

February 06, 2024

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
Fund Based - Cash Credit	145.08	189.08	[ICRA]A (Stable); Reaffirmed/ Assigned for enhanced amount
Interchangeable Fund-Based - Cash Credit	0.00	(60.00)	[ICRA]A (Stable); Assigned
Fund based - Term Loan	145.11	190.42	[ICRA]A (Stable); Reaffirmed/ Assigned for enhanced amount
Non-fund based - Letter of Credit & Bank Guarantee	107.50	136.00	[ICRA]A2+; Reaffirmed/Assigned for enhanced amount
Short Term - Derivative Limits	0.00	2.00	[ICRA]A2+; Assigned
Total	397.69	517.50	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the long-term ratings of HLE Glascoat Limited (“HGL” or “the Company”) continue to favourably factor in the Company’s 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 had strengthened the Company’s market position and enabled the Company to increase its geographical footprint. In H1FY2024, HGL has further diversified into a related product segment of heat exchangers (HE), with announcement of acquisition of 70% stake (of which acquisition of ~35.5% stake has been completed on Sep 26, 2023 in phase-1) in Kinam Engineering Industries (Kinam; Partnership Firm) in Sep-2023, which is being undertaken in 2 phases. The 2nd leg of the transaction is expected to materialize by end-FY2025 post the receipt of requisite approvals. The acquisition should aid both the consolidated revenues and operating profitability, with Kinam’s profitability margins being higher than HGL. Kinam has a high degree of customer overlap with HGL, and with its acquisition, HGL should be able to offer an expanded range of products to its customers.

The ratings also factor in the expected improvement in the credit metrics going forward on account of improvement in profitability as well as scale of operations, along with steady repayment of long-term debt. HGL’s scale of operations have been witnessing a consistent growth over the past 3 years, driven by organic as well as inorganic expansions. The Company has been consistently expanding its manufacturing capacities for both of its key segments - glass lined equipment (GLE) and filtration & drying equipment (F&D), across its manufacturing facilities at Anand, Silvassa and Maroli. Further, there is substantial room for further augmentation of capacities across its manufacturing campuses at Silvassa and Anand in India, and also at the Thaletec plant in Germany.

HGL’s order book remains comfortable at Rs 569.66 crore as on Sep 30, 2023 (Rs. 463.02 crore as on Sep 30, 2022), providing adequate revenue visibility going forward. ICRA expects the growth momentum in order book to continue, aided by the synergy benefits from the recent acquisitions 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 in the medium term. The ratings also factor in Company’s reputed and diversified customer profile.

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. To mitigate the same, the Company places orders for the metal required on approval of the order, and to that extent it is adequately protected/ hedged against metal prices. Additionally, HGL’s operations remain exposed to the cyclicity in end-

user industries as well as to competition from other established players that continue to put pressure on the Company's margins, as has been the case in the last few quarters. Moreover, since a part of the recent acquisition was debt funded, the debt metrics are likely to moderate for FY2024, although the same are expected to witness an improvement thereafter, owing to expected improvement in profitability as well as steady decline in debt levels. However, the Company also derives revenue from after-sales in both the F&D and GLE segments, which protects the volatility of revenues from end-user cyclicality to a certain extent. In Germany after-sales segment accounts for over 40-45% of the total sales.

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; Kinam acquisition marks entry into heat exchangers - 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. During H1FY2024, the Company announced acquisition of 70% controlling stake in Kinam Engineering Industries (partnership Firm), which is engaged in the business of manufacturing heat exchangers for the chemical and pharmaceutical industries. The acquisition should aid both the consolidated revenues and operating profitability, with Kinam's profitability being higher than HGL. Kinam has a high degree of customer overlap with HGL, which is likely to allow HGL to offer an expanded range of products to its customers. Kinam also caters to certain industries where currently HGL is not present, and they can open doors for HGL's products as well as technical capability to provide solutions for engineered process equipment.

In FY2023, at the consolidated level, HGL derived ~37% of its revenue from filtration, drying and other equipment, with around ~60% market share in the segment and ~63% of its revenue from glass-lined equipment with around ~25-30% market share.

Reputed and 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 diversified, with the top 10 customers accounting for around ~35% of the total revenue in the glass-lined equipment segment and around 44% of the total revenue in the filtration and drying equipment segment in FY2023.

Comfortable financial risk profile - HGL's financial risk profile is supported by its strong net worth base, comfortable capital structure and comfortable debt coverage indicators. Its net worth base had significantly 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 gearing of 0.94 times on a consolidated basis as on Sep 30, 2023, despite the increase in debt post the Kinam acquisition. The debt coverage indicators of the Company have moderated over FY2023-H1FY2024 but continue to remain comfortable, marked by interest coverage of 4.7 times in H1FY2024 (5.6 times in FY2023), and DSCR of 2.4 times in FY2023. The profit margins witnessed a moderation in FY2023 and H1 FY2024 compared to FY2022, owing to the increase in employee expenses, product mix, weaker than expected dispatches, higher fixed overheads due to expanded capacities and input cost pressures. Nevertheless, the margins are likely to improve in the subsequent quarters with higher dispatches, contribution of higher margin Kinam's revenues to the consolidated revenues, and better absorption of fixed overheads following the expected increase in the scale of operations.

With the acquisition of Kinam, HGL's consolidated scale of operations is expected to increase significantly to close to Rs. ~1100.0 crore in FY2024 after increasing to ~Rs. 932 crore in FY2023 (Rs 653 crore in FY2022; Thaletec's revenues were only consolidated from Dec 17, 2021 to Mar 31, 2022 in FY2022 while Thaletec's revenues were fully consolidated in FY2023).

