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

Sub : Q3FY22 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We enclose herewith Q3FY22 Earnings call transcript with regards to Earnings call of the Company held on January 31, 2022 to discuss the operational & financial performance of the Company for the quarter & nine months ended on 31st December, 2021.

A copy of the same is also available on the Company's website at www.shaily.com at <https://www.shaily.com/investors/investor-presentation-updates>.

Kindly take the same on record.

Thanking You

Yours truly,
For Shaily Engineering Plastics Limited

Preeti Sheth
Asst. Company Secretary
ICSI M.No. ACS36624



“Shaily Engineering Plastics Limited Q3 FY2022 Earnings Conference Call”

January 31, 2022

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**MANAGEMENT: MR. AMIT SANGHVI - MANAGING DIRECTOR - SHAILY
ENGINEERING PLASTICS LIMITED
MR. SANJAY SHAH - CHIEF STRATEGY OFFICER &
SGA, INVESTOR RELATIONS ADVISOR**



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Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY2022 earnings conference call of Shaily Engineering Plastics Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the 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. I now hand the conference over to Mr. Amit Sanghvi, Managing Director at Shaily Engineering Plastics. Thank you and over to you Sir!

Amit Sanghvi:

Thank you. Good morning and a warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I hope all of you are keeping safe and healthy. I have with me Sanjay Shah, our Chief Strategy Officer and SGA, our Investor Relations Advisor. I hope you had a look at our investor presentation that is uploaded on our website as well as the stock exchange.

With each passing quarter, we have been registering growth on our topline sequentially. I am pleased to share with you that our nine months results this year have been far greater than any of our four year results thus far. Our new plastic facility at Halol is up and running and we are gradually improving utilization. Orders received over the previous quarter are gradually picking up pace and momentum will be continued during the period results.

We are absolutely working at our design and research center in the UK. I am glad to share with you that under Shaily UK we have acquired two additional patents for both pen injectors as well as auto injectors. The scope of this business is immense and we are working very diligently to maximize this opportunity. Our objective is to be a leading player in self administered injection systems globally. We have done quite substantial business development efforts and we are finally seeing the fruits for the same. Apart from Europe, we have also started catering to Middle East markets in this segment. We are deepening our foray across contract manufacturing of medical devices, developing our own IP and products and platforms as well as specialty packaging.

our ability to develop IC in our own platforms are finally paying off. We currently have total of five platforms for various molecules and are working towards developing the auto



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injector for particular molecule. We have also received confirmation business awards for two additional injector pens which will be developed in Shaily, UK.

Talking a bit about business from our largest customer we see as they are increasing their footprint in domestic as well as global markets, we are equally getting our share growth from the increased pie and we continue to be an important part of the supply chain. I would like to announce expansion projects here as well. We will be expanding our gross manufacturing capacities in the current year and the new capacities will be operational by Q1 of FY2023. Under our automotive and engineering business, we have received confirmation for three additional actuator rods which contribute to a pretty large business value in the automotive segment. We will start commercializing these rods from calendar year 2023.

We have raised funds at the beginning of the current fiscal year, we have started utilizing to expand not only core business of home product sale, but we are also investing in toys and healthcare. We are planning to spend approximately Rs.200 Crores over the next 18 months out of which more than half spend will be towards pharma part of the business for growing device part as well as scaling our manufacturing of devices where we have created our own IP.

Before I hand over the call to Sanjay Shah, our Chief Strategy Officer to give you an update on operating and financial highlights for the quarter, I would like to share an update with you. Our CFO - Chintan Shah has resigned from the post and today will be his last working day at Shaily. We thank him for his contribution towards the best of Shaily and wish him best for the future endeavours. Thank you. I would now like to hand over the call to Sanjay Shah.

Sanjay Shah:

Thank you Amit. Good morning everyone. I will share with you the highlights for operational and financial performance of Q3 and nine months ended FY2022 following which we will be happy to respond your queries.

During the quarter, we processed 5,321 tonnes of polymers as against 4,444 tonnes in Q3 FY2021. In Q2 FY2022 we processed 4,498 tonnes of polymers. For nine months FY2022 we processed 13,912 tonnes of polymers as against 10,246 in nine months FY2021.

Machine utilization was 61% in Q3 FY2022 as against 70% in Q3 FY2021. This is due to additional capacity in place in Rania and the new Halol plant. Machine utilization will ramp



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up in the coming quarters as we move forward. Exports during nine month FY2022 stood at 79% of total revenue as compared to 72% of the same period last year.

