Shankara
Building Products Ltd.

Date: 24th November, 2017

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,

Sub: - Transcript of the Earnings Call

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors on 15th November, 2017.

Kindly take the same on records.

Thanking You

Yours faithfully
For Shankara Building Products Limited

Ereena Vigram

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"Shankara Buildings Q2 & H1 FY18 Results Conference Call"

November 15, 2017

MANAGEMENT: **MR. SUKUMAR SRINIVAS – PROMOTER & MD, SHANKARA BUILDING PRODUCTS LIMITED**
MR. SIDDHARTHA MUNDRA – CHIEF EXECUTIVE OFFICER, SHANKARA BUILDING PRODUCTS LIMITED
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER, SHANKARA BUILDING PRODUCTS LIMITED
STRATEGIC GROWTH ADVISORS – INVESTOR RELATION ADVISORS, SHANKARA BUILDING PRODUCTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Shankara Building Products Limited Q2 and H1 FY18 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for 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. Thank you and over to you, sir.

Siddhartha Mundra: Thank you and a very good afternoon to all and welcome to our Q2 and H1 FY18 Earnings Conference Call. For the call, I am joined with Mr. Sukumar Srinivas, Promoter and MD and Mr. Alex Varghese, Chief Financial Officer and Strategy Growth Advisors, our investor relation advisors. Hope all had an opportunity to go through our results update presentation.

Before we take our discussion towards financial performance of the company, let me start with the recent developments. As mentioned in our last call, we aim to deepen our presence in the southern part of the country. And on these lines to enhance our retail presence in Tamil Nadu, we have taken over three stores in Chennai of leading tiles and sanitaryware retailers, Vaigai Sanitation. Vaigai is a strong brand in Chennai and these store additions will help us further accelerate our presence in new building product categories and help Shankara build a significant presence in Chennai. We will now have 5 stores in Chennai region. We look forward to adding a wide product range to their current offerings. In addition to further strengthen our position in the market and with an aim to achieve omni channel presence, we have purchased an e-commerce website, operating under the domain name www.fyne.in which operates in the building product space. This site carries products in the sanitaryware, taps and kitchen category. This will aid our customer selection process from a wide online product assortment and complement our display stocks in the store. With this, we look to build on our omni channel capabilities.

Update on the revision of GST rates, most of the building products in our portfolio are now at 18%. We believe that lower prices will be positive for the industry going forward. Now shifting focus to the quarterly performance; during Q2 FY18, the total revenue stood at Rs.572 crores as against Rs.602 crores in Q2 FY17, down by ~5%. This is, however, not a like-to-like comparison post the GST regime. Before GST, excise duty was a part of our revenue. However, post GST excise duty is subsumed in GST and is no more a part of our total revenue. Therefore, adjusted for GST, Q2 FY18 revenue grew by 7% on a year-on-year basis. Further, heavy monsoon also impacted volumes for Q2. GST implementation and tight cash flow conditions also impacted the quarter. For Q2, EBITDA stood at Rs. 41 crores, up 10% on year-on-year basis. EBITDA margins stood at 7.2% and PAT stood at 17 crores for the quarter which was up 28% from same quarter last year.

Moving to our half yearly performance, the total revenue stood at 1,163 crores down by 0.5% over the previous year. After excise duty adjustment, revenue would have grown by 6%. EBITDA stood at 80 crores, up by 14% Y-o-Y, EBITDA margin stood at 7%. PAT stood at 35 crores, up by 30%. The margin uptick is on account of operational efficiencies, better bouquet of product offerings and higher share of retail business.

Now let us focus on the segmental performance of the company. Retail sales grew by 11% to Rs.543 crores during the first half of FY18 versus Rs.490 crores for the first half of last year. EBITDA grew to Rs.59 crores, up by 14% and the overall retail sales contributed 48% of the total revenues of the company. Adjusted for excise, same store sales growth stood at 13.2%. If we look at the quarterly retail performance, sales stood at Rs.273 crores vis-à-vis Rs.267 crores for Q2 FY17. Average rental cost for these outlets stood at Rs. 16.6 per square feet per month. Of the 118 stores that we operated at the end of Q2, 102 stores are on lease basis. The total area of the stores comes to approximately 4.41 lakhs square feet with an average store size of 3,738 square feet.

