



## “Shaily Engineering Plastics Limited Q1 FY2022 Earnings Conference Call”

August 18, 2021

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MR. SANJAY SHAH –CHIEF STRATEGY OFFICER -  
SHAILY ENGINEERING PLASTICS LIMITED**



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**Moderator:**

Ladies and gentlemen, good day and welcome to Shaily Engineering Plastics Limited Q1 FY2022 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on 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. 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 results investor and analyst meet of Shaily Engineering Plastics. I hope you all are keeping safe and healthy. I have with me Sanjay Shah, our Chief Strategy Officer and SGA our Investor Relations Advisors. I hope you have had a chance to look at our investor presentation that is uploaded on our website as well as the stock exchange.

Before I begin commenting on our business I would like to sincerely thank the Shaily management team and all the employees of Shaily Engineering Plastics for their persistent support in these challenging times to keep our operations running smoothly. We are taking the utmost care including vaccination drives.

Now coming to business; quarter one FY2022 was challenging in terms of managing operations given the second wave of the pandemic. Since majority of our business is exports, we had to face significant hurdles in terms of managing the supply of our products, given the availability of containers was one of the biggest issues we faced during the pandemic, clubbed with interrupted operations and limited workforce; however, I am very happy to share that we have managed our operations well and serviced our global customers.

Despite disruptions of 2020 we have managed to put our carbon steel operations up and running since December 2020. It has allowed us to strengthen our relationship with our marquee client in home furnishings and today we are supplying four global products to them. We are looking forward to supplying more products in the same stream as the year goes on.

Coming to our bread-and-butter plastics business with the home furnishings major, we are in the process of expansion of our facility at the new Halol complex and I am excited to



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share that without any interruptions due to COVID second wave, we are on the verge of commencing manufacturing at our second facility with operations starting up before the end of this month.

In the toy segment we are building a strong and credible supplier image and have become one of the preferred suppliers to major toy giants of the world. We are expanding our order book with Spin Master and now have entered into relationships with the world's second largest toy manufacturer. This marks stamp to quality of our products and trust by these companies in us; however, due to shipping crisis it has been a little bit difficult to manage the supply chain.

Container shortages are causing shipping delays and increased cost to our operations. Barring this temporary phenomenon, these toy companies have indicated their plan of transition to third-party manufacturing facilities in both India and Vietnam from a complete China-based supply chain, as it is today. We are glad that we are being part of the stated objective and able to contribute with our specialized skills.

Some highlights on our healthcare segment, I have been highlighting on this point for quite some time now that the opportunity with the pen business, the pen market is massive. We are trying to grab our pie out of it very slowly and steadily. We have successfully signed two new pen development contracts and we have many more in pipeline. We will be starting supplies for Insulin in the Iran market in the coming months.

To sum up let me give you business update for the quarter. On the toys business, we have successfully started supply to the second largest toy brand in the world. In the healthcare segment, we have two new pen developments contracts signed and in progress. Our new facility at the Halol complex for the home furnishings major, we have started trial production and we will go into commercial production before the end of August 2021.

Let me conclude now by saying that the Board of Directors have approved a preferential allotment of shares amounting to roughly Rs. 150 Crores. We have been successful in getting marquee investors such as Lighthouse Fund and White Oak participate in this fundraise.

Let me tell you that this is Lighthouse Fund's second primary infusion into Shaily after their first infusion in 2008-2009. After their exit in 2014-2015 this is now the second investment into Shaily showcasing their trust and confidence in the long-term story of our company. We intend to use these funds towards growth of the business. We foresee utilizing these funds over the next 12 to 18 months towards expansion of our business in



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pharma, toys, and home furnishings. This investment will allow us to leapfrog into the next phase of growth and strengthen our relationship as a strong supplier to global brands.

That is all from my side. I shall now hand over the call to Sanjay Shah our Chief Strategy Officer to give you an update on the operating and financial highlights of quarter one FY2022. Thank you and over to you Sanjay!

**Sanjay Shah:**

Thank you Amit. Good morning everyone. I shall share with you the highlights of our operational and financial performance for Q1 FY2022 following which we will be happy to respond to your queries.

