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GHCL LTD

PRICE: RS.229 | **RECOMMENDATION: BUY**

TARGET PRICE: RS.325 | **FY19E PE: 6.3X**

Stock details

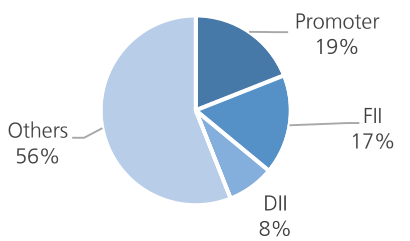
BSE code	:	500171
NSE code	:	GHCL
Market cap (Rs bn)	:	22.54
Free float (%)	:	80.91
52 wk Hi/Lo (Rs)	:	292/204
Avg daily vol (nos)	:	578085
Shares (o/s) (mn)	:	96.8

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	28,105	30,520	32,549
Growth (%)	11.1	8.6	6.6
EBITDA	7,075	6,282	6,867
EBITDA margin (%)	25.2	20.6	21.1
PBT	4,953	4,339	4,954
Net profit	3,801	3,080	3,517
Adj EPS (Rs)	38.2	31.8	36.3
Growth (%)	47.5	(18.9)	14.2
CEPS (Rs)	46.8	41.0	46.1
BV (Rs/share)	135	166	197
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	28.2	19.1	18.5
ROCE (%)	20.8	17.4	17.8
Net cash (debt)	449	412	1,754
EV/EBITDA (x)	5.2	5.6	4.8
EV/Sales (x)	1.3	1.2	1.0
P/E (x)	6.0	7.2	6.3
P/CEPS (x)	7.6	14.2	11.8
P/BV (x)	1.7	1.4	1.2

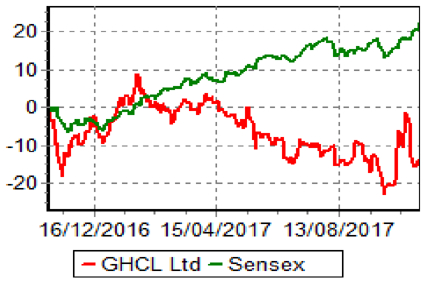
Source: Company, Kotak Securities – Private Client Research

Share holding pattern



Source: Capitaline

One-year performance (Rel to Sensex)



Source: Capitaline

GHCL Ltd (formerly known as a Gujarat Heavy Chemicals Ltd) is one of the leading manufacturers of soda ash with 23.0% domestic market share. The company has two main business verticals, i.e., Inorganic Chemicals and Textiles. The inorganic chemicals contributed 58% to the total revenues while home textile contributed 42% in FY17. The company will continue to have one of the highest margins in the inorganic chemical industry and strong ratios, backed by an integrated business model and various cost advantages. Even after the backward integration in the textile business, EBITDA margin declined to 1% in 2QFY18. The contribution from the new soda ash capacity should drive the company's earnings with return ratios in the range of 18-19% for the next 2 years, as earnings from the textile business is likely to remain muted. The company's strong free cash flow generation and ability to protect its margins in soda ash, even in weak market (driven by cost leadership) is not fully reflected in its current valuations. The stock is currently trading at 7.2x/6.3x FY18E/FY19E earnings. Looking at the financial parameters and upside in soda ash prices, we believe stock is attractively valued. We initiate coverage with BUY rating and a target price of Rs325, valuing it at 9x FY19E earnings.

Key Investment argument

- Soda Ash business - cash cow. GHCL is one of the leading producers of soda ash in India, with an installed capacity of 9.5 lakh tonnes and a market share of ~23%. Due to backward integration, the company enjoys a higher EBITDA margin in the range of 28-31%, which is 400-500 bps higher than its peers (as per the management). Soda Ash (inorganic chemicals) business contributed 58% to revenue and 74% to its EBITDA in FY17. The segment is a cash cow for the company with largely stable volume and high profitability. With the completion of brownfield expansion in FY17, we expect volume to grow at 7.5% CAGR during FY17-FY19E, which remained in the range of 710-740KT in the last 6 years. With the recent uptick in the soda ash prices globally, the company increased prices in the domestic market by Rs500/tonne in Sep'17 and the benefit of the same would accrue from 3QFY17 onwards. Both these factors should help the company to report revenue of Rs19.2/Rs19.3bn in FY18E/FY19E. We expect EBITDA margin in the segment to remain in the range of 27-28% for FY18E/FY19E as compared to 32% in FY17. We have assumed withdrawal of Anti-dumping duty in our FY19E estimates.

- Textiles business: potential of margin expansion. GHCL's textile business benefits from backward integration (in yarn), however, its late entry in the home textiles division has led to lower margins compared to its peers. Textile business contributed 42% to the overall revenue and 26% to its EBITDA in FY17. Within the Textile business, Home textile accounts for 70% of the revenue, while remaining 30% comes from spinning. Going forward, thrust is on improving its product mix, but we believe that due to slowdown in textile segment, EBITDA margin for FY18E could decline to ~7% and then inch up to ~10-11% in FY19E, supported by capacity utilization and product mix. Textile segment is expected to contribute Rs11.9bn/12.9bn of revenue in FY18E/FY19E. 1HFY18 margin came in at 5.9%.

- **Balance sheet to strengthen.** After meeting future capex requirements, company will be able to focus on ramping up capacity and changing product mix in textile segment and debt reduction from FY18E onwards. We expect GHCL's operating cash flow to remain strong and the company to focus on replacing high cost debt (D/E at 1.1x in FY16), or return it to shareholders either by way of dividend or share buy-back. With the improvement in ratings to A- and reduction in debt, we expect interest cost to decline by 12%/6% in FY18/FY19E. Due to increase in costs of soda ash production and slowdown in textile segment, we expect PAT to decline in FY18E to Rs3.1bn and expect recovery in FY19E to Rs3.52bn driven by improvement in the textile business and strong volume in soda ash segment.

