

Arihant Capital values your support in the Asiamoney Brokers Poll 2022 for Institutional Team. We request your ballot

ASIAMONEY

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CMP: INR 644

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)	63,675
52w H/L (INR)	695 / 310
Avg. Yearly Volume (in 000')	427

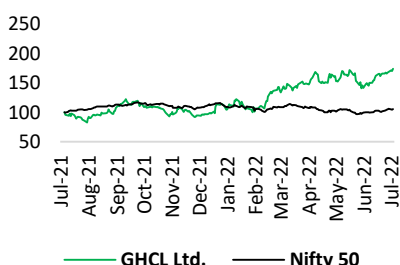
Shareholding Pattern %

(As on June, 2022)

Promoters	19.03
FII	18.50
DII	15.58
Public & Others	46.89

Stock Performance (%)	YTD	6m	12m
GHCL Ltd.	82%	57%	91%
Nifty 50	-4.5%	-2%	7%

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 Q1FY23 earnings which were robust and largely in-line with our estimates. The company has benefitted from operational efficiencies and supportive industry dynamics in soda ash segment.

Q1FY23 Result Highlights:

- Revenues from operation increased by 95.7% YoY/up 7.2% QoQ to INR 13,652 Mn and came in above our estimates of INR 13,357 Mn.
- EBITDA increased by 167.7% YoY/up by 4.8% QoQ to INR 4,227 Mn and was above our estimates of INR 4,187 Mn.
- Operating margins expanded by 833 bps YoY/ down by 71 bps QoQ to 31.0%.
- Effective Tax Rate stood at 22.3% in Q1FY23 versus 26.1% in Q4FY22 and 26.7% in Q1FY22.
- PAT from continuing operations increased by 313.4% YoY/up by 31.1% QoQ to INR 3,505 Mn and above our estimates of INR 2,785 Mn. PAT Margins expanded by 1,352 bps YoY/up by 468 bps QoQ to 25.7%. However, the strong PAT growth was driven by proceeds of INR 640 Mn received from the sale of the Home Textile business.
- The Inorganic Chemicals business saw revenue growth of 108% YoY and 10% QoQ, supported by volume expansion and realization gains.
- EBITDA for Inorganic Chemicals improved by 226% YoY and 8% QoQ led by better operating leverage coupled with higher realizations.
- Revenues for the Textiles (Spinning) segment increased by 60% YoY and stable against QoQ driven by strong contribution from value added products and firm yarn pricing. However, demand remained softer on account of elevated raw material costs.
- EBITDA margin stood at 23.5%, benefitting from higher contribution of value-added products and robust cost management initiatives.
- Balance Sheet remained robust with low Net Debt/Equity at 0.16x.
- Cash and Cash Equivalents of INR 1,500 Mn at the end of 30th June 2022.

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. The company is expanding its capacity through brownfield and greenfield project, which will facilitate volume growth. It reported strong earnings growth in Q1FY23 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

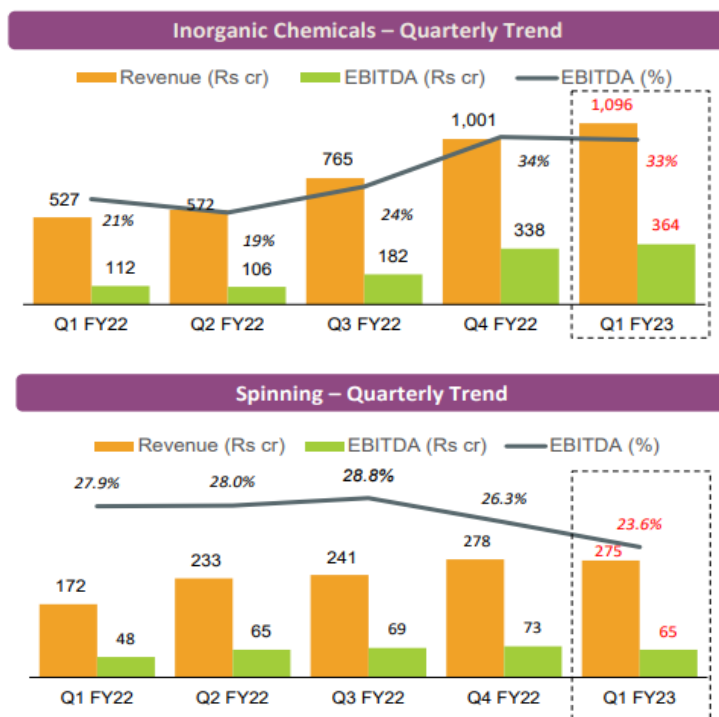
INR in Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	32,560	28,231	37,784	38,413	40,380
EBITDA	7,367	6,192	9,799	10,026	10,842
EBITDA margin(%)	22.6%	21.9%	25.9%	26.1%	26.9%
PAT	4,064	3,100	5,992	6,073	6,607
PATM (%)	12.5%	11.0%	15.7%	15.8%	16.4%
EPS (in INR)	42.6	32.5	62.8	63.7	69.3
PE (x)	15.1	19.8	10.3	10.1	9.3
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	Q1FY23	Q4FY22	Q1FY22	QoQ	YoY
Revenue from Operations	13,652	12,733	6,975	7.22%	95.73%
Cost of Material consumed	5,119	4,568	2,849	12.07%	79.71%
Purchase of Stock-in-trade	1178.6	979.7	268.2	20.30%	339.45%
Changes in inventories of finished goods, WIP and stock-in-trade	-381.9	-59.4	-108.9	542.93%	250.69%
Gross Profit	7,736	7,245	3,967	6.78%	95.00%
Gross Profit Margin	56.67%	56.90%	56.88%	-23	-21
Power, fuel and water expense	2,293	1,887	1,182	21.54%	94.01%
Employee benefits expense	432.5	493.7	341.8	-12.40%	26.54%
Other Expenses	783.1	830.6	864.4	-5.72%	-9.41%
Total Expenses	9,425	8,699	5,396	8.34%	74.66%
EBITDA	4,227	4,033	1,579	4.8%	167.7%
EBITDA Margin	31.0%	31.7%	22.6%	-71	833
Depreciation and amortization expense	300.5	292.4	283.6	2.77%	5.96%
EBIT	3,927	3,741	1,295	4.96%	203.15%
EBIT Margin	28.8%	29.4%	18.6%	-62	1019
Finance Cost	118	182	152.5	-34.98%	-22.36%
Other Income	61.1	58.6	14.2	4.27%	330.28%
Profit before tax and Exceptional items from continuing operations	3,869	3,618	1,157	6.96%	234.43%
Exceptional items	640.5	0	0		
Profit before tax from continuing operations	4,510	3,618	1,157	24.67%	289.79%
Tax Expenses					
Current Tax	957	902.1	285	6.09%	235.79%
Tax adjustment for earlier years	0	-0.3	0	-1	
Deferred Tax	48.2	42.5	24.2	0.13411765	99.17%
Total Tax Expenses	1005.2	944.3	309.2	6.45%	225.10%
Effective Tax Rate	22.3%	26.1%	26.7%	-381	-444
Net Profit from continuing operations	3,505	2,673	848	31.11%	313.39%
PAT Margins	25.7%	21.0%	12.2%	468	1352

