



Issue Details	
Issue Opens	22 nd Mar, 2017 to 24 th Mar, 2017
Issue Type	Fresh Issue & Offer for Sale
Offer Price	Rs. 205-207
Pre-issue Shares outstanding (cr)	2.18
Shares offered in IPO (Fresh issue) (cr)	0.45
Nos. of shares post issue (cr)	2.63
IPO size (Rs.cr)	345 cr
Promoter Holding pre-IPO	62.4%
Promoter Holding post-IPO	56.2%
FY16 PAT	41.7 cr
9MFY17 annualized P/E at Upper Band	18X

About the Company:

Shankara Building Products Ltd. (SBPL) is one of the leading organised retailers of home improvement and building products in India, operating 103 stores, under its trade name Shankara BuildPro, across 9 States. It caters to a large customer base, mainly home owners and professional customers such as architects and contractors, in urban and semi-urban markets through its multi-channel sales approach, processing facilities, supply chain and logistics capabilities. All of the company's stores are owned by the company itself.

Besides Retail business, company has two other legacy business viz., Enterprise and Channel sales. The enterprise sales caters primarily to large end-users, contractors, and OEMs, while the channel sales caters to dealers and other retailers through our extensive branch network.

Particulars	FY12	FY13	FY14	FY15	FY16
Retail Sales	294.7	383.6	464.7	619.3	807.8
% of Total Sales	21%	22%	24%	31%	40%
Channel & Enterprise Sales	1,119.0	1,383.0	1,462.4	1,359.5	1,228.1
% of Total Sales	79%	78%	76%	69%	60%
Total Sales	1,413.70	1,766.56	1,927.10	1,978.82	2,035.92

Objects of the Company:

SBPL is raising Rs. 45 crore via fresh issue of which it will utilize Rs. 34 crores towards repayment/pre-payment of loans and remaining will be used for general corporate purpose.

Investment Rationale/ Key Strengths:

- Thrust on retail business to aide faster growth and drive margins:

SBPL forayed into retail business in 2006 and as at FY12 it operated 43 stores under its trade name Shankara BuildPro. Since FY12, SBPL has grown its stores at a CAGR of ~22% to 93 stores at FY16. Over the same period, the overall sales grew strongly at CAGR of ~29% on the back of ~24% growth sales per store from Rs. 6.9 cr in FY12 to Rs. 8.5 cr in FY16. Over last 4 years, the share of retail business have increased from ~21% to 40%. This has helped in improving the margins of the company which have gone up from 4.9% in FY12 to 6.0% in FY16 as retail business yields high margins of 9-10% compared to 4-5% margins made in Enterprise and Channel Sales business

Harsh Shah (Research Analyst)

