# GHCL

**BUY**

| | |
|---|---|
| **INDUSTRY** | **CHEMICALS** |
| **CMP** *(as on 10 Aug 2016)* | **Rs 234** |
| **Target Price** | **Rs 290** |
| Nifty | 8,575 |
| Sensex | 27,775 |
| **KEY STOCK DATA** | |
| Bloomberg | GHCL IN |
| No. of Shares (mn) | 100 |
| MCap (Rs bn) / ($ mn) | 23/352 |
| 6m avg traded value (Rs mn) | 119 |

| **STOCK PERFORMANCE (%)** | | | |
|---|---|---|---|
| **52 Week high / low** | | | **Rs 246/95** |
| | 3M | 6M | 12M |
| Absolute (%) | 65.9 | 130.7 | 76.4 |
| Relative (%) | 57.4 | 109.6 | 76.7 |

| **SHAREHOLDING PATTERN (%)** | |
|---|---|
| Promoters | 18.47 |
| FIs & Local MFs | 5.27 |
| FIIs | 16.57 |
| Public & Others | 59.69 |

*Source : BSE*

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## More value to unfold

**We initiate coverage on GHCL with a BUY. Our TP is Rs 290, valuing GHCL at an affordable 8x FY18E earnings. It has made a strong comeback after an an overambitious and ill-fated overseas expansion over FY05-07. We see (1) Improving investor confidence given the creditable and prudent revival, (2) Export traction in textiles, (3) Debt reduction plan, and (4) Strong return ratios (~30% RoE). Operating cash flow yield is ~15%, indicating deep value. Post capex, the est. 14% FCF yield in FY18E not only adds to our confidence, but also can lead to a re-rating from our assigned 8x P/E.**

**GHCL is one of the leading manufacturers of soda ash with 23% market share (Nirma 25%, Tata Chem 24%) in India. Captive lignite mining gives it a fuel cost edge over other domestic soda ash producers (can be used when coal prices are higher). It is also backward integrated (with its own limestone reserves), and has briquette making facilities that help overcome spikes in metcoke prices.**

**GHCL's textile arm has shown strong margin expansion (386bps YoY in FY16) owing to traction in the home textiles division (75% of division mix). While spinning (yarn) is a stable business, we believe the home textiles division will improve margins on better overseas order inflows.**

### Investment arguments

- **Cost leadership in high-entry-barrier industry:** GHCL is an Indian soda ash manufacturer (only three major players). Capex for greenfield plants is high (Rs 5bn for 0.1 mn TPA) with <0.5x asset turnover. GHCL operates at industry-leading utilisations and margins *(more on Page 3)*. Soda ash is a cash cow. GHCL's capex outlay of Rs 3.8bn (for 0.1mn TPA, 12%) is value accretive. Our estimates for this division do not assume continuation of anti-dumping duty, which is prevalent now. (5% price cut, see pg 9).
- **Traction in textiles:** GHCL is a late entrant in the home textiles business and is operating at lower EBIT margin vs peers (10% vs. ~21%), owing to its relatively small size and lower utilisations. However, it has secured orders from big players (Target, Revman, etc) in the US and other markets. We expect margins to improve 520bps to 15.5% between FY16 and FY18E on operating leverage.
- **Stronger balance sheet on debt-reduction plan:** With stable operations in soda ash and a jump in textiles, operating cash flows will remain strong. Despite capex, debt repayment over FY17/18E will lead to 0.6x D/E (currently at 1.2x).

### Financial Summary

| YE Mar (Rs mn) | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|
| Revenue | 22,476 | 23,736 | 25,590 | 27,191 | 28,781 |
| EBIDTA | 4,334 | 5,283 | 6,334 | 6,972 | 7,286 |
| Net profit | 1,395 | 2,093 | 2,700 | 3,188 | 3,622 |
| Adj. EPS (Rs.) | 13.0 | 20.1 | 26.6 | 31.9 | 36.2 |
| P/E (x) | 18.0 | 11.6 | 8.8 | 7.3 | 6.5 |
| RoE (%) | 24.2 | 30.8 | 30.8 | 28.6 | 26.0 |

Source: Company, HDFC sec Inst Research

# Contents

*Only three major players are operating in the high-entry-barrier domestic soda ash industry. GHCL is one of the dominant manufacturers with 23% market share*

*Soda ash volume in India is expected to grow at a CAGR of 4% between FY16 and FY18E with continuing demand from detergent and glass manufacturers*

*We believe ADD protection to continue beyond FY18. However, we have factored in 5% drop in realisation in FY18E, considering the worst-case scenario*

# Cost leadership in high-entry-barrier industry

- **Cost leadership in the soda ash market (high-entry barrier as <0.5x asset turns) with in-house availability of key RM.**
- **Highest capacity utilisation in the industry on efficient plant utilisation.**

