HLE Glascoat

HLE Glascoat Limited
(Formerly Swiss Glascoat Equipments Ltd.)
CIN: L28100GJ1991PLC016173 | GSTIN: 24AACCS6297612Z5
www.hle-glascoat.com

20th November, 2020

**The Bombay Stock Exchange Limited**
**"PJ Towers"**
**Dalal Street**
**Mumbai – 400 001**

**Scrip Code: 522215**

**Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015**

**Sub: Earnings Call Transcript**

**Dear Sir/Madam,**

Please find enclosed herewith the transcript of Earnings Conference Call held on 05th November, 2020.

This is for your information and record.

Thanking you,

**For HLE Glascoat Limited**
(formerly Swiss Glascoat Equipments Limited)

S.S. Dalwadi

Mr.Sachin Dalwadi
**Assistant Company Secretary and Compliance Officer**

Attached: as above

“HLE Glascoat Limited Conference Call
Business Update and Half Yearly Performance for September, 2020”

November 5, 2020

**Management**

1. Mr. Himanshu Patel - Chairman and Managing Director – HLE Glascoat Limited
2. Mr. Aalap Patel – Executive Director – HLE Glascoat Limited
3. Mr. K.V Unnikrishnan – Chief Financial Officer - HLE Glascoat Limited
4. Mr. Nilesh Ganjwala – Senior Advisor - HLE Glascoat Limited

**Moderator:** Good day ladies and gentlemen. Welcome to the HLE Glascoat Limited call to discuss the business update and half yearly performance for September 2020. This conference call may contain forward looking statements about the Company, which are based on the belief, opinions and expectations of the management as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict and hence do not guarantee future performance. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Patel, Chairman and Managing Director of HLE Glascoat Limited. Thank you and over to you Sir!

**Himanshu Patel:** Thank you. Good evening everyone. Thank you all for joining the HLE Glascoat Limited business update and half yearly performance call. Today, I am joined by Mr. Aalap Patel – Executive Director, Mr. K.V Unnikrishnan, CFO, Mr. Nilesh Ganjwala – Senior Advisor to the Company and other senior members of the team. I hope that all of you and your loved ones are safe. These are extraordinary times and perhaps the most important thing for all of us is to ensure health and wellbeing for ourselves and our family.

As this is our maiden conference call, let me begin with an introduction of our Company, its operational and financial highlights following which we will open the floor for questions and answers.

Before we start, I hope everyone has received our investor presentation and for those who have not, you can view it on the BSE website. The foundation of the Patel Group was laid by Late Dr. K.H Patel in Mumbai with Indosal Chemicals in the year 1951. The Company pioneered the manufacturing of Salicylic Acid and Aspirin in independent India in those days. In 1960, we established Chemical Development and Construction Corporation, a firm dedicated to manufacturing chemical plant and machinery.

This is how the group began its journey and today the group is a leading manufacturer of chemicals and process equipment. In the year 1981, the firm HL Engineers was established in Gujarat and commenced manufacturing machinery for group chemical plants. The firm continuously expanded its horizons and was eventually registered as HLE Engineers Private Limited.

HLE, as the company has been popularly known, is engaged in the specialized business of manufacturing chemical process equipment which are focused on filtration and dryers. Our flagship product in this segment is the Agitated Nutsche Filters and Dryers, abbreviated as ANFD.

Let me take a moment to explain to you what an ANFD is and how it has transformed chemical processing in India. In any chemical plant, the process always requires separation of solid or liquid products from other by-products by means of filtration. These filtered products may also need to be dried to remove any remaining liquids. ANFD is a sophisticated machine that carries out filtration, washing of impurities and final drying in a single equipment. ANFDs have become popular due to the several operating benefits they offer over conventional machines. It reduces operating cost, improves processing efficiency in an environment friendly, safe, automated and completely enclosed which makes it ideal for both hazardous chemical operations and sterile pharma applications being fully compliant with cGMP.

ANFDs and most of the filtration and drying equipment we manufacture are highly customized to meet the numerous customer specific process requirements. Our product range in the filtration and drying business includes other sophisticated equipment like Kilo lab Filter Dryer, Rotary Vacuum Paddle Dryer, Rapid Disc Dryer-Cooler, Spherical Dryer, Pan Dryer and so on.

HLE is the preferred supplier and technology leader having over 60% share in the Indian Filtration and Drying market. The HLE plant manufactures over 400 filters every year, the highest in the world. Today the HLE brand is synonymous with filtration and drying in the Indian Chemical and API industries and is considered to be the Industry Reference for Excellence in Engineering.

The Company also manufactures exotic alloy equipment for which HLE has always been the vendor of choice across all users. Our aim is to constantly innovate and introduce newer products and achieve advancements which are targeted at unmet customer needs. Bearing this in mind, in 2017, we entered the Glass Lined Equipment business with the acquisition of controlling stake in Swiss Glascoat Equipment Limited. Since glass lined equipment and filter driers are the most critical equipment in any chemical plant, it is a very logical fit to have both filter dryers and glass lined equipment in a common product portfolio.

