ICRA

November 29, 2022

HLE Glascoat Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	61.00	145.08	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Term loans	51.35	145.11	[ICRA]A (Stable); reaffirmed/assigned for enhanced amount
Letter of credit/Bank guarantee	43.50	107.50	[ICRA]A2+; reaffirmed/assigned for enhanced amount
Total	**155.85**	**397.69**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings continue to favourably factor in HLE Glascoat Limited's (HGL) established position in the glass-lined, filtration and drying equipment market, and the technical expertise acquired through consistent investment in research and development. The acquisition of Thaletec GmbH (Thaletec) in December 2021 has further strengthened the company's market position and enabled the company to increase its geographical footprint; the company's order book was comfortable at Rs. 463.02 crore as on September 30, 2022. ICRA expects the growth momentum in order book to continue, aided by the synergy benefits from the recent acquisition and the sharing of technical know-how. ICRA also factors in the favourable demand prospects on the back of healthy growth and capex expected in the pharma and specialty chemicals space, both in India and overseas in the medium term. The company also boasts of a reputed and diversified customer profile. Further, the ratings derive comfort from the company's healthy financial risk profile marked by strong net worth base, comfortable capital structure and debt-coverage metrics.

The ratings, however, are constrained by the working capital intensive operations primarily owing to the high inventory levels and the vulnerability of the company's profitability to the volatility in raw material prices, given the long manufacturing cycle. Additionally, HGL's operations remain exposed to the cyclicality in end-user industries as well as to competition from other established players that continue to put pressure on the company's margins.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that HGL will continue to benefit from its established position in the glass-lined, filtration and drying equipment industry and comfortable order book position, while maintaining its healthy credit risk profile.

Key rating drivers and their description

Credit strengths

Established position in domestic glass-lined, filtration and drying equipment market through consistent investment in research and development - HGL enjoys an established market position in the domestic glass-lined, filtration and drying equipment industry. The industry comprises few established manufacturers as the business remains technology and capital intensive. HGL has further strengthened its market position and geographical footprint through the acquisition of Thaletec GmbH (Thaletec), based in Germany, which is engaged in the business of manufacturing specialised glass-lined process equipment/reactors.

In FY2022, at the consolidated level (excluding Thaletec), HGL derived ~54% of its revenue from filtration, drying and other equipment, with around 60% market share in the segment and ~46% of its revenue from glass-lined equipment with around

~25% market share. Post the consolidation of Thaletec's financials for the full fiscal, the share of the glass-lined equipment segment is projected at 60-65% and that of the filtration, drying and other equipment is expected to be around 35-40% of the total revenue in FY2023.

Reputed and moderately diversified clientele base - The customer profile of the company comprises reputed players in pharmaceutical (API & intermediaries), speciality chemicals, agrochemicals, dyes, pigments and the food processing industry. The company's established relationship with its major customers has ensured repeat business. The customer profile of the company is moderately diversified, with the top 10 customers accounting for around 33% of the total revenue in the glass-lined equipment segment and around 45% of the total revenue in the filtration and drying equipment segment in FY2022.

Healthy financial risk profile - HGL's financial risk profile is supported by its strong net worth base, comfortable capital structure and debt coverage indicators. Its net worth base improved over FY2021-FY2022 as the company raised funds through the issuance of equity shares and warrants worth Rs. 100 crore to Malabar Funds (of which, Rs. 40.0 crore was received in December 2020, Rs. 40.0 crore in May 2021 and balance Rs. 20.0 crore in September 2021).

The company's capital structure remains comfortable, marked by a gearing of 0.9 times on a consolidated basis as on March 31, 2022 against a gearing of 0.7 times as on March 31, 2021. The gearing level increased to some extent in FY2022 owing to the debt availed to fund the acquisition of Thaletec. The acquisition was funded through a bank term loan of Rs. 72.0 crore and internal accruals of ~Rs. 40.0 crore (including the funds infused by Malabar). The coverage indicators of the company remain strong, marked by interest coverage of 8.0 times, NCA/TD of 29% and DSCR of 2.5 times in FY2022 compared with interest coverage of 9.1 times, NCA/TD of 62% and DSCR of 2.7 times in FY2021. The profit margins witnessed a moderation in FY2022 and H1 FY2023 compared to FY2021, owing to the increase in employee expenses and input cost pressure. Nevertheless, the margins are likely to improve in the subsequent quarters with softening of the raw material prices and better absorption of fixed overheads following the expected increase in the scale of operations.

