Shankara®
Building Products Limited

Date: 18th November, 2019

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

Scrip Code: - 540425

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (E)
Mumbai-400051

Scrip Symbol- SHANKARA

Dear Sir/Madam,

Subject: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors held on 13th November, 2019.

Kindly take the same on records.

Thanking You

Yours faithfully
For Shankara Building Products Limited

Ereena Vikram

Ereena Vikram
Company Secretary & Compliance Officer

SHANKARA BUILDING PRODUCTS LTD. BANGALORE

G2 - Farah Winsford, No. 133, Infantry Road,
Bangalore - 560001. Karnataka.
Ph : 080 4011 7777, Fax - 080 4111 9317
CIN No. L26922KA1995PLC018990

www.shankarabuildpro.com

“Shankara Building Products Limited
Q2 FY2020 Earnings Conference Call”

November 13, 2019

MANAGEMENT: **MR. SIDDHARTHA MUNDRA - CHIEF EXECUTIVE OFFICER - SHANKARA BUILDING PRODUCTS LIMITED**
MR. C. RAVI KUMAR – EXECUTIVE DIRECTOR - SHANKARA BUILDING PRODUCTS LIMITED
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER - SHANKARA BUILDING PRODUCTS LIMITED

Moderator: Ladies and gentlemen, welcome to Shankara Building Products Limited Q2 FY2020 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddhartha Mundra, CEO of Shankara Building Products Limited. Thank you and over to you Sir!

Siddhartha Mundra: Good morning everyone and a warm welcome to our Q2 FY2020 Earning Conference Call. Today I am joined by Mr. C. Ravikumar, Executive Director, Mr. Alex Varghese, Chief Financial Officer and Strategic Growth Advisors, our Investor Relation Advisors. We have uploaded our updated presentation on the exchanges, and I hope everybody had an opportunity to go through the same.

As all of us are aware, the last few quarters have been very challenging for the overall environment. Key macroeconomic indicators have been weak at best or declined at worst. Financial institutions have been extremely wary impacting credit flow to small enterprises. Consumer sentiment has also not been very buoyant across categories. In this context, four quarters ago, we had committed ourselves to strengthening our balance sheet. We are happy to inform our investors that we have stayed the course with sequential debt declines over the last four quarters. Our net debt plus acceptance levels have almost halved during this period. Our indebtedness continues to be largely short term is nature. Overall debt plus acceptance level stood at Rs. 291 Crores at the end of September 2019. This is a substantial reduction from levels of Rs. 524 Crores one year ago.

The condition in the last quarter especially, were quite challenging with slow economic activity. Heavy rains compounded the odds against the construction industry. In this backdrop, we have maintained our revenues over the last several quarters. We have also used this period to rework ourselves and instituted a number of cost saving measures to help boost our profitability.

Our Q2 FY2020 profits were higher than the immediate preceding quarter by 21% and the same quarter last year by 10%. With effective and efficient cost control measures and reallocation of resources, our retail margins have been stable in the range of 8% for the last few quarters.

We have also been taking a number of customer outreach activities and influencers meet on a regular basis in collaboration with various brands. We have also increased our local marketing efforts in the form of newspaper inserts, pamphlets distribution, direct outreach at construction sites, influencer outreach program, digital marketing, etc. We believe that this will further create a brand pool and traction for all the building material products under our umbrella.

We have a sense that the worst is behind us and now the efforts which have been put in the last 12 months will start reaping the benefit. With the consol debt on the books and a healthy balance sheet, we are confident of building on our revenue going forward. Even in the weak economic scenario over the last six to nine months, we have been able to sustain our revenues while consolidating and improving our balance sheet. As we move forward, we are optimistic of demand picking up. We also believe that some of the measures being instituted by the government like the 25,000 Crores package for the housing sector will help us substantially going forward.

In terms of our focus area, they continue to remain the same which are to build our retail presence across the south with increased product offering and depth in each product category, to be a go-to-shop for building material products which has all products under one roof and to build the brand equity for Shankara Buildpro Stores with trust and convenience being a key USP along with price competitiveness.

