SHAILY
Engineering Plastics Ltd
ISO 9001 ISO/TS 16949
ISO 13485 ISO 15378 Certified
CIN # L51900GJ1980PLC065554

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SEPL/SE/May/23-24
May 30, 2023

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Scrip Code: 501423

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Scrip Code: SHAILY

Sub : Q4FY23 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We refer to our previous letter dated 23rd May 2023, wherein the Company updated the audio link of Earnings call held on 23rd May 2023 to discuss the operational & financial performance of the Company for the quarter & year ended on March 31, 2023.

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

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

Kindly take the same on record.

Thanking You

Yours truly,
For Shaily Engineering Plastics Limited

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

"Shaily Engineering Plastics Limited

Q4 FY'23 Earnings Conference Call"

May 23, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 23rd May 2023 will prevail.

MANAGEMENT:	**MR. AMIT SANGHVI – MANAGING DIRECTOR – SHAILY ENGINEERING PLASTICS LIMITED** **MR. SANJAY SHAH – CHIEF STRATEGY OFFICER – SHAILY ENGINEERING PLASTICS LIMITED** **SGA, INVESTOR RELATIONS ADVISORS.**
MODERATOR:	**MR. DEVEN DHRUVA – SGAPL**

Moderator: Ladies and gentlemen, good day, and welcome to the Shaily Engineering Plastics Limited Q4 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during a conference call, please signal a Operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Sanghvi, Managing Director. Thank you, and over to you, sir.

Amit Sanghvi: Thank you very much. Good morning, and a very warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I have with me Mr. Sanjay Shah, Chief Strategy Officer, and SGA, our Investor Relations Advisors. I hope you've had a look at our Investor Presentation that is uploaded on our website, as well as the stock exchange.

Let me give you some highlights on the quarter gone by. Despite a challenging environment, we have registered a top line growth of 6% year-on-year at INR599 crores. The plan for the last financial year was obviously in the range of INR700 crores based on the forecast at the start of the year, however, it did not fructify due to the ongoing global economic scenario.

The first positive that I would like to talk about is the focus with which we are securing orders for our healthcare business. I'm happy to announce that we have onboarded our current customer for one of our auto injectors and have also started development of a new auto injector with automatic needle insertion. This is being developed particularly for the molecule tirzepatide. Tirzepatide is Eli Lilly's new weight loss drug and has an NCE-1 filing deadline of May 2025. Healthcare represents the second largest and also one of the fastest-growing segments. And with the development and supply pipeline that we have, we are securing long-term profitable growth for Shaily.

It's fair to say that at Shaily, we've made some risky bets over the last 3 years to 4 years, particularly our foray into sheet metal and also setting up capacities for toys. While the numbers have yet to happen, we strongly believe in our original hypothesis that in order to move up the value chain or participate in complex products, this material know-how is a must for the future. It was also an extension of the excellent relationship we have built with our customer over years of high performance. I'm very happy to say that we have a very healthy order book for the current year in steel and are confident of our ability to execute the orders.

Before handing over the call to Sanjay, I'd like to mention that we want to remain a margin-focused company and focus on growth that uses our core engineering capabilities, which as a result will enhance and improve our return on capital. That is all from my side.

I shall now hand over the call to Sanjay Shah, our Chief Strategy Officer, to give you the operating and financial highlights. Thank you.

Sanjay Shah: Thank you, Amit. Good morning, everyone. I shall share with you the highlights of our operational and financial performance for Q4 and FY 2023, following which we will be happy to respond to your queries.

During the quarter, we processed 4,590 tons of polymers, as against 5,562 tons in Q4 FY '22. For this year ended, we possessed 20,615 tons of polymers, as against 19,474 tons in FY '22, an increase of 6% year-on-year. Machine utilization rate of 35% in Q4 FY '23 and 42% in FY '23. Exports during FY '23 stood at 77% of total revenue, as compared to 76.1% in FY '22. Exports during Q4 FY '23 stood at 72.1% of total revenue, as compared to 76.21% in Q4 FY '22.

