



“Shankara Building Products Limited Q3 FY-21 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Shankara Building Products Limited Q3 FY21 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 date of this call. These statements are not 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. Alex Varghese, CFO of Shankara Building Products Limited. Thank you and over to you sir.

Alex Varghese: Thank you. Good morning, ladies and gentlemen and a very warm welcome to all of you. I hope all of you are doing well. Today, I’m joined by Mr. Sukumar Srinivas – Managing Director, Mr. C Ravikumar – Executive Director and Strategic Growth Advisors – our Investor Relation Advisors in this conference call. We have uploaded our results and presentation on the exchanges. And I hope everybody had an opportunity to go through the same. With that, I will begin my brief explanation on the result.

Quarter three saw a further improvement in sales on a sequential basis. We are at about 80% of sales on a comparison with the FY20. We are on target for the current financial year. There is a pickup seen in demand across all our segments.

The Enterprise business which was muted in quarter two has also shown signs of revival on the back of pickup in automobile industry and general engineering.

Our channel sales saw a consistent demand, there was a considerable increase in the price of steel and commodities in general.

In the retail side, we are seeing a pickup in walk-ins volumes. We are seeing an average of around 10 walk-ins per day per counter. This is almost nearing normalcy. We had seen barely four to five walk-ins in the preceding quarter. Further we are seeing some revival in housing projects, which were stuck for almost six months. Many builders are now seeing sale of inventory. New projects are being taken up particularly in the budget and affordable housing sector.

We are also seeing a clear shift in the consumer ecosystem. Consumers are now making the living space a better one, as they understand they will spend more time at home than outside even when the situation normalizes. More and more consumers are taking on upgrades.

Shankara Building Products continued its efforts in cost optimization and cost control. This has yielded in positive results. As this is a continuous operation we hope to see the full benefits in

the coming year. The company's focus on balance sheets continues and we should see further positive results in the year ending 31st March 2021.

Our relationship with key suppliers continues to be cordial and we have further cemented our bonds due to increase in lifting them coupled with better payment terms.

Let me take you through the financial highlights for the quarter.

Revenues: Q3FY21 Revenue stood at 562 crores a growth of 15% QoQ basis and the corresponding figure for Q3 FY20 was Rs.700 crores. For the financial year we are in-line with our revised budget target. For 9MFY21, revenue from retail contributed 58%, channel revenues were 22% and enterprise revenue was at 20% to the total sales. We are observing an uptick in demand in general from the Tier II, Tier III cities further we even Tier I demand is picking up.

EBITDA: On the EBITDA side, there was a turnaround in business operations from operating loss of Rs.9 crore in Q1FY21 to an operating profit of Rs.20 crores in Q2 FY21 and further an operating profit of Rs.38 crores in Q3 FY21. This has resulted in an overall EBITDA of Rs.49 crores for the nine months period for the current year. Absolute EBITDA for Q3 FY20 stood at Rs.33 crores. EBITDA margin for the quarter was at 6.8% versus 4.1% in Q2 FY21 and 4.7% in Q3 FY20 an increase to 270 bps on QoQ basis on 209 bps on YoY basis.

PAT: Q3 FY21 PAT stood at Rs.22 crores versus 12 crore Q3 FY20 reflecting 89% growth. Q1 has a net loss of 25 crores, Q2 PAT of 6 crore and Q3 PAT of 22 crores, stands at Rs. 28 crores. this has resulted in a PAT for the nine-month period at Rs.3 crores.

In these challenging times for the nine months ending 31st December 2020, the company has been able to reduce its debtors by Rs.148 crores and inventory by Rs.56 crore vis-à-vis March 2020. In Q3, there was a significant reduction in net working capital days to 62 days as compared to 76 days in Q2 FY21. This number is comparable to Q4 FY20 which stood at 63 days. The operating cash flow for 9MFY21 stood at Rs. 101 crores.

Now, let us focus on segmental performance of the company.

