

Higher costs impact margins

CMP:	Rs.2574
Target Price:	Rs.2782
Recommendation:	Hold

Stock Info

BSE Group	A
BSE Code	500300
NSE Symbol	GRASIM
Bloomberg	GRASIMIN
Reuters	GRAS.BO
BSE Sensex	20514
NSE Nifty	6090

Market Info

Market Capital	Rs 23625cr
Equity Capital	Rs 91.7cr
Avg. Trading Vol.	80020
52 Wk High/ Low	3159/2121
Face Value	10

Shareholding Pattern (%) (Dec 2013)

Promoters	25.5
Domestic Institutions	16.0
Foreign Institutions	22.9
Non Promoters Corp.	9.0
Public & Others	26.6
Govt. Holdings	-

Standalone business

Grasim Industries' operating performance came lower than estimates largely on account of higher input costs. VSF volumes jumped 4.3% qoq, while those of chemical business remained flat. VSF volumes picked up on increased contribution from Harihar plant. VSF realisations globally were down by 14%, however weak rupee helped company reporting ~1.1% qoq decline in realisations. Blended chemical realisations aided by uptick in chlorine prices rose 3.3% qoq.

Standalone VSF operating margins dropped qoq to 13.5% (19.8%), while margins of chemical business dropped to 22.3% (24.4%). Operating margins came down due to higher imported pulp prices and sharp increase in wood costs. Consequently, standalone EBITDA margins dropped qoq by 530bps to 14.2%.

Cement business

Ultratech's (ULTC) 3QFY14 numbers were tad lower than our estimates though they were largely in line with street. ULTC reported 1.3% yoy drop in revenues on 2.3% yoy drop in blended realisations. On qoq basis realisations dipped 0.3%. Weak demand continues to impact volumes as they remained flat yoy at 9.7mn tonnes. EBITDA per tonne came off sharply yoy from Rs 1090 per tonne to Rs 820 per tonne. However, it improved qoq from Rs 747 per tonne on higher operating leverage. EBITDA margins thus dipped 500bps yoy to 16.5%, while it improved qoq by 150bps. ULTC reported 1.3% yoy decline and 6.5% qoq growth in revenue at Rs 4818r. Profit after tax on account of share drop in EBITDA declined 38% yoy to Rs 370cr.

Valuations:

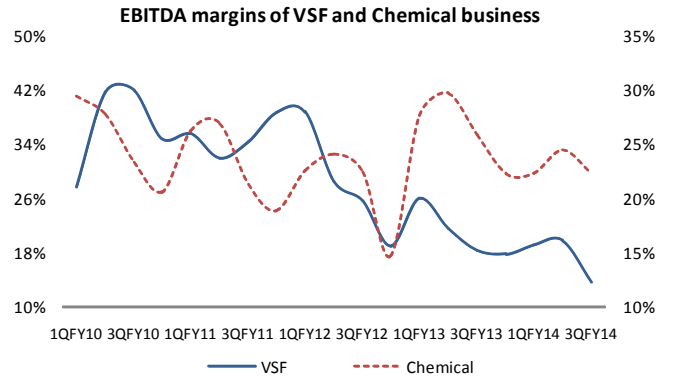
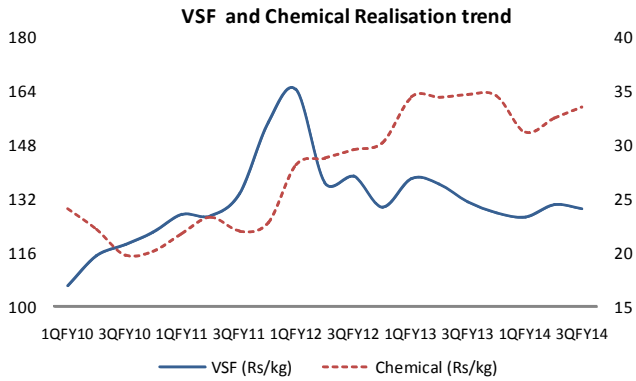
Grasim's VSF business continues to report subdued operating margins impacted by weak global VSF prices even though demand remains healthy for the same. We believe persistent overcapacity in China will continue to put pressure on VSF prices and thus margins of Grasim. For Ultratech Cement, we forecast 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 615 per share. We have valued Grasim's 60% stake in Ultratech Cement at Rs 2101 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 2574, Grasim Industries trades at a P/E(x) of 13.2x and 10.6x and EV/EBITDA(x) of 7.2x and 5.4x its FY14E and FY15E estimates, respectively. **We recommend Hold rating on stock with revised target price of Rs 2782 per share.**

Y/E March, (Rs in Cr)	FY12	FY13	FY14E	FY15E
Net Revenue	25245	27904	26386	31866
EBITDA	5579	5924	4573	6205
PAT	2647	2704	1792	2234
EPS	289	295	195	243
EPS Growth (%)	16%	2%	-34%	25%
RONW (%)	16	14	8	10
P/E (x)	8.9	8.7	13.2	10.6
EV/EBITDA (x)	5.3	5.5	7.2	5.4



