



## “Shaily Engineering Plastics Limited Q1 FY2020 Earnings Conference Call”

August 09, 2019



**MANAGEMENT: MR. AMIT SANGHVI – MANAGING DIRECTOR – SHAILY  
ENGINEERING PLASTICS LIMITED  
MR. SANJAY SHAH – CHIEF STRATEGY OFFICER – SHAILY  
ENGINEERING PLASTICS LIMITED**



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**Moderator:**

Good morning ladies and gentlemen welcome to the Shaily Engineering Plastics Limited Q1 FY2020 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 guarantee 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. Amit Sanghvi, Managing Director, Shaily Engineering Plastics Limited. Thank you and over to you Sir!

**Amit Sanghvi:**

Thank you very much. Good morning and a warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I have with me Mr. Sanjay Shah our Chief Strategy Officer and SGA our Investor Relation Advisors. I hope you have had a look at our investor presentation that is uploaded on our website as well as the stock exchange.

We believe we have hit the bottom in Q4 of FY2019 and are clearly looking at a sustainable up trend. This is also reflective in our performance for Q1 FY2020 as well as in the business that we executed in July and August as well. We continue to strengthen our relationship with existing clients and got some new ones. This clearly demonstrates our capabilities in plastic engineering.

A brief update for the quarter. We have received confirmation for supply of auto component for turbo chargers that are to be used in electric vehicles.

We have officially entered a new business segment, Toys. We have got business confirmation from a large toy company for manufacture and supply of two products and we expect to start supply from Q4 of this year.

On the pharma front, we have received additional confirmations for two drug delivery devices from a large domestic company. We expect to start supply of this order from FY2021. With this our portfolio now has a total of 13 drug delivery devices under various stages of development.

A brief update on our unit for manufacturing steel furniture. We have started construction in Q1 of FY2020. We intent to complete construction of the building by October 2019, installation of equipment by December 2019 and sale start by February of 2020, so we expect sale start in Q4 of FY2020.



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I am also happy to share that we have initiated employee stock option plan in 2019. We are offering 1,31,570 equity shares to eligible employees. This is our effort to retain the critical and highly talented work force that we have created at Shaily for the last many years. 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. I shall share with you the highlights of our operation and financial performance during Q1 FY2020 following which we will be happy to respond to your queries.

During the quarter we processed 3049 tonnes of polymers as against 2961 tonnes in Q4 FY2019, an increase of 3% quarter-on-quarter. On a year-on-year basis there was a drop of 14%. Machine utilization rates was 59% during Q1 FY2020 as against 72% in Q1 FY2019 and 62% in Q4 FY2019.

Exports during the quarter stood at 69% of total revenue as compared to 76% in the same period last year. For Q1 FY2020 our revenue stood at Rs.80.6 Crores showing a Q-o-Q growth of 4.2%. On a year-on-year basis, the decline was 9.5%. EBITDA for Q1 FY2020 is at Rs.13.4 Crores showing a quarter on quarter growth of 13.3%. On a year-on-year basis, the decline was 4.6%. EBITDA margins stood at 16.6% during Q1 FY2020 as against 15.7% in Q1 FY2019 and 15.3% in Q4 FY2019. Net profit for Q1 FY2020 is at Rs.4.7 Crores showing Q-o-Q increase of 34.5%. On a year-on-year basis the decline was 18.2%. PAT margin of Q1 FY2020 is at 5.9% as against 6.5% in Q1 FY2019 and 4.5% in Q4 FY2019. Cash PAT for Q1 FY2020 is at Rs.8.9 Crores as against Rs.9.5 Crores in Q1 FY2019 and Rs.7.5 Crores in Q4 FY2019. Our capex spend was Rs.4.26 Crores, which include capital work in progress. This was primarily towards machinery and molds, which we have purchased and some of it is for intangible asset under development, which is basically related to the drug delivery devices, which we are developing for various customers. We strongly believe that Q4 FY2019 was bottom in terms of our performance. That is all from our side and now we can open the floor for Q&A. Thank you.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

**Kaushal Shah:**

Thank you Sir for the opportunity. Sir as you mentioned last year we had quite a few challenges in Q4 also and even earlier so what I wanted to know was that we had given a guidance for the current year so are we sticking to that guidance of Rs.400 Crores revenue number? The second was as far as the inventory correction from our Swedish customer is concerned, any update on that? Has that been corrected in Q1 and are we expecting any ramp up in the following quarters and finally some thoughts



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on the pharma side, any update on some of the devices, which we had already received confirmations in the past, which were in the advanced stage of getting finalized and on the deliveries on that side?

