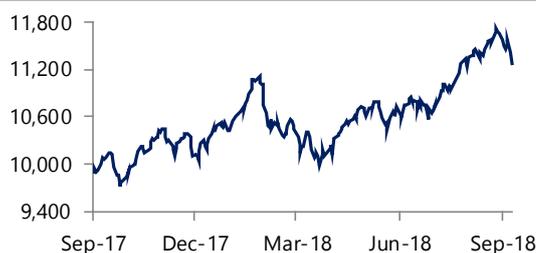


SEPTEMBER 17, 2018

	14-Sep	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,091	1.0	1.2	6.6	
NIFTY Index	11,515	1.3	1.4	6.1	
NSEBANK Index	27,164	1.3	(2.3)	2.0	
NIFTY 500 Index	9,793	1.4	1.4	4.3	
CNXMcap Index	19,389	1.8	2.0	2.5	
BSESMCAP Index	16,671	1.4	0.1	(2.1)	
World Indices					
Dow Jones	26,155	0.0	1.9	4.2	
Nasdaq	8,010	(0.0)	2.5	3.4	
FTSE	7,304	0.3	(3.4)	(4.3)	
NIKKEI	22,821	1.0	3.7	1.1	
Hangseng	22,821	1.0	3.7	1.1	
Shanghai	27,286	1.0	(1.3)	(11.4)	
Value traded (Rs cr)					
	14-Sep	% Chg Day			
Cash BSE	2,573	(8.2)			
Cash NSE	33,721	1.1			
Derivatives	612,454	(72.9)			
Net inflows (Rs cr)					
	12-Sep	MTD	YTD		
FII	(1,077)	(1,418)	(6,857)		
Mutual Fund	1,125	3,967	80,584		
Nifty Gainers & Losers					
	Price	Chg	Vol		
14-Sep	(Rs)	(%)	(mn)		
Gainers					
Indiabulls Housing	1,227	7.2	3.6		
BPCL	355	6.1	9.3		
Vedanta Ltd	236	5.4	17.7		
Losers					
Coal India Ltd	277	(1.5)	2.7		
HCL Tech	1,071	(1.5)	3.7		
Infosys Ltd	734	(1.2)	7.9		
Advances / Declines (BSE)					
14-Sep	A	B	T	Total	% total
Advances	357	716	76	1,149	100
Declines	74	288	68	430	37
Unchanged	1	23	21	45	4
Commodity					
	14-Sep	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	78.1	-	8.7	6.3	
Gold (US\$/OZ)	1,194	(0.7)	0.9	(6.6)	
Silver (US\$/OZ)	14.1	(0.8)	(4.8)	(14.9)	
Debt / forex market					
14-Sep	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	8.1	8.1	7.8	7.9	
Re/US\$	71.9	72.2	69.9	67.6	

