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SEPL/SE/Nov/22-23
November 21, 2022

The General Manager,
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BSE Limited
Floor 25, P.J. Towers,
Dalal Street,
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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,
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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 15th November, 2022, wherein the Company updated the audio link of Earnings call held on 14th November, 2022 to discuss the operational & financial performance of the Company for the quarter and half year ended on September 30, 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

DIMPLE ASHWINBHAI MEHTA
Digitally signed by DIMPLE ASHWINBHAI MEHTA
DN: c=IN, o=PERSONAL, title=8748, pseudonym=28dd610549b34b4aadfc7aa64744d799, 2.5.4.20=1d1ed0723db621091a253decb769954c330209284ee0d9f45202148baf7a44fb, postalCode=390012, st=Gujarat, serialNumber=be901a7b4cfd5ff4b6e3310581e678582e8fcab3536586c4a365ba53eccbf1a6, cn=DIMPLE ASHWINBHAI MEHTA
Date: 2022.11.21 14:29:00 +05'30'

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

"Shaily Engineering Plastics Limited Q2 & H1 FY'23 Earnings Conference Call"

November 14, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th November 2022 will prevail

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

Moderator: Good day and welcome to the Shaily Engineering Plastics Limited Q2 & H1 FY'23 Earnings Conference Call.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and may 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, 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 – MD and Promoter. Thank you, and over to you sir.

Amit Sanghvi: Good afternoon, 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 Advisors. I hope you have had a look at our Investor presentation that is uploaded on our website and the Stock Exchange.

Despite a very challenging environment we have registered half-yearly sales of Rs. 332 crores in FY'23. We are an export-oriented company with products and customers based in the overseas market. And given the geopolitical situation across the globe, we expect softness in demand in the coming half. We are working closely with our customers to ensure optimal production inventory levels. We continue to watch this situation closely and will provide timely updates.

Highlights of the Business Performance

As I have mentioned on several calls in the past, we are very focused in deepening our foray in IP related products for Healthcare. We have created a scalable model which will aide growth in revenue in the coming years.

Healthcare is now the second largest revenue contributor through Shaily's business. Through Shaily UK, we now catered to global markets and create innovative products not just for generics but also for global innovative Pharma. The most recent example is our wearable autoinjector meant for delivering large volume injectables for Oncology. I am happy to announce that we showcased our first fully working prototypes at CPHI worldwide in Frankfurt and have received some very encouraging feedback from global innovator Pharma companies.

During the first half of the year, we did Rs. 4 crores of sales through Shaily UK, and we are EBITDA and PAT positive right from the onset. Under our Automotive and Engineering, we have started commercializing the orders received and expect a ramp up in the current year. In FY'22, the company raised funds and we have started utilizing the same to expand the core business. We are planning CAPEX spend of approximately Rs. 200 crores over the next couple of years, out of which more than half of the spends will be towards the Pharma part of the business, for growing device part of the business, which is led by our own IP, proprietary products.

That is all from my side. I shall now hand over the call to Mr. Sanjay Shah, our Chief Strategy Officer to give you the operating and financial highlights. Thank you very much.

Sanjay Shah: Good evening everyone. I shall share with you the highlights of our operational and financial performance of Q2 & H1 FY'23 following which we will be happy to respond to your queries.

During the quarter we processed 5,145 tons of polymers as against 4,498 tons in Q2 FY'22, an increase of 14% year-on-year. For the half-year we processed 11,689 tons of polymers as against 8,591 tons in H1 FY'22, an increase of 36% year-on-year.

In this year we have already achieved 60% of the volumes of FY'22. Machine utilization stood at 45% in Q2 FY'23 and 47% in H1 FY'23. Exports during H1 FY'23 stood at 77.8% of total revenue as compared to 78.7% in H1 FY'22.