After running the glass lined manufacturing business successfully and doubling the turnover in three years, we took the strategic decision to integrate the operating business of HLE Engineers with Swiss Glascoat Equipment Limited via a scheme of arrangement. This integration was the logical next step for us and was aimed to create substantial value for all stakeholders of HLE and Swiss Glasscoat. Currently, we are the second largest player in the Indian glass lined equipment market. HLE Glascoat is highly reputed for its quality, increased customer focus and reliability. We now have a unique advantage of having the capability of supplying a bundle of products for all chemical process industries, which sets us apart from others. In this segment, the approach of the Company is to increase the market share consistently through better product positioning and continuous product quality enhancements. We also manufacture specialised glass lined equipment like columns and heat exchangers, for which there is hardly any competition. Glascoat has set high standards of innovation and engineering and has continued to develop its glass lining technology indigenously.

Over the years, Glasscoat has been credited with many firsts in the industry including the distinction of being only manufacturer to have successfully implemented Robotic Welding to match the stringent quality standards of glass lining. We are a formidable player in the glass lined market with the capability and track record of exceeding some of the largest product orders, largest reactors and largest storage tanks in the country. We have manufactured more than 250 equipment for a single order. We manufactured nearly twice as many values added reactors as we do other equipment and have manufactured glass lined reactors up to 40,000 litres in size. We are a trusted vendor for very large equipment and have delivered repeat orders of 50,000 litre equipment. The order for the largest equipment that we have booked is 65,000 litres in size.

Currently almost all our customers are buyers of both our product ranges. As a result, we are probably the only process equipment manufacturer in the country with such a diversified and well-balanced product portfolio. Agitated Nutsche Filters Dryers contribute 34% to our engineering equipment revenue and Agitated Nutsche Filters contribute about 15%. Glass Lined tanks contribute 14% while the contribution of Glass Lined Reactors is twice at 28%. The remaining 9% are the other engineering products.

Our customers are spread across the agro chemicals, specialty chemicals and pharmaceutical industries. Our esteemed clientele includes almost all the large reputed domestic and MNC industry players. As industry leaders, we have also taken proactive steps to introduce these technologies to smaller and medium sized players. This market is growing rapidly.

HLE Glascoat operates three manufacturing facilities in Western India complete with best in class equipment. We have a state-of-the-art machine shop with modern CNC machine tools. We are the first process equipment manufacturer to pioneer Robotic Welding of special parts. For the GLE business, we have five state of the art SCADA controlled electric and gas fired furnaces for glass lining and four dedicated furnaces for glass lining of components. Our highly automated manufacturing process with computer controls, SPMs ensure accuracy and repeatability.

HLE Glascoat boasts the only pilot plant and R&D facility of its kind amongst the process equipment manufacturers in the country. This facility is in essence a scaled down chemical plant with its own utilities like steam, air, vacuum and range of equipment including ANFDs, RVPDs, distillation system, high pressure autoclaves, melt crystallizer, loop reactor and a fully equipped analytical lab with HPLC, GC and Spectrophotometry.

Our pilot plant enables our customers to conduct thorough trials on our ANFDs and RVPDs. Coupled with our chemical engineering capabilities, this facility also offers end-to-end process development and scale up services for a wide range of chemical products. We truly aspire to be chemical engineering solution providers and not just equipment manufacturers.

Our engineering expertise and manufacturing capabilities are our inherent strengths. We have a Design and Engineering team of qualified and experienced engineers. We operate a completely integrated 3D CAD/CAM platform for effective product lifecycle management and error free, first time right designs. Our implementation of the advanced designing systems enables a quick turnaround time while providing the flexibility required for customisation.

Through continuous innovation, HLE Glascoat has optimised every step of the fabrication process with special purpose machines developed and built in house by our team of engineers. However, what really sets us apart from other equipment manufacturers is our chemical engineering expertise. We have the first-hand knowledge of chemical processes as we have operated chemical plants.

With this, I would now like to hand over the call to Mr. Aalap Patel to give his views on the current market situation and growth of the Company. Thank you

**Aalap Patel:** Good evening and a very warm welcome. The outbreak of the COVID-19 pandemic and subsequent lockdown has impacted major economies and sectors across the globe. Due to the COVID-19 pandemic, there was a complete shutdown in the country, which led to loss of sales in the last fortnight of March, 2020 followed by the lockdown period. The Company got back on reasonable track only in the second/ third week of May, 2020.

The Company started the year with a robust order book for both the divisions and even during the lockdown, the Company was getting regular enquiries from its customers and continued to book orders. The order book for both the segments continued to remain strong, and the delivery schedule continues to remain stretched, which shows the robust nature of the order flow and the sustainable demand.

We currently have 6 to 7 months order book for both filter dryers and for glass lined equipment. All the user industries - API Pharma, Specialty Chemical, Agrochemical, Dyes and Pigments are performing well, and their outlook remains promising in the coming few quarters. Currently, the order book is well distributed across all these user industries. We have a strong sales network across India and globally. We have channel partners and sales partners in Europe, USA, Russia, Argentina, Israel and Thailand. We have done plant installations in over 15 countries. Our approach remains to expand our reach in the market.

We are also enhancing the after-sales business which has excellent potential in the coming years. Our estimate is that there are over 6,000 of our filter dryers and over 15,000 of our glass lined equipment presently operational in the various user industries. The focus on post-sales support for spares, components and other services have the potential to add to the overall business.

Capacity creation across multiple sectors is driving demand in the Engineering sector. Initiatives like "Make in India" and sector specific incentives to make India a manufacturing hub will drive growth in our industry. The announcement of the production linked incentive scheme for the API units to promote domestic manufacturing, attain self-reliance and reduce import dependence has benefitted us the most.

