

Date: 13<sup>th</sup> May, 2019

To  
The Department of Corporate services  
**Bombay Stock Exchange Limited**  
P.J Towers, Dalal Street  
Mumbai-400001

To  
**National Stock Exchange of India Limited**  
5<sup>th</sup> Floor, Exchange Plaza  
Bandra (E)  
Mumbai-400051

Scrip Code: - 540425

Scrip Symbol- SHANKARA

Dear Sir/Madam,

**Sub: - Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015**

Please find enclosed note on proposed sale of partial assets including land, building and equipment of Taurus Value Steel & Pipes Pvt Ltd, wholly owned subsidiary of Shankara Building Products Limited.

Kindly take the same on record.

Thanking You

Yours faithfully,

**For Shankara Building Products Limited**

*Ereena Vikram*

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**Company Secretary & Compliance Officer**



**Note on proposed sale of partial assets including land, building and equipment of Taurus Value Steel & Pipes Pvt Ltd, wholly owned subsidiary of Shankara Building Products Limited**

This is in continuation to our letter dated 12<sup>th</sup> April 2019 for undertaking a partial sale of processing capacities by Taurus Value Steel & Pipes Pvt. Ltd. (wholly owned subsidiary of Shankara Building Products Limited)

The Company has an in-principle offer for purchase of partial assets including land, building and equipment located in Chegunta, near Hyderabad (Telangana) for a Consideration of around Rs. 70 crores (Rupees seventy crores only) from APL Apollo Tubes Limited. These assets are a part of wholly owned subsidiary Taurus Value Steel & Pipes Pvt Ltd. ("Taurus").

The proposed transaction is subject to shareholder approval. The assets proposed to be sold include 29 acres of land, 2.9 lacs sqft built up area and a large part of the machinery situated in the Chegunta unit.

**Strategic reasons for the sale**

- The asset sale is in line with our conscious effort to focus more on our core areas of retail and marketing of building products. The retail business has better profitability metrics and also higher growth prospects.
- Presence across the value chain of processing and retailing increases our cash conversion cycle. This can be challenging in a volatile price scenario. We witnessed this playing out in the second half of FY 19 where our performance was substantially affected by volatile steel prices. The asset sale will help us reduce our exposure to this volatility.
- The profitability of Taurus has been below par recently. We do not anticipate this to improve in the near term. As a nominal player in processing, we do not avail scale benefits. Since it does not make sense to increase capacities further, it is prudent to sell these assets.
- The release of the funds from this transaction, will help us focus on investments in our retail business. We need investments in supply chain, warehousing, logistics, retail store upgrades and new store rollouts. A strong balance sheet also helps us avail cash purchase benefits. It also reduces cost of funding for us, leading to lower interest outgo.
- One of the key aspects of this transaction would be the release of management bandwidth to focus more on the higher ROE business of retailing which has substantial growth opportunities.

**Substantial release of funds from this asset**

The proposed transaction include two components:

1. Sale of fixed assets worth ~Rs. 70 crores and
2. Implied release of working Capital of ~Rs. 100 crores

In essence, the implied transaction size is ~Rs. 170 crores.

**Fixed assets:** The details of the fixed asset are as follows:



- 29 acres of land
- 2.9 lacs sq ft of built-up area which includes 2.63 lac sq ft of factory building area, 0.27 lacs sq ft of workers quarters. In addition, there is a developed area of 2.23 lac sq ft
- Machinery includes a large part of the equipment situated in Chegunta including tube rolling mills, slitting machinery, galvanizing unit, effluent treatment plant, power equipment among others.

**Working capital:** There would be ~75 days of implied working capital release for Taurus. Currently Taurus conversion cycle from raw material to finished goods is ~30 days. Post this transaction, this finished product will be available on a credit of ~45 days. Effectively, this adds up to ~75 days (~2.5 months) of working capital release. As per management estimates, at ~Rs. 40 crore average revenue / month from the proposed sale assets, the working capital release would be ~Rs. 100 crore (Rs. 40 crore / month \* 2.5 months).

**Asset valuation:** The EBITDA foregone from the proposed sale assets stood at ~ Rs. 20 crore for FY 19. The total fund release from the transaction would be ~Rs. 170 crores.

#### Impact on financials

The revenue generation from the sold assets is ~Rs. 500 crore. The EBITDA generation stood at ~Rs. 20 crore. The following table captures the key financials of Taurus and the proposed sale assets.

FY 19 Financials	Taurus	Proposed assets*
Revenue	Rs. 745 crore	~Rs. 500 crore
EBITDA	Rs. 28 crore	~Rs. 20 crore
Depreciation	Rs. 6 crore	~Rs. 4 crore

(\* Management estimates)

We do not anticipate any impact on the revenues of the consolidated entity as a result of the sale of these assets. The procurement currently being made by Shankara from Taurus will now be replaced by third party purchases. The EBITDA foregone of Rs. 20 crore would be recouped by trading margins on sale of third party products and lowered interest and depreciation charges. Benefits on lowered interest and depreciation itself should be at least Rs. 20 crore post the transaction.

#### Summary

At Shankara, we strongly believe that the opportunity of building material retail in India is huge and we are at a nascent stage in the evolution of organized retail in building material. Having gained an early first mover advantage with 129 Shankara Buildpro stores across South India, we believe our efforts and resources need greater focus in the retail business. Therefore, as a business strategy we have executed this partial asset sale which had challenges in terms of achieving scale benefits leading to sub optimal margins thus dragging down our overall profitability and return ratios.

We believe that this transaction holds substantial benefits for the Company. Further, this transaction will not have an adverse impact on the financials of the consolidated entity at a PBT level. We also believe that the funds that will be released will help further strengthen its future prospects.

#### About Shankara Building Products Limited

Shankara Building Products is one of the leading organized retailers of home improvement and building products in India based on number of stores, operating under the brand name 'Shankara Buildpro'. As on date, the Company has 129 Shankara Buildpro stores spread across 9 states and 1 union territory



in India. The Company caters to a large customer base across various end-user segments in urban and semi-urban markets through multi-channel sales approach, processing facilities, supply chain and logistics capabilities.

For more information about us please visit [www.shankarabuildpro.com](http://www.shankarabuildpro.com)

**Safe harbor statement:**

*Statements in this document relating to future status, events, or circumstances, including but not limited to statements about plans and objectives, the progress and results of research and development, potential project characteristics, project potential and target dates for project related issues are forward-looking statements based on estimates and the anticipated effects of future events on current and developing circumstances. Such statements are subject to numerous risks and uncertainties and are not necessarily predictive of future results. Actual results may differ materially from those anticipated in the forward-looking statements. The company assumes no obligation to update forward-looking statements to reflect actual results changed assumptions or other factors.*

**For further details please contact:**

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