

## Rating Advisory

July 11, 2018 | Mumbai

### Shankara Building Products Limited

#### Advisory as on July 11, 2018

This rating advisory is provided in relation to the rating of Shankara Building Products Limited

The key rating sensitivity factors for the rating include:

- Future capital expenditure (capex) and its funding pattern
- PE exit and outflow of funds
- Successful ramp up from new retail stores
- Working capital management

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Shankara Building Products Limited (Shankara) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If Shankara continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the group

Incorporated in 1995 as Shankara Pipes India Pvt Ltd, Shankara's name was changed to Shankara Infrastructure materials Limited in 2011 and to the present name of Shankara Building Products Limited in 2016. The company is promoted by Mr. Sukumar Srinivas, who is an alumnus of the Indian Institute of Management, Ahmedabad and has an experience of about three decades in the building products industry. Shankara operates more than 100 retail showrooms, mainly in Southern and Western parts of India. The company also owns and operates 58 warehouses spread across 10 states and is a distributor of building and home improvement products for many renowned brands.

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## Rating Rationale

July 31, 2017 | Mumbai

### Shankara Building Products Limited

'CRISIL A2+' assigned to CP

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.274 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL A-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A2+ (Reaffirmed)</b>

<b>Rs.60 Crore Commercial Paper</b>	<b>CRISIL A2+ (Assigned)</b>
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has assigned its '**CRISIL A2+**' rating to the Rs.60 crore commercial paper of Shankara Building Products Limited (Shankara; part of the Shankara Buildpro group) and has reaffirmed its ratings on the bank loan facilities at 'CRISIL A-/Stable/CRISIL A2+'

The ratings continues to reflect the benefits that the group derives from its established presence in the building material distribution and retailing business, a diversified product offering and a widely spread geographical presence. The ratings draw strength from the extensive experience of the promoters in the business, the long association of the group with its vendors and the track record of profitable growth shown by the group in the past. These rating strengths are partially offset by the presence of the group in an industry where demand is linked to economic cycles and the susceptibility of the group's operating profitability to any sharp variations in prices of raw materials.

#### Analytical Approach

For arriving at the ratings, CRISIL has consolidated the financials and business profiles Shankara, Taurus Value Steel & Pipes Pvt Ltd (Taurus), Vishal Precision Steel Tubes & Strips Pvt Ltd (Vishal) and Centurywells Roofing India Pvt Ltd (Centurywells). The consolidated entities have been together referred to as the Shankara Buildpro group. CRISIL has consolidated the business and financial profiles of these companies because Taurus, Vishal and Centurywells are wholly owned subsidiaries of Shankara and have a common management, and strong operational and financial linkages.

## Key Rating Drivers & Detailed Description

### Strengths

\* **Established presence in the building material distribution and retailing business:** Shankara Buildpro group started as a distributor of pipes in 1995 and has since diversified into distribution as well as retailing building materials. The company currently has a network of over 1900 dealers, 58 warehouses and more than 100 retail outlets. The group also has an inhouse pipe and colour coated roofing sheet processing capacity of 3.4 lac metric tonne per annum.

\* **Diversified product offering from varied suppliers and a widely spread geographical presence:** Shankara Buildpro group has a long standing relationship with manufacturers of brands such as JSW steel, TATA steel, Sintex, Uttam Galva, APL Apollo, Kajaria, and CERA among others which helps it in offering a diverse basket of building materials at a single location. This differentiates Shankara Buildpro group from its competition which is largely unorganized and the organized competitors offer a limited product portfolio.

\* **Extensive experience of the promoters in the business and the track record of profitable growth shown by the group in the past:** The Shankara Buildpro group is promoted by Mr. Sukumar Srinivas who a professionally qualified manager and is a first generation entrepreneur with about three decades of experience. The company has a competent, qualified, and experienced second line of management with decentralised decision making and major strategic decisions being taken by Mr. Sukumar Srinivas. Under the guidance of the management, the group's turnover has grown at a compounded annual growth rate of 11.5 per cent over the past three years to Rs.2310 crore in 2016-17 (refers to financial year, April 1 to March 31) and has reported an operating margin of 6.7 per cent for the year.

