

March 18, 2017

Shankara Building Products Limited

Thrust on retail to boost potential

Shankara Building Products Ltd (SBPL) is one of the leading organized retailers of home improvement and building products in India. Shankara offers a comprehensive range of products including cement, structural steel, TMT bars, hollow blocks, pipes & tubes, roofing solutions, tiles, sanitary ware, water tanks, plywood, kitchen sinks, lighting and other allied products.

Expanding its footprint in the retail business: SBPL has increased its store count from 43 in FY2012 to 103 in 9MFY2017, with total retail business area of ~0.37mn sq. ft in 9 states and 1 Union Territory. Moreover, the company has plans to increase the store count by 15-20 every year going ahead, which will further boost its growth.

Efforts to shift revenue mix from institutional sales to retail business: Currently, the company's 40% revenue comes from retail business and the balance from institutional sales (channel sales and Enterprise segments). Historically, SBPL has increased its retail revenue from 24% in FY2014 to 42% in 9MFY2017. The company is continuously putting efforts to increase the retail sales, which is expected to reach up to 60% in the next 2-3 years on the back of rise in strong customer relationships, opening of new stores, focus on brand equity and marketability in the home improvement and building space, etc.

Operating margins improve significantly: The Company's operating margin has increased from 4.6% in FY2014 to 6.4% in 9MFY2017 due to a change in revenue mix towards retail business, which is a higher margin business (margin of 9-10%) compared to institutional business like channel sales and Enterprise segments, which has low margins (around ~5%). Going forward, we expect margins to improve on the back of higher revenue from retail sales.

Strong improvement in Financials: SBPL has reported healthy top-line of 9.5% CAGR and bottom-line of 8.4% CAGR over FY2012-16. Further, the company's debt/equity ratio has improved from 1.3 in FY2012 to 0.8 in 9MFY2017 and also the working capital cycle has improved from 71 days in FY2012 to 42 days in 9MFY2017.

Outlook and Valuation: Considering the company's strong retail presence, diversified product offering, substantial same store sales growth (last five years average growth is 23%) and robust retail revenue of ~29% over FY2012-16, we expect that SBPL to witness higher revenues from its retail business going ahead. At the upper end of the price band, the pre issue P/E multiple works out to be 18.2x of its annualized 9MFY17 numbers. On EV/Sales, the issue is valued at 0.6x of annualized 9MFY17 numbers. **Considering its long term prospects and reasonable valuation, we recommend Subscribe rating on this issue.**

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	9MFY17
Net Sales	1,927	1,979	2,036	1,710
% chg	9.1	2.7	2.9	-
Net Profit	29	23	41	42
% chg	(9.8)	(21.4)	83.1	-
OPM (%)	4.6	4.5	5.9	6.4
EPS (₹)	13.1	10.3	18.9	19.0
P/E (x)	35.0	44.6	24.3	-
P/BV (x)	4.3	4.0	3.5	-
RoE (%)	12.3	8.9	14.2	-
RoCE (%)	16.2	15.0	21.9	-
EV/Sales (x)	0.7	0.7	0.6	-
EV/EBITDA (x)	14.5	14.4	10.2	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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Issue Open: March 22, 2017
 Issue Close: March 24, 2017

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹21.9cr

Offer for Sale: 0.65cr Shares

Fresh issue: ₹45cr

Post Eq. Paid up Capital: ₹22.8cr

Issue size (amount): *₹331cr -**345cr

Price Band: ₹440-460

Lot Size: 32 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1,005cr - **₹1,051cr

Promoters holding Pre-Issue: 62.4%

Promoters holding Post-Issue: 56.2%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	56.2%
Others	43.8%