- **Outlook and Valuation.** We expect earnings to decline in FY18 due to weak performance from the textile segment, which would partially offset the benefit of higher contribution from soda ash segment. We expect profitability from textile segment to improve from FY19E onwards. In addition, contribution from soda ash segment with an EBITDA margin of 28% will help the company to report 14.2% earnings growth in FY19E. We believe GHCL's strong free cash flow generation in the Soda Ash business (with high margins) along with cost leadership and return ratios of 18%-19% is not truly reflected in its current valuations. There could be upside risk to our realization estimates of Soda Ash, which can lead to positive surprise in earnings estimates in future. The stock is currently trading at 7.2x/6.3x FY18E/FY19E earnings. We initiate coverage with BUY rating and a target price of Rs325, valuing it at 9x FY19E earnings.

Key Risks

- Expected removal of anti-dumping duty (still no clarity) and 3 MT increase in global capacity in Turkey poses threat on soda ash realizations. Based on our understanding the Turkey capacity is coming up in phases, which should help balance the global demand-supply equation.

- Increase in competitive intensity amongst the key players in textile business has impacted GHCL's pricing and margins. If situation does not improve in the next few quarters, it could impact the outlook for FY19E.

COMPANY OVERVIEW

GHCL Ltd was incorporated in 1983, headquartered in Noida and is being currently headed by Mr. Sanjay Dalmia- the Chairman. It is one of the leading manufacturers of soda ash with 23% domestic market share. There are two main business verticals, i.e., Inorganic Chemicals and Textiles. Inorganic chemicals mainly produce Soda Ash which caters to detergent & glass industries whereas Textile vertical is well integrated and covers right from spinning of fiber, weaving, dyeing and printing till the finished products for exports. The company exports its product mix portfolio to US, Europe, Australia, etc. GHCL has one Soda Ash plant in Gujarat and one salt refinery in Tamil Nadu. It has three textile manufacturing plants- two in Tamil Nadu and one in Gujarat. The inorganic chemicals contributed 58% of the total revenues while home textile contributed 42% in FY17.

Table

Products	Capacity
Soda Ash	950,000 tonnes
Sodium Bicarbonate	70 tonnes per day
Edible Salt	
Raw Salt	150,000 tonnes
Refined Salt	75,000 tonnes

Source: Company

Management Team

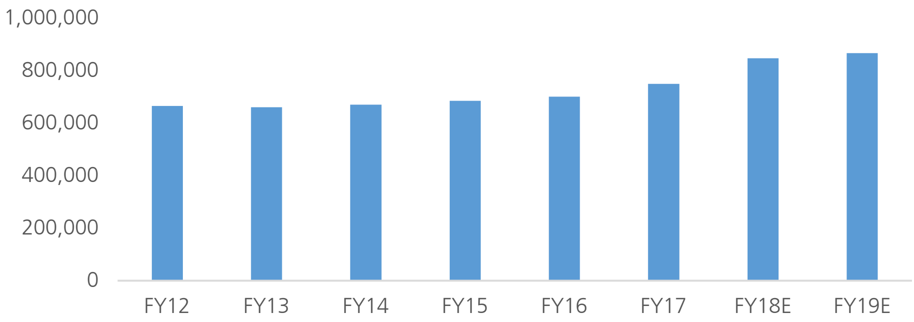
Name	Designation	Profile
RS Jalan	Managing Director	He is a graduate in Commerce and Fellow member of Institute of Chartered Accountants of India and having a very wide experience in Corporate Finance and Textiles business. Mr. R S Jalan has more than three decades of Industrial experience.
Raman Chopra	CFO & Executive Director	Qualified Chartered Accountant with sharp financial acumen, negotiation skills and a great passion for technological advancements and specialization in Greenfield expansion. Spearheading GHCL's Finance and IT functions.

Source: Company

Soda Ash business – cash cow

GHCL is one of the leading producers of soda ash in India, which finds use in detergents and glass industries. It has installed capacity of 950,000 tonnes of Soda Ash, operating at over 90% capacity utilisation, with a market share of ~23% of annual domestic requirements. Driven by the backward integration, the company enjoys a higher EBITDA margin in the range of 28-31%, which is 400-500 bps higher than its peers (as per the management). Soda Ash (inorganic chemicals) business contributes 58% to revenue and 74% to its EBITDA. The segment is a cash cow for the company with largely stable volume and high profitability.

New capacity to support volume growth



Source: Company, Kotak Securities – Private Client Research

Now with the completion of 100KT brownfield at the end of FY17, we expect volume to grow at a CAGR of 7.5% to 870KT, as we expect the new facility would take time to reach its optimum utilisation. The company has also undertaken another brownfield capex of Rs3bn, to increase capacity by 1.25 lakh tonnes by end of FY19E and the benefit for the same would accrue from FY20 onwards. On the back of strong profitability, the segment contributes Rs4-4.2bn cash flow annually and would increase going ahead with higher volumes. Demand for soda ash in India is likely to grow at a steady pace of 5% CAGR over the next few years, similar to the rate seen in the last decade. With steady demand-supply dynamics going forward, the business is likely to continue generating steady cash flows for the company.

Brownfield expansion: Cost effective

In order to give boost to its steady volume, the company had undertaken 100 KT expansion plan in soda ash business, with an estimated capex of Rs3.75 bn, which came on stream at the end of FY17. The cost for setting up brownfield expansion was 40% lower than greenfield project (Rs60,000/tonnes). Management indicated, that new facility would have 50% EBITDA margin, as it would not lead to any increase in fixed costs, thereby providing further boost to profitability of the company. Further, in FY18, the company is planning to add another 25 KT of capacity through de-bottlenecking and planning to set up 25 KT capacity of Sodium Bicarbonate at an estimated capex of Rs950 mn.

GHCL is currently operating at around over 90% utilization rate, which is the highest ever utilisation achieved by the company. Further, such utilisation rate is also one of the benchmarks in the domestic as well as global markets. GHCL operating at optimum utilization level was doing volumes in the range of 710-740 KT in the past 4 years. Now with the 100KT capacity in place, we expect volume to drive revenue growth for FY18E & FY19E. We expect soda ash prices to remain largely stable over the next two years and thus, revenues will be driven by volume growth in FY18. Off late international soda ash prices have started going up, if they sustain at the higher levels, it could provide positive surprise to our earnings estimates.