## Strong market positioning, stable business

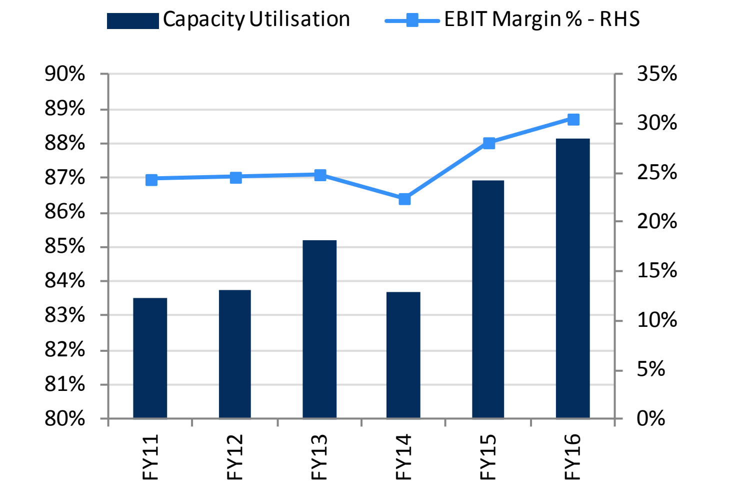
- There are only three domestic major manufacturers of soda ash, and GHCL enjoys 23% market share (58/80% of GHCL's revenue/APAT in FY16). It is one of the leading manufacturers with 0.85mn TPA capacity, while competitors Tata Chemicals and Nirma have 1.0mn and 1.07mn TPA capacities. As demand (4% CAGR in the past four years) is consistently higher than supply (2% CAGR), imports account for ~24% of total consumption.
- 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 has cost leadership (higher EBIT margin by >400bps) with captive availability of raw material (limestone, briquette and lignite) and by optimum utilising its assets.
- GHCL is the only player in the industry to have its own lignite mines. 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.
- Moreover, GHCL is operating at 88% capacity utilisation (vs. industry's ~82%) by keeping its assets efficient. The company incurs an additional Rs 400-500mn every year to increase the plant's efficiencies (process improvement in carbonation tower, innovation in filtration, etc).
- GHCL plans to increase its soda ash capacity by 12% to 0.95mn TPA by FY17E-end (brownfield expansion capex Rs 3.75bn vs. greenfield Rs 5.0bn).
- As soda ash is a high-asset intensive business (very low asset turnover <0.5x) with four years of gestation period (for greenfield plant), entry barriers are high.
- Apart from GHCL, Nirma (brownfield expansion) and RSPL-Ghari (backward integration) are coming up with additional capacities (0.2/0.5mn TPA by FY17-end/FY20E). We don't foresee any over-capacity risk as soda ash demand is expected to grow at 4% CAGR for the next two years.
- We expect GHCL's soda ash revenue to grow at a 2% CAGR over FY16-18E even though we expect a favourable demand scenario and capacity addition. Although we expect continuation of the anti-dumping duty (ADD), we have factored in the worst-case scenario (details on pg 9) and expect realisations to drop 5% YoY in FY18E.
- The brownfield expansion will improve the cost profile further with operating leverage benefit. However, with the expectation of lower realisation, we expect EBIT margin to decline 76bps to ~28% between FY16 and FY18E.

***GHCL is delivering industry-high margins based on highest utilisation***

***The company has cost leadership based on its well-integrated business model and is the only manufacturer with its own lignite mine***

***GHCL is operating at 88% capacity utilisation (at maximum achievable level) compared to industry average of 82% by keeping its plants more efficient***

## GHCL's Capacity Utilisation And EBIT Margin



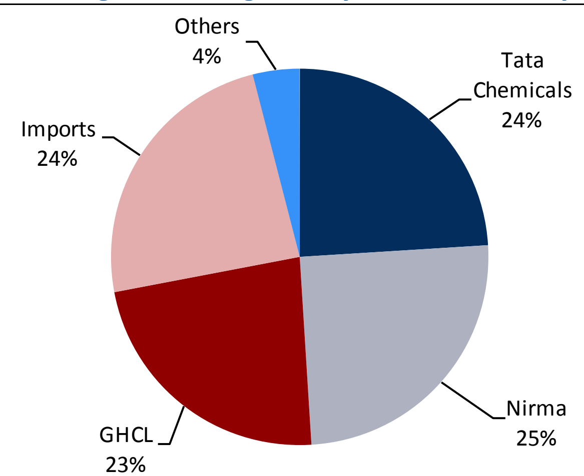

Source: Company, HDFC sec Inst Research

## GHCL's Integrated Model: Captive RM Source

| Soda Ash- Key Input | Use | Captive Sourcing % |
|---|---|---|
| Limestone | Raw material | 33% |
| Salt | Raw material | 49% |
| Briquette | Raw material | 78% |
| Lignite | Utility | 25% |

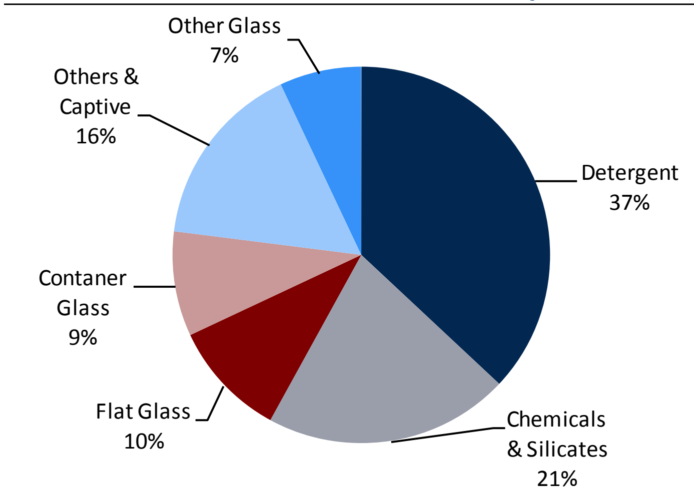
Source: Company, HDFC sec Inst Research

## GHCL Among Few In High-entry-barrier Industry




Source: Company, HDFC sec Inst Research (Market Share)

## Consistent Demand From User Industry




Source: Company, HDFC sec Inst Research

*We expect soda ash's revenue to grow at 2% CAGR between FY16 and FY18E on account of lower realisation following the discontinuation of the ADD benefit (although we believe the benefit will continue)*

*The textile business is expected to show significant improvement in utilisation based on additional orders from existing clients in the US and other markets*

*Incremental soda ash capcity is expected to be complete by FY17 end, however we have assumed additional capacity from the start of FY18E*

*We have factored in a 7% drop (5% proportionately) in FY18's soda ash realisation*

## Industry-high Margin In Soda Ash

| | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|
| **Sales Growth %** | | | | |
| GHCL | 11% | 5% | 12% | 5% |
| Tata Chemicals | 21% | 3% | 9% | 7% |
| DCW | 5% | (3%) | 9% | 1% |
| **EBIT Margin %** | | | | |
| GHCL | 25% | 22% | 28% | 31% |
| Tata Chemicals | 24% | 21% | 24% | 26% |
| DCW | 6% | 18% | 19% | 20% |

