

Result Update

GHCL

PRICE Rs.258

TARGET Rs.272

ACCUMULATE

Stock Details

Market cap (Rs mn)	:	24997
52-wk Hi/Lo (Rs)	:	301 / 189
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	137,952
Shares o/s (mn)	:	98

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	33,413	36,413	38,868
Growth (%)	13.5%	9.0%	6.7%
EBITDA	7,594	8,280	8,439
EBITDA margin (%)	22.7	22.7	21.7
PAT	3,506	4,295	4,456
EPS	35.8	43.8	45.5
EPS Growth (%)	(1.6)	22.5	3.8
BV (Rs/share)	196	234	274
Dividend/share (Rs)	5.0	5.0	5.0
ROE (%)	18.2	18.7	16.6
ROCE (%)	20.0	19.4	18.2
P/E (x)	7.2	5.9	5.7
EV/EBITDA (x)	4.7	4.3	4.1
P/BV (x)	1.3	1.1	0.9

Source: Company, Capitaline

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	18.9	18.9	18.9
FII	16.3	16.3	16.4
DII	15.3	15.3	14.9
Others	49.2	49.2	48.8

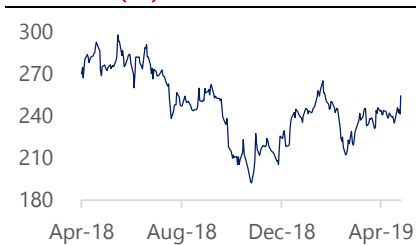
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
GHCL Ltd	9.8	1.6	32.6
Nifty	1.8	8.4	16.5

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

GHCL's Q4FY19 numbers were above our estimates on all parameters. Soda Ash segment continued with its strong performance, supported by tight demand supply in the domestic market resulting in outperformance. Strong operating performance, led to 44.3% YoY and 15.7% QoQ jump in PAT to Rs1.19 bn (vs estimates of Rs1.1 bn).

Key Highlights

- The Inorganic chemical segment (excluding trading sales) reported 40% EBITDA margin vs 35.7% in 3QFY19 and 37% in 4QFY18. The sequential jump in operating performance was driven by higher volume and firm realisation due to tight demand supply in the domestic market. The company accounts for 25% of the market share and expect to increase by another 100bps by end of FY21E.
- Backed by changes in customer mix, the textile segment EBITDA during the quarter stood at Rs290 mn, with an EBITDA margin of 9.5% (declined 100 bps QoQ). FY19 EBITDA stood at Rs700 mn. We expect the textile segment to report net sales of Rs1.3 bn and EBITDA of Rs1 bn due to higher spreads in spinning supported by better pricing and favorable dollar rate.
- As per the management, domestic soda ash market is expected to witness tight demand-supply situation in the coming quarters, as the incremental supply from RSPL (200kt) and Nirma (100kt), are getting delayed. We believe, the good quality supply from competitors, can weigh on soda ash prices in 2HFY20, as a result, we expect EBITDA/t to remain at Rs7,000 in FY20E as against Rs7,500-Rs8,000 reported in FY19.
- Management expects the global market to grow at 2% annually, creating incremental demand of 1.2MT. Demand supply is expected to remain balanced, with lower volume from China due to maintenance shutdown and subdued demand. U.S production at normal levels, with steady domestic consumption in the U.S and exports.
- As per IHS Markit Feb'2019 release, contract negotiations for 2019 have concluded with significant price increases reported in all regions. Other than reports of small pockets of tightness, most market participants report that the global soda ash market is well balanced.
- Factoring Q4FY19 performance, we have revised our EPS estimates for FY20E higher to Rs43.8 (earlier Rs41.6) and introducing FY21E with an EPS of Rs45.5.

Valuation & outlook

Given the tight supply in the domestic market and balanced global market, GHCL is confident about the prospects for the Soda Ash segment. We expect soda ash business to deliver strong performance going ahead, backed by contribution from 1.25LT brownfield expansion. However, benefit of the same might get partly offset by subdued realisation due to incremental supply in 2HFY20. The recovery in textile business is expected over the medium to long term, which shall support the earnings. At CMP, the stock is trading at 5.9x/5.7x FY20E/FY21E earnings. We maintain our Accumulate rating, with a revised target price of Rs272 (earlier Rs270), as we roll forward our multiple 6x (earlier 6.5x) to FY21E earnings.

