

Shaily Engineering Plastics Limited

January 11, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	112.22 (enhanced from Rs.97.33 crore)	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	30.00	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	142.22 (Rs. One Hundred Forty Two crore and Twenty Two 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 the long and established track record of SEPL in the plastic injection molding business, its experienced promoters and reputed clientele across diverse end-use industries. The ratings also take cognizance of expansion in SEPL's customer base during FY17 as well as H1FY18 with addition of some of the leading players across diversified industries, addition of new products for its existing clients and strengthening of relationship with its key customer, IKEA. The ratings further derive strength from sales volume driven growth in SEPL's total operating income (TOI) on the back of higher exports during FY17, sustenance of healthy operating margin, strengthening of leverage & debt coverage indicators, moderate liquidity position and growing demand for plastic with its increased application in various industries.

The ratings, however, continue to be constrained by SEPL's high customer concentration and moderate bargaining power with its large sized customers, susceptibility of its profitability to raw material price volatility and exposure to foreign exchange rate fluctuations.

SEPL's ability to grow its scale of operations along with diversification of its customer base while retaining its existing clientele, sustain its profitability margins and capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record of operations: SEPL is managed by its Promoter and Executive Chairman, Mr. Mahendra Sanghvi, who has experience of over four decades in the plastic industry. The company has a track record of operations of more than three decades.

Expansion of customer base with addition of new customers and products: SEPL has added new customers across various industries like pharmaceutical and FMCG during FY17 as well as H1FY18. Further, SEPL has also added new products for its existing customers like IKEA, Gillette and Sanofi.

Sales volume driven growth in TOI with comfortable gearing and debt coverage indicators: During FY17, SEPL reported export-led volume backed growth of 10% in its TOI despite moderation in its sales realization due to decline in crude oil prices. Furthermore, SEPL continued to report healthy PBILDT margin as it operates into niche segment of precision molding and caters to demand from global giants. Leverage and debt coverage indicators also strengthened during FY17 on the back of higher cash accruals coupled with lower finance cost.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating Weaknesses

High customer concentration with moderate bargaining power: Home furnishing is the largest segment for SEPL with more than 60% of the TOI being contributed by the same. IKEA is the single largest customer for SEPL in the home furnishing segment. Further, SEPL supplies to leading players in diversified industries restricting its bargaining power.

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

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios - Non- Financial Sector](#)

About the Company

SEPL, incorporated in 1980, is engaged in manufacturing of high precision injection molded 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. Currently, SEPL has five manufacturing facilities - four in Savli (Gujarat) and one in Halol (Gujarat). One facility in Savli is an Export Oriented Unit (EOU) while others cater to both domestic and export markets.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	225.97	247.80
PBILDT	39.64	42.56
PAT	15.49	15.88
Overall gearing (times)	0.76	0.64
Interest coverage (times)	3.91	5.40

A: Audited

Further, as per H1FY18 provisional results, SEPL reported a TOI of Rs.150.77 crore with a PAT of Rs.10.79 crore, as against TOI of Rs.129.23 crore with a PAT of Rs.8.26 crore in H1FY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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 credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	2020	52.22	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	30.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	52.22	CARE A-; Stable	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)	1)CARE BBB+ (11-Aug-15)	1)CARE BBB- (19-Aug-14)
2.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)	1)CARE BBB+ (11-Aug-15)	1)CARE BBB- (19-Aug-14)
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	1)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)	1)CARE BBB+ (11-Aug-15)	1)CARE BBB- (19-Aug-14)
4.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A2+	1)CARE A2+ (25-Sep-17)	1)CARE A2 (13-Jan-17) 2)CARE A2 (16-Aug-16)	1)CARE A3+ (11-Aug-15)	1)CARE A3 (19-Aug-14)

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