



“Shaily Engineering Plastics Limited Q3 & 9M FY-18
Earnings Conference Call”

February 14, 2018



**MANAGEMENT: MR. SANJAY SHAH-CHIEF FINANCIAL OFFICER;
SHAILY ENGINEERING PLASTICS LIMITED.**

Moderator: Ladies and gentlemen good day and welcome to the Shaily Engineering Plastic Limited Q3 and 9-months FY18 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and the 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 remainder, 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, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. I now hand the conference over to Mr. Sanjay Shah – CFO at Shaily Engineering Plastics Limited. Thank you and over to you sir.

Sanjay Shah: Thanks Inba. Good morning and a warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics Limited. I hope you have had a look at our results update presentation that is uploaded on our website and the stock exchange. I am happy to inform that Shaily Engineering Plastics Limited has been awarded the GOLD WINNER for Outstanding Exports of Finished plastic goods by PlastIndia Foundation on 7th February 2018 at Plasticon Awards 2018 which was held in conjunction with PlastIndia in Gandhinagar. The award honors our efforts and commitment to deliver quality products. Plastic Foundation is the apex body of the associations, organizations and institutions connected with plastics, on common objectives to promote the development of plastics industry and to assist the growth of plastics related material.

During Q3 of FY18, we have witnessed robust growth in our business. Our strategy to move into higher margin products has started to reap benefits, which is evident from our improved margin profile. Our continuous effort in constant innovation has helped us garner new business opportunities. During the quarter gone by, we have received the following business confirmations. One is for development and supply of anal applicators for global markets from a large domestic Pharma company.

We have also received confirmation to develop and supply 6 different types of Pen for different therapies/ customers. These sales are expected to be launched during FY19 & FY20 in a phased manner. Some of these confirmations were received in Q2, but if you were to look at FY18 we have basically received new confirmations for 6 new Pen developments.

On the Home Furnishing business front, we have commercialized a large portion of the Rs. 60 crores orders which we had taken in Q3 of the current year.

Our credit rating has been reaffirmed by CARE rating in the month of January 2018. The company's ratings were upgraded during Q2 FY18 from BBB+ to A- on the long-term debt, and A2 from A2+ on the short-term debt rating.

Now let me share the highlights of our operational and financial performance, following which we will be happy to respond to your queries.

During the quarter we processed 3,647 tonnes of polymer as against 2,320 tonnes of polymer in the same quarter last year, increasing by 57% year-on-year. For the 9-months period we have processed 9,663 tonnes of polymer as against 7,622 tonnes in 9-month of FY17. Machine utilization rate stood at 69.7% during Q3 FY18 as against 62.7% in Q3 FY17. I would like to state here that we have added 4 new moulding machines during Q3 of FY18.

Exports during 9-months of FY18 stood at 71% of the total revenue as compared to 76% in the same period last year. For Q3 FY18 our revenue stood at Rs. 78.6 crores showing a year-on-year growth of 41% from 55.6% in the same quarter last year. For 9-months FY18 the revenues stood at Rs. 226.9 crores as against Rs. 179.6 crores in the 9-months FY17, showing a growth of 26%.

EBITDA for Q3 FY18 is at Rs. 13.8 crores versus Rs. 7.7 crores of Q3 FY17, growing by 79% year-on-year. EBITDA margin stood at 17.5% in Q3 FY18. For 9-months FY18 the EBITDA margins was Rs. 40.9 crores as against Rs. 30.3 crores in 9-months FY17, showing a growth of 35% with EBITDA margins for 9-months FY18 standing at 18%.

Net profit for Q3 FY18 stood at Rs. 5.9 crores, see a 323% up year-on-year with a margin of 7.5% an improvement of 500 basis points year on year. Cash PAT for Q3 FY18 is at Rs. 10.2 crores as against Rs. 4.8 crores in Q3 FY17, growing by 111% year-on-year basis.