Now let me now take you through the financial performance for Q2 and H1 FY2020.

Our consolidated revenue stood at 633 Crores in Q2 FY2020, which was largely similar to our performance in Q2 FY2019 and Q1 FY2020. The retail segment now contributes 55% of our overall revenues as compared to 52% for the first half last year. EBITDA post the Ind-AS 116 impact for Q2 FY2020 stood at 26.7 Crores as compared to 31.1 Crores in Q2 FY2019 and 31.2 Crores in Q1 FY2020. EBITDA for H1 FY2020 stood at 58 Crores with an overall EBITDA margin of 4.6%. Our retail EBITDA margin for H1 FY2020 stood at 8% with retail EBITDA at 56.8 Crores. PAT from continuing operations for Q2 FY2020 stood at 10 Crores as compared to 9.1 Crores Q2 FY2019, a growth of 10%. This was partially aided by lower tax rate benefits. PAT on Q-o-Q basis was up by 21% from 8.3 Crores to 10 Crores, PAT from continuing operations for H1 FY2020 stood at 18 Crores with a PAT margin of 1.4%. With low finance cost going forward we are confident of PAT margins also inching up.

Now let us focus on segmental performance of the company. Retail sales for Q2 FY2020 stood at 347 Crores, retail EBTIDA stood at 27.7 Crores with a retail margin of 8% post the impact of Ind-AS 116. The contribution of retail to the total revenue stood at 55% for Q2 FY2020. Our overall store count as on end of September stood at 129 stores spread over 5.56 Lakhs square feet with an average store size of 4307 square feet. Average transaction size was approximately 28000 for the first half. Comparable sales growth stood largely flat at -0.6% for Q2 FY2020.

A quick brief on the other segments. Enterprise sales for Q2 FY2020 stood at 185 Crores, it contributed approximately 29% of the consolidated revenue of the company. Channel sales during Q2 FY2020 stood at 101 Crores, this segment now contributes 16% of the overall revenues of the company. On the processing side, the sales from our own products contributed to 28% of the total sales.

In summary, we believe that this last year has been tough for us as well as for our unorganized competition. We believe that the smaller players would have found it tough to navigate in this environment. This helps us to position ourselves even more strongly for the future.

With this, I open the floor for discussion.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Siddhartha a few questions. One can you give me the breakup of acceptance and non interest bearing part in the trade table?

Siddhartha Mundra: See the entire quantum of 294 Crores that we have declared includes the acceptances as well as the financial borrowing that we have. 179 Crores is the direct borrowing, the rest of the quantum will be in the nature of acceptance.

Maulik Patel: That could be close to around 110 Crores right approximately?

Siddhartha Mundra: Then there is a net debt adjustment as well because there is some cash also lying on our books so there will be some net debt adjustment.

Maulik Patel: So, if I look at the trade payable what we have reported in this quarter is approximately 355 Crores so out of that the breakup, the acceptance could be what 110 Crores?

Alex Varghese: So, the breakup is acceptance is 128 Crores.

Maulik Patel: The second question is that as you mentioned that the market was tough and it has been tough since last couple of quarters but we have seen that there was an expectation that the margin has probably stabilized but it has again made an dip, was that related to the steel price volatility or is it because the market is weak and we are not able to take an price hike correspondingly?

Siddhartha Mundra: The market actually is weak, it is weak not only for us, it is weak across the categories so that is the overriding thing that has impacted us. The other challenge that has happened between the last quarter to this quarter is that some of our processing margins did not come up into the picture so that also from our reporting perspective that also impacts us. So it has been a difficult environment, the macros have not been too good in that for us to continue to hold on to broader margins on the retail side, I think this has been a reasonable performance.

Maulik Patel: If I have to see at a store level metrics and you opened few stores in the year of FY2018 and FY2017, mostly in FY2018 we opened many stores, are the stores started becoming profitable at an EBITDA level?

