

Retail Equity Research

Grasim Industries Limited

Construction Materials

BSE CODE: 500300

NSE CODE: GRASIM

Bloomberg CODE: GRASIM:IN

SENSEX: 36,563

BUY

12M Investment period

Rating as per Large Cap

CMP Rs 696 **TARGET** Rs 803 **RETURN** 15%

(Closing: 03-09-19)



KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↑

Cost control drives strong performance

Grasim Industries Ltd, a subsidiary of Aditya Birla Group, is a diversified company with interests in cement, textiles, retail and chemicals. It is also the world's largest producer and exporter of viscose rayon fiber.

- Revenue rose 11.9% YoY to Rs. 18,861cr in Q1FY20 on strong performance of cement and financial services business.
- EBITDA was up by 31.3% YoY and EBITDA margin was up by 330bps YoY to 22.4% on account of lower costs as a percentage of revenue.
- Q1FY20 PAT was up 10.3% YoY to Rs. 1,231cr although standalone PAT witnessed a decline of 68.6% YoY on one-time loss.
- We reiterate our BUY rating on the stock with a revised target price of Rs. 803 based on SOTP valuation.

Margins up on strong cement performance

Revenue grew 11.9% YoY to Rs. 18,861cr in Q1FY20 driven by strong growth in the cement (54.0% of revenue) and financial services business (19.2% of revenue) which increased by 12.8% YoY and 18.9% YoY respectively. The topline was affected by the slow growth witnessed by the Viscose business which grew 1.2% YoY and the decline in Chemicals business of 4.8% YoY. EBITDA grew 31.3% YoY to Rs. 4,217cr in Q1FY20 as EBITDA margin expanded by 330bps YoY to 22.4% on account of lower costs. The segment results grew 351bps YoY with cement business driving the growth with an 8.1% YoY improvement. With Aditya Birla Idea Payments Bank winding up its operations, an investment of Rs. 290cr was impaired. This one-time loss impacted the standalone profit which fell 68.6% YoY to Rs. 202cr.

Key highlights

- Softening of global prices of both VSF and chemicals due to US - China trade war and capacity over-hang impacted profitability
- Correction in pulp prices will benefit VSF business in future periods given the inventory to consumption time lag
- Caustic prices are down on low demand and production was hampered by monsoon delay
- Capex spending is expected to be about Rs. 7,800 cr. over FY20E/FY21E with focus on efficiency and modernization

UltraTech and ABCL play vital role

UltraTech completed the biggest acquisition in Indian cement space of 21.2 MTPA as planned and achieved PBT breakeven in two quarters. UltraTech also successfully moderated debt by reducing its net debt by over Rs.1,000cr and almost doubled its net profit. ABCL, on the other hand, witnessed lending book growth of 16% YoY to Rs. 61,998cr backed by sufficient liquidity. The strong performance of the two key entities offset the weak standalone performance.

Valuation

We estimate PAT to grow at 14.0% FY19-21E CAGR and EBITDA margin to improve to 21.0% by FY21E. We reiterate our BUY rating on the stock with a revised target price of Rs. 803 calculated using sum of the parts (SOTP) valuation methodology (SOTP table on page 2), taking into account the market potential, business environment and growth prospects.

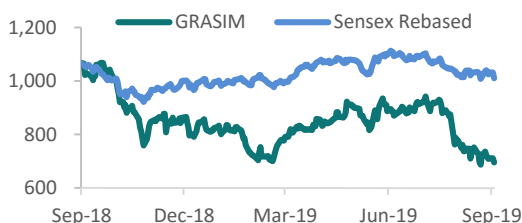
Company Data

| | |
|-------------------------|-------------|
| Market Cap (cr) | Rs. 45,756 |
| Enterprise Value (cr) | Rs. 143,574 |
| Outstanding Shares (cr) | 65.8 |
| Free Float | 60.0% |
| Dividend Yield | 1.0% |
| 52 week high | Rs. 1,081 |
| 52 week low | Rs. 681 |
| 6m average volume | 70,471 |
| Beta | |
| Face value | Rs. 2 |

