



**“Shankara Building Products Limited  
Q3 FY24 Earnings Conference Call”**

**February 14, 2024**

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FINANCE**

**MODERATOR: MR. MIRAJ M SHAH – ARIHANT CAPITAL**

**Moderator:** Ladies and Gentlemen, Good day and welcome to Shankara Building Products Q3 FY24 Earnings Conference Call. 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 “\*” and then “0” on your touchtone phone. Please note that the conference is being recorded. I now hand the conference over to Mr. Miraj M Shah from Arihant Capital. Thank you and over to you, sir.

**Miraj M Shah:** Thank you Sagar. Good afternoon and a very warm welcome to everyone to the Q3 FY24 Earnings Conference Call of Shankara Building Products. Today from the Management, we have Mr. C Ravikumar – Executive Director, Mr. Alex Varghese – CFO, Mr. Dhananjay Mirlay Srinivas – Vice President and Mr. Giridhar Parthasarathy – Manager Finance. So, without further delay, I’ll hand over the floor to Giridhar sir for his opening remarks. Thank you.

**Dhananjay M. Srinivas:** Good afternoon and a very warm welcome to the Shankara Building Products Limited’s Earnings Conference Call for the quarter and 9-months ended 31<sup>st</sup> December 2023. Joining me today are Mr. C Ravikumar – our Executive Director, Mr. Alex Varghese – our CFO and Mr. Giridhar Parthasarathy – our Manager Finance. I am Mr. Dhananjay Mirlay Srinivas – Vice President. Before we begin, I would like to remind everyone that this call may contain forward-looking statements which are predictions, projections and other estimates about future events. These statements are based on management’s current expectations and involve risks and uncertainties that could cause actual results to differ materially. Our presentation for this call has been uploaded to the exchange. I hope you have all had the opportunity to review it.

The third quarter of this fiscal year presented challenges for the building materials industry. With customer decisions influenced by rising inflation and higher interest costs, additionally territories such as Chennai and coastal Andhra Pradesh experience flooding, temporarily impacting our operations there. Despite these challenges, we are pleased to announce a 22% year-on-year revenue growth for the first 9-months of the fiscal year 2024. Particularly encouraging is the growth of our non-steel revenues, which have increased by nearly 35% year-on-year. This growth is attributed to our proactive strategy of strengthening our value-added product portfolio. In line with our strategic objectives, we are in the process of demerging our building materials marketplace which has consistently delivered significant value. This move will streamline our business structure, enabling a more focused capital allocation strategy and a heightened emphasis on value-added revenues under our new generation management. We have provided an indicative split of our revenues for our marketplace and manufacturing business. Standing at Rs. 2,775 crore and Rs. 677 crore respectively for the 9-month period. The marketplace business is poised for higher margin accretion and enhanced return indicators. While the manufacturing business will benefit from a focused management team responsible to turnaround and optimize operational efficiency and competitiveness. Ultimately, our goal is to unlock substantial value for all stakeholders in the months and years ahead. Our demerger scheme has been approved by our board and is submitted to the stock exchanges for approval and we believe the same would be implemented in the next 10 to 12-months.

Since its inception in 1995, Shankara has undergone a remarkable transformation and emerging as a comprehensive omni-channel marketplace catering to diverse building material needs. From steel products to an extensive range including plumbing, sanitaryware tiles, electrical paints and more we now boast over 1,00,000 SKUs in various categories and brands.

Our EBITDA margins for the quarter reached 3.4% and our EBITDA for the quarter was Rs. 40 crores, up by 23% year-on-year, while for the nine months it was Rs. 111 crore, up by 25% year-on-year. Our net profits increased to Rs. 21 crore for the quarter, +31% year-on-year and Rs. 57 crores for the 9-month period, +30% year-on-year. This improvement is primarily from our intensified emphasis on non-steel ventures which experienced a remarkable 43% year-on-year growth. During the quarter, our strategic measures toward growing our value-added steel segment and non-steel products. Our share of non-steel has gone up 11% of our revenues in this quarter from 9% in the previous quarter. We have taken a few key initiatives to drive the expansion of value-added products. First, being our private label, Fotia Ceramica designed to meet diverse customer requirements within the tile segment. After seeing good successes in Kerala, we are now present across Karnataka, Tamil Nadu, Maharashtra and other southern regions. We are setting up an experience center in Morbi, which will enable us a Pan India expansion for Fotia Ceramica in the coming years. We believe Fotia Ceramica can play a pivotal role in our non-steel growth journey in the coming years. Our revenues in the tile segment have grown by almost 40% in the 9-months of FY24, while our sanitaryware revenues are up by 40% year-on-year. We are also committed to growing the electrical and paint vertical in the coming quarters and continuously looking for opportunities in new verticals in the building material segment. As we pursue these objectives, our analysis indicates that EBITDA margins for our marketplace business are anticipated to range from 3.5% to 4% by FY2025. Our long-term target continues to grow our top line while prioritizing higher margin endeavor.

