

Rating matrix		
Rating	:	Buy
Target	:	₹ 1120
Target Period	:	12 months
Potential Upside	:	27%

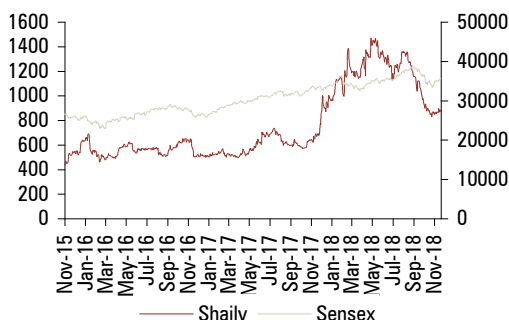
What's changed?	
Target	Changed from ₹ 1650 to ₹ 1120
EPS FY19E	Changed from ₹ 39.0 to ₹ 32.7
EPS FY20E	Changed from ₹ 67.4 to ₹ 56.1
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	246	318	397	552
EBITDA	40.5	53.2	60.9	90.9
Net Profit	15.9	23.9	26.5	46.7
EPS (₹)	19.1	28.7	31.8	56.1

Valuation Summary				
	FY17	FY18	FY19E	FY20E
P/E	46.3	30.7	27.7	15.7
Target P/E	58.8	39.0	35.2	20.0
EV / EBITDA	19.3	15.2	13.4	9.0
P/BV	7.0	5.9	5.0	3.9
RoNW (%)	15.0	19.2	18.0	24.5
RoCE (%)	19.0	19.1	19.2	25.0
Mcaps/sales	3.0	2.3	1.8	1.3

Stock Data	
Particular	Amount
Market Capitalization (₹ Crore)	732.0
Total Debt (FY18) (₹ Crore)	84.9
Cash and Investments (FY18) (₹ Crore)	11.9
EV (₹ Crore)	805.0
52 week H/L	1520/656
Equity capital (₹ Crore)	8.3
Face value (₹)	10.0

Price performance



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Shaily Engineering Plastics (SHAILY) ₹ 882

Tepid performance...

Shaily recorded a Q2FY19 tepid performance with volume growth of mere 2% YoY. We believe the sales growth of ~10% YoY was largely driven by price hike and a change in product mix. According to the management, while the power issue has been resolved in Q2FY19 (which impacted Q1FY19 performance) the labour issue remained intact during Q2FY19. Lower plant utilisation coupled with a delay in passing on higher raw material prices led to a decline in EBITDA margin by ~118 bps YoY to 17.1%. Finally, due to higher interest cost (due to rising debt level) and tax provisions, the bottomline of the company declined ~10% YoY. The management has reiterated a recovery in performance in H2FY19 as employee issues has been resolved at the end of Q2FY19. Shaily has received new order confirmation worth ₹ 10-12 crore from a large department store in the home furnishing products segment.

Order inflow continues with addition of new clients

SEPL had received business confirmation for two new products from SFR (received order for six new products under its carbon steel project in Q1FY19). The company has outlined a capex of ₹ 40 crore in FY19E-20E to set up a new dedicated plant in Halol (Gujarat), which has annual revenue potential of ₹ 100 crore (to be commercialised by Q3FY20). Going ahead, SEPL has added one more client in the home segment. According to the management, the size of the order is ~₹ 10-12 crore (expected to be commercialise by Q3FY19), which may become multi-fold in the near future. Considering the low plant utilisation in H1FY19, we slightly tweak our revenue growth estimate downwards in the furnishing product category to 35% in FY18-20E (against 38% earlier) supported by addition of new clients and rising demand from SFR.

Traction in demand from pharma packaging segment

SEPL's healthcare segment consists of two segments: 1) medical devices (insulin pens) and 2) primary packaging. On the packaging front, SEPL tied up with GCS and licensed IPR to start a plant (at a capex of ₹ 30 crore) for manufacturing child resistant closure (CRC) cap in 2015. However, plant utilisation remained lower due to a delay in validation of product from its customers. After validation from customers, SEPL has started supplying caps and closures to its pharma clients and is targeting revenues of ₹ 15-18 crore by FY19E. We believe traction in demand from the pharma packaging and devices (insulin pen) segment would help revenue CAGR of 21% from the healthcare segment in FY18-20E. Further, low competitive intensity in the medical packaging space (due to high compliance cost and intolerance towards the minute of errors) would benefit SEPL in terms of earning better EBITDA margin.

Maintain stance on strong earning visibility; recommend BUY

The company expects to achieve asset turn of over ~2.3x with incremental capex of ~₹ 90 crore (FY19E-20E) supported by an increase in utilisation of pharma packaging (led by CRC products) and furniture segment. Though there may be short-term hiccups on the EBITDA margin front (owing to high employee cost and other expense owing to starting of a new capacity), we believe rising plant utilisation level would provide high operating leverage to the company thereby maintain EBITDA margin at elevated levels. Considering the recent performance, we cut our estimate and model revenue, earning CAGR of 32%, 40%, respectively, in FY18-20E (from ~34% and ~53% earlier) with strong return ratios. We maintain **BUY** rating on the stock with a revised target price of ₹ 1120/share (20x FY20E).

