

Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1925

Target: ₹ 2235 (16%)

Target Period: 12 months

July 5, 2022

Capacity addition, ramp up of healthcare, toy segments to drive topline...

We met the management of Shaily Engineering Plastics (Shaily) to get an insight into its business and future plans. Shaily is into manufacturing high precision injection moulded plastic components and finished goods in home furnishing, healthcare, toys, personal care and automotive components.

- Export revenue contributed ~76% to the topline in FY22 while the rest came from the domestic business for Shaily
- The company's biggest clients include a Swedish furnishing major (SFM), which contributes ~55% to the topline

What should investors do? Shaily Engineering's share price has grown by ~2.77x over five years (from ~₹ 695 in July 2017 to ~₹ 1925 level in July 2022).

- We maintain our **BUY** rating on the stock

Target Price & valuation: We value Shaily at ₹ 2235 i.e. 25x on FY24E EPS

Management meet highlights:

- Shaily's topline is driven by its home furnishings segment. The company has gained wallet share through launching multiple products for SFM in the last two years. Shaily's home furnishings segment revenues are likely to grow at a CAGR of ~15-18% over FY22-24E supported by new launches
- Healthcare is the second largest contributor to Shaily's topline. The company has acquired Intellectual property rights for its insulin pen devices. The product has been well received by major Indian pharma companies
- In the coming years, Shaily will concentrate on growing its healthcare business. The company is working on 16 pen device projects with various companies with different order sizes
- Shaily also aims to increase its revenue through adding capacities and new launches in its toys segment
- The company has envisaged a capex of ₹ 200 crore for expansion of facilities in India to ramp up capacities. Expansion of capacity for the healthcare segment and addition of new clients is expected to drive the topline
- The company sees improvement in margins over FY23E-24E supported by stabilisation in raw material prices and improved product mix

Alternate Stock Idea: In the consumer discretionary space, we also like Havells.

- Trigger for Havells' future revenue growth would be revival in Lloyd's revenues and improvement in margin
- BUY with a target price of ₹ 1300

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	338.3	336.0	360.6	565.9	18%	705.5	862.7	23%
EBITDA	52.6	58.1	59.6	81.0	15%	113.0	148.8	36%
EBITDA Margin (%)	15.6	17.3	16.5	14.3		16.0	17.3	
Reported PAT	19.3	23.6	22.0	35.1	17%	55.9	80.4	51%
EPS (₹)	23.2	28.4	26.5	38.3		60.9	87.7	
P/E	83.0	67.9	72.7	50.3		31.6	22.0	
P/BV (x)	11.8	10.0	8.8	4.8		4.2	3.6	
Mcap/Sales (x)	5.2	5.3	4.9	3.1		2.5	2.0	
RoCE (%)	16.2	14.2	10.8	11.4		15.2	18.5	
RoNW (%)	14.2	14.8	12.1	9.6		13.4	16.2	

Source: Company, ICICI Direct Research

BUY



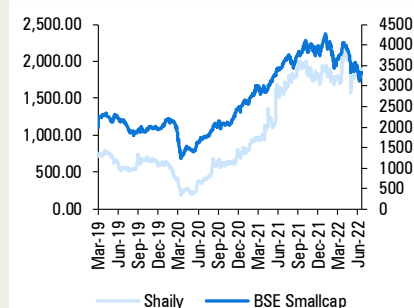
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,765.9
Total Debt (FY22) (₹ Crore)	173.8
Cash & Inv (FY22) (₹ Crore)	43.2
EV (₹ Crore)	1,896.5
52 week H/L	2390/1500
Equity capital (FY22) (₹ Crore)	9.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	51.1	51.1	46.3	46.3	43.8
FII	0.0	0.1	2.5	3.5	6.1
DII	13.9	13.7	13.3	13.4	13.5
Others	35.0	35.1	37.9	36.8	36.6

