

Everest Industries Ltd.

Q2 FY20 Quarterly Update

MARKET DATA

NSE TICKER	EVERESTIND
Networth H2FY20 (Rs in Crs)	456.6
P/BV Ratio (FY18E) (x)	1.0X
EPS (FY18E)(Rs.)	23.7
Market Price (Rs.)	334
P/E Ratio (TTM) (x)	10.8X
52 Week High (Rs)	532
52 Week Low Rs)	281
Market Capitalisation (rs. Cr)	456.1

AVERAGE MONTHLY VOLUME ('000)

BSE	5.8
NSE	58.7

SHARE HOLDING PATTERN

Promoter	48.4
FII	2.4
DII	11.2
Public	38.0

RETURN (%)

	3M	6M	12M
Everest	-7.7	-32.3	-37.2
Nifty	5.3	0.3	15.0

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Everest reported weak sets of numbers in tune with the overall frail economic scenario. Company's revenue declined by 8.8% to Rs. 288.5 cr on the back of flat volumes and lower realizations. Company's gross margins squeeze by 240 bps QoQ to 42.4% owing to lower realizations. Other operating expenses were in line with expectations, however due to lower volume the absorption of fixed cost wasn't optimum leading to decline in EBITDA. Company's reported EBITDA loss at Rs. 2.3 cr compared to positive EBITDA of Rs. 17.7 cr YoY.

Other income was higher by 125% during the quarter at Rs. 2.8 cr due to sale of certain assets. Interest cost was flattish YoY but up by 50% QoQ due to build up in inventory and debtor during the quarter. This is a common business practice for the company during half year and full year ending, however it was slightly higher during this quarter. Everest reported a loss of Rs. 6.6 cr compared to PAT of Rs. 8.1 cr. Company's numbers are not comparable sequentially, as Q1 is seasonally strong quarter for the company and Q2 has lower construction activity because of construction.

Segment wise performance and outlook:

Building Product Division (BPD): The volume for BPD was flattish on YoY basis as of-take remained lower. Due to lacklustre demand, the prices of the roof took a beating as average realizations for the company were lower by 5% despite increase in the RM cost. The positive takeaway however was that Boards and Panels division was higher by 8%. The capacity utilization is stable and around 75%

Buildings Division Data	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q2FY20
Revenue	174.5	317.0	236.1	194.2	176.7
Volume (in '000 MT)	155	287	211	169	154

Pre-Engg Buildings: Everest saw a sharp decline of 18% in PEB volume. Lower demand because of muted capex was one of the reason for slow off-take. Currently, company is sitting on order book of around 22,000 MT which is around 4 month's orders and company expects the execution to pick up in next two quarters.

Steel Building	Q2FY20	Q1FY20	Q4FY19	Q3FY19	Q2FY20
Revenue	111.8	114.4	131.2	113.1	136.1
Volume (in '000 MT)	13	13	15	13	16

Quarterly Performance:

Particulars (RS in crs)	Q2 FY20	Q2 FY19	YoY (%)	Q1 FY20	QoQ (%)	FY19	FY18	y-o-y
Net Sales	286.2	313.7	-8.8	431.5	-33.8	1408.3	1270.6	10.8
RM Consumed	164.9	169.3	-2.6	250.0	-34.2	783.5	710.8	10.2
RM as % Sales	57.6%	54.0%	260 bps	58.0%	-40 bps	55.6%	56.1%	-50 bps
Employee Cost	31.2	32.9	-5.0	30.1	3.2	115.8	108.2	7.0
Other Expenses	92.3	93.9	-1.7	110.4	-16.9	404.3	361.6	11.8
EBITDA	-2.3	17.7	-112.7	40.9	-105.6	104.6	89.9	16.4
EBITDA Margin	-0.8%	5.6%	-640 bps	9.5%	-1030 bp	7.4%	7.1%	30 bps
Interest	2.4	2.4	2.5	1.6	49.1	7.6	12.6	
PBT	-7.8	10.9	-171.6	36.3	-121.9	82.9	63.8	29.9
Tax	-1.2	2.8	-142.0	11.2	-110.6	21.0	11.5	
PAT	-6.6	8.1	-181.9	25.1	-127.0	61.9	52.3	18.4
EPS	-4.3	5.2	-181.9	16.1	-127.0	39.3	34.0	15.6



Everest Industries Ltd. Quarterly Segment-wise performance [Rs. cr/Net of unallocable expenses]