In recent months especially post the COVID-19 outbreak, several developed countries have come out with the One Plus policy, where emphasis has been placed on having more than one vendor country for all products, raw material and intermediaries. This will lead to a substantial increase in capex for new capacity creation by the agrochemical, chemical and pharma companies, which is expected to translate into a stronger order book for Filter Dryers and GL equipment.

To meet this boost in demand, the Company plans to expand the capacity of the filtration and drying equipment plant at Maroli by adding a new manufacturing bay. The implementation is likely to be completed in 9 to 12 months. The Company is also planning a major expansion at the Silvassa Plant to further augment capacity for filtration and drying equipment, which is expected to be completed during the FY2022. The Company has recently completed the construction of the new Assembly Bay at the Glass Lined Equipment Plant at Anand. We are also in the process of adding one more Gas fired furnace at the Anand Plant. The new furnace will be operational by Q1 FY2022.

Before we move on to the financials, let me give you an update on the recent developments approved by the Board of Directors during our last meeting. The Board approved an overall capex of approximately Rs. 20 Crores on the new manufacturing facility and infrastructure to be constructed at Silvassa for Filtration and Drying equipment. This brings the aggregate estimated capex for all the Company's projects to nearly Rs. 50 Crores. The Board also approved to issue and allot ordinary shares and warrants through a preferential allotment to two entities, Malabar India Fund Limited, a Category One Foreign Portfolio Investor, and Malabar Value Fund Scheme launched in the Malabar Investment Trust, which is a SEBI registered AIF Category III Trust. The total funds raised will aggregate Rs. 100 Crores. HLE Glascoat shall acquire ownership and profit share of up to 99% in M/s. H L Equipment, a partnership form where the Company was holding 80% ownership and profit share.

With this, I would like to hand over the call to our CFO, Mr. K.V Unnikrishnan to discuss the financial performance for the quarter and half year gone by. Thank you.

**K.V Unnikrishnan:** Thank you Aalapbhai. Good evening and a very warm welcome.

The financial performance parameters for the Company for the quarter ended September, 2020 have been very encouraging. Since the results for the quarter and half year ended September 30, 2020 are already published and available, I will briefly take you through some of the major financial highlights. I will start with the broad financial achievements for the half year ended September, 2020.

The Company achieved a consolidated sales turnover of Rs. 205.26 crores with EBIT of Rs. 32.85 Cr for the half year ended September, 2020 as against sales turnover of Rs. 208.52 Cr with an EBIT of Rs.

31.15 Cr for the corresponding half year ended September, 2019. The sales growth should be viewed in the background of (a) impact of pandemic during the first quarter, and (b) scaling down of the Chemical Business during the half year.

The impact of the pandemic which brought the entire country to a standstill had its impact on the business for almost 45 - 50 days before business activities could gradually normalize.

The EBIT margins have improved by over 5.4%, despite charging one-time costs of Rs. 1.99 Cr paid in the nature of the stamp duty and transfer fees paid on the NCLT Order approving the Scheme of Arrangement and the premium to GIDC. If these extra-ordinary items are excluded, the EBIT margin improvement would be 11.8%.

Similarly, you would have observed that the consolidated quarterly performance for the quarter ended September, 2020 has improved over the corresponding previous quarter. The Company achieved a consolidated sales turnover of Rs. 121.51 Cr with EBIT of Rs. 19.74 Cr for the quarter ended September, 2020 as against Rs. 117.15 Cr with EBIT of Rs. 17.12 Cr for the corresponding quarter ended September, 2019. If the one-time costs are adjusted for, the normalized EBIT stands at Rs. 21.73 Cr, an impressive growth of 17.88%, achieved despite the scaling down of the Chemical Business.

During the quarter ended September, 2020, the revenues for the GLR Segment has shown substantial improvement in the revenues at Rs. 50.08 Cr compared to Rs. 36.35 Cr in the corresponding previous quarter. The EBIT has shown a significant improvement at 19.09% compared with 13.18% in the corresponding previous quarter. Revenues for the Filtration Drying Segment were at Rs. 59.36 Cr compared to Rs. 62.88 Cr. in the corresponding previous quarter. The EBIT Margins has again shown an improvement at 16.76% compared with 13.42 % in the corresponding previous quarter.

For the Engineering Business Revenues, excluding the Chemical Business, which is winding down, the Revenues have grown by over 10% during the quarter ended September, 2020.

The ROCE on an annualized basis stands at over 43%, whereas our ROE is at over 39%. The Company is continuously generating positive operating cash flows.

The Company continues to maintain its healthy margins from both Filtration Drying Business and Glass Lined Equipment Business, and the margins are improving. The management remains committed to making efforts to further improving financial performance in the coming periods.

With this, we will now open the floor for questions and answers.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin for the question and answer session. The first question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

**Kaushal Shah:** Thank you very much for the opportunity. Very happy to see you connecting with the analysts and the investor community, I had two questions, one was regarding the expansion plan, I understand Mr. Aalap spoke about the aggregate capex coming to about 50 Crores, given that the overall market seems to be quite strong and the demand environment seems to be quite strong too, do you think we are being a little conservative in terms of capex because at least the sentiment in terms of potential activity on the pharma or on specialty chemical seems to be quite robust, so just wanted your thoughts on that and also on the overall demand environment as to how you foresee the next let us say six months or one year?