Now I shall brief on the standalone result highlights. Revenue stood at Rs.148.3 Crores during Q3 FY2022 as compared to Rs.105.5 Crores for the same period last year marking a growth of 40.5%, on a year-to-date basis nine month FY2022 revenue stood at Rs.413.2 Crores versus nine month FY2021 revenue at Rs. 250.8 Crores. Commencement of commercial supply from new plastic facility and ramp up of other businesses is helping the topline businesses to grow. EBITDA of Q3 FY2022 stood at Rs.24.3 Crores as compared to Rs.18.9 Crores in Q3 FY2021. EBITDA margin stood at 16.4% in Q3 FY2022 as compared to 17.9% in Q3 FY2021. For nine month FY2022 EBITDA stood at Rs.68.3 Crores to 16.5% EBITDA margin versus Rs.40.1 Crores in nine month FY2021 with EBITDA margin of 16%.

Net profit stood at Rs.9.3 Crores for Q3 FY2022 versus Rs.8 Crores in Q3 FY2021. For nine month FY2022 net profit stood at Rs.27.8 Crores versus Rs.12.3 Crores in nine month FY2021. Cash PAT for Q3 FY2022 was reported at Rs.16.5 Crores as compared to Rs.12.8 Crores for the same period last year. For nine month FY2022 cash PAT stood at Rs.47.4 Crores versus Rs.26.2 Crores in nine month FY2021.

Gross debt at the end of December 31, 2021 including working capital stood at Rs.262 Crores. For the quarter, we incurred capex of Rs.19.41 Crores.

With this, I would like to summarize on the operational highlights front and let you all know that we are working actively towards diversifying our business model and we would see better results in quarters to come as the new orders start ramping up.

This is all from our side, now we can open the floor for Q&A.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah:

Thanks for the opportunity. I have one question for Amit and three for Sanjay Bhai. Amit, is it possible for you to give a broad indication on the number of pens that probably you look to monetize yourselves say two years out and potentially if you can actually break it up between what percentage of it would be IP base, I presume currently the number might be low, I am trying to just get a sense of how big the business can be and given the mix



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within contract and IP, if it changes how will it help us on the margin profile? That is the first question for you.

Amit Sanghvi:

We currently do about 6.5 million to 7 million pens per year. We intend to ramp this up to close to 20 million over the next two years. Exact timing will always be going to be plus or minus two quarters, so I would not be able to comment on that, but in this ramp up you will see contract manufacturing to be about 7 million to 8 million pens and balance will be pens from our own platforms.

Ritesh Shah:

If one had to look at the status, I think earlier we had indicated around IP based we had five injector pens, can you highlight at what stage is it like the filings have already been done by the customers, some broad color over here would be quite useful?

Amit Sanghvi:

One of our pens Axiom which is meant for delivery of teriparatide has been filed and the filing is under review. Our customers files with the US FDA, file is currently under review, but we anticipate approval in the current year and it will be launched on approval so we should see launch happening towards the end of the year as well. One of our second products comes in three different molecules. Two of those molecules have been filed. Third one is currently work-in-progress, but we should see approval for those molecules as well before Q1 of calendar 2024. Then for Middle Eastern markets in some of the reps are RoW markets, we have done the next phase, documentation and registration work and we will be starting supplies shortly in Q2 of FY2023. On another platform, I am not naming the platform here because giving up confidential information but on another platform, we have a product which was NCE-1 filing which has been filed by two of our customers in the US in December 2021 and even though approval might be at end of the year but launch based on current information will not be before 2027 and then we continue to work on auto injector for an upcoming molecule and we also continue to work on new pen platform that we have acquired which is innovative technology, slightly different than what we currently do again for advanced GLP-1 therapy.

Ritesh Shah:

Next question is on the inventory levels, on the first half basis, the inventory had actually moved up very sharply, I presume it should have gone down because you have indicated in revenue that healthcare and toys both have done well, so if you can provide some color on the numbers on inventory and how it has panned out on a sequential basis that is something which will be useful. The second question is on interest cost, it has moved up pretty sharply on a sequential basis and the third is basically how should one look at gross margin movement on a year-on-year basis, is it purely a function of raw materials and how has the raw material prices moved up or is it something which is the change in mix? Thank you.