Description	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
REVENUE FROM OPERATIONS	259.1	290.6	341.3	416.8	312.8	307.3	367.4	432.2	286.2
Building Products	152.5	181.6	215.1	301.0	176.7	194.2	236.1	317.8	174.5
Steel Buildings	106.6	109.1	126.2	115.7	136.1	113.1	131.2	114.4	111.8
SALES MIX	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%	100%
Building Products	58.8%	62.5%	63.0%	72.2%	56.5%	63.2%	64.2%	73.5%	60.9%
Steel Buildings	41.2%	37.5%	37.0%	27.8%	43.5%	36.8%	35.8%	26.5%	39.0%
EBIT	17.2	25.7	30.9	52.1	28.4	24.6	27.5	43.9	6.1
Building Products	14.9	25.7	27.1	52.6	22.5	22.4	24.3	38.2	3.1
Steel Buildings	2.3	0.1	3.7	-0.4	5.9	2.3	3.2	5.8	3.0
EBIT MARGIN	6.6%	8.9%	9.0%	12.5%	9.1%	8.0%	7.4%	10.2%	2.1%
Building Products	9.8%	14.1%	12.6%	17.5%	12.7%	11.5%	10.3%	12.0%	1.8%
Steel Buildings	1.5%	0.0%	1.7%	-0.1%	3.3%	1.2%	2.4%	5.1%	2.7%

Conference Call Highlights

• **Building Products Division:**

- Market prices of Building products were lower during the half year by 5%.
- On an average, Everest continues to be the price leader in all the market it operates, except three states.
- Raw Material prices, particularly for Fibre and Cement, are trending higher. Company is also getting impacted by volatility in forex.
- Steel prices have come off quite a bit which is resulting in shift towards steel roofs from fibre cement roof in many markets.
- Co. was sitting on higher inventory as they were expecting good growth, which did not happen and let to stretch in working capital cycle for this half.
- Market share: Roofing – 17-18%; Boards & Panels- 25%.

• **Pre-Engineered Building Division**

- The steel prices have come off by around Rs 3700 per tonne YoY (7-8% lower) which led to marginal improvement at gross margin level. GMs would improve further in Q3 as the full impact of lower prices gets factored in.
- Execution speed is picking up as industry is expanding capacity for the PEB segment.
- Company will be targeting bigger orders in steel building segment this year. Currently, the average size of an order is 180 MT and company is aiming to take it to 250 MT.
- Though gross margins are lower in bigger orders, but it opens up vast opportunities and eventually helps in absorbing fixed costs making it overall profitable.

• **Guidance:**

- Excess monsoon will depress the sales in the short run, but will be positive for the sales in the long run as rural income increases due to better harvests.
- Company is very optimistic for the next two quarters and expects business to get back to normal levels.
- Can surpass the peak business which the company did in FY16 once the situation improves a bit.

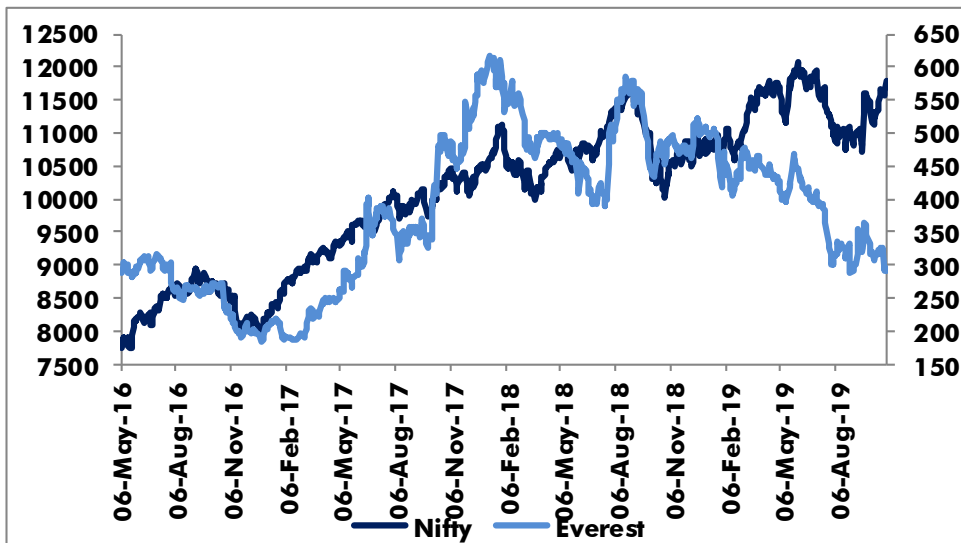


Valuation and View:

Given the economy wide slowdown, Everest Industries performance has been subpar for the first half of FY20. While the company remains relatively optimistic in the second half, we have our reservations in sharing the same optimism. We believe that the rural distress is here to stay for a bit longer, and any meaningful recovery is at least couple of quarters away.

This will have a bearing on company's revenues and profitability, which is why we are recommending a HOLD on the stock with price target of Rs. 333 based on 10X P/E on FY21s EPS of Rs. 33.3.