During the quarter we processed 4,093 tonnes of polymers as against 1815 tons in Q1 FY2021. In Q4 FY2021 we processed 4,356 tonnes of polymers. Machine utilization rate of 56% in Q1 FY2022 same as Q4 FY2021. Please note that the capacity addition utilization rate looks lower. In Q1 FY2021 utilization was 34% basically due to the nationwide lockdown due to COVID.

Exports during the quarter stood at 81% of the total revenue as compared to 68% in the same period last year, while for Q4 FY2021 exports stood at 77%.

Revenue stood at 120.1 Crores during Q1 FY2022 as compared to 46.6 Crores for the same period last year, marking a growth of 158% although it is not comparable due to lockdown in Q1 FY2021. In Q4 FY2021 we booked revenue 109.8 Crores.

EBIDTA for Q1 FY2022 stood at 20.2 Crores as compared to 3.5 Crores in Q1 FY2021 and 22 Crores in Q4 FY2022. EBITDA margin stood at 16.8% in Q1 FY2022 compared to 7.4% in Q1 FY2021 and 20.1% in Q4 FY2021.

Net profit stood at 8 Crores for Q1 FY2022 versus loss of 3 Crores in Q1 FY2021. Cash PAT for Q1 FY2022 was reported at 13.9 Crores as compared to 1.5 Crores for the same period last year. For Q4 FY2021 cash PAT was at 15.3 Crores.

For the quarter we incurred capex of 22 Crores, we expect FY2022 capex would be in the range of around 70 to 80 Crores.

With this I would like to summarize on our operational highlights front and as you all know that we are working actively towards diversifying our business model and you would see better trajectory in quarters to come as the orders would start commercializing.



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

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

**Pritesh Chheda:** Thank you for the opportunity. Sir I have two questions. One, if you look at our asset utilization, it is about 56% what we have reported in the presentation, and then we have a new asset which is lined up in the second half and we have raised this 150 Crores also for some kind of investment. So if you could give some color on these investments that you have done so far what kind of revenue potential do these investments have and what is the usage of these 150 Crores of the equity infusion which has been planned by the company?

**Sanjay Shah:** Let me answer the question in two parts, Pritesh. See when you look at the current utilization level what you need to look at is we have been adding a machine in quarter one as well in quarter four and these are for specific businesses which we are commercializing as we move forward. So we have started the ramp up on toys and we will see improved utilization levels as we move forward. New plant which is being set up is basically for business which has been committed and for which we are getting new more businesses. So that additional business which we have got, we have talked about that business in the past in terms of a total revenue potential of about 180 Crores on a yearly basis from the home furnishing customers. So that is specifically for that business. The fundraise is basically for, as Amit mentioned for three reasons, as we move forward we are seeing a lot of growth opportunities on the pharma front as well as on our existing business of home furnishing and what we have ventured into toys. At the same time if we want to be able to take advantage of those opportunities we would need capital to fund on that business opportunity as we come forward. So we are seeing enough of opportunities in each of these three segments where we would basically be making investment to grow that business, but that is where we would be spending the money. I hope Pritesh that answers your question?

**Pritesh Chheda:** Yes, so I still have one confusion here, this new business will need new plant then what will drive the utilization of the existing asset which is at about 56%?

**Sanjay Shah:** Utilization level will improve. What we have talked about is you will see ramp up on toys so you will see utilization levels improving in the current quarter on the ramp up on the toys customers in the new facility which we are setting up you want to see a ramp up there so you will see utilization levels improving.

