Shankara®
Building Products Limited

Date: 22nd December, 2023

To
Department of Corporate services
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, Phiroze Jeejeebhoy
Towers, Dalal Street, Fort,
Mumbai-400001
Scrip Code: - 540425

To
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1,
G Block, Bandra Kurla Complex,
Bandra (E)
Mumbai- 400051
Symbol- SHANKARA

Dear Sir/Madam,

Subject: Transcripts- Demerger Update Call

Please find enclosed the transcripts of the Demerger Update Call held on 19th December, 2023.

Kindly take the above information on record and acknowledge.

Thanking you,

For **Shankara Building Products Limited**

Digitally signed by EREENA VIKRAM
DN: cn=EREENA VIKRAM c=IN
o=PERSONAL
Date: 2023-12-22 13:45+05:30

Ereena Vikram
Company Secretary and Compliance Officer

"Shankara Building Products Limited

Demerger Update Call"

December 19, 2023

MANAGEMENT: **MR. SUKUMAR SRINIVAS – MANAGING DIRECTOR**
MR. DHANANJAY MIRLAY SRINIVAS – VICE PRESIDENT
MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER
MR. GIRIDHAR PARTHASARATHY – MANAGER, FINANCE

Corporate Office: No. 21/1 & 35-A-1, Hosur Main Road, Electronic City, Veerasandra, Bengaluru - 560100
CIN: L26922KA1995PLC018990

Moderator: Ladies and gentlemen, good day and welcome to the Shankara Building Products' Demerger Update Call. 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 this conference, please signal an operator by pressing * and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sukumar Srinivas, Managing Director, Shankara Building Products Limited. Thank you and over to you, sir.

Sukumar Srinivas: Good afternoon and a very warm welcome to the Shankara Building Products Limited Analyst Call. I have with me Mr. Alex Varghese, our CFO, Mr. Dhananjay Mirlay Srinivas, Vice President and Mr. Giridhar Parthasarathy, our Manager - Finance. We have uploaded a detailed presentation on the exchanges, and I hope all of you have had an opportunity to go through it.

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

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

In consideration of the demerger, all our shareholders will be getting one share each for the new entity, Shankara BuildPro Limited, and both these entities will be separately listed in the exchanges, thus unlocking value of our high-return marketplace business.

To give you a larger rationale of this transaction, Shankara Building Products was established in 1995, initially as a steel distribution company. Over the years, we have strategically transitioned into retail operations and subsequently introduced non-steel products to become a total building materials solution company. As we have progressed, steel dynamics have changed very significantly. More importantly, steel prices have been volatile over the years. This has impacted our margins as well as the working capital requirements on the manufacturing side. So, we strategically scaled down our manufacturing business in the past to focus more towards our marketplace model. As a result, we achieved good success towards managing and strengthening our working capital requirement, came down significantly from 50 to 60 days earlier to around 30 days. We have seen a healthy growth in our top line as well as our bottom line over the past one and a half to two years, as we focused on our marketplace business.

However, the blended profitability margins continue to remain around 3%. The overall return indicators improved to 15% in FY2023. These returns could have been in the range of 25% to 30% for the marketplace business but remained subdued due to high capital employed in the manufacturing business.

With this demerger -

1) Our business structure will be simplified.

2) Our profit margins and return indicators present a clear view of the strength of our marketplace business.

3) The demerger will enable us towards a focused capital allocation strategy.

4) Fourthly, we have decided to augment by bringing new generation managers to lead from the front the marketplace business and focus more towards value-added avenues.

5) A dedicated management team is being instituted for the manufacturing business. There is a need to explore potential ways to turn-around the manufacturing by expanding our product range, identifying value-added products and improving capacity utilization.

Hence, we are confident that this demerger will significantly benefit all our stakeholders.

The next steps of this scheme of arrangement would be regulatory, shareholders, creditors and stock exchange approvals. We expect that all the approvals, which I have talked about, would get done in about 10-14 months from now.

With this, I would like to hand over the call to Mr. Dhananjay Srinivas, who will talk on the strategy going ahead.

Dhananjay Srinivas: Good afternoon, everyone. I am pleased as we embark on our new journey with a focused entity for our building materials marketplace business. Over these years, our organization has evolved into an omni-channel path where we cater all types of customers from retailers to contractors, builders, influencers and OEMs, to all types of building materials from steel tubes, pipes to TMT, roofing sheets, sanitary, tiles and all other building materials through our various modes, from our stores, our warehouses, through phone and e-commerce.

With this demerger, we aim to segregate our marketplace and manufacturing verticals. We have taken a strategic decision towards shifting our business towards more value-added opportunities. Our steel trading business has an EBITDA margin of around 3%-3.5%, while our non-steel EBITDA is around 5%-5.5%. Our intention is to augment the value we provide by concentrating more on value-added offerings, emphasizing their significance over some of the legacy non-value-added segments.

