

Shankara Building Products (SHABUI)

₹ 1434

Retail play on building material opportunity!!!

Incorporated in 1995, Shankara Building Products (SBPL) is one of the leading organised retailers of home improvement and building products operating under the "Shankara BuildPro" brand. We like SBPL given its aggressive expansion plan in asset light retail store business in home improvement & building products. It plans to almost double its retail store to 200 (from 116 currently) in next five years and upgrade 96 existing old stores with new product categories in next two to three years. Focus on retail business should lead to strong earnings growth (33.3% CAGR) with a sharp improvement in return ratios in FY17-20E. We initiate coverage on SBPL with a BUY recommendation & SOTP based TP of ₹ 1725.

Shankara BuildPro – Building materials under one roof...

Under "Shankara BuildPro", SBPL offers a wide range of home improvement & building products under one umbrella. During FY13-17, SBPL's retail business grew at 26.4% CAGR at ₹ 980.7 crore on the back of store expansion (17.8% CAGR at 106 stores) and expansion in third-party brands (from 16 to 100+) and SKU (from 6806 to 20000+). Going ahead, we expect its retail business to grow at 27.1% CAGR to ₹ 2013.3 crore in FY17-20E on the back of aggressive expansion plans (looking to almost double stores to 200 with 15-20 store addition every year) and upgradation (plans to upgrade 96 stores with 25-30 stores every year).

Focus on asset light retail business model...

We like SBPL given its asset light focus on retail stores for home improvement & building products. SBPL requires minimal capex of ₹ 0.5-1 crore for opening new store due to its lease model, which is very low at ₹ 16.6/sq ft per month due to higher presence in Tier II & III cities. With low initial capex, higher asset turnover & consequent RoCE (~45-50% without back-end infrastructure), payback period for new retail store is three years. It lends us comfort that SBPL's retail store is scalable without incremental capex, which should improve its return ratio profile ahead. Hence, we expect SBPL's RoCE to improve 680 bps to 29.7% in FY17-20E.

Asset light play on growing building material segment; initiate with BUY!

With SBPL's focus on expanding business in the asset light retail store business, we believe it is in a sweet spot to capture growing organised home improvement market. We anticipate SBPL's earnings will grow at 33.3% CAGR to ₹ 142.9 crore with 680 bps improvement in RoCE at 29.7% in FY17-20E. We initiate coverage on SBPL with a **BUY** rating & TP of ₹ 1725/share. We value its retail business at ₹ 1553/share (16x FY20E EV/EBIT, at 33% discount to Home Depot when it was in growth phase. Channel & Enterprise business is valued at ₹ 208/share (at 6x EV/EBIT).

Exhibit 1: Financial Summary

(₹ Crore)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	2035.9	2310.1	2460.1	2851.4	3331.2
EBITDA	119.6	154.4	170.8	212.3	263.8
Net Profit	40.7	60.3	76.2	106.3	142.9
EPS (₹)- Diluted	18.6	26.4	33.3	46.5	62.5
P/E (x)	77.0	54.3	43.0	30.8	22.9
Price/book (x)	10.8	8.3	7.1	6.0	4.9
EV/EBITDA (x)	29.2	22.2	20.0	16.0	12.8
RoCE (%)	21.4	22.9	23.0	26.6	29.7
RoE (%)	14.0	15.3	16.6	19.4	21.3

Source: Company, ICICIdirect.com Research

Rating matrix		
Rating	:	Buy
Target	:	₹ 1725
Target Period	:	12-18 months
Potential Upside	:	20%

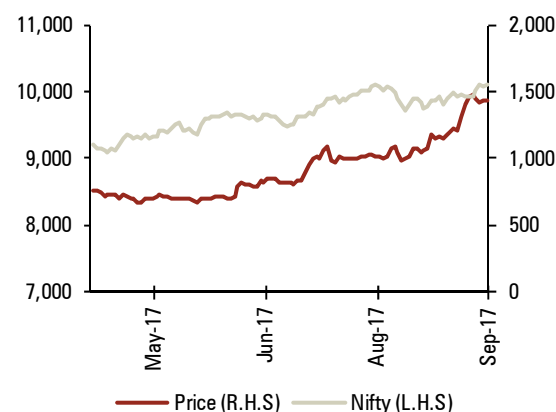
YoY Growth (%)				
(%)	FY17	FY18E	FY19E	FY20E
Net Sales	13.5	6.5	15.9	16.8
EBITDA	29.1	10.7	24.2	24.3
Net Profit	48.0	26.3	39.5	34.4
EPS (₹)	48.0	26.3	39.5	34.4

Valuation summary				
(x)	FY17	FY18E	FY19E	FY20E
P/E	54.3	43.0	30.8	22.9
Target P/E	65.4	51.8	37.1	27.6
EV / EBITDA	22.2	20.0	16.0	12.8
P/BV	8.3	7.1	6.0	4.9
RoNW (%)	15.3	16.6	19.4	21.3
RoCE (%)	22.9	23.0	26.6	29.7

Stock data	
Particulars	Amount (₹ crore)
Market Capitalization	3,276.7
Total Debt	216.0
Cash	66.2
EV	3,426.5
52 week H/L (₹)	1520 / 545
Equity capital	22.9
Face value (₹)	10.0

Return Matrix (%)				
Return %	1M	3M	6M	12M
SBPL	40.7	82.1	NA	NA

Price Movement



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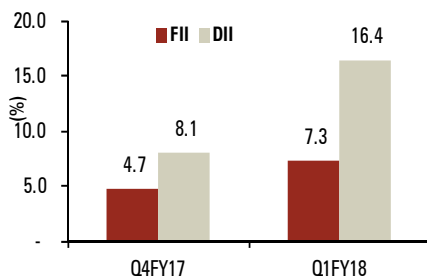
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Shareholding pattern (Q1FY18)

Shareholder	Holding (%)
Promoter	56.2
FII	7.3
DII	16.4
Others	20.1
Total	100.0

Source: BSE Filing, ICICIdirect.com Research

Shareholding pattern (Q1FY18)



Source: BSE Filing, ICICIdirect.com Research

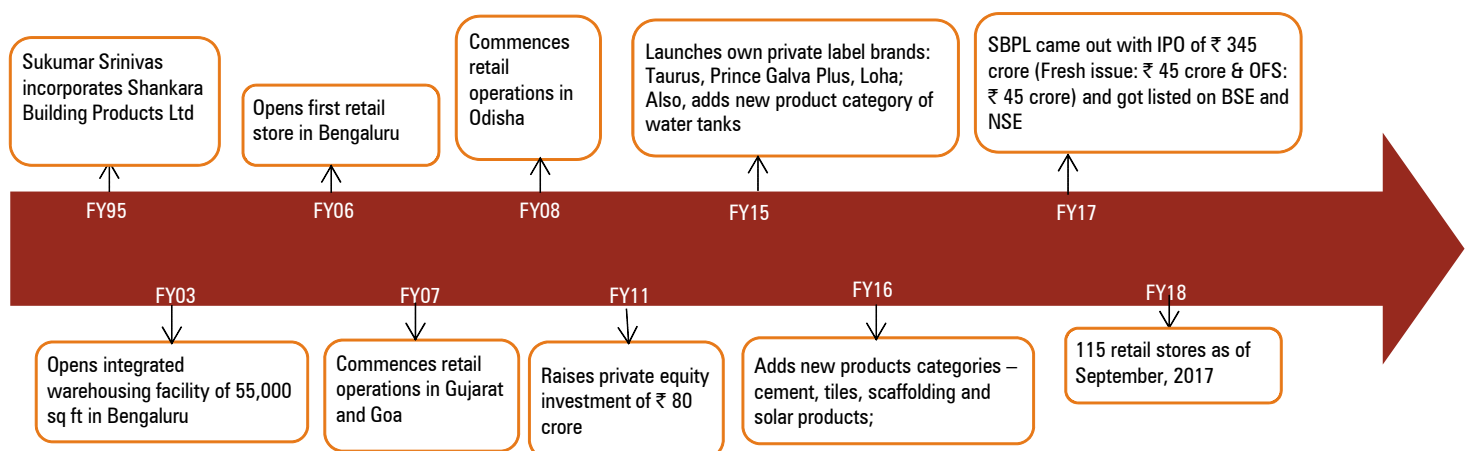
Company background

Incorporated in 1995, Shankara Building Products (SBPL) is one of the leading organised retailers of home improvement & building products operating under trade name "Shankara BuildPro". It was founded by Sukumar Srinivas, an alumnus of IIM Ahmedabad and a first generation entrepreneur who has 33 years of experience in the building products industry. Currently, SBPL operates 116 stores across nine states and one union territory. It came out with IPO in March, 2017 and was listed on bourses in April, 2017. It included a fresh issue of ₹ 45 crore and offer for sale (OFS) of ₹ 300 crore (~₹ 37 crore by promoters and ~₹ 263 crore by Fairwinds Trustees Services). SBPL operates in three segments viz.

- Retail sales:** Under the retail segment, SBPL serves home owners, professional customers (like architects, contractors) and small enterprises through its retail stores. It offers a comprehensive range of products at its stores, including structural steel, cement, TMT bars, hollow blocks, pipes & tubes, roofing solutions, welding accessories, primers, solar heaters, plumbing, tiles, sanitaryware, water tanks, plywood, kitchen sinks, lighting and other allied products. Retail segment contributed 42.5%, 45.7% of overall revenues in FY17, Q1FY18, respectively
- Enterprise sales:** This was started in 1995 with SBPL catering to large end-users, contractors and OEMs. It provides customised solutions to customers through in-house & third party products. Enterprise segment accounted for 32.8%, 32.2% of overall revenues in FY17, Q1FY18, respectively
- Channel sales:** Started in 1999, it caters to dealers & other retailers where it offers steel based in-house and third party products. Channel segment contributed 24.7%, 22.1% of overall revenues in FY17, Q1FY18, respectively




Also, SBPL has 12 processing facilities in select building products like steel pipes, colour coated roofing sheets, bright rods, galvanised strips and cold rolled strips with total capacity of 327400 MT. The company sells these products under its own brands like CenturyRoof, Ganga, Taurus and Price Galva. To support its vast retail network, SBPL has a robust logistic network consisting of 56 warehouses and a fleet of 44 owned trucks.

Exhibit 2: Shankara Building Products Timeline...



Source: Company, ICICIdirect.com Research

Exhibit 3: SBPL - Segmental view...

