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SEPL/SE/Feb/20-21
February 22, 2021

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

Sub : Q3FY21 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We enclose herewith Q3FY21 Earnings call transcript with regards to Earnings call of the Company held on 08th February, 2021 to discuss the operational & financial performance of the Company for the quarter ended on 31st December, 2020.

A copy of the same is also available on the Company's website at www.shaily.com at https://www.shaily.com/investors/investor-presentation-updates.

Kindly take the same on record.

Thanking You

Yours truly,
For Shaily Engineering Plastics Limited

SHAILY ENGINEERING PLASTICS LTD.

Preeti Sheth
Asst. Company Secretary
ACS36624

“Shaily Engineering Plastics Limited
Q3 & 9M FY2021 Earnings Conference Call”

February 08, 2021

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

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9 Months FY2021 Earnings Conference Call of Shaily Engineering Plastics Limited. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions, and expectations 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 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 – MD, Shaily Engineering Plastics Limited. Thank you and over to you!

Amit Sanghvi: Thank you. Good morning and a warm welcome to all the participants to the post results earnings call of Shaily Engineering Plastics. I hope you are all keeping safe and healthy. I have with me, Sanjay Shah, our Chief Strategy Officer; Anil Kalra, our CEO 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. Q3 of FY2021 was truly a remarkable quarter in Shaily's history. It was the highest revenue that we have ever recorded for a particular quarter. We are confident to further build on this trajectory given a strong order pipeline and the addition of new orders. Shaily is currently present across seven verticals and holds a strong command over its products coupled with long-term relationships with customers. We are growing with our home furnishing major; we have also scaled up from 18 SKUs in 2017 to 48 SKUs currently and are further strengthening this relationship with addition of new capacities and products.

Our toys business which was started nearly one-and-a-half years ago with Spin Master poses huge potential for growth. Today we are one of the preferred partners from India for global toy manufacturers. We are increasing our footprint in this segment and getting validation from the brands, which showcase our ability and efficiency in this very significant market. Shaily manufactured children's products comply with the highest international standards of quality and we expect to further ramp up this business in the coming quarters. We are future ready to meet this demand. In the last few years we have spent considerable time in developing our own intellectual properties for drug delivery devices, which is now reflecting in our performance. Healthcare business earns better margins for us and should be able to grow at a faster pace.

Let me briefly throw some light on the business update for this quarter. On the home furnishing side, we have received confirmation for additional business of Rs. 120 Crores, on the toys side we have added another product from our customer valued at US$1.5 million per year. We are therefore expanding our Rania facility to meet new and existing projects for toys. This facility will be operational by the end of the current fiscal year. In the healthcare segment we have developed intellectual property for additional pen injector and will have that commercialized by the end of FY2022. We have announced expansions of capacity; we have started construction of a new plastic plant on our new campus in Halol. This plant will be operational in the first half of FY2022 and will help us service the new orders especially for the home furnishing major. This is all from my side; I shall now hand over the call to Mr. Kalra, our Chief Executive Officer to give you his thoughts on the business. Thank you.

Anil Kalra: Good morning everyone, hope you are all doing well. Please allow me to throw some light on the operations at Shaily Engineering. In terms of the topline we have seen a significant growth of the business and hopefully that should be maintained during the coming quarters despite all the odds in terms of logistics that the world is facing throughout. The costs are being closely monitored in all the units at Rania and Halol and that has given good results, we have seen significant savings in terms of power, operational cost in terms of employee turnover and other cost parameters. Now, there is a team that is closely monitoring the pricing in terms of what we get on the customer side and what we spend and that kind of close monitoring is really very helpful and I am sure we will be able to retain more benefits in the coming quarters. Our technical team has been strengthened quite well to meet the new challenges of the new projects that are on the anvil and starting from the design to the commercialization of the products we have seen the results and we are seeing through in a timely manner to meet the targets and the timelines.

Now the challenge lies with the carbon steel plant, its to inform you that there is positive news on that account. Carbon steel plant which was commissioned in December 2020 has started producing articles. We have already had third party inspections for three to four times and after meeting the requirements, the products have been dispatched.. Now this plant would see some growth in terms of the topline double of what we have seen so far in the previous months and hopefully by this year end we would have commercialized three major articles out of the five and that should take up the topline well and there should be a significant improvement in EBITDA due to carbon steel plant. As Amit just mentioned that there are new projects that have been offered to us by our existing customers and also toy business. The operations team is now fully geared up on commercializing the toys business, the sales should start towards the last end of this financial year and pickup in the first quarter of the next year and also the Halol plant, which should be commissioned and support the plastic business of our major customers. With this I am handing over to Mr. Sanjay Shah, our Chief Strategy Officer. Thank you.

