

April 21, 2023

Everest Industries Limited: Long-term rating reaffirmed and short-term rating downgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	130.00	130.00	[ICRA]A+ (Stable); reaffirmed
Non-fund based limits	245.00	250.00	[ICRA]A1; downgraded from [ICRA]A1+ and assigned for enhanced amount
Long-term/Short-term unallocated	0.00	60.00	[ICRA]A+ (Stable)/[ICRA]A1 to be assigned
Total	375.00	440.00	

*Instrument details are provided in Annexure I

Rationale

The revision in the short-term rating of Everest Industries Limited (EIL) to [ICRA]A1 from [ICRA]A1+ factors in the depletion in company's liquidity in FY2023, driven by increased inventory holding due to raw material supply constraints following the Russia-Ukraine war. Its free cash balances declined to around Rs. 16 crore as on December 31, 2022 from Rs. 165.1 crore as on March 31, 2022. Further, the company is also undertaking a capex program of Rs. 312 crore which is expected to be funded by debt of around Rs. 250 crore and balance outflow of around Rs. 62 crore from internal accruals is expected towards capex by June-2024.

The reaffirmation of the long-term rating continues to factor in EIL's established position in the domestic fibre cement (FC) industry, backed by its strong brand, distribution capabilities and the geographical spread of its plants. EIL's revenues are diversified with presence in the FC segment and non-asbestos products such as boards, panels and steel buildings/pre-engineered building (PEB) segment. The PEB segment reported improved performance in 9M FY2023 both in terms of revenue growth and PBIT margins, which were impacted in FY2021 and FY2022 due to the Covid-19 pandemic. Consequently, the share of PEB segment in the overall revenue increased to 31% in 9M FY2023 from 23% in FY2022, while the PBIT margins improved to 7.6% in 9M FY2023 from -0.4% in FY2022.

The ratings, however, remain constrained by the vulnerability of EIL's revenues and margins to the regulatory risks associated with the threat of ban on use or manufacture of asbestos-related products as well as on the mining of asbestos in asbestos producing countries. It imports fibre, one of the key raw materials. Therefore, EIL's margins remain exposed to fluctuations in key raw material prices and foreign exchange (forex) rates. It is undertaking capex in Gudipalli, Andhra Pradesh for setting up a new manufacturing facility for PEB segment, which would increase the capacity to 1,14,000 MTPA from 72,000 MTPA. The plant is anticipated to be operational by March 2024. The company is also setting up a new boards and panels plant in Chamarajanagar District, Karnataka, which would increase the capacity of boards and panels segment to 3,01,000 MTPA from 2,10,000 MTPA. This plant is expected to be operational by June 2024. The total cost of both the plants is Rs. 312 crore, which is likely to be funded by 80% debt of around Rs. 250 crore and internal accruals of Rs. 62 crore. Consequently, the leverage metrics are estimated to moderate with projected Total Debt/OPBITDA of 2.8 times as on March 31, 2024.

The Stable outlook on the rating reflects ICRA's expectations that EIL will continue to benefit from its strong market position in the domestic FC industry and maintain comfortable coverage metrics.

Key rating drivers and their description

Credit strengths

Established position in the domestic FC roofing industry – EIL is an established player in the domestic FC roofing industry with an operational track record of close to nine decades. The Group is backed by its strong brand and distribution capabilities, with more than 7,000 dealers across 600 cities and 1,00,000 villages. The wide geographical reach of its plants, enabling better market penetration and customer acquisition, also lends support.

Diversified revenue streams – EIL's revenues are diversified with presence in the FC segment and non-asbestos products such as boards and panels and the steel buildings/PEB segment. In 9M FY2023, the revenue from PEB segment increased to 31% (FY2022:23%) owing to high value orders from reputed multi-national companies (MNCs) and corporates. The share of non-asbestos products in the overall building products revenue increased to 27.5% (FY2022: 24.6%).

Improved performance of PEB segment – The revenues from PEB segment increased by 44% YoY in 9M FY2023 to Rs. 367.4 crore from Rs. 255.3 crore in 9M FY2022, driven by increase in order inflow from MNCs and large corporates like Britannia, HUL, Amazon, Flipkart, etc. The PBIT margin for the PEB segment improved to 7.6% in 9M FY2023 from -0.4% in 9M FY2022, on account of higher realisations and better absorption of fixed overheads. EIL has incorporated price variation clause with respect to the prices of key raw materials from FY2023 onwards, which has supported the margins.

Credit challenges

Working capital-intensive nature of operations; margins exposed to fluctuating raw material prices and foreign exchange rates – EIL's operations remain working capital intensive in nature, given the higher inventory levels. The company's liquidity has depleted in FY2023 following the increased inventory holding due to raw material supply constraints following the Russia-Ukraine war. Its free cash balances declined to around Rs. 16 crore as on December 31, 2022 from Rs. 165.1 crore as on March 31, 2022. Besides, the margins remain susceptible to any adverse fluctuations in key raw material costs such as asbestos, cement, fly ash, steel. The OPM moderated to 4.8% in 9M FY2023 from 5.4% in FY2022 owing to increased raw material prices. EIL's margins stand exposed to fluctuations in the foreign exchange rates, given the considerable imports in the form of asbestos fibre.