	Retail	Enterprise	Channel
			
Inception	Started in 2006	Started in 1995	Started in 1999
Business profile	Caters to home owners, professional customers & small enterprises via its 115 Shankara Buildpro	Caters to large end users, contractors and OEM's to meet customised requirements of customers	Caters to dealers and other retailers
Products	Sells home improvement products of 100+ brands covering 20000+ SKU's	Sells third party as well as own brand steel products	Sells branded and generic steel and third party products
Key USP	Wide range of products, trust and convenience to clientele	Customised solutions provided to clientele	Timely delivery and wide product mix
Revenue share (FY17)	~43% ₹ 981 crore	~33% ₹ 760 crore	~25% ₹ 570 crore
EBIT Margins (FY17)	9.9%	6.4%*	6.4%*
Management Target	To increase revenue share to ~70% over the next 4-5 years	To maintain moderate growth ahead	Conscious decision to reduce revenue share, going ahead
Others	Average size per transaction of ₹ 23,244 in FY17	Strong association with Corporates with ability to customize products	Strong distribution network of 2000+ dealers

Source: Company, ICICIdirect.com Research

*: SBPL reported combined EBIT margins for Enterprise and Channel business at 6.4%

Building material industry growth prospects...

The building material products industry in India is estimated at ~₹ 5 lakh crore. Of this, eight key segments (as described below) are pegged at ₹ 4.4-4.8 lakh crore as of 2015-16. Over the past three years, the industry has grown at ~5-5.5% CAGR. It is expected to grow at 8-8.5% CAGR over the next few years to ~₹ 6.8-7 lakh crore. With organised players looking to expand their retail share, ~34-38% of building materials are expected to be sold through retail network. Even GST implementation will help organised players expand their market share, which would further boost prospects of retail network for building materials. Increasing population, a young demographic profile, rising affordability with higher income levels and increasing frequency of renovations are fuelling the fundamental aspirations of households towards housing and housing upgrades.

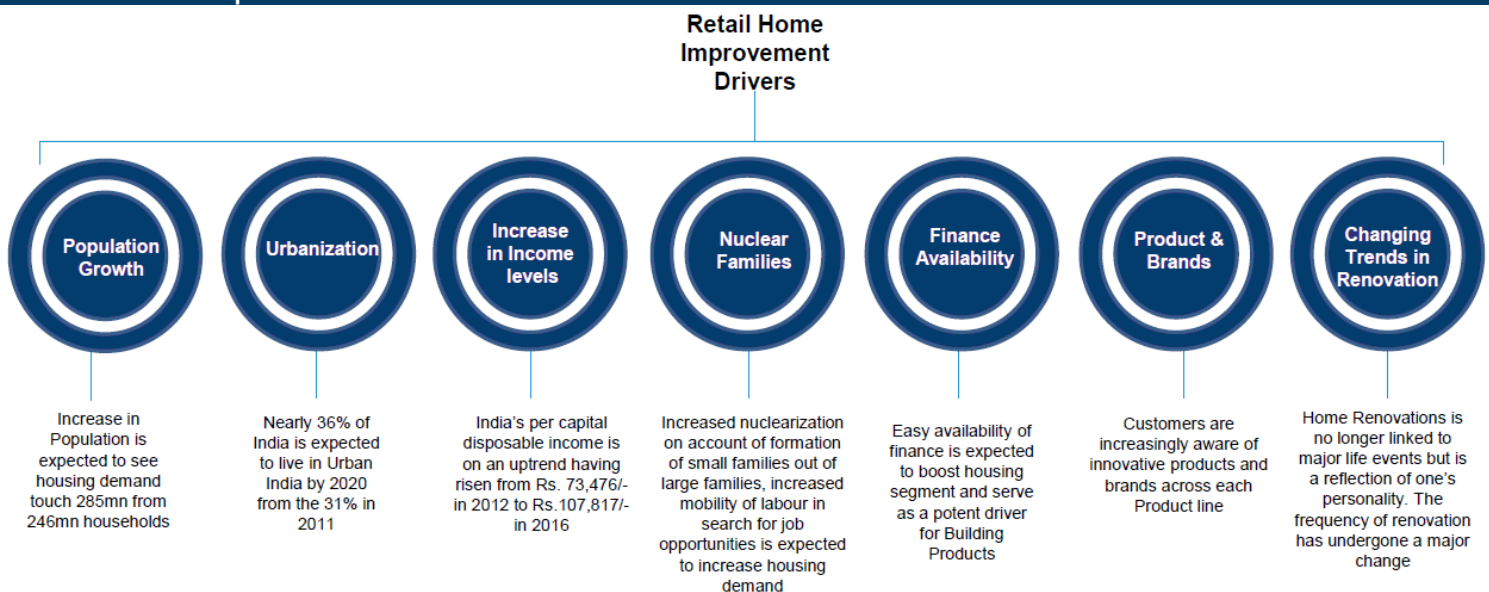
Exhibit 4: Building material industry set to grow...

Segment	Market Size (in ₹'000 crore as of 2015-16)	Next 5 years growth forecast	Organised player share	Level of customer involvement in product purchase	Sales via retail channel
Cement	130-140	8-8.5%			
Structural Steel	130-140	7-8%			
Bricks	60-65	8-10%			
Paints	39-40	12-14%			
Plumbing - PVC Pipes	26-27	10-12%			
Ceramic tiles & Sanitaryware	25-26	10.5-11%			
Plywood & Laminates	24-25	11-11.5%			
Lighting	18-19	11-13%			
Total	450-480	8 - 8.5%			

Source: RHP, ICICIdirect.com Research

A large part of India and the Indian housing industry continue to thrive in smaller dwelling units in Tier II, III cities. Small contractors and individual home builders cater to them. Typically, sourcing genuine building products from trusted parties is an increasing challenge for home owners wherein organised retailers of home improvement and building products come to their rescue.

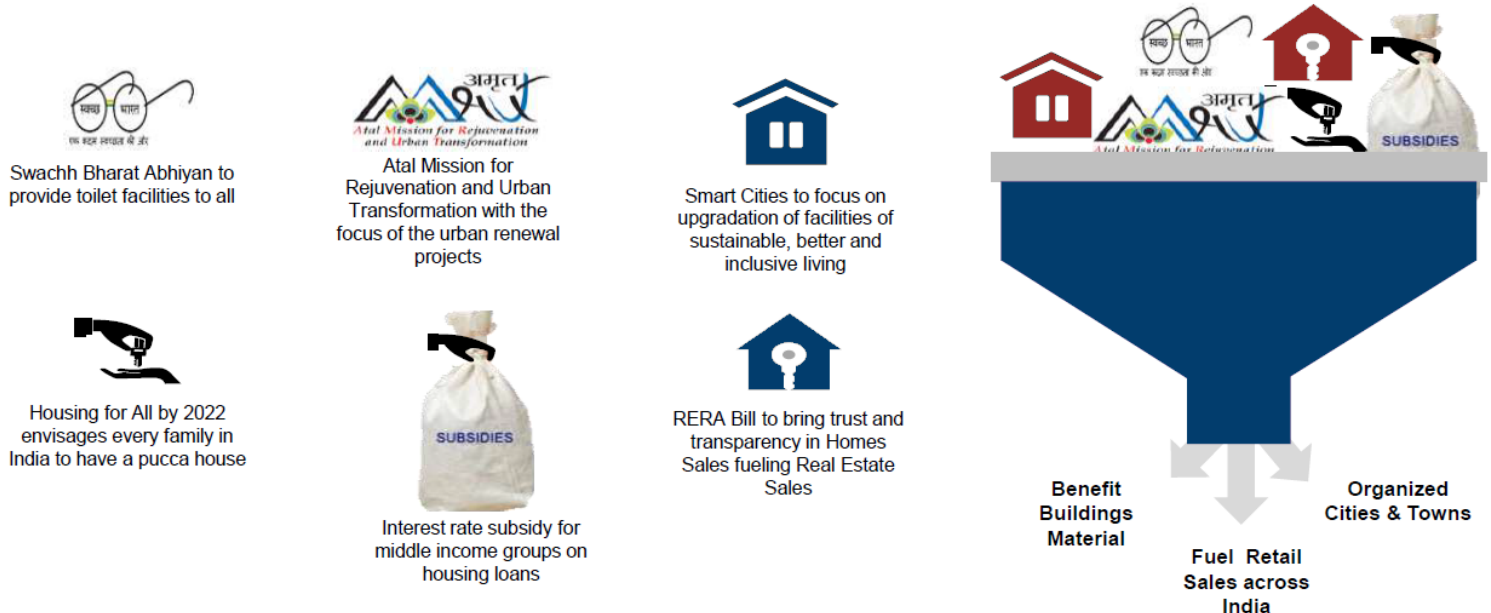
Exhibit 5: Retail home improvement drivers...



Source: Company, ICICIdirect.com Research

Even various government initiatives like 'Swachh Bharat Abhiyaan', 'Housing for All by 2022' & 'Smart City Mission' are expected to drive the demand for various building materials, thereby enhancing the growth for the home improvement and home building industry.

Exhibit 6: Government policies favouring industry growth...



Source: Company, ICICIdirect.com Research

The demand for building materials is not only increasing from residential & commercial segment but also from segments like retail (malls), hospitality (hotels), healthcare (hospitals), etc. Furthermore, construction of a housing unit involves usage of several building materials like cement, sand, steel, electrical products, etc. The below-mentioned break-up indicates that eight key building materials account for more than 75% share in the overall building material cost break-up.

Exhibit 7: Building material wise cost break-up...



Source: RHP, ICICIdirect.com Research

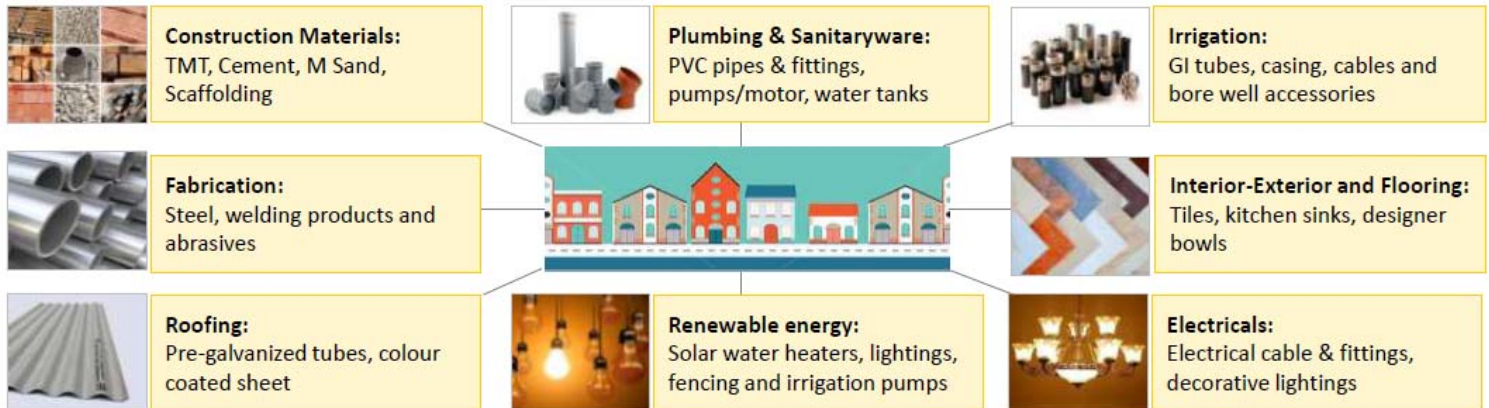
Investment Rationale

Shankara BuildPro – One Stop shop for building materials

Through retail stores under the name “Shankara Build Pro”, the company offers a comprehensive range of home improvement and building material products including structural steel, cement, TMT bars, hollow blocks, pipes & tubes, roofing solutions, welding accessories, primers, solar heaters, plumbing, tiles, sanitary ware, water tanks, plywood, kitchen sinks, lighting and other allied products. Under retail stores, it caters to home owners, professional customers (such as architects & contractors) and small enterprises.



