



“Shaily Engineering Plastics Limited Q2 FY17 Earnings
Conference Call”

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

Moderator: Ladies and gentlemen, good day and welcome to Shaily Engineering Plastics Limited Q2 FY17 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performances and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Amit Sanghvi - Managing Director. Thank you and over to you, sir.

Amit Sanghvi: A warm welcome to all the participants to the Post-Results Earnings Call of Shaily Engineering Plastics. I am joined by Sanjay Shah - our CFO and SGA- our Investor Relations Advisors. I hope you had a look at our results update and presentation that is uploaded on our website and the stock exchange.

I should start with giving you a business update for the quarter gone by. Now although the quarterly results are not up to our satisfaction, we have, however, grown 7% year-on-year and more importantly have been awarded several key new businesses that reinforced our faith in our vision of \$100 million by 2020.

To give you some of the information of some of the businesses we have been awarded, we have received confirmation from one of the largest global skin care brands for manufacturing and supply of primary packaging. We continue to make inroads with global brands and if you recollect last quarter, we also got a confirmation from a global ophthalmic major for their primary packaging. We have also got confirmation from global auto ancillary for a high-end plastic component; these components in turn would be fitted in one of India's largest automotive company and its highest selling car.

In our healthcare division, we have started supplies, we have commenced orders for a large domestic pharmaceutical company in October 2016 and we have planned supplies to a second major pharma by the end of November 2016, with the third major generic brand coming on board shortly thereafter.

Coming on to our home furnishings segments, we have received tools for manufacturing household brushes. The supplies of these products would commence from December 2016. During the quarter, we have also started manufacturing and supply of two additional parts for P&G Gillette. We are happy to inform that we have received approval from DSIR giving recognition to our in-house R&D unit. This would further propel our innovative approach towards engineering world class products for our customers. Both our existing and new customers will therefore have greater comfort and trust in our capability post this recognition.

Another major activity that we undertook both during the last quarter as well as in the financial year has been consolidation. To further strengthen our operations, the board has approved CAPEX of 25 crores to be incurred during financial year 2017 and 2018. This CAPEX would primarily be done for transformation of our existing facilities which is part of the consolidation strategy. We are converting our Rania facility into an export oriented unit which will cater to all our export businesses combined. We are also converting our finishing plant into a work plant FMCG unit which will cater to both our existing FMCG customers and the new acquisitions that we make.

Our pharma packaging unit is also being expanded and it will now post the expansion also cater to device manufacturing apart from primary packaging. We believe that this measure will help us increase our share of business from each of our existing customers as well as help us in adding new customers. While we still remain confident in our vision 2020, I would like to bring to your notice that quarter 3 is going to be slower than expected, primary reasons for this slowdown is basically ramp up of our new LED lighting business that has not happened as per plan and as per customers forecast. We face issues of ramp up on new automated business where the issue is as the final assembly at the customers end and delay in receiving tools for two new products from the customers. Orders are still with us and we are only talking about the delay for few months here.

That is all from my side. I will now hand over to Sanjay Shah, our CFO who will take you through the financial performance of the company. Thank you very much.

Sanjay Shah:

Thanks, Amit and good morning to all the participants. I will share highlights of our operational and financial pro forma, following which we will be happy to respond to your queries.

For Q2 FY17, we achieved revenue of 66.7 crores, year-on-year growth of 5.4% from 63.3 crores in the same quarter last year. Revenue for first half of H1 FY17 stands at 127.4 crores, again 119.3 crores last year, significant growth of 6.8% year-on-year. EBITDA for Q2 FY17 is at 11.3 crores versus 11.8 crores in Q2 FY16, decreasing by 4.3% year-on-year. EBITDA margin stood at 16.9% in Q2 of FY17 versus 18.6% in Q2 of FY16. EBITDA for H1 FY17 stands at 21.5 crores growing by 3.7% over 25.7 crores in last year. EBITDA margin for H1 FY17 came at 16.8%, again 17.3% in H1 of FY16.

Net profit for Q2 FY17 is at 4 crores and net profit margin is at 6%. For first half of FY17, we achieved a net profit of 7.3 crores and net profit margin of 5.7%. Cash PAT for Q2 FY17 is at 7.2 crores against 6.3 crores in Q2 of FY16, growing at 13.7% year-on-year. Cash PAT for first half of FY17 is at 13.5 crores as against 11.7 crores in first half of FY16 growing by 14.9% on year-on-year basis. Exports for the quarter stood at about 77% of the total revenue. Machine utilization rate stood at 67%. As we continue to focus on better value-added product mix with better order flows, we expect machine utilization to improve as we move towards Q4 of FY17.

