

## Shaily Engineering Plastics Limited

September 25, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	97.33	<b>CARE A-; Stable</b> <b>[Single A Minus;</b> <b>Outlook: Stable]</b>	Revised from CARE BBB+/ Positive [Triple B Plus; Outlook: Positive]
Short-term Bank Facilities	30.00	<b>CARE A2+</b> <b>[A Two Plus]</b>	Revised from CARE A2 [A Two]
<b>Total Facilities</b>	<b>127.33</b> <b>(Rupees One Hundred Twenty Seven crore and Thirty Three lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in ratings of Shaily Engineering Plastics Limited (SEPL) takes into account expansion of its customer base 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 revision also factors in sales volume driven growth in SEPL's total operating income (TOI) on the back of higher exports during FY17, sustenance of healthy operating margin and strengthening of leverage and debt coverage indicators.

The ratings continue to draw strength from the long and established track record of SEPL in the plastic injection molding business, experienced promoters and reputed clientele across diverse end-use industries. The ratings also draw strength from SEPL's 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

**Expansion of customer base with addition of new customers and products:** SEPL has added new customers across various industries like pharmaceutical and FMCG. 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.

**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. Company has a track record of operations of more than three decades.

#### 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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)	Q1FY18 (UA)
Total operating income	225.97	247.80	71.41
PBILDT	39.64	42.56	12.20
PAT	15.49	15.88	4.43
Overall gearing (times)	0.76	0.64	NA
Interest coverage (times)	3.91	5.40	8.30

A: Audited; NA: Not 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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### **About CARE Ratings:**

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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	37.33	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 2018-2019	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	37.33	CARE A-; Stable	-	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 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 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 (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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