I shall now brief on standalone Results highlights. Revenue stood at INR133.5 crores during Q4 FY '23, as compared to INR152.6 crores during Q4 FY '22. EBITDA stood at INR26.1 crores during Q4 FY '23, as compared to INR21.6 crores during Q4 FY '22. EBITDA margin stood at 19.5% for Q4 FY '23. PAT stood at INR8.7 crores during Q4 FY '23, as compared to INR7.4 crores during Q4 FY '22. PAT margin stood at 6.5%. Cash PAT for Q4 FY '23 was reported at INR18.6 crores, as compared to INR14.3 crores during Q4 FY '22.

Now coming to FY '23 highlights. Revenue stood at INR599.7 crores in FY '23, as compared to INR565.9 crores during FY '22, a growth of 6%. EBITDA stood at INR91.1 crores in FY '23, as compared to INR89.8 crores during FY '22. EBITDA margin stood at 15.2%. PAT stood at INR30 crores in FY '23, as compared to INR35.1 crores during '22. PAT margin stood at 5%. Cash PAT for FY '23 was reported at INR63.2 crores, as compared to INR61.6 crores during FY '22.

Both ROCE and ROE stood at 12.5% and 7.9% respectively, as on 31st March 2023. The growth in business has been achieved with disciplined use of capital. Our debt to equity stands at 0.47x and long-term debt to equity stands at 0.16x. On a consolidated basis, revenue stood at INR607.1 crores; EBITDA at INR96.4 crores; and PAT at INR35.1 crores for FY '23. This is all from our side. Now we can open the floor for Q&A. Thank you.

Moderator: Thank you. Our first question comes from Nirali Gopani with Unique PMS. Please go ahead.

Nirali Gopani: Sir, my first question is on the EBITDA margin or rather gross margin. So what led to this expansion on a Q-on-Q basis?

Sanjay Shah: So Nirali, there has been two things. One is, we've seen healthcare contribute in Q4, which has led to the improvement in gross margins, as well as higher EBITDA margins. We've also reduced our losses on our carbon steel. So that has also led to an improvement in margins.

Nirali Gopani: Sir, can you help us to understand a bit in detail like what kind of growth did we see in healthcare and if we saw growth in healthcare and home furnishings decline substantially that if you can you give some more colour on that?

Sanjay Shah: No. No. No, Nirali. On healthcare, we basically, if you look at the revenue, which came in healthcare in Q4 of FY '23 was from our own IP-led devices, where we expect to be of higher margins. And we did sales of those in Q4 of FY '23, which basically led to improvement in margins.

Nirali Gopani: So this margin expansion was without any operating leverage. So, as we see the healthcare part growing, also own IP-led devices growing and even the operating leverage plays out then what should be the sustainable margin for us?

Sanjay Shah: Nirali, we don't want to give a margin guidance or an advisory, but we expect that the margins, which we are generating would be sustained as we speak, and they should improve over the period of time.

Nirali Gopani: Okay. And on the home furnishing side like have we seen some recovery, if you can throw some highlights on that also?

Sanjay Shah: We're seeing improvement. as Amit mentioned on the speech, we have also secured some additional business on the steel part of the business, which would help basically in terms of ensuring that we have much better revenue we have been getting from that business. On the plastic side of the business, we continue to see some growth, but it's probably still a quarter or two before you would see the type of growth, which you are looking at.

Nirali Gopani: So, Sanjay, to be very honest, it's very difficult to understand the number for this quarter. So top line, we don't understand where the growth is or what kind of growth we're seeing, margins have expanded substantially Q-o-Q and Y-o-Y, so it's very difficult for us to analyse the numbers to be very honest.

Amit Sanghvi: So Nirali, margin expansion has happened purely because the product mix for quarter 4 resulted in a higher share of the pharma business and that is known to that has been said on several speeches before as well. Just tell me, where is the confusion, and I can try to...

Nirali Gopani: No, sir. Obviously, sir, healthcare has grown substantially, the revenue has declined somewhere or lagged a bit right, because this revenue has remained flat Q-on-Q. So is the home furnishing declining?

Amit Sanghvi: Well, as a share of whatever revenue, we did INR136 crores in quarter 4, the share of pharma business was higher than the other quarters, which is why you see the margin expansion.

Nirali Gopani: So Amit, we have done a substantial capex in the last 2 years, 3 years as we see that you are ready for growth, but we have not seen that growth due to some or the other reasons. So how does the next 2 years, 3 years look like? Maybe not near term, we may face some challenges, but over 3 years?

