

**CMP: INR 1,302**

**Rating: NA | Outlook: Positive**

**Target Price: NA**

**Stock Info**

BSE	501426
NSE	SHAILY
Bloomberg	SHEP:IN
Sector	Plastic Products
Face Value (INR)	10
Mkt Cap (INR Mn)	11,815
52w H/L (INR)	2190/870
Avg Daily Volume (in 000')	11

**Shareholding Pattern %**

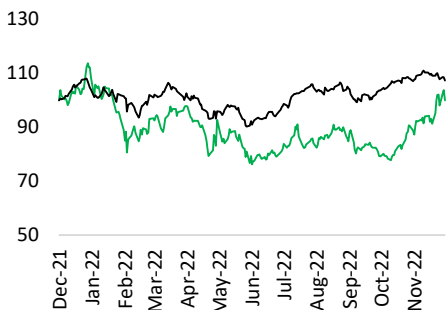
(As on Mar, 2023)

Promoters	43.81
Public & Others	56.19

**Stock Performance (%) 1m 6m 12m**

SHAILY	12.15	-22	-32
NIFTY	2	-0.6	11

**SHAILY Vs Nifty**



**Abhishek Jain**

abhishek.jain@arihantcapital.com  
022-422548871

**Miraj Shah**

miraj.shah@arihantcapital.com  
022-67114865

**We like Shaily Engineering Plastics due to its current positioning and for the existing triggers:**

- Margins sustainable and can improve
- Healthy growth in Pharma business
- Recovery in Carbon steel business

**Margins** which have jumped in Q4 are sustainable due to change in product mix & some operating leverage coming up due to improvement in home furnishing business. We may see some margin expansion from here also in next few quarters.

**Pharma business** which was driver for margin expansion would continue to do well and would post healthy growth going forward. FY23 was good for Pharma business due to addition of new customers specially in UK.

The company is expected to gain from all three products, Liraglutide, semaglutide and tirzepatide. These launches would give good earning visibility for the company going forward for next few years. The company is confident of delivering 45-50% growth (in FY24) in Pharma division and 30% CAGR for next 4 years.

**Toy division** continues to remain under pressure and facing huge competition from China and expected to fall in FY24 also.

**Steel division** is expected to do better going forward and company is expected to reach full utilisation in Y25.

**Metal business** has been working at 25-28% utilisation and should do break even at EBITDA levels on higher utilisation this year from losses.

The company has sold 10-11 million pens this year and expected to post healthy growth. Auto injectors would add growth going forward which has higher realisations and margins. Company can do 14-15 million pens in FY24.

**Outlook:**

Company has started off with generic players and post success, they aim to also target patented products.

**Auto Injectors are high value products for which customer onboarding is decent. Expecting 45-50% growth in Pharma in FY24 and 20%+ for the next 4 years.**

Expect current margins to sustain going forward. Company is seeing healthy pipeline for current year. Growth and margin expansion will happen as pharma business scales up. Expecting free cash flow to improve substantially from current levels as capex is over and no more major capex planned for this year.

**Expect 50-55% Capacity utilization in FY24 (from current 42%)**

**Valuation and View:** At CMP, company trades 34x FY23 EPS. We have a positive view on the company from long term perspective

**About the company:** The Company was established in 1987 and is engaged in the manufacture and sale of injection molded precision plastic components serving industries such as medical devices, home furnishing, Toys, Personal Care, automotive components in plastic and steel furniture

#### Q4FY23 Result First Cut

**Shaily Engineering Plastics delivered decent set of numbers with weak set on topline but strong bottomline with pick up in pharma business**

#### Q4FY23 Operating Metrics (Consol)

- **Revenues** came in at INR 1,344.97 Mn (-1.3% QoQ) (-12.9% YoY)
- **EBITDA** came in at INR 252.06 Mn (+29.35% QoQ) (+29.6% YoY)
- **EBITDA Margins** came in at 18.74% (Vs 14.3% QoQ) (Vs 12.59% YoY)
- **Adj. PAT** came in at INR 99.3 Mn (+75.2% QoQ) (+26.1% YoY)
- **PAT Margins** came in at 7.31% (Vs 4.15% QoQ) (Vs 5.01% YoY)

