



“Shaily Engineering Plastics Limited Q1 and FY18 Results Conference Call”

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**MANAGEMENT: MR. AMIT SANGHVI – MANAGING DIRECTOR, SHAILY
ENGINEERING PLASTICS LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shaily Engineering Plastics Limited Q1 and FY '18 Results 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 the date of this call. These statements are not the guarantees of future performance and involve risk 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Sanghvi, Managing Director of Shaily Engineering Plastics Limited. Thank you and over to you, Sir.

Amit Sanghvi: Thank you very much. Good afternoon and a warm Welcome to all the participants to the post-results earnings call of Shaily Engineering Plastics. I am joined by SGA, our Investor Relations advisors. I hope that you have had a chance to look at our results update presentation that is uploaded on our website and the stock exchange. Just to give you a bit on the business front, FY '18 has started on a good note for us. We have been able to deliver good performance during the quarter on back of improved performance on multiple fronts. Part of it commercializing orders received in the previous quarters which have resulted in increased utilizations.

We have also seen addition of orders from existing customers besides adding new customers. During Quarter-1 of FY '18, we have received the following business confirmations. First, manufacturer of packaging for one of India's premier FMCG company for one of their flagship products. This is a new order from a new customer and our entry into a segment which falls somewhere between healthcare and FMCG, so more on the wellness on the Ayurved side. Second is an extension of an order we had received last quarter for a pen injector, which has now been extended for US markets as well. Third is an order confirmation received for the development of a disposable insulin pen from a large domestic Pharma company.

We are also witnessing ramp up in sales from the auto ancillary company that had not come in last year. This again is a testimony of our quality and expertise in plastics processing. With regard to the status of the orders we received during FY '17, one, we have made shipments of a part of the order from the home furnishings major and balance of the SKUs will start by the end of Quarter-2, early Quarter-3 FY '18. On the skincare and derma applicators order front, we have completed the development and have submitted the samples to the customers for approval. We continue to work cross segments and categories to leverage our understanding of plastics engineering and are confident of revenue target in times to come.

Now, I will share the highlights of our operational and financial performance following which we will be happy to respond to your questions. As you know, we track volume of polymers processed; during the quarter, we processed 2642 tons of polymers as against 2531 tons in the same quarter last year representing an increase of 4.4% year-on-year. Machine utilization rate stood at 73.8% in Quarter-1 of FY 18, which is also at a 21-month high. With commercialization of the global home

furnishings major order and a good order pipeline, we expect that the utilization rates to improve further going forward. Exports for the quarter stood at 72% of the total revenue down from 78% in the same period last year. For Quarter-1 FY '18, we achieved a revenue of 70.9 crores showing a year-on-year growth of 17% from 60.6 crores in the same quarter last year.

EBITDA for Quarter-1 FY '18 stands at 12.2 crores versus 10.4 crores in Quarter-1 of FY '17 also showing a growth of 17% year-on-year. Our overall EBITDA margin stood at 17.2% in Quarter-1 of FY '18. Net profit of Q1 FY '18 is at 4.4 crores up 27% year-on-year with a margin of 6.2% of improvement of 50 bps year-on-year. Our cash PAT for Quarter-1 FY '18 stands at 8.3 crores as against 6.5 crores in Quarter-1 of FY '17 representing a growth of 27% year-on-year. That is all from our side and we can now open up the floor for question and answers. Thank you very much.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, we will now begin with the question and answer session. First question is from the line of Ritesh Shah from Investec Capital. Please go ahead.

Ritesh Shah: Sir, my first question is on the Pharma side, if you could indicate what is the utilization of the CRC plant and how do we see it going forward, and again on Pharma, you have indicated new business confirmations on pen injector, which would be extended to the US markets and also of the disposable insulin pen for a large domestic Pharma company, so what is the opportunity size over here and what does it mean to Shaily?

Amit Sanghvi: To answer your first question, if you remember during our previous calls, we mentioned that we were consolidating our healthcare business into a single facility. Utilization levels overall have been quite good for the healthcare clients. As far as CRC particularly is concerned, we have commercially shifted to four additional customers as well, but in terms of calculating the exact level of utilization of the business, it would be very difficult for me to give you that answer today given that we need to track repeat orders and the volume of the orders. Now, coming to your second question regarding the pen injector and the insulin pen, the opportunity for the pen injector which has been extended to the US market as well, is roughly \$4 million opportunity. Regarding the insulin pen, you would be again looking at somewhere in the \$5-\$6 million range in terms of the total business opportunity.

