Swiss Glascoat Half Year FY20 Update

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Key Data

Industry:	Capital Goods
CMP:	Rs.282.5
Market Cap (Cr):	190 cr.
52 –Week High/Low:	Rs. 148.6/292.65
Investment Horizon:	2-3 Years
Outlook:	Positive

Shareholding Pattern

Promoters:	50.25%
Public:	49.75%

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The company is involved into the manufacturing of **Glass Lined Equipments** which are used in Pharma, Agro and Chemicals Industry.

Swiss Glascoat is second largest player in glassline equipments industry after GMM Pfaudler, which was previously struggling to gain market share due to succession issue in old promoter group. After the acquisition by the Patel Group (HLE Engineers) from the Amin Family, it is continuously gaining market share and improving its profitability.

Swiss Glascoat previously could not match up the growth pace of its competitor, GMM Pfaudler, but post acquisition in FY2017 with continuous efforts of Patel Family, the company has outpaced the industry growth rate.

Merger Approval – The company witnessed a change in management as HLE Engineering (a Gujarat- based company) (PATEL GROUP) acquired stake of Mr. Sudharshan Amin – the former promoter of SGEL in FY2017. After acquisition, new promoters proposed merger of their both, glass-lined and non-glass lined businesses in order to realise synergies. For which, NCLT has sanctioned the Composite Scheme of Arrangement involving Demerger and Transfer of the Operating Business of HLE Engineers Private' Limited to Swiss Glascoat Equipments Limited as on 7th November.

About HLE Engineers – The Company was established in 1981 by Patel Group to meet the engineering needs of the fast growing chemical companies. Today, company is one of the largest manufacturers of filtration and drying equipment, globally and commands 50% plus market share in Agitated Nutsche Filter Dryer (ANFD). The company's other products include Hastelloy Agitated Filters and Filter-Dryers, Crystallizer purifier and Rotary Vacuum Paddle Dryers.

Benefits from the Merger – 95% industry is common for the both companies' products. The merger will enable the consolidated business to enhance 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. Also, this will lead to optimum utilization of various resources and enhance shareholder value accruing from consolidation, leading to economies of scale, improved allocation of capital, operational efficiency, and optimized cash flows.

Customer Synergy – HLE is one the leading player in the Industry, all big players in the industry are HLE's clients for which the company manufacturers customized equipments. However, post the acquisition, the company has also launched standardized equipments to cater to small players in the industry thus diversifying its client base. The existing client base of HLE Engineers would help Swiss Glascoat to expand its customer base, and the merged entity will be able to provide a wider range of products ranging from glass-lined to non-glass-lined equipments. This would enable the business to realise customer synergies and make full use of the client relation established by both the companies over the years.

HLE engineers had turnover of Rs. 117.5 crore in H1 FY20 and net profit of Rs. 12.53 crore.

Net Profit of HLE Engineers & Swiss Glascoat:

Particulars	H1 FY20	FY2019	FY2018	FY2017	FY2016	FY2015	FY2014
HLE Engineers	12.53 Cr	17.7 Cr	6.02 Cr	1.09 Cr	7.30 Cr	15.06 Cr	3.27 Cr
Swiss Glascoat	5.79 Cr	6.95 Cr	5.36 Cr	3.12 Cr	4.15 Cr	4.54 Cr	3.8 Cr

Strong Results – Company has delivered very strong result in back to back last 2 quarters.

Particulars (Rs. In Cr)	Q2 FY20	QoQ Growth	YoY Growth	Q1 FY20	Q2 FY 19
Revenue from Operations	**40.57**	**2%**	**48%**	**39.89**	**27.42**
EBITDA	5.654	**17%**	**98%**	4.823	2.8539
EBITDA Margin	**14%**			**12%**	**10%**
EBIT	4.784	**20%**	**128%**	3.993	2.1023
EBIT Margin	**12%**			**10%**	**8%**
PAT	3.08	**14%**	**114%**	2.71	1.44
PAT Margin	**8%**			**7%**	**5%**
EPS	4.74	**14%**	**114%**	4.17	2.21

The Company has been witnessing an improvement in its margin due to improvement in its degree of total leverage. After the constant efforts taken by the changed Management, the YoY Sales growth for the Quarter turned out to be 48%, which translated into a growth rate of 114% at the bottom line. We expect the margins to remain unaffected in the coming periods because of Strong order book, and positive outlook of the Industry, complimented by recent tax cut boosting Manufacturing Sector growth.

