GHCL Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	820.25 (reduced from Rs.931.86)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Long Term/ Short Term Bank Facilities	1,199.50 (reduced from Rs.1,394.00)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	Reaffirmed
Total Facilities	**2,019.75 (Rupees Two thousand nineteen crore and seventy five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of GHCL Limited (GHCL) continue to derive strength from its established position in the domestic soda-ash industry, healthy operating performance of its soda-ash division aided by its cost competencies owing to captive mines of lignite and limestone along with ready availability of salt, favourable demand-supply dynamics of domestic soda ash industry in the medium term and its established clientele. The ratings further continue to derive strength from significant availability of relatively cheaper source of captive power for its cyclical cotton yarn division along with GHCL's healthy profitability, comfortable debt coverage indicators & strong liquidity.

The ratings are, however, constrained on account of continued subdued performance of its home textile division, moderation in its performance during Q1FY21 on the back of Covid-19 pandemic induced lockdowns, moderation in soda ash demand from glass segment, its susceptibility to volatility in cotton prices & foreign exchange rates, inherent cyclicality associated with the textile industry, its moderate leverage 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 conceptualization 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.

CARE also takes note of the company availing the moratorium granted by its lenders as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of three months from March 2020 to May 2020 for its debt obligations, including interest on working capital facilities. However, it has subsequently repaid its dues for these three months period and has not availed the subsequent three months moratorium from June 2020 to August 2020 on its debt obligations.

Rating Sensitivities

Positive Factors

- Sustained improvement in performance of home-textile division while continuing with the good performance of its soda ash division
- Improvement in ROCE above 20% on a sustained basis
- Improvement in adjusted overall gearing below 0.75x and Total Debt/PBILDT below 1.50x on a sustained basis

Negative Factors

- PBILDT margin falling below 15% on a sustained basis
- Deterioration in adjusted overall gearing beyond 1.50 times on sustained basis
- Deterioration in Total Debt/PBILDT beyond 3 times on sustained basis
- 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

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

of its power requirement through captive sources. GHCL supplies soda-ash to leading detergent and glass manufacturers in domestic market who have been its client since long.

Healthy operating performance of soda-ash division
During FY19, GHCL completed its soda ash expansion plan and its capacity was increased from 9.75 lakh MTPA to 11.00 lakh MTPA. With the available enhanced capacity, total sales volume of soda ash grew from 9.33 lakh MT during FY19 to 9.79 lakh MT during FY20. However, since there were price cuts for soda ash during FY20, TOI of its soda ash division stood largely stable at Rs.2198 crore for FY20 (P.Y.: Rs.2182 crore). Aided by its cost competitive manufacturing operations, the PBILDT margin of its soda ash division continued to remain healthy at 31.21% during FY20 (P.Y.: 30.80%). Soda ash division contributed around 67% of GHCL's TOI during FY20.

Cheaper source of captive power driving the operating efficiency of its cyclical cotton yarn division
Performance of the company's cotton yarn division has remained largely stable with similar scale of operation, marked by TOI of Rs.580 crore during FY20 (P.Y. Rs.588 crore). Installation of windmill over the years has also resulted in savings in power cost for the yarn division. However, the operating profitability marked by PBILDT margin declined to 15.69% during FY20 (P.Y.19.05%) due to increased competition on account of overcapacity in spinning segment in India and weak domestic demand amidst higher cotton prices. In addition, during Q4FY20, amidst Covid-19 the management has written off Rs.20 crore from the profitability of textile business (HT & Yarn combined).

Stable total operating income, healthy profitability and comfortable debt coverage indicators
The overall performance of GHCL remained stable during FY20, marked by TOI of Rs.3314 crore (P.Y. Rs.3351 crore) and PBILDT margin of 22.29% (P.Y. 22.96%). The company's debt coverage indicators continued to remain comfortable marked by total debt/PBILDT of 1.86 times, total debt/ GCA of 2.83 times and interest coverage of 6.17 times during FY20. GHCL had healthy ROCE of 17.08% in FY20; albeit it exhibited some moderation compared with FY19.

Healthy 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.544 crore during FY20. It was on account of its healthy profitability and stable operating cycle. This has resulted in lower utilization of working capital borrowings marked by average utilization of the fund based working capital limits being at ~36% during the trailing twelve months ended August 2020.

