November 22, 2022

मार्गशीर्ष - कृष्णपक्ष - त्रयोदशी,
विक्रम सम्वत २०७९

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: India Ratings affirmed 'IND AA- Stable' for GHCL's Long - Term Credit Rating and affirmed 'IND A1+' for Commercial Paper (CP).

Pursuant to the requirement of Regulation 30(6) of the SEBI (LODR) Regulations 2015, we would like to inform that on November 22, 2022, India Ratings & Research (a Fitch Group Company), one of the Credit Rating Agency, has affirmed GHCL Limited's Long-Term Issuer Rating to 'IND AA- Stable' (Double A Minus with Stable Outlook).

We would like to further inform that said Credit Rating Agency, has also affirmed 'IND A1+' (Single A One Plus) to GHCL Limited for issuance of Commercial Paper (CP) of Rs. 1000 million, which shall be carved out of existing working capital facilities. Copy of the report, issued by the said Credit Rating Agency, is enclosed herewith.

Please note that copy of this intimation is also available on the website of BSE Limited (*www.bseindia.com/corporates*), National Stock Exchange of India Limited (*www.nseindia.com/corporates*) *and website of the Company* (*www.ghcl.co.in*).

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 Prasad Mishra
Digitally signed by Bhuwneshwar Prasad Mishra
Date: 2022.11.22 15:13:37 +05'30'

Bhuwneshwar Mishra
Sr. GM-Sustainability & Company Secretary
Membership No.: FCS 5330

India Ratings & Research
A Fitch Group Company

India Ratings Affirms GHCL at 'IND AA-'/Stable & its CP at 'IND A1+'

OVERVIEW
India Ratings and Research (Ind-Ra) has affirmed GHCL Limited's Long-Term Issuer Rating to 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions is as follows:

CURRENT RATING

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Commercial paper (CP)*	-	-	0-365 days	INR1,000	IND A1+	Affirmed

* 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.

ANALYTICAL APPROACH: Ind-Ra has continued to take a consolidated view of GHCL and its wholly-owned subsidiaries - Grace Home Fashion LLC and Dan River Properties LLC, owing to the strong operating and strategic linkages among the entities.

The affirmation reflects GHCL's continued healthy business profile, reflected in its leading market position in the domestic soda ash industry, competitive cost structure, resilient margin profile and healthy credit metrics, which are likely to be sustained over the medium term. The ratings factor in GHCL's sale of home textiles business and the proposed demerger of the textile segment, which are likely to result in a more stable earnings profile.

KEY RATING DRIVERS

Continued Healthy Business Profile; Integrated Soda Ash Player with Competitive Cost Structure: GHCL is the second-largest domestic soda ash producer in India, with a capacity of 1.1 million tonnes per annum (mtpa); the company meets around 25% of the domestic requirement for soda ash. GHCL has integrated operations, with captive availability of all key raw materials, making it one of India's most cost-efficient soda ash producers. Excluding the home textiles division which has been sold during FY22, the soda ash segment contributed around 76% (FY21: 80%) and 74% (81%) to GHCL's consolidated revenue and EBITDA, respectively, during the year. The consolidated revenue and EBITDA stood at INR28.57 billion and INR7.37 billion, respectively in FY22 (FY21: INR18.88 billion and INR4.88 billion). The soda ash segment's EBITDA margins had remained above 30% over FY15-FY20, as it benefitted from operating leverage through a modular increase in capacity over the years and increased realisations. The margins, however, declined to 25.8% in FY21 (FY20: 31.2%), and remained at a similar level in FY22, due to an increase in the key raw material prices (coal, salt and lignite) and lower realisations, resulting from a moderation in the demand from end-user industries in light of the pandemic. However, a steep improvement in the margins was observed in 4QFY22 (34.2%) which sustained during 1HFY23 at about 35%, on account of increased realisation owing to several price hikes during the period. The soda ash segment's absolute EBITDA increased to INR7.4 billion in FY22 (FY21: INR4.9 billion), as volumes and realisation increased by 22% and 24% yoy, respectively.

Strong Soda Ash Outlook : The local soda ash demand increased around 15% yoy during FY22, after falling 7% yoy in FY21 due to COVID-19-led disruptions. The improvement in demand resulted into improved capacity utilisation rates of the industry. This along with better realisations has improved margins. Increased demand is being witnessed from the glass industry (31% of industry) wherein additional demand is coming from the solar glass and lithium carbonate user segment, while demand from the detergents (40% of demand) segment remains stable. Declining imports led by lower domestic soda ash price and rupee depreciation have benefitted domestic players.

Improved capacity utilisation rate of 98%-99% and several price hikes during January to May 2022 resulted EBITDA increasing around 2.5x yoy in 1HFY23 to INR7.77 billion. During 1HFY23, realisation per tonne increased around 82% yoy to INR37,791/tonne. Given the lower prices of domestic soda ash than that in the international market, the domestic industry remained immune to the threat of cheaper imports from countries such as Turkey, Bulgaria, Kenya, UAE, the US and China in the absence of any anti-dumping duty. Reduced imports (down around 22% yoy to 563,000t in FY22) were also led by lower production in China due to environmental concerns and supply disruptions due to the Russia-Ukraine war; this has aided the profitability of domestic manufacturers such as GHCL. However, with the slowdown in real estate market of China, imports from China remain a major threat and affect the price of soda ash.

Ind-Ra expects global demand to remain stable in FY23, given the diversified applications of soda ash. With the increased focus on renewable energy worldwide, solar glass (end-user of soda ash) is emerging as a new segment, which bodes well for the soda ash industry. Meanwhile, supply-side restrictions, such as lower production in China due to environmental regulations, lower production in Europe due to an increase in the energy cost and supply chain disruptions due to the Russia-Ukraine war, have resulted in a significant increase in prices, which should bolster the profitability of soda ash manufacturers.

Sale of Home Textile Division: The home textiles division had faced severe headwinds from late 2016, driven by increased competitive intensity due to overcapacity and structural issues with US-based retailers. The segment incurred EBITDA losses over FY18-FY20, with revenues falling 40% over FY17-FY20 (FY20: INR4.9 billion; FY17: INR8.2 billion). Accordingly, management sold the home textiles division during FY22 to Indo Count Industries Limited for a total consideration of INR5.94 billion, including sale consideration towards the sale of identified assets of the US-based subsidiary Grace Home Fashion LLP for INR317.7 million which has been completely received by the company by 1HFY23.

Demerger of Inorganic Chemicals and Spinning Division: In March 2020, GHCL's board approved a proposal to demerge its textiles business into a separate entity - GHCL Textile Limited, subject to the receipt of regulatory approvals. The company's shareholders will receive shares in the new textile entity (in 1:1 ratio), which will be a separately listed company. However, with the sale of the home textiles division to Indo Count India Limited in December 2021, only spinning division is left to be transferred to GHCL Textile Limited. Accordingly, the company reached out to National Company Law Tribunal again with a revised demerger proposal of only the spinning division. Both the company and Ind-Ra expect the demerger process to be completed in FY23. This demerger is intended to deliver various operational and strategic benefits, such as focused growth, business synergies, and increased operational and customer focus, to each business segment. Ind-Ra believes the demerger of the textile segment is likely to result in a more stable earnings profile, given typically volatile profitability in the textile segment. The company has already received approval from Stock exchange, Securities and Exchange Board of India and Competition Commission of India. Ind-Ra will monitor the developments on the eventual capital structure of the two entities post the consummation of the transaction.

Improved Profitability of Yarn Segment: GHCL's yarn division's revenue and EBITDA grew sharply at 64% and 127%, respectively, in FY22, driven by a higher increase in the yarn prices than the increase in cotton prices, also margins were aided by increased operating efficiency with increased volumes. However, with declining yarn prices, both the company and Ind-Ra expect the EBITDA margin to be on the lower side in FY23 compared to 27.6% during FY22. In 1HFY23, the segment reported EBITDA margin of 17.6%

Moderate Near-term Capex Plan; Large Greenfield Capex in Medium Term: GHCL is likely to incur capex of INR11 billion-12 billion (including maintenance capex) over FY23-FY24 to increase its soda ash capacity by 100,000tpa through debottlenecking (investment of about INR1 billion), its sodium bicarbonate capacity by 50,000 metric tonnes (about INR0.4 billion), setting up a solar power plant of 10MW in the yarn segment and increase spindles capacity by 80,000 in textile segment (total capex of INR3.3 billion including solar plant capex). Some capex would also be directed towards the greenfield expansion of the soda ash facility. This is about INR4 billion over FY23-FY24 of the total capex of INR35 billion planned for FY23-FY26 for a greenfield expansion in the soda ash segment.

