GHCL Limited (Revised)

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	184.60 (Reduced from 302.68)	CARE AA-; Stable	Reaffirmed
Long-term/Short-term bank facilities	825.00 (Reduced from 910.00)	CARE AA-; Stable/ CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of GHCL Limited (GHCL) derive strength from its established position in 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 domestic soda-ash industry in the medium term. Ratings also continue to derive strength from the large scale of operations with healthy operating profitability, comfortable leverage and debt coverage indicators, and its strong liquidity.

However, long-term rating continues to be constrained considering the profitability susceptible to key inputs prices and foreign exchange rate fluctuations and risks associated with its envisaged large-sized greenfield soda-ash project to be implemented in the medium term. The company's 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.

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 could have an adverse impact on its leverage and debt coverage indicators.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) adopted the 'Consolidated' analytical approach for GHCL's ratings, considering the business synergy and common management of GHCL with its only subsidiary "Dan River Properties LLC". Details of the same has been placed in Annexure-6.

Outlook: Stable

CARE Ratings believes that GHCL will continue to maintain its strong position in 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 oligopolistic domestic soda-ash industry

GHCL has an established position in domestic soda-ash industry, which is oligopolistic, with the top four players including GHCL controlling ~85% of the total domestic production capacity. GHCL also has partly captive source of raw materials for lignite, limestone and salt, leading to cost competencies. It also meets the majority power requirements through captive sources. GHCL supplies soda-ash to leading detergent and glass manufacturers in domestic market, who have been its clients since long.

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

Large scale of operations along with healthy profitability

Post successful demerger of GHCL's residual textile division, cotton yarn manufacturing to its group company, GHCL Textiles Limited (GTL; rated 'CARE A-; Stable/CARE A2+'), GHCL's residual inorganic chemical business largely comprising soda-ash is expected to result in more steady performance of GHCL, which historically earned relatively healthier profitability margins.

In FY24, GHCL's soda-ash plant operated at ~91% capacity (PY: ~94%), which remained lower than FY23 mainly due to lime kiln breakdown in Q1FY24 and planned shutdown in Q3FY24. With the increase in imports due to subdued global demand, GHCL's average sales realisation declined from ₹36,373/metric tonne (MT) in FY23 (all time high) to ₹29,538/MT in FY24 ~19%. Price of key inputs, salt, limestone, coal, lignite, and power also moderated in FY24, which supported profitability of industry players to an extent. PBILDT per tonne stood at ₹8,393 per tonne in FY24 (PY: ₹13,912 per tonne) as compared to an average of ₹6,700 per tonne over the last five years ended FY22. As informed by the management, soda-ash prices have bottomed out while red sea crisis and subsequent increase in freight rates supports present realisation level in domestic market.

In FY24, the company reported a 24% decline in TOI to ₹3,447 crore, which remained largely in the envisaged level. However, operating profit came to ~₹845 crore; 10% lower-than-envisaged due to higher-than-envisaged decline in average sales realisation. With the expected increase in capacity utilisation on y-o-y basis, GHCL's soda-ash volumes is expected to grow by ~10-11% in FY25 over FY24. CARE Ratings expects GHCL to report a revenue de-growth by 5% to ~₹3,200-3,300 crore and earn PBILDT of ~₹700-800 crore in FY25.

Comfortable leverage and debt coverage indicators

Despite a sizeable reduction in the net worth base of over ₹1,350 crore due to the demerger of its cotton yarn business to GTL, GHCL's capital structure marked by overall gearing and total outside liability to total net worth (TOL/ TNW) ratio continued to remain comfortable at 0.07x and 0.19x, respectively as on March 31, 2024, (PY: 0.09x and 0.24x) backed by further reduction in debt level. Despite moderation in operating profitability and cash accruals, debt coverage indicators marked by TD/PBILDT continued to remain comfortable at 0.25x (PY: 0.24x). GHCL's leverage profile 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, considering its consistent track record of healthy operating cash flow generation. GHCL's operating cash flow continued to remain healthy at ₹875 crore in FY24 (PY: ₹1,019 crore) backed by healthy profitability and largely stable operating cycle. This resulted in a build-up of liquidity, marked by cash and liquid investments of ~₹892 crore as on March 31, 2024 (PY: ₹488 crore).

Stable demand-supply dynamics of soda-ash industry

India is expected to be the world's third-largest consumer of soda-ash. Demand for soda-ash is expected to grow at ~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, soda-ash's total installed capacity is 4.45 million MT, with an estimated production of 3.57 million MT in FY24. Indian soda-ash market's total size is ~4.2 million MT and currently ~15% (PY: 18%) of the Indian demand is being met by imports. With many new announcements of capacity addition in solar glass, government production-linked incentive (PLI) schemes and the expected anti-dumping duty on import of float glass is expected to boost the demand from glass sector. Soda-ash's imports to India are expected to be on a higher side in FY25 due to limited capacities additions in the country against the rising demand from downstream segments and emerging green usages such as solar glass and flue gas treatment.

