Swiss Glascoat Equipments Limited

September 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	20.00	20.00	[ICRA]BBB+(Stable); reaffirmed
Non-fund based limits	19.22	19.22	[ICRA]A2; reaffirmed
Total	**39.22**	**39.22**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of the Rs. 20.00-crore fund-based facilities of Swiss Glascoat Equipments Limited (SGEL) at [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating at [ICRA]A2 (pronounced ICRA A two) of the Rs. 19.22-crore non-fund based facilities of SGEL.

Rationale

The rating reaffirmation continues to factor in SGEL's established position and technical expertise in the glass-lined equipment (GLE) industry, through its consistent investment in research and development, and its reputed clientele. The ratings favourably consider the company's comfortable financial risk profile characterised by comfortable capital structure and debt coverage metrics. Furthermore, the ratings also factor in the stable demand prospects of SGEL's products emanating from its key user industries.

The ratings, however, are constrained by the modest scale of operations, as well as the vulnerability of profitability to volatility in steel prices, thereby, exerting downward pressure on its margins. ICRA has also considered the exposure of the company's operations to the cyclicality in key end-user segments as well as the possibility of pricing pressure arising from the presence of other established domestic players in the GLE segment. ICRA also notes the SGEL's operations remain working capital intensive. Further, it is carrying out a debt-funded capex to increase its capacity and SGEL's ability to complete the capex within budgeted cost- time while scaling up its operations remains credit sensitivity.

Outlook: Stable

ICRA expects SGEL to continue to benefit from its established position in the GLE segment and the stable demand of its products. The outlook may be revised to Positive with a significant increase in its sales and profitability along with the decline in the working capital intensity. The outlook may be revised to a Negative with any decline in profitability and cash accruals, higher-than-expected debt-funded capex or a further increase in the working capital intensity, leading to a stretch in liquidity.

Key rating drivers

Credit strengths

Technical expertise in GLE-segment through consistent investment in research and development – SGEL's glass-lined chemical processing equipment requires a high level of purity as glass prevents the chemicals from corroding the base metal. Its sustained research and development (R&D) effort has helped in developing frit glass lining technology, which is more corrosive-resistant.

Established presence in the domestic GLE market with ~30% market share - SGEL has a well-established presence in the domestic GLE industry, which has a few manufacturers, as the business is technology and capital intensive. However, besides the domestic players, SGEL faces competition from Chinese imports in the industry.

Healthy financial risk profile - With decline in its working capital debt, SGEL's gearing remained at 0.1 times as on March 31, 2018 from 0.3 times as on March 31, 2017, reflecting comfortable capital structure of the company. In line with the decline in debt levels, the interest cost also declined, leading to improved coverage indicators. SGEL's interest coverage stood at 6.4 times in FY2018 as against 3.7 times in FY2017. Further, SGEL recorded adequate liquidity position with an unencumbered cash of ~Rs. 9.4 crore and unutilised working capital limits.

Credit challenges

Modest scale of operations and working capital intensive operations – Despite witnessing a growth of 19% in FY2018, the scale of operations of the company continues to remain modest with operating income (OI) of Rs. 97.30 crore. Further, the working capital intensity of SGEL remains high at 25% in FY2018, owing to the extended manufacturing cycle, thereby keeping inventory levels high. Furthermore, ICRA notes that company is undertaking a capex to increase its capacity by 25% and demand for additional capacity and consequent scaling up remains to be seen.

Operations exposed to cyclicality and new capital investments in key end-user segments - Since the end-user industry is limited and highly capital intensive, the company's operations are exposed to cyclicality. However, the stable demand from the major customer segments such as pharmaceuticals and chemicals are expected to drive growth in the medium term.

Vulnerability of profitability to volatility in steel prices, given the long production cycle - Steel and its related products constitute about 40% of the raw material cost for the manufacture of GLE, and each product normally takes around three to six months to manufacture, thereby exposing the margins to adverse fluctuations in raw material prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies, as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

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, Gujarat. SGEL manufactures glass-lined chemical processing equipment (GLE), largely used by the pharmaceutical, chemical and food processing industries. The company was originally promoted by Mr. Kanubhai Patel and Mr. Sudarshan Amin, who have extensive experiences in the glass-lining industry spanning more than two decades. It is carrying out a capex to increase its capacity by ~25% during FY2019.

In December 2016, the promoters of SGEL sold 35.3% of equity shares to HLE Engineers Pvt. Ltd. (HEPL), a part of the Surat-based Patel Group, and its directors, resulting in HEPL and its directors becoming the promoters of SGEL. Furthermore, SGEL has issued 15 lakh convertible warrants to HEPL. The aim of the acquisition by HEPL was to diversify its product portfolio at Group level and enhance operational and marketing synergies. HEPL holds 49.63% stake in SGEL.

The company recorded a net profit of Rs. 5.4 crore on an OI of Rs. 97.3 crore in FY2018, as against a net profit of Rs. 3.1 crore on an OI of Rs. 81.5 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	81.5	97.3
PAT (Rs. crore)	3.1	5.4
OPBDIT/ OI (%)	11.8%	11.5%
RoCE (%)	13.2%	14.2%
Total Debt/ TNW (times)	0.3	0.1
Total Debt/ OPBDIT (times)	1.2	0.5
Interest Coverage (times)	3.7	6.4

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018 April 2017	Date & Rating in FY2017 December 2016	Date & Rating in FY2017 May 2016	Date & Rating in FY2016 -
1	Cash Credit	Long Term	15.00	-	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB& (on rating watch with developing implications)	[ICRA]BBB (Stable)	-
2	Term Loan	Long Term	5.00	2.93	**[ICRA]BBB+ (Stable)**	[ICRA]BBB+ (Stable)	[ICRA]BBB& (on rating watch with developing implications)	[ICRA]BBB (Stable)	-
3	Non-fund based limits (LC/BG)	Short term	19.22	**-**	**[ICRA]A2**	[ICRA]A2	[ICRA]A3+ (on rating watch with developing implications)		-

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BBB+(Stable)
NA	Term Loan	FY2016	NA	FY2022	15.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	NA	NA	NA	11.00	[ICRA]A2
NA	Letter of Credit	NA	NA	NA	8.00	[ICRA]A2
NA	Credit Exposure Limit	NA	NA	NA	0.22	[ICRA]A2

Source: Swiss Glascoat Equipments Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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