SHAILY
Engineering Plastics Ltd
CIN # L51900GJ1980PLC065554

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SEPL/SE/Feb/22-23
February 14, 2023

The General Manager,
Corporate Relations/Listing Department
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Floor 25, P.J. Towers,
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Scrip Code: 501423

The Manager,
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National Stock Exchange of India Limited
Exchange Plaza, Plot No. C/1, G Block,
Bandra – Kurla Complex, Bandra (E),
Mumbai – 400 051
Scrip Code: SHAILY

Sub : Q2FY23 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We refer to our previous letter dated 9th February 2023, wherein the Company updated the audio link of Earnings call held on 9th February 2023 to discuss the operational & financial performance of the Company for the quarter and nine months ended on December 31, 2022.

In context therein, kindly find attached herewith transcript of the referred Earnings call.

A copy of the same is also available on the Company's website at www.shaily.com at https://www.shaily.com/investors/compliances-policies/earnings-call .

Kindly take the same on record.

Thanking You

Yours truly,
For Shaily Engineering Plastics Limited

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Dimple Mehta
Company Secretary & Compliance Officer
M. No. A 31582

"Shaily Engineering Plastics Limited Q3 & 9M FY2023 Earnings Conference Call"

February 09, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9th February, 2023 will prevail

MANAGEMENT: **MR. AMIT SANGHVI – MANAGING DIRECTOR - SHAILY ENGINEERING PLASTICS LIMITED**
MR. SANJAY SHAH – CHIEF STRATEGY OFFICER - SHAILY ENGINEERING PLASTICS LIMITED

Moderator: Good morning, ladies and gentlemen. Welcome to Shaily Engineering Plastics Limited Q3 and 9M FY2023 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Sanghvi, Managing Director, Shaily Engineering Plastics Limited. Thank you, and over to you Sir!

Amit Sanghvi: Thank you very much. Good morning and a very warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I have with me Mr. Sanjay Shah, our Chief Strategy Officer, and SGA, our Investor Relations advisor. I hope you have had a look at our investor presentation that is uploaded on our website as well as the stock exchange. Despite the challenging environment we have registered sales of Rs.446 Crores in the nine months of FY2023. As you are all aware we are an export-oriented company with customer base primarily in Europe and North America and given the current economic conditions, high inflation and the customer sentiments in these markets we have seen substantial reduction in offtake over the last two quarters. We also expect this volatility to continue for the next two quarters.

On the EBITDA front margin was impacted due to slower offtake, which has impacted in lower utilization levels leading to lower absorption of fixed costs. As utilization levels improve and raw material prices stabilized we expect improvement in margins. We are working very closely with our customers to ensure optimal production, increase in offtake in and ensuring optimal inventory levels. We continue to watch the situation very closely. Our focus is purely on adding customers and markets in segments where we are present in order to increase our utilization levels and sweat the asset base that we have invested and created over the last three to four years.

Shaily is known for precision, quality, compliance and our engineering capabilities. We want to focus on business segments, both existing and new, where this is a must have. We see good opportunities in consumer electronics, telecom and other healthcare segments apart from drug delivery. We will use the existing infrastructure to a large extent and only invest in critical capabilities that these segment needs and work towards building a business model where we are married to the customer. I will certainly provide more updates as this involves and we see traction. As a last note I would again like to emphasize that we will be very careful and prudent with any future investments and only do so when there is an absolute need. That is all from my side. I shall now hand over the call to Sanjay Shah, Chief Strategy Officer to give you the operating and financial highlights. Thank you very much.

Sanjay Shah: Thank you Amit. Good morning, everyone. I shall share with you the highlights of our operational and financial performance of Q3 and 9-months FY2023 following which we will be happy to respond to your queries. During the quarter we processed 4,121 tonnes of polymer as against 5,321 tonnes in Q3 FY2022. For 9 months we processed 16,026 tonnes of polymers as against 13,912 tonnes in 9-months FY2022, an increase of 15% year-on-year. Machine utilization rate was 38% in Q3 FY2023 and 45% for 9-months FY2023. Exports during 9-months FY2023 stood at 77% of total revenue compared to 78.7% in 9-months FY2022. Exports during Q3 FY2023 stood at 79% of total revenue as compared to 78.7% in Q3 FY2022.

I shall now brief you on the standalone result highlights. Revenue stood at Rs.134.2 Crores during Q3 FY2023 as compared to Rs.148.3 Crores during Q3 FY2022. EBITDA stood at Rs.18.2 Crores during Q3 FY2023 as compared to 24.3 Crores during Q3 FY2022. EBITDA margin stood at 13.6% for Q3 FY2023. PAT stood at Rs.4.5 Crores during Q3 FY2023 as compared to Rs.9.3 Crores during Q3 FY2022. PAT margin stood at 3.3%. Cash PAT for Q3 FY2023 was reported at Rs.12.4 Crores as compared to Rs.16.5 Crores during Q3 FY2022.

