



“Shaily Engineering Plastics Limited Q1 FY23 Earnings Conference Call”

August 08, 2022

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**MANAGEMENT: MR. AMIT SANGHVI – MANAGING DIRECTOR
MR. SANJAY SHAH – CHIEF STRATEGY OFFICER**



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Moderator:

Ladies and gentlemen, good day and welcome to Shaily Engineering Plastics Limited Q1 FY23 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 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 participants' 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 – MD, Shaily Engineering Plastics Limited. Thank you and over to you, Sir.

Amit Sanghvi:

Thank you very much. Good morning and a very 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 Relations Advisors. I hope you have had a chance to look at our investor presentation that is uploaded both on our website as well as the Stock Exchange.

I am very happy to share that while we have registered our highest quarterly revenue in Quarter 1 of FY23 at Rs.172 crores. However, I'm sure everyone has this question on their mind, so I'd like to address it upfront that we've also registered lower than normalized margin. We've had some very significant challenges in Quarter 1 of FY23 particularly with respect to rising material prices, as well as weakening rupee against the dollar, which have both resulted in margins taking a hit. We anticipate these margins to normalize by Quarter 3 of this financial year. We have witnessed significant improvement, improved traction across various verticals. We have very strong visibility that gives us immense confidence that we will be able to scale up further and grow including margins.

We are deepening our foray into the intellectual property that we're developing in the UK for Healthcare. Healthcare is now our second largest revenue contributing segment. During the quarter, we finalized contracts for two additional pen injectors with leading pharmaceutical companies. We built a scalable model which will help us achieve higher revenue growth in the coming years.

We've also embarked on a journey to create a new drug delivery technology that will be groundbreaking and leading world leading for oncology, where currently therapies are administered by healthcare practitioners in hospitals; we intend to change this by taking the drug delivery at home.



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We're also deepening our foray in contract manufacturing of medical devices, where I'm happy to announce that we've just signed an agreement with the customer to manufacture dry powder inhalers for them.

Under our automotive and engineering we have started commercializing orders that we received and expect ramp up in the current year as we had mentioned in earlier calls. Last year, we raised funds and have started utilizing it to expand our core business of home furnishing, toys as well as towards healthcare. We are planning a CAPEX spend of approximately 200 crores over the next two years out of which more than half of the spending will be towards the pharma part of our business. This will be towards scaling up the existing devices that we have spent years developing and putting on clinical batches for customers as well as for new IP led devices that we're currently in the process of developing them and handing over to customers.

That is all from my side. I shall now hand over the call to Sanjay Shah, our Chief Strategy Officer to give you the operating and financial highlights. Thank you very much.

Sanjay Shah:

Thank you Amit. Good morning, everyone. I shall share with you the highlights of our operational and financial performance of Q1 FY23 following which we will be happy to respond to your queries.

During the quarter we processed 6,544 tons of polymer as against 4,098 tons in Q1 FY22 an increase of 60% year on year. In Q1 FY23, we've already achieved 24% of the volumes of FY22 in the current quarter. Machine utilization rate stood at around 50% in Q1 FY23. Exports during FY22 stood at 80.4% of total revenue as compared to 76.1% in FY22.

I shall now brief you on the standalone result highlights.:

Revenue stood at Rs.172 crores during FY23 as compared to Rs.121 crores during Q1 FY22 a growth of 43%. This is our highest quarterly sales as mentioned already. EBITDA stood at Rs.21.7 crores during Q1 FY23 as compared to Rs.20.2 crores during Q1 FY22 a growth of 8%. EBITDA margin stood at 12.6% for Q1 FY23. As mentioned by Amit, margins have been under pressure for a couple of quarters due to increase in raw material prices. These costs would be passed on as we go in the future. PAT stood at Rs.7.4 crores during Q1 FY23 as compared to Rs. 8 crores during Q1 FY22. PAT margin stood at 4.3%. Cash PAT for Q1 FY23 was reported at Rs.15.2 crores as compared to Rs.13.9 crores during Q1 FY22 a growth of 9%. On a consolidated basis, revenues stood at Rs.175 crores, EBITDA at Rs.24.3 crores and PAT at Rs.9.5 crores for Q1 FY23. We don't have a comparable for Q1 FY22, so we're not having any comparable numbers there.

We would like to highlight that on the basis of recent developments, including operational and financial performance of the Company:



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CARE ratings have upgraded our bank loan ratings from A – to A stable outlook for our long-term facilities of Rs. 270.17 crores and the short-term bank facilities have been upgraded from Care A2 to Care A1.