Standalone Results

Revenue stood at Rs. 160 crores during Q2 FY'23 as compared to Rs. 145 crores during Q2 FY'22, a growth of 10%. EBITDA stood at Rs. 25.1 crores during Q2 FY'23 as compared to Rs. 23.8 crores during Q2 FY'22 , a growth of 5%. EBITDA margins stood at 15.7% for Q2 FY'23. PAT stood at Rs. 9.4 crores during Q2 FY'23 as compared to Rs. 10.5 crores during Q2 FY'22. PAT margins stood at 5.9%. Cash PAT for Q2 FY'23 was reported at Rs. 17.1 crore as compared to Rs. 16.9 crores for Q2 FY'22.

H1FY'23 Highlights

Revenue stood at Rs. 332 crores as compared to Rs. 265 crores during H1 FY'22, a growth of 25%. EBITDA stood at Rs. 46.8 crores as compared to Rs. 44 crores during H1 FY'22, growth of 6%, EBITDA margins stood at 14.1%. PAT stood at Rs. 16.8 crores as compared to Rs. 18.5 crores during H1 FY'22. PAT margins stood at 5.1%. Cash PAT for H1 FY'23 was reported at Rs. 32.2 crores as compared to Rs. 30.8 crores during H1 FY'22. Our ROCE and ROE stood at 13.6% and 9.1% respectively as on 30th September, '22. Our debt equity stands at 0.6x and our long term debt equity stands at 0.2x.

Consolidated Revenue

On a consolidated basis revenue stood at Rs. 339 crores, EBITDA at Rs. 50.2 crores and PAT at Rs. 19.5 crores for H1 FY'23.

This is all from our side. Now we can open the floor for question and answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Bhavin Rupani from Investec. Please go ahead.

Bhavin Rupani: My first question is on gross margins. During the 2nd Quarter, we reported gross margins of around 35%. However earlier we used to report somewhere around 40%. So, how should one understand about this 5% lower margins? And do you think 40% margins are achievable in the near future? And what would be the sectors which will lead to an increase in margins?

Sanjay Shah: So, Bhavin, one difference between when you look at FY'22 and FY'23, is that our development or part of the Pharma revenue comes out from UK. So, when you look at gross margin, you need to look at combined UK and India P&L together which would basically give you an indication on the gross margins.

Second is, as we have talked about in the past quarter also, we have seen inflationary pressures and raw material pass through happens with a lag. So, that is the reason for some drop in the gross margin, which we would get back to improvement as we speak. Even if you were to look at Q2 FY'23 as compared to Q1 of FY'23, you would have seen improvement in gross margin and that's because some of the raw material pass through has happened.

Bhavin Rupani: Any margin guidance for second half for FY'23?

Sanjay Shah: We don't give a margin guidance, Bhavin, I am sorry about it.

Bhavin Rupani: And how should one understand the incremental margins going ahead. Currently, we are reporting around 15% EBITDA margins, what would be the major drivers for margins going ahead?

Sanjay Shah: Major drivers for margins will basically be increase in volumes, and as we increase the Healthcare part of the business and the Pharma part of the business that's the way increase in margins will happen.

Moderator: Thank you. We have the next question from the line of Aman Vij from Astute Investment Managements. Please go ahead.

Aman Vij: My first question is on the Pharma business, if you can update on the CAPEX, as well as what kind of orders are we expecting in FY'23 in terms of our own IP pens ?

Amit Sanghvi: So, we have a fairly strong pipeline, these are all products that have been filed by various customers. In FY'23 we definitely see scale up, like we did for the same product, we did some scale up in FY'22, we see further scale up in FY23, especially for our P60 pen, which is the insulin variant of our Protean pen. We also see scale up on our Teriparatide pen which is the fixed dose pen injector. And then we are seeing a very large opportunity with our, one of our new devices which has been on showcase for the last four to six months. But we are just completing the program and we have seen a very significant opportunity at the exhibition this year as well. So, we anticipate significant revenue coming from the new pen in FY'23 as well.

Sanjay Shah: So, with the total CAPEX which we are doing currently, will be about Rs 125 crores, out of which part of it has been spent and the balance would be spent during the current year and some of it during the course of next year.

Aman Vij: In H1, how much have we spent of this Pharma CAPEX?

Sanjay Shah: Aman, I don't have the exact numbers right now in front of me, but I believe we would have spent about Rs. 40 crores to Rs. 45 crores

Aman Vij: And are we expecting to spend similar number in second half?

