

JUNE 19, 2019

News Highlights

- ▶ An expert committee of the Reserve Bank of India (RBI) on Micro, Small and Medium Enterprises (MSMEs) has suggested doubling collateral-free loans for these units. This should be applicable to Micro Units Development and Refinance Agency (Mudra) and Self-Help Groups (SHGs), too, the committee said. (Business Line)
- ▶ Lower duties are expected to encourage global manufacturers to invest in India's planned shift to electric vehicles in order to try and bring down pollution levels.
- ▶ India may cut the goods and services tax (GST) on electric vehicles to 5% from 12% to provide a stimulus to the sector that's a high priority for the Narendra Modi government. (ET)
- ▶ **Reliance Industries Ltd (RIL)** will invest Rs 200 bn in its telecom business, Reliance Jio Infocomm Ltd, to fuel its broadband and e-commerce play and enter 5G services in the future, two people aware of the matter said. (Livemint)
- ▶ Top lenders have decided to pare down their exposure to automobile dealers on account of increased defaults over the last two fiscal years, potentially delaying recovery in a sector struggling with weak demand. (Livemint)
- ▶ **Canara Bank** Board approves sale of part or full stake in Can Fin Homes. (Moneycontrol.com)
- ▶ **Jain Irrigation:** India Ratings cut Long Term Issuer Rating to BBB with outlook at 'Watch Negative'. (Moneycontrol.com)
- ▶ **Sundaram Multi Pap** has received BB+ (Stable) credit rating from Brickwork Ratings India Private Limited. (Moneycontrol.com)
- ▶ Auto components manufacturer **Pricol** is hiving off its wholly-owned Spanish subsidiary Pricol Espana SL and some step-down subsidiaries. The aim is to arrest further flow of funds into unviable markets, said the firm. (Business Line)
- ▶ **Tata Power** shareholders on Tuesday raised concerns over the company's debt and its large number of subsidiaries, which are weighing on the bottom-line. (Business Line)

What's Inside

- ▶ **Company Update:** GHCL Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

	18-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	39,046	0.2	2.9	2.5
NIFTY Index	11,692	0.2	2.5	2.0
NSEBANK Index	30,351	0.3	3.1	2.6
NIFTY 500 Index	9,551	0.1	2.4	0.4
CNXMcap Index	17,331	(0.2)	2.7	(2.7)
BSESMCAP Index	14,113	(0.4)	1.6	(4.8)
World Indices				
Dow Jones	26,466	1.4	2.7	2.2
Nasdaq	7,954	1.4	1.8	3.0
FTSE	7,443	1.2	1.3	1.6
NIKKEI	20,973	(0.7)	0.3	(1.1)
Hangseng	27,499	1.0	0.8	(4.4)
Shanghai	2,890	0.1	1.5	(5.3)

	18-Jun	% Chg Day	
Value traded (Rs cr)			
Cash BSE	1,938		(0.0)
Cash NSE	29,279		2.8
Derivatives	1,174,332		46.4

	17-Jun	MTD		YTD
Net inflows (Rs cr)				
FII	(323)	17		78,064
Mutual Fund	1,565	1,338		3,841

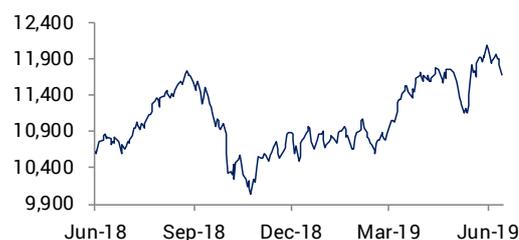
	18-Jun	Price (Rs)	Chg (%)	Vol (mn)
Gainers				
Vedanta Ltd		168	2.5	9.0
Coal India Ltd		260	2.0	4.2
BPCL		386	2.0	3.1
Losers				
Indiabulls Housing		610	(6.9)	18.2
Yes Bank		109	(5.9)	116.6
Maruti Suzuki		6,439	(2.2)	1.1

	Advances / Declines (BSE)				
	18-Jun	A	B	T	Total
Advances	225	319	44	588	100
Declines	234	635	71	940	160
Unchanged	2	19	10	31	5

