. 52 Week Volumes	28008
52 Week High	Rs. 430.0
52 Week Low	Rs. 192.1

Shareholding Pattern % (March 2016)	
Promoters	48.87
Institutions	15.75
Non Institutions	35.38
Total	100.00

Fundamental Research Analyst:
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Established in 1934, Everest Industries is a leading building solutions provider, offering contemporary products in roofing, ceiling, wall, flooring and cladding. It has developed strong capability and portfolio of Pre-Engineered steel buildings for industrial, commercial and residential applications.

Investment Rationale

- Growth in Indian economy will lead to better housing for 'Bharat' – good monsoon, lower raw material price, Govt. allocation to rural sector augurs well for robust growth ahead
- Increase in capex spending by industrial/commercial/infra sectors would spur demand of Steel building products
- Growth drivers of Boards and Panels – domestic demand robust, to expand capacity by H2FY17
- Capacity Expansion in Steel Building to augur well for the future

Risks and Concerns

- Fluctuating Raw Material prices and foreign exchange rates
- Highly dependent on rural prosperity, which in turn is dependent on agricultural productivity
- Ban/restriction of asbestos products could lead to turmoil across the industry
- Seasonality - there is a slowdown in construction activity in monsoon months, making Q2, and partly Q3, slow quarters

Outlook and view

With increasing thrust on rural development and rural housing, rising income of rural India and reducing gap between fibre cement sheets and alternative products, we believe that the scope for roofing products is very large. We are positive on the company's strategy of establishing itself as a one stop shop building solutions provider. With the right building solutions and products, deeper market penetration and strong customer equity, Everest Industries is positioned to benefit from growing demand.

We think that investors could buy the stock at the CMP and add on declines to Rs.263-272 band (~7.5-7.8x FY18E EPS) for sequential targets of Rs. 317 and Rs. 350 (~9x and 10x FY18E EPS) over 2-3 quarters.

Financial Summary

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Operating Income	886.9	1014.1	1035.3	1230.5	1313.4	1465.4	1714.5
Operating Profit	80.8	97.8	39.8	81.9	83.2	98.6	122.1
Reported Profit After Tax	52.8	52.5	9.1	34.2	35.3	42.4	53.9

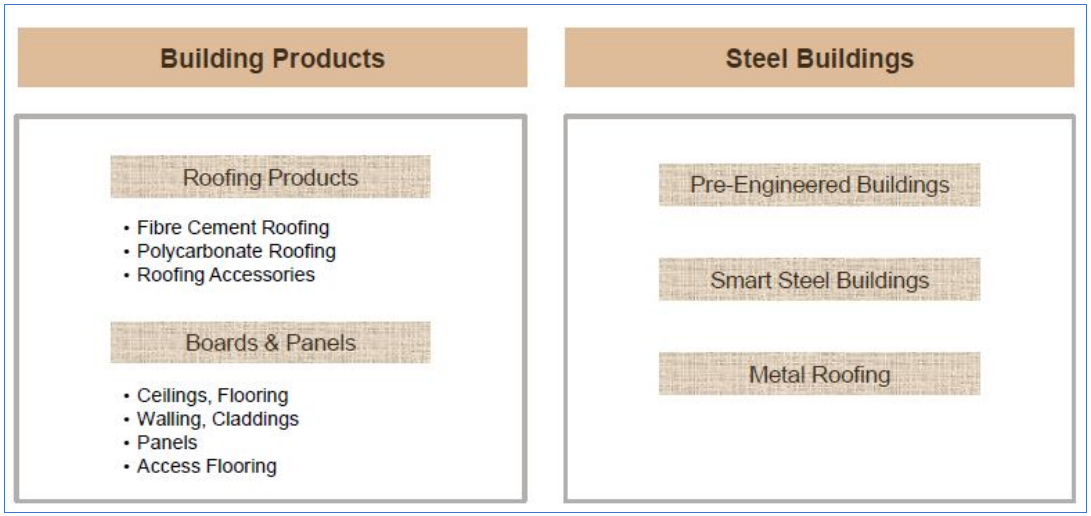
EPS (Rs.)	34.9	34.6	6.0	22.4	23.0	27.6	35.1
P/E (x)	8.2	8.3	47.6	12.8	12.5	10.4	8.2
EV/EBITDA	4.8	5.0	12.0	7.1	6.5	7.3	5.5
RoNW (%)	21.1	18.1	3.1	10.7	10.2	8.6	11.0

(Source: Company, HDFC Sec)

Business Overview

Established in 1934, Everest Industries is a leading building solutions provider, offering contemporary products in roofing, ceiling, wall, flooring and cladding. It has developed strong capability and portfolio of Pre-Engineered steel buildings for industrial, commercial and residential applications. Over the past eight decades, Everest has harnessed significant insights on the evolving construction needs of consumers to develop a diverse range of building products and solutions.

Everest Industries' two distinct business offerings are building products and steel building solutions.



Building products contributes about 63% of revenues (as per FY16). The segment includes fibre cement roofing sheets, fibre cement boards and solid wall panels. Accounting for balance of 37% of revenues (FY16), the steel building segment offers customized building solutions in steel such as pre-engineered steel buildings, smart steel buildings, metal roofing and cladding.

Everest has a widespread national presence and its brand "Everest" is reputed across the country. Its products and solutions are distributed through 40 sales depots and over 6000 dealer outlets to reach more than 600 cities and 100,000 villages. Besides India, its ranges of building products are exported to more than 25 countries.