Liquidity: Strong

GHCL's liquidity is strong marked by healthy cash and liquid investments of ~₹892 crore as on March 31, 2024. GHCL expects to generate gross cash accrual (GCA) of ~₹600 crore in FY25 against its repayment obligations of term debt (including current portion of lease liabilities) of ₹83 crore. With an overall gearing of 0.07x as on March 31, 2024, the issuer has sufficient gearing headroom to raise additional debt for its capex. Average month-end utilisation of fund-based limits stood at below 1% for twelve months ending May 2024. Unutilised bank lines of over ₹445 crore (available drawing power of over ₹550 crore) ended May 31, 2024, are expected to be over 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 major capacity expansion is a constraint and the expected good long-term growth prospects for domestic soda-ash, GHCL envisaged to implement a large greenfield soda-ash plant of 5 lakh MT per annum (PA) (~40% of its current capacity) at a new location at an estimated project cost of ~₹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 capex. GHCL acquired the land and is expected to receive environmental and regulatory clearances by September 2024. Physical construction activity is likely to commence in Q3FY25. GHCL's current leverage is at a comfortable level, and the company has envisaged funding this project with a term debt of ~₹2,200-2,500 crore. The company's management 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 company's overall leverage and debt coverage indicators. Consequently, 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. In FY24, GHCL incurred over ₹100 crore for the soda-ash plant's efficiency improvement funded from its internal accruals and is expected to incur capex of ~₹300 to be funded from its internal accruals for further efficiency improvement and other value-added products.

Susceptibility of profitability to volatile raw material prices, freight rates, and foreign exchange rate fluctuations
GHCL's key raw materials and input costs pertain to salt, limestone, coal, lignite, freight, and power. Prices of these inputs elevated significantly in the last couple of years, despite moderated in FY24. In FY24, the company's moderation in input costs supported profitability of industry players amidst a significant decline in average sales realisation. However, the decline in input prices was lower as compared to the decline in average sales realisation. Subsequently, PBILDT margin declined in FY24 as compared to FY23. GHCL is exposed to the inherent foreign exchange fluctuation risk being a net importer. However, it has a practice of keeping its next three months' import payments hedged by forward contracts to minimise the risk related to exchange rate fluctuations.

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
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. In FY24, GHCL initiated a supply chain risk mitigation program aimed at reducing supply chain vulnerabilities. As a part of the programme, GHCL evaluates suppliers based on ESG criteria and subsequently collaborating with them to ensure alignment with GHCL's stipulations and expectation. In FY24, GHCL sustainably procured 65% of raw materials for its soda ash production.
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

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

Incorporated in 1983, GHCL is a leading player in domestic soda-ash industry. GHCL's soda-ash manufacturing plant at Sutrapada in Gujarat has an installed capacity of 12 MTPA as on March 31, 2024. The company also manufactures refined sodium bicarbonate

(RBC) with a production capacity of 1.2 lakh MTPA. In addition, the company is also in production of edible salt. Promoters held 19.03% stake in the company as on March 31, 2024.

(₹ crore)

Brief Financials of GHCL – Consolidated	FY23 (A)	FY24 (A)
Total operating income	4,552	3,447
PBILDT	1,504	845
PAT from continuing operation	1,116	794
PAT from discontinued operation	26	-
Reported PAT	1,142	794
Overall gearing (times)	0.09	0.07
PBILDT Interest coverage (times)	39.34	31.75

A: Audited; Note: these are latest available financial results

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: Annexure-4

Complexity level of 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	-	-	-	-	450.00	CARE AA-; Stable/ CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	75.00	CARE AA-; Stable/ CARE A1+
Non-fund-based-LT/ST	-	-	-	-	300.00	CARE AA-; Stable/ CARE A1+
Term Loan-Long Term	-	-	-	September 2026	30.56	CARE AA-; Stable
Term Loan-Long Term	-	-	-	June 2028	154.04	CARE AA-; Stable

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 2024-2025	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
1	Term Loan-Long Term	LT	154.04	CARE AA-; Stable	-	1)CARE AA-; Stable (24-Jul-23)	1)CARE AA-; Stable (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)
2	Term Loan-Long Term	LT	30.56	CARE AA-; Stable	-	1)CARE AA-; Stable (24-Jul-23)	1)CARE AA-; Stable (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)
3	Fund-based-LT/ST	LT/ ST	450.00	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable/ CARE A1+ (24-Jul-23)	1)CARE AA-; Stable/ CARE A1+ (06-Jul-22)	1)CARE AA-; Stable/ CARE A1+ (30-Jul-21)
4	Non-fund-based-LT/ST	LT/ ST	300.00	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable/ CARE A1+ (24-Jul-23)	1)CARE AA-; Stable/ CARE A1+ (06-Jul-22)	1)CARE AA-; Stable/ CARE A1+ (30-Jul-21)
5	Fund-based/Non-fund-based-LT/ST	LT/ ST	75.00	CARE AA-; Stable/ CARE A1+	-	1)CARE AA-; Stable/ CARE A1+ (24-Jul-23)	1)CARE AA-; Stable/ CARE A1+ (06-Jul-22)	1)CARE AA-; Stable/ CARE A1+ (30-Jul-21)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
6	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Jul-22)	1)CARE AA-; Stable (30-Jul-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: 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-5: Lender details

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

Annexure-6: List of entities getting consolidated with GHCL

Sr.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Dan River Properties LLC	Full consolidation	Subsidiary; operational and managerial linkages

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

Contact us

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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 raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, 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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