



“Shaily Engineering Plastics Limited Q4 FY2018
Earnings Conference Call”

May 16, 2018



MANAGEMENT: **MR. AMIT SANGHVI – MANAGING DIRECTOR -
SHAILY ENGINEERING PLASTICS LIMITED
MR. SANJAY SHAH - CHIEF STRATEGY OFFICER -
SHAILY ENGINEERING PLASTICS LIMITED
MR. PRATIK – STRATEGIC GROWTH ADVISORS**

Moderator: Ladies and gentlemen good day and welcome to Shaily Engineering Plastics Limited Q4 FY2018 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 performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sanghvi, Managing Director of Shaily Engineering Plastics Limited. Thank you and over to you Sir!

Amit Sanghvi: Thank you very much. Good morning and a warm welcome to all the participants to the post result earnings call of Shaily Engineering Plastics. I am joined by our CSO, Sanjay Shah. I hope you have had a look at our results update presentation that is uploaded on our website and the Stock Exchange.

We are very happy to post a robust performance and stand true to our words. Our continuous endeavour is to improve the business, make an internal efficiency, which are bearing fruits and is clearly visible in the company’s performance.

Our focus on innovation and superior quality has helped us carve a niche product and thereby help us garner new business opportunities. Q4 was a robust quarter in terms of business where we were able to procure additional orders of two more pen injectors from large domestic pharma companies. We procured the order for developing a new medical applicator for a large domestic pharma company. We are also in advanced stages of discussions for supplier of LED lighting components for another client.

Our conscious decision to focus on the pharma business are helping us garner more opportunities in this sector.

On the home furnishing business front we have fully commercialized the Rs. 60 Crore order during FY2018. Further we are also developing two more products for the home furnishing major. Our abilities deliver quality products has resulted in a long-term association with this client and has enabled us to increase business with them over time.

I would now like to hand over the phone to Sanjay who will take you through the operational and the financial performance of the company. Thank you very much.

Sanjay Shah: Thank you Amit and a very good morning to all the participants on the call. 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 3376 tonnes of polymer as against 2432 tonnes in the same quarter last year increasing by 39% year-on-year. For the 12-month period, we processed 13039 tonnes of polymer as against 10054 tonnes in FY2017 increasing by 29% annually. Machine utilization rate stood at 74% during FY2018 as against 57% in FY2017. Exports during FY2018 stood at 72% of the total revenue down from 76% in the same period last year. For Q4 FY2018, our revenues stood at Rs. 91.4 Crores showing a year-on-year growth of 38% from Rs. 66.4 Crores in the same quarter last year.

For FY2018, the revenue was Rs. 318 Crores as against Rs. 246 Crores in FY2017 showing a growth of 29%. EBITDA for Q4 FY2018 is at Rs. 14.6 Crores which is as per Ind-AS numbers as compared to Rs. 13.6 Crores in Q4 FY2017 which was as per IGAAP numbers last year growing by 7%. EBITDA margins stood at 16% in Q4 FY2018 if I were to look at IGAAP then the EBITDA margin was at 18% For Q4 FY2018. For FY2018 EBITDA was at Rs. 55.4 Crores as against 43.9 Crores in FY2017 showing a growth of 26% with EBITDA margins for FY2018 at 17.4%. as per Ind-AS as compared to 18% for IGAAP for FY2018.

Net profit for Q4 FY2018 is at Rs. 7.2 Crores up 15% year-on-year with margin of 7.9%. Net profit for FY2018 is at Rs. 23.9 Crores up 51% year-on-year with margin of 7.5%. Margins have improved by 100-basis point over FY2017. Cash PAT for Q4 FY2018 is at 10.2 Crores as against Rs. 10 Crores in Q4 FY2017, Cash PAT for FY2018 stood at Rs. 38.4 Crores as against Rs. 39.2 Crores in FY2017 showing a growth of 31%.

Our Capex for Q4 FY2018 was Rs. 30 Crores which was primarily towards expansion of existing facility. In addition, we spent Rs 17.5 Crores in FY2018 towards investment in tooling for customers, which as per Ind-AS will be accounted as Finance Lease. With the order inflows and business opportunities we foresee and we strongly believe that we have developed traction to achieve our 2020 target of \$100 million.

This is all from our side. Thank you. We can now open the floor for Q&A.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: The crude rise and rupee weakness in this current financial year?

Amit Sanghvi: Sorry we could not hear you probably can you please repeat that?

Ravi Naredi: What will be impact of crude rise and rupee weakness in current financial year on our company Sir?