Stable demand-supply dynamics of soda ash industry; albeit some moderation in demand envisaged due to relatively subdued demand from the end-user glass segment
The global soda ash industry is dominated by China, wherein it continues to be the largest producer in the world with estimated installed capacity of 31 million metric tonne per annum (MMTPA), however in recent years due to stricter pollution control norms in China, the production has declined. In CY19, China exported less than 1.3 million metric tonne which was 6.1% lower than previous year, which in a way balances out the increased supply from Turkey and USA. India's domestic demand of soda ash grew at a CAGR of 5.5% during 2013-2020 on account of healthy demand from detergent segment, however, in recent years the demand from glass industry has remained sluggish on account of slowdown in the auto and real estate sectors. The demand for soda ash from the glass industry is envisaged to continue to be impacted during FY21.

Liquidity: Strong
Liquidity of GHCL is marked by strong accruals against moderate debt repayment obligations. With an overall gearing of 0.64 times as on March 31, 2020, the issuer has sufficient gearing headroom to raise additional debt for its capex. Also, its current ratio has improved to 1.32 times as on March 31, 2020 from 1.06 times as on March 31, 2019. As against its drawing power of ~Rs.635 crore for the month of Aug 2020, the utilisation of its fund based working capital limits stood at ~Rs.210 crore reflecting its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next more than one year.
Due to uncertainty arising from the Covid-19 pandemic induced lockdown, GHCL had availed moratorium on servicing of its interest & principal for the period from March 01, 2020 to May 31, 2020. However, with the commencement of its operations and improvement in its cash flow position, it decided to not avail any loan moratorium for the period from June 01, 2020 to August 31, 2020 and further repaid its debt servicing obligation for the moratorium period (i.e. March to May 2020). Accordingly, it has repaid its interest & principal debt servicing obligation for the period March 2020 to August 2020 by June 2020 & first week of July 2020 itself from its cash flows and available liquidity from the disbursement of Rs.100 crore term loan taken in March 2020.

Key Rating Weaknesses

Moderation in performance during Q1FY21 on the back of Covid-19 induced lockdowns

On the back of Central and State government directives in March 2020 to temporarily close all the non-essential establishments and issuance of advisory against travel and mass gathering for the containment of Covid-19 pandemic, all the three plants of GHCL i.e. Vapi, Madurai and Sutrapada were closed from March 22, March 24 & March 27, 2020 respectively. On April 20, 2020, its soda ash (Sutrapada) plant, which is the company's major profit and cash flow generator, resumed its operations while the textile units (Vapi and Madurai) reopened in first week of May 2020. On the back of Covid-19, demand for soda ash, yarn & home textile were impacted to a large extent during Q1FY21 leading to significant decline in its scale of operations with decline in its overall PBILDT margin to 17.51%; whereby the PBILDT margin of its soda ash division had dropped to 23.12% and that of its textile division had dropped to 4.79%. Although, its operations have gradually stabilized by July 2020, however, as the effect of the pandemic has not yet subsided, GHCL's performance in FY21 is expected to moderate compared with FY20. Expected moderation in GHCL's performance in FY21 is mainly on the back of subdued demand for soda ash from glass segment due to lower off-take by construction/real estate and auto industry.

Subdued performance of home textile division

Performance of GHCL's home textile division has remained subdued over last three years with 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 have resulted in PBILDT level losses of Rs.0.36 crore and Rs.14 crore in FY19 and FY20.

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. In March 2020, GHCL's Board of Directors has approved a scheme for demerger of its textile business (including cotton yarn & home textile businesses) into a separate company subject to regulatory approvals. 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.

Plans for capacity expansion & implementation of a large-sized green-field soda ash project in the medium-term

GHCL had planned to take up capacity expansion project to increase the installed capacity at its existing location from 11 lakh MTPA to 12 lakh MTPA however due to Covid-19 pandemic and subsequent lower demand from glass segment, it has restricted this capacity expansion up to 11.50 lakh MTPA by end of FY21 at a total capital outlay of ~Rs.90 crore during FY21 to be funded totally out of its internal accruals and balance capex has been put on hold till the time there is improved demand-supply dynamics.

