“HLE Glascoat Limited

Q4 FY’23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the HLE Glasscoat Limited Q4 and FY23 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Rasika Sawant from Orient Capital. Thank you and over to you ma'am.

Rasika Sawant: Thank you and welcome to the Q4 and FY23 Earnings Conference Call of HLE Glasscoat Limited. Today on this call we have Mr. Himanshu Patel, Managing Director along with senior management team. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations as of today. Actual results may differ materially. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. A detailed safe harbor statement is given on page number two of company's investor presentation, which has been uploaded on the stock exchange as well as company's website.

With this, I hand over the call to Mr. Himanshu Patel for his opening remarks. Over to you sir.

Himanshu Patel: Good evening and warm welcome to all the participants. Thank you for joining us today to discuss HLE Glasscoats Q4 and FY23 financial performance. Today on the call we have Mr. Aalap Patel, Executive Director, Mr. Harsh Patel, Executive Director, Mr. Naveen Kandpal, CFO and Mr. Nilesh Ganjwala, Senior Advisor to the company and Orient Capital, our Investor Relations partner. I hope everyone has had an opportunity to go through our financial results and the investor presentation which has been uploaded on the stock exchanges as well as on the company's website.

Today, I would like to discuss our company's performance in the light of this current global challenges. As we all know, the world has been grappling with overlapping crisis. The geopolitical situation is worrying and the global economy has been stressed with the liquidity crunch in the global banking system and the recessionary predictions in developed economies. However, despite these uncertainties, the Indian economy has proven to be quite resilient. India also faces its own set of challenges, including the increase in interest rates and higher inflation.

However, the overall Indian industry seems to be stable and progressing well. In this background, I am pleased to report that our company has performed very well. Our revenues from operations experienced a growth of approximately 42.8% and our EBITDA grew by 23.3%, reflecting our ability to navigate the challenging times effectively. We have been closely monitoring the evolving demand trends and our robust order book indicates a promising future ahead. I am pleased to announce that our company has achieved significant growth in financial performance over the sequential quarter.

The jump in revenue was due to higher production as well as increase in demand from end user industry. Currently, the company has an order book of approximately four to five months for the Indian business and approximately nine months for the European business. Also, I would like to highlight that we have added several new customers in India as well as in Europe. During the first half of FY23, we witnessed unprecedented volatility in raw material prices, which adversely affected our business margins. However, we have witnessed stability in the prices of key raw materials in the recent months, and we continue to monitor this situation closely.

By closely managing costs and focusing on operating efficiencies, we have maintained annual EBITDA margin at 15.6%. We are delighted to inform you that our strategic acquisition of Thaletec Germany is yielding positive results. By working closely, we are progressively leveraging our synergies, thereby enhancing our competitive edge and expanding our market reach. This acquisition has opened up new avenues for growth and innovation, positioning us as a strong player in the industry.

We believe advantages of the combined operations will continue to occur in the coming quarters. At our core, we are committed to meeting the evolving needs of our clients through relentless efforts in innovation and research and development. We continuously strive to exceed customer expectations. By investing in proactive product development, we ensure that our solutions remain ahead of the curve.

I now hand over the call to Mr. Naveen Kandpal, CFO, who will brief you on the financial highlights for the period. Thank you. And over to you, Naveen.

Naveen Kandpal: Thank you, sir. And a very good evening to all the participants. I will start with Q4 FY23, financial performance of the company. The consolidated total revenues for the quarter stood at INR301 crores versus INR251 crores in Q4 FY22. We have witnessed a growth of around 20% on a year-on-year basis. Our filtration, drying and other equipment contributed INR113 crores compared to INR103 crores, registering a growth of 9.3% on a year-on-year basis.

Our glass-lined equipment contributed INR181 crores in Q4 FY23, against INR143 crores during the corresponding quarter last year, reporting a growth of 27%. The EBITDA stood at around INR47 crores, reflecting a growth of 19.4% year-on-year basis. Our consolidated EBITDA margin stood at 15.9% for Q4 FY23, PAT stood at INR22.80 crores. Now, coming to sequential quarter-on-quarter performance, our revenue in Q4 FY23 grew by 39%.

Our EBITDA in Q4 FY23 witnessed a growth of 67% quarter-on-quarter. EBITDA margins in Q4 FY23 stood at 5.9% as against 13.2% in Q3 FY23. Our PAT in Q4 FY23 reflects a growth of 86%. PAT margins in Q4 FY23 stood at 7.6% as against 5.7% in Q3 FY23.