Sanjay Shah: Thank you Mr. Kalra. Good morning everyone. I shall share with you the highlights of our operational and financial performance for Q3 FY2021 following which we will be happy to respond to your queries.

During the quarter we processed 4,400 tonnes of polymers as against 3,599 tonnes in Q3 FY2020, which marks an increase of 23% year-on-year basis. We are gradually increasing returns by efficiently utilizing our facilities. Machine utilization rate was 70% in Q3 FY2021 as compared to 66.5% in Q3 FY2020. Export during the quarter stood at 75% of total revenue as compared to 69% in the same period last year. For Q3 FY2021 our revenue stood at Rs. 105.5 Crores as compared to Rs. 88 Crores for the same period last year, growth of 19.6%. On a year-to-date basis we reported Rs. 250.8 Crores of revenue as compared to Rs. 256.4 Crores in nine months ended FY2020. EBITDA for Q3 FY2021 is Rs. 18.9 Crores as compared to Rs. 15.5 Crores in Q3 FY2020. EBITDA margins stood at 17.9% in Q3 FY2021, 30 basis point improvement over previous year same quarter. It is important to note that EBITDA margins in the current quarter was lower on account of lower MEIS benefits post the recent capping of MEIS benefits by the government of India. Net profit stood at Rs. 8 Crores for Q3 FY2021 a growth of 27% year-on-year. Cash PAT for Q3 FY2021 was reported at Rs. 12.8 Crores as compared to Rs. 10.8 Crores for the same period last year. For the period we incurred a capex of Rs. 15.53 Crores and we expect further FY2021 capex to be in the range of about Rs. 20 Crores. The capex spends for Halol and the new Rania facility for toys will be Rs.70 Crores and a large part of it we will be spending in Q4 FY2021 and Q1 of FY2022 allowing us to be ready for commercial supply by the end of H1 FY2022. With this I would like to summarize on our operational highlight front and let you know that we are all working actively towards diversifying our business model and you would see better trajectory in quarters to come when new orders start commercializing. That is all from our side. Now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Thank you for the opportunity and congratulations on a very good set of numbers. As far as topline is concerned we have recovered on a nine-month basis. Sir I have some questions on the recovery front like we have seen a good topline growth during this period but are nearly 60% to 70% what I can understand from our previous calls also there are 60% to 70%

revenue comes from the overseas market, so I just wanted to know our business has not had any impact of second wave or lockdown in the overseas market what we have been continuously seeing from the media report that the second COVID lockdown was there, but we have not seen any kind of impact on our topline so any specific reason Sir?

Amit Sanghvi : The second wave impact has been there and we would not say that it has not been there, but we have had lots of challenges on the logistics front, we have had lots of challenges on availability of materials and some challenges on even fluctuating forecast from various customers for various reasons. Overall, the business however has done exceptionally well especially in lot of the markets where the lockdown or the second COVID wave has not really impacted the market that badly. There are some markets where we are seeing volume drop, but it is being covered up by another region, and also being covered up by the additional products that we added in the new business that we have developed over the last fiscal.

Hitesh Taunk: If we compare on a like-to-like basis without adding the new product category was it a good recovery there in that if you compare like-to-like is my understanding is correct that the existing product category would have a kind of growth only and not decrease?

Sanjay Shah: Yes, Hitesh the existing products have also seen growth so compared to last year and also as compared to Q2.

Hitesh Taunk: Okay great Sir. Sir my second question pertains to our gross margin though Sir has said a bit supply concern and all, I just wanted to understand our gross margin was kind of under pressure during this quarter despite having such a good volume jump and the changing mix also for the healthcare category, which is a kind of higher margin business what we understand, so is it a onetime event or we can see kind of improving gross margin going forward given the fact that our new capacities start giving a good utilization level going forward?

Sanjay Shah: Hitesh there are two things there when we look at gross margins I mentioned in my speech that MEIS has been capped based on the Rs.2 Crores limit, which the government of India has set, which has impacted our gross margins. We commercialized carbon steel in Q3 December to be precise. So, from a gross margin level the contribution from carbon steel was lower so these were two reasons why you have seen a little minor drop in gross margins we expect that gross margins to go back to normalize levels as we move forward in the quarters to come and probably improves.

Hitesh Taunk: Sir my last question pertains to our annual revenue opportunity what you have been guiding since Q1 FY2021 during the challenging period also so the new business opportunity in the toy segment and the additional orders from the existing home furnishing major, so is it safe to assume around Rs. 200 odd Crores of revenue opportunity what is lying for us to execute in FY2022 additional I am talking?