We have taken a few key initiatives to drive the expansion of our non-steel products. Firstly, with the launch of our private label, Fotia Ceramica, designed to meet diverse customer requirements within the tile segment. During FY2023, which was our first year of launch, we have already seen good success in the Kerala market, with a top line of around 70 crores for the year. We have now introduced the brand across Karnataka, Tamil Nadu, Maharashtra and other Southern regions in this fiscal. We are in the process of setting up a state-of-the-art display and experience center in Morbi, which is one of the leading tiles hub of the country. This will help us expand our presence to other parts of the country. We believe Fotia Ceramica can play a pivotal role in our non-steel growth journey in the coming years.

Moreover, we have strengthened our brand relations, and we continue to add premium brands across categories of sanitaryware, paints, hardware and accessories. For example, brands such as Grohe, Duravit, Hans Grohe and Kohler have been added in our sanitaryware segment. We have recently launched modular kitchens and wardrobes in the Chennai and Mysore markets. We have seen good success this year in the hardware category with Hafele, and we are looking to add more reputed brands in the future. While we continue to increase our non-steel mix, we further wish to utilize our strength in steel products by adding value-added products to drive better margins.

As we pursue this objective, our analysis indicates that EBITDA margins are anticipated to lie between 3.5% to 4%, as we reach a 20% non-steel mix, which we are very confident of achieving by FY2025. As our non-steel business is in a relatively nascent scale, there is significant operating leverage benefits that we may see in terms of improvement in profit margins, as we see a more aggressive growth in our non-steel business.

With this, I would like to hand over the call to the moderator for a Q&A.

Moderator: Thank you very much. The first question is from the line of Dhruv Bajaj from Smart Sync Investment Advisory Services. Please go ahead.

Dhruv Bajaj: Good Afternoon, Sir. Sir, can you please share what are your plans regarding the manufacturing business, considering it is a low-margin, low-RoCE business riddled with steel price fluctuations. So, do you have any rough estimates of the replacement costs of our assets and if selling of those assets makes sense or since we have opted for demerger instead of divestment, so we have some strategies in mind to turnaround that business and increase the utilization levels.

Sukumar Srinivas: See, currently we are barely operating at about 40% of capacity. One of the disadvantages of being in a merged entity where the entire focus was more on the trading and the marketplace business was that there was less focus given on the manufacturing activities. So, we believe that now one of the clear thing is to revive the capacity utilization, A. B, whatever we do in the steel tubes, we can definitely manufacture some of the products which we can manufacture ourselves but currently buy from outside. So, thirdly, with a much, much deeper focus, we do have a lot of capacity to get into value-added products in our manufacturing facilities. So, these are the areas which we would be clearly focusing upon to turn that around. I don't say it would be a dramatic improvement but definitely we are targeting towards much better RoCEs compared to what it currently is.

Dhruv Bajaj: Got it, sir. That is very helpful, sir. And, sir, if I understand correctly, the top management team will be separating both the businesses. So, is my understanding, right?

Sukumar Srinivas: See at the top management, me as the Managing Director and as the Founder of the Group will definitely be a Mentor for both the teams. However, we do have a very senior person in the current Board for the steel business. So, he will be 100% allocated for the steel business. I am talking about the manufacturing entities. So, his portfolio would be at a senior level to take care of the entire manufacturing activity. While Mr. Dhananjay, who has come into the business about three, four years ago, would be taking over on a day-to-day management part of the marketplace business that is getting spun off in the future. But along with that, obviously, at the other senior management levels like the CFO, the Company Secretary, etc, there would be a team in place for both the individual companies.

Dhruv Bajaj: Got it, sir. That is very helpful, sir. And, sir, what is the cost of rental as a percentage of overall revenues in the building material or retail segment?

Sukumar Srinivas: Sorry, I didn't get your question.

Dhruv Bajaj: Sir, what is the cost of rental as a percentage of overall revenues in a building material or retail segment? Since we don't have any plans of adding any incremental stores in the retail segment, I was just trying to understand if there is any scope of operating leverage to play.

Alex Varghese: It will be approximately half percentage of the revenue.

Dhruv Bajaj: And, sir, a follow-up question is how do you look at the new competition from the likes of Grasim and Dalmia Group, considering we don't have any major plans to increase our retail store count, given the strong SSSG growth potential in our existing stores?

Sukumar Srinivas: See, this is a very decentralized kind of a business, where overall if you look at building material space as a single shop or a single store or a single outlet offering such a wide variety of products, we as India itself, we are in a fairly nascent stage. So, and secondly, I would like to add that we have been amongst the, let's say, the pioneering people in this kind of business at trying to aggregate a much-fragmented business and putting it all under one store or under one roof. So, I think the bigger groups, of course, they have got the deeper pockets. But we have seen some of them like the Dalmia for some time. We've also seen L&T in the earlier days, or UltraTech coming out with multi-product stores. So, we'll have to watch and wait. I think our biggest advantage is that we are very grass-rooted. We've got some years' advantage of trying to understand the kind of marketplace, the kind of customers who need very, very, let's say, very close attention and detail to handling it.

Dhruv Bajaj: Got it, sir. And, sir, if I can squeeze in just another question, then from an analyst's perspective, two major risks that our company currently has are high concentration in Southern India and high revenue contribution from APL Apollo Group. So, how do we plan on tackling that in future or do you have some other thoughts on this topic?