Nifty



Source: Bloomberg

News Highlights

- ▶ Banks have decided to continue with their resolution plans for power plants without seeking any advice from the Reserve Bank of India. (ET)
- ▶ 100% railway electrification will increase power demand for broad gauge from 2,000 MW to 3,400 MW, while the two dedicated freight corridors will require another 600MW. (Mint)
- ▶ Telecom companies and equipment vendors are wary that any government move to prop up the rupee by curbing imports with higher duties will make procurement of network components more expensive, derail 4G rollout, hit broadband connectivity and worsen the financial stress of operators.(ET)
- ▶ **State Bank of India** has made a complete U-turn on stressed assets undergoing insolvency proceedings. Instead of initiating bankruptcy proceedings against the defaulting companies, the state-owned lender is now looking to sell them to asset reconstruction companies (ARCs). (Mint)
- ▶ **DLF** is working towards making its housing business debt free by March next year and the cash flow from sales of completed inventories worth around ₹140bn would be utilised to fund new projects. (Mint)
- ▶ **Infosys** spends \$76 million to buy Finnish firm Fluido, a Salesforce consulting partner in the Nordics in Europe. (Mint)
- ▶ **BPCL**, which owns Bina Refinery in an equal JV with Oman Oil Company, has shelved its IPO plans for the company as it generates enough cash to complete the ongoing expansion and as also because Kuwaiti Petroleum is keen to pick up a stake. (Mint)
- ▶ Rating agency Moody's placed GCX Limited's B3 corporate family rating (CFR) and senior secured ratings on review for downgrade. GCX is a wholly-owned subsidiary of **Reliance Communications Ltd. (RCom)** through an intermediary holding company, Global Cloud Xchange Ltd (GCXL). (Mint)
- ▶ **Sun Pharmaceutical Industries** and its research arm Sun Pharma Advanced Research Company Ltd (SPARC) on Friday said it has got the US Food and Drug Administration's (US FDA) approval for its new drug application of XELPROS, which is used to reduce open-angle glaucoma or ocular hypertension. (Mint)
- ▶ **Reliance Infrastructure (RInfra)** is foraying into composites manufacturing for supply to aircraft makers with an initial investment of Rs 850 mn and it targeting exports of Rs 3.15 bn over next five years. (BSO)
- ▶ Private sector lender **Yes Bank** will raise up to Rs 30.42 bn by issuing bonds to comply with Basel-III norms. The bonds, set to mature on September 15, 2028, carry coupon rate of over 9.11 per cent payable annually.(ET)

What's Inside

- ▶ **Company Update:** GHCL Ltd

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

Company Update

Stock Details

Market cap (Rs mn)	:	24757
52-wk Hi/Lo (Rs)	:	358 / 204
Face Value (Rs)	:	10
3M Avg. daily vol (Nos)	:	180,967
Shares o/s (mn)	:	98

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	29,432	32,724	35,579
Growth (%)	4.7	11.2	8.7
EBITDA	6,061	6,928	7,548
EBITDA margin (%)	20.6	21.2	21.2
Net profit	3,564	3,561	4,030
Adj EPS (Rs)	36.6	36.8	41.6
Growth (%)	(6.2)	(0.1)	13.1
BV (Rs/share)	165	197	233
Dividend / share (Rs)	5.0	5.0	5.0
ROE (%)	22.1	18.7	17.9
ROCE (%)	17.0	18.3	17.9
EV/EBITDA (x)	6.2	5.4	4.9
P/E (x)	6.9	6.9	6.1
P/BV (x)	1.5	1.3	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	18.9	19.0	19.1
FII	17.2	13.9	17.0
DII	14.1	11.5	7.0
Others	48.6	55.7	57.0

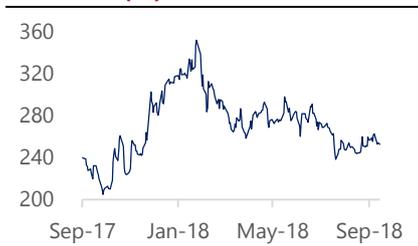
Source: Company

Price Performance (%)

(%)	1M	3M	6M
GHCL Ltd	3.2	(8.6)	(7.2)
Nifty	1.4	6.1	10.4

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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GHCL

PRICE Rs.253

TARGET Rs.330

BUY

We recently met the management of GHCL where the company reiterated that soda ash market continues to remain balanced. The EU region likely to remain in oversupply zone with volume from Turkey. Given firm soda ash prices globally, increase in landed cost (i.e. rupee depreciation) and cost inflation, the company has taken a price hike in the range of 3-4% again in the month of Aug 2018 at an average INR/USD of 69 (last hike was taken in the month of May'18). With further depreciation of the rupee, the possibility of one more round of price increase is likely in the coming months. We believe strong operating performance from soda ash segment and improving product mix in the textile business, should help GHCL to maintain its EBITDA margin in the range of 21-22%.

Key Highlights

- The company has taken a price hike in the range of 3-4% (Rs600-650/tonne) w.e.f 16th Aug, 2018. Last hike was taken in the month of May'18. Soda ash realisation in 2QFY19 is likely to be higher by Rs400/tonne, compared to the average of Rs22,731/tonne (includes trading income as well) in 1QFY19.
- The Inorganic chemical segment performance in 1QFY19 was impacted due to the planned shutdown. After restarting in 2QFY19, the volume is back on track. We expect volume of 2.31MT in 2QFY19 v/s 2.61 in 1QFY19.
- Management expects global soda ash market to grow at 2.5% annually and demand is likely to remain strong in India (grew 11% in FY18E). China Production is expected to decline by ~7% YoY in CY18 to 25MT.
- Textile segment performance is likely to face headwinds in terms of increase in cost. However, the management is confident of reporting EBITDA of Rs0.9-1 bn with a higher single digit EBITDA margin in FY19E and 13-14% in FY20E, backed by improvement in operating efficiency and changing product mix. 1QFY19 EBITDA stood at Rs30mn.

Valuation & outlook

- Given China's stringent regulation to curb pollution, possibility of operating plant coming under scrutiny increases further, which may lead to either lower capacity utilisation or shutdowns. Besides this, there are still some soda ash plants in East, South and Central China which need to be relocated or upgraded. Both these factors will lead to decline in production in China and tightness is expected to prevail in the Industry. Besides, this exports from China is expected to decline to 1.75MT in CY18 v/s 2.5MT in CY17. Backed by strong realisation, we expect soda ash business for GHCL to continue to deliver strong performance and the recovery in textile business is expected over the medium to long term. We reiterate BUY, with a target price of Rs.330.

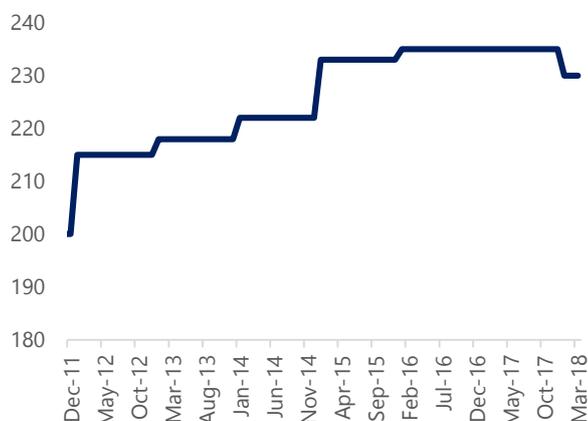
Key Risks

We don't rule out any softness in future realisation, after the sharp surge, as it may attract lower capacity utilisation to increase the production globally and weigh on soda ash prices. Besides this, incremental global supply, could get dumped in India. Industry estimates, import will continue to account for 20-25% of the domestic demand.

Soda ash prices to remain firm

Soda ash prices remained firm globally due to demand-supply balance. However, in the domestic market, due to increase in landed costs (rupee depreciation) and cost inflation, the industry has further raised prices by 3-4% (Rs600/tonne) w.e.f 16th Aug, 2018, at an average INR/USD of 69. Imports in India are expected to increase from 7.25LT in FY18 to 9LT by the end of FY19, 1QFY19 imports stood at 2LT. We believe, with the increasing import and further depreciation of the INR/USD (72 from 69, since the last price hike), there is a possibility of one more round of price hike in the coming months (despite the expiry of Anti-Dumping Duty). We don't rule out any softness in future realisation, after the sharp surge, as it may attract lower or idle capacity to increase the production or come back on stream and weigh on soda ash prices. We believe that, due to cost inflation and rupee depreciation, realisation on an annualized basis is likely to mirror the same trend of the last decade, during FY18-FY21E i.e. an increase of ~5% annually.