Exhibit 8: Comprehensive product range...



Source: Company, ICICIdirect.com Research

Over the last four years, the company has expanded its third party brand portfolio at a robust pace from 16 in FY13 to 100+ brands currently. SBPL also expanded its stock keeping unit (SKUs) from 6806 in FY13 to 20000+ currently. The company has different offerings of building materials for consumers under one umbrella.

Exhibit 9: 100+ brands under one roof...

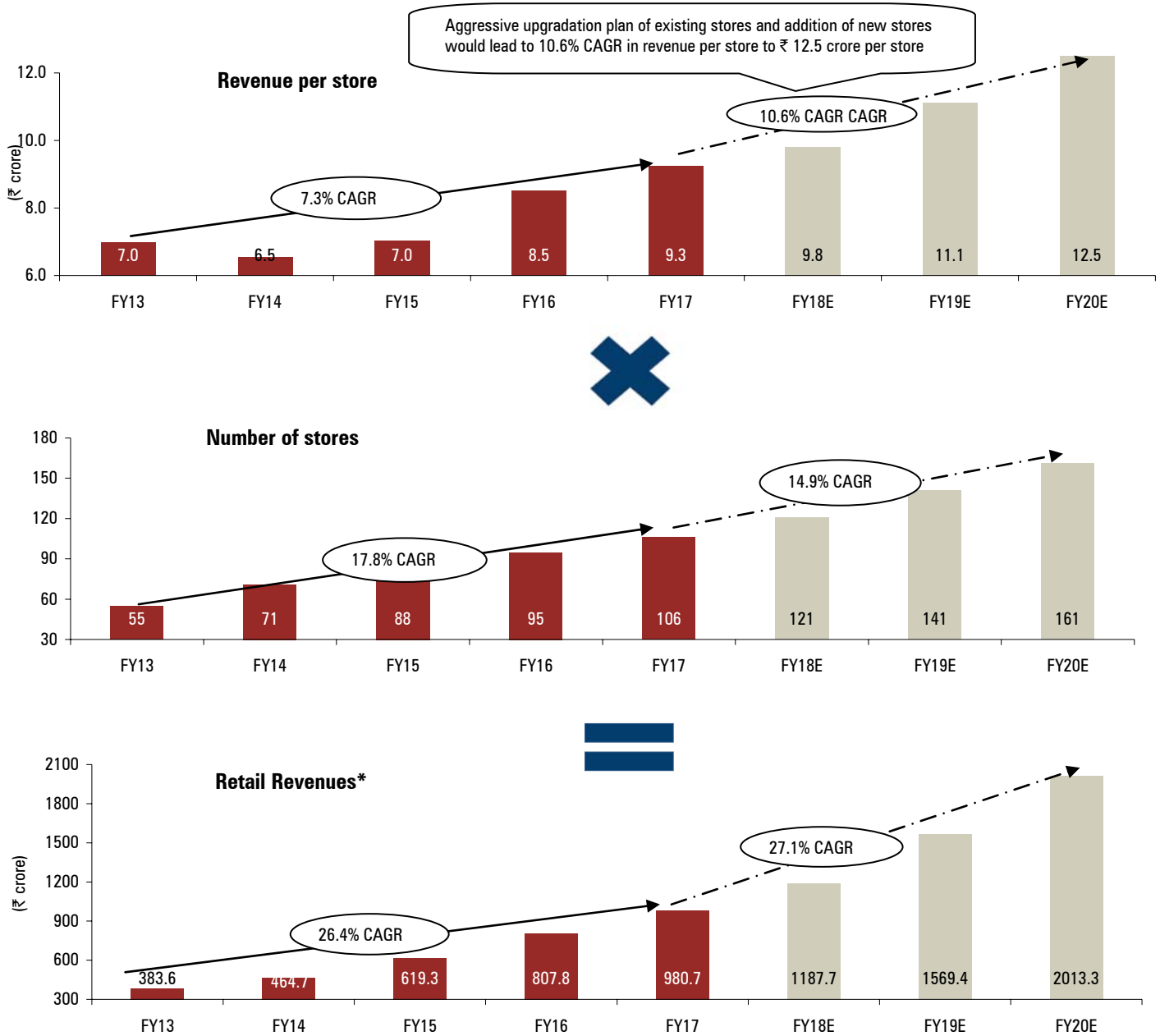


Source: Company, ICICIdirect.com Research

Aggressive retail expansion & upgradation plan to sustain healthy growth

SBPL aggressively expanded its store network from 55 in FY13 to 106 stores in FY17, which led to strong retail revenue growth of 26.4% CAGR to ₹ 980.7 crore in FY13-17. Going ahead, it is looking to almost double its store count to 200 over the next four to five years. To achieve this, the company is planning to open 15-20 stores every year over the next four or five years. Even revenue per store has grown steadily at 7.3% CAGR to ₹ 9.3 crore per store. We expect the company to maintain this steady growth ahead with SBPL also looking to upgrade its existing 96 old stores (25-30 stores per year). Consequently, with steady revenue per store growth and SBPL's aggressive store expansion plan, we expect retail revenues to grow at 27.1% CAGR to ₹ 2013.3 crore in FY17-20E.

Exhibit 10: Charting the retail story...



Source: Company, ICICIdirect.com Research

*Retail Revenues = Revenue per store * Number of stores

Retail margin – still scope for expansion through favourable product mix...

SBPL's gross profit margins in the retail store business were ~12% in FY17. Despite this, it clocked EBITDA margin at 9.9% in FY17 mainly due to a very low lease rate (~0.6% of revenues in FY17 - currently the lease rate is only ₹ 16.6 psf per month) and low operating expenses due to efficient size of store (3500-4000 sq ft).

Exhibit 11: Favourable retail store economics

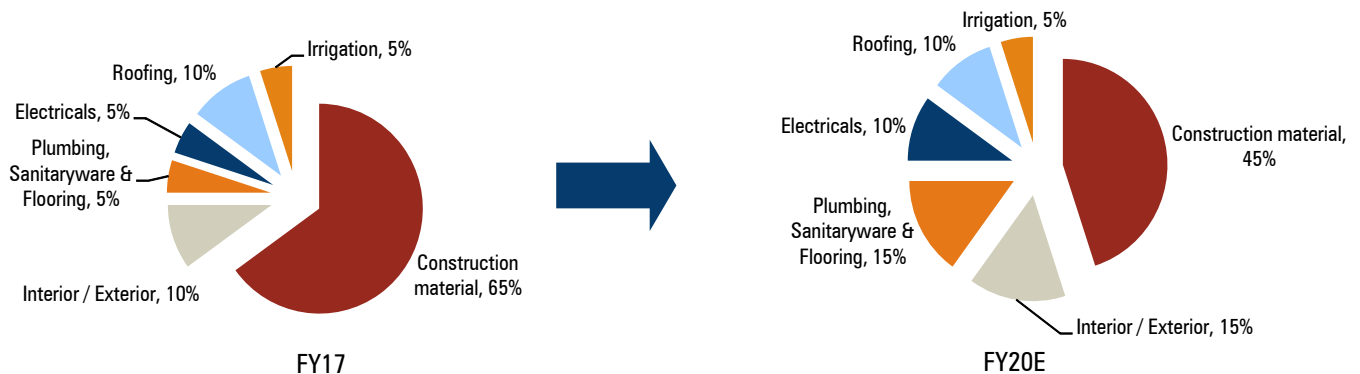
Retail Business Model	FY12	FY13	FY14	FY15	FY16	FY17	Q1 FY18	FY18E	FY19E	FY20E
Retail Revenues (₹ crore)	294.7	383.6	464.7	619.3	807.8	980.7	270.0	1,187.7	1,569.4	2,013.3
YoY growth (%)		30.2	21.1	33.3	30.4	21.4	21.0	21.1	32.1	28.3
EBITDA* (₹ crore)	6.9	12.9	21.8	46.1	77.5	97.2	30.2	120.0	161.5	211.1
EBITDA Margin(%)	2.3	3.4	4.7	7.4	9.6	9.9	11.2	10.1	10.3	10.5
No of Stores	43	55	71	88	95	106	112	121	141	161
Per store matrix										
Average Revenues per store	6.9	7.0	6.5	7.0	8.5	9.3	9.6	9.8	11.1	12.5
YoY growth (%)		1.8	(6.2)	7.5	20.8	8.8	21.0	6.1	13.4	12.4
SSG growth	31.0	16.7	13.3	24.2	28.3	19.4	15.0	NA	NA	NA
EBITDA* per store	0.2	0.2	0.3	0.5	0.8	0.9	0.3	1.0	1.1	1.3
Average Store Size (sq ft)	2,923	3,278	3,153	3,308	3,401	3,595	3,582	3,703	3,888	4,082
Per sq ft matrix										
Revenues per sq ft (₹/ sq ft)	23,450	21,276	20,758	21,272	25,004	25,735	26,920	26,507	28,628	30,632
EBITDA per sq ft (₹/ sq ft)	549	715	974	1,583	2,399	2,551	754	2,678	2,946	3,211
Lease rate (₹/ sq ft per month)	NA	NA	NA	NA	NA	16.1	16.6	16.9	17.8	18.7

Source: Company, ICICIdirect.com Research

*before un-allocable expenses

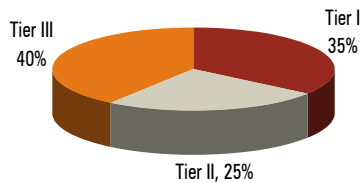
Going ahead, we believe it has the scope to further improve EBITDA margins with a favourable product mix. Currently, new range products (sanitaryware, plumbing, flooring and electrical) account for only 10% of retail revenues (~₹ 100 crore). The management aims to reach 25% of revenues from these products over the next three years. Apart from providing a favourable product mix, the quantum of new business should also provide better negotiating terms with vendors. Furthermore, operating leverage may kick in further with the ramping up of same store growth. With these layers, EBITDA margins may improve to 12% over the next few years. Nonetheless, we remain conservative in our estimates. We consider a moderate expansion of 60 bps at 10.5% in FY17-20E. We would like to closely monitor ramp up in a new range of products.

Exhibit 12: High margin decorative products to drive EBITDA margins...