Now coming to 9-months FY2023 highlights. Revenue stood at Rs.466.2 Crores in 9-months FY2023 as compared to Rs.413.2 Crores during 9-months FY2022, growth of 13%. EBITDA stood at Rs.65 Crores in 9-months FY2023 as compared to Rs.68.3 Crores during 9-months FY2022. EBITDA margin stood at 14%. PAT stood at Rs.21.3 Crores in 9-months FY2023 as compared to Rs.27.8 Crores during 9-months FY2022 while PAT margin stood at 4.6%. Cash PAT for 9 months FY2023 was reported at Rs.44.6 Crores as compared to Rs.47.4 Crores during 9 months FY2022. Both ROCE and ROE stood at 12.1% and 7.7% respectively as of December 31, 2022. The growth in business has been achieved with disciplined use of capital. Our debt to equity stands at 0.55x and our long term debt to equity stands at 0.19x On a consolidated basis revenue stood at Rs.472.6 Crores, EBITDA at Rs.69.9 Crores and PAT at Rs.25.2 Crores for 9 months FY2023. This is all from our side and now we can open the floor for Q&A.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Nirali from Unique PMS. Please go ahead.

Nirali: Thank you for the opportunity. Sir we very clearly mentioned in the last call that we are facing demand issues in Europe and North America, but if you can qualitatively help us understand that how are the three growth segments individually looking at, so home furnishings, pharma and toys, so if it is healthcare we had expected it too or we are facing issues there too?

Sanjay Shah: When you look at home furnishings or you look at Toys, both of these are basically heavily focused on North America and the European markets where we have seen demand slowdown with our customers and it is impacting our volumes that we have seen. Based on whatever discussions we have been having with customers we see this continuing for the next two quarters and some improvement happening post that. If we move forward we will keep you posted on what is happening. At the same time what we are doing is we are talking to multiple customers across these segments to see how we can add newer customers and newer geographies to it. We should have some feedback on that also over the next two quarters in terms of the discussions which we have been having forward.

Amit Sanghvi: On the Healthcare front we have not seen a slowdown to be honest. We have been more or less in line. with new projects, obviously there is always a plus or minus three, four months of time period where projects can sometimes get delayed on account of either Shaily or the customer again to do with development, but otherwise in terms of supplies we have not seen any drop in demand for our existing Healthcare portfolio.

Nirali: So in FY2022 on the toy side we had done revenue of about $7 million, $8 million so what will be that number for FY2023?

Sanjay Shah: So it will probably be around 60% of the number, which you talked about.

Nirali: On the pen side we were guiding that our own IP pen we will be doing a volume of about $3 million in FY2023 and that reaching to $20 million over the next three, four years so any update on that, are you confident of doing $3 million in this year?

Sanjay Shah: Yes, we have already done 65% of that and some orders will move on to the next year, but because there is like an alternate source of this order does not change from Shaily.

Nirali: That is great to know and we were also hoping to get some clarity in this month, you had mentioned in the last call about the overall demand or any increase that our customer wants so did you make any clarity that we are yet to receive further clarity on that?

Sanjay Shah: For the clarity is that we do not see improvement for the next two quarters unfortunately.

Nirali: So we still wait for two quarters to give further clarity on the other newer segments also that you mentioned?

Sanjay Shah: That is right.

Amit Sanghvi: So we would basically update I think on a quarterly basis in terms of what is happening on the business front, while we are actively pursuing multiple fronts and everything but should have a much better update to you in the Q4 and Q1.

Nirali: That is great. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Thanks for the opportunity. Are you in liberty to share nine-month numbers for healthcare for FY2022 vis-à-vis FY2023, so one can understand what is the extent of impact to the other business line?

Sanjay Shah: Manish we typically do not share individual numbers, but what we can say is when you look at nine-months FY2022 or nine months FY2023 healthcare you would see a growth on the overall numbers.

Manish Gupta: Sanjay I am just a little bit curious that why do you not share the segmental breakup because I just want to understand what the concern is because clearly the healthcare part of the business is a far more attractive part of the franchise right so even if you just want to split the numbers of healthcare and others from our perspective it gives a better sense of how the more attractive part of the franchise is evolving. So, I am just curious to understand why you would not split that number every quarter or every half year. Surely there is no competitive concern, right because you are not disclosing names of customers or molecules or all that.

Amit Sanghvi So, Manish, I think points noted. What we will do is we will have to think about this and certainly try to see if we can share this in the public domain from the next quarter.

