“Shaily Engineering Plastics Limited Q3 & 9M FY2020 Earnings Conference Call”

February 04, 2020

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Moderator: Ladies and gentlemen, good day and welcome to Shaily Engineering Plastics Limited Q3 & 9M FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sanghvi, Managing Director, Shaily Engineering Plastics Limited. Thank you and over to you Sir!

Amit Sanghvi: Thank you very much. Good afternoon and warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I have with me Sanjay Shah, our Chief Strategy Officer, and SGA our Investor Relations Advisors. I hope you had a look at our industrial presentation that has been uploaded both on our website as well as the Stock Exchange.

Q3 FY2020 has been a steady quarter for us despite labour-related issues which impacted our sales in the early part of October. As it was disclosed in the previous earnings call slowdown in the auto motor sector has also impacted our performance to some extent. Our margins, though, have seen an uptick due to better product mix, economy mix scale on an account of raw materials and efforts towards improvement of operational efficiencies. We therefore remain confident of maintaining our margins going forward.

A brief update on the status of our steel furnishing plant. Our steel furnishing plant in Halol for one of the European home furnishing major will be commissioned in Q4 of FY2020. We have started installing machinery and are expected to complete installation by middle of March with potential first supplies happening before end of March 2020. In the recent quarter we have commercialized the medical devices and are on track to commercialize more during Q1 FY2021.

We have also started supplies of toys to our customers. The toy segment provides us a huge biggest opportunity going ahead. We believe that the toy segment has potential to be as big as our current number 1 customer in years to come. We have strong product pipeline the pharma segment, addition of new clients and product segments have also enabled us to build a strong base. We are working closely with our customers on their product initiatives, pipelines and have been able to successfully commercializ few products.

I would also like to announce that Shaily is moving forward with the development of two unique logo auto injectors both of which was events based as well as the cartridge-based auto injectors. These are used in various therapies from human growth hormones, to migraines to rheumatoid arthritis, multiple scleoris, diabetes and weight management. The business update for the quarter is as follows. We have submitted trial batches of four pens to our customers during Q2 FY2020.

In the toy segment we have made our initial shipments to Spin Master and we expect this to ramp up in Q1 FY2021. On the steel furnishing project as I mentioned the plant is near commencement and first supplies will be made before the end of Q4 FY2020. With this I shall now hand over the call to Mr. Sanjay Shah our Chief Strategy Officer to give you the financial highlights for the quarter. Thank you very much,

Sanjay Shah: Good morning everyone. Thank you Amit.

I shall share with you all the highlights of our operation and financial performance during Q3 and 9 months FY2020 following which we will be happy to respond to your queries.

During the quarter, we processed 3,599 tons of polymers as against 3,318 tons in the same quarter last year. For nine months we processed 10,026 tons of polymers as against 10,296 tons in the same period last year.

Machine utilization rates stood at 67% during Q3 FY20 while for 9M FY2020 the same was around 64%. Exports during Q3 nine-month FY2020 stood at 69% of total revenues.

For Q3 FY2020 revenue stood at Rs. 88 Crores showing a year-on-year growth of 3.2% from Rs. 86 Crores in same quarter last year. For nine months FY2020 revenue stood at Rs. 256 Crores as against Rs. 261 Crores in nine months FY2019.

EBITDA for Q3 FY2020 is at Rs. 16 Crores versus Rs. 13 Crores in Q3 FY2019 growing by 18.2% year-on-year. EBITDA margin stood at 17.6% in Q3 FY2020 vis-à-vis 15.3% in Q3 FY2019.

On 9M, EBITDA stood at Rs. 44 Crores a growth of 3.6% on a year-on-year basis with a margin of 17.2% as against 16.3% in nine months FY2019.

Net profit for Q3 FY2020 is at Rs. 6 Crores growing by 46.7% year-on-year with a margin of 7.1%. PAT margins expanded by 200 basis point year-on-year.

During 9M FY2020, profit stood at Rs. 17 Crores posting a growth of 5.6% on a year-on-year basis with margins expanding by 15 basis points at 6.5% on year-on-year basis.

Cash PAT for Q3 FY2020 is at Rs. 11 Crores as against Rs. 8 Crores in Q3 FY2019 while for 9M FY2020 witnessed a growth of 11.8% and Cash PAT from Rs. 27 Crores to Rs. 30 Crores in 9M of FY2020.

Our capex spend for 9M FY2020 was Rs. 60 Crores which includes CWIP/capital work in progress. This spend was towards the Carbon Steel project, some of the Medical Device Development which we have done and some expansion in our EOU facility.