This is all from our side. We can now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: My question Amit is that my understanding is that your business model is primarily a complete raw material pass through model and with our largest customer our billing is in rupees. So, we are also hedged for currency. My question is that, how does one interpret the quarter-on-quarter gross margin decline, I'm saying practically from a medium-term perspective, this metric, does it mean anything? Because if your revenue is on a formula basis, linked to raw material prices, even if raw material prices were to crash or move up, over the medium term your absolute cash gross margin remains the same. Is that understanding correct?

Amit Sanghvi: Yes and no. . See, there is a material margin that is charged and there's also a manufacturing margin, which is charged. What happens in a scenario when you have rising material prices, quarter on quarter is that we get the effect of the rise in the last quarter during this quarter and the rise of this quarter, in the next quarter. Then the other thing that plays out is the product mix for each quarter and the volumes that we manufacture and sell. For example, if we've done the best quarter we have in the current quarter and sales go up and we get the price increase, we benefit out of it or we at least negate the margin erosion of the previous quarter. But if volume comes down, even though you get a material revision, you benefit less; you will have some losses that you make because you've not done the same volume. Product mix volume also plays a little bit of role throughout. In a given year it balances out. But unfortunately, we are in some unusual times at the moment. So, we are seeing product mix changes. We are seeing certain products going up in volume, certain products coming down in volume. It has a little to do with the customer strategy as well, because there's limited capacity in terms of logistics available. Prioritizing products which are their best sellers is always going to be key for them to sustain their business. Does that make sense for you?

Manish Gupta: Yes, so I have a follow-up on this. What I hear you say is that under the assumption, for example, you were only selling one SKU and let's say it was hundred unit and that remains flat, then no matter what happens to commodity prices or the rupee, your cash flow remains preserved over time is that understanding right?

Amit Sanghvi: Yes, as a percentage it goes up or down, but the value part probably remains the same over a period of time.



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Manish Gupta: Okay. What I didn't understand is that now I understand product mix, but if volumes go up. Let's say that you're growing pretty rapidly your volumes are up 50% QoQ give or take. If commodity prices have gone up, are you saying that you will lose out because you will get a lower raw material adjustment based on the higher volume is that what you're saying?

Amit Sanghvi: No. So, think about it. Our raw material buying cycles on average are we will keep, we will have stock of no more than 20 days in raw material, for example, whereas the price revision with the customer is quarterly. So, you have one price revision every three months, whatever I have supplied in Q1 FY23, I've also bought substantial, barring three weeks I bought the most substantial amount in Q1 FY23. The prices we have paid in Q1 FY23 are substantially higher than Q4 FY22. We will see this revision in Q2. We will get this adjustment in Q2

Manish Gupta: If the prices completely collapse, it's not as if the customer will not give you the adjustment, they will give you the adjustment for the higher price.

Amit Sanghvi: No, the same formula applies. So, prices collapse, our margins go up because for example, we paid the highest I mean, material have been at the highest in Q1 FY23. If prices start to come down, then we will benefit from prices going down.

Manish Gupta: Okay. My second question and final question on it is that we are seeing across the board, opportunity in China plus one, I guess, in some of the segments that you are in that opportunity is quite strong toys, furnishings. Can you just talk little bit you mentioned some of this in your prior calls, but what are we doing for talent retention as we scale up because this is manufacturing, so, I guess you need a lot of talent on the design and manufacturing side. Can you talk a little about what you're doing for that?

Amit Sanghvi: Sure. I'm glad that you asked this question. We've brought down our attrition from 14-15% down to very close to 10% over the last two quarters. We have great comradery within the teams. What we have done is we've introduced the performance link incentive or a portion of our employee salary up to level of senior management 2 is all based on PLI, based on performance, quarterly performance of the company as well as quarterly performance of the team and then the individual. We've seen that this has been a great motivation for people to a) to perform higher, to do better continuously and we see the results of that especially when it comes to manufacturing. Unfortunately, our utilization is low because the order book, while we've done Rs.175 crores, the order book is not what we anticipated it to be. That's playing a bit of a downer, but in overall, our retention has gone up. Employee retention has gone up substantially and we are introducing long-term wealth creation up to a certain level of employees so that we improve that further.

Manish Gupta: Okay. Perhaps if I can flip in the last one, given what you're seeing, how the world is evolving, I guess there are some recessionary headwinds but there also tailwinds of global supply chains



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diversifying on a rolling five-year basis would you venture a number of what you'd be disappointed by if Shaily does not reach in five years from now?

