Shankara®
Building Products Limited

Date: 17th August, 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,

Subject: Transcripts- Q1FY24 Earnings Conference Call.

Please find enclosed the transcripts of the Q1 FY24 Earnings Conference Call held on 10th August, 2023.

Kindly take the above information on record and acknowledge.

For **Shankara Building Products Limited**

Digitally signed by EREENA VIKRAM
Date: 2023-08-17 16:32+05:30

Ereena Vikram
Company Secretary and Compliance Officer

"Shankara Building Products Limited Q1 FY24 Earnings Conference Call"

August 10, 2023

MANAGEMENT:	**MR. SUKUMAR SRINIVAS – MANAGING DIRECTOR** **MR. C. RAVIKUMAR – EXECUTIVE DIRECTOR** **MR. ALEX VARGHESE – CFO** **MR. DHANANJAY MIRLAY SRINIVAS – VICE PRESIDENT, BUSINESS DEVELOPMENT** **MR. GIRIDHAR PARTHASARATHY – MANAGER, ACCOUNTS & FINANCE**
MODERATOR:	**MR. SOHIL KAURA – ICICI SECURITIES LIMITED**

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CIN: L26922KA1995PLC018990

Moderator: Ladies and gentlemen, good day and welcome to the Shankara Building Products Limited Q1 FY24 Results Conference Call hosted by ICICI Securities.

As a reminder, all participants' lines will be in the 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 the operator by pressing "*" then "0" on your telephone. Please note that this conference is being recorded.

I now hand over the call to Mr. Sohil Kaura. You may begin, sir.

Sohil Kaura: Good evening, everyone. On behalf of ICICI Securities Limited, I would like to thank you all for taking the time to join us on the Shankara Building Products Limited Q1 FY24 RESULTS CONFERENCE CALL. From the company's leadership team, we have with us, Mr. Sukumar Srinivas – Managing Director; Mr. C. Ravikumar – Executive Director; Mr. Alex Varghese – CFO; Mr. Dhananjay Mirlay Srinivas – VP, Business Development; and Mr. Giridhar Parthasarathy – Manager (Accounts & Finance).

We will open the call with the opening remarks from the management followed by a Q&A session. I would now like to hand over the call to Mr. Dhananjay Mirlay Srinivas – Vice President (Business Development) and Head of Non-Steel at Shankara Building Products Limited to make the opening remarks. Over to you sir.

Dhananjay M. Srinivas: Good afternoon, everyone. A very warm welcome to Shankara Building Products Limited's Q1 FY 2024 earnings call. I have with me, Mr. Sukumar Srinivas, our Managing Director; Mr. C. Ravikumar, our Executive Director; Mr. Alex Varghese, our CFO; and Mr. Giridhar Parthasarathy, our Manager (Accounts & Finance). I hope you would have all had an opportunity to go through our quarterly presentation uploaded on the stock exchange website.

I will initiate the call by taking you through the business updates during Q1 FY24. After this, Mr. Varghese will share an update on the financial performance during the quarter.

Despite the challenging macroeconomic environment, we are happy to have delivered another quarter of resilient performance. The residential real estate activity is witnessing its decadal high while commercial real estate activity is making a strong recovery with resumption in work from office. The pandemic has induced desire for larger and premium houses which has augmented a significant surge in demand for the home improvement industry. Additionally, the overall improvement in construction activities and continuous investment in infrastructure and policy support by the government are also posing an opportunity for the building materials and home improvement industry. As we are evolving on our journey to Shankara 2.0, our primary focus over the past few quarters has been towards aligning our product offerings and our omnichannel presence according to the evolving means of the real estate market.

From our legacy of a steel trading company, we have progressed to become a one-stop omnichannel marketplace for building materials. Today, we have around 1,00,000+ SKUs across the product categories and brands. We have expanded our infrastructure to 125 fulfillment centers which includes our 90+ retail stores, and now we have a push towards an online presence through our BuildPro app and website. This has helped us to provide a tailored solution and cater to the increased activities in the home improvement industry.

