Company Background

Everest Industries Ltd (EIL), a complete building solutions company, fulfills the need for faster construction with a variety of offerings like Roofing Solutions, Ceiling Solutions, Wall Solutions, Cladding Solutions, Floor Solutions, Door Solutions and Steel Building Solutions. The company has manufacturing facilities located in Kymore (Madhya Pradesh), Kolkata (West Bengal), Coimbatore (Tamil Nadu), Nashik (Maharashtra) and Bhagwanpur (Uttarakhand).

EIL has been a leader in the roofing business covering more than 1 billion sq. m. of roofing in India. EIL products have a deep penetration and a strong demand from both industrial applications and rural/agricultural sectors. Apart from roofing, EIL now offers a wide range of ready to install products for the building industry and custom made pre-engineered steel buildings for the industrial, commercial and logistic sectors. EIL's products and services provide strength and safety and can be executed speedily, which is an important requirement in modern project execution.

Business

EIL's business can broadly be split into 3 verticals, namely, Roofing, Boards and Panels and Steel buildings. Everest is the flagship brand under which all products are sold with sub brands.

Roofing – This includes asbestos roofing (this is the main business of the company contributing about 65% of FY09 sales, it is manufactured at all 5 facilities of EIL), non-asbestos roofing (EIL entered this segment through a tie up with Saint Gobain in order to offer the whole range of products, it contributed about Rs. 10 cr to topline in FY09, non-asbestos roofing is about 75% more costly than asbestos roofing), metal roofing (manufactured at Bhagwanpur) and polycarbonate roofing (trading operations). In FY09, EIL increased its roofing capacity at the Bhagwanpur plant. The total capacity increased from 4,55,000 tonnes to 7,10,000 tonnes. Essentially, each of the five facilities has one line for the production of asbestos sheets except for Coimbatore, which has two lines. Presence across five facilities in India provides EIL with a locational advantage, as asbestos sheets are bulky and difficult to transport over long distances. Further closeness to the retail markets is one pre requisite for the industry. Spread of manufacturing locations over all regions of India provides an advantage to EIL. With over 5,000 retail points spread across the nation and highly qualified and experienced engineers, designers and technicians, EIL provides building solutions that are high in quality, durability and are accessible to many.

EIL is the third largest player in the roofing industry, with the largest player being Hyderabad Industries, followed by Visaka Industries. Ramco Industries has a similar size and market share as EIL. The roofing industry is largely a commoditized business. While this product started out as an industrial product, the rapid spread of players, increase in production and increase in the number of access points has made this into a retail product. There is limited brand value or premium in the roofing business. However brand recall is strong regionwise. EIL enjoys a decent demand and commands a 2-5% premium due to the brand name (and previous MNC parentage) in the markets of Tamil Nadu, Bengal, Madhya Pradesh and Kerala. 75% of the sales come from rural markets and 25% from the industrial / urban segment.

Boards and Panels – EIL also manufactures various boards and panels that find application in housing, false ceiling, partitioning, interiors etc. EIL is the second largest player in the false ceiling segment, the first being India Gypsum. The boards include cement boards (manufactured at Nashik (2 lines) and Bhagwanpur (1 line) with a total capacity of about 1.25 lakh tonnes per annum). Close to 50% of the production is exported to countries like Sri Lanka, Africa, Europe while the rest is sold in the domestic market. The boards manufactured by EIL are one of the best boards available globally at a competitive price point. The solid wall panels (used for internal partitions) are also manufactured at Nashik and Bhagwanpur, with one line at each location and a capacity of about 200,000 panels per plant per annum (total capacity of ~400,000 panels p.a).

In FY09, the sale of boards and panels accounted for about 15% of net sales. Traditionally, the boards and panels segment has given higher operating margins in comparison to roofing. However, in FY10, the increase in rural demand and steady to soft raw materials prices has resulted in higher margins for the roofing segment (~18% range). 25% of the sales come from rural markets and 75% from the industrial / urban segment. This segment is also impacted by the Rs/USD movement and freight rates as 50% of the production is exported.

Steel Buildings - EIL has entered into the Pre Engineered Steel Buildings (PEB) business segment in July 2008 by providing pre-fabricated steel products and erection services for much larger, complex structures including factories, warehouses, supermarkets, offices and much more. In the recent past it has done work for companies like Ericsson, Walmart, Mcnally Bharat, Baxter, Vodafone and Jain Irrigation to mention a few. EIL expects this new segment to add to the next leg of growth of the company. This segment contributed about 20% to FY09 net sales. The plant is set up at Bhagwanpur (Uttarakhand) with a capacity of about 30,000 tonnes p.a.

Capacity & Utilization

Given below is a table summarizing the capacity and utilization across both segments i.e Building products (includes roofing, boards and panels and traded goods) and Steel Buildings.