Sanjay Shah: We have given the numbers in terms of what additional businesses, which we have added in Q1, Q2, Q3 and if I were to look at that the numbers are too higher than what you are saying, so that is the type of opportunity which we are looking at.

Hitesh Taunk: In opening remarks we have been mentioned like our carbon steel project will be fully operationalized from current year and that to come I think December or November of second half of the year, right, so if I exclude that much of revenue then it would be around Rs. 200 Crores or it will be more than 200 just a confirmation?

Sanjay Shah: These are excluding carbon steel, the new business which we have talked about so Hitesh the 200 Crores of the number which we are talking about is on an annualized basis, some of these projects are getting commercialized Q1 and Q2 of FY2022 so that is something which you need to take into account and then there will be a ramp up which will be done.

Hitesh Taunk: I have a few more questions I will come in the queue Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: I would like to know in next one year from which sector are we seeing good revenue in company, Carbon steel or other old verticals?

Sanjay Shah: So, Ravi I think we are looking at growth across different segments whether it is home furnishing, whether it is steel furniture, whether it is toys or healthcare we are looking at growth in each of these verticals in the coming year in FY2022.

Ravi Naredi: What is our debt at present and how much new capex we are going to do so and what will be debt after one year?

Sanjay Shah: So, the total capex which we are going to do additional capex I just mentioned in my speech that for the toys and the new plant, which we are setting up in Halol will be in the region of about 70 Crores for which we already have funds, which have been tied up.

Ravi Naredi: But we will raise the debt or equity?

Sanjay Shah: It will basically be funded by a mix of debt, which has already been raised and internal cash accruals, we are not looking at raising any equity.

Ravi Naredi: Thank you very much all the best.

Moderator: Thank you. The next question is from the line of Vikas Khemani from Carnelian Capital. Please go ahead.

Vikas Khemani: Congratulations on good set of numbers. My question is in the situation of rising raw material prices how do we sort of handle is it mostly pass through or it happens with a lag or how does it work that would be good to know and secondly I think we hear that lots of constraints are there right now because of the container unavailability, so when do you think this situation should normalize and do you see any impact of that going forward and the third question would be if you can get some sense on what if tomorrow the rupee starts appreciating so I would like to get a sense of pricing mechanism?

Amit Sanghvi : On higher pricing Vikas it is a pass through with a lag of three months, so with most of our customers it is previous three months average pricing, which gets applied to the following quarters. On logistics, we have seen improvement between December, and January on the logistics front, we are seeing some improvement right now I would not say significant but we hope that it normalizes by Q1 or end of Q1 FY2022, really is not a way for me to really guess when it will normalize. Typically we see shortages of containers during Chinese New Year because whatever has not gotten out from there does not get out until February 18, 2021 or February 19, 2021, but so far we have been managing logistics fairly well and say even though there are shortages we should not get into a position where we are unable to ship products.

Vikas Khemani: What kind of cost rise we would have taken in the last and recent quarters in terms of logistics cost I am sure there would be high cost right?

Sanjay Shah: There are two things here, in most of our cases in terms of export our pricing is ex-works, the cost is borne by the customer. We would have seen marginal cost increases on our raw material because of logistics but then there will be market and also it is again same principles applied on landed price there is a pass through. If rupee appreciates Vikas a lot of our revenue especially to the home furnishing major is in rupees, so for us it becomes a neutral thing.

Vikas Khemani: Other question I had on the capex side, this current year FY2022 how much of the capex we are operationalizing and same thing for 2023 how much capex will operationalize?

Sanjay Shah: So, we just capitalized our steel furniture facility with a total capex of about 55-57 Crores, which is what was commercialized in December 2020. We will be commercializing further capex of about Rs. 20 to 25 Crores in Q4 FY2021, but if you were to look at it on carbon steel a lot of it was spent during last year, which is getting commercialized now.

Vikas Khemani: FY2022?

Sanjay Shah: We would be spending about Rs. 70 Crores on the new toy facility and the new plastic facility, which we are creating, so toys will be done in the current year, the new facility Halol will be done in the next year.

Vikas Khemani: Is that the normal capex we should assume even let us say if I were to take three, four years because even the size of the opportunity is very large do you think it will accelerate it will stay here?

Sanjay Shah: This is based on the current business, which we have taken now, we now look at commercializing all of that business with the capex, which we have done and then review what capex we will do for FY2023-2024 onwards?

Vikas Khemani: Whatever capex you are putting you are expecting it to get fully utilized in 2023?

Sanjay Shah: Yes, we already set up the capex, we have businesses which have been tied up so all the capex, which we are currently doing is based on business, which has been tied up and that would be commercialized based on the timelines, which we have in terms of the product commercialization.

Vikas Khemani: Do you think any improvement in the working capital will happen or this is the level we will continue to see?