Retail segment: Retail sales for 9MFY21 stood at Rs.816 crores as compared to 1,077 crores in 9MFY20. On a sequential basis, sales stood at Rs.323 crores in Q3 FY21 as compared to 283 crores in Q2 FY21, the growth of 14%. The segment profit stood at a 8.05% for the quarter. We have taken a continuous call over a year and a half to rationalize our retail operations. Consequently, we have shut down over 30 stores. Currently, we have 97 stores under the brand Shankara BuildPro.

We believe that we can achieve our future target with less number of stores, more effectively. This means that, the throughput of each store would increase substantially. Further, our supply chain will be more cost efficient and effective.

Average rental costs for leased outlets stood at Rs.16.65 per square feet per month for Q3 FY21 as compared to Rs.20.59 for Q3 FY20. The total area of the stores comes at ~4.71 lacs Sq. Ft with an average store size of 4,666 square feet. Average ticket size per transaction was ~ Rs. 34,942 for Q3 FY21 up from 28,676 in Q3 FY20.

Channel and enterprise Sales: Channel and enterprise sales in 9MFY21 stood at Rs.580 crores, contributed 42% of the consolidated revenue of the company. In Q3 FY21, the revenue stood at 238 crores as against Q2 FY21 of Rs.205 crores, a 16% growth on QoQ basis. The sale in the enterprise segment has started rebounding and now contributes 53% of this segment as compared to 48% in Q2 FY21. The segment profit stood at 6.4% for the quarter. However, I wish to add that, this segment gained substantially due to favorable commodity prices.

Processing: Our processing units are slowly ramping up to meet our requirements as per the current market conditions. We have changed our operations substantially to cater to an optimal production based on the requirements as per the current market scenario. On this basis, we are currently operating at 70% of capacity and the units are profitable.

To conclude, the recent union budget has focused on boosting infrastructure spends. We hope that this will augur well for Shankara Building Products as all our products, particularly steel and pipes and tubes go at infrastructure in a big way. Shankara Building is lean organization focused on retail operations and today a leading retailer in the building materials space. However, given the experience of the pandemic, which is a black swan event, we feel that our channel and enterprise business has held a good stead in these difficult times. In the retail business, we wish to grow rapidly on the non-steel segment, which is relatively new to the organization. Further, we are also aware of our limitations to expand very rapidly, which requires a huge infusion of funds. Therefore, we will grow with internal funds generated from our operations. We are confident that, this will lead to a healthy growth in volumes as well as profitability. With this, I open the floor for discussion. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: I would like to understand what would be the absolute term inventory gain in the quarter sir as indicated by sir?

Alex Varghese: It's approximately around 10 crores.

Siddharth Rajpurohit: And the spread between retail and channel sir?

Alex Varghese: Maximum will be in channel and retail will be less.

Siddharth Rajpurohit: Okay. And sir what will be a same store sales growth sir?

- Alex Varghese:** Same store sales growth on a yearly basis, the number will be negative, but on a sequential basis, there is a growth.
- Siddharth Rajpurohit:** Okay. But year-on-year we are still down, sir?
- Management:** Actually, the same store sales growth will really be more relevant at the end of this quarter, because some of the numbers still will not be really comparable compared to last year. So, we'll have a more meaningful number that will come out in Q4.
- Siddharth Rajpurohit:** Yes, because I was to understand sir, what is hindering our growth because if I see the OEMs, the tile manufacturers or the pipe manufacturers or the paint manufacturers everybody is showing a strong year-on-year volume growth?
- Management:** Yes.
- Siddharth Rajpurohit:** So, what is the reason sir that we are still at 80% or 82% of the pre pandemic time sir?
- Management:** This is a call we took right in the beginning of the year, that we are going to remain at the 75% to 80% of our top line compared to the last year, I know that a lot of people have recovered substantially in quarter three and so on, but in our case because we are much, much smaller we are not a manufacturing unit, we are largely in the retail sector. So the real walk-ins and the real growth has only started in Q3, first two quarters we still were quite stuck. So, the better answer to your question would really come in Q4.
- Siddharth Rajpurohit:** Okay. So Q4 we see a strong demand recovery sir?
- Management:** We hope so, we are still in the early stages one month ago. So we hope that it will happen in this quarter.
- Siddharth Rajpurohit:** In January did we can reach +90% utilisation?
- Management:** No, we are at about 85%, 86% so there is a sequential growth. So we hope that we will see the sales reaching on parity by March.
- Siddharth Rajpurohit:** Is the credit policy that we are following is fully covered credit to our clients?
- Management:** Yes, we have full tightly covered credit to our client.
- Siddharth Rajpurohit:** So, is that is one reason for the relatively slower growth as compared to the industry sir?
- Management:** No we had internal budget. We are following that budget for the year. So bases on that we are tightening the credit and we are going as per our budget to achieve the one year target.

