



“Shaily Engineering Plastics Limited Q2 & H1 FY2021 Earnings Conference Call”

November 09, 2020



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Moderator:

Ladies and gentlemen, good day and welcome to the Shaily Engineering Plastics Limited Q2 and H1 FY2021 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 the 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 the 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, MD. Thank you and over to you Sir!

Amit Sanghvi:

Thank you. Good morning and a warm welcome to all the participants to the post earnings call of Shaily Engineering Plastics. I hope you are all keeping safe and healthy. I have with me, Mr. Sanjay Shah, our Chief Strategy Officer, Mr. Anil Kalra our CEO and SGA, our Investor Relations Advisors.

I hope you have had a look at our investor presentation that is uploaded on our website as well as Stock Exchange. Before I start discussing business updates, I would like to announce one key strategic move that the company has taken. We have established a new wholly owned subsidiary Shaily UK Limited in the UK with the sole purpose of creating leading technologies across business segments that can be licensed to our customers either directly or through product manufacture and supply.

Shaily is known for its longstanding relationships with its home furnishing major with whom we have also diversified our business segments and I am happy to say that today we have taken a big step towards diversifying both our product as well as customer portfolio, therefore mitigating risk by making our foray into toys. We are slowly and steadily gaining hold over the toy segment by adding new customers and new products. The toy segment has very large potential for growth. Purpose of toys is no longer limited to just play. Baby toys are becoming smarter, designed specifically for learning purposes. Moreover, the pandemic has created a new demand wave given that toys formed a very significant part of child's entertainment.

Shaily had entered this segment about a year ago and today we have the momentum to achieve more. Adding to that the China+ 1 strategy is further giving growth opportunities to Indian manufacturers like Shaily. Many brands are increasingly looking to create a second



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line of outsourced manufacturing base, which will deepen the manufacturing capability of Indian manufacturers.

The healthcare journey for us has been one that has been followed by new learning's and addition of new capabilities. Apart from the IP that we have both created and acquired, we have also added significant testing capabilities as per ISO11608, which is the de facto standard on needle based injection systems. We are slowly and steadily making good progress towards commercializing our devices and filing with the US FDA starting in Q3 of FY2021 to Q1 of FY2022.

We have also recently signed a large US biotech company for development and supply of a drug delivery system for a molecule that I will not be able to disclose. If everything goes as per plan, our consolidated healthcare business should be able to achieve faster breakeven and higher efficiencies, scaling revenue to two to three times in the next three to five years.

We continue to build a strong order book during the quarter. We have added the following to our kitty - On the FMCG segment, there has been consolidation of businesses with increase in volumes and addition in new moulds from our existing customers. In toys we have added two new projects across two customers with a total value of US \$3.85 million per year.

On the healthcare side, we have signed a contract and agreement for development supply of two rectal applicators for engineered part. In automotives and engineering, we have added two new insulator rod projects which are currently under development for Garrett erstwhile Honeywell.

I shall now hand over the call to Mr. Kalra, our newly appointed CEO to give you his thoughts on the business. Mr. Kalra over to you!

Anil Kalra:

Good morning everyone. It has been a while that I have been in this organization. It was June that I joined in and as I get more and more familiar with the business and dig more into the operations of the company, I am absolutely confident that this company is uniquely positioned to build a strong order book in the various verticals that we have and expanding within existing and new customer base.

Since the very beginning my endeavor has been to work on improving the efficiencies of all the plants and also improve the utilization of the plant and machinery. This has effectively taken off quite well in the Q2 and I would just like to reassure all of you that with a strong



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order book all the plants are fully geared up to deliver smoothly and on time to all our customers existing and the new ones and the effort is to streamline the operations by driving in purchasing efficiencies, managing the manpower, adding the right set of skilled people at all levels, who will strengthen the organization, develop more of the engineering skills in design and engineering and all these efforts put together safeguard timely project execution that is the key goal for the company at this point of time.

We have successfully started trial production of our new plant, the Carbon steel plant in Q2 and two SKUs have already been tried and we are expecting more to be added in due course of time. With that I finish my brief. I will now request my colleague, Mr. Sanjay Shah to takeover.

