SHAILY Engineering Plastics Ltd
CIN # L51900GJ1980PLC065554

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Sub : Q1FY24 Earnings Call Transcript

Ref : Regulation 30 of the SEBI Listing Regulations, 2015

Dear Sir,

We refer to our previous letter dated August 09, 2023, wherein the Company updated the audio link of Earnings call held on 9th August 2023 to discuss the operational & financial performance of the Company for the quarter ended on June 30, 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

DIMPLE ASHWINBHAI MEHTA

Digitally signed by DIMPLE ASHWINBHAI MEHTA
DN: c=IN, o=PERSONAL, title=8748, pseudonym=28dd610549b34b4aadfc7aa64744d799, 2.5.4.20=1d1ed0723db621091a253decb769954c3302092 84ee0d9f45202148baf7a44fb, postalCode=390012, st=Gujarat, serialNumber=be901a7b4cfd5ff4b6e3310581e678582e8f cab3536586c4a365ba53eccbf1a6, cn=DIMPLE ASHWINBHAI MEHTA
Date: 2023.08.16 11:14:52 +05'30'

Dimple Mehta
Company Secretary &
Compliance Officer

M. No. A 31582

"Shaily Engineering Plastics Limited
Q1 FY'24 Earnings Conference Call"
August 09, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on August 09, 2023 will prevail

MANAGEMENT:

1. MR. AMIT SANGHVI – MANAGING DIRECTOR – SHAILY ENGINEERING PLASTICS LIMITED
2. MR. SANJAY SHAH – CHIEF STRATEGY OFFICER – SHAILY ENGINEERING PLASTICS LIMITED
3. SGA, INVESTOR RELATIONS ADVISORS – SHAILY ENGINEERING PLASTICS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Shaily Engineering Plastics Limited Q1 FY '24 Earnings Conference Calls.

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 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

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

Let me start with giving you some highlights on the operational performance. Despite the challenging geopolitical situation, we've delivered a top line of INR157 crores, and we've improved our gross margins and EBITDA margins, which stand at 41.1% and 17.6%, respectively. We've also stabilized operations in the U.K., and as we scale up and move forward, our emphasis is on broadening our horizons to encompass more intellectual property development and contract manufacturing of medical devices.

With that, I'm happy to announce that we have been granted patents for one of our new auto injectors in the U.S. market. The efforts dedicated to developing our injection system platforms are now yielding positive results. In this sector, our scope is not only extensive, but we're seeing traction with commercialization of devices in the coming months and years.

I'm also delighted to announce that we have been awarded new business from General Electric with a value of INR40 crores per annum. Our second largest revenue generating sector today is healthcare and we have adopted a scalable approach that will enable us to increase our revenues at a faster pace over the next 5 years. The money that we had raised in '21 has been put into enhancing capacities and building new facilities for healthcare. We also plan to increase our own IP contribution going forward.

On the home furnishings front, we have been awarded business for 3 new products, where the total value stands at INR50 crores per annum. We're further strengthening our relationship with the customer. We ventured into steel furnishings business with the same customer and have also added an exclusive facility to the service this new furnishings business.

We received business confirmations for additional volumes and this has improved utilization in the current year. In the automotive and engineering segment, we've added 3 new products with

2 new customers where the total value of the business in the next year will stand at INR5 crores per annum but will grow somewhere between 15% to 20% year-on-year from there.

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 the financial highlights. Thank you very much.

Sanjay Shah: Thank you, Amit. Good afternoon, everyone. I shall share with you the highlights of our operational and financial performance of Q1 FY '24. After which We will be happy to respond to your queries.

During the quarter, we processed 5,822 tons of polymers as against 6,760 tons in Q1 FY '23. Machine utilization rate was around 43% in Q1 FY '24. Exports during Q1 FY '24 stood at 75% of total revenue as compared to 77% in FY '23.

On our stand-alone result, revenue stood at INR153 crores for Q1 FY '24 as compared to INR172 crores during Q1 FY '23. EBITDA stood at INR23.7 crores during Q1 FY '24 as compared to INR21.7 crores during Q1 FY '23, a growth of 9% year-on-year. EBITDA margin improved by 290 bps to 15.5% for Q1 FY '24 from 12.6% in Q1 FY '23. PAT stood at INR8.7 crores during Q1 FY '24 as compared to INR7.4 crores during Q1 FY '23. PAT margin stood at 5.7% as compared to 4.3% in Q1 FY '23. Cash PAT for Q1 FY '24 was reported at INR16.8 crores as compared to INR15.2 crores during Q1 FY '23, a growth of 11%.