Financial summary

Profit and loss statement					₹ Crore				
(Year -End -March)					FY17	FY18	FY19E	FY20E	
Net sales					245.9	318.2	397.4	551.6	
Growth (%)					9.0	29	25	39	
Expenses									
Raw Material Expenses					151.1	198.8	245.7	333.0	
Employee Expenses					26.4	30.7	40.3	57.8	
Power & Fuel cost					13.2	15.6	23.1	33.1	
Other Expenses					14.6	20.0	27.3	36.9	
Total Operating Expenditure					205.3	265.1	336.4	460.7	
EBITDA					40.5	53.2	60.9	90.9	
Growth (%)					3.9	31	15	49	
Other Income					3.4	2.3	2.5	2.7	
Depreciation					13.4	14.5	15.9	19.3	
Interest					7.4	6.7	7.7	7.4	
PBT before Exc. Items					23.2	34.2	39.8	66.9	
Less: Exc. Items					0.0	0.0	0.0	0.0	
PBT after Exc. Items					23.2	34.2	39.8	66.9	
Total Tax					7.3	10.3	13.3	20.2	
Adjusted PAT					15.9	23.9	26.5	46.7	
Growth (%)					5.3	51	11	76	
EPS					19.1	28.7	31.8	56.1	

Source: Company, ICICI Direct Research

Cash flow statement					₹ Crore				
(Year -End -March)					FY17	FY18	FY19E	FY20E	
Profit/(Loss) after taxation					15.9	23.9	26.5	46.7	
Add: Depreciation & Amortization					13.4	14.5	15.9	19.3	
Add: Interest Paid					7.4	6.7	7.7	7.4	
Cash Flow before working capital chang					36.6	45.1	50.1	73.3	
Net Increase in Current Assets					-16.9	-62.9	-23.2	-46.9	
Net Increase in Current Liabilities					14.0	30.7	34.1	25.5	
Net cash flow from operating activities					33.7	13.0	61.0	51.9	
Cash flow from Investing Activities									
(Purchase)/Sale of Fixed Assets					-13.4	-30.0	-60.0	-40.0	
Others					-8.2	-2.9	1.9	-1.1	
Net Cash flow from Investing Activities					-21.6	-33.0	-58.1	-41.1	
Cash flow from Financing Activities									
(Payment) of Dividend and Dividend Tax					-4.0	-5.0	-2.5	-3.3	
Interest Paid					-7.4	-6.7	-7.7	-7.4	
Others					-14.2	31.7	8.9	6.5	
Net Cash flow from Financing Activities					-25.5	20.0	-1.2	-4.2	
Net Cash flow					-13.4	0.0	1.6	6.6	
Cash and Cash Equivalent at the beginni					17.1	3.7	3.7	5.3	
Cash and Cash Equivalent at the end					3.7	3.7	5.3	11.9	

Source: Company, ICICI Direct Research

Balance sheet					₹ Crore				
(Year -End -March)					FY17	FY18	FY19E	FY20E	
Equity Capital					8.3	8.3	8.3	8.3	
Reserve and Surplus					97.2	116.0	138.9	182.2	
Total Shareholders funds					105.5	124.3	147.2	190.6	
Total Debt					53.1	84.9	94.9	101.4	
Deferred Tax Liability					1.0	4.2	4.2	4.2	
Other Non Current Liabilities					0.9	0.8	0.8	0.8	
Others Total					1.9	5.0	5.0	5.0	
Total Liability					160.5	214.2	247.1	297.0	
Gross Block					107.4	135.3	195.3	235.3	
Accumulated Depreciation					13.3	27.8	43.7	63.0	
Net Block					94.1	107.5	151.6	172.3	
Capital WIP					3.7	5.8	5.8	5.8	
Total Fixed Assets					97.7	113.3	157.4	178.1	
Liquid Investments					0.4	8.2	5.2	4.2	
Current Asset									
Inventory					27.5	40.7	49.0	68.0	
Debtors					46.2	68.2	81.6	110.3	
Loans and Advances					0.0	0.1	0.1	0.1	
Cash					3.7	3.7	5.3	11.9	
Total Current Assets					96.0	158.9	183.7	237.2	
Current Liability									
Creditors					20.0	40.5	57.7	69.5	
Provisions					1.3	1.5	9.3	11.2	
Total Current Liabilities					39.9	70.6	104.7	130.2	
Net Current Assets					56.2	88.3	79.0	107.0	
Other Assets					6.2	4.4	5.5	7.7	
Total Asset					160.5	214.2	247.1	297.0	

Source: Company, ICICI Direct Research

Key ratios					₹ Crore				
(Year -End -March)					FY17	FY18	FY19E	FY20E	
Per Share Ratio									
EPS					19.1	28.7	31.8	56.1	
Cash EPS					35.1	46.1	50.9	79.3	
DPS					4.8	6.0	3.0	4.0	
BV					126.8	149.4	177.0	229.1	
Operating ratio									
EBITDA Margin					16.5	16.7	15.3	16.5	
PAT Margin					6.4	7.5	6.7	8.5	
Return Ratios									
RoCE					19.0	19.1	19.2	25.0	
RoE					15.0	19.2	18.0	24.5	
RoIC					16.5	17.5	17.1	22.6	
Valuatn Ratios									
EV / EBITDA					19.3	15.2	13.4	9.0	
P/E					46.3	30.7	27.7	15.7	
EV/Net Sales					3.2	2.5	2.1	1.5	
Mcap/sales					3.0	2.3	1.8	1.3	
P/BV					7.0	5.9	5.0	3.9	
Turnover Ratios									
Gross Block turnover					2.3	2.4	2.0	2.3	
Inventory Days					40.9	46.7	45.0	45.0	
Debtor Days					68.5	78.2	75.0	73.0	
Creditor Days					29.6	46.4	53.0	46.0	
Solvency Ratios									
Debt/Equity					0.5	0.7	0.6	0.5	
Debt/Ebitda					1.3	1.6	1.6	1.1	
Current Ratio					4.3	3.7	2.7	2.8	
Quick Ratio					3.0	2.7	1.9	2.0	

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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