Sanjay Shah: Working capital we have seen some improvement between Q1 to Q3, Q1 we had a higher level of working capital, which was abnormal; as we move forward we will see some more improvement and as the scale increases you will see further improvement next year.

Vikas Khemani: What is your internal target level of working capital you would like to keep?

Sanjay Shah: We internally look at net working capital somewhere between 75 and 90 days.

Vikas Khemani: You always had in that sense cash conversion of roughly about 70 days right?

Sanjay Shah: Right that is what we would look at.

Vikas Khemani: That has got a range to assume.

Sanjay Shah: Yes.

Vikas Khemani: Thank you Sir.

Moderator: Thank you. The next question is from the line of Amit Shah from Ace Equity. Please go ahead.

Amit Shah: Sir I have two questions, first any progress on our UK subsidiary?

Amit Sanghvi: We have set it up, we are just in the process of sorting out logistics for the subsidiary, but until travel resumes there will not be much activity at the moment.

Amit Shah: In auto side there has not been any new orders except Honeywell from last few quarters so can you discuss little bit about that segment?

Amit Sanghvi: We do not actively participate on automotive neither go actively pursue business we are doing just niche business on particularly where there is metal to plastic conversion or high requirement of engineering, but apart from that we do not really actively pursue that business.

Amit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Atul Kothari from Progwell Securities. Please go ahead.

Atul Kothari: Sir I have three questions related to the toys business vertical of us, so I wanted to know as to the new order which we have received for the toy business is it from the Spin Master or from some other clients?

Amit Sanghvi: It is from another client.

Atul Kothari: Okay so which client it is?

Amit Sanghvi: We will name the client once we start supply, I am sorry but we will not be able to name the client.

Atul Kothari: We are getting business from renowned toy players as a result of this strategy of shift of business from China from some of our clients so we will be supplying existing products or this will be new category of toys, which we will be supplying to them?

Amit Sanghvi: Some are existing products that are already available on the market, some will be new launches.

Atul Kothari: What could be the percentage or can you just give me a product mix in terms of new and existing it would be 50:50 or it would be more in favor of new toys?

Amit Sanghvi: So Atul this business is still evolving currently it is a split between 50:50.

Sanjay Shah: Yes probably even more on the new side it is a split between 50:50.

Atul Kothari: What type of toys are you manufacturing can you throw some light on that?

Sanjay Shah: These are complex games, puzzles, electronics.

Atul Kothari: Thank you Sir that is all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Vandana Soni from SBI Capital. Please go ahead.

Vandana Soni: Just wanted to understand is there any decline in domestic sales this quarter I believe domestic business is primarily FMCG and CRC cap are you seeing any slowdown in these businesses?

Amit Sanghvi : No, in fact our FMCG business is doing exceptionally well, in whatever products and markets that we participate we have increased order book.

Amit Sanghvi: Vandana even if you were to look at domestic business it is not only FMCG and CRC caps part of our device business is also domestic because we supply to some companies in India and they in turn export it out, so for us it is domestic business, some of our auto business is also domestic so we have witnessed domestic business across different segments.

Vandana Soni: What led this decline in this market?

Sanjay Shah: It is not declining Vandana.

Vandana Soni: My second question is on MEIS benefit I just wanted to understand it used to be around 4% earlier what it is now and how much impact it will be on the overall sales?

Sanjay Shah: So MEIS government came up with regulations in August capping MEIS for September to December at 2 Crores so MEIS income, which we have recognized in our books has been kept at this level and we have foregone the balance MEIS benefit and that impact is about 1% of the revenue for Q3. Let me rephrase that we have not booked the MEIS benefit but we do not intent to forego. If government allows it, we will take the benefit.

Vandana Soni: If I may add one more question, what is your breakup of imports or how much percentage you are sourcing from India?

Sanjay Shah: So 50% of our raw material is imported 50% is domestically sourced.

Vandana Soni: I understand you have passed on sometimes with all the customers so how much inflation is there to raw material?

Amit Sanghvi: In some cases we are talking about maybe 8%, 10%, 12%, there are materials where it has gone as high as 100%, 105%, 120% or so.

Vandana Soni: I just wanted to understand so how much this quarter you have seen there was a gross margin impact into raw material prices so next quarter the gross margin will be benefited with this right, only three months gap?

Amit Sanghvi: It is a combination of material price movements and volume that we sell every quarter, sometimes we get a little bit more sometimes we get a little bit less, so it balances out at the end of the year.

Vandana Soni: Thanks that is all from my side.

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

Pritesh Chheda: I have one question based on the supply commitments that we have for different projects in the next year I just wanted to understand if you tell a broader revenue number which is possible on the supply commitments 1x of the steel furniture and including the steel furniture if you are willing to share a certain range of revenue?

