

Company Update

Stock Details

Market cap (Rs mn)	:	39056
52-wk Hi/Lo (Rs)	:	2365 / 779
Face Value (Rs)	:	10
3M Avg. daily volume	:	176,779
Shares o/s (m)	:	22.8

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	25,487	28,533	31,729
Growth (%)	10%	12%	11%
EBITDA	1,752	2,116	2,353
EBITDA margin (%)	6.9	7.4	7.4
Net profit	738	1,019	1,213
EPS (Rs)	32.3	44.6	53.1
Growth (%)	22	38	19
BVPS (Rs)	199.4	240.1	289.3
DPS (Rs)	3.3	3.3	3.3
ROE (%)	17.4	20.3	20.1
ROCE (%)	23.7	26.0	26.1
P/E (x)	53.0	38.4	32.2
EV/EBITDA (x)	23.7	19.3	17.3
P/BV (x)	8.6	7.1	5.9

Source: Kotak Securities - PCG; Company

Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	56.2	56.2	56.2
FII	14.7	14.3	10.7
DII	12.5	10.2	13.7
Others	16.6	19.3	19.5

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Shankara Bldg	(10.4)	(1.3)	(5.9)
Nifty	0.1	4.4	4.7

Source: Bloomberg

Price chart



Source: Bloomberg

SHANKARA BUILDING PRODUCTS LTD

PRICE RS.1711

TARGET RS.2017

BUY

We recently met with the management of Shankara Building Products to understand their future growth strategy as well as industry scenario. We continue to remain positive on the company and based on adequate upside from current levels, we upgrade the stock to BUY from ACCUMULATE earlier.

Key highlights about the company

Strong same store sales growth

Company has also explained the methodology regarding SSSG calculation. The definition of SSSG (Same Store Sales Growth) considers stores that were in operation for at least 12 months at the end of the period.

For example, for FY18, the SSSG considers stores in operation at the end of FY17. The growth in revenues generated from these stores in FY17 and FY18 represents the SSSG.

FY18 SSSG computation is as follows

Stores considered for SSSG	Revenue considered for FY17	Revenue considered for FY18
106 stores at end of FY17	Revenues of these 106 stores in full year FY17	Revenues of these 106 stores in full year FY18
Total	Sum total of above = [A]	Sum total of above = [B]

Source: Company

Revenue growth trend along with SSSG trend

	FY18	FY17	YoY
Revenues before excise adjustment (Rs mn)			
Retail	12197	9807	24.4%
Same store revenue	11389	9807	16.1%
Enterprise	8050	7595	6.0%
Channel	5240	5699	-8.1%
Total revenue	25487	23101	10.3%
Revenues after excise/GST adjustment (Rs mn)			
Retail	11897	8718	36.5%
Same store revenue	11103	8718	27.4%
Enterprise	7838	6751	16.1%
Channel	5095	5066	0.6%
Total revenue	24830	20535	20.9%

Source: Company

SSS growth trend in last three years – after adjusting with excise/GST impact

Financial Year	Same Store Sales Growth
2017-18*	27.4%
2016-17	19.4%
2015-16	28.3%

Source: Company

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Acquisitions done during FY18 doing well

During Q2FY18, Shankara Building products acquired Vaigai Sanitation – a leading tiles and sanitaryware retailer. Vaigai runs its operations from three locations covering the city of Chennai. It has built a significant brand and goodwill among home owners, architects, builders and leading suppliers. Vaigai reported revenues of Rs. 150 mn for Q4FY18 and Rs 700 mn for FY17. EBITDA was 6-7% during Q4FY18. Company expects to take its EBITDA in line with itself in coming 1-2 quarters. With this, Shankara Building products would be able to strengthen its presence in categories of tiles, CP fittings and sanitaryware. In the initial years, they would continue to operate it with the same brand Vaigai and later introduce more products in the stores.

During Q3FY18, company took over operations of 3 stores of JP Sanitation in Bengaluru, Karnataka. JP Sanitation is an established brand within Bengaluru region and has been in existence for more than 30 years. Over past 30 years, JP Sanitation has built significant connect with home owners, architects, builders and leading suppliers. This acquisition is likely to strengthen its presence in new product categories of plumbing, sanitary ware and tiles as Shankara Building Products will look to cross sell its wide range of building product categories across their customer segments. JP Sanitation generates revenues of around Rs 40-45 mn per month with EBITDA of 6% during FY18. Company expects to take its EBITDA in line with itself in coming 2-3 quarters along with achieving 20% growth from these stores going forward.

The turnaround in these acquisitions is much faster than management's anticipation and company thus wants to replicate the similar model by acquiring more companies in different segments in order to expand its product portfolio as well as reach.

