SHAILY
Engineering Plastics Ltd

CIN # L51900GJ1980PLC065554

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SEPL/SE/Nov/24-25
4th November 2024

The General Manager,
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Scrip Code: 501423

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Scrip Code: SHAILY

Sub : Q2FY25 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We refer to our previous letter dated 29th October 2024, wherein the Company updated the audio link of Earnings call held on 29th October 2024 to discuss the operational & financial performance of the Company for the quarter and half year ended on 30th September 2024.

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

DIMPLE ASHWINBHAI MEHTA

Digitally signed by DIMPLE ASHWINBHAI MEHTA
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Date: 2024.11.04 10:57:46 +05'30'

Dimple Mehta
Company Secretary & Compliance Officer
M. No. F13184

ENCL: A/a

“Shaily Engineering Plastics Limited Q2 Earnings Conference Call”

October 29, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 29th October 2024 will prevail

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

Moderator: Ladies and gentlemen, good day, and welcome to Shaily Engineering Plastics Limited Q2 and H1 FY '25 Earnings Conference Call.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinion and expectation of the company as on the date of this call. The 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 from Shaily Engineering Plastics Limited. Thank you, and over to you, sir.

Amit Sanghvi: Thank you very much. Good evening, and a very warm welcome to all the participants to the Post-Results Earnings Call of Shaily Engineering Plastics. I have with me Sanjay Shah – Chief Strategy Officer and SGA, our Investor Relations advisors. I hope you had a look at our investor presentation that is uploaded on our Website and the Stock Exchange.

Let me start by giving some highlights on the "Operational Performance":

We delivered a robust top line growth of 22% to Rs. 192 crores in Q2 FY '25 and have improved our gross margins and EBITDA margins, which stands at 46.3% and 21.5%, respectively. This is mainly due to increased sales from our Healthcare segment, which grew by 94% on a year-on-year basis.

In the Healthcare space, we have adopted a scalable approach that will enable us to increase our revenues at a faster pace over the next 5 years. We had raised money, which we are using to scale the Pharmaceuticals division. We anticipate that the medical device business will comprise 25% of our revenues over the next 3 years, enhancing organizational value.

I am happy to announce that we have doubled the size of our team in Shaily U.K. And looking ahead, our focus is expanding our horizons to include contract manufacturing for medical devices, products featuring our intellectual property and personalized packaging solutions. The dedicated efforts invested in advancing our injection system platforms are beginning to show favorable outcomes. We plan to increase our own IP contribution going forward. In the Healthcare division during the quarter gone by, we successfully participated in CPHI Europe, Parenteral Drug Association fair in Phoenix in October and partnership opportunities on drug delivery in Boston at the moment.

In the Consumer segment, we have been awarded business for 2 new products from a marquee FMCG customer. Despite the ongoing geopolitical challenges, revenues from this segment grew by 10% year-on-year to Rs. 139 crores in Q2 FY '25.

In the Industrial segment, we have received new business from a new marquee customer during the last quarter. Revenue grew by 30% year-on-year and stood at Rs. 16 crores for this segment. That is all from my side.

I shall now hand over the call to Sanjay Shah to give you the "Operating" and "Financial Highlights". Thank you very much.

Sanjay Shah: Yes. Thank you, Amit, and good evening, everyone. I am sorry for this technical issue. And also, for the delay on the call because of some technical issues at the operator end. I should share with you the highlights of our "Operational" and "Financial Performance" of Q2 and H1 FY '25, following which we shall be happy to respond to your queries.

During the quarter, we processed 6,186 tons of polymers as against 5,673 tons in Q2 FY '24. For the half year period, we processed 12,088 tons of polymers as against 11,495 tons in H1 FY '24. Machine utilization rate was around 42% at Q2 FY '25 and 41% in H1 FY '25. We expect this to increase in the coming years. Exports during Q2 FY '25 and H1 FY '25 stood at 75% and 78%, respectively, of total income.

Now I shall brief on "Consolidated Result Highlights":

Revenue stood at Rs. 192 crores during Q2 FY '24 as compared to Rs. 157.6 crores during Q2 FY '24, a growth of 22% year-on-year. EBITDA stood at Rs. 41.3 crores during Q2 FY '25 as compared to Rs. 26.6 crores during Q2 FY '24, a growth of 56% year-on-year. EBITDA margin stood at 21.5% for Q2 FY '25, an increase of 460 bps over Q2 last year. PAT stood at Rs. 21.9 crores during Q2 FY '25 as compared to Rs. 10.8 crores during Q2 FY '24, a growth of 103% year-on-year. PAT margins stood at 11.4%, an increase of 450 bps over Q2 last year. Cash PAT for Q2 FY '25 was reported at Rs. 32.2 crores as compared to Rs. 18.9 crores during Q2 FY '24, a growth of 70% year-on-year.

Coming to H1 FY '25 "Consolidated Highlights":

Revenue stood at Rs. 371.4 crores in H1 FY '25 as compared to Rs. 314.9 crores during H1 FY '24 , growth of 18%. EBITDA stood at Rs. 77.4 crores in H1 FY '25 as compared to Rs. 54.2 crores during H1 FY '24, a growth of 43%. EBITDA margins stood at 20.9%, an increase of 370 bps over H1 last year. PAT stood at Rs. 39.3 crores in H1 FY '25 as compared to Rs. 23.4 crores during H1 FY '24, a growth of 68%.

