



V. P. Rajesh and Saurabh Basrar

Banyan Capital Advisors





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Banyan Capital at a Glance



- SEBI registered Portfolio Management Service (“PMS”) company since 2012 with total assets (as on March 31th, 2024) of Rs. 835+ crores (US\$ 100 Mn)
 - PMS (AUM): ~ Rs. 405 crores (US\$ 49 Mn)
 - Portfolio managers’ capital of over Rs. 40 crores (US\$ 4.8 Mn) is also invested alongside with the investors in the PMS strategies
 - Wealth Advisory (AUA): Rs. 390 crores (US\$ 47 Mn)
- PMS strategies
 - Edhas Portfolio - Absolute return focussed & market cap agnostic
 - Banyan Yield Plus - Only special situations
 - Banyan India Portfolio - focussed on small-cap and mid-cap stocks (CLOSED TO NEW INVESTORS TILL FURTHER NOTICE)
- PMS Performance: Please see <https://www.apmiindia.org/apmi/welcomeiaperformance.htm?action=PMSmenu>

Key Investment Professional



VP Rajesh, Portfolio Manager (PM)

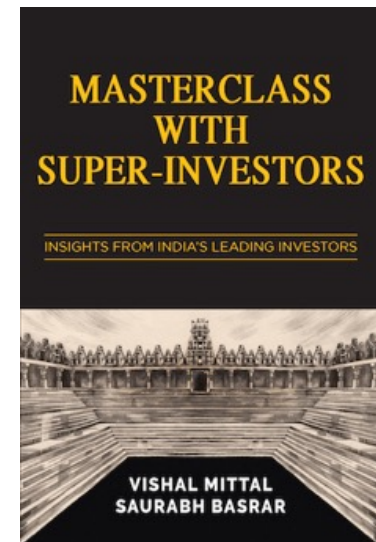
- 15 years of experience in fund/portfolio management & equity research
- 10 years of Investment Banking experience in the US with JP Morgan Chase, Deutsche Bank, Piper Jaffray and Thomas Wiesel Partners
- 3 years of experience with Citicorp Overseas Software Limited
- MBA with Distinction from the University of Michigan's Ross School of Business and B.Tech. (Electrical & Electronics) from BITS, Pilani

Key Investment Professional



Saurabh Basrar, Portfolio Manager (PM)

- 15 years of experience in portfolio management and equity research
- Prior experience with Fidelity, A T Kearney and Citibank
- Rank holder Chartered accountant, member of CFA Institute (USA) and a graduate from Sri Ram College of Commerce
- Author of the bestseller “ Masterclass with Super-Investors”



Investment Idea



Industry: Textiles (Spinning)

