"Shankara Building Products Limited Q4 FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Shankara Building Products Limited Q4 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantee 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, Shankara Building Products Limited. Thank you and over to you, sir.

Siddhartha Mundra: Good afternoon, everyone and a warm welcome to our Q4 and FY18 Earnings Conference Call. Today I am joined by Mr. Sukumar Srinivas – Promoter and MD and Mr. Alex Varghese - Chief Financial Officer and Strategy Growth Advisors, our investor relation advisors. We have uploaded our updated results presentation on the exchanges last evening and I hope everyone had an opportunity to go through the same.

Before getting into the quarterly and yearly performance, let me take a few minutes to give a brief overview of our performance in FY18:

We have added 23 new stores in FY18 spread over 1.25 lakhs square feet. These stores were added across our existing geography in south India. We concluded two takeovers in Q3 and Q4 respectively of Vaigai Sanitation and JP Sanitation. Our takeover of stores of Vaigai and JP last year has performed to our satisfaction. We are working on tighter and efficient controls, systems and processes as well as cost levers to further improve the profitability of these stores. We have also upgraded 40 stores and these now offer the expanded range of products currently available with Shankara.

In continuation to our strategy we planned to add to 15 to 20 stores in south India, every year apart from any inorganic opportunities coming our way. In FY18, we continued adding depth across our existing product categories to provide a variety of products under one roof. We now have associations with over 125 brands across various product categories. In the second half of FY18 we also started working on an e-commerce website to build on our omnichannel capabilities. We have launched our website under the domain name www.buildpro.store. It caters to a wide product portfolio ranging from plumbing, bath and faucets, construction materials, electrical and appliances, kitchen and walls and flooring. The online presence 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.

GST was introduced in July 2017, which caused some instability in the market. In November, the GST rates were revised again and since then we have witnessed a stable GST regime which has resulted in an improvement in demand and also subsequent conversion in sales. On the industry front we have seen a good pick-up in demand and we have benefited from that in the quarter 4. Further going forward, we see multiple levers of growth namely store expansion, category expansion, increase in share of wallet of existing customers as well as acquiring new customers. In addition, we continue to be positive on pursuing inorganic growth opportunities,

Now focusing on the quarterly performance of the company. Q4 was a good quarter for us, the total revenue for Q4 stood at 761 crores as against 600 crores for the corresponding quarter last year representing a growth of 27%. The sequential growth has also been robust at 22%. As highlighted in the last quarter revenues are not a like-to-like comparable post to 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 our revenues grew by 43%.

EBITDA for the quarter stood at 54 crores from 45 crores on year-on-year basis. EBITDA margin stood at 7.1% in Q4. PAT stood at around 22 crores for the quarter up 16% from the same quarter last year. In terms of the overall performance of the company for FY18 the total revenue stood at 2,549 crores up by 10.3% adjusted for excise the revenue grew by 21%. EBITDA stood at around 176 crores with EBITDA margin at 6.9%. The PAT stood at around 74 crores up by 26%.

Now, let us focus on the segmental performance of the company. Retail sales saw a robust growth for Q4 FY18 of 43% and stood at 378 crores as compared to 265 crores for the same quarter last year. We have seen a positive operating environment for the business in the fourth quarter. The growth was primarily driven by increased penetration and improvement in the sentiments for the business.

All our key states have performed well. Q4 FY18 EBITDA grew to 41 crores up by 51% from 27 crores year-on-year. Now, if we see FY18 retail performance the overall sales stood at around 1,220 crores versus 980 crores for FY17. EBITDA grew to 130 crores up by 35% from 96 crores in the previous year. The contribution to the total revenue stood at 48% adjusted for excise same-store sales growth stood at 41% in the fourth quarter and 27% for the full year. We have historically been growing same-store sales around 20% and we are targeting that going forward. Average rental cost for leased outlets stood at around Rs. 17 per square feet per month as on date we have 129 stores. The total area of the stores is at around 5.05 lakh square feet with an average store size of around 3,900 square feet. The total rental contributes to 0.67% of the total retail revenue. The sales split is broadly 40% coming from tier 1 cities and the balance coming from tier 2 and tier 3 cities. The average ticket size per transaction was around Rs. 25,500.

