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SEPL/SE/Mar/17-18
March 20, 2018

The General Manager
Corporate Services/Listing Department
BSE Limited
Floor 25, P.J. Towers,
Dalal Street,
Mumbai – 400 001
Scrip Code : 501423

Sub: Analyst/Investor Meet - Transcript

Ref : Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Sir,

In continuation to our letter dated 22nd February, 2018 & 26th February, 2018, regarding "**Investor & Analyst meet",** organized by the Company to discuss the Business Plan, Strategic Initiatives and the Way Forward, on 26th February, 2018 at Mumbai, kindly find annexed herewith Transcript of the said meeting.

A copy of the transcript is also available on the website of the Company at www.shaily.com at http://www.shaily.com/investor-presentation.aspx .

Kindly take the same on record.

Thanking You.

Yours truly,
For Shaily Engineering Plastics Limited

PREETI MAYUR SHETH
Digitally signed by PREETI MAYUR SHETH
Date: 2018.03.20 10:17:34 +05'30'

Preeti Sheth
Asst. Company Secretary

Encl :a/a

"Shaily Engineering Plastics Limited Investor and Analyst Meet Conference Call"

February 26, 2018

MANAGEMENT: MR MAHENDRA SANGHVI – CHAIRMAN, SHAILY ENGINEERING PLASTICS LIMITED
MR. SANJAY SHAH – CHIEF FINANCIAL OFFICER & VICE PRESIDENT-FINANCE, SHAILY ENGINEERING PLASTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shaily Engineering Plastics Limited's Investor and Analyst Meet Conference Call.

This conference call may contain forward-looking statements about the company which are based on the believes, opinions and expectations of the company as on the date of this call. These statements are not the future guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

Shogun: Shaily Engineering Plastics Limited is a quality supplier of high precision injection molding plastic components, sub assemblies and assemblies for various OEM requirements. We are in the business of providing end-to-end solutions in plastic products and services while delivering superior quality and value to its stakeholders. The management of the company is here today to discuss the business plans, strategic initiatives and the way forward.

Due to some unforeseen situation Amit Sanghvi – Managing Director could not join us for the meet. To take us through the story of Shaily today, we have on the dais Mr Mahendra Sanghvi – Chairman and Sanjay Shah – CFO & Vice President-Finance.

We will take you through a short presentation, our business growth in each division and the way forward. The products and samples are available on display. We request you to refrain from taking pictures of the Home Furnishing segment.

Apart from the audience in the room, we have our lines open to investors and analysts who are unable to attend the meet here. The management will first start with an overview of the business post which they will take questions from the audience.

I would now request Mr. Sanjay Shah to kindly address the audience.

Sanjay Shah: What I will do is probably take you through what Shaily has been in the last 25 years in terms of its journey and where do we look at Shaily going forward. Post that we will be happy to take your questions.

Shaily started way back in 1987 with one facility in Halol with two molding machines. Today we have five facilities in Gujarat spread across two manufacturing locations with 100+ injection molding machines, 1,100+ employees. Our revenue CAGR for the last five years has been 19%. EBITDA CAGR it has been about 26% and PAT CAGR has been 45%.

We have a vision to achieve a revenue of $100 million by 2020. What do we do, we provide total solutions in plastics basically we get involved with our customer right from a design stage to mold manufacturing, validation, prototype manufacturing to final manufacturing and in that we also help our customer basically do regulatory filings and meet compliance requirements. So, when we look at manufacturing we basically do injection molding, post-molding operations like assemblies, pad printing, ultrasonic welding, vacuum metalizing, a host of it.

On the healthcare front one of our tagline is "Making Quality Healthcare Effective, Efficient and Affordable." We are broadly present across six business segments. The first is Home Furnishing, second is Automotive, Home Personal and Beauty Care, Appliances and Lighting, Medical devices and Pharma packaging.

On the Home Furnishing business we started the business with this customer in 2004. We have overtime evolved as a trusted supplier of plastic products across different segments. We currently scaled up our business from 18 SKUs to 38 SKUs in the current financial year. We started business with a value of about Rs. 1 crores in the first year and today this year we should basically be touching Rs. 180 crores with this customer.

We supply to this customer all across the Group. Most of the supplies are directly to their distribution centers or to their stores and the different segments to which we cater are kitchen, children, cooking and eating, organizing and storage so broadly most of the segments in which this customer is present. Some of you who have visited our facilities know that we have set up a dedicated facility for this customer. It is a 100% EOU with 40+ injection molding machines in Rania.

