

AUGUST 01, 2022

## Result Update

## GHCL

PRICE Rs.644

TARGET Rs.715

ADD

### Stock Details

|                         |   |           |
|-------------------------|---|-----------|
| Market cap (Rs cr)      | : | 6118      |
| 52-wk Hi/Lo (Rs)        | : | 695.6/310 |
| Face Value (Rs)         | : | 10        |
| 3M Avg. daily vol (Nos) | : | 646,640   |
| Shares o/s (cr)         | : | 9.5       |

Source: Moneycontrol, BSE

### Financial Summary

| Y/E Mar (Rs cr)     | FY22  | FY23E | FY24E  |
|---------------------|-------|-------|--------|
| Revenue             | 3,778 | 5,082 | 4,387  |
| Growth (%)          | 51.7% | 34.5% | -13.7% |
| EBITDA              | 979   | 1,544 | 1,333  |
| EBITDA margin (%)   | 25.9  | 30.4  | 30.4   |
| PAT                 | 213   | 378   | 300    |
| EPS                 | 62.7  | 112.9 | 89.4   |
| EPS Growth (%)      | 90.9  | 78.0  | (20.8) |
| BV (Rs/share)       | 324   | 401   | 479    |
| Dividend/share (Rs) | 5.5   | 5.5   | 5.5    |
| ROE (%)             | 19.4  | 28.1  | 18.7   |
| ROCE (%)            | 22.6  | 32.7  | 22.9   |
| P/E (x)             | 10.3  | 5.7   | 7.2    |
| EV/EBITDA (x)       | 6.8   | 4.1   | 4.3    |
| P/BV (x)            | 2.0   | 1.6   | 1.3    |

Source: Company, Kotak Securities - PCG

### Shareholding Pattern (%)

| (%)       | Jun-22 | Mar-22 | Dec-21 |
|-----------|--------|--------|--------|
| Promoters | 19.1   | 19.1   | 19.1   |
| FII       | 18.5   | 15.4   | 16.3   |
| DII       | 15.6   | 19.1   | 19.0   |
| Others    | 46.8   | 46.4   | 45.6   |

Source: Moneycontrol, BSE

### Price Performance (%)

| (%)   | 1M   | 3M  | 6M   |
|-------|------|-----|------|
| GHCL  | 14.1 | 0.7 | 48.2 |
| Nifty | 8.6  | 0.3 | 0.3  |

Source: Moneycontrol, BSE

### Price chart (Rs)



Source: Moneycontrol, BSE

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GHCL's Q1FY23 operating performance was above our estimates, driven by strong contribution from both the segments – inorganic chemicals and spinning. The company reported 95.7% YoY and 7.2% QoQ growth in revenue. Soda ash volume during the quarter grew ~11% YoY and realisation improved ~80% YoY to Rs33,043/tonne. Spinning segment continued to do well backed by strong demand in value added products and firm yarn pricing. Despite the strong headwinds in terms of raw materials and fuel cost, EBITDA margin declined marginally by 60 bps QoQ to 31%. GHCL reported PAT of Rs350 cr. We believe, given the tightness in soda ash market, inorganic chemical performance likely to sustain in the near term. However, benefit of the same is expected to partly offset by subdued spinning performance, as it would get impacted by higher cotton prices, in our view. The stock is currently trading at a premium to its historical multiples of 4.5x EV/EBITDA and we believe, the premium to sustain, given the improvement in operating performance, strong cash flow generation and low leverage. We value the stock at 5.5x FY24E EBITDA and arrive at a fair value of Rs715 (earlier Rs690), maintain ADD.

### Key Highlights

- Inorganic chemical reported sharp improvement in the performance backed by strong volume growth and higher realization. Realisation in 1QFY23 grew 80% YoY, as the company has taken two round of price hike and expect the benefit to flow in 2QFY23 as well. The segment reported 108%/10% YoY/QoQ growth to Rs1,096 cr. While, EBITDA margin declined sequentially by 50 bps to 33.2%, due to higher trading business (where margins are in the range of 2-3%)