Sanjay Shah:

Thank you Anil Ji. Good morning everyone. I shall share with you the highlights of our operational and financial performance for Q2 FY2021 following which we shall be happy to respond to your queries.

Shaily Engineering Plastics reported its highest ever quarterly sales and it looks like we will achieve a landmark number of three-digit revenue very soon. During the quarter, we processed 3,986 tonnes of polymer as against 3,378 tons of polymer in Q2 FY2020, which marks 18% growth year-on-year basis.

Capacity utilization rates were at 59% in Q2 FY2021 as compared to 66% in Q2 FY2020. With ease in lockdown restrictions, manufacturing operations have picked up pace with safety, hygiene protocol. Worker's safety is paramount and we are taking utmost care by keeping our workplace safe for our employees.

Exports during the quarter stood at 70% of total revenue as compared to 69% for the same period last year. For Q2 FY2021 our revenues stood at Rs.98.7 Crores as compared to Rs.87.6 Crores for the same period last year, a growth of 13%.

On half-yearly basis, we reported Rs.145 Crores of revenue as compared to Rs.168 Crores of revenue in H1 2020. This takes into account the Q1 which was severely impacted by COVID-19. EBITDA for Q2 FY2021 is at Rs.17.7 Crores as compared to Rs.15 Crores in Q2 FY2020. EBITDA margins stood at 17.9% in Q2 FY2021, 60-basis points improvement over previous year for the same quarter.



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Net profit stood at Rs.7.3 Crores for Q2 FY2021, a growth of 30% year-on-year. Cash PAT for Q2 FY2021 was reported at Rs.11.9 Crores as compared to Rs.10.2 Crores for the same period last year.

On the credit front during the quarter, our credit rating agency CARE reaffirmed our rating on long-term facility and short-term facility. The long-term facilities were given a rating of CARE A—with stable outlook.

With healthy order book we are confident to improve our revenues with stable margin profile. We expect recovery in H2 FY2021 on back of commercialization of new projects that we have added over a period of time, we continue to build strong order book with our clients.

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

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah:

Thank you for the opportunity. Congratulations for good set of numbers. Sir, I wanted to get some more colour on Amit sir's opening comments where he said that the healthcare segment can grow quite significantly over the next three to four years, if you can just throw some more colour on where do we see significant traction coming over the next two to three years? And if you can just also highlight some of the recent developments that are happening and what gives us the confidence about the sharp increase?

Amit Sanghvi:

The reasons for us expecting this fairly significant uptake in revenue is that all the projects are in various stages of implementation. For example, all the pen injectors that we have developed, some are in the registration batches with the customers, some are in the final stage where the customer will take the registration batches in. After they do the registration batch, and after they file with the FDA, we are looking at most launches starting end of 2022 to 2025. So, we have three molecules currently for which we have made supplies to various customers and all four molecules, for all we will be starting supplies in 2022 and scaling it up to 2025 and then of course onwards. So, we see all the development that we have done over the last 24 months, coming into commercial production, which is why we see the uptick in revenue.



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Kaushal Shah: Just to ask about the slightly shorter-term future from this point till December 2022 when you said you will see significant supplies can begin. How do we see the ramp up for the runways from today for the next let us say one calendar year or two calendar years?

Amit Sanghvi: For healthcare particularly or in general the business?

Kaushal Shah: Healthcare in particular.

Amit Sanghvi: We have ongoing contract manufacturing business that we have been doing where we have also been adding products, several products that is already commercialized. So that business keeps on increasing at a certain pace, year-on-year. With the same customers, as we keep adding more devices, we get an increase in revenue, where in the short-term our development contracts also gets spread over two year period where we also see a very significant revenue coming in. The other thing is that while we have taken a wait and watch approach, we have been successful with some of our CRC trials recently at some of the customers but we will provide an update on this during the next quarter when we actually get into commercial production.