Amit Sanghvi: I think without the steel furniture we would be looking at somewhere between 500 and 550 and with the steel furniture somewhere between 550 and 600 or 620.

Pritesh Chheda: So without steel furniture it is 500 to 550 and with steel furniture it is 550 to 620.

Amit Sanghvi: 550 to 620.

Pritesh Chheda: I missed one answer of one of the question, which was asked by a participant about the gross margin and the EBITDA margin not expanding to extent, which you would have thought otherwise in the quarter I could not understand the response, which Mr. Shah gave actually?

Sanjay Shah: Pritesh if you were to look at Q3 there were two impacts, which happened in Q3 one is the capping up MEIS typically led to a 1% drop in the EBITDA and the commercialized carbon steel, so carbon steel at a net level in Q3 was negative on EBITDA so these were two reasons why you are seeing EBITDA, which actually could have been higher towards lower percentage.

Pritesh Chheda: Has the full depreciation on the carbon steel project started flowing in, in this quarter or it was partly operational in the quarter?

Sanjay Shah: It has been partly operational, so you will see the full impact of it in Q4.

Pritesh Chheda: What is the depreciation run rate on the invested amount so I think we invested about 50 Crores as capex in the steel furniture right?

Sanjay Shah: Yes, about 55 Crores.

Pritesh Chheda: What rate would you depreciate that asset?

Sanjay Shah: It will be different for different methods, different group of methods so my sense is if you want to look at it probably look at 15 years effective life of this asset.

Pritesh Chheda: Thank you and all the best gentlemen.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.

Sunil Jain: Congratulations on good numbers Sir. Sorry if I am repetitive I just missed the opening remarks. So new order which you won in this quarter can you repeat it or can you quantify it?

Amit Sanghvi : We were awarded Rs.120 Crores from the home furnishing business; we added another product on the toys side where the value is US$1.5 Million per year and we also developed another normal intellectual property for a pen injector.

Sunil Jain: So this Rs. 120 Crores includes that $1.5 million toy also?

Amit Sanghvi: No, 120 Crores is on home furnishings and $1.5 million is on toys.

Sunil Jain: About the MEIS though we lost around 1% of revenue in Q1, but how it is going to play out in the coming period?

Sanjay Shah: We are waiting for the RoDTEP rates to be notified and once the RoDTEP rates yet notified we will have clarity in terms of how it will work out or pan out in the future.

Sunil Jain: So this 2 Crores limit is still continuing in Q4 or no?

Sanjay Shah: No, so MEIS as a scheme is post January 1, 2021.

Sunil Jain: So whatever the scheme comes then according to that we may get some?

Sanjay Shah: The scheme is RoDTEP which is refund of duties but the rates have not been notified by the government and the rate could be notified by the government as we move forward.

Sunil Jain: So will it be from January 1, 2021 or that is also uncertain?

Sanjay Shah: So the scheme has been launched on January 1, 2021 but the rates have not been notified so once the rates have notified we will have clarity in terms of what the rates are.

Sunil Jain: You had given next year's revenue expectations and all, but any long-term visions like what you had shared earlier is there any thinking of that line or will be coming back later?

Sanjay Shah: Sunil let us first get the numbers, which we have talked about and then we would probably talk about the long-term vision.

Sunil Jain: Okay Sir great no problem. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Nirmal Shah from Seraphic Management. Please go ahead.

Nirmal Shah: Just wanted to check two things one with respect to MEIS now under the new regime since the rates are not notified and you would be actually executing those orders and in event if the rates are lower than what it was in MEIS will there be a margin how are you actually tackling this?

Amit Sanghvi : There is not a way to tackle it, if the rates are lower then it has an impact on the gross margins and the EBITDA; however, we are expanding our business to negate that impact and increase the bottomline performance.

Nirmal Shah: Second question was because of this container shortage if you can just quantify amount of revenues if at all you were suppose to book in December quarter but you could not book because there was a shortage of containers is it a significant amount or was it a very minimal if you can just highlight that?

Amit Sanghvi : Like I have mentioned in one of the answers what we have been able to manage logistics even if there have been delays but within the quarter we have made all the shipments we were supposed to do.

Nirmal Shah: The third part was with respect to the raw material price inflation, is it fair to assume that the real raw material inflation would be actually reflected in the fourth quarter results because in the third quarter you would have probably some cushion of the low price inventory or something or is it not the case and actually Q4 would be a fair reflection of your margins and the raw material price is prevalent right now?

Amit Sanghvi: Raw material is a moving target with a one month value, in previous three months everything we ordered in the month of November and December that were used in January and February for example has been higher price then you will have a negative impact, which will get recovered in the following quarter, if everything we ordered was a lower price than the previous three months then you have a positive impact.