For the quarter we have added 5 stores. Of the total sales construction material constitute around 65%, interior exterior products around 18%, our new product categories around 12% and the agricultural products around 5%. We are working on deepening our product portfolio and building connects with a number of principles.

Enterprise sales, this segment contributed 236 crores for the quarter 4 up by 25% as compared to the same quarter last year. Its overall contribution stood at around 31% for the consolidated revenues of the company. Our focus here is to increase our share in the bespoke process as it gives us better margins and inroads into customers. This share now stands at around 30% of the enterprise sales. We continue to focus on cut to length, made to order requirements. Top 10 customers continue to contribute around 10% of our revenues. Enterprise sales for the full year stood at around 805 crores.

Channel sales during Q4 FY18 stood at 147 crores up by around 1% compared to Q4 FY17. This segment now contributes 19% of the consolidated revenue of the company. The number of dealers stood at around 1,800 as on 31st March, 2018. For the full year the channel sales stood at 524 crores down by 8% compared to the last year.

Few highlights of our processing and in-house supply chain. The company has 12 processing facilities with capacity utilization of around 90%. Sales from our own products contributed 58% of total sales. During the year in the second quarter we shifted one of our processing facilities from Surat in Gujarat to Chegunta in Hyderabad. This was done to ensure better utilization levels on the back of availability of raw materials which was hampering production and sales in Surat.

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 our range of offerings. With this, I open the floor for discussion.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Karthikeyan V. K from Suyash Advisors. Please go ahead.

Karthikeyan V. K: I had couple of questions. One is could you clarify how the same-store sales growth is calculated. So, the reason I ask is if I look at the breakup you have provided for same-store revenues and therefore the growth it seems that the new stores incrementally are contributing lesser. So, just to understand how exactly that calculation happens. The second question was with reference to balance sheet. So, could you take us to how to think about the working capital cycle for the business as a whole?

Siddhartha Mundra: So, in terms same-store sale growth? what we do is, we take the stores that were in existence as on 31st March, 2017. And we have then we take the revenues that these stores generated in financial year FY17 and the same-stores, the kind of revenue that they have generated in

FY18. So, 106 stores which were existent at the point of 31st March, 2017 what is the kind of revenues that they have now generated for this year and that is the way we have computed the same-store sales growth.

Karthikeyan V. K: So, when I look at your FY18 to 2017 numbers for example if you see you have said same-store revenues were Rs. 1,110 crores and the 23 stores we have added gave you something like Rs. 79 crores,

Siddhartha Mundra: Yes, that is the right answer.

Karthikeyan V. K: So, it takes time for these stores to reach a certain level of meaningful revenues. Is that correct?

Siddhartha Mundra: That is the bit skewed number also because what has happened is that is the GST impact.

Karthikeyan V. K: No, I am reading out the adjusted numbers only.

Siddhartha Mundra: Yes, so actually last year's our revenues were including excise so the relevant number possibly if you look at for last year would be Rs.871 crores, which were the adjusted for excise sales numbers, so that 871 cores now stands at 1,110 crores.

Karthikeyan V. K: And the other question on balance sheet because I see that certain items are heavier than usual. So, could you take us through the working capital cycle?

Siddhartha Mundra: Yes, so we are broadly a 45 day working capital business across our various verticals. What happens is the balance sheet is also prepared as on a particular date and we have seen a very strong growth in Q4, in fact our March revenue stood at 292 crores. All-time high for us as well and because the revenues in the March month were high the effective reported numbers as on 31st March also appear high. But if we look at the relevant working capital basis this revenue or even if we say on a quarter 4 basis this will be around the 40-45 day mark.

Karthikeyan V. K: And that would be the same across retail as well as the enterprise and channel business or would it be different? The working capital cycles?

Siddhartha Mundra: No, the retail will be more a 25-30 day business and the Channel Enterprise will be more or 65 day business.

Karthikeyan V. K: 25-30 you said right?

Siddhartha Mundra: Yes.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from ICICI Prudential Life Insurance. Please go ahead.

Rahul Agarwal: I just have one question regarding this segment assets that we have given in our press release. So, when I see this unallocated part, it looks pretty high in the whole mix. What exactly is this 352 crores of unallocated assets?

