



# “Shaily Engineering Plastics Limited Q4 FY2020 Earnings Conference Call”

June 01, 2020



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**Moderator:**

Ladies and gentlemen, good day and welcome to Shaily Engineering Plastics Limited Q4 FY2020 Earnings Conference Call. We have with us on the call today Mr. Amit Sanghvi, Managing Director and Mr. Sanjay Shah, Chief Strategic Officer. 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 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 the management. Thank you and over to you Sir!

**Amit Sanghvi:**

Thank you. Good morning and a warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I have with me Sanjay Shah, our Chief Strategy Officer, and SGA our Investor Relations Advisors. We also have our new CEO, Mr. Anil Kalra who has joined our call today to get a perspective on our investor and analyst discussion. I hope you had a look at our investor presentation that is uploaded on our website as well as the stock exchange.

Allow me to take you through our operational performance and the way forward. Over the years we at Shaily have consciously focused our efforts towards developing a business model, which is well diversified and set a stage for propelling our goals. Over the past five years we have grown our consumer business multifold by strengthening our relationship with the home furnishing major by constantly adding new SKUs and thus increasing our overall share of business. We have also ventured into carbon steel furnishing with the same customer, which marks their confidence in our abilities. Further we have successfully added a new customer in the home furnishing segment and also added a new subsegment wherein our client is Spinmaster, one of the top global manufactures for Toys. We have made great strides in healthcare segment, which is finally taking shape and is reflected in our financial performance over the last two quarters and a healthy order book for FY2021 and beyond. The addition of new clients and businesses will help us diversify our product offerings and provide significant growth opportunities in the times to come.

We were in final stages of commissioning the plants in March 2020; however, due to COVID-19 there has been a delay in installation. We are planning to now commission the plants with trial runs starting June with sale start in end of July and for this we have spent a total capex of Rs.55 Crores.



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In the past few years we have invested a sizable amount in the development of our healthcare business. Despite the investment, we have maintained financial sustainability, which is evident from our debt to equity ratio. With a strong balance sheet we are ready to take advantage of Make in India opportunity.

With respect to our financial performance despite a flat topline we have been able to deliver growth in our EBITDA as well as profitability and both EBITDA and profit margins have also expanded year-on-year basis. Our return on capital has also improved from 16% to 17.8% year-on-year. Therefore, even in tough economic environment and despite facing lot of challenges over the past couple of years we have maintained healthy balance sheet and shown strong financial position.

As we embark on our next level of growth we are happy to share that we have taken concrete steps to strengthen both the Board as well as the management team. At the Board level, we have appointed two independent directors who come with exemplary track records. We have appointed Dr. Shailesh Ayyangar who has rich experience of over three decades in Pharma. He has served as a CEO or a CSO level in major pharma companies such as Sanofi, GSK and he has been associated with the World Health Organization as well as on advisory panel of PMO. We have appointed a woman director, Ms. Varsha Purandare who has rich experience of two decade in financial services. She is a SBI veteran where she was the Deputy Managing Director and Chief Credit & Risk Officer and then was Managing Director and CEO of SBI Capital Markets where she was in charge of both the SBI Capital and its five subsidiaries.

I am also very happy to share that we have appointed Mr. Anil Kalra as a CEO of the company. He has very rich experience in manufacturing spanning over four decades and holds a mechanical engineering degree from IIT Delhi. He has been associated with Samvardhana Motherson International Limited for 19 years as President and CEO. Mr. Kalra has led numerous organizations for strategic planning, growth and transformational perspective, he has demonstrated turnaround of numerous companies, wide range of mergers and acquisitions and delivered stellar P&L. We welcome him to Shaily and look forward to continued growth.

Let me give you a quick snapshot on the impact of COVID-19. Due to the nationwide lockdown announced by the Government of India operations at our facility was suspended. There was an impact on our business during the last 10 days of March and up to April 23, 2020 which is when operations partially resumed. Production and supply of goods commenced on March 22, 2020 at our pharmaceutical facility on a limited basis and for the



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other plants, we started off on April 23, 2020 also on a limited basis after getting all the necessary permissions. We are hopeful that production will be soon enhanced in a phased manner. This naturally will reflect in Q1 FY2021 performance and partially also in Q2 FY2021. Safety and wellbeing of our employees has always been paramount to us, we have undertaken all safety measures and are following increased protocols to ensure our people are safe and secure. We have adopted work from home policy for our office staff. With respect to labor availability we do not foresee it as a concern as majority of our labor force comprises of local workman. Further we have also increased the proportion of permanent and technical workforce across our plants to ensure continuity in manufacturing. With respect to our financial position the company has made detailed assessment of the liquidity position for the next one year and the recoverability and carrying values of its assets and has concluded that there was no material adjustment required in the financial statements. We currently are in a very comfortable position to meet all our commitments and are continuously evaluating the situation so as to enable us to take appropriate steps when required. With this I shall now hand over the call to Sanjay Shah, our Chief Strategy Officer to give you the financial highlights of Q4 and FY2020.