Economics of Sutrapada Plant

Particulars	Rs/Tonne	%
Soda Ash Realisation (Net)	18,300	
Variable Cost	8,000 - 8,500	44.4%
Fixed Cost	9,500 - 10,000	55.6%

Source: Company

Raw Material requirement per tonne of soda ash

Raw materials	Requirement	Cost (Rs per tonne)	Total Cost
Salt	1.8 tonnes	700	1,260
Limestone	1.8 tonnes	850	1,530
Coal	430 kg		3,000
Briquette	150 Kg		1,800
Packing			270
Ammonia and other minor raw material			300
Internal usage of soda ash ~5-7%			350
Total			**8,510**

Source: Company

Captive raw materials and logistics cost advantage supports cost efficiency

GHCL is one of the key soda ash players with market share of about 23%. Company enjoys margins in the range of 28-31%, which is 400-800bps higher than its peers driven by its cost leadership and backward integration. Typically, Soda ash industry entails significant use of raw material due to adverse input / output ratio. One tonne of Soda ash requires approximately 5 tonnes of inputs, making logistics cost a key driving factor of the total cost. Hence, proximity to raw materials becomes a key success criteria. GHCL has successfully created a well-integrated business model with captive availability of raw materials, leading to cost leadership in the industry. Around 45%, 30%, 75% and 30% of salt, limestone, briquette and lignite is consumed captively.

Captive Requirements

Input	Captive (%)
Salt	45
Limestone	30
Briquette	75
Lignite	30

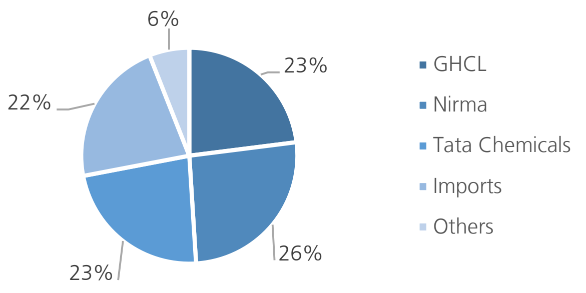
Source: Company

GHCL is the only player to have its own lignite mines, which gives the company a strategic edge, ensuring cost advantage in utilities. Further, the company has a unique advantage, where in it has replaced Met Coke with in-house developed Briquette coke. Thus, the company also benefits from lower briquette cost compared to coke.

Key soda ash player in the country

GHCL enjoys a dominant position in the concentrated soda ash industry in the country. The domestic soda ash industry is dominated by a few large players like Nirma, Tata Chemicals and GHCL, with imports catering to the remaining. However, due to significant logistics cost, imports are limited to coastal areas only (South and East). GHCL is one of the largest focused soda ash players, which has ~58% of revenues coming from this product. Other players like Tata Chemicals, Nirma and DCW have lower contribution from soda ash due to their diversified business presence.

Imports accounts for 23% share

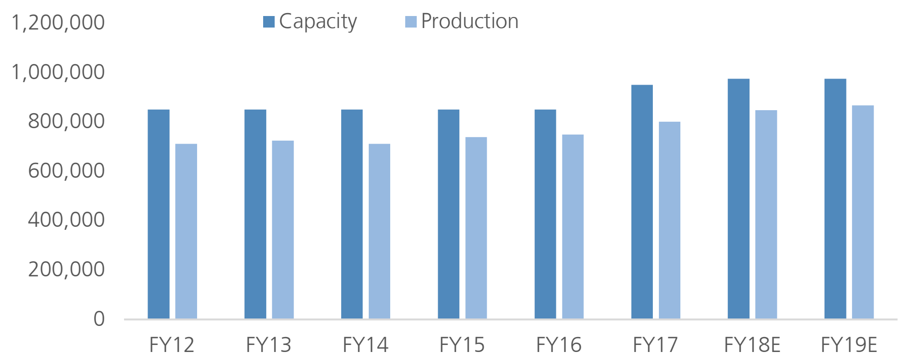


Source: Company

Highest utilisation rate in the industry

GHCL enjoys higher capacity utilization at its soda ash plant compared to industry. Capacity utilization currently stands at over 90%, the highest in the domestic soda ash industry, which was operating at about 80-85% earlier. The utilization rate of GHCL's soda ash plant is also one of the benchmarks in the domestic as well as global market. Production in Soda ash plants suffers from seasonal volatility and adversely affects utilization rates, hence making 88-90% utilization level optimal. GHCL's backward integration, efficient management of raw materials and sustained investment in maintenance of plants and machinery has helped the company to operate the plant at optimum utilization level, thereby leading to higher operating leverage.

Operating at over 90% utilization

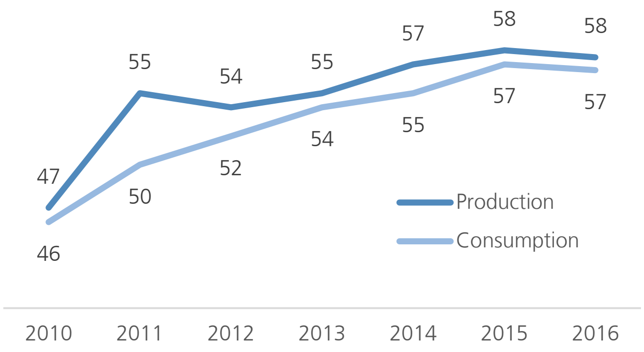


Source: Company, Kotak Securities – Private Client Research

Global Situation: Marginal Surplus in Soda Ash (Supply Follows Demand)

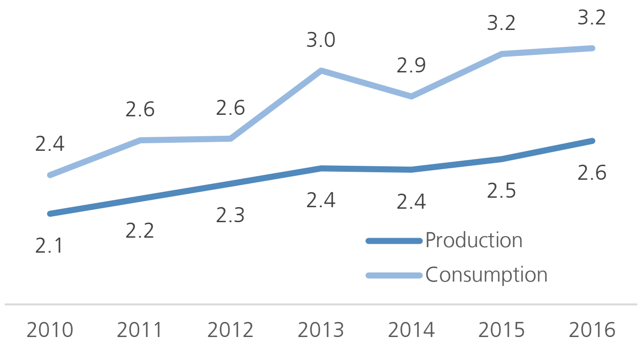
Demand for soda ash has grown at a CAGR rate of 4% in last 6 years, while production also mirrored the same growth rate. The global production stood at 57MT in 2016, while consumption was 56.6MT. Management expects the soda ash market to grow at the rate of 2-3% globally in the coming years, which would absorb the additional supplies. The domestic industry is expected to grow at 5-6%. Soda ash production capacity is likely to increase by ~3MT worldwide over next 2 – 3 years, 2.5MT in Turkey and ~0.8MT in India (GHCL, Gadi Detergent and Nirma).

Global Demand- Supply (MT)



Source: Company

Domestic Demand- Supply (MT)



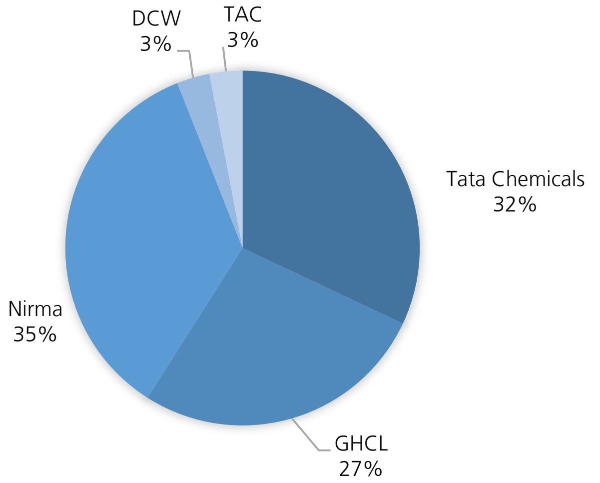
Source: Company

Import Duty in place to protect industry; continuation of the same is uncertain

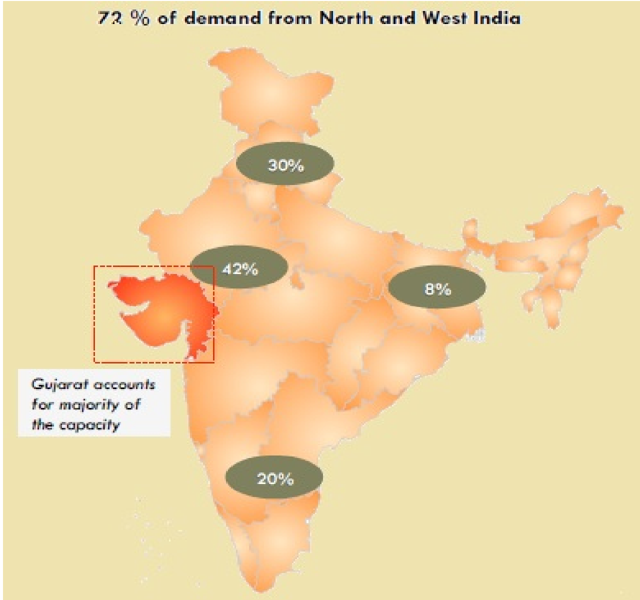
Though globally, demand-supply situation remained tight, the domestic market has witnessed a huge jump in imports in the last 5 years. Imports have increased from 200 KT to 700KT in India; Europe accounts for 40% of the imports. In order to protect the domestic industry, the government has imposed anti-dumping duty on soda ash w.e.f July 2012 for the period of 5 years. The duty ranges from US$9 to US$40/tonne depending upon the region from which imports are coming. Despite the duty, around 1/5th of the demand in India is being met through imports. This is due to the high cost of transportation to the Southern and Eastern part of India.

Most of the soda ash manufacturers are located in Gujarat. Distance between consumers and manufacturers increases the soda ash transportation costs. Average freight to customers in southern and eastern region from western region (Gujarat) is approximately US$50/tonne whereas the average freight for imports ranges between US$25-30/tonne. Due to this transportation cost difference between domestic and imported soda ash, imported soda ash becomes attractive for eastern and south India based customers. To manufacture one MT of soda ash about 4-5 MT of raw materials is required. Hence transportation cost of raw materials is quite significant. High diesel prices further aggravate the situation.

Domestic installed capacity at 3.1 MT



Domestic Demand and Supply



Source: Company, Kotak Securities – Private Client Research

Anti-dumping duty

Countries	Duty range ($ per tonne)
China	36.26
European Union	9.17
Iran	28.86
Kenya	20.35-28.86
Pakistan	2.38-10.34
USA	38.79
Ukraine	15.64
Russia	35.99
Turkey	18.39-75.16

Source: Ministry of commerce

Removal of Anti-Dumping Duty (ADD) may hit 5% of FY19 realization

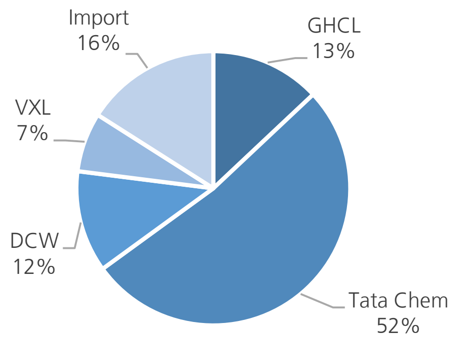
At present, soda ash industry is protected and industry as a whole enjoys higher sales volume and margins due to anti-dumping duty (ADD) which is in force since July 2012. With imposing of ADD, there has been decline in import of soda ash product by 16.1% and this is benefiting domestic players. The said duty was likely to get expired on 2nd July, 2017. However, the government has extended the duty for 1 more year till July 2018, but the same has been nullified w.e.f 28th July 2017. Since, the matter is in the High Court, the ADD is still alive and is up for hearing in the month of November 2017. ADD helped the domestic company with a pricing comfort, but the withdrawal of the same can have adverse effect. We have factored in withdrawal of the same in our FY19 estimates. In case, the court orders in the favor of the industry, there is upside risks to our estimates as well as target price.

Presence in Sodium Bicarbonate and Edible salt

The other product that the company offers is Sodium Bicarbonate (0.7 tonnes of soda ash required to make 1 tonne of sodium bicarbonate). The realisation for this product is almost similar to soda ash realisation. 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.

