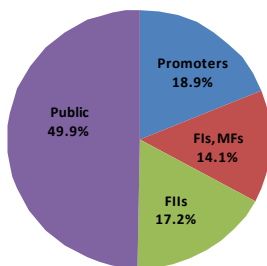


July 19, 2018

BUY
Rs 245
Key Data

| | |
|----------------------------|----------------------|
| Target Price | Rs 315 |
| Industry | Chemicals & Textiles |
| Reuters Code | GHCH.BO |
| Bloomberg Code | GHCLIN |
| Market Cap. (Rs bn/USD Mn) | 24/355 |
| No of Shares o/s (mn) | 98.0 |
| Face Value (Rs) | 10 |
| BSE/NSE Code | 500171/GHCL |
| 52 Week H/L (Rs) | 358/204 |
| Avg. Daily Traded Volume | 200,000 |
| Dividend per share (FY18) | Rs 5 |

Shareholding Pattern (Jun '18)

Stock Performance (%)

| | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute | -3.5 | -4.3 | 11.7 |
| Relative to Nifty | -5.2 | -9.7 | -0.6 |

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GHCL

'Stability & Growth'

 Research
 Report

We expect GHCL Ltd (formerly known as a Gujarat Heavy Chemicals Ltd) to report a healthy 19% Ebitda CAGR on a 12% Revenue CAGR over FY18-20E led by sustained growth in Soda Ash business and improvement in the Textile business. Growth in Soda Ash business will be driven by strong domestic demand, higher volumes from GHCL's brownfield expansion and higher realisations. Textile segment's profitability is likely to improve with better realisations in yarn, cost rationalisation, new product introduction and focussed marketing in Home Textiles.

Key Points:

- Leadership in Soda Ash business:** GHCL is number 2 player in the domestic Soda Ash industry with a market share of about 25% (Nirma 27% and Tata Chemicals 20%). With its own lignite mines and cost effective briquette coke GHCL has industry-leading margins and operates at 96.5% capacity utilisation v/s industry's ~88%. GHCL has taken 2 price hikes (around 2.5% - 3% each) in last 6 months; doubling of Sodium bicarbonate capacity and Soda Ash brownfield expansion of 125,000 each in Feb 2019 and Feb 2020 will sustain volumes.
- Domestic Soda Ash growing at steady pace:** Domestic Soda Ash industry witnessed a double digit growth of 11% in FY18 and is likely to grow at ~5% CAGR over the next few years. Robust demand is likely to continue from the Soaps & detergent and Glass industry coupled with silicate and chemical sectors.
- Textile business holds potential of margin expansion:** While GHCL's Yarn business is growing at a brisk pace, it has taken several measures to mitigate further downside in Home Textiles like cost rationalisation, introduction of new products like 'Rekoop' range of traceable and sustainable bedding and revamp of marketing and product development team.
- Focus on gradually expanding Consumer product portfolio:** GHCL is focusing on expanding its product portfolio i.e. Salt, Honey, Spices and Powder Spices under the brand i-FLO. It has now ventured into premium honey category.

Our View

- We are positively inclined about the long term growth story of GHCL and believe the company has levers to deliver strong sales and profit growth. While higher tax in FY19E v/s FY18 will optically impact net profit growth, Ebitda will post a 19% CAGR over FY18-20E. Healthy margin profile (Ebitda margin 20%+), strong balance sheet (D/E 0.6x) and return ratios (ROE and ROCE 17%+) are other positives. Key risks include lack of recovery in Home Textile profitability and removal of anti-dumping duty on Soda Ash imports. We recommend BUY.