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Quarterly performance table

Particulars (Rs Mn)	4QFY19	4QFY18	% YoY	3QFY19	% QoQ
Sales	9,113	7,287	25.1	8,699	4.8
Cost of Material consumed	3,871	2,865		3,751	
Utility Cost	1,369	1,021		1,347	
Man Power Cost	463	456		529	
Other Operating Expenses	1,028	1,135		1,016	
EBITDA	2,381	1,810	31.6	2,056	15.8
EBITDA Margin%	26.1	24.8		23.6	
Depreciation	301	340		289	
EBIT	2,081	1,470		1,767	
Interest	305	307		272	
Other Income	33	39		46	
Exceptional	0	0		0	
Profit before Tax	1,808	1,202		1,542	
Tax	623	381		517	
Profit after Tax	1,186	822	44.3	1,025	15.7
PAT %	13.0	11.3		11.8	

Source: Company, Kotak Securities – Private Client Research

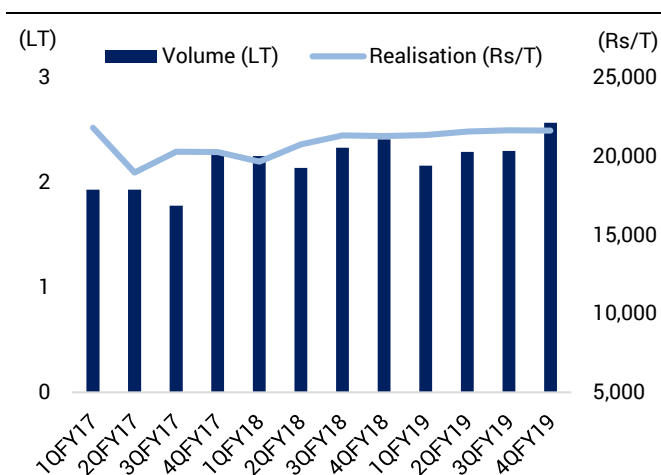
Higher realisation supported soda ash margin expansion

Soda Ash business margin during the quarter (excluding trading sales) improved to 35.7%, supported by higher realisation YoY and higher volume, which offset the impact of the rise in input costs. Volume during the quarter stood at 2.57LTm up 5.8%/11.7% YoY/QoQ. The uptick in the volume was supported by commissioning of 125KT brownfield capacity expansion and inventory liquidation.

Trading sales during the quarter was Rs510 mn. The realisation during the quarter was firm QoQ, due to tight demand supply in the domestic market and was up by Rs524/tonne YoY to Rs21,635. Higher sales volume and improvement in realisation over cost led to a 23% YoY jump in EBITDA to Rs2.12 bn, with an EBITDA margin of 35% (including trading sales).

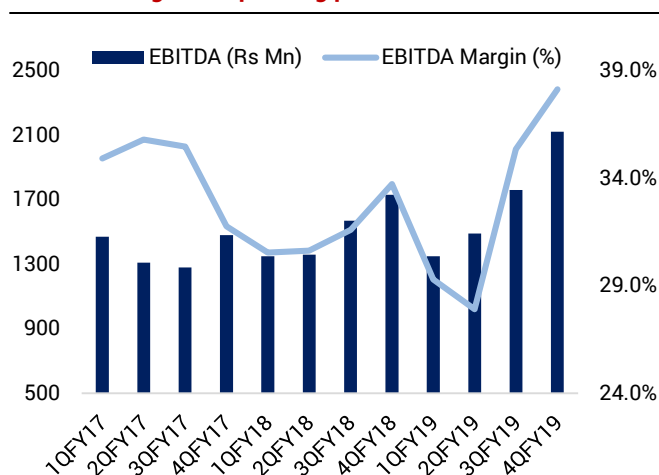
For FY19, the soda ash sales volume stood at 933KT, up 7.3% YoY. We expect the company to do sales volume of 1MT in FY20E, up 7.5% YoY (supported by brownfield expansion of 125KT) and expect volume growth to remain muted in FY21E.