We are well on track to achieve our 2020 target of US dollars 100 million and our order pipeline gives us confidence that we would be able to meet this target.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Yes, hi, Sanjay thanks for the commentary. So if you could please give some color on first, the revenues have been flattish on a sequential basis, that is one and secondly if one looks at the gross margin and EBITDA margin both on a sequential as well as on a year-on-year basis, it reflects a decline. And thirdly sir, some color on the working capital, how should we look at it?

Sanjay Shah: Okay Ritesh, if you look at sequential, yes, revenues have been flat. Typically, if you were to look at Q3, it is a quarter when export revenues are a little down. So, in spite of that we have basically been able to have revenues as compared to Q2, our Q2 revenues could have been a little better but due to some delays in the execution of the home furnishing orders in Q3.

On the margin front for 9-months, it has been marginally down by about 100 basis points, so while if you were to look at the PAT margin, it is higher.

Ritesh Shah: Specifically we don't give basically segment wise breakup between home furnishing and Pharma, so I was trying to understand more from that angle like is it the change in mix what is resulting to the margin decline or is it something existing segments are not faring well? So basically, even if you look at gross margins, that has actually come down sharply on a year-on-year basis, on sequential basis it is flat. And if you look at EBITDA margins again, it has come down sharply on a year-on-year basis so just trying to understand that Sir.

Sanjay Shah: So if you were to look at 9-months FY17, EBITDA was about 16.9% while 9-months FY18 EBITDA is about 18%. So I do not know where you are getting this from that EBITDA margins have come down.

Ritesh Shah: I can take this off line, but what I am getting is this from the reported numbers. Sir, any specific reason why gross margins are declining?

Sanjay Shah: Gross margins, it is some change in the product mix where we have added some more business with the home furnishing major. And that is the reason you are seeing change in the gross margin.

Ritesh Shah: Sir secondly, any updates on the tooling CAPEX that we had for the home furnishing client that we had? How will we account for it going forward?

Sanjay Shah: See as I explained, we will basically be accounting it separately in the book. As we have discussed in the last call also this would be shown separately.

Ritesh Shah: Will it be under P&L? How will it work sir?

Sanjay Shah: It will be through the P&L.

Ritesh Shah: It will be through P&L, entirely?

Sanjay Shah: Currently, if you were to look at the current P&L for Q3 basically the interest shown is the interest and the depreciation is shown as the depreciation.

Ritesh Shah: Okay, probably I will call you separately to understand this better.

Sanjay Shah: You had a third question which was on the working capital. Working capital has gone up a little bit this is mainly on account of GST. We are expecting our refunds to start coming in from March. So probably by end of Q1 of FY19 we should get most of our refunds in place because of GST.

Ritesh Shah: Sir how much is the quantum which is stuck over here?

Sanjay Shah: It is a substantial amount, about Rs. 17 crores or Rs. 18 crores.

Ritesh Shah: Thank you so much sir, I will join back the queue.

- Moderator:** Thank you. The next question is from the line of Saumil Mehta from BNP Paribas Mutual Funds. Please go ahead.
- Saumil Mehta:** Sir if I look at the volume of polymers processed on a 9-month basis and their revenue, those seems to be in line, 27% polymer processed growth versus a 26% top line growth for 9-months. But if I look at this particular quarter, the volume processed has increased much sharper than the revenue growth. So, is it because of a mix and going forward, how should we look at both the categories, in terms of the volume of process and the revenue growth?
- Sanjay Shah:** Saumil we have been saying this in the past also that looking at the volume of polymers probably would be a misnomer when you look at Shaily. So, some of you guys have been here and seen the facilities and everything so we process about 100 different grades of polymers and ranging right from Rs. 100 per kg to Rs. 4000 per kg. So a lot of it depends on the quality or the type of polymers which we have processed.
- Saumil Mehta:** And my second question is with respect to the EBITDA margins now, we are doing consistently well over the last couple of quarters and if I look at the 9-months we are at about 18%. So what is the long-term target? Should we expect a continuous 40 to 50 basis points of margin improvement over the coming quarters, or probably beyond 2019-2020 we might attract some sort of competition from some of the other players? How should we look at the overall margin profile of the company?
- Sanjay Shah:** I would say, when we look at margins ourselves, we will be looking at margins on a year-on-year basis and we see an improving trend. I don't want to put in a number in terms of where or at what level you will see an improvement but we see margins improving and that is what is getting reflected in the results also.
- Saumil Mehta:** Sure, so if I look at the last 4-5 years, we have seen a gradual 40-50 basis points of margin improvement every year and I believe that should continue in coming years as well?
- Sanjay Shah:** As I said, I do not want to put any numbers. I'm saying very clearly we should see margin improvement and this margin improvement will be on two accounts to come; one is improved efficiencies. Operational efficiency is basically giving us better margins. Second is, we scale up on the Pharma front. .
- Saumil Mehta:** And sir CAPEX guidance for next year would be, FY19, FY20 if you have a number handy?
- Sanjay Shah:** We are currently in the process of working that out. Probably we will talk about it in the next call.
- Saumil Mehta:** Can you share the CAPEX for the 9-months FY18? What we have spent so far?
- Sanjay Shah:** We have done about Rs. 30 crores of CAPEX in 9-months, which includes tooling CAPEX.

