

Consolidating towards retail business...

Shankara's topline de-grew 18.6% YoY to ₹ 639.3 crore on account of sharp revenue de-growth in the channel & enterprise division. The EBITDA margin expanded 220 bps QoQ to 4.9% mainly on account of better EBIT margins of the retail division at 8.1% in Q1FY20. EBIT margin for the channel & enterprise division was at 3.5% in Q1FY20 vs. 0.9% in Q4FY19. PAT de-grew sharply by 57.6% YoY to ₹ 8.3 crore.

Recalibrating business model towards retail segment

Retail business revenues de-grew 10.5% YoY to ₹ 359.6 crore (~56% of overall revenues) in Q1FY20. EBIT margins of the business segment expanded 83 bps QoQ to 8.1% in Q1FY20. As of Q1FY20, SBP has 129 stores (111 stores on lease basis), with total area of ~5.56 lakh sq ft. The average rental cost for the stores was at ₹ 20.2/sq ft/month. The company is currently not looking at any immediate expansion/addition to its overall retail store count as its near-term focus is to increase retail business at each store level. With this, the management expects revenue growth to remain flattish in FY20E. Overall, we expect retail revenues to grow at 4.8% CAGR to ₹ 1,570.4 crore in FY19-21E.

Proceeds from partial sales of processing unit to help pare debt

Shankara completed partial sale of assets of Taurus Value Steels & Pipes to APL Apollo Tubes while proceeds have been utilised for business operation and debt repayment. The company's debt reduced by ₹ 49.6 crore QoQ to ₹ 318.2 crore in Q1FY20 driven by the money received from asset sales. Going ahead, the company is aiming for debt level of ₹ 250-275 crore by FY20E end. Also, this asset sale could help the company release significant working capital. Net working capital days fell to 46 days in FY19 from 54 days in FY18. The management is aiming at NWC at 40 days in FY20E.

Valuation & Outlook

Currently, Shankara is in a correction mode with the company consciously divesting its volatile margin processing business and increasing its focus on the high growth retail business. We believe the company steadily aligning its business towards its core competency would benefit it in the long term. The debt reduced by ₹ 49.6 crore QoQ to ₹ 318.2 crore in Q1FY20 mainly through the proceeds of asset sales. Going ahead, it is aiming to further reduce this debt to ₹ 250-275 crore and also improve the WC cycle to 40 days by FY20E end (46 days as of FY19). However, this recovery could take a few quarters before we see the positive impact on financials of the company. Hence, we have a **HOLD** rating on the stock with a target price of ₹ 325/share. We value its retail business at ₹ 304/share (7x FY20E EV/EBIT).



Particulars

Particulars	Amount (₹ crore)
Market Capitalization	674.1
Total Debt	195.1
Cash	17.5
EV	851.7
52 week H/L (₹)	1638 / 240
Equity capital	22.9
Face value (₹)	10.0

Key Highlights

- Expect retail revenues to grow at 4.8% CAGR to ₹ 1,570.4 crore in FY19-21E
- Debt reduced by ₹ 49.6 crore QoQ to ₹ 318.2 crore in Q1FY20 driven from the money received from asset sale
- Maintain HOLD with target price of ₹ 325/share

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	2,310.1	2,548.7	2,654.1	2,602.9	2,765.3	2.1%
EBITDA	154.4	175.2	119.4	100.2	116.7	-1.1%
EBITDA Margin (%)	6.7	6.9	4.5	3.8	4.2	
Net Profit	60.3	73.8	32.7	31.3	48.1	21.2%
EPS (₹)	26.4	32.3	14.3	13.7	21.0	
P/E (x)	11.2	9.1	20.6	21.5	14.0	
EV/EBITDA (x)	5.3	5.2	7.1	8.0	5.7	
RoCE	22.9	22.7	15.1	12.1	14.2	
RoNW	15.3	16.2	6.8	6.0	8.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Year	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Net Sales	639.3	785.2	-18.6	619.7	3.2	Revenue de-growth on account of sharp de-growth in channel & enterprise division revenues
Other Income	0.5	0.2	NA	2.2	-76.4	
Material Consumed	180.6	412.4	-56.2	259.2	-30.3	
Purchase of Stock in Trade	448.8	288.8	55.4	297.6	50.8	
Other Expenses	16.5	28.9	-42.9	25.4	-35.1	
EBITDA	31.2	48.8	-36.2	16.4	89.7	
EBITDA Margin	4.9	6.2	-134 bps	2.7	222 bps	EBITDA margin expanded sequentially mainly on account of better EBIT margins in retail division
Depreciation	8.5	4.5	89.8	4.6	84.1	
Interest	11.3	13.9	-18.3	12.4	-8.7	
Exceptional items	0.0	0.0	NA	0.0	NA	
PBT	11.8	30.7	-61.5	1.6	647.5	
Taxes	3.6	11.2	-68.3	0.0	NA	
PAT	8.3	19.5	-57.6	1.6	413.0	Bottomline de-growth led by topline de-growth and lower EBITDA margins compared to Q1FY19