	18-Jun	% Chg		
		1 Day	1 Mth	3 Mths
Commodity				
Crude (US\$/BBL)	62.1	(0.0)	(14.0)	(8.1)
Gold (US\$/OZ)	1,346.6	0.5	5.2	2.9
Silver (US\$/OZ)	15.0	1.1	3.9	(2.6)

	18-Jun	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.8	6.9	7.4	7.3
Re/US\$	69.7	69.9	69.7	68.5

Nifty



Source: Bloomberg

Company Update

GHCL LTD

Stock Details

Market cap (Rs mn)	:	25267
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	36,263	38,675
Growth (%)	13.5%	8.5%	6.7%
EBITDA	7,594	8,068	8,515
EBITDA margin (%)	22.7	22.2	22.0
PAT	3,506	4,033	4,384
EPS	35.8	41.1	44.7
EPS Growth (%)	(1.6)	15.0	8.7
BV (Rs/share)	196	231	270
Dividend/share (Rs)	5.0	5.0	5.0
ROE (%)	18.2	17.8	16.6
ROCE (%)	18.9	18.1	17.8
P/E (x)	6.6	5.7	5.3
EV/EBITDA (x)	4.7	4.4	4.1
P/BV (x)	1.1	1.0	0.9

Source: Company, Kotak Securities - PCG

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

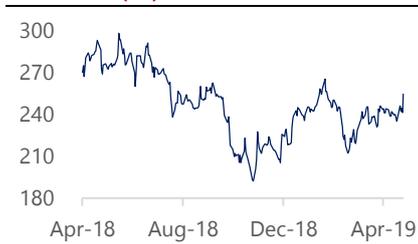
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
GHCL Ltd	11.0	2.7	34.0
Nifty	2.4	9.0	17.2

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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PRICE RS.237

TARGET RS.265

ADD

GHCL witnessed strong traction both in inorganic chemicals (soda ash) and textile business in FY19. Soda ash business performance was backed by the tight demand supply globally, 1lac tonne brownfield expansion plan and better spreads. On the other hand, despite headwinds textile business reported 129% YoY improvement in operating performance, backed by changes in the product mix.

Key Highlights

- During FY19, GHCL balance sheet expanded by ~11% YoY, primarily led by capacity expansion in soda ash (1 lakh tonnes) and in textile business.
- GHCL produced highest ever soda ash volume of 972,000, up 7.4% YoY, sales volume during the year stood at 933,000. Higher volume was supported by the commissioning of brownfield expansion plan in 2HFY19. The full benefit of the same would come in FY20E. Higher volume helped the company to increase its market share by 100 bps to 25%.
- RoCE declined in the last two years from 20.8% in FY17 to 18.9% in FY19, as the company had incurred a capex for expanding its soda ash capacity, the major benefit of the same will flow from FY20E onwards.
- In spite of the capex of Rs2.3 bn in FY19, the company's FCF continues to remain strong, due to strong operating performance from soda ash business. Capex for the expansion plan was largely funded through the internal accruals and Debt/Equity continues to remain at comfortable levels (0.7x).
- As per IHS Markit, soda ash demand continues to remain stable and balanced in most of the regions, expect China (witnessed slowdown). Other than China, global demand is estimated to have grown by 2% YoY and demand in the domestic market grew by 5%.
- Management expects the global market to grow at 2% annually, creating incremental demand of 1.2MT. Demand supply expected to remain balanced, with lower volume from China due to maintenance shutdown and subdued demand. 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.