Manufacturing Facilities

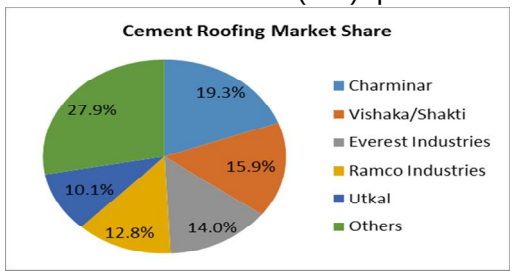
EIL has 6 operational manufacturing plants serving the Building Products division (7 roofing lines – including 1 dual use line, 3 Boards line and 2 Panel lines) located across India with total capacity of 8,65,000 MTPA and three facilities catering to the Steel Building division (2 steel building plants, 1 metal roofing plant) with total capacity of 72,000 MTPA. This includes the recently commissioned Dahej plant with capacity of 30,000 MTPA which will cater to projects in Western, Central and Southern region. Proximity to markets is important in ACS due to bulk and breakage risk.

Business Division	Manufacturing Units	Total Capacity
Building Products	Roorkee (Uttarakhand)	8,65,000 MTPA
	Kolkata (West Bengal)	
	Kymore (Madhya Pradesh)	
	Nashik (Maharashtra)	
	Podanur (Tamil Nadu)	
	Somnathpur (Odisha)	
Steel Buildings	Roorkee (Uttarakhand)	72,000 MTPA
	Dahej (Gujarat)	
	Ranchi (Jharkhand)	

EIL was also looking at setting up a new plant at UAE which would manufacture Boards & Panel. This plant would be of 72,000 MTPA and would mainly cater to the international market demand. However due to the unfavourable situation prevailing in UAE, the company has deferred the execution of the plant by one year at least.

Building product Industry

The building products market size is approximately pegged at Rs 25,000 crore in India. This market includes wood based products, plaster boards, metal roofs, tiles & fibre cement product. Out of this, fibre cement building product comprises about 20% of the market and is growing at a robust pace. It is also capturing market share from other products in the industry. There are 5 major players in the Asbestos Cement Sheets (ACS) space who command 70% market share.



Source: Company PPT of April 2015

There lies a strong demand of roofing in rural India wherein out of 21 crore houses in rural area, ~54% are Kuchha houses. This huge housing deficit in rural India (lack of Pucca houses) offers tremendous opportunity of sustained growth of new age construction practices as well as building products. Also consistent growth in rural income leads to aspiration of a better quality living standard. The Government is also very keen on rural development through its various schemes like Indira Aavas Yojna, Bharat Nirman Yojana, NREGS, Rajiv Aavas Yojana and improved access to credit through Golden Jubilee Rural Housing Finance Scheme. The urban development and housing minister has set the target of providing pucca housing to all by 2022. The shortage housing is nearly 18.78 million as per estimates of 2012 and 95% of the shortage is in low-income category.

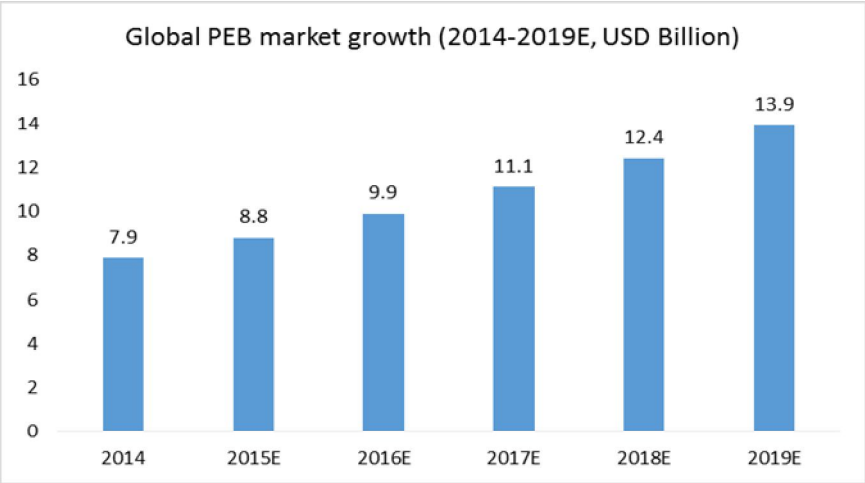
Also increase in urbanization, increasing use in infrastructure projects, housing & commercial buildings would drive growth in Boards & Panels.

The ACS industry in India is over 80 years old and there are about 20 manufacturers. The industry is fairly consolidated with top-3/top-5 producers accounting for 52%/70% of total sales volume. HIL and Everest are the only two players to have capacities spread across all regions in India. Due to a slowdown in the demand environment over last 2-3 years, there has not being much of capacity additions. Also in the near term we do not gauge any capacity addition which would mean that the existing players would have good opportunity to grab market share, if the demand for roofing is robust.

Steel Building Industry

Steel buildings are fast emerging as an effective alternate to traditional brick and mortar ones in India. Offering advantages like speed and cost of construction, robustness and energy efficiency, it is the preferred method for industrial construction. Popular as Pre-Engineered Buildings (PEBs), it has widespread presence across North America and European countries. Compared to conventional construction, PEBs save construction time by 30-50%, are 100% customizable, highly flexible, durable and weather proof.