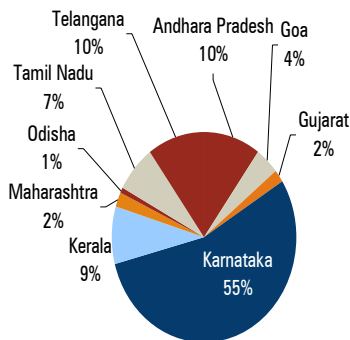


Source: Company, ICICIdirect.com Research

FY17 Revenues break-up



State-wise FY17 revenue break-up



Store economics imply strong growth achievable with minimal capex

We have tried to look at the store level economics for SBPL. On the investment front, SBPL requires initial investment of only ₹ 0.5-1 crore to open a new store with average store size of 3500-4000 sq ft since it follows the lease model for retail store. The capex requirement is mainly for working capital, deposit for lease arrangement and renovation cost for the store.

In terms of sales, it achieves sales of ₹ 30-40 lakh per month, which is expected to scale up to ₹ 60-70 lakh per month over the next six to 12 months. Then, over the next two to three years, the new stores, at the company level, are expected to achieve store sales of ~₹ 10 crore per annum. In terms of operating expenses, SBPL manages it very well within 2% of revenues mainly due to lower lease expenses (just 0.6% of revenues in FY17 vs. 8-10% for other retail players). It enjoys a low lease rate of ₹ 16.6 per sq ft per month on account of higher presence in Tier II & III cities (contributes ~65% of revenues). Furthermore, at some stores, it enters into a long term lease arrangement (usually 10 years with 5% rent escalation per annum) for land. Then it constructs the store with basic construction material. With better control on operating expenses, it enjoys better EBITDA margin of ~10% at the store level despite gross profit margin of 11-12%.

With the ramp up in sales over the next two to three years, better EBITDA margin and low initial capex requirement, the company enjoys RoCE of 45-50% at the store level (without considering back-end infrastructure investment such as warehouse & processing facilities). Hence, SBPL enjoys a payback period of three years at the store level. It lends us comfort that it would not need significant capex for ramping up the retail store from 106 in FY17 to ~200 stores over the next four to five years.

Exhibit 13: New store metrics

P & L	Year 1	Year 2	Year 3	Year 4	Year 5	Cash flow Statement	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	6.3	9.0	10.3	11.8	13.3	PAT + Depreciation	0.3	0.5	0.6	0.8	1.0
YoY growth (%)		42.4	15.0	14.0	13.0	Change in WC	(0.5)	(0.2)	(0.1)	(0.1)	(0.1)
Gross Profit	0.7	1.0	1.2	1.5	1.7	Operating Cash flow	(0.2)	0.3	0.5	0.7	0.9
YoY growth (%)		46.6	19.6	19.6	19.4	Change in FA	(0.5)	-	-	-	-
EBITDA	0.5	0.8	1.0	1.2	1.5	Free Cash flow	(0.7)	0.3	0.5	0.7	0.9
YoY growth (%)		62.0	23.1	22.5	21.9	Change in debt	0.5	(0.1)	(0.1)	(0.1)	(0.1)
PAT	0.3	0.5	0.6	0.8	1.0	Change in equity	0.3	-	-	-	-
YoY growth (%)		77.1	26.8	24.9	23.6	Closing Cash balance	0.1	0.3	0.7	1.3	2.0

Balance sheet	Year 1	Year 2	Year 3	Year 4	Year 5	Ratios (%)	Year 1	Year 2	Year 3	Year 4	Year 5
Equity	0.6	1.1	1.7	2.5	3.5	Turnover ratios					
Debt	0.5	0.4	0.3	0.2	0.1	Asset turnover	5.7	6.0	5.1	4.3	3.7
Total Capital employed	1.1	1.5	2.0	2.7	3.6	Profitability ratios					
						Gross profit margin	11.0	11.3	11.8	12.4	13.1
Net Block	0.5	0.5	0.5	0.5	0.5	EBITDA Margin	8.0	9.1	9.8	10.5	11.3
WC (ex cash)	0.5	0.7	0.8	1.0	1.1	PAT Margin	4.5	5.6	6.2	6.8	7.4
Cash	0.1	0.3	0.7	1.3	2.0	Return Ratios					
Total capital deployed	1.1	1.5	2.0	2.7	3.6	RoCE*	44.7	53.7	48.7	44.6	41.2

Source: Company, ICICIdirect.com Research

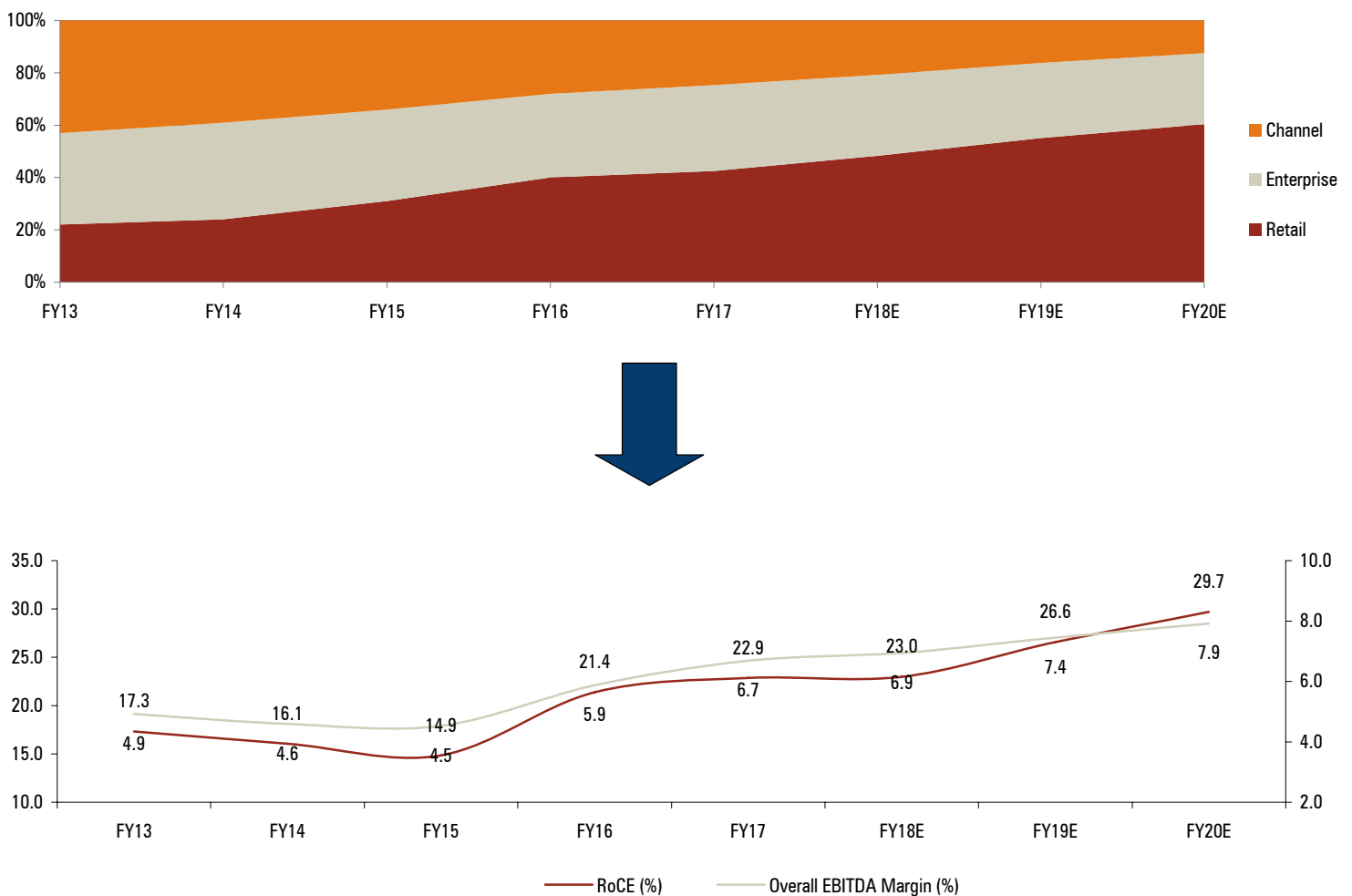
*without considering back-end infra cost such as warehousing & processing facilities. After considering it, RoCE is still healthy in the range of ~30-40%

Given the minimal capex requirement, better margin profile and higher asset turnover, the company enjoys higher RoCE profile of ~45-50% at the store level. Hence, the payback period at the store level is two to three years as visible in free cash flow. This lends us comfort that strong growth is achievable through minimal capex

Increasing share of retail revenues to drive RoCE & EBITDA margins...

SBPL has significantly ramped up its retail presence over the past few years. It has aggressively expanded its store network from 43 stores in FY12 to 116 currently. Consequently, the share of the retail business in overall revenues doubled from ~21% in FY12 to 42.5% in FY17. It further improved to 45.7% in Q1FY18. Going forward, the company plans to further expand its retail revenue share to ~70% over the next four to five years. Keeping in mind the company's aggressive expansion in retail stores, we expect the retail share in total revenues to improve further from 42.5% in FY17 to 60.4% in FY20E. Hence, we anticipate SBPL's return ratio profile will improve significantly by 680 bps to 29.7% in FY17-20E. Also, overall EBITDA margins are expected to expand 120 bps to 7.9% in FY17-20E.

Exhibit 14: Increasing retail share to drive RoCE...



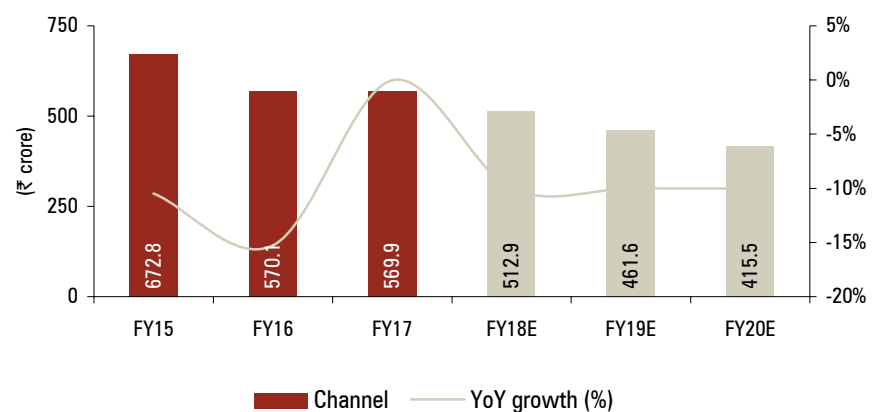
Source: Company, ICICIdirect.com Research

Other supportive business segments...

Channel business—Provides better insights for future retail stores...

The company started the channel business in 1999. It caters to dealers & other retailers where it offers steel based in-house & third party products. SBPL carries out channel sales through a dealer network of 2000+ dealers, which are on a non-exclusive basis. The company distributes products like water tanks, sanitary and CP fittings, steel pipes and tubes, steel sheets, etc. SBPL's own brand such as Loha, PriceGalva, Taurus, Ganga, CenturyRoof, Shankara Solar and Price are also distributed through a dealer network. The key third party brands carried through the network include Johnson, Sintex, Uttam Galva, Astral Pipes and APL Apollo.

