



**“Shaily Engineering Plastics Limited
Q2 &H1 FY2020 Earnings Conference Call”**

November 15, 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 Shaily Engineering Plastics Limited Q2 & H1 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 an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sanghvi, Managing Director. 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, Chief Strategy Officer and SGA our Investor Relation Advisors. I hope you have had a look at our investor presentation that has been uploaded on our website on the stock exchange.

Q2 FY2020 has been a good quarter for Shaily as we have been able to maintain our growth momentum sequentially for the second quarter in a row in a fairly challenging economic environment.

I would like to mention however that we have witnessed some labor related issues in the month of September and October, which did impact our sales; however, we have been able to contain this problem and have regularized the situation to normalcy now.

Our endeavor has always been to provide niche products to our customers, which has enabled us to associate with leading names in each of our business segments. We have over the years focused on growing our business portfolio and as a result of the same, we have developed a very healthy pipeline in the healthcare or pharmaceutical segment and are confident that this will start delivering results in the times to come.

We added new segments of steel furniture products from our home furniture client and received business confirmation for toys in the last quarter from a new global customer. So, the new business segment can provide very significant business opportunities in the future. We are also continuing to increase business from our existing clients. We expect robust business performance for the forthcoming period as we have been able to build a strong



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base. A healthy order book build in the last few quarters provides us good visibility and we remain confident to deliver low double digit to mid teens revenue growth for FY2020.

A few business updates for the quarter. We are in advanced stages of negotiations for our new business with a large MNC in the personal care segment. We have received additional fresh business from an automotive customer for the supply of products and lastly in the pharma packaging segment we have received confirmation in first quarter for supply of bottles and caps from a Japanese pharmaceutical major. With this I shall now hand over the call to Sanjay Shah, our Chief Strategy Officer to give you the financial highlights for the quarter. Thank you very much.

Sanjay Shah:

Thank you Amit. Good morning everyone, I shall share with you all the highlights of our operational and financial performance during Q2 & H1 FY2020 following which we will be happy to respond to your queries.

During the quarter we processed 3,378 tons of polymers as against 3,049 tons in Q1 FY2020 and 3,431 tons in Q2 FY2019 thus showing a growth of 10.8% on a sequential basis and a drop of 1.6% on year-on-year basis. During H1 FY2020 we processed 6,427 tons of polymers against 6,178 tons of polymers in H1 FY2019.

Machine utilization rates stood at 56% during Q2 FY2020 as against 59% in Q1 FY2020 and 69% in Q2 FY2019. Machine utilization rates for H1 FY2020 stood at 62% vis-à-vis 70.6% for H1 FY2019.

Exports during H1 FY2020 stood at 69% of total revenue as compared to 74% in the same period last year. During Q2 FY2020 our revenue stood at Rs. 87.6 Crores showing a QoQ growth of 8.7%. On a year-on-year basis the revenue increased by 1.4%. For H1 FY2020 our revenues stood at Rs. 168.2 Crores degrowing by 4.1% on year-on-year basis.

EBITDA for Q2 FY2020 is at Rs. 15.2 Crores showing a Q-on-Q growth of 13.2%, on year-on-year basis the decline was mere 1.9%. EBITDA margin stood at 17.3% in Q2 FY2020 as against 16.6% in Q1 FY2020 and 17.9% in Q2 FY2019. So H1 FY2020 EBITDA stood at Rs. 28.6 Crores with a margin of 17%.

Net profit for Q2 FY2020 is at Rs. 5.6 Crores showing QoQ increase of 19.4% while on a year-on-year basis the decline was 1.9%. PAT margin in Q2 FY2020 is 6.4% as against



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5.9% in Q1 FY2020 and 6.7% Q2 FY2019. For H1 FY2020 net profit stood at Rs. 10.4 Crores with a margin of 6.2%.

Cash PAT for Q2 FY2020 is at Rs. 10.2 Crores as against Rs. 9.2 Crores in Q2 FY2019 and Rs. 8.9 Crores in Q1 FY2020. We have witnessed a growth of 2.2% in cash PAT from Rs. 18.7 Crores in H1 FY2019 to Rs. 19.1 Crores in H1 FY2020.

Our capex spend for H1 FY2020 was Rs. 30.4 Crores, which were primarily towards carbon steel and some additions to our existing business for eye care and our healthcare facility. On annualized basis as of September 30, 2019 our ROE stands at 14.2%, ROCE at 16.8%, total debt equity at 0.6x, long-term debt equity at 0.3x and total debt to EBITDA at 1.6x. On annualized basis our asset turnover is at 2.3x and free cash flow as a percentage to EBITDA stands at 80% as of September 30, 2019. This 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. The first question is from the line of Mihir Thakkar from Prithvi Finmart. Please go ahead.

Mihir Thakkar: My first question is, currently what is our wallet share for the products we are manufacturing for Swedish home furnishing major?

Sanjay Shah: Yes, we do not give individual numbers, the similar percentage as what we have been talked about which is about 55%.

Mihir Thakkar: I am asking about wallet share means out of total eye care what is outsourcing what we are manufacturing?

Amit Sanghvi: I am sorry I cannot answer that question.

Mihir Thakkar: And Sir out of total 17 acres land of Halol how much will we utilize for carbon steel plant?

Sanjay Shah: We have set up the first plant in 67000 square feet. We do have three such plants for healthcare business and the balance of the land would be utilized for plastics business.

Mihir Thakkar: And Sir we are sticking to the guidance of 380 to 420 Crores of this year and would it be possible for us to increase our revenue in second half?



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- Sanjay Shah:** No we will not be able to increase from whatever we have already said in the business plan we have made so there will be no further increase in revenue from that and then the number or the guidance we have given we should be more or less there.
- Mihir Thakkar:** Okay no problem. That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities Private Limited. Please go ahead.
- Kaushal Shah:** I have a few questions, Sir in our half yearly balance sheet there is a fairly decent rise in our capital work in progress, so that is related to the carbon steel project.
- Amit Sanghvi:** That is related to the steel processing plant yes.
- Kaushal Shah:** In that segment so we had anticipated the construction to be completed by October or November and commissioning in the fourth quarter so are we on track for that?
- Amit Sanghvi:** Commissioning in fourth quarter we are okay with that, we are commissioning in first quarter but rains; monsoon went on all the way till Diwali this time, so we were looking at initially in December, we are looking at best Q4 now.
- Kaushal Shah:** And on the debt side so there were some repayments coming up, so if you can just share from what is the likely March 2020 gross debt number that we should be looking at?
- Amit Sanghvi:** The March 2020 gross debt number including working capital would be somewhere between 160 to 170 Crores, this also includes the remaining debt, which we would need to borrow for our carbon or the steel furniture business.
- Kaushal Shah:** We had also, if I remember correctly indicated a volume number .
- Amit Sanghvi:** We have never given a volume number.
- Kaushal Shah:** But sequentially we have done better compared to Q1, so, would it be right to presume that Q3 and Q4 will be better than these numbers so 3378 tons is what we have done in Q2?
- Sanjay Shah:** From a topline perspective I would say yes Q3 and Q4 will be better and that is what we have been saying that is what Amit also said the increase in revenue, at the same time what needed to be looked at is when you look at the quantity of polymers it is it depending on the



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product mix, which we do. So, we have increased processing, more of high value add products in Q2 and that is the reason why you have seen a lower volume processed but you have seen a higher revenue.

Kaushal Shah: And Sir on our business segment so I think we were in the previous call we had alluded to an entry into the toys segment starting from Q4 and I think a few medical devices supply also to be starting from April or May so that is also on track?

Sanjay Shah: That is on track. We will start supplies to the toy major in Q4, on medical devices whatever we have said we will probably do something in Q4 and something in Q1. So, some of the devices will get commercialized in Q4 FY2020 and couple of them will get commercialized in Q1 of FY2021.

Kaushal Shah: And Sir pharma has been kind of a major area for us at least in terms of devices and the development so let us say in the next year FY2021, if you can just share what is the kind of revenue number or maybe some thoughts on what that new devices can actually?

Sanjay Shah: We will probably talk about it when we have the Q4 call.

Amit Sanghvi: I think even Q4 would be very premature Kaushal..

Sanjay Shah: But it will give some sense of the new business.

Amit Sanghvi: It is a new business we had, we are starting with one customer we have now gotten seven customers onboard, but in terms of revenue number it is very difficult for us to predict that.

Kaushal Shah: That is it for now Sir. I will join back in the queue for more. Thank you.

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

Hitesh Taunk: Sir my question is on your opening remarks. You mentioned in your opening remarks that the performance came during the fairly challenging situation in Q2, so Sir could you please elaborate what kind of challenging situation did you face in terms of volume or say on a raw material front during the quarter?