Grasim Industries-Standalone

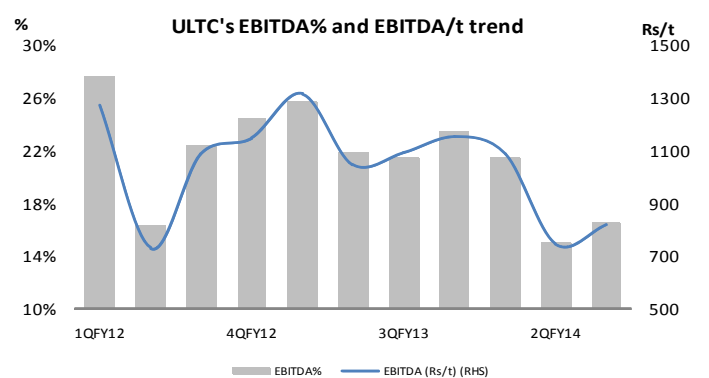
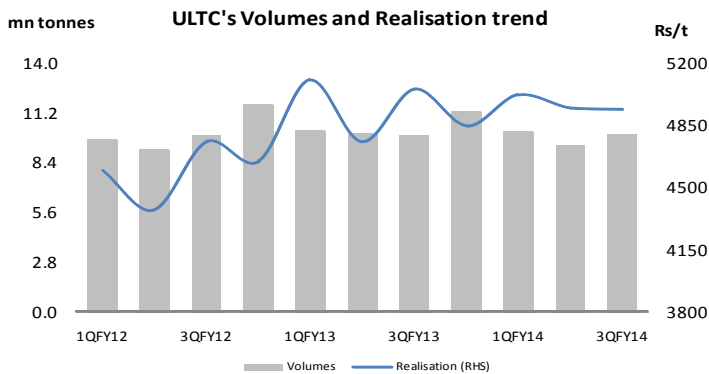
	3QFY14	3QFY13	yoy%	2QFY14	qoq%
VSF tonnes	97049	78597	13.8	93025	4.3
Realisations (Rs/kg)	128.8	131.0	-1.7	130.2	-1.1
Chemical business (tonne)	77631	68115	14.0	78356	-0.9
ECU Realisations (Rs/kg)	33.5	34.6	-3.3	32.4	3.3



Ultratech Cement

Grey (mn t)	3QFY14	3QFY13	yoy%	2QFY14	qoq%
Grey Volumes	10.6	10.4	1.0	9.9	7.1
Clinker	0.2	0.25	-20.0	0.15	33.3
White Cement	1.49	1.46	2.0	1.43	4.2

Per tonne analysis											
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14
Realisation (Rs/t)	4590	4373	4757	4645	5105	4752	5049	4842	5018	4947	4934
RM	531	746	657	669	749	659	690	763	790	832	842
Employee cost	194	230	232	191	225	242	254	234	254	313	252
Power & Fuel	1093	1068	1164	1036	1093	1086	1125	949	1002	1051	1033
Mfg Exp	608	842	826	701	697	806	814	744	796	934	865
S&D Exp	910	837	874	948	1043	940	1101	1074	1115	1093	1154
EBITDA/t	1275	730	1086	1148	1316	1047	1090	1152	1085	747	820





Other highlights

- Near term VSF margins are expected to remain under pressure owing to overcapacity in China resulting in subdued prices.
- Global VSF demand scenario continues to remain buoyant, with increased emphasis on use of VSF.
- Greenfield Vilayat project (VSF) expected to get commissioned over 4QFY14-1QFY15.
- Operations at Vilayat unit (Caustic Soda) impacted by floods commenced once again. Company also commissioned 51500tpa Epoxy unit at Vilayat.
- China imposed anti-dumping duty on pulp sourced from certain countries impacting the operations there.
- VSF JVs incurred loss of Rs 40cr at EBITDA level largely due to annual plant maintenance shut down.
- Cement capex has been lowered by Rs 900cr due to postponing of land acquisition and RMC related capex.
- Cement prices have inched up in pockets in recent times and management expects demand to pick up post new government at the Center.
- Commissioned 1.6mpta grinding unit (part of 4.8mtpa Raipur project) in Orissa. Remaining grinding units at Bihar and West Bengal are expected to get commissioned in FY15.
- Balance grinding units of Malkhed expansion will come on stream in FY15.