Sukumar Srinivas: See, our presence certainly is there in Southern India. There is no doubt about it. In the steel tube segment, definitely we have a lot of Apollo tubes, form a major part of our steel tube component. So, two things. One, definitely we do have plans to go Pan India. So, that over the years, even the current, as we are speaking, we are opening a depot in Mumbai for our tiles part of the business. So, we do have plans to go Pan India in the coming years. As far as the, and we are already present in Madhya Pradesh too and Odisha also. So, that is one part which we will be spreading definitely as we move forward. And coming to the Apollo focus, it's like I mentioned, it's largely focused on the steel tube segment, which is one part of our overall steel business.

Dhruv Bajaj: Got it, sir. That is very helpful, sir. Thank you, sir, for answering the questions.

Moderator: Thank you. The next question is from the line of Gunit from CCIPL. Please go ahead.

Gunit: Hi, sir. I just want to understand what percentage of our own production was sold to our own marketplace. Or did we have any other direct customers as well?

Sukumar Srinivas: See, currently, because it was the same company, we try to focus most of our sales of the manufacturing entity through the marketplace. So, which was close to about 80% was sold through the marketplace. That is from our manufacturing entities. But as we go forward, there would be a lot of this sale would be focused largely going directly from the manufacturing entity to the outside world.

Gunit: How much did you mention it was, in order to get close to 80% was sold to the marketplace currently?

Giridhar Parthasarathy: Yes, close to 80% was sold to the market, through marketplace. Going ahead, it is expected to significantly drop.

Gunit: Okay. And sir, in the earlier calls, you had guided about 20% to 30% CAGR for the coming four years to five years and to reach about 10,000 Cr on the consolidated level. So, now with the demerger and with the streamlining of strategies, and I mean more focused strategies in both the areas, do you feel that we can grow faster than that or do you want to give a realized guidance? Do you want to give a new guidance, I mean, looking at the synergies with this demerger?

Sukumar Srinivas: We have given the CAGR for the next five years to six years, certainly. As a Group and as a Promoter, there is no doubt that I would be encouraging the team to achieve the same kind of numbers over the years. But as it is now split into two companies, there could be a slight moderation on the, but we are little more focused on the margin profile now in the marketplace company. So, as a Group Promoter, definitely I will push the team for the same CAGRs.

Gunit: All right, sir. That is all from my side. Thank you.

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

Deepak Poddar: Thank you very much, sir, for this opportunity. So, first of all, I wanted to understand what sort of capital is employed in your manufacturing division?

Alex Varghese: Around INR 400 crores.

Deepak Poddar: How much?

Alex Varghese: INR 400 crores.

Deepak Poddar: INR 400 crores, right? And I think we are currently having 4% to 5% kind of RoCE in that particular business, right?

Alex Varghese: Correct.

Deepak Poddar: And in one of the remarks, you did mention that we are targeting much better RoCE than it is today. So, any kind of aspirational range we have in terms of what sort of RoCE we might target in maybe, what, three years to five years?

Giridhar Parthasarathy: It is a little too early to comment on this. So, once we, because we are in the process of setting a strategy and a turnaround strategy for the same. So, as things progress on or maybe closer to the year-end or say, in another six months, you will get a better idea about how things will move on.

Deepak Poddar: Okay, understood. But our thought process is clear, right? I mean, once we have done this demerger, so one of the key ideas is to kind of focus on this company and revive it and try to create value or add value to all the stakeholders in this particular company as well, right? The manufacturing.

Sukumar Srinivas: Absolutely.

Deepak Poddar: Okay, so that is a clear thought process out there. Okay, understood. And in terms of, I think you also mentioned that now focus is more on the margin front. Now, I think earlier as well we were targeting in the range of 3.5% to 4% kind of EBITDA margin in your marketplace business. Now, this business going away which were 1.5% to 2% kind of EBITDA margin business, ideally your range of EBITDA margin that we target in here would be on the higher side, I mean, isn't it?

Sukumar Srinivas: Yes.

Deepak Poddar: So, what would be the aspirational range? I mean, can we aspire that we can aspire at least a 6% kind of EBITDA margin in our kind of, these kinds of businesses or is it little too on the higher side considering the model, business model that we work?

Sukumar Srinivas: Yes, I think at present I can give you very confidently that maybe in the next year or so, I am talking about FY25, we would be in the marketplace business close to around 4% at an EBITDA margin up from the current 3%. Definitely we are going forward, we do aspire those numbers to go to at least definitely to 5%.

Deepak Poddar: To 5% EBITDA margin by what FY26, FY27, I mean, in what sort of timeline?

Sukumar Srinivas: We will aspire for that.

Deepak Poddar: Come again?

Sukumar Srinivas: We will definitely aspire to improve the margin as we go forward.

Deepak Poddar: Yes, so what, I mean, by FY27 is what this aspiration would be?

Sukumar Srinivas: Yes, I think I would not like to give immediately futuristic numbers, but definitely the aspiration is always there.

Deepak Poddar: Okay, fair enough, I got it. And in terms of, you did mention that our CAGR focus remains same, I mean, this 25%, 30% now with a lower base, right? With the INR 700 crores, INR 800 crores kind of a top line going away into a separate company. So that same revenue CAGR we can look for?

