GHCL Limited

July 06, 2022

Ratings

Facilities	Amount (₹ crore)	Ratings[1]	Rating Action
Long-term bank facilities	539.90 (Reduced from 711.42)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Reaffirmed
Long-term / Short-term bank facilities	1,429.00	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)**	Reaffirmed
Total facilities	**1,968.90 (₹ One thousand nine hundred sixty-eight crore and ninety lakh only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of GHCL Limited (GHCL) derive strength from its established position in the domestic soda-ash industry, its cost competencies owing to captive mines of lignite and limestone along with ready availability of salt, favourable demand-supply dynamics for the domestic soda ash industry in the medium term, its established clientele and significant availability of relatively cheaper source of captive power for its cyclical cotton yarn division. The ratings also continue to derive strength from increase in its scale of operations along with improved profitability, comfortable leverage and debt coverage indicators. The ratings additionally factor significant improvement in its liquidity upon realisation of large proceeds from the slump sale of its home textile division to Indo Count Industries Limited (ICIL).

The ratings also factor the advanced stage of demerger of GHCL's residual textile division (viz. yarn manufacturing) into its group company viz. GHCL Textiles Limited (GTL) which once completed is expected to result in more steady performance of GHCL from its residual inorganic chemical business largely comprising of soda ash which has historically earned relatively healthier profitability margins.

The ratings are, however, constrained on account of elevated prices of key inputs such as salt and imported coal along with higher freight costs, its susceptibility to volatility in cotton prices and foreign exchange rates, inherent cyclicality associated with the textile industry along with risks associated with its envisaged large-sized green-field soda ash project to be implemented in the medium term; albeit the company management has strongly articulated that this project would be implemented in a phase-wise manner so that it does not significantly affect the leverage and debt coverage indicators of the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely completion and stabilisation of its planned green-field project and realise envisaged returns therefrom
- Growth in its scale of operations with TOI of more than ₹5,000 crore along-with PBILDT margin of 25% on a sustained basis while maintaining strong leverage and debt coverage indicators

Negative factors – Factors that could lead to negative rating action/downgrade:

- PBILDT margin falling below 18% on a sustained basis
- Deterioration in Total Debt/PBILDT beyond 2.5x times on a sustained basis
- Deterioration in the overall gearing beyond unity on a sustained basis
- Any significant direct / indirect financial support extended by GHCL to GTL post demerger
- Significant deviation in the size of its planned green-field soda ash project and departure from the stated staggered implementation timeline which could have an adverse impact on its leverage and debt coverage indicators

Detailed description of the key rating drivers

Key rating strengths

Established position in the oligopolistic domestic soda ash industry: GHCL has an established position in the domestic soda ash industry, which is oligopolistic in nature with top three players including GHCL controlling around 90% of total domestic production capacity. GHCL also has captive source of raw material for lignite, limestone and salt leading to cost competencies. Furthermore, soda-ash division also meets majority of its power requirement through captive sources. GHCL supplies soda-ash to leading detergent and glass manufacturers in domestic market who have been its clients since long.

Healthy operating performance of soda-ash division: Upon subsiding of the impact of COVID-19 pandemic, performance of GHCL's soda ash division improved during FY22 marked by total soda ash sales volume of 10.90 lakh MT viz-a-vis 9.11 lakh MT during FY21. Demand from solar glass manufacturing segment improved significantly during FY22 on the back of major thrust on solar power generation in India. Also, due to robust demand along with reduced imports (due to high freight costs), GHCL was able to take nearly 50% price increase for its soda ash which resulted in improved profitability during FY22.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Cheaper source of captive power driving the operating efficiency of its cyclical cotton yarn division: On the back of gradual shift towards high value-added cotton and synthetic yarn in its product basket, profitability of its yarn division improved marked by PBILDT margin of 27.99% during FY22 (P. Y. 23.01%) with nearly 58% growth in its scale of operations, marked by TOI of ₹911 crore during FY22 (P.Y. ₹505 crore). Installation of windmill over the years has also resulted in savings in power cost for the yarn division.