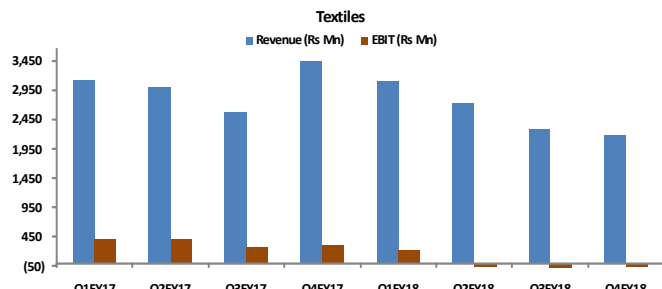
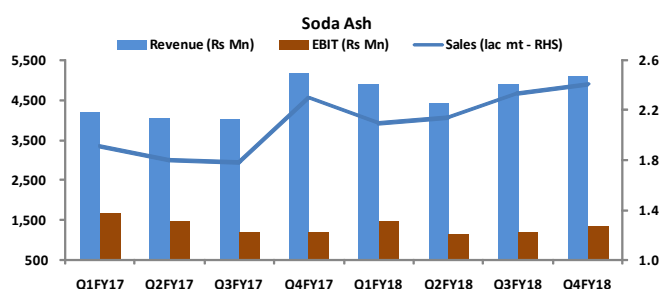
Key Financials (Rs Mn)

| GHCL | FY18 | FY19E | FY20E | GHCL | FY18 | FY19E | FY20E |
|---------------|--------|--------|--------|---------------|------|-------|-------|
| Net Revenue | 29,432 | 31,637 | 36,760 | P/E (x) | 6.7 | 7.3 | 5.5 |
| EBITDA | 6,061 | 6,913 | 8,583 | EV/Ebitda (x) | 5.9 | 5.2 | 4.2 |
| EBITDA Margin | 20.6% | 21.9% | 23.4% | RoE (%) | 22.1 | 16.8 | 18.3 |
| PAT | 3,564 | 3,252 | 4,336 | RoCE (%) | 17.9 | 18.2 | 20.4 |
| EPS | 36.6 | 33.4 | 44.5 | Debt/Equity | 0.7 | 0.6 | 0.5 |

GHCL - Company Background

GHCL Ltd was incorporated in 1983 and is headquartered in Noida. It is a prominent player in the Indian soda ash industry with a capacity at 975,000 MT capacity and market share of about 25%. Inorganic chemicals segment (Soda ash, Sodium Bicarbonate and FMCG products) accounted for 66% share in FY18 revenues while Textiles (Spinning and Home Textiles) accounted for 41% share.

Soda ash caters to demand from detergent & glass industries. GHCL's Sodium Bicarbonate capacity stands at 600,000 MT. GHCL has one soda ash plant in Gujarat and one salt refinery in Tamil Nadu. The Textile business is well integrated and covers right from spinning of fiber, weaving, dyeing and printing till the finished products take shape for exporting. It has three textile manufacturing plants- two in Tamil Nadu and one in Gujarat. Additionally it has established a presence in consumer products business (Salt, honey, spices etc.) in South India.