Manish Gupta: Great. Next question is this entire macro theme that everyone is talking about China plus one thing Amit can you talk a little bit qualitatively about now that there has been some time evolved and you would have had BD discussions with customers, what part of this theme do you think actively would interest Shaily, my sense is I could be totally wrong here, but my sense is the toys part of the business might actually be a lower margin, and I see you guys has a very margin-focused company. So for example do you really think the toys opportunity, which is a big opportunity in numbers is something that would interest Shaily strategically?

Amit Sanghvi: It is a bit of a tough question. I am going to try to answer it as it has evolved with Shaily and in terms of my thoughts. When we got into toys we certainly evaluated the margin profile, we certainly looked at how it fits in with our existing capabilities and there is a good fit. Existing capabilities, compliance in terms of safety, chemical compliance, sustainability, engineering and then the sheer size of the opportunity and how quickly you can scale up the toys business. But you are absolutely right I think the toys business is one where there is a lot of pressure on margin. So the first few products that we took on, we took on the higher end of the spectrum of toys we did not do very simple products, but we are seeing increasing pressure on cost and even though China is supposed to be technically more expensive on manufacturing costs they have a lot of support when it comes to capping raw material prices. They have also set up alternate infrastructures in countries like Vietnam or even in India for that matter so we are seeing increasing pricing pressure on toys. We will not be making any further investments in toys until we see a portfolio of products that customer consistently buys from Shaily.

Sanjay Shah: Manish just to add what Amit said when you look at the current situation in a lot of cases what we are seeing is the raw material prices or the input prices, which China vendors have, is controlled by the government did. There is an advantage to Chinese suppliers as compared to suppliers in India.

Amit Sanghvi: An example of polypropylene is controlled at I think $970 a tonne in China whereas what we would source it at somewhere between $1100 and $1200 a tonne so there is a significant disadvantage in the input costs.

Manish Gupta: Right. So now that we had a chance to study this a little bit more, which aspects of China plus one do you really think are an opportunity for Shaily and what is big picture stuff that would not really translate into an opportunity for you?

Amit Sanghvi: Broadly speaking Manish we see very good opportunity in consumer electronics, telecom, in industrial applications, potentially appliances as well. Again, too soon to talk about anything concrete right now and we are under confidentiality with any one of these guys that we would be having discussions with, but we see very good opportunity and probably a much better fit in terms of our engineering capabilities.

Manish Gupta: Next question is Amit there has been a lot of capex done in the last 15 to 18 months and how do you think about that capex that you have done vis-à-vis the macro environment that we have seen and how do you think about capex going forward, are you going to link it to specific opportunity or is this that we have got to build it first and then go and get the business and the related question is can you talk a little bit about new logos that you have added in the last few quarters and what exactly are we doing on business development in some of these areas that you just talked about, consumer electronics, telecom are we adding to our team to pursue these opportunities or is this a business where really our technical competency fails we do not need BD's we just need these customers to visit our plants. Sorry, two or three questions rolled into one big question.

Amit Sanghvi: So on investments I am very, very clear, going forward capex spent on, the objective is that we are going to utilize our existing infrastructure. We have very, very good infrastructure to service even the new segments that we are getting into. We might have to do some specific capex in terms of very, very specific equipment, but we are not talking about any substantial capex in injection molding where for either servicing the existing segments or the new customers that we are targeting. On business development we have not added any new logos in the last quarter to be honest. We are in discussions with several large multinational companies including big box retailers, electronic companies, we are confident that we will be adding new logos over the next two to three quarters very, very confident. What was the last question Manish again?

Manish Gupta: The last question was that in order to add logos do you need to add more BD people or is it that we have enough credibility in the marketplace there is no point adding BD people we just need to show customers our technical competency in the factory because I do not see any, I do not know if you have BD people to go and knock on doors and showcase Shaily other than the Swedish major I do not know whether we have added any big box retailer over the last couple of years so the question is we put this capacity out, we have technical competency but are we investing enough in a sales team to go and take our message to the world?

Amit Sanghvi: We have added to our BD team with a specific focus on also increasing in addition to the other big box retailers also increasing business in the domestic market. So, there are certain segments in which Shaily can play even in the domestic market, we see a lot of emphasis and investments happening in power infrastructure especially. So, we have added specific business development folks with a focus on these segments. But you are right a lot of our business development really happens if we can get a customer to visit us, 60% to 70% of our BD is done the day they visit us. Whether they should move forward with the Shaily or that it really comes down to whether you can come through a commercial agreement or not but most of our job is done when they visit us and that we are actively pursuing.

Manish Gupta: Last question from my side is that basis you are coming gross block and whatever capital work in process you have and whatever little investments you have to make what do you think is the peak revenue capacity of the company basis current investments?

Sanjay Shah: Manish if you were to look at March 2023 capex including the CWIP the revenue which the company is capable of doing will be somewhere between 2.25 to 2.5x of the total gross block.

