Shankara
Building Products Ltd.

Date: 12th February, 2018

To
The Department of Corporate services
Bombay Stock Exchange Limited
P.J Towers, Dalal Street
Mumbai-400001

Scrip Code: - 540425

To
National Stock Exchange of India Limited
5th Floor, Exchange Plaza
Bandra (E)
Mumbai-400051

Scrip Symbol- SHANKARA

Dear Sir/Madam,

<u>Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation,</u>

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on 31st January, 2018.

Kindly take the same on records.

Thanking You

Yours faithfully
For Shankara Building Products Limited

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VIKRAM

Digitally signed by EREENA VIKRAM
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"Shankara Building Products Limited Q3 FY 2018 Earnings Conference Call"

January 31, 2018

MANAGEMENT: MR. SUKUMAR SRINIVAS -- PROMOTER AND MANAGING DIRECTOR, SHANKARA BUILDING PRODUCTS LIMITED
MR. SIDDHARTHA MUNDRA -- CHIEF EXECUTIVE OFFICER, SHANKARA BUILDING PRODUCTS LIMITED

MR. ALEX VARGHESE -- CHIEF FINANCIAL OFFICER, SHANKARA BUILDING PRODUCTS LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Shankara Building Products Limited Q3 FY 2018 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the belief, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Siddhartha Mundra -- CEO, Shankara Building Products Limited. Thank you and over to you, sir.

Siddhartha Mundra: Good Afternoon, everyone and a warm welcome to all of you to our Quarter Three and Nine Months FY 2018 Earning Conference Call. Today I am joined by Mr. Sukumar Srinivas - Promoter and MD; Mr. Alex Varghese - Chief Financial Officer; and Strategic Growth Advisors our Investor Relations Advisors.

We have uploaded our updated Result Presentation on the Exchanges last evening and I hope everybody had an opportunity to go through the same.

Before getting into quarterly performance let me take a few minutes to brief you on the latest developments and new initiatives that we have mentioned during our last concall.

In continuation with our strategy of taking over stores to increase our geographic penetration and strengthening our presence in new product categories, we are happy to report that we have taken over operations of a leading established Retailer of plumbing, sanitary ware and flooring product under the brand name JP Sanitation in Bengaluru. JP Sanitation runs its operations from three locations covering the city of Bengaluru. In its 30 plus years history, JP has built a significant brand and goodwill among homeowners, architects, builders and leading suppliers. This will further help Shankara in substantially increasing its revenues in this new category.

Last quarter we took over Retail store operations of Vaigai Sanitation in Chennai. The operations were working with relatively higher cost structures. We are working on leavers and have brought these cost under control and turned around operations. We will wait for another quarter to assess the sustained impact of these measures. We have also started cross-sell our other product categories to widen the existing customers.

Last quarter we also started work on an e-Commerce website in order to build our omnichannel capabilities. We have launched our website under the domain name www.buildpro.store. It caters to a wide product offering ranging from plumbing, baths, and faucets, construction material, electrical and appliances, kitchen and walls and flooring. This omnichannel will facilitate the product discovery process for our customers and also complement our physical store strategy. We expect our online presence to increase our brand equity with customers in the coming quarters.

Now focusing on the quarterly performance of the company:

The last quarter started on a weak note. We had a weak October on the back of festive season and a strong monsoon in South India. Conditions improved with market settling in the post GST rate updates in mid-November. December was a good month for us.

The total revenue for Q3 FY 2018 stood at Rs. 625 crores as against Rs. 541 crores for the corresponding quarter last year, a growth of 16%. As highlighted in the last quarter revenues are not a like-to-like comparisons post the GST regime. Before GST, Excise Duty was a part of our revenues. However, post-GST Excise Duty is subsumed in GST and is no more a part of our total revenue. Therefore, adjusted for this revenue grew by 30%.

EBITDA for the quarter stood at Rs. 41 crores, up from Rs. 36 crores on a year-on-year basis. EBITDA margins stood at 6.5% in Q3 FY 2018. PAT stood at Rs. 17.7 crores for the quarter, up 29% from the corresponding quarter last year.

Let us see few key parameters for nine months ended December 2017:

Total revenue stood at Rs. 1,788 crores, up by 5% after Excise Duty adjustment revenue grew by around 13%. EBITDA stood at Rs. 121 crores with EBITDA margin at 6.8%; PAT stood at Rs. 52 crores, up by 30%.

Now let us focus on the segmental performance of the company:

The Retail segment – Retail sales saw a growth of 32% to Rs. 299 crores versus Rs. 226 crores for Q3 FY 2017. The growth was primarily driven by lower GST rate increased penetration of our products and improvement in the overall sentiments.

Q3 FY 2018 EBITDA growth was Rs. 31 crores up by 72% from Rs. 18 crores Y-o-Y. Now, if we see nine months Retail performance, sales stood at Rs. 842 crores for nine months FY 2018 versus Rs. 716 crores for nine months FY 2017. The nine months EBITDA grew to Rs. 90 crores, up by 29% from Rs. 69 crores Y-o-Y. The contribution of the total revenue stood at Rs. 47.1%.

