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Capacity expansion and favourable industry dynamics to drive growth

CMP: INR 550
Target Price: INR 898
Rating: BUY

Stock Info

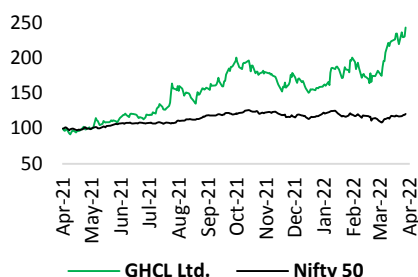
BSE	500171
NSE	GHCL
Bloomberg	GHCL:IN
Reuters	GHCL.BO
Sector	Commodity Chemicals
Face Value (INR)	10
Equity Capital (INR Mn)	950
Mkt Cap (INR Mn)	52,472
52w H/L (INR)	584 / 216
Avg. Yearly Volume (in 000')	427

Shareholding Pattern %

(As on December, 2021)

Promoters	19.07
DII's	18.85
FII's	16.31
Others	45.77

GHCL Ltd. Vs Nifty



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GHCL Ltd. is the largest single location manufacturer of Soda Ash in India. It has a plant facility at Sutrapada in Gujarat. It is currently looking at expanding its soda ash capacity. Given the soda ash industry dynamics, tightness in underlying prices and capacity expansion, we initiate coverage on the stock.

Capacity expansion to drive volume growth

The company has completed its brownfield expansion and the full effect of the program will be seen in the ongoing financial year (FY23). This will boost incremental volumes in the soda ash segment. Additionally, the company will be undertaking a greenfield project to expand capacity by 5 lac tons by FY26. Consequently, GHCL Ltd. will benefit from operating leverage in the medium term.

Raw material security, cushioning operating margins

Limestone, salt and lignite are important raw materials used for the manufacture of soda ash. GHCL has captive mines for limestone and lignite and also sources about 30%-40% of salt requirement internally. The remaining procurement is done through local suppliers, mainly from nearby areas in Gujarat. The company will benefit from raw material security and sustainable operating margins.

Favourable industry dynamics for soda ash manufacturers

Globally, there is a demand-supply mismatch, leading to a deficit of 3 million tons. Greenfield capacity addition requires 3-5 years to operationalize. Overall, the soda ash market remains tight with increase in underlying prices. The scenario is expected to continue atleast for the next one year. Soda ash manufacturers like GHCL Ltd. will benefit from higher price realization in such a scenario.

Robust balance sheet and sustainable operational cash flow

Debt/Equity ratio is very low for the company at 0.2x in Q3FY22. Improving sales realization and increasing EBITDA/ton will result in higher and sustainable cash flow from operations, going forward. This will limit the financial leverage of the company and facilitate future capital expenditure program.

Diversified and marquee client relationship

Soda ash and Sodium Bicarbonate has application in the detergent, glass, chemicals, food, pharmaceuticals and other industries. Consequently, they have a strong clientele which includes cash rich companies and heavy-weights like Hindustan Unilever Ltd, Procter & Gamble, Fena, Patanjali, Hindustan Zinc, Piramal Glass, Jyothy Laboratories, Saint-Gobain, etc. Strong balance sheet of clients will help GHCL Ltd. to received payment on time and facilitate its working capital cycle.

Valuation & Outlook

The global and domestic soda ash market is witnessing supply-demand imbalance. Additionally, about 10% of imports are contributed by Russia, Ukraine and the CIS region. Due to ongoing Ukraine-Russia conflict, the domestic market has further tightened, thus supporting price growth. Moreover, the company is expanding its capacity through brownfield and greenfield project, which will facilitate volume growth. The financial projections does not include the Textile business, which will be demerged in 1HFY23. We value the overall company on a SOTP basis, factoring its Chemical and Textile business. We appraise the base business of Chemicals on EV/EBITDA multiple of 7x its FY24E EBITDA and arrive at a fair value of INR 800 per share. The Textile business is valued by applying 25% discount to its replacement cost, yielding per share value of INR 98. Accordingly, we have a Target Price of INR 898/share for GHCL Ltd. and recommend a BUY rating on the shares of the company.

Investment Rationale

Capacity expansion to drive volume growth

The company is the second largest soda ash manufacturer in India, after Nirma. However, Nirma utilizes a substantial portion of its manufactured soda ash internally for detergent production. In context to single location plant facility, GHCL Ltd. is the largest player in the country.

It has an installed capacity of 1.1 million MTPA. The current utilization is above 90%. The company is further executing a brownfield expansion to increase its soda ash capacity by 50,000 MTPA at its present location. The plant is expected to be operational in Q4FY22 and will see the full effect in FY23. Apart from this, the company is undertaking a greenfield project to set up 0.5 million MTPA soda ash plant facility. It will require about 800 acres of land, of which about 70% has already been acquired. The facility is expected to be completed in FY26.

In the near term, the brownfield expansion will facilitate the company to increase volumes and support revenue growth. In the long term, the current capacity will expand by about 50%, thus greatly enhancing the operating leverage of the company. It will also benefit the company to develop and sustain competitive edge over its competitors. Post the textile demerger in 1HFY23, the company will be a pure play soda ash manufacturer.

Raw material security through captive sourcing

GHCL Ltd. manufactures Soda Ash through the Solvay process. Limestone and salt are the major raw materials required in this process. The company internally sources between 20%-40% of limestone and salt requirement, while the remaining is procured externally. The internal-external mix is decided based upon commercial consideration.

The limestone and salt mines are located within a distance of 40 km. The limestone mines are located at Sutrapada, Veraval and Talala Taluka of Gir-Somnath district. The average production of the limestone mines is about 45 MT to 500 MT per day of chemical grade limestone. The company has applied for additional licenses of limestone reserves. Half of limestone sourced externally is procured from local suppliers, mainly from the state of Gujarat and nearby areas. The balanced is sourced from the suppliers in the Middle Eastern region.

It also utilizes lignite in the manufacture of Soda Ash. The captive mines are located at Khadsaliya in the Bhavnagar district of Gujarat. It is the only company which have its own lignite mines. For salt requirement, apart from captive sourcing, the remaining portion is sourced from suppliers in Gujarat. Some raw materials like coal briquettes are mostly imported from Australia. However, the company is working on patented briquette technology in-house to increase efficiency of the respective raw material utilization.

On an overall basis, the company has sufficient captive sourcing of important raw materials required in the manufacture of soda ash. Owing to this strength, the company has additional flexibility to change its internal-external procurement mix. The net effect is positive impact on the operating margins of the company.

Favourable industry dynamics for soda ash manufacturers

Globally, there is a mismatch between demand and supply in the soda ash market, leading to a deficit of about 3 million tons. Country-wise, China has been a net exporter of soda ash historically. However, in the last quarter, it became a net importer of soda ash to fulfil its domestic consumption. India is also a net importer of soda ash and the market is largely oligopoly in nature. It is dominated by 3 players, Nirma, GHCL Ltd. and Tata Chemicals, followed by foreign players entering through imports. The underlying manufacturers have sizeable pricing power in normal scenario. Russia, Ukraine and CIS region is globally amongst an important destination for soda ash production. The region contributes about 10% of soda ash imports to India. Due to on-going conflict in the region, there is bound to be supply disruption, resulting in further tightness in the Indian soda ash market. In Q3FY22, the market prices of Soda Ash has increased by approximately 20% QoQ, according to dealer check.

