

Shaily Engineering Plastics (SHAILY)

CMP: ₹ 1290

Target: ₹ 1230 (-5%)

Target Period: 12 months

HOLD

February 15, 2023

Muted demand dents 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

Q3FY23 Results: Weak topline puts profitability under pressure.

- Revenue declined 9.5% YoY to ₹ 134.2 crore while volume offtake declined ~23% YoY due to subdued demand from North America and Europe markets
- The EBITDA margin declined 69 bps YoY (down 178 bps QoQ) to 13.4% mainly due to higher raw material costs
- PAT declined ~52% on both YoY and QoQ basis to ₹ 4.5 crore due to lower EBITDA and weak topline

What should investors do? Shaily Engineering's share price has grown by ~1.1x over five years (from ~₹ 1174 in February 2018 to ~₹ 1290 levels in February 2023).

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

Target Price & valuation: We introduce our FY25E estimates. We roll over our valuation on FY25E and value Shaily at 20x P/E FY25E EPS with a TP of ₹ 1230.

Key triggers for future price performance:

- The company has 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 ₹ 2880



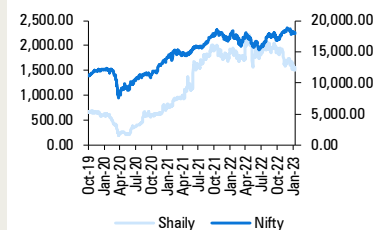
Particulars

Particular	Amount
Market Cap (₹ Crore)	1,183.4
Total Debt (FY22) (₹ Crore)	173.8
Cash & Inv (FY22) (₹ Crore)	43.2
EV (₹ Crore)	1,314.0
52 week H/L	2390/1260
Equity capital (FY22) (₹ Crore)	9.2
Face value (₹)	10.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	46.3	43.8	43.8	43.8	43.8
FII	3.5	6.1	6.9	7.1	7.1
DII	13.4	13.5	13.8	14.4	14.4
Others	36.8	36.6	35.4	34.7	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)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Net Sales	336.0	360.6	565.9	18%	601.3	660.2	760.4	10%
EBITDA	58.1	59.6	81.0	15%	79.4	104.6	129.5	17%
EBITDA Margin (%)	17.3	16.5	14.3		13.2	15.8	17.0	
Reported PAT	23.6	22.0	35.1	17%	25.1	42.5	57.8	18%
EPS (₹)	28.4	26.5	38.3		27.4	46.3	63.0	
P/E	45.5	48.7	33.7		47.1	27.8	20.5	
P/BV (x)	6.7	5.9	3.2		3.1	2.8	2.4	
Mcap/Sales (x)	3.5	3.3	2.1		2.0	1.8	1.6	
RoCE (%)	14.2	10.8	11.4		9.2	12.2	14.8	
RoNW (%)	14.8	12.1	9.6		6.5	9.9	11.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Revenue, profitability take hit amid demand slowdown

- Standalone revenue declined 9.5% YoY (down 16.1% QoQ) to ₹ 134.2 crore on account of weak volume offtake of home furnishing products. Volume offtake declined 22.6% YoY. Demand for home furnishing products was subdued in North America and Europe, both of which are the company's major markets
- Gross margin declined 234 bps YoY (flat QoQ) mainly due to higher raw material costs and adverse product mix. As a result, EBITDA margin declined 69 bps YoY (down 178 bps YoY) to 13.4%
- Lower EBITDA led to a decline in PAT by ~52% on both YoY and QoQ basis to ₹ 4.5 crore

Q3FY23 Earnings Conference Call highlights

Demand Outlook:

- Shaily is witnessing muted demand for its home furnishing and toys segment, especially from North America and European markets where both segments have a higher focus. The demand slowdown is likely to continue for the next two quarters
- According to the management, revenue in Q4 is likely to remain flat QoQ
- The company is looking at adding new customers and geographies across its home furnishing and toys segment
- Shaily's overall capacity utilisation level was at 40% in Q3
- Demand for healthcare products remains healthy. The management expects ~35% growth in the pharma business in FY24
- Revenue from toys will be 60% of the revenue achieved in FY22 in the same segment (~₹ 39.7 crore)
- The company will not be making any further investments in the toys segment unless a customer consistently buys a portfolio of products from Shaily
- According to the management, the company has opportunities in the consumer electronics, telecom, industrial applications and appliances where the company has engineering capabilities
- The company has not added any new customers in Q3. However, Shaily is in discussions with big box retailers, electronic companies and is confident of adding new customers in the next two to three quarters

Margins:

- Lower capacity utilisation due to weak demand dragged margins in Q3
- The company is facing higher margin pressure in its toys segment
- Recovery in margins is expected only after achieving higher revenue

Capex:

- The company has done a capex of ~₹ 25 crore in toys
- Shaily has done a capex of ~₹ 60 crore in the pharma business. The capacity is likely to be ready by Q1FY24
- Shaily will be doing maintenance capex of ₹ 2-3 crore. No major capex will be done until the company attains better capacity utilisation levels