Slump sale of home textile division which had a volatile business performance: Prior to improvement in performance of its home textile division in FY21 it had remained subdued over the three years ended FY20 with continuous decline in sales from ₹821 crore during FY17 to ₹494 crore in FY20 on account of subdued demand from large retailers based in USA along-with competitive pressures which had resulted in PBILDT level losses of ₹0.36 crore and ₹14 crore in FY19 and FY20. Also, performance of home textile division has close linkages with the government's incentive schemes. Accordingly, during FY22, GHCL decided to divest its home textile division by way of slump sale to ICIL for a total consideration of ₹608 crore and the transaction got completed in April 2022. Out of total consideration, ₹300 crore was received by March 2022 as an advance whereas it received ₹274 crore in April 2022 and balance ₹34 crore is expected to be received in due course. The liquidity generated from this transaction has enabled GHCL to reduce its debt levels.

Healthy profitability along with improved leverage and debt coverage indicators: With improved performance of both soda ash and yarn divisions, operating profitability of GHCL improved marked by PBILDT margin of 26.25% during FY22 vis-à-vis 24.43% during FY21. Also, on the back of significant rationalisation of its debt levels in the last two years, its finance cost reduced to almost half during FY22 vis-à-vis FY20 leading to improved PAT margin. With significant rationalisation of its term loan and working capital debt along-with build-up of its net-worth, its overall gearing improved to 0.26 times as on March 31, 2022 (P.Y. 0.36 times) which ultimately resulted in improved debt coverage indicators marked by total debt/PBILDT of 0.79 times, total debt/ GCA of 1.02 times and interest coverage of 16.68 times during FY22. CARE Ratings Limited (CARE Ratings) expects GHCL's residual soda ash business (post demerger of its textile division) to have an overall gearing comfortably below 0.50 times and total debt/PBILDT at around unity by end-FY24.

Improved generation of cash flow from operations on account of efficient working capital management: GHCL has efficient working capital management as evinced from its consistent track record of generation of healthy operating cash flow. GHCL's operating cash flow continued to remain healthy at ₹852 crore during FY22. It was on account of its healthy profitability and improved operating cycle. This resulted in significant reduction in its working capital borrowings marked by average utilisation of the fund-based working capital limits being at around 11% during the trailing 12 months ended May 2022.

Stable demand-supply dynamics of soda ash industry: India's domestic demand of soda ash grew at a compounded annual growth rate (CAGR) of around 5% during FY13-FY22 on account of healthy demand from detergent and glass segments. Out of India's total consumption, around 20% is being imported. Majority of imports of soda ash is from countries like USA, Turkey, Bulgaria, Kenya and Russia. Out of total sales realisation of soda ash, around 20% pertains to transportation cost of raw materials and finished products which act as an entry barrier for large-scale imports in regions other than Eastern and Southern parts of India and thereby safeguards the major soda ash players in the western part of India. During FY22, on the back of sharp increase in freight costs, imports of soda ash had declined leading to good prospects for domestic soda ash manufacturers.

Advanced stage of demerger of its residual textile division into a group company: In March 2020, the board of directors of GHCL had approved the scheme of demerger of its textile division (yarn and home textile) into a separate company viz. GTL. The said scheme was already approved by its shareholders, unsecured and secured creditors and was pending for final approval of NCLT. However, upon slump sale of home textile division to ICIL in December 2021, GHCL withdrew the original scheme of demerger from NCLT and filed a fresh scheme of demerger with NCLT for transferring the residual yarn division to GTL. GHCL has received approval for the new scheme of demerger from its secured lenders by March 2022. According to the company, the scheme is envisaged to be approved and implemented by December 2022. Post demerger of yarn division, residual GHCL would have a more steady and profitable business of soda ash.