Building products (tonnes)	FY09	FY08	% chg
Installed capacity	710000	455000	56.0%
Production	514545	408164	26.1%
Capacity utilization	72.5	89.7	

Steel buildings (tonnes)	FY09
Installed capacity	30000
Production	12291
Capacity utilization	41.0

Sales	508836	418667	21.5%
Sales / Capacity	71.7	92.0	

Sales	12190
Sales / Capacity	40.6

(**Source:** HDFC Sec, Company Annual Report, Production numbers Include production for trail runs, breakages etc)

Shareholding Pattern

EIL was previously owned by the Eteroutremer, Belgium, the holding company of the Eternit group, Belgium (50% stake in EIL) and it was the first to manufacture asbestos cement roofing sheets in India in May 1934. ACC (then owned by the Tatas) took control of the company in 2002 and had a 78% stake. ACC sold its stake in March 2006 and the current promoters are the Seksharia family with a 50.09% stake (The promoters hold their stake through a holding company – Everest Finvest Pvt Ltd). Hence, from being a MINC company, EIL's ownership has changed hands to an Indian family. Given below is a summary of the shareholding pattern as of 30 September 2009.

Funds holding more than 1% include Franklin India Smaller Companies Fund (2.01%) and Reliance Long-term Equity Fund (7.95%). Everest Staff welfare fund holds 8.24% stake in the company.

Particulars	% as of 30 Sept 2009
Foreign	1.37
Institutions	10.00
Non Promoter Corp Holding	6.88
Promoters	50.09
Public & Others	31.66
Total	**100.00**

(**Source:** HDFC Sec, Company)

Triggers

Increasing its distribution network and reach

The fibre cement building products industry is today a 3.5 million MT industry. Since FY07, it has grown by 19.5%. During these two years, EIL grew at a CAGR of 32%. Industry-wide capacity has increased in anticipation of growth in the infrastructure sector and prosperity in rural and developing areas of the country. EIL's distribution network expanded from 4,502 retail points in FY08 to 5,908 in FY09, an increase of 31.2%. With an aim to achieve the sales turn over target of Rs. 1,000 cr by FY11, EIL is planning to expand its distribution network by adding 1,000 new retail points on its network in the current year. Presently, the company is selling its products through 6,000 retail points across the country. The company has plans to expand its distribution network upto 7,000 retail points by the end of FY10. Moreover, the company has also plans to increase its exports. The company, which had an export of Rs. 35 cr in FY09, is expecting export revenue of Rs. 45 cr in FY10. An increase in the number of retail points along with other initiatives taken by the company like increase in products offered should help EIL maintain market share even in times when the other players are furiously adding capacities.

New unit at Uttarakhand, increasing efficiency of plants & decent demand to drive growth of the building products segment

In FY09, the Bhagwanpur Works in Uttarakhand was commissioned and stabilized to produce roofing, boards and solid wall panels. This unit will also enable EIL to have deeper penetration in Northern India, and further reduce freight costs by expanding its dealer network to distribute these products. The unit is working aggressively to improve productivity and reduce conversion cost. Further, this unit will also result in benefit from income tax and excise exemption/ concession for a period of 10 years. In the near term, EIL's effective income tax rate is expected to be in the 25%-28% range. Further the freight cost will drastically get reduced for supplying to north and north western parts of the country. The unit along with the PEB unit at Bhagwanpur was put up at a total cost of about Rs. 140 cr. With its capacity expansion complete, EIL has enough spare capacity (FY09 capacity utilization of about 73%) to cater to any increase in demand.

To cope with the adverse economic situation in FY09, EIL undertook an intensive drive to further enhance quality of products and reduce conversion costs by boosting productivity, implementing innovative waste reduction practices and reducing unit freight costs. Kymore Works, which completed 75 years on April 3, 2009, increased productivity by 2.5% during the year and was also awarded the National Award for Excellence in Cost Management by ICWAI. Next, Kolkata Works increased productivity by 10%, Podanur Works increased efficiency by 4% and Lakhmapur Works enhanced production of Boards by 27% and launched Everest Pearl, painted and designer ceiling tiles, a ready-to-install interior application. This is reflected in the improvement of operating margins in FY09 to 9.5% from 8% in FY08.

Next, there is a strong correlation between the demand for roofing and GDP growth. The demand for roofing grows at about 2x GDP growth. Hence, with the Indian economy expected to report GDP growth upwards of 6.5% in FY10 and continue its growth momentum in FY11, we can expect the demand for roofing to grow in the 15% range. The demand for roofing has been particularly strong despite the global slowdown over the past year and a half due to the rising affluence of the rural population. The Government has taken a number of measures to ensure inclusive growth like NREGA (144% y-o-y rise in allocation), rise in MSP prices of crops over the past few years, Sixth Pay Commission, focus on affordable / low cost housing, Indira Awaas Yojna (63% higher allocation than last year), farm loan waiver etc. This has either lead to direct provision of housing or increased the amount of money in the hands of the rural consumer (enabling him to invest in housing). As per the management, the Northern market is growing faster than the rest of India, while the other regions are is growing at same pace. Also, the demand for roofing products is dependent on a good monsoon. In FY10, India has suffered the worst drought since 1972. The management indicated that this has already impacted demand for roofing products over the past 5 months, However, it expects the situation post the harvesting of the Rabi crop to be much better and hence the demand could once again pick up in Q4FY10. We expect EIL to report building product sales of about Rs. 549 cr in FY10 (E) and Rs. 626.1 cr in FY11 (E), registering a y-o-y growth of 25% and 14% respectively. In H1FY10, this segment has reported sales of Rs. 257 cr, a growth of 22.8% y-o-y and PBIT margins of 18.3% (as against 15.2% in H1FY09).