| Shareholding % | Q3FY19 | Q4FY19 | Q1FY20 |
|----------------|--------|--------|--------|
| Promoters | 40.2 | 40.2 | 40.2 |
| FII's | 21.2 | 20.0 | 18.3 |
| MFs/Insti | 18.0 | 18.9 | 21.3 |
| Public | 12.0 | 11.9 | 11.5 |
| Others | 8.8 | 9.0 | 8.8 |
| Total | 100.0 | 100.0 | 100.0 |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | -22.3% | -12.1% | -34.7% |
| Absolute Sensex | -9.2% | 1.4% | -4.6% |
| Relative Return* | -13.1% | -13.5% | -30.1% |

*over or under performance to benchmark index



| Consolidated (cr) | FY19A | FY20E | FY21E |
|-------------------|--------|--------|--------|
| Sales | 72,971 | 84,539 | 86,820 |
| Growth (%) | 27.3 | 15.9 | 2.7 |
| EBITDA | 12,820 | 15,711 | 18,204 |
| EBITDA Margin (%) | 17.6 | 18.6 | 21.0 |
| Adj. PAT | 4,346 | 5,324 | 5,644 |
| Growth (%) | 39.7 | 22.5 | 6.0 |
| Adj. EPS | 66.1 | 80.9 | 85.8 |
| Growth (%) | 39.7 | 22.5 | 6.0 |
| P/E | 13.0 | 8.6 | 8.1 |
| P/B | 1.0 | 0.8 | 0.7 |
| EV/EBITDA | 12.1 | 9.1 | 7.8 |
| ROE (%) | 3.2 | 8.7 | 8.8 |
| D/E | 0.9 | 0.8 | 0.7 |

Quarterly Financials (Consolidated)

Profit & Loss Account

| | Q1FY20 | Q1FY19 | YoY Growth % | Q4FY19 | QoQ Growth % |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 18,861 | 16,857 | 11.9 | 20,909 | (9.8) |
| EBITDA | 4,217 | 3,212 | 31.3 | 3,795 | 11.1 |
| EBITDA margins | 22.4 | 19.1 | 330bps | 18.2 | 420bps |
| Depreciation | 920 | 767 | 19.9 | 853 | 7.9 |
| EBIT | 3,297 | 2,445 | 34.9 | 2,943 | 12.0 |
| Interest | 531 | 406 | 30.7 | 496 | 7.1 |
| Other Income | 48 | 42 | 15.7 | 193 | (75.0) |
| Exceptional Items | (109) | - | n.m. | (298) | n.m. |
| PBT | 2,704 | 2,080 | 30.0 | 2,341 | 15.5 |
| Tax | 918 | 680 | 34.9 | 809 | 13.4 |
| Share of profit from Associate | 48 | 42 | 15.7 | 193 | (75.0) |
| Minority Interest | 556 | 283 | 96.1 | 388 | 43.3 |
| Reported PAT | 1,231 | 1,116 | 10.3 | 1,144 | 7.6 |
| Adjustments | 109 | - | n.m. | 298 | (63.4) |
| Adjusted PAT | 1,340 | 1,116 | 20.1 | 1,442 | (7.1) |
| No. of shares | 65.8 | 65.8 | - | 65.8 | - |
| EPS (Rs) | 20.4 | 17.0 | 20.0 | 21.9 | (6.8) |

