

Shankara Building Products

Rs 713
Present across buildings product lifecycle

Sensex: 72,240

Nifty: 21,731

FINANCIALS SUMMARY

	SALES	OPM (%)	OP	OTHER INCOME	PBIT	INTEREST	PBDT	DEPRECIATION	PBT	TAX	PAT	EPS (Rs)*
2103 (12)	2038.37	3.50	70.98	6.22	77.2	33.08	44.12	23.98	20.14	6.29	13.85	6.1
2203 (12)	2418.4	3.50	84.57	3.1	87.67	24.37	63.3	17.24	46.06	11.74	34.32	15
2303(12)	4029.72	2.90	117.26	7.7	124.96	24.25	100.71	16.34	84.37	21.32	63.05	27.6
2403 (12P)	5018.17	3.00	148.25	2.14	150.39	30.14	120.25	15.91	104.34	26.89	77.45	33.9
2503 (12P)	5944.4	3.00	178	2.4	180.4	35.6	144.8	16.4	128.4	33.4	95	41.6

* EPS is on equity of Rs 22.85 crore, Face value of Rs 10 Each. #EPS is not annualised due to seasonality of business. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. (P): Projections. Figures in Rs crore.

Source: Capitaline Databases

Shankara Building Products (Shankara) is one of the leading organized retailers of home improvement and building products in India based on number of stores, operating under the trade name Shankara BuildPro. The company operates 125 Shankara BuildPro stores spread across 10 states and 1 union territory in India.

It caters to a large customer base across various end-user segments in urban and semi-urban markets through its multi-channel sales approach, processing facilities, supply chain and logistics capabilities.

Company's operations are strategically suited to benefit from growth in housing solution demand which is continuously growing owing to increasing customer involvement in home solution decisions. The company operates in retail segment, enterprise segment and through channel sales.

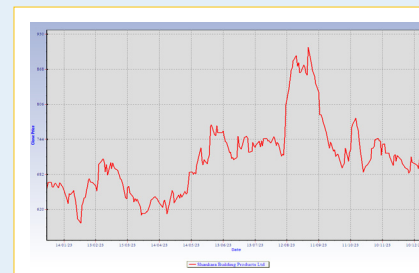
Further, the company operates in-house pipe and colour-coated roofing sheet processing facilities through wholly owned subsidiaries: Taurus Value Steel & Pipes Pvt Ltd (Taurus), Vishal Precision Steel Tubes & Strips Pvt Ltd (Vishal), and Centurywells Roofing India Pvt Ltd (Centurywells). In all Shankara through its wholly owned subsidiaries has 13 processing units spread across 3.6 lakh sq ft. In FY2020, the company sold one of its processing units in Hyderabad reducing the count of processing units to 13.

On December 18, 2023, the board of directors of the company approved the demerger of its trading business into a new company, Shankara BuildPro. This demerger will result in two separate entities focused on building materials marketplace and manufacturing, respectively.

Established market position

The company's longstanding presence of over three decades in the building materials industry, its wide network of dealers(2000+), over 91 retail outlets and the in-house pipe and color-coated roofing sheet processing capacity, which will continue to support the business of the company.

Further with the launch of iBuildPro app and website, Shankara has evolved from a traditional marketplace to online marketplace. Ecommerce has enabled an online discovery platform for all building materials, leading to an increased footfall at its fulfillment centers.



STOCK DATA

BSE Code	:	540425
BSE Group	:	B
NSE Code	:	SHANKARA
Bloomberg	:	SHANKARA IN
Reuters	:	SHAB BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 929 / 574
Sector	:	Trading

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 11.25
Institutions	: 5.67
Govt Holding	: 0.00
Corporate Holding	: 9.25
Promoters	: 49.18
Public & Others	: 24.65
Totals	: 100

* as on 09/11/2023. Source: Capitaline Databases

Shankara has 125 Shankara Buildpro stores spread across 10 states and 1 union territory and total area under retail presence now stands at 4.6 lakh sq ft. The company also has 21 warehouses spread across 55,000 sq ft. The company has plans to add 2 or 3 stores over next one year. The company also operates a fleet of 75+ own trucks.