- Siddharth Rajpurohit:** Okay. And this store closer that we have taken sir, is it now come to an end sir?
- Management:** Almost we are to an end, more or less maybe couple of stores otherwise we should be around these many number of stores.
- Siddharth Rajpurohit:** Okay. And sir what would be your guidance for the retail segment and general segment margins going forward sir?
- Management:** Retail would be 6% to 8%, and channel would be around 3% to 4%, in the normal market conditions.
- Siddharth Rajpurohit:** Okay. But given the current scenario where even at 80% we have reached 8%. So, is it possible that we can go further higher?
- Management:** No, may not be but we are planning to because the more we expect margins, we may lose our opportunity. We are planning to be around 6 to 8%.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial Services. Please go ahead.
- Amish Kanani:** Sir my question is, how are we seeing the footfalls, I understand that our business is not so much driven by footfall but on the retail side, how are we seeing the footfalls in terms of your inquiry and in general, we have seen that footfalls are down, but revenue per customer is up. So, if you can give us some sense of how the trend is and in key Tier II cities where we are present, whether the COVID after effects are still feeling or say after Diwali we have seen a lot of improvement and on the footfall side, so you can give us?
- Management:** Footfalls like you mentioned, the retail footfalls, as we mentioned in our opening speech from now it has relatively to improve around 10 per counter, as against 5 which was in the previous quarter.
- Amish Kanani:** Sorry, can you repeat?
- Management:** Retail footfalls have relatively improved from 5 per day in Q2FY21 to 10 per day average in Q3FY21. So, there is a good improvement.
- Amish Kanani:** And how is this say, how would you compare this vis-à-vis pre pandemic and in terms of percentage. Because what I find is, though footfall is lower the conversion is high, only serious customers comes in so that way?
- Management:** Yes, conversion is absolutely high. Almost 70% of the walk-ins we are converting.

Amish Kanani: And sir other question is, how is the behavior of the customer is in terms of, in this type of products generally it's very difficult to purchase e-commerce, e-commerce conversion. So, how is the consumer behavior here in our segment, is it possible that more-and-more people could, still choose the product e-commerce or do you think our line of business it is important for them to come to our store. And what are you doing to kind of capture this trend if any sir, thanks.

Management: Presently, the customers like whatever existing customers we had, they're quite comfortable. And as far as e-commerce, still people are not very much like, as you said very difficult for them to choose a product over.

Management: We also have a site, we have always mentioned which also captures the sale, or whatever comes in the through the portal, so largely what we find is, that the portal is used more as a catalog. And then there is always a helpline number, which is where we find the ultimate sale is closed. So, this is the current trend, we have seen the same trend over the last two years, two and a half years ever since we've had the portal. So, we expect the same to continue, but we are geared up from the e-commerce angle that if the sale does dramatically go up there, we are ready to capture the same.

Amish Kanani: Okay. And sir in terms of sales, if you can give us some flavor of, we have seen a lot of sales improvement as far as the built home is concerned, so in terms of cycles the way our products are being sourced, if you can give us some sense of whether our products do they immediately get bought, after the three months of fresh homes being built, or it is we are more in the cycle of, refreshment and refurbishment, whenever they do we generally have those kinds of sales, so if you can give us some flavor whether our sales is how closely it is linked to the new property sale, versus a normal refurbishment of the house. And what are the trends there, given that we have, as what previous participant asked, a lot of building materials companies have shown a strong growth maybe due to some pent up demand, but if you can give us some sense of how are we linked to the real estate cycle, thanks.