Sanjay Shah: The number will be a little higher in second half.

Amit Sanghvi: It's work in progress, right Sanjaybhai.

Sanjay Shah: Yeah.

Aman Vij: The next question is on the toys business and the carbon steel business, if you can give the update, any further breakthrough in terms of newer orders or newer clients, as well as utilization level in the carbon steel business currently?

Sanjay Shah: So, on toys, we are working with our existing customers to basically increase our business and everything. One of the challenges which we are facing as Amit mentioned in the early part of his speech that we being export-oriented company, we are seeing demand slowing down in Europe, in the U.S. for most of our customers. So, getting new business in this scenario does take a little longer time. So, we are working with customers for that. Similarly, we continue to explore opportunities with some other customers also but given the overall scenario it does take a little longer time.

Same is the situation on the carbon steel part of the business. What we are also doing is we are in discussions with our existing customer to basically see how volumes can be built up there. And that's something which we have been constantly discussing with the customers.

Amit Sanghvi: So, just to add to what Sanjaybhai said on toys, there is a global drop in demand of 25% in toys that we are hearing from our customers, 25% to 30%, combined with this, the issue is also that increasingly more Chinese factories have become the, you know, I think the right word is more competitive, they are just providing throwaway prices, prices that are not sustainable for long term. And we have stayed away from such practices.

Aman Vij: On the toys part, at the start of the year we were thinking of maintaining this business, which we did in last year, but given the slowdown, are we expecting like maybe 20% kind of fall compared to last year in our toys business for this year?

Sanjay Shah: There will be some impact, we are really not sure in terms of the overall impact, which we will be there, but yeah there will be some impact.

Aman Vij: And what was, utilization part you left for the carbon steel business?

Sanjay Shah: Again, Aman we don't report individual utilization level, what we do is we report the utilization levels at an overall company level.

Aman Vij: But did it increase versus last quarter or is it at the same levels only?

Sanjay Shah: As compared to Quarter 1 utilization levels have gone down in Quarter 2.

Amit Sanghvi: The demand scenario, unfortunately it impacts all of our consumer businesses.

Aman Vij: So, that means one of the major clients also is facing some kind of demand issues, both in plastic and carbon steel.

Amit Sanghvi: Yes, that's right.

Aman Vij: My final question is on machine utilization. So, what was the machine addition this quarter, as well as for the H1, we ended up at around 47% utilization. So, for H2, do you expect similar number or much higher or what is your expectation?

Sanjay Shah: So, we have not added any machines in Q2. So, what you are seeing is on the same base as Q1 and Q2. Utilization level, I think overall for H2 will probably be more or less in line with whatever we have seen in H1. But I think still an evolving situation with whatever discussions we had been having with customers.

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

Manish Gupta: My first question is, Amit, with the benefit of hindsight, do you think the foray into steel furniture was still the right decision for the company?

Amit Sanghvi: Hindsight it's always slide back Manish, I think, given the impact, we have seen with the steel furnitures having on our business I would say probably not. But really, hindsight has to do more with all the events that occurred post finalization of the business, COVID having the biggest impact on commercializing that business when the opportunity was there. Unfortunately, we just weren't able to do it, because of various technical issues, operating issues that you realize that we put the plant on stream ourselves rather than any of the suppliers coming in and installing any of the equipment. So, this has had a huge impact on how quickly we were able to start the plant and then how we were able to benefit out of it. Unfortunately, the scenario is different right now. So, hindsight, probably a bad idea.

Manish Gupta: Well, my question is two parts to that, Amit. One is obviously the ramp-up which is due to factors beyond your control, COVID and now the recession, but technically do we think we have mastered the steel furniture business as well as we have on the plastic side. So, do you think technically we are there right now or technically still there is something missing.

Amit Sanghvi: You know, mastering any manufacturing process comes with the scale of the manufacturing process, and how much experience and exposure you get to it, which is the unfortunate part with carbon steel that the minute we tried to up the utilization levels, the minute we got to a point where we felt comfortable in taking on more orders from the customer we saw this kind of recession in the West.