Amit Sanghvi: Well, put me on the spot right. I think if Shaily does not achieve an average CAGR of 17 to 20% year on year, I would be very disappointed. Given here to debug but overall, I think we should still get there,

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

Ritesh Shah: A couple of questions. First continuing with prior question, what percentage of our volumes will have a cost of arrangement, you explained on the price revision that was useful, but just wanted to get a number on percentage of volumes, which will have a cost pass through arrangement?

Amit Sanghvi: How far is pass through arrangement, some pass through on a quarterly basis, some pass through on a six-monthly basis, some pass through on a yearly basis.

Ritesh Shah: But most of our volumes, right. Did I hear right?

Amit Sanghvi: I would say 80% of our business passes through on a quarterly basis or more.

Ritesh Shah: Okay. That's quite useful. My second question is in your initial remarks, you did mention about healthcare. You did mention about inhaler device and the new mechanism to get the delivery at home. Possible if you could provide some more color over here. Thank you.

Amit Sanghvi: Two separate projects. One is we've developed a new technology. I will explain about it more in upcoming quarterly calls, too soon to talk about it, but basically, it's for oncology therapies where patients are required to take very large volume drips currently at hospitals. We're trying to develop something which where they can do this same activity at home. Second is that we have gotten into a contract with someone to manufacture dry powder inhaler.

Ritesh Shah: This is a dry powder inhaler any quantum any timelines over here, the size of the market that we are looking to cater, approval and other things?

Amit Sanghvi: No, it is a contract manufacturing, because it's a contract manufacturing job, it purely depends on how the customer does. Here I will not be able to give you any further information at this point, once product is fully industrial, we will be able to give you some indications. That's going to be 12 months out.

Ritesh Shah: Lastly, in our prior conference calls, we have indicated about, ramp up trajectory that we are looking at insulin pens. We are also indicated that we have a number of innovative products, which are there any color over here?



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Amit Sanghvi: That business is growing well. We are making a lot of headway in now also different geographies of the world. We've currently targeted Middle East where we see great volume opportunity scale up in 24 and 25. The earlier indication stands through even today,

Ritesh Shah: Would it be possible to indicate the number of pens produced? I think the earlier number was I think, 7 million pens per year and we were looking to a ramp up of nearly 20 million over the next two years. Any updates over here and if we could split it up between contract manufacturing versus IP that will be useful?

Amit Sanghvi: All right. Currently, contract manufacturing would account for 60% of the pens. I would say sixties, maybe 65 or 55 or 65. Let's say somewhere around there, it changes. It's quite dynamic and the rest would be our own IP. We see the IP growing significantly so when we gave the indication of 20 million over three years, most of that will come from our own pens.

Ritesh Shah: That's, that's quite encouraging. And where are we right now, what does this 20 million pens number? Are we roundabout seven or have we moved up?

Amit Sanghvi: Yes, somewhere around six, six and a half million pens.

Ritesh Shah: Sure. Last question, I think in the prior question, you did indicate that the order book is not to what we expected. Can you provide some color segment wise and any particular reason I would presume it would be on backup logistics or the global macro, if you could provide some color on that?

Amit Sanghvi: Purely the global slowdown and logistics and price rise, but from a segment perspective we've not provided in the past. Unfortunately, I will not be able to provide that right now.

Moderator: Next question is from the line of Ritesh Chheda from Lucky Investment Managers, please go ahead.

Ritesh Chheda: Just two questions. One on the gross margin side, we were about 40%, now we are about 33%. There's about 5 to 7% loss in gross margin. When do you see this, getting recouped? When do you see the incremental contributions or the incremental business from the pharma side start kicking in, which would then influence the next leg of gross margin expansion? So, this is my first question. My second question is usually at the beginning of the year, you have some broader revenue target for fiscal ongoing year. It would be nice if you could share what should be now, the expected revenue for FY23 if it is possible to share?

Amit Sanghvi: Thanks Ritesh. I think, let me answer your second question first. We're very hopeful and we maintain similar momentum as we have done in Quarter 1, Quarter 1 has been exceptional. I will not lie. Quarter 2 is at best going to be as good as Quarter 1, but we anticipate ramp up in Quarter 3 and Quarter 4. On the margin side as well with the pharma kicking in, you will see margin



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expansion. You will first see normalizing of margins in Quarter 3 and then an expansion of those margins, I don't know how much, but some expansion of those margins in Quarter 4, because we do have significant deliveries planned in Quarter 4 for the pharma business.

Ritesh Chheda: Okay. When you mentioned that you will be hopeful to maintain Quarter 1 traction, is it 175 crores (x) 4 is that how we should look at your business with Quarter 4 seeing further expansion on the revenue? Because pharma will start kicking, that's how I should read your answer or different answer?