**Sanjay Shah:** Kaushal I think I will answer the first part of the of the question. On the first part I do not think we have given a guidance of the number, which you talked about. What we had essentially said was that our FY2020 guidance or the approximate figure, which we had talked about has been extended by a year, so we think we will basically achieve that in FY2021, so that is what we expect. On the Swedish Customer part, we are seeing an improvement in orders, but it is a slow improvement. We have talked about it and we should probably see it in post Q2 and we still stand by that.

**Amit Sanghvi:** Even part of our investor presentation I think you are able to see that the volume of polymers processed has gone up marginally so we are seeing the increase in uptake coming in slowly and I had mentioned the same during the last call that we expect this to normalize after Q2, or at the start of Q3 of FY2020. On the pharma side, we have signed several agreements over the last 18 months for various devices so there is a total of 13 devices in various stages of development and they will start getting commercialized from Q4 FY2020 to Q1 FY2022. All 13 between now and Q1 of FY2022 will get commercialized.

**Kaushal Shah:** Sir are we expecting any ramp up, in terms that a particular part of the business meaningfully getting commercialized in the current year?

**Amit Sanghvi:** You cannot call it a ramp up. When it is a ramp up we will start seeing good amount of sales. Now I think we will start supplies this year for three of our new drug delivery devices. Ramp up will possibly take between now and the end of next year.

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

**Moderator:** Thank you. The next question is from the line of Nagraj Chandrasekar from Laburnum Capital Advisors. Please go ahead.

**Nagraj Chandrasekar:** Just wanted to broadly understand who are our competitors in India and overseas for both these medical devices that we have in our pipeline and we have signed agreements for and also with the products we make for our largest Swedish customer and where are we on cost versus them and what really is the driver of this cost differential?

**Amit Sanghvi:** Our competitors as far as medical devices are concerned, we do not have a domestic company that is a competitor. We have a lot of international players with presence in India that we compete on a global level, so to name a few I would call companies like, Nypro, Ypsomed, BD, Gerresheimer, Owen



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Mumford to be our competitors. I might have missed a few, but there is another one in Switzerland called Haselmeier as well. This is on the drug delivering side.

On the primary packaging side, our competitors would be Triveni, Shrey, BVG, Berry possibly some of it comes from even Gopaldas and then on the home furnishings front again the competition is global, some large international, there is a Chinese company that I can name which is called as Hisense, it is a very large conglomerate, it is one of our key competitor with the home furnishing business. To your second question on comparing cost, so I think given that our competitors are not only domestic, there are mainly global, the real way to compete on cost is to designing the best possible manufacturing solution, so we are not necessarily cheap because of labour or anything to be very honest we are probably cheaper because the way we design tools and the post process moulding process, raw material more or less with a variation of may be 3% to 4%, prices are more or less the same across China, India, Europe especially with large customers because they have global contracts on prices. What makes us competitive is the way we design technical manufacturing solutions and how fast we are able to execute projects.

**Nagraj Chandrasekar:** Got it, thank you and just the medical device, the insulin pen deal that we have the contract with the large global pharma client, where are we on this product and what do we think can be the potential long term revenue for this product from this client on an annual basis and are we anywhere close to winning orders from other large global pharma companies that makes this product as well?

**Amit Sanghvi:** I do not think I can talk about our customer in that much detail, but let me put it this way, we have just scratched the surface and there is a huge potential for us to not just compete, but succeed in this market.

**Nagraj Chandrasekar:** Got it. Thank you.

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

**Hitesh Taunk:** Thank you for the opportunity Sir. My first question is last quarter in Q4 FY2019, we had discussed on the volume front from the Swedish furniture major like, say we have calculated kind of 5% odd volume growth for FY2020 from the Swedish major, so are we on track to achieve that kind of growth or you want any kind of revision in the volume, this is my first question and my second question, sir, in the same call, we had also discussed that the sales lost was around Rs.80 Crores and we were planning that around 70% or Rs.55 Crores to Rs.60 Crores sales loss will be recovered in FY2020, so are we on track and we have got some order, this is my second question? I will come after with more questions.