- Saumil Mehta:** Sir my last question is in terms of our \$100 million revenue target by FY20-21, how should we look at given that the ask for the next 3 years looks to be a tall order. So, is there any moderation in that revenue target or we are on track to achieve that \$100 million?
- Sanjay Shah:** We are on track.
- Moderator:** Thank you. The next question is from the line of Akhil Parekh from IDBI Capital. Please go ahead.
- Akhil Parekh:** Congratulations and good set of numbers. I think we are back on track of growth; last 4 quarters have been really good. My question is in regard to the sales from home furnishing major, out of Rs. 60 crores how much of the order have we already executed, first 9-months?
- Sanjay Shah:** A large part of the business has been executed. There are a couple of products which we will be executing in Q4. So if you remember, we have talked about that, we have taken on additional businesses of about 21 new products out of which 19 products have been executed, 2 would get executed in the current quarter.
- Akhil Parekh:** And this order is repetitive like will we be seeing same order size with Rs. 60 crores for next year as well?
- Sanjay Shah:** Yes.
- Akhil Parekh:** And this is obviously in addition to what existing we are delivering to the home furnishing major?
- Sanjay Shah:** Yes, you are right.
- Akhil Parekh:** In terms of CRC, you have not mentioned anything on the CRC front in this presentation. Are we still facing challenges in this segment?
- Sanjay Shah:** No, we have seen good traction on that. The reason we have not talked about it is once we see sufficient traction we will basically report those figures to investors.
- Akhil Parekh:** But sir like first 9-months would you be able to give the utilization level or may be the sales contribution from CRC?
- Sanjay Shah:** Akhil, we don't report individual plant wise numbers and what we have recently done is we have talked about it in the Q1 call as well as the Q2 call. We observe a consolidation process where all our Pharma business is shifting to healthcare facility which we now call. It is basically the CRC and Pharma business is basically moved to a, new facility now called healthcare facility, so all the medical devices which we do also is being moved to that.

Akhil Parekh: Sir, I know you don't give segmentation but at least some kind of direction in terms of medical appliances including maybe CRC how have you moved from first 9-months of FY17 to say first 9-months of FY18?

Sanjay Shah: Again like I said, I do not want to get into individual segment wise revenue numbers, but if you see the pipeline we have talked about the pipeline and look at Q1 to Q2 to Q3, we have added substantial amount of orders on the device space on the Pharma side. These developments which basically earn revenues in FY19, FY20, FY21. And these are from different customers, some of them are large domestic customers and some of them are global customers, its typically for global market.

Akhil Parekh: I was saying like given we have a target of \$100 million top line for FY21, the contribution from medical appliances to the total sales will be on par with the contribution from the home furnishing major? Like will these two segments be contributing on similar levels in next 3 years?

Sanjay Shah: So what we have said is the home furnishing majors would still account for about 50% to 55% of our revenue as part of our targets. We expect Pharma, it is basically medical devices as well as CRC packaging and all other packaging which we do on the Pharma side, we expect that to go to somewhere around 15% to 20%.

