Shankara®
Building Products Limited

Date: 10th July, 2020

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

Scrip Code: - 540425

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

Scrip Symbol- SHANKARA

Dear Sir/Madam,

**Subject: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.**

We enclose herewith, a transcript of the Earnings Call of the Company with Analyst/Investors held on 11th June, 2020.

Kindly take the same on records.

Thanking You

Yours faithfully
**For Shankara Building Products Limited**

SHANKARA BUILDING PRODUCTS LTD. BANGALORE

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# "Shankara Building Products Limited Q4 FY20 Earnings Conference Call"

## June 11, 2020

**MANAGEMENT: MR. SUKUMAR SRINIVAS – PROMOTER & MD, SHANKARA BUILDING PRODUCTS LIMITED**
**MR. SIDDHARTHA MUNDRA – CEO, SHANKARA BUILDING PRODUCTS LIMITED MR. ALEX VARGHESE – CHIEF FINANCIAL OFFICER, SHANKARA BUILDING PRODUCTS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Shankara Building Products Limited Q4 & FY20 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddhartha Mundra – CEO of Shankara Building Products Limited. Thank you and over to you sir.

**Siddhartha Mundra:** Thank you and good morning everyone and a warm welcome to our Q4 & FY20 earnings conference call. Today, I am joined by Mr. Sukumar Srinivas – Promoter and MD, Mr. Alex Varghese – CFO and Strategic Growth Advisors – our Investor Relation Advisors. We have uploaded our updated results presentations on the exchanges, and I hope everybody had an opportunity to go through the same.

Let me give you a quick snapshot on our Q4 performance. We have reported a strong quarter with volume growth of 14% on a Y-o-Y basis. If we consider the months of Jan and Feb, our volume growth stood at 23%. Our revenues for Q4 FY20 stand at 667 crores, a growth of 12% as compared to the same quarter last year. Our PAT for the quarter grew by 4.25 times to 11 crores. Revenues for FY20 grew by 4%, our PAT growth for FY20 was 48% with absolute PAT of 42 crores as compared to 28 crores last year. Our PAT margins for the year stood at 1.6%, half a percentage point higher as compared to last year. This performance has come despite the challenging situation of COVID-19 in the later half of March 2020.

Our performance has largely been on target from a P&L perspective; however, the lockdown impacted our cash flows which has led to a higher overall debt position. The lockdown necessitated by COVID-19 has impacted business activity all across. In keeping with government announcements and as a part of safety measures for our staff, all our business activities across stores, warehouses, vehicle fleet, factories and offices were shut down since the later part of March 2020. While some locations have resumed activity from early May 2020, some parts of our network are still impacted because of the local lockdown measures. We have taken some measures as a part of this new business environment. Employee safety continues to be paramount, relevant social distancing and work place guidelines have been communicated in all our work place locations.

The key aspect during this period becomes liquidity and we are conserving that as far as possible. We have ensured that we have adequate fund availability to maintain our business operations at the current level. We are in continuous discussions with customers to ensure that business rotation continues while reducing overall outstanding. We are also looking at serving customers from our existing stock. We are engaging with our creditors and working along with them to ease cash flows. Fresh CAPEX projects are currently on hold with only ongoing CAPEX being completed.

The other key element that we are focusing on is cost control and we are relooking at our cost structures and rationalizing the same according to the current needs of the business. On the store count, we currently have 115 stores and we have shut down 5 stores across locations. Digital channels and technology also become imperative to deal with such situations. We have provided sufficient technology and infrastructure support to enable work from home for our staff. We have also provided online channels to reach out to customers for contactless sales.

On the operational current status, we started our operations in the first week of May 2020 in a staggered manner across our geographies based on state and local restrictions. Currently, about 70% of our locations are operational. Activities are picking up based on local conditions. Karnataka is our largest state in terms of revenue and has been impacted lesser as of now by the COVID-19 situation. A large part of our business comes from Tier-2 and 3 locations which has also helped us normalize operations faster. For locations which are not operational, we are engaging with our customers, helping them with supplies wherever feasible. We see some pent up demand for pending projects. There is no decline in demand from the irrigation segment.

