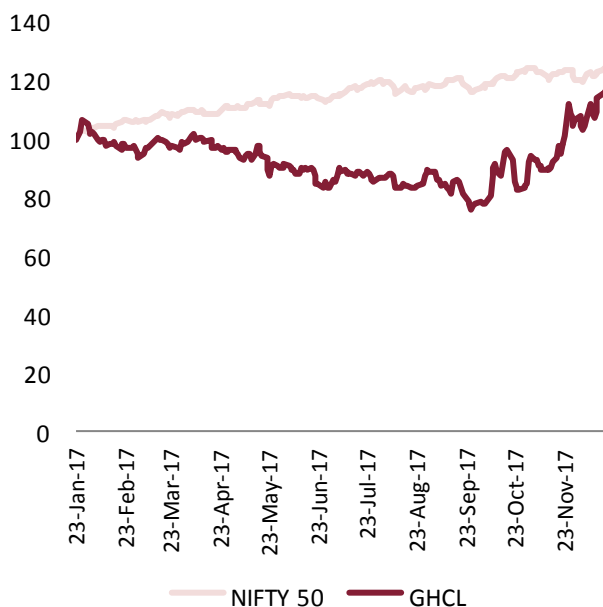




<b>CMP</b>	<b>310</b>	<b>Rating</b>	<b>BUY</b>
<b>Target</b>	<b>388</b>	<b>UPSIDE</b>	<b>25%</b>

STOCK DETAILS	
BSE Code	500171
NSE Code	GHCL
Market Cap (Rs bn)	30.7
Sector	Commodity Chemicals
Year End	March
52 w.High/Low	321/204
Avg. Monthly Turnover (Rs mn)	570.4
Listed on	BSE/NSE
Shares in Issue (mn)	99.47
BSE Sensex	33756
NSE Nifty	10440



SHAREHOLDING PATTERN		
%	Sep-17	June-17
Promoter	19.09	18.93
FII/DII	24.45	24.42
Others	56.46	56.65

FINANCIALS				
Rs in bn	FY16	FY17	FY18E	FY19E
Total Revenue	25.3	28.1	31.3	35.1
EBIDTA	6.3	7.1	6.4	7.9
EBIDTA(%)	24.9%	25.2%	20.4%	22.5%
PAT	2.58	3.80	3.53	3.86
EPS (Rs.)	25.8	38.0	35.5	38.8
P/E (x)	12.0x	8.1x	8.7x	8.0x

Source: Company, Indsec Research

GHCL Limited was incorporated on 14th Oct '83. The company is well diversified with an established presence in Chemicals, Textiles and Consumer Products segments. In the Chemicals segment, the company mainly manufactures Soda Ash (Anhydrous Sodium Carbonate) which is a major raw material for Detergents & Glass industries and Sodium Bicarbonate (baking soda). The Soda Ash production capacity currently stands at 9.75 lakh mn tons/year. Textiles segment manufactures cotton yarn, polyester yarn and home textile products. Under the Textiles segment, its operations are an integrated vertical set up which commences right from spinning of fiber (yarn), weaving, dyeing, printing till the finished products which are primarily exported worldwide. GHCL is also engaged in the consumer products business where it is a leader in manufacturing and selling Edible salt, Industrial grade salt and Honey in the country.

#### Investment Rationale

**Leadership in high entry barrier industry - to provide revenue comfort-**In the soda ash industry, logistics cost plays an important role owing to its input/output ratio. Five tonnes of raw material is needed for manufacturing one tonne of soda ash. Thus, proximity to key raw materials provides an edge. GHCL is the only player in the industry to have its own lignite mines. It uses an in-house developed briquette coke (cost effective and more efficient) in place of met coke, which reduces its per unit raw material cost. **GHCL has successfully created a well-integrated business model with captive availability of raw materials, leading to cost leadership in the industry. As a result, it enjoys ~400-800bps higher margins than its peers. There are only three domestic major manufacturers of soda ash, and GHCL enjoys 25% market share.**

**Soda ash industry buoyancy to continue- Cash Cow for GHCL to maintain steady growth-**The domestic Soda Ash demand witnessed a growth of 6% in FY 2016-17 compared to last year. All-consuming segments including Detergents and Flat Glass, Chemicals & Silicates recorded a healthy rebound. Demand for soda ash is likely to grow at a steady pace of ~5% CAGR over the next few years, like the rate seen in the last decade. Prices for soda ash have also increased at a steady pace with increase in input costs. GHCL is one of the key soda ash players in India, with a capacity of 9.75L MT, accounting for 25% of the country's total demand. GHCL's soda ash business contributes 59% to revenues and 80% to its profitability. **Additionally, with no significant capacity coming up, we expect GHCL to report volume growth of 16% over FY17-19, while revenues are expected to growth by 18% over the same period.**

**Textile industry on cusp of turnaround -GHCL is one of the late entrants in the home textile segment;** the company is one of the largest integrated textile manufacturers in India with presence in both spinning and home textiles. The textile business is currently facing a lot of headwinds because of Dollar Devaluation, uncertainty over GST, Overall Supply situation and Stiff competition in US between Brick n 'Motor stores with E-commerce. **However, the company have taken a lot of corrective action to stream line this segment (appointment of CEO for textile division), doing away with low margins orders. We believe such steps along with stabilizing cotton price could see the division turn around and any improvement in margins are likely to benefit the company overall.**

**Diversifying in High growth business likely to provide additional fillip to GHCL's earnings-** The company has further densified its product offering by introducing Sodium Bicarbonate (0.7 tonnes of soda ash required to make 1 tonne of sodium bicarbonate). The realization for this product is almost like soda ash realizations. The company has a total capacity of 70 TPD and currently enjoys a ~13% market share in India. The company is also present in the edible salt segment with a raw salt capacity of 1.50 Lakh MT and Refined Salt Capacity of 0.75 Lakh MT near Chennai. Currently both these segments contribute very little to the revenue, however they have a huge potential and could contribute significantly in the coming years.

#### Valuation-

**We expect the Topline to grow at CAGR of ~12% over FY17-FY19E, while EBITDA is expected to grow at CAGR of ~6% with margins are expected to hover ~22.5% during the same period. At CMP of Rs 310 the stock is trading at 8.7x and 8.0x on expected earnings of Rs 35.51 and Rs 38.83 for FY18E and FY19E. Given the steady demand in soda ash and recovery in textile division the company could see improvement in its earning. Historically, the stock has traded at 10x 1yr forward multiple. We believe that the current valuations do not capture the full potential of the soda ash business as well as the expected recovery in the textile division. Hence we assign a target multiple of 10x on FY19E earnings of Rs.38.83 post which we arrive at a target of 388 an upside of 25% from current levels.**