Also GHCL Ltd. sells its products domestically and with increasing capacity and volume, is poised to benefit from the current industry dynamics.

Following are the prices of soda ash, given on the GHCL Ltd. website, effective 01/03/2022:

LIGHT SODA ASH				
PARTICULARS	50 KG HDPE/JUMBO BAGS			
(All in INR)	GUJARAT	ROI	IPP STATES	W.BEN./T N/PONDY
Basic Price (ex-works)	32,825	32,600	31,875	31,875
CGST@9%	2,954			
SGST@9%	2,954			
IGST@18%		5,868	5,738	5,738
Sub-Total	38,733	38,468	37,613	37,613
Net of GST	32,825	32,600	31,875	31,875

DENSE SODA ASH				
PARTICULARS	50 KG HDPE/JUMBO BAGS			
(All in INR)	GUJARAT	ROI	IPP STATES	W.BEN./T N/PONDY
Basic Price (ex-works)	33,125	32,900	32,175	32,175
CGST@9%	2,981			
SGST@9%	2,981			
IGST@18%		5,922	5,792	5,792
Sub-Total	39,087	38,822	37,967	37,967
Net of GST	33,125	32,900	32,175	32,175

(Source: GHCL website, Arihant Research)

In April 2022, as per dealer check, the basic price of soda ash has further increased to about INR 34,500

Robust balance sheet and sustained operational cash flows

As of Q3FY22, the Gross Debt on the books stood at INR 6,180 Mn, while the Net Debt stood at INR 5,730 Mn. The Net Debt/Equity ratio is 0.2x. With the tightness in the soda ash market, the corresponding prices are moving higher, which will positively impact sales realizations, operating profit and related operational cashflows. This will support the company's long term capital expenditure and reduce dependency on leverage. The company, recently, divested its Home Textiles business to Indo Count Industries for a consideration of INR 5,960 Mn. The transaction is complete and the cash proceed will be redeployed into core business areas of the company, including the soda ash segment.

Diversified and marquee clientele

Soda Ash is extensively used in the detergent, glass and chemical segment. Sodium Bicarbonate, which is a derivative of Soda Ash is a value-added product. It has application in industries like Food, Chemicals, Poultry, Tannery and Pharma. GHCL Ltd. has strong relationship with marquee clients. It sells Dense Soda Ash, Light Soda Ash and Sodium Bicarbonate under the Lion Brand. Its clientele includes heavyweights like Hindustan Unilever Ltd., Procter & Gamble, Patanjali, Hindustan Zinc, Piramal Glass, Jyothy Laboratories, Gujarat Borosil Ltd., Fena, Saint- Gobain, ModiGuard Glass Mirror, etc. Majority of these entities are cash rich and have strong balance sheet to make payments to GHCL Ltd. Also, as the clientele is diversified, there is less dependence on a single customer entity.

in INR Mn	FY20	FY21	FY22E	FY23E	FY24E
Revenue	32,560	28,231	37,167	38,413	40,380
EBITDA	7,367	6,192	8,861	10,026	10,842
EBITDA Margin (%)	22.6	21.9	23.8	26.1	26.9
PAT	4,064	3,100	5,207	6,073	6,607
PAT Margin (%)	12.5	11.0	14.0	15.8	16.4
EPS	42.6	32.5	54.6	63.7	69.3
PE(x)	12.9	16.9	10.1	8.6	7.9

Source: Company, Arihant Research

Outlook & View

At the CMP of INR 550 per share, the stock is trading at a P/E multiple of 8.6x/7.9x its FY23E/FY24E EPS of INR 63.7/INR 69.3 respectively. The company generated INR 28,231 Mn revenue in FY21 with 21.9% EBITDA margins. It is the second largest manufacturer of soda ash in India and the largest single location manufacturer in the country. The soda ash market is oligopoly in nature. Both, the domestic and international market are facing demand-supply imbalance, leading to tightness and price appreciation in soda ash. The global soda ash market is witnessing a deficit of about 3 million tons currently. Domestically, soda ash is imported to fulfil the requirement. About 10% of imports are contributed by Russia, Ukraine and CIS region. Due to ongoing Ukraine-Russia conflict, the domestic demand has further tightened. These factors will benefit the local soda ash manufacturers like GHCL Ltd. In addition, the company is expanding its capacity through brownfield project, which will facilitate volume growth. GHCL Ltd. is one of the few companies which has embarked upon the journey to implement a greenfield project in soda ash manufacturing. Normally, greenfield projects take 4-6 years for commissioning, due to issues related to land acquisition, environmental clearance, etc. GHCL Ltd. has already acquired about 70% of land required and is therefore, ahead in the race to set up a greenfield project. The financial projections does not include the Textile business, which will be demerged in 1HFY23. We value the overall company on a SOTP basis, factoring its Chemical and Textile business. We appraise the base business of Chemicals on EV/EBITDA multiple of 7x its FY24E EBITDA and arrive at a fair value of INR 800 per share. The Textile business is valued by applying 25% discount to its replacement cost, yielding per share value of INR 98. Accordingly, we have a Target Price of INR 898 for GHCL Ltd. and recommend a BUY rating on the shares of the company.

Industry Overview:

Global Soda Ash Industry:

The global installed capacity of soda ash is about 70 million MT, while the production capacity is 61 million MT. About 44% of global capacity is based out of China, where the installed capacity is 31 MT and production capacity is 27 MT. This is followed by Europe, where the installed capacity is 14.5 million MT and the production capacity is 12 million MT. America has an installed capacity of 13 million MT and production capacity of 12 million MT. India has an installed capacity of 4 million MT and production capacity of 3.6 million MT. Rest of the World has an installed capacity of 7.8 million MT with a production capacity of 6.6 million MT.

The major disruption between installed and production capacity is driven by China as the country implemented new norms for reducing energy consumption and curbing pollution. From being a net exporter of soda ash a few years ago, it has now become a net importer of the chemical. This has further resulted in tightness in global supply-demand dynamics of soda ash.

In Europe, demand for soda ash has recovered significantly and major producers have reported good growth in sales. Turkish soda ash manufacturers have been ramping up capacity in the past few years. Exports increased in FY22 compared to last year. Major demand was driven by Europe, SEA and Middle East. It also exported to China.

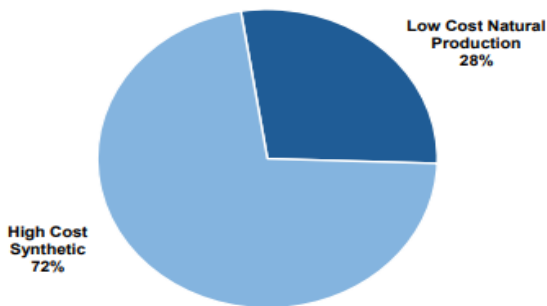
In the US market, domestic demand and exports grew in Q3FY22 and realizations of major contracts improved compared to 2020-end.