Ritesh Shah: As a follow up, you indicated this 4 million market size for US, just to clarify has this pen also been launched in Europe or how are the commercial prospects right now?

Amit Sanghvi: Without giving out any confidential information, typically with development of products for at least generic players, you know that the business already exists out there, and in a way it is doing it today, so the pen is available in Europe, it is available globally today even in India.

Ritesh Shah: My last question, Sir, on one of the slides you have indicated commercialization of home furnishings orders and this is like 60 crores order by end of Q2 FY '18, would you be able to provide some more color over here, so I understand from IKEA we had like 17 SKUs and then we

had added 21, so how does it stack up against IKEA opening up shops into India, so if you could please provide some color over here, it would be quite useful?

Amit Sanghvi: I am sorry Ritesh, I never said that the orders are for IKEA, we will not disclose who the orders are for.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Nirmal Bang. Please go ahead.

Akhil Parekh: Sir, in terms of the furnishing major, you said that partial order book has been executed and the rest will get executed in second quarter of '18, so would you be able to give like a ballpark number, how much of the order book which you had mentioned in the last con call like how much has been executed as of now?

Amit Sanghvi: The value of the business mentioned in any of the calls before represents an annual revenue. When we talk about business being executed means, we have put certain SKUs in production which means the tooling has been completed, validations have been completed, product has been approved so some portion of the SKUs have gone into commercial production and the balance SKUs will go into commercial production, by Q2, early Q3 of FY '18.

Akhil Parekh: That means like we have not recorded any sales of that 60 crores?

Amit Sanghvi: We have of course recorded, the product is commercialized and is selling, and we are recording sales.

Akhil Parekh: My question was if you can give a little bit of projection of how much of it we have executed?

Amit Sanghvi: Akhil, maybe a ballpark, I think this year we will see between five and six months of complete production, you can estimate from that.

Akhil Parekh: Sir, in terms of the FMCG clients that you mentioned, we are doing some packaging solution for them, would you be able to provide more color on what exactly the product is and if possible the name of the client?

Amit Sanghvi: Name of the client, I will not be able to disclose. The opportunity size for us being a new customer it is not that I do not want to disclose, it is just that I do not have enough information to give you and in terms of what the product exactly is, it is a beauty care product which is applied on the face.

Akhil Parekh: Sir, have we started the sales to Corvi or we are yet to book the sales because if I am not mistaken sales to Corvi had stopped in last couple of quarters?

Amit Sanghvi: We have started.

Akhil Parekh: How big can that opportunity size be for Corvi?

- Amit Sanghvi:** At the moment, we are seeing some strong orders, so let us wait at least six months before we give you an answer on that. Last year's track record was not exactly good on that.
- Akhil Parekh:** Sir, in terms of CAPEX what would be the number for FY '18 and '19, how much we are expecting?
- Amit Sanghvi:** On an average, we are investing somewhere in the range of 25 to 30 crores every year which is what will take us to our target 2020.
- Akhil Parekh:** This will take us to the target of \$100 million by 2020?
- Amit Sanghvi:** Yes.
- Akhil Parekh:** Sir, in terms of debt, how much is it on the book right now, long-term and short-term?
- Amit Sanghvi:** Unfortunately, Sanjay is not with us today, so I would not be able to answer on that
- Akhil Parekh:** Sir, I know you do not give sales segmentation, but just overall in terms of the direction, in terms of CRC and furnishing as a client, how do we see the segmentation, do we still have furnishing major is still like 55% plus is that the right interpretation?
- Amit Sanghvi:** Yes, I think we have stated it will remain at that level.
- Moderator:** Thank you. The next question is from the line of Manish K., an Individual Investor. Please go ahead.
- Manish K.:** I had three questions, one was do you see any competition from the 3-D printing stage because we see so many articles on 3-D printing software and there is so much of customization can be done, so my first question was on that. My second question was if you look into your raw material cost for the current quarter I see a huge spike in that vis-à-vis Q4 figures for previous FY, so do you see the raw material cost continuing to increase over the next few quarters as well, and last would be with respect to your guidance of USD 100 million for 2020, the current growth rate of the company is close to 20%, so do you see growth rates of 30% or 40% for this year or from next year onwards for you to be able to achieve that target of 100 USD?
- Amit Sanghvi:** Manish, I will answer your first question regarding 3-D printing, 3-D printing certainly has come a long way over the years. We use it ourselves today to produce certain type of prototyping, but as it stands today, 3-D printing for us is not you cannot still print fully functional components out of 3-D printing in plastics. Second, there are certain systems where you can print somewhat functional components, but not economically because the blend of polymers that go in to the 3-D printing are very different than the granules we typically use, so the granules will be manufactured in couple of million ton capacities where this would be in couple of thousands of ton capacity at the most, so there is a vast difference in cost. As it stands today, even for the foreseeable future,

