GHCL Limited

July 30, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	711.42 (Reduced from 820.25)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long Term/ Short Term Bank Facilities	1,209.00 (Enhanced from 1199.50)	**CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable / A One Plus)**	Revised from CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)
Total Facilities	**1,920.42 (Rs. One Thousand Nine Hundred Twenty Crore and Forty-Two Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of GHCL Ltd. (GHCL) factors in the healthy operating performance of its soda-ash business post impact of Covid-19 pandemic in Q1FY21 (FY refers to the period April 1 to March 31), improved performance of its textile division (including turnaround in performance of home textile) in FY21, healthy profitability in FY21 in-spite of the pandemic, improvement in its capital structure upon utilization of its operational cash flows for rationalization of its debt levels leading to healthy debt coverage indicators and its strong liquidity. The revision in rating also factors the advanced stage of demerger of GHCL's textile division into its group company viz. GHCL Textiles Ltd. (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 continue to further 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 domestic soda ash industry in the medium term on the back of good demand prospects from the detergent industry, its established clientele and significant availability of relatively cheaper source of captive power for its cyclical cotton yarn division.

The ratings are, however, constrained on account of elevated prices of key inputs such as salt and imported coal along with higher freight costs, moderation in soda ash demand from glass segment, volatility associated with the performance of its home textile division, its susceptibility to volatility in cotton prices & 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 is presently at a nascent stage and would be implemented in a phase-wise manner so that it doesn't significantly affect the leverage and debt coverage indicators of the company.

Rating Sensitivities

Positive Factors

- Timely completion and stabilization of its planned green-field project and realize envisaged returns therefrom
- Growth in its scale of operations with TOI of more than Rs.4,000 crore along-with PBILDT margin of 25% on a sustained basis while maintaining strong leverage and debt coverage indicators

Negative Factors

- PBILDT margin falling below 18% on a sustained basis
- Deterioration in Total Debt/PBILDT beyond 3 times on sustained basis
- Deterioration in 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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 in-spite of impact of Covid-19 in Q1FY21
On the back of Covid-19 induced lockdown, demand for soda ash had been significantly impacted in Q1FY21. However, there was sharp recovery in demand from Q2FY21 onwards leading to only ~10% decline in its soda ash sales volume to 9.11 lakh MT in FY21 vis-à-vis 10.05 lakh MT in FY20. However, aided by its cost competitive manufacturing operations, the PBILDT margin of its soda ash division continued to remain healthy at 25.91% during FY21. Soda ash division contributed around 65% of GHCL's TOI during FY21.

Cheaper source of captive power driving the operating efficiency of its cyclical cotton yarn division along with growing share of higher value-added yarn in its sales mix driving profitability
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 23.01% during FY21 (P. Y. 15.69%) even with some decline in its scale of operations due to impact of Covid-19, marked by TOI of Rs.505 crore during FY21 (P.Y. Rs.580 crore). Installation of windmill over the years has also resulted in savings in power cost for the yarn division.

Improved performance of home textile division during FY21; along with envisaged benefit from the reinstatement of export incentives for the medium term
During FY21, on the back of Covid-19, there was some shift in customer demand from China to other nations including India which helped GHCL's home textile division. Accordingly, in-spite of some decline in TOI from home textile division in FY21, it reported healthy PBILDT margin of 9.18% compared with losses incurred during the last three years ended FY20.
Scheme for Rebate of State and Central Taxes and Levies (RoSCTL) on export of garments and made-ups which was discontinued on January 01, 2021 has been recently extended up to March 31, 2024, which is expected to result in sustained performance of home textile division in the medium term.

Healthy profitability along with improved leverage and debt coverage indicators in-spite of moderation in TOI
Due to Covid-19 pandemic, TOI of GHCL declined by ~12% marked by TOI of Rs.2,924 crore (P.Y. Rs.3,314 crore). However, on the back of swifter recovery in demand for soda ash along-with improved performance of its home textile and yarn divisions, it could marginally improve its overall PBILDT margin to 22.88% during the year (P.Y. 22.29%). With significant rationalization of its term loan and working capital debt, its overall gearing improved to 0.36 times as on March 31, 2021 (P.Y. 0.64 times) which ultimately resulted in improved debt coverage indicators marked by total debt/PBILDT of 1.35 times, total debt/ GCA of 1.93 times and interest coverage of 7.44 times during FY21. CARE 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-FY23.

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 Rs.614 crore during FY21. It was on account of its healthy profitability and stable operating cycle. This resulted in significant reduction in its working capital borrowings marked by average utilization of the fund based working capital limits being at ~16% during the trailing twelve months ended June 2021.

Stable demand-supply dynamics of soda ash industry
India's domestic demand of soda ash grew at a compounded annual growth rate (CAGR) of 4.66% during FY13-FY21 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 realization 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 & Southern parts of India and thereby safeguards the major soda ash players in the western part of India.