Adjusted for excise same stores sales growth stood at 37.3% in Q3 FY 2018 and 20.8% for nine months FY 2018. Q3 FY 2017 was a soft quarter due to demonetization. We have been historically growing same-store sales growth by around 20% and we continue to target the same going forward.

Average rental cost for leased outlets stood at Rs. 17.6 per square feet per month. As on date, we have 125 stores this does not include the JP Sanitation's three stores. Of which, 109 stores are on a lease basis. The total areas of the stores come to around 4.7 lakh square feet with an average stores size of around 3,800 square feet. The total rental constitutes 0.7% of the total retail revenue.

The sale split is as follows:

Tier-I cities contributed 39%; Tier-II cities 25%; and Tier-III cities 36%. Average ticket size per transaction was around Rs. 24,400 For the quarter, we have upgraded overall 45 stores and we have added 6 new stores with a wide array to our product portfolio. Of the total Retail sales construction material constitute approximately 64%; interior exterior around 20%. Our new product categories are around 11% and agricultural product constitute around 5%. We have been working on deepening our product portfolio and building connects with a number of principals .

Enterprise sales:

Enterprise for Q3 FY 2018 stood at Rs. 201 crores, up by around 5% compared to Q3 FY 2017. It contributed 32% of the consolidated revenue of the company. Our strategy is to increase our share in the bespoke process as it gives better margin. It now stands at around 25% of Enterprise sales. We continue to focus on cut to length, made to order requirements, which have applications across various industries. Top 10 customers contributed to around 10% of revenues. Enterprise sales for nine months FY 2018 stood at Rs. 569 crores which was at a similar level as compared to nine months FY 2017.

Channel sales:

Channel sales during Q3 FY 2018 stood at around Rs. 125 crores, up by 1% compared to Q3 FY 2017. With our conscious decision to de-grow the business it now contributes 20% of the consolidated revenue of the company. The number of dealers stood at around 2,000 as on December 31st, 2017. Nine months FY 2018 Channel sales stood at Rs. 377 crores down by 11% compared to nine months FY 2017.

A few highlights of our processing and inhouse supply chain capabilities:

The company has 12 processing facilities. The capacity utilization stood at around 90% for the quarter. Sales from our own products contributed around 60% of overall sales.

To conclude:

We are seeing strong growth momentum in our Retail segment. We continue to work on deepening our presence across our Retail verticals and expanding a range of offerings.

With this, I open the floor for discussion.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Couple of questions. One is on basically strategy wise acquired three stores last quarter, three stores this quarter and also the store addition has been strong. Where are we heading in the next year basically in terms of inorganic growth, are we looking for more such opportunity on the market? And second in terms of stores count and the new store addition, what could be the outlook there?

Siddhartha Mundra: So the takeover of the stores that we have done in the last couple of quarters is something that we possibly see opportunities coming our way and we will have an open mind of looking at such opportunities, possibly other regions may be of more interest than regions where we have already made these moves. But these are inorganic opportunities and as and when they come we will react to them. In terms of the store rollout, we are looking at around 15 to 20 stores per year kind of a number and we have already achieved that this year and we have started the same for the next year.

Maulik Patel: In terms of the softer aspect of this acquisitions like definitely we cater on the presence but what could be the other advantage for the acquisition of the stores in the home improvement category where Shankara have the significant presence earlier. Traditionally, Shankara is strong in construction material or steel or fabrication kind of category and acquisitions we have done is more on home improvement category. So what are the softer aspect and benefits in terms of either getting in more traction from the vendors, more attention from the vendors or better discounts are we getting from the vendors because of the larger presence?

Siddhartha Mundra: See, definitely what you are saying is right, we start immediately getting a lot of attention from the vendors and from our key principals. We possibly have already become with these moves one of the largest players in the country for leading brands like Kohler, Jaquar, Parryware, etc. and our ability then to leverage these across other geographies also becomes much more meaningful. These moves have also prompted people in other categories to start looking at us more closely at a much senior management level as well. So I think on the supplier side definitely there is a significant advantage. Even on the customer side, we have been focusing on in terms of expanding our customer base. So when we are looking at these players which are, let us say more in the tiles, sanitary ware, plumbing space, there are a lot of influencers and customers whom we are effectively acquiring through these takeovers of the stores, which are not a part of our customer network. It also gives us an opportunity to start a cross-sell, so we can sell our traditional products to these new customers as well. So there is a lot of synergy that can come in over a period of time.

Maulik Patel: Okay. Coming to the traditional Channel and Enterprise business, the margin has been relatively weaker in this segment, any thoughts on this side?

Siddhartha Mundra: See, the margins are weak and that is also one of the reasons why we are looking to decrease our focus in terms of overall revenue shares from these segments. Some of the initiatives that we are working on the Enterprise side in terms of margin additive activities like customization, etc. are work-in-progress but they take a little bit of time to come into force**.** The Channel part continues to be a very weak margin business and we have reduced revenues in that segment by 11% for the nine months period as well.

Maulik Patel: And just a couple of bookkeeping question, what is the CAPEX so far and guidance for this financial year including if you can give the number of the acquisitions? And second, what is the debt position as on nine months?