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Sanjay Shah:

Ritesh, on inventory level, if you were to look at from September 2021 to December 2021, inventory levels have gone up a little bit, the reason is that in this quarter especially during December, we had issues of container availability, so we had FG which was in stock with us, in fact our expectation was we could have had higher revenue as compared to what we achieved if we could have got those containers, so inventory levels are marginally little higher. We expect inventory levels to come down as we speak over the next two to three quarters. The second question was on the interest cost where you said that interest cost has gone up. Interest cost has gone up again on two counts. One is, till September whatever debt was raised for the new plastics facility was capitalized until the plastic facility got commercialized, so this quarter was a full quarter when interest cost for the plastic facility was charged to revenue. This was one. Second is on export where there is this RBI subvention which was 3% on export financing. That was available till September 30, post that the government or the RBI has not renewed this and we do not have clarity on that, so we have paid a higher interest to our bankers and that accounts for the higher interest costs. Gross margin, I do believe have come down a little bit, but as the raw material passthrough happens with customers, we should get back to normalized margin in the next two quarters that is exactly what I said in September also, we expect by the year end we will be back to normalized margin, so I would still stand by that.

Ritesh Shah:

Just a followup on the first thing, how should we look at logistic issues, basically if I look at the revenues on a sequential basis, we do not see much of moment year-on-year obviously it was pretty good, had it not been for the container issue, what the revenue growth would have been like would it be closer to 50%, how should one read into it? Secondly a related question, how does it impact the viability of the business if the container freight rates continue to remain higher for extended period of time which you have seen over the last year-and-a-half?

Sanjay Shah:

Sequentially, if you were to look at it, we would have had over 10% growth sequential If we did not have the container issue, little over 10% in terms of growth, so that is what it would have been. I think freight rates have gone up not only from India, but across the world, so some people are importing from China or somewhere else higher freight rates are being paid, based on discussions which we have been having with people we expect that between this quarter and next quarter, you would see this container issue getting stabilized and availability improving, so we will be able to get containers and able to move on, but there are challenges which are there which we need to address and we trying to address from our end.



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- Ritesh Shah:** But, is the freight issue, does it dent into our margins or is it the customer who takes care of it x-factor basis?
- Sanjay Shah:** On exports, customer takes up into account, from a landed cost material perspective, it gets adjusted with the customer on a lag basis.
- Ritesh Shah:** So there is no impact on our margins if the freight rates move up it is only the throughput that could actually get delayed by a quarter or so, would that reading be correct?
- Sanjay Shah:** Right.
- Ritesh Shah:** That is very useful. Thank you Amit. Thank you Sanjay Bhai. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.
- Manish Gupta:** Thanks for the opportunity. First question for you Amit, can you give us some flavor of the kind of conversations you are having with your clients now that your balance sheet is significantly strengthened and have you been doing more complex kind of products vis-à-vis what Shaily has been doing in the past?
- Amit Sanghvi:** Certainly. I think not just growth and topline, but customer also recognizes that Shaily keeps improving its financial performance and therefore has the ability to take on larger projects, you have seen that happen already with our largest customer and we also see it increasingly happen in the toys space as well as on the healthcare side, so we are ramping up one of our pens to create a capacity of 10 million pens per year which is of course through the various discussions and the performance that we have shown on these products.
- Manish Gupta:** Are you winning with your largest customer, are you gaining wallet share of the business that they are buying from India?
- Amit Sanghvi:** Yes we are the largest plastic supplier out of India and we continue to grow that business at the same pace.
- Manish Gupta:** And at any given point in time, I mean, how much visibility do you have of how big that business could be on a rolling three-year basis or is it always 12 months as new programs are negotiated.



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Amit Sanghvi: There is a joint business plan between the two of us in the sense between Shaily and the customer, I cannot comment on it Manish but we would say that we anticipate aggressive growth at least for the next three years.

Manish Gupta: Okay. My next question is that you just mentioned about 200 Crores Capex over the next 18 months. What would that imply in terms of gross block in fiscal year 2024 ending.

Amit Sanghvi: Manish our current gross block is a little less than about 300 Crores so if we add 200 Crores you will basically be looking at around 500 Crores of gross blocks.

Manish Gupta: By March 2024.

Amit Sanghvi: Right.

Manish Gupta: Third question was that historically Amit we put in a lot of Capex in the pharma side of the business and we had issues in being able to sell out that plant. So now when we are embarking on such an aggressive Capex program do you have firm visibility of business here or is the belief that we have got the competency and we will be able to sell out this plant or do you see visibility for this revenue.

Amit Sanghvi: So we are looking at building about 1,00,000 square feet of additional facility for pharma and I would say that all in all we are provisioning for 36 new machines and we have visibility for about 25 of those and the equipment will be brought in phases it is not going to be a one-time investment. So we will increase the capital as and when needed or increase the number of machines as and when needed but we have far larger visibility today than we did in 2014.