Now, moving to the yearly performance for FY23, the consolidated revenues for FY 23 stood at INR931 crores versus INR652 crores in FY 22, resting a growth of 42.8% year-on-year basis.

Our filtration, drying and other equipment contributed approximately 37% of the revenue at INR344 crores compared to INR314 crores posting a growth of 9.6% on a year on year basis. The glassline business continues to contribute strongly to the total revenue at INR578 crores in FY 23 against INR330 crores during the last year, a growth of 75.3% on a year on year basis. This also includes the impact of the consolidation of the Thaletec Financials.

The Consolidated EBITDA for FY 23 is INR145 crores, a growth of 23.3% year on year. The company reported EBITDA margin of 15.6% against 18% of FY 22. The Consolidated PAT is INR70 crores, a growth of around 19.9% year on year. Now, I would like to request the moderator to kindly open the floor for questions and answers. Thank you.

Moderator: Thank you ladies and gentlemen, we will now begin with the question and answer session. The first question is in the line of Nakul Doshi from Winshine Financial Services. Please go ahead.

Nakul Doshi: So my first question was about the volume numbers in terms of units for this year for both glass line units and filtration units. So could you provide some outlook about the volume numbers that would be great

Aalap Patel: For filtration and drying and glass line combined, we saw volume growth in the 10% to 15% range in terms of number of units.

Nakul Doshi: Okay. And also in terms of capacity utilization, what are we expecting, including the units at Maroli, Anand ,Silvassa and Thaletec plant?

Aalap Patel: So as you may be aware, we have recently commissioned a greenfield expansion at Silvassa for filtration and drying equipment. In addition to that, we have also in the last financial year added substantial capacity in terms of shop floor area also at our Maroli plant for filtration and drying unit. So while our capacity utilization was in excess of 85% in the previous financial year, given our current targets and order books, for the current year, we are in the, somewhere in the 75% to 80% capacity utilization for F&D.

And this is again after the expansion and in view of the increased order book. For Germany, I think we have ample capacity there. We have a very large plant measuring about 37,000 square meters. And in terms of capacity utilization, I believe that there is ample scope to dramatically increase the revenue there without making any substantial capital investment.

Nakul Doshi: Okay. And this capacity utilization, the numbers which you give right now for FY '24, right?

Aalap Patel: Yes.

Moderator: Thank you. The next question is on the line of Darshan Shah, an individual investor. Please go ahead.

Darshan Shah: Sir, I just wanted, I had some questions regarding fund utilization. So can you just provide some details about our fund raise plan of INR350 crores?

Nilesh Ganjwala: So I think on the fund raise, we are looking at the right timing and market conditions to take a further call on this. So we are closely in touch with the investors, but the final call on the fund raise has not yet been taken.

Darshan Shah: Okay. So any information on where we'll be?

Moderator: Sorry to interrupt, Mr. Shah, your audio is breaking up. We are not able to hear you clearly. Hello. Mr. Shah, may we request that you return to the question queue as we are not able to hear you clearly. Thank you. The next question is from the line of Rehaan from Sicomoro. Please go ahead.

Rehaan: So I had a few questions. So I'll start with Thaletec. Just wanted to get your perspective on what's going on at Thaletec, given that there was a fall in revenue and EBITDA year on year, if I look at it quarterly. And also within Thaletec, I think there seems to be another income of negative INR6 crores. So if you can just shed some light on that?

Nilesh Ganjwala: So first of all, Thaletec has not seen a downturn. And on the contrary, Thaletec has actually been doing extremely well. And even quarter four is no different. Thaletec has shown better top line revenue as well as bottom line in terms of EBITDA and PBT. So no, there is no fall in EBITDA.

I think your question is probably driven by the negative 6.3 other income that you are calculating, which is actually a elimination of the dividend that Thaletec paid to the Indian company during the financial year. So when you look at consolidated minus stand-alone, you will have to adjust for the INR6.3 crores, which was actually a dividend income in India, which has been eliminated on consolidation.

Rehaan: Sure, so that helps. Okay, apart from that, just wanted to understand what kind of capex is happening in Germany and in India going forward? And what is the expectation specifically for FY '24?

Aalap Patel: Yes, so we are expecting to do a maintenance sort of capex for both the Indian and the German plants at about INR10 crores to INR12 crores for either of the geographies. So about, INR10 crores to 12 crores of capex at the German plant, which is predominantly for upgradation and slight expansion in certain areas of the shop floor. Whereas for India, for all three plants put together, the capex will be more or less maintenance capex in nature, and it will be around INR12 crores, all the plants put together.