Siddhartha Mundra: We have done around Rs. 30 odd crores of CAPEX up to now and in terms of the debt position we were at around the Rs. 310 odd crores number for the period ending December. In terms of guidance going forward, we are looking at the Rs. 20 crores to Rs. 25 crores kind of CAPEX number beyond the store roll-out kind of CAPEX requirement.

Maulik Patel: So this Rs. 20 crores - Rs. 25 crores is largely in Manufacturing when you say the store rollout is, is Rs. 25 crores include this store roll out expense or not?

Siddhartha Mundra: So this will be around the store CAPEX itself will be possibly around let us say Rs. 50 odd lakhs per store which will be around let us say Rs. 10 odd crores for the full year.

Maulik Patel: So total including store rollout will be around Rs. 30 crores - Rs. 35 crores?

Sukumar Srinivas: Within that Rs. 30 crores.

Sukumar Srinivas: This year we have some leftover CAPEX so it went to this Rs. 30 crores - Rs. 31 crores. We see tapering at this level or lower.

Moderator: Thank you, sir. We have our next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: I just wanted to understand clarify one thing, the own product sales that you have mentioned is it 60% is of the overall revenues?? I just want to clarify that first.

Siddhartha Mundra: That is for overall revenues, yes.

Avi Mehta: Okay. And just more on an overall demand standpoint of view is this we have seen kind of looking at acquisitions for the last two quarters. Has GST been one of the reasons which have kind of brought out these opportunities into the market which is why we are kind of doing this if you can kind of help us understand if there is a change in environment**.**

Siddhartha Mundra: No, it is contextual actually. So Vaigai was something that came through our network and it was interesting that post the Vaigai transaction the next the transaction the promoters kind of got news of this transaction and you know the approach happened on hearing that transaction. So it is not linked to GST in any which ways.

Avi Mehta: Okay. And while we have seen an uptick now coming in you have kind of highlighted towards that, how should I see the kind of demand as we move forward, is it kind of back, is the Channel now stabilized, the customer now accepting new GST, if you can give some color over there?

Siddhartha Mundra: Yes, I think the GST rates themselves then changed and the customer pricing substantially. So while there is always a challenge that happens whenever there is a change in a rate because there is uncertainty in terms of purchase people might think let us hold back purchases, we do not know if the GST rates are going to come down and prices are going to come down. So to that extent, there is some uncertainty that prevails.

Sukumar Srinivas: Well, I think the GST rates are more or less stabilized and I think we see a fairly stable demand and I think I would largely hope to believe and I do believe that if at all there have been any so-called shortcomings in the short-term of GST I think the days are over. I think people are beginning to accept GST and I think we see it stabilizing and things look certainly better.

Avi Mehta: Okay. And anything on the competitive side as well, sir? Has there been a change in the competitive intensity because of players kind of coming under pressure capital intensity for them, etc. liquidity being a constraint?

Sukumar Srinivas: I do not think at our context, no. I really have not seen that. I mean probably it is too early days to talk about that. But probably we will see with the GST now coming out in a full avatar with E-Way Bill coming in from tomorrow where the last six months have been free for all in a way with GST being implemented and cheques and balances really not being there. So from tomorrow when the cheques and balances are really getting implemented, we will see if there is a pressure building upon the system.

Moderator: Thank you. We have our next question from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: I actually had a couple of questions related to the SSG number that you guys report. It is based on the store revenues based on a particular vintage or it is based on the SPF number? Because if I look at your Presentation the difference between overall Retail revenue and the same store revenue is pretty marginal.

Siddhartha Mundra: So the way this is computed we basically take the number of stores that were outstanding, it is basically a 12 months rolling kind of number. So we took the number of the store that was outstanding at the end of Q3 FY 2017 and the revenues that they generated then and what are the kind of revenues that they have generated now?

Hiral Desai: So Siddhartha, we are saying that on a nine months basis broadly if I sort of look at the difference between the same store and the Retail is about Rs. 50 crores, so that would be the revenues of the new stores that we have added in nine months?

Siddhartha Mundra: Correct.

Hiral Desai: Would that be a fair understanding.

Siddhartha Mundra: That is a correct understanding.

Hiral Desai: Okay. So the next one was on the cost of debt, if I look at your Annual Report 2017, it mentions that the working capital cost ranges between 8.8 to 14.5 but if I look at your P&L there is a Rs. 50 crores charge on the consolidated P&L versus an average debt of about Rs. 220 crores to debt let us say 230 crores assuming that it is higher at H1. So that is like almost 20% plus financing cost.

Sukumar Srinivas: Right. So there are a few things actually on that. So one is that there are certain non-interest bearing elements also come in as a part of the overall finance cost. There are certain cash management charges, there are certain payments, etc. that are related to cash collections, discounting charges, you know processing fees for the banks, etc. which are non-interest components. So that is one element.

Hiral Desai: That number versus the actual interest cost for FY 2017?

Sukumar Srinivas: That could possibly be almost Rs. 5 crores - Rs. 6 crores kind of number. In addition to that, there is a variability in terms of the utilization of the working capital itself because what you are seeing is the end of year numbers. The utilization during the year could be higher. And hence, the implied interest rate that you are seeing at the end of the year is looking the way it is looking.

Hiral Desai: At the end of September would be sort of how much percentage points higher than the year-end debt number? I am just trying to understand how the debt works through the year?