Manish Gupta: 2 to 2.5x, March 2023 gross block?

Sanjay Shah: Right, Manish.

Amit Sanghvi: Just to go back to a few questions I think you had on the investments so while said that we will be very careful about where we invest and use the existing infrastructure the only area where we make investments and look for business in the future is healthcare is pharma that is one area where we will need to gear up in advance so that the scale of happens in the future.

Manish Gupta: Yes. So just a related question on this, Amit, the steel furniture investment what percentage of the utilization are we on right now?

Sanjay Shah: We are in low 30 utilization but we are in active discussions with home furnishings customer and also two or three other guys and we hope to add one or two of these names in the next two or three quarters going forward.

Manish Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: My first question is if healthcare has grown and we were supposed to get pricing adjustment if you recall your Q3 call I am surprised why has the gross margin continues to remain under pressure because healthcare is supposed to be a fairly high gross margin business, right and where are we on the pricing increases than with the other portfolio business?

Sanjay Shah: Pritesh, most of our pricing adjustments have happened during middle of the current quarter, the last quarter so they have been factored in here. What we are seeing is basically a higher fixed cost because of the lower utilization level, but price adjustments when we do not sell anything we sell less is what is causing this.

Pritesh Chheda: No, I do not see any gross margin expansion, right so Q-on-Q it is flat, Y-o-Y it is down 300 basis points so I do not understand what you are comprehending and what I am comprehending so keep the utilization part aside so I can understand that.

Sanjay Shah: Pritesh one difference, which you need to look at, when you look at gross margin please look at the consolidated gross margin because in last year we were doing development in India on the Healthcare front, we are now doing development in the U.K. so that revenue comes directly to U.K. so when you look at this you basically need to look at it on a consolidated basis.

Pritesh Chheda: So even if I look at consolidated your RM to sales is 62% in Q3 FY2022, RM to sales is 64% in Q3 FY2023 and your RM to sales is 64% in Q2 2023 so there is no expansion between the two quarters and Y-o-Y there is a decline despite the fact that there is a growth in healthcare and you say that you have taken price increases between Q2 and Q3 so ideally between Q2 and Q3 there has to be a margin expansion, right, the gross margin?

Sanjay Shah: If you were to compare Q1 to Q3 you would have seen improvements happening on.

Pritesh Chheda: So you say the price increase is between Q2 to Q3 that I will see from Q1 to Q2 and then from Q2 to Q3 I cannot see from Q1 to Q3?

Sanjay Shah: So there is a business mix change also which is happening around.

Pritesh Chheda: But Sir Healthcare has grown and everything else has not grown so business mix should have improved?

Sanjay Shah: Healthcare has grown, it is not that healthcare has not grown.

Pritesh Chheda: So then gross margin should improve?

Sanjay Shah: The gross margin is more or less at the same level is what I agree with you and that is basically because of a lower utilization level because when we are at lower utilization level you basically end up having a little higher rejection

Pritesh Chheda: I will take this separately I still not comprehend. A lot of our traction depends on the progress in pharma, a lot of our traction in GM also depends on the progress in pharma right where are we now and is there any changes for our outlook for FY2024 in pharma by any chance?

Amit Sanghvi Can you repeat the question please?

Sanjay Shah Is there any changes in outlook for FY2024 in pharma?

Sanjay Shah: No.

Pritesh Chheda: So will we see the margin expansion for sure happening next year because this year you had first three quarters of higher RM which is not specific to you specific to lot of companies, and you should be getting your price increases to flow into your P&L there is straight I can see about 200 to 300 basis points at least because you were at 60% RM to sales today you are at about 63%, 64% so there is a 3%, 4% there plus there is a pharma movement to happen will we see gross margin expansion or there will be something else to play in as we need to understand that?

Sanjay Shah: You will see gross margin expansion as we go forward and revenue improves you will also see.

Pritesh Chheda: Sir that we understand I understand operating leverage part because if you are operating at 50% capacity utilization I understand the operating leverage part where I am unable to still comprehend is the GM part.

Sanjay Shah: So on GM part what also needs to be factored in is when volumes are down, my logistics cost on my raw materials and everything go up, which gets factored on to my overall raw material cost.

Pritesh Chheda: We started the year with Rs.700 Crores revenue what we think we will end the year now at and where are the slippages, Q1 was Rs.175 Crores I think when we were at Q1 we did Rs.175 Crores and Q3 we did 136, so if you could give the bridge between Q1 and Q3 for Rs.30 Crores, Rs.40 Crores reduction in business where are the slippages and how do we see it ending this year?

Sanjay Shah: Slippages are basically on home furnishings, export, toys, mainly on that account and carbon steel, so if you were to look at it these are four major drops where there have been drops. I would say Q4 will be similar to Q3 somewhere in that region.