Siddhartha Mundra: Stores which are more than one year, actually we have also become very cautious and very closely watching on the profitability metrics. In fact we have also taken a few hard calls in terms of closure of some of these stores. So the stores which are exceeding that one year mark are getting profitable now.

Maulik Patel: What about the channel business in the last couple of quarters I can see some sequential growth otherwise it could have been down every year, every quarter are we focusing more on the channel part of the business because we understood that the channel, we want to degrew in it?

Siddhartha Mundra: As I mentioned in the last con call as well that the sequential decline that we have been seeing over the last several quarters on the channel side is most likely going to come to an end. The channel business also helps us a lot in terms of realigning our overall inventory levels and keeping in touch with the markets. It is an important business segment for us so we will want to continue to have some element of presence in that segment. It has gone up a bit and it could come down further, but that kind of revenues will continue to remain.

Maulik Patel: On the balance sheet side, if I look at particularly the receivables, the receivable from the March level to this September has gone up by almost around 40 Crores, where our revenue if you look at has not moved too much? So, any systematic, any pain, because earlier we used to have receivable beyond 180 days, a significant part was there and that was related to the channel business?

Siddhartha Mundra: Ratios of the debtors above 180 days has not deteriorated, but yes, the overall environment where a lot of credit is not available and as I mentioned in the opening remarks as well that financial institutions have also been very wary of lending to the SME segment. So, availability of credit in some sense will impact our receivables as well, but as of now we do not believe that this is a very alarming situation.

Maulik Patel: Last question, in the previous con call you said that there is an effort by the management to reduce our overall net debt and acceptance level to close to around 270 Crores, since that you are on track, because by the end of the first half you were already 290 Crores, so any change or any comment on that particular target?

Siddhartha Mundra: No, we are sticking to the target and we want to achieve that by the end of year.

Maulik Patel: Okay and once we achieve that kind of a number, our finance cost should come down meaningfully from this level also right?

Siddhartha Mundra: That's right.

Maulik Patel: Okay. I will come back in the queue if I have more questions.

Moderator: Thank you. The next question is from the line of Saumil Mehta from B&K Mutual Fund. Please go ahead.

Saumil Mehta: Thanks for the opportunity. First is in terms of what could be the average lease period for our stores, number of years?

Siddhartha Mundra: Our leases will be generally around five years and they largely get renewed.

Saumil Mehta: Okay because what I am seeing is the rent per square feet seems to have been inching up over the last few quarters, just to understand have the new stores been opened in more expensive locations or it is just closure of some of the smaller stores has led to the increase in rental cost?

Siddhartha Mundra: We also looked up this number I think what has ended up happening is that the number that has gotten reported for the first half in terms of per square feet rental cost, there has been some Ind-AS challenge there so the actual rental cost for first half was Rs.19.9 per square feet.

Saumil Mehta: Okay, second is on continuing one of the previous question now, 40 Crores increase in receivables in six months versus not a corresponding increase in sales, is it because the channel and enterprise business is taking more receivables and if yes what would be the endeavor going forward because I think you made a comment that channel and enterprise degrowth will stop so is it fair assume that working capital will stay at elevated levels?

Siddhartha Mundra: September is generally a quarter which does see a rise in working capital, this is an annual phenomenon during this period, and this kind of seasonality does exist in our business. This is generally a soft quarter for us, there are rains in this period overall activity for our segment is actually weak and last year also we had seen the receivable building up during this period. So I would call it as a part of the natural cycle this will recede by the end of the year. We also match up our receivables with our payables, so we balance it out on both sides so in that sense from a working capital perspective, it should not be a challenge.

Saumil Mehta: In terms of the retail business from H1 to H1 there have been five closures, so going forward what is the thought process internally is it a particular store not meeting a particular metrics or few quarters that is where we take the hard call or what should be the internal bench mark for closing a store, a very rough qualitative answer for that?