Source: Company, Arianth Research



Source: Company, Arianth Research

Conference Call Highlights

Global Demand-Supply Scenario:

- Soda Ash demand remained strong in the first quarter of FY23. It was driven by the glass industry, particularly the solar glass and lithium carbonate segment.
- Supply side is constrained due to factors like high energy prices, gas shortage for EU market and Russia and Ukraine situation.
- There is no significant capacity addition coming up in the near future and therefore the demand-supply mismatch is likely to continue.
- In the textile business, there is slowdown in demand from various end user segments and scenario is likely to remain the same in the near future.
- Dollar appreciation against the Indian rupee will also support prices of soda ash.

Operational:

- Soda ash prices have remained firm and the company has taken two price increase to pass on the hike in raw material costs.
- With regards to the de-merger process, the company has received order from the honorable NCLT to conduct meeting of unsecured shareholders.
- In the last 20 years, revenues have increased by 15% CAGR, while EBITDA has increased by 31% CAGR. EBITDA margins have also expanded with focus on value-added products.
- The company benefitted from lower imports of soda ash in India. Earlier, about 23% of demand was met by imports, while currently, it is in the range of 10%-13%.
- All adjustments regarding the exceptional items pertaining to the sale of Home Textile proceeds has been completed in the present quarter.
- EBITDA margin for soda ash has been strong in the range of 30%-35% for the last 15-17 years.
- Trading of inorganic chemicals has an annual run rate of about INR 2 Bn with lower margins of 2%-3%.
- Capacity utilization of soda ash plant was near the peak in Q1FY23. The overall capacity of the plant is 11 lakh tonnes.
- Cotton prices have increased significantly over the last 1.5 years from INR 40,000 to INR 100,000.
- The company repaid debt of INR 2 Bn in the current quarter, i.e. Q1FY23.

Capital Allocation:

- Because of demerger process, there is no thought of buyback program by the management.
- The dividend policy is likely to remain similar to historic levels with dividend distribution policy of 15% to 20% distribution.
- Main focus is to re-invest in the business through capital expenditure program and capacity augmentation of the soda ash and textile business.
- The greenfield expansion of soda ash is likely to start from March 2023 and completed in about 2 years, till March 2025.
- The company is doubling the capacity of sodium bicarbonate and is tentatively around November – December 2022.

Outlook:

- Going forward, the impetus will be on green energy expansion and 20% volume growth every quarter.
- There is traction in the textile demerger process and the activity is expected to be complete as per the original timeline.
- Tightness of soda ash market is likely to persist at least for one year, due to lack of any significant new capacity addition and supply disruption.

Financials

P&L (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	32,560	28,231	37,784	38,413	40,380
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
EBITDA	7,367	6,192	9,799	10,026	10,842
<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
PBT	5,044	4,224	8,117	8,229	8,953
Tax	980	1,124	2,125	2,155	2,346
Net Profit	4,064	3,100	5,992	6,073	6,607
<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
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, Arianth 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
Per share (INR)					
EPS	42.6	32.5	62.8	63.7	69.3
BVPS	225.4	262.4	300.9	348.1	401.1
Valuation (x)					
P/E	15.1	19.8	10.3	10.1	9.3
P/BV	2.5	2.2	1.9	1.6	1.4
EV/EBITDA	8.6	9.6	6.4	5.6	4.9
Return Ratios (%)					
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%
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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