Outlook for the future looks strong

- **Capex in Chemical, Pharma and Agrochemical Industries:** India's chemical companies are investing on capacity expansions in order to cater to rising demand from domestic and overseas markets, following plant shutdowns in China. Strategy of global chemical MNCs to hunt for alternative markets to diversify their risk from ongoing US-China trade war can come into play.

Few Capex in Pipeline in Chemical & Pharma companies (Source – Toshniwal Equity)

Name of the company	Gross Block as on Mar. 31, 2018 (Rs. Cr)	Capex in FY19 (Rs. Crore)	Capex Plans
Aarti Industries	2,849	797	1000 - 1200 crore in FY20
Atul Ltd	1,268	211	466 crore in FY20
PI Industries	1,195	228	400 crore capex every year for next two years
Divis	2,481	635	1500 - 1800 crore capex for next two years
Vinati Organics	497	202	250 crore and 550 - 600 crore (tentative)
Bharat Rasayan	257	47	500 crore spread across 2 - 3 years
Alkyl Amines	401	69	100 - 150 crore every year for next 2 -3 years
Balaji Amines	496	170	200 crore for Balaji Speciality
Hikal	784	131	200 - 250 crore over the next two years
Rallis India	488	34	800 crore over the next 3 - 4 years

Management Guidelines during Plant Visit

- **Order Book:** Currently, Swiss Glascoat and GMM Pfaudler have an order book for next 6-7 months. Inventory level is also high in company due to large order book and higher demand in Industry.

- **Total Existing Capacity:** On existing capacity, Swiss Glascoat and HLE Engineers can achieve a turnover of Rs. 180-200 crores and 250-300 crores respectively.

- **Capacity Expansion Roadmap for the next three years:** Company is targeting a turnover of Rs. 500 Cr in next 3 years with 15% EBITDA margin. Swiss Glascoat is also doing a 25% capacity expansion, thus providing higher visibility in Sales growth. The difference in the margins arises in GMM Pfaudler and Swiss Glascoat because of the furnace the companies use. However, now even Swiss Glascoat has started to switch to Gas Furnace, and has already installed one, and has one more in pipeline. Thus, margin expansion can be expected in the GLE business.

Valuation – Swiss Glascoat before the scheme of arrangement is available at a trailing PE multiple of 19x and EV/EBITDA of 11x, while GMM Pfaudler is trading at a trailing PE multiple of 33x and EV/EBITDA of 20x. The valuation is low in reference to the growth opportunity that lies ahead. Swiss Glascoat is expected to generate better profitability margins in the coming period, which would help the company, expand the RoE and thus get better multiple, hence we expect improving profitability and valuations.

Pre and Post scheme holding - **Swiss Glascoat Equipments Ltd.**:

	Pre-Merger	Post-Merger
Promoters	32,66,243 (50.25%)	96,00,744 (74.25%)
Public	32,33,757 (49.75%)	33,30,332 (25.75%)

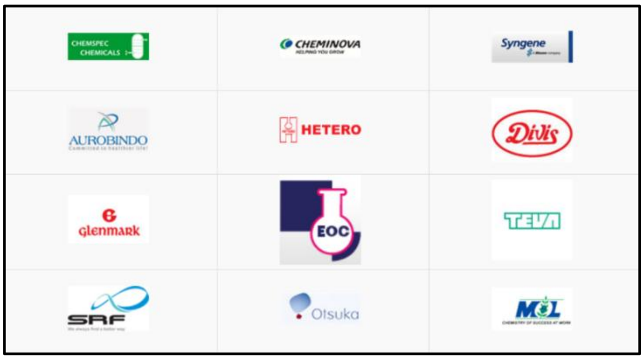
Expected EPS of FY 20 Post Merger –

The Merged Entity is expected to generate an EPS (FY 20) of INR 28, given HLE Engineers and Swiss Glascoat continues to perform the same way. This makes the merged entity available at a multiple of 10x at current market capitalization.