Amit Sanghvi: As mentioned before most of our contracts are “pass through”, which means increase in crude oil will be passed onto the customer. There is always a lag of a quarter and same is the case for foreign exchange.

- Ravi Naredi:** And secondly, we are planning \$100 million topline by 2020 what percentage of margin profit after tax is in your mind by 2020?
- Amit Sanghvi:** Ravi we have been asked this question earlier and we have said see we do not want to give a margin guidance, the only guidance which we have given is a \$100 million topline guidance which is what we have done here.
- Ravi Naredi:** Yes, I agree but you see in financial year 2017 we were in profit after tax 3% now 7.5% so the trend can continue?
- Amit Sanghvi:** We do not want to put in a number there.
- Ravi Naredi:** And what is the capex plan for the next one and two years?
- Amit Sanghvi:** To reach to our target we would need to do an incremental capex of somewhere between Rs. 30 to Rs. 35 Crores every year.
- Ravi Naredi:** Thank you very much and have a very good year ahead. Thank you.
- Moderator:** Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.
- Hitesh Taunk:** Sir my question is like you have maintained your revenue target of 100 million by FY2020 and in your opening remarks you said you have a good order book from the healthcare and pharma segment. So is it right to estimate that our pharma and healthcare segment will grow faster than our furnishing segment for the next two years?
- Amit Sanghvi:** No we have also said in the past that the furnishing segment and all the other businesses will continue to keep pace. In terms of rate of growth yes, the pharma segment will have a higher rate of growth but that is because the baseline is more.
- Hitesh Taunk:** So in the current quarter also we have seen some contraction in the gross margins. So, what I believe is if pharma business has better margins than the furnishing segment and if suppose we are going to grow in the furnishing segment, then can we see the improvement in the gross margin going forward?
- Amit Sanghvi:** First you are right pharma would have better gross margins than home furnishings or other businesses, but while there is somewhat of a reduction in margin a lot of it gets accounted because of the fact that we commercialized about 36, 37 new products over a period of three months. When you ramp up a product it you do take a hit on efficiency so over the next six months when our ramp up is fully compete, our margin should be better.
- Hitesh Taunk:** One more question sir from my side. From the Q3 to Q4 our utilization rate has improved but our volume has declined. Our machine utilization has improved but our volume has declined on a Q-

on-Q basis, I assume like we have it means there would be a kind of a product mix change, but if suppose the product mix has been changed simultaneously our gross margin also has declined. So can you throw some light on that, why our utilization rate has improved, but our volume has declined vis-à-vis our gross margin has also declined?

Sanjay Shah: , There are two things here. One is linking utilization levels to volume would not be correct, because we basically process different grades of polymers and utilization in volume of polymer would not be the right parameter to link it to, so you should not be doing that. Second is as we explained this is for the first year when we have done an Ind-AS implementation and basically accounted all the Tooling which we have invested for customers as Finance Lease , the whole impact of that is seen in Q4 and that partially is the reason you are seeing differential margins. If I were to look at margins as per IGAAP my margins have in fact improved.

Hitesh Taunk: Okay Sir that is all from my side, thanks.

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

Akhil Parekh: Good morning Amit, good morning Sanjay Sir, congratulations on a very good set of numbers. First question is in terms of in last con-call you had promised that you will give us some sense in terms of the segmental breakup of say like in terms of the industry wise like home furnishing and the medical appliances so would you be able to tell that?

Amit Sanghvi: I will tell you what broadly that home furnishing would contribute a little over a half of our revenues and the next big segments would be auto and healthcare followed by FMCG.

Akhil Parekh: But any rough percentage?

Amit Sanghvi: Basically auto, healthcare, FMCG are all within 2-3% of each other.

Akhil Parekh: Okay the difference is 2% to 3% that is what you are saying.?

Amit Sanghvi: No 2% to 3% of each other. They are not 2% to 3% of our revenue, the difference between auto, healthcare and FMCG is only 2% to 3%.

Akhil Parekh: The second question in terms of home furnishing you said we have added two more products, so this is incremental to the Rs. 60 Cr of order book, right?

Amit Sanghvi: Yes.

Akhil Parekh: And what are these products if you do not mind sharing it.?

Amit Sanghvi: They are new launches I will not be able to share that information.

- Akhil Parekh:** But in terms of size like how bigger will be that size?
- Amit Sanghvi:** Both combined will give us an incremental revenue of about Rs. 11 Crores.
- Akhil Parekh:** And that would be in the FY2019 itself you are saying.
- Amit Sanghvi:** No, FY2019 we will only see some of it because we have to build the tools and start production.
- Akhil Parekh:** Sir in terms of export to domestic I see there has been a decline in FY2017 over 2018 76% has gone to 72% so if I have to interpret this number so would it be correct like the other non-home furnishing segments have been contributing at a faster pace as compared to home furnishing.
- Amit Sanghvi:** Our auto segment has grown, our healthcare segment has grown which are largely domestic suppliers, so we do not account them under export business.
- Akhil Parekh:** Sir any colour on the CRC segment are we seeing any more traction on it because I think that has got hidden like since last few quarters, we were very bullish and we started CRC facility but not hearing anything on that front?
- Amit Sanghvi:** We are seeing traction, we have acquired one customer here, reason I am not mentioning it because it is yielding the same products but with a slight modification, so we are going through that tooling change at the moment and we will start supplying to them. We have gone through the entire process of doing the trials and everything so that has gone fairly well and what Sanjay and I discussed yesterday was that instead of giving an update I think when we actually start the commercial supply, we will let everybody know.
- Akhil Parekh:** But if I have to interpret FY2019 the utilization for CRC would be slightly better than FY2018. I am assuming FY2018 was around 5% to 8% right for CRC.
- Amit Sanghvi:** Correct.
- Akhil Parekh:** In FY2019, it should be better.
- Amit Sanghvi:** Yes it will be better.
- Akhil Parekh:** Sir just a last couple of questions for the quarterly numbers, one is the payables day has gone up from 48 to 74 days so is it because of the higher contribution of the domestic front is that the reason and should we be seeing that as a trend going forward and second is the other expenses have shot up in fourth quarter 2018. So could you please explain that?
- Sanjay Shah:** When you look at debtor the reason they have gone up is there have been some debtors which have been stretched a little bit in March, but they have been regularized in April and May so probably when we look at June numbers you would see a normalized level of numbers there. The second question was on other expenses. As per Ind-AS we needed to reclassify some expenses,

so we have done some reclassification and that is the reason for that. If you were to look at on an overall basis the numbers and look at total expenses and then look at PBT, our PBT in fact has improved as compared to corresponding period last year. So I would suggest that since this is a first year of Ind-AS implementation, there have been some reclassification which have been done. There has been some impact which has happened and that is the reason why we are seeing numbers which are not comparable.

Akhil Parekh: One last question in terms of expenses you said we have expended around Rs. 17.5 Crores in the tooling right in FY2018.

Sanjay Shah: You are right which is being shown in the balance sheet partly in current assets and partly noncurrent assets as finance lease.

Akhil Parekh: Sir how many molds we have right now so 105 was the number if I am not mistaken till last year.

Amit Sanghvi: No that is the molding machine.

Akhil Parekh: molding machines.

Amit Sanghvi: Yes so molding machines we would have about 109 molding machines right now. We would be having over 1,000 molds.

Akhil Parekh: Thank you so much I will get back in queue if I have any more questions.

Moderator: Thank you. The next question is from the line of Ayush Sharma from Investec. Please go ahead.

Ayush Sharma: Hi just to take the previous question forward on the other expenses for Q4, we are seeing a jump to 811 lakhs from 435 which is than the previous quarter. So is it that we have taken the entire Ind-AS adjustment in the last quarter?

Sanjay Shah : Ayush as I mentioned earlier we have done a reclassification of expenses which the whole reclassification has been done in Q4. Second is on the tooling investment which we have made, and we have accounted for it as Finance Lease in Q4 as per IndAS so these are two impacts which happened in Q4 and that is the reason for that, partially it is reclassification of expenses and partially basically the tooling Finance lease which was done so these are two reasons. And that one reason why I am suggesting is when we look at expenses look at total expenses and look at a total, you will be able to see a much better impact of that.

Ayush Sharma: Sure sir. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Kothari from Tamohara Investment Managers. Please go ahead.

- Nikhil Kothari:** Sir I just wanted to know why the depreciation is falling because we are investing in the business and our assets are going up, but the depreciation is falling in Q4.
- Sanjay Shah:** I repeat again the reason for lower depreciation in this quarter is again what happened was that Finance Lease depreciation got charged in Q4 so that is the reason we are seeing that change so as I said that again when you look at depreciation look at depreciation for the whole year which is Rs. 13.35 Crores in FY2017 and 14.5 Crores in FY2018 so you have seen an increase, the whole tooling depreciation has been netted out here.
- Nikhil Kothari:** And sir one more thing the gross margins have dipped, is it because the business from home furnishing has increased or is it the impact of crude price increase.
- Sanjay Shah:** No again gross margins have in fact been more or less the same, this again is an Ind-AS impact which has been there.
- Nikhil Kothari:** And Sir since the crude is rising, are we passing on the prices to the customers?
- Sanjay Shah:** Yes, Amit has already mentioned this, that in most of our products we have a pass through so there could be a lag effect, but this could be passed onto customers whether it is crude or whether it is dollar both would be passed on.
- Nikhil Kothari:** Okay thank you very much Sir and that is it from my side.
- Moderator:** Thank you. The next question is from the line of Soumil Mehta from BNP Mutual Fund. Please go ahead.
- Soumil Mehta:** My first question is in terms of if I look at the cash PAT for this year is about Rs. 38 Crores, debt I believe net debt has gone up by 30 Crores I just missed out on the capex number for this year FY2018?
- Sanjay Shah:** FY2018 our capex spend was Rs. 30 Crores and actual asset expansion and Rs. 17.5 Crores in tooling so a total of 47.5 Crores.
- Soumil Mehta:** 47.5 so the rest 20- 22 Crores was because of working capital debt is that a fair assumption?
- Amit Sanghvi:** No, 30 Crores was the capex spend in assets actual expansion and Rs. 17.5 Crores was spent on the tooling which is the finance lease.
- Sanjay Shah:** So the Capex spend was Rs. 30 Crores in expansion of our facilities and Rs. 17.5 Crores in tooling, so the total Capex spend was Rs. 47.5 Crores. When you look at the number Rs. 30 Crores would basically show as in the gross fixed assets and Rs. 17.5 Crores will show partially to current assets and partially noncurrent assets and other financial assets because that accounted as Finance lease receivable.

- Soumil Mehta:** Okay and hence because of the rising crude prices and maybe even some of the polymer prices would start rising what kind of working capital days should go up or you believe that, that with better product mix and all that that will not go up for this year or for the next two years?
- Amit Sanghvi:** I do not see working capital actually going up in fact what we have been internally working on is that wherever we are on March 2018 where we know our working capital has been stretched a little bit because of GST, because of money being blocked with couple of debtors which has now been realized in April and May. We in fact feel that the March 2018 to March 2019, we should be able to make an improvement on about the overall working capital margin.
- Soumil Mehta:** And what would be a rough number and number of days for this year versus FY2017?
- Sanjay Shah:** If you have to look at FY2017 we were at 90 days I think we should go back to a net working capital of about 90 days or a little lower by March 2019.
- Soumil Mehta:** And the 100 million guidance is for end of FY2020 right so basically you will double your revenues in the next two years.
- Sanjay Shah:** Yes.
- Soumil Mehta:** And for that Sanjay Bhai you told you do a capex of Rs. 35 Crores each year that is for the next two years cumulative of Rs. 70 Crores whereas you are confident that the revenue will go up by 300 so traditionally asset turn was 2 but this number seems to be significantly higher or you believe that the utilization from 70 will inch up substantially over the next two years?
- Amit Sanghvi:** No, portion of that additional Rs. 300 Crores revenues will obviously come from the capex that we have already done so essentially only Rs. 200 Crores will come from the 70 Crores that we will be investing.
- Sanjay Shah:** In the current year Soumil which we have the last quarter, this investment happened in Q3 and Q4 hence you have started seeing revenue, it will be full revenue in FY2019.
- Soumil Mehta:** But at close to \$100 million the asset turns would be what 2.5 times roughly or maybe higher than that? A very rough range?
- Sanjay Shah:** it is expected to be 2.25 to 2.5 depending on what assets we have.
- Soumil Mehta:** Perfect thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Pankaj Jain from B&K Securities. Please go ahead.
- Pankaj Jain:** Sir my first question was we were doing some consolidation of our plant so what would be the status for the same.