Venture into Steel Pre-engineered Buildings to result in the next leg of growth for the company

EIL now offers Pre-Engineered Steel Buildings from its state-of-the-art plant at Bhagwanpur (capex of about Rs. 140 cr including the amount spent on the building products division) commissioned in July 2008. The plant has a capacity of 30,000 tonnes and in the first year of operation (July 2008 to March 2009), EIL utilized about 41% of its capacity. Building, design and execution is an interesting balance of engineering prowess, superior aesthetics and efficient project management. Methods and materials have evolved in variety and efficiency. Pre-Engineered Steel Buildings have revolutionized how industrialists and service providers look at building and construction. The entire building is custom designed as per customers' specifications and requirements, using advanced engineering software. Then, the entire building is produced in its factory using high-precision cutting and welding machines. Finally, the components are shipped to customers' factory site for speedy erection, supervised by its team of professional project managers. The entire process saves time and enables faster project completion. Hence, Pre engineered steel buildings offers a huge range of solutions such as design flexibility solution, wall solution, ceiling solution, cladding solutions, steel building solutions to their customers. It has many advantages over usual method of steel building, few of them are lower cost, more efficiency, saves time.

Current players in the steel building business include Kirby (Kuwait), Zamil (Saudi Arabia), Tiger Steel (Dubai), Tata Bluescope and Interarch. Kirby Building Systems was established over 30 years ago in 1976. With operations spread across more than 70 countries, and more than 50,000 projects, today Kirby is well positioned as the global leader of pre-engineered steel buildings. Kirby is a wholly owned subsidiary of the multi-national conglomerate Alghanim Industries. According to Projects Monitor, Kirby Building Systems India Ltd is establishing its third plant of 50,000 to 75,000 mt capacity in the western region. The $15 million project was to be operational from mid-2009. The company has also announced capacity expansion at its Haridwar and Hyderabad plants. The expansion envisages increase of capacity from 100,000 mt to 200,000 mt, a 100% increase over a one-year period. Post-expansion, the capacities will increase to 125,000 mt and 75,000 mt at the Hyderabad and Haridwar plants, respectively. It will also account for over 50% of the total PEB capacity in India. This expansion is in line with Kirby's ambitious plans of a Rs 800 cr turnover from its Indian operations in a few years. Over the years, Kirby India has supplied products to companies like Thermax, Videocon, Coca Cola, Ministry of Defence, Nokia and Delhi Metro Rail Corporation, and is currently executing orders worth Rs 180 cr for blue chip clients like Reliance Industries and Pipavav Shipyard.. Next, another player, INTERARCH® Building Products Pvt.Ltd. is largest manufacturer of metal architectural products in India. It has over 1,500 permanent employees, turnover Rs. 600 cr in 2008-09 (projected as per current order bookings), state of the art manufacturing facilities and two plant for Pre-engineered buildings with roofing, cladding and metal ceilings. Thus, PEB appears to be segment into which many international and private companies have ventured and flourished.

The Everest Steel Buildings Division consists of an experienced Design team in New Delhi and a dedicated team of sales and project execution executives all over India. In the first 9 months since commissioning (FY09), EIL successfully designed, manufactured and erected factory sheds, logistic parks, warehouses and commercial buildings across the country. Its clients include Ericsson, Vodafone, Walmart, McNally Bharat, Baxter, Tristar Infrastructure, Ramkey Infrastructure, and Jain Irrigation, amongst others. Customers and consulting architects have commended EIL for timely completion and high quality standards. The steel industry faced a huge volatility in prices during the year and the international financial crisis saw a slowdown in corporate allocation for capital expenditure. In such a turbulent environment, the new division reported a turnover of Rs 91.22 cr in FY09. Also, at the PBIT level it reported a profit of Rs. 1.9 cr in FY09.

