



# “Shankara Building Products Q1 FY25 Earnings Conference Call”

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

**Moderator:** Ladies and gentlemen, good day, and welcome to Shankara Building Products Q1 FY '25 Earnings Conference Call, hosted by Arihant Capital.

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 an assistance during the conference call, please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Miraj Shah from Arihant Capital. Thank you, and over to you, sir.

**Miraj Shah:** Hello. Good day, and good afternoon to everyone, and thank you for joining on the Shankara Building Products Q1 FY '25 Earnings Conference Call.

Today from the management, we have Mr. Alex Varghese – the CFO; Mr. Dhananjay Miralay Srinivas – Vice President; and Mr. C. Ravikumar – Executive Director.

Without further ado, I will hand over the call to Mr. Dhananjay for his opening remarks. Over to you, sir.

**Dhananjay Srinivas:** Thank you. A very good afternoon, and a very warm welcome to Shankara Building Products Limited earnings conference call for the quarter ended June 30, 2024.

Joining me today are Mr. C. Ravikumar – our Executive Director and Mr. Alex Varghese – our CFO.

Before we begin, I would like to remind everyone that this call may contain forward-looking statements, which are predictions, projections or 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 an opportunity to review it.

Despite the election-led quarter witnessing slow construction activity, Shankara Building Products has demonstrated resilience. We achieved a steel volume growth of 20% year-on-year and a robust non-steel revenue growth of 35% year-on-year. With overall revenues growing by 14% year-on-year, reaching Rs. 1,291 crores for this quarter. This was despite the steel prices softening during the last quarter.

Speaking on some of our performance drivers this quarter, we have seen good performance across our different segments. Our steel vertical continued to generate steady growth in revenues and volumes, steel volumes reaching 177-kilo tonnes this quarter, a 20% year-on-year increase, though steel prices softening led to the segment's revenue growth by 12% year-on-year to Rs. 1,154 crores. Historically, our key strength has been in steel tubes and pipes, where we command a sizable market share. We have consciously prioritized value-added steel segments, such as flat, long products, roofing and TMT, which is yielding results. This strategic focus has led a remarkable 44% year-on-year growth in our steel flat products, driven by the strength of our existing brands and our omnichannel reach.

Our non-steel vertical showed a remarkable growth of 35% year-on-year, driven by all subsegments: plumbing, fittings, sanitaryware, tiles, electricals, paints, hardware and accessories. The strength of our existing brands and expansion of our partnerships with marquee domestic and international brands continue to yield results. Notably, tiles and electricals have grown by over 60%.

Our brand, Fotia, has generated Rs. 31 crores in revenue this quarter. We are also excited to announce that this quarter, we have also launched quartz sinks under the Fotia brand. And we continue to explore more opportunities as we move ahead.

With improving economies in the non-steel segment, our EBITDA margin for the segment has improved to 6.5%. As we have highlighted in the past, our gross margin in this business stands at around 10% to 12%, and thus, we are confident that the EBITDA margins in this segment will further improve as the operating leverage kicks in. Our retail model continues to remain resilient, leveraging our brand strength and a wide product portfolio to create customer pull at stores. The average ticket size at our stores has increased by 23% year-on-year to approximately Rs. 58,500 in Q1 FY 2025, primarily led by product portfolio expansion, which helps us gain an increased pocket share of our customers.

Our retail footfall was, however, down this quarter in the backdrop of slow construction activity amid election and monsoons. Nevertheless, our inquiry pipeline is encouraging, and we expect a positive trajectory in the coming quarters. Leveraging mix change and increased value-added offerings, our segment EBITDA margin has expanded to 5.7% this quarter. We continue to grow aggressively in the Western and Central regions, particularly in Maharashtra and Madhya Pradesh. Both these regions witnessed a 52% year-on-year growth in revenues this quarter and contributed to 13% and 3% of our total revenues, respectively. With a robust growth in this region, our non-retail vertical has ensured a much faster growth over the past few quarters.

