March 15, 2017

Everest Industries Limited

Instruments*	Amount Rated (Rs. Cr.)	Rating Action
Fund based Limits	190	[ICRA]A(Stable) (Revised from [ICRA]A+(Negative))
External Commercial Borrowings (ECB)	$8.4 million	[ICRA]A(Stable) (Revised from [ICRA]A+(Negative))
Working Capital Term Loan	74.2	[ICRA]A(Stable)/[ICRA]A1 (Revised from [ICRA]A+(Negative)/[ICRA]A1)
Non Fund Based Limits	300	[ICRA]A1 (Reaffirmed)
Commercial Paper	40	[ICRA]A1 (Reaffirmed)

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has revised the long term rating to [ICRA]A (pronounced ICRA A)[1] from [ICRA]A+ (pronounced ICRA A plus) and reaffirmed the short term rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 564.2 Cr. bank limits of Everest Industries Ltd. (EIL). ICRA has also revised its rating to [ICRA]A(Stable)/[ICRA]A1] from [ICRA]A+(Negative)/[ICRA]A1] on the Rs. 74.2 Cr. working capital term loan. ICRA has also revised its long term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A+ (pronounced ICRA A plus) on the 8.4 million $ ECB and reaffirmed its rating of [ICRA]A1 (pronounced ICRA A one) on the Rs. 40 Cr. Commercial Paper facility of EIL.

Rationale

The revision in long term rating takes into account the sub-par performance of both the divisions i.e. Building Products and PEB during 9M FY17 which has impacted the top line as well as profitability from operations. The building products segment was primarily impacted by low export volumes in the boards and panels division and low offtake for roofing products especially during Q3FY17 owing to demonetization initiative by the Indian Government along with major expenditure incurred on 'Project Parivartan'. The PEB segment has underperformed during 9M FY17 on account of significant increase in the prices of steel. ICRA also notes the adverse impact of foreign exchange fluctuations on the company's profitability during Q3FY17.

The ratings however continue to factor in the established position of EIL in the domestic fibre cement (FC) industry backed by its strong brand, distribution capabilities and geographic spread of its plants enabling better customer reach. ICRA continues to positively factor in the diversification of revenues owing to the presence of PEB division which accounts for ~35% of the turnover. The ratings also factor in the healthy financial profile of EIL as reflected by healthy profitability margins, comfortable capital structure and strong coverage indicators. In ICRA's view the demand in both the divisions is expected to be robust over the medium to long term, however there may be some short term deferment in sales even in Q4 on account of impact of demonetization on the economy in general.

The ratings continue to be tempered by vulnerability of both the businesses to cyclical trends in the main consuming segments (real estate, construction and rural housing) and high competitive intensity of the industry which besides exerting pressure on EIL's margins, limits its ability to pass on cost increases to customers. The ratings are also constrained by threats of restrictions on the usage of asbestos in the

1 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

domestic market as well as restrictions on mining of asbestos in asbestos producing countries (as asbestos is imported) in the long term which can affect EIL's business. The profitability of the company continues to be vulnerable to variations in the prices of key raw materials of any adverse fluctuations in exchange rates.

Going forward, with the monsoons being on expected lines, the roofing segment is expected to generate sufficient demand, however owing to the demonetization initiative of Government of India, there may be some deferment in demand owing to which offtake in Q4 may be below expected level. Things are expected to be normalized from FY18 onwards though. The PEB division has been plagued by increase in prices of steel which is a key raw material. The same is expected to impact profitability to some extent during Q4 as well as not all past orders would have factored in for the increased steel prices. The ability of the company to improve its scale of operations, improve profitability margins and maintain comfortable debt protection metrics would be the key rating sensitivities.

Key rating drivers

Credit Strengths

- Established position of EIL in the domestic fibre cement (FC) industry backed by its strong brand, distribution capabilities and geographic spread of its plants enabling better customer reach
- Revenue diversification on account of the presence of EIL in the PEB segment
- Significant increase in the installed capacity of the steel division coupled with healthy order flow is expected to augur well for the revenues from this segment in medium to long term
- Pan India manufacturing presence and wide distribution network adds to competitive advantage
- Comfortable capital structure

