

## Shaily Engineering Plastics Limited

September 25, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	187.65 (enhanced from 106.40)	<b>CARE A-; Stable</b> <b>[Single A Minus; Outlook: Stable]</b>	<b>Reaffirmed</b>
Short-term Bank Facilities	30.00	<b>CARE A2+</b> <b>[A Two Plus]</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>217.65</b> <b>(Rupees Two hundred seventeen crore and sixty five lakh only)</b>		

Details of 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, its experienced promoters and reputed clientele across diverse end-use industries, established relationship with some of its key customers, regular addition of new customers as well as products translating into growth in its total operating income (TOI), sustenance of healthy operating profitability, its comfortable leverage, debt coverage indicators as well as liquidity and growing demand for plastics with its increased applications in various industries.

The ratings, however, continue to remain constrained by SEPL's high customer concentration, its moderate bargaining power with its large sized customers, susceptibility of its profitability to raw material price volatility and exposure to foreign exchange rate fluctuations and risks associated with its ongoing large sized capex in carbon steel products which is largely debt funded.

SEPL's ability to grow its scale of operations along with diversification of its customer base while retaining its existing customers and sustenance of its capital structure with improvement in its profitability would be the key rating sensitivities. Timely completion & stabilization of its new project for manufacturing of carbon steel products which is a different operating segment for SEPL shall be crucial from the credit perspective.

### 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. His son, Mr. Amit Sanghvi, is the Managing Director of SEPL and has around a decade of industry experience. SEPL has an established track record of operations of more than three decades, during which it has developed a wide range of quality products.

#### **Reputed clientele with addition of new customers and products**

SEPL has long-standing relationship with reputed global and domestic clients across a wide range of end-user industry including home furnishing, FMCG, automobile and pharmaceuticals. Over the last few years, SEPL has regularly added new customers and new products (for existing customers), which has translated into growth in its scale of operations. Also, recently it has announced its foray in to toy manufacturing for one of the large global toy manufacturers.

#### **Marginal growth in TOI during FY19 with largely stable operating profit margin**

After witnessing significant growth in its TOI during the past few years ended FY18, TOI of SEPL grew by ~6% during FY19 which was lower than its estimates mainly due to change in inventory holding policy by its key customer in home furnishing segment along-with delay in fructification of few inquiries due to change in designs & other issues. However, SEPL continued to operate with a healthy operating profitability marked by PBILDT margin of 16.14% during FY19 (FY18: 17.44%) which has remained healthy over the years as it operates in the niche segment of precision molding and caters to demand from global industry leaders in their respective segments.

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

**Comfortable capital structure and debt coverage indicators**

SEPL's capital structure continued to remain comfortable with an overall gearing of 0.89x as on March 31, 2019 vis-à-vis 0.87 times as on March 31, 2018. In spite of availing of higher term debt to fund its carbon steel project, its overall gearing largely remained steady upon effective working capital management leading to lower utilization of working capital bank borrowings as on March 31, 2019. SEPL's debt coverage indicators also remained comfortable during FY19 on the back of largely steady cash accruals with only marginal increase in its debt level.

**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, transport and retail is expected to increase consumption of plastic products over the coming years.

**Liquidity analysis**

SEPL has comfortable liquidity marked by largely stable operating cycle of 70-80 days for last three years even with its growth in its scale of operations. SEPL has got sanctioned fund based working capital limit of Rs.60 crore whereby average utilization stood comfortable at ~68% for the trailing twelve months ended July 2019.

**Key Rating Weaknesses****High customer concentration with moderate bargaining power**

Home furnishing is the largest segment for SEPL with more than 60% of its TOI in FY19 being contributed by it wherein it caters to a single industry player which leads to high customer concentration. Further, SEPL supplies primarily to leading global & domestic players across diversified industries which restricts its 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 derivative of crude oil and hence profitability of SEPL 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 unhedged position.

**Sizeable capex over the medium term including that in carbon steel segment**

Over the medium term, SEPL has plans to incur sizeable capex for expanding its existing manufacturing facilities for plastic products as well as for establishing a new facility for carbon steel products. SEPL had already achieved financial closure for the same with NBFC which is now being refinanced with bank loans for which it has received sanction for part of the debt. Commencement of production from the project for carbon steel products is expected to commence from February 2020; albeit with some delay from its initial estimates. While SEPL has significant experience in various types and quality of plastic products, carbon steel is a relatively new domain for the company. The company has hired experienced professional for the same; however, stabilization of the new capex and realizing adequate returns from the same would be crucial from the credit perspective.

**Analytical Approach:** Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-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), out of which two are Export Oriented Unit (EOU) while others cater to both domestic and export markets.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	320.36	339.86
PBILDT	55.88	54.86
PAT	23.90	19.28
Overall gearing (times)	0.87	0.89
Interest coverage (times)	7.42	5.35

A: Audited

As per Q1FY20 provisional results, SEPL reported a TOI of Rs.80.66 crore with a PAT of Rs.4.73 crore as against a TOI of Rs.89.43 crore with a PAT of Rs.5.74 crore during Q1FY19.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

#### Annexure-1: Details of 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	NA	NA	April 30, 2025	92.65	CARE A-; Stable
Fund-based - LT-Term Loan (Proposed)	NA	NA	NA	35.00	CARE A-; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	40.00	CARE A-; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	20.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	NA	NA	NA	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	127.65	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)	1)CARE BBB+; Positive (13-Jan-17) 2)CARE BBB+ (16-Aug-16)
4.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A2+	-	1)CARE A2+ (05-Oct-18)	1)CARE A2+ (11-Jan-18)	1)CARE A2 (13-Jan-17)

							2)CARE A2+ (25-Sep-17)	2)CARE A2 (16-Aug-16)
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**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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