Source: Company, HDFC sec Inst Research

## Key Assumptions

| | FY13 | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|---|
| **(1) Inorganic Chemicals** | | | | | | |
| **1 (a) Soda ash** | | | | | | |
| Installed Capacity (MTPA) | 850,000 | 850,000 | 850,000 | 850,000 | 850,000 | 950,000 |
| Sales Volume (MTPA) | 660,955 | 671,194 | 686,000 | 701,423 | 704,209 | 761,721 |
| Net Realisation (US$/tonne) | 300 | 278 | 304 | 291 | 291 | 275 |
| Sales (Rs mn) | 10,767 | 11,283 | 12,747 | 13,357 | 13,727 | 14,051 |
| **1 (b) Others' Sales (Rs mn)** | **1,313** | **1,410** | **1,463** | **1,596** | **1,603** | **1,603** |
| **Inorganic Chemicals Sales (Rs mn)** | **12,080** | **12,694** | **14,210** | **14,953** | **15,330** | **15,654** |
| *YoY %* | *23.9* | *5.1* | *11.9* | *5.2* | *2.5* | *2.1* |
| % of Sales | 57.8 | 56.0 | 59.6 | 58.3 | 56.3 | 54.3 |
| | . | | | | | |
| **(2) Textile** | | | | | | |
| **Sales (Rs mn)** | **8,810** | **9,955** | **9,638** | **10,691** | **11,922** | **13,189** |
| *YoY %* | *13.3* | *13.0* | *(3.2)* | *10.9* | *11.5* | *10.6* |
| % of Sales | 42.2 | 44.0 | 40.4 | 41.7 | 43.7 | 45.7 |

Source: Company, HDFC sec Inst Research Currency assumption- Rs/US$: 67

*GHCL's textile division is operating at a lower margin compared to its relevant competitors mainly based on lower utilisation in the home textile business*

*In FY16, the company has shown strong margin expansion and we expect this to continue with higher utilisation (based on additional orders)*

*India's share in total imports of the US is continuously rising. We believe there is high scope for GHCL in the US, Canada, Europe, etc. markets*

# Traction in textile business

- **Significant presence in the US home textile market.**
- **Huge scope for margin improvement with operating leverage.**

## Margins to improve with higher utilisation

- In FY16, the textile business contributed 42% to revenue and only 22% to EBITDA mainly owing to lower margins compared to the soda ash business. However, the company has shown 170bps improvement in margins in the past two years on account of a change in the product mix (home textile business) and improving utilisation (from 70% to 83%).
- While the yarn business (spinning) is limited to the domestic market, the home textiles business (70% contribution in textiles) is mainly exports (>95%). India has an edge over other countries in executing small quantity orders at competitive prices, while Chinese manufacturers focus on bulk orders. The US and other developed countries' private label brands offer huge outsourcing opportunity for Indian home textile manufacturers.
- India's share in total home textile imports in the US is on the rise (from 22% to 48% between 2008 and 2015). Although GHCL has significant exposure in the US (accounted for 72% in GHCL's exports), it contributes only 8% to India's export to the US, followed by Alok Textiles/Welspun India/Indocount (34/25/20% share).
- We believe GHCL has a strong backward integrated business model for cotton sheets (in-house spinning, weaving and processing facilities). Other markets such as Israel, Saudi Arabia and Australia are also providing new opportunities for the company.
- GHCL is expected to get additional orders from existing clients in the US, and the home textile division's capacity utilisation will improve from 83% to 93% between FY16 and FY18E. We estimate textile business' sales to grow at a CAGR of 11% over FY16-18E.

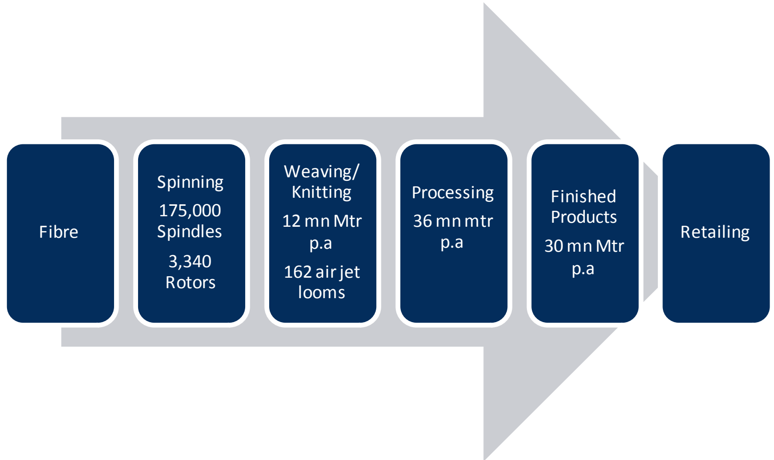
**US' Country Wise Bed Sheet Imports**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| India (US $ mn) | 311 | 313 | 472 | 531 | 638 | 715 | 699 | 724 |
| Share (%) | 22% | 26% | 32% | 38% | 45% | 46% | 47% | 48% |
| China (US $ mn) | 495 | 352 | 438 | 329 | 309 | 369 | 349 | 348 |
| Share (%) | 35% | 29% | 30% | 23% | 22% | 24% | 23% | 23% |
| Pakistan (US $ mn) | 347 | 314 | 315 | 319 | 264 | 276 | 254 | 254 |
| Share (%) | 24% | 26% | 22% | 23% | 19% | 18% | 17% | 17% |
| Bahrain (US $ mn) | 32 | 40 | 41 | 62 | 50 | 42 | 45 | 50 |
| Share (%) | 2% | 3% | 3% | 4% | 4% | 3% | 3% | 3% |
| Turkey (US $ mn) | 45 | 44 | 45 | 35 | 50 | 46 | 49 | 41 |
| Share (%) | 3% | 4% | 3% | 2% | 4% | 3% | 3% | 3% |
| RoW (US $ mn) | 199 | 142 | 146 | 127 | 112 | 110 | 105 | 98 |
| Share (%) | 14% | 12% | 10% | 9% | 8% | 7% | 7% | 6% |