This growth in non-retail business in West and Central forms a stepping stone for expansion of our retail business as we establish and expand our presence in these regions. To boost our growth in non-steel, we have opened 3 new fulfillment centers exclusively for non-steel in Karnataka and 1 hybrid store in Kerala. We have also identified 10 new strategic locations to set up new fulfillment centers over the next 6 to 9 months.

Our Fotia display center in Morbi is all set to open by September 2024 to enhance the visibility of our brand and help us expand our presence pan India in the coming years. We continue to explore strategic opportunities in the e-commerce space and are working on our online marketplace to further bolster our omnichannel approach. Our steadfast commitment to growing value-added segments for profitable growth, in line with our vision, led to a 20% year-on-year increase in our EBITDA, with a 15 basis point improvement in our EBITDA margins, to 3.2%.

However, due to an increase in our acceptances during this quarter, our finance cost has increased significantly, resulting in a profit after tax at Rs. 16 crores. This was primarily due to the increased receivables this quarter, given weak cash flow in the sector as well as rapid expansion into West and Central regions. However, we hope the situation will normalize in the coming quarters.

As you are aware, to simplify our business structure, we are demerging our building materials marketplace business, which has consistently delivered significant value. The marketplace business generated Rs. 1,178 crores in revenue, and the manufacturing business generated Rs. 335 crores in revenue this quarter. We are in the process of optimizing operational efficiency and competitiveness in the manufacturing business. The demerger scheme has received approval from SEBI, and we have begun filing with NCLT. We expect the scheme to be implemented by Q4 FY 2025.

We are well positioned to capitalize on the opportunities in the construction and real estate sector as market conditions improves. With a solid foundation and ongoing strategic initiatives, our aim is to continue our growth momentum, while focusing on improving margins.

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. We have our first question from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

**Keshav Garg:**

Sir, I am trying to understand, our interest costs have shot up dramatically from Rs. 9 crores to Rs. 16 crores quarter-on-quarter and from Rs. 7 crores to more than double to Rs. 16 crores year-on-year, whereas the working capital days, according to your presentation, remains same at 30 days. So, how do you explain this?

- Alex Varghese:** So, when you're seeing the payables, some acceptance is there. There, we are bearing the interest cost. So, that has led to higher interest in this quarter compared to Q1 and Q4 of FY '24.
- Dhananjay Srinivas:** And there's also been this huge softness of demand due to the election, coupled with all the seasonal issues and monsoon. So, there has been an increase in our receivables across the board.
- Keshav Garg:** So, then how come your receivable days are only 30? Sir, receivables are stretched then your receivables should have increased.
- Alex Varghese:** No, our payable, includes acceptances also. So, this is the reason that net it is showing 30 days of working capital days.
- Keshav Garg:** So, basically, on your payables, you have ended up paying interest. Is that correct?
- Alex Varghese:** Yes.
- Keshav Garg:** Okay. So, now moving forward, the interest cost, will it remain at the same level, around Rs. 16 crores or is it expected to go back to around Rs. 7 crores, Rs. 8 crores, Rs. 9 crores levels per quarter?
- Alex Varghese:** One more quarter, we may continue the same thing.
- Dhananjay Srinivas:** We are looking to normalize the situation and get back to how it was, but as the monsoons are still intensified in the South and Western regions and the way the markets have been going on in the last one and half months, we think that this will continue for a few quarters and then we should normalize.
- Keshav Garg:** No, but is it not better to just compromise on the sales growth rather than face the challenge of bad debt also and then pay interest on the payables also. I mean, that kind of unprofitable growth is of no consequence actually.
- Alex Varghese:** No, because there are no bad debts as such in our business, and you can see we are expanding more into Western and Central India.
- Dhananjay Srinivas:** And see, this is more of a temporary blip. See, till the receivables kind of normalize, and with the growth still happening in Western and Central India and most of it being steel growth and more of a non-retail growth, there has been increase with our consumables. Other big industries where payments are fair, but there has been a delay, thanks to the macroeconomic conditions going on.

