Company Update

December 3, 2018

Shankara Building Products (SHABUI)

₹ 628

Retail margins revised downwards sharply …

Rating matrix		
Rating	:	Hold
Target	:	₹ 650
Target Period	:	12-18 months
Potential Upside	:	4%

What's changed?	
Target	Changed from ₹ 1000 to ₹ 650
EPS FY19E	Changed from ₹ 26.2 to ₹ 20.9
EPS FY20E	Changed from ₹ 35.8 to ₹ 20.0
Rating	Unchanged

Key financials

(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	2,310.1	2,548.7	2,866.2	3,198.9
EBITDA	154.4	175.2	146.5	146.0
Net Profit	60.3	73.8	47.8	45.7
EPS (₹)	26.4	32.3	20.9	20.0

Valuation summary

(x)	FY17	FY18	FY19E	FY20E
P/E	23.8	19.4	30.0	31.4
Target P/E	24.6	20.1	31.1	32.5
EV / EBITDA	10.3	9.5	11.5	11.6
P/BV	3.6	3.1	2.8	2.6
RoNW (%)	15.3	16.2	9.5	8.3
RoCE (%)	22.9	22.7	15.9	14.7

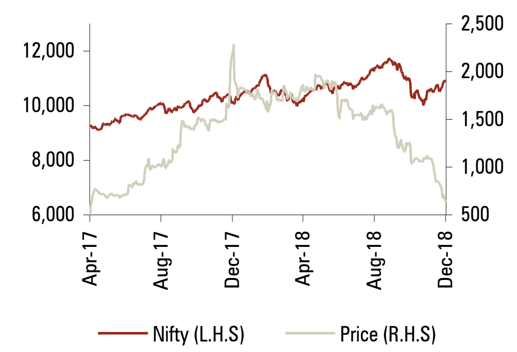
Stock data

Particulars	Amount (₹ crore)
Market Capitalization	1,435.0
Total Debt	242.8
Cash	6.0
EV	1,671.8
52 week H/L (₹)	2365 / 901
Equity capital	22.9
Face value (₹)	10.0

Price performance

Return %	1M	3M	6M	12M
SBPL	(37.0)	(56.6)	(60.7)	(66.6)

Price Chart



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Company on a consolidation mode; turns conservative on expansions…

The management of Shankara Building Products Ltd (SBPL) now believes that the company's strong future prospects lies in consolidating its position in the industry rather than aggressive store expansions. It has hence cut its store expansion target to 8-10 stores in FY19 (v/s 15-20 stores guided earlier) and aims for a payback period of 3 years. Also, SBPL shall be putting its core focus on select product categories like plumbing & sanitaryware products to achieve growth ahead. It is also bringing strict financial discipline measures like reducing debtor days, inventories and creditors days to improve its balance sheet strength. While all these measures will make the company structurally strong in the long run, it could slow down SBPL's growth in the interim. Henceforth, we anticipate the company's overall revenue growth to slow down to 12.0% CAGR to ₹ 3198.9 crore in FY18-20E

Downward revision of EBITDA margin to impact profitability…

With the management focused on plumbing & sanitaryware division growth, it expects to clock revenues worth ₹ 200 crore from this segment in FY19E. Overall, it has guided for revenues worth ₹ 1500 crore & ₹ 1800 crore from retail segment in FY19E & FY20E, respectively. However, it aims to consolidate its position & gain market share by being the ***best-price store*** in this category. This may impact realizations in the interim and hence, SBPL has sharply cut its margin guidance for retail business to 6-8% for H2FY19E and FY20E. Furthermore, considering that a significant proportion of the cost in the channel & enterprise division is linked to the processing part, the management has slashed margin guidance for this segment sharply to 3-5% amid high commodity costs. With this, the management has indicated blended EBITDA margins in the range of 4.5-5.0% in H2FY19E & FY20E. We thus expect bottomline to de-grow by 21.3% CAGR to ₹ 45.7 crore in FY18-20E.

Sharp earnings downgrade amid margin pressure; maintain HOLD…

We expect SBPL's topline growth at 12.0% CAGR to ₹ 3198.9 in FY18-20E. However, with the management commentary on significant decline in EBITDA margins expected ahead, we lower our EBITDA margin assumption resulting in further sharp earnings downgrades by 44.1%. We now expect its earnings to de-grow by 21.3% CAGR to ₹ 45.7 crore in FY18-20E. Hence, we maintain our **HOLD** recommendation on the stock with an SOTP based target price of ₹ 650/share. We value its retail business at ₹ 639/share (12x FY20E EV/EBIT). The channel & enterprise business has been valued at ₹ 127.9 per share (at 5x FY20E EV/EBIT).