Amit Sanghvi: See the whole point is that when we see such challenges, I think we've had 2 such cycles already is that we go back a year or we lose a year, and then, there is -- and the second year is typically a recovery year, which means that you're doing a little less than what you had anticipated 2 years ago. So growth is there. We see a healthy pipeline this year, certainly, but the plan that essentially we have for this year is what we should have done last year. So essentially, we just -- we're back by a year at this point. But the growth and margin expansion will happen, as pharma scales up further, and we have a very strong pipeline. So I'm confident that we will see scale up.

Nirali Gopani: And on the last call also you had mentioned. Any update on that side?

Amit Sanghvi: Nirali, you're breaking up. Can you repeat that question, please?

Nirali Gopani: I was saying that in the last call you had mentioned that you are looking at some new segments to utilize the existing capacity that we have. So any update on that side that you would like to share?

Sanjay Shah: Nirali, not probably.

Amit Sanghvi: We anticipated there are several opportunities, but we don't have an update at this point.

Nirali Gopani: Thank you, This is all from my side.

Moderator: Thank you. Our next question comes from Aman Vij with Astute Investment Management. Please go ahead.

Aman Vij: My first set of questions is on the pharma division. So if you can talk about what is the capex we have done till date and when is the full capex expected to come online?

Sanjay Shah: So Aman, we have talked about we're putting in about INR120 crores to INR125 crores in expansion of our pharma part of the business. That expansion would be completed between quarter 1 and quarter 2 of the current year. And we're looking at then starting plant production by Q2 and then commercial production.

Aman Vij: And till date out of that INR120 crores, INR125 crores, how much you expect invested?

Sanjay Shah: We're going to spend about close to about INR90 crores to INR95 crores.

Aman Vij: And in this division, how many total machines are we adding? What will be the total number of machines after this capex in the pharma division?

Sanjay Shah: So Aman, what we're doing is we're setting up a plant with -- in a modular fashion, where we can basically put in a close -- total of 36 moulding machines. We will basically be putting in 12 moulding machines right now.

Aman Vij: Amit, on the pen side, so last con call, you had talked about 2 updates. So one was we were on track to launch an auto injector by Q1. So if you can update if that will happen? And second was, we had supplied to one of our customers, who are still waiting for an approval. So any update on that part?

Amit Sanghvi: So auto injector we launched, and we also onboarded our third customer for that. It was on the speech today. And what was your second question?

Aman Vij: Sorry, on auto injector, we were talking about we will -- will be supplied by Q1. So I'm talking about is the -- with that plan to do the supply not be launched on track by Q1?

Amit Sanghvi: Yes. Absolutely.

Aman Vij: Second question was, we had launched -- we had done some supplies in Q3, I believe, but the approval from the final customer was pending, so that, that customer can launch that product. So is that approval done because then we can get repeat orders and all those things?

Amit Sanghvi: Yes. So the approval we are waiting for is from the U.S. FDA essentially, the customer has already approved the product. It's been filed. We were waiting hoping for approval in April, but it looks like it might be August before we get agency approval.

Aman Vij: On this GLP-1 opportunity, so we keep hearing this is maybe a $50 billion opportunity combined. If you can break it in terms of what is the opportunity for pen manufacturers in terms of numbers or value, whatever you are comfortable with? And where do you see Shaily's market share in the next 3 years, 5 years in this big opportunity?

Amit Sanghvi: I mean, if you take a look at information that's available on the public domain, particularly for Semaglutide, I think it was an $11 billion product for Novo last year. And out of all those players that have filed for Semaglutide or will file, I think Shaily has a substantial pie of the generic market.

So an $8 million product for Novo would mean about, let's assume about 80 million to 100 million devices, I would assume, right, could be off by a little, but -- so there is a substantial opportunity. I also don't know how much generics will gain. But out of all the generics participating in Semaglutide, I think we -- I believe, we have a majority chunk.

Aman Vij: And the numbers for these Liraglutide, Semaglutide, and now this new molecule as well, do you see any number...

Amit Sanghvi: Yes, go ahead. Sorry. Go ahead.