Amit Sanghvi: So what I said challenging situation it is purely on the economic front if you think about if you look at automotive, which was a growing segment for us other than some of the new



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products that we implemented last year and the year before especially for Suzuki where we have given indication on the volume before also we have seen major decline in revenue for those, in spite of that we have still shown better overall performance. So that is what I was explaining & trying to explain when I said that opening remarks.

Hitesh Taunk: But the major revenue from those automotive segments was coming from overseas clients am I right Sir?

Amit Sanghvi: Some of the newer businesses are for domestic as well as for overseas customers on both fronts we have seen a decline.

Hitesh Taunk: On growth front you have seen kind of challenges?

Amit Sanghvi: On both fronts on the automotives especially if you remember in one of our calls I had mentioned the project we have done for General Motors.

Hitesh Taunk: If I am not wrong in Q1 and Q2 we have had good order for rod for automotive segment right we have won some order business confirmations from the clients?

Amit Sanghvi: Yes, business confirmations, so the business confirmation to supply is let us say a eight months type of, but it is just on the rod that we had received confirmation for example last year and say if it is received confirmation for an ex volume we have done less than that volume, but it is just to add if I were to just look at the rod business or the business with that customer specifically we would have had growth, which is much higher than the average growth, which we have received as a company but the base is too small to start.

Sanjay Shah: Yes.

Hitesh Taunk: Okay the base was small right okay got it. Now the second question pertains to the volume growth we had a good volume growth on an Q-on-Q basis around 11%, 12% so I just wanted to know whether this volume growth have come with a new order or we have seen kind of improvement in the delivery to our Swedish furnishing major so the major volume was driven by that segment or is it addition of new clients, which has happened?

Sanjay Shah: No, no addition of new clients but if you remember we put new products into production, new products into production towards Q1 of this year and that is what we saw the ramp ups on.



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- Hitesh Taunk:** So our major volume growth came from the existing client, which is one of the largest contributors in our topline am I right in the understanding?
- Sanjay Shah:** It is a combination of what you said plus the growth, which we have seen in other segment of the healthcare, personal care, ortho care and home furnishing setting up in the major growth drivers for Q2.
- Hitesh Taunk:** So if my understanding is correct the inventory rationalization what was happening in our major Swedish furniture front our major client, so that front have been resolved or you see kind of pressure in that segment, there is still some pressure in that segment it was anyhow in balance sheet the inventory situation has improved so I just wanted to know whether the situation from the ground from major Swedish furniture has improved or not?
- Sanjay Shah:** It has improved and it will continue to improve.
- Hitesh Taunk:** Okay so you are going to see improvement in the coming quarters also right?
- Sanjay Shah:** Yes.
- Hitesh Taunk:** Sir my second question pertains to our gross margin level. Now when you mentioned that you are going to see good growth in H2 FY2020 and also looking to change the product mix also, so would you see kind of improvement in the gross margin from here on or you see kind of flattish margin for FY2020 Sanjay Sir this is as you mentioned in the last call also you are going to improve your gross margin from here on so my question pertains to that only?
- Amit Sanghvi:** Quarter-on-quarter it is very difficult to give you that answer right, but we are seeing improvement in revenue and therefore gross margin should improve, but I would still like to hold that we could at least maintain the gross margins that we have reported recently.
- Sanjay Shah:** As Amit said let us not look at on a quarter-on-quarter basis, but more on a year-on-year basis because I think the type of business which we have I do not think it make sense in terms of looking at that business on a quarter-on-quarter basis.
- Amit Sanghvi:** When you try to capture a three-month period the product mix change sometimes makes a very significant impact so let us just say that I do expect them to improve over a period of say two to three quarters.



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- Hitesh Taunk:** And Sir my next question is the new business update what we have this quarter. We have a negotiation with some MNC for our personal care segment could you clarify or give some qualitative statement what kind of product this would be and what kind of potential it could have going forward?
- Sanjay Shah:** Hitesh we will probably get those details out to the investor community once the discussion gets completed.
- Amit Sanghvi:** Yes since we are under final stages of the agreement we do not want to allude to anything at the moment.
- Hitesh Taunk:** So all of these three updates are into the negotiation phase and we may get some kind of information from you going forward is it the right assessment?
- Amit Sanghvi:** No, the other things, which we talk about one is the rod and second is the caps and bottles for a Japanese major those are confirmed businesses.
- Hitesh Taunk:** Okay these are confirmed businesses. So Sir if you can give some qualitative statement about these orders in terms of potential?
- Sanjay Shah:** It will be too premature right now because basically one is when we look at the rod it basically shows you that we have been able to add more different variants of that to our existing business and cement our relationship with our customers. On the caps and bottles these are a new caps and bottles for Japanese company, which we are developing.
- Amit Sanghvi:** To Japanese market is again a very big achievement that has been certified by them in terms of our quality management system.
- Sanjay Shah:** This is a discussion which we have been having with them for about 18 to 24 months before this got finalized.
- Hitesh Taunk:** Okay that is all from my side Sir. If I have more questions I will come back on the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity Investment Advisors. Please go ahead.