Pritesh Chheda: But Sir your Q2 also did not tend to say that suddenly in Q3 you are saying?

Amit Sanghvi: I believe I did say on the Q2 call that we will come back with an update, but we are not seeing a very good picture on demand. We did not expect a very large drop, but that is what happened.

Pritesh Chheda: How do we see now the FY2024 especially on the pharma side of the business, what kind of growth do we see?

Amit Sanghvi: On the pharma side?

Pritesh Chheda: Yes.

Amit Sanghvi: On the pharma side we are looking at somewhere between 25% and 35% growth and with that growth you will obviously see margin expansion.

Pritesh Chheda: Where are we on the capex now so the last capex that we announced was for pharma and I am hoping yes that was for Pharma, so I think about Rs.100 Crores, right?

Sanjay Shah: Yes.

Pritesh Chheda: That is the only capex, which is ongoing, right?

Sanjay Shah: Yes.

Pritesh Chheda: Where are we and how much have we spent and when it commercializes?

Sanjay Shah: So the pharma capex would be completed by Q1 FY2024.

Pritesh Chheda: But how much have you spent so far?

Sanjay Shah: We have spent about Rs.60 Crores till date.

Pritesh Chheda: Because we had enough capacity elsewhere because we are running at 50%, 60% capacity utilization we would not get into a capex unless we add a logo which means some specific capex.

Sanjay Shah: Yes, Pritesh. We will be looking at sweating of our assets the pharma capex, the specific capex, which was required to be done because that is in plain room, and you need that capex.

Pritesh Chheda: Yes, I understand that.

Amit Sanghvi: Pritesh just to add to what Sanjay Bhai said when we are talking to the other big box retailers their business models are different than the home furnishing major that we work with. A lot of these will buy off-the-shelf kind of product or something that we specifically do so there will be some investment required, but we will not make any investment in infrastructure.

Sanjay Shah: It will be cooling, which will be done.

Pritesh Chheda: Not in machines, not in physical infra?

Amit Sanghvi: That is correct.

Pritesh Chheda: So basically for the next four to six quarters because we are at 50% capacity utilization we might not hear any capex announcement from your side?

Amit Sanghvi: That is what we foresee right now. The only way we can see if we would even think about it would be there is a substantial sizable opportunity which requires a Greenfield but otherwise for the next four to six quarters we are not looking at any investments.

Pritesh Chheda: What will be your maintenance capex?

Sanjay Shah: Pritesh that will be nominal. I would say around Rs.2 Crores to Rs.3 Crores. One of our assets are new so we do not need maintenance capex there, some of the old capex, which we have will not be substantial it will be about 2 to 3 Crores.

Pritesh Chheda: Lastly when you said 30% utilization in metal furniture so has the utilization come down by any chance?

Sanjay shah : Yes.

Pritesh Chheda: Can you highlight the reason?

Amit Sanghvi: Demand drop In the steel furniture the customer has seen a much higher demand drop then the plastic articles.

Pritesh Chheda: Has the asset stabilized with respect to the coating line and all where you had some challenges?

Sanjay Shah: Yes. That has stabilized and post that as I mentioned earlier, we have started discussions with three, four other big box retailers to see how we can expand the customer base.

Pritesh Chheda: So the production guy is moved from the auto industry to your company, he is able to manage the asset well for you now at least from the operations part?

Amit Sanghvi: Pritesh, the production is actually ex-GODREJ and yes he is doing a very good job.

Pritesh Chheda: Thank you very much and all the best to you Sir.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good morning Sir. My first question is on the pen side we had talked about there was a launch planned in January so is that launch happened or is it delayed and when is it expected now?

Amit Sanghvi: Because it is a commercial order we have gone ahead with the production and our dispatching it to our customers. The customer is awaiting approval, any data, do not have a further update.

Aman Vij: Sure Sir and on the pen side we have a target of Rs.3 million and plus minus something we will achieve that for this year and what is our target for FY2024?

Amit Sanghvi: Can you repeat that question please maybe a little louder, I am finding it difficult to hear you?

Aman Vij: Yes. On the pen side we had a target of 3 million for this year and we will achieve close to that what is our target for FY2024?

Amit Sanghvi: It is going to be roughly 30%, 35% higher.

Aman Vij: Sure. So, you are talking about most of the growth that you are seeing in pharma you have guided similar growth will come from this pens only?

Amit Sanghvi: Yes. There are pens and in addition to pens there is also auto injectors that we have developed and we are making the first supplies in June of 2023 so we will see some additional orders for both products in FY2024.

Aman Vij: Sure Sir. Then coming on to the home furnishing side so we were expecting to reach and become the third largest supplier to one of the main customers so given the slowdown in all those things when do we expect to achieve that target of becoming the third largest supplier to them?