Sukumar Srinivas: Because the September quarter is generally a quarter where we see some element of overall inventory and some element of current assets building, it was generally a weak quarter for us. We can see possibly a 20% - 25% kind of an increase in terms of overall utilization levels during this period. It continued actually for some time it starts tapering off. Let us say the January to May or January to June is a good period for us.

Hiral Desai: Okay. And the other is between the two acquisitions that we made over the last couple of quarters, what percentage of their sales would be Retail versus B2B?

Siddhartha Mundra: It is only Retail actually.

Hiral Desai: Was it completely Retail?

Sukumar Srinivas: Yes.

Hiral Desai: And lastly, if you can talk a bit about the omnichannel approach with the online platform coming in what are the thoughts, what products would typically sell online does that affect the store ramp-up in anyway how would the logistics work? So, if you could talk a bit about that?

Siddhartha Mundra: Yes. So we do not see that impacting our physical store presence as of now, the physical store strategy. The way we are looking to kind of do deliveries, etc. is that we are opening up for certain product categories. And over a period of time then we will be opening up basically pin code by pin code kind of an approach. So as of now, Bengaluru (Bangalore) has been opened up. There are certain product categories which can easily shipped and we can do deliveries for them throughout India. But then there are categories which are let us say more fragile which we cannot do much larger geography. So we are doing at the product level and effectively at very specific pin code kind of level.

Hiral Desai: And broadly Bengaluru what will be percentage of our Retail revenues?

Siddhartha Mundra: Less than around 20 odd percent let us say.

Moderator: Thank you, sir. We have our next question from the line of Saumil Mehta from BNP Mutual Fund. Please go ahead.

Saumil Mehta: Can you just run me down to your cash flow statement or what was the net debt as on March 2017 and what is it right now as on December 31st?

Sukumar Srinivas: So Rs. 286 crores were March and currently it is around Rs. 310 crores.

Saumil Mehta: That was net debt, right? Rs. 286 crores and Rs. 310 crores?

Sukumar Srinivas: Yes.

Saumil Mehta: And the broad CAPEX what you would have done for this nine months would be?

Sukumar Srinivas: Rs. 30 odd crores.

Saumil Mehta: Rs. 30 odd crores because if I look at the operating cash flow what you would have done for this year I mean for the first nine months would be to the extent of maybe about Rs. 65 odd crores. So I mean has there been a significant increase in working capital for nine months?

Siddhartha Mundra: See, as we mentioned these are the periods in which the working capital stretches a bit and it starts tapering off from January to May kind of period. There are few other elements in terms of the Vaigai payout that happened.

Saumil Mehta: Vaigai would have been a small payout, right? So that may be to extent of 10

Siddhartha Mundra: Yes, correct. we have outstanding GST input tax credit of almost I think Rs. 25 crores of input tax credit which have been not been utilized yet. So the utilization is starting only now.

Saumil Mehta: Okay, fine. And in terms of the recent acquisition what you have done in Bengaluru, the way I understand the sanitary business is a pretty high margin business at least that is what the reported guides come out with. So where do we see in terms of our gross margins and the EBITDA margins in that business as of now and how should we look at the roadmap for the next two years or three years in that?

Siddhartha Mundra: So these are higher margin businesses. So we are looking at possibly EBITDA margins of around 10% in this sort of business possibly 12% to 15%. And in terms of our roadmap, so we definitely want to increase our share of revenues in these new categories. Currently, these account for around 10 odd percent of our overall revenues of our Retail revenues which we would like them to trend to a 30% kind of a number in the next say two - three years.

Saumil Mehta: Okay. So what I want to understand is the last two acquisitions what we have done we have been extremely in terms of attractive valuations, so when we look out for any inorganic opportunity, do we have an IRR in mind or it is the scalability or how should we look at that part of the strategy?

Siddhartha Mundra: We have a payback metric in mind and we look at three years payback kind of metric in mind.

Sukumar Srinivas: Plus scalability.

Siddhartha Mundra: Yes, scalability, that is a financial metric but I mean the scalability is very-very important for us. We can use the platform that they have the build to further build on that and grow revenues.

Saumil Mehta: Okay. My last question is in terms of if I look at the average area per store while it has gone up year-after-year from 2016 - 2017 and even as on December we had about 3,815 square feet that is the average area per store. Now, is it possible to hit that number to about 4,500 square feet may be a couple of years once we go to 200 stores or we would be more comfortable with a very gradual improvement in that?

Saumil Mehta: The incremental stores would be a much larger format or there is I mean there can be some volatility in that?

Siddhartha Mundra: So there could be some volatility in that because it also in some sense depends on let us say if we are getting a very good location but we are not getting the desired area, we may still want to go ahead with that location. But possibly we are looking at slightly larger stores to accommodate the larger product portfolio now. In fact, we are also looking at a large format of around 20,000 square feet now which we started. So we are experimenting with a number of formats. But one thing I would like to keep in mind is the overall operating cost of the store should be within our overall matrix that we would like to keep.

Saumil Mehta: Sure. So just to extend that in the FY 2021 target where we plan to do about 200 stores which I am sure we would be comfortably achieving that. What could be the total area I mean a ballpark range would be from 4.7 lacs sq. ft what we have right now?