Siddhartha Mundra: See, the way this happened is that we have a front-end business which is the retail Channel & Enterprise and we have a back end which is also is a processing facility. We have fixed assets which are deployed in these facilities and to that extent there will be certain of these assets which cannot be immediately allocated to the various segments. So, when we say unallocated assets it is largely because of our, processing facilities or any other common infrastructure that is getting shared across the three divisions.

Rahul Agarwal: And in this Channel & Enterprise the increase we have seen quarter-over-quarter in the assets. Is it mainly to do with the increase in the raw material and the metal prices and all or is there something else also in that?

Siddhartha Mundra: No, so actually there has been some increase especially in the enterprise side Q4 enterprise revenues have gone up. So, almost a 25% increase in Q4. So, it is not as much linked to the metal pricing changes.

Sukumar Srinivas: I think there was a very robust, sudden boom in the enquiries in particularly from an infrastructure point of view and also in a lot of building sectors which I think we saw in the last quarter which go into our enterprise segment, so I think that was primarily the reason for a pretty big upsurge in the growth in the enterprise sector.

Rahul Agarwal: Sir, just last question from my side. Is there any inventory gain this quarter?

Siddhartha Mundra: There would have been some gains,in our estimate the overall gains would have been around 5 crores for the quarter because what happens is that this is on the basis that on a month-on-month basis prices have gone up by 3% to 4% and we keep requesting our inventories more or less on a 30-day kind of a cycle. So, that is the kind of an average and all of those gains may not have accrued to us. Some of it you may have had to be passed on to our customers and we may not have caught on to the cycle on the exact dates. So, to that extent we anticipate around 5 crores of inventory gains for the quarter.

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

Pritesh Cheda: Sir, if you could give what is the retail business PAT, you have given the number till the EBITDA level and in the balance sheet if you could tell what is retail business balance sheet?

Siddhartha Mundra: In terms of profitability we have given the profitability of the retail segment. So, the retail segment delivered EBITDA margin of around 10.7% for the quarter and for the year this is at a same level. There will be certain other corporate overheads that will come below that which will be possibly around half a percent. In terms of the balance sheet the way it happens is that you can assume that around 35% of the overall capital employed is towards the retail part of the business.

Pritesh Cheda: And could you give the retail PAT if possible?

Siddhartha Mundra: We can come back to you, so basically we will have to do some allocation in terms of our interest cost, etc. will have to pro rata allocated between the two segments but retail would be a fairly profitable business.

Pritesh Cheda: And second I want to check on your expansion plan for FY19 and FY20 in terms of stores and square feet's.

Management: So, we are looking to add around 15-20 stores every year for the next two years and this is what we have done in the last year as well. In addition to this organic growth we have also done a couple of inorganic transactions last year and we have added 6 stores to that and we will be positive and continue to explore such inorganic opportunities as well. In terms of the square footage from our existing stores size possibly a 60,000 to 80,000 square feet addition per year is something we anticipate.

Pritesh Cheda: CAPEX.

Siddhartha Mundra: So, the CAPEX, the way it works is that we are looking at around broadly around 1 crore per store kind of a CAPEX. So, this will include our interiors and the structural work.

Pritesh Cheda: Includes inventory?

Siddhartha Mundra: It does not include inventory.

Pritesh Cheda: How much of inventory?

Siddhartha Mundra: This will be around Rs. 50,00,000. (50 Lacs)

Pritesh Cheda: So, basically Rs. 1.5 crores capital employed per store?

Siddhartha Mundra: Yes.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: Sir, my first question is you mentioned that the existing facility have touched about 90% utilization. So, any plans of expanding the facilities and the capital raising announcement present in conjunction to that and if not, what could be the purpose of that 300 crores capital raising?

Siddhartha Mundra: In terms of a capacity utilization we are at 90% and during the course of next year we should be hitting full capacities and we are looking to do some element of value added processing facility expansions in our network. A part of that 300 crores QIP or 250-300 crores fund raise that we are broadly looking at will be towards such kind of activities; but in terms of the overall use of proceeds of the equity raise; we are broadly looking at 3 heads. The first being takeovers or acquisitions, the second being CAPEX, a large part of it will be front end (new) stores and some of it backend and a small part also for working capital requirements.

