Shankara Building Products Limited

Date: 6th February, 2025

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,

Subject: Transcripts- Q3 & 9M FY25 Earnings Conference Call

Please find enclosed the transcripts of the Q3 & 9M FY25 Earnings Conference Call held on 4th February, 2025.

Kindly take the above information on record and acknowledge.

For **Shankara Building Products Limited**

Digitally signed by ereena vikram
DN: cn=ereena vikram c=IN o=Personal
Date: 2025-02-06 13:31+05:30

Ereena Vikram
Company Secretary and Compliance Officer

Shankara Building Products Limited

Q3 & 9M FY25

February 4, 2025

MANAGEMENT: **MR. SUKUMAR SRINIVAS**
MANAGING DIRECTOR

MR. C RAVIKUMAR
DIRECTOR

MR. DHANANJAY MIRLAY SRINIVAS
VICE PRESIDENT

MR. ALEX VARGHESE
CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to the Shankara Building Limited Q3 and Nine months FY '25 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors. Thank you. And over to you, sir.

Sayam Pokharna: Thank you, Rutuja. Good morning, everyone. And thank you for joining us in Q3 and nine months FY '25 Earnings Conference Call of Shankara Building Products Limited. The investor presentation has already been uploaded on the stock exchange and on the company website. If you wish to be added to our mailing list, please feel free to write to us.

To take us through today's results, we have with us from the Management Team Mr. Sukumar Srinivas – Managing Director; Mr. C. Ravi Kumar – Director; Mr. Dhananjay Mirlay Srinivas – Vice President; and Mr. Alex Varghese – Chief Financial Officer.

We will begin with a brief overview of the quarter and the nine months performance from Mr. Sukumar, followed by a Q&A session. Please note that any forward-looking statement made during this call should be considered in conjunction with the risks and uncertainties that we face.

With that, I would now like to hand over the call to Mr. Sukumar. Over to you, sir.

Dhananjay Srinivas: Thank you, Sayam. Good morning, dear investors. Welcome to the Q3 and nine months FY '25' earnings call of Shankar Building Products Limited.

We sincerely appreciate your presence today as we delve into our performance during this period. I would like to provide you with a comprehensive overview of our achievements, challenges, and strategic initiatives.

Let me begin by highlighting some key aspects of our performance for Q3 FY '25:

We achieved a significant milestone in our steel segment, recording our highest-ever quarterly sales volume of 2.15 lakh tonnes. This represents a 37% year-on-year growth, showcasing our strong market position and operational efficiency. For the nine months FY '25 period, we maintained this robust momentum with a 27% volume growth, reaching a cumulative of 5.84 lakh tonnes year-to-date. This performance was driven by substantial growth in all our verticals in South India, complemented by encouraging traction in West and Central India.

However, as many of you are aware, the steel industry has been navigating through a challenging period characterized by depressed realizations. We experienced a blended 6% decrease in realizations in Q2, followed by a further 3% reduction in Q3, resulting in an approximate total decline of approximately 10% in steel prices year-to-date. This reduction has impacted our performance in two significant ways; it has limited our top-line growth which could have been higher by another 8% to 10%, and it has compressed our margins due to inventory losses.

The impact of these inventory losses was evident in our Q3 EBITDA margins, mirroring the effect we saw in Q2. So, far in nine months FY '25, we have observed an adverse impact of approximately Rs. 22 crores on account of inventory losses. Despite our best efforts to operate efficiently in the face of such headwinds, our EBITDA margins for the quarter stood at 2.84%, lower compared to 3.42% in Q3 FY '24 and relatively flat compared to Q2 of FY '25.

It is important to contextualize our performance within the broader macro environment, which is in particular challenging this financial year due to multiple factors. We witnessed a slowdown in government spending across infrastructure-related projects following the initial elections-related disturbance in Q1. This impacted both our steel and non-steel marketplace business. This was further compounded by factors such as a heavy monsoon, tepid steel prices, and a general weakness in retail demand. Despite these challenges, I want to assure you that our primary focus remains on scaling volume. We are fully geared to meet our annual target of 0.8 million tonnes for FY '25 and are setting our sights for 1 million tonnes in FY '26. This ambition underscores our confidence in our operational capabilities and market positioning.