As we stand today, we are not just well-positioned to capitalize on the favorable real estate cycle but also to a significant market share expansion opportunity within the sub-segments we are operating in. Especially in our non-steel business, we intend to grow much more aggressively in the coming years. We have internally set our aspiration to grow our non-steel vertical from around 10% presently to 25% of our revenues in the next 4 to 5 years. To achieve this, we have been continuously refurbishing our existing fulfillment centers to bring in more non-steel products. The strategic aim is to increase cross-selling opportunities at all our fulfillment centers and at the same time leveraging our existing customer relationships as we expand our range of products and brands both in steel and non-steel categories.

Our exclusive ultra-luxury displays in Bengaluru and Chennai offer superior brands and specialty products, which is also witnessing a significant response from our premium customers. We have also recently introduced a concept of store in store. We started this with Asia’s and the world’s largest paint company, Nippon Paints, and we have already introduced 2 such stores within our existing network. We are working with them for setting up another 4 to 5 such stores in the coming months. We also intend to introduce this with our other brands in the coming years. The testament of all of this is an increasing ticket size and the number of transactions at our fulfillment centers.

Our retail business continues to perform well with the same-store sales growth of 31% year on year during the quarter. Recently, we have added 5 new stores; one in Gujarat, two in Tamil Nadu, and two in Kerala. We have also rationalized a few of our stores; three in Karnataka, one in Andhra Pradesh, and one in Tamil Nadu, keeping our net store count at a similar level at 91. Over the years, we realize that our customer base in these regions could be serviced from our alternative stores in the same region. So, we have strategically closed these stores and leave some extra space in the nearby stores in the same region and hence closure of these stores is unlikely to make any impact to our revenues and will indeed result in savings in administrative cost of handling an extra store.

We also have 2 new fulfillment centers under pipeline coming in Maharashtra and Madhya Pradesh. Given our well-established presence in the south, we continue our strategy towards the cluster-based growth approach and continuously are strengthening our penetration in the southern region while gradually expanding to other states such as Maharashtra and Madhya Pradesh. Simultaneously, given the nature of the building material industry, customers prefer visiting offline stores after conducting online research. Thus, we have used technology as a mode to capture more customers. Customers use our platform to do that preliminary research on products and are encouraged to visit the stores to get a live experience. This is driving increased walk-ins in our stores and consequently improvement in our same-store sales growth. Further, customers who are looking for a single product online end up buying multiple products at our centers. For example, a customer may purchase a soap rack or a towel holder and some other bathroom-related accessories which they originally didn't envisage in our stores. Hence, while our revenue through the digital platform is not substantial at the moment, we intend to promote it extensively and expand to other regions in the coming years.

We have been popularizing our Shankara BuildPro app among influencers and customers during our influencers and customer meets as a platform where the range of products offered can be browsed through. We are also gradually upgrading our online platform which is presently limited to certain non-steel items to make it more suitable for bulkier products as well.

With this, I would like to hand over the call to Mr. Alex who will be sharing an update on the financial performance with you.

Alex Varghese: Good afternoon, everyone. I hope all of you are doing well. We are happy to announce another quarter of strong and resilient performance. Our total revenue for the quarter stood at Rs. 1,132 crores, registering a 36-percentage year-on-year growth from Rs. 833 crores in the corresponding quarter previous year. Our EBITDA for the quarter stood at Rs. 34.5 crores, up by 30 percentage year on year. Our EBITDA margins have improved sequentially by 6 basis points to 3.04 percentage compared to 2.98 percentage in Q4 FY23. However, on a year-on-year basis, our EBITDA margins were down by 14 basis points, primarily on account of steel price softening which resulted in some inventory losses during the quarter. However, the steel prices have started stabilizing this quarter. Nevertheless, against a 36-percentage year-on-year revenue growth, our finance cost has increased by just 17 percentage year on year during the quarter, led by our significant focus on keeping our working capital requirement under control. This has resulted in a substantial improvement in our net profit by 44 percentage year on year to Rs. 17.3 crores compared to the Rs. 12 crores during Q1 FY23.

Our working capital base continues to stand comfortably at sub-30 days during the quarter compared to 44 days during Q1 FY23. Consequently, our cash flow from operations also stands positive as against negative cash flow from operations during the corresponding quarter in the previous year.

As far as segmental performance is concerned, our retail segment reported a revenue of Rs. 631 crores, up by 31 percentage year on year, while our EBITDA for the segment was up by 18 percentage year on year during the quarter. With the same-store base, we have been able to achieve a 20-percentage year-on-year growth in the number of transactions and 10 percentage year-on-year growth on average ticket size per transaction, primarily led by newer products and categories at our existing centers across steel and non-steel products.