Sukumar Srinivas: I think predominantly the proceeds with the QIP we are looking at is towards the merges and take overs. I will not say merger but looking to acquire new businesses as part of our inorganic growth. So, we are seeing, and we have done two of them as you all know, and we are seeing a lot of opportunities that are coming up where we are very bullish on that particular area.

Saumil Mehta: Sir, my second question is in terms of the classification of the retail EBITDA what you have delivered is about 41 crores versus a 28-28.5 crores last year. But in the press release when I look at the console numbers it looks, that the retail EBIT is 41 as well. So, is depreciation a part of the un-allocable expense and I am not able to reconcile the EBIT and EBITDA numbers because the presentation mentions of a different EBITDA number whereas, your press release has a different EBIT number in the retail. Both seem to be the same.

Siddhartha Mundra: So, the segment profit is actually the EBITDA because the depreciation has been taken as a part of the unallocable expenses.

Saumil Mehta: So, the entire depreciation that would be a large part of the unallocable expense or there are certain expenses beyond.

Siddhartha Mundra: Overall it is around 14 crores.

Saumil Mehta: So, that entire amount will be largely depreciation?

Siddhartha Mundra: Yes.

Saumil Mehta: And sir my last question is with respect balance sheet, in terms of we have seen that the total interest cost for the full year has come down whereas debt has gone up. So, other bank charges has come down or the interest rate has come down or both.

Siddhartha Mundra: Yes, so it depends on the utilization levels also during the year. So, the utilization levels have been little high in Q4. Interest cost is also increased a bit as compared to previous 3 quarters and that has contributed to our relative higher interest cost. So, while the overall interest has come down the debt levels has slightly gone up.

Saumil Mehta: Can you share some plans on the JP Sanitation how do you see that business and how should that business be ramped up to over the next 3 to 5 years?

Siddhartha Mundra: So the JP is largely in 2 categories primarily which is in the flooring, plumbing and sanitary ware. This is at around 4 crores-4.5 crores per month kind of a business. Last 2 months we have delivered around 10 crores from these JP stores. These are reasonably profitable, but I think there are opportunities for increasing the margin here and what we are looking to do is that since we are here in Bangalore and we have some additional product categories that we can offer here. How we can cross sell our other product categories to their customers and possibly use some of their connections and their relationships into our customer base.

Sukumar Srinivas: I think basically apart from a business we also acquire a lot of customers. These were good customers base, we also acquire sort of the supplier base. So, I think if you ask me in terms of numbers I would say we are looking at a 20% plus growth for the JP Sanitation because the brand itself will merge slowly into the Shankara Buildpro over a couple of years. So, I think the basic idea was to acquire customers, acquire certain suppliers and of course whatever is the topline we acquire that too.

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

Maulik Patel: Couple of book keeping questions. What is the revenue from the manufacturing or processing which has gone to the retail in this quarter and also for the full year?

Sukumar Srinivas: Maulik, we just coming back to you on the numbers. CFO was just quickly taking out the details, so just give us 30 seconds.

Siddhartha Mundra: Around 50% has gone to retail.

Maulik Patel: And what is the processing revenue this quarter?

Siddhartha Mundra: 426 crores.

Maulik Patel: And what could have been in the EBITDA of the all the three subsidiaries combined for the full year and this quarter as well?

Siddhartha Mundra: See, all the processing is in all the subsidiaries only.

Maulik Patel: so what is the EBITDA contribution from the subsidiary in this quarter and the full financial year?

Siddhartha Mundra: For the financial year it is around 85 crores.

Maulik Patel: And what could have been for the quarter?

Siddhartha Mundra: For the quarter it is around 27 crores.

Maulik Patel: One question, on the balance sheet side it appears that the inventory has gone little higher even after adjusting the two acquisitions we have done. Any thought to on how do we streamline our inventory going ahead?

Siddhartha Mundra: Yes, so actually yes inventory has gone up slightly as compared to last year. The acquisitions have possibly increased our inventory levels by around 25 odd crores; actually what has also happened is that if you look at Q4 or even March numbers to the last 3 years. This year we have seen a substantial growth in the March revenues. So, the relevant number for the same for March month last year was 209 crores and the year before that was 194 crores. So, as opposed to that we have seen a revenue of around 292 crores for this March that is a 40% increase month-on-month for March. So, adjusted for that if you see our inventory days have actually moved from around 36 days last year to around 43 days this year basis March sales. And some of that will be on account of the acquisition that we have done. Some of it is also because we are adding more product categories and hence inventory levels is not so efficient. Some of will be new retail outlets but yes, I think on the inventory side we have seen some element of slightly higher requirements.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: Just two questions. Firstly was on the refurbish stores, we have done large quantum of stores refurbishing for FY18. Just wanted to understand what your experience has been in terms of new product placement there? How customer entries have or even enterprise entries have improved there and if you could just give some sense on that part of it?

