

Stable operating performance

CMP:	Rs.2806
Target Price:	Rs.3316
Recommendation:	Accumulate

Stock Info

BSE Group	A
BSE Code	500300
NSE Symbol	GRASIM
Bloomberg	GRASIMIN
Reuters	GRAS.BO
BSE Sensex	20929
NSE Nifty	6221

Market Info

Market Capital	Rs 25745cr
Equity Capital	Rs 91.7cr
Avg. Trading Vol.	80020
52 Wk High/ Low	3414/2121
Face Value	10

Shareholding Pattern (%) (30th Sept 2013)

Promoters	25.5
Domestic Institutions	16.3
Foreign Institutions	22.9
Non Promoters Corp.	9.0
Public & Others	26.3
Govt. Holdings	-

Standalone business

Grasim Industries' operating performance was better than estimate with company reporting qoq improvement in volumes and realisations. VSF volumes rose 20% qoq, while those of chemical business increased by 8.8%. Volumes picked up on combination of weak rupee, incremental volumes from ramped-up Harihar unit and unabated operations at Nagda plant. On realisation front, VSF realisations, on the back of higher export, rose 3% qoq to Rs 130 per kg and those of chemical business jumped by 4.2% qoq to Rs 32/kg. Consequently, standalone revenues jumped by 5% yoy to Rs 1421cr.

VSF operating margins improved qoq to 19.8% (19.1%), while margins of chemical business increased to 24.4% (22.3%). Consequently, standalone EBITDA margin improved qoq by 88bps to 19.5%.

Cement business

Ultratech reported 52% and 61% yoy and qoq drop in profit after tax at Rs 264cr, which was 40% lower than our estimate. Under performance was largely due to ~300bps qoq increase in other operating expenses, which on per tonne basis increased from Rs 796 per tonne to Rs 934 per tonne. ULTC reported 4% yoy and 9% qoq decline in revenues at Rs 4552cr. Cement volumes (Grey cement + clinker) declined 8% yoy and qoq to 9.1mn tonnes, while white cement volumes grew 10% qoq to 0.3mn tonnes. Blended Net realisation declined 1.4% qoq to Rs 4947 per tonne. ULTC's EBITDA margins declined 690bps and 340bps yoy and qoq to 15%. ULTC reported EBITDA per tonne of Rs 747 per tonne.

Valuations:

Grasim's VSF business more or less has reported stable operating performance backed by its integrated business model. For Ultratech Cement, we forecast margins to remain subdued over next two years. We have valued Grasim Ind on SOTP basis and have ascribed EV/EBITDA(x) of 4.0 to standalone operations and have arrived at a fair value Rs 659 per share. We have valued Grasim's 60% stake in Ultratech Cement at Rs 2591 per share assuming 30% holding company discount. We have valued equity investments at book value of Rs 67 per share. At current market price of Rs 2806, Grasim Industries trades at a P/E(x) of 10.9x and 9.6x and EV/EBITDA(x) of 6.3x and 5.0x its FY14E and FY15E estimates, respectively. **We recommend Accumulate rating on stock with target price of Rs 3316 per share.**

Financials:

