VISIT NOTE

SMALL CAP

Everest Industries

Not Rated

Price: Rs 163 | **BSE Index: 17,701** | **06 January 2010**

Transforming from a fibre cement roofing player into an integrated building solutions player in rural and semi-urban India

We recently met the management of Everest Industries. A brief note on the company and the key takeaways from the meeting are as follows:

- Mrinalini Trust (created by Mr Narottam Sekhsaria) owns 50.09% of Everest Industries Ltd. (EVI) through its 99.9% subsidiary Everest Finvest Pvt. Ltd. (promoter of Everest Industries Ltd.). Everest is a leading player in the building solutions market with high presence in the fibre cement roofing and pre-engineered buildings segments.
- With the Government's thrust on projects benefitting rural India, the uptrending from hay and tile based roofing is benefitting players like Everest Industries who have an established presence in the fibre cement roofing business (~15% market share) through their diversified geographical operation and large distribution network.
- Currently, the industry is reasonably consolidated with top four players commanding a cumulative market share of ~65%.
- Cement which is a key input is likely to remain soft in the foreseeable 12 months given the large capacity additions and this will help keep margins healthy in this business.
- EVI entered the ~700,000 tonnes Pre Engineered Steel Building Industry in FY09 with a 40,000 tonne capacity at a cost of ~Rs 800 mn. With steel gradually becoming the material of choice in building construction (compared to concrete and timber) this is particularly preferred for wide span low rise buildings for non-residential use given its fast delivery, consistent quality control, and low cost.
- EVI is gradually going up the learning curve in the Pre Engineered Steel Building business and believes that this segment would be one of the growth drivers for the company in the longer run.

Outlook

Guided by a strong management, Everest Industries is well placed to become an integrated building solutions player for rural housing and semi-urban industrial segment in the coming few years. The Government's continued thrust on projects in rural India will ensure that the uptrending from hay and tile based roofing to fibre cement roofing (82% of 1HFY10 topline) for rural housing will continue. With a strong distribution network across India through 6,000 retail points, EVI is well placed to capitalise on this opportunity. Softer input prices will only help. The company's entry into the pre-engineered steel building industry (18% of 1HFY10 topline) is opportune considering the increasing need for fast delivery, consistent quality control and low cost structures in the fast growing wide span, low-rise, non-residential building segment. The above factors will help the promoter group create Everest Industries as an equivalent of Gujarat Ambuja in the building solutions industry. Currently, the stock is trading at a PER of 10.5x its trailing 12 months earnings. We are very positive on the growth of the industry and the company's relative position in the same. We currently do not have coverage on the stock and will be initiating coverage in the near future.

Share Data

Reuters code	EVRI.BO
Bloomberg code	EVI IN
Market cap. (US$ mn)	52
6M avg. daily turnover (US$ mn)	0.1
Issued shares (mn)	14.8

Performance (%)	1M	3M	12M
Absolute	6	26	148
Relative	9	27	51

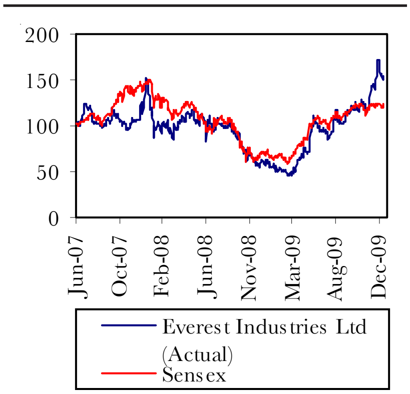
Valuation Ratios

Yr to 31 Mar	FY08	FY09
EPS (Rs)	9.7	9.8
+/- (%)	22.8	0.9
PER (x)	16.8	16.7
PBV (x)	1.7	1.6
Dividend/Yield (%)	2.5	1.5
EV/Sales (x)	1.2	0.7
EV/EBITDA (x)	19.0	8.0

Major shareholders (%)