Kaushal Shah: Sir, on the toy segment it appears as if we have had quite a positive start. We have added. This additional \$3.85 USD million is in addition to the USD 6 million that we had already, right?

Amit Sanghvi: Yes. That is right.

Kaushal Shah: How do we see the traction in that segment? I mean we started on a fairly strong note and we have added close to \$4 million USD in the last few months. So, just trying to map the trajectory where do we see the segment over the next one year or two years?

Amit Sanghvi: At the moment, it looks very optimistic, but it is hard for us to tell you, give you a number the reason is that except one product, nothing is actually there, we commercialized one product, we have not commercialized anything else yet. They all go into productions starting January to April of the coming calendar year. I think we will be in a better position to give you an update on toys probably during our Q1 presentation of FY2022.

Kaushal Shah: Sir, one final question on our significant client home furnishing major, we have started carbon steel. So, how do we see the traction in that segment going forward and for instance, is it likely that the coming months December till March and then in the next year we can see significant rollout?



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- Amit Sanghvi:** The customer definitely needs the product and there is high demand. We have struggled a lot with installation and validation and qualification of the products given that we do not have competency and because of COVID we could not get our suppliers to come in and of course do this for us. So, we had to undertake the entire installation of plant and machinery ourselves with very limited resources, which we have achieved successfully now. We have made trial production and test batches for the customer successfully and we are looking at ramping up fairly significantly starting December and into the next quarter. We essentially should be at somewhere between 60% and 70% utilization next financial year.
- Kaushal Shah:** Sir, if I can just squeeze in one more question about this new subsidiary in the UK. If you can just throw some more colour on what is really the rationale or the thinking behind this new subsidiary and where do we kind of want to take it?
- Amit Sanghvi:** Briefly after that getting into too much detail would be a little premature at the moment, but as I mentioned in the speech, the sole purpose of creating a subsidiary in the UK is to really work on creating IP, creating world class technological leading products across segments and now of course the focus will be on healthcare, but we do intent to create technologies for other segments as well.
- Kaushal Shah:** That was very helpful. I will join back in the queue. Thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from Astute Investment. Please go ahead.
- Saurabh Jain:** Good morning to you and the team. I hope everybody is keeping well. I just had a few questions. Just taking off from what the last participant asked on the subsidiary in UK, just wanted to get your thought process that as a company, would we ever look at manufacturing outside India for us and maybe even an acquisition and to get access to customers even faster and get approvals or would we just focus on India for manufacturing?
- Amit Sanghvi:** I would say the answer is yes. We would certainly look at manufacturing outside of India, but that does not mean that now it is the right time for us to do that. We have already quite a few projects in the pipeline that needs to be executed. They need to be executed well. So, we continue to focus on that and yes in the near future we would be looking at opportunities..



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- Saurabh Jain:** Makes sense. The next question is on the toys business, with this \$3.85 million contract and the \$6 million which we had from before, about \$10 million is this on a per annum run rate or are these one time or how should we look at the tenure of these?
- Sanjay Shah:** These are based on volumes indicated by the customers and these are annual volumes.
- Saurabh Jain:** So, if all goes well, I mean \$10 million annually would be recurring and it can even increase going forward?
- Sanjay Shah:** Yes, so the key to it would be to adding more projects, more products in toys, but yes that is the way forward which we would look at.
- Saurabh Jain:** Would you be able to give us the value of these two rectal devices that we have gotten the order for?
- Sanjay Shah:** It would be difficult right now.
- Saurabh Jain:** The next question is Garrett is a customer where we have got orders, but we read that the company has had gone into bankruptcy and then Honeywell had tried to save it so any thoughts on that?
- Sanjay Shah:** That was more of a restructuring, which they were doing it. We are aware of that and we are keeping close track on that, but it is not going to impact our business with them in anyway. It is more of a restructuring which they are doing internally, nothing else.
- Saurabh Jain:** Just the last question is how do you see October shaping up so far considering that September was a good month for us?
- Sanjay Shah:** It will remain good.
- Saurabh Jain:** Better than September.
- Sanjay Shah:** We see the traction which we have achieved in Q2 continuing in Q3.
- Saurabh Jain:** That is it from my side. Thank you. All the very best.
- Moderator:** Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.