Global PEB market in 2014 was estimated at US$ 7.9 bn. USA is the largest PEB market in world with market size of roughly US$ 2.3 billion followed by China (US$1.3 billion) and India (US$ 0.9 billion). In USA, 50-70% of industrial and commercial buildings are PEB based buildings. Indian PEB market size is estimated to be around Rs. 55,000 million for FY14. Overall PEB Industry capacity is estimated to be around 1.6 million metric tonnes in FY14. Capacity utilization for overall industry is estimated to be around 45%. Industrial segment (industrial sheds and manufacturing facilities) contributes to 71% of the market share followed by commercial (including warehouses and, retail shops) which contributes 19% of the market. Share of infrastructure segment (railway stations, metro station, aviation hangars and others) is at 8% which is low in comparison to the global average. India and China are expected to expand at 15-20% CAGR in the next five years, driving global PEB industry's 12% CAGR.



Source: CARE Research

On 5th February 2016, Government imposed Minimum Import Price on 173 types of steel products ranging from $341-752 per tonne to provide relief to local steel makers hurt by an increase in cheap imports of these items. The government later also extended the existing provisional safeguard duty (SGD) on HRC (hot rolled coil) till March 2018. Safeguard duty will stay at 20% till September 2016 and will be reduced in phases till March 2018. Cumulative protection on HRC is now over 55%. MIP based import parity incl. SGD is Rs. 36,860 tonne, near peak domestic steel prices post GFC (global financial crisis). HRC ex-mill prices are Rs. 28,000/ton (+10-13% post MIP) vs. MIP based import parity of Rs. 36,860/t. Mills have headroom to raise prices by 31% before HRC imports become competitive, assuming MIP and no leakages. But, domestic demand supply fundamentals are not strong enough (demand growth 4.7% in Feb, new capacities) to support large price hikes going forward. The era of soft steel prices seem to have ended for the near term due to the above. This will lead to higher raw material costs for the segment which may impact demand and execution to some extent.

EIL has a total capacity of 72,000 MTPA in the steel building segment which is divided as 30,000 MT at Roorkee and Gujarat each and the balance 12000 tons p.a. in Ranchi for metal roofing. EIL takes up fixed price contract and is not much impacted by the volatility in steel prices as the execution of an order is done within 4-5 months. Having said so, it does bear the cost of rise in steel prices in its book as it does not pass through any change in prices to its customers. But as we do not expect steel prices to move up in a significant manner, EIL profitability would not be much affected. As PEB reduces project execution time by more than 50% (most PEB industrial constructions can be completed in 4-5 months) and provides flexibility to relocate the installation in a future period, wherein 60-70% of the steel structure can be reused, its demand has been robust for the company. EIL has the largest customer base in PEB segment and has large number of repeat orders. The company supplies one building/working day and has enough headroom/space for future expansion if needed, at the Dahej plant. This industry caters to various users across different sectors like automobile, power, engineering goods, logistics, warehousing,

hotels, food sector and infra projects like airports, cargo hubs, metro rail, exhibitions etc.

Though the construction of steel buildings in India is not at par with overseas countries, the preference towards steel buildings rather than concrete is catching pace. In India ~25% industrial and institutional buildings are made up of steel v/s that of 70% in USA.

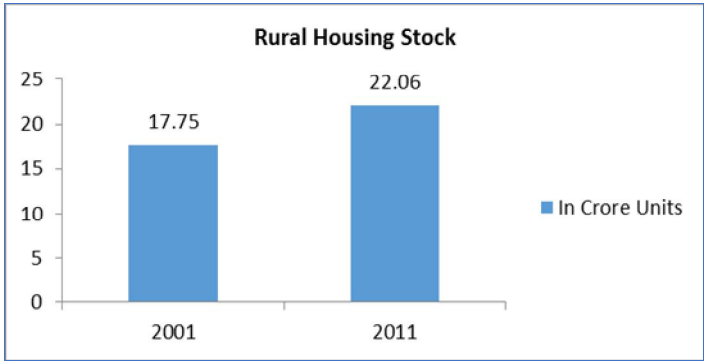
Investment Rationale

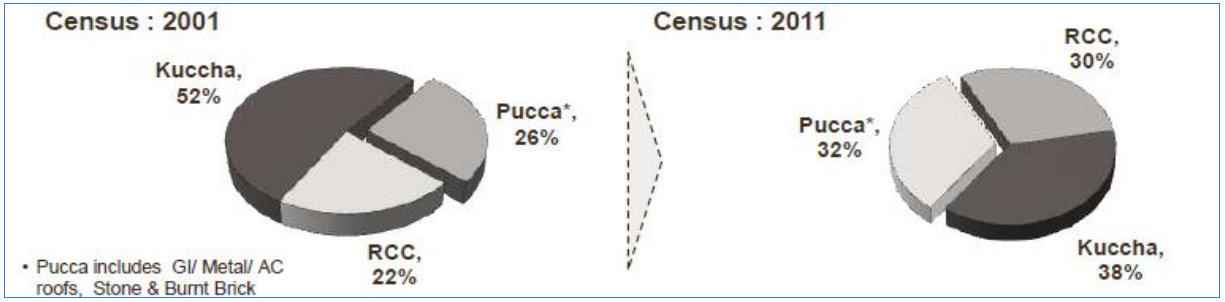
Growth in Indian economy will lead to better housing for 'Bharat' – good monsoon, lower raw material price, Govt. allocation to rural sector augurs robust growth ahead

India is facing tough times in last 2-3 years in terms of growth due to policy paralysis at the Centre and turmoil on the global front. But with the new Government in place, we feel that growth could soon resume in India at a good pace.

Government's special emphasis to spur up construction and infrastructure activities in the rural part of India (Bharat) would lead to higher employment opportunities which in turn will raise the standard of living of the rural people of India. Rural India accounts for ~70% of total population and ~ 50% of Rural India living in Kuccha & Semi Pucca homes providing a vast opportunity for Pucca houses. ACS is a cheaper alternative to thatched roof and clay-tiled roof. In addition to being cheaper these sheets are mostly corrosion resistant, weather and fire proof in nature. Also these sheets are easy to install and require very little maintenance. Thatched roofs need regular replacement and tiled roofs need continued maintenance. Therefore, whenever the economic conditions improve the first choice of the rural poor to replace the roof over their head with an affordable and relatively durable product.

According to the Census 2011 report, there has been a consistent rise in the number of houses built. Also it shows that people are migrating from Kuchha houses (lowest among the three structures) to Pucca or RCC (at the top of the pyramid) structures as both provides better safety and protection to the house owners. Further government impetus to boost employment through various rural employment schemes should increase the prosperity of rural households and will help them to upgrade their roofing.





EIL has 6 manufacturing plants located across India which includes 7 roofing lines, 3 Boards lines and 2 Panels lines. For the ACS, demand in the eastern and central region remains good, western and northern region demand has not yet picked up as compared to other regions. The southern region, where the demand was bad in last three years is now shown signs of growth. The company has a strong presence in East, Tamil Nadu, Punjab, Haryana and West Bengal. Some de-bottle necking of existing capacities at various plants resulted in increase of capacity from 8,10,000 tons p.a. to 8,65,000 tons p.a. in FY16. The company did sales of about 7,02,200 tons in FY16 which was about 80% of capacity utilisation. As and when the demand rises, the utilisation can go up by another 20% more as the company has surplus capacity to capitalize on any demand improvement.

The company faced challenges during FY16 like volatile rupee, poor monsoon, lower steel prices and disruptive scenario in Middle East. However, going forward, the management expects steel prices to be higher than last year which would give them an edge over its competitors of metal roofing. Further good monsoons in India as predicted by various organisations and also increase in allocation in rural areas by the Government of about Rs. 88,000 crore as assigned in Union Budget also augur well. The main raw material of ACS that is chrysotile fibre (65-70% of total raw material cost) is expected to come down in line with decrease in other commodity prices. This decrease and phase out of the high inventory of fibre from mid Q1FY17 would benefit the company and thus improve margins. The company expects substantial raw material cost reduction as a percentage to sales in FY17.

Growth drivers of Boards and Panels – domestic demand robust, to expand capacity by H2FY17

With the growing focus on infrastructure development, Indian construction sector has witnessed a boom. India is expected to become the third largest construction market in the world by 2025 (Source: IBEF). Today, Indian GDP has a contribution close to 15% from the construction sector. It is the largest economic activity in India after agriculture.

New projects contribute over 50% of the revenue of the Indian construction Industry. The construction sector is on the brink of large expansion as there are a number of huge infrastructure projects in the pipeline awaiting government clearance. The demand and supply mismatch in hotels, hospitals and housing spaces is alarming and would require immediate focus on

construction of these amenities. Fibre cement boards and dry wall systems have become popular in infrastructure projects, hospitality, education and healthcare establishments, affordable and mass housing schemes, slum rehabilitation programs, rural sanitation and toilet building programs.

As cost of skilled labour and basic products like cement, bricks, sand increase, the difference in their cost and that of ready-to-install products like fibre cement boards decreases. Products and solutions with shorter on-site labour cycles are becoming more popular. EIL is one of the leading producers of Fibre cement boards and panels in India with installed capacity of 110,000 MT. EIL sells these, both in abroad and domestic markets. EIL exports (about 50%) to over 20 countries and claims a leadership position in the Boards and Panels market in Middle East. The company has 3 manufacturing lines for Boards and Panels which are located in Bhagwanpur (Roorkee, Uttarakhand; 2 lines) and Lakhampur (Nasik, Maharashtra; 1 line).

During FY16, the company faced a setback in exports due to volatile scenario in Middle East but an increase in domestic sales (of about 30%) maintained a balance. The usage of boards is increasing as it is replacing bricks and mortars at a faster pace due to its hassle free nature and faster execution. Due to this robust outlook, the company is setting up a capacity enhancement project of 24,000 tons p.a. with a capex of about Rs. 28-30 crore. This is just a modernisation exercise of existing capacities and is expected to be completed by Q3/Q4FY17 and in FY18, its effect will be fully seen in financials of EIL.

Increase in capex spending by the various sectors would spur demand of Steel building products

Growing at a CAGR of 10% over the past five years, the per capita consumption of structural steel and PEB in India has reached about 6.2 Kgs now. Driven by large investments in industry and infrastructure, Steel Structures segment has witnessed a higher growth as compared to the Indian steel industry as well as the Indian construction industry.

In the United States, more than 70% of all construction in industrial and institutional segments is done using pre-engineered buildings while in India, only around 27% of all industrial and institutional buildings use pre-engineered buildings. Further, the per capita steel consumption of India is merely 59 kg during 2012 compared to the global average of 215 kg, which provides tremendous scope for the penetration of steel structures. With the increased level of construction activities across the country, there will be a massive demand for PEBs.

Penetration of PEB in large traditional segments like auto, power, chemicals, cement etc. is increasing. Though there was sluggish growth in the auto sector during FY15, the industry expects to get revived in FY16. Also Small-scale industries are recognizing the advantages of using PEB over conventional concrete buildings to control cost and time overruns. The company is getting orders from new sectors (categorized as miscellaneous sector) like to set up an exhibition centre, hotels, schools, food sector, etc. and the margins in this miscellaneous sector are higher compared to the standard/traditional sectors. A pickup in economic activity will boost up the margins going forward.

The Indian warehousing industry in 2013 is pegged at around Rs 560,000 crore, out of which agri-warehousing accounts for 15%. The agri warehousing capacity in India is around 110-120 million tonnes while the food grain production is around 250

million tonnes. As a result, around 20-30% of the total food grain harvest of the country is wasted. In order to address the shortage of warehouses, the government has announced warehouse capacity addition of around 35 million tones under the Twelfth Five Year Plan (2012-17).

As per FY16, the order book of PEB segment is about Rs 180 crore. Though the order book has declined from 31,000 tons in FY15 to 20,000 tons in FY16, the company is delivering steel building at a faster rate. Any order beyond 5 months is considered as a delay in customer service by EIL. The company undertakes fixed price contract in the steel building segment. As the execution time for an order is in the range of 4-5 months, the company does not experience any price volatility in terms of steel prices while execution. Also the company does not pass any increase/decrease in the steel prices to its customers and bears the positive/negative effect in its account (if steel prices down, EIL will benefit in PEB segment and vice versa). The management is confident that the 'Make in India' campaign by Prime Minister will boost the steel building requirement.

Steel Building – Major Projects executed in Q4FY16

Customer Name	Location	State	Value (Rs. Lacs)
Goa Shipyard	Goa	Goa	5200
HCL IT City	Lucknow	Uttar Pradesh	4100
Tata Power	Bengaluru	Chattisgarh	3300
Vijay Logistic Pvt Ltd	Pune	Maharashtra	650
Britannia	Coimbatore	Tamil Nadu	500
Perfect Belts	Jalandhar	Punjab	325

Rising demand for Green products

As per Global Construction Perspectives and Oxford economic report, India is likely to become the third largest construction market and is expected to be nearly $1 trillion construction market by 2025. The study expects Indian construction sector to grow at a faster rate than China over the period 2012 to 2025 driven by rise in the number of middle income households and rising population. Green buildings are steadily increasing their footprint in India as construction players aim at reducing wastage and shorten construction cycle. Real estate developers are also increasingly turning to green building due to ready availability of environment-friendly building materials such as AAC blocks (Autoclaved Aerated Concrete is a lightweight, precast, concrete building material that simultaneously provides structure, insulation, and fire- and mold-resistance), fibre cement boards and panels and plywood substitute lightweight partition panels.

EIL also participated in one of India's largest international hospitality chains first hotel venture in the ecologically sensitive North East region of India at Shillong by providing walling solution that was able to withstand heavy rain and moisture, was easy to install, cost effective and high on green rating.

Having supplied to this marquee client, EIL's dry wall boards' sales witnessed a sharp increase in projects in North East India. Also the same hotel chain entrusted Everest with another order for fibre cement boards and dry walls in Guwahati.

This creates good opportunity for EIL to diversify its presence and generate revenue.

Capacity Expansion in Steel Building to augur well for the future, but Fibre Cement Board plant in UAE halted

With the Small and Medium Enterprise (SME) sector growing rapidly and contributing to the overall growth of the economy, the demand for PEBs will continue to grow at a rapid pace. Also a healthy (>one year) order book necessitated the need for a new plant. A greenfield capacity expansion of 30,000 MT per annum was initiated at Dahej, Gujarat, with a total capital expenditure of Rs 60 crore. The project started his trial production in Q4FY14 and got commenced commercially from 20th Jan'15. With this expansion, the total capacity of the steel building division has increased to 72,000 MT per annum (including 60,000 MTPA of PEB from 30,000 MTPA apart from 12000 MTPA of metal roofing capacity). This plant will allow EIL to serve the West and South India markets better and reduce freight costs.

Also, the company (in Q2FY15), for the first time thought of venturing outside India for setting up a manufacturing plant. This plant was to manufacture Fibre Cement Boards at UAE with a capacity of 72,000 MTPA. The total capacity, post expansion, would be 182,000 MTPA. However, citing the volatile market situation in Middle East, the management has deferred the execution of the project by one year. The company mainly exports to Saudi Arabia (biggest market, decline is more than 50%) followed by UAE and Qatar. The recent oil price decline has affected the financial position of Gulf region as a whole. The demand was affected badly in Saudi due to fall in oil price and also due to the Yemen war. The total cost for the project Rs 100 crore, but the company has had a cash outgo of Rs. 14 crore.

Financials

For FY16, revenue rose 7% YoY to Rs 1298.6 crore in spite of a challenging year. Building products revenue de-grew by 4.3% to Rs. 830.04 crore while steel building grew by 33% YoY at Rs. 483.32 crore driven by increase in capacity post commencement of Gujarat plant (plant started operations from 21st January 2015). During FY16, steel prices were low which at one point was beneficial for the Steel Building segment but adversely affected the roofing business (part of Building products segment) as preference got shifted to coloured roofing which was available at low price. Also volatility in rupee impacted the raw material cost and bad monsoon affected the rural buying power from Q2-Q4FY16. Lastly, volatile Middle East scenario affected exports. The company exported around 42,000 tons to Middle East during the year. The sales volume in building products (drop of 0.3% YoY) came in at 7,02,200 MT and revenue of Rs. 830.04 crore as against 7,04,000 MT and revenue of Rs. 867.18 crore in FY15. The sales volume in steel buildings (up by 9.8%) came in at 13,500 MT and revenue of Rs. 483.32 crore as against 12,300 MT and revenue of Rs. 363.32 crore in FY15.