CMP (as on 23 April 2024): Rs 85

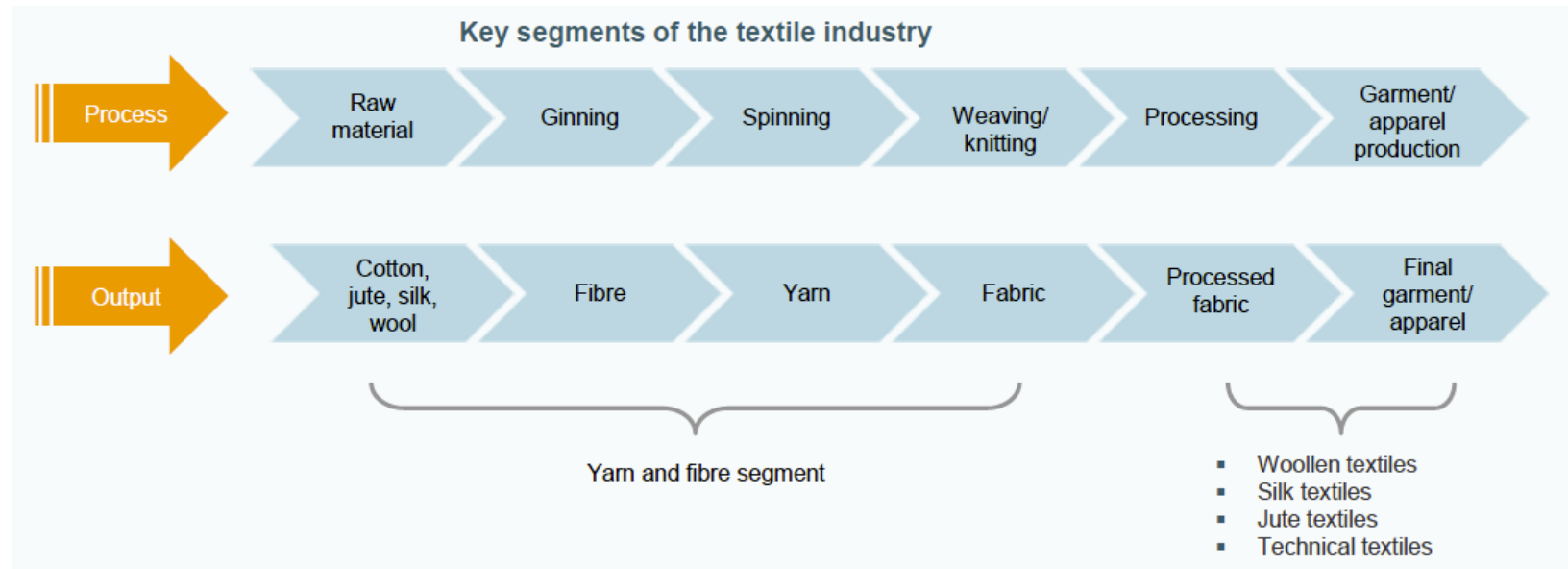
Market Cap: Rs 811 crore / USD 97 million

Investment Rationale



- GHCL Textiles offers asymmetric risk reward; 2x+ upside potential with very limited downside risk
- Industry coming out of one of the worst downcycle in the last 12/18 months
- Large capex completed recently; will drive growth in the next 2-3 years
- Focus on the premium segment of cotton yarns
- Best in class management with a proven track record of execution and capital allocation
- Clean balance sheet with negligible net debt
- Attractive valuation

Industry – Textiles



Source: Textile Ministry, Make in India

- Textile Industry based on raw materials used can be categorized into: Natural Fibers (Cotton is the largest) and Man Made Fibers.
- Textiles production is largely a capital intensive and commoditized industry.
- Cotton based textiles are less commoditized because of limited amount of crop produced each year vs man made fibers (which are largely crude based e.g. polyester, nylon)
- Global cotton production (FY 23) is around 24.5 Mn metric tonnes. India (5.8 Mn metric tonnes) and China (6 mn metric tonnes) are the largest cotton production countries.

