



Shankara Building Products Limited
Q1FY26
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Shankara Building Products Ltd
Q1FY26 Earnings Conference Call
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Moderator: Ladies and gentlemen, good day and welcome to the Shankara Building Products Limited Q1 FY26 Earnings Conference Call.

As a reminder, all participant 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 an operator by pressing '*' and '0' on your touch-tone phone. Please note this conference is recorded.

I now hand the conference over to Mr. Sayam Pokharna from TIL Advisors. Thank you and over to you, sir.

Sayam Pokharna: Good morning, everyone and thank you for taking out the time to join us in this Q1 FY'26 earnings conference call of Shankara Building Products Limited. The investor presentation and press release has already been uploaded on the stock exchange and on the company website. If you wish to be added to our mailing list, please feel free to write to us.

To take us through today's results, we have with us from the management team Mr. Sukumar Srinivas- Managing Director, Mr. Dhananjay Mirlay Srinivas- Executive Director, and Mr. Alex Varghese- Chief Financial Officer.

We will begin with a brief overview of the quarter from Mr. Dhananjay Mirlay Srinivas, followed by a Q&A session. Please note that any forward-looking statement made during this call should be considered in conjunction with the risk and uncertainties that we face. These risks and uncertainties have been detailed in our annual report. With that, I would now like to hand over the call to Mr. Srinivas. Over to you, sir.

Dhananjay M Srinivas: Good morning and thank you for joining us today for the Q1 FY'26 Earnings Call of Shankara Building Products Limited.

As we start the new financial year, I am pleased to present an overview of our recent performance and highlight the key developments of the quarter. We are happy to report that we have continued a robust volume growth in the steel business. This quarter, we achieved a significant milestone by delivering 2.38 lakh tons in steel volume. This represents a 35% year-on-year growth and stands at our highest ever Q1 volume, setting a strong tone for FY26. Our non-steel business recorded a 5% growth year-on-year. EBITDA margins improved to 3.58% in

Q1 FY'26 compared to 3.20% in Q4 FY'25 and Q1 FY'25. As a result, EBITDA rose to Rs. 59 crores, reflecting a 43% year-on-year growth.

Despite our expanding scale, we maintained strict control over working capital, which averages 29 days a quarter versus 30 days in FY25. This working capital discipline also allowed us to keep our finance costs in check. As a result, net profit for the quarter stood at Rs. 32 crores, marking a 102% year-on-year increase. We remained the clear market leader in South India across both retail and non-retail verticals. Retail growth was healthy as our sales-to-store sales growth (SSSG), reached 22% in Q1 FY26, up from 14% in FY25.

The 1st Quarter saw subdued demand for steel and building materials. There was an early onset of monsoons in May in many parts of the country and infrastructure and construction activities witnessed a slower-than-anticipated recovery. In spite of these challenging conditions, Shankara recorded a double-digit growth in both volume and value, coming in at 35% and 27% respectively.

All our steel segments saw good growth led by flat products at 65%, roofing at 35%, pipes and tubes at 32%, all year-on-year. Our non-steel segment faced headwinds and recorded only a 5% growth year-on-year, led by our plumbing products at a 15% growth and relatively flat sales in the other segments consisting of tiles, fittings, etc.

On the operational front, we have inaugurated two new fulfillment centres, one in Jabalpur, MP, further cementing our presence in Central India, and second in Gannavaram, near Vijayawada, AP, strengthening logistical and service capacity in that region. We continue to follow our approach to establish a strong steel foundation first, before expanding to non-steel operations. Another notable development this quarter was the margin improvement in both non-retail and manufacturing operations, which had faced headwinds in the previous year.

In regards to our demerger process, all matters as required by NCLT have been provided. The matter is in front of the Honourable Tribunal and the next hearing is scheduled for end-August 2025, where we anticipate receiving the final NCLT order on the scheme of the demerger. All requisite actions from our side are complete, and upon receipt of the NCLT order, we will promptly move forward with RoC filings and related processes. Consequently, we now anticipate concluding the demerger in Q3FY26.

