Shaily Engineering Plastics Ltd. – Investment BUY Call Thesis

Dear Bajaj Capital Investors,
New Stock Recommendations for BUY on 15 Oct 2026

CMP -> 3095
Buying Range -> up to 3157
Upside Potential-> 14%
Investment Horizon -> 9 to 12 Months
Target price -> 3528

1. Business Overview, Core Verticals & Product Portfolio

- **IP-Led Drug Delivery Engine in Healthcare:** Shaily Engineering Plastics has transformed from a plastic moulding component manufacturer into an intellectual property-driven strategic partner for global pharmaceutical majors. The Healthcare segment designs and manufactures complex, proprietary injectable drug-delivery platforms, including pen injectors and auto-injectors specifically tailored for GLP-1 molecules and chronic therapies. The company owns 7 IP-protected injectable device platforms (such as ShailyPen Neo, ShailyPen Harmony, Axiom, Protean and Tristan), allowing it to earn revenues from both physical device supply and proprietary R&D design value.
- **Scale Anchor in Consumer Verticals & Dedicated Facilities:** The Consumer division operates as a high-volume manufacturing anchor, running dedicated facilities for marquee global brands. This includes a 100% export-oriented unit established in 2004 for a Swedish home-furnishings major (scaled from 18 to 82 product lines alongside a carbon-steel furniture plant processing 600 tonnes of raw steel annually), primary cosmetics packaging, Gillette razor handles, P&G/Unilever trigger sprays and toys for global brands like Spin Master.
- **High-Precision Industrial Engineering & Advanced Materials:** The Industrial vertical specializes in metal-to-plastic conversion for high-stress applications in automotive turbochargers, power tools, appliances and LED lighting. Shaily is the sole licensed processor of Torlon (polyamide-imide) in India and works extensively with PEEK thermoplastics. Key product lines include critical knob assemblies for General Electric Appliances under a proprietary PVD chrome-coating process, generating annual contract values of approximately INR 40 Cr.

2. Target Geographies, Key Application Sectors & Growth Proxies

- **Diversified End-User Applications & Industry Coverage:** Shaily's addressable application sectors span injectable pharmaceuticals (GLP-1 diabetes/weight loss, insulin, teriparatide, epinephrine, oncology), home furnishings, FMCG personal care packaging, juvenile products, automotive assemblies, power tools, consumer electronics and semiconductor component handling.
- **Global Geographic Footprint & Export Orientation:** The company maintains a heavy global export footprint, delivering products across 31+ countries. Exports accounted for 69.32% of total revenues in FY26. In Q1 FY27, direct exports comprised 58% of consolidated revenue; this mix shift reflects higher Healthcare volumes supplied directly to Indian pharmaceutical leaders who market the final drug-device combination globally. Key destination markets include North America (US, Canada), Europe, Latin America (Brazil), Middle East and Asia-Pacific.
- **Macro Proxy Sectors & Structural Tailwinds:** The company's medium-to-long-term growth trajectory is directly tied to proxy drivers including the global generic GLP-1 adoption wave (projected to reach USD 157 billion by 2035), the global "China Plus One" supply chain diversification, India's Semiconductor Mission (ISM 1.0 & 2.0) and manufacturing Production Linked Incentive (PLI) schemes.

3. Financial Performance Analysis: Highlights from Q1FY27, Q4FY26 & FY26

- **Robust Top-Line Expansion & Revenue Mix Inversion:** In FY26, consolidated revenue surged 25.91% YoY to INR 990.67 Cr, approaching the INR 1,000 Cr threshold. Growth further accelerated in Q1 FY27, with consolidated revenue expanding 14% YoY to INR 281 Cr (compared to INR 247 Cr in Q1 FY26). This growth was spearheaded by the Healthcare division, which surged 139% YoY in FY26 to INR 392.8 Cr (40% of revenues) and further expanded to INR 142 Cr in Q1 FY27 (+85% YoY), becoming the company's largest vertical at 51% of total revenue.
- **Exceptional EBITDA & Profitability Trajectory:** Operating profitability has outpaced revenue growth due to high-value product mix shifts. FY26 EBITDA expanded 61.28% YoY to INR 287.7 Cr, with operating margins expanding by 630 bps YoY to 29.0%. Consolidated PAT for FY26 surged 82.5% YoY to INR 169.91 Cr. In Q1 FY27, EBITDA reached INR 83 Cr (+18% YoY) with an EBITDA margin of 29.7% (+120 bps YoY), while Q1 FY27 PAT grew 17% YoY to INR 48 Cr. Cash PAT reached INR 219 Cr (+62% YoY) in FY26.
- **Quarterly Realization Trajectory & Utilization Gains:** In Q4 FY26, consolidated revenue stood at INR 237 Cr (+9% YoY), EBITDA reached INR 69 Cr (+27% YoY, 29.3% margin) and PAT registered at INR 40 Cr (+40% YoY). Overall machine utilization continuously improved from 42.2% in FY25 to 47.6% in FY26, reaching 50.2% in Q1 FY27. Polymer processing volume declined slightly by 4% to 23,944 MT in FY26, proving that revenue growth is driven by higher realization per gram of processed polymer rather than pure commodity tonnage.

