"Shaily Engineering Plastics Limited Q1 FY2021 Earnings Conference Call"

August 10, 2020

MANAGEMENT: **MR. ANIL KALRA– CHIEF EXECUTIVE OFFICER – SHAILY ENGINEERING PLASTICS LIMITED**
MR. SANJAY SHAH – VICE PRESIDENT AND CHIEF STRATEGY OFFICER - SHAILY ENGINEERING PLASTICS LIMITED
MR. AMIT SANGHVI – MANAGING DIRECTOR - SHAILY ENGINEERING PLASTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shaily Engineering Plastics Limited Q1 FY2021 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve 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 the 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. Anil Kalra, CEO. Thank you and over to you Sir!

Anil Kalra: Good morning everyone. I am Anil Kalra, the newly appointed CEO at Shaily. I am pleased to be here amongst you and I am excited about the future projects Shaily is working on. I have been in the past fortunate enough to be part of Strategic Planning, Growth and Operational Excellence along with transformational projects in my career with Motherson Group for a fairly long time. I hope I would be able to focus very closely on these areas at Shaily as well.

At this juncture, when the times are rather unusual with the world economy in not very good shape, these are really challenging times and at this time, it is difficult to grow revenue faster than expense but that is the challenge we at Shaily have to work on and to that extent my objectives have been clearly laid out to make sure that we are downsizing the expenses, growing the revenues faster with the newer projects that are available with us and trying to strengthen the company in terms of financials.

The specific focus areas would be seamless execution of orders from the confirmation stage to delivery and also timely delivery of the newer projects to the newer customers that we have added in our kitty. Then the production and efficiency standards at the shop floors in the plants must improve further. These are good but we must have it at an excellence level for which work has already started and I am sure it will show up in terms of financials in the coming quarters.

In the past, we have had some labour issues, but some corrective measures have been taken. We have churned workforce, we have increased the percentage of the female workforce in the general shifts, also on the injection molding process so to that effect, the downtime because of manpower unavailability has reduced drastically and we have more stability in the shopfloor with no hindrances in the production. With these focus areas I hope to release a bandwidth of Mr. Amit Sanghvi and enable him to focus more on business development, capital expansion, and also new projects.

The projects that I have undertaken as a direct work for me will surely reflect in terms of tangible numbers in quantified terms in terms of growth and specifically our bottom line and that is also the need of the hour, because the needs of our clients are also changing with the changing environment. So, please allow me now to hand over to Mr. Sanjay Shah, our Chief Strategy Officer to take you further on the financial highlights.

Sanjay Shah: Good morning and warm welcome to all the participants to the Q1 2021 results earnings call of Shaily Engineering Plastics Limited. I hope you are all keeping safe and healthy.

Unfortunately, Amit has a medical emergency so he is on this call, but I will read his part of the speech and he will be available during the Q&A.

This year started off as standstill and everyone had experience of walking on uncharted waters. As Maya Angelou said, "Nothing can dim the light which shines from within." We have invested this time in building strong management team and created a strong base to grow. We have been in continuing discussions with many customers across segments, old and new. I am happy to share that we have built a good traction with some of these leading players in their respective industries.

This can be further evidenced from the new business confirmations that we have received. Our new business confirmations are spread across toys, home furnishing, pharma devices, pharma packaging, steel furniture and automotive.

We added the following to our order book. Let me qualify that most of these orders are expected to be in development phase for the next two quarters and will be commercialized between Q4 of FY2021 and Q1 of FY2022. We have been awarded three projects with a leading Toy Manufacturer. This is a new customer account, which we have added in the current quarter whose total business value is about US$6 million a year. We secured additional business of Rs. 50 Crores from our home furnishing customer and this will add nine new SKUs to our kitty.

We have finalized development and supply contract with the global pharma customer for supply of pens for the US market. These are pens which Shaily has IP on. We concluded large supplies of CRC caps to a large domestic pharma company and we will be again making supplies in the current quarter also.

During the quarter we received conformation for two new SKUs in the steel furniture segment from our home furnishing customer. We were also awarded three new projects by Garrett which was previously known as Honeywell for rod.