As we have always maintained we continue to see a significant growth potential in the Southern market by leveraging our strong distribution reach and brand positioning in this market whereas we have made significant inroads over these past few quarters outside the Southern market. We are happy to share some exciting metrics. We have gradually expanded our footprints in the Western and Central region, and I am happy to share that the Western region has started contributing to almost 10% plus of our revenues and grown by almost 50% year-on-year. The Central region has contributed to almost 3% of our revenues and we are in the process of opening two new fulfillment centers one in Maharashtra and the other one in Madhya Pradesh in the coming months. We expect further improvement in these numbers in the coming quarters and years. Given our established presence in the South, our endeavor is to continue our cluster-based growth approach and strengthen our penetration in Southern regions while expanding to other regions.

Our balance sheet continues to remain capital efficient with our asset light model for store expansion and efficient working capital management measures. We are continuously working towards maintaining and strengthening our relationship with our key suppliers, ensuring adequate credit availability. We are working towards building a robust supply chain that enables

efficient and faster delivery, optimizing our inventory levels. These efforts collectively contribute to our successful working capital Management which continues to stand at around 30 days. As we navigate through the strategic transition, Shankara remains committed to driving growth and innovation across all fronts. With a renewed focus on our core strengths and strategic initiatives we aim to solidify our presence in the building materials sector. We remain committed to leveraging our digital presence and actively exploring opportunities to innovate in the digital space to augment our existing omnichannel strategy.

With this, I would now hand over the call to the moderator for the Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sarang Joshi from Entrust Family Office. Please go ahead.

**Rohit:** I wanted to check on the margin improvement this year. I think if I look at the 9-month numbers it seems to have come substantially from your non-retail business. I am referring to Slide 9 here where I think margins at a segmental level have moved from 1.1% to 1.8%.

The question is what has driven this margin improvement and what are sort of steady state margins here in the non-retail piece as we go forward over the next couple of years?

**Dhananjay M. Srinivas:** So, we have seen good growth in this as we have a more focus into manufacturing as we have said in the demerger as well. So, I think the more focused team and the optimizing of operational efficiency has helped us grow this margin. We are looking at the EBITDA over here to remain between 1.5% to 2%.

**Rohit:** And can I also check if this is anything to do with sort of mix change within your steel business or the fact that steel prices have come off a bit over the last year or so, is that also driver?

**Dhananjay M. Srinivas:** This would be a mix of the steel business so more focus on non-tubular products, like roofing sheets and longs has also helped us.

**Rohit:** My next question is when I look at your retail segment again referring to the same slide there it seems as though your YTD margins have dropped 20 basis points now at 5.4% for 9-months FY24 and just before if I go just prior to the pandemic, we were at 8% to 9% kind of margins.

So, really the question is what explains this your steady state for the last 2 years and as a follow up, retail margins improving, if your non-retail margins inch up this year for example by 80 basis points, while retail margins were also still is a substantial portion why aren't we seeing margin improvement there and this is despite the fact that the non-steel business captured within retail is actually growing 35% to 40% with a much higher EBITDA margin. That's a bit counterintuitive?

**Dhananjay M. Srinivas:** So, I think in the last quarter one of the impact has been the flooding in Chennai and other coastal regions which has impacted our retail business both in steel and non-steel. So, I think that would be one of the main reasons why we have faced the impact in the margins.

**Rohit:** But shouldn't that be impacting your, I mean your sales are still growing at a healthy pace. So, I mean you're still selling, your offtakes are happening, just that margins are getting impacted?

**Dhananjay M. Srinivas:** So, I think it would be also because of the higher cost since our operations were closed there for almost a few weeks. So, I think those higher costs coming in has impacted the margin even though the numbers have been good.

**Rohit:** And my last question is could you give us a give us a sense of what is the growth in steel tonnage for Shankara as a whole, say since FY19 till now over the last 3 years how much is the absolute tonnage of steel you've sold?

I asked this question because when I look at your retail sales or store between pre-COVID and now, that has gone up like 40%, 45%, but frankly I mean steel prices have also grown up so much. So, does it mean that the implied volume growth in tonnage is substantially lower than the headline sales growth number?

**Dhananjay M. Srinivas:** Just give me a second. I'll just get you those numbers.

**Alex Varghese:** In FY19 we did around 5,00,000 tons, so followed in the COVID year it has dropped to 3,42,000 tons and in 21-22 around 3,00,000 tons and 22-23, we crossed around 5,15,000 and as on end of November, we're already at approximately 4.5 plus tons.