PAT margins stood at 10.6%, an increase of 320 bps over H1 last year. Cash PAT for H1 FY '25 was reported at Rs. 59.7 crores as compared to Rs. 39.7 crores during H1 FY '24, a growth of 50% year-on-year. Our ROCE and ROE stood at 22.1% and 17.1%, respectively, as of 30th

September 2024. Again, the growth in business has been achieved with disciplined use of capital. Our debt-to-equity stands at 0.45x and our long-term debt to equity stands at 0.11x as on 30th September 2024.

Now coming to "Consolidated Segmental Revenue Breakup" for H1 FY '25:

In the Consumer segment, revenue stood at Rs. 271.3 crores in H1 FY '25 as compared to Rs. 246.7 crores during H1 FY '24, a growth of 10%. In the Pharma segment revenue stood at Rs. 64.9 crores in H1 FY '25 as compared to Rs. 42 crores during H1 FY '24, a growth of 55%. In Industrial segment, revenue stood at Rs. 35.2 crores as compared to Rs. 26.1 crores during H1 FY '24, a growth of 35%.

That is all from our side. Now we can open the floor for Q&A. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Anant Jain, an individual investor. Please go ahead.

Anant Jain: Congratulations on a good set of numbers. My first question is on the pens business. Looking at our new insulin pens order, can we expect our volumes in pens to be double nearly for the second half of this year? That's the first question. Second question is for how many projects do we expect to supply commercial volumes in FY '25 and FY '26? Third question is on lira and teri, when do you expect commercialization of these molecules, commercial supply of pens to start for these molecules? And since Sema, Rest of the World patent is expiring in Jan '26, are we expecting a huge ramp-up in GLP-1 devices, like sales could go in like tens of millions in FY '26? Because that's the number that we keep hearing. We keep hearing much larger numbers than that.

And how big can U.S., India, Brazil and China, if you have some rough estimates, if you have some inquiries for these markets, and what kind of potential market share do we see here? Because we are the only ones with spring-based pen. And these markets are price sensitive. So, do we expect the devices to have a similar price for us, like when we supply to developed market versus like rest of the world, do we expect a similar realization per device? And any reasons for teri launch? Because teriparatide, we were expecting the launch to happen maybe like Q1, Q2, but it's gotten delayed. And where do you expect the launch to happen first in EU or in the U.S.?

I have more questions, but I think if you can respond to these, then I can give 1 or 2 more.

Amit Sanghvi: Sure. To your first question, we do expect pen volumes to double in the second half. Now exactly double from which month is a little difficult to say because we are still undergoing installation of our new 8-cavity tooling. So, we are hoping to start production in December, which means that some part of this quarter and large part of the next quarter, we will see double the volumes on those pens.

Teri launch is expected in Europe first. Yes, I realize that U.S. launch has been delayed. Unfortunately, it's not in our control, neither our customers control. But we know that Europe launch will be coming up shortly as fast as quarter 1 Calendar '25. So, that's kind of where we are on teri. So, we are producing commercial batches for a customer to launch. On liraglutide, its launch is expected towards the end of '25, calendar quarter 3 or quarter 4 of '25.

And on Sema, we have been hearing everything from 5 million to as high as 200 million requirements from various customers. We actually don't know what is the right capacity to build. But right now, we are looking at building 35 million pens a year capacity on Semaglutide. With Canada, Brazil and India, and some ROW launches coming up in '26, we are looking at roughly an order book of somewhere around 6 million to 7 million Semaglutide pens, spreading between '25 and '26. So, exact supply time lines are not known. We have started supplying some small quantities for commercial batches, but the larger quantities will start towards the second half of '25 and spill over into '26.

Anant Jain: Just 1 or 2 more questions. One is do you think looking at the entire market of both Semaglutide and insulin, we are a little behind in terms of CAPEX because any kind of CAPEX that we want to do would roughly take 1.5 years, I would assume. That's the first question.

The second question is, you mentioned consumer and new business under discussion. Can you give some idea about what this business is? What size this business can be? And do we plan to raise capital? Because I would assume that both our pens and if you see consumer as a significant opportunity, we would require funds.

Amit Sanghvi: On to your first question, I think capacity in general in the device business globally is at constraint right now. So, the way I would look at it is that capacity build is happening always a little bit behind what the market needs. But at the same time, people are cautious of not having an overbuild of capacity because the way Semaglutide is going, we don't know how commoditized it will become by the time it launches and becomes a little bit mature. Although we are slightly late on the capacity build, the opportunity is not lost because I think everybody has a lack of capacity right now.

On the consumer, I'll let Sanjay bhai answer that question.

Sanjay Shah: So, on the consumer space, we are still exploring that opportunity. And as we mentioned last time, as and when we have some definite reply, we will get back to you on a call about the same. Even on expansion, we are working out whatever requirements would be. And based on that, once we have exact details in terms of what funds are we looking at anything, we will see how we would want to fund that. So, we do not have an idea of how we are going to look at funding our expansions right now.

Moderator: The next question is from the line of Ritesh Shah from Investec. The line for the current participant has dropped off. We will move on to the next question that is from the line of Aman Thadani from Solidarity Investment Managers. Please go ahead.

