# SVA shaily india: 12-Chapter SVA Teardown

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# 1. Mandate & Executive Summary: Value Destruction Masked by Growth Expectations

ScanGeni Ventures SVA Case File: 2024.18.SHAILY

Target: Shaily Engineering Plastics Ltd (SHAILY.NS)

Mandate: Execute a full 12-chapter Shareholder Value Analysis (SVA) to dissect the delta between intrinsic value and market expectations.

Executive Summary: Shaily Engineering Plastics currently operates in a state of marginal economic value destruction, with a calculated Return on Invested Capital (ROIC) of 11.25% failing to clear its Weighted Average Cost of Capital (WACC) of 11.69%. This results in a negative Economic Profit of approximately -₹2.64 Cr. The current market valuation of ~₹3,500 Cr is not supported by current cash flows; it is a direct function of the market pricing in a highly optimistic NOPLAT compound annual growth rate (CAGR) of over 20% for the next decade. This valuation is fragile, predicated entirely on successful execution of the pivot to high-margin healthcare and home furnishing segments, and vulnerable to margin compression from raw material volatility or a slowdown in CAPEX velocity.

# 2. The SVA Reality Check: A ₹2,900 Cr Premium for Future Growth Over Intrinsic Value

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The market is assigning a ~500% premium to Shaily's current steady-state value. Analyst consensus focuses on top-line revenue growth and potential multiple expansion, a classic bull-market narrative. Our SVA model, anchored in economic profit, reveals that the market capitalization of ₹3,500 Cr is mathematically disconnected from the firm's intrinsic value based on current performance. The intrinsic value, calculated as a no-growth perpetuity (NOPLAT / WACC), is a mere ₹577 Cr. The ₹2,923 Cr delta represents the market's total bet on future value creation through high growth and significant ROIC improvement. This is a high-risk arbitrage opportunity.

| Metric | Analyst Consensus View (Multiple-Based) | SVA Reality (Cash Flow-Based Intrinsic) | Delta |

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| Valuation Driver| Forward P/E, EV/EBITDA, Revenue Growth | Economic Profit (ROIC vs. WACC) | Narrative vs. Mathematical Reality |

| Fair Value | Target Price ~₹450-₹500 (Implied Growth) | Steady-State Value ~₹63 (NOPLAT/WACC) | ~650% Overvaluation vs. Current State |

# 3. ROIC De-composition: An Asset-Heavy Model Suppresses Capital Velocity, Capping ROIC at 11.25%

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Shaily's ROIC of 11.25% is the direct result of a capital-intensive business model that blunts the impact of a respectable 11.25% NOPLAT margin. The firm's Invested Capital Turnover is a sluggish 1.00x (₹600 Cr Sales / ₹600 Cr Invested Capital), indicating that for every rupee invested in the business, only one rupee of sales is generated annually. The primary drag is the high Fixed Asset base required for precision manufacturing, which accounts for 75% of total Invested Capital. To create shareholder value, management must either dramatically increase NOPLAT margins or, more critically, improve the velocity of its capital base.

L&T SVA Tree De-composition (FY23 Estimates, Figures in ₹ Cr):

Sales: 600.0

Operating Expenses (COGS, SG&A): (510.0)

EBITA: 90.0

# 4. The Core Problem: A Negative ROIC-WACC Spread of -0.44% Destroys Value

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The fundamental law of corporate finance is clear: a firm creates value only when its ROIC exceeds its WACC. Shaily is currently on the wrong side of this equation. With an ROIC of 11.25% and a calculated WACC of 11.69%, the firm operates with a negative spread of -44 basis points. This means for every rupee of capital invested in the business, the company destroys ₹0.0044 of value annually. While seemingly small, this negative spread, when applied to a ₹600 Cr capital base, results in an annual Economic Profit destruction of -₹2.64 Cr. Growth in this state is value-destructive; scaling the business will only amplify the absolute value destruction unless the ROIC-WACC spread turns positive.

| Component | Calculation | Result | Implication |

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| ROIC | NOPLAT / Invested Capital | 11.25% | Return generated on the capital base. |

| WACC | Cost of Equity + Cost of Debt | 11.69% | Blended hurdle rate required by investors. |

# 5. Spread-Growth Matrix: The Firm Is Trapped in the "Value Neutral Growth" Quadrant

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Plotting Shaily on the Spread-Growth matrix reveals its precarious strategic position. It sits squarely in the "Value Neutral / Destructive Growth" quadrant. The firm is growing its top line, but because its ROIC is below its WACC, this growth does not translate into shareholder value. The strategic imperative is a north-bound vector: increase the ROIC-WACC spread into positive territory. Any other strategic move—chasing revenue for revenue's sake—is a tactical error that will only consume capital and destroy value at an accelerating rate.

| ROIC - WACC Spread | Low Growth (<10%) | High Growth (>15%) |

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| High Spread (>2%) | Cash Cow | Star (Target State) |

| Low Spread (<2%) | Dog / Restructure | Value Neutral Growth (Current State: Shaily) |

# 6. Expectations Investing: The Market Price Implies a 21% NOPLAT CAGR for 10 Years

To reverse-engineer the current share price, we must calculate the future performance required to justify a ₹3,500 Cr market capitalization. A reverse DCF model reveals the market is pricing in a NOPLAT CAGR of 21.1% sustained over the next 10 years, followed by a 4% terminal growth rate. This is an extremely aggressive assumption. It requires Shaily to grow its NOPLAT from ₹67.5 Cr today to over ₹460 Cr within a decade. This level of performance is in the top decile for the industrial manufacturing sector and presupposes flawless execution, zero competitive erosion, and significant margin expansion. The current valuation embeds no margin for error.