Source: Company, HDFC sec Inst Research

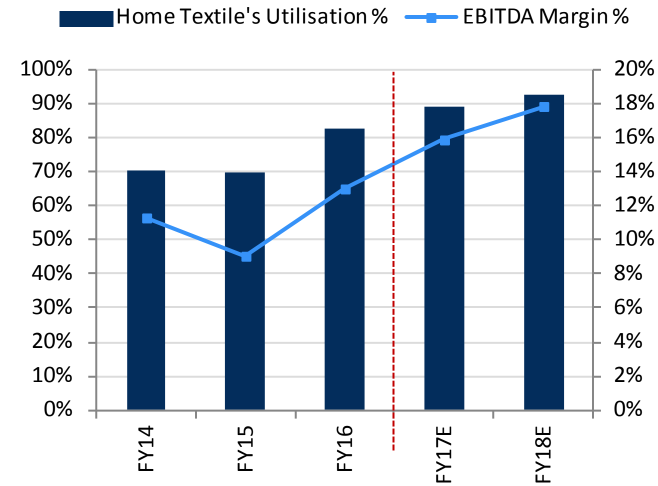
*GHCL has a well-integrated model for the textile business. We expect operating leverage benefit from the home textile business to improve overall margins*

## GHCL's Textile Value Chain




Source: Company, HDFC sec Inst Research

## Higher Utilisation To Lead To Higher Margins




Source: Company, HDFC sec Inst Research

*GHCL has shown significant margin improvement in FY16 based on higher capacity utilisation (from 70% in FY15 to 83%). Other key competitors operated at 2x margin on higher utlisation of >90%. We believe the scope of improvement in margin for GHCL is huge with increasing utilisation*

## Scope For Margin Improvement

| | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|---|---|---|---|---|
| **Sales Growth %** | | | | | |
| GHCL | 53% | 24% | 13% | (3%) | 11% |
| Welspun India | 52% | 13% | 20% | 21% | 13% |
| Indo Count | 10% | 52% | 24% | 17% | 27% |
| **EBIT Margin %** | | | | | |
| GHCL | 4% | 5% | 8% | 6% | 10% |
| Welspun India | 9% | 14% | 8% | 20% | 21% |
| Indo Count | 6% | 9% | 12% | 17% | 21% |

Source: Company, HDFC sec Inst Research

*After paying all the debts and taking write-off for loss-making subsidiaries, GHCL now plans to improve its leverage position*

*GHCL has planned to pre-pay its high-cost debt, which will ease the interest payment burden*

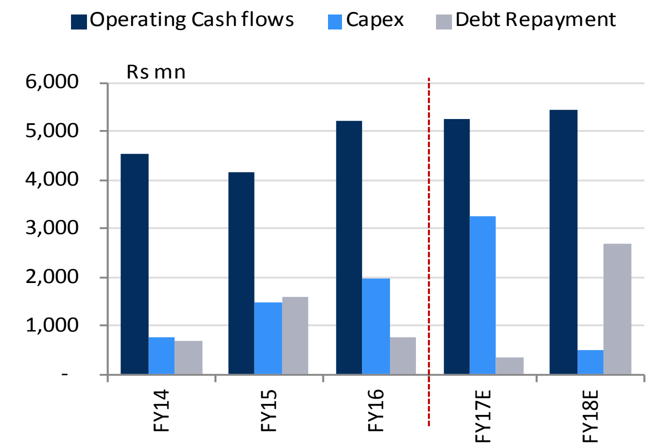
# Worst is behind – debt reduction plan on cards

- **GHCL has shut down all major overseas subsidiaries.**
- **The management's focus on debt reduction plan to improve leverage position.**
- **Pre-payment of high-cost debt to reduce cost of interest.**

## Leverage position to improve on strong OCF

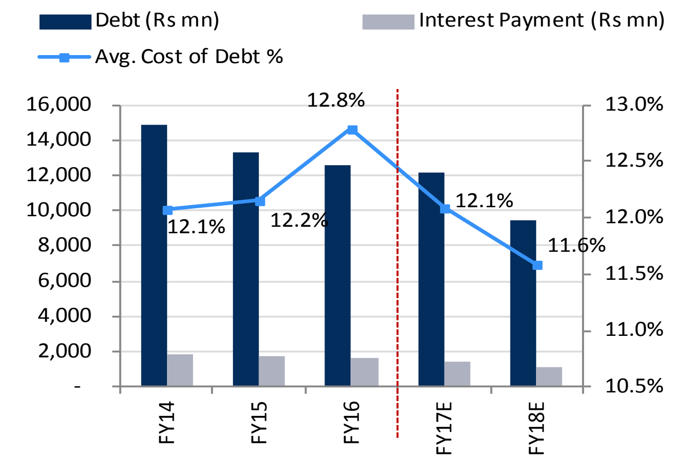
- GHCL had raised foreign currency debt of US$ 188mn (US$ 80mn FCCB, US$ 67mn from Exim Bank, US$ 41mn from Deutsche Bank) for acquiring three textile and one soda ash companies overseas during FY05-07. However, the FY08-09 economic crisis struck turning these acquisitions into duds. The company took prompt action to focus on core business and shut down these businesses by FY11. The company paid off the entire debt and took a write-off for it (~Rs 14bn).
- GHCL has a healthy operating profile in the soda ash business. The textile business is now showing traction with additional orders from existing clients. <u>We expect GHCL's operating cash flow (OCF) to remain strong and the company will focus on its debt repayment (D/E at 1.2x in FY16)</u>. We expect the company will start repaying its debt by using its strong cash flows (already allocated Rs 680mn for prepayment in 1QFY17). <u>We believe the company will pre-pay a significant portion in FY18E as it plans to incur the remaining capex for soda ash in FY17E</u>.
- GHCL is paying higher interest (~12.5%) on term loans (accounts for ~20% in total debt). We believe that the blended interest rate will come down on pre-payment of term loans in the next two years.