This is all from our side. Now we can open the floor for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you for the opportunity. Sir if you can just share with us the key drivers for the margin improvement in this quarter? The second question our large Swedish client and we have read in the news recently that they have shutdown virtually all their stores in China because of the virus issue so are we anticipating any issue from our side in terms of our supplies to that client? The third was a directional question where do you see the coming year FY2021 in terms of volumes, the overall tonnage number that we would be looking at, this year was of course challenging for us due to various reasons so how do you see the next year for us?

Amit Sanghvi: Kaushal can you just repeat your first question?

Kaushal Shah: The first question was the reason for the margin basically the key margin drivers that we had margin expansion?

Sanjay Shah: I will probably answer the margin expansion and then let Amit answer on the China issue. Margin expansion if you look at the mix, it has changed. So the mix is 69% export and 31% domestic where we have added more business in the pharma front that led to an improvement in margin. Second is some of the products have moved up to the value chain so these are the reasons for the same.

Amit Sanghvi: We are currently assessing the impact of store closures in China we do anticipate some impact; however, the amount of shipments that go in to China are very minuscule, they are single digit percentage so the overall impact on revenue will be fairly minimal, but we will only know at the end of March or early April.

Kaushal Shah: Third question was on the direction in terms of given the current progress in various segments where do you see the year spanning out?

Amit Sanghvi: I think we remain consistent with what we have said on the previous earnings call that we have good visibility up to Rs. 500 to Rs. 550 Crores in the next financial year so we still remain with that figure. There are external factors, we are B2B company, therefore there are factors on the customer side which can impact that number but apart from that our visibility is quite strong and just would like to also add something to the China question there could also be a potential opportunity to increase sales because Chinese suppliers are also shut.

Kaushal Shah: So there is a chance we may have some role to play there?

Amit Sanghvi: Again I know it is only going to be temporary but we do not know what the positive impact or negative impact could be at the moment so this will become a little clear towards the end of March.

Kaushal Shah: That is it Sir. I will come back in the queue for more.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity Advisors Private Limited. Please go ahead.

Manish Gupta: Amit, could you talk a little bit about how the business has evolved strategically over the last few years on two dimensions. One is the logos that you added and are there some logos where people used to work with us and they have stopped working with us?

Amit Sanghvi: On your second question no. We do not have anyone that used to work with us and has stopped working with us. Over 32 years of our history, we have had two reasons, one either Shaily has exited out of that customer for lack of growth opportunity, for lack of margin or two, we did not see a strategic fit on the business.

On the first question when I look at how the business has evolved over the last three years anyone that has been following our conversations would realize that we have been heavily reliant on our single largest customer so over the three years, all the initiatives we have taken whether on the pharma side, whether on toys whether in other areas have been with a primary objective of creating another one or two customers or segments which can equal the revenue of what we are doing with our largest customer today. Key names that we have added to our portfolio in the three years are large German retailer, a grocery retailer called Lidl, we have added Spin Master as we mentioned. We just started shipments in Q3 of FY2020. We have added various customers and devices on the pharma side, very unique in that sense that some being just an OE manufacturer of medical devices, we now offer platforms and after shelf devices to our customers. We have initiated development of two auto injectors based on IP that we have created so this is potentially a very large market with very few players in it at the moment so all these verticals have been created with a primary objective of one growing obviously the bottomline and two derisking ourselves from our largest customers. Now I understand one could give the argument that you are going into steel furnishing business for the same customer but was a natural expansion of material area within the same portfolio or within the same customer and it gives us an edge with others as well. I hope that answers your question.

Manish Gupta: My second question is that you know the part of the portfolio, the Swedish major or the toys business is perhaps you know quite prone to recession in the Western world. How are you thinking about how you will protect yourself or in case there is a recession in the western world and demand for these product falls?

Amit Sanghvi: I think let us start with first part of that question. I would like to split the home furnishing business from the toys business. Several recessions since 2001 that we have seen especially with the Swedish home furnishing major is that their sales have never been impacted, in fact even last year their sale was only impacted on account of inventory. There was a little bit of slow down but there has been 2008 their sales as good as they have in 2007 or higher, 2014 also traditionally their sales have never been impacted on account of recession in the western world because they target a market which or a segment or a class of people where even in recession would have maybe a slightly higher spend with the Swedish home furnishings.