**Nilesh Ganjwala:** The investment in new capex is always done in a phase wise manner by the management. We look at various opportunities that are available and most importantly we look at the sustainability of such investments. We currently have three ongoing projects which have been announced. There is the expansion project happening at Anand which is our Glass Lined Equipment Business. We have the construction of an additional Manufacturing Bay happening at Maroli, which is the Filtration and Drying Equipment Business and then, we also have the new plan that has been approved by the Board for expanding and creating fresh infrastructure at the Silvassa Unit. So, we will basically be investing across all the three manufacturing hubs and we believe that this is the right way to go forward.

We will continue to invest as the market grows and we are committed to meet the requirements of all our customers. At the same time, it would be pertinent to note at this stage that our capex per unit of production or per unit of sales is probably the lowest and I think that also reflects in a very efficient turnaround time in terms of pay back and we believe that this is really the way to look in the future as well.

To answer your second question with respect to the demand scenario today, I think both Himanshubhai and Aalapbhai mentioned the fact that we see very robust demand across all our user industries, be it API Pharma, Agro Chemicals, Specialty Chemicals, Dyes. Pigments, Intermediates, etc., all of these segments are looking very good. We have very good visibility for the order book, we have order books in excess of 6 to 7 months of our revenue and hence we believe that the demand situation is as positive as we have seen it in the past.

**Kaushal Shah:** Would it be kind of safe to say that our order book would be in the region of around Rs. 100 Crores, we have done roughly 200+ Crores revenue in the first half, so our order book number would be in the region over 100 Crores?

**Nilesh Ganjwala:** I think our revenues is at Rs. 120 Crores for Q2. Our half yearly revenue is in excess of Rs. 200 Crores. So that would also give you a perspective of the order book that we have.

**Nilesh Ganjwala:** Order book is in excess of 225 Crores.

**Kaushal Shah:** That helps Sir. Thank you.

**Moderator:** Thank you. We will move on to the next question that is from the line of Rahul Jain from Credence Wealth. Please go ahead.

**Rahul Jain:** Thanks for the opportunity. Congratulations Himanshu Bhai and Aalap Bhai for a wonderful set of numbers in a tough environment which we are all into and of course thank you so much for this very detailed presentation and also the Con-Call being conducted.

Sir, my first question is with regard to the margins, we have had wonderful margins on the Glass Lined Equipment Business, these margins are almost the peak margins in last eight quarters except one of the quarters. Today we are at around 19% EBITDA margins in the Glass Lined Business and also for the Drying and filtration business we are at around 17%. What has led to the sharp improvement in the GLE segment margins in this current quarter and what are the sustainable margins in each of these businesses going ahead?

The second question is these margins given the industry in which we operate typically we are two large players almost having more than 70% of market share in both the segments and then there are couple of smaller players who are there. The tail wind of the sector continues to be strong, enquiries continue to be good and given the PLI schemes floated by the government and with capex announced in both the Pharma, Chemical and Agro-chemical space, growth is here to stay for some time. Is there a further scope of improvement in these margins by way of increasing prices on our products? Does that happen in the industry given the nature of the industry?

Last two small questions, the current capacity would support what kind of sales top line and with the additional capex which you have planned for next twelve months to the tune of Rs. 50 Crores what can be the additional top line with that capex being done? Also, if you could share some details on new products developments in the filtration business? Thank you so much.

**Aalap Patel:** Beginning with your first question there are several reasons behind the improvement of the margins that we see in the numbers. We have initiated several cost optimizing measures, capacity utilization measures and if you have noticed our past announcements, we have already installed a gas fired furnace at the Anand Plant which has also resulted in a decrease in power and fuel costs. All these initiatives that we have taken are now beginning to reflect in our margins also. We have seen some improvement in the sales realization so, all of this put together, is being reflected in the margins.

As to your question about the sustainability of margins, we see ourselves somewhere in the range of these margins for few quarters going forward. Whether there is improvement in these margins or not, the endeavour of the management is to continuously work towards optimising all costs that are within our control and any benefit that is received from these optimization measures will obviously result in an improvement of the margins.

**Himanshu Patel:** In the Filtration and Drying business, you will see over a period of past ten years we have been continuously developing new features and range of the product. For that, we have R&D facilities installed at our Maroli Works, where we can test the equipment on new features. Also, in the last few years, we have developed new products which we have also tested, one is the Spherical Dryer, the other is the RDDC, that is an extension version of totally acting panel dryer and Kilo lab. So, product development is a continuous process, and we will be continuing to develop products as we have been doing for years.

**Rahul Jain:** With regards to the current capacity, it can support what kind of top line and with the additional capex of Rs. 50 Crores ,what kind of additional top line will it add to the Company?

**Nilesh Ganjwala:** Normally, capex does not directly co-relate to the top line because the top line is dependent on multiple things such as, size of the machines, complexity of the machines as well as the material of construction. For example, if you have material of construction, which is of relatively lower in price, then the value would be lower and vice versa. So, we normally do not have any number in mind with respect to a corresponding capex. Having said that, we normally see a trend where we see capex resulting in anywhere between 2.5 times to 4 times revenue generation.

**Rahul Jain:** Sure, thank you so much and wish you all the best.

**Moderator:** Thank you. We will move on to the next question that is from the line of Vivek Goutam from GS Investment. Please go ahead.

**Vivek Goutam:** First of all thanks a lot for arranging this concall and this is really useful because ours is a high quality company but the awareness level is very low. One factor being that we are listed only at BSE. NSE listing might also help us out. The presentation put up by you is very useful that will clear lot of doubt for the investor community. Thanks for the good numbers and congratulations for the same.