Price Chart



Key risks

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

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Management meet highlights

- Shaily has seven manufacturing facilities in Gujarat, out of which six are for manufacturing plastic goods that consist of home furnishing products & toys while one is for manufacturing steel furniture
- The company made a large foray into exports. In FY22, export revenue contributed ~76% to the topline
- Shaily's key segments are home furnishing, toys and medical devices
- Home furnishings is Shaily's top revenue contributing segment. Under this segment, the company manufactures various plastic products. The company has a long standing relationship with a Swedish furnishing major in this segment and has also been approached by multiple large format retailers for its home furnishing products
- Out of the products manufactured for the Swedish furnishing major, ~97% are exported and ~3% are used for domestic purposes
- According to the management, the Swedish furnishing major's global business is growing at a rate of 2-3% annually. Shaily's home furnishing segment is expected to grow at ~5x of this growth in the next five years. It has increased its SKUs in this segment from 18 in FY17 to ~48 SKUs currently
- The Swedish furnishing major provides the company with tooling cost for manufacturing products. However, various domestic companies do not provide the same, which makes Shaily hesitant to enter the domestic market for home furnishing and toy products
- Started in 2020, toys are turning out to be a growing segment for the company. Benefiting from the China+1 strategy, the company added Spin Master as its first client under the toys segment, which is one of the top toy companies globally
- Apart from Spin Master, Shaily has also added Hasbro as its key client for toys. In FY22, Shaily manufactured Hasbro's largest toy product, a Disney castle consisting of 126 plastic components. For FY23, the company is working on a project with 176 plastic components
- Moreover, due to stringent Bureau of Indian Standards (BIS) norms adopted by India, import of low quality plastic toys is restricted in India, which provides an opportunity for the company to penetrate the domestic market
- Tooling cost is provided by Spin Master, Hasbro for toys but domestic companies do not provide tooling costs. Hence, the company is not very keen on entering the domestic market for toys and is mainly focusing on exports
- For the toy segment, Shaily plans to add new products every quarter along with meeting the demand of evergreen products to drive revenue. The company is also looking at adding new customers in this segment
- The management expects an order book on the same lines with FY22 in the toys segment i.e \$10-12 million
- Healthcare is the second largest contributing segment to the topline after home furnishings. The company has taken up expansion of its Rania, Gujarat facility from 45000 sq. feet to 1,20,000 sq. feet to add capacity for medical devices
- In the healthcare segment, the company's Insulin pens are well received by various pharma companies. Shaily has acquired intellectual property (IP) rights for these pens. The company started manufacturing these pens for Wockhardt and now manufactures these pens for Sanofi as well
- The company is focusing on expanding this segment in the coming years. Shaily is working on 16 projects for pen devices with multiple companies and different order sizes. These pens command a ~2x higher realisation than existing pens and the management expects all pens to be commercialised by the end of FY23
- Healthcare segment is expected to grow 2-3x in the next five years
- The company has done capex of ₹ 60 crore towards its carbon steel segment. This segment is at 50% of its capacity utilisation
- The management sees a revenue potential of ~₹ 120 crore in the carbon steel segment once full utilisation levels are achieved
- The company has commercialised all its products in the carbon steel segment and is looking to ramp it up. Apart from SFM, the carbon steel products can also be supplied to other players



- Shaily has planned a total capex of ₹ 200 crore in FY23E-24E, out of which ₹ 150 crore have been raised through equity and the remaining ₹ 50 crore will be utilised from internal accruals of the company
- Also, ~₹ 120 crore will be spent towards adding capacity for the healthcare segment. The remaining ₹ 80 crore will be spent on adding capacity for toy products
- Going forward, revenue growth will be driven by healthcare segment, toys segment and also through the Swedish furnishing major
- Inflation in raw material prices has hit the company's margins. However, the management expects margins to improve owing to better product mix and passing on the price hikes
- Shaily is not looking to increase its debt from the current level

Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	739.5	705.5	(4.6)	853.2	862.7	1.1	We have slightly tweaked our revenue estimate for FY23E-24E considering major revenue flow from healthcare business to start towards the end of FY23E
EBITDA	114.2	113.0	(1.1)	142.5	148.8	4.5	
EBITDA Mar(%)	15.4	16.0	57bps	16.7	17.3	55bps	We have tweaked our EBITDA margin estimates upward considering improved product mix and correction in key raw material prices from its peak
PAT	61.0	55.9	(8.4)	80.5	80.4	(0.1)	Revised our FY23E PAT estimates downward considering higher interest outgo. We believe rising interest rate and higher debt level is likely to increase interest outgo in FY23E-24E

Source: ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 2: Profit and loss statement				
	₹ crore			
(Year -End -March)	FY21	FY22	FY23E	FY24E
Net sales	360.6	565.9	705.5	862.7
Growth (%)		57	25	22
Expenses				
Raw Material Expenses	215.3	356.9	444.5	532.7
Employee Expenses	34.2	43.2	50.8	58.7
Power & Fuel cost	17.9	26.9	31.7	43.1
Other Expenses	33.6	57.8	65.4	79.4
Total Operating Expenditure	301.0	484.8	592.5	713.9
EBITDA	59.6	81.0	113.0	148.8
Growth (%)		36	39	32
Other Income	2.6	8.8	8.5	9.5
Depreciation	19.5	26.5	31.0	37.1
Interest	12.7	16.9	16.9	15.4
PBT before Exc. Items	29.9	46.4	73.5	105.9
Less: Exc. Items	0.0	0.0	0.0	0.0
PBT after Exc. Items	29.9	46.4	73.5	105.9
Total Tax	7.9	11.3	17.7	25.4
Adjusted PAT	22.0	35.1	55.9	80.4