Debt-funded capex plans – EIL is undertaking capex in Gudipalli, Andhra Pradesh, for setting up a new manufacturing facility for PEB segment, which would increase the capacity of PEB segment to 1,14,000 MTPA from 72,000 MTPA. The plant is likely to be operational by March 2024. The company is setting up a new boards and panels plant in Chamarajanagar District, Karnataka, which would increase the capacity of boards and panels segment to 3,01,000 MTPA from 2,10,000 MTPA. This plant is anticipated to be operational by June 2024. The total cost of both the capex is Rs. 312 crore, which is expected to be funded by 80% debt. Consequently, the leverage ratio are estimated to moderate with projected Total Debt/OPBITDA of 2.8 times as on March 31, 2024.

Exposure to regulatory risks of asbestos-related products – With around 50% of the revenues coming from the FC roofing segment in 9M FY2022, EIL's revenues and margins are vulnerable to the regulatory risks arising from the threat of ban on the use or manufacturing of asbestos-related products and its mining in the asbestos-producing countries.

Environmental and social risks

While some forms of asbestos fibre pose health risks to individuals who are exposed, asbestos cement manufactured using white chrysotile asbestos is considered to be of relatively low risk. All the manufacturers are required to follow strict environmental norms to operate. Given the safety and environmental health-related concerns associated with asbestos, the industry may be exposed to the risk of tightening regulatory norms. Any ban on the mining of asbestos across countries may

expose the company to risk of non-availability of raw material. However, with EIL’s plans of increasing diversification towards non-asbestos products, the risk is expected to moderate over the medium to long term.

Liquidity position: Adequate

EIL’s liquidity position remains adequate on the back of free cash and liquid investments of Rs. 16.0 crore and undrawn fund-based working capital limits of around Rs. 73.5 crore as on December 31, 2022. The average utilisation of fund-based limits was ~40% during October 2022 to February 2023. At present, there are no long-term debt obligation. However, the company plans to undertake capex of Rs. 312 crore by Q1 FY2025, of which around Rs. 62 crore is expected to be funded by internal accruals and the balance Rs. 250 crore through debt, which is likely to have a moratorium period of two years.

Rating sensitivities

Positive factors – ICRA may upgrade the Group’s ratings in case of a healthy improvement in its operating income, profitability, working capital cycle and liquidity, on a sustained basis, along with improvement in debt coverage metrics.

Negative factors – ICRA may downgrade the ratings in case of significant deterioration in the profitability and coverage indicators or stretch in the working capital cycle. Additionally, the company’s inability to ramp-up the operations post commissioning of the new plants without commensurate returns resulting in Net Debt/OPBITDA of above 1.5 times, on a sustained basis, could lead to a rating downgrade. Any regulatory action pertaining to the use of asbestos will also adversely impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken consolidated financials of EIL and its subsidiaries (enlisted in Annexure-II) given the close business, financial and managerial linkages among them.

About the company

EIL, incorporated in 1934, is an established player in the domestic FC sheet industry with close to nine decades of experience. The company’s operations can be classified into two divisions – building products and steel buildings/PEB. The building products division includes roofing products (asbestos and non-asbestos FC sheets), ceiling, wall, floor, cladding and door solutions. The steel buildings division provides end-to-end solutions, from designing and manufacturing to installing of steel buildings, mainly for industrial buildings and warehouses. EIL has a building products capacity of 10,51,700 MTPA and 72,000 MTPA for steel buildings as on December 31, 2022.

Key financial indicators (audited)

EIL (consolidated)	FY2021	FY2022	9M FY2023
Operating income (Rs. crore)	1,217.9	1,364.7	1,201.3
PAT (Rs. crore)	56.4	44.1	29.4
OPBDIT/OI (%)	9.2%	5.4%	4.8%
PAT/OI (%)	4.6%	3.2%	2.4%
Total outside liabilities/Tangible net worth (times)	0.8	1.0	
Total debt/OPBDIT (times)	0.1	0.8	
Interest coverage (times)	28.9	23.2	10.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company's audited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on December 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1 Fund-based – Cash credit	Long-term	130.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Negative)
2 Non-fund based limits	Short-term	250.0	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Long-term/ Short-term unallocated	Long-term/Short-term	60.0	-	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-
4 External commercial borrowings	Long-term	-	-				[ICRA]A+ (Negative)
5 Fund-based – Term loan	Long-term	-	-				[ICRA]A+ (Negative)
6 Unallocated – Long-term	Long-term	-	-				[ICRA]A+ (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Non-fund based limits	Very simple
Long-term/ Short-term unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash credit	-	-	-	130.00	[ICRA]A+(Stable)
-	Non-fund based limits	-	-	-	250.00	[ICRA]A1
-	Long-term/ Short-term unallocated	-	-	-	60.00	[ICRA]A+(Stable)/[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Everest Building Products	100%	Full Consolidation
Everest FZE	100%	Full Consolidation

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About ICRA Limited:

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