**Volumes** for the quarter (tonnes): 4,590 (Vs 4,121 QoQ) (Vs 5,562 YoY)

**Utilization levels** at 34.8% (Vs 38% QoQ) (Vs 53.3% YoY)

#### FY23 Operating Metrics (Consol)

- **Revenues** came in at INR 6,070.66 Mn (+6.93% YoY)
- **EBITDA** came in at INR 918.91 Mn (+13.2% YoY)
- **EBITDA Margins** came in at 15.14% (Vs 14.3% YoY)
- **Adj. PAT** came in at INR 351.5 Mn (-0.3% YoY)
- **PAT Margins** came in at 5.75% (Vs 6.12% YoY)

**Volumes** for the year (tonnes): 20,615 (Vs 19,474 YoY)

**Utilization levels** at 42.2% (Vs 59.7% YoY)

#### Other KTAs:

Ratings upgraded of Long term borrowings to A and short term borrowings to A1

Exports contributed to 77% of revenues in FY23 (Vs 76.1% In FY22)

ROCE at 12.5%, ROE at 7.9%

Debt to Equity at 0.5x, Debt to EBITDA at 2x

Asset turnover at 1.7x, OCF to EBITDA at 93%

Revenue Contribution			
	FY21	FY22	FY23
Domestic	26.4%	23.9%	23.0%
Export	73.6%	76.1%	77.0%

Plants		
Rania	Halol (Old)	Halol (New)
Export Oriented Unit	Automotive and Engineering	Carbon Steel
Pharma (Dedicated ISO 8 clean room manufacturing facility)		New plastic facility under construction
Others		

*7 facilities with over 180 molding machines ranging from 35 tonnes to 1,000 tonnes*

**Q4FY23 performance overview and Conference Call KTAs:**

- Healthcare contribution led to better gross margins and EBITDA
- Carbon steel losses reduced without increase in capacity utilization
- Toys segment under pressure due to heavy competition (for clients)

**Capex:**

- Pharma business – INR 1,250 Mn capex plan ongoing. Asset turn of 2.25 – 2.5x
- No other capex planned, INR 3-4 Bn spent over last 5 years.
- New capex will be planned post 75% utilization

**Healthcare & Pharma:**

- 2<sup>nd</sup> largest and fastest growing segment
- Sales of IP led devices shot up in Q4 which led higher margins
- **Onboarded 3rd customer for auto injector**, started development of new injector with automatic needle insertion (for tirzepatide: Weight loss drug)
- When a new customer is onboarded, company first records IP revenues (access to tech) which is recorded in UK subsidiary
- Pen sales of contract manufacturing and IP both increased, commercial sales of pen started (awaiting USFDA approval)
- **Auto injector for one of the customer was awaiting USFDA approval which was supposed to come by April but is delayed and expected to come by August**
- Higher share of Pharma business has led to strong margin expansion in Q4
- **10-11mn pens sold in FY23, expect to add 2-3 mn per year going forward**
- Planned capex of INR 1250 Mn, expect to be completed by Q2FY24 post which commercialization will start. Till date, INR 950 Mn spent. Putting up 36 molding machines
- More than 90% of pharma growth coming from pens and IP sales
- **Expecting 45-50% growth in Pharma in FY24**
- Global market: 1Bn pens made annually: Sanofi, Novo and Lilly major players
- 80% of the above number are insulin pens

**GLP1: Auto Injector**

- Pens manufacturing for Semaglutide (\$11Bn product in FY23) to come up. Shaily has a substantial market in the generic segment. Expect market of 80-100 mn devices (\$8 Mn opportunity) where Shaily is expected to have a large chunk
- **Launch in FY27 (for USA), has larger market than Liraglutide. Next big opportunity lies in NCE-1 for which filing will be done but the opportunity will be available in 2032**
- **Liraglutide:** Very little pen sales in FY24, better numbers in FY25 (Rest of world launch in FY25, USA launch in FY26)
- **2-3 mn pen sales in Liraglutide in the first full year of sales (FY25)**

