

Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1987

Target: ₹ 2235 (12%)

Target Period: 12 months

HOLD

August 8, 2022

Higher RM cost drags margin...

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

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

Q1FY23 Results: Delay in price hikes drags EBITDA margin; strong topline growth continues amid ramp up of new capacities.

- Revenue grew ~43% YoY to ₹ 172 crore led by 60% volume growth. Strong volume growth was led by execution of orders in the Furnishing and healthcare segments
- The EBITDA margin declined 439 bps YoY to 11.4%, mainly due to a delay in passing on of high raw material costs
- PAT declined 8% YoY to ~ ₹ 7 crore, tracking high depreciation and lower EBITDA margins in Q1FY23

What should investors do? Shaily Engineering's share price has grown by ~3.15x over five years (from ~₹ 630 in August 2017 to ~₹ 1987 levels in August 2022).

- We have revised our rating from BUY to **HOLD**

Target Price & valuation: We value Shaily at ₹ 2235 i.e. 29x on FY24E EPS.

Key triggers for future price performance:

- The company envisaged ~₹ 200 crore of capex plans for FY22E-24E to ramp up capacity in toys, healthcare and home furnishings
- New client additions will help drive healthcare segment revenue to 2-3x in the next three to five years. The company has added two new clients in the toy segment (Spin Master, Hasbro)
- Incremental sales of high margin products (like healthcare) will help drive EBITDA margins for the company

Alternate Stock Idea: We like Supreme Industries in our coverage.

Supreme Industries (SIL) is India's leading plastic processing company. It is the market leader in the PVC pipe industry with a value market share of 15%. It has a robust balance sheet with RoE & RoCE of 24% & 27% (five-year average)

- BUY with a target price of ₹ 2175



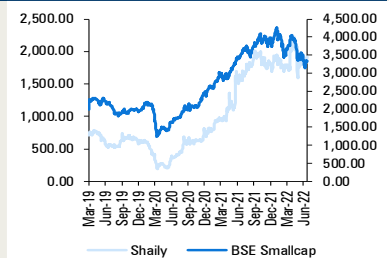
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,822.8
Total Debt (FY22) (₹ Crore)	173.8
Cash & Inv (FY22) (₹ Crore)	43.2
EV (₹ Crore)	1,953.3
52 week H/L	2390/1500
Equity capital (FY22) (₹ Crore)	9.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.1	46.3	46.3	43.8	43.8
FII	0.1	2.5	3.5	6.1	6.9
DII	13.7	13.3	13.4	13.5	13.8
Others	35.1	37.9	36.8	36.6	35.4

Price Chart



Recent event & key risks

- Key Risk:** (i) Higher than expected topline growth (ii) Delay in passing on high input prices

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	338.3	336.0	360.6	565.9	18%	702.1	862.7	23%
EBITDA	52.6	58.1	59.6	81.0	15%	98.1	138.0	31%
EBITDA Margin (%)	15.6	17.3	16.5	14.3		14.0	16.0	
Reported PAT	19.3	23.6	22.0	35.1	17%	44.4	71.7	43%
EPS (₹)	23.2	28.4	26.5	38.3		48.4	78.1	
P/E	85.7	70.0	75.1	51.9		41.0	25.4	
P/BV (x)	12.1	10.4	9.1	5.0		4.5	3.8	
Mcap/Sales (x)	5.4	5.4	5.1	3.2		2.6	2.1	
RoCE (%)	16.2	14.2	10.8	11.4		13.0	17.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Production ramp up drives volume growth; EBITDA margin pressure continues amid high raw material costs

- Standalone revenue increased ~43% YoY to ₹ 172 crore, supported by ~60% volume growth in Q1FY23. Strong volume growth was supported by launch of new products for a Swedish furnishing major and ramp up of toy and health care products. On a three-year basis, revenue grew at a CAGR of 29% led by same amount of volume growth
- Shaily witnessed a sharp fall in gross margin by 642 bps YoY (138 bps QoQ) mainly due to a delay in passing on of raw material prices. However, savings in other costs restricted the overall fall in EBITDA margins at 439 bps to 11.4% in Q1FY23
- Higher depreciation provision (increased 32% YoY) indicates ramp up of new capacities. This coupled with lower EBITDA margin dragged PAT lower by 8% YoY to ~₹ 7 crore in Q1FY23

Q1FY23 Earnings Conference Call highlights

Demand Outlook:

- Revenue growth in Q1FY23 was led by improved traction across segments and ramp up in projects. The healthcare and toy segment have aided the revenue growth
- The company has also added new SKUs in home furnishing segment and medical devices
- Going forward, Shaily aims to increase its domestic business significantly
- The company is deepening its foray into contract manufacturing of medical devices and has recently signed an order for the same. Shaily plans to launch dry powder inhaler and a new drug applicator for the oncology segments
- The management expects performance in Q2FY23 to be on the same lines as Q1FY23. From Q3FY23 onwards, the management expects improved traction across its segments
- The company is expecting new orders in FY24 and expects to see better performance from FY24 onwards
- The management is aiming at long term revenue CAGR of ~20%