**Rohit:** So, my understanding there was right. So, I mean probably on a trailing 12-month basis we are closer to how much volume we did during pre-COVID time. So, the bulk of the sales growth then is explained by the realization growth which has happened and is that understanding correct on the steel side?

**Dhananjay M. Srinivas:** Yes, it's been the realization growth and also as you see this year, we have already come to almost 4.5 lakh tons, so there will be good growth in the next quarter as well to give us some better numbers than last year tonnage.

**Rohit:** And just to the follow up there. So, do you look at the profitability and your steel business on a per kg basis. So, for example, do you target a certain EBITDA per kg irrespective how the underlying steel price moves because it would explain to some extent the margin erosion and now margins are starting to recoup as steel prices come off?

**Giridhar Parthasarathy:** No, the dynamics for the steel products are very different because inside steel products portfolio itself you have a huge variety of products. So, in each case and in each vertical. The metrics will be a little different.

- Moderator:** Thank you. The next question is from the line of Dhruv Mukesh Bajaj from Smart Sync Investment Advisory Services. Please go ahead.
- Dhruv Mukesh Bajaj:** So, as things stand currently, the majority of our growth in the past few years in fact is coming from increasing ticket size. So, is this likely to continue going forward as the product mix is shifting towards non-steel products like tiles or how should we look at this because as the previous participant explained that the steel prices have been quite volatile, which has also led to higher ticket size in the current year?
- Dhananjay M. Srinivas:** We would see an increase in the retail ticket sizes with the new product addition and focus on more non-steel mixes and the mix in the non-tubular steel products. So, we will see a continuing growth in this.
- Dhruv Mukesh Bajaj:** And Sir, as you mentioned that we are making strong footprints in Western and Central regions. So, are the current facilities matured in nature or there is enough room for sales growth to be there in that current facilities, so what will be the store front facility strategy going forward?
- Giridhar Parthasarathy:** So, our current facilities are set up there is a considerable scope of improvement. So, like we have made a commentary before also it is close to part of our existing setup which has the capability of doubling the turnover in the next 4 years to 5 years.
- Dhruv Mukesh Bajaj:** And Sir, while I was analyzing the company, I observed that an inventory cycle has reduced substantially in the past 3 to 4 years. So, can you please highlight the 3 to 4 key drivers behind this, like was it because of some change in product mix or improve inventory management or what led to that basically?
- Dhananjay M. Srinivas:** I mean there are a few reasons for this. One would be also a good management from our side in terms of inventory cycles post COVID. We'll also say that the manufacturing has reduced so that we are working on that and we're also working towards a more asset light model in the key products we can.
- So, increasing for non-tubular mix also works to be a little more asset light and inventory light. So, all of this has contributed to a better working capital cycle.
- Dhruv Mukesh Bajaj:** And Sir, if I can just squeeze in another question, I just wanted to understand that how does our B2B market stacks up vs the likes of India Mart on the online side, SG Mart on the physical fulfillment side since the product offering looks pretty similar to us?
- Giridhar Parthasarathy:** No, they are more at a distributor end, we are more at a retail end.
- Moderator:** Thank you. We will take the next question from the line of Raunak Himmatramka from RoboCapital. Please go ahead.

**Raunak Himmatramka:** Just want to understand the thing that in the retail stores it is like too much congested. So, how do you see like we are saying we will grow 25% to 30%. So, how do we do it like we will place more product in the retail stores then it is already congested, so how will we do that?

**Dhananjay M. Srinivas:** We believe that there is still a lot of scope in the retail market. Yes, there are few multiple players, but I think there's still a lot of headroom to grow in each vertical in each industry and we are seeing strong growth from our existing stores. So, I think we feel that there's a lot of headway for the growth in retail.

**Raunak Himmatramka:** So, you are confident of doing 25% kind of growth levels?

**Dhananjay M. Srinivas:** Yes, so we are confident because we're also adding in new products within the steel or the non-steel verticals, and we are taking more of a market share from maybe existing mom and pop players in the market. So, we do feel that even though as just said maybe a congested retail space, we do have growth and space for growth.

**Raunak Himmatramka:** So, do you have any numbers of like how much market share do we have currently?

**Giridhar Parthasarathy:** No, it will be difficult to give that number.

**Raunak Himmatramka:** And one more thing on the margin side like we are saying we would do 3.5% to 4% kind of margin in the marketplace business. So, how confident are we on that part like it would be kind of sustainable or it depends on the steel prices too?

**Giridhar Parthasarathy:** No, we are pretty confident on that like we have said before in the commentary also, we are working on improving the profile of the products. So, a 3.5% to 4% range is definitely achievable over a range of product mix.