Segment Information

| Particulars | Segment Revenue | | | Segment Results | | |
|--|-----------------|---------------|--------------|-----------------|--------------|--------------|
| | Q1FY20 | Q1FY19 | YoY Growth % | Q1FY20 | Q1FY19 | YoY Growth % |
| Viscose Pulp, Viscose Staple Fibre and Filament Yarn | 2,509 | 2,480 | 1.2 | 338 | 494 | (31.7) |
| Cement Grey, White and Allied Products | 10,178 | 9,021 | 12.8 | 2,240 | 1,256 | 78.3 |
| Chemicals Caustic Soda and Allied Chemicals | 1,503 | 1,579 | (4.8) | 382 | 438 | (12.8) |
| Financial Services | 3,625 | 3,050 | 18.9 | 323 | 195 | 66.3 |
| Others | 1,320 | 979 | 34.9 | 68 | 19 | 252.4 |
| Less: Inter Segment Revenue | -275 | -253 | 8.8 | - | - | - |
| Gross Revenue | 18,861 | 16,857 | 11.9 | 3,351 | 2,402 | 39.5 |

Sum of the parts (SOTP) valuation

| Particulars | Basis | Base (Rs.) | Multiple | % holding | Value (Rs. cr.) | Value/ share (Rs.) |
|---|------------|------------|----------|-----------|-----------------|--------------------|
| Standalone | FY21E P/E | 2,388 cr | 5x | 100% | 11,938 | 182 |
| UltraTech (holding company discount at 50%) | Geojit TP | 4,140 | | 60% | 34,269 | 521 |
| ABCL (holding company discount at 50%) | FY21E P/BV | 12,051 cr | 1.5x | 56% | 5,060 | 77 |
| Others (holding company discount at 50%) | FY21E P/BV | 6,224 cr | 0.5x | 100% | 1,556 | 24 |
| Total | | | | | 52,823 | 803 |

Change in Estimates

| Year / Rs. cr | Old estimates | | New estimates | | Change % | |
|---------------|---------------|-------|---------------|--------|----------|-------|
| | FY20E | FY21E | FY20E | FY21E | FY20E | FY21E |
| Revenue | 75,304 | - | 84,539 | 86,820 | 12.3 | - |
| EBITDA | 14,534 | - | 15,711 | 18,204 | 8.1 | - |
| Margins (%) | 19.3 | - | 18.6 | 21.0 | (70bps) | - |
| Adj. PAT | 5,315 | - | 5,324 | 5,644 | 1.7 | - |
| EPS | 80.8 | - | 80.9 | 85.8 | 1.2 | - |

PROFIT & LOSS

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|---------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 40,247 | 57,338 | 72,971 | 84,539 | 86,820 |
| % change | 9.9 | 42.5 | 27.3 | 15.9 | 2.7 |
| EBITDA | 8,333 | 10,881 | 12,820 | 15,711 | 18,204 |
| % change | 18.6 | 42.6 | 17.8 | 22.6 | 15.9 |
| Depreciation | 1,808 | 2,724 | 3,260 | 3,375 | 4,712 |
| EBIT | 6,525 | 8,157 | 9,559 | 12,336 | 13,492 |
| Interest | 702 | 1,359 | 1,781 | 2,298 | 2,192 |
| Other Income | 129 | (1,160) | (2,545) | 27 | 172 |
| PBT | 5,952 | 5,637 | 5,233 | 10,065 | 11,472 |
| % change | 32.8 | (5.3) | (7.2) | 92.3 | 14.0 |
| Tax | 1,707 | 1,947 | 2,457 | 2,922 | 3,845 |
| Tax Rate (%) | 28.7 | 34.5 | 47.0 | 29.0 | 33.5 |
| Reported PAT | 3,167 | 2,679 | 1,772 | 5,214 | 5,644 |
| Adj* | - | 433 | 2,575 | 109 | - |
| Adj PAT | 3,167 | 3,111 | 4,346 | 5,324 | 5,644 |
| % change | 32.7 | (1.8) | 39.7 | 22.5 | 6.0 |
| No. of shares (cr) | 65.8 | 65.8 | 65.8 | 65.8 | 65.8 |
| Adj EPS (Rs) | 48.2 | 47.3 | 66.1 | 80.9 | 85.8 |
| % change | 32.7 | (1.8) | 39.7 | 22.5 | 6.0 |
| DPS (Rs) | 3.9 | 6.2 | 7.0 | 7.0 | 7.0 |
| CEPS (Rs) | 75.6 | 88.7 | 115.7 | 132.3 | 157.5 |