In the medium term, soda ash market will continue to be stretched as there is no new significant global natural supply expected to be online until 3QCY2023.

Soda Ash Production:

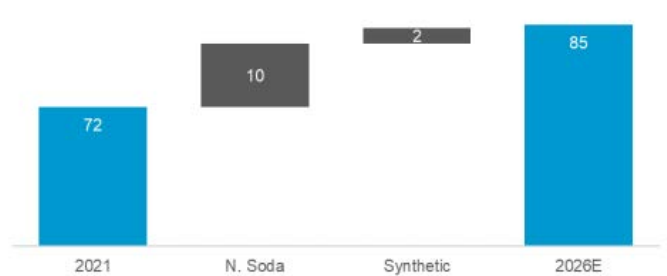
Soda Ash can be manufactured through two major routes; Natural Production and Synthetic Production. The Synthetic Production route includes the Solvay Process.

Global Supply Sources



Source: Company, Arihant Research

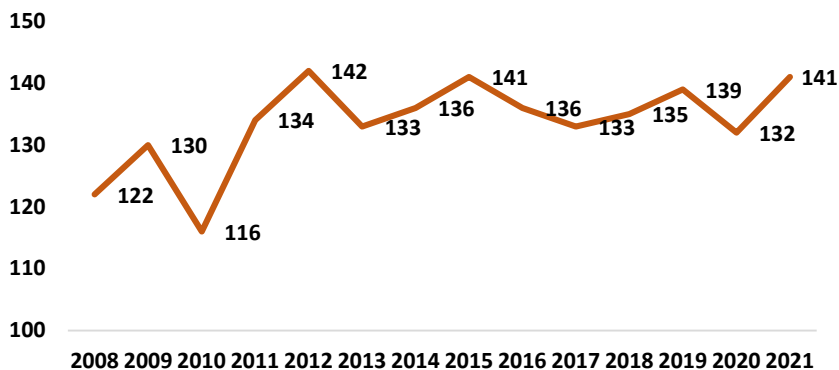
Global planned soda ash capacity expansions (m tons)



US Natural Soda Ash Pricing:

The U.S. Natural Soda Ash prices have recovered well post the COVID-19 pandemic and is trading above the pre-pandemic levels. The prices are a reflection of the tightness in the supply-demand scenario in the soda-ash industry.

U.S. Natural Soda Ash Pricing USD/Short Ton



Source: Company, Arihant Research

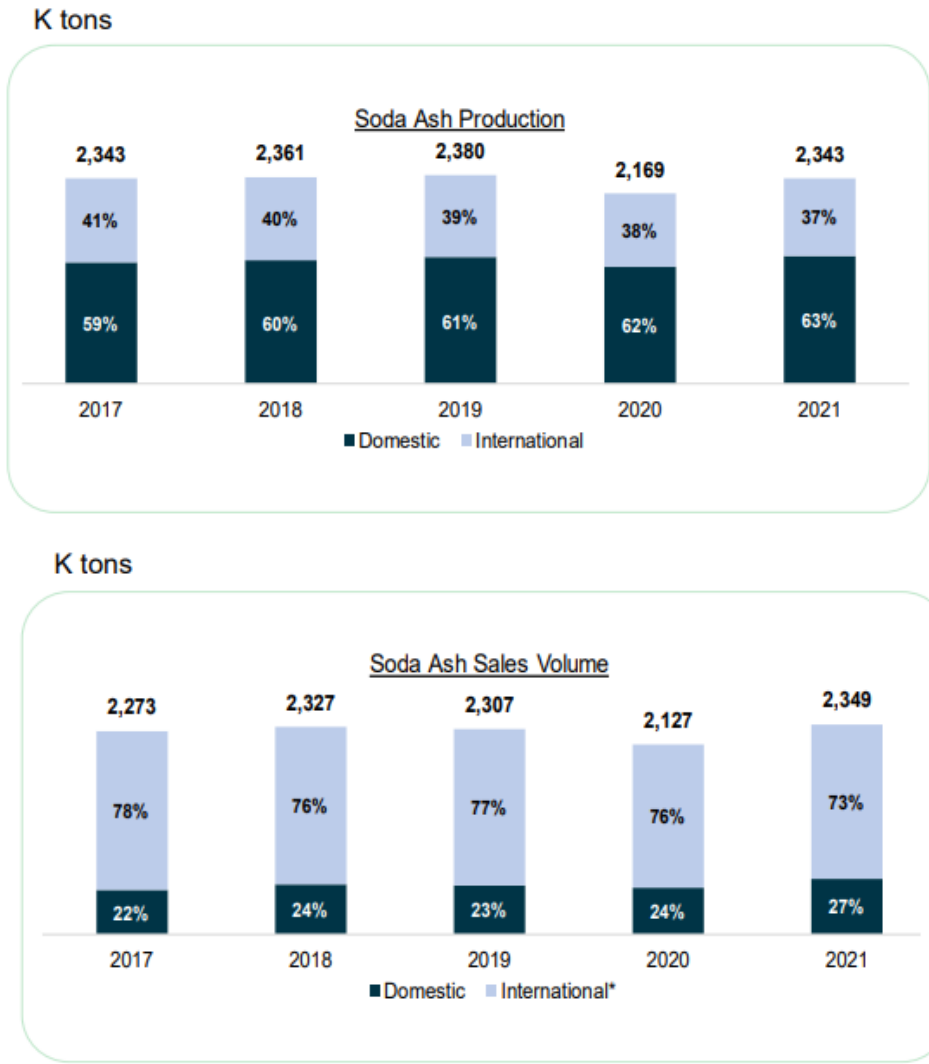
Global Competitive Landscape:

Sisecam:

It is a Turkish manufacturer and has a soda ash production capacity of 2.5 million tons (2021). It is the 2nd largest soda ash producer globally.

In 2021, soda ash production increased by 8% YoY, while soda ash sales volume increased by 10% YoY. The significant increase in production and sales volume is reflective of the global demand of soda ash.

Both, the soda ash production and sales volume have recovered to pre-pandemic levels. Interestingly, pick-up in sales volume is comparatively better than production volume, when analyzed on historical timeline.



(Source: Company Filings, Aриhant Research)

View & Outlook:

Compared to full year 2021, 4Q2021 was even more robust, wherein soda ash sales increased by 13% YoY. The company expects strong demand for soda ash in 2022. Contracts with clients to purchase soda ash has been negotiated on variable terms with price revisions, if required, based on 3 to 6 month reviews. As per third party analysis, quoted by the company, soda ash prices are estimated to increase by 20% YoY in 2022.

