



“Shankara Building Products Limited  
Q4 FY '23 Earnings Conference Call”  
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**Moderator:**

Ladies and gentlemen, good day, and welcome to Shankara Building Products Limited Q4 and FY '23 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 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. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sukumar Srinivas from Shankara Building Products Limited. Thank you, and over to you, Mr. Srinivas.

**Sukumar Srinivas:**

Good afternoon, everyone. I extend a warm welcome to all of you on behalf of Shankara Building Products Limited for this earnings call of Q4 and for the financial year 2023. I have with me Mr. Alex Varghese, our CFO; and Mr. Dhananjay Srinivas, who is the Vice President, Business Development; and our Investor Relations Advisor, Strategic Growth Advisors. I hope all of you must have had a chance to look at our investor presentation that is uploaded on the stock exchanges.

Let me straightaway get into the industry dynamics and business scenario in the Q4 of the financial year ending FY '23. In FY 2023, building materials sector has experienced a consistent growth and business expansion. The thrust in infrastructure development, coupled with the uptake in real estate demand helped the industry to bounce back strongly to the pre-COVID levels.

Demand for new building and redevelopment projects have risen in both the residential and the commercial sectors. People's preferences have shifted in the last 2 years towards larger homes and changes in architecture and interior design.

People now understand the value of having a better equipped home and better lifestyle, thanks possibly to the pandemic. Additionally, every indicator shows that India is performing well on the global stage and a strong economic growth, an advanced Indian today, who resides in any major metropolis wants to give his family and himself a high quality of life. All these reasons have led to a significant increase in the demand for building material products, particularly in our key markets.

We believe on a macro level, due to the government's emphasis on capital spending, improved capacity utilization of manufacturing, a double-digit credit growth and moderate in commodity prices, manufacturing and investment activities are anticipated to increase in the economy. The building material industry is predicted to be strong in FY '24 due to all these factors and the government's sustained focus on expanding infrastructure, low-cost housing and rural housing.

Coming to the company's financial performance. I am happy to share that our performance in FY '23 has been consistent and strong.

On the back of a recovery in the entire home improvement industry our top line increased by 67% in FY '23. Consistent efforts have been taken over the last few years to strengthen our balance sheet, and that has also yielded good results. We have received tremendous response from the market and customers, clearly indicating that customers are looking for a one-stop solution for all building materials. We aim to make home building easier for our customers.

Our SSSG for the - for the quarter ending of FY '23, stands at 53.5%. We have witnessed higher footfall in retail stores and experienced an improved trajectory in the online channel. Overall demand scenario was supportive. Our efforts over the last few quarters helped to improve our working capital position. Our working capital cycle for Q4 came below 1 month and the net operating cash flow for the year was at INR92 crores.

Our strong performance is a reflection of our well-defined strategy, which is supported by the power of our most valuable assets our people and our approach to our execution. We not only successfully navigated the immediate challenges but also significantly advanced our long-term strategic aims. In addition to sticking to our long-term profitable growth strategy, we strive to differentiate ourselves through innovation, a strong retail presence, quality products and high standards of customer service. We continue to aspire to grow our top line by 25% to 30% in FY '24. We are also working hard to improve our profitability.

A quick update on our various business segments.

Retail business continues to perform well and continue to perform well in FY '23. We have seen a good uptake in retail activity throughout the year. As stated, we have achieved a strong SSSG for the quarter and for the year. Our non-retail segment, which constitutes our channel and enterprise business has also performed consistently throughout the year and have been quite resilient. We are optimistic on the upcoming demand scenario for the coming financial year that is FY '24 across all our businesses.

I will now ask Dhananjay to give you a brief update on the Building Materials Retail segment.

**Dhananjay Srinivas:**

Good afternoon. I would like to begin with a quick overview of the products in Shankara Building material life cycle. As you might be aware, Shankara supplies materials starting from TMT, cement and construction chemicals; to plumbing, sanitary ware and fittings; to tiles, adhesives and floorings; to electricals, lighting and paints.

We have modular kitchens, hardware and related appliances and of course, our legacy products of MS tubes, structural steel and roofing. Over the last year, we have seen a good growth from the nonsteel segment. There has been an increase in retail walk-ins, and we feel our brand equity has grown. We have maintained a good growth in CP fitting and sanitary ware, and the focus for the coming year is a substantial growth from our tiles, electrical and lighting verticals.

In FY '23, we did a total turnover of INR361 crores of our nonsteel products, as compared to INR200 crores in FY '22, registering a growth of around 80%.

In the last quarter of the previous year, we successfully launched our Buildpro app on Android and iOS. We have seen a good response from our customers, and we have become a discovery

tool for customers before they walk into our stores. We have also seen an 18% increase in traffic on our e-commerce website and are working towards adding more verticals.