3-Yr Price chart





Everest Industries- Statement of Profit & Loss					
DESCRIPTION	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1155.4	1270.6	1404.4	1413.6	1543.5
EXPENDITURE :					
Raw Material Consumed	650.1	710.8	792.3	798.8	874.2
as % of Sales	56.3%	55.9%	56.4%	56.5%	56.6%
Power & Fuel Cost	30.2	31.6	34.6	35.2	37.4
Employee Cost	100.4	108.2	115.3	119.7	128.7
Other Manufacturing Expenses	63.2	67.3	72.3	75.6	81.8
Processing Cost	47.0	47.5	50.9	50.5	55.4
Freight Cost	86.4	94.7	107.9	108.6	117.8
General Overheads	44.9	44.4	46.2	48.9	51.9
S&D Overheads	14.1	12.7	14.0	15.6	17.0
Other Expenses	82.1	63.5	64.5	68.3	73.1
EBITDA (Ex OI)	37.0	89.9	106.5	92.5	106.3
EBITDA Margin	3.2%	7.1%	7.6%	6.5%	6.9%
Depreciation	24.9	23.5	20.7	24.1	25.1
EBIT	12.1	66.4	85.9	68.4	81.1
Other Income	9.1	10.0	6.5	4.3	1.8
Interest	18.9	12.6	7.6	6.3	3.6
Profit Before Taxation	2.3	63.8	84.8	66.4	79.3
Provision for Tax	0.0	11.5	20.7	20.6	27.4
Profit After Tax	2.3	52.3	64.1	45.8	51.9
Adjusted EPS	1.5	33.5	41.1	29.4	33.3

Everest Industries- Balance Sheet					
DESCRIPTION	FY17	FY18	FY19	FY20E	FY21E
Share Capital	15.4	15.6	15.6	15.6	15.6
Total Reserves	323.5	381.3	445.4	491.2	541.7
Shareholder's Funds	338.9	396.9	461.0	506.8	557.3
Total Borrowings	198.3	83.9	53.8	48.8	0.0
Other Non Current Liabilities	119.2	43.2	51.3	60.0	69.4
Total Non-Current Liabilities	317.5	127.1	105.1	108.8	69.4
Trade Payables	160.6	150.2	159.2	155.1	163.7
Other Current Liabilities	143.0	131.6	142.8	146.2	159.8
Total Current Liabilities	303.6	281.8	302.0	301.4	323.5
Total Liabilities	960.0	805.8	868.1	916.9	950.3
Fixed Assets	344.7	340.1	345.6	349.4	352.9
Other Non Current Assets	161.7	87.9	74.5	74.9	81.8
Total Non-Current Assets	506.4	428.0	420.0	424.4	434.7
Inventories	234.6	247.5	267.1	278.4	313.2
Sundry Debtors	99.0	66.1	95.4	115.6	143.7
Cash and Bank	11.0	19.7	22.6	22.6	-30.2
Other Current Assets	109.0	44.5	63.0	76.0	89.0
Total Current Assets	453.6	377.8	448.1	492.6	515.6
Total Assets	960.0	805.8	868.1	916.9	950.3



Everest Industries- Cash Flow Summary					
DESCRIPTION	FY17	FY18	FY19	FY20E	FY21E
PBT	87.0	63.8	84.8	66.4	79.3
Add: Depreciation	29.5	23.5	20.7	24.1	25.1
Change in WC	-21.5	45.3	-30.1	-31.6	-43.4
Cash From Operating Activities	95.0	131.8	54.6	38.3	33.6
Cash from Investing Activities	-12.9	-15.0	-16.8	-25.6	-28.6
Cash from Financing Activities	-57.4	-114.4	-30.1	-5.1	-48.8
Free Cash Flows after Div	24.7	2.4	7.7	7.7	-43.7
Closing Cash Balance	52.1	22.6	22.6	22.6	-28.8

Everest Industries - Key Ratios					
DESCRIPTION	FY17	FY18	FY19	FY20E	FY21E
EBITM (%)	3.2	7.1	7.6	6.5	6.9
ROE (%)	0.7	14.2	14.9	9.5	9.8
ROCE (%)	2.1	13.0	17.2	12.8	14.6
Inventory Turnover(x)	3.5	3.5	3.6	3.3	3.4
Debtors Turnover(x)	10.9	15.4	14.0	10.4	11.1
Receivable days	33.5	23.7	26.0	35.0	33.0
Inventory Days	105.2	103.2	102.0	110.0	108.0
Payable days	62.4	62.4	60.0	58.0	56.0
Total Debt/Equity(x)	0.6	0.2	0.1	0.1	0.0
Current Ratio(x)	1.5	1.3	1.5	1.6	1.6
Interest Cover(x)	0.6	5.3	11.3	10.8	22.7
Adjusted P/E Ratio	223.7	10.0	8.1	11.4	10.0
Price/ Book value	1.5	1.3	1.1	1.0	0.9



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