

# Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1808

Target: ₹ 2110 (17%)

Target Period: 12 months

BUY

August 19, 2021

## Ramp up of new products drives topline...

**About the stock:** Shaily Engineering is into manufacturing high precision injection moulded plastic components and finished goods in home furnishing, healthcare, toys, personal care, automotive components.

- Export revenue contributed ~74% to the topline in FY21 while rest came from domestic business for Shaily
- The company's biggest clients include a Swedish furnishing major, which contributes ~55% to the topline

**Q1FY22 Results:** Shaily posted strong revenue growth, crossing pre-Covid levels.

- Revenue grew 158% YoY to ₹ 120 crore, favoured by a lower base and ramp up of new products
- Higher operating leverage helped drive EBITDA margin up by ~843 bps YoY
- PAT came in at ₹ 8 crore vs. loss of ₹ 3 crore in the base period

**What should investors do?** Shaily Engineering's share price has grown by ~3.3x over five years (from ~₹ 510 in August 2016 to ~₹ 1790 level in July 2021).

- We maintain our BUY rating on the stock

**Target Price & valuation:** We value Shaily at ₹ 2110 i.e. 32x on FY23E EPS.

**Key triggers for future price performance:**

- The company envisaged ~₹ 260 crore of capex plans for FY22E-24E to ramp up capacity in toys, healthcare and home furnishings
- New client additions will help drive healthcare segment revenue to 2-3x in the next three to five years. The company has added two new clients in the toy segment (Spin Master, Hasbro)
- Incremental sales of high margin products (like healthcare) will help drive EBITDA margin for the company

**Alternate Stock Idea:** We like MoldTek Packaging in the packaging space.

- Strong volume growth of ~20% in FY21-23E led by capacity expansion and client additions in the high margin product categories
- BUY with a target price of ₹ 675

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23)
Net Sales	338.3	336.0	360.6	10%	513.9	603.2	29%
EBITDA	52.6	58.1	59.6	9%	88.5	108.7	23%
EBITDA Margin (%)	15.6	17.3	16.5		17.2	18.0	
Reported PAT	19.3	23.6	22.0	9%	43.8	60.2	65%
EPS (₹)	23.2	28.4	26.5		47.7	65.7	
P/E	78.0	63.7	68.3		37.9	27.5	
P/BV (x)	11.0	9.4	8.3		4.5	3.9	
Mcap/Sales (x)	4.4	4.5	4.2		2.9	2.5	
RoCE (%)	16.2	14.2	11.6		13.4	16.7	
RoNW (%)	14.2	14.8	12.1		11.8	14.1	

Source: Company, ICICI Direct Research



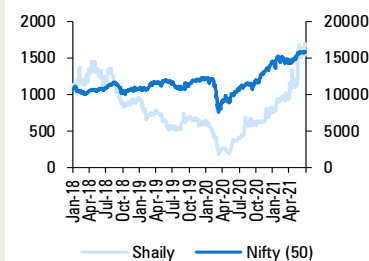
### Particulars

Particular	Amount
Market Cap (₹ Crore)	1,504.0
Total Debt (FY21) (₹ Crore)	173.2
Cash & Inv (FY21) (₹ Crore)	2.9
EV (₹ Crore)	1,674.3
52 week H/L	1858/547
Equity capital (FY21) (₹ Crore)	8.3
Face value (₹)	10.0

### Shareholding pattern

(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.1	51.1	51.1	51.1	51.1
FII	0.0	0.0	0.0	0.0	0.1
DII	14.1	13.9	13.9	13.9	13.7
Others	34.8	35.0	35.0	35.0	35.1

### Price Chart



### Recent event & key risks

- Key Risk:** (i) Delay in order execution (ii) Delay in passing on high input prices

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## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results:

- Strong topline growth in Q1FY22 is attributable to ramp up of new products (toys, carbon steel products). The plant utilisation was at 59% in Q1FY22. The management expects a further increase in plant utilisation led by order execution in toy, healthcare and home furnishing segments
- Gross margin was down ~110 bps YoY, mainly due to a delay in passing on of raw material prices. However, EBITDA margins increased to ~16% in Q1FY22 vs. 7.3% in Q1FY21. The management has further guided at passing on of raw material price in coming quarters, which will help in a recovery in gross margins
- It reported PAT of ₹ 8 crore in Q1FY22 vs. loss of ₹ 3 crore in base period