Amit Sanghvi: It's very difficult for me to tell how demand will pan out this year. What we see is Quarter 4, we'll have additional pharma revenue from the 175 that we have done. So, we should grow in revenue in Quarter 3 and Quarter 4, but Quarter 2, I'm telling you right now because we're already in August, so I know for a fact that at best we're going to do 175 or somewhere a little less than that.

Ritesh Chheda: Lastly, sir, what is the progress now at the furniture factory, which, you were trying to stabilize and ramp up over past 1 and 1.5 years. So where are you on that journey?

Amit Sanghvi: Sorry, Sanjaybhai did you say something?

Sanjay Shah: Yes. Ritesh meant the steel furniture factory, that's what I clarified.

Amit Sanghvi: Again, steel furniture factory our manufacturing capability has improved. We are come over the learning curve when it comes to fabrication of sheet metal. We have some challenges in powder coating, but we have improved significantly. Again, what we're seeing, Ritesh unfortunately is that we've seen demand drop in Quarter 2. Whatever manufacturing gains we have in terms of efficiency, in terms of quality, in terms of rejection, unfortunately will not really give great numbers in Quarter 2.

Ritesh Chheda: Have you stabilized the teething problems in the factory?

Amit Sanghvi: I would say, I would say 80% of our problems, 85% of our problems have been resolved. We have some for which we have sought external expertise, external consultants as experts and we will be resolving them.

Ritesh Chheda: What is the utilization at the furniture factory?

Sanjay Shah: We don't give out individual utilization, you know that.

Ritesh Chheda: No problem. Lastly sir if you could share the CAPEX number now, for 23 and 24.



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- Sanjay Shah:** CAPEX numbers will stand same as what we talked about last time, we are looking at investing about somewhere between Rs.100 and Rs.120 crores this year. A majority of that will go in our expansion of our pharma facility and that's what's going to be on the CAPEX numbers this year.
- Moderator:** The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.
- Aman Vij:** First on the gross margin and EBITDA margin side. Gross margin has fallen by 7-8%, but the fall in EBITDA margin has been less, at around 4%. In Q3 or Q4, we expect gross margin to go back and maybe then pharma will kick in. Can our EBITDA margin be much, if not much but higher than the average 16 -17%, which we used to do historically?
- Sanjay Shah:** Yes, that's, that's what we expect going forward. I don't know, in terms of a timeframe, what it would be, but Yes, if we were to look at between this year and next year, we do expect a margin improvement happening over the period.
- Aman Vij:** Next question is to Amit on the pen side, you have talked about, we'll see most of the traction for this year in Q4. Are we on track to our target of around 9 million pens this year and around 12 million pens which you have talked about for next year?
- Amit Sanghvi:** No, no, it's 6, 6.5 million pens going to 20 in two to three years. That is what we have said. We are on target for that, and we have done decent pharma sales in Quarter 1. We are manufacturing more and selling more in Quarter 2 for pharma as well. You will see good pharma traction before the end of this year.
- Aman Vij:** That 10 million numbers halfway do we expect to cross next year? Do you mean ramp up will happen next year?
- Amit Sanghvi:** From filing to launch is a two-year cycle typically. Next year I think we should get somewhere closer to 10 million at least. I don't know how much, maybe 9, maybe 8.5.
- Aman Vij:** It's totally back ended because from 6 to 20, we are not really sure of this year or next year ramp up happening, but then two and a half years will happen.
- Amit Sanghvi:** Because there's always going to be like that, that's the cycle, that's the approval cycle.
- Sanjay Shah:** Aman it's not that we are not sure.
- Amit Sanghvi:** Global volumes are there.
- Sanjay Shah:** It's just about how it's going to happen. There's an agreed plan with the customer in terms of..., as Amit mentioned, there will be exhibit batches, given there will be batches given for trials and



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everything. For those trials, you know what quantities we are supposed to give and post that we know with the ramp up, which is going to happen. That's the cycle which happens for this business.

Aman Vij: Sure. Next question on the toys division, we have talked about this year to be a little soft, any change on this part, any new customer addition we are trying any new campaign we are trying because a lot of we hear a lot of emphasis on the toy manufacturing in India given we have a lead we have done quite well up to now, but to reach to the next level, are we putting more effort, are we trying to talk to more customers, more orders from same customer if you can talk about the steps that we are taking to ramp up toys business?

Sanjay shah What we are doing is that we are in discussions with existing customers to add more products. At the same time, we are in discussions with new customers also. Again, here what's happened is because of the global slowdown and unwinding, which is happening, global demand for toys has come down as compared to last year. So, while we are in discussions, we should be able to give you some better clarity as we move forward.