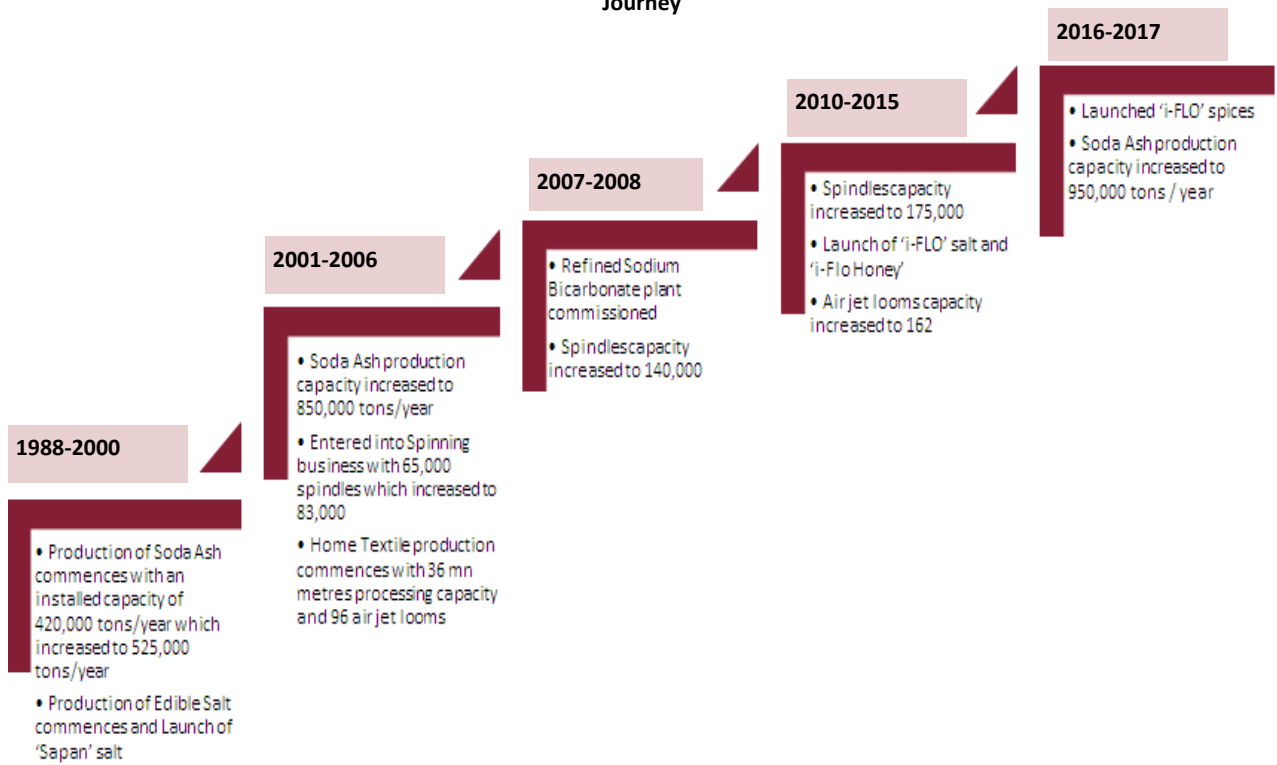
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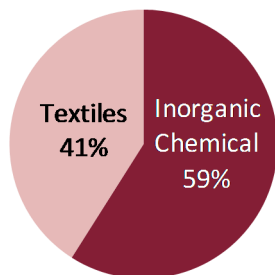
### About the Company:

- GHCL is among the top 3 soda ash players. The company has a capacity at 9.75 lakh MT capacity. It caters to 1/4th of Indian soda ash demand. It is a Margin leader in the industry with one of the highest capacity utilizations (~94%).
- The Inorganic chemicals segment (Soda ash, Sodium Bicarbonate and FMCG products) contributed 59% of revenues in FY17 while the remaining 41% contribution is derived from the textiles segment.
- It has a Sodium Bicarbonate production capacity of 0.30 Lakh MT. Additionally it has established a strong presence in consumer products business in South India with edible salt. The company is focused on expanding market reach by adding new geographies and products.
- Under the Textiles segment, its operations are an integrated vertical set up which commences right from spinning of fiber (yarn), weaving, dyeing, printing till the finished products which are primarily exported worldwide. Its spinning unit is located near Madurai in Tamil Nadu. It has a state-of-art plant at Vapi, Gujarat that integrates weaving, processing and cut & sew facilities.

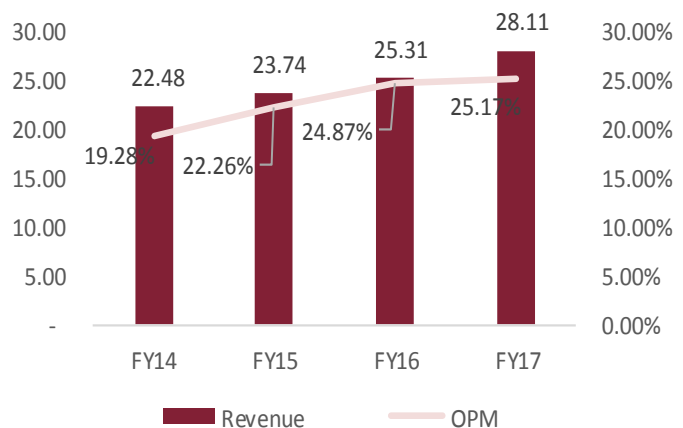
### Journey



**FY17 Revenue Breakup**



**Revenue (Rs bn) and OPM**

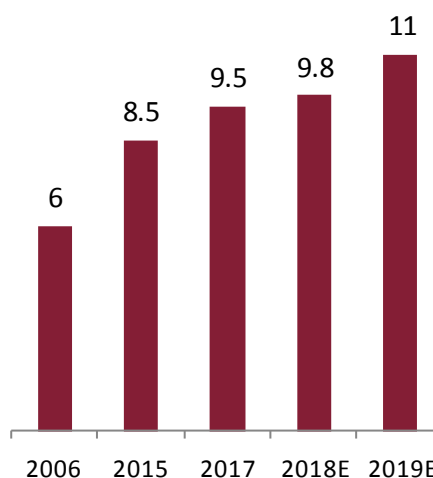


Source: Company, Industry & Indsec Research

### Inorganic Chemicals segment

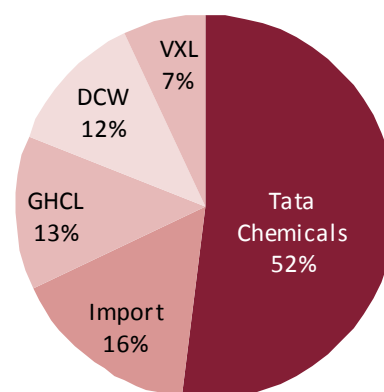
- Soda Ash:** This segment majorly includes manufacture of Soda Ash which is an important raw material for the detergent and glass industry. GHCL is a leader in the production of soda ash in India with a market share of 25%+ in the domestic market. As of FY17, the soda ash business contributed ~60 % of total Indian Standalone revenue. One of the key advantages the company has is its major captive source on some of its major raw materials namely Salt, Limestone & Lignite which has helped maintain control on the costs. It is the only company to have its own lignite mines. Additionally, all limestone mines are located within 40 km distance from the plant. It has also successfully managed to replace met coke with in-house developed briquette coke. Its major clients include Hindustan Unilever Limited, Ghari Group, P&G, Patanjali Ayurved Limited, Fena Group, HNG Group, Gujarat Guardian Limited, Gujarat Borosil Limited, Piramal Glass Limited, Gold Plus Glass Industries Limited and Phillips. During FY17, the company produced 8.01 lacs tons soda ash. Also, it achieved highest domestic sales of Soda Ash i.e. 7.40 lacs tons resulting in a total sales of 7.50 lacs tons including exports. Its current capacity stands at 9.75 lacs tpa.