We have clocked in an average of 80 lakh per month of online sales in the last 6 months. And we are working on improving our online presence in the year ahead to reach more customers through our digital presence. We continue to utilize technology to improve our customer acquisition and retention. We are working towards customer transparency in the building material life cycles.

We believe customers and influencers need more clarity and visibility towards the ever-changing building material industry. And we here at Shankara work with a customer-first approach to enable that ease of business. Our tools help customers view all the pages of construction, view all the brands and all the materials per stage, plan their purchases ahead and plan a complete BOQ for their home.

This puts the control back in the hands of the home owners. Our stores pride themselves on product knowledge and utilize technology to share this knowledge with our customers. We help them understand the best products for their needs. Our customer-first approach rewards customers for loyalty and offers them choices and prices unmatched in the market.

This year, we are launching 2 exclusive ultra-luxury displays in Bangalore and Chennai that aim to cater to our premium customers, offering them superior brands like Hanzoey, Duravit and other specialty products imported from Italy. Shankara is very focused on growing the nonsteel business.

We are working towards achieving 20% to 25% of our total volumes in this vertical in the next 4 to 5 years. Thank you.

**Sukumar Srinivas:**

Now I will request our CFO, Mr. Varghese, to talk about the financials.

**Alex Varghese:**

Good afternoon, everybody.

In Q4 FY '23, our total revenue stood at INR1,210 crores, registering a growth of 54% vis-a-vis the corresponding period FY '22.

Q4 FY '23, EBITDA stood at INR36 crores, which was 3.03% and registered a growth of 16% compared to Q4 FY '22.

PAT was at INR19.1 crores as against INR15.5 crores in the same quarter for the previous year.

For FY '23, our total revenue came by INR4,029 crores registering a growth of 67% as compared to the previous year of -- previous year FY '22.

EBITDA was at INR125 crores, which has grown to 42% and the margin came at 3.1%.

PAT was INR63 crores as against INR34.3 crores in the previous year.

The Board of Directors have recommended a final dividend of INR2.5 per share, that is 10% of Shankara standalone PAT amount for the year ending 31st March 2023, subject to the approval of the general body.

We have considerably reduced our debt level. And at Q4 end, we are at a comfortable net debt position of INR70 crores.

In FY '23, our return ratios improved. For FY '23, ROCE stood at 15.03%, a substantial improvement over the 10.4% achievement in the previous year.

We are confident of improving our return ratio in the coming year.

Thank you for your kind listening. We'll be happy to answer any questions that you may have.

- Moderator:** The first question is from the line of Nisarg Vakharia from NV Alpha Fund Management.
- Nisarg Vakharia:** My first question is that in the working capital management side, we are at probably the lowest utilization of working capital over the last few years. Just wanted to understand how sustainable is this number?
- Sukumar Srinivas:** We believe it is quite sustainable. So we hope to keep it in that number of around 30 days overall.
- Nisarg Vakharia:** Okay. Second question is that essentially, our revenues have ramped up with the same square feet across a few states. What is the maximum revenue that we can do on the existing infrastructure of 90 retail stores?
- Sukumar Srinivas:** We believe that we can definitely add even in the current year, I'm talking about FY '24. So I think we can manage with our existing square footage probably with a marginal increase, we are planning about 2 to 3 stores addition in this coming year. So with the margin increase, we can manage with the same square footage that we have.
- Nisarg Vakharia:** Okay. And my last question is that you -- if I heard it right, you said that the non-steel products sales is about INR360 crores in this year. Did I hear that right?
- Sukumar Srinivas:** Correct.
- Nisarg Vakharia:** Okay. My question is that what is the difference in the gross margin of selling steel products versus non-steel products?
- Alex Varghese:** So the steel products will be the gross margin of around 3.5% to 4%, wherein non-steel, it will be around 10% on average.
- Nisarg Vakharia:** You're talking about EBITDA, sir, right?
- Sukumar Srinivas:** Gross margin.
- Nisarg Vakharia:** You're talking about gross margin?
- Sukumar Srinivas:** Yes.

