

**CMP: INR 657**

**Rating: BUY**

**Target Price: INR 898**

**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)	50,245
52w H/L (INR)	681 / 232
Avg. Yearly Volume (in 000')	427

**Shareholding Pattern %**

(As on March, 2022)

Promoters	19.07
FII	15.42
DII	19.08
Public & Others	46.43

Stock Performance (%)	YTD	6m	12m
GHCL Ltd.	77%	54%	177%
Nifty 50	-3%	-5%	16%

**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 reported its Q4FY22 earnings which were robust and above our estimates. The company has benefitted from operational efficiencies and supportive industry dynamics in soda ash segment.

**Q4FY22 Result Highlights:**

- Revenues from operation increased by 76.6% YoY/up 26.7% QoQ to INR 12,733 Mn and came in above our estimates of INR 12,371 Mn.
- EBITDA increased by 112% YoY/up by 63% QoQ to INR 4,092 Mn and was above our estimates of INR 3,859 Mn.
- Operating margins expanded by 537 bps YoY/ up by 715 bps QoQ to 32.1%.
- Effective Tax Rate stood at 26.1% in Q4FY22 versus 25.9% in Q3FY22 and 27.3% in Q4FY21.
- PAT increased by 147.1% YoY/up by 74.8% QoQ to INR 2,673 Mn and above our estimates of INR 2,434 Mn. PAT Margins expanded by 599 bps YoY/up by 577 bps QoQ to 21.0%.
- Balance Sheet remained robust with Cash and Cash Equivalents of INR 2,435 Mn at the end of March 2022 versus INR 350 Mn in FY21.
- Long Term borrowings reduced in FY22 and stood at INR 4,246 Mn versus INR 5,638 Mn in FY21.
- It has recommended a total dividend of INR 15 per equity share of Face Value INR 10, i.e. 150% on the paid up equity capital. This includes regular dividend of INR 10 per share and Special Dividend of INR 5 per share for FY22.
- Dividend will be paid on or after 4th July 2022, if approved in the upcoming Annual General Meeting.
- The company has targeted a capital budget of about INR 5,049 Mn for FY23.

**Outlook & Valuations:** The global and domestic soda ash industry is witnessing supply-demand imbalance. Additionally, the ongoing Ukraine-Russia conflict has further tightened the domestic market, thus supporting price growth. International prices of soda ash is higher compared to local prices. Moreover, the company is expanding its capacity through brownfield and greenfield project, which will facilitate volume growth. It reported strong earnings growth in Q4FY22 and we believe that the growth trajectory will continue in FY23, facilitated by supportive industry dynamics. 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 maintain our BUY rating on the stock with the Target Price of INR 898 per share.

**Financial Highlights**

INR in Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	32,560	28,231	37,784	38,413	40,380
EBITDA	7,367	6,192	9,799	10,026	10,842
EBITDA margin(%)	22.6%	21.9%	25.9%	26.1%	26.9%
PAT	4,064	3,100	5,992	6,073	6,607
PATM (%)	12.5%	11.0%	15.7%	15.8%	16.4%
EPS (in INR)	42.6	32.5	62.8	63.7	69.3
PE (x)	15.4	20.2	10.5	10.3	9.5
EV/EBITDA (x)	8.6	9.6	6.4	5.6	4.9
ROE(%)	18.9%	12.4%	18.1%	18.3%	17.3%