Volume trend



Source: Company, Kotak Securities – Private Client Research

Soda ash segment operating performance



Source: Company, Kotak Securities – Private Client Research

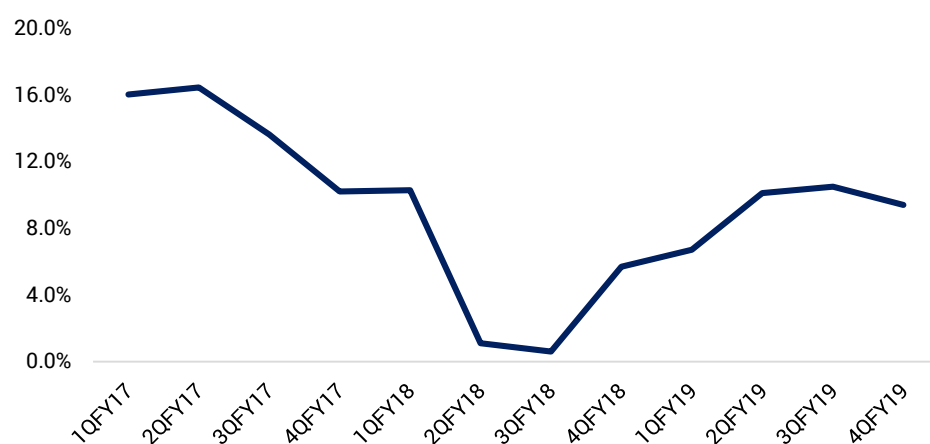
Higher supply might weigh on soda ash prices

Management indicated that due to some issues, incremental supply to the tune of 2-3LT from the competitors are getting delayed, leading to the tight demand supply situation in the domestic market. Management expects operating performance from soda ash segment likely to remain strong in the coming quarters as well. However, we believe, even after factoring delay from the competitors, if the supply hits the market in 2HFY20, it can weigh on prices. As a result, we expect EBITDA/T to decline to Rs.7,000 from the level of Rs8,249/ in Q4FY19 and Rs7,210 in FY19. Management indicated that, despite the incremental supply, the company would continue to report ~30% EBITDA margin.

Textile segment performance improved sequentially

Revenue from the textile segment grew ~40% YoY to Rs3.06 bn (down ~5% QoQ), supported by the higher volume and better pricing. Pricing during the quarter was also supported by favorable dollar rate. EBITDA margin declined sequentially by 100bps to 9.5%, due to an increase in cotton prices are sharper than yarn realization impacting spread between Yarn and Cotton prices during the quarter. Going ahead, we believe with improvement in product mix and higher capacity utilisation, textile segment EBITDA margin is expected to remain in the range of 8-10%. We expect spinning segment to witness margin compression due to lower spreads between cotton and yarn, but the same can be beneficial for home textile segment.

Textile segment EBITDA Margin (%) trend



Source: Company, Kotak Securities – Private Client Research

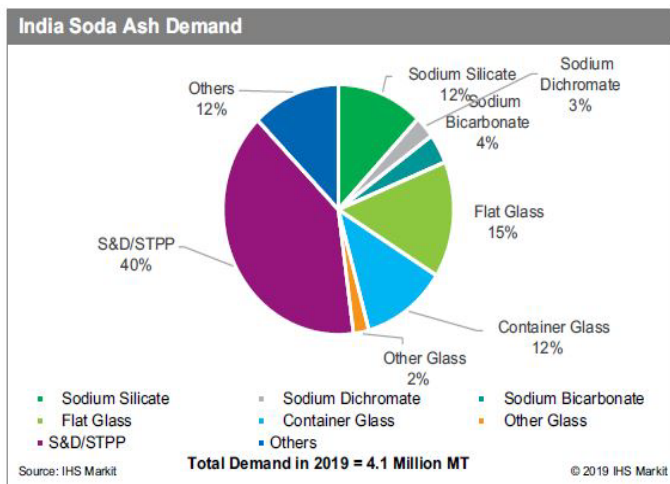
India soda ash market to remain balanced

As per IHS Markit Feb'2019 release, demand in India is likely to remain strong and expected to reach 4.1MT by the end of 2019 and 4.4Mt in 2020. At the same time, Indian market is well supplied, due to recent capacity addition from GHCL and Rohit Surfactants. Export during Jan-Nov'18 was down 35% YoY to 69,000 tonnes, while imports during the same period stood at 796,000 tonnes, up 18% YoY.