Amarjeet S Maurya

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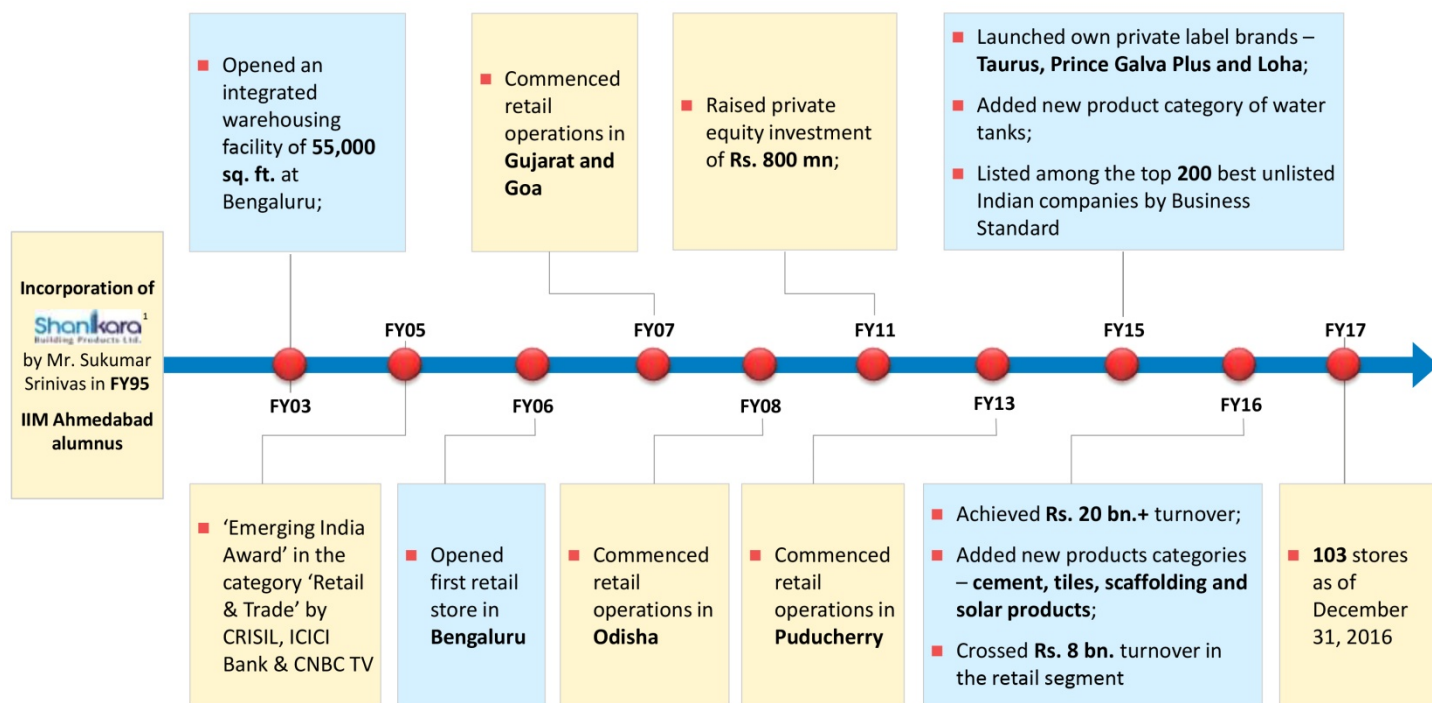
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Company background

Shankara Building Products Ltd (SBPL) is one of the leading organized retailers of home improvement and building products in India. The company offers structural steel, cement, thermo mechanical treatment bars, hollow blocks, pipes and tubes, roofing solutions, welding accessories, primers, solar heaters, plumbing products, tiles, sanitary ware, water tanks, plywood, kitchen sinks, and lighting and other allied products. As of September 24, 2016, it operated 100 Shankara BuildPro stores, covering the end-user segments of urban and semi-urban markets in Andhra Pradesh, Goa, Gujarat, Karnataka, Kerala, Maharashtra, Odisha, Tamil Nadu, Telangana, and Puducherry. The company also manufactures, assembles, processes, trades in, imports, exports, or deals in a range of steel sheets, steel roofing sheets, walling products, accessories, and steel structures and purlins used for construction of various types of building structures, as well as steel pipes, tubes and pipe fittings, and iron & steel and allied products; and engages in general hardware and general wholesale trading activities.

It serves home owners, architects and contractors, small enterprises and housing, general engineering, automotive, renewable energy, agriculture, and construction and infrastructure sectors. The company was formerly known as Shankara Infrastructure Materials Limited and changed its name to Shankara Building Products Limited in July 2006. Shankara Building Products Limited was founded in 1995 and is headquartered in Bengaluru, India.