Sukumar Srinivas: Yes, all for 20% to 25%, definitely as an aspiration that will always be there. I mean, as to drive a company forward as a Promoter, that would always be the target I would give my team. So yes, we would definitely as a combined picture try to grow at that pace.

Deepak Poddar: On a base of what, now INR 3,300 crores, right? And INR 3,200 crores, INR 3,300 crores now, the revised base for your marketplace business?

Giridhar Parthasarathy: See, again, as we realign our strategy a little, because we are aspiring to grow, around 20% ideally, as sir said, should be the target going ahead. But I hope, we again don't want to commit to any numbers so soon.

Deepak Poddar: Okay, so the CAGR that you mentioned is 20%, 25%, is that right?

Sukumar Srinivas: Yes

Deepak Poddar: 20% to 25%. Okay, I got it, I think that's it from my side, all the very best to you. Thank you so much.

Moderator: Thank you. The next question is from the line of Aditya from Singularity Investments. Please go ahead.

Aditya: Hello sir, this is an interesting development. So, when I look at the manufacturing vertical that we are talking about, we are operating at a return on capital of 4% to 5%. But if you look at your other competitors or people who are in similar businesses, what is the return on capital that you think other comparable businesses generate?

Giridhar Parthasarathy: So, it can be around 10% if we see a few of our competitors, but currently due to a little bit of defocus, it is on a lower end.

Aditya: What are the mistakes, I won't use the word mistakes, but what have we not done right for us to be operating at 4% to 5% return on capital vs let's say 10% or whatever that competition or competitive people in this market will be operating at?

Sukumar Srinivas: I think in the last six years, seven years, I think as the marketplace business was rapidly growing, there was definitely a defocus on the manufacturing side and the processing side. So, I think that itself has led to a certain, let me say, entirely a slightly defocused approach of the same. I think some of the points which I had mentioned earlier, the minute it is implemented as an independent manufacturing business, I think those points would get rectified and definitely this 10%-plus kind of an RoCE could be easily achieved.

Aditya: But even if we achieve 10% RoCE, in effect, considering the cost of capital, we are still destroying value consistently. So, wouldn't you think that it is better to actually just shut down a business which is generating 5% return on capital?

Sukumar Srinivas: See, we certainly would like to make a much -- also, it is a legacy business. We are a 50-year-old company. So, a lot of the build-up over the years, there is a lot of assets that get built up. So, it is easier to just shut down. We would like to give it a game try and then certainly try and make a success out of the manufacturing business. Maybe we can think of -- a lot of other opportunities could emerge in the near future.

Aditya: Would you think that let's assume hypothetically, if you were to shut down, I mean, this is completely hypothetical. I appreciate that this is a legacy business, and you would not want to do that. But let's assume for a moment that we shut down the manufacturing business vertical. Would it affect the EBITDA margins and return on capital for the building marketplace?

Sukumar Srinivas: Sorry, I didn't get the second part of the question. If we shut down hypothetically, is there something called…

Aditya: Yes, let's assume for a moment that we shut down manufacturing steel and allied products vertical. I mean, I know you are not going to do it, but for a moment, let's assume. Would it impact the EBITDA and return on capital for the building market marketplace?

Sukumar Srinivas: No, no, not at all. Because we have anyway demerged both. So, it is not going to impact the marketplace business.

Giridhar Parthasarathy: I mean, to answer your query, the whole ideal or the vision of this demerger was to make the building material marketplace an independent entity because of the high return and high RoCE potential it already had. Having said that, at the same time, there is a focused management team instituted to revamp the manufacturing business. And there should be an improvement in the numbers which should be coming in the coming years on the manufacturing side as well.

Aditya: Okay.

Moderator: Aditya, do you have any further questions?

Aditya: I don't have right now. Thank you.

Moderator: Thank you. We have the next question from the line of Shrey J from Svan Investments. Please go ahead.

Shrey J: Sir, just had a confusion about the question. Yesterday, when we released the presentation there, we were saying that 100% of our business is getting demerged. The turnover of the demerged division we are showing as 100% demerged. And today in the investor presentation, we are saying that about INR 700 odd crores is the manufacturing business top line. And if I just go back and read your annual report, last three years, sale of manufactured products number is about INR 100 crores, INR 127 crores, INR 95-odd crores. So, where is this INR 700 crores coming from, sir? Just not able to get that number.

Alex Varghese: In the subsidiary financials, we did a total top line of INR 767 crores in FY23. So, when you are doing the consolidation, so that will get merged into the total revenue. And as a consolidated figure, we are showing INR 4,000 crores in FY23. So, what we did was, we have given the breakup of the manufacturing revenue and other building material marketplace revenue, we have given it separately in the presentation.

Shrey J: Okay. So, sir, when we released the presentation yesterday, we are mentioning that 100% of the business is moving to the demerged division. So, we are sort of confused with that.