Aman Thadani: Sir, my first question is, we recognize the significant opportunity that we have in GLP-1. So, could you share your perspective on the potential risk, both external as well as maybe internal execution related that you sort of anticipate?

Amit Sanghvi: The risk is, as I answered the previous caller's question, is that first, the demand is constantly changing. And what we have seen in GLP-1 is that the demand is constantly growing. Our customers are also not able to fully anticipate what a realistic forecast looks like. So, from whatever information we have gathered from our existing and new customers, we are looking at building up capacity to manufacture 34 million to 35 million pens a year for Semaglutide. So, this capacity will go on stream in the first half of '26, not FY, Calendar '26. We have started the capacity buildup on Semaglutide. We have existing capacity which we can cater up to 10 million a year. And we are building new capacities to add another 25 million.

The internal risk and the external risk. I think although we go through about maybe close to 100 different audits a year, we still haven't been audited by the U.S. FDA. So, as and when that happens, that will happen at some point. There is certainly a risk that shouldn't be a major risk, but there is certainly a risk because we are MDSAP certified with the U.S. FDA scope. So, we believe that we are confident the risk is minimized, but there's always a certain risk of some minor findings.

The second is how quickly can you scale up? I think operationally speaking, given that Shaily has a larger business, we do have enough operational capabilities that are fungible in terms of human resources across the various businesses that we have. So, operationally speaking, it's always easier to potentially hire and train on the consumer side of the business than on the pharmaceutical side of the business, which means that those with the experience on the consumer side can be taken onboard the pharmaceutical side to help with the operational scale up. And to mitigate the kind of the U.S. FDA risk is that we have already started the project of automating our entire QMS documentation, which is a project that had started earlier this year and will go on for 24 months. But we should be fully digital in terms of all our documentation.

Aman Thadani: So, my second question is, sir, over the next decade, Healthcare division would sort of become a substantial part of our business. And it's sort of very distinct from the other segments of the company. So, what sort of initiatives are we thinking to recruit more talent in Shaily India, maybe probably from the Healthcare background to sort of help us expand this segment of the company.

Amit Sanghvi: I mean, recently, we have recruited a very large tooling team, right? Like one of our biggest, at the heart of the business is making sure that the tools we manufacture or outsource are done rightly. So, a lot of focus has been on recruiting the right tooling team. I think we have recruited upwards of 17 engineers on the tooling side in the last 4 months itself. And we continue to grow that team. So, both manufacturing tools internally as well as having the right competency to run several projects at the same time is what we are doing in India at the moment. So, India very much focused on manufacturing and tooling in terms of recruitment right now. Of course, we are also looking for senior management on the operations side.

Aman Thadani: Sir, my third question is, we sort of don't disclose the specific pricing details for our pens. Maybe could you provide some insights into the pricing differential between a like-to-like pen or, let's say, Shaily Engineering and Becton Dickinson so that we sort of understand that is there any advantage for a player to manufacture in India?

Sanjay Shah: Aman, I'll let Amit answer part of the question, but pricing, I don't think we will want to disclose anything in terms of how we are pricing it to whatever competitors are. I don't think that's a question we would want to answer on a call.

Amit Sanghvi: Aman, the right way to look at it is what market you're supplying to. Insulin is price-sensitive. So, there's a x price for pen being sold on the insulin business. Of course, there are also a different SKU altogether. And then Semaglutide is going to be at a different price point. We also have the advantage that we are the only spring-driven pen out there. So, I would say, against potentially a BD or another competitor, we would be priced either on par or potentially at a premium.

Aman Thadani: Sir, even for a like-to-like pen with sort of like having manufacturing facilities in India then too, would it be at a premium to BD?

Amit Sanghvi: Well, see, it's not a like-to-like pen. BD does not have a spring-driven tech at the moment. So, for GLP-1s, particularly for Semaglutide, we have got a device, which functions just as well as the innovator device, which gives us the ability to market it at a slight premium. Second is also the money spent. It's not just the manufacturing margin. The money spent on developing the IP technology platform, all has to be considered as part of pricing.

Aman Thadani: And sir, my last question is on the Industrial business. Sir, we received order in that business. So, sir, can you provide some color like what product is it? And what would be the size of that order?

Sanjay Shah: That's a new customer we have added on the automotive space. It's a start which we are trying to do with this customer. As we move forward, we will look at building up the relationship with this customer.

Aman Thadani: And sir, the total orders that we received in Q2 FY '25, what would be the size of both these orders from the consumer as well as from the Industrial division?

Sanjay Shah: We are not disclosing the numbers here. What we are trying to disclose here is basically adding businesses across different businesses.

Moderator: The next question is from the line of Rupesh Tatiya from Intelsense Capital. Please go ahead.

Rupesh Tatiya: So, sir, my first question is this spring-based device you have talked about. We have recently seen announcements from generic players, 3, 4 of them, that they have settled with the innovator for Semaglutide, Novo Nordisk, the settlement is with Novo Nordisk. Sir, my question is our device part of any of these settlements?

Amit Sanghvi: I will not be able to answer that, Rupesh.

Rupesh Tatiya: And sir, I mean, in one of them, at least, I know that it's not a spring-based device where the settlement has happened. So, how does that impact your competitive positioning? Do you still hold the view that we will still be able to get 60%, 70% of the generic market share?

