

Shaily Engineering Plastics Ltd

January 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	97.33	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed
Short term Bank Facilities	30.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	127.33 (Rupees One Hundred Twenty Seven Crore and Thirty Three Lacs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings continue to draw strength from the long and established track record of Shaily Engineering Plastics Ltd. (SEPL) in the plastic injection moulding business, experienced promoters, reputed clientele across diverse end-use industries, growing demand for plastic with its increased application in various industries, healthy profitability; along with its moderate leverage and debt coverage indicators. The ratings also take in to account addition of new customers, continued strong business relationship with its key customer IKEA, improved liquidity marked by improvement in operating cycle and availability of liquid investments.

The ratings, however, continue to be constrained by SEPL's moderate scale of operations with high client 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 improve its capital structure shall be the key rating sensitivities.

Outlook: Positive

The positive outlook reflects CARE's expectation of further improvement in SEPL's financial risk profile upon its entry in to pharmaceutical packaging segment along-with further diversification of the customer base. The outlook may be revised to 'Stable' if the company is unable to ramp up sales in this segment and consequently improve its financial risk profile.

Detailed description of the key rating drivers

SEPL is being managed by the promoter and Executive Chairman Mr. Mahendra Sanghvi who has experience of over four decades in Plastic industry. He is assisted by Mr. Amit Sanghvi who is Managing Director of the company. The Board of Directors of the company consists of veterans from the field of plastic moulding. The overall management of the company is competent in their respective areas of operations.

SEPL has reputed domestic and international clients across wide range of industries viz. FMCG sector customers like Ikea Trading (I) Pvt. Ltd. (IKEA), Hindustan Unilever Ltd. (HUL), Procter & Gamble (P&G), Switchgear customers like Lucy Electric, ABB, L&T, Siemens, Electrical appliance customers like GE appliance, Pharmaceutical customers like Sanofi, Wockhardt, Sun Pharma, Sanofi-Aventis, etc. SEPL has long standing relationship with these clients and gets repeat orders from them. SEPL's exports are geographically diversified with major export destinations being USA, Germany, Sweden, Netherlands, UK and Canada.

Despite decline in prices of its crude-based raw materials, the total operating income (TOI) of SEPL has increased by around 25% during FY16, primarily due to increase in the sales volume by approximately 42% to its key customer IKEA; albeit its scale of operations still continued to remain at a moderate level marked by a TOI of Rs.225.97 crore during FY16. It earned healthy PBILDT margin of 17.54% with interest coverage of 3.91 times during FY16 and its overall gearing stood at a moderate 0.80 times as on March 31, 2016. The operations of SEPL are largely working capital intensive in nature since it gets lower credit period from its suppliers and it has historically been required to extend higher credit period to its

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

customers. However, there has been gradual improvement in working capital management by the company marked by improved working capital of 67 days during FY16 compared to 78 days in FY15.

There exists high customer concentration in SEPL's sales with the top 5 customers contributing around 74% to its gross sales during FY16 and H1FY17. This is despite the fact that SEPL has added many new customers over the past few years. During FY16, SEPL has expanded its clientele with addition of companies like Gillette India Ltd., Corvi LEDs, NATCO Pharmaceuticals, SP Pharmaceuticals. Also during FY16, SEPL has added around 13 new products for its new and existing customers to broaden its product base.

SEPL uses plastic granules as its major raw material, which is a derivative of crude oil, whose price has reduced over the past one year. Although, majority of the sales contracts of SEPL have raw material cost pass-through mechanism which mitigates the raw material price fluctuation risk to a large extent, however, price revision happens with some time lag which makes its profitability susceptible to sudden variations in raw material prices.

Export sales constituted around 65-75% of the total sales of SEPL over the past three years. During FY16, SEPL had export sales of Rs.169.80 crore (74.46% of total sales), whereas raw material amounting Rs.64.38 crore (51.65% of total raw material) was imported. Also, SEPL has not hedged the ECBs availed for its capex. However, SEPL has got forex neutral pricing agreement with IKEA, which constituted almost 76% of its total export sales during FY16; the same helps it in mitigating the foreign exchange fluctuation to a large extent.

SEPL has recently successfully executed capex projects for IKEA, new product developed for Corvi LEDs, injection blow molding facility for manufacturing of bottles with Child Resistant (CR) caps for pharmaceutical industry. Hence, there exists salability risk associated with the products from these recently completed projects. However, SEPL has received approval from two pharmaceutical companies and supplies of CR caps have commenced from Q2FY17. Also, SEPL's facility is USFDA approved and company has obtained patents for CR caps from UCP UK, which is a global leader in CR Caps, which would allow SEPL to use UCP's brand name while marketing CR caps. SEPL is in discussion with many major Indian pharma companies for this product; and receipt of orders is at various stages with pharma companies.

In order to diversify the product and customer portfolio, SEPL has plans to expand its manufacturing facility in a phase-wise manner over the next few years. These projects would also entail implementation and salability risks. However, SEPL has a track record of successful implementation of such projects and the size of these projects is not expected to be substantially large. Also, majority of SEPL's projects shall be client specific catering to a particular product segment, wherein majority of SEPL's clients are big MNC's like IKEA, HUL, GE etc.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Criteria for Short Term Instruments](#)

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

About the Company

SEPL was incorporated as a private limited company in 1985 which was merged along-with six other companies into Anmol Trading Company Ltd. and the name of Anmol Trading Company Ltd was subsequently changed to SEPL. It is engaged in manufacturing of 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, ultrasonic welding, etc. The company caters to a wide range of industries including FMCG, pharmaceuticals, switchgear components, auto components, electronics and electrical appliances, etc. 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) which was set up around nine years back while others cater to both domestic and export markets. During FY15, SEPL had set up a Pharmaceutical packaging plant for manufacturing of Child Resistant (CR) caps & bottles for packaging of drugs for regulated markets whereby sales have commenced from Q2FY17.

During FY16 (refers to the period April 1 to March 31), SEPL reported a total operating income of Rs.225.97 crore (FY15: Rs. 180.87 crore) with a PAT of Rs.15.49 crore (FY15: Rs.13.01 crore). As per the un-audited results for H1FY17, SEPL has reported a total operating income of Rs.127.42 crore with a PAT of Rs.7.25 crore.

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 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	March 31, 2021	37.33	CARE BBB+; Positive
Fund Based - LT-Cash Credit	NA	NA	NA	40.00	CARE BBB+; Positive
Fund Based - LT-Cash Credit	NA	NA	NA	20.00	CARE BBB+; Positive
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	Type	Current Ratings		Chronology of Rating history for past three years			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	37.33	CARE BBB+; Positive	1)CARE BBB+ (16-08-2016)	1)CARE BBB+ (11-08-2015)	1)CARE BBB- (19-08-2014)	1)CARE BBB- (08-10-2013)
2.	Fund Based - LT-Cash Credit	LT	40.00	CARE BBB+; Positive	1)CARE BBB+ (16-08-2016)	1)CARE BBB+ (11-08-2015)	1)CARE BBB- (19-08-2014)	1)CARE BBB- (08-10-2013)
3.	Fund Based - LT-Cash Credit	LT	20.00	CARE BBB+; Positive	1)CARE BBB+ (16-08-2016)	1)CARE BBB+ (11-08-2015)	1)CARE BBB- (19-08-2014)	1)CARE BBB- (08-10-2013)
4.	Non-Fund Based - ST-BG/LC	ST	30.00	CARE A2	1)CARE A2 (16-08-2016)	1)CARE A3+ (11-08-2015)	1)CARE A3 (19-08-2014)	1)CARE A3 (08-10-2013)

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