Nirmal Shah: If I look at the trajectory of the margins not from a long-term but from a short-term perspective again this is a hypothetical assumption if at all there is some negative news on our incentives where the rates are lower than what you haveprojected and on other side you also have a pressure of passing the raw material to your clients it is a pass through, but do you think that in such event it would be so easy to pass through or will it take little bit more time than usual to pass through that impact if at all it happen?

Sanjay Shah: Raw material is a straight pass through it is an agreed process so irrespective of whatever changes are there that will be a straight pass through.

Nirmal Shah: About the incentive Sir if at all if it is lower than what your assumptions are will it be again a one quarter lag or it will take some more time?

Amit Sanghvi: Let us wait for the new rates to get notified and then we will be able to comment on that. I think it will not be possible. Even if the rate would have zero this is what something we will be able to pass on to the customer means customer is not doing business with us because the government is giving incentives.

Nirmal Shah: I respect that Sir, I just wanted to little bit be clearer about the time lag you require to?

Amit Sanghvi : As the business grows even if there are no schemes in place our margins will improve.

Nirmal Shah: Thank you Sir.

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

Manish Gupta: Amit and team congratulations on very good progress. If you look at your revenue run rate give or take about 100 Crores a quarter and you are guiding for a lower bound of about 560 Crores next year, so even if we just annualize that, that is about 140 Crores give or take per quarter, now historically you have really been challenged by availability of labor and this is a very, very steep ramp and you could be actually exiting the year at much higher than 140 Crores per quarter so given that a lot of our business is fairly linear as part of the labor is concerned how are we gearing up for such a steep increase in labor cost to be able to execute on these numbers some perspective on this will be very useful?

Amit Sanghvi: I will maybe answer this very briefly and then allow Mr. Kalra to shed some light on it. As Mr. Kalra has come on board we have been able to resolve our operational challenges fairly well in almost all of our plants the efficiencies are up, our OEs are up, our laborers downtime is reduced, so that momentum will continue in the existing facilities, that gives the additional revenue that is going to come in next year a significant part of it will come in from the new facility that is being set up in Halol. Now in general we have operated in Halol for 32 years and that is one location where we do not have any labor issue, to get the workforce that is motivated the workforce that needs to earn because there is no farm income in that region, so we do not anticipate problems in the new facility over there. Over and above that, the way the facility is planned there is a very, very, very high level of automation in that plant, we actually will not have any contractual workers in the new facility, they will either be all of them will be permanently on our payroll, but the number that we require will be far less than what we currently operate with. Mr. Kalra to you!

Anil Kalra: Yes the existing facility at Rania has seen improvement in terms of efficiency wherein as Sanjay bhai presented capacity improvement by 5% actually the OE went up by more than 10% because there was a very high improvement on the efficiency that means the downtime and all on account of machine breakdown, more breakdown or manpower not available or whatever so all that has been overcome and we were able to bring down the loss of sales due to no manpower from 8% to 1% in the second quarter itself, so that has been sustained after that so manpower is not an issue at Rania also and there has been lot of awareness being brought to the workforce so that they understand the company's requirement and they work towards that. Now with new projects Halol is a place where this company is quite used to and carbon steel is a new project so we are very careful while hiring in the carbon steel. Carbon steel manpower cost should not be equivalent of the plastics it should be lower because the processes are mostly progressive types of tooling in the mechanical places and also converized, semi-automated and automated powder coating, so that manpower we are very careful in hiring the best of people either diploma in mechanical or the relevant technology and also minimum ITI workforce and Halol does not have the kind of challenges of workforce that we had in Rania, so carbon steel we should stabilize as I said by March, April and that should bring down or contains our manpower cost to sales. The new facility as Amit has also mentioned the plastic facility that we are setting up we should commercialize by June-2021, the idea is to have no light facilities, actually robots do this job and some kind of supervision and some engineers so that is a theme that this plant is being set up on, so it should drastically bring down the dependence of contractual manpower, if we hire some those would be from plastic institute like CIPET and all so that should strengthen the skill level and the outputs. So I hope Manish it is quite clear.

Manish Gupta: Yes thank you. Just a follow on question your margins are also sensitive to product mix where healthcare and pharma is higher margin, but now over time as you are growing and we are expecting a lot of efficiency in labor over the next five years could there be margin expansion just in the base business because of these labor efficiencies or will this labor efficiency be compensated by higher employee cost because we are just hiring people of a higher quality talent?