Recent Development:

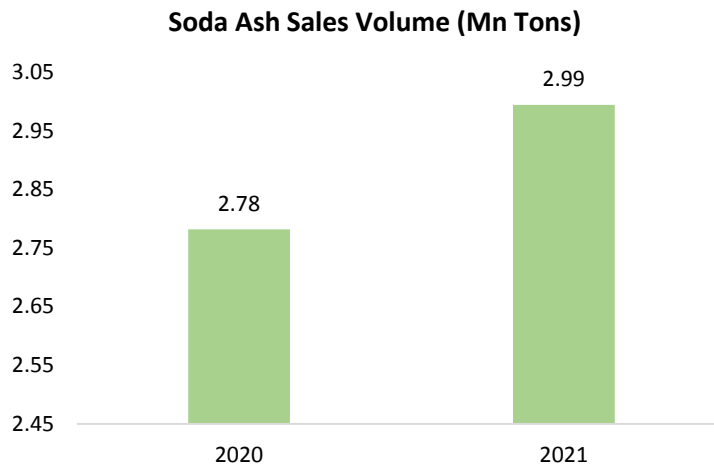
In the last quarter of 2021, Sisecam increased its exposure and became majority shareholder in its U.S. natural soda investment. Sisecam and Ciner Group have been JV partners in the Pacific natural soda ash development project since 2019. As part of the new investment plan, Sisecam became a 60% shareholder by

acquiring an additional share in the Pacific project. In addition, Sisecam purchased a 60% share in the Atlantic project and Ciner Resources, the existing natural soda ash production facility of Ciner Group in Wyoming. The Pacific and Atlantic development projects with a targeted combined production capacity of approximately 5 million tons/year is expected to start production during 2025 and is planned to gradually reach full capacity by 2027. With this strategic move, Sisecam-controlled soda ash production capacity will exceed 10 million tons, comparing to the existing capacity of 2.5 million tons today. As a result, Sisecam is expected to become a world leader in soda ash production with the additional soda ash capacity achieved by 2026.

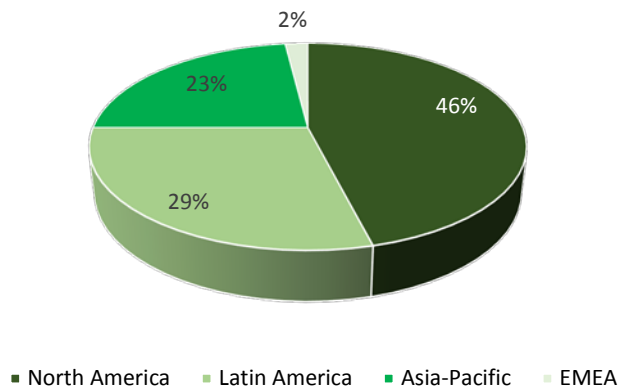
Genesis Energy:

Genesis Energy is an American soda ash manufacturer with headquarters in Houston, Texas. It has annual production capacity of 3.8 million tons (FY21). The company produces natural soda ash from trona, which they mine at two sites in the Green River Basin in Wyoming. (The vast majority of the world’s accessible trona reserves are located in the Green River Basin.

In 2021, the company reported increase in soda ash sales volume by about 8% YoY.



Sales Volume by Region (2021)



(Source: Company Filings, Arihant Research)

View & Outlook:

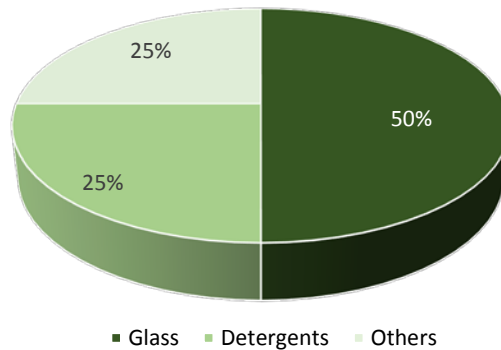
The company saw normalization and recovery of soda ash markets from the declines in 2020, including both price and volume recovery. It expect to increase capacity of soda ash production in 2023, with the expectation to bring the original Granger facility and its approximately 500,000 tons of production back online in the first quarter of 2023 and further increase production capacity from our Granger Optimization Project, which is scheduled to begin first production in the second half of 2023 and ramp up to its design capacity of an additional 750,000 tons per year over the subsequent nine to twelve months.

Factoring in the demand-supply dynamics, the company expects the soda ash market to continue to grind tighter over the coming years. It expects weighted average realized price in 2022 to exceed weighted average price in 2019, or pre-pandemic.

Solvay:

It is the largest soda ash manufacturer globally, with headquarters in Belgium. It has a production capacity of 9.4 million ton in 2021. The annual sales of Soda Ash & Derivatives business stood at Euro 1.5 billion. It operates 11 production sites globally, for manufacturing soda ash and bicarbonates. During 2021, soda ash sales volume were back to pre-Covid levels.

Solvay Soda Ash Sales by Industry

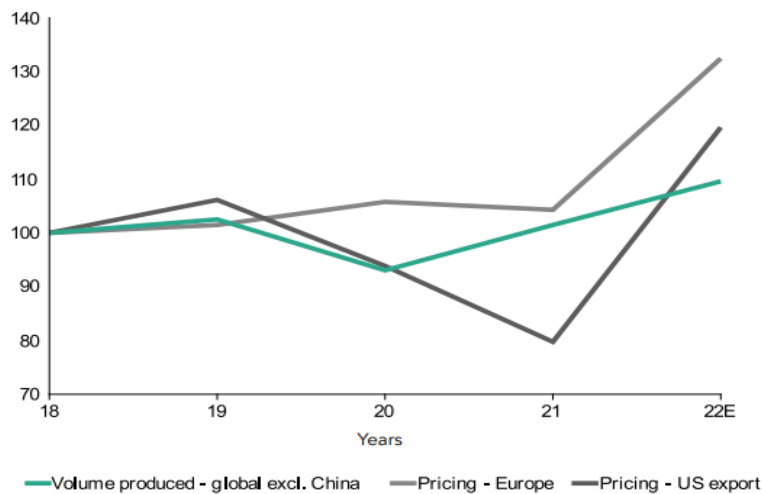


(Source: Company Filings, Arihant Research)

View & Outlook:

Market volume and price evolution, IHS

Evolution of market production volumes and pricing (Indexed to 2018, IHS based)



(Source: Company Filings, Arihant Research)

There was reduction in demand in 2020. Volumes recovered in 2021 but margins compressed as a result of the significant cost inflation, impacting the business, first on sea freight, and then starting in the summer of 2021, on the energy markets, in particularly in Western Europe. The company recently completed its contract negotiations for 2022, which was better than the market average. Quoting IHS, the average pricing increased 27% in Europe, and more than 50% in the exports market. Also, some surcharge clauses have been included to factor in unprecedented cost situation on logistics and energy.

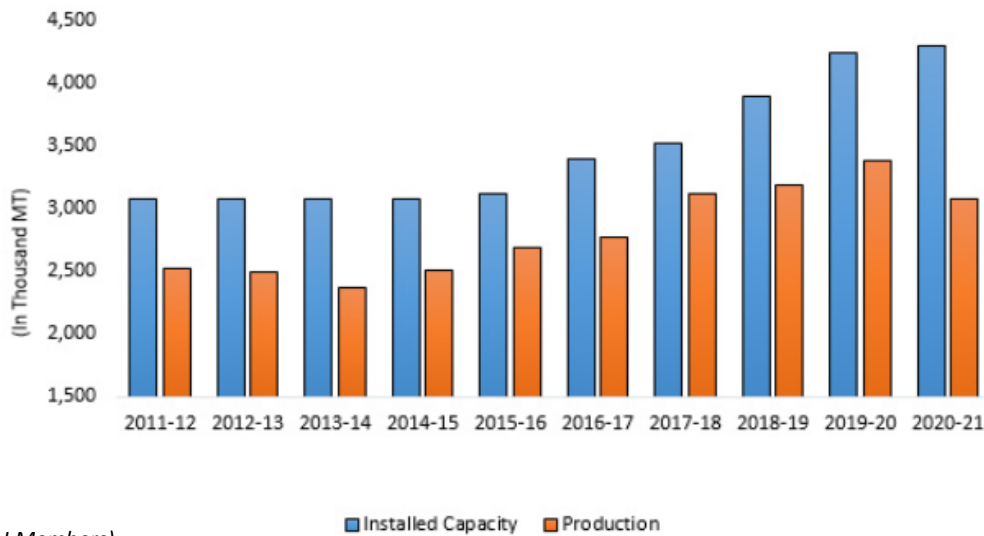
Peer Financials (Group Level):

2021 (in local currency, million)	Revenue	EBITDA	EBITDA Margin	PAT	PAT Margin
Sisecam	32,058	8595	26.8%	8097	25.3%
Solvay	10105	2356	23.3%	948	9.4%
Genesis Energy	2,125	385	18.1%	-240	NA

(Source: Company Filings, Arihant Research)

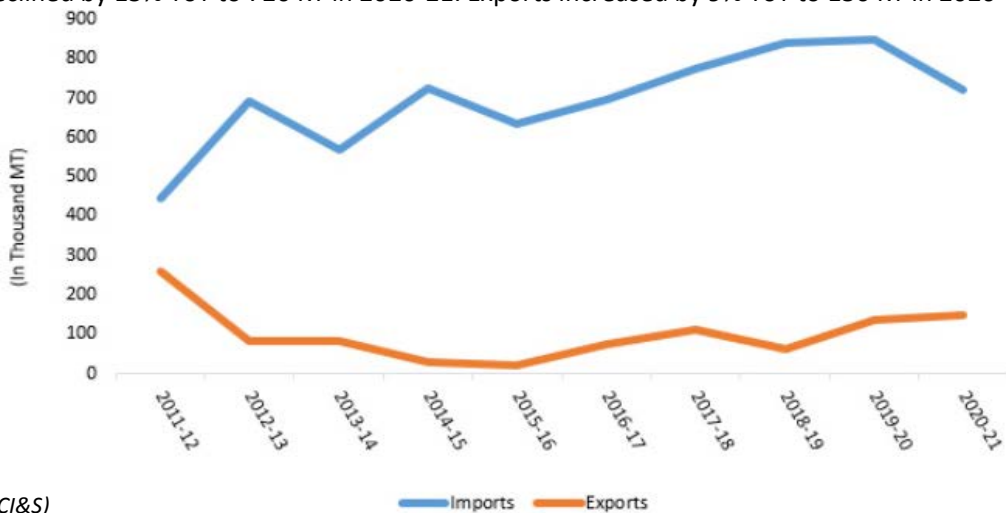
Indian Soda Ash Market:

The installed capacity as on 31st March 2021 stood at 4.296 million MTPA. The Production during the year 2020-21 was 3.071 million MTPA. The capacity utilization was 74% during 2020-21.



(Source: AMAI Members)

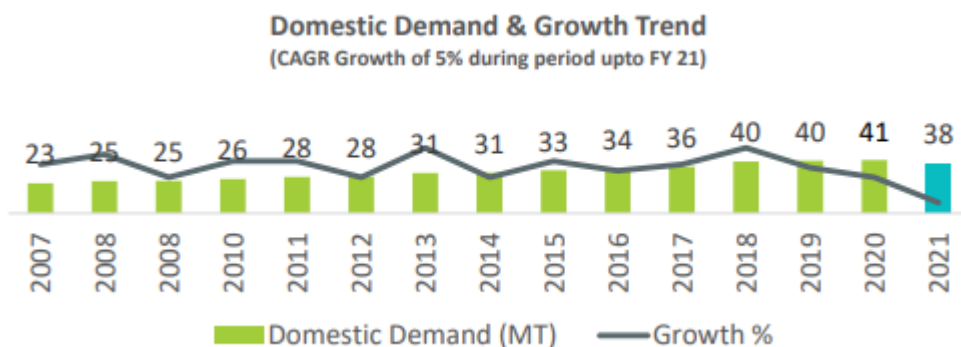
Imports declined by 15% YoY to 720 KT in 2020-21. Exports increased by 9% YoY to 150 KT in 2020-21.



(Source: DGCI&S)

Domestic Demand & Growth Trend:

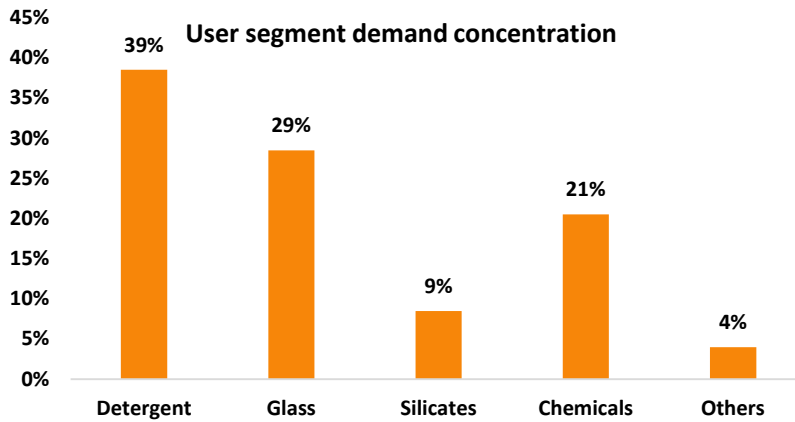
Domestic demand expanded at a CAGR of 5% during period upto FY21.



(Source: Company Q3FY22 Presentation, Arihant Research)

Sector-wise Soda Ash consumption in India:

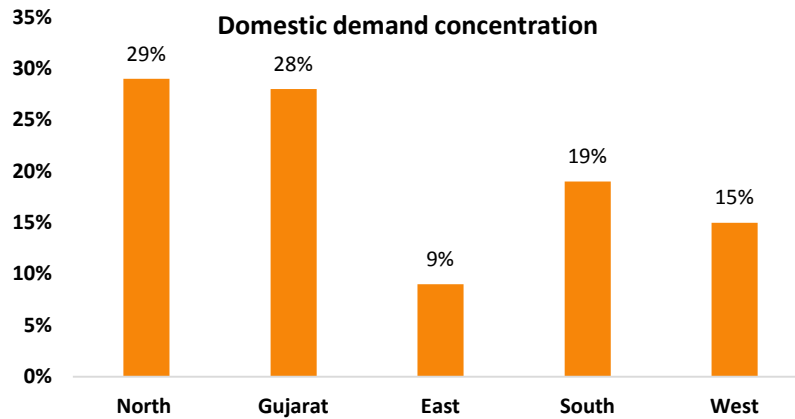
Detergent and Glass are the major end user segment for the Soda Ash industry.