That is all from our side. And now we can open the floor for Q&A. Thank you.

- Moderator:** Thank you very much. We will now begin with the question and answer session. We have our first question from the line of Shariq Merchant from Quest Investment. Please go ahead.
- Shariq Merchant:** This is relating to the new business that you all have won this quarter, so as this starts to ramp up over the next couple of quarters, from an exit FY17 perspectives or your capacity utilization, how do you see that numbers shaping up and the new business that has been won in terms of the product, is it more high end products or from a margin perspective it will be broadly in line with the existing piece?
- Amit Sanghvi:** So, we mentioned two things during the call. One is, towards the end of my speech I said the delays in ramp up of the existing products and delay in receipt of two new tools for two other components, those will improve our capacity utilization on the current business and in quarter 4. The new business that we have been awarded, we basically start executing the project. So, those results will only go on stream in the next financial year. In terms of margins for the global skin care major, of course it is a high end product and it will contribute to better margins. Same in the case of the automotive because it is sort of metals and plastic conversion or combination, we were one of the few companies in India that have that capability and therefore the margins would be better.
- Shariq Merchant:** And what would be the potential size of this even if you cannot quantify the numbers if you could just give an indication as to how large this could be as a percentage of turnover say a couple of years out?
- Amit Sanghvi:** Shariq, the potential on these businesses is substantial. We do not want to put up numbers there, but what also demonstrates is that across different verticals which we have, we have been able to get business confirmation from global companies for the same. With new product launches, it is often probably not right on our part to give you guys numbers on what could be the revenue potential. The cars, I mean, for the automotive components, I think we are looking at around 100,000 cars a month.
- Shariq Merchant:** And my last question is on the CAPEX side, you talked about adding capacities to multiple facilities, if you could outline (a) how much this would cost and (b) how much it would add to capacities in volume terms?
- Amit Sanghvi:** Between financial year 2017 and 2018, we are going to spend about 25 crores in CAPEX and so yes, a portion of that is adding capacity, but more than adding capacity, it is a consolidation activity to have focus business verticals. From two healthcare units that we have today, we are consolidating all that business into one which results in better efficiency, better margins for those businesses. We are consolidating all our FMCG business into one facility, which will be world class enabling us to acquire new customers. The requirements are quite stringent in home and personal care business as well almost as stringent as healthcare. So, therefore we feel that the consolidation will help us with new business acquisitions. And in terms of capacity, Sanjay sir you have any...

- Sanjay Shah:** In terms of number of machines, we probably be adding about 10% to our capacity, we are adding about 10 machines, Yeah, so these are different tonnage machine so there will be large machines which will be adding.
- Shariq Merchant:** In terms of capacity addition, it would be roughly 10% to your existing capacity?
- Amit Sanghvi:** In terms of number of machines, it is about 10% but these are large tonnage machines.
- Shariq Merchant:** From a production point of view?
- Amit Sanghvi:** From a raw material conversion point of view, it will be much higher than 10%.
- Moderator:** Thank you. We have our next question from the line of Maulik Patel from Equirus Securities. Please go ahead.
- Maulik Patel:** Now, in this quarter your volume processed has gone up by almost by 40% plus whereas your topline has gone only by 5%. If I see from a year-on-year perspective, the polymer prices are not that lower in the rupee terms, a pretty much flat or probably a percent or two lower, what could describe this gap between the volume growth and the revenue growth?
- Amit Sanghvi:** Maulik, when you look at the volume growth, the volume growth is basically broken down into different business segments, so what you are saying is right, 42% volume growth but if you were to compare average raw material prices in that period, average raw material prices have basically come down by about 15% plus in that period. I am just comparing July to September of FY16 and July to September of FY17.
- Maulik Patel:** See, the largest raw material we have will be what PP or PE?
- Amit Sanghvi:** No, we do MH resin we do PE3. Now, if you were to look at the largest resin also, the largest resin in Q2 of FY16 would be different in the largest resin in Q2 of FY17 would be different.
- Maulik Patel:** So, basically product mix has changed what you were, you making the products in Q2 FY16, then what you are making in Q2 FY17 are the different product, right?
- Amit Sanghvi:** We have added products, so whatever product we are doing in Q2 of FY16 and say most of these products we are still doing currently, but we have added more products. To answer your question on the specific material, I am not going to list out all the materials that we do but they are amongst our top four materials, at least two of them are probably not on the index in the engineering assets and prices have come down by \$300-\$400 a tonne.
- Maulik Patel:** So, is it fair to say, I did ask that question in the earlier conference call also that how your margin behave, do you work on percentage margin or do you work on per unit tonne and the answer which I got is there it is a mix of both?