Exhibit 1: Evaluation of the company



Source: Company, Angel Research

Issue details

The company is raising ~₹45cr through a fresh issue of equity shares. The fresh issue will constitute ~4% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.65cr shares that are being sold by the promoter group and other shareholders.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	1,36,58,000	62.4%	1,28,41,748	56.2%
Others	82,13,037	37.6%	1,00,07,550	43.8%
	2,18,71,037	100%	2,28,49,298	100%

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

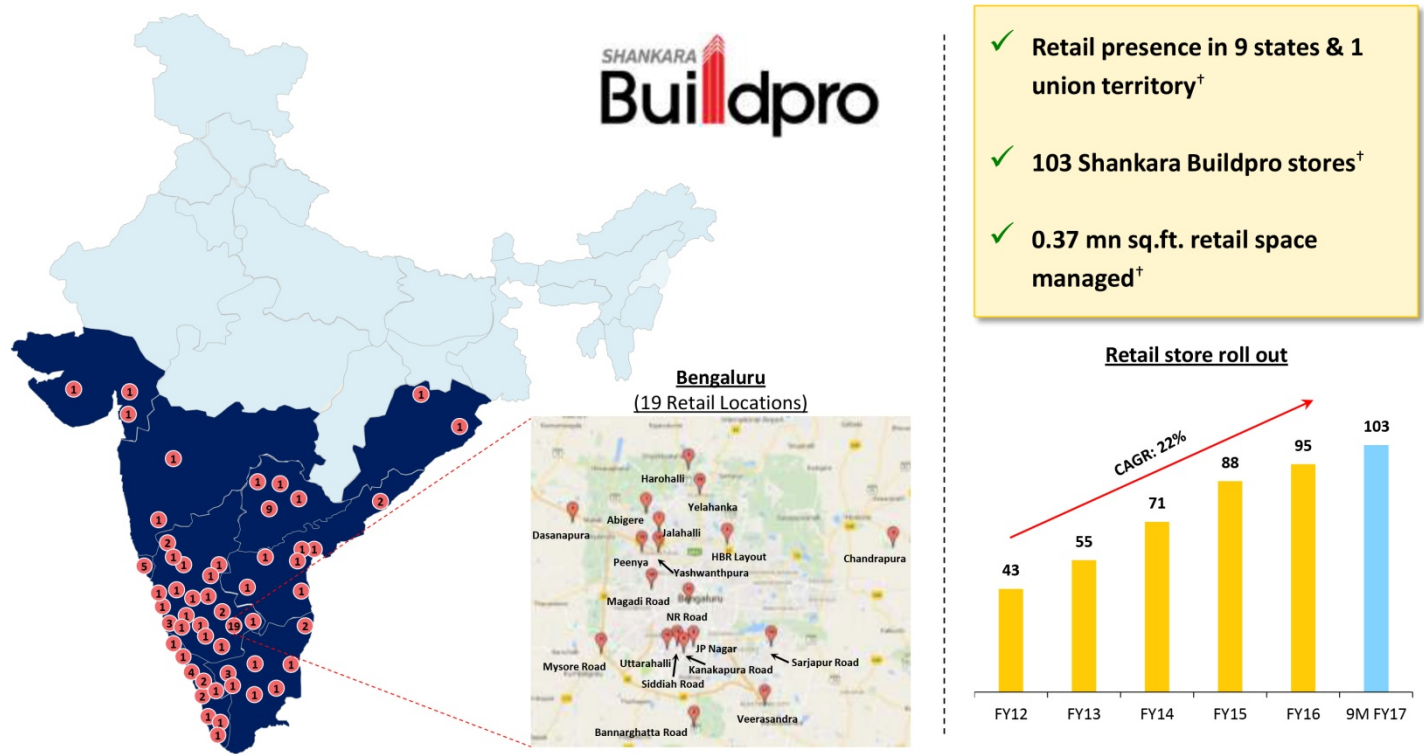
- Repayment or pre-payment of loan amounting to ₹34cr
- General corporate purpose

Investment Rationale

Expanding its footprint in the retail business

SBPL has increased its store count from 43 in FY2012 to 103 in 9MFY2017, with total retail business area of ~0.37mn sq. ft in 9 states and 1 Union Territory. Moreover, the company has plans to increase the store count by 15-20 every year going ahead, which will further boost its growth.

