



## HLE Glascoat Ltd.

# Choose Glascoat For A Shimmering Portfolio!

Our Tiny Treasure for the month of June is HLE Glascoat Limited, formerly known as Swiss Glascoat Equipments Limited (SGEL). It is one of the leading manufacturers of standard and customised glass-lined equipment (GLE) and caters to Indian and international markets. It has a strong presence in the domestic geographical markets, through its network of selling agents. It was already one-point solution-provider for glass-lined products of any type, size, output, including a complete range of accessories and with HLE's merger, its product portfolio has widened.

### Synergies from HLE Engineers

In 2016, HLE Engineers Pvt Ltd along with its promoters had acquired 50.25 per cent stake in SGEL. Later, in December, 2019, the operating business of HLE Engineers got demerged into SGEL and the company's name was changed to HLE Glascoat Ltd. As per the agreement, the demerger process became effective from April 2018, subject to the approval of all regulatory authorities. Both the companies (HLE and SGEL) manufactured and supplied complementary products for pharma, chemical and agro-chemical industry. This scheme has enabled the consolidated business to enhance its efficiencies and combine similar business interests into one corporate entity, resulting into operational synergies, simplification, focussed management, streamlining and optimisation of the business. Due to this scheme of arrangement, as the size of business augmented, a significant increase in the revenue and profitability is visible in FY20.

### Expansion and exports

HLE Engineers, being a market leader in Agitated Nutsche Filter Dryer (ANFD), enjoyed 50 per cent plus of the market share. Very few players exist in this industry and the top three players control 80 per cent of the market. Also, Swiss Glascoat enjoys good market share in GLE segment. Now, HLE Glascoat as a joint unit enjoys this market share. As the nature of both the businesses is technology and capital intensive, there is less fear of stiff competition from new entrants. Around 40 per cent of the expansion plan was carried out in FY19. Post the scheme of arrangement, the company's new management had earmarked capex for the remaining expansion in capacities, substantial debottlenecking

BSE Code	: 522215
Time Duration	: 1 year
CMP	: ₹946.00 (as on 25 June, 2020)
Target Price	: ₹1,225

in the plant and changed layout of the plant for better operations. HLE Glascoat has got export orders from Germany. HLE Engineers already derived 5-10 per cent of its revenue from exports. With these existing export orders, the company will focus on Europe, South East Asia and US markets for further export orders.

### Diversified application across sectors

The company's products have wide applications and it caters to the needs of various industries that include pharmaceuticals, API, intermediates to resins and other conceivable corrosion-prone areas in the chemical processing industry dyes/colours, agro-chemicals, food processing and other such allied industries. The company is focussing to increase its manufacturing capacity for the chemicals, agro-chemicals and API segments. Currently in the pandemic situation, these industries have been performing better than others and hence, in near term, a positive impact on company's order book can be seen. Its customer base is wide and some of the top companies are its valuable customers, including Mylan, Hetero, Themis Medicare, Shasun, Divi's, Aurobindo, Glenmark, Teva, SRF, Cheminova, Syngene, IOL, Sanofi, Bayer, Bharat Group etc.

### Financial performance

HLE Glascoat's consolidated revenue for FY20 came in at Rs 387.44 crore as against Rs 336.78 crore in FY19, registering 15 per cent YoY increase. EBITDA for the year grew by 61.3 per cent YoY to Rs 64.21 crore as against Rs 39.81 crore in FY19, with a corresponding margin expansion of 475 bps. EBITDA margin for the quarter stood at 16.6 per cent. PAT for the year came in at Rs 38.18 crore as against Rs 18.11 crore in FY19, with YoY increase of 110.8 per cent. It has been consistently paying dividend to its shareholders. For FY20, its recommended dividend was of Rs 2.50 per share (25 per cent).