On steel furnishing segment, I am happy to share that we have commenced trial production. We expect commercial supplies to start within this quarter and gradual ramp up in Q3 of FY2021.

Healthcare has been a strong focus area for us at Shaily. We are happy to have pursued our efforts in this segment as we have not only increased the pace of production, but also added new orders. Accordingly, we are expecting healthy growth from our pharma segment in the near future. We value our customers brand and aim to be the pillar of their product. Timely execution of quality products has enabled us to exponentially increase businesses with existing clients.

I will now move to the financial and operational performance during Q1 FY2021 following which we will be happy to respond to your queries.

The pandemic and related lockdown restrictions affected our manufacturing activities in April. We were able to restart the non-healthcare manufacturing facilities end of April 2020 thereafter we have business, gradual ramp up in utilization and revenues. Happy to share that we achieved Rs. 27 Crores of revenue in June 2020 and the positive momentum continues in July as well.

We are almost at pre-COVID levels now. During the quarter we processed 1815 tons of polymer which was at 60% level as compared to the same period last year. Machine utilization rates gradually increased month-on-month during this quarter. With the ease in lockdown restrictions manufacturing operations picked up pace in May 2020 with strict safety and hygiene protocols. We ended the quarter with an average utilization rate of 34% as compared to 59% in Q1 FY2020.

Exports during the quarter stood at 68% of the total revenue as compared to 69% in the same period last year. For Q1 FY2021 our revenue stood at Rs. 46.6 Crores as compared to Rs. 80.6 Crores for the same period last year, dip of 42%. Loss of revenue was majorly contributed by nationwide lockdown.

EBITDA for Q1 FY2021 is at Rs. 3.5 Crores and was lower on account of lower revenues due to lockdown which resulted in lower absorption of fixed costs leading to subdued EBITDA. EBITDA margins stood at 7.4% in Q1 FY2021.

The company reported a net loss of Rs. 3 Crores for Q1 FY2021 while cash PAT for Q1 FY2021 was reported at Rs. 1.5 Crores. As the revenues scale up, we are confident to normalize EBITDA margin profile of the Company. We expect recovery in H2 FY2021 on the back of commercialization of a few projects that we added and one last year.

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

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

Kaushal Shah: Thank you very much Sir. Hope everybody at Shaily are fine and safe. Sir, I have a few questions on the key customer, the Home Furnishings major, if you can share or maybe throw more colour on how the ramp up is likely to happen over the course of this year in the old products as well as the new line that we have started for them? My second question would be on the pharma side where we have done a lot of work over the last two years, so what is the kind of trajectory that we are looking at in terms of that hard work getting translated into revenues again over the next let us say 24 months or so? These are my two questions Sir.

Sanjay Shah: I will take it up. With the Home Furnishing customer, we are close to pre-COVID levels by July and I think gradual ramp up is happening as we move forward. So, the store in Europe and US which were shut have now been opened and we are seeing improved revenues coming in. So, as we move during the year, we are seeing ramp up happening. On the new business, which we have added with them as I mentioned in my speech, we expect to commercialize this by Q1 of FY2022 so we do not expect substantial revenue from the new projects, which we have been awarded recently to come in, in the current year. On pharma we have commercialized some of the devices and the balance devices will be commercialized during this year and early next year, so on a quarter-on-quarter basis we should be commercializing some of these devices and we constantly go on adding new projects. So as we had said in the investor presentation also we have added a customer in the US for the devices and this will be more of a development right now where commercial supplies would then start once the development is completed. I hope this replies your question, Kaushal.

Kaushal Shah: Yes. Sir, if I can just squeeze in one more question and obvious focus on domestic manufacturing, Atmanirbhar Bharat, etc., so any silver line for us in that area where we can probably get some more orders or any areas where we can kind of pitch in or hitherto to being imported from China or from other countries?

Sanjay Shah: Some of the things which we are doing on toys, Kaushal is essentially substituting China with India as the supply base for global supply and this is what we are focusing on. We see a lot of traction there, we see a lot of traction on our healthcare front, we see a lot of traction with our Home Furnishing customers so that continuously is our focus areas.