We also have recently procured a large parcel of land for expansion of the glass lined equipment facility. But the investment plan for that expansion are still being drawn up. So we don't have firm numbers for that expansion. Just to clarify, we are also currently in process of executing a center of excellence at the Anand plant. This capex was announced last year. And we will be finishing this capital investment, and we will mostly be commissioning the plant in Q3 of the current financial year.

Rehaan: Okay, thank you, sir. Sir, one last question from my side. So in Q4, it seems that the margins in the glass lined equipment, when I look at the stand-alone business, have come down compared to say the last few quarters. Again, correct me if I'm wrong. And it seems to be below the filtration and drying. So just wanted to understand what the outlook is there and even going forward, how will it be?

Nilesh Ganjwala: So, Yes, the margins in the business are fluctuating based on certain orders that we get. And there were certain large orders that were executed during this period on which margins were slightly lower. But over, let's say, the immediate term as well as the medium term, we believe the margins to go back to normal.

Rehaan: Okay, so can you give a broad range of what that expectation would be?

Nilesh Ganjwala: I think we believe that the long-term maintainable margins in this business are in the 18% range. We always see some ups and downs. We've seen a high of 22%, 23% and a low of maybe up to 14%, 15% over the last four years. And we believe that we should be in and around a long-term average of about 18%.

Moderator: Thank you. The next question is on the line Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Thanks for taking my question, sir. On the filtration and drying market, we've had about a 9% growth this year. In your assessment, how will that compare? What kind of volume growth does it represent? And how does it compare with the growth in the industry?

Nilesh Ganjwala: So, the growth that is about 9.6% during the last financial year was, direct was the value growth that we saw. The growth is actually determined by two things that, we've witnessed during the last financial year. First is the commissioning of the new plant at Silvassa. We had a smaller plant in Silvassa, which was kind of discontinued. And then, we had a transition to the new plant during the first quarter and second quarter of FY '23. As we had spoken about this earlier, there was obviously a slight disruption in the production. And it always takes about a quarter or two, to ramp up production in an absolute Greenfield project. And that's exactly been the experience during FY '23.

So, one of the reasons for the relative lower growth is the Silvassa plant commissioning, transitioning, and ramp up. The second reason is also the entire product mix of the business is, as you may be aware, linked to two main materials. One is stainless steel, which is relatively lower priced, and other exotic metals, which include things like Hastelloy and other alloys, which are at substantially higher values.

During this financial year, the product mix that we see, we see the value of the exotic metal equipments has somewhat dropped off. And again, this is something that fluctuates from year-on-year. And when that happens, you will see a relatively lower value growth, although the operating levels at the plants have been at good levels. So, while we may have much higher volume increases, but at a value level, simply because we supplied more stainless steel vessels compared to Hastelloy or other exotic metals, the value at the gross level – at the gross revenue level is lower.

Nitin Agarwal: Okay. And given the fact that there has been some slowdown in pharma chemicals also, there are emerging signs of some challenges emerging. Are you seeing, any of that reflecting in your domestic order book across glass-line and in filtration?

Nilesh Ganjwala: There has been a certain fluctuation during this financial year, which initially was more relatable to the volatility in the raw material prices, because until the volatility in the raw material prices stabilized, the customers were normally a little reluctant or hesitant to place fresh orders for their projects. So, that's something that, we noticed during the initial months of the year.

In the current scenario, we are seeing a renewed interest in orders. And as you see, we have – by rotation, we always see a rotation of industries. Sometimes APIs do form a chunk of the product, sometimes it's agrochemicals. And right now, as we see, it appears to be specialty chemicals. So, by rotation, we always see one industry or the other mitigating the other, maybe somewhat slower growth in the other one.

Nitin Agarwal: So, from where you are over the next couple of years, what kind of growth, value growth do you see in glass line and in the filtration equipment business segment?

Nilesh Ganjwala: We are very confident that we will continue to see CAGR in the 15% to 20% range for the foreseeable future. We are quite confident of that kind of growth.

Nitin Agarwal: In both the sectors?

Nilesh Ganjwala: And this I am talking on a consolidated basis, including Germany.

Nitin Agarwal: And so, what was the revenue from Thaletec in this year?

Nilesh Ganjwala: The revenue of Thaletec included in this year is about INR270 crores. The Euro equivalent would be EUR33 million.

