

## Stable operating performance

CMP:	Rs.2950
Target Price:	Rs.3639
Recommendation:	BUY

### Stock Info

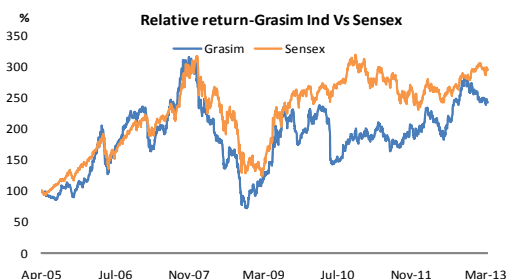
BSE Group	A
BSE Code	500300
NSE Symbol	GRASIM
Bloomberg	GRASIMIN
Reuters	GRAS.BO
BSE Sensex	19576
NSE Nifty	5944

### Market Info

Market Capital	Rs 25,803cr
Equity Capital	Rs 91.7cr
Avg. Trading Vol.	80020
52 Wk High/ Low	3511/2216
Face Value	10

### Shareholding Pattern (%) (31<sup>st</sup> March 2013)

Promoters	25.5
Domestic Institutions	15.4
Foreign Institutions	23.4
Non Promoters Corp.	9.0
Public & Others	26.7
Govt. Holdings	-



May 06, 2013

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### Standalone business

Grasim Industries' reported stable operating performance during the quarter. VSF volumes rose 21%qoq and 2.7%yoy, while those of chemical business declined by 9% yoy and 2.6% qoq. On realisation front, VSF realisations declined 1% yoy and 2% qoq to ~ Rs 128/kg and those of ECU jumped by 12%yoy. Consequently, revenues came in lower by 1.1% yoy.

On operating margin front, VSF margins remained flat qoq at 17%, while margins of chemical business declined sequentially by 360bps to 22.3%. Company reported exceptional income of Rs 204cr on account of sale of equity holding in Thai Carbon black, Thailand and Alexandria Carbon black, Egypt. Consequently, profit after tax grew 53% yoy to Rs 372cr. On an adjusted basis PAT declined 3% yoy to Rs 236cr.

### Cement business

Cement volumes (Grey cement + clinker) declined 3% yoy to 11.1mn tonnes, while White cement volumes grew 6% yoy to 0.2mn tonnes. In spite of qoq decline in realisations, ULTC reported improvement in EBITDA per tonne at Rs 1063 per tonne. This compares with EBITDA