On the toy's side we are fairly new in the business but from all our conversations with customers we understand that demand for toys are growing in emerging markets significantly and they have been more or less flat in the western world so big areas where growth is coming from toys is countries like China, Brazil, Russia and there are lots of emerging markets which are doing a lot better in toys sales then the western world even at present. Therefore recession should not drag their business down significantly.

Manish Gupta: If there is time for one more, we have been having on and off labor issues for a while now Amit, how do we know whether that is conclusively behind us?

Amit Sanghvi: Manish we do not.

Manish Gupta: Can you talk a little bit about that what exactly the issue and what is the company doing about it?

Amit Sanghvi: We are supplier to all these multinationals. One is our policies and the way we pay our labors we are far beyond fair than any of the industry that exists on our belt. Now in spite of all of this we still see issues from time to time and more of these issues have been on account of outside union wanting to come in, instigate something. Multiple times we had problems with labors especially since we have started doing well we have had more problems so having said that a very significant part of our labor force is not in favor of this. Even this time when the strike had happened we did not officially have a strike, but even this time we had labor issues, our permanent workers were fully supportive of us. That comfort they brought in as many people as they could from the contract force and we ran the plants in a maybe 30% capacity but we ran the plants. Going forward, how we are planning to mitigate it, we are adding more slightly, we have these ITIs all over India so we are adding people from ITI in our workforce. We have recruited people from ITI and put them on fixed term staffs at Shaily and we are going to see how this experiment works out, if it works out well we will continue to increase that over the next year.

Manish Gupta: Thanks Amit. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Securities. Please go ahead.

Hitesh Taunk: Thanks for the opportunity Sir. My first question is pertaining to the volume growth since we have clocked 8% volume growth on a Y-O-Y basis and 6.5% on a Q-O-Q basis and we have very faired on this quarter and already over a month is over how it has been the traction in terms of volume growth in the last month, if you could some throw some light on that and that is the first question. The second question you have spoken about the opportunity in the toy business. It would be very helpful if you can quantify a bit in terms of what could be the opportunity size in that segment that is my second question. My third question is pertaining to in the last concall you mentioned that one Japanese major you are talking with for your caps and bottle business how far have we succeeded in that? These are my three questions.

Amit Sanghvi: Let me answer each of these questions separately, Hitesh. On volume of polymers process if you had looked at it between Q3 FY2020 and Q3 FY2019 you have seen growth and you have also seen growth between Q2 FY2020 and Q3 of FY2020 lots of it dependence on the product mix and if you were to look at nine months FY2019 compared to nine months FY2020 it has been more or less same with a marginal degrowth of about 1% or so but it is more or less the same, a lot of it depends on the product mix so I would suggest when you look at Shaily probably looking at just volume of polymer process would not be the right parameter to look at it.

Second on toys if you were to look at it in terms of an opportunity it is a huge opportunity because a lot of these companies who are global giants whether it is Spin Master, Hasbro and all other people who have been they have been sourcing big time from China, but what is happening in China. All of these guys are looking at derisking themselves from China and moving part of the sourcing out of China so we see a huge opportunity here. As we had said last time we have started with one customer. We hope to add the second customer in this quarter so we started shipments with Spin Master for one product last quarter and the second product which we will start shipment this quarter and we expect ramp up to happen in Q1 FY2020 we are working with both Spin Master and other customer in terms of adding more products and everything and we hope to add lot more products going forward so I think from an opportunity standpoint, we see a very good opportunity here we will probably talk about it in each quarter when we add more business to it.

Sanjay Shah On the Japanese capital bottle which we talked about we have just submitted samples the first samples to the customer and they are in under evaluation.

Hitesh Taunk: Sir addition to that a bit clarification I require is that you talk about the toy business opportunity so Mr. Amit have mentioned in his opening remarks that FY2021 and we are looking at a revenue of something about Rs.500 and Rs.550 Crores so are we building toy revenue in that or toy revenue above than that?

Amit Sanghvi: We have build in some toy revenue based on the visibility on the discussions which we have had so if you were to look at the last earnings call which we had, we had talked about a Rs. 7 Crores business which we have confirmed from one of our toy majors which is Spin Master, so that revenue has been taken into account. There are some other projects which we are working on and we expect a closure on that so that is also what we have taken into account.

Hitesh Taunk: The gross margins of those business are more or less similar to the company level, is it right?

Amit Sanghvi: I would not want to get into individual margin discussions please.

Hitesh Taunk: Thanks a lot.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for giving the opportunity. Sir one of your home furnishing customer had changed the product recall plastic that has been made in India, is the company impacted by this and in general what is the liability of a company in case of product recall?