On a more positive note, I am pleased to report that our non-steel product segment is performing well. This quarter, we achieved record sales of Rs. 154 crores in this segment, reflecting a 19% year-on-year growth in Q3, and even higher 29% growth in nine months FY '25. The non-steel product segment is now creating critical mass and has exceeded 10% of our top-line for the first time in the nine months of FY '25, marking a notable milestone in our diversification strategy.

Within the non-steel segment, our key categories such as plumbing, fittings, sanitary ware, and tiles are all performing strongly. Additionally, we are seeing encouraging growth in electricals and paints, albeit a lower base. The response to our own brand, Fotia, has been particularly gratifying, and we have expanded its product range to include Quartz Sinks and Adhesives, beyond the initial offering of tiles. We have started expanding the geographical footprint of Fotia after the initial launch in Kerala, and we have a limited presence in Bangalore.

To further enhance our volume proposition as a one-stop solution for all building material needs, we have been consistently expanding our supplier partnerships. We are now working with a majority of leading brands across all product categories, ensuring that we can meet the diverse needs of our customers.

Geographically, we continue to perform strongly, not only in our established stronghold of South India, but also in new markets in West and Central India. As you may recall, we adopted a non-retail-first approach in these new markets, with plans to expand into retail subsequently. I am pleased to report that the growth of these new markets has been impressive, with Maharashtra emerging as a significant win for Shankara beyond our traditional southern states. Moreover, we are seeing encouraging growth beyond our traditional tubes and pipes dominated product segments, particularly in newer categories such as flats. We have grown about 37% year-on-year in nine months FY ‘25 in flats.

Our strategy is clearly focused on being omnichannel with all efforts directed towards achieving higher volumetric growth. We aim to avoid constraints associated with any particular vertical and are pursuing our growth across all fronts. Our extensive market presence through 126 operational fulfillment centers, including our stores, ensures we are visible and accessible in our chosen markets, catering to all categories of customers regardless of size. This comprehensive approach is what sets Shankara apart in today's competitive landscape, where scale has become the new mantra for success in the building material marketplace and distribution industry.

On the financial management front, we have maintained tight control of working capital, allowing us to moderate financial costs while still delivering revenue growth. Over the last two quarters, the conscious effort of our teams have led to a reduction in financial costs. We continue to optimize our working capital management.

Lastly, I want to update you on the progress of our demerger. We have scheduled a shareholder Extraordinary General Meeting, EGM, on February 12th, to vote on the demerger proposals. Subject to the results of this meeting and subsequent regulatory processes, we anticipate completing the entire demerger process by H1 FY '26.

In conclusion, while we navigate through challenges in the current market environment, our diversification strategy, focus on volume growth, and expansion into new markets and product categories position us well for sustainable long-term growth. We remain committed to creating value for our shareholder and look forward to your continued support.

Thank you for your attention. And we are now ready to open the floor for any questions you may have.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Viraj Mehta from Enigma. Please go ahead.

Viraj Mehta: Yes. Hi, sir. Thanks a lot for initial remarks. Sir, my first question is regarding the slowdown in the sales growth of the non-steel business. On such a low base, we have grown less than 20% this quarter and which is an aberration for us, so how should an investor think about that piece? Because in the past, we have always grown multi-folds of that in terms of percentage terms, so what is it, like is the base catching up? How do you think about that piece?

Sukumar Srinivas: I do not think it is the base that is catching up. What has happened is the overall environment has been pretty subdued. So, I think if you see our competition in the industry, our fellow competitors in this industry are single digit kind of numbers in terms of growth. I think relative to that, our performance has been pretty good. We have achieved the 20% plus in this quarter, too. So, I would still say that there is no such impact. I think it is the environment issues that have led to a slight slowdown in quarter three. I think we will catch up on that in the coming quarter.

Viraj Mehta: Right, sir. And my second question is a broader question on steel. So, you have talked that you all had Rs. 22 crores of inventory loss in this year because the steel prices obviously have fallen. But sir, if I look at the historicals of our company, whenever steel prices go up, we do not seem to get the inventory gains part. So, how does the channel work? Like when there are inventory gains, you just do not get it. Like how does that piece work, can you explain please?

Sukumar Srinivas: I would not say that is really true. I mean, whenever there is a significant increase in the price of steel, there is a gain too. So, I would not say that, I mean, it's a sort of a zero-sum game when it goes up and we face all, I mean, take only the downside. I think it sort of balances out in a period of time. So, I think it plays out both ways.

