

GHCL LTD

ON AN EXPANSION SPREE

Retail Desk

28 January 2016

Rating	Buy
CMP (₹)	117
Target Price (₹)	161
Upside (%)	38

Key Data	
BSE Code	500171
NSE Code	GHCL
Reuters code	GHCH.BO
Bloomberg Code	GHCL IN
Sensex	24469
Face Value (₹)	10
Mcap (₹ Cr.)	1170
52 week H/L (₹)	152/55
2 Wk Avg Qty	124000

Share holding, December '15	Holding %
Promoters	18.5
FIIs	17.5
DIs	5.4
Corporates	25.3
Public	33.3

Performance (%)	3M	6M	12M
Stock-GHCL	-17.0	27.2	46.3
BSE 200	-8.9	-10.4	-14.6
BSE 500	-8.7	-10.1	-14.0

Price Chart: (One-Year)


[http:// www.ghcl.co.in](http://www.ghcl.co.in)

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Company Description:

GHCL was incorporated in 1983 as Gujarat Heavy Chemicals. It came out with an IPO in 1985-86. During 87-88, GHCL commenced the production of soda ash. Later on GHCL added edible salt and textile products such as home textiles and yarn manufacturing. The products are catering to both the domestic and international markets. Grace Home Fashion, LLC, a subsidiary in USA engaged in Home Textile segment is catering to some of the largest Home-Textile Retailers like Bed Bath Beyond and Babies R US. In addition, Grace Home Fashion is also doing online Home-Textile Business in USA through JC Penny and Kohls.com.

Chemicals: Soda Ash

At present the Soda Ash plant at Veraval in Gujarat has a capacity of 8.50 lakh MTPA. The plant operates its own cogeneration plant which has a capacity of producing 26.2 MW of power (11x2 units and 4.2x1 unit). The power is generated from unique blending of lignite (excavated from its own mines in Khadsaliya near Bhavnagar) and imported coal.

User Segments: The world estimated 2013 distribution of soda ash by end use as under; Glass 52% Detergent & Soap formulations 14% Chemical 9% Alumina /Metals and mining 6% Pulp & Paper 1% Others (Environmental Protection/ Effluent treatment etc) 18%.

Textiles: The two Spinning units are located in the state of Tamil Nadu; India has an installed capacity of 1, 50,000 spindles manufacturing 100% Cotton and Polyester Cotton yarns. Home textile products comprise of bed linen, curtains, made ups, and cotton yarn. This segment also provides flat sheets, fitted sheets, pillow cases, shams, valences, curtains, duvet covers, and other bed items in cotton and blends under the 'Grace' brand name. Its state-of-art plant at Vapi, Gujarat, integrates weaving, processing and cut & sew facilities.

Edible Salt: GHCL takes pride in manufacturing various grades of Edible as well as Industrial grade salt. The company's salt works expands to around 3,200 acres of leased land for salt production, which has a capacity to produce 1, 50,000 tpa of raw salt. The refinery at Tiruporur has state-of-the-art infrastructure with an installed capacity to produce 70,000 tpa of refined iodized salt per annum.

Key Financial:

(₹ crore)

Year-March	9MFY16A	9MFY15A	FY14A	FY15A	FY16E	FY17E
Sales/OP Inc	1908.6	1734.3	2252.6	2373.6	2600.0	2860.0
PBIDT	446.1	371.2	407.4	513.0	608.4	669.2
Interest	123.4	127.8	183.2	171.3	165.0	175.0
PBDT	322.7	243.4	224.2	341.7	443.4	494.2
Depreciation	60.4	57.2	81.7	84.9	80.5	85.0
PBT	262.3	186.2	142.5	256.8	362.9	409.2
Tax	83.5	53.0	34.0	64.2	111.0	116.6
PAT	178.8	133.2	108.5	181.9	251.9	292.6
Equity			100.0	100.0	100.0	100.0
Reserves			487.3	670.0	921.9	1214.5
Book Value (₹)			58.7	77.0	102.5	131.4
EPS (₹)	17.9	13.3	10.9	18.2	25.2	29.3
OP Margin (%)	23.4	21.4	18.1	21.6	23.4	23.4
PAT Margin (%)	9.4	7.6	4.8	7.7	9.7	10.2
P/E				6.4	4.6	4.0



Captive Power

Apart from 26.2MW cogeneration power plant, GHCL has the 8MW wind power, which GHCL invested many years back around 8 to 10 years back. GHCL is investing significantly in order to increase the capacity to 25MW, energy some of them are already commissioned by September end and some are under implementation, which will be completed by March 2016.

Revenue Segment

During FY15, the inorganic chemical contributed 60% and balance 40% came from textiles. Roughly around 35% to 40% of yarn is consumed internally and the balance 60% is sold outside. Exports constituted 22% of sales in FY15.

