"HLE Glascoat Limited
H1 & FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to HLE Glascoat Limited H1 & FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involved risks and uncertainties that are difficult to predict. 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 would now like to hand the conference over to Mr. Himanshu Patel, Chairman HLE Glascoat. Thank you and over to you Mr. Patel!

Himanshu Patel: Good afternoon everyone and welcome to today's earnings conference call to discuss the performance of the company for Q2 and H1 of the financial year 2021-22. I hope you and your families are healthy and safe and have enjoyed the festival season, our presentation and press release along with the results have been uploaded on the stock exchange and are also available on the company's website. I am joined by Mr. Aalap Patel, Executive Director, Mr. Harsh Patel, Non-Executive Director, Mr. K.V. Unnikrishnan, CFO and Mr. Nilesh Ganjwala, Senior Advisor to the company.

Before I move on to discussing the financial performance, let me give you an update on the key operational parameters. I am pleased to announce that our order book position continues to remain strong, we have an order book of over six months for both filter dryer and glass line equipment. This reflects the continued robust demand from the newer industries. All our plants were operating at higher levels during the quarter ended September 2021, the higher order book continued with the higher production levels is likely to result in improved dispatches and sales in the coming quarters. The increase in capacities recently installed or under installation will further augment the activity levels in both business segments. In the last quarter, there were some delays in the dispatches due to delays attributable to the customers and these dispatches have spilled over to the ongoing quarter. We are continuing to introduce better technologies to smaller players in the end user industry as this market is rapidly growing. We believe that MSME as a sector has a tremendous potential and the team is focused on adding newer customers especially from the segment. We also plan to expand the geographies with a renewed trust on exports for both our key product segments. These initiatives will help us expand to market share at an accelerated pace.

Our focus on customer retention, customer satisfaction and post sales service support continues. We continue to implement our long-term strategy of product expansion, capacity expansion and market expansion. The acquisition of Thaletec will further enable an expansion of products, geography and market share. Our team is constantly working towards product innovation and developing newer products along with newer features to improve user experience. On the capex front we have commissioned the additional gas-fired furnaces at the Anand plant. This will boost our glass mining capacity by nearly 25% and further reduce the per unit power and fuel costs. The capex plans for the fabrication shops at Maroli and Silvassa have also been progressing well.

The Maroli expansion will be completed within the next month whereas the Greenfield expansion at Silvassa will be completed by end of financial year 2022. These expansions will add more floor area and machinery for us to increase our production capacity for filtration, drying and other equipments.

Now let me brief you on the recent acquisition announcement by the company. The acquisition process is progressing well and is expected to be completed within 2021. We have given the details of Thaletec earlier, but in the interest of the larger audience here, let me discuss the Thaletec acquisition once again. Thaletec is engaged in the business of manufacturing glass line equipment and specialized process equipment and reactors and has its manufacturing facility in Thale, Germany. Thaletec is a market leader in the glass line equipment business in the highly sophisticated market of Germany and caters to sectors like chemical, pharmaceutical and environmental process industries. The company is growing, profit making entity with very low debt. The acquisition offers strong synergies and capabilities like innovative manufacturing technologies of Thaletec, marketing and post sales network of Thaletec, enhanced efficiencies and combined business interests for both the entities and optimal utilization of various resources leading to economies of scale and integration of processes. The 100% acquisition has been negotiated at the valuation of 12 million euros, this is for your information. I would now hand over to Mr. Unnikrishnan, CFO to brief you on the financial highlights for the period. Thank you, over to Mr. Unnikrishnan.

K.V. Unnikrishnan: Thank you Himanshubhai. I hope that all of you have had the opportunity to go through our presentation and press release. With respect to half year of financial year 2022, our overall revenues were Rs.248 Crores, a growth of 21%, EBITDA stood at Rs.48 Crores, a growth of 31% and PAT stood at Rs.27 Crores, a growth of 49% over the corresponding half year of financial year 2021. 57% of the revenues were contributed by filtration, drying and other equipment and the remaining 43% came from Glass lined equipment division. Both these divisions have showed a healthy revenue growth of over 30%. EBIT growth for filtration, drying and other equipment is 20% whereas EBIT growth for Glass lined equipment is 78% over the corresponding half year in financial year 2021. With respect to Q2 financial year 2022, our revenues were Rs.124 Crores, a growth of 2%, EBITDA stood at Rs.23 Crores, a growth of 7% and PAT stood at Rs.13 Crores, a growth of 12% over the corresponding quarter of financial year 2021. While revenues from filtration, drying and other equipment have grown by 23% to 72.8 Crores revenues from Glass lined equipment remained at Rs.50 Crores. EBIT for filtration, drying and other equipment stood at Rs.11.4 Crores registering a growth of 15% and EBIT for Glass Lined Equipment division grew by 7% to Rs.10.1 Crores. The Return on Capital Employed and Return on Equity remain at over 30%, net debt to EBITDA stands at 0.1x in September 2021 reduced further from 0.6x in March 2021.