Soda Ash steady capacity additions( in lakh MT)



- Sodium Bicarbonate:** GHCL also specializes in manufacturing food grade of Sodium Bicarbonate. A separate unit is used for this purpose. The sodium bicarbonate is used in Cooking, Pharmaceuticals, Fire Extinguishers, pH balancer, and Cleaning agents. The company has experience in manufacturing of Sodium Bicarbonate of around a decade with a capacity of 30,000 MTP. During FY17, the Company achieved production of Bi-Carbonate 27,677 tons against 24,541 tons in the previous year. Sales of Bi-Carbonate were 27,638 tons against 24,265 tons in the previous year. Procter & Gamble is one of the company's notable clients.

Sodium Bicarbonate-1.80 Lakh MT



- FMCG:** GHCL has also diversified into edible salt business. The business was acquired in the year 1999 and has its salt works at Vedaranyam and the refinery at Chennai for its Edible Salt manufacturing. It has raw salt capacity of 1.5 Lakh MT spread in Tamil Nadu. Refined Salt Capacity is 0.75 Lakh MT near Chennai. Their industrial salt commands a premium in Caustic soda industries and their edible salt is available in 'iFLO' and 'SAPAN' brands in the retail market. In addition to edible salt, GHCL has expanded its product range by introducing Honey and Spices under I-Flo brand as a strategy to expand its Consumer Product Division. The brand has established a good presence in the southern states of India, Maharashtra and Goa.

FMCG Products



## Textiles

The textiles segment manufactures cotton yarn, polyester yarn and home textile products. As of FY17, its contribution to revenue was 41%. GHCL Limited is one of the largest integrated textile manufacturers with its own spinning, weaving, processing & dyeing, and cutting & sewing manufacturing facility. The Textiles division of the company is a vertically integrated manufacturing facility with spinning, wide-width weaving, continuous fabric processing, and cut & sew facilities for manufacturing premium quality bed linen. The textiles capacity utilization is currently 93% vs 85% YoY on account of strong customer relations, product portfolio, consistent supply of quality products and strengthening organizational structure.

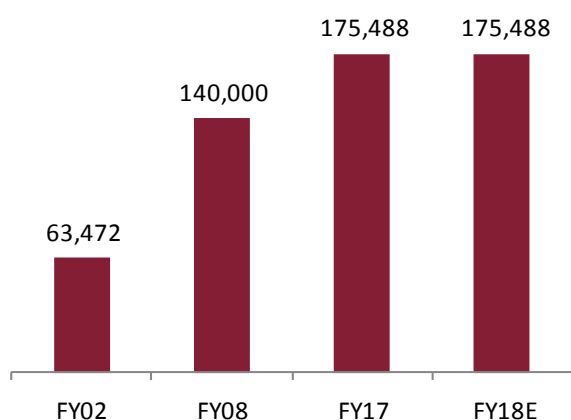
Spinning unit of the company is located near Madurai in Tamil Nadu, India with an installed spinning capacity of around 1.76 lakh spindles. The company manufactures multiple varieties of yarn ranging from 16s to 32s in open end, 30s to 120s in ring spun counts in 100% cotton and 30s to 70s counts in blended yarns. GHCL's Home Textiles manufacturing is located near Vapi in Gujarat, India. Here yarn is woven into fabric, which is then dyed, printed and finished into final products, like bed sheets, which is then exported worldwide. Both their plants have state-of-the-art facilities and machineries and the company ensures that every single aspect of its textile production process is backed by world class infrastructure. Its major home textile clients across the globe include Bed Bath and Beyond, JC Penny, House of Fraser, Sears, The White Company etc.

Also, the company has taken effective steps to reduce the power cost. The total installed capacity of wind mills is ~27 MW, which is expected to meet major power needs of the spinning and home textiles division.

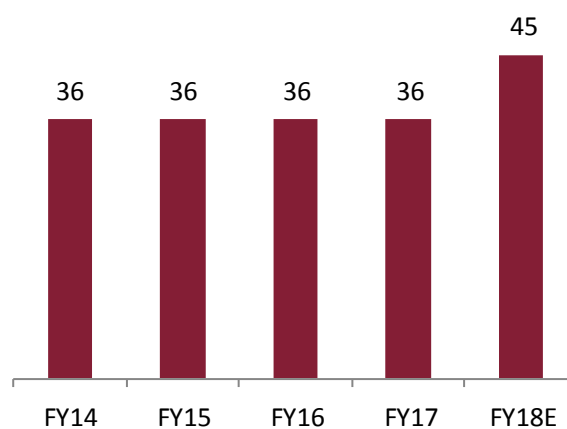
### Textile Product Range

Sheeting	Filled Articles	Pillows
<ul style="list-style-type: none"> <li>• Sheets</li> <li>• Duvet</li> <li>• Bed Skirt</li> </ul>	<ul style="list-style-type: none"> <li>• Quilted Flat</li> <li>• Sheets</li> <li>• Comforter</li> <li>• Comforter</li> <li>• Shells</li> </ul>	<ul style="list-style-type: none"> <li>• Pillows</li> <li>• Shams</li> <li>• Cushions</li> </ul>

Spindles Capacity



Sheeting Capacity (mn metres)



Source: Company, Industry & Indsec Research

### Industry watch– Soda Ash

The Indian Soda Ash market constitutes of two varieties – Light grade (used in detergent industry) & Dense grade (used in Glass industry) with a share of 60% and 40%, respectively. The total installed capacity in India was 3.4mn ton p.a. With an estimated production of about 2.8mn ton p.a in 2016-17, the capacity utilization was around 83%. Going forward, we expect the overall industry capacity to expand by 0.25 lakh tonne in 2017-18 and another 1.25 lakh tonne in 2018-19.

Almost, all the major Soda ash players are located in the state of Gujarat due to ready availability of key raw materials, namely limestone and salt. However, sourcing of these key raw materials is posing a major challenge for the industry as the Gujarat govt is currently not allocating any fresh Lime Stone mines or Land Bank for Salt Works. At the global level, the new low-cost Turkish supply with a competitive cost base and low transport costs – relative to the US producers – will continue to influence the market, especially with their forthcoming 2.0 Million tonne per annum supply by 2017 end.

Domestic players have recently taken upward price revisions due to rising cost pressures. With 3 New Glass plants expected to be commissioned over next 4-5 Months, soda ash market is likely to maintain buoyancy over the coming year.