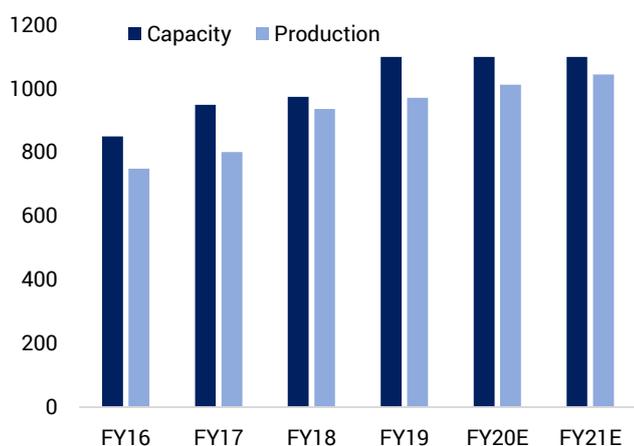
Valuation & outlook

Given the tight supply in the domestic and balanced global market, we expect soda ash business to continue to deliver strong performance going ahead, backed by contribution from the 1.25LT brownfield expansion. However, the benefit of the same might get partly offset by subdued realisation due to incremental supply in the domestic market in FY20. The textile segment reported better performance, and expect to report stable performance backed by changes in the product mix. We have marginally revised our estimates downwards to Rs41.1 (earlier Rs43.8) and Rs44.7 (earlier Rs45.5) for FY20E and FY21E, respectively, as we lower our soda ash realisation marginally, factoring incremental supply in 2HFY20, both in domestic as well as globally. At CMP, the stock is trading at 5.7x/5.3x FY20E/FY21E earnings. We maintain our ADD rating, with a revised target price of Rs265 (earlier Rs272).

Single largest producer of soda ash

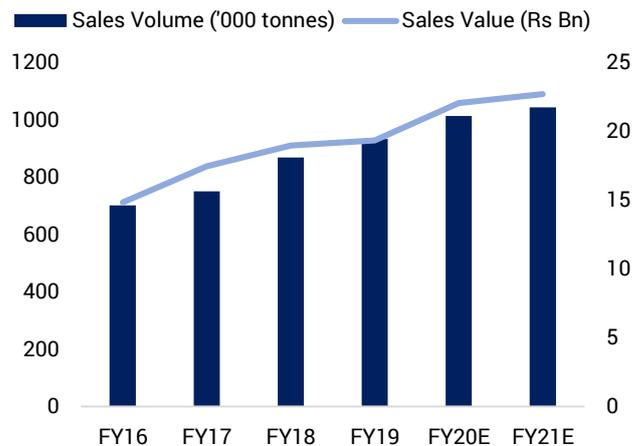
Soda ash (inorganic segment) was the key driver for the improvement in overall performance. The segment reported highest ever EBITDA of Rs6.72 bn, with an overall revenue growth of 17% YoY to Rs21.82 bn in FY19, driven by higher incremental volume of 60,000 tonnes coming from brownfield project, which got commissioned in 2HFY19. The capacity utilisation rate declined to 88% (due to commissioning of new facility). Going ahead, we expect the utilisation rate to jump back to over 92%, as benefit of 1.25LT would be there for full year and expect revenue to grow at 4.5% in FY20E, backed by 7.5% jump in sales volume which would be partly offset by lower realisation in 2HFY20 (incremental supply). Volume growth is expected to remain muted in FY21E.

Capacity and Production trend ('000 tonnes)



Source: Company, Kotak Securities – Private Client Research

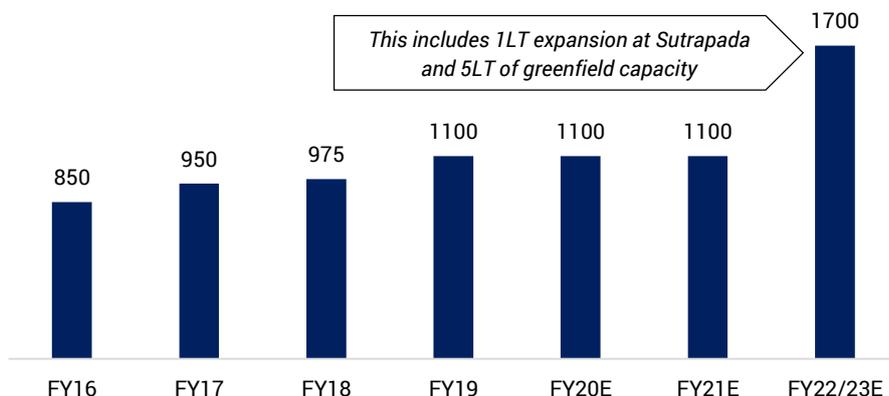
Sales volume and revenue



Source: Company, Kotak Securities – Private Client Research

The company has earmarked one more brownfield expansion of 1LT, which is likely to come on stream in the next two to three years. GHCL, also looking to set up 5LT capacity of greenfield plant, post the completion of the same, the company will become the single largest producer of soda ash with an installed capacity of 17.3LT.

