

**Gujarat Heavy Chemicals Ltd. [ GHCL ]**

**Price Target : Rs. 282**

**Company Details**

CMP	202.00
Face Value	10.00
Market Cap (Cr)	1983.91
EPS ( TTM )	45.47
52 Week High	277.20
52 Week Low	178.10
BSE Code	500171
Sector	<b>Commodity Chemicals</b>

**YOY - Financial Highlights [INR – Crore]**

Description	Mar-19	Mar-18	Var %
Net Sales	3341.32	2943.16	13.53
Total Expenditure	2698.86	2447.15	10.29
PBIDT	642.46	496.01	29.53
Operating Profit	657.97	533.95	23.23
OPM (%)	23.19	21.88	5.99
PBT	530.63	407.40	30.25
Profit After Tax	350.58	356.35	-1.62
EPS	35.81	35.64	0.48
Equity Capital	98.03	97.42	0.63

**HY - Financial Highlights [INR – Crore]**

Description	Sep-19	Sep-18	Var %
Net Sales	1724.28	1586.40	8.69
Total Expenditure	1380.57	1326.63	4.07
PBIDT	343.71	259.77	32.31
Operating Profit	351.74	266.34	32.06
OPM (%)	24.60	20.47	20.18
PBT	291.77	197.18	47.97
Profit After Tax	214.86	131.10	63.89
EPS	21.90	13.11	67.05
Equity Capital	98.21	98.01	0.20

**Company Background**

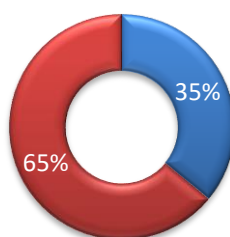
GHCL Limited a Gujarat based company was incorporated on 14th of October 1983 and has established itself as a well-diversified group with footprint in chemicals, textiles and consumer products. Its manufacturing units are located in Gujarat and Tamil Nadu.

In chemicals, the company mainly manufactures Soda Ash that is a major raw material for detergents & glass industries and Sodium Bicarbonate (baking soda). It is the 2<sup>nd</sup> largest manufacturer of soda ash in India with market share of about 25%.

Its textiles operations is an integrated set up which commences right from spinning of fiber (yarn), weaving, dyeing, printing till the finished products, like sheets & duvets, take shape which are primarily exported worldwide. The company's Home Textiles products are exported to countries like United Kingdom, United States of America, Australia, Canada, Germany and other European Union countries. The exports contribute 18% of the revenues of the company. In Consumer Products business the company manufacture and sales edible salt, industrial grade salt, jujube honey and powdered spices under the brand name of I-Flo.

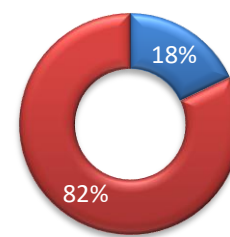
**Segment-wise Revenue**

■ Textiles ■ Inorganic Chemicals



**Revenue break-up ; Domestic : Exports**

■ Exports ■ Domestic



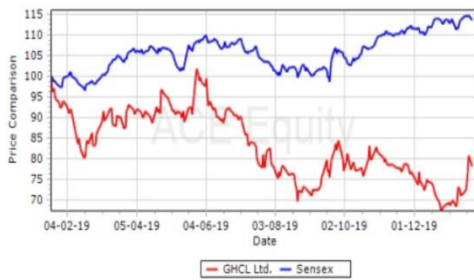
**Financial Performance**

The Net Sales of the company at Rs. 3341.32 Cr for FY19 were higher by 13.5% compared to those in FY18. However, it's PAT at Rs. 350.58 Cr was marginally lower by 1.6% compared to that in FY18.

The Net Sales of the company during HFY20 are higher by 8.7% at Rs. 1724.28 cr compared to 1586.40 cr during the corresponding period in the previous year. Profit After Tax at Rs. 214.86 cr is higher by 63.9% against that of Rs 131.10 cr in the corresponding period last year. The operating margin of the company has increased from 20.5% in HFY19 to 24.6% in HFY20.

**Investment Rationale**

- ✓ The company has generated 19% CAGR growth in PAT since FY15.
- ✓ Recently The company has completed its Soda Ash Brownfield expansion, the full benefit will be available to the company in current financial year.
- ✓ The company is Implementing the installation of carbonation towers with 60% higher capacity to keep pace with increasing production capacity and optimum use of plant.



- ✓ According to recent report the global market for home décor textiles is expected to record an impressive growth in coming years, the export market is estimated at USD 45 bn, the company is raising its share aggressively in export market.
- ✓ The company has recently **launched three innovative Brands like REKOOP, CIRCULARITY and MEDITASI**, in textile business and expects huge improvement in business across geographies with better margins in the coming quarters.
- ✓ The company has **doubled its Spindle capacity** of home textiles and is looking for an opportunity to enhance the revenue.
- ✓ The company is planning to increase its exports through various strategies.
- ✓ The company is **focusing to expand its consumer product portfolio** i.e. Salt, Honey, Spices and Powder Spices under brand Name i-FLO. It has now entered into Maharashtra and Goa markets.
- ✓ The company has **declared a dividend of Rs. 5** on FV of Rs. 10 per share and dividend provides tax-free yield of 2.4%.
- ✓ It has borrowings of Rs. 1292 cr on its books as on 31-03-2019 and its debt to equity ratio at the end of FY19 was 0.65 : 1.
- ✓ The Board of the company is meeting on 23-01-2020 to consider unaudited accounts for the quarter ended Dec2019 and is also **buy back of shares** of the company.

### Shareholding Pattern

The Promoters of GHCL holds 18.52% equity of the company, FIIs hold 15.87%, DIIs hold 16.48%, Other DIIs hold 0.83% and 48.30% shares are hold by public.

### Concern

The slowdown in economy and Competition from peers are some of the main concerns.

### Valuation

The share of the company is trading at attractively low TTM PE of 4.7x against that of the industry at 11.3x.

Keeping in view the increasing demand of soda ash and huge growth potential in textile division, the company could see significant improvement in its earning. We believe that the current valuations of the company do not capture the full potential of the soda ash business as well as the textile division. We expect the company to report EPS of about Rs.47 for FY20 and based on PE of 6x, we see price of scrip to see an upside up to Rs 282 in the next 12 months ( 40 % appreciation ).

## Stock Recommendation List

Company Name	Recommended Price	Target Price	Buy/Sell	Recommended Date	CMP
Alembic Pharmaceuticals Ltd	599	740	BUY	17-01-2020	590
Petronet LNG Ltd.	270	391	BUY	10-01-2020	276
Fiem Industries Limited	444.45	564	BUY	03-01-2020	490
KEC International Ltd.	298.1	382	BUY	30-12-2019	334
Nesco Ltd.	639	895	BUY	21-12-2019	744
Eris Lifesciences Ltd	464	594	BUY	13-12-2019	507
Gujarat State Petronet Ltd	219.15	270	BUY	07-12-2019	253



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