With the acquisition of Thaletec, HGL's consolidated scale of operations is expected to increase significantly to close to Rs. 1000.0 crore in FY2023 from ~Rs. 650.0 crore in FY2022. The expected revenue growth along with a healthy profitability are expected to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to improve, with an estimated gearing of 0.7 times and TD/OPBDITA of 1.5 times for FY2023.

Credit challenges

Working capital intensive operations - The company's working capital intensity remains high (NWC/OI of ~25-27%) primarily due to the high inventory holding requirement (~150 days) because of the high manufacturing lead time. Also, with the increase in order book levels, the company's inventory holding requirement continues to remain at higher levels. The debtor days remained moderately high at ~70 days as of September 2022 (H1 FY2023). ICRA expects the working capital intensity to remain at higher levels (NWC/OI of ~25-27%) in the near term.

Profitability susceptible to input price fluctuations because of long production cycle - HGL's major raw materials include steel, its alloys and exotic metals such as Hastelloy, which comprise ~40-50% of the total manufacturing cost. The prices of raw materials have remained volatile over the years; thus, any adverse movement in input prices may impact the profitability of the company, given the long manufacturing cycle and the high inventory holding. Metal prices have increased considerably in the recent past. However, with prudent inventory management and increasing share of value-added products, the company has been able to mitigate this risk to a significant extent.

Operations exposed to cyclicality and new capital investments in key end-user industry - The products manufactured by HGL cater majorly to pharmaceuticals, specialty chemicals and the agrochemical industries. The end-user industry remains capital-intensive and continues to invest in increasing its capacity to cater to the growing demand for its products and hence, the company's operations remain exposed to the cyclicality in the end-user industry.

Environmental and Social Risks

Environmental considerations - HGL remains dependent on consumption of power and fuel for running its operations. The company has been undertaking various initiatives to address environmental issues. As per the disclosures made by the company, its operating units are compliant with all the environmental regulations and various statutory approvals/ permits granted by the authorities. Also, the company's emissions/ waste generated in FY2022 were within the regulatory limits defined by the State Pollution Control Board. The company has been taking steps to reduce its carbon footprint, by enhancing its reliance on renewable sources, increased usage of gas furnaces and other energy saving efforts such as adoption of energy-efficient fixtures/equipment and water recycling. The company's exposure to litigation/ penalties from issues related to waste and water management remains relatively low. Nevertheless, its pharma and chemical manufacturing customers remain highly exposed to the environmental risk; accordingly, HGL's prospects to an extent are linked to the ability of its customers to meet tightening emission requirements.

Social considerations - HGL, like most capital goods suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption free operations for the entity. HGL annual reports indicate that the entity has been taking initiatives to support its employees/vendors in upgrading their operations, skills, quality, and technology. Another social risk that HGL faces pertains to product safety and quality, wherein instances of product recalls may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, HGL's strong track record in catering to leading pharma/chemical manufacturers underscore its ability to mitigate these risks to an extent. The company's strong technological capabilities are likely to help it align its products with any change in customer preferences.

Liquidity position: Adequate

The company's liquidity position is adequate supported by cushion in the working capital limits as indicated by moderate limits utilisation of ~49% over the 12-month period from September 2021 to August 2022 and free cash and bank balances of Rs. 10.6 crore as on September 30, 2022. Also, the company's estimated annual cash accruals are expected to remain sufficient against the annual debt repayments of ~Rs. 24.0-44.0 crore over FY2023-FY2024. Moreover, ICRA notes that the fresh enhancement in the working capital limits by ~Rs. 80.0 crore is expected to provide liquidity comfort to the company.

Rating sensitivities

Positive factors - ICRA could upgrade HGL's rating if the company demonstrates significant growth in revenues and profitability, improving the cash accruals on a sustained basis. Additionally, moderation in the working capital intensity, leading to an improvement in liquidity, may also lead to an upgrade.

Negative factors - Pressure on HGL's rating could arise if any significant decline in revenues or profitability leads to lower-than-expected cash accruals; or if any stretch in the working capital cycle or higher-than-expected debt-funded capex impacts the capital structure and liquidity profile. A specific credit metric that could lead to a downgrade is total debt/OPBDITA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of HLE Glascoat Limited and its subsidiaries. The list of the entities considered for consolidation is given in Annexure-2.

