

Date: 16th November, 2022

To
Department of Corporate services
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, Phiroze Jeejeebhoy
Towers, Dalal Street, Fort,
Mumbai-400001
Scrip Code: - 540425

To
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1,
G Block, Bandra Kurla Complex,
Bandra (E)
Mumbai- 400051
Symbol- SHANKARA

Dear Sir/Madam,

Subject: Transcripts- Q2 & H1 FY23 Earnings Conference Call.

Please find enclosed the transcripts of the Q2 & H1 FY23 Earnings Conference Call held on 10th November, 2022.

Kindly take the above information on record and acknowledge.

For **Shankara Building Products Limited**

Digitally signed by EREENA VIKRAM
DN: cn=EREENA VIKRAM c=IN o=PERSONAL
Reason: I am the author of this document
Location:
Date: 2022-11-16 14:00+05:30

Ereena Vikram
Company Secretary and Compliance Officer

Registered Office :
G2, Farah Winsford, 133 Infantry Road,
Bengaluru-560001, Karnataka
Ph.: + 91- 080-40117777, Fax- +91-080-41119317

Corporate Office :
No. 21/1 & 35-A-1, Hosur Main Road,
Electronic City, Veerasandra, Bengaluru-560100
Ph.: +91-080-27836955 | 080-27836244

Email :- info@shankarabuildpro.com | CIN:L26922KA1995PLC018990, | Website : www.shankarabuildpro.com



“Shankara Building Products Limited Q2 & H1 FY23 Earnings Conference Call”

November 10, 2022

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MANAGEMENT: **MR. SUKUMAR SRINIVAS - MANAGING DIRECTOR - SHANKARA BUILDING PRODUCTS LIMITED**
MR. C. RAVIKUMAR – EXECUTIVE DIRECTOR - SHANKARA BUILDING PRODUCTS LIMITED
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER - SHANKARA BUILDING PRODUCTS LIMITED
MR. DHANANJAY MIRLAY SRINIVAS – HEAD, NON STEEL DIVISION - SHANKARA BUILDING PRODUCTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Shankara Building Products Limited Q2 and H1 FY23 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk 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. Sukumar Srinivas, Managing Director of Shankara Building Products Limited. Thank you and over to you Sir!

Sukumar Srinivas: Good morning everyone. On behalf of Shankara Building Products Limited I extend a warm welcome everyone on the earnings call for our highest ever quarter and half year. I have with me Mr. C. Ravikumar – Executive Director of the company, Mr. Alex Varghese – Chief Financial Officer of Shankara Building Products and Mr. Dhananjay Mirlay Srinivas who heads the non-steel division. We also have with us Strategic Growth Advisors, our IR advisors. I hope all of you must have had a chance to look at our investor presentation that is uploaded on the stock exchanges. Since we are hosting an earnings call after a gap I will share an overview of the company followed by the financial performances for Q2 FY2023 and H1 FY2023.

We are a leading organized retailer of home improvement and building products in India operating under the brand name of Shankara Build Pro. We run 107 fulfillment centers out of which 91 are stores and 16 warehouses spread across Karnataka, Kerala, Andhra Pradesh, Telangana, Tamil Nadu, Maharashtra, Gujarat, Odisha, Madhya Pradesh, and Puducherry. In addition, our products are also available on our online website www.buildpro.store. Our operation started in 1995 and we are headquartered in Bangalore. We started our operation in steel tubes and related steel products. In 2015, we diversified into an entire range of building material through our retail. Shankara sells over 1 lakh SKUs across the entire home construction and renovation lifecycle through our fulfillment center. Our product portfolio is spread across categories of construction materials, plumbing, sanitary ware, flooring, electrical, and interior exterior finishing. We have tied up with leading brands across all product categories. Our customers include homeowners as well as professional customers like architect, interior designers, contractors, developers, plumbers, electricians, tile layers, masons, carpenters, painters etc., as well as small enterprises. In our steel business, we also cater to a large number of medium and small industries. Our customers are spread across tier 1, 2 and 3 locations.

