

Result Update

Q3 FY24

GHCL Ltd.

Institutional
Research

Weak operational performance continues

GHCL reported a revenue decline of 27.6% YoY / down 1.0% QoQ to Rs. 7,973 mn, mainly due to a reduction in soda ash realization due to prevailing market conditions and increased imports. EBITDA for the quarter declined 59.3% YoY / down 29.9% QoQ to Rs.1,495 mn, and EBITDA margin contracted by 1455bps YoY to 18.7%, impacted by a fall in realization and lower volume, though partially negated by a reduction in inputs costs. Net profit for the quarter declined 60.7% YoY / down 30.1% QoQ to Rs.999 mn, while the PAT margin came at 12.5% versus 17.7% in the previous quarter. While the global market will remain challenging in the near term, a potential decline in inflation could spur demand recovery in 2024. However, demand is relatively more robust in India than in the global scenario, and higher imports have resulted in oversupply and pricing pressures.

Valuation and Outlook

GHCL reported a weak operational performance during the quarter, led by lower production volumes by ~20K MT attributed to a maintenance shutdown undertaken in October 2023. The company took the planned shutdown decision strategically, considering the sluggish global demand scenario. We expect soda ash prices to remain impacted for the next 1-2 quarters as the global products market continues to face challenges with oversupply, resulting in higher exports to Asian regions, including India. However, this is expected to improve going forward due to anticipated growth in demand from environment-related sectors such as solar glass, lithium carbonate, and sodium bicarbonate for flue gas treatment. Further, to meet the growing domestic demand, the company is commissioning a capacity of five lakh tons in the first phase through a greenfield project. However, the greenfield project is facing some delays due to pending approval from authorities. Moreover, GHCL's forthcoming expansion endeavours focusing on vacuum salt production, enhancing salt yield, and prioritizing digital transformation which will augment capability and drive benefits as we advance. Overall, the management indicated that the soda ash industry might dip in the short term, but long-term demand remains intact.

Key Highlights

| Particulars (Rs. mn) | Q3FY23 | Q2FY24 | Q3FY24 | YoY (%) | QoQ (%) |
|----------------------|--------|--------|--------|-----------|---------|
| Net Sales | 11,016 | 8,054 | 7,973 | -27.6% | -1.0% |
| Gross Profit | 7317 | 5,336 | 4,782 | -34.6% | -10.4% |
| Gross Margin (%) | 66.4% | 66.3% | 60.0% | -644bps | -628bps |
| EBITDA | 3,668 | 2,131 | 1,495 | -59.3% | -29.9% |
| OPM (%) | 33.3% | 26.5% | 18.7% | -1,455bps | -772bps |
| Net Profit | 2,541 | 1428 | 999 | -60.7% | -30.1% |
| EPS (Rs.) | 23.1% | 17.7% | 12.5% | -1,054bps | -521bps |

Source: Company, BP Equities Research

Sector Outlook

Neutral

Stock

| | |
|------------|-----------|
| CMP (Rs.) | 528 |
| BSE code | 500171 |
| NSE Symbol | GHCL |
| Bloomberg | GHCL IN |
| Reuters | GHCH : BO |

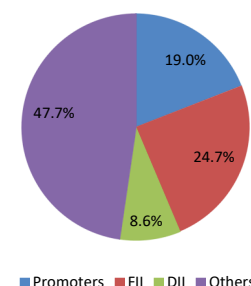
Key Data

| | |
|---------------------|---------|
| Nifty | 21,931 |
| 52 Week H/L (Rs.) | 660/470 |
| O/s Shares (Mn) | 95 |
| Market Cap (Rs. bn) | 50 |
| Face Value (Rs.) | 10 |

Average Volume

| | |
|----------|---------|
| 3 months | 326,600 |
| 6 months | 410,900 |
| 1 year | 322,810 |

Share Holding Pattern (%)



Relative Price Chart



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Key Concall Highlights

Soda Ash Market Outlook:

The global products market continues to face challenges with oversupply, resulting in higher exports to Asian regions and impacting prices. The high inflation has dampened European consumer sentiment, weakening exports from Turkey to Europe. Further, China's real estate market remains subdued, with an additional four million metric tons of natural soda ash capacity coming into operation. Despite these challenges, during 2023, China's import of soda ash exceeded its exports, indicating a strong domestic demand uptick from emerging sectors, such as solar glass and lithium carbonate. This is expected to drive China's growth by 5% to 6% for 2024.

Volume Guidance:

Volume during the quarter declined, led by lower production volumes by ~20K MT due to a maintenance shutdown undertaken in October 2023, and is expected to remain subdued for several more quarters. However, the management expects 5% to 6% volume growth in FY25.

Price Cut:

The soda ash market is oversupplied in Asian regions, which has put downward pressure on prices. In India, while demand is relatively stronger than the global scenario, higher imports have resulted in oversupply and pricing pressures.

"GHCL expects near-term challenges to persist in terms of realization and volume."

Demand Outlook:

As per the management, soda ash demand is expected to remain strong in the long run, driven by higher demand from solar projects in India. China also indicates a strong domestic demand uptick from emerging sectors, such as solar glass and lithium carbonate.

Key Growth Areas:

The management endeavours focusing on vacuum salt production, enhancing salt yield, and prioritizing digital transformation, which is underway and will augment capability and drive benefits as the company advances.

Other Highlights:

- As per the management, many parts of the world, including Europe and the Americas, are experiencing a decrease in demand.
- Turkish soda ash manufacturers need better demand in Europe. As a result, they are aggressively exporting to Asian markets.
- The company has signed MoU with the Gujarat government primarily to add capacity from 0.5 million tons to 1.1 million tons.



GHCL Ltd.

Result Update Q3FY24

Key Financials

| YE March (Rs. mn) | FY22 | FY23 | FY24E | FY25E |
|-------------------|--------|--------|--------|-------|
| Net Sales | 30,521 | 45,454 | 38270 | 45770 |
| Growth % | - | 48.9% | -15.8% | 19.6% |
| EBIDTA | 7,288 | 14,814 | 10580 | 12970 |
| Growth% | - | 103.3% | -28.6% | 22.6% |
| Net Profit | 6,373 | 11,167 | 8520 | 9120 |
| Growth % | - | 75.2% | -23.7% | 7.0% |
| Diluted EPS | 44.4 | 115.0 | 89.1 | 95.4 |

Profitability & Valuation

| | | | | |
|----------------------|-------|-------|-------|-------|
| EBIDTA (%) | 23.9% | 32.6% | 27.6% | 28.3% |
| NPM (%) | 20.9% | 24.6% | 22.3% | 19.9% |
| ROE (%) | 21.6% | 28.4% | 19.1% | 18.3% |
| ROCE (%) | 17.5% | 33.3% | 23.4% | 20.9% |
| P/E (x) | 7.9 | 4.5 | 5.9 | 5.5 |
| EV/EBITDA (x) | 7.1 | 3.5 | 3.9 | 4.3 |
| Net Debt/ EBITDA (x) | 0.7 | 0.1 | 0.2 | 0.0 |

Source: Company, Bloomberg Estimates



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