Nitin Agarwal: And lastly, if I can take in one – in terms of your plans to add more adjacencies, any thoughts on, what you would want to do incrementally? Are you looking to go beyond these two verticals and what kind of verticals would you be looking at?

Aalap Patel: Yes, so I think in terms of – so we have introduced a couple of new products, innovations, etcetera. And maybe Himanshu bhai, if you can just shine some light on the products that, we have introduced in the current year.

Himanshu Patel: Yes, we have added a few new products. One of them is a very prestigious kind of product solutions at Thaletec. It is – we have added seven new solutions in Germany. We also added stainless steel reactors at India, at Silvasa, and Pilot Squid for pharma and chemical in various materials of construction, we have added from Anand Works.

Nilesh Ganjwala: I think we – we also added about seven new innovations in the Germany business, which has also been pretty much for the first time in the world.

Nitin Agarwal: Thank you, sir.

Moderator: Mr. Agarwal, are you done with your question?

Nitin Agarwal: I'm done. Thank you.

Moderator: Thank you. The next question is from the line of Pritesh from Lucky Investments. Please go ahead.

Pritesh: Yes, sir. You mentioned the capacity utilization in filtration and drying. If you could give the capacity utilization in glass line at this INR578 crores business, what is the capacity utilization there?

Aalap Patel: Yes. So the INR578 crores business is spread across two geographies. So, the European business or rather the German plant and our Indian facility. So, Indian facility right now is at a relatively high capacity utilization. So we are over 85% capacity at the moment. The German plant, like I said earlier also, is a very large plant. And we have ample room there in terms of capacity available to ramp up production without making any dramatic investments in that plant.

Pritesh: Okay. And when you were mentioning the capex, you said that India operations will largely have maintenance capex. So, will it take care of capacity addition in glass line in India?

Aalap Patel: Not really. So, the maintenance capex of INR10 crores to INR12 crores was spread across all three plants. So the two F&D plants in Maroli, Silvassa and the glass-lined plant. In addition to that, we will also be expanding the glass-lined equipment facility for which plans are still being drawn up. So we are currently not in a position to give you any guidance on the number for that capex.

Pritesh: So based on the current asset that you have, you will be able to support a 15%-20% growth?

Aalap Patel: In this year, yes.

Pritesh: And any changes that you see on the supply side, especially in the filtration and drying equipment suppliers, any new suppliers or any old supplier who is emerging up the curve, any changes you see on the competition side?

Nilesh Ganjwala: We have not seen any new suppliers coming up by and large. I think it's the same old suppliers who are on the horizon. So no, we haven't seen any major changes in the supply side scenario.

Pritesh: Okay. And my last question is you were giving to one of the participants a new or the adjacent product line that you have added in some of the -- I missed some of those six or seven products. Can you just retell them because the line was not clear. I could only hear added seven new innovations in Thaletec Germany.

Nilesh Ganjwala: Yes. So we did not enumerate the innovations. We only mentioned that there were seven new innovations in India. As you are aware, Thaletec takes always pride in being the innovation leader in the industry. And we've continued with that tradition in the current year as well.

Pritesh: Okay, sir. Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Drasti Shah from Bluelotus Capital Advisors LLP. Please go ahead.

Drasti Shah: Employee cost on a consol basis has more than doubled. So will this be sustainable or we can see more increase in employee cost going forward?

Aalap Patel: So the employee cost has gone up predominantly because this is the first full year of consolidation of the German numbers into our numbers here. And as you may be aware, the employee cost as percentage of revenue is substantially higher, the operations being located in Germany.

Drasti Shah: Okay. Also, regarding one of the developments which had come across earlier, I just wanted to know some updates on it, like regarding getting some approval from Indian Register of Shipping or Lloyd's Register Group for supply of marine application special vessels. So can you update on this development if it is going on?

Himanshu Patel: Yes. So after getting those certificates, we have already issued a few orders on the same line and we are also working on some other development which they have asked us and probably we will be also getting those orders for the same manufacturing, for same product manufacturing.

Drasti Shah: So how much revenue is generated from marine industry and the kind of margins we get from marine application products?

Harsh Patel: Okay. So let me give you some background. This is actually something that has come up because of our capabilities and because of some indigenization that was mandatory for some defense industry equipment, Navy, especially. So what has happened is this market was currently or is currently being 100% addressed by import or rather foreign players. The margins are relatively high and the market expectation currently we are not -- we are in the process of discovering the size of the market. But it is expected to be in the range of anywhere between INR50 crores and INR100 crores a year for this product. And the margins are relatively healthy.