Giridhar Parthasarathy: Yes. So, most of our subsidiary sales is done to the Shankara, which gets recorded in a standalone. So, as a process of regulatory process, when we are demerging, the whole of Shankara standalone is getting demerged. So, going ahead now, like sir said, there will be more clear focus between the two entities and the subsidiaries will be doing lot more direct sales to the outside customers.

Shrey J: Okay. All right. So, the three subsidiaries that I can see, Taurus, Vishal, and Centurywells, so those three companies will now get demerged and will become Shankara and obviously, building products will become another company. Is that understanding, correct?

Giridhar Parthasarathy: Yes.

Shrey J: Okay. All right. Thank you so much.

Moderator: Thank you. The next question is from the line of Koustav Das, an individual investor. Please go ahead.

Koustav Das: So, I just wanted to understand, like, what is the growth that you are looking forward to in the marketplace business? Like, I thought you told the previous participant that it will be around 20% to 25%. But I guess in earlier conference calls, you had alluded to it's like north of 25%, like 25% to 30%. So, why specifically do you see a decrease in the growth? Like, if the combined entity was growing at a more rapid pace, why will the marketplace grow at a slower pace?

Giridhar Parthasarathy: See, that overall, I guess, initial guidance that was given earlier was on a basis of five years to six years where we will reach going ahead. Here now, as this new strategy we have taken, we will be realigning a few things and we will kind of say check more on to or say focus more on to non-steel and more value-added business. So, while doing this, we will again see where we are lining up. But a consistent 20% to 25% will be, like certain, will be a target going ahead.

Koustav Das: Okay. But are we then revising our growth guidance downwards? Like, that is what I am trying to understand.

Giridhar Parthasarathy: So, it is not actually the vision of the growth guidance number. The company is continued aspiring to grow. Now, having said that, now since the company has been rejigged into two verticals, the two verticals management independently is evaluating their five-year growth plan. And there may be some revisions to the consolidated group revenues, slightly here or there to whatever the plans earlier were. So, as these plans are instituted and finalized, we will definitely come back to you with the revised estimates.

Koustav Das: Got it. Okay. Coming to the other question. So, as you can see, the RoCE of the manufacturing business is quite low. And if you aspire to make it up to 10% RoCE, even then the cost of capital won't really make much sense. So, why didn't you think of selling this business to some large houses at a good valuation and using that cash to fund your marketplace business model even more? Did the management think on those lines?

Giridhar Parthasarathy: No. As stated before also, it is part of our legacy business. So, we have not thought in that angle at all. We want to continue and try and give our best shot in reviving the same and have a turn around. In essence also, the capacity utilization in the manufacturing has not been that great. So, as we improve and have a strategic focus on it, we are expecting to bring down the cost a bit more and we will see where we end up. So, we have not thought in the lines of hiving it off.

Koustav Das: Okay. And if you are able to turn it around, what is the return on equity percentage that you guys aspire to be? You have some numbers in your mind, right? If I am demerging this, that will be the North Star. So, basically, you will have something on your mind. Can you share some details? What do you want the return ratios to be for the manufacturing business?

Sukumar Srinivas: See, that is something because we have seen not a very great time on that particular area over the last few years. That is being worked on. Definitely, we aspire to improve the numbers. Difficult for me to give you a futuristic number at this point of time.

Koustav Das: Okay. Thank you.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Thanks for the opportunity. Most of my questions have been answered. But just one clarification. In your building products marketplace, is it primarily a distribution business or you have your homegrown products as well? And if so, what is the percentage of revenue that is coming from those homegrown products or brands?

Dhananjay Srinivas: So, in our marketplace business, it would be more of a fulfillment center business where we would have multiple verticals going from our centers. Right now, since we are a multi-brand outlet, we do have key strategic partnership with a lot of top brands. Our own private labels probably currently constitute around 4% to 5% of the overall turnover. We are looking to increase it, but only in very select segments like with Fotia Ceramica and Tiles.

VP Rajesh: Okay. That is helpful. And what would be the return ratios for this business that you expect, let's say, 3 to 5 years out for the marketplace business? Because it will be very asset light, right?

Giridhar Parthasarathy: Yes. See, for the marketplace business, as even mentioned in the presentation and going forward, year ahead or so, we are looking at a RoCE of 30 plus.

VP Rajesh: Okay. Alright. Thank you.

Moderator: Thank you. We have the next question from the line of Miyush Gandhi from Cognizant Capital. Please go ahead.

Miyush Gandhi: Thanks. Sir, would it be possible to basically break up the revenue of the marketplace business in terms of how much of it is coming from B2B, B2C, or how much of it is coming from our retail stores? Anything on those lines will be helpful for us.

Giridhar Parthasarathy: See, our existing retail stores, whatever revenue is there, obviously, it's going to remain with the marketplace. So, that H1 numbers we have released before. So, those things won't be changed. The B2B, B2C numbers, see, it's in a way a fulfillment center. So, now I will have end customers also and a lot of individual contractors and influencers also coming up by. So, those will be a little mixed. At the moment, I cannot give you an exact ratio. But we will come back to you with that otherwise.

Miyush Gandhi: Is it possible to outline what percentage of our revenues are recognized through our retail stores?