Spectrum of offerings

It provides a comprehensive range of products under one roof such as structural steel, cement, TMT bars, hollow blocks, pipes and tubes, roofing solutions, welding accessories, primers, solar heaters, plumbing, tiles, sanitary ware, water tanks, plywood, kitchen sinks, lighting and other allied products. It has an advantage over local hardware stores in terms of wider product offerings, higher SKUs, customized products and hence Shankara Buildpro is in a much better place as compared to local players/stores.

The company has healthy relationships with suppliers such as JSW Steel, Steel Authority of India, AM/NS India, Uttam Value Steel, APL Apollo Tubes, Jaquar & Co, Kohler India Corporation Pvt Ltd, ROCA Bathroom Products Pvt Ltd, Somani Ceramics, Kajaria Ceramics and Cera Sanitaryware which enables the company to offer a diverse range of building materials and provides a competitive edge.

It has partnered with over 125 brands across varied product categories and in addition to third party brands, it also sells its own private label brands such as Buildpro, Taurus, Ganga, Century, Ultrarroof, Loha, Prince, Samrat and Shankara Solar. The company added luxury brands in its product portfolio and also launched an in-house brand Fotia Ceramica. Currently, company has more than 75+ product category covering 1,00,000+ SKUs.

Retail segment growth to increase on strong same store growth

Revenues from retail segment are gradually increasing. Proportion of retail sales to the total sales has been intentionally increased by the company over enterprise and channel sales owing to higher profitability of the retail segment. In the retail segment, the company has a direct exposure with the customer be it a contractor or a fabricator or an individual who has the requirement of entire set of home interior products. By capturing or enhancing this segment, company is benefitting from offering him the entire range of home interior products with improved margins.

Retail segment contribution stood at 54% of the total revenue in H1FY2024 and growth of retail segment was 27% YoY in H1FY2024 due to growth in same stores sales growth. Number of transactions in the retail stores increased by 13% to 2,53,143 as against 2,23,953 transaction in H1FY2023. Average ticket size grew by 12% YoY to Rs 48324 from Rs 43113 in H1FY2023.

Same store sales growth to improve

Same stores sales growth has stood strong in past few years driven by healthy demand and introduction of new products and brands. Company has introduced Paints, tiles, sanitaryware, lighting etc in the decorative product category in few of its stores while more of these products are likely to be added in the other remaining stores. Thus, store up gradation coupled with higher share of decorative products will add to the same store growth.

The company's focus is on increasing same stores sales growth than to add new stores. The company expects same store sales growth to be healthy going forward. The same has grown at 23% YoY in H1FY2024 and 59% YoY in FY2023.

Shankara Building Products operates 125 Shankara BuildPro stores spread across 10 states and 1 union territory in India.

Company's operations are strategically suited to benefit from growth in housing solution demand which is continuously growing owing to increasing customer involvement in home solution decisions

Non steel segment to grow

Currently non steel segment contributes around 10% of the revenue. The company targets the non steel segment revenue to increase to 20% by FY2025 and during the period margins to increase to 3.5-4%. Further, in the long run the company targets non steel business to contribute to around 30% of the total revenue and increase the margin to around 5%.

The company introduced its own brand Fotia Ceramica. During FY2023, which was its first year of launch, the company has seen good success in the Kerala market, with a top line of around Rs 70 crores for the year. The company has now introduced the brand across Karnataka, Tamil Nadu, Maharashtra and other Southern regions in this fiscal. The company is in the process of setting up a state-of-the-art display and experience center in Morbi, which is one of the leading tiles hub of the country. This will help the company expand its presence to other parts of the country. The company expects Fotia Ceramica to play a pivotal role in its non-steel growth journey in the coming years. Also the company plans to focus on opening flagship stores in Bangalore and Chennai to display luxury, imported and handmade tiles.

