

Shaily Engineering Plastics Limited

October 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	106.40	CARE A-; Stable [Single A Minus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	30.00	CARE A2+ [A Two Plus]	Reaffirmed
Total Facilities	136.40 (Rupees One Hundred Thirty Six crore and Forty 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 along with established relationship with some of its key customers. The ratings also derive strength from SEPL's 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 along with growing demand for plastic with its increased application in various industries.

The ratings, however, continue to remain constrained on account of SEPL's high customer concentration and 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. The ratings also take cognizance of the recently announced sizeable capex by the company, including its foray into the carbon steel segment.

SEPL's ability to grow its scale of operations along with diversification of its customer base while retaining its existing customers while sustaining its profitability and capital structure shall be the key rating sensitivities. Stabilization of new largely debt-funded capex for manufacturing of carbon steel products for its existing customer which is a different operating segment for SEPL shall also 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 Mr. Mahendra Sanghvi, Promoter and Executive Chairman, 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 and pharmaceuticals. Over the last few years, SEPL has regularly added new customers and products (for existing customers), which has translated into growth in its scale of operations.

Healthy growth in TOI with stable operating profit margin: During FY18, SEPL reported a healthy growth of 29% y-o-y in its TOI backed by increase in sale of higher valued products. Sale to its key customers also witnessed healthy growth on y-o-y basis. SEPL continued to operate with a healthy operating profitability marked by a PBILDT margin of 17.44% (P.Y.: 17.72%) during FY18, which has remained healthy over the years as it operates into niche segment of precision molding and caters to demand from global industry leaders in their respective segments.

Comfortable capital structure, debt coverage indicators and liquidity: SEPL's capital structure continued to remain comfortable with an overall gearing of 0.87x as on March 31, 2018. This moderated marginally from 0.63x as on the previous year end due to increase in both long term debt (availed for capex) as well as working capital bank borrowings. SEPL's debt coverage indicators also remained comfortable during FY18 on the back of stable operating profitability translating into healthy cash accruals. Furthermore, SEPL had comfortable liquidity with a stable operating cycle and moderate utilization of its working capital bank borrowings.

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, defense & 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

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

management, irrigation, building & construction, transport and retail is expected to increased consumption of plastic products over the coming years.

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 FY18 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 a derivative of crude oil and hence its profitability is susceptible to any adverse movement 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 profits are susceptible to unfavorable changes in foreign exchange rates to the extent of net open 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 has already achieved financial closure for the same and is expected to commence production in H2FY20. 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 expected benefits 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 moulded plastic components and sub-assemblies for various requirements of original equipment manufacturers (OEMs). It also offers secondary operations in plastic like vacuum metalizing, hot stamping, hot foiling and ultrasonic welding. The company caters to a wide range of industries including home furnishing, FMCG, pharmaceuticals, electronics and electrical appliances, switchgear components and auto components. Presently, SEPL has five manufacturing units, four of which are located at Savli near Vadodara in Gujarat while one is located at Halol. Out of the four units at Savli, one is an Export Oriented Unit (EOU) while others, including the one at Halol, cater to both domestic and export markets.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	248.94	320.36
PBILDT	44.12	55.88
PAT	15.85	23.90
Overall gearing (times)	0.63	0.87
Interest coverage (times)	5.59	7.42

A: Audited

During Q1FY19, SEPL reported a total income of Rs.89.43 crore with a PAT of Rs.5.74 crore as against a total income of Rs.71.41 crore and a PAT of Rs.4.43 crore during Q1FY18.

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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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	46.40	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	46.40	CARE A-; Stable	-	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)	1)CARE BBB+ (11-Aug-15)
2.	Fund-based - LT-Cash Credit	LT	40.00	CARE A-; Stable	-	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)	1)CARE BBB+ (11-Aug-15)
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	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)	1)CARE BBB+ (11-Aug-15)
4.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A2+	-	1)CARE A2+ (11-Jan-18) 2)CARE A2+ (25-Sep-17)	1)CARE A2 (13-Jan-17) 2)CARE A2 (16-Aug-16)	1)CARE A3+ (11-Aug-15)

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