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TINY TREASURE
May 2018

The Trick Is To **Spot Them** At The **Larval Stage**

BSE Code	:	**522215**
Time Duration	:	**1 year**
CMP	:	**₹160.40 (as on 24 May, 2018)**
Target Price	:	**₹210**

Swiss Glascoat Equipments

Emerging Listed Player In Glass Lined Reactors

Our Tiny Treasure for the month of May is Swiss Glascoat Equipments Limited (SGEL). The company specialises in design and manufacturing of carbon steel glass lined equipments that include reactors, receivers/storage tanks, dryers, filters, columns, agitators, valves, pipes and fittings.

It is the second largest player after GMM Pfaudler in the glass-lined reactor segment and is working towards strengthening its market share. There are very few players engaged in this segment in India and only these two companies are the listed players. As the machinery is heavy due to high costs, the new players do not enter the market. All the pharmaceutical, chemicals and agro-chemicals are largely dependent on glass lined reactors. Thus, SGEL has wide scope and has a long way to go. The industry is growing at CAGR of 10-15%. The company's peer already has significant market share in the industry and thus has minimum scope to grow better than the industry. Thus, this will definitely benefit SGEL. The company is trading at attractive valuations by delivering stellar performance for FY18.

Application across sectors

The company's products have wide applications and it caters to the needs of various industries that include pharmaceuticals, API, speciality chemicals, dyes/colours, agro-chemicals, food processing and other such allied industries. The company is focusing to increase its manufacturing capacity for the chemicals, agro-chemicals and API segments. It has presence in the domestic market only and may foray into exports in the near term. 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 etc.

Shift of demand towards API reactors

Since last few years, the chemicals and agro-chemicals sectors have performed well and have been the leading sectors to contribute to the company's total revenue. The pharmaceutical sector in the past two years has been undergoing through a tough phase and a gradual recovery is expected over the medium term. Thus, although the sector's contribution has been lower, going forward, we expect it to be a major contributor towards the company's growth. On the back of it, the company has undertaken greenfield expansion in API segment to cater to the increasing demand in the market. Also, the demand from companies has shifted from stainless steel reactors to glass-lined reactors. This will be one of the major drivers for the products of the company. Gradually, the company is gaining market share and we see that the company has landed in a sweet spot. During FY18, the company had an order book worth Rs 40 crore.

Acquisition of promoter's stake by HLE Engineering

Recently, HLE Engineering has acquired the stake of Mr. Amin, one of the company's promoter. HLE Engineering too has huge customer base and provides wide variety of products. It mainly supplies drying and filtration equipments to the chemical industry. With this acquisition, SGEL has reached out to the HLE's customers and its customer base has become wider. Also, it has enabled it to tap the opportunities in the chemical sector. The new promoter has set an aggressive target of doubling sales within the next three years and also enter the international markets.

Outlook for glass-lined reactors

The glass-lined reactors provide superior corrosion resistance to acids and alkalis as compared to stainless steel reactors. The glass-lined reactors have the capability to handle diverse range of operating conditions, due to which the chemical and pharma companies prefer these reactors. They are safer too from the perspective of potential chance of contamination. Besides, even from an economic perspective, the glass-lined reactors prove to be cost-efficient solution. The changes in prices of metals like steel and other alloys adversely affects the manufacturing of stainless steel reactors.

Leading drugs in the market are estimated to go off-patent in the next three years. This will result in increase of production of generic drugs. India is one of the leading countries for manufacture of generic drugs. The agro-chemicals market in India is still under-penetrated and with the support from the government for agro-based activities, we see traction in this industry. Thus, with strong performance in sectors of pharma, chemicals and agro-chemicals, we expect the demand for glass-lined reactors would continue to remain robust.

Financial Performance

The company's performance in Q4FY18 has been exceptional. For the quarter, its revenue was up by 28.16% YoY to Rs 31.69 cr from Rs 24.73 cr. The EBITDA jumped by 57.4% YoY to Rs 3.07 cr from Rs 1.95 cr. Its EBITDA margin expanded from 8.65% in Q4FY17 to 9.69% in Q4FY18. The PAT grew exceptionally by

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247.3% YoY to Rs 2.65 cr from Rs 0.76 cr. The PAT margin too improved from 3.09% to 8.36% on a YoY basis.

