

GHCL

Refer to important disclosures at the end of this report

Utilization level inches up; healthy momentum in Textiles

CMP	Target Price
Rs 236 as of (April 28, 2021)	Rs 232 (■) 12 months
Rating	Upside
BUY (■)	(1.7) %

Result highlights

- GHCL's EBITDA/PAT came in 8-9% below our estimates in Q4FY21, dragged down by a 4% miss in revenue due to lower realization in Chemicals. Textiles performed slightly better than expectations. Higher raw material (coal, fuel oil etc.) and employee costs (on annual increments) resulted in lower-than-expected operating margins.
- On a standalone basis, sales rose 11% yoy to Rs8.14bn (Emkay Est. Rs8.44bn). Growth was primarily driven by the Textiles business.
- EBITDA was up 16.7% yoy at Rs1.87bn, while EBITDAM was up 113bps at 23.1%, led by higher gross margins (up 230bps to 41.8%). Employee costs too were elevated (6% vs. 5% CPLY, as % of sales).
- APAT was up 30% yoy at Rs1.04bn, supported by higher operating income, lower depreciation (down 5% yoy) and lower interest costs (down 44%). ETR was 27.4% (incomparable yoy due to deferred taxes in CPLY).
- During the year, cash conversion cycle has improved from 62 days to 49 days, led by higher payable days, while inventory days moved up from 86 to 95 days. Net debt/equity position has improved from 0.53x to 0.23x in FY21. Net debt declined by Rs4.04bn to Rs7.22bn during the year.

Segment-wise performance

- Inorganic Chemicals** sales rose 3% yoy (flat qoq) to Rs5.29bn, primarily led by higher volumes, in our view (as realization was down 4%/1% yoy/qoq). EBITDAM stood at 26.8% (vs. 31.5% CPLY). Utilization for this period stood at 96% (best in 2 years). For FY21, sales were down 14% at Rs18.8bn, while EBITM came in at 22.9% (vs. 28.8% last year).
- Home Textiles** sales grew 30% yoy as the division's Q4FY20 performance was marred by trade friction between US and China, Covid-19 impact and soft cotton prices. Sequentially, sales grew 3% on strong domestic recovery in yarn and spinning division, as well as better product mix. EBITDAM stood at 18.7% (vs. -5% CPLY on operational write-offs). For FY21, sales fell 12% to Rs9.4bn, while EBITM was 11.3% (vs. 3.3% last year).

Our view: High utilization level of soda ash at 96% seems encouraging, led by healthy demand revival in end-user industries such as flat glass (automotive) and container glass (F&B). Consumers may highly prioritize sanitation during the second wave, giving a boost to detergent demand in the near term, which is big positive for soda ash. Soda ash prices have started rising on a spot basis and would provide tailwinds to revenue growth from Q1FY22 onward. In the home textile segment, a solid recovery in the domestic market, in addition to favorable pricing and product mix, aided the overall performance. Demand remains healthy in spinning and yarn segments, while consumption in export markets shows positive trends. We have a positive view on the stock with a Buy rating. We will revisit our estimates after the concall scheduled on April 29th at 4:00 PM.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Speciality Chemicals](#)

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Exhibit 1: Actual vs Estimates (Q4FY21)

(in Rs Mn)	Actual	Estimates Emkay	% Variation Emkay	Comment
Sales	8,138	8,443	-3.6	Below estimates on lower than anticipated realization in Inorganic Chemicals
EBITDA	1,876	2,043	-8.2	Below estimates on higher than anticipated employee costs and other expenses
EBITDA margin %	23.1	24.2	-114.2bps	
APAT	1,042	1,143	-8.8	Below estimates on lower than expected operating income

Source: Company, Emkay Research

Exhibit 2: Quarterly performance (Standalone)

Rs Mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY %
Revenue	7,332	4,361	7,700	8,032	8,138	11.0	1.3	28,231	32,656	-13.6
CoGS	4,433	2,626	4,843	4,603	4,735	6.8	2.8	16,806	19,350	-13.1
Gross Profit	2,899	1,735	2,858	3,428	3,404	17.4	(0.7)	11,425	13,306	-14.1
as % of sales	39.5	39.8	37.1	42.7	41.8			40.5	40.7	
SG&A expenses	1,292	933	1,330	1,442	1,527	18.3	5.9	5,233	5,743	-8.9
as % of sales	17.6	21.4	17.3	18.0	18.8			18.5	17.6	
EBITDA	1,607	801	1,528	1,986	1,876	16.7	(5.5)	6,192	7,563	-18.1
Depreciation	347	330	329	344	330	(4.8)	(4.0)	1,333	1,305	2.1
EBIT	1,260	472	1,199	1,642	1,546	22.7	(5.9)	4,859	6,258	-22.3
Other Income	6	41	95	56	75	1,256.4	32.5	266	164	62.0
Interest Expenses	335	282	234	200	186	(44.3)	(6.6)	902	1,182	-23.7
PBT	931	230	1,060	1,499	1,434	54.0	(4.3)	4,224	5,240	-19.4
Total Tax	32	61	278	393	392	1,118.3	(0.3)	1,124	980	14.8
Reported PAT	899	169	782	1,106	1,042	15.9	(5.8)	3,099	4,261	-27.3
Extra ordinary items	100	-	-	-	-			-	196	
Adjusted PAT	799	169	782	1,106	1,042	30.4	(5.8)	3,099	4,065	-23.8
Adjusted EPS (Rs)	8.4	1.8	8.2	11.6	11.0	30.4	(5.8)	33	42	-21.7

Margins (%)						(bps)	(bps)			(bps)
EBITDA	21.9	18.4	19.8	24.7	23.1	113	-168	21.9	23.2	-123
EBIT	17.2	10.8	15.6	20.4	19.0	181	-145	17.2	19.2	-195
EBT	12.7	5.3	13.8	18.7	17.6	492	-104	15.0	16.0	-109
PAT	10.9	3.9	10.2	13.8	12.8	191	-97	11.0	12.4	-147
Effective Tax Rate	3.5	26.5	26.2	26.2	27.4	2389	111	26.6	18.7	793

Revenue - Segment wise	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Inorganic Chemicals	5,144	3,450	4,799	5,274	5,297	3.0	0.4	18,820	21,881	-14.0
Home textiles	2,188	910	2,901	2,758	2,842	29.9	3.0	9,411	10,775	-12.7

EBIT - Segment Wise

Inorganic Chemicals	1,464	651	1,052	1,321	1,291	-11.8	-2.3	4,315	6,294	-31.4
Home textiles	-153	-84	307	432	409	Nm	-5.3	1,064	354	200.6

EBIT Margin - Segment Wise						(bps)	(bps)			(bps)
Inorganic Chemicals	28.5	18.9	21.9	25.1	24.4	-409	-68	22.9	28.8	-583.5
Home textiles	-7.0	-9.2	10.6	15.7	14.4	Nm	-126	11.3	3.3	802.3

Source: Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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