Source: Company, Arihant Research

## Quarterly Result

INR, Mn	Q4FY22	Q3FY22	Q4FY21	QoQ	YoY
<b>Revenue from Operations</b>	<b>12,733</b>	<b>10,048</b>	<b>7,209</b>	<b>26.7%</b>	<b>76.6%</b>
Cost of Material consumed	4,568	3,922	2,727	16.5%	67.5%
Purchase of Stock-in-trade	980	729	232	34.4%	323.2%
Changes in inventories of finished goods, WIP and stock-in-trade	-59	-51	216	16.5%	-127.5%
<b>Gross Profit</b>	<b>7,245</b>	<b>5,448</b>	<b>4,035</b>	<b>33.0%</b>	<b>79.6%</b>
<b>Gross Profit Margin</b>	<b>56.9%</b>	<b>54.2%</b>	<b>56.0%</b>	<b>268</b>	<b>93</b>
Power, fuel and water expense	1,887	1,734	963	8.8%	96.0%
Employee benefits expense	494	351	357	40.7%	38.4%
Other Expenses	831	872	807	-4.7%	2.9%
<b>Total Expenses</b>	<b>8,699</b>	<b>7,557</b>	<b>5,301</b>	<b>15.1%</b>	<b>64.1%</b>
<b>EBITDA</b>	<b>4,033</b>	<b>2,491</b>	<b>1,908</b>	<b>61.9%</b>	<b>111.4%</b>
<b>EBITDA Margin</b>	<b>31.7%</b>	<b>24.8%</b>	<b>26.5%</b>	<b>689</b>	<b>522</b>
Depreciation and amortization expense	292	297	278	-1.7%	5.0%
<b>EBIT</b>	<b>3,741</b>	<b>2,194</b>	<b>1,629</b>	<b>70.5%</b>	<b>129.6%</b>
EBIT Margin	29.4%	21.8%	22.6%	755	678
Finance Cost	182	150	164	21.8%	11.4%
Other Income	59	20	22	197.5%	162.8%
Profit before tax and Exceptional items from continuing operations	3,618	2,064	1,488	75.3%	143.1%
Exceptional items	0	0	0		
Profit before tax from continuing operations	3,618	2,064	1,488	75.3%	143.1%
Tax Expenses					
Current Tax	902	537	365	68.0%	147.2%
Tax adjustment for earlier years	0	0	-9		NA
Deferred Tax	43	-3	51	NA	-16.0%
Total Tax Expenses	944	534	406	76.8%	132.5%
Effective Tax Rate	26.1%	25.9%	27.3%	22	-119
<b>Net Profit from continuing operations</b>	<b>2,673</b>	<b>1,530</b>	<b>1,082</b>	<b>74.8%</b>	<b>147.1%</b>
<b>PAT Margins</b>	<b>21.0%</b>	<b>15.2%</b>	<b>15.0%</b>	<b>577</b>	<b>599</b>

Source: Company, Aриhant Research

- Increase in revenues was supported by healthy price appreciations and volume growth.
- Favourable demand-supply dynamics resulted in increased sales realization for the Soda Ash business.
- Expansion in EBITDA was facilitated by better realization, offsetting inflationary cost. Also, there was better efficiencies which supported higher volumes.
- In the spinning business, the strong growth trajectory was driven by healthy demand landscape with better pricing trends.
- Expansion in operating margins was supported by higher contribution from value-added portfolio combined with strong operating efficiencies.

## Conference Call Highlights

### Global Demand-Supply Scenario:

- Soda Ash demand remained strong due to revival of economy and strong growth in downstream segment and emerging applications in solar glass.
- Supply side is constrained due to closure of some capacity in China and issue of supply chain. No fresh investment has been undertaken in the industry in the last few years.
- In the spinning business, there is a slowdown in demand due to high prices of cotton.
- Majority of soda ash plants in Eastern Europe countries like Bulgaria and Poland utilize coal, instead of natural gas as energy source. Therefore, there seems to be no significant supply disruption due to ban on Russian gas exports to these countries. Also, there is no meaningful supply disruption from soda ash manufacturers based in Russia.
- Domestic prices of soda ash are cheaper than the prices of imported soda ash.
- In terms of upcoming global capacity addition, some facilities is coming up at Mongolia and the U.S. However, it will take about 2 years for commissioning and execution.

### Operational:

- As planned, successfully completed the investment of the home textile business effective April 2, 2022. The realized consideration was INR 6,080 Mn.
- Revenues and EBITDA growth was driven by strong performance in the soda ash business due to combination of volume growth and price increase to offset cost inflation. Operating margin expanded as price hike undertaken more than offset the increase in input costs.
- In the textile business, the focus is on product basket expansion and value-added products.
- The spot price of domestic soda ash is the range of INR 34,000. The volume mix for spot and fixed contracts is about 30%:70%.
- Input prices increased significantly. Coal prices went up from USD 150 to USD 300.
- Capital cost per tonne is about INR 70,000. This does not include backward integration infrastructure and sodium bicarbonate. Including backward integration, the capital cost per tonne would increase by about INR 15,000.
- In the soda ash business, about 10% of volumes would be contributed by value-added or specialty chemical product like sodium bicarbonate.
- Capacity utilization for the quarter stood at 98%-99% for the soda ash business.

### Capital Expenditure Program Status:

- The company is focusing on the Greenfield project in soda ash and the expansion in sodium bicarbonate. Major portion of the capital expenditure will come in FY2025 and beyond.
- It is also looking to expand its spinning business. It will invest in green energy to have better cost control and target to meet internal power requirement of upto 85%.