FOB- West Europe soda ash prices (US\$/T)



Source: Bloomberg

China (Spot Export Quote) – soda ash prices (US\$/T)

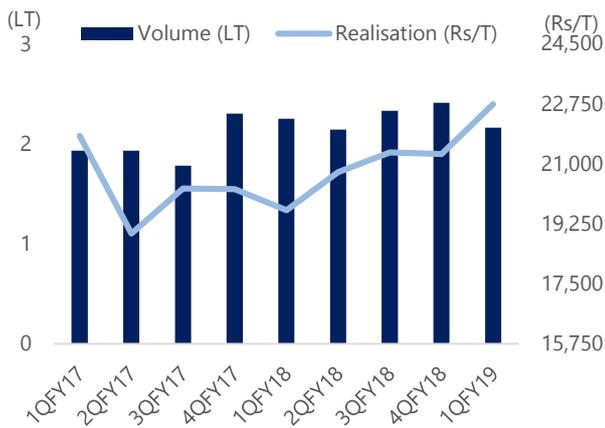


Source: Bloomberg

Inorganic chemical segment – volume back on track, post the hit in 1QFY19

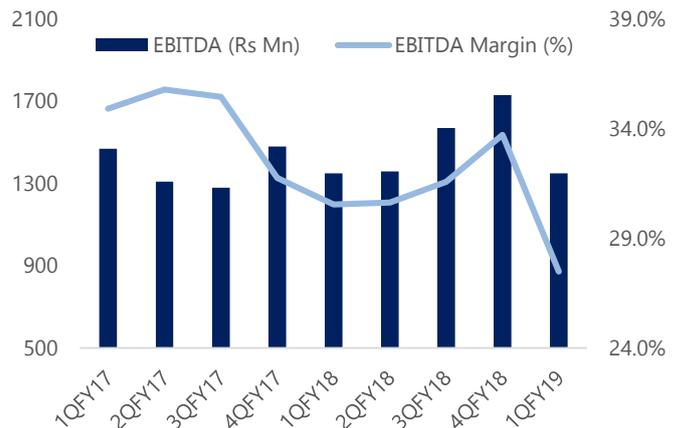
The performance of the soda ash segment was impacted in 1QFY19 due to shutdown, which impacted 15,000 tonnes of volume. Since, restarting in 2QFY19, the volume is back on track and we expect sequential improvement of ~7% to 2.31LT. Besides this, the benefit of Rs524/tonne price hike taken in the month of May'18 and partial benefit of the recent price hike, should help the segment to report an EBITDA margin of ~30% (management expects ~32%), as against 27.4% in 1QFY19. Driven by higher capacity utilisation and strong realisation, we expect the revenue from the inorganic chemical segment to jump to Rs21.1bn by the end of FY20E (benefit of brownfield expansion of 1.25LT, is expected to start from 1QFY20 onwards), with an EBITDA margin of 30%.

Quarterly volume trend



Source: Company

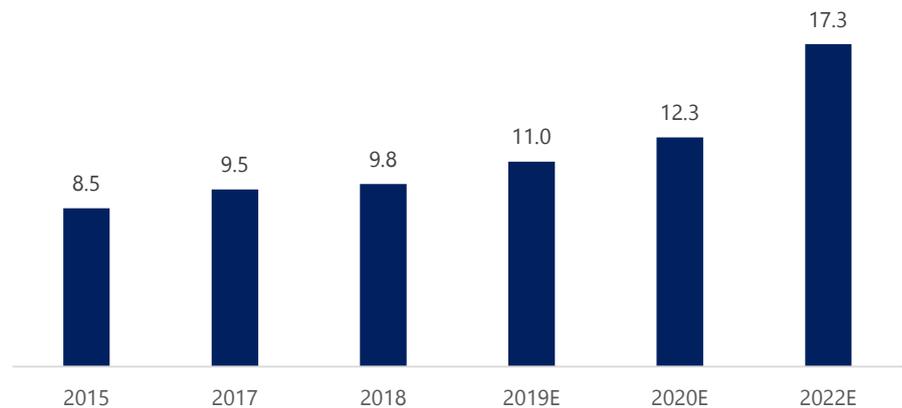
Quarterly EBITDA and EBITDA Margin



Source: Company

The company has earmarked two brownfield expansion of 1.25LT each, which is likely to come on stream by end of FY19E and FY20E. GHCL is 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 in India with an installed capacity of 17.3LT by end of FY22.