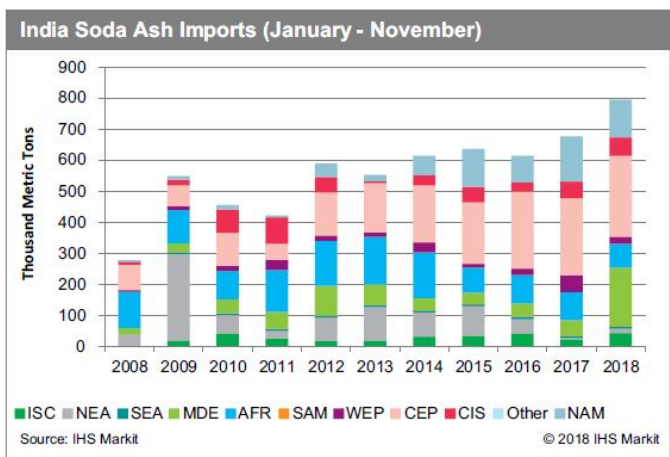
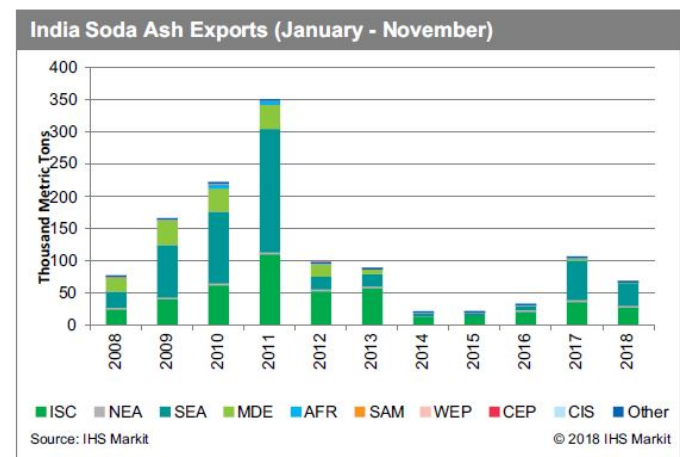
Supply / Demand

India Soda Ash Supply/Demand						
	2018	2019	2020	17-18	18-19	19-20
-000- Metric Tons						
	Actual	Forecast	Forecast	AAGR (%)		
Nameplate Capacity	3538	3978	4353	3.5	12.4	9.4
Operating Rate (%)	87	84	85			
Production	3087	3338	3711	-0.1	8.1	11.2
Imports	869	780	730	21.8	-10.2	-6.4
Total Supply	3956	4118	4441	4.0	4.1	7.8
Domestic Demand	3881	4093	4311	5.4	5.5	5.3
Exports	75	25	130	-37.3	-66.7	420.0
Total Demand	3956	4118	4441	4.0	4.1	7.8

Eurozone Economic Indicators						
	2018	2019	2020	17-18	18-19	19-20
Industrial Production Index (2015 = 100)	114.3	120.4	126.7	4.9%	5.4%	5.2%
GDP Billion \$	2,805	3,005	3,215	7.2%	7.0%	7.0%
Residential Construction Investment (Billions 2010 US Dollars)	283.4	295.6	310.2	3.6%	4.3%	4.9%
Exchange Rate (Rupee/US dollar)	69	77	78	6.0%	11.4%	0.9%



