GHCL Limited

July 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	302.68 (Reduced from 539.90)	CARE AA-; Stable	Reaffirmed
Long-term/Short-term bank facilities	910.00 (Reduced from 1,429.00)	CARE AA-; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 the ready availability of salt, and its established clientele and favourable demand-supply dynamics for the domestic soda-ash industry in the medium term. The ratings also continue to derive strength from the large scale of operations with strong profitability, the comfortable leverage and debt coverage indicators, and its strong liquidity. The ratings also factor in the successful demerger of GHCL's residual textile division, viz, cotton yarn manufacturing into its group company, viz, GHCL Textiles Limited (GTL; rated 'CARE A-; Stable/CARE A2+'). which 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 the susceptibility of profitability to key inputs prices & foreign exchange rate fluctuations and risks associated with its envisaged large-sized greenfield soda-ash project to be implemented in the medium term; albeit the company management has strongly articulated that the project will 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: Factors likely to lead to rating actions

Positive factors

- Timely completion and stabilisation of its planned greenfield project and realisation of its envisaged returns therefrom.
- Growth in its scale of operations with total operating income (TOI) of more than ₹5,000 crore along with a profit before interest, lease rentals, depreciation and taxation (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:

- The PBILDT per tonne falling below ₹7,000 on a sustained basis.
- Deterioration in the total debt (TD)/PBILDT beyond 2x on a sustained basis.
- Deterioration in the overall gearing beyond unity on a sustained basis.
- Any significant direct or indirect financial support extended by GHCL to GTL.
- Significant deviation in the size of its planned greenfield soda-ash project and departure from the stated staggered implementation timeline, which can have an adverse impact on its leverage and debt coverage indicators.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted the 'Consolidated' analytical approach for the rating of GHCL on account of the business synergies of GHCL with its subsidiaries and their common management. The list of entities getting consolidated has been placed in Annexure-2.

Outlook: Stable

CARE Ratings believes that GHCL will continue to maintain its strong position in the domestic soda-ash industry along with the healthy profitability margins. Furthermore, the financial risk profile of GHCL is likely to remain comfortable.

Detailed description of the key rating drivers

Key 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 the top four players including GHCL controlling around 80% of the total domestic production capacity. GHCL also has partly captive source of raw

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

materials for lignite, limestone and salt, leading to cost competencies. Furthermore, it also meets the majority of its power requirements through captive sources. GHCL supplies soda-ash to leading detergent and glass manufacturers in the domestic market who have been its clients since long.

Large scale of operations along with improved profitability of the soda-ash division

During FY23, GHCL's soda-ash plant operated at almost 94% capacity, fueled by growth in demand from end-user industries. The company has witnessed a strong sales realisation of soda-ash during FY23, resulting into healthy growth in revenue as well as operating profitability. The average sales realisation of soda-ash remained at around ₹36,000 per tonne during FY23, while it had earned a PBILDT of around ₹1,504 crore, translating into a PBILDT margin of 33.03% in FY23. The PBILDT per tonne has improved to over ₹14,000 per tonne in FY23 as compared with an average of ₹6,700 per tonne in the last five years ended FY22. On the back of the significant rationalisation of its debt levels in the last two years ended FY23, its finance cost reduced to almost half during FY23 vis-à-vis FY21, leading to an improved profit-after-tax (PAT) margin.

However, soda-ash realisations have declined sharply in Q1FY24 due to the subdued demand globally. Soda-ash realisation is expected to come down by around 25% by the end of FY24. The operating performance is expected to normalise with a sharp correction in the average sales realisation of soda-ash in Q1FY24. However, the sales volume is expected to remain steady with around 5-6% growth in FY24 over FY23 in the medium term. CARE Ratings expects GHCL to report a revenue de-growth by 18-20% to around ₹3,400-3,600 crore and earn a PBILDT of around ₹900-1,000 crore, ie, a PBILDT margin of 25-27% in FY24.

Comfortable leverage and debt coverage indicators

With significant reduction of its term loan and working capital debt along with a build-up of its net worth, the company's overall gearing improved to 0.09x as on March 31, 2023 (PY: 0.27x). Also, with significant improvement in the profitability along with a reduction in the debt level, the debt coverage indicators have improved marked by a TD/PBILDT of 0.24x, TD/gross cash accruals (GCA) of 0.30x and an interest coverage of 39.34x during FY23. As on April 01, 2023, ie, on the date of the demerger, the assets and liabilities pertaining to the residual cotton yarn division were transferred to the resultant company, GTL. Despite a sizeable reduction in the net worth base of over ₹1,350 crore due to the demerger, the leverage profile of GHCL is likely to remain comfortable with an overall gearing ratio below 0.20x in the near to medium term.