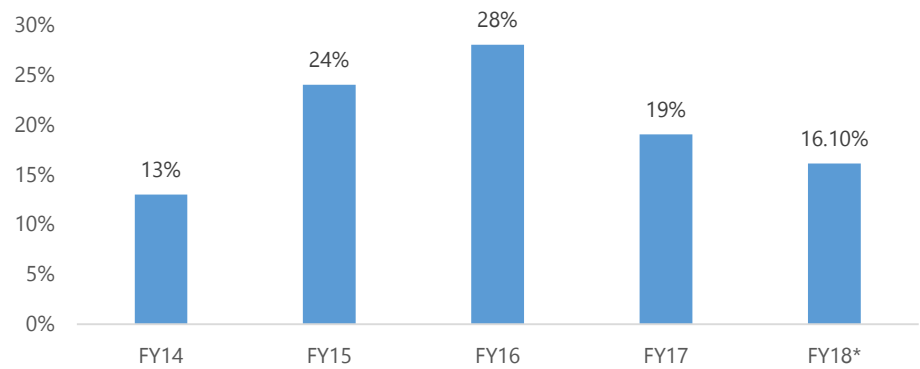
Fund raising to meet the new acquisition target

Company has taken board approval for raising funds upto Rs 3 bn mainly for further acquisitions, capex, front end and back end enhancement as well as for working capital requirements. It plans to add 15-20 stores in this year and also plans to add stores via inorganic addition. Company management plans to raise these funds prior to any acquisition as it helps in better negotiations with the potential targets and helps in achieving the transactions faster.

Retail sales to continue to grow with new product addition, strong same store growth as well as ramping up of acquired stores

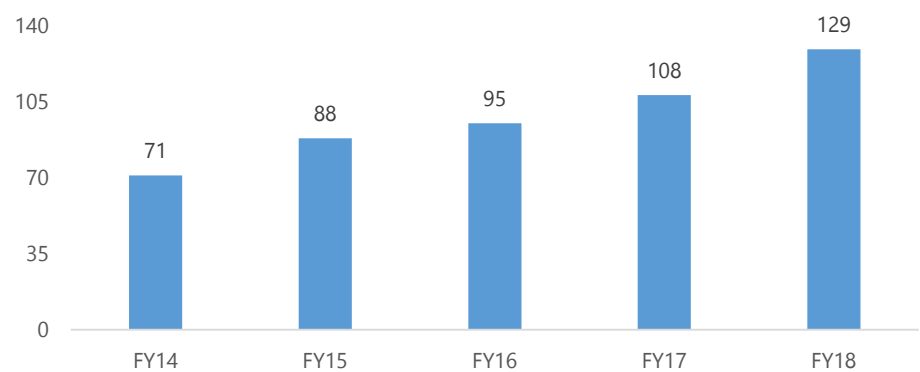
Company is continuously witnessing a strong growth momentum in retail segment which is also reflected in strong same store sales growth of 16.1% for the full year. Demand improvement, addition of new stores, ramp of recently acquired stores as well as new product additions have aided the retail segment growth. We expect the momentum to be maintained going forward led by further addition of stores, product category expansion as well as cross selling of various products in new stores. Retail segment will continue to grow faster than enterprise and channel segment as company is consciously de-emphasizing on channel segment. We expect retail segment sales to jump to 51.5%/53.6% for FY19/20 respectively.

SSG



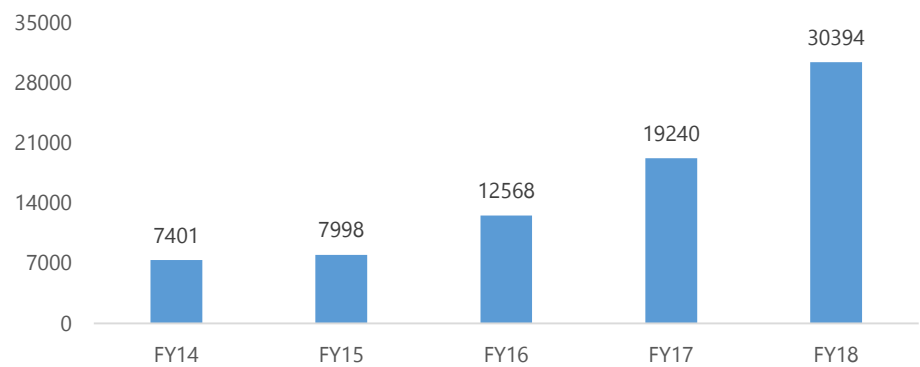
Source: Company; *before GST adjustment impact

Number of stores



Source: Company

SKUs



Source: Company

Financial outlook

- We maintain our estimates and expect revenues to grow at a CAGR of 11.5% between FY18-20 led by new retail store and product addition and increase in average area per store. Retail segment sales are likely to grow at a CAGR of 18% between FY18-20 with retail sales proportion moving up to 51.5%/53.6% for FY19/20 respectively.
- Margins for FY18 witnessed an improvement led by increased proportion of retail revenues in the overall mix and strong same store sales growth. Retail segment margins stood at 10.7% for FY18 and channel/enterprise margins stood at 3.4% for FY18. Retail segment margins are likely to remain strong going forward also with addition of new brands and improvement in same store sales growth. We maintain our estimates for margins and believe that with higher proportion of retail sales in the overall business mix, blended margins are expected to improve to 7.4%/7.4% for FY19/20 respectively.
- We expect net profits to grow at a CAGR of 28.2% between FY18-20 led by healthy growth in revenues and improvement in margins.

