Everest Industries Limited

December 17, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based- Working Capital Facilities	0.00	180.00	[ICRA]A+ (Stable); Reaffirmed
Fund-based Limits	190.00	0.00	-
External Commercial Borrowings	$6.00 million	$6.00 million	[ICRA]A+ (Stable); Reaffirmed
Fund-based-Term Loan	65.00	14.10	[ICRA]A+ (Stable); Reaffirmed
Non-fund Based-Working Capital Facilities	300.00	265.00	Upgraded to [ICRA]A1+ from [ICRA]A1
Unallocated Limits – Long term	0.00	10.00	[ICRA]A+ (Stable); Reaffirmed
Unallocated Limits – Short term	0.00	35.00	Upgraded to [ICRA]A1+ from [ICRA]A1
Unallocated Limits – Long term/short term	9.20	60.10	Long-term – reaffirmed at [ICRA]A+ (Stable) / Short-term - upgraded to [ICRA]A1+ from [ICRA]A1
Total	**Rs. 564.20 crore + $6.00 million**	**Rs. 564.20 crore + $6.00 million**	
Commercial Paper	**40.00**	**40.00**	Upgraded to [ICRA]A1+ from [ICRA]A1

*Instrument details are provided in Annexure-1

Rationale

The rating action reflects Everest Industries Limited's (EIL) healthy liquidity position as reflected by improving cash flow position supported by relatively higher operating profitability in FY2018 and H1 FY2019 and prudent working capital management over the last 12-15 months. The liquidity is also supported by the significant unutilised working capital limits of Rs. 170 crore along with an undrawn long-term debt of Rs. 42.50 crore as on September 30, 2018. In addition, EIL has repaid a large portion of the term loans in FY2018 and has minimal debt repayment obligations in the medium term.

The ratings factor in the improvement in EIL's financial profile in H1 FY2019 as evident from the increase in its revenue growth, operating profitability, capital structure and coverage metrics on a YoY basis. The increase in EIL's operating income (OI) by 19.5% YoY in H1 FY2019 is due to higher sales from both divisions – building products by 18.4% (supported by higher sales volumes) and steel buildings by 22.9% (supported by higher sales volume and net sales realisation). The pick-up in rural demand for the fibre cement (FC) segment along with the healthy order flow in the steel buildings segment is expected to augur well for the revenues in medium term. In addition, the FC roofing sheets are competitive post implementation of the Goods and Services Tax (GST), when compared to other substitute products.

The improvement in the operating profitability to 9.2% in H1 FY2019 from 7.1% in H1 FY2018 is on account of higher utilisation and cost efficiencies in the building products division and the ability to pass on the raw material prices to end customers to an extent in the steel buildings division. However, the profitability continues to remain at modest levels (% PBIT to revenues at 2.2% in H1 FY2019) in the steel buildings division. EIL's operating profitability is likely to continue in the range of 7.5% - 8.5% in the near term. However, the profitability remains exposed to adverse 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 the geographical spread of its plants enabling better customer reach. ICRA continues to positively factor in the diversification of its 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 exerts pressure on EIL's margins. 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. Its profitability 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 the wide geographical reach of its plants enabling better market penetration and customer acquisition.

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.

Improvement in EIL's financial performance – EIL's financial profile has improved as reflected by an increase in its OI by 19.5% YoY and higher operating profitability at 9.2% in H1 FY2019 as against 7.1% in H1 FY2018. However, the profitability continues to remain at modest levels (% PBIT to revenues at 2.2% in H1 FY2019) in the steel buildings division.

The decline in debt along with improved profitability resulted in a relatively better capital structure and coverage metrics in H1 FY2019, compared to H1 FY2018.

Going forward, the financial profile is likely to be supported by EIL's improved business performance on back of pick-up in rural demand for FC segment, healthy order flow and the competitive pricing of the FC-roofing sheets post GST, when compared to the other substitute products (such as steel and aluminium sheets).

Healthy liquidity position – EIL's improved cash flow position, decline in working capital intensity, significant unutilised working capital limits of Rs. 170 crore along with an undrawn long-term debt of Rs. 42.50 crore as on September 30, 2018 resulted in a comfortable liquidity position.

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 exerts 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 the 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 – EIL's profitability remains vulnerable to variations in the prices of key raw materials and any adverse fluctuations in exchange rates. However, the pass-through clauses (for any regulatory changes and customer side delays) 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.

Liquidity position

EIL's fund flow from operations improved to around Rs. 145 crore in FY2018 from Rs. 71 crore in FY2017. This is supported by an improvement in profitability along with prudent working capital management. Further, EIL has repaid a significant portion of its long-term debt in FY2018 and has minimal debt obligations in the near term. EIL also has significant unutilised fund-based and non-fund based limits and undrawn term debt, which supports the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company

Incorporated in 1934, EIL is an established player in the domestic FC sheet industry with an 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. 38.07 crore on an OI of Rs. 729.52 crore compared with net profit of Rs. 21.43 crore on an OI of Rs. 610.69 crore in H1 FY2018. EIL reported a net profit of Rs. 50.68 crore on an OI of Rs. 1,244.85 crore in FY2018 compared with a net profit of Rs. 3.99 crore on an OI of Rs. 1,147.45 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1147.45	1244.85
PAT (Rs. crore)	3.99	50.68
OPBDIT/OI (%)	3.93%	7.58%
RoCE (%)	4.37%	14.03%
Total Debt/TNW (times)	0.58	0.21
Total Debt/OPBDIT (times)	4.40	0.89
Interest Coverage (times)	2.16	7.49

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date &Rating	Date & Rating in FY2018		Date & Rating in FY2017			Date & Rating in FY2016
					December 2018	February 2018	January 2018	March 2017	December 2016	April 2016	September 2015
1	Fund-based-Working Capital Facilities	Long Term	180.00		[ICRA]A+ (Stable)	-	-	-	-	-	-
2	Fund-based Limits	Long Term/ Short term	0.00		-	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A (Stable)	[ICRA]A+ (Negative) / [ICRA]A1	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	External Commercial Borrowings	Long Term	$6.00 million	$6.00 million	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Fund-based-Term Loan	Long Term	14.10	14.10	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	-	-	-	-
5	Non-fund Based-Working Capital Facilities	Short Term	265.00		[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	ICRA]A1	ICRA]A1
6	Unallocated Limits – Long term	Long Term	10.00		[ICRA]A+ (Stable)	-	-	-	-	-	
7	Unallocated Limits – Short term	Short Term	35.00		[ICRA]A1+	-	-	-	-	-	-
8	Unallocated Limits – Long term/short term	Long Term/ Short Term	60.10		[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Positive)/ [ICRA]A1	-	-	-	-
9	Commercial Paper	Short Term	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

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 Working Capital Facilities				180.00	[ICRA]A+ (Stable)
NA	External Commercial Borrowings	April 2016	LIBOR+4%	September 2022	$6.00 million	[ICRA]A+ (Stable)
NA	Fund-based-Term Loan	August 2017	8.50%	April 2023	14.10	[ICRA]A+ (Stable)
NA	Non-fund Based-Working Capital Facilities				265.00	[ICRA]A1+
NA	Unallocated Limits – Long term				10.00	[ICRA]A+ (Stable)

NA	Unallocated Limits – Short term	35.00	[ICRA]A1+
NA	Unallocated Limits – Long term/short term	60.10	[ICRA]A+ (Stable)/ [ICRA]A1+
NA	Commercial Paper	40.00	[ICRA]A1+

Source: Everest Industries Limited

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About ICRA Limited:

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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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