Shaily Engineering Plastics Limited

September 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	283.00 (Enhanced from 243.17)	CARE A; Stable	Reaffirmed
Short Term Bank Facilities	35.00	CARE A1	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1.

**Reclassification in the long-term bank facilities above.*

Rationale and key rating drivers

The ratings assigned to the bank facilities of Shaily Engineering Plastics Limited (SEPL) continue to derive strength from its established presence in the plastic injection moulding business, around four-decade experience of its promoter group in the plastic packaging industry and established relationship with reputed clientele across diverse end-use industries.

The ratings also factor in the SEPL's healthy financial profile reflected in stable operational performance & profitability, healthy debt protection metrics 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-size customers and susceptibility of its profitability to raw material price volatility and exchange rate fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful completion of ongoing capex and realisation of envisaged benefits therefrom resulting in growth in its total operating income (TOI) to more than ₹800 crore along with PBILDT margin of 18% on a sustained basis.
- Scaling up of pharmaceutical segment resulting in segmental and customer diversification.
- Improvement in its return on capital employed (ROCE) beyond 20% on a sustained basis.

Negative factors

- Decline in its TOI to less than ₹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 the working capital intensity resulting in elongation of working capital cycle beyond 90 days in the near term.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook on the rating reflects CARE Ratings Limited's (CARE Ratings') opinion that SEPL will benefit from its experienced promoter group, strong technical capabilities, established relationships with key customers and stable financial risk profile.

Detailed description of the key rating drivers:

Key strengths

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

SEPL is managed by its promoter and Executive Chairman, 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, fast moving consumer goods (FMCG), toys and automobiles segment.

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

Established relationship with reputed clientele across diverse end-use industries:
SEPL has a 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.

Stable scale of operations with stable profitability:
During FY23 (refers to the period April 01 to March 31), SEPL's total operating income (TOI) remained stable at ₹599.71 crore (PY: ₹569.37 crore). The marginal growth on TOI is on account of increase in sales realisation of plastic and carbon steel segment by 29% and 74% respectively due to increase in SKUs in home furnishing and automotive division. However, the sales volume in plastic and carbon steel segment declined by 14% and 35% respectively owing to subdued demand in the export market and global recessionary environment.
The home furnishing segment of SEPL continued to be the major contributor to the revenue (69% of the total sales) followed by pharmaceutical segment (8% of the total sales), FMCG (6% of the total sales), and carbon steel & automotive (5% each of the total sales). CARE Ratings Limited (CARE Ratings) expects production and sales volume to recover in FY24 buoyed by healthy order book in pharmaceutical and carbon steel (expected to achieve break even in FY24) segment along with continued growth momentum in home furnishing segment.
The PBILDT margin remained largely stable with marginal moderation of 43 bps y-o-y to 14.64% in FY23 (PY: 15.07%) owing to reduction in the revenue from high-margin pharmaceutical segment. PAT margin, however, dipped by by 117 bps to 5% in FY23 (PY: 6.17%) owing to increase in depreciation cost upon completion of pharmaceutical capex. SEPL reported gross cash accruals of ₹67.28 crore in FY23 (PY: ₹64.47 crore).

Comfortable leverage position
SEPL's financial profile remained comfortable marked by healthy net worth base and overall gearing at below unity level. The debt coverage indicators remained healthy marked by total outside liabilities to tangible net worth of 0.69 times in FY23 (PY: 0.80 crore) along-with interest coverage and total debt to GCA of 4.61 times and 2.78 years (PY: 4.71 times and 2.78 years) respectively in FY23. While SEPL's debt level is expected to increase in FY24 on account of sizeable capex plans, CARE Ratings expects its capital structure and coverage metrics to remain comfortable with healthy accruals to reserves.

Key weaknesses
High customer concentration with moderate bargaining power
Home furnishing continues to be the largest segment for SEPL, contributing around 69% of its TOI in FY23 (FY22:57%). Moreover, it caters to a single industry player in home furnishing segment reflecting high customer concentration. Moreover, while the 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 capex
SEPL undertook enhancement capex, in a phased manner, in home furnishing (₹34.18 crore) and pharmaceutical (₹55.30 crore) division during last two years ended FY23. The capex was entirely funded from equity of ₹150 crore raised through preferential allotment. Owning to the change in the scope of pharmaceutical capex, revised cost is envisaged at ₹70 crore and is expected to be funded through a mix of term loan and the proceeds of preferential allotment. The facility is now envisaged to start the commercial operations in Q3FY24. 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 characterised by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations and stable operating cycle of 75 days (FY22: 73 days) during FY23. Going forward, SEPL is expected to generate GCA of around ₹78-100 crore which is sufficient to meet its routine capex requirement of around ₹20 crore and schedule debt repayment of ₹30-47 crore in the projected period.
However, owing to increase in raw material prices, the utilisation of fund-based working capital borrowing remains high at 88% during the trailing 12-months ended May 2023 (89% in the trailing 12-months ended May 2022). Thus, SEPL has availed an enhancement of ₹35 crore in the working capital facilities to fund its incremental working capital requirements.

Furthermore, equity raised through preferential allotment was utilised to the tune of ₹120 crore till March 31, 2023 towards funding the ongoing capex and the 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 2023 and is envisaged to be utilised in FY24).

Environment, social, and governance (ESG) risks

Particulars*	Compliance and action taken by the company
Environmental	1. Across the business verticals such as Home Furnishings and FMCG, SEPL has been successful in being able to convert products manufactured from virgin materials to both recycled plastics as well as bioplastics. 2. For the year 2022, 52% of raw material used was from pre-consumer recycled source (recycled content varies from 20% around 100%). 3. Uses packaging material from supplier with FSC (Forest Stewardship Council) certification with Chain of Custody (CoC) across the supply chain. 4. The company has implemented and installed energy efficient instruments and processes across the plants resulting into conservation of energy and water
Social	1. All the employees enroll in the safety training which is being given at the time of joining and on regular basis from time to time. Apart from this at regular intervals skills development programs are being organised for all the categories of employees have been included.
Governance	1. The company has a dedicated investor grievance redressal mechanism related to the policies to address stakeholder's grievances. Furthermore, the company has not received any investor complaints during the 2021-22. 2. During FY22, 50% of SEPL's board comprised independent directors

**The above ESG details are taken from annual report of FY22*

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plastic Products - Consumer

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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	569.37	599.71	153.62
PBILDT	85.82	87.80	23.67
PAT	35.14	29.99	12.60
Overall gearing (times)	0.49	0.47	0.44
Interest coverage (times)	4.71	4.61	6.08

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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-Cash Credit		-	-	-	140.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	June 2029	143.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	143.00	CARE A; Stable	-	1)CARE A; Stable (12-Aug-22)	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)
2	Fund-based - LT-Cash Credit	LT	140.00	CARE A; Stable	-	1)CARE A; Stable (12-Aug-22)	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Stable (12-Aug-22)	1)CARE A-; Positive (17-Dec-21)	1)CARE A-; Stable (07-Oct-20)
4	Non-fund-based - ST-BG/LC	ST	35.00	CARE A1	-	1)CARE A1 (12-Aug-22)	1)CARE A2+ (17-Dec-21)	1)CARE A2+ (07-Oct-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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