We are confident of continuing our growth story in the ensuing quarters and are on track for achieving our target of 1 million tons for the FY26. The company is working hard to achieve the targeted non-steel numbers in the coming quarters. RBI's recent policy measures including rate cuts and liquidity infusions, should provide some impetus to the construction, realty and building material industry.

Shankara continues to be a unique marketplace in the building material industry with a strong presence in steel and a growing non-steel business, Shankara has 126 fulfillment centres which includes 93 operational stores spread across 1.3 million square feet in 10 states and 1 unit territory of India. Shankara has a strong logistics network ensuring seamless access for our customers. Our operations have penetrated at a grassroot level with a strong presence in tier 2 and tier 3 towns and cities apart from the key metros and capitals in our geography. We are truly an omni channel marketplace, representing multi-brands across multiple verticals giving our customers last-mile service. Shankara is a trusted leader in the building material sector, committed to quality, affordability and customer satisfaction.

Thank you all for your attention. We are now ready to open the floor for any questions you may have.

Moderator: We will now begin the question-and-answer session. First question is from the line of Naitik, from NV Alpha Fund. Please go ahead.

Naitik Mutha: Congrats on a good set of numbers. My first question is that we have seen margins increase significantly in our enterprise segment. I just wanted to understand, are these margins sustainable in the enterprise segment, or are there any run-offs in this?

Sukumar Srinivas: The enterprise business, yes. I think one of the key factors that has happened in Q1 is there has not been a huge inventory drop as such. So that has certainly helped us in sustaining margins in the Quarter 1. I believe that if we overall look at the current conditions, I do believe that enterprise margins are sustainable.

Naitik Mutha: So, the 2% - 2.5% margins that are sustainable in the enterprise segment.

Sukumar Srinivas: Yes.

Naitik Mutha: Because we have not seen such margins in the past 7-8 quarters, that is the reason I am asking.

Sukumar Srinivas: Yes.

Naitik Mutha: My second question is, despite such high growth in the enterprise channel, which I assume would naturally be steel, and less growth in the non-steel retail business, our working capital has stayed very much in control. So, is it safe to assume that the non-steel retail segment is more working capital intensive than the steel business?

Sukumar Srinivas: Definitely. I think non-steel, we do have a little bit more of an inventory holding because of how we cater to customers, branching over multiple verticals and SKUs. So, there is a limited amount of increase, you would say, in working capital for non-steel.

Naitik Mutha: What is the difference in the working capital, sir, between non-steel and steel?

Sukumar Srinivas: Non-steel, approximately around 40 days of net working capital is there. As Mr. Dhananjay said, inventory will be on the higher side. We will be keeping more inventory out there.

Naitik Mutha: Sorry, sir, I did not get the number. You mentioned one.

Sukumar Srinivas: Non-steel will be around 40 days of working capital because the inventory is getting a bit higher.

Naitik Mutha: Thank you.

Moderator: The next question is from the line of Kushal Kasliwal from InVed Research. Please go ahead.

Kushal Kasliwal: Just a long-term perspective on the company and pardon me if this is a repetitive question because I started looking at the company very recently. Sir, what has changed for the company in the last two, three years? Because previously we were not growing as ambitiously, and our sales growth also seems to be like very high versus some of the other peers, which have also reported their numbers. So, what has been a key differentiator for the company over the last two, three years?

Sukumar Srinivas: I think the key differentiator is the company has really started focussing on growth in this competitive environment. In the past, there was a little greater focus, particularly in the pre-COVID and around the COVID times, where we were a little more focused on the margin and the bottom line only. Then I think the key change was if you miss the bus in growth, the company stands to lose overall in the long-term perspective. I think that would be the key change that has happened over the last four to five years.

Kushal Kasliwal: Sir, some of our peers are actually calling out decline in steel business and talking about the pan-India, you know, decline on Y-O-Y basis. But we have seen 22% sales growth. Any reason why we have like a very different kind of result versus the overall market? Are we taking market share or what is happening?