### Quarterly performance table

| Particulars (Rs cr)          | 1QFY23 | 1QFY22 | YoY (%) | 4QFY22 | QoQ (%) |
|------------------------------|--------|--------|---------|--------|---------|
| Sales                        | 1,365  | 698    | 95.7    | 1,273  | 7.2     |
| Cost of Material Consumed    | 592    | 301    |         | 549    |         |
| Utility Cost                 | 229    | 118    |         | 189    |         |
| Man Power Cost               | 43     | 34     |         | 49     |         |
| Other Operating Expenses     | 78     | 86     |         | 83     |         |
| EBITDA                       | 423    | 158    | 167.6   | 403    | 4.8     |
| EBITDA Margin (%)            | 31.0   | 22.6   |         | 31.7   |         |
| Depreciation                 | 30     | 28     |         | 29     |         |
| EBIT                         | 393    | 130    |         | 374    |         |
| Interest                     | 12     | 15     |         | 18     |         |
| Other Income                 | 6      | 1      |         | 6      |         |
| Exceptional                  | 64     | 0      |         | 0      |         |
| Profit before Tax            | 451    | 116    |         | 362    |         |
| Tax                          | 101    | 31     |         | 94     |         |
| Profit After Tax             | 350    | 85     | 313.1   | 267    | 31.1    |
| Profit from Discontinued Op. | 9      | 30     |         | 4      |         |
| PAT (%)                      | 25.7   | 12.2   |         | 21.0   |         |

Source: Company, Kotak Securities – Private Client Group

- ❑ As per management, soda ash demand from the glass industry continues to remain robust, primarily driven by significant investment in the Solar Power. Detergent segment is witnessing slower demand. They further indicated, that no new capacity is coming globally in the near term, coupled with sharp decline in import sequentially, leading to firm pricing in the near term, despite commodity prices coming down.
- ❑ Spinning segment continued with its strong performance, driven by strong contribution from value added products and firm yarn pricing. Segment reported revenue of Rs275 cr, +60% YoY (-1% QoQ), with an EBITDA margin of 23.5% (decline sequentially by 90 bps). The decline in EBITDA margin is in line with estimates, however, we still believe, the current margins are not sustainable in the long run and expects the same to be in the range of 15-18%, in our view.
- ❑ Given the strong performance, we have revised our estimates higher to Rs112.9 (earlier Rs77.8) and Rs89.4 (earlier Rs78.2) for FY23E and FY24E, respectively.

### Valuation & outlook

Given the strong tailwinds in organic chemicals both in terms of pricing and volume, the segment is expected to continue with its strong performance in the near to medium term. Textile segmented is expected to see headwinds in terms of elevated raw material cost. In addition, doubling of capacity of sodium bicarbonate by end of 3QFY23, should see the benefit in FY24E.

The stock is currently trading at 5.7x/7.2x FY23E/FY24E earnings, and 4.1x/4.2x FY23E/FY24E EV/EBITDA, trading at a premium to its historical average. Backed by strong operating performance, higher cash flow generations, improvement in leverage and return ratios, we believe the valuation premium to sustain in the near to medium term. Maintain ADD with revised target price of Rs715 (earlier Rs690), valuing stock at 5.5x FY24E EV/EBITDA.

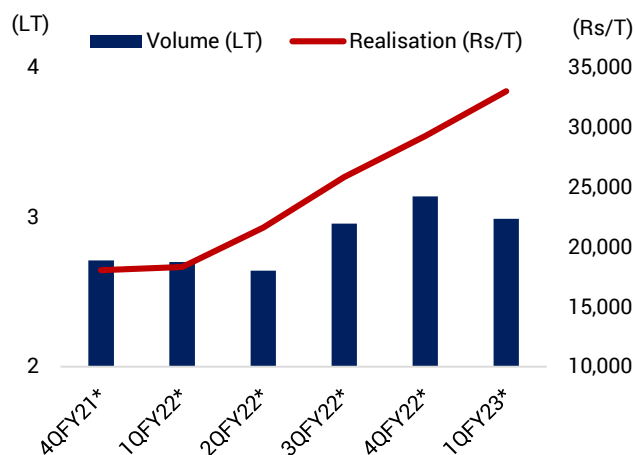
### Higher volume and realisation boosted inorganic chemical performance

Soda ash volume during the quarter 1QFY23 grew 11% YoY to 2.99 lakh tonnes. Given the sharp rise in input cost, sharp fall in imports and supply tightened by China, soda ash realisation increased by Rs3,743/tonne to Rs33,043/tonne. Strong operating leverage helped the company to report 33.2% EBITDA margin in the segment, declined sequentially due to higher trading business.

As per the management, the global market is expected to grow at 2% CAGR in the medium term, indicating incremental demand of 12 lakh tonnes annually, largely supported by solar glass and lithium carbonate. On the other hand, supply is expected to remain tight in the global market, as no new capacity is expected to come on stream in the near term, thereby indicating a demand supply mismatch in the near to medium term.