Promoters	50
FIIs	1
MFs	10
Public & Others	39

Relative performance



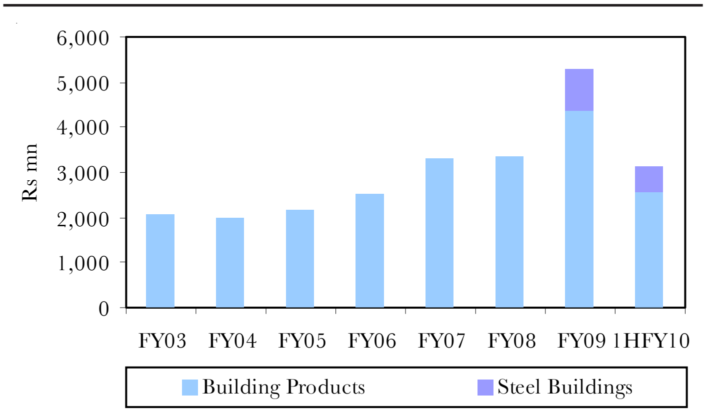
Company background

Everest Industries Ltd. (EVI), a leading player in building solutions, was incorporated in Mumbai in April 1934 as a Private Limited Company with two shareholders Turner & Newall P.L.C, UK and M/s C.P. Cement Co. Ltd. (Which later merged with other companies to form ACC in 1936). In 1989 – T&N sold their stake to Eteroutremer SA Brussels, a wholly owned subsidiary of Eternit Group, Brussels and the name changed to Eternit Everest Ltd. "Eternit" was taken over by "Etex Group" of Belgium, a business conglomerate and the world leader of Fiber Cement Products. In February 2002 "Etex Group" exited from India. Their stake was acquired by ACC and in July 2002 the name was changed to Everest Industries Ltd.

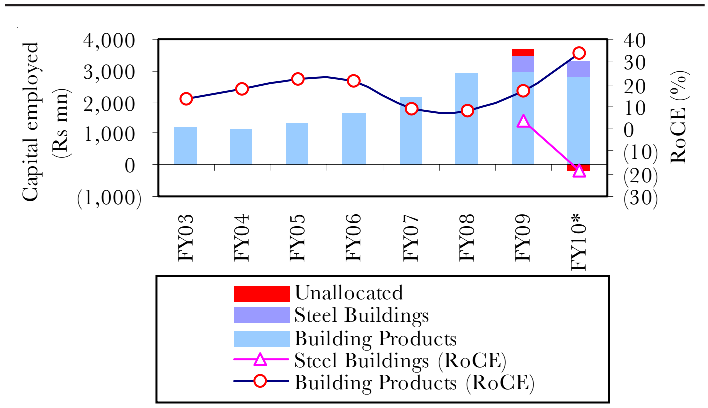
The current promoters Everest Finvest Pvt. Ltd. bought over the stake from ACC in 2005. Everest Finvest was a 99.9% subsidiary of Mrinalini Trust at the time of purchase, which was created by Mr Narotam S. Sekhsaria and the beneficiary of the trust at the time of purchase were Ms Mrinalini Somani, Padmini Somani and Mr Janardan Sekhsaria. Mr Aditya Vikram Somani represents Everest Finvest (India) Pvt. Ltd. on the Board. Mr Narotam Sekhsaria is amongst the most respected business leaders in India. He and Mr Suresh Neotia founded and controlled cement producer Gujarat Ambuja in which the Swiss cement acquired a sizeable stake. Shri M.L Gupta is the Managing Director of the company. Other key management personnel include Mr Manish Sanghi, COO and Whole time director, Mr Rakesh Gupta, CFO and Mr Y. Srinivasa Rao, ED (Operations).

Product profile: EVI fulfills the need for faster constructions in the Residential, Industrial and Commercial sectors. The company manufactures fibre cement roofing, polycarbonate and metal roofing, boards, panels and pre-engineered buildings. It is poised to capitalise on the opportunities in rural India where various housing and infrastructure initiatives are being undertaken by the Government.

Annual turnover (Segment-wise)



Return on capital employed



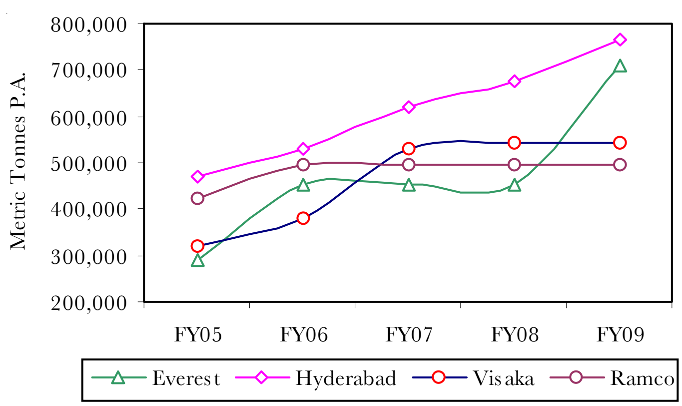
Source: Company Reports, B&K Research. *Annualised.

