

GHCL LTD
MANAGEMENT VISIT NOTE

Industry	Chemicals
Bloomberg	GHCL:IN
BSE Code	500171
NSE Code	GHCL

Friday, June 29, 2018
RATING NOT RATED

CMP	267
Price Target	NA
Previous Target	NA
Potential Upside	NA

Stock Info

52wk Range H/L	357/204
Mkt Capital (Rs Cr)	2,598
Free float (%)	81%
Avg. Vol 1M (,000)	189
No. of Shares	10
Promoters Pledged	0%

Slated to be single largest soda ash plant at one location in India

We met the management of GHCL Limited on 27th June, 2018. GHCL has primarily two business verticals viz. Inorganic Chemicals(64% of FY18 revenue) and Textiles(36% of FY18 revenue). The company is among top 3 Soda-Ash players in the country with 27% market share held by Nirma, 25% by GHCL and 20% by TATA Chemical. Within the chemicals business, apart from Soda-Ash business, the company is also present in the business of Sodium Bicarbonate and consumer products like salt, honey and spices. In the Textiles business, Home Textiles division accounts for ~70% of Textile revenue of which 95% is derived from exports and the Spinning division accounts for ~30% which is primarily restricted to the domestic market. In the meet, the management gave us an elaborative understanding of the business and its future growth prospects.

Key takeaways from the meet:
Focus on capacity expansion of Soda-Ash business to continue

The company currently has capacity of 9.75 lakh MT with highest capacity utilisation of 97% which is a benchmark for the industry. The company looks to expand its capacity by 1.25 lakh brownfield expansion at a cost of Rs 300 crores by 2019, 1.25 lakh brownfield expansion at a cost of 300 crores by 2020 and a Greenfield inorganic expansion of 5 lacs MT by 2022 at a cost of Rs 60k/tonne. The capacity utilisation average in India stands at 90% while globally at 88-90%. The new brownfield capacity will be 90% saleable post 5% internal consumption and will have EBITDA margin above 50% as it will not lead to any increase in fixed costs. The company intends to fund this capex through internal accruals and is willing to take debt upto Debt-to-Equity ratio of 1.

Demand and Supply Scenario to be favorable:

Soda-Ash market size was 3.75 mn MT in India last year and grew at a buoyant rate of 11%. The domestic market share is predominantly ruled by the aforementioned top three companies accounting for 72% of the domestic demand. While GHCL has been expanding, its two major competitors viz. TATA Chemicals is focusing more on the consumer products business while NIRMA recently acquired cement business in India of LAFARGE. Also, the global chemical markets have benefitted with the restrictions taken by China on its Chemical industries in the recent past which is yet to happen with Soda-Ash. In China, 14 mn MT is produced through HOU process and 6 mn MT are produced in cities belonging in environmental concerns list. Due to all these factors, management expects buoyancy to continue for the industry as well as the company.

Textile industry prospects to improve going ahead

In FY18, the home textile industry faced various challenges like oversupply situation in USA resulting in the drop in the prices as well as margin, impact of GST and demonetisation, reduction in duty drawback etc. However, the management expects that a huge improvement in the proliferation of business across geographies is due in times to come and have altered its focus to work around sustainability and innovation to capitalize on the opportunity. Also the overall yarn market has started to show buoyant demand with positive indications from export market as well.

Head Of Research
Vineeta Sharma
Research Analyst
Pratik Poddar

KEY FINANCIAL/VALUATIONS	FY14	FY15	FY16	FY17	FY18
Net Sales	2229	2385	2564	2791	2942
EBITDA	433	534	635	724	649
EBIT	2461	3226	3547	4270	5387
PAT	116	183	257	387	364
EPS (Rs)	12	18	26	39	37
EPS growth (%)	4	58	40	51	-4
ROE (%)	14	23	25	29	22
ROCE (%)	15	19	22	21	17
BV	86	80	103	136	167
P/B (X)	0	1	1	2	2
P/E (x)	3	3	4	7	7

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