Exhibit 3: Strategically located retail stores



*based on number of stores operating under the trade name 'Shankara Buildpro'; *as on December 31, 2016

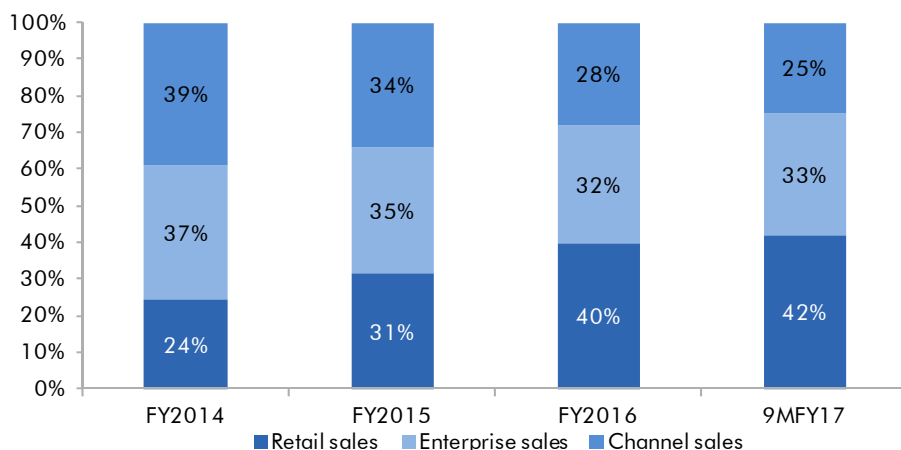
Source: Report on "Assessment of Housing and Building Material Industry in India, September, 2016" dated September 26, 2016 read with the addendum dated February 3, 2017 by CRISIL Research – a division of CRISIL Limited

Source: Company, Angel Research

Efforts to shift revenue mix from institutional sales to retail business

Currently, the company's 40% revenue comes from retail business and the balance from institutional sales (channel sales and Enterprise segments). Historically, SBPL has increased its retail revenue from 24% in FY2014 to 42% in 9MFY2017. The company is continuously putting efforts to increase the retail sales, which is expected to reach up to 60% in the next 2-3 years on the back of rise in strong customer relationships, opening of new stores, focus on brand equity and marketability in the home improvement and building space, etc.

Exhibit 4: Revenue mix

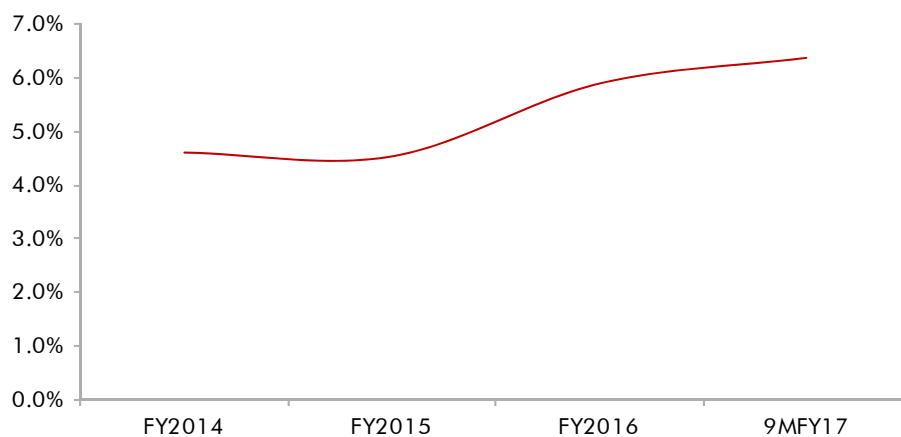


Source: Company, Angel Research

Operating margins improve significantly

The Company’s operating margin has increased from 4.6% in FY2014 to 6.4% in 9MFY2017 due to a change in revenue mix towards retail business, which is a higher margin business (margin of 9-10%) compared to institutional business like channel sales and Enterprise segments, which has low margins (around ~5%). Going forward, we expect margins to improve on the back of higher revenue from retail sales.