**Sanjay Shah:**

Good morning everyone. I will share with you all the highlights of our operational and financial performance during Q4 & FY2020 following which we will be happy to respond to your queries.

During the quarter we have processed 2267 tonnes of polymer as against 2961 tonnes in the same quarter last year, in FY2020 we processed a total of 13293 tonnes of polymer against 14258 tonnes during FY2019. Machine utilization rate stood at about 64.5% during Q4 FY2020 and for FY2020 the same was 63.7%.

Exports during Q4 FY2020 stood at 68.4% and for FY2020 stood at 69% of the total revenue. For Q4 FY2020 the revenue stood at 79.6 Crores vis-à-vis 77.4 Crores in Q4 FY2019 growing by 2.9% year-on-year. For FY2020 the revenue stood at Rs.326 Crores against Rs.338 Crores in FY2019 degrowing of 0.7%.

EBITDA for Q4 FY2020 is Rs.15 Crores versus Rs.11.8 Crores in the same quarter last year recording a growth of 26.5%. EBITDA margin increased to 18.8% in Q4 FY2020 vis-à-vis 15.3% in Q4 FY2019. For FY2020 EBITDA stood at Rs.59.1 Crores against Rs.54.4 Crores in FY2019 grown by 8.6% year-on-year. EBITDA margin for FY2020 improved to 17.6% from 16.1% FY2019 and our margin performance is aided by healthy offtake in our healthcare business. Company has undertaken various cost cutting initiatives, which will help further the margins going forward.



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Net profit for Q4 FY2020 is at Rs.7 Crores vis-à-vis Rs.3.5 Crores in Q4 FY2019 with a growth of 98% on year-on-year basis. PAT margins for Q4 FY2020 was 8.7% versus 4.5% in Q4 FY2019. Profit for FY2020 stood at Rs. 23.6 Crores as against Rs. 19.3 Crores in FY2019 recording a growth of 22.4%, PAT margin for FY2020 stood at 7% versus 5.7% for FY2019.

The company expects to exercise the option permitted under Section 115BAA of Income Tax Act 1961 by the Taxation Laws Amendment Ordinance 2019 for FY202. Accordingly, the company has remeasured its deferred assets net position and has taken full effect with the statement of P&L quarter and year ended March 31, 2020. Net fiscal for the quarter in year ended includes tax benefit of 104.71 lakhs on account of remeasurement of deferred tax assets net.

Cash profit for Q4 FY2020 is at 11.6 Crores as against Rs. 7.5 Crores in Q4 FY2019 thereby growing at 55.7% FY2020 cash profit stood at Rs. 41.5 Crores versus Rs.34.2 Crores in FY2019 giving 21.3% growth on a year-on-year basis.

Our capex spends for FY2020 was Rs.62 Crores. We have continued the growth capex in such time as well as to ensure that we are able to capitalize on medium to long-term growth opportunity.

Our ROCE increased to 17.8% in FY2020 as against 16.9% in FY2019, return on equity also improved from 14.2% in FY2019 to 15.8% in FY2020.

The way forward for FY2021 and beyond this year for us is as follows:

1. Revenue uptick: based on new business confirmation, addition of new clients has increased contribution for varied segments.
2. Improve EBITDA margins on back of high utilizations in existing facilities and increasing contribution for healthcare projects
3. Increasing healthcare revenues on back of new clients and existing clients as well as the new products
4. Uptick in profitability limited investments into capex, increasing capacity utilization in carbon steel business and healthcare business to be result in uptick in return ratio and profitability. Given our vast experience in capabilities we are confident to play a larger role under the Make in India program as well as some important part of the value chain for our customers. We are looking at China plus one strategy.



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This is all from my side. Now we can open the floor for question and answers. Thank you.

**Moderator:** Thank you very much Sir. We have the first question from the line of Chirag from HDFC AMC. Please go ahead.

**Chirag:** Thanks very much for hosting the call and I hope everybody is safe in these unprecedented times. If you could give us some sense in terms of what is the outlook for your largest customer this year, last year there was some inventory pressure and what is the outlook of that customer this year that is my first question and my second was for the carbon steel project, considering the one quarter delay in starting what kind of revenue expectation do you have for that project for this year and thirdly if you could give a breakup roughly of your revenue this year by segment and the outlook for each of the segments in FY2021?