With steady demand growth of 4%-5% yoy historically in the domestic market, India is likely to remain a net importer of soda ash even after the planned capacity expansion by GHCL and other industry players. The greenfield project for soda ash consists of a capacity addition of 0.5mtpa, at a total project cost of about INR35 billion (approximately), for which the land acquisition has been partly completed; the management has already applied for environmental and regulatory approvals. No major spending is likely in the next 12-18 months on greenfield capex as the company will be doing preparatory work such as technological partner selections and detailed engineering until all the approvals are in place. After all approvals are received and land acquisition is completed, the management expects the construction period to be 2.5-3 years with a major portion of the capex likely to be incurred in FY25. GHCL has indicated that it will undertake a staggered phase-wise capex with a conservative debt/equity (management intends to maintain debt-to-equity ratio below 1) mix to ensure healthy credit metrics during the construction phase.

Strong Consolidated Credit Metrics: GHCL's credit metrics improved over FY13-FY22, backed by the steady growth in the profitability and operating cash flows. The interest coverage (EBITDA/gross interest expense) remained strong at 15.0x in FY22 (FY21: 7x) and net leverage (net debt/EBITDA) at 0.54x (1.15x), led by a substantial increase in the EBITDA to INR9.79 billion (INR6.4 billion). Despite the planned capex, Ind-Ra expects the credit profile to remain robust, led by healthy cash accruals. Moreover, the demerger is unlikely to have any major impact on the credit metrics, with the net leverage remaining below 1.5x in FY23.

Liquidity Indicator – Adequate: GHCL's consolidated free cash flow decreased to INR1.9 billion in FY22 (FY21: INR 4 billion) due to the capex undertaken by the company of INR3.37 billion (INR1.1 billion), however operating cash flows remained robust at INR6.4 billion (INR6.2 billion). The free cash flow is likely to turn negative in the near term due to the planned capex, but might turn positive thereafter, assuming there would be an improvement in the operating cash flows post the commissioning of the capex. The company's average month-end use of the fund-based limits was 6% over the 12 months ended September 2022 with undrawn limits of nearly INR7.44 billion. GHCL has repayment obligations of INR1.3 billion, INR1.2 billion and INR0.8 billion for FY23, FY24 and FY25, respectively. The company had INR2.43 billion of cash balances at end-March 2022.

Risks from Industry Cyclicality and Forex Fluctuations: GHCL is exposed to the inherent cyclicality of the textile industry, which is also characterised by intense global competition, and volatile cotton prices and forex rates that may affect the competitiveness of Indian players. The agency believes soda ash margins could come under pressure if imports increase sharply because of any global supply/-demand imbalance. Furthermore, the company's captive linkages have reduced over the years owing to increased capacity and limited reserve addition.

RATING SENSITIVITIES

Positive: An increase in the scale of operations, and profitability, accompanied by an improvement in the overall credit metrics, all on a sustained basis, could result in a positive rating action.

Negative: A negative rating action could result from any of the following events:

- deterioration in the profitability due to company-specific or sector-specific factors, such as a substantial increase in imports, which would impact the margins

- higher-than-expected debt diversion from the textile entity post demerger

- higher-than-expected debt-led capex, leading to the net leverage exceeding 2.5x on a sustained basis

RATING CRITERIA Corporate Rating Methodology, Evaluating Corporate Governance, Short-Term Ratings Criteria for Non-Financial Corporates (20-Apr-20)

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on GHCL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

COMPANY PROFILE

GHCL is a diversified group which manufactures soda ash and textiles. Its 1.1mtpa soda ash facility is located in Sutrapada (Gujarat) GHCL's textile division is composed of a spinning facility in Madurai (capacity: around 27,000 tonnes). GHCL was incorporated in 1983 and was listed in 1987.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	FY22	FY21

Revenue (INR billion)	37.78	29.00
EBITDA (INR billion)	9.79	6.36
EBITDA margin (%)	25.9	21.9
Total debt (INR billion)	7.69	7.68
Gross interest coverage (x)	15.0	7.0
Net leverage (x)	0.54	1.2
Source: GHCL, Ind-Ra		

RATING HISTORY

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				25 November 2021	2 December 2020	9 December 2019
Long Term Issuer Rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND A+/Positive	IND A+/Positive
CP	Short-term	INR1,000	ND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF THE INSTRUMENTS

Instrument Type	Complexity Indicator
CP	Low

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

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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 structured finance and project finance companies.

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

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

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