On the automotive front we are present in a very niche segment. What we do is we basically manufacture some components which we convert from metal to plastic which are subjected to to very extreme high heat, high temperature and high wear and tear requirement. We are the only processors of Torlon in India and probably in Asia and one of the very, very few processers of PEEK in India.

Our products are used in turbo chargers for a lot of luxury cars. We do bearing cages for a leading bearing company in India who supplies assembled bearings which go in to the largest car manufacturer in India. Similarly, we do manufacture lot of car seating components where compliance is extremely important, and this is for the North American market mainly or the European market.

We have been present across on the Home Personal and Beauty Care segments where what the strength which Shaily has is, one is molding and second is the post molding facilities in terms of hot stamping, ultrasonic welding, pad printing, assemblies, painting mainly decoration. So typically if you would see most of the products on FMCG they need a lot of decoration and we do a lot of that.

We are in the process of consolidating all our FMCG business into a brand-new facility which should be operational by sometime next year. The customers on our FMCG segment are Lakme, Gillette, and P&G.

Some of the components which we manufacture basically go into appliances and lighting. Appliances we do a lot of knobs for a company called GE Appliances in the US and have been doing business with them for over 20 years now.

On the lighting front we do a lot of LED lighting fixtures which are thin wall, thin containers with need to withstand high heat. It is basically our ability to constantly be able to mold high precision components to tight tolerances which makes us a key supplier in this segment. This is a very, very interesting segment which we are present in.

We also do complex medical devices and if we were to look at insulin pens we are probably about among the very, very few manufacturers of insulin pens in the world. We do today insulin pens for two companies Wockhardt and Sanofi where we do four different variants of pens. Some of these pens recently we basically launched a metal pen for Sanofi which is displayed here which was launched by Sanofi in June and this was taken to the markets in Europe. Other devices which we manufacture are dry powder inhalers and primary packaging. Again on the primary packaging we do a lot of things.

In most of the cases what we do with our customers is that to help our customers also assist in their compliance and regulatory filing. So whether it is the FDA filings or filings with EU commission or anything we basically help them to do all of their filings.

On the Pharma packaging front, we expect this industry to grow at about 6.3% and nearly to $100 million plus by 2022. This is one of our growth drivers where we do Pharma bottles for pills, we do eye dropper bottles, we do some specialized packaging for nail applicators, for skin applicators and things like that.

Currently we are in the process of consolidating our healthcare facilities into one large healthcare facility where we will be shifting all our device manufacturing to the healthcare facility which will be completed by the end of the current financial year. As I mentioned earlier we are able to process polymers with 50% glass, withstand high heat right up to 400-degree centigrade. Similarly, on injection molding front we have a team which basically is able to manufacture products which lesser 0.3 grams within 5 microns tolerances.

A lot of these components go into medical devices which have extremely functional requirements. We basically work with tool manufacturers in Taiwan and China where we get tools made for the customer under our supervision in the most cost-effective manner. We have product design facilities where we collaborate with some international companies also. So we work with a customer right from concepts to commercialization, to engineering drawings prototyping, testing, tool design, manufacturing of final components and assemblies.

All of these processes are compliant to FDA 21 CFR 820.30. We will start a new facility in less than 6 to 8 months depending on the compliance requirements and the complexity of this thing. We have in fact set up facilities in less than six to eight months right from scratch, right from grounds up. And last if we look at innovative assembly solutions looking at what is the size of the business and everything instead of looking at a fully automated assembly and everything which helps in optimizing the cost for the customers.

What are the growth opportunities for the future? One is on the Home Furnishing side with the beneficiary of boom in housing and the government’s focus on housing which will mean an investment of about $250 billion $260 billion by 2022. This throws up a lot of opportunity for us and with the relationship which we have with our customers we think this could be big growth opportunity for us in the years to come.

In this the customer is looking at investing sizeable amounts in India and setting up its own stores and once they start opening their own stores we see a lot of growth opportunities there.

Second is on the automotive front where with increased efficiency norms coming in, people are looking at reducing the weight of the car, people are looking at how can you become more fuel efficient and this is where some of the components which we do metal to plastic conversion and everything helps in terms of reducing the weight of the car and everything. Also, basically metal to plastic conversion will also help in terms of meeting strict federal guideline for improved fuel efficiency.