The company is also present in the edible salt segment. The capacity for this product is located in South India with raw salt manufacturing capacity of 1.5 Lakh tonnes and refined salt capacity of 0.75 Lakh tonnes. GHCL sells salt through brands like Sapan & i-FLO.

Sodium Bicarbonate Market share (%)

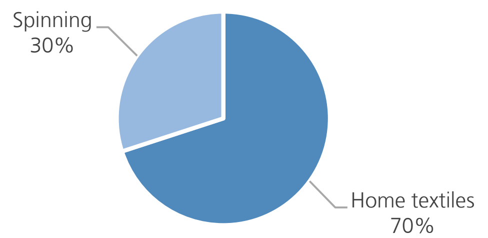


Source: Company

Late entrant in textile business

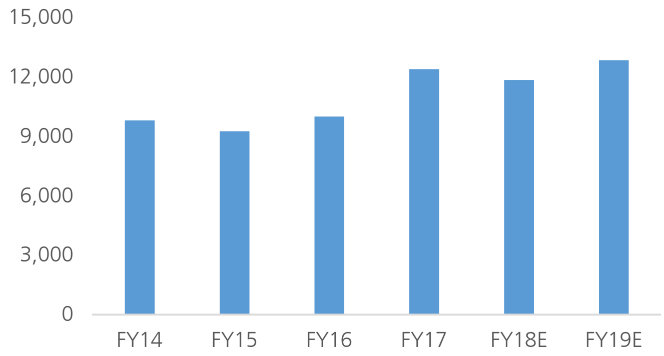
GHCL is one of the late entrants in the textile business, with an installed spinning capacity of 175,000 spindles and processing capacity of 36 mn meters. Being a late entrant, the company earned margin of only ~13% in FY17, despite backward integration (yarn). Textile business contributed 42% to the overall revenue and 26% to its EBITDA in FY17. Within the textile business, Home textile accounted for 70% of the revenue, while remaining 30% came from spinning. Based on the management feedback, we expect the revenue from textile business to remain under pressure in FY18. Besides this, due to increase in costs and pricing pressure, EBITDA margin which was ~13% in FY17 is likely to decline to ~7% in FY18E and inch up to ~10-11% in FY19E, with the change in product mix and ramp up in capacity utilisation.

Textile Segment break-up



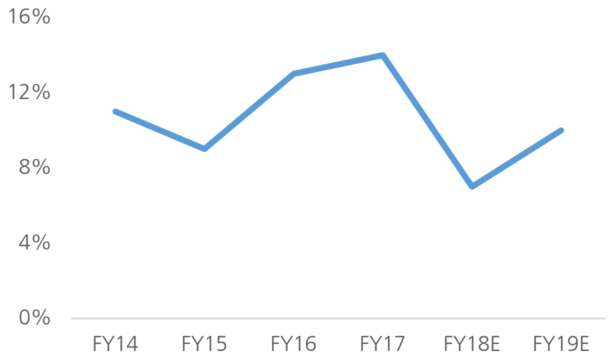
Source: Company

Textile revenue to remain under pressure



Source: Company, Kotak Securities – Private Client Research

Margin to decline in FY18 and inch up in FY19E



Source: Company, Kotak Securities – Private Client Research

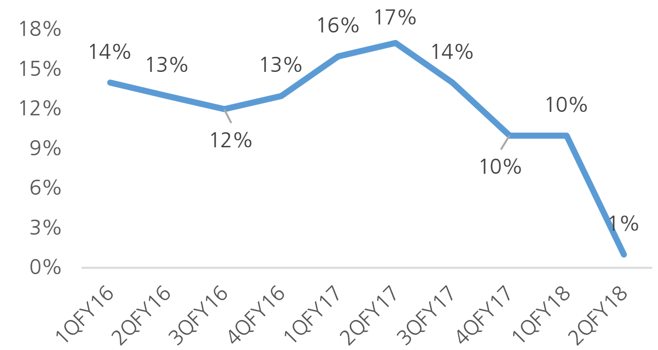
Geographical spread in sheeting business

Source: Company

Scope for margin improvement in FY19E

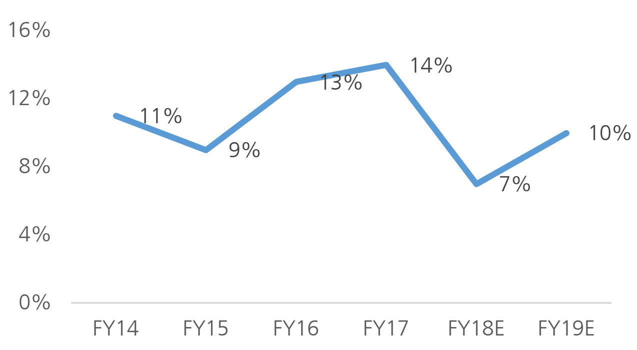
GHCL's textile business benefits from backward integration (in yarn) however its late entry in home textiles division has led to lower margins (13% EBIDTA in FY17 and declined to 1% Q2FY18) compared to other players in the industry. The domestic home textile exporters are facing severe pressure in their exports to the US. Currency headwinds, loss of high margin orders and high cost of raw material has impact the business of home textile exporters in the last few quarters. H1FY18 would be subdued due to destocking in high end bedding segment in the US. Industry expects pickup in sales volume to likely start from Q3FY18, led by festive season in US and restocking by the dealers.