Regional diversification to aid revenue growth

The company has a very strong presence in the South, and also has a very good brand in the Southern region. Over the last year the company has been making good intro in Maharashtra and Madhya Pradesh, and is looking at expansion in the West. The company is also coming up with a display center in Morbi in Gujarat. The company expects not to face any challenges because it will start off with its old and legacy product of steel to kind of feel the market and then bring in other products, so that it will have good growth. The company had a very good substantial impact last year in Madhya Pradesh and Maharashtra, which will be the next geographical side of growth as well continuing to strengthen the cluster approach and method in the South.

Demerger to optimize capacity utilization of processing units

The company has announced a demerger of its building materials marketplace on one hand and the manufacturing business on the other. With this demerger, the company's building materials marketplace, which houses its retail, trading and distribution businesses, will be moved to a new entity, Shankara BuildPro. In the company's history, the building materials marketplace has consistently been a driver of value.

The existing entity, Shankara Building Products, is going to house its manufacturing businesses. The manufacturing entity has an extensive network of processing facilities across South India, which is currently underutilized. The demerger presents a unique opportunity to optimize this entity by establishing a focused team dedicated to maximizing the capacity utilization of these assets. Operating independently, this team will chart a strategic growth path, optimizing supply chain management through improved vendor relations, enhanced logistics and faster manufacturing turnarounds. This targeted approach is expected to drive operational efficiency and enhance market competitiveness for the manufacturing entity.

The building materials marketplace segment reported revenues of Rs 3,263 crore in FY 2023, while the traditional manufacturing vertical posted revenue of Rs 767 crore.

It has partnered with over 125 brands across varied product categories and in addition to third party brands, it also sells its own private label brands

Retail segment contribution stood at 54% of the total revenue in H1FY2024 and growth of retail segment was 27% YoY in H1FY2024

In consideration of the demerger, all the shareholders of Shankara Building products will be getting one share each for the new entity, Shankara BuildPro, and both these entities will be separately listed in the exchanges, thus unlocking value of its high-return marketplace business retail business. Demerger process will take 10-14 months to get all the required regulatory and statutory approvals to get completed.

Investment by APL Apollo

India's leading branded structural steel tube manufacturer, announced a minority equity investment by APL Apollo Mart Limited (Apollo Mart), a wholly owned subsidiary of APL Apollo in Shankara Building Products through a combination of purchase of secondary promoter shares and proposed preferential allotment of convertible warrants. Apollo Mart purchased 10,00,000 equity shares from one of the promoter group members in March 2022 for Rs 101.8 crore and also proposed subscription of 14,00,000 warrants at Rs 750 per warrant fully convertible into equity shares by way of preferential allotment, subject to receipt of requisite approvals by Shankara. As per the company, Apollo Mart has gone ahead and converted warrants in Q2FY2024 and the company has received Rs 78.75 crore in full towards subscription. Post the acquisition of shares through conversion of warrants, the share holding of Apollo Mart in Shankara Building products stands at around 5-6% as Apollo Mart has sold the equity shares acquired initially in the open market. APL Apollo and Shankara Building Products have partnership of over 15 years in the building materials industry and with the acquisition of equity the partnership is further strengthened.

Strong growth in revenues in H1FY2024

For the three months ended September 30,2023, consolidated sales were up by 26% YoY to Rs 1142.5 crore. Operating profit margin (OPM) increased from 2.9% to 3.1%, leading to a 34.1% increase in operating profit to Rs 35.67 crore. The PBIDT was up by 22.8% to Rs 36.25 crore with OI lower by 80.3% to Rs 0.58 crore. PBT before exceptional items stood at Rs 24.47 crore when compared to Rs 19.65 crore. The company reported Net profit after minority interest of Rs 18.21 crore compared to profit of Rs 15.52 crore of the corresponding quarter of previous year.