On Pharma packaging we have varied capabilities right from eye dropper bottles to, CRC capsule bottles to lot of specialized applications like nail applicators, skin applicators, and derma applicators. And we basically help the customer in terms of filings with their USFDA also on this which basically help the customer a lot from the US. We have a lot of products which are there under filing with the customer which we cannot talk about it right now.

This is something on the CRC. It is one of the highest performing closures in both the child resistance and adult test. This is designed by Global Closure Systems with whom we have an exclusive relationship for the Indian market. The uniqueness that it has an audible click sound when the turning the closure if a child tries to open a closure so which can alert an adult.

Another important focus of our company which we have one is sustainable development. Today 50% of our energy which we use comes from renewable sources. We buy it on open access which from a biomass generator. Similarly we believe in fair business practice with our suppliers, customers and employees and also trying to give back to the society in terms of various CSR initiatives which we do. Currently we try to do a lot of things for the neighboring villages where our plants are located.

Some of our success stories:

We worked with Wockhardt in designing the world's first insulin pen which is made of 100% plastic components. Pens were designed to meet EU and FDA approvals we got ISO 11608 1,2&3 certification for this. We have worked with a company called IDC in UK to design the pens and this pen won the Idea Innovation Award in 2008 and post that we have been supplying this pens to Wockhardt for a very long time now.

We manufacture for Wockhardt both the reusable as well as the disposable pens. This is another success story which we have where all the Sanofi pens earlier were being manufactured in Europe. This is for the first time Sanofi ventured out of Europe in terms of manufacturing insulin pens and today we basically manufacture two versions of the Allstar Classic which is the regular plastic pen and Allstar Pro which is the metal pen. And the Allstar pens are only manufactured at Shaily. So this basically gives you a snapshot of the various components which go in to it.

This is again more of a project setup sort of a thing and this project was awarded to Shaily in March of 2008 for manufacturing of shellpack. This facility construction to commercial production was done in less than 8 months. The tooling came in from US, the machines came in from US, automation came in from UK and US; OQ/PQ and we started supplies in December of 2008.

As I mentioned earlier we got an award from them for supplying products with zero defect. Before this product was phased out we shipped out 250 million shell packs + with zero defect.

This is a turbo charger rod which was converted from metal to plastic and it was three-piece metal components which we converted into a plastic component, single piece plastic components. This basically helps in terms of increasing the productivity 300 times and reducing the cost of about 40%.

Shaily today is basically the only supplier globally to have done this conversion and we basically supply rods to a company called Honeywell who in turn supplies turbo chargers which go into BMWs, Audi, Mercedes, Hyundai, Ford, VW and Tata.

In terms of our performance if you have to look at nine months we did Rs. 227 crores of revenue which is 26% year-on-year growth and an EBITDA of Rs. 41 crores which represents 35% year-on-year growth. An EBITDA margin of 18% and PAT of Rs. 17 crores which is a 73% year-on-year growth.

In terms of net debt to equity we are at 0.88x and gross fixed assets as on 31st December 2017 is Rs. 209 crores. In terms of revenues we have grown at 19% over last five years while EBITDA has grown at about 26% over last five years. Our PAT has grown at about 45% over last five years and cash PAT has grown at about 33%. Similarly, our margin profiles have been increasing. If you were to look at EBITDA margins in the last five-year periods have moved from 14.3% to about 18.5%. The PBT margins from 4.2% to 9.5% so we have more than doubled that and PAT from 3% to 6.5% where again we are more than doubled that.

Machine utilizations have been somewhere between 76.2% in FY15 to over 75.34% nine months of FY18. Gross assets turnover has been somewhere between 1.3% and 1.4% over the last five years. ROCE is I think is a focus area where we have been trying to improve ROCE, thought the scenario is where we have been also investing a lot of money in growing the business. ROCEs for last five years have moved from 15% to about 18% to 20% while ROEs have improved from about 10% to about 15%.

We have been also looking at increasing the dividend payout so if you were to look at dividend payouts for the last three years we paid 15% of our PAT as dividend to about 31.5% as in the last year.

I think that is it. We can probably open the floor for questions.

Management: We will first take the questions from participants on the call.

Moderator: Thank you very much. We will now begin with the question-and-answer session.

