

Strong order book, execution remains key...

Shaily reported a strong performance in Q4FY21 with revenue, PAT growth of ~38%, ~40%, respectively. Further, the company has guided for strong revenue growth in FY22 despite lockdown related disruptions in Q1. A home furnishing major (HFM) remains a key contributor to the overall topline (55% of overall revenue). However, significant growth opportunities in the healthcare segment (revenue growth of 2-3x in the next three to five years) and strong order pipeline in the toy business provide strong revenue visibility in the next two years. With better operating leverage and a complete pass on mechanism of inflationary pressure to its clients (with a lag of three months), we see improvement in EBITDA margin in FY21-23E. Better cash flows, going forward, will be utilised to fund future capex and reduce debt (FY21 debt at ~₹ 173 crore). That is expected to result in a robust PAT CAGR of ~66% in FY21-23E.

Ramp up of new products in Q4FY21

In Q4FY21, the company started commercial production of new products: toy and carbon steel products. These products have combined annual revenue potential of about ₹ 180 crore. While the carbon steel project is dedicated to HFM, Shaily is looking to add more customers in the toy business in the overseas markets. On the healthcare front, the company received two new pen business confirmation from MNCs in Q4FY21. The healthcare business is the second largest contributor in topline (after HFM business) and the current order pipeline suggests 2-3x revenue growth in this segment by the next three to five years. Rising revenue contribution of other segments (like healthcare, toy) would help Shaily to reduce its dependency on HFM over the next five years.

Strong revenue visibility in FY21-23E

With strong orders in the pipeline (₹ 180 crore from HFM, ₹ 100 crore from carbon steel projects, ₹ 80 crore from toy business), we see FY21-23 revenue CAGR at 31%. For FY22, the management has guided for ~50% revenue growth despite lockdown related disruptions in Q1FY22. The company continued with capex plans (₹ 80 crore per annum in FY22E, FY23E) and expects to generate 2.5x revenue on every incremental capex. On the margin front, we believe EBITDA margin would remain elevated considering the improving product mix (as healthcare is a high margin business) and on ramping up of utilisation of new plants.

Valuation & Outlook

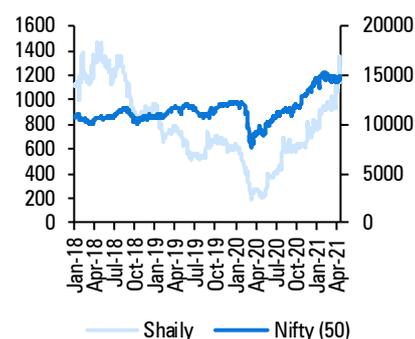
We believe Shaily is on a strong footing considering diversification into new product category and strong order book from existing customers. We maintain our **BUY** rating on the stock with a revised target price of ₹ 1670 valuing the company at 25x FY23E earnings (earlier target price ₹ 1060).



Particulars

Particular	Amount
Market Cap (₹ Crore)	1,206.2
Total Debt (FY21) (₹ Crore)	173.2
Cash & Inv (FY21) (₹ Crore)	2.9
EV (₹ Crore)	1,376.5
52 week H/L	1450/253
Equity capital (₹ Crore)	8.3
Face value (₹)	10.0

Price Performance



Key risk to our call

- Slow execution of order will lead to lower sales growth in FY21-23E
- Delay in passing on inflationary pressure or adverse product mix may lead to lower than expected EBITDA margin going forward