On a consolidated basis, which includes Shaily U.K., our subsidiary, revenue stood at INR157 crores during Q1 FY '24 as compared to INR175 crores during Q1 FY '23. EBITDA stood at INR27.7 crores during Q1 FY '24 as compared to INR24.3 crores during Q1 FY '23, a growth of 14% year-on-year. EBITDA margins have improved by 370 basis points to 17.6% for Q1 FY '24 from 13.9% in Q1 FY '23. PAT stood at INR12.6 crores during Q1 FY '24 as compared to INR9.5 crores during Q1 FY '23. PAT margin stood at 8% in Q1 FY '24 as compared to 5.4% in Q1 FY '23. Cash PAT for Q1 FY '24 was reported at INR20.8 crores as compared to INR17.3 crores during Q1 FY '23, a growth of 20% year-on-year.

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

Moderator: Thank you very much. The first question is from the line of Manoj Bahety from Carnelian Asset Management.

Manoj Bahety: First of all, congratulations on a good set of numbers. So, my first question is, if you can give some colour on sustainability of the margins the way we have seen decent improvement in margins in the current quarter? And then I have one more question.

Sanjay Shah: Manoj, your voice is breaking a little bit. Would you...

Manoj Bahety: Hello? Is it clear now?

Moderator: Yes, sir.

Manoj Bahety: So, I have 3 questions. First one is on margins. So, if you can give some colour on sustainability of the margins the way we have seen decent improvement of margins in the current quarter? And secondly, if you can also give some colour on ramp-up of our health care facility during the current financial year and how it is going to impact our margins going forward?

Sanjay Shah: And what's the third question? You said you have 3 questions, Manoj.

Manoj Bahety: Yes. And third question is, if you can elaborate on the new business wins, especially on GE appliances, home furnishing and also the carbon steel ramp-up in terms of improvement in capacity utilization? So, these are my 3 questions, Amit.

Sanjay Shah: Okay. Amit, you want to take the second question first, ramp-up on health care facility. And then I will take the second -- the other 2 questions.

Amit Sanghvi: Sure. I don't think the second question was a ramp-up on health care.

Sanjay Shah: So, the question which Manoj said was what sort of ramp-up do we expect on the health care facility and improvement in margins from that. So...

Amit Sanghvi: Yes. So, I think question 2 is a little related to question 1, Manoj. You will see improvement in margins as the health care pie of the total revenue continues to increase. I hope that we will see marginal improvement quarter-on-quarter. Quarter 2 seems one where we have some new projects that have been delayed to Q3, which means that you'll see certainly a significant improvement in quarter 3. It may not be so much in quarter 2.

But health care continues to scale up. This year, we are anticipating a growth of roughly 60% on the health care business.

Manoj Bahety: Sorry. Can you repeat, Amit? I couldn't hear you. You mentioned some percent.

Amit Sanghvi: We're on track to grow the health care portfolio by 60% this year, in the current financial year over the last year. So as that happens, you will see improvement in margins. And these are sustainable margins.

Sanjay Shah: Manoj, yes, I'll probably take the other 2 questions. Amit partly answered the first part of the question. See, the improvement in margins is on basically in 3 accounts. One is, as Amit mentioned, you're basically seeing the health care pie go up, which has better margin. So overall margins are going up.

Secondly, you're seeing improved utilization levels at the steel factories. We're having longer runs and everything, which is basically improving our yields there and everything, which is also ensuring that we have better margins there, or the impact on the margin is lower there. So that's the other thing. It's a combination of these factors which will play out and which will see to improvement in margins as we go forward.

On the new business front, the GE business, it's a knob which we are developing for them, and we will start supply sometime in calendar year '24. Similarly, on the home furnishings front, there are 3 new products which we are working with the customer. Revenues would start kicking in from Q4 of FY '24 and Q1 FY '25. So that's the timeline which is being looked at. The revenue numbers which we have indicated are annualized numbers based on the current volumes which we have got from the customer.

Fourth business which we have talked about is on the automotive segment with 2 of our existing customers, where we will be strengthening the relationship and adding more products as we go by, which, again, totals to about INR5 crores a year right now. And as Amit mentioned in his speech also, we will see that business growing as the ramp-up happens.

Manoj Bahety: Okay, okay. And lastly, on the carbon steel part, do you see now the stability is behind and we will see gradual improvement in capacity utilization there?

Sanjay Shah: That's our understanding.

Manoj Bahety: Hello?

Sanjay Shah: Yes, that's our understanding.

Moderator: The next question is from the line of Nirali Gopani from Unique PMS.