Capacity addition to support volume growth (LT)

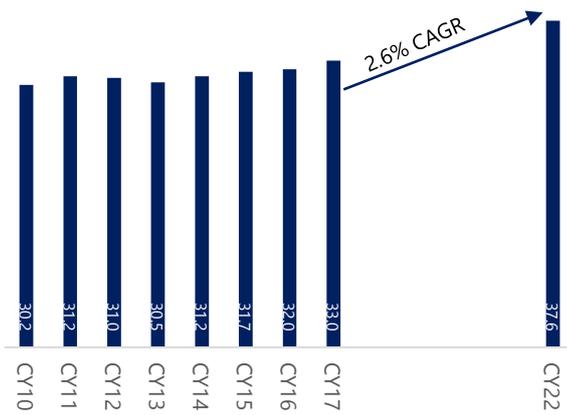


Source: Company, Kotak Securities – Private Client Research

Soda ash: demand-supply balanced globally

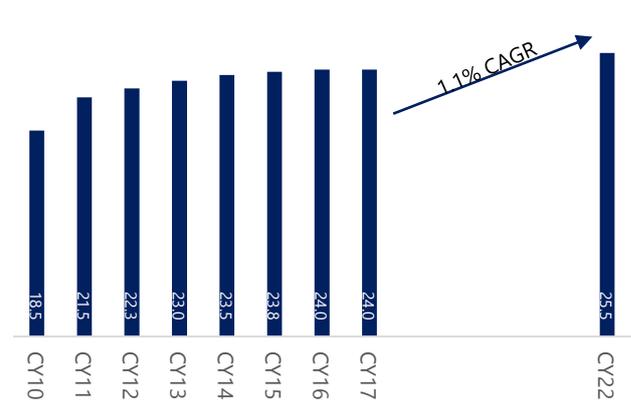
Globally soda ash demand-supply is fairly balanced, as per estimates of HIS Chemical (Market Advisory Service), the total Global Demand in 2017 was ~59MT against an estimated capacity of ~68 MT. China continues to be the largest Soda Ash player in the world, having a capacity of 31MT, which is 46% of the global capacity, operated at ~88% in 2017, reporting a production of 27MT and domestic consumption of 25MT, with 2.5MT being exported. As per the industry estimates, in CY18, the China production is expected to decline by 7% YoY, consumption is expected to decline by 3% YoY and export is estimated at ~1.7MT. This is largely supported by the closure (shutdown) of 2.7MT facilities since Oct'17, 1.7MT in process (Hou process, already under scanner) and 1.7MT operating at 70-75% utilisation as against the industry average of 88%.

Demand growth globally excluding China (MT)