Fibre cement roofing industry

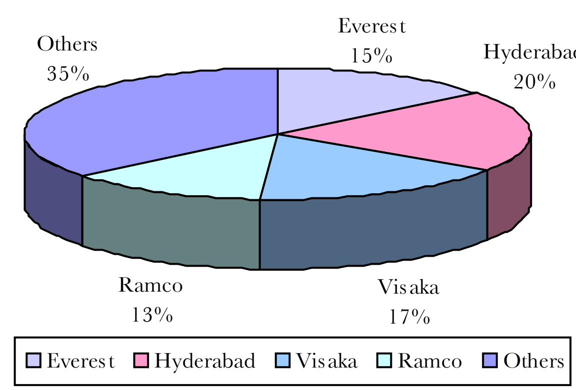
Fibre cement roofing in India is a 3.5 mn tonne industry in India currently. Industry's growth over the long-term is linked to the GDP with a correlation of ~1.8-2x. With government sponsored programmes and crop prices staying firm, there is a strong uptrending in the rural areas from hay and tiles towards AC roofing and GI sheet roofing before eventually graduating to concrete roofing. Being a low cost product, fibre cement roofings are freight intensive and this historically had curtailed its distribution reach into deeper markets for want of road infrastructure. With the improvement in rural roads over the past decade, they have emerged as a competitive alternative to hay and tiles which are historically the most dominant roofing products in rural areas. Capitalising on this, the fibre cement manufacturers are ensuring the availability to create demand.

Hyderabad Industries, Visaka Industries, Everest Industries and Ramco Industries are the dominant players in the industry with a cumulative market share of ~65%. Though the industry is largely consolidated, the threat of entry of new players is high, particularly when RoCE is sustainable higher than cost of capital. This is due to low end technology with little control over key raw material (i.e. asbestos fibres) and low capital investment for an economic size unit. Distribution network and brands are possibly the only differentiators.

AC roofing installed capacity – Major players



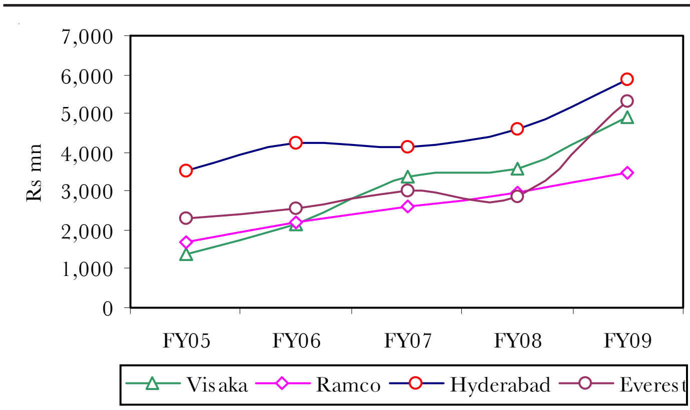
AC roofing market share – Major players (volumes – FY09)