Kaushal Shah: Thank you Sir. I will come back in the queue for more questions.

Moderator: Thank you. We will take the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity. Sir, can you tell us how does the business on the steel furniture look like for the current year and next year? Are you still sticking to your earlier guidance of some ramp ups in the current year like 50% plus more utilization in next year?

Sanjay Shah: Ankit can you repeat your question please? Your voice was not very clear.

Ankit Gupta: I am talking about the outlook on the steel furniture for business for this year and next year, how does the ramp up look like for this segment?

Sanjay Shah: What we said in the last call was that we expect a gradual ramp up to happen in the current year. We have started trial production and we will be making commercial shipments in Q2 of FY2021 and a gradual ramp up will happen between Q3 and Q4 where we will go on adding other products. We expect substantial ramp up to happen in FY2022. I do not want to put in numbers here but yes, we expect substantial ramp up to happen during FY2022.

Ankit Gupta: Apart from our Home Furnishing major customers, have we also added some new customers or any discussions in pipeline for the home furnishing and steel furniture segment?

Sanjay Shah: Currently no. On the steel furniture, we first need to commercialize shipments to our existing customer and demonstrated that we have commercialized it right and set up operation, then we will look at others. Right now, we are not foreseeing any customer's enquiries.

Ankit Gupta: Sir, on the toy business we do understand that China is major hub for manufacturing of the large portion of the global manufacturing happens in China so if you can tell us how are the European and American companies looking to diversify out of China and how does it benefit a company like us? I think in the last few quarters, we have been gaining new projects on the Toy manufacturing side and we have also won a new customer if you can briefly highlight about this segment?

Sanjay Shah: What we have talked about in the past also Ankit is that Toys is a segment we see great opportunities there, reason being Toys has a lot of compliance requirements in terms of chemical compliance as well as in terms of EHS compliances where we feel Shaily has been well placed. Today, if you were to look at the global numbers, majority of the toy manufacturing happens in China and everybody is looking at diversifying their supply chain where we feel companies like us who have experience of working with global majors and have established systems of supply chain and other things, understanding of logistics in addition to technology and manufacturing, would be able to take advantage of it. That is what we are trying to work on. So, we added one customer last year, we have added one more customer this year and are looking at adding projects with these customers and then adding more customers as we move ahead on this.

Ankit Gupta: The total business value that you have mentioned of US$6 million per year. This is for the combined all the projects of the three customers that we have?

Sanjay Shah: This is for one customer where we have taken three projects. That is what we have mentioned on the presentation also.

Ankit Gupta: So, I think we have two, three customers in this segment that we have?

Sanjay Shah: We have two customers on this segment.

Ankit Gupta: Two customers and how do you see this business in terms of revenue for FY2022 and FY2023?

Sanjay Shah: I would not want to give a number right now but we see substantial growth between FY2022 and FY2023. So, if you were to look at FY2020 we did very negligible sales. We have added US$6 million in terms of an order, which will probably come in, in FY2022 and once we deliver on this, we expect to grow on this business also.

Ankit Gupta: Thank you Sir. Thanks a lot.

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

Ritesh Shah: Thank you for the opportunity. Congratulations for these new order wins. Sir, just wanted to know the five orders which we have put up, which is the furnishing major plus toys manufacturer, pens, two new SKU for steel and the projects with Honeywell, the combined revenue potential for this if you could give a certain number and will that number totally fructify in FY2022 or it will be split in FY2022 and FY2023?

Sanjay Shah: We have already given revenue potential on the first two segments, where we said US$6 million on Toys and Rs. 60 Crores for the Home Furnishing major. The global pharma, the device business which we have taken on will be commercialized in FY2022 and then we will exhibit batch supplies and everything in FY2022 post that we will start commercial supplies to them. Steel furniture we would be commercializing this project also in FY2022, so we see revenue coming in FY2022. Garett, these are prototype businesses which will get commercialized in FY2022 post that we will be basically looking at doing production batches and everything. CRC supplies which we have talked about have been made in the current year and continued to be made in this quarter also.

Ritesh Shah: The best educated guess, would you be able to grow in FY2021 over FY2020, despite missing the first quarter?