Credit challenges

Working capital intensive operations - The Company's working capital intensity remains high and has inched up further over FY2023-H1FY2024 (NWC/OI of ~30-35%) 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 ~95 days as of September 2023 as well as Mar 31, 2023. ICRA expects the working capital intensity to improve slightly but remain at higher levels (NWC/OI of ~30%) in the near term. NWC/OI also appears optically high to some extent as on Sep 30, 2023 due to consolidation of full balance sheet of Kinam as on Sep 30, 2023 while OI for only 4-5 days has been consolidated.

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 cyclicity 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 cyclicity 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 FY2023 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 is adequate as reflected by sufficient cash accruals against debt repayment obligations. The Company is expected to generate annual cash flow from operations in the range of ~Rs. 70-100 crore over FY2024-FY2025 against annual debt repayments of ~Rs. 40-45 crore over the period. Moreover, the Company has adequate cushion in the working capital limits as reflected by average utilisation at ~55% of the drawing power (similar utilization of sanctioned limits as well) over the 15-month period from Aug 2022 to October 2023. The liquidity is further supported by the free cash and bank balances that the Company maintains (Rs. 16.9 crore as on March 31, 2023 and Rs. 50.7 crore as on September 30, 2023, at a consolidated level).

Rating sensitivities

Positive factors - ICRA could upgrade HGL's rating if the Company demonstrates significant growth in revenues and profitability, resulting in improvement in debt metrics. 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 Vacuum 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 three 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):** After commissioning of Company's greenfield manufacturing facility at Silvassa from May 2022 the Firm discontinued its operations. The Company has announced in August, 2023 about its plan to launch the range of innovative, technology-based glass lined equipment/ products/ components (developed by the

Company's wholly owned subsidiary – Thaletec GmbH, Germany) in India under the “Thaletec” brand through the said firm. The launch is expected during the coming months..

- **Kinam Engineering Industries (partnership firm; 35.56% ownership interest):** It is engaged in the business of manufacturing heat exchangers for the chemical and pharmaceutical industries. Kinam specializes in the manufacturing of Shell and Tube Heat Exchangers, Corrugated Tube Heat Exchangers, Spiral Heat Exchangers, Box Type Heat Exchangers, Pressure Vessels and Process Equipment, of up to 4,000 m2. The acquisition will be completed in 2 phases, of which phase-1 transaction materialised on Sep 26, 2023, wherein HGL acquired 35.56% stake in Kinam for cash consideration of Rs ~80 crore, which was funded by term loan of Rs 82 crore. Kinam's financials have been fully consolidated by HGL wef acquisition date (Sep 26, 2023). 34.44% stake will be acquired in phase-2 of the transaction at a consideration of Rs 77.5 crore via a share purchase agreement between the 2 promoter Groups, for which there will be no cash outflow from the Company. Hence, the HGL will ultimately have 70% controlling interest in Kinam. Phase-2 is expected to be completed in FY2025.

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. Kinam's heat exchanger manufacturing facility is located at Bhiwandi, Maharashtra.

Key financial indicators (audited)

Standalone	FY2022	FY2023	H1 FY2024
Operating income	509.2	650.0	283.3
PAT	61.8	55.1	13.8
OPBDIT/OI	17.73%	14.98%	11.86%
PAT/OI	12.1%	8.5%	4.9%
Total outside liabilities/Tangible net worth (times)	1.3	1.4	1.6
Total debt/OPBDIT (times)	2.3	2.5	4.8
Interest coverage (times)	7.1	4.2	3.5

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Key financial indicators (audited)

Consolidated	FY2022	FY2023	H1 FY2024
Operating income	652.9	932.1	421.6
PAT	58.2	69.8	20.1
OPBDIT/OI	17.2%	15.0%	11.8%
PAT/OI	8.9%	7.5%	4.8%
Total outside liabilities/Tangible net worth (times)	2.0	1.7	1.6
Total debt/OPBDIT (times)	1.9	1.8	3.7
Interest coverage (times)	8.0	5.6	4.7

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Feb 01, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				Feb 06, 2024	Nov 29, 2022	Sep 28, 2021	Aug 17, 2021	-
1 Fund Based - Cash Credit	Long term	189.08	184.59	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2 Interchangeable Fund-Based - Cash Credit	Long term	(60.00)	-	[ICRA]A (Stable)	-	-	-	-
3 Fund based - Term Loan	Long term	190.42	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
4 Non-fund based - Letter of Credit & Bank Guarantee	Short Term	136.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5 Derivative Limits	Short Term	2.00	-	[ICRA]A2+	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based - Cash Credit	Simple
Interchangeable Fund-Based - Cash Credit	Very Simple
Fund based - Term Loan	Simple
Non-fund based - Letter of Credit & Bank Guarantee	Very Simple
Short Term - Derivative Limits	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	Fund Based - Cash Credit	NA	NA	NA	189.08	[ICRA]A (Stable)
NA	Interchangeable Fund-Based - Cash Credit	NA	NA	NA	(60.00)	[ICRA]A (Stable)
NA	Fund based - Term Loan	FY2021	8.7%-11.3%; 2.5% for foreign currency denominated loan	FY2027- FY2030	190.42	[ICRA]A (Stable)
NA	Non-fund based - Letter of Credit & Bank Guarantee	NA	NA	NA	136.00	[ICRA]A2+
NA	Short Term - Derivative Limits	NA	NA	NA	2.00	[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
Kinam Engineering Industries (partnership firm; 35.56% ownership interest)*	35.56%	Full Consolidation

Source: Annual report; * All assets/liabilities of Kinam Engineering Industries has moved to Kinam Engineering Industries Private Limited w.e.f. 1st January, 2024

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