

Rating Update

June 27, 2018 | Mumbai

Shankara Building Products Limited

Update as on June 27, 2018

This update is provided in continuation of the rating rationale below.

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, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from Shankara Building Products Limited (Shankara) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

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.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL

Rating Rationale

July 31, 2017 | Mumbai

Shankara Building Products Limited

'CRISIL A2+' assigned to CP

Rating Action

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

Rs.60 Crore Commercial Paper	CRISIL A2+ (Assigned)
-------------------------------------	------------------------------

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

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.

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:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. 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
Total	274	--	Total	274	--

Links to related criteria

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

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Tanuja Abhinandan Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 tanuja.abhinandan@crisil.com</p> <p>Jyoti Parmar Media Relations CRISIL Limited D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com</p>	<p>Salim Yahoo Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3031 salim.yahoo@crisil.com</p> <p>Aditya Munshi Associate Director - CRISIL Ratings CRISIL Limited D:+91 22 4097 8105 aditya.munshi@crisil.com</p> <p>Rahim Keshwani Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 4097 8304 rahim.keshwani@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a global, agile and innovative analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

Last updated: April 2016

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <http://www.crisil.com/ratings/highlightedpolicy.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL