



September 20, 2018

National Stock Exchange of India Limited
"Exchange Plaza"
Bandra – Kurla Complex,
Bandra (E), Mumbai – 400 051
NSE Code: GHCL

BSE Limited
Corporate Relationship Department,
1st Floor, New Trading Ring, Rotunda Building, P.J.
Towers,
Dalal Street, Fort, Mumbai – 400 001
BSE Code: 500171

Dear Sir / Madam,

Subject: Disclosure of Material Event / Information - GHCL's Credit Rating (IND A1+ i.e. Highest) assigned by India Ratings & Research for Commercial Paper

Pursuant to the requirement of Regulation 30(6) of the SEBI (LODR) Regulations 2015, we would like to inform that India Ratings & Research, one of the Credit Rating Agency, has assigned **highest rating IND A1+** to GHCL Limited for issuance of Commercial Paper of Rs. 1000 million, which is yet to be issued and shall be carved out of the existing working capital of the Company.

Details of Credit Rating assigned by India Ratings & Research (a Fitch Group Company), is as under:

Facilities	Rating (Assigned)	Size of the Issue
Commercial Paper (CP)*	IND A1+	INR 1,000 million
* yet to be issued; carved out of existing working capital facilities		

Copy of the India Ratings & Research's letter dated September 19, 2018 is enclosed for your reference & record.

You are requested to kindly take note of the same and disseminate the information on your website.

Thanking you

Yours faithfully

For GHCL Limited

Bhuwneshwar Mishra
Sr. General Manager & Company Secretary

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India Ratings Assigns GHCL's CP 'IND A1+'

19

SEP 2018

By Krishan Binani

India Ratings and Research (Ind-Ra) has rated GHCL Limited's commercial paper (CP) as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Commercial paper (CP)*	-	-	-	INR1,000	IND A1+	Assigned

*Yet to be issued; carved out of existing working capital facilities

The CP proceeds will be used for fulfilling working capital requirements/refinancing of debt/bridge finance/capital expenditure.

KEY RATING DRIVERS

Integrated Soda Ash Player with Competitive Cost Structure: GHCL is the second-largest domestic soda ash producer in India, with an installed capacity of 975,000 tonnes per annum (tpa), meeting around 25% of the domestic requirement. The company has integrated operations, with captive availability of all key raw materials, making it one of India's most cost-efficient producers of soda ash. The segment contributed around 64% to GHCL's revenue and 92% to the EBITDA for FY18. Its EBITDA margins remained above 30% over FY15-FY18, because of the ability to pass on the higher raw material/energy prices through periodic increases in product prices.

Capacity to Rise by 250,000tpa by end-FY20: GHCL is investing INR3 billion towards a brownfield soda ash project of 125,000tpa, which is slated to come online by 4QFY19. The company is looking at another similar sized expansion by end-FY20 at a similar cost, taking the total capacity to 1.2 million tpa by FY21. India's 3.75 million tpa soda ash industry is characterised by steady annual demand growth of 5%, with import dependency of nearly 20% of the total demand. Apart from GHCL's expansion, Rohit Surfactants Private Limited's 0.5 million tpa greenfield soda ash plant is likely to be commissioned in 3QFY19. At a global level, the impact of Turkey's new supplies of natural soda ash was mitigated by continuing production constraints in China amid a robust worldwide demand in FY18. Ind-Ra therefore expects the soda ash margins to remain well supported over the next two years. With savings on fixed cost, GHCL's brownfield expansions are likely to support its overall margins and returns. GHCL is also working on a greenfield project of 0.5 million tpa in the next four to five years.

Textiles Segment Likely to Improve: GHCL's textile division contributed 36% to FY18 revenues, but just 8% to the

total EBITDA. Revenues fell 15% yoy in FY18 to INR10.5 billion, while EBITDA margins dropped to 4.7% (FY17: 13.9%), driven by a weakness in the home textile division. This was due to various industry-level challenges such as oversupply in the US, impact of GST and demonetisation and a reduction in duty drawback. GHCL's yarn division is likely to witness a steady improvement in FY19 on improved demand environment, which is likely to offset the adverse impact the increased minimum support price of cotton. Ind-Ra expects the home textile division to remain under pressure due to the oversupply situation and would take longer to demonstrate a material turnaround. The overall segment performance continues to improve sequentially, with 1QFY19 margins expanding to 6.7% (4QFY18: 5.7%) with 20% qoq growth in revenues.

Strong Credit Metrics: GHCL's interest coverage (EBITDA: gross interest expense) was 4.8x in FY18 (FY17: 5x) and net leverage (net debt/EBITDA) was 2.16x (2.14x). The positive impact of the steady performance of soda ash division has been offset by the weak performance of the textile division. FY18 sales increased 6% yoy to INR29.4 billion, while EBITDA margins fell to 20.6% (24.5%). The company replaced high-cost rupee loans with foreign currency loans, bringing down the average interest rate to 7.61% in FY18 (FY17: 8.12%). The credit metrics had improved over FY13-FY17 and Ind-Ra expects an improvement over FY19-FY20 on a resilient performance of the soda-ash division and a gradual up-tick in the textile division; however, it will be offset by the planned capital expenditure.

Comfortable Liquidity and Financial flexibility: Ind-Ra expects cash flow from operations to remain positive through FY19-FY21 on stable operating profitability and a comfortable working capital cycle (FY18: 81 days; FY17: 85 days). GHCL's free cash flow was positive in FY18 (INR1.4 billion) which is likely to remain positive from FY20. Liquidity is also strong with the company's average month-end use of the fund-based limits being 79% in the 12 months ended August 2018. GHCL expects to have sufficient liquidity to repay scheduled debt repayments with healthy debt service coverage ratios.

Risks from Industry Cyclicalities and Forex Fluctuations: GHCL is exposed to the inherent cyclicalities of textile and soda ash industries. The textile industry is also characterised by intense global competition, volatile cotton prices and forex rates, which may affect the competitiveness of Indian players. Exports to the US account for 65% of GHCL's total home textiles sales. Retailers in the US continue to face severe business headwinds on account of a shift from traditional retail to e-commerce. Soda ash margins could come under pressure if imports resume after the lifting of anti-dumping duties on seven geographies or in case of any global supply/demand imbalance.

RATING SENSITIVITIES

Negative: Deterioration in the EBITDA margins and/or any unexpected debt-led capex leading to the net leverage exceeding 2.5x on a sustained basis could lead to a negative rating action.

COMPANY PROFILE

GHCL is a diversified group with presence in manufacturing of soda ash and textiles. The soda ash facility is located in Sutrapada (Gujarat) with capacity of 975,000tpa. GHCL's textile division is composed of a spinning facility in Madurai (capacity: around 24,000 tonnes) and home textile division which located in Vapi, Gujarat (45 million meter of wide width processing capacity, 12 million meter of weaving capacity and 30 million meter of cut & sew). GHCL was incorporated in 1983 and got listed in 1987.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	29,432	27,838
EBITDA (INR million)	6,061	6,808
EBITDA margin (%)	20.6	24.5
Total debt (INR million)	13,220	14,633
Gross interest coverage (x)	4.8	5.0

Net leverage (x)	2.2	2.1
Source: GHCL, Ind-Ra		

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

SOLICITATION DISCLOSURES

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

[Corporate Rating Methodology](#)

Analyst Names

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