While we grow our retail business, we are focused to keep our costs under control for the segment and hence while our revenues are up by 31 percentage year on year, our rental cost just has grown by 5 percentage on year on year.

As far as the non-retail segment is concerned, comprising our panel and enterprise business, it has grown by 43 percentage year on year during the quarter at Rs. 501 crores. Despite steel prices softening, EBITDA for our non-retail business was up by 21 percentage year on year to Rs. 7.9 crores. Given the limited margin in the segment, we are exercising significant control over our costs which has supported the EBITDA improvement in this segment. We expect our revenue growth momentum to continue in the coming quarters. While we grow our revenues, we are also committed to slightly improve our profitability margin from the current levels and keep our working capital cycle under control to remain capital efficient.

We are focusing towards growing our non-steel business which is more value-adding than our steel business. Hence, as we grow our non-steel vertical, our blended EBITDA margins are expected to improve. While we strive to grow our top line and profitability, we also aim to keep a capital efficient balance sheet with our asset-light model for retail store expansion and efficient working capital management measures such as ensuring credit availability from suppliers and improving our supply chain to be able to optimize our inventory levels. Our collective effort on revenue and profitability along with our lean balance sheet approach should drive improvement in return indicators for our company and the investors in the coming quarters and years.

With this, we will open the forum for questions & answers.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Our first question is from Koustav, a retail investor. Please proceed.

Koustav: I just wanted to ask one thing. Is there a demand slowdown that we have seen in this particular quarter? Because, I see from the previous quarter, this came down. In the March quarter, the revenue was a bit higher, but this quarter, the revenue is slightly lower. I tried to see if there is a similar pattern last year, but last year, I saw that there was an increase in the June quarter vis-a-vis the March quarter. So, was there a demand slowdown that you guys have seen? And secondly, I guess your retail revenue grew slightly a bit slower than your non-retail side of business. Could you please elaborate on it and is there a possibility that we can increase it by any chance? Because, I guess since a lot of people are already improving their homes, is there a possibility that you open stores and try to drive it forward, the growth?

Dhananjay M. Srinivas: I will answer the first part. Usually what we see in the building material industry is that Q4 is a substantially heavier quarter, higher in terms of volume and sales. So, subsequently Q1 would always look a little lower.

Sukumar Srinivas: That is number one. Point number #2, I think normally in this industry, towards the end of the quarter 1, there is also monsoons that hit many parts of the country. Particularly in the south, Kerala is impacted. We have impacts in parts of Karnataka. We have an impact in parts of Maharashtra. So, I think generally, Q1 is always a slower quarter for many in the industry. That does not mean that we should not grow in Q1 compared to Q4. Generally, the last couple of quarters in the real estate and building industry are much more heavier, there is much more buying, and particularly when we look at steel, etc., towards the last quarters, there are a lot of projects that get completed. There are schedules when we also supply to various building contracts; there will be a schedule for completion by March 31st. This is the general tendency we have seen over the years.

Koustav: Basically, the second question was I see that your retail growth is slightly a bit slower, but I guess maybe that is something that is answered by what you said in the first question. Another thing that I wanted to understand was, is there a possibility that when the government is doing a lot of infrastructure work, you guys are providing to the EPC manufacturers? Will the infra push kind of help you in any way? Can you throw some light on it?

Dhananjay M. Srinivas: I think, as you say, with the government focusing on infrastructure growth, the policies help everyone in the building material industry. And since we have a very negligible direct supply to government projects, we could….

Sukumar Srinivas: Definitely, I think, government spending on infrastructure helps and it has a direct impact on our growth.

Koustav: One last question from my end. By Q4, at what EBITDA percentage do you want to close the business around? I know you have guided for some improvement in the margins, but do you have a number in mind that you would be aspiring to reach by the end of Q4?

Sukumar Srinivas: I think, as we have guided earlier also, we are currently around 3%. We have guided that probably about a half a percentage basis point is what we are guiding towards the end of the year.

Moderator: Our next question is from Maulik Patel with Equirus. Please proceed.

Maulik Patel: It's good to see the performance after long. Sukumar, a couple of questions. One is, basically, I think in the past, we discussed about 2 initiatives. Regarding the non-steel revenue, I think earlier it used to be around 25% of our revenue.