**Raunak Himmatramka:** One more last question if I can accommodate, can you just give us the brief timeline of the demerger like till when we can expect all process to be completed?

**Giridhar Parthasarathy:** So, we have filed with the stock exchanges as of now. So, to simply put we have updated this in our presentation also, but I'll just give you a quick brief. So, after this we will be in line for an NOC from the stock exchanges and then we have to do the necessary filings and procedures with the NCLT. The general timeline for NCLT to give the approval is around 8 months to 10 months. So, we are expecting to get this whole process done by fag end of this year or it may go to say early next year or something in calendar year.

**Moderator:** Thank you. The next question is from the line of Sidharth Agarwal from Aasm Cap. Please go ahead.

**Sidharth Agarwal:** I wanted to know a little bit more about our plan for scale up of non-steel business. Currently we have done really well in the tiles and from what I understand it has been introduced in only

certain part of the country, so could you talk a little bit about how our expansion plans are for the non-steel business side in the coming years?

**Dhananjay M. Srinivas:** So, as we have said we have two, three opportunities and plans for the growth of the non-steel business. We have as we have said, we have seen a 40% growth in our sanitary ware and a 40% growth in the 9-months for our tiles as well. In tiles our private label, Fotia Ceramica is yielding us good results after having good we can say our market presence and good success in the market of Kerala the last financial year we have expanded to other Southern markets as well as Maharashtra. We are opening maybe by the end of February, early March, an experience center in Morbi, almost a 20,000 square feet experience center which will also cater and allow us to look at Pan India expansion in the coming years, whereas when we say in our retail business in our stores we are increasing our product mixes since we will be focusing more on electrical and paints in the coming years so that we would see a good growth coming from those verticals while sustaining our growth in the CP-sanitary and tiles space. We also have a lot more growth in certain markets since we have only a limited presence in Tamil Nadu and Kerala being in only certain locations and we are looking at vertical wise growth and we have a huge headway in each vertical because as you know all the verticals have a lot more headway and we have in the last one year set up good vertical heads who are experienced members from the industry who can help us drive in a vertical wise across all our channels.

**Sidharth Agarwal:** And so, what we have achieved in tiles in a very short period is quite commendable, so are there plans to enter any more large segments in our own brands?

**Dhananjay M. Srinivas:** Nothing as of now we're just focusing on tiles in our private label. We also have the roofing-sheets with our own in-house brand. So, I think there are always opportunities, but as of now we are focused on the great brands we are associated with for the other verticals.

**Sidharth Agarwal:** I mean in the last few con-calls have guided that we are pausing our store growth at the moment. So, when do you think we should go back on to the store expansion side?

**Dhananjay M. Srinivas:** So, we never said we won't be expanding stores. We are seeing good traction in the store growth, but in the coming year and the years ahead we are looking to open maybe 2 to 3 stores per year in new territories and strategic opportunities as well.

**Moderator:** Thank you. The next question is from the line of Jagvir Singh from Shade Capital. Please go ahead.

**Jagvir Singh:** My question is what is the like-to-like growth in the Q3 in the BuildPro business?

**Giridhar Parthasarathy:** Sorry, can you repeat your question it was not clear.

**Jagvir Singh:** What is it like-to-like growth in the BuildPro business in the Q3?

**Dhananjay M. Srinivas:** Do you mean a non-steel business?



- Jagvir Singh:** Yes.
- Dhananjay M. Srinivas:** We have had around 42% growth.
- Jagvir Singh:** So, this question is related to the BuildPro business. So, what are the margins in the last 3 months last quarter, December quarter?
- Dhananjay M. Srinivas:** So, I mean, so we have classified our business as the marketplace business, and it would be manufacturing. In the marketplace business in the last quarter, we have seen what we have seen EBITDA margin of between 3.3 to 3.4.
- Jagvir Singh:** And Sir, in the BuildPro business we have done 9-month revenue of around 2,800 crores?
- Giridhar Parthasarathy:** Sorry Sir, we don't understand what you mean by BuildPro business.
- Jagvir Singh:** So, there's the demerger entity. This is the Slide 14.
- Dhananjay M. Srinivas:** You are talking about marketplace. Yes, in the last revenue has been 2,775 crores in the last 9-months.
- Jagvir Singh:** What is the guidance FY25 about this business?
- Dhananjay M. Srinivas:** Currently difficult to give our guidance on the standalone, we will give you the consolidated.
- Moderator:** Thank you. The next question is from the line of Jins Wargis from Tavasya Capital. Please go ahead.
- Jins Wargis:** I am trying to understand the macro environment if I look at the building material players sales growth for the past few quarters it's been muted like 6%. 7% only. So, be it tiles, ceramics, paints, they are all showing same numbers.
- On the other hand, if you see the real estate players in the especially the Tier 1 and Tier 2 player across the board, they are showing actually robust booking. So, is there a lag effect for these building material players and when do you think this number may start reflecting in the P&L?
- Dhananjay M. Srinivas:** Yes, I do believe I think post COVID there was hyped up demand which is kind of steadied out this year and as you said lot of projects we started pre-COVID and during COVID are at the finishing stages now, but COVID has impacted the start of new projects which we have seen a good beginning base and foundation in this last 9-months.
- I believe that it is a lag and I think coming forward there should be better growth in the coming quarters and years. We have still been able to have good growth because we have been increasing our market share and because of the number of verticals we're in, we are able to offset maybe vertical wise hits that are coming in the industry.