Siddhartha Mundra: For the upgraded stores I think we have seen a good revenue uptick as well. We see more customer enquiries and more steel conversions starting to kick in. In fact, if we do a comparative same-store sale growth for our upgraded stores for this year the number stands at around 22% as opposed to our overall system average of around 16%. So, we have been able to grow at a much higher pace from our upgraded outlets.

Harit Kapoor: The second thing was, how much would be the proportion of the JP and Vaigai revenues for the quarter in the retail revenue of 378 crores?

Siddhartha Mundra: So, around 25 crores odd would be the overall revenues,15 for Vaigai and 10 for JP broadly.

Harit Kapoor: I think, you already explained what is the kind of revenue potential for JP. Just wanted to understand the path to profitability for these 2 units how close are they to your average EBITDA margins now and if they are little behind then how much time will it take to get there?

Siddhartha Mundra: Vaigai was actually a turnaround kind of a situation it was not profitable when we took over. Currently it is tracking around the 6% kind of EBITDA level and we feel possibly it will take us around 2-3 quarters to kind of move it to a number of our overall systems.

Sukumar Srinivas: Yes. I think it should hit that (+10%) may be in about couple of quarters because we are doing a lot on it. Let us say revamping and in terms of cost rationalizations, etc. So like we have taken measures to cut down in their warehousing cost which was very high. So, I think shift to warehouses is happening currently so I think Vaigai should be definitely in lines with our EBIDTA levels by 2nd or 3rd quarter this year. As far as JP Sanitations go, I think we are at about 8% at this point of time. So, I see that probably in this quarter, or by end of this quarter which should be in line our EBITDA.

Harit Kapoor: Just a last question was on the broader demand trends clearly February, March especially March has been fantastic for you. Obviously not to this quantum but do you see the broader demand trends continuing to be strong over the next 12 months or so and if yes are there any specific categories where you are seeing in this or is this broad based in the market?

Sukumar Srinivas: Harit, if I were to stick my neck out I would say, yes. I see there is a very strong demand because April is also doing very good. Normally most businesses you see that upwards in March and so on and then April tends to sort of slack in. But this year we have seen very very good demand and good sales in April which is a slightly lower than March and I see that overall in the last 4 months., one is the GST blues are over, and we do see a lot of strong demand from the housing sector both individual as well as group housing and so on. So, I think there does seem to be an undercurrent of a demand pull. So, I would go as far as sticking my neck out and saying I do see a very strong demand this year on a broad-based manner. I cannot really pinpoint and pick category A or category B for once we look at the construction sector and the building sector if it goes up then there is sort of demand across the various categories.

Moderator: Thank you. The next question is from the line of Hiral Desai from Anived Portfolio Managers Pvt. Ltd. Please go ahead.

Hiral Desai: So, I had one question on the working capital, so obviously I understand that the inventory and debtor has gone up because of strong growth that you have seen in March. The payables also versus September are actually up about 60%. So, wanted to understand what is driving this increase in payables? Is it largely restricted to the processing side because rest of it is really internal entries, so just trying to understand that?

Siddhartha Mundra: Yes, so on the processing side also we have been able to because of some of the increases that we are seeing on the debtor side in terms of collection, we have also in some sense stretched out our creditors and squeezed them more. And I think that is what we have been able to achieve especially in the last quarter.

Hiral Desai: What is a more steady state number for payable let say going ahead?

Siddhartha Mundra: I think on an overall basis of 45 day working capital business is something that we can work with.

Hiral Desai: The other question that I had was, the breakup of profitability between the subsidiaries and the standalone business. So, I am just trying to understand, so if I look at the standalone gross margins for the entire year they are at about 7.7% while the consolidated is at about 14.7%. So, that implies almost like a 60% gross margin on consolidated minus standalone. So, what is the P&L of the processing business? So, what would be the steady state gross margin on the processing side?