**Home-furnishing:**

1. **Steel Furniture:** Seeing improvement, booked some more orders (in steel furniture) in the quarter leading to better revenue visibility. **Full Utilization in FY25.** Current utilization levels at ~25%. Losses have come down due to better operations (less wastage). Utilizations have been lower in FY23 compared to FY22
2. **Plastic side:** average growth for now, expect 2 more quarters of such performance before the company can deliver better performance
3. **Toys:** price sensitive market, high competition from Chinese players in finished goods so customers are facing loss of orders. Company doesn't want to operate with loss in margins. FY24 toys business will be lower compared to FY23. Capacity is fungible

**Other KTAs:**

- Earlier goal was to reach INR 7000 Mn revenues for FY23 which was not achieved
- RM Pass through is between 2-6 months for all customers

**Outlook:**

- Company has started off with generic players and post success, they aim to also target patented products.
- Auto Injectors are high value products for which customer onboarding is decent. Expecting 45-50% growth in Pharma in FY24 and 20%+ for the next 4 years.
- Expect current margins to sustain going forward. Company is seeing healthy pipeline for current year. Growth and margin expansion will happen as pharma business scales up.
- Expect 50-55% Capacity utilization in FY24 (from current 42%)
- At CMP. Company trades 33.6x FY23 EPS
- We have a positive view on the company

**Machine Utilisation across plants (%)**

	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Utilisation %	66.8%	74.0%	68.5%	63.8%	58.0%	59.7%	42.2%

**Volume of polymers processed (MT)**

	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Volume (Mt)	10,054	13,039	13,258	13,293	14,602	19,474	20,615

## Income Statement (Consolidated)

INR Mn Particulars (Consol)	FY18	FY19	FY20	FY21	FY22	FY23
<b>Revenue from Operations</b>	<b>3,197.45</b>	<b>3,383.4</b>	<b>3,360.42</b>	<b>3,605.96</b>	<b>5,677.07</b>	<b>6070.658</b>
Consumption of Raw Materials	(1,999.3)	(2,145.95)	(1,990.64)	(2,271.43)	(3,790.41)	(3,682.26)
Changes in Inventories of FG and WIP	11.55	49.43	11.59	118.84	215.46	(182.56)
<b>Gross Profit</b>	<b>1,209.7</b>	<b>1,286.88</b>	<b>1,381.37</b>	<b>1,453.38</b>	<b>2,102.12</b>	<b>2,205.83</b>
Power and Fuel	(155.98)	(171.76)	(173.74)	(179.38)	(269.22)	(264.63)
Employee Benefit Expense	(197.26)	(246.66)	(259.66)	(342.25)	(433.29)	(479.38)
Other Expenses	(309.85)	(342.27)	(366.98)	(336.19)	(587.72)	(542.92)
<b>EBITDA</b>	<b>546.62</b>	<b>526.19</b>	<b>580.99</b>	<b>595.57</b>	<b>811.89</b>	<b>918.91</b>
Other Income	22.14	17.82	9.91	25.81	88.27	45.04
Depreciation and Amortization	(144.94)	(149.16)	(178.93)	(195.26)	(265.37)	(333.06)
Finance Costs	(67.27)	(95.29)	(104.99)	(127.28)	(169.45)	(178.82)
<b>PBT</b>	<b>356.55</b>	<b>299.55</b>	<b>306.98</b>	<b>298.84</b>	<b>465.34</b>	<b>452.07</b>
Taxes and Other Expenses	(103.36)	(106.74)	(71.08)	(78.63)	(112.68)	(100.58)
<b>PAT</b>	<b>253.19</b>	<b>192.81</b>	<b>235.9</b>	<b>220.21</b>	<b>352.66</b>	<b>351.5</b>
<b>Basic EPS - Continuing Operations</b>	<b>28.71</b>	<b>23.18</b>	<b>28.36</b>	<b>26.47</b>	<b>38.44</b>	<b>38.32</b>

Exhibit 1: Utilization Levels Quarterly (%)