Currently, EIL intends to focus on increasing its order book and execution capabilities in the steel building segment (EIL needs to develop credibility and design skills in order to gain market share). Although PEB systems are extensively used in industrial and many other non-residential constructions world wide, it is a relatively a new concept in India. This concept was introduced to the Indian markets lately in the late 1990's with the opening up of the economy and a number of multi nationals setting up their projects. The management acknowledged the fact that this could take some more time as people take time to change from one form of construction to another. Also, one has to try and change many fixed mindsets of customers with reference to the cost structure, ease of construction, time etc. The market potential of PEB's is 1.2 million tones per annum. The current pre engineered steel building manufacturing capacity is 0.35 million tones per annum. The industry is growing at the compound rate of 25 to 30%. The number of queries have gone up significantly over the past few months. It expects to break even at the EBIDTA level in H2FY10. In FY11 (E), one can expect this segment to start contributing positively to the bottomline, albeit in a small way. Capacity is not envisaged to be constraint atleast for the next one year. In H1FY10, EIL has reported net sales growth of 156% to Rs. 57.3 cr in this segment and expects to clock another Rs. 80 – 90 cr of sales in H2FY10. The current outstanding order book is Rs. 80 cr, which is to be executed in about 5 months. We expect EIL to report about Rs. 140 cr in this segment for FY10 (E) and Rs. 225 cr in FY11 (E), registering a growth of 53.5% and 60.7% y-o-y. However, the increase in terms of tonnage could be higher due to the softening in steel prices y-o-y. EIL expects to earn gross margins of about 25% (Rs. 15,000 gross profit on sale of Rs. 60,000 per tonne) once operations stabilize. In H1FY10, EIL has reported a loss of Rs. 4.7 cr for this segment at the PBIT level. EIL enters into fixed price contracts with clients and at the same time enters into back to back arrangements with raw material suppliers. Once this business stabilizes, this strategy should enable EIL to maintain reasonable EBIDTA margins despite steel price fluctuations.

Financial Performance

In FY09, EIL reported net sales of Rs. 529.5 cr, registering a growth of 85.7% y-o-y. The steel segment (9 months of operations) reported healthy revenue of Rs. 91.2 cr while the rest came from the building products segment. The steel buildings segment reported a PBIT of Rs. 1.9 cr while the building product PBIT margins stood at 13.4%. Overall, EBIDTA margins improved to 9.5% from 8% in FY08 due to higher demand (improved realizations), increased efficiency and other cost control measures.

Raw material prices as a % of sales increased from 45.7% in FY08 to 49.8% in FY09. FY09 was marked by volatile input costs. The year saw increase in the costs of raw materials like steel and a major slump in capital spends on industrial projects. The Indian rupee depreciated significantly against the US$ making imports costlier. The price of Ordinary Portland cement remains an area of concern for EIL. Further, there are many misconceptions about one of its raw materials, asbestos. EIL uses white asbestos (Crysotile) fibre bound in a cement matrix in the manufacture of AC roofing. Crysotile is a naturally occurring mineral, mined and imported in pallets from developed and environmentally conscious countries like Russia, Canada and Brazil. Since it is not sprayed, fibre emission is fully controlled. Fibre concentration at its production facilities is better than international norms and EIL has systems to ensure zero discharge of industrial effluent. Living and working under an Everest roof, which contains asbestos, is claimed to be safe. Fibre Cement Roofing continues to be the most economical form of pucca roofing in India and in other developing nations. EIL enters into 6 months to 1-year contracts for the supply of asbestos fibre.

The year saw volatility in foreign exchange rates. USD-INR parity, which was Rs. 40.20 at the start of the year, became Rs. 51.30 by March 2009 (as per company annual report). This volatility resulted in an exchange loss of Rs 3.34 cr on account of normal business activity of the company. In FY08, there was a gain of Rs. 1.43 cr on account of forex fluctuation. In the year 2008-09, EIL imports amounted to Rs. 141.5 cr as against previous year imports of Rs. 79 cr. Further, EIL had entered into derivative transactions in the previous year. A sum of Rs 4.93 cr was accounted for as mark to market losses in FY08. The company booked a further sum of Rs 1.21 cr as mark to market loss during FY09.

Other Income fell from Rs. 14.2 cr in FY08 to Rs. 4.8 cr in FY09. Other income in FY08 included sale for fixed asset amounting to Rs. 8.4 cr, and the same was Rs. 1.4 cr in FY09. Interest costs jumped by 250.6% in FY09 to Rs. 16.5 cr due to the capitalization of the Bhagwanpur facility. Debt increased from Rs. 71.4 cr in FY07 to Rs. 174.3 cr in FY09. Likewise, depreciation increased by 77.8% to Rs. 17.1 cr. EIL closed the year with a net profit of Rs. 14.5 cr, flat y-o-y. EPS for the year stood at Rs. 9.8.