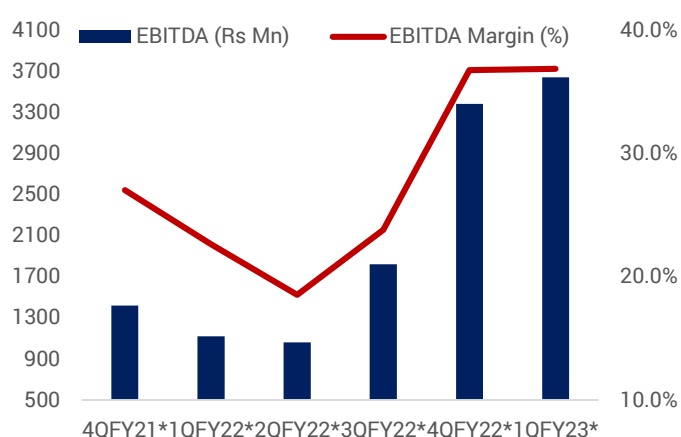
Management expects soda ash prices to remain firm in the near term, backed by supply side restrictions. As per management, the company has been able to pass on the cost inflation, by taking price hike at a regular intervals and expects margin to sustain in the near term. We believe, once the supply chain issues get resolved and cost pressure subsidize, industry might see some softness in the soda ash prices.

### Volume trend



Note: \* volume is an derived number; Source: Company, Kotak Securities - Private Client Group

### Soda ash segment operating performance



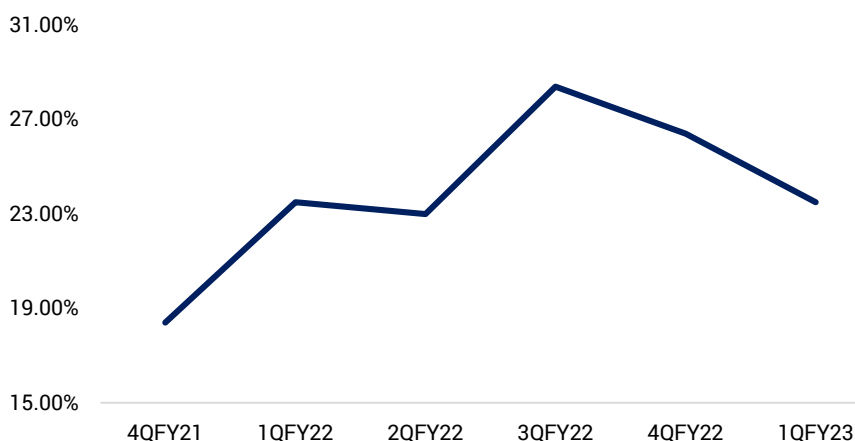
Source: Company, Kotak Securities – Private Client Group

### Spinning segment continues to report healthy margin

Driven by the higher contribution from the value added products and firm pricing, spinning segment continued to report healthy operating margin. Segment reported revenue of Rs275 cr, down marginally on QoQ, due to softer demand due to elevated raw material costs. EBITDA came in at Rs 65 cr, with an EBITDA margin of 23.5%.

We believe, segment to report the strong performance in terms of volume as new 40,000 spindles expected to come on stream in Q3FY23. However, foresee a pressure on operating performance due to sharp increase in cotton prices. Hence, we believe the current margin is not sustainable and foresee sustainable margin of 15-18%.

### Textile segment EBITDA Margin (%) trend



Source: Company, Kotak Securities – Private Client Group

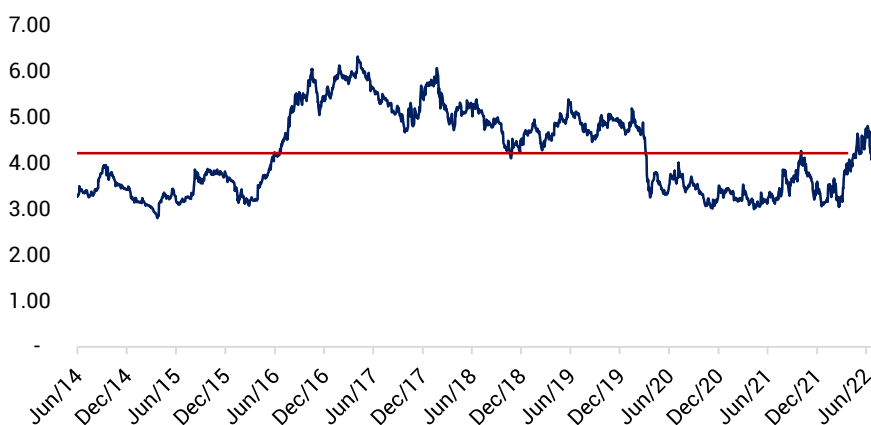
### Other highlights

- **Greenfield Project:** The company has earmarked a capex of Rs3500 cr for setting up of green field soda ash project, the work on which is expected to start in the near to medium term. Hence, the major capex would flow in FY24 and FY25.
- **Sodium Bicarbonate:** The company has undertaken the expansion plan to double the capacity of Sodium Bicarbonate and is expected to come on stream by end of 3QFY23 and the large benefit of the same would accrue in FY24.