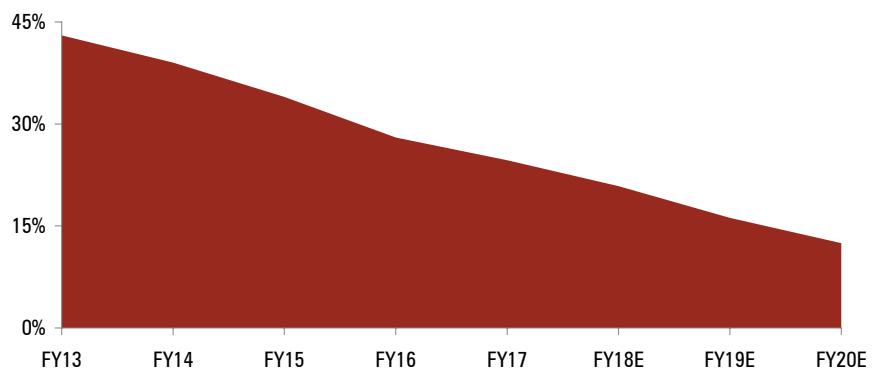
Exhibit 15: Channel sales trend...



Source: Company, ICICIdirect.com Research

The company has been consolidating this business over the years, which should continue, going ahead. Hence, we expect the revenue share from the channel division to reduce from 24.7% in FY17 to 12.5% in FY20E. However, SBPL would not completely ramp down its channel business as it provides a great insight to understand the market dynamics, consumer behaviour, products and brand acceptance in a particular area. This, in turn, provides leads to the company to set up new retail stores for home improvement and building materials. We expect channel revenues to reduce from ₹ 569.9 crore in FY17 to ₹ 415.5 crore in FY20E.

Exhibit 16: Share of channel revenues to decline sharply...



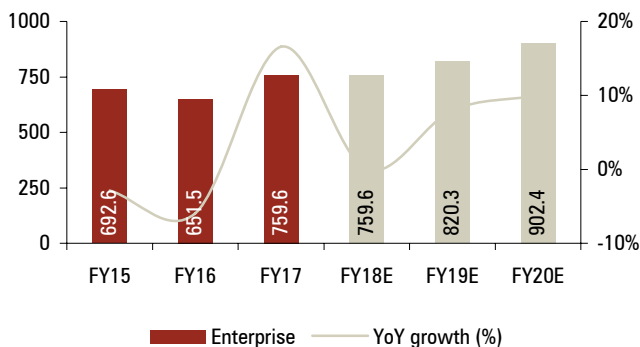
Source: Company, ICICIdirect.com Research

Enterprise business – To grow moderately ahead...

The company started its operations through the enterprise division in 1995. Under this segment, SBPL primarily caters to large end-users, contractors and OEMs. These customers are more particular about the quality, customised specifications and timely delivery. Hence, the company provides customised solutions to customers through in-house and third party products. SBPL's own integrated facilities play a crucial role for the company in providing customised solutions for specific client requirements. Enterprise sales are widely diversified with top 10 customers contributing less than ~10% of total enterprise sales. The customer base is spread across various industries like auto ancillaries, boiler manufacturers, electrical panel boards, textile machinery, etc. In this segment, the company provides solutions with kit based, cut-to-size and ready-to-use assembled products to customers. SBPL aims to increase the share of customised solutions in overall enterprise revenues, which would help generate higher margins.

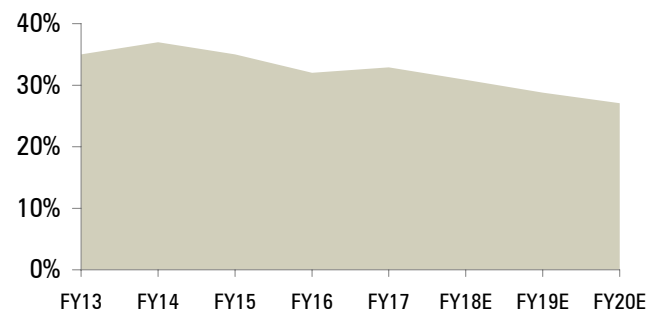
With the management's conscious decision to increase the revenue share of its high margin retail division, we expect the share of its enterprise revenues to reduce gradually from 32.9% in FY17 to 27.1% in FY20E. We expect enterprise revenues to grow moderately at 5.9% CAGR to ₹ 902.4 crore over FY17-20E.

Exhibit 17: Enterprise sales trend...



Source: Company, ICICIdirect.com Research

Exhibit 18: Share of enterprise revenues to reduce moderately...



Source: Company, ICICIdirect.com Research

Following is the customised product categories that the company offers to its varied clientele. Currently ~20% of enterprise revenues comes from these customised solutions, which the company plans to improve, going forward. This would help improve its EBITDA margins as these solutions command better gross margins.

Exhibit 19: Customised product offerings to Enterprise customers...

Category	Customer
Bus Body	Marco Polo, KSRTC
Scaffolding	L&T, Amrutha Institute
Automobile	Ancillaries of Tata Motors, Ashok Leyland, TVS, Hyundai
PEB	Paramount, Pennar
Solar	Mithra Solar, Smartek Energy, Warren

Source: Company, ICICIdirect.com Research

Back-end infrastructure in place to support front-end business

SBPL has a strong back-end infrastructure in place, which ensures efficient supply chain management and supports its retail, enterprise and channel businesses.

Processing facilities help cater to customised needs of clients...

SBPL has 12 processing facilities for steel pipes & tubes (precision tubes and galvanised pipes), colour coated roofing sheets, bright rods, galvanised strips and cold rolled strips. They are located in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu and Telangana near key demand centres. It operates facilities through three subsidiaries: Taurus Value Steel & Pipes (TVSPPL), Vishal Precision Steel Tubes and Strips (VPSPL) and Centurywells Roofing India (CRIPL).

Exhibit 20: Processing facilities operated by company

Facility	Location	Products Manufactured	Brands	Total area (sq ft)	Area Covered (sq ft)	Ownership
TVSPPL	Hyderabad	Steel pipes & tubes, galvanised strips	Taurus, PriceGalva, Samrat Galva, Loha	1129003	229122	Owned
TVSPPL	Hyderabad	Steel pipes & tubes	Taurus, PriceGalva, Samrat Galva, Loha	36300	32670	Owned
TVSPPL	Hyderabad	Steel pipes & tubes	Taurus, PriceGalva, Samrat Galva, Loha	30700	5500	Leased
TVSPPL	Surat	Steel pipes & tubes	Taurus, PriceGalva, Samrat Galva, Loha	13700	10000	Owned
VPSPL	Hoskote	Steel pipes & tubes, cold rolled strips	Loha	189922	140000	Owned
VPSPL	Jigani	Bright rods, steel pipes & tubes	Loha	18940	18940	Leased
CRIPL	Bengaluru	Roofing sheets & accessories	CenturyRoof, Ganga	21741	21741	Owned
CRIPL	Hubli	Roofing sheets & accessories	CenturyRoof, Ganga	5057	5057	Leased
CRIPL	Chennai	Roofing sheets & accessories	CenturyRoof, Ganga	13344	10760	Owned
CRIPL	Coimbatore	Roofing sheets & accessories	CenturyRoof, Ganga	9985	6456	Leased
CRIPL	Pune	Roofing sheets & accessories	CenturyRoof, Ganga	11029	11029	Leased
CRIPL	Vijaywada	Roofing sheets & accessories	CenturyRoof, Ganga	8390	8390	Leased
Total				1488111	499665	

Source: Company, ICICIdirect.com Research

SBPL has significantly ramped up its processing capacity from 167800 MTPA in FY14 to 327400 MTPA in YTD FY18. This capacity expansion was achieved through both, acquisition and greenfield expansion.

Exhibit 21: Product wise installed capacity

In metric tonne (mt)	FY14	FY15	FY16	FY17	YTD FY18
Steel Pipes & Tubes	113,000	151,400	198,600	231,600	231,600
Roofing Sheets	10,000	19,200	27,600	32,800	34,600
Bright Rods	800	6,000	6,000	6,000	6,000
Galvanised Strips	36,000	36,000	42,000	42,000	42,000
Cold Rolled Strips	8,000	10,000	12,000	12,000	12,000
Stainless steel	-	-	-	-	1,200
Total	167,800	222,600	286,200	324,400	327,400

Source: RHP, ICICIdirect.com Research

The processing facilities contribute around 50% of retail revenues. Apart from manufacturing generic products, the processing facilities also meet the customisation requirements of enterprise customers.

In-house logistics and supply chain capabilities

SBPL's frontline businesses are well supported by its in-house supply chain comprising fleet of trucks, warehousing facilities, ERP systems and MIS systems for efficient inventory management and timely delivery to customers. It has 56 warehouses (29 operated by SBPL, 23 operated by TVSPPL and four operated by CRIPL), aggregating 0.59 million square feet (mn sq ft). SBPL also operates a fleet of 44 owned trucks. A large part of its warehousing backbone is owned ensuring stability of operations. Over the years, the company has been successful in minimising inventory costs by maintaining optimum in-stock levels by efficiently monitoring customer preferences through its ERP system and MIS controls.

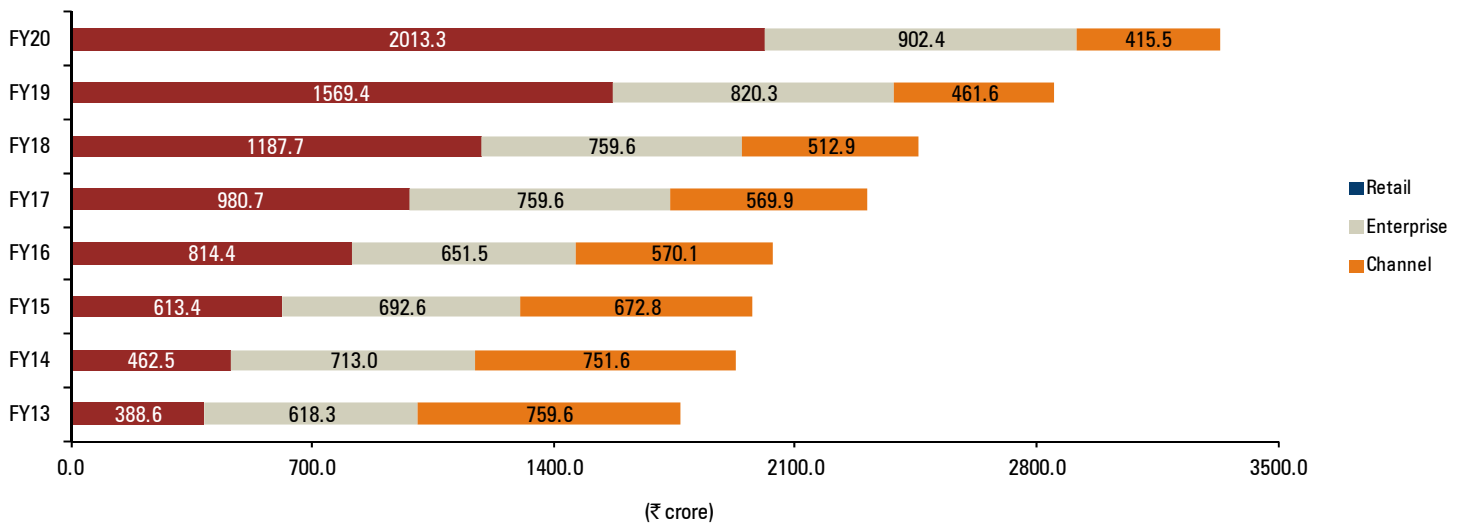
Financials

Revenues to grow at 13.0% CAGR in FY17-20E...