Margins:

- Currently, Shaily is seeing changes in its product mix, which has affected the margins. Volatility in raw material prices as well as weakening rupee against dollar have impacted margins adversely. The management expects margin expansion from Q3FY23 onwards led by higher volume growth and normalisation of raw material prices
- For ~80% of its business, the company passes on the price changes on a quarterly basis

Capex:

- The company envisages capex of ₹ 120 crore in FY23, largely towards healthcare segments. The management reiterated ₹ 200 crore capex in the next two years

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Shaily Eng	1,823	361	566	702	863	17	14	14	16	22	35	44	72	11	11	13	17	12	10	11	15	75	52	41	25
Mold Tek	3,010	479	631	793	916	20	19	18	20	48	64	81	103	20	19	26	26	19	14	23	23	53	44	37	29
Time Technoplast	2,465	3005	3650	4076	4706	13	14	14	14	108	192	227	279	9	11	13	14	6	9	11	12	23	13	11	9
EPL	5,277	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	22	24	19	16

Source: Company, ICICI Direct Research

Shaily Engineering reported a mixed bag performance in Q1FY23. The strong volume growth is attributable to ramp up in new products for a Swedish furniture major and addition of new customers in the toys & healthcare segments. However, gross margin has continuously remained under pressure due to delay in price hikes and change in product mix. This has led to sharp fall in EBITDA margin to 11.4% in Q1FY23, down by ~500 bps from its pre-Covid margins. Going forward, the management has maintained its revenue CAGR of ~20% over the next two years, supported by ramp up in healthcare business and new product launches in the furnishing segments. Shaily has envisaged a capex of ₹ 200 crore in the next two years to boost manufacturing capacity of toys, healthcare and home furnishing products. On the margin front, we believe, adverse product mix and price hike delay is likely to weigh on overall EBITDA margin in FY23. We cut our earnings estimates by ~21% and ~11% for FY23E-24, respectively, factoring near term pressure in the EBITDA margins. We revised our rating on the stock from BUY to HOLD and maintain our target price at ₹ 2235/share (valuing the stock at 29x FY24E EPS).

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	172.0	120.1	43.2	152.6	12.7	Strong revenue growth led by volume growth of 60% YoY
Other Income	2.1	1.2	72.2	2.8	-24	
Raw Material Exp	115.8	73.1	58.3	100.6	15.0	
Gross margin	32.7	39.1	-642 bps	34.0	-138 bps	Delay in passing of higher raw material prices led to drop in gross margin
Employee Exp	12.2	10.4	17.9	12.0	2.1	
Power & Fuel	8.5	5.7	48.9	6.6	29.2	
Other Expenses	15.9	12.0	33.0	14.7	8.3	
EBITDA	19.6	18.9	3.4	18.7	4.4	
EBITDA Margin (%)	11.4	15.8	-439 bps	12.3	-90 bps	Better operating leverage helped partially offset the adverse impact of higher raw material prices. As a result, EBITDA margin fall was restricted at ~439 bps YoY
Depreciation	7.8	5.9	32.0	6.9	13.4	
Interest	4.0	3.6	9.8	4.7	-15.9	
PBT	9.9	10.6	-6.8	9.9	-0.1	
Total Tax	2.5	2.6	-3.1	2.5	0.2	
PAT	7.4	8.0	-8.0	7.4	-0.1	Lower PAT is mainly due to sharp fall in EBITDA margin

Key Metrics

Volume	6544.0	4093.0	59.9	5562.0	17.7	Launch of new products, ramp up in toy and healthcare business drives volume growth in Q1
--------	--------	--------	------	--------	------	---

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	705.5	702.1	(0.5)	862.7	862.7	-	We largely maintain our topline estimate for FY23E-24E
EBITDA	113.0	98.1	(13.2)	148.8	138.0	(7.3)	
EBITDA Mar(%)	16.0	14.0	-205bps	17.3	16.0	-125bps	We tweak our EBITDA margin estimates downward factoring in Q1FY23 performance and delay in gross margin recovery
PAT	55.9	44.4	(20.5)	80.4	71.7	(10.9)	Lower PAT estimates largely due to downward revision of EBITDA margins for FY23E-24E