4. Capital Expenditure, Capacity Expansion & Operational Milestones

- **Pen-Injector Capacity Scaling & Line Efficiency Upgrades:** To capture global GLP-1 demand, Shaily is executing a committed INR 150 Cr capex plan in healthcare. Pen injector capacity in India expanded from ~35-40 million units to ~75 million units per year by September 2026 following the installation of new 25 million unit high-speed assembly lines. Management targets adding another 50-60 million units of pen and auto-injector capacity by December 2026, targeting a device delivery volume of over 36 million pens in FY27.
- **Overseas Capacity Creation via Abu Dhabi Plant:** Shaily is setting up an overseas manufacturing plant in Abu Dhabi with an investment of AED 13-15 Cr (~7.5 crore units capacity), scheduled to commence commercial sales by Q4 FY28. Over 50-55% of this Abu Dhabi capacity is already backed by customer commitments and volume indications. This initiative brings total planned global pen capacity to 150 million units annually, positioned to capture European market patent expirations starting in 2028.
- **Targeted Capex for Consumer Electronics & Semiconductor Trays:** In Consumer Electronics, Shaily has secured land for a dedicated manufacturing plant in South India involving an estimated capex of INR 80 Cr to INR 100 Cr. For Semiconductor conductive trays, the company deployed an initial capex of INR 5 Cr within its existing facility to support commercial rollout starting Q4 FY27.

5. Balance Sheet Strength, Debt Position & Cash Flow Conversion

- **De-leveraged Balance Sheet & Low Gearing Profile:** Despite significant capital investments, Shaily has strengthened its capital structure. Net debt-to-equity (gearing) improved to 0.3x in FY26, supported by CARE ratings of A+ (Stable) / A1. Fixed asset turnover stood healthy at 1.7x (with dedicated healthcare capex yielding 2.0x–2.5x fixed asset turnover).
- **Superior Return Ratios & Capital Allocation Efficiency:** Return ratios have surged as historical investments entered monetization. Return on Capital Employed (ROCE) doubled over two years from 17.5% to 35.8% in FY26, while Return on Equity (ROE) expanded to 26.9%. The board maintains an active enabling fund-raise resolution of INR 500 Cr to preserve financial flexibility for large, time-sensitive global projects.

- **Cash Flow Conversion Metrics & Official Conversion Ratios:** Shaily demonstrates cash conversion metrics across operating profit and net profit levels. Cash Flow from Operations (CFO) to PAT and CFO to Operating Profits over the last three financial years are outlined below:

Financial Metric	FY24	FY25	FY26
CFO / Operating Profit (%)	86%	72%	98%
CFO / PAT (%)	161%	118%	133%

6. Operating Leverage Mechanics & Margin Expansion Potential

- **Structural Vertical Shift Toward High-Margin Healthcare:** Operating margin expansion from 22.7% in FY24 to 29.0% in FY26 and 29.7% in Q1 FY27 is primarily driven by product mix enrichment. Healthcare yields significantly higher margins than industrial moulding. With Healthcare expected to exceed 50% of consolidated revenues permanently, operating margins are structurally anchored around the ~30% mark.
- **Pass-Through Lag Resolution & Gross Margin Recovery:** In Q1 FY27, raw material polymer inflation and ocean freight spikes created a short-term lag in gross margins. Management has implemented calibrated pricing adjustments & contract pass-through mechanisms, with full gross margin normalization expected by Q3 FY27.
- **Fixed Overhead Absorption & Scale Thresholds:** As high-speed automated moulding lines improve Overall Equipment Efficiency (OEE) from 34-35 parts per minute (ppm) toward rated capacity (65-67 ppm), fixed overhead absorption improves significantly. Similarly, in Consumer Electronics, reaching scale thresholds of 15-20 million units is expected to unlock operational leverage and expand operating margins beyond initial breakeven levels.