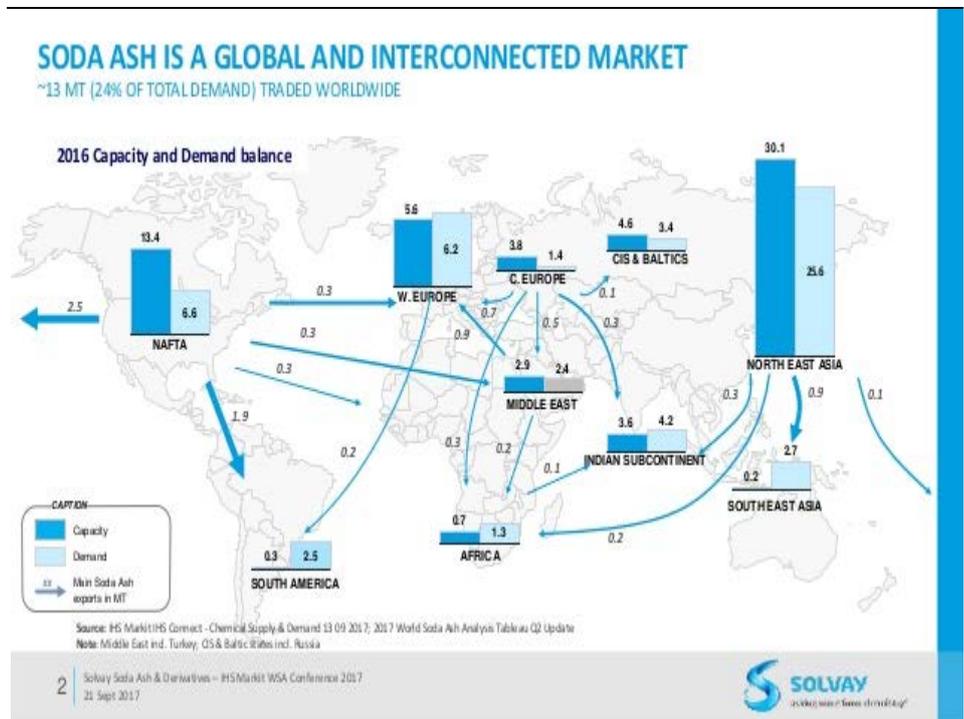
Source: IHS

China soda ash demand



Source: HIS

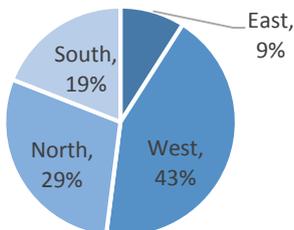
Soda ash is a global and interconnected market



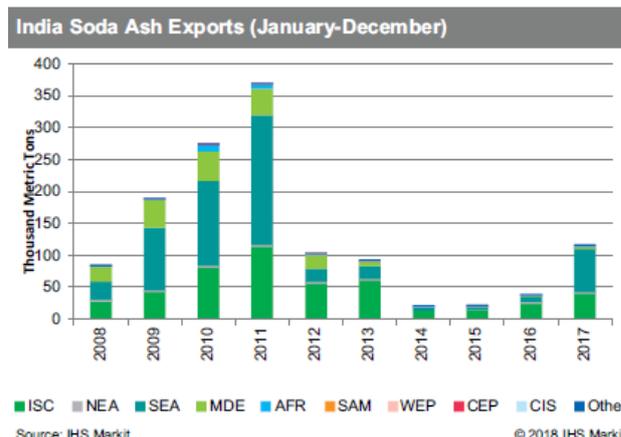
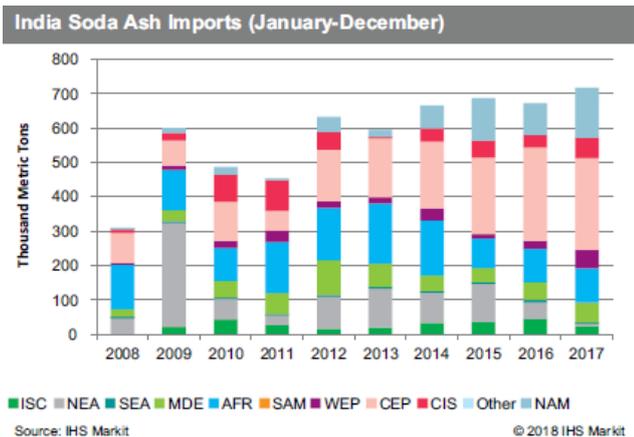
Source: IHS

As far as the domestic market is concerned, demand continues to remain strong. Domestic installed capacity stands at 3.9MT, with a production of ~3MT in FY18 and demand of ~4.2MT. Imports account for 23-25% of the domestic demand (largely south and east markets) and the remaining is largely divided between Nirma (27%), GHCL (25%) and Tata Chemicals (23%). The industry expects, domestic demand is likely to grow at 11% annually in FY19, we expect imports to increase further in FY19E. 1QFY19 imports stood at 2LT.