**GHCL's Operating Cash Flows**




Source: Company, HDFC sec Inst Research

**Interest Burden to Reduce On Debt Repayment**




Source: Company, HDFC sec Inst Research

*Currently, domestic soda ash manufacturers enjoy the protection by ADD (valid till Jul-17). We believe this protection will continue. However, we have conservatively factored in worst possible realisation in our estimates*

*Being conservative, we have assumed the maximum destruction in our estimates; we have taken China's price to expect the worst possible outcome*

# Impact of removal of anti-dumping duty

- **Protection to domestic soda ash industry:** Currently, the domestic soda ash industry is protected by the anti-dumping duty (ADD). This protection is available till Jul-17.
- **Our expectation:** With continuing protection to the domestic fluorine and rubber chemical sectors, the government seems to be favouring the Make in India programme for the chemical sector. Further, Gujarat accounts for ~95% of the total soda ash production in India. This gives us confidence that the protection to the domestic industry will continue.
- **Conservative realisation:** Although we don't expect ADD to be removed completely, we have nevertheless carried out a scenario analysis in case of discontinuation. **Conservatively, we have taken a 5% drop in soda ash realisation in FY18E.**
- Currently, imports account for ~24% of total consumption in India. Imports serve the coastal markets in South and East, as Indian manufacturers with facilities in West have to bear huge logistics cost.
- As logistics cost is very high, soda ash has remained mostly a domestic commodity and exports out of the country are limited. China accounts for ~50% (32mn TPA) of the world's soda ash capacity (67mn TPA) and its exports are less than 10%. Thus, we believe the destruction in price and volume will be limited.

| Maximum Possible Destruction in FY18 | US$/ton |
|---|---|
| Current China's Price | 195 |
| Freight & Insurance Cost | 15 |
| China's Price in India | 210 |
| Import Duty, CVD, SAD, Cess# | 263 |
| Clearing & Port Charges | 20 |
| Current anti-dumping duty (China) | 36 |
| Landed Price | 319 |
| Current Domestic Price* | 304 |
| **Price on removal of full anti-dumping duty** | **283** |
| Maximum Destruction | (7.2%) |

Source: Company, HDFC sec Inst Research
*Considered Rs 67/US$, #7.5% Import duty, 12.5% CVD, 4% SAD

| Country of Origin | Duty (US$/ton) | Applicable till |
|---|---|---|
| US | 38.79 | Jul-17 |
| China | 36.26 | Jul-17 |
| Iran | 28.86 | Jul-17 |
| Kenya | 20.35-28.86 | Jul-17 |
| Ukraine | 15.64 | Jul-17 |
| European Union | 9.17 | Jul-17 |
| Pakistan | 2.38-10.34 | Jul-17 |
| Russia | 35.99 | Apr-18 |
| Turkey | 18.39-21 | Apr-18 |

Source : Company, HDFC sec Inst Research

# Why we like GHCL

*We have given a TP of Rs 290 based on 8x its FY18E earnings*

- Our confidence in GHCL's management is improving, as it is taking some conscious decisions that can benefit the company and its stakeholders. To regain the stakeholders' faith, the company has changed its external auditor (from Jayantilal Thakkar & co. to SR Batliboi-E&Y and continued with Rahul Gautam Divan & Asso.) and adopted a dividend policy (15-20% dividend payout). It has also announced an ESOP plan.
- The company has strong operating cash flows and plans to utilise them to improve its leverage position by prepaying its high cost debt.
- GHCL's textile division is delivering thin margins (half of relevant industry players). However, the home textile business is showing traction from the export markets and we expect margins to improve significantly (520bps between FY16 and FY18E) with operating leverage benefit and cost reduction measures.
- **The stock is currently available at ~8x our FY18 earnings estimates**, which is attractive considering GHCL's (1) Improving confidence on the management and the soda ash business, (2) Traction in the textile business, (3) Debt reduction plan, and (4) Healthy margins, coupled with strong return ratios, ~30% RoE. **We have valued the stock at 8x FY18E EPS (implies PEG ratio 0.5x in the next two years and 5.2x FY18E implied EV/EBITDA).**

| Valuation | FY18E |
|---|---|
| **GHCL** | |
| EPS | 36.2 |
| CAGR in EPS (FY16-18E) | 17% |
| Implied P/E | 6.5 |
| Assigned P/E | 8 |
| **Target Price** | **290** |
| (Implied PEG Ratio 0.5x) | |
| CMP | 234 |
| Upside Potential (%) | 24% |

Source: HDFC sec Inst Research

*The removal of ADD is a major risk for the soda ash business (we have incorporated this risk in our numbers). While, currency risk is applicable to the textile business, regulatory risk (incentive/duties) is applicable to both businesses*

## Key risks

- **Removal of anti-dumping duty**: The domestic soda ash industry currently enjoys protection of the anti-dumping duty on various countries. This protection is available till Jul-17/Apr-18 depending on each country. The discontinuation of the protection may put pressure on realisation.
- **Forex risk**: The company generates significant revenue from the export markets in the home textile business and is exposed to currency risk. Any appreciation in domestic currency will be a negative for GHCL. Further, in the home textile business, GHCL's export is mostly concentrated to the US market (72% of exports). A slowdown in the US economy can affect GHCL's volume and margins.
- **Regulatory risk**: The textile sector gets export incentives (total 9% duty drawback including other benefits). There is a concern that support may be taken away by the government. In addition, the company has to pay royalties and other duties on using captive mines for the soda ash business which the government may increase in the future.
- **Reserves for key raw materials:** GHCL has captive mines of lignite and limestone. It is expected to have reserves of nearly 7-8 years considering current consumption levels. We believe the company will have to participate in auctions to acquire limestone and lignite assets.