- Moderator:** Thank you. The next question is from the line of Rahul Jain Dhruv from Pegasus Growth. Please go ahead.
- Rahul Jain Dhruv:** I was trying to match up the numbers that you have mentioned in the presentation. You have non-retail and retail broken up separately, right? And you have EBITDA for both of them. If you add up the EBITDA, it basically adds up to around Rs. 48 crores. But if you look at the reported EBITDA, it's around 40.7. I just want to know what's the difference between the two?
- Alex Varghese:** Unallocated expense has not been captured in the segment EBITDA for retail and non-retail. So, when you are seeing the reported number, the entire expense has been considered on a consolidated level, net EBITDA will be around Rs. 41 crores.
- Rahul Jain Dhruv:** So, you have given a breakup of steel and non-steel also, right? Where you have given the EBITDA for the non-steel business at around, whatever, 6.5% on Rs. 137 crores, which is Rs. 9 crores. So, if I had to work back the steel EBITDA based on that, then I have to take the same Rs. 48 crore number?
- Alex Varghese:** On retail, when you're seeing the steel EBITDA will be approximately around 4%. And value-wise, approximately around Rs. 33 crores will be steel EBITDA.
- Rahul Jain Dhruv:** Just one more thing, and this is on the payables that you mentioned that you are paying interest on. And you clearly said a couple of quarters, while actually in the initial bit you mentioned that we are expecting it to normalize in the coming quarters. I am just trying to understand the difference between the 2. Will this be a one-off or will this continue for another few quarters?
- Alex Varghese:** So, that will continue for another 1 or 2 quarters. Yes, it will continue.
- Rahul Jain Dhruv:** Right. And is this change in policy that was taken recently? Or is this something which you have been doing in the past?
- Alex Varghese:** Decision has been taken recently because the acceptance whatever is there, we started bearing the interest cost. So, that decision has been taken recently.
- Rahul Jain Dhruv:** Can I just ask one last question? I am sorry about this. What would be your total debt at the end of the quarter?
- Alex Varghese:** Around Rs. 620 crores including acceptance.
- Rahul Jain Dhruv:** Rs. 620 crores? So, if you remove the acceptance, as I am saying, remove the payables, what will be the actual debt on the books?

- Alex Varghese:** It's around Rs. 100 crores.
- Moderator:** Thank you. We have our next question from the line of Vinod Chandra, a shareholder. Please go ahead.
- Vinod Chandra:** I just have one question. One question is already covered. So, one question is about, in one of the previous calls, we were comparing SG Mart, one of your competitors, and you just said that it is not exactly a competitor, but a super distributor. And we are a retail distributor. So, I just want to understand whether is that the case, because it means like we are buying from them or we are directly buying from our manufacturer?
- Dhananjay Srinivas:** So, majority of our products are steel tubes, and I think that come directly from the manufacturer. We do buy certain products from SG Mart as a stop gap and where we do require certain materials immediately in certain territories, but it's more of a stop gap and more of a small purchase. And as we continue to say, they are super distributor, super stockist. They do not go down to the B2C or even the small B2Bs.
- Vinod Chandra:** And do we also do kind of a super distributor business or we are only doing retail business?
- Dhananjay Srinivas:** We do distribution business, but we are more localized in the sense that we do statewide, citywide. And so we do have multiple hub-and-spoke models and multiple warehouses across the South, West and East. So, you could say we do, definitely, distribution. Some products in the super, but somewhere in the medium, you could say, I mean, midsized.
- Moderator:** Thank you. We have our next question from the line of Manish Beria, an Individual Investor. Please go ahead.
- Manish Beria:** So, I wanted to ask this question. So, how much of this payable has increased in this quarter from the 31st March level? And the second is what is the effective cost of interest on this acceptance, I mean, so it's 5% or 10%? And then the third one, so when you have these receivables, so maybe there is a pressure like you have more payables, but you have to receive more also from the customer. So, that's the reason, I mean your payable is increasing, I mean, because you're not collecting so much from the customers, no? So, in that sense, you have to pay to the payables the interest costs. So, are you also, in this business model, has a right to collect something from the receivables? I mean, do they stay beyond a certain period or something like that?