Akhil Parekh: And just on this home furnishing major you said there was a news last week they have established a warehouse in Pune so, are we seeing any kind of traction from the India business from them like have we received any order for the Indian business?

Sanjay Shah: I would refrain from talking about specifics on this.

Akhil Parekh: And given a target of \$100 million for FY21 that implies say around 25% to 28% of CAGR top line for the next 3 years. You are saying we have that kind of order books right in place for the next 3 years?

Sanjay Shah: Yes, we have that sort of order book

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investments. Please go ahead.

Manjeet Buaria: One question, the last two participants eluded that the \$100 million in revenue target is for FY21 and from what I remember up to the Q2 call you used to mention it was for FY20.

Sanjay Shah: It is FY20.

Manjeet Buaria: Because earlier it was mentioned FY21 so I was a bit confused.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

- Ritesh Poladia:** So for \$100 million what kind of CAPEX is required?
- Sanjay Shah:** Ritesh we have talked about this in the past. Incrementally, if you were to look at, i investment which we need to make would be about Rs. 60 to 65 crores in fixed asset to get us to the \$100 million, which would be incurred during FY19 and FY20.
- Ritesh Poladia:** And under that Rs. 50-Rs. 60 crore so can we maintain our dividend payout at 30%-31 % which was done earlier?
- Sanjay Shah:** We would balance the dividend payout with needs of the business.
- Moderator:** Thank you. The next question is from the line of Naveen Naredi from Naredi Investments. Please go ahead.
- Naveen Naredi:** Just one question, on Page #15, you have mentioned witnessing tailwinds across business? Will you say in detail about these tailwinds and about the business?
- Sanjay Shah:** What we were mentioning Naveen is that we are seeing fairly good traction in a lot of our businesses, whether it is the home furnishing major or whether it is FMCG, some of our automotive businesses or the healthcare business we are seeing enough traction for growth in these businesses.
- Naveen Naredi:** And sir you have mentioned as FY18, it should be 19 also? You have mentioned this in page number 15 commercialization of home furnishing order, order by end of Q2 FY18 you have mentioned. I think it should be 18-19?
- Sanjay Shah:** No, we have talked about FY18. So this is what I talked about we did commercialization of some of it in Q2, a large part of the commercialization happened in Q3.
- Naveen Naredi:** Q4 of the FY18 you mean to say?
- Sanjay Shah:** Just give me a second. So we did some of it in Q2 and some of it in Q3 and we will do the balance of it in Q4 of FY18 which is March 2018, 31st March 2018. This is what we are looking at, whenever we talk about FY18. We are basically looking at financial year 31st of March 2018.
- Moderator:** Thank you. Our next question is from the line of Umang Shah from JM Financials. Please go ahead.
- Umang Shah:** I just have one question, I know we don't give out different business vertical splits, but I was just looking out, if you could give out our healthcare division capacity utilization versus our normal moulding utilization. So now that we have two different facilities, we have integrated both of them. If we could give out that way it would be easier for us understand how the revenue structure is growing?