Aman Vij: No, no. I was just asking in terms of, I think, order first, maybe Liraglutide will come in, then Semaglutide, so FY '24 and '25, if you can talk about some -- where do we see the opportunity in terms of number of pens we can do in FY '24 and '25 from these opportunities?

Amit Sanghvi: Particularly from Liraglutide, I think first, it will not happen in FY '24. Yes, we'll have some small sales in FY '24 for Liraglutide for sure, but nothing substantial. Liraglutide launch can happen, I think, earlier this '25. So likely that you will see a RoW launch in '25 and possibly a U.S. launch in '26 or end of '25. That's when if we look at first full year of launch, then we're looking at about maybe 2 million to 3 million pens in Liraglutide.

Aman Vij: And similarly, if you can talk about Semaglutide and tirzepatide, which is -- the new molecule, which is out there?

Amit Sanghvi: Sema again -- I think, Sema, the earliest launch possible, maybe '27 or later. Sema has a substantially higher volume than Lira, but you're looking at a '27 launch. Earliest launch to be '27. Again, rest of the world market, it's possible to launch before '27, but it will depend on each of our pharma customers.

Aman Vij: Sir, final question on the pens division before I move on to the others. So we did a good growth in the pens division for last year. In terms of volumes that we are targeting for FY '24 and '25, if you can talk about are we expecting that very strong 30%, 35% growth to continue in terms of number of pens we will, own IP pens, I'm talking about, not the other pens. If you can give some visibility...

Amit Sanghvi: I mean, just broadly, in terms of percentage, we are looking at 45% to 50% growth in pharma in the current year over last year.

Aman Vij: And even in FY '25, we can -- you can do a similar sales?

Amit Sanghvi: Again, very hard, Aman, to give you indication because it's a developing business. So I think we should be able to maintain somewhere -- at least upwards of 30% growth for the next 4 years.

Aman Vij: Sure. Sure. Amit, that helps. On the Toys division, so if you can talk about how much did that business fell compared to last year, and we had talked about we might see some visibility in terms of -- for the FY '24. So if you can talk about what are the talks with the customers currently on this Toys division?

Sanjay Shah: So Aman -- yes, go ahead, Amit.

Amit Sanghvi: Yes. I was just going to mention you can then add to the answer. We said that the toy industry in general has been and most of our customers have seen a significant drop in sales in their own sales. With that, what we've also seen is products have become very price sensitive. There is increasing competition from China regardless of what the situation is, the prices we see coming out of China are not some -- in many cases, are not feasible for us to match.

So what we've done is while we actively participate in RFQs, we engage with the customer, we're not -- we're not going to do it at the risk of eroding our margins or lowering our margins. We want to maintain that part of our strategy. And yes, as and when we see an opportunity, which is complex enough, where the customer is willing to pay a margin that Shaily needs to operate, then we will certainly participate there.

Aman Vij: Sorry, what was the fall in the business compared to last year? How much did it degree by?

Sanjay Shah: Aman, I think you are aware that we don't talk about individual numbers or individual businesses. So will be difficult for me to give you that.

Aman Vij: Sir, but in terms of visibility for FY '24, do you see a flattish kind of number for toys or do you see some growth or...

Sanjay Shah: No. We don't see growth. It will be lower.

Aman Vij: On the steel division, it was very good to hear that we got some very healthy order book in steel. So if you can talk about when do we expect the full utilization of this plant to happen? Do you see it in FY '24 or only in FY '25?

Sanjay Shah: It will be FY '25, not FY '24.

Aman Vij: Final question...

Sanjay Shah: Aman, what we are seeing right now is good traction, as we speak and we're looking at building upon that. So this year, you'll basically see good growth on the steel part of the business, as compared to what we did last year.

Aman Vij: Sir, final question bookkeeping. There was a INR5 crores PAT difference in standalone and consolidated numbers and the top line difference was around INR7 crores. So is it safe to assume that the U.K. subsidiary did INR7 crores top line, INR5 crores kind of PAT, what is -- if you can explain that part?

Sanjay Shah: See the U.K. subsidiary there's a lot of development. And we have the onboarded customers, where all our pen project developments are having to do in the U.K. subsidiary. So it's highly profitable there, and that's the reason that sort of margin.