Sukumar Srinivas: I think two things are happening. One is certainly we would have taken some market share. Second thing is, if you see in our results, in the steel segment, we have grown quite substantially in the flat products where we also had a slightly lower base. We have been talking about in the last year, year-and-a-half, we have been saying that the company's focus is going to be greater in the flat products area. So, I think that has also yielded better results and resulting in good growth.

Moderator: The next question is from the line of Ankit Shah from Fusion Capital. Please go ahead.

Ankit Shah: Congrats on a great set of numbers and continuing the growth momentum. My question was on our NCLT case. So, I was going through the case details. In the last two months, like on 26th

May and 27th June, there were two hearings subject on the final hearing. So, what happened on that? Every time it is one month delay. So, is there any confusion on that day?

Sukumar Srinivas: There is no confusion. I would not like to take this answer on a public forum. But there is, to be very honest, there is absolutely no confusion. I think it is just, I mean, procedural or I don't know what has been delayed. That is all I can say as of now. As far as we go, whatever has been formalities, everything has been fulfilled well in advance.

Ankit Shah: We are confident of completing the entire demerger and listing in Q3 FY26, right?

Sukumar Srinivas: We were very confident to close it in H1 itself. But, I mean, you know, the honourable courts, little bit we are at the mercy of the courts. So, we cannot really predict as to exactly how they would react. Or if there is a leave of the judge in the bench on a particular day, things could get delayed. But, yes, we do hope and we anticipate that we should, I mean, get it done. Once the NCLT process is over, I think a lot of it then comes back on to the company where the next phase of the procedure has to be fulfilled. So, a lot of formalities after that. But this is all in our control.

Ankit Shah: Thank you.

Moderator: The next question is from the line of Nishant Bhatt from Equity Works Limited. Please go ahead.

Nishant Bhatt: First of all, congratulations on a great set of numbers and on the margin expansion. After a long time, you know, there has been a margin expansion in the company. My question was regarding two things. First, with the Fotia ceramics, how has that part been building out? What are the consumer feedback you are getting from that build-out?

Sukumar Srinivas: When it comes to Fotia, we have got great feedback from customers in terms of quality and our pricing. I think we are doing well in that segment. But, as you know, overall, the ceramic segment has been a bit down for the last six months in the market. So, we are also facing a bit of a slowdown there. But we are confident that we can stick to our growth plans and continue building the brand.

Nishant Bhatt: Anyway, next question was regarding the same thing. The ceramic segment, I think, overall, the market was sub-par for the past three to four years because of no exports from the Morbi region. Currently, I think, because the UK FTA has been announced, do you think because of this some exports can happen and it will help in easing out for the domestic branded players?

Sukumar Srinivas: I think it is too early days to understand the entire FTA agreement. But, yes, positively looking at it, it could help us to a small extent.

Nishant Bhatt: Thank you, that is all from my side.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: The first question is on the building product side, the non-steel business. You know, the entire industry has been operating in a very challenging environment since last two-three years. But we have been able to grow at a very decent pace. Probably, this is the 1st Quarter where we are seeing very significant moderation in growth. So, one- something which has changed, and now, going forward, should we assume that because of the higher base, should we feel kind of more aligned with the growth that is happening in the industry? How should we look at the growth going forward?

Sukumar Srinivas: I think what has also happened is compared to one is we have a lower base and we are growing rapidly, we have also seen in the last three months, there has been more of a hit in the two big southern states, we operated in Karnataka and Andhra Pradesh, Telangana. I think that is also with a bit of a slowdown in Kerala as well as cash flows. I think that's kind of what has hit many players in this industry. And since our non-steel is dominant in the south, we also did face a brunt in that. I think going forward, we are looking to still keep up to our crisis numbers, still push up growth. I think the company is working hard towards that. And I think it's too early to say whether it will be muted for the whole year, but we are definitely looking to get back on that growth momentum.

Dhwanil Desai: Second question on the steel side, you know, since we are not adding more square footage and the number of stores, a large part of our growth has to come from SSSGs, as you also indicated in the presentation. So, generally, our understanding is that in retail business, to sustain this kind of SSSG is very, very difficult. So, what are we doing to ensure that we are currently at (+)20% kind of SSSG, that we sustain this number?