Business overview

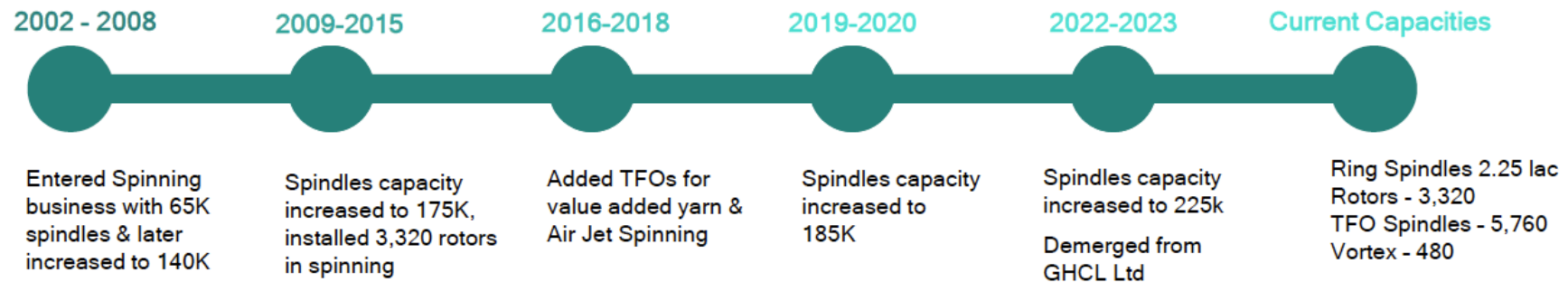
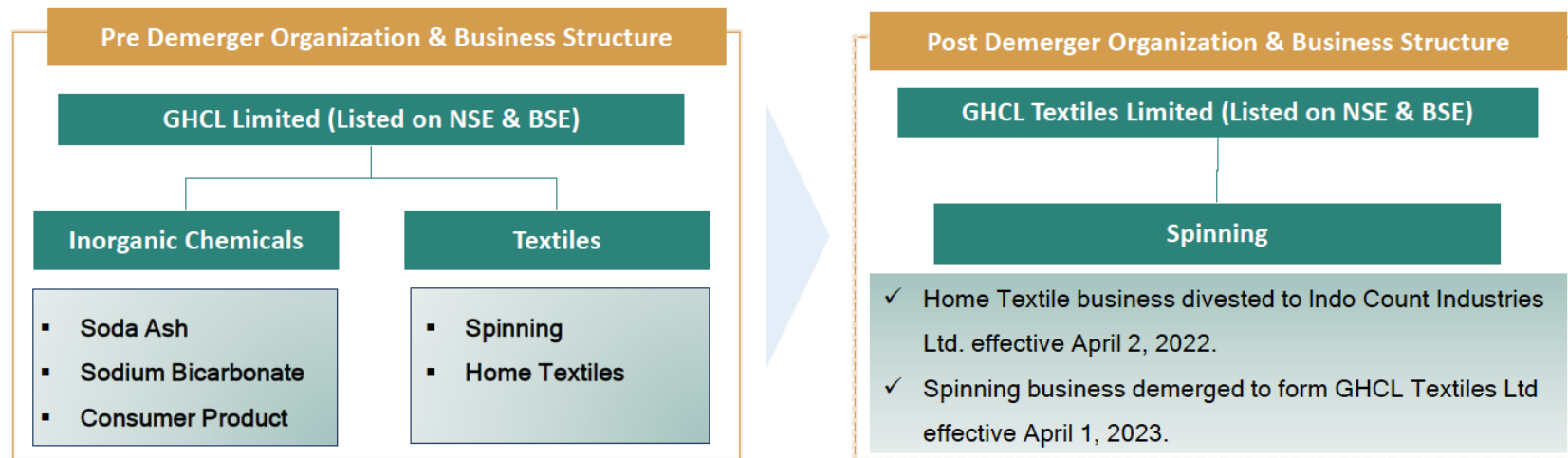


- GHCL Textiles has 2 manufacturing units located in Tamil Nadu
- 2.25 lac Ring Spindles, 3320 rotors, 480 Vortex and 5760 TFO Spindles.
- It produces high-quality yarns, including GIZA, SUPIMA, Australian, and CmiA Yarn, catering to both domestic and international markets. 50%+ Revenue from value added products
- 85-90% of revenue is from domestic sales
- 70%+ Power requirement met through 62MW of green energy
- INR 360 crore capex done in last 3 years towards adding 40,000 spindles and increasing solar power capacity
- Excellent Management – huge value creation in GHCL Ltd. Proven track record of great execution, capital allocation and being minority shareholder friendly.