Management: Yes, so there are three kinds of sales that really we look at. One is new homes, which have been with, we start from scratch. So generally, the pattern of sale is there, if we have scouts from every counter who are on the field, so we try and tap in at whatever is starting under construction. So, normally there if we are successful in meeting the term, it starts with steel. And followed by cement, and then it is probably our major supply continues over a year till then house or the building is completed. So this is one pattern.

Second is, we also cater to smaller builders where it's a slightly more bulk orders where the similar project comes in maybe some we tap at when they are near in completion or middle level of completion where certain plumbing items go in, some of the concrete, faucets, etc go in. So generally, the same for any of these areas is spread over a period of time, it does not happen like, people walk-in and they just freeze things and go, they may freeze but the supply is always spread. So one of the key things that we also target is to see what is in our pipeline all the time.

So one of the key things that we have learned over this last few years with your pipeline is to always be strong, in order to continuously have a generation of business. So these are the two areas where you need a pipeline generation.

The third is, what do you said about the upgrades and people who say that we are doing a toilet or they're doing a bathroom or they are redoing their floors, something like that. That also is always spread over a month or two, unless it's a spot purchase of one tap or one specific item that is available in the store. So we have, it's a mix of all the three, our focus is more and more towards one and two, because that is what really keeps the pipeline going and that's what gives you the kind of comfort in the sales as you look forward.

Amish Kanani: Sure. And sir last question from my side is with your permission, is you hinted that we will settle for slightly lower margin, to kind of gear up for the growth. So, the question is, is it that our product is slightly less competitive vis-à-vis competition and hence, we are planning to pay maybe reduce rather become more competitive or that in certain products, we want to enter which are less margin, but we want more growth and hence, that kind of slightly lower margin, but higher growth, kind of number that we are speaking of?

Management: See, I would say it's a mix of both. There are many products where we are very competitive in the market. There are also some areas which we would like to focus where we can take a look at higher volumes, where we need to be probably a little more competitive, so it's a mix of both. So, that is what we indicated when we were talking about there are 6% to 8% margin level.

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

Deepak Poddar: I just missed the number inventory gain that you mentioned was how much in rupees crores?

Management: Rs. 10 crores.

Deepak Poddar: Rs. 10 crores was the inventory gain in this quarter. Okay, fair enough. So, my query is related to, you mentioned about Jan 21, we are at about 85%, 86% of pre COVID utilization and we expect to reach parity by March. So, by parity you mean the 225, 250 crores per month revenue that we used to do, so is that what we are looking at?

Management: We are certainly targeting that, but I would rather put the number around 200 to 220 in the March.

Deepak Poddar: And, the point that you mentioned about that we are basically fine to settle for a low margin to drive growth. So, what sort of growth are we looking at, if we have to look at FY22?

Management: No, we said we will balance the margins.

- Management:** Yes, but we are looking at a growth of anywhere between 20% to 25%.
- Deepak Poddar:** 20 to 25% from the base that we have currently here?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Few questions, our net debt acceptance at the end of March was around 345 crore and since last three quarters June, September and October we are at around 290 crore. And in the presentation, it was mentioned that our operating cash flow has been in the range of around +100 crore for the first nine months. So, has our working capital has gone up and how do I adjust this math, because since last three quarters our debt plus acceptance is now declining?
- Management:** So, the math is if you see in the first two quarters, the creditors had come down substantially. So we are slightly.
- Maulik Patel:** What is our payable as of now, as of December?
- Management:** Overall in December the creditors has marginally gone up, what was around Rs. 27 crore in Q2 has gone up to Rs. 100 crore in Q3.
- Maulik Patel:** Okay. So what is our working capital as of December 20. Because receivable we have is around 281 crore, inventory is around 344 I understand because of the steel price it has gone up. So there is an increase in both receivable and inventory?
- Alex Varghese:** 290 crores is the total working capital including an acceptance of 136 crores.
- Maulik Patel:** Okay, fine. Second question is that, Sukumar you always mentioned that the focus for this year has been on the balance sheet and this is largely achieved and now given that the push in the commodity prices and you desire to have one back to the earlier level as the revenue growth for which you say that around 20%, 25% for next year, will there be a corresponding increase in our working capital?
- Management:** No.
- Maulik Patel:** Then how do we want to achieve that because, since one year or probably a little more than that, we started focusing on the channel part of the business, which we earlier de-focused in year of FY18, 19. There was a de-focus on that, but since last year there is a focus on the channel part of the business. And, I understand the channel is a little more working capital intensive business compared to the other two working vertical what we have.