7. Strategic Collaborations, Global Partnerships & Subsidiary Footprint

- **Semiconductor Partnership with Korean Technology Leader:** Shaily entered into an exclusive supply agreement with a Korean technology partner to manufacture high-precision conductive plastic semiconductor chip handling trays. Shaily acts as the sole manufacturing partner in India, targeting domestic OSAT (Outsourced Semiconductor Assembly and Test) players and semiconductor fabs starting Q4 FY27.
- **Global Business Development Expansion & Innovator Engagement:** Shaily has appointed dedicated Business Development heads based in North America and Europe to engage directly with global innovator pharmaceutical majors. Management is in advanced discussions with innovators for novel GLP-1 molecules, targeting a major global contract partnership over the near-to-medium term.
- **Offshore IP & Service Subsidiaries in UK and Dubai:** Shaily Innovations Limited (UK) serves as the group's offshore design center and R&D hub, holding 7 proprietary patent platforms and offering human-factors engineering while leveraging UK R&D tax incentives. Shaily Innovations FZCO (Dubai), incorporated in January 2025, handles international customer design and development contracts.

8. Growth Catalyst 1: GLP-1 Commercial Rollout & Regulatory Moats

- **First-Mover Commercialization in Regulated Markets:** In FY26 and Q1 FY27, Shaily achieved commercial launches of its Shaily Harmony and Shaily Neo pen injectors for generic Semaglutide across generic markets including Canada, India, Brazil and the Middle East. In Canada, Shaily devices capture ~70% share among the first 6 generic filers. In Q1 FY27 alone, Shaily shipped ~9 million total delivery devices, of which 50% to 60% were GLP-1 pen injectors.

- **USFDA Tentative Approval & Landmark Commercial Contract:** Shaily and its pharmaceutical partner secured the world's first tentative USFDA approval for a generic Semaglutide pen injector. Additionally, Shaily secured a 4-year, INR 423 Cr pen-injector supply contract from a leading domestic pharmaceutical company.
- **High Switching Barriers & Embedded Platform Moat:** When a pharmaceutical company registers a drug with health regulators (USFDA, EMA, Health Canada), the delivery device is locked into the drug filing. Replacing a device supplier requires full clinical re-qualification taking 24 to 36 months and costing INR 70 Cr to INR 120 Cr (70-80% of original filing costs), providing multi-year revenue visibility and sole-source supplier stickiness for the drug's commercial lifecycle.

9. Growth Catalyst 2: Adjacencies in Consumer Electronics & Semiconductor Trays

- **Commercial Scaling in Consumer Electronics:** Following multi-quarter qualifications, Shaily commenced commercial shipments for consumer electronics precision components in Q4 FY26. In Q1 FY27, Shaily won 5 new internal component programs from a second global electronics client. Management estimates a revenue potential of USD 20 million to USD 100 million in this segment over the medium term.
- **Semiconductor Tray Consumables for India's Chip Ecosystem:** Semiconductor trays are consumable items required daily during chip handling and testing. Made from conductive engineered plastics with dimensional tolerances down to 5 microns, less than a dozen global companies manufacture these products. Commercial supplies commence in Q4 FY27, positioning Shaily as an early domestic supplier under India's Semiconductor Mission.
- **Long-Term Revenue Upside Potential:** These new adjacencies allow Shaily to apply its precision moulding and tool-room capabilities (capable of holding 0.03 gram parts at 5-micron tolerances) outside of healthcare, creating high-margin, non-pharma growth drivers.