Aman Vij: And that is a sustainable trend. Hello -- yes, I was saying, sir, is that a sustainable trend?

Moderator: Aman, sorry to interrupt you there. Please sir, please join back the queue for follow-up questions. Our next question comes from the line of Pritesh Chheda with Lucky Investment Managers.

Pritesh Chheda: Sir, for the pharma business growth in the current year, which was FY '23, if you could tell us what were the drivers for the growth in '23?

Amit Sanghvi: Specifically, product-wise, Pritesh, is difficult to give an answer.

Pritesh Chheda: Not product-wise. No, no, not product-wise. Did you add any customer or any supplies or these were developmental supplies with broadly the growth for or is that...

Sanjay Shah: Pritesh…

Amit Sanghvi: We have added new customers. The addition of new customers and revenue typically you see in the when we add a new customer, it starts with the -- with first the IP revenue, which is access to our technology, which you see in the U.K. Second is, we have increased pen sales, not just the pens that we contract manufacturer for pharma, but also pens that we where we own the IP.

Particularly, I mentioned that we -- our customer is awaiting approval and is likely to happen by August, but we have made sales, commercial sales of that pen in anticipation of the approval and filling up the supply chain. And we've also made sales -- yes. So these are commercial sales now.

Pritesh Chheda: These are commercial sales.

Amit Sanghvi: Not just development sales.

Pritesh Chheda: Can you tell what is the volume of pens sold in '23?

Amit Sanghvi: Just give me a minute. I think, we must have sold Pritesh, somewhere around hard pressed, but I think, 10 million to 11 million pens.

Pritesh Chheda: And just you are saying you'll add at the run rate of 2 million to 3 million every year. That's what 2 million every year is what you're saying?

Amit Sanghvi: Yes. It's not always -- it's not just the pens, right? When we do products like the auto injector, the value moves up. So the volumes may be lower, but the value certainly moves up.

Pritesh Chheda: So my second question is on the metal furniture side. So what is the capacity utilization in that asset in FY '23? And what is the EBITDA loss that, that asset you have done for you?

Sanjay Shah: So Pritesh, the utilization levels would be some 25% to 28% right. At an EBITDA loss, we would not want to -- because we don't take this business separately, we look at it on a total basis. So yes, at an EBITDA level, it was negative. And we expect the utilization levels to improve substantially in the current year and not beyond the drag on EBITDA on the current year.

Amit Sanghvi: But Pritesh, I'd just like to add one thing, while we don't report it on an individual segment basis, the EBITDA losses from '22 to '23 have dropped substantially more than half. And the revenue essentially remained flat between '22 and '23.

Pritesh Chheda: Okay. And my last question is on the capex side. So we are aware about the capex in pharma that you're undertaking of about INR120 crores. Any other capex other than this, which is to be considered?

Sanjay Shah: No, not currently.

Pritesh Chheda: And any capex spend you see you have substantial capacity now because we have spent about INR300 crores to INR400 crores, I think, in the last 5 years. Any -- so first of all, what -- can you share what can be the revenues possible out of this capacity that you have created? And any capex decision that you take here on will depend on what?

Sanjay Shah: So I'll let Amit answer the second part of the question. The first part of your question, Pritesh, would basically means -- for the total gross fixed assets, which we have, we basically look at the revenue of about 2.25 to 2.5.

Pritesh Chheda: Yes. But with INR100 crores of pharma coming, that number will change, right? Or still that number...

Sanjay Shah: The number will -- on a consolidated basis, the number will still remain the same.

Pritesh Chheda: Okay. And on my second question?

Amit Sanghvi: Pritesh, on your second question, it's very clear. We -- and I said it on a call before the last one at least that we will not make any further investments in -- at the moment in capacities. We have adequate capacity. There will be marginal investment made on a business-to-business basis on specialized equipment, sometimes moulds.

So when we also develop our own product, we know that investment is made, especially on -- in the assets to manufacture that product. Such investments will continue, but they are not going to be substantial. For us to do any substantial investment first, we're not saying we're going to do it.

So at the moment, the focus is on increasing our utilization and sweating the current assets that we've built. But for us to do any further investment, we are really going to focus on what it adds terms of our margin profile. It has to -- there has to be a level of -- high level of engineering precision. We don't want to just create capacities and pump out product. That's not -- that's not the objective.