- Jins Wargis:** And your partners are also growing in the same pace I just wanted to know?
- Dhananjay M. Srinivas:** I would not say I mean we really don't have much. I mean our partners as well as our suppliers are seeing I think various levels of growth because different companies are and again different stages of growth and different stages of market share, but big players have seen I think, at least, double digit growth this year.
- Jins Wargis:** So, you mean to say it's just a matter of time before the numbers will start showing in the P&L?
- Dhananjay M. Srinivas:** Yes, I do believe the numbers will start showing in a matter of time.
- Jins Wargis:** And one more question I mean I am seeing for the past many quarters' promoter shareholding is consistently decreasing by 1% or 2%. So, just want to know the reason behind that?
- Dhananjay M. Srinivas:** Actually, except for the one deal with APL there has been no other sell actually, we have acquired more share as a promoter group.
- Giridhar Parthasarathy:** At a percentage level, it is showing a little disagreement because of the APL subscribe to its share warrant. Overall, the promoter stake has not decreased.
- Jins Wargis:** So, APL is the only reason otherwise there is no offloading apart from that?
- Dhananjay M. Srinivas:** No, nothing.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** So, just first up I wanted to understand I mean at the company consolidated level in the past, we have been speaking about 25%, 30% CAGR over the next 3 years, 4 years. So, that's what we currently as well looking at?
- Giridhar Parthasarathy:** See here we would be looking to grow around at an EBITDA level or an overall EBITDA level growth we would be focusing on. So, top line we will assess and come back to you on that.
- Deepak Poddar:** So, what would be the revised range that we can look at over next 3 years, 4 years?
- Giridhar Parthasarathy:** See annually we are looking to growing at 20% to 25% and we are expecting that to reflect in our EBITDA levels also.
- Deepak Poddar:** Can you just repeat your voice cracked?
- Giridhar Parthasarathy:** Annually we are looking at to grow at 20% to 25% range and we are expecting that to reflect at our total EBITDA.
- Deepak Poddar:** So, EBITDA also similar 20%, 25% range?

- Giridhar Parthasarathy:** Yes.
- Deepak Poddar:** And when we say 20%-25% so these two different entity how would you see these two different entity growing, the marketplace as well as the manufacturing unit, how would the CAGR work for these two entities?
- Giridhar Parthasarathy:** So, considerable amount of working is still going on that. So, we don't want to make any commentary on it.
- Deepak Poddar:** But ideally it would be fair to say that you're manufacturing the smaller piece will grow at a faster rate.
- Giridhar Parthasarathy:** Yes, it can.
- Dhananjay M. Srinivas:** We just came out with the demerger and everything else. We are also working on the exact numbers before we could give you, I think a clear picture on the two entities in terms of growth.
- Deepak Poddar:** And in terms of manufacturing unit what can be the potential in terms of margin I mean once we become steady state and scale that particular business, so would you be able to throw some light on that?
- Giridhar Parthasarathy:** No, see currently based on deck what we have given and like to stick to it. Going ahead, we'll assist and see how it pans out.
- Moderator:** The next question is from the line of Sarang Joshi from Entrust Family Office. Please go ahead.
- Sarang Joshi:** Few questions on your tonnage growth which we discussed earlier on the call. So, now basically we have done about 5,00,000 tons point-to-point if I go back to pre-COVID and where we are today ballpark and obviously now because volumes have completely normalized I presume volumes would grow from this base right at some point they will become 6.5, 7, 7.5, 8 probably double at some point in time.
- Now your store base has gone down from 130 odd stores to 90 odd stores. So, the tonnage sold per store is already probably hitting a peak. I fail to understand how without adding stores aggressively you can sustain your 20%, 25% growth target which I presume makes in a substantial share of volume growth because we don't know what steel prices do over the coming years?
- Dhananjay M. Srinivas:** So, I don't believe that we have hit the peak tonnage in all our stores. There is huge infrastructure growth happening around and as you know steel is never a green commodity which is always required for construction. We believe that tonnage can grow in the coming years without the addition of stores, but apart from that our channel enterprise is also growing. So, we do feel that the different verticals and different channels will give us the tonnage growth from the same fulfillment centers.