Participant: There is so much of design components that goes into this, and we have seen in the business of software when companies set up product engineering centers for global corporations but today you have done it in the manufacturing. It is not an easy thing to do in manufacturing. There are so many elements that goes into this. Things that you do from basic design to get the customer approval to regulatory approval, to development, testing, validation and getting into manufacturing from tool is an extraordinary job. A couple of questions I have, One is you have a gross block ratio of about 1% to 1.3%. So that is fundamental to scale economies and the profit and the cash flow. So how do you change that to take the margin curve up? So is there the technology piece that can do something there or you see a big spike in that possibly because that is fundamental to get the scale economies and the operating leverage unless there is a value added component of the products that can give the margins? These are some few questions.

Mahendra Sanghvi: I think one of the reasons for that is on Pharma side and medical side we have a very large gestation period. Because of regulatory approvals required we today for example, are working on six different contracts for injectables devices but it will take some more time. The percentage need to be set up, so I think our asset-to-turnover ratio would obviously improve and go to 2. Later on it can even go beyond 2, but today with the technology changes which are happening I see that if we can maintain 1.4, we will have fairly good growth and good margins.

Participant: How will that happen?

Mahendra Sanghvi: I think as we increase the scale of operations on the FMCG, on the home furnishing majors, we may be producing x quantity today. With the increase and what they see in the marketplace I think that x will likely to go to 2x. To go from 1x to 2x I do not need to invest twice the money.

So with the minimum investment we can easily go from x to 2x. This is all about scale of operations so what is happening is, it is not only that there are lot of export opportunities, but we see that in India people have started buying. There is lot of purchasing power that we see in India now. Like China, they were concentrating on export market, then the internal consumption also ended up becoming very high, so I think we are following in the same footstep except that we are little slower than China. So I see lot of growth coming from there which will improve our ratio.

Participant: You mean the product mix will change?

Mahendra Sanghvi: Obviously, product mix plays a very major role, yes there are also product mix changes. See when we started, we started with one product, with this company. Today we are manufacturing I think almost 40 different products for that company. So now we are actually started to get into high value engineering products as well with the same company which they have always made in Europe and somehow we end up competing with Europeans and I think we come out fairly well.

Participant: The question is volume, prices what is most important there?

Sanjay Shah: What will happen when the machine utilization numbers are given, or when you look at the asset turn, you are basically looking at the company level. There are pockets in the company where we have a low utilization, there are pockets where we have a full utilization level. The pockets where we have a low utilizations are basically the Pharma part of the business as Mahendra Bhai said is in the business of scaling it up and that is what we see is happening in the future. That is your question.

Participant: See volumes going up where the price points are low today, so where price points are high, volume can drop.

Sanjay Shah: No, what I meant was on the Pharma business the scale up takes time, so you need to invest upfront, get through the regulatory approval process and the compliance process, help the customer also with his regulatory and compliance approvals, post that you see a scale up. So we have made investments in the past where we will probably see a scale up coming in the future.

Participant: And the margins structures are different across various businesses?

Sanjay Shah: Margins will vary from customer to customer, within the customer also different products.

Participant: So the range will be what about 8% to 10% to 30%?

Sanjay Shah: I am in a B2B business where it will be very difficult for me to talk about because I hope you will understand that.

Mahendra Sanghvi: I think just to add to that, our aim is that from 75% utilization we should go to close to 90% capacity utilization.

Participant: Sir, what is your export component in your total business?

Sanjay Shah: So if you were to look at nine months, it is about 74% is exports and 26% is domestic.

Participant: And second thing, what came to my mind was your business appears to be high working capital intensive business in the sense you have to extend long rated credit period to your clients for your products, am I correct?

Sanjay Shah: No, there are different customers with different payment terms. Again we cannot go into individual customers, but if you were to look at it on a net level, my net working capital is about 90 days so we basically do four working capital turn around the year which in a plastic business, in the type of business which we are in, is good enough. Yes, we are still working on seeing how we can improve that, that is something which Mahendra Bhai drives us to see how we can make improvements on a regular basis.

Participant: Sir, my question is you have mentioned vision of $100 million revenues by 2020 which is more than 2x jump per year. You think this growth is going to come from the increased utilization in the Pharma business or it is the growth that is going to come from all the five, six segments that we have?

Mahendra Sanghvi: I think the growth will come from all the segments. We see better utilization in Pharma segment, but we also see similar growth coming from actually Home Furnishing or more in FMCG. So we see a growth all across.

Participant: So we have already clocked more than 20% growth for the past four, five years, but if we have to achieve this growth, I think the revenue CAGR is going to be in excess of 40% for the next two years. So we are seeing a different traction of business compared to what we have been doing?