Exhibit 5: Operating margin improved by 177bp

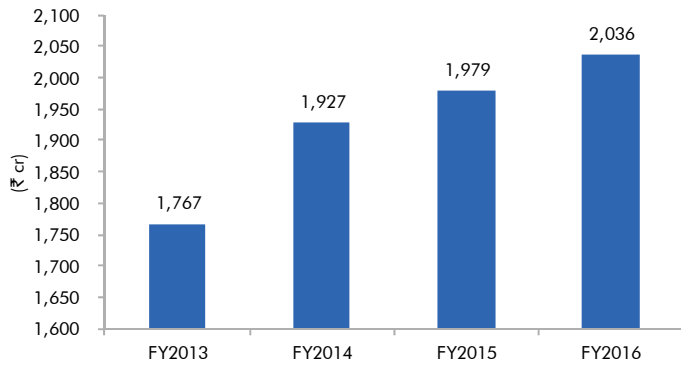


Source: Company, Angel Research

Strong improvement in Financials

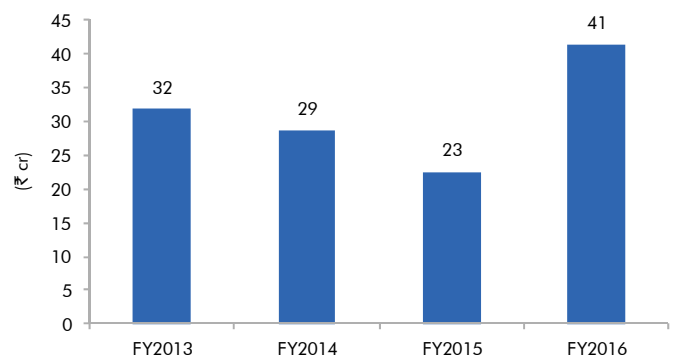
SBPL has reported healthy top-line of 9.5% CAGR and bottom-line of 8.4% CAGR over FY2012-16. Further, the company's debt/equity ratio has improved from 1.3 in FY2012 to 0.8 in 9MFY2017 and also the working capital cycle has improved from 71 days in FY2012 to 42 days in 9MFY2017.

Exhibit 6: Historical revenue trend



Source: Company, Angel Research

Exhibit 7: Historical PAT trend



Source: Company, Angel Research

Outlook and Valuation

Considering the company's strong retail presence, diversified product offering, substantial same store sales growth (last five years average growth is 23%) and robust retail revenue of ~29% over FY2012-16, we expect that SBPL to witness higher revenues from its retail business going ahead. At the upper end of the price band, the pre issue P/E multiple works out to be 18.2x of its annualized 9MFY17 numbers. On EV/Sales, the issue is valued at 0.6x of annualized 9MFY17 numbers. **Considering its long term prospects and reasonable valuation, we recommend Subscribe rating on this issue.**

Key risks

Increase in competition

Due to low entry barriers in business, the company could face increased competition, which would impact the company's profitability.

Slowdown in real estate

Slowdown in the real estate activities could adversely impact the overall business performance.

Geographical concentration

The company's ~52% revenue comes from the state of Karnataka, any change in this could impact the company's revenue.

