"Shankara Building Products Limited Q4 & FY-19 Earnings Conference Call"

May 13, 2019

MANAGEMENT: **MR. SIDDHARTHA MUNDRA - CHIEF EXECUTIVE OFFICER, SHANKARA BUILDING PRODUCTS LIMITED**
MR. C. RAVIKUMAR – EXECUTIVE DIRECTOR, SHANKARA BUILDING PRODUCTS LIMITED
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER, SHANKARA BUILDING PRODUCTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q4 & FY19 Earnings Conference Call of Shankara Building Products Limited. This conference call may contain forward looking statements about the company which are based on the believes, 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 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 '*' 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 of Shankara Building Products Limited. Thank you and over to you sir.

Siddhartha Mundra: Good morning everyone and a warm welcome to our Q4 & FY19 Earning Conference Call. Today I am joined by Mr. C. Ravikumar – Executive Director, Mr. Alex Varghese – Chief Financial Officer and Strategic Growth Advisors, our Investor Relation Advisors. We have uploaded our updated results presentations on the exchanges and I hope everybody had an opportunity to go through the same.

Before getting into the quarterly performance, let me take a few minutes to take you through the developments in the last year and the measures we have taken to address these. The first half of the previous year started on a good note. We recorded 23% revenue growth in the first half with EBITDA margins of 5.7%. However, the last 6 months have been very challenging for us. Significant headwinds from a weak operating environment, natural calamities in South India and commodity price volatility impacted us in the second half. Our revenues declined by 12% and our EBITDA margin stood at 3.4% in the second half. It was in this context, as these events were unfolding that we communicated to our investors that we will consolidate our operations. We had also set out two key parameters for ourselves. We are happy to report that we have met both these parameters. We had targeted our net debt number including acceptance to be between 400 crores to 450 crores. This numbers stood at 368 crores as of end of FY19.

We generated a strong operating cash flow of 171 crores as compared to Rs. 41 crores last year. Our debt equity ratio now stands at a healthy 0.38. Our conscious effort to reduce debt is also visible in our lower interest cost for Q4 FY19.

Our net working capital days declined from 54 days in FY18 to 46 days in FY19. We had also targeted our company level EBITDA margins between 4.5% to 5% for the year and we have been able to achieve this as well. In addition to these measures, we have also moved swiftly on addressing one of the key challenges that we identified during the course of the previous year. Our processing business has faced a significant competitive environment. Steel price volatility compounded matters further. In absence of scale benefits and additional investments not making sense, we looked at alternate options.

We are happy to report that the company has received an in-principle offer for purchase of partial assets including land, building and equipment located in Chegunta near Hyderabad for a consideration of around Rs. 70 crores from APL Apollo Tubes Limited. These assets are a part of our wholly owned subsidiary, Taurus Value Steels & Pipes Pvt. Ltd. The proposed transaction is subject to shareholder's approval. The asset proposed to be sold include 29 acres of land, 2.9 lakh square feet built up area and a part of Plant & machinery situated in the Chegunta Unit.

Let me outline the strategic reasons for the sale:

Firstly, this asset sale is in line with our conscious effort to focus more on our core areas of retail and marketing of building material products. The retail business has better profitability metrics and also higher growth prospects. Presence across the value chain of processing and retailing increases our cash conversion cycle. This can be challenging in a volatile price scenario. We witnessed this playing out in the second half of FY19 where our performance was substantially affected by volatile steel prices. The asset sale will help us reduce our exposure to this volatility. Thirdly, the profitability of Taurus has been below par recently. We do not anticipate this to improve in the near term. As a nominal player in processing we do not avail scale benefits. Since it does not make sense to increase capacities further, it is prudent to sell these assets. Fourthly, the release of the funds from this transaction will help us focus on investments on our retail business. We need investments in supply chain, warehousing, logistics, retail store upgrade and new store roll outs.

