

HLE Glascoat Q3FY20 Update



13th February, 2020

Key Data

| | |
|---------------------|-----------------|
| Industry: | Capital Goods |
| CMP: | Rs.880.85 |
| Market Cap (Cr): | 1139 cr. |
| 52 –Week High/Low: | Rs. 148.6/838.9 |
| Investment Horizon: | 2-3 Years |
| Outlook: | Positive |

Shareholding Pattern

| | |
|------------|--------|
| Promoters: | 74.25% |
| Public: | 25.75% |

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The company is involved in the manufacturing of **Filtration, Drying and other equipment, Glass Lined Equipment and Chemical Products** which are used in Pharma, Agro and Chemical Industry.

We initiated coverage of HLE Glascoat (Formerly Swiss Glascoat) on 25th March 2019 at Rs. 181. It was unique opportunity where in there was a change of management 2 years ago and also a special situation opportunity arising from the reverse merger of the new promoters private and a much larger company i.e. HLE Engineers with Swiss Glascoat. At the time of our first coverage, quarterly profit and EPS of the company were Rs 2.21 Cr and 1.48 per share, which now has increased to Rs. 10.86 Cr and 8.31 per share respectively.

Post management change the company started gaining benefit from economy of scale, enhanced efficiencies and combine similar business interests into one corporate entity, resulting in operational synergies, simplification, and integration of processes, focused management, streamlining and optimization of the business.

Earlier the company was struggling to gain market share and in maintaining margins. After the acquisition by new management and merger with the HLE Engineers, Company was able to gain market share and improved margins, resulting in significant improvement in the bottom line.

At our initial coverage, we were expecting the company to do a 3x post improvements in 3-4 years but the stock has seen huge re rating and is already up 5x, due to good visibility of order book and supply shortages in the medium term.

Though there are still both growth and improvement levers available with the company, we have decided to trim a small part of holding as the stock is still illiquid and we feel it has run ahead of the fundamentals in the short run. But the medium term story still is intact and we are maintaining a positive outlook on the company.

Result Update

| HLE Glascoat Q3 FY 20 Result | | | | | |
|------------------------------|---------------|---------------|---------------|-------------|------------|
| (Rs. In Cr.) | Q3FY20 | Q2FY20 | Q3 FY19 | QoQ | YoY |
| Total Income | 107.67 | 117.31 | 77.51 | -8% | 39% |
| Raw Material | 49.75 | 62.63 | 40 | -21% | 24% |
| RM as % of Cost | 46.21% | 53.39% | 51.61% | | |
| EBITDA | 20.66 | 18.92 | 8.22 | 9% | 151% |
| EBITDA Margin | 19.19% | 16.13% | 10.61% | | |
| PBT | 15.51 | 14.02 | 3.21 | 11% | 383% |
| PAT | 10.86 | 9.45 | 2.21 | 15% | 391% |
| PAT Margin | 10.09% | 8.06% | 2.85% | | |
| EPS | 8.31 | 7.24 | 1.48 | | |

| Segment Revenue | Q3FY20 | Q2FY20 | Q3FY19 | QoQ | YoY |
|--|--------------|---------------|--------------|------|------|
| Filtration, Drying and other equipments | 41.25 | 61.59 | 31.34 | -33% | 32% |
| Glass Lined Equipments | 42.98 | 36.35 | 30.79 | 18% | 40% |
| Chemical Products | 21.37 | 17.79 | 12.11 | 20% | 76% |
| Total | 105.6 | 115.74 | 74.25 | -9% | 42% |
| Segment Result | | | | | |
| Filtration, Drying and other equipment | 7.88 | 8.88 | 2.62 | -11% | 201% |
| Glass Lined Equipments | 5.89 | 4.79 | 3.35 | 23% | 76% |
| Chemical Products | 5.18 | 3.94 | 0.65 | 31% | 697% |
| Total | 18.95 | 17.62 | 6.64 | 8% | 185% |
| Segment Margins | | | | | |
| Filtration, Drying and other equipment | 19.1% | 14.4% | 8.4% | | |
| Glass Lined Equipments | 13.7% | 13.2% | 10.9% | | |
| Chemical Products | 24.2% | 22.1% | 5.4% | | |

HLE Glascoat has posted the strong growth in Q3 FY20 and achieved a turnover of **Rs. 107 Cr 39% higher from Q3 FY19**. The company has generated Consolidated **PAT of Rs. 10.86 Cr** compared to PAT of 2.21 Cr in Q3 FY19 and Rs. 9.45 Cr in Q2 FY20.

Synergy from the Merger is Playing Out – 95% industry clientele is common for the both Glass lined equipments and Filtration, Drying and other equipments. We are witnessing significant improvements in revenue and margins post demerger due to enhanced operational efficiency and integration of processes.

Remarkable Improvement in Margins—With higher demand of end products and effective management by new promoters after merger margins has improved significantly in all three segments. Still margins of HLE Glascoat are significantly lower than GMM Pfaudler, but margins are improving continuously.

| Segment Margins | Q3 20 | Q2 20 | Q3 19 |
|--|-------|-------|-------|
| Filtration, Drying and other equipment | 19.1% | 14.4% | 8.4% |
| Glass Lined Equipments | 13.7% | 13.2% | 10.9% |
| Chemical Products | 24.2% | 22.1% | 5.4% |

| GMM Pfaudler | Q3 20 | Q2 20 | Q3 19 |
|-------------------------------|-------|-------|-------|
| Glass Lined Equipment Margins | 22.1% | 22.4% | 18.4% |

Declaration of Interim Dividend – Company has declared interim Dividend on equity shares @ 20% (Rs. 2.00) per equity share and dividend of Rs.0.95 per preference share.

Capital Expenditure – Company has announced capex of Rs 25 Cr for expansion of glass lining capacity and engineering capacity, which will help company in fulfilling higher demand for end products and higher growth in sales.

Outlook for the Future- : India’s chemical and pharma companies are investing heavily on capacity expansions in order to cater to rising demand from domestic and overseas markets. Demand scenario for end product is positive.

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