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- Sanjay Shah:** If you look at our presentation and also it was mentioned in the opening speech, we have increased material processed from Q4 to Q1 FY2020 by 3%. Therefore, when we look at number of 5% definitely yes, there will be ramp up, we are going to see that number towards end of Q2, but yes there will be a increase in volume. Towards your second question in terms of recovery of sales that we lost last year, I will still stand by the indication that we gave you that 70% of our revenue that we have lost last year would be recovered in the coming year.
- Hitesh Taunk:** Okay, so my next question is about this new business of Toy-manufacturing, is this Indian client or it is an overseas client and second question is that what would be the business opportunity size of this Toy manufacturing?
- Sanjay Shah:** We have said in the speech that this is the global toy major. In terms of opportunity, it represents a huge opportunity, but this is start which we are doing, and we will not be able to share the details currently
- Amit Sanghvi:** Anyway, it is too premature for us to share any numbers or indication at the moment.
- Hitesh Taunk:** Okay, will this opportunity come from FY2021 or will it start from Q4 FY2020 onwards?
- Sanjay Shah:** We expect to start from Q4 FY2020 initial supply and then ramp up should be happening in FY2021.
- Hitesh Taunk:** Are we planning any kind of capex for this opportunity or it will be served from the existing capacity only?
- Sanjay Shah:** Currently we are not planning any capex, there would be some minor capex in terms of jigs fixtures, but nothing major, it would be within the existing facility from the existing machine.
- Hitesh Taunk:** Okay great. Sir my next question is pertaining to our carbon steel business, we were planning to start the sales from Q4 FY2020, so we were planning to book the sales of around Rs.10 Crores odd this year, this is what the guidance we had received previously and that opportunity would increase to around Rs.120 Crores from FY2020 onwards, would you stick with the guidance or would you like to revise the guidance?
- Amit Sanghvi:** There will be a minor change, nothing major but our construction activities have gotten delayed because of very heavy rainfall in Baroda so instead of initial sales chart of December, January we have now moved it to February, so there will be a drop in revenue for current year as far as the furniture is concerned and then in the following year I only anticipate a lag effect of a month, so potentially you are looking at a drop of 10% in terms of revenues.



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- Hitesh Taunk:** Okay, so the major sales growth would start from FY2020 onwards, am I right Sir?
- Amit Sanghvi:** FY2020 we will start first delivery and start the revenue stream, but FY2021 is when we will see a significant ramp up.
- Hitesh Taunk:** My next question is pertaining to our gross margin since we have seen some kind of correction in the raw material prices, the PVC prices, the crude derivatives also, so with this kind of decline in the crude prices or derivative prices, are we planning any kind of passing on any price decline to the customer, , our gross margin would remain intact with this current position or do you think any kind of decline in gross margin from your own?
- Sanjay Shah:** Hitesh, there are two things. We have not seen major decline on raw material prices.
- Amit Sanghvi:** It is very minor in terms of raw material prices.
- Sanjay Shah:** You see minor in crude derivatives, but not major. Second is as we have said in the past, whether raw material prices increase or decrease, they get passed onto the customers, so they get reflected in the results.
- Hitesh Taunk:** Okay, so we expect maintaining gross margin in current position right Sir?
- Sanjay Shah:** Yes.
- Hitesh Taunk:** My last question is, as you had indicated, like probably this year we may see growth in our debt level, but FY2021 onwards we would see decline in the debt level as our capacity utilization will start ramping up, so would you stick with that guidance that our debt level will start declining from FY2021 onwards?
- Sanjay Shah:** So, we have repayments scheduled with our bankers and financiers and we would be looking at repaying those on schedule. Yes, we still stand by that, FY2021 onwards you will see reduction in the debt level that the company has planned.
- Hitesh Taunk:** Okay Sir, that is all from my side. I will come in the queue Sir.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.



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**Pritesh Chheda:** Sir I wanted to know the operating cash flow that you generated in Q1 and second after the steel unit becomes operational, what kind of debt do we see at the end of FY2020?

**Sanjay Shah:** The Cash PAT for FY2020 was Rs.8.9 Crores

**Pritesh Chheda:** This is Cash PAT right?

**Sanjay Shah:** Yes.

**Pritesh Chheda:** And operating cash flow?

**Sanjay Shah:** We will need to get back to you with the number.

**Pritesh Chheda:** Okay and what will be the debt if we take a scenario, say we reach Rs.600 Crores revenue, what should be the debt, what is the aspirational number and at the end of FY2020 once the plant become operational which is the steel furniture plan, what would be debt on the books?

**Sanjay Shah:** So, the current debt on book which is there is about 124 Crores and we think an additional Rs.50 Crores of disbursement will happen in the current year. So, it will go to about 174 Crores and then there will be an increase in working capital which will probably take it above 190 Crores and repayment in the next nine months roughly will be Rs.18 to Rs.19 Crores so or gross debt can be about Rs.175 Crores at the end of the year.

**Pritesh Chheda:** Okay and once you have achieved your aspirational revenue, which you had mentioned in the past at that time what should be the debt?

**Sanjay Shah:** You look at another Rs.27 Crores of repayment next year and there will be some marginal increase in working capital, but on the net level I expect the debt to come down.

**Pritesh Chheda:** Okay and lastly, we talked about the order book visibility and continuous addition in the order book with new order wins, I just wanted to know if you have to correlate with possible polymer processed in the orders, what would be that number?

**Sanjay Shah:** I did not understand the questions, can you just explain what is that you are looking for?

**Pritesh Chheda:** So, we talked about the order book addition continuously, it is possible to know what kind of polymer consumption will be required if you have to translate this backlog into polymer process?