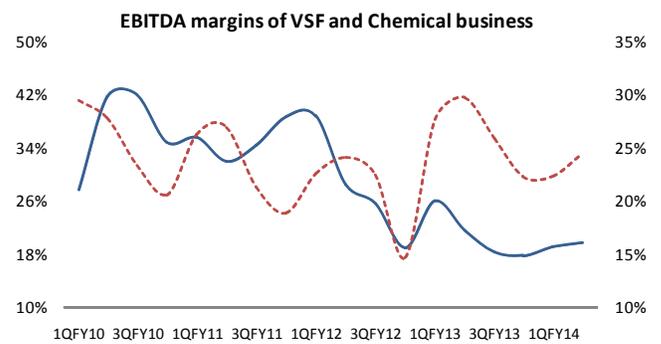
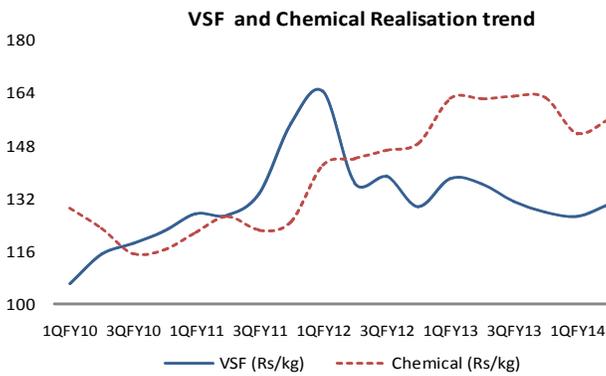
Y/E March, (Rs in Cr)	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	21550	25245	27904	29434	35179
EBITDA	4995	5579	5924	5850	7455
PAT	2279	2647	2704	2367	2675
EPS	249	289	295	258	291
EPS Growth (%)	-26%	16%	2%	-12%	13%
RONW (%)	16	16	14	11	11
P/E (x)	11.3	9.7	9.5	10.9	9.6
EV/EBITDA (x)	6.0	5.7	5.9	6.3	5.0

Oct 31, 2013



Grasim Industries-Standalone

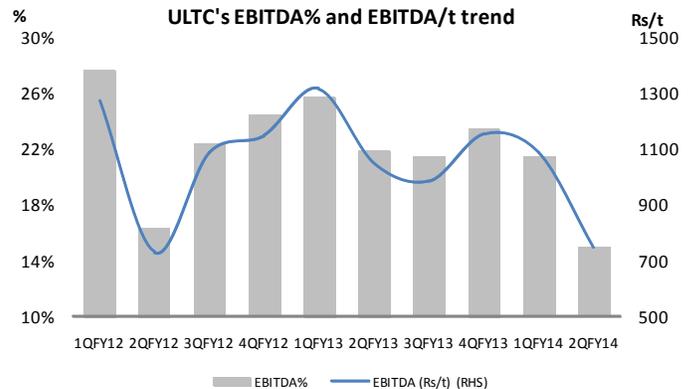
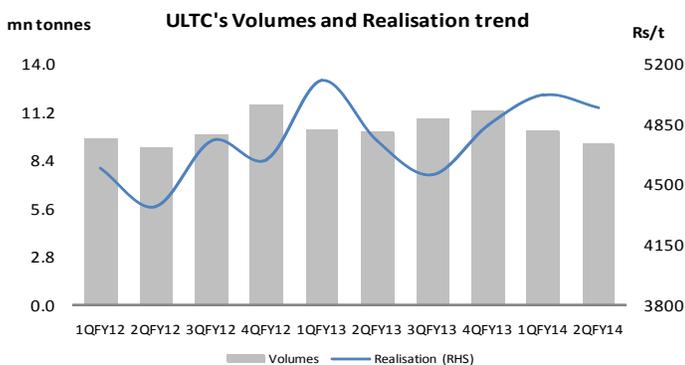
	2QFY14	2QFY13	yoy%	1QFY14	qoq%
VSF tonnes	93025	85312	9.0	77518	20.0
Realisations (Rs/kg)	130.2	136.4	-4.6	126.4	3.0
Chemical business (tonne)	78356	65500	19.6	72028	8.8
ECU Realisations (Rs/kg)	32.4	34.4	-5.7	31.1	4.2



Ultratech Cement

Grey+White	2QFY14	2QFY13	yoy%	1QFY14	qoq%
Volumes (mn tonnes)	9.4	10.0	-6.4	10.1	-7.4
Realisations (Rs/t)	4947	4752	4.1	5018	-1.4