Pritesh Chheda: so my question was what will drive any capacity expansion from your side? Maybe that you'll reach 75%, 80% capacity utilization and then, you'll say, okay, now I need growth, so I'll put capacity? Or I can understand you need moulds for which you will create, put some money, but when it comes to fixed asset creation, what it will trigger?

Amit Sanghvi: I believe at a consistent level, we all perform above 75% to 80% before we trigger any capacity expansion. If there is a specific capacity needed, Pritesh, for a business, that is a one-off case. But any major expansion, we have to be operating at a 75% utilization level at a minimum to trigger any further expansion.

Sanjay Shah: Pritesh, if I want to clarify and add to what Amit said, I think your question is basically limited to the medical side of the business or the other business, which we have, where you're saying whatever capacities, which we have created were underutilized, and would we make further investments in that, then utilization levels don't improve. I -- we will do investments there. We would first want to see utilization levels improve and then make investments.

Pritesh Chheda: This is valid for all, right? This is valid for pharma, metal and the -- basically the historical business of injection moulding that you're doing, right, just answer?

Amit Sanghvi: Generally, valid for all. Again, there -- Pritesh, there will be specific investments needed. I also cannot tell you today, but it all depends on what kind of business we onboard and if something requires something very specific, could be automation, could be tooling. But again, we're not adding moulding capacity.

Moderator: Our next question comes from Saurabh Shah with AUM Fund Advisors. Please go ahead.

Saurabh Shah: Sir, The question was on utilization. I know you don't break out for the different divisions, but just directionally, the last 3 years been going down seriously, and I know that you're adding capacity at both Rania and Halol. But how should we look at composite utilization going forward, which includes the toy, where you maybe commented you probably will not do much this year. I, how should we see that playing out for sort of full year? What is your target? I understand you can't estimate where you will ultimately will end up. But based on various steps kind of what guidance can you give us over there?

Amit Sanghvi: Based on what we're forecasting from a 42% utilization that we did in FY '23, I think it will move up to somewhere in 50% to 55% range. Again, I don't want to -- this is not a guidance by any means. But I feel that's what the calculation aims -- points towards.

Saurabh Shah: **I** Understand. Thanks. The next question was more broadly on the Toy division. Give us some background as to how much was invested in the business? And secondly, given the China issues just now, where do you see, do you think this plant can be multipurpose for some other areas if it doesn't work out in the next year or two, or this will pretty much be dedicated only to the Toy division in the future as well?

Sanjay Shah: So Saurabh, that the equipment's, which we put in are being used for other businesses also. So it's not dedicated. Okay. It was made for toys, but yes, we can use these machines for other products, which we're doing, other businesses, which we're doing, and we will start utilizing these machines for some other products, which we have taken on. So you would see the utilization levels improving there.

Saurabh Shah: So you can basically increase capacity more without adding capex in a year or two, if this doesn't pan out as expected is what you're saying?

Sanjay Shah: Yes.

Saurabh Shah: Okay. That's what I had. Thank you and all the best.

Sanjay Shah: Thank you very much. Thank you.

Moderator: Thank you. Our next question comes from Amit Shah with ACE Securities. Please go ahead.

Amit Shah: Hi, good morning, sir. Sir, I have couple of questions. Sir, firstly, our utilization levels for FY '23 has declined. So can you give -- or explain the reason for the same? Also, what kind of utilization levels are we targeting?

Sanjay Shah: I think, Amit mentioned this in the first part of his speech that we are looking at tough economic situation, global situation, which I think that -- and that's the reason the utilization levels have come down. And I think to the last question, which does the participant, as Amit mentioned, what sort of utilization levels we'll be looking at for next year.

Amit Shah: Okay, sir. Sir, and secondly, can you share the split between contract manufacturing and our own IP? And how do you see our own pens contribution going ahead?

Sanjay Shah: So I think...

Amit Sanghvi: Split, we will not be able to share at this point. But see a very significant portion of the pharma growth is coming from -- I'd say, probably, upwards of 90% of our pharma growth is coming from the pens and the IPs that we have created. It's our design essentially. There is also organic growth in the devices that we contract manufacture year-on-year.