Now I request the moderator to open the floor for questions and answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: Hi Sir. Congratulations on a decent set of numbers. Sir I have a few questions on Thaletec, so currently if you could just break up the Thaletec revenues in terms of how much would be our OEM business, aftermarket business, what kind of margins do we see in each of these segments and going ahead what kind of growth or ramp up do you see in the international business and in case if we are planning any integration with HLE Glascoat or technology exchange so what kind of tech exchange or what are we planning or whether Thaletec will be run independently.

Nilesh Ganjwala: Thank you for the question. The breakup of the Thaletec revenue is roughly about 40% comes from the after sales business and the balance is the sales for new equipment or the OEM sales as you mentioned it. In terms of the performance of the company, as Himanshu Bhai stated earlier, continues to grow well and it is profitable. We are expecting that the performance will continue positively in the future on a standalone basis. To your question on whether Thaletec will be run as an independent entity, yes, we currently intend to maintain the separate identity of Thaletec both, as a corporate entity as well as an independent brand because it has strong recall in the markets and among the customers that it is operating. With respect to the potential for integration, again there is considerable potential for synergies between the two companies. There is an obvious synergy of using the technology advantages that both the outfits have in their respective businesses and to combine these into a common offering. There is also the synergy or the potential of using a low-cost manufacturing base like India for optimizing the cost of supplies to customers and probably one of the most important potential is of the capability of using the Thaletec network of marketing and after sales for selling the various products including the filtration and drying products that HLE Glascoat manufactures in India. So there are considerable benefits that will be derived over a period of time.

Samir Palod: Can you just also help us with the geography outlook for Thaletec like how much does the U.S or Europe contribute and how much the HLE Glascoat as of today. Is it approved in any of the other countries for exports?

Aalap Patel: Yes about Thaletec sale I would say more than half of Thaletec's sales come from Germany. Rest of the sales predominantly again come from Europe. Thaletec also has a certain small portion of its sales coming from the Asia-Pacific. Just as an instance, Thaletec has a considerable presence, for example, in Singapore and also Thaletec has a subsidiary in the U.S. However the contribution to sales of the subsidiaries is less than 5% at the moment. However we feel that is quite an opportunity since we have already started their operations in the US in some way and US being a large and important market for Glass lined equipment, it is a great opportunity for us going forward.

Samir Palod: Okay and lastly Sir on the India business so I see that our revenues are flat in the current quarter though the order book that we had for the last year or last six months, we always had a six to eight month order backlog so what happened in the current quarter that our numbers are you know flattish in nature?

Nilesh Ganjwala: I think you are right that to achieve growth the company needs basically two fundamental actions: one is sales which is in our case order book and the second is manufacture, which is driven by our capacity. You are rightly pointed out that we have a very robust order book, in fact the order books during the last three or four months has only gone up further in fact the current order book is close to about 280 Crores combined for the two businesses, so which is probably at its highest level ever. The main reason for the flat numbers is predominantly related to dispatches and especially in capital goods industries we have always noticed that there could be certain delays in dispatches which are connected with a situation at the site of the customers' concerned. I think we are all aware that this time we have had an abnormally extended and heavy monsoon in certain parts of the country and I think this has actually led to some delays in site preparation at the customer sites and I think that is probably the reason why some of the orders have been, basically just the dispatches have been rescheduled to the next few weeks so that is really the only reason otherwise in terms of operational levels order books are looking as robust as ever, as I said we are having order books at all time high currently and even the production levels during this quarter have been considerably higher than previous quarters.

Samir Palod: Okay but Sir when you said that there is a delay in dispatches but from what I see in the working capital cycle phase that you have given we just have Rs.14 Crores of finished goods present in our inventory so I assume that our productions were are also low and we do not have finished goods present for our clients so are we running at full utilization levels and that is why we are facing issues or because 14 Crores number is very low compared to the order book size that we have.

