

August 17, 2021

## HLE Glascoat Limited: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A2+; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Fund-based - Cash Credit	36.00	61.00	[ICRA]A (Stable); upgraded from [ICRA]BBB+ (Stable)
Fund-based - Term Loan	40.84	51.35	[ICRA]A (Stable); upgraded from [ICRA]BBB+ (Stable)
Non-fund based - Letter of Credit & Bank Guarantee	71.00	43.50	[ICRA]A2+; upgraded from [ICRA]A2
<b>Total</b>	<b>147.84</b>	<b>155.85</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The upgrade in the ratings factors in the significant improvement in the net worth of HLE Glascoat Limited (HGL), resulting from fund raising of Rs. 100 crore from Malabar India Fund and Malabar Value Funds (hereafter referred as Malabar Funds), of which Rs. 80 crore has been received till May 2021, and the balance of Rs. 20 crore is expected by Q1 FY2023. Further, with healthy demand from key-end user industries and periodical capacity enhancement, the company's scale has increased by 19% and 14% in FY2020 and FY2021, respectively, and the growth momentum is expected to continue over the medium term. This coupled with the debottlenecking of operations, technological upgradation and synergies from merger has resulted in an improvement in operating profitability by 677 bps over the past two fiscals. The improvement in the profitability along with the strengthening of net worth has led to a significant improvement in the capital structure and coverage indicators. The ratings continue to favourably factor in the HGL's established position in the glass-lined, filtration and drying equipment market; its technical expertise acquired through consistent investment in research and development; apart from its reputed and diversified clientele base.

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

### 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 derives ~50% of its revenues from the filtration and drying equipment, with more than 50% market share in the segment and ~40% of its revenues from glass-lined equipment with more than 25% market share in the segment. 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 and moderately diversified clientele base** - The customer profile of the company comprises reputed players in pharmaceutical (API & intermediaries), speciality chemicals, agrochemicals, dyes, pigments and food processing industry such as Divi's Laboratories, Deccan Fine Chemicals (India), PI Industries and UPL among others. 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 around 30% of the total revenues.

**Significant improvement in financial risk profile with growth in scale, profitability and net-worth** - Post the merger of HLE's business, the size of the company has augmented in terms of scale and profitability with healthy demand from key user industries; the operating income was Rs. 485.5 crore in FY2021 and Rs. 359.8 crore in FY2019. This coupled with operational synergies from merger and significant investment towards production debottlenecking and upgradation of manufacturing facilities over the past few years has led to a significant improvement in the operating profitability to 19.8% in FY2021 from 13.1% in FY2019. Moreover, HGL has raised funds through issuance of equity shares and warrants worth Rs. 100 crore from Malabar Funds (of which Rs. 40 crore is received in December 2020, Rs. 40 crore in May 2021 and balance Rs. 20 crore is expected to be received by Q1 FY2023). This is expected to significantly improve the capital structure over FY2021-23, given healthy accretion to reserves, moderation in debt levels and strengthening of net worth.

## Credit challenges

**Working capital intensive operations** - The working capital intensity of HGL remains high, as reflected by NWC/OI of 18% in FY2021 because of high inventory requirements owing to high manufacturing lead time. Consequently, the inventory days were high at 150 days in FY2021, to support which the creditors also stood high at 114 days.

**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 comprises ~40%-50% of the total manufacturing cost. The prices of raw materials have remained volatile over the years; thus, any adverse movement in the input prices may impact the profitability of the company, given the long manufacturing cycle and the high inventory holding. The 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 cyclical 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 its capacity to cater to the growing demand for its products and hence, the company's operations remain exposed to cyclical in the end-user industry.

## Liquidity position: Adequate

HGL's liquidity is expected to remain adequate with healthy expected cash accruals vis-à-vis debt repayments and cushion in working capital limits (average utilisation was 29% for the period - April 2020 to March 2021). The liquidity is further supported by fund raising of Rs. 100 crore, through issuance of equity shares and warrants (of which Rs. 40 crore was received in December 2020, Rs. 40 crore in May 2021 and balance Rs. 20 crore is expected to be received by Q1 FY2023).