- Nisarg Vakharia:** Okay. And we saw fantastic growth Y-o-Y. However, it's come at a slight margin impact. So what is the base case margin that we should assume for FY '24 for our business?
- Sukumar Srinivas:** See, there is -- I mean last year, we did go all out on the top line growth. We have to get out of the terrible tool, so to speak. So we did power our revenue growth immensely. So we had also talked about and directed around 3%, 3.5%. In fact, 2.5% to 3% of that talk on EBITDA last year. In the end definitely, we hope that anywhere between 0.5% point to 1% is what we are looking to see whether we can improve the EBITDA.
- Nisarg Vakharia:** Okay. Great. And all the very best for FY '24.
- Sukumar Srinivas:** Thank you.
- Moderator:** Next question is from the line of Aman Soni from Prudent Equity.
- Aman Soni:** Yes. So my first question would be for the FY '23, how much sales we did with the APL partnership?
- Sukumar Srinivas:** Can you repeat the question, please?
- Aman Soni:** What was the revenue for FY '23 with the APL Apollo Tubes?
- Sukumar Srinivas:** Apollo Tubes was around close to around 40-plus percentage.
- Aman Soni:** 40-plus percentage. And in volume terms, how much would that be?
- Sukumar Srinivas:** Around INR1,600 crores approximately.
- Aman Soni:** No. I mean in terms of the volume of the product. In metric tons?
- Sukumar Srinivas:** Volume? Okay. It will be in the region of close to, I'll just tell you the number. Just give me a moment. It's about 2.4 lakh tons for the whole year.
- Aman Soni:** For the whole year. And what are we targeting for the next year for '22?
- Sukumar Srinivas:** We are more only looking at very similar figures. As far as the APL Apollo goes.
- Aman Soni:** Okay. So basically, one thing is -- based on the historical financials, if I can see for the past 2, 3 years, your run rate was around INR2,000 crores only. And for the FY '23, I believe this entire growth came from most probably APL only. So how is the other business doing. Ex of APL Apollo. Are there any kind of growth opportunities on any new initiatives there?
- Sukumar Srinivas:** Yes. Phenomenal growth opportunities are there. That's why we have already held the APL Apollo more or less on the same ground. So if we are looking at even a 25%, let's say, top line growth, the APL Apollo would probably remain at the same numbers.
- Aman Soni:** Okay. And any kind of other tie-ups similar to APL Apollo planned in the future?
- Sukumar Srinivas:** Sorry, any other?

- Aman Soni:** Any other type of similar tie-ups which we have currently APL Apollo Tubes.
- Dhananjay Srinivas:** No, no, nothing is really envisage this year, no.
- Aman Soni:** Okay. All right. Now my last question would be on the finance cost. So, in FY '23, I believe your finance costs, your gross debt has come down quite a bit. But there hasn't been any reduction in the finance cost. So going forward, based on -- I believe, our current -- that is around INR80, 90 odd-crores. So FY '23 what does that mean].
- Alex Varghese:** In FY '23 overall rate of interest, there was some increase there. That was the reason that the finance cost, even though we have reduced the total borrowing the finance cost almost remaining the same.
- Aman Soni:** Okay. So any specific reason why it was the same and what it's going to be in the next financial year?
- Alex Varghese:** Next year, it should be anything between INR24 crores to INR30 crores in between. Because we are looking for a total top line growth of around 25% range. So we are projecting something between INR24 crores to INR30 crores.
- Aman Soni:** You're basically for the coming year, the interest cost will be around INR24 crores to INR30 crores?
- Alex Varghese:** Yes.
- Aman Soni:** Okay. So what will that constitute because INR24 crores to INR30 crores of interest cost is quite high on a INR90 crores debt.
- Alex Varghese:** Yes, there are some portion of acceptance also we are bearing the interest cost.
- Aman Soni:** So what would be the other part?
- Sukumar Srinivas:** Acceptance or channel finance.
- Aman Soni:** Okay. All right. No issues, I'll join back in the queue. Thank you.
- Moderator:** Thank you. Next question is from the line of Nikhil Chandak from JM Family Office. Please go ahead.
- Nikhil Chandak:** Yes. Hi. So a couple of questions I had. One is the store count has been -- or the retail count has been fairly steady at around that 90 outlets, 91 outlets. So when do you finally press the expansion button and kind of take this higher? And whenever you do it, would your focus still be South India, or finally, is the eventual plan to make this like a pan-India retail platform?
- Sukumar Srinivas:** Right now, the focus is very much South India. We also believe, as I've mentioned earlier, that we do have scope to further expand in South India. So as of now, for the next couple of years, we are not really looking at moving beyond our -- let's say, comfort zone. But having said that,

I think the online platform that is there certainly gives a much better reach which expands towards other geographies.

So, there is, as we had mentioned in the opening speech, there is a focus to try and gain greater momentum. Currently, of course, the turnover from the online platform is not significantly high. But we really hope to promote that in a big way and look at reaching out to other centers using the online platform for the current -- maybe for the next two to three years.

**Nikhil Chandak:** Understood. So would the retail count remain similar? Over the next couple of years...

**Sukumar Srinivas:** Very similar. I mean, we are talking of a plus/minus 2% to 3%. I mean, it's not going to significantly change.

**Nikhil Chandak:** Understood. So but with this existing retail count, Like, for example, you've done close to 67% growth in top line, I see in fiscal '23 over '22. So with the same retail count, I think you answered margins could be probably maybe 1% higher, but what can be the top line growth, which comes in from the same similar retail count?

**Sukumar Srinivas:** We are currently at around -- when we look at the breakup of our retail and non-retail. I think in the last year, we were at broadly around 50-50 broadly, between a retail and the non-retail part. So I think, we will probably grow another 4% to 5%. So the retail this year should be targeted close to around 55% of our sales.