**Pritesh Chheda:** So what is our revenue potential of the current investment that we have done so far?



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- Sanjay Shah:** Pritesh we have again talked about it in the past like total capex which we have done till date and based on that if you want to look at it you probably look at somewhere between 2.25 and 2.5 for a revenue potential.
- Pritesh Chheda:** I have one more question. In the past few presentations we have seen movements happening on the pen side of the business so some projects are going commercial, some new additions are happening. Could you tell us over the next two years that is 2022 and 2023 what revenue do you think you will be able to clock either in the overall pharma business or in the pen business whatever you are comfortable with sharing and based on the current platform and current molecules that we have what is the eventual revenue potential of this business?
- Amit Sanghvi:** One of the first molecules for which we will be need to supply is to, will be teriparatide, we are looking at starting supplies for teriparatide in calendar year 2022 so somewhere between end of FY2022 and beginning FY2023. The second big molecule will come into play in FY2024 and then in FY2026. All in all we are looking at ramping up the pen business substantially, existing platforms where we manufacture somewhere close to about 6 million pens a year we have been looking at doubling that over the next two years and then looking at potentially somewhere between 15 and 20 million pens in four years.
- Pritesh Chheda:** So 6 going to 12 going to 20.
- Amit Sanghvi:** Yes.
- Pritesh Chheda:** And realization for pen if you could?
- Sanjay Shah:** Pritesh getting into individual numbers that will be difficult.
- Amit Sanghvi:** Very difficult. We are talking on the different realization very difficult to predict that or to give you an indication today.
- Sanjay Shah:** Pritesh, what we have said is we see the device of the pharma part of the business going to 2x to 3x in the next three to five years, we still stand by that.
- Pritesh Chheda:** Thank you very much and all the best Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.



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- Kaushal Shah:** Thank you for the opportunity. Congratulations for a good set of numbers. Sir continuing from this question about capacity utilization currently we are at about 56% and we have in the past done much higher utilization, the asset turn has been upwards of 2.5% also in the past. So over the next let us say two years or so now that the Halol capex is also coming into play we have also had the carbon steel now available. So this 56% can go to what number let us say in a year or two years time from now?
- Amit Sanghvi:** The 56% I wanted to clarify this from the last question itself the 56% is not truly indicative I will tell you why, when we add capacity it is an anticipation of new business that will come on stream so 56% includes equipment, machinery added towards the toys business which we commercialize post the quarter. So that capacity has already gone into manufacturing and it is currently being utilized. So when you see the next set of numbers for the next quarter you will see this 56% being reflected as a much higher number.
- Sanjay Shah:** Typically today even if you look within our plants we have utilization levels which are exceeding 80%, 85% in some of our plants. So I think overall if you were to look at it utilization level can be somewhere between 80% and 85% sort of the thing.
- Kaushal Shah:** Sir a follow-up to what you mentioned from the revenue potential from our furnishings major plant and the number that you shared was around 180 Crores from the incremental capex do we anticipate to do this number in maybe two years time from now?
- Sanjay Shah:** Yes, it will be faster than that.
- Kaushal Shah:** Just two more questions. What Amit Bhai shared regarding the pharma and the pens business so there also this potential doubling of volumes in two years time let us say from August again two years so should we look at FY2024 as a potential first target so to say?
- Amit Sanghvi:** Yes. The short answer is yes.
- Kaushal Shah:** One final question on the capex. So we have already spent 22 Crores, if you can just help us understand the balance part I tend to believe that Halol I think bulk of the capex would be done so the balance capex of whatever 50 Crores, 60 Crores that would be towards the pharma segment.
- Sanjay Shah:** So out of the balance 50- 60 Crores, over 50% would basically be in the new plant which has been setup at Halol some of the equipment have come in quarter two and capitalization will happen in quarter two so that will basically happen in quarter two and the budgets will basically be split between pharma and other business is including toys.



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- Kaushal Shah:** Sir one final question if I can squeeze in. Any clarity on the MEIS we had I think a substantial number blocked over there so any further update on that?
- Sanjay Shah:** As of today the portal has still not opened up the RoDTEP rates have been announced yesterday, we are still evaluating whether we will be eligible for that or not. So there is some clarity to be had from the government but they are still getting that. I expect government would probably open up the MEIS portal and we should be able to make applications and get the MEIS benefit. So that is something which we are looking forward to.
- Kaushal Shah:** And have we received a pending I think it was more than 15 Crores, 17 Crores if I remember correctly.
- Sanjay Shah:** No, it was not 15, 16 Crores it was a much lesser number. Current MEIS amounts which are pending to be received is 4 Crores.
- Kaushal Shah:** So was it MEIS and GST or something like that?
- Sanjay Shah:** Yes it will be GST refund which are on an ongoing basis so we typically now have a much lesser capital blockage on the GST and it is on the normal phase where we basically get refunds on a monthly basis.
- Kaushal Shah:** That helps us. I will join back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.
- Manish Gupta:** First question was that yours Hasbro would you know how much product volume they are sourcing from India at present?
- Sanjay Shah:** Yes, it is about \$80 million right now from India.
- Manish Gupta:** How much of this \$80 million is in products where you would say it overlaps with Shaily's business definition?
- Sanjay Shah:** I will say most of it, today based on whatever we know limited information which we know I think most of it would basically be similar to what we would be able to do.





