

Date: 4<sup>th</sup> September, 2019

To  
The Department of Corporate services  
**Bombay Stock Exchange Limited**  
P.J Towers, Dalal Street  
Mumbai-400001

To  
**National Stock Exchange of India Limited**  
5<sup>th</sup> Floor, Exchange Plaza  
Bandra (E)  
Mumbai-400051

Scrip Code: - 540425

Scrip Symbol- SHANKARA

Dear Sir/Madam,

**Sub: - Intimation of Revised Credit Rating**

**Ref: - Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015**

We hereby inform you that Credit Rating assigned to the Company has been revised by Credit Rating Agency i.e. India Rating & Research. The copy of the same is enclosed herewith for your reference.

Kindly take the same on record.

Thanking You

Yours faithfully

**For Shankara Building Products Limited**

*Ereena Vikram*

Ereena Vikram

**Company Secretary & Compliance Officer**



## India Ratings Downgrades Shankara Building Products to 'IND A-'; Outlook Stable

# 30

AUG 2019

By Prakash P

India Ratings and Research (Ind-Ra) has downgraded Shankara Building Products Limited's (SBPL) Long-Term Issuer Rating to 'IND A-' from 'IND A'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loans	-	-	June 2019	INR20	WD	Withdrawn (repaid in full)
Fund-based working capital limits	-	-	-	INR3,600	IND A-/Stable/IND A2+	Downgraded; off RWN
Non-fund-based working capital limits	-	-	-	INR20	IND A2+	Downgraded; off RWN

**Analytical Approach:** Ind-Ra continues to take a consolidated view of SBPL and its subsidiaries, Vishal Precision Steel Tubes & Strips Private Limited, Taurus Value Steel & Pipes Private Limited (TVSPPL) and Centurywells Roofing India (Pvt) Ltd, while arriving at the ratings on account of the strong operational, legal and financial linkages among the entities. SBPL has provided a corporate guarantee for the entire debt taken by its subsidiaries. Any delays in debt servicing at the subsidiary level would also have a considerable bearing on SBPL's ratings and vice versa.

### KEY RATING DRIVERS

**Deterioration in Credit Metrics:** The downgrade reflects deterioration in SBPL's consolidated credit metrics with its gross interest cover (operating EBITDA/gross interest expense) reducing to 2.1x in FY19 (FY18: 3.8x) and rent adjusted interest coverage (operating EBITDAR/gross interest expense + rents) to 1.8x (3.2x). Also, its net adjusted leverage increased to 2.3x in FY19 (FY18: 1.8x). This was on account of lower operating EBITDA of INR1,194 million during FY19 (FY18: INR1,752 million).

While the reduction in debt due to improvement in the working capital cycle (FY19: 49 days, FY18: 57 days) over 4QFY19-1QFY20 and the sale of its Chegunta manufacturing plant is likely to aid in some improvement in interest cover in FY20, Ind-Ra expects it to be lower than historical levels of FY18 and below the agency's expectations for the rating level. The gross interest cover was 2.6x and rent adjusted interest cover was 2.1x in 1QFY20 (excluding IND-AS 116 adjustment).

**Decline in Operating Margin:** Consolidated operating EBITDA margin declined to 4.5% in FY19 (FY18: 6.9%) on account of lower profitability in the retail segment as well as lower processing margins. The processing margins were under pressure during FY19 on account of volatile commodity prices, which resulted in an inventory loss of around INR200 million and intense competition in the pipes segment. Also, strategy to offer discounts to reduce the working capital cycle and transactional discounts on the new product category impacted the retail profitability. Consolidated revenue grew 4.1% in FY19 to INR26,541 million due to an increase in retail segment sales.

The operating EBITDA margin improved to 4.2% in 1QFY20 (4QFY19: 2.7%), on account of an improvement in processing margins and retail segment profitability (excluding IND-AS 116 adjustment).