Margin on declining trend…



Source: Company, Kotak Securities – Private Client Research

…Will inch up in FY19E to 10%

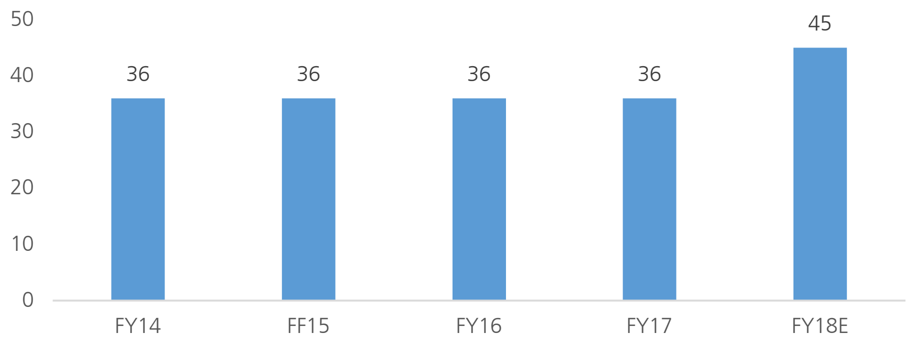


Source: Company, Kotak Securities – Private Client Research

Capex plans to support volume

GHCL's operating margins in the textiles segment has been subdued compared to its peers. However, company is constantly investing in improving and modernizing this segment in order to improve margins. In FY16, the company invested Rs 810 mn in increasing windmill capacity and Rs 710 million in its home textiles division, including investments in in-house stitching capacity with estimated cost of Rs 250-260 million, which got commissioned in quarter ending March, 2016. The company will further spend Rs. 450 million in FY18 on modernizing its textiles plant.

Processing capacity expansion by 25%

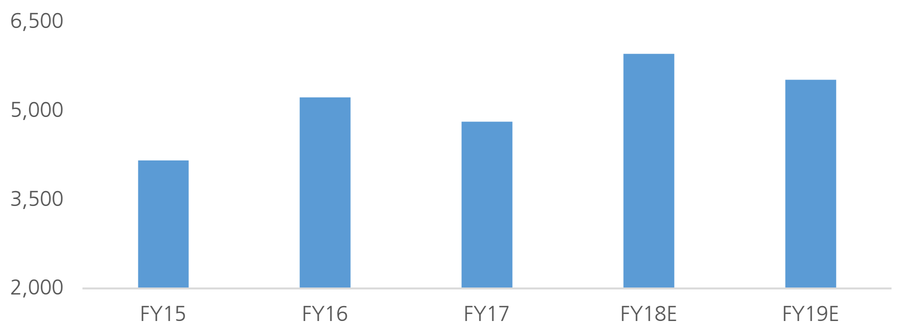


Source: Company, Kotak Securities – Private Client Research

Strong cash flow generation

Over the past 4 to 5 years, the company has utilized significant amount of cash flows for paying off overseas debt (due to write-offs taken on overseas retail investments). Moreover, in the last two years, GHCL has embarked on a capacity expansion plan, wherein the company is expanding capacity in both the segments. The focus of the management is now on completing brownfield capex of soda ash and reducing debt. If cashflows improve then company could look at paying back investors, either in the form of dividend or share buyback.

OCF to improve (Rs Mn)

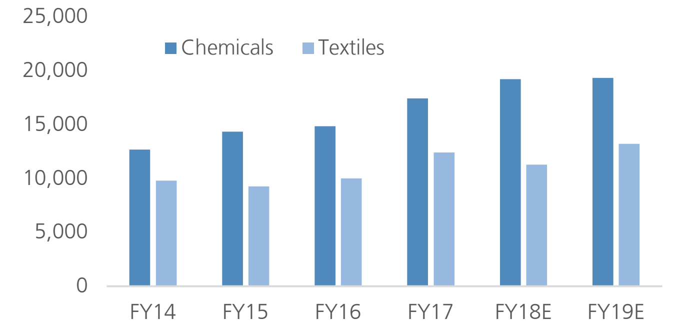


Source: Company, Kotak Securities – Private Client Research

FINANCIAL ANALYSIS

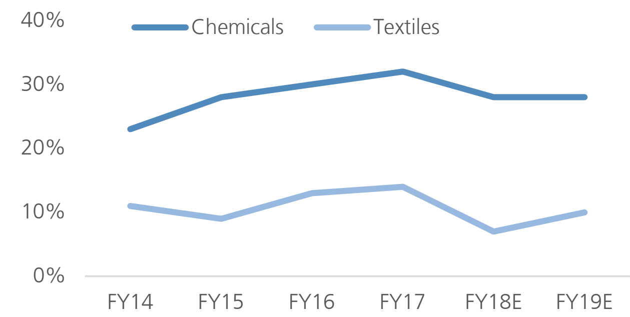
With the completion of the phase I of brownfield expansion in FY17, we expect soda ash sales volume to grow at 7.5% CAGR during the FY17-FY19E period and realisation to remain stable. However, the benefit of the same will be partially offset by slowdown in textile segment. We expect revenue to grow at a CAGR of 8% during the FY17-FY19E period. But, due to increase in soda ash cost of production and decline in textile segment realisation, we expect the company to report EBITDA of Rs6.3bn/Rs6.9bn in FY18E/FY19E. Due to sharp downturn in textile business, we expect overall EBITDA margin to decline in FY18E to 20.6% and expect improvement of 50 bps in FY19E (backed by marginal recovery in textile business). On the back of robust cash flow generation and debt reduction, we expect PAT of Rs3.1bn/Rs3.5bn for FY18E/FY19E, with a return ratio in the range of 18-19%. The numbers factors in the impact of withdrawal of ADD in FY19E.

Segment wise revenue contribution (Rs Mn)



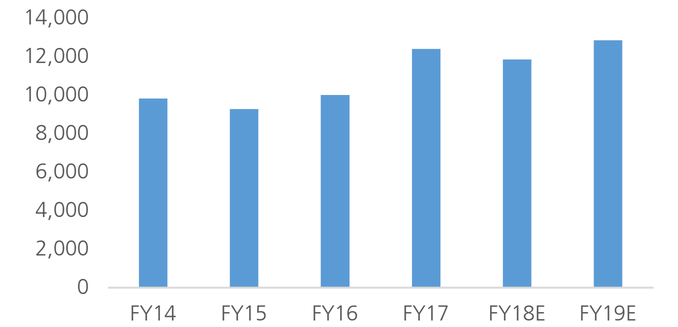
Source: Company, Kotak Securities – Private Client Research

Cost pressure to weigh on margin



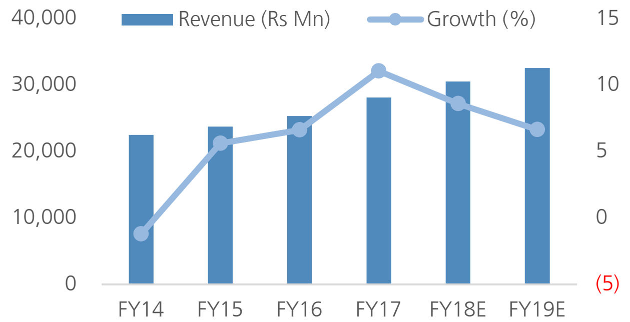
Source: Company, Kotak Securities – Private Client Research