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- Manish Gupta:** So, Sanjay Bhai Hasbro might be sourcing products in lot of different areas and some of these areas might not overlap with what Shaily does today for example we recently went into steel furniture so are we still defining our definition more with highly engineered plastics or will we also go into other areas of toys. Amit cannot hear you very well sorry your voice has not been very clear today.
- Amit Sanghvi:** I apologize. I am in a different part of the world. I think by defining ourselves as an engineering company capable of manufacturing complex products that require multiple processes.
- Manish Gupta:** So essentially if we have to go beyond plastics that is something that we will consider.
- Amit Sanghvi:** Yes, but depends. It has to be close to I mean there has to be a certain part of plastics involved.
- Manish Gupta:** My next question is I think Sanjay Bhai said 85 Crores of capex for this year, based on what you know at present based on the opportunities you see you have just done an equity raise so I guess can you share based on what you know right now what your three-year capex roadmap or five-year capex roadmap might be, fully appreciate this might change, but based on what you know at present how much capex do you think you will do over the next three to five years?
- Sanjay Shah:** So based on the current fundraise which we have done what we are looking at is post the current capex which we are currently doing of 80-85 Crores we would basically be looking at a further capex of about 200 Crores, 200 Crores would basically be broken up into about 100 to 120 Crores on the pharma part of the business for growing the device part of the business which would be our own IP-led business and around 80 to 100 Crores on home furnishings and all as Amit mentioned earlier in his speech we would basically be looking at putting up all of these capex in the next 12 to 18 months and we are getting enough of opportunities on this with multiple customers in these segments.
- Manish Gupta:** Just to get my timeline right Sanjay Bhai you said 85 Crores in fiscal year 2022 and these numbers that you mentioned which is 100 to 120 for pharma let us just work with 100 for a minute and 80 to 100 for furnishings so let us just work with 80. So when you are saying 85 Crores for fiscal year 2022 the other 180 Crores that you just spelled out this is for 2023 and fiscal year 2024.
- Sanjay Shah:** You are right Manish so it will be basically spilled over between 2023 and some of it will get spilled over to 2024.



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- Manish Gupta:** So just to that I am sorry to deliver this point but between fiscal year 2022 fiscal year 2023 and fiscal year 2024 we are looking at approximately 260 to 280 Crores kind of capex.
- Sanjay Shah:** Right Manish.
- Manish Gupta:** My next question is that our gross block as of fiscal year 2021 is approximately 300 Crores give or take right am I right in understanding that our peak revenue from this gross block will be anything in the range of 650 to 700 Crores?
- Sanjay Shah:** Right Manish.
- Manish Gupta:** Two other questions. The first one is Amit we are seeing a war for talent in the Indian IT industry. I do not think it will take long before it spills over to the engineering industry can you share what the company has done or what plans you have for talent addition and retention to help you manage this scorching pace of growth and opportunity that you see in front of you.
- Amit Sanghvi:** I think Shaily as a Company I know I would not say the entire engineering industry in general but Shaily as a Company has been facing this challenge on some of our businesses for a few years now. You see there are a lot of businesses where we are one of a kind in the country and it is not so much talent retention which is an issue it is talent acquisition which is a problem because there are companies in the country where we can recruit from where we get adequate talent to begin with. So one of the initiatives we have taken this year is we have gotten so to speak we have got a world-class molding expert on board who will be with us for a period of 12 months at a minimum. He is a Swedish fellow he will be with us for a period of 12 months where we intend to train a lot of fresh engineers in the ways in scientific injection molding so we are trying to create new capability make sure that our processes are extremely robust and stable and there is a method behind achieving that so we have hired a lot of new engineers, engineers fresh out of college, engineers with two or three years of experience that we intend to train over the next six months hands-on training, classroom training all of it put together where we intend to at least retain even if we retain 30% to 40% of the staff we have hired we will be able to service our upcoming needs for the next 24 months.
- Manish Gupta:** And the last question Amit is that for your recent QIP 150 Crores did you use a banker for the deal which banker did you use.
- Sanjay Shah:** No so Manish we did it on our own. The company has internal team. There was no banker of a deal. That is why the company, the company its internal team that is pretty awesome.