Amit Sanghvi: That view is based on the number of generics we have actually signed on. So, it's not really anything else, but what's also happening is the number of players getting into Semaglutide are also increasing on a daily basis. You have almost an equal opportunity. If we look at the volumes, U.S. is going to contribute 30% to 40% of the global volumes going forward. Basically, the ROW markets are simply not supplied at the moment by the innovators because of capacity constraints.

So, you have an equal opportunity on the ROW markets as well. And we are seeing a lot of scale being built for the ROW markets. So, yes, I think, my view would still probably hold that based on customers that we have signed on and those we are working with, at a global level, we should have a very a dominating market share on the Semaglutide business for generics.

Rupesh Tatiya: And then, sir, other question is Canada patent expires by Jan '26 for Semaglutide. So, I am a little confused on the timelines you said. So, the Semaglutide supply will start in Calendar ‘25? Or it will start in Calendar ‘26?

Amit Sanghvi: It will start in Calendar ‘25, and spill over into '26.

Rupesh Tatiya: So, that 6 million to 7 million number you said we can hit that is Calendar ‘25?

Amit Sanghvi: Like I said, it will start in Calendar ‘25, and you not supply the entire 6 million to 7 million in Calendar ‘25. So, there will be a volume that spills over into '26.

Rupesh Tatiya: And the 2 questions on this non-U.S. market supply. So, is entire supply going to be spring-based device? Or will it be some other platforms as well? And what would be the pricing differential between, let's say, other regulated markets versus, let's say, some ROW emerging markets, if you can give some view on that?

Amit Sanghvi: Our pricing is very much based on volume. So, regardless of the market you're operating in, our pricing is more or less the same. It's staggered pricing. You've got volume slabs. And between the spring-tech and the non-spring-tech, the pricing differential would be, I think 7% to 10% depending on market, but yes, that's about it.

Rupesh Tatiya: But there will be some non-spring-tech based Semaglutide supply?

Amit Sanghvi: Yes. We have non-spring-based Semaglutide supply also.

Rupesh Tatiya: And then, sir, my final question is you have said Healthcare will be 25% of our business in 2, 3 years. Can you maybe give a similar view for consumer electronics business?

Amit Sanghvi: We are still working on kind of the consumer electronics business. So, it's hard to give you any indication.

Rupesh Tatiya: A broad range will do like I mean we shouldn't even consider it to maybe it will be a decent part of our business. Some qualitative comment around that.

Amit Sanghvi: It can be, but the journey is very early right now. So, we are very much in the nascent stages of that journey. It can be, but given that a consumer electronics is a fast-moving industry, we can see there's a potential to scale up faster if we have success in whatever we are trying to do right now.

Rupesh Tatiya: So, that clarity you would be able to give in another maybe 2, 3 quarters?

Amit Sanghvi: I cannot give you a comment, unfortunately. But as and when it happens, we will provide that clarity.

Moderator: The next question is from the line of Sanjay Kumar from iThought PMS. Please go ahead.

Sanjay Elangovan: First question on Healthcare. Is there a revised target for the number of pens for FY '25 and '26, if you could give the updated guidance for the number of pens?

Amit Sanghvi: No, Sanjay, there isn't a revised target. I think the target we gave at the beginning of the year for this year is what we are sticking with. See, we fully rely on our customers getting approval for our business. So, until we have confirmation that approval has come in and we will start supplies, there's no revision in targets at the moment.

Sanjay Elangovan: And second question, how many unique OEMs do we have for Ozempic and Wegovy and if possible, also for tirzepatide. Also, are we talking to customers who have filed with someone else but are looking to switch for various reasons? And has any clients switched from us to some other competitors for any of the GLP-1s?

Amit Sanghvi: We have probably, I'd say, somewhere around 14 or 15 active Semaglutide projects, some completed, some ongoing, so that would include both Ozempic and Wegovy.

Sanjay Elangovan: By projects, you mean the different dosage variants within Ozempic.

Amit Sanghvi: By projects, I mean, unique customers.

Sanjay Elangovan: And tirzepatide?

Amit Sanghvi: This is also a business where there's a lot of front-end partnerships happening, right? So, everybody is not going to jump in and compete on Semaglutide. There's going to be a lot of partnerships. So, you'd have a combination of several 2 or 3 pharma companies partnering together on a particular project, someone who takes care of manufacturing, someone who front-ends the business development side of it and the sales side of it, someone potentially being an API supplier.

So, there's a lot of partnerships happening on this -- on Semaglutide particularly. Tirze is, I think 36 is the earliest launch possible, maybe beyond 36. So, we are right now only working with those partners who are interested in the NCE-1 filing.

Sanjay Elangovan: If you could give a number?

Amit Sanghvi: We have said that I think from a timing perspective, the most we can do is 5, and we have signed on more than 50% of that number. So, we have got room for 1 or 2 customers at the moment for tirzepatide. Again, only keeping in mind the NCE-1 filing deadline. Anyone like to do tirze beyond NCE-1, we will have plenty of capacity.

Sanjay Elangovan: And third question, just an extension to 1 of the previous participants. So, on this non-spring-based device, is human factor study not such a big deal for pharma companies that they're choosing to not use spring-based pens. How do I look at the market of human factors?

Amit Sanghvi: Human factors has to be overcome. So, a comparative human factor study is needed for non-spring-based pen.

