Shaily Engineering Plastics Limited

October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	217.10 (enhanced from 187.65)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	**Reaffirmed**
Short-term Bank Facilities	30.00	**CARE A2+ [A Two Plus]**	**Reaffirmed**
Total	**247.10 (Rupees Two Hundred Forty Seven crore and Ten lakh only)**		

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 sustenance of healthy operating profitability and stable total operating income (TOI), its moderate leverage, comfortable debt coverage indicators as well as adequate liquidity and growing demand for plastics with its increased applications in various industries. CARE also notes that SEPL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its adequate liquidity profile.

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 capex plans which is largely debt funded alongwith stabilization risk of its recently concluded capex in carbon steel products.

Rating Sensitivities

Positive factors

- Growth in its scale of operations marked by TOI of more than Rs.600 crore along with diversification of its customer base while successfully retaining its existing customers
- Improvement in its overall gearing below 0.75x on a sustained basis
- Improvement in its ROCE beyond 20% on a sustained basis
- Stabilization of its new project for manufacturing of carbon steel products with consistent off-take by its key customers

Negative factors

- Decline in its TOI to less than Rs.300 crore on the back of lower off-take by its key customers
- Decline in its ROCE to below 12% on a sustained basis
- Decline in its PBILDT margin below 14% on a sustained basis
- Weakening of its capital structure marked by overall gearing of more than 1.20 times on a sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

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

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. In FY21, SEPL has also appointed two independent directors with rich experience of over three decades in the fields of pharmaceutical and finance respectively. Further, Mr. Anil Kalra who has been appointed as Chief Executive Officer of the company has rich experience in manufacturing spanning over four and half decades. SEPL has an established track record of operations of around four decades, during which it has developed a wide range of quality products.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 industries 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. The company has recently forayed into toy manufacturing wherein it has received orders from two large global toy manufacturers and has also completed setting up of a new carbon steel manufacturing facility for one of its key customers.

Improvement in profitability despite stable total operating income during FY20
During FY20, SEPL reported largely stable total operating income (TOI) at Rs.336.95 crore as compared to Rs.339.86 crore during FY19 mainly on account of delay in commissioning of its carbon steel project alongwith cancellation of few orders in Q4FY20 as the manufacturing facilities of many of its export customers were closed due to Covid-19 pandemic. Despite largely stable scale of operations, its PBILDT margin improved by 155 bps to 17.69% in FY20 due to resolution of power and labour shortage, improved machine utilization post Q1FY20 and better margins from pharmaceutical segment. SEPL's PBILDT margins have 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.

Comfortable debt coverage indicators and moderate leverage
SEPL's debt coverage indicators remained comfortable during FY20 on the back of improved profitability and cash accruals which is reflected from its PBILDT interest coverage of 5.38x and Total Debt/GCA of 3.27x during the year. However, SEPL's capital structure has moderated with an overall gearing of 0.99x as on June 30, 2020 due to availment of term loan for its carbon steel project and the same is envisaged to remain slightly beyond unity during FY21 due to increased working capital borrowings to cater to the increased scale of its operations.

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

Liquidity: ***Adequate***
SEPL has adequate liquidity characterized by sufficient cushion in its cash accruals vis-à-vis its term debt repayment obligations and moderate cash balance of Rs.7.02 crore as on March 31, 2020. Its capex requirements are modular and is expected to be funded through debt of Rs.48 crore in FY21 for which it has sufficient gearing headroom. Moreover, SEPL has largely stable operating cycle of 70-80 days for last four years and average utilization of fund based working capital limits stood moderate at ~77% for the trailing twelve months ended July 2020. Also, SEPL has got its sanctioned fund based working capital limits enhanced from Rs.60 crore to Rs.78 crore in August 2020. Its current ratio stood at a moderate 1.12 times as on March 31, 2020. On the back of its adequate liquidity, SEPL has not availed any moratorium on its debt obligations, the option for which was available to it as a Covid relief measure, as permitted by Reserve Bank of India's (RBI) package.

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 FY20 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 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.

Risks associated with its capex plans along-with stabilization risk of its recently concluded capex in carbon steel products
During Q2FY21 SEPL completed its green field carbon steel project at Halol which was earlier expected to be completed by February 2020 but got delayed due to Covid-19 pandemic. Trial-run production at the plant has started and commercial supplies were expected to commence from September 2020 which is to be gradually ramped-up in Q3FY21 and Q4FY21. As indicated by the company's management, SEPL already has confirmed orders for carbon steel products

from its key customer. Furthermore, the company is undertaking expansion of its existing manufacturing facilities for plastic molding division at Savli along-with expansion of pharmaceutical facilities and toy manufacturing facilities to be majorly funded by debt which has already been tied-up. Carbon steel being relatively new domain for the company, stabilization of recently concluded carbon steel capex and realization of adequate returns from the same shall be crucial from credit perspective.

Impact of outbreak of Covid-19 pandemic

In view of the spread of Covid-19 pandemic and subsequent lockdown, the company temporarily closed its manufacturing operations at its Rania & Halol facilities in the month of March 2020 which impacted its business operations and led to loss of revenue until its operations resumed partially from April 2020 at both the facilities with limited manpower. Average machine utilization stood at 34% during Q1FY21 as against 59% during Q1FY20. Apart from the drop in production, the demand for moulded plastic components was also impacted during Q1FY21 which led to decline in its TOI by around 42% on y-o-y basis to Rs.46.65 crore. However, by July 2020, its scale of operations had reached to pre-Covid level, according to the company management. On the back of decline in its scale of operations, there was lower absorption of its fixed costs leading to losses in Q1FY21; albeit it had a positive GCA.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Financial ratios – Non-Financial Sector
Rating Methodology-Manufacturing Companies

About the Company

Shaily Engineering Plastics Limited (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 (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 six manufacturing facilities - four in Savli (Gujarat) and two 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)	FY19 (A)	FY20 (A)
Total operating income (TOI)	339.86	336.95
PBILDT	54.86	59.61
PAT	19.28	23.59
Overall gearing (times)	0.89	0.85
Interest coverage (times)	5.35	5.38

A: Audited

As per its Q1FY21 published results, SEPL reported a TOI of Rs.46.65 crore with net loss of Rs.3.02 crore as against a TOI of Rs.80.67 crore with a PAT of Rs.4.73 crore during Q1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure - 1: Details of Instruments/Facilities

Name of the Instrument/Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 2025	139.10	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	58.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	139.10	CARE A-; Stable	-	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)
2.	Fund-based - LT-Cash Credit	LT	58.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Sep-19)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (11-Jan-18) 2)CARE A-; Stable (25-Sep-17)
4.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A2+	-	1)CARE A2+ (25-Sep-19)	1)CARE A2+ (05-Oct-18)	1)CARE A2+ (11-Jan-18) 2)CARE A2+ (25-Sep-17)

Annexure 3: Complexity level of various instruments rated for this company

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

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.

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