I think our fabrication capabilities are very strong today, I am very confident that if we are given more business, we will be able to execute. We had some challenges in surface coating, which is primarily powder coating, but we have overcome most of those issues. So, given a chance today, we can have increased volumes, I think we would be able to perform fairly well.

Manish Gupta: Yeah, but is the customer exhibiting confidence in our competencies or because Sanjaybhai just mentioned that Q2 might be lower than Q1. So, do you think we would be able to get up to full capacity, which is say, Rs. 120 crore in this plant by say FY'25?

Amit Sanghvi: Yes, very confident of that.

Manish Gupta: My next question Amit, is just wanted to understand some dynamics so far of our business. See in the IP industry, people have this concept of farmers and hunters, where people are opening new accounts. And then there are people like RMs who will deepen the relationship. Now, we have obviously got one large client whom we are working with for a long period of time. And now we have got a bunch of relationships that are forming on the Healthcare side. So, just wanted to understand how this thing works for Shaily, is it that people hear about our reputation and approach us? Or have we hired a bunch of people who are going around opening relationships for us? How does the model work in our business?

Amit Sanghvi: See it's slightly different, I think, maybe on the IP side, you can kick start a project fairly quickly, because there isn't much in terms of development, upfront that probably takes place I could be wrong about this, but it's just my knowledge. When it comes to Shaily, it really comes down to us having been able to showcase to a potential customer what our capability is, and what can we provide. When you try to do that, with too many accounts, at the same time, you end up with too many small projects that take up all of your resources without adding any substantial revenue, because whether we execute a project worth Rs. 50 crores or Rs. 5 crores, the amount of resources that go into executing the project are more or less the same. So, for us, it's very important to try to find customers that can give us scale.

And then it also depends on the segment of the business. For example, on the consumer side, we would not want to take on 5, 6, 7 customers, we probably want to focus on adding one or two accounts in a given 12-month period. And we have been doing that. So, we have been actively pursuing some new business with companies similar to the Home Furnishings Major, a lot of these companies apart from the Home Furnishings Major that we work with, have a model where they buy off the shelf, which means that you already have a portfolio of products that you manufacture. And you can offer something off the shelf, which is your own design, and you have already created the capacities, invested the necessary capital to provide them the product.

We have been a contract manufacturer and unfortunately or fortunately, we have not really had an opportunity to create our own portfolio till date. So, we struggle in terms of working with others, like the Home Furnishings Major we work with. But we do pursue these opportunities actively. On the Pharma side, we are very much hunters. So, we very much go out and hunt for new business.

Moderator: Thank you. We have the next question from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: Just a couple of questions. One is, when do we expect that we would be able to pass on the impact of raw material price hikes to the customers in all our businesses? So, will it be like a couple of months, more quarters, any feedback on that?

And second is specifically on the Healthcare side, I just wanted to understand, let's say on one of the big products that we are expecting launch probably in 2023, 2024, has any of our customer got a tentative approval? Thank you.

Amit Sanghvi: I would like to take the second question first. On both products that we mentioned, on one of those products, we are expecting approval as early as January. We know the process of how the approval would potentially come and the questions that were raised and the subsequent answers that were given, so we are hoping for approval in January.

For the other product, it is for the Middle East market, where the demand is already there. And the customer also already has the product on the market. So, they will be now using our pen to put the same product on the market. So, really, for the second part, it really depends on how quickly we can work with the customer to provide them a full solution on their assembly, help them with creating their testing protocols and release protocols. And then take it forward from there.

Nikhil Jain: Just a follow up on that, is that a tentative approval that we are talking about? Or is it like final approval from the US FDA for your device part?

Amit Sanghvi: One is the US FDA, one is for the U.S. market, second is for the Middle East, where their drug product is already on the market so we now need to combine it with our combination product and do the relevant testing to provide the data for filing, and it should essentially be immediate approval within a few months, essentially. So, we are working as fast as we can on that program.

Nikhil Jain: Have we already been inspected by the US FDA or do we expect that post this application, we will get inspected?

