ICRA

April 21, 2017

Swiss Glascoat Equipments Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit Limits	15.00	Upgraded to [ICRA]BBB+ from [ICRA]BBB; removed from rating watch with developing implications, 'Stable' outlook assigned
Term Loans	5.00 (Enhanced from Rs. 4.78 crore)	Upgraded to [ICRA]BBB+ from [ICRA]BBB; removed from rating watch with developing implications, 'Stable' outlook assigned
Non Fund based Limits	19.22 (Enhanced from Rs. 15.22 crore)	Upgraded to [ICRA]A2 from [ICRA]A3+; removed from rating watch with developing implications
Total	**39.22**	

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long term rating to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B) for the Rs. 15.00 crore[1] cash credit limits and Rs. 5.00 crore term loans (enhanced from Rs. 4.78 crore) of Swiss Glascoat Equipments Limited (SGEL)[2]. ICRA has also upgraded the short term rating to [ICRA]A2 (pronounced ICRA A two) from [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 19.22 crore non fund based limits (enhanced from Rs. 15.22 crore) of SGEL. ICRA has removed the ratings from and has assigned Stable outlook for the long term ratings.

Rationale

The ratings for SGEL had earlier been placed under 'rating watch with developing implications' following the announcement by its promoters to enter a share purchase agreement with Surat-based HLE Engineers Private Limited (HEPL or acquirer) and sell its shares and issue convertible warrants to HEPL. ICRA has evaluated the impact of acquisition of stake by HEPL on the credit profile of SGEL and has removed the ratings from rating watch.

The rating upgrade takes into consideration the improvement in the capital structure following the equity infusion of Rs. 17.55 crore by HEPL, the expected benefit accruing post planned capacity expansion though the funds raised, given present capacity utilization remains close to 90% and the boost to the liquidity profile in the medium term. The ratings continue to positively factor in SGEL's established position and technical expertise in the glass-lined equipment (GLE) industry, through consistent investment in research and development, and its reputed clientele and experienced management team. The ratings continue to favourably consider the company's comfortable financial risk profile characterised by healthy profitability margins and comfortable debt coverage metrics. Furthermore, the ratings also factor in the stable demand prospects of SGEL's products emanating from key user industries; inherently high entry barriers present in the GLE industry; and the consistent growth reported over the past few years.

[1] 100 lakh = 1 crore = 10 million

[2] For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

The ratings, however, are constrained by the modest scale of operations; the high working capital intensity of operations; and the vulnerability of profitability to volatility in steel prices (key raw material) which may exert downward pressure on margins. ICRA has also taken into consideration the exposure of the company's operations to the cyclicality in key end-user segments as well as the possibility of pricing pressures arising from the presence of other established domestic players in the GLE segment.

The company's ability to scale up in a significant way post infusion of funds, through requisite capacity expansion, maintain its profitability levels and effectively manage its inventory turn around, so as to keep its liquidity profile under check, will remain the key rating sensitivities.

Key rating drivers

Credit strengths

- Established presence in the domestic glass-lined-equipment (GLE) market with ~30% market share
- Technical expertise in GLE segment through consistent investment in research and development activities
- Financial profile characterised by healthy profitability margins and conservative capital structure, further strengthened by equity infusion of Rs. 17.6 Cr in FY2017, translating into comfortable debt protection metrics
- Healthy demand prospects from end-user industries such as chemicals and pharmaceuticals

Credit weakness

- Modest scale of operations
- Working capital intensive operations on account of higher inventory holding
- Operations exposed to cyclicality and new capital investments in key end-user segments
- Vulnerability of profitability to volatility in steel prices given the long production cycle

Description of key rating drivers:
SGEL's sustained R&D effort has helped in developing frit glass lining technology, which is more corrosive resistant and has anti bacterial glass technology. Indigenous technology and established track record in has supported SGEL's operations and profitability in the past which is reflected by SGEL's healthy operating margins at 12.3% in FY2016 and FY2015. SGEL has ~30% market share in the domestic glass lined equipments (GLE) industry, which is characterised by very few manufacturers as the business is technology and capital intensive. The stable demand from major customer segments such as pharmaceuticals and chemicals are expected to drive growth in the medium term. Steel and related products constitute ~40% of the raw material cost and each GLE takes around three months to six months times to manufacture, thereby exposing the margins to adverse fluctuation in raw material price. The working capital intensity of the company continues to remain high at 28% in FY2016 owing to the long manufacturing cycle and high inventory levels.

SGEL has issued 15 lacs warrants at Rs. 117 per warrant to HLE Engineers Pvt. Ltd. and subsequently converted into equity shares on March 31, 2017. Fresh equity infusion of Rs. 17.55 crore has improved the net worth and capital structure as on FY2017-end. The coverage metrics have also remained healthy in the last two years; the company's interest coverage stood at 3.4 times in FY2016 as against 3.3 times in FY2015.

Analytical approach: For arriving at the ratings, ICRA has taken into account the standalone financial performance as well as business risk profile of SGEL, as well as change in promoter and board composition pursuant to HEPL becoming the major shareholder.

Links to applicable criteria
Corporate Credit Rating Methodology
http://www.icra.in/Files/Articles/Rating%20Meth%20Mar%202017.pdf

About the company:

Incorporated in 1991, Swiss Glascoat Equipments Limited (SGEL), is a public limited company listed on the Bombay Stock Exchange. The company operates from its sole manufacturing facility at Anand in Gujarat. SGEL manufactures glass-lined chemical processing equipment (GLE), largely used by pharmaceutical, chemical and food processing industries. The company was originally promoted by Mr Kanubhai Patel and Mr Sudarshan Amin, who have extensive experience in the glass lining industry spanning more than two decades.

In December 2016, the promoters of SGEL sold 35.3% of equity shares to HLE Engineers Pvt. Ltd. (HEPL), a part of Surat-based Patel group, and its directors, pursuant to which HEPL and its directors have become promoters of SGEL. Furthermore, SGEL has issued 15 lacs equity shares to HEPL and it holds 49.63% of equity shares as on March 31, 2017. The aim of acquisition by HEPL was to diversify its product portfolio at group level and enhance operational and marketing synergies. Mr. Amin would continue as Non-executive director to oversee smooth transition.

For nine months period ended December 31, 2016 SGEL has reported an operating income of Rs. 58.9 crore and profit after tax of Rs. 2.4 crore. For FY2016, SGEL reported an operating income of Rs. 92.4 crore and profit after tax of Rs. 4.2 crore as against an operating income of Rs.88.4 crore and profit after tax of Rs 4.5 crore during FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				April 2017	December 2016	May 2016	December 2014	July 2013
1.	Cash Credit	Long Term	15.00	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB& (on rating watch with developing implications)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2.	Term Loan	Long Term	5.00	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB& (on rating watch with developing implications)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3.	Non Fund based limits (LC/BG)	Short Term	19.22	**[ICRA]A2**	**[ICRA]A3+& (on rating watch with developing implications)**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	15.00	[ICRA]BBB+ (Stable)
Term Loans	September 2015	-	September 2021	5.00	[ICRA]BBB+ (Stable)
Bank Guarantee	-	-	-	11.00	[ICRA]A2
Letter of Credit	-	-	-	8.00	[ICRA]A2
Credit Exposure Limits	-	-	-	0.22	[ICRA]A2

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About ICRA Limited:
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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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