A strong balance sheet also helps us avail cash purchase benefits. It also reduces cost of funding for us leading to lower interest outgo. Lastly and very importantly, one of the key aspects of this transaction would be the release of management bandwidth to focus more on the higher ROE business of retailing which has substantial growth opportunities. This transaction is expected to release substantial funds for the company. In addition to the consideration received on account of the fixed assets there is an implied release of working capital of around 2.5 months from the assets that are a part of this transaction. Currently, Taurus's conversion cycle from raw material to finished goods is around 30 days. Post this transaction this finished product will be available on a credit of around 45 days. Effectively this adds up to around 75 days or 2.5 months of working capital release for us. The revenue generation from the sold assets is around 500 crores. We do not anticipate any impact on the revenues of the consolidated entity as a result of sale of these assets Since, the procurement currently being made by Shankara from Taurus will now be replaced by third party purchases. We believe that this transaction holds substantial benefits for the company, further this transaction will not have an adverse impact on the financials of the consolidated entity at a PBT level. We also believe that the funds that will be released will help further strengthen its future prospects.

Let me now move to the other cost control measures:

We have rationalized some of our fixed cost in the second half of the year. Between the first and second half our employee expenses have declined by 14% and other expenses have declined by 7%. We have also cut down on our own production and the share of sale of own products decline to 49% in Q4 from a high of 64% in Q2. We are also looking to consolidate some of our retail store network and have decided to close operations of 6 stores. These are Rajkot, Surat, Baroda, Nizamabad, Anakapalli and Sindhanoor. Some of these stores like in Gujarat are not a part of our immediate geographic focus. The net store count after these measures will stand at 129 stores. Having said that our retail focus and marketing continues. We have focused on organizing customer influencer meet in the last year across locations with displaying wide range of product offerings to educate them about the products and showcase Shankara's strength in the basket of product offerings. We have been able to organize more than 150 influencer meets in the last year and direct these to more than 3000 plus influencers across locations. These are done independently by Shankara or in collaboration with brands. We have also increased our local marketing activities. Our short term focus remains on increasing our retail business at each store level and increase the sales per store through our retail business.

Our long term focus continues to remain the same which is to increase our retail presence across South India with increased product offerings and depth in each product category to become a go-to shop for building material products which has all building products under one roof and to build the brand equity for Shankara Buildpro stores with trust and convenience being a key USP along with price competitiveness.

Let me now take you through the financial performance for Q4 and FY19:

Our consolidated revenues grew by 4% for FY19 and the retail segment grew by 17%. The retail segment now contributes to 57% of our overall revenues for Q4 FY19 as compared to 55% for Q3 and 53% for Q2 respectively. For FY19 retail contributed 54% of our overall revenue. The channel business degrew by 23% to 401 crores for FY19 and by 43% for Q4 FY19. Our retail margins stood at 8.8% for FY19 and 7.3% for Q4 FY19. The total revenue for Q4 FY19 stood at 620 crores as against 605 crores on a quarter-on-quarter basis and 761 crores on a year-on-year basis. Revenue for FY19 stood at 2,654 crores as against 2,549 crores for FY18, a growth of 4% on a year-on-year basis. EBITDA for FY19 stood at 120 crores as compared to 175 crores in FY18. The dip in EBITDA was largely on account of the increased raw material prices and low processing margins for FY19. However, we have been focusing on consolidating our operations and reducing the other expenses. This is evident by the decrease of our other expenses by around 24% in Q4FY19 on a YoY basis to around 25 crores. EBITDA margins for FY19 stood at 4.5% as compared to 6.9% in FY18. PAT stood at 33 crores for FY19 as compared to 74 crores for FY18. The PAT margin stood at 1.2% for FY19.

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

The retail segment grew by 17% for FY19 from 1220 crores to 1431 crores for FY19. All our key states have performed well, especially Telangana and Tamil Nadu. FY19 retail EBTIDA stood at 127 crores as compared to 130 crores in FY18. Retail EBITDA margins for FY19 was 8.8%. The contribution to retail of retail to the total revenue stood at 54% for FY19. Due to our constant focus on growing our retail business, the share of retail revenues has been consistently increasing over the last 4 quarters. Average rental cost for leased outlets stood at Rs. 19.1 per square feet per month. The sales split across, Tier-1 cities accounted for 45%, Tier-2 accounted for 24% and Tier-3 accounted for 31% of the overall retail sales. Average ticket size for transaction was around Rs. 28,000 for FY19. We continue to work on deepening our presence across retail verticals and expanding our range of offerings through our stores. Of the total retail sales, construction materials constitute around 60%, interior exterior around 21%, newer products around 14% and agricultural products around 5%. Comparable sales growth stood at 5% for FY19.