Sanjay Elangovan: So, let's say, even other pharma companies also follow suit and go for a non-spring-based pen. Is that a risk from that perspective, is my question.

Amit Sanghvi: There will always be several who opt for non-spring-based pen and several who opt for a spring-based pen. Everybody has a different strategy. From the perspective of user experience, certainly a spring-based pen has a better experience for the user. So, I don't think it's all about pricing. It's a number of components essentially and either pen don't really change much. You've got springs, which obviously add to the cost. And then the rest of it is really around the money spent on developing the technology. So, I think you have a combination of everything, people who opt for a spring-based pen and those who don't.

Sanjay Elangovan: And fourth on insulin, what is our own IP capacity? I believe the client who has given us the 10 million order is planning for a much bigger production capacities and it's almost in the tune of 4x, 5x. We will need more capacity for own IP insulin also, right? Are we not expecting any further orders from them?

Amit Sanghvi: No, we are expecting further orders, and we are also building more capacity on insulin pen.

Sanjay Elangovan: If you could give own IP insulin capacity and what's the CAPEX expansion of the pen?

Amit Sanghvi: Yes. Once our 8-cavity tools go on stream, we have a capacity of 11 to 12 million pens a year.

Sanjay Elangovan: And the expansion will be?

Amit Sanghvi: I mean, any expansion we do. So, that was our first automated line at 40 parts per minute, hence, for all our lines are essentially going to be 80 parts per minute line. So, roughly about 24 million to 25 million per line for capacity increase.

Sanjay Elangovan: And finally, just a follow-up, sir. So, are we talking to people who are looking to switch and also on similar lines, have any clients switched from our GLP-1 platform to a competitor?

Amit Sanghvi: Any clients who has switched from our GLP-1 to competitor? I don't know. There are people who are running multiple programs and multiple partnerships, and everybody is going to slightly derisk because they don't know who is going to succeed. So, yes, I think we do have partners who are running multiple programs and one which would include our device, one which would include someone else's device, someone else's manufacturing capacities and someone else's potentially even API. So, there's a lot going on, Sanjay, that there's a lot of uncertainty, but a lot of optimism on Semaglutide. So, let's leave it at that.

Sanjay Elangovan: And can I squeeze in one more. Do we expect a patent challenge for Ozempic?

Amit Sanghvi: I mean, given the recent settlement, I would anticipate by the time everybody gets to market, yes, there will be patent challenges. I don't think the innovator is just going to allow everybody to walk in. Most of these products are going to be kind of litigative products. So, there isn't a whole lot anyone else can do about it.

Moderator: The next question is from the line of Mohit Surana from Monarch Networth Capital Limited. Please go ahead.

Mohit Surana: A couple of questions. One, can you give some insights on the Shaily U.K. business? How do we record revenue order? Is it on a project basis? And we are not paying taxes on that business as well. Is it that because we have some tax loss carryforwards? And how long can we continue to pay no taxes on it?

Second, if you can give some insights on, you mentioned the risk about the U.S. FDA approval for your platform pen. I think it's related to the insulin, I am not sure. If you can give some insights on how significant it can be and what measures need to be taken so that we are on the approval side?

Amit Sanghvi: So, to answer your second question first, see, we don't file a product. We only file device components. So, there is a device master file that either we file or we give the dossier to our customers as part of their ANDA filings. All of these products are combination products. So, they are filed by our customers.

The risk of approval is entirely on them. From our side, we just need to make sure that our dossiers are as comprehensive as possible. And then there are no manufacturing issues. There's essentially no QMS issues. Whatever we have defined as our quality management system, is exactly what we should be following in the plant. So, from that perspective, like I said, we go through maybe 150 audits a year by customers, by third-party external auditors, by MDSAP auditors, ISO-13485. So, we are relatively confident that we will not have any significant challenges at a future date when there is a potential audit. And that confidence also comes from our customers auditing us and letting us know that look, yes, your systems are in line with the requirements.

Sanjay Shah: Taking your first part of the question, when we record revenue at Shaily U.K., we have agreed milestones with the customers and as and when those milestones are completed, that's when revenue is recognized. Currently, we have patent box and R&D benefits, which are available in Shaily U.K., just because of the development which we have been doing and the patent which we have been developing there. So, that basically helps us to get to zero taxes

Mohit Surana: Right. So, just to understand the kind of R&D business that we get on a milestone payment basis, it's like developing a product as per the requirement of the client. And then based on the milestone, you record the revenue. So, just wanted to understand how come we are not paying any taxes on it? Is it the regulations that if we are spending on R&D, then we don't have to pay taxes?

Amit Sanghvi: Yes. There is patent box and R&D benefits that you get in the U.K. But I also don't think that it will always be the case because under patent box, you have favorable tax regime. You don't have a zero tax. That's just what has happened in the first 3 years of the business, but we will, of course, be paying taxes.

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

Ritesh Shah: Amit, in the first line of the call, you indicated you need to adopt a scalable approach that will help us increase our revenues. So, you used the word scalable approach. And you also indicated that we will look to increase contract manufacturing capacities. Can you please provide some more context to the word scalable approach and the increased contract manufacturing capacity?