**Nikhil Chandak:** Okay. And on the online business, how do you see the competition playing out, right now? Because what I understand is it may not be directly competing, but there are established players like off business, which is there, for example, Grasim is also planning to kind of go aggressive on an online platform. The details are not yet out, but they have a similar B2B online platform. How do you see the competition in the entire online space?

**Sukumar Srinivas:** I think most of the players there are many, many, and many have come in. I mean many start-ups have come in, many -- of course, some of the established players, like you mentioned, are either partly there coming in. But what I find significant traction has not really happened. And if one would just sort of broadly compare some of the existing e-commerce sites in building materials to us, I can easily say that probably in the variety and the range of products, we may be amongst the best.

And what we generally find as of now is the online is still look more like a catalogue reference. People do a lot of reference on the online and then come offline to the stores. So most of these people are also talking of what can they do on the offline space. So I think, ultimately, in the building materials space, an online plus an off-line, what we call as an omnichannel is what is really probably at this stage, looking like a win-win combo.

So because even if you look at the international markets and even the Western countries, where -- there has not been significant growth in the building materials sector linked with the online platforms. So I think it will take a little time. So right now, I mean, it's too early days to comment on the competition.



- Nikhil Chandak:** Thank you, sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Yes. What is our strategy around retail channel and enterprise. What is the strategy on three of the segments. How do we look to scale up these three segments? And what kind of working capital requirements we have for all the three segments?
- Alex Varghese:** So retail, the working capital requirement will be approximately around one month working capital required because that is plus inventory, around 25 days to 30 days working capital is required. Whereas in channel and enterprise it will be between 45 around or...
- Arpit Shah:** Sorry, I missed it.
- Alex Varghese:** For retail we are looking for working capital of around 20 days. And channel and enterprise approximately around 40 days, which will average it out to around 30 days working capital we are looking at.
- Arpit Shah:** Got it. So the 30 days which you have reached for the first time in a very long period of time. So this is the kind of mix that you want to maintain, where 20 days, 25 days would be on retail and 40 days on channel enterprise?
- Alex Varghese:** Yes.
- Arpit Shah:** Got it. So what would be your FY '23, what will be a volume growth number for the whole company because we have grown substantially this year in FY '23. So what would be your volume growth?
- Alex Varghese:** Its coming around 70 with volume growth.
- Arpit Shah:** Got it. And we're targeting around 25% growth for FY '24?
- Alex Varghese:** Correct.
- Arpit Shah:** And our current ROCE is around 15% and our working capital is already reduced to, let's say, 30 days, 31 days. So what other measures you would require for us so far the ROCE to move to let's say, 30% or so?
- Alex Varghese:** Better margin. So we are focusing on better margin this financial year. And within the same number of days of working capital, really it will help us to improve our ROCE.
- Arpit Shah:** Are you seeing any margin expansion for FY '24, let's say, 100 basis points or something like that?
- Alex Varghese:** Sorry?
- Arpit Shah:** Are you seeing any kind of margin expansion?

- Sukumar Srinivas:** Yes. We are certainly looking at the margin expansion. As my colleague here said, I think the way to improve the ROCE now currently, I mean, we have at least in mind, the target figure of 20%. We have moved from 10% to 15%. So we have a target figure of 20 this year. And we believe that the -- on the back of an expansion of margin is where the ROCE should start improving.
- Arpit Shah:** Got it. And the warrants funding, which we are supposed to receive from the APL Apollo group is -- there's an amount which is pending or we have received everything?
- Sukumar Srinivas:** No. I mean the warrants have to be subscribed. Yes. We have some time. We have until about November for the subscription to happen.
- Arpit Shah:** So about how much -- what percent of the money is spending which needs to be sent to the company?
- Alex Varghese:** 25% of the money has come. So 75% is just pending.
- Alex Varghese:** Around INR70, INR80 crores. So we would use this money to retire the debt.
- Management:** Roughly, around INR80 crores.
- Arpit Shah:** Yes. We would use this money to retire the debt?
- Alex Varghese:** Yes. Once the money comes, we will retire the debt or we will use it for the ROCE.
- Arpit Shah:** Got it.
- Moderator:** Sorry to interrupt you. Arpit, we may request to join the queue for a follow-up question. Thank you. The next question is from the line of Aman Agrawal from Equirus Securities. Please go ahead.
- Aman Agrawal:** Yes. Thank you. Thank you for the opportunity. So you explained about the volume channel was around 2.4 lakh tons for FY '23. What was the number for FY '22, sir?
- Alex Varghese:** This is for 2.4. We told that Apollo volume. It was around 90...
- Sukumar Srinivas:** No. It was around 1.2. It gave almost doubled you can say from the previous year.
- Aman Agrawal:** Okay. Great. And sir, second, you said you expect similar kind of numbers for FY '24. So just a couple of pointers relating to this; one, how is the traction for the newer products that they have launched the Raipur plant, how is the traction coming in for those products? And since this will be an addition to the existing product catalogue wouldn't the traction take the overall number higher in FY '24?
- Sukumar Srinivas:** FY '24. Yes, the newer products, basically the color coated is one of the significant additions that the Apollo has made in the -- towards the end of the last year, and it will significantly increase in the coming year. Yes, looking at it. I mean when you look at the total basket of

products, whether it's steel tube or color coated, I think broadly, we are looking at the pure products, maybe another 10% growth on the volume over there.