Moving to enterprise sales:

This segment contributed to 822 crores for FY19 up by around 2% compared to FY18 with 805 crores of contribution. It contributed 31% of the overall sales of the company. Our strategy is to increase our share in be-spoke products through this segment. Channel sales during FY19 stood at 401 crores down by 20% compared to FY18. This segment now contributes 15% of the consolidated revenue of the company. Channel revenue was down by 43% in Q4 as compared to the same quarter last year.

Few highlights on our provisioning and in-house supply chain:

We have 12 processing facilities with capacity utilization of 78% for the year. Sales from our own products contributed 49% of total sales for the last quarter. Processing margins stood at 2.5% for Q4 and this decline has impacted our margins on overall basis. The margins in the processing segments have reduced in the last few quarters due to enhanced competitive intensity and our inability to pass on the increased prices to the end customers. As mentioned earlier, various measures have been taken to adjust these issues starting December which in various forms going forward should be able to stabilize the margins.

In conclusion:

We believe that our business model is unique and has a very large and growing accessible market opportunity. We operate in a context of a highly fragmented unorganized competition. This gives us a significant opportunity to grow, capture market share as well as mindset as a leading go to brand for building products in India. Our immediate focus is to increase our revenues in retail segment, concentrate on reduction in debtors by increasing cash sales across segment and further rationalizing our debt equity ratio. We believe that the measures that we are taking in the near term will help build a stronger Shankara. The Board of Directors have also recommended a final dividend of Rs. 1.5 per equity share that is 15% of the face value of Rs. 10 per share subject to approval of shareholders at the ensuing annual general meeting.

With this I open the floor for discussion.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sorry, I joined little late. What is the reason for the fall in the retail revenue, year-over-year and for the fourth quarter?

Siddhartha Mundra: See, Q4 of last year was a very strong base. If you look at the last year the performance had been from a 300 crores base in Q3 to almost 378 crores in Q4. If you look at the last 6 months, the overall economic environment in India has not been very conducive. We have also been focusing on maintaining margins and increasing cash sales, to ensure that the retail sales continue to stay healthy. Declining price scenario also leads to postponement of sales from lot of our customer segments. So lot of these aspects have impacted our performance in Q4 for the retail side.

Dhaval Shah: Sir, when you say increase in cash sales, meaning like on the spot payment, like zero credit?

Siddhartha Mundra: Yes, we are focusing more on these measures. We have also cut out some customers who were taking longer credits.

Dhaval Shah: Possible for you share how much percentage would be your cash sales versus credit?

Siddhartha Mundra: If you look at our overall debtors, they have declined by almost 100 crores between March of last year to March of this year, that is quite a substantial decline that we have been able to achieve in a context of a slightly higher revenue base.

Dhaval Shah: Okay. Now in your segmented results, so under liabilities, your channel and enterprise liability increased from 200 crores in December to 303 crores. So what is this increase in liabilities exactly?

Siddhartha Mundra: If you have any other question, we are just pulling out the data.

Dhaval Shah: Now, can you just once again, run me through the math on the sale of the asset with regards to the credit you are getting before and now will be getting and any new terms of trade with your end customer as well after the selling of this division?

Siddhartha Mundra: You are talking about the Chegunta unit?

Dhaval Shah: Yes, the one which is sold to Apollo, yes.

Siddhartha Mundra: So this is a proposal to sell subject to shareholder approval. Largely this asset entails partial assets in our Chegunta unit. There are two aspects of this transaction. One is the sale of fixed assets, which is around 70 crores, realization that we get. The other aspect is an implied release of working capital. So, if you look at how the overall working capital cycle works out, currently there is a 30-day conversion cycle for us to convert the raw material to finished goods. Now this aspect will go away because that unit is no longer ours or will no longer be ours and we would be able to procure this material from third party on 45-day credit. So if you look at the overall implied working capital impact will be this 30-days plus 45-days, which is almost a 75-days release of working capital for us.

Dhaval Shah: Okay, so 100 crores roughly.

Siddhartha Mundra: Yes. There is 40 crores revenue run rate per month, this will imply around 100 crores of release.

Dhaval Shah: Okay. So that you will be using for building up inventory on the retail side or getting better terms of trade mix or both?

Siddhartha Mundra: It could be firstly, our first intention will be to pay off our debts and further strengthen our balance sheet and yes, we will look to see how we can better utilize these additional balance sheet levels that we have.