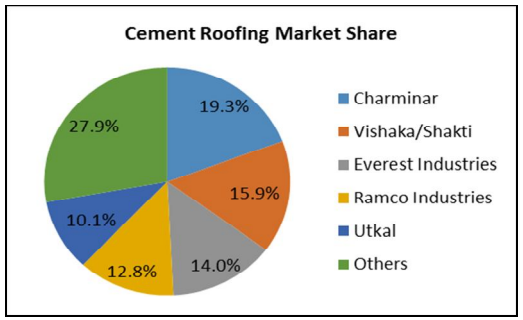
In view of the tough working environment, the company undertook major performance initiative like expanding distribution which will help Everest to be closer to its customers compared to any other brand, improved purchasing efficiency by centralized purchasing and undergoing strong review and monitoring mechanism that would help the company to focus on

value added products. All these efforts and lower price of chrysotile fibre (accounts for 65-70% of total raw material cost) in Q4FY16, bought the operating profit at Rs. 83.2 crore in FY16. Due to sharp decrease in the interest cost (down by 30% YoY) in Q4FY16, the overall interest cost for full year rose by merely 2% which helped PBT to grow by 6% YoY to Rs. 51.3 crore. Due to higher tax rate of 31.24% in FY16 as compared to 29.14% in FY15 PAT came in at Rs. 35.3 crore, up by 3%.

EBIT in Steel Building segment for FY16 came at Rs. 20.15 crore as against loss of Rs. 2.56 crore in FY15. This growth was due to lower steel price and better volumes. As far as Building product segment, EBIT came in at Rs. 71.87 crore as against Rs. 85.28 crore in FY15. Lower volumes, realisation and increase in raw material cost due to rupee depreciation impacted the segment.

Going forward, Sanitation being the focus of the government, should auger well for strong growth for building product segment. Make in India campaign will also be a major growth driver for both Building product and steel building segment.

Peer Comparison



Source: Company PPT of April 2015

Valuation - Financials

Companies	FY15											
	Total Revenue (Rs in Cr)	PAT (Rs in Cr)	OPM (%)	PATM (%)	EPS (Rs)	CMP as on 060516 (Rs)	PE	Book value (Rs)	P/BV	EV/EBITDA	Debt/Equity	Mkt Cap/Sales
Everest Industries	1230.5	34.2	7.1	3.0	22.3	287.0	12.9	209.1	1.4	7.3	0.9	0.4
Hyderabad Industries	1107.8	66.9	10.6	5.4	89.6	524.7	5.9	578.2	0.9	4.3	0.2	0.4
Ramco Industries	894.6	90.1	9.4	2.9	10.4	111.7	10.8	70.5	1.6	9.7	0.7	1.1
Visaka Industries	1021.1	21.2	8.8	1.9	13.4	118.0	8.8	209.2	0.6	4.3	0.9	0.2

Risks and Concerns

Raw Material prices

Chrysotile (Asbestos Fibre) is the vital raw material, which constitutes 65-70% of the total raw material costs and is 100% imported from Russia and Kazakhstan. ACS manufacturers maintain sufficient inventory of this product as hedge against irregularity in supply. EIL maintains about 40-45 days of inventory for this fibre. Management expects chrysotile fibre prices to remain stable going forward. To mitigate the risk of fluctuation in chrysotile fibre, EIL is diversifying into Boards and Panels and Pre-Engineered Building segments.

Cement and steel prices can also put pressure on the raw material cost. Management believes that once the construction activity picks up, there will be an increase in demand of both cement and steel which would lead to a uppish pricing environment. Also, for steel, dormant capacities are expected to restart, which will further stabilise the steel prices. But, if the rising raw material costs are not passed on to the customers, the company can face the brunt of low profitability and margins.

Highly dependent on rural prosperity, this in turn is dependent on agricultural productivity

Roofing product sales are highly dependent on rural prosperity as they are used highest in rural and semi-urban areas. In rural areas, thatched roofs and tiled roofs are replaced by asbestos cement sheet or fibre cement board when affordable, as they have several advantages. Rural prosperity is highly dependent on agricultural productivity, which in turn in dependant on the monsoon. A poor monsoon impacts the demand for roofing in rural India. Additionally, rural prosperity is also dependent on Government spending on schemes like MGNREGA, Indira Awas Yojna etc. Any decrease in spending on these schemes could reduce the purchasing power of customers in the roofing segment.

Seasonality

Since building product business is largely driven by sales in rural India it is seasonal in nature (impacted by Kharif and Rabi crop cycles) and hence the March and June quarters are generally better than the rest of the year. Additionally, there is a slowdown in construction activity in monsoon months, making Q2, and partly Q3, slow quarters.

Forex risk

Chrysotile (Asbestos fibre), a key raw material in the manufacturing of ACS, is entirely imported by all players. Exports are limited and imports are significant, exposing companies to a forex risk, which amplifies in times of depreciating domestic currency.