**Aman Agrawal:** Okay. And it's been some six months, seven months that the product launch has occurred for them. So how is the traction coming in the six months?

**Sukumar Srinivas:** It is picking up quiet well.

**Aman Agrawal:** Okay. And sir, lastly, if I understand right, there is an existing market for the color-coated products. So do you deal in the products of other companies too?

**Sukumar Srinivas:** The color-coated product?

**Aman Agrawal:** Yes.

**Sukumar Srinivas:** We do buy. We have a significant customer to AMNS.

**Aman Agrawal:** Okay.

**Sukumar Srinivas:** We do buy a substantial quantity from AMNS from JSW.

**Aman Agrawal:** Okay. And how does the pricing compare for APL versus JSW?

**Sukumar Srinivas:** Compared on -- see, there are multiple grades in color-coated. So you've got various kind of grade. So JSW has a much more comprehensive range of products. And Apollo has as much -- as of now a slightly more limited range of products in the range, the coating, the thickness, etcetera. So they compare very favorable in the comparable grade.

**Aman Agrawal:** Okay. Largely similar, you're saying?

**Sukumar Srinivas:** No, it would be a little cheaper.

**Aman Agrawal:** Okay. And just lastly, what would be the right to win for APL in this category since there's -- there are large teams already present in this segment?

**Sukumar Srinivas:** I didn't get -- what is the category?

**Aman Agrawal:** What should be the right to win in this segment for APL?

**Sukumar Srinivas:** Right to?

**Aman Agrawal:** Win. What can take their acceptability higher since there are already big names present in color coated segment?

**Sukumar Srinivas:** Okay. One, I think, good Apollo is focused on certain thicker thicknesses, in color coated, which not many of the other -- the big manufacturers really make. So that's a product that can find a lot of new acceptance and new usages.

Second, I think we've also got a very controlled kind of a capacity in this. So it's not like they are coming out with a humongous volume to compete with the other big brands. So I think we have a limited volume, they've got certain USPs in terms of the higher thicknesses.

And thirdly, the Apollo brand name is very well established at using the tube at a very widespread level to smaller town, districts throughout the country. So, I think they reach a much faster in terms of delivery, etcetera. I think the flexibility of APL Apollo is certainly a very good USP with which they can comfortably -- what you use the word, the win-ability for them, I think, could be the factor.

**Aman Agrawal:** Got it, sir. So this was really helpful. Thank you, sir.

**Moderator:** Thank you. Next question is from the line of Aman Soni from Prudent Equity. Please go ahead.

**Aman Soni:** Yes. So, sir, you mentioned previously that you are planning to do similar around 2.4 lakh tons of volume in FY '24 as well. So -- but you're targeting for 30% top line growth. So, will this be basically like are you planning to do high-margin products, or is there anything else?

**Sukumar Srinivas:** Definitely, out of that 25% to 30% growth there will be a contribution in non-steel, we want to take it further up. So if we are looking at least another -- let's say, a few percentage points over there. So that is one area which will contribute to some growth.

Second point is we are also looking at in the steel area, there are so many other products in -- earlier we were just talking about color coated, we were talking about some of the other flat products, etcetera. Which is an area definitely we are looking for a higher growth. The APL Apollo broadly, what I mentioned is only steel tube, but we also are expanding beyond that.

**Moderator:** Thank you. We move to the next question. Next question is from the line of Shrey J from Swan Investments. Please go ahead.

**Shrey J:** So my first question is, you just said we did about INR1,600-odd crores from APL Apollo. What was this number for FY '22?

**Sukumar Srinivas:** I'll just give you the number. We have done about 121,000 tons approximately in FY '22.

**Shrey J:** Value?

**Sukumar Srinivas:** Value is about, you can say broadly around INR850 crores.

**Shrey J:** INR850 crores. Okay. And my second question is Yes, our non-steel business has grown by about 80%-odd from INR200 crores to INR361 crores. So I just want to understand what has changed in the business in the sense that because your non-steel has increased, so ideally, we would think that your inventory should go up, but we're seeing significant improvement in your working capital. So, what is actually driving this improvement in working capital? If you can just give us some granular details on that?