Sukumar Srinivas: No, that was in the retail. There was also roofing segment that was coming in, in the retail part. Now, what we have done is roofing is also largely steel based; though it is sold as a product, now we are categorizing it very clearly as steel. Today about 10% is the absolute non-steel which includes bathrooms, it includes CP, sanitary, flooring tiles, electricals, and so on.

Maulik Patel: What proportion of revenue do you want to see in a couple of years down the line and what kind of efforts and what exactly are we doing to increase that revenue base?

Sukumar Srinivas: One is, broadly, we are looking at in the next 4 to 5 years, that 25% total revenue should come from the non-steel part. Secondly, you asked what kind of efforts that we are doing. I think the sheer fact that in the last 2 years, Dhananjay is heading the non-steel exclusively. I think it has also driven a considerable amount of momentum. The management structure for the non-steel has been extremely structured. We have taken a lot of people from the industry. There are a lot of vertical heads. The entire management broadly has been strengthened in terms of the non-steel part of the business. I think these two itself are yielding a lot of positive results. I think a lot of depth and a lot of expansion of territory, etc., has happened. In the earlier years when we were about 3 to 4 years, our non-steel was largely restricted to Chennai and Bengaluru. Today, we have got a substantial presence in Kerala, we have opened an office in Morbi now, and we are expanding that. We have also started our own in-house branding of tiles. We are in the process of opening a depot and a display center in Morbi. We are planning – I think it was mentioned in the earlier speech – we are opening an entire fulfillment center in Maharashtra for tiles. There is a lot of growth and a lot of push that we are seeing. There is a considerable amount of effort that is happening in the promotion of non-steel and also, as mentioned in the overall presentation, we talked about non-steel being the focus of the company. I think that itself should probably broadly answer your question.

Maulik Patel: Currently if you look at the steel, the gross margin of around 9% to 10% it used to be in the past, right? The non-steel will have a much higher gross margin or the similar range?

Sukumar Srinivas: Steel never had 9% to 10% in the past. I think somewhere that was a non-steel kind of a margins we were talking about. Steel in the past used to have around 5% which has now actually slightly come down. Maybe it was 5% to 6% in the early days about 6-7 years ago. Now it has come down to around 4%. When we are looking at the gross in terms of the non-steel, it's about 8% to 10% today in the gross margins of the non-steel part.

Maulik Patel: Currently, if I look at the financials, your gross margin is close to around 9% for this quarter? Because you mentioned that only 10% of my business is non-steel. This doesn't include the manufacturing margin which you still have some assets on the manufacturing?

Sukumar Srinivas: Maulik, can you tell where the gross margin of 9% you have seen? Because, nowhere the gross margin has shown as 9%.

Maulik Patel: Okay, my mistake. I was looking at some other number. Currently the gross margin is around 5% to 6%, right?

Dhananjay M. Srinivas: Yes, 5.5% to 6%.

Maulik Patel: The third element, I think you mentioned about this omnichannel. Can you tell us how much percentage of revenue comes from this particular initiative of the omnichannel?

Dhananjay M. Srinivas: Omnichannel, we are talking about customers walking into our stores, calling us, using our online platform as a discovery.

Sukumar Srinivas: If you remember, a year ago, we announced a sort of slight differentiation in our model, what we call the Shankara version 2.0. Earlier, we were very clearly delineated with the retail and the non-retail part. As we were calling that non-retail, we are calling it the channel and the enterprise part. So, there was a lot of confusion on the same. So, we started looking at more to align ourselves with the marketplace, where it started looking more and more obvious that this marketplace model was coming in and was probably here to stay. When we define omnichannel, we are looking at multiple channels. Omnichannel is digital; it is the existing way of selling. It could be the walk-in through the retail stores; it's through telephone. It can be any…. We are broad basing the entire definition of marketing rather than restricting it to 2 or 3 traditional definitions.

Maulik Patel: What's your debt on the books currently, including the acceptance? I can see that working capital has been brought down significantly over the last 2-3 years. Particularly post COVID, now we are about at 25 net working capital days. But what's the overall debt structure on the books including acceptance?

Alex Varghese: Yes, acceptances also are there in the payable which is coming approximately around Rs. 250 crores.

Maulik Patel: This Rs. 250 crores plus there will be some normal debt on the books, right? Borrowings from the bank?