### Peer Valuation

| | Mcap (Rs bn) | CMP (Rs/sh) | Rating | TP (Rs/sh) | EPS | | | PE | | | P/BV | | | ROE | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | FY16 | FY17E | FY18E | FY16 | FY17E | FY18E | FY16 | FY17E | FY18E | FY16 | FY17E | FY18E |
| **Agrochemicals** | | | | | | | | | | | | | | | | |
| Dhanuka Agritech | 32.0 | 639 | BUY | 700 | 20.8 | 26.3 | 35.0 | 30.7 | 24.3 | 18.3 | 6.7 | 5.6 | 4.6 | 23.3 | 25.0 | 27.6 |
| Insecticides India | 9.8 | 473 | BUY | 535 | 19.0 | 26.0 | 33.5 | 24.9 | 18.2 | 14.1 | 2.4 | 2.1 | 1.9 | 11.2 | 12.4 | 14.2 |
| PI Industries | 108.0 | 790 | BUY | 830 | 23.1 | 26.9 | 33.2 | 34.2 | 29.4 | 23.8 | 9.2 | 7.3 | 5.8 | 30.5 | 27.8 | 27.4 |
| Rallis India | 42.9 | 220 | BUY | 250 | 7.1 | 9.8 | 12.5 | 31.0 | 22.4 | 17.6 | 4.8 | 3.8 | 3.4 | 16.1 | 18.8 | 20.2 |
| UPL | 265.9 | 620 | NEU | 625 | 31.8 | 35.3 | 43.5 | 19.5 | 17.6 | 14.3 | 3.9 | 3.3 | 2.8 | 21.6 | 20.5 | 21.3 |
| **Fertilisers** | | | | | | | | | | | | | | | | |
| Chambal Fertilisers | 27.4 | 66 | BUY | 76 | 9.9 | 8.9 | 9.5 | 6.7 | 7.4 | 7.0 | 1.2 | 1.0 | 0.9 | 17.8 | 14.7 | 14.1 |
| Coromandel Int | 74.6 | 263 | BUY | 260 | 11.8 | 15.4 | 21.7 | 22.3 | 17.1 | 12.1 | 3.2 | 2.8 | 2.5 | 14.9 | 17.5 | 21.7 |
| **Chemicals** | | | | | | | | | | | | | | | | |
| **GHCL** | **23.4** | **234** | **BUY** | **290** | **26.6** | **31.9** | **36.2** | **8.8** | **7.3** | **6.5** | **2.4** | **1.9** | **1.5** | **30.8** | **28.6** | **26.0** |
| Navin Fluorine | 22.9 | 2,343 | BUY | 2,700 | 85.3 | 100.8 | 135.0 | 27.5 | 23.3 | 17.4 | 3.6 | 3.2 | 2.8 | 13.5 | 14.5 | 17.3 |
| SRF Ltd | 89.7 | 1,562 | NEU | 1,490 | 73.1 | 93.3 | 106.5 | 21.4 | 16.7 | 14.7 | 3.4 | 2.9 | 2.5 | 16.9 | 18.5 | 18.1 |
| Tata Chemicals* | 126.0 | 504 | UR | N.A. | 30.6 | 39.5 | 43.5 | 16.5 | 12.8 | 11.6 | 2.0 | 1.9 | 1.7 | 13.1 | 15.5 | 15.6 |
| Vinati Organics | 27.0 | 523 | BUY | 705 | 19.4 | 23.8 | 33.2 | 27.0 | 22.0 | 15.8 | 5.0 | 4.2 | 3.5 | 20.5 | 20.9 | 24.3 |

Source: HDFC sec Inst Research   *Bloomberg data for Tata Chemicals

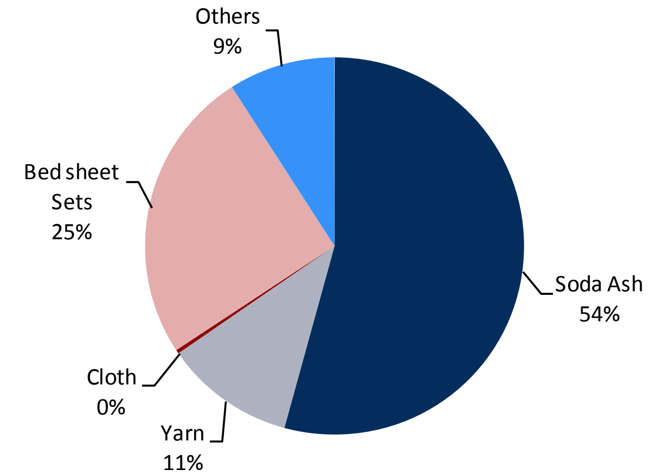
*GHCL has two segments. It generates 54% revenue from the soda ash business and the rest from the textile business*

*Home textile accounts for ~70% of the textile business where we expect significant improvement*

# Company background

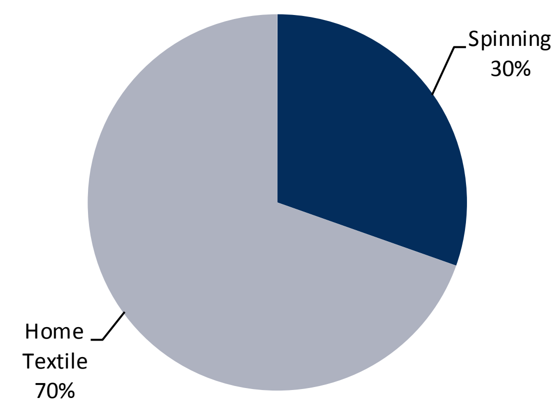
- GHCL (previously known as Gujarat Heavy Chemicals) is among the few soda ash manufacturers (23% market share) in India. It has a well-integrated model for its soda ash business (accounted for 54% revenue in FY16).
- The company has a textile business (37% contribution), which includes yarns and home textile (bed sheets). GHCL is focusing on improving the overall product mix and thereby, margins.
- GHCL has one soda ash plant in Gujarat and one salt refineries in Tamil Nadu. For its textile business, the company has a total of three plants (two in Tamvqail Nadu and one in Gujarat).
- The company is an established manufacturer in the domestic soda ash industry (nearly three decades of experience). GHCL entered the textile business in 2001. In addition, the company also manufactures edible salt and sells honey (white labeling).

