

Gujarat Heavy Chemicals Ltd

BSE: 500171 | Sector: **Chemicals**

14th March 2017

vScore : 60 | Gain% : **20.04%**

Buy Date: 14-Mar-2017 | **Buy Price :** Rs.266.50

Exit Date: 18-Dec-2017 | **Exit Price :** Rs.319.9

BUSINESS BACKGROUND

GHCL Ltd has evolved as a premiere global chemical and textile company. The company's product range includes Chemical products - It include high-grade soda ash, a key ingredient in detergents, soaps, dyes, glass, and refined salt used for food processing, with state-of-the-art manufacturing facilities in India and in Romania. Home Textiles - The textile division at GHCL is a vertically integrated operation that manufactures premium quality yarn, grieger fabric and home textile products like bed linen, curtains, madeups and cotton yarn.

INVESTMENT HIGHLIGHTS

Q3FY17 results:

It recorded sales of INR 657 Cr, compared to INR 698 in Q3FY16, EBITDA of INR 131 Cr compared to INR 120 Cr in Q3FY16. Net profit of INR 80 Cr compared to 66 Cr in Q3FY16. Adj. EPS: INR 24/share compared to INR 21/share last year same quarter. (All figures are on consolidated basis.)

v. Segment Highlights:

The company operates in inorganic chemicals and home textiles where 66% revenue is coming from inorganic chemicals while 34% comprises with home textiles. The two spinning units are located within the state of Tamil Nadu, India has an Installed capacity of 125,000 spindles manufacturing 100% Cotton and Polyester Cotton yarns. The manufacturing units at the Textile Company have state-of-the-art textile machinery from Reiter, Switzerland and Schlafhorst, Germany, among others to lend that cutting edge to Quality.

KEY DATA

FACE VALUE	Rs	10
DIVID YIELD %		1.37
52 WK HI/LOW		299/101.85
NSE CODE		GHCL
MARKET CAP		Rs. 2563 Cr

SHAREHOLDING PATTERN-DEC16

PROMOTERS	-	18.49%
BANKS, MFs & DIs	-	0%
FIs	-	0%
Others	-	81.51%

KEY FUNDAMENTALS

Year Ending	FY16A	FY17E	FY18E
Rev Gr%	8	7	20
Net Profit Gr%	29	14	22
ROE%	24	20	21
RoCE %	22	20	23
EPS (Rs)	24	25	33
P/E (x)	10	8	7

Good improvement in operating margin led for high earnings growth in current year and overall the company has delivered steady business for last 4-5 years:

Income, EBITDA & PAT increasing at a CAGR of 11%, 15% and 18% respectively on the back of better utilization, continuous quality improvement and higher realization and we believe that GHCL will achieve total income of Rs. 3,300 Crs by FY18 with PAT margin of 10% at Rs. 330 Crs. New capacity expansion and economies of scale can result in much higher PAT margins. The company has been constantly rewarding its shareholders with a dividend of 20-22%. GHCL is the only company having its own lignite mines which ensures cost advantage in utilities. GHCL with its expertise knowledge in the Soda Ash business over the years has innovatively replaced costly imported pet coke with in-house developed briquette coke which gives the company a competitive edge over competitors over pricing and margins.

Focus on debt reduction and improved earnings driving growth with strong clientele:

GHCL is one of the largest manufacturers of Soda Ash, with an installed production capacity of 850,000 TPA. The company has market share of 27% in term of domestic soda ash capacity compared to 32% and 34% of Nirma Ltd and Tata Chemicals Ltd. Soda ash is the basic raw material to manufacture soaps and detergents, glass and other sodium salts. Companies like Hindustan Unilever Limited, Ghari, Patanjali, P & G, HNG, Videocon Industries, L&T, Phillips, Haldyn Glass, Piramal Glass Limited, St Gobain Glass consider GHCL as the preferred supplier. In textiles the client list of GHCL includes Bed Bath & Beyond, Target, Myers, House of Fraser and Hudson Bay Co, etc.

GHCL's capex plans could boost profitability and return ratio going forward:

GHCL has brown-field capex plan to increase its soda ash capacity by one lac mtpa to 9.5 lac mtpa by FY17 end with an investment of Rs 375 cr. This brownfield plant at a capital cost of Rs 37,500/mt as against estimated Rs 50,000/mtpa for greenfield plant will boost company's profitability and return ratios. Soda Ash expansion is progressing as per the schedule and expected to go on stream on time. Out of this another 25,000 metric tonnes of soda ash expansion along with the 30,000 of bicarbonate expansion is lined up for FY18 to continue its growth drive (capex Rs.80 cr). GHCL expects Soda ash volumes are expected to remain flattish at 7.5 lakh tonnes in FY17 on account of seasonality (good monsoon) factor. However volumes could start growing in FY18 and further in FY19. GHCL board has approved the additional Capex of Rs. 67.25 Crores for Textile division (Yarn & Home Textile), which will be used towards (i) Purchase of TFO Machines in the Yarn division, (ii) 2.1 MW Windmill project in Home Textile division; (iii) Purchase of Looms for Weaving project of Home Textile division; and (iv) increase in Processing Capacity of Home Textile division. All these will result in expansion of margins and better return ratios going forward. These initiatives could start yielding result from Q4FY17 onwards.

Business Outlook and Valuation :

At the moment at current price of 262 the stock is trading at (TTM) P/E of 10. Going ahead we expect modest revenue growth of 10-12% for FY17 and FY18. Hence our expectations for revenue for FY17 and FY18 are INR 2750 Cr and INR 3300 Cr respectively.

We expect company to maintain EBITDA margin around 24% for next two years. Going ahead we expect PAT margins of 10% for next two years. Our PAT expectations for FY17 and FY18 are INR 270 Cr and INR 330 Cr respectively. Our EPS expectations for FY17 and FY18 are INR 25 and INR 33 respectively.

We believe Gujarat Heavy Chemicals Ltd at PE of 9 with ROE around 24% is attractively valued. For FY17 EPS expectations of 25, we expect target price of **322/share** with a stop loss at 220.

FINANCIALS:

For the Year Ended March (INR)	FY15A	FY16A	FY17E	FY18E
Net Sales (Cr)	2385	2573	2750	3300
EBIDTA (Cr)	537	612	665	831
EBIDTA %	22.4	23.7	24.18	25.18
Profit Before Interest and Tax (Cr)	452	522	544	699
Interest (Cr)	194	183	187	227
Depreciation (Cr)	85	90	101	132
Tax (Cr)	75	102	107	142
Profit After Tax (Cr)	183	237	270	330
PAT Margin%	8	9	9	10
Diluted EPS (INR)	18	24	28	33
Shareholder's Funds (Cr)	770	1007	1257	1587
Gross Block (Cr)	3062	3257	3541	3870

Key Risks and Concerns:

- Pricing pressure and logistic cost can add pressure.
- Pressure on margins in textiles expected due to brand building and network setup in India.
- Dividend payout has been poor.

vScore: Value Score is our proprietary company rating system based on last 5 years of historical data and value investing philosophy at its core. v360 combined with Macroeconomic indicators, projections, fundamental and technical trigger makes it a 360 degree view.

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Source: Niveza Research Desk