Alex Varghese: Yes, around Rs. 80 crores.

Maulik Patel: So, it's around Rs. 330 crores currently?

Alex Varghese: Yes.

Moderator: Our next question is from Deepak Poddar from Sapphire Capital. Please proceed.

Deepak Poddar: Sir, first just a clarification. You did mention 3% is the EBITDA margin right now and we are targeting 3.5% by FY24 end, right?

Dhananjay M. Srinivas: Correct.

Deepak Poddar: In terms of your growth, we have spoken earlier as well, we are looking at maybe about 25% to 30% top line growth this year. So, just wanted to understand, in terms of retail and enterprise, how do we see the growth segment-wise?

Alex Varghese: There will be a similar growth in retail and enterprise.

Deepak Poddar: So, the same range will apply to both the segments, right?

Alex Varghese: Yes.

Deepak Poddar: In terms of aspirational margin, if we exit at 3.5%, what sort of steady state margin we might be looking at, maybe about 1 to 2 years down the line?

Alex Varghese: Aspirational is 4 percentage.

Moderator: Our next question is from Aditya, an individual investor. Please proceed.

Aditya: Sir, can you please throw some light on our digital business, where we are today and where do we see ourselves 2-3 years down the line and what contribution we can expect to the overall revenue in 2-3 years?

Dhananjay M. Srinivas: As we said in the earnings call, our digital platform currently we use it as a discovery platform because, as you know, in the building material industry, still it takes some time for people to buy bulky, large, expensive products with high-ticket value online. So, we are working towards increasing our cataloging, increasing our product offering and range length. We are also working to increase the number of people purchasing online. It would be difficult to give a number because as we said, a lot of our customers looking for single products where we try to bring them into our stores, we do want to increase the walk-ins and use it as a discovery platform. For the time being, we are working to expand and increase on this. The exact revenue would be….

Sukumar Srinivas: Just to add to what Dhananjay is saying, we also have plans that in the near future, we should also start getting on to other marketplaces if possible. We are working on that. Using other well-established marketplace if that starts happening, I can comfortably say that at least our aspiration in the next 3 years would be to target about, probably to some level, to have a significant percentage of our sales in terms of at least a high single digit number, should go through the digital online platform.

Moderator: Ladies and gentlemen, our next question is from Neeraj Lal with KCC Advisors. Please proceed.

Neeraj Lal: Sir, I just have a couple of questions. One is, I just wanted to get an idea of the online channel which we are doing and an update on the Shankara BuildPro app. Could you please share any details around this? It will be helpful.

Management: For online, as we just said earlier, our idea and our plan currently is that customers use our online platform for preliminary research. We are encouraging more customers who come online to come to us just to get the live experience. Our focus is to grow, as I said, by adding more categories, adding more products, and kind of making it more comprehensive. We are working on adding more cataloging. Currently the online platform is a discovery tool. It is a marketing tool as well for customers to find out where our stores are and where we are. And we are also trying to capture the data of customers who come online so that we can follow-up with them and bring them to our stores. The app works more for our influencers and our regular customers who can keep a track of their purchases and who can also focus on looking for other products and plan the next stage of their building lifecycle. We also know that while the revenue from our digital platform is not substantial, we do intend to promote it extensively and expand it to other regions and locations. We also have customers who come for single product and would then have a bigger spending in our stores. And as I said, it’s about getting the experience from the stores because a lot of products do need a touch and feel in building materials. I hope that answered your question.

Neeraj Lal: In terms of expansion, barring south, are we planning to go to pan-India, or what are our plans on that end?

Management: Our aspiration is to go pan-India. Currently, we are utilizing our 125 fulfillment centers to cater to customers. But as we find there is still a lot of potential in the south, and we have a cluster-based approach for our growth, as we grow step by step in the future, definitely we are hoping to go pan-India.

Neeraj Lal: In that case, what will be our key products in our non-steel business?

Management: Currently, the key product of our non-steel is between CP fittings, sanitaryware, plumbing items, and tiles. Going forward, we do see now a big pickup in paints as well with our strategic tie-up with Nippon. While currently 46% of our revenue is from sanitaryware and plumbing in the non-steel, the whole idea is that we have a lot more verticals which we are exploring and adding year on year, which we see a lot of potential and growth going forward. Our strategy is to focus on the sub-segment and then move to the next as we achieve a modest size in the earlier sub-segment.

