

GHCL Ltd

New arena for growth, Strong vertical integration post expansion, competent management

Incorporated in 1983 & headquartered in Noida, the company is a prominent player in manufacturing of soda ash with a total installed capacity of 1.2 mn tpa. Currently operating at peak utilization levels & sensing strong growth opportunities in the domestic soda ash industry, GHCL is expanding its capacity by 11 lakh tonnes at a cumulative capex of Rs65bn by 2030 (Per ton cost of Rs65 per kg). The other product that the company manufactures is Sodium Bicarbonate wherein capacity has been doubled from 60 KT to 120 KT. The realisation for this product is almost similar to soda ash realisations while margins are better than soda ash due to favourable input-output ratio. The company is also present in the edible salt segment wherein the capacity is located in South India with raw salt manufacturing capacity of 0.15 mn tpa and refined salt capacity of 75 thousand tpa. The company sells salt through brands like Sapan & i-FLO. The company has recently ventured into new bromine & vacuum salt business which will derisk itself from mere soda ash player. The company has immense opportunities in this space with options to further integrate into bromine derivatives. As per our calculations this new business has the potential to add ~3bn or 35% on FY24 EBITDA. With this new business vertical the company is poised for a radical shift from mere commodity to more focus on speciality play going ahead.

Backward integration offers better control on raw materials: GHCL procures a sizeable portion of its key raw materials, such as salt (40%), limestone (25%) and lignite through captive sources, resulting in better control over input cost, thus supporting stable and healthy profitability. The company has healthy relationships with leading detergent and glass manufacturers in the domestic market. The salt captive consumption is drastically set to increase from current ~40% to 100% through its newly acquired salt land parcels thereby offering much better support to margins.

Indian soda ash market overview: Historically, growth of soda ash industry was ~5% largely driven by traditional sectors like detergents, glass, paper etc, however with new applications of soda ash into segments like solar glass, lithium carbonate & flue gas, we anticipate incremental growth would be ~7% or 2.5-3 lakh MT per year over the next 4 years in the domestic market. Currently, India is importing 8-9 lakh MT of soda ash. Major import is from countries like Turkey, USA and Russia. Currently, there is no anti-dumping duty on soda ash.

Strong moats leading to robust ROIC generation: GHCL is one of the key soda ash players in India, with a capacity of 1.2 mn tpa, accounting for ~26% of the country's total demand. GHCL is running its capacity at peak capacity utilization levels in its soda ash plant. Current capacity utilization is ~90-95%. The company's backward integration, prudent management of raw materials and continuous investment in upgradation & maintenance of plants and machinery has supported to operate the plant at near optimum utilization level, thereby leading to higher operating leverage.

New businesses like Bromine & Salt augurs well: The company will be expanding at a capacity of ~2,800 MT of bromine & 2 lakh tonnes salt by FY26 in the existing salt location (Currently having 5260 hectare salt parcel). The company is also undergoing new greenfield expansion in bromine & salt business wherein they have recently acquired new land parcel of 6,449 hectares expanding at a capacity of ~12,000 MT bromine & ~20 lakh tonnes salt which is anticipated to start in the next 3 years. The cumulative capex for the greenfield expansion is around to be ~Rs7.5bn which bifurcates as Rs5bn for bromine & Rs2.5bn salt. The salt capacity will be entirely captively consumed for the production of soda ash.

Expansion in soda ash augurs well: In order to improve market share in the domestic soda ash industry, GHCL is undertaking a large greenfield project to add 5.5 lakh tonne of soda ash capacity at a new location in Kutch, Gujarat, with estimated outlay of nearly Rs ~40-45bn. Post completion of this project, the company is further planning to add another 5.5 lakh tonnes at a capex of Rs25bn on the same site, thereby, benefitting from reduced overheads & fixed cost per ton. The company is still in the process of obtaining regulatory approvals. The first 5 lakh tonnes capacity is expected to complete by FY28.

Our view: We anticipate new business will be the key for diversification into new businesses & provide increased visibility. As per our calculations this new business has the potential to add ~3bn or 35% on FY24 EBITDA. Although, expansion in soda ash indicates heavy capex spend for the next 5 years, strong vertical integration in salt used as raw material in soda ash increases earnings visibility for the long term.

Valuation: At the CMP, the stock is trading at TTM P/E of ~12.6. We do not have any rating on the stock.