Amit Sanghvi: We don't know whether we will get inspected or not. The fact is that we are certified to MDSAP with the US FDA scope, which means our MDSAP approval essentially get signed off by the US FDA before us being certified. So, we don't actually know whether we will actually get inspected or not, it might happen at some point in the future, happy to take on the inspection, I think we are geared up from a quality perspective.

Sanjay Shah: Yeah, Nikhil, on the first part of your question, the raw material parts, to some of it has happened in Q2, and the balance of it should happen in Q3.

Nikhil Jain: So, our margins are then let's say in Q4 should revert back to over normal natural margins, let's say historical margins, right.

Sanjay Shah: Provided that we don't see any inflation or anything, again, raw material prices going through some change or something.

Moderator: Thank you. We have the next question from the line of Akshay Jain from Jain Capital. Please go ahead.

Akshay Jain: So, last year, you had announced that we have raised funds and so just wanted to understand where is the allocation of those funds? And how much have you spent till now and what is the plan going forward?

Sanjay Shah: So, we have raised Rs. 150 crores for preferential offer, out of which as of 30th September if you were to look at it, we have spent Rs. 60 crores and Rs. 90 crores are lying with us. This Rs. 50 crores has been spent for CAPEX

Akshay Jain: So, the question is, Europe is under pressure currently, so how do you see demand over there, and how much of that will impact our sales and profitability for this rest of the financial year?

Amit Sanghvi: I mean, it's not good news, by any means. Europe is under substantial pressure and so is North America, to be honest, it's not just Europe. All of our major consumer business is significantly impacted by this. So, we are working with the customer to see how additional markets can be assigned to us. But the reality is that until we see some normalization in Europe, in the U.S., we are not going to have any great impact. We are hoping that as part of the regular business cycle throughout the year, we see increase in demand for the same customer starting in Feb every year, you know, there is always a slowdown period that starts in November and lasts February. February, we see an increase in demand again. We are hoping that the same will continue but to what level will we see further additional increase, it's currently unknown.

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

Manish Gupta: So, Amit I am just continuing on the previous question that I was asking. So, what you had mentioned was that you don't want to take on too many small projects, and therefore you are not actively going out on the plastic side. But we are going far more aggressively on the Pharma side, on the Healthcare side. So, would it be fair to say that most of your growth over the next couple of years is actually going to come from customers with whom you already have a relationship?

Amit Sanghvi: Most of our growth, the next couple of years, let's give it a little bit larger horizon, if you don't mind. In addition to what we are doing on the Pharma side, Manish we are also working very hard on creating additional verticals of the business. So, today, largely, if you see the business, we have Consumer, we have Healthcare, we have Automotive and Engineering, and Personal Care right. Now Automotive and Engineering, we already know what we are focusing on in terms of product, the type of products so we are not going to see any very substantial Rs. 200 crore revenue coming from there. Similarly, with Personal Care. So, really, the only growth areas we have had so far are from Consumer plastics and from Healthcare.

So, Healthcare we continue to build as we are probably more aggressively, we have added strength to the Healthcare business development team. And in addition to that, we are now very actively pursuing other verticals, to grow business. It's too premature for me to tell you what those are the verticals are at the moment, but at the right time, we will inform the Investor Community.

Moderator: Thank you. We have the next question from the line of Utkarsh from FinTree. Please go ahead.

Utkarsh: I just wanted to understand our relationship with some of the entities. I think in the Annual Report, I could find Panex appliances. And it seems we made some investments and we also have some receivables outstanding. So, can you elaborate on the entity and the relationship?

Sanjay Shah: So, Panex was an associate company. It's not doing any business for the last five, seven years. There is some investment which has been made and there is some money that Panex has given us. So, if you have a little bit of a net basis, it's nullified.

Utkarsh: But there is still some receivable outstanding or?

Sanjay Shah: That's already been provided for, so it's a very small one, which has already been provided for.

Utkarsh: And how about Shaily IDC (India) Private Limited and Shaily Medical Plastics?

Sanjay Shah: So, it's similar, so all these three companies which you talked about are associate companies of the group, but they have not been doing any businesses in the past 5 years. So, there is zero income and practically zero transactions in any of these companies.