Siddhartha Mundra: 8 lakhs or possibly slightly higher.

Moderator: Thank you, sir. We have our next question from the line of Amit Purohit from Emkay Global. Please go ahead.

Amit Purohit: Hi, this is Amit Purohit here. Just want to understand on the demand side so when we see a lot of building material product companies reporting kind of muted growth and also talking about muted real estate demand, while we are expanding into new stores that is helping us to grow. But generally, how do you see four years or five years store doing for you probably if you could have some data points?

Siddhartha Mundra: So I think what helps is that we straddle so many product categories and the fact that we are adding new product categories and we are also possibly adding customer segments and I think all of this in some sense is helping us in terms of good growth prospects. And we are seeing growth across location, so Tier-I, Tier-II, Tier-III, we are seeing growth all through and we are seeing growth across states as well. So I think it is more to do with the fact that we have a lot of products to offer to our customer and that process is ongoing, penetration level, our share of wallet with the customer is increasing and with let us say things like Vaigai and with things like JP we are adding also fresh customers now.

Amit Purohit: Sure. Okay. And sir, just on the upgraded store count, what would be the total now upgraded stores?

Siddhartha Mundra: We can look at around 45 kind of number.

Amit Purohit: Total upgraded stores?

Siddhartha Mundra: Yes.

Amit Purohit: This will be during the year, right you would have done?

Siddhartha Mundra: During the year, yes.

Amit Purohit: Yes, so till last year FY 2017 this number was?

Siddhartha Mundra: So this would have been possibly 20-odd kinds of number.

Amit Purohit: Okay. So you would have done in all 65, is that the right way of looking at it?

Siddhartha Mundra: No, the overall is 45 currently.

Amit Purohit: Okay. And sir, also this the new products which is currently about 10.75% now. Just want to understand for the stores which are upgraded, I understand in some of the stores it would be say different but just to get an understanding of the old kind of a store format where the customer footfall has improved, and you would have seen a similar from a 9.7 to 10.7. It is too early to say but I am just trying to understand, is it driven by more the acquisition that we have done recently, or you have seen some offtake improving at the stores also?

Siddhartha Mundra: No, this is in terms of the store offtake as well, our existing store.

Sukumar Srinivas: The acquisitions have barely taken place now. Once those numbers are accounted inside the JP acquisition numbers will only start in next month and in terms of Vaigai it is only November and December which is still not significant to count in a big picture as of now.

Amit Purohit: Right. And what would the amount of or the revenue count for JP stores, I mean if you share that data?

Siddhartha Mundra: Look at around the Rs. 5 crores per month kind of revenue.

Sukumar Srinivas: Yes, immediately around Rs. 5 crores. We are looking at about Rs. 60 crores top-line, the company as such would close the year at about Rs. 55 crores - Rs. 60 crores, we are looking at about Rs. 5 crores per month in these couple of months.

Amit Purohit: And we would have paid how much for this I mean if you can share that number?

Siddhartha Mundra: So we have paid around Rs. 15 crores to Rs. 16 crores fortake-over of operations for 3 stores. .

Amit Purohit: Okay. And again these stores also will be made into our kind of format standard stores?

Sukumar Srinivas: Absolutely.

Amit Purohit: And sir, on the just to understand while this Channel and Enterprise margins we should look at more from a sequential basis right now rather than Y-o-Y because Y-o-Y when I look at it, it is a significant decline in the Enterprise and Channel business, so any specific reason you want to say or you would prefer us to focus more on sequential margin of 5%.

Siddhartha Mundra: Sequential and what I would urge is to look at our nine months to nine months comparison between Channel, Enterprise, so nine months of the previous year and nine months of this year.

Amit Purohit: Sure. And sir, lastly on the CAPEX you indicated FY 2019 to be similar about Rs. 30 crores so this you are taking in to account the acquisition part or you are not I mean that will come as and when it is?

Siddhartha Mundra: Acquisition does not include that.

Amit Purohit: Okay. So to that extent then because we have already done a CAPEX for the project or processing facilities this year, right so next year also we would need that. So every year on a consistent basis about Rs. 15 odd crores - Rs. 20 odd crores one should assume in terms of processing.

Siddhartha Mundra: This we have given, keeping the buffer in mind, we may not possibly look at that entire amount. But we are just telling you that number so that we have some buffer.

Sukumar Srinivas: On the Retail revamp and the CAPEX on the Retail itself would account in the region of around Rs. 20 crores - Rs. 25 crores, that would be a maintenance CAPEX of around Rs. 5 crores. So keeping that in mind we are giving you the figure of around Rs. 25 crores to Rs. 30 crores.

Amit Purohit: Sure. And all the new acquisition that you would have done there will not be any additional land or adjacent land to be looked at to make your format to be a full format. So, in the existing area itself, you would be making that, right?

Sukumar Srinivas: Largely, yes.

Moderator: Thank you, sir. We have our next question from the line of Prithvi Raj from Unify Capital. Please go ahead.

Prithvi Raj: Sir, a couple of questions from my side. So the first one what would be the breakeven period for our new Retail outlet?

Siddhartha Mundra: This will be around 6 months to 12 months kind of period from when we start the store.