Dhaval Shah: Okay. So, this debt, so 360 crs it is including acceptances, so your borrowing is around 200 crores, right now, correct? And the rest would be in your payables?

Siddhartha Mundra: Yes, borrowing is 180 crores, net borrowings and total is around 367 crores including acceptances.

Dhaval Shah: So this is much better than what you have guided in the call, yes. So now this number, how are you looking at it, say like on a 6 month basis from here?

Siddhartha Mundra: We are looking at let us say a 200 odd crores kind of a number.

Dhaval Shah: Okay, over next 6 months. Okay. And on your store opening what will the strategy? You will be slowing down, right, from the 10-12 stores what we had in mind, like 15 kind of stores what you had in mind?

Siddhartha Mundra: We are just looking at our network. We have taken a pause. As of now we are not looking to increase on the store count. We are looking to focus on ensuring that we get more revenues from the existing stores themselves and then we will look at addition of new stores.

Dhaval Shah: Okay. And the stores which you added, say last one year, are they your core products? the non-sanitaryware and tile product? Are they achieving 50 lakh kind of run rate after like 6-8 months?

Siddhartha Mundra: Yes, though the economic environments has not been the best, but we are getting there.

Dhaval Shah: Okay. And lastly, this increase in liability question?

Alex Varghese: Around 125 crores of creditors have gone up, Dhaval, comparing with Q3 to Q4. So that is located in channel and underprice.

Dhaval Shah: Sorry, I didn't get.

Alex Varghese: Overall creditors have gone up by 125 crores comparing with Q3 to Q4 and that is the reason why it has increased.

Dhaval Shah: Okay. So this will be reflected as a part of acceptances, right?

Alex Varghese: Yes, part of acceptance and regular creditors also has gone up.

Dhaval Shah: So these creditors will be your, mainly steel?

Alex Varghese: Yes, Steel, correct.

Dhaval Shah: Okay. So the reason for such 100 crores jump will be, so you getting more terms from there or your volumes went up or what is exactly there?

Siddhartha Mundra: Yes, so Dhaval if you look at it, our creditors 463 crores as of end of last year and which has actually net-net declined to 381 crores. So there was a period during Q2 and Q3 where it had dipped even further, we have not rationalized those levels.

Moderator: Thank you. The next question is from the line of Gaurav Maheswari from Unilazer Ventures. Please go ahead.

Gaurav Maheswari: First question pertains to, if you can give us the breakup of working capital only pertaining to the retail business?

Siddhartha Mundra: The retail business broadly operates on a 45 day kind of a working capital cycle.

Gaurav Maheswari: And would you be able to break it between debtor, inventory, creditor?

Siddhartha Mundra: Yes, so it will be around a 30 days in terms of debtors, around 15 days to 20 days of inventory and an equivalent amount in terms of creditors.

Gaurav Maheswari: Got it. Second question pertains to, if you can give us the bridge between the GP that a retail business would make, your standalone retail business to the EBITDA margin, the main percent that you report?

Siddhartha Mundra: Bridge is broadly in terms of rental cost and employee expenses, this is around 2.5 odd percent between GP and EBITDA.

Gaurav Maheswari: Okay, so the gross margin would be 11%-11.5%.

Siddhartha Mundra: Yes.

Gaurav Maheswari: Okay, got it. And all your purchases would be directly from the brands or would it be through the intermediary because there is a differentiation of margins to come in?

Siddhartha Mundra: Yes. So, it depends on the specific product categories and the geographic location as well. Wherever we have gained trajectories in terms of volumes, we look to purchase directly from the brands. Where we have not, it is better to buy from other distributors.

Gaurav Maheswari: And what is the margin differential between both the models?

Siddhartha Mundra: It depends on the category, but there could be a 3%-4% differential.

Gaurav Maheswari: Got it. And the last thing was pertaining to, you give up a breakup during your opening remarks in terms of the interiors and exteriors and construction material etcetera. So would it be possible to give which would be the higher margin segment, would construction material be a pretty low margin segment or how will it be?

Siddhartha Mundra: Yes. It is a relatively lower margin segment. Our newer product segment would be higher margins and irrigation is also a good margin business, but yes, construction material will be the lowest margin business.

Gaurav Maheswari: Which is approximately 60% of your business?

Siddhartha Mundra: Yes.