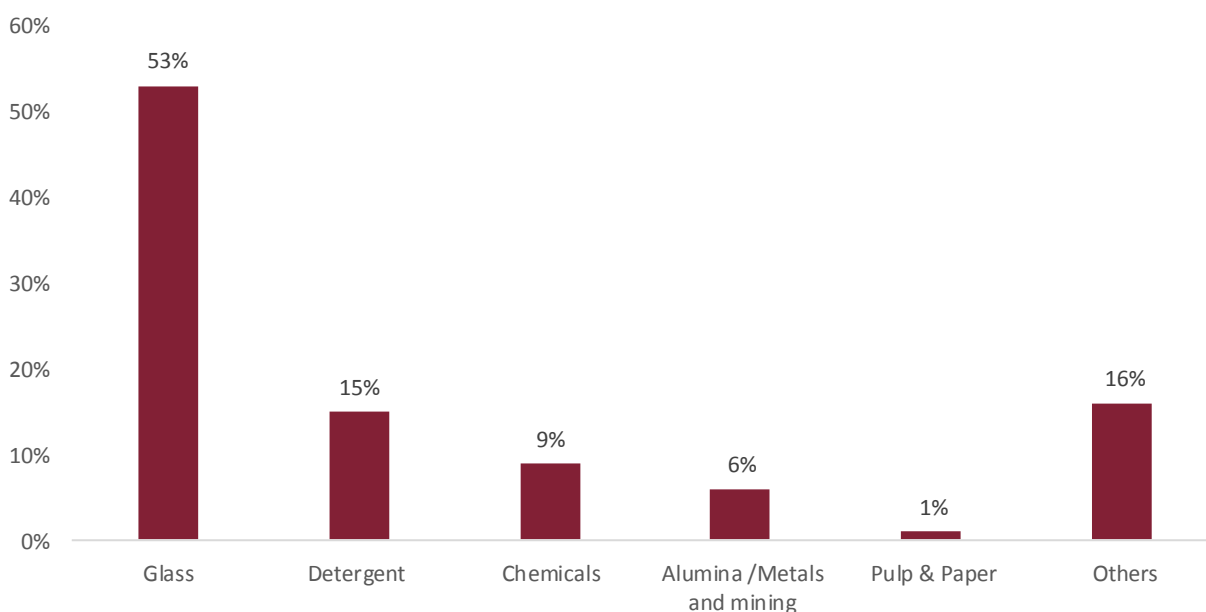
### Global Demand for Soda Ash

The world’s soda ash markets are evolving to meet shifting production economics and demand. The impetus for change lies partly in the increasing globalization of the industry; such shifts, however, also stem from the difficult environment the industry has faced in recent years. Changes include the rise of new dominant players like Turkey and increased pressure from the fast-growing economies of China, India and Russia. The dependency on a volatile energy market for crucial feedstocks adds yet another layer of complexity. Like many raw materials, the soda ash industry also has become very sensitive to fluctuations in economic conditions. Glass markets, accounts for more than half of global demand.

### Concerns in domestic Markets

The Indian industry remains concentrated in the Gujarat region i.e 95% which makes it vulnerable as the cost of transport to markets in South and East India, which constitutes about 25% of the National consumption, is high as compared to the ocean freights to South and East India where product is imported from US/ China/Kenya and Europe. Currently around 21% of the Indian demand is being met by cheap imports. Import price variance continues to be extremely high.

**Distribution of soda ash by end use**

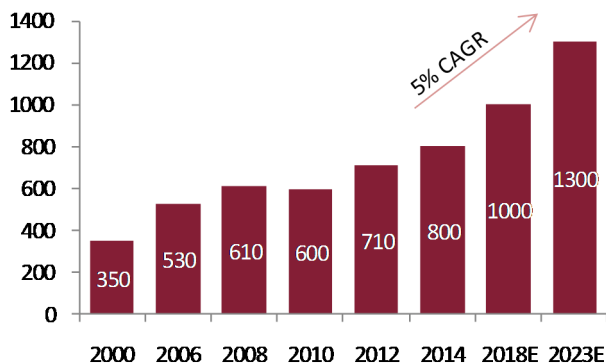


### Industry watch– Textile

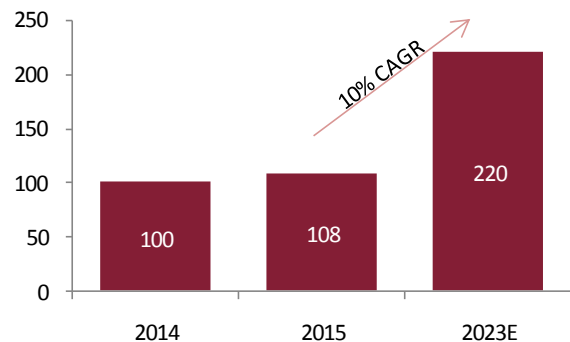
The global textile and clothing industry trade is estimated at US\$800bn and has been growing at around 10% CAGR over the 5 years. Out of the total industry size, 60% is captured by clothing or apparel segment while the rest is from the textile segments. The textile and clothing trade is expected to grow at around 4% annually over the next decade and is expected to reach US\$1300bn. The size of the Indian Textile industry is ~US\$108bn and contributes ~4% to India’s GDP and constitutes ~13% of the country’s export earnings. It is the second largest employer after agriculture, employing over 45mn people directly and 60mn people indirectly. Out of the total size, India’s export share stands at ~US\$40bn and has emerged as the third largest exporter of textiles and apparels in the World after China (37%) and EU (25%) with an overall market share of ~5%. Indian textile industry has shown tremendous promise over last decade and is expected to grow by ~15% to reach a market size of US\$220bn by 2023. India is expected to have a market share of 15-20% of the global textile and apparel trade from the present 5%. The domestic market is also expected to grow at 12% or higher.

The Home textile industry is pegged at ~\$86bn in 2015 which is dominated by bath and bed products and brings about 60% of the total industry revenues. Bed linen products account for ~21% to the total industry revenues. India’s contribution to the home textile industry is at ~11% behind China with 35% share. The US home textile market is ~17% of the total home textile market, India’s share stands at ~31% just behind china with ~39%. In terms of cotton textile products like bed sheets, India is the largest supplier globally with ~48% share. The Home textile industry is expected to continue on its upward journey and could reach a size of \$96bn by 2016 owing to rising consumer spending on home renovation, accelerating investments on infrastructure and demand from emerging countries.

**Global Textile & Apparel Trade (US\$ bn)**



**Indian Textile & Apparel Industry (US\$ bn)**



**Advantage India** -Although India has been lagging in terms of export of fabrics and general apparel, it has significant advantages in manufacture of cotton home textile. The following are the advantages India enjoys over its peers.





## Investment Rationale

### 1. Leadership in high entry barrier industry - to provide margin comfort

In the soda ash industry, logistics cost plays an important role owing to its input/output ratio. Five tonnes of raw material is needed for manufacturing one tonne of soda ash. Thus, proximity to key raw materials provides an edge. GHCL is the only player in the industry to have its own lignite mines. It uses an in-house developed briquette coke (cost effective and more efficient) in place of met coke, which reduces its per unit raw material cost.

GHCL enjoys higher capacity utilization at its soda ash plant compared to industry. Capacity utilization at ~94% in FY17 was the highest in the domestic soda ash industry, which was operating at ~80-85%. The utilization rate of GHCL's soda ash plant is also one of the benchmarks in the domestic as well as global market.