Further, 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 had envisaged to implement a large green-field soda ash plant of 5 lakh MTPA (approximately half of its current capacity) at a new location which was expected to be implemented in a phase wise manner over the medium-term. GHCL had acquired some portion of land towards this by end FY20 and thereafter it had plans to seek requisite environment and regulatory clearances along-with lease rights of mines from concerned government departments; as well as acquire land for its salt requirement. This process is envisaged to take around 2-3 years from now. However, GHCL's management has articulated that this green-field capex is currently on hold and it would be implemented only after revival of demand for soda ash post subsiding of the pandemic. Subsequently, the actual construction of the soda ash plant shall commence which would be implemented over a period of another four 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 moderate level and 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.

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]
[CARE's methodology for manufacturing companies]
[Liquidity Analysis of Non-financial sector]
[Financial ratios – Non-Financial Sector]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company
Incorporated in 1983, GHCL is a leading player in the domestic soda ash industry. Over the years, the company has also diversified into manufacturing of cotton yarn and home textile. The soda ash manufacturing plant of GHCL is located at Sutrapada in Gujarat (installed capacity – 11 lakh tonnes per annum as on March 31, 2020) while its cotton yarn manufacturing facility is located at Madurai in Tamil Nadu (1,86,000 spindles, 3320 rotors as on March 31, 2020) and home textile unit is located at Vapi in Gujarat (weaving capacity of 12 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, 2020.

Brief Financials - Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	3,351	3,314
PBILDT	769	739
PAT	351	397
Overall gearing (times)	0.74	0.64
Adj. Overall gearing (times) #	1.31	1.06
Interest coverage (times)	6.04	6.17

A: Audited
 # adjusted overall gearing has been calculated by deducting past write-offs of investments/loans and advances from its net worth.
Under I-GAPP, GHCL's net-worth was eroded due to write off of past overseas investments and advances against business development reserve which in turn had constrained the financial flexibility of the company with high adjusted overall gearing. However, net-worth base under I-GAPP was steadily augmented over the last five years ended FY20 due to extinguishment of entire overseas liability which has steadily improved its adjusted overall gearing; albeit it still remains high. Furthermore, its assets and liabilities have been reported at fair value under IND AS which has resulted in restatement of net-worth leading to improvement in its leverage to a moderate level. Any significant increase in non-core investment (if it happens) can again constrain the financial flexibility of GHCL in the future.

As per provisional results for Q1FY21, GHCL reported total operating income of Rs.457 crore with a PAT of Rs.13 crore as against total operating income of Rs.893 crore with a PAT of Rs.98 crore in Q1FY20.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2

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	550.92	CARE A+; Stable
Fund-based-LT/ST	-	-	-	542.50	CARE A+; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	278.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	December-2027	60.73	CARE A+; Stable
Term Loan-Long Term	-	-	March-2029	208.60	CARE A+; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	379.00	CARE A+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	550.92	CARE A+; Stable	1)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)	1)CARE A; Stable (22-Sep-17)
2.	Fund-based-LT/ST	LT/ST	542.50	CARE A+; Stable / CARE A1+	1)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)	1)CARE A; Stable / CARE A1 (22-Sep-17)
3.	Non-fund-based-LT/ST	LT/ST	278.00	CARE A+; Stable / CARE A1+	1)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)	1)CARE A; Stable / CARE A1 (22-Sep-17)
4.	Term Loan-Long Term	LT	60.73	CARE A+; Stable	1)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)	1)CARE A; Stable (22-Sep-17)
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)	1)CARE A; Stable (22-Sep-17)
6.	Term Loan-Long Term	LT	208.60	CARE A+; Stable	1)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)	1)CARE A; Stable (22-Sep-17)
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)	1)CARE A; Stable (22-Sep-17)
8.	Fund-based/Non-fund-based-LT/ST	LT/ST	379.00	CARE A+; Stable /	1)CARE A+; Stable /	1)CARE A+; Stable / CARE A1+	-	-

				CARE A1+	CARE A1+ (04-Aug-20)	(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, 2020
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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no. : +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Hardik Shah
Contact Number: +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Business Development Contact
Name: Deepak Prajapati
Contact no. +91-79-4026 5656
Email ID - deepak.prajapati@careratings.com

About CARE Ratings:
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