Capacity expansion ('000 tonnes)



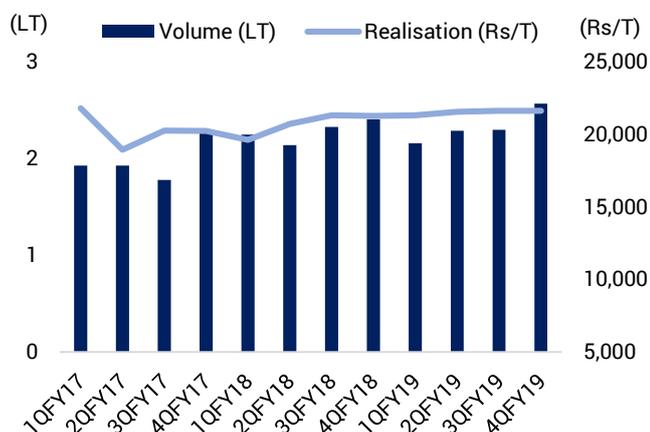
Source: Company, Kotak Securities – Private Client Research

Incremental supply can weigh on prices

Management in Q4FY19 conference call 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

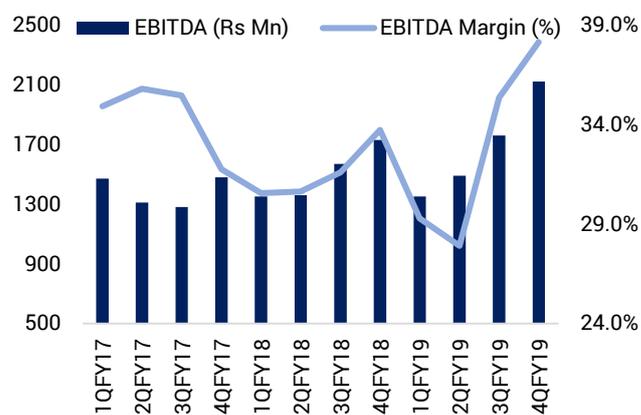
remain strong in the coming quarters as well. However, we believe, even after factoring delay from the competitors, if the supply hits the market in 2HFY20, can weigh on prices. As a result, we expect EBITDA/T to decline to Rs.7,000 from the level of Rs8,249/ in Q4FY19 and Rs7,210 in FY19. Management indicated that, despite the incremental supply, the company would continue to report ~30% EBITDA margin.

Volume trend



Source: Company, Kotak Securities – Private Client Research

Soda ash segment operating performance



Source: Company, Kotak Securities – Private Client Research

Global market continues remain balanced

As per IHS Markit, the total Global Soda Ash capacity is around 69 million MT and demand is approximately 60 million Mts. Soda Ash demand remains stable and balanced in most global regions, except some pockets of oversupply in certain regions. Overall global demand has shown moderate growth due to the slowdown in China. Other than China, global demand is estimated to have gone up by 2.8% and is expected to grow at 2.5% during 2018-19. Soda Ash markets in Europe has improved over the last year and is expected to remain stable and balanced for some time, despite influx of higher volumes from Turkey.

Global demand (ex. China) expected to grow at 2.5% in CY19

Particulars	2017	2018	2019	% YoY
Capacity	66,984	69,470	71,677	3.2
Operating Rates (%)	88	85	83	
Demand	58,941	58,845	59,497	1.1
Demand Ex. China	33,162	34,107	34,951	2.5

Source: IHS Markit – June'19 Publication

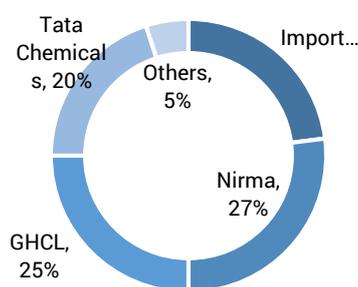
As far as the soda ash prices are concerned, as per IHS Markit, prices are likely to remain soft in China, as supply is likely to improve with overall demand continues to remain weak. It will further intensify in 2019, as new capacities will continue to ramp up and idled plant will be restarted.