In FY18, the revenue was up by 10.36% YoY from Rs 89.49 cr to Rs 98.76 cr. Its EBITDA grew from Rs 9.4 cr to Rs 10.2 cr., up by 8.5% YoY. However, the EBITDA margin declined marginally from 11.5% in FY17 to 10.7% in FY18. Also, during the year, the company's interest costs declined by 36.8%, which led PAT to grow by 71.79% YoY from Rs 3.12 cr to Rs 5.36 cr. For FY18, the PAT margin stood at 5.4%. Over the years, the receivable days of the company have improved from 21.04 to 17.1 days in FY18. By the end of FY18, the debt-equity ratio stood at 0.09x as compared to 1.16x in FY13. For FY18, the company declared dividend of Rs 2 per equity share.

Valuation

The company is trading at TTM P/E of 19.95x with TTM EPS of Rs 8.24. For FY18, it has delivered ROCE of 15.3%. With acquisition of stake by HLE Engineers, the combined synergies will trigger for the company. With its growing market share, the company will have scope to grow better than its peer and the industry. Considering its stellar financial performance and attractive valuations, we recommend investors to buy the scrip with target price of Rs 210, an upside of 31% over a period of one year.

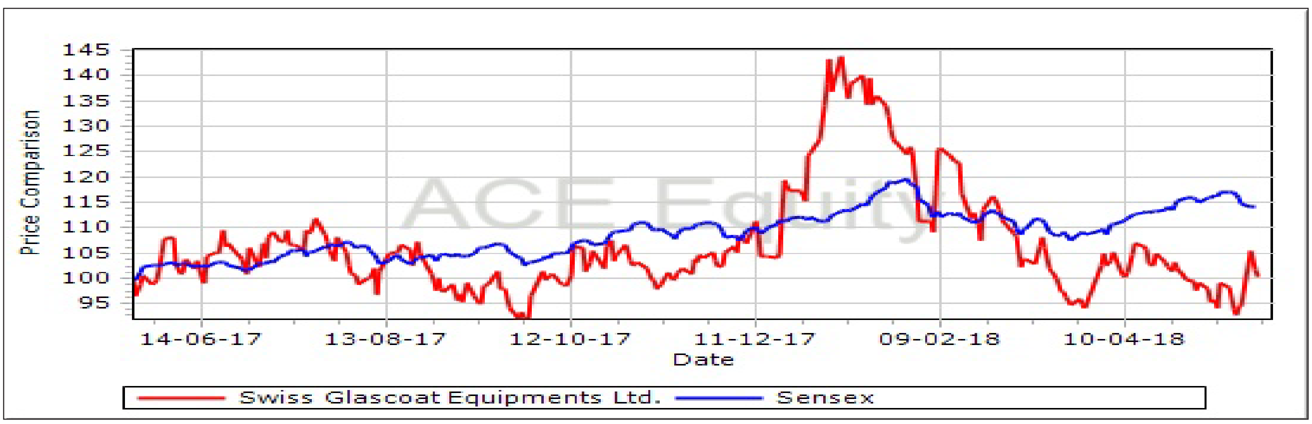
We urge investors to invest in three tranches.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	98.76	81.47	92.42	88.45	76.80
Total Income	99.77	81.83	92.97	88.94	77.20
Total Expenditure	88.55	72.04	81.07	77.54	66.66
PBIDT	11.22	9.78	11.90	11.41	10.54
PAT	5.36	3.06	4.15	4.54	3.80
Dividend %	20.00	20.00	22.00	27.00	25.00
Adj. EPS(Rs)	8.24	4.71	8.31	9.08	7.61

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	31.69	23.59	34.38	24.73	28.16
Total Expenditure	28.62	20.77	37.76	22.78	25.61
PBIDT (Excl OI)	3.08	2.81	9.46	1.95	58.01
PAT	2.65	1.16	129.24	0.76	247.31
PBIDTM% (Excl OI)	9.71	11.92	-18.54	7.88	23.22
PBIDTM%	12.07	12.21	-1.15	8.22	46.84
PATM%	8.36	4.90	70.61	3.09	170.55
Adj. EPS(Rs)	4.08	1.78	129.21	1.17	248.72



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