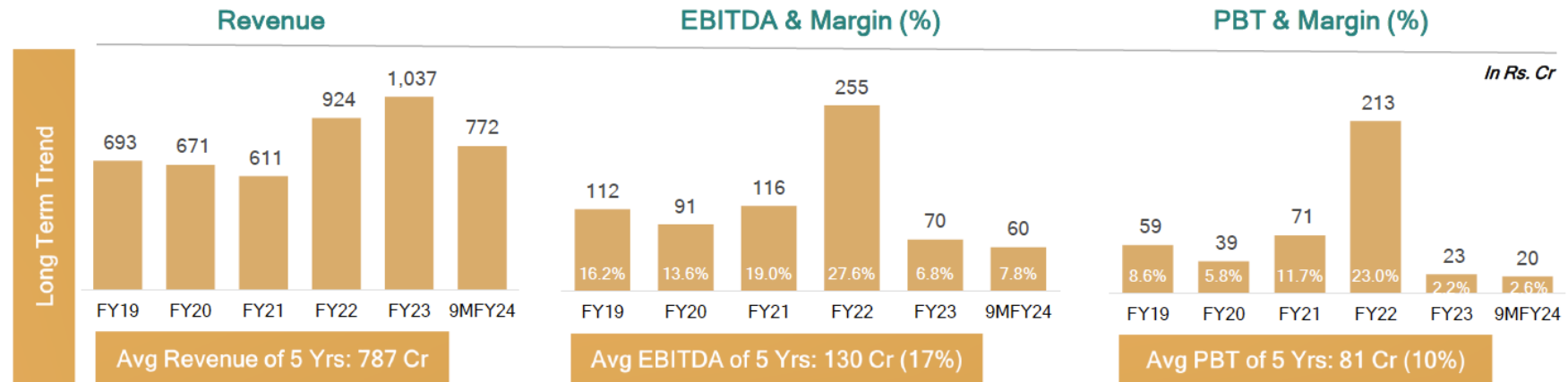
History and recent demerger



Organization & Business Structure



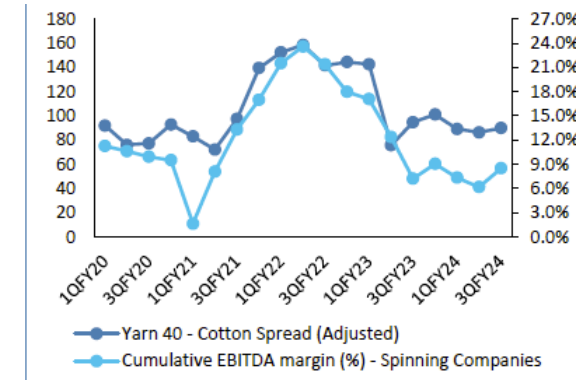
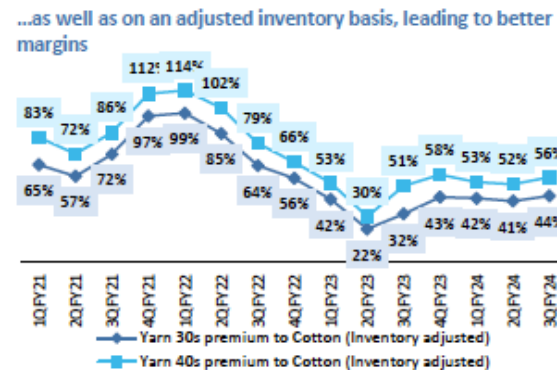
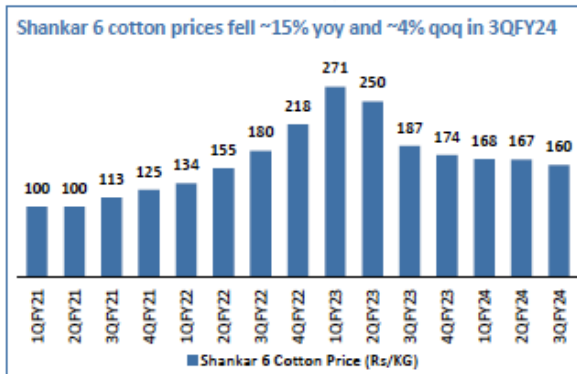
Financial overview



Historical data for 10 years is not available since the company got demerged recently

- EBITDA margin has averaged around 16-17% in the last 10 years. (Source – Company Presentation)
- The maximum margin was 27.6% in FY 22 and minimum is 6.8% in FY23.

Margin volatility in the spinning industry



HIGH COTTON PRICES in FY 22/23 AND SUBSEQUENT FALL in FY 23/24 was the major reason for the margin volatility in spinning companies.

Prospects & expansion plans



- **Current revenue run rate is Rs 1,000 cr (FY 24E) at 95% utilisation**
- **Revenue potential is Rs. 1,300-1,400 cr with current capacities by product mix change (which will lead to higher realization and higher revenues)**
- **Strong Balance Sheet – Rs. 1,360 cr equity / Rs. 61cr gross debt and zero net debt.**
- **Disclosed Strategic Future Plan**
 - Vertical integration of textile manufacturing to include knitted and woven finished fabrics which yields superior margins
 - Product basket expansion and increase spinning capacity by 1.5x
 - Increase energy portfolio from 62MW to 75MW (will cater to 85% of energy requirement)
 - Long term EBITDA margins in the 17-20% range
- **The company plans to add another 25,000 spindles and augment their solar power capacity in the next 12-18 months at a cost of Rs 200 cr. The company will likely use some leverage to fund this capex plan.**



Management with a strong track record



R S Jalan (Managing Director – GHCL Ltd, Non Executive Director – GHCL Textiles)

He joined GHCL Ltd in 2002 and was elevated to Managing Director in 2006. He has been instrumental in turning around the company.