Giridhar Parthasarathy: See, overall, the top line, we had around 55% of revenue based on the H1 numbers -- at group level. And those will continue, obviously, in the marketplaces.

Miyush Gandhi: So, honestly, the idea was to understand how do we grow this business, as you mentioned, 20%-25%. If you could help us understand, one way was to add more stores. But apparently, it seems we are not keen on adding more stores. So, how do we kind of grow this business 20%-25% if you could help us understand that?

Dhananjay Srinivas: So, there are two ways we look at it. We feel that in the existing stores, we have a lot of potential still left. We are also looking at adding more of non-steel products and more value-added steel products in our store mixes. So, that would also improve the volumes and turnover per store. And we feel that as we move into this more of a premium center model, we would have a bigger volume coming out of each store. And we would also be looking at opening a few stores in the coming years, maybe 2-3 per year, where we see good opportunities.

Miyush Gandhi: Is it capital intensive to add new stores? Given that we are looking at multi-brand outlets, multiple products, a storefront would generally make more sense, right?

Dhananjay Srinivas: The model is an asset-light model. So, I would have to get back to you on the exact numbers. But we are looking at an asset-light model for opening stores going ahead.

Miyush Gandhi: So, sorry, again, I'm insisting on this. So, is it that currently we are selling more to the other stores who are selling the product? Or are we selling more to the end consumers who are consuming these products?

Alex Varghese: This will be approximately around INR 3 crores to setup one store.

Miyush Gandhi: Okay, that's helpful. And on the question as to, you know, are we selling more of these products as sold to the end consumers or they are sold to other stores who in turn sell it to the consumers? If you could help us understand.

Dhananjay Srinivas: So, we have around 60% would be to end consumers and influencers and so. And we do have a mix where we do sell to smaller stores across the board. As we said, we are moving into the fulfillment center model where we do have various an omnichannel presence per store.

Miyush Gandhi: Maybe, and just one last question on my side. On the marketplace model, what would be the kind of debt? Is there any debt on the balance sheet that will come to this business? Capital structure, if you could highlight. What will be the equity and debt on this balance sheet?

Giridhar Parthasarathy: No, there's not much of debt. Debt-equity ratio will be more or less on the similar lines. It will be around 0.2 to 0.4.

Miyush Gandhi: Thank you. That's it from my side.

Moderator: Thank you. We have the next question from the line of Parv Jain from Niveshaay Investment Advisors. Please go ahead.

Parv Jain: Hello, sir. One question I had on this manufacturing line business. As we have mentioned, we are aspiring to achieve 10% return kind of figure. I mean, any ballpark figure you can give at what utilization level we can see this kind of returns flowing in?

Giridhar Parthasarathy: See, the 10% we said is of the industry and also say similar competitors. Though we would want to eventually achieve that in a complete long-term vision, but first we want to have a strategy in place to how to turnaround this. And we have to evaluate how our current strategy is giving results. So, we will be continuously monitor that and reshaping and do necessary what you call take proactive decisions and have a complete separate team who is focusing on reviving it. So, then we will be able to come up and say an exact number or give you a futuristic number that where we will land up or at what time that can reach to say that percent marks.

Parv Jain: Okay. I mean, just to understand, I mean, what utilization levels are our competitors operating at? I mean, if we can achieve similar kind of numbers, then maybe we can also achieve that similar kind of return. Any figure on that?

Giridhar Parthasarathy: About the competitors, I can't comment now. But we can see at times it is even as low as 25-30% of the capacity level. So, we are looking into the, you know, our existing setup and how we can revamp it for what type of additions or modifications is required, how we can optimize the cost and say better utilize it, how we can use the production for our own materials in wherever, you know, cheaper substitutes are available. So, we are looking into various things and let's see where it comes across.

Parv Jain: Okay. And just another question on this marketplace business. So, till now, our business model has been asset light on that front, right?

Giridhar Parthasarathy: Yes.

Parv Jain: So, going forward also, we are planning to do a similar kind of expansion. You mentioned, I just want to understand how much percentage of our revenues are coming from a physical storefront and how much is that from our e-marketplaces? Is there any figure you can share on that?

Giridhar Parthasarathy: See, e-marketplace is fairly negligible. As we have said before, Mr. Dhananjay will comment on that more. So, most of our sales is coming from the physical front stores only. And we are taking an asset light model only. So maybe we will be going for more, say, rentals model approach wherever we may be opening few stores.

Dhananjay Srinivas: So currently, our e-commerce and online platform serves as a discovery platform which helps us push customers to our offline stores. And it's currently, as I said, discovery. We are working towards making it itself in our own marketplace for solutions regarding building materials. We will have more information and we will be coming out with more details in the coming quarters and the coming years.

Parv Jain: That helps. And just another question if I can squeeze in. What kind of SSSG numbers we are looking at for this year?

Alex Varghese: So, we are looking for a revenue growth only. For specific number, I don't want to mention.

Parv Jain: I mean, on this existing store, what kind of revenue growth can we expect for this year?

Alex Varghese: Approximately around 25 percentage.

Parv Jain: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Aditya from Singularity Investments. Please go ahead.