In addition to the retail segment, we also have two legacy business segments of enterprise and channel. In the enterprise segment we cater to the requirements of large end users, contractors and original equipment manufacturer. In the channel segment, we cater to dealers and other retailers through our branch network. The common theme across all segments is a customer-centric approach to business. Our backend operation provides support to our front-end business segment. We have limited steel processing facilities in the space of roofing and steel tubes. We have our own supply chain capabilities with owned warehousing and vehicles to provide efficient and speedy delivery to our customers. With the ongoing economic conditions globally and the dynamic micro economic backdrop we are currently focused on growing our revenue exponentially. We are targeting to grow at 30% CAGR of total revenue in the next 3 to 4 years. Further we are also targeting a good growth in our non-steel business. With this worth around 10% of our revenue in the financial year ending 2022 which we would like to grow significantly. Apart from that we are focusing more on increasing our digital presence and we are moving rapidly to a marketplace model. We are focusing on tech-driven customer acquisition and retention.

Let me now talk about some of our recent developments. In March 2022, the company approved preferential share allotment issue of 14 lakh share warrants convertible into equity share for an offer price of Rs.750 per warrant to APL, Apollo Mart Limited a whole owned subsidiary of APL tubes limited. APL Apollo Mart agreed to invest Rs.105 Crores in the company apart from a secondary purchase from the promoter. APL Apollo Mart has already subscribed to Rs.26.25 Crores that is 25% of the total amount, remaining amount of Rs.78.75 Crores will be subscribed in the ensuing months. Part of the proceeds will be utilized to fund working capital which in turn will improve our operation cash flow. We believe Shankara being a key distributor of APL Apollo products this transaction ensures consistency in the supply chain , faster delivery, and turnaround schedule.

Now a quick overview into the industry dynamics and the business scenarios in the last quarter. The Indian economy has shown resilience in the face of global uncertainty due to the pandemic and the subsequent Ukraine-Russia conflict. India's real estate sector is witnessing a strong growth after 2 years slump. This recovery is expected to continue for a few more years. Signs of green shoots is being witnessed in the capital good segment. If this continues, it augurs very well for the Indian economy in the coming year. We have seen strong growth in our revenue across the three business segments of retail, channel, and enterprise.

Now coming to the overall company's financial performance. The company has achieved a stellar performance in the first half of this year. All the segments performed well during Q2 of the current financial year. We have registered a same store sale growth of 36.9% during

Q2 FY2023. We have seen higher footfalls in our retail stores and online channel has also performed well for us. The company's consistent efforts over the last couple of quarters have helped us to efficiently manage networking capital.

Networking capital number of days stood at 32 in Q2 FY2023 versus 53 days in Q2 of FY2022 with our focused approach has helped achieve a positive cash flow of Rs.75 Crores for the period ended 30th September FY2023. Now I will request Mr. Dhanajay Srinivas who heads our non-steel to give you a brief update on the building material retail segment.

Dhanajay Shrinivas: Hi everyone. I focus on the non-steel segment where we supply building materials and products to wide range of customers consisting of homeowners, architects, contractors, builders, sub-dealers and influencers. We supply products under the categories of plumbing, CP fittings and sanitary ware, tiles and surfaces, electrical and lighting, construction chemicals and paint, and exterior and interior finishing materials. We are working towards the one stop shop for all your building material needs. We enjoy key relationships with all leading brands like Jaquar, Ashirwad, Kohler, Grohe, Parryware, Philips, Somany, Nitco , Havells and many more. This ensures our customer gets a wide range of brand under one roof. I also take care of our tech initiatives. We have a complete building material e-commerce site which increases input traffic month on month. We also have successfully launched our mobile app the buildprostore on android and IOS. We are working to utilize tech to improve footfalls in our fulfillment centers working on a model of eyeballs to footfalls. We believe we have the right dynamic to grow the business of non-steel to Rs.1000 Crores in the next 3 to 4 years.

Sukumar Srinivas: Now I would request Mr. Alex Varghese our CFO to talk about the financials.

Alex Varghese: Thank you Sir. Good morning everybody.

We had a strong financial performance in Q2 and H1 FY2023.

In Q2 FY2023 we have achieved the highest ever turnover of Rs.907 Crores with a growth of 50% compared to Q2 FY2022. For H1 FY2023, the total turnover was Rs.1739 Crores as against Rs.1051 Crores in H1 FY2022, a growth of 65%.