Amit Sanghvi: Yes. So, when we talk about a scalable approach is that you actually in manufacturing, you want to stop experimenting when it comes to manufacturing. So, now that we have kind of our first capacity built up on the insulin pen, we figured out what is the right size of capacity per product. So, what is the optimal size of capacity? You get too large a tooling cavitation, it becomes very complex to manage because you're dealing with very small tolerances.

So, basically 16-cavity tools and 80 parts per minute line are essentially, what we are talking about, is what we feel is the right combination of the highest output with the potentially as lower complexity as possible. So, every time we scale, it will be multiples of this number. That is what I meant when we talk about scalable approach, is that we basically want to get out of

experimenting and manufacturing operations, keep it as streamlined as stable as possible, making sure that you have the right quality of product being manufactured every time.

Ritesh, what was your second question.?

Ritesh Shah: You said you would look to increase our contract manufacturing capacities.

Amit Sanghvi: Yes. So, maybe as part of our first earnings call, we talked about the fact that we are developing capabilities to potentially work with more innovators. I think we have been working with Sanofi for a very long time. So, we are developing capabilities to kind of work with more innovators. And as part of that, one is that building technology that is more suited that we think are the future of drug delivery, so to speak, where sustainability is a big topic. So, we are working towards developing those products and also putting in the capacities in place to demonstrate that we can manufacture at scale for large innovator companies.

Ritesh Shah: My question is, are any of our clients asking for committed capacity from us?

Amit Sanghvi: Yes. We have some clients who ask for committed capacity, but if there is an ask for a committed capacity, it has to be contractually binding on both parties.

Ritesh Shah: Right. So, are you facing that constraint or that particular variable, which is probably a win-win scenario?

Amit Sanghvi: Yes. I think in some cases, we are having very good discussions and potentially leading to those contracts, but the market is volatile. I mean, people will struggle to make a sure-shot commitment to buying an X volume. I think that sure-short commitment of buying an X volume comes essentially when you get closer to launch. So, we know that '26 will be launched in some markets. We are getting those commitments on what is the anticipated volume. So, a lot of our design development and exhibit batch contracts are being translated into supply agreements.

Moderator: The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Congratulations for a great set of numbers. So, my first question was on our own IP pens on the insulin side. So, as you said, we are doubling the capacity to 25 million pens. So, when is this capacity expected to come on stream? And how fast can we utilize this capacity given a lot of innovators and there is a lot of innovator moving away from insulin and the demand for the insulin pens also is very high.

Amit Sanghvi: Commercially manufactured products from this new capacity is, I'd say, 14 to 16 months away, when we can start supplies from the new capacities.

Ankit Gupta: So, it will be most likely to contribute to our revenues in a big way from FY '27 onwards?

Amit Sanghvi: Yes.

Ankit Gupta: In your last participant's question, you're also saying that we are also looking at like building capacities and working with innovators like Sanofi for more insulin opportunities pens in that direction. So, will that be a contract manufacturing opportunity? Or we will also be developing our own IP pens for them?

Amit Sanghvi: It will be a combination. Some will be contract manufacturing opportunities. Some might be a play on one of our platforms. But typically, when you work with the innovator on a novel molecule or potentially large molecules, the relationship tends to be more exclusive, unfortunately. I think the opportunity really is to work with one of them and see potentially very significant volumes on a product.

Ankit Gupta: So, for our contract manufacturing that we do for insulin, how much is the capacity currently? And are we also looking to expand it, as we are doing for our own IP pens and insulin pens?

Amit Sanghvi: We are expanding capacities on, I think, all of our platforms. So, we will need capacity on our 2-step auto-injector, which is Toby. We will need capacity on Neo, which is the spring-driven pen. We are increasing capacity on, what you call it, Protean, which is our insulin pen. So, at least these 3 are going through capacity expansion. And then on products like teriparatide, we are not necessarily going through a capacity expansion, but we will have a requirement for a new set of tools purely because the old set was always meant for clinical batches and now commercial batches will come from essentially a higher capacity tool.

Ankit Gupta: We are seeing a lot of like a lot of device manufacturers and even CDMO players, who work on drug and device opportunities. We are seeing that for the incremental opportunities, they want their clients to participate in the CAPEX as well. Ypsomed has talked about expanding capacities where innovators will also be participating in funding the capacity expansion. Any talks that we are having with some of our customers where they also put in money or that ensures locking from the customers also about some capacity or assured volume of capacity for further expansions?

Amit Sanghvi: Yes. Either customer participates on the investment or guarantees a certain volume. See, when we build large capacities, I mean to a certain extent, you can do it based on a forecast. But when you start looking at investing millions of dollars into capacity enhancement, we look for commitments to customers either in the form of joint investment or participating in the investment or in the form of kind of a capacity commitment, take or pay for next volume for the next number of years.

Ankit Gupta: And just one last question on our nominal consumer business. So, how is that doing? And how do you expect growth for this segment for the next year or 2, both on plastic side as well as carbon steel side. So, if you can talk about that?

Amit Sanghvi: We have participated in quite a large RFQ on the consumer business. So, we are anticipating that we will have decent growth over the next, I think, probably start to commercialize some of

these products in the next 8 to 10 months. So, we are expecting good growth in the upcoming years for the consumer business, both carbon steel and plastic.

Ankit Gupta: So, in the last 2, 3 years that we have been facing or the client also has been facing some challenges on the growth front. So, is it like the business is expected to revive or we are garnering more market share from our competitors in India as well as abroad?