- Dhananjay Srinivas:** So, I will just answer your last part, while we get the other numbers for you. But what has happened is, as you know, this is a very competitive industry market. You cannot really charge our customers for the receivable interest that is paid because of delayed payments. So, we do have to bear those costs of interest. Because of the way the market is set up and the way the industry is, that would not be possible. So, hence, this quarter, we have been faced with the brunt of higher receivables. After the normal credit period, especially in extreme situation, we do charge interest. But these are the majority of our regular customers. I would say, as a whole, market condition of cash flow has been crunched in the last 3-4 months. This is because of that. But we do charge interest to customers after a stipulated period.
- Manish Beria:** And the other 2?
- Alex Varghese:** Yes, regarding the payable, so in the payable, acceptance, in the month of March, it was around Rs. 375 crores. It has increased to Rs. 500 crores. There is an increase of around Rs. 125 crores. So, we are bearing the interest cost.
- Manish Beria:** And what is the cost of interest generally you pay on this Rs. 500 crores?
- Alex Varghese:** Approximately around 9.25% to 9.5%.
- Moderator:** Thank you. We have our next question from the line of Sreemant Dudhoria from Sree Capital. Please go ahead.
- Sreemant Dudhoria:** Firstly, our number. What has been your CFO in this quarter, cash flow from operations, post your working capital?
- Alex Varghese:** For Quarter 1, normally, the cash flow, we won't be doing, it is only financial presentation. So, 6 months, we will disclose the number. We will get back to you on that.
- Sreemant Dudhoria:** No. I checked this number in context of the stretched payables that you're having. Is the higher EBITDA growth is really meaningful? Is it clearly leading to cash-in-hand? That's the context for this question.
- Dhananjay Srinivas:** Given the working capital increase, it will be lower. It will normalize. I think once the receivables are realized, we will normalize within the next few quarters. So, then things will go back to how they were before.
- Sreemant Dudhoria:** And what is the interest cost that you now expect for the full year, given that it may take some quarters to normalize the higher payable cycle that we are having now?



- Alex Varghese:** So, it will be similar to 9% to 9.25% will be the rate. Value wise, I am not able to quantify now. So, we are working hard to reduce it. So, we won't be able to say anything regarding that right now. We will work on that.
- Sreemant Dudhoria:** So, if I have to ask this another way, in the past, we have been guiding at about 20%-25% EPS growth on an annualized basis. Now in this context of a higher interest expense, do you maintain that guidance for the current year?
- Dhananjay Srinivas:** Our growth will continue. I think we are still looking at 20%-25% EBITDA growth and EPS as well. So, EPS may be somewhat lower. EBITDA growth will definitely be at 20%-25%.
- Sreemant Dudhoria:** Yes, EPS is what I was looking for because what is the number that you can make because you are seeing 20% - 25% EBITDA?
- Dhananjay Srinivas:** We will come back to you with the exact number. But across the topline and EBITDA growth, we are still looking at 20%-25%.
- Sreemant Dudhoria:** Sir, a few questions on the Fotia Ceramica brand. Now that you're expanding this brand beyond the single product, are you looking to add more categories within this brand now?
- Dhananjay Srinivas:** Not immediately. I think we have experimented with quartz sinks; we have had some good success in Karnataka market and Kerala market. We are looking at, here, maybe a few value-added products to that, maybe accessories, maybe add-ons. And we are also looking at bringing more luxury tiles as well. So, I think maybe in this coming quarter, we may have a few more related accessory line products coming in. But I think for this year, we will kind of grow the 2 categories added with accessories and things. And we will announce it when we plan on adding a few more categories.
- Sreemant Dudhoria:** So, as you expand the category, and since this is your own brand, if you can also explain your marketing strategy for this label, because unlike the other brands, which you sell in segments, which are well renowned brands, can you talk about that?
- Dhananjay Srinivas:** So, one thing is I think we do have a good channel network quality, thanks to the legacy we have and the brand name of Shankara BuildPro itself. So, I think we are leveraging that currently. We are also leveraging the success we have seen in brand building for Fotia Ceramica in terms of tiles in Kerala and other Southern regions. So, far, as we are getting mileage through that. We will definitely be looking at advertisement and more markets actually coming forward. I think the focus currently now is how to kind of get back our receivables, payables and get everything else back on track, and then we will get back to marketing. Because as you know, the overall

market conditions in last 4-5 months have been difficult. So, we are still focusing on the topline growth, making sure EBITDA remains healthy and grows, and continue focusing on bringing more products in Fofia.