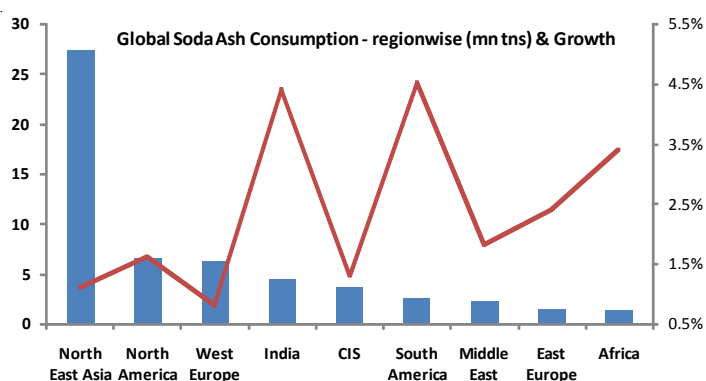
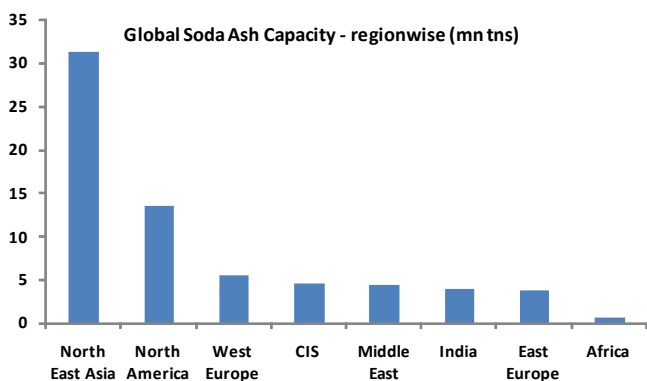
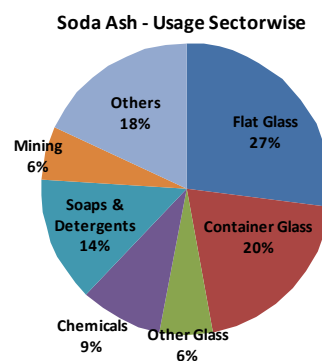
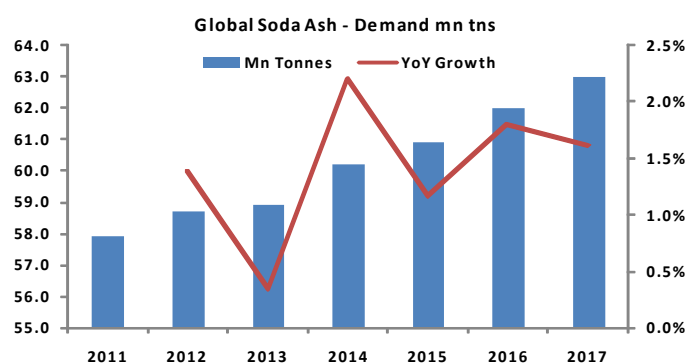


Source: Company, Dhanki Research

Inorganic Chemicals (Soda Ash) Industry

Global scenario

The global soda ash demand in 2017 is estimated to have grown at an above-average growth rate of ~4% p.a. to reach ~58 million tonnes. This was on the back of a rebound in Chinese demand, which had been flat over recent years, and strong demand growth in emerging economies of South America, South East Asia and India. Several other regions including the developed markets of North America and Europe showed flat to moderate growth during the year. Going ahead, world demand is forecast to grow at ~2% p.a. through 2022.



Source: Company, Dhanki Research

Inorganic Chemicals (Soda Ash) Industry

Indian scenario

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. Total installed capacity in India was 3.5 million tpa. With an estimated production of about 3 million tpa in last financial year (2017-18) the capacity utilization was of around 88%. The total size of the Indian soda ash market is about 3.75 million tpa and almost all the major industry players are located in the state of Gujarat due to the closeness and ready availability of the main raw materials namely limestone and salt. Sourcing of these key raw materials like Lime Stone & Salt are posing a major challenge to the industry as no fresh Limestone mines or Land Bank for Salt Works is being allotted by the Government of Gujarat.

Domestic Soda Ash demand has witnessed a growth of 11% in FY 2017-18 supported by both domestic capacity expansion and higher import volumes. India also witnessed ~0.3 million tonnes p.a. capacity addition (10% of total Indian capacity) as leading domestic players expanded operations at their existing production sites. Indian soda ash markets remain strong with excellent growth in most of the downstream sectors. The coming fiscal should see stable demand for soda ash with the main drivers being a strong detergent and float glass sector followed by a reasonably silicate and chemical sectors.

