

Gujarat Heavy Chemicals Limited

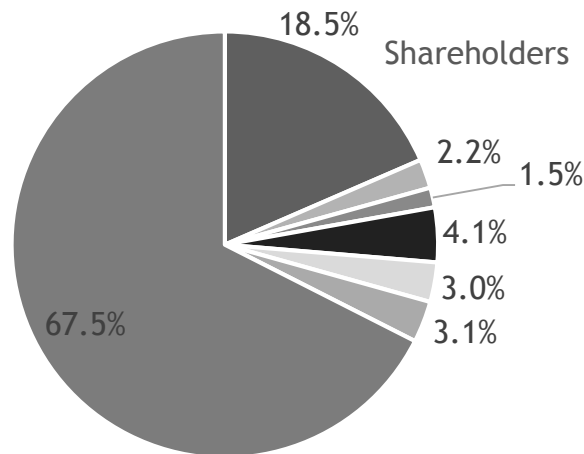
Heads I win, Tails I don't lose much

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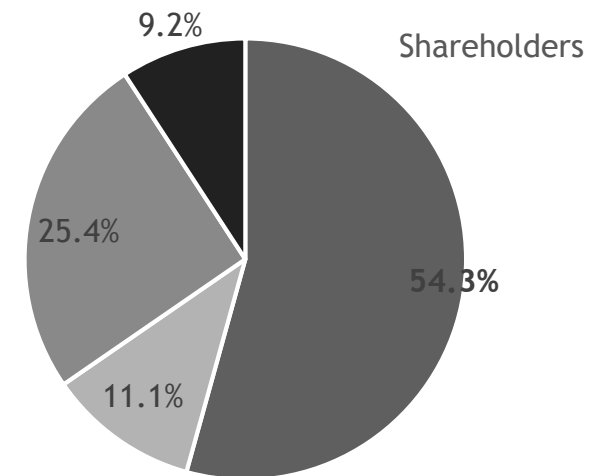
Business Overview

- ▶ 2 Business Segments - Soda Ash and Textiles
- ▶ One of the largest soda ash players in the country. Has 23% market share.
- ▶ Soda ash is used as raw material in glass and detergents
- ▶ Fully integrated textiles player (Yarn---->Home textiles)
- ▶ Institutional holding has increased from 19% in June 2015 to 24% in December 2016

	9m FY 16	9m FY 17
Revenue	2026	2100
EBIT	401	475
Interest	125	100
PAT	179	274



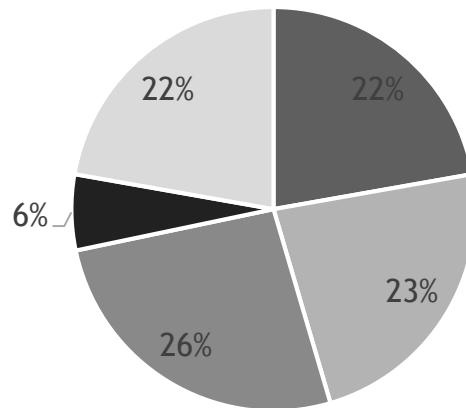
- Promoter
- Ocean Dial
- Ashish Kacholia
- India Nivesh
- JP Financial
- LIC
- Public/Others



- Soda Ash
- Yarn
- Bed sheet sets
- Others

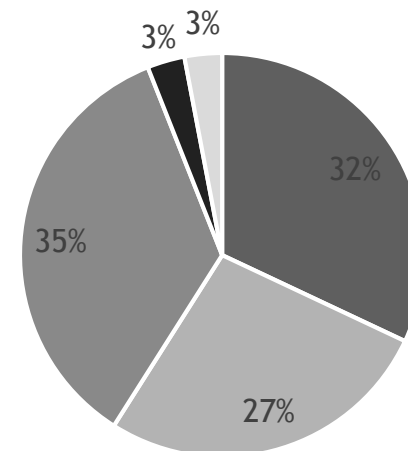
Soda Ash

- ▶ Lowest cost manufacturer of soda ash in India with 23% market share.
- ▶ Contributes to 59% of revenues and 80% to operating profits
- ▶ Current capacity 850000 MT/annum with highest capacity utilization in the industry at 91%
- ▶ Capex of 375 cr to expand capacity by 100000 MT which will become operational in Q4 17 - funded using internal accruals
- ▶ Segment throws cash due to low working capital needs(400 cr in FY 16). Maintenance capex of 40 cr per annum.
- ▶ ADD on imports valid till July 2017 from most countries. ADD from Turkey- one of the largest sources for natural soda ash valid till April 2018