Decline in textile segment performance (Rs Mn)…



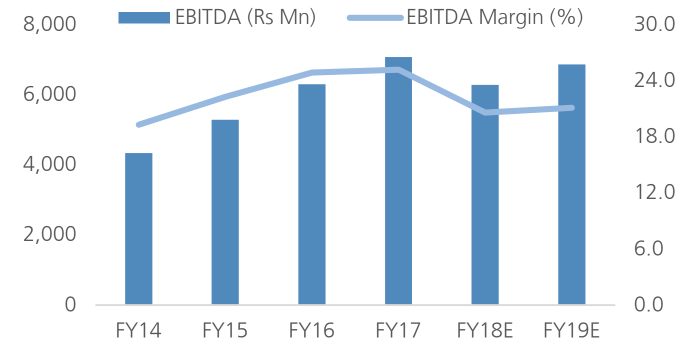
Source: Company, Kotak Securities – Private Client Research

…restricted growth in revenue



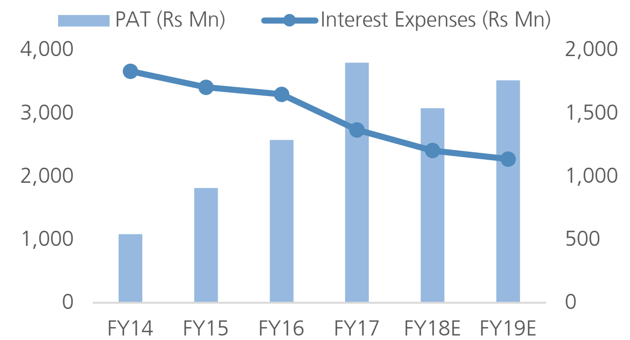
Source: Company, Kotak Securities – Private Client Research

EBITDA margin to remain in range of 20-21%



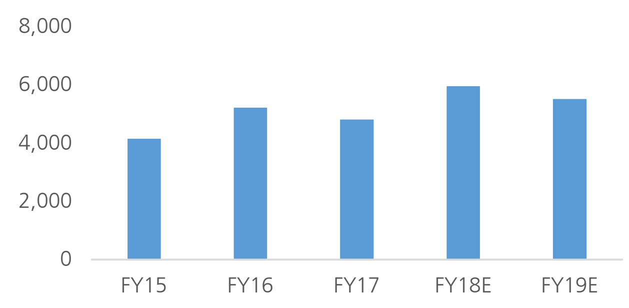
Source: Company, Kotak Securities – Private Client Research

Decline in interest outgo to support PAT



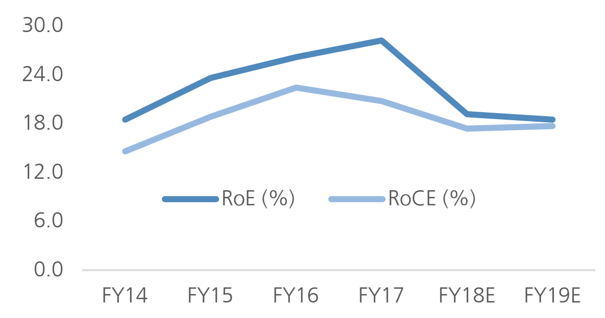
Source: Company, Kotak Securities – Private Client Research

Cash flow to remain strong (Rs Mn)



Source: Company, Kotak Securities – Private Client Research

Return Ratio (%)



Source: Company, Kotak Securities – Private Client Research

RESULT SNAPSHOT

Quarterly results

Rs in Mn	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Sales	**7,339**	**7,048**	**6,622**	**8,806**	**8,041**	**7,143**
Raw Materials	3,189	3,034	2,700	4,158	3,747	3,240
Power	725	646	728	966	944	908
Employee	367	393	394	427	429	441
Other Operating Expenses	1,094	1,171	1,170	1,408	1,252	1,196
EBITDA	**1,964**	**1,804**	**1,630**	**1,846**	**1,669**	**1,358**
EBITDA %	26.8%	25.6%	24.6%	21.0%	20.8%	19.0%
Depreciation	212	220	219	205	251	250
EBIT	**1,752**	**1,584**	**1,411**	**1,641**	**1,418**	**1,108**
Interest	347	333	318	339	306	347
Other Income	-	-	-	-	-	31
Exceptional	-	30	-	-	-	-
Profit before Tax	**1,405**	**1,220**	**1,093**	**1,301**	**1,111**	**791**
Tax	377	317	288	170	-467	258
Profit After Tax	**1,028**	**903**	**805**	**1,131**	**1,579**	**533**
PAT (%)	14.0	12.8	12.2	12.8	19.6	10.7

Source: Company

Revenue during the quarter declined 11.2% sequentially to Rs7.14bn, due to sequential decline in textile and soda ash performance. EBITDA during the quarter declined by 18.7% QoQ to Rs1.36bn, with an EBITDA margin of 19% (down 180 bps QoQ). Sequential decline in operating performance was on account of dismal performance from textile segment. Textile segment reported EBIT loss of Rs60.4mn in 2QFY18. The sharp drop in textile segment performance is due to loss of high margin business and financial stress faced by certain customers. The company reported PAT of Rs533 mn in 2QFY18.

KEY RISKS AND CONCERNS

Removal of Anti-dumping duty

Expected removal of anti-dumping duty (still no clarity) and 3 MT increase in global capacity in Turkey poses threat on soda ash realizations. Based on our understanding the Turkey capacity is coming up in phases, which should help balance the global demand-supply equation.

Foreign exchange fluctuation

Rupee fluctuation against USD could impact GHCL's profitability. The company exports its textile to US and Canada, therefore rupee appreciation against USD would adverse for the company. Besides this, any slowdown in US economy can affect GHCL's textile segment profitability, as US accounts for ~72% of its textile revenue.