EBITDA for Q2 FY2023 stood at Rs.29.5 Crores with a growth of 33% compared to Q2 FY2022. EBITDA for H1 FY2023 was Rs.56 Crores as against Rs.41 Crores in H1 FY2022 with a growth of 35%. Our PAT stood at 15.5 Crores in Q2 FY2023 as against Rs.9 Crores in Q2 FY2022 with a growth of 73%.

PAT for H1 FY2023 was Rs.27.5 Crores compared with Rs.15.2 Crores in H1 FY2022 a growth of 8%. The company has substantially improved its networking capital to 32 days in FY2023 as compared with 56 days in Q2 FY2022 and 44 days in Q1 FY2023. The net operating cash flow as on 30th of September stood at Rs.75 Crores. Thank you.

Sukumar Srinivas: We will be happy to answer questions that you may have.

Moderator: Thank you very much. We will begin the question-and-answer session. The first question is from the line of Akash Mehta from Capaz Investments. Please go ahead.

Akash Mehta: Basically, I just want to congratulate you on great set of numbers before asking the question and thanks for the in-depth description of the business and overall industry scenario. Just one thing can you explain what helped us achieve this kind of a sales growth.

Sukumar Srinivas: Yeah, I think one of the primary reasons for this kind of sales growth is we has of course been focusing very hard internally on rapid revenue growth this is number one. Number two, I would also say that the overall business scenario has been very favorable to facilitate this kind of an aggressive sales growth. These would be the two primary reasons that I can say that we have achieved these kinds of numbers.

Akash Mehta: Okay regarding the presentation the highlights show that you are slowly moving towards the non-steel business so what are the steps that we are taking to achieve that?

Sukumar Srinivas: Number one I think we have got a very stable starting with the organization structure now the non-steel is headed by one of the promoters, so the promoter's son has come in to take charge of the entire non-steel business so I think there is a much greater focus as far as the from the top that is number one. Number two, see we started this business in 2015 so I think we have learned quite a bit in the ensuing years and today we are quite focused and we have got the nuances of this business quite well and as we have been in the retail stores and the business I think that is one of the key reasons why the growth in the non-steel will be substantially more than the traditional business.

Akash Mehta: What would be our sales mix from steel to non-steel in terms of the top line and how do we see the ratio going forward

Sukumar Srinivas: Currently like we mentioned earlier that it is about 90:10 in the steel and the non-steel which we hope looking forward in the next 3 to 4 years should be in the region of around 15% to 20% in the non-steel segment.

- Akash Mehta:** Okay I think that answers my questions, thank you.
- Moderator:** Thank you. We have the next question from the line of Kushal Jajodia from Kushal Jajodia and Associates. Please go ahead.
- Kushal Jajodia:** My question is to Sukumar Sir. So, I am talking in respect to the investment made by APL Apollo group so Sir by analyzing the balance sheet the 25% money whatever is received from APL group I guess it is repaid towards the loan because the loan has substantially reduced in the current quarter balance sheet if I could see. Is it right Sir or are we looking for capital expenditure also towards opening new stores.
- Sukumar Srinivas:** No, we do not have much capital expenditure. You are quite right as we have mentioned in the opening remarks this is largely towards repayment of working capital loans.
- Kushal Jajodia:** My second thought to the question is that after hearing your opening remarks are we expecting the balance 75% of the money to come in the ensuing month before December.
- Sukumar Srinivas:** We have said ensuing months so it could be by the year end also technically they have 18 months as you know in warrants to subscribe to the balance so we are already 6 months into that 18 month so it could happen yes.
- Kushal Jajodia:** By December 2022 right Sir.
- Sukumar Srinivas:** I would not put a date as December 2022. We hope it will come in by the financial year end.
- Kushal Jajodia:** Okay now one more part to it Sir, since APL group is coming up with new building material products since the group is investing heavily in Shankara so are we giving some favorable prices or what is the structure, what are the add-ons APL will bring to the group per se and any extra credits we are giving to APL Apollo group in this regard.
- Sukumar Srinivas:** See I think been primarily the one big benefit it is a sort of a win-win situation. You can call it a symbiotic relationship. A, we give Apollo as you correctly mentioned that they are coming out with total building material solutions and the steel buildings and so on. I think in our part of the countries, the southern region where we are stronger definitely we give a platform to focus on this particular area number one. Number two, we also have opened up a fairly large retail counter for further developing on the APL product. Number three they are also coming up with the number of newer products in the Raipur plant etc., which I think definitely we will have some access to those products which hopefully will help boost the revenues as well as give them a faster channel in the southern market.