Amit Sanghvi: Can you just repeat your question? What specifically about the product recall?

Ritesh Poladia: There was a news report that this customer has done some product recall of Made in India plastic products. Is the company involved in that and in general is there any liability on the product recall for the company?

Amit Sanghvi: At the moment, we do not have any liability on the product recall. Product recall in general for the purpose that it happened is not something I can explain to you over this call, but I will put it in a very simple form is there a problem yes there is a problem for which product recall was initiated. The problem was not because of Shaily.

Ritesh Poladia: The second question is there was a search inquiry by the GST authority can you give some update what is the current status and the any impact on the company?

Amit Sanghvi: As we said earlier also there was GST search where moulds were seized and seizure was looked at based on the detailed representation made by the company post that we have not heard anything back from the GST authorities so that is where it is.

Ritesh Poladia: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Thanks for the opportunity. My first question at the start of the year we had given a target of around Rs. 400 Crores of topline. I think we are a bit away from Rs. 400 Crores so just wanted to understand how far we are and secondly how do we look at the building blocks for this Rs. 400 Crores and next year target of say Rs. 530 to Rs. 550 Crores which we were given at the start of the year?

Amit Sanghvi: We had an internal target of Rs. 400 Crores for this financial year that we had mentioned to you during out first call of the year. Let us see where have we lost revenue so far. We lost Rs. 14.5 Crores in the current quarter on account of labor and the GST seizer of moulds because completely unnecessary and uncalled for. We lost an additional Rs. 12 Crores of revenue in the first half of this year on account of labor issues. All in all so far we have lost Rs. 26.5 Crores of revenue in the current year. We have budgeted about Rs. 10 Crores to Rs. 12 Crores of sales for steel furnishings which was to go on stream and start supplying in the month of January which has been delayed on various accounts, some related to customers, some related to us, some related to the Coronavirus in China right now so our installation is getting delayed till middle of March. So all in all we lost about Rs. 37 Crores to Rs. 38 Crores of sales just on these three heads. We certainly had all intentions and the order pipeline to back up at Rs. 400 Crores. For next year if I look at earnings, we need to find a solution on an alternative to the labor issue that we have. I think year-on-year last four years in a row we have been losing significant revenue on account of labor problems we have taken various initiatives, tried various things, we have not fully been successful so when we solve an issue another crops up. For next year, we see again that our order pipeline is quite strong it backs up the numbers that we have given you, but we need to execute those orders.

Ritesh Shah: So is it fair to assume that we still looking at Rs. 530 Crores to Rs. 550 Crores FY2021?

Amit Sanghvi: Yes.

Ritesh Shah: Is it possible if you could break it up if you cannot give exact detailing what I am more keen on is how has the pharma business actually played out specifically with the pens wherein there were few launches that were expected and basically all the CRC cap has also played out so this two specific questions for pharma side if you can help us understand this a bit better?

Amit Sanghvi: We have not indicated segment wise sales and I do not want to start doing that now but FY2019 to FY2020 we have grown our pharma sales by about 65%. All of these have primarily come in from our device business. On the CRC because the base itself was so low there is growth, there is 40 to 50% growth, but the baseline is so low that even now the numbers quite insignificant.

Ritesh Shah: Sir, I think start of the year you had indicated about 100,000 pens that is something which was the target which was given. How far have we reached on that and secondly on CRC what is the utilization levels like has it added above 50% where do we stand over there?

Amit Sanghvi: I do not figure of 100,000 pens because we manufacture at the moment also over a couple of million pens a year, so I do not know was 100,000 specific to a project.

Ritesh Shah: I am just looking at our transcript of May 2019, so it is just fine you can take the number 100,000 out, I am just interested to know the potential of this business both the pens and CRC and how far we are so I am just trying to understand the margin profile going forward from this?

Sanjay Shah: Ritesh just to add to what Amit said to your question. We have about 12 pens under development, out of which 4 we have submitted samples to customers and for the balance we will basically be submitting samples to the customers during this quarter Q1, Q2, quarter so different quarters have different timelines for submission. We expect majority of these pens to get commercialized before end of the year which is FY2021. In terms of margins as you have said here we are giving individual margins or segment margins would be difficult but pharma and device business does have better margin. That is what we can say. I hope that answers your question.

Ritesh Shah: Yes Sir. Specific question on pens when we say that 12 pens are under development and we have submitted a few to the customers does this customer does it include any of the local pharma companies?