Manish Gupta: And any risks you want to talk about Amit that you see for the business I mean risks that you are aware of but you would like to share.

Amit Sanghvi: I think biggest risk to our business is essentially human capital. So, discussion, grooming the next generation of managers meeting additional people is a challenge.

Manish Gupta: Yes, we lost our CEO and now the CFO has also resigned I mean why is it that we have had two of our senior people leave us in fairly quick succession.

Amit Sanghvi: So I think with Anil it was certainly health, which was not there, it was a mutual decision. Chintan as I think realized that he wants to probably be a more active or probably



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participate more actively in maybe the startup space of India so he wants to devote a significant percent of his time to helping startups and I wish him the best of luck.

Manish Gupta: Okay excellent thanks Amit as always for all the transparency and congratulations for all the progress that is being made.

Amit Sanghvi: Thanks for your support Manish.

Moderator: Thank you. The next question is from the line of Utkarsh Jain from Fintree. Please go ahead.

Utkarsh Jain: Hi guys. Thank you for the opportunity. So I just wanted to ask a follow-up question on one of the questions which was asked earlier. We mentioned that the gross block by the end of fiscal 2024 would be about 500 Crores. So what kind of asset turn are we looking at on a gross block level.

Sanjay Shah: You would still look at somewhere between 2% to 2.25%.

Utkarsh Jain: See the reason why I am asking this question is that in the earlier presentation you used to provide a strategic target of \$100 million of revenue by FY2020 right. So I am just trying to get a sense of how do I visualize Shaily let us say over a period of three to five years how do you see things moving, where do you think and what kind of numbers would you be able to hit on a very broad level.

Sanjay Shah: Utkarsh I would refrain from giving more of forward-looking numbers, but I think we are giving in the Capex requirement we are talking about different individual businesses as well as we recently told you the sales to Capex numbers I think you could probably make a sense in terms of what sort of numbers that would be.

Utkarsh Jain: Sure but if I take let us say an asset turn of 2.25 we are looking at roughly about doubling our revenue so when do you like I am guessing 2.25 is coming at full capacity so do you think by end of 2025 we will be able to reach there.

Sanjay Shah: Utkarsh I would refrain again from giving some sort of a sense in terms of the numbers or something but we are quite confident of the growth which we are talking about is the way I would put it out.



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Utkarsh Jain: No I just wanted to ask like are you confident of reaching that asset turn on the gross block level at full capacity by end of 2025. Keeping the numbers aside like do you think that is the visibility.

Amit Sanghvi: From whenever we make the Capex it takes roughly 12 months to ramp up on an average sometimes more sometimes a little less these are large Capex which means we are setting up facilities we are not investing in a few machines at a time. So the ramp up phase would be a little longer.

Utkarsh Jain: So let us say about a year a from the...

Amit Sanghvi: Because we are not going to give you a year so I think just based on the discussions that we have shared with you can probably put in some guess and as to when that revenue can happen.

Utkarsh Jain: Sure understood thank you very much. Appreciate.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you for the opportunity and congratulations for the results. Sir just some clarification on the initial remarks that Amit bhai made and also on some of the answers that he made. So if you are doing something around let us say 6.5 or 7 million just now did I hear correctly that we are targeting 20 million in the next two years.

Sanjay Shah: Yes.

Kaushal Shah: Okay because if I remember correctly we were talking of doubling this number in two years and doing 20 in four years so does that mean that we are preponing this 20 million target by two years.

Sanjay Shah: So Kaushal what we have said on the pharma part of it is we were looking at a 2 to 3x growth over the next three to five years. The number that Amit gave you was in terms of a 20 million pens and we currently do about 6.5 million pens across different platforms which will go to 20 million again across different platforms.

Kaushal Shah: Right, so what I am trying to kind of just understand is the road map towards that so what we are saying is now we are sort of confident I mean obviously I am not holding on to a particular number what I am trying to say is that we are confident of doing 20 million in



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two years I mean it could be plus or minus maybe six months here or there or even this number of 20 million could be higher or lower but directionally we are confident of achieving this earlier than what we had earlier envisaged.

Sanjay Shah: Yes so we were at the development stage earlier and today the confidence comes from the fact that our customers have done the filing and have done the validation of the product which has been supplied by Shaily.