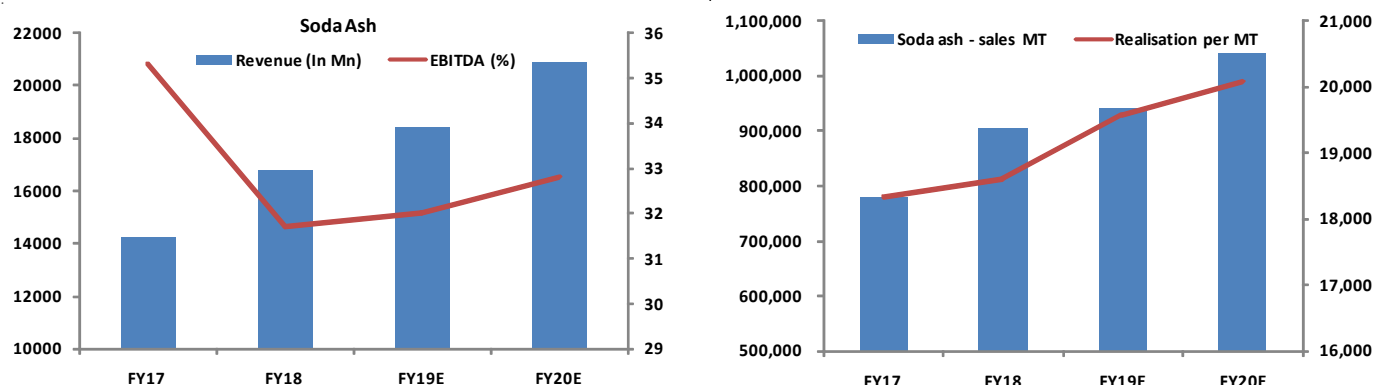
GHCL's Soda Ash business

- GHCL is number 2 player in the domestic Soda Ash industry with a market share of about 25% (Nirma 27% and Tata Chemicals 20%). Entry barriers are high in Soda ash due to high capital intensity and high gestation period for a greenfield plant. As an old player in the business, GHCL has long standing client relationships and is a Hindustan Unilever, Ghari Group, P&G, Patanjali Ayurved, Fena Group, HNG Group, Gujarat Guardian, Gujarat Borosil, Piramal Glass etc.

- Soda ash is a cash cow business for the company with largely stable volumes and high profitability. Demand for soda ash industry is likely to grow at a steady pace of 5% CAGR over the next couple of years. Price of soda ash has also increased at steady pace with the increase in input cost; GHCL has taken 2 price hikes (around 2.5% - 3% each) in last 6 months.

- 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 as well as it uses in-house developed briquette coke (cost effective and more efficient) in place of met coke which reduces its per unit raw material cost. With its own lignite mines and cost effective briquette coke GHCL has industry-leading margins and operates at 96.5% capacity utilisation v/s industry's ~88%.

- Healthy demand from Soaps & detergents and Glass industry, doubling of GHCL's Sodium bicarbonate capacity and Soda Ash brownfield expansion of 125,000 each in Feb 2019 and Feb 2020 will sustain GHCL's volumes. Also on the horizon is a greenfield 500,000 MT soda ash plant in FY22E; GHCL is currently in the process of acquiring land for the facility.

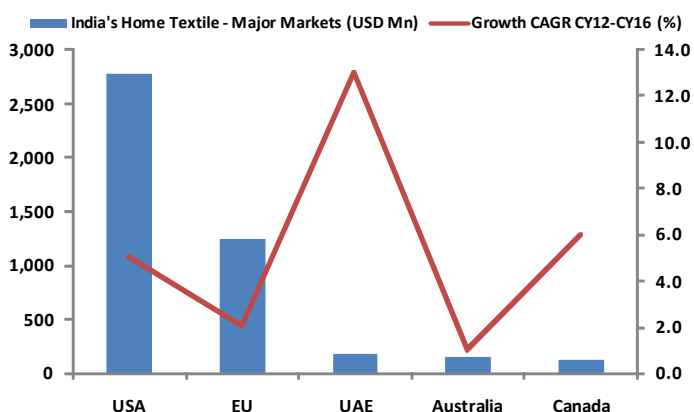
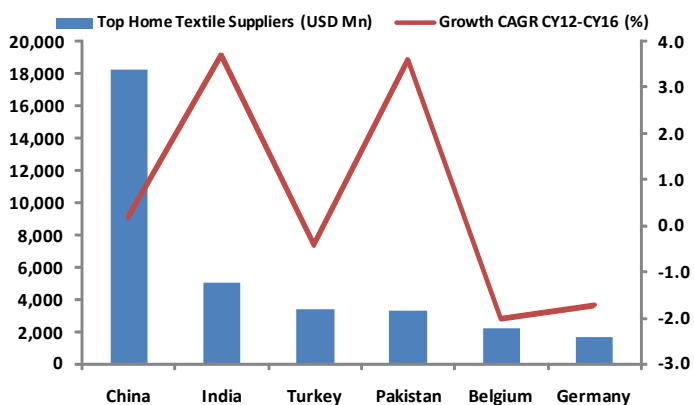
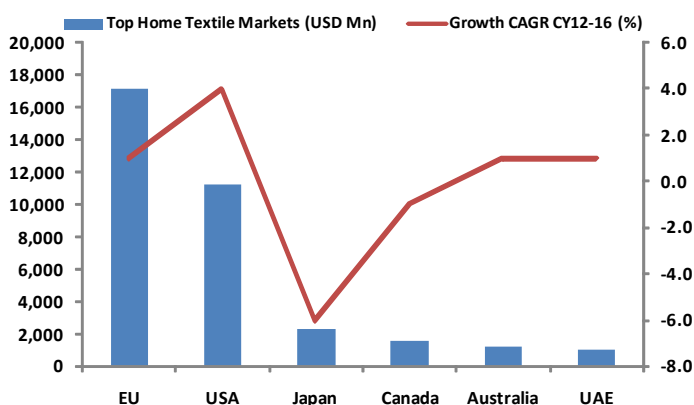