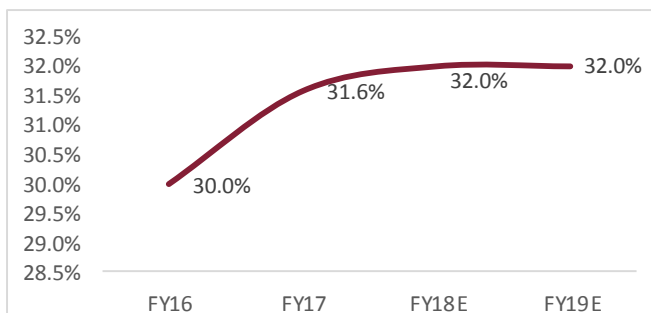
Further, over the past many years, the company has been running various cost reduction programs to reduce overall cost. Apart from these programs, the company regularly spends ~Rs. 400-500mn every year as maintenance capex to increase the efficiency of plants. GHCL has successfully created a well-integrated business model with captive availability of raw materials, leading to cost leadership in the industry. As a result, it enjoys ~400-800bps higher margins than its peers. There are only 3 domestic major manufacturers of soda ash, and GHCL enjoys 25% market share.

As soda ash is a capital intensive business (very low asset turnover <0.5x) with 4yrs of gestation period (for greenfield plant), entry barriers are high. Further GHCL shares highly successful client relationships and is the preferred supplier to all major soda ash consumers; its clients include Hindustan Unilever Limited, Ghari Group, P&G, Patanjali Ayurved Limited, Fena Group, HNG Group, Gujarat Guardian Limited, Gujarat Borosil Limited, Piramal Glass Limited, Gold Plus Glass Industries Limited and Phillips.

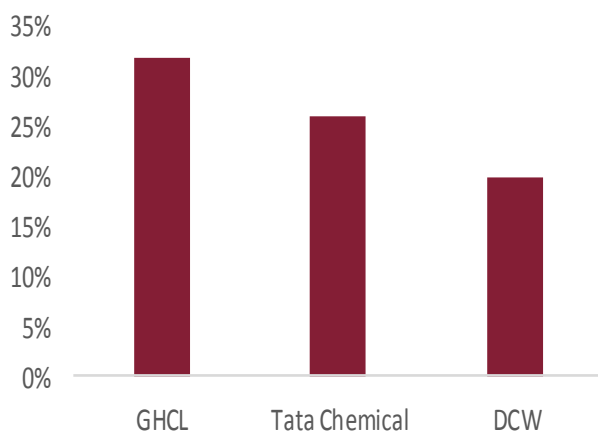
**RMAT Sourcing**

Key Inputs	USE	Captive Sourcing
Salt	Raw Material	40%
Limestone	Raw Material	25%
Briquette	Raw Material	65%
Lignite	Utility	15%

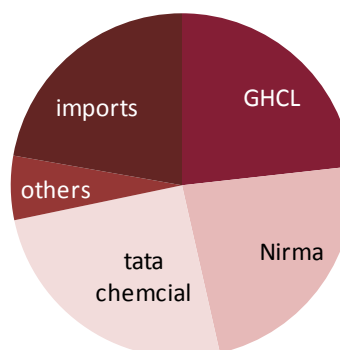
**EBITDA MARGINS**



**Margins compared to peers**



**Market Share**





## 2. Soda ash industry buoyancy to continue- Cash Cow for GHCL to remain steady

The domestic Soda Ash demand witnessed a growth of 6% in FY 2016-17 compared to last year. All-consuming segments including Detergents and Flat Glass, Chemicals & Silicates recorded a healthy rebound.

### Global outlook for Soda Ash

1. Healthy demand growth is observed in world soda ash consumption-
2. Turkey's additional 2.5 mn MT is now expected to arrive in phased manner. Only major capacity expansion in world.
3. Environmental Issues and Margin over Volume theory in China has shrunk supplies in the region balancing Turkey's expansion thus fading the concerns of oversupply and pricing pressure.

### Indian outlook

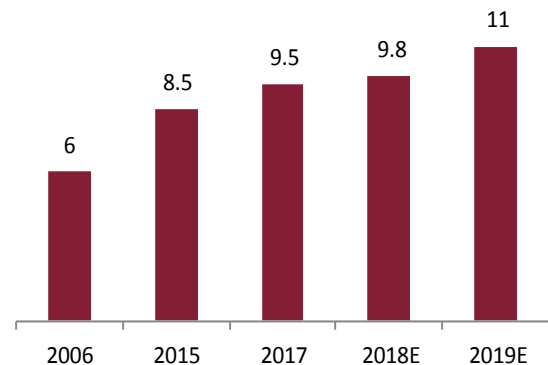
1. Healthy demand growth expected during the year and next year.
2. New Supplies from GHCL and Nirma has been well absorbed.
3. In line with International trend, Domestic players have also taken upward price revisions due to rising cost pressures.
4. 3 New Glass plants are expected to be commissioned over next 4-5 Months, adding new soda ash demand.
5. Soda ash market is likely to maintain buoyancy over next year.

Demand for soda ash is likely to grow at a steady pace of ~5% CAGR over the next few years, like the rate seen in the last decade. Prices for soda ash have also increased at a steady pace with increase in input costs. GHCL is one of the key soda ash players in India, with a capacity of 9.75L MT, accounting for 25% of the country's total demand. GHCL's soda ash business contributes 59% to revenues and 80% to its profitability. Additionally with no significant capacity coming up, we expect GHCL to report volume growth of 16% over FY17-19, while revenues are expected to growth by 18% over the same period.

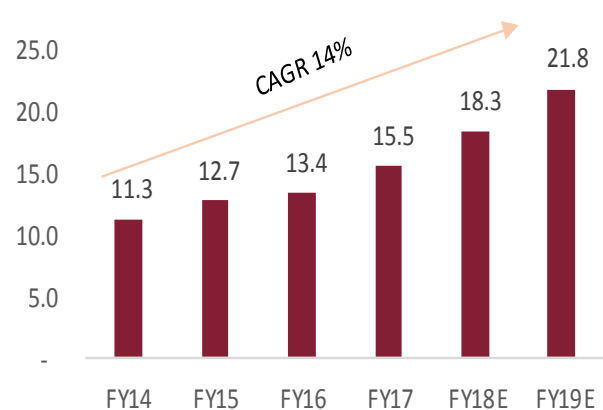
Global Capacity



Capacity Addition (MT)



Soda Ash Revenue (Rs mn)



Source: Company, Industry & Indsec Research

### 3. Textile industry on cusp of turnaround

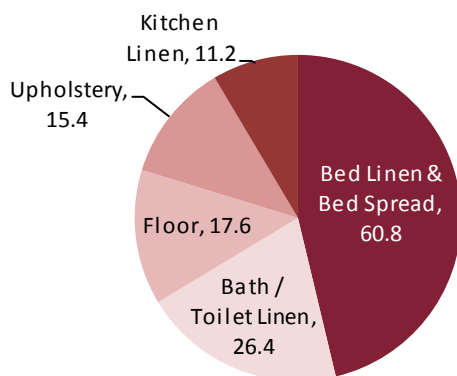
GHCL is one of the late entrants in the home textile segment; the company is one of the largest integrated textile manufacturers in India with presence in both spinning and home textiles. GHCL has an integrated vertical set up -right from spinning of fiber (yarn), weaving, dyeing, printing -to the finished products, like sheets & duvets, take shape, which are primarily exported worldwide.