Neeraj Lal: One last question. I just wanted to understand what will be our criteria or let’s say parameters for closing a store in case if we are looking into it. What will be the parameters for that?

Dhananjay M. Srinivas: Initially most of the stores that we did close, we had the rationale where we found it as a strategic advantage. We found that we could cater to the existing customer base from a nearby store or fulfillment center. Basically, the factors influencing our decision making is possibly limiting of the growth. Maybe the store size was small. Sometimes, we do have a few local or regional issues. It is more of a consolidation rather than closing down. And by having extra space in the existing stores, we are able to cater to and it doesn't impact our revenues as well. We have had a negligible impact from closing any of these stores. We are able to cater to the customers from the nearby centers.

Moderator: Our next question is from Koustav, a retail investor. Please proceed.

Koustav: I just wanted to follow up with a couple of more questions. I understand that you guys are launching your own brands under your own label. What is the kind of margin profile on that? Can you just help me with that?

Dhananjay M. Srinivas: Since we have just launched, the private labels are still in a very nascent and growing stage. Currently, since we are looking to increase the market share and grow, I would say the margins would be at 8% to 10%.

Koustav: One more thing. You have an aspirational number of reaching 25% non-steel revenue. When you reach the target, what can be the EBITDA range? Right now, it is around 3%, and you have an expectation of reaching to 3.5% by the end of this financial year. What is the expectation when you reach 25% of your revenue from non-steel, the EBITDA percentage?

Dhananjay M. Srinivas: When we get to 25% of the revenue, we hope that our EBITDA will be around 5%.

Koustav: Basically, once you reach the 25% mark, there is nothing stopping you to go even higher. I am just thinking from a very long point of view, like 7 to 8 years down the line, would you be trying to push your own brands, own labels, sanitaryware's, paints, as these might be more profitable. So, would you be trying to increase that 25% to a higher amount? I am not talking about 4 or 5 years. I am talking about a longer horizon like 8 to 10 years kind of a horizon. I am trying to understand how the company will look like at that point of time.

Dhananjay M. Srinivas: As you said, when we get to the 25%, we would be very substantial for all our brands. We believe that we can grow with our brands, and we don't necessarily require private labels in all categories. We will be continuing private labels in tiles, but as of now, we do not have any plans for private labels in any of the other categories. I think we will just have to take it as we go, especially after we get to the 25% to see how the market is at the time. And as you said, there is potential, as always, but I think we are growing with our principles currently. So, we do want to keep the growth with them and not necessarily branch out on our own.

Koustav: One last thing. I am not sure if the management has thought about this. I was just trying to see your website and it is really good. Is there a possibility that you can also provide some interior designing solutions? Maybe if you guys could foray into that, that might be another vertical which will be aligned to your business and might increase your brand presence.

Dhananjay M. Srinivas: It's a great idea and we do have that in mind, but we right now are trying to consolidate our platform. We will go segment-wise. We will be coming to this. And I could say that in the future, we will have something like this. We have thought about it and it's a great suggestion as well from you. I think you will see more of this in the future.

Moderator: Our next question is from Gunit from CCIPL. Please proceed.

Gunit: I just want to understand what is your outlook for FY24 in terms of top line and bottom line? I am sorry if I missed it previously. And you said that we are at 3% margins currently but expecting to reach around 3.5% margin by the end of year. So, on an annual basis, what kind of margins can we expect for FY24?

Dhananjay M. Srinivas: We are aspiring to grow our revenue at 20% to 30% CAGR over the next 4 to 5 years. We aspire to become a Rs. 10,000 crores top line company in the next 5 years.

Gunit: Looking at the current market conditions, do you think we are on track to deliver a 20% to 30% growth in FY24 as well?

Dhananjay M. Srinivas: Yes, we think there is great potential in the market. We are still, especially in the non-steel, at a very nascent stage. There is a lot more push from the management also to grow aggressively. So, we do believe it is possible.

Gunit: I just want to understand what is giving you the confidence to grow at 20% to 30% CAGR and even in this year at 20% to 30% rate. Is it like the conditions you see in the market? Can you just elaborate on that?