Source: Company, Dhanki Research

Textiles - Huge Opportunity Size

In 2016 the global textile and apparel trade stood at USD 743 bn, while the share of other categories such as fibre, yarn and fabric has decreased. While table linen, furnishing and carpets have been growing at a negative CAGR of 5%, 2% and 1% respectively, bath / kitchen linen has shown the maximum positive CAGR of 3% and an increase in share of 1%.

According to a recent report the global market for home décor textiles is expected to record an impressive growth over 2018-27 led by growing consumer confidence, capacity expansions by the market players, social responsibility & sustainability trends, and booming ecommerce sector. Revenues from worldwide sales of home décor textiles are envisaged to exceed USD 185 bn by 2027-end. The global home textile market's total consumption by retail value currently stands at USD 109 bn, while the global home textile export market is estimated at USD 45 bn. The home textile export market is dominated by India, China and Pakistan; with India's market share continuously rising.



Source: Company, Dhanki Research

GHCL's Textiles Business

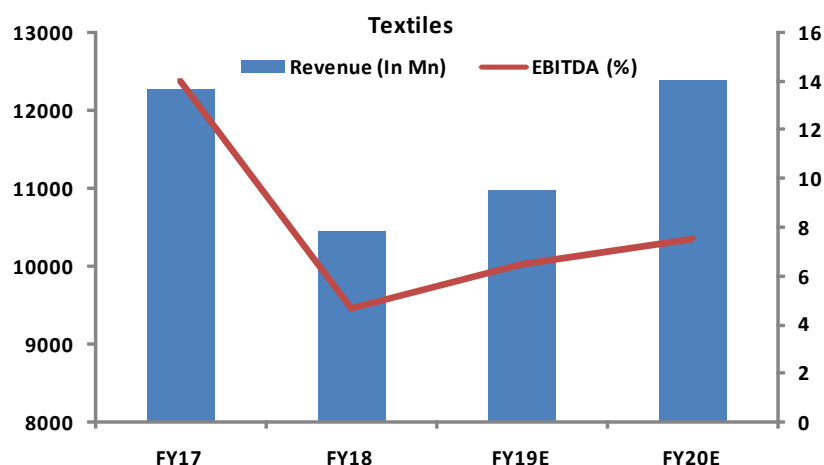
■ GHCL has integrated textile manufacturing facilities centering around Spinning on one hand and Home Textiles (Weaving, Processing and Cut & Sew of Bed Textiles) on the other. The state-of-the art Home Textiles facility in Vapi, Gujarat comprises of 190 Air Jet looms, 45 mn mtrs of wide width processing capacity, 12 mn mtrs of weaving capacity and 30 mn mtrs of cut & sew integrated well with 1.76 Lakh spindles and 3320 rotors in the Spinning units located in Tamil Nadu. The Home Textiles division has recently increased weaving capacity by 18% and processing capacity by 25%.