GHCL's spinning unit with installed capacity of 175,000 spindles is located near Madurai in Tamil Nadu, India. The company manufactures multiple varieties of yarn, ranging from 16s to 21s in open end, 30s to 100s in ring spun counts in 100% cotton and 30s to 70s counts in blended yarns. Further, company's home textiles manufacturing unit is located near Vapi in Gujarat, India. Here, yarn is woven into fabric, which is then dyed, printed and finished into final products like bed sheets, which are then exported. The yarn business (spinning) is limited to the domestic market, the home textiles business (70% contribution in textiles) is mainly exports (>95%).

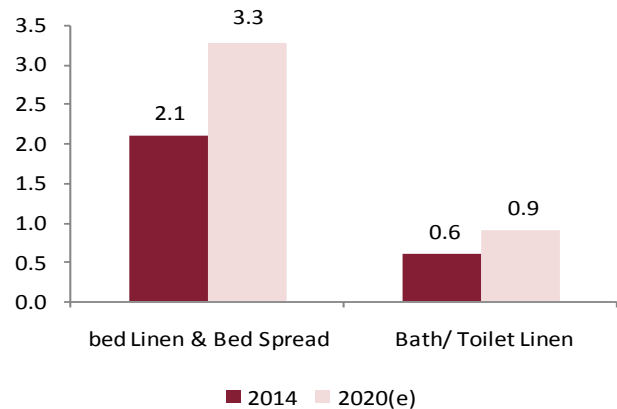
In FY17, the textile business contributed ~41% to revenue and only ~13% to EBITDA mainly owing to lower margins compared to the soda ash business.

**The textile business is currently facing a lot of headwinds because of Dollar Devaluation, uncertainty post GST, Overall Supply situation and Stiff competition in US between Brick n 'Motor stores with E-commerce. However, the company have taken a lot of corrective action to stream line this segment ie.a Appointment of CEO for textile division, doing away with low margins orders. These steps along with stabilizing cotton price could see the division turn around by FY19 the improvement in margins (1% as of Q2FY17 to 300bps by FY19E) are likely to benefit the company overall.**

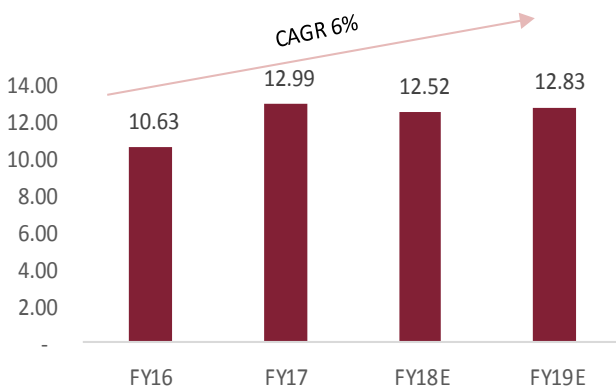
**Indian Home Textile Market Size 2020(E) (\$ bn)**



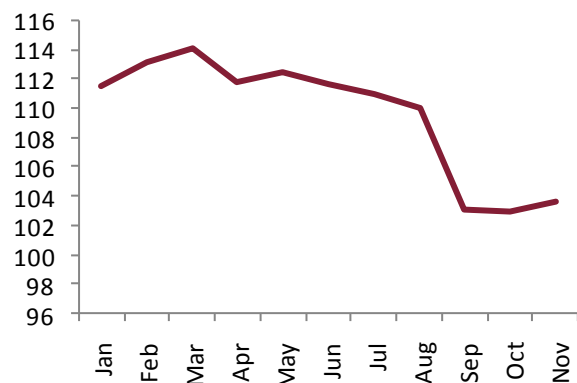
**Indian Bed & Bath Linen Market Size (\$ bn)**



**Textile Division (Rs Bn)**



**Monthly Cotton prices (Rs kg) (CY17)**



Source: Company, Industry & Indsec Research

#### 4. Diversifying in High growth business likely to provide additional fillip to GHCL's earnings.

The company has further densified its product offering by introducing Sodium Bicarbonate (0.7 tonnes of soda ash required to make 1 tonne of sodium bicarbonate). The realization for this product is almost like soda ash realizations. The product is mainly used for cooking. The company has a total capacity of 70 TPD and currently enjoys a ~13% market share in India.

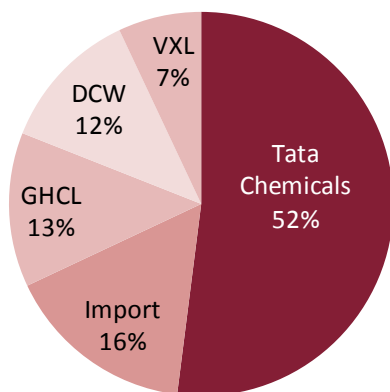
Going forward, the company is planning to double its capacity of Sodium Bicarbonate from the current level of 32500 Metric ton per annum to 65000 metric ton per annum to take advantage of the growing market of this product.

The company is also present in the edible salt segment with a raw salt capacity of 1.50 Lakh MT spread over 3500 acres in Tamil Nadu and Refined Salt Capacity is 0.75 Lakh MT near Chennai. The FMCG segment is the 4th largest sector in the Indian economy, with food products being the leading segment, constituting 43% of the FMCG market. Going forward, GHCL's consumer products business will be focusing on R&D and innovation as a means of growth, with major focus in the "Health and Wellness" platform. The new edible salt plant at Thiruporur became operational in March'17 with a capacity of ~1lac Ton p.a. This will be a big boost for sales and can address almost 75% of their southern market requirement directly.

The brand "i-FLO" has established a good brand image in the southern states of India, Maharashtra and Goa. The product portfolio of variants of salt, honey and spices has been well received. As a part of our expansion plan, they launched i-FLO spices (in sachets) and i-FLO Spices Combo in the market.

Currently both these segments contribute very little to the revenue, however they have a huge potential and could contribute significantly in the coming years.

**Sodium Bicarbonate-1.80 Lakh MT**



**Salt Brands**



Source: Company, Industry & Indsec Research

### Valuation and Recommendation :

GHCL is one of the leading manufacturers of soda ash (~25% market share). It has a well-integrated business model for its soda ash business. The company is also present in Textile segment, which includes yarns and home textile (bed sheets) and present in Sodium Bicarbonate and salt business as well.

We like GHCL due to the fact the company has best-in-class margins in the Soda Ash business, i.e. in the range of ~28-31% -which is ~400-800bps higher than its peers, mainly driven by its cost leadership and backward integration. Demand for soda ash is likely to grow at a steady pace of ~5% CAGR over the next few years. Thus, with steady demand-supply dynamics going forward, the business is likely to continue generating steady cash flows for the company. We expect the inorganic chemical segment to grow at CAGR of 13% over FY17-19, while margins in this division are likely to see ~150bps improvement overall the same period to 32%.