Viraj Mehta: So, assuming, let's say, next year we see Rs. 5,000 increase in steel prices on an average, would it be fair to say that at least some part of it we will get as inventory gains next year, I am saying if again.

Sukumar Srinivas: Yes, whatever the inventory you have at the start of the period, whenever these gains happen. See, very small increase in prices do not have too much of an impact on the inventory gains because the market is still competitive. Those are the price, whatever is sitting on inventory, yes, we will gain some of the gains, I mean, whatever happens with terms of the inventory due to price increases.

Viraj Mehta: Right. And sir, my last question is on debt reduction. Our interest cost still continues to remain reasonably high at almost Rs. 12 crores, Rs. 13 crores a quarter. What are our debt levels today and how do you plan to decrease it over next year? Or so or with higher growth, at least, if the debt remains constant, what is your thinking around that part, please?

Sukumar Srinivas: I mean, our first thought is that if we can hold the debt constant with an increase in the volumes, that is what we are really striving very hard. Even if you see between Q2 and Q3, the overall interest levels have remained more or less static despite the volumes having gone up significantly. So, we are working very hard to hold this as the current strategy, let's say. The focus is on that.

Viraj Mehta: Thank you so much, sir. And best of luck.

Sukumar Srinivas: Thank you, Viraj.

Moderator: Thank you. The next question is from the line of Rahul Dhruv from Pegasus Growth. Please go ahead.

Rahul Dhruv: Yes. Hi. Good morning. Sir, I wanted to talk about the creditor discounting number. I mean, I think we have been discussing that number for the last two quarters, there was a slight reduction last quarter. Can you talk about what is the figure as of this quarter and what do you see going forward?

Alex Varghese: For the creditors, for acceptance, it's around Rs. 400 crores. So, comparing with the last quarter, around Rs. 460 crores, we have reduced around Rs. 60 crores, we have reduced in this quarter.

Rahul Dhruv: So, that basically means that this has now become a permanent part of our funding structure. Should I assume that? Because that basically means that we will also be retaining a high interest cost going forward.

Sukumar Srinivas: See, one of the key strategies we are working to reduce the interest cost is we are trying to take out a lot of what we are looking at outside the channel financing or a debt financing strategy, which we have started working from the last quarter itself. So, once that really gains traction, we will be able to further reduce the interest cost from the debt side, on our debtor side.

Rahul Dhruv: So, I am just trying to understand, structurally compared to last year to this year, that number has kind of gone up.

Sukumar Srinivas: Gone up, yes, yes. But the attempt has been sincerely on to try and reduce it despite the growth.

Rahul Dhruv: Okay. Sir, the reason I am saying this is that, I mean, any distribution model typically has systems in place to make sure that there are no inventory losses because you are purely buying and selling, right? I mean, you want to make sure that the inventory losses are practically nothing. But you had Rs. 22 crores of loss over there. And I do not know whether it's actually at the operating level or after interest. But typically, there has to be a system because I am trying to say, looking at it from the investor's perspective, you are building a beautiful distribution business on the building material side.

But a big part of your revenue, which is around whatever, 89%, 90% right now is steel. And that's where every two or three years, you have this big thing. And I remember, tracking the stock a long time back as well, I think there was one quarter in I think March '23 I think it was, where there was a huge loss. So, I am just saying that what we are having is a major variation in the steel business. And there has to be a way, if you are a pure retailer or a distributor, to make sure that there are no such major variations, right?

Sukumar Srinivas: Yes, partially, you are right. I mean, we are subject to the steel prices going up and down. So, that is an area where we do not have much cover that we can take.

Rahul Dhruv: Yes. I mean, I am probably trying to reiterate the same thing over here. I am saying that the same way that you have taken a conscious decision of not going for increase in the network and you are still at.

Sukumar Srinivas: I think what really will help us as we diversify more and more into the non-steel, I mean, this steel price fluctuation will get mitigated to a certain extent. Today, the non-steel is about 10%, but our target in the next five years is to take it up to 20%, 25%. I think as the share increases, we will be able to mitigate some of the vicissitudes of the steel prices.

Rahul Dhruv: Okay. So, should we expect these kind of variations to come through again in the future as well?