Aman Vij: Sure, sir. Final question on the employee addition which we are targeting for this year, if you can talk about the same.

Sanjay Shah: Sorry, I didn't understand your question.

Aman Vij: We have 1800 to 2000 employees. Any number you have in mind for the addition for this year?

Amit Sanghvi: We are not planning any additions; anything major this year for additions of employees at least.

Sanjay Shah: We are adding people in key positions as required. Amit, do you want to talk about the CEO which we are looking at, give some just some broad picture.

Amit Sanghvi: We have said before, we will close the CEO mandate before the end of this calendar year and we will have someone on board with us and that remains, we are on the right track in terms of timing to achieve that.

Moderator: Thank you. Next question is from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: Just a couple of questions. Looking at your commentary in the initial commentary, it seems at least to my mind, it was that we are shifting towards more on the healthcare side as an organization. So, three years down the line or three to five years down the line, where do you see Shaily, let's say the healthcare contribution right now is second largest, will it become the largest contributor to the business in maybe three to five years?



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- Amit Sanghvi:** No, it would remain second largest even in three to five years.
- Nikhil Jain:** Okay. The second question is related to the patents that you have acquired actually last quarter and this quarter also I think there are some IP on the cards. So, what is that let's say, if you can throw a little bit of light on what are the patents that you acquired and what's the kind of use that you would see on that?
- Amit Sanghvi:** Last quarter we talked about in auto injector or the quarter before that.
- Sanjay Shah:** Yes, Amit.
- Amit Sanghvi:** So, the difference between a pen injector and an auto injector is that typically an auto-injector is a twostep device where the amount of medicine to be injected is already predetermined. So, the user does not have to dial a dose like you do in a pen injector or decide the quantum of the dose. Here the user simply has to take a cap off and inject. So, it's meant for different therapies. And typically, in a pen injector you are delivering lower volumes whereas in an auto-injector you would typically, I am not saying this is true all the time, but you typically deliver I think no less than 0.25 ml to as high as maybe 2.25 ml in one shot.
- Nikhil Jain:** So, we acquired some IP related to that device, right?
- Amit Sanghvi:** We developed, yes, we acquired, and we developed further. So, we are looking at commercializing that auto injector in the current financial year.
- Nikhil Jain:** Okay. And one more question that I just wanted to ask was that on the pen on one of the peptide devices that you have some customers on, so has any of our customers refused the tentative approvals?
- Amit Sanghvi:** We are anticipating our first part of the approval this year and we seem to be on track for it.
- Nikhil Jain:** Right. And it would be a global MNC, right?
- Amit Sanghvi:** It is, yes.
- Nikhil Jain:** Okay. And just the last question. So, the CAPEX of Rs. 150 odd crores that we are spending over the next 1.5-2 years so can you just give the breakup? I missed it actually in your initial remarks. So, if you can just highlight it again, how much to healthcare and how much to other businesses?
- Amit Sanghvi:** It is going to be more than 50% to healthcare and I think about 50...we didn't do the exact number; sorry how much is it Sanjay bhai? 60% to healthcare and 40% of non-healthcare?



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- Sanjay Shah:** No, it will probably be 70:30, Amit.
- Amit Sanghvi:** 70:30, fair enough.
- Nikhil Jain:** Right. Okay. And see, generally the terms on especially the healthcare CAPEX should be reasonably high as compared to the other CAPEX that is more on contract manufacturing basis. So, do you agree with that or is my understanding correct?
- Amit Sanghvi:** No. You have to be patient with time.
- Sanjay Shah:** Your sales turnover would probably be lower as compared to contract manufacturing, your margins at an EBITDA and a ROCE level on a long-term basis would be much higher.
- Moderator:** Thank you. Next question is from the line of Bhavin Rupani from Investec. Please go ahead.
- Bhavin Rupani:** I have one question, sir. Can you give us some visibility and idea about your toys and home furnishing segment, please?
- Sanjay Shah:** So, home furnishings as compared to what we did last year, we will grow this year. We would probably grow at a slower pace as compared to what we would have thought about growing six months back, but we will still grow this year. On toys, as we had talked last time, whatever we did last time, we would basically be looking at similar numbers in the current year and then growing next year.
- Moderator:** Thank you. Next question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.
- Manish Gupta:** Wanted to check that how many years actually do we depreciate our equipment over and what is the true useful life of the equipment?
- Sanjay Shah:** So, Manish, typically for all machines we take useful life as 15 years for our equipment and then we run three shifts, so equipment get depreciated between 7 to 10 years. Useful life is 15 years based on a single shift working so when you look at a three-shift working it basically depreciates between 7 to 10 years depending on the usage. At the same time, if you look at injection molding machines and everything, we have machines which are 15-year-old, 20-year-old, or even higher which are in operation and which are running very well.
- Manish Gupta:** So, would it be fair to say that the useful life is at least 2x the life over which a typical machine is depreciated?
- Sanjay Shah:** I think that would be a fair sense to assume that, yes.