We expect SBPL's revenues to grow at a CAGR of 13.0% to ₹ 3331.2 crore in FY17-20E

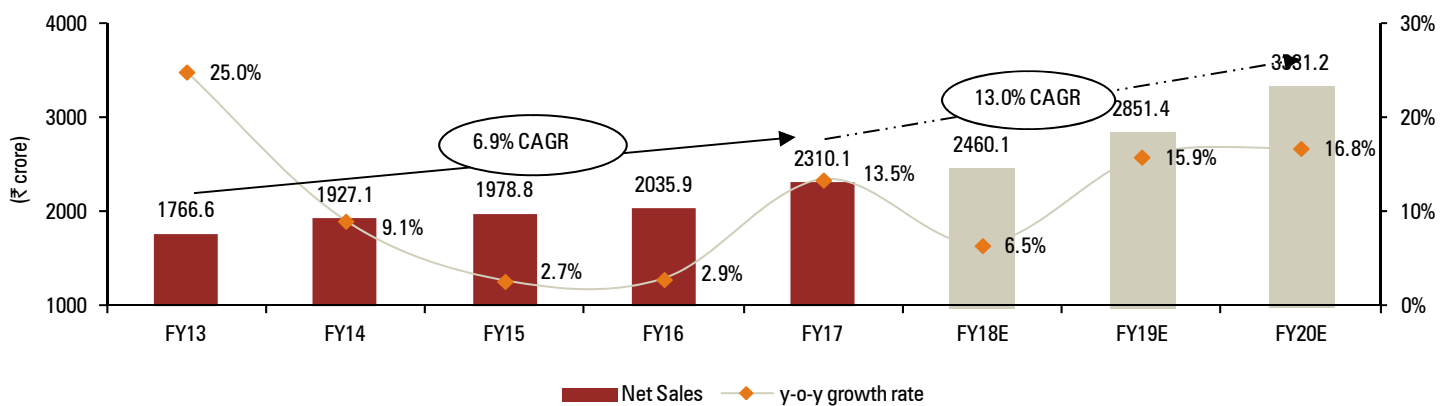
Historically, SBPL's revenues have grown at a moderate pace of 6.9% CAGR to ₹ 2310.1 crore in FY13-17. The growth was led by strong growth in the retail division at 26.4% CAGR to ₹ 980.7 crore over the same period. Going ahead, given the huge growth prospects of the retail home improvement and building material industry in India, there is a strong potential for the company to further scale up its retail business. The management sensed this opportunity and is planning to increase its retail revenue share sharply from 42.5% in FY17 to ~70% over the next four to five years. Consequently, we expect retail revenues to grow at a sharp pace of 27.1% CAGR to ₹ 2013.3 crore in FY17-20E. However, with a sharp de-growth in channel division revenues (10% CAGR de-growth) and moderate growth in enterprise sales (5.9% CAGR), we expect SBPL's revenues to grow at 13.0% CAGR to ₹ 3331.2 crore in FY17-20E.

Exhibit 22: Segmental revenue trend...



Source: Company, ICICIdirect.com Research

Exhibit 23: Overall revenues trend...



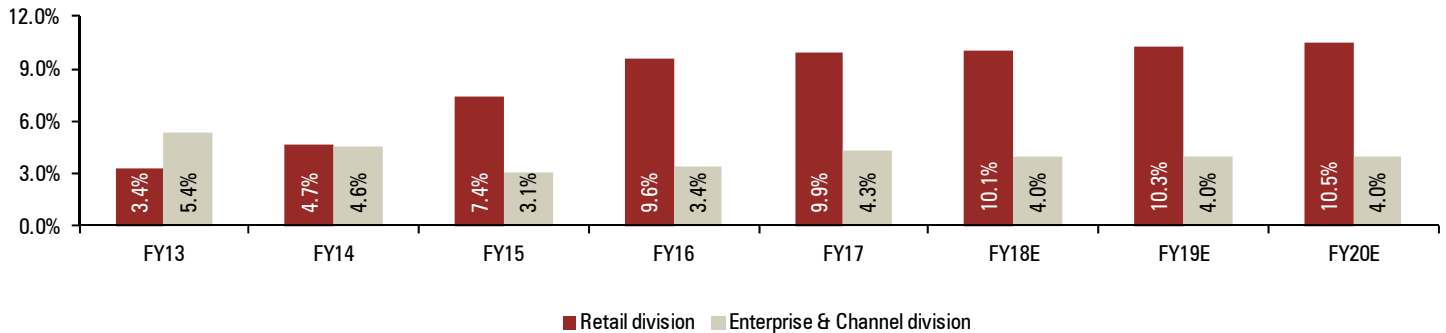
Source: Company, ICICIdirect.com Research

We expect a 120 bps expansion in margin to 7.9% over FY17-20E led by increasing share of high margin retail business

EBITDA margin to expand 120 bps by FY20E...

Traditionally, EBITDA margins have remained in the range of ~4-5% on account of higher share of revenues from the low margin channel and enterprise divisions. Over the past few years, retail division margins have expanded 270 bps from 4.7% to 7.4% led by aggressive store expansion, increased product basket with increased share of decorative products and increasing footfall at its stores. Consequently, with a rise in retail revenue share, SBPL's blended margins have expanded from 4.5% in FY15 to 6.7% in FY17.

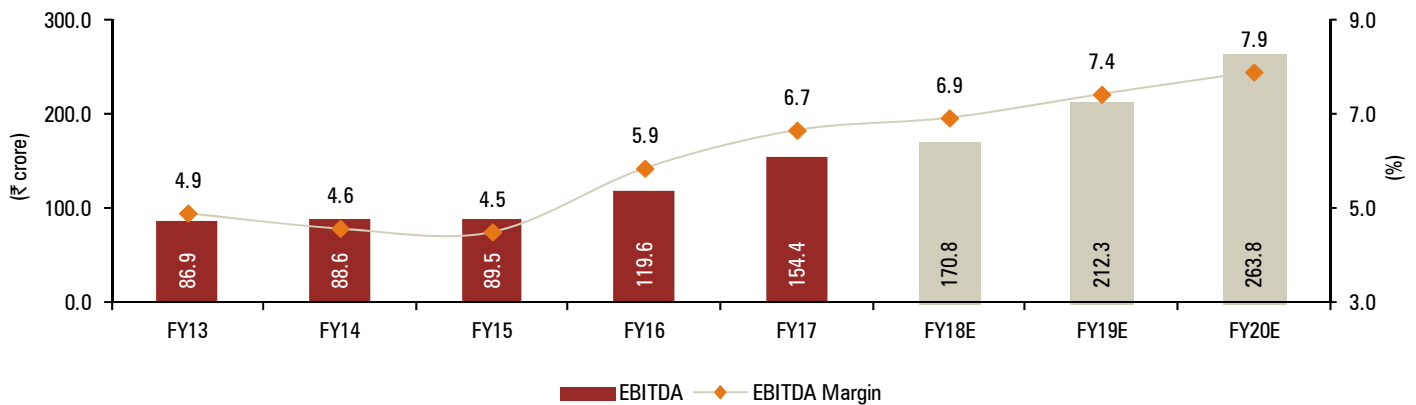
Exhibit 24: Segmental EBITDA margin trend...



Source: Company, ICICIdirect.com Research

With the company planning to further increase its high margin retail revenue share, we expect overall EBITDA margins to expand 120 bps to 7.9% by FY20E.

Exhibit 25: Overall EBITDA margin trend...



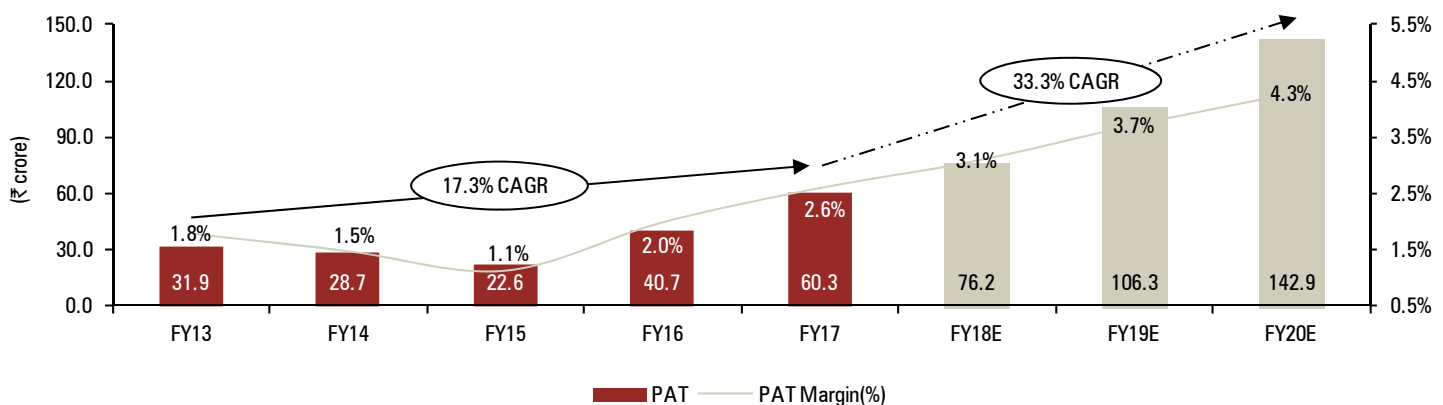
Source: Company, ICICIdirect.com Research

We expect the bottomline to grow robustly at 33.3% CAGR in FY17-20E on the back of moderate topline growth and stable margins

PAT to grow robustly at 33.3% CAGR in FY17-20E...

Historically, the bottomline has grown at 17.3% CAGR from ₹ 31.9 crore in FY13 to ₹ 60.3 crore in FY17 primarily led by expansion in EBITDA margins on the back of higher contribution from the high margin retail division. The retail division revenue share almost doubled from 22.0% in FY13 to 42.5% in FY17. With strong growth prospects of its retail business, the company expects to increase retail revenue share to ~70% over the next four to five years. We anticipate retail revenue share will increase to 60.4% in FY20E. Consequently, with increased retail presence and EBITDA margin expansion, we expect SBPL to post a robust bottomline growth of 33.3% CAGR to ₹ 142.9 crore over FY17-20E.