Sanjay Shah: So if you were to look at it, compared to last three years you would have seen a revenue CAGR growth being higher in the current year. We have talked about some parts of our Pharma business where we have invested money, where we see revenue coming in the future. So that should add some part of the growth and the investments which we are making now are for incremental business on the Home Furnishing or the FMCG or the automotive where we see growth coming in much faster.

Participant: Okay sir and on Pharma business just one more thing. When you say lot of products are stuck in the approval stages by the company, the approval is for the process of production, or for individual products that you make?

Mahendra Sanghvi: One side of set of approvals is that we have to comply with all the regulatory approvals and you know we have to do all the testing. That is one side of approval. But the bigger time-consuming process is that customer also has to obtain approval. If the drug is to be used in US, then customer has to wait and make sure that he is FDA compliant, so that takes him a longer time. In and all approval process as you know can go anywhere from one to three years.

Shogun: I request you to please mention your name and company name before you ask a question.

Dhruva Mukherjee: Dhruva Mukherjee from Malabar Investment. I wanted to ask a question about the mold. Does the client invest in the molds, are molds expensive, who owns the mold. Can they take it away or is it a joint investment?

Mahendra Sanghvi: You are right, molds are very expensive. We need to treat them as jewels. But our customers will make the investments in molds.

Dhruva Mukherjee: Is it completely by the customer or as joint investments?

Mahendra Sanghvi: Yes completely by the customer.

Sanjay Shah: See in most of the cases the customer invests in the tooling, recently we have made some investments in the tooling for some customers. Wherever we have made investments we make take our pay by getting an order of confirmed quantity over a finite time period.

Dhruva Mukherjee: Okay, the ownership lies with the, suppose they get displeased for some reason, can they take away the mold or does it act as a source of customer taking it away?

Sanjay Shah: Yes, so till the time this quantity does not get supplied and the recovery does not happen, that will lie with Shaily. In most of the cases even if you would have seen in the past also, the customers would be vary of shifting the tooling unless we are not able to deliver the right quality or the right quantity.

Nitin: Nitin here from KFS. Can you share what are the CAPEX plans at this point of time, how much is spent, how much is yet to spent and when are the likely commissioning time?

Sanjay Shah: As I had mentioned on the Investor call also, in the first nine months we have invested about Rs. 30 crores in CAPEX which includes increase in basically capacities within our plant as well as in some pooling CAPEX for customers. We will probably end the year with about Rs. 50 crores to Rs. 52 crores of CAPEX for us to get to our revenue targets for FY20 we would incrementally need to make investments worth Rs. 30 crores, to Rs. 35 crores in FY19 and FY20.

Janak: Janak from BT Securities. Could you give the split of the revenue as far as the three segments are concerned and going forward would it change over a period of time?

Mahendra Sanghvi: This year you will see a major jump in one segment which is Home Furnishing. But this was more of an exception because suddenly customer ends up giving a lot more business and we end up executing most of it this year. So I see a good growth there, but equally I see business growth in other areas as well. So I think our revenue mix will change a little bit. I feel our Home Furnishing ratio will actually come down because other ratios will go up.

Janak: What are the present ratios, if you could give some indication?

Sanjay Shah: So we have set about 55% comes from the Home Furnishing major and balance is rest of the other segment. We would refrain from giving the other segments out because these are dynamic situations and they go on changing on a month on month basis.

Participant: Sir, you have built very strong relationship with your customers. How do you look at 3-D printing and adding value to our customers leveraging the benefit of 3-D printing right it is really doing well. The promise seems to be in polymer and metal polymer composite production. How do you look at that?

Mahendra Sanghvi: It is going to have a lot of value. Let me give you one example. When we started working with Honeywell, and we actually had to go through lot of analysis to make prototype tools to give them a product that we thought would complete the design. That was a very long process. Now with 3-D printing, I can have 3-D printed rod made in like one day. It does not take that long and we are now able to process PEEK which is very high quality material and do this 3-D printing with that material as well. There are not too many of these facilities available in India. I think there is only one right now but there will be more coming up. So 3-D printing is going to add a lot of value in terms of reducing the time from design to product.

Participant: Sir, how does it change our business? At this point you mentioned you work very closely with the Taiwanese manufacturers to sort of build the tools for dedicated factories or factories for expansion but 3-D printing I suppose part of it, it is more generic equipment that sort of will do multipurpose things. How does it change our from a time to set up capacity to sort of flexibility of our work? It is asset based, how does it change, what is the time frame?