Ban/restriction of asbestos products could lead to turmoil across the industry

The uncontrolled usage of asbestos can lead to diseases like Asbestosis, Lung cancer and Mesothelioma. These health issues are mainly caused due to the use of brown and blue varieties of asbestos. In India, there is ban on the usage of blue and brown varieties of asbestos. Any government initiative to completely ban or restrict the use of asbestos will force industry to

look for alternative and may increase its overall cost. However, with government thrust on affordable housing projects, there seems to be remote chances of complete ban on usage of asbestos in the foreseeable future.

Capacity additions in the industry

There has been steady addition of capacities by both organised and unorganised players in the industry. This will not only cause an oversupply situation but could also lead to price war.

EIL faces threat from shift in consumption towards better roofing products like Galvanised Iron sheets and RCC roofing, however, the recent emphasis on low cost toilets and expected industrial expansion will provide growing revenue opportunity for the roofing segment.

Conclusion & Recommendation

With increasing thrust on rural development and rural housing, rising income of rural India and reducing gap between fibre cement sheets and alternative products, we believe that the scope for roofing products is very large. We are positive on the company's strategy of establishing itself as a one stop shop building solutions provider. With the right building solutions and products, deeper market penetration and strong customer equity, Everest Industries is positioned to benefit from growing demand.

We think that investors could buy the stock at the CMP and add on declines to Rs.263-272 band (~7.5-7.8x FY18E EPS) for sequential targets of Rs. 317 and Rs. 350 (~9x and 10x FY18E EPS) over 2-3 quarters. The current stock price is inclusive of Rs. 5 dividend the company has declared for FY16 at its board meet on 29th April 2016.

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Operating Income	886.9	1014.1	1035.3	1230.5	1313.4	1465.4	1714.5
Operating Profit	80.8	97.8	39.8	81.9	83.2	98.6	122.1
Reported Profit After Tax	52.8	52.5	9.1	34.2	35.3	42.4	53.9
EPS (Rs.)	34.9	34.6	6.0	22.4	23.0	27.6	35.1
P/E (x)	8.2	8.3	47.6	12.8	12.5	10.4	8.2
EV/EBITDA	4.8	5.0	12.0	7.1	6.5	7.3	5.5
RoNW (%)	21.1	18.1	3.1	10.7	10.2	8.6	11.0

(Source: Company, HDFC sec)

Financials

Quarterly – Standalone

Particulars (Rs cr)	Q4FY16	Q4FY15	% chg	Q3FY16	% chg	FY16	FY15	% chg
Income from Operations	333.6	314.5	6.1%	278.9	19.6%	1298.6	1212.5	7.1%
Other Operating Income	3.6	3.9		3.6		14.8	18.0	
Total Income	**337.3**	**318.5**	**5.9%**	**282.5**	**19.4%**	**1313.4**	**1230.5**	**6.7%**
Raw Material Cost	175.5	172.1	2.0%	153.6	14.3%	732.3	706.3	3.7%

Employee Expenses	29.4	26.9	9.3%	32.4	-9.4%	127.1	109.1	16.5%
Freight	25.0	24.0		19.0		94.3	93.8	
Other Expenses	80.3	70.3	14.2%	63.4	26.8%	276.5	239.4	15.5%
Total Expenditure	**310.2**	**293.3**	**5.8%**	**268.4**	**15.6%**	**1230.2**	**1148.6**	**7.1%**
Operating Profit	**27.0**	**25.1**	**7.6%**	**14.1**	**91.8%**	**83.2**	**81.9**	**1.5%**
Other Income	1.6	3.1	-48.4%	1.2		12.9	10.5	
PBIDT	28.6	28.3	1.4%	15.3	87.2%	96.1	92.4	4.0%
Interest	5.1	7.3		5.8		19.1	18.7	
PBDT	**23.6**	**21.0**	**12.2%**	**9.5**	**148.0%**	**77.0**	**73.7**	**4.5%**
Depreciation	6.3	6.7	-7.3%	6.2	0.2%	25.6	25.4	0.8%
PBT	17.3	14.3		3.3		51.3	48.3	
Tax (including DT & FBT)	5.4	4.2		0.5		16.0	14.1	
Adjusted Profit After Tax	**11.9**	**10.1**	**18.1%**	**2.8**	**330.8%**	**35.3**	**34.2**	**3.2%**
Exceptional Item	0.0	0.0		0.0		0.0	0.0	
Reported Profit After Tax	**11.9**	**10.1**	**18.1%**	**2.8**	**330.8%**	**35.3**	**34.2**	**3.2%**
EPS (Rs.)	7.7	6.6		1.8		23.0	22.4	
Equity	15.4	15.3		15.4		15.4	15.3	
			bps		**bps**			**bps**
OPM (%)	**8.1**	**8.0**	**11**	**5.1**	**305**	**6.4**	**6.8**	**-35**
PATM (%)	**3.5**	**3.2**	**36**	**1.0**	**255**	**2.7**	**2.8**	**-9**

(Source: Company, HDFC sec)