The overall sales split across various city categories is as follows. Tier 1 contributed to 40%, tier II 25% and tier III 35%. Average ticket size per transaction was approximately Rs. 23,969 in H1 FY18 as compared to Rs.22,235 for H1 FY17. For the quarter, we have upgraded around 10 stores and we have added 6 new stores with our largest product portfolio. Our plan to increase our retail presence by 15 to 20 stores in each year continues. Recently, we have also opened a large format store in Mysore measuring ~22,000 square feet. The rationale behind opening the store is to provide a wide array of product portfolio under one roof and to make it as one of our flagship stores. The Mysore store is on lease and come at a very attractive rental.

Enterprise sales; the enterprise sales for H1 FY18 stood at Rs,368 crores down by around 3% compared to H1 FY17. It contributed 32% of the consolidated revenue of the company. Top ten customers contributed to ~12% of the segment revenue.

Channel sales; this segment stood at Rs.~253 crores in sales, down by 16% compared to Q2 FY17. It contributed 22% of the consolidated revenue of the company. Number of dealers stood at ~2000 as on end of Q2 FY18.

A few highlights on our processing and in-house supply chain. Company has 12 processing facilities with capacity utilization of 94% for the quarter. Sales from our privately labeled products accounted for around Rs.705 crores of the overall sales. Also, the company has started new processing facility in Secunderabad in the state of Telangana to capitalized with the growing requirements of the region through our network of Telangana state retail outlets. Further, the company has relocated processing facility from Surat in Gujarat to Chegunta in Hyderabad. The relocation would ensure better utilization levels on back of increased availability of raw materials which was hampering production and sales in Surat.

To conclude, we believe that we continue to execute on our strategy of retail store growth, category expansion and building an omni channel presence. However, the near term challenges persist. The cash flows across the ecosystem continue to be strained and the demand pick up that happens post festive season is delayed. We expected a better demand scenario at the start of the year. However, we have seen softness in demand owing to GST and slow construction activity. The building blocks of our growth have been laid and we are confident to capitalize as the demand picks up.

With this, I open the floor for discussions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Amit Purohit from Emkay Global. Please go ahead.

Amit Purohit: Just one on the EBIT performance of the retail business. So, while the topline growth on the adjusted for the GST is up, but EBIT growth has been muted for the quarter. So, what would you attribute this to? Is it mix led change or higher cost?

Siddhartha Mundra: If you compare our H1 margins for the retail segment, they are at 10.8% and we have been maintaining that, the levels that we had achieved in FY17 is something that we hope is sustainable levels. So to that extent, I think Q1 was slightly higher, but I think it is adjusted in Q2.

Amit Purohit: Right. Just that when SSG growth of about 11%, so you expect an EBIT growth rather than just a flat growth or towards slightly negative. So that is the whole. So is that to do with more number of stores, one that got added plus the upgradation that we did or it is to do with the kind of mix because if you look at the own store, own product sale in a retail store versus Q1 and versus first half that you have given, that implies there is an increase in own production sales, if I just do the maths it comes to around 67% to 68% for this quarter. **Siddhartha Mundra:** See Amit, actually the other perspective is that Q2 generally is a weak quarter and to that extent because overall activities are also muted, monsoons was also there and as you rightly mentioned there are new stores, new upgrades that are also happening. So that also takes some time to ramp up.

Amit Purohit: And the mix would not be that significant to change in margin impact, right?

Siddhartha Mundra: Nothing for the quarter.

Amit Purohit: Secondly if you could actually just help us throughout the upgrades of the old stores, so for first half what would be the upgrades in old stores that you would have done?

Siddhartha Mundra: So totally we have, as of now the count is ~40 stores which are carrying a larger product basket.

Amit Purohit: Okay. And how many are now balance to be get upgraded?

Siddhartha Mundra: So the remaining would be the balance of them. So you can assume that for example, 60 of the stores still need to be upgraded.

Amit Purohit: And just on your comment of the demand being soft, so are you referring that post Diwali much of the softness is because there was lot of confusion with respect to GST rate or is it to do with just this year's demand itself. I mean, it is too early, but do you think this 28% to 18% would probably give some change? And is TMT bars also a change from 28% to 18%, I don't know the rate for TMT bar and pipes?

Siddhartha Mundra: Just to address on that, the TMT was always 18%, but some of these categories like cement and sanitaryware, CP fittings etc. were in the 28% bracket. This will now come to the 18% bracket, other than cement. And so in terms of the demand environment, post GST, post monsoons, both have been slightly difficult periods. The construction activities continue to be slightly muted.