Income Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Total operating income	1,767	1,927	1,979	2,036	1,710
% chg	25.0	9.1	2.7	2.9	-
Total Expenditure	1,680	1,839	1,889	1,916	1,601
Raw Material	1,592	1,736	1,758	1,767	1,472
Personnel	21	26	35	41	37
Others Expenses	66	76	96	108	93
EBITDA	87	89	90	120	109
% chg	24.0	1.9	1.0	33.8	-
(% of Net Sales)	4.9	4.6	4.5	5.9	6.4
Depreciation & Amortisation	5	6	9	10	9
EBIT	82	83	81	110.2	100
% chg	22.4	0.7	(2.6)	36.6	-
(% of Net Sales)	4.7	4.3	4.1	5.4	5.9
Interest & other Charges	35	42	47	46	37
Other Income	0	1	1	1	0
(% of PBT)	0.7	2.0	2.5	1.0	0.2
Exceptional Items	-	-	-	-	-
Recurring PBT	48	42	35	65	63
% chg	6.7	(12.0)	(17.8)	88.0	-
Tax	16	13	12	24	21
(% of PBT)	33.4	31.7	34.6	36.3	34.0
PAT (reported)	32	29	23	41	42
Less: Minority interest (MI)	(0)	(0)	(0)	(0)	(0)
PAT after MI (reported)	32	29	23	41	42
(% of Net Sales)	1.8	1.5	1.1	2.0	2.4
Basic & Fully Diluted EPS (₹)	14.5	13.1	10.3	18.9	19.0
% chg	6.5	(9.8)	(21.4)	83.1	-

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
SOURCES OF FUNDS					
Equity Share Capital	21	22	22	22	22
Reserves & Surplus	179	211	231	269	310
Shareholders Funds	200	233	253	291	332
Minority Interest	0	0	0	0	0
Total Loans	271	279	285	214	271
Deferred Tax Liability	6	8	10	13	15
Total Liabilities	477	521	548	517	618
APPLICATION OF FUNDS					
Net Block	133	160	191	219	241
Capital Work-in-Progress	0	-	-	-	-
Investments	-	-	-	-	-
Goodwill	4	15	14	14	14
Current Assets	472	501	521	566	611
Inventories	185	221	232	256	290
Sundry Debtors	260	250	260	281	291
Cash	2	3	2	2	2
Loans & Advances	16	26	24	24	24
Other Assets	9	1	3	2	4
Current liabilities	133	156	177	282	248
Net Current Assets	339	345	344	284	363
Deferred Tax Asset	-	1	0	0	-
Mis. Exp. not written off	-	-	-	-	-
Total Assets	477	521	548	517	618

Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	1HFY17
Profit before tax	48	42	35	65	63
Depreciation	5	6	9	10	9
Change in Working Capital	(64)	(12)	(4)	52	(83)
Interest / Dividend (Net)	(0)	(0)	0	0	0
Direct taxes paid	(13)	(12)	(7)	(11)	(17)
Others	35	41	47	45	37
Cash Flow from Operations	9	64	80	159	9
(Inc.)/ Dec. in Fixed Assets	(31)	(29)	(42)	(38)	(30)
(Inc.)/ Dec. in Investments	(2)	(10)	2	0	0
Cash Flow from Investing	(33)	(40)	(40)	(38)	(30)
Issue of Equity	0	0	0	0	0
Inc./(Dec.) in loans	62	16	9	(71)	57
Others	(39)	(42)	(50)	(51)	(36)
Cash Flow from Financing	23	(26)	(40)	(122)	21
Inc./(Dec.) in Cash	(1)	(1)	(0)	0	(0)
Opening Cash balances	3	2	3	2	2
On acquisition of subsidiary	-	2	-	-	-
Closing Cash balances	2	3	2	2	2

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
Valuation Ratio (x)				
P/E (on FDEPS)	31.6	35.0	44.6	24.3
P/CEPS	27.6	29.2	32.1	19.8
P/BV	5.0	4.3	4.0	3.5
EV/Sales	0.7	0.7	0.7	0.6
EV/EBITDA	14.7	14.5	14.4	10.2
EV / Total Assets	2.7	2.5	2.4	2.4
Per Share Data (₹)				
EPS (Basic)	14.5	13.1	10.3	18.9
EPS (fully diluted)	14.5	13.1	10.3	18.9
Cash EPS	16.7	15.8	14.4	23.3
Book Value	91.4	106.7	115.8	132.9
Returns (%)				
ROCE	17.5	16.2	15.0	21.9
Angel ROIC (Pre-tax)	17.7	16.7	15.5	22.6
ROE	15.9	12.3	8.9	14.2
Turnover ratios (x)				
Inventory / Sales (days)	38	42	43	46
Receivables (days)	54	47	48	50
Payables (days)	22	23	25	42
WC cycle (ex-cash) (days)	70	66	65	54

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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