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Manish Gupta: And Sanjay bhai, do we take maintenance CAPEX through the P&L account or through the balance sheet?

Sanjay Shah: Some of it goes through the P&L account, some of it goes through the balance sheet, depending on, say if it's a major overhaul of an equipment where you are adding years to the equipment, it could probably be through the balance sheet. If it's a normal routine wear and tear and everything, it would basically be on the P&L.

Manish Gupta: Okay. And you mentioned that you are undergoing a CAPEX program, a lot of that is for the pen, and there will be a portion of the CAPEX that I guess is for toys and for furnishings. Now, given that you I think either you or Amit made a comment that you are not seeing so much of demand pick up for toys, how do you think about CAPEX in the context of businesses which could face recessionary headwinds, given also that the steel furniture business is not picking up so, how do you guys think about making CAPEX decisions when you see the rest of the world, we are seeing the developed part of the world facing quite a lot of recessionary headwinds. Could you just talk us through the thought process there?

Amit Sanghvi: Manish, typically pharma is a business where we make CAPEX decisions based on our judgment, calculations, discussions with customers and the pipeline that we have. And if you look at this year's CAPEX, a very significant portion is going to the pharma business, not the others. On the other businesses, we only take CAPEX decisions based on confirmed businesses. We don't invest anything without confirmation. Now again, we are in unusual times right now where confirmed businesses have seen drop-in volumes. We try to be as meticulous in taking CAPEX decisions as possible on the non-pharma business and unless we have confirmation, we will not invest in anything upfront.

Manish Gupta: Okay. And when a particular customer will not meet say a confirmed or a high probability order book, do you get compensated for that in some way, higher margins in future orders or perhaps higher volumes, how does the customer compensate you?

Sanjay Shah: So, Manish that probably takes time to happen. It does not happen immediate, but yes immediate discussions and negotiations which you have with the customer, the customer would take that into account and keep that in mind when new businesses get awarded or higher volumes get pitched for. So, those are the things which the customer does take into consideration in terms of commitments made by them.

Manish Gupta: Okay. And my last question is what are some of the risks that you guys are seeing right now or risks that you are conscious about?

Sanjay Shah: So, Manish let probably Amit answer part of it, but a couple of things which we are seeing is with what's happening on global headwinds, if actually a recession happens in the US or



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something, you really do not know how the demand will pan out. So, that's one thing which we see as a risk.

Amit Sanghvi: So, Manish our goal is to create a business vertical which is also more domestic. We need to increase our domestic supply and that's what we see as a risk right now. That's what I see as a very significant risk. And we will continue to do whatever we are doing for exports, but we want to increase our domestic business very significantly.

Manish Gupta: Will you get the same margin on domestic orders vis-à-vis export orders?

Amit Sanghvi: The immediate answer is no. If we do the same thing we do for exports in domestic market, we will not likely get the same margins. We have to think of a different product portfolio. So, there's something in the works, we can't comment on it right now, but we don't think it will pan out in the current financial year, but in the upcoming financial year we would see some progress, good progress there.

Moderator: Thank you. Next question is from the line of Chirag Jain from Kamayakya Wealth Management Pvt. Ltd. Please go ahead.

Chirag Jain: I had a broad question. If we compare Shaily in 2018 versus Shaily in 2022, so we had Shaily in 2018 which had a long order book, but it couldn't be executed due to some labor issues or due to operational issues. But now we are seeing to that, we have order book reducing and operational capacity increasing. So, what would you like to say on that?

Amit Sanghvi: The good thing is we have sorted out our operational issues which means we don't have labor issues. Our efficiencies are also higher in the plants. Our processes have become more streamlined, more robust, and fingers crossed, we will see demand pick up again which will really benefit us.

Chirag Jain: So, what's on the order side. What are we doing to grow the order book currently? Because I see that capacity obviously because it has dipped due to some capacity additions, but it's low which we used to have 70% in 2018-2019.

Amit Sanghvi: Because we have added a lot of capacity in the last two years. If you think about sheet metal capacity as well as the new plastic factory that we added last year. As of now, like I said, quarter two is not going to be better than quarter one, but we anticipate quarter three and four to be better than quarter one.

Chirag Jain: So, do we hope to soon 70% utilization which we used to have historically?