Sukumar Srinivas: Just to add to what Siddhartha is saying, the couple of factors normally like he mentioned earlier, the Q2 is always slightly slower and a weaker quarter. So in terms of demand the couple of things have happened, one by and large in most part of the south we had unprecedented rain. So rain generally in this period does come down and because of this, the movements of goods and constructions have come to a halt. Second, I would say there has been local factors in some of the areas where sand has been a bit of a problem where it is a local sort of issue, but then it had a severe impact on construction when sand is not easily available or the price which have gone up phenomenally in the last few months. So that is a second very sort of a localized factor. I think many states are having these issues because some smaller kind of decentralized sand, lot of sand mining has also been banned. So it is being regulated by the Governments now. So that has also had an impact. Thirdly, I would also say that to some extent, the RERA has had an impact with smaller builder. So most of our retail stores, apart from the individual houses, one of the other key bias segments is of the small contractors and builders. So I think they have also had some impact with RERA, there is a lot of confusion. And last but not the least, GST has had both an impact not just on the product as such but on the services. Earlier, there was a contractor who was picking up the goods and billing it as material plus contract to the individual home builder. Today, there is a confusion, obviously earlier there was a lot of cash that was flowing in terms of the payments and so on between the home owner as well as the builder and so on. So today there is a bit of a confusion because though they allow to take in the GST as an input credit for whatever materials, these guys are just not geared up to handle all this. Earlier, it was a very simple process of buying an item and then you either took in cash or cheque payments and it was sort of handled. This is the one thing which we really didn't anticipate pre GST, is that the minute we decentralized, immediate problems that are going to happen, I think probably that is why also there is enough ruckus in the overall system and the Government has been addressing the number of issues in the GST and adjusting taxes and so on. So I would say these are some of the factors that have certainly impacted volume growth in Q2. So which we hope there would be some improvement in this quarter.

Amit Purohit: Okay. So you have seen some improvements post the festive?

Sukumar Srinivas: I wouldn't say not very significant, honestly, it is not like how buoyant it should normally be post Diwali. Normally our cut off is Diwali for us, socalled off season unlike the consumer durables and all which are very good at the Diwali season. For us, the demand is generally up after the so called, off season as such. But we haven't seen, there is some uptake but I won't say it is as good as we would have anticipated it to be.

Moderator: Thank you. The next question is from Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just kind of taking up from the last question, so you said that there was a pickup in demand that you have seen subsequently. Can you kind of highlight? Is that because of the GST related issues coming of or just a demand change?

Sukumar Srinivas: I would just say currently what is uptaking is the general season kind of a demand. See, whatever is very subdued in the monsoon, the Q2, generally we are just seeing a slight uptake, like I said not as much as we anticipated but certainly better than if you ask me on a month of let us say first half of October or September, certainly better than that. But not as good as we would really like it to be.

Avi Mehta: And do you think that this reduction in GST rate could possibly help us going forward?

Sukumar Srinivas: You know, I think in the long run, it is a very good thing that is happening. I also think that, see psychologically a customer, whether it is you or me, earlier it was not that the taxes have really gone up, but part of it or most of it was either in the excise duty component. So if we look at a product which is 18%, probably 12%-12.5% was excise duty earlier and 4% or 5% would have been the VAT. So a customer when he was buying a product, psychologically he will be paying 5% tax. Suddenly he is looking at paying 18% tax. I think neither has the rates gone up, or the taxes has not gone up, there has been only rationalization of plus or minus 0.5%-1%, based on the product. But I think it has been a very large psychological impact, I think there has been of course politically a lot of misinformation that has been carried out and probably a campaign where people are really educated about what is the real tax implication or the cost implication, I think it has really not yet let us say been drilled down to a mass level. So I think it will take a little more time for people to really sort of get adjusted because I know even a common man when he just go to a shop even in the earlier days to buy a hardware item, when it was 14% as a VAT, guys will immediately say, my god 14% you know, can you give me without bill? This was the instant reaction. Now when you have such a vast item which was at 18% and 28%, obviously I think it takes a little while for it to settle down. I think it is settling down some part of the people, they need to understand and accept it. There will be some resistance based on this dramatic change.

Avi Mehta: Okay sir. Sir, second was on your purchase of an online retailer, just trying to understand what are the benefits that you get versus developing your own website and how much have you kind of spend on it?