Soda ash market

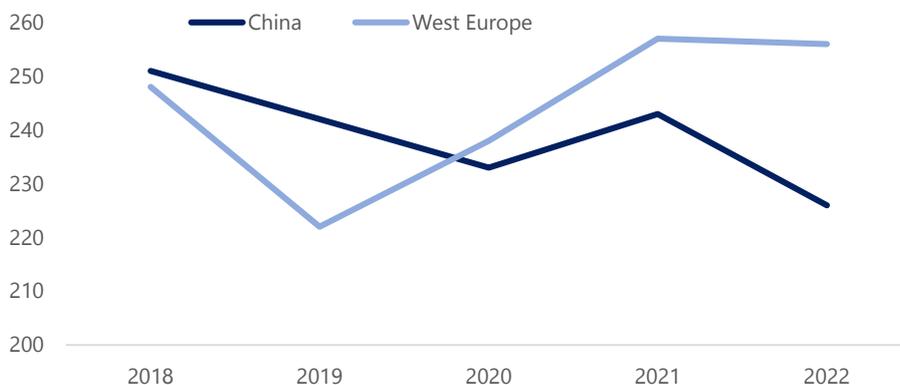


Source: Industry, Kotak Securities – Private Client Research



Most of the Anti-Dumping Duty (ADD) officially expired in Jul'18 (sunset review in process), but the duties against Russia (US\$ 35.99/tonne) and Turkey (US\$ 18.39 – 75.16/tonne) extended for 1 more year. Despite that, soda ash prices in the domestic market continued to remain strong. In FY19 till date, the industry has already taken 2 hikes of Rs500-600/tonne each in the month of May and August, 2018. This was supported by strong demand, balanced global demand-supply and rupee depreciation. The last hike was taken at INR/USD of 69, which further depreciated to 72. There is a possibility of one more round of price hike in the coming months, which we believe will sustain for the near term. Once the new capacity of GHCL (125KT), Nirma (150KT), RSPL – Ghadi (500KT) and Tata Chemicals (50KT) get commissioned, it can weigh on the realisation. On an annualized basis, we expect soda ash realisation likely to mirror the same trend of the last decade (increase of 5% annually), during FY18-FY21E.

Global soda ash price forecast (US\$/T)



Source: IHS Markit and Eurostat

Textile continues to face headwinds

GHCL's textile business benefits from backward integration (in yarn), however, its late entry in the home textiles division has led to lower margins compared to its peers. Besides this, headwinds in terms of overcapacity, shift to e-commerce portal, loss of high margin business, financial stress faced by certain customers and change in INR/USD rate impacted the overall performance of the segment. After reporting the weak performance in the last few quarters, home textile segment witnessed some sort of stability in 1QFY19, resulting in 100bps QoQ improvement in EBITDA margin to 6.7%. The segment reported profit of Rs66.2 mn in 1QFY19, as against loss of Rs48.1 mn in 4QFY18.

The company is focusing on innovation and launching new products to face the challenges. On the same line, it launched “Rekoop” and other products are in the pipeline to overcome the challenges. Going ahead, we believe that, an improvement in product mix and higher capacity utilisation, should help the textile business to see a modest recovery in coming years. We expect EBITDA margin to improve to 9-12% in the coming 2 years, as against management expectations of 14-15% by the end of FY20E.

Textile segment EBITDA Margin (%) trend



Source: Company, Kotak Securities – Private Client Research

Maintain BUY

GHCL is confident about the prospects for the Soda Ash segment, underpinned by healthy demand from India, which is likely to sustain over the next year. Backed with firm realisation, we expect soda ash business to deliver strong performance going ahead as well and the recovery in textile business is expected over the medium to long term. At CMP, the stock is trading at 6.9x/6.1x FY19E/FY20E earnings. We continue to maintain **Buy** rating, with a target price of Rs.330.

Company Background

GHCL is one of the leading manufacturers of soda ash with 23% 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)	FY17	FY18	FY19E	FY20E
Net Sales	28,105	29,432	32,724	35,579
% Growth	11.1	4.7	11.2	8.7
Raw Materials	11,387	12,756	14,245	15,081
% of Net Sales	40.5	43.3	43.5	42.4
Employee Cost	1,585	1,767	1,734	1,921
% of Net Sales	5.6	6.0	5.3	5.4
Power & Fuel	3,065	3,903	4,090	4,625
% of Net Sales	10.9	13.3	12.5	13.0
Other Expenses	4,993	4,945	5,727	6,404
% of Net Sales	17.8	16.8	17.5	18.0
EBITDA	7,075	6,061	6,928	7,548
EBITDA Margin (%)	25.2	20.6	21.2	21.2
Depreciation	857	1,101	982	1,086
EBIT	6,218	4,960	5,946	6,462
Interest Exps.	1,368	1,266	1,361	1,293
EBT	4,851	3,695	4,585	5,169
Exceptional Items	(30)	0	0	0
Other Income	133	379	417	459
PBT	4,953	4,074	5,002	5,628
Tax-Total	1,152	511	1,441	1,598
Profit after tax	3,801	3,564	3,561	4,030
PAT Margin(%)	13.5	12.1	10.9	11.3