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Nitin Bhasin:

Good morning. I do not track your company regularly, but just visit the number often, but I am pretty surprised by this new foray that you made, so, just had a few questions for the senior management. The first one is I see that you are now getting into toys, which as an analyst to me it appears as if the toys are less value added to the pharma or the healthcare work that you do at the same time, you are getting into furniture, through this Carbon steel. So, how are you deciding what products and what new businesses that you want to get into because it appears from an outside view is that 20% ROCE pharma, great engineering skills, but you are just getting into too many businesses. If Toys was an opportunity, why not earlier? So, just get a sense from you on how do you decide which businesses to get into, how will you allocate capital tomorrow, talent capital technology and then connect this to R&D because I have seen some polymer companies do very well in India and healthcare because of R&D focus like a Poly Medicure or earlier. Can you help us with this thinking of yours? Appreciate that and then I will go to the second question. Thank you.

Amit Sanghvi:

Sure. There is merit in doing business in all of these segments. Now if you look at our strategy and communication going back two, three, four years even, you will see that our focus has always been on our home furnishings, healthcare, as well as on some of our smaller businesses, which will continue to have niches like the ones in automotive where we do the metal to plastic conversions etc. Now going into the steel furniture with our home furnishing customers was a strategic initiative. Now what was the thought process behind that is that basically we get into combination. By doing this we possibly get into multi material products. With multi material products you have a very high amount of value added and therefore margin expansion. Second is that it was just, we have a very good strategic fit with the customer and both of us are very comfortable with each other getting into a segment where we do not have competition, it works both ways as they have put this trust in us and over the years we have showcased that we can perform and our home furnishing major also held up there in terms of priority when it comes to volume quantities that they buy. The toys initiative was started essentially two to three years ago. While we have excellent relationship in the performance with our home furnishing majors I think a lot of investors as well as us internally did see the customer concentration risk and one of the only ways to deal with was to get into a segment where we can scale up very quickly. It also does enhance our margin profile from the current levels. So strategically there is also lot of compliance needs in the toy business, which fits well in with our current portfolio of products and our infrastructure and set up.. I know there is a lot of different types of products, but what we are manufacturing is primarily for exports where the compliant needs are very, very high and health safety, chemical compliance is important to making good quality products. For us these were the basic principles behind getting into a business they



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have to enhance capability, they have to enhance margin profile, they have to improve ROCE and they have to derisk the existing customer concentration.

Sanjay Shah:

Just to add to what Amit said. There are two other things also if you were to look at it. So the home furnishing business is basically is a business where we need to scale up much faster. If we see some other things on the toys business also, while if we look at the pharma business, we need to make upfront investment and see that revenues come in 24 months to 36 months. One is have cash to be able to make investment to grow further part of the business also.

Nitin Bhasin:

Amit from here on if we move forward, auto or pharma because now you have got a senior person coming in with a lot of background and experience of auto, how do you see incremental research and development? Will it be auto, will it be pharma or will it be the relationship of the home furnishing major globally to export multiple products?

Amit Sanghvi:

It will be a mix, but having said that on the research development side, we will certainly be focused on pharma. Look, automotive is not a large business for us neither is it a significant focus for us. Now we only focus on engine, turbocharger, braking and heating system, wherever there is functional need, where it needs for higher amount of engineering and engineering power, we do not want to get into interior dashboard, , etc. So, we will not be focusing on the larger part of the automotive business. We will get into niche businesses where our capabilities are appreciated.

Nitin Bhasin:

Last question is in hindsight, how do you look at your pharma healthcare initiative success or the lack thereof for the last two, three years? Where it has disappointed you as a capital allocator as you went into this business, what has surprised you negatively in the last two years?