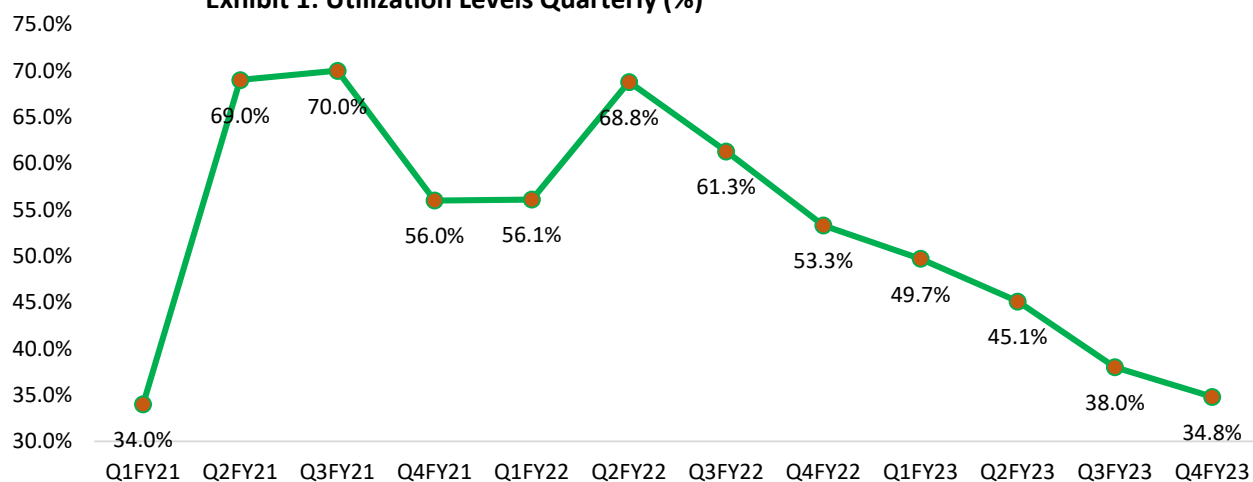
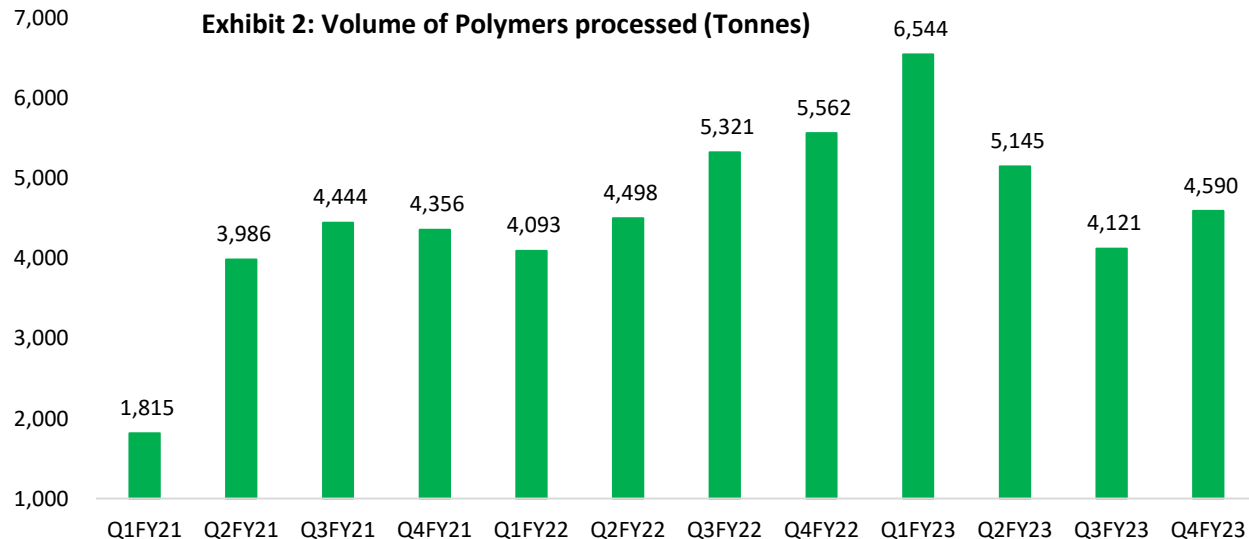


Exhibit 2: Volume of Polymers processed (Tonnes)