Siddhartha Mundra: So, actually when you have computed the gross margins from the headline P&L number that may not give you a very accurate figure. Because what happens is that one line-item called other expenses in which there are a lot of costs getting clubbed. So, as a thumb rule possibly what you can assume is that we have an overall operating cost structure for around 2%. So, our EBITDA margins plus 2% would be broad guidance for the gross margin of the business. And in terms of margins that we have done on a processing side, so last year we have done around 5.7% of EBITDA margins in the processing side of the business.

Hiral Desai: The other is would it be possible to share the volume of steel that you sold in full year FY18 and FY17?

Siddhartha Mundra: Around 4.5 lakhs tonnes is what we have sold last year.

Hiral Desai: And what would be the number in FY17?

Siddhartha Mundra: So, last year we have done around 4,00,000.

Hiral Desai: And lastly Siddhartha, I was looking at Slide #12 in your presentation which basically gives you the breakdown of the retail business.

Siddhartha Mundra: Yes.

Hiral Desai: So, despite even if I take an adjusted SSG of about 16%, the EBITDA per square feet has actually gone up only by about 2%. So, does that indicate that there is not really any operating leverage in the business?

Siddhartha Mundra: No, possibly the other way that you can look at it is that our average stores size is also increased. So, over a last 6 years our average store size has moved from 3,000 square feet to 4,000 square feet as a system average. In fact if we compute the average store size that we have opened for the last year that is at around 5,000 square feet.

Hiral Desai: But Siddhartha, the contra to that would also be the fact that the new product share would have gone up, right over like say FY18 over FY 17?

Siddhartha Mundra: That is a fair point. All I am trying to say is that an EBITDA per square feet see, especially in say Tier-2, Tier-3 cities where we have an opportunity for having a slightly larger store and we have opened some larger stores as well. So, it is not an immediate increase that we get for a slightly larger store. So, the productivity of the store will be a possibly a step function that will happen. It will not be a linear increase. It is an increase in a store size a bit.

Moderator: Thank you. The next question is from the line of Prachi Kodikal from Bay Capital. Please go ahead.

Prachi Kodikal: I just wanted to know for your Retail business what sort of marketing or advertising activities you do, if any and what will be the spends on that?

Siddhartha Mundra: So, we have already been doing some level of marketing activities. It is more of what we would call a direct marketing where we do customer meets, in-store meets and things around that nature. We have also been conducting some level of loyalty programs for some of our more loyal customers. But this year we are looking to kind of take it to a slightly larger scale. We are looking at more focused loyalty program which will possibly be rolling out shortly. We are also looking at some level of media about the line media so to say some element of radio, some increased presence of our brand to start off with**.**

Sukumar Srinivas: Broadly what we plan to do this year should be very focused. So, if we take a particular area it would be sort of a mix let us look at it outdoor media, there would be local media, there would be television or cable in that particular area., apart from direct marketing initiative. So, we are looking at it very focus from area-to-area and geography-to-geography even in city like say Bangalore we would be focusing on north Bangalore and then we will move on to south Bangalore. So, this is broadly the plan we have in mind, I mean ask me about the ad spend I think currently we have earmarked about 2.5 crores for the same.

Prachi Kodikal: And other question was on your finance cost, what is your average borrowing cost?

Siddhartha Mundra: Our average borrowing cost is around 10%-11%.

Prachi Kodikal: Is this the finance cost is reflecting in your P&L does that have some others cost elements as well?

Siddhartha Mundra: Yes, so there are around 3.5 crores of other charges that are non-interest and they are more like say collection charges, processing charges, etc.

Prachi Kodikal: And another question was earlier I just missed it. You would have said that you are looking to raise fund. What was the amount that you have mentioned?

Siddhartha Mundra: Board has given us an approval to raise up to 300 crores subject to shareholder approval. So, we are broadly looking at a 250 crores-300 crores subject to shareholders.

Moderator: Thank you. The next question is from the line of Asit Desai from Emkay Global. Please go ahead.

Asit Desai: My question is on your Slide #11, in your presentation where you have given the total area increase of around 1,20,000 square feet. So, this area increase is completely on account of new stores or the added space to the existing stores also?

Siddhartha Mundra: Largely new stores only.