Prithvi Raj: Okay. Now, if we separate our low Retail outlets from the existing one so what would be the margin for whatever two-year-old or three-year-old Retail outlet. How much would the EBITDA margin?

Siddhartha Mundra: So there be possibly a spread because when we start out our new stores we start some of our traditional categories.

Sukumar Srinivas: Two years to three years. The EBITDA margins in two years - three years, is it?

Prithvi Raj: I mean whenever it reaches matured stage kind of thing, so what would be the margin?

Sukumar Srinivas: At a matured stage. Okay, I do not know how many of our stores are still matured because a lot of new product categories are getting added but currently let us say one of our older stores which have both the old categories as well as the newer categories product, we are I think at an EBITDA of close to about 12%.

Prithvi Raj: Again on the Channel and Enterprise margin so if slip further so which had led you to decline in the margin Channel or Enterprise?

Siddhartha Mundra: The Enterprise has better margins, the Channel has lower.

Prithvi Raj: So I mean do we see again the margin coming up in the next quarter to whatever levels that we have seen earlier?

Sukumar Srinivas: You are talking about the Enterprise and the Channel?

Prithvi Raj: Yes, the margin spent.

Sukumar Srinivas: Actually, this quarter normally the fourth quarter is a better quarter, so I certainly see that quarter four even for Enterprise and Channel will be better than quarter three.

Prithvi Raj: Okay. And sir, finally to add the same-store sales growth for this quarter had been around 37%, so is this because of the low base effect that we have seen in last year or are we seeing any traction?

Siddhartha Mundra: One is the low base effect definitely contributes a bit to that. But even if you look at from a nine months' perspective our same-store sales growth is actually at (+20%) number.

Prithvi Raj: Okay. So that can be maintained.

Siddhartha Mundra: Yes.

Moderator: Thank you, sir. We have our next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Taking the discussion forward, basically we are talking about same-store revenue growth of about 20% and new store addition may be 15% - 20%. So overall a 25% - 30% is what is a momentum that is possible going forward?

Siddhartha Mundra: Yes.

Deepak Poddar: Okay. On the Retail side specifically.

Sukumar Srinivas: Yes, only on the Retail side. Yes.

Deepak Poddar: And this number we are talking only on an organic basis, right? The inorganic growth would be add-on basically apart from this organic growth?

Sukumar Srinivas: Yes.

Siddhartha Mundra: That is right.

Deepak Poddar: Okay, understood. And on the Retail part only, this 12% EBITDA margin is what is sustainable that is what you mentioned a while back, I just wanted to clarify that.

Siddhartha Mundra: So I think this was a perspective that some of our let us say our more mature stores what is the kind of margins that they would be making and that 12% was in that context.

Deepak Poddar: But on an overall basis, is that a margin that you would strive, or you would want to achieve as we increase sanitary portion or some higher product category in our overall Retail business?

Sukumar Srinivas: Absolutely.

Deepak Poddar: Okay. So 12% is what we might look at on an overall Retail business going forward?

Sukumar Srinivas: Correct.

Moderator: Thank you, sir. We have our next question from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: I had a question on the calculation of the same store sales growth. Typically, when we calculate same-store sales growth for a period we assume that the store is in operation for 12 months in the previous period and in operation for 12 months in the current period and therefore, you look at the year-over-year growth. You mentioned earlier in the response to some other question that you look at stores which were present let us say one year ago to look at the same store sales, that would then imply that you are including stores which have less than one year of operational history in the prior period and therefore, the number look fairly high at 20%, is that understanding correct?

Siddhartha Mundra: Yes, this is the way we have computed same-store sales growth and there are various approaches to that and this is the approach that we have taken.

Anuj Sehgal: So just to be clear it does not mean that the stores which were opened two years ago meaning which were operational in the prior period and 12 months in this period they are including. You are including stores which have been in existence from just 12 months ago.

Siddhartha Mundra: Yes. So basically, all the stores that were existent on December 2016 were taken and then what revenues they generate in December 2016 and the same stores what is the revenues they generate December 2017. So that is the way the compute the same-store sales growth.

Moderator: Thank you, sir. We have our next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Just to clarify, first of all, good that you gave a complete clarity on how you are calculating same-store growth, so that is a good transparency. Just wanted to know in Presentation it has been mentioned (+30%) same-store growth, am I right?

Siddhartha Mundra: That is right 37%.

Rajesh Kothari: 37%. So if I look at nine months this number is about (+20%) something, correct?

Siddhartha Mundra: Correct.

Rajesh Kothari: So what is driven instead of 20% high growth?

Siddhartha Mundra: No, see actually the Q2 slightly lower because of that the nine months is looking at 20.8% in terms of same-store sales growth. So 20.8% is a nine months number and 37% is the Q3 number.

Rajesh Kothari: Is it driven by more new category addition in third quarter or is it because of the low base during as third quarter, just trying to understand, what is driving

Siddhartha Mundra: Yes, it is a combination of both.. Q3 of last year if you remember was the demon quarter and revenues had dipped a bit in Q3 of last year**?**

Rajesh Kothari: Okay. So do you think even Q4 can be a little bit again a good quarter considering last year was a little bit low base here and more new categories are getting added to your overall basket? So this momentum may sustain for few more quarters like this kind of growth?

