Shaily Engineering Plastics Limited (Revised)

December 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	261.54 (enhanced from 217.10)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	35 (enhanced from 30)	CARE A2+ (A Two Plus)	Reaffirmed
Total	**296.54 (Rs. Two Hundred Ninety-Six Crore and Fifty-Four Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shaily Engineering Plastics Ltd. (SEPL) continue to derive strength from its established track record in the plastic injection molding business, established relationship with reputed clientele across diverse end-use industries, its experienced promoters, growing demand for engineered plastic products and adequate liquidity.

The ratings also take cognizance of growth in its total operating income (TOI) while sustaining its operating profitability in H1FY22 (refers to the period April 01 to September 30) and improvement in its leverage and debt coverage indicators following equity infusion through preferential allotment in H1FY22.

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. The ratings are also constrained by implementation and scaling up risks associated with large-size capacity expansion projects planned during FY22-24.

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.600 crore along with PBILDT margin of 18% on a sustained basis
- Improvement in its ROCE beyond 20% on a sustained basis.

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

Outlook: Positive

CARE expects improvement in financial profile of SEPL with scaling-up of Carbon Steel furniture and plastic products manufacturing facility (at Halol), and toys manufacturing facility (at Rania). Along with revenue, segmental concentration is also envisaged to reduce with increase in focus on pharmaceutical and toys segment. The outlook, however, may be revised to 'Stable' in case of lower than envisaged growth in SEPL's revenue, reduction in its profitability or deterioration in its liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record of operations in plastic injection molding

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, pharmaceutical, 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 molding and caters to demand from global industry leaders in their

[1]Complete definition of the ratings assigned are available at www.careredge.in and other CARE publications

respective segments. Furthermore, SEPL's new carbon steel product manufacturing facility commenced operations from December 2020 and has a strong orderbook of around 6 Stock Keeping Unit (SKUs). SEPL's venture in the toys segment has also scaled up following orders from two large global toy manufacturers.

Volume-backed growth in TOI from H2FY22 with stable profitability

After being impacted by COVID-19 led lockdown restrictions across the globe in H1FY21, SEPL reported consistent growth in TOI backed by increase in machine utilisation levels and sales volume on Q-o-Q basis. Furthermore, with commissioning of new manufacturing carbon steel and toy manufacturing facility, SEPL reported TOI of Rs.267 crore in H1FY22, as compared to Rs.146 crore in H1FY21 and Rs.217 crore in H2FY21.

Although SEPL incurred loss in Q1FY21, its PBILDT margin remained stable at 17.33% in FY21 (FY20: 17.69%), with increase in share of better margin pharmaceutical segment in TOI. As per provisional results for H1FY22, SEPL's PBILDT margin declined by 89 bps to 16.44%, primarily on account of increase in raw material prices.

Fresh infusion of equity and scaling up leading to improvement in leverage and debt coverage indicators

As envisaged, SEPL overall gearing deteriorated to above unity level at 1.15 times as on March 31, 2021 (FY20 end: 0.85 times) on account of conclusion of debt-funded capex. Further, total debt increased during H1FY22 due to funding of incremental working capital requirements through bank borrowings. Nevertheless, SEPL's overall gearing improved to 0.75 times as on September 30, 2021 following raising equity of Rs.150 crore via preferential allotment to investors during September 2021.

After deterioration in FY21, Debt coverage indicators improved during H1FY22 on the back of improved profitability and cash accruals, which is reflected from its PBILDT interest coverage of 6.09 times (FY21:4.64 times, FY20:5.38 times) and Total Debt/PBILDT of 2.92 times (FY21:3.22 times FY20:2.24 times) during H1FY22. While SEPL is not envisaged to raise long-term debt to fund capex, reliance on bank borrowings is envisaged to increase to fund incremental working capital requirements of new capacity envisaged to be commissioned in next 2 years.

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.

Liquidity: Adequate

SEPL has adequate liquidity characterized by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations, stable operating cycle of 79 days (FY20: 74 days) during FY21 and moderate utilisation of fund-based working capital limits. SEPL is expected to generate GCA of around Rs.75-80 crore, against its capex requirement of around Rs.20-25 crore and schedule debt repayment of Rs.27 crore in FY22. As on September 30, 2021, equity raised through preferential allotment is parked in fixed deposit with banks, which is envisaged to be utilized over next two years.

SEPL has got its sanctioned fund-based working capital limits enhanced to Rs.105 crore from August 2021 and average utilization of the limits stood moderate at ~85% for the trailing 12-months ended October 2021. SEPL also availed Guaranteed Emergency Credit Line (GECL) of Rs.24 crore to meet working capital requirements. Its current ratio stood at 1.22 times (FY20 end: 1.12 times) as on March 31, 2021.

Key Rating Weaknesses

High customer concentration with moderate bargaining power:

Home furnishing continues to be the largest segment for SEPL, contributing around 61% of its TOI in FY21 (FY20:64%). 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 envisaged to be offset by new clientele in toys segment, which contributed around 13% of SEPL's TOI during H1FY22 (Nil during FY21).

While association with leading global and domestic players reduces counterparty 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 stablisation risk associated with large-size capex planned in the medium term:
SEPL completed its debt-funded green field carbon steel project at Halol, toys manufacturing capacity at Savli and new plastic products unit at Halol during FY21 and H1FY22. This has also resulted in deterioration of return on capital employed y-o-y basis. SEPL has planned a capex of around Rs.280 crore to be executed in FY22-24; Rs.80 crore is planned in FY22 and additional Rs.200 crore is envisaged to be incurred in FY23-FY24. The cost is envisaged to be funded from fresh equity raised in Q2FY22 and internal accruals. Considering the size of capex and execution timeline of 12-18 months, execution of the projects within envisaged time, its stablisation and realization of adequate returns from the same shall be crucial from credit perspective.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity analysis of Non-financial Sector Entities

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	336.95	363.14	267.57
PBILDT	59.61	62.92	44.00
PAT	23.59	22.02	18.49
Overall gearing (times)	0.85	1.15	0.75
Interest coverage (times)	5.38	4.64	6.09

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Detailed explanation of covenants of the rated instrument / 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2026	156.54	CARE A-; Positive
Fund-based - LT-Cash Credit	-	-	-	-	78.00	CARE A-; Positive
Fund-based - LT-Cash Credit	-	-	-	-	27.00	CARE A-; Positive
Non-fund-based - ST-BG /LC	-	-	-	-	35.00	CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	156.54	CARE A-; Positive	-	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)
2	Fund-based - LT-Cash Credit	LT	78.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)
3	Fund-based - LT-Cash Credit	LT	27.00	CARE A-; Positive	-	1)CARE A-; Stable (07-Oct-20)	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)
4	Non-fund-based - ST-BG/LC	ST	35.00	CARE A2+	-	1)CARE A2+ (07-Oct-20)	1)CARE A2+ (25-Sep-19)	1)CARE A2+ (05-Oct-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 instrument: CARE 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Ujjwal Manish Patel
Contact no.: +91-79-4026 5649
Email ID: ujjwal.patel@careedge.in

Relationship Contact
Name: Deepak Purshottambhai Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/ outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/ instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/ associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/ outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/ proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**