Siddhartha Mundra: See, there was obviously a make or buy decision, I know that is what inherent in that**.** What we evaluated was that the cost for us to make versus what you are getting a readymade website with some traffic was at an equivalent cost. So it is not to get us immediate traction on the online space but to help us build on that e-catalog that already exists. It would just accelerate all these developments.

Avi Mehta: And how much did you pay for it sir?

Siddhartha Mundra: It is a trans payment, but it is approximately around Rs.50 lakhs.

Avi Mehta: And sir this share of third party grants basically in this sanitary and tiles, how much would that be now, what share would it be now sir, the credit would as the imperial segment or whatever you want to call it?

Siddhartha Mundra: So all of that would be around at 10% kind of a margin.

Avi Mehta: Okay. And lastly sir on the Channel and Enterprise bit. While I can see that you are maintaining the margin sales, you know just kind of growing there, how should I look at margins in this segment because the base is very fluctuating, we had 6% in the first quarter, 3% in this second quarter in the base but your current levels are at 5.5% and 6% levels. So is this like a steady 6% margins business? How I should see it? Should I see the last years' numbers being maintained the way you look at retail or what is your thought over that, that is what I wanted to understand?

Siddhartha Mundra: So I think this will be around 5% kind of a number. That is what you can look at as an average kind of a number.

Avi Mehta: Okay sir. And is there any feedback worth sharing right now on the initially upgraded store or it is too early, sir?

Siddhartha Mundra: It is too early.

Sukumar Srinivas: You are asking traction in the upgraded stores.

Avi Mehta: Yes sir.

Sukumar Srinivas: You know, that is too early.

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

Dhaval Shah: Sir, just one question. The retail stores which we have opened 6 months ago, what sort of monthly sales traction have we achieved in our core business which is roofing and pipes which we make in ourselves?

Siddhartha Mundra: So basically the stores that we would have opened, let us say 2 or 3 quarters back, we would be hitting that Rs.25-30 lakhs per month kind of a revenue run rate.

Dhaval Shah: This is our core products right, what we make ourselves?

Siddhartha Mundra: Which is largely let us say our core products, some of these stores may also, carry some of the new categories also. But I think from an overall perspective, those kind of numbers would be this.

Dhaval Shah: Around Rs.30-35 lakhs you said?

Siddhartha Mundra: Rs.25-30, yes.

Dhaval Shah: And in the retail channel, what sort of monthly traction we could have achieved in 6-8 months? I mean in the new products, in the building products side i.e. the sanitaryware lights, the new products?

Siddhartha Mundra: See, the way it happens is when a new store starts, we look to start with our existing product categories of which we are strong within, so I think as the time progresses we keep adding the newer product categories to the store.

Sukumar Srinivas: So they would be anywhere around Rs.3 to 5 lakhs per store in those categories.

Dhaval Shah: Okay. So for example a store which was opened in say March-April, so as on today that store must be doing around Rs. 5-6 lakhs per month in the new product side?

Sukumar Srinivas: Correct.

Dhaval Shah: Understood. And that should carry around 15%-18% kind of margins?

Siddhartha Mundra: No, possibly not. Slightly lower but yes double-digit margin.

Dhaval Shah: Okay. And as on today, how many store counts have we reached?

Sukumar Srinivas: As of today 121.

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

Maulik Patel: Sir few questions. One is on the decline in the channel business which is little higher than anticipated. What are your thoughts about that, it will be around 10% kind of downward, I think? So what is the thought process there? Are we closing over those distribution business very fast?

Siddhartha Mundra: See, Maulik, channel degrowth anyway is a conscious decision. So that trajectory continues. In addition to that, what happens is that Q2 any which ways is slightly difficult quarter, in terms of cash flows etc. So I think consciously also there is further reduction that has happened in Q2.

Maulik Patel: And how much of our manufacturing margin could be in that if you can give me rough idea, what is the margin we have made at a subsidiary level?

Siddhartha Mundra: So around 5.5 odd percent.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.

Jinal Fofalia: Sir my first question is, if you could put some light on the acquisition that you have made in Chennai, I missed that part, so if you could throw some light on that?

Siddhartha Mundra: See, Chennai, we have taken over the operations of this chain of stores called Vaigai Sanitation. So it is a quite well-known brand in the Chennai circle among customers, end customers, builders, architects and they have built this brand over 30 plus years and this opportunity came our way and we found that this would be a very good stepping stone for us to build up in Chennai and also to expand on our new product categories. So that is how we kind of made this decision to acquire to rather takeover these operations.