Nirali Gopani: Sir, if you just start with -- if you can just give a general outlook on the home furnishing side also. So, we were seeing constant pressure over there due to the inflationary environment in U.S. and Europe. So how is the situation now? And how do we see the current year panning out on that side?

Sanjay Shah: So, Nirali, we're seeing gradual improvement in volumes. But we're not seeing very large improvement in volumes, but we're seeing improvement in volume. And what we're also seeing is we're seeing new business confirmations coming in. So, we are building up the business for the next year.

Nirali Gopani: Okay. Because all these new business wins will largely reflect in FY '25, right?

Sanjay Shah: As I mentioned, some of the home furnishing stuff will start getting reflected from Q4, but the bigger impact will happen from Q1 FY '25 onwards.

Nirali Gopani: Right. So, if I want to see FY '24 in particular, so largely the growth will be driven by health care or any other segment you see that can support growth in any way?

Sanjay Shah: FY '24 growth, as we have mentioned earlier also, will come from health care. Part of it will come from improved utilization levels from the carbon steel facility, where we are seeing traction in terms of higher volumes and everything. Third will basically be on automotive front, and some of it on the home furnishing front. So, these are 4 areas from where you'll see growth.

Nirali Gopani: Okay. Fair enough. And this quarter, sir, very good revenue uptick on the U.K. side. I know Amit did touch upon it in his opening comments. But if you can briefly talk about it. What kind of difference are we seeing there? And how should things look going ahead?

Amit Sanghvi: While we'll not be able to give you exact numbers, but we're looking at a very significant ramp-up in revenue in the current financial year over last year. So, I would say at least 2 to 3x is what we're looking at in terms of revenue in Shaily U.K. this year.

Nirali Gopani: Okay. And this is largely the new development that we are working on?

Sanjay Shah: Yes. So, Nirali, the way to look at it is we had in the past communicated new business confirmations which we have received and new developments which we have received as and when they have been received, large contracts have been closed. So that are being executed through Shaily U.K. So that's the pipeline which is there. And that's the reason what Amit mentioned, the growth we are looking at.

Nirali Gopani: Right. Right. And GE appliances seems to be a new customer. So, if you can just qualitatively share what kind of opportunities it can be for Shaily over a longer term? I know you have shared the short-term number. But yes.

Sanjay Shah: Nirali, I think giving numbers will be difficult. We see a pretty large opportunity there. If Amit can add too

Amit Sanghvi: It's actually a very old customer. We started doing business with GE in 1995, I think.

Sanjay Shah: This was our fourth export customer, Amit, yes.

Amit Sanghvi: Yes.

Sanjay Shah: Yes.

Nirali Gopani: Okay. So, we have been working with GE since 1995?

Amit Sanghvi: Yes. But they've never had focus on sourcing from India. I'd say that focus has changed significantly over the last 18 months, which means that we are seeing new opportunities and we are participating in them and have also been awarded this particular project.

Nirali Gopani: Perfect. And lastly, Sanjay, if I see this quarter numbers, expenses have grown quite significantly over Q4. So, any particular reason, like other expense, staff cost, power and fuel? Anything that has grown significantly?

Sanjay Shah: Some of those expenses if you were to look at it are in line with the growth in the revenue. Power and fuel, we have had higher growth in the current quarter because there has been some change in the power tariff. And with improved utilization levels in terms of the carbon steel facility – and everything we have been having our power cost there.

Moderator: The next question is from the line of Aman Vij from Astute Investment.

Aman Vij: My first set of questions on the pharma business. So, on the capex side, if you can give an update on when is the pharma capex expected to complete? And how do you see the ramp-up in FY '24 and FY '25? When do we expect full utilization of this facility?

Sanjay Shah: So, Aman, we will basically be completing the major part of the capex by September. And so Q2 is by which the major part of the capex will be done. And some of it will get spilled over to Q3, but between Q2 and Q3 of FY '24 is when the whole capex would be done. The ramp-up will basically be over the next 4 to 6 quarters when we will do the ramp-up.

In pharma, we need to have facilities created ahead of time to basically get all the compliance and all the approvals from customers. So that's the basis on which these facilities have been created.

Amit Sanghvi: You look at least a 3-year horizon for the capacity that we have created to be utilized to a greater extent.

Aman Vij: Sure, Amit. And it's my understanding, sir, that almost maybe 2/3 or even more is meant for pens in this new facility? Is my understanding correct?

Sanjay Shah: All of it is export by this, yes.