Management: Yes, so one of the key things that we've have focused if you see the current year reduction in both inventory and receivables this will continue to go on. Secondly, we also mentioned in the opening speech that we are fueling our growth only through internal accruals and so on. So, you should watch the space as on March this year to see where our working capital actually end. So, that will probably illustrate where we're driving at further.

Maulik Patel: Okay. And just the last question, there was pretty sharp in the number of stores which we closed in this quarter was a much of 19 stores. And can I know the reason what led to this store closures and how do you select that this store is going to be, is it more about profitability at the store level, that was the metrics or you had some of the let say in Bangalore, you have around 19 stores or certainly more than that, and you wanted to reduce the number of stores and what was the thought process behind that?

Management: The basic thought process, this thought process started pre COVID also. So, basically or probably it accelerated in the post lockdown and so on. So, profitability was the driving #A, #B what was the growth that we have registered in some of those stores over the last three years or four years after they were opened. So, these were the two parameters on what we really looked at. Thirdly, we also looked at let us say a store is, in the vicinity there is another store, we could see that what is the catchment that the existing better performing stores able to do. And so what we've also seen after some of the initial closures of stores, we found that a neighboring store, which may be five, six kilometers away, was barely able to capture the business that may have been lost in the closed store. So, that is why when somebody asked me the question earlier about SSG, I would really like you to watch that space probably in quarter one next year, where there will be a fairly substantial same store growth where in our rationalization process so this has been the thought that is really gone behind closure of stores. And it's not that we have closed these stores, we are not going to open anything further. But, we will take a rational thought about what we are going to do in the coming year.

Moderator: Thank you. We take the last question from Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir first on the management fees, so if we see it is still down around 50% from where it was pre pandemic so how do you see this when it will be coming back sir. So we report the EBITDA number in the segment performance. So, if we remove the depreciation from the unallocable cost we will get to console corporate cost.. So that cost was around 6, 7 crores earlier which is now coming down to only 2.5 to 3 crores. So, I wanted to know how much of this cost will come back, sir?

Management: Very little of it will come back.

Siddharth Rajpurohit: Okay. And how are the stores that we acquired a few years back are performing now sir and have we closed any of those stores sir?

- Management:** No, probably one of the three stores in Chennai we have closed of what we acquired, otherwise they're all doing reasonably well and the Bangalore three stores are doing pretty good.
- Siddharth Rajpurohit:** Okay. And sir what will be our gross debt and cash level sir?
- Alex Varghese:** Gross debt is 290 crore as far as on December. This includes acceptance of 136 crores.
- Siddharth Rajpurohit:** And cash sir?
- Alex Varghese:** Cash is around 8 crores. The 290 Crs is after reducing the cash I am saying. So, it is around 298 minus cash of 8 crore it is coming 290 crore.
- Siddharth Rajpurohit:** Okay, sir. What about CAPEX plan sir?
- Management:** CAPEX we don't have any substantial plan rather than augmenting our warehouse only. So, that means it would be a nominal number next year.
- Siddharth Rajpurohit:** And how do you see sir going forward, what will be say three, four years down the line the share of non-steel products in the overall?
- Management:** The share of steel will probably in about four years, what we anticipate is it should come down to about currently if we look at the retail segment we are at about pure non-steel is about 15% and including some partial glazing products, etc, the non-steel is about 25%. So we broadly in the entire business. We would like to bring the share of steel down to around 60%. That's the target in the next four years.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. Alex Varghese for closing comments.
- Alex Varghese:** Thank you everyone for joining us. I hope we were 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 advisor. Thank you.
- Management:** Thank you.
- Moderator:** Thank you. On behalf of Shankara Building Products Limited, that concludes this conference. Thank you for joining us and you may now disconnect your line.