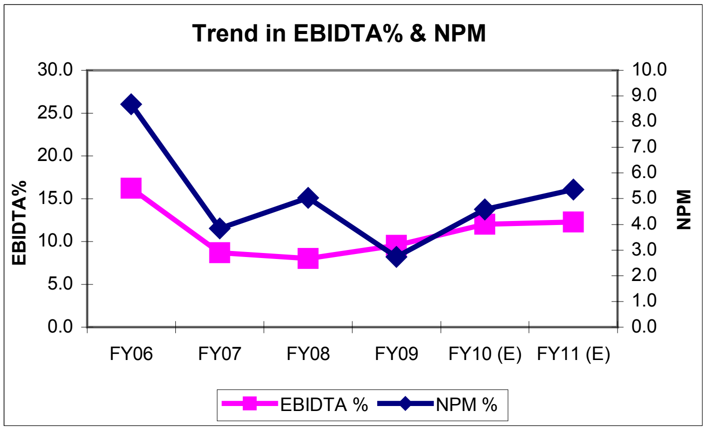
In H1FY10, EIL has reported net sales of Rs. 313.6 cr, up 35.6% y-o-y. This is driven by a 156% jump in the steel building segment to Rs. 57.3 cr and a 22.8% jump in the building products segment. However, at the PBIT level, the steel buildings segment has reported a loss of 4.7 cr while the building products segment has seen an improvement in PBIT margins from 15.2% in H1FY09 to 18.3% in H1FY10. Overall, EBIDTA margins have improved by 20 bps to 11.9% in H1FY10 vs 11.7% in H1FY09. As per the management, raw material costs are stable for now. Interest costs have fallen by 14.8% to Rs. 5.6 cr due to lower interest rates and repayment of some loans. Depreciation has increased by 19.7% to Rs. 9.2 cr in line with the capex carried out by the company. EIL has reported a forex MTM loss of Rs. 5.4 cr as against Rs. 7.1 cr in H1FY09. PAT for the half year is up 157.7% y-o-y at Rs. 14.1 cr due to slightly better operating margins and lower interest costs. EPS for H1FY10 is Rs. 9.5.

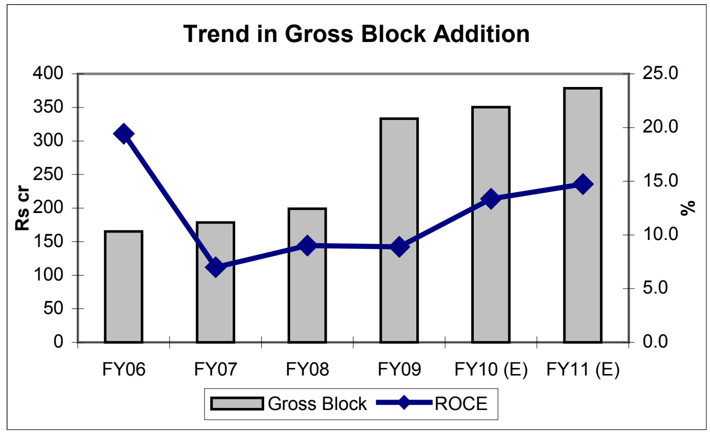
Capacity expansion, increased demand and turnaround in steel building division to drive profits in FY10 and FY11

In FY10, EIL has decided to focus on further strengthening internal systems and initiating more productivity and efficiency enhancement programs. By undertaking small capital expenditure and establishing improved ERP systems and process in controls, EIL plans to increase volumes and reduce costs. Further, EIL does not think that the 85.7% jump in turnover recorded last year over the previous fiscal is a one-time phenomenon. The company is racing to achieve an Rs 1,000 cr turnover by FY11-12. Powered by strong rural demand and a slew of new launches, including pre-fabricated steel structures, EIL witnessed robust growth last year even when the economy decelerated, and the stimulus package launched by the Centre has sustained the strong demand this fiscal too.

In FY10 (E) and FY11 (E) we expect the company to report a topline of Rs. 689 cr and Rs. 851.1 cr respectively, registering a growth of 30.1% and 23.5%. The growth would come from expansion in the roofing business as well as from higher contribution from Pre engineered steel buildings. We expect the steel building business to clock growth of 53.5% and 60.7% y-o-y while the building product segment could grow at about 25% and 14% in FY10 (E) and FY11 (E) respectively. EBIDTA margins are expected to expand by 250 bps and 30 bps to 12% and 12.3% in FY10 (E) and FY11 (E) respectively. This will be driven by higher operating efficiencies, lower raw material costs and a positive contribution by the steel division in FY11. Interest costs are expected to move in line with the companies working capital needs since EIL has no major capex planned for the next year or so. Depreciation costs are also expected to remain flattish. This will help boost bottomline further along with return ratios.

EIL has exposure to certain derivative contracts and hence we have assumed some amount of loss on account of these. We expect EIL to report PAT of Rs. 31.6 cr and Rs. 45.6 cr in FY10 (E) and FY11 (E), a growth of 118.7% and 44.3% respectively. EIL is currently quoting at 5.3x FY11 (E) EPS. Given below is the trend in profit margins, gross block and RoCE for EIL.





(**Source:** HDFC Sec, Company)

Concerns

A number of players are increasing capacity in the roofing segment. In case rural demand falls, this could lead to over capacity, pressure on realizations and profitability. However, as per the management, the theoretical or stated capacity in the roofing business has always been more than demand but very few players run / produce at their stated installed capacity.