Per tonne analysis										
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14
Realisation (Rs/t)	4499	4272	4639	4580	4992	4690	4495	4415	4894	4947
RM	521	729	641	660	732	650	614	696	770	832
Employee cost	190	225	226	188	220	239	226	214	247	313
Power & Fuel	1072	1044	1135	1021	1068	1072	1002	865	977	1051
Mfg Exp	596	822	806	691	681	796	725	678	776	934
S&D Exp	892	817	853	934	1019	927	980	979	1088	1093
EBITDA/t	1250	713	1059	1132	1286	1033	971	1050	1058	747





Concall and Capex Update

Grasim Industries:

- VSF prices in dollar terms expected to remain range bound. Management has indicated of certain producers contemplating about converting rayon grade pulp facilities to paper grade pulp and this in a way will limit decline in RGP prices and will thus support VSF prices.
- Commissioning of Vilayat green field expansion project has been delayed due to floods in Gujarat. Management now expects gradual commissioning from 4QFY14.
- Management has guided for effective tax rate in FY14 and FY15 to be at 7% and 13-14% respectively.

Cement Business

- Commissioned 1.6mtpa satellite grinding units at Jharsuguda (Orissa).
- Recently commissioned 6.6mtpa clinker units have reached utilization levels of 80%. However, management has indicated that incremental sales (Clinker or cement) from the same would depend upon demand supply situation.
- Company's expansion plans i.e 2.9mtpa shambhupura grinding unit, grinding units as part of 9.2mtpa expansion project etc.. are expected to get commissioned in FY15.
- Pet coke prices remained flat qoq at Rs 950/ Kcal.
- Cement demand in Eastern markets has been impacted by heavy cyclone.

	Capex under Implemen-tation ⁵	Work in Progress as on 01-04-13	Net Capex	Cash Outflow		Capex spent during H1
				FY14	FY15 onward	
<u>Standalone</u>						
VSF Expansion : Vilayat (120K TPA), Harihar (36K TPA)	2,178					
Chemical Expansion : Vilayat (182K TPA)	947					
Epoxy Project : Vilayat (51,500 TPA)	238					
Nagda Revamp	278					
Normal Capex : VSF	394					
: Chemical & Others	197					
Standalone Capex (A)	4,232	2,688	1,544	1,255	289	533
<u>Cement Subsidiary</u>						
Capacity expansion : Raipur (4.8 Mn. TPA) (With GU and Bulk Terminal) : Malkhed (4.4 Mn. TPA) : Shambhupura (2.9 Mn. TPA)	7,188					
Material Evacuation, Logistic Infrastructure	874					
Thermal Power (50 MW) & Waste Heat Recovery	622					
RMC Business	364					
Modernisation, Upgradation and others (Incl. Land)	4,679					
Cement Business Capex (B)	13,727	4,352	9,375	3,206	6,169	1,132
Capex (A + B)	17,959	7,040	10,919	4,461	6,458	1,665

Source: Grasim Ind- Investor presentation



2QFY14 Results (Consolidated)

Rs in Crore	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	6849	6602	4%	6940	-1%
Expenditure	5815	5197	12%	5625	3%
EBITDA	1034	1405	-26%	1316	-21%
EBITDA Margins (%)	18	27		23	
Other Income	109	100	9%	234	-53%
Interest	119	87	37%	95	26%
Depreciation	358	307	17%	344	4%
Exceptional Items (Loss)	0	0		0	
PBT after exceptional items	666	1112	-40%	1110	-40%
Tax	124	309	-60%	259	-52%
Tax rate (%)	19%	28%		23%	
Minority Int	-115	-222	-48%	-267	-57%
Share of Associate	22	38	-41%	25	-12%
PAT after extraordinary items	450	620	-27%	610	-26%
Net Profit Margin (%)	7%	9%		9%	

2QFY14 Results (Standalone)