CASH FLOW

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Net inc. + Depn. | 4,975 | 5,403 | 5,032 | 8,590 | 10,356 |
| Non-cash adj. | 1,348 | (8,162) | (7,367) | 3,467 | 3,338 |
| Changes in W.C | 954 | (634) | (120) | (1,986) | (1,581) |
| C.F. Operation | 7,276 | (3,393) | (2,455) | 10,070 | 12,112 |
| Capital exp. | (1,781) | (3,949) | (3,917) | (5,194) | (5,680) |
| Change in inv. | (1,862) | 1,506 | 1,661 | 1,650 | 1,050 |
| Other invest.CF | 149 | 2,202 | 69 | (473) | (502) |
| C.F - Investment | (3,493) | (242) | (2,187) | (4,017) | (5,131) |
| Issue of equity | 9 | 86 | 180 | - | - |
| Issue/repay debt | (2,760) | 5,291 | 7,042 | (3,000) | (3,500) |
| Dividends paid | (352) | (575) | (635) | (460) | (460) |
| Other finance.CF | (679) | (1,348) | (1,717) | (2,298) | (2,192) |
| C.F - Finance | (3,781) | 3,454 | 4,870 | (5,758) | (6,152) |
| Chg. in cash | 2 | (181) | 228 | 296 | 828 |
| Closing cash | 94 | 950 | 1,224 | 1,520 | 2,348 |

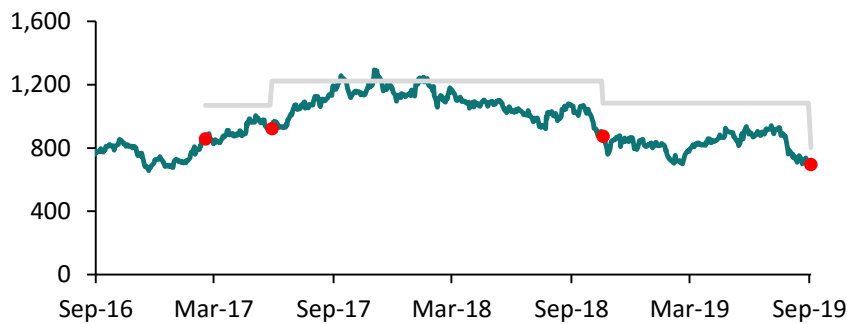
BALANCE SHEET

| Y.E March (Rs cr) | FY17A | FY18A | FY19A | FY20E | FY21E |
|--------------------------|---------------|----------------|----------------|----------------|----------------|
| Cash | 94 | 950 | 1,224 | 1,520 | 2,348 |
| Accounts Receivable | 3,010 | 5,213 | 6,427 | 6,763 | 6,946 |
| Inventories | 4,231 | 5,860 | 6,545 | 6,406 | 7,300 |
| Other Cur. Assets | 11,124 | 28,226 | 34,516 | 33,236 | 32,302 |
| Investments | 7,202 | 33,032 | 30,653 | 31,086 | 31,494 |
| Gross Fixed Assets | 35,307 | 51,546 | 58,372 | 63,566 | 69,245 |
| Net Fixed Assets | 31,420 | 45,434 | 49,654 | 50,709 | 50,890 |
| CWIP | 1,296 | 2,257 | 2,698 | 2,833 | 2,974 |
| Intangible Assets | 3,367 | 23,856 | 26,987 | 27,616 | 28,260 |
| Def. Tax (Net) | 20 | 21 | 47 | 56 | 73 |
| Other Assets | 1,003 | 63,018 | 70,452 | 70,925 | 71,427 |
| Total Assets | 62,768 | 207,867 | 229,203 | 231,149 | 234,015 |
| Current Liabilities | 9,765 | 21,772 | 28,684 | 30,754 | 29,849 |
| Provisions | 370 | 417 | 246 | 263 | 282 |
| Debt Funds | 7,927 | 61,313 | 73,021 | 70,021 | 66,521 |
| Other Liabilities | 3,617 | 40,666 | 44,090 | 41,027 | 41,950 |
| Equity Capital | 93 | 131 | 132 | 132 | 132 |
| Reserves & Surplus | 31,293 | 57,230 | 55,642 | 59,636 | 63,982 |
| Shareholder's Fund | 31,387 | 57,362 | 55,773 | 59,768 | 64,114 |
| Minority Interest | 9,702 | 26,337 | 27,387 | 29,316 | 31,299 |
| Total Liabilities | 62,768 | 207,867 | 229,203 | 231,149 | 234,015 |
| BVPS (Rs) | 672 | 946 | 848 | 909 | 975 |