**Sarang Joshi:** Yes, I mean, so I mean really my concern is that if you look at really as investors what we price is your retail business which is higher margin business, capital efficient business. Your channel business, we all know that margins are about 1%, 1.5% very volatile.

Now to add to that your share of retail sort of revenues FY12, FY13 these used to be 20 and in the annual report you all spoke about this being the price that and taking it substantially this went up to about 58% until FY21, but last 2 years, 3 years I've seen your retail share started drop which means that a lot of your volume growth has been driven through the non-retail business which is lower margin and obviously lower ROCE. So, where does this settle over the next 3 years, 4 years because longer term we would want to increase our retail share?

**Dhananjay M. Srinivas:** So, how would it be I think after the way post COVID the way the markets were there was an immediate requirement in the channel. I think it would settle at 55% retail and 45% for the other channels saying that also with our additional of 1 or 2 stores or 2 to 3 stores every year, and then 2 new fulfillment centers coming up in MP and Maharashtra.

We can see this growth coming up even in the retail line and not just in channel and also as we know the non-steel coming up will also improve our tonnages of maybe TMT and other longs.

**Sarang Joshi:** And the last bit is on the steel margins I wanted to just double check my calculations suggest that because you're currently your bulk of your non-steel business is basically being channeled through the retail piece if I look at slide 9 and if that is correct and if non-steel makes 5.5% EBITDA margin.

My calculation implies that the steel business which is sold through a retail segment is not actually a lower margin. It actually does 5 percentage margin. So, then what explains the margin difference between steel sold within the retail segment which is 5% and steel sold within the non-retail segment which is like 1.5%-2%?

**Dhananjay M. Srinivas:** So, as you know in channel, I mean the margins are very less and since it is still 45% mix it does impact it. Yes, as you said in retail the steel margins are better maybe closer to maybe around 4%, but what happens is the non-steel margins are better, but since we are still in a baby step stage of this and we're growing, our expenses are higher which is impacting the overall margins at the retail level.

**Sarang Joshi:** Could you explain for everyone's benefit because this is an issue I have seen when I discussed with other investors also why the steel business sold retail mix for 4.5% margin whereas steel sold through non-retail mix 1.5% margin is it because type of buyer within the two segments is very different and your negotiating power is very different?

**Dhananjay M. Srinivas:** So, I would say in the channel enterprise the product mix is very tube heavy and as well as it is very competitive. So, the margins are very low in that side whereas in retail since there's more of longs and more of other thickness of steel products, the margin profile is better.

- Moderator:** Thank you. The next question is from the line of KD Mishra from New Jersey Investment Advisors. Please go ahead.
- K D Mishra:** Sir, you are saying that you are mostly focused in Southern India, and you want to be a Pan India player and there is a very good opportunity in the Northern markets. So, wanted to know I mean is there any kind of a timeline, checkpoints that you have set in the future, by when do you see how many number of stores you are going to add in the Northern markets?
- Dhananjay M. Srinivas:** So, currently as we said we are strong in Southern markets. We still see a lot of opportunity for growth in the South markets. That being said, we have made inroads in Central and Western India as well. I think we are focused on those two markets currently and hoping to see double the revenue growth in those markets in the next 4 to 5 years.
- I think after that we could look at expanding into the Northern markets, but I think we are taking it as a gradual expansion trying to cover the markets.
- K D Mishra:** And one thing more regarding the omnichannel mix. So, can you give the split between the online and the offline sales?
- Dhananjay M. Srinivas:** So, online currently we are more of an experience or a digital catalog. We are working to change UI and experience online which we will see some results in the coming quarters. Currently the online as you know in this industry is very limited because of the touch and feel product. So, I think it's very negligible to give you exact numbers right now, but we will come back to you with better numbers in the future.
- K D Mishra:** And in the traditional manufacturing division you have 3 units, Vishal Steel, Century wells and Taurus Steel. So, any plans to add any more units in that?
- Dhananjay M. Srinivas:** Nothing in the current scope. We are looking to increase the optimization and increase the production and efficiency. So, I think we'll see growth from the three units without really having the need to add any and in the future after the demerger and once we focus on it, we could see our scope, but as of now there is no plans to add any new units.
- K D Mishra:** Sir if I could squeeze in more regarding the manufacturing of a Fotia Ceramica, so what are the contribution margins here?
- Dhananjay M. Srinivas:** We are seeing gross margins of around 12% to 15% and since we are still very nascent in this business, the expenses are higher. We should see a better realization of EBITDA in the coming years ahead in the Fotia Ceramica.
- K D Mishra:** So, this is the COGS is including the fuel cost?
- Dhananjay M. Srinivas:** Yes, it's including all the costs.