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	338.3	336.0	360.6	522.7	622.7	31.4
EBITDA	52.6	58.1	59.6	91.5	112.2	24.5
EBITDA Margin (%)	15.6	17.3	16.5	17.5	18.0	
Reported PAT	19.3	23.6	22.0	45.6	60.4	65.6
EPS (₹)	23.2	28.4	26.5	54.9	72.6	
P/E	62.6	51.1	54.8	26.4	20.0	
P/BV (x)	8.9	7.6	6.6	5.2	4.2	
Mcap/Sales (x)	3.6	3.6	3.3	2.3	1.9	
RoCE (%)	16.2	14.2	11.6	18.0	20.6	
RoNW (%)	14.2	14.8	12.1	19.8	20.9	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)	Comments
Revenue	109.8	79.6	37.9	105.5	4.0	360.6	336.0	7.3	Favourable base and execution of new orders helped drive sale recovery in FY21
Other Income	2.4	-0.2	-1414.2	0.0	7347	2.6	1.0	160.5	
Raw Material Exp	63.2	43.9	44.0	64.5	-2.0	215.3	197.9	8.8	Expiry of export incentives (MEIS) led lower gross margin in FY21. However, the scheme (under RoDTEP) is likely to be restored, going forward
Employee Exp	10.1	6.9	45.2	9.0	12.0	34.2	26.0	31.8	
Power & Fuel	5.3	3.9	35.2	5.2	2.4	17.9	17.4	3.2	
Other Expenses	11.5	9.7	18.5	8.0	44.1	33.6	36.7	-8.4	
Gross margin	42.4	44.9	-244 bps	38.9	354 bps	40.3	41.1	-80 bps	
EBITDA	19.7	15.2	29.9	18.9	4.3	59.6	58.1	2.5	
EBITDA Margin (%)	17.9	19.0	-110 bps	17.9	5 bps	16.5	17.3	-78 bps	Cost optimisation measures partially negated the impact of lower gross margins
Depreciation	5.6	4.7	20.5	4.8	17.9	19.5	17.9	9.1	
Interest	3.3	2.8	19.3	3.4	-3.4	12.7	10.5	21.2	Elevated debt level led to higher interest outgo
PBT	13.2	7.5	74.5	10.7	22.7	29.9	30.7	-2.7	
Total Tax	3.5	0.6	484.8	2.7	28.0	7.9	7.1	10.6	
PAT	9.7	7.0	39.5	8.0	20.9	22.0	23.6	-6.7	Strong sales recovery helped drive bottomline

Key Metrics

Volume	4356.0	3267.0	33.3	4444.0	-2.0	14602.0	13293.0	9.8	Incremental order from furnishing major help drive volume recovery during the period
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	520.1	522.7	0.5	622.1	622.7	0.1	Despite lockdown in Q1FY22, the management expects order execution in subsequent quarters
EBITDA	92.7	91.5	(1.3)	113.7	112.2	(1.3)	
EBITDA Mar(%)	17.8	17.5	-32bps	18.3	18.0	-26bps	We slightly tweak our EBITDA margin estimates considering low operating leverage of new plants
PAT	43.3	45.6	5.4	57.2	60.4	5.6	Savings in interest cost help drive bottomline
EPS (₹)	52.1	54.9	5.4	68.8	72.6	5.6	

Source: Company, ICICI Direct Research

Conference call highlights

- **Demand outlook:** The company expects some minor hiccups in demand due to fresh lockdowns but the management is positive the FY22 topline will be in line with their estimate of ~₹ 550 crore. This is expected to be aided by commencement of new facilities and higher growth in the healthcare and toys segment
- **Capex:** Shaily is planning to incur a capex of ₹ 80-90 crore in FY22 and expects the same amount of incremental capex in FY23 as well
- **New Plant:** The company recently commenced operations of a carbon & steel plant in December 2020 and expects peak revenues in Q3-Q4 facilitated by the added capacity and in line with the current capacity
- **Healthcare business growth:** Shaily expects the healthcare segment, which is the second largest contributor to the company's topline to grow at a rapid pace of 35-40% in the next fiscal year and continue the growth momentum in years to come
- **Working capital days:** The company is currently sitting on higher than usual inventory, which is lengthening its working capital days but the management is positive that it will return to its normalised number of 75-85 days by FY22

Financial Summary

Exhibit 3: Profit and loss statement (₹ crore)				
(Year -End -March)	FY20	FY21	FY22E	FY23E
Net sales	336.0	360.6	522.7	622.7
Growth (%)		7	45	19
Expenses				
Raw Material Expenses	197.9	215.3	316.3	371.1
Employee Expenses	26.0	34.2	42.1	49.8
Power & Fuel cost	17.4	17.9	23.6	31.1
Other Expenses	36.7	33.6	49.3	58.5
Total Operating Expenditure	277.9	301.0	431.3	510.5
EBITDA	58.1	59.6	91.5	112.2
Growth (%)	49.0	2	54	23
Other Income	1.0	2.6	3.2	4.0
Depreciation	17.9	19.5	22.1	24.8
Interest	10.5	12.7	11.8	10.7
PBT before Exc. Items	30.7	29.9	60.8	80.6
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	30.7	29.9	60.8	80.6
Total Tax	7.1	7.9	15.2	20.1
Adjusted PAT	23.6	22.0	45.6	60.4