Amit Sanghvi:

The big disappointment has obviously been we set up this plant end of 2014 commercialized it in the beginning of 2015 calendar year. Now the plant was set up with the sole purpose of manufacturing, primary packaging, child resistant closures (caps) and bottles in the pharma industry. So, obviously the biggest disappointment was that we were unsuccessful in getting those sales out. We were operating at 12%, 15% and 25% capacity from what we projected. Now what has happened because of this initiative is that the infrastructure we created and the quality systems we put in have to be the best in the country and one of the best in the world. So, what happened is because of that we saw a lot of opportunities come to us on the device side, where we had the inherent expertise from the very beginning. So, our capacity in general is utilized, but instead of core packaging, it has



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been utilized for devices. This plant has given us the opportunity to develop the entire product portfolio that we have now over the last 24-26-30 months. So, I would say that the learning is that probably batch reference call on the product selection, we will set up the business, but a great initiative to set up the business, which is what has given us the opportunity and we have seen revenue grow very, very significantly over the last three years.

- Nitin Bhasin:** Thank you. Thanks for the insights. I will come back. Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** Thank you for giving me the opportunity. Sir, how much topline we expect from Carbon Steel plant in the current year and full financial year of financial year 2022 and what margins?
- Sanjay Shah:** Ravi, we would not be able to get into individual numbers. We just started trial production and we will get into commercial production shortly. We are looking at ramping our production as Amit mentioned in Q4 and Amit also mentioned that we are looking at about 60% to 70% utilization levels for FY2022. So that is what we will be able to say.
- Ravi Naredi:** Can you tell what was the capex plan? How much times turnover we can expect?
- Sanjay Shah:** We have talked about this in the past that we have invested a total of about Rs.55 Crores in the carbon steel factory and the total revenue we will be expecting is about Rs.125 Crores to Rs.130 Crores. That is depending on the current products.
- Ravi Naredi:** Thank you very much. Sir, on page number 15 whatever margin we are giving as target now, EBITDA, PBT, profit after tax, so, can you tell when we will attain the financial year 2016-2017 percentage?
- Sanjay Shah:** Ravi, I do not want to put in a numbers or put in dates for anything, but if you look at it we are basically working towards improvement and you would see improvement as we move forward.
- Ravi Naredi:** Because you have a very good team and every good person is with us, Mr. Kalra, so hope everything will be done. Sir, how much capex plan is pending in H2?



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Sanjay Shah: Regarding the capex plan, we will come up with a detailed capex plan by Q3 but currently, what we have said is we are looking at investing around Rs.50 Crores in the current year for expansion.

Ravi Naredi: Rs.50 Crores new amount, not the past whatever we have done, right?

Sanjay Shah: Yes.

Ravi Naredi: How things are going with IKEA?

Amit Sanghvi: With the home furnishing major we are having no issues. Things are going on well.

Ravi Naredi: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: Thank you for the opportunity. Amit, just taking up from the question that Nitin Bhasin was asking. How do we define our competencies as an organization and by extension are there certain products of business that is offered to us that we would not accept?

Amit Sanghvi: How do we define our competency? If I were to define in a single word, I would say we are problem solvers, we are hardcore engineers have a lot of analytical capability on productive production and process and materials. Over time we have built a good strength in compliance, in faulty management systems, regulation, global regulations, not just the US or India, but even Europe and Japan. So that is the competency. Now of course we support with the manufacturing and infrastructure and the other set up. The supply chain is overall probably not the biggest strength we have but we are working towards improving that. How do we put this in perspective of business, all the industries that I mentioned and the initiatives that we have taken are basically utilizing either multiple or all of the capabilities that I just highlighted. These are the only businesses where these capabilities are also valued and paid for. As an example, when I joined the business in 2009, Shaily had a very large portfolio in switchgears. So, switchgears again all marquee customers like Siemens, Schneider, ABB, L&T that we were doing switchgear manufacturing for. Those products were engineered products using high performance engineering polymers, but unfortunately the market was such that there was no value for the capability that we brought to the table. It was not because the customer did not want to pay the value but it was just there was no brand value for their own products in the market. So, we had to really look for where this



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capability is going to be valued and brought forward. We slowly did exit out of all the switchgear businesses that we were doing and entered into areas which will give us scale, enhance our capabilities as we go forward. Does that answer your question Manish?