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- Manish Gupta:** Amit first question is that we have spoken about some business that we are negotiating with a consumer major, we talked about our toy manufacturer and we also talked about a Japanese company, are these new logos that we have signed up or are these people whom we are already doing some work with?
- Sanjay Shah:** New customers that we have signed up and one is an existing that we are already doing businesses
- Amit Sanghvi:** So there are two, I think since we are in November I should talk about this in the next quarterly update, but there are two ongoing projects at the same time and we do not know which one was make it to the Japanese market for us, but yes this would be one of our products that makes it to on the pharma front.
- Sanjay Shah:** If you were to look at on the home furnishing front we do ship to Japan currently.
- Amit Sanghvi:** And actually even on the healthcare or personal care front the cap that we make for P&G specifically have been going to the Japanese market for the last 16, 17, 20 years.
- Manish Gupta:** And Amit how do these guys like when you are doing a specific project for them who do you typically compete with?
- Amit Sanghvi:** On the healthcare side I have mentioned all our competitors with what we have competition in the primary packaging segment and then a different set of competitors in the devices segment, for devices all of our competitors would be based out of Europe and for primary packaging we have some global companies based in India and some local companies.
- Manish Gupta:** And our edge if we talk about the medical devices is our edge in design or is our edge in design and cost is something on top of it?
- Amit Sanghvi:** The one that we are referring to for the Japanese market is a very premium product that we make today, which when it does end up in Japan will be a very big achievement for us and our Shaily's edge is not in design, Shaily as a company partner had exclusive agreements or relationships that we bring in an external partner for design, but our edge is obviously in just very high precision manufacturing and managing the entire projects and compliance.
- Manish Gupta:** Moving on you talked about labor issues in this quarter can you elaborate a little more on that?



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- Sanjay Shah:** We had some very significant indiscipline issues with a few workers that we are on contract for, we let them go, they created lot of havoc, they would not allow other contract workers to come in, at the same time we had full support of our prominent workers and therefore we were still able to run the plant, but obviously at one eighth capacity. This time we stood at ground we did not take a soft stand and our issues got resolved so we seem to have more commitment from the workers at the moment.
- Manish Gupta:** But Amit do you see this as a risk to the business going forward because one of the things you did mention is that the large MNCs look at the stability of their supply chain and I think we have had labor issues now last year as well so is this thing that is becoming fairly recurrent now for Shaily?
- Sanjay Shah:** No I think Manish the difference in approach this time versus last time that because of various commitments to customers on delivery we have taken a soft approach we have given in, this time we just run down saying that look let us take the hit one time and hopefully resolve the problem forever. On top of that you already know that we are building a new campus, which has also been derisk for business somewhat.
- Manish Gupta:** Moving on just from a risk perspective Amit right now your Swedish major is a fairly large portion of your business and obviously any disruption to their business would cause disruptions to Shaily so while I think we have signed on new logos over the next five years how much do you think the Swedish major would be as the percentage of your revenue five years down the line?
- Amit Sanghvi:** That is interesting.
- Manish Gupta:** It is about 55 now Amit.
- Amit Sanghvi:** Growing with them at the same pace that we are here, which means that any new account we had we have to grow at, at least three times the pace to get to a similar level so we are saying internal target is somewhere between 40 and 45 and we bring on two other customers of equal size.
- Manish Gupta:** And the last question is I think you had mentioned an aspirational target of 650 Crores by I think fiscal year 2020 and I think it was delayed by a year so that become fiscal year 2021, for fiscal year 2021 do you have any visibility you would like to share?



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Amit Sanghvi: I still have visibility to about 550 to 580 Crores.

Manish Gupta: So this is firm visibility?

Amit Sanghvi: Yes, so I think these are products, which we were already doing or products that are under execution, which means that if there is no delay from our customers side on anything we should be able to do Rs. 550 to Rs. 580 Crores revenue.

Manish Gupta: Great, thanks and congratulations for a good quarter.

Moderator: Thank you. The next question is from the line of Forum Makim from Equentis Wealth Advisory Services Pvt. Ltd. Please go ahead.