Rural spending and monsoon effect – A poor monsoon impacts the demand for roofing in rural India. As per the management, EIL has already felt the impact of the poor monsoon on roofing offtake for the past few months. However, it expects H2FY10 to be better as the Rabi crop is expected to be better.

Steel segment could continue to bleed – EIL has recently ventured into the steel building segment and this segment could take some time to turnaround. In addition, as highlighted earlier there are a number of unlisted players present in the space and the competition in this segment is increasing with players expanding capacity / setting up new plants. Further, EIL takes fixed price orders and though it enters into back to back arrangement for raw materials, any breach of contract or delay in offtake etc could lead to pressure on margins.

Cement price fluctuation – EIL uses ordinary Portland cement for the manufacture of its roofing products. The price is market driven. Any adverse movement in these prices, could impact the margins of EIL.

Seasonality – Since EIL's building product business is largely driven by sales in rural India it is seasonal in nature (impacted by Kharif and Rabi crop cycles) and hence the March and June quarters are generally better than the rest of the year. However, entry into the steel building segment should help to smoothen sales to a certain extent.

High D/E – EIL's D/E at the end of FY09 stood at 1.15x. This is primarily due to loan funds taken for recent expansion and setting up of the steel building unit. Going ahead, EIL's working capital needs are also expected to increase as inventory and debtor days are higher in the steel division.

MTM losses on derivatives – EIL has taken exposure to some Yen derivatives and this is causing the company some pain right now. This could continue for the next few quarters unless the currency movement is favorable.

Other risks include economy risk, quality risk, limited product portfolio risk, inadequate distribution infrastructure and product substitution risk in case of asbestos roofing.

Conclusion

Despite the economic downturn and forex losses, EIL managed to put up a decent performance in FY09. In FY10 (E) and FY11 (E), we expect the company to report a topline of Rs. 689 cr and Rs. 851.1 cr respectively, registering a growth of 30.1% and 23.5%. The growth would come from expansion in the roofing business as well as from higher contribution from Pre engineered steel buildings. We expect the steel building business to clock growth of 53.5% and 60.7% y-o-y while the building product segment could grow at about 25% and 14% in FY10 (E) and FY11 (E) respectively. EBIDTA margins are expected to expand by 250 bps and 30 bps to 12% and 12.3% in FY10 (E) and FY11 (E) respectively. This will be driven by higher operating efficiencies, lower raw material costs and a positive contribution by the steel division in FY11. Interest costs are expected to move in line with the companies working capital needs since EIL has no major capex planned for the next year or so. Depreciation costs are also expected to remain flattish. This will help boost bottomline further along with return ratios. EIL has exposure to certain derivative contracts and hence we have assumed some amount of loss on account of these. We expect EIL to report PAT of Rs. 31.6 cr and Rs. 45.6 cr in FY10 (E) and FY11 (E), a growth of 118.7% and 44.3% respectively. EIL is currently quoting at 5.3x FY11 (E) EPS.

EIL has moved up the value chain from being an asbestos cement building product manufacturer to the pre-engineered building segment. EIL is the only listed player in this space and hence we expect that when this segment starts to breakeven, EIL could get re-rated. Given below is a peer comparison.

(Rs cr)	FY09							H1FY10						
Peer Comparison	**Sales**	**EBIDTA**	**PAT**	**EPS**	**BV**	**Equity**	**FV**	**Sales**	**EBIDTA**	**PAT**	**EPS**	**CMP**	**P/E (H1FY10 annualized EPS)**	**P/BV (FY09 BV)**
Ramco Inds	488.4	19.1%	42.8	4.9	32.0	8.7	1.0	247.4	19.9%	29.4	3.4	55.6	8.2	1.7
Visaka Inds	573.9	13.5%	35.9	22.6	118.2	15.9	10.0	308.9	20.8%	34.9	22.0	132.1	3.0	1.1
Everest Inds	529.5	9.5%	14.5	9.8	102.3	14.8	10.0	313.6	11.9%	14.1	9.6	162.3	8.5	1.6

(**Source:** Capitaline)

In comparison to its peers, EIL may appear to be expensive (highest P/E). However, there are a few reasons behind this. EIL is a pure play fibre cement sheet player, now it has diversified into steel building segment (which is related) while Ramco is into cotton yarn and cement in addition to building products, while Visaka is also into synthetic yarns. EIL is a brand associated with MNC (though now the owners are Indians) and hence we expect some brand premium for EIL. Other positives for EIL include the fact that it has the largest sales in H1FY10 amongst the other players; it enjoys the highest realization per tonne, its entry into the steel building segment indicates its initiative to move up the value chain and to a certain extent derisk its business model. Lastly, Ramco's investment book value (based on CMP) is more than its market capitalization and is hence not directly comparable.

On the flipside, since EIL has had MNC parentage, its employee cost is also much higher than its peers, leading to the lower EBIDTA margins. Once the new management took over in 2006, EIL suffered along with the whole building products industry due to lack of demand, over capacity and under cutting by players. We expect the management's skill and expertise to result in higher overall efficiency for the company along with cutting down of expenses. EIL should be able to increase its margins through these measures. Also, once the steel business stabilizes, EIL's margins could further improve. EIL is the only listed player in the PEB space in India.