## Balance Sheet (Consolidated)

INR Mn Particulars (Consol)	FY18	FY19	FY20	FY21	FY22	FY23
<b>Current Assets</b>						
Cash and Cash Equivalents	3.53	5.50	70.23	9.83	351.47	191.38
Bank Balances Other Than Cash and Cash Equivalents	33.34		28.18	19.34	119.12	39.05
Trade Receivables	681.69	596.06	610.25	695.34	1,016.91	919.25
Loans	0.66	1.24	1.87	2.74	2.46	54.53
Inventories	407.14	430.91	496.88	668.69	1,114.25	729.75
Other Current Assets	362.54	163.94	259.80	323.89	350.06	398.39
Other Financial Assets	96.65	152.57	64.87	48.51	47.99	44.79
<b>Total Current Assets</b>	<b>1,585.55</b>	<b>1,362.82</b>	<b>1,532.09</b>	<b>1,768.33</b>	<b>3,002.26</b>	<b>2,377.14</b>
<b>Noncurrent Assets</b>						
Capital Work in Progress	57.55	27.05	371.90	230.55	161.21	489.78
Right of Use Assets					16.03	11.30
Property, Plant and Equipment	1,063.70	1,439.77	1,549.31	2,208.57	3,223.63	3,479.14
Non-current Investments	2.04	2.04	2.01	0.01	0.01	0.08
Income Tax Assets, Net		19.03	32.37	39.99	19.74	20.82
Loans	1.81	2.11	4.53	4.54		
Intangible Assets	11.60	10.35	21.47	59.82	89.81	178.98
Intangible Assets Under Development		22.41	87.65	73.13	125.02	192.83
Other Non-current Assets	47.57	173.80	139.53	231.37	100.11	172.06
Other Financial Assets	78.36	56.35	73.86	54.12	34.19	4.71
<b>Total Assets</b>	<b>2,848.18</b>	<b>3,115.72</b>	<b>3,814.70</b>	<b>4,670.43</b>	<b>6,772.00</b>	<b>6,926.85</b>
<b>Current Liabilities</b>						
Total O/s Dues of MSME	18.14	3.74	33.37	44.75	95.88	50.60
Total O/s Dues of Creditors Other Than MSME	351.32	321.30	485.98	421.14	759.72	487.90
Short-term Borrowings	639.31	510.66	505.52	448.72	722.04	1,232.48
Lease Liability					4.44	38.20
Short-term Provisions	5.45	6.06	6.83	8.57	8.97	12.01
Other Current Liabilities	17.07	79.95	137.98	99.97	227.54	191.29
Other Financial Liabilities	284.78	260.57	223.43	401.82	77.61	103.58
<b>Total Current Liabilities</b>	<b>1,335.42</b>	<b>1,182.29</b>	<b>1,393.13</b>	<b>1,424.96</b>	<b>1,896.20</b>	<b>2,116.06</b>
<b>Noncurrent Liabilities</b>						
Long-term Borrowings	209.62	471.57	721.16	1,283.64	1,015.95	625.35
Lease Liability					12.06	7.78
Deferred Tax Liability, Net	42.15	80.37	73.42	102.75	131.76	170.27
Other Long-term Liabilities	8.11	7.95	3.60	3.45	17.30	1.02
Provisions	9.82	12.18	14.60	15.72	18.22	23.32
Other Financial Liabilities			14.98	21.26	10.56	3.39
<b>Non Current Liabilities Total</b>	<b>269.69</b>	<b>572.06</b>	<b>827.76</b>	<b>1,426.82</b>	<b>1,205.84</b>	<b>831.11</b>
<b>Shareholders' Equity</b>						
Common Stock - Par Value	83.18	83.18	83.18	83.18	91.74	91.74
Other Equity	1,159.88	1,278.19	1,510.63	1,735.47	3,578.23	3,922.25
<b>Total Shareholders Equity</b>	<b>1,243.06</b>	<b>1,361.38</b>	<b>1,593.82</b>	<b>1,818.66</b>	<b>3,669.96</b>	<b>4,013.98</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>2,848.18</b>	<b>3,115.72</b>	<b>3,814.70</b>	<b>4,670.43</b>	<b>6,772.00</b>	<b>6,961.15</b>