Kaushal Shah: Great and Sir some more color on the toys segment obviously we have ramped up our numbers over the last three to four quarters we were also targeting more business from newer customers like Hasbro etc. So if you can kind of maybe throw some more color on that segment and where we expect and what numbers can we do in maybe next one year or two years' time

Sanjay Shah : we are looking at about \$8 to \$10 million of business in FY2022 I think we will achieve that number. As we speak we did a very large shipment of a very large product for a global toy company and a global entertainment brand which was launched from India for the first time so this was done very, very successfully we are now looking at ramping up that business and adding more SKU's as we speak so we have now commercialized two more products which we will start or we have started supplying in the current quarter onwards and we will be looking at ramping up and look at adding more products with these customers as we move forward.

Kaushal Shah: And Sir if I remember this Capex plan we have discussed , this number of 200 Crores even earlier and we had said that 100 Crores is towards pharma and the other 100 Crores is towards other segments including toys so this \$8 or \$9 million that we are targeting in the current year given the Capex and given the visibility do you think we can potentially I mean again directionally I am just asking can we double this number maybe in two years time.

Sanjay Shah: I would refrain from commenting on that but I think what we have said earlier I have to stick to that from a three to five year perspective whatever we did in FY2021 in terms of business with home furnishing we can get to that sort of a number over a three to five year horizon.

Kaushal Shah: Okay but Sir if I do this math of let us say \$8 or \$9 million we are already doing again ballpark around maybe 60 odd Crores revenue so that would imply a kind of 2.5 or 3x kind of a growth from that number because I mean I do not have the number for the Swedish furnishing major so I am just trying to do a little bit of rational.



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Amit Sanghvi: That is obviously right you have the numbers from the home Furnishing major if you look at it because you have said about 55% of it comes from the home furnishings major for FY2021 so that number is there but yes you are broadly right.

Kaushal Shah: Okay great. Thank you so much.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Managers. Please go ahead.

Aman Vij: Good morning sir. My first question continuing on the toy side so we are already running at close to peak kind of run rate which we have talked about in the last con call so when do we see the next ramp up happening in the toy segment and by which quarter are you seeing that ramp up from the current because we are already at full kind of utilization which we have talked about earlier.

Sanjay Shah : I probably did not understand your question, so if you can elaborate a little bit it will be helpful.

Aman Vij: Yes, sure. So we had talked about that at full utilization we can do \$8 to \$10 million or like \$2.5 to say \$2.5 million a quarter run rate and sir we had discussed this during the last con call itself we are very close to that and maybe we would have done close to that number in this Q3 so I am saying when do we see the next ramp up happening in terms of either getting more orders or getting newer customers in the toy segment.

Sanjay Shah: We are constantly working on that as I mentioned to the earlier participants also on the call that is what we are looking at we have just commercialized two more toy products and we will be looking at supplies starting this quarter and going over the next couple of quarters. Toy business is a little more seasonal as compared to other businesses so there are three distinct seasons when there is a fairly large ramp up which happens and then the ramp up happens basically when you introduce a newer toy or something so there will be periods when for pockets there will be full utilization and there will be some pockets where you have a little lower utilization so we are also trying to understand and build up a portfolio which can be more balanced around that.

Aman Vij: Sure Sir. In terms of gross margins for the different products specifically on toy segment, is it dependent on the complexity and size of the product or is it dependent on the customer to customer or is it broadly similar across the different customers and different type of products for us in the toys.



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Sanjay Shah: Broadly we are more or less similar for different customers there will be some differences or something but gross margins will more or less be the same again product to product would have different gross margins depending on the complexity of the product.

Aman Vij: So my question was Sir you have talked about we are doing much bigger sizes or much more complex products now. So directionally does the overall gross margin profile of toy segment do you think will be much better say two years hence versus what is it today.

Sanjay Shah : Aman I would refrain from answering that again being in a B2B business would not want to comment on individual segment wise or customers wise now.

Aman Vij: Okay no issues. Next question is that in our presentation, there are loans and advantages of 159 Crores in the standalone balance sheet so if you can talk more about this number.

Sanjay Shah : Let me know which page are you talking about.

Aman Vij: So Sir slide #10 where we have given standalone balance sheet in the presentation there is this 159 Crores number in loans and advances.

Amit Sanghvi: So that includes the fixed deposit with the bank from the preferential issue which we have raised.

Aman Vij: Okay should not it be in cash and cash equivalent and why is it in loans and advances.

Amit Sanghvi: So cash and cash equivalents have basically been taken as exact cash and cash equivalents in the presentation if you were to look at the balance sheet which has been published with the result they come into cash and cash equivalent.