Aman Vij: Sure, sure. And in terms of -- you've talked about what kind of growth you see in health care. In terms of number of pens sold, so where do we target -- what is our target for this year?

Sanjay Shah: Aman, when you just look at the total number of pens, it probably does not give you a right sense because we sell pens at different price points. And we have contract manufacturing for our own devices and we then have our own IP led pens. Each of these pens have different price points and the price variation is very, very large. So, looking at total number of pens, I can give you a number or something, but I'm not sure whether it will help you in terms of looking at that number.

Aman Vij: Okay. So, can we assume the growth in pens, not the number of pens, but in the pens business in terms, say, the rupees, crores business, will be in proportion to 50%, 60% kind of growth we are targeting in healthcare? Is my understanding correct?

Sanjay Shah: That's right.

Amit Sanghvi: Yes.

Aman Vij: Sure, On the utilization of our facility, so it was good to see the ramp-up happening in Q1. So, if you can talk about for FY '24 what kind of utilization do you think we can achieve? And similarly for next year if you can talk about the same?

Sanjay Shah: Aman, we don't give out what we think will be revenue guidance or something for the current year or for the next year. So, we would refrain from answering that question. I'll probably answer it in a little different way. As numbers improve, you will see utilization levels improving going forward.

Aman Vij: So, the reason for asking was when do we expect the full utilization of the facility? That is the questions. If you can talk about the same.

Sanjay Shah: Probably sometime by the second half of FY '25.

Aman Vij: Sure, sir. On the steel business side, so last time you had talked about, I think, it's still loss making, if my understanding is correct. So, if you can talk about, do we expect this to -- is it profitable in Q1? When we expect it to become profitable? And I mean, you had talked about FY '25 we expect full utilization. So, is it safe to assume that even for FY '24 we can maybe do like 50%, 60% kind of utilization?

Sanjay Shah: Yes. So, I think this year, we will be positive in terms of bottom line and everything. In terms of utilization level, as compared to last year, we are at an improved utilization level. We will be over the numbers which we indicated in terms of utilization levels for the steel facility overall for the whole year. Getting to 100% or full utilization FY '25 it's a little too early to say right now. We are working with the customers to build up the book in terms of products and everything. If we have clarity, we will give that clarity to you.

Aman Vij: Sure, sir. And a final question before I come back in the queue. Any positive offshoot on the toy business, if you can talk about this thing?

Sanjay Shah: No.

Amit Sanghvi: No.

Sanjay Shah: I don't think anything right now.

Moderator: The next question is from the line of Paras Adenwala from Capital Portfolio Advisors.

Paras Adenwala: Yes. I had a question on your fixed asset turnover ratio. I saw peak -- my software says that in March 2018 is when you had a peak fixed turnover ratio, fixed asset turnover ratio of 2.6. And since then, there has been a gradual decline. And I think as of FY '23, it's lower than 1.5. So, would you say that with this quarter, now the fixed asset turnover will start improving?

Sanjay Shah: So, Paras, we have said in the past that based on the investments which we have made in everything, we should basically be looking at fixed asset investment to revenue of somewhere between 2.25 to 2.5x depending on the current product mix and the customer profile which we have. I think you will basically see that ratio improving as we move towards the end of the year. At the same time, what also needs to be looked at is we are capitalizing a large part of our pharma facility in Q2 and Q3, which will increase our fixed assets, where you will see revenues coming in over the next 2 to 4 quarters.

Paras Adenwala: Okay. So, do you think over the next 12 to 18 months, you should be reaching a fixed asset turnover ratio of close to 2.5, 2.6 once again?

Sanjay Shah: I'm not sure whether we will get to that level, but you will see that number improving first we have better clarity, then we can probably talk about it. But yes, we do see that ratio improving.

Amit Sanghvi: Paras, the only thing I would add is maybe not 12 to 18 months. Look at more from 18 to 30 months and you will certainly see, like Sanjay bhai said, that number improving.

Paras Adenwala: Okay. And through the course of various conversations today in the call, you mentioned about clarity and unpredictability. So, in the overall business environment, are you witnessing some amount of haziness in terms of how you see your future over the next 12 to 15 months?

Sanjay Shah: Amit, you want to take that or...

Amit Sanghvi: Yes, I will take it. No, I think Paras, it's not so much haziness on how business or the environment is. The environment is certainly not great right now. We don't think it's going to -- we're not going to see a full recovery in the current year, and we expect that at the beginning of the year as well. I think the haziness comes partially from there being so much movement on this, whether you call it China + 1 or just people looking at alternate sourcing, India being a great part of that strategy.