\* **Comfortable financial risk profile:** The Shankara Buildpro group has a comfortable financial risk profile marked by a robust capital structure and adequate debt protection metrics. The group has a strong networth of about Rs. 380 crore (excluding goodwill on consolidation of Rs.14 crore) and low gearing of 0.59 times (including long term debt) as on March 31, 2017. With interest coverage of 3.1 times and net-cash-accruals-to-adjusted-debt ratio of 0.31 times, the group's debt protection metrics are adequate. The group's retail operations are expected to remain asset light. The group has recently increased the capacity of its processing facilities and therefore sizable capital expenditure is not expected over the medium term. Consequently, the surplus generated from operations will be available for funding the incremental working capital requirements, which will ensure that the financial risk profile remains robust over the medium term.

### Weakness

\* **Presence of the group in an industry where demand is linked to economic cycles:** The Shankara Buildpro group being a distributor and retailer of building materials is exposed to variation in demand for real estate and home improvement. Due to its presence across wide geographies and products, the company has been able to maintain steady growth in revenue and profitability in the past through product diversification and widening its retail presence. However, a significant number of retail showrooms have a short track record and therefore continued growth in scale and profitability in a cyclical business will remain a monitorable over the medium term.

\* **Susceptibility of operating margins to volatility in raw material prices:** The Shankara Buildpro group's operating margins had been moderate in the past as applicable to any retail / distribution operation. The profitability reflects in the capital efficiency of the business with ROCE of 26.5% for FY 2017. With an increased proportion of value added products in the sales and benefits of retail presence, the operating margins have improved to 6.7 per cent in 2016-17 from 4.2 per cent in 2013-14. However, the increased proportion of value added sales has also resulted in an increase in inventory levels. A sharp variation in the raw materials prices for these products may result in fluctuation in operating margin and therefore will be a rating sensitivity factor.

## **Outlook: Stable**

CRISIL expects Shankara Buildpro group to continue to benefit from its established presence in the building material retailing and distribution business over the medium term and believes that the group's financial profile will remain robust. The outlook may be revised to 'Positive' in case of sustained growth in revenue and operating margin while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' if there is an adverse impact on the revenue or margins on account of cyclical nature of business or an unanticipated debt-funded capital expenditure / acquisition plan leading to pressure on group's financial profile.

## **About the Group**

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The Shankara Buildpro group operates 11 pipe processing facilities with a total capacity of about 3.4 lac metric tonne through its three wholly owned subsidiaries Taurus, Vishal and Centurywells.

The Shankara Buildpro group reported a consolidated profit after tax (PAT) of Rs.60.3 crore on net sales of Rs.2310.4 crore for 2016-17 as against PAT of Rs.40.7 crore on net sales of Rs.2036.6 crore for 2015-16.

**Any other information:** Not applicable

## **Note on complexity levels of the rated instrument:**

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## Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Rating Assigned with Outlook
NA	Bill Discounting	NA	NA	June-2019	45	CRISIL A-/Stable
NA	Cash Credit	NA	NA	NA	215	CRISIL A-/Stable
NA	Cash Management Service	NA	NA	NA	4	CRISIL A2+
NA	Foreign Exchange Forward	NA	NA	NA	2	CRISIL A2+
NA	Term Loan	NA	NA	Jun-2019	8	CRISIL A-/Stable
NA	Commercial Paper	NA	NA	7-365 days	60	CRISIL A2+

## Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	60	CRISIL A2+		--		--		--		--	--
Fund-based Bank Facilities	LT/ST	274	CRISIL A-/Stable/ CRISIL A2+	14-07-17	CRISIL A-/Stable/ CRISIL A2+		--		--		--	--
				20-06-17	CRISIL A-/Stable							
Non Fund-based Bank Facilities	LT/ST		--	20-06-17	CRISIL A2+		--		--		--	--

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bill Discounting	45	CRISIL A-/Stable	Bill Discounting	45	CRISIL A-/Stable
Cash Credit	215	CRISIL A-/Stable	Cash Credit	215	CRISIL A-/Stable
Cash Management Service	4	CRISIL A2+	Cash Management Service	4	CRISIL A2+
Foreign Exchange Forward	2	CRISIL A2+	Foreign Exchange Forward	2	CRISIL A2+
Term Loan	8	CRISIL A-/Stable	Term Loan	8	CRISIL A-/Stable
<b>Total</b>	<b>274</b>	<b>--</b>	<b>Total</b>	<b>274</b>	<b>--</b>

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Last updated: April 2016

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