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year -End -March)	FY21	FY22	FY23E	FY24E	
Net sales	360.6	565.9	702.1	862.7	
Growth (%)		57	24	23	
Expenses					
Raw Material Expenses	215.3	356.9	456.6	543.5	
Employee Expenses	34.2	43.2	50.4	58.7	
Power & Fuel cost	17.9	26.9	32.3	43.1	
Other Expenses	33.6	57.8	64.7	79.4	
Total Operating Expenditure	301.0	484.8	604.0	724.7	
EBITDA	59.6	81.0	98.1	138.0	
Growth (%)		36	21	41	
Other Income	2.6	8.8	8.4	9.5	
Depreciation	19.5	26.5	30.9	37.1	
Interest	12.7	16.9	16.6	15.4	
PBT before Exc. Items	29.9	46.4	59.0	95.1	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	29.9	46.4	59.0	95.1	
Total Tax	7.9	11.3	14.6	23.4	
Adjusted PAT	22.0	35.1	44.4	71.7	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year -End -March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	22.0	35.1	44.4	71.7	
Add: Depreciation & Amortization	19.5	26.5	30.9	37.1	
Add: Interest Paid	12.7	16.9	16.6	15.4	
Cash Flow before working capital change	54.3	78.6	91.9	124.1	
Net Increase in Current Assets	-20.1	-76.2	-15.5	-56.2	
Net Increase in Current Liabilities	-18.8	44.8	22.0	34.4	
Net cash flow from operating activities	15.4	47.1	98.3	102.4	
Cash flow from Investing Activities					
(Purchase)/Sale of Fixed Assets	-73.7	-126.5	-100.0	-70.0	
Others	-12.5	12.5	-4.0	0.0	
Net Cash flow from Investing Activities	-86.2	-114.1	-104.0	-70.0	
Cash flow from Financing Activities					
(Payment) of Dividend and Dividend Tax	0.0	0.0	0.0	0.0	
Interest Paid	-12.7	-16.9	-16.6	-15.4	
Others	77.4	124.2	-16.1	-20.0	
Net Cash flow from Financing Activities	64.6	107.3	-32.7	-35.4	
Net Cash flow					
	-6.2	40.3	-38.4	-3.0	
Cash and Cash Equivalent at the beginning	9.1	2.9	43.2	4.8	
Cash and Cash Equivalent at the end	2.9	43.2	4.8	1.8	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year -End -March)	FY21	FY22	FY23E	FY24E	
Equity Capital	8.3	9.2	9.2	9.2	
Reserve and Surplus	173.5	357.8	396.1	467.7	
Total Shareholders funds	181.9	367.0	405.2	476.9	
Total Debt					
	199.6	173.8	163.8	143.8	
Deferred Tax Liability	10.3	13.2	13.2	13.2	
Other Non Current Liabilities	2.5	4.0	0.0	0.0	
Others Total	12.7	17.2	13.2	13.2	
Total Liability	394.2	558.0	582.2	633.9	
Gross Block	300.1	447.7	547.7	617.7	
Accumulated Depreciation	80.1	106.6	137.5	174.6	
Net Block	220.0	341.1	410.2	443.1	
Capital WIP	37.2	16.1	16.1	16.1	
Total Fixed Assets	257.2	357.2	426.3	459.3	
Liquid Investments	0.0	0.0	0.0	0.0	
Current Asset					
Inventory	66.9	111.4	94.3	115.8	
Debtors	69.5	99.9	123.1	146.5	
Loans and Advances	0.7	0.2	0.3	0.4	
Cash	2.9	43.2	4.8	1.8	
Total Current Assets	177.3	293.8	271.0	324.1	
Current Liability					
Creditors	46.6	84.0	98.1	122.9	
Provisions	2.4	2.7	3.2	4.0	
Total Current Liabilities	72.9	117.6	139.6	174.0	
Net Current Assets					
	104.4	176.2	131.4	150.1	
Other Assets	32.5	15.4	15.4	15.4	
Total Asset	394.2	558.0	582.2	633.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year -End -March)	FY21	FY22	FY23E	FY24E
Per Share Ratio				
EPS	26.5	38.3	48.4	78.1
Cash EPS	49.9	67.2	82.1	118.6
DPS	0.0	0.0	0.0	0.0
BV	218.6	400.0	441.7	519.9
Operating ratio				
EBITDA Margin	16.5	14.3	14.0	16.0
PAT Margin	6.1	6.2	6.3	8.3
Return Ratios				
RoCE	10.8	11.4	13.0	17.4
RoE	12.1	9.6	11.0	15.0
RoIC	11.6	10.6	11.5	15.6
Valuation Ratios				
EV / EBITDA	33.9	24.1	20.2	14.2
P/E	75.1	51.9	41.0	25.4
EV/Net Sales	5.6	3.5	2.8	2.3
Mcap/sales	5.1	3.2	2.6	2.1
P/BV	9.1	5.0	4.5	3.8
Turnover Ratios				
Gross Block turnover	1.2	1.3	1.3	1.4
Inventory Days	67.7	71.9	49.0	49.0
Debtor Days	70.4	64.4	64.0	62.0
Creditor Days	47.2	54.2	51.0	52.0
Solvency Ratios				
Debt/Equity	1.1	0.5	0.4	0.3
Debt/Ebitda	3.4	2.1	1.7	1.0
Current Ratio	3.6	2.9	2.6	2.5
Quick Ratio	2.2	1.6	1.7	1.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

I/We, Sanjay Manyal, MBA (Finance) and Hitesh Taunk, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.