Source: IHS Markit Feb'2019 Release



Source: IHS Markit Feb'2019 Release

Company Background

GHCL is one of the leading manufacturers of soda ash with 25% 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.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net Sales	29,432	33,413	36,413	38,868
% Growth	4.7	13.5	9.0	6.7
Raw Materials	12,756	14,126	15,570	16,437
% of Net Sales	43.3	42.3	42.8	42.3
Employee Cost	1,767	2,012	2,185	2,332
% of Net Sales	6.0	6.0	6.0	6.0
Power & Fuel	3,903	5,053	5,098	5,830
% of Net Sales	13.3	15.1	14.0	15.0
Other Expenses	4,945	4,628	5,280	5,830
% of Net Sales	16.8	13.9	14.5	15.0
EBITDA	6,061	7,594	8,280	8,439
EBITDA Margin (%)	20.6	22.7	22.7	21.7
Depreciation	1,101	1,169	1,298	1,347
EBIT	4,960	6,425	6,982	7,092
Interest Exps.	1,266	1,273	1,033	968
EBT	3,695	5,151	5,949	6,124
Exceptional Items	0	0	0	0
Other Income	379	155	186	242
PBT	4,074	5,306	6,136	6,366
Tax-Total	511	1,801	1,841	1,910
Profit after tax	3,564	3,506	4,295	4,456
PAT Margin (%)	12.1	10.5	11.8	11.5

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Net profit before tax	4,074	5,306	6,136	6,366
Depreciation	1,101	1,169	1,298	1,347
Interest	1,266	1,273	1,033	968
Others	(451)	773	0	0
Opt Profit before WC Changes	5,990	8,522	8,466	8,681
WC Changes	416	(106)	16	(276)
Cash Gene from Op.	6,406	8,416	8,483	8,405
Direct Taxes Paid	511	1,801	1,841	1,910
Cash from Ope act	5,895	6,616	6,642	6,495
Purchases of F.A	(2,779)	(2,306)	(4,625)	(3,975)
Investment	(15)	(13)	(100)	(100)
Others	0	0	0	0
Cash from Inv Act	(2,794)	(2,319)	(4,725)	(4,075)
Proc from Issue of Eq Shares	(21)	6	0	0
Net loans	(1,233)	(2,294)	0	(700)
Interest paid	(1,266)	(1,273)	(1,033)	(968)
Dividend paid & Others	(676)	(648)	(538)	(538)
Cash from Fin Act	(3,195)	(4,210)	(1,571)	(2,206)
Net Increase in Cash	(93)	87	345	214
Cash at Beginning	361	268	355	700
Cash at End	268	355	700	914

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Equity Capital	974	980	980	980
Reserves and Surplus	15,135	18,275	22,007	25,915
Shareholders' Funds	16,109	19,255	22,987	26,895
Total Loan Funds	13,400	11,106	11,106	10,406
Deferred Tax Liab.	1,950	2,530	2,912	2,947
Total Liabilities	31,459	32,891	37,004	40,248
Appl. Of Funds				
Gross Block	27,332	29,395	32,445	35,445
Accumulated Depn.	2,315	3,484	4,782	6,129
Net Fixed Assets	25,017	25,911	27,663	29,316
Capital WIP	735	1,175	3,000	4,000
Other Investments	103	116	216	316
Inventories	6,367	7,685	8,380	8,945
Sundry Debtors	2,287	2,906	3,192	3,408
Cash and Bank Bal	268	355	700	914
Loans and Advances	1,151	1,556	1,556	1,556
Total Current Assets	10,073	12,502	13,828	14,822
Current Liabilities	4,822	7,058	8,056	8,560
Net Current Assets	5,251	5,444	5,773	6,262
Other Non.Curr Ass/DTA	353	246	353	353
Total assets	31,459	32,891	37,004	40,248

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Per Share (Rs)				
EPS	36.6	35.8	43.8	45.5
Cash EPS	47.9	47.7	57.1	59.2
Book value	165.4	196.4	234.5	274.4
Valuation (x)				
P/E	7.1	7.2	5.9	5.7
Price/Book value	1.6	1.3	1.1	0.9
EV/EBITDA	6.3	4.7	4.3	4.1
EV/Sales	1.3	1.1	1.0	0.9
Turnover Days				
Inventory	79	84	84	84
Receivables	28	32	32	32
Creditors	57	75	75	75
Profit ratios (%)				
RoE	22.1	18.2	18.7	16.6
RoCE	17.0	20.0	19.4	18.2
Margin (%)				
EBITDA	20.6	22.7	22.7	21.7
EBIT	16.9	19.2	19.2	18.2
PAT	12.1	10.5	11.8	11.5
Debt/ Equity	0.8	0.6	0.5	0.4

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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