

# Gujarat Heavy Chemicals Ltd.


**CMP: 125**

## Expansion to Drive Growth

Nifty	7610
Sensex	25044
Nifty PE	20.6
Sensex PE	19.6

### Stock Data

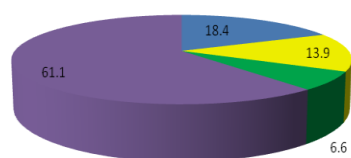
Sector	Chemicals & Textiles
BSE Code	500171
NSE Code	GHCL
FV	10.0
Market Cap (INR cr)	1250
Market Cap (US\$ mn)	192
Equity Share Cap.	100

### Stock Performance (%)

**52-week high/low Rs. 151/55**

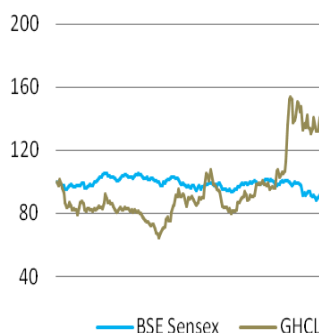
	1M	6M	12M
Absolute (%)	-1.6	90.7	59.1

### Shareholding Pattern (%)



■ Promoter ■ FII ■ DII ■ Others

### Sensex & Stock Movement



- In line with our 1<sup>st</sup> report of June 2014 where we gave an initial **BUY** call on **GHCL** stock at a price of Rs. 42, recently hit high of Rs. 151 and is currently trading around 125 (For our June 2014 report please visit our website <http://www.nvsbrokerage.com/module/upload/38b4fe7136abb70e379c05b8ccc896cb.pdf>).
- GHCL** is in the midst of growth and expansion of **Soda Ash** capacity by **1 lac MT** with an estimated cost of **Rs. 375 Crs** which is likely to go on stream by first quarter of FY2017. Similarly, the **capacity in home textile segment** is also under expansion with **capital outlay of Rs. 125 Crs** and is likely to go on stream by **March next year**.
- GHCL** has **highest capacity utilization in Soda Ash industry** of around **87%** and even after considering the fact that in Q1FY16 the plant was inoperational for annual maintenance the management believes that the utilization will be much higher going forward. **GHCL** caters to reputed companies like **HUL, P&G, Saint Gobain, LT, FENA, Gujarat Borosil Limited** and many more.
- Home Textile segment's capacity utilization** was at **83%** up from 70% in FY15 and has **huge product range** of bed sheets, duvets, bed skirts, comforters and comforter shells, pillows, cushions etc. being **supplied to its marquee clients** like **Bed Bath & Beyond, House of Fraser, Walmart Canada, Amazon, JCPenny** etc.
- GHCL** posted **robust Q2FY16 financial performance** with revenues increasing by 11% to **Rs. 657 Crs.** (Rs. 592 Crs – Q2FY16), **EBITDA** jumped by 28% to **Rs. 150 Crs** (Rs. 117 Crs), **EBITDA margin** at 23% (20%) and **PAT** increased by a whopping 67% to **Rs. 51 Crs** (Rs. 31 Crs) and **PAT margins** at 8% (5%). For H1FY16 **GHCL** posted revenues of **Rs. 1,244 Crs** (Rs. 1,153 Crs), **EBITDA** of **Rs. 302 Crs** (Rs. 249 Crs) and **PAT** of **Rs. 113 Crs** (Rs. 91 Crs).
- At the CMP of Rs. 125 the stock trades at a meager **5.3x**, **EPS** of **Rs. 23** on current year expected **EPS** and at **5x** on FY17E **EPS** of **Rs. 25**. We believe that **government initiatives like Housing for all, SMART Cities** and increase in per capita income of **Rural and Urban masses** should offer **tremendous opportunities** in Glass and Detergent industries, thereby increasing demand for Soda Ash and this should auger well for **GHCL** in coming years.
- We recommend investors to accumulate GHCL at current levels.**