Let me take you through the details of the last quarter performance. Despite the loss of revenue for the last 10-15 days of March 2020, our consolidated revenue stood at 667 crores in Q4 FY20 as compared to 598 crores in Q4 FY19, an increase of 12%. Revenue growth for Jan and Feb 2020 stood at 19% as compared to the same period last year. EBITDA for Q4 FY20 stood at 27.1 crores as compared to 15.5 crores in Q4 FY19, a growth of 74% on a Y-o-Y basis. Our revenues for the full year stood at 2,640 crores as compared to 2,546 crores last year, a growth of 4%. EBITDA for FY20 stood at 117.1 crores as compared to 99.5 crores in FY19 representing a growth of 18%. Retail segment now contributes to 55% of our overall revenues. Our retail EBITDA margin for FY20 stood at 8% with a retail EBITDA of 115.6 crores. This EBITDA margin is at the higher end of the 6 to 8% band that we had guided earlier. PAT for Q4 FY20 stood at 10.9 crores as compared to 2.6 crores in Q4 FY19, a growth of 4.25 times. PAT FY20 stood at 42 crores as compared to 28 crores, a growth of 48%. Our net debt and acceptances for FY20 stood at 340 crores. The last quarter is generally good for us from our revenue and cash flow perspective. We continue to be focused on our overall debt position and liquidity and we will further aim to reduce it during the course of this year.

Now, let us focus on the segmental performance of the company. The retail segment for Q4 FY20 stood at 365 crores as compared to 352 crores last year. Retail EBITDA stood at 29 crores with a retail margin of 7.9% for Q4FY20. Retail EBITDA for the full year stood at 115.6 crores with a margin of 8%. We have recently shut down 5 stores and subsequent to that our current network strength stands at 115 stores. We will continue to examine our network closely to see if there are opportunities to further rationalize. Our comparable sales growth for Q4 FY20 stands at 6.5%, however, our comparable sales growth for Jan and Feb alone stood at 21.5%. Average rental cost for leased outlets stood at just less than Rs. 20 per square feet for FY20. We are looking to renegotiate on the rentals on our leased properties. The total area of the stores comes to around 5.4 lakh square feet with an average store size of 4519 square feet. Average ticket size for transaction was around 29,212 for FY20. Channel enterprise sales for Q4 stood at 302 crores and contributed to 45% of the consolidated revenue of the company. These segments have shown a healthy growth during the quarter. Post lockdown also, we see that channel segment continuing to show good growth while the enterprise segment has been impacted.

A few highlights on our processing divisions. The company has 13 processing facilities with the capacity utilization of around 65% for the quarter. Sale from our own products contributed to 25% of total sales. We anticipate the processing units to operate at lower utilization levels for the near team. We believe that the current environment context continues to be uncertain while in May we have seen some traction in revenues, we need to assess the sustainability of this going forward. We will continue to be watchful and keep a sharp focus on liquidity and cost control measures to align ourselves to the new business reality. Given the trend in May 2020, we are confident that we will tide the situation in the ensuing months.

With this, I open the floor for discussion.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

**Saumil Mehta:** A couple of question from my side. First is, while we are embarking on the restructuring exercises on the retail part which is also visible from the stores which have been shut, are we nearing an end to the restructuring in the retail which we started a couple of quarters back or do we use this COVID opportunity to further streamline some of the stores in retail and subsequent to that for the stores which have been closed, any particular financial metrics which we were looking at as in terms of margins or cash burn? That is my first question?

**Siddhartha Mundra:** We will continue to look at the network and we may take a few more calls on some of our stores, so as of now, we have taken on these 5 stores and the way we look at it is in terms of ensuring that the stores are able to cover their fixed cost for themselves. That becomes one of the first key metrics for us to look at that the store is sustainable and we generally give 18 to 24 months for us to see that and then we take this call.

**Saumil Mehta:** So it is fair to assume that over the last one year from 134 to 115 where we have this 20 stores would have had cash losses, is that a fair assumption?

**Siddhartha Mundra:** They would have been on the margin, yes with us possibly not seeing an opportunity for us to scale up substantially.

**Saumil Mehta:** And second is on the healthy volume growth if you saw for the first two months, is that growth broad based between steel and non-steel and in non-steel business, any particular pockets where we have seen a better growth?