Sukumar Srinivas: It's very difficult to predict on the steel pricing that what's really typically likely to happen. But I think broadly we have seen last quarter was certainly better compared to Q2. I am hoping that this quarter will more or less stabilize, right. As of now, there is some talk of some increases from the JSW, etc., for this month. And it all depends on the global steel cycle, etc. However, I would say that it's more or less flattening out now as far as the steel pricing goes on the bottom side.

Rahul Dhruv: So, that means the creditor discounting will effectively go away from next year, that's what you expect?

Sukumar Srinivas: Yes.

Rahul Dhruv: Okay. Just one last thing, sir, and this is on your quarterly presentation. We have been tracking the historic numbers and the variables that you have been giving out. And they keep kind of changing over a period of time, not in terms of the numbers, but in terms of what you give out. Some time back, you used to have the EBITDA number for steel, non-steel, retail, non-retail, all of that used to be given out. Now, certainly for the last two quarters we do not have those. I think we had a similar period between September '20 and March '22 also where a lot of those numbers were not given out. So, I am just trying to say if there could be some consistency in what you give so that people can track it properly.

Sukumar Srinivas: Sure. Your point is well-noted.

Rahul Dhruv: So, would you be giving out the steel and non-steel margins for the last two quarters?

Sukumar Srinivas: I mean we will work it out with, I mean, with our IR and we will definitely do that from the future.

Rahul Dhruv: Okay. Thank you very much.

Sukumar Srinivas: Welcome.

Moderator: Thank you. The next question is from the line of Love Gupta from Counter Cyclical Investments. Please go ahead.

Love Gupta: Hi. Thank you for the opportunity. So, last quarter, you mentioned that you would be approaching about Rs. 50 crores EBITDA at like 3%, 3.5% margin. So, what were the particular reasons that you fell short and when can we see you achieving such numbers?

Sukumar Srinivas: I think last quarter, if I just add that the inventory hits, I think we have achieved the 3.5% EBITDA. Even for the whole year, if you look at the nine months, we have almost lost close to Rs. 22 crores by way of the inventory hits. I think if that had not happened, I think we are very much on track with our 3.5% EBITDA, higher than the 3% that we have normally guided. So, I mean, we keep our fingers crossed certainly, but the company is working towards the same. And if this quarter is a fairly steady period, we are fairly confident we will be back in the 3% plus kind of EBITDA this quarter itself.

Love Gupta: Okay. And also, what were the inventory losses for this quarter in particular?

Sukumar Srinivas: The last quarter?

Love Gupta: Yes, Q3.

Sukumar Srinivas: Last quarter was about Rs. 10 crores.

Love Gupta: Okay. All right. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Yes. Am I audible, sir?

Sukumar Srinivas: Very much.

Deepak Poddar: Yes, yes. Thank you very much, sir, for the opportunity. Sir, just first up on the interest cost, I mean, you mentioned we want to keep the debt level constant, right? So, ideally, the interest cost that we are seeing right now, that will remain stable going forward?

Sukumar Srinivas: It should be fairly stable.

Deepak Poddar: It should be fairly stable, right? Okay, okay. Understood. And on the EBITDA margin on the retail front, I mean, currently, we are at about maybe what, 5%, 5.5% kind of EBITDA margin in retail, right? So, what sort of aspiration we see that in retail business over next, maybe what, one to two years?

Sukumar Srinivas: In a couple of years, definitely we would like that to go by at least 1% at this point.

Deepak Poddar: In two years, we are expecting at least 1% improvement, right?

Sukumar Srinivas: Yes, yes.

Deepak Poddar: And what would drive that? Will that be as a mix of --

Sukumar Srinivas: It's purely from the mix of products in the non-steel that we want to get.

Deepak Poddar: Okay. So, can you also suggest what was the, I mean, steel versus non-steel margins in this quarter or in the nine month?

Sukumar Srinivas: I think, yes, I will just give it to you, I think there will be a number of things.

Deepak Poddar: Yes.

Sukumar Srinivas: I think, yes, the steel EBITDA margin was coming approximately around -- hello, is it audible?

Deepak Poddar: Yes, yes, please.

Sukumar Srinivas: Yes, steel EBITDA margin was coming around 2%, whereas non-steel was around 4.5%.

Deepak Poddar: Okay, 4.5%. Okay, non-steel is 4.5% and steel is 2%.

Sukumar Srinivas: Yes, 2.5%, steel was around 2.5% and non-steel was around 5.5%.

