

Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1861

Target: ₹ 2165 (16%)

Target Period: 12 months

BUY

November 3, 2021

Strong revenue growth visibility...

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

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

Q2FY22 Results: Strong revenue, PAT growth in Q2FY22.

- Revenue grew 47% YoY to ₹ 145 crore, favoured by a lower base and ramp up of new products in the healthcare and toy segment
- The EBITDA margin declined 231 bps YoY to 15.5% mainly due to a delay in passing of high raw material costs
- PAT increased 43% YoY to ~ ₹ 11 crore, tracking sales growth

What should investors do? Shaily Engineering's share price has grown by ~3x over five years (from ~₹ 620 in November 2016 to ~₹ 1875 level in November 2021).

- We maintain our BUY rating on the stock

Target Price & valuation: We value Shaily at ₹ 2165 i.e. 32x on FY23E EPS.

Key triggers for future price performance:

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

Alternate Stock Idea: We also like Supreme Industries in the plastic space.

- Market leader in the PVC piping industry with value market share of 14%. Piping demand from housing segment and increased mix towards value added products will drive company's future performance
- BUY with a target price of ₹ 2740



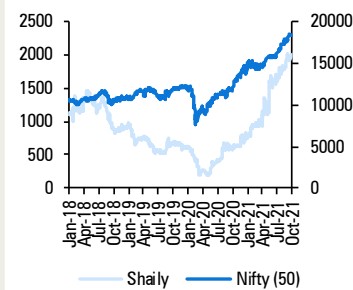
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,707.2
Total Debt (FY21) (₹ Crore)	173.2
Cash & Inv (FY21) (₹ Crore)	2.9
EV (₹ Crore)	1,877.5
52 week H/L	2044/604
Equity capital (FY21) (₹ Crore)	8.3
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	51.1	51.1	51.1	51.1	46.3
FII	0.0	0.0	0.0	0.1	2.5
DII	13.9	13.9	13.9	13.7	13.3
Others	35.0	35.0	35.0	35.1	37.9

Price Chart



Recent event & key risks

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

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-24)
Net Sales	338.3	336.0	360.6	10%	557.4	658.7	730.6	27%
EBITDA	52.6	58.1	59.6	9%	86.7	114.0	133.7	31%
EBITDA Margin (%)	15.6	17.3	16.5		15.5	17.3	18.3	
Reported PAT	19.3	23.6	22.0	9%	39.2	61.8	77.1	52%
EPS (₹)	23.2	28.4	26.5		42.8	67.4	84.0	
P/E	80.3	65.6	70.3		43.5	27.6	22.1	
P/BV (x)	11.4	9.7	8.5		4.7	4.0	3.4	
Mcap/Sales (x)	4.6	4.6	4.3		2.8	2.4	2.1	
RoCE (%)	16.2	14.2	11.6		12.4	17.5	18.8	
RoNW (%)	14.2	14.8	12.1		10.7	14.5	15.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results:

- Standalone revenue growth at 47% YoY to ~₹ 145 crore in Q2FY22 was supported by a favourable base and ramp up of new products i.e. carbon steel products, toys and healthcare products. Volume grew 13% YoY (10% QoQ)
- Gross margin was down ~203 bps YoY, mainly due to a delay in passing of raw material prices. As a result, EBITDA margins declined 231 bps YoY to 15.5% in Q2FY22. It reported PAT of ~₹ 11 crore in Q2FY22, up 43% YoY
- For H1FY22, revenues were up 83% YoY to ₹ 265 crore led by 48% volume growth. The EBITDA margin was up ~200 bps YoY to 16% due to improved operating leverage. The PAT increased by 4.3x to ₹ 18.5 crore supported by strong revenue growth and EBITDA margin improvement

Q2FY22 Earnings Conference Call highlights

Future demand outlook and guidance:

