

Dear Member,

We are pleased to inform you that Value Pick of Jan 2018 is released by our team today on 28th Feb 2018. Value Pick stock of the month is Everest Industries Ltd (**BSE Code: 508906, NSE Code: EVERESTIND**). Everest Industries has a market capital of Rs. 844 crores and operates in building material segment.

1. Company Background

Everest was established in 1934 and has over 8 decades of experience in building products. Everest Industries has two distinct business segments - Building Products and Steel Buildings. The building products segment contributes 63% to the company's revenue including fibre cement roofing sheets, fibre cement boards, Rapicon wall panels and their accessories. The steel building segment accounted for 37% of total revenue, which includes customized building solutions in steel such as pre-engineered steel buildings, smart steel buildings, metal roofing and cladding.

Everest Industries has built a widespread distribution network. It has 42 sales depots, 6,000 dealers, with ~1,000 dealers in urban areas and ~5,000 dealers in the rural area. The company also exports to more than 35 countries. The building products and solutions of the company are available in more than 1,00,000 villages and 600 cities in India and also in many countries globally. It has designed and erected more than 2,000 Pre-Engineered steel buildings across 275 cities in India.

The company has plants at 8 locations. The pan - India presence helps reduce logistics cost and reduces the lead time. It also reduces the shipping and forex expenses as a lot of the fibres used are imported. This gives it a cost advantage.

Mr. A V Somani is the chairman of the company, has an overall experience of 25+ years in real estate, construction, building products, textiles and information technology management. He holds an MBA degree from the University of Pittsburgh, USA, PGDBM from SP Jain Institute of Management and Research and B.Com., M.Com. from Sydenham College of Commerce & Economics.

Mr. Manish Sanghi is the Managing Director of Everest Industries. He has rich experience across industries he has worked with— Castrol, BHEL, Eicher and General Motors prior to joining Everest in 2001. He has joined EIL in 2001 as Marketing Director and took over charge as Managing Director in 2010. He holds a B.E. (Mech) and a PGDM degree from IIM – Ahmedabad.

2. Recent Development

i) Revision in the Credit Rating of the Company

The credit rating agency ICRA Limited has revised long term rating of Bank Loans & Commercial Papers of the Company to [ICRA] A+ from [ICRA] A and reaffirmed the short-term rating at [ICRA] A1.

The outlook on the long-term rating is revised to stable from positive. The revision in long term rating takes into account latest financials of the company.

The rating revision favourably factors in the sustained improvement in company'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 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.

ii) France's Engie in talks to partner Everest Industries for Solar Roofs

French energy company Engie is in talks with the Everest Industries for a partnership for solar-ready roofs.

Everest is the largest roofing and pre-engineered buildings maker in the country. As a natural extension to its business portfolio, Everest has started a solar roofing business and is in talks with a number of organizations for business association.

With around 60% of rooftop space not fit for solar installations given their sub-par design, the plan is to create a new category of solar-ready roofs and help meet the government's 40,000 megawatt (MW) solar rooftop target which has been slipping.

The NDA government has set an ambitious clean energy target of 175GW by 2022. Of the 100GW targeted from solar projects, 40GW is to come from solar rooftop projects.

As per Industry experts, such solutions will facilitate faster solar adoption in India. Roofing systems with photo-voltaic panels integrated will be a good solution to increase penetration of rooftop solar at a faster pace and at marginal cost. We expect emerging

opportunities for solar roofing solution in the country will augur well for the company going forward.

3. Financial Performance

Everest Industries reports standalone net profit of Rs 9.43 crore in the December 2017 quarter

Net profit of Everest Industries reported to Rs 9.43 crore in the quarter ended December 2017 as against net loss of Rs 14.15 crore during the previous quarter ended December 2016. Sales rose 16.27% to Rs 290.62 crore in the quarter ended December 2017 as against Rs 249.96 crore during the previous quarter ended December 2016.

Everest Industries reports standalone net profit of Rs 4.49 crore in the September 2017 quarter

Net profit of Everest Industries reported to Rs 4.49 crore in the quarter ended September 2017 as against net loss of Rs 7.69 crore during the previous quarter ended September 2016. Sales rose 14.74% to Rs 259.06 crore in the quarter ended September 2017 as against Rs 225.78 crore during the previous quarter ended September 2016.

