SHAILY
Engineering Plastics Ltd

CIN # L51900GJ1980PLC065554

Regd. Office & Rania Plants :
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SEPL/SE/SEPT/1920
September 27, 2019

The General Manager
Corporate Services/Listing Department
BSE Limited
Floor 25, P.J. Towers,
Dalal Street,
Mumbai – 400 001
Scrip Code : 501423

Sub : CARE credit ratings – Reg.

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

This is to inform that CARE Ratings Limited vide its Letter # CARE/ARO/RL/ 2019-20/1896 dated September 23, 2019, has re-affirmed the Company's bank facility(ies) ratings as below:

Facilities	Amount (Rs. in crore)	Rating	Rating Action
Long Term Bank Facilities	187.65 (Enhanced from 106.40)	**CARE A- ;Stable** (Single A Minus; Outlook : Stable)	Re-affirmed
Short term Bank Facilities	30.00	**CARE A2+** (A Two plus)	Re-affirmed
Total Bank Facilities	**217.65**		

Rationale for the rating and key rating drivers are annexed herewith.

Kindly take the same on record.

Thanking You.

Yours truly,
For Shaily Engineering Plastics Limited

Chintan Shah
Chief Financial Officer

Encl :a/a

CARE Ratings
Professional Risk Opinion

CARE/ARO/RL/2019-20/1896

Mr. Sanjay Shah
Chief Strategy Officer
Shaily Engineering Plastics Limited
Survey No. 364/366, Rania
Taluka Savli, Vadodara
Gujarat – 391 780

September 23, 2019

Confidential

Dear Sir,

Credit rating for bank facilities of Shaily Engineering Plastics Ltd.

On the basis of recent developments including operational and financial performance of your company for FY19 (Audited) and Q1FY20 (Provisional), our Rating Committee has reviewed the following ratings:

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

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. **In any case, if we do not hear from you by September 25, 2019, we will proceed on the basis that you have no comments to offer.**

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

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.
8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
9. CARE ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

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Yours faithfully,

[Sushant Singh]
Deputy Manager
sushant.singh@careratings.com

[Hardik Shah]
Associate Director
hardik.shah@careratings.com

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure 1
Details of Rated Facilities

1. Long-term Bank Facilities
1.A. Rupee Term Loans

(Rs. Crore)

Sr. No.	Name of Bank	Sanctioned Amount	Amt. rated	Debt Repayment Terms	Remark
1	State Bank of India	10.00	2.98	20 equal quarterly installments of Rs.50 lacs, starting from October 2015	Outstanding as on March 31, 2019
2	HDFC Bank	10.00	3.50	20 equal quarterly installments of Rs.50 lacs, starting from December 2015	Outstanding as on March 31, 2019
3		16.00	10.23	8 equal quarterly installments of Rs. 2.00 crore, starting from September 2018	Outstanding as on March 31, 2019
4	Standard Chartered Bank	17.50	10.94	8 equal quarterly installments of Rs. 2.00 crore, starting from August 2018	Outstanding as on March 31, 2019
5	HDFC Bank	65.00	65.00	Tranche 1: 18 equal quarterly installments of Rs. 1.67 crore, starting from July 2020 Tranche 2: 18 equal quarterly installments of Rs. 1.94 crore, starting from Jan 2021	Sanctioned
6	Proposed	35.00	35.00	Proposed repayment terms: 19 equal quarterly installments of Rs. 1.84 crore, starting from Dec 2021	-
	Total		127.65		

1.B. Sanctioned fund based working capital limits

(Rs. Crore)

Sr. No.	Name of Bank	Amount	Remarks
1	State Bank of India	30.00	Cash Credit
2	Standard Chartered Bank	18.00	Cash Credit
3	HDFC Bank	12.00	Cash Credit
	Total	60.00	

Total Long-term facilities (1.A. +1.B.): Rs.187.65 crore

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2. Short term Bank Facilities

2.A. Sanctioned non-fund based working capital limits

(Rs. Crore)

Sr. No.	Name of Bank	Amount	Remarks
1	State Bank of India	25.00	Letter of Credit / Bank Guarantee
2	HDFC Bank	5.00	Letter of Credit / Bank Guarantee
	Total	30.00	

Total short-term facilities (2.A.): Rs.30.00 crore

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<u>Annexure 2</u>

Press Release

Shaily Engineering Plastics Limited

Ratings

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

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

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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.

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 availment 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 increased 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 un-hedged 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+

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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) 2)CARE A2+ (25-Sep-17)	1)CARE A2 (13-Jan-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. 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.

For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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