Shaily Engineering Plastics Limited

August 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	270.17 (Enhanced from 261.54)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short Term Bank Facilities	35.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**305.17 (₹ Three Hundred Five Crore and Seventeen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Shaily Engineering Plastics Ltd. (SEPL) take into account healthy scale up of operations on back of successful completion of scheduled capex in carbon steel, plastic moulding and toy segment along with improvement in financial risk profile following equity infusion through preferential allotment during FY22 (refers to the period April 01 to March 31).

The ratings continue to derive strength from its established track record in the plastic injection moulding business, established relationship with reputed clientele across diverse end-use industries, its experienced promoters, growing demand for engineered plastic products and adequate liquidity.

The above rating strengths are, however, partially offset by SEPL's high customer and segmental concentration, its moderate bargaining power with its large sized customers and susceptibility of its profitability to raw material price volatility and exchange rate fluctuations.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Successful completion of ongoing capex along with scaling up of operations resulting in growth in its TOI to more than Rs.800 crore along with PBILDT margin of 18% on a sustained basis.
- Improvement in its ROCE beyond 20% on a sustained basis.
- Adequate level of segmental and customer diversification.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in its TOI to less than Rs.400 crore on the back of lower off-take by its key customers.
- Decline in its PBILDT margin below 14% on a sustained basis.
- Increase in working capital intensity resulting in elongation of working capital cycle beyond 90 days.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Sustained growth in scale of operations with stable profitability

SEPL reported substantial y-o-y growth of 58% in its TOI to Rs. 569.37 crore in FY22 (PY: Rs. 360.22 crore) on account of higher sales from home furnishing segment, increase in revenue contribution from the healthcare segment followed by scaling up of carbon steel and toys manufacturing business.

Further, SEPL is expected to record healthy volume growth in medium term on the back of healthy order book in carbon steel, healthcare and toy segment apart from continued growth momentum in home furnishing segment.

The PBILDT margin remains largely stable with marginal moderation of 160 bps to 15.05% in FY22 (PY: 16.65%) owing to susceptibility in the prices of crude oil and foreign exchange fluctuations. Nevertheless, the PAT margin remains stable at 6.17% (PY: 6.11%) and reported gross cash accruals of Rs. 64.47 crore in FY22 (PY: Rs. 44.18 crore).

Improvement in leverage and debt coverage indicators

SEPL's financial profile remained comfortable marked by improvement in the net worth and leverage position. The capital structure has shown improvement in FY22 with infusion of Rs.150 crore through preferential allotment resulting in improvement in overall gearing to 0.50 times as on March 31, 2022 (1.15 times as on March 31, 2021).

The debt coverage indicators improved and remained comfortable marked by interest coverage and total debt to GCA of 4.71 times and 2.78 years (PY: 4.43 times and 4.58 years) respectively.

The capital structure is expected to remain comfortable in the medium term as the company has envisaged to fund the ongoing capex for FY23-FY24 through equity infused during FY22 and internal accruals.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced promoters with established track record of operations in plastic injection moulding
SEPL is managed by its promoter and Executive Chairman, Mr Mahendra Sanghvi, who has experience of over four decades in the plastic industry. His son, Mr. Amit Sanghvi, is the Managing Director of SEPL and has around a decade of industry experience. The promoters are actively supported by a team of professionals and eminent independent directors, who have a vast experience in pharmaceutical, finance, operations, etc. SEPL has an established track record of operations of around four decades and has developed a wide range of products in home furnishing, healthcare, FMCG, toys and automobiles segment.

Established relationship with reputed clientele across diverse end-use industries
SEPL has long-standing relationship with reputed global and domestic clients across a wide range of end-user industries. The company operates in the niche segment of precision moulding and caters to demand from global industry leaders in their respective segments. Furthermore, SEPL's is able to scale up its carbon steel business and toy segment following orders from two global manufacturers along with gradual growth in pharmaceutical segment.

Growing demand for plastic products with increased application in various industries
There has been rapid increase in consumption of plastic material in recent years on account of newer application areas for plastics such as automotive, rail, defence & aerospace, medical & healthcare, electrical & electronics, telecommunication, building & infrastructure, and furniture. In the domestic market as well, government's initiatives to boost investment in water & sanitation management, irrigation, building & construction and retail is expected to increase consumption of plastic products over the coming years.