Asit Desai: And what would be the split, roughly?

Siddhartha Mundra: 95% you can assume would be new stores only.

Asit Desai: So, when you take same-store growth you have taken 106 stores in the base year. Do you adjust for any area increase within those stores also while calculating same-store growth?

Siddhartha Mundra: No, we will only look at absolute revenues that the store has delivered.

Asit Desai: So, these if you expand the area in these 106 stores, the same-store growth will also go up by that much for next year?

Siddhartha Mundra: Yes, if they give us additional revenues.

Moderator: Thank you. The next question is from the line of Charandeep Singh from Girik Capital. Please go ahead.

Charandeep Singh: Could you please tell me what is the size of the total cash credit limit of the company as of today?

Siddhartha Mundra: Total limits are 590 crores.

Charandeep Singh: What is the rate on this, interest rate?

Siddhartha Mundra: This would be around 10% to 11%.

Siddhartha Mundra: So, these are from various banks. We have six banks.

Charandeep Singh: So it varies between 10% and 11%. And tell me what is your average utilizations through the year? Maximum, minimum.

Siddhartha Mundra: Of around 300 crores for the year.

Charandeep Singh: 300 crores average?

Siddhartha Mundra: Yes.

Charandeep Singh: And any other facilities non-fund based like guarantee facilities or anything that you all have used?

Siddhartha Mundra: There are no guarantees that we have.

Moderator: Thank you. The next question is from the line of Saumil Mehta from BNP Paribas. Please go ahead.

Saumil Mehta: I wanted to ask the March and April month which had seen very strong traction. Is it largely led by across the board products or more by steel and some of the ancillary products because what I want to understand is given Karnataka state election can that lead to this sort of unusual uptick in demand?

Sukumar Srinivas: No, I do not think the election really have any impact on consumption.

Saumil Mehta: So, in terms of our contractors and typically the social work gets to be on an uptrend?

Siddhartha Mundra: We are facing the other challenge that labor is not available.

Sukumar Srinivas: Yes, I think this month the challenge is just the opposite where a loss of leave and absenteeism because of going to their home for voting and so on. So, I do not think election really have any great impacts on consumption in these kind of products.

Saumil Mehta: And second question is with respect to the refurbish stores now, are we done with all the 80 stores which were the old ones and what has been the average increase in square feet because of that because earlier we had plans to increase some sort of square feet in the old stores.

Siddhartha Mundra: So, largely we have done around 40-odd upgrades and we possibly will have around 30-40 possibly more to do this year. There may not be a lot of square footage increase that may have happened because of these upgrades.

Saumil Mehta: Because we earlier had plans to increase it by a bit for that we can have more and more products and we are in an upgrading on our product portfolio. Or we are just utilizing the space much more efficiently than before, so I have to accommodate all the new products?

Siddhartha Mundra: Yes, that is right.

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

Deepak Poddar: Sir, my question pertains to your retail segment. Now, currently given the base our revenue is growing at a much larger pace at may be 35%-36% on annual basis and given you also mention that we are seeing very strong demand. But as we kind of reach a scale may be 2 to 3 years given the kind of demand is so strong. So, what sort of sustainable growth do you see basically our kind of business or our kind of model should be able to see on a sustainable basis?

Siddhartha Mundra: Yes, I think one is the intrinsic growth that we have. We are seeing a lot of possible market shifts also happening from the unorganized or the standalone segment to organized players. So, in terms of an opportunity size there is a very large opportunity in the overall building material segment possibly in 2-3 years' time will be 7,00,000 crores - 8,00,000 crores in size and we are looking for a small percentage of that overall.

Deepak Poddar: So, sir according to you this 30%-35% kind of a growth is a sustainable growth?

Siddhartha Mundra: No. I am not saying that. All I am saying is that in a 2-3 years' time frame I do not think that our run way is getting shortened in any which way.

Moderator: Thank you. The next question is from the line of Huzefa Cutlerywala from JAF Management. Please go ahead.

Huzefa Cutlerywala: I just wanted to know, would it be possible for us to break up the retail revenue further into plumbing, construction materials, bath and faucets, kitchen and all. If it is possible which is missed in your investor presentation.

Siddhartha Mundra: Yes, so I have actually mentioned those on the call. So, the overall construction material is at around 65%, interior-exterior is 18% our new category is around 12% and irrigation related agriculture products at around 5%.

