Shankara®
Building Products Ltd.

Date: 28th November, 2018

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

Scrip Code: - 540425

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

Scrip Symbol- SHANKARA

Dear Sir/Madam,

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

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors held on 12th November, 2018.

Kindly take the same on records.

Thanking You

Yours faithfully
For Shankara Building Products Limited

Ereena Vikram

SHANKARA BUILDING PRODUCTS LTD. BANGALORE

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"Shankara Buildings Products Limited Q2& H1FY19 Earnings Conference Call"

November 12, 2018

MANAGEMENT: MR. SIDDHARTHA MUNDRA – CEO, SHANKARA BUILDINGS PRODUCTS
MR. RAVI KUMAR – EXECUTIVE DIRECTOR
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER-CFO

Moderator: Good afternoon, Ladies and gentlemen welcome to the Q2&H1 FY19 Earnings Conference Call of Shankara Buildings Products Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Buildings Products Limited. Thank you and over to you, sir.

Siddhartha Mundra: Good afternoon everyone and a warm welcome to our Q2& H1 FY19 Earnings Conference Call. Today I am joined by Mr. Ravi Kumar – Executive Director, Alex Varghese – Chief Financial Officer and Strategic Growth Advisor – our Investor Relation Advisors. We have uploaded our updated results presentation on the exchanges and I hope everybody had an opportunity to go through the same. Before getting into quarterly performance let me take a few minutes in briefing everyone on the overview of the industry and our performance in the previous quarters.

Our consolidated revenues grew by 23% for the first half and the retail segment grew by 37%. The retail segments now contribute to 52% of our overall revenues. We have added five new stores through our network taking the total number of stores to 134 in the first half FY19. Stores which have been upgraded have a faster trajectory as compared to our older stores helping the retail revenue to grow at a faster pace. Our retail margin stood at 9.7% for Q2 FY19 and 10% for the first half of FY19. We are increasing our customer connect program by participating in number of industry exhibition, events, fares and through organizing customer needs in collaboration with brands. We were the cosponsor of the CIA 2018 event at Chennai which was participated over 4000 people including industry experts, architects, plumber's and contractor's etc. Customer meet also happen in our retail outlet on a regular basis to educate customer on visibility of the products and the product change that we carry. We are continuing to build scale for the new product categories and have received recognition by various brands. We have won the "Best Achievers Award" from Kohler products for becoming largest retailer for their products. We are recognized by Varmora as a largest dealer in South India amongst others.

In terms of the way forward we feel we have built a strong foundation on the base of a fabrication products. This product category is well understood by us and gets us to breakeven and profitability in a predicable manner. We are looking to build the new categories on top of this base. We can afford to be more competitive on the new category on the strength of our base category. This could entail a margin trade off, in the interim as we plan to take the higher revenue route as compared to margins. In the long run higher scale and new products helps us service customer better, improve efficiencies and inventory and build better relationships and bargaining power with suppliers. Until now we have largely relied on trust and convenience as key USP for our sales. We believe that in addition to being competitive we need to offer best price as one of our key USP to break existing sourcing channels.

This gives us a significance chance to enroll new customers and generate new product sales with a large part of our network now upgrading. We want to ensure that our sales staff have that added ammunition to the build the product sales. Our approach historically has been to start a store, generate profits and reinvest in the business. Currently a number of stores have been put on the upgrade path. There has been a significant addition of product categories in last two years. Upgrade cost us money in terms of doing up the stores. We also invest in the inventory of the new categories. Acquisitions of new product categories itself would have increased our overall inventory by over 30 crores over the last 12 months.

We are now more focused on consolidation of stores and increasing the revenues at store level. We want to build a strong unit level economics with improving shares of new product categories which will help us increase our overall margins. Despite this approach we will not compromise on a substantial growth from the retail segment. On the balance sheet we are looking to reduce our overall receivables. Large receivables lead to the sales team spending a lot of time on collection of sales which could have better utilized for generating new sales. This could entail moving to cash sales which could impact our margins. However, this would strengthen our balance sheet and cash flow. We would work towards ensuring that our overall ROCE metric continue to stay healthy.

Our overall debtors and the quality of debtors has improved over the last two quarters. Debtors days fell to 47 days from 61 days, inventory days have also reduced from 60 days to 54 days. We are also working on overall inventory levels, we are exploring opportunities for C&F style arrangements wherein inventory does not sit in our books.

We have started moving some of our purchases from principals to distributors to help us reduce inventory levels. Our credit rating was upgraded by CRISIL to A from A minus in September 2018. In our last board meeting in August we have also added an independent member on our board Mr. Jayaraman with significance experience in the finance domain. He also chairs our audit and risk management committee now.

In terms of specifics for the quarter. During this quarter there was some impact on our revenues due to floods and heavy rains in Kerala and South Karnataka. Kerala revenues were down 40% QoQ and 15% on a YoY basis. Also some inventory loss was absorbed to the extent of 1.8 crores due to the floods and the rain affected area. The overall loss was 3.14 crores of which Rs. 1.31 crores was realized through an auction process. The balance amount of Rs. 1.83 crores is a claim pending with the insurance company and until it is approved we have accounted it as a loss. There is an element of other income which is in our Q2 results. This is on account of a gain of Rs. 1.11 crores on account of sale of one of our properties in Bangalore which we were not utilizing effectively.