So, there's so much opportunity, it's just about finding the right opportunity that we want to participate in where we can make a contribution that will help us to have sustainable growth as well as profitability. Toys is a classic example of how we try to derisk from our home furnishing major. We saw an opportunity which could be scaled up fairly quickly, had very similar margin profile or slightly higher margin profile than the home furnishing major. But it's not a business where our abilities are valued, to be honest.

So do we want to continue down that path? I would say probably not. We will certainly participate in high value-add opportunities if they come our way, but it's not a business that we will actively pursue with the customer because there's no stickiness to the supplier. it's basically a very transactional relationship, and I don't think it enables long-term growth. So the haziness probably came from building that strategy for Shaily more than the business environment.

Paras Adenwala: Okay. All right. Okay. I think FY '23 was quite a challenging year for you. And even prior to that, I think we did notice some amount of slowdown in the business. But now with this quarter, would you say that things have turned around and we should at least cross the turnover or reach the turnover that we had in FY '22?

Amit Sanghvi: You Know Give it one more quarter. the jump we saw between March 23 and June '23 may not be there between June '23 and the coming quarter. So we will certainly see an increase, but it may not be so substantial. I think quarter 3, we'll see -- quarter 3 and quarter 4 we'll see much better numbers.

Paras Adenwala: Okay. Just 2 more questions. On the toys business, it's work-in-progress as it seems right now. Can I know what is the amount of investment that you need in the toys business? And as per your budget, what is the kind of payback that you see on the investment?

Sanjay Shah: Paras, we've invested somewhere between INR25 crores to INR30 crores on the toys business. That's mainly in molding machines and in other facilities which we have built. We will be utilizing the molding machines for other businesses which we have. So the other businesses will also grow. That facility would be used for the other businesses.

Paras Adenwala: Would you say the payback would be in 2 years or 3 years? What's the kind of estimate that you have in your plans?

Sanjay Shah: When we took on the business, the estimate was that the payback would be somewhere close to 5 years. It will probably get stretched a little bit.

Paras Adenwala: Okay. All right. Okay. Because as of now, it looks like you have only one client in the toys business.

Sanjay Shah: Yes.

Paras Adenwala: Okay. And finally, on the margins, 17%, I think that's a very decent jump that you've seen. You did give some clarification on the margins. But would it be fair to estimate that now this is something which is sustainable? Or would we see some kind of volatility as we move along?

Sanjay Shah: Paras, I think these are sustainable margins if you look at it more from a long-term or a medium-term basis and not look at it on a quarter-on-quarter basis. And as Amit also indicated earlier, as the pharma business grows, the overall margin should improve.

Paras Adenwala: Okay. Okay. Any question that I'm asking you, Mr. Sanjay, is more on an annual basis rather than quarterly. I fully understand quarter-to-quarter is very difficult in a volatile scenario like today.

Sanjay Shah: But I just wanted to clarify that, because I should not be misunderstood here.

Paras Adenwala: Yes, yes. So, on an annualized basis, I think what you've done in this quarter seems to be absolutely sustainable, right?

Sanjay Shah: Yes.

Amit Sanghvi: Yes.

Moderator: The next question is from the line of Harshil Shethia from AUM Fund.

Harshil Shethia: Sir, 2 questions. One is regarding the carbon steel business. you mentioned in your presentation that you're going to improve utilization, just given the long lead time so far. Where do you see that at the end of '24 and maybe '25 based on your current conversations?

Sanjay Shah: See, if you were to look at last year to this year, we'll basically be improving our utilization levels by 100% over last year. And we're talking with the customer to see how we can improve that from that percentage to the next year also -- further improvement next year.

Harshil Shethia: Sir, last year was a very small base. Just trying to understand the absolute percent of utilization, because this was obviously a dedicated plant for a specific project and different from our other strengths in the plastics areas earlier. So, I was just trying to understand like what point will it come to the level that was originally anticipated when we made the investment? You think it would be around the 50% by the end of '24? Or you don't think so?

Sanjay Shah: So, it will be 50% plus for FY '24 for sure, closer to 50%, 60% plus. And then we should probably be looking at improving that the year after that.

Harshil Shethia: Okay. From the same -- is it possible to just give a sense of the current utilization levels for both the -- the other, the home furnishing majors, the dedicated project, the automotive and the GE...

Sanjay Shah: We do not give out individual utilization levels, and it will be difficult for us to do that.

Harshil Shethia: I know. I understand. I'll say that...

Sanjay Shah: I just think that our capacity is also fungible across businesses. And putting out this sort of information in public domain will not be correct for the company.