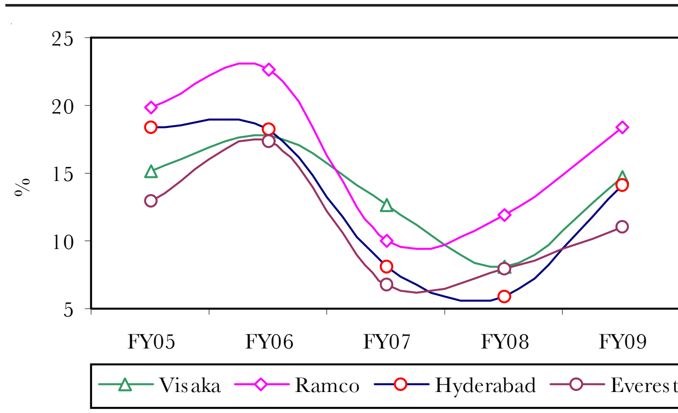
Source: Company Reports, B&K Research

Annual trends

Annual revenue trend – Major players



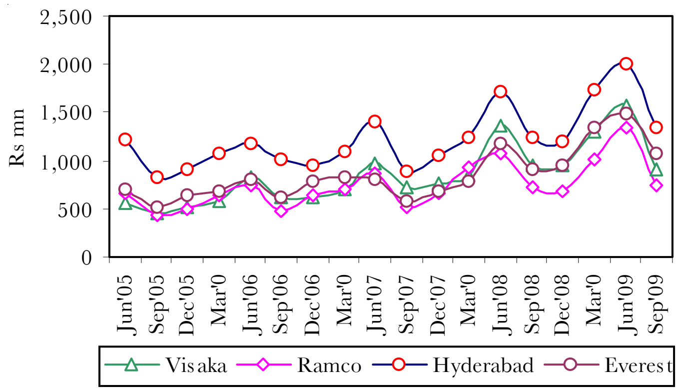
EBIT margin trend – Major players



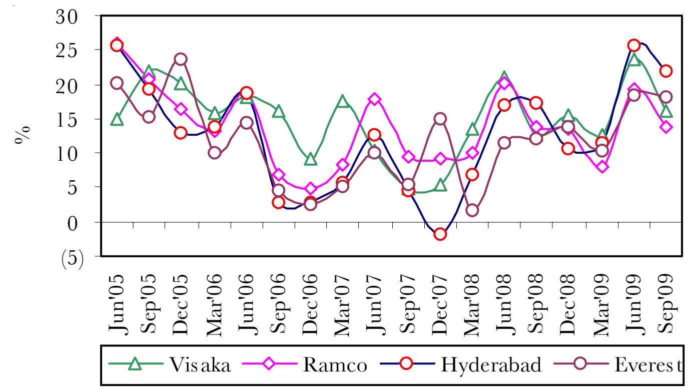
Source: Company Reports, B&K Research

Quarterly trends

Quarterly revenue trend – Major players

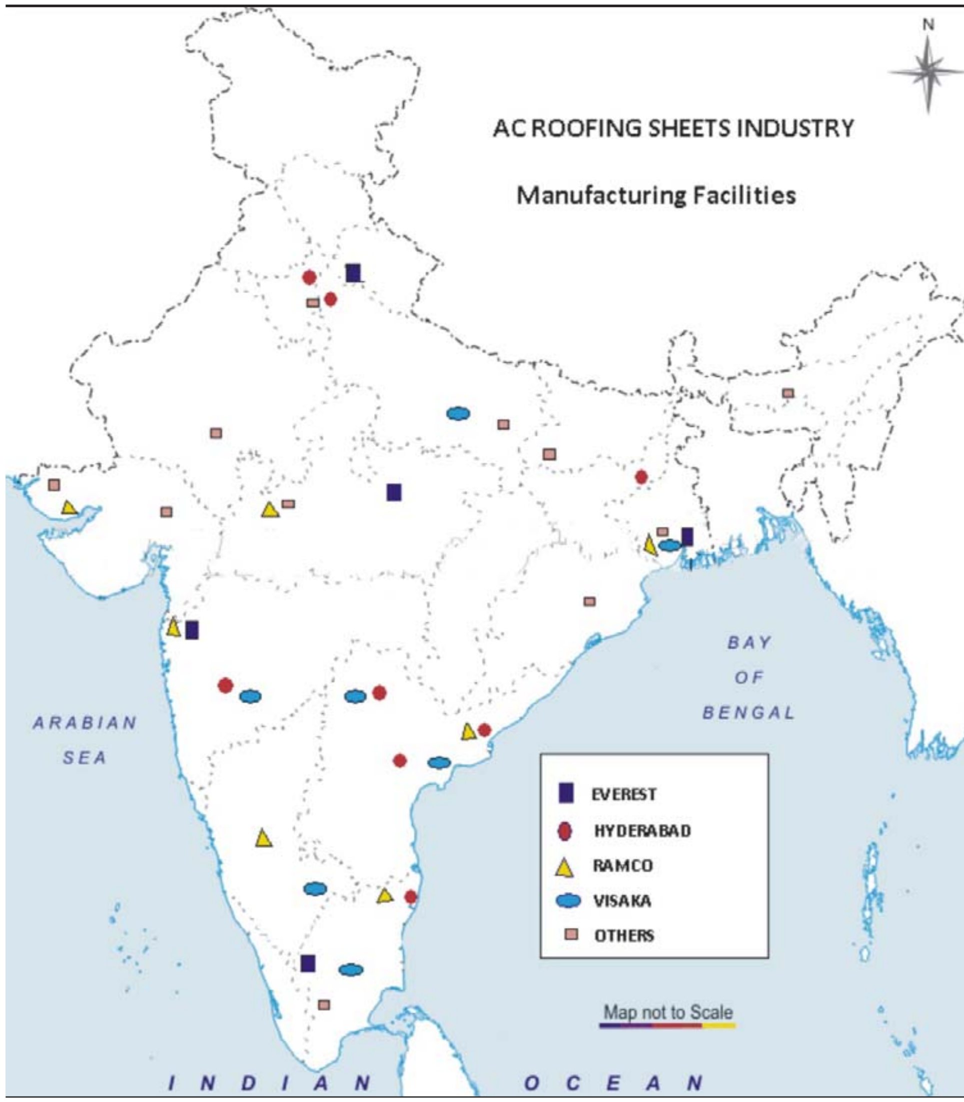


Quarterly EBIT margin trend – Major players



Source: Company Reports, B&K Research

AC roofing sheets industry



Source: Company Reports, B&K Research

Current or Potential concerns

- "The White Asbestos (Ban on use and import)" Bill has been introduced in the Rajya Sabha in July 2009. This is a Bill to provide for a total ban on use and import of white asbestos in the country and to promote the use of safer and cheaper alternative to white asbestos and for matters connected therewith and incidental thereto.
- Everest and other companies engaged in the manufacture of AC sheets & pipes claim that the usage of asbestos is not harmful in anyway and are confident that the usage or import of white asbestos will not be banned. They have an association known as Asbestos Cement Products Manufacturers Association (ACPMA) which was formed in 1985 with an objective to aid, stimulate and advise promotion of Chrysotile Asbestos Cement Products (Sheets and Pipes) in India. However, the development on this front needs to be watched closely.
- There are more than a dozen new plants under commissioning in the industry and this is largely coming in the underpenetrated markets from both existing as well as new entrants. The entry of new players is likely to bring down the pricing power currently being enjoyed by incumbents. However, the thrust on rural projects if continued by the Government can absorb this new supply faster than expected.

Everest Industries – Fibre cement business