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	1,183	361	566	601	660	17	14	13	16	22	35	25	43	11	11	9	12	12	10	7	10	49	34	47	28
Mold Tek	3,209	479	631	747	899	20	19	19	19	48	64	80	99	20	19	25	25	19	14	22	22	56	47	40	33
Time Technoplast	1,900	3005	3650	4161	4749	13	14	13	14	108	192	223	297	9	11	12	15	6	9	10	13	18	10	9	6
EPL	4,866	3092	3433	3738	4077	20	17	18	19	244	221	272	334	16	13	16	18	15	12	15	17	20	22	18	15

Source: Company, ICICI Direct Research

Shaily Engineering reported a weak performance in Q3FY23 led by a sharp decline in the volume offtake (down 23% YoY) and continuous cost pressure in the EBITDA margin amid a delay in price hikes and adverse sales mix. Shaily derives ~77% of its revenue from exports. The company’s major export revenue comes from Europe and North America. However, given a sharp cut in discretionary spends in the said regions amid high inflation, Shaily’s key customers have cut volume offtake in the home furnishing and toy business. We believe consumer demand is likely to remain impacted in the US and Europe (owing to inflationary pressure) in the medium term. We believe a demand recovery for Shaily will start from H2FY24 supported by easing inflationary pressure and ramp up of its healthcare business. We cut our revenue estimates by ~9% and ~19% for FY23E and FY24E, respectively.

On the margin front, adverse sales mix and low operating leverage of new capacities is likely to keep EBITDA margin under pressure in the near to medium term. We model EBITDA margin at ~13% and ~16% for FY23E and FY24E, respectively, lower than its pre-Covid level EBITDA margin of ~17%. On the balance sheet front, we believe lower profitability will suppress the company’s overall return ratios in the near term (RoE, RoCE at ~10%, ~12%, respectively in FY24E). We introduce FY25E estimate with revenue, PAT CAGR of 10% & 18%, respectively, in FY22-25E on a favourable base and demand recovery. We roll over our valuation on FY25E. We maintain our HOLD rating on the stock and cut our target price to ₹ 1230/share (valuing the stock at 20x FY25E EPS). We believe a revival in export orders and stable EBITDA margin will be key triggers for a re-rating of the stock, going forward.

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	134.2	148.3	-9.5	160.0	-16.1	Lower volume offtake amid subdued demand adversely impacted revenue growth
Other Income	0.2	3.4	-93.3	0.9	-73	
Raw Material Exp	86.9	92.5	-6.1	103.7	-16.2	
Gross margin	35.3	37.6	-234 bps	35.2	9 bps	Delay in price hikes and adverse product mix led to drop in gross margin
Employee Exp	11.6	10.5	10.5	11.6	0.4	
Power & Fuel	5.9	7.8	-23.5	7.1	-16.3	
Other Expenses	11.8	16.6	-28.9	13.3	-11.5	
EBITDA	18.0	20.9	-14.0	24.3	-26.0	
EBITDA Margin (%)	13.4	14.1	-69 bps	15.2	-178 bps	Lower gross margin led to decline in EBITDA margin
Depreciation	7.9	7.2	9.3	7.6	3.7	
Interest	4.8	5.0	-3.4	4.2	14.2	
PBT	5.5	12.1	-54.6	13.3	-58.7	
Total Tax	1.0	2.8	-63.6	3.9	-73.6	
PAT	4.5	9.3	-51.8	9.4	-52.6	Weak topline and lower EBITDA dragged PAT in Q3

Key Metrics

Volume	4121.0	5321.0	-22.6	5145.0	-19.9	Weak demand from North America and Europe regions led to decline in volume
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Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E Introduced	Comments
	Old	New	% Chg	Old	New	% Chg		
Revenue	659.6	601.3	(8.8)	817.1	660.2	(19.2)	760.4	We cut our revenue estimates owing to slower volume offtake as a result of muted demand
EBITDA	95.0	79.4	(16.5)	130.7	104.6	(20.0)	129.5	
EBITDA Mar(%)	14.4	13.2	-120bps	16.0	15.8	-15bps	17.0	We cut our EBITDA margin estimates as a result of adverse sales mix and low operating leverage
PAT	40.3	25.1	(37.7)	66.7	42.5	(36.3)	57.8	We cut our PAT estimates mainly due to lower topline growth