Harshil Shethia: Sir, I don't know how we can get this, because given that our business model largely consists of your dedicated plant and machinery for dedicated customers and overall utilization of 42 does seems a bit low, especially when nothing seems at a very early stage if we put the carbon steel on the side for a moment.

So just going forward, how do you expect on average for continuing businesses? Could we expect overall utilization to be higher than this? Or how do you look at the business model once the business has stabilized? What kind of consistent utilization you would expect to receive?

Sanjay Shah: We expect utilization levels to improve. Sorry, Amit. Go ahead.

Amit Sanghvi: No, no, go ahead. I thought you left that for me.

Sanjay Shah: No, no. So, we expect utilization levels to improve. So probably by the end of the year, you should see some improvement in utilization levels from where they are currently. And then you'll see further improvement in FY '25.

Amit Sanghvi: But you also have to keep in mind that our new pharma facility like Sanjay bhai mentioned earlier, will go on stream and will be capitalized in the coming quarters, which means that while utilization of the existing business will improve, existing capacities will improve. When you look at a number on the presentation, in the coming quarters, it will also include new facility. So likely that the number is going to be not changed very significantly. It will be either marginal or no change at all.

Harshil Shethia: Sure. No, Amit, it was not the question related to -- as I said, for new business we understand, they take time to ramp up. But once they have stabilized, how do you think of the business model when you take new business? Do you expect that in a year to at least a healthy 60%, 70%? I'm not asking about specific business, so you don't need to worry about that.

Just when you take on new businesses, is it okay for us to expect that in year 2 after stabilizing, you should get to a 60%, 70% utilization level, because that's what gives us reasonable return ratios, et cetera. Otherwise, it kind of takes these long lag lead times, really reduce our return on capital.

Amit Sanghvi: Absolutely. No. And the answer is, yes, we should in year 2 expect 65% to 70% utilization at a minimum. And unfortunately, if you look at the consumer portfolio, that's also how we kind of cost it out. So if it doesn't happen, we're increasing our payback period by that amount. And very unfortunate what happened in FY '23, but we should have -- at the beginning of the year, we had a solid business plan. Didn't happen. Forecast kept coming down. It kept decreasing. In FY '24, we're not seeing a full recovery. We're seeing slight improvement, which is why I said then look at a horizon of 18 to 30 months, where you'll see our utilization levels improve substantially.

Harshil Shethia: Great. And last question, maybe just an addition on the same tone, that what, I guess, is happening with the toys and the steel businesses. I think they were slightly different for us. But going forward, do you kind of see new areas as well where it could require kind of very different processes and different products for us? Or you expect more growth coming from generally products aligned to our plastic stabilities and maybe with some more fungible capacity?

Amit Sanghvi: I think we're looking at improving from a capability perspective, we're looking at making enhancements when it comes to complex assemblies. I mean we do complex assemblies in pharma today, but we're now looking at doing even more complex assemblies with more components. So a typical bill of material would run into, let's say, upwards of 70, 80 parts in a particular sub-assembly or a product. So we're trying to gain that capability, also look at various means and ways of automating part of these processes. Because going forward, if we don't get into complex products, then we're going to end up eroding our margins at some point. So getting into more complex products means that we will need more value add and more manufacturing processes and more complex processes.

Harshil Shethia: Okay. So I guess somewhat similar to what you have done with injectables. Is that fair?

Amit Sanghvi: Yes.

Moderator: The next question is from the line of Ritesh Shah from Investec.

Ritesh Shah: I joined late. A couple of questions. First is, last year you were looking to hire a new CEO. Any specific update over here, any feeling or thoughts process? So that's the first question.

Amit Sanghvi: I am very hopeful, Ritesh, that we will be able to give you an update in the next quarter. So our next earnings call we should be able to give you an update. We had paused the process in the last financial year, looking at the decrease in forecast. We restarted it about 3, 3.5, 4 months ago. And we have been actively interviewing and we have released offers. So we hope that we will be able to give you more concrete details in the short term.

Ritesh Shah: Sure. And if we had to appoint a CEO, what objective will it attain for the firm? Any specific KRA's that you have gone out for, the new appointees?

Amit Sanghvi: Given we're a manufacturing organization, a very strong emphasis on operations. But what we have looked at in the candidate or in terms of the profile is we also wanted someone with a technology background, which means someone who's extensively worked on product development. And above all else, it's the organizational building of an individual, from that perspective. So we're looking at a person that's obviously a good cultural fit with Shaily, but can also build the organization, take the teams along, take the people along with the growth that we see coming.