**Sale of Chegunta Unit:** SBPL sold one of its manufacturing units, located in Chegunta near Hyderabad and housed under TVSPPL, for INR7,000 million in June 2019. The sale proceeds is likely to be utilised largely towards reduction in debt. This sale is likely to result in some release of working capital which would further support to prune debt levels.

**Adequate Liquidity:** SBPL had free cash and equivalents of INR91.6 million at end-March 2019 and unutilised working capital limits of INR2,009 million in June 2019. The average working capital utilisation was around 79% for the nine months ended July 2019. The cash flow from operations turned positive to INR1,164 million in FY19 (FY18: negative INR57 million) owing to the reduction in the working capital cycle. The company has scheduled long-term debt repayment of INR22.7 million for FY20.

**Focus on Retail Segment Consolidation:** SBPL's retail segment grew 17.3% yoy to INR14,311 million in FY19 with comparable store growth of around 5%. The retail segment contributed around 54% to the total consolidated revenue in FY19 with operating profitability of 8.8% in FY19 (FY18: 10.7%). Ind-Ra expects the segment to record modest growth in FY20 by increasing revenue from the existing stores by focusing on new product sale and store upgradation. The contribution from new products increased to 15% of the retail revenue in 1QFY20 (1QFY19: 12%).

**Established Market Position:** SBPL has a strong market position in south India with a network of almost 2,000 dealers, warehouse space spread over 0.69 million sf, and 129 retail outlets. The company has strong relationships with leading manufacturers and suppliers of steel-based products and other building materials.

**Moderate Standalone Financial Profile:** SBPL's gross interest coverage was 1.8x in FY19 (FY18: 3.32x). Revenue stood at INR23,524 million in FY19 (FY18: INR22,480 million) with an operating EBITDA margin of 2.8% (4.0%).

**Industry Risks:** SBPL's business is exposed to demand cyclicity particularly in the real estate industry. Also, SBPL's revenue is geographically concentrated with the top five states (Karnataka, Tamil Nadu, Andhra Pradesh, Telangana and Kerala) contributing almost 87% to the total sales. SBPL's margins remain susceptible to volatility in raw material prices, particularly steel, with the company deriving more than 50% of the revenue from steel-based products.

## RATING SENSITIVITIES

**Positive:** An improvement in the retail revenue, along with an improvement in the operating profitability and/or an improvement in working capital cycle, resulting in the consolidated rent adjusted interest cover rising above 2.5x on a sustained basis could be positive for the ratings.

**Negative:** Any decline in operating profitability and/or an elongation of the working capital cycle, resulting in the consolidated rent adjusted interest cover reducing below 1.75x on a sustained basis could lead to a negative rating action.

## COMPANY PROFILE

SBPL is engaged in retailing of a wide range of building and home improvement products, with 129 retail showrooms across southern and western parts of India. The company is also involved in the distribution of steel-based products such as structural steel, thermo-mechanically treated bars, pipes and tubes, and other allied steel products. The group's operates its steel pipe and colour coated roofing sheet manufacturing facilities through its subsidiaries.

## CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR million)	26,541.0	25,486.7
EBITDA (INR million)	1,194.2	1,751.9
EBITDA margin (%)	4.5	6.9
EBITDAR (INR million)	1,375.0	1,877.8
EBITDAR margin (%)	5.2	7.4
Gross interest coverage (x)	2.1	3.8
Net adjusted leverage (x)	2.3	1.8
Source: SBPL, Ind-Ra		

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 May 2019	14 December 2018	20 September 2017
Issuer rating	Long-term	-	IND A-/Stable	IND A/RWN	IND A/Negative	IND A/Stable
Term loan	Long-term	INR20	WD	IND A/RWN	IND A/Negative	IND A/Stable
Fund-based working capital limits	Long-term/Short-term	INR3,600	IND A-/Stable/IND A2+	IND A/RWN/IND A1/RWN	IND A/Negative/IND A1	IND A/Stable/IND A1
Non-fund-based working capital limits	Short-term	INR20	IND A2+	IND A1/RWN	IND A1	IND A1

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## ABOUT INDIA RATINGS AND RESEARCH

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## Applicable Criteria

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