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY18	FY19	FY20E			FY21E		Comments
(₹ Crore)		New	Old	New	% Change	Old	New	% Change
Revenue	2,548.7	2,654.1	2,837.1	2,602.9	-8.3	3,195.5	2,765.3	-13.5
EBITDA	175.2	119.4	95.5	100.2	4.9	120.1	116.7	-2.8
EBITDA Margin (%)	6.9	4.5	3.4	3.8	45 bps	3.8	4.2	42 bps
PAT	73.8	32.7	37.3	31.3	-16.1	62.8	48.1	-23.4
EPS (₹)	32.3	14.3	16.3	13.7	-16.1	27.5	21.0	-23.4

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY18	FY19	FY20E		FY21E		Comments
₹ crore			Current	Earlier	Current	Earlier	
Average store size (sq ft)	3,915	4,233	4,233	4,444	4,444	4,667	We incorporate management guidance
Revenue per store (₹ crore)	9.5	10.7	11.0	11.8	11.9	13.0	

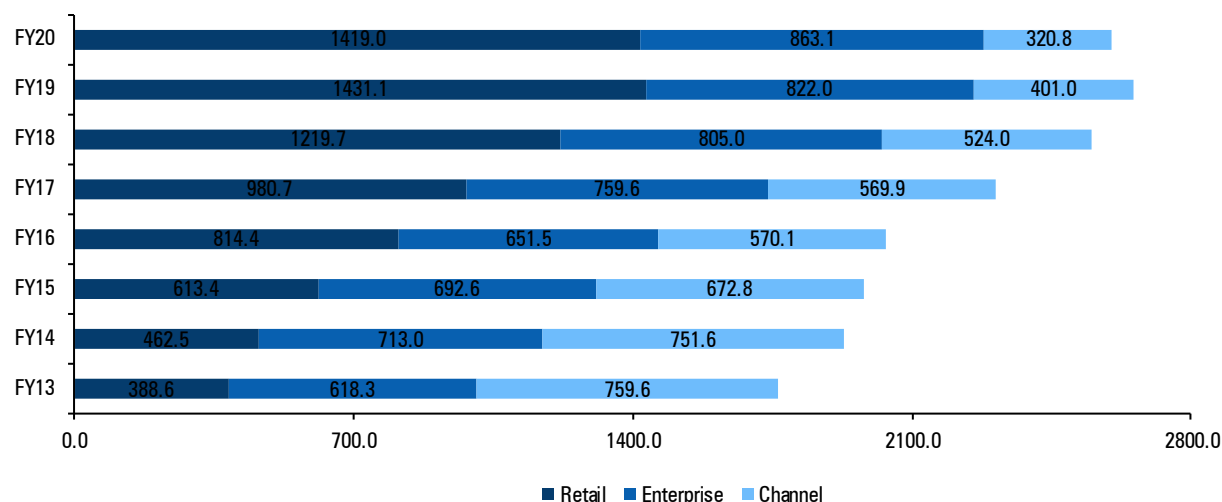
Source: Company, ICICI Direct Research

Conference Call Highlights

- Business strategy:** The management's short-term focus continues to remain on increasing retail business at each store level, and increasing the overall new product sales. On the other hand, its long-term focus areas remain on increasing product offerings in each product category, and offering all products under a roof to build the stores with trust and convenience being their key USP along with price competitiveness
- Retail business:** Revenues from the retail business de-grew 10.5% YoY to ₹ 359.6 crore and contributed ~56% to the topline in Q1FY20 vs. 51% in Q1FY19. EBIT margins for the business segment expanded 83 bps QoQ (contracted 225 bps YoY) to 8.1% in Q1FY20. The average rental cost for the stores was at ₹ 20.2/sq ft per month. As of Q1FY20, SPBL has 129 stores of which, 111 stores are on a lease basis. Total area of these stores is ~5.56 lakh sq ft, with average store size of around 4,300 sq ft. While the company is not looking at any immediate expansion to its overall retail store count, it could consider expansion after a few quarters. Going ahead, the management is aiming at 10-12% growth in the retail segment in FY20E. On the margins front, the management has guided for 6-8% EBITDA margin for the retail division in FY20E
- Revenue break-up for retail business:** With regard to geography, Tier -1 cities accounted for ~40% of revenues, Tier-2 25% and Tier-3 35%. The average ticket size for transaction was around ₹ 28,000 for Q1FY20. On the other hand, of the total retail sale, construction material contributed ~60%, interior exterior ~20%, newer products ~15% and agricultural products ~5%. Own product retail sales was ~27% while balance came from third party sales in Q1FY20
- Processing business:** In line with the company's strategy of reducing focus on the processing business, SPBL manufactured 33,000 tonnes volumes in this segment in Q1FY20 vs. 50,800 tonnes in Q4FY19. The company has completed partial sale of assets of Taurus Value Steels & Pipes. The proceeds have been utilised for business operation and debt repayment. These assets were sold to increase focus of the core business of retail and marketing, where SPBL's core strength lies. Also, this asset sale could help the company release significant working capital
- EBITDA margins:** The EBITDA margin expanded 220 bps QoQ to 4.9% in Q1FY20 mainly on account of SBPL's constant efforts on cost control measures across the company to reduce overhead expenses especially on the processing and channel side of the business, consolidating their operations as well as generating higher margin products from our revenue stream
- Same store sales growth:** The company reported same store sales (SSS) de-growth by 13% in Q1FY20 on account of high base in Q1FY19
- Working capital & debt:** Net working capital days declined to 46 days in FY19 from 54 days in FY18. The management is aiming at NWC of 40 days in FY20E. SPBL had inventory worth ₹ 400 crore as of Q1FY20 and expects it at ₹ 325-350 crore by FY20E end. On the debt front, the company's debt reduced by ₹ 49.6 crore QoQ to ₹ 318.2 crore in Q1FY20 driven from the money received from asset sales. Going ahead, the company is aiming for debt level of ₹ 250-275 crore by FY20E end

