

Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1628

Target: ₹ 1810 (11%)

Target Period: 12 months

HOLD

November 16, 2022

Mixed bag performance...

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 ~78% to the topline in H1FY23 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

Q2FY23 Results: Delay in price hikes restricted EBITDA margin expansion.

- Revenue grew 10.5% YoY to ₹ 160 crore led by 14% volume growth. Volume growth was mainly led by execution of orders in the home furnishing and healthcare segments
- The EBITDA margin remained flat on a YoY basis at 15.2%, due to a delay in passing on of high raw material costs
- PAT declined ~10% YoY to ~ ₹ 9.4 crore tracking high depreciation and interest expenses

What should investors do? Shaily Engineering's share price has grown by ~2.4x over five years (from ~₹ 678 in November 2017 to ~₹ 1628 levels in November 2022).

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

Target Price & valuation: We value Shaily at ₹ 1810 i.e. 25x 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 universe.

- Supreme is market leader in the plastic piping segment with ~15% market share. Robust b/s with average RoE, RoCE of 24%, 27%, respectively
- BUY with a target price of ₹ 2600



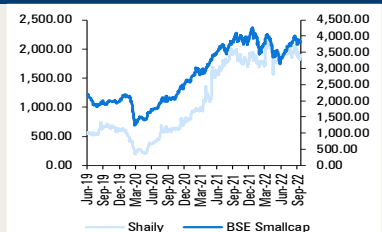
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,493.4
Total Debt (FY22) (₹ Crore)	173.8
Cash & Inv (FY22) (₹ Crore)	43.2
EV (₹ Crore)	1,624.0
52 week H/L	2390/1500
Equity capital (FY22) (₹ Crore)	9.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.3	46.3	43.8	43.8	43.8
FII	2.5	3.5	6.1	6.9	7.1
DII	13.3	13.4	13.5	13.8	14.4
Others	37.9	36.8	36.6	35.4	34.7

Price Chart



Recent event & key risks

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

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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%	659.6	817.1	20%
EBITDA	52.6	58.1	59.6	81.0	15%	95.0	130.7	27%
EBITDA Margin (%)	15.6	17.3	16.5	14.3		14.4	16.0	
Reported PAT	19.3	23.6	22.0	35.1	17%	40.3	66.7	38%
EPS (₹)	23.2	28.4	26.5	38.3		44.0	72.7	
P/E	70.2	57.4	61.5	42.5		37.0	22.4	
P/BV (x)	9.9	8.5	7.4	4.1		3.7	3.2	
Mcap/Sales (x)	4.4	4.4	4.1	2.6		2.3	1.8	
RoCE (%)	16.2	14.2	10.8	11.4		12.3	16.7	
RoNW (%)	14.2	14.8	12.1	9.6		10.1	14.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Production ramp up drives volume growth; EBITDA margin remains flat

- Standalone revenue increased ~10.5% YoY to ₹ 160 crore, supported by ~14% volume growth in Q2FY23. Volume growth was driven by execution of existing orders across segments. On a three-year basis, revenue grew at a CAGR of ~26% led by 15% volume growth in the same period
- Gross margin declined 228 bps YoY (250 bps QoQ) mainly due to a delay in passing on of raw material prices. However, savings in other costs helped EBITDA margins to remain flat on a YoY basis at 15.2%
- Increased depreciation and higher interest outgo dragged PAT by ~10% YoY to ₹ 9.4 crore

Q2FY23 Earnings Conference Call highlights

Demand Outlook:

- The management expects subdued demand in the home furnishings and toys segment as a result of geopolitical conditions. Demand was especially muted in North America and Europe
- The toys segment is under pressure as there was a 25% drop in global demand while Chinese manufacturers are selling these products at significantly low prices, which the management believes is not sustainable in the long term
- On the carbon steel front, the company is seeing a slower offtake as a result of muted demand from the Swedish home furnishings major. The utilisation levels have gone down in Q2FY23 compared to Q1FY23
- Shaily is working with its existing and new customers to increase its business in the home furnishings, toys and carbon steel business
- The company is further deepening its foray in the healthcare segment as the segment is the second largest contributor to its overall revenue
- Shaily is scaling up its healthcare business in FY23 with scale up of two of its injector pens (IP) namely P60 pen, which is the insulin variant of its Protean pen and Teriparatide pen, which is a fixed dose pen injector. For one of these products, the company expects to receive approval in January 2023 for commercialisation in US markets while the other product is already serving the Middle East market. These pens are expected to contribute to the healthcare segment revenue significantly
- The company displayed one of its new high value pens in CPHI exhibition where it received good traction. The management sees an opportunity of 2.5 lakh pens for the coming few years. From 2026 onwards, the management expects to see the real benefit from these pens with an opportunity of 1 million pens a year
- The management expects majority of its growth to come from the healthcare business in the next few years
- On the automotive and engineering front, the company has started commercialising its products and expects ramp up in the current year