- Amit Sanghvi:** Pankaj can you please repeat your question if you do not mind?
- Pankaj Jain:** Actually, we were doing some consolidation of our plant so I would like to know what is the status on the same?
- Amit Sanghvi:** Healthcare consolidation has been completed, the export unit consolidation is ongoing, so probably in a couple of months' time it will get completed. We are trying to get it done before monsoon starts.
- Pankaj Jain:** And Sir my next question would be that we had received order for two new pens and we were developing a new medical applicator so by when do we expect to commercialize the same?
- Amit Sanghvi:** The medical applicator will get commercialized in over the next eight months, with respect to the pens, there will be a staggered launch, the first pen will be commercially available towards the middle of 2019 and the second will be towards Q3 of 2019.
- Pankaj Jain:** So that would be a year from now.
- Amit Sanghvi:** Yes.
- Pankaj Jain:** Okay great. And Sir last question from my side that we have seen an increase in short-term borrowing from Rs. 37 Crores to Rs. 64 Crores so what would be the reason. Is it due to the reclassification?
- Sanjay Shah:** No, so if you were to look at FY2017 numbers we had excess cash on the books and we had talked about it, that we would be investing that in fixed assets in the current year, So Rs. 30 Crores of investment which we have made has basically gone from accruals and partially our borrowings have gone up because of GST pressures and everything again which we should reflect as we get normalized during the course of the year.
- Pankaj Jain:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Mamta Verma from DC India. Please go ahead.
- Mamta Verma:** I had a question on the tooling front you mentioned that you spent Rs. 17.5 Crores this fiscal so what should we anticipate for the next two to three years, a similar run rate on tooling front?
- Amit Sanghvi:** It will be dependent on the amount of business we acquire but more or less I imagine it will be somewhere between, it will be somewhere in the region of Rs. 15 Crores.
- Mamta Verma:** Also, I just wanted to understand a bit on the accounting front and my apologies if this has been answered in your previous con call but just if I were to see your last year's annual report I do not see any mention of tooling or any classification of the same as a financial lease. So if you can just help me understand that from what really how are we really charging tooling on the P&L and

balance sheet, I understand you taken it partly in current assets and partly under other financial assets but if you can just help me understand how it flows into the P&L please?

Sanjay Shah: See Mamta if you were to look at FY2017 you will not see that because we were A.) not under Ind-AS for FY2017, we were not required to show tooling expenses as finance lease. . B.) is we were not making investments in tooling for customers in FY2017, and FY2018 is the year when we basically invested in tooling for specific customers based on commitments being given by customers and that is the reason we have accounted this as a financial lease transaction as per the Ind-AS accounting standard, what happens is this is basically shown as financial receivable with whatever interest which we have recovery gets amortized over the period in which we will be recovering that. So unless some interest which we are recovering balance of it gets shown in the balance sheet.

Mamta Verma: Got it. This is clear now. Also just to understand the \$100 million topline guidance this is when you say 2020 you are looking at FY2020 or is it calendar year 2020 just a bit of clarity over there?

Amit Sanghvi: We have said FY2020.

Mamta Verma: And I was just going through the last con call transcript wherein I think one commentary from the management end was that right now there is visibility for give or take 80% to 85% of this \$100 million topline guidance so there could be a swing of 10-15% which you would be obviously working with products and getting the orders to fill in that kind of a gap. Would it be fair to believe that it is probably where we are right now also because it has been a few months between Q3 and Q4?

Amit Sanghvi: See as we grow and as our customers gain more confidence we tend to work on larger scale, proposals are larger, scale of business that can potentially come in is larger but the impact on a quarter-on-quarter basis, there is not much of an uptake so as and when business does get confirmed we will certainly let the community know, but roughly I would say yes we still have visibility to about 85%.

Mamta Verma: And when we are looking at \$100 million topline how would this split between domestic exports look, we are looking at 60-40 or where we are currently 70-30 what would that look like?

Amit Sanghvi: Export will be 70% to 75% and domestic will be 25% to 30%.

Mamta Verma: Sir could you also give some color in terms of what is the competitive landscape in some of your key verticals like furnishing as over 50% of your topline followed by auto and healthcare so say over the last year or so who would be your competitors there and in terms of a bit more because as you explained now you have also invested in tooling so that it also shows your skin in the game, so could you just discuss a bit more on competition.

Amit Sanghvi: I think the fact that Shaily is present across multiple industry segments, this makes us unique in that sense. I have yet to come across a company probably more than one company who are across so many different segments as we are. You know there are lot of players that specialize in FMCG, specialize in only house wares, specialize in automotive or specialize in electronics but there is not one that does all of it. So in each of our segments, we will have a competitor, but as a whole we do not really have a competitor.

Mamta Verma: Sir what would be your lead time in terms of when it comes to tooling, do you think because you would have different companies who are specializing in a particular segment. So would that put them at a more advantageous position in terms of the lead time that they would take for developing a tooling for a particular time vis-à-vis you, can something like that happen?

