



Moving into the next orbit

We recently met the management of Shaily Engineering plastics to assess the demand scenario, updates on GLP-1 outlook, capex plans and overall demand scenario in the drug delivery devices market globally.

Key points from the meet:

- 5th largest supplier for one of the largest furniture retailer globally for plastic components.
- Existing capacity will be fully utilized within the next 3 years (PPE Gross block as on 31st March'24 – 598crs)
- Healthcare business to contribute 25%-30% of the overall revenue in 3year time period from 18% currently.
- Current pens capacity is ~40Mn which is likely to be expanded to ~100Mn by FY28. Capex is already going on for this expansion.
- Revenue split between Own IP pens & Contract manufacturing likely to be 80:20 from 30:70 currently.
- Discussions ongoing at board level to expand capacity beyond ~100Mn pens.
- Talks with innovator companies for certain drugs have started.
- Evaluating entry into consumer electronics segment. Focus is on niche components where margins are similar or better than overall company margins.

Financial Guidance:

- Revenue to grow at a CAGR of 20-25% over the next 3-5 years, with healthcare likely to grow at 30-35% CAGR with margins to see a continuous improvement.
- Capex of ~300 to 400crs over next 3-4 years across divisions in light of the improved visibility based on discussions with the customers.
- ~1000Mn long term debt to be repaid in 3 years

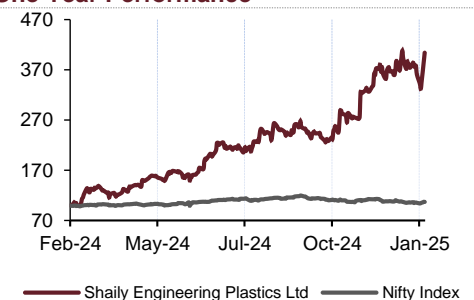
Rating	TP (Rs)	Up/Dn (%)
NOT RATED		

Market data

Current price	Rs	1,555
Market Cap (Rs.Bn)	(Rs Bn)	74
Market Cap (US\$ Mn)	(US\$ Mn)	857
Face Value	Rs	2
52 Weeks High/Low	Rs	1659 / 360.1
Average Daily Volume	('000)	37
BSE Code		501423
Bloomberg		SHEP.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-24	Sep-24
Promoters	43.72	43.81
Public	56.28	56.19
Total	100.00	100.00

Source: Bloomberg

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Why we are evaluating Shaily?

GLP-1: The wonder drugs with an estimated opportunity size of 100Bn\$ by 2030

- Although GLP-1 drugs have been available for the past two decades, they have recently gained significant attention due to their skyrocketing demand in the US and other markets for chronic weight management. The two main players in this market, Novo Nordisk and Eli Lilly, have been swiftly expanding their production capacities to keep up with this increasing demand
- Besides their use for Type 2 diabetes, the skyrocketing demand for GLP-1 drugs is largely due to their off-label application for weight-loss management. Even though medications like Ozempic are primarily approved for diabetes treatment, they can be prescribed to individuals needing weight reduction who do not have diabetes, thanks to the same active ingredient.
- WHO estimates there are ~750Mn obese people worldwide, including ~42% of adults in the US. As per WHO, there could be 1 bn people with obesity and related conditions by CY2050E. Hence, the market has the potential to grow significantly in the coming years.
- GLP-1 drugs can be used on a standalone basis as well as in combinations:
 - ✓ GLP-1 only drugs- Semaglutide, Dulaglutide, Liraglutide and Exenatide.
 - ✓ GLP-1 combinations with other hormones – Tirzepatide
- As per estimates the key contributors in terms of sales would be from Semaglutide and Tirzepatide.*

Novo Nordisk recorded sales of ~24Bn\$ in CY23 for Ozempic, Victoza and Rybelsus.

Eli Lilly recorded sales of ~5.3Bn\$ in CY23 for Mounjaro and Zepbound.

Drug Name	Innovator	Dosage	Dosage form	USFDA Approval Date	Treatment
Semaglutide					
Ozempic	Novo Nordisk	Once weekly	Injectable	Dec'17	Type 2 diabetes
Wegovy	Novo Nordisk	Once daily	Injectable	June'21	Weight loss
Rybelsus	Novo Nordisk	Once weekly	Oral solid	Sep'19	Type 2 diabetes
Tirzepatide					
Mounjaro	Eli Lilly	Once weekly	Injectable	May'22	Type 2 diabetes
Zepbound	Eli Lilly	Once weekly	Injectable	Nov'23	Weight loss
Liraglutide					
Saxenda	Novo Nordisk	Once daily	Injectable	Dec'14	Weight loss
Victoza	Novo Nordisk	Once daily	Injectable	Jan'10	Type 2 diabetes
Dulaglutide					
Trulicity	Eli Lilly	Once weekly	Injectable	Sep'14	Type 2 diabetes

Approximate timelines for launch as per Management

Drug Name	Launch date
Semaglutide	A. Emerging Markets (Brazil, India, Canada and potentially China): 2026 B. Developed Markets (USA, EU): Between 2029 and 2030
Tirzepatide	Between 2030 and 2036
Teriparatide	Europe - Q1CY25, launch in USA slightly delayed
Liraglutide	End of CY25 (Q3 or Q4)

How Shaily Engineering Plastics has strengthened its Healthcare business capability?