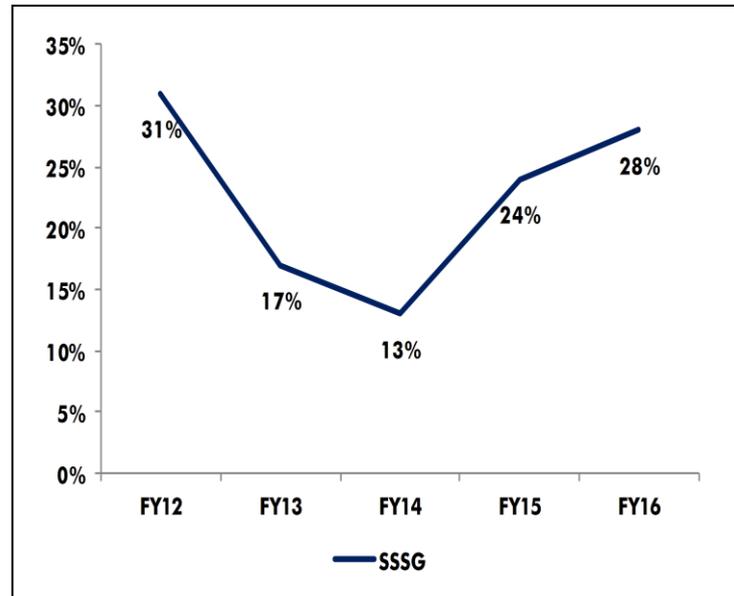
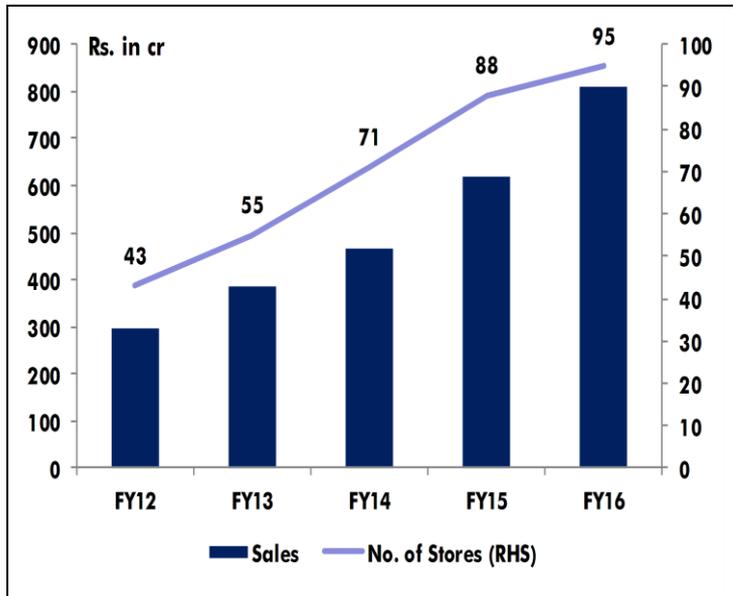
harsh.shah@dimensional.in

+91-22-66545231



Over next 4-5 years the management aims to take the share of retail business to ~65-70% on the back of rise in strong customer relationships, opening of new stores, focus on branding and marketability in the home improvement and building space, etc. Company also intends to further enhance and expand their existing product portfolio by adding more product categories and more brands in existing product categories. This shift in sales mix will also lead to improvement in the overall margins of the company.

Robust performance metrics:



- Wide product basket and strong customer relationship

Company offers wide range of products at its stores, including structural steel, cement, TMT bars, hollow blocks, pipes and tubes, roofing solutions, welding accessories, primers, plumbing, sanitary ware, plywood, kitchen sinks and other allied products. It carries products of all the major reputed 3rd party brands like Johnson, Sintex, Uttam Galva, Futura, APL Apollo, Astral Pipes, Alstone, CenturyRoof, etc. It makes them a one stop shop solution for all the home furnishing solutions requirements. SBPL has also built strong customer relationships over the last two decades and continue to work actively towards further strengthening it.

- Presence across the entire value chain

Company's business operations span across the entire value chain of processing, channel sales, enterprise sales, retail sales and other allied services such as delivery and installation. It has in-house capacity of 323,000MT for processing select building products like steel pipes, colour coated roofing sheets, bright rods, galvanized strips and cold rolled strips. These are sold under their own brands like CenturyRoof, Ganga, Loha, Taurus and Prince Galva through our retail and branch network.

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. However, company has established good relationships with its customers and suppliers which is difficult to replicate so it mitigates the risk to some extent.

- Slowdown in real estate

Since company's product are closely linked with housing sector, slowdown in the real estate activities could adversely impact the overall business performance.



Valuation and Recommendation

- At the upper end of issue price i.e at Rs. 460, the stock is priced at 18X annualized 9MFY17 earnings.
- Given the strong track record of its retail business, the valuation appears attractive given that focus of the company going ahead will also be on augmenting its retail business which will also be margin accretive.
- Given the recent successful listing of D-Mart IPO, we expect re-rating in the valuation of SBPL as well.
- Accordingly we are recommending to **SUBSCRIBE** the issue.