Amit Sanghvi: The slowdown has happened for the entire supply base. I actually do not know where our ranking stands today it would probably be third or fourth anyways, but if it is not in terms of our own business whether we become three or four is not so important is how much growth we see in the upcoming year. So we already said that the first two quarters we expect the current scenario to continue and hopefully we see improvement post that. We track this. We have this discussion with the customer on almost a daily or every other day kind of basis. So it is something that we are tracking very closely.

Aman Vij: So in terms of utilization where are we currently in this home furnishings and for next year do you see a gradual improvement?

Sanjay shah : Aman we do not report individual utilization level so I would not be able to talk about it. We have talked about overall utilization levels we had about 40%. If we speak we would basically update you guys on how the utilization levels will improve over the next two quarters whenever we have these quarterly calls.

Aman Vij: Sanjay Sir I just wanted to understand the impact on the slowdown so is it like 10%, 20%, is it much more I am not interested in exact number of utilization, but just to gauge the impact of slowdown in the home furnishings side?

Sanjay Shah: So home furnishings two of our major markets have been North America and Europe, there has been fairly decent contraction of demand, which has come in, which is why the slowdown which we are talking about is happening. As we speak I think whatever stocks are there in the system and everything should get liquidated over some point of time and over the next two quarters we should basically get back to normal demand, but I think a lot of it will depend on how things pan out in these two geographies.

Aman Vij: Russia had a lot of issues, they close their center in Russia so we did not get any benefit of that, did we lose any business because of that issue?

Sanjay shah: Yes. We were making some shipments to Russia so those shipments came down, but for the customer Russia was a pretty large market and a very fast-growing market so it may impact on their operations.

Aman Vij: Sure Sir. In the initial part of the commentary Amit talked about that we might enter into newer areas like consumer electronics and telecom so if you can talk little bit more about it, will it be plastics only, will we try to merge our capabilities in plastics and steel or any other new material if you can talk briefly about these newer things which we might try?

Sanjay Shah: So we will not be able to talk a lot about it in terms of names, logo, and things like that, but yes it will basically be, to do something around plastics because as Amit mentioned earlier we will be looking at utilizing the capacities which we have created and the capacities which we have created are in plastics.

Aman Vij: These will be new customers and new segments or the current one generally in these two sectors?

Sanjay Shah: New customers and newer segments, both and new geographies also.

Aman Vij: Sure Sir. On the toys side you have talked about stock slowdown almost I think 30% to 40% fall in our sales so has it been all across, we have two, three clients, are they specific to one client, are we taking any steps to because we have very good SKUs, and we were trying to increase our business over a period of time, but I understand slowdown is happening, but what are the steps as a company we are taking and if you can also talk about is it all customer or is it one particular customer that we are seeing this big drop?

Sanjay Shah: Aman we have two customers on board. We are in discussions with both these customers to see how we can scale up and add more products and everything. Currently the way the business is and with overall drop in volumes basically the customers would be looking at utilizing existing infrastructure with suppliers in China and anything, which is where we are seeing the market because of the drop, some of the Chinese vendors have been very, very large, but at the same time we continue to engage with them to see how we can add newer products and newer ranges, which we can supply to them. I think we should be able to see some movement on that as we speak over the next two quarters.

Aman Vij: Sure Sir. Final question is on the utilization side so what kind of utilization are we targeting for next year and when do we expect the full utilization of whatever the capex we are doing till say March 2023?

Sanjay Shah: Aman we would probably refrain from answering that question right now until we get further clarity so let us wait over the next two quarters and we will be able to give that number.

Amit Sanghvi: We will give you an update every quarter on what we see happening.

Aman Vij: Sure Sir and final thing have we lost any kind of market share in any of our previous businesses like home furnishing?

Sanjay Shah: No.

Aman Vij: Thank you. These are the questions from my side.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec India. Please go ahead.

Ritesh Shah: Thanks for the opportunity. Sir first very basic question you did indicate a nice example of polypropylene $900 versus $700 for us 60% of sales is a drawmap just wanted to understand sir, any other elements, commodities where you see stock differential on India procurement cost versus what was there in China?

Sanjay Shah: Ritesh this is one that where we are very much aware of, but I think there have been multiple countries where the sort of input price control has been there with suppliers in China so that is where we have been seeing this across multiple categories. Now we do not know what the extent of the difference between a lot of these, but in some cases we know that is almost mentioned one of them.

Ritesh Shah: Right. I am just trying to understand from the management's thought process standpoint if it is a risk which we have just picked up what is the risk mitigation strategy for the company going forward, so on the overall basket that we are looking at 50% is a sizable number so just trying to get a sense that is there a risk mitigation strategy in place when it comes to commodity sourcing and there is one import parity business in India versus Chinese competition?