- **Plants:** EVI has manufacturing facilities for fibre cement roofing in Coimbatore (Tamil Nadu), Kymore (Madhya Pradesh), Kolkata (West Bengal), Nashik (Maharashtra) and Bhagwanpur (Uttarakhand). Everest Industries' regional sales are largely linked to its capacity in various regions as AC roofing is a freight intensive product.
- **Demand:** This year the demand growth has slowed due to droughts in various parts of the country which has impacted rural demand. On a region-wise basis, East has not been impacted much due to drought and also the monsoon in South India has been good. North and Central India will see improvement as late monsoon will help a good winter crop. Areas with low penetration earlier (for instance Rajasthan, UP, MP, etc.) are poised for a strong consumption growth. South India especially Tamil Nadu is the key market for EVI's AC sheets where it commands a 30% market share. However, AC sheet realisations this year are ~10-15% higher over previous year largely on account of the robust demand in early part of the fiscal. Among the regions, East is giving the highest realisation in AC sheets due to robust rural demand.
- **Exports:** The company also has plans to increase its exports. The company, which had an export of Rs 300 mn in FY09, is expecting an export of Rs 450 mn in FY10. Exports are primarily cement boards.
- **Raw materials:** The primary raw materials are asbestos and cement. For the year, Asbestos fibre prices are up by around 10% (~0.08x of asbestos required per tonne of AC sheet) whereas cement prices are down by around 10% (~0.4x of cement required per tonne of AC sheet).
- **Environmental concerns:** Asbestos is 100% imported and sourced from Canada, CIS and Brazil. Cement is procured internally. Since environmental activists actively lobby against the use of asbestos, the industry maintains an inventory of ~two months. However in India, the industry largely uses white asbestos which is not banned.

