

CMP : Rs 721
Rating : Accumulate
Target : Rs 818
STOCK INFO

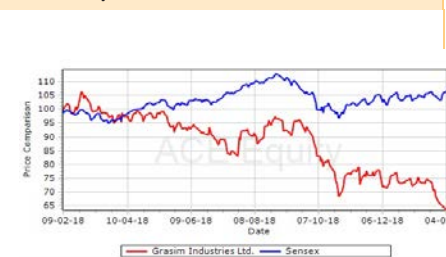
INDEX	
BSE	500300
NSE	Grasim
Bloomberg	Grasim IN
Reuters	Gras.BO
Sector	Diversified
Face Value (Rs)	2
Equity Capital (Rs cr)	131
Mkt Cap (Rs cr)	47412
52w H/L (Rs)	1200 / 698
Avg Weekly Vol (BSE+NSE)	2229600

SHAREHOLDING PATTERN
%
(As on December, 2018)

Promoters	40.1
FII	21.2
Public & Other	38.7

STOCK PERFORMANCE

(%)	3m	6m	12m
Grasim	-18.1	-27.8	-36.5
SENSEX	3.8	-4.5	5.4

Grasim v/s SENSEX


VSF sales remained strong, increase in realizations was offset by higher input cost, Capacity expansion in VSF and chemicals to support earnings growth.

Q3FY19 Result Highlights

- Standalone revenue for Q3FY19 grew by 21% YoY at Rs 5,293cr driven by higher volume in chemicals business and higher realizations from Viscose. Revenue from Viscose business for Q3FY19 rose by 20% YoY to Rs 2,617cr, while revenue from chemical business grew by 19% YoY to Rs 1,559cr.
- EBITDA for the quarter was up by 19% YoY to Rs. 1,053cr though EBITDA margin remained flat (20bps YoY decline), as higher VSF realization was offset by higher input costs.
- PAT for Q3FY19 stood at Rs. 608 cr, a growth of 28% YoY. At consolidated level, revenue saw a growth of 22% YoY to Rs 18,419Cr while EBITDA was up by 11% YoY to Rs 2,958 Cr.

Concall Takeaways

- Management in its Q3FY19 post result conference call highlighted that Grasim will allocate capital to Vodafone Idea to the extent of its shareholding (11.6%).
- The total capex plan of Rs 7,500 Cr. (at standalone level) is under execution for raising capacities in both the VSF and Chemical businesses, apart from maintenance capex at various plants. This capital expenditure will be incurred over FY19-FY21 and will be majorly funded by internal accruals.

Valuation

We have valued the standalone business at EV/EBITDA of 6x to its FY21E estimate and have ascribed 60% holding co discount for its subsidiaries i.e. Ultra Tech Cement and AB Capital and arrived at a fair value of Rs. 818 per share, which yields 13% upside from CMP of Rs 721. We have an 'ACCUMULATE' rating on the stock.

Key Snapshot (In Cr)	FY18	FY19E	FY20E	FY21E
Revenue	15788	20324	21616	23289
Expenditure	12708	16215	17331	18629
EBITDA	3080	4110	4285	4659
EBITDA Margins	19.5%	20.2%	19.8%	20.0%
Reported PAT	1496	605	2739	2932
Adjusted PAT	1769	2608	2739	2932
PAT Margins	11.2%	12.8%	12.7%	12.6%
EPS	26.9	39.7	41.7	44.6
ROE	3.9%	5.5%	5.6%	5.7%
EV/EBITDA	16.3	12.0	11.3	10.2
P/E	26.8	18.2	17.3	16.2

Quarterly Performance (Standalone)				(Rs in Crore)	
Particulars	Q3FY19	Q2FY19	QoQ (%)	Q3FY18	YoY (%)
Net Sales	5293	5118	3.4	4377	21
Total Expenditure	4240	4048	4.8	3494	21
EBITDA	1053	1071	-1.7	882	19
PAT	608	817	-26	474	28
PATM%	11.5	16.2	-29	10.8	6
EPS (Rs)	9.3	12.4	-25	7.2	28

Segmental Trend over the Quarters (Consolidated)

Particulars (In Rs Cr)	% of revenue (Dec-19)	Dec-19	Sep-19	Jun-19	Mar-18	Dec-18
Revenue	-	18690	17035	16857	17437	15291
Cement(UltraTech)	50%	9389	8151	9021	9420	8019
Viscose	14%	2616	2605	2480	2232	2185
Chemicals	8%	1558	1612	1578	1438	1310
Finance(AB Capital)	20%	3741	3515	3050	3426	2849
Others	7%	1386	1150	978	1150	1119

Viscose Business

Increase in realization was offset by higher input cost, Capacity Expansion to provide next leg of growth

- The VSF business reported quarterly production and sales volume of 153KT and 145KT respectively. The share of domestic sales volume in the overall sales volume improved to 89% (Q3FY19) from 77% (Q3FY18) led by market development efforts.
- To cater to the expanding market, the Company has commenced Brownfield capacity expansion plan of 219 KTPA at Vilayat, which will facilitate its next leg of growth
- Total viscose capacity is around 593KT out of which VSF (viscose staple yarn) capacity is 546 KT which is running at 95% utilization and Grasim will increase capacity in the VSF (by 33% to 788 KT by FY21).
- Globally, the demand share of VSF in overall fibre is likely to increase from 5.4% in FY17 to 6.05% in FY21 and domestic share is also increasing.

Viscose (VSF& VFY)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	TTM	FY19E	FY20E	FY21E
Sales volume (KT)	133	143	149	145	570	582	590	610
Revenue in Cr	2232	2480	2606	2617	9935	10185	10620	11102
Realization in Cr/KT	16.7	17.3	17.4	18.0	17.4	17.5	18.0	18.2
EBITDA in Cr	401	586	576	477	2040	2037	2124	2220
EBITDA Margin	18%	23%	22%	18%	21%	20%	20%	20%

We are expecting margin and realization to remain in same range and total capacity to increase to 812KT and sales volume to 610KT which will generate **revenue of Rs 11,102 Cr in FY21E** and we can expect an **EBITDA of Rs 2,220Cr**.

Caustic Soda-Capacity increased, Demand from user segment will support the prices

- Caustic soda demand in domestic market is expected to remain balanced with good demand and stable pricing.
- Caustic Soda production was up 9% YoY and Volume was up 10% yoy at 250KT.

Total Chemical unit capacity is 1140KT which is running at 85% utilization and Grasim will increase capacity in the Caustic business to 1310 KT by FY21E.

Grasim has increased its Competitive edge by having Chlorine integration in its Chemicals Business

Chemicals	Q4FY18	Q1FY19	Q2FY19	Q3FY19	TTM	FY19E	FY20E	FY21E
Capacity(KT)	938	1140	1140	1140	1140	1140	1140	1310
Sales volume (KT)	215	235	258	250	958	995	1050	1120
Revenue in Cr	1439	1579	1612	1559	6189	6269	6720	7280
Realization in Cr/KT	6.7	6.7	6.2	6.2	6.4	6.3	6.4	6.5
EBITDA	412	495	456	441	1804	1818	1949	2111
EBITDA Margin	28.5%	31.3%	28.1%	28.2%	29.1%	29.0%	29.0%	29.0%

We are expecting realization to remain in same range and estimated EBITDA for FY21E to be Rs.2111Cr. The total combined standalone EBITDA from viscose, chemical and other businesses for FY21E to be Rs. 4659 cr.

Valuation and View**Best case Scenario**

Combined standalone estimated EBITDA is Rs.4,659cr and if we value standalone business at EV /EBITDA Multiple of 8x then we arrive at EV of 37,272Cr, on standalone basis debt is Rs 3,614cr. By subtracting debt and adding cash we arrive at market cap of **34,941Cr from standalone business (A).**

Base Case Scenario

Combined standalone estimated EBITDA is Rs.4,659 cr and if we value standalone business at EV /EBITDA Multiple of 6x then we arrive at EV of 27,955 Cr, on standalone basis debt is 3,614Cr.By subtracting debt and adding cash we arrive at market cap of **25,624 Cr from standalone business (B).**

Holdings	Holding Value	Discount 50%	Discount 60%
1 Grasim holds 60.22% in Ultratech cement :	57091	25,120	22,836
2 Grasim Hold 56% in Aditya Birla capital:	9683	4,260	3,873
3 Grasim hold 3.92% in Hindalco and 11.3% in Aditya birla fashion	3600	1,584	1,440

Estimated market cap (Best case)

Combined market cap(A+1+2+3) with 50% holding co. discount	65,905cr
Current market cap	47,412Cr
Target price	Rs.1002

Estimated market cap (Base case)

Combined market cap(B+1+2+3) with 60% holding co. discount	53,773cr
Current market cap	47,412Cr
Target price	Rs.818

Key Financial Statements (Standalone)

Y/E Mar (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	10346	15788	20324	21616	23289
Raw Material consumed	4835	7311	9314	9949	10626
Employee Cost	678	1143	1423	1556	1677
Other expenses	2677	4255	5478	5825	6326
Total expenses	8191	12708	16215	17331	18629
EBITDA	2155	3080	4110	4285	4659
Other Income	474	461	460.00	460.00	460.00
Depreciation	446	628	711	801	901
Interest	58	128	132	139	146
PBT	2125	2786	3726	3805	4072
Exceptional Items	0	273	2003	0	0
Tax	565	744	1118	1065	1140
Reported PAT	1560	1496	605	2739	2932
Adjusted PAT	1560	1769	2608	2739	2932
EPS	33.4	26.9	39.7	41.7	44.6
Y/E Mar (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	93	131	131	131	131
Total Reserves	16117	44636	46878	49096	51479
Shareholder's Funds	16231	44790	47032	49250	51634
Borrowings	701	2968	3292	3940	4647
Net Deferred tax and other Liabilities	703	1911	1856	1856	1856
Total liabilities	19851	53729	58306	61560	65155
Application of Funds					
Gross block	8155	12729	14229	16029	18029
Depreciation	1268	1912	2624	3425	4327
Net Block	6887	10817	11605	12604	13702
CWIP	375	745	0	0	0
Noncurrent Investments	7424	33587	33587	33587	33587
Loans & advances	616	1341	2227	2369	2552
Net Fixed Assets	7880	12939	13832	14972	16254
Current investments	1572	1960	1960	1960	1960
Inventories	1733	2592	3341	3553	3828
Sundry Debtors	1190	2609	4176	4442	4785
Cash and Bank	35	26	1394	3030	4725
Bank Balance	18	16	16	16	16
Current Asset	4547	7203	10886	13001	15314
Current Lib & Provision	2216	4060	6125	6514	7018
Total Assets	19851	53729	58306	61560	65155

Y/E Mar (Rs cr)	FY17	FY18	FY19E	FY20E	FY21E
Profit Before Tax	2125	2513	3726	3805	4072
Depreciation	446	628	711	801	901
Interest Expenses	58	128	132	139	146
Total Adjustments	74	645	843	658	765
Cash Flow Before Changes In W.c	2199	3159	4570	4463	4837
Changes In working Capital	281	-278	-143	83	339
Cash Flow after changes in Working Capital	2480	2881	4426	4546	5176
Tax Paid	-221	-523	-1118	-533	-570
Cash From Operating Activities	2259	2357	3309	4013	4606
Capex	-422	-1052	-1500	-1800	-2000
FCF	2681	3409	4809	5813	6606
Cash flow from investing	-844	-1925	-1500	-1518	-1718
Equity Capital rised	3	2	0	0	0
Loan Taken/Repaid	-223	-618	1177	648	707
Equity Dividend Paid	-204	-366	-522	-548	-586
Interest Paid	-60	-142	-132	-139	-146
Cash flow from Financing	-1404	-451	-443	-858	-1194
Net Cash Inflow / Outflow	12	-19	1366	1637	1694
Opening Cash & Cash Equivalents	23	35	28	1394	3030
Cash & Cash Equivalent on Amalgamation	0	12	0	0	0
Closing Cash & Cash Equivalent	35	28	1394	3030	4725

Key Ratios

Profitability	FY17	FY18	FY19E	FY20E	FY21E
EBITDA Margin	20.8%	19.5%	20.2%	19.8%	20.0%
EBIT Margin	16.5%	15.5%	16.7%	16.1%	16.1%
PAT Margin	15.1%	11.2%	12.8%	12.7%	12.6%
ROE	10%	3.9%	5.5%	5.6%	5.7%

Growth	FY17	FY18	FY19E	FY20E	FY21E
Sales	15.3%	52.6%	28.7%	6.4%	7.7%
EBITDA	44.4%	42.9%	33.4%	4.3%	8.7%
PAT	60.7%	13.4%	47.5%	5.0%	7.0%

Per Share Data	FY17	FY18	FY19E	FY20E	FY21E
DPS	4.4	5.6	7.9	8.3	8.9
EPS	33.4	26.9	39.7	41.7	44.6
BVPS	347.6	681.1	715.2	748.9	785.2

EFFICIENCY	FY17	FY18	FY19E	FY20E	FY21E
Asset Turnover (x)	1.5	1.5	1.7	1.7	1.7
Inventory (days)	61.1	59.9	60.0	60.0	60.0
Debtors (days)	42.0	60.3	75.0	75.0	75.0
Payables (days)	79.2	95.1	110.0	110.0	110.0
Cash Conversion Cycle (days)	23.9	25.1	25.0	25.0	25.0

Valuation Ratio	FY17	FY18	FY19E	FY20E	FY21E
Price-to-earnings	21.6	26.8	18.2	17.3	16.2
Price-to-books	2.1	1.1	1.0	1.0	0.9
EV/EBITDA	15.9	16.3	12.0	11.3	10.2

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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