



21 March, 2017

SHANKARA BUILDING PRODUCTS

Recommendation : MAY SUBSCRIBE

Shankara is one of the leading organized retailers of home improvement and building products in India based on number of stores, operating under the trade name Shankara BuildPro. As on December 31, 2016, the company operated 103 Shankara BuildPro stores spread across 9 states and 1 union territory in India. The company caters to a large customer base across various end-user segments in urban and semi-urban markets through its multi-channel sales approach, processing facilities, supply chain and logistics capabilities.

The retail operations are strategically suited to benefit from growth in housing demand, large market for home improvement, and increasing customer involvement in home solution. Under retail operations, the company offers a comprehensive range of products at its stores, including structural steel, cement, TMT bars, hollow blocks, pipes and tubes, roofing solutions, welding accessories, primers, solar heaters, plumbing, tiles, sanitary ware, water tanks, plywood, kitchen sinks, lighting and other allied products. The enterprise sales caters primarily to large end-users, contractors, and OEMs, while the channel sales caters to dealers and other retailers through its extensive branch network.

Issue Snapshot

Issue Open	22 March, 2017
Issue Close	24 March, 2017
Issue Type	Book Building Issue
Price Band	440-460
Issue Size	345 cr (approx)
Minimum Application	32 Share (Rs 14720)
Listing	NSE & BSE
Face Value	10/- per share
QIBs	50% of Net Issue
Non Institutional	15% of Net Issue
Retail	35% of Net Issue

Object of the Issue

- Repayment or pre-payment of loans
- General corporate purposes

Investment Rationale

- **Offers a comprehensive range of home improvement and building products**

The company offers a unique experience to its retail customers by providing them a comprehensive range of home building products under one roof. Such product offerings include structural steel, cement, TMT bars, hollow blocks, pipes and tubes, roofing solutions, welding accessories, primers, plumbing, tiles, solar heater, sanitary ware, water tanks, plywood, kitchen sinks, lighting and other allied products.

- **Strong vendor network and relationship built over two decades**

As on December 31, 2016, the company offered its suppliers a growing network of 103 retail outlets spread across 9 states and 1 union territory in Tier-I Cities, Tier-II Cities and Tier-III Cities. It operates 30 stores in Tier-I Cities, 30 stores in Tier-II Cities and 43 stores in Tier-III Cities. In addition, their suppliers also get access to its extensive enterprise and channel customer base spread over 9 states and 1 union territory to whom the company caters through its own supply chain and logistics network.

Key Ratio

Particular	FY 16	FY15	FY14
EPS	18.80	10.32	13.65
BVPS	132	115	107
RONW	14.21%	8.80%	12.31%
Debt Equity Ratio	0.90	0.87	0.83
Current Ratio	1.17	1.12	1.16
PE Ratio*	24.46	44.57	33.69
BV to Price Ratio	3.45	3.96	4.29

*PE Ratio & BV to Price Ratio has been calculated on basis of Upper band issue price

Valuations

Shankara's financial performance has been subdued with its Revenue & PAT growing at a CAGR of 9.5% & 8.4% respectively over FY12-16. The company had witnessed a single digit growth in topline but the bottom-line suffered a setback due to escalated interest cost (debt take for expansion).

The company is focused towards new expansions and inorganic acquisition and also planning to foray into new product verticals. With the growing demand of home building and home improvement products, the company intends to expand the footprints of Shankara Buildpro stores over the next few years.

In the current financial year, the company has shown some improvement in its operating and profit margins, though these continue to remain low. At the upper price band of Rs. 460 per share, the company is valued at 24.4x on FY16 EPS. There is no peer company listed for comparison. We recommend Risk Taker Investor May SUBSCRIBE to the issue & Risk Averse Investor MAY AVIOD the issue.

Investment Rationale

- Presence across the entire value chain**
 The business operations of the company span across the entire value chain of processing channel sales, enterprise sales, retail sales and other allied services such as delivery and installation. Company's interface with its customers helps it to keep track of changing market trends.
- Robust back-end infrastructure ensuring efficient supply chain management**
 Sales to new enterprise and channel customers are made only after due verification by respective territory heads which aids in the creation of centralized customer records in the head office with appropriate credit amount and credit period information.

Summary of financial Information

Particulars	For the year/period ended (in Rs. Cr)		
	31-Mar-16	31-Mar-15	31-Mar-14
Total Assets	799.10	725.30	676.60
Total Revenue	2,161.40	2,089.20	1,927.14
Profit After Tax (PAT)	41.60	22.50	28.70