**Siddhartha Mundra:** Yes, it has largely been broad based actually all across.

**Saumil Mehta:** Between steel and non-steel, both have done, there has been a healthy volume growth?

**Siddhartha Mundra:** Yes.

**Saumil Mehta:** And the last question is, in terms of the stores which have been opened till date post COVID, how has been the experience in terms of where you are versus a normative sales you achieved 50% of sales, 60% of sales, any qualitative guidance, what has been the experience so far?

**Siddhartha Mundra:** For the month of May, we have largely been at around 55-60% of our normalized sales. We also feel that the walk-ins though have come down, some of these projects may have been linked to pent up demand.

**Sukumar Srinivas:** I will just take that question. This is Sukumar here. So one of the key things that we have been observing in the months of May, the month of May was pretty funny in a way because Karnataka was sort of opened up, so Kerala and luckily for us this is our number one and two states, so the experience is that in the smaller towns, the business start with becoming somewhat normal, I would say in the sense even the walk-ins are fairly okay, it was not a substantial drop. It is the big cities is the ones that are really still, I think the pain is much greater in the bigger urban centers which we are yet to see a sort of a traction, though the shops are opened and there is a fair amount of opening up that is happening in phases, but I think 2 tier, tier 3 is where business is sort of resuming, I would say to a normal.

**Saumil Mehta:** And sorry for the last one again, in terms of lower expansion at what particular point you see the growth in the store expansion is going to be FY23 or may be FY24 or when do you see the number of stores going up now?

**Sukumar Srinivas:** I think the current trend is that we come out reasonably strong by the end of the year, so like you mentioned earlier, is there any restructuring happening within? Yes, there is certain amount of restructuring for the rationalization of products, etc., it is certainly happening but in terms of new store opening I cannot give you a definite answer. We would really like to wait out the couple of quarters, let us say by the fourth quarter if things are looking fairly good, new stores could start reopening even in the very next year itself, but it is too early days to give a very definite reply to that.

**Moderator:** Thank you. The next question is from the line Siddharth Rajpurohit from JHP Securities. Please go ahead.

**Siddharth Rajpurohit:** Sir, can you please give me the breakup of sales between Tier-1, Tier-2 and Tier-3 cities?

**Siddhartha Mundra:** 40% of our sales comes from Tier-1, 60% is from Tier-2 and Tier-3.

**Siddharth Rajpurohit:** Any breakup possible further sir between Tier-2 and Tier-3?

**Siddhartha Mundra:** Yes, so around 25% would be from Tier-2 and around 35% will be from Tier-3.

**Siddharth Rajpurohit:** And what will be credit sales as a percentage of retail sales and enterprise and retail if you can give separately sir?

**Siddhartha Mundra:** It will be around 50:50.

**Sukumar Srinivas:** This was the trend, today obviously with the liquidity and cash generation being given greater focus, I can say we almost reduced our credit sales by close to, today the current ratio, I would say 80:20 in favor of cash.

**Siddharth Rajpurohit:** Sir, what has led to this sharp increase in the receivables which has also impacted largely our cash flow Q-on-Q has gone up sharply, if you can give more details

**Sukumar Srinivas:** The increase in the receivable happened in the end of the quarter of last year primarily because almost 15 days we were shut down depending on the location, 10 days everywhere and some locations it was more. I am talking of the month of March. Normally, in our enterprise business orders which are linked to the government sector, the last 10 days is very critical in terms of receivables. Normally in that 10 to 15 days that we were shut down we would have collected anywhere between 80 to 100 crores with a corresponding sale of around 40 to 50 crores that would have happened in that period. So I can say net of we have lost, in terms of receivables in the quarter end or the year end of 2019-20 close to around 50-60 crores, so the receivables would have been that much lower if the COVID impact has not happened.

**Siddharth Rajpurohit:** And what is the government share in the channel and enterprise business?

**Sukumar Srinivas:** We directly have very limited government exposures other than infra projects like metros and things like that, but a lot of it goes to contract sales to various government projects, so you could say in our enterprise business willy-nilly about 30% to 40% goes to the government sector somewhere or the other.

**Siddharth Rajpurohit:** 30% to 40%?

**Sukumar Srinivas:** Yes.

**Siddharth Rajpurohit:** And is it possible sir to broadly define the credit profile of, the client in the retail which kind of clients we give credit and in the enterprise business what are the kind of clients we give credit sir?

**Sukumar Srinivas:** In the enterprise business we were giving, it was largely more credit oriented where we were giving a number of ancillaries, number of fabricators, it was large engineering projects, so there was a very wide gamut of industry that we were supplying to in the enterprise part of the business. In the retail side of the business, there was credit being given again to some of the smaller or old clientele whether it could have been builders, not large builders, smaller builders, it could have been regular, routine, influencer were being offered 25 days, 15 days, 30 days credit based on the relationship because that was the market practice. This was broadly the kind of customers that we were offering credit to but let me add a point here if we look at the data as on March FY20, the figure stood at approximately around 430 crores which has actually come down today as on end of May to around 330 crores, so there has been a substantial collection also that has happened in the month of April and May and I am also glad to share that in the month of April where there was a 100% shutdown, we were able to collect over 60 crores even in the shutdown period with virtually no sales. So there was actually on the ground some movement that did happen.

**Siddharth Rajpurohit:** So that would have helped in debt reduction also, sir?

**Sukumar Srinivas:** Yes.

**Siddharth Rajpurohit:** And sir, we have sometime done tie-up with NBFCs for channel finance, if you can explain how has that helped during the year and how much was that utilized by the NBFC channel? If any details you have?

**Sukumar Srinivas:** We had two primary NBFCs whom we had channel financing, one was Aditya Birla and the other was a smaller company called Mintifi. I think we were using more from the Aditya Birla side; the channel financing was in the range of about 20-25 crores and the other was much smaller. I think they have been quite supportive and it has moved on and as of now, we have not seen any problems with both the partners.

**Siddharth Rajpurohit:** Sir, can you please give the breakup of the products wise that you generally give the reconstruction material and the breakup sir?

**Siddhartha Mundra:** We have broadly divided into few categories, so we have construction material which is around 65%, we have plumbing and sanitary ware which is around 15%, then we have the interior, exterior segment which is around 15% and we have irrigation and smaller electricals and some finishing products which is around 5%.

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

**Deepak Poddar:** Sir, now you mentioned in your opening remarks that about 55 to 60% of normalized sale currently we are doing right, so when do you expect things to normalize based on the trend that you are seeing currently?

**Sukumar Srinivas:** I think the challenges of opening up across is something that I think it will take a month or 2 to clearly understand because we are seeing very distinct pattern in our business at least across our various geographies. We have seen that like I mentioned earlier that 50%-55% that is we have sort of seen in the current 1 odd month post opening up. One of the key things that did us good in the month of May was the irrigation segment, particularly in the Tier-2, tier3 cities which actually did pretty well, I must say in the month of May which really helped us shore up our volume. Now coming monsoon months, obviously that irrigation segment will certainly come down, so we are hoping that will compensate with the newer geographies opening up, like in the month of May as I mentioned earlier, it was largely sort of Karnataka, Kerala and partly what little had opened up in Andhra and Tamil Nadu but in June more or less all have opened up, so there are still a fair amount of restrictions in business activity having picked up from some of the bigger cities like Chennai and so on. Western region which is still luckily for us is the very small percentage of our volume, Bombay though technically may have opened up this month partly, but really business industry there is nothing much, luckily because of smaller segment. So we are very happy if this can move, the current trend can be sort of maintained in the next couple of months, we really hope to see better traction happening closer to September, October, maybe we are looking at probably around 70% by the calendar year end by about November December. If you are able to hit about 70%, I think we would be quite happy at that kind of a volume level.

**Deepak Poddar:** So by November, December 70-80% is what we might be looking at right?

**Sukumar Srinivas:** Yes.

**Deepak Poddar:** Of our normalized rate, so on the retail segment FY21, this entire year we were earlier looking at 15%-20% revenue growth, so how would you like to revise down?

**Sukumar Srinivas:** We would say the same 70% to 80% even on the retail segment because there is a little more focus on individual homes**,** there is a lot of renovation work, so I think as like I mentioned earlier we will have to see what is the buying part, the spending part on the consumer at this point of time whether they are really going to open up us as to do a lot of these kind of activities at this point of time while like I said it is still early days. Probably, we will get a better idea of this toward the next quarter.

**Moderator:** Thank you. The next question is from the line of Pavan Kumar from Ratna Traya Capital. Please go ahead.

**Pavan Kumar:** Sir, of this 330 crores of debtors which might have been outstanding today, how much would be from retail and how much would be from enterprise and channel broadly?