## Cash Flow (Consolidated)

INR Mn Particulars (Consol)	FY18	FY19	FY20	FY21	FY22	FY23
<b>Operating Activities</b>						
Net Profit/loss before Taxation	342.28	299.55	306.98	298.84	465.34	452.07
Depreciation and Amortization Expenses	144.94	149.16	178.93	195.26	265.37	333.06
Gain/loss on Sale of PPE	-0.19	0.01	0.25	-0.08	-0.27	0.08
Allowance for Credit Losses	NA	0.64	3.71	1.51	10.92	3.54
Unrealized Exchange Gain/loss	-5.50	4.71	9.49	-17.94	-15.78	14.93
Interest Incomes	-2.63	-2.28	-1.42	-2.52	-22.53	-28.99
Finance Costs	67.27	95.29	104.99	127.28	169.45	178.82
Trade Receivables	-219.97	84.60	-18.58	-85.09	-332.49	94.13
Inventories	-131.79	-23.77	-65.97	-180.12	-452.62	371.68
Trade Payables	207.67	-44.41	186.64	-53.47	389.73	-327.64
Other Receivables and Advances	-181.57	185.03	-96.07	-62.29	-31.60	-100.42
Other Financial Assets	-174.41	-34.22	63.90	59.45	16.68	20.06
Other Liabilities & Provisions	87.09	57.21	76.40	-4.64	143.96	-63.89
<b>Cash Flow from Operating Activities</b>	<b>133.19</b>	<b>771.80</b>	<b>749.94</b>	<b>284.50</b>	<b>614.17</b>	<b>946.78</b>
Taxes Paid (net of Refunds)	-80.01	-107.21	-89.94	-59.91	-64.09	-59.84
<b>Net CFO</b>	<b>53.18</b>	<b>664.59</b>	<b>660.00</b>	<b>224.60</b>	<b>550.08</b>	<b>886.94</b>
<b>Investing Activities</b>						
Purchase of PPE	-263.04	-622.06	-541.90	-748.43	-1,110.74	-944.16
Proceeds From Sale of PPE	1.70	0.05	0.18	0.25	0.65	0.74
Purchases of Intangible and Int. U/D	NA	-26.23	-82.55	-81.91	-97.09	-172.24
Bank Balances not Considered as C&CE	2.53	20.65	-15.58	8.84	-99.78	80.07
Interest Received	2.78	2.29	1.43	2.17	15.51	26.97
<b>Cash Flow from Investing Activities</b>	<b>-256.03</b>	<b>-625.29</b>	<b>-638.41</b>	<b>-819.07</b>	<b>-1,291.45</b>	<b>-1,008.63</b>
<b>Financing Activities</b>						
Repayment of long-term borrowings	-220.53	-219.84	-216.11	-110.03	-270.61	-381.72
Proceeds from Long-terms Borrowings	271.60	478.14	360.35	825.98	138.00	-
Changes in Working Capital Loans	267.84	-128.65	-5.14	-56.81	NA	
Repayment of Working Capital Loans, Net					-118.13	499.74
Repayments on Lease Liabilities					-4.91	-6.04
Finance Costs Paid	-68.33	-92.18	-96.22	-125.27	-158.14	-163.24
<b>Cash Flow from Financing Activities</b>	<b>200.63</b>	<b>-37.66</b>	<b>42.90</b>	<b>533.87</b>	<b>1,082.86</b>	<b>-51.27</b>

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

## Head Office

#1011, Solitaire Corporate Park  
Building No. 10, 1<sup>st</sup> Floor  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E)  
Mumbai – 400093  
Tel: (91-22) 42254800  
Fax: (91-22) 42254880

## Registered Office

Arihant House  
E-5 Ratlam Kothi  
Indore - 452003, (M.P.)  
Tel: (91-731) 3016100  
Fax: (91-731) 3016199

## Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

## Absolute Return

Research Analyst  
Registration No.

## Contact

## Website

## Email Id

**INH000002764**

**SMS: 'Arihant' to 56677**

[www.arihantcapital.com](http://www.arihantcapital.com)

[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880