Sukumar Srinivas: Basically, the building industry itself is such an overarching kind of a base for any country. If you look at really the overall potential, we are talking of lakhs and lakhs of crores in terms of rupees. If you take even a single segment, let's say CP and sanitary, we are looking at close to something like Rs. 20,000 crores to Rs. 30,000 crores as a potential per annum. Today we are currently at about Rs. 250 crores. If I just double that or triple that over the next 4 to 5 years, this single segment itself can give us Rs. 750 crores to Rs. 1,000 crores. If we take the flooring and the tile-specific industry, we are looking at Rs. 30,000 crores to Rs. 40,000 crores. Again, there we are at around Rs. 200 crores today. Even if we double or triple that, we are at these kinds of numbers. Steel itself if you look at, as a segment, is growing at close to 8% per annum. And we have got a lot of infrastructure. You know how India is in terms of our urban infrastructure. We are talking of humongous investments in railway, we are talking about investments in airports, investments in ports. So, I think if you look at it combinedly, the potential as such is absolutely unlimited as far as India grows. There have been statements by Morgan Stanley saying that India is at an inflection stage now where we are looking at probably a 10% runaway growth irrespective of who the government is and so on. And as you know, optimism and hope springs eternal. Based on all these facts, we do aspire, and we do see that if we carry out things correctly, this kind of growth momentum can be maintained.

Gunit: In terms of the margins, do you expect them to improve quarter on quarter as we move forward? Looking at the condition in Q2 right now and for the rest of the year, do we expect the margins to improve?

Sukumar Srinivas: Yes, of course. Any organization aspires to have its profitability growing? Definitely, we are at the current 2.5% to 3% that we have been doing in the steel broadly and the non-steel EBITDA is around 5.5% to 6% currently, as the non-steel increases its share in the overall volume and the overall business, I think the EBITDA overall will also start improving.

Gunit: So, what are your projections for FY24 in terms of non-steel revenue as a percentage of total revenue?

Sukumar Srinivas: We are looking at close to around Rs. 500 crores for the year.

Moderator: Our next question is from Suryansh with BizX Enterprise LLP. Please proceed.

Suryansh: What I need to ask is that we all are aware that the size of the market is very huge, and we all know that most of the market is unorganized. But what we are doing differently to get the customers or like whoever holds the decision to buy these products like architects or plumbers or carpenters. How are we making sure that in terms of providing, what we are doing differently that customers land in our stores and not at other channels?

Dhananjay M. Srinivas: In India and in the south, as you said, influencers are very key to, as you say, influence the buying habits of customers. In building materials, architects and contractors, a lot of customers do listen to them for their technical aspects and design. So, we do work substantially on working with architects, plumbers, contractors, and end customers as well. We have regular plumber meets in all our showrooms where we cater to what the needs of the plumber are and how we can service them better. We have a separate team that works on architects and interior designers, who take care of them, who bring them to the showrooms, who help them in selection, help them in bringing brands, and also make it easy for them to reach customers. The large number of stores which we have also helps us cater to customers in all territories.

We also use our technology and our online platform to get customers and to market ourselves. So, you do reach end-customers. We also use it to capture more customers. And the customers also use our platform to do their preliminary research on products. And so, they are encouraged to visit our stores to get a live experience which also drives an increase in the walk-ins. Our brand building and the fact that we are a listed company also instills trust in the customers. They know that we have genuine products at good prices, and we do offer great service. These all put together along with the customers help us to make sure that influencers, architects, and other decision makers are comfortable, who are aware. And honestly, the number of brands we have helps them really cater to their all requirements from the beginning of the building material lifecycle to the end.

Suryansh: One more question was that credit decision is one of the significant decisions in terms of buying. These are very high value in nature. Are we tying up with financial companies to provide those credits? Are we doing those things?

Alex Varghese: Yes, with a few banks, we are doing it. A channel finance type of limits we are getting from various banks, which we are enjoying.

Sukumar Srinivas: Currently, if the question is directed to individual homes where you tie-up with NBFCs for their home improvement loans, etc., we have not yet tied up with banks for that particular purpose. This is something we are exploring, and we hope that maybe in the next year or so, we should slowly start tying up with financial companies to help provide credit to the individual customers.

Moderator: Our next question is from Koustav, a retail investor. Please proceed.