**Siddhartha Mundra:** Around 45 to 50% would be from the retail segment.

**Pavan Kumar:** And do we have any kind of target on the debt side by this year end and have we taken the moratorium?

**Siddhartha Mundra:** We have not availed of any moratorium and as of now, we had set ourselves a target of 250 to 275 crores in the last year. We were well on track on that but got a bit sideline as the COVID situation.

**Pavan Kumar:** Should we expect the debt levels to be around 260-270 crores that is what should be the realistic expectation by the end of FY21?

**Siddhartha Mundra:** Definitely.

**Pavan Kumar:** And sir, can you just give me a sub breakup of the revenues between enterprise and channel?

**Siddhartha Mundra:** Yes.

**Pavan Kumar:** Can you just give me the breakup between enterprise and channel part of the business sir?

**Siddhartha Mundra:** Yes, so for Q4 we did 365 crores from retail, we did 204 crores from enterprise and 98 crores from channel.

**Pavan Kumar:** And sir, for the year this could be?

**Siddhartha Mundra:** For the year, we did 804 crores for enterprise and 394 crores for channel.

**Pavan Kumar:** And should we going forward, enterprise and channel business what should be our expectations in terms of growth and in terms of margin? I mean we take this FY21 out of picture but over a medium term, what are you looking forward to in a normalized business scenario?

**Siddhartha Mundra:** So we will maintain the similar kind of trend with retail continuing to gain larger share.

**Pavan Kumar:** So the growth would not be very fast here, is that a fair expectation?

**Siddhartha Mundra:** Sorry, growth is not?

**Pavan Kumar:** Growth would not be more than, may be 5-10%, is that a fair expectation?

**Siddhartha Mundra:** In the normal timeframe, yes**.**

**Moderator:** Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

**Maulik Patel:** Few questions, one on the strategy side, last year to 1 to 1-1/2 years, we decided to focus on the balance sheet sort off and two quarters back we started focusing back on the channel part of the business and now then this COVID thing has happened and the lockdown, is there any change, I understand that near term we want to focus on the liquidity and the cost structures and the other things, but is there any change as this COVID has led to think that you could have done better or what you could do in future? Just wanted some color on the strategy side?

**Sukumar Srinivas:** If I look at COVID, it is not a routine recurrence**,** so one definitely has to restructure, rethink. We probably engineer partly as to the way business has to be done in the current scenario. One thing liquidity and cost I think is a mantra no organization should ever forget whether it is a good time or a bad time, so I think that luckily particularly in the last couple of years we started that drive and last year whether time right or not, a lot of good calls were taken internally which I think has probably will hold us better in this year despite the dramatic events that have unfolded. In terms of learning which we are going to do business dramatically different in the future is too early days to say because I think that once we have passed this whole crisis which also definitely has to pass, we have seen pandemics in the past and I think enough is being said in various forum of the world about this too shall pass, so I think we also firmly believe that this too shall pass, so we have to take short-term measures, may be a medium-term measure we are looking at may be a year and a half or two, but I think broadly we are on track. I don't think there is going to be any dramatic change in our line of thought or process post may be the year and year and a half which we are going to sort of witness after this pandemic.

**Maulik Patel:** And what is your experience once you open the stores in Tier-3 cities or as you mentioned earlier at Kerala and Karnataka were the first one to open in the country, when the customers came up, are we trying to give it on the discount to the group business or it is just in a normal way of doing that business and making in a similar margin what we used to do it earlier?

**Sukumar Srinivas:** I think we do have a good point there, some of the older inventories, etc., which we probably would not have tried to dispose faster, yes we have done that because we need to cycle inventories. The inventories are major part of our focus to reduce, so which is something more in our control, so I would say that we have done some extra discounting to liquidate and to encash existing limit.

**Maulik Patel:** And last question, we had talked about that in past you have that loyalty program with various influencers as contractor, plumber, and various other, how that has been shaping and are you in more and more business with such influencers, just want to have some idea on that side?

**Sukumar Srinivas:** I think whatever we have been able to achieve in particularly smaller towns etc. is primarily because of this. There has been loyalty program, there have been loyal customers in many years, so I think they have come back to us I mean it is a shared crisis.it has paid off in a nutshell, it has certainly paid off.