Exhibit 26: PAT trend...

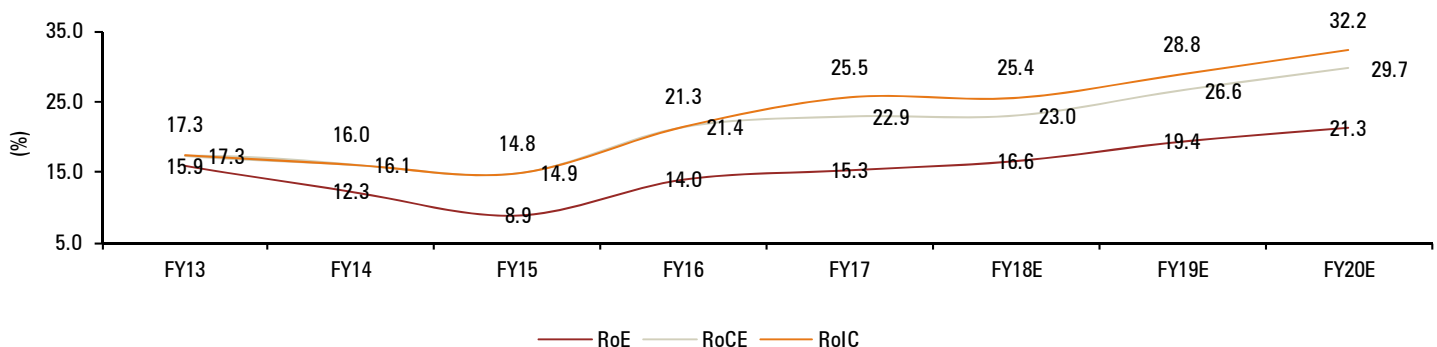


Source: Company, ICICIdirect.com Research

Return ratios to expand...

Return ratios were subdued during FY13-15 with RoCE of 14.8% in FY15. However, a significant rise in retail revenue share resulted in superior return ratios in FY15-17 with RoCE of 22.9% in FY17. The management indicated the retail business generates RoCEs in the range of ~30-40% given the low capex intensive nature of the business and higher EBITDA margins. Going ahead, we expect its RoE & RoCE to expand to 21.3% & 29.7%, respectively, by FY20E driven by higher retail share.

Exhibit 27: Return ratios trend...



Source: Company, ICICIdirect.com Research

Risks & Concerns

Risk associated with trained sales staff at retail stores...

Currently, share of new products such as decorative and finishing products like plywood, tiles, laminates, sanitaryware, etc, is at ~10% and are available only in few new stores. SBPL plans to increase the share of these products to 25% and upgrade the existing 96 old stores over the next few years. As a result, it could face challenges in training staff at the retail store level to guide customers purchasing decisions through creating awareness of various products and their applications.

Possibility of inventory loss at retail stores...

SBPL has a comprehensive range of 75+ products of 100+ brands and a product portfolio comprising 20000+ stock keeping units (SKUs). However, with a huge SKU size, in case some products become obsolete or its sales are impacted significantly, then the company may have to book inventory losses on its books, which could impact its financials.

Identifying right location with lower lease rate for new stores is critical...

The company plans to expand its retail footprint by aggressively expanding its store network by almost doubling its store network from 116 to 200 stores over the next four to five years. We have also factored it in our estimates and expect its store network to increase to 161 stores by FY20E from 106 stores in FY17. We have considered average revenue per store of ₹ 10 crore. To achieve sales of this magnitude, identifying stores at the right location with lower rental rate would be critical for future expansion.

Any disruption through e-commerce model in future...

SBPL's retail model is a brick-and-mortar model, which the company wishes to expand aggressively over the next few years. However, a shift in consumer preference from visiting retail stores to purchasing building materials online could pose a huge threat to SBPL's business strategy and company's financials in future.

Any disruption in logistics or supply chain network...

SBPL's supply chain and logistics network is focused around 56 warehouses, which act as storage facilities for timely delivery of merchandise to all stores. Any material disruption at these warehouses for any reason may damage the products stored and adversely impact the supply chain network and logistics operations, thereby impacting operations. Any disruption in logistics may adversely impact the ability to deliver inventory in a timely manner. In turn, this may impair the ability to meet customer demand for products and result in lost sales, increased supply chain costs or damage to the reputation.

We initiate coverage on SBPL with a **BUY** recommendation and a target price of ₹ 1725/share

Valuation

With SBPL's focus on expanding its business in asset light retail store business, we believe the company is in a sweet spot to capture the growing organised home improvement market. We expect earnings to grow at a CAGR of 33.3%. Furthermore, we anticipate SBPL's RoCE ratio will improve 680 bps at 29.7% in FY17-20E. Hence, we initiate coverage on SBPL with a **BUY** recommendation and an SOTP based target price of ₹ 1725/share.

Retail business

SBPL's revenues are expected to grow at 27.1% CAGR at ₹ 2013.3 crore in FY17-20E. Its share in total revenues is expected to improve from 42.5% to 60.4%. Importantly, growth in the retail business is expected to be achieved on an asset light model as SBPL enters into a long term lease agreement (average lease rate: ₹ 16.6 per sq ft month). Hence, we value SBPL's retail business at 16x FY20 EV/ EBIT (at 33% discount to global leader such as Home Depot when it was in growth phase).

Exhibit 28: Valuation

Business	Method	Multiple	Basis	Valuation	₹/share
Retail	EV/EBIT	16.0	FY20	3548.0	1553
Channel & Enterprise	EV/EBIT	6.0	FY20	475.2	208
Less: Net Debt				-86.7	-38
Target Valuation				3936.5	1723
Rounded off target price					1725

Source: Company, ICICIdirect.com Research

Though SBPL is a very small player compared to its global peer such as Home Depot, we have tried to link our target multiple when Home Depot was in the growth phase. The exhibit below depicts the details about their growth phase. When Home Depot was in a growth phase for two decades during FY88-07, it commanded EV/EBIT multiple of ~23x-25x. With huge macro opportunities, asset light business model in the retail business and healthy growth profile, we believe SBPL should command 16x EV/EBIT (we assign ~33% discount due to humungous size of Home Depot).

Exhibit 29: Home Depot metrics...

Phase	Growth		Mature	Phase	Growth		Mature
	FY88-FY97	FY98-FY07	FY08-FY17		FY88-FY97	FY98-FY07	FY08-FY17
Financial Matrix				Valuation matrix (x)*			
Revenues (\$ in million)				EV/Revenues (x)	1.9	2.1	1.2
Beginning period	1453.0	24156.0	77349.0	EV/EBIT (x)	25.6	22.5	12.2
Ending period	19535.5	79022.0	94595.0	PE (x)	34.2	32.6	18.2
CAGR (%)	33.5	14.1	2.3	Operating matrix(x)			
				Number of Stores			
Avg EBITDA margin (%)	8.4	11.3	12.2	Beginning period	75.0	624.0	2234.0
				Ending period	512.0	2147.0	2278.0
PAT (\$ in million)				CAGR (%)	23.8	14.7	0.2
Beginning of period	54.1	1160.0	5639.0	Average Same Store growth period	10.5	4.6	0.4
Ending period	937.7	5761.0	8675.0	Average Retail sales per sq ft (\$)	362.4	463.6	324.7
CAGR (%)	37.3	19.5	4.9	CAGR(%)	3.9	-0.3	0.4
				Average Sales per customer	37.8	50.2	55.7
Avg RoCE(%)	16.1	18.4	16.1	CAGR(%)	3.8	2.8	0.0

Source: Bloomberg, ICICIdirect.com Research

*: on TTM basis

Exhibit 30: Global peers in home improvement industry...

	Market Cap (US\$ bn)	FY17	FY17-19E CAGR		P/E			P/BV		EV/EBITDA	
		Revenue (US\$ bn)	Revenue	PAT	FY17	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Global Home Improvement Industry											
Home Depot	185	94.6	5.4	9.2	30.9	20.5	18.1	70.1	152.2	11.9	11.0
Lowes	65	65	4.6	9.2	16.4	16.3	14.3	11.4	11.8	9.3	8.7
Floor & Décor Holdings	3.6	1.3	20.6	23.3	10.5	48.4	40.7	7.2	5.0	19.2	15.9
Average	84.5	53.6	10.2	13.9	19.3	28.4	24.4	29.6	56.3	13.5	11.9

Source: Bloomberg, ICICIdirect.com Research

Channel & Enterprise business:

SBPL's enterprise division revenues are expected to grow at a CAGR of 5.9% at ₹ 902.4 crore in FY17-20E as the company plans to expand its retail share. Further, the management has taken a conscious decision to ramp down its low margin channel division. Consequently, its revenues are expected to decline sharply from ₹ 569.9 crore in FY17 to ₹ 415.5 crore in FY20E. Hence, we value SBPL's Channel and Enterprise business at 6x FY20E EV/EBIT at ~₹ 208/share.

Comparison with other building material segments

There is no like-to-like peer comparison for SBPL. However, we have tried to compare SBPL with some tiles, paints and wooden industry organised players.

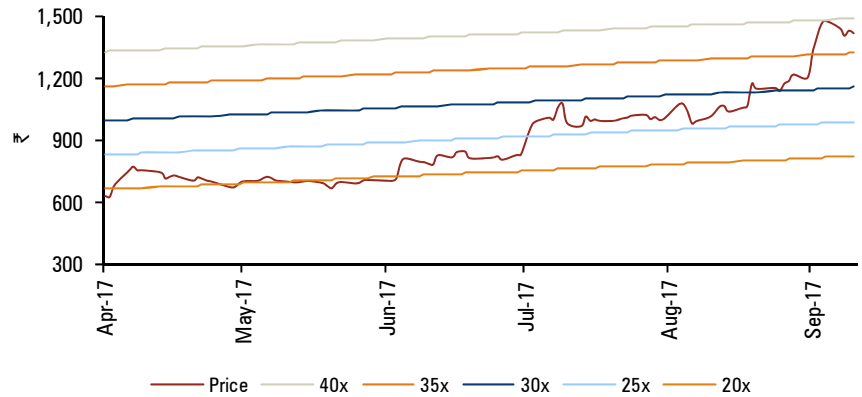
Exhibit 31: Valuation matrix with other building material segments