Deepak Poddar: 5.5%. And you mentioned that we want to increase the share of non-steel from 10% to 25%. So, in how many years we are targeting that?

Sukumar Srinivas: We are targeting that in the next four years, four to five years.

Deepak Poddar: In four to five years, okay. Understood. And then what sort of retail growth we are expecting, I mean, if we have to see next two years?

Sukumar Srinivas: Sorry?

Deepak Poddar: The retail segment growth.

Sukumar Srinivas: See, we are now more or less talking about a marketplace kind of a model, if you see our presentation for the last couple of years. So, we are taking the store, so we are coming out with the classification what we had earlier done on channel enterprise and retail. So, we are now calling it all as a marketplace portion. Definitely in this, there is a focus. Today, our retail is around 52%, 53% of the total sale. So, we would like to sustain that going forward.

Deepak Poddar: No, we would like to sustain this mix, I mean, retail versus non-steel.

Sukumar Srinivas: Yes, yes.

Deepak Poddar: But what sort of growth we are looking at? I mean, if we have to see next two years CAGR, what sort of growth we are looking at in the retail segment?

Sukumar Srinivas: The same percentage will be what will reflect the total numbers. Once the demerger is done, another thing is the numbers will come out because there will be two separate entities where the numbers will also come out very much more clearly.

Deepak Poddar: Okay, okay. And also, any range we can put to it? I mean, 15%, 20% or 20%, 25% kind of a growth we are targeting in this segment?

Sukumar Srinivas: Yes, if you are looking at an overall top-line growth of around 20% odd, so you will see the same reflection happening in the retail part of it also.

Deepak Poddar: Okay, okay. So, overall, we are looking at 20% kind of a growth, right?

Sukumar Srinivas: Yes, yes.

Deepak Poddar: Not on the volume we have already given.

Sukumar Srinivas: So, this is revenue is what I am talking about, yes.

Deepak Poddar: Okay. Fair enough. I think that would be it from my side. And all the very best to you. Thank you so much.

Sukumar Srinivas: Thank you.

Moderator: Thank you. The next question is from the line of Mann Ashar from GrowthSphere Ventures. Please go ahead.

Mann Ashar: Hello, sir. Sir, just wanted to understand the competitive intensity of the landscape of yours as well as other B2B companies and brick and mortar store business model. Sir, since there are many competitors who have entered in this space through the supply chain management and business model who are basically consolidating the supply chain but basically consolidating the demand and then distributing the same amongst the smaller players and they have scaled up like anything and those are profitable as well. They have little to no investment, no PP, no investment in inventory. So, just wanted to understand how do you think that will still have the edge in this competitive environment in our B2B segment?

Sukumar Srinivas: See, I think one of the key things some of the newer players who have come into this line have even if they have not kept sufficient inventory, they have been very liberal with their kind of credit period that they are offering. So, many of them who are doing about, let's say, Rs. 10,000 crores to Rs. 15,000 crores of top-line, they are looking at almost one-third, Rs. 3,000 crores to Rs. 4,000 crores kind of debtors level. So, I think that is one area we have not really been that liberal in terms of giving it out. So, this is something that is differentiating us from some of the new players. They have the traction, no doubt, but we also see that there, of course, many of them are lining up for IPOs and so on in the near future. So, we will have to see what are the further, I mean, how they move their businesses prior to an IPO. But to some extent, we feel that this competitive intensity has slightly come down in this last couple of months.

Mann Ashar: Okay, okay. Sir, but do you think that those companies have had some effect on our business as well because at the end of the day, their gain is somebody else's loss, right? So, they have scaled up like anything and we have been struggling in terms of a bit of that type of growth. So, just wanted to understand from that perspective.

Sukumar Srinivas: See, despite handling a conventional business with a reporting balance sheet with all the impact of being a listed company and so on, we have still registered a 37% volume growth this year. I think that is pretty good compared to the industry standards. Where the overall steel industry has grown by about 6% to 8% over the year, I think growing at 37% or 35% top-line, I mean, volume growth, is quite significant. And we do not have also the --

Moderator: I am sorry to interrupt you, sir, we cannot hear you. Sir, we are unable to hear you. Hello?

Sukumar Srinivas: Hello? Can you hear me now?

Moderator: Yes. Please go ahead.