Manish Gupta:

Yes. So, one way to just look at this is the stuff that we are proactively pursuing and business we get leads for, so, as we speak are you proactively pursuing any opportunity in auto?

Amit Sanghvi:

We proactively pursue opportunities where we see, with emission norms and EVs coming in, light weighting of components or where people need suggestions and help with, with the change of materials.

Manish Gupta:

So, what financials hurdle would you use, Amit if you are looking at bidding for such opportunities? Would you look at payback, do you look at certain return on capital?

Amit Sanghvi:

Any business we do has to be better than where we are currently at. That is primarily for all new businesses.. So, either on par or better is necessary for the businesses that we take on, additional business that we take on. Second, on the bidding side, when it comes to these niche businesses, yes, there is some process of bidding, but we really do not go out to quote for too many companies, because there are not too many players in the industry, that are doing specifically in the auto side what we are doing, so from that perspective, we look at more on the activity, on the time needed, on what would be our liability that we have because these are all functional components, so they would come with liabilities, and then we would put an overall value margin on the business.

Manish Gupta:

Great. So, moving on to my second question, in this quarter we have not seen any pickup in gross margins, but we have seen some efficiencies coming through in power costs and all that. Given your focus on devices in pharma one should perhaps expect some gross margin improvement going forward. Are there any scope for efficiencies also on labor, overhead, machine productivity going forward, so, if we put all these things together let us say over the next three to five year period, what should be our EBITDA margins profile broadly?

Amit Sanghvi:

Manish on the first question, I will allow Anil to answer the productivity question but on the product mix, I think you will see a margin uptick in Q4, a slight margin improvement in Q4 because we know that we have planned sales coming in from Devices in Q4. I will allow Mr. Kalra to answer you on the operational efficiencies.



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Anil Kalra:

There was a question from someone that how did the company look at auto new business, in fact, now I am on the board, well, the auto business is only a small percentage of the total revenues of Shaily but auto business being very organized over the decades I bring in that experience to be able to organize operations in a better manner so that we excel in these aspects for all businesses in FMCG, pharma and the furniture finishing industry. Now in terms of productivity, we have been able to churn out the manpower, the direct workforce also, get in more trained people with ITI or diploma background to be able to work the direct operations, by running the machines on the shop floor so that we are able to get the right cost while these are being produced so as to not accumulate rejections and all. Now, the other aspect has been to downsize the direct workforce by combining and multi skilling of the workforce to be able to handle more than one resource or one equipment and then also there have been lot of efforts that have gone into bringing in the power saving and a lot of work has already started. Some low cost projects are being worked upon and by December-January we hope to bring down the power costs substantially in this half-year and next year will be good figure. Now in terms of the assets utilization, it has improved in Q2 and it is going to improve further because the uptick time of the plant and machinery is the focus area and we have been doing it very effectively last three months, so I hope to see a substantial improvement up to 75% utilization or 80% by March this financial year. Efficiency, we have already improved, so the overall equipment efficiency which is product efficiency and utilization and quality index has been around 75% in the last three months, it used to be 65%, so one can easily say that there has been a 10% improvement in the overall equipment efficiency. Now our plan is to somehow take it up to 80% in the coming six months to one year which is quite prevalent in the automotive sector. So, one can say that all this will apply to all businesses of Shaily in the coming quarters and months. Have I been able to answer?

Manish Gupta:

Yes. I mean that is very, very nice to hear. If we put all of these things together, opportunity for gross margin improvement through product mix, manufacturing efficiencies, I am not saying this quarter, next quarter, if we take a medium term view, let us say three years out, if our EBITDA margin is roughly 17% today what do you think would be a reasonable number, the margin could be three years from now?

Sanjay Shah:

Manish, it would be difficult for us to give the numbers, but as we have said in the past, we expect our margins to improve. Two or three reasons; one is the new projects or new products which we are adding or new areas which we are getting into, incrementally it should help us in terms of improving our margin. This is the colour. We are working on driving operational efficiencies which would also lead to margin improvements.