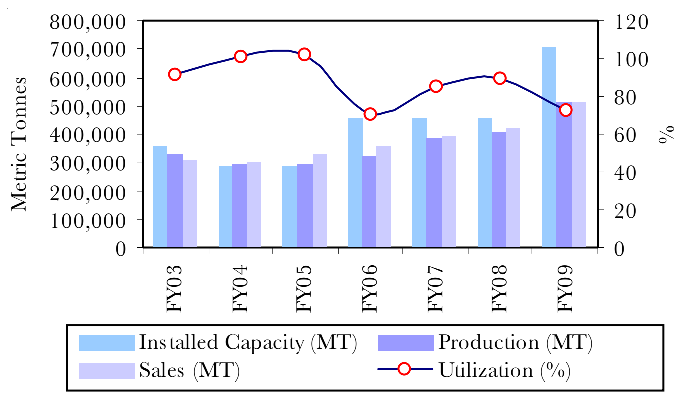
- **Expanding the distribution network:** The company is planning to expand its distribution network by adding 1,000 new retail points on its network in the FY10. Presently, EVI is selling its products through 6,000 retail points across the country. EVI has plans to expand its distribution network up to 7,000 retail points by FY10 end.

Everest Industries – network

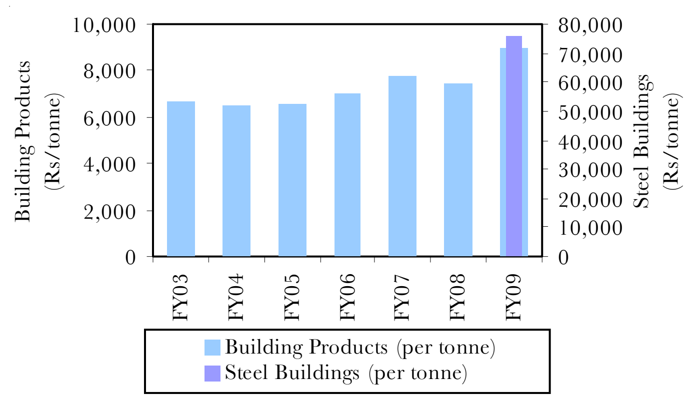
Source: Company

- **Diversification:** The company's targeted growth would come from expansion in the roofing business as it has grown from being a single product (fibre cement roofing) maker to a producer of a range of roofing products such as synthetic fibre, polycarbonate sheets, metallic roofing systems and coloured roofing sheets. It has also boards offering false ceiling/partitions/wall solutions. In line with this, EVI plans to produce coloured roofing sheets at its Podanur plant. The plant is expected to start production by January 2010. The coloured roofing to be made at this unit would cater to country-wide requirement. Everest proposes to invest about Rs 100 mn at the Podanur plant by FY11.
- **Capex:** An additional line for corrugated roofing sheets was installed at its Podanur and Roorkee factories and another line to manufacture fibre cement boards was added. The current focus was to de-bottleneck the existing facilities. This will increase capacities by ~20-25% through process improvements.

AC sheets – volumes and utilisation



Gross realisations



Source: Company Reports, B&K Research.

Pre Engineered Steel Building (PEB) industry

Industry size is ~700,000 tonnes and has seen a very good growth till last year. Notable players in this segment are Kirby, Tata Bluescope, Interarch, Zamil (Saudi Arabia) and Everest Industries. Steel is gradually becoming the material of choice in building construction, compared to concrete and timber. PEB's are an alternative to conventional construction practices and are ideal for use in non-residential, wide span low rise buildings. Among the advantages of PEB are fast delivery, consistent quality control, and low cost to name a few. PEB buildings are used for diverse applications such as factories, warehouses, offices, shopping malls, schools, hospitals, community buildings and several more. These structures can withstand the vagaries of nature, including earthquakes, floods, and the normal wear and tear buildings are subjected to. A minimum of about 25,000 sq ft to any size (running to several lakh sq ft), can be built with pre-fabricated steel.

Everest Industries

- EVI entered the pre-engineered steel buildings last year. This business largely stresses on the fast execution vis-à-vis the conventional alternative of a brick and mortar building and the typical order to execution period is four-five months. Given this timeframe, it focuses on maintaining an order book for a similar period. The manufacturing facility is at Roorkee and enjoys an excise exemption for five years.
- **Demand:** Demand was sluggish this year due to the economic downturn. The key clientele for this industry are largely the logistics, manufacturing and office buildings. However, the company's performance vis-à-vis the industry, which faced decline in orders and volumes, is commendable as topline has been maintained.
- **Topline:** In the first nine months of operations it contributed Rs 910 mn to EIL's turnover (~17% of revenues). In 1HFY10, it generated about Rs 570 mn (~18% of revenues). EVI is gradually going up the learning curve and believes that this segment would be one of the growth drivers for the company in the longer run. Realisations typically range between Rs 70,000-100,000 depending on the complexity of the design (in 9MFY09 they averaged around ~Rs 75,000 per tonne).
- **Inputs:** Primary inputs are Red steel and Galvalume and other costs would comprise of employee costs and consumables. Freight costs per unit are low on per unit basis, as realisations are much higher in comparison to the AC roofing business.