Advanced stage of demerger of its 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 into a separate company viz. GTL. Upon the scheme becoming effective, the textile division of GHCL (along with all assets and liabilities thereof) shall be carved out and transferred to GTL, on a going concern basis. The scheme of demerger is approved by shareholders, unsecured & secured creditors of GHCL and management is expecting the scheme to be approved by the Honourable NCLT by November 2021. Post demerger of textile 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 debt repayment obligations. With an overall gearing of 0.36 times as on March 31, 2021, the issuer has sufficient gearing headroom to raise additional debt for its capex. Also, its current ratio has improved to 1.55 times as on March 31, 2021 from 1.32 times as on March 31, 2020. As against its drawing power of ~Rs.650 crore for the month of May 2021, the utilization of its fund based working capital limits stood at ~Rs.25 crore reflecting its unutilized bank lines are 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 utilization 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 Rs.3,000 crore. Earlier, GHCL's management had put this capex on hold due to Covid-19 which has now been revived due to improved demand prospects. 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 FY21 and now it has plans to seek requisite environment and regulatory clearances from concerned government departments; as well as they are trying to acquire land for its salt requirement. This process is envisaged to take around 1-2 years from July 2021 and actual construction of the soda ash plant shall commence thereafter only which would be implemented over a period of another 3-4 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 finalized, 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 doesn't 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 planned to take 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 increasing the capacity of its sodium bicarbonate from 60,000 MTPA to 1,20,000 MTPA at a total cost of Rs.200 crore over FY22 & FY23. Also, it has planned capex to add 40,000 spindles in its yarn division along-with 10 MW solar power capacity at a total cost of Rs.230 crore in FY22. Majority of this capex is planned to be funded from its internal accruals with availment of around Rs.100 crore term debt. Timely implementation and stabilization of these capex would be critical to improve its ROCE which has declined from 17.06% in FY20 to 14.96% in FY21.

Elevated raw material prices along-with high freight cost to result in short-term pressure on its operating profitability

The cyclone "Tauktae" hit the coastal area of Gujarat in mid of May 2021, which disrupted the production of salt, consequently the price of salt increased substantially. This rise in salt prices along-with high price of imported coal and rise in freight cost (which is also one of the critical cost components) is expected to result in pressure on the operating profitability of GHCL in the short-term. GHCL has, however, undertaken two consecutive price increases in soda ash in June-21 and July-21 which is expected to largely recover its higher costs; albeit with some time lag.

Inherently lower operating profitability of its home textile division arising from high competitive pressure

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 Rs.821 crore during FY17 to Rs.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 Rs.0.36 crore and Rs.14 crore in FY19 and FY20. Also, performance of home textile division has close linkages with the government's incentive schemes.

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 domestic textile industry. GHCL is also exposed to inherent foreign exchange fluctuation risk despite being a net exporter till the time its textile business is demerged into a separate company.

Analytical Approach: Consolidated
CARE 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 at ***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-Manufacturing Companies
Rating Methodology: Consolidation
Rating Methodology for Cotton Textile Manufacturing
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1983, GHCL is a leading player in the domestic soda ash industry. Operations of the company are broadly divided in two segments viz. Inorganic chemicals division (which largely includes soda ash & 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, 2021) while its cotton yarn manufacturing facility is located at Madurai in Tamil Nadu (1,85,000 spindles, 3320 rotors as on March 31, 2021) and home textile unit is located at Vapi in Gujarat (weaving capacity of 15 million meters per annum and 30 million meter per annum of cut & sew). Promoters held 19.18% stake in the company as on March 31, 2021.

Brief Financials - Consolidated (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	3,314	2,924
PBILDT	739	669
PAT	397	326
Overall gearing (times)	0.64	0.36
Interest coverage (times)	6.17	7.44

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	June-2028	475.36	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	-	-	December-2027	52.07	CARE AA-; Stable
Term Loan-Long Term	-	-	March-2029	183.99	CARE AA-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	144.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating History (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	475.36	CARE AA-; Stable	-	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)	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)
2.	Fund-based-LT/ST	LT/ST	675.00	CARE AA-; Stable / CARE A1+	-	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)	1)CARE A+; Stable / CARE A1+ (22-Feb-19) 2)CARE A+; Stable / CARE A1+ (08-Oct-18)
3.	Non-fund-based-LT/ST	LT/ST	390.00	CARE AA-; Stable / CARE A1+	-	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)	1)CARE A+; Stable / CARE A1+ (22-Feb-19) 2)CARE A+; Stable / CARE A1+ (08-Oct-18)
4.	Term Loan-Long Term	LT	52.07	CARE AA-; Stable	-	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)	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)
5.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Oct-19)	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
6.	Term Loan-Long Term	LT	183.99	CARE AA-; Stable	-	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)	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)
7.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (07-Oct-19)	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)
8.	Fund-based/Non-fund-based-LT/ST	LT/ST	144.00	CARE AA-; Stable / CARE A1+	-	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 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-4: List of entities getting consolidated in GHCL

Sr. No.	Name of entity	% stake of GHCL as on March 31, 2021
1	Grace Home Fashions LLC	100
2	Dan River Properties LLC	100

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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