- Amit Sanghvi:** It is a mix of both, you are right.
- Maulik Patel:** Yeah, see but even if I look at in this particular quarter, your margin has come down even if you look at in both in dollar term and also in EBITDA margin also from 19% to close to around 17% right now, so what does this now explain and because I understand that somewhere you work as in a part of converter and you work on percentage margin business probably you have to go down, but in case of on a per Kg or per tonne, your margin should go up then, then I think that should offset each other?
- Amit Sanghvi:** Product mix is a fairly large contributor fact along with the fact that we have done a fair bit of investing in human resources at senior levels for the future and therefore we have incurred a higher expenditure over there.
- Maulik Patel:** So, once you see that volume going up, your utilization in the last quarter is only 67% right compared to the higher number which was there. So once the utilization go up, your operating leverage should kick in right?
- Amit Sanghvi:** Absolutely, there is something we have been consistently saying since the very beginning is that as utilization goes up, our margins will improve.
- Moderator:** Thank you. We have our next question from the line of Ankit Gor from Systematix. Please go ahead.
- Ankit Gor:** Just to continue the previous question, just wanted to know this capacity utilization stands at 67%, just clarity of thought, have we added any capacity in this quarter because volume process is 42% in that case, just any clarification capacity addition this quarter?
- Amit Sanghvi:** No, we have not added any capacity in this quarter.
- Ankit Gor:** And sir with regards to this other operating expenditure, we have seen a good jump up in there, apart from FOREX gain or loss, anything else there to read out?
- Amit Sanghvi:** No expenses we are looking at.
- Ankit Gor:** Other operating income stood at around 1.2 crores of earlier in first half 18,00,000 Y-o-Y.
- Amit Sanghvi:** Basically, export benefits which have been utilized.
- Ankit Gor:** Export benefits. What was the quantum of that sir?
- Amit Sanghvi:** Ankit, that would be 60,00,000.
- Ankit Gor:** And others can you break it up for me, please?

- Amit Sanghvi:** Others was basically regular security. If you were to look it at, other income is about for Q2 of FY17 is about 70,00,000 from which about 60,00,000 is license income and balance 10,00,000 is normal export benefits
- Ankit Gor:** And post this DSIR certification, do we have any tax concession and if yes, then what it would be and what we consider for that now?
- Amit Sanghvi:** We would be eligible for tax concession. So, we basically be eligible for 150% deduction.
- Ankit Gor:** And what would be the tax rate then, net tax rate for next two years at the time being?
- Amit Sanghvi:** We need to work that out.
- Moderator:** Thank you. We have our next question from the line of Mahesh Bendre from Way2wealth Securities. Please go ahead.
- Mahesh Bendre:** Sir just wanted to know, what is the outlook for next 12 to 18 months in terms of volume growth and margins?
- Amit Sanghvi:** Overall and we have said this before, we look at growing our business at about 22% to 25% every year that obviously does not mean that it will happen every year, it could also mean that you have slightly less to one year and a much higher growth in next year. It all depends on how many projects we are successfully able to execute in a given financial year in commercialize. Our vision 2020 is still very much intact and as we proceed to quarter three and quarter four and as we have more information to provide on potential execution of future projects, we will do that.
- Mahesh Bendre:** Sir, in your own opinion, what is the possible risk or concerns to our business?
- Amit Sanghvi:** With the OEM business, your possible risk in OEM, customer is not doing well. Apart from that, global slowdown again, they are very generic risk but for me specifically it is about customers not being able to sell which is the case, the ramp up has not happened in the LED business which was the fairly large chunk.
- Moderator:** Thank you. We have our next question from the line of Rahul Singh from Ampersand Capital. Please go ahead.
- Rahul Singh:** I have two questions, one is while I understand the pricing is the mix of percentage as well as absolute per tonne, if I look at the gross margin which is sale minus raw material cost in the quarter versus last year same quarter, it is up only 5% as against 43% volume growth and this is the second or third quarter where we are seeing it, so can you just give us a sense that if it is because of the new products or breakthroughs which you are wanting to get in some of the new customers. How soon do we see this parity being restored which is the difference between

volume growth and the gross margin growth, it may not get breached completely but 5% and 43% is the large difference, so that is my first question and I will ask my second question later.