**Moderator:** Thank you. The next question is from the line of Nath Balakrishnan from Spark Fund. Please go ahead.

**Nath Balakrishnan:** I have two questions. My first question is on cash flow, if I look at your cash flow numbers for FY20, your operating cash flow numbers are negative, what is your assessment of how your cash flow numbers will stack up in 21 admitted be on a lower scale of operations, do you think you will have positive operating cash flows?

**Siddhartha Mundra:** Yes, we anticipate that this we will have much better performance in FY21. Our entire focus is on receivables and on inventory and we had also seen some of the initial improvement on those happening in the month of May on the overall debt position also, because this is an implication on debt. That will also be a focus, so definitely cash flow will be a very important area for us and we will be looking to have a good cash flow next year.

**Nath Balakrishnan:** So would you have a target number Siddhartha in terms of what percentage of EBITDA would you want to target as your operating cash flow?

**Siddhartha Mundra:** Equivalent to EBITDA are possibly higher because we should be receiving some cash flows this year if overall operations, revenues come down, we should be able to release some funds from working capital.

**Nath Balakrishnan:** So from a modelling perspective, do you think it is fair to assume that you will report your EBITDA as operating cash flow for FY21?

**Siddhartha Mundra:** Yes, we can look at that for the time being.

**Nath Balakrishnan:** And the net debt number that you have mentioned of 340 crores including acceptances, is that as of March 31st or is it as of May?

**Siddhartha Mundra:** As of March, 31st of March.

**Nath Balakrishnan:** And what will that number be as of May given that you have also collected 60 crores for the 2 months?

**Siddhartha Mundra:** Can we just get back to you on that?

**Nath Balakrishnan:** Sure and the second point I wanted to touch upon was on cost control, so I just wanted to understand what is your total lease rental cost for FY20? It will be around 16 crores?

**Siddhartha Mundra:** Yes, overall lease rental cost is around 16 crores for the year.

**Nath Balakrishnan:** And did you continue to pay lease rentals for April when you were shut or you got it waived off**?**

**Siddhartha Mundra:** I think it was a mixed bag, I would say on an average we have managed to, I think stay around in the region of 50 to 60% in April.

**Nath Balakrishnan:** And what is the cost reduction that we should anticipate in FY21 on this head because I am sure you must be renegotiating the rentals and you alluded to that at the top of this call, so can we get some sense of where the number will settle at**?**

**Sukumar Srinivas:** I think the process is happening, we are targeting at least 30% reduction, but I would say it will land up somewhere between 20, around may be 15 to 20% overall reduction. That we are very confident of obviously, the landlords as the opening starts is when I think they will really face the impact more and more.

**Nath Balakrishnan:** Just to clarify Sukumar, did you mention that you will end FY21 with a net debt number of 250 crores. Did I hear you correctly?

**Sukumar Srinivas:** We didn't mention that number, I think it was another participant.

**Nath Balakrishnan:** That was a question.

**Sukumar Srinivas:** That was a question. We have thought of it, yes, definitely we are targeting towards that but that is our aspiration and hope.

**Moderator:** Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

**Karthikeyan VK:** Can you talk a bit about how you see the competition in the retail side now, is it becoming easier, how are you competitor space, some thoughts on that? Also some thoughts whether the change in commercial terms because of existence on higher amount of cash, does that affect the way you grow? Some thoughts on both these topics, please?

**Siddhartha Mundra:** One of the things that we have been seeing is that customers are less likely to go around shop to shop, checking for pricing and getting competitive pricing, so they would rather restrict that to one or two stores which where they possibly carry higher amount of trust. The second thing is availability of material. So wherever the customers feel that there can be a greater assurance of availability of material and timely delivery of material that is where they would like to gravitate towards. The other aspect is in terms of availability of cash. Some of our industry players in this segment are small and unorganized and will find it difficult to have access to cash, credit lines, banks, etc., so I think it will help us during this period.

**Karthikeyan VK:** I was asking you whether you have changed the commercial terms for your buyer and for your suppliers and you know how you see that impacting it? What kind of fade out you do with regard to growth and profitability? Some thoughts on that please?

**Siddhartha Mundra:** I think moving more on buy on cash, sell on cash kind of a model, so that has implications in terms of margins. Some of our competitors would also be looking to liquidate inventory to generate cash for which they may be giving very competitive pricing as well, so that impacts us also in this period.