Jinal Fofalia: Okay. And what is the revenue that this store does?

Siddhartha Mundra: So they do around Rs.4 to 5 crores per month.

Sukumar Srinivas: See, about 3 years ago, they have gone up to about Rs.90 crores per annum. And last year they did about Rs.70 odd crores. Currently, it is at a pace of around Rs.4-5 crores a month.

Jinal Fofalia: So this also deals in like building products and sanitarywares?

Sukumar Srinivas: They are only focused in sanitary and ceramic and tiles. So fairly large player in the Chennai market in the top bracket and like I have said with a good reputation in the market, good brand recognition in the market we thought this would be a very good opportunity for us. It is a big stepping stone for us in Chennai where we really don't have a comprehensive building material store. It is a very good location in the city. We have just taken it over from 1st of November. So once it stabilizes with us as the new management, then we want to start introducing the entire range of building materials probably starting this January.

Jinal Fofalia: Okay, great. Sir my second question is on retail side, as we are seeing margins increasing from 10.5% to 10.8, so what is the peak level that we can achieve? Are we seeing margin increase from here in FY18 or FY19?

Sukumar Srinivas: See, I mean, I would not like to go up to FY19 as of now, but definitely in the near future I would say we are ready to maintain. There will not be a dramatic increase, but it would maintain.

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

Deepak Poddar: Sir, as I see our retail business is growing at maybe 16%-17%. So is there any kind of strategy or what is the thought process to improve our retail kind of business to 20%-25% kind of level?

Siddhartha Mundra: So in terms of the revenue growth part itself, the things that we are working on is in terms of adding new stores, ensuring that our existing stores carry a large bouquet of products, so that there is an opportunity of cross sell to existing customers as well as an opportunity to acquire new customers and with opportunities like Vaigai that come along, they become inorganic growth opportunities for us. So we are working on all these aspects to ensure that revenue trajectory continues to be healthy.

Deepak Poddar: So in terms of new store, what is the percentage we are targeting every year increase?

Siddhartha Mundra: Around 15 to 20 stores every year

Deepak Poddar: 15 to 20 stores that would be about 10% to 15% kind, every year?

Siddhartha Mundra: Yes.

Deepak Poddar: And in terms of margin as you mentioned that we are trying to maintain retail margin of 10.8%. So even on a consolidated basis, we are looking at 6.5% to 7% kind of range, 7% kind of range are basically going forward in terms of overall margins?

Siddhartha Mundra: Yes.

Deepak Poddar: And your thought process on acquisition. You mentioned that we are also looking for inorganic growth, so going forward also we are looking at this as a third leg of growth which we will keep on evaluating and expanding through inorganic route?

Siddhartha Mundra: Absolutely. Anything on the retail side, which complements our geographical presence, our quarter presence, we would be happy to look at those.

Deepak Poddar: So any sort of number that you can assign to basically 5% to 7% kind of growth can come from inorganic or would it be difficult for you to comment?

Siddhartha Mundra: It will be very difficult.

Deepak Poddar: And my last question pertains to the other business, the Enterprise and other business, so the decline has it fallen, basically it is over or how is that?

Siddhartha Mundra: So Channel, I think will continue to decline for some time. And the share of Retail will keep increasing over a period of time.

Deepak Poddar: But on an absolute level the Enterprise and Channel business decline, is it over, because during the IPO meet also you were of the view that it was over. But I think it is still declining, right?

Sukumar Srinivas: No. The real decline starts around little before the IPO, maybe a year or two ago, I think they are very much in the decline path. Channel currently which has got 20 plus percent of the business, the next 3-4 years it would be around a high single digit around 10% as such. The Enterprise business would probably stabilize around 20%-22% of the overall share of the business. So retail what is currently around 47%-48% which has grown up, grown from last year from around 40% to 47%, will continue to grow probably peaking at around 70% in the next 3 to 4 years.

Moderator: Thank you. The next question is from Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Sir can you just give a broad idea on how your other two divisions of channel business and enterprise business apart from Retail, how was it going on and currently you mentioned that the Retail would be touching 70% in next few years. What is the outlook on those two divisions? Can you just give a brief idea?

Siddhartha Mundra: Those two divisions, we would look to consolidate in the next few years, the objective would be, on the Channel side to look at only those partners where our capital efficiency can be higher and in those geographies where it can be higher. On the Enterprise side, we will look to see if there are opportunities for us to have more value add opportunities for our end customers and in the process also see if there are margin increase opportunities with this value adds. So in terms of a broad directional thing, those would be the broad strategy going forward.