Amit Sanghvi: It includes. All the 12 pens which we are talking about, 10 are Shaily devices where IP is owned by Shaily and in some of these cases yes it is to domestic pharma companies for global market.

Ritesh Shah: On CRC how far have we reached if you can indicate broad utilization level or the potential?

Amit Sanghvi: If you look at some transcripts about four to six quarters back what you said is the CRC facility which you have set up in terms of moulding and everything else because we are using the same machines for our device business so today if I were to look at utilization levels on moulding we are close to full utilization or device and CRC put together so we do not look it on an individual basis. The CRC number are still not what we would have wanted. We would be working on multiple fronts to see an improvement there but we will see in two months from last year to this year and even from last quarter to this quarter also.

Ritesh Shah: Okay and I think for the Carbon Furniture business you had indicated a potential topline of Rs. 130 Crores is that number correct?

Amit Sanghvi: Yes that is we do full ramp up.

Ritesh Shah: Okay and what is the timeline for that?

Amit Sanghvi: Once we start the plant probably somewhere between close to take it as nine months before we do a full ramp up because we will also be starting with products and then ramping up so each of these products will not be ramped up simultaneously it will be gradual ramp up of each of the products. We have two product introductions in March, one in end of May, one in June, and then there would be from same family another two products by August so the full ramp up you will see and the full revenue you will see in year two not in year one. Year one you cannot see. We are taking somewhere in the range of 50 to 60.

Ritesh Shah: This helps Sir and lastly out of this Rs. 550 Crores and what is the composition or how much is the Carbon Furniture entail or is it excluded?

Amit Sanghvi: 10%.

Ritesh Shah: Perfect. Thank you so much.

Moderator: Thank you. The next question is from the line of Mahesh Sarda an individual investor. Please go ahead.

Mahesh Sarda: Just you were mentioning about these continuous strikes which have been going on and off so wanted to understand whatever agreement we have with customers does the customer get irritated because of this or will it have any impact for our agreements which we have put with various customers because of the ongoing strike?

Sanjay Shah: Let me just clarify we did not have a strike but we had some labor issues in terms of people not coming in. Customer supplies do get impacted so while customer is aware of it, customer does get irritated, I am not saying no, if it continues he obviously will get irritated about.

Mahesh Sarda: Because you said that the labor issue has been ongoing for about two to three years intermittent sometimes, it happens sometimes, it goes away, so do we say a risk in the agreement which we have with our customers and what are we trying to do to avoid such things?

Sanjay Shah: I think Amit had detailed out in terms of what we are trying to do when I believe Manish had asked this question in terms of we getting people from ITI, as we taking basically 10 people on the FTS what we are trying to do is reduce the number of contract numbers which we have and get them on our role on as a fixed sum employment or little more trained people from ITI who basically manage all machines and our assembly operations and everything so that is something which we are doing. At the same time from a location perspective we are now looking at a lot of new things which we would be doing would be coming up in the new site in Halol which is about 60 km from where we are where people want to work, you will basically find people who will be ready to work.

Amit Sanghvi: They need to work. They do not have fertile land over there so they need to work in industry to earn a living where we are currently located I get a feeling that 30% of the workforce has more wealth than all of the employees put together.

Mahesh Sarda: Because basically it becomes an irritant for everyone for you also because you have some plans in future and because of these issues it is gets affected and your investors also will get irritated at times not always and obviously the customer is the most important. So I hope this reduces in future.

Amit Sanghvi: Thank you for the wishes. We appreciate that. Yes it is a problem for all of us.

Mahesh Sarda: Thanks.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Carbon steel margins will be same margin as we are earning now?

Amit Sanghvi: Ravi, we were not able to get into individual margins, I am sorry about it.

Ravi Naredi: Rather you can say after this carbon steel production will earn revenues of Rs. 100 Crores to Rs. 125 Crores in a year?

Amit Sanghvi: We said in year two we should basically get to that revenue.

Ravi Naredi: Next year our margin will be same is this year or next year?

Amit Sanghvi: We expect margins to improve on an overall basis but we would not want to get into individual margins.

Ravi Naredi: No need of any individual just wanted to know whether the next year margin will be more or the same?

Amit Sanghvi: Should improve.

Ravi Naredi: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Richa Agarwal from Equity Master. Please go ahead.

Richa Agarwal: Thank you for the opportunity. My query is regarding the capital expenditure for the fourth quarter and what kind of capex are we looking at for FY2021?