**Moderator:** Thank you. The next question is from the line of Rajat Mahajan from Malabar Investments. Please go ahead.

**Rajat Mahajan:** My first part was this clarification you mentioned in May we are doing 50-55%, is that only retail or we are talking about the entire business here?

**Sukumar Srinivas:** It is the overall business, but if I would break up that, actually the channel business has really spurted up quite considerably in the month of May because one of the primary reasons we also kept at because the payment cycle was far better in that particular line of business, though it was a smallest portion technically, so this year there would be a compulsion that may be percentage of the channel part of the business could grow a little in this coming year because of the liquidity and the kind of payment flow that is happening in that sector.

**Rajat Mahajan:** And specifically on retail, how would that have picked up?

**Sukumar Srinivas:** Retail has pretty much as far as the city like Bangalore, Chennai, etc. goes, it was certainly down. It was down by close to I would say, may be, because Chennai was virtually not open but at Bangalore, we were able to do about 40-45% of our normal retail business which is lower than that 55%, so the area that we are currently most impacted is the enterprise part of the business where we supply more to the industries and actual users and so on, so that out of the three sectors has been the most impacted. So retail, we are reasonably confident that by probably in another couple of months, it may pick up to that 70 to 80% of what we are targeting this time.

**Rajat Mahajan:** And the other commentary I wanted was on the product segments between construction or plumbing or interior, exterior, are you seeing any specific trends which ones are seeing stronger kind of demand?

**Sukumar Srinivas:** It is too early days honestly in a one month or a 40 day kind of an opening up is too early because there could have been some interior projects which had to be finished, there have been a sudden upsurge in a particular product, I think the trend it is too early to call.

**Rajat Mahajan:** And the last thing from my side, so when you are doing more channel, is that also mean it is more third party sales instead of your own products?

**Sukumar Srinivas:** Yes.

**Rajat Mahajan:** And any mix within that in channel, what would be the third party?

**Sukumar Srinivas:** Third party sales would be close to about, I would say close to 90-95%.

**Moderator:** Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.

**Ankit Agarwal:** My first question is sir, like due to the current corona situation, things are moving to online sales, so do we see any traction from that side?

**Siddhartha Mundra:** What we are saying is, we were getting a lot of enquiries because of our online presence, lot of people are discovering us online. People do not necessarily want to go out, so that is helping us, so we are getting a lot of enquiries on that.

**Ankit Agarwal:** So we are taking some steps and initiatives on that basis like to increase that kind of a business?

**Siddhartha Mundra:** We already have an operational functional e-commerce website. We are also doing a lot of activity and we are allocating some spends towards digital marketing. We also have an internet team working towards those initiatives. So all of this has been, it is not only due to corona, it has been ramped up now, but it has been ongoing for some time now.

**Ankit Agarwal:** And also sir, due to the current scenario, do we see any consolidation in the industry? I mean like do we see that smaller players will have some liquidity concerns?

**Siddhartha Mundra:** I think let us wait for some time to see how this all shapes up. It is little early for us to take more definitive call on this.

**Ankit Agarwal:** And my last question is, sir as of now, we stand at 120 stores and how should we see this number for FY21 and going forward?

**Siddhartha Mundra:** As of now, we stand at 115 stores, so post reporting period we have close another 5 stores. We will get back to you with revised store count number.

**Ankit Agarwal:** So we are done with the consolidating of the stores?

**Siddhartha Mundra:** I would not say completely right now, but we are evaluating the network.

**Ankit Agarwal:** And when do we like foresee to open new stores if any, this year?

**Siddhartha Mundra:** I think it is again a little early, I think if things shape up…

**Sukumar Srinivas:** Clearly, I cannot say that opening new stores will not happen till the third or the fourth quarter if at all, so we are now looking at rationalizing cost structures and so on, so I think we would like to see that we are able to squeeze the maximum out of the remaining stores, so that we would have cash burn in the year like this.

**Moderator:** Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

**Siddharth Rajpurohit:** Sir, online sales, what would be the percentage of sales that will be happening through online, it is very initial, I understand but just an indicative?