**Sreemant Dudhoria:** And last one, do you look to grow inorganically in the Building Products segment or through franchisee stores in the near term?

**Dhananjay Srinivas:** We are always open to any such opportunities. Immediately, nothing is in the pipeline, but there could be some opportunities coming up in the future. We are always open to the fact to grow inorganically as well.

**Moderator:** Thank you. The next question is from the line of Rishikesh from Robo Capital. Please go ahead.

**Rishikesh:** Sir, firstly, regarding store growth, how many stores are you looking to grow going ahead?

**Dhananjay Srinivas:** So, this quarter, we have opened 4 stores, 1 hybrid and 3 new. And in the coming 6 months, we are looking around 10 fulfillment centers to come up.

**Rishikesh:** So, currently, we have around 90?

**Dhananjay Srinivas:** 92.

**Rishikesh:** Okay. So, if you are growing 10 stores per year, that is the run rate that you're looking for?

**Dhananjay Srinivas:** It's not a store, it's a fulfillment center. So, this would be across the board. So, currently, if you look at our fulfillment centers, we are around 125, 126. This should grow to around 135 to 136 by the end of this year.

**Rishikesh:** And just one more question. If we see before FY '23, for many years, our revenue used to be flattish and FY '23 onwards, they have started growing. So, just wanted to understand what exactly has changed in the business and the revenue growth trajectory.

**Dhananjay Srinivas:** Two things. I think one is right after the COVID market and everything else. There was a big pent-up demand that came in, so that definitely helped us grow. And at that time, we were on balance sheet strengthening and we are cleaning up and consolidating a lot during the COVID time and the year before COVID. The last 2-3 years, we have been on the growth trajectory. We are focusing on topline as well as trying to maintain our bottomline. And we have grown more in, you can say, brownfield growth and other growth as well. So, we have been seeing a lot more catalysts and product portfolio and expansion for growth. So, across the board, including with now aggressively growing in Western and Central regions, all of this has brought in a big boost to our growth percentage.

**Rishikesh:** So, I am asking because basically, even when we have, let's say, around Rs. 2,000, Rs. 2,300 crores kind of range of revenues, that time, we had around same number or approx. range of stores that we have now. And with some addition in stores, in fulfillment centers and now we are doing almost double, and we are talking about growing our revenues 20% to 25%. So, just wanted to get a sense of why we had a stagnant revenue growth before COVID. And now what has changed that we will be doing 20% to 25%?

**Dhananjay Srinivas:** So, 2-3 things, I think, earlier, we had just started into the non-steel verticals and other value-added steel verticals. We were still kind of learning the business and learning the different complexities of steel verticals. COVID has helped us kind of consolidate and get back to planning and strategy. And we feel that some of our fulfillment centers efficiency could be increased, and that's how we did see a big growth in those areas. We focused a lot more in the Central and Western areas as you see 50% growth there. We also still feel that the existing fulfillment centers, we can definitely, at least, grow by 70%-75% more, with the existing centers we have. And now to continue this aggressive growth, we have already brought in 4 fulfillment centers this last quarter, and we are looking to bring in 10 new centers in the coming year. So, I think a mix of stores, fulfillment centers, planning and opportunity.

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

**Miraj Shah:** Sir, I have a few questions, but I will start segment-wise, by starting with the tile segment. The first thing that I want to understand is your outlook over here. Because I have looked at all the other tile companies who've come out with their numbers this quarter. Some have grown. There's not a lot of growth, but commentary has remained a bit slow because the exports from Morbi have not picked up yet. But however, I think there are chances of plants being shut down in Morbi because of which non-Morbi players will be able to do more volumes. I just want to understand your outlook on this tile demand, first is that. And on tiles, I want to understand that are we actually manufacturing? Or are we just doing a trading business in tiles? These are the first 2 questions.