Amit Sanghvi: We hope to end the year with that number.



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- Chirag Jain:** Secondly, on the healthcare segment, so that's also a big drag on our segment because the capacity utilization on the healthcare segment hasn't been as per you have set your targets. So, what would you like to comment on that?
- Amit Sanghvi:** No, I didn't say anything about capacity utilization on the healthcare segment than what we have anticipated. We don't report individual segment capacities, but utilization on the healthcare segment has been very good.
- Chirag Jain:** I had joined the previous con calls also, so I had mentioned the same question regarding the healthcare segment. You mentioned that it was below our target, so it was obviously one year prior and that time I asked and that was your response. So that's why I'm asking.
- Amit Sanghvi:** I think your question was probably to do with CR closures and bottles.
- Chirag Jain:** Yes.
- Amit Sanghvi:** This has been mentioned on several calls, we do not actively market those products anymore. The same capacity is fully being utilized to manufacture the pen injectors and the other devices that we have.
- Chirag Jain:** Okay, got that. Also, lastly would you like to provide a color on the UK subsidiary which we had incorporated, what's going on there?
- Amit Sanghvi:** We have three active projects in the UK at the moment plus a fourth one that I spoke about briefly on this call where we develop some new technology which we will be taking forward now. Out of the three active projects currently ongoing in the UK, we plan to commercialize two before the end of this financial year. Third one we are going to production only next year. And the fourth one, the new technology is at least 24 months away from being a full product.
- Moderator:** Thank you. Next question is from the line of Aman Vij from Astute Investments. Please go ahead.
- Aman Vij:** Sir, we had talked about plastics business on the furniture side, we are becoming third largest this year in terms of supply to our key customers. So, are we on track on that. And if yes, is there opportunity in the next three to five years we can even become second largest.
- Amit Sanghvi:** I certainly think so. Whether we become third largest this year is a little unknown. We might end up at position four, but in the next three years we certainly do see us Shaily moving up in position.
- Aman Vij:** Even second, if possible, you are saying that?



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Sanjay Shah:

Yes.

Aman Vij:

On the field side, what we understand again the opportunity even bigger than the plastic, so we had some teething issues initially. You have explained that 85% problem is solved, but the remaining 15% odd, especially on the steel; So, is that the reason we are ramping up slower than the opportunity, because even if say there is some recession generally in field, but we are so small a player, shouldn't our ramp up be much faster? And any targets we have, like can we reach the top five in the next three, five years in steel also? If you can talk about the same?

Amit Sanghvi:

No, top five in 3-5 years is probably not possible because in steel with the customer we are talking about, their typical suppliers are all the way from €100 million to someone being as large as €350 million. So, that's not going to be possible in three years or even five years. We are looking at, steel as an opportunity is larger than plastics within the customer. Customer is ready to give new business provided we are able to ramp up what we have currently taken on. So, I think from an opportunity perspective, there is no lack of opportunity. We are working very closely with the customer, and they are also helping us in this ramp up and solving the issues that we have. So, it's a very active dialogue. It's a very active business where they are also participating, providing us with all the expertise they have. We are very-very hopeful and confident that this year we should be able to solve basically teething issues or learning curve.

Aman Vij:

Do you expect ramp up happening or new orders coming mostly next year in steel?

Amit Sanghvi:

Yes.

Sanjay Shah:

Yes.

Aman Vij:

Sure, sir. Final question, you have talked about four projects in the UK subsidiary. Two we are maybe commercializing this year, one next year, and maybe the final one which we have recently talked about in two years. The final one, the way you are hinting maybe our understanding what we could guess is something related to the bag or the patches. But is the opportunity big enough in these products, the question was that, maybe I am wrong, but that technology has been there in the last 3-5 years, it hasn't scaled as much. So, if you can talk about that.

Amit Sanghvi:

You know wearables or patches as you call it, there is a slight on-body injectors and patch pumps are different. What you are referring to are meant for diabetes treatment which have been on the market for quite some time, they are mostly the pumps. What we are developing is a single use on-body injector. So, there's a difference. And they are meant for different therapies. Yes, you're right that the scale up hasn't happened because new molecules are going into such therapies or existing molecules which are in IV form are going into such devices. We are also targeting a different type of customer for this new device. We are not necessarily targeting the generic



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pharma companies that we target with our pen injectors and auto injectors. With the wearable we are also looking at different kinds of customers.