Amit Sanghvi: See, like this is something which we said in the calls earlier also that the volume growth and the gross margin growth would depend on the type of business which we are growing. So, my sense is probably as we move towards the next year in terms of FY18, with pharma business growing up another business which we have added growing up, you would see margin improvement also happening from that point of time. In terms of product mix, there is a significant growth. There are some businesses which we are adding are more efficient on from an ROCE perspective and there are some products which we are adding are more efficient from EBITDA perspective. So, we are having a mix of these two products.

Rahul Singh: And when is the CRC, I believe you have started supplying from October, so how is the ramp up going to be towards the full potential of 50 -60 crores which is the full potential, so if you can just give us an indication of how the full potential, what kind of timeframe is kind of likely there?

Amit Sanghvi: We have completed acquiring three major customers by the end of quarter three. One, we had made supplies to, the other one we are manufacturing and making supplies this month and the third will follow shortly in December 2016 or January of 2017. Now, in terms of ramp up with these three customers, they will be contributing somewhere in the range of 12 crores to 15 crores in terms of revenue. As we continue to acquire more customers where our products are under testing, we feel that in FY18, by the end of FY18 we should be at 60%-65% utilization and then the balance in FY19.

Rahul Singh: And full utilization was about 60 crores, if I am not mistaken, right?

Amit Sanghvi: Correct.

Rahul Singh: And if you can just repeat what you said in your opening statements about this quarter, quarter three not being slow for variety of reasons and when the ramp up of auto and global skin care new customers which you have added that will be helpful?

Sanjay Shah: I do not like investors being shocked or surprise. I wanted to bring everyone's notice that quarter three is slower than we expected. It is going to be slower than our expectations. Primary reasons, saying three; one is that the LED lighting business has not ramped up as per our plan and as per the customers forecast given to us. Second is that for a major automotive company, our components go into assembly. Now they had issues at their assembly and therefore the revenue has not come in or the ramp up has not happened. Orders are not cancelled, it is just delay of few months, and the thirdly, that in shifting of the new products that we acquired from our customer where the business is sizable per year, the shipping of the tools are delayed by two months. So, therefore we are not seeing that revenue being generated in Q3 as we had anticipated at the beginning of the year.

- Rahul Singh:** And lastly, the auto, the new business of auto and global skin care, you mentioned would start primarily in fiscal 2018, right, just to re-confirm?
- Sanjay Shah:** Correct.
- Moderator:** Thank you. We have our next question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.
- Suvarna Joshi:** I had a couple questions. One, it would be really helpful if you are able to give us the revenue breakup in this particular quarter based on the various segments like pharma, home furnishing majors and auto and others that is the first question and second question you mentioned something on the CRC business front, so you mentioned that we have already started commercial supplies, if I am not wrong or is it the trial supplies that we have started to these pharma companies where we had already received orders in the previous quarter?
- Amit Sanghvi:** I will answer your second question first and then I will hand over to Sanjay. No, we have started commercial supplies, not sample supplies. Commercial supplies have been made to one major, second large commercial supply will be made by the end of this month, so another second generic major and third one is coming on board shortly thereafter. So in terms of doing the sampling and all of that, that activity is completed with both of our customers. Straight forward the question like, if you were to look at sampling activity, you probably will do the sampling activity with a lot more customers.
- Suvarna Joshi:** Sir, the sampling activity that you are doing is focused on the Indian generic majors I believe rather than the multinational pharma majors, is that?
- Amit Sanghvi:** Yes, let me add to that a slightly different thing. There are multinational pharma majors also manufacturing and exporting or generics from India, so our sampling activity applies to both generic Indian manufacturers that export as well as multinationals and generics export from India.
- Suvarna Joshi:** Sure and that was pretty helpful. And sir, second one that I had asked was the breakup of revenues, if it is possible to share with us?
- Sanjay Shah:** Suvarna, as we said in the calls earlier, we are not providing breakups of revenue because then it becomes more a confidential information, we will put in public domain. We have given a broad breakup of exports and domestic where 76% to 77% is export and balance is domestic.
- Amit Sanghvi:** We have key customers or key large accounts in each of the segments where we will not want to disclose that information which you can derive how much business we are doing for a particular customer.