■ Home textile products of the Company are primarily exported worldwide and some of our valued customers Bed Bath & Beyond, Kohl's, J C Penney, TJX Group, QVC, Casper, Gerber, Burts Bees, Revman International and CHF Industries in the United States, Hudson Bay in Canada, House of Fraser, The White Company and Miles Home Fashions in the UK and Myers, Pillow Talk and Canningvale in Australia.

■ GHCL's textile margins were hit in FY18 due to low utilization rates triggered by multiple headwinds like uncertainty post GST, fall in the USD and stiff competition in USA.

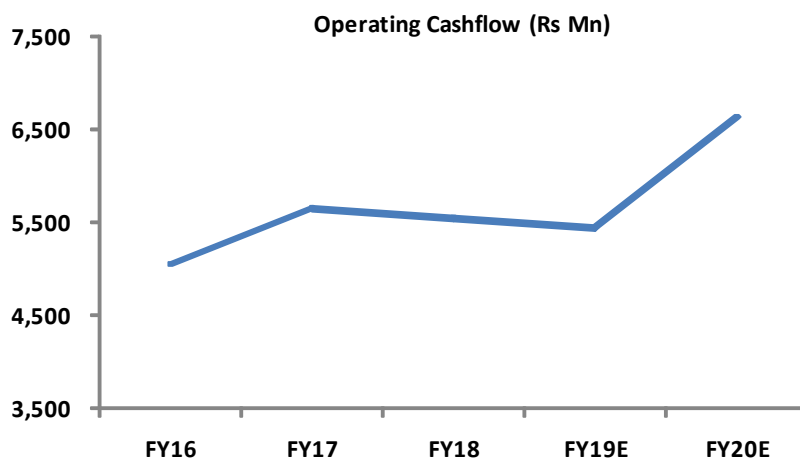
■ To improve performance GHCL has taken corrective action - after the appointment of Mr. Manu Kapur last year as CEO for Textile Division, the marketing and product development teams have been strengthened and there is focus on higher margins orders. It has also recently launched a sustainable, traceable bedding, christened REKOOP. This line comprises of bed sheets, duvet covers and comforters made by blending cotton with recycled polyester made from PET bottles. GHCL increased its air jet spinning project and processing capacity by 9 Mn mtrs to 45 Mn mtrs in March 2018.

■ Margins in Textile spinning are also improving with higher yarn prices following INR depreciation and the entry of China as a buyer of Indian cotton and yarn. Additional push may come from India's likely signing of FTA agreement with major Textile buying countries like EU, Australia and Canada.