EIL is currently quoting at 7.6x and 5.3x FY10 (E) and FY11 (E) EPS of Rs. 21.4 and Rs. 30.8 respectively. EIL can be bought at the current market price and added on declines in the Rs. 135-142 band for sequential price targets of Rs. 200 (6.5x FY11 (E) EPS) and Rs. 231 (7.5x FY11 (E) EPS) over the next few quarters.

Financials

Quarterly Results

(Rs cr)	Q2FY10	Q2FY09	% chg	Q1FY10	% chg q-o-q	H1FY10	H1FY09	% chg
Net Sales	135.5	112.5	20.5%	178.1	-23.9%	313.6	231.2	35.6%
Other income	1.6	1.2	40.5%	1.0	56.7%	2.7	1.6	67.9%
Total Income	137.1	113.6	20.7%	179.1	-23.4%	316.3	232.8	35.9%
Total Expenditure	118.8	103.8	14.4%	157.4	-24.5%	276.3	204.1	35.4%
EBIDTA	18.3	9.8	87.6%	21.7	-15.5%	40.0	28.8	39.2%
Interest	2.7	4.3	-35.5%	2.9	-3.9%	5.6	6.6	-14.8%
PBDT	15.6	5.5	182.4%	18.9	-17.3%	34.4	22.2	55.2%
Depreciation	4.6	4.1	12.7%	4.6	1.1%	9.2	7.7	19.7%
PBT	11.0	1.4	672.5%	14.3	-23.2%	25.3	14.5	74.0%
MTM loss / (gain) on derivatives	4.4	5.2	-16.6%	1.1	312.3%	5.4	7.1	-23.4%
Tax	1.9	-1.4	233.3%	3.8	-49.2%	5.7	1.9	193.8%
PAT	4.7	-2.4	296.6%	9.4	-50.4%	14.1	5.5	157.7%
EPS	3.2	-1.6	296.6%	6.4	-50.4%	9.5	3.7	157.7%
Equity	14.8	14.8		14.8		14.8	14.8	
Face Value	10.0	10.0		10.0		10.0	10.0	
OPM %	12.3%	7.7%		11.6%		11.9%	11.7%	
NPM %	3.4%	-2.1%		5.3%		4.5%	2.4%	

Segmental (Rs cr)	**Q2FY10**	**Q2FY09**	**% chg**	**Q1FY10**	**% chg q-o-q**	**H1FY10**	**H1FY09**	**% chg**
Steel Buidlings	28.6	22.4	27.7%	28.7	-0.5%	57.3	22.4	156.0%
Building products	107.4	90.4	18.9%	149.6	-28.2%	257.0	209.4	22.8%
Total	136.0	112.7	20.6%	178.3	-23.7%	314.3	231.7	35.6%
Mix								
Steel Buidlings	21.0%	19.9%		16.1%		18.2%	9.7%	
Building products	79.0%	80.1%		83.9%		81.8%	90.3%	
PBIT								
Steel Buidlings	-0.1	-0.3	85.3%	-4.7	98.9%	-4.7	-0.3	-1285.3%
Building products	19.4	10.8	79.0%	27.8	-30.1%	47.2	31.7	48.6%
PBIT %								

Steel Buidlings	-0.2%	-1.5%		-16.2%		-8.2%	-1.5%	
Building products	18.1%	12.0%		18.5%		18.3%	15.2%	
Capital employed								
Steel Buidlings	51.3	55.8	-7.9%	44.5	15.4%	51.3	55.8	-7.9%
Building products	282.2	296.5	-4.8%	244.6	15.4%	282.2	296.5	-4.8%
Others	-20.6	13.5	-252.9%	15.2	-235.8%	-20.6	13.5	-252.9%
Total	312.9	365.8	-14.4%	304.2	2.9%	312.9	365.8	-14.4%

(Source: Company, HDFC Sec)

Profit & Loss A/c

(Rs cr)	**FY06**	**FY07**	**FY08**	**FY09**	**FY10 (E)**	**FY11 (E)**
Net Sales	253.1	303.8	285.1	529.5	689.0	851.1
Other income	10.5	3.0	14.2	4.8	5.0	5.5
Total Income	263.5	306.8	299.4	534.3	694.0	856.6
Total Operating Expenditure	212.0	277.4	262.3	479.0	606.2	746.5
EBITDA	51.5	29.5	37.1	55.3	87.8	110.1
Interest	1.4	2.7	4.7	16.5	13.7	17.5
Depreciation & Non cash charges	7.5	8.9	9.6	17.1	19.4	23.2
PBT	42.7	17.8	22.7	21.7	54.7	69.4
MTM loss / profit on derivatives	0.0	0.0	4.7	1.6	8.0	4.5
Taxation	11.6	6.2	3.7	5.7	15.1	19.3
Net Profit (Reported)	31.1	11.7	14.3	14.5	31.6	45.6
Extraordinary Items	9.2	0.0	0.0	0.0	0.0	0.0
Adjusted Net Profit	22.0	11.7	14.3	14.5	31.6	45.6