Moderator: Thank you. The next question is from the line of Sanjay Ladha from Perfect Research. Please go ahead.

Sanjay Ladha: Sir, my question will be what is the credit policy you have for your Channel, Enterprise and retail sales? And how do you judge the credit worthiness of a customer and do you deal with credit sales and bad debts if any occurs?

Siddhartha Mundra: So, to answer the first part, so the credit decisions we do not offer credit to new customers. We possibly look at some level of transactions with them initially we start out with cash based transactions. Once we have gained enough comfort possibly over a 6 month period or so we continue with cash and once we have done that we start with small doses of credit which would be largely linked to the kind of business that they have done in the last 6 month period with us. The credit decisions are not taken at a store level but at a cluster level where one more senior person also gets involved. In terms of or possibly if we get a strong reference from some of our existing customers we may possibly look at those angles as well.

Sanjay Ladha: Is there any credit loss or bad debts occur in the past?

Siddhartha Mundra: So, there have been instances while they have been very less and as a percentage of our overall sizes of business is very less. But there have been instances of bad debts. We have a bad debt provision policy as well laid out and the board has approved.

Sukumar Srinivas: It is as per the IndAS norms. So, we do have a provisioning policy in the balance sheet itself.

Sanjay Ladha: So sir, my second question will be on what competition are we facing from online players who are our major competitor online and offline and how cheaper, expensive are we from competition in terms of pricing?

Siddhartha Mundra: So, online we are not, I would say facing any competition in that sense. It is not something that is concerning us right now.

Sanjay Ladha: And is there any competitors in offline?

Siddhartha Mundra: There are standalone players that will exist.

Sukumar Srinivas: Offline, I would say it is an extremely competitive market. You have enough and more in the mom ‘n’ pop and standalone building material stores are plenty. So, I think like any business there is an adequate amount of competition but in the organized space there is nothing as of now or nothing significant as of now. And as far as the online business, I would say that it is not yet gained traction as far as the building material products go. And we also have an online portal, so where we are where we can offer the omnichannel kind of presence.

Sanjay Ladha: So, my question is, for the customers, is Shankara apart from having a complete range of product is our product cheaper versus competition of single brand stores?

Siddhartha Mundra: We would say that we would be very competitive vis-à-vis our standalone stores because we will be able to possibly procure at least at the same price if not better than the standalone stores.

Sanjay Ladha: So, at the same price the branded stores and yours is the same price?

Siddhartha Mundra: Possibly we will be better off.

Sanjay Ladha: Sir, can you quantify the numbers, in terms of percentage or in terms of anything?

Siddhartha Mundra: We will get back to you on that.

Sanjay Ladha: So, sir my last question will be, in how many categories are we present in home improvement and decoration space and what are the new segment that you are looking to enter in the near future?

Siddhartha Mundra: So, if you look at our overall at a business level on the retail side we are in around 75 product categories. I would assume in the newer product categories possibly around 15-odd would in the let say the newer product categories and we have identified the broad product categories and we have building our presence there. I do not think there are any major products segments that we are currently not in. What we may look to build over a period of time is debt in each of these product categories and building the next level of the smaller product, smaller accessories. So, while the larger product portfolio is there, and the broad product category representation is there we will need to work on the product depths.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: I just had one more. So, just wanted to ask you sir, if you look at the EBITDA margins of both the segments and you adjust the GST revenue for it, the EBITDA margins have come off on the Retail and the Channel and Enterprise side. Now, they are fairly consistent in the last 3 quarters. So, that is good but if you could just remind me why the margins are a little higher in the base quarter. Is it a product mix thing or something else if could kind of highlight on both the segments?

Siddhartha Mundra: So, I think the Q3 and Q4 have had some impact of the takeovers as well. We had some transaction cost also linked with these takeovers and in addition what we have seen is that we have seen very strong growth. I think possibly because of this some of this growth may also have come from our base construction materials which may be slightly lower margin as compared to the overall business. So, that could have been possibly one more reason for a slight decline.

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

Siddhartha Mundra: Thank you everyone for joining us. I hope we were able to answer all your queries. In case you require any further details, you may contact us or our investor relations advisors, Strategic Growth Advisors. Thank you.

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