Amit Sanghvi: Our unique selling point since we were established as always been that we will solve any problem that you have in plastics so we think that even for us at Shaily it is not really fun for us to do extremely, extremely simple products, Now having said that the type of products we manufacture maybe simple but the way we design the process is very unique to us which while giving us a better margin or making us competitive, also gives the customer increased capacity and output and thereby a lower cost of total ownership. As far as tooling is concerned I would say that depending on complexity our lead times are no more or no less than anyone else's. We also do tooling in somewhere between 14 to 20 weeks all depending on complexity depending on the size and the number of tools.

Mamta Verma: And what would be Sir so to say from a quality point of view in rejection rates or is there any metrics like this by which your clients would be assessing you or that you would be assessing your own manufacturing plants.

Amit Sanghvi: You mean our internal target ?

Mamta Verma: Yes, the internal like typically in the auto sector we would say parts per million, so this is the defects on parts per million basis. So would there be anything like that which your clients expect from you which kind of makes you qualify in getting business from them?

Amit Sanghvi: Yes so as far as resources go internally we have two master black belts, six sigma master black belts, we have one additional resource which is doing a project at the moment that will certify him as a six sigma black belt, but of course the quality management standard system requires us to have these PPM standards so the targets are in line with what the standard states and we measure them on a daily basis. So as far as our external rejections would be concerned with the customer we would be somewhere in the range of 0% to 0.23% at the most and those are not necessarily product defects, could be packaging defects, could be misplaced label. As far as product quality goes nothing that bad in Shaily, that is the standard.

Mamta Verma: Sir two last questions one on the employee expense front with a kind of ramp up that we are looking at on the topline how do you see the employee cost going up would you be hiring more people every year. Growth in terms of growth in the number of employees how should we look at

this number that was one. Second, I wanted to understand a little bit more when you explain that the short-term borrowings have gone up primarily due to GST-related issue. Sir if you can walk me through what really happened that triggered you know because of GST short-term borrowings to go up and which we still see on 31st March at elevated level which is these two last questions when I say?

Sanjay Shah: So as to answer both of the questions already the second part of course I partially answered that there have been short-term borrowings which have gone up on two accounts one is we had surplus cash which got invested in the current year in fixed assets so that is one reason why borrowings have gone up and second is there has been an increase in current asset because of blockage in account of working capital it on GST. We have started seeing some refunds come in. I expect that process in terms of refund should get regularized where we should see the whole cycle getting streamlined in the next six to eight months because this blockage has been there for over nine months and it will take time for the money to get realized from the government. On the second part in terms of employee cost, we continue to make investments in hiring people at various levels and we will continue to do that looking at the growth. So you will probably see similar level in terms of employee cost going forward. I hope that answers your question.

Mamta Verma: Yes. Thank you so much for all the detailed reply.

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

Ankit Gor: Sir my question with regards to CRC how difficult or easy to make effervescence bottle and caps into our present set up of CRC?

Amit Sanghvi: Effervescence, it is not difficult at all, the current set up can be used, we would only need molds.

Ankit Gor: So, this kind of an upcoming market do you see any spark there in effervescence bottles, company called Full Life is into this sort of products and you can utilize these capacities in to manufacturing caps which require some kind of expertise in this, so do we have any thought in doing that?

Amit Sanghvi: Yes, we looked at something in the effervescence area last year and we basically concluded that yes while there is an opportunity, I do not think that there is much of an upcoming market, there is varied demand in Bangladesh, in South East Asia etc., etc. but as of now the market itself has not picked up or is not mature now. Second, I actually do not think that even when the market does become matured, it has any barriers, to increase as it is a very, very simple tool that anyone can manufacture. Compliance is the only thing which will be needed so from an engineering perspective there really is not a complexity to the product but having said that there is a client that you feel we can work with I would be happy to explore it.

Ankit Gor: Okay. Great thanks.