My question is about our chemical business, which was contributing a lot to our top and bottomline especially to the bottom line and that we have a plan for winding down. Any plans of how do we recoup the bottomline of the profits which you will be losing from the chemical business? Also, the chemical business is currently booming, so why are we abandoning it and any plan of having some capacity over here?

**Aalap Patel:** Thank you for your kind words. The plant at which the chemical business was being carried out is in a place which is now increasingly becoming residential. So, first it was clearly not feasible for us to continue the business in that existing location because it was becoming difficult to sustain the environmental clearances and getting any new clearances, and making any new investment was out of question. Also, the plants were old, they are ageing plants, and they would not have taken us anywhere without a fresh and a substantial round of investment. Having said that, the intention of the management has always been very clear to make HLE Glascoat a focused Engineering Company and in that direction, the plan is to shut down the Chemical Business and use that land which is right adjacent to our existing Filtration and Drying Equipment Plant. The plan is to use that land for expanding the Filtration and Drying Plant. We have already announced the capex for that expansion and once the chemical plant is wound down, that land would be used for the same. Also, I think there is substantial demand for Engineering Products, and we plan to grow the Engineering Business and we hope that that will make up for the lost revenue and the bottom line.

**Vivek Goutam:** What about the plans for the listing at NSE?

**Nilesh Ganjwala:** I think NSE listing is definitely something that we will look at. We are currently looking at the eligibility criteria for NSE listing and as soon as we fulfil the eligibility criteria, we would like to apply for the NSE listing as well.

**Vivek Goutam:** And Sir, that unfortunate incident of fire of Yashasvi Rasayan, basically what is the status and any impact on our promoters and Company?

**Aalap Patel:** To begin with, Yashasvi Rasayan Private Limited is an independent company, of course it belongs to the promoter group and you are right in saying that it met with an unfortunate accident. Since YRPL or Yashasvi Rasayan is an independent company, with no interlinkages with HLE Glascoat, this accident will not have any impact on our Company or its operations in any way. In any case, Yashasvi Rasayan is adequately covered by insurance to meet all the liabilities and losses and Yashasvi Rasayan is also hopeful that the manufacturing operations at their Plant will commence in a few months from now. Also, there are no charges or complaints filed against any of the promoters or directors.

**Vivek Goutam:** Thanks a lot for highlighting the vision. We have a very high quality of client list which we are seeing for the first time as it has been given in the presentation. What is the opportunity size and the growth rate expected in next two year to three years?

**Himanshu Patel:** At this stage, it would be difficult to make any forward-looking statements. Having said that, our relations with all the top companies in the API space, Agro-chemical space and Specialty Chemical space is very long standing and we have been working closely with them for over two decades now, and we believe that these relationships will only become stronger as the days go by.

**Vivek Goutam:** Very nice Sir, thank you.

**Moderator:** Thank you. The next question is from the line of Samir Desai from PH Capital Limited. Please go ahead.

**Samir Desai:** This is regarding your Glass Lined Equipment. In the presentation you mentioned that a 32 KL GMP Reactor was one of the largest glass lined reactor manufactured and sold in the country. So, can you tell us which are the customer you have sold this reactor?

**Aalap Patel:** Yes, the 32 KL GMP reactors were sold to a Life Sciences Company.

**Samir Desai:** Okay. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Dwanil Desai from Turtle Capital. Please go ahead.

**Dwanil Desai:** Himanshu Bhai and team, congratulations for a very good performance and scaling up business very well. Two questions and both slightly medium-term questions. We started ANFD manufacture may be 13 to 15 years ago and over the period, we have scaled up to 400 filter dryers. Now are we seeding any such new products which we want to scale it up to this level in the next –5 to 10 years?

And the second question is we are doing very well and the industry is having lot of tail wind, but eventually as and when this chemical capex tapers out, how do we manage the risk of falling off the cliff in terms of demand and how do we de-risk ourself when the capex cycle comes to an end? If you have any thoughts on that, it would be very useful.

**Himanshu Patel:** Product development is a continuous process at HLE where we interact more and more with the customers who have a very particular demand or a very particular idea of processing. We interact with them and propose them new features in their product line, which ultimately results in improved product or improved product line. So, this process is being continued for last almost 20 years. In that times, I would say that we had introduced Rotary Vacuum Paddle Dryer a few years back, we introduced Pharma Rotary Vacuum Paddle Dryer, now we have introduced the Rotary Disc Dryer, also we have recently introduced the Spherical Dryer. So, the product development cycle continues, be it new features or be it altogether new products.

Similarly, when our customers asked us to give a corrosion resistant material for Agitated Filters and other products, we developed exotic metal products, we have developed Titanium, Teflon lined and Halar lined products to meet customers specific demands, which ultimately resulted into a product line. So, at HLE we have a continuous development mindset and that is why we also have the R&D facility.

**Aalap Patel:** The question about scalability of the business and sustenance once the current capex cycle as you said tapers off is very interesting. Even ten years ago, when we were Rs. 30 Crores - Rs. 40 Crores Company, people asked us the same question about how will you grow, where is the market for filters and dryers going to come from and today we are selling filtration and drying equipments in the range of or in excess of Rs. 200 Crores. So, we believe in the Indian growth story and the Indian economy will grow, the Indian chemical manufacturing industry will continue to grow and most importantly as the leader in the industry, we will continue to create a market for filter dryers as we have in the last several years.

