

## Everest Industries Limited

January 16, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	190.00	190.00	Reaffirmed at [ICRA]A(Positive)/[ICRA]A1; Outlook revised from (Stable)
External Commercial Borrowings	\$8.40 million	\$6.00 million	Reaffirmed at [ICRA]A(Positive); Outlook revised from (Stable)
Term Loans	-	65.00	Reaffirmed at [ICRA]A(Positive); Outlook revised from (Stable)
Working Capital Term Loan	74.20	-	-
Non-Fund Based Limits	300.00	300.00	Reaffirmed at [ICRA]A1
Unallocated Limits	-	9.20	Reaffirmed at [ICRA]A(Positive)/[ICRA]A1; Outlook revised from (Stable)
<b>Total</b>	<b>Rs. 564.20 crore + \$8.40 million</b>	<b>Rs. 564.20 crore + \$6.00 million</b>	
Commercial Paper	40.00	40.00	Reaffirmed at [ICRA]A1

### Rating action:

ICRA has reaffirmed the long-term rating at [ICRA]A (pronounced ICRA A) and the short-term rating at [ICRA]A1 (pronounced ICRA A one) for the Rs. 190.00-crore<sup>1</sup> fund-based limits and the Rs. 9.20-crore (earlier nil) unallocated limits of Everest Industries Limited (EIL)<sup>2</sup>. ICRA has also reaffirmed the long-term rating at [ICRA]A for the \$6.00-million (reduced from \$8.40-million) external commercial borrowings and Rs. 65.00-crore (earlier nil) term loans. The outlook on the long-term rating is revised to Positive from Stable. ICRA also has reaffirmed the short-term rating of [ICRA]A1 for Rs. 300.00-crore non-fund based limits and Rs. 40.00-crore commercial paper of EIL.

### Rationale

The outlook revision to Positive favourably factors in the improvement in EIL's financial profile as reflected by recovery in revenue growth, operating profitability along with improvement in capital structure and debt-coverage metrics in H1 FY2018 on a year-on-year (YoY) basis. This is supported by the improvement in the business risk profile on account of a pick-up in the rural demand for the fibre cement (FC)-roofing segment along with healthy order in-flow in the pre-engineered building (PEB) segment. These factors are also likely to augur well for EIL's business in the medium term.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

Operating profitability in the building products division improved in H1 FY2018 supported by higher utilisation and stable raw material prices, and in the PEB segment, operating profitability was driven by healthy sales volumes and incorporation of pass-through clauses in customer contracts (with longer duration and customer-side delays). The profitability is likely to continue in the near term. However, volatility of margins to fluctuations in steel prices cannot be ruled out.

The ratings continue to factor in EIL's established position in the domestic 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, however, are constrained by the vulnerability of both the businesses to cyclical trends in the main consuming segments (real estate, construction and rural housing) and intense competition intensity in 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 on restrictions on the usage of asbestos in the 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 and any adverse fluctuations in exchange rates.

## Outlook: Positive

ICRA expects the revenues, profitability and the debt-coverage metrics to improve in the near term supported by steady volume growth, better utilisation rate and operating efficiencies. The outlook may be revised to Stable if there is a deterioration in the business performance impacting the profitability and debt-coverage metrics. Further, higher-than-expected capex and its adverse impact on the capital structure may also lead to a revision in the outlook to Stable.

## Key rating drivers:

### Credit strengths

**Established position in the domestic FC industry** - EIL is an established player in the domestic FC-roofing industry with a track record of over seven decades of operations. This is backed by its strong brand, distribution capabilities with around 6,000 retail outlets and geographic spread of its plants enabling better market penetration and customer reach.

**Revenue diversification** – The FC segment accounts for ~55% of revenues; the non-asbestos products such as boards and panels and steel building (PEB segment) account for the remaining. This reduces the revenue concentration from the FC-roofing segment.