For the six months ended September 30,2023, consolidated sales were up by 30.8% YoY Rs 2274.6 crore. Operating profit margin (OPM) inclined from 3.03% to 3.06%, leading to a 32.2% increase in operating profit to Rs 69.57 crore. The PBIDT was up by 26.3% to Rs 70.71 crore with OI lower by 68.5% to Rs 1.04 crore. PBT before exceptional items stood at Rs 47.64 crore when compared to Rs 35.68 crore. The company reported Net profit after minority interest of Rs 35.49 crore compared to Rs 27.54 crore of the corresponding period of previous year.

For the fiscal ended March 2023, the sales were up by 66.6% to Rs 4029.72 crore. With OPM contracting by 59 bps to 2.9%, the OP was higher by 38.7% to Rs 117.26 crore. The PBIDT was up 42.5% to Rs 124.96 crore. PBT before exceptional items stood higher by 83.2% to Rs 84.37 crore. Net profit was higher by 83.7% to Rs 63.05 crore compared to Rs 34.32 crore in the previous year.

Outlook:

Given the well established presence in South, the company continues with the strategy towards the cluster-based growth approach and continuously is

Currently non steel segment contributes around 10% of the revenue. The company targets the non steel segment revenue to increase to 20% by FY2025

Over the last year the company has been making good intro in Maharashtra and Madhya Pradesh, and is looking at expansion in the West

strengthening its penetration in the southern region while gradually expanding to other states such as Maharashtra and Madhya Pradesh. The company has 2 new fulfillment centers under pipeline coming in Maharashtra and Madhya Pradesh.

The company is targeting 20% of the total revenues from non steel segment which has an EBITDA of 5.0% by FY2025. Further, the company targets to increase the same to 25% in next 4-5 years.

The company aspires to grow its revenue at 20% to 30% CAGR over the next 4 to 5 years.

Even with the existing infrastructure the company expects to double its revenue in next 4-5 years.

The company's EBITDA margin is expected to remain at similar levels however, it aspires to increase it by 50 to 100 bps and for the same it is focusing more on non steel and retail business.

Valuation

We expect the company to register consolidated EPS of Rs 33.9 for FY2024 and Rs 41.6 for FY2025. The scrip is trading around Rs 713, which discounts the FY2025 EPS by around 17 times.

The company has announced a demerger of its building materials marketplace on one hand and the manufacturing business on the other

SHANKARA BUILDING PRODUCTS : CONSOLIDATED RESULTS

	2309 (3)	2209 (3)	VAR.(%)	2309 (6)	2209 (6)	VAR.(%)	2303 (12)	2203 (12)	VAR %
Sales	1142.5	906.72	26.0%	2274.6	1739.26	30.8%	4029.72	2418.4	66.6%
OPM (%)	3.1%	2.9%	19 bps	3.06%	3.03%	3 bps	2.91%	3.50%	-59 bps
OP	35.67	26.59	34.1%	69.67	52.69	32.2%	117.26	84.57	38.7%
Other inc.	0.58	2.94	-80.3%	1.04	3.30	-68.5%	7.70	3.10	148.4%
PBIDT	36.25	29.53	22.8%	70.71	55.99	26.3%	124.96	87.67	42.5%
Interest	7.76	5.95	30.4%	15.16	12.27	23.6%	24.25	24.37	-0.5%
PBBDT	28.49	23.58	20.8%	55.55	43.72	27.1%	100.71	63.30	59.1%
Dep.	4.02	3.93	2.3%	7.91	8.04	-1.6%	16.34	17.24	-5.2%
PBT	24.47	19.65	24.5%	47.64	35.68	34%	84.37	46.06	83.2%
Total Tax	6.26	4.13	51.6%	12.15	8.14	49%	21.32	11.74	81.6%
PAT	18.21	15.52	17.3%	35.49	27.54	29%	63.05	34.32	83.7%
EPS (Rs)*	#	#		#	#		27.59	15.0	

* EPS is on equity of Rs 22.85 crore, Face value of Rs 10 Each. # EPS is not annualised due to seasonality of business. EO: Extraordinary items. EPS is calculated after excluding EO and relevant tax. BPS- Basis points. LP: Loss to profit. PL: Profit to Loss. Figures in Rs crore.

Source: Capitaline Corporate Database