**Sukumar Srinivas:** Broadly, , we have been very, very controlled on the steel part of the business. So the non-steel definitely we have gone up significantly.

- Moderator:** Sorry to interrupt you. Your voice is not coming clear. It's coming muffled. Participant please stay connected while we rejoin the management back to the call. Ladies and gentlemen, thank you for your patience. We have the line for the management being connected.
- Sukumar Srinivas:** I think we premise one is that non-steel would also mean a little higher inventory, which is true. But what we have also done significantly is to keep our steel part of the inventory considerably down. I think that is where we were able to maintain the averages and bring the working capital cycle down. So of course, it has been achieved over the four quarters. So it is not something that has happened overnight. We started the beginning of the year, significantly higher. I think our total working capital cycle at that time was about 41 days or so, which has -- quarter-by-quarter, I think it has come down by two days, three days till we have finally come down to about 32 days in the fourth quarter.
- So I think the steel parts, which also still add significantly to the -- it's still 90% of the total business. So I think even a 10-day reduction in the steel inventory has helped us bring in the averages down.
- Shrey J:** Okay. And sir, just hopping again, on the ROCE, you're guiding for about 25%, 30% odd growth in your top line and about 1%, 1.5% improvement in your margins. And given where your working capital is right now, and I assume it's going to be the same for the next year. So don't we see, sir, your number should be significantly better than 20% in terms of ROCE?
- Sukumar Srinivas:** I would leave you to do that working.
- Shrey J:** I've done that. So that's why my question -- are you have any comments on that?
- Sukumar Srinivas:** No, I think we will still be cautious in the guidance.
- Shrey J:** Okay, sir. All right. That helps. Thank you.
- Moderator:** Thank you. We have the line from Aman Soni reconnected. Next question is from the line of Aman Soni from Prudent Equity. Please go ahead.
- Aman Soni:** So basically, if you can just help me with my previous question, that was basically on a volume growth. You mentioned that the volume in the upcoming financial year is going to be pretty more similar. So where is exactly 25% growth is going to come from?
- Sukumar Srinivas:** Yes. So, we are not just looking at one product. See, in the steel basket, we've got steel tube. We have color coated, we have flat products like HR, PR sheets. We have got galvanize products. We've got GC sheets. We have angle channel long.
- So, there's a significant amount of steel products. So, despite the fact that we might probably grow marginally only with the APL and in steel tubes, our target is to sort of plateau out in the steel tube area. And focus more on the other products in the steel category.
- Secondly, also, we are looking at, again, a fairly significant growth in the non-steel part of our portfolio, which is currently in the range of 9% to 10%. We want to -- as we have given a guidance that in 4 to 5 years, we would like that to be about 25% of our total top line of the

turnover. So, I think every year, we are calibrating at least a 3% to 4% growth in the non-steel path. So, I think this is where the real growth and the top line growth will come from.

**Aman Soni:** Okay. So, the 2.4 lakh ton volume is just steel tubes only, not for the other products combined as well?

**Sukumar Srinivas:** Yes, yes.

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

**Deepak Poddar:** Just a clarification in terms of margins, you said about 100 to 150 basis point improvement for FY '24, right, at the EBITDA level?

**Sukumar Srinivas:** We are looking at -- I mean, 100 to 150. No, we are talking about 50 to 100.

**Deepak Poddar:** I understood that. And in terms of -- I mean, key drivers, what will be the key driver that will drive the EBITDA margin improvement. I think one of the factors you mentioned was about the non-steel business, right? Any other factors that we can think of?

**Sukumar Srinivas:** Now this is one significant area, and we also hope to keep -- I mean the others are a little more on the internal side, that way we have to look at other -- if we are able to increase the volumes substantially and the top line substantially and if we keep a sharp eye on our internal costs etcetera. And also should be able to -- able to contribute to the bottom line.

**Deepak Poddar:** Okay. Understood. I understood that. And then my second question is on your APL Apollo Tubes, I mean, 40% of revenue is from that segment, right? So are we looking for more kind of diversification or to reduce the concentration risk for us?

**Sukumar Srinivas:** In steel tubes, yes, we are.

**Deepak Poddar:** So what is the strategy behind that? I mean what's the thought process? Or what are we doing in that front?

**Sukumar Srinivas:** As I had mentioned earlier, the steel portfolio is pretty large. So -- and the most significant being steel tube because that's one of our legacy products. So that is an area which we are sort of not focusing too much from a growth perspective.

So, we would be maintaining a status quo on the top -- I mean, with the volumes that we are buying with APL Apollo or marginal growth will be there. The focus is also going to be on the other kind of products in steel tubes, as I mentioned earlier, like color coated, it could be other flat products, etcetera.

**Deepak Poddar:** Okay. So ideally, if your volume at 2.4 lakh to remain same and other business grows automatically your share of this business will reduce right?