About the company

HLE Glascoat Limited (HGL; formerly known as Swiss Glascoat Equipment Limited), incorporated in 1991, is a public limited company listed on the Bombay Stock Exchange and the National Stock Exchange. The company was originally promoted by Mr. Sudarshan Amin. Later, in October 2016, HLE Engineers Pvt. Ltd. (HLE) along with its promoters, Surat-based Patel group, acquired a 50.25% shareholding in HGL from its existing promoters and received equity infusion through warrants. In December 2019, pursuant to the approval of the scheme of arrangement between HGL and HLE, the operating business of HLE was demerged into HGL effective from April 1, 2018. With the merger of HLE, the promoters of HLE acquired a 74.25% shareholding of HGL and the company thus added the existing product portfolio of HLE, i.e, Agitated Nutsche Filters, Rotary Vaccum Paddle Dryers and other allied equipment and chemicals (chemical operations were discontinued in Q4 FY2021 due to social concerns) at its manufacturing facility of Maroli, Gujarat, to its existing product umbrella.

Further, the company currently has two subsidiaries:

- **Thaletec GmBH (includes Thaletec Inc., U.S.A. as a step-down subsidiary)**: In December 2021, HGL acquired 100% shares in Thaletec GmbH (Thaletec), based in Germany, which is engaged in the business of manufacturing specialised glass-lined process equipment/reactors. Thaletec has its headquarters in Thale, Sachsen-Anhalt, Germany. Thaletec also has a business development and service centre in North Carolina, U.S.A., through its wholly-owned subsidiary, Thaletec Inc., U.S.A.
- **HL Equipments (99% subsidiary)**: It is a partnership firm involved in the manufacturing of filtration, drying and other equipment at Silvassa, Dadra and Nagar Haveli. The firm ceased operations from this fiscal onwards with the start of the new and augmented filtration and drying capacity at Silvassa.

Currently, HGL has glass-lined equipment manufacturing facility at Anand-Gujarat, filtration, drying and other equipment manufacturing facility at Maroli-Gujarat and Silvassa- Dadra and Nagar Haveli. Apart from these, the glass-lined equipment capacity of the subsidiary, Thaletec, is located Thale, Sachsen-Anhalt, Germany.

Key financial indicators (audited) – Standalone

HGL Standalone	FY2021 Audited	FY2022 Audited
Operating income	421.7	509.2
PAT	52.3	61.8
OPBDIT/OI	19.4%	17.7%
PAT/OI	12.4%	12.1%
Total outside liabilities/Tangible net worth (times)	1.3	1.3
Total debt/OPBDIT (times)	1.1	2.3
Interest coverage (times)	8.0	7.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Key financial indicators (audited) – Consolidated

HGL Consolidated	FY2021 Audited	FY2022 Audited
Operating income	485.5	652.9
PAT	53.4	58.2
OPBDIT/OI	19.8%	17.1%
PAT/OI	11.0%	8.9%
Total outside liabilities/Tangible net worth (times)	1.8	2.0
Total debt/OPBDIT (times)	1.0	1.9
Interest coverage (times)	9.1	8.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Nov 29, 2022	Sep 28, 2021	Aug 17, 2021	-	Mar 31, 2020
1	**Cash credit**	Long term	145.08	-	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	**[ICRA]BBB+ (Stable)**
2	**Term loan**	Long term	145.11	139.10	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	**[ICRA]BBB+ (Stable)**
3	**Letter of credit & bank guarantee**	Short term	107.50	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	-	**[ICRA]A2**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund Based – Cash Credit	Simple
Long-term – Fund Based – Term Loan	Simple
Short-term – Non-Fund Based – Letter of Credit & Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	145.08	**[ICRA]A (Stable)**
NA	**Term loan**	FY2021	8.7%-11.3%; 2.5% for foreign currency denominated loan	FY2027	145.11	**[ICRA]A (Stable)**
NA	**Letter of credit & bank guarantee**	NA	NA	NA	107.50	**[ICRA]A2+**

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	HGL's Ownership	Consolidation Approach
HLE Glascoat Limited (HGL)	- (rated entity)	Full Consolidation
HL Equipments	99.00%	Full Consolidation
Thaletec GmbH	100.00%	Full Consolidation

Source: Annual Report

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