### Q1FY22 Earnings Conference Call highlights

- **Future demand outlook and guidance:**
  - The management expects an uptick in revenue aided by new business confirmations, addition of new clients and increased contribution from new business segment
  - The company expects 2-3x revenue growth from the healthcare segment on back of faster penetration within existing and new clients as well as a large pipeline of products
  - The management has indicated at sustainable and normalised EBITDA margins on an annual basis on the back of higher utilisations of existing facilities and increasing contribution from the healthcare segment
  - Shaily has secured two new contracts for pen injectors in healthcare
  - The company expects an increase in profitability augmented by faster capacity utilisation in the carbon steel and healthcare business
- **Capex:**
  - Expected capex for FY22 is ~₹ 80-85 crore
  - Additional capex of ₹ 200 crore in FY23-24 to enhance the capacity of toy, healthcare and furnishing business
- Announced fund raising of ₹ 150 crore by issuing 8,55,072 fresh equity shares
- Utilisation is expected to increase in Q2FY22
- Peak revenue from current gross block is ~₹ 650 crore
- The company is seeking more clarity on export incentives under Remission of Duties and Taxes on Exported Products (RoDTEP) for export of plastic products

### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	Mcap (₹ cr)	Sales growth (%)			EBITDA mar (%)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
EPL Ltd (ESSPRO)	227	275	Hold	7,157	12.0	10.2	11.2	19.8	19.7	21.0	12.1	10.9	9.0	16.2	17.7	20.8	14.8	16.6	18.9
Mold Tek Pack (MOLPAC)	490	675	Buy	1,359	9.0	30.0	15.0	19.7	19.1	21.0	15.4	12.1	9.3	21.0	25.0	29.0	21.0	22.0	24.0
Time Tech (TIMTEC)	72	100	Buy	1,639	-16.0	21.4	12.4	12.9	13.6	14.2	6.5	5.2	4.4	8.7	12.2	13.9	5.7	9.5	11.3
Shaily Engi (SHAILY)	1,808	2,110	Buy	1,504	7.0	43.0	17.0	16.5	17.2	18.0	28.1	17.2	14.1	11.6	13.4	16.7	12.1	11.8	14.1

Source: Company, ICICI Direct Research

Shaily sees multi-fold revenue growth in the healthcare and toy business in the next four to five years. Hence, the company has decided to increase the manufacturing capacity of toys, healthcare and home furnishing products by infusing fresh equity of ₹ 150 crore. We build in revenue, PAT CAGR of 29% and 65%, respectively, in FY21-23E led by execution of new orders. Further, strong earnings growth and repayment of debt will lead to improve RoCE and RoE of the Shaily, going forward. We continue to maintain our BUY rating on the stock with a revised target price of ₹ 2110, valuing the company at 32x FY23 earnings.

**Exhibit 2: Variance Analysis**

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	120.1	46.6	157.7	109.8	9.4	Strong revenue growth with execution of new orders in the toy and home furnishing segments
Other Income	1.2	0.0	2787.9	2.4	-48	
Raw Material Exp	73.1	27.9	162.5	63.2	15.8	Delay in passing on of higher raw material prices led to drop in gross margin by ~110 bps YoY (334 bps QoQ)
Employee Exp	10.4	7.0	47.7	10.1	2.7	
Power & Fuel	5.7	2.7	107.9	5.3	8.0	
Other Expenses	12.0	5.6	115.0	11.5	3.8	
Gross margin	39.1	40.2	-111 bps	42.4	-334 bps	
EBITDA	18.9	3.4	453.8	19.7	-3.8	
EBITDA Margin (%)	15.8	7.3	843 bps	17.9	-217 bps	Cost optimisation measures partially negated the impact of lower gross margins QoQ
Depreciation	5.9	4.5	31.5	5.6	5.5	
Interest	3.6	3.0	23.3	3.3	10.6	Elevated debt level led to higher interest outgo
PBT	10.6	-4.0	LP	13.2	-19.4	
Total Tax	2.6	-1.0	NM	3.5	-24.6	
PAT	8.0	-3.0	LP	9.7	-17.5	Strong sales recovery helped drive bottomline

**Key Metrics**

Volume	4093.0	1815.0	125.5	4356.0	-6.0	Lower base and improved utilisation of new capacities helped drive volume growth on a YoY basis
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Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	523.7	513.9	(1.9)	622.7	603.2	(3.1)	We tweak our estimate upward considering strong revenue growth in Q1FY22
EBITDA	91.5	88.5	(3.3)	112.2	108.7	(3.1)	
EBITDA Mar(%)	17.5	17.2	-25bps	18.0	18.0	0bps	We slightly tweak our EBITDA margin estimates for FY22 considering low operating leverage of new plants
PAT	45.6	43.8	(4.0)	60.4	60.2	(0.3)	