Manufacturing Site	Capacity in MTPA	Manufacturing Location
Soda Ash Plant	12,00,000	Sutrapada, Gujarat
Sodium Bicarbonate	1,20,000	Sutrapada, Gujarat
Salt Works	Bromine: 2,800 TPA & Salt: 8 lakh tonnes	Amreli, Gujarat
Lignite mines	8,400	Bhavnagar, Gujarat
New greenfield	Bromine: 12,000 TPA & Salt : 20 lakh tonnes	Zara Zumara, Gujarat

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY20	33,051	-1.1	7,280	22.0	3,966	13.1	41.4	19.5	15.7	5.0	4.1
FY21	24,912	-24.6	5,964	23.9	3,261	-17.8	34.1	14.5	11.4	4.8	3.8
FY22	30,521	22.5	7,263	23.8	6,501	99.3	67.9	24.6	14.1	5.4	5.5
FY23	45,509	49.1	14,851	32.6	10,848	66.9	113.3	31.4	26.5	5.2	3.7
FY24	34,465	-24.3	8,475	24.6	6,294	-42.0	65.8	18.2	15.8	8.2	5.3

Source: Company, SMIFS Research



Rating: Not Rated

Return: NA

Current Price: 664

Target Price: NA

| Market data

Bloomberg:	GHCL IN
52-week H/L (Rs):	726/435
Mcap (Rs bn/USD bn):	63.6/0.8
Shares outstanding (mn):	95.8
Free float:	79.0%
Daily vol. (3M Avg):	0.60mn
Face Value (Rs):	10

Source: Bloomberg, SMIFS Research

| Shareholding pattern (%)

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	19.0	19.0	19.0	19.1
FII's	24.8	25.0	24.7	25.3
DII's	9.3	8.3	8.6	9.7
Public/others	46.9	47.7	47.7	45.9

| Pro. Pledging

Pledging /				
Otherwise	1.1	1.1	1.1	1.1
encumbered				

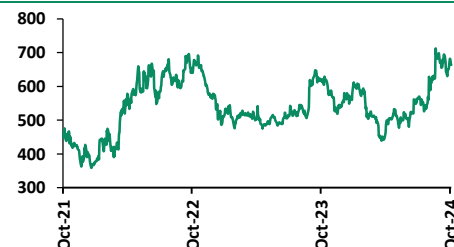
Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	0.9	3.1	27.6	41.0
NIFTY 500	-0.1	2.1	35.7	53.4
GHCL	-2.1	12.6	3.5	41.3

*as on 04th Oct, 2024; Source: AceEquity, SMIFS Research

| 3 Year Price Performance Chart



Source: NSE

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Quarterly financials, operating metrics and key performance indicators