Mahendra Sanghvi: You know for a long time when we made any product like we did in 3-D printing, we were not able to process all the raw materials. Today the situation is changed. Now we can process all the raw materials by 3-D printing. Now 3-D printing is not a production tool, it is more of a design aid kind of like reduces time, so I will just give you one example. If I am designing a pen, insulin pen which you will see each insulin pen contains about depending upon the kind of pen 12 to 16 components, that each component we need to make a prototype mould for each component.

And once the prototype tooling is made, often times there are lot of design changes which we need to incorporate in that. So that whole process takes six months before we finally decide that this is the right design and t this is the right product and we can manufacture tooling as per this design. With this 3-D printing, the six months will reduce to one month. So that is one advantage.

It is also less costly because especially when you look at the Indian context the foreign companies do not mind paying lot of money for tooling but Indian companies including Indian Pharma companies, they do not have the kind of budget to pay so much more money for tooling. So this will help in that entire process. They do not have to shell out whole lot of money, they know the design is now validated and they can go and straight to production tooling.

Akhil: Hello sir, this is Akhil here from IDBI Capital. My question is really Home Furnishing major. They were expected to start operations I believe end of last year and then they postponed it for January. So would you be able to shed some light like when can we expect them to start operations so we can start getting that?

Sanjay Shah: I think Akhil, their business plans we should not be talking about them. Whatever we know is basically what is public domain which you would also know.

Akhil: Second question is regarding the insulin pens. Would you be able to shed some light in terms of the global volume and value how big is the market, and I believe for us Sanofi India is one of the top five clients, so how do we see growth in this particular segment?

Sanjay Shah: So if you were to look at insulin pens per se, there are three companies globally who control probably about 85% of the market which is O'Reilly, Sanofi and Novo. Between these three my sense is based on discussions which we have had with some people they sell close to a billion plus pens. Now most of these are disposable pens and some of them are reusable pens.

Akhil: And just one last question, in terms of consolidation, what you had mentioned in the call is we will be consolidating our business so we have one medical devices and packaging business, second would be Home Furnishing major?

Sanjay Shah: So what we had talked about was more from a plant perspective where we were doing devices in one plant, we were doing Pharma packaging in another plant. What we are now doing is the device plant manufacturing has been shifted to the Pharma packaging plant, so that will become a Pharma packaging and device manufacturing facility. What it helps us is basically in terms of compliance, in terms of GMP standards and everything. We are having better effective utilization of the people and everything in much more focused approach and what we are doing to the current device manufacturing plant is we are basically converting into an FMCG manufacturing facility where we will have a lot of piece decoration facilities which we currently have. So we have tailor made facilities for FMCG.

Gagan: Gagan from Kotak. Two questions from my side. One is, can you elaborate a little bit on your price negotiation strategy with your customers because finally you are using polymers. And I presume they would be linked to how the crude prices move around. So I presume there is a cost plus conversion margin in it, but if you could elaborate there?

The second question is you indicated that molds are by and large the property of your customer. I am just trying to understand what is the entry barrier and what is the sustainable competitive advantage in this business if the molds are properties of not the vendors but the customers and are designed by them?

Mahendra Sanghvi: I will answer the second question first. When we work with Pharma companies, drug companies, it is like a marriage. You cannot have divorce. Very difficult to have a divorce because my customer and I both invest lot of money and energy in making sure that we get to a level where the device is qualified, they are able to sell. If my customer has to go out and give that business to somebody else, he will have to go through the same requalification process which would take him maybe two years or more. He cannot afford because he cannot sell the drugs during that time.

So that is one of the reason when Sanjay mentioned that Sanofi for example this is a French company. The old devices are made in Germany and for many, many years they have always been making devices only in Germany. They would not even trust other countries in Europe. So first time they came to us and finally we struck a deal. We started manufacturing and I can tell you that we are in their eyes and in their analysis, we are as good if not better than any of the other suppliers worldwide. But that is a risk that they took now okay they have become successful. But they cannot afford to take such risks anymore. So that is one area.

Now in other businesses, it is at some point of time it is possible that they can take the business away, but it is a very difficult process to go through. If we are able to supply quality and maintain delivery, I see no reason why customer would actually want to take that business away and go through another headache. We have been supplying to, General Electric Appliances, in US and Mexico for more than 20 years. What is important to GE? We supply knobs which are maybe half a dollar, which goes on appliances which they sell anywhere from $700 to $1200 an appliance. If my knob is not there, they will have parking lot full of appliances that they cannot move out.