Sanjay Shah: I do not think this is going to be long-term sustainable pricing strategy, which will be there so it is probably there to just for a short-term purpose and we expect that this will get corrected over the next one or two quarters or something.

Amit Sanghvi: Ritesh, just add to that is there are obviously certain advantages that India has, whether it is logistics cost or our manufacturing costs. So we need to take advantage of that on an overall landed cost to any country typically North America we fare better. In Europe with the additional advantage that we currently have on raw materials it is very, very close. We are higher in some cases and lower in a few. We need to see how we can optimize this and still move forward. One of the key things here is that where there is a true partnership with the customer there is an impact, but a less of an impact because you work on a sustainable long-term pricing business model where relationships are new or the product is very, very price sensitive and the customer is under tremendous margin pressure themselves it becomes difficult to sustain so if there is a short-term advantage when they take it they certainly will.

Ritesh Shah: Sure. Second was on we were looking to appoint a CEO has there been any focus on that bit?

Amit Sanghvi: No, I think given where the margin stands right now in the utilization we were actively pursuing it until the end of Q3, but we put a hold on it for now. So, we will reevaluate this at the end of Q1 FY2024.

Ritesh Shah: Voice inaudible **Moderator**: Thank you. The next question is from the line of Adhiraj Singh from Amicus Capital Partners. Please go ahead.

Adhiraj Singh: I just wanted to check what is the outlook for the toys business in FY2024 that we have?

Sanjay Shah: We are approaching opportunities there and we will let you know by end of Q4 early Q1 in terms of how we are going ahead.

Adhiraj Singh: So I think right now we have two clients and it is largely the exports so are we even looking at domestic clients per se?

Sanjay Shah: Yes. We will be looking at domestic clients also.

Adhiraj Singh: Just last one thing how much capex has been done in the toys business and how much asset turnover do we expect there?

Sanjay Shah: So the total capex, which we have done is about somewhere between Rs.20 Crores to Rs.25 Crores in terms of specific capex, which has been done, but that capex is fungible across our business segment.

Adhiraj Singh: Roughly what asset turnover do we look at in this business?

Sanjay Shah: We typically do not again give out individual asset turn.

Adhiraj Singh: That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Thanks for taking my questions. I have three questions for Amit. Amit the first question was few years back we have discussed that our largest customer is looking to consolidate their supplier base globally and their preferred supplier is gaining market share or wallet share within their ecosystem so has the hypothesis played out over the last four, five years or that is not really played out as expected?

Amit Sanghvi: We saw good growth last year from that customer. We put up a new facility for them. We have talked about this in the past. So whether the hypothesis has played out, their consolidated hypothesis has played out, but there is no dividend demand right now. So overall have we seen the growth that we were anticipating absolutely not.

Manjeet Buaria: Got it. Amit Sir, the second question is in the products which we are supplying to a largest customer today just the products we are already supplying what would our share be in their global share which they have ?

Amit Sanghvi: It would vary from product category to product category, but I can give you a broad range. It would be everything from 30% to as high as 90%, 100%.

Manjeet Buaria: Got it and for categories where let us say we are below 50% share if you want to increase our share is this business bid out and do we get to bid for all these opportunities or it is more of a one-on-one negotiation when we need to go and convince them to give us their business or it is a tender or a bid they remove and then we can just participate in it?

Amit Sanghvi: Two things happen Manjeet one is that when the customer makes a decision to have more than two or three sources for a particular product category a) that product category has a very high service level requirement, b) When they create four of five capacities globally they want to ensure that they never run dry. Then allocation of regions or percentage of volume depends on how competitive one is on landed price. So it is not just participate but how competitive one is landed in any of the markets that they serve. Once the market has been allocated it does not really go away unless you fail to supply, unless you are seeking an enormous price increase, which is outside of what the raw material market and the movement is. So markets do not typically go away. The problem right now is that each of the suppliers, each of their suppliers would be suffering like us. So it is not that they have taken business away from us and giving it to someone else it is that they are trying to balance out as much as possible, but there is just a significant drop in demand overall.

Manjeet Buaria: This is very helpful. One last question Amit. In terms of adding more logos to your set of our largest customer, right I am sure you would have tried some of that, but we are not really seeing massive scale up anywhere over there, given our relationship with this largest customer, our technical capabilities, is the surprising why we have not been able to scale up more aggressively with some other peers so some thoughts over that would be very helpful?

