Volume No. XII Issue No. 08 **July 31, 2020**

Everest Industries

Rs 210

Well-built

Sensex: 37,607 Nifty: 11,073

FINANCIALS SUMMARY

	NET SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEPRN	PBT	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS (RS)
1903 (12)	1408.32	7.4	104.57	6.47	111.04	7.63	103.41	20.55	82.86	0	82.86	21	61.86	39.6
2003 (12)	1285.41	3.3	42.21	9.45	51.66	7.04	44.62	23.74	20.88	0	20.88	7.35	13.53	8.7
2103 (12) P	1184.17	5.9	70.35	8.13	78.48	6.36	72.12	25.37	46.75	0	46.75	15.43	31.32	20
2203 (12) P	1401.15	8.3	116.6	9.19	125.79	6.68	119.11	27.91	91.2	0	91.2	30.1	61.11	39.1

*Annualised on current equity of Rs 15.64 crore of face value of Rs 10 each.
(P): Projections. Figures in crore. *Source: Capitaline Database*

Everest Industries (EIL) is one of India's largest manufacturers of AC roofing sheets. Everest offers a complete range of roofing, ceiling, wall, flooring, and cladding products distributed through a large network. The company is also engaged in EPC of pre-engineered steel buildings for industrial and commercial applications and solar roof-top solutions.

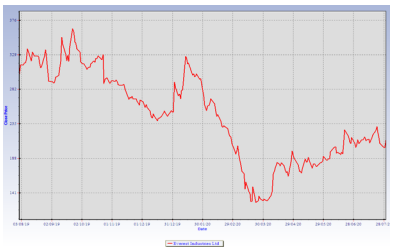
Everest is one of the largest Pre-engineered steel building providers in India and has designed and installed more than 2500 Pre-engineered steel buildings. Moreover it is one of the leading building solutions providers in India, providing detailed technical assistance in the form of designs, drawings, and implementation for every project.

The Company currently has two business segments – Building Products and Steel Buildings. The Building Products business (which offers a wide range of roofing products as well as accessories and fibre cement boards and panels) caters to rural and urban, housing and commercial markets. The Steel Buildings segment provides unique, customised Pre-engineered buildings and Smart Steel Buildings for industrial, commercial and logistics applications.

Currently the company has seven plants across India for roofing, 2 plant for Boards and Panels and three for steel building. While the seven plant for roofing was in Coimbatore (TN), Nashik (Maharathstra), Katni (MP), Ranchi (Jharkhand), Baleshwar (Odisha), Kolkata (WB) and Roorkee (Uttarakhand). The two plant for Boards & Panels are located at Nashik and Roorkee. The plants for steel building was located at Bharuch (Gujarat), Roorkee and Ranchi. Aggregate installed production capacity of the company for conventional building products (including AC roofing) is about 9.5 lakh tonne per annum (tpa) and that for PEBs at 72,000 tpa.

Established brand with strong market reach

Backed by presence of 85 years and a wide pan-India reach, Everest is one of India's largest manufacturers of AC roofing sheets. It has a well-established brand in the rural market, supported by a strong distribution network of about 6000 retail outlets and over 32 sales depots. The distribution network of the company covers more than 1 lakh villages and 600 cities. Strategic location of plants across the country help improve market penetration, and enable the group to compete effectively with regional players. This is reflected in its increased market share over the past two years.



STOCK DATA

BSE Code	:	508906
BSE Group	:	B
NSE Code	:	EVERESTIND
Bloomberg	:	EVI.IN
Reuters	:	EVRI.NS
Par Value	:	Rs 10
52-week High/Low	:	Rs 370 / Rs 120
Sector	:	Cement Products

SHAREHOLDING PATTERN*

Category		% of equity
Foreign	:	0.89
Institutions	:	0.28
Govt Holding	:	0.21
Corporate Holding	:	–
Promoters	:	50.74
Public & Others	:	47.89