Amit Sanghvi: I think it becomes a combination of all of the above.

Ankit Gupta: And any update on the carbon steel facilities like how are we doing in terms of capacity utilization and any updates on how we are seeing margins?

Sanjay Shah: Compared to last year, our utilization levels are better. We expect the utilization levels to be better in H2 as compared to H1. And we should probably end the year where we should be EBITDA positive.

Ankit Gupta: Okay, sir. So, for the entire year, we will be able to breakeven?

Sanjay Shah: That's our expectation right now.

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

Aman Vij: Congrats on good performance. I have a couple of questions. So, first, on the Healthcare side. So, I believe in the initial part of the call, you talked about, we are expecting only one commercial launch this year. And you indicated lira, that project, which you were expecting, is happening in FY '26. So, for FY '26, is it safe to assume that the number of commercial launches for us can be like maybe a dozen or so given there are a number of projects in teri and lira also and maybe a few Sema. So, what is your expectation in terms of number of commercial launches in FY '26 for us?

Amit Sanghvi: So, FY '26 runs up to March '26, right? Between FY '26 and FY '27, we expect teri, lira and Sema to be launched in multiple markets across the world. So, all of these programs would have multiple customers. So, I won't comment on potentially how many we are expecting to get approval, but all 3 of these products will be launched in FY '26 and '27.

Aman Vij: Sir, for lira, some of the projects will happen in FY '27, also. I thought most of them will be launched by FY '26 itself?

Amit Sanghvi: There isn't an IP challenge to launch the product. Right now, it's just about who's getting approval faster or which one of our customers gets approval first.

Aman Vij: My next question is on tirze. So, you've talked about we have maybe 3-odd customers and maybe 1 or 2, we will try more. So, the exhibit batches, have they started? Or when are they expected to start?

Amit Sanghvi: Q4 of current financial year is when we will start supplying exhibit batches.

Aman Vij: And is it safe to assume that the first scaling up of Shaily U.K. in terms of this will come. So, maybe in Q3, Shaily U.K. tirze's projects will start coming?

Amit Sanghvi: Yes, I guess that's safe to assume. But see, we only invoice based on milestones achieved. So, you'll see the fee spread between Q3, Q4 and Q1 of next year for tirze.

Aman Vij: And generally, on Shaily U.K. side, H1 was quite good for us, but normally H2 is much better. Do we expect the same trend, maybe like very good growth in H2 Shaily U.K. compared to H1?

Amit Sanghvi: I think H2 will be comparable to H1 in Shaily U.K., plus or minus some, but essentially, it will be very comparable.

Aman Vij: But not a ramp up, like in the number of pen we are saying we will see a ramp-up.

Amit Sanghvi: No, because we don't sell any pens in the U.K. It's purely creating intellectual property and then managing end-to-end projects and design and development work for particular customers on various molecules. So, I think Shaily U.K. will have very similar revenue as the first half of this year. It could be a little bit higher or a little bit lower, but essentially it will be more or less the same.

Aman Vij: And you talked about good hiring, we have doubled the number of people in the U.K. So, when do we expect, say, some new kind of projects or maybe innovative projects or contract manufacturing, not related to the GLP necessarily, but when do we see some concrete project orders or some projects?

Amit Sanghvi: We have seen some themes on drug delivery or evolving themes. And we have got maybe our own take on what is the future of GLP-1 drug delivery. So, we are looking at developing 2 types of new platforms. One is based on our fixed-dose pen, which is the Axiom but being able to deliver a much larger volume. So, Axiom currently delivers 80 microliters. For GLP-1s, you typically need something to deliver 500 to 750 microliters.

So, we are working on a product on a platform that delivers the large volume needed for GLP-1s. But the user experience, instead of dialing, it becomes simply a pull and push to deliver. And then we are also looking at potential unique opportunities on auto-injectors, high viscosity drug delivery. So, with the increased size of theme, we will be looking at a couple of new platforms and products in the upcoming years. So, hopefully, either next CPHI or just shortly after we should be able to showcase some of our new developments.

Aman Vij: Sure, sir. That is good to know. On the capacity, sir, you've talked about we are planning to expand insulin maybe around 25 million, it will be after expansion, then Sema 35 million, then I am assuming the rest of them will be another 10 million, 20 million. So, is it safe to assume we are talking about almost doubling our capacity from 35 million, 40 million to maybe 70 million, 80 million, 90 million over the next 2 years?

Amit Sanghvi: Yes. Insulin, we have 11 million right now. We are adding 24 million. So, insulin will become 30 million to 35 million capacity, Sema will be 35 million. And then everything else together would be at least another 25 million to 30 million.

Aman Vij: And all this expansion can happen in our current facility or do we require a new place because this is like a 100 million number?

Amit Sanghvi: I think, 25 and 25 can happen in our current facility, which means up to another 50 million pens, we should be able to manage in our current facility. It will require, of course, machines and assembly lines and tooling and all of that, but the size of the facility should be able to manage another 45 million to 50 million pens, and then we will require a new facility.

Aman Vij: That makes sense. Just a couple of more on this and then other part. On lanreotide, we heard that one of the generic players have launched the product. So, how many customers do we have for this product? And do you think this can be a contributor this year to our revenue or sales or only in next year?

