

March 31, 2020

HLE Glascoat Limited: Ratings reaffirmed with Stable outlook and removed from watch with developing implications; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit & Bill Discounting	15.00	36.00	[ICRA]BBB+(Stable); Reaffirmed and removed from watch with developing implications
Fund-based - Term Loan	5.00	40.84	[ICRA]BBB+(Stable); Reaffirmed and removed from watch with developing implications
Non-fund Based - Letter of Credit & Bank Guarantee	19.22	71.00	[ICRA]A2; Reaffirmed and removed from watch with developing implications
Total	39.22	147.84	

**Instrument details are provided in Annexure-1*

Rationale

The ratings for HLE Glascoat Limited (HGL), formerly known as Swiss Glascoat Equipments Limited has been removed from 'rating watch with developing implications' and reaffirmed with Stable outlook, following the completion of demerger of operating business of HLE Engineers Pvt. Ltd. (HLE) in HGL in December 2019. The scheme was made effective from April 1, 2018. The size of the company has augmented in terms of scale and profitability post the merger of HLE's engineering business, chemical business and 80% subsidiary, HL Equipments.

The reaffirmation in the ratings continues to favourably factor in HGL's established position in the glass-lined equipment and filtration and drying equipment business; its technical expertise acquired through consistent investment in research and development; and its reputed clientele base. The ratings, further, take into account the rise in scale and profitability of the company and the healthy return indicators caused by high demand supported by periodical capacity enhancement, production debottlenecking and synergies from the merger.

The ratings are, however, constrained by the moderately leveraged capital structure and the working capital intensive operations, which have kept the debt at elevated levels. Additionally, the company is susceptible to volatility in raw material prices, cyclicity in end-user industries as well as competition from other established players that continues to put pressure on the company's margins. ICRA also notes the impact of COVID-19 and other aligned regulatory restrictions, and continues to monitor its impact on the company's operations in case of prolongation of existing conditions.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that HGL will continue to benefit from the long track record of the company's operations and its established position in the glass-lined equipment and filtration and drying equipment industry.

Key rating drivers and their description

Credit strengths

Established position in domestic market through consistent investment in research and development - HGL enjoys an established market position in the domestic glass-lined chemical equipment and filtration and drying equipment industry. The industry comprises few established manufacturers as the business remains technology and capital intensive. HGL's glass-lined chemical processing equipment requires a high level of precision as glass prevents the chemicals from corroding the base metal. Its sustained research and development effort has helped in developing glass frit and glass lining technology which is more corrosive-resistant.

Reputed clientele base; moderate customer concentration – The customer profile of the company comprises reputed players in pharmaceutical (API & intermediaries), speciality chemicals, agrochemicals, dyes, pigments, food processing industry, etc. The company's established relationship with its major customers has ensured repeat business. The customer concentration of the company remained moderately diversified with the top-10 customers accounting for ~40%-50% of the total revenues in the past years.

Healthy growth in scale and profitability; operational synergies from merger – The size of the company has augmented in terms of scale and profitability, post the merger of HLE's engineering business, chemical business and subsidiary—HL Equipments. The operating income remained at Rs. 337.2 crore in FY2019 and Rs. 288.3 crore in 9MFY2020 with healthy demand from key user industries. Further, the operating profitability stood at 12.2% in FY2019 and further increased to 16.1% in 9M FY2020 driven by operational synergies from merger and economies of scale. The return indicators also stood healthy with RoCE at 37.8% for the merged entity in FY2019.

Credit challenges

Moderately leveraged capital structure and working capital intensive operations – The overall debt post-merger stood high at Rs. 112.5 crore in FY2019 (compared to Rs. 19.5 crore in FY2018) with merger of relatively debt heavy operations of HLE and issue of preference shares as a part of consideration. The overall debt as on FY2019-end comprised of Rs. 40.9 crore in term loan, Rs. 28.9 crore of working capital limits, Rs. 27.4 crore of preference shares and Rs. 15.4 crore of unsecured loans from promoters. Consequently, the capital structure of HGL (post-merger) remained moderate, with gearing at 2.7 times in FY2019 against 0.1 times in FY2018 (pre-merger). Further, HGL continues to undertake debt-funded capital expenditure towards capacity expansion, process automation and debottlenecking of operations, which is expected to keep the debt profile elevated. However, with healthy expected cash accruals, the capital structure is expected to improve going forward. Additionally, the working capital intensity of HGL remains high because of high inventory requirements (inventory days at 163 days in FY2019), given the high manufacturing lead time, which is supported by high credit period from suppliers and payments against letter of credit (credit days stood at 120 in FY2019).

Profitability susceptible to input price fluctuations because of long production cycle – HGL's major raw material includes steel, its alloys and exotic metals like Hastelloy, which comprises ~40-45% of the total manufacturing cost. The prices of raw materials have remained volatile over the years; thus, any adverse movement in the input prices will impact the profitability of the company, given the long manufacturing cycle. However, with prudent inventory management and high value-added products (larger size vessels and complex equipments) manufactured by the company in the recent past, the company has been able to mitigate this risk to some extent.

