



“Shankara Building Products Limited Q2 FY21  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Shankara Building Products Limited Q2 & H1FY21 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 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, 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 – Chief Executive Officer. Thank you and over to you sir.

**Siddhartha Mundra:** Thank you. Good morning ladies and gentlemen and a very warm welcome to all of you. I hope all of you are keeping safe and healthy. Today I am joined by Mr. Sukumar Srinivas – Managing Director, Mr. Alex Varghese – Chief Financial Officer and Strategic Growth Advisors – our Investor Relation Advisors. We have uploaded our updated results presentations on the exchanges, and I hope everybody had an opportunity to go through the same.

Let me begin with broad highlights on our second quarter performance. We have had a definite turn around in our performance in the second quarter as compared to the first quarter. We recorded a profit of 6.25 crores in the second quarter as compared to a loss of 25 crores in Q1FY21. Our month-on-month revenues as a percentage of last year revenues have also reached 82% levels as in September. In-line with our focus on the balance sheet, we recorded strong operating cash flows of 61 crores in the first half. Our debtor levels have also reduced by 172 crores and inventory by 108 crores as compared to March’20.

**Let me now take you to the current scenario and the demand outlook.**

This quarter observed improvement in sales on a sequential basis, the markets opened up with the unlocking of the economy. The demand recovery was seen across all segments. Tier-II and III cities demand is nearing normal on the back of good monsoon season. There is pickup seen in construction activities and also in the automobile industry. For the months of July, August and September, we have been able to achieve 71%, 79% and 82% of our sales as compared to the same figures achieved in the last year.

On the retail side, we are seeing some pickup in construction activity. Also individual home builders are making use of historically low interest rates. Various cost optimization and cost control measures have been adopted internally to control the costs and preserve capital. This has yielded positive results for the quarter and will also be visible in the coming quarters. Our EBITDA margins for the quarter were at similar levels to those in the same quarter last year.

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

On the revenue front our Q2 FY21 revenue stood at 488 crores and recorded a sequential growth of 41%. Q2FY21 revenue stood at around 77% of the levels achieved in the last year. For the first half FY21 revenue share from retail stood at 59%, channel revenue stood at 23% and enterprise revenue stood at 18%. As we mentioned, we have observed a good demand uptake from Tier-II and Tier-III cities and they have achieved normalcy.

On the EBITDA front, the Q2 FY21 EBITDA stood at 20 crores, versus a loss of 9.3 crores in Q1FY21. With various cost reduction initiatives, our EBITDA margins are nearing normalcy at the same levels of the last year. Despite lower contribution from the enterprise business, we have been able to sustain the EBITDA margins.

On the PAT front the Q2 FY21 PAT stood at 6 crores. On a Q-o-Q basis, there was a turnaround from a net loss to a net profit for the quarter. Our overall net debt and acceptances has reduced by 14% and stood at Rs.292 crores as of end of September'20 as compared to end of March'20. We have also ensured timely payment for all our banking commitments and all our trade creditors.

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

Please note that H1FY21 performance is not comparable to H1FY20 performance due to shut down in operations in Q1FY21 on the back of pandemic.

On the retail segment, the retail sales for first half stood at 492 crores. Our focus continues to grow our retail sales with higher throughput from our existing stores. We are also pushing our sales through the digital and Omni channel presence. As on 30th of September we had 115 stores under the brand name Shankara Building. Average rental costs for leased outlets stood at Rs.15. per square feet per month as compared to Rs.20 for the same quarter last year, the total area stood at 5.2 lakh square feet with an average store size of ~4,500 square feet, average ticket size per transaction was around ~Rs.30,600 for the second quarter.

Channel and enterprise sales for the first half stood at 342 crores, it overall contributed around 41% of the consolidated revenues of the company. The channel business has held on steady during this period and there has been a gradual recovery on the enterprise side over the last couple of quarters. We continue to adopt a partial wait and watch policy while taking adequate measures to ensure operation run in a smooth manner. With this I open the floor for discussion.

**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:** Sir my first question is, we have done a very good job on the working capital side and there is a significant reduction in the inventory and debtor days if we see from Q1 to Q2 debtors days have further been reduced whereas inventory has come back to some level with the increase in the

business. So, how do you see the sustainability of the working capital at these levels as we go more and more towards normalcy?

**Management:** So, as you rightly mentioned, so, there has been a lot of effort that has gone on especially on the debtor side, the debtor days. So, the debtors in absolute numbers as well as in terms of number of days has reduced sequentially as well as year-on-year. The inventory is also substantially under control. So, we will continue on these measures and we look forward to any improvement in the coming quarters as well.