### Financials

INR crs	Q2FY16	Q2FY16	YoY (%)	H1FY16	H1FY16	YoY (%)	FY15
<b>Revenue</b>	657	592	11%	1,244	1,153	8%	2,374
<b>EBITDA</b>	150	117	28%	302	249	21%	537
<b>PAT</b>	51	31	67%	113	91	23%	183
<b>EPS</b>	5.1	3.1		11.2	9.1		18.3
<b>Share Capital</b>							100
<b>Reserves</b>							595

Source: Published Result, BSE

 12<sup>th</sup> December 2015

**GHCL – Financial Performance**

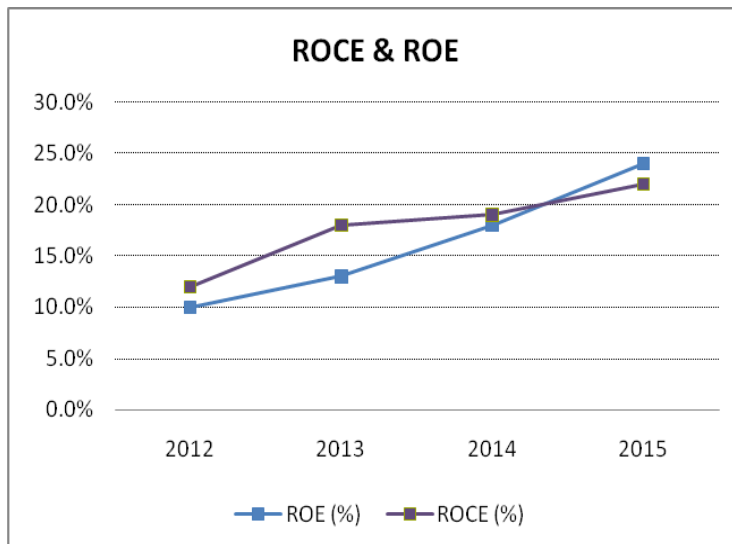
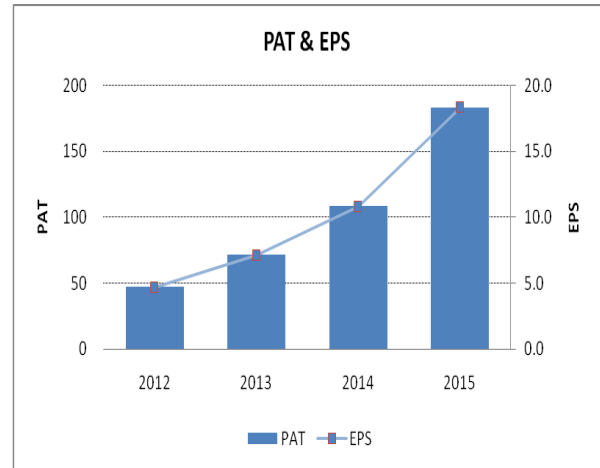
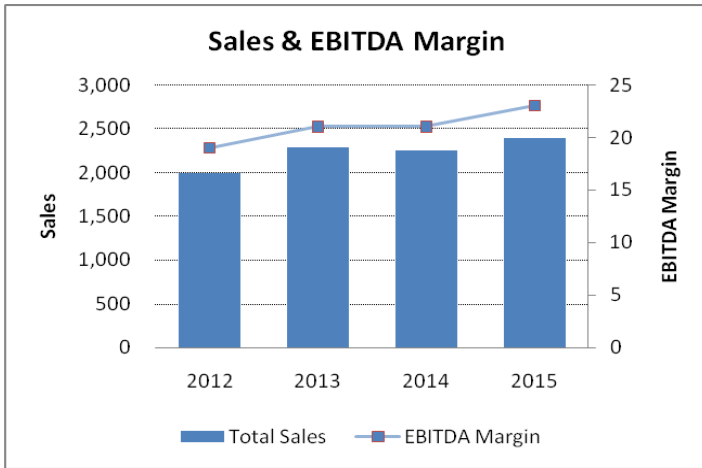
Particulars	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
<b>Total Revenue</b>	<b>1,984</b>	<b>2,278</b>	<b>2,253</b>	<b>2,385</b>	<b>2,573</b>	<b>2,750</b>	<b>3,300</b>
EBITDA	377	474	466	537	612	665	831
PBIT	271	392	385	452	522	544	699
PBT	46	97	143	258	339	357	472
<b>PAT</b>	<b>47</b>	<b>71</b>	<b>108</b>	<b>183</b>	<b>237</b>	<b>250</b>	<b>330</b>
<b>Cash Profit</b>	<b>153</b>	<b>153</b>	<b>189</b>	<b>267</b>	<b>327</b>	<b>371</b>	<b>462</b>
<i>EBITDA Margins</i>	<i>19%</i>	<i>21%</i>	<i>21%</i>	<i>23%</i>	<i>24%</i>	<i>24%</i>	<i>25%</i>
<i>PAT Margins</i>	<i>2%</i>	<i>3%</i>	<i>5%</i>	<i>8%</i>	<i>9%</i>	<i>9%</i>	<i>10%</i>
Equity Capital (FV- Rs. 10)	100	100	100	100	100	100	100
Reserves	382	467	487	670	907	1,157	1,487
Networth	482	567	587	770	1,007	1,257	1,587
Debt	1,795	1,558	1,486	1,324	1,350	1,400	1,450
<b>EPS</b>	<b>5</b>	<b>7</b>	<b>11</b>	<b>18</b>	<b>24</b>	<b>25</b>	<b>33</b>
<b>CEPS</b>	<b>15</b>	<b>15</b>	<b>19</b>	<b>27</b>	<b>33</b>	<b>37</b>	<b>46</b>
<b>P/E</b>				<b>7</b>	<b>5</b>	<b>5</b>	<b>4</b>
Book Value	48	57	59	77	101	126	159
P/BV				<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>ROE</b>	<b>10%</b>	<b>13%</b>	<b>18%</b>	<b>24%</b>	<b>24%</b>	<b>20%</b>	<b>21%</b>
<b>ROCE</b>	<b>12%</b>	<b>18%</b>	<b>19%</b>	<b>22%</b>	<b>22%</b>	<b>20%</b>	<b>23%</b>