Siddhartha Mundra: See if you look at a few measures one is definitely profitability is the paramount thing. If we are seeing that the store is not making enough for itself that becomes the first decision point for us to start looking at much, much more closely and to take that hard call. The other element is in terms of the potential to scale up. Some of these stores are good by themselves, but if they have been largely flattish or if you are not seeing enough growth potential in them or our ability to add new product categories or if the store itself is lets say a very small size store or there could be something which is very, very local to that store, those are some of the other things that come into play when we take these decisions.

Saumil Mehta: Sir any possibility to share some of the financial, when you say profitability if not being met what could be the internal IRR?

Siddhartha Mundra: The first thing is break even itself.

Alex Varghese: Recovering your own cost.

Saumil Mehta: Fair point and while the net debt number seems to have been going down even with the acceptances, the corresponding finance cost on a Q-on-Q level has not really dipped so is it a quarterly phenomena which will get adjusted in subsequent quarters or how should we see it?

Siddhartha Mundra: There are some processing cost that have also come up in the second quarter so that is why you possibly you do not see a sequential decline from Q1 to Q2 but going forward you should see the decline.

Saumil Mehta: Okay any guidance from the new store opening while FY2020 seems to have been tough, how should we look at FY2021-2022 and how has been the product mix change on the non steel side in the retail business?

Siddhartha Mundra: On the new store openings, possibly we will get back in a quarter or two in terms of plans for the next year, as of now for this year we do not have any immediate store opening plans so we will update our investors as and when we plan to do that.

Saumil Mehta: Mix change for the non-steel business, how is that evolving some of other product categories which we have?

Siddhartha Mundra: That has been coming along well, actually that has been a lot of focus as well we are populating a lot of our stores with these products, initial training, initial stocking, enlarging with brands etc., those all progresses are happening so we are deepening our presence across locations on these categories..

Saumil Mehta: Okay perfect thank you and all the best

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir now coming back to whatever the reorganization we have done, now when do you see yourself coming back to growth like in terms of maybe top line because I think channel and enterprise division degrowth has kind of stopped, overall any views or comments that would be helpful?

Siddhartha Mundra: So, we are increasingly getting more comfortable in terms of potential and the way ahead so we are looking for growth starting possibly this quarter itself.

Deepak Poddar: From the third quarter itself you are targeting growth?

Siddhartha Mundra: Yes.

Deepak Poddar: Maybe like before this problem occurred we were in the range of 15% kind of a overall growth so do you see any kind of vision that we want to get back to such kind of a growth may be in next few years any thoughts on that?

Siddhartha Mundra: I think we are still early in the cycle so let us embark on that cycle and possibly in a quarter or two we will come back with more specific numbers on that.

Deepak Poddar: Fair enough. My second question is on your margins, now you had earlier guided margin in the range of 6% to 8%, now we are already at 8% that is the higher end of your band so is there any kind of scope for further improvement or any efforts that you are doing to improve it further?

Siddhartha Mundra: As of now we would want to operate in that band so that is where we are comfortable at so that where we locked it.

Deepak Poddar: Okay understood, fair enough. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Pawan Kumar from Ratna Traya Capital. Please go ahead.

Pawan Kumar: On the rental cost, it seems to going up continuously so I was trying to understand when these rental costs are revised, how many times per year?

Siddhartha Mundra: They are generally revised once a year and in some cases they may be revised once in three years as well.

Pawan Kumar: Okay, but should we expect these rental costs to stabilize at these levels or further go up.

Alex Varghese: Absolutely this will stabilize given natural inflation that is associated with rental costs.

Pawan Kumar: Okay. Second thing is on same store sales growth, so we are still factoring in when we declare this particular number, we still take the legacy stores which have age of more than one year, right?

Siddhartha Mundra: Absolutely. So, we have put down a detailed note on how we compute same store sales growth, so this is for stores which have completed one year of operations and only then do they come in for the computation for same store sales growth.

Pawan Kumar: Okay. Since we are not opening any significant number of stores at least since last one year, so if we were to target say revenue growth of even 5% to 10%, we require this particular same store sales growth to be higher, so in the current scenario is that possible?

Siddhartha Mundra: Yes, we are working towards that.

Pawan Kumar: Okay, but you are saying there is significant room?

Siddhartha Mundra: Absolutely.

Pawan Kumar: What will be the drivers, so primarily are backing on the product mix sales?

Siddhartha Mundra: Yes, it will be a product mix it will be the natural cycle for us as well because generally Q2 is the weak quarter we are entering into our more robust quarters for the year. Q3 and Q4 are generally on an upswing for us. We are looking to ride on the upswing now.

Pawan Kumar: Okay and finally on the non-steel product portfolio in retail so currently what would be that level?

Siddhartha Mundra: We have a mix of product there. So in terms of new products that we have that will be around 15%.

Pawan Kumar: Any particular targets you have in mind of taking this 15% to?

Siddhartha Mundra: Over a period of time, we are targeting this to become 40%.

Pawan Kumar: Okay can we take that as a period of two to three years?

Siddhartha Mundra: Yes, three to four years possibly.

Pawan Kumar: Okay. Thank you Sir.

Moderator: Thank you very much. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Siddhartha, on a store level margin which is right now we are reporting it around 7% or so and this includes the Ind-AS, but with this change in product mix which we talked in the past, will this margin improve because I understand that there is a challenge at a macro level or the consumer level, but within a product mix changing there was always a hope that our margin will improve going forward?

Siddhartha Mundra: When we have given the band of 6 to 8%, we have factored the same in terms of our margin potential for new products so all of that is factored in as of now.

Maulik Patel: Okay, the another question is that if I have to look at earlier you had given guidance in the call year back or something our overall company margin will be in the range of around 5% or so right?

Siddhartha Mundra: Yes.

Maulik Patel: For the first half we are at around what 4.4%?

Siddhartha Mundra: 4.6%

Maulik Patel: Any scope to expand that?

Siddhartha Mundra: That was given in a context with our processing facility so without processing facility that naturally gets adjusted.

Maulik Patel: Okay so probably this kind of a margin rate will continue?

Siddhartha Mundra: Yes.

Maulik Patel: Around 4.5% at a blended level?

Siddhartha Mundra: Yes.

Maulik Patel: Okay, great, thanks.

Moderator: Thank you. The next question is from the line of Atul Shah from JN Securities. Please go ahead.

Atul Shah: Thank you Sir for this opportunity. Sir we sold some of our asset in Q1 of FY2020 did this have an impact on the revenue growth from the retail side of the business? That is my first question.

Secondly, was the revenue loss from the sale of this asset significant and did it impact our margins?

Siddhartha Mundra: There has been no revenue impact on account of sale of this asset because this asset was a backend processing facility for us. So instead it being our own asset, it now has become a third party asset. We continue to have the ability to source this material from the third party. So our front end revenue business has not been impacted, but yes our backend processing facility and associated margins in that economic activity has been impacted. So there is a margin impact on account of that.

Atul Shah: Sir, what would be the likely margin impact as such?

Siddhartha Mundra: Broadly it will be around 4 to 5 Crores per quarter.

Atul Shah: Okay Sir. Secondly sir, can you give us the absolute EBITDA and EBITDA margins before the Indian Accounting Standard 116 adjustments for Q2 and H1 FY2020?

Siddhartha Mundra: You are saying for this financial year right?

Atul Shah: Yes. For Q2 as well as H1 FY2020, absolute EBITDA as well EBITDA margins before the Indian Accounting Standard 116 adjustments**?**

Siddhartha Mundra: While I give that you, this was for first half, it was 50.5 Crores, one easy way to compute that would be if you look at our slide #11. Basically there is a first line item of rent that we have put up in both the tables so our rental cost as per the reported numbers post Ind-AS has come down so if you want to see it from like-to-like perspective for Q2 you could add this 32.6 million and for the first half you could add 73.8 million to get a comparable EBITDA number.