Gaurav Maheswari: Is it fair to assume that 60% is a low margin, the remaining 40% would be at similar margins?

Siddhartha Mundra: Yes. In that the newer products will be having a slightly higher margins.

Gaurav Maheswari: Yes. What exactly would the new product category consists of?

Siddhartha Mundra: New products will include plumbing and sanitaryware, flooring and electricals.

Gaurav Maheswari: So, would it be a part of this interior and exterior product sales

Siddhartha Mundra: No, this is a part of our newer product categories. Our interior exterior largely deals with segments like roofing, ACP sheets, plywood, paints etcetera.

Gaurav Maheswari: Okay sir. This newer product category is 19% of sales?

Siddhartha Mundra: 14%.

Gaurav Maheswari: Got it. And would it be possible to give a broad break up between the lowest margin construction material to the highest margin new product category, 3%-4% or…

Siddhartha Mundra: This could be, I mean some of these margins could be low as say 3% to 4% as well depending on if it is an immediate cash purchase and it could be higher at say around 6% to 8% as well depending on the categories.

Gaurav Maheswari: Sir, that you are talking about construction material, well I am saying the differential between construction material as a category assuming that average 4% to 5% and the new product category would be a 5% differential or could it be a 10%-15%?

Siddhartha Mundra: Yes, 5%-6%.

Moderator: Thank you. The next question is from the line of Abhishek Ghosh from DSP Mutual Fund. Please go ahead.

Abhishek Ghosh: Sir, could you help us with your processing EBITDA for the quarter?

Siddhartha Mundra: Yes, processing EBITDA was 7.6 crores for Q4.

Abhishek Ghosh: And for the year?

Alex Varghese: 55.43 crores.

Abhishek Ghosh: And how much of this will correspond to the asset sale that we have done?

Siddhartha Mundra: You could assume that around 20 odd crores would be for the asset sale.

Abhishek Ghosh: Okay. Sir, the retail margin, we now report 7.5 odd percent that we have reported for 4Q, that includes some amount of processing margin as well. So going forward are retail margins also likely to be under threat or will it be kind of coming off because of the processing EBITDA now going away?

Siddhartha Mundra: There will be some impact, but as we were discussing in the opening remarks that at a PBT level we should be neutral.

Abhishek Ghosh: So you are looking a net of working capital increase and everything,

Siddhartha Mundra: Yes.

Abhishek Ghosh: Sir, PBT level you expect it to be stable?

Siddhartha Mundra: Yes.

Abhishek Ghosh: And what is our outlook or what is our strategy for the remaining asset on the processing side, would we look to diverge that as well?

Siddhartha Mundra: As of now we are open to discussions, but whatever we have I think we will continue to retain but yes we are open to discussions.

Abhishek Ghosh: Okay. What is the capacity which is left with us now in tonnage terms?

Siddhartha Mundra: We will have around 2.5 lakhs tonnes of capacity which includes a lot of our value added capacities and specific customer requirement capacities as well.

Abhishek Ghosh: Okay. So you have 2.5 lacs tonnes post this sale to APL?

Siddhartha Mundra: Correct.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Two questions. Now, with this asset sales our balance sheet is improved, Now we have opened couple of more stores, so what should be the guidance for the original stores and in terms of how many of these stores which you have opened in the 1-1.5 year are still loss making?

Siddhartha Mundra: So in terms of a store openings, as of now we would want to maintain status quo. We would want to consolidate the store that we have already set up and ensure that there is good growth momentum from these existing stores. As regards, stores which we opened in the last year, we generally target break-evens at a one year kind of a threshold. So all these stores are largely performing to plan.

Maulik Patel: And how the performance in the Vaigai and the one which we have acquired in Bangalore?

Siddhartha Mundra: So Vaigai and JP are doing well actually. They are recruiting almost good EBITDA margins as well, almost 10 odd percent kind of EBITDA margins. So they are progressing well actually.

Maulik Patel: And you mentioned that, in your opening remarks that you want to focus more on the supply chain and focus on that, are we looking for any significant CAPEX in terms of another improvement in the supply chain?

Siddhartha Mundra: There is no immediate investment plan, but it always help in terms of having a robust backend because that is one of the key challenges that we face as of now. So service levels, etc., are not the best in this industry. So there is an opportunity for us to differentiate. So it is in that context that we were speaking of these investments.