Valuation and recommendation

At current price of Rs 1711, stock is trading at 32.2x P/E and 17.3x EV/EBITDA on FY20 estimates. We continue to remain positive on the company as it is likely to benefit from increasing shift towards organized retail in home building segment. Company is witnessing improved traction in the retail segment with better than expected margins, addition of more brands and addition of large format stores at low rentals. We maintain our estimates and price target of Rs 2017 based on 23x EV/EBITDA for retail business and 8x EV/EBITDA for channel and enterprise business. Owing to adequate upside from the current levels, we upgrade the stock to BUY from ACCUMULATE earlier.

About the company

Shankara Building Products is one of India's leading organized retailers of home improvement and building products in India, based on the number of stores operating under brand "Shankara Buildpro". Company has three segments – Retail, Enterprise and Channel and also has processing capabilities of 332400 tonnes per annum in products like Steel tubes, galvanized strips, cold rolled strips, bright rods, scaffolding.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	23,101	25,487	28,533	31,729
% change YoY	13.0	10.3	12.0	11.2
EBITDA	1,544	1,752	2,116	2,353
% change YoY	29.0	13.5	20.8	11.2
Other Income	3	6	4	4
Depreciation	114	136	152	173
EBIT	1,433	1,622	1,968	2,184
% change YoY	29.0	13.3	21.3	11.0
Net interest	508	464	405	324
Profit before tax	925	1,159	1,563	1,860
% change YoY	43.0	25.3	34.9	19.0
Tax	322	421	544	647
as % of PBT	34.8	36.3	34.8	34.8
Profit after tax	603	738	1,019	1,213
Minority interest	0.1	(0.1)	(0.1)	(0.1)
Share of profit of associates	0	0	0	0
Net income	603	738	1,019	1,213
% change YoY	48.0	22.5	38.1	19.0
Shares outstanding (m)	22.8	22.9	22.9	22.9
EPS (reported) (Rs)	26.4	32.3	44.6	53.1
CEPS (Rs)	31.4	38.3	51.2	60.7
DPS (Rs)	-	3.3	3.3	3.3

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	662	60	182	515
Accounts receivable	3,123	4,272	3,674	4,086
Inventories	2,795	4,157	3,283	3,651
Loans and Adv & Others	311	642	764	799
Current assets	6,891	9,131	7,903	9,050
Other non current assets	-	25	25	25
LT investments	140	140	140	140
Net fixed assets	2,450	2,831	3,229	3,556
Total assets	9,481	12,127	11,297	12,771
Payables	2,659	4,612	3,127	3,477
Others	293	85	85	85
Current liabilities	2,952	4,697	3,212	3,562
Provisions	194	94	269	269
LT debt	2,236	2,610	2,160	2,160
Min. int and def tax liabilities	162	170	170	170
Equity	228	229	229	229
Reserves	3,708	4,329	5,259	6,383
Total liabilities	9,481	12,127	11,297	12,771
BVPS (Rs)	172.3	199.4	240.1	289.3

Source: Company, Kotak Securities – Private Client Research

Cashflow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
EBIT	1,432	1,623	1,969	2,185
Depreciation	114	136	152	173
Change in working capital	(311)	(889)	(135)	(464)
Chgs in other net current assets	131	(444)	175	-
Operating cash flow	1,367	425	2,161	1,893
Interest	(508)	(464)	(405)	(324)
Tax	(322)	(421)	(544)	(647)
Cash flow from operations	537	(459)	1,211	922
Capex	(358)	(517)	(550)	(500)
(Inc)/decrease in investments	-	-	-	-
Cash flow from investments	(358)	(517)	(550)	(500)
Proceeds from issue of equity	10	-	-	-
Increase/(decrease) in debt	9	374	(450)	-
Proceeds from share premium	440	-	-	-
Dividends	-	-	(89.1)	(89.1)
Cash flow from financing	459	374	(539)	(89)
Opening cash	24	662	60	182
Closing cash	662	60	182	515

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	6.7	6.9	7.4	7.4
EBIT margin (%)	6.2	6.4	6.9	6.9
Net profit margin (%)	2.6	2.9	3.6	3.8
Receivables (days)	46.9	53.0	47.0	47.0
Inventory (days)	42.3	49.8	42.0	42.0
Sales/assets(x)	9.4	9.0	8.8	8.9
Interest coverage (x)	2.8	3.5	4.9	6.7
Debt/equity ratio(x)	0.7	0.6	0.5	0.4
ROE (%)	17.6	17.4	20.3	20.1
ROCE (%)	24.7	23.7	26.0	26.1
EV/ Sales (x)	1.8	1.6	1.4	1.3
EV/EBITDA (x)	26.3	23.7	19.3	17.3
Price to earnings (x)	64.9	53.0	38.4	32.2
Price to book value (x)	9.9	8.6	7.1	5.9
Price to Cash Earnings (x)	54.5	44.7	33.4	28.2

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	– We expect the stock to deliver negative returns over the next 12 months
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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