Amit Sanghvi: I will give you a few examples. In the past I do not remember the exact year now, but I think maybe eight quarters ago or 12 quarters ago we did add a customer. It was a large German supermarket. We added Lidl and we had certainly made some supply, but the business model is very different from that of our current home furnishing major. They have bicycles so you make the investment in capacity or in tooling a) you have not given any guarantees on whether they will buy or not, b) they have cycles so they will buy twice or thrice a year. You will need to produce in advance and stock it and then ship everything in a matter of two weeks. So as a business it becomes very difficult to manage the supply chain, manage the manufacturing unless you get into a constant cycle of doing this over and over again. We have not been able to track that cycle because we also do not have off-the-shelf products to offer. We are an OE so we do contract manufacturing for our customers. Having said that given the current pressure we are under we did decide let us look at a sizable opportunity and if we need to then have that offering off-the-shelf we will develop it. So that is what we are trying to do right now, but we need business or a model where there is some consistency in ordering and supply. If you give us too large orders a year it becomes very difficult to manage and then they give you a production schedule not so much in order so that production schedule changes, drops and you have already produced the parts then you are stuck with inventory.

Manjeet Buaria: What you are trying to say is with the largest customer it is more of a partnership business here it is more opportunistic offtake from these customers so if that understanding is correct is it fair to assume that a lot of our growth because of China plus one or global players shifting to other countries is not actually a target addressable market for us because we do not really want to work with low-quality business partnerships and which means we will have to start finding something more like a healthcare product is that a fair assumption, but the set of competency we have in our largest customer is not so fungible across many of these large other customers globally just from quality of business perspective?

Amit Sanghvi: I think that is going to one end of the spectrum. There are many big box retailers everybody work on a slightly different model. I give you an example of one of the largest in the world. But having said that there are many out there who have white label products where you can have consistency in supply and we are talking to most of them today and trying to explore a business model that suits us so it is very close to what we are already doing.

Manjeet Buaria: This was helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec India. Please go ahead.

Ritesh Shah: I had one basic question. The sort of commercial contracts that we get in, when we have in past incurred tooling capex to my understanding it did have certain volume commitments given the scenario we are in because of external factors volumes are actually slow so basically do we does something accrue to us on back of the commercial contract that we had in place?

Sanjay Shah: If those volumes do not happen in that timeframe the timeframe does get extended.

Ritesh Shah: But Sir then the NPV will change right if it is the same quantum over a longer duration that it does not make economic sense from the company's standpoint?

Sanjay Shah: That also gets adjusted. In most of these cases the investment is made by getting an advance from the customer so technically the NPV will not change.

Ritesh Shah: Can you highlight given the volume slippages which are there because of the external variables when do we see this impact to come in for any large contracts that you have, can this we expect it in first half of next year based on the duration of contracts that you have?

Sanjay Shah: Sorry I did not understand.

Ritesh Shah: Sanjaybhai, you indicated like these are fixed duration contracts, right so the volume offtake should have happened over two years or say 18 months so I do not know the start date and the end date for this particular contract given the reporting that we have a lot is attributable to the external slowdown but I think the company has this volume offtake arrangement in place so I just wanted to understand when do we see this benefit on the margins given you might have different contracts for different SKUs but is there a number that we have, but we can actually expect a benefit with a lag even if the volumes do not come through, so in a bad case scenario say two quarters out or three quarters out?

Sanjay Shah: Margin improvement can happen if your volumes pick up right, so there are two things here. When you talk about margins one is the raw material pass-through and second is volumes pick up. For a business which we are doing right now and the overall utilization level of 40% you will not get that sort of margin because these businesses are structured in a way where you basically run at very high capacity and that is where you basically generate margins which you are able to do. When I meant it is a two-year contract and if we do not get those volumes in two years then that contract gets extended for the next six months, one year till that recovery does not happen or there could be an upfront payment which is made by the customer in case these volumes are not going to come back.

Ritesh Shah: Correct. My question is specifically you gave an example of two years given we have a significant revenue which is concentrated with furnishing major last three quarters have been slow for some reason and hence I am just trying to gauge when does this two year tenure head, wherein we will see some additional tailwinds because of this particular variable helping us?

Ritesh Shah: Right and Sir if the volumes do not come through the money has to still come in so when should we look at that scenario or has it not got triggered or when do you expect that to trigger, assuming internally if I was in your place I will do bad case forecasting and then I will have to bid those numbers into my P&L?

Sanjay Shah: If I am understanding your question right even if it gets back-ended or something it will not make an impact on our margin, is the way I would put it out.

Ritesh Shah: I will call you separately for this to understand it better. Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Amit Sanghvi for his closing comments.

Amit Sanghvi: Thank you everyone for joining the call. We hope that we have been able to answer your questions adequately. For any further information I request that you get in touch with SGA, our Investor Relations advisor. Thank you very much and have a nice day.

Moderator: Thank you. Ladies and gentlemen on behalf of Shaily Engineering Plastics Limited that concludes this conference call. We thank you for joining us. You may now disconnect your lines.