So important for them is to understand and do business with company who can understand logistics very well, who will make sure that they are never able to run out and we have a history now with GE of doing business for more than 20 years. We have never even have had a situation where that plant had to shut down because we could not supply. Today I think quality delivery and of course you need to be competitive but competitive does not mean that you reduce margin, competitiveness means that you come up with a process and the flow that will be very, very effective and then you can be competitive and keep the same margin. I hope that answer your question.

Gagan: Just two follow-ups on that. One is that in Pharma I clearly understand that there is a revenue stickiness because of the reasons that you pointed out. In other domains they may not take away their existing business, but they can always cultivate, give vendors for additional products. What I am saying is that in businesses other than the pharmaceutical business, they may not take away the existing business from you. But they would always have the option of cultivating additional vendors for new product lines.

I do not know what their strategies are, do they restrict themselves to a very limited bucket of vendors or they obviously you guarantee that whatever comes in that some point in time there could be others who would fall into this bucket later on. So maybe you are at a phase of evolution where you are bearing the fruit of having gone through the hard patches. There could be others in the same business but in a different point in the lifecycle of development who could later on cope up. I am just trying to understand if that is in the case in other businesses or is it that there is more to it that I am unable to see here?

Sanjay Shah: See typically what happens is on the non-Pharma business if you were to look at it, let us talk about FMCG or Home Furnishing or any of the automotive businesses which we do. It basically takes the customer any time between a year to two years to basically qualify and work with the supplier. Even if you were to look at our journey with our Home Furnishing customers, we started with about Rs 40-60 lakhs went to a crore. We have seen actual ramp up happening in the last six, seven years.

After we have demonstrated on a consistent basis that we have been able to deliver quality, quantity what they require at the right price. So we need to be able to demonstrate that on a consistent basis to be able to grow that business. Tomorrow it is very easy to say that someone can just take in the assets and put in somewhere else. There are a lot of processes which go beyond this which basically when you work very closely with the customer you understand customers' requirements, customer's perception which get into your quality in the manufacturing process. So that helps you in terms of retaining business over a longer period of time.

Gagan: And on the insulin pens are these for analogue insulin only and I think Sanofi launched Toujeo in India. Would that have a separate product and would it be where?

Sanjay Shah: Toujeo in India has been launched on a pen called Solo Star which is their existing pen. We are doing the All Star pen. Coming back to your first part of the question, in most of our customer contracts, what we would have is a raw material as a pass through so this would be basically be with a lag of two months to three months to six months depending on customer contracts and depending on the type of inventories we carry for the customer.

The raw material typically would be a pass through. So whether raw material prices go up or go down, the raw material is pass through. We do not work on a conversion margin. So typically, we do not work with customer who basically consider us as a convertor. It is basically our belief that we are supplying a product to a customer and injection molding is probably a way of providing that service to a customer. So we have a blended margin which we work with the customer on. The customer is very much aware.

And that is one reason why if you were to see in the last three years, you have seen volatility on raw material prices, but you have not seen that volatility on our margins. When raw material prices have come down, my margins have not shot up. Similarly when raw material prices have gone up, our margins have not come down dramatically.

Gagan: When you say blended margin or blended pricing, what is exactly?

Sanjay Shah: Some of it is fixed, some of it is a variable portion in terms of a percentage.

Lavneesh: Hi, my name is Lavneesh and I am an individual investor in Shaily. One question that I have is since you worked with some of the major Pharma companies, and you are also involved in helping them get through USFDA approvals and stuff like that, do you also carry any product liability risks?

Mahendra Sanghvi: I think we have limited liability and we are insured for it. Sanjay can probably give you better understanding.

Sanjay Shah: So we would have some sort of a product liability insurance coverage which we would have and some sort of a product liability risk if the customer in terms of if the product which we are supplying does not meet the specifications which has been laid down. But in most of our customer contracts, we would have limited liability on that. So we would not have an open ended liability.

Management: Any further questions from anyone?

Participant: How much do these injection molding machines cost and how much room do you have for expansion in the same land and building?

Mahendra Sanghvi: Injection molding cost varies depending on the kind of product we are making and what kind of equipment you need. A 10 ton double shot micro injection molding machine might cost $200,000 or $250,000 but a 40 ton machine would be probably around the same price or a little less. So our injection molding machine selection is based on the products that we are making.

Participant: Currently over 100 machines set up in a particular square feet of area?