Aman Vij: Okay no worries. My next question is on machine utilization Sir so we are obviously adding capacities and that is why it is hovering around 60% odd utilization when do we see this coming to? In FY2018 we had like 75% kind of utilization level so when do we see this kind of higher utilization level because this will also mean better utilizations and so better margins for the overall company.

Amit Sanghvi: We should see utilization levels improving next year.

Aman Vij: So you do you see 70% plus kind of utilization for the FY2023.



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- Amit Sanghvi:** We see utilization numbers improving for FY2023 I would again refrain from giving on a percentage but yes we do see utilization levels improving as we move forward. What you need to look at is we added around 20 plus machines in our new Halol facility which you are seeing in October, November, December is being available for the full period so that is one of the reasons and we would see improvement as we move forward.
- Aman Vij:** One more clarification on this. So with this 200 Crores Capex where will this machine number go to say by FY2024.
- Sanjay Shah:** It should ideally be going to around 80% utilization as we ramp up the business.
- Aman Vij:** And Sir the total number of machines roughly broad ranges if you can give by FY2024, just to understand.
- Sanjay Shah :** It will be difficult for us to do that.
- Aman Vij:** What is it today.
- Sanjay Shah :** It is around 180 plus.
- Aman Vij:** Okay this is after you have included this 20 new machines which we did in Q3.
- Sanjay Shah :** Right.
- Aman Vij:** Sure sir. Coming to the final question on the pen segment. So you have talked about scaling this number to 20 million in roughly two years so will the growth be back ended or can we see a good growth of, this is like doubling so maybe 40% - 50% growth in FY2023 numbers also.
- Amit Sanghvi:** We see from the current level FY2023 will probably be 20% higher than what we currently do and the reason is that we need to scale up we do not have the infrastructure to build more than it. So it is going to take us 12 months to create that infrastructure and then in the following year we will see ramp up.
- Aman Vij:** And you have in a way kind of confirmed orders or quite a good visibility in terms of pen or any risk you see of reaching this \$20 million number.
- Amit Sanghvi:** No I do not think that we have customers that will confirm orders for two years out but the nature of business is such that if they are buying from us it is not something they can switch



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to someone else for now. So as long as their ramp up plans are in line with ours we should see the volume growth.

Aman Vij: And sir do we need to add many more such platforms to these \$20 million numbers or do you see from the current set we will be able to reach it.

Amit Sanghvi: This is for the current platforms it always happens at least in healthcare that from the time you develop and commercialize a product to when ramp up happens you typically have three to four year period so we started developing this particular platform about three and a half years ago and we are now finally seeing the ramp up of that plant.

Aman Vij: There was this 3 Crores number in the other income could you clarify more on that for this quarter.

Sanjay Shah: We will revert back on the same some of it is basically interest income but we will need to revert back on the same.

Aman Vij: Sure, Sir. Thank you, that is it from me.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Tokio Marine. Please go ahead.

V Balasubramaniam: Yes, I had a very simple question I mean the demand outlook for you looks fantastic you either have the capacity or you plan to increase capacity to meet that demand what I am a little worried about is the fact that are people there to execute the same because see there is a little bit of a concern that the lack of a CEO and now a lack of a CFO so in terms of managing day-to-day activities have you already identified people internally who could become the next CEO or the CFO or you are planning to hire people from outside any kind of update on CEO and CFO hiring would be very, very useful.

Amit Sanghvi: I think your concerns are rather also happen to be our concern. The CEO search is ongoing so we have interviewed and had advanced discussion with certain candidates but it is something that is not closed yet. As far as our CFO is concerned we have hired a General Manager, Finance who can currently manage operationally at least what Chintan used to do but I think on a more strategic side he will certainly need grooming over the next two years. So Sanjay Bhai and I will be spending the time to groom him into a CFO and if we are able to find the right candidate and given the business growth we will look at hiring this CFO as well. Our second line of managers have performed exceptionally well operational



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second line has performed really well over the last 18 months I would say so while there is a need to certainly get a CEO or sort of a Chief Operating Officer I would say the current staff has really taken up the challenge and are performing well.

V Balasubramaniam: Okay thanks for that all the very best for the future.

Moderator: Thank you. We move to the next question from the line of Faisal Hawa from H.G Hawa and Company. Please go ahead.

Faisal Hawa: Sir just like we developed IP almost three, four year back and now they have flowered into like a huge and regular business for us how many such development are we making at this point of time which will be very small in terms of revenue but they could move into the same league in two to three years from today. So how many such developments or clients would be conducting at one year into it.