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year -End -March)	FY22	FY23E	FY24E	FY25E	
Net sales	565.9	601.3	660.2	760.4	
Growth (%)	57	6	10	15	
Expenses					
Raw Material Expenses	356.9	394.2	424.3	486.4	
Employee Expenses	43.2	46.6	47.3	52.4	
Power & Fuel cost	26.9	27.6	24.7	27.0	
Other Expenses	57.8	53.5	59.2	65.1	
Total Operating Expenditure	484.8	521.9	555.6	630.9	
EBITDA	81.0	79.4	104.6	129.5	
Growth (%)	36	-2	32	24	
Other Income	8.8	3.6	4.5	4.6	
Depreciation	26.5	31.4	36.3	41.8	
Interest	16.9	17.7	16.0	15.2	
PBT before Exc. Items	46.4	33.9	56.8	77.1	
Less: Exc. Items	0.0	0.0	0.0	0.0	
PBT after Exc. Items	46.4	33.9	56.8	77.1	
Total Tax	11.3	8.7	14.3	19.3	
Adjusted PAT	35.1	25.1	42.5	57.8	
Growth (%)	60	-29	69	36	
Adjusted PAT	38.3	27.4	46.3	63.0	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year -End -March)	FY22	FY23E	FY24E	FY25E	
Profit/(Loss) after taxation	35.1	25.1	42.5	57.8	
Add: Depreciation & Amortization	26.5	31.4	36.3	41.8	
Add: Interest Paid	16.9	17.7	16.0	15.2	
Cash Flow before working capital change	78.6	74.3	94.8	114.8	
Net Increase in Current Assets	-76.2	17.7	-50.0	-50.5	
Net Increase in Current Liabilities	44.8	0.2	11.5	12.4	
Net cash flow from operating activities	47.1	92.2	56.4	76.6	
Cash flow from Investing Activities					
(Purchase)/Sale of Fixed Assets	-126.5	-100.0	-30.0	-30.0	
Others	12.5	0.0	0.0	0.0	
Net Cash flow from Investing Activities	-114.1	-100.0	-30.0	-30.0	
Cash flow from Financing Activities					
(Payment) of Dividend and Dividend Tax	0.0	0.0	0.0	0.0	
Interest Paid	-16.9	-17.7	-16.0	-15.2	
Others	124.2	-16.1	-8.0	-30.0	
Net Cash flow from Financing Activities	107.3	-33.9	-24.0	-45.2	
Net Cash flow	40.3	-41.7	2.4	1.4	
Cash and Cash Equivalent at the beginning	2.9	43.2	1.6	4.0	
Cash and Cash Equivalent at the end	43.2	1.6	4.0	5.4	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year -End -March)	FY22	FY23E	FY24E	FY25E	
Equity Capital	9.2	9.2	9.2	9.2	
Reserve and Surplus	357.8	376.8	419.3	477.1	
Total Shareholders funds	367.0	385.9	428.4	486.2	
Total Debt					
Deferred Tax Liability	173.8	163.8	155.8	125.8	
Other Non Current Liabilities	13.2	13.2	13.2	13.2	
Others Total	4.0	0.0	0.0	0.0	
Others Total	17.2	13.2	13.2	13.2	
Total Liability	558.0	562.9	597.5	625.2	
Gross Block	447.7	547.7	577.7	607.7	
Accumulated Depreciation	106.6	138.0	174.3	216.1	
Net Block	341.1	409.7	403.4	391.6	
Capital WIP	16.1	16.1	16.1	16.1	
Total Fixed Assets	357.2	425.9	419.5	407.7	
Liquid Investments	0.0	0.0	0.0	0.0	
Current Asset					
Inventory	111.4	80.7	99.5	114.6	
Debtors	99.9	110.4	130.2	150.0	
Loans and Advances	0.2	0.3	0.3	0.3	
Cash	43.2	1.6	4.0	5.4	
Total Current Assets	293.8	234.4	286.8	338.8	
Current Liability					
Creditors	84.0	82.4	90.4	104.2	
Provisions	2.7	2.7	2.9	3.4	
Total Current Liabilities	117.6	117.8	129.4	141.8	
Net Current Assets	176.2	116.6	157.4	197.0	
Other Assets	15.4	15.4	15.4	15.4	
Total Asset	558.0	562.9	597.5	625.2	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year -End -March)	FY22	FY23E	FY24E	FY25E
Per Share Ratio				
EPS	38.3	27.4	46.3	63.0
Cash EPS	67.2	61.6	85.9	108.6
DPS	0.0	0.0	0.0	0.0
BV	400.0	420.7	467.0	530.0
Operating ratio				
EBITDA Margin	14.3	13.2	15.8	17.0
PAT Margin	6.2	4.2	6.4	7.6
Return Ratios				
RoCE	11.4	9.2	12.2	14.8
RoE	9.6	6.5	9.9	11.9
RoIC	10.6	8.5	11.4	14.1
Valuation Ratios				
EV / EBITDA	16.2	17.0	12.8	10.1
P/E	33.7	47.1	27.8	20.5
EV/Net Sales	2.3	2.2	2.0	1.7
Mcap/sales	2.1	2.0	1.8	1.6
P/BV	3.2	3.1	2.8	2.4
Turnover Ratios				
Gross Block turnover	1.3	1.1	1.1	1.3
Inventory Days	71.9	49.0	55.0	55.0
Debtor Days	64.4	67.0	72.0	72.0
Creditor Days	54.2	50.0	50.0	50.0
Solvency Ratios				
Debt/Equity	0.5	0.4	0.4	0.3
Debt/Ebitda	2.1	2.1	1.5	1.0
Current Ratio	2.9	2.7	3.0	3.1
Quick Ratio	1.6	1.8	2.0	2.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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