GHCL Limited

February 22, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities	1,106.44 *(enhanced from Rs.1,063.44)*	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	1,367.00	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total	**2,473.44 (Rupees Two Thousand Four Hundred Seventy Three Crore and Forty Four 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 take into account healthy growth in sales volume of soda ash during FY18 (refers to the period from April 01 to March 31) and 9MFY19 (refers to the period from April 01 to December 31) due to benefits derived from added capacity; the sales volume of soda ash is expected to increase further post completion of its ongoing capex by March 2019. The ratings also take cognizance of favourable demand-supply dynamics of domestic soda ash industry in the medium term and sound liquidity position of GHCL on account of its healthy cash flow generation from operations.

The ratings further continue to factor the established position of GHCL in the domestic soda-ash industry, its cost competencies owing to captive mines of lignite, limestone and ready availability of salt resulting in healthy operating performance of soda ash division along with its established clientele; and healthy operating efficiency of its cotton yarn division aided by significant availability of relatively cheaper source of captive power. Steady total operating income coupled with healthy profitability of GHCL has resulted in steady increase in the cash accruals of the company over the years, along with strengthening of its debt coverage indicators.

The ratings are, however, constrained on account of continued subdued performance of its home textile division during FY18 and 9MFY19, its susceptibility to volatility in cotton prices and foreign exchange rates and the inherent cyclicality associated with the textile industry. The ratings are further constrained on account of its moderate leverage along with 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.

GHCL's ability to ensure sustained improvement in the performance of its home-textile division, effectively manage the volatility associated with cotton prices along with prudent management of its foreign exchange exposure, and successful completion of its ongoing expansion in soda ash division while generating envisaged returns shall be the key rating sensitivities. Furthermore, 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 also be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Strong operating performance of Soda-ash division due to benefits from brownfield expansion

GHCL reported healthy capacity utilization of 90% in its soda ash segment during FY18 while stabilizing the added capacity. Further, sales volume of soda ash registered a healthy y-o-y growth of 16% during FY18 resulting in increase in sales of soda ash from Rs.1,512 crore in FY17 to Rs.1,846 crore during FY18. The sales of soda ash further registered a y-o-y growth of 14% during 9MFY19 to Rs.1,576 crore as compared to sales of Rs.1,382 crore during 9MFY18. Sales volume of soda ash is expected to increase further post completion of its brown-field expansion cum de-bottlenecking project for increasing installed capacity from 9.75 lakh MTPA to 11.50 lakh MTPA at its existing location. Cost of this project is around Rs. 300 crore and it is expected to be completed by March 2019. GHCL has already incurred Rs.215 crore towards this project till December 2018.

Favourable demand-supply dynamics of soda ash industry

Global demand for soda ash during CY2017 (refers to the period January 1 to December 31) was estimated at 59 million tonnes. China continues to be the largest producer of soda-ash in the world with estimated installed capacity of 31 million

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

metric tonne per annum (MMTPA) and estimated production of 27 MMTPA during CY2017. However, implementation of stricter pollution control norms in China and tightening supply of limestone feedstock, has led to some reduction in production of soda ash in China from H1CY2018 which has in-turn been balanced by the increase in supply from Turkey. Domestic demand of soda ash grew at healthy rate of 11% in FY18 as compared to 6% in FY17. It was on account of strong demand from end user detergent and float glass industry. The same is also reflected from price revisions undertaken by GHCL from time to time.

Established position in the oligopolistic domestic soda ash industry coupled with cost competency
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 client since long.

Healthy operating efficiency of its cotton yarn division
The cotton yarn division of the company which manufactures finer count of yarn continued to operate at optimum capacity. Installation of windmill over the years has also resulted in savings in power cost for the yarn division. PBILDT margins of the yarn division, though declined, continued to remain healthy at 19.40% during FY18. It further improved marginally to 21% during 9MFY19 on account of volume growth and better realizations. In the near term, profitability of yarn division is expected to improve due to benefit of low cost inventory.

Stable total operating income, healthy profitability and adequate debt coverage indicators
The total operating income (TOI) of GHCL registered a minor growth of 5.45% during FY18 to Rs.2948 crore despite decline in the turnover from home textile segment. PBILDT margins moderated during FY18 on account of increase in prices of coal and coke used for production of soda ash, fall in prices of cotton and subdued performance of home textile division. The margins remained healthy at 22.03% during FY18 and ranged bound at 21.95% during 9MFY19.
Going forward, PBILDT margins are expected to improve on account of benefit of recent price revisions undertaken by the company and ramp up of production post maintenance shutdown. The company's debt coverage indicators continued to remain adequate marked by total debt/PBILDT of 2.13 times and interest coverage of 5.22 times during FY18. Further, it improved marginally during 9MFY19 with total debt to PBILDT of 1.88 times and interest coverage of 5.66 times.

Healthy generation of cash flow from operations on account of efficient working capital management resulting in sound liquidity
GHCL has efficient working capital management as indicated by consistent track record of generation of healthy operating cash flow. Further, operating cycle of the company remained at 87 days during FY18. GHCL's operating cash flow continued to remain healthy and further strengthened from Rs.490 crore during FY17 to Rs.600 crore during FY18. It was on account of healthy profitability and low collection period. This had resulted in lower utilization of working capital borrowings by the company during FY18 with average utilization of the fund based working capital limits being at 57% during the trailing twelve months ended December 2018.

