Shankara Building Products (SHABUI)  ₹ 628

Retail margins revised downwards sharply ...

The management of Shankara Building Products Ltd (SBPL) now believes that the company’s strong future prospects lie 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 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

<table>
<thead>
<tr>
<th>Business</th>
<th>Method</th>
<th>Multiple</th>
<th>Basis</th>
<th>Valuation</th>
<th>₹/share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>EV/EBIT</td>
<td>12.0</td>
<td>FY20E</td>
<td>1459.7</td>
<td>639</td>
</tr>
<tr>
<td>Channel &amp; Enterprise</td>
<td>EV/EBIT</td>
<td>5.0</td>
<td>FY20E</td>
<td>292.2</td>
<td>127.9</td>
</tr>
<tr>
<td>Less: Net Debt</td>
<td></td>
<td></td>
<td></td>
<td>-264.1</td>
<td>-116</td>
</tr>
<tr>
<td>Target Valuation</td>
<td></td>
<td></td>
<td></td>
<td>1487.8</td>
<td>651.1</td>
</tr>
</tbody>
</table>

Rounded off target price  850

Source: Company, ICICI Direct Research
## Financial summary

### Profit and loss statement

<table>
<thead>
<tr>
<th>(<code>Cr</code> Core)</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>2,310.1</td>
<td>2,548.7</td>
<td>2,866.2</td>
<td>3,198.9</td>
</tr>
<tr>
<td>Net Raw Material Cost</td>
<td>1,979.4</td>
<td>2,173.8</td>
<td>2,437.5</td>
<td>2,712.4</td>
</tr>
<tr>
<td>Employee benefit expenses</td>
<td>49.4</td>
<td>59.2</td>
<td>71.1</td>
<td>81.7</td>
</tr>
<tr>
<td>Power &amp; Fuel</td>
<td>13.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumption of stores and spares</td>
<td>42.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total operating expenditures</td>
<td>2,155.8</td>
<td>2,373.5</td>
<td>2,718.7</td>
<td>3,053.0</td>
</tr>
<tr>
<td>EBITDA</td>
<td>154.4</td>
<td>175.2</td>
<td>146.5</td>
<td>146.0</td>
</tr>
<tr>
<td>Depreciation</td>
<td>11.4</td>
<td>13.6</td>
<td>17.0</td>
<td>19.4</td>
</tr>
<tr>
<td>Other income</td>
<td>0.3</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>PAT Growth rate</td>
<td>48.0%</td>
<td>22.4%</td>
<td>-35.3%</td>
<td>-4.4%</td>
</tr>
<tr>
<td>Adjusted EPS (Diluted)</td>
<td>26.4</td>
<td>32.3</td>
<td>20.9</td>
<td>20.0</td>
</tr>
</tbody>
</table>

