

## HLE Glascoat Q1FY21 Update



18<sup>th</sup> August, 2020

### Key Data

Industry:	Capital Goods
CMP:	Rs.1350
Market Cap (Cr):	1745 cr.
52 –Week High/Low:	Rs. 175/1554
Investment Horizon:	NA
Outlook:	Result Update

### Shareholding Pattern

Promoters:	74.25%
Public:	25.75%

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

We initiated coverage of HLE Glascoat (Formerly Swiss Glascoat) on 25<sup>th</sup> March, 2019 at a price of Rs. 181. It was a special situation opportunity arising from reverse merger of HLE Engineers and Swiss Glascoat.

While valuations have completely surprised us and reached astronomical levels hence prompting us to reduce our allocation as market is perhaps valuing something that we expected 3-4 years down the line. But we still believe the Filtration and Drying equipment business is adding much more value to the company rather than the glass lined equipments which most people still focus on when they look at this company. Also we discovered some unique ability of the company to deal with the equipment made with Hastelloy where the company is a monopoly in India as no other players have the capabilities to deal with the complexity of Hastelloy equipment. So we would watch this space pretty closely and if valuation becomes reasonable again due to the closure of the chemical business announced in the company or margins falling in the glass lined equipment, we would want to take a fresh look given the moats around the filtration and drying business are very strong and as more and more large plants for speciality chemicals get set up in India, the market opportunity for HLE increases as currently 70-80% of plants in India are small and don't require Dryers and Fitters.

Covid 19 pandemic has affected the top line revenue of the company in the current quarter. But, due to strong demand for products and limited supply, the company has been able to maintain strong margins in both main business divisions. Major impact on both the top line and bottom line was due to chemical division only. For which company has already announced closure of the business division.

From our initial coverage, the company has generated up to 800% return for our clients. Still, we are maintaining a positive outlook on the business outlook of the company. But, we are little concerned due to higher valuations.

### Result Update

HLE Glascoat Q1 FY 21 Result					
(Rs. In Cr.)	Q1FY21	Q4FY20	Q1FY20	QoQ	YoY
Total Income	84.14	113.18	91.63	-26%	-8%
Raw Material	43.43	55.44	44.11	-22%	-2%
RM as % of Cost	51.62%	48.98%	48.14%		
EBITDA	15.19	20.78	15.81	-27%	-4%
EBITDA Margin	18.05%	18.36%	17.25%		
PBT	10.37	15.94	11.08	-35%	-6%
PAT	6.63	11.02	7.84	-40%	-15%
PAT Margin	7.88%	9.74%	8.56%		
EPS	4.38	8.53	6.07		

Segment Revenue	Q1FY21	Q4 FY20	Q1 FY20	QoQ	YoY
Filtration, Drying and other equipment	46.77	52.91	36.42	-12%	28%
Glass Lined Equipments	28.58	37.67	39.89	-24%	-28%
Chemical Products	8.38	20.49	15.05	-59%	-44%
Total	83.74	111.08	91.36	-25%	-8%
Segment Result (EBIT)					
Filtration, Drying and other equipment	7.83	7.68	6.2	2%	26%
Glass Lined Equipments	3.72	3.65	4.6	2%	-19%
Chemical Products	1.38	6.18	3.01	-78%	-54%
Total	12.94	17.52	13.82	-26%	-6%
Segment Margins					
Filtration, Drying and other equipment	16.7%	14.5%	17.0%		
Glass Lined Equipments	13.0%	9.7%	11.5%		
Chemical Products	16.5%	30.2%	20.0%		

Covid 19 pandemic has impacted revenue of the company in current quarter. The company has posted de-growth of 25% in total revenue. The major impact on revenue was from the chemical business, which company has already decided to shut down.

**Significant improvement in margins of main business divisions** – With higher demand of end products, boom in pharma and chemical industry and limited supply has improved margins significantly in Filtration, drying and other equipments and glass lined equipment segment.

Segment Margins	Q1 21	Q4 20	Q1 20
Filtration, Drying and other equipment	16.7%	14.5%	17%
Glass Lined Equipments	13%	9.7%	11.5%

GMM Pfaudler	Q1 21	Q4 20	Q1 20
Glass Lined Equipment Margins	19%	26.2%	19.4%

**Closure of chemical manufacturing unit** – The company has extended time line for closure of operations of Chemical Manufacturing unit of the Company, located at Maroli Udyognagar, upto around January 2021 instead of July 2020 (as communicated earlier), considering the orders in hand, inventory holding and customers demand.

**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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