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net profit before tax	4,953	4,074	5,002	5,628
Depreciation	857	1,101	982	1,086
Interest	1,368	1,266	1,361	1,293
Others	1,205	(451)	0	0
Opt Profit before WC Changes	8,382	5,990	7,345	8,007
WC Changes	(2,417)	416	(264)	(407)
Cash Gene from Op.	5,965	6,406	7,081	7,600
Direct Taxes Paid	1,152	511	1,441	1,598
Cash from Ope act	4,813	5,895	5,640	6,002
Purchases of F.A	(3,761)	(2,779)	(3,618)	(3,435)
Investment	2	(15)	(100)	(100)
Others	11	0	0	0
Cash from Inv Act	(3,748)	(2,794)	(3,718)	(3,535)
Proc from Issue of Eq Shares	(144)	(21)	0	0
Net loans	1,216	(1,233)	210	0
Interest paid	(1,368)	(1,266)	(1,361)	(1,293)
Dividend paid & Others	(833)	(676)	(648)	(532)
Cash from Fin Act	(1,130)	(3,195)	(1,798)	(1,825)
Net Increase in Cash	(65)	(93)	124	642
Cash at Beginning	426	361	268	392
Cash at End	361	268	392	1,034

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	995	974	969	969
Reserves and Surplus	12,471	15,135	18,098	21,561
Shareholders' Funds	13,466	16,109	19,066	22,529
Total Loan Funds	14,633	13,400	13,610	13,610
Deferred Tax Liab.	2,360	1,950	2,104	2,504
Total Liabilities	30,459	31,459	34,780	38,644
Appl. Of Funds				
Gross Block	25,473	27,332	28,882	31,932
Accumulated Depn.	1,377	2,315	3,297	4,382
Net Fixed Assets	24,096	25,017	25,585	27,550
Capital WIP	260	735	3,000	3,750
Other Investments	88	103	203	303
Inventories	5,843	6,367	7,083	7,701
Sundry Debtors	2,762	2,287	2,690	2,924
Cash and Bank Bal	361	268	392	1,034
Loans and Advances	1,371	1,151	1,151	1,151
Total Current Assets	10,338	10,073	11,316	12,811
Current Liabilities	4,578	4,822	5,677	6,123
Net Current Assets	5,760	5,251	5,639	6,688
Other Non.Curr Ass/DTA	254	353	353	353
Total assets	30,459	31,459	34,780	38,644

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Per Share (Rs)				
EPS	38.2	36.6	36.8	41.6
Cash EPS	46.8	47.9	46.9	52.8
Book value	135.4	165.4	196.8	232.6
Valuation (x)				
P/E	6.6	6.9	6.9	6.1
Price/Book value	1.9	1.5	1.3	1.1
EV/EBITDA	5.6	6.2	5.4	4.9
EV/Sales	1.4	1.3	1.2	1.0
Turnover Days				
Inventory	76	79	79	79
Receivables	36	28	30	30
Creditors	57	57	57	57
Profit ratios (%)				
RoE	28.2	22.1	18.7	17.9
RoCE	20.8	17.0	18.3	17.9
Margin (%)				
EBITDA	25.2	20.6	21.2	21.2
EBIT	22.1	16.9	18.2	18.2
PAT	13.5	12.1	10.9	11.3
Debt/ Equity	1.1	0.8	0.7	0.6

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative 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.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** 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.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

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