Q3FY16, 9MFY16 & FY15 Results

During Q3FY16, net profit rose 58% to ₹66.3 crore on 14% higher sales of ₹665 crore. EPS is ₹6.6. During 9MFY16, net profit rose 35% to ₹178.8 crore on 10% higher sales of ₹1909 crore. 9MFY16 EPS is ₹17.9. During FY15, net profit rose 67% to ₹182 crore on 5% higher sales of ₹2374 crore. EPS stood at ₹18.2. A dividend of 22% was paid.

Financial

Equity capital is ₹100 crore. With reserves of ₹670 crore, the book value of the share works out to ₹77. The debt of ₹1323 crore gives DER of 2:1(2.4:1 in FY14). The value of the gross block is ₹3063 crore. Short /long term loans, cash stood at ₹130 crore whereas cash stood at ₹34 crore. RNOW will be 24.7% in FY16 & 22.3% in FY17 as against 23.6% in FY15.

Expansion

GHCL is on track with its Brownfield capacity expansion. It plans to increase its capacity by 1, 00,000 tonnes in phase-I, which is likely to be implemented by end of FY17 with an estimated cost of about ₹375 crore. The capacity expansion will help GHCL gain market share and will further boost GHCL's profitability and return ratios. In textile GHCL will incur a cost of ₹150 crore. Expansion will be completed in 2 years.

Prospects-Soda Ash

Global demand for Soda Ash grew 2.8% annually over the last 5 years and is expected to grow 2.5% annually through 2017. The projected growth for this year is 2.5% with the subdued or lower growth expected to be in China. Consumption of soda ash per person is expected to register healthy rise in the next few years with China leading the rankings with consumption from 10.85 kilograms in 2007 to an expected 12.00 kilograms in 2015.

However, margins are likely to remain protected as the impact of decline in soda ash prices will be offset by fall in cost of key raw material such as coke and coal. It is expected that on the back of improved GDP growth projected and growth in Glass (Construction/Automobiles) and Detergents (FMCG penetration and growth) Soda Ash demand will continue to witness a reasonable growth.

Prospects

Market sentiment in US looks better and GHCL is focusing on US market with large volume programs. With depreciation in Indian Rupee, tremendous interest has been getting generated in US retail to shift some more business to India which further looked promising for Indian home textile industry.

The Indian textile industry is currently about \$60 billion. The Industry plays a major role in the economy of the country and contributes about 11% to Industrial Production, 12% to export earnings, and around 4% to GDP of the country. Textile industry has been growing at 10% over last several years. Government of India has provided a number of export promotion policies for the Textile sector. In addition, States of Gujarat, Maharashtra, Madhya Pradesh have special incentive for textile industry.

With Indian Textile industry looking to grow to \$140 billion mark by 2025, there are going to be huge opportunities in future for growth in this industry. Overall the outlook of the Indian Textile Industry looks positive.

The Government had set an export target of US\$65 billion and creation of 25 million additional jobs has been proposed with a CAGR of 15% during the 12th Five Year Plan (2012-17). Inherent strengths & cost competitiveness of Indian textiles industry is catalyzing major retailers & brands of the world such as Wal-Mart, Target Gap, Marks & Spencer & Tesco to set up their sourcing hubs which augurs well for the sector.



Valuation & Recommendation

GHCL has been in existence for more than three decades and has over the years, grown to be a leader in its areas of operations, adhering to global standards and international best practices. GHCL is distinguished by its growth, financial performance and outstanding people and processes. GHCL is a customer-friendly company committed to leadership through quality. It strives for building relationships, encouraging entrepreneurship and sharing prosperity.

Excellent textile product development capabilities has put GHCL in forefront of major markets internationally, mainly USA. Overall in the textile business of the company, the performance of Yarn business has improved as compared to the previous year, which is mainly due to better demand in yarn, increase in yarn prices and stability of cotton prices. Further, the Madeups (Home Textiles) Business operations are now fully stabilized and doing reasonably well mainly due to the better market sentiments in the US.

GHCL has now made deep inroads in the export market and further secured large replenishment orders from the big Global Retailers in US and Europe. Sentiment in the US looks better and GHCL is focusing on that market for large volumes. With depreciation in Rupee, there is lot of interest in the US retail to shift some more business to India and that is yet another positive for the Indian home textile industry.

Sustained improvement in business will lead to higher revenue and profitability going forward. At the CMP of ₹117, the share is trading at a P/E of 4.6x on FY16E & 4.0x on FY17E. We recommend BUY with a target price of ₹161 at which, the share will trade at a P/E of 5.5x on FY17E.



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