Idled/Closed Soda Ash Capacity				
COMPANY	LOCATION	PROCESS	2018	2019
-000- Metric Tons				
Dalian Chem	Dalian, Liaoning	Hou	(600)	(600)
Xiangtan Soda	Xiangtan, Hunan	Hou	(300)	(300)
Inner Mongolia Sunite	Xilinguole, Inner Mongolia	Natural	(300)	(300)
Gansu Jinchang	Jinchang, Gansu	Hou	(250)	(250)
Liuzhou Chemical	Liuzhou, Guangxi	Hou	(60)	(60)
Zigong Honghe	Zigong, Sichuan	Hou	(120)	(120)
Total			(1630)	(1630)

New/Restarted Idled Capacity				
COMPANY	LOCATION	PROCESS	2018	2019
-000- Metric Tons				
Henan Jindadi	Wuyang, Henan	Hou		1000
Jiangsu Debang	Huainan, Anhui	Hou	(600)	600
Qinghai Salt Lake	Golmud, Qinghai	Solvay	500	500
	Golmud, Qinghai	Solvay	(700)	700
Jiangxi Jinghao	Zhangshu, Jiangxi	Solvay	125	300
Shandong Haihua	Weifang, Shandong	Solvay		150
Net Additional Capacity			(675)	3,250

Source: IHS Markit June'2019 Release

Domestic Market share



Source: Company, Kotak Securities – Private Client Research

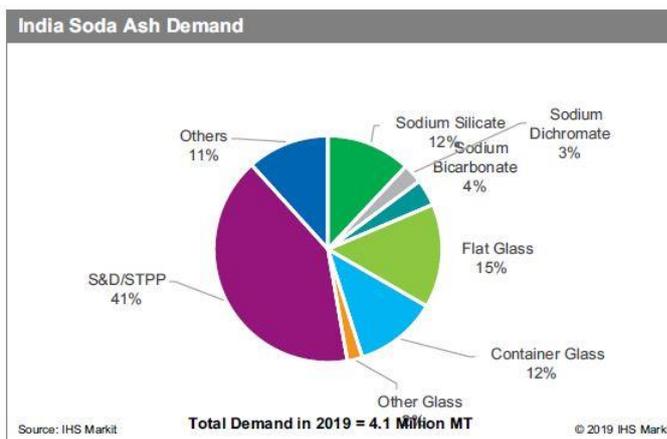
India - balanced soda ash market, despite higher availability

As far as the domestic Soda Ash market is concerned, the demand has witnessed a growth of around 5% in FY 2018-19 as against last year. The coming fiscal should see stable demand for soda ash with the main drivers being a strong detergent and float glass sector followed by container glass, silicate and chemical sectors.

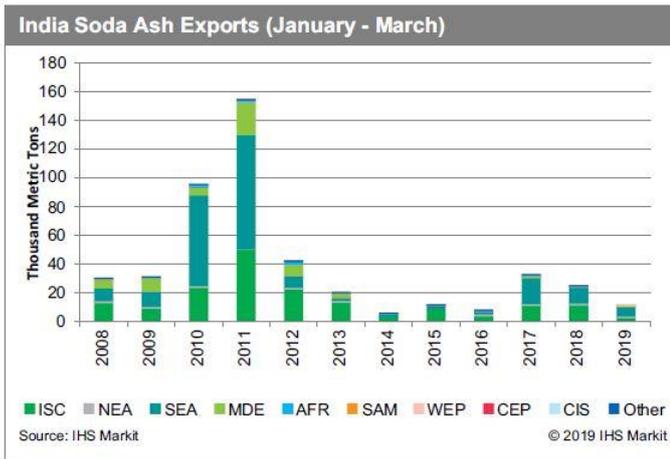
Total Soda Ash installed capacity in India is around 4.0 MT, with an estimated production of about 3.2MT in the last financial year (2018-19). The total size of the Indian soda ash market is about 4.0 million tons and currently almost 22% of the Indian demand is being met by imports. The demand in India 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. Due to higher production, imports in India are down by 10% YoY in 1QCY19. As per IHS, soda ash prices are likely to remain in the range of \$275-290/tonne CFR in the domestic market.