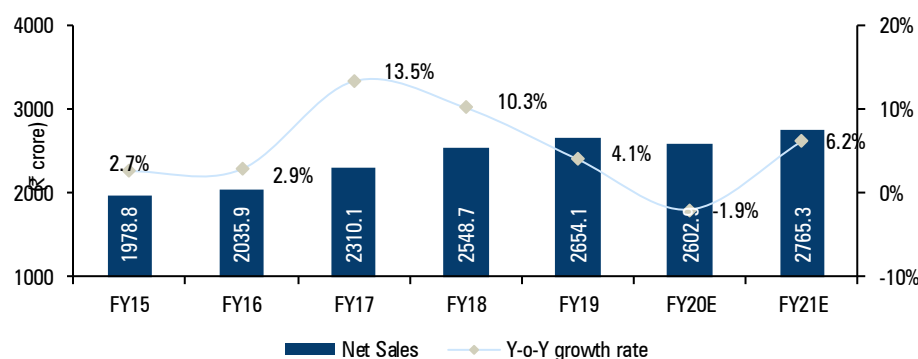
Company Analysis

Exhibit 4: Segmental revenue trend



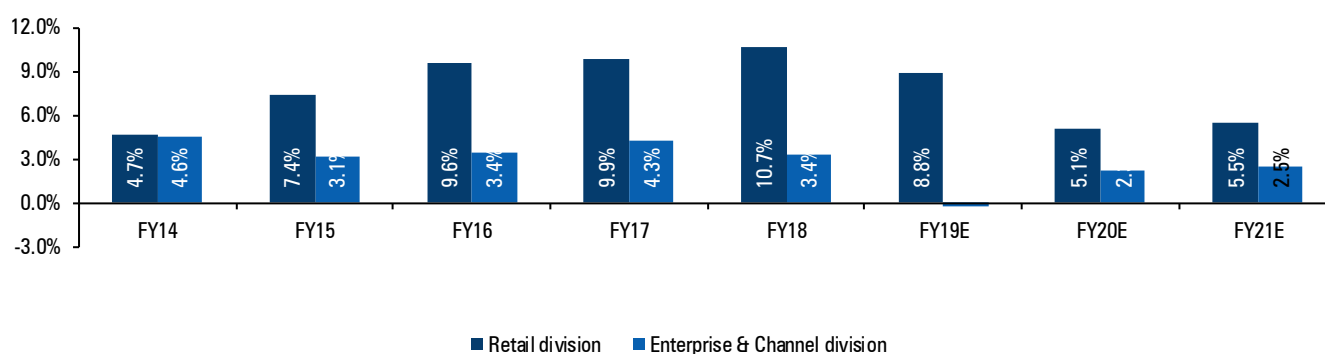
Source: Company, ICICI Direct Research

Exhibit 5: Overall revenue trend



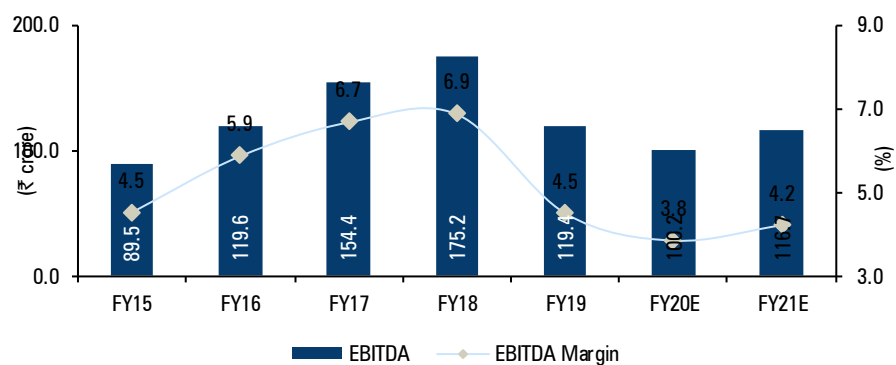