Rs in Crore	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	1421	1353	5%	1163	22%
Expenditure	1144	1045	10%	947	21%
EBITDA	277	309	-10%	217	28%
EBITDA Margins (%)	19%	23%		19%	
Other Income	205	192	7%	82	151%
Interest	9	8	21%	8	21%
Depreciation	53	39	37%	48	9%
Exceptional Items (Loss)	0	0		0	
PBT after exceptional items	420	454	-7%	242	74%
Tax	7	71	-91%	16	-58%
Tax rate (%)	2%	16%		7%	
PAT after extraordinary items	414	383	8%	226	83%
Net Profit Margin (%)	29%	28%		19%	50%
EPS (Rs)	31	28	8%	17	83%



Financials

Profit & Loss Statement

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	21550	25245	27904	29434	35179
% Chg	8	17	11	5	20
Total Expenditure	16555	19666	21981	23584	27725
% chg	17	19	12	7	18
EBITDA	4995	5579	5924	5850	7455
EBITDA Margin %	23	22	21	20	21
Other Income	399	742	620	383	457
Depreciation	1138	1154	1252	1518	1797
EBIT	4256	5166	5291	4714	6115
Interest	407	314	324	501	659
PBT after EI	3849	4852	5171	4331	5456
Tax	954	1321	1467	1109	1559
PAT before MI	2895	3531	3704	3222	3897
MI & Associate pft	-616	-884	-1000	-854	-1222
Reported PAT	2279	2647	2704	2367	2675
PAT %	10.6	10.5	9.7	8.0	7.6

Cash Flow Statement

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
PBT	3849	4852	5171	4331	5456
Oper. profit before Work. Cap.	5059	5666	5972	5967	7455
Changes in WC	-493	-253	-772	-738	-326
Cash generated from Ops	4566	5414	5200	5229	7129
Direct Tax Paid	-1021	-1118	-943	-1109	-1559
Net Cash From Oper. Act	3545	4295	4257	4120	5570
Net Cash From Investing Act	-3210	-3629	-5746	-3520	-4798
Cash flow from Financing Act	-295	-679	1353	-254	-1045
Net increase in cash & Equiv	40	-12	-136	346	-273
Opening Cash Balance	245	339	365	229	575
Closing Cash Balance	285	327	229	575	302

Balance sheet

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
Equity + Pref. capital	129	134	134	134	134
Reserves and Surplus	14444	16935	19522	21631	24048
Minority Interest	4351	5233	6221	7149	8445
Non-current liabilities	6242	7892	9159	9905	9706
Long-term borrowings	4115	5725	6653	7393	7157
Deferred Tax	1962	1979	2301	2301	2301
Other Long term Liab	12	22	15	14	17
Long-term prov	154	167	190	197	231
Current liabilities	6854	6336	9028	8797	9685
Equity + Liability	32021	36531	44064	47617	52018
Net Fixed assets	15297	17514	23636	25887	28941
Goodwill on Consolidation	2419	2496	3010	3010	3010
NC investments	1200	2854	3165	3239	3312
Deferred tax assets (net)	0	0	0	0	0
Long-term loans and Adv	694	2132	1592	1978	1967
Current assets	12411	11535	12662	13503	14789
Assets	32021	36531	44064	47617	52018

Key Ratios

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
Per Share data (Rs)					
EPS	249	289	295	258	291
Cash EPS	373	415	431	423	487
DPS	20.0	22.5	23.6	23.6	23.6
Book value	1589	1861	2141	2371	2634
Operating, Returns Ratio					
Debt/ Equity (X)	0.5	0.4	0.5	0.5	0.4
Current Ratio (X)	1.8	1.8	1.4	1.5	1.5
RoE (%)	16	16	14	11	11
RoCE (%)	13	14	12	10	12
Dividend Yield (%)	0.7	0.8	0.8	0.8	0.8
Valuation Ratio (X)					
P/E	11.3	9.7	9.5	10.9	9.6
P/BV	1.8	1.5	1.3	1.2	1.1
EV/ Sales	1.4	1.3	1.2	1.2	1.1
EV/EBITDA	6.0	5.7	5.9	6.3	5.0



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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