

GHCL: Shopping spree

After acquiring three companies abroad over the past year or so, soda ash and textiles player GHCL's shopping spree continues. Recently, it acquired the assets of HW Baker Linen, USA, through its American subsidiary Dan River. At about 10 per cent of HW Baker's annual revenues of \$65 million, the deal is quite cheap.

GHCL has been one of the early companies to go abroad shopping for companies. Last December, it bought Romanian soda ash company SC Bega Upsom in Romania and US-based home textile company Dan River. In June 2006, it bought the home furnishings business of UK-based Rosebys.

While HW Baker's offices and plant will not be of much use to GHCL, the acquisition will add \$70 million to Dan River's top line, and more than double its institutional sales as HW Baker is a supplier of bed linen and blankets to hotels in the US. The management expects that it will be able to earn an operating margin of over 10 per cent.

According to the GHCL management, it will be able to make the company profitable by the same strategy used at Dan River—by increasing the sourcing from India, China and Pakistan. At present, HW Baker purchases its products from US-based suppliers.

In its domestic operations, the company is expanding its soda ash capacity from 600,000 tonne a year to 850,000 tonne a year, which will be operational by the beginning of the next financial year.

It is also increasing the capacity at its spinning unit from 90,000 spindles to 140,000 spindles, which will be ready in the next quarter. In the September quarter, its standalone sales went up 17.3 per cent, but its operating profit grew slower by 6.8 per cent.

As a result, its operating profit margin declined 240 basis points to 24.8 per cent. GHCL has not consolidated its financials yet, and the stock trades at about 11 times its standalone FY08 estimated earnings.

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