Utkarsh: But these were not wholly owned subsidiaries right?

Sanjay Shah: No, these are not wholly owned subsidiaries.

Utkarsh: So, the other owners of those entities were from the promoter group itself?

Sanjay Shah: Yes.

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

Aman Vij: First question is, any update on the CEO, the CEO which we were looking, professional CEO?

Amit Sanghvi: Yes, the search is very much ongoing. We did have a finalization of a candidate about a month and a half ago, unfortunately, for whatever reason, it didn't work out at the end. So, the search is still ongoing, and we are actively pursuing candidates.

Aman Vij: Next question is you are talking about, one of the opportunity is a very large opportunity in terms of pens. So, is it like a million plus kind of pens opportunity? Or how do you quantify this, a very large opportunity.

Amit Sanghvi: The molecules we are doing in this particular product earliest we can go into, I mean see we have multiple customers on the same program, which means that we will be making supplies up to 200,000 to 250,000 pens every year. It's a very high value product. So, the revenue will be quite good. But the real opportunity will only come starting '26/'27 when our customers will be able to do the launch in U.S. and European markets, then the opportunity is upwards of upwards of a million. So, it's several million pens.

Aman Vij: So, this year, you have talked about these two products, one in Middle East and one in U.S., any such big product in pipeline for FY24 launch?

Amit Sanghvi: We will see for the scale up on both these platforms in FY24 and FY25 as well, we will see substantial volumes.

Aman Vij: Okay, but for next two to three years, these two will be the only growth drivers then there are no other products, because remaining you have talked about in FY26 and 27?

Amit Sanghvi: Yeah, you know so you enjoy the one-time fees and the income that you generate out of exhibit batches, because the value of those is fairly high given that it is low volume, your pricing points are different than commercial production. So, we will enjoy that until FY25. And then we will see commercial production of the same pen in '26 and '27. '26 and '27 again is the earliest it can happen so we are also but these are both big molecules, one of them is a $8 billion molecule or in one of them is a $2 billion molecule. So, we were anticipating good volumes when generics make entry.

Aman Vij: And in terms of pens, do you have some numbers that $8 billion molecule when in converted to pens opportunity, how big it can be, in terms of number of pens?

Amit Sanghvi: I can tell you, one is about 10 to 12 million pens, one molecule. And the other one is 2 million pens. So, combined, let's say 15 million, the more number of buyers that jump off the Shaily product the higher the chance that we have of taking substantial volume of that.

Aman Vij: Are we thinking in terms of say maybe 20% to 30% market share in this 15 million pens or even higher?

Amit Sanghvi: I would say at least 20% to 30%.

Aman Vij: Final question from my side is what we have seen in other allied sectors like auto that once a customer becomes big say OEM ask for a price reduction every year. So, is it a similar kind of arrangement, do we see for key clients?

Amit Sanghvi: In what segment particularly?

Aman Vij: So, for example, say in auto because of efficiencies they ask for 1% to 2% price reduction every year because they are compensating with increased volume. So, for say home furnishing, do the customer expect some kind of price reduction every year, because of our improving efficiency and more volumes?

Amit Sanghvi: Yeah, the short answer is yes, but it's not structured the way Automotive is, I know in automotive we basically guarantee it upfront. In the other businesses you have especially the consumers, we work with the customer in specific improvement programs, improvement programs could be reducing weight of the product, it could be changing material going from a more expensive material to a low cost material or in a lot of cases trying to become more sustainable going for a recycled material. So, we do various projects during the year, which we then depending on the results, the outcome of the project, we share the benefit between Shaily and the customer. There are also times when we go for increases, so it's a very mutual understanding, there are factors which are in our control, there are factors which are beyond our control, nothing is ever fully guaranteed. But we work on these projects very actively with the customers involvement and then try to do what we can in terms of the final outcome.

Aman Vij: So, to summarize this part is it right to assume that in auto ancillary the customer, the OEMs squeeze their clients a lot but here it won't be the case it will be based on --?

Amit Sanghvi: That's right.

Moderator: Thank you. The next question is from the line of Nikhil from PIA. Please go ahead.