(Source: Company Q3FY22 Presentation, Arihant Research)

Regional Demand Concentration:

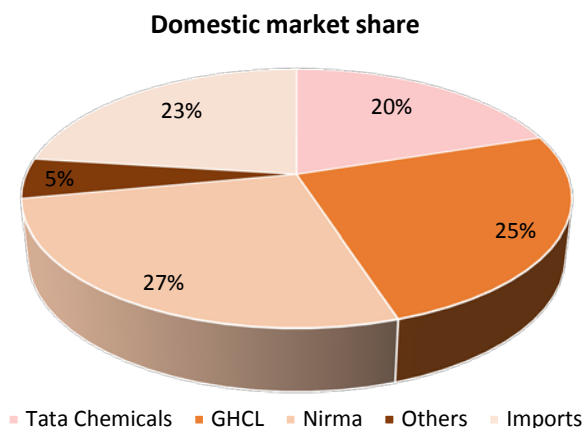
North India is the major demand driver for soda ash, followed by South India.



(Source: Company Q3FY22 Presentation, Arihant Research)

Competitive Landscape:

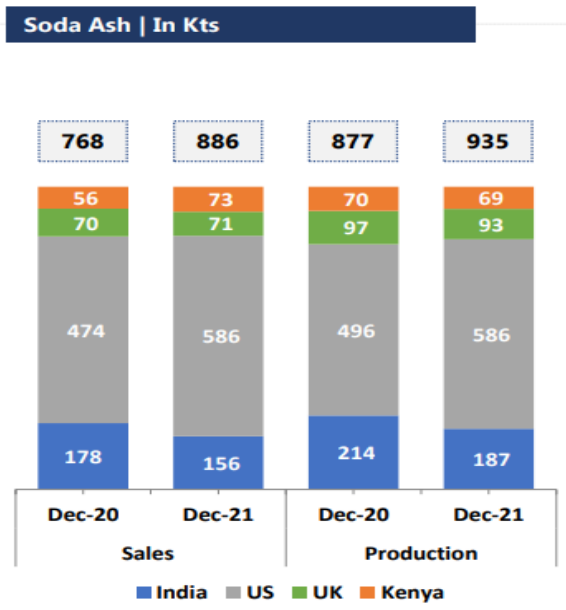
The major players in the Indian soda ash industry are Nirma, GHCL Ltd. and Tata Chemicals. However, Nirma utilizes a sizeable portion of its production in-house in its detergent manufacturing. GHCL Ltd. has the 2nd largest market share domestically and caters to about 1/4th of the industry.



(Source: Company Q3FY22 Presentation, Arihant Research)

Tata Chemicals Ltd.:

It is a soda ash manufacturer with India and International operations, including US, UK and Kenya. The production capacity stood at about 4.6 million tons in 2021. In Q3FY22, Soda Ash sales volume increased by 15% YoY, while production volume increased by about 7% YoY. The company is witnessing soda ash pricing recovery on track across geographies.



(Source: Company Q3FY22 Presentation, Aриhant Research)

View & Outlook:

China, which was a net exporter of soda ash earlier, became a net importer of soda ash in Q3FY22. It is catering to its internal demand consumption. Globally, there is a deficit of 3 million ton of soda ash. Therefore, the company expects tightness in the domestic and international soda ash market to continue in 2022 (FY23), resulting in higher prices.

Nirma Ltd.:

It is the largest manufacturer of soda ash in India. The production facility is located at Bhavnagar, Gujarat. In 2008, it acquired California-based natural soda ash producer, Searles Valley Minerals Inc., which has manufacturing facilities at Argus, Trona and West End (USA). It also manufactures caustic soda, linear alkylbenzene (LAB), detergents and other chemicals. However, it utilizes a substantial portion of manufactured soda ash in-house to produce detergents.

Company Overview:

Business Model

GHCL Ltd. is a leading soda ash player in India. It manufactures soda ash through the Solvay Process. Apart from soda ash, it also has presence in the Textile segment through spinning business.

Product Portfolio

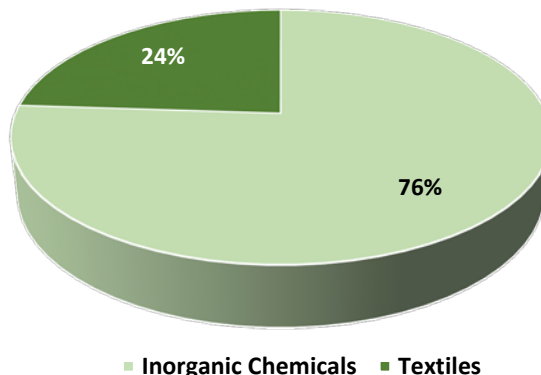
Products	Portfolio	Application
Chemicals	Soda Ash Light	Soap & Detergents
		Pulp and Paper
		Iron & Steel
		Aluminium cleaning compounds
		Water softening and dyeing
		In fibre-reactive dyes
		Effluent treatment
	Soda Ash Dense	Glass manufacturing (Flat Glass, Container Glass, etc.)
		Silicate
		Ultramarine
	Sodium Bicarbonate (Technical, Animal Feed & Food Grade)	Chemicals
		Food and food dyes
		Poultry & animal feed
		Leather tanning, deodorizers, personal care products
		Fire extinguishers, pharma, oral care products
Textiles	Knitting, Weaving,	100% cotton combed compact hosiery yarn
		Polyester/Cotton/Polyester blended hosiery yarn
Consumer Products	Edible salt, Industrial grade salt, spices, blended spices, honey	FMCG
		Food products



Revenue Mix

The company has two main revenue reporting segment. As of Q3FY22, Inorganic Chemicals contributed INR 7,650 Mn (up 45% YoY) to the total revenues, while Textile segment contributed INR 2,410 Mn (up 34% YoY).

Revenue Mix - Q3FY22 (%)



Source: Company Filings, Arianth Research

Raw Material Sourcing

The company utilizes different raw materials like limestone, salt, lignite, coal, etc. to manufacture inorganic chemicals. Substantial portion of the limestone and salt sourcing is done internally, while the remaining portion is sourced from local suppliers, mainly from Gujarat. Limestone (25% captive) and Salt (35% captive) mine are located within a distance of 40 km.

Limestone mines at Sutrapada, Veraval and Talala Taluka of Gir-Somnath district have an average production of 45 MT to 500 MT per day of chemical grade limestone. The company has applied for additional licenses of limestone reserves.

Lignite mines are located at Khadsaliya in the Bhavnagar district of Gujarat.

Majority of coal and its derivatives are imported, while a small portion is sourced locally. Going forward, it is looking to reduce its dependency on imported raw materials, which will optimize cost for the company.

Geographic Mix

GHCL Ltd. generally sells its manufactured products in India. Therefore, the major market for the company is the home market. Regionally, it is strong in the West and the North India market.

Manufacturing Facilities

Soda Ash:

Its Soda Ash manufacturing facility is located at Sutrapada, Gujarat. It is one of India's leading producers of Soda Ash (Anhydrous Sodium Carbonate) and has an annual production capacity of 1.1 Million Tonnes per annum. The capacity utilization of the Soda Ash plant is in excess of 90%. It contributes to about 25% of the country's annual domestic demand.