- Shaily forayed into the devices segment in early 2000 and emerged as one of the few suppliers drug delivery devices. The Company has created the world's first insulin pen made of 100% plastic. It does contract manufacturing of insulin pens for Sanofi and Wockhardt. **Shaily is the only manufacturer of insulin pens in India.**
- The Company boasts an advanced healthcare facility spanning over 1,75,000 square feet, equipped with cutting-edge technologies. The facility includes over 28 molding machines, with more being added, ranging from 35 to 1200 tons, and features specialized testing, quality control, and metrology laboratories that adhere to global standards for the testing and release of drug delivery device systems.
- **In the highly regulated medical sector, company has certified with the highest quality levels globally with certification in ISO 13485:2016, ISO 15378:2017, ISO 9001:2015 & MDSAP.**
- Established in September 2021, **Shaily UK** was created to focus on the development of successful products for drug delivery. All stages of product development, prior to design and manufacturing validation will take place in the UK, and then the process will transfer to India.
- **The company has established 7 patent platforms through its UK subsidiary for their injectors (pen or auto-injector).**
- The core strength of Shaily lies in the manufacturing know-how of complex products, deep understanding of customer requirements and the ability to evolve across market cycles. ***(In the last 32 years, Shaily Engineering has never lost a customer once business is started)***
- In order to tie-up with innovator companies, the pharma companies prefer players having most of the manufacturing capability in-house which includes molding, tooling, automation and assembly so that the turnaround of the products will be faster.

In light of this Shaily has commissioned a tool room to produce quality molds which adds a layer of backward integration.

How Shaily is capitalizing on the GLP-1 opportunity?

- The capex incurred for the healthcare division is ~150crs with an asset turnover of 3x leading to potential revenue at peak utilization of ~450crs likely to be achieved within the next 3-4 years.
- SEMAGLUTIDE

Category	Details
Partnerships	With generic companies which will launch generic GLP-1 drugs in coming years.
Current Status	Supplied exhibit batches to pharmaceutical companies.
Future Outlook	Expecting significant volumes starting from H2 FY26.
Market Share Target	70% in Semaglutide drug delivery device market.
Competitive Advantage	Patented spring-driven device similar to innovator's device.
Support for Confidence	NCE-1 filings done by customers.

- 34 to 35mn pens capacity will go onstream in H1CY26 for SEMAGLUTIDE (currently ~10Mn)
- TIRZEPATIDE

Category	Details
Clinical Trial Results	Tirzepatide shows higher efficacy than Ozempic in weight loss (17.8% vs. 12.4%)
Potential Demand	Massive demand expected if clinical results are conclusive
Delivery Device Development	Developing a three-step auto injector for Tirzepatide, currently in final stages
Customer Focus	Targeting companies with NCE-1 filings; 3 customers onboarded, potential for 2 more
Production Timeline	Exhibit batches of Tirzepatide to commence from Q4 FY25

- The company expects Teriparatide, Liraglutide and Semaglutide to be launched in multiple markets between FY26 and FY27.
- The IP led pens have better margins than contract manufacturing pens.

Capacity Breakup

(Mn pens)

Molecule	Current capacity	Capacity addition	Total capacity
Insulin	11	~24	~48
Semaglutide	10	~24	~34
Other molecules	~19	~6-11	25-30
	~40		~100

PLATFORM DEVICES



- ✓ **Shaily Tristan auto-injector:** Three step auto-injector with automatic needle insertion for delivery of Dulaglutide and Terzipetide
- ✓ **Shaily Toby Auto-Injector:** Two step auto-injector for delivery of Semaglutide
- ✓ **ShailyPen Neo:** Automatic variable dose and fixed dose Pen-Injector developed for delivery of Semaglutide and Liraglutide (**spring-driven**)
- ✓ **ShailyPen Protean:** 0-60 IU insulin reusable/disposable, settable for alternate therapies – triple-dose, double-dose and single dose (GLP-1 (good lab practice), Liraglutide and Abaloparatide)
- ✓ **ShailyPen Axiom:** HGH (human growth hormone), FSH (follicle stimulating hormone), PTH (parathyroid hormone) and GLP-1 therapies
- ✓ **ShailyPenMaxim:** 0-80IU insulin, reusable/disposable, single dose and multidose alternate therapies
- ✓ **Mira Wearable Auto-Injector:** Configurable for either Subcutaneous or Intramuscular injection, Configurable maximum dosage (1.5 - 3.0ml; 3.0 - 5.0ml; 5.0 - 15.0ml)