10. Growth Catalyst 3: Next-Gen Injectable Devices & Therapy Expansion

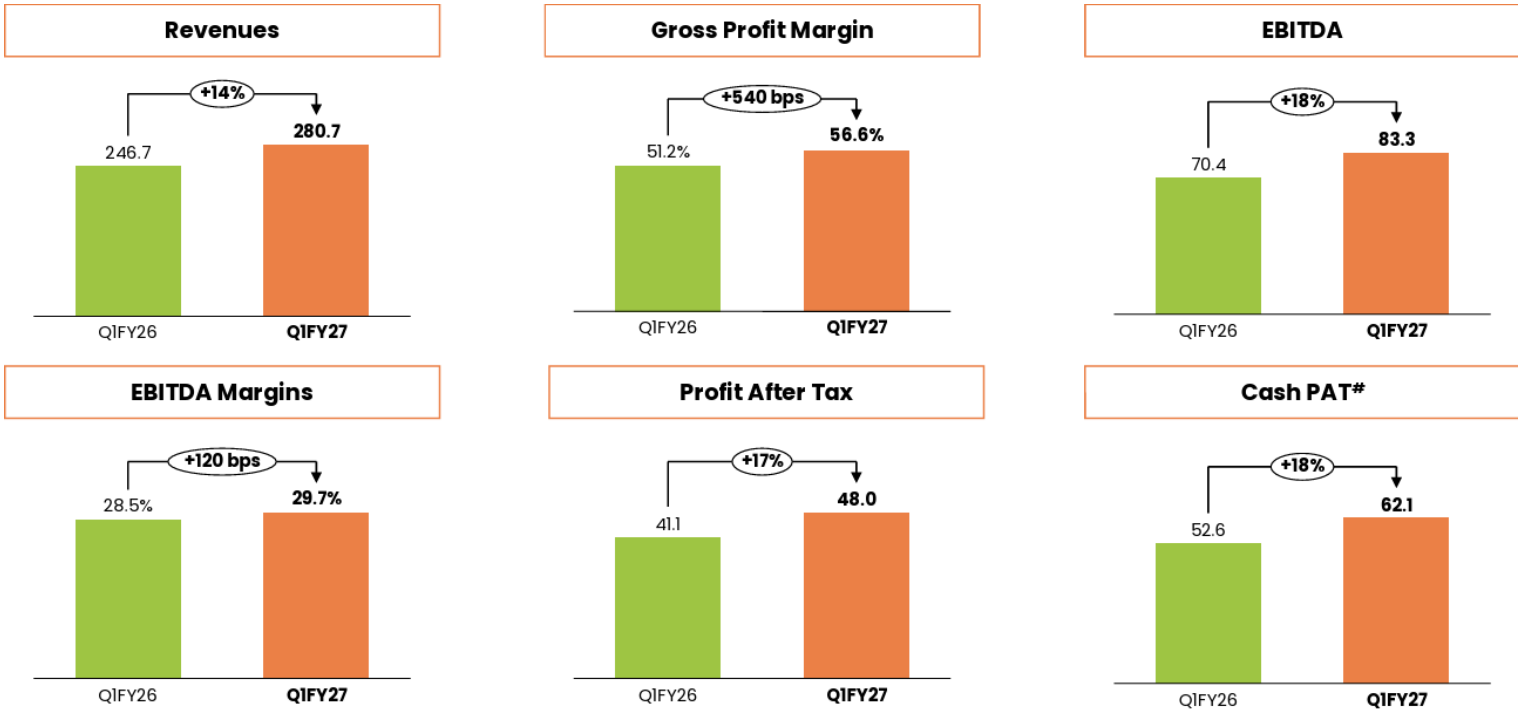
- **High-Reliability Emergency-Use Auto-Injectors:** Shaily is developing emergency-use auto-injectors (targeting molecules such as Epinephrine) designed for 99.999% activation reliability. Program closure is targeted by end-2027, addressing low-double-digit million-unit volumes at realization rates of USD 6 to USD 10 per device.
- **Reusable Auto-Injectors & On-Body Injectors Platform:** To address environmental waste from single-use injectors, Shaily plans to launch a proprietary reusable auto-injector. Concurrently, the company is reviving its "Mira" on-body wearable injector platform (3 ml to 15 ml payload capacity) for oncology, carrying realization values between USD 15 and USD 35 per device.
- **Insulin Pen Capacity Expansion & Platform Breadth:** Shaily is expanding its dedicated insulin pen capacity from 1.1 crore units to 3.0-3.5 crore units per year using its Protean and Maxim platforms, targeting 60-70% utilization. This expands the non-GLP-1 chronic therapy product mix.

11. Geopolitical Headwinds, Short-Term Operational Risks & BUY Investment Thesis

- **Geopolitical Volatility & Supply Chain Bottlenecks:** Ongoing geopolitical tension in West Asia continues to impact international shipping lanes, leading to container availability constraints, elevated ocean freight costs and temporary reliance on premium air freight. Raw material polymer price swings create short-term margin lag prior to contract pricing adjustments.
- **Automated Line Qualification & Equipment Lead Times:** Global equipment supplier lead times for specialized high-speed moulding lines have extended from 12 months to 18-24 months. Operational execution risks during high-speed line ramps (resolving uptime issues as speed scales from 35 ppm to 67 ppm) remain a key operational parameter to monitor.