	Capex under Implemen-tation \$	Work in Progress as on 01-04-13	Net Capex	Cash Outflow		Capex spent during 9M
				FY14	FY15 onward	
Standalone						
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	432					
: Chemical & Others	198					
Standalone Capex (A)	4,271	2,688	1,583	1,027	556	752
Cement Subsidiary						
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	2,316	7,059	1,649
Capex (A + B)	17,998	7,040	10,958	3,343	7,615	2,401

Source: Grasim Ind- Investor presentation



3QFY14 Results (Consolidated)

Rs in Crore	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	7120	6768	5%	6849	4%
Expenditure	6083	5461	11%	5815	5%
EBITDA	1037	1307	-21%	1034	0%
EBITDA Margins (%)	17	24		18	
Other Income	106	178	-41%	109	-3%
Interest	125	82	52%	119	5%
Depreciation	367	319	15%	358	2%
Exceptional Items (Loss)	0	0		0	
PBT after exceptional items	652	1083	-40%	666	-2%
Tax	184	303	-39%	124	48%
Tax rate (%)	28%	28%		19%	
Minority Int	-161	-244	-34%	-115	41%
Share of Associate	25	13	86%	22	10%
PAT after extraordinary items	332	549	-40%	450	-26%
Net Profit Margin (%)	5%	8%		7%	

3QFY14 Results (Standalone)

Rs in Crore	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	1470	1220	21%	1421	3%
Expenditure	1261	990	27%	1144	10%
EBITDA	209	230	-9%	277	-25%
EBITDA Margins (%)	14%	19%		19%	
Other Income	35	79	-56%	205	-83%
Interest	13	11	25%	9	41%
Depreciation	55	40	38%	53	3%
Exceptional Items (Loss)	0	0		0	
PBT after exceptional items	176	259	-32%	420	-58%
Tax	50	62	-21%	7	651%
Tax rate (%)	28%	24%		2%	
PAT after extraordinary items	126	197	-36%	414	-70%
Net Profit Margin (%)	9%	16%		29%	-71%
EPS (Rs)	9	15	-36%	31	-70%



Financials

Profit & Loss Statement

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
Net Sales	21550	25245	27904	26386	31866
% Chg	8	17	11	-5	21
Total Expenditure	16555	19666	21981	21813	25661
% chg	17	19	12	-1	18
EBITDA	4995	5579	5924	4573	6205
EBITDA Margin %	23	22	21	17	19
Other Income	399	742	620	343	414
Depreciation	1138	1154	1252	1354	1742
EBIT	4256	5166	5291	3562	4878
Interest	407	314	324	388	481
PBT after EI	3849	4852	5171	3174	4397
Tax	954	1321	1467	744	1244
PAT before MI	2895	3531	3704	2430	3154
MI & Associate pft	-616	-884	-1000	-638	-919
Reported PAT	2279	2647	2704	1792	2234
PAT %	10.6	10.5	9.7	6.8	7.0

Cash Flow Statement

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
PBT	3849	4852	5171	3174	4397
Oper. profit before Work. Cap.	5059	5666	5972	4573	6205
Changes in WC	-493	-253	-772	-432	-189
Cash generated from Ops	4566	5414	5200	4141	6016
Direct Tax Paid	-1021	-1118	-943	-744	-1244
Net Cash From Oper. Act	3545	4295	4257	3397	4773
Net Cash From Investing Act	-3210	-3629	-5746	-1744	-3873
Cash flow from Financing Act	-295	-679	1353	-1491	-1003
Net increase in cash & Equiv	40	-12	-136	162	-103
Opening Cash Balance+Others	245	339	365	229	391
Closing Cash Balance	285	327	229	391	288

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	21055	23032
Minority Interest	4351	5233	6221	6956	7972
Non-current liabilities	6242	7892	9159	8636	8357
Long-term borrowings	4115	5725	6653	6102	5777
Deferred Tax	1962	1979	2301	2301	2301
Other Long term Liab	12	22	15	15	17
Long-term prov	154	167	190	218	262
Current liabilities	6854	6336	9028	8355	9105
Equity + Liability	32021	36531	44064	45137	48600
Net Fixed assets	15297	17514	23636	25751	28359
Goodwill on Consolidation	2419	2496	3010	3010	3010
NC investments	1200	2854	3165	3165	3165
Deferred tax assets (net)	0	0	0	0	0
Long-term loans and Adv	694	2132	1592	713	567
Current assets	12411	11535	12662	12498	13499
Assets	32021	36531	44064	45137	48600

Key Ratios

Y/E March (Rs Cr)	FY11	FY12	FY13	FY14E	FY15E
Per Share data (Rs)					
EPS	249	289	295	195	243
Cash EPS	373	415	431	343	433
DPS	20.0	22.5	23.6	23.6	23.6
Book value	1589	1861	2141	2309	2524
Operating, Returns Ratio					
Debt/ Equity (X)	0.5	0.4	0.5	0.4	0.4
Current Ratio (X)	1.8	1.8	1.4	1.5	1.5
RoE (%)	16	16	14	8.5	9.6
RoCE (%)	13	14	12	8	10
Dividend Yield (%)	0.8	0.9	0.9	0.9	0.9
Valuation Ratio (X)					
P/E	10.4	8.9	8.7	13.2	10.6
P/BV	1.6	1.4	1.2	1.1	1.0
EV/ Sales	1.3	1.2	1.2	1.2	1.1
EV/EBITDA	5.6	5.3	5.5	7.2	5.4

Note: Consolidated estimates incl ULTC + Grasim Ind Standalone



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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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