Source: Company, ICICI Direct Research

Exhibit 6: Segmental EBITDA trend



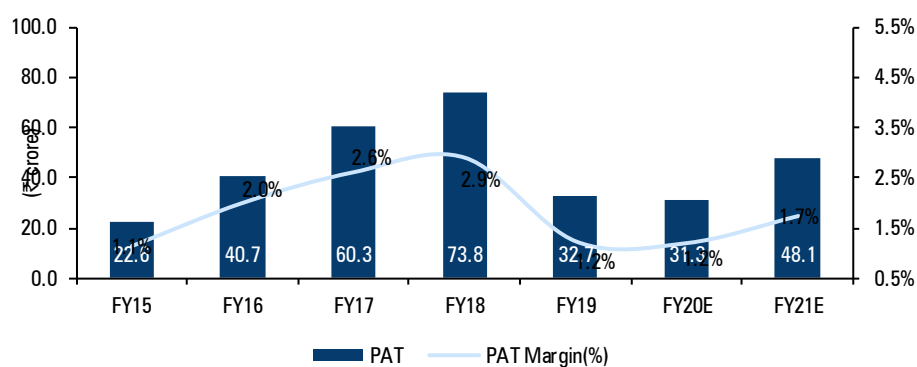
Source: Company, ICICI Direct Research

Exhibit 7: Overall EBITDA trend



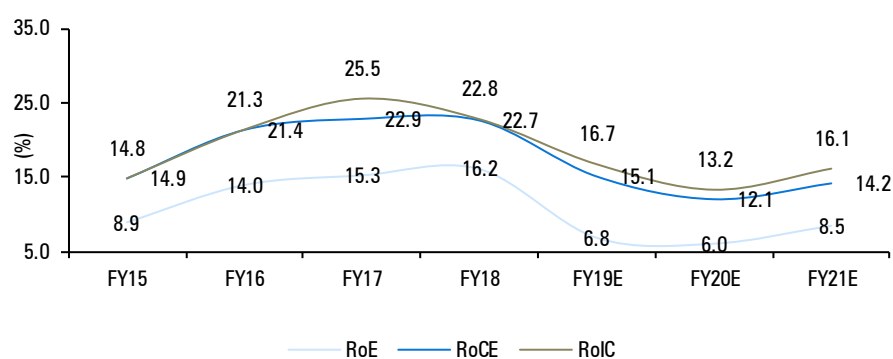
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