Sukumar Srinivas: Yes. So, I do not know where, but taking over the last question about the growth, I think we have done a 37% volume growth this year. I think that itself has been quite significant. So, I do not know. I mean, this is quite remarkable to us, I mean, given the competitive environment. So, I think we have done pretty well in terms of our growth.

Mann Ashar: Okay, sir. Sir, that's it. Thank you so much. All the very best.

Sukumar Srinivas: Thank you.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Sir, I am trying to understand that, sir, last year, we raised Rs. 100 crores equity and despite raising that much money, our interest cost has still gone up significantly year-on-year by almost 50%. And sir, consequently our profit after tax is down. Sir, so then what's the point of this growth in top-line, volume growth when it is not percolating down to the bottom-line?

Sukumar Srinivas: See, this year, the bottom-line would have been substantially better by at least another Rs. 20 odd crores had the inventory losses not hit us. So, we are also preparing the base so that the volume growth is going to be substantial, A. B, we have also said that we will sustain and try and hold the interest cost going forward. So, on a higher volume the fact that we have taken a big jump compared to last year to this year on the basic volume growth. So, therefore, I think we will be able to hold it steady for the future.

Keshav Garg: Sir, now post-COVID, when steel prices were going up, I never heard inventory gain word from management commentary during the con call. But now when steel prices are going down, I think everything is due to the inventory loss. Sir, so I mean, when on the upside, I mean, we just take it in our stride, then, sir, the point is that volatility in steel prices are a fact of life. It's not that it's happening for the first time. Sir, so since we are holding a large inventory all the time, sir, so then it is very much part of the normal business risk for us.

Sukumar Srinivas: Correct. So, immediately after the COVID, the prices did go up, but much of that advantage of the prices going substantially was taken by the steel companies itself, number one. And in future, we shall also highlight that wherever there has been any significant gain, we will also highlight that.

Keshav Garg: Right. Now, sir, regarding our manufacturing business where I understand we build a Rs. 1,000 crores of revenue in nine months and our EBITDA was only Rs. 16 crores, 1.6% and ROCE was 3%. Sir, so I am unable to understand because, sir, if you see then pipes and tube business, if you see all the listed companies, they are doing very well, the margins are in double-digits and the return on capital is over 20%. So, why is it that our steel tube manufacturing business is seems like to be operating in some other planet?

Sukumar Srinivas: Yes. So, that is one of the primary reasons for the demerger because it was weighing down the marketplace business, that is number one. There has never been much of a focus on the manufacturing business because we have always been more focused on the marketplace. So, that is one of the driving forces of trying to improve our efficiencies into demerging both the entities. So, our first aim right now is to try and improve capacities. That is what we are working at and trying to focus with the much more focused management bandwidth internally. So, I think you will start seeing that improving over the next years.

Keshav Garg: Sir, and lastly, sir, as things stand today, I understand there has been a Rs. 1, Rs. 2 hike in steel prices recently. So, can you confirm that? And sir, so far, are we seeing inventory gain or loss in our steel inventory so far in the fourth quarter?

Sukumar Srinivas: Yes. So, you are talking about whether there has been a gain in this quarter, correct?

Keshav Garg: Right.

Sukumar Srinivas: So, it's not just come onto the ground. It's been holding stable. Let us see, if there is an increase in the steel prices, then it will reflect further down the quarter.

Keshav Garg: Sir, so far, is it inventory gain, inventory loss, or breakeven?

Sukumar Srinivas: It is currently stable.

Keshav Garg: Right, sir. And sir, what kind of guidance you would like to give for the next year, FY '26? Sir, will the steel prices remain the same, assuming, then, sir, what kind of top-line and what kind of EBITDA and profit should we expect?

Sukumar Srinivas: See, top-line, we would like to sustain the 20% plus. The EBITDA, we would definitely be 3% plus. And I think these are the basic two points that you are looking at.

Keshav Garg: Sir, just one clarification, this 3% EBITDA margin that we are talking about, it is exclusive of lease rentals or inclusive of lease rentals?

Sukumar Srinivas: Inclusive of lease rentals.

Keshav Garg: Sir, I would request you to kindly give this number post-lease rental because it's a proper operating expense lease rental for us. So, so post-lease rental, what kind of margin should we expect?

Sukumar Srinivas: Yes, the post demerger, whatever property the demerged company will be having, they will be agreed for the resulting company. At that time, the rental will get captured.

Keshav Garg: Thank you, sir. Thank you very much.

Sukumar Srinivas: Welcome.