Kushal Jajodia: So, one more part to the question is Sir, since around one and half months have gone by for Q3 how the Diwali sales for your store Sir have been, just wanted to check on that.

Sukumar Srinivas: Technically it has been fairly good. I mean we have been consistent. I mean I would not say there was a dramatic jump because in building materials and steel related businesses generally it not like a typical consumer good where you will see sudden spike in the sale, but we are happy and in south we have two holidays one is the Dussehra and Navaratri which is also quite heavily celebrated particularly in Bangalore, Mysore, Karnataka, and Tamil Nadu so despite two weeks of let us say a semi holiday mood I think we have held on to the volume which is itself very good.

Kushal Jajodia: Okay thank you so much Sir for answering happy growth. Thank you.

Moderator: Thank you. The next question from the line of Anuj Jain from Globe Capital. Please go ahead.

Anuj Jain: Good morning, everyone and congratulations on the very good set of numbers. Sir I just want to know one thing that in your opening remarks you have guided for 30% CAGR have I heard it right.

Sukumar Srinivas: Yes. I mean that is an aspiration the company has.

Anuj Jain: Okay wonderful Sir wonderful that is very good if we can achieve that and the second thing as you have said that we are focusing more on tech enabled sales so can you bifurcate as of now between the online and offline sales what are the numbers which look like on the online side.

Dhanajay Shrinivas: So how we look at tech for our store and for our customers is we try to use tech to capture more customers and drive them towards our retail stores our fulfillment centers because the idea is that we want to increase the footfalls because we can get a bigger share of wallet when a customer comes to the store compared to just may be a single product online so I would say over here is more for blended model where we have a huge amount of traffic online but we are trying to push as much as traffic offline as possible to our stores.

Anuj Jain: Okay, okay perfect and can you please give me guidance for the sustainable EBITDA margin for a longer term.

Sukumar Srinivas: Currently we are around 3% kind of an EBITDA so we are looking at least in the next 2 to 3 years would be around the same and within 4 years we are targeting 4%.

Anuj Jain: Okay and any plans going forward for opening new stores Sir, right now we are having some 90 odd stores.

Sukumar Srinivas: We have 90 odd stores now. Yes we have 91 stores currently. In this next 1 year we are not planning an aggressive growth in terms of number of stores. Definitely there would be a small number that is likely to happen.

Anuj Jain: Okay perfect Sir. That is it from my side. Thank you so much.

Moderator: Thank you. The next question from the line of Sachin Shah from SS Securities. Please go ahead.

Sachin Shah: Hello thank you for giving an opportunity. I have a couple of questions with respect to your business. First is in general sense what is your view on building material industry for upcoming quarter is it likely to be on a very stronger note or it is going to be a moderate growth in that front.

Sukumar Srinivas: See my personal opinion if you look at the last quarter, first half numbers of housing units that has been sold in India in general has been quite stupendous and we are hearing at least from a general news that lot of inventory across the country has been sold out, people are talking about over a Crores plus individual dwelling have been sold out so the inventory across builders has come down number one. Number two we also hear that 2 tier and 3 tiers are fueling the push forward in the real estate segment. So if I look at these two elements itself it augurs really, really well for the next few years of building material and on the ground we ourselves are seeing a lot of new project, new initiatives taken across the board of a large number of the leading builders definitely in the south. So there have been a slew of new projects that have been announced by almost all the leading builders which was certainly not there obviously for the COVID years people were going slow to look into liquidate inventory. So I think my personal view is that in the next couple of years augurs well for the building material industry. Secondly there has also been a very large infrastructure push so if we take in the kind of building materials whether it is steel, cement, electricals, etc., which will go into the infrastructure push there has been large revival of projects enquiries that we are getting so I think overall it looks very good.

Sachin Shah: So, any new trend which you are witnessing in the organized or retail space. I mean you are seeing a similar kind of strong growth in that side as well in the retail channel segment.

Sukumar Srinivas: Definitely yes.