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 (%)	90	85	86			
Production	3191	3370	3725	3.9	5.6	10.5
Imports	861	810	730	20.7	-5.9	-9.9
Total Supply	4053	4180	4455	7.0	3.1	6.6
Domestic Demand	3978	4148	4325	8.5	4.3	4.3
Exports	75	32	130	-37.3	-57.7	309.4
Total Demand	4053	4180	4455	7.0	3.1	6.6
Economic Indicators						
Industrial Production Index Growth, %				5.2%	4.6%	4.7%
GDP Growth, %				6.8%	6.6%	6.8%
Residential Construction Investment Growth %				3.7%	3.9%	4.3%
Exchange Rate (Rupee/US dollar)	68	71	73	5.2%	4.5%	5.2%



Source: IHS Markit June'2019 Release



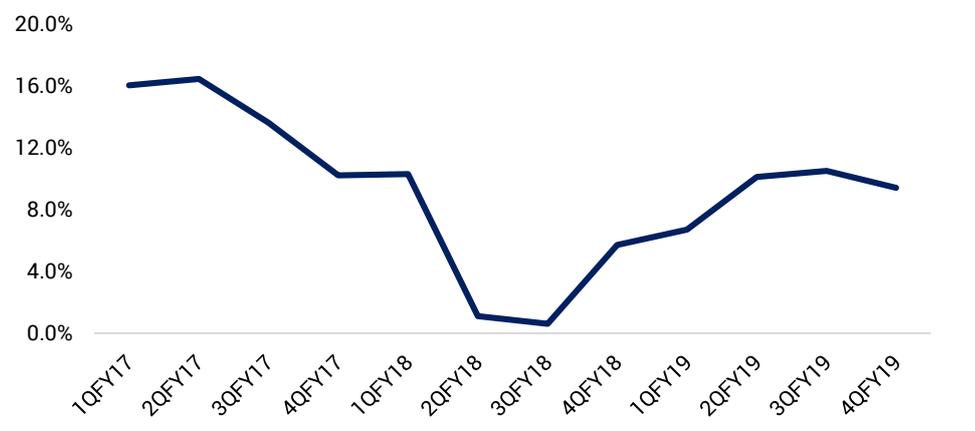
Source: IHS Markit June 2019 Release

Textile segment – Despite headwinds reported better performance

Textile segments faced major headwinds in FY19, due to surge in online sales, which led to several retailers in the U.S filing for bankruptcy and stores closure. Despite this, the company reported ~15% YoY growth in revenue from textile division to Rs12.02 bn, due to a strategic focus on innovations and expanding product mix. The focus on e-commerce business in the U.S and working with major retailers coupled with strong performance in yarn segment, helped the company to report revenue growth. 17 new products were launched in FY19. EBITDA during FY19 grew 129% YoY to Rs1.12 bn, with an expansion of 460bps in EBITDA margin to 9.3%. Management indicated, that textile business is gaining momentum due to differentiated offerings coupled with the foray into premium product segment.

Going ahead, we believe that, an 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 the home textile segment.