Y/E March (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Sales	11,764	11,016	11,198	10,186	8,054	7,973	8,234	8,305
Raw Materials	6,236	5,785	6,059	5,737	4,410	4,922	4,691	4,548
Employee Costs	318	360	357	304	296	277	244	287
Other Expenditure	1,144	1,203	1,296	1,151	1,217	1,279	1,454	1,303
EBITDA	4,066	3,668	3,486	2,995	2,131	1,495	1,844	2,168
Depreciation	232	224	268	244	259	259	260	275
Interest	89	97	99	77	71	62	54	43
Other Income	64	57	216	106	112	156	166	183
PBT before exceptional items	3,809	3,405	3,335	2,780	1,915	1,330	1,697	2,033
Exceptional items	-	-	-	2,193	-	-	-	-
PBT after exceptional items	3,809	3,405	3,335	4,973	1,915	1,330	1,697	2,033
Tax	914	864	827	709	486	331	449	527
<i>Tax rate (%)</i>	<i>24.0</i>	<i>25.4</i>	<i>24.8</i>	<i>14.3</i>	<i>25.4</i>	<i>24.9</i>	<i>26.4</i>	<i>25.9</i>
Reported PAT	2,895	2,541	2,508	4,263	1,428	999	1,249	1,506
Adjusted PAT	2,895	2,541	2,508	2,619	1,428	999	1,249	1,506
YoY Growth (%)								
<i>Revenue</i>	<i>46.5</i>	<i>9.6</i>	<i>6.4</i>	<i>-11.3</i>	<i>-31.5</i>	<i>-27.6</i>	<i>-26.5</i>	<i>-18.5</i>
<i>EBITDA</i>	<i>141.0</i>	<i>47.3</i>	<i>5.6</i>	<i>-16.7</i>	<i>-47.6</i>	<i>-59.3</i>	<i>-47.1</i>	<i>-27.6</i>
<i>Adj. PAT</i>	<i>210.6</i>	<i>66.1</i>	<i>12.4</i>	<i>-1.1</i>	<i>-50.7</i>	<i>-60.7</i>	<i>-50.2</i>	<i>-42.5</i>
QoQ Growth (%)								
<i>Revenue</i>	<i>2.5</i>	<i>-6.4</i>	<i>1.7</i>	<i>-9.0</i>	<i>-20.9</i>	<i>-1.0</i>	<i>3.3</i>	<i>0.9</i>
<i>EBITDA</i>	<i>13.1</i>	<i>-9.8</i>	<i>-5.0</i>	<i>-14.1</i>	<i>-28.8</i>	<i>-29.9</i>	<i>23.4</i>	<i>17.5</i>
<i>Adj. PAT</i>	<i>9.4</i>	<i>-12.2</i>	<i>-1.3</i>	<i>4.4</i>	<i>-45.5</i>	<i>-30.1</i>	<i>25.0</i>	<i>20.6</i>
Margin (%)								
<i>Gross</i>	<i>47.0</i>	<i>47.5</i>	<i>45.9</i>	<i>43.7</i>	<i>45.2</i>	<i>38.3</i>	<i>43.0</i>	<i>45.2</i>
<i>EBITDA</i>	<i>34.6</i>	<i>33.3</i>	<i>31.1</i>	<i>29.4</i>	<i>26.5</i>	<i>18.7</i>	<i>22.4</i>	<i>26.1</i>
<i>Adj. PAT</i>	<i>24.6</i>	<i>23.1</i>	<i>22.4</i>	<i>25.7</i>	<i>17.7</i>	<i>12.5</i>	<i>15.2</i>	<i>18.1</i>
<i>Employee cost as % of sales</i>	<i>2.7</i>	<i>3.3</i>	<i>3.2</i>	<i>3.0</i>	<i>3.7</i>	<i>3.5</i>	<i>3.0</i>	<i>3.5</i>
<i>Other expenses as % of sales</i>	<i>9.7</i>	<i>10.9</i>	<i>11.6</i>	<i>11.3</i>	<i>15.1</i>	<i>16.0</i>	<i>17.7</i>	<i>15.7</i>

Source: Company, SMIFS Research

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY20	FY21	FY22	FY23	FY24
Revenues	33,051	24,912	30,521	45,509	34,465
Raw Materials	14,554	11,359	11,741	15,928	12,856
% of sales	44.0	45.6	38.5	35.0	37.3
Personnel	1,900	1,286	1,084	1,341	1,121
% of sales	5.7	5.2	3.6	2.9	3.3
Other Expenses	9,317	6,303	10,434	13,389	12,013
% of sales	28.2	25.3	34.2	29.4	34.9
EBITDA	7,280	5,964	7,263	14,851	8,475
Other Income	176	75	100	336	523
Depreciation	1,312	1,114	869	942	1,021
EBIT	6,144	4,925	6,493	14,245	7,976
Finance cost	1,198	743	513	373	255
Core PBT	4,770	4,107	5,880	13,536	7,199
Exceptional items	-	-	-	757	2,193
PBT	4,946	4,182	5,980	14,630	9,915
Tax-Total	980	1,113	1,521	3,472	1,976
Tax Rate (%) - Total	19.8	26.6	25.4	23.7	19.9
PAT	3,966	3,068	4,460	11,158	7,939
Profit for the year from discontinued operations	-	193	2,041	258	-
Adjusted PAT	3,966	3,261	6,501	10,848	6,294