### Key concern

We believe the key risk to our thesis is the sustainability of demand, largely due to inflationary costs across the world. Besides, this commissioning of new capacity, which is being planned in Inner Mongolia, can weigh on realization.

### One year forward EV/EBITDA (x)



Source: Company, Capitaline, Kotak Securities – Private Client Group

### Company Background

GHCL is one of the leading manufacturers of soda ash. There are two main business verticals, i.e., Inorganic Chemicals and spinning. 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. (Source: Company)

## Financials: Consolidated

### Profit and Loss Statement (Rs cr)

| (Year-end Mar)           | FY21         | FY22         | FY23E        | FY24E        |
|--------------------------|--------------|--------------|--------------|--------------|
| <b>Net Sales</b>         | <b>2,491</b> | <b>3,778</b> | <b>5,082</b> | <b>4,387</b> |
| % Growth                 | (24.6)       | 51.7         | 34.5         | (13.7)       |
| Raw Materials            | 1,136        | 1,687        | 2,014        | 1,782        |
| Employee Cost            | 129          | 153          | 203          | 175          |
| Power & Fuel             | 372          | 621          | 661          | 570          |
| Other Expenses           | 259          | 338          | 661          | 526          |
| <b>EBITDA</b>            | <b>596</b>   | <b>979</b>   | <b>1,544</b> | <b>1,333</b> |
| <b>EBITDA Margin (%)</b> | <b>23.9</b>  | <b>25.9</b>  | <b>30.4</b>  | <b>30.4</b>  |
| Depreciation             | 111          | 117          | 120          | 134          |
| <b>EBIT</b>              | <b>485</b>   | <b>862</b>   | <b>1,424</b> | <b>1,199</b> |
| Interest Exps.           | 74           | 64           | 46           | 60           |
| <b>EBT</b>               | <b>411</b>   | <b>799</b>   | <b>1,378</b> | <b>1,139</b> |
| Exceptional Items        | 0            | 0            | 64           | 0            |
| Other Income             | 7            | 12           | 13           | 13           |
| <b>PBT</b>               | <b>418</b>   | <b>811</b>   | <b>1,455</b> | <b>1,152</b> |
| Tax-Total                | 111          | 213          | 378          | 300          |
| <b>Profit after tax</b>  | <b>307</b>   | <b>598</b>   | <b>1,076</b> | <b>853</b>   |

Source: Company, Kotak Securities – Private Client Group

### Balance sheet (Rs cr)

| (Year-end Mar)           | FY21         | FY22         | FY23E        | FY24E        |
|--------------------------|--------------|--------------|--------------|--------------|
| Equity Capital           | 95           | 95           | 95           | 95           |
| Reserves and Surplus     | 2,389        | 2,990        | 3,730        | 4,467        |
| Shareholders' Funds      | 2,484        | 3,086        | 3,825        | 4,563        |
| Total Loan Funds         | 783          | 788          | 763          | 738          |
| Deferred Tax Liab.       | 260          | 290          | 297          | 304          |
| <b>Total Liabilities</b> | <b>3,527</b> | <b>4,163</b> | <b>4,884</b> | <b>5,604</b> |
| Fixed Assets             | 2,686        | 2,987        | 2,952        | 3,225        |
| Capital WIP              | 81           | 213          | 300          | 300          |
| Other Investments        | 15           | 17           | 27           | 37           |
| Inventories              | 764          | 944          | 1,248        | 1,095        |
| Sundry Debtors           | 228          | 229          | 393          | 329          |
| Cash and Bank Bal        | 49           | 255          | 624          | 1,181        |
| Loans and Advances       | 69           | 147          | 147          | 147          |
| Total Current Assets     | 1,110        | 1,576        | 2,413        | 2,752        |
| Current Liabilities      | 451          | 750          | 927          | 830          |
| Net Current Assets       | 659          | 826          | 1,486        | 1,922        |
| Other Non.Curr Ass/DTA   | 86           | 120          | 120          | 120          |
| <b>Total assets</b>      | <b>3,527</b> | <b>4,163</b> | <b>4,884</b> | <b>5,604</b> |