Textile segment EBITDA Margin (%) trend

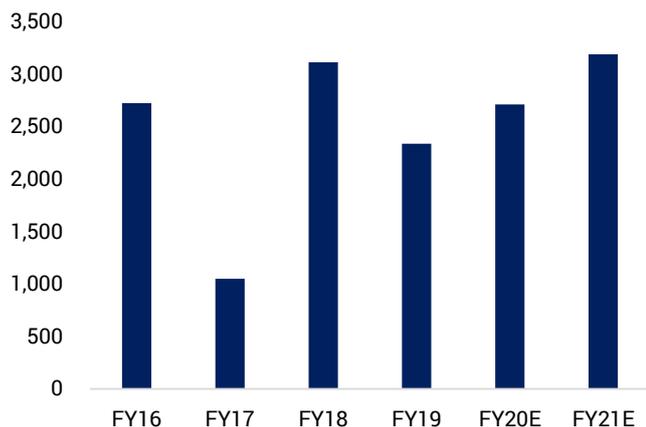


Source: Company, Kotak Securities – Private Client Research

FCF to remain strong

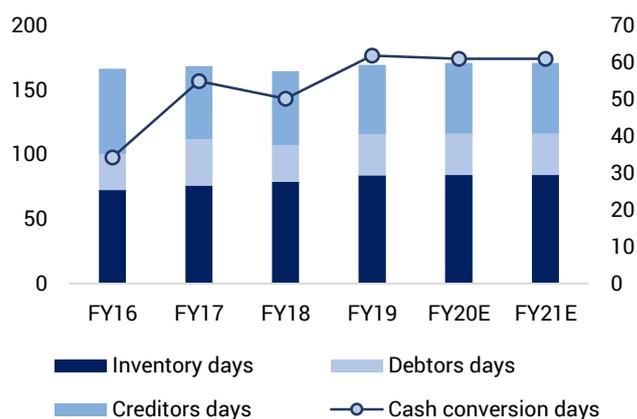
Having focus on tapping opportunities in the soda ash segment, the company has spent Rs5.3 bn over the last two years to increase the capacity. The large portion of the capex was been funded through internal accruals, accumulated FCF for the last 4 years was Rs9.2 bn. Going ahead, we expect FCF, continues to remain strong, given the tight market in soda ash and recover in textile business. We expect Soda ash business to report EBITDA margin in the range of 29-31% in the coming years. Debt equity likely to remain in a comfortable range.

FCF to improve (Rs Mn)



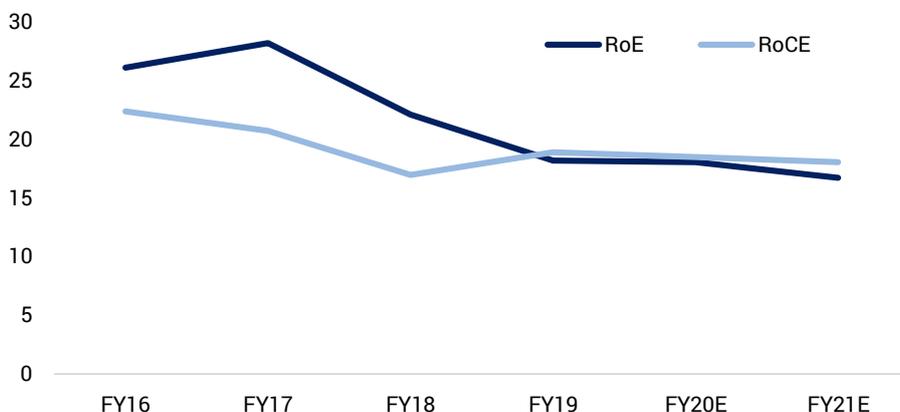
Source: Company, Kotak Securities – Private Client Research

Cash Conversion cycle – likely to remain 60 days



Source: Company, Kotak Securities – Private Client Research

Capex weighing on RoCE (%)



Source: Company, Kotak Securities – Private Client Research

Valuation & outlook

Given the tight supply in the domestic and balance global market, we expect soda ash business to continue 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 the domestic market in FY20. Textile segment reported better performance, and expect to report stable performance backed by change in the product mix. At CMP, the stock is trading at 5.7x/5.3x FY20E/FY21E earnings. We maintain our ADD rating, with a revised target price of Rs265 (earlier Rs272).