### Debt Reduction:

- At the end of FY22, the net debt stood at INR 5,430 Mn compared to INR 7,220 Mn in FY21. The Net Debt-Equity ratio is at 0.18x.

### Outlook:

- Tightness of soda ash market is likely to persist at least for one year, until there is demand destruction which appears unlikely.
- The spinning industry will be supported by China plus strategy, situation in Sri Lanka and in Pakistan and likely Free Trade Agreement between India and UK/Europe.
- The company is targeting to demerge the chemical and spinning business by the third quarter of FY23.

## Financials

P&L (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>32,560</b>	<b>28,231</b>	<b>37,784</b>	<b>38,413</b>	<b>40,380</b>
COGS	14,218	12,654	16,869	16,671	17,323
Gross Profit	18,342	15,577	20,914	21,742	23,057
Gross Margins	56.3%	55.2%	55.4%	56.6%	57.1%
Employee Cost	1,884	1,725	1,523	1,537	1,615
Other Operating Expenses	9,091	7,660	9,592	10,180	10,600
<b>EBITDA</b>	<b>7,367</b>	<b>6,192</b>	<b>9,799</b>	<b>10,026</b>	<b>10,842</b>
<i>EBITDA Margins</i>	<i>22.6%</i>	<i>21.9%</i>	<i>25.9%</i>	<i>26.1%</i>	<i>26.9%</i>
Other Income	164	266	121	119	125
Depreciation	1,305	1,332	1,168	1,344	1,413
Finance Cost	1,182	902	636	572	601
Exceptional Items	0	0	0	0	0
<b>PBT</b>	<b>5,044</b>	<b>4,224</b>	<b>8,117</b>	<b>8,229</b>	<b>8,953</b>
Tax	980	1,124	2,125	2,155	2,346
<b>Net Profit</b>	<b>4,064</b>	<b>3,100</b>	<b>5,992</b>	<b>6,073</b>	<b>6,607</b>
<i>NPM</i>	<i>12.5%</i>	<i>11.0%</i>	<i>15.7%</i>	<i>15.8%</i>	<i>16.4%</i>

Balance Sheet (INR, Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Assets</b>					
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
<b>Current Assets</b>					
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
<b>Total Current Assets</b>	<b>12,981</b>	<b>11,093</b>	<b>14,358</b>	<b>16,348</b>	<b>17,665</b>
<b>Current Liabilities &amp; Provisions</b>					
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
<b>Total Assets</b>	<b>34,999</b>	<b>33,842</b>	<b>35,861</b>	<b>38,747</b>	<b>42,108</b>
<b>Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Share Capital	950	950	950	950	950
Reserves and Surplus	20,540	24,068	27,743	32,239	37,298
<b>Total Shareholders Funds</b>	<b>21,490</b>	<b>25,018</b>	<b>28,693</b>	<b>33,189</b>	<b>38,248</b>
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
<b>Total Liabilities</b>	<b>34,999</b>	<b>33,842</b>	<b>35,861</b>	<b>38,747</b>	<b>42,108</b>

Source: Company, Aриhant Research

Cash flow Statement (INR, Mn)	FY20	FY21	FY22	FY23E	FY24E
PBT	5,044	4,224	8,117	8,229	8,953
D&A	1,305	1,332	1,301	1,344	1,413
Other Adjustments	1,293	893	215	398	148
(Inc.)/Dec. in Working Capital	-182	769	-2,489	-2,182	-1,013
Taxes	-991	-1,078	-1,789	-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	FY22	FY23E	FY24E
<b>Per share (INR)</b>					
EPS	42.6	32.5	62.8	63.7	69.3
BVPS	225.4	262.4	300.9	348.1	401.1
<b>Valuation (x)</b>					
P/E	15.4	20.2	10.5	10.3	9.5
P/BV	2.5	2.2	1.9	1.6	1.4
EV/EBITDA	8.6	9.6	6.4	5.6	4.9
<b>Return Ratios (%)</b>					
Gross Margin	56.3%	55.2%	55.4%	56.6%	57.1%
EBIDTA Margin	22.6%	21.9%	25.9%	26.1%	26.9%
PAT Margin	12.5%	11.0%	15.7%	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%
<b>Leverage Ratio (%)</b>					
Total D/E	0.5	0.2	0.2	0.1	0.0
<b>Turnover Ratios</b>					
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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