- The management expects ₹ 560-600 crore revenue in FY22 (implied growth in H2FY22 is 36% YoY) aided by new business confirmations, addition of new clients and increased contribution from new business segment
- The company has reiterated 2-3x revenue growth in the healthcare segment on back of faster penetration within existing and new clients as well as a large pipeline of products. Shaily's insulin pen sales volume is likely to be double in next two-three years (i.e. the annual sales volume of 6 million is likely to be 9.5 mn by FY23 and 12 mn by FY24E)
- The company has started its new plastic manufacturing plant in Halol with an investment of ~₹ 50 crore. Shaily has guided for capex of ₹ 200 crore in next two years
- The company has recently raised ₹ 150 crore from anchor investors. The fund will be deployed to augment manufacturing capacity in next two years
- The positive impact of price hikes will start visible from Q4FY22. Shaily has guided for improved margins going forward supported by price hikes and product mix
- The company is seeking more clarity on export incentives under Remission of Duties and Taxes on Exported Products (RoDTEP) for export of plastic products
- The export contribution in topline increased to 79% in H2FY22 (vs. 71% in FY21) led by improved traction from furnishing major and other businesses. The company expects toy business contribution in overall business to improve in the next two to three 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	1,707	361	557	659	731	17	16	17	18	22	39	62	77	12	12	17	19	12	11	15	15	70	44	28	22
Mold Tek	1,885	479	622	716	865	20	19	21	21	48	62	85	105	21	25	29	30	21	22	24	24	39	30	22	18
Time Technopl	1,560	3005	3647	4099	4308	13	14	14	14	108	188	242	260	9	12	14	14	6	10	11	11	14	8	6	6
EPL	6,747	3092	3408	3791	4211	20	20	21	21	244	297	364	418	16	18	21	21	15	17	19	20	28	23	19	16

Source: Company, ICICI Direct Research

Shaily sees ~25% revenue CAGR in next five years led by 2-3x revenue growth in the healthcare business. Additionally, higher revenues from new categories like toy segment will drive company's incremental revenue growth. Looking at strong demand pipeline, Shaily has decided to increase the manufacturing capacity of toys, healthcare and home furnishing products by infusing fresh equity of ₹ 150 crore. We introduce FY24 estimates building in revenue, PAT CAGR of 27% and 52%, respectively, over FY21-24E. Further, strong earnings growth and repayment of debt will improve RoCE and RoE, going forward. At CMP the stock is trading at 28x, 22x P/E of FY23E, FY24E EPS respectively. We continue to maintain our BUY rating on the stock with a revised target price of ₹ 2165, valuing the company at 32x FY23 earnings.

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	144.9	98.7	46.7	120.1	20.6	Strong revenue growth with execution of new orders in the toy and home furnishing segments
Other Income	1.4	0.1	1085.1	1.2	9	
Raw Material Exp	90.6	59.7	51.7	73.1	23.9	
Employee Exp	10.4	8.1	27.8	10.4	0.3	
Power & Fuel	6.9	4.8	44.8	5.7	21.0	
Other Expenses	14.5	8.5	70.6	12.0	21.4	
Gross margin	37.5	39.5	-203 bps	39.1	-164 bps	Delay in passing of higher raw material prices led to drop in gross margin
EBITDA	22.5	17.6	27.7	18.9	18.6	
EBITDA Margin (%)	15.5	17.8	-231 bps	15.8	-27 bps	EBITDA margin decline is largely attributable to lower gross margin
Depreciation	6.4	4.6	39.3	5.9	7.9	
Interest	3.6	3.1	16.6	3.6	-1.1	
PBT	13.8	10.0	38.0	10.6	30.2	
Total Tax	3.3	2.7	23.7	2.6	27.2	
PAT	10.5	7.3	43.2	8.0	31.2	PAT growth led by strong revenue growth in Q2

Key Metrics

Volume	4498.0	3986.0	12.8	4093.0	9.9	Lower base and improved utilisation of new capacities help drive volume growth on a YoY basis
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Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY22E			FY23E			FY24E introduced	Comments
	Old	New	Change	Old	New	Change		
Revenue	513.9	557.4	8.5	603.2	658.7	9.2	730.6	We tweak our estimate upward considering strong revenue growth in H1FY22. We introduce FY24 estimates and build in revenue CAGR of 27% in FY21-24E
EBITDA	88.5	86.7	(2.1)	108.7	114.0	4.8	133.7	
EBITDA Mar(%)	17.2	15.5	-167bps	18.0	17.3	-72bps	18.3	We tweak our EBITDA margin estimates for FY22 considering delay in price hikes
PAT	43.8	39.2	(10.5)	60.2	61.8	2.7	77.1	