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**Manish Gupta:** Congratulations, thank you for all the hard work.

**Amit Sanghvi:** Yes, so Manish. I did not point you Sanjay Bhai has to answer the question I pointed as and when we work the banker.

**Manish Gupta:** True, Sanjay Bhai was the banker that is what you are saying.

**Amit Sanghvi:** Yes.

**Manish Gupta:** Very good.

**Amit Sanghvi:** No, Sanjay Bhai did the QIP.

**Sanjay Shah:** First of all, it is Pref, it is not a QIP.

**Manish Gupta:** Okay, superb. Thank you so much.

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

**Aman Vij:** My first question is on the toys business, so could we talk about how many SKUs do we have as of today and as per the order book we have around \$10 to \$12 million per year so by which quarter do you think we can reach the utilization level of say 1 million sales per month kind of run rate?

**Sanjay Shah:** Hi Aman. So we are already at that number which you are talking about which we were going to look at in quarter two. So we currently have about four SKUs which we are currently doing and we are looking at commercializing other SKUs as we move forward.

**Aman Vij:** And in terms of capacity sir because this will be important in toys when do you think the next capacity will be coming or what is the peak utilization sale we can achieve from the price our current capacity?

**Sanjay Shah:** Sorry could you just repeat your question.

**Aman Vij:** I was saying if we are already clocking that number so in terms of capacity in toy segment specifically where are we and what is the peak sales we can achieve from the current capacity in toys?



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- Sanjay Shah:** We do not bifurcate the capacity in toys specifically. It is as part of the overall capacity which we have and as we move forward we will basically add capacity as we add business because we are seeing a lot of potential for growth here and as we move forward we will basically be adding capacity to it. Typically, in terms of the utilization levels yes you can go to about 80% and odd which is what we talked about on each of our businesses which we are looking at.
- Aman Vij:** Sir my question was we would not face any capacity constraint if we want to say increase the toys part much faster given we have already achieved that kind of run rate?
- Sanjay Shah:** One reason why we did the equity raise or the fundraise was basically to expand into toys which will basically mean that we will look at setting up a new plant sometimes next year for toys which will basically take care of the opportunities which we are seeing as we move forward.
- Aman Vij:** That helps. Next question is on the pens part. So maybe if you can talk about the utilization level which you think we can achieve this year as well as next year and if my understanding is correct auto injector are maybe on the even higher value addition part compared to say normal pen so when do we see the commercialization of the auto injector pens?
- Amit Sanghvi:** Most of them have been supplied for clinical or registration batches and once our customers receive approval they will become fully commercial. We expect commercialization starting in calendar 2022 between the end of FY2022 and beginning of FY2023 with molecules coming on stream in FY2024 and FY2026.
- Aman Vij:** And Amit what kind of utilization are we expecting for this year in pens and next year.
- Sanjay Shah:** Aman we do not report individuals I am sorry but we do not report individual utilization level what we report is utilization level at the company level.
- Amit Sanghvi:** But I can just answer question before that we do 6 million pens today 6 to 7 million pens.
- Aman Vij:** Yes, so that was the question. So we have that capacity. So do you think in two years we will be able to utilize it fully?
- Amit Sanghvi:** No that is what we are supplying today. We are already doing it.
- Aman Vij:** That number we are already doing.