- Moderator:** Thank you. The next question is from the line of Gunit Singh from Counter Cyclical. Please go ahead.
- Gunit Singh:** So, I just would like to understand why earlier we were talking about 25% to 30% CAGR, but now you mentioned that we're looking at 20% to 25% CAGR in revenues. Even though like you mentioned this steel and retail business, I mean the steel and real estate is picking up and they're more upcoming project and also with the demerger there will be more focus on both the verticals. So, I mean why are we looking at a slower pace of growth as compared to what we spoke about earlier?
- Dhananjay M. Srinivas:** So, I think you could attribute this not too much lower, I think only around 5% lower, but we're looking at overall focusing more on our bottom line as well and increasing our margins with the verticals. So, I think the focus between both of these would still give a 20% to 25% CAGR with better margin profile.
- Gunit Singh:** So, if we're looking at 20%, 25% CAGR in revenues and we're talking about better margins going forward, so should we be looking at like 30% to 35% growth in the EBITDA?
- Dhananjay M. Srinivas:** Our aspiration would be 25% to 30% growth in EBITDA.
- Gunit Singh:** And sir previously in the early con-calls we had spoken about reaching 10,000 CR revenues by FY27-28. So, I mean what are your opinions of that as of today?
- Dhananjay M. Srinivas:** I think with the two with the demerger and the two entities getting split we may reach it at a consolidated level, but I think we'll have to get back to you on those workings because as I said we're very new into the demerger and we're still working on all the exact numbers and the spread of the two companies.
- Gunit Singh:** Sir, I mean 20% to 25% growth in revenue, so I mean, what vertical do we expect to grow faster in the coming years?
- Dhananjay M. Srinivas:** So, we maintain that we would still look at our 40% growth for the non-steel vertical, whereas steel would still continue to grow at 20%. So, I think when you take it as a consolidated level it will come to that 20 to 25, but you could see a more what you say higher growth focus and higher percentage growth focus in the non-steel business.
- Gunit Singh:** Sir I was talking about the two entities I mean after demerger. So, what kind of I mean which entity do we expect to grow faster between the two manufacturing or marketplace?
- Dhananjay M. Srinivas:** I think we would see growth in both of them. I think we need to work out the exact numbers to see how much we could get growth from our manufacturing businesses since now they have a separate focus for them, but overall, I think we would see a good growth on both sides with the maximum growth coming from the non-steel.

- Moderator:** Thank you. The next question is from the line of Suryansh from Bizx Enterprise LLP. Please go ahead.
- Suryansh:** My question was that on the retail front in terms of like if we want to acquire, do we have the capabilities of the store which we want to acquire in the market in terms of acquisition, not like we have to build or operate that?
- Dhananjay M. Srinivas:** We are really not looking at any acquisitions at the time being. I think we have a good model and a good what we say system in place, and we are looking at asset light increase of stores where more in rental places and growing from there.
- So, I don't really see a lot of acquisitions in the plan, but as you need if there's any need or if there's any strategic opportunity if we are not averse to anything.
- Moderator:** Thank you. The next question is from the line of Anupam Jain from who's an Individual Investor. Please go ahead.
- Anupam Jain:** I just want to understand the manufacturing point you have written there is a 409 crore of capital employed. Can you bifurcate this?
- Alex Varghese:** Sir we are working on that. We'll get back to you on that.
- Anupam Jain:** Because as I was looking it's showing me that you have fixed assets of 287 crores in your balance sheet as of September. So, I couldn't match the calculation if you can give me that calculation?
- Giridhar Parthasarathy:** Overall, you are asking a bifurcation of 409 or what building material marketplaces around 375 and manufacturing will be around 409 this is balance sheet numbers.
- Anupam Jain:** Yes. So, can you give me the bifurcation of 409 crore, what is in the manufacturing?
- Alex Varghese:** In manufacturing the net block of around 235 crores is there and net working capital approximately around 80 crores is there.
- Anupam Jain:** So, if we have fixed assets of 235 crores?
- Alex Varghese:** Yes.
- Anupam Jain:** And we have 235 working capital of Rs. 85 crores?
- Alex Varghese:** Yes.
- Anupam Jain:** And another thing that I had was what would be the focus upon on manufacturing after we demerge or starting now what will be a focus anyhow our capacity utilization and our ROCE is

less in manufacturing. We have completely ignored this space as we are a building marketplace, so would Shankara use this manufacturing currently?