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year -End -March)	FY21	FY22E	FY23E	FY24E	
Net sales	360.6	557.4	658.7	730.6	
Growth (%)		55	18	11	
Expenses					
Raw Material Expenses	215.3	346.6	401.8	438.4	
Employee Expenses	34.2	41.7	47.4	52.6	
Power & Fuel cost	17.9	26.6	32.9	36.5	
Other Expenses	33.6	55.7	62.6	69.4	
Total Operating Expenditure	301.0	470.7	544.8	596.9	
EBITDA	59.6	86.7	114.0	133.7	
Growth (%)	52.7	46	32	17	
Other Income	2.6	3.2	4.0	4.4	
Depreciation	19.5	25.6	29.0	32.1	
Interest	12.7	12.5	7.6	4.4	
PBT before Exc. Items	29.9	51.7	81.4	101.5	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	29.9	51.7	81.4	101.5	
Total Tax	7.9	12.5	19.6	24.4	
Adjusted PAT	22.0	39.2	61.8	77.1	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year -End -March)	FY21	FY22E	FY23E	FY24E	
Profit/(Loss) after taxation	22.0	39.2	61.8	77.1	
Add: Depreciation & Amortization	19.5	25.6	29.0	32.1	
Add: Interest Paid	12.7	12.5	7.6	4.4	
Cash Flow before working capital ch	54.3	77.4	98.4	113.7	
Net Increase in Current Assets	-20.1	-76.7	-54.9	-11.4	
Net Increase in Current Liabilities	7.6	63.5	32.1	25.5	
Net cash flow from operating activiti	41.7	64.2	75.5	127.8	
Cash flow from Investing Activities					
(Purchase)/Sale of Fixed Assets	-73.7	-85.0	-100.0	-100.0	
Others	-12.5	29.1	-1.0	-1.0	
Net Cash flow from Investing Activiti	-86.2	-55.9	-101.0	-101.0	
Cash flow from Financing Activities					
(Payment) of Dividend and Dividend 1	0.0	0.0	-1.2	-1.2	
Interest Paid	-12.7	-12.5	-7.6	-4.4	
Others	51.0	113.8	-70.0	-20.0	
Net Cash flow from Financing Activit	38.3	101.3	-78.8	-25.6	
Net Cash flow					
	-6.2	109.5	-104.2	1.1	
Cash and Cash Equivalent at the beg	9.1	2.9	112.5	8.2	
Cash and Cash Equivalent at the end	2.9	112.5	8.2	9.4	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year -End -March)	FY21	FY22E	FY23E	FY24E	
Equity Capital	8.3	9.2	9.2	9.2	
Reserve and Surplus	173.5	355.7	416.3	492.2	
Total Shareholders funds	181.9	364.9	425.5	501.4	
Total Debt					
	173.2	143.2	73.2	53.2	
Deferred Tax Liability	10.3	10.3	10.3	10.3	
Other Non Current Liabilities	2.5	0.0	0.0	0.0	
Others Total	12.7	10.3	10.3	10.3	
Total Liability	367.8	518.4	509.0	564.9	
Gross Block	300.1	385.1	485.1	585.1	
Accumulated Depreciation	80.1	105.8	134.7	166.9	
Net Block	220.0	279.4	350.4	418.2	
Capital WIP	37.2	37.2	37.2	37.2	
Total Fixed Assets	257.2	316.6	387.6	455.4	
Liquid Investments	0.0	1.0	2.0	3.0	
Current Asset					
Inventory	66.9	91.6	119.1	120.1	
Debtors	69.5	100.8	126.3	130.1	
Loans and Advances	0.7	1.1	1.3	1.5	
Cash	2.9	112.5	8.2	9.4	
Total Current Assets	177.3	363.6	314.3	326.8	
Current Liability					
Creditors	46.6	80.9	95.7	110.1	
Provisions	2.4	4.2	5.0	5.7	
Total Current Liabilities	99.2	162.7	194.8	220.3	
Net Current Assets					
	78.1	200.8	119.4	106.5	
Other Assets	32.5	0.0	0.0	0.0	
Total Asset	367.8	518.4	509.0	564.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year -End -March)	FY21	FY22E	FY23E	FY24E
Per Share Ratio				
EPS	26.5	42.8	67.4	84.0
Cash EPS	49.9	70.7	99.0	119.1
DPS	0.0	0.0	1.3	1.3
BV	218.6	397.8	463.8	546.6
Operating ratio				
EBITDA Margin	16.5	15.5	17.3	18.3
PAT Margin	6.1	7.0	9.4	10.6
Return Ratios				
RoCE	11.6	12.4	17.5	18.8
RoE	12.1	10.7	14.5	15.4
RoIC	11.6	13.7	15.3	16.4
Valuatin Ratios				
EV / EBITDA	28.9	18.2	14.1	11.9
P/E	70.3	43.5	27.6	22.1
EV/Net Sales	4.8	2.8	2.4	2.2
Mcap/sales	4.3	2.8	2.4	2.1
P/BV	8.5	4.7	4.0	3.4
Turnover Ratios				
Gross Block turnover	1.2	1.4	1.4	1.2
Inventory Days	67.7	60.0	66.0	60.0
Debtor Days	70.4	66.0	70.0	65.0
Creditor Days	47.2	53.0	53.0	55.0
Solvency Ratios				
Debt/Equity	1.0	0.4	0.2	0.1
Debt/Ebitda	2.9	1.7	0.6	0.4
Current Ratio	3.6	2.9	3.0	2.7
Quick Ratio	2.2	1.9	1.9	1.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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