Efficient working capital management leading to strong operating cash flow

GHCL has an 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 ₹1,019 crore during FY23. It was on account of its healthy profitability and improved working capital cycle. This resulted in a significant reduction in its working capital borrowings, marked by an average month-end utilisation of its fund-based working capital limits at around 1% during the trailing 12 months ended May 2023.

Stable demand-supply dynamics of the soda-ash industry

India is expected to be the world's third-largest consumer of soda-ash. The demand for soda-ash is expected to grow at 5-6%, driven by rising demand from the end-user segment such as glass, soaps and detergents, and other chemical products due to the rising population, urbanisation, and higher disposable incomes. In India, the total installed capacity of soda-ash is 4.3 million metric tonne (MT), with an estimated production of 3.6 million MT in year 2022. The total size of the Indian soda-ash market is about 3.9 million MT and currently almost 18% of the Indian demand is being met by imports. With many new announcements of capacity addition in solar glass, various government production-linked incentive (PLI) schemes and the expected anti-dumping duty on the import of float glass is expected to boost the demand from glass sector. Imports of soda-ash to India are expected to be on a higher side in FY24 due to the limited capacities additions in the country against the rising demand from downstream segments, few capacities coming on stream in foreign countries and emerging green usages such as solar glass and flue gas treatment.

Successful demerger of its residual textile division into a group company

Until FY20, GHCL was broadly engaged in the business of producing soda-ash, yarn spinning and home textiles. Earlier in March 2020, GHCL had filed a scheme of demerger for transferring its entire textile division (ie, home textile and yarn divisions) into a separate company, viz, GTL. However, upon the slump sale of the home textile division to Indo Count Industries Ltd in December 2021, GHCL withdrew the original scheme of demerger from the National Company Law Tribunal (NCLT) and filed a fresh scheme of demerger with the NCLT for transferring the residual yarn division to GTL. As on April 1, 2023, the cotton yarn business has been finally demerged into GTL and the same is reported by GHCL as discontinued operations for the financial year ended March 31, 2023. On June 12, 2023, GTL has been separately listed on the stock exchange under the automatic route. Accordingly, GHCL's continuing operations pertains to one segment, ie, inorganic chemicals. Post the demerger of the yarn division, the residual of GHCL is expected to result in more steady performance from its inorganic chemical business, largely comprising soda-ash, which has historically earned relatively healthier profitability margins.

Liquidity: Strong

The liquidity of GHCL is strong, marked by healthy cash and liquid investments of around ₹488 crore as on March 31, 2023. During FY24, it expects to generate GCA of around ₹700 crore against its term debt repayment obligations of ₹126 crore. With an overall gearing of 0.09x as on March 31, 2023, the issuer has sufficient gearing headroom to raise additional debt for its capex. The average month-end utilisation of its fund-based limits stood at around 1% for the last 12 months ended May 31, 2023, and the average utilisation of the fund-based limits from the last five months ended May 31, 2023, is nil, thereby around ₹585 crore of the unutilised bank lines available with the company are expected to be more than adequate to meet its incremental working capital requirement.

Key weaknesses

Risks associated with implementation of a large-sized greenfield 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 greenfield soda-ash plant of 5 lakh million tonne per annum (MTPA) (approximately 40% of its current capacity) at a new location at an estimated project cost of around ₹4,500 crore. This capex is expected to be implemented in a phase-wise manner over the medium term. In the intervening period, GHCL is expected to conserve its cash and liquidity to fund the promoter contribution of the capex. GHCL has acquired 75% of the required land for the greenfield project and is expected to complete the acquisition of the remaining land by December 2023. The company expects to receive all the environmental and regulatory clearances also by October 2023 and physical construction activity is likely to commence in Q4 of FY24. GHCL's current leverage is at a comfortable level, and the company has envisaged funding this project with a term debt of around ₹2,200-2,500 crore. Furthermore, the company management has strongly articulated that the project will 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 greenfield soda-ash project and departure from the stated staggered implementation timeline, which can have an adverse impact on its leverage and debt coverage indicators, will be a key rating sensitivity. Meanwhile, during FY23, GHCL completed a brownfield soda-ash capacity expansion by increasing the installed capacity at its existing location from 11 lakh MTPA to 12 lakh MTPA. During FY24, the company intends to incur capex to the tune of ₹150-200 crore for the soda-ash plant's efficiency improvement, salt yield improvement, and setting up of renewable power sources. This capex is planned to be funded from its internal accruals.

