🚀📊Detailed Breakdown: Demerger Special Situation Analysis & Strategy📊🚀

1. Shankara Building Products embarks on a demerger, leading to Shankara BuildPro Limited for retail & trading, and a separate manufacturing entity.
2. Strategic move aims to enhance operational efficiencies and market penetration in distinct business segments.
3. Shareholders will gain equity in the new entity, potentially unlocking shareholder value and providing diversified investment opportunities.
4. The top management roles will be distributed appropriately across the two entities post-demerger.
5. Demerger signals a strategic pivot towards a more comprehensive building materials portfolio.
6. Expected outcomes: Improved profitability, streamlined operations, optimised cost structure, and a stronger competitive stance in the evolving building materials market.
7. Strategies for Growth: Focus on expanding the non-steel product range, leveraging digital platforms, and an asset-light model for retail expansion.
8. Building Materials Segment (Shankara BuildPro Limited): The EBITDA margin for the steel trading business in this segment is around 3%-3.5%. The non-steel EBITDA margin is approximately 5%-5.5%. With a focus on value-added offerings and an increase in non-steel products, the EBITDA margins are anticipated to improve to between 3.5% to 4% as the non-steel mix reaches 20%, which the company is confident of achieving by FY2025.
9. The Manufacturing segment, focusing on steel and allied products, has an EBITDA margin of approximately 1.7-2.1%.

My Take-

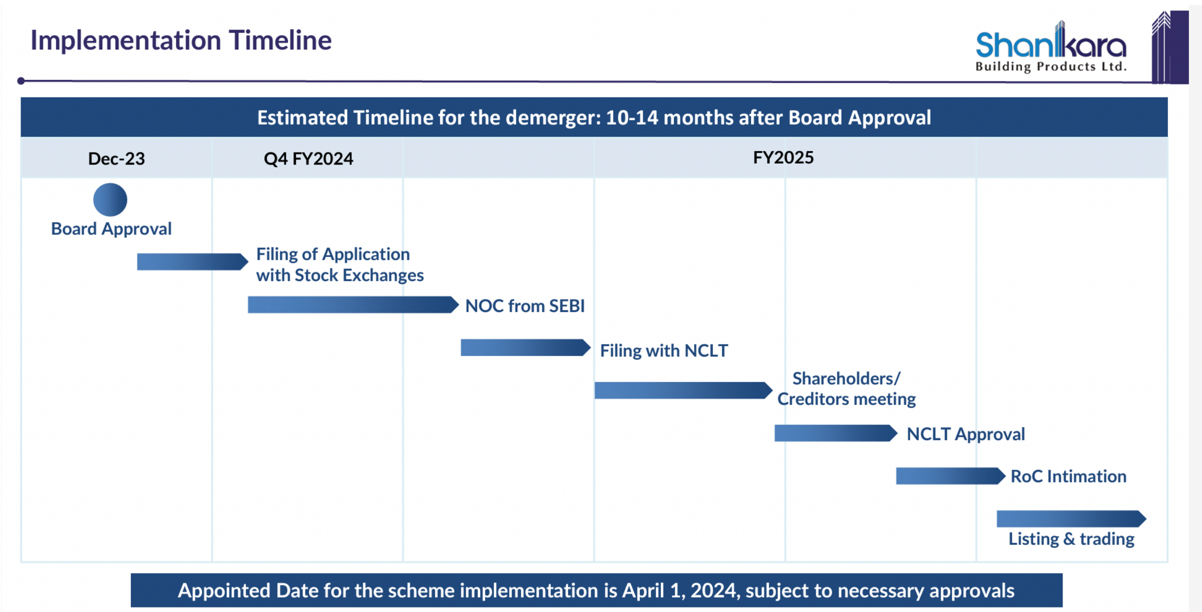
More Bullish on High Margin Shankara's Building Materials Business than Low Margin Manufacturing Business. Waiting for the listing of the manufacturing segment.

Marketplace segment has all the potential to grow at 30% CAGR For next 3-4 Years. At this projection We shall see a revenue of 7000-8000 Cr. Today's EBITDA of 3% will become net profit Margin in 3-4 years because of margin expansion. First it should touch a PAT Margins of 2-2.5% by FY25 as per guidance. Net profit possibility of 100-110Cr by FY25 & 200- 210 Cr FY27. Marketplace business has a ROCE of 27%. I have been saying that Shankara Building Products is a Dmart of building products. If Dmart can get a Valuation of 120 Times PE on a ROCE of 20%, Why can't Shankara get a PE multiple of 50-60 when its current ROCE is 27% and will rise to 30% post margin Expansion. If it gets that, we shall see Shankara Building Products(Marketplace Business) Trading at a Market Cap of 10000 Cr-12000 Cr ??. Current market Cap of Shankara marketplace business is 1300 Cr. So, It's a 5-7 bagger opportunity over the Next 3-4 years???

Action I will be Taking- Post Demerger- will sell low margin-low ROCE manufacturing business and add the proceeds to marketplace business.

Annexures

FY23	Building Materials Marketplace: Steel	Building Materials Marketplace: Non-Steel		Manufacturing (Steel & allied products)		Consolidated
Revenue	~Rs. 2,901 Cr	~Rs. 362 Cr		~Rs. 767 Cr		Rs. 4,030 Cr
EBITDA Margin	3-3.25%	5-5.5%	+	1.7-2.1%	=	3.1%
RoCE	~27-28%			~4-5%		15%



Better performance across key metrics post-segregation, will enable a potential re-rating of the building materials marketplace

Financial Metrics	Pre-segregation (FY2023) (Building Materials Marketplace + Manufacturing)	Post-segregation (Building Materials Marketplace)	
Revenue Mix	Steel – 90% & Non-Steel – 10%	Steel – 80% & Non-Steel – 20%	✓
EBITDA Margins	3.1%	3.6-4.0%	✓
PAT Margin	1.6%	2.0-2.5%	✓
Working Capital	31 days	Around 30 days	✓
RoCE	15%	30%+	✓
ROE	10%	25%+	✓
	FY2023	FY2025e	

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