GHCL Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	940.01 (reduced from 1,106.44)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Reaffirmed
Long Term/ Short Term Bank Facilities	1,339.00 (reduced from 1,367.00)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)**	Reaffirmed
Total Facilities	**2,279.01 (Rupees Two Thousand Two Hundred Seventy Nine crore and one 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, improved performance of soda-ash division due to higher sales realization coupled with completion of its brown field capacity expansion cum de-bottlenecking capex, favourable demand-supply dynamics of domestic soda ash industry in medium term, 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, healthy operating efficiency of its cotton yarn division aided by significant availability of relatively cheaper source of captive power, growth in its total operating income coupled with healthy profitability and comfortable debt coverage indicators.

The ratings are, however, constrained on account of continued subdued performance of its home textile division, 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 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

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 client since long.

Favourable demand-supply dynamics of soda ash industry

Global demand for soda ash witnessed moderate growth on the back of slowdown in China where demand reduced by around 4% y-o-y during CY2018 (refers to the period January 1 to December 31). China continues to be the largest producer of soda-ash in the world with estimated installed capacity of 31 million metric tonne per annum (MMTPA) and estimated production of 25.8 MMTPA during CY2018 which has reduced from 27 MMTPA during CY2017 on account of implementation of stricter pollution control norms in China, tightening supply of limestone feedstock and closure of a few glass plants which was in turn balanced by increase in supply from Turkey. India's domestic demand of soda ash grew at 5% in FY19 on account of strong demand from end user detergent and float glass industries. The same is also reflected from three upward price revisions undertaken by GHCL during FY19; albeit the company has taken a downward price revision recently.

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

Strong operating performance of soda-ash division

During FY19, GHCL completed a capex for expanding its soda ash capacity from 9.75 lakh MTPA to 11.00 lakh MTPA. With the availability of enhanced capacity, total volume of soda ash sales grew from 8.69 lakh MT during FY18 to 8.84 lakh MT during FY19. Along-with growth in sales volume, sales realisation also improved by ~10% during FY19 which resulted in growth in sales from Soda ash division from Rs.1846 crore in FY18 to Rs.2113 crore in FY19. The sales of soda ash further registered a y-o-y growth of around 20% during Q1FY20 to Rs.587 crore compared to sales of Rs.490 crore during Q1FY19 on the back of increase in sales volume by 14%. Profitability margin of Soda ash division continued to remain healthy marked by PBILDT margins of 31.87% during FY19. 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 11 lakh MTPA to 12 lakh MTPA at its existing location which is expected to be entirely completed by end FY21. Cost of this project is around Rs.367 crore.

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 margin of the yarn division, continued to remain healthy at 19.05% during FY19 (FY18: 19.40%) on account of volume growth and better realizations. During FY19, GHCL has successfully expanded its capacity in cotton yarn division by ~9500 spindles.

Growth in total operating income, healthy profitability and comfortable debt coverage indicators

The total operating income (TOI) of GHCL registered a growth of 12% on a consolidated basis during FY19 to Rs.3,351 crore with increase in income from soda ash and yarn divisions. PBILDT margin of GHCL improved by 140 bps during FY19 to 22.96% compared to 21.56% during FY18. The PBILDT margins further remained healthy at 24.33% during Q1FY20.

The company's debt coverage indicators continued to remain comfortable marked by total debt/PBILDT of 1.85 times and interest coverage of 6.04 times during FY19. Further, it improved marginally during Q1FY20 with total debt to PBILDT of 1.60 times and interest coverage of 7.15 times.

Healthy generation of cash flow from operations on account of efficient working capital management

GHCL has efficient working capital management as indicated by consistent track record of generation of healthy operating cash flow. GHCL's operating cash flow continued to remain healthy at Rs.391 crore during FY19. It was on account of healthy profitability and stable operating cycle during FY19. This has resulted in lower utilization of working capital borrowings marked by average utilization of the fund based working capital limits being at 54% during the trailing twelve months ended July 2019.

Liquidity: Strong

Liquidity of GHCL is marked by strong accruals against moderate debt repayment obligations. With an overall gearing of 0.74 times as of March 31, 2019, the issuer has sufficient gearing headroom to raise additional debt for its capex. Although its current ratio was low at 1.10 times as on March 31, 2019, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Subdued performance of home textile division

Performance of the home textile division started moderating from FY18 with decline in sales from Rs.821 crore during FY17 to Rs.610 crore in FY18 on account of subdued demand from large retailers based at USA along-with competitive pressures which had resulted in PBILDT level losses of Rs.35 crore in FY18 compared to positive PBILDT of Rs.67 crore in FY17. Performance of home textile division although improved during FY19 continued to remain subdued marked by total sales of Rs.614 crore and PBILDT level losses of Rs.0.36 crore. 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 benefits from this new product would be crucial for improvement in performance of home textile division.

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.

Implementation of a large-sized green-field soda ash project

Looking at the healthy capacity utilization 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 phase wise manner over the medium-term. GHCL's management has articulated that the capex is currently under planning stage. Company is currently in the process of acquiring land for the same and thereafter it shall apply for various environment and regulatory clearances along-with lease rights for mines for additional mines of salt, limestone and lignite from concerned government departments. This process is expected to take around 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: 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 3***.

Applicable Criteria

Criteria on assigning 'outlook' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-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 – 11 lakh tonnes per annum as on March 31, 2019) while its cotton yarn manufacturing facility is located at Madurai in Tamil Nadu (1,86,000 spindles, 3320 rotors as on March 31, 2019) 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, 2019). Promoter's held 18.87% stake in the company as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,982	3,351
PBILDT	643	769
PAT	356	351
Overall gearing (times)	0.82	0.74
Adj. Overall gearing (times) #	1.71	1.31
Interest coverage (times)	5.08	6.04

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 four years ended FY19 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 Q1FY20, GHCL reported total operating income of Rs.893 crore with a PAT of Rs.98 crore as against total operating income of Rs.762 crore with a PAT of Rs.63 crore in Q1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/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	-	-	March 2029	940.00	CARE A+; Stable
Fund-based-LT/ST	-	-	-	675.00	CARE A+; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	390.00	CARE A+; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	274.00	CARE A+; Stable / CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	940.00	CARE A+; Stable	-	1)CARE A+; Stable (22-Feb-19) 2)CARE A+; Stable (08-Oct-18)	1)CARE A; Stable (22-Sep-17)	1)CARE A- (26-Sep-16)
2.	Fund-based-LT/ST	LT/ST	675.00	CARE A+; Stable / CARE A1+	-	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)	1)CARE A- / CARE A2+ (26-Sep-16)
3.	Non-fund-based-LT/ST	LT/ST	390.00	CARE A+; Stable / CARE A1+	-	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)	1)CARE A- / CARE A2+ (26-Sep-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	274.00	CARE A+; Stable / CARE A1+	-	-	-	-

Annexure-3: List of entities getting consolidated in GHCL

Sr. No.	Name of entity	% stake of GHCLas on March 31, 2019
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
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact no. - +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID- deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**