Sanjay Shah: The three key areas where we are looking at growth coming in from in addition to what you mentioned was, one is on the pharma space where our IP led pens as well as contract manufacturing of medical devices, we have been investing a lot in terms of growth for that and that is going to come. So that is one part of it, second is going to be toys as we speak and third is going to be the specialty automotive business which we do where the business will be small but it will be very niche business which we would have as we move forward. So, these are three areas where we have been working in the past years to grow the business.

Faisal Hawa: Sir may I request you to repeat the second one because at that time your line was breaking.

Sanjay Shah: Sorry I will just repeat it, I said that the second part I mentioned was on toys the First part which I mentioned was on the pharma led in terms of our own IP led devices as well as contract manufacturing of pen platforms or medical devices and the third point which I mentioned was basically the niche auto business which we do where again while the business is small it will grow at a much faster pace in the next three to five years.

Faisal Hawa: And in all these three spaces we would be having some kind of styles or some kind of progress in terms of approvals etc.

Sanjay Shah: Yes so these three things which I am talking about is where we have active discussions, active projects, active business confirmations from customers.

Faisal Hawa: Correct yes so this means that we are having a very good pipeline of things to come up also.



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- Sanjay Shah:** That is what we are trying to have.
- Faisal Hawa:** We would be like at least 15 to 20 different companies that we will be trying out.
- Sanjay Shah :** I would not get into the number of companies or something but yes we have an active pipeline which we work on with different customers.
- Faisal Hawa:** And if I may ask that somebody fully be in charge of this who handles only people who are in initial stages of development.
- Sanjay Shah:** We have somebody who is on charge of this development.
- Faisal Hawa:** Yes, I mean somebody who is heading this like a division because I think this is a very important...
- Sanjay Shah** See we have a technical team which is split between pharma and non-pharma and within non-pharma they have different teams for toys, home furnishings and other customers. So there are specific teams which basically work with the customers in development across different verticals.
- Faisal Hawa:** Okay you have answered my question very well Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.
- Ritesh Shah:** Hi Sir thanks for the opportunity. One question for Amit sir you have indicated that there are a number of molecules and you indicated how the ramp up can actually play out I just wanted to understand the sort of investment which goes into when we go for a build up for any particular platform when you are indicating it takes up to three, three and a half years now how should one just understand the math if I was looking at it from a IRR standpoint.
- Amit Sanghvi:** I think your line is very poor I apologize but what I understood from your question is about the amount we typically invest in a platform or a molecule I think is that correct?
- Ritesh Shah:** Yes.
- Amit Sanghvi:** Over that three to five year period correct.
- Ritesh Shah:** That is right.



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- Amit Sanghvi:** So it is different for different platforms we do not have a baseline to be honest because when we acquire IP it costs us a lot more than when we develop it on our own, but of course given time value of money and the investment for the time that or the opportunity lost we are better off with doing a combination where our teams work on creating IP but we also acquire good IP when it is available, hard to tell, it can range from couple of million dollars to as high as five seven per platform, so not per molecules because there are multiple molecules on the same platform.
- Ritesh Shah:** Okay and if one had to understand the economics between the differential on margins between contract versus IP can one assume that it will be on low single digits or high single digits or low double digits.
- Amit Sanghvi:** Sorry can you repeat that please.
- Ritesh Shah:** If one has to understand the margin profile for IP versus contract as a mix changes incrementally I am just trying to get a sense on how actually the margin trajectory could work a broad answer should be fine.
- Amit Sanghvi:** I think when you own the IP inherently you will make slightly better margins at least and not entirely, not substantially different but you will make slightly better margins and it again depends on the therapy area so in insulin space which is very heavily commercialized which means you are looking more for revenue and volume than just your margins so it does depend on the molecules as well.
- Ritesh Shah:** So if the margins are slightly better would it imply that the volumes that you would probably get over here would be significantly higher given its the company's IP and the competition will be lower.
- Sanjay Shah :** I did not understand your question Ritesh could you please repeat it.
- Ritesh Shah:** So if we are incurring anywhere say \$5 to \$7 million for a particular platform which would have multiple molecules what Amit indicated is the margins could actually be a slightly better and given we do not have confirmed orders over here but we have a visibility given we work with a particular company does it essentially imply from a return ratio standpoint if the IP actually succeeds on a platform we will be in a position to actually get better volumes on that particular device because the margin differential if it is not much it has to be compromised or offset somewhere else, right.