Maulik Patel: And what could be the CAPEX guidance for this financial year of FY20?

Siddhartha Mundra: Around 20 crores should be good for us, this year.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Sir, one of the reason you mentioned for reduction in debtors was that you are shifting more towards cash sale in your retail business, I just wanted to know because your margins have deteriorated sharply, even if I see the EBIT margin on QoQ basis, it has come off significantly while your interest cost has more or less, it is reduced by only 3 crores. So do you believe this tradeoff is paying your well, like your focus is on reducing debtors but your margins are also taking a hit?

Siddhartha Mundra: See, last quarter we have also had challenges in terms of steel price decline in January. So there is a quite a steep price decline in January that itself would have possibly led to almost a 10 crores kind of a hit on the inventory side and as I was mentioning earlier the environment has not been very strong. So we have also been cautious in terms of our sales. So both of these actually impact our margins.

Harsh Shah: And sir, what could be the same stores sales growth for this quarter?

Siddhartha Mundra: It has been not a very healthy number actually. The same store as per the comparable in assets is at around less than minus 10%.

Harsh Shah: Okay. So how do you expect this to move? So if I take a little longer term view of the two odd years, so how do you see this retail business spanning out, both in terms of topline growth as well as margins, so that would be helpful.

Siddhartha Mundra: We are targeting a 20% growth on the retail side of the business. The SSSG on Q4 also needs to viewed in the context of a very strong base in the previous year, so that also impacted the SSSG for Q4. But nonetheless from a going forward basis we are targeting around a 20% growth on the retail revenue side.

Harsh Shah: And margins?

Siddhartha Mundra: Margins in that 6% to 8% that we have guided earlier.

Harsh Shah: And coming to the 5 stores you closed during the quarter, what was the combined area of those stores and the revenues which you generated?

Siddhartha Mundra: The total area of the stores under operation, you mean?

Harsh Shah: No, , the 6 stores which are closing off,. So what was the combined area and the revenues which you generated?

Alex Varghese: The total area is coming around 21,300 square feet and the total revenue for the year it is coming approximately around 26 crores.

Harsh Shah: Okay. And last question from my side, what is the split between steel products and plumbing business, plumbing and related products, be it sanitary etcetera in your retail sale?

Siddhartha Mundra: The new product plumbing and sanitaryware, flooring and electricals is around 14% per overall retail sales.

Harsh Shah: And this is for the year or quarter?

Siddhartha Mundra: For the quarter. And there was one previous question on the CAPEX, we just want to clarify, it will be around 30 crores for the year.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived PMS. Please go ahead.

Hiral Desai: I actually had a question on the debtor side. So, if I look at debtors versus end of September, which is H1, debtors are down by about 30 crores and in the same period if I look at the channel plus enterprises sale they are down by almost 140 crores. So shouldn't the improvement on debtors be much higher versus September given that we have had a significant decline in the channel and enterprises in H2?

Siddhartha Mundra: Yes. If we look at the overall debtors, they have fallen from 47 days to 46 days. The challenge that happens is that, the fund situation being very weak in the overall system, the availability of credit to lot of our end customers has not been very strong and that actually delayed the overall cycles for the SME customers and that we actually playing out in those numbers.

Hiral Desai: Okay. So going by that, once the liquidity eases let us say in second half of next year, you will see a significant improvement in debtors going forward?

Siddhartha Mundra: Absolutely. That is our whole objective as well. On an absolute basis as we mentioned we have been able to reduce our debtors by almost 90 crores in the last year and that is an ongoing initiative for us and we are looking at various means to ensure that this debtors comes down and the risk to us on this aspect also reduces.

Hiral Desai: And Siddhartha, can I have a breakup of this debtor of about 340 crores between retail and non retail?

Siddhartha Mundra: Yes, we will just pull out that data. Any further question you can ask us.

Hiral Desai: Yes. The other question was on the company level EBITDA that you guys have guided for, so which is between about 4% to 5%. Now if I look at H2 EBITDA that is at about 3.2% and this actually builds in the improvement that we have seen on the employees as well as the Opex. So just wondering what are the other levers to pull this EBITDA back to let us say about 5%?