**Dhananjay M. Srinivas:** So, we're looking at. As of now we're not utilizing our complete capacities of manufacturing. So, we're looking at better utilizing our capacities also with more operational and focused efficiencies. We would see a better increase and utilization. So, we would see that I think that would be the plan with the demerge entity and within the manufacturing.

**Anupam Jain:** So, we would cross sell between marketplace and manufacturing. So, we will enhance some of some of our manufacturing that's what I am asking.

**Dhananjay M. Srinivas:** Sorry I am not able to hear the question.

**Anupam Jain:** I asked will we manufacture some parts for the marketplace in our manufacturing facility?

**Dhananjay M. Srinivas:** Yes, that would continue. I think as you know we would require some products that sell from our manufacturing or retail that would continue, but our manufacturing entities would also be independent and be selling in the market as well.

**Moderator:** Thank you. The next question is from the line of Anirban Das, who's an Individual Investor. Please go ahead.

**Anirban Das:** My question is since retail is a focus area for us and in the longer term, we would like the retail customer to visit our store multiple times based on the life cycle of the construction? So, my so my question is are we tracking and seeing any increase in repeat customers, retail customers?

**Dhananjay M. Srinivas:** Yes, we do have a good host of repeat customers who come in for various stages of construction starting from TMT and ending with maybe paints and tiles. So, yes, we are seeing references. We are seeing an increase in customer coming back, same customers returning to our stores, we will be having a better track and I can get back to you on the numbers to that.

**Anirban Das:** And my second question is related. So, in the same slide, we can see like 14% increase in the average ticket size for retail transaction, so from 43,000 to 49,000 that ticket size has increased?

So, my question is it driven by like they are buying higher value products or is it like part of transaction they're buying more items or it's like a mix of two?

**Dhananjay M. Srinivas:** I think it's a mix of both. I think customers are buying more maybe higher value ticket size items as well as coming to us for more verticals. So, obviously we're seeing a higher value in the ticket size and more growth in the ticket size.

**Moderator:** Thank you. The next question is from the line of Miraj M Shah from Arihant Capital. Please go ahead.



- Miraj M Shah:** Sir wanted to understand on the traditional manufacturing division that we have where we have 3 units. So, Vishal Steel and Taurus Steel and Century wells. So, you've mentioned that the current utilization is only 40%. So, what do we aim to take this to post the division of the two entities and by how fast can we ramp this up because I believe demand is present. So, just want to understand how fast can we ramp it up?
- Dhananjay M. Srinivas:** So, one is we're looking in the next 3 years to 4 years to come to our maximum capital utilization of the capacity and there is a demand in the market as I mean we have huge headways in all verticals to grow. So, I don't see any impact in the demand side.
- Miraj M Shah:** So, 3 years to 4 years is what you're saying to ramp it up to 100% over the optimum utilization?
- Dhananjay M. Srinivas:** Yes, we're looking at 3 years to 4 years to ramp-up to optimization.
- Miraj M Shah:** And the sale of products from these entities would be through our own channels or to project businesses or to both?
- Dhananjay M. Srinivas:** There would be partly through our own channels very limited, most of it would be direct to parties and direct to other customers.
- Miraj M Shah:** And just wanted to understand one more thing that looking at the presentation how we are penetrated extremely in the Southern markets, and we started in the Central and Western markets, wanted to just understand the thought process when do we choose to enter a new market? Is it when we feel the existing territories are saturated or when the opportunities in other markets are significantly justifiable to enter? Just wanted to understand the thought process basic thought process over here.
- Dhananjay M. Srinivas:** I think it would be a mix of both. I think it's more of as we see the new markets with opportunities, we always see with our steel business because that is our legacy business and that's what we start off with. So, I think as an opportunity present themselves, we would expand to markets and we still see there's a lot of potential left in the South. So, I think it's more of opportunities rather than lack of growth opportunity in existing markets.
- Miraj M Shah:** And Sir, just to reconfirm this you've mentioned that we plan to open two to three retail stores going ahead per year.
- Dhananjay M. Srinivas:** Yes, 2 to 3 centers.
- Miraj M Shah:** So, that would be in the new region, so that is Central and Western or Southern?
- Dhananjay M. Srinivas:** Not necessarily. I think it would be wherever we see the opportunity. So, maybe you could see a 50-50 split between the two regions.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Miraj M Shah for closing comments.

**Miraj M Shah:** I thank you everyone for being present on the call today and big thanks to the management as well. I hand over the call to Dhananjay Sir for any closing remarks.

**Dhananjay M. Srinivas:** Thank you everyone for taking time out of your busy Wednesday afternoon to attend this call with us. We hope we're able to answer all your questions and you have a great rest of the day. Thank you.

**Moderator:** Thank you. On behalf of Shankara Building Products that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability purpose)

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