whether, I cannot comment on technology solution, but 3-D printing will never take away from high volume manufacturing, what 3-D printing will probably do is reduce your development times, so you will be able to bring out products to market much faster.

Now, your second question was regarding RM content Q4 last year versus Q1 of this year. Now polymer as such has not moved up, but in Quarter-4 of last year, you would see in our P&L that there would be a significant amount of other income, which is what drives the raw material ratio down. If you compare all other quarters, you will more or less find polymer to be in similar range.

Manish K.: If you see the strength of sales close to 10 crores for the current quarter as far as the raw material costs are concerned with the Q4 of previous quarter, I know the current quarter also had incremental revenues of close to 5 crores, but I then wanted to find out raw material is where we kind of took a little bit of hit on the margins especially trying to compare the current results with Q4 of last year?

Amit Sanghvi: Q4 of last year have a significant portion of other income which is why the raw material percentage comes down, our raw material as such has not gone up.

Manish K.: If I can also have answer to my third question with respect to your guidance of 2020?

Amit Sanghvi: We understand that to reach \$100 million figure by 2020, we are looking at 30% to 35% growth year-on-year, and I think all I would say is that let us wait for this financial year to end and we are still extremely confident of achieving that number.

Manish K.: What would be your guidance for the current financial year, would it be close to 20 percentage or would it be upwards of 20 percentage?

Amit Sanghvi: I will not give guidance for this financial year, I think every quarter you will see improvement, so let us take it at that.

Moderator: Thank you. Next question is from the line of Rahul Singh, an Individual Investor. Please go ahead.

Rahul Singh: Just couple of question, wanted to check, are we seeing any spike in raw material prices post the hurricane in US?

Amit Sanghvi: We will see spike in certain prices not now, I think there will be, as of now no manufacturer has announced closure, except styrene we do not see any movement happening right now, but we do anticipate some prices to go up, probably a three-month lag effect, prices at some point will certainly go up.

Rahul Singh: In what range that hike could be?

- Amit Sanghvi:** It is very unknown at the moment, but as of now basically the major capacities affected are styrene, within our portfolio we have some styrene-based products, but majority of our products would still come under the polyester category. I wish I also had the answer, but it is too soon, I think we will know more in a couple of weeks.
- Rahul Singh:** Sir, another question was our domestic business, the proportion of revenue from domestic business has increased in this quarter, is there any specific reason for that?
- Amit Sanghvi:** We have started manufacturing and supplying to Corvi again, some of our new businesses that we have gotten, if you look at my speech or even the presentation, there has been a major domestic customer in that, so we are trying to improve our balance between our export and domestic portfolio, so it is just a result of that.
- Rahul Singh:** This would continue to remain in the going quarters as well?
- Amit Sanghvi:** When we are in a kind of project execution phase, so you might see a different ratio next quarter, but overall at some point after the projects are executed, you should see a balance which is similar to this.
- Rahul Singh:** One last question was any updates on the CRC division and what would be the broad utilization levels over there?
- Amit Sanghvi:** Since we have consolidated our healthcare businesses, the new client which is the CRC client, we have fairly good utilization levels. In terms of the exact CRC capacity being sold, I mentioned that we have supplied to four additional clients already in the current quarter and once we have repeat orders and we have some indication on the volume, we will be able to answer that question better.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Veda Investments. Please go ahead.
- Kalpesh Gothi:** Sir, you talked about the styrene prices, what is the percentage of the raw material cost from the styrene?
- Amit Sanghvi:** It is sub 10%.
- Kalpesh Gothi:** Any other polymer you have seen the prices go up?
- Amit Sanghvi:** Apart from what has happened in the US recently, polymer prices for certain polymers have already started to go up and there is a shortage of certain type of polymers like POM, acrylics, polycarbonate, but the shortage is not related to what is happening in the US, the shortage is more related to manufacturing capacities or manufacturer not producing to the capacity at the moment. Such events happen every year, it is not unusual, so polymer prices, they have a trend, they continue to go up sometimes during the year, they come down afterwards also.