**Dhananjay Srinivas:** So, just to start on the macro condition of tiles. So, what's happened is Morbi's always been known for the number of factories they've had. And traditionally, 40% of all their production goes to export markets. Being with the international markets and all the other political issues going on and recession in other countries, the export market of Morbi has been hit. But this is again a double-edged sword because it does give opportunities for local players and for companies like ours and others to grow because there is opportunity. There still are factories that are growing. There still are companies that are growing. And we feel that, yes, certain areas, macro conditions are impacting Morbi, but there's still enough players and enough potential for

growth. And still, you can say, an ecosystem where there are so many factories and everyone, you need the scale and Morbi has a scale, which, I think, other parts of India doesn't have currently, when it comes to tile manufacturing. Yes, that being said, in Andhra, a lot of companies are coming up with plants. But I think we have to wait and see if that will really overtake or grow more aggressively than Morbi can. When it comes to the second, for us, we have seen good growth. We have grown almost 50% this quarter in Fotia. Yes, certain areas, there has been sluggish demand, but other markets have picked up the demand. So, that's kind of what contributes to our success. When it comes to manufacturing, so what we do is we design our own tiles. We have our own designers, and then we get it on contract manufacturing with multiple factories, based on the quality and design matched with our quality standards.

**Miraj Shah:** The manufacturing is done outside, and the designing is done in-house. Understood. So, is it possible for you to give the contribution margins, EBITDA margins in the tile segment?

**Dhananjay Srinivas:** For tile segment, currently, our GPs are around 12%. And EBITDA, I think, I could get back to you exactly on what the Fotia EBITDA is because we will work on it and get back to you on. But the GP is around 12%, and we will see a good EBITDA and a volume growth as well.

**Miraj Shah:** Okay. Gross profit margin is 12%. Okay. Sir, the second question is regarding the manufacturing segment that we have given in the presentation, on PAT level, we have incurred a loss this quarter. Which segment specifically was weak? Or was it just purely because of the steel prices going down?

**Dhananjay Srinivas:** So, I think I will give you a few points on this and Mr. Ravikumar also will add to it. But across the board, I think steel has been really bad this quarter. Steel prices have softened. There's been fairly bad cash flows and receivables in the market. And I think that has impacted and there's a huge fluctuation as well. So, that has definitely impacted manufacturing. But despite that, we have improved our margins. But the way steel is looking, it's really not looking very positive. Mr. Ravikumar wants to add to this.

**C. Ravikumar:** Overall manufacturing, we have been able to sustain. So, steel prices softening is the main reason and a lot of businesses had whatever fluctuations in the recent past, that is what is created the problem. But despite that, our margins, overall, we have been working to improve by focusing on value-added segments. We are focusing on many verticals, wherever there is scope. And our focus from trade products has shifted to OE products, which, in the near future, should help us in doing better marketing, better margins.

**Moderator:** We will move on to the next participant. The next question is from the line of Ketan R Chheda, a retail investor. Please go ahead.