Sanjay Shah: We will grow in FY2022 over FY2021.

Ritesh Shah: No, I am saying FY2021 over FY2020?

Sanjay Shah: Yes, we will grow in FY2021 over FY2020, yes very clear.

Ritesh Shah: Do you want to peg a revenue, some ballpark revenue number for FY2021 and FY2022 based on the execution plan that we have?

Sanjay Shah: Ritesh, we would not want to give a number right now the reason being is these are uncertain times but based on what we see in terms of pipeline and orders on hand and everything we are very clear that we will see growth in FY2021 over FY2020 and more growth in FY2022 over FY2021.

Ritesh Shah: Lastly with the operations, management put which we are trying to figure out, is there a case where the margin expansion can come in even at the Rs. 300 Crores, Rs. 330 Crores of revenue that we were doing as I heard initially in the opening remarks from the operating officer about certain projects, so some idea on the margin side, if you could share?

Sanjay Shah: If you look at last year, if you look at FY2020 in spite of revenues being flat in some of our fixed costs going up, we have been able to improve margins and we expect margin on an overall basis as we move forward on a quarter-on-quarter basis with revenues going up, we expect margins to go up. Two reasons for it. One what Anil talked about in terms of improvement in operational efficiencies and two, in terms of product mix, both of these together should lead to improvemental margins.

Ritesh Shah: For a similar revenue, you would have a better margin and for expanded revenue, you obviously should have a better margin. That is how should I build the case?

Sanjay Shah: Yes.

Ritesh Shah: Any thought on the extent of margin expansion possibility?

Sanjay Shah: I would not want to put a number Sir. We would have internal targets but I do not want to put any numbers in the call.

Ritesh Shah: Thank you very much. All the best to you Sir.

Moderator: Thank you. The next question is from the line of Ankit Agarwal from ARC Capital. Please go ahead.

Ankit Agarwal: Thanks for the opportunity. I have a couple of questions on the financials. Sir for the new orders that have been announced what is the capex that we expect to incur on those?

Sanjay Shah: We are working on the capex; our sense is that we would probably do a capex of about Rs. 20 Crores to Rs. 22 Crores for the new orders which we have talked about.

Ankit Agarwal: How do you plan to fund this capex?

Sanjay Shah: We already have term loans, which have been tied up, so limits are available. We need to just drawal this limit.

Ankit Agarwal: Another question is how much debt will we have on the books as of now for the June quarter?

Sanjay Shah: Total debt on books as of June quarter is about Rs. 154 Crores.

Ankit Agarwal: Sir, one more question, given the current situation, do you have any sort of a guidance for this year's sales for FY2021?

Sanjay Shah: Ankit I would not want to give in guidance. We have already said that we see growth as compared to FY2020 due to uncertainty around COVID and everything we would probably not want to give any guidance right now.

Ankit Agarwal: Fair enough. Thanks a lot. That answers.

Moderator: Thank you. We will take the next question from the line of Atul Kothari from Progwell Securities. Please go ahead.

Atul Kothari: Thank you Sir for the opportunity. Sir, I would like to know as to what has been the revenue momentum in July if you can quantify the same?

Sanjay Shah: July revenue, we are close to pre-COVID levels or higher than pre-COVID levels.

Atul Kothari: What has been the capacity utilization of our CRC caps division?

Sanjay Shah: We do not report individual utilization levels, at the same time as we have mentioned on the calls earlier also, the CRC facility is used for multiple businesses to a lot of our device manufacturing also happens in the same facility. So whatever manufacturing we do of the devices, we have not added facility there, and we do it within the same facility.

Atul Kothari: If you can also let us know as to what is the status of our steel furniture project? Means, will we be doing some kind of revenue booking in Q2 FY2021?

Anil Kalra: As I mentioned in the speech, we have started trial production and we will be making commercial shipments in Q2 of FY2021.

Atul Kothari: Sir, during our last call in Q4 FY2020, you had mentioned that the steel furniture revenue of about Rs. 40 Crores to Rs. 50 Crores, so do you think we will be able to achieve this?