**GHCL's Product-wise Revenue Break-up (FY16)**




Source: Company, HDFC sec Inst Research

**GHCL's Textile Segment's Product Mix (FY16)**




Source: Company, HDFC sec Inst Research

## Management Profile

| Name | Category/Designation | Professional Details |
|---|---|---|
| Sanjay Dalmia | Promoter, Non-executive Chairman | He is an eminent Industrialist and an ex-member of Rajya Sabha. |
| Anurag Dalmia | Promoter, Non-executive Director | He is an eminent industrialist and had also represented PHD Chambers of Commerce and Industry and Confederation of Indian Textile Industry. |
| Neelabh Dalmia | Promoter, Non-executive Director | He is Bachelor of Science in business from Kelley School of Business, Bloomington, Indiana, with majors in finance and entrepreneurship. He had also completed his MBA from Kelley School of Business, Indiana University, USA. |
| Padma Vinod Betai | Nominee Director | She is a nominee director of the company representing IDBI Bank Limited. |
| Dr. B C Jain | Non-Executive Independent Director | Dr. Jain is LL.B, ACCS, Ph. D. and fellow member of Institute of Chartered Accountants of India (ICAI). His area of specialisation is finance, banking and accounting. |
| R S Jalan | Managing Director Executive | He is a graduate in commerce and fellow member of Institute of Chartered Accountants of India. He has experience in corporate finance and textiles business. Mr. R S Jalan has more than three decades of industrial experience. |
| Raman Chopra | CFO & Executive Director | He is a Qualified CA with sharp financial acumen and a great passion for technological advancements and specialisation in Greenfield expansion. |

Source: Company, HDFC sec Inst Research

## Income Statement

| Year ending Mar (Rs mn) | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|
| **Net Revenues** | **22,476** | **23,736** | **25,590** | **27,191** | **28,781** |
| ***Growth (%)*** | ***(1.2)*** | ***5.6*** | ***7.8*** | ***6.3*** | ***5.8*** |
| Material Expenses | 8,730 | 9,214 | 9,520 | 10,382 | 11,503 |
| Employee Expenses | 1,220 | 1,263 | 1,346 | 1,428 | 1,508 |
| Other Expenses | 8,192 | 7,977 | 8,390 | 8,409 | 8,483 |
| **EBITDA** | **4,334** | **5,283** | **6,334** | **6,972** | **7,286** |
| ***EBITDA Margin (%)*** | ***19.3*** | ***22.3*** | ***24.8*** | ***25.6*** | ***25.3*** |
| ***EBITDA Growth (%)*** | ***6.6*** | ***21.9*** | ***19.9*** | ***10.1*** | ***4.5*** |
| Depreciation | 817 | 849 | 817 | 848 | 893 |
| **EBIT** | **3,517** | **4,434** | **5,516** | **6,124** | **6,393** |
| Other Income (Incl. EO Items) | 50 | 113 | 54 | 54 | 54 |
| Interest | 1,832 | 1,704 | 1,644 | 1,466 | 1,093 |
| **PBT** | **1,735** | **2,842** | **3,926** | **4,712** | **5,354** |
| Tax (Incl Deferred) | 340 | 749 | 1,226 | 1,524 | 1,732 |
| **RPAT** | **1,085** | **1,819** | **2,565** | **3,188** | **3,622** |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Extraordinary Items | (310) | (274) | (135) | - | - |
| **APAT** | **1,395** | **2,093** | **2,700** | **3,188** | **3,622** |
| ***APAT Growth (%)*** | ***12.2*** | ***50.0*** | ***29.0*** | ***18.1*** | ***13.6*** |
| **Adjusted EPS (Rs)** | **13.0** | **20.1** | **26.6** | **31.9** | **36.2** |
| ***EPS Growth (%)*** | ***20.1*** | ***54.4*** | ***32.3*** | ***19.9*** | ***13.6*** |

Source: Company, HDFC sec Inst Research

## Balance Sheet

| Year ending Mar (Rs mn) | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|
| **SOURCES OF FUNDS** | | | | | |
| Share Capital - Equity | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Reserves | 4,873 | 6,701 | 8,857 | 11,469 | 14,437 |
| **Total Shareholders' Funds** | **5,873** | **7,702** | **9,857** | **12,469** | **15,437** |
| **Total Debt** | **14,874** | **13,282** | **12,530** | **12,180** | **9,480** |
| Long term Provisions & Others | 1,637 | 1,765 | 2,004 | 2,004 | 2,004 |
| **TOTAL SOURCES OF FUNDS** | **22,384** | **22,749** | **24,391** | **26,653** | **26,921** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block | 18,694 | 19,339 | 20,492 | 22,894 | 22,501 |
| CWIP | 125 | 70 | 369 | 369 | 369 |
| Investments | 75 | 15 | 16 | 16 | 16 |
| LT Loans & Advances | 238 | 131 | 413 | 413 | 413 |
| Other Assets | 5 | 5 | 4 | 4 | 4 |
| **Total Non-current Assets** | **19,136** | **19,560** | **21,293** | **23,695** | **23,302** |
| Inventories | 5,439 | 4,874 | 5,033 | 5,263 | 5,571 |
| Debtors | 3,812 | 2,444 | 1,924 | 2,320 | 2,456 |
| Other Current Assets | - | - | - | - | - |
| Cash & Equivalents | 417 | 339 | 427 | 25 | 515 |
| Short Term Loans & Advances | 1,336 | 1,298 | 829 | 1,130 | 1,196 |
| **Total Current Assets** | **11,004** | **8,954** | **8,213** | **8,739** | **9,738** |
| Creditors | 5,576 | 3,919 | 3,152 | 3,757 | 3,976 |
| Other Current Liabilities & Provns | 2,180 | 1,846 | 1,964 | 2,024 | 2,142 |
| **Total Current Liabilities** | **7,756** | **5,765** | **5,116** | **5,781** | **6,119** |
| **Net Current Assets** | **3,248** | **3,189** | **3,098** | **2,958** | **3,619** |
| **TOTAL APPLICATION OF FUNDS** | **22,384** | **22,749** | **24,391** | **26,653** | **26,921** |