Market Share -2015

■ Tata Chem ■ GHCL ■ Nirma ■ Others ■ Imports



Production Capacity

■ Tata Chem ■ GHCL ■ Nirma ■ DCW ■ TAC

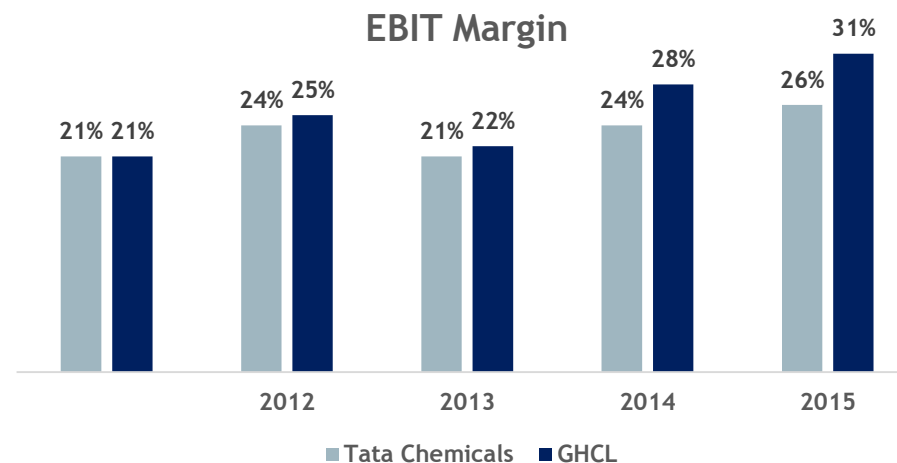
Soda Ash - Entry barriers/Competitive adv.

Industry Specific

- ▶ Greenfield capacity at 50000/MT vs 35000 /MT for Brownfield - Capital intensive and high gestation period
- ▶ Low capital turnover
- ▶ Unfavorable input/output ratio - 1 tonne of output for 5 tonnes of raw materials
- ▶ No limestone mining license is being granted by the Government
- ▶ High logistics cost

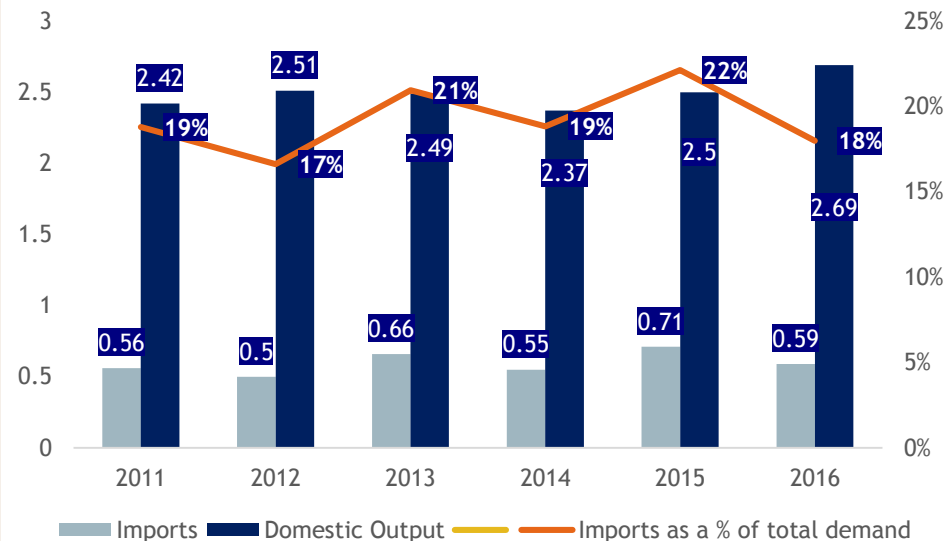
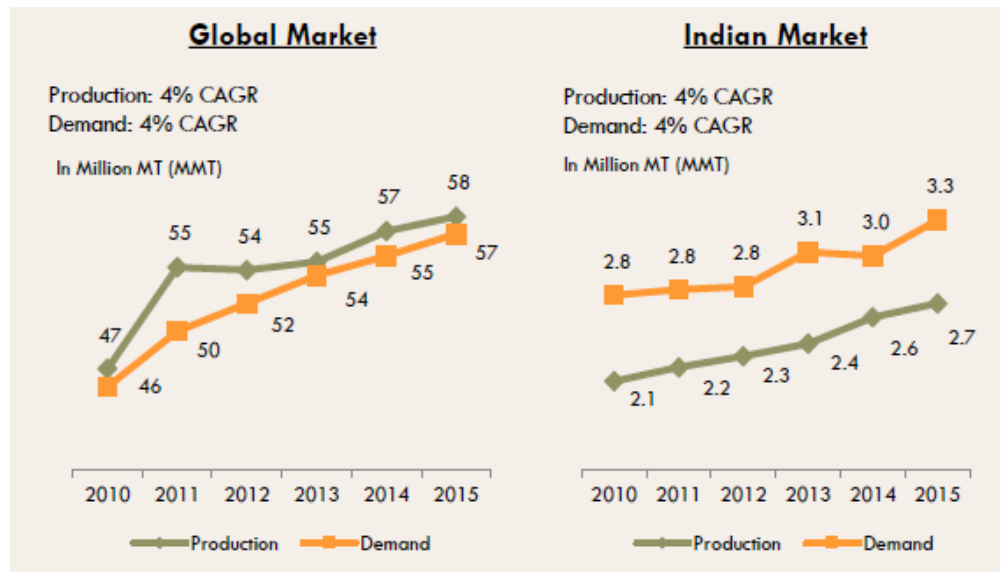
Company specific