Sanjay Shah: It will be a little lower, but yes we will be still looking at fairly good ramp up as we move forward in Q3 and Q4.

Atul Kothari: Sir, how has been the labour situation on ground? So, are we seeing any challenges in this respect?

Sanjay Shah: I did not understand your question. Could you repeat a little bit?

Atul Kothari: Basically, how is the labour situation on ground? Are we seeing any challenges with respect to execution?

Sanjay Shah: I will let Anil Ji to answer that.

Anil Kalra: The situation currently is well in control and as I had mentioned in my speech earlier we have also increased the percentage of our female workforce, also in the injection molding process which was not there earlier so some stability has set in there and the numbers are constant. We do not see shortfalls in production because of no manpower availability. Now in terms of the IR it is stable now. We are in regular touch with the people here and we see some challenges in terms of the availability of manpower during the monsoon and the festivity season, but we will overcome that. We have made some arrangements and I am sure this will not be a big challenge for us in the coming quarters.

Atul Kothari: Sir, just a few more questions on our new segment of Toys, basically we have gained some decent order book in the segment, so what kind of margin profile does this segment is likely to have?

Sanjay Shah: We do not talk about individual margins. It will not be correct for me to talk about it.

Atul Kothari: Sir, will the Toy segment be majorly for export or it will be concentrating majorly on domestic market? Will it be export oriented or domestic market?

Sanjay Shah: Exports.

Atul Kothari: Majorly exports. So, have our Swedish Home Furniture started taking supplies at normalized levels like in pre-COVID period?

Sanjay Shah: Yes. We are close to pre-COVID levels in July.

Atul Kothari: Sir, can you just give a ballpark figure in terms of at what level, is it 50%, 75%, how much?

Sanjay Shah: It is higher than that. I do not want to put in a number, but yes, it is higher than that. As I mentioned to you, if you look at July revenues, July revenues are close to pre-COVID on an overall basis.

Atul Kothari: Thank you very much Sir. That is all from my end.

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

Chirag Jain: Thank you for the opportunity. The first question is on have we seen any cancellations of orders due to delayed order or any cancellations from the business partners on the other side?

Sanjay Shah: Chirag, if you look at the last call, which we had, we said that there have been orders which have been cancelled due to which our March revenues were down and April also our forecast was down with some of our customers, their exports were down, as their facilities were closed and everything. So, except for automotive where we have not seen demand going back to pre-COVID levels, I think in most of the other cases, we are seeing demand going back to pre-COVID levels.

Chirag Jain: My next question is that have we seen any growth in the capacity utilization of the pharma division if you can define any growth which we have had over the past quarters or the past year-on-year if you see?

Sanjay Shah: I will probably not get into the capacity utilization, but what we have said earlier and again to reiterate the same thing is pharma utilization during FY2020 was higher than FY2019 and we expect that growth to continue in FY2021.

Chirag Jain: I am saying that if you earned 100 last year, have you seen 120 this year, total revenue from the pharma division if you could give any ballpark number?

Sanjay Shah: That is what I said. I am not giving you the number but what I have said is the revenue in which we did in FY2019 from the pharma part of the business and if I were to compare FY2020 revenue, FY2020 is higher and FY2021 will be higher than what we did in FY2020. We do not want to give numbers here in terms of breakup, but yes, there has been an increase in turnover.

Chirag Jain: Sir, you mentioned in your investor presentation that you see a 2 to 3x growth in pharma division. So, do we have a timeline in which we expect to achieve it two years, three years, and five years? Do we have any timeline?

Sanjay Shah: Sorry.

Chirag Jain: In the investor presentation, you have said that you expect a 2 to 3x revenue increase from the pharma division.

Sanjay Shah: Which is over a period of three to five years.

Chirag Jain: Okay, three to five years. If I could squeeze another one there was an issue with a coffee mug with one of our major customers in the past. Have we seen any updates or recall or penalty on that or what is the status if you can update?

Sanjay Shah: That is closed issue for us.

Chirag Jain: I could not hear you. Can you please repeat?

Sanjay Shah: That is a closed issue for us. It is an issue which is closed for us.

Chirag Jain: Thank you. That is all from my side.