Amit Sanghvi: A bit of both is going to happen we are going to see operational improvement, so we will see margin enhancement because of bringing down labor cost and labor which works on the shop floor, we will see an increase or we will see some reverse impact on account of hiring better talents and we will need this talent for the growth that we have planned, at the moment I think lot of us are focused on next financial year delivering the number that I mentioned a few minutes ago, but beyond that the company is going to grow and for us to gear for that growth there will be a lot of hiring that takes place at mid level and senior level and that will contribute to negating some of the margin improvements that could potentially come in.

Manish Gupta: If we put it out together over rolling five-year period you are already close to 18% EBITDA margin do you think FY2025 kind of timeframe these margins could be approximately 20 or higher at an EBITDA level?

Amit Sanghvi: Yes.

Manish Gupta: Amit just one last point I think it will be great at some point in time just to have an investor day where you can talk about your rolling five year plan obviously you have a lot on your plate right now, but it will be good to pencil this in at some point in time whenever you guys have time but for investors who are more keen on longer-term horizons it is just be good to get some sense of the roadmap you guys are working with?

Amit Sanghvi: Absolutely Manish we will have Sanjay or SGA come back to you with once we have frozen our plans.

Manish Gupta: Excellent and once again congratulations on remarkable quarters.

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

Aman Vij: My first set of question is on the home furnishing business, so this Rs. 120 Crores additional order does it includes the carbon steel business as well?

Amit Sanghvi: No.

Aman Vij: Is this a regular order, which we keep getting every few quarters or is it a totally new set of products, which we are talking about?

Sanjay Shah: The new products which we have added this year.

Aman Vij: Apart from the base business this is on top of that?

Amit Sanghvi: Yes.

Aman Vij: Sure Sir. My second set of questions is on the toys business, so this Rs. 70 Crores capex we are doing is it only for toys or what percentage is for the toys segment?

Sanjay Shah: No, Rs. 70 Crores capex is for toys and the new plastic factory, which we are setting up in Halol it is for both of them.

Aman Vij: Roughly what is dedicated for the toys segment?

Sanjay Shah: It will be around Rs. 20 Crores.

Aman Vij: Till now what is the total capex we have done in the toy's division?

Sanjay Shah: We have not done many major investments in the toy division, it has been mainly some decoration facilities and everything, what we are doing right now is about 20 Crores where we are adding moulding machines and adding some assembly lines and things like that.

Aman Vij: Any plans next year if we plan to do because now we have gotten two, three customers and then scaling has also started happening a dedicated plant or something for toys business?

Amit Sanghvi: Once we execute these order and then we see the pipeline we will see how we want to go about it.

Aman Vij: My final question is on the carbon steel business so Sir had talked about three will be commercializing three out of the five products this is by the end of financial year or calendar year of FY2021?

Anil Kalra: The third article should get commercialized by April or so the first one for the first quarter so we will have three articles commercialized and then the fourth we would also say it to that range, all and all four articles will get commercialized by April and then additional two should happen in June, so total of 6 by June.

Aman Vij: Has this number increased over the last one, two quarters or is it the same initial commitments that we have gotten from the client this number of articles?

Sanjay Shah: This is based on whatever we talked about in terms of additional business being taken in Q1 and Q2 so includes that.

Aman Vij: So sir my question was this the initial commitment at the time of the capex or this is like in the last two quarters only they have decided okay you can get these extra additional orders also?

Amit Sanghvi: No, all these six products are part of the initial basket.

Aman Vij: Sure and there is opportunity to enter into newer product as well in the next one, two years?

Amit Sanghvi: Once we showcase at least six months of solid performance we will have plenty of opportunity.

Aman Vij: Sure Sir and any idea of what is the export out of India of this segment particularly to the home furnishing segment just to understand how big is the industry carbon steel, home furnishing segment?

Amit Sanghvi: I really unfortunately do not have the answer to that. I know the ticket size that the home furnishing major would have is probably in excess of €1.1, €1.2 billion and India will be a very small part of that at the moment.

Aman Vij: Majority of this will be the Chinese as of now or is it developed geographies globally?

Amit Sanghvi: No, I think globally steel furniture is mostly sourced from China, you also have some players in maybe rest of the handful in Europe and then some big names in North America and the US, but most supplies are out of China.

Aman Vij: As of now it is a replacement of say China Plus One strategy for us?

Amit Sanghvi: No, they started way before that, this initiative started in 2016-2017, so this has nothing to do with the China Plus One strategy.

Aman Vij: But we might be getting benefits because of that now?

Amit Sanghvi: No, China's raw material cost is far, far lower than India when it comes to steel.

Aman Vij: So what is our competitive advantage say vis-à-vis the Chinese player?

Amit Sanghvi: Obviously we see benefit out of labor but more than anything the businesses we develop we do not really work so much on just whether there is a cost advantage or not even if the cost is on par with China it is about relationship, it is about consistent performance and it is about what you bring to the table in addition to price.