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement (₹ crore)				
(Year -End -March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	23.6	22.0	45.6	60.4
Add: Depreciation & Amortization	17.9	19.5	22.1	24.8
Add: Interest Paid	10.5	12.7	11.8	10.7
Cash Flow before working capital ch	52.0	54.3	79.5	96.0
Net Increase in Current Assets	-19.6	-20.1	-61.1	-26.5
Net Increase in Current Liabilities	23.3	7.6	53.4	35.2
Net cash flow from operating activiti	55.7	41.7	71.8	104.6
Cash flow from Investing Activities				
(Purchase)/Sale of Fixed Assets	-71.0	-73.7	-80.0	-70.0
Others	9.0	-12.5	29.1	-1.0
Net Cash flow from Investing Activiti	-62.0	-86.2	-50.9	-71.0
Cash flow from Financing Activities				
(Payment) of Dividend and Dividend I	-3.3	0.0	0.0	-1.1
Interest Paid	-10.5	-12.7	-11.8	-10.7
Others	27.4	51.0	-7.1	-20.0
Net Cash flow from Financing Activiti	13.6	38.3	-18.8	-31.8
Net Cash flow	7.2	-6.2	2.0	1.8
Cash and Cash Equivalent at the begi	1.9	9.1	2.9	4.9
Cash and Cash Equivalent at the end	9.1	2.9	4.9	6.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
(Year -End -March)	FY20	FY21	FY22E	FY23E
Equity Capital	8.3	8.3	8.3	8.3
Reserve and Surplus	151.1	173.5	222.1	281.5
Total Shareholders funds	159.4	181.9	230.4	289.8
Total Debt	122.7	173.2	163.2	143.2
Deferred Tax Liability	7.3	10.3	10.3	10.3
Other Non Current Liabilities	0.0	2.5	0.0	0.0
Others Total	7.3	12.7	10.3	10.3
Total Liability	289.4	367.8	404.0	443.3
Gross Block	226.4	300.1	380.1	450.1
Accumulated Depreciation	60.6	80.1	102.2	127.0
Net Block	165.8	220.0	278.0	323.1
Capital WIP	37.2	37.2	37.2	37.2
Total Fixed Assets	203.0	257.2	315.1	360.3
Liquid Investments	0.3	0.0	1.0	2.0
Current Asset				
Inventory	49.7	66.9	85.9	93.8
Debtors	61.0	69.5	94.5	110.9
Loans and Advances	14.3	0.7	1.1	1.3
Cash	9.1	2.9	4.9	6.8
Total Current Assets	163.4	177.3	240.4	268.8
Current Liability				
Creditors	51.2	46.6	75.9	93.8
Provisions	2.1	2.4	4.0	4.9
Total Current Liabilities	91.6	99.2	152.6	187.8
Net Current Assets	71.8	78.1	87.8	81.0
Other Assets	14.3	32.5	0.0	0.0
Total Asset	289.4	367.8	404.0	443.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year -End -March)	FY20	FY21	FY22E	FY23E
Per Share Ratio				
EPS	28.4	26.5	54.9	72.6
Cash EPS	49.9	49.9	81.4	102.5
DPS	4.0	0.0	0.0	1.3
BV	191.6	218.6	277.0	348.4
Operating ratio				
EBITDA Margin	17.3	16.5	17.5	18.0
PAT Margin	7.0	6.1	8.7	9.7
Return Ratios				
RoCE	14.2	11.6	18.0	20.6
RoE	14.8	12.1	19.8	20.9
RoIC	15.1	11.6	16.0	18.0
Valuatin Ratios				
EV / EBITDA	22.7	23.1	14.9	12.0
P/E	51.1	54.8	26.4	20.0
EV/Net Sales	3.9	3.8	2.6	2.2
Mcap/sales	3.6	3.3	2.3	1.9
P/BV	7.6	6.6	5.2	4.2
Turnover Ratios				
Gross Block turnover	1.5	1.2	1.4	1.4
Inventory Days	54.0	67.7	60.0	55.0
Debtor Days	66.3	70.4	66.0	65.0
Creditor Days	55.6	47.2	53.0	55.0
Solvency Ratios				
Debt/Equity	0.8	1.0	0.7	0.5
Debt/Ebitda	2.1	2.9	1.8	1.3
Current Ratio	2.9	3.6	2.9	2.7
Quick Ratio	2.0	2.2	1.9	1.7

Source: Company, ICICI Direct Research

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Sell: < -15%



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