Operations exposed to cyclicalities and new capital investments in key end-user industry – The products manufactured by HGL cater majorly to pharmaceuticals, specialty chemicals and agrochemicals. The end-user industry remains capital intensive and continues to invest in increasing their capacity to cater to the growing demand for their products and

hence, the company's operations remain exposed to cyclicalities in the end-user industry. However, in the near term, the operations may remain impacted in case of elongation of current scenario and other aligned regulatory restrictions owing to COVID-19.

Liquidity position: Adequate

HGL's liquidity is **adequate** with healthy cash accruals vis-à-vis debt repayments. The liquidity is further supported by adequate cushion in its working capital limits as reflected by average utilisation of ~15% and ~44% in the glass-lined equipment division (Anand facility) and filtration and drying equipment division (Maroli facility) respectively (for the period - April 2018 to December 2019).

Rating sensitivities

Positive triggers – ICRA could upgrade HGL's rating if the company demonstrates a significant growth in revenues and profitability, leading to higher-than-expected cash accruals on a sustained basis. Additionally, strengthening of net worth along with moderation in working capital intensity, leading to improvement in capital structure and liquidity, may also lead to a rating upgrade. Specific credit metrics that could lead to an upgrade will be i) interest coverage above 6 times and ii) TOL/TNW below 1.5 times on a sustained basis.

Negative triggers – Negative 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 further stretch in the working capital or higher-than-expected debt-funded capex impacts the capital structure and liquidity profile. Specific credit metrics that could lead to a downgrade of HGL's rating include TOL/TNW above 4.5 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

Incorporated in 1991, HLE Glascoat Limited (HGL) (formerly known as Swiss Glascoat Equipments Limited) is a public limited company listed on the Bombay Stock Exchange. The company manufactures glass-lined equipment (GLE) at its manufacturing facility at Anand, Gujarat. The company was originally promoted by Mr. Sudarshan Amin. Later in October 2016, HLE Engineers Pvt. Ltd. (HLE) along with its promoters acquired 50.25% shareholding in HGL from its existing promoters and equity infusion through warrants. In December 2019, pursuant to the approval of scheme of arrangement between HGL and HLE, the operating business of HLE was demerged into HGL effective from April 1, 2018. With merger of HLE, the promoters of HLE, Surat-based Patel group acquired 74.25% shareholding of HGL and the company thus added existing product portfolio of HLE, i.e., Agitated Nutsche Filters (ANF), Rotary Vacuum Paddle Dryers (RVPD) and other allied equipments and manufacturing of chemicals at its manufacturing facility of Maroli, Gujarat to its existing product umbrella. The products manufactured by HGL caters to pharmaceutical, specialty chemical, agrochemical and food processing industry.

In FY2019, the company reported a net profit of Rs. 18.1 crore on an operating income of Rs. 337.2 crore. In current fiscal, the company reported a net profit of Rs. 26.8 crore on an operating income of Rs. 288.3 crore in 9M FY2020.

Key financial indicators (audited)

	Pre-merger (HLE)	Pre-merger (HGL)	Post-merger (HGL)	
	FY2018	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	219.4	97.3	337.2	288.3
PAT (Rs. crore)	14.8	5.4	18.1	26.8
OPBDIT/OI (%)	12.6%	11.5%	12.2%	16.1%
RoCE (%)	22.6%	14.2%	37.8%	-
Total Outside Liabilities/Tangible Net Worth (times)	2.0	0.9	5.6	-
Total Debt/OPBDIT (times)	2.4	0.5	2.7	-
Interest Coverage (times)	3.0	6.4	2.9	5.2
DSCR	0.8	3.5	2.6	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017	
					31-Mar-2020	25-Jan-2019	27-Sep-2018	21-Apr-2017	15-Dec-2016	10-May-2016
1	Cash Credit & Bill Discounting	Long Term	36.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB &	[ICRA]BBB (Stable)
2	Term Loan	Long Term	40.84	40.84	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB &	[ICRA]BBB (Stable)
3	Letter of Credit & Bank Guarantee	Short Term	71.00	-	[ICRA]A2	[ICRA]A2 &	[ICRA]A2	[ICRA]A2	[ICRA]A3+ &	[ICRA]A3+

Amount in Rs. crore; ^As on March 15, 2020; & - Ratings placed on 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit & Bill Discounting	NA	NA	-	36.00	[ICRA]BBB+(Stable)
NA	Term Loan	FY2018	NA	FY2026	40.84	[ICRA]BBB+(Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	71.00	[ICRA]A2

Source: HLE Glascoat Limited

Annexure-2: List of entities considered for consolidated analysis: None

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