**Sukumar Srinivas:** Correct. Correct.

- Moderator:** Thank you. Next question is from the line of Akash Mehta from Capaz Investments. Please go ahead.
- Akash Mehta:** Just one thing. As an analyst, I just wanted to know that how should one analyze the company and overall business segments because one that we've moved to a marketplace model. And now your presentation states the retail and non-retail segment instead of a retail channel and enterprise segment. So what would be the strategy going forward?
- Sukumar Srinivas:** We have kept because we introduced or talked about the marketplace last year. So we -- and we have been since our inception following this sort of presentation based on retail and the other wholesale channel and enterprise as one. So we wanted to keep it consistent for the whole year.
- So we did not want to break anything in the course of the last year. So we have continued the same presentation up to Q4. So there is a consistency in the performance. In the coming year, definitely, there is an internal talk going on -- but the retail part, I think, still is a very significant part of the business. So we might continue somewhere in the same line, but we will give you -- or maybe the presentation would change a little bit from the next quarter onwards.
- Moderator:** Next question is from the line of Hiten Boricha from Sequel Investments. Please go ahead.
- Hiten Boricha:** First one is, can you give me the margin difference between steel and non-steel business?
- Sukumar Srinivas:** At a gross margin level, you can talk of non-steel at around 10%, and the steel business would be around 4%.
- Hiten Boricha:** This is the gross margin, right?
- Sukumar Srinivas:** Yes. Yes. We significantly grow up the business in the non-steel, obviously, the EBITDA is also there will be a substantial difference.
- Hiten Boricha:** Okay. Okay. Understood, sir. And sir, my second question is on the rental cost. So on slide number eight, you have given our rental cost was around INR14 per month which has gone up to INR16.8 in last 4, 5 quarters. So would you like to give some comment on this? Are we going to pan out? Is it going to sustain year or anything like that?
- Sukumar Srinivas:** I think one thing is to, when you look at the INR14.1, which was FY '22. I think we had -- in the COVID years managed to get some concessions and counts on the rental at that point of time. So I think that was one thing that kept -- it actually came down. The rental prior to COVID was 15 plus and then it came down to this 14 figure, which was the rental per square foot. So then it has started steadily going up in the next 3 quarters. And like you mentioned, it's about 16.8. I would say anywhere between around 17 to 17.5 it should hold now.
- Hiten Boricha:** 17 to 17.5?
- Sukumar Srinivas:** Yes.
- Hiten Boricha:** And sir, any last question, sir, if I may. Any plans to add the retail stores? Or are we going to continue with the 90 or 91 kind of number?

- Sukumar Srinivas:** I think for this current year, there will be plus or minus a couple of stores, two, three stores in this number.
- Moderator:** Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Just wanted to understand the ROCE profile between steel and non-steel business. That was my number one question. My number two question was just wanted to understand the store economics. Let's say, when you open the store what kind of capex you require, what kind of inventory you require for these kind of stores? And what kind of throughput you have on an annualized cases that I wanted to understand for store economics.
- And the third question was around the ROCE profile between marketplace was inventory led to whatever difference between the two? And why are we select a marketplace model instead of an inventory model? And the fourth question would be around -- is the promoter group ready to sell our company or open to acquisition to Shankara to any other private equity play or an APL Apollo group. Anything on that? Those are my four questions.
- Sukumar Srinivas:** Oh, my God. You've run through that pretty fast. So let me answer your last question first. No. We are not interested in selling out any such thing of that thought or an acquisition. No, we have no such plan in our mind now. So that is number one. Number two, I think you asked about the ROCE difference between the steel and the non-steel. Am I right? That was your question one. So Alex, would you like to answer that?
- Alex Varghese:** The steel for the year FY '23 when you are taking the average, so steel and non-steel will be the similar line of the 15%. Because in future, when the non-steel revenue goes up, the expense will remain the same, the EBITDA percentage will go up. At that time, it can become around 18% to 20% for non-steel. And steel will remain at around 15% to 16%. On an average, for the year, it will be around 16% to 17% in the overall ROCE.
- Sukumar Srinivas:** Because our margins are typically higher on the Non steel side, 10% gross margin.
- Alex Varghese:** Definitely, the non-steel has the higher margin percentage, yes.
- Arpit Shah:** So in our capital employed, let's say, in terms of inventory would not be that high compared to, let's say -- because you would require a little higher inventory, but our margins would actually...
- Sukumar Srinivas:** One does require higher inventory, but it is not that significantly higher.
- Arpit Shah:** So ROCE will be significantly higher for the non-steel business, right?
- Sukumar Srinivas:** Because we start kicking in the economies of scale in the non-steel. Automatically, you will see that the ROCEs on the non-steel will pick up. Steel also has a fairly good turnaround. So as the volumes pickup -- I mean, even if it remains status quo, I think the next 1 year, the real play out is going to be on improving our margin significantly, assuming all other parameters remain same. Definitely, we're keeping the working capital at the same level itself will improve the



ROCE. However, with an improvement in the margin is what we are looking to see with the ROCE really gets added significantly.