Source: Company, ICICI Direct Research

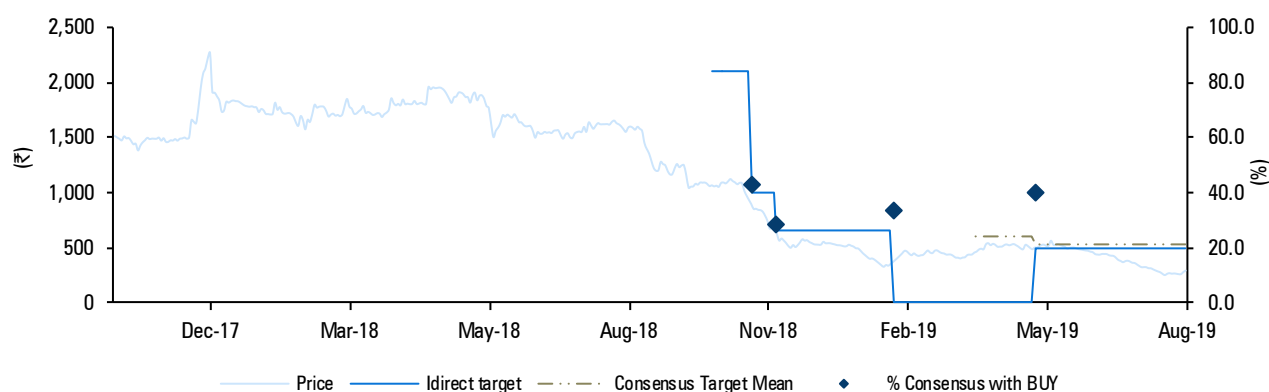
Valuation & Outlook

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Exhibit 10: Valuation

Business	Method	Multiple	Basis	Valuation	₹/share
Retail	EV/EBIT	7.0	FY20E	695.3	304
Channel & Enterprise	EV/EBIT	5.0	FY20E	177.6	77.7
Less: Net Debt				-128.6	-56
Target Valuation				744.3	325.7
Rounded off target price					325

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Srinivas (Sukumar)	30-Jun-19	54.8%	12.5	0.0
2	Amansa Holdings Pvt Ltd	30-Jun-19	9.3%	2.1	0.2
3	Ashoka Pte. Ltd.	30-Jun-19	8.1%	1.8	0.0
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-19	4.2%	1.0	0.0
5	Wellington Management Company, LLP	30-Jun-19	1.1%	0.2	0.0
6	Matthews International Capital Management, L.L.C.	30-Jun-19	0.6%	0.1	0.0
7	Ravikumar (C)	5-Jun-18	0.3%	0.1	0.1
8	Dimensional Fund Advisors, L.P.	30-Jun-19	0.3%	0.1	0.0
9	Prasad (Siva)	1-Jun-18	0.3%	0.1	0.1
10	Van Eck Associates Corporation	31-Jul-19	0.2%	0.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Amansa Holdings Pvt Ltd	1.3	0.2	Florida State Board of Administration	-0.2	0.0
Matthews International Capital Management, L.L.C.	0.1	0.0	Ashoka Pte. Ltd.	-0.2	0.0
			Nuveen LLC	-0.3	0.0
			Wellington Management Company, LLP	-0.1	0.0
			LIC Mutual Fund Asset Management Company Ltd.	0.0	0.0

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	56.2	56.2	56.2	56.2
Public	43.8	43.8	43.8	43.8
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement ₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	2,548.7	2,654.1	2,602.9	2,765.3
Net Raw Material Cost	2,173.8	2,359.4	2,307.4	2,444.4
Employee benefit expenses	59.2	64.3	73.9	85.0
Power & Fuel	-	-	-	-
Consumption of stores and spares	-	-	-	-
Total operating expenditures	2,373.5	2,534.7	2,502.7	2,648.6
EBITDA	175.2	119.4	100.2	116.7
Interest	46.4	56.7	35.6	24.8
Depreciation	13.6	18.6	22.5	25.0
Other income	0.6	4.4	4.7	4.9
PBT	115.9	48.5	46.7	71.8
Taxes	42.1	15.8	15.4	23.7
Effective tax rate (%)	36.3%	32.5%	33.0%	33.0%
PAT	73.8	32.7	31.3	48.1
PAT Growth rate	22.4%	-55.6%	-4.4%	53.6%
Adjusted EPS (Diluted)	32.3	14.3	13.7	21.0