If you see, there is a huge untapped potential in the small and medium sized companies many of which are yet to adopt the sophisticated equipment like ANFD. So that is one area that we are already beginning to tap and that will help us to grow further. We have close to 6,000 installations of filtration and drying equipment in the market today. There is a huge scope for spares and services, and we have already initiated efforts to formalize our efforts in that direction. Also, our exports are currently less than 5% of our revenue and that is also one more area which presents an opportunity to grow. Currently with the growth story that we are seeing in our domestic chemical and pharma industries, that is one segment that we have failed to tap to its full potential. All these areas put together give us confidence that we will continue to grow in the coming times.

**Dwanil Desai:** Great. Thanks a lot for a very useful answer.

**Moderator:** Thank you. We will move on to the next question that is from the line of Anupam Agarwal from Lucky Investments. Please go ahead.

**Anupam Agarwal:** Good afternoon everybody and congratulations on a great set of numbers. You eluded to, in your earlier comment, the business opportunity and servicing and spare parts business, can you quantify what efforts, what exactly do we pitch to our customers to give a service order, how big can this market be in the next five years? Is this going to be a completely new business segment for us or is it going to be a part of filtration and drying business, also secondly adding to that, you said the export market is still less than 5%, how big can this sales mix be in the next five years?

**Aalap Patel:** So, to answer the first part of your question, the way we are approaching the spares and services is that we have formed a dedicated team to not only handle marketing the after sales services but they are also visiting the customers and forming deep relationship at the plant level, where they try to identify the customers' problems and solve them while also generating revenue for the Company. So, this is one of the initiatives that we have already started. We are taking several measures in this direction like offering annual maintenance contract to the customers, offering training sessions to the customers etc. There are several initiatives in this regard that we have taken on to increase the business and revenue that we get from this segment. As far as the volume or the orders size in this segment, it really depends, sometimes the order might be for a very small item like a valve that is found faulty and needs to be replaced, or, sometimes the order that goes into lakhs of rupees because it is a refurbishment of an entire equipment. So, there is really a very wide range of the order size that we book in this space. As far as the exports are concerned the export contribution currently is around 5% of our revenue. The scope is really very large in this space. However, for the next five years, we believe that the Indian or rather the domestic demand will far outstrip the potential for exports and hence exports may not really become a pre-dominant portion of our business.

**Nilesh Ganjwala:** If I may just add one thing to what Aalapbhai just mentioned, was with respect to the after sales business, I think the Company is also taking considerable pains to create a separate supply chain for meeting the requirements of spares and components, so that the ongoing equipment businesses are not disturbed.

**Anupam Agarwal:** On the exports business, can you give us the sense of how much the realization differential is between the businesses of ours? Let us say, on glass lined equipment, what is the realization difference between domestic market and export market?

**Aalap Patel:** It would be unfair to club all exports all under one umbrella, because again there is a difference in the value addition and the price realization between markets, but I think if you were to put a number on it, the difference would be anywhere between two to three times. And of course being export orders, there is also a difference in the costs that we incur while manufacturing so that is also to be taken into account.

**Anupam Agarwal:** Thank You.

**Moderator:** Thank you. The next question is from the line of Jatin K from Alpha Capitals. Please go ahead.

**Jatin K:** Sir, my first question would in terms of growth potential so while GMM conducts con call and they are quite bullish on the GLE segment, I just wanted to check whether we can expect the same kind of growth from our ANFD segment as much as GLE segment or it would be lower growth potential over the next two years to three years?

**Nilesh Ganjwala:** I think as you understand from the discussion so far both the businesses, the glass lined equipment as well as the filters and dryers are catering to the same market segments, so as that market segment grows, we believe that both the business segments will have a robust growth. Having said that, one very interesting thing that Aalap Bhai said earlier was that in the filtration and drying space, there is a still an untapped market which is the small and medium sized industries, where HLE Glasscoat has already taken the initiative of creating a new demand and we believe that if were to take that as an independent segment, then to that extent, I would believe the Filtration Drying space looks almost as promising if not more compared to the other business.

**Jatin K:** Sure Sir, that is great and in terms of pricing in the GLE segment, how below or how close we are to the largest player, do we compete on pricing or client comes to us for quality and other things?

**Himanshu Patel:** The glass lined business is quite a competitive market and I think today's customers are quite enlightened, it would really be difficult for any one player to have an edge in pricing over another. I think the pricing for both the companies is more or less at par, we regularly bid against each other and sometimes we win and sometimes we lose but there is really no premium for anyone.

**Jatin K:** Sure Sir, my last question would be that we are looking to merge H L Equipment in which we are 99% control, so would you mind commenting on that?

**Nilesh Ganjwala:** H L Equipment forms the third manufacturing hub, currently based in Silvassa. The plan as has been envisaged, and it is to grow that hub in the coming years, hence it is believed that from the transparency perspective and from a clarity of organizational structure perspective, it would be better if we brought everything under a single umbrella without having any divergent ownerships.

**Jatin K:** Sure, that is it from my side. Thank you and all the best for the coming future.

**Moderator:** Thank you. The next question is from the line of Abhishek Bora from Ambit Investment. Please go ahead.

**Abhishek Bora:** Hi, everyone, good evening and thanks for connecting on the con call. I have two questions. First question would be on the order book, if you could give us a breakup of the order book between chemical and pharma segment or between the products whatever is comfortable with you and the second question would be on the margins, as we see that the glass line equipment margins for our company is much lower than the competitor, who is a market leader - whereas where we are the leaders having 60% market share in filtration system, we have just 100 basis points to 200 basis points higher margins compared to the competitor, so what could be the reason behind this?