The debt portion is expected to remain at higher level as its nature of business is capital intensive and post merger, the heavy debt operations of HLE Engineers got merged. Also, the debt is utilised as the capex is required for capacity expansion, process automation and debottlenecking of operations. In FY20, inven-

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DSJ Pvt. Ltd. : C - 105, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsji.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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tory days, receivables and payables increased as post merger, the manufacturing lead time rose along with the credit period. However, through strong cash accruals, elevated revenue and operating profits led by augmented business size, the debt and working capital level would get normalised in the near term.

### Our view

In FY20, it delivered ROE of 31.2 per cent. It is the second largest player after GMM Pfaunder in the glass-lined reactor segment

and is working towards strengthening its market share. With the merger, its product portfolio has widened and is enjoying significant market share of ANFD segment. To cater to the rising demand from pharmaceutical, chemicals and agro-chemicals sectors, its expansion plans are in line. Gradually, the exports are also improving. Through the synergies, the company delivered stellar financial performance in FY20 and is expected to continue delivering it, going forward. Considering all these factors, we see a potential upside of 29 per cent with a target price of Rs 1,225 for a period of one year.

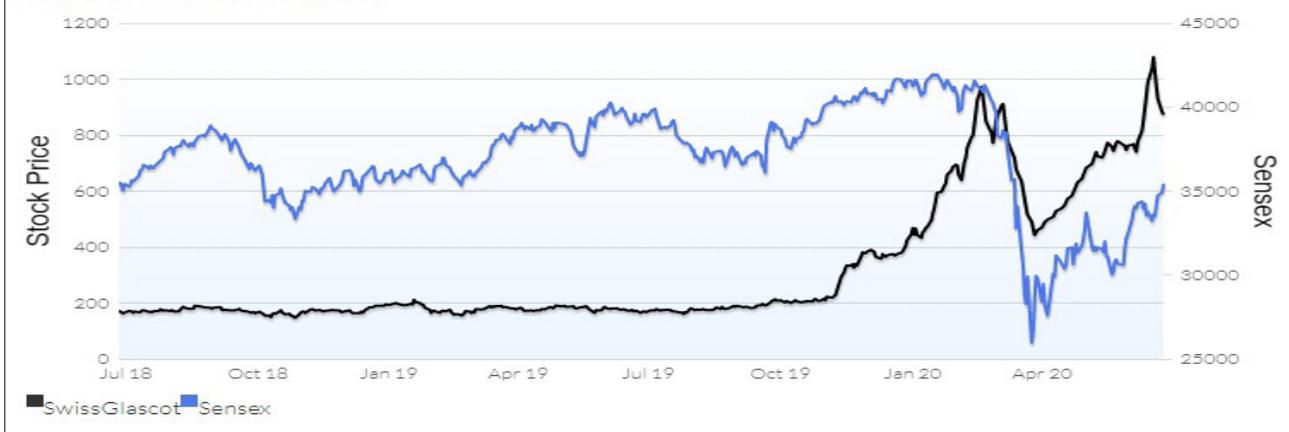
### Inc/Exp Statement (Standalone)

Description	202003	201903	201803	201703	201603
Net Sales	387.44	336.78	96.52	81.47	92.42
Total Income	395.22	342.55	97.66	81.73	92.97
Total Expenditure	342.28	317.20	86.12	71.85	81.07
PBIDT	64.21	39.81	11.53	9.88	11.90
PAT	38.18	18.11	5.36	3.12	4.15
Adj. EPS(Rs)	29.53	14.01	8.24	4.80	8.31

### Quarter On Quarter (Standalone)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	99.18	99.27	-0.09	120.58	-17.75
Total Expenditure	86.75	81.76	6.10	106.94	-18.88
PBIDT (Excl OI)	17.22	17.51	-1.66	18.66	-7.72
PAT	10.77	10.83	-0.55	12.44	-13.42
PBIDTM% (Excl OI)	17.36	17.64	-1.59	15.47	12.22
PATM%	10.85	10.91	-0.55	10.31	5.24
Adj. EPS(Rs)	8.33	8.38	-0.60	9.62	-13.41

### Stock vs. Index



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