Siddhartha Mundra: See, this 4.5% to 5% what we had guided was in the context of retaining our manufacturing assets and that was what we guided in the last year. At a PBT level this transaction of sale of assets should be PBT neutral. So if you also see in the last year there have been some losses in terms of inventory losses, accounting to almost 20 crores between Q3 and Q4. There has also been some losses on account of inventory losses in Kerala on account of floods of around 3 crores which is not getting reflected in EBITDA. The money that we recovered actually comes in post EBITDA. So if you look at an EBITDA level possibly around 25 crores of impact has happened in the last year. We feel that some of these measures that we had taken during the last 3 months should help us strengthen our resilience to some of these aspects.

Hiral Desai: And last quarter you had also spoken about the initiation of supply chain finance. So just wondering if that has been activated already?

Siddhartha Mundra: Yes, that has been activated. It is largely working more on the supplier side. On the customer side it is not very meaningful right now but we are very actively working on that as well.

Hiral Desai: Okay. And the remaining processing capacity that we have right now, that is largely value added in nature. So we don't have any low margin products which are still part of the processing facility?

Siddhartha Mundra: Not really,

Moderator: Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Sir, given the current sale of assets, what will be the balance value of the assets that we hold sir, any broad figure sir?

Siddhartha Mundra: Around 65% of the assets will be sold off in Taurus, so around 40 odd crores will be the balance assets that we hold in Taurus.

Siddharth Rajpurohit: And the total, I want the total value sir, given all assets that we have, the ex retail?

Siddhartha Mundra: You are saying all the entire balance sheet is it? How much balance sheet we will have?

Siddharth Rajpurohit: 2.5 lakhs tonnes is the balance capacity that we have sir. So what will be the value for this?

Siddhartha Mundra: For the balance processing operation, what is the asset value you are asking, right?

Siddharth Rajpurohit: Yes sir and what will be the value?

Siddhartha Mundra: Yes, we will just pull that out. Just give us a little more time.

Siddharth Rajpurohit: Okay sir. And the retail EBITDA of 6%-8% is before the unallocable, right sir?

Siddhartha Mundra: Yes, before unallocable.

Siddharth Rajpurohit: Okay. And sir I think in this start, during your initial comment you have given a breakup of Tier-1, Tier-2 sales, I have missed that if you can tell me sir?

Siddhartha Mundra: So just to answer your earlier question, this is the picture. The remaining assets will be around 230 crores of net assets and these are in the processing units, around 230 crores. And in terms of the Tier-1, Tier-2, Tier-3; Tier-1 was around 45, Tier-2 was 24 and Tier-3 was 31.

Siddharth Rajpurohit: Okay. And how do you see the business involvement phasing out sir because most of the companies that have in the building material I was saying that the current environment is very challenging?

Siddhartha Mundra: Yes, I think we are also facing a similar kind of an outlook. We hope once there is more stability post elections, things would start looking up.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Yes sir. Just on that previous question of capital employed split, so 230 crores is the capital employed in non-retail and the balance residual capital employed is retail?

Siddhartha Mundra: No, I think the number that we have mentioned is for actually all the assets, it does not include only the processing assets. We will just dig out that number, the 230 crs is actually the entire assets of the entire group post the sale, for the processing units it will be around 90 crores post this transaction.

Pritesh Chheda: Sure. And your capital employed calculation is net worth plus debt?

Siddhartha Mundra: Yes.

Pritesh Chheda: Okay. So, 90 crores is the capital employed in the non-retail assets

Siddhartha Mundra: No, this is only fixed assets. 90 crores is fixed assets.

Pritesh Chheda: No, so want under the capital employed levels?

Siddhartha Mundra: Could you give us a little bit of a time? We will just work that out.

Pritesh Chheda: Yes, in the capital employed level that would be very helpful.

Siddhartha Mundra: Sure.

Pritesh Chheda: Thank you. And after selling off the Taurus assets sir.

Siddhartha Mundra: Correct.

Moderator: Thank you. The next question is from the line of Jaspreet Singh Arora from Systematix Shares and Stocks. Please go ahead.

Jaspreet Singh Arora: Just to clarify this drop in EBIT margin retail from 10.7 to 7.3 YoY. Two things, one is you have said there is a high base there because of a much better SSSG in March 18 and the second is the drop in processing margins. So is there anything else?

Siddhartha Mundra: This is largely it actually and we have already in Q2 we had guided that the margins will look lower as we look to increase the sales. So it is a reflection of that.