- **GHCL** has performed exceedingly well in the last five years with **Total 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.
- **GHCL's P/BV** is merely **1.5x** with a 70% YoY increase in PAT in FY15. The company has performed excellently by reaching to a **ROE of 24%** (10% - FY12) and we believe the company will continue to grow on the same lines. At a CMP of Rs. 135 the stock trades at a **meager 5.6x on current year expected EPS of Rs. 24**.
- **GHCL** has posted excellent results in Q2FY16 and **based on management guidance, the revenues are expected to boost by ~Rs.170 - 180 Crs with Phase I expansion of soda ash manufacturing. The textile division revenues are expected in the range of Rs. 800 – 850 Crs (margin of 15-18%) without considering any capacity expansion.** The Company is undervalued at a PE of over 5x on current year expected EPS, **having a strong potential for appreciation and growth.**

## Top Institutional Shareholding Holding

Sr. No.	Institution	% of Total No. of Shares
1	Ares Diversified	4.9
2	J P Financial Services Pvt Ltd	4.9
3	Life Insurance Corporation of India	3.1
4	Varanasi Commercial Ltd	3.1
5	EOS Multi Strategy Fund Ltd	2.9
6	United India Insurance Company Ltd	2.1
7	Indianivesh Securities Pvt Ltd	1.7
8	Ocean Dial Gateway To India Mauritius Limited	1.7
9	NSCCL-CC	1.3
10	Campbell Advertising Pvt.Ltd	1.1
<b>Total</b>		<b>26.8</b>

## Robust Financial Growth



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**Method:** We have not given a target price for the stock

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### Risk Rating

Risk Description	Predictability of earnings/ Dividends; Price volatility
Low risk	High predictability / low volatility
Medium risk	Moderate predictability / volatility
High risk	Low predictability / High volatility

### Total expected return matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15%	Over 20%	Over 25%
Accumulate	10% - 15%	15% - 20%	20% - 25%
Hold	0% - 10%	0% - 15%	0% - 20%
Sell	Negative returns	Negative returns	Negative returns
Neutral	NA	NA	NA
Not Rated	NA	NA	NA

**Please Note:** Our recommendations are for a minimum period for one year.

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