Moderator: Thank you. We take the next question from the line of Aman Dwivedi from Alpha Alternatives. Please go ahead.

Aman Dwivedi: Thank you for taking my question. My question was on the steel furnishing segment. What is the likely revenue run rate that you can hit in FY2023 and in that revenue what is likely operating margins? I have further questions. The second question is with respect of dumping duties in steel because of which domestic steel prices are higher than international steel prices. How does that impact your steel furnishing business?

Sanjay Shah: Could you please repeat the questions?

Aman Dwivedi: What are your expectations from the steel furnishings business in FY2023 and what are the likely operating margins in this segment?

Sanjay Shah: If you were to look at FY2023 we have said that the steel furniture business from the current plant which we have set up will give us revenues of about Rs. 130 Crores to Rs. 135 Crores and we are working towards increasing that also. So, if I were to look at FY2023 that is the level of revenue at bare minimum which we will be able to achieve. In terms of margins as said earlier, we will not be able to talk about individual businesses and individual margins.

Aman Dwivedi: But are there likely to be on par with the company's overall margins on a blended basis? Are they likely to be at the similar levels of the company's current operating margins?

Sanjay Shah: It will be similar or better.

Aman Dwivedi: My second question was on steel duties, particularly antidumping duties that are imposed. How does the higher steel prices in the domestic market impact those businesses?

Sanjay Shah: Foreign exchange for us is neutral in most of our businesses. So, to that extent it will not impact us.

Aman Dwivedi: Not foreign exchange. I was talking about import duties, import duties in steel?

Sanjay Shah: See the steel furniture which we make is for exports. So, if I am doing it for exports then basically we will be able to import material duty free.

Aman Dwivedi: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Mission Holding. Please go ahead.

Pritesh Vora: Thank you for the opportunity. Congratulations for improved numbers over month-over-month in the last quarter. My question is what is our focus now? because we have entered into steel work, carbon steel production plant as per the presentation. Up till now I understood it was a plastic molded company and other molded products you are doing, so is this expansion is a natural extension of what you are doing considering your client may require this or it is totally a different market and different client.

Sanjay Shah: I think we have answered this in the past. I will probably let Amit answer that.

Amit Sanghvi: Thank you. First it is an expansion of our relationship with one of our key customers. Second and more importantly, as we go forward in multiple segments across multiple industries, products will become multi-material so you will come across more and more combination products than just plastics or just steel. Even in our steel furnishing, steel furniture products, we are using plastic components. So, it was about marrying the two. You would be aware that we have also started electronics. So, in the future we will be about marrying all three of them into individual products. This is a combination. One is your expansion on the existing relationship with our customers where they have a need and have a lot of confidence in us to deliver and second is moving into high value combination products going forward.

Pritesh Vora: So, it is mostly furniture and furnishing products that is the line of business you are in?

Amit Sanghvi: The plant is a steel fabrication plant, so the stamping, punching, bending, welding, powder coating. Using this plant we can make any multiple types of steel products. It is not necessarily only furniture.

Pritesh Vora: What is our asset turnover on the steel plant and the previous question was about the EBITDA margin. So, more or less can we consider that EBITDA margin will be more or less in line with your present business?

Amit Sanghvi: On the steel business, the margin should be slightly improved, because there is a higher value ad content. So, raw material content is slightly lower than the plastic business.

Pritesh Vora: EBITDA margin will be higher in the steel business?

Amit Sanghvi: Right, slightly higher, yes.

Pritesh Vora: What will be your capex over the next two to three years, what kind of capex will you be spending? It will be through internal generation, through debt or something. What kind of expansion plan we have over the next two to three years?

Sanjay Shah: Pritesh, over the next three years we will probably be looking at investing about anything between Rs. 30 Crores to Rs. 40 Crores on a yearly basis for the next three years. We will be initially looking at funding this with a combination of debt and internal accruals. If you look at the last four years, majority of our expansion has been funded by mix of 50% debt and 50% internal accruals and I think we will continue funding it on the same fashion.

Pritesh Vora: Wish you all the best. Thank you very much.