**Aalap Patel:** I think it would be unfair for me to discuss margins of competitors because the differences can be due to multiple factors, it could differences in accounting policies, mix of gas fired furnaces, plant locations, selling arrangements, transactions with related parties and so on. I think what we can really discuss is the effort that we are making to grow our margins and to make things more efficient. As mentioned earlier the management is making continuous efforts and this is reflected in the continuing growth in margins over the last three years to four years. I think these efforts are as intense as ever and we believe that we would continue to show improvement as we move forward.

**Abhishek Bora:** Just a follow up on that what is the margin profile on the filtration part and the order book breakup?

**Aalap Patel:** So, the order book breakup between the two businesses is roughly even right now I think the filtration and drying business would have slightly larger order book being a slightly larger business, we have a order book of roughly six months to seven months as we speak on both the businesses. In terms of the margins profile of the business, I think the margins profile on the business, we have margin profiles on both the businesses which are very comparable, they may be up and down by 50 basis points quarter-on-quarter, but by and large they are comparable.

**Abhishek Bora:** Thanks a lot.

**Moderator:** Thank you. We will move on to the next question that is from the line of Siddharth Agarwal from Student Value Partners. Please go ahead.

**Siddharth Agarwal:** Good afternoon Sir and thank you for giving the opportunity. Sir, my question is that now increasingly in India we also have the large industrial chemical players doing backward integration and setting a very large plants so my question is in terms of engineering requirements of these plants equipment that is required. Is it similar to what we are doing in the other plants or is there some special kind of filtration equipment required for these continuous plants rather than batch mode in general chemical plants. Also in terms of the engineering capability, the technology capability are their other technologies where we are thinking of collaborating with other leaders globally to bring better technologies to India or any developments on those sides, if it is happening?

**Himanshu Patel:** To answer your first question, see all large plants which are being established, some of them are continuous plants and some of them are for the batch chemical manufacturing plants. Their requirements are very huge and if at all they are doing filtration or drying. probably either they have to go for a number of equipments or they need a continuous filtration and drying system. So, it depends on what type of plant is being established. To answer your second question, we are always open to go for any kind of new product line as of now immediately, we have always been open to manufacture different types of equipment as required and you might have seen that we have done that in the past where we have shown that the 9% of the total product line is “others”, those are the products which are basically manufactured for these kind of different applications.

**Siddharth Agarwal:** So, typically you are saying for these large plants we have specialized filtration systems, it is the normal ANFD that we are doing which may be customized a little bit for their requirement, but then no separate different product that is done?

**Himanshu Patel:** Yes, you are right.

**Siddharth Agarwal:** Sir, are there any other areas within the engineering equipment field on the chemicals side - maybe it is related to the pollution side of things because that is also an area which is getting very prominent, is there any scope for us to further extend on opportunities and grab up bigger volume shares of our clients in terms of all their engineering requirements or setting up new clients?

**Himanshu Patel:** As of now yes, I would say that immediately there are no plans.

**Siddharth Agarwal:** Okay. Thanks a lot.

**Aalap Patel:** I would just add a little bit to the answer. Out of all the requirements of the chemical industry, there are a range of equipments that involve different levels of value addition. In terms of technology and capability, there are certain equipments like normal stainless steel or carbon steel reactors regardless of the size where the amount of value addition is minimal and there is immense competition. Also if you look at both the places that we are in, we are in the niche product segments, where there is a high entry barrier and the competition is low and I think that is where we excel and that is where we would like to keep our focus.

**Siddharth Agarwal:** Sure Sir. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Arvind Kothari from Niveshaay. Please go ahead.

**Arvind Kothari:** Congratulations on the great set of numbers. I had a question regarding both the companies now in space are able to raise capital at a very less cost of equity. What type of risk do we foresee going forward if the cycle turns may be three years to four years down the line and capacities keep getting expanded, how will it change our return ratios and do we feel that our competition can acquire certain assets in the filter dryers space and may be challenge us for our margins. The capital that is flowing into the industry, how do you see that a risk or is it an opportunity that we would continue growing at a good pace.

**Nilesh Ganjwala:** I will try to split your question into a couple of things. The first is with respect to sustainability of the business which I think was one of your questions; the second question was the risk and return of the investments. With respect to the risk, I think Aalap Bhai had already mentioned earlier that this is a continuously growing business. The way to stay strong is to obviously keep listening to the customer, which is what we do, customers tells us what he needs, we try to develop those specialized requirements.

Our capability is drawn from our strong development background, we have very strong design team, we have an in-house pilot plant which enables us to make all these developments possible. So, if we are developing new products and new improvements in existing products, we believe that we will be relevant, and the growth will be consistent. The growth in terms of segments again we had elaborated earlier. We are looking at after sales business growing, we are looking at mid and small sized companies moving over to the sophisticated equipments and we are taking the lead in trying to develop that market and of course we are also looking at exports. We believe that a combination of all these initiatives - which include new product development, after sales, exports as well as penetration into newer segments of the market - will keep us in good shape in the coming years.

In terms of the risk return profile, we believe we are in a very high growth phase right now - I think something that all of you seem to agree upon - and in a high growth phase it is also very critical that a Company like ours, which is growing fast, needs to balance its risk and reward profile and one of the key initiatives in this regard was to completely de-risk our financial structure and that is really what the new equity infusion does for the Company. This allows us to focus on building capacities, building operations, building efficiencies in the business while having adequate cushion on the financial side.