Profit & Loss – Standalone

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Total Operating Income	**886.9**	**1014.1**	**1035.3**	**1230.5**	**1313.4**	**1465.4**	**1714.5**
Raw material consumed	489.9	561.8	603.4	706.3	732.3	807.9	939.3
Employee expense	79.8	92.1	97.0	109.1	127.1	143.3	171.1
Freight	71.3	75.7	91.0	93.8	94.3	104.2	124.5
Other Expenses	165.2	186.7	204.1	239.4	276.5	311.3	357.4
Total Operating Expenses	**806.1**	**916.4**	**995.4**	**1148.6**	**1230.2**	**1366.8**	**1592.4**
Operating Profit	80.8	97.8	39.8	81.9	83.2	98.6	122.1
Other Income	17.8	8.8	12.3	10.5	12.9	13.5	12.9
EBITDA	98.6	106.5	52.2	92.4	96.1	112.1	135.0
Interest	4.4	5.6	12.6	18.7	19.1	21.0	24.2
Depreciation	20.1	22.1	26.7	25.4	25.6	28.7	31.6
PBT	74.0	78.9	12.9	48.3	51.3	62.4	79.2
Tax (including FBT & DT)	21.3	26.4	3.8	14.1	16.0	20.0	25.3
Reported PAT	**52.8**	**52.5**	**9.1**	**34.2**	**35.3**	**42.4**	**53.9**

(Source: Company, HDFCSec,)

Balance Sheet – Standalone

Particulars (Rs in Cr)	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
Equity & Liabilities							
Shareholders' Funds	**249.5**	**289.8**	**294.5**	**319.7**	**347.4**	**380.6**	**422.5**
Equity Share Capital	15.1	15.2	15.2	15.3	15.4	15.4	15.4
Reserves & Surplus	234.4	274.6	279.3	304.4	332.1	365.3	407.1
Non-Current Liabilities	**47.0**	**91.3**	**85.7**	**130.3**	**155.0**	**162.8**	**172.1**
Long Term borrowings	15.6	59.1	51.3	94.8	118.2	124.2	130.4
Deferred Tax Liabilities (Net)	23.9	24.6	28.3	29.5	32.3	33.9	36.6
Long Term Provisions	7.6	7.6	6.1	6.0	4.5	4.8	5.1
Current Liabilities	**224.4**	**320.2**	**447.3**	**500.0**	**431.8**	**447.3**	**479.9**
Short Term Borrowings (Working Cap)	55.1	95.2	165.6	185.7	112.5	106.9	112.2
Trade Payables	73.2	108.9	122.9	132.2	172.9	186.8	201.7
Other Current Liabilities	77.4	95.9	129.2	135.2	116.1	121.9	131.6
Short Term Provisions	18.7	20.2	29.7	47.0	30.2	31.7	34.3
Total Equity & Liabilities	**520.9**	**701.3**	**827.5**	**950.0**	**934.2**	**990.7**	**1074.5**
Assets							
Non-Current Assets	**263.5**	**291.9**	**418.2**	**449.4**	**443.6**	**466.9**	**518.2**
Fixed Assets	**228.1**	**248.5**	**342.8**	**351.2**	**351.5**	**369.1**	**413.4**
Non-Current Investments	0.0	0.0	0.6	7.7	27.9	28.4	29.8
Long -term Loans and Advances	33.3	43.3	74.5	87.1	61.0	65.9	71.1
Other Non-Current Assets	2.1	0.1	0.3	3.4	3.2	3.5	3.8
Current Assets	**257.4**	**409.3**	**409.3**	**500.6**	**490.6**	**523.8**	**556.3**
Inventories	158.0	254.2	242.1	271.9	252.5	272.7	294.6
Trade Receivables	41.7	52.4	80.7	104.3	113.1	122.2	131.9
Cash & Cash Equivalents	33.0	52.9	25.1	63.6	52.1	50.3	44.9
Short Term Loans & Advances	24.2	48.7	60.8	59.8	72.0	77.8	84.0
Other Current Assets	0.5	1.2	0.6	1.0	0.9	0.9	1.0
Total Assets	**520.9**	**701.2**	**827.5**	**950.0**	**934.2**	**990.7**	**1074.5**

(Source: Company, HDFCSec,)

Key Financial Ratios – Standalone

Particulars	FY12	FY13	FY14	FY15	FY16	FY17E	FY18E
No of Equity Shares	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Current Market Price	287.0	287.0	287.0	287.0	287.0	287.0	287.0
Market Capitalization	433.7	436.0	436.0	438.8	440.8	440.8	440.8
Enterprise Value	471.3	537.4	627.7	655.7	619.5	621.6	638.5
FD EPS	34.9	34.6	6.0	22.4	23.0	27.6	35.1
Cash EPS (PAT + Depreciation)	48.2	49.1	23.6	39.0	39.7	46.3	55.6
PE(x)	8.2	8.3	47.6	12.8	12.5	10.4	8.2
Book Value (Rs.)	165.1	190.8	193.9	209.1	226.2	247.8	275.1
P/BV (x)	1.7	1.5	1.5	1.4	1.3	1.2	1.0
OPM (%)	9.1	9.6	3.8	6.7	6.3	6.7	7.1
PBT (%)	8.3	7.8	1.2	3.9	3.9	4.3	4.6
NPM (%)	5.9	5.2	0.9	2.8	2.7	2.9	3.1
ROCE (%)	24.5	19.0	5.0	11.2	12.2	13.6	15.5
RONW (%)	21.1	18.1	3.1	10.7	10.2	11.1	12.7
Debt-Equity	0.3	0.5	0.7	0.9	0.7	0.6	0.6
Current Ratio	1.1	1.3	0.9	1.0	1.1	1.2	1.2
Mcap/Sales(x)	0.5	0.4	0.4	0.4	0.3	0.3	0.3
EV/EBITDA	4.8	5.0	12.0	7.1	6.4	5.5	4.7

(Source: Company, HDFCSec)

One Year Price Chart

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