Source: Company, SMIFS Research

Key Ratios					
YE March	FY20	FY21	FY22	FY23	FY24
Growth Ratio (%)					
Revenue	-1.1	-24.6	22.5	49.1	-24.3
EBITDA	-4.1	-18.1	21.8	104.5	-42.9
Adjusted PAT	13.1	-17.8	99.3	66.9	-42.0
Margin Ratios (%)					
Gross Profit	56.0	54.4	61.5	65.0	62.7
EBITDA	22.0	23.9	23.8	32.6	24.6
EBIT	18.6	19.8	21.3	31.3	23.1
Core PBT	14.4	16.5	19.3	29.7	20.9
Adjusted PAT	27.3	28.7	55.4	68.1	49.0
Return Ratios (%)					
ROE	19.5	14.5	24.6	31.4	18.2
ROCE	15.7	11.4	14.1	26.5	15.8
Turnover Ratios (days)					
Gross block turn ratio (x)	1.0	0.8	0.9	1.5	1.4
Adj OCF / Adj PAT (%)	126.2	162.1	88.4	74.5	122.6
Inventory	87	112	113	62	69
Debtors	30	33	27	18	19
Creditors	45	55	41	18	23
Cash conversion cycle	73	90	99	61	65
Solvency Ratio (x)					
Debt-equity	0.5	0.3	0.3	0.1	0.1
Net debt/equity	0.5	0.3	0.2	0.0	-0.2
Gross debt/EBITDA	1.5	1.3	1.1	0.2	0.2
Current Ratio	1.4	1.7	1.8	4.7	4.3
Interest coverage ratio	5.1	6.6	12.6	38.2	31.3
Dividend					
DPS	3.0	5.5	15.0	17.5	12.0
Dividend yield (%)	1.5	3.3	4.1	3.0	2.2
Dividend Payout (%)	7.2	16.1	22.1	15.4	18.2
Per Share (Rs.)					
Basic EPS (reported)	40.5	34.3	68.2	120.1	83.4
Adj EPS	41.4	34.1	67.9	113.3	65.8
CEPS	55.1	45.7	77.0	123.2	76.4
BVPS	224.5	244.7	307.9	413.2	311.2
Valuation					
Adj P/E	5.0	4.8	5.4	5.2	8.2
P/BV	0.9	0.7	1.2	1.4	1.7
EV/EBITDA	4.1	3.8	5.5	3.7	5.3
EV/Sales	0.9	0.9	1.3	1.2	1.3
Adj Mcap / Core PBT	3.9	3.7	5.5	3.8	5.9
Adj Mcap / Adj OCF	3.7	2.9	5.6	6.3	5.5

Source: Company, SMIFS Research

Balance Sheet					
YE March (Rs mn)	FY20	FY21	FY22	FY23	FY24
Source of funds					
Share Capital	950	950	954	956	957
Reserves & Surplus	20,540	22,476	28,520	38,602	28,828
Shareholders' Funds	21,490	23,427	29,473	39,558	29,785
Total Loan Funds	10,914	7,821	7,876	3,614	2,101
Other Liabilities	2,602	4,055	4,155	2,493	2,510
Total Liabilities	35,006	35,302	41,503	45,664	34,395
Application of funds					
Gross Block	32,296	33,112	38,305	23,922	25,384
Net Block	26,568	26,753	24,742	17,314	18,417
Capital WIP	1,200	805	2,130	1,086	548
Quasi cash investments	162	138	151	149	139
Other Investments	16	13	14	0	0
Other Non-Current Assets	915	919	1,203	1,212	798
Inventories	7,906	7,635	9,442	7,723	6,511
Sundry Debtors	2,744	2,284	2,294	2,184	1,798
Cash and bank balances	1,072	486	2,552	1,398	4,915
Current investments	-	-	-	3,648	4,065
Other current assets	1,111	745	7,424	16,620	505
Total Current Assets	12,833	11,150	21,713	31,573	17,794
Sundry Creditors	4,077	3,766	3,428	2,296	2,204
Other current liabilities	2,611	710	5,022	3,374	1,096
Total Current Liabilities	6,688	4,476	8,451	5,670	3,300
Net Current Assets	6,145	6,674	13,263	25,903	14,494
Total Assets	35,006	35,302	41,503	45,664	34,395

Source: Company, SMIFS Research

Cash Flow					
YE March (Rs mn)	FY20	FY21	FY22	FY23	FY24
Operating profit before WC changes	7,583	6,682	10,891	16,104	8,260
Net changes in working capital	-184	600	-2,408	-3,110	1,635
Tax Paid	-1,155	-1,071	-2,049	-4,432	-1,924
Cash flow from operating activities	6,244	6,210	6,434	8,562	7,970
Adj. OCF	5,006	5,285	5,749	8,078	7,718
Capital expenditure	-2,060	-1,107	-3,375	-3,500	-1,065
Adj FCF	2,946	4,178	2,375	4,578	6,654
Cash flow from investing activities	-2,055	-1,088	-3,366	-4,088	-5,340
Debt	-619	-4,715	173	-3,424	-1,512
Dividend	-876	-59	-520	-1,427	-1,665
Interest and Lease	-1,238	-925	-685	-484	-252
Cash flow from financing activities	-3,393	-5,690	-981	-5,300	-3,377
Net change in cash	796	-568	2,088	-826	-747

Source: Company, SMIFS Research

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