Source: Company, HDFC sec Inst Research

## Cash Flow Statement

| Year ending Mar (Rs mn) | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|
| Reported PBT | 1,735 | 2,842 | 3,926 | 4,712 | 5,354 |
| Non-operating & EO items | 267 | (40) | (104) | - | - |
| Interest expenses | 1,834 | 1,713 | 1,664 | 1,466 | 1,093 |
| Depreciation | 817 | 849 | 817 | 848 | 893 |
| Working Capital Change | 243 | (580) | (93) | (262) | (171) |
| Tax Paid | (374) | (625) | (986) | (1,524) | (1,732) |
| **OPERATING CASH FLOW ( a )** | **4,522** | **4,160** | **5,225** | **5,240** | **5,437** |
| Capex | (844) | (1,324) | (2,499) | (3,250) | (500) |
| *Free cash flow (FCF)* | 3,678 | 2,836 | 2,726 | 1,990 | 4,937 |
| Investments | (6) | 41 | 3 | - | - |
| Non-operating Income | (317) | 9 | 6 | - | - |
| **INVESTING CASH FLOW ( b )** | **(1,167)** | **(1,274)** | **(2,491)** | **(3,250)** | **(500)** |
| Debt Issuance/(Repaid) | (1,139) | (1,069) | (714) | (350) | (2,700) |
| Interest Expenses | (1,856) | (1,661) | (1,664) | (1,466) | (1,093) |
| *FCFE* | 683 | 106 | 348 | 174 | 1,144 |
| Share Capital Issuance | - | - | - | - | - |
| Dividend | (233) | (234) | (268) | (576) | (654) |
| **FINANCING CASH FLOW ( c )** | **(3,228)** | **(2,964)** | **(2,647)** | **(2,392)** | **(4,447)** |
| **NET CASH FLOW (a+b+c)** | **126** | **(78)** | **87** | **(402)** | **490** |
| EO Items, Others | | | | | |
| **Closing Cash & Equivalents** | **417** | **339** | **427** | **25** | **515** |

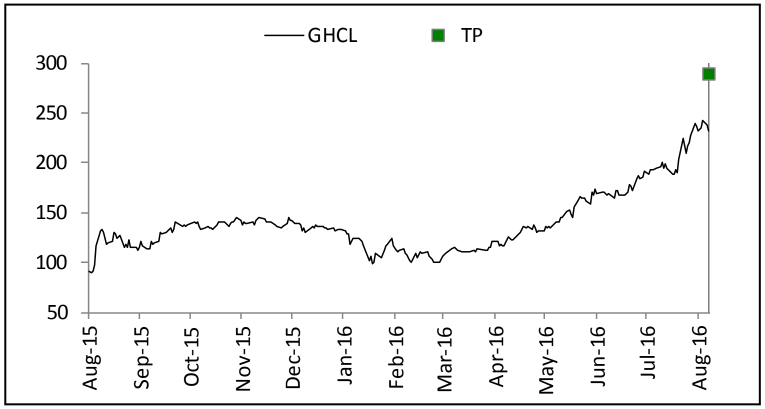
Source: Company, HDFC sec Inst Research

## Key Ratios

| | FY14 | FY15 | FY16 | FY17E | FY18E |
|---|---|---|---|---|---|
| **PROFITABILITY (%)** | | | | | |
| GPM | 61.2 | 61.2 | 62.8 | 61.8 | 60.0 |
| EBITDA Margin | 19.3 | 22.3 | 24.8 | 25.6 | 25.3 |
| APAT Margin | 6.2 | 8.8 | 10.6 | 11.7 | 12.6 |
| RoE | 24.2 | 30.8 | 30.8 | 28.6 | 26.0 |
| RoIC (or Core RoCE) | 12.8 | 14.9 | 16.6 | 16.7 | 16.6 |
| RoCE | 12.5 | 14.5 | 16.1 | 16.2 | 16.1 |
| **EFFICIENCY** | | | | | |
| Tax Rate (%) | 19.6 | 26.4 | 31.2 | 32.3 | 32.3 |
| Fixed Asset Turnover (x) | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| *Inventory (days)* | *79.4* | *79.3* | *70.7* | *69.1* | *68.7* |
| *Debtors (days)* | *54.2* | *48.1* | *31.1* | *28.5* | *30.3* |
| *Other Current Assets (days)* | - | - | - | - | - |
| *Payables (days)* | *83.7* | *73.0* | *50.4* | *46.4* | *49.0* |
| *Other Current Liab & Provns (days)* | *27.4* | *31.0* | *27.2* | *26.8* | *26.4* |
| *Cash Conversion Cycle (days)* | *22.6* | *23.4* | *24.2* | *24.5* | *23.5* |
| Debt/EBITDA (x) | 3.4 | 2.5 | 2.0 | 1.7 | 1.3 |
| Net D/E (x) | 2.5 | 1.7 | 1.2 | 1.0 | 0.6 |
| Interest Coverage (x) | 1.9 | 2.6 | 3.4 | 4.2 | 5.9 |
| **PER SHARE DATA (Rs)** | | | | | |
| EPS | 13.0 | 20.1 | 26.6 | 31.9 | 36.2 |
| CEPS | 22.1 | 29.4 | 35.2 | 40.3 | 45.1 |
| Dividend | 2.0 | 2.0 | 2.0 | 4.8 | 5.4 |
| Book Value | 58.7 | 77.0 | 98.5 | 124.7 | 154.3 |
| **VALUATION** | | | | | |
| P/E (x) | 18.0 | 11.6 | 8.8 | 7.3 | 6.5 |
| P/BV (x) | 4.0 | 3.0 | 2.4 | 1.9 | 1.5 |
| EV/EBITDA (x) | 8.2 | 6.7 | 5.6 | 5.1 | 4.9 |
| EV/Revenues (x) | 1.6 | 1.5 | 1.4 | 1.3 | 1.2 |
| OCF/EV (%) | 12.7 | 11.7 | 14.7 | 14.8 | 15.3 |
| FCF/EV (%) | 10.4 | 8.0 | 7.7 | 5.6 | 13.9 |
| FCFE/Mkt Cap (%) | 2.9 | 0.5 | 1.5 | 0.7 | 4.9 |
| Dividend Yield (%) | 0.9 | 0.9 | 0.9 | 2.0 | 2.3 |

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY




| Date | CMP | Reco | Target |
|---|---|---|---|
| 11-Aug-16 | 234 | BUY | 290 |

**Rating Definitions**

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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