Source: ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year -End -March)	FY20	FY21	FY22E	FY23E
Net sales	336.0	360.6	513.9	603.2
Growth (%)		7	43	17
Expenses				
Raw Material Expenses	197.9	215.3	310.4	359.4
Employee Expenses	26.0	34.2	41.2	48.3
Power & Fuel cost	17.4	17.9	23.8	30.2
Other Expenses	36.7	33.6	50.0	56.7
Total Operating Expenditure	277.9	301.0	425.4	494.5
EBITDA	58.1	59.6	88.5	108.7
Growth (%)	49.0	2	49	23
Other Income	1.0	2.6	3.2	4.0
Depreciation	17.9	19.5	21.7	24.1
Interest	10.5	12.7	11.7	8.3
PBT before Exc. Items	30.7	29.9	58.3	80.3
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	30.7	29.9	58.3	80.3
Total Tax	7.1	7.9	14.5	20.1
Adjusted PAT	23.6	22.0	43.8	60.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year -End -March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	23.6	22.0	43.8	60.2
Add: Depreciation & Amortization	17.9	19.5	21.7	24.1
Add: Interest Paid	10.5	12.7	11.7	8.3
Cash Flow before working capital ch	52.0	54.3	77.2	92.6
Net Increase in Current Assets	-19.6	-20.1	-57.2	-22.3
Net Increase in Current Liabilities	23.3	7.6	50.8	31.9
Net cash flow from operating activiti	55.7	41.7	70.9	102.1
Cash flow from Investing Activities				
(Purchase)/Sale of Fixed Assets	-71.0	-73.7	-85.0	-100.0
Others	9.0	-12.5	29.1	-1.0
Net Cash flow from Investing Activiti	-62.0	-86.2	-55.9	-101.0
Cash flow from Financing Activities				
(Payment) of Dividend and Dividend 1	-3.3	0.0	0.0	-1.2
Interest Paid	-10.5	-12.7	-11.7	-8.3
Others	27.4	51.0	113.8	-50.0
Net Cash flow from Financing Activit	13.6	38.3	102.1	-59.5
Net Cash flow	7.2	-6.2	117.0	-58.3
Cash and Cash Equivalent at the beg	1.9	9.1	2.9	119.9
Cash and Cash Equivalent at the end	9.1	2.9	119.9	61.6

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year -End -March)	FY20	FY21	FY22E	FY23E
Equity Capital	8.3	8.3	9.2	9.2
Reserve and Surplus	151.1	173.5	360.2	419.3
Total Shareholders funds	159.4	181.9	369.4	428.5
Total Debt	122.7	173.2	143.2	93.2
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	522.9	532.0
Gross Block	226.4	300.1	385.1	485.1
Accumulated Depreciation	60.6	80.1	101.8	125.9
Net Block	165.8	220.0	283.3	359.3
Capital WIP	37.2	37.2	37.2	37.2
Total Fixed Assets	203.0	257.2	320.5	396.4
Liquid Investments	0.3	0.0	1.0	2.0
Current Asset				
Inventory	49.7	66.9	84.5	90.9
Debtors	61.0	69.5	92.9	107.4
Loans and Advances	14.3	0.7	1.0	1.2
Cash	9.1	2.9	119.9	61.6
Total Current Assets	163.4	177.3	351.5	315.4
Current Liability				
Creditors	51.2	46.6	74.6	90.9
Provisions	2.1	2.4	3.9	4.7
Total Current Liabilities	91.6	99.2	150.0	181.9
Net Current Assets	71.8	78.1	201.4	133.5
Other Assets	14.3	32.5	0.0	0.0
Total Asset	289.4	367.8	522.9	532.0

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year -End -March)	FY20	FY21	FY22E	FY23E
Per Share Ratio				
EPS	28.4	26.5	47.7	65.7
Cash EPS	49.9	49.9	71.3	91.9
DPS	4.0	0.0	0.0	1.3
BV	191.6	218.6	402.7	467.1
Operating ratio				
EBITDA Margin	17.3	16.5	17.2	18.0
PAT Margin	7.0	6.1	8.5	10.0
Return Ratios				
RoCE	14.2	11.6	13.4	16.7
RoE	14.8	12.1	11.8	14.1
RoIC	15.1	11.6	15.3	16.4
Valuatin Ratios				
EV / EBITDA	27.8	28.1	17.2	14.1
P/E	63.7	68.3	37.9	27.5
EV/Net Sales	4.8	4.6	3.0	2.5
Mcap/sales	4.5	4.2	2.9	2.5
P/BV	9.4	8.3	4.5	3.9
Turnover Ratios				
Gross Block turnover	1.5	1.2	1.3	1.2
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	0.4	0.2
Debt/Ebitda	2.1	2.9	1.6	0.9
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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