**Sanjay Shah:** Okay just a second...



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- Pritesh Chheda:** And if you could put it as potentially annual polymer to be processed actually?
- Amit Sanghvi:** So, from quarterly perspective we are looking at going up to roughly 4100, 4200 tonnes for the quarter, starting in Q3 and Q4.
- Pritesh Chheda:** Okay and any possibility to know what would be the potential in this order backlog as of now that did you see for this 4100, 4200 tonnes and can reach to what number based on the current backlog that you have?
- Amit Sanghvi:** No, I do not, because there is no backlog of orders, it is just whatever we were not able to execute last year and how much of that we will recover this year, it is not order backlog, I do not think any of the customers are going to wait 12 months for delivery.
- Pritesh Chheda:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** Thanks for the opportunity, just continuing on the question of order book, Amit you mentioned in the opening remarks that we have a strong order book visibility for this and next year, would it be possible for you to quantify how much it would be and if possible by segment wise while home furnishing and auto and medical? Because home furnishing like for example carbon, so can you mention products & possibility of sales?
- Amit Sanghvi:** So that is a full annualized revenue that stands as Rs.100 Crores for the carbon steel project, we will start supply in February 2020, which means in Q4 of FY2020 and we will realize full potential or majority of the potential only in FY2021.
- Akhil Parekh:** In other segments because the reason I am asking is every quarterly presentation, we keep saying there are new orders in different segments, it is difficult to keep a track and annualized how we are moving and how we are doing on these segments?
- Amit Sanghvi:** I will take you through it again, we started developing two toys for a large manufacturer for which we will see revenues starting in Q4 of this year. In the pharma front, I have said we will see three of pen injectors being commercialized this year with revenue with full ramp up happening only between Q4 of FY2020 to Q1 of FY2022. For steel furniture business, we will start sales and expect revenue from February 2020 with a full annualized sale being of Rs.110 Crores which means which is the majority of that portion in FY2021.



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- Akhil Parekh:** Like auto you are supplying components for turbochargers...
- Amit Sanghvi:** So, the way it works in automotive is that every time we get a business award, we first do the prototype and testing and following that we start the actual ramp up of the product. If you go back into history, for a lot of the products that we were awarded, we have started commercial sales so always considered that whatever the business value in automotive is, the ramp up will only start 10 months from when we get the business award.
- Akhil Parekh:** So, you are saying this new order, which we have received for electric vehicle will commercialized may be a year down?
- Amit Sanghvi:** In Q2 of FY2021.
- Akhil Parekh:** This is electric vehicle order, which we have is it for domestic supply or is it for MNC?
- Amit Sanghvi:** For global supply, I believe the vehicle at this moment will not be coming to India.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir on the auto part of our business, are we witnessing any slowdown with clients like Honeywell, etc., so that is one and the second is on the debt that we are taking for this particular new project and the other capex so now that the overall rate structure in the economy is down? Are we going to see any meaningful impact of that flowing into our numbers on the debt front?
- Amit Sanghvi:** I will answer the automotive part of the question and Sanjay can take it for the debt. As far as automotive is concerned, we are working on lot of new developments for global markets where we have seen traction and seeing revenue pick up, however, one of our big key products which was for the domestic market and I mentioned that it was for Suzuki Swift and Swift Desire has taken a significant hit. Suzuki themselves have cut production probably by half and our orders are also down by half, but in the grand scheme of things, it is a very small revenue drop for us.
- Kaushal Shah:** All right and Sir what I wanted to know was that debt that we have taken that is coming of course with the two-year moratorium but the coupon rate on that, now that the rate in the economy is down compared to probably when we had contracted, so, are we going to see any meaningful reduction in our interest payments going forward?



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- Sanjay Shah:** Those transmissions have not happened so while we are working with our bankers and financiers but those transmission have not happened, so I do not want to comment on that till it actually happens.
- Kaushal Shah:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** My question was on the Swedish home furnishing major, if I remember correctly last time, we had mentioned that we had been supplying around two to three SKUs for the Indian operations, has there been any growing traction on that front?
- Amit Sanghvi:** We supply everything to the Indian operations that we supply for international markets.
- Sanjay Shah:** So, whatever we supply internationally it goes to the Indian operation also.
- Kaushal Shah:** Okay if I have to put in when we started for the Indian operations, are we seeing some incremental volumes till date basically?
- Amit Sanghvi:** We have supplied everything from the very beginning, it was never only a few SKUs.
- Kaushal Shah:** Okay got it that is all from my side. Thank you so much.
- Moderator:** Thank you. As there are no further questions. I now hand the conference over to the management for their closing comments.
- Amit Sanghvi:** Thank you everyone for joining on the call, we hope we have been able to answer your questions adequately. For any further information, I request you to get in touch with SGA our investor relations advisors. Thank you very much. Have a good day.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Shaily Engineering Plastic Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines. Thank you.