- Moderator:** Thank you. Next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** I have two questions. One is, given a significant percentage of our incremental CAPEX is going towards healthcare, if I have to understand the payback for this, how should one look at the numbers?
- Sanjay Shah:** So, Ritesh, payback I would say we would still look at somewhere between four to five-year period for incremental investments which we are making. And this is keeping in fact that we have basically done, we are making investments for developments which have already been done and we are now looking at ramping up on these products.
- Ritesh Shah:** Sanjay bhai, would it be possible for you to give more color on the CAPEX if you would like to split it between say R&D efforts and physical infrastructure just to better understand the payback five years?
- Sanjay Shah:** So, a large part of our CAPEX is going to be in physical infrastructure and expansion of facilities and everything. R&D or the development would probably be little lower. I don't have the numbers in front of me right now, but it'll probably be not more than about 10% to 15% of what we are investing overall.
- Ritesh Shah:** So, say 80%-85% is towards physical infra to my basic understanding, correct me if I am wrong, I think we have significant spare capacity when it comes to insulin pens. So, is there anything incremental that we are looking at, is it towards inhaler or is it towards the pen?
- Amit Sanghvi:** Ritesh, we don't have capacity when it comes to pens. I mean, we don't have significant capacity when it comes to pen. We are managing whatever we currently are manufacturing and the demand we have in the current facility, but the ramp up for which we have, of course, secured customers as well as the orders needs to come from the new facility, new expansions.
- Ritesh Shah:** Okay. Do we have land and building already in place for this? And so, the incremental investment will be only towards machinery? Would that understanding be right?
- Sanjay shah:** We have land available, but we are adding 125,000 square feet of building space to our existing pharma facility. This is mainly being added for all the new projects which we have talked about. We are looking at ramp up on these projects happening from this year onwards for the next three years. So, it's essentially for that.
- Ritesh Shah:** Sure, that's helpful. My other question is for Amit. I'm just taking a step back. I'm just trying to connect the dots. Basically, for home furnishing what we indicated Rs. 2 crores on a year-on-



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year basis but it was not as we expected. Secondly, toys, what we indicated will grow in next year. So, if I have to read between the lines what we are saying is probably will be flattish on a year-on-year basis which looks, put some color over here. And pharma you have indicated the pipeline is actually back ended. And the last year you indicated the order book was lower than expected. How should we read through these whole data points Are we facing headwinds across business segments because of exposure to US? I think one of the participants earlier made a very valid point where time is actually our advantage. So, do you think that the headwinds should actually come to us and hit us when our revenue trajectory actually goes down? How do you look at this?

Amit Sanghvi:

Pharma business does not have really any headwinds. It's just very simple process. From the time our customers file to the time they can commercially launch it's a 24-month process. So, when it comes to pharma, I don't think there's any global scenario which is playing out, economic scenario which is playing out against us. It really depends, I mean, portion of that anytime we do a new product in the pharma space, we have 50% of the responsibility and customer also has 50% of the responsibility. So basically, cycle starts from when they file. Some customers have been very good at hitting their targets in terms of filing. Some have had setbacks, various reasons, some could be attributed it to us sometimes or could be attributed to their own formulation or final assembly processes, etc. So, there are various reasons for delays that happened. But right now, what we are seeing and the numbers we have said for pharma remain true because they are mostly for products which have been either filed or are on stability. On the non-pharma side, again when we talk about a slowdown, we are not talking about a slowdown using the last financial year as a yardstick. We are talking about a slowdown from the perspective of the capacity that we have created based on the orders that was awarded to Shaily. So, we are not seeing volume up to that level. We are certainly seeing growth from last week that you guys can see in the quarter one results as well. We are not seeing the volume that we had anticipated and built capacities for in quarter two. We are hoping that ramp up will happen in quarter three and four.

Ritesh Shah:

Sure. If I have to just rephrase it, probably Sanjay bhai can chip in, if one has to look at the volume growth versus the value growth, pharma and non-pharma, will it be a right way to look as it, something like toys and home furnishing will be a volume growth, obviously value growth is something which has moved up and probably it now inching down. What would be a right way, a yardstick for us for guys externally to actually look at the company?

Sanjay Shah:

So, Ritesh, even on the non-pharma part of the business while there would have been very high or we were looking at very high-volume growth, we were also looking at improvements at a ROCE level. This was basically keeping in mind higher than normal asset turns which we would have gone on that business. Unfortunately, because of what's happening globally, we have not got to those volumes. I hope things get corrected. I do not know whether it's three months, six months, nine months. That's what it is. While pharma, as you rightly said, yes, it's value growth



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where you need to make investments upfront which we have done in the past and investments which we are now making basically help us scale up that in the coming years.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Amit Sanghvi: Thank you very much. Thanks everyone for joining the call. We hope that 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. Thanks again and have a great day.

Sanjay Shah: Thank you. Thank you everyone.

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