Moderator: Thank you. The next question is from the line of Avinash Gupta, an individual investor. Please go ahead.

Avinash Gupta: Thank you for the opportunity. In the past, we had a target of $100 million turnover by 2020 or 2019 I do not recall exactly. Have we abandoned the target or still it remains in our radar? That is one. Second thing wanted to understand, we are in the business of manufacturing and I understand steel business relatively does not have that kind of precision, what kind of products that precision our steel will be of use?

Amit Sanghvi: We have not abandoned the target the answer to your first question. We have merely delayed it. On your second question, I disagree that the steel furniture does not require that kind of precision and precision is not on the steel furniture side it is not measured in microns of accuracy; however, there is very, very high level of precision required because it has to do with safety of the consumer in terms of both from the steel fabrication side of it and second the chemical compliance on account of using powder coating operations. So, you go through de-grees and we have installed a line which uses an organic compound to pre-treat the components and not phosphating. So, there is a high level of compliance and accuracy needed even in the steel production business.

Avinash Gupta: I did not mean it is not there.

Amit Sanghvi: We are not a fabrication shop that makes the hand bends and make this steel furniture, it is an automated production line. So, the accuracy is very high.

Avinash Gupta: Thank you.

Moderator: Thank you. We will take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, just one question. When you talked about that you have a reasonable possibility of growing this year FY2021 over FY2020 does this first of all that would mean more than 20% growth for the rest of the three quarters. So, do we have confirmed orders in hand for the three quarters or is it more of an educated guess from our side based on our conversation? Second question I had is does this growth include the topline coming from the steel furniture business?

Sanjay Shah: Yes this includes some part of the revenue from steel furniture business which we will gradually ramp up between Q3 and Q4 after making commercial supplies in Q2 and coming back to your first part of your question, we get forecast from customers which are dynamic, but when we are saying we are looking at growth, It is a combination of forecast which we have from customers today and in some cases all fixed orders which we have today and based on that we are very confident that we will be able to have growth over FY2020 in the current year.

Viraj Mehta: Sir, the $100 million that the last question you alluded that we have delayed, in your best educated guess, by what year do you think you can reach their including the new businesses that we have started? Will it be FY2022, FY2023, FY2024, just your educated guess?

Sanjay Shah: We do not want to put a date there. Let us take two quarters growth, let this year grow and we will talk about it.

Amit Sanghvi: No, at the end of the year we will have a talk about it.

Viraj Mehta: Thank you. Best of luck.

Moderator: Thank you. The next question is from the line of Ashish Kacholia from Lucky Investment. Please go ahead.

Ashish Kacholia: Congratulations on a good set of numbers. Actually, even though the numbers are having loss but the fact that we were able to do a positive EBITDA margin, I thought it was pretty encouraging. With our decision and our action in getting our new CEO on board, I think we have kind of taken the first steps towards the positioning our company for a bigger play. So, my only question would be what the next step from here is in terms of beefing up our management team. Do we feel the need to bring in more people from outside and so what clearly is the management team capable of handling them because we do not seem to have a shortage of business? We have only stumbled on execution in terms of being able to deliver. So can you just elaborate on this aspect of what we are thinking from here, Amit and even I would love to hear from our new CEO as well what is the kind of thoughts that he has in terms of scaling up our operations from here?

Amit Sanghvi: Sure. I will just say a few words before I hand it over to Anil to may be elaborate on the topic. Two aspects Ashish I think we have had lots of challenges in execution in the past. We have not identified and built enough capabilities, in a time where when we had to execute the projects. So, having said that we are certainly looking for more people that does not mean , we are adding to the current strength, but we are probably looking at upskilling within the numbers that we have. So, we will be looking for an engineering head, head of our engineering services and I will hand it over to Anil. We are also hiring in business developments both in India as well outside of India. I will let Anil take over from here.