Aditya: So normally, people do share when there is a demerger like a separated P&L and balance sheet. You know, over, let's say, current year and last year, etcetera. to give a sense of how things look for two different businesses in exact numbers. When would we be able to get hold of such numbers, sir?

Giridhar Parthasarathy: So, our appointed date is April 1st, 2024. It's a slightly coming date. Most of the cases or other demergers you would have seen, it's a previous half-yearly date, so basis which they would give. So closer to that and Q3, we will be able to give more, a better indicator slip how things will be moving and how things will be segregating.

Aditya: Okay. I think I just wanted to be sure that I heard it right. But my understanding is that the manufacturing steel and allied products that the INR 767 crores that you see here in slide number 7, almost the entire sales is to the building materials marketplace. Is that correct or did I get it wrong?

Giridhar Parthasarathy: Yes. So overall, if you see, even if you see a balance sheet that we have been disclosing in the past, so a standalone topline would be coming around, say, 4036, but a consolidated figure would be coming around 4029. So, most of the revenues, approximately 80% to 85% of the revenues are sold to Shankara, in the marketplace.

Aditya: Okay. So, from the INR 2,900 crores of steel that is sold, let's say, I don't know the number, but let's say INR 700 crores vs through your internal unit and INR 2,200 crores is what you may be buying from somebody else, some other steel mill or whatever it is, and then reselling. Do you see differential in margins over these two, between these two vendors internally?

Giridhar Parthasarathy: See at a group level, anyway, consolidated margins will get nullified. And it's more or less around the same lines that we have disclosed in the presentation also. So, it is around 1.7% to 2% range, it varies. So, on a case-to-case basis and the product, for the different product ranges and offerings. So that's one of the reasons why going ahead, we want to say independently, try and keep it separate and ensure that all the sales and independently that entity will, so that it can get evaluated.

Aditya: Sorry. I think I could not explain the question. The question is that when you do an internal transfer pricing for the INR 767 crores of your own production unit to your retail channel, vs buying the same product somewhere outside, is there a pricing differential in your system? Is there a pricing advantage that your internal unit gets?

Giridhar Parthasarathy: Yes, see, it is done at the arm's length only. There's not a huge difference in the margins between what is done to outside and what is inside.

Aditya: Got it. Thank you.

Moderator: Thank you. We have the next question from the line of Koustav Das, an Individual Investor. Please go ahead.

Koustav Das: Hi, I just have two questions left. How is the fulfillment center different? I just wanted to understand. You guys are talking about fulfillment, so I'm just curious?

Dhananjay Srinivas: So, when I say fulfillment center, we talk about it's a place for retail, it's a place for trade, for projects, as well as customers coming and picking up e-commerce orders. So, it would be a multi-point center where we can cater to different verticals of business from our stores.

Koustav Das: Okay, understood. And just one bookkeeping question, can you provide what was the revenue growth for the marketplace business last year, year-over-year? And what was the growth for the manufacturing business? So that we can understand what was the growth rate for the individual segregated businesses?

Dhananjay Srinivas: Just give us a second.

Koustav Das: Yes, sure.

Giridhar Parthasarathy: Manufacturing growth was around 20%, and the marketplace was around -- yes, so the marketplace growth last year was a little steep because of that...

Sukumar Srinivas: See, the marketplace growth last year was, if you compare it between '22 to '23, it was almost 67%. So, it's a very, very high growth. But that was because we started on a post-COVID low base. So, I think that should not be a number that you should look at. So, I think this 20% kind of a CAGR is a very fair number to look at as we go forward.

Koustav Das: Got it. And the last question is, all the types of -- I mean, all the other types of manufacturing, like ceramics that you guys were starting, like Fotia Ceramica and tiles, those will be moved to the manufacturing business? Or will they be a subsidiary of this marketplace?

Dhananjay Srinivas: So, in Fotia Ceramica, we're only doing tiles, just to clarify. And it's contract manufacturing. It will remain with the marketplace business.

Koustav Das: Okay, it will remain with the marketplace business. Got it. Yes, thank you so much. Thank you.

Moderator: Thank you. The next question is from the line of Suryansh from Bizx Enterprise LLP. Please go ahead.

Suryansh: Yes, my question was, what I was seeing the presentation, it was, it seemed that we are very much focused on omnichannel presence. So, like, I want to ask, does it make sense in such sophisticated product where most of the transactions happen physically and are we diluting the effect of the investments by diversifying through the, like contact points? So, shouldn't we focus on like physical front and when the times arises, then we should be focusing on that omnichannel presence?

Dhananjay Srinivas: So, we're not diluting any of our focus. And I would say omnichannel is more on the different modes which a customer can reach us. So, one would be the physical store, one would be through our discovery platform. It could be through our social media, it could be on phones. So, there are various ways for customers to reach us now. And our physical presence is our strength and as you know, 95 plus percent of revenue comes from our physical presence. So, I don't think there's any dilution in that, in the focus. We are just looking to add more avenues to increase our sales.

Suryansh: Okay, and like, one more question is like, we have, as we have demerged the marketplace business and that manufacturing business, so are we looking to induct a manager with good track record in this retail or marketplace or something like, are we thinking over that or all we'll be doing ourselves only?