**Improvement in EIL's financial performance** – Improvement in the financial profile in H1 FY2018 as reflected by recovery in operating income (OI) by 6% YoY and operating profitability to 7.1% from 3.8% in H1 FY2017. This, along with a decline in the total debt, resulted in YoY improvement in the capital structure and coverage metrics in H1 FY2018. Going forward, the financial profile is likely to be supported by the improved business performance supported by pick-up in rural demand for FC segment, healthy order flow and incorporation of cost-escalation clauses (for longer tenure contracts) in the PEB segment.

## Credit challenges

**Exposure to cyclicity in businesses and high competition in the FC industry** - Vulnerability of FC industry and PEB business to cyclical trends in the main consuming segments (real estate, construction and rural housing) and intense competition in the FC industry exert pressure on EIL's margins. The FC industry characterised by low entry barriers, ease of capacity addition and supply overhang leading to pricing pressures

**Exposure to regulatory risks associated with threat of ban on use or manufacture of asbestos-related products** – With 55% of the revenues from the FC roofing segment, EIL's revenues are exposed to the threat on the usage of asbestos in the domestic market as well as restrictions on mining of asbestos in asbestos-producing countries. In India, only white asbestos (known as chrysotile) fibre is used and all forms of asbestos mining are banned.

**Exposure of margins to fluctuations in raw material prices and exchange rates** - Vulnerability of profitability to variations in the prices of key raw materials and any adverse fluctuations in exchange rates. However, the pass-through clauses for longer tenure contracts in the PEB segment are likely to mitigate the impact of the volatility in the steel prices on margins to an extent.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company:

Incorporated in 1934, EIL is an established player in the domestic 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. The building products division includes products for providing roofing solutions (asbestos as well as non-asbestos FC sheets), ceiling solutions, wall solutions, floor solutions, cladding solutions 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 capacity of 8,65,000 MTPA for building products and 72,000 MTPA for steel buildings.

In H1 FY2018, EIL reported a net profit of Rs. 21.43 crore on an operating income (OI) of Rs. 610.69 crore compared with net profit of Rs. 4.05 crore on an OI of Rs. 575.61 crore in H1 FY2017. EIL reported a net profit of Rs. 2.46 crore on an OI of Rs. 1,155.38 crore in FY2018 compared with a net profit of Rs. 35.31 crore on an OI of Rs. 1,313.36 crore in the previous year.

## Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1313.36	1155.38
PAT (Rs. crore)	35.31	2.46
OPBDIT/OI (%)	6.80%	3.49%
RoCE (%)	11.29%	3.53%
Total Debt/TNW (times)	0.74	0.57
Total Debt/OPBDIT (times)	2.86	4.92
Interest Coverage (times)	4.68	2.13
NWC/OI (%)	16%	17%

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017			Date & Rating in FY2016			Date & Rating in FY2015	
					March 2017	December 2016	April 2016	September 2015	December 2014	July 2014		
1	Fund-based Limits	190.00	-	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Stable)	[ICRA]A+ (Negative)/[ICRA]A1	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	
2	External Commercial Borrowings	\$6.0 million	\$6.0 million	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)		
3	Term Loan	65.00	22.50	[ICRA]A (Positive)	-	-	-	-	-	-		
4	Working Capital Demand Loan	-	-	[ICRA]A (Positive)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A+ (Negative)/[ICRA]A1	-	-	-	-		
5	Non-fund Based Limits	300.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1		
6	Unallocated Limits	9.20	-	[ICRA]A (Positive)/[ICRA]A1	-	-	-	-	-	-		
7	Commercial Paper	40.00	-	[ICRA]A1	[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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits	-	9.15-9.95%	-	190.00	[ICRA]A (Positive)/[ICRA]A1
NA	External Commercial Borrowings	-	LIBOR+4%	September 2022	\$ 6.00 million	[ICRA]A (Positive)
NA	Term Loan	August 2017	8.50%	April 2023	65.00	[ICRA]A (Positive)
NA	Non-fund Based Limits	-	NA	-	300.00	[ICRA]A1
NA	Unallocated Limits	-	NA	-	9.20	[ICRA]A (Positive)/[ICRA]A1
NA	Commercial Paper	-	NA	-	40.00	[ICRA]A1

Source: Everest Industries Limited

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 124 4545 304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Anupama Reddy**  
+91 40 4067 6516  
[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents