

RETAIL EQUITY RESEARCH

Grasim Industries Ltd

CEMENT

BSE CODE: 500300

NSE CODE: GRASIM

Bloomberg CODE: GRASIM:IN SENSEX: 31,028

BUY

Rating as per Largecap

12months investment period

CMP Rs1109 TARGET Rs1222 RETURN 10% 29th May, 2017

Upgrade to BUY on better growth prospects....

Grasim Industries Ltd, flagship company of Aditya Birla Group is a diversified company with interests in cement, textiles, retail and chemicals.

- Standalone revenue rose 12% YoY in Q4FY17 led by 12%/11% YoY growth in VSF/chemical segment revenue.
- Standalone EBITDA margin posted a robust improvement of 230bps YoY led by higher viscose staple fibre (VSF) realization and better operational efficiency.
- Grasim is awaiting approvals from NCLT and stock exchanges for the proposed merger of Aditya Birla Nuvo into itself and is expected to be complete by Q2FY18.
- Grasim is on track in expanding its overall capacity through both brownfield and debottlenecking in both VSF & chemical businesses. This would aid in driving growth going forward.
- We factor consolidated EBITDA margin expansion of 70bps over FY17-19E owing to better profitability in VSF and cement business.
- Hence, we upgrade the stock to BUY (HOLD earlier) with a revised TP of Rs1,222 using sum of the part (SOTP) valuation methodology.

Higher VSF realisation drives revenue

Grasim's consolidated revenue growing by ~6% YoY as healthy growth in VSF & chemical businesses offset the muted growth witnessed in cement business. While revenue from VSF segment increased by 12% YoY, chemical segment revenue grew by 11% YoY. Cement revenue grew merely by ~3 YoY amid flat volumes due to subdued demand. The growth of the VSF segment was supported by robust realisation (↑11%) led by higher share of speciality fibre in the mix (increased to 36% from 33% in FY16) and firm prices in the international markets. However, VSF volumes grew modestly by 2% YoY as the company operated at full capacity. In the chemicals business, the growth was driven by higher caustic realizations. However, sales volume of caustic soda declined by 6% YoY due to lower demand for chlorine.

Healthy operating performance

The company witnessed 26% YoY rise in standalone EBITDA translating into 230bps improvement in EBITDA margin to 19.2% mainly due to higher EBITDA from its VSF business. The company witnessed a strong 30% YoY growth in VSF EBITDA led by better realisation which was partly offset by higher pulp and energy costs. However, EBITDA margin declined by 510bps QoQ due to suspension of operations at the company's captive pulp plant at Harihar from Feb'17 due to water shortage. Operations at the said plant are expected to begin after the onset of monsoon.

On the flip side, chemical EBITDA was down by 8% YoY despite 33% volumes growth of Chlorine's Value Added Products (VAPs) primarily impacted by higher power cost (due to higher coal prices and SEB rate).

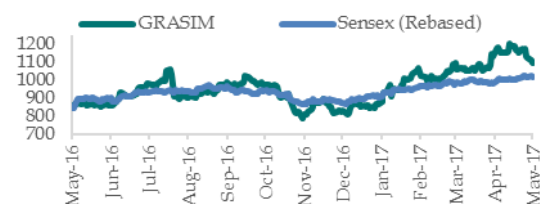
Capacity expansion & management outlook

Management has guided for a stable outlook for VSF over the next two years due to lack of fresh capacity additions globally. It is continuously focusing on increasing the usage of VSF in India by leveraging its Brand Liva and enriching the product mix through a larger share of speciality fibre. Besides, the company is expanding its VSF capacity by 161 tpd by Q4FY18 (of which 54 tpd has already come on stream) through debottlenecking. All these factors would drive VSF margin going forward. In chemical business, the company is expanding its caustic soda capacity to 1048 KTPA from 840 KTPA currently which is expected to be complete by Q4FY18 through both brownfield expansion and debottlenecking of its existing plants. Further it is doubling its phosphoric acid capacity to 54 KT from 25KT which is expected to be completed by Q2FY18. We believe the company's capacity expansion of caustic soda will further strengthen its leadership position.

Outlook & Valuation: The company's continuous focus on enriching the product mix and steady capacity expansion plan would drive growth going forward. We expect consolidated revenue/PAT to grow at a CAGR of 10%/22% over FY17-19E. EBITDA margin after declining in FY18E is expected to inch above 21% in FY19E. We value Grasim based on SOTP, valuing standalone business at 5.5x EV/EBITDA, 60% holding in Ultratech at our TP and stake in others at CMP post 40% discount. Upgrade to BUY with a TP of Rs1,222.

Company Data			
Market Cap (Rs cr)	51,755		
Enterprise Value (Rs cr)	53,899		
Outstanding Shares (cr)	46.7		
Free Float	69%		
Dividend Yield	0.5%		
52 week high	Rs1,237		
52 week low	Rs782		
6m average volume (lacs)	14.6		
Beta	1.1		
Face value	Rs2		
Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	31.3	31.3	31.3
FII's	22.6	21.8	21.7
MFs/Insti	18.7	19.7	14.6
Public	14.9	14.9	9.2
Others	12.5	12.3	9.7
Total	100.0	100.0	100.0
Price Performance	3mth	6mth	1 Year
Absolute Return	8%	35%	27%
Absolute Sensex	7%	18%	16%
Relative Return*	1%	17%	11%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
Sales	36,068	39,434	43,929
Growth (%)	-0.4%	9.3%	11.4%
EBITDA	7,385	7,795	9,327
Margin(%)	20.5	19.8	21.2
PAT Adj	3,167	3,635	4,691
Growth (%)	32.7%	14.8%	29.0%
Adj.EPS	67.8	77.9	100.5
Growth (%)	32.7%	14.8%	29.0%
P/E	16.3	14.2	11.0
P/B	1.6	1.5	1.3
EV/EBITDA	9.1	8.5	7.0
RoE (%)	11.1	11.0	12.7
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Sales	9,995	9,455	5.7	8,601	16.2
EBITDA	1,873	1,853	1.1	1,712	9.4
EBITDA Margin (%)	18.7	19.6	(86)	19.9	(116)
Depreciation	472	508	(7.1)	450	4.9
EBIT	1,401	1,345	4.2	1,262	11.1
Interest	176	157	12.6	156	13.2
Other Income	269	197	36.4	167	61.7
Exceptional Items	-	(28)	-	-	-
PBT	1,494	1,358	10.0	1,273	17.4
Tax	429	358	19.8	347	23.6
PAT	1,065	1,000	6.5	925	15.1
Minority Interest	(290)	(270)	7.4	(209)	39.2
Reported PAT	775	730	6.2	717	8.1
Adjustment	-	28	-	-	-
Adj PAT	775	757	2.3	717	8.1
No. of shares (cr)	46.7	46.7	0.0	46.7	-
EPS (Rs)	16.6	15.6	6.1	15.3	8.1

Business-wise Performance

(Rs cr)	Q3FY17	Q3FY16	YoY Growth %	Q2FY17	QoQ Growth%
Viscose staple fibre	2,115	1,878	12.6	1,903	11.2
Cement - Grey, white & allied products	7,924	7,700	2.9	6,761	17.2
Chemicals - Caustic soda & Allied chemicals	1,168	1,055	10.7	1,008	15.8
Others	127	128	(0.4)	107	18.8
Less: Inter segment revenue	(194)	(195)	(0.4)	(202)	(4.1)
Gross Revenue	11,140	10,566	5.4	9,577	16.3

Source: Company, Geojit Research

Sum-of-the-parts Valuation

	Basis	Multiple (x)	Value (Rscr)	Value/share (Rs)
Standalone (6x EV/EBITDA)	Mar-19 EV/E	5.5	12,132	260
Ultratech (60% stake post holding company discount at 40%)			42,894	919
Stake in others (post holding company discount at 40%)			2,015	43
Target SOTP			57,042	1,222
CMP				1,109
Upside (%)				10

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	38,983	43,427	39,434	43,929	1.2	1.2
EBITDA	7,653	8,754	7,795	9,327	1.9	6.5
Margins (%)	19.6	20.2	19.8	21.2	20bps	100bps
PAT	3,536	4,317	3,635	4,691	2.8	8.7
EPS	75.7	92.5	77.9	100.5	2.9	8.6

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Sales	32,429	36,218	36,068	39,434	43,929
% change	11.8%	11.7%	-0.4%	9.3%	11.4%
EBITDA	4,735	6,270	7,385	7,795	9,327
% change	3.0%	32.4%	17.8%	5.6%	19.6%
Depreciation	1,563	1,911	1,808	1,857	1,962
EBIT	3,172	4,359	5,578	5,939	7,365
Interest	667	751	702	401	266
Other Income	949	756	948	1,081	1,161
PBT	3,453	4,363	5,823	6,619	8,261
% change	-3.7%	26.4%	33.5%	13.7%	24.8%
Tax	1,016	1,211	1,707	1,940	2,421
Tax Rate (%)	29.4%	27.8%	29.3%	29.3%	29.3%
Reported PAT	1,744	2,359	3,167	3,635	4,691
Adj*	9	28	-	-	-
Adj PAT	1,753	2,387	3,167	3,635	4,691
% change	-15.4%	36.1%	32.7%	14.8%	29.0%
No. of shares (cr)	45.9	46.7	46.7	46.7	46.7
Adj EPS (Rs)	38.2	51.1	67.8	77.9	100.5
% change	-15.4%	34.0%	32.7%	14.8%	29.0%
DPS (Rs)	3.6	4.5	5.5	6.1	6.7

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	440	2,425	2,307	2,453	2,965
Accounts Receivable	2,647	3,155	3,010	3,290	3,665
Inventories	4,788	4,628	4,231	4,439	4,821
Other Cur. Assets	1,892	1,741	1,916	2,107	2,320
Investments	7,255	7,655	12,044	13,044	15,044
Gross Fixed Assets	42,827	48,619	50,048	53,048	56,048
Net Fixed Assets	28,550	32,171	31,792	32,936	33,974
CWIP	2,750	1,835	1,297	1,297	1,297
Intangible Assets	3,283	3,374	2,994	2,994	2,994
Def. Tax (Net)	(3,410)	(4,226)	(3,518)	(3,518)	(3,518)
Other Assets	2,427	2,640	3,155	3,155	3,155
Total Assets	50,623	55,397	59,229	62,196	66,718
Current Liabilities	7,574	7,916	9,765	10,250	11,148
Provisions	-	-	-	-	-
Debt Funds	11,930	12,840	7,927	5,927	3,927
Other Liabilities	297	326	449	449	449
Equity Capital	92	93	93	93	93
Reserves and Surplus	22,989	25,679	31,293	34,590	38,908
Shareholder's Fund	23,081	25,773	31,387	34,683	39,002
Preference Shares	59	58	-	-	-
Minority Interest	7,682	8,484	9,702	10,888	12,193
Total Liabilities	50,623	55,397	59,229	62,196	66,718
BVPS (Rs)	502.5	552.1	672.3	742.9	835.4

Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	3,443	4,335	5,952	6,762	8,417
Depreciation	1,563	1,911	1,808	1,857	1,962
Changes in W.C	(317)	529	1,116	(194)	(72)
Others	211	513	(245)	(681)	(896)
Tax paid	(307)	(1,187)	(1,346)	(1,940)	(2,421)
C.F.O	4,594	6,101	7,284	5,804	6,990
Capital exp.	(3,299)	(2,772)	(891)	(3,000)	(3,000)
Change in inv.	1,015	(110)	(4,389)	(1,000)	(2,000)
Other invest.CF	(86)	288	948	1,081	1,161
C.F - investing	(2,370)	(2,594)	(4,333)	(2,919)	(3,839)
Issue of equity	69	8	0	-	-
Issue/repay debt	(1,319)	(367)	(4,913)	(2,000)	(2,000)
Dividends paid	(339)	(321)	(308)	(339)	(373)
Other finance.CF	(689)	(790)	2,152	(401)	(266)
C.F - Financing	(2,278)	(1,470)	(3,069)	(2,740)	(2,638)
Chg. in cash	(54)	2,037	(118)	146	513
Closing cash	440	2,425	2,307	2,453	2,965

Ratios

Y.E March	FY15	FY16	FY17	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	14.6	17.3	20.5	19.8	21.2
EBIT margin (%)	9.8	12.0	15.5	15.1	16.8
Net profit mgn.(%)	5.4	6.6	8.8	9.2	10.7
ROE (%)	7.9	9.8	11.1	11.0	12.7
ROCE (%)	10.2	11.4	13.6	14.0	16.0
W.C & Liquidity					
Receivables (days)	26.8	28.6	27.3	27.3	27.3
Inventory (days)	69.3	62.1	58.3	56.4	55.7
Payables (days)	31.0	30.5	45.0	40.6	40.6
Current ratio (x)	1.3	1.5	1.2	1.2	1.2
Quick ratio (x)	0.7	0.9	0.7	0.8	0.8
Turnover &Levg.					
Gross asset T.O (x)	0.8	0.8	0.7	0.8	0.8
Total asset T.O (x)	0.6	0.6	0.6	0.6	0.6
Adj. debt/equity (x)	0.4	0.4	0.2	0.1	0.1
Valuation ratios					
EV/Net Sales (x)	2.2	2.0	1.9	1.7	1.5
EV/EBITDA (x)	14.8	11.3	9.1	8.5	7.0
P/E (x)	29.0	21.7	16.3	14.2	11.0
P/BV (x)	2.2	2.0	1.6	1.5	1.3

Recommendation Summary (last 3 years)



Dates	Rating	Target
16 February 2017	HOLD	1,069
29 May 2017	BUY	1,222

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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