- ▶ Captive raw materials - raw materials account for more than 50 % of costs
- ▶ Only company with captive lignite mines
- ▶ Replaced met coke with briquette coke



Soda Ash - Industry Dynamics

- ▶ Oligopolistic industry with 3 major players accounting for approx. 75% of demand while imports account for the rest
- ▶ China has the highest capacity but no cost advantage. It is a domestic commodity
- ▶ High logistics cost and hence imports cater to the customers near the coastal areas
- ▶ Supply closely follows demand
- ▶ High entry barriers in the business have ensured there is no overcapacity
- ▶ Threat from Natural Soda Ash leading to shut down in factories



Soda Ash - Numbers

	2012	2013	2014	2015	2016	9m 17
Capacity (MTPA)	850000	850000	850000	850000	850000	850000
Production (MTPA)	711706	724021	711528	738768	749136	
Sales (MTPA)	667000	660955	671194	686000	701423	
Utilization	84%	85%	84%	87%	88%	
Revenue	1086	1208	1269	1421	1495	1229
Realizations/MT	16282	18277	18907	20714	21314	
Realizations in USD	243	273	282	309	318	
EBIT	228.06	302	279.18	397.88	463.45	349
EBIT Margin	21%	25%	22%	28%	31%	28%

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1 FY17	Q2 FY17	Q 3 FY17
Revenue	345	343	353	380	347	374	385	390	421	405	403
EBITDA	110	93	106	134	107	101	124	141	146	131	128
EBITDA Margin	32%	27%	30%	35%	31%	27%	32%	36%	35%	32%	32%

Textiles

- ▶ Fully integrated textiles player



Textiles

- ▶ Has witnessed improvement in margins due to
 - ▶ Better customer mix
 - ▶ Higher utilization
 - ▶ Increasing share of home textiles
 - ▶ Wind mill generation
 - ▶ Shut down of retail operations in US
- ▶ Have spent 50 cr to expand processing capacity and de-bottlenecking in home textiles. Another 50 cr spent on wind mill generation that will add around 1.5-2% to the operating margin

Home textiles	2012	2013	2014	2015	2016
Capacity -Cloth processing (000 mtrs.)	36000	36000	36000	36000	36000
Production - Bed sheet Job work (000 mtrs.)	24616	23692	25334	25124	29796
Sales - Bed sheet Job work (000 mtrs.)	23327	24711	24517	24702	30199
Utilization	68%	66%	70%	70%	83%
Sales Value (Inr cr)	505	578	612	594	688
Realization / metre	216	234	250	240	228

Yarn	2012	2013	2014	2015	2016
Production (MT)	12488	16156	19212	21082	23745
Sales (MT)	9060	13412	16101	16516	18694
Sales Value (inr cr)	184	270	326	302	304
Realization / MT	203091	201312	202472	182853	162619

EBIT Margin Comparison	2012	2013	2014	2015	2016
GHCL	1.4%	4.2%	8.2%	7.1%	10.7%
Indo Count	4.1%	7.2%	11.6%	15.8%	20.9%
Welspun	6.1%	13.6%	7.8%	19.5%	21.3%
Trident	4.1%	9.5%	12.3%	10.0%	11.2%

	2012	2013	2014	2015	2016	9m 17
Total Revenue	689	848	938	896	992	836
EBIT	10	36	77	64	106	94
EBIT Margin	1.40%	4.20%	8.20%	7.10%	10.70%	11.24%

Management

- ▶ Increasing transparency and shareholder communication
 - ▶ Concalls and investor updates every quarter
- ▶ Formalized a dividend policy last year. Dividend payout ratio to be between 15-20%
- ▶ Changed internal auditors to EY last year
- ▶ ROCE used as a metric internally for evaluation of every capex plan
- ▶ Extreme focus on improving the strength of the balance sheet by improving debt to equity ratio
- ▶ Written off loss making overseas subsidiaries and focusing on core businesses
- ▶ Under promise and overdeliver