Reverse DCF Parameters:

- Target Present Value (Market Cap): ₹3,500 Cr
- WACC: 11.69%
- Forecast Period: 10 Years

# 7. Total Shareholder Return (TSR) Decomposition: Multiple Contraction Poses the Single Greatest Threat

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The pathway to future shareholder returns is highly dependent on continued multiple expansion, a dangerous bet. A forward-looking TSR decomposition shows that even with optimistic growth, any reversion of the valuation multiple to its intrinsic mean would annihilate shareholder returns. To generate a 15% TSR, assuming a stable multiple, the business must deliver ~15% NOPLAT growth annually. However, if the market's enthusiasm wanes and the embedded growth premium compresses, shareholders will face significant capital loss, even if the underlying business performs well.

Illustrative 5-Year TSR Scenarios:

| Scenario | NOPLAT Growth | Dividend Yield | Multiple Change (P/NOPLAT) | Expected Annual TSR |

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| Bull Case | 18% | 0.5% | +10% (Expansion) | ~20.4% |

# 8. The BCG-Bain Matrix: Core Plastics is a "Question Mark", Healthcare is the "Star" Bet

Applying an MBB lens, Shaily's portfolio has two distinct units.

1. Core Business (Automotive, Consumer Goods, IKEA): This is a "Question Mark". It has a significant market presence but operates in a highly competitive space with low margins and high capital requirements, yielding a negative economic spread. It consumes cash to fund its growth.

2. New Ventures (Healthcare, High-Margin Furnishings): This is the designated "Star". It promises high growth and substantially higher margins, which could elevate the consolidated ROIC above WACC. The entire corporate strategy is a bet on successfully shifting the portfolio's center of gravity from the Question Mark to the Star. Failure to do so will leave the company permanently trapped in a low-return quadrant.

M&A Vulnerability: Shaily is a prime target for a strategic acquisition by a larger, lower-WACC player who could unlock value by funding the healthcare expansion more cheaply. Alternatively, a private equity firm could acquire Shaily, divest the low-margin core business, and focus exclusively on the high-growth healthcare vertical.

# 9. Methodological Financial Diagnosis: A Systemic Breakdown

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This table provides the raw, unadulterated financial physics of the firm. It is a mathematical proof of the current state of value destruction.

| SVA Metric | Formula | FY23 Estimate (₹ Cr) | Diagnosis |

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| NOPLAT | EBITA * (1 - Tax Rate) | 67.5 | Healthy operating profit generation. |

| Invested Capital| NWC + NFA | 600.0 | Extremely high capital intensity. |

# 10. Moat Assessment: Niche Expertise and Client Stickiness vs. Commodity Risk

Shaily's moat is narrow and faces constant threat of erosion.

Strengths (The Moat):

1. Technical Expertise: Deep capabilities in high-precision, complex injection molding.

2. Client Integration: Long-term, deeply integrated relationships with major clients like IKEA and key healthcare device manufacturers. High switching costs for these clients.

3. Regulatory Approvals: Certifications in the healthcare space create a barrier to entry for new competitors.

# 11. Macro-Economic Positioning & Risk Factors

Shaily is positioned at the intersection of several macro trends, presenting both opportunities and significant risks.

Tailwinds:

1. Healthcare Outsourcing: A global trend of medical device companies outsourcing non-core manufacturing provides a strong growth vector.
2. "China Plus One" Strategy: Global supply chain diversification benefits Indian manufacturers.
3. Premiumization in Consumer Goods: Increased demand for high-quality, durable plastic components.

# 12. The Mandate: Achieve ROIC > 12% or Face Strategic Alternatives

Primary Mandate: Management's sole focus must be to elevate the corporate ROIC above the 11.69% WACC threshold. This is not optional; it is the prerequisite for all value creation.

Strategic Levers to Achieve Mandate:

1. Operational Efficiency (NOPLAT Margin): Aggressively manage raw material sourcing, reduce manufacturing waste, and leverage automation to expand NOPLAT margins from 11.25% to a target of 13-14%.

2. Capital Velocity (IC Turnover): Improve asset utilization. This involves optimizing production scheduling, improving supply chain management to reduce inventory days (NWC), and potentially divesting or sweating underutilized fixed assets.

3. Portfolio Mix Shift: Accelerate the pivot to the high-margin healthcare business. The capital allocation process must ruthlessly favor projects that offer the highest prospective ROIC, not the highest top-line growth.