Aksh Vora: Can you give the brief idea if Enterprise and Channel both are B2B businesses?

Siddhartha Mundra: These are largely SME kind of companies, so they may not be very large companies in that sense, but yes, this is another small business where we sell to.

Aksh Vora: Margins would be roughly around 5.5%-6% in both the divisions. So it will be maintained on such levels or do you see any uptake or down growth in margins going forward?

Siddhartha Mundra: The Enterprise side could be slightly higher and Channel will be slightly lower. The blended would be around the numbers that you mentioned.

Aksh Vora: And you see maintaining those numbers going ahead, right?

Siddhartha Mundra: Yes.

Moderator: Thank you. The next question is a followup from the line of Amit Purohit from Emkay Global. Please go ahead.

Amit Purohit: Just on this Chennai acquisition of stores. One, I wanted to understand is that, would in the next 2 to 3 months' time would this be a full offering kind of a store just like you have most of with all our TMT bars and roofing solutions also or would it be just focusing on these sanitary and the current assortment which these two have?

Siddhartha Mundra: See, the objective is to get them into the full format ASAP. I would say that by probably March, these Chennai stores will be carrying the entire bouquet because there is one of the stores where there is a limitation in terms of space and so on. But they are doing a very good job as far as the sanitary and the CPM, the plumbing area goes, so obviously as we just got in, we would also like to consolidate our base and the running has to be smooth with the new set of people that management has changed and so on. So ideally in the next 2 to 3 months would be in consolidating our whole understanding where business is better from an operational level and then we would be starting to add the entire bouquet. But the idea is that we do, we will be adding the entire bouquet very soon.

Amit Purohit: And sir would these during this time, these stores won't be up and running??

Siddhartha Mundra: No. They are operational from day one. It is continuing. I mean whatever the old team carried out till 31st of October, we are just carrying forward the operation which is very much in operation currently.

Amit Purohit: And the operating metrics over there would be inferior, right, at this point of time?

Siddhartha Mundra: Yes. Very true.

Amit Purohit: So would it be a loss making kind of currently and which would improve over a period of time?

Siddhartha Mundra: Yes, they are loss making and their expenses are quite high. The cities or areas which we are right now will have to sort of tackle and bring them more efficient operationally and then is when once the first level of operational efficiency is achieved, we add in the entire bouquet of products which will then bring them on par with the rest of the company.

Moderator: Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin: So, you have given a breakup of the revenues for the Retail, Enterprise and Channel and also for the regions, if you could help us also with the breakup of the revenues in terms of the products sold like in pipes and roofing, for the top 5 or 6 products in terms of broad shares coming from pipes, roofing, tiles, cement?

Siddhartha Mundra: So we categorize our overall sales across 6 categories, so we have **contruction** materials, plumbing and sanitaryware, electrical, flooring, interior-exterior and irrigation. So for the retail part of the business, construction material contributes to 65%, plumbing and sanitaryware, electrical and floorings is about 10%, interior-exterior is 20% and irrigation is 5%.

Nitin Bhasin: Okay and when you say construction material, it includes pipe and cement and roofing material everything?

Siddhartha Mundra: Largely pipes, TMT, cement, MSand, Hollow blocks, wide range.

Nitin Bhasin: And you know you have also mentioned that a 10% of your overall business is from the category such as tiles and sanitaryware which is the new age, if you could help us understand whether that is 10% for the overall company or 10% for the retail business only?

Siddhartha Mundra: For the retail business.

Nitin Bhasin: Okay. And continuing on the retail business, you shown the margin expansion gradually and you are saying that these can actually go up to all the way to 70%. So this margin which was expanded in the last 1 or 2 years, how much is that a function of mix? How much is it a function of efficiencies and where are you extracting efficiencies from?

Siddhartha Mundra: See, it is a mix of all of these actually and when we said that percentage, that 70% is share of retail. It is not the margin side.

Nitin Bhasin: I get the point. Because today if it is about 50% or so, 40%-50% or so, it is giving you 10.8% margin. All the way going to about 70%. So just trying to understand, is it a mix going to drive the margins from here on. Is it more scope of efficiency left from here on? Where do we see, you know, it will come down?

Siddhartha Mundra: It will be a mix of both actually because as this new product categories, there will be margin opportunities that will come and as you gain scale in these categories, there are certain margin efficiencies that come in terms of procurement, in terms of your own backend, in terms of handling this product, your inventory efficiencies etc. start coming in. So I think it will be a mix of both.