Anil Kalra: I think with the challenges I have come when I came to the company were execution of new business in terms of toy business and also growth of the furniture business and carbon steel, we have to enhance the capability of the team here and as Amit has just mentioned head of engineering, business development are in the anvil and we are seeing this very seriously and we hope to fill in these positions soon, also we need to improve the operational team in the plants, so to that extent we are hiring young, qualified engineers from CIPET and other places for the plastic business and trying to train them in-house so that they can spend longer tenure and getting experience. So that is a strategy that we are working on and also the awareness in terms of what manufacturing excellence could be is being brought about with the teams here and to that extent we have improved the OEE, the overall equipment efficiency in July by 7% to 10% over the previous months. That is what we are working on. So, as I said earlier, it is important to strengthen the bottomline while we grow on revenues and also add business so that will bring in the requisite strength and I think management team has to be strong enough. So that is all to sum it up.

Ashish Kacholia: Anil Bhai, since you come from the Samvardhana Motherson Group where the concept of 30% ROCE was pretty much ingrained into every person who was there, do you think that is possible to be done in Shaily also?

Anil Kalra: The plan is that we are working towards that but it was not 30% in Motherson so the CAGR for 10 years has been 40%.

Ashish Kacholia: I would mean that a person like you with your kind of experience probably I am sure you are thinking of doing here also, kind of thinking of where do we get to $200 million, $300 million as a first planning horizon. Eventual ambitions can be higher, but first planning goal if you can take it towards $200 million, $300 million kind of a size from where we are in, I think it can be an interesting play?

Anil Kalra: Yes, actually let us take step by step. I think we have started in the right way, with the business development team headed by Amit and Sanjay Bhai bringing in a newer diverse segment of business from newer verticalization which has huge potential let us first stabilize on that and gain some numbers in topline and bottomline and generally I think over the years we should grow, the company should grow. That is what is required also and that is the need of the investors and also all stakeholders.

Ashish Kacholia: Thank you very much. All the very best.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Mission Holding. Please go ahead.

Pritesh Vora: Sir, as you mentioned ROCE target is 30%, when can you achieve that target?

Sanjay Shah: Pritesh we have not said our ROCE target is 30%.

Pritesh Vora: What is the product extension and what are the inventory of the products which can improve the return ratio?

Sanjay Shah: What we are working on is on two things, one is product mix as we are moving up the value chain with looking at increased businesses coming in from pharma, which will basically help us increase the margin profile.

Pritesh Vora: So, pharma is what percentage of revenue as of now?

Sanjay Shah: We do not get into individual numbers; I am sorry Pritesh.

Pritesh Vora: What are the major sectors of the business we are in? One is the pharma and other is the molded for furnishing and what are the other business products we have?

Sanjay Shah: Broadly, we are present across five verticals; one is called consumer which basically includes home furnishing, toys and everything, second is FMCG, third is automotive, fourth is pharma which includes devices and packaging, and fifth is engineering. So, these are broad areas which we are present across.

Pritesh Vora: You also mentioned previously that you will be doing Rs. 30-35 Crores from internal accruals but I see your debt to EBITDA is already at 3. So, do you have the space to take more debt?

Sanjay Shah: When you are looking at debt to EBITDA you are looking at the June quarter numbers or the March quarter numbers?

Pritesh Vora: The previous year numbers

Sanjay Shah: If I have to look at the previous year numbers I do not think the debt to EBITDA is 3. It is lower than that.

Pritesh Vora: I think it is a TTM number. TTM number I am looking at.

Sanjay Shah: June is an exceptional quarter and I do not think June can become a benchmark for that. If you were to look at March numbers it is much lower.

Pritesh Vora: I just want to understand what is the debt provided you are comfortable with? What debt to EBITDA they are comfortable with?

Sanjay Shah: We will not want to go beyond 3 at any point of time. That too we are very, very clear.

Pritesh Vora: Sorry, you do not want to beyond?

Sanjay Shah: 3, we will not go beyond 3. We will be cautious on that and take on that much of debt which we think we can service.

Pritesh Vora: Thank you. Best of luck. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Sanjay Shah: Thank you everyone for joining on the call. We hope we have been able to answer your questions. For further information, request you to get in touch with SGA, our investor relations advisors. Thank you and stay safe. Thank you.

Moderator: Thank you very much. On behalf Shaily Engineering Plastics Limited this concludes the conference. Thank you all for joining. You may now disconnect your lines.