Siddhartha Mundra: Definitely, we would like it to sustain even beyond that.

Sukumar Srinivas: 20% - 25% definitely.

Moderator: Thank you, sir. We have our next question from the line of Nimit Shah from ICICI Securities. Please go ahead.

Nimit Shah: Sir, what are the current margins for JP? You had spoken about the sales.

Siddhartha Mundra: Yes. So the EBITDA margins are around 10%.

Nimit Shah: All the three stores are on the lease?

Sukumar Srinivas: Yes.

Nimit Shah: So for FY 2019. If we see both these acquisitions put together may see a revenue run rate of around Rs. 120 crores - Rs. 130 crores. So what EBITDA margins can we expect from these two acquisitions because Chennai we would be doing some cost rationalizations and I think Bengaluru (Bangalore) itself is very healthy margins. So both put together where do you see the number for gross margins or EBITDA margins because next year it will be a full one year of operations.

Siddhartha Mundra: Yes, Nimit it is a little early especially in the context of JP but from a one-year perspective I think the north of 10% is something that we should aim for.

Nimit Shah: For both put together?

Siddhartha Mundra: Yes.

Nimit Shah: Correct. And if you can highlight what would be the contribution of Chennai for this two months in sales and EBITDA?

Siddhartha Mundra: So Chennai contributed around Rs. 9 odd crores.

Nimit Shah: In revenues?

Siddhartha Mundra: Yes. So it was operational for two months, November-December.

Nimit Shah: Okay. And in terms of EBITDA or like that?

Siddhartha Mundra: So we are at break even level, as to we are not losing money there. There are a certain initiative that we have taken in terms of cost rationalization. So we want those two kind of settling a bit before we talk more specifically about those.

Sukumar Srinivas: I think we are at about EBITDA positive, I think we at about 4% or so currently. I do see that it will be hitting +10% by March.

Nimit Shah: Okay, 10% by March itself.

Sukumar Srinivas: Yes.

Nimit Shah: So anything on the lease front which we are doing or it is other initiative which are leading to the substantial jump?

Siddhartha Mundra: There are certain things in terms of the backend that we have done. Some of the cost structures were high in terms of the leases which we have changed and in terms of certain another operating cost also, redeployment of employees and rationalization is something that we have done.

Nimit Shah: Sure. And the last thing on JP how much inventory would be there for these three stores and we are paying this Rs. 15 crores including this inventory, right?

Siddhartha Mundra: So there is an overall inventory of around Rs. 8 odd crores.

Nimit Shah: Okay. And we would be taking the debtors as well?

Siddhartha Mundra: Not very large number there.

Moderator: Thank you, sir. We have our next question from the line of Aakash Manghani from BOI AXA Investment Managers. Please go ahead.

Aakash Manghani: Couple of questions. First of all, your SSG you said was 37%, so I would like to understand this better. What is the component of steel in the overall Retail sales because I believe steel prices Y-o-Y are up north of 20% that would have boosted the SSG number quite a bit. So what is the component of steel in Retail sales?

Siddhartha Mundra: So overall the construction material contributes to around 65%-odd of our overall Retail revenues which includes TMT, cement, hollow blocks, sand, etc., and what has happened in the last quarter in terms of the steel prices the prices have actually increased only post mid-December. In fact, during the beginning of the quarter, the steel prices dipped so they have not contributed meaningfully in terms of pricing led growth.

Aakash Manghani: Okay. But within that 65% construction material how much would be steel, there is a sand, there is some other stuff as well. TMT bars, and steel would be what proportion of the overall Retail, could you put a number to that?

Sukumar Srinivas: Overall around 50%-odd would be let us say a steel and other…

Aakash Manghani: 50%. So you are saying I mean this 50% would have at least gone up by what, 15%-odd just because of price inflation or is that a fair number to assume?

Sukumar Srinivas: No, see the price have really shot up only for December 2017. So for the quarter as such, there is no significant impact of the price increase, in fact, in October November the price for steel product that we are talking about dipped. So I do not see how that could have really contributed to SSG in the last quarter.

Aakash Manghani: Okay. And in the base quarter, which is the demonetization quarter, what was the Y-o-Y revenue that we would have witnessed in the Retail business? That is Q3 FY 2017 versus FY 2016?

Siddhartha Mundra: I do not have that number. If you can just give us a couple of minutes we will just pull that data out. We had a Q2 to Q3 was a sequential decline in FY 2017.

Aakash Manghani: Okay, Y-o-Y maybe you can give that later.

Siddhartha Mundra: Yes, if you can just hold on or if we can just come back to me in a couple of minutes.

Aakash Manghani: Okay. The other question is these 45 stores that you have upgraded so far. Can you talk about qualitatively or quantitatively how has the performance been over here versus the non-upgraded stores in terms of revenue or EBITDA?

Siddhartha Mundra: Yes. So what we are seeing in terms of the upgraded stores the new products that we are adding, now there is a certain element of ramp-up phase that happens especially for these new products which are around two to four quarters. But we are seeing the revenue share from new product category starting to witness 5% to 10% from these newly upgraded stores as well. We are seeing opportunities to sell the newer product categories to our existing customer as well. But there is a certain element of education that we also need give to the customer to make them aware that we are carrying these products. So that process is underway.