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement ₹ crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Profit after Tax	73.8	32.7	31.3	48.1
Depreciation	13.6	18.6	22.5	25.0
Interest	44.7	56.7	35.6	24.8
Taxes	42.1	15.8	15.4	23.7
Cash Flow before wc changes	176.2	119.4	100.2	116.7
Cash generated from operations	(86.0)	61.3	34.3	32.8
Income Tax paid	(49.3)	(15.8)	(15.4)	(23.7)
Net CF from operating activities	40.9	164.9	119.1	125.8
(Purchase)/Sale of Fixed Assets (Net)	(39.6)	(39.8)	(39.0)	(41.5)
Others	(35.4)	4.4	4.7	74.0
Net CF from Investing activities	(75.0)	(35.4)	(34.4)	32.5
Dividend	(7.6)	-	-	-
Interest paid	(45.9)	(56.7)	(35.6)	(24.8)
Inc / (Dec) in Loans	24.4	(47.7)	(50.3)	(50.0)
Net CF from Financing activities	33.6	(104.4)	(85.9)	(74.8)
Net Cash flow	(0.6)	25.1	(1.2)	83.5
Opening Cash	1.8	6.0	17.5	16.2
Closing Cash/ Cash Equivalent	1.2	31.1	16.2	99.7

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet ₹ crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	22.9	22.9	22.9	22.9
Reserve and Surplus	432.9	456.2	496.9	545.0
Total Shareholders funds	455.7	479.0	519.8	567.9
Total Debt	242.8	195.1	144.8	94.8
Total Liabilities	716.1	695.3	682.3	680.4
Assets				
Gross Block	307.9	281.5	320.5	362.0
Less Acc. Dep	24.9	42.6	65.1	90.2
Net Block	283.1	238.9	255.4	271.9
Goodwill on consolidation	14.0	14.0	14.0	14.0
Total Fixed Assets	318.7	273.4	299.2	318.5
Investments	3.7	1.4	4.7	5.0
Inventory	415.7	383.0	390.4	359.5
Sundry Debtors	427.2	337.5	320.2	331.8
Loans & Advances	18.0	14.8	20.8	23.3
Cash & Bank Balances	6.0	17.5	16.2	99.7
Other Current Assets	45.1	31.5	0.1	0.1
Total Current Assets	894.0	769.5	741.5	806.7
Trade Payable	461.2	381.5	377.4	387.1
Other Current Liabilities	34.7	33.3	47.1	50.0
Provisions	0.7	2.0	8.7	13.4
Net Current Assets	397.4	352.8	308.3	356.2
Total Assets	716.2	695.3	676.6	674.7

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	FY18	FY19E	FY20E	FY21E
Per Share Data (₹)				
EPS - Diluted	32.3	14.3	13.7	21.0
Cash EPS	38.2	22.5	23.6	32.0
Book Value	199.4	209.6	227.5	248.5
Dividend per share	4.7	5.4	7.7	7.7
Operating Ratios (%)				
EBITDA / Net Sales	6.9	4.5	3.8	4.2
PAT / Net Sales	2.9	1.2	1.2	1.7
Inventory Days	59.5	52.7	54.8	47.5
Debtor Days	61.2	46.4	44.9	43.8
Creditor Days	66.1	52.5	52.9	51.1
Return Ratios (%)				
RoE	16.2	6.8	6.0	8.5
RoCE	22.7	15.1	12.1	14.2
RoIC	22.8	16.7	13.2	16.1
Valuation Ratios (x)				
EV / EBITDA	5.2	7.1	8.0	5.7
P/E (Diluted)	9.1	20.6	21.5	14.0
EV / Net Sales	0.4	0.3	0.3	0.2
Market Cap / Sales	0.3	0.3	0.3	0.2
Price to Book Value	1.5	1.4	1.3	1.2
Dividend Yield	1.6	1.8	2.6	2.6
Solvency Ratios (x)				
Net Debt / Equity	0.5	0.4	0.2	(0.0)
Debt / EBITDA	1.4	1.6	1.4	0.8
Current Ratio	1.8	1.8	1.7	1.6
Quick Ratio	1.0	0.9	0.8	0.8

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Tiles)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			V/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Shankara Building (SHABUL)	295	325	Hold	674	14.3	13.7	21.0	20.6	21.5	14.0	7.1	8.0	5.7	1.4	1.3	1.2	6.8	6.0	8.5
Kajaria Ceramics (KAJCER)	463	515	Hold	7357	14.2	16.0	20.6	32.5	29.0	22.5	16.0	14.6	12.0	4.7	4.2	3.7	14.4	14.4	16.3
Somany Ceramics (SPLIND)	321	370	Buy	1360	10.9	14.0	17.5	29.4	22.9	18.3	11.7	10.5	9.0	2.2	2.1	1.9	7.6	9.0	10.3

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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