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- Amit Sanghvi:** Sorry on our own devices for example we have invested let us say \$4, \$5, \$6 million the question is do we see better returns.
- Ritesh Shah:** Yes.
- Amit Sanghvi:** Yes, I think because given that margins are slightly better you do see better returns but it takes time so I think if you look at it from a maybe an IRR perspective you should not start calculating IRR until you are five on a particular molecule I mean, because you always have a pipeline which means whatever you develop will ramp up in three to five years so there will be ongoing investments in new technologies I do not know if I answered your question.
- Ritesh Shah:** Okay I will put it in a simple other way round what is the probability of getting it right basically if we have invested in five separate platforms will the success rate be a 60% or more.
- Amit Sanghvi:** Yes, somewhere between 60% and 70%. We have invested in five platforms I am fully aware that one of them will not do well.
- Ritesh Shah:** I have a second broader question how should one understand the export mix region wise and is there any risk for any of the global treaties basically you have FPAs which are there RCEP which is there, there are different duties which come in at any point in time. So if one can give a broad sense on the export mix region-wise and do you think on this and how does the management look at it given the trade remedial measures can come in from any country at any point in time is there any risk that the company faces on that count.
- Sanjay Shah:** So major exports Ritesh is to Europe and US where we currently do not see any major risk in fact what we see is an advantage with the US and the European market as most of our customers are looking at derisking themselves from China so we see an opportunity to in fact to grow the business.
- Ritesh Shah:** And any thoughts on the local policies be it RODTEP more clarity or are we expecting PLI on any of the segments where we are operating in.
- Sanjay Shah:** Your guess would be probably as good as mine my sense here is that if I go to look at incentives for exports what the government has been doing over a period of time is the incentives which have been available for exporters has been coming down but MEIS not being given to EOU units as I said from 1st of October interest subvention has not been



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renewed by the RBI so effectively the incentives available to exporters have been coming down so which is an area of concern. which we have for policies.

Ritesh Shah: And anything on PLI and anything of that sort any industry representation which has been done.

Sanjay Shah : I think OPPI where Mahindra bhai has been the president has made a representation but they have not heard back doing out come so far. Similarly we have been hearing about the toy industry association making a request for PLI but again nothing has been heard about it so.

Ritesh Shah: Sure that is quite helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil from Perpetual Investment Advisors. Please go ahead.

Nikhil: Thank you for the opportunity. My first question is on what is our capital allocation policy so for example now we are aggressively investing for the pharma business so is it based on maybe a minimum ROCE or IRR or maybe a payback period and can we expect the incremental ROCE to be higher than the existing going forward.

Sanjay Shah : Nikhil when we look at making investments we look at two or three benchmarks and this would not be looked at from a short-term perspective but from a medium to long-term perspective one is the potential for that business to grow and be profitable and sustain profitable over a long time period this is one thing which you look at it, and then there are two key matrixes which we look at is either an EBITDA margin or an ROCE margin. So these are things which you would evaluate and based on what it does to overall Shaily is what you would look at typically whenever we would be adding businesses we would look at building over that medium to long-term adding to our EBITDA margins or our ROCE margins and that is the way we would look at it.

Nikhil: Understood so I mean with the gestation period but we can expect incremental ROCE or EBITDA to be higher than the existing legacy business in a way. So what is our right to win in the business so is it our people, the process that we follow or maybe our plant is that high tech or is it our products how do we compete with our competition on either of these front is it a mixture of all four or is there one element which sort of is advantageous for the company.



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- Sanjay Shah :** Every business will have a different expertise which is required to basically get that business so that is something which would be unique to every business.
- Nikhil:** Understood so as you mean to say according to each vertical of the business so maybe for the furniture business it is something else for the toys business it is something else.
- Sanjay Shah :** Within this vertical also a lot of it will depend on relationship with the customer the need of the customer and anticipation it will depend on multiple factors.
- Nikhil:** Okay. So one last question is can you explain a bit about the business as the new UK subsidiary and what would how would it function and what would be the revenue model at the business.
- Amit Sanghvi:** So the subsidiary is primarily responsible for creating technologies and developing our platforms to the point where it is ready for industrialization we essentially have I think two aspects to the platform business model there is a one-time fee that is charged based on the customizations and developments that the customer needs which is essentially the cost that we incur in the UK so that revenue will flow over there but supplies will be made from Shaily in India so whatever supplies are being made will flow into Shaily India.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint we take that as the last question. I would now like to hand the conference over to Mr. Amit Sanghvi for closing comments. Over to you, Sir.
- Amit Sanghvi:** Thank you. Thanks everyone for joining the call. We hope that we can able to answer your questions adequately for any further information I request you to get in touch with SGA our investor relations advisors. Thanks once again.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Shaily Engineering Plastics Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.