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- Manish Gupta:** If I may squeeze in one last question Sanjay Bhai, there was a question by a participant about overseas manufacturing. So, again I just wanted to understand that a lot of our edge comes obviously from our engineering skills, but we also have a component of labour cost in the edge that we have been able to give to clients. If we were to consider overseas manufacturing, what is the unique edge that we would bring to our customers that they are not getting from their existing vendors today?
- Amit Sanghvi:** Manish let us look at our commodities business like the home furnishing business. The difference between our landed price in Europe and possibly European manufacturer, fluctuates all the way from if we would be possibly -3- -4% to us being more expensive by 15 - 17% depending on the type of the products and the logistics costs. There is definitely opportunity even in such a segment to manufacture supply either Europe or North America, but at the moment what we are saying when we look at a manufacturing location outside of India that it is for the very same reason that we need to further enhance the engineering capabilities that we have and we feed we want to take the company to the next level in that perspective, may be a small but a hi-tech company in Europe would possibly make sense. These products at first have very low amount of material content. They are based on lot of tooling know how, lot of processing know how, we were talking about micro components, possibly even implants, these are the areas we are kind of looking at the moment for manufacturing s.
- Manish Gupta:** But could these skill set be hired into the company? Do we necessarily need to go outside to acquire these skill sets?
- Amit Sanghvi:** I have to tell you that unfortunately as a country we have lots of engineers, we do not have enough trained exposed engineers and I do not know how we will be able to give the exact background, so one of the key purposes of doing this subsidiary is that we do want to hire talents and get our engineers better trained.
- Manish Gupta:** Thank you. Congratulations on great progress.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from Astute Investment. Please go ahead.
- Saurabh Jain:** Thank you for the opportunity once again. I just had one question, Amit you have alluded to the multi material products even in the past concalls, and if you can just talk about the thought process that we have for an opportunity over here in the next few years of



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combining say polymer expertise within electronics and how do we look at this opportunity and any developments over there that we are doing. Thank you.

Amit Sanghvi:

Saurabh we are not actively working on any multi material product at the moment. So we have set up these businesses of course the steel business is very, very new. We have not even started the commercial supplies yet. This will take for us some time, before we explore these products, but the idea to set up the unit was to get into multi material combination products where the value add is there for what we are currently manufacturing. Now, if you look at possible examples of multi materials then within the segments that we operate, automotive obviously has several, several examples of steel and plastic combination products. Mr. Kalra can give you a dozen of them if you want them, but on the home furnishing side, we are looking at possibly furniture, outdoor furniture, you look at sofas, you look at fittings, you look at kitchen fittings or any hinged open and close, so there is lots of areas where both steel and plastics are used as a combination to make the product. Now if I were to talk about toys, possibly it will be a combination of product we use steel, plastics as well as electronics to make that product. So, small stamped components or small sheet metal components with electronic as well as plastics. From that perspective, we are building the capability, so that we can give assurances to our customers that such products can be handled by Shaily.

Saurabh Jain:

Got it. Just one question, we are primarily export focused and even a couple of years down the line, you would still continue to see a big portion of our revenue coming from exports like 70% to 30% kind of proportion?

Sanjay Shah:

Yes.

Saurabh Jain:

Thank you. That is it from my side.

Moderator:

Thank you. The next question is from the line of Ritesh Sheth from Investec Capital. Please go ahead.

Ritesh Sheth:

Thank you for the opportunity. My first question is, is there any timeline and the quantum of capex you are looking for the UK subsidiary? That is the first question.

Amit Sanghvi:

Ritesh, can you repeat, your voice was not clear?

Ritesh Sheth:

What is the quantum of capex that we are looking for the UK subsidiary and what are the timelines that you are looking at over here?