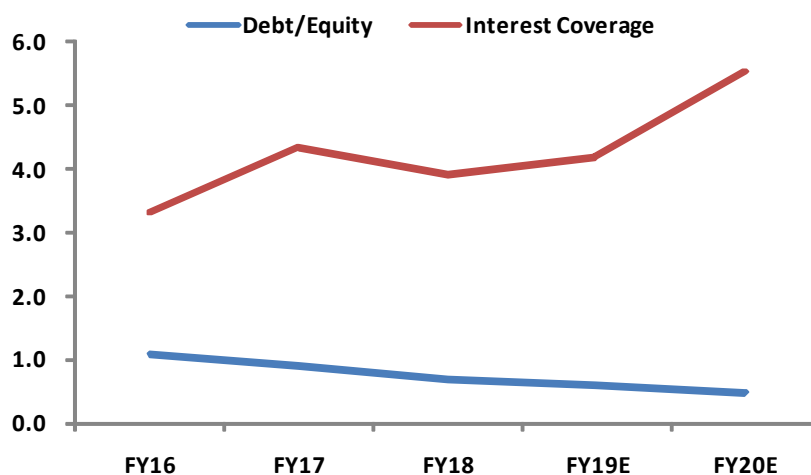


Source: Company, Dhanki Research

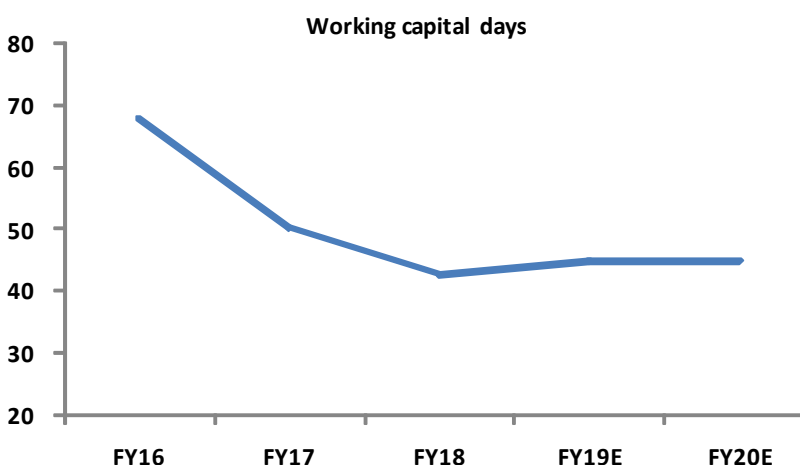
Led by robust profitability in Soda Ash and improving margins in Textiles GHCL is likely to continue to report healthy Operating Cashflows going forward



Despite ongoing capex in both segments GHCL has been able to reduce Debt in last 2 years. We estimate lower Interest outgo due to improvement in GHCL's credit rating and swapping of high cost cost debt



Improving efficiency and better working capital management has led to drop in GHCL's working capital days



Financials (Consol.)

Income statement

| YE March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|--------------------|---------------|---------------|---------------|---------------|
| Net Revenue | 27,838 | 29,432 | 31,637 | 36,760 |
| Growth | 10.0% | 5.7% | 7.5% | 16.2% |
| Operating Expenses | 21,030 | 23,371 | 24,724 | 28,177 |
| EBITDA | 6,808 | 6,061 | 6,913 | 8,583 |
| Growth | 10.0% | -11.0% | 14.0% | 24.2% |
| EBITDA Margin | 24.5% | 20.6% | 21.9% | 23.4% |
| Depreciation | 857 | 1,101 | 1,250 | 1,400 |
| EBIT | 5,951 | 4,960 | 5,663 | 7,183 |
| Other Income | 400 | 379 | 400 | 400 |
| Interest | 1,368 | 1,266 | 1,350 | 1,300 |
| PBT | 4,983 | 4,074 | 4,713 | 6,283 |
| Tax | 1,152 | 511 | 1,461 | 1,948 |
| PAT | 3,831 | 3,564 | 3,252 | 4,336 |
| Growth (%) | 47.4% | -7.0% | -8.7% | 33.3% |
| EPS (Rs) | 38.5 | 36.6 | 33.4 | 44.5 |

Balance Sheet

| YE March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|---------------------------|---------------|---------------|---------------|---------------|
| Eq Capital | 995 | 974 | 974 | 974 |
| Reserves | 12,471 | 15,134 | 18,386 | 22,722 |
| Shareholders' Funds | 13,465 | 16,108 | 19,360 | 23,696 |
| Debt | 12,446 | 11,525 | 11,825 | 11,575 |
| Net Deferred Tax | 2,360 | 1,950 | 1,200 | 950 |
| LT Prov & Others | 61 | 63 | 67 | 70 |
| Sources of Funds | 28,332 | 29,647 | 32,452 | 36,291 |
| Net Block | 24,016 | 24,937 | 27,687 | 30,437 |
| CWIP | 255 | 730 | 900 | 1,050 |
| Investment | 173 | 188 | 190 | 190 |
| LT Loans & Adv | 323 | 421 | 350 | 400 |
| Total Non Curr Assets | 24,767 | 26,276 | 29,127 | 32,077 |
| Inventories | 5,843 | 6,367 | 7,021 | 8,258 |
| Trade Receivables | 2,762 | 2,287 | 2,600 | 3,021 |
| Cash & Equivalents | 361 | 268 | 267 | 556 |
| Other Current Assets | 1,303 | 1,083 | 850 | 950 |
| Total Current Assets | 10,270 | 10,005 | 10,658 | 12,491 |
| Trade Payables | 3,337 | 3,824 | 4,141 | 5,240 |
| Other Curr Liab&Prov | 3,367 | 2,811 | 3,300 | 3,400 |
| Total Current Liabilities | 6,704 | 6,635 | 7,441 | 8,640 |
| Net Current Assets | 3,566 | 3,370 | 3,217 | 3,851 |
| Appl of Funds | 28,332 | 29,647 | 32,452 | 36,291 |