Giridhar Parthasarathy: There are a few things in pipeline. We cannot comment on those now at the moment. Thanks.

Moderator: Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Thank you for the opportunity, sir. When we are talking about our private labels, where we have 4% to 5% of our sales from the marketplace, so what kind of margins do we have in these segments?

Dhananjay Srinivas: We have around 12% to 15% GP with our private label. And as I said, we're at a nascent stage, so currently our revenue is lower, so our costs are higher. As we scale up, we will see a better return on our investment.

Madhur Rathi: So, 12% to 15% gross profit, is that right?

Dhananjay Srinivas: Yes.

Madhur Rathi: And sir, in the manufacturing case, who would be our closest competitors in the system that we are manufacturing?

Sukumar Srinivas: In the manufacturing part of the business, we've got multiple things in the processing unit. Like we've got color-coated roofing profiles, we've got cold rolling, we also manufacture some steel tubes, etc. As far as all these, the competitors are very many in number. Tubes, of course, you can take, I mean, people like APL Apollo itself, a gigantic unit. Because we're very small, we don't have a direct competition in line with them. We make different kinds of tubes. So, you have many units in this field. It's not one or two profiling, it becomes, again, very many are there. So, I think it's a very well-scattered and disaggregated kind of manufacturing line. It's more of processing.

Madhur Rathi: Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Koustav Das, an Individual Investor. Please go ahead.

Koustav Das: Okay, one more question. So, APL Apollo is also coming up with a MART kind of a model, right? I think SG MART. So, what is your relationship with the same? Will they be a competitor? Or is it more of a symbiotic relationship? And if it is, how?

Sukumar Srinivas: See, SG MART, to the best of my understanding, is going to be largely an aggregator of steel products, which will be sourced at various levels. And it will be more of a distribution business of a much larger scale. So, I think we are looking at more of a retail model. We are looking at a much more, you know, more customer-centric in terms of end-user-centric kind of a business. So, I think, I mean, there will be more of a symbiotic relationship rather than a competitive nature.

Koustav Das: Symbiotic as in, like, will you guys be procuring from SG MART? Or like, I'm just trying to understand?

Sukumar Srinivas: Absolutely. If the prices are good, we could buy from them.

Koustav Das: Okay, okay. Understood. Yes, thank you.

Moderator: Thank you. The next question is from the line of Aditya from Singularity Investments. Please go ahead.

Aditya: Sir, you know, I've been actually following your company for last two, three, four years. And I think you guys have done an exceptional job of, you know, cutting down the stores and then coming to a stable store count and increasing the revenue per store. You know, I think you have kept it stable at 90, 91 stores, whatever the number is, for like at least four or five, six quarters. I mean, maybe more than that, actually two, two and a half years now. Now, you know, so what happens typically in a retail channel is that, once, you keep it constant over time, those stores mature and their revenue per store keeps increasing. And there's a point after which typically in retail, it's difficult to grow without opening new stores. Now, the direction we are getting from the management is that we probably will open like a couple of stores or some number, which will be much less compared to your current number of stores. If you are standing at 90 today, two will not matter, you know, it's another 2% in terms of increasing square feet. So, and that is where, you know, and then you have, you know, you've already matured your stores over the last two, three years by not adding anything, any store at all, or maybe one or two odd stores. That is where, you know, I think what the listeners are not clear on how we achieve this revenue growth rate with mature retail channels. So, without adding stores, if you could just help us understand, that would be great?

Sukumar Srinivas: Sure. See, the first thing is that we have diversified our product range. See earlier many of the stores were very steel dependent. Now, we have in the last 6-7 years added a much wider range of products. So, there is a huge runway of growth in the new products that we have added. Today, as you can, I mean, as we have been mentioning, a non-steel barely constitutes about 10% to 12% of our total revenue. So, now, with the focus is on the non-steel, we do understand that there is a huge headroom in many of our stores to take the growth further. Number two, we have had a pretty good SSSG even in the last year. It was around 39%. So, which, I am sorry, it was 50 plus percent, which itself is a great number to track. Thirdly, our experience in the earlier years when we opened a lot of stores, maybe a little recklessly, we found that we were not, I mean, we had to also close them down to optimize costs, etc. But having said all that to justify why we are not opening stores very rapidly, of course, one more point I can justify is when, I mean, probably we meet in person, I can take you through maybe a couple of stores which are reasonably mature, but which have also grown spectacularly in the last couple of years. So, that is, anyway, that is having said all this, it is not that we are not going to open more stores. We are fully conscious of the fact that a mature store, after few time could start declining in terms of its utility. So, we are very acutely aware of that. Right now, the strategy number one is to push our existing stores so that we minimize costs, squeeze out the maximum for the buck in the existing stores. Luckily, we have achieved that with most of our stores in the last couple of years in the post-COVID strategy that we adopted. But we do have plans. It is not that we are not going to grow stores. We are going to open them carefully and we have a very clear plan that in the next year we would be opening definitely three to four stores at various centers.

Aditya: Thank you.

Moderator: Thank you. We have no further questions ladies and gentlemen. On behalf of Shankara Building Products Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability purpose)

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