HEALTHCARE CLIENTS



Key Points from Annual Report and Conference Calls

- Pens sold in FY24 at 11 to 12Mn and planning for ~18-19Mn in FY25.
- Exhibit batches of Teriparatide, Liraglutide, Semaglutide (ozempic) have been supplied.
- Semaglutide (Wegovy) weight loss version batches will start in the FY25.
- **Shaily UK to grow revenues in the range of 35 to 40% for FY25. 10 to 15% growth in FY26 for Shaily UK.**
- Working on a premium reusable device since sustainability in regulated markets is gaining a lot of traction. Also, working on monoclonal antibodies using their auto-injector.
- The toys business is stopped and is now used to manufacture appliances and LED lighting (facility was fungible).
- **Shaily UK team to be doubled in near term**
- **Estimated orderbook is 6 to 7Mn pens between FY25 and FY26 for Semaglutide.**
- **34 to 35mn pens capacity will go onstream in 1st half of CY26 for SEMAGLUTIDE, existing capacity of 10mn pens. Signed 14 to 15 unique customers of Semaglutide.**
- Tooling is a very important part, hired 17 tooling engineers in last 4 months
- Pricing is based on volumes (slab wise)
- When very large amount is being invested in capacity building for pens, either customers invest or give a commitment on volumes.
- **In last 32 years, the company has never lost a customer.**
- **Shaily is the only licensed processor of Torlon in India. Torlon finds its applications in the semiconductor industry.**

Valuation & Outlook

We believe that Shaily Engineering Plastics is at a crucial turning point, driven by the healthcare segment's robust performance. The company's IP-led strategy has attracted many global customers, positioning it well to capitalize on the GLP-1 opportunity. Shaily expects a 50% growth in the healthcare segment for FY25 and anticipates a 30-35% CAGR over the next few years. This projected growth, coupled with a better product mix favoring IP-led projects over outsourcing and increased operational leverage, is expected to continuously enhance the company's margin profile.

An additional boost will occur whenever Shaily collaborates with innovator companies, leading to exclusivity during the patent period and higher realizations/margins.

The base business (Consumer and Industrial) has seen a growing order book after experiencing low growth over the past two years. This segment is expected to remain steady, with a projected 8-10% CAGR for the foreseeable future.

The company is focused on converting one-off transactions into multi-year engagements, which will increase wallet share with existing customers. It is also identifying new customers, geographies, and distribution channels to address the evolving product pipeline.

Given the enhanced visibility from the order book, customer wins, and product pipeline, the company plans to undertake a capital expenditure of approximately ₹300-400 crores over the next 3-4 years. This investment, despite current utilization levels across plants being around 40% (FY24), indicates the management's confidence in future potential.

Shaily Engineering is a classic example of re-rating, where the reinvestment of capital is being directed towards higher-margin and better-return-on-capital-employed (ROCE) businesses, which will further improve the company's financials. From FY10-24, Shaily has recorded robust growth with a Sales/EBITDA/ OCF/ PAT CAGR of 14%/16%/23%/22%.

Although some re-rating has already occurred following the Q2 results in anticipation of better performance, we will maintain close monitoring of the company, and it is currently under evaluation.

Financial Highlights:

	Standalone							Consolidated		
	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY22	FY23	FY24
Sales	3,090	3,205	3,213	3,524	5,630	5,980	6,136	5,649	6,053	6,415
EBITDA	532	526	581	596	810	866	948	812	919	1,169
OPM	17.2%	16.4%	18.1%	16.9%	14.4%	14.5%	15.4%	14.4%	15.2%	18.2%
PAT	239	193	236	220	351	300	361	353	352	573
CFO	53	665	660	225	560	847	745	550	900	923
Asset T/O	1.32	1.13	0.97	0.85	1.00	0.90	0.86	0.83	0.87	0.82
ROCE (%)	20.7%	16.5%	15.2%	12.9%	14.0%	10.5%	11.1%	11.7%	10.7%	13.1%
ROE (%)	20.8%	14.8%	16.0%	12.9%	12.8%	7.9%	8.7%	9.6%	8.8%	12.5%

Source: Company, Company, Dalal & Broacha Research

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