

February 13, 2024

## Everest Industries Limited: Ratings reaffirmed; outlook revised to Negative from Stable

### 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+ (Negative); reaffirmed; outlook revised to Negative from Stable
Short term – Non-fund based limits	250.00	250.00	[ICRA]A1; reaffirmed
Long-term/Short-term unallocated	60.00	60.00	[ICRA]A+ (Negative); reaffirmed; outlook revised to Negative from Stable/[ICRA]A1; reaffirmed
<b>Total</b>	<b>440.00</b>	<b>440.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The outlook revision on the long-term rating for Everest Industries Limited (EIL) to Negative factors in the expected significant decline in the company's operating profits in FY2024 due to steep decline in sales from the steel buildings/pre-engineered building (PEB) segment owing to weak order inflow and elevated input costs in building material segment. This coupled with debt-funded capex in FY2025 is likely to result in moderation in its debt protection metrics. EIL's operating income (OI) fell by 4.8% YoY and the operating margins decreased by 250 bps to 2.3% in 9M FY2024. The revenues from the PEB segment declined by 24% in 9M FY2024 YoY due to weak order flow, leading to a PBIT loss of Rs. 1.1 crore against a profit of Rs. 28.1 crore in 9M FY2023. The building material segment revenues, registered a growth of 3.6% YoY in 9M FY2024, while the PBIT stood at Rs. 62.3 crore against Rs. 65.2 crore in 9M FY2023. While both the segments are expected to show some improvement from Q4 FY2024, supported by likely increase in orders, the operating profitability for the full year FY2024 is estimated to moderate from FY2023 levels. ICRA expects the operating revenues to grow by ~15% in FY2025, driven by commencement of operations at the new boards and panels plant, steady demand for building products, and expected increase in order flow from PEB segment, while the operating margins are likely to remain in the range of 4.4-4.6%.

The rating reaffirmation 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. The ratings consider the diversified revenues of EIL with presence in the FC segment and non-asbestos products such as boards, panels and steel buildings/PEB segment.

EIL is undertaking significant capex of ~Rs. 312 crore for setting up a new PEB manufacturing unit in R. Ananthapur, Andhra Pradesh of 36,000 MTPA capacity (in its wholly-subsiary Everest Steel Building Private Limited), and a new boards and panels plant in Chamarajanagar, Karnataka of 91,000 MTPA-capacity (in its wholly-owned subsidiary Everest Buildpro Private Limited). While the debt funding for the capex was earlier estimated to be ~80%, the same has now been revised to ~50% of the total capex, and the remaining will be funded by internal accruals. As of now around Rs. 108 crore of capex has been incurred, which has been funded entirely by internal accruals. However, the company is expected to draw the debt (already tied-up) in Q4 FY2024 and Q1 FY2025. The boards and panels plant is anticipated to be operational by March 2024 (against earlier expectation of June 2024), while the PEB plant has been delayed and is projected to become operational in Q4 FY2025/Q1 FY2026 (against the earlier expectation of March 2024). With the decline in profitability and likely increase in debt on account of capex, the leverage metrics are expected to be moderate with Total Debt/OPBITDA of around 3.3 – 3.5 times as of March 2024 (PY:1.6 times).

The ratings, however, continues to remain constrained by the vulnerability of EIL's revenues and profitability to the regulatory risks associated with the threat of ban on usage 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. The ratings remain constrained by the working capital-intensive nature of the operations, given the high inventory holding requirements, and the exposure to cyclical trends in the key end-user segments (rural housing, real estate and construction), along with the intense competition in the industry. The demand for asbestos FC sheets primarily comes from rural and semi-urban regions with susceptibility to volatility in monsoon trends. The earnings of the building material segment are dependent on monsoons, with Q1 setting the tone for the full year.

## 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 FY2023 and 9M FY2024, the PEB segment accounted for 31% and 25% (23% in FY2022) of the total revenues, supported by orders from reputed multi-national companies (MNCs) and corporates.