**Arvind Kothari:** So, that is what our competitor also is trying to do. My only concern over here is that how incremental capital going forward till maybe two years to three years the capital may give good return ratios, but at that level of incremental capital for both the companies, if we are able to accept such lucrative rates, because the cost of equity has gone down really substantially for you guys, because the valuations have soared, because of the kind of market that we are basically into - so that is doing very good thing for us in terms of letting us grow without taking debt but then at what point of time do our return ratios go down if the capital is flooded in both the companies?

**Nilesh Ganjwala:** I do not see capital flooding as a real issue because capital that we have raised is need based, we are not looking at flooding excess liquidity which will lead to inefficiency. We have identified the use of capital in a finite period and the positive part of the business is that, as Mr. Unnikrishnan also referred to earlier, we are quarter-on-quarter having operating surpluses and these surpluses will also supplement the need to invest in the coming years.

**Arvind Kothari:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Kashyap Kartik from Table Tree Capital. Please go ahead.

**Kashyap Kartik:** Thank you so much for the opportunity. Sir, I have a couple of questions. One is about the SRF call where they basically said Rs. 1000 Crores to Rs. 1200 Crores capex per year for the next three years, so that is a great news for us - so just wanted to kind of understand if we are on track for a Rs. 500 Crore revenue this year and what are the building blocks that we need to do reach the Rs. 1000 Crore kind of revenue in the next let us say two years to three years, because what brought us here may not take us to Rs. 1000 Crores - so what are the other building blocks that you are thinking of to take us to Rs. 1000 Crore?

Second, from an H L Equipment perspective in the presentation, we said it is up to Rs. 35 Crores so if you could enumerate what exactly the kind of investment it is because up to Rs. 35 Crore essentially means for us Rs. 180 Crore valuation. So, if you could kind of detail out the basis for this valuation and is it Rs. 35 Crore or much less than Rs. 35 Crore.

We will be left with Rs. 45 Crores of cash after Rs. 35 Crore into H L Equipment and Rs. 20 Crores into capex. Is this Rs. 45 Crore being used to retire the long-term debt or are we going to just have that cash in the bank and basically call us zero net debt company.

**Nilesh Ganjwala:** I think all these initiatives by our customers and of course our initiatives to support them will lead us to growth.

So, the Rs. 35 Crores is not the exact amount that we are going to be putting in. This is the amount, which is a mix of the fresh investment that is required at the Silvassa unit as well as the acquisition of the 19% ownership stake. So the valuation, if you work out any which way, is probably less than half the multiple that we are getting equity infusion for. We are buying the 19% stake at a much lower valuation compared to what we are being paid for.

On the cashflow utilization, as you know cash is fungible, it is not just about a totality of the business it is also about the timeline over which this cashflows are going to be required, so we are going to require funds over a period of time and there is a need for more capex that may happen over a period of time. Whatever is the excess cashflow will be utilized for reducing the interest cost. So, we are not looking at keeping money idle at any point of time. We have currently aggregate debt - that which includes short-term, long-term all debt put together about Rs. 70 Crores to Rs. 75 Crores. So at no stage of point will this money remain idle.

**Kashyap Kartik:** Perfect Sir, just clarification on the Rs.35 Crores on the H L Equipment we basically have Rs.20 Crores of capex at the Silvassa plant, so are we saying that Rs. 35 Crores is inclusive of the Rs.20 Crores.

**Nilesh Ganjwala:** Just to clarify the amount that will be paid to the partners is being worked out because the cut-off date has been fixed at 1st December and the numbers have not been worked out. The amount, as it appears currently from the valuation reports that we have received, will be in the range of between Rs. 25 Crores to Rs.30 Crores.

**Nilesh Ganjwala:** 19% stake is being acquired for a value of between Rs. 25 Crores to Rs.30 Crores and the capex is being funded by the difference. As I said, the difference is going to be funded by HLE Glascoat.

**Kashyap Kartik:** Perfect Sir. Thank you so much.

**Moderator:** Thank you. The next question that is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

**Shanti Patel:** Are we going to maintain the return on capital employed and return on equity in the next five years consistently what we have got now and who is our main competitor as far as the glass lining is concerned?

**Himanshu Patel:** To answer your second question first, in the glass lined equipments business, our main competitor would be GMM Pfaudler Limited. To take your first question with respect to future return on capital employed and return on equity, both of them of course would be speculative for me to say what will happen five years from now.

Sir, I can talk about the past, where we have consistently grown on our return parameters and there are multiple reasons if I may add in terms of just growth of business, profitability, a stronger balance sheet, lower cost of borrowing, more efficient infrastructure, better procurement due to scale and of course, operating leverage - all of this is going to contribute substantially going forward and this will boil down to better return on overall investments.

**Shanti Patel:** I hope it will be maintained if it is not increased?

**Himanshu Patel:** The management is very optimistic.

**Shanti Patel:** I am saying this Company is like a rising star.

**Himanshu Patel:** Thank you. Those are very kind words from you. Thank you very much.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to the management for their closing comments.

**Aalap Patel:** I take this opportunity to thank everyone for joining in on the call. I thank you all for taking such deep interest in our Company and for your kind comments. I hope that we have been able to address all your queries. For any further information kindly get in touch with us and write to investors.relations@glascoat.com for your queries and thank you once again and be safe.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of HLE Glascoat Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.