RATIOS

| Y.E March | FY17A | FY18A | FY19A | FY20E | FY21E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 20.7 | 19.0 | 17.6 | 18.6 | 21.0 |
| EBIT margin (%) | 16.2 | 14.2 | 13.1 | 14.6 | 15.5 |
| Net profit mgn.(%) | 7.9 | 4.7 | 2.4 | 6.2 | 6.5 |
| ROE (%) | 10.1 | 4.7 | 3.2 | 8.7 | 8.8 |
| ROCE (%) | 13.3 | 5.6 | 6.1 | 7.8 | 8.3 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 27.3 | 33.2 | 32.1 | 29.2 | 29.2 |
| Inventory (days) | 79.4 | 95.6 | 86.4 | 73.0 | 82.1 |
| Payables (days) | 57.6 | 85.8 | 76.3 | 76.3 | 76.3 |
| Current ratio (x) | 1.7 | 1.0 | 1.1 | 1.0 | 1.0 |
| Quick ratio (x) | 0.9 | 0.3 | 0.3 | 0.3 | 0.3 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 2.3 | 1.3 | 1.3 | 1.4 | 1.3 |
| Total asset T.O (x) | 0.7 | 0.4 | 0.3 | 0.4 | 0.4 |
| Int. covge. ratio (x) | 9.3 | 6.0 | 5.4 | 5.4 | 6.2 |
| Adj. debt/equity (x) | 0.2 | 0.7 | 0.9 | 0.8 | 0.7 |
| Valuation | | | | | |
| EV/Sales (x) | 1.9 | 2.7 | 2.1 | 1.7 | 1.6 |
| EV/EBITDA (x) | 9.8 | 14.3 | 12.1 | 9.1 | 7.8 |
| P/E (x) | 18.2 | 22.2 | 13.0 | 8.6 | 8.1 |
| P/BV (x) | 1.8 | 1.2 | 1.0 | 0.8 | 0.7 |

Recommendation Summary



| Dates | Rating | Target |
|-----------|--------|--------|
| 16-Feb-17 | HOLD | 1,069 |
| 29-May-17 | BUY | 1,222 |
| 19-Oct-18 | BUY | 1,083 |
| 04-Sep-19 | BUY | 803 |

Source: Bloomberg, Geojit Research

Investment Rating Criteria

| Large Cap Stocks; | | Mid Cap and Small Cap; | | | |
|-------------------|---|----------------------------|-------------|---|------------------------------|
| Buy | - | Upside is above 10%. | Buy | - | Upside is above 15%. |
| Hold | - | Upside is between 0%- 10%. | Accumulate | - | Upside is between 10% - 15%. |
| Reduce | - | Downside is more than 0%. | Hold | - | Upside is between 0% - 10%. |
| Neutral | - | Not Applicable | Reduce/Sell | - | Downside is more than 0%. |
| | | | Neutral | - | Not Applicable |

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. Neutral - The analyst has no investment opinion on the stock under review.

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