GHCL Ltd (INR Cr)	
Pre Demerger basis	2014
PAT	108.5
Market Capilisation	338.0
Net Debt	1,444.0
Equity / Shareholders Funds	587.0
	2014 - 9M FY 2024
Cash Generated	4,975.0
Dividends and Buybacks	790.0
Debt Repayment	1,283.0
Fixed Asset Purchase	2,456.0
Net cash	446.0
GHCL Ltd (post demerger basis)	2024E
PAT	700.0
Market Capilisation	5,000.0
Net Cash	400.0
Equity / Shareholders Funds	3,000.0



MR. R. BALAKRISHNAN
CHIEF EXECUTIVE OFFICER



MR. N. RAJAGOPAL
HEAD - TECHNICAL



MR. D. RAMESH BABU
OPERATIONAL HEAD

The CEO has been with the company (pre demerger as part of the textile division) since 2004 (20+ years), Technical Head since 2014 (10 years) and Operational Head since 2018 (6 years)



Ambika is the gold standard but has growth challenges

Financial Comps	Sales FY 24E	10 yr avg EBTIDA margin	EBTIDA Margin (9M FY 24)	PAT - FY 24E	Net Debt	Debt/Equity
GHCL Textiles	1000	17%	7.1%	20	2	0
Ambika Cotton Mills	830	20%	12.6%	65	-234	0
Nitin Spinners	2900	15%	12.3%	125	1216	1.11
Sutlej Textiles and Industries	2700	11%	-1.5%	-110	933	0.94

Valuation Comps	CMP - 23 April 2024	Market Cap	P/E	EV/EBITDA	P/B
GHCL Textiles	85	811	40.6	11.5	0.6
Ambika Cotton Mills	1581	905	13.9	6.4	1.1
Nitin Spinners	354	1993	15.9	9.0	1.7
Sutlej Textiles and Industries	61	1000	NA	NA	0.9



Summary financial projections & scenarios

Current Valuation Metrics	
INR Cr	
Number of Shares (in crores)	9.55
Market price (23 April 2024)	85
Market Capitalisation	811
Net Debt (Dec 2023)	2
EV	813
Shareholders Equity (Dec 2023)	1360
Fixed Assets (Dec 2023)	1070
Net Working capital (Dec 2023)	290
P/B	0.60

Key Parameters (INR Crore)	FY 25-27 Time frame (3 Years)		
	Bull Case	Base Case	Bear case
Revenue	1,800	1,600	1,300
EBTDA Margin	19.0%	16.0%	13.0%
EBTIDA	342.0	256.0	169.0
PAT	200.3	135.8	70.5
Cash flow (PAT + Dep)	250.50	186.00	120.75
P/E Multiple - Max	12	12	10
P/E Multiple - Min	9	9	8
Upside Range - Max	196.3%	100.9%	-13.1%
Upside Range - Min	122.2%	50.6%	-30.5%

The stock has been consolidating since listing in the Rs. 70 – 90 range



High Probability that INR 70 is bottom for the stock – that is where the stock has traded since listing in the worst earnings period for the business.



Shareholder base has consolidated

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	19.15%	19.15%	19.15%	19.16%
FII	20.84%	21.41%	18.32%	15.84%
DII	10.74%	8.78%	8.87%	6.01%
Public	49.28%	50.66%	53.66%	58.98%
No. of Shareholders	75,851	66,857	64,701	64,620

- Selling by FII and DII absorbed by public post demerger in the last 9 months since its listing.
- Number of shareholders also consolidated post the demerger



Key risks and monitorables

- Demand slowdown in major end customer markets like United States
- High volatility in cotton prices



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Look forward to comments, questions and feedback!