### Credit challenges

**Weak operating performance in 9M FY2024; margins exposed to fluctuations in raw material prices and forex rates** – EIL's profitability remains vulnerable to variations in key raw material prices and any adverse fluctuations in forex rate as its key material, asbestos is imported. Its OI remained lower by 4.8% YoY in 9M FY2024, while the OPBITDA fell sharply to Rs. 26.3 crore from Rs. 57.8 crore. The revenues from the PEB segment reduced by 24% in 9M FY2024 YoY due to weak order flow, leading to PBIT loss of Rs. 1.1 crore against a profit of Rs. 28.1 crore in 9M FY2023. While the PEB segment is expected to show some improvement from Q4 FY2024, supported by likely increase in orders, the operating profitability for the full year FY2024 is estimated to moderate from FY2023 levels. EIL's operations remain working capital-intensive in nature, given the higher inventory holding requirements owing to seasonal nature of operations. With the decline in profitability and the likely increase in debt on account of capex, the leverage metrics are expected to be moderate with Total Debt/OPBITDA of around 3.3 – 3.5 times as of March 2024 (PY:1.6 times).

**Exposure to regulatory risks of asbestos-related products, cyclicity in end-user industry and competition** – With around 75% of revenues coming from the FC roofing segment in 9M FY2024, 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. The company is exposed to cyclical trends in the key end-user segments (real estate, construction and rural housing), along with the intense competition in the industry. The demand for asbestos FC sheets primarily comes from rural and semi-urban regions with susceptibility to volatility in monsoon trends. The earnings of the domestic business are dependent on monsoons, with Q1 setting the tone for the full year.

## 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 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. As on December 31, 2023, the company had free cash and liquid investments of Rs. 15.0 crore and undrawn fund-based working capital limits of around Rs. 110.0 crore. The average utilisation of fund-based limits was low at 7% in 9M FY2024. At present, there are no long-term debt obligations. However, the company is in the midst of a large capex of Rs. 312 crore, which is proposed to be funded by ~50% debt with a moratorium of two years.

## Rating sensitivities

**Positive factors** – ICRA may revise the outlook in case of a healthy improvement in its earnings, working capital cycle and liquidity, on a sustained basis, along with improvement in leverage and coverage metrics.

**Negative factors** – ICRA may downgrade the ratings in case of the company's inability to improve the profitability and coverage indicators, or if there is a stretch in the working capital cycle. Additionally, its inability to ramp-up the operations post commissioning of the new plants without commensurate returns resulting in Total Debt/OPBITDA of above 2.0 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	<a href="#">Corporate Credit Rating Methodology</a>
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, 2023.

## Key financial indicators (audited)

EIL (consolidated)	FY2022	FY2023	9M FY2024*
Operating income	1364.7	1647.6	1,143.3
PAT	44.1	42.4	12.6
OPBDIT/OI	5.4%	4.2%	2.3%
PAT/OI	3.2%	2.6%	1.1%
Total outside liabilities/Tangible net worth (times)	1.0	0.9	NA
Total debt/OPBDIT (times)	0.8	1.6	NA
Interest coverage (times)	23.2	2.2	3.1

Source: Company, ICRA Research; \* unaudited; NA – Not Available; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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 the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of December 31, 2022 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 13, 2024	Apr 21, 2023	Feb 25, 2022	Feb 05, 2021	May 18, 2020
1 Fund-based – Cash credit	Long-term	130.0	-	[ICRA]A+ (Negative)	[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+	[ICRA]A1+
3 Long-term/ Short-term unallocated	Long-term/Short-term	60.0	-	[ICRA]A+ (Negative)/ [ICRA]A1	[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)
7 Commercial Paper	Short-term	-	-	-	-	[ICRA]A1+; reaffirmed and withdrawn	[ICRA]A1+	[ICRA]A1+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund based-Cash Credit	Simple
Short term-Non-Fund Based Limits	Very Simple
Long term/Short term – Unallocated	NA

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
NA	Cash credit	NA	NA	NA	130.00	[ICRA]A+(Negative)
NA	Non-fund based limits	NA	NA	NA	250.00	[ICRA]A1
NA	Long-term/ Short-term unallocated	NA	NA	NA	60.00	[ICRA]A+( Negative)/[ICRA]A1

Source: Company

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**Annexure II: List of entities considered for consolidated analysis**

Company Name	EIL Ownership	Consolidation Approach
Everest Building Products	100%	Full Consolidation
Everest FZE	100%	Full Consolidation
Everest Steel Building Private Limited	100%	Full Consolidation
Everest Buildpro Private Limited	100%	Full Consolidation

Source: EIL

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