

Date: 6th July, 2023

To
Department of Corporate services
BSE Limited
1st Floor, New Trading Ring,
Rotunda Building, Phiroze Jeejeebhoy
Towers, Dalal Street, Fort,
Mumbai-400001
Scrip Code: - 540425

To
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No. C-1,
G Block, Bandra Kurla Complex,
Bandra (E)
Mumbai- 400051
Symbol- SHANKARA

Dear Sir/Madam,

Sub: - Intimation of Credit Rating.

Ref: - Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015.

We hereby inform you that the Credit Rating agency i.e. CRISIL has assigned credit rating to the Company.

The copy of the same is enclosed herewith for your reference.

Kindly take the same on record.

Thanking You

Yours faithfully
For Shankara Building Products Limited

Ereena Vikram
Company Secretary & Compliance Officer

Rating Rationale

July 05, 2023 | Mumbai

Shankara Building Products Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.432 Crore
Long Term Rating	CRISIL BBB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Short Term Rating	CRISIL A2 (Reaffirmed)

Rs.60 Crore Commercial Paper	CRISIL A2 (Reaffirmed)
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Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long term bank facilities of Shankara Building Products Limited (Shankara, part of Shankara Buildpro Group) to 'Positive' from 'Stable', while reaffirming the rating at 'CRISIL BBB+', the short-term rating is reaffirmed at 'CRISIL A2'

The revision in outlook reflects sustained improvement in groups' credit risk profile supported by healthy operating performance and expectation of further growth in topline and sustenance of operating margins over the medium term. In the previous 3 years ended fiscal 2023, operating income grew at a compounded annual growth rate of about 42.28% supported by ramped up operations marked by topline of Rs. 4029 crore in FY23. Operating profits increased by around 37% in fiscal 2023, backed by scale up in revenue, despite margins moderating to around 2.9%. With the expected increase in sales contribution from the more profitable non-steel segment and improved focus on retail segment, profitability is expected to improve over medium term. and operating margins are expected to sustain at around 3% and remain a key monitorable. Operations continued to be efficiently managed with GCA days of 89 days in FY 2023. The resultant larger accretions and lower debt levels have strengthened the financial risk profile over the period as evidenced by total outside liabilities to adjusted Networth (TOL/ANW) of 1.03 times as on March 31, 2023, and healthy debt protection metrics. Working capital management is expected to remain efficient with the prudent credit period offering and inventory management, thus strengthening financial metrics of the group.

The ratings continue to factor in the group's established market position and extensive experience of the promoter in the building material distribution and retailing businesses, the diversified product offerings, longstanding association with vendors, and comfortable financial risk profile. These strengths are partially offset by susceptibility to economic cycles and sharp variation in raw material prices.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the financial and business risk profiles of Shankara Building Products Ltd (Shankara) and its wholly owned subsidiaries, Taurus Value Steel & Pipes Pvt Ltd (Taurus), Vishal Precision Steel Tubes & Strips Pvt Ltd (Vishal), and Centurywells Roofing India Pvt Ltd (Centurywells). This is because all these entities, collectively referred to as the Shankara Buildpro group, have a common management, and strong operational and financial links.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established market position and extensive experience of the promoter:

The group's longstanding presence of over three decades in the building materials industry, its wide network of dealers, over 90 retail outlets and the in-house pipe and color-coated roofing sheet processing capacity, will continue to support the business risk profile. The main promoter has around three decades of experience in the building materials industry and succession plan is already in place. Also, promoters are assisted by a competent second line of management.

Diversified product offering and longstanding association with vendors:

Healthy relationships with suppliers such as JSW Steel Ltd, Steel Authority of India Ltd, AM/NS India, Uttam Value Steel Ltd, APL Apollo Tubes Ltd, Jaquar & Co, Kohler India Corporation Pvt Ltd, ROCA Bathroom Products Pvt Ltd, Somani Ceramics Ltd, Kajaria Ceramics Ltd and Cera Sanitaryware Ltd enable the group to offer a diverse range of building materials and provides a competitive edge.

Comfortable financial risk profile:

Networth is strong at Rs 627.72 crore and total outside liabilities to tangible net worth ratio is comfortable at 1.03 time as on March 31, 2023. Adequate debt protection metrics marked by interest coverage of 5.15 times and net cash accruals to adjusted debt ratio of 0.93 time for fiscal 2023. Financial risk profile is expected to improve over the medium term supported by steady accretion to reserves and gradual reduction in debt levels.

Weaknesses:**Susceptibility of demand to economic cycles:**

The group remains exposed to fluctuation in demand for real estate and home improvement. The group's revenues were impacted in the past fiscals on account of Covid-related disruptions. Nevertheless, turnover improved steadily since H2 of fiscal 2023 aided by improvement in construction activity resulting in improved demand.