Jaspreet Singh Arora: Okay. And for this number itself you are saying a broader range of 6% to 8% as the outlook?

Siddhartha Mundra: Yes.

Jaspreet Singh Arora: But why we going down as low as 6%, I am sorry I am not able to comprehend that. I thought this number which we are seeing now should be the lowest, the 7.3 number?

Siddhartha Mundra: I mean, we would obviously want to beat the band and operate even outside the band, but from an investor perspective this is a band that we have broadly guided for.

Jaspreet Singh Arora: Okay. And just to comeback, the margins on the, ex the sale of this unit, how would our margins be looking like, the EBIT margins on the retail side, the 7.3?

Siddhartha Mundra: See, at a PBT level we should be largely neutral.

Jaspreet Singh Arora: Okay. And in terms of just lastly on this store additions, you said there is no concrete range or a band that you are guiding now, you just want to consolidate?

Siddhartha Mundra: That is right.

Jaspreet Singh Arora: So for the number that we have today, we should be looking at the similar number in terms of the store count same time next year or I mean what I am just trying to understand is there a number like a gross and a net because you would be adding some, you would be closing some and therefore…

Siddhartha Mundra: So give us a couple of quarters but largely we should be at least at the same number or higher but there give us a couple of quarters as we redo our network.

Jaspreet Singh Arora: But am I correct in understanding that there would be some additions but because of some closures their numbers largely expected to remain the same?

Siddhartha Mundra: Yes. So we have already announced one opening in Hoskote in Bangalore. So there has been one opening also. So as of now there is no active plan of opening of store. With our existing store network itself as Mr. Ravikumar is mentioning there are huge opportunities. So let us encash these opportunities.

Moderator: Thank you. The next question is from the line of Karan Sharma from Kredent Capital. Please go ahead.

Karan Sharma: Sir, my questions would be basic, just started following the company. I wanted to know of the retail segment which is 54% of our sales, what are the top 3 products that we sell in that segment?

Siddhartha Mundra: So we have largely categorized our retail sale in 6 key categories, which is construction materials, plumbing and sanitaryware, flooring, electrical, interior exterior products and irrigation products. Construction material is the largest category there around 60% of the sales come from construction materials. This includes the entire range of base construction materials which includes things like TMT, cement, sand, hollow blocks, pipes, wires, etcetera, that is the largest segment for us. The second largest segment will be the interior exterior products which we classify largely as finishing products which includes things like roofing sheets, ACP sheets, plywood, paints, kitchen sinks etcetera. So these are the two largest categories that we have for ourselves.

Karan Sharma: And sir, how much of this would be own products and how much of it would be sales of third party products?

Siddhartha Mundra: In the last quarter around 44% of our sales in the retail segment have been from our own products.

Karan Sharma: So do you get these manufactured by some SME or do we do the manufacturing on their own?

Siddhartha Mundra: These are largely from our own units. There is a small element of third party manufacturing also but it is quite small.

Karan Sharma: Okay sir, thank you. And my next question is that, I was seeing the store count feed and we have added 5 stores last year, but our total area has gone up from 5 lakh square feet to 5,67,000 odd. So have the store size increased in the last year like the average store size of the new stores?

Siddhartha Mundra: Yes. That is right. Progressively if you look at our average store size additions have been going up, not only last year but if you look trends from the last 4 years-5 years that has been happening and that is the correct understanding.

Karan Sharma: Sir, any reason for this?

Siddhartha Mundra: See, the reason is that as we are looking to sell more products, we need to ensure that we are giving adequate space to display these products. What was largely one or the two product category, retail operation, is possibly now catering to opportunities which are 10 times that size 4 years back. So we need to ensure that there is some addition in retail space.

Karan Sharma: Okay sir. And sir in the last call you had mentioned that you are tying up with some NBFC for supply chain financing and financing for your customers. So any update on that?

Siddhartha Mundra: Yes. We have tied up with the two leading NBFCs and we have started work with them in terms of ensuring that both our suppliers as well as customers start availing the benefits that accrue because they are dealing with the Shankara Group. So that process has started and we are looking it very keenly ensuring that there is a large momentum on that front.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants I now hand the conference over to Mr. Siddhartha Mundra for closing comments. Thank you and 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 relation advisors, Strategic Growth Advisors. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Shankara Building Products Limited that concludes today’s conference. Thank you all for joining us and you may now disconnect your lines.