**Siddharth Rajpurohit:** Okay, but will they, like how the inventory has come back. So you are guiding for the improvement on absolute terms further improvement in the debtor and inventory level?

**Management:** That's right.

**Siddharth Rajpurohit:** Okay. Second question is sir, if we compare sir the recent quarter results where the OEMs like these Bars or those manufacturers like a APL Apollo or ceramic manufacturers like Kajaria or Asian Paints and all those, those players are able to give some volume growth or almost equal to last quarter, whereas we are still down say 20% and so, what do you see sir what is the reason is lack of demand or the cost cutting measures that we have taken that has reduced some aggression in the employees, that motivated or not aggressive. What are the reasons sir?

**Management:** So, just in terms of a data point, if you look at sequentially, our revenues have been tracking up. So we are at 82% levels as compared in September and in October we are further higher up at around 85%-86%. So we are also gradually and slowly performing and we feel that we over the course of the year we will be able to get back to our last year levels.

**Siddharth Rajpurohit:** Okay. So the constraint is demand in the region. We are almost motivated, the team is motivated to reach the maximum, optimum level.

**Management:** I don't think there's any problem with the team because the primary reason is also that in certain areas because we also have 50% of our business coming from the enterprise and the channel business which have only started picking up particularly the enterprise that is industrial and the OE business has only started picking up from September onwards realistically on the ground. So, that is an area which we are it is picking up. Number two, we also want to curtail credit. So, overall, the actual liquidity on the ground has certainly improved over the last few months, but we are still certainly as Siddhartha said in his opening remarks, we are still keeping a fairly cautious watch and wait approach to the coming month.

**Siddharth Rajpurohit:** Okay, sir don't you see sir given the demand revival that the caution some probability of reduction in caution and more focus on growth?

**Management:** Yes, that is what we have now come to around 85% and as Siddhartha said we will reach to the normalcy towards the third or the fourth quarter.

- Siddharth Rajpurohit:** Okay, sir if you see year-over-year our numbers, it is better than what is currently seen, because there are we are 15 stores new stores, if we take three stores, 3 crores the store that there already 40, 45 crores sales is not there. So, if we report same store sales growth, it would give us more better pictures sir if you can do that, for next quarter it will be helpful sir.
- Management:** Yes, right now unfortunately the environment is such that same store sales growth will not make a lot of sense. So, as things normalize we will start reporting that again.
- Siddharth Rajpurohit:** Okay. And sir, when we have actually increase the pace of store reduction, where we have already close, eight stores in this Q3 last month and five stores in Q1 so, how do you see sir this, the aggressive store reduction that we are doing, what are the key factors for that sir, the demand is due diligence is very bad or we are not able to beat the competition or we were not able to replicate our model of hub and spoke model and the store sales. What are the major factor for that?
- Management:** See, if you look at the approach see, what we are largely looking to achieve is maintain our revenue throughput, but with a lower store count and this is to help us optimize our overall cost structure and ensure that our margin levels continue to stay healthy. And if we look at the overall number of stores that we have closed in the recent past, the overall contribution to the revenues was only 3%. So, it was not a meaningful contribution on the margin side and as they have not scaled up meaningfully, we have taken a call in these times.
- Siddharth Rajpurohit:** Okay sir, and the store reduction will help in higher profit right, because those will be loss making stores?
- Management:** Right.
- Siddharth Rajpurohit:** Okay, and when can we see the reversal of the employee cut, employee salary cut and all that?
- Management:** Give us a couple of quarters, we'll get back to you.
- Moderator:** Thank you. The next question is from the line of Sachin Shah from SS Securities. Please go ahead.
- Sachin Shah:** I just have a couple of queries. First, can you throw some color on capacity utilization for the quarter and as well as for the H1 and how do you foresee for H2, what's your outlook on that?
- Management:** Capacity utilization at the H1 level was low because first quarter was pretty bad. So we can say we were operating around 50% of the capacity for the whole H1. Apparently capacity utilization in the month of September has ramped up in one of the three manufacturing units. We are at almost around 90% of the capacity utilization and in one of them we are still at about 60% so you can say on an average utilization levels have come back to around 70% in the month of September.