Exposure to fluctuations in input prices:

As with any retail business, operating margin remains modest. The operating profitability has been volatile in the range of 2.9 to 3.6 percent over the last five fiscals ended fiscal 2023, mainly on account of fluctuation in steel prices. The operating margins for fiscal 2024 is expected to be sustained at around 3%. Improved contribution from the non-steel segment is expected to support the margins, going forward.

Liquidity: Adequate

Bank limit utilisation is at around 85 percent for the past twelve months ended March 2023. The group mainly depends on non-fund-based facilities for its working capital needs. Cash accruals are expected to be over Rs 96-145 crore against repayment obligation of Rs 9-12 crore over the medium term. Balance warrant money receipt of around Rs. 79 crore from APL Apollo group is expected in Q3FY24, which shall further support the liquidity.

Outlook: Positive

CRISIL Ratings believes that the group will continue to benefit from its established presence in the building material retailing and distribution business which will support the revenue growth over the medium term while also allowing further operational efficiencies in the business.

Rating Sensitivity factors**Upward factors:**

- Sustained revenue growth of 10-15% with better contribution from non-steel segment and margin sustaining at around 3% resulting in improved accruals
- Sustenance of healthy financial risk profile and working capital management to remain efficient

Downward factors:

- Decline in revenues by more than 30% or operating margin declining below 2.5%
- Increase in working capital requirement, or larger-than-expected, debt-funded capex or acquisition, or more-than-expected dividend pay-out, weakening the financial risk profile, particularly liquidity

About the Group

Incorporated in 1995 as Shankara Pipes India Pvt Ltd, the company was renamed as Shankara Infrastructure Materials Ltd in 2011, and thereafter, as Shankara Building Products Limited in 2016. Promoted by Mr Sukumar Srinivas, the group operates over 90 retail showrooms in southern and western India, where it sells building and home improvement products for many renowned brands. Further, the group operates in-house pipe and colour-coated roofing sheet processing facilities through wholly owned subsidiaries: Taurus, Vishal, and Centurywells.

Shankara Building Products Limited got listed on BSE/NSE in 2017 and promoters hold 52.19% stake in the company as on March 31, 2023.

Key Financial Indicators

As on / for the period ended March 31		2023	2022
Operating income	Rs crore	4,029.72	2,418.40
Reported profit after tax	Rs crore	63.05	34.32
PAT margins	%	1.56	1.41
Adjusted Debt/Adjusted Net worth	Times	0.13	0.24
Interest coverage	Times	4.84	3.48

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	357	NA	CRISIL BBB+/Positive
NA	Inland/Import Letter of Credit	NA	NA	NA	75	NA	CRISIL A2
NA	Commercial paper	NA	NA	7 to 365 days	60	Simple	CRISIL A2

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Centurywells Roofing India Private Limited	100%	Subsidiary with financial and operational fungibilities
Vishal Precision Steel Tubes and Strips Private Limited	100%	Subsidiary with financial and operational fungibilities
Shankara Building Products Limited	100%	Parent
Taurus Value Steel & Pipes Private Limited	100%	Subsidiary with financial and operational fungibilities

Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	357.0	CRISIL BBB+/Positive	04-01-23	CRISIL BBB+/Stable	28-01-22	CRISIL BBB+/Stable / CRISIL A2	15-01-21	CRISIL BBB+/Stable / CRISIL A2	03-09-20	CRISIL BBB+/Stable / CRISIL A2	CRISIL A2+ / CRISIL A-/Negative
					--		--		--		--	23-03-20
Non-Fund Based Facilities	ST	75.0	CRISIL A2	04-01-23	CRISIL A2		--	15-01-21	CRISIL A2	03-09-20	CRISIL A2	CRISIL A2+
					--		--		--		--	23-03-20
Commercial Paper	ST	60.0	CRISIL A2	04-01-23	CRISIL A2	28-01-22	CRISIL A2	15-01-21	CRISIL A2	03-09-20	CRISIL A2	CRISIL A2+
					--		--		--		--	23-03-20

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	75	Citibank N. A.	CRISIL BBB+/Positive
Cash Credit	40	IDFC FIRST Bank Limited	CRISIL BBB+/Positive
Cash Credit	65	Standard Chartered Bank Limited	CRISIL BBB+/Positive
Cash Credit	60	Kotak Mahindra Bank Limited	CRISIL BBB+/Positive
Cash Credit	25	IndusInd Bank Limited	CRISIL BBB+/Positive
Cash Credit	35	The Federal Bank Limited	CRISIL BBB+/Positive
Cash Credit	50	HDFC Bank Limited	CRISIL BBB+/Positive
Cash Credit	5	ICICI Bank Limited	CRISIL BBB+/Positive
Cash Credit	2	The South Indian Bank Limited	CRISIL BBB+/Positive
Inland/Import Letter of Credit	25	The South Indian Bank Limited	CRISIL A2
Inland/Import Letter of Credit	50	YES Bank Limited	CRISIL A2

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support](#)[CRISILs Criteria for Consolidation](#)

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