- **Margins:** The under-utilisation and inventory losses were among the key reasons for the losses at the operating level. Also the company is on the learning curve and this can improve the profitability.

Financial highlights

The total turnover of the company in FY09 was Rs 5.3 bn recording an 85% jump in turnover over the previous fiscal. The roofing and pre-fabricated steel buildings segment contributed Rs 4.39 bn and Rs 910 mn, respectively. EBITDA and adjusted PAT for FY09 were Rs 489 mn and Rs 145 mn, respectively. The same for 1HFY10 was Rs 381 mn and Rs 196 mn. During the current year, the company expects to record a turnover of about Rs 6.5 bn (Turnover in 1HFY10 was Rs 3.14 bn) out of which the pre-fabricated steel buildings business should contribute Rs 1.5 bn (1HFY10 Rs 570 mn).

Quarterly financials

(Rs mn)	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
Net Sales	1,188	1,127	1,282	1,705	1,783	1,355
EBITDA	**171**	**108**	**124**	**113**	**209**	**172**
EBITDA margin (%)	14.4	9.5	9.7	6.6	11.7	12.6
Depreciation	36	41	42	52	46	46
EBIT	**136**	**75**	**84**	**87**	**171**	**137**
Interest	23	43	54	45	29	27
Pre-tax profit (before non-recurring items)	**112**	**33**	**30**	**42**	**143**	**110**
Non-recurring items	0	71	84	(139)	11	44
Pre-tax profit (after non-recurring items)	**112**	**(38)**	**(54)**	**181**	**132**	**66**
Tax (current + deferred)	34	(14)	(20)	57	38	19
Net profit	**79**	**(24)**	**(34)**	**124**	**94**	**47**
Adjusted net profit	79	47	50	(15)	105	91
Adjusted EPS (Rs)	5.3	3.2	3.4	(1.0)	7.1	6.1
Segment information						
Sales/Income from operations						
Building Products	1,188	904	955	1,343	1,496	1,074
Steel Buildings	0	224	326	362	287	286
EBIT margin (%)						
Building Products	11.4	12.0	13.8	10.2	18.6	18.1
Steel Buildings	0.0	(1.5)	7.5	(0.5)	(16.2)	(0.2)
Capital employed						
Building Products	0	2,965	3,130	2,890	2,446	2,822
Steel Buildings	0	558	525	498	445	513

Outlook

Guided by a strong management, Everest Industries is well placed to become an integrated building solutions player for rural housing and semi-urban industrial segment in the coming few years. The Government's continued thrust on projects in rural India will ensure that the uptrending from hay and tile based roofing to fibre cement roofing (82% of 1HFY10 topline) for rural housing will continue. With a strong distribution network across India through 6,000 retail points, EVI is well placed to capitalise on this opportunity. Softer input prices will only help. The company's entry into the pre-engineered steel building industry (18% of 1HFY10 topline) is opportune considering the increasing need for fast delivery, consistent quality control and low cost structures in the fast growing wide span, low-rise, non-residential building segment. The above factors will help the promoter group create Everest Industries as an equivalent of Gujarat Ambuja in the building solutions industry. Currently, the stock is trading at a PER of 10.5x its trailing 12 months earnings. We are very positive on the growth of the industry and the company's relative position in the same. We currently do not have coverage on the stock and will be initiating coverage in the near future.

Peer comparison valuation

(Rs mn)	CMP (Rs)	Mkt Cap	EV	TTM Adj. EPS (Rs)*	TTM PER (x)	TTM EV/ EBITDA (x)
Ramco Industries	57	4,966	4,942	4.5	12.7	5.3
Hyderabad Industries	460	3,444	3,443	86.9	5.3	2.8
Everest Industries	**163**	**2,412**	**3,887**	**15.5**	**10.5**	**6.3**
Visaka Industries	134	2,126	3,354	32.1	4.2	3.2

Source: Companies, BSE, NSE, B&K Research. *TTM – trailing 12 months.