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year -End -March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	22.0	35.1	55.9	80.4
Add: Depreciation & Amortization	19.5	26.5	31.0	37.1
Add: Interest Paid	12.7	16.9	16.9	15.4
Cash Flow before working capital change	54.3	78.6	103.8	132.9
Net Increase in Current Assets	-20.1	-76.2	-22.6	-58.5
Net Increase in Current Liabilities	-18.8	44.8	20.7	30.8
Net cash flow from operating activities	15.4	47.1	101.8	105.2
Cash flow from Investing Activities				
(Purchase)/Sale of Fixed Assets	-73.7	-126.5	-100.0	-70.0
Others	-12.5	12.5	-4.0	0.0
Net Cash flow from Investing Activities	-86.2	-114.1	-104.0	-70.0
Cash flow from Financing Activities				
(Payment) of Dividend and Dividend Tax	0.0	0.0	0.0	0.0
Interest Paid	-12.7	-16.9	-16.9	-15.4
Others	77.4	124.2	-16.1	-20.0
Net Cash flow from Financing Activities	64.6	107.3	-33.0	-35.4
Net Cash flow	-6.2	40.3	-35.2	-0.2
Cash and Cash Equivalent at the beginning	9.1	2.9	43.2	8.0
Cash and Cash Equivalent at the end	2.9	43.2	8.0	7.8

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year -End -March)	FY21	FY22	FY23E	FY24E
Equity Capital	8.3	9.2	9.2	9.2
Reserve and Surplus	173.5	357.8	407.5	487.9
Total Shareholders funds	181.9	367.0	416.7	497.1
Total Debt	199.6	173.8	163.8	143.8
Deferred Tax Liability	10.3	13.2	13.2	13.2
Other Non Current Liabilities	2.5	4.0	0.0	0.0
Others Total	12.7	17.2	13.2	13.2
Total Liability	394.2	558.0	593.7	654.1
Gross Block	300.1	447.7	547.7	617.7
Accumulated Depreciation	80.1	106.6	137.7	174.8
Net Block	220.0	341.1	410.1	443.0
Capital WIP	37.2	16.1	16.1	16.1
Total Fixed Assets	257.2	357.2	426.2	459.1
Liquid Investments	0.0	0.0	0.0	0.0
Current Asset				
Inventory	66.9	111.4	94.7	115.8
Debtors	69.5	99.9	129.5	156.0
Loans and Advances	0.7	0.2	0.3	0.4
Cash	2.9	43.2	8.0	7.8
Total Current Assets	177.3	293.8	281.2	339.6
Current Liability				
Creditors	46.6	84.0	96.6	118.2
Provisions	2.4	2.7	3.1	3.8
Total Current Liabilities	72.9	117.6	138.3	169.1
Net Current Assets	104.4	176.2	143.0	170.5
Other Assets	32.5	15.4	15.4	15.4
Total Asset	394.2	558.0	593.7	654.1

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
(Year -End -March)	FY21	FY22	FY23E	FY24E
Per Share Ratio				
EPS	26.5	38.3	60.9	87.7
Cash EPS	49.9	67.2	94.7	128.1
DPS	0.0	0.0	0.0	0.0
BV	218.6	400.0	454.2	541.9
Operating ratio				
EBITDA Margin	16.5	14.3	16.0	17.3
PAT Margin	6.1	6.2	7.9	9.3
Return Ratios				
RoCE	10.8	11.4	15.2	18.5
RoE	12.1	9.6	13.4	16.2
RoIC	11.6	10.6	13.8	16.9
Valuation Ratios				
EV / EBITDA	33.0	23.4	17.0	12.8
P/E	72.7	50.3	31.6	22.0
EV/Net Sales	5.4	3.4	2.7	2.2
Mcap/sales	4.9	3.1	2.5	2.0
P/BV	8.8	4.8	4.2	3.6
Turnover Ratios				
Gross Block turnover	1.2	1.3	1.3	1.4
Inventory Days	67.7	71.9	49.0	49.0
Debtor Days	70.4	64.4	67.0	66.0
Creditor Days	47.2	54.2	50.0	50.0
Solvency Ratios				
Debt/Equity	1.1	0.5	0.4	0.3
Debt/Ebitda	3.4	2.1	1.4	1.0
Current Ratio	3.6	2.9	2.7	2.7
Quick Ratio	2.2	1.6	1.8	1.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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