Amit Sanghvi: Let me first answer the question for FY2020. We have talked about till 9 months of FY2020 we have spent about Rs. 60 Crores which includes CWIP so we will be looking at capitalizing this and there would be further about Rs. 8 Crores to Rs. 10 Crores of additional capex which would be done so that is what would be done in FY2020. In terms of FY2021 a lot of it will depend on the type of business confirmations which we get whether it is on toys, whether it is on healthcare. We can probably give you a much more better clarity on it when we have the Q4 call.

Richa Agarwal: Sir I have one more question with this virus contingent in China a lot of manufacturing facilities are getting impacted so do you foresee opportunities in such business segments for example recently you started in toys so are you receiving any kind of queries or some other you are looking at such opportunities?

Amit Sanghvi: Yes.

Richa Agarwal: Would you like to give a broad idea of what kind of segments if new segments come in?

Amit Sanghvi: We will be looking at within the existing segments whether it is home furnishing whether it is toys or other exports which we do because starting to go after in other segments would not make sense because you are seeing enough, a lot of growth prospects within these.

Richa Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Sanjay this question is for you. We heard Amit saying about the topline target so what is your target when it comes to ROCE say for FY2021 and FY2022, or what is our aspiration, where we would like to land up with?

Sanjay Shah: Ritesh, ROCEs if I would look at FY2020, I will not talk about FY2021 because you are looking at commercializing carbon steel projects in FY2021, but if I would have look at FY2022 perspective you should see ROCEs improving form the current levels. If you want to look at current year in nine months you have seen ROCE improvements. The way I look at ROCE that something which when put in to presentation we look at average capital employed based on an opening and closing because we are in a constant capex cycle and it would not look the average capex.

Ritesh Shah: Any specific target that we have in mind?

Sanjay Shah: I do not want to give you the numbers, but I expect ROCEs to improve, a lot of business which we get in to, we basically look at payback of somewhere between 4 and 5 year period so let me probably give you a sense of what sort of numbers we should be looking at.

Ritesh Shah: If I have to put it the other way round we have not seen much of free cash flow generation from the company over last three to four years when do we see this trajectory actually change going forward? I understand FY2021 probably would not be the year because carbon furniture is yet to play out but what is the thought process over there?

Sanjay Shah: Ritesh, if you have to look free cash flows, you to look at free cash flows in two ways, one is the free cash flow which the company has generated which has been ploughed back into capex and if you have to look at a five-year cycle company has been generating free cash flow from operations which have been ploughed back into growing the business so whether it is on the healthcare front or whether it is on the home furnishing front or whether it is on steel furniture or whatever it is we have been able to pump in substantial amount of liquidity or cash from operations which have been generated over a period of time back into the growth of business. While I do accept what you are looking at the cash flow on a net level but see a cash flow from a net level I think probably two to three years out before we can get into a self sustaining model.

Ritesh Shah: I will come back to you later on cash flow conversion I have a few questions. Thank you so much.

Moderator: Thank you. The next question is from the line of Shelly Parikh from Prabhudas Lilladher. Please go ahead.

Shelly Parikh: Just needed to know the debt long-term as well as short term as of December 31, 2019, please?

Sanjay Shah: December 31, 2019 there is probably not much change from the position which we talked about in September 30, 2019. We have not taken any further disbursements we will probably take disbursements in the current quarter to that extent whatever we have talked about debt for FY2019 in terms of long term and working capital we still stand by those numbers.

Shelly Parikh: Would it be possible to call out on those numbers please?

Sanjay Shah: On a gross level what you would look at loan and working capital debt put together for FY2020 it would be about somewhere in the range of about 160 Crores to 165 Crores.

Shelly Parikh: That was one and my second question was on the tax rate what would be the effective tax rate for the company?

Sanjay Shah: Currently, we have decided to review post March so we are right now basically all our tax calculations are based on 29.12% which is 25% plus surcharge plus cess so that is the basis for the tax provision in the current quarter also.

Shelly Parikh: Okay Sir, 29% basically.

Sanjay Shah: Yes, 29.12%.

Shelly Parikh: Thank you so much and all the very best.

Moderator: Thank you. As there are no further questions in the participants, I now hand the conference over to the Mr. Amit Sanghvi for closing comments.

Amit Sanghvi: Thank you everyone for joining the call. We hope that we have been able to answer your questions. For any further information, I request you to get in touch with SGA, our Investor Relation Advisors. Thank you again.

Moderator: Thank you. On behalf of Shaily Engineering Plastics Limited that concludes this conference. Thank you for joining with us. You may now disconnect your lines.