Nitin Bhasin: Okay. So just because the incremental sales in the retail will be largely a function of third party sales, am I right from here because today as you mentioned the third party sales may not be more than 10%-12% of overall revenues, so third party sales increases. So what is the typical gross margin or of third party sales?

Siddhartha Mundra: No. To correct that understanding, I think third party sales would be higher than the 10% from almost 40% kind of, overall sales will be from third party.

Nitin Bhasin: Okay. So what is the gross margin in third party sales?

Siddhartha Mundra: So it depends again across categories, for the construction material would be relatively lower as compared to the other categories.

Nitin Bhasin: So the construction would be 2%-3%?

Siddhartha Mundra: No, so the overall blended will be slightly higher, rather reasonably higher.

Nitin Bhasin: Because on the manufacturing, we can get a sense in terms of what is your margin, if you can explain us, but in this slightly higher means what 5%-6% is what one should think about it?

Sukumar Srinivas: From 6% to 8% you can take in the construction area. We can look at around 15% in the tiles and the flooring area and around 10% to 12% in the interior-exterior products. And broadly this is what we are looking at in terms of the gross.

Nitin Bhasin: Okay. Just continuing with this, one acquisition that you announced about these three stores in Chennai, just to get a sense, what is the transaction size here and what was roughly the EBITDA of this entity because you said, that if Rs. 90 crores topline went down to 70 crores, what was the EBITDA impact of that and when you have valued it, how have you valued it and just to get some sense on the numbers of such kind of a good brand and visible shops?

Sukumar Srinivas: Sure. See, this was a business. I mean it is obviously a family run business over many decades. I think the family – the lady who has promoted the company is pushing around the late 60s, early 70s. Her son who had joined the business a decade ago, died suddenly 2-3 years ago. So the original promoter lost interest in the business and from a 9,0 crores topline, it slowly started to decay because the promoters were sort of depressed and the future of that business, they were in doubt as to obviously they were aging, the whole business was groomed with a young 35 plus son who have taken over and so on and so forth. So when the tragedy occured to the family, I think they sort of lost interest, though in last couple of years, they have just sort of let it languish in a way, so the topline came down to about Rs.70 crores last year and also a lot of other inhibition which has started creeping in because there was no tight management as such. So this is the background of the company when we looked at it. But however, they still have a very good name as such in the market in terms of the customer profile, in terms of architect builder, etc. They were sort of a household name when it came to tiles and sanitaryware product both from an individual retail walk in as well as some of these influences. So I think we got this thing from one of the suppliers in the sanitaryware market saying this is the unit that is available why don't you guys look at it. So when we did reach out, they were quite interested. They were also looking to see that the business moved on to somebody who will take the company higher because they are very well located, where we see that we have a potential. We looked at it from a point of view of the topline potential because like I have mentioned earlier, Chennai we did not have a significant presence in these kind of our newer bouquet of products, so this is a very good stepping stone. So we paid them, overall the deal was struck at around Rs.10 crores. So this was basically we are looking at the benefit of Rs.90 crores of topline that we could probably get in the one year of running from our side. So this is basically the valuation of course, I mean we basically bought out the assets for which we had a fair amount of inventories, the stores were all set up. So there was a fair amount of and they had a few vehicles in place for their deliveries and so on. So basically it was a purchase of their current and fixed asset, so that was how the deal was really valued at.

Nitin Bhasin: And what sort of EBITDA margins are platform like this makes in retailing as compared to your retailing business?

Sukumar Srinivas: See, currently Vaigai makes a gross margin of I think close to around 15%-16%. That is the current gross margin, but they have like I mentioned over the last two years, there have been a tremendous amount of inefficiencies. So let us run our retailship, looking at 2% as our expense profile at before a netted level. So here they have huge expenses;the rentals, salaries, the people. So there we are looking at an EBIT of close to 5%. Of course that was probably not there in the last 2-3 months where they have been making a loss. But we hope to bring that back to at least an EBIT of around 9 to 10 very shortly. I mean with our kind of style and bringing in, that is what we hope to. So basically we are getting what we hope in the next fiscal of around Rs.100 crores of topline in the Chennai market, in this one particular set of product range. And I think this will have a very good impact on the entire Enterprise because we will sort of then engage on our purchasing power as Siddhartha mentioned with this kind of volume which is fairly good and particular very specific line of sanitary and CP fittings.