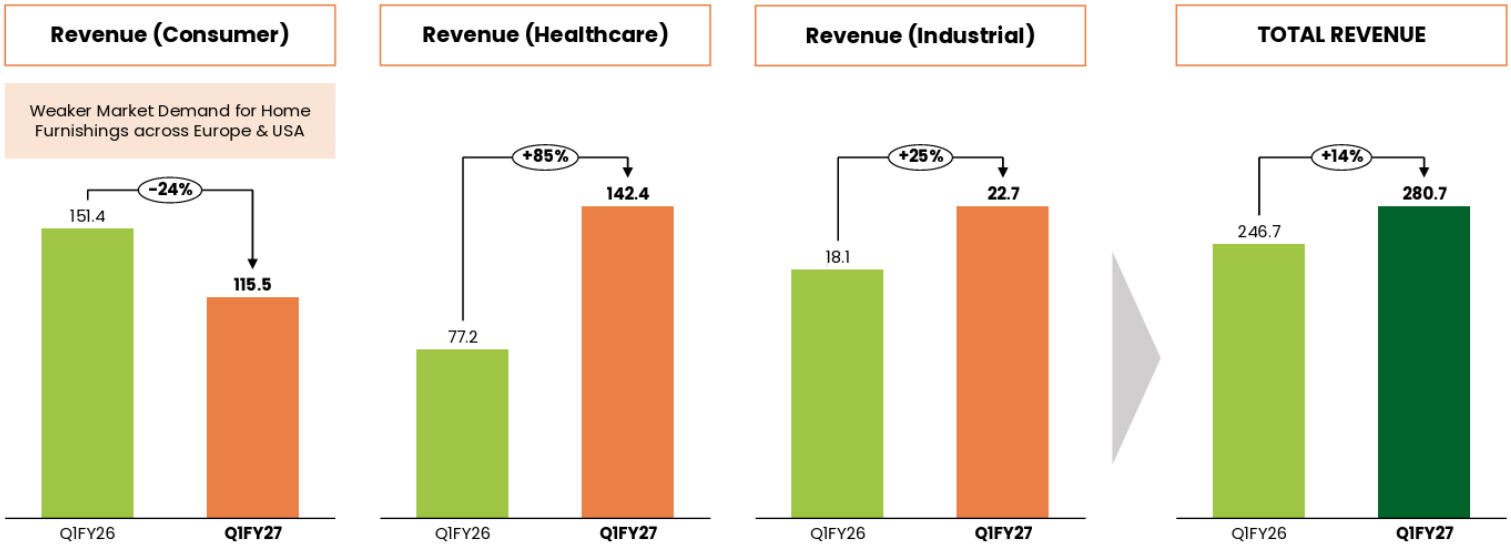
- **Medium-Term BUY Recommendation & Investment Thesis:**
    - **Investment Thesis:** Shaily presents a compelling BUY opportunity over a 9 to 12-month horizon. The company is transitioning from capital deployment into commercial monetization, supported by multi-year GLP-1 contracts, USFDA approvals and capacity scaling from ~35 million to 75+ million pen units.
    - **Financial & Margin Outlook:** Supported by medium-term revenue growth guidance of >25%, expanding ROCE (35.8%), net debt at 0.3x and an EBITDA margin profile approaching ~30%, Shaily demonstrates strong financial fundamentals.
    - **Catalyst Multipliers:** Near-term catalysts—including generic Semaglutide launches, commercial scaling in Consumer Electronics, Q4 FY27 Semiconductor tray rollouts and potential innovator partnerships—provide solid backing for a BUY rating.

Consolidated Financial Highlights – Q1 FY27:



Notes:- Amount in INR Cr., #Cash PAT includes PAT + Depreciation, * Includes the UK & UAE Subsidiary Business.

Segment Wise Revenue Breakup



Recommendation Timeline & Performance Summary:

1. **3 March 2026 – Initial BUY Recommendation:** BUY call initiated at a price of 1946 with a target price of 2240, implying ~15% upside over a 6-month investment horizon.

2. **17 March 2026 – Target Achieved:** The stock achieved our target price on 17 March 2026, accompanied by a 20% intraday gain on same day. The stock price further touched 2847 on 15 May 2026, delivered a return of 46% from the recommendation price, well ahead of our expected timeline.

3. **Sell Call (Profit Booking) - 19 May 2026 -** Sell all holdings of the stock at a price of 2637 (closing price of 19 May 2027), implying realised returns of 35.5% cumulatively from our initial recommendation price in two and half months.

4. 15 Oct 2026 – Re-Initiation of BUY Call: We have re-initiate the BUY call at the CMP of 3095 with a target price of 3528, indicating an envisaged upside potential of 14% over the next 9 to 12 months.

Happy Investing!

Thank you and best regards,

On behalf of Bajaj Capital's Research Team