**Amit Sanghvi:** Outlook for our largest customer is not looking bad , we are not looking at revenue expansion over the last year, we are looking at similar revenue as FY20. We are tracking the forecast every week. We are seeing increasing orders on the forecast as the stores have started opening up; however, we are not able to make a comprehensive judgment in terms of where it will end up possibly, order book is looking healthy, orders are not reduced over same period of last year.

**Chirag:** In terms of new project which you might be waiting for with those customers?

**Amit Sanghvi:** One new project went on stream in September of last year and because of the lockdown we should be making a significant amount of supply in the current year.

**Chirag:** Second question was on the carbon steel in terms of when do we start?

**Amit Sanghvi:** As I mentioned in my speech we are looking at starting trial production on June 8, 2020 with first supply being made towards end of July. We anticipate a whole ramp not before or a decent ramp of not before September, which means that in the current year we are looking at roughly 30% to 35% of revenue on the steel furniture business.

**Chirag:** What you mean by 35% revenue, is the utilization you are looking at?

**Amit Sanghvi:** Yes 30% to 35% of utilization on the current year.

**Chirag:** That is roughly full utilization basis it should be Rs.100 Crores revenue run rate business so you are roughly looking Rs.35 Crores of revenues?



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- Amit Sanghvi:** That is correct. On your last question Chirag unfortunately we do not give revenue breakup by segment.
- Sanjay Shah:** But what we can say Chirag is that our largest customer accounted for a little less than 55% of our revenue.
- Chirag:** Sure and what is the capex requirement this year?
- Sanjay Shah:** The spillover to capex, which was there in FY2020 in the current year, which is about Rs.10 Crores to Rs.12 Crores. Further capex requirement will be on the basis of business confirmation for which we are in talk with different customers.
- Chirag:** Sure and lastly could you give us a sense in terms of what is the outlook for the pharma business this year compared to what it was last year?
- Amit Sanghvi:** As the development pipeline starts to get into supply, we see stronger growth and market improvement on the pharma business. We are looking at growth in the pharma business on a year-on-year basis and exact number is not possible because it is too premature business for us to give you the figures.
- Chirag:** Sure great. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** My first question pertains to intangible assets on the balance sheet, which has increased fourfold on a year-on-year basis I assume this was on back of pharma just wanted to understand what this number means and what is typically a gestation period between intangibles and to what we see actually on the P&L?
- Sanjay Shah:** You are right the increase in intangible assets is essentially representing the IP on account of the Pens, which we have developed and the effect of that, so basically it represents the IP as a design for the pens, which we have developed. So we talked about in the last two quarters we have commercialized two of these pens, since we have commercialized these two additions we have basically capitalizes in intangible assets.
- Ritesh Shah:** Sanjay any color of the quantum of business opportunity that we have in the gestation period by the time we see some benefits on the P&L?



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- Sanjay Shah:** We have started seeing benefits in the P&L Q3 onwards if you look at it Q3 and Q4 we have seen improvement in margins on the back of higher numbers coming from the healthcare segment. I see the trend continuing forward for FY2021 and FY2022 also. I think in terms of size of opportunities we have talked about in the past is we are developing a portfolio of about, so we today have a portfolio of five platform devices for multiple drugs. We currently have about 13 or 14 pens under development for different customers, so growth opportunities are huge.
- Ritesh Shah:** Sanjay bhai what was the number last year same time around currently you indicated 14 pens under development so how much was it last year and what has actually transpired to the P&L?
- Amit Sanghvi:** So we have five platform devices . On each of the platform we have the ability to design and develop molecule specific pens, so on a particular platform very easily we could have support for two to three or four molecules, On each molecules we are looking at adding multiple customers, so on the two platforms that were started about 24 months , we now have about six or seven customers combined, so when Sanjay bhai says that we are looking at developing or more number of pens are increasing basically the number of customers on the platform what we have developed are moving up. So there are more people buying into what we have already developed. We are growing that does not mean the new developments are not ongoing, but as a business cycle some pharma companies who take slightly larger ways can develop their products in the upfront and you have others, which look for it when they believe in a fully developed way.
- Ritesh Shah:** Would it possible to provide some color when you indicate multiple customers like is it the Indian companies or is it we are looking at overseas sales, we are looking at MNCs how is it work?
- Amit Sanghvi:** So the customers that we have acquired so far are all English Pharma companies, but the business itself is for regulated markets, which means primarily target market would be the US, for the same platforms we have now also made significant efforts in the Chinese market where we feel that there is a very large opportunity untapped opportunities, so we have not officially yet because we are in the process of doing agreements, but we are working with a company in China to market our devices. We are also working with two companies in Europe and one in US, which are both they are not large names in the pharma industry, but they are very large names in biotech, so we are looking at supplying our devices to them currently for evaluation.





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**Ritesh Shah:** That is useful. My second question was pertaining to our largest vendor basically on the home furnishing side, to my understanding we do have certain volume commitments from the home furnishing major given there has been or probably there would have been some loss in business either because of both shutdown or logistic issues over April-May, do you have some sort of support from them how should one look at it and have things normalized when it comes to supplies?

**Amit Sanghvi:** So yes when we talk about commitments it is like one at a yearly commitment, second we have to put things in perspective figuring a commitment does not make sense first we are not manufacturing and second they are not having sales, so even if we figure the commitments and customer buys the next this will only affect future sales, but having said that we do not see a decrease in the order book as of now as I mentioned to Chirag as well, so we are not seeing a decrease on the order book as the stores open up we have seen an increase in forecast.

**Ritesh Shah:** My last question you did indicate on China plus one in the initial remarks any particular segment that you are targeting over here and any visibility over here if one have to look at the earlier number, which we used to give Rs.500 Crores of topline numbers if you can combine this into one it would be great?

**Amit Sanghvi:** Any particular segment no I think we have outlined is , we would like to participate in opportunities primarily where manufacturing is moving out of China so when I say manufacturing let us see the companies that are moving, they are manufacturing these American, European, Japanese products moving their manufacturing base from China to India and in such cases, we are looking at high precision, high engineering opportunities. We do not have any guidance in terms of what the outcome will be and apart from that we are clearly seeing opportunities on both home production as well as toys, which is all business that could be moving around China.

**Ritesh Shah:** Great. Thank you so much. I will join back in the queue for more questions. Good luck.

**Moderator:** Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

**Dhwanil Desai:** Hope you are safe. Three questions, first one is we are having an aspiration of \$100 million revenue by 2020-2021 so how does Covid change this scenario, changes our goalpost and any color on that would be very helpful, second question is with respect to we appointed a new professional CEO so if you can share your thought process as to these are generally



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doing quite well in terms of managing and executing, so what was the thought process around bringing in a professional CEO that is my second question and the third and the last one is we talk about this Make In India being part of that program and plans following China plus one strategy is that more of a general flavor of the market or you are seeing some concrete discussions taking place around that? That is all from my side.

**Amit Sanghvi:**

We certainly shifted, certainly move forward. What we assume is, we do not want to give the guidance on many numbers this year and at the end of this year depending on how we perform which is both a mix of the order book we have and how are we able to execute, we would be able to comment more concretely on that. Having said that in spite of low revenue in Q1 of FY2021 we are expecting growth in FY2021. On your second question, on appointment of CEO, if you go through our transcripts over the last eight or ten quarters you will realize that we have been struggling with operational issues whether it is labor, whether it is power, whether it is something else, project delay, etc. So the purpose of appointing a CEO is to really bring in operational excellence into the organization, which then frees up my time to do justice to both R&D and business development, the new businesses that we discussed with our potential customers are no longer million dollar businesses they are significant in value, which requires a lot of time to be devoted to that job, so the purpose is that I need to personally move out of operations where someone like Anil who has such a strong background in operations and turning around companies can come in help us manage that part of the business and allows me to focus purely on strategy and business development. Also since the healthcare business is a very nascent business it require a lot more of my times in other businesses too and it is a very sensitive segment where if you make a mistake it becomes kind of untouchable so the risk is very high, therefore it requires a lot of efforts and time. On your third question, specific discussion, yes we are having specific discussions with our manufacturers. We are also having discussions with a company, which is going to some sort of bit of hi-tech, so we are talking about mixed materials that are being sourced from China and would potentially be looking at us for the future. Apart from that we do not have any specific discussions on knowing where we look at product shifting out of China, the opportunities will arise I think the opportunities will start to come in, 8, 10, 12 months' time.

**Moderator:**

Thank you. The next question is from the line of Jitendra Agarwal who is an individual investor. Please go ahead.

**Jitendra Agarwal:**

Good morning, I have three questions, and since it is my first call so some of things are basic actually; in terms of the capex that you have already completed in FY2020 and the plan that comes online this year is there any additional capex to be run and is there any new



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debt that will come in the balance sheet in FY2021 because of this, my second question is related to your capacity utilization so it is historical given the range of 65% to 70% , can you please give a thought process in terms of what is the technical capacity position that you give on these 120 odd machines that you have and my third question is related to your CSR spent if I get your FY2018 and FY2019 annual report there is some unspent CSR can you give us a status update on this?

**Sanjay Shah :** Jitendra I will start with your first question, capex for FY2020 we have given a number, which I mentioned in my speech, which is about Rs.52 Crores.

**Jitendra Agarwal:** FY2021 sorry.

**Sanjay Shah:** I am coming to FY2021 capex, for FY2021 we would basically do the spillover of FY2020 into FY2021 which is about Rs. 10 to Rs. 12 Crores, balance capex spends would be decided based on project confirmed with customers so as Amit mentioned we are in discussions with multiple customers for different projects and if some of these projects get confirm we will basically increase our capex, in fact we would basically draw the balance of the loans which we have sanctioned so there are current about Rs.60 Crores of loans which have still not been availed so we can basically look at using some of this.

**Jitendra Agarwal:** Okay.

**Sanjay Shah:** Second question was on capacity utilization yes we are about 65-75 that in overall basis, this would be different in different pockets and we can increase to 85% that is the peak level which we can go. On the CSR spent we are evaluating opportunities in terms of where to spend on CSR on the right projects and we still have some unspent amount in FY2020 also so we will basically bundle this where we can make meaningful contribution.

**Jitendra Agarwal:** Sir related to the last question, is there a technical timeline as for the companies act that you need to spend this or you can identify the project and then cumulatively spend together is it?

**Sanjay Shah:** I think as far as the MCA there are no guidelines right now in terms of a timeline but we will check and get back to you.

**Jitendra Agarwal:** Okay and Sir there is one more question I am sorry, this carbon steel plant right so in terms of return ratios or in terms of how you do the business compared to the plastics business could you give some sense because I understand that in plastics we will have these costs of



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molds and everything that keeps coming in terms of incremental business so in the carbon-steel plant could you give some idea as to what happens on an incremental basis?

**Sanjay Shah:** Jitendra on the steel furniture or any individual business I think it is not be appropriate for us to comment on individual markets so I would request...

**Jitendra Agarwal:** No what I mean to say is that in our plastic business so there is this cost that you need to incur to develop a mold for a new customer and so that gets you a new business right?

**Amit Sanghvi:** In the steel furniture business also there are cost incurred to develop any product because you are looking at fabrication so you have punching tools, you have bending tools, you have welding fixtures so there is development cost even in the steel business there are just different kind of tools that cost different than the plastic.

**Jitendra Agarwal:** Okay and is this customer centric to a specific customer or you can actually go and cater to anyone else also in the industry?

**Amit Sanghvi:** We do not have any exclusive agreement so we can cater to others as well we only have one customer at the moment so we want to first focus on starting sales and ramping production there before we start looking at offerings to others.

**Jitendra Agarwal:** Perfect that was very useful. Thank you.

**Moderator:** Thank you. The next question is from the line of Aman Vij from Astute Investments. Please go ahead.

**Aman Vij:** Good morning Sir, my first question is around the visibility in the toy segment so we had one customer last year so have they given some kind of visibility this year and also we were in talks with two other players so could you help us with that any update on that?

**Sanjay Shah:** So we have seen growth with the customer because of the lockdown some of the projects have been delayed but we think that business going in the current year we are in active discussion with couple of other customers once we have the confirmation we will talk about that we see fairly good progress with some of these on that front also.

**Aman Vij:** Okay and my second question is regarding your different segments I am not asking for individual contribution but if you can give some kind of guidance like in FY2020 which all segments grew among FMCG, appliances, electrical and which were say flattish, little degrowth if you can highlight these things?



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**Sanjay Shah:** So obviously the auto segment did not grow but I will say healthcare grew, FMCG grew, these are two segments which grew.

**Aman Vij:** Okay and what about appliances and electrical?

**Sanjay Shah:** Again I would not be able to get into every individual segment but these two are major segment where we saw growth, where we did not see growth.

**Aman Vij:** Sure and finally on the major segment which is home furnishing so you had in earlier call highlighted about there is very big Chinese player, what kind of sourcing is IKEA doing say from India versus China as of now and what kind of opportunity do we see there?

**Sanjay Shah:** We do not name our customers first, these are questions which do not relate to us so I think we would refrain from answering this.

**Aman Vij:** Okay sure.

**Moderator:** Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

**Ankit Gupta:** Thanks for opportunity, this is the question to both Amit, as well as Sanjay, if we look at the past five years so our volumes have grown from around 4720 tonnes to around 13000 tonnes so in that the major chunk of growth came in between 2015 to 2018 and in the past three years we have stagnated at around 13000 tonnes so last two years have been a big challenging with change in inventory policy of our major customers plus labor and power issues as well as the CRC cap project did not take off as we were expecting so what were the key learning's from our experiences in the past two, three years and what changes are we making in the company so that such low growth period do not come back over the next two, three years, if you can broadly give your views on this sense?

**Amit Sanghvi:** So, one of the key initiatives is hiring a professional CEO like Mr. Kalra. Second is on the labor front, first we do not have any migrant labors so everybody comes from the local villages and surrounding areas probably within 20-30 kilometers of our facility and our problems with the labor as far as the hard stand we took last year seem to be resolved, we do not have any issues ongoing at the moment, the current issues on labor are primarily we will do it starting up of our third shift, so slowly I think but right we should be able to start third shift as well, we are seeing less labor coming because of the COVID-19 situation, we do not have any ongoing IR issues that is your first question.



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**Sanjay Shah:** Second is I think when you look at polymer process, polymer process would not probably be a benchmark in terms of product, because we have a product mix which is completely different so you need to look at what product which we have done and I think that is more important to look at so probably the utilization number which we report is a better barometer.

**Ankit Gupta:** Okay and secondly last year growth has also been impacted because of the change in inventory policy of our major customer that customer is contributing close to around let us say somewhere around 55% of our sales currently and with the carbon-steel plant it will inch up further like let us say 60-65% so from a longer term perspective and I do understand that we have almost 15 years of relationship with customer so how do you view that customer concentration risk and from a more strategic point in longer point of view let us say over the next three to five years do we have any plans of reducing this customer concentration?

**Amit Sanghvi:** Very high focus area for us is obviously healthcare and the toy segment. What we doing at the moment is with the addition of steel furnishings for the same customer we are still able to maintain the revenue contribution of that customer at between 55% and 60% of Shaily's overall revenue, now going forward with growth coming in both healthcare and toys over a period of three years we should be able to bring it down naturally to a level of somewhere between 45% and 50% ; we have no plans on giving up opportunities on the customer it is one of our key customer and a growth driver for Shaily, so the only way to reduce the customer concentration risk is by growing our other businesses which we are heavily focused on and we will be able to bring the customer revenue share down over the next two years.

**Ankit Gupta:** Sure and on the pharma segment if you can just broadly give us, over the last five years how has been the growth in the pharma segment and how have we grown in that segment? Not specific the growth rate and our company growth rate?

**Amit Sanghvi:** We are not giving you numbers Ankit for two things, one the growth had been exponential second also because the baseline was very small so today the pharma segment is our second largest business segment in Shaily which would give you some idea of how we have also evolved from being just a contract OE manufacturer to providing off the shelf platform device which is really the big key change in our growth towards that business, so growth coming as we move forward can be very, very significant because we do not have to go through the full development cycles every time we have several devices which we can offer, more or less off the shelf now.



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**Ankit Gupta:** So the reason that you are giving that the growth in this segment will be much higher over the next two years?

**Amit Sanghvi:** Yes.

**Ankit Gupta:** Okay and last question on the toy segment, if you can broadly give us I am not talking about the immediate next one to two years, let us say over the next three to five years what kind of opportunity do you see in the segment we already have contract from one customer and we are in talk with two more customers so how do you see this new division panning out for us over the next three to five years?

**Amit Sanghvi:** I would not talk about our specific opportunity because we see very significant amount coming from toys essentially the three customers that we are speaking with on the toy segment just three of them combined would be sourcing about \$4 billion worth of toys out of which 90-95% comes out of China. So, I really do not know what will come to Shaily specifically but I think even if a small percentage moves out, we should do well.

**Ankit Gupta:** Sure and how many big suppliers within the toy segment from China if you have any idea about that?

**Amit Sanghvi:** I think in India today for servicing at least the major toy brand there would be an eight to nine suppliers some of them have moved before Shaily did so some of them have already established business and generating revenue, you have large clients like Funskool as well in the sales segment who have been in the business for several, several years now.

**Ankit Gupta:** Okay. Thank you so much.

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

**Ashish Kacholia:** Hi Good morning Shaily team and warm welcome to Mr. Kalra to Shaily executive team. I just had a small question for him. What is his initial assessment after joining Shaily and what are his priorities as of now as Chief Executive of the company?

**Amit Sanghvi:** Ashish, I am very sorry can you repeat your question?

**Sanjay Shah:** The question was how will Anil contribute to Shaily? He is on a mute mode right now.



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**Amit Sanghvi:** Ashish, Anil just joined as an observer today, but of course we have had several conversations with Anil regarding how he will contribute to Shaily. So maybe I will on this call I can give you some of my thoughts, at another future date you can send in your question through SGA and Anil would be more than happy to answer that. So as I mentioned a little while ago to another participant that primary objective of Anil coming in is to ensure that we achieve operational excellence we in one way or another continue to struggle with getting products.