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- Sanjay Shah:** I think in the four to six months, which is from now till the end of the financial year, the outlay which will be very limited. It will essentially be to set up the company and understand what we are looking at and explore how the things will get better. We will have a definite capex outlay probably for the next financial year that is FY2022 if we can get back to you later on.
- Ritesh Sheth:** Any specific segment that we would be looking to explore via our UK subsidiary?
- Amit Sanghvi:** We are open to exploring. We are going to explore multiple segments of our current businesses as part of this but our core focus is going to be on healthcare.
- Ritesh Sheth:** Amit, you have in past given target from topline, it used to be 20% plus ROCE. Is it possible that you could lay out a thought process on how do we see the return ratios going forward. We did emphasize that an incremental topline could be done than the existing one. So, any thought process that we have in hurdle rates, capital allocation and if you can quantify something on ROCE and anything like that. Thank you.
- Amit Sanghvi:** I think everything is in pipeline at the moment, under execution. Now, of course when we go down the business, and when we do the calculations, we are as thorough as possible about it. Typically, our assumptions don't significantly change unless there has been change in quantities from the customer or a complete change in our technical set up that we have assumed initially. Having said that all the businesses that we have taken on are at a better margin profile than what we currently do in that particular segment, which means the overall margins profile should improve. On capital allocation, ideally yes you know we would not like to go beyond a certain debt to EBITDA number but given the number of projects we have in the pipeline and the commitments both from our side to the customer and the customers to us, there is essentially going to be a time in the very short-term where we will get to a debt to EBITDA level which is not preferred, but it should come down substantially in the next financial year. We should continue to make improvements overtime after the next financial year. Does that answer your question?
- Ritesh Sheth:** I will just slice it in a bit more. I was specifically listening that you are something like ROCE target of something like 25% or something, typically what we have seen when the companies when they go for overseas operations I think they have got a few questions around costs, it does tend to escalate or there are some delays or something. So, how should one look at it from a capital allocation point of view that is why I specifically asked on from ROCE, is it something which can be divested. In India we have seen like operating in India, having labour issues, etc., but we have overcome that. Now getting a new region what is our



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appetite on if you can quantify size of investment over there that you are looking at or from ROCE point of view with a three-year view that you would have that definitely will go above 20% or something that would be quite comforting?

Sanjay Shah:

Ritesh, I think what we have said earlier and I think Amit also explained this that UK subsidiary is basically looking at developing technology for the next generation for future, for which we can basically be approaching customers. So, currently we are not looking at the UK subsidiary doing manufacturing, so it would be more of development and everything which we would be looking at and that is where our focus would be. Second, your question on capital allocation. So whenever we make investments, one of the things which we look at is what is the return which the project can give us over the next three to five years either at an EBITDA level or at a ROCE level and second is does it get us into a sector where we are not present where we see a lot of opportunities. So, that is something which we did five years back when we started with pharma where today if we were to look at it I think we feel it was the right decision, which we have made and similar thing which we were doing with toys right now where incrementally I think in the next two years both these sectors would play a big part in our growth.

Ritesh Sheth:

Regarding toys just like in case of your Swedish major we have upfront capex which is there, in case of toys is there an element of upfront capex or that is something which has been apportioned to our volume contract. Is there some mechanism or that has been built or is the entire upfront costing is something that we have to borne?

Amit Sanghvi:

Ritesh, we are just making a start. There will be some capex which will be doing and as we move forward with our customers we strengthen our relationship with our customers and we should be able to get into these sorts of forecasts, but currently no.

Ritesh Sheth:

That is it. Just last question one of the slides, as the risk mitigation tools, we have indicated diversification of revenues. Is it possible if we have some targets in mind, be it exposure to a particular sector or through a client perspective, so that we have something that we are aspiring to in the next two years, three years. That is the last question. Thank you.

Sanjay Shah:

We will try to address that probably in the next year, Ritesh.

Ritesh Sheth:

Thank you so much for the answers.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to Mr. Amit Sanghvi for closing comments.



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Amit Sanghvi:

Thank you every one for joining on the call. We hope we have been able to answer your questions adequately. For further information, request you to get in touch with SGA, our Investor Relations Advisors. Thank you. Season's Greetings. Happy Diwali and Happy New Year to all of you and stay safe. Thank you very much.

Moderator:

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