**Arpit Shah:** Got it. So next question on the store economics, if you can speak about?

**Alex Varghese:** For the store economics, if you are going for a lease property, so total our capex and all together around INR1.25 crores is required. For INR1.5 crores to INR2 crores, money is required to set up a store. For which, for the getting a return on a minimum of around INR1 crores of revenue has to happen. With a margin of around 6%-7% of GP, if you are able to make it. Within 3 years will be the break event period. 2 to 3 years will be the breakeven period.

**Arpit Shah:** Would that be breakeven or that will be payback?

**Sukumar Srinivas:** You can, I mean, break even would happen probably in about a year's time. And the ROC or the significance, I mean, it all goes as per plan. I think in 3 years, we can recover our cost...

**Arpit Shah:** Yes. 3 years is the payback period for your stores?

**Sukumar Srinivas:** It's a payback period, yes.

**Arpit Shah:** And the economics between marketplace versus inventory line model which you're having right now?

**Sukumar Srinivas:** Yes. The marketplace, I think one of the key ideas was that to use this more on this omnichannel and the kind of -- we do get a certain amount of we have this reach with about 90-odd counters. So where we do get a lot of, let's say, smaller wholesale inquiries, you get small project orders. We get a lot of mixed kind of customer base that come and approach a store.

So that is where we thought that it makes a little more sense when we look at a store that can cater to the entire market rather than just looking at it very focused from the retail walk-in kind of a business. So I think that is what was broadly the expanding of taking the definition into a marketplace.

**Arpit Shah:** So would it be, let's say, would you call it similar to inframarket what they are doing or be different in inframarkets?

**Sukumar Srinivas:** Yes, I don't know. I mean, I'm not very conversant with the Inframarket models, but I don't think as of now they may have that many kind of retail offline stores. But yes, I mean, there are people like Inframarket, there's online, there is Zedwork, and now earlier somebody was talking about the Glasson Group coming in, there's JSW-1, there are quite a number of people in this space for more of a marketplace.

So what we would still like to look at is, yes, for want of a better definition, we have used the word marketplace, but I would still say that retail formats continue because that is very clear that the offline stores are very, very critical. So it's some sort of a blended case. I mean, it's still a new animal on the ground. So let's see, I mean, as we move forward, we probably can give you a much clearer definition of the thing.

- Moderator:** We'll take the last question from the line of Lakshminarayanan from Tunga Investments. Please go ahead.
- Lakshminarayanan:** A couple of questions. First is in terms of your store expansion and the area expansion, right? We are around 90 stores. I just want to understand how are you looking at in the next 2 to 3 years? And second, in terms of the number of brands that are actually getting onboarded for the last year, how much of sales have actually -- incremental sales have actually come from in new brands that are actually new logos, which we actually added?
- Sukumar Srinivas:** Yes. In terms of the first question, the store expansion, we are not looking, as I've answered this question earlier, significant expansion in terms of store growth. There would be probably a couple of stores. So I would say, plus/minus kind of two, three stores will happen in the coming year. So we are not looking at significant store expansion in the near future, number one. Number two, coming to the new brands, a lot of new brands were onboarded in the last 6 months.
- We have probably -- it mostly it is in the non-steel arena. So in where we have onboarded a significant number of new brands. So today, I would say from the non-steel part, they contribute probably just to about 10% to 15% of the top line. But some of these brands are very, very significant. And we see quite a rapid traction happening in the coming years.
- Lakshminarayanan:** And last question, in terms of your free cash flow, right? So what do you intend -- can we maintain the similar kind of cash flows for the next year? Or how are you thinking about it?
- Sukumar Srinivas:** Yes, we can deal with in the improvement in the cash flow. We are expecting better net cash from the operating activities.
- Lakshminarayanan:** Okay. And what is your plan of cash flow, you'll be reinvesting in the business, like how do you think about it?
- Alex Varghese --:** Yes. The fund will be reinvested for the companies for capex we'll be using. And there of invest also we'll be using in comments around working case.
- Lakshminarayanan:** Okay. And in terms of capex, what is the guidance for the coming year?
- Alex Varghese:** Approximately around INR25 crores.
- Lakshminarayanan:** Sorry?
- Alex Varghese:** INR25 crores.
- Moderator:** Thank you. I now hand the conference over to Mr. Sukumar Srinivas, for closing comments.
- Sukumar Srinivas:** Thank you, everyone, for taking time of your busy schedules and working days and to attend the conference call today. So thank you so much. In case you have any further questions or queries, request you to either approach us or talk to our Investor Relations Associate SGA. Thank you very much. Goodbye.

**Moderator:**

Thank you very much. On behalf of Shankara Building Products Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.