**Ashish Kacholia:** So I know that answer that you gave earlier. So my query is answered. Thank you very much and I would like to congratulate the team on getting such a senior veteran onboard, I think the management bandwidth had to be increased and I think it is a very encouraging sign that you guys have done. All the very best.

**Moderator:** Thank you. The next question is from the line of Ankit Gor from Systematix Share. Please go ahead.

**Ankit Gor:** My question was regarding our peers from India supplying to the same home majors, though probably relatively don't match more than price compared to us. These guys are able to kind of scale up to other furnishing majors as well across the world and for us we are obviously trying hard to get into other furnishing majors globally what is the basic headwind we are facing here and how do you we see scale up to other furnishing majors or other second, third, fourth number globally?

**Amit Sanghvi:** Ankit while there are many other furnishing majors there is one thing very unique about our customer. Our customer design and develop their own products and their supplier only manufacturers them but there are always joint design, joint development program, etc. but at the end it is very specific to that customer. If you look at the other large chains most of them would be multi brand retails which means their model is purely dependent on sourcing and selling, they do not intent to develop and design their own product. They intend go to factories that manufactures a whole bunch of range and then source based on their requirements and price. Potentially on the steel furniture side there could be some opportunity but like I said that business is very new which we have not even started operations yet so we would first like to focus on servicing the current requirements and at a future date may be in the next 12 to 18 months look at expanding into other furniture brand major.

**Ankit Gor:** You are right we are into supply and sourcing model peers from India, but relatively they earn in terms of return ratio in terms margin when similar to what we are earning. So that





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what is kind of not probably seen in overall supply chain. Correct if I am wrong and if my understanding is wrong there?

**Amit Sanghvi:** I did not understand your question on this.

**Ankit Gor:** No Amit said they are into multi source providers despite that they earn relatively a similar profitability than what we are earning so there is no harm in going that side as well right?

**Amit Sanghvi:** But they also take a larger risk in fact it is good for us that we earn similar margins as them because they take the risk of designing developing the product and spending the money upfront doing all the development cost. With our customer that risk does not exist for us so if we have similar margins to these guys then I think we are in a much better position from a business perspective.

**Ankit Gor:** Right thanks. My second question with regards to we have obviously strengthened our board with guys coming from Sanofi and Motherson Sumi so we believe now that drive to diversify our revenue base is very strong compared to what we are guiding for the last several years. So I am sure you would hesitate to give some number in terms of five years how our revenue would look like but any directional guidance will definitely help us understanding diversification process now?

**Amit Sanghvi:** So Ankit what I said and I maintain that is we need to look at how this year pans out, in the order book we definitely have growth over FY2020 but we need to look at execution, we need to look at whether there are other external factors, whether there is a second wave markets are opening up more or shutting down we do not know as of now. So we will be able to give you any kind of guidance if at all only at the end of the year.

**Ankit Gor:** Okay. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Ganesh from Rupeewise Investment. Please go ahead.

**Ganesh:** We had like 44% gross margin in Q4 2020 so is it okay to assume that with our focus on value-added products we will get a similar gross margin in the coming quarters too?

**Sanjay Shah:** I do not want to give you number but if you see our trend, the trend will probably give you an answer in terms of how gross margins have been moving and we have also been talking



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with areas of business where we are looking at growth which should give you a trend in terms of how much gross margin we will make in the future.

**Ganesh:** So other question is regarding the carbon steel project from the last conference call we were kind of planning for a Rs. 50 Crore revenue in 2021 before full ramp and since the ramp up has obviously been delayed by the COVID pandemic so we have any visibility on the current year's revenue with the respect to the carbon steel project that is my first question. Second question is who do we see as competitors both in India and outside India and what do we see as our total addressable market size at least for the next two or three years?

**Sanjay Shah:** I think on carbon steel revenue Amit talked about it in his speech and some of the questions which were answered we are looking at an average utilization of about 30 to 35% for the year which would give you a sense of the revenue which we are looking at for the year. I think from an addressable market, the addressable market is pretty large, if you look at different segments and within those segments the growth potential and everything, it is number which could be extraordinary because steel furnishings also we see a lot of areas of growth.

**Amit Sanghvi:** Steel furnishings and plastics our customer itself buy upwards of 2 billion euros worth of good every year, I do not know how many such players, there would be in the addressable market but we are very large now.

**Ganesh:** A slightly hypothetical question now that will be my last question. For somebody who is a passionate student of Shaily who wants to model Shaily's utilization and ongoing performance what metrics or what parameters would you advise to look into of course you said utilization earlier in the call?