Sukumar Srinivas: So I would say that anywhere between what we started in some of those stores let us say a year ago if I had zero upgraded stores and today we have about 45, there are stores that have the share of the new product has gone up to as high as 25% - 26% to the store revenue to as newer stores as the ramp up as Siddhartha mentioned would be as low as 5%. So anywhere in the 5% to 25% is the range that we see.

Aakash Manghani: So as of FY 2017, you had 20 operative stores so those 20 stores as of today would be…

Sukumar Srinivas: Would be in the region of 25% or so of the newer products in terms of the share of the revenue.

Aakash Manghani: And these 25% share new products would be giving you what sort of EBITDA margin I mean how much higher would that be as compared to the regular products?

Siddhartha Mundra: See the broad split would be our construction material would be let us say that 6% to 8% kind of blended margin. The new product category could be 12% to 15%.

Sukumar Srinivas: Then we have some of the interior exterior products which are an older category which give us around 12%.

Aakash Manghani: Okay, fine. The last question is you said 20% to 25% of the Retail business from Bengaluru . Now I would like to understand growth that you witnessed not only this year but last one year or two years, I would like to understand how much Bengaluru growing and where are you seeing a lot of traction whether it is Tier-III, Tier-II markets and incrementally where over the next 12 months to 18 months where markets do you see more traction?

Siddhartha Mundra: Sorry, we will just take your earlier question, first. This Q3 number. The Q3 FY 2016 to FY 2017 we have seen a 38% jump that was for the quarter and for the period ended nine months FY 2016 and period ended nine months FY 2017 was a 32% increase.

Aakash Manghani: So Q3 to Q3 Y-o-Y was 38% revenue growth for Retail?

Siddhartha Mundra: Correct.

Aakash Manghani: Okay. So it was not really a low base per se?

Siddhartha Mundra: No, but Q3 FY 2017 I mean sequentially it had dipped. Q3 FY 2017 compared to Q2 FY 2017 had dipped.

Aakash Manghani: Okay.

Siddhartha Mundra: In terms of our Tier-II if we look at the growth in Tier-I, Tier-II, and Tier-III, if we look at the Q3 number, so Q3 the growth in Tier-I has been fairly robust at 40%-odd, Tier-II also has been 40%-odd. Tier-III has been around at 18% - 20%.

Aakash Manghani: Okay. And what about the Bengaluru market, I mean how much is like this 20% - 25% of your revenue will be growing at what rate?

Sukumar Srinivas: I think it is around 30%.

Aakash Manghani: That is a huge number for one city to grow, okay.

Moderator: Thank you, sir. We have our next question from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.

Abhishek Agarwal: Sir, is it possible to give me the gross margin in the Retail and your Manufacturing business that for own product?

Siddhartha Mundra: Yes, so the gross margin in the Retail business will be around 12% - 13% and gross margin for our Channel and Enterprise will be around say 8%-odd.

Abhishek Agarwal: Sir, because if you look at Retail EBITDA margin around 9% to 10% so that we have only 2% to 3% as an employee cost and other expense in the Retail segment, is it correct?

Sukumar Srinivas: That is right, that is a correct understanding.

Moderator: Thank you. We have our next question from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Sir, one query on the Retail side of the business, how much of our business could be coming from direct customers and how much would be coming from the influences like all these plumbers, masons and all those things for our old category as well as for the new category of the product?

Siddhartha Mundra: Seem for our old category of products, we were largely looking at the influencers and what we call the professional customers like contractors, fabricators, plumbers, etc., but now that we have added new categories as well we are seeing a lot end customers also walking into our stores and even if you look at it from a perspective of the overall contribution of these categories to the amount that goes into building a home both these traditional categories and the new categories contribute almost equally.

Mithun Soni: And how much would be the credit period we would have to be giving to all these influencers when they are coming for the Retail stores at the Retail level?

Siddhartha Mundra: So it depends actually. If it is a new customer we generally do not give any credit, we insist on immediate cash kind of transactions and once we have established the rapport, depending on the type of customer and our relationship it could possibly be give couple of week or max of 30 days.

Mithun Soni: Okay. So currently on an average of our total Retail sales how much would be in the credit basis whatever average if I take 15 days - 20 days?

Sukumar Srinivas: Yes, you can take that.

Mithun Soni: But that will be for the total sales of the Retail?

Sukumar Srinivas: Yes.

Mithun Soni: Okay. And one last question. The acquisition strategy what we have done, it help us to add a lot more of these influencers or we do also get a direct access to Retail. I mean to say the influencers are really very different from what we have dealing at our stores or there is a good amount of overlap also?

Siddhartha Mundra: There is an overlap but yes, we definitely gained the end customer also the individual homeowners that segment has definitely become the significant addition.

Moderator: Thank you, sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Over to you, sir.

Siddhartha Mundra: Thank you, everyone, for joining us. I hope we have been able to answer all your queries. In case, you require any further details you may please contact us or our Investor Relations Advisors -- Strategic Growth Advisors. Thank you.

Sukumar Srinivas: Thank you.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Shankara Building Products Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.