## Rating sensitivities

**Positive factors** - 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 an improvement in capital structure and liquidity, may also lead to a rating upgrade.

**Negative factors** - 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 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 1.5 times on sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HGL. As on March 31, 2021, the company had 1 subsidiary, HL Equipments (Annexure-2).

### About the company

Incorporated in 1991, HLE Glascoat Limited (HGL) (formerly known as Swiss Glascoat Equipment Limited) is a public limited company listed on the Bombay Stock Exchange and National 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, Surat-based Patel group acquired 50.25% shareholding in HGL from its existing promoters and received 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 acquired 74.25% shareholding of HGL and the company thus added 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. HGL also has a 99% subsidiary (increased from 80% in FY2021), HL Equipment, which is a partnership firm involved in the manufacturing of filtration, drying and other equipment at Silvassa, Dadra and Nagar Haveli. The products manufactured by HGL caters to pharmaceutical, specialty chemical, agrochemical and food processing industry.

In FY2021, on a consolidated basis, the company reported a net profit of Rs. 53.4 crore on an operating income of Rs. 485.5 crore as compared to a net profit of Rs. 39.0 crore on an operating income of Rs. 427.4 crore in FY2020.

### Key financial indicators (audited) - Standalone

HGL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	388.4	421.7
PAT (Rs. crore)	38.0	52.3
OPBDIT/OI (%)	16.8%	19.4%
PAT/OI (%)	9.8%	12.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	1.3
Total Debt/OPBDIT (times)	1.5	1.1
Interest Coverage (times)	5.0	8.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

## Key financial indicators (audited) - Consolidated

HGL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	427.4	485.5
PAT (Rs. crore)	39.0	53.4
OPBDIT/OI (%)	17.3%	19.8%
PAT/OI (%)	9.1%	11.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.3	1.8
Total Debt/OPBDIT (times)	1.3	1.0
Interest Coverage (times)	5.5	9.1

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	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Aug 17, 2021			25-Jan-2019	27-Sep-2018
1 Cash Credit	Long-term	61.00	NA	[ICRA]A (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)
2 Term Loan	Long-term	51.35	47.37	[ICRA]A (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)
3 Letter of Credit & Bank Guarantee	Short-term	43.50	NA	[ICRA]A2+	-	[ICRA]A2	[ICRA]A2 &	[ICRA]A2

Amount in Rs. crore; & = Under watch with developing implications

## 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/ Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Cash Credit	NA	NA	NA	20.00	[ICRA]A (Stable)
Citi Bank	Cash Credit	NA	NA	NA	30.00	[ICRA]A (Stable)
HDFC Bank	Cash Credit	NA	NA	NA	11.00	[ICRA]A (Stable)
State Bank of India	Term Loan	FY2019	9.55%-10.05%	FY2027	15.35	[ICRA]A (Stable)
Bajaj Finance Ltd	Term Loan	FY2018	10.75%	FY2024	20.00	[ICRA]A (Stable)
Citi Bank	Term Loan	FY2021	8.25%	FY2027	16.00	[ICRA]A (Stable)
State Bank of India	Letter of Credit & Bank Guarantee	NA	NA	NA	29.00	[ICRA]A2+
HDFC Bank	Letter of Credit & Bank Guarantee	NA	NA	NA	14.50	[ICRA]A2+

Source: HLE Glascoat Limited

**Annexure-2: List of entities considered for consolidated analysis**

Company/Firm Name	HGL Ownership	Consolidation Approach
HLE Glascoat Limited	100% (rated entity)	Full Consolidation
HL Equipments	99%	Full Consolidation

Source: HGL annual report FY2021

Note: ICRA has taken a consolidated view of the parent (HGL) and its subsidiary while assigning the ratings.

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