Liquidity: Strong

Liquidity of GHCL is marked by strong accruals against moderate term debt repayment obligations. With an overall gearing of 0.26 times as on March 31, 2022, the issuer has sufficient gearing headroom to raise additional debt for its capex. During March and April 2022, GHCL realized ₹574 crore from slump sale of its home textile division and part of the proceeds were utilised to reduce its fund-based working capital borrowings. It has resulted in significant free-up of its nearly ₹800 crore of fund-based working capital limits reflected in its large unutlised bank lines which are expected to be more than adequate to meet its incremental working capital needs over the next more than one year.

Key rating weaknesses

Risks associated with implementation of a large-sized green-field soda ash project in the medium-term: Looking at the healthy capacity utilisation of its soda ash plant at its existing location where any major capacity expansion is a constraint and the expected good long-term growth prospects for domestic soda ash, GHCL has envisaged to implement a large green-field soda ash plant of 5 lakh MTPA (approximately half of its current capacity) at a new location at an estimated project cost of around ₹3,500 crore. This capex is expected to be implemented in a phase-wise manner over the medium-term. GHCL has acquired some portion of land towards this by end-FY22 and now it has plans to seek requisite environment and regulatory clearances from concerned government departments; apart from trying to acquire land for its salt requirement. This process is envisaged to be completed by end-FY23 and actual construction of the soda ash plant shall only commence thereafter which would be implemented

over a period of another three years. In the intervening period, GHCL is expected to conserve its cash/liquidity to fund the promoter contribution of the capex. GHCL's current leverage is at a comfortable level and though the exact funding pattern of this capex is not yet finalised, the company has tentatively envisaged to fund this project with term debt of around ₹1,500 crore. Furthermore, the company management has strongly articulated that this project would be implemented in a phase-wise manner with a moderate project Debt/Equity so that it does not significantly affect the overall leverage and debt coverage indicators of the company. Consequently, any significant deviation in the size of its planned green-field soda ash project and departure from the stated staggered implementation timeline which could have an adverse impact on its leverage and debt coverage indicators would be a key rating sensitivity.
In the meanwhile, GHCL has taken up a brown-field soda ash capacity expansion project to increase the installed capacity at its existing location from 11 lakh MTPA to 12.00 lakh MTPA along-with efficiency improvement, salt yield improvement and renewable power-related capex in soda ash division. Also, it has taken up capex for addition of 80,000 spindles in yarn division along-with setting up a 10 MW solar power project. The aggregate cost of the projects in both the divisions is envisaged at around ₹800 crore during FY23 and FY24. Majority of this capex is planned to be funded from its internal accruals. Timely implementation and stabilisation of these capex would help to maintain its ROCE which has improved from 14.04% in FY21 to 22.85% in FY22 upon hiing off its home textile division.

Susceptibility of profitability to volatile raw material prices and freight costs: The key raw materials and input costs of GHCL in soda ash division pertains to salt, limestone, coal, lignite, freight and power whereas in yarn division, the same pertains to cotton and power. Prices of all these inputs have elevated significantly in the last one year period. However, GHCL has undertaken consecutive price increases in soda ash which is expected to largely recover its higher costs in soda ash division whereas spread between yarn and cotton has moderated which is likely to result in moderation in profitability of yarn division.

Inherent cyclicality associated with textile industry and risk related to foreign exchange rate fluctuations: Textile is an inherently cyclical industry and closely follows the macroeconomic business cycles. High competitive intensity in the textile industry, volatility in cotton prices as well as foreign exchange rates and capacity additions by large players are the major cause of concern for the Indian textile industry. Any shift in macroeconomic environment globally would have an impact on the domestic textile industry. Post hiving off the home textile division, GHCL is exposed to the inherent foreign exchange fluctuation risk being a net importer. However, it has a practice to keep its next three months' import payments hedged by way of forward contracts to minimise the risk related to exchange rate fluctuations.

Analytical approach: Consolidated
CARE Ratings has adopted 'Consolidated' analytical approach for rating of GHCL on account of business synergies of GHCL with its subsidiaries and their common management. The list of entities getting consolidated has been placed in **Annexure 4**.