Amit Shah: Okay, sir. Understood. Thank you.

Amit Sanghvi: Thanks.

Moderator: Thank you. Our next question comes from the line of Aman Vij with Astute Investment Management. Please go ahead.

Aman Vij: Sir, continuing on the pens division, so where we talk about we are doing say, roughly, 10 million pens, Amit, if you can talk about what is the current market size in terms of pens, both insulin and non-insulin. What is our broad market share, if you can talk about the same? And how is this market growing?

Amit Sanghvi: I think globally, there are probably 1 billion pens made every year, if not more. Again, out of a 1 billion pens, you'd see that between Sanofi, Novo and Lilly, we would essentially control maybe 900 or 920 of those billion.

Aman Vij: And between insulin and non-insulin...

Amit Sanghvi: Whereas 10 million you can do the math, Aman.

Aman Vij: So you are saying 80%, 90% will be insulin pens in this?

Amit Sanghvi: Yes. 80% is going to be insulin pens.

Aman Vij: Sure. Andyou had talked about in the call, you are targeting almost 45%, 50% growth in this division. So you are talking about some 10 million pens, we are targeting around 14 million, 15 million pens for FY '24?

Amit Sanghvi: Yes. Somewhere. See, like I said, I think I have -- I answered Pritesh's question that it's not -- that it's only going to -- we don't only do pens, Yes, pens, it's something that we developed first, but we -- but in FY '24, we're going to see a fair bit of revenue -- new revenue also coming from auto injectors, not just pens.

Aman Vij: So that is heartening to know, sir. My next question was on auto injector part only. So I believe this is much more complicated product, utilizations are maybe -- if you can talk about is it like 3x to 5x compared to a normal spend. And as a mix, auto injector, where do you see it for the next year and next three years? Do you see this becoming like 20%, 25% of our basket in terms of spend, or do you think it will remain like 5%, 10% only in the next two years, three years auto injector side. And is the realization like 3x to 5x, is my understanding wrong, if you can talk about the same?

Amit Sanghvi: So I think the molecule that we have done the auto injector for, the first one cannot be launched before 2027. At the earliest, you'll see a '27 launch. And what happens in '27 in terms of volumes, hard for me to tell. Innovative pharma companies have are in a habit of often changing the device or doing something at the very fag end of when others can launch. It doesn't prevent anyone from launching, but it certainly affects how much market share that those are gain.

Now, then the second auto injector that we're working on is an NCE-1 opportunity, where we know that there will be limited players filing, maybe half a dozen players, plus or minus that will eventually file. So our objective is to make sure that at least 30% to 40% of everybody, who files is with Shaily. And that opportunity will come somewhere in -- I think early as possible will be '32, '33, maybe and so it's -- for the second auto injector, it's a long gestation period, but it's a very high-value product.

Aman Vij: In terms of pen, so we normally talk about we are targeting generic players, the products, which becomes patented. So any reason we…

Amit Sanghvi: I lost you, after reason. Hello?

Moderator: Sir, the line of Aman has left the question queue. We move on to our next question, which is from the line of Manjeet Buaria. Please go ahead.

Manjeet Buaria: Just one clarification. I think you mention that despite flat sales in our carbon steel business, our losses have more than halved. I just wanted to get some more insights here. Because our revenues are actually a function of the commodity price as well. So can you just explain this in terms of whether our utilization has gone up leading to this loss reduction? Or is it that their gross profit per kg or per ton has gone up due to better pricing? Or it's more on operational efficiency to build into the gross margin then? So you just share more insights on what's leading to the significant improvement?

Sanjay Shah: So Manjeet, the FY '22 was the first year, I mean, we had the full year of carbon steel operations, where we were doing development and going through a learning. So we basically were able to improve our operational efficiencies in FY '23 over FY '20.

Amit Sanghvi: Basically, the scrap has come down very, very substantially in FY '23. And we now know how to manufacture the product adequately.

Manjeet Buaria: So this would be reflected in the gross profit per ton, basically when we say this operational efficiency has come in?

Amit Sanghvi: Sorry. Manjeet, can you repeat that. It will be reflected where?