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- Amit Sanghvi:** Yes.
- Aman Vij:** The final set of question is on the carbon steel business scaling. So maybe if you can talk about that and have we reached the peak utilization level more as not part of...
- Amit Sanghvi:** No we have not reached the peak utilization level as I mentioned in my speech we do about four SKUs at the moment we will be adding another three in the current year before the year is up and end of quarter three beginning of quarter four we will go to as close to full utilization as possible.
- Aman Vij:** Sure, thanks for the answers. I will get back in the queue.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** My question was that given all the capex you have talked about on this call is it fair to assume that over the next five years we can see our revenue growing by 20% each year?
- Sanjay Shah:** Rajesh putting in a number would be difficult but we have basically given you an idea in terms of for every rupee which we invested in excesses what the revenue which you would look at.
- VP Rajesh:** So if I do the math right you are doing around 280 Crores of capex your current gross block I think is around 400 Crores if I remember correctly, and your utilization is over 2x so that is what I was doing I just want to make sure I am thinking about it in the right way the math is directionally correct?
- Sanjay Shah:** Yes, so the capex numbers are right and if you want to multiply the number which we talk about that level of turnover which we look at it over next three to five years time.
- Amit Sanghvi:** That may vary in terms of rate between year-to-year maybe an average over five year would be that as you indicated.
- Sanjay Shah:** I am not looking at the percentage growth number but broadly in terms of asset whatever we are adding over the next three to five years this is the type of overall pace.
- VP Rajesh:** Given I would assume that your pen business is high margin compared to your injection molding business would it be fair to assume that we could expect 20% plus EBITDA margin.



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- Sanjay Shah:** I would not be able to comment on that.
- VP Rajesh:** So if you can just provide some guidance, right last year is it 20% EBITDA margin so if you can give some idea about what can potentially enhance it or have a negative impact on that kind of number?
- Sanjay Shah:** Rajesh what we have said and I will probably reiterate the same thing again that as we move forward we expect margins to improve at an EBITDA level or a ROCE level and there will be three factors which will contribute to that one is higher margin products as we move forward better utilization and efficiencies, operational efficiencies which will take it so all of these things will basically lead to improvement in margins as we move forward over the next three to five years.
- VP Rajesh:** Thank you. I appreciate it.
- Moderator:** Thank you. The next question is from the line of PM from R & Company. Please go ahead.
- PM:** Thank you for the opportunity. I wanted to know that with the current recently concluded fundraise does the company have any plans for further fundraise in the next let us say 18 to 24 months or you believe the capital which has been raised today will really suffice you for the growth plans over this period? Second related question there is has any of the investors that is the two sets of investors I believe have taken the larger portion have they been provided any board seats in the current fundraise?
- Sanjay Shah:** I think from fundraise perspective, we are done with fundraise. We are not looking at any further fundraise as we move forward. The capex which we will want to do will basically equity and then internal accruals will take care of that, so I do not think that is an issue.
- PM:** Has there been any rights given to the existing or the set of new investors who are coming in, in terms of board seat?
- Sanjay Shah:** It is preferential rights that would be there.
- PM:** Thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from Astute Investment Management. Please go ahead.



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- Saurabh Jain:** Good morning team. Many congratulations to you on fundraise and execution coming through. A lot of my questions have been answered, just wanted to check on any update on the subsidiary in UK for R&D?
- Amit Sanghvi:** We are setting it up as we do this call right now. Of course, UK has been a difficult market to enter in the current year given the pandemic and restrictions in terms of travel we have already taken on two projects in the UK subsidiary for design and development and we are progressing well. We will be fully up and running by November 2021.
- Saurabh Jain:** This design and development is completely for our own captive purposes right?
- Amit Sanghvi:** Yes that is right.
- Saurabh Jain:** This would be involving plastics as well as some other materials.
- Amit Sanghvi:** Well, there are full comprehensive medical device development drug delivery device development, so it would certainly be heavy on plastics but it could certainly involve other materials as well.
- Saurabh Jain:** My next question is that do you give a breakup of the exports region wise about 80% percent in this quarter but generally it is at about 75% which parts of the world does this go to?
- Sanjay Shah:** We would not give that breakup but broadly to Europe, US, Asia, and the Pacific.
- Saurabh Jain:** Right but would a majority of this be primarily to Europe itself.
- Sanjay Shah:** It will be Europe and US both.
- Saurabh Jain:** Just the last question any benefits that we get out of the PLI scheme or do we fall under any of that?
- Sanjay Shah:** Currently, the schemes which have been announced we do not directly fall into any of these schemes but we are in discussions with the authorities to see how we can take advantage of that.
- Saurabh Jain:** That is it from my side. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Hitesh from ICICI Direct. Please go ahead.