Sukumar Srinivas: I think one of the things which I mentioned even about a year earlier, is that the first objective is to try and spread out our existing retail stores and our fulfilment centres to the maximum possible. I think that is something we have been working on very, very, very hard to keep pushing our existing stores to the maximum level possible. And though we have added two stores this quarter, I think that you will find that in the ensuing second half of the year, we will be adding two-three more stores. So, it is not that we are not going to be adding new outlets at all. We have been definitely very slow at adding outlets in the last two-three years, but that will slowly but steadily gain momentum over the next few years. We are also completely aware that to sustain such high SSSGs are going to be difficult without opening stores in the future. So, a simple strategy in the last three years has been spread it out, push, and see that we get the maximum out of our existing stores. So, I think, yes, like you correctly mentioned, it is going to that kind of momentum on SSSG going forward will be tougher without adding newer opportunities and adding newer centres. So, I think that is something we are very much working at.

Dhwani Desai: One follow-up on this. So, I think we did very well on the spread side. And I think this is also one of the reasons why our SSSG has been high because the flat steel products have been added, and it has grown much faster because of the low base.

Sukumar Srinivas: Very much. Very much.

Dhwani Desai: Okay. And that you think that on flat, higher than company growth is possible given the low base and much larger market?

Sukumar Srinivas: Definitely.

Dhwani Desai: Got it, thank you.

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

Deepak Poddar: Thank you very much, sir, for this opportunity and many congratulations for a great set of numbers. So just first up, do we have any kind of inventory gain in this quarter? As you indicated in the last quarter, I think we have some steel price increase in month of March and April, and so some inventory gain was expected this quarter.

Sukumar Srinivas: Yes, there are some inventory gains in this quarter, approximately around Rs. 5 crores inventory gains we got in this quarter.

Deepak Poddar: And how has the steel prices in the coming quarters, do you expect any kind of inventory gain or loss? Some indication in that would be helpful, sir.

Sukumar Srinivas: The steel prices did go up in April, and then it sort of plateaued in May, and it has come down in June and July too. So, we are more or less where we started in end-March is where we are pretty much back there as far as July goes. But the good news is that it is sort of plateauing out, and if such is, with what we anticipate in the next two months, certainly I think it will be a sort of a steady pricing rather than a downward pricing which we saw over the whole of last year. So, I think it is sort of plateauing out, yes.

Deepak Poddar: So ideally in the coming quarters, we should not be expecting any kind of any major inventory gain or loss. I mean, it largely will be flattish right?

Sukumar Srinivas: Yes.

Deepak Poddar: Fair enough. I got that. And now if I have to bifurcate this de-merger that is expected. Now if you want to bifurcate whatever interest expense, how should one look at this Rs. 12 crores per quarter of interest and depreciation Rs. 4 crores per quarter. So how should one look at individually for manufacturing and the marketplace business, if that you can provide?

Sukumar Srinivas: Out of Rs. 12 crores, around Rs. 9 crore is towards marketplace and Rs. 3 crore is towards manufacturing.

Deepak Poddar: Okay. That is the interest. And what about depreciation?

Sukumar Srinivas: Depreciation will be almost similar around Rs. 2 crore each.

Deepak Poddar: So, interest cost Rs. 9 crore is for marketplace in the 1st Quarter and depreciation about Rs. 2 crore.

Sukumar Srinivas: Correct.

Deepak Poddar: And then how would that debt bifurcation be? I mean, what would be current debt and how will the individual business be allocated that debt?

Sukumar Srinivas: Now current debt is around Rs. 550 crores including acceptance. In that around Rs. 125 crores is the manufacturing and the balance is the marketplace.

Deepak Poddar: Fair enough. That is very clear. And in terms of your margins, aspiration in your marketplace, so currently this quarter it was around 3.3%, right? So how should one look at, I mean, if we have to see next two years, what sort of aspiration we can have in the marketplace, EBITDA margins?