- Ketan R Chheda:** Sorry, I joined the call a bit late, so I don't know if this question has been answered. My question is with respect to the finance cost, which you mentioned in the presentation has increased due to higher acceptances. Could you please explain what is this about, higher acceptances?
- Alex Varghese:** So, to the supplier, we are opening LC and giving the payment to them where the interest will be borne by us. So, comparing with Q4 to Q1, acceptance has gone up. We have given more LCs to our vendors, where we are bearing the interest cost. And apart from that, the receivable also has increased. Inventory also, to some extent, has also increased. All those things have affected our interest cost.
- Ketan R Chheda:** So, do you think this kind of trend would also continue in the future quarters?
- Dhananjay Srinivas:** So, I think with the way this quarter is going and the way steel prices have been softening and being fluctuating continuously and the monsoon has hit South and West of India and even parts of the North as well, I think we should see normalization maybe a quarter or two from now. But I think the next 1 or 2 quarters should be this way.
- Ketan R Chheda:** The other question is with respect to the tile. So, right now, tiles is purely our own brand. Is that understanding correct? Or are we selling other tiles as well?
- Dhananjay Srinivas:** No, It's not completely our brand. We are doing around 60% to 70% of our tiles, and the remaining is other brands like Kajaria, Somany, NITCO etc.
- Ketan R Chheda:** And the other question is, so in the other categories, like, I understand tiles and sanitaryware contributes significantly to our non-steel revenues. So, what are the other products or other categories that we are looking to add going forward? Is there any plan other than paint support, which we have within a small percentage as of now? Any new product categories that we envisage?
- Dhananjay Srinivas:** So, we are in plumbing as well. So, that will be a CP, CPVC systems, all of that. We are looking at growing in that. We also have electrical, paints, as you've mentioned, lighting. So, these are kind of the focus products. We kind of brought them in, in the last year or so. We have seen, for example, a 60% growth from the base of last year for electrical. So, we are looking at all these other verticals as well: hardware, modular kitchens, kind of a mix of, I can say, all your home improvement categories. So, obviously, currently for us, as is visible, sanitaryware and tiles are the bulk of our growth, and we are continuing to focus there and growing more. But finally, we are looking at adding more growth in the other verticals and categories as well.
- Ketan R Chheda:** So, going forward, any trajectory or any aspirations that we have in terms of non-steel revenues, like maybe 3-4 years out, something like that? How much you will want to develop?

- Dhananjay Srinivas:** Ideally, we are looking at non-steel revenues to be around 25%-30% of our total revenue. So, if we continue that in two to three years we are looking at non-steel revenues growing over Rs. 1,000 crores.
- Ketan R Chheda:** In how many years?
- Dhananjay Srinivas:** Maybe 2 to 3 years.
- Moderator:** Thank you. The next question is from the line of Sreemant Dudhoria from Sree Capital. Please go ahead.
- Sreemant Dudhoria:** So, if I hear the numbers right, as of 31<sup>st</sup> March, acceptances were Rs. 375 crores, right? Is the number right?
- Alex Varghese:** Correct.
- Sreemant Dudhoria:** As against the total payables of Rs. 650 crores as revealed in your annual report?
- Alex Varghese:** Correct.
- Sreemant Dudhoria:** And now you're saying that this is about Rs. 500 crores. And again, what is the absolute payable number that we have?
- Alex Varghese:** Payable number as of June is Rs. 750 crores.
- Sreemant Dudhoria:** Rs. 750 crores. So, you'll have to pay interest on this payable after a certain number of days, right?
- Alex Varghese:** Yes. Correct.
- Sreemant Dudhoria:** So, what is the free period that you get in the payables from your suppliers?
- Alex Varghese:** No because mainly the major suppliers we are making the payments immediately, we are making the payment where we are ready to avail some cash discount there we are bearing the interest cost.
- Moderator:** Thank you. The next question is from the line of Vinod Chandru, an individual investor. Please go ahead.
- Vinod Chandru:** I have just one more question about, like, once we have this demerger done, and for the manufacturing part, how much ROE we are targeting for that business for the manufacturing part?

- Dhananjay Srinivas:** In terms of, what is it, gross margin, topline?
- Vinod Chandru:** No. ROE, the return on equity.
- Dhananjay Srinivas:** We are looking around 5% to 6% ROE.
- Vinod Chandru:** So, I just want to know, 5% to 6% ROE, is this something we are looking for? Is it something, like, really makes sense for us to or what inspired us to stay in the manufacturing business if the ROE is only 5%-6% for this business?
- Dhananjay Srinivas:** So, what has happened currently, everything is under the same company, and the management has a bandwidth issue of managing everything. So, we are looking at a specific management and a specific focused leadership for the manufacturing to see how we can improve this and how we can improve other numbers of the manufacturing. We definitely will try to grow and increase and make the manufacturing exciting and viable. But definitely, it will take 2 to 3 years for us to be able to do this, given already the difficult conditions and the worsening steel pricing and increase of capacities by all other large players in the country.
- Moderator:** Thank you. We have a follow-up question from the line of Miraj Shah from Arihant Capital. Please go ahead.
- Miraj Shah:** Sir, I just wanted to ask one thing. In the steel business, our major raw material would be HRC only?
- Dhananjay Srinivas:** Yes.
- Miraj Shah:** So. How are the prices range? If you could just throw some numbers in the previous quarter. And how the price has been in July and August has been. I know August has been started, but for July, if you could mention?
- Dhananjay Srinivas:** I think it's very hard for me to give you the exact pricing, because different players have different pricing, and it's not really right for us to give our pricing, but there have been big fluctuations month-on-month.
- Miraj Shah:** Sir, for this quarter, what was our business contribution from APL Apollo?
- Dhananjay Srinivas:** Around 39% to 40%.
- Miraj Shah:** 39% to 40% okay. And sir, this acceptance issue that we just speaking about, is this for APL Apollo? Or any other larger clients?