GHCL is one of the late entrants in the home textile segment; the company is one of the largest integrated textile manufacturers in India with presence in both spinning and home textiles. GHCL has an integrated vertical set up -right from spinning of fiber (yarn), weaving, dyeing, printing -to the finished products, like sheets & duvets, take shape, which are primarily exported world-wide. The textile division is currently facing lot of headwinds with Dollar Devaluation, uncertainty over GST, Overall Supply situation and Stiff competition in US between Brick n 'Motor stores with E-commerce. However, the company have initiated some right steps in order to turnaround division and we expect the same to start turning around early FY19. Margins are initially likely to remain low in the short term, however in the long run it could reach industry standard.

The company is also present in Sodium Bicarbonate and salt business, while this is currently a small contributor to the revenue, there lies huge potential for them to grow and could provide an additional flip to the company's earning.

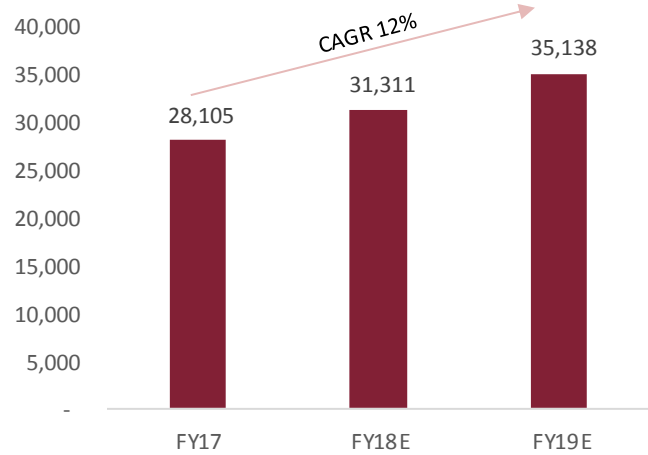
**We expect the Topline to grow at CAGR of ~12% over FY17-FY19E, while EBITDA is expected to grow at CAGR of ~6% with margins are expected to hover ~22.5% during the same period. At CMP of Rs 310 the stock is trading at 8.7x and 8.0x on expected earnings of Rs 35.51 and Rs 38.83 for FY18E and FY19E. Given the steady demand in soda ash and recovery in textile division the company could see improvement in its earning. Historically, the stock has traded at 10x 1yr forward multiple. We believe that the current valuations do not capture the full potential of the soda ash business as well as the expected recovery in the textile division. Hence we assign a target multiple of 10x on FY19E earnings of Rs.38.83 post which we arrive at a target of 388 an upside of 25% from current levels.**

### Risk to Call:

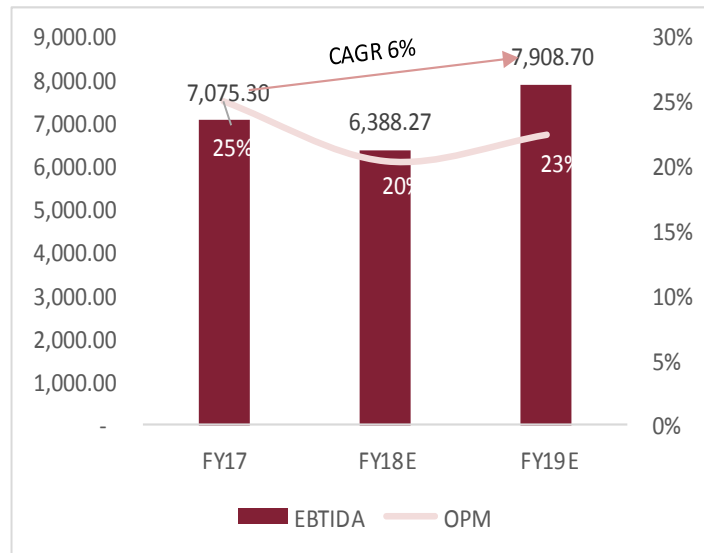
**Anti dumping duty on Soda Ash** Any removal of anti dumping duty could effect the realization for the company

**Time taken to recover Textile Segment**— delay in recovery in textile segment could hampers overall company's performance.

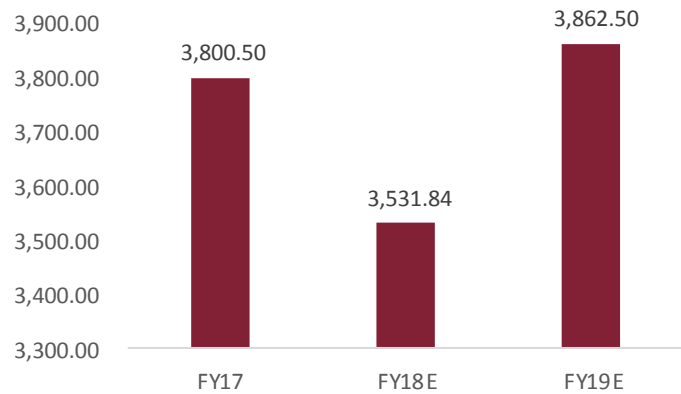
**Topline is expected to grow by 12% CAGR between FY17-19E to Rs.35.14bn on the back growth in Soda Ash and textile segment**

**Revenue (Rs mn)**


**EBITDA is expected to grow by 6% CAGR between FY17-19E to Rs. 7.9bn while OPM is expected to be in the region of 23%.**

**EBTIDA (Rs mn) (OPM)**


**PAT is expected to grow by 1% CAGR between FY17-19E to Rs. 3.86bn.**

**PAT (Rs mn) & PAT Margins**


Source: Company & Indsec Research

**SUMMARY INCOME STATEMENT**

<i>(in mn)</i>	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Income	22,476	23,736	25,307	28,105	31,311	35,138
Cost Of Revenues (incl Stock Adj)	8,730	9,214	9,464	11,387	12,838	14,407
<b>Gross Profit</b>	<b>13,746</b>	<b>14,522</b>	<b>15,843</b>	<b>16,718</b>	<b>18,474</b>	<b>20,731</b>
Employee Cost	1,220	1,263	1,336	1,585	1,879	2,108
<b>Other Operating Expenses</b>	<b>8,192</b>	<b>7,977</b>	<b>8,213</b>	<b>8,058</b>	<b>10,207</b>	<b>10,714</b>
EBITDA	4,334	5,283	6,294	7,075	6,388	7,909
Other Income	50	113	104	133	157	176
<b>Net Interest Exp.</b>	<b>1,832</b>	<b>1,704</b>	<b>1,649</b>	<b>1,368</b>	<b>1,359</b>	<b>1,412</b>
Depreciation	817	849	817	857	1,079	1,155
Exceptional Items	310	274	135	30	0	0
<b>PBT</b>	<b>1,425</b>	<b>2,568</b>	<b>3,797</b>	<b>4,953</b>	<b>4,107</b>	<b>5,518</b>
Tax	340	749	1,219	1,152	575	1,655
Profit After Tax	1,085	1,819	2,577	3,801	3,532	3,862
<b>Net Profit</b>	<b>1,085</b>	<b>1,819</b>	<b>2,577</b>	<b>3,801</b>	<b>3,532</b>	<b>3,862</b>
EPS	10.8	18.3	25.8	38.0	35.5	38.8