One year forward P/E (x)



Source: Company, Capitaline, Bloomberg, Kotak Securities – Private Client Research

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	36,263	38,675
% Growth	4.7	13.5	8.5	6.7
Raw Materials	12,756	14,126	15,140	16,237
% of Net Sales	43.3	42.3	41.8	42.0
Employee Cost	1,767	2,012	2,357	2,321
% of Net Sales	6.0	6.0	6.5	6.0
Power & Fuel	3,903	5,053	5,621	5,995
% of Net Sales	13.3	15.1	15.5	15.5
Other Expenses	4,945	4,628	5,077	5,608
% of Net Sales	16.8	13.9	14.0	14.5
EBITDA	6,061	7,594	8,068	8,515
EBITDA Margin (%)	20.6	22.7	22.2	22.0
Depreciation	1,101	1,169	1,305	1,354
EBIT	4,960	6,425	6,763	7,162
Interest Exps.	1,266	1,273	1,188	1,141
EBT	3,695	5,151	5,576	6,020
Exceptional Items	0	0	0	0
Other Income	379	155	186	242
PBT	4,074	5,306	5,762	6,262
Tax-Total	511	1,801	1,728	1,879
Profit after tax	3,564	3,506	4,033	4,384
PAT Margin(%)	12.1	10.5	11.1	11.3

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	5,762	6,262
Depreciation	1,101	1,169	1,305	1,354
Interest	1,266	1,273	1,188	1,141
Others	(451)	503	0	0
Opt Profit before WC Changes	5,990	8,252	8,254	8,757
WC Changes	416	(1,630)	(21)	(403)
Cash Gene from Op.	6,406	6,623	8,233	8,354
Direct Taxes Paid	511	1,801	1,728	1,879
Cash from Ope act	5,895	4,822	6,505	6,475
Purchases of F.A	(2,779)	(2,482)	(4,606)	(3,964)
Investment	(15)	(13)	(100)	(100)
Others	0	0	0	0
Cash from Inv Act	(2,794)	(2,495)	(4,706)	(4,064)
Proc from Issue of Eq Shares	(21)	6	0	0
Net loans	(1,233)	(379)	(250)	(500)
Interest paid	(1,266)	(1,273)	(1,188)	(1,141)
Dividend paid & Others	(676)	(594)	(591)	(591)
Cash from Fin Act	(3,195)	(2,240)	(2,028)	(2,232)
Net Increase in Cash	(93)	86	(230)	179
Cash at Beginning	361	268	355	125
Cash at End	268	355	125	304

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	21,712	25,505
Shareholders' Funds	16,109	19,255	22,692	26,485
Total Loan Funds	13,400	13,022	12,772	12,272
Deferred Tax Liab.	1,950	2,530	2,912	2,947
Total Liabilities	31,459	34,807	38,375	41,704
Appl. Of Funds				
Gross Block	27,332	29,572	32,622	35,622
Accumulated Depn.	2,315	3,269	4,573	5,927
Net Fixed Assets	25,017	26,303	28,048	29,695
Capital WIP	735	1,175	3,000	4,000
Other Investments	103	116	216	316
Inventories	6,367	7,685	8,345	8,901
Sundry Debtors	2,287	2,906	3,179	3,391
Cash and Bank Bal	268	355	125	304
Loans and Advances	1,151	1,163	1,163	1,163
Total Current Assets	10,073	12,110	12,813	13,759
Current Liabilities	4,822	5,142	6,055	6,418
Net Current Assets	5,251	6,967	6,758	7,340
Other Non. Curr Ass	353	246	353	353
Total assets	31,459	34,807	38,375	41,704

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Per Share (Rs)				
EPS	36.6	35.8	41.1	44.7
Cash EPS	47.9	47.7	54.5	58.5
Book value	165.4	196.4	231.4	270.2
DPS	5.0	5.0	5.0	5.0
Valuation (x)				
P/E	6.5	6.6	5.7	5.3
Price/Book value	1.4	1.2	1.0	0.9
EV/EBITDA	6.0	4.7	4.4	4.1
EV/Sales	1.2	1.1	1.0	0.9
Turnover Days				
Inventory	79	84	84	84
Receivables	28	32	32	32
Creditors	57	54	55	55
Profit ratios (%)				
RoE	22.1	18.2	17.8	16.6
RoCE	17.0	18.9	18.1	17.8
Margin (%)				
EBITDA	20.6	22.7	22.2	22.0
EBIT	16.9	19.2	18.7	18.5
PAT	12.1	10.5	11.1	11.3

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
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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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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