**Siddhartha Mundra:** It is very small right now. The overall percentage is very small but what happens is that lot of people discover us and it helps us in walk-ins to our physical stores and that is actually what we really want to drive, we are not looking at online sales as a true true online transaction, whatever helps us get better walk-ins to our physical stores as well.

**Siddharth Rajpurohit:** Does it allow this price discovery at our stores which attracts the price?

**Siddhartha Mundra:** This is a price discovery, it is a catalogue discovery, it is convenient, it is the fact that we are dealing with a larger organization, many a times we see people just for the sheer convenience of being able to order and having it shipped anywhere, so we have been able to ship products outside our area of general operations as well. Some people we have seen orders coming in from abroad who want to order something for their home, so it has been a mixed bag actually.

**Siddharth Rajpurohit:** But when was this initiative launched, sir?

**Siddhartha Mundra:** In around year and year and a half.

**Siddharth Rajpurohit:** And incrementally, we have seen the acceptance sir?

**Siddhartha Mundra:** Yes, so our traction to our website is going up for now the important key words we have started ranking up higher, so it is more focusing on the organic part of how we figure up on such, so it does take time actually on that.

**Siddharth Rajpurohit:** The gross block number for the year?

**Siddhartha Mundra:** Gross block was 275.

**Siddharth Rajpurohit:** And are you looking for any further sale of asset, sir?

**Siddhartha Mundra:** No.

**Moderator:** Thank you. The next question is from the line Pavan Kumar from Ratna Traya Capital. Please go ahead.

**Pavan Kumar:** On the balance sheet sir, there is right-of-use asset of around 33.81 crores, so I was just wondering what does that correspond to exactly?

**Siddhartha Mundra:** This is pursuant to the Ind AS requirement on rentals. So starting last year companies which have rental properties, Ind AS mandates us to capitalize this amount and then effectively depreciate the rentals through interest and depreciation. So it is more of a notional line item there in terms of the capitalized value of our rentals.

**Moderator:** Thank you. The next question is from the line of Saumil Mehta from BNP Paribas Mutual Fund. Please go ahead.

**Saumil Mehta:** In terms of now more store closures which were inefficient, should we look at starting may be end of FY21 a much more structural double digit margin in the retail business because we are also showing volume growth, we have had cost efficiency and some of the inefficiencies in the system will be out?

**Siddhartha Mundra:** We had guided, as of now not looking for a double digit margin. Again, it is little early for us to comment on next year but we are not envisaging double digit margin right now.

**Saumil Mehta:** So I think our prime focus would be to keep the 8% margin guidance and do more of volume growth and take market share. That would be a better strategy?

**Siddhartha Mundra:** That is it.

**Saumil Mehta:** And in terms of the ROC profile of the channel and enterprise business, how do we look at that because the working capital cycle unless and until it comes down very sharply, the ROC of that business looks to be a bit suboptimal if I may use that so how do we look at the ROC profile of channel and enterprise business?

**Siddhartha Mundra:** So this year, lot of our focus will be to reduce our debtors and inventory. Substantial portion of that will get released from channel and enterprise segment as well, so if you would have also seen that last couple of quarters, our margins in this segment has also been inching up, so we also want to ensure that business also continues to stay healthy, so that is the focus area for us as well.

**Moderator:** Thank you. The next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

**Siddharth Rajpurohit:** Sir one question, sir, what portion of total 16 crores of the lease rental that we take, what will be the amount below EBITDA sir? Will be break into depreciation and interest, what will be that amount sir?

**Siddhartha Mundra:** We have calculation on the Ind AS. So for the year, the rent has effectively been understated by 11 crores in the P&L and depreciation has been overstated by 9.6 crores and interest by 2.8 crores, so net effect is 1.1 crores, our profitability has been negatively impacted because of this Ind AS.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Siddhartha Mundra for closing comments. Over to you sir.

**Siddhartha Mundra:** Thank you everyone for joining us. I hope we have been able to give you some sense of our performance. As we have stated that while May was as per, we were able to operate and we were able to open up a few locations. We will continue to keep looking and be watchful of the situation going forward and we will keep you updated as the situation unfolds. In case you require any further details, you may please contact us or our investor relation advisors, Strategic Growth Advisors. Thank you.

**Moderator:** Thank you members of the management. Ladies and gentlemen, on behalf of Shankara Building Products Limited that concludes this conference. Thank you for joining with us and you may now disconnect your lines.