Applicable criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's policy on default recognition
Criteria for short-term instruments
Liquidity analysis of non-financial sector
Rating methodology-Consolidation
Rating methodology-Manufacturing companies
Financial ratios - non-financial sector
Rating Methodology for Cotton Textile Manufacturing
Policy on withdrawal of ratings

About the company
Incorporated in 1983, GHCL is a leading player in the domestic soda ash industry. The operations of the company are broadly divided in two segments viz. inorganic chemical division (which largely includes soda ash and sodium bicarbonate) and textile division (which includes yarn and home textile manufacturing). The soda ash manufacturing plant of GHCL is located at Sutrapada in Gujarat (installed capacity – 11 lakh tonnes per annum as on March 31, 2022) while its cotton yarn manufacturing facility is located at Madurai in Tamil Nadu (1,85,000 spindles, 3,320 rotors as on March 31, 2022) and the home textile unit was located at Vapi in Gujarat which was hived off by way of slump sale to ICIL during FY22. The promoters held 19.07% stake in the company as on March 31, 2022.

(₹ Crore)

Brief Financials of GHCL – Consolidated	FY21 (A) #	FY22 (A)	Q1FY23 (Prov.)
TOI	2,496	3,786	NA
PBILDT	610	994	NA
PAT	307	598	NA
Overall gearing (times)	0.36	0.26	NA
Interest coverage (times)	7.90	16.68	NA

A: Audited; Prov.: Provisional; NA: Not available # restated in line with FY22 results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments: Not applicable

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	June-2028	439.06	CARE AA-; Stable
Fund-based-LT/ST		-	-	-	675.00	CARE AA-; Stable / CARE A1+
Non-fund-based-LT/ST		-	-	-	390.00	CARE AA-; Stable / CARE A1+
Term Loan-Long Term		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	March-2029	100.84	CARE AA-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	364.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	439.06	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)	1)CARE A+; Stable (02-Jan-20) 2)CARE A+; Stable (07-Oct-19)
2	Fund-based-LT/ST	LT/ST*	675.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Jul-21)	1)CARE A+; Stable / CARE A1+ (05-Oct-20) 2)CARE A+; Stable / CARE A1+ (04-Aug-20)	1)CARE A+; Stable / CARE A1+ (02-Jan-20) 2)CARE A+; Stable / CARE A1+ (07-Oct-19)
3	Non-fund-based-LT/ST	LT/ST*	390.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Jul-21)	1)CARE A+; Stable / CARE A1+ (05-Oct-20) 2)CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (02-Jan-20) 2)CARE A+; Stable / CARE A1+ (07-Oct-19)

							(04-Aug-20)		
4	Term Loan-Long Term	LT	-	-	-	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)	1)CARE A+; Stable (02-Jan-20) 2)CARE A+; Stable (07-Oct-19)
5	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (07-Oct-19)
6	Term Loan-Long Term	LT	100.84	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)	1)CARE A+; Stable (02-Jan-20) 2)CARE A+; Stable (07-Oct-19)
7	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (07-Oct-19)
8	Fund-based/Non-fund-based-LT/ST	LT/ST*	364.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (30-Jul-21)	1)CARE A+; Stable / CARE A1+ (05-Oct-20) 2)CARE A+; Stable / CARE A1+ (04-Aug-20)	1)CARE A+; Stable / CARE A1+ (02-Jan-20) 2)CARE A+; Stable / CARE A1+ (07-Oct-19)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-LT/ST	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based-LT/ST	Simple
4	Term Loan-Long Term	Simple

Annexure-4: List of entities getting consolidated with GHCL

Sr. No.	Name of the entity	% stake of GHCL as on March 31, 2022
1	Grace Home Fashions LLC #	100
2	Dan River Properties LLC	100
3	GHCL Textiles Ltd.	100

divested from April 2022 to ICIL

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst Contact
Name: Hardik Shah
Phone: +91-79-4026 5620
E-mail: hardik.shah@careedge.in

Relationship Contact
Name: Deepak Prajapati
Phone: +91-79-4026 5602
E-mail: deepak.prajapati@careedge.in

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