Financial Summary

SBPL- Statement of Profit & Loss					
DESCRIPTION	FY12	FY13	FY14	FY15	FY16
Net Sales	1413.70	1766.56	1927.10	1978.82	2035.92
EXPENDITURE :					
Raw Material Consumed	1278.75	1592.01	1736.42	1757.98	1767.17
as % of Sales	90.5%	90.1%	90.1%	88.8%	86.8%
Employee Cost	14.02	20.18	25.14	33.63	39.76
S&D Expenses	22.64	26.86	13.06	19.63	24.68
Other Expenses	28.16	40.73	63.93	78.10	84.50
EBITDA (Ex OI)	70.13	86.78	88.56	89.49	119.82
EBITDA Margin	5.0%	4.9%	4.6%	4.5%	5.9%
Depreciation	2.89	4.64	5.76	8.81	9.51
EBIT	67.24	82.14	82.80	80.68	110.31
Other Income	0.29	0.49	0.86	0.89	0.66
Interest	22.78	34.87	41.64	47.03	45.40
Profit Before Taxation	44.75	47.76	42.02	34.54	65.57
Provision for Tax	13.89	15.94	13.30	11.96	23.91
Profit After Tax	30.86	31.82	28.72	22.58	41.66
Adjusted EPS	15.20	15.01	13.55	10.65	19.65

SBPL- Cash Flow Summary					
DESCRIPTION	FY12	FY13	FY14	FY15	FY16
Profit Before Tax	44.75	47.76	42.01	34.54	65.56
Adjustment	25.79	39.08	46.62	55.84	54.26
Changes In working Capital	-103.66	-63.94	-12.04	-3.89	51.71
Tax Paid	-10.89	-13.41	-12.44	-6.88	-12.04
Cash From Operating Activities*	-44.01	9.49	64.15	79.61	159.49
Cash from Investing Activities	-50.61	-32.81	-39.57	-39.54	-37.86
Cash from Financing Activities	93.71	22.77	-25.62	-40.33	-121.58
Net Cash Inflow / Outflow	-0.91	-0.55	-1.04	-0.26	0.05
Opening Cash & Equivalents	3.46	2.55	2.00	2.59	2.33
Closing Cash & Equivalents	2.55	2.00	0.96	2.33	2.38



SBPL- Balance Sheet					
DESCRIPTION	FY12	FY13	FY14	FY15	FY16
Share Capital	20.31	21.17	21.87	21.87	21.87
Total Reserves	141.16	178.69	211.45	231.36	269.05
Shareholder's Funds	161.47	199.86	233.32	253.23	290.92
Minority Interest	3.35	0.02	0.02	0.03	0.04
Long-Term Borrowings	19.13	11.58	5.80	6.56	5.26
Other Non Current Liabilities	3.32	5.76	7.56	10.40	13.72
Total Non-Current Liabilities	22.45	17.34	13.36	16.96	18.98
Trade Payables	71.74	107.86	121.06	138.07	233.81
Other Current Liabilities	23.47	24.15	34.40	38.14	47.17
Short Term Borrowings	197.34	259.91	273.62	278.84	208.27
Total Current Liabilities	292.55	391.92	429.08	455.05	489.25
Total Liabilities	479.82	609.14	675.78	725.27	799.19
Fixed Assets	108.90	137.51	175.14	204.67	233.33
Other Non Current Assets	8.16	9.26	12.06	14.83	15.01
Total Non-Current Assets	117.06	146.77	187.20	219.50	248.34
Inventories	129.55	184.93	221.23	232.07	255.88
Sundry Debtors	218.29	259.90	249.65	259.82	281.04
Cash and Bank	2.55	2.00	2.75	2.36	2.37
Other Current Assets	12.37	15.54	14.95	11.53	11.55
Total Current Assets	362.76	462.37	488.58	505.78	550.84
Total Assets	479.82	609.14	675.78	725.28	799.18

SBPL- Key Ratios					
DESCRIPTION	FY12	FY13	FY14	FY15	FY16
ROE (%)	19.1	17.6	13.3	9.3	15.3
ROCE (%)	17.6	19.2	16.8	15.3	20.9
Receivable days	55.1	47.7	46.4	44.5	45.7
Inventory Days	32.7	31.4	37.0	39.6	41.2
Payable days	19.3	19.2	22.8	25.2	35.5
Total Debt/Equity(x)	0.8	1.4	1.2	1.2	0.8
Current Ratio(x)	1.2	1.2	1.1	1.1	1.1
Interest Cover(x)	3.0	2.4	2.0	1.7	2.4



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