Manjeet Buaria: In your gross profit per ton basically, when the wastage comes down. Is that the right way to understand this?

Amit Sanghvi: Yes.

Manjeet Buaria: Okay.

Sanjay Shah: We have seen, gross margins improve. Yes.

Manjeet Buaria: And would the utilization also have been flat between two years or utilization this year would have been higher?

Amit Sanghvi: No. It's actually been lower.

Sanjay Shah: It's been lower.

Manjeet Buaria: So despite lower utilization, the gross profit per ton has improved so much is what we are...

Amit Sanghvi: Yes.

Manjeet Buaria: Understood. Okay. That's very helpful. That was my question. Thank you.

Amit Sanghvi: Sure.

Sanjay Shah: Thanks, Manjeet.

Moderator: Thank you. Our next question comes from Harsh Shah with Top Hill Investments. Please go ahead.

Harsh Shah: Hello, good morning, sir. Sir, I have sort two questions for you. First is, how do you see the current trend in the raw material prices? And what will be our pass-through cycle frequency?

Sanjay Shah: So raw material prices are steady right now. Pass-through cycles will basically be dependent with different customers on a different tenor, which we have. So they basically range from anything between two months to three months to six months. I don't think, there's any change in the pass-through cycles, which we have done.

Harsh Shah: Okay. Then sir, what will be the long-term ROCE that business is expected to deliver in coming years?

Sanjay Shah: Harsh, I'm sorry, but we don't give out guidance on earnings or returns and everything.

Harsh Shah: Okay, sir. Thank you.

Sanjay Shah: Thank you.

Moderator: Thank you. Our next question comes from Aman Vij with Astute Investment Management. Please go ahead.

Aman Vij: Continuing with the question, sir, on the pen side. So if you can talk about what is the total number of customers we have supplied development orders? And to how many customers have we supplied the commercial orders as of now? And what is the total customers we have in pen?

Sanjay Shah: Aman, this is getting into, I think, too much of detail, which I think you are aware that we don't divulge individual customer details or individual details, so.

Aman Vij: Maybe sir, maybe you can -- sir, talk about -- so as of now, if most of the orders -- development orders or is it mostly commercial orders? And whatever...

Sanjay Shah: I think Amit mentioned that we have started the commercial orders also.

Aman Vij: That I have heard with…

Sanjay Shah: Yes.

Aman Vij: Yes. But majority is it still development or majority of the shift has happened to the commercial side. That was the question.

Amit Sanghvi: Yes. I think majority of not the revenue of pharma, but the majority of revenue coming from our devices would certainly be exhibit batches or clinical batches essentially. But we have commercialized two molecules for which we have made commercial shipments.

Aman Vij: Sure, Amit. And then there was a question, there is a lot of patented molecules currently. So any reason we only target say, generic pen manufacturer and not patented manufacturers because they would be also outsourcing from somebody, right? So if you can talk about the same?

Amit Sanghvi: Yes. But Aman, first, someone has to realize that Shaily is doing a good job. And for large companies to realize that they need to see product on the US market. So let's hope that our first product launch will enable us to work with the big guys.

Aman Vij: So that is in your thoughts, right? Eventually trying to target...

Amit Sanghvi: Yes. Very clear.

Aman Vij: These were the questions from me. Thank you.

Sanjay Shah: Thank you.

Moderator: Thank you. Our next question comes from the line of Nirali Gopani with Unique PMS. Please go ahead.

Nirali Gopani: Yes. Sir, recently we heard that Walmart wants to source quite significant number from India. So do we see an opportunity there for us?

Sanjay Shah: Nirali, again, talking about specific customers will be not right on the call. But we continue to have dialogues with multiple players is what I would say.

Nirali Gopani: Okay. And this include toys also like are we having discussions with a lot of customers to supply toys also?

Sanjay Shah: So we are in discussion with a couple of people, but not much. As Amit mentioned, we see challenges on margins, and we then want to concentrate our energies, where we see that we can make them get the type of margins, which we want.

Nirali Gopani: Right. Okay. That's it. Thank you.

Sanjay Shah: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

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

Moderator: Thank you.

Sanjay Shah: Thank you, everybody. Bye-bye. Have a good day. Thank you.

Moderator: On behalf of Shaily Engineering Plastics Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.