Susceptibility of profitability to volatile raw material prices, freight rates, and foreign exchange rate fluctuations

The key raw materials and input costs of GHCL pertain to salt, limestone, coal, lignite, freight, and power. The prices of all these inputs have been volatile in the last one-year period. However, GHCL is able to undertake price hikes such that it is able to maintain its profitability. Due to the subdued demand in Q1FY24, the soda-ash prices dropped sharply, thereby putting downward pressure on the industry's operating profitability. Post hiving off the home textile division, GHCL is exposed to the inherent foreign exchange fluctuation risk of being a net importer. However, it has a practice of keeping its next three months' import payments hedged by way of forward contracts to minimise the risk related to exchange rate fluctuations.

Environment, social, and governance (ESG) risks

	Risk factors
Environmental	• Chemical manufacturing can have a significant impact on the environment owing to high water consumption, waste generation, and greenhouse gas (GHG) emissions. • GHCL have implemented advanced technologies and processes that help to minimise the carbon footprint. The company is increasing its reliance on solar and wind power, thereby demonstrating its commitment to clean energy. • GHCL implemented waste management practices to collect and safely dispose off its plastic waste. • All suppliers and vendors who work with GHCL are required to sign the Supplier Code of Conduct. Furthermore, GHCL is now implementing a supply chain risk reduction programme to reduce risk in supply chain. As a part of the programme, GHCL will assess suppliers based on ESG standards and then work with them to bring them up to the expectations of GHCL's requirements. During the reporting year FY23, approximately 43% of the input materials were sourced sustainably.
Social	• The sector's social impact is characterised by health hazards, leading to higher focus on employee safety and well-being; and the impact on local community given the nature of its operations. • GHCL actively encourages and supports the unionisation of employees as a means of safeguarding their labour rights. By providing a platform for free expression and supporting collective bargaining, GHCL demonstrates its commitment to fostering a fair and inclusive workplace that respects and protects the rights of its workforce.
Governance	• Governance structure is characterised by 50% of its board comprising independent directors, a dedicated investor grievance redressal system, and public disclosures.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity Chemicals

Incorporated in 1983, GHCL is a leading player in the domestic soda-ash industry. The soda-ash manufacturing plant of GHCL is located at Sutrapada in Gujarat having an installed capacity of 12 lakh metric tonne per annum as on March 31, 2023. The company also manufactures refined sodium bicarbonate (RBC) with a production capacity of 1.2 lakh MTPA. In addition, the company is also in the business of producing edible salt, honey, and spices at a small scale. The promoters held 19.05% stake in the company as on March 31, 2023.

(₹ crore)

Brief Financials of GHCL – Consolidated	FY22 (A) ^	FY23 (A)
Total operating income	3,058	4,552
PBILDT	736	1,504
PAT from continuing operation	446	1,116
PAT from discontinued operation	204	26
Reported PAT	650	1,142
Overall gearing (times)	0.27	0.09
Interest coverage (times)	15.53	39.34

A: Audited; ^ Restated. Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-3

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of the various instruments rated: Annexure-5

Lender details: Annexure-6

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	-	300.00	CARE AA-; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	310.00	CARE AA-; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	-	300.00	CARE AA-; Stable / CARE A1+
Term Loan-Long Term	-	-	-	March 2029	43.08	CARE AA-; Stable
Term Loan-Long Term	-	-	-	June 2028	259.60	CARE AA-; Stable

Annexure-2: List of entities getting consolidated with GHCL

Sr. No.	Name of the Entity	Percentage stake of GHCL as on March 31, 2023
1	Grace Home Fashions LLC #	100
2	Dan River Properties LLC	100
3	GHCL Textiles Limited ^	100

 # Dissolved w.e.f. March 02, 2023; ^ Demerged w.e.f. April 01, 2023

Annexure-3: 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 2023-2024	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
1	Term Loan-Long Term	LT	259.60	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)
2	Fund-based-LT/ST	LT/ST*	300.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-22)	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)
3	Non-fund-based-LT/ST	LT/ST*	300.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-22)	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)
4	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)
5	Term Loan-Long Term	LT	43.08	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)	1)CARE A+; Stable (05-Oct-20) 2)CARE A+; Stable (04-Aug-20)
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	310.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (06-Jul-22)	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)

*Long term/Short term.

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the 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-6: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates rais e capital and enable investors to make informed decisions. With an established track reco rd of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertis e, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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