Drasti Shah: Okay. So can I expect around 20%, 30% margins in the range of 25%, 30% and what kind of order we might have like in INR50 crores, INR100 crores market size, how much order we might be getting?

Harsh Patel: So we are the first qualified company in the country. There is no other company in India which has been qualified for this job. As I said, so far everything was being imported. So at the moment we have no Indian competition and we do not see Navy currently qualifying anybody. The margins I think are, this is something which is I think which is more than the current margins that we make on filtration drying but I would not like to comment on the absolute number.

Drasti Shah: All I wanted to understand is how many kind of like products do we have for this segment and do we have the capacity for this industry like marine industry?

Aalap Patel: So the product that we are talking about is a very, very specialized product that finds application for deep sea diving vessel. So it is just one family of products that we have ventured into and having had the certification from Indian Register of Shipping, so on and so forth. It does open up doors for a variety of jobs but currently we are focusing only on this very specialized product because it is a fairly technically challenging product to make and we believe that it has a potential to have higher margins than junkier run of the mill marine application.

Drasti Shah: All right. What kind of revenue we can expect like in next three or four years? Can this be a big part of the overall revenue contribution or will be a small part like right now it is?

Aalap Patel: So just to give you an example, the first trial order that we executed was in the INR5 crores range, revenue range. Now, we are now beginning to bid for orders which range in ticket size anywhere from INR50 lakhs to INR10 crores. So like, Harsh had said a while ago, we are still in the process of discovering this market and it is probably too early to give any guidance on the absolute numbers of revenue or margins.

Drasti Shah: All right. Thank you. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Darshan Shah, an individual investor. Please go ahead.

Darshan Shah: So just to follow-up on the previous question I could not ask. So about the final utilization, you said you were looking at the market and the investor. So could I get where would we deploy these INR350 crores?

Nilesh Ganjwala: So at the current, the INR350 crores is actually the upper cap for the fund raise. We may actually end-up raising much lower depending on the actual fund requirement and likelihood of raising a lower amount of funds is actually very likely now. In terms of the end use of the funds, it will be basically to look at opportunities which would include reducing the overall borrowings of the business on one side as well as looking at inorganic opportunities on the other side. So this is the two areas that will determine the actual amount of funds that are likely to be raised.

Darshan Shah: Okay. Thank you, sir. My next question was on the, we had launched to cater to the SME sector. So can you just give a brief idea of what percentage of revenue is it contributing to that?

Aalap Patel: Sorry, we could not hear the question. Could you please repeat it?

Darshan Shah: So we have developed a product to cater to the SME sector. So I just wanted to know the revenue contribution of that product.

Nilesh Ganjwala: So I think the revenue contribution during FY '23 was in excess of INR55 crores, between INR55 crores and INR60 crores.

Darshan Shah: Okay, sir. So are you in a position today to give some future guidance regarding the same or how much more did you expect or what is the total addressable market for that product only?

Nilesh Ganjwala: It's difficult to say. To be very honest, the way we market filtration and drying equipment is not only from a product perspective. You'll be actually quite happy to know that this product, which was originally intended and targeted at the, let's say the mid-size companies, has actually found favor even with some of the larger companies who actually like this product simply from a perspective of it being available off the shelf. So there are multiple, it's very difficult to actually put a number on what kind of -- but the good news is that the overall trends are very, very encouraging.

Darshan Shah: Okay, sir. And do we have any order book for that product currently?

Nilesh Ganjwala: Yes, the order book is in excess of 75 machines to 100 machines as we speak.

Darshan Shah: Okay, sir. And I wanted to know about the Thaletec acquisition. Where are we in the timeline for the tech transfer and our integration, sir?

Aalap Patel: Yes. As we had informed in some of the earlier calls, we have already received all of the regulatory consents for technology transfer. And currently we are in advanced stages of the technology transfer process where several visits from either of the teams have been made and it is progressing really well.

Darshan Shah: Okay, sir. Thank you.

Aalap Patel: Sure.

Moderator: Thank you. Ladies and gentlemen, in the interest of time, that was the last question. I now turn the conference over to Mr. Himanshu Patel for his closing comments.

Himanshu Patel: So I thank the team, Naveen, our advisor, Mr. Nilesh Ganjwala, and the investors who had participated in this meet. So thank you very much to all of you.

Moderator: Thank you, members of the management team. Ladies and gentlemen, on behalf of HLE Glascoat Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.

Himanshu Patel: Thanks.