Nilesh Ganjwala: Very fair question but just to clarify from an accounting perspective till the product is finally assembled and ready for delivery, we account for it as work in progress so if you see the work in progress number, the work in progress number is close to Rs.81 Crores and then finished goods at additional 14 Crores, you are looking at close over 95 to 96 Crores in goods which are at different stages of manufacture and I can assure you a lot of these goods are at a very advanced stage and almost ready for dispatch.

Samir Palod: Okay so can we assume that say in the next quarter take Q3 and Q4 we at least surpass our previous run rates by high teens or something like that?

Nilesh Ganjwala: I think that would be a fair expectation, yes.

Samir Palod: Okay thank you.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you Sir for the opportunity. So sir you mentioned about some delay and dispatches now just to kind of you know add some more color on this if you can just elaborate, apparently the Q2 number for filtration and drying revenue number seems to be quite decent there is a 23% Y-o-Y growth so if you can like I said add some more color as to is this pertaining this delay pertaining largely to the glass lined equipment where we have kind of reported flat revenues so that was the first question and the second was Himanshu Sir mentioned about Anand and good to hear that we have added capacity over there so if you can kind of again just add some more info as to what could be the run rate given that this was a Brownfield then we should be able to integrate this and kind of convert this into revenues given that order book stands quite strong. The third question was regarding the investment number so if I look at the balance sheet, there is 50 Crores investment number and just wanted a little clarity this pertains to Thaletec or is there anything else also on this so these are three questions and I will come back for more?

Nilesh Ganjwala: So on your first question I think the circumstances with respect to the customer sides are relevant for both the manufacturing sites so yes the filtration, drying segment has shown good growth what I could only say is that if these delays had not happened the growth would have been even higher while on the glass line equipment side yes also there have been certain delays in dispatches. To take your last question with respect to the investments of 50 Crores., this is the money that has been set aside for the transaction with Thaletec, so that is the accruals and the equity portion of the funding that has already been set aside so it has only been ear marked for the purpose of the acquisition

Kaushal Jain: Nilesh Sir just one corollary to that we have said Thaletec the transaction will be completed in 21 so I am presuming it is calendar 2021 or financial year 2021?

Nilesh Ganjwala: Calendar 2021. Financial year 2021 has already got over isn't it.

Kaushal Jain: So basically could we presume that the fourth quarter will be consolidated numbers will include even the Thaletec acquisition?

Nilesh Ganjwala: From an accounting perspective the consolidation of the profit and loss account will happen from the date of closing which is the date on which the shares actually get transferred so depending on the exact date we will have the closing happening and then the consolidation will come in, so just hypothetically speaking, if the closing happens on let us say December 15, 2021 then all the P&L items post December 15, 2021 will be consolidated.

Kaushal Jain: Sure.

Nilesh Ganjwala: If the closing happens as we expect within 2021, which is by December 2021, yes in the third quarter the balance sheet will definitely have the impact of Thaletec but the profit and loss account will be only for the broken period.

Kaushal Jain: Sure.

Nilesh Ganjwala: On the question relating to the capacity expansion, I would just request Aalap Bhai to take that please?

Aalap Patel: So our manufacturing process consists mainly of you can broadly in the glass lined equipment section you can divide it into three main steps so fabrication, glass lining and then assembly so if you look at all of these three steps we have recently added capacity to expand assembly so in the last financial year we added a new assembly shed. We have enough or ample capacity to fabricate. So to kind of balance the line we have commissioned the glass lined furnace and this glass lined furnace adds about 25% more capacity in that particular section so you could say that we are adding about 25% more capacity in terms of the output that is possible.

Kaushal Jain: Sure Aalap Bhai so if I can add a few more questions on this, we have obviously added one more furnace in Anand and there is also this Maroli expansion and filtration and drying coming up so if you can kind of throw some light on what could potentially our output be in terms of let us say approximate revenue run rate. I also want to just kind of get a little clarity we were if I remember right going to add one more gas furnace so is that still underway or that is not the plan now?

Nilesh Ganjwala: If I can so to answer your last question first I think as far as the furnace expansion is concerned that already been completed in the previous quarter in the quarter ended September so that has already been completed and currently there is no furnace which is in the process of being implemented, we may take a call on that may be somewhere in the coming months depending on how the operations progress. With respect to the Maroli expansion, the expansion will lead to about 20% to 25% increase in floor area, in terms of it obviously will lead to higher production happening there. In terms of the run rate of revenue specifically to your question, again all of these plans are going to be commercialized at different points of time during the year so the Maroli expansion is likely to be commissioned in the next three to four months let us say by about February or so. Silvassa, which is a Greenfield project is likely to be commissioned by the end of the financial year which is by March and Anand as you mentioned, has already been commissioned in the previous quarter.