	Market Cap (₹ crore)	Revenue (FY17)	FY17-19E CAGR		RoCE		P/E		P/BV		EV/EBITDA	
			Revenue	PAT	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Home improvement industry												
SBPL	3,277	2310.1	11.1	32.8	23.0	26.6	43.0	30.8	7.1	6.0	20.0	16.0
Wood Industry												
Greenply	3203	1654.9	13.0	12.2	14.6	13.7	21.4	18.8	3.5	3.0	14.3	12.2
Centuryply	6039	1782.5	22.2	21.2	19	23.4	29.8	21.2	6.9	5.6	19.5	14.5
Greenlam	2269	1075.9	13.5	36.1	20.9	25.7	31.9	23.8	6.2	5.0	13.9	11.5
Average	3837	1504.4	16.2	23.2	18.2	20.9	27.7	21.3	5.5	4.5	15.9	12.7
Tiles Industry												
Kajaria	11211	2549.6	21.9	16.9	24.1	27.3	37.4	28.4	7.1	6.0	19.9	15.9
Somany	3392	1811.0	9.8	22.3	20.0	22.6	31.7	24.1	5.6	4.8	16.5	13.3
HSIL	2749	2078.2	14.7	27.0	6.4	7.9	22.7	17.3	1.9	1.8	10.1	8.4
Average	5784	2146.3	15.5	22.1	16.8	19.3	30.6	23.3	4.9	4.2	15.5	12.5
Paints Industry												
Asian Paints	110500	17223.1	15.0	12.0	34.4	36.1	51.3	42.9	12.8	11.1	35	28.7
Kansai Nerolac	24144	3999.1	15.0	14.0	28.1	28.1	41.5	36.5	8.1	7.1	28.8	24.9
Average	67322	10611.1	15.0	13.0	31.3	32.1	46.4	39.7	10.5	9.1	31.9	26.8
Overall Average	20055	4143.0	14.4	22.8	22.3	24.7	36.9	28.8	7.0	5.9	20.8	17.0

Source: Bloomberg, ICICIdirect.com Research

SBPL has traded at an average PE multiple of 25.8x since its listing in April, 2017. Currently, it is trading at 22.8x FY20E EPS. Our target price implies 27.6x FY20E EPS and PEG ratio of ~0.8x (SBPL's earning are expected to grow at 33.3% CAGR in FY17-20E).

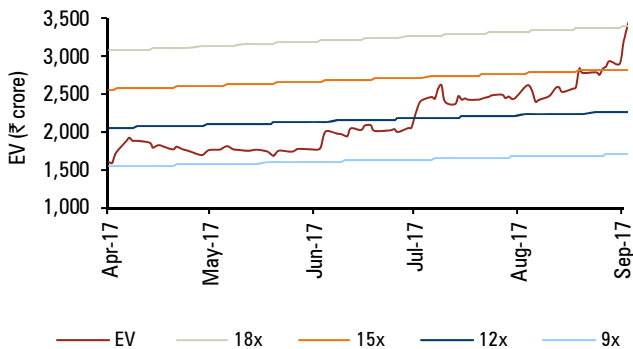
Exhibit 32: One year forward PE



Source: Company, ICICIdirect.com Research

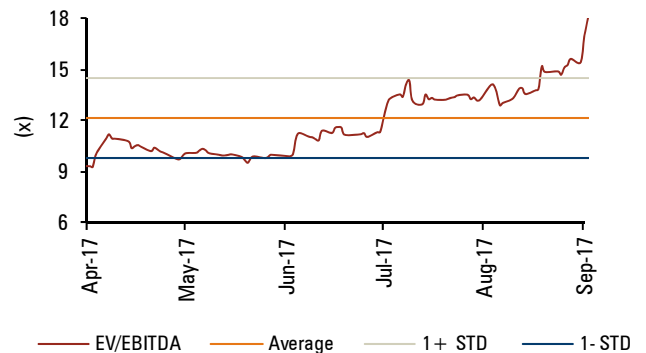
In terms of EV/EBTDA multiple, SBPL has traded at average EV/EBITDA of 12.2x since its listing in April, 2017. Currently, it is trading at 11.3x FY20E EV/EBITDA. Our target price implies target EV/EBITDA of 15.3x FY20E.

Exhibit 33: One year forward EV/EBITDA band



Source: Company, ICICIdirect.com Research

Exhibit 34: Average one year forward EV/EBITDA multiple



Source: Company, ICICIdirect.com Research

Tables

Exhibit 35: Profit & loss account

(₹ Crore)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	1,978.8	2,035.9	2,310.1	2,460.1	2,851.4	3,331.2
Net Raw Material Cost	1,758.0	1,767.2	1,979.4	2,101.8	2,428.9	2,829.2
Employee benefit expenses	35.0	41.3	49.4	59.3	71.1	81.8
Power & Fuel	9.6	11.1	13.3	14.2	16.5	19.2
Consumption of stores and spares	35.6	38.3	42.2	45.0	52.1	60.9
EBITDA	89.5	119.6	154.4	170.8	212.3	263.8
Interest	47.0	46.0	50.8	45.0	40.4	36.0
Depreciation	8.8	9.5	11.4	12.5	13.6	14.9
Other income	0.8	0.7	0.3	0.3	0.4	0.4
PBT	34.6	64.8	92.5	113.7	158.6	213.3
Taxes	12.0	24.0	32.2	37.5	52.3	70.4
Effective tax rate (%)	34.6%	37.1%	34.8%	33.0%	33.0%	33.0%
PAT	22.6	40.7	60.3	76.2	106.3	142.9
PAT Growth rate		80.3%	48.0%	26.3%	39.5%	34.4%
Adjusted EPS (Diluted)	10.3	18.6	26.4	33.3	46.5	62.5

Source: Company, ICICIdirect.com Research

Exhibit 36: Balance sheet

(₹ Crore)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Liabilities						
Equity Capital	21.9	21.9	22.9	22.9	22.9	22.9
Reserve and Surplus	231.4	269.1	370.8	435.6	525.9	647.4
Total Shareholders funds	253.3	290.9	393.7	458.4	548.8	670.2
Total Debt	285.4	213.5	216.0	215.0	184.0	153.0
Total Liabilities	549.1	518.2	626.7	689.8	749.1	839.6
Assets						
Gross Block	226.6	264.7	300.5	330.0	358.5	391.8
Less Acc. Dep	36.0	45.4	55.5	68.0	81.6	96.5
Net Block	190.6	219.3	245.0	262.0	276.9	295.3
Goodwill on consolidation	14.0	14.0	14.0	14.0	14.0	14.0
Total Fixed Assets	219.5	248.3	277.1	298.9	320.0	345.7
Investments	2.5	2.3	4.2	4.5	5.2	6.0
Inventory	232.1	255.9	279.5	297.6	344.9	403.0
Sundry Debtors	259.8	281.0	312.3	355.1	411.6	480.9
Loans & Advances	12.3	12.7	13.9	18.5	23.9	30.3
Cash & Bank Balances	2.4	2.4	66.2	66.9	58.7	66.3
Other Current Assets	0.0	0.1	0.1	0.1	0.1	0.1
Total Current Assets	505.8	550.8	671.0	734.4	832.3	970.2
Trade Payable	138.1	233.8	261.0	278.0	322.2	376.4
Other Current Liabilities	28.6	31.9	41.8	44.5	51.5	60.2
Provisions	9.6	15.3	18.6	21.2	29.5	39.7
Net Current Assets	329.6	269.9	349.6	390.8	429.1	493.9
Total Assets	549.1	518.2	626.7	689.8	749.1	839.6

Source: Company, ICICIdirect.com Research

Exhibit 37: Cash flow statement

(₹ Crore)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Profit after Tax	22.6	40.7	60.3	76.2	106.3	142.9
Depreciation	8.8	9.5	11.4	12.5	13.6	14.9
Interest	46.6	44.9	49.7	45.0	40.4	36.0
Taxes	12.0	24.0	32.2	37.5	52.3	70.4
Cash Flow before wc changes	90.4	119.8	154.0	170.8	212.3	263.8
Cash generated from operations	(3.9)	51.7	(23.9)	(46.1)	(52.7)	(64.4)
Income Tax paid	(6.9)	(12.0)	(23.6)	(37.5)	(52.3)	(70.4)
Net CF from operating activities	79.6	159.5	106.5	87.3	107.2	129.0
(Purchase)/Sale of Fixed Assets (Net)	(41.5)	(38.2)	(37.4)	(29.5)	(28.5)	(33.3)
Others	2.0	0.3	0.4	0.3	0.4	0.4
Net CF from Investing activities	(39.5)	(37.9)	(37.0)	(29.2)	(28.2)	(32.9)
Dividend	(2.5)	(5.9)	(0.7)	(11.4)	(15.9)	(21.4)
Interest paid	(47.1)	(45.0)	(48.3)	(45.0)	(40.4)	(36.0)
Inc / (Dec) in Loans	9.3	(70.7)	0.9	(1.0)	(31.0)	(31.0)
Net CF from Financing activities	(40.3)	(121.6)	(68.8)	(57.4)	(87.3)	(88.4)
Net Cash flow	(0.3)	0.0	0.8	0.7	(8.2)	7.6
Opening Cash	25.9	23.3	23.7	66.2	66.9	58.7
Closing Cash/ Cash Equivalent	23.3	23.7	24.5	66.9	58.7	66.3

Source: Company, ICICIdirect.com Research

Exhibit 38: Ratio Analysis

	FY15	FY16	FY17	FY18E	FY19E	FY20E
Per Share Data (₹)						
EPS - Diluted	10.3	18.6	26.4	33.3	46.5	62.5
Cash EPS	14.4	23.0	31.4	38.8	52.5	69.0
Book Value	115.8	133.0	172.3	200.6	240.2	293.3
Dividend per share	4.0	4.0	4.3	4.7	5.4	7.7
Operating Ratios (%)						
EBITDA / Net Sales	4.5	5.9	6.7	6.9	7.4	7.9
PAT / Net Sales	1.1	2.0	2.6	3.1	3.7	4.3
Inventory Days	42.8	45.9	44.2	44.2	44.2	44.2
Debtor Days	47.9	50.4	49.3	52.7	52.7	52.7
Creditor Days	25.5	41.9	41.2	41.2	41.2	41.2
Return Ratios (%)						
RoE	8.9	14.0	15.3	16.6	19.4	21.3
RoCE	14.9	21.4	22.9	23.0	26.6	29.7
RoIC	14.8	21.3	25.5	25.4	28.8	32.2
Valuation Ratios (x)						
EV / EBITDA	39.8	29.2	22.2	20.0	16.0	12.8
P/E (Diluted)	138.8	77.0	54.3	43.0	30.8	22.9
EV / Net Sales	1.8	1.7	1.5	1.4	1.2	1.0
Market Cap / Sales	1.7	1.6	1.4	1.3	1.1	1.0
Price to Book Value	12.4	10.8	8.3	7.1	6.0	4.9
Dividend Yield	0.3	0.3	0.3	0.3	0.4	0.5
Solvency Ratios (x)						
Net Debt / Equity	1.1	0.7	0.4	0.3	0.2	0.1
Debt / EBITDA	3.2	1.8	1.4	1.3	0.9	0.6
Current Ratio	2.9	2.0	1.9	1.9	1.9	1.9
Quick Ratio	1.5	1.0	1.0	1.1	1.1	1.1

Source: Company, ICICIdirect.com Research

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