Source: Company, ICICI Direct Research

### Cash flow statement

<table>
<thead>
<tr>
<th>(<code>Cr</code> Core)</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after Tax</td>
<td>60.3</td>
<td>73.8</td>
<td>47.8</td>
<td>45.7</td>
</tr>
<tr>
<td>Depreciation</td>
<td>11.4</td>
<td>13.6</td>
<td>17.0</td>
<td>19.4</td>
</tr>
<tr>
<td>Interest</td>
<td>49.6</td>
<td>44.7</td>
<td>56.8</td>
<td>57.1</td>
</tr>
<tr>
<td>Taxes</td>
<td>32.2</td>
<td>42.1</td>
<td>25.7</td>
<td>24.6</td>
</tr>
<tr>
<td>Cash Flow before wc changes</td>
<td>154.0</td>
<td>176.2</td>
<td>146.5</td>
<td>146.0</td>
</tr>
<tr>
<td>Cash generated from operations</td>
<td>(24.6)</td>
<td>(86.0)</td>
<td>(42.0)</td>
<td>(24.1)</td>
</tr>
<tr>
<td>Income Tax paid</td>
<td>(23.6)</td>
<td>(49.3)</td>
<td>(25.7)</td>
<td>(24.6)</td>
</tr>
<tr>
<td>Net CF from operating activities</td>
<td>105.9</td>
<td>40.9</td>
<td>78.9</td>
<td>97.3</td>
</tr>
<tr>
<td>(Purchase)/Sale of Fixed Assets (Net)</td>
<td>(36.7)</td>
<td>(39.6)</td>
<td>(43.0)</td>
<td>(48.0)</td>
</tr>
<tr>
<td>Other</td>
<td>0.0</td>
<td>(35.4)</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Net CF from Investing activities</td>
<td>(36.7)</td>
<td>(75.0)</td>
<td>(42.3)</td>
<td>(47.2)</td>
</tr>
<tr>
<td>Dividend</td>
<td>(0.7)</td>
<td>(7.6)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(48.3)</td>
<td>(45.9)</td>
<td>(56.8)</td>
<td>(57.1)</td>
</tr>
<tr>
<td>Inc / (Dec) in Loans</td>
<td>0.9</td>
<td>24.4</td>
<td>57.3</td>
<td>-</td>
</tr>
<tr>
<td>Net CF from Financing activities</td>
<td>(68.8)</td>
<td>33.6</td>
<td>0.5</td>
<td>(57.1)</td>
</tr>
<tr>
<td>Net Cash flow</td>
<td>0.5</td>
<td>(0.6)</td>
<td>37.0</td>
<td>(7.0)</td>
</tr>
<tr>
<td>Opening Cash</td>
<td>1.4</td>
<td>1.8</td>
<td>6.0</td>
<td>43.0</td>
</tr>
<tr>
<td>Closing Cash/ Cash Equivalent</td>
<td>1.8</td>
<td>1.2</td>
<td>43.0</td>
<td>36.0</td>
</tr>
</tbody>
</table>

Source: Company, ICICI Direct Research

### Balance sheet

<table>
<thead>
<tr>
<th>(<code>Cr</code> Core)</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital</td>
<td>22.9</td>
<td>22.9</td>
<td>22.9</td>
<td>22.9</td>
</tr>
<tr>
<td>Reserve and Surplus</td>
<td>370.8</td>
<td>432.9</td>
<td>480.7</td>
<td>526.3</td>
</tr>
<tr>
<td>Total Shareholders funds</td>
<td>393.7</td>
<td>455.7</td>
<td>503.5</td>
<td>549.2</td>
</tr>
<tr>
<td>Total Debt</td>
<td>216.0</td>
<td>242.8</td>
<td>300.1</td>
<td>300.1</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>626.7</td>
<td>716.1</td>
<td>821.4</td>
<td>867.0</td>
</tr>
</tbody>
</table>

Source: Company, ICICI Direct Research

### Key ratios

<table>
<thead>
<tr>
<th></th>
<th>FY17</th>
<th>FY18</th>
<th>FY19E</th>
<th>FY20E</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS - Diluted</td>
<td>26.4</td>
<td>32.3</td>
<td>20.9</td>
<td>20.0</td>
</tr>
<tr>
<td>PAT / Net Sales</td>
<td>6.7</td>
<td>6.9</td>
<td>5.1</td>
<td>4.6</td>
</tr>
<tr>
<td>Inventory Days</td>
<td>44.2</td>
<td>59.5</td>
<td>51.1</td>
<td>51.1</td>
</tr>
<tr>
<td>Debtors Days</td>
<td>49.3</td>
<td>61.2</td>
<td>51.1</td>
<td>47.5</td>
</tr>
<tr>
<td>Return Ratios (%)</td>
<td>-</td>
<td>0.8</td>
<td>41.2</td>
<td>41.2</td>
</tr>
<tr>
<td>RoE</td>
<td>15.3</td>
<td>16.2</td>
<td>9.5</td>
<td>8.3</td>
</tr>
<tr>
<td>RoCE</td>
<td>22.9</td>
<td>22.7</td>
<td>15.9</td>
<td>14.7</td>
</tr>
<tr>
<td>RoIC</td>
<td>25.5</td>
<td>22.8</td>
<td>16.6</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Source: Company, ICICI Direct Research
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