- Sachin Shah:** Okay what is your outlook on your business for the next 3 to 5 years from here on?
- Sukumar Shrinivas:** We are targeting a 30% CAGR for the next 3 to 4 years broadly on the revenue growth. In the next 2 years we hope the non-steel should be around a thousand of that share so let us say by 2026 we will look at around topline of anywhere between 7500 to 8000 Crores we would definitely be looking at 15% to 20% would be the non-steel.
- Sachin Shah:** Margin profile will be similar in both the verticals?
- Sukumar Shrinivas:** We are hoping that it would push up to in the 3.5% to 4% bracket.
- Sachin Shah:** Okay and as per your presentation you have mentioned that we are moving toward a market place model, can you throw some colour on this particular point I mean how it will be different from the existing model.
- Sukumar Shrinivas:** It is only a subtle difference that today the overall if you see the trend across the board is more moving towards this market place kind of a model where you club together and the advantage that we have compared to some of the newcomers in the market places we already have a fairly strong offline presence so that is what people are calling omni channel approach and so on and lot of online players are actually actively looking for an offline. So the difference I would largely say by existing earlier definition of just retail is where it was a little limiting to a B2C kind of end customer. Today in building material we realize that there are many, many beads like you may have a plumber, contractor, architect, you have got builders, you have got smaller retailer and all that comes in so the definition would become a little more B2B kind of a definition, little more broader than what we have been currently doing.
- Sachin Shah:** Okay that was really helpful. That is it from my end. Thank you.
- Moderator:** Thank you. We have the next question from the line of Niyati Shah from NM Securities. Please go ahead.
- Niyati Shah:** Thank you for the opportunity Sir. I just had one question, how is the working cycle currently is looking and what is the target going forward for the working capital days?
- Alex Varghese:** In Q2 our working capital days were 32 days so we will try to improve that and come up to 30 days we plan to do.
- Niyati Shah:** Okay that is all Sir thank you.

Moderator: Thank you. The next question is from the line of Priya Verma from NR Securities. Please go ahead.

Priya Varma: Hi Sir thank you for the opportunity. I just has two questions firstly are we planning any retail side acquisition in the upcoming quarters?

Sukumar Shrinivas: No there is no plan as of now to do any retail acquisition.

Priya Varma: Okay and do we have any plans to add any new stores in the upcoming quarters if not what is the reason.

Sukumar Shrinivas: We do not have any plans to add any retail stores definitely not this year as the financial year end so the next one and a half quarter more the reason for that is we have seen that we are able to take out much more of our existing stores so the belief is internally that we have still some ways to go so we will definitely look to expand our sales in the existing stores itself. We have had a very strong SSG growth so we would like to see that we can sustain that at least for another quarter or two.

Priya Varma: Okay thank you so much.

Moderator: Thank you. The next question from the line of Ankur Gulati an individual investor.

Ankur Gulati: So the question for you if we are targeting 30% growth and not adding stores in the next 6 plus month so is the growth coming mostly from online only to the stores. The second question was there a separate team being hired for online sales.

Sukumar Srinivas: Yes the rapid growth that we are looking at is not that we are not going to open stores at all. The remark I made is that not for the next quarter that is probably till the financial year end this year that is FY2023 however definitely we are pushing the digital and the online sales substantially, Dhanajay would you like to add something.

Dhanajay Shrinivas: So how we are, we have a separate team. We have a few people who work on customer relation and retention who answer calls and queries from our online customers and how we do it is we pass on the lead to our stores who then take it forward and ask the customer to visit or we visit the site and take it forward with that. So how it is it is more of a call center type of capture point online and then we pull them into the offline model.

Ankur Gulati: So the way you have done tie up let us say APL Apollo is there any thought on ties with Home Lane or Livspace because they are large trades and you guys have a good physical footprint so any thoughts on more such strategic tie ups with some of these players?

Sukumar Srinivas: As of now no. So Livspace and Home Lane are largely more into interiors so we are really not there in that space. We are only supplying the materials so as of now no.

Ankur Gulati: Understood. Thanks.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Sukumar Srinivas for closing comments. Over to you Sir!

Sukumar Srinivas: Thank you everyone for taking time out of your busy schedules to attend the conference call today. Please feel free to approach us directly or SGA with any questions that you might have for any further clarifications that you seek. Thank you very much. Bye, bye stay safe.

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