Sukumar Srinivas: Yes, we are looking at building up in the next couple of years. We should move up to closer to 4%.

Deepak Poddar: In next two years, 4% which is close to about 3.3% right in this quarter?

Sukumar Srinivas: From the current level.

Deepak Poddar: Okay, 4%. And just one final query from my side. On a consolidated basis, if I adjust for the Rs. 5 crores of inventory gain, so your adjusted EBITDA margin is close to 3.3% as compared to your reported EBITDA margin of 3.6%. So, can one take that as a base, 3.3% as a base going forward or how should one look at overall on the margin front?

Sukumar Srinivas: I think you can take that as a conservative base.

Deepak Poddar: That would be from my side. All the very best to you. Thank you so much.

Moderator: The next question is from the line of Chetan Damania from Svan Investments. Please go ahead.

Chetan Damania: We just wanted to check in terms of our store expansion, as you indicated that we are cementing our sales stronger in the central market with the opening of a store in Jabalpur. So,

for FY26, in terms of our roadmap or layout, you can help us understand the new stores that will be opening up?

Sukumar Srinivas: I think there will be a mix. I think it will not just be central. There will also be certain challenges in the south and longer parts of the west that we are looking to expand our stores. But definitely the focus is western and central India too.

Chetan Damania: But in terms of the numbers of stores, can we assume that we will be opening up five to six stores or it will be lower than that?

Sukumar Srinivas: It should be around four.

Chetan Damania: It will be around four. So, a store every quarter, we can probably look at in FY'26.

Sukumar Srinivas: Yes. Not every quarter. I am talking about the 2nd Quarter.

Chetan Damania: That is on 2nd Quarter, yes. And sir, on the working capital, definitely we have seen some improvement, marginal improvement of working capital as compared to FY'25. But going ahead with the marketplace and the de-merger in place, how shall one look at your working capital cycle for FY' 2026-27?

Sukumar Srinivas: No, we will continue with the 30 days of net working capital cycle.

Chetan Damania: Okay, that is all from my side. Thank you.

Moderator: The next question is from Kunal Tokas from FVC. Please go ahead.

Kunal Tokas: My question is about pipes. Did you mention what the growth rate was in pipes?

Sukumar Srinivas: Yes, we did. The growth rate was 30% of the growth rate in pipes.

Kunal Tokas: 30%? Yes. And what do you expect? What does the outlook look like for pipes, specifically?

Sukumar Srinivas: I would say that if we sustain this, it cannot hold on to the same because Q1 was a slightly lower base. I think if we can sustain and hold on to a 20% over the next three quarters and sustain that over the year, I think we should have done a pretty good job.

Kunal Tokas: All right. Thank you very much.

Moderator: The next question is from the line of Ankur Kumar from ATMA Capital. Please go ahead.

Ankur Kumar: Sir, I wanted to understand on this volume target of 1 million tons, our Q1 run rate of 2.38 is lower than that number. And I think Q2 could have monsoon effect. So, this number, will it be lower over in Q2? And how should we look at going into second half, sir?

Sukumar Srinivas: If you look at normally, Q1 is generally starts fairly muted. And quite often Q1 numbers are lower than Q4. This year, we have bested Q4 by a small percentage. That is number one. Number two is this year, the monsoon also started very early. Actually, most of May and June have been very much like a very kind of a monsoon period. And thirdly, it is always the second half that does much better starting from around November to March. And even if we take last year's numbers, it would have been sort of a 40-60 kind of a ratio. I think we are very confident despite 2.38 being about 24% for the whole year instead of bang on at 25%. I think we are very confident that we should be able to achieve our targeted numbers.

Ankur Kumar: So, can we expect like say 40-45 in 1H and rest in second half?

Sukumar Srinivas: Definitely.

Ankur Kumar: Thank you.

Moderator: The next question is from the line of Apoorv Bandi, an individual investor. Please go ahead.

Apoorv Bandi: Thank you, sir and congratulations for the good set of numbers. My question is on the trade receivables. How much is it as of today, like as of Q1? And if you can share the break-up between the manufacturing and the marketplace?