- Alex Varghese:** Yes, this is for APL and other clients.
- Dhananjay Srinivas:** All of our clients, across the board. And I think all major clients, I think non-steel has been better because we have been able to payback. But I think across the board, it's been bad.
- Miraj Shah:** Understood. Sir, the NCLT filing, by when is it tentatively scheduled for? Because you received the SEBI approval also.
- Alex Varghese:** So, we have time for 6 months, from the date of approval from SEBI.
- Dhananjay Srinivas:** We are working on all the other back-end work that we have to do. The minute all the documentation is done, we will file for the NCLT. We do have 6 months on the time. But we are not getting that long. We are going to do it as soon as all the paperwork is done.
- Miraj Shah:** Understood. And just 1 last question before I get back in the queue. I have seen that over the past few quarters, the promoter has been selling their stake, Sukumar Srinivas sir. Any particular reason for the stake sale?
- Dhananjay Srinivas:** Nothing has been sold actually. If you do check, actually said they actually bought more stake rather than sold anything. I think when you look at it, it's mostly the warrant conversion that has led to the increase in the number of shares. And that's probably why you're looking at the percentage changes. But after the last deal with Apollo, we have only been buying back here and there rather than selling anything.
- Moderator:** Thank you. We have our next question from the line of Gunit Singh from Counter Cyclical PMS. Please go ahead.
- Gunit Singh:** Sir, what are the receivables at the end of Q1? And the receivable days currently?
- Alex Varghese:** It's around 42 to 43 days.
- Gunit Singh:** And what is the exact amount of receivables at the end of Q1?
- Alex Varghese:** Q1, approximately around Rs. 700 crores.
- Gunit Singh:** Rs. 700 crores. What are the total payables at the end of Q1?
- Alex Varghese:** Payable as on Q1, it's around Rs. 750 crores total.
- Gunit Singh:** So, sir, I just want to understand the 9% that we are paying on acceptance. So, out of this Rs. 700 crore payables, what amount are we paying the interest?



- Alex Varghese:** Around Rs. 500 crores. This year Quarter 1, we are bearing the interest cost on about Rs. 500 crores out of the total payables.
- Gunit Singh:** Sir, the total interest cost, I mean, total acceptance costs, that total interest we are paying on this, what was the magnitude of that in Q1? Because I just want to understand, what was the total magnitude?
- Dhananjay Srinivas:** We will work on it and get back to you.
- Moderator:** Thank you. Ladies and gentlemen, that would be the last question for today. And I would now like to hand the conference over to Mr. Miraj Shah for closing comments. Over to you, sir.
- Miraj Shah:** Thank you once, again, sir, for allowing me to host you. Just with the closing remarks, if you could just reiterate the guidance as well, that would be helpful, sir. Thank you so much.
- Dhananjay Srinivas:** Thank you. I think our guidance would remain the same actually looking at the 20%-25% growth, both in EBITDA and in topline. And I think that should continue, and we will definitely be working on normalizing and getting our interest and receivables under control as well. Thank you, everyone, for taking the time out and for giving us the opportunity to answer your questions.
- Moderator:** Thank you. On behalf of Shankara Building Products, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

(This document has been edited for readability purpose)

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