Amit Sanghvi: Lanreotide, I mean I guess it's a niche product. So, I wouldn't say we have too many customers on lanreotide. We will look at generating part of the revenue for lanreotide in the current financial year and then a more significant number in the next financial year. So, we will start supply for clinical batches in the current financial year.

Aman Vij: And we have like 2, 3 customers or much more?

Amit Sanghvi: No, no. Just about 2, 3. Yes.

Aman Vij: And so in the presentation, you talked about we have participated in a lot of conferences this year like PDA and PODD. So, how was the response? Did we get any major breakthrough in some of the big 20, 30 pharma companies or anything which you want to highlight?

Amit Sanghvi: CPHI was very, very good for us. I'll be very honest, we did not have time to breathe at CPHI. The discussion was largely around at CPHI, especially on the capacity buildup. I think several of the investors have asked today. So, a lot of the discussions with customers was on capacity built up. And how does that partnership evolve into a commercial partnership, which is kind of beneficial for both.

At the same time, guarantees the customer an X capacity, but also protects us from overbuilding or investing upfront without a commitment. So, largely, the discussion was very much GLP-1

and capacity built up. We have seen a lot of interest in our wearable on-body injector, Mira. So, we are looking at developing Mira further now based on the inputs that we have received from potential customers. PDA, which is very much kind of a learning experience, I would say.

So, it is a conference, but you learn about emerging trends. You learn more about emerging standards and regulation and how do you get combination products out? What is the best possible way to get a combination product through the regulatory authority? So, we participated in PDA and that is where we have kind of enforced the thoughts we had around what are the next generation of products that we should be developing.

So, the auto-injector, high viscosity auto-injector, fixed dose, larger volume delivery are all in line with the themes that we have seen this year on drug delivery. And PODD is still happening. So, I am in Boston at the moment. Today is the last day. And, yes, it's a much smaller conference, but certainly some good conversations. So, PDA and PODD are actually where you get to meet large innovator companies. They don't typically show up at CPHI. So, meeting the likes of larger companies like Eli Lilly or Novo Nordisk or Pfizer, you would see them at these conferences more. And I would say that we have had some good conversations, but how quickly will they translate into business is an unknown, I would 24 months at a minimum.

Aman Vij: Final question on the applicator project, have it started? And if you can talk about is it for which molecule and any other similar projects we can get from other of our customers?

Amit Sanghvi: The applicator? I also don't know which applicator Aman you're referring to.

Aman Vij: There was supposed to be a project started in Q2, I think. Sanjay sir, maybe can talk about.

Amit Sanghvi: I think this is Astra deal applicator. Yes, we have started manufacturing and supplying.

Aman Vij: And any other projects of this size, which we can get from customers?

Amit Sanghvi: No, not at the moment. I think there's enough on our plate. We need to focus on capacity built up and supplies right now. We are focusing on next generation of drug delivery, but we certainly need to focus more on the capacity built up and supplies.

Aman Vij: Final question on the overall company's utilization level. So, good to know it has started inching up at 40%, 45% for this quarter. But say, Q4 exit for FY '25 and exit for FY '26. So, can we expect maybe like 55%, 60% exit run rate for this year and maybe 70%, 80% exit run rate in terms of utilization. I am talking about exit run rate, not for the full year.

Amit Sanghvi: It's yes, Aman.

Moderator: The next question is from the line of Anant Shenoy from AS Capital. Please go ahead.

Anant Shenoy: Yes. So, my question is on Shaily U.K. So, in the past, you have mentioned about drug delivery devices like soft mist inhalers and on-body injectors. And now you're talking about newer projects like high viscosity auto-injectors and all. So, given these exciting things happening there, like what is the revenue visibility like do you see for FY '26 in Shaily U.K.

Amit Sanghvi: Anant, we develop a lot of these platforms based on where we see drug delivery going. So, they're not necessarily custom developed for a particular customer. We will develop a platform and generally, we know what is the demand out there for a particular type of technology. Revenue in Shaily U.K. has I mean, first half of this year has scaled up quite nicely compared to last year. We anticipate similar run rate for the second half and probably a similar number for the next financial year as well. I am not looking at exponential growth in Shaily U.K., but you'd have decent growth, probably 10% to 12%, 15% growth in Shaily U.K.

Anant Shenoy: My second question is on the overall like you have mentioned about all this capacity announcement for insulin going to 35 million, Semaglutide going to 35 million. What is the overall spend that we are doing in this one?

Amit Sanghvi: The overall spend?

Anant Shenoy: Yes.

Amit Sanghvi: Some of the spend we have already done. The overall spend is a little difficult to give you an exact number right now, but all these capacities, we are not going to spend everything on day 1. So, spread over the next 36 months, we would be looking at spending probably Rs. 150 crores to Rs. 200 crores on the capacity buildup.

Moderator: Ladies and gentlemen, that was the last question. I now hand the conference over to the management for any closing comments.

Amit Sanghvi: Thank you. Thank you, everyone, for participating. I hope we have been able to answer your questions adequately. For any further information that you need, I request you to get in touch with SGA, our Investor Relations advisors. Thank you once again, and have a great evening.

Sanjay Shah: Thank you, everybody. Happy Diwali and Happy New Year.

Amit Sanghvi: And Happy Diwali, yes, thank you.

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