- Sachin Shah:** Okay, so you almost getting back to a normalized situation in that run rate?
- Management:** Yes.
- Sachin Shah:** My second query is on retail business, so what's your EBITDA margin for the quarter, H1, and how do you foresee for the H2?
- Management:** Retail Business EBITDA at 6% for Q2FY21.
- Sachin Shah:** Okay. And, just can you throw some color on the rental cost, have you seen any waivers during the last six months or so and what's the sustainable cost because I see, it's pretty stagnant for the in that sense, what are the sustainable rental cost for the company as in whole year?
- Management:** It is around Rs.16 per square feet. So overall, there was a bargain with the landlord. So we are able to reduce the rental cost.
- Management:** Yes, it has come down by about Rs.4 per square feet approximately. So there is a fairly decent cost reduction on the rental side.
- Sachin Shah:** Okay, but that seems to be sustainable?
- Management:** It will be sustainable for quarter three and we hope that we can push through for the next coming month also.
- Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Few questions, on given that your recovery is still around 80%, 85% level what kind of full recovery when you can look into probably by the end of FY21 and once we have a normalcy, what could be the strategy going forward. And as we discussed in the earlier concall that this year, the focus has been on the debt reduction, working capital and the cost control, given that the markets are uncertain. But once we see probably next three to six months a full recovery, what will be our step going forward, because then in terms of the retail expansion or the retail profitability, any thoughts on color on that would be really helpful.
- Management:** So Maulik sir, the thought process is on ensuring that our balance sheet as well as the P&L continues to stay healthy. We have as you'd have seen in the second quarter performance, we've already seen some of that coming through, whereby the P&L has also, come in back into the plaque. And the focus on the balance sheet continues. So, that will be the guiding force for us in the next coming quarters as well and we're looking at the full year in terms of a good P&L as well as a good balance sheet. So, the immediate thought process is that to ensure that we achieve this.

- Maulik Patel:** And given that to the revenue mix, if you look at the channel has done much better compared to the enterprise, which is significantly lower and the retail has been in between some of that, post normalcy, what do you expect the trend and will it impact the profitability and change in mix will impact the profitability?
- Management:** There could be a bit of an impact Maulik because of this, because as you're aware the channel is a slightly lower margin business as compared to the enterprise. Enterprise was virtually non-existent in first quarter and only they started picking up and we hope that during the course of the year that continues to chug along well. The retail side is also holding up, but the margins have also come down there in terms of because the overall revenues have also come down. So, change in the mix will have a bit of an impact on the margins. Having said that our Q2 margin profile was pretty much in line with the margin profile of last year.
- Maulik Patel:** Okay. And given that the retail we have closed couple of stores in the last two years. And now currently all the stores are profitable and are there still some stores probably you can go for some kind of restructuring in coming quarters?
- Management:** There could be a few stores on the margin, we are largely done but there could be a few stores which we may still want to take a call on.
- Maulik Patel:** And what could be the POS going forward on non-steel part of the revenue what percentage of revenue right now is in steel, used to at around 18% cognitive level around same level or any change in that and how is the ramp up in non-steel revenue and how the customers are accepting post this pandemic?
- Management:** So, see growth sides of the business continue to hold on well and we are not pushing any specific category right now. So, wherever sales are coming through we are doing that, we are conscious of the overall debtor position that we hold on our balance sheet. So, in that context, I would say that both are getting along quite okay.
- Maulik Patel:** Okay. And any change in the customer behavior for the non-steel part of the business compared to the pre COVID and the post COVID?
- Management:** The only thing is, I would say that, they would be possibly a little more circumspect in terms of looking around, going around.
- Management:** Overall from a retail perspective, the number of walk ins as such, definitely has got impacted a little bit where people are still not comfortable in. So, that is where our digital catalog comes into play, when they look into the catalog and then they go visit a store practically it's a quicker turnaround time.
- Moderator:** Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Managers. Please go ahead.

- Riddhima Chandak:** As you said that walk-ins have declined. So, in the quarter one approximately the decline of 65% to 70% individual walk-ins decline. So, currently, what is the progress on that?
- Management:** It has picked up currently we would say the decline, in terms of year-on-year comparison, we would still say there is about a 25% down on the walk-in.
- Riddhima Chandak:** Okay. And in terms of breakup, as we have seen the progress across all our key categories, so which is our major top selling categories in terms of revenue contribution in the retail?
- Management:** Construction materials will be the largest, which will be contributing almost 65% then we have our other categories, which are plumbing and sanitary ware, tiles, electricals, integrated products, so, they would make up for the balance, irrigation as well.
- Riddhima Chandak:** Yes, so I just asked that, like in the construction as it is contributed 65%. So, how much recovery we have seen from quarter one to quarter two in terms of demand, in terms of sales?
- Management:** Around 40%.
- Riddhima Chandak:** Okay, so we have recovered 40% of sales as of now?
- Management:** Yes improvement.
- Riddhima Chandak:** Okay. And how much conversion we have seen across average conversion across all our stores?
- Management:** See conversion rates for us has historically also been high, I would say that it would have only inched up higher during this period. So conversion has not been a challenge, actually.
- Riddhima Chandak:** Okay. And as Tier-II and Tier-III cities are growing very well for us. So what is the revenue contribution from Tier-II and Tier-III as well as from Tier-I?
- Management:** So, Tier-I would be around 35%, Tier-II would be 26% and Tier-III would be the balance 38%.
- Riddhima Chandak:** Okay, so earlier we stated like Tier-I down by approximately 51%. So how much recovery in all of the Tiers?
- Management:** So, the recovery has been broad based actually.
- Management:** It has fallen more because the Tier-I had fallen more in Q1, recovery has been that much more stronger. Tier-II and Tier-III had fallen also lesser so in that context, the recovery is lesser.
- Riddhima Chandak:** Okay. So as we are also focusing on our Omni channel sales, so what is our revenue contribution as of now and going forward, say in the next one to two years, what our goal to reach to a certain level?