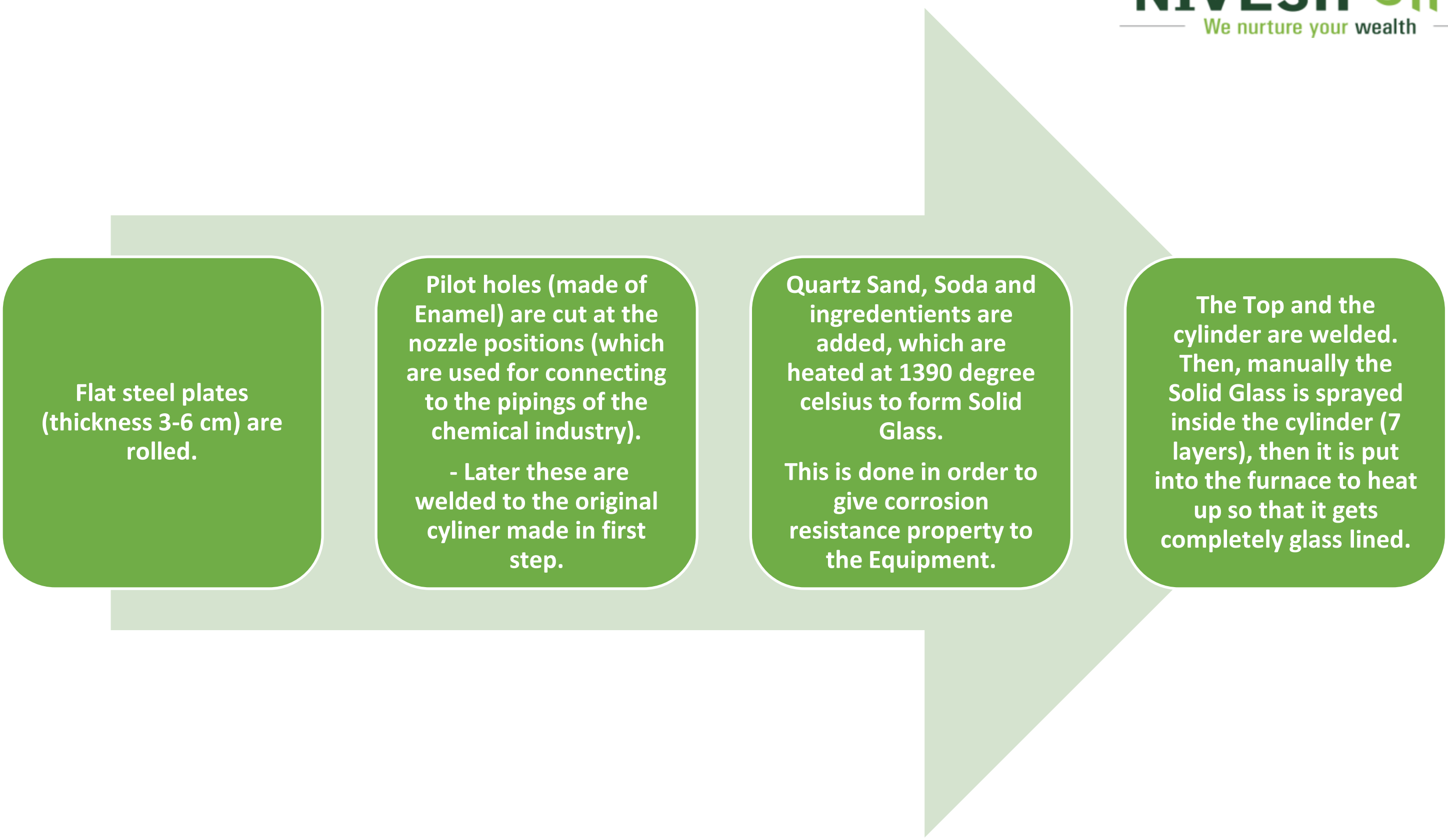
About Swiss Glascoat

The company operates from its sole manufacturing facility at **Anand, Gujarat** and was incorporated in 1991. **SGEL (Swiss Glascoat Equipment Ltd)** manufactures glass- lined Equipment which are largely used by the Pharmaceutical, chemical and food processing industries. The company client base is entirely domestic and is not focusing on exports and is currently the 2nd largest player after GMM Pfaudler in the glass- lined equipment space with a market share of 20%.

Customers:



<u>Process of Manufacturing Glass Lined Equipment:</u>



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