Key Rating Weaknesses
High customer concentration with moderate bargaining power
Home furnishing continues to be the largest segment for SEPL, contributing around 57% of its TOI in FY22 (FY21:61%). Moreover, it caters to a single industry player which leads to high customer concentration. Nevertheless, further increase in customer concentration risk due to commissioning of carbon-steel plant is offset by new clientele in toys segment, which contributed around 13% of SEPL's TOI during FY22 (Nil during FY21). While association with leading global and domestic players reduces counterparty credit risk, it restricts SEPL's bargaining power vis-à-vis its larger clients.

Susceptibility of profitability to raw material price volatility and exposure to foreign exchange rate fluctuations:
The key raw material of SEPL is a derivative of crude oil and hence its profitability is susceptible to any sharp volatility in crude oil prices. Though SEPL has cost pass-through mechanism with most of its customers, price revision happens only with a time lag. Also, SEPL's profitability is susceptible to fluctuation in foreign exchange rates to the extent of its net un-hedged position.

Implementation and stabilisation risk associated with on-going scheduled capex
SEPL is undertaking enhancement capex in pharmaceutical segment in FY23 of approximately Rs.110 crore to be funded entirely from the proceeds of preferential allotment. The said capacity is envisaged to commence commercial operations from Q1FY24 (refers to the period April 01 to June 30). SEPL has a healthy order book in the pharma division and plans to design and develop large no of Stock Keeping unit (SKU's) in the health care segment. The capex is envisaged to increase its scale of operations, improve overall operational efficiency and generate better profitability. However, SEPL's ability to scale up its operations and realize envisaged returns from its expanded capacity would remain crucial from the credit perspective.

Liquidity: Adequate
SEPL has adequate liquidity characterized by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations and stable operating cycle of 73 days (FY21: 79 days) during FY22. Going forward, SEPL is expected to generate GCA of around Rs.71-97 crore which is sufficient to meet its capex requirement of around Rs.25 crore and schedule debt repayment of Rs.39 crore.
However, owing to increase in scale of operations the utilisation of fund based working capital borrowing remains high at 89% during the trailing 12-months ended May 2022 (76% in the trailing 12-months ended October 21).
Further, equity raised through preferential allotment was utilised to the tune of Rs.30 crore during FY22 towards funding of the ongoing capex and balance was parked partly in fixed deposit with banks and balance was deployed in working capital (reflected from lower level of year end utilisation which however was reinstated in the form of fixed deposits in April 2022 and is envisaged to be utilized in FY23).

Analytical approach
Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company
Incorporated in 1980, Gujarat-based Shaily Engineering Plastics Limited (SEPL) is engaged in manufacturing of high precision injection moulded plastic components and sub-assemblies for various requirements of Original Equipment Manufacturers (OEM). It also offers secondary operations in plastics like vacuum metalizing, hot stamping and ultrasonic welding. The company caters to a wide range of industries including home furnishing, FMCG, pharmaceuticals, switchgear components, auto components, electronics and electrical appliances. SEPL is a two-star export house with an in-house Research & Development unit and its manufacturing facilities are located at Savli and Halol in Gujarat.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30,2022 (Prov)
Total operating income	360.20	569.37	NA
PBILDT	59.98	85.82	NA
PAT	22.02	35.14	NA
Overall gearing (times)	1.15	0.50	NA
Interest coverage (times)	4.43	4.71	NA

A: Audited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2026	130.17	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	113.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	27.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	35.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	130.17	CARE A; Stable	-	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)
2	Fund-based - LT-Cash Credit	LT	113.00	CARE A; Stable	-	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)
3	Fund-based - LT-Cash Credit	LT	27.00	CARE A; Stable	-	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)
4	Non-fund-based - ST-BG/LC	ST	35.00	CARE A1	-	1)CARE A2+ (17-Dec-21)	1)CARE A2+ (07-Oct-20)	1)CARE A2+ (25-Sep-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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