* as on 30/06/2020
Source: Capitaline Databases

EBIT of building products expanded on price hike

For the quarter ended June 2020, the consolidated sales were down by 27% to Rs 317.05 crore hit by lower revenue at both building products (BP) and steel building (SB) business segment of the company hit by COVID pandemic related lockdowns. In Q1FY21, Sales volume of building products was down by 22% to 225 thousand MT and that of steel building was down by sharp 69% to 4 thousand MT. The impact of COVID is more pronounced in SB segment as it its fortune relate to capex in industrial and warehousing space which continue to be muted with execution suffering due to lack of manpower during and after lockdown. However as roofing demand being predominantly rural it is better off compared to SB business. But with OPM expanding by 290 bps to 12.2%, the fall at operating profit was restricted at 4% to Rs 38.56 crore. The fall at EBIT was 3% to Rs 42.48 crore largely due to Rs 9.69 crore swing in segment profit of SB business to a loss of Rs 3.92 crore. However despite lower sales, the segment profit of BP was up by 22% to Rs 46.40 crore with its segment margin expanding by 490 bps driven by price hike to pass on the increase in material cost (that could not be passed on last year) and benefit of cost pruning measures. The PBT was down by 10% to Rs 32.11 crore and the taxation in absolute terms was flat (up 0%) at Rs 11.21 crore. But with effective tax rate being higher at 34.9% (compared to 31.3% in corresponding previous period), the PAT was down by 15% to Rs 20.90 crore. The company made a provision of Rs 5.77 crore against the state government subsidy under GST regime receivable which was delayed with notification of the procedure getting delayed. But for this the profit for the quarter would have been higher than reported.

Taxation stood lower by 65% to Rs 7.35 crore in absolute term and the tax rate stood higher at 35.2% (compared to 25.3% in corresponding previous period). Thus the PAT was down by 78% to Rs 13.53 crore.

Strong rural demand and cost cutting measures to drive profitability going forward

Demand for AC roofing is predominantly derived from rural spending on household and warehousing construction. After having lost the sales completely during fag end of March 2020 and April 2020, the lockout was lifted from rural areas. Driven by favourable Rabi crop output, higher reservoir levels, good start to monsoon coupled with availability of local labour ensuring smooth construction activity have facilitated strong demand for roofing sheets. Strong pent up demand helped the company to partially make up the lost sales of April 2020 in subsequent months. Strong demand has substantially reduced the channel inventory and allowed the industry players to pass on the increase in material price to customers staring FY21 after absorbing the increase in input cost for entire FY20 due to intense competition & subdued demand.

Reduced company and channel inventory will drive faster recovery and growth in production going forward and better demand-supply management which will help sustain better prices along with better volumes for the rest of the year. Moreover with urban centres opening up, the demand for boards and panels will pick up steam bring in synergy in cost as well.

On steel building front, the company despite healthy order book is expected to see delay in execution with clients prefering to conserve cash with delay

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in investment/ payment. Understanding the steel volumes will be lower for the current fiscal under current market environment, the company initiated major cost reduction measures which will aid SB segment to reduce profit pressure significantly.

Thus on a weak base of last year, the strong rural demand and better realisation are expected to drive profitability for rest the fiscal.

With two consecutive years of good monsoon, high reservoir levels, government focus on rural investment/construction and rural income generation, rural reforms, limited impact of Covid-related disturbances and lockouts in rural areas and relative under performance of rural markets in the past couple of years create a stage for sustained rural outperformance for the next couple of years. Everest Industries is rightly placed to capitalise on this opportunity.

Steel building products division will suffer due to slowdown in investment in the current year. However as industrial and warehousing investment pick up from next year, the company's pre-engineered steel building products will benefit as they require much lower labour and time than normal construction solutions.

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Valuation

We expect the company to register an EPS of Rs 20 for FY21 and Rs 39.1 for FY2022. The current price of Rs 210 discounts the projected FY22 EPS by around 5 times.

EVEREST INDUSTRIES: CONSOLIDATED RESULTS

	2006(03)	1906 (03)	VAR%	2003 (12)	1903 (12)	VAR.(%)
Sales	317.05	432.18	-27	1285.41	1408.32	-9
OPM (%)	12.2	9.3		3.3	7.4	
OP	38.56	40.35	-4	42.21	104.57	-60
Other inc.	1.21	2.98	-59	9.45	6.47	46
PBIDT	39.77	43.33	-8	51.66	111.04	-53
Interest	1.49	1.63	-9	7.04	7.63	-8
PBDT	38.28	41.70	-8	44.62	103.41	-57
Dep.	6.17	5.96	4	23.74	20.55	16
PBT before EO	32.11	35.74	-10	20.88	82.86	-75
EO Income	0.00	0.00		0.00	0.00	
PBT after EO	32.11	35.74	-10	20.88	82.86	-75
Taxation	11.21	11.17	0	7.35	21.00	-65
PAT	20.90	24.57	-15	13.53	61.86	-78
EPS (Rs)*	#	#		8.7	39.6	

* EPS is on current equity of Rs 15.64 crore, Face value of Rs 10.
# EPS is not annualised due to seasonality of business. Figures in Rs crore.
Source Capitaline Database