Source: Company, Kotak Securities – Private Client Group

### Cash flow Statement (Rs cr)

| (Year-end Mar)               | FY21         | FY22         | FY23E        | FY24E        |
|------------------------------|--------------|--------------|--------------|--------------|
| Net profit before tax        | 418          | 811          | 1,455        | 1,152        |
| Depreciation                 | 111          | 117          | 120          | 134          |
| Interest                     | 74           | 64           | 46           | 60           |
| Others                       | 15           | (83)         | 0            | 0            |
| Opt Profit before WC Changes | 619          | 908          | 1,620        | 1,346        |
| WC Changes                   | 46           | (241)        | (291)        | 121          |
| Cash Gene from Op.           | 665          | 668          | 1,330        | 1,467        |
| Direct Taxes Paid            | 111          | 213          | 378          | 300          |
| <b>Cash from Ope act</b>     | <b>554</b>   | <b>455</b>   | <b>951</b>   | <b>1,167</b> |
| Purchases of F.A             | (16)         | (46)         | (387)        | (400)        |
| Investment                   | (6)          | (1)          | (10)         | (10)         |
| Others                       | 0            | 0            | 0            | 0            |
| <b>Cash from Inv Act</b>     | <b>(22)</b>  | <b>(47)</b>  | <b>(397)</b> | <b>(410)</b> |
| Proc from Issue of Eq Shares | 0            | 0            | 0            | 0            |
| Net loans                    | (473)        | 5            | (25)         | (25)         |
| Interest paid                | (74)         | (64)         | (46)         | (60)         |
| Dividend paid & Others       | (52)         | (143)        | (115)        | (115)        |
| <b>Cash from Fin Act</b>     | <b>(599)</b> | <b>(201)</b> | <b>(186)</b> | <b>(200)</b> |
| Net Increase in Cash         | (67)         | 207          | 369          | 557          |
| Cash at Beginning            | 116          | 49           | 255          | 624          |
| <b>Cash at End</b>           | <b>49</b>    | <b>255</b>   | <b>624</b>   | <b>1181</b>  |

Source: Company, Kotak Securities – Private Client Group

### Ratio Analysis

| (Year-end Mar)           | FY21       | FY22       | FY23E      | FY24E      |
|--------------------------|------------|------------|------------|------------|
| <b>Per Share (Rs)</b>    |            |            |            |            |
| EPS                      | 32.3       | 62.7       | 112.9      | 89.4       |
| Cash EPS                 | 44.0       | 75.0       | 125.5      | 103.5      |
| Book value               | 261.5      | 323.6      | 401.1      | 478.5      |
| <b>Valuation (x)</b>     |            |            |            |            |
| P/E                      | 19.9       | 10.3       | 5.7        | 7.2        |
| Price/Book value         | 2.5        | 2.0        | 1.6        | 1.3        |
| EV/EBITDA                | 11.5       | 6.8        | 4.1        | 4.3        |
| EV/Sales                 | 2.8        | 1.8        | 1.2        | 1.3        |
| <b>Turnover Days</b>     |            |            |            |            |
| Inventory                | 96         | 91         | 90         | 91         |
| Receivables              | 29         | 22         | 28         | 27         |
| Creditors                | 55         | 71         | 58         | 59         |
| <b>Profit ratios (%)</b> |            |            |            |            |
| RoE                      | 12.4       | 19.4       | 28.1       | 18.7       |
| RoCE                     | 15.1       | 22.6       | 32.7       | 22.9       |
| <b>Margin (%)</b>        |            |            |            |            |
| EBITDA                   | 23.9       | 25.9       | 30.4       | 30.4       |
| EBIT                     | 19.5       | 22.8       | 28.0       | 27.3       |
| PAT                      | 12.3       | 15.8       | 21.2       | 19.4       |
| <b>Debt/ Equity</b>      | <b>0.3</b> | <b>0.3</b> | <b>0.2</b> | <b>0.2</b> |

Source: Company, Kotak Securities – Private Client Group

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### Definitions of ratings

|                  |   |
|------------------|---|
| <b>BUY</b>       | – We expect the stock to deliver more than 15% returns over the next 12 months  |
| <b>ADD</b>       | – We expect the stock to deliver 5% - 15% returns over the next 12 months   |
| <b>REDUCE</b>    | – We expect the stock to deliver -5% - +5% returns over the next 12 months  |
| <b>SELL</b>      | – We expect the stock to deliver < -5% returns over the next 12 months  |
| <b>NR</b>        | – <b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.  |
| <b>SUBSCRIBE</b> | – We advise investor to subscribe to the IPO.   |
| <b>RS</b>        | – <b>Rating Suspended.</b> Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. |
| <b>NA</b>        | – <b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable   |
| <b>NM</b>        | – <b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.   |
| <b>NOTE</b>      | – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.   |

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