**SUMMARY BALANCE SHEET**
**Fiscal Year Ending**

<i>(in mn)</i>	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Assets</b>						
Net Block	18,694	19,339	20,492	24,011	25,932	26,777
Capital WIP	125	70	369	260	0	0
Intangible Assets	5	5	463	254	254	254
Non-current Investment	55	15	146	173	173	173
Long term loans and advances	238	131	68	68	68	68
<b>Current Assets</b>						
Current Investment	20	-	-	-	-	-
Inventories	5,439	4,874	5,033	5,843	6,262	6,739
Trade receivables	3,812	2,444	1,828	2,762	3,002	3,273
Cash and cash equivalents	417	339	426	361	2,157	4,674
Short-term loans and advances	1,336	1,298	-	-	-	-
Other Current Assets	0	0	662	1,303	884	884
<b>Total Current Assets</b>	<b>11,004</b>	<b>8,954</b>	<b>7,949</b>	<b>10,270</b>	<b>12,306</b>	<b>15,570</b>
<b>Current Liabilities &amp; Provisions</b>						
Short-term borrowings	5,051	4,542	4,480	5,466	5,966	6,466
Trade payables	5,576	3,919	2,854	3,443	3,603	3,851
Other current liabilities	2,708	2,290	2,952	3,123	3,002	2,888
Short-term provisions	384	413	108	138	172	193
Total Current Liabilities	8,668	6,622	5,913	6,704	6,777	6,931
<b>Net Current Assets</b>	<b>2,336</b>	<b>2,333</b>	<b>2,036</b>	<b>3,566</b>	<b>5,529</b>	<b>8,639</b>
<b>Total Assets</b>	<b>21,472</b>	<b>21,893</b>	<b>23,574</b>	<b>28,332</b>	<b>31,957</b>	<b>35,912</b>
<b>Liabilities</b>						
Share Capital	1,000	1,000	1,000	995	995	995
Reserves and Surplus	4,873	6,701	9,359	12,471	15,595	19,050
<b>Total Shareholders Fudn</b>	<b>5,873</b>	<b>7,702</b>	<b>10,359</b>	<b>13,465</b>	<b>16,590</b>	<b>20,045</b>
Money Received against warrants	0	0	0	0	0	0
<b>Total Debt</b>	<b>13,902</b>	<b>12,379</b>	<b>11,230</b>	<b>12,446</b>	<b>12,946</b>	<b>13,446</b>
Long Term Provisions	17	38	53	61	61	61
Other Long Term Liabilities	61	47	-	-	-	-
Net Deffered Tax Liability	1,620	1,727	1,932	2,360	2,360	2,360
<b>Total Liabilities</b>	<b>21,472</b>	<b>21,893</b>	<b>23,574</b>	<b>28,332</b>	<b>31,957</b>	<b>35,912</b>

SUMMARY CASH FLOW STATEMENT						
(in mn)	FY14	FY15	FY16	FY17	FY18E	FY19E
PBT	1,735	2,842	3,797	4,953	4,107	5,518
Depreciation	817	849	817	857	1,079	1,155
After other adjustments	2,100	1,673	1,695	1,219	1,359	1,412
(Inc) / Dec in Working Capital	243	(580)	(244)	(1,364)	(587)	(593)
Taxes	(374)	(625)	(977)	(1,084)	(575)	(1,655)
Others						
<b>Cash from Ops.</b>	<b>4,522</b>	<b>4,160</b>	<b>5,087</b>	<b>4,581</b>	<b>5,383</b>	<b>5,836</b>
Capital Expenditure & investments	(1,167)	(1,274)	(2,491)	(3,748)	(2,740)	(2,000)
<b>Cash from Investing</b>	<b>(1,167)</b>	<b>(1,274)</b>	<b>(2,491)</b>	<b>(3,748)</b>	<b>(2,740)</b>	<b>(2,000)</b>
Issue of Share capital	-	-	-	(144)	-	-
Net Borrowings	(1,139)	(1,069)	(603)	1,216	500	500
Others	(1,856)	(1,661)	(1,649)	(1,594)	(1,359)	(1,412)
Issuance of Dividend	(233)	(234)	(268)	(607)	(407)	(407)
<b>Cash from Financing</b>	<b>(3,228)</b>	<b>(2,964)</b>	<b>(2,521)</b>	<b>(1,130)</b>	<b>(1,267)</b>	<b>(1,319)</b>
Extraordinary receipts/payment	-	-	-	-	-	-
<b>Net Change in Cash</b>	<b>126</b>	<b>(78)</b>	<b>76</b>	<b>(296)</b>	<b>1,376</b>	<b>2,517</b>
BF Cash	291	417	310	386	93	1,469
Cash from Merger	-	-	-	3	-	-
END Cash	<b>417</b>	<b>339</b>	<b>386</b>	<b>93</b>	<b>1,469</b>	<b>3,986</b>

SUMMARY RATIOS						
	FY14	FY15	FY16	FY17	FY18E	FY19E
<b>Profitability</b>						
Return on Assets	3.6%	6.4%	8.7%	10.8%	9.1%	9.0%
Return on Capital	18.0%	22.6%	25.9%	24.5%	18.5%	20.7%
Return on Equity	18.5%	23.6%	24.9%	28.2%	21.3%	19.3%
<b>Margin Analysis</b>						
Gross Margin	61.2%	61.2%	62.6%	59.5%	59.0%	59.0%
EBITDA Margin	19.3%	22.3%	24.9%	25.2%	20.4%	22.5%
Net Income Margin	4.8%	7.7%	10.2%	13.5%	11.3%	11.0%
<b>Short-Term Liquidity</b>						
Current Ratio	0.8x	0.8x	0.8x	0.8x	1.0x	1.2x
Quick Ratio	0.4x	0.4x	0.3x	0.4x	0.5x	0.7x
Avg. Days Sales Outstanding	62	38	26	36	35	34
Avg. Days Inventory Outstanding	88	75	73	76	73	70
Avg. Days Payables	91	60	41	45	42	40
<b>Long-Term Solvency</b>						
Total Debt / Equity	2.4x	1.6x	1.1x	0.9x	0.8x	0.7x
EBITDA / Interest Expense	1.9x	2.7x	3.4x	4.6x	4.0x	4.9x
<b>Valuation Ratios</b>						
EV/EBITDA	10.3x	8.1x	6.6x	6.1x	6.5x	5.0x
PER	28.8x	16.9x	12.0x	8.1x	8.7x	8.0x
P/B	5.3x	4.0x	3.0x	2.3x	1.9x	1.5x



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**BUY** : Expected total return of over 25% within the next 12 months.

**ACCUMULATE** : Expected total return between 10 to 25% within the next 12 months.

**REDUCE** : Expected total return below 10% within the next 12 months.

**SELL** : Expected total return is below the market return within the next 12 months.

**NEUTRAL**: No investment opinion on the stock under review.

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