- Moderator:** Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** Sir thanks for giving me an opportunity again. Sir just to clarify the asset turnover you said is 2.25 to 2.5x right the guidance is net fixed asset turnover you are saying?
- Sanjay Shah:** No, that is the gross.
- Akhil Parekh:** It is a gross fixed asset, then okay. And Sir the ROCE trend we should see on a similar line what we have been doing in past right so like 20% of ROCE guidance is there for next few years at least.
- Sanjay Shah:** There is no guidance Akhil we have said that ROCE we expect ROCE to improve but we have not been giving any guidance on ROCE.
- Akhil Parekh:** Correct so but the context I will tell you like so my question is like is there any internal guidance in terms of when we invest in particular project so like we should not go beyond this kind of ROCE in a particular project so that is where I...?
- Amit Sanghvi:** We do have such internal targets below which we would not like to go below.
- Akhil Parekh:** That is it. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Abhishek Trivedi from Kitara Capital. Please go ahead.
- Abhishek Trivedi:** I just wanted you to talk about the new product developments and newer segments which you are looking at.
- Amit Sanghvi:** Abhishek can you be a little louder.
- Abhishek Trivedi:** I just wanted you to talk about the new product development and the newer segments that you are looking at and this is more so in light of life after \$100 million target this because I guess we are just two years away from that particular event and you would be currently in the process of at least eyeing certain segments and certain pockets in the space in which you are operating. So anything which you would like to throw light in terms of what you are looking at in the future time to come?
- Amit Sanghvi:** We are looking at two things one is using the capability that we already have in the area and the segment that we operate. We are looking at potentially some partnership products. When I say partnership products they are not exactly proprietary which means that we do not do the core design development for Shaily and then sell it through our customer. It means that we will jointly develop with the customer, but we will have rights to sell it to someone else as well and we are looking at such a scenario for a large supermarket brand. We are also looking at getting into

related industries where so maybe up downward integration or upward integration could be in the line. could be in extrusion, could be in blow, tooling is one area that were actively pursuing at the movement, so a lot of these plans are not concrete yet. As and when they become concrete and we actually are ready to make the investment we will obviously give the guys an update.

Abhishek Trivedi: And just to get this clear this partnership product which you have talked about is more so partnership in terms of the product development in terms of the technology usage right and the marketing rights would be probably at your end and certain parts of the market is that right.

Amit Sanghvi: Abhishek it is too soon for me to really talk about it but as it something we are talking about which is two years hence I think when we have something concrete we will be the first one to share it with you.

Abhishek Trivedi: Fair enough. Thanks a lot.

Moderator: Thank you. The next question is from the line of Rakesh Roy from Asit C. Mehta. Please go ahead.

Rakesh Roy: Sir my question is regarding your Honeywell is starting to spin off their turbocharger business into separate company by end of CY2018, how will it impact your company Sir?

Amit Sanghvi: That would not make an impact because even if they spin it off, we will continue to supply to their division which is being spun off so

Rakesh Roy: No my question is, is there any positive impact on active order or possibilities we get more order after they spin off their business?

Amit Sanghvi: We need to evaluate that, so my thoughts are that there really should not be any impact because we have one signed contract as well unless they stop manufacturing the product itself we do not see any negative impact for sure whether there was a positive impact or not we are not sure at the moment.

Rakesh Roy: Sir apart from the turbocharger components, are we making any other products for this company?

Amit Sanghvi: We make other components also.

Rakesh Roy: Okay sir thanks from my side.

Moderator: Thank you. The next question is from the line of Jeet Shah an Individual Investor. Please go ahead.

Jeet Shah: I have a couple of questions the first one is the numbers seem to be much in line, are we confident to maintain similar or higher run rate going ahead and which segments we will be gaining traction other than home furnishing and pharma?

- Amit Sanghvi:** We are seeing more traction in our automotive business but again our automotive business is very niche, we actually do not supply much to the domestic market, we do not supply almost anything to the domestic market except one particular product we are seeing traction there, we are seeing good traction on our FMCG business. We are potentially looking at adding another vertical to our consumer business which can potentially be scaled up very quickly, so I would say that except the industrial sector where we are actually not making any efforts either, we are seeing traction across all other segments.
- Jeet Shah:** Okay Sir thank you, my next question is from which customer have we received the lighting business from and if you could share what is the opportunity in the lighting business?
- Amit Sanghvi:** I would not be able to name the customer unfortunately we have confidentiality in place where I will not be able to name the company.
- Jeet Shah:** Okay sir can you share the what can be the opportunity in lighting business.
- Amit Sanghvi:** We would be somewhere in the range of I think we can start year one whenever we start supply probably to the tune of Rs. 10 to Rs. 12 Crores maybe ramping up to about Rs. 26 Crores, Rs. 27 Crores over three years.
- Jeet Shah:** Ok thank you and my last question is that the increase in our raw material prices so how much is this attributable to the increase in realizations in sales?
- Amit Sanghvi:** It is always proportionate whatever is that ratio of raw material is any increase will just proportionately increase.
- Jeet Shah:** Okay. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.
- Pranav Tendulkar:** Thanks a lot and congratulations for a great set of performance I just have two questions, one is that over the years you have actually transformed into a great company which is actually providing opportunity for generic companies to remove that barrier of devices it seems like and in that journey all of your initiatives are now bearing fruits I just wanted to ask are there any bottlenecks in terms of talent that you require for furthering this growth.
- Amit Sanghvi:** I do not think there are bottlenecks in terms of talent I probably mentioned just before yes, our efforts are bearing fruits. There are companies that are very progressive in their thoughts and the pharma companies I am talking about that think differently and are willing to work with us to give us an opportunity. At the same time one of the biggest challenges in the pharma industry is that first it is very difficult for us to let someone know and for them to comprehend that how someone is making the device in India and how that person can produce any quality or give them the service that they have been so accustomed to getting from Europe and North America. So

challenge still remains in convincing the customer that we can do it equally or better than any of our competitors outside.

Pranav Tendulkar: Sir second question is that the global major which uses your insulin pen, there are two or three global majors like that so is your arrangement with the existing global major exclusive so that you cannot provide insulin pens to other two global majors is that so?

Amit Sanghvi: No none of our arrangements are exclusive we can work with any company in any space that we choose.

Pranav Tendulkar: And as you previously said that the insulin pen is made by all the producers other than you who are situated in Germany or Switzerland this applies to other two global major suppliers also right this might be same suppliers?

Amit Sanghvi: Yes it applies to the other two as well, but I do know that all three are importing either components or sub assemblies into China and then doing the final assembly in China and the final assembly is obviously with the drug.

Moderator: Thank you. The next question is from the line of Kunal Parekh a Student. Please go ahead. Mr. Parik has kept the call on hold shall we take the next question. The next question is from the line of Abhijit Sinha from Pi Square Investments. Please go ahead.

Abhijit Sinha: Good morning Sir great results. I just wanted to know whether you can throw some light on the cost structure of our company compared with the industry

Sanjay Shah: Abhijit I would suggest that you could probably do an analysis instead of we talking about what cost structures we have compared to what our peers in the industry now. I do think our employee cost is very high.

Abhijit Sinha: So basically Sir a basic understanding I have already but I was wanting if you could throw some light on it so you said your employee cost are obviously higher than the industry.

Amit Sanghvi: That is my – no I do not think when we look at the Indian industry it depends on the value we would be doing – that the employee cost would be very high but when I look at our operations I feel our employee cost is high there is margin they are certainly 100 to 200 basis points room for improvement.

Abhijit Sinha: And Sir when we see that improvement coming in within one or two years.

Amit Sanghvi: I really do not know at the moment.

Abhijit Sinha: Sure sir. Thank you so much Sir.

- Moderator:** Thank you. The next question is from the line of Akshit Gandhi from Kotak Mutual Fund. Please go ahead.
- Akshit Gandhi:** A couple of questions, just one thing the tooling expenses we are classifying it as a finance lease and not operating lease right?
- Sanjay Shah:** Wherever we have contract with the customers yes you are right.
- Akshit Gandhi:** So what would be the implicit interest rate assumption in the finance lease if you could share?
- Sanjay Shah:** It would not be possible to share that because there are different contracts so we have different rates?
- Akshit Gandhi:** And is there a higher asset turn in the expenses which we incur for tooling versus our normal gross block asset turn of 2.5 to 3x.
- Amit Sanghvi:** No, it will be a lower because this is a specific investment which we are making so it will be a lower side.
- Akshit Gandhi:** Also one asking the home furnishings major to whom we supply, have we started supplying them for India business also?
- Amit Sanghvi:** That we cannot disclose sorry?
- Akshit Gandhi:** Let me put it in a different way is the return on capital employee to the home furnishing major in India versus outside India are they different significantly or is it same?
- Amit Sanghvi:** We will leave it like that I think.
- Akshit Gandhi:** Okay fine. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Kunal Parekh, A Student. Please go ahead.
- Kunal Parekh:** Sir I guess among all segments we are getting highest margins from healthcare and pharma sectors so could I know how much sales is coming from that segment?
- Amit Sanghvi:** We do not give out segment wise sales.
- Kunal Parik:** Okay. Thank You.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Amit Sanghvi for closing comments.
- Amit Sanghvi:** Thank you everyone for joining the call with our continued and long-term association with our customers and robust order pipeline we are confident to continue to deliver superior margins.



Shaily Engineering Plastics Limited
May 16, 2018

Once again thank you and we hope that we were still able to answer your questions. For any further information that you require I request you to get in touch with SGA our Investor Relation Advisor. Thanks once again and have a nice day.

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.