Raw materials Reserves

GHCL has captive mines of lignite and limestone. It is expected to have reserves of nearly 7-8 year considering current consumption levels. We believe the company will have to participate in auctions to acquire limestone and lignite assets and these cost will be significantly higher.

VALUATION

GHCL is expected to witness steady single digit revenue growth going forward backed by higher capacity utilization in both the segments. EBITDA margin is expected to dwindle in FY18 and to improve thereafter on the back of recovery in textile business. Even after building in the ongoing capex program in the Soda Ash business the company should be able to generate healthy cash flows. The management's focus on reviving the textile business should see result from FY19E onwards. Though GHCL is a commodity player (in its Soda Ash business), large entry barriers (low asset turnover), and high market share should result in rerating of the stock. Even with worst numbers coming in from the textile segment the company should be able to report overall EBITDA margins in the range of 20-21% and net margin of ~11%. Valuations look attractive, considering its steady margin, debt reduction, healthy balance sheet coupled with return ratios in the range of 18-19%. The stock is currently trading at 7.2x/6.3x FY18E/FY19E earnings. We initiate coverage with BUY rating and a target price of Rs325, valuing it at 9x FY19E earnings.

FINANCIALS

Profit and Loss Statement

(Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	**25,307**	**28,105**	**30,520**	**32,549**
% Growth	6.6	11.1	8.6	6.6
Raw Materials	9,464	11,387	13,312	14,192
% of Net Sales	37.4	40.5	43.6	43.6
Employee Cost	1,336	1,585	1,618	1,725
% of Net Sales	5.3	5.6	5.3	5.3
Power & Fuel	3,559	3,065	3,815	4,069
% of Net Sales	14.1	10.9	12.5	12.5
Other Expenses	4,655	4,993	5,494	5,696
% of Net Sales	18.4	17.8	18.0	17.5
EBITDA	**6,293**	**7,075**	**6,282**	**6,867**
EBITDA Margin (%)	24.9	25.2	20.6	21.1
Depreciation	817	857	892	951
EBIT	**5,476**	**6,218**	**5,391**	**5,916**
Interest Exps.	1,649	1,368	1,204	1,137
EBT	**3,827**	**4,851**	**4,186**	**4,779**
Exceptional Items	(135)	(30)	0	0
Other Income	104	133	152	175
PBT	**3,796**	**4,953**	**4,339**	**4,954**
Tax-Total	1,219	1,152	1,258	1,437
Profit after tax	**2,577**	**3,801**	**3,080**	**3,517**
PAT Margin (%)	10.2	13.5	10.1	10.8

Source: Company, Kotak Securities - Private Client Research

Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E
Sources of Funds				
Equity Capital	1,000	995	969	969
Reserves and Surplus	8,857	12,471	15,124	18,075
Shareholders' Funds	9,857	13,466	16,093	19,044
Total Loan Funds	12,480	14,633	13,383	12,633
Deferred Tax Liab.	1,951	2,360	2,420	2,574
Total Liabilities	**24,288**	**30,459**	**31,895**	**34,250**
Appl. Of Funds				
Gross Block	32,572	25,473	26,223	27,973
Accumulated Depn.	12,080	1,377	2,269	3,220
Net Fixed Assets	**20,492**	**24,096**	**23,955**	**24,754**
Capital WIP	369	260	2,500	2,500
Other Investments	16	88	88	88
Inventories	5,033	5,843	6,355	6,777
Sundry Debtors	1,924	2,762	3,010	3,210
Cash and Bank Bal	427	361	325	1,667
Loans and Advances	1,242	1,371	1,371	1,371
Total Current Assets	**8,626**	**10,338**	**11,061**	**13,026**
Current Liabilities	5,218	4,578	6,002	6,363
Net Current Assets	**3,408**	**5,760**	**5,059**	**6,663**
Other Non.Curr Ass	4	254	293	246
Total assets	**24,289**	**30,458**	**31,895**	**34,250**

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)

(Rs mn)	FY16	FY17	FY18E	FY19E
Net profit before tax	**3,796**	**4,953**	**4,339**	**4,954**
Depreciation	817	857	892	951
Interest	1,649	1,368	1,204	1,137
Others	33	1,272	0	0
Opt Profit before WC Changes	6,295	8,449	6,435	7,042
WC Changes	(85)	(2,417)	664	(261)
Cash Gene from Op.	6,211	6,032	7,099	6,781
Direct Taxes Paid	986	1,219	1,152	1,258
Cash from Ope act	**5,225**	**4,813**	**5,946**	**5,523**
Purchases of F.A	(2,499)	(3,761)	(2,936)	(1,727)
Investment	3	2	0	0
Others	6	11	0	0
Cash from Inv Act	**(2,491)**	**(3,748)**	**(2,936)**	**(1,727)**
Proc from Issue of Eq Shares	0	(1)	(26)	0
Net loans	(714)	1,216	(1,250)	(750)
Others	(1,933)	(2,344)	(1,771)	(1,704)
Cash from Fin Act	**(2,647)**	**(1,130)**	**(3,047)**	**(2,454)**
Net Increase in Cash	87	(65)	(37)	1,342
Cash at Beginning	339	426	361	325
Others	0	0	0	0
Cash at End	426	361	325	1,667

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis

(Rs mn)	FY16	FY17	FY18E	FY19E
O/s Shares (mn)	100	99	97	97
Per Share (Rs)				
EPS	25.8	38.2	31.8	36.3
Cash EPS	33.9	46.8	41.0	46.1
Book value	98.6	135.4	166.1	196.6
Valuation (x)				
P/E	8.9	6.0	7.2	6.3
Price/Book value	2.3	1.7	1.4	1.2
EV/EBITDA	5.6	5.2	5.6	4.8
EV/Sales	1.4	1.3	1.2	1.0
Profit ratios (%)				
RoE	26.1	28.2	19.1	18.5
RoCE	22.4	20.8	17.4	17.8
Margin (%)				
EBITDA	24.9	25.2	20.6	21.1
EBIT	21.6	22.1	17.7	18.2
PAT	10.2	13.5	10.1	10.8

Source: Company, Kotak Securities - Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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