- Sanjay Shah:** Let me see how we can do that. It is difficult for us to give those numbers, so I will take this as a thought and get back to you in terms of if we can do that before the next quarter.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** I wanted to know what is the total CAPEX that we have already done for the Pharma business so far?
- Sanjay Shah:** When we talk about CAPEX we have been basically looking at CAPEX on an overall basis for the current year, where we have invested about Rs. 30-Rs. 31 crores in the current year in the first 9-months.
- Ritesh Shah:** And sir secondly you have got a very interesting Slide #4, which you briefly talked about. Is it possible to give some color on what is the potential opportunity size for the Pharma devices and the 6 different types of Pens that you have mentioned?
- Sanjay Shah:** Unfortunately, Ritesh I am bound by NDA in most of these cases because some of these would be global launches with customers and everything, where I am not at the liberty to name the customers or the therapy right now.
- Ritesh Shah:** But sir nothing on the opportunity size like how big it can be overall market, not for us. So if you can give a broader picture like how many players are there in the global market as it like top 5 we are in top 10? And the opportunity size that also should help sir.
- Sanjay Shah:** So to talk about this what I would suggest is what needs to be looked at is we are basically doing 6 different Pens. For developing 6 different Pens for large domestic company and some large global Pharma company all these developments are basically for global markets including the US. This basically would also help some of the domestic Pharma companies to launch their generic versions of their drugs in the US. If that helps, post that I can't talk about it. Again, going back to Pen we have said earlier that there are probably 8 or 9 manufacturers of insulin Pens or Pens in the world, Shaily is one of them.
- Ritesh Shah:** And sir on the anal applicator what you have indicated, if you could provide some color on basically what is the opportunity size like how are the entry-barriers, does it also have 8 to 10 players?
- Sanjay Shah:** See again, this is for a large domestic Pharma company who is doing a global launch. This will basically be, the drug would be used in conjunction with the applicator and we see a lot of opportunity there. What this basically reinforces the customers' confidence in Shaily's capabilities. So today, if I were to look at the Pen and the other devices which you have talked about, I think and look at the last 9-months or last 12-month probably the single largest number of customers which we have added would be in the Pharma device or the Pharma packaging in device segment. So we have added substantial number of customers, and these are large customers.

- Ritesh Shah:** But sir, I think the ramp up over here earlier, what we had indicated as a Pharma companies were having Regulatory issues and that is why it hasn't been on expected lines. So specifically is it still the case, are we seeing improved visibility going forward because frankly I was expecting a far sharp margins in the second half.
- Sanjay Shah:** Basically, on the CRC thing, CRC we are seeing much better traction as compared to what we were earlier. So we have seen much better traction and I think next year to be fairly good for us on the CRC front.
- Ritesh Shah:** So sir currently we will be still at like 30-40% utilization or would it be higher than that?
- Sanjay Shah:** It will be lower than that currently.
- Ritesh Shah:** And sir last question on All Star pens which were launched in Europe. So have we already seen ramp up over there in our insulin pen facilities or we are yet to see the best will ahead of us?
- Sanjay Shah:** We can see some ramp ups there happening.
- Moderator:** Thank you. We will take our next question from the line of Anuj Gupta from Perfect Research. Please go ahead.
- Anuj Gupta:** I wanted to know who are your competitors who are supplying similar products to the Swedish Home manufacturers and how do we compete against them?
- Sanjay Shah:** So most of our business is against global competition. So there will be players in India, there will be players in Europe, there will be players in China, there will be players in Latin America against whom we will be competing. And the business is basically awarded on the basis of quality service delivery various parameters which the customer would look at.
- Anuj Gupta:** Could you please tell us about the growth opportunity in Swedish manufacturers in terms of exports and in India?
- Sanjay Shah:** So what I said is that when we go to even \$100 million by FY20 we still expect this customer to be at about 50%-55% of our revenue which basically would give you the growth potential which we are looking at from this customer.
- Moderator:** Thank you. We take our next question from the line of Akhil Parekh from IDBI Capital. Please go ahead.
- Akhil Parekh:** Just one book keeping question what is the CAPEX you said at Rs. 33 crores right for first 9-months?
- Sanjay Shah:** Akhil I said about Rs. 30-Rs. 31 crores.

Akhil Parekh: And the effective tax rate has dropped obviously from 33.5% for first 9-months 17 to 31.4% what would be our guidance for FY18 and FY19?

Sanjay Shah: FY18 we would basically be since we have made large investments we should be able to have a little better tax rates and next year hopefully based on the budget we should basically be looking at a tax rate of about 29%.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I now hand the floor back to Mr. Sanjay Shah for closing comments, over to you sir.

Sanjay Shah: Thank you everyone for joining the call. With our continued long-term association with our clients and robust order in our pipeline, we are confident to continue to deliver superior performance. Thank you and we hope we have been able to answer your query. For further information request you to get in touch with SGA, our investment relation advisors, thank you again and a good day to all of you.

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