Mahendra Sanghvi: I am running out of real estate. Yes we are in a process of acquiring more land. We have enough space in our present premises, to grow the Pharma business which I think would be sufficient for next three to four years but we are in the process of acquiring more land and so we have finalized before end of this financial year.

Participant: Just wanted to check with you on 3-D printing. It is only as a prototype stage that it has made a significant impact or even at say certain level of production units where 3-D printing becomes more viable compared to normal molded?

Mahendra Sanghvi: See 3 D printing is mainly, it is not an efficient production tool. I only need to make maybe 100 pieces or 200 pieces or 500 pieces maybe I could use 3-D printing. But you know for regular production requirement, it is not suitable because many products that we run, Sanjay just talked to you about that where we said that we supplied in excess of 250 million with zero rejects.

Those molds I run as 7 seconds cycles. Each mold has 8 impressions so eight parts come out every seven second is like it is just not possible on 3-D printing. So 3-D printing cannot compete with injection molding per se but yes if we want to sometimes on certain electrical panels and all that if we need very few parts maybe it can be done by 3-D printing. But that is not the business we are in anyway.

Jay Shah: Hi, this is Jay Shah from OHM Portfolio. My question is this for your $100 million target, how much is the visibility back by the order book and are these some take or pay kind of orders that you have for the next two years?

Sanjay Shah: I think in terms of visibility we have probably talked about it in one of our calls, Amit has mentioned this that we would have about close to about 80%, 85% of visibility today in terms of either projects being executed. We would not have orders on hand but mainly in terms of project being executed or current orders which we are executing based on which we noted those other volumes which would be there. So there would be a gap of somewhere around 15% to 20% which we are working on filling that gap up.

Jay Shah: And normally your production would be based on the supply requirement from customers on quarterly basis, annual?

Sanjay Shah: All over production orders are based on orders. So we do not stock and supply. All of it is basically based on orders, so it is made to order.

Jay Shah: So generally if I am trying to establish the risk in terms of slippage, is it fair to say that slippage will not be more than 15%, 20% because of supply disruptions at the customer end or schedule disruption at the customer end?

Sanjay Shah: You could say that.

Kunal Mehta: I am Kunal Mehta from Valum Capital. Just wanted to understand you have already clarified that you are able to pass on the input prices fluctuations to your customers based on the contract you negotiate. But just wanted to get a sense of at any point of time what percent of your order book is exposed to these fluctuations? So are you able to pass it on in all the segments or is it only for the specially for the Pharma segments? And the second one is that we are seeing a consolidation on the PET side which is the main polymer for Shaily. So any views on that?

Sanjay Shah: Can you repeat the second part of your question?

Kunal Mehta: Yes so on the PET side which is the main polymer for Shaily, for manufacturing the products you make there is a consolidation amongst players in that segment so any view on how it will affect your cost structure?

Sanjay Shah: So typically if you were to look at it answering the first part of your question about 90%, 95% of our business would be on contracts where raw material price is a pass through. So a very negligible portion of it where we would not have a pass through. Incidentally we do process PET but we do not process only PET we do process a lot of PET polyethylene. So if you were to look at our basket of polymers we do about 100 different polymers and even if PET prices go up, basically we would be able to pass that on to the customer in terms of increased prices. So I hope that answers your question.

Kunal Mehta: So a 2 to 6 months lag?

Sanjay Shah: Yes, depending on the customer to customer it would vary.

Management: Any further questions?

Participant: How do you manage currency risk since you are 75% exports?

Sanjay Shah: So our largest customer on exports we bill it in rupees which is FX neutral. For balance of the exports we would basically keep it open ended because we have imports account for about 50% of our raw material sourcing. So basically that works as a natural hedge for us.

Participant: And what is the scale of your largest customer in your billing rupee?

Sanjay Shah: About 55% of our revenue comes from the largest customers.

Management: I would like to handover to Sanjay Shah for his closing remarks.

Mahendra Sanghvi: Yes, before we conclude I would like to apologize for not having enough chairs in the room so that some of you have to stand. But I would say most of you are very young so it should not be a problem.

Sanjay Shah: I would like to thank all of you for making the time and attending this meet. Thank you all for coming here. In case you have any further questions, you have our contact details you have contact details of SGA you can get in touch with either of us. We would like to invite all of you for High tea and please join us for High tea. Thank you.

Moderator: Thank you very much. On behalf of Shaily Engineering Plastics Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.