(Source: Company, HDFC Sec)

Balance Sheet

(Rs cr)	**FY06**	**FY07**	**FY08**	**FY09**	**FY10 (E)**	**FY11 (E)**
Capital	14.8	14.8	14.8	14.8	14.8	14.8
Reserves & Surplus	115.0	119.7	126.5	136.5	163.8	205.1
Shareholders' Funds	129.8	134.5	141.3	151.3	178.6	219.9
Secured Loans	20.4	68.4	111.8	149.7	175.5	190.5
Unsecured Loans	2.8	3.0	23.4	24.6	25.0	25.5
Net Deferred Tax Liability	12.2	12.9	13.2	18.0	18.0	18.0
Total	**165.2**	**218.7**	**289.8**	**343.7**	**397.1**	**453.9**
Net Block	99.2	104.0	115.8	234.6	232.1	236.9
Capital WIP	13.7	67.3	102.8	6.9	0.0	0.0
Investments	0.0	0.0	0.1	0.1	0.1	0.1
Net Current Assets	51.3	47.4	71.2	102.1	164.9	216.9
Miscellaneous Expenses not written off	0.9	0.0	0.0	0.0	0.0	0.0
Total	**165.2**	**218.7**	**289.8**	**343.7**	**397.1**	**453.9**

(Source: Company, HDFC Sec)

Cash Flow Statement

(Rs cr)	**FY06**	**FY07**	**FY08**	**FY09**	**FY10 (E)**	**FY11 (E)**
Profit Before Tax	42.7	17.8	18.0	20.1	46.7	64.9
Net Operating Cash Flow	14.3	28.7	10.3	14.1	7.4	28.6
Net Cash from Investing Activity	-16.8	-65.7	-48.8	-37.4	-10.0	-28.0
Net Cash from Financing Activity	-7.1	40.2	52.8	14.4	8.2	-6.3
Cash & Cash Equivalents	14.0	17.2	31.5	22.6	28.1	22.4
Net Inc / (Dec) in Cash	-9.7	3.2	14.3	-9.0	5.6	-5.7

(Source: Company, HDFC Sec)

Ratio Analysis

Key Ratios	**FY06**	**FY07**	**FY08**	**FY09**	**FY10 (E)**	**FY11 (E)**
Profitability Ratios (%)						
EBITDA	16.2	8.7	8.0	9.5	12.0	12.3
Net profit	8.7	3.8	5.0	2.7	4.6	5.4
RoCE	19.4	7.0	9.0	8.9	13.4	14.7
RoA	18.9	6.1	5.6	4.6	8.5	10.7
RoE	16.9	8.7	10.1	9.5	17.7	20.7
Growth Ratios (%)						
Net sales		20.0	-6.1	85.7	30.1	23.5

EBITDA		-42.8	25.9	49.1	58.8	25.4
PBT		-58.3	27.6	-4.7	152.4	26.9
PAT		-46.8	22.8	0.8	118.7	44.3
EPS		-46.8	22.8	0.8	118.7	44.3
Valuation Ratios (X)						
PE	10.9	20.6	16.8	16.6	7.6	5.3
CPE	6.2	11.7	10.0	7.6	4.7	3.5
Price/BV	1.9	1.8	1.7	1.6	1.3	1.1
EV/EBITDA	5.5	6.3	6.7	4.1	4.7	3.9
EV/Sales	1.1	0.6	0.9	0.4	0.6	0.5
EV/Mcap	1.0	1.4	1.7	3.1	1.7	1.8
D/E(Total)	0.2	0.5	1.0	1.2	1.1	1.0
Per share data (Rs)						
Earnings	14.8	7.9	9.7	9.8	21.4	30.8
Cash Earnings	26.1	13.9	16.2	21.3	34.5	46.5
Book Value	87.7	90.9	95.5	102.3	120.7	148.6
Turnover Ratios						
Fixed Assets	2.2	1.8	1.3	2.2	3.0	3.6
Inventory	4.8	5.2	3.6	4.1	3.7	3.6
Debtors	87.9	45.7	33.0	34.5	19.8	14.6
Payable	7.3	7.8	5.3	6.1	5.3	5.2
Working Capital	4.9	6.4	4.0	5.2	4.2	3.9
Inventory (days)	75.3	69.7	101.1	89.3	98.0	102.3
Debtors (days)	4.2	8.0	11.1	10.6	18.4	25.0
Creditors (days)	49.9	46.8	68.5	59.5	69.2	69.8

(Source: Company, HDFC Sec)

RETAIL RESEARCH Fax: (022) 30753435
Corporate Office
HDFC Securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Website: www.hdfcsec.com
Email: hdfcsecretailresearch@hdfcsec.com