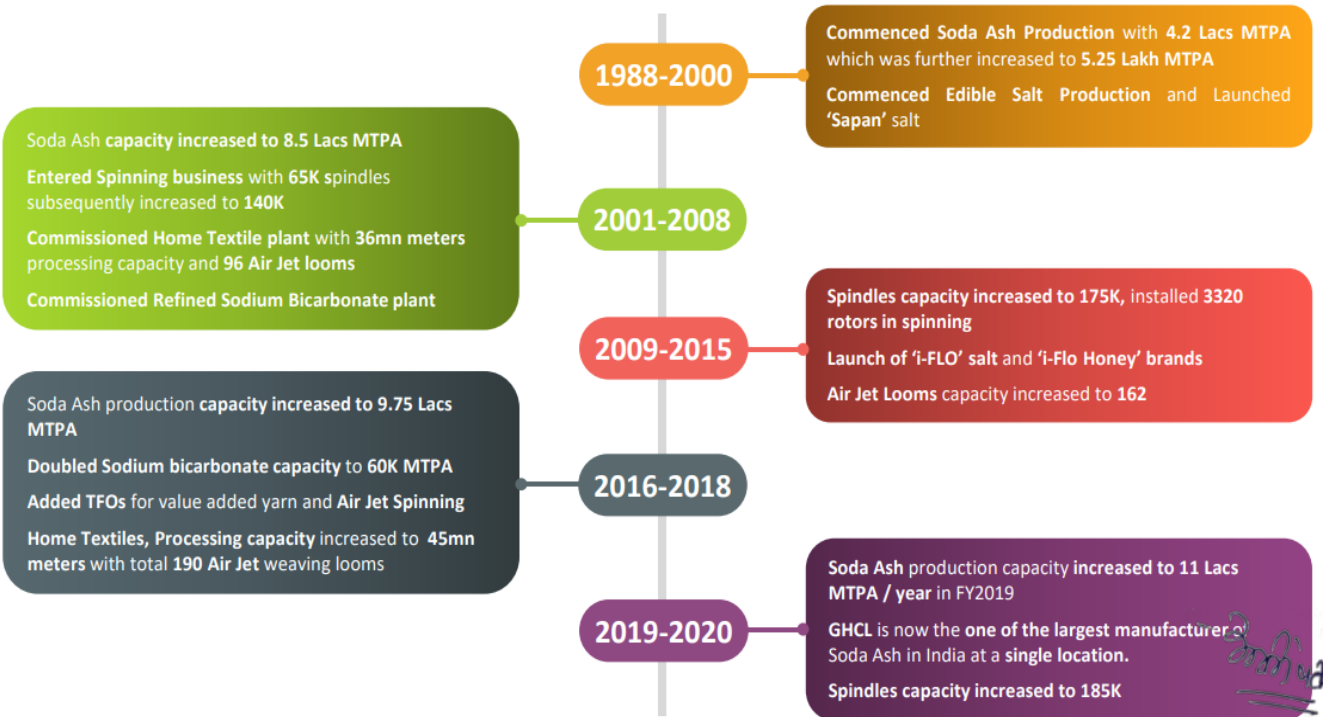
GHCL Soda Ash is available in 2 categories Light Soda Ash and Dense Soda Ash. It also produces Sodium Bicarbonate and these products are marketed in India under the brand name "LION".

Textiles (Spinning):

The company has a Spindle Capacity of 2,00,000. The capacity utilization of spinning is in excess of 99%.

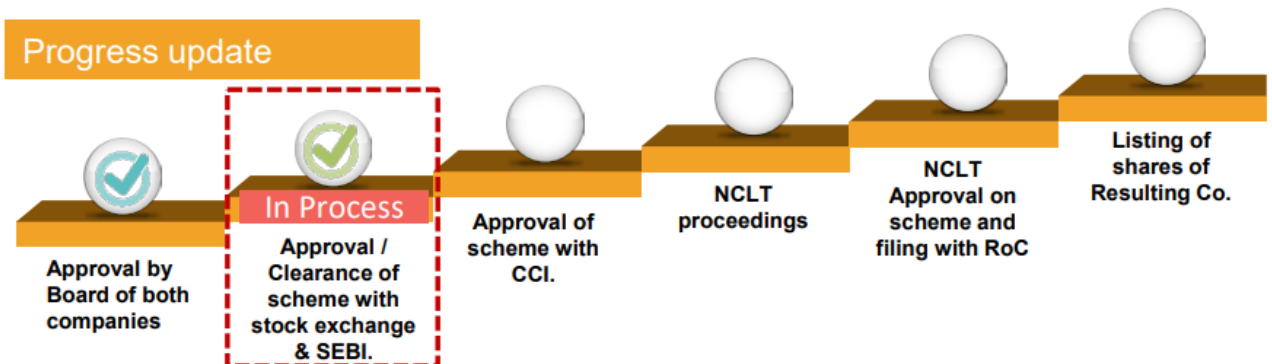
GHCL Ltd. has signed a MoU (Memorandum of Understanding) with the Government of Tamil Nadu for investing INR 5,000 Mn in the state. As per the MoU, the company will set up 40,000 ring spindles in Mannaparai, Tiruchirappalli district to produce synthetic and synthetic blended yarn to cater to knitting and weaving segments.

Brief evolution of the company:



Key Developments:

- The Board approved the demerger of the Spinning business of GHCL Ltd. into GHCL Textiles Ltd.
- Shareholders of GHCL will be allotted shares in GHCL Textiles Ltd. in the swap ratio of 1:1, one share of INR 2 each for every share of INR 10 held in the GHCL.
- The resulting company will takeover all the assets and liabilities of the Textile business and will be listed on NSE and BSE.
- There will be no change in the shareholding pattern of the Demerged Company.
- The scheme of demerger is expected to be concluded by end of H1FY23.



Source: Company, Arianth Research

Key Management:

Personnel	Designation	Description
Mr. Ravi S. Jalan	Managing Director	He joined GHCL in 2004 as Sr. Executive Director and was appointed as Managing Director of the company on 18 th June 2006. He is a Chartered Accountant by profession and is responsible for building an effective management team and charting the strategy of the Organization. He has over three decades of experience in the corporate world and was ranked 29 th in the list of Top 100 CEOs based on BT-PWC Best CEO survey in 2017.
Mr. Raman Chopra	CFO & Executive Director – Finance	He is a member of the Board of Directors of the company since April 2008 and before being named the CFO in November 2007, he served as Sr. Vice-President at GHCL's Home Textiles division for 4 years. Prior to joining GHCL in 2003, he was Vice-President with the Dalmia Bros. where he was responsible for evaluating the financial performance of Group companies and handling new expansion projects. Currently, he is responsible for the Finance, Secretarial, Taxation and IT functions of the company.
Mr. N.N. Radia	Chief Operating Officer (Soda Ash)	He is responsible for projects, operational excellence in addition to ensuring global standards and benchmarks in the manufacturing process of soda ash, which caters to domestic and international markets. Prior to becoming the COO in year 2012, Mr. Radia was responsible for plant operation. He is a Bachelor in Mechanical Engineering from LE College Morbi, Gujarat. With more than three decades of experience in Soda Ash operations, Mr. Radia is President of Western Gujarat Chamber of Commerce & Ex-President of Rotary Club, Veraval, Gujarat.
Mr. Sunil Bhatnagar	President, Sales & Marketing (Soda Ash)	He is responsible for market growth, sales and strategy for the Soda Ash division. He has a degree in Law and Diploma in Management and has corporate experience of more than three decades. He joined GHCL in 1993 as Manager (Marketing) and prior to that, he was associated with Ballarpur Industries Ltd. where he served as Deputy Manager (Marketing). Mr. Bhatnagar is an executive member at the Alkali Manufacturer's Association of India.
Mr. M. Sivabalasubramanian	CEO, Yarn Operations	He oversees the operations, development, strategy and marketing of GHCL's yarn division. He joined GHCL in 1995 and prior to it, he was with Loyal Textile Mills Ltd. He has a rich and varied experience of three decades in cotton procurement, spinning and its commercial aspects. He holds a bachelor's degree in Textile Engineering from PSG, Coimbatore and has been associated with GHCL for almost two decades. He is also an active member of Rotary & Freemasons.

