Everest Industries Limited

February 05, 2018

Summary of rated instrument

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	190.00	Upgraded to [ICRA]A+ from [CRA]A; Outlook revised to Stable from Positive and [ICRA]A1 reaffirmed
External Commercial Borrowings	$6.00 million	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Term Loans	65.00	Upgraded to [ICRA]A+ from [ICRA]A; Outlook revised to Stable from Positive
Non-Fund Based Limits	300.00	[ICRA]A1 reaffirmed
Unallocated Limits	9.20	Upgraded to [ICRA]A+ from [CRA]A; Outlook revised to Stable from Positive and [ICRA]A1 reaffirmed
Total	**Rs. 564.20 crore + $6.00 million**	
Commercial Paper	40.00	Reaffirmed at [ICRA]A1

Material Event

Company results for 9M FY2018

Everest Industries Limited (EIL) announced its quarterly results (Q3 FY2018/9M FY2018) on January 24, 2018. The company reported operating income (OI) of Rs. 927.7 crore with operating profit (OPBITDA) of Rs. 61.4 crore and profit after tax (PAT) of Rs. 30.9 crore in 9M FY2018 against OI of Rs. 883.8 crore with OPBITDA of Rs. 12.3 crore and net loss of Rs. 10.0 crore in 9M FY2017.

Impact of Material Event

The long-term rating has been upgraded to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A (pronounced ICRA A) and the short-term rating has been reaffirmed at [ICRA]A1 (pronounced ICRA A one). The outlook on the long-term rating has been revised to Stable from Positive.

Rationale

The rating revision favourably factors in the sustained improvement in EIL's operating profitability and debt-coverage metrics for four consecutive quarters from Q4 FY2017 to Q3 FY2018. This is backed by the pickup in the rural demand for the fibre cement (FC)-roofing segment along with improved performance in the pre-engineered building (PEB) segment.

Operating profitability in the building products division improved in 9M 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 (for any regulatory changes and customer-side delays). The profitability is likely to continue in the near term. However, the company's profitability remains exposed to fluctuations in steel prices for contracts with no pass-through clauses.

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 the 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 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 remains vulnerable to variations in the prices of key raw materials and adverse fluctuations in exchange rates.

Outlook: Stable

ICRA expects EIL's business and financial performance to remain firm in the medium term supported by improvement in rural demand. The outlook may be revised to Positive if there is sustained improvement in profitability, capital structure and debt-coverage metrics from the current levels. The outlook may be revised to Negative if there is deterioration in the business performance, impacting the profitability of debt-coverage metrics and working-capital cycle. Further, higher-than-expected debt-funded capex may also lead to a revision in the outlook to Negative.

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, while 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.

Sustained improvement in EIL's financial performance – Sustained improvement in EIL's operating profitability and debt-coverage metrics in four consecutive quarters starting Q4 FY2017 to Q3 FY2018. The company's OI increased 5% YoY and operating profitability improved to 6.6% in 9M FY2018 from 1.4% in 9M FY2017. This, along with a decline in the total debt, resulted in YoY improvement in the capital structure and coverage metrics in 9M FY2018. Going forward, the financial profile is likely to be supported by improved business performance on the back of pick-up in rural demand for FC segment, healthy order flow and incorporation of cost-escalation clauses (for any regulatory changes and customer side delays) in the PEB segment.

Credit challenges

Exposure to cyclicality in businesses and stiff competition in the FC industry – Vulnerability of the FC industry and the 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 is 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 coming 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 crysotile) 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 steel prices on margins to an extent.

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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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