Nitin Bhasin: So the name of the shops will remain Vaigai Sanitation or would you move them to like Shankara because you said that the brand is very strong in Chennai?

Sukumar Srinivas: So what we propose in this kind of acquisition is that, if they have strong local brand, it will be Vaigai Sanitation, a unit of Shankara Building which will be very prominently displayed and so that as far as the customer goes, there is no sudden change. So they know they are still with whatever is the trusted brand in that region and possibly over the period of years, we will translate it to the Shankara Buildpro.

Nitin Bhasin: Yes, because I don't have a sense of in Chennai where these stores are because traditionally your stores have been little on the suburbs and the outside of the cities, selling construction material like TMT bars and pipes and cement etc. whereas you have a store next to your office which is a very high street upmarket store. Where does this thing fit in, in the whole spectrum?

Sukumar Srinivas: See in the Vaigai, where flagship is in the heart of the town in area called Mylapur in Chennai, this is where they do about maybe 60%-65% of the topline and this is where they started about 30 years ago when they have two, one in an absolute suburb very similar to the kind of stores we have which is towards the OMR that is towards South Chennai where there is lot of development and a lot of activities that is happening and the other is in the North West of Chennai which is in a place called Anna Nagar which was a very good area, maybe, I mean it is still a good residential area, but not anymore that upcoming, so it is fairly well built. This store probably was open by them about 10-15 years ago. So a lot of the revenues what we are also learning from them very interestingly is that this Mylapur, the CdD kind of store is where a lot of their old customers were situated particularly in terms of influences like architects and so on. So they do have a catchment area in terms of the influence and the area there in. Their actual customers may be anywhere in the city. So this is a very slightly different model, but they are situated in a very large space which has got an open area, so where we believe where we can store our other products also.

Nitin Bhasin: So in a city you will start selling like laminates and plywood also through Vaigai?

Sukumar Srinivas: Yes, certainly.

Nitin Bhasin: Okay. So does that mean that there is a change in strategy of the company from not only just focusing on suburbs, now also trying to have a certain mix of stores in high street, heart of the cities and also alongside a large numbers remaining in suburbs?

Sukumar Srinivas: No. I will not say that there is any significant change of strategy. It is just that, like Siddhartha and we are talking about an opportunistic acquisition. So we are looking at, we have taken this up as an opportunistic acquisition which broadly fits will be overall strategy and I don't say that, I mean there is a deviation because we have a high street over here. But then when I am getting a 100 crores topline from a new city where I don't have a significant presence, obviously we have to tweak our strategies as we go along. But it does not deviate from the main path or the main goal.

Nitin Bhasin: You know but traditionally you have moved some, reclassified some of your sales of Enterprise in Channel to Retail depending upon customers how you have uptraded the customer or change the customer profile. Is that transition of a customer from segment Enterprise or Channel to Retail done or is there more of those kind of clients still left?

Siddhartha Mundra: We haven't transitioned any person from Channel or Enterprise retail.

Nitin Bhasin: Okay. Sorry, then my misunderstanding.

Siddhartha Mundra: The way the customer profile, the way the customer purchases is very different across all these three segments.

Nitin Bhasin: Okay. The last question, you said that own product is about 60 and third party is 40. For the overall company, can we get a sense of a similar thing for segment wise like in Retail how much is third party, in Enterprise how much is third party and in Channel how much is third party?

Siddhartha Mundra: It will be broadly the same.

Moderator: Thank you. The next question is a follow up from the line of Jinal Fofalia from AlfAccurate Advisors. Please go ahead.

Jinal Fofalia: Sir you said that you will be adding stores around 15 to 20 numbers every year, so do you have any targets in next 3-4 years, what is the total number of stores that you would like to have and what is the peak number of stores, like where you want to reach?

Siddhartha Mundra: So we would like to be at a 200 store kind of number in the next 3-4 years and to our mind, the opportunity is huge, we are talking largely on South India only right now. Opportunities exist across the whole of India. So there is no fixed number, I mean we have in mind.

Jinal Fofalia: And second you said that there is a softness and demand post Diwali, so when do you see a strong uptick happening?

Sukumar Srinivas: I think let probably, I mean predictions in this country are very difficult to make because we don't know what is the new economic environment. But I would certainly expect, probably December-January onwards, things should start really moving up.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Mundra for closing comments. Over to you, sir.

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

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