Source: Company, Aриhant Research

Risks and Concerns:

- Soda Ash production depends upon global economic activity and any slowdown in global GDP can reduce demand scenario for the products.
- The company is undertaking greenfield project to set up Soda Ash capacity. Any delay in the execution of the project can lead to cost over-runs and can affect the financial performance of the company.
- Sales realization depends upon prices of the underlying chemical, i.e. soda ash. Decline in soda ash prices globally or locally can affect the sales realizations and overall revenue of the company.
- The company sources some of its raw materials from the international market. Increase in freight and logistic cost and price of underlying raw materials can negatively impact the operating margins of the company.
- Disruption in global export-import trade route can impact availability of imported raw materials for the company.

Financials

P&L (INR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenues	32,560	28,231	37,167	38,413	40,380
COGS	14,218	12,654	16,628	16,671	17,323
Gross Profit	18,342	15,577	20,539	21,742	23,057
Gross Margins	56.3%	55.2%	55.3%	56.6%	57.1%
Employee Cost	1,884	1,725	1,542	1,537	1,615
Other Operating Expenses	9,091	7,660	10,136	10,180	10,600
EBITDA	7,367	6,192	8,861	10,026	10,842
<i>EBITDA Margins</i>	<i>22.6%</i>	<i>21.9%</i>	<i>23.8%</i>	<i>26.1%</i>	<i>26.9%</i>
Other Income	164	266	115	119	125
Depreciation	1,305	1,332	1,301	1,344	1,413
Finance Cost	1,182	902	624	572	601
Exceptional Items	0	0	0	0	0
PBT	5,044	4,224	7,050	8,229	8,953
Tax	980	1,124	1,843	2,155	2,346
Net Profit	4,064	3,100	5,207	6,073	6,607
<i>NPM</i>	<i>12.5%</i>	<i>11.0%</i>	<i>14.0%</i>	<i>15.8%</i>	<i>16.4%</i>

Balance Sheet (INR, Mn)	FY20	FY21	FY22E	FY23E	FY24E
Assets					
Net Block	19,793	20,566	19,313	20,113	22,157
Capital WIP	1,200	866	904	1,000	1,000
Intangible assets under development	692	772	736	736	736
Non-current investment	178	401	401	401	401
Long term loans and advances	155	144	149	149	149
Current Assets					
Current Investment	0	0	0	0	0
Inventories	7,906	7,405	9,461	10,621	11,243
Trade Receivables	2,744	2,507	3,332	3,837	4,061
Cash and Cash Equivalents	981	376	669	994	1,465
Bank Balance	239	137	134	134	134
Short Term loans & advances	24	37	28	28	28
Other Current Assets	1,087	631	734	734	734
Total Current Assets	12,981	11,093	14,358	16,348	17,665
Current Liabilities & Provisions					
Short-term borrowings	421	402	293	209	108
Trade Payables	3,656	3,353	4,382	4,466	4,467
Other current Liabilities	2,489	2,173	2,173	2,173	2,173
Short-term provisions	129	144	145	146	148
Total Current Liabilities	6,695	6,072	6,993	6,994	6,896
Net Current Assets	6,286	5,021	7,365	9,354	10,769
Total Assets	34,999	33,842	35,861	38,747	42,108
Liabilities	0	0	0	0	0
Share Capital	950	950	950	950	950
Reserves and Surplus	20,540	24,068	27,743	32,239	37,298
Total Shareholders Funds	21,490	25,018	28,693	33,189	38,248
Total Debt	10,753	6,052	4,408	2,798	1,100
Long Term Provisions	63	30	28	28	28
Other Long Term Liabilities	162	140	138	138	138
Net Deferred Tax Liability	2,531	2,602	2,594	2,594	2,594
Total Liabilities	34,999	33,842	35,861	38,747	42,108

Source: Company, Arihant Research

Cash flow Statement (INR, Mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	5,044	4,224	7,050	8,229	8,953
D&A	1,305	1,332	1,301	1,344	1,413
Other Adjustments	1,293	893	615	398	148
(Inc.)/Dec. in Working Capital	-182	769	-2,022	-2,182	-1,013
Taxes	-991	-1,078	-1,589	-2,079	-2,886
Cashflow from operations	6,469	6,140	5,355	5,710	6,615
Capex	-2,040	-1,075	-2,064	-2,693	-3,601
Cashflow from investments	-2,040	-1,075	-2,064	-2,693	-3,601
Issue of Share Capital	27	0	0	0	0
Net Borrowings	-619	-4715	-1,669	-1,591	-1,695
Others	-1,926	-896	-629	-401	-148
Issuance of Dividend	-1,052	-59	-700	-700	-700
Cashflow from Financing	-3,570	-5,670	-2,998	-2,692	-2,543
Net Change in Cash	859	-605	293	325	471
Beginning Cash	122	981	376	669	994
End Cash	981	376	669	994	1,465

Key Ratios	FY20	FY21	FY22E	FY23E	FY24E
Per share (INR)					
EPS	42.6	32.5	54.6	63.7	69.3
BVPS	225.4	262.4	300.9	348.1	401.1
Valuation (x)					
P/E	12.9	16.9	10.1	8.6	7.9
P/BV	2.5	2.2	1.9	1.6	1.4
EV/EBITDA	8.6	9.6	6.5	5.6	4.9
Return Ratios (%)					
Gross Margin	56.3%	55.2%	55.3%	56.6%	57.1%
EBIDTA Margin	22.6%	21.9%	23.8%	26.1%	26.9%
PAT Margin	12.5%	11.0%	14.0%	15.8%	16.4%
ROE	18.9%	12.4%	18.1%	18.3%	17.3%
ROCE	18.8%	15.6%	22.8%	24.1%	24.0%
Leverage Ratio (%)					
Total D/E	0.5	0.2	0.2	0.1	0.0
Turnover Ratios					
Asset Turnover (x)	1.6	1.4	1.9	1.9	1.8
Inventory Days	89	96	93	101	102
Receivable Days	31	32	33	36	37
Payable days	41	43	43	42	40

Source: Company, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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