Consolidated Financials

- ▶ One of the highest tax payers in Gujarat
- ▶ Increasing ROCE
- ▶ Reduction in interest
- ▶ Strong Free Cash flow generation
- ▶ Capex using internal accruals along with debt reduction - Reduced overseas subsidiaries debt from 500cr to 72 cr in 4 years

	2010	2011	2012	2013	2014	2015	2016	Q1 17	Q2 17	Q3 17
Revenue	1380	1588	1974	2274	2247	2384	2564	730	705	657
EBITDA	254	277	356	406	433	529	622	196	180	161
EBITDA Margin	18%	17%	18%	18%	19%	22%	24%	27%	26%	25%
Interest	120	152	213	179	183	171	164	34	33	32
PAT	79	-9	44	71	108	182	256	102	90	80.5
PAT Margin	5.7%	-0.6%	2.2%	3.1%	4.8%	7.6%	10.0%	14.0%	12.8%	12.3%
Net Debt	1741	1798	1676	1435	1349	1385	1208	1140	1140	1140
Net Debt/Equity	1.8	3.3	3.5	2.5	1.48	1.68	1.22			<1
Cash flow from operations	253	161	399	483	452	416	523			
Free Cash flow		-295	64	365	367	279	272			
FCF/Sales	0	-18.6%	3.2%	16.1%	16.3%	11.7%	10.6%			
ROCE	6.72%	7%	10.90%	12.50%	15%	20%	23%	24%	24%	23%
ROE	8.2%	-1.7%	9.1%	12.5%	18.4%	23.6%	28.6%			

Valuation

Reduction in realization (Revenue/tonne) as compared to 2016	15% 5% 0				Comments
	Current	Worst	Base	Best	
Soda Ash - Fair Value calculation					
Volume (MT)	701423	761423	786423	786423	1. "Current Volume" is based on FY 2016 numbers
Revenue	1619	1380	1592	1677	2. Management has guided 85000MT additional volume from the new capacity 3. Assumed 60000 additional capacity in worst and base
EBITDA Margin	34%	28%	30%	33%	
EBITDA	546	386	478	553	4. "Current EBITDA" is TTM
EV/EBITDA Multiple	8.0	8.0	8.0	8.0	5. 30% discount to the comps mean multiple
EV	4368	3091	3821	4426	
Debt (Soda Ash)	627	627	627	627	6. Current net debt of 1140 cr divided between soda ash and textiles in the same proportion as 2016
Equity Value	3741	2464	3194	3799	
Textiles - Implied Valuation					
Current Market Cap	2600	2600	2600	2600	
Debt - Textiles	513	513	513	513	
Implied EV - Textiles	Negative	649	Negative	Negative	
EBITDA(TTM)		170			
Implied EV/EBITDA		3.8			
Discount to the mean		49%			

Chemicals Comps Valuation	EV/EBITDA
Aarti	13.1
Vinati	17.0
Sudarshan	14.2
Atul	13.5
OCCL	10.8
Thirumalai	6.0
PI	22.0
Tata Chemicals	9.0
Apcotex	14.2
NOCIL	8.3
Mean	12.8

Textiles Comps Valuation	EV/EBITDA
Indocount	7.9
Welspun India	6.8
Vardhman	7.3
KPR	9.2
RSWM	6.0
Mean	7.44

What do I get in this valuation ?

- ▶ Stable and cash generating soda ash business + growth and margin expansion in home textiles division
- ▶ Textiles business at a significant discount even in the worst case scenario
- ▶ Valuation does not account for debt reduction
- ▶ Capex behind them

Key Triggers to Unlock Value

- Debt Reduction
- Stay in ADD order
- Capex utilization and increasing margins
- Recently announced buyback at 315 with 16% dividend payout ratio

Risks

- ▶ ADD
- ▶ Capacity expansion in soda ash in the industry
- ▶ Low promoter holding
- ▶ Spinning exposed to fluctuations in cotton prices
- ▶ Currency appreciation

Is this a good business or a business going through a good time?

- ▶ Soda Ash has never made losses - high entry barriers and generates good amount of cash
- ▶ Textiles business - sectoral tailwinds, improving margins
- ▶ Worst is behind them - paid off most of the debt on overseas subsidiaries

Annex - Anti Dumping Duty List

Country	Duty (USD)	Validity
China	36.26	July 2017
EU	9	July 2017
USA	38.79	July 2017
Kenya	20.35-28.86	July 2017
Turkey	18.39-75.16	April 2018
Russia	35.99	April 2018