4. Investment Rationale

i) Everest Industries is an established player in the domestic fibre cement 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. The fibre cement roofing 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 fibre cement roofing segment.

ii) The fibre cement roofing industry in India has a capacity of 5-5.5m MTPA consisting of 30 major players and is an oligopoly market with top five players collectively controlling 60% of the market. Prominent players in the industry include Hyderabad Industries (HIL), Visaka Industries, Everest Industries and Ramco Industries. The organized roofing industry is expected to grow between 7-8% in coming years with government initiatives such as Housing for All, migration from kuccha to pucca roofs and implementation of GST.

iii) Nearly 55% of the Indian population still lives in the houses made from kuchha roofs. The opportunity size for mere migration from kuccha to pucca roofing is 4.8 million MT of roofing sheets. Government focus on doubling rural income by the year 2020 will ensure higher disposable income in the hand of farmers. Government projects like

Pradhan Mantri Krishi Sinchai Yojana, Fasal Bima Yojna schemes and an increase in MGNREGA allocation will augur well for roofing industry and Everest Industries will be one of the key beneficiary.

iv) The company through its subsidiaries in Mauritius and Middle East planned a project for making fibre cement boards in the Middle East. The company management is quite optimistic about its program called Pehchaan which is intended to cover a very large number of contractors for company's boards and panel product range across the country. Fibre cement boards (FCBs) have some inherent advantages over other dry construction products. FCBs are water resistant, termite resistant, have acoustic insulation properties and good thermal insulation and can be used both indoors and outdoors. The fibre cement boards & panels industry is about 4,70,000 MT in India and growing rapidly in different segments as the consumption of FCBs in India is still at a nascent stage. The company expects demand for boards and panels (B&P) to rise 3x to 5x in forthcoming years. The FCB market in India has almost doubled in the last 2 years owing to increasing demand for the modern quick-to-install building materials.

v) The company offers a wide range of products. It has introduced new technology in the recently launched products to cater to the changing demand of the customers. The company has an R&D facility to develop new and innovative products. The company has launched products like Everest Hi-Tech, Everest Super, Everest Rooflight and Everest Decorooft in roofing segment. The increasing commodity prices have benefitted the roofing segment. The fibre cement roofs are priced higher in comparison to the steel roofs. However, recent uptrend in the steel prices make cement sheets a preferred option over steel sheets due to better product life and low maintenance.

vi) Rising demand of solar rooftops will help the company to grow its roofing business at robust pace. The government has announced a target of 40000 MW solar rooftops. India offer a big opportunity for solar power given its 750 GW potential on account of enjoying 300 sunny days a year with an average solar radiation range of 4-7 KWH. Moreover, the company has decided to reduce its dependence from the roofing segment to boards & panels and steel buildings segment. Everest Industries is focusing on high growth and high margin products. With the roofing industry growing at a slower pace, the boards & panels and steel building industry is expected to be the revenue and profit growth driver.

vii) Everest Industries 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 fibre cement segment, healthy order flow and incorporation of cost-escalation clauses (for any regulatory changes and customer side delays) in the PEB segment.

viii) Everest Industries is paying regular dividends to its shareholders since 2007. The company has paid dividend of Rs. 1 per share for FY16-17 in July 2017. The dividend yield at current market price is 0.18%. The company has registered sales CAGR of 10.3% and profit CAGR of -44% with ROE of 8.8% over last 5 years.

ix) Strong revenues growth with increase in infrastructure spending, improvement in business fundamentals with better operating margins and further reduction in debt, increase in focus towards fibre cement boards and steel building segment, we expect company to achieve revenue sales CAGR of 21% and profit CAGR of 39% over next 3 years.

x) Debt to equity ratio of the company decreased from 0.34 to 0.26 during last one year. We expect further reduction in debt with further improvement in cash flows from operation.

5. Key Concerns & Risks

i) The fibre cement roofing industry is characterised by low entry barriers, ease of capacity addition and supply overhang, leading to pricing pressure. Any increase in the raw material prices or the inability of the company to pass on the price rise to the customers can affect the company's profitability.

ii) High dependence on rural spending, as well as seasonality in business remains a concern. Bad monsoon or below average rainfall in coming years will have an adverse impact on company's revenue growth and profitability.

iii) There are concerns that exposure to chrysotile fibre leads to health risks and its usage is banned in certain countries. Any negative development in country can severely impact company's business.

6. Saral Gyan Recommendation

As per our estimates, Everest Industries is expected to deliver PAT of Rs. 56.2 crores in FY17-18 and Rs. 72.4 crores in FY18-19 with annualized EPS of Rs. 36.3 and Rs. 46.6 respectively. At current price of 540.65, stock is available at forward P/E multiple of 11.6X based on FY18-19 earnings and looks attractively valued with high earning visibility over next 2 years.

Considering strong revenue growth with improvement in infrastructure spending in the country, expected improvement in the operating margins with increased focus on high margin products and reasonable valuations of the company with healthy balance sheet

and reduction in debt, Saral Gyan team recommends "Buy" on Everest Industries Ltd at current market price of Rs. 540.65 for target of 780 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of Rs. 540.65
- 30% at price range of Rs. 440 – 480 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Regards,

Team – Saral Gyan,
Saral Gyan Capital Services.

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- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
- c. Buy at lower price: This means that the investor should wait