Margins:

- The company expects its gross margins to improve in coming quarters as a result of passing on price revisions
- EBITDA margins are expected to be driven by increased volume offtake and higher revenue from the healthcare segment

Capex:

- The company spent ₹ 45 crore in H1FY23 of its envisaged ₹ 125 crore capex for the healthcare business. The remaining amount will be partly spent in FY23 and partly in FY24
- 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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Shaily Eng	1,493	361	566	660	817	17	14	14	16	22	35	40	67	11	11	12	17	12	10	10	14	61	42	37	22
Mold Tek	2,843	479	631	805	976	20	19	19	20	48	64	89	114	20	19	28	28	19	14	24	24	50	42	32	25
Time Technoplast	2,261	3005	3650	4161	4749	13	14	13	14	108	192	223	297	9	11	12	15	6	9	10	13	21	12	10	8
EPL	4,835	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	20	22	18	14

Source: Company, ICICI Direct Research

Shaily Engineering reported a mixed bag performance in Q2FY23 wherein strong volume growth of 14% was completely offset by higher raw material costs restricting EBITDA margin recovery to reach its pre-Covid level. Higher non-operating costs (depreciation and interest costs) dragged the overall bottomline. Going forward, on the revenue front, we believe near term demand headwinds in the US and Europe (owing to inflationary pressure) will restrict Shaily’s revenue growth in H2FY23. The company derives ~78% of its revenues from exports. We believe a demand revival will start from FY24E onwards supported by easing inflationary pressure and ramp up of its healthcare business. We cut our revenue estimates by 6% and 5% for FY23E and FY24E, respectively, and model consolidated revenue CAGR at 20% over FY22-24E. On the margin front, we model EBITDA margin at ~14% and ~16% for FY23E and FY24E, respectively, lower than its pre-Covid level EBITDA margin of ~17% considering low operating leverage of its newer plants. We maintain our HOLD rating on the stock with a revised target price of ₹ 1810/share (valuing the stock at 25x FY24E EPS). We believe a revival in export orders and stable EBITDA margin will be key triggers for a stock re-rating, going forward.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	160.0	144.9	10.5	172.0	-6.9	Revenue growth led by volume growth of 14% YoY
Other Income	0.9	1.4	-37.5	2.1	-60	
Raw Material Exp	103.7	90.6	14.5	115.8	-10.4	
Gross margin	35.2	37.5	-228 bps	32.7	250 bps	Delay in passing of higher raw material prices led to drop in gross margin
Employee Exp	11.6	10.4	11.5	12.2	-5.2	
Power & Fuel	7.1	6.9	3.1	8.5	-16.2	
Other Expenses	13.3	14.5	-8.2	15.9	-16.2	
EBITDA	24.3	22.5	8.1	19.6	24.0	
EBITDA Margin (%)	15.2	15.5	-33 bps	11.4	378 bps	Better operating leverage helped restrict EBITDA margin fall to 33 bps YoY
Depreciation	7.6	6.4	18.9	7.8	-2.8	
Interest	4.2	3.6	16.9	4.0	5.3	
PBT	13.3	13.8	-3.7	9.9	34.5	
Total Tax	3.9	3.3	16.6	2.5	53.0	
PAT	9.4	10.5	-10.1	7.4	28.2	Lower PAT is due to increase in depreciation and interest expenses

Key Metrics

Volume	5145.0	4498.0	14.4	6544.0	-21.4	Execution of orders in home furnishing and healthcare segments aided volume growth
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Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	702.1	659.6	(6.0)	862.7	817.1	(5.3)	We cut our revenue estimates owing to slower volume offtake as a result of muted demand
EBITDA	98.1	95.0	(3.2)	138.0	130.7	(5.3)	
EBITDA Mar(%)	14.0	14.4	40bps	16.0	16.0	0bps	We largely maintain our EBITDA margin estimates owing to passing of price increases and softening raw material prices
PAT	44.4	40.3	(9.1)	71.7	66.7	(6.9)	We lower PAT estimates mainly due to lower topline growth