- Kalpesh Gothi:** Mainly, if plant has gone for the maintenance?
- Amit Sanghvi:** Sometimes they go for maintenance, when there is a maintenance there is a major shutdown, but those are typically planned shutdowns, which we are aware of in advance. Lot of times manufacturers will produce less to drive prices up.
- Kalpesh Gothi:** When do we expect these prices to be normalized, do we see these prices may be in the three months short-term phenomena?
- Amit Sanghvi:** Kalpesh, we are not seeing anything unusual at the moment also, we are just saying that prices for certain polymers have gone up, it is the case every year, sometimes polymer prices go up, but it does not happen across the board for every polymer.
- Moderator:** Thank you. We have the next follow up question from the line of Ritesh Shah from Investec Capital. Please go ahead.
- Ritesh Shah:** Sir, would you be able to provide some color on the interest cost, why has that gone down on a sequential as well as on a year-on-year basis?
- Amit Sanghvi:** Ritesh, I am very sorry, Sanjay Shah is not with us today unfortunately, I am not well-equipped to answer that question.
- Ritesh Shah:** Sir, my second question is you have indicated on skincare devices and derma applicator, just wanted to check whether these are domestic customers and what are the timelines that we should look at over here?
- Amit Sanghvi:** The customer is domestic, the product is for exports.
- Ritesh Shah:** For both?
- Amit Sanghvi:** Within the skincare area, we have multiple new developments, some are for domestic market and some are for exports.
- Ritesh Shah:** Sir, any timelines over here?
- Amit Sanghvi:** We made our exhibit batch supplies already, so after that for the export market we consider a period of 12 months to commercial supply. For the domestic market, supplies have started and they will continue to ramp up.
- Ritesh Shah:** Sir, my second question is of the home furnishings major, the order of 38 SKUs that we had, have we already started commercial production for all these 38 SKUs or we can expect further ramp up over here which can help our top line?

- Amit Sanghvi:** We have only commercialized some SKUs out of the total basket. The balance we will put into production by end of Q2, beginning of Q3 FY '18.
- Ritesh Shah:** Sir, the full ramp up by when can we expect?
- Amit Sanghvi:** Full ramp up, I think give it a quarter, after that.
- Ritesh Shah:** My last question, Sir, you indicated about CAPEX of 25 to 30 crores, I am assuming this is excluding tooling, right?
- Amit Sanghvi:** Yes, excluding tooling.
- Ritesh Shah:** The tooling would be how much?
- Amit Sanghvi:** I do not have an exact number.
- Moderator:** Thank you. The next question is from the line of Mahesh Sarda, an Individual Investor. Please go ahead.
- Mahesh Sarda:** Sir, in your thought, when you have given this guidance of 100 million dollars over three years, do you see operating leverage coming into play and the margin trajectory maintaining at the same level or you see the margin, where do you see the trajectory of the margin over three years?
- Amit Sanghvi:** What we do not see is margins coming down at least, so we certainly see that with operating efficiencies and utilization levels increasing, we at least hope to maintain the margin level we have today or to improve upon them.
- Moderator:** Thank you. We have a follow up question from the line of Akhil Parekh from Nirmal Bang. Please go ahead.
- Akhil Parekh:** Sir, just one question for CRC you said we have added four more clients, how many existing we have on top of the clients we have now?
- Amit Sanghvi:** We had three existing, we have added four more.
- Akhil Parekh:** All of them are domestic, right?
- Amit Sanghvi:** Yes.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor to Mr. Sanghvi for his closing comments. Over to you, Sir.

Amit Sanghvi: Thank you very much. I would like to thank everyone for joining the call. I hope we have been able to respond to your questions adequately. For any further information, I request you to get in touch with SGA, our Investor Relations advisors, and thank you once again for joining.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Shaily Engineering Plastics Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.