Ritesh Shah: Sure. There might be some background noise. I'm sorry for that. I have few more questions. Amit, you did indicate about utilization levels to move up from a 18 to 30 month duration. Just trying to understand how do we come at this time frame. Are there any specific underlying variables that you're monitoring? Is it the inventory in the channel or the order book position? If you could give some colour, that would be really useful.

Amit Sanghvi: So on the pharma side, we have mentioned a few times before that we will see one of our first big products being launched in '25, not FY '25, in calendar '25, which is why I said that look at a horizon which is higher. Plus, the fact that we're putting in new capacity right now means that we will only see that ramp up over 3 years at a minimum.

With the existing business, we know that the current there is slight increase, but otherwise more or less muted from the last year. And the hope is that there will be a global recovery post the next 12 months, which is why I look at a horizon of 18 to 30 months. Even to say within the global recovery on the existing business, we are adding new strategic businesses that should see our utilization levels go up.

Ritesh Shah: Right. So I think you detailed about pharma, but when you look at home furnishing, is there channel inventory elements that we are looking at? How should we understand that as far as the business?

Sanjay Shah: Ritesh, on the...

Amit Sanghvi: Yes. Go ahead, Sanjay bhai.

Sanjay Shah: Go ahead, Amit. Go ahead.

Amit Sanghvi: No, no, I was just asking him to repeat the question because I've heard a lot of background noise. So if you got it...

Sanjay Shah: On the furnishing front also, what we monitor is not the inventory, but the 52-week holding forecast which we get on a weekly basis. And we are seeing some traction or some improvement there. And that's what we constantly monitor. We are also adding newer products. We just talked about 3 new products being added, which we will be commercializing by Q4 and Q1 of current and the next year, so which will also lead to an improvement in utilization levels. So it will be a combination of new products and increase in volumes on the existing products which would improve utilization levels.

Ritesh Shah: Sure. This is helpful. Amit, just a couple of questions on the pharma side. I think a couple of quarters back we had indicated that we are very hopeful that we can actually double up the revenues in a 3-year time frame. So where are we on that? And I think Sanjay bhai did explain that number of pens is not the right way to look at. But historically, we have given a number that we have capacity of around 20 million pens. And I think last year, we had around 6.8 plus pens which we had sold.

If you could quantify the number of pens purely from a capacity utilization just from a understanding standpoint? And the headline number of -- involving the revenues on a 3-year time frame? So if you look at the number by FY '26, '27, how can you look at that?

Amit Sanghvi: So Ritesh, we're looking at a 60%, 70% growth in the current year, which means doubling the revenue in 3 years is going to happen, as we had indicated in the past. On the pens, in terms of absolute numbers of the pens also, we are looking at nearly that percentage increase, I would say, maybe not as much as 50%, but a very substantial increase in the number of pens that we will be selling in the current year as well.

With the new capacities coming up, we are adding another -- we've added capacity to manufacture another 20 million pens. But that ramp-up is not going to happen in FY '24. It's going to take time. So we'll see some volume in '24, then steady increases over '25 and '26.

Ritesh Shah: Sure. And just one last question. Sanjay bhai just indicated that there's INR90 crores of incremental business which will flow in from Q4 and Q1 onwards. Is this all margin accretive?

Amit Sanghvi: Is this margin...

Ritesh Shah: Accretive at EBITDA level. The reason I asked is earlier we had this scenario wherein when we deal with the home furnishing major, we were asked to do the tooling capex. And hence, it was informative to look at numbers from a PBT level. So how should we look at this INR90 crores of incremental orders? First question. Is it accretive at EBITDA margin level? And if you could give some colour at ROCE? And secondly, is there some tooling capex element which is there over here? Or it's not something which is relevant?

Sanjay Shah: So, Ritesh...

Amit Sanghvi: There will be some -- yes, go ahead, Sanjay bhai.

Sanjay Shah: So, Ritesh, if you want look at it from an ROCE perspective, yes, it will be accretive. At a EBITDA level, it will be more or less similar to levels of EBITDA which are there on the current quarter.

Ritesh Shah: Okay. And from a purely capex standpoint, is there some incremental commitment that we have to go for?

Sanjay Shah: No.

Moderator: The next question is from the line of Richa from Equitymaster.

Richa: My question is on this order from GE Appliances. Just wanted to get a sense of do you see stickiness in this kind of order? And what kind of run rate going forward? Will it grow over time? Or -- as of now, we don't have that input. Give some colour on that.

Sanjay Shah: We have been working with this customer, as Amit mentioned, since 1995. We have close to a 30-year relationship with this customer. And all the current products also which we do, including these 2 new products which we will be doing, we will be the single source for this customer worldwide.