Income Statement

Yr end 31 Mar (Rs mn)	FY06	FY07	FY08	FY09
Net sales	**2,531**	**3,038**	**2,851**	**5,295**
Growth (%)	*11.2*	*20.0*	*(6.1)*	*85.7*
Operating expenses	(2,120)	(2,774)	(2,670)	(4,805)
Operating profit	411	264	181	489
EBITDA	**411**	**264**	**181**	**489**
Growth (%)	*24.5*	*(35.7)*	*(31.4)*	*169.9*
Depreciation	(75)	(89)	(96)	(171)
Other income	13	30	142	48
EBIT	**349**	**205**	**227**	**366**
Interest paid	(14)	(27)	(47)	(165)
Pre-tax profit (before non-recurring items)	335	178	180	201
Non-recurring items	92	0	0	0
Pre-tax profit (after non-recurring items)	427	178	180	201
Tax (current + deferred)	(116)	(62)	(37)	(57)
Net profit	**311**	**117**	**143**	**145**
Adjusted net profit	219	117	143	145
Growth (%)	*14.5*	*(46.9)*	*22.8*	*0.9*
Net income	**311**	**117**	**143**	**145**

Balance Sheet

Yr end 31 Mar (Rs mn)	FY06	FY07	FY08	FY09
Current assets	894	1,027	1,377	2,114
Investments	0	0	1	1
Net fixed assets	1,130	1,713	2,186	2,415
Total assets	**2,023**	**2,741**	**3,563**	**4,530**
Current liabilities	381	553	665	1,100
Total debt	233	713	1,352	1,743
Other non-current liabilities	122	129	132	180
Total liabilities	**735**	**1,395**	**2,150**	**3,023**
Share capital	148	148	148	148
Reserves & surplus	1,150	1,197	1,265	1,365
Less: Misc. expenditure	(9)	0	0	(7)
Shareholders' funds	**1,288**	**1,345**	**1,413**	**1,506**
Total equity & liabilities	**2,023**	**2,741**	**3,563**	**4,530**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY06	FY07	FY08	FY09
Pre-tax profit	427	178	180	201
Depreciation	73	84	88	158
Chg in working capital	(173)	37	(70)	(366)
Total tax paid	(89)	(46)	(58)	(9)
Cash flow from oper. (a)	**237**	**254**	**140**	**(15)**
Capital expenditure	(295)	(668)	(561)	(388)
Chg in investments	0	0	(1)	0
Cash flow from inv. (b)	**(295)**	**(668)**	**(561)**	**(388)**
Free cash flow (a+b)	**(57)**	**(414)**	**(421)**	**(403)**
Equity raised/(repaid)	16	9	0	(7)
Debt raised/(repaid)	93	481	639	391
Dividend (incl. tax)	(148)	(44)	(69)	(69)
Other financing activities	0	0	(6)	(1)
Cash flow from fin. (c)	**(39)**	**446**	**564**	**313**
Net chg in cash (a+b+c)	**(97)**	**32**	**143**	**(89)**

Key Ratios

Yr end 31 Mar (%)	FY06	FY07	FY08	FY09
EPS (Rs)	14.8	7.9	9.7	9.8
EPS growth	14.5	(46.9)	22.8	0.9
EBITDA margin	16.2	8.7	6.4	9.2
EBIT margin	13.8	6.8	8.0	6.9
RoCE	23.5	10.7	8.9	11.6
Net debt/Equity	7.2	40.2	73.4	100.7

Valuations

Yr end 31 Mar (x)	FY06	FY07	FY08	FY09
PER	11.0	20.7	16.8	16.7
PCE	8.2	11.7	10.1	7.6
Price/Book	1.9	1.8	1.7	1.6
Yield (%)	4.3	2.5	2.5	1.5
EV/Net sales	1.0	1.0	1.2	0.7
EV/EBITDA	6.1	11.2	19.0	8.0

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY06	FY07	FY08	FY09
Net margin (%)	8.7	3.8	5.0	2.7
Asset turnover	1.3	1.3	0.9	1.3
Leverage factor	1.6	1.8	2.3	2.8
Return on equity (%)	18.5	8.9	10.4	9.9

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B&K Investment Ratings:

1.	**BUY:** Potential upside of	> +25% (absolute returns)
2.	**OUTPERFORMER:**	0 to +25%
3.	**UNDERPERFORMER:**	0 to -25%
4.	**SELL:** Potential downside of	< -25% (absolute returns)

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