Aman Vij: Sure, thanks for the clarification. Thank you.

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

Ritesh Shah: Congratulations for good set of numbers. My first question is to Sanjay Bhai, Sanjay Bhai what are the MEIS rates that we were on and what could be the threshold that we are looking at from the RoDTEP scheme?

Sanjay Shah: So we have different rates for different products and at least for what we have looked at in the past the RoDTEP rates wherever MEIS rates have been notified and the RoDTEP rates have been more or less in line with the MEIS rates or higher than the MEIS rates for textiles or other sectors, which have come in, so our expectation is to the RoDTEP rates once they get notified would be similar to the MEIS rates but we will have to take a call once the RoDTEP rate come in.

Ritesh Shah: Would there be a broad ballpark number on MEIS number at company level from a P&L standpoint?

Sanjay Shah: There will be so that would be there in the numbers which we report out, so yes there would be a number which would be there.

Ritesh Shah: So Sanjay Bhai I did check on the annual report under other aspects I figure out the balances from government authorities that number is there, but nowhere I find it on the P&L so if you can help quantify post all that, that would also be useful Sir?

Sanjay Shah: I will get back to you on that Ritesh no problem.

Ritesh Shah: My second and third question is for Amit any update on UK subsidiary and secondly can you detail more on the pipeline for the pharma business?

Amit Sanghvi: We have upcoming supply to be made to customers for their registration batches in the month of March for particular molecule. What I mentioned in the speech was that we have developed an additional pen injector and the IP audit, we will be developing both the new pen injector as well as auto injector, which we actually started development I say two quarters ago one of the things I had mentioned in March or February 2020 our earnings call I had mentioned that we are going to go ahead with development of a new auto injector so that is in the pipeline, auto injector is a very complex product it is going to take longer than what we would do on the pen injector, but at the end of FY2022 we should have three additional platforms commercialized and being sold through customers. From a revenue perspective what you are seeing between now and 2024 is going to be one increase of our contract manufacturing businesses and in additional variant. Second you see revenue coming in from registration batch supply that we do to various customers on the platform that we have, but the real scale up you will see 2024 onwards when these registration batches have approval to be sold commercially in the market. So our customers will start the process of ramp up and launch from 24, 25, 26, 27, there are different dates for different molecules when the original pattern is expired and therefore we will see gradual ramp up or very significant ramp up after 24, but I anticipate five years 3x at least.

Moderator: Thank you. The next question is from the line of Abhishek Gupta from ADB. Please go ahead. As there is no response we will move to the next question which is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir I just wanted to know that two or three our customers what we have in our toys segment what is the total revenue of those three customers?

Sanjay Shah: So what I can tell you Hitesh is the customer which we have are among the top five toy companies globally.

Hitesh Taunk: Their revenue topline ideas Sir if you have any?

Amit Sanghvi: No we have that but as I said if I will give you the revenue numbers you will know which these companies are, we have named one company, the company we are not able to name it right now we will name it once we start supply.

Hitesh Taunk: My next question is of bookkeeping question what is the current quarter cash flow from operations or YTD number?

Sanjay Shah: Cash flow from operations has been given in the presentation, which we have, so our cash accruals are about Rs. 12.8 Crores for the current quarter.

Hitesh Taunk: Is this a cash flow from operation right?

Amit Sanghvi: It is cash accrual.

Hitesh Taunk: What is the gross debt position at present time nine months?

Sanjay Shah: Total debt equity is about 1.5.

Hitesh Taunk: Nine months right Sir?

Sanjay Shah: Nine months yes.

Hitesh Taunk: On absolute amount term what is the gross debt?

Sanjay Shah: I will get back to you with the number.

Hitesh Taunk: We are kind of doing a future capex as you had given a guidance of around 70, 80 Crores and that too in the mix of internal and debt so I just wanted to know our debt position is likely to remain going forward or would you like to be reduced I know that would be a bit early to say, but if anything you would like to share about that current debt position?

Sanjay Shah: On the debt position as I had mentioned the capex, which we are doing will be financed by a mix of debt and internal cash accruals, but debt which has been sanctioned which has not been drawn which will be drawn, a part of it has been drawn in December but the balance would be drawn in the current quarter and that is what we will spend on capex. So that is what we are looking at and the balance would be internal cash accruals so internal cash accruals which the company has generated in FY2019-FY2020 and what we will basically use towards the balance of the capex for the year.

Hitesh Taunk: Okay that is all from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Amit Sanghvi: Thank you everyone for joining on the call. We hope 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 advisor. Thank you very much and Season's Greetings' to all and stay safe.

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