Moderator: Thank you. The next question is from the line of Ankit Shah from Audacity Capital. Please go ahead.

Ankit Shah: Yes. Hi. Am I audible?

Moderator: Yes, you are.

Sukumar Srinivas: Yes.

Ankit Shah: Yes. Congratulations on a great set of numbers. Yes, my question was regarding the demerger timeline.

Moderator: Mr. Shah, we cannot hear you that clearly, sir.

Ankit Shah: Sorry. Yes. Hi. Is it better?

Moderator: Yes.

Ankit Shah: So, my question is regarding the demerger timeline. So, is there any further delay expected from H1 FY '26 or?

Sukumar Srinivas: See, we do not currently, NCLT Bangalore does not have a full-time bench. So, anyway, the positive side is on 12th, we have the AGM, the shareholders' meeting. So, after the approval, we file it with the NCLT. So, see, to some extent, we are at the mercy of the vagaries of the court having adequate numbers. So, I think if they have a full-time bench, things move faster. The positive lining is they do have distinct benches from other NCLT from either Chennai or Hyderabad, etc. So, I mean, if all goes well, we have been, I mean, quite clearly told that we will have a full-time bench by the end of the next year. So, once that happens, I mean, we hope that it will not get further delayed.

Ankit Shah: Okay, okay. Thank you.

Moderator: Thank you. The next question is from the line of Ketan Chheda, an Individual Investor. Please go ahead.

Ketan Chheda: Hi. Can you hear me?

Sukumar Srinivas: Yes.

Ketan Chheda: My question was, with respect to the finance cost, in Q1, we mentioned that in the upcoming quarter, we will be able to mitigate and contain this cost. But right now, while it has come down to some extent, it's still significantly higher as compared to our previous years. So, what I would want to understand is, going forward, do you expect the quantum in absolute numbers, the finance cost to remain at similar levels, or it will go down to our earlier levels?

Sukumar Srinivas: Yes. Currently, if you see, we have reduced it by about Rs. 3 crores from the quarter one to quarter two, and further around Rs. 1 crore to quarter three. So, going forward, you will see that broadly, and this will happen despite a substantial increase in the sales, the value and the volumes. So, I think probably our first target is to try and hold on to this cost going forward, despite an increase in our growth.

Ketan Chheda: Okay. Which means in absolute terms, it probably will not come down. As a percentage of the top-line, it will, but in absolute numbers, it is likely to stay around these levels.

Sukumar Srinivas: Yes, yes.

Ketan Chheda: Okay, okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Sir, now 90% of our business approximately from steel and now steel prices are at multi-year lows and then our working capital is exploding and our interest payment is exploding. So, sir, once steel prices go up, then sir, I do not know how much our interest cost will go up because the inventory will go up proportionately. Sir, so I mean, do you have any, I mean, clarification on this point?

Sukumar Srinivas: See, if you look at the number of days of working capital despite the last year, we started at about 36 days, which has come down to around 33. Our target is to bring it down to 30, number one. So, that itself is we are trying to sustain the existing working capital despite the growth. So, that is the point. So, we will try and sustain the same going forward.

Number two, we are also working very hard with multiple NBFCs and banks to work on our debt financing. So, if a substantial portion of our debt gets financed by a system where the interest will be passed on to our customers and the debtors, that itself should sustain or even bring down the interest cost as we go forward. So, this is called a dealer financing basically.

Keshav Garg: So, sir, by this step, how much is this expected to go down? So, firstly, what is our cost of debt today? So, cost of debt including the interest that we are paying on our payables and acceptances, what is that percentage?

Sukumar Srinivas: Approximately around 9%-9.5% is our present cost of debt.

Keshav Garg: Right. Sir, so by how much can we reduce it?

Sukumar Srinivas: Because once this dealer financing is initiated and keeping the inventory in control, we try to retain around 9% debt.

Keshav Garg: Sir, so it's not that significant. Sir, in any case, now the point is that if we see from fourth quarter of last year, where our revenue was Rs. 1,377 crores to now this last quarter when revenue was Rs. 1,437 crores, it's an increase of only 4% in our revenue. But whereas our interest cost has increased from Rs. 9 crores to Rs. 12 crores, so which is like a 33% increase on 4% increase of revenue. Sir, so then I do not understand that how come our working capital days is under control, as you said, because, sir, with 4% of increase in revenue, if interest cost is going up by 33%, then surely time of say it seems that the working capital days would have gone up.