Our processing margin stood at 4.1% down from 5.6% in the same quarter last year which also impacted the overall consolidated gross margin of the company. The margin in a processing segment has reduced in the last quarter due to enhanced competive intensity. We anticipate this weakness to continue for a couple of quarters. We are adding balancing equipment in our facilities which should help us offset some of these challenges.

Moving to the channel and enterprise segment margins. Our reliance on own product in Q2 for the channel and enterprise segments stood at 82% as compared to 70% in Q1. The decline in margins in the processing also directly impacted the margins in the channel and enterprise segment. Further the inventory loss has been accounted in this segment. The overall revenue in the segment have largely stayed the same over the last year. Specifically, if you look at the channel business it has shrunk from around 150 crores in Q2 FY17 to 120 crores in Q2 18 to around 100 crores now. However, cost elements like people, infrastructure etc have largely continued to stay the same. This also impacts margins until we realign these resources to the new segments.

PAT for the quarter was down due to higher interest and the goodwill amortization expenses. This goodwill comes on account of the two brands that we have acquired, - Vaigai and JP. The brand values will be amortized over the next three years on a quarterly basis and this is the timeframe over which we will phasing out these old brands.

Focusing on the quarterly performance of the company the total revenue for Q2 stood at 644 crores as against 572 crores for the corresponding quarter last year a growth of 12.6%. Revenues for first half stood at 1,429 crores as against 1,163 crores a growth of 23% on a YoY basis.

EBITDA for the quarter stood at 31.1 crores and 80 crores for the first half as compared to 80.3 crores for the same half last year. EBITDA margin stood at 5.6% in the first half of FY19 as compared to 6.9% in the same half last year. PAT stood at 9.1 crore for the quarter and Rs. 28.6 crores for the first half. PAT margin was 2% for the first half.

On the segmental performance retail sales saw a good growth of 37% in the first half taking the revenues to 745 crores versus 543 crores for the same half last year. Most of our key states have done well except Kerala and South Karnataka as mentioned earlier. First half retail EBITDA grew to 74.7 crores up by 27.2%, retail EBITDA margin stood at around 10% and contribution of retail revenues now stand at 52%.

The average rental cost for leased outlets stood at Rs. 18.4 per square feet per month. As on date we have 134 stores of which 116 stores on a lease basis. The total area of the store stands at around 5.65 lakh square feet with the average store size of 4,200 square feet. The total rental contributes to around 0.9% of the total retail revenue. In terms of the sales split, Tier 1 cities contributes to 45% of overall retail sales Tier 2 cities has contributed to 25% and Tier 3 contributed to 30%. Average transaction size was around Rs. 29,000 for the first half. We are seeing strong momentum in the retail segment and we continue to work on deepening our presence across retail verticals. Of the total retail sales construction which will constitute around 60%, interior & exterior products around 21%, our newer product categories are constituting around 13% and agriculture products constitute around 6%.

Sales growth has been calculated as per the old method and comparable sales growth method which in line with the international best practices for reporting of such numbers. The detailed explanation of both these methods have been disclosed in our uploaded investor presentation. SSSG as per our old method stands at 24.2% and as per the comparable sales method stands at 18.3%.

The enterprise sales, this segment recorded a revenue growth of 453 crores up by 22% compared to the same half last year. Enterprise Sales contributed 32% of the overall revenues of the company. Our strategy continuous to grow this business especially on the bespoke products.

On the channel side, the revenues were down by 8% and stood at 231 crore. This segment constitutes 16% of the overall revenues of the company and this decrease is in line with our overall approach to reduce this segment.

On the processing and supply chain, we have 12 processing facilities with capacity utilization stood at 93%. Sales from our own products contributed 61% of our total sales.

We believe that our business model is unique and as a has a very large and growing addressable 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 mind share as the leading go-to brand for building products in India. The network benefit that can accrue to us over a period of time can be very meaningful. Our immediate focus is on unit level growth and profitability of our stores and to work on building a strong balance sheet. We believe that the measures that we are taking, in the near term will help build up stronger Shankara. With this I open the floor for discussions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to understand a little bit on the margin front now especially your comments that you would be focusing on in the retail segment on the value proposition which would mean margins may get impacted although return profile may move up. In that background how should we look at retail segment margin in a steady state, is first half a better representation, is second quarter better representation how should I look at that?

Siddartha Mundra: I think retail is not as much seasonal in that sense so should largely steady, for Q2 generally a weak quarter, Q3 and Q4 generally tend to be better quarters for us. This generally should be stronger in Q3 and Q4. But having said that there are few things at play here where we are working on few things in terms of discounting on the P&L side and we are also working on receivables on the balance sheet side. So both of these being at place I think there would be some impact on marginsAs of now we will possibly wait for couple of quarters to see how that works out.