Richa: Okay. Is it fair to assume that...

Sanjay Shah: And we're looking at growing this relationship, as Amit also mentioned earlier in his speech or one of the questions when somebody had asked. We're looking at growing with this customer and look to add more business in the year.

Richa: Okay. And sir, let's say, if we see it from a 3-year perspective, how do you see the business mix changing between the pharma and non-pharma? And the reason I'm asking is that I just want to get a sense on what kind of margin from a longer-term perspective should we expect?

Sanjay Shah: So, I think pharma will grow at a much faster pace as compared to the overall business. And that will basically mean you'll see margins improving from a 3-year perspective.

Richa: Okay. So basically, from -- what kind of margins do we have in pharma? I mean can you give any kind of range, if not...

Sanjay Shah: We do not give a range at this time, sorry.

Richa: Okay. Okay. And sir, could you also talk about or give some more colour on the process of winning new orders, new clients, something like that?

Sanjay Shah: Probably we didn't understand your question. Can you explain that a little more in detail?

Richa: Yes. So let's say, we got the toy business a few years ago. And currently, you are saying that we have got an order for which it will be the only client. I understand this client is like a long-standing client. But when it comes to targeting new clients and new areas, if you could add a little more colour on what is the process to increase visibility on what we are doing in targeting clients, in targeting new business stuff?

Amit Sanghvi: So, there are a few areas that we're actively pursuing. Like I said, we prefer to get into more complex products which fit our capabilities and engineering strength and not highly commoditized businesses. With that in mind -- hello?

Sanjay Shah: Yes, go ahead. Go ahead, Amit.

Amit Sanghvi: With that in mind, we are working with a few companies to see how we can start a relationship. You'll see, again, the theme is basically consumer electronics, appliances and even industrial applications. So, at this point, Richa, it would be immature for us to share any further light or give you any names. But as the conversation matures and we actually have something more concrete in hand, we will be providing an update.

Richa: Okay. Fair enough. And sir, any kind of guidance on capex for this year or in the coming 2 years?

Sanjay Shah: I think capex for this year, we have already indicated that whatever we are doing on the pharma front and our tool room is what we are doing. We will not be doing any large capex other than that in the current year. Next year we're basically looking at seeing how utilization levels improve on the other business front. And once they improve, we will basically be looking at capex.

Moderator: The next question is from the line of Priyank Parikh from Abakkus Asset Managers.

Priyank Parikh: Just wanted to understand like what sort of metric you track for your operational purpose. Is it like per ton revenue or per ton realization, per ton GP margin? Or absolute number you track? Or it is a certain percentage of GP margin on this much revenue? So how you look at internally?

Sanjay Shah: Could you just repeat your question, please?

Priyank Parikh: So, I wanted to understand like when you are planning your business internally, what metric you target? Is it absolute gross profit per ton or is it percentage of revenue or something like that? So how you plan it internally?

Sanjay Shah: We never look at gross profit on a per ton basis. We never look at on a per ton basis. There will be different metrics which we will look at. What does the business do to existing capacities? Is other investments required? What sort of an EBITDA margin or ROCE or something which are there?

Amit Sanghvi: But Sanjay bhai, I think internally there are a few expense lines that we look at in percentages of revenue.

Sanjay Shah: Yes.

Amit Sanghvi: But most of our internal operational metric would be measured, for example, what is the material yield. Material yield typically for us a target would be 98.5% or 99% to us, which means that we don't want to scrap raw material more than 1%. We don't get downtime, cycle time with cycle efficiency. So, if we've gotten business at a 30 second cycle time from a customer, as an example, then is the plant running the machine at 30 seconds? Is it running it at 32 seconds? Or is it running it at 28 seconds. So, these are the type of, parameters that or indicators that we track internally.

Priyank Parikh: Okay. Okay. And in last con call, you indicated an expected utilization of 50 to 55 percentage for FY '24. So, is it going to be seen even today?

Sanjay Shah: I think Amit just answered that earlier. Yes, currently, we will see some improvement, but it will be a gradual improvement over the current year. And that's what he indicated also.

Priyank Parikh: Okay. So, 50 to 55 percentage would be the right number to take?

Sanjay Shah: I will not turn in a number, and we would refrain from giving a number there.

Priyank Parikh: Okay. Fair. Yes.

Amit Sanghvi: You will see the improvement in the coming quarters.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Thank you, and over to you all. Members of the management, you may go ahead.

Amit Sanghvi: 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 Advisor. Thank you and have a great day.

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