Atul Shah: Okay Sir. That was helpful. Thank you Sir and thank you for the opportunity and that's all from my end.

Moderator: Thank you. The next question is from the line of Priyanka Singh from Atidhan Securities. Please go ahead.

Priyanka Singh: Good afternoon Sir. I had two questions. The first one is how are we seeing the retail revenue growth over the next one to two years because if you see the revenue has stagnated for the last two to three quarters?

Siddhartha Mundra: The reported revenue has stagnated, but I would just like to remind you again of the environment in which we operate. In this context and in otherwise environment where overall activity is weak, all macro indicators are weak, many indicators have even declined so in that context to continue to maintain these kind of levels itself, I think is a reasonable achievement to have done. The other thing is that from now onwards we are looking at some element of improvement in growth going forward. It also coincides with our natural cycle for the year so that is what gives us the confidence to move ahead.

Priyanka Singh: What would be the channel and enterprise business EBITDA margin?

Siddhartha Mundra: For the second quarter it was around 2%

Priyanka Singh: So, can you give us a sense on how is that piece of the business doing, both the channel and the enterprise?

Siddhartha Mundra: That is continuing to chug along. We have done higher margins in the past as of now the margins are not looking as robust, but we are quite hopeful that as overall environment improves, we should be able to deliver better margins.

Priyanka Singh: Okay any other plans going ahead for these two business?

Siddhartha Mundra: See retail will continue to be our core focus area that is where a lot of our time and the company's attention is. So that continues to be the key focus area for the company.

Priyanka Singh: Okay. That was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Nath Balakrishnan from Spark Fund. Please go ahead.

Nath Balakrishnan: Thanks for taking the question. We did hear your comment about Q2 being a soft quarter and we appreciate that, but, given that you are heading into what is seasonally going to be a stronger part of the financial year for you, are you seeing some incipient signs of demand coming back from what was little you have seen in October and November?

Siddhartha Mundra: October also is generally not a very good month for us, but yes November is looking better so October was a period of festivals, we had two major festivals that came up during October so that impact was there, but November is looking better.

Nath Balakrishnan: Secondly, I think in response, another question did I hear you correctly when you mentioned that the share of non-steel in your retail business is 15% currently?

Siddhartha Mundra: Yes, what I was referring to was, a new product portfolio so that is basically plumbing, sanitaryware, flooring, electricals, etc.

Nath Balakrishnan: If I were to look at non-steel as a part of your retail portfolio where will that number be currently?

Siddhartha Mundra: Possibly around 20 odd percent will be the number.

Nath Balakrishnan: Its 20, okay, fair enough and the margin guidance on the retail business that you are eluding to of 6% to 8% and you did mention that the intent would be to move new products to account for 40% of your retail business revenue so with the current mix you are at 8% EBITDA on retail so even as you move along the contribution to 40% you think there is an upside bias to your current EBITDA margin numbers for the retail business?

Siddhartha Mundra: We are still early on that upswing so as of now we do not want to comment. This is an aspiration for us over a period of time to get that mix in place. So possibly once we are well on way into that I think it would be the better time to comment.

Nath Balakrishnan: I understand you, I am not looking for specific number all I want to understand is directionally should we expect that margins will trend higher when the mix changes in favor your products?

Siddhartha Mundra: That is how it should be.

Nath Balakrishnan: That is a reasonable assumption to make?

Siddhartha Mundra: Yes, that is a reasonable assumption to make, but this is not a margin guidance.

Nath Balakrishnan: Fair enough, I understand which is why I said I am not looking for a number it was only directional.

Siddhartha Mundra: Sure.

Nath Balakrishnan: Okay. That's it from my side Siddhartha thanks.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the floor over to the management for their closing comments.

Siddhartha Mundra: Thank you everyone for joining us. I hope we have been able to answer all your queries. In case you require any further details, you may please contact us or our investor relation advisors, Strategic Growth Advisors. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Shankara Building Products Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.