Kaushal Jain: Coming back to my earlier question regarding the delays, Nileshbhai is it possible for you to put a number to that delay meaning what could be the likely number that we could have done in Q2 but which we will now do in Q3?

Nilesh Ganjwala: Difficult for me to really put a number to be very honest and would not be a fair question but I can only draw your attention to a line item in the results which reflects to the increase decrease in WIP and finished goods and if you see your regular, that is the increase that has happened during this quarter in WIP and finished goods yes there will be normal increases and this is obviously an abnormal increase which you can attribute to the delay.

Kaushal Jain: Understood this was very helpful I will get back in the queue for any question.

Moderator: Thank you. The next question is from the line of Samir Palod from AUM Fund Advisors. Please go ahead.

Samir Palod: I have a further few questions so now that our Anand capacity and Silvassa capacity has been implemented what kind of revenue can we do in terms of topline in the filtration, drying and the glass lined equipment, as in terms of peak case basis if we could just throw a number?

Nilesh Ganjwala: I think it is little difficult to throw a number based on pure capacities because the topline is driven by A. production capacity, B. complexity of the products that we develop which is dependent on the orders that we get and C. is of course also the material of construction. Just to give an example, if we manufacture a stainless steel equipment the cost would be X, whereas if you were to do lets say an exotic metal like Hastelloy, the cost could be 3x so while it will be one equipment the topline impact will be substantially different and hence might be a little difficult. I think a very simple thumb rule to kind of estimate this would be the percentage of production capacity that it adds I think that would be probably more like a thumb rule estimate yes.

Samir Palod: Okay just because I just want to understand get some sense on how much production capacities do we have to or what is the max run rate till which the revenue currently can go further so that how much room for upside do we have before any further capex you know I just wanted to get a good sense on that.

Nilesh Ganjwala Can I request you to kindly clarify your question? I am sorry I did not get your question clearly.

Samir Palod: Okay so what I am trying to say is currently we are at a 125 Crores, 130 Crores run-rate in terms of topline correct?

Nilesh Ganjwala: Yes

Samir Palod: So with all these capacities coming in can we say that we can easily do a 200 Crores run rate in a specific quarter looking at the kind of order book that we currently have as in terms of max basis that is what I am trying to understand.

Nilesh Ganjwala: From a pure mathematical perspective I would think that a run rate of about 175 to 200 Crores is doable.

Samir Palod: Okay and Sir in terms we say that our work in progress and finished goods and inventories is 95 Crores, so how much of this inventory inflation is due to the raw material inflation effect because steel prices and everything has gone up by 20% to 30% in the first half of the year so our inventories will also be inflated by an equal amount of commodity inflation if you could just quantify?

Nilesh Ganjwala: It is difficult to quantify because we have a system where we do a weighted average costing for all our material costs at different stages of manufacture. We do have an evaluation of impact that it has on margins and in our case the impact on margin is not very material simply because as I think we had explained on one of our earlier calls we have a very clear pass-through mechanism with respect to the way we take our orders and the way the raw material prices are included in our costing scenario, so yes there would obviously be impact of some raw material price increases in the value of inventory but I do not think that will have an impact on margins going forward.

Samir Palod: Yes I definitely do understand that we are very capable in terms of passing on these inflation costs and sustaining our margins in the current quarter and I totally believe that the company will be able to pass on these raw material inflation going ahead also because of the kind of capabilities and quality of product that we deliver but if generally what kind of price increase would you have taken in the first half of the year, just to give an average picture and in the third quarter as we see we are halfway into the quarter what kind of price increase have we already taken or passed on to the customer if we can just help out?

Nilesh Ganjwala: Again let me clarify so there is no specific price increase that is passed on over a period or any such thing, so just to kind of clarify, we do not do a price increase across the board let us say example, effective first of December there will be a price increase of 5%, no, that is not the way we do it. Each of our orders is based on a certain cost sheet and each of the orders is customized and specific to that customer and customer specification, so every order has the element of the respective price increase built-in.

Samir Palod: Okay thank you very much.

Moderator: Thank you. As there are no further questions,I now hand the conference over to the management for closing comments.

Himanshu Patel: Thank you very much to the participants as well as the Senior Advisor, Nilesh Bhai. Thank you for your time and all the best to everyone.

Moderator: Thank you very much. On behalf of HLE Glascoat Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.