Koustav: Just one more thing I wanted to understand. A couple of quarters ago, I guess you gave a guidance of reaching an aspirational number, Rs. 10,000 crores, in 4 to 5 years. And now I see that you have given an aspirational margin guidance of reaching 5% EBITDA margin by the same time, like when you reach a 25% non-steel revenue. What I wanted to ask is if you could just compute the numbers, it looks like that by 4 to 5 years, you guys are expecting around basically 4 to 5 times of current EBITDA. Am I missing something in this or is this the growth that you guys are internally calculating also?

Sukumar Srinivas: Yes.

Moderator: Our next question is from Aravindh, an individual investor. Please proceed.

Aravindh: I have two questions. 1) I just need to understand the rationale for going with the private label tiles brand. Because tiles is more of a commodity industry and very few players have the brand power or strength. What was the rationale behind getting into our own brand considering the market situation? 2) Considering the influencers are a major stakeholder in the purchase decision, do we have any loyalty program for them, or do we plan to increase it in the future?

Management: I would say tiles is more than a commodity. Tiles is almost like sari shopping where customers require thousands and thousands of designs, and everyone has different taste. And we do believe, as a management, that the tile industry has a lot of potential. We have tied up with multiple factories. We are producing our own tiles in different sizes and varieties and designs. And we are able to bring out these designs faster to market than some traditional players because they have limited R&D. I would also say that our presence is very strong in the south. We feel that we already have a good customer base which we would like to bring with our own products, and we have more flexibility in designs and tiles really is, I would say, more than just a commodity nowadays.

And for the second part of your question, we are planning to come up with something for the loyalty programs. We will keep you posted when we do.

Aravindh: Have we seen any initial success with the tiles launch or still initial stages to say?

Management: We currently do around Rs. 100+ crores in our private label per year. And so, we definitely have seen some limited success in that and that it was limited to last year.

Moderator: Our next question is from Aditya, an individual investor. Please proceed.

Aditya: Sir, I was going through the annual top line of our company. From 2014 till 2022, we were in the range of Rs. 2,000 crores to Rs, 2,500 odd crores. But last year, in FY23, we exceeded Rs. 4,000 crores. And now we are confident about achieving Rs. 10,000 crores in the next 5 years, which is about 17% to 18% top line growth. I just wanted to understand, is this because of the industry or you guys have reworked on the strategy? This is my first question. And my second question is, at Rs. 10,000 crores top line, what will be our aspirational revenue mix like channel business versus retail? If you can throw some light on this as well.

Sukumar Srinivas: The 2-3 years of stagnation that you are quoting, that is, say from 2019 to about 2022, I think one of the key reasons in that period was COVID. We did slow down considerably in that period. We sort of were very focused on working capital and balance sheet management. Last year, i.e., '22-23, the management took a clear call that we need to up our ante as far as top line growth because of the following reasons. 1) The market scenario itself had changed considerably. There were a number of new players in the marketplace model and overall competition was revving up. So, we had to really take a call about substantially increasing our top line. 2) As far as when we are looking at the next 4 to 5 years when we are having an aspirational top line revenue of around Rs. 10,000 crores, what was the real bifurcation that you wanted there?

Aditya: Channel business or retail business or any digital business revenue mix.

Sukumar Srinivas: The thought process is that we are converting our entire model more into a marketplace model. So, definitely the retail, the 90 stores, probably would have grown also by then. But however, the retail is going to get subsumed in this marketplace model. So, probably, if you are looking at it in the same basis, today we are at about 50:50 or 55 with retail and about 45 with the channel & enterprise. Within the overall concept of marketplace, probably it would be around the same. And however, in that period, in the next 4 to 5 years, we also hope to have grown substantially in the digital presence.

Aditya: Will we need any sort of borrowings to increase our top line or any sort of Capex or something?

Sukumar Srinivas: Capex we are looking at broadly from the perspective of warehousing, etc. We are looking at, broadly – this is just a sort of a ballpark figure of around Rs. 30 crores per annum. That is something like what we are looking at, the Capex part. And in terms of borrowing – and there may be a marginal plus or minus – we would largely fund and see that we can sustain on the current level, but as the revenues substantially increase, I think our CFO can keep you posted on that subsequently.

Moderator: As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Dhananjay M. Srinivas: Thank you everyone for taking the time out to attend our earnings call today. I hope you all have a good day.

Moderator: On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

(This document has been edited for readability purpose)

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