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- Hitesh Taunk:** I could not hear you properly some of the voices were not clear for me. Sir my question was from the current RoDTEP what government has announced yesterday earlier we had a kind of 4% incentive, export incentive as per what I read in old annual reports. So I just wanted to understand actually currently what yesterday's announcement is that range is between 0.3% to 4.3% so just wanted to understand will our incentive will be same as what it was historically or will it what do you expect it is to decline may decline to around from the current level or what is your assessment Sir. Sorry I missed the opening remarks of yourself you were talking something on that?
- Sanjay Shah:** Incentive part of it is still not clear whether we would be eligible for incentives or not because there is some clarity required on the circular which the government has come in and we are trying to get that clarity from the government.
- Hitesh Taunk:** So basically we are waiting for more clarity to get to know whether we are going to get the incentive or not is it?
- Sanjay Shah:** Yes.
- Hitesh Taunk:** Sir my next question pertains to our carbon steel project earlier we had a kind of target of minimum 100 Crores of revenue from that project so are we on track to clock that kind of revenue for FY2022?
- Sanjay Shah:** Hitesh, what we had said was that we basically reached that level of revenue in FY2023 and I think correctly yes we are on track to get to that number in FY2023.
- Hitesh Taunk:** Sir about the toy business we had around 80 Crores of order, annual order so are we going to execute that much of amount in this year FY2022 or it will be again for FY2022 and 2023?
- Sanjay Shah:** Basically the major part of it in FY2022.
- Hitesh Taunk:** Sorry Sir.
- Sanjay Shah:** We will execute the major part of it in FY2022.
- Hitesh Taunk:** That is all from my side Sir. Thank you. I will come in the queue if I have more questions. Thank you.





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- Moderator:** Thank you. Next question is from the line of Sachin Shah from SS Securities. Please go ahead.
- Sachin Shah:** Thank you for giving me the opportunity. Sir I have a couple of questions. One is what was the contribution of carbon steel business in Q1 FY2022?
- Sanjay Shah:** We basically do not report individual segments and we would refrain from doing that because that is the stated policy which we have internally so we would basically continue with that.
- Sachin Shah:** Directionally, it was better compared to last year or sequentially in that sense?
- Sanjay Shah:** Yes, so we started commercial production from December so if you look at a quarter four quarter to quarter one. In quarter four there was an improvement in quarter one as compared to quarter four.
- Sachin Shah:** What is our plan for management team or ramp up post exit of CEO in last quarter?
- Sanjay Shah:** I will probably get Amit answer that.
- Amit Sanghvi:** On the CEO front we have mentioned on one of the previous calls that we are on the lookout. It is not an easy process so we will take our time to find the right candidate to replace the previous CEO that we had. In the meantime we are managing the business as we did prior to the CEO where we are actively involved in all operational aspects of the business. We have a very strong operational team that manages each of our plants so that is not so much of an issue and we will continue to strengthen that team as time progresses.
- Sachin Shah:** My last question is are you reasonably confident that execution challenges witnessed in FY18-19 are now passed and no issues will come for execution of incremental order book as we are moving from 75 Crores, 80 Crores revenue per quarter in 18 it is around 120 Crores, 130 Crores quarters at the current time. So what is you take on that?
- Amit Sanghvi:** The challenges that we had in 2018-2019 we have certainly overcome those. There are new set of challenges of course as business grows and progresses which we will overcome in due time but we are confident that we will maintain this growth trajectory as we move forward.
- Sanjay Shah:** Thank you so much.