Credit Concerns

- Vulnerability of FC industry and PEB business to cyclical trends in the main consuming segments (real estate, construction and rural housing) and high competitive intensity of the FC industry which besides exerting pressure on EIL's margins, limits its ability to pass on cost increases to customers
- Threats of restrictions on the usage of asbestos in the domestic market as well as restrictions on mining of asbestos in asbestos producing countries
- Vulnerability of profitability to variations in the prices of key raw materials or any adverse fluctuations in exchange rates
- Adverse impact of sub-par performance of both divisions on the profitability margins and coverage indicators

Description of key rating drivers highlighted above:

EIL is an established player in the domestic Fibre Cement (FC) sheet industry with experience of over seven decades of operations. From being a pure-play asbestos fibre cement sheet manufacturer, EIL diversified its revenue mix by addition of new products in the Building Products division and entry into PEB business. Consequently, the company is not exposed to slowdown in a single segment with ~65% of revenues being derived from building products segment. EIL also gains immensely from the presence of its plants across the country which helps it to cater to its target market in a more efficient manner.

EIL continues to operate in a very competitive environment (for both segments) which besides exerting pressure on EIL's margins, limits its ability to pass on cost increases to customers. The financial performance during 9MFY17 is characterized by decline in profitability margins and deterioration in coverage indicators. However, the capital structure continues to be comfortable with the gearing being at moderate levels. Going forward, the profitability continues to remain vulnerable to variations in the prices of key raw materials or any adverse fluctuations in exchange rates. EIL' business prospects continue to be exposed to any restrictions on the usage of asbestos in the domestic market as well as restrictions on mining of asbestos in asbestos producing countries.

Analytical approach
Not Applicable

Links to applicable Criteria
Corporate Credit Ratings: A Note on Methodology

About the Company:
Incorporated in 1934, EIL is an established player in the domestic Fibre Cement (FC) sheet industry with experience of over seven decades of operations. The company's operations can be classified into two divisions – 'Building Products' and 'Steel Buildings/PEB'. Building products division includes products for providing roofing solutions (asbestos as well as non-asbestos fibre cement sheets), ceiling solutions, wall solutions, floor solutions, cladding solutions and door solutions. The Steel buildings divisions provides end to end solutions from designing, manufacturing to installation of steel buildings mainly used for industrial buildings and warehouses. EIL has a capacity of 8,65,000 MTPA for Building Products and 72,000 MTPA for Steel Buildings.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating In FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
				Mar 2017	Dec 2016	Sep 2015	Jul 2014	Oct 2013
1	Fund based Limits	Long term	190	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	External Commercial Borrowings (ECB)	Long term	$8.4 million	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Working Capital Term Loan	Long term/Short term	74.2	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1			
4	Non Fund Based Limits	Short term	300	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5	Commercial Paper	Short term	40	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	**Date of issuance/ sanction letter**	**Coupon rate**	**Maturity Date**	**Size of the issue (Rs. Cr)**	**Current Rating and Outlook**
Fund based Limits				**190**	**[ICRA]A(Stable)**
HDFC Bank Ltd	24th May 2016			45	
Kotak Mahindra Bank Ltd	17th Feb. 2016			37	
ICICI Bank Ltd.	5th Jan, 2016			23	
State Bank of India	19th Jan 2016			15	
Axis Bank Ltd.	21st Sept 2016			30	
DBS Bank Ltd	8th March 2016			20	
Yes Bank Ltd	26th Nov 2015			20	
External Commercial Borrowings (ECB)				**$8.4 million**	**[ICRA]A(Stable)**
DBS Bank Ltd	15th Nov 2011		Apr 2017	$2.4 million	
Axis Bank Ltd	3rd Sept 2014		Sep 2022	$6.0 million	
Working Capital Term Loan				**74.2**	**[ICRA]A(Stable) / [ICRA]A1**
ICICI Bank Ltd	30th Dec 2015		Dec 2020	50	
HDFC Bank Ltd (LAP)	2nd Jan 2014		Nov 2018	7.2	
HDFC Bank Ltd (LAP)	24th May 2016		Jun 2021	15	
Non Fund Based Limits				**300**	**[ICRA]A1**
HDFC Bank Ltd	24th May 2016			65	
Kotak Mahindra Bank Ltd	17th Feb. 2016			55	
ICICI Bank Ltd.	5th Jan, 2016			95	
State Bank of India	19th Jan 2016			35	
Axis Bank Ltd.	21st Sept 2016			30	
DBS Bank Ltd	8th March 2016			20	
Commercial Paper				**40**	**[ICRA]A1**

Source: EIL

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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