Nikhil: Could you explain how do you monetize these intangible assets under development, it seems like in the last six months we have spent Rs. 10 crores on it. I think you just mentioned that you get a one-time fee and then, I mean how does it go? Could you just enlighten me on this?

Sanjay Shah: So, the intangible asset which you see are basically the IPs which we are developing. So, typically the total cost of the development would basically be part of the IP development costs, which we would be spending which is what we capitalize it. And the IP basically depreciated over 10 years.

Nikhil: And how do you quantify the one-time fee with your clients? I mean is there a mathematical equation or how do you --?

Sanjay Shah: It is difficult for us to get into it, it will depend on molecule to molecule, customer to customer there will be different contract –

Nikhil: But for each client that you impanel for the same platform, do all of them pay you the one-time fee or is it just for a particular client?

Amit Sanghvi: No, all because we try to basically look at it this way that on each molecule or platform we will end up with five or six customers, so then each of them will be charged an equal amount.

Nikhil: So, let's assume a case where you are working on five platforms and or five devices. What's the hit ratio in general?

Amit Sanghvi: Well, we can talk about the hit ratio on our existing platforms, on our fix dose pen platform, we have four accounts. On our Protean platform we have three accounts, on our Harmony platform, we have three accounts, on our Neo platform, we have four accounts at the moment, on Toby, which we basically did the whole development in less than 12 months, we currently have one account.

Nikhil: And another question is, why do we keep on expanding our capacity when our utilization stands at less than 50%? I mean, this has been happening consistently, for the last few quarters. And how confident are we?

And let me put another question to this is what is the maximum capacity utilization that we can do in our business?

Amit Sanghvi: We are expanding on a very specific capacity at the moment. If you think about our health care unit, all we really have is about 14 machines, out of 180 in Shaily. Now, we cannot use the other capacity, which are not in a cleanroom, to manufacture healthcare specific products, because our quality management system is different than the other facilities. And two, it's basically not possible to, we also use all electric machines in our healthcare business versus using server or hybrid machines in the other businesses. So, right now at the moment, we are doing a very specific expansion, which is for the pharma side. Every expansion we have done so far has been, I know, we are looking at a scenario today where utilization is low because of what's happening in the world. But, it's been project specific, it's been kind of where we have been awarded the business, and then we have done the expansion. We have not done the expansion prior to being awarded the business. So, the big expansion that we did in 2020 and 2021, the business was fully awarded and then we did the expansion.

Nikhil: So, this is the first time where we are focusing on expanding in healthcare where you get the business after you do the expansion.

Amit Sanghvi: So, we have visibility, a significant portion of what, where we are expanding capacities. But yes, there will always be 30% to 40%, that we have to go and seek expansion --. Formula expansion, unfortunately, you cannot do at piecemeal, because you then end up with a lot of disruption in the existing manufacturing setup. So, while we would be adding capacity, we are not adding the full capacity in one shot. We will be adding it over three years, we have done expansion for 36 machines, but we are only adding 12 in year one. But the building and the necessary, other utilities and all will be completed from day one.

Nikhil: And one last question is when you think about expansion, what is the general return ratios that you look at in terms of ROCE and what is the long-term ROCE that the business can deliver?

Sanjay Shah: See typically again, different businesses will have different returns --; the payback which we would look at would basically be somewhere in the region of about 4% to 5% which we would be making.

Nikhil: So, that's 15% to 18% return that you are looking at.

Sanjay Shah: A little higher than that.

Nikhil: Just putting in one last question is how does the demand scenario look for the next 12 months, or whatever timeline you guys have with you?

Sanjay Shah: I think Amit had already given an indication of that we are seeing some demand slowdown from our key customers across Europe and U.S. We are in discussions with these customers and we will have a better clarity as we move forward.

Moderator: Thank you. Ladies and gentlemen that was the last question and we will now close the question queue. I would like to hand the conference back to the management for closing comments. Please go ahead.

Amit Sanghvi: Thank you very much. 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 you to get in touch with SGA our Investor Relations Advisors. Thank you again and have a nice evening.

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