Sukumar Srinivas: So, now what is happening is when the net working capital calculation is happening, so some of the acceptances have also been added in that. So, that is the thing we are trying to come out slowly. And secondly, see generally, Q4 is a little better in terms of fund cycles, etc., compared to a Q3 or a Q1. Q1 is generally the slightly more sluggish period. So, you do have a point, but I think we are working hard to bring it down to control, to parallel.

Moderator: Thank you. The next question is from the line of Lalit, an individual investor. Please go ahead.

Lalit: Hi. Good afternoon, everybody. Two questions to understand -- Am I audible?

Moderator: Sorry to interrupt you. Sir, we cannot hear you that clearly.

Lalit: Can you hear me now?

Moderator: Now it's better. Please go ahead.

Lalit: Yes. So, sir, the point is, for the Q3 that has gone by, our interest cost is approximately Rs. 12 crores, which is approximately 30% of the operating profit. So, 30% of the operating profit is going into interest. So, question number one, what is our group level debt, the whole group level debt? And then do we have any plan to reduce it? Because if you look at the financial year '24, the interest cost was approximately Rs. 50 crores, which was more than 33% of the operating profit. What is our debt and what is our plan to reduce that debt number?

Sukumar Srinivas: Our group level debt as on quarter end Q3, it is around Rs. 500 crores.

Lalit: Rs. 500 crores. Okay.

Sukumar Srinivas: So, we are working hard to reduce that. Additional growth, whatever is going to happen, we are trying to reduce it.

Lalit: But additional growth, even if we grow by 6%, 7%, 8%, I think all of that money would be required for the business. To reduce that debt, do we have some plan?

Sukumar Srinivas: Yes. So, I think one is dealer financing is what we are really working hard on.

Lalit: Okay, okay. Because of the interest cost, I am an individual investor and hardcore believer when the company was listed since then because I am also believer of the discretionary spending that will come up in the next few years. And everywhere I go, I try to find out if there is a store, Shankara Building store or not. So, I am really worried how investors like us would get the profit because the debt interest is eating a lot of our profits.

Sukumar Srinivas: True. Very true. I think dealer financing, we are working on undergo at least to start with as a program. So, if that is really kicks off ground, I think to that extent, the debt will start coming down.

Lalit: Can we expect some reduction in the next FY '26?

Sukumar Srinivas: We could see some reduction hopefully in this quarter itself and definitely tangible results from Q1 next year.

Lalit: From Q1 '26?

Sukumar Srinivas: Yes.

Lalit: Okay. We have a long-term view, three, four years. We can expect in the next three, four years, it will drastically come down?

Sukumar Srinivas: We are also, I mean, as a management, we are also equally concerned about how to improve profits. So, we are also working for the company, and we are also very, very clear that all the stakeholders should benefit. So, there is a very, very serious attempt at all levels to bring this down.

Lalit: I see. Quite good. Thank you very much. We are committed with you too. Thank you.

Sukumar Srinivas: Thank you so much.

Moderator: Thank you. The next question is from the line of Ketan Chheda, an Individual Investor. Please go ahead.

Ketan Chheda: Hi. Thank you for the opportunity again. My question is again on the finance cost. Is it possible for you to break it in terms of like how much is our finance cost for the marketplace business versus how much is for the manufacturing business?

Sukumar Srinivas: I think once the demerger is done, those figures will become much more clear and you will have a very clear, what goes where.

Ketan Chheda: Like if at all, if you cannot quantify, can you give some kind of indication or direction like whether it is more than half, less than half, something like that. Some level of qualitative indicator, if not absolute numbers.

Sukumar Srinivas: So, out of Rs. 40 crores, approximately Rs. 10 crores to Rs. 15 crores will be manufacturing and around Rs. 25 crores will be for marketplace.

Ketan Chheda: Okay. So, marketplace has a higher proportion of the financing cost.

Sukumar Srinivas: Yes.

Ketan Chheda: Right. Okay. Thank you so much. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Sukumar Srinivas for closing comments.

Sukumar Srinivas: Yes. Thank you very much for this very active participation from all the investors. Thank you so much and we look forward to address your issues and work hard to give good share of the interest to our hearts. Thank you so much.

Moderator: Thank you. On behalf of Shankara Building Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.