Forum Makim: I just had a couple of questions. Sir we mentioned about the new business confirmation so when will you start supplying these orders from?

Sanjay Shah: Typically eight months, six to eight months.

Forum Makim: From now?

Sanjay Shah: Yes.

Forum Makim: And Sir what would our margins be like for these products?

Sanjay Shah: Overall it is difficult to get into individual margin to disclose..

Forum Makim: But it would be in line with our company level margin?

Sanjay Shah: Yes.

Forum Makim: Okay Sir, and we are talking about a better growth in H2 FY2020 so Sir what will drive the revenues for H2 FY2020?

Sanjay Shah: Forum we have talked about this there are couple of projects, which we are commercializing for the home furnishing major in Q3, which we have done a couple of quarters we are commercializing for the healthcare front devices so these are the things, which will drive revenue.



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- Forum Makim:** And Sir what is our capex plan for H2 FY2020?
- Amit Sanghvi:** Our capex front for the whole year still remains unchanged what we had talked about to on the carbon steel and minus of carbon steel so on the steel furniture we were looking at investing about 55 Crores and on the non-steel or our plastic business we were looking at about 15 Crores we will still standby.
- Forum Makim:** And Sir just one last question what would our FY2020 margins be like would it be in line with FY2019 margins or better than that?
- Amit Sanghvi:** You know what my margins have been for the first half.
- Forum Makim:** So it will be maintained on the lines of H1 FY2020 margins?
- Amit Sanghvi:** Take the margins we have in the first half.
- Forum Makim:** Okay Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Anurag Runwal from Moneybee Investment Advisors. Please go ahead.
- Anurag Runwal:** I have couple of questions related to the debt of the company, so I see that the debt has come down by 8 to 9 Crores during this first half and interest cost seems to be at the same level. So, I wanted to understand what is the reason for that?
- Amit Sanghvi:** I lost your voice in-between can you please repeat?
- Anurag Runwal:** Sir my question is that we see that the debt has come down by 8 to 9 Crores but the interest cost seems to be at the same level I wanted to understand the reason for that and secondly what is the kind of blended interest rate that we pay on our loans?
- Amit Sanghvi:** So see we had repayments in Q1 and Q2, so Q1 when you look at the net debt it is post the repayments, which have been done in Q1 and Q2 and the disbursements, which we have taken so that is the reason the net debt has come down. Our interest rates on an average are somewhere in the region of sub 10% I will not get into specific rate because then the different rate to different banks and then different facility we have sub 10%.



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- Anurag Runwal:** And is my understanding correct that by March 2020 you would be reaching the debt of around Rs. 160 to Rs. 170 Crores?
- Amit Sanghvi:** That is the peak that which we have said because we will be drawing term loans of about Rs. 50 Crores for our steel furniture business that includes working capital and then we have increase in working capital, we are budgeting total debt somewhere between Rs. 160 and Rs. 170 Crores is what we will be at the end of the year.
- Anurag Runwal:** And should I say that from FY2022 onwards this would start tapering down a little what is the kind of debt repayment schedule that we would have beyond that?
- Amit Sanghvi:** We are tapering up from FY2021 onwards, even FY2021 you will see that tapering up, FY2021-FY2022 you will see every year you taper up and down.
- Anurag Runwal:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Chirag Jain, an Individual Investor. Please go ahead.
- Chirag Jain:** I had a question related to the pharma sector so do we have any FDA inspection for pharma and the second related question was what is the CRC capacity utilization and margin?
- Amit Sanghvi:** We won't want to give a specific answer to the second question but on the first one yes we have, what is your question we have a dedicated what?
- Chirag Jain:** No, my question was if we have gone to an FDA inspection?
- Amit Sanghvi:** Yes, in most cases the FDA will not come they have not physically come yet and it is unlikely that they will come.
- Chirag Jain:** Would you like to give any capacity utilization data?
- Amit Sanghvi:** It will be difficult for us to give that.
- Chirag Jain:** So looking at the new corporate tax rate so where are you looking at that do we look to pass it on or we will get in the PAT?



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- Amit Sanghvi:** We might probably not go to the new rate because we have done an evaluation with our auditors and feel that going with the current tax rate might be better for us because of the benefits, which are available. For some of the exceptions which get withdrawn we might recently end up paying higher tax.
- Chirag Jain:** Thanks. That is all.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Amit Sanghvi for his closing comments.
- Amit Sanghvi:** Thank you everyone for joining on this 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. Thank you once again and have a nice day.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Shaily Engineering Plastics Limited, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.