Avi Mehta: If I just summarizing it would be an improvement from the second quarter just from the seasonal bed, but there is limited seasonality the last two quarters have fair representation of what the segment can deliver, would that be fair to kind of at least look at it Siddhartha.

Siddartha Mundra: Yes, I mean last few quarters are fair, but all I am trying to say is that going ahead, kind of margin that can come to from this segment will depend on few of the other thing that are also at place.

Avi Mehta: How should one look at the enterprise bid because even if I made that adjustment for the inventory loss you are talking about 2% in the channel in enterprise business and which was 5% a quarter back and I understand the processing impact is higher here, but I think the key question is in this quarter aberration and hence you should move closer to the first quarter level or you expect this somewhere in between to stay for the next few quarters?

Siddartha Mundra: I think this is more closely linked to our processing segment. So, we need to ensure that our processing margins stabilize and that should have a follow through impact on margins in this category. So, as you have seen there has almost been a 150 basis point decline on the margin on the processing side and 80% of our sales in channel and enterprise segment were our own product sales. So that has had significant impact on the profitability of the segment.

Avi Mehta: What I was trying to understand is, how is that processing business now behaving because you highlighted that there are still continued pressures, just wanted to understand what can make it change if you could share any feedback over there, how do you see this evolving overtime what is it that needs to kind of get the business back on track?

Siddartha Mundra: An externality is at play which possibly will have to play out, but in terms of something that we are looking to do, we are looking to add some of our own equipment on the backward integration kind of an initiatives whereby we will be able to ensure that some of the raw material which is currently available at a higher price will be something that we will be able to process in house to also ensure that there will be a higher availability of these products because they generally end up being a little scarce and many a time unavailable, so, this should also help us in terms of mix of our products.

Avi Mehta: And would that show on our return ratios in anyway?

Siddartha Mundra: Not materially.

Avi Mehta: Secondly if I may from the store side I mean I picked up your comment about clear focus on up gradation and this quarter also in terms of store addition has been little muted, just wanted to understand your thought process over there because I can see there is this focus on driving value for the customer in that environment would you kind of hold back on store CAPEX and what will be likely CAPEX that we should build in?

Siddartha Mundra: See what has happened is over the last couple of years we have added new stores, we have upgraded existing stores, we have added a whole lot of new product categories to our basket, so I think there has been a quite a quantum leap that we have taken on multiple fronts and what we feel is that going on all metrics at the same point of time could expose us to certain risks we ensure which we want to curtail. So that is the context in which we are saying that we would want to focus on the stores that have already been upgraded, we want to ensure that there is more focus on select product categories and we start building scale on those categories, we will possibly sequence it out a bit rather than doing everything at the same point of time.

Avi Mehta: And how much would be the CAPEX, be in that light because just wanted to recheck if the number has changed, we had earlier indicated about 40 to 45 crore plus kind of CAPEX is that number still on?

Siddartha Mundra: That number is broadly on.

Avi Mehta: Lastly could you share the number of debtors more than 180 days how is that kind of behaved, because I could see that there is a reduction in debtors, so how is the quantity of that debtor behaving if you could highlight that as well?

Siddartha Mundra: So there has been a material movement on that front. So now that number which is more than 180 days net of provision stands 15.79 crores as of 30th September that number was 24 crores as of end of March 18. So, sequentially in the last quarter we saw decline to 19.68 crores which has further declined now to 15.79 crores.

Avi Mehta: Clearly that is where the focus has been and is showing through and if I may, payable should also is that something that is driven externally or something that you worked on it yourself that is the last question from my side?

Siddartha Mundra: If you look at our reported payable days, that is around 35 days, so it is not actually at a high level. It has reduced sharply that is true, but these are numbers in some sense in our control.

Moderator: The next question is from the line of Prithviraj from Unifi Capital. Please go ahead.

Prithviraj: Sir on comparable sales growth for H1 it is around 18% so in Q1 alone we have done 29% this implies Q2 is just higher single digits just wanted to understand earlier we are doing at 20% comparable sales growth what led to this sharp decline during this quarter?

Siddartha Mundra: I think the first quarter also was a very substantive increase 29% same store sales growth also a very healthy number. So, I think in some sense it has caught up in Q2 and even on H1 basis it is ~18%, 19% I think continues to stay healthy. So, I think this needs to be viewed in a context of one would be a very strong Q1 and in some sense in a marginal way possibly some impact of rains and flooding in Kerala and South Karnataka so that would also have an impact.

Prithviraj: So for H2 do we see 20% growth to be continuing?

Siddartha Mundra: We continue to be quite optimistic

Prithviraj: Sir on the channel and enterprise margins you mentioned that the revenues have come down the cost has largely been remained the same, so you need to allocate the resources to some other divisions, so how much more time it would take to complete this process?

Siddartha Mundra: Possibly another year or so.

Prithviraj: So for the fourth quarter we expect channel and enterprise margin to be very low if this is the case?

Siddartha Mundra: So I think that is one impact. The other impact is from the processing side as well so that is the other impact. But on account of this reallocation of resources, some of the resources we are looking to reallocate to the retail segment.

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

Pritesh Chheda: Sir any reason for reducing the payable and increasing the short term borrowing so generally payables are not coming at a cost?

Siddartha Mundra: So if you look at our payable base historically there has largely been at around 40 day range. It had shot up I would say momentarily at end of FY18 to around 60 odd days and currently it is at around 35 days. So I think broadly that is in some sense something that is under our control. What we feel is that we have a better control on payables if we have a more disciplined approach on our payables there are certain other benefits that you can derive from our suppliers. In terms of certainty of supplies, in terms of pricing there are certain other benefit that can come. I think that is the thought process.

Pritesh Chheda: So observation that your short term borrowing QoQ had shot up there is a 100 crore odd addition in short term borrowing and your payable have reduced by about 170, 180 crore so why should you do that, why should you take short term borrowing and reduce the payable so is that you would get slightly better margin on doing that because you are replacing your creditor funding to bank funding?

Siddartha Mundra: Yes a part of that benefit could also come.

Pritesh Chheda: So then it should get reflected in gross margin?

Siddartha Mundra: That is why I said a part of that should come.

Pritesh Chheda: So we should see incrementally gross margin increasing?

Siddartha Mundra: In this line of thought yes.

Pritesh Chheda: If it is not this line of thought then why this structure change in the balance sheet?

Siddartha Mundra: Yes I think what is happening is that we are reducing receivables and we are reducing payables. The payables have gone down possibly to a larger extent then this receivable is that what you are seeing. But the benefit that will accrue from reducing payables will possibly get offset by reducing receivable as well. So it is a kind of a self-compensating mechanism.

Pritesh Chheda: Sir it is not because the extent of working capital reduction is not happening when you squeeze out your payable you are not releasing any working capital right?

Siddartha Mundra: When we reduce our receivables then that is when which will start happening. Receivables have come down by 60 crore and otherwise this is seasonally a weak quarter. I think we are happy directionally with the movement that our receivables has taken, obviously there is a lot more to be done and we want to continue on that front.

Pritesh Chheda: So this should match itself out is what you want to indicate that 180 crore reduction in payable would eventually lead to 180 crore reduction in receivables?

Siddartha Mundra: See as I mentioned earlier the receivables and the payables as of March were at elevated levels and both of them are getting addressed and that is what we want to work towards. The reduction in receivables in that context is a slightly more difficult challenge because that is not in our hands, reduction in payable definitely is in our hands. Reduction in receivables is something that I think that progress has happened and the entire team sitting here is quite focused on doing that. The reduction in payable is something definitely that is in our hands, but it has attendant impact in terms of certainty of supplies. So I think if you look in that context and I understand what you are trying to say in terms of increase in working capital debt but from a debtor position I think they are possibly better off now.

Moderator: The next question is from the line of Kshitij Kaji from Edelweiss. Please go ahead.

Kshitij Kaji: So my question related to the QIP that you all had released a statement, I think around more than a quarter back, so what is the current status of this QIP?

Siddartha Mundra: We continue to evaluate, as of now it is continuing to evaluate options. So as and when we plan something, we will indicate.

Kshitij Kaji: So based on this QIP you have said that the funds that have come in you have planned certain acquisition you had already worked out in the market that which acquisition you could do to boost our top line, so if no QIP is expected, so are you still planning to go out with these acquisition or even will they put on hold?

Siddartha Mundra: So as of now for the next two, three month we do not want to commit to any acquisition. We do have a few in our pipeline and we are evaluating them, but we want our balance sheet to get to a stronger position and then we will look at some of these inorganic routes.

Kshitij Kaji: Sir, lastly could you help me with the SSSG for only Q2 because you have given for the H1 but if you could spread and give for Q2?

Siddartha Mundra: 7%.

Moderator: The next question is from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: I wanted to take it further from the previous-to-previous participants I understand that you are saying that March balance sheet number were not something right we should compare and since you are trying to correct the course of balance sheet. Now for us to understand your both receivables and payable days are coming down so let us say what you are targeting by March 19 what kind of net working capital or short-term debt we could expect the company could have that could be easier for us?

Siddartha Mundra: We are broadly targeting around 300 crores of short-term working capital by the end of the year.

Shaleen Kumar: That would be like 100% of your net working capital you are covering it to it or net working capital is more than that?

Siddartha Mundra: Sorry please come again.

Shaleen Kumar: So short term debt you are targeting 300 crore so that 300 crore would be funding 75% of your net working capital or 100% of your net working capital.

Siddartha Mundra: That is a external capital borrowing right would be working capital debt.

Shaleen Kumar: That is working capital, I did not understand internal accrual also the cash which you generate it used to fund your working capital right that is what we are trying to understand that how much these 300 crores will fund your net working capital. Right now if I look at it is around 75%, 80%, will it be 75%, 80% or it will be 70% or it will be 100% you are looking at any sense on that?

Siddartha Mundra: In my mind it will be around 75%, 80%.

Shaleen Kumar: So basically, net working capital would be around 200 crores utilized.

Shaleen Kumar: I am just trying to understand like what our net working capital would be one is net working capital will be funding through short term debt and partly through internal accrual. So 300 crore is the short term debt we are looking at and which will be funding 75% of your net working capital and hence net working capital would be around 400 crores which you are looking at probably?

Siddartha Mundra: Yes. But I think just as a number we are looking at 300 crore as a debt number and broadly I think from a net working capital base perspective possibly a 50 to 55 day should be working with. If we build in a estimate top line for the company I think we can estimate overall net working capital requirement for the company.

Shaleen Kumar: The way I understand that you guys are balancing between receivable day and growth, so it is obvious to assume that since you are tightening your credit period, it is obvious to assume that you are competing, you are providing a better competing price to your customer. So the margin which has come down a portion of that is also because of this is my understanding correct?

Siddartha Mundra: Yes.

Shaleen Kumar: So that is a structure in nature and going to stick around?

Siddartha Mundra: Yes.

Shaleen Kumar: So any sense on that how much is kind of a discount you are offering in both your retail and channel which you think you have to continue because you are tightening one screw and you are driving growth as well?

Siddartha Mundra: See as a thumb rule generally what works is let say a 2% cash discount. Generally what switches the customer from a credit to cash sales that is the broad thumb rule. In addition, in some locations on pricing we are working on the plumbing and sanitaryware's we are something like 2% in terms of loyalty discount and things like that. I think both will have some impact.

Shaleen Kumar: Any ballpark number that you have like 5% to 10% how much discount you have offered this quarter any number?

Siddartha Mundra: Possibly around 0.5% or so. Shaleen just to come at your earlier question on this working capital thing so broadly we are looking at 300 crore in terms of overall debt number and working capital of around 400 odd crore which would around 50 to 55 day as a net working capital.

Shaleen Kumar: On the discount Siddhartha just want to repeat you said 0.5% discount.

Siddartha Mundra: Overall at an aggregate level.

Moderator: The next question is from the line of Chirag Lodhia from Value Quest. Please go ahead.

Chirag Lodhia: My first question is what is the total debt as on date?

Siddartha Mundra: Total debt is around 340 crores.

Chirag Lodhia: And what would be the cost of borrowings?

Siddartha Mundra: Cost of borrowing will be around 10%, 11%.

Chirag Lodhia: So this 29 crore for first half numbers seems a bit high, so it is during the period our overall working capital debt goes up significantly and how one should read that number?

Siddartha Mundra: In Q2 generally our working capital debt tends to go up because this is seasonally weak quarter, our collections are generally slower during this period and little bit of element of an inventory buildup also that happens. So if you look at in terms of average during the period July, August, September overall debt would be at higher levels compared to what you are seeing.

Chirag Lodhia: So on a full year basis what number one should assume this average debt for full year FY19 would be higher in FY19 or it would be less in FY19 compared to FY18?

Siddartha Mundra: So we are at 240 crores I think as of end of March 18 I think we are targeting 300 crore as of now.

Chirag Lodhia: And second question is on this store addition target for this full year and how many stores we are upgrading for this year and vis-à-vis closure?

Siddartha Mundra: Currently we have opened around five stores and we will target few more stores opening during the second half. In terms of upgrades I think as of now we are looking to build on the stores that we have already upgraded so we are not looking at any material store upgrade as of now.

Chirag Lodhia: How many upgrades are already there out of this total 134 number?

Siddartha Mundra: 65.

Chirag Lodhia: And what would be the corresponding new product sales in total revenue today in retail?

Siddartha Mundra: 13%.

Chirag Lodhia: What was the number last year sir?

Siddartha Mundra: It was a much lower number.

Chirag Lodhia: And just lastly what is the reason for decline in processing margins and what will drive the margin to normalize level going ahead?

Siddartha Mundra: The processing margin I think what has happened in that there has been increase in raw material pricing, but our ability to pass them back to the market has not been able to achieve. The other thing is that our overall impact of the market conditions themselves have been a bit sluggish due to rains, floods etc. So also in some sense impact off take of material and if people are not looking to buy a material then there is an impact in terms of our ability to push that through which impacts the margin.

Chirag Lodhia: And on a full year basis retail SSSG can be targeted for 15%?

Siddartha Mundra: Yes that is what we are broadly targeting this quarter.

Moderator: The next question is from the line of V.P Rajesh from Banyan Capital. Please go ahead.

VP. **Rajesh**: Could you tell us the account receivable which are pending for 90 days or more?

Siddartha Mundra: Just one second, we are looking this number.

VP. Rajesh: And then the second question, if I may, on your slide 22 if you look at the difference of days between receivable days and creditor days It has generally been less than 10 days in fiscal year 16-17 when you said FY18 was on aberration so should one expect FY19 to be more in line with what one was seeing in fiscal year 16-17 or will it be a different number?

Siddartha Mundra: See what has happened is that these numbers have been calculated on the basis of a reported revenues. Now post GST actually reported revenues have come down because they do not include the element of excise. So what was that lets say earlier 30 days has automatically become something like 33 days, 34 days without any economic activity in that sense changing because of the reported number now are lower on the revenue side. So they will continue to be not comparable actually vis-à-vis FY17 and earlier.

VP. Rajesh: The answer to the first question?

Siddartha Mundra: So the greater than 180 is something that we told earlier but 12 crores will be added figure so that will become 27 crores.

VP. Rajesh: So 27 crores receivables are outstanding for 90 days or more correct?

Siddartha Mundra: Correct.

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

Jaspreet Singh Arora: If you could just clarify the Kerala impact that you have mentioned on the revenue side and then following that by the inventory write off of 1.8 CR how does one apportianate between retail and channel or is it entirely retail?

Siddartha Mundra: So if I were to look at Kerala for example in Q1 we did a revenue of around 94 crores and Q2 that has fallen to 57 crores. So sequentially it has been a quite a sell off actually almost 40% decline and August was especially very bad, it picked up in September but August was very bad. In terms of the inventory we had an overall inventory of around 11.5 crores in Kerala of which the larger impact happened in one of the warehouses in Cochin where overall value of inventory was around 3.14 crores and we have put that up for a insurance claim. Post 30th September there has been an auction which was conducted by the insurance firm and we have realized around 1.3 crore from that auction and pending this claim of the balance 1.8 crore we have taken a write off of that amount for our September quarter results.

Jaspreet Singh Arora: So this would impact the retail segment profitability?

Siddartha Mundra: As of now inventory this was actually inventory which was sitting on our warehouse. So currently what we have done is 1.8 crore impact is happening on the channel and enterprise side.

Jaspreet Singh Arora: So I was just trying to understand let say the channel enterprise is flat 300 CR on a year-on-year basis while profitability is down from 16 crores to 5 crores so that is a gap of 11 crore, so if I adjust this 2 crore here if you could just help account for the balance 9 CR between the couple of things that you mentioned low processing margin, reallocation resources and reliance on products and also what amongst of these is one off and what is the normalized margin can you get back to 5% kind of normalized margin that you have been doing for the last many quarter on the channel enterprise side?

Siddartha Mundra: So if I were to look at let say the impact because of the decline in the processing margins. So we had a total revenue base of around 300 odd crores from this segment. 1.5% decline would mean around 5 crore kind of an impact in terms of the EBITDA impact because of the lower margin. So that 5 which is reported plus another 5 which is a loss on account of lower percent margin which possibly comes around 10 and couple of crores as I mentioned it loss to around 12 and I think the cost base kind of continues to be the same so there would have been a cost inflation that would have happened. So possible that is a broad match. On the same volume we were earlier making 16 crore which has drop to possibly around 12 crore that is a broad rupture.

Jaspreet Singh Arora: So just to get it right. So it looks like except the 1.8 CR of write off most of the other is not a one off and can be recovered in the subsequent quarter so can we at least go back to the 4% to 5% range PBIT margin that we have been doing or you think the pressure on low processing margins will continue?

Siddartha Mundra: I think that possibly will continue for a couple of quarter so once that reverses I think this should also bounce back.

Jaspreet Singh Arora: In terms of store additions I noticed we have added 5 in the last 6 months while the area addition has been 60,000 so we have added approximately 12,000 per store while the closing average was 3,900 from a March basis FY18 and you have been guiding it in your commentary earlier looking at up your plate area. If you would just highlight two things one what is the minimum of this 5 store the minimum area notices the maximum area or was it like more or less all stores were closer to 12,000 and secondly is this what is going to be going ahead as well in terms of the average store size?

Siddartha Mundra: Yes I am just pulling out the data. So we had around 35,000 square feet getting added in the last six months and the largest is 11,000 square feet.

Jaspreet Singh Arora: And what would be the smallest?

Siddartha Mundra: Smallest will be around 2000 square feet.

Jaspreet Singh Arora: So this numbers that is given in the presentation that is more like an average number I mean 5.05 moving to 5.65 odd what is that then?

Siddartha Mundra: So I think there have been some addition in terms of existing stores also where this additionally what you had right now. Technically it is not a like-to-like comparison we should have ideally adjusted the base also, but in terms of sheer new number of stores this is around 35,000 square feet for the five new stores.

Jaspreet Singh Arora: So you think the balance is more of an upgrade function?

Siddartha Mundra: Yes.

Jaspreet Singh Arora: So if we have added 35 and you have added 5 stores it is about 7,000 so clearly that is a big number in terms of your average so this trend is likely to continue in terms of inching up or do you think this was more of a one off in this quarter this first half?

Siddartha Mundra: I think the way we are looking to do this is that where our stronger area where we have a deeper presence a longer experience there we are looking to take that slightly bigger floor plate. For example we have had 2000 square feet addition as well. This place is in Ennore.

Jaspreet Singh Arora: And I just missed your target for the store addition target for the current financial year so you added 5 how many more you plan for the second half?

Siddartha Mundra: Another 5.

Jaspreet Singh Arora: So that range of 10 to 15 that you have been guiding earlier that continuous on a per annum basis or on a ballpark basis?

Siddartha Mundra: Yes on a ballpark basis.

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

Maulik Patel: So what is the processing volume we have done in this quarter?

Siddartha Mundra: We have done around 72,500 tons.

Maulik Patel: This is compared to what number in a previous two quarter or previous year?

Siddartha Mundra: Previous quarter was around 80,500 tons

Maulik Patel: And what is the EBITDA we have done for this year in this quarter is around 17 crore right?

Siddartha Mundra: For processing?

Maulik Patel: Yes.

Siddartha Mundra: Yes 17 crore.

Maulik Patel: And from processing to the retail the contribution is?

Siddartha Mundra: Of our retail sales 44% was our own products.

Maulik Patel: Around 151 crore.

Siddartha Mundra: Yes 151 crore and 82% was of the channel and enterprise, 82% was our own products.

Maulik Patel: Now coming just back to that earlier discussion on the call so in your last annual report you mentioned that on a payable side there are two item one was an acceptance second was non acceptance. The acceptance was in the last year was approximately I think 183 crore and acceptance is in a interest bearing and the remaining 278 or 280 crore was on a non interest bearing. So have we shifted some of these acceptance which was part of payable in March 18 is more of short term borrowing?

Siddartha Mundra: I think broadly acceptance is stayed the same at the similar level.

Maulik Patel: But acceptance is also considered more as a in borrowing because you are paying interest on that may be the interest cost would have been a little lower than the normal banking cost?

Siddartha Mundra: Fully we are not bearing.

Maulik Patel: Part of that is bearing by supplier.

Siddartha Mundra: Yes.

Maulik Patel: Coming to the last question on more on the acquisition side and I think earlier you responded to that but given that our focus is now more on improving the profitability of this existing store and upgrade the stores, are we going for immediate acquisition number one. Number two, how has been the progress on both Vaigai and the JP Sanitation so these two questions on this actually?

Siddartha Mundra: So on Vaigai and JP they are now at 10% kind of EBITDA mark which was slightly lower level a couple of quarters back. I think broadly we are at reasonable kind of EBIDTA margin there. So I think broadly we are shaping up the way we had anticipated that, but it does take a lot of time and effort to integrate teams and get them together so that is one learning that we had done from acquisition and in terms of the thought process on new acquisitions we want to explore those opportunities, but we want to do that once we have a better or a more stronger balance sheet possibly in next three month or so and then we can start looking at newer acquisition and from a newer acquisition perspective we are looking at newer geographies. So not immediately looking at say Tamil Naidu or Karnataka but increasing the outside Andhra Pradesh, Telangana, Kerala so these are regions we are looking at.

Maulik Patel: But these are the region were you already have a presence; some sort of presence is there?

Siddartha Mundra: In terms of our progress on new product category I think it will get a boost if we have an acquisition.

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

Harit Kapoor: Just two questions firstly on the retail EBITDA margin if you look at the margins at 9.7 versus 10.5 in the base, based on the number you kind of gave you kind of adjust for the lower processing conversion in the retail margin your margins would be closer to about 10.1%, 10.2%, just wanted to understand whether this is now more sustainable at about 10% given the fact that you are looking at a strategy of slightly lower margin slightly higher throughput is that the right way to look at it?

Siddartha Mundra: The math you have done is right actually so if you could get the margin on the retail side that is what it would have been, but as we mentioned earlier there are few things that we are working on and we would want some bit of time for that to play out and see what impact it has on a reported margin.

Harit Kapoor: And by when do you think you will have this more or less the model like your thinking right probably two quarters, three quarters one year what is the timeframe in your mind to get this new way of doing the business straight?

Siddartha Mundra: I think couple of quarters its good directionally we will be knowing where we are headed and what is in fact is happening.

Harit Kapoor: The other thing was on the CAPEX side if you look at you guided for 40 crores, 45 crores similar to what you are talking about in the beginning of the year, but the proportion of new stores added as well as refurbishment is slowing down on, so is the assumption that the spends on retail store expansion refurbishment that you are not doing in the second half will be going more towards the backward integration of the processing side?

Siddartha Mundra: I think that is something that we already accounted for when we have broadly guided for that 45 crore, 50 crore of CAPEX. I think as of now stick with that kind of growth.

Harit Kapoor: But it could be a bit lower given that you probably would not as aggressive as you are expecting to be on the retail side?

Siddartha Mundra: It could be lower but I think let us continue to work with the same numbers.

Harit Kapoor: What did you mention was your cost of debt that you are operating at currently?

Siddartha Mundra: Around 10% to 11%.

Harit Kapoor: And would there be any benefit because of the rating upgrade?

Siddartha Mundra: Yes there would have been a benefit but then interest rates have also hardened vis-à-vis last year to this year the rates have actually gone up.

Harit Kapoor: But would there be assumption that since this rating upgrade is happened second half you could enjoy slightly all things remaining constant rate and it could get better?

Siddartha Mundra: Yes.

Moderator: The next question from the line of Vishal Biraia from Aviva India. Please go ahead.

Vishal Biraia: Of that 134 stores how many have achieved breakdown?

Siddartha Mundra: I think a large percentage of them have breakeven other than the one which has started the last 6 to 12 months.

Vishal Biraia: About 120 odd at least would have achieved breakeven?

Siddartha Mundra: Yes 115 or so.

Vishal Biraia: What would be the contribution of the top 10 stores to EBITDA of the total EBITDA of the retail segment that you have kind of share?

Siddartha Mundra: Sorry I could not hear you too well.

Vishal Biraia: What is the contribution of the top 10 stores to the total profit of the retail segments?

Siddartha Mundra: I think from a profit perspective I think the bank is quite narrow it is not like largest stores are operating at very high level of profit margins largely fairly high.

Vishal Biraia: During the call you mentioned that for the whole of FY19 you expect to clock 15% SSSG growth so just wanted to understand as to how do you expect to get this because Q2 has been very fairly weak so do you expect a sharp bounce back in the second half of the year?

Siddartha Mundra: See if you look at our first half we have grown at around 18% on the comparable sales growth side and Q3 and Q4 we hope that the momentum in H1 will continue in H2 as well.

Vishal Biraia: Why do you think that from Q2 you will see a sharp bounce in Q3 and Q4 that was mainly the question?

Siddartha Mundra: No what you are saying is fair because contextually Q2 is looking quite weak.

Vishal Biraia: And Q3 and Q2 would have a higher base.

Siddartha Mundra: Yes that is also a fair point and see this is what we believe and what we are working towards reality could end up being different, but this is something that we have seen is something that we have achieved and we should work towards that.

Moderator: The next question is from the line of Hiral Desai from Anived Portfolio Siddartha Mundra Services. Please go ahead.

Hiral Desai: Just had one question on the processing margins we are at about 4.1% right now. So I think H1 also we would have been down by about 150 basis point so is there a broad sort of working of sort of are there product SKU where you are struggling to pass pricing and that would be like what percentage of your portfolio because the whole thesis of having a processing facility and investing about 200 odd crores there at a net level was that you will have benefit in terms of one is the pricing the other is availability on products so just wanted to get your thoughts on that?

Siddartha Mundra: In terms of product mix I would not say that there is any specific thing that is impacting us. It is largely across the board kind of phenomenon. I think specifically what is impacting us is certain I would say lesser competitiveness in certain gauges of material and we are trying to address that by having our own in house facility to kind of ensure that we have access to that material because currently we are not getting immediate access or we are not getting it at a good price so that is what making us uncompetitive.

Hiral Desai: And let say as compared to getting some of these from outside versus making it in house or having your own processing facility, what would be the differential in the margins?

Siddartha Mundra: So if you are looking at a possibly Rs. 1500 per ton it could be almost like a 3% kind of a delta. I am not saying it will not be across the entire business, but for those specific product SKU that would be the delta.

Hiral Desai: Out of this 425 crores of inventory that we have at the end of September quarter what would be at the processing centers?

Siddartha Mundra: 150 crores.

Hiral Desai: That will be about a month of inventory based on the processing revenue?

Siddartha Mundra: Yes.

Hiral Desai: In case the steel prices tend to go up how often does the re-pricing happens?

Siddhartha Mundra You are saying on the costing side?

Hiral Desai: One is in terms of procurements I am just trying to understand is there a risk on the inventory when the prices tend to go up if you are not able to pass it at the retail end?

Siddartha Mundra: See generally pricing upgrade happen on a monthly basis. Given that we are holding a month of inventory in terms of raw material and finished goods. Most likely we feel that this should help us insulate those changes. Having said that is there a sharp increase or decrease or it happens at a greater frequency, that is a loss to us

Hiral Desai: What I am not able to understand is the revenue momentum is extremely strong and yet there is pressure of margin one on the processing side and other on the channel and enterprise side, so aren't you not better of doing probably lesser revenues at better margin and at lesser balance sheet intensity. I do not how the higher revenues are actually if you look at the first half

Siddartha Mundra: One of the things that we have done is we have cut down a bit of third-party purchases to ensure that some of our own processing absorbed more. Now the other thought that we had also is reducing production itself so that there is lesser of this challenge given that other segments can do better.

Hiral Desai: Lastly the way you apportion processing margin is based on the revenue contribution of that segment right or there is some other math to it like let say if the retail revenue in this quarter were 52% of the overall sales, would you apportion 52% of EBITDA during the quarter to retail would that be the way it would work?

Siddartha Mundra: See that is not the way I think that is just a simplistic way of arriving at that number. It is a quite detailed analysis and process that happens in terms of apportion and end-to-end margin process that we look to it. So that is what we are able to do in terms of which category are moving and getting to which end revenue segment and then we capture the margin.

Management:

Moderator: Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Mr. Siddhartha Mundra for closing comments.

Siddhartha Mundra: Thank you everyone for joining us. I hope we have been able to answer all your queries in case you require any of further detail you may please contact us for our Investor Relation Advisors, Strategic Growth Advisors. Thank you.

Moderator: Ladies and gentlemen on behalf of Shankara Buildings Products Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.