Exhibit 1: SOTP Valuation - SBPL

Business	Method	Multiple	Basis	Valuation	₹/share
Retail	EV/EBIT	12.0	FY20E	1459.7	639
Channel & Enterprise	EV/EBIT	5.0	FY20E	292.2	**127.9**
Less: Net Debt				-264.1	-116
Target Valuation				1487.8	**651.1**
Rounded off target price					650

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Net Sales	2,310.1	2,548.7	2,866.2	3,198.9
Net Raw Material Cost	1,979.4	2,173.8	2,437.5	2,712.4
Employee benefit expenses	49.4	59.2	71.1	81.7
Power & Fuel	13.3	-	-	-
Consumption of stores and spares	42.2	-	-	-
Total operating expenditures	2,155.8	2,373.5	2,719.7	3,053.0
EBITDA	154.4	175.2	146.5	146.0
Interest	50.8	46.4	56.8	57.1
Depreciation	11.4	13.6	17.0	19.4
Other income	0.3	0.6	0.7	0.8
PBT	92.5	115.9	73.5	70.3
Taxes	32.2	42.1	25.7	24.6
Effective tax rate (%)	34.8%	36.3%	35.0%	35.0%
PAT	60.3	73.8	47.8	45.7
PAT Growth rate	48.0%	22.4%	-35.3%	-4.4%
Adjusted EPS (Diluted)	26.4	32.3	20.9	20.0

Source: Company, ICICI Direct Research

Cash flow statement				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Profit after Tax	60.3	73.8	47.8	45.7
Depreciation	11.4	13.6	17.0	19.4
Interest	49.6	44.7	56.8	57.1
Taxes	32.2	42.1	25.7	24.6
Cash Flow before wc changes	154.0	176.2	146.5	146.0
Cash generated from operations	(24.6)	(86.0)	(42.0)	(24.1)
Income Tax paid	(23.6)	(49.3)	(25.7)	(24.6)
Net CF from operating activities	105.9	40.9	78.8	97.3
(Purchase)/Sale of Fixed Assets (Net)	(36.7)	(39.6)	(43.0)	(48.0)
Others	0.0	(35.4)	0.7	0.8
Net CF from Investing activities	(36.7)	(75.0)	(42.3)	(47.2)
Dividend	(0.7)	(7.6)	-	-
Interest paid	(48.3)	(45.9)	(56.8)	(57.1)
Inc / (Dec) in Loans	0.9	24.4	57.3	-
Net CF from Financing activities	(68.8)	33.6	0.5	(57.1)
Net Cash flow	0.5	(0.6)	37.0	(7.0)
Opening Cash	1.4	1.8	6.0	43.0
Closing Cash/ Cash Equivalent	1.8	1.2	43.0	36.0

Source: Company, ICICI Direct Research

Balance sheet				
(₹ Crore)	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	22.9	22.9	22.9	22.9
Reserve and Surplus	370.8	432.9	480.7	526.3
Total Shareholders funds	393.7	455.7	503.5	549.2
Total Debt	216.0	242.8	300.1	300.1
Total Liabilities	626.7	716.1	821.4	867.0
Assets				
Gross Block	300.5	307.9	350.9	398.9
Less Acc. Dep	55.5	24.9	41.0	60.4
Net Block	245.0	283.1	310.0	338.6
Goodwill on consolidation	14.0	14.0	14.0	14.0
Total Fixed Assets	277.1	318.7	350.7	383.3
Investments	4.2	3.7	5.2	5.8
Inventory	279.5	415.7	401.3	447.8
Sundry Debtors	312.3	427.2	401.3	415.9
Loans & Advances	13.9	18.0	21.5	24.9
Cash & Bank Balances	66.2	6.0	43.0	36.0
Other Current Assets	0.1	45.1	0.1	0.1
Total Current Assets	671.0	894.0	861.7	917.7
Trade Payable	261.0	461.2	323.8	361.4
Other Current Liabilities	41.8	34.7	51.8	57.8
Provisions	18.6	0.7	14.5	13.9
Net Current Assets	349.6	397.4	471.5	484.6
Total Assets	626.7	716.2	822.2	867.9

Source: Company, ICICI Direct Research

Key ratios				
	FY17	FY18	FY19E	FY20E
Per Share Data (₹)				
EPS - Diluted	26.4	32.3	20.9	20.0
Cash EPS	31.4	38.2	28.3	28.5
Book Value	172.3	199.4	220.4	240.3
Dividend per share	4.3	4.7	5.4	7.7
Operating Ratios (%)				
EBITDA / Net Sales	6.7	6.9	5.1	4.6
PAT / Net Sales	2.6	2.9	1.7	1.4
Inventory Days	44.2	59.5	51.1	51.1
Debtor Days	49.3	61.2	51.1	47.5
Creditor Days	41.2	66.1	41.2	41.2
Return Ratios (%)				
RoE	15.3	16.2	9.5	8.3
RoCE	22.9	22.7	15.9	14.7
RoIC	25.5	22.8	16.6	15.2
Valuation Ratios (x)				
EV / EBITDA	10.3	9.5	11.5	11.6
P/E (Diluted)	23.8	19.4	30.0	31.4
EV / Net Sales	0.7	0.7	0.6	0.5
Market Cap / Sales	0.6	0.6	0.5	0.4
Price to Book Value	3.6	3.1	2.8	2.6
Dividend Yield	0.7	0.8	0.9	1.2
Solvency Ratios (x)				
Net Debt / Equity	0.4	0.5	0.5	0.5
Debt / EBITDA	1.4	1.4	2.0	2.1
Current Ratio	1.9	1.8	2.1	2.0
Quick Ratio	1.0	1.0	1.1	1.0

Source: Company, ICICI Direct Research

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