Sukumar Srinivas: Trade receivable is around 800 crores, that is coming around next 7 days. Where when you are seeing the break-up, in the marketplace will be approximately around 38 days and around 17 days in manufacturing.

Apoorv Bandi: And sir, my question is on the growth in the Buildpro. Like in FY25, we did see a revenue of around 5,267 crores, right? How much growth can we expect in the marketplace business?

Sukumar Srinivas: Well, Buildpro I think we are just guiding 20%-25% growth for the marketplace.

Apoorv Bandi: And like from where it will be coming? Like from adding new stores or something else also will be there?

Sukumar Srinivas: No, I think we are talking about our product mix, push and growth in central and western India, as well as consolidation and more growth in the southern states as well, with growth coming from other flat products in steel and from non-steel.

Apoorv Bandi: Thank you, sir.

Moderator: The next question is from the line of Love Gupta from Counter Cycling Investments. Please go ahead.

Love Gupta: I want to understand what products will be manufacturing in the manufacturing segment and what will be the margin profile for this segment?

Sukumar Srinivas: Currently, the manufacturing we do with precision tubes, steel tubes, which are used largely in automobiles and bus building and so on. We also make teleporter profiles and we make other steel sections in like purlins, Z-purlins, C-purlins, etc. So, this is broadly what we do in the manufacturing side. We also do a small quantity of cold rolled sheets, etc. So, this mostly goes into industry and some amount in infrastructure area. These are the products that we manufacture.

Love Gupta: What will be the margin profile for the segment?

Sukumar Srinivas: At an EBITDA level, we are really not reducing on capacity. We barely use about 50% of our capacity. So currently, we are at EBITDA of around 2.5%, which is something we hope to work on and improve post the de-merger.

Love Gupta: Okay, and what would be the steel volume growth we can expect for FY'26?

Sukumar Srinivas: We can expect in the range of around 20% average. We have done about 35% in the 1st Quarter, but conservatively, we can take it at around 20% for the whole year.

Love Gupta: Thank you.

Moderator: The next question is from the line of Raj Shah an individual investor. Please go ahead.

Raj Shah: Yeah, congratulations. And these are from the debt levels, like even more than Q4. So, what is the guidance on the debt level for the coming quarters and for this financial year end?

Sukumar Srinivas: So, debt level will be approximately around Rs. 100 crores.

Raj Shah: Okay, but we have found like Rs. 32 crores in this quarter. Can you expect around Rs. 120 crores or Rs. 100 crores?

Sukumar Srinivas: Here, what I said, the debt level is there and other than that, there is acceptance of that. Altogether, approximately around Rs. 500 crores will be the total debt level.

Raj Shah: Okay, thank you.

Moderator: The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead.

Ankur Kumar: Sir, I wanted to understand, you said we have Rs. 5 crores of inventory gain in this quarter. But if I look at Indian steel future prices, they seem to be coming down in April, May, and June. So, can you comment what exactly helped us in that?

Sukumar Srinivas: I think, as you said, steel prices did have a gain in April. It came down, I think, steadied in May and did come down in June. So, I think April was, I think, where we would have a little bit of inventory gain.

Sukumar Srinivas: Actually, the price drop has not been that significant in the months of May and June. I think July is where there has been a significant drop. So, we were able to gain in the last quarter.

Ankur Kumar: And sir, on the volume side, what should be the steel volume we can expect in Q2, given this is monsoon quarter?

Sukumar Srinivas: I think if we are able to sustain what we have done in Quarter 1, I think we should be on a very good wicket.

Ankur Kumar: And sir, in July, you said steel prices have come down. Can you comment how much percentage roughly?

Sukumar Srinivas: We know the exact pricing by the end of the month, but we know there is a down in this month. Because normally pricing there will be an announcement, and then we get to know the exact number towards the month end.

Ankur Kumar: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sukumar Srinivas for closing comments.

Sukumar Srinivas: I thank all the participants of this conference for having taken out time on a working morning and listening to us patiently. Thank you very much and we look forward to hearing from you in the next quarter.