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- Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.
- Sunil Jain:** Sorry if I am repetitive. We are seeing a gross margin declining in this quarter. So any specific reason for that and are we expecting it to come back to normal level?
- Sanjay Shah:** Sunil last quarter was a quarter when we had seen pretty abnormal movement on raw material prices with prices going up from March onwards so basically our price change happens with the lag and because of that yes there has been a slight different gross margin we expect that to normalise that we move forward in the coming quarters.
- Sunil Jain:** Similar is the impact on the EBITDA margin. So I think the gross margin only is impacting the EBITDA margin.
- Sanjay Shah:** Right.
- Sunil Jain:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.
- Pritesh Chheda:** Sir, one follow-up question on a run rate basis when do you see achieving the peak utilization or peak revenues of this \$12 million toys order and on a run rate basis when do you think you will hit the peak of the 100 Crores carbon steel revenue potential.
- Sanjay Shah:** On the toys front as we said we are currently at that run rate which we have talked about so we are currently operating the business at that run rate so it has been talked with you.
- Pritesh Chheda:** So toy here at the peak run rate?
- Sanjay Shah:** No we are at the run rate which we have talked about in terms of, we will be looking at adding our products to it as we move forward and our customer exist so that is something which we will looking at growing that as we go forward. As Amit mentioned we will probably be getting to a full ramp up between quarter three and quarter four so I would say when we look at exiting the current year which we take that at the revenue numbers which we have talked about.



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- Pritesh Chheda:** I could still understand your answer on the carbon steel I could not understand your answer on the toys. Toys you said you are currently at the peak or actually I could not understand that answer.
- Sanjay Shah:** Pritesh we are currently doing at the peak average revenue which we talked about. Typically on toys there are businesses which will be there which will have some peaks and some close so we are currently doing that peak revenue as we talk about today.
- Pritesh Chheda:** So you will peak even at quarter one?
- Sanjay Shah:** No.
- Pritesh Chheda:** That was helpful Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Surbhi Soni from ValueQuest Investments. Please go ahead.
- Surbhi Soni:** Sir I wanted to understand what are the key raw materials and what sort of price movement have we seen in this quarter and over the years that we are doing here?
- Sanjay Shah:** Could you repeat your question I did not understand so probably I missed the part of your question.
- Surbhi Soni:** I wanted to understand what are the key raw material for us and some nearing to plastic products any manufacture toys and home furnishing products and pharma products there so I wanted to understand what are the key raw material and what sort of price movement in the raw material are we seeing over last one year and in the quarter gone by?
- Sanjay Shah:** We use various polymer right from commodity plastic like polypropylene to engineering plastics like ABS, Nylon, Polycarbonate, PEP. We use a wide variety of polymers across our businesses. If you want to look at it you would have seen very high abnormal movements in commodity prices and commodity raw material as well as in specialty raw materials typically you would have seen price variation of somewhere between 20% and 25% in that quarter.
- Surbhi Soni:** So prices and what kind of outlook do you have for the prices and you will expect these prices to normalize in sometimes or you expect them to remain at elevated levels?



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- Sanjay Shah:** We expect prices to come down but it is very difficult to say currently in the current situation. So you see commodity prices going up all across not only polymers but in other commodities also. We are seeing some cooling up happening so we hope that continues.
- Surbhi Soni:** Sir we have seen gross margin mismatch, so I wanted to see more clarity and why the gross margin in the previous quarter decline when prices are at an elevated level are we not able to pass on the entire price increase.
- Sanjay Shah:** So we have just before the question raised by we think one of the earlier participants I had just explained that typically our price change happens with a lag...
- Surbhi Soni:** I am not able to hear you.
- Amit Sanghvi:** The future price change based on the...
- Moderator:** Sir sorry but your voice is breaking.
- Amit Sanghvi:** It is increasing you have a lag a couple of months before the....
- Moderator:** Sir can you hear us?
- Amit Sanghvi:** I can hear you. Can you hear me?
- Moderator:** Now we can hear you please go ahead. Thank you.
- Amit Sanghvi:** Price review mechanism is based on historical pricing which means in a scenario where raw material price is increasing you have a lag of a couple of months, I would say a quarter before the price increase comes into place. Therefore, on a quarter-to-quarter basis when the raw material price is going up you will see a decreased gross margins but in a 12-month period it will even out.
- Surbhi Soni:** That is very helpful. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Amit Sanghvi for closing comments.
- Amit Sanghvi:** Thank you everyone for joining the call. We hope we have been able to answer your queries adequately. For any further information, I request you to get in touch with SGA our investor relations advisors. Thank you and have a nice day and stay safe.



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**Moderator:**

Thank you very much. On behalf of Shaily Engineering Plastics Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.