- Suvarna Joshi:** Sir not a problem but the question is primarily because we intended that our pharma segment revenues should be contributing to about 25 odd percent down the line over the next 3 to 4 years. So, just wanted to understand if that particular percentage would have gone higher than what we were in the previous year or are we still at the same levels because there has been slower than expected ramp up in some of the key products to the customer that we have been catering to?
- Amit Sanghvi:** You are absolutely right. Yes, ramp up has been slower than expected and as a percentage pharma does contribute less than it has may be a little bit, again the variation is not significant but yes. Now, given that answer, I would also like to mention that we are going to be launching new products which are confidential, I am not able to give you more information but extremely high value products for global pharma majors over the next 2-3 months which will add not only significant revenue but also margins of business.
- Moderator:** Thank you. We have our next question from the line of Adit Saraoji from KG Securities. Please go ahead.
- Adit Saraoji:** Sir, can you give a breakup of currency of your export as to how much is USD, how much is EUR and how much is others?
- Sanjay Shah:** See, broadly we only exported two currencies, either Dollars or its Rupees. Our largest customer we export in Rupees.
- Adit Saraoji:** So, I have arrangement in INR, right from largest customer, how much would be USD percentage?
- Amit Sanghvi:** We do not give the breakup there.
- Adit Saraoji:** But just, can you give us, not exactly just a fair one?
- Amit Sanghvi:** As I mentioned earlier, like we have said, how much of we do with our largest customers so that is what we do in Indian Rupees and balance is what we do in Dollars.
- Moderator:** Thank you. We have a follow up question from the line of Nisha Shah from NS Limited. Please go ahead.
- Nisha Shah:** Sir, my question is as we know that IKEA is entering India, so, have we commenced any discussion with them, can you throw some light, I mean how we are, what is our plan for that?
- Amit Sanghvi:** We are very happy that IKEA is entering India, of course this is going to be a significant market for IKEA in India, but beyond what they put in the public domain, we are bound by confidentiality to discuss any projects which may happen in the future.

- Nisha Shah:** And sir my next question is on your CRC business like how much contribution you are expecting for the second half of this year?
- Amit Sanghvi:** In terms of percentage of global revenue or?
- Nisha Shah:** Yeah.
- Amit Sanghvi:** See Nisha, the ramp up would be slow as we have indicated in the calls earlier also and we expect for FY18, basically the overall utilization levels to be at about 65% in sales in terms of answering your question.
- Nisha Shah:** Sir, I might, I mean I have joined in late, I have missed something so, any growth target for this year or the next year which you have shared?
- Amit Sanghvi:** We would not want to give individual broadcast. What we have said earlier is by March 2020, we want to be a \$100 million company or 650 crores and we are still on the path to achieve that.
- Nisha Shah:** Sir on CRC business, can you expect like full revenue from or start contributing from FY18, this month is second half?
- Amit Sanghvi:** No, I think I answered Rahul's question earlier where we said that we expect 60% to 65% capacity utilization on the healthcare facility in FY18 and the balance will come in FY19.
- Moderator:** Thank you. We have a followup question from the line of Suvarna Joshi from SMC Global Securities. Please go ahead.
- Suvarna Joshi:** Sir, in continuation with the earlier question, you mentioned that our capacity utilization for CRC business in FY18 could be about 65 odd percent and FY19 we will see almost full capacity utilization, so what could be the capacity utilization in FY17 end, can you just share something on that, so would it be around 30% or 40%?
- Amit Sanghvi:** The customer acquisitions have only recently happened. Now, I would like to answer your question, but it also difficult for us to project right now. Our target was 20% for the CRC part this year, obviously we are in quarter three and everybody knows we have not been able to achieve that.
- Suvarna Joshi:** And sir just another bookkeeping question was on the line item other expenses, so if I see as a percentage of sales, the other expenses have gone up to 11.8% compared to 10.8 what we had in the previous quarter or FY16, so Q2 FY16. Sir, could you just throw light on what has led to this increase?

Sanjay Shah: See as Amit mentioned, we had been investing in people, this is part of travel cost we have been taking part in some exhibitions and everything. So, it is basically investing for the future in terms of growing the business, that is where our expenses might be there.

Suvarna Joshi: And sir just like it was mentioned that we are investing in human resources, so these investments are done in India or are they for growing our export business?

Amit Sanghvi: The investments happen in India, I mean, we do have representatives outside of India as well. Even in India, we hire dedicated people at various locations, various regions, South India, West India for instance and I think in terms of business development activity, we have more than double the efforts from the previous years. So, the focus is to grow the business in the segments that we want to grow with them and we are adding resources to do that.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Amit Sanghvi for closing comments.

Amit Sanghvi: Thank you. I would like to thank everyone for joining the call. I hope that 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 the call. Have a great day.

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