- Management:** So right now the way the Omni channel works is that we direct a lot of those inquiries and the walk-ins to our stores. So while we can fulfill, it's a complete fulfillment engine also on that we can do on the website. But a lot of our categories do require people to come and physically visit. So that's how we look at this Omni channel approach where we are saying that a lot of the customers who are visiting us online are actually also eventually going offline. And it's working as a as a customer acquisition tool for us.
- Riddhima Chandak:** Okay. And just one last question. So, on the debtor side, the debtor has reduced significantly during the quarter that is approximately 172 odd crores. So, in the channels and enterprises, how much is our debtors as of now, out of a total debtors?
- Management:** We will just come back to you on that.
- Moderator:** Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.
- Siddharth Rajpurohit:** Can I have the breakup of construction material, new product, interior, agri?
- Management:** Yes, so as I was mentioning around 65% comes from construction materials, around 15% comes from plumbing sanitary ware and tiles. Another 15% odd comes from electrical and the interior, exterior products and 5% comes from irrigation.
- Siddharth Rajpurohit:** Sir retail being a business for working capital into investment, the debt reduction on quarter-on-quarter would not be the right parameter to see, do you have any long term guidance that we have targeted in terms of interest coverage, this would be the interest that you have target or the debt equity that your target for a longer two years down the line?
- Management:** See our overall targeting ROC levels are (+20%). So that is the target that we have, and in terms of debt EBITDA to hold at that 2.5 or lower.
- Siddharth Rajpurohit:** Okay, debt to EBITDA okay. And sir given the current demand situation or the cycle of store expansion and the closure, do you see a uniform format of stores to be an important factor or to play some role in terms of maintaining the channels because all of our stores have different formations of the placement or the look.
- Management:** So, the broad look and feel is something that we try to maintain in terms of the branding the internal facades, etc. In terms of color combination also we have made an effort to ensure that, that is consistent. The challenge for us many a times is that we being a rented retail operation, we also need to purpose our retail store in terms of the premise that we get, so, everything need not necessarily be very squarish or rectangular or common kind of a format that we get. We try to ensure that the stores that we take up have a good frontage, they are generally on the ground floor and have good road access that is the basic thing that we try to ensure in terms of all our stores.

- Siddharth Rajpurohit:** Okay, so generally there is bifurcation of stores means there is, people use different kind of bifurcation or nomenclature for their store. So do we have anything where we can bifurcate our stores that these are premium stores and these are economy stores or like any breakup?
- Management:** No, right now we're not thinking on those lines.
- Siddharth Rajpurohit:** But the store format doesn't hinder our management?
- Management:** No, no, not at all.
- Siddharth Rajpurohit:** Okay. And sir are there any write-offs in H1?
- Management:** No, there is hardly any write-off, but there is some apportioning which has been made.
- Siddharth Rajpurohit:** Okay, what would that amount be?
- Management:** It is approximately 2.2 crores.
- Moderator:** Thank you. The next question is from the line of Rohan Shah from Harsh Capital. Please go ahead.
- Rohan Shah:** I just had a couple of questions. So my first question is that we had guided in the past that we want to strategically curtail operations in the channel business. So my question is that post business coming to normalcy, do we have the same plans of focusing on the retail and de-grow of our that business, the channel business?
- Management:** So, the broad thought process continues. So that broad, on a longer-term guidance, that continues.
- Rohan Shah:** Okay. So my second question is that, that what were the percentage of our own products revenue in Q2 and H1 FY21. And how much does the newer product category contribute now?
- Management:** 25% was our contribution of our own products.
- Rohan Shah:** And how much does the newer product category contribute now?
- Management:** Roughly 20%.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Siddhartha Mundra for 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 contact us or our investor relation advisors, strategic growth advice. Thank you.

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