Key Rating Weaknesses
Subdued performance of home textile division; and planned capex in textile segment
Performance of the home textile division of GHCL deteriorated during FY18 with decline in sales from Rs.821 crore during FY17 to Rs.589 crore during FY18. During 9MFY19, the sales registered a y-o-y decline to Rs.458 crore as compared to sales of Rs.506 crore during 9MFY18. Subdued demand from large retailers based at USA along with competitive pressures had increased its operating leverage and resulted in loss incurring operations for this division. Home textile division reported losses of Rs.35 crore at PBILDT level during FY18 as against a positive PBILDT of Rs. 67 crore during FY17. The operating loss in this division continued during 9MFY19; albeit the loss reduced to Rs.10.00 crore owing to certain changes in the product and customer mix. GHCL has launched new product REKOOP while blending cotton with recycled polyester made from PET bottles to improve its performance. However, its ability to generate envisaged benefit from this new product and improve the performance of this division is crucial for home textile division.
Furthermore, the company is also expanding its capacity in cotton yarn division by addition of 5,086 MTPA. The project is expected to be completed by Q4FY19 with total outlay of Rs.88 crore to be funded through term loan of Rs.58 crore and internal accruals of Rs.30 crore.

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.

Envisaged large-size green-field soda ash project; albeit expected to be implemented in a staggered manner over the medium-term

Looking at the healthy capacity utilisation of its soda ash plant at its existing location where further capacity expansion is a constraint and the expected good growth prospects for domestic soda ash demand, GHCL has envisaged to implement a green-field soda ash plant of 5 lakh MTPA (approximately half of its current capacity) at a new location which is expected to be implemented in a staggered manner over the medium-term. GHCL's management has articulated that the capex is currently under conceptualization state. Subsequent to the land acquisition, GHCL shall apply for various environment and regulatory clearances along with lease rights for additional mines of salt, limestone and lignite from concerned government departments. This process is expected to take 2-3 years from now and during this period the cash outgo towards this capex is not envisaged to be material as indicated by the management. 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: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's Methodology for Manufacturing Companies
Financial Ratios – Non-Financial Sector

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 – 9.75 lakh tonnes per annum as on March 31, 2018) while its cotton yarn manufacturing facility is located at Madurai in Tamil Nadu (1, 76,488 spindles, 3320 Rotors as on March 31, 2018) and home textile unit is located at Vapi in Gujarat (weaving capacity of 12 million meters per annum and processing capacity of 45 million meters per annum as on March 31, 2018). Promoter's held18.87% stake in the company as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,790	2,942
PBILDT	723	648
PAT	387	365
Overall gearing (times)	1.13	0.85
Adj. Overall gearing (times) #	2.95	1.75
Interest coverage (times)	5.40	5.22

A: Audited; the above financials are as per IND-AS
 # 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 networth 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, networth base under I-GAPP steadily augmented from Rs. 90 crore as on March 31, 2015 to Rs.516 crore as on March 31, 2017 due to extinguishment of entire overseas liability which has steadily improved its adjusted overall gearing. Furthermore, its assets and liabilities have been reported at fair value under IND AS which has resulted in restatement of networth at Rs.1350 crore as on March 31, 2017 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.

Based on unaudited published financials of 9MFY19, GHCL reported a total operating income of Rs.2,470 crore (9MFY18: Rs.2,209 crore) and PAT of Rs.242 crore (9MFY18: Rs.200.36 crore excluding one-time tax credit of Rs.82 crore accounted in Q1FY18).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

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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Annexure-I: Details of Facilities/Instruments

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	-	-	April 2028	340.08	CARE A+; Stable
Fund-based-LT/ST	-	-	-	977.00	CARE A+; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	390.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	April 2028	200.00	CARE A+; Stable
Term Loan-Long Term	-	-	April 2028	133.86	CARE A+; Stable
Term Loan-Long Term	-	-	April 2028	339.50	CARE A+; Stable
Term Loan-Long Term	-	-	April 2028	93.00	CARE A+; Stable

Annexure-2: Rating History of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	340.08	CARE A+; Stable	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A- (26-Sep-16)	1)CARE BBB+ (16-Oct-15)
2.	Fund-based-LT/ST	LT/ST	977.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (08-Oct-18)	1)CARE A; Stable / CARE A1 (22-Sep-17)	1)CARE A- / CARE A2+ (26-Sep-16)	1)CARE BBB+ / CARE A3+ (16-Oct-15)
3.	Non-fund-based-LT/ST	LT/ST	390.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (08-Oct-18)	1)CARE A; Stable / CARE A1 (22-Sep-17)	1)CARE A- / CARE A2+ (26-Sep-16)	1)CARE BBB+ / CARE A3+ (16-Oct-15)
4.	Term Loan-Long Term	LT	200.00	CARE A+; Stable	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A- (26-Sep-16)	1)CARE BBB+ (16-Oct-15)
5.	Term Loan-Long Term	LT	133.86	CARE A+; Stable	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A- (26-Sep-16)	1)CARE BBB+ (16-Oct-15)
6.	Term Loan-Long Term	LT	339.50	CARE A+; Stable	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A- (26-Sep-16)	-
7.	Term Loan-Long Term	LT	93.00	CARE A+; Stable	1)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	-	-

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