**Sanjay Shah:** Basically looking at the type of business segments which we are looking into and the growth potential in that and capacity utilization there could be combination of these factors which could be modeled but it is up to you to decide the best in terms of how to model it up.

**Ganesh:** Okay. Thank you.

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

**Ritesh Shah:** Hi Sir two questions what is the normalized working capital that we should look at given we have seen pretty good working capital on a year on year basis? Second question is



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hypothetical one government has spoken about COVID tax so just wanted to understand what polymers we import and given we have a 75 to 25 metrics on exports to domestic sales how does it impact us, does it impact our competitiveness both locally as well as for exports?

**Sanjay Shah:** Ritesh on the first question on normalized working capital I would say on a normalized working capital probably we are looking at somewhere between 60 to 75 days of net working capital days. We are probably at the higher end of that we will be working towards reducing that, but on a normalized working capital we would probably be looking at 60 to 75 days. On the COVID tax see all of our raw material increases are pass through, wherever you are importing material for export reasons I am sure there would be exemption given if there is a COVID tax which would come in so from that perspective I think it should be neutral because at one point government is trying to encourage export and putting in a COVID tax on import and export would not be the right strategy. I think the government should be understanding.

**Ritesh Shah:** But you did indicate that raw material pass over, does it impact your competitiveness. So the vendor might agree to pass through it but when you look at our competitiveness versus the Chinese peer some other guy operating in some other region, how would one look at it?

**Amit Sanghvi:** Certainly if there is a tax which does not exist in other regions where we are not exempted from then it would certainly affect our competitiveness.

**Sanjay Shah:** It would impact India's competitiveness I do not think the COVID would be applicable on exports, could be for imported products.

**Ritesh Shah:** Okay. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Vaishali Parekh from Prabhudas Lilladher. Please go ahead.

**Vaishali Parekh:** Good morning everyone. I just have one question; would it be possible for you to share timeline for the different products that you all intent to launch in pharma devices in FY2021 I mean as you all had in the past?

**Amit Sanghvi:** There are few molecules which we are working on so it will be in the Q1 presentation Vaishali.



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- Vaishali Parekh:** Well a ballpark typically also like in Q3 you had spoken 12 different pens getting commercialized in FY2021. I was just wondering if it could be possible for you to share quarters where they will be launched that is all I am looking for. You do not give a lot of guidance and stuff like that you know, it is tough to track?
- Amit Sanghvi:** Vaishali that is very difficult for us to share because largely after our exhibiting are done there is an extensive verification activity that happens at our customer's end that we do not know. Yes, that is extremely difficult for us to provide. We can tell you only what we are developing.
- Sanjay Shah:** If we give these dates, and if a customers' competitor looks at those dates we will be able to understand what the customer is also doing so we will be basically violating the confidential conditions which we have with the customers.
- Vaishali Parek:** Referring a point that you all have mentioned in the past on this platform you have spoke 12 pens that are going to commercialized in 2021 do we still stand by that?
- Sanjay Shah:** What we have said is these 12 or 13 pens would be commercialized from our end we have commercialized between FY2020 and FY2021 with some getting spilled over to FY2022 but we would have commercialized those pens in terms of our end customer it could depend on when the molecule is moving off patent, plans in terms of launching that.
- Vaishali Parek:** Okay therefore commercialization may not necessarily equal to revenue would that be fair to be presume?
- Sanjay Shah:** There will be revenues but you basically see peak revenues coming up when the customer actually launches this in a regulated launch?
- Vaishali Parek:** Okay. That was the only one question from my side. Wish you all the very best/.
- Moderator:** Thank you. The next question is from the line of Aman Dwivedi from Alpha Alternatives. Please go ahead.
- Aman Dwivedi:** My question was largely on the China plus one strategy that many global players are looking for. Could you give us a color on any announcements that major customers might have made or any new capex that some of your competitors may have incurred outside China. Trying to get a sense of which geography is attracting these investments, these



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customers is it India? is it Vietnam? or is it any other geography that is attracting to these customers?

**Sanjay Shah:**

Whatever we were exporting in the last three to four years has been a part of some of these businesses have been moving from China to India so we continue to do that, our customers would obviously evaluate the options which they have which could probably be Vietnam, could be Indonesia, could be other areas also, but we are looking at some areas where we feel there is lot of growth prospects which are available which is one is toys, second is home furnishing and we continue to evaluate these opportunities as we move forward on that.

**Aman Dwivedi:**

Okay. Thank you.

**Moderator:**

Thank you. As there are no further questions I would now like to hand the conference over to the management for their closing comments.

**Amit Sanghvi:**

Thank you everyone for joining on 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 relation advisors. Thank you and stay safe.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Shaily Engineering Plastics Limited that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.