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	659.6	817.1	
Growth (%)		57	17	24	
Expenses					
Raw Material Expenses	215.3	356.9	427.5	514.8	
Employee Expenses	34.2	43.2	47.4	55.6	
Power & Fuel cost	17.9	26.9	30.3	40.9	
Other Expenses	33.6	57.8	59.4	75.2	
Total Operating Expenditure	301.0	484.8	564.6	686.4	
EBITDA	59.6	81.0	95.0	130.7	
Growth (%)		36	17	38	
Other Income	2.6	8.8	7.9	9.0	
Depreciation	19.5	26.5	31.7	35.1	
Interest	12.7	16.9	16.6	15.4	
PBT before Exc. Items	29.9	46.4	54.7	89.2	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	29.9	46.4	54.7	89.2	
Total Tax	7.9	11.3	14.4	22.5	
Adjusted PAT	22.0	35.1	40.3	66.7	

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	40.3	66.7	
Add: Depreciation & Amortization	19.5	26.5	31.7	35.1	
Add: Interest Paid	12.7	16.9	16.6	15.4	
Cash Flow before working capital change	54.3	78.6	88.6	117.2	
Net Increase in Current Assets	-20.1	-76.2	-4.9	-58.7	
Net Increase in Current Liabilities	-18.8	44.8	11.7	30.9	
Net cash flow from operating activities	15.4	47.1	95.4	89.4	
Cash flow from Investing Activities					
(Purchase)/Sale of Fixed Assets	-73.7	-126.5	-100.0	-52.0	
Others	-12.5	12.5	-4.0	0.0	
Net Cash flow from Investing Activities	-86.2	-114.1	-104.0	-52.0	
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	-41.3	2.0	
Cash and Cash Equivalent at the beginning	9.1	2.9	43.2	1.9	
Cash and Cash Equivalent at the end	2.9	43.2	1.9	3.9	

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	392.0	458.7	
Total Shareholders funds	181.9	367.0	401.2	467.9	
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	578.2	624.9	
Gross Block	300.1	447.7	547.7	599.7	
Accumulated Depreciation	80.1	106.6	138.3	173.4	
Net Block	220.0	341.1	409.5	426.3	
Capital WIP	37.2	16.1	16.1	16.1	
Total Fixed Assets	257.2	357.2	425.6	442.4	
Liquid Investments	0.0	0.0	0.0	0.0	
Current Asset					
Inventory	66.9	111.4	88.6	109.7	
Debtors	69.5	99.9	121.1	147.7	
Loans and Advances	0.7	0.2	0.3	0.4	
Cash	2.9	43.2	1.9	3.9	
Total Current Assets	177.3	293.8	257.3	318.1	
Current Liability					
Creditors	46.6	84.0	90.4	111.9	
Provisions	2.4	2.7	2.9	3.6	
Total Current Liabilities	72.9	117.6	129.3	160.1	
Net Current Assets					
	104.4	176.2	128.1	157.9	
Other Assets	32.5	15.4	15.4	15.4	
Total Asset	394.2	558.0	578.2	624.9	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year -End -March)	FY21	FY22	FY23E	FY24E
Per Share Ratio				
EPS	26.5	38.3	44.0	72.7
Cash EPS	49.9	67.2	78.5	111.0
DPS	0.0	0.0	0.0	0.0
BV	218.6	400.0	437.3	510.0
Operating ratio				
EBITDA Margin	16.5	14.3	14.4	16.0
PAT Margin	6.1	6.2	6.1	8.2
Return Ratios				
RoCE	10.8	11.4	12.3	16.7
RoE	12.1	9.6	10.1	14.3
RoC	11.6	10.6	10.9	15.1
Valuation Ratios				
EV / EBITDA	28.2	19.9	17.3	12.4
P/E	61.0	42.2	36.7	22.2
EV/Net Sales	4.7	2.8	2.5	2.0
Mcap/sales	4.1	2.6	2.2	1.8
P/BV	7.4	4.0	3.7	3.2
Turnover Ratios				
Gross Block turnover	1.2	1.3	1.2	1.4
Inventory Days	67.7	71.9	49.0	49.0
Debtor Days	70.4	64.4	67.0	66.0
Creditor Days	47.2	54.2	50.0	50.0
Solvency Ratios				
Debt/Equity	1.1	0.5	0.4	0.3
Debt/Ebitda	3.4	2.1	1.7	1.1
Current Ratio	3.6	2.9	2.7	2.7
Quick Ratio	2.2	1.6	1.8	1.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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