Cashflow

| YE March (Rs mn) | FY17 | FY18 | FY19E | FY20E |
|-------------------------|--------------|--------------|--------------|--------------|
| Net profit | 3,831 | 3,564 | 3,143 | 4,082 |
| Add:-Depreciation | 857 | 1,101 | 1,250 | 1,400 |
| Add:-Non-Op/EO item | 1,219 | 1,358 | 1,310 | 1,260 |
| (Inc)/Dec in Invent. | (810) | (524) | (654) | (1,238) |
| (Inc)/Dec in Debtors | (836) | 606 | (314) | (421) |
| (Inc)/Dec in Oth Assets | (285) | 36 | 305 | (150) |
| Inc/(Dec) in Cur Liab | 444 | (187) | 336 | 735 |
| Inc/(Dec) in Oth Liab | 124 | 148 | (746) | (247) |
| CF from Ops (A) | 4,544 | 6,100 | 4,630 | 5,421 |
| (Inc)/Dec Fixed Assets | (3,761) | (2,819) | (2,750) | (2,750) |
| Free CF | 782 | 3,281 | 1,880 | 2,671 |
| (Purchase)/Sale Invst | 2 | 1 | (2) | 0 |
| Interest received Invst | 11 | 25 | 30 | 30 |
| CF from Investing (B) | (3,748) | (2,794) | (2,722) | (2,720) |
| Inc/(Dec) from LT Debt | 229 | 464 | 100 | 0 |
| Inc/(Dec) from ST Debt | 760 | (1,268) | 200 | (250) |
| Interest Paid | (1,368) | (1,265) | (1,350) | (1,300) |
| Issue of shares | 0 | 56 | 0 | 0 |
| Buy Back | (144) | (653) | 0 | 0 |
| Dividend Paid | (500) | (342) | (342) | (342) |
| Dividend distri. tax | (102) | (70) | (70) | (70) |
| CF from financing (C) | (1,124) | (3,078) | (1,462) | (1,962) |
| Net Cash Flow(A+B+C) | (329) | 228 | 446 | 740 |

Key Ratios

| YE March | FY17 | FY18 | FY19E | FY20E |
|-------------------|-------|-------|-------|-------|
| EPS (Rs) | 38.5 | 36.6 | 33.4 | 44.5 |
| CEPS (Rs) | 45.7 | 62.6 | 49.8 | 60.9 |
| BV (Rs) | 135.4 | 165.3 | 198.7 | 243.2 |
| P/E | 6.4 | 6.7 | 7.3 | 5.5 |
| P/BV | 1.8 | 1.5 | 1.2 | 1.0 |
| EBITDA Margin (%) | 24.5 | 20.6 | 21.9 | 23.4 |
| EBIT Margin (%) | 21.4 | 16.9 | 19.4 | 19.5 |
| PAT Margin (%) | 13.8 | 12.1 | 10.3 | 11.8 |
| RoE (%) | 28.5 | 22.1 | 16.8 | 18.3 |
| RoCE (%) | 23.0 | 17.9 | 18.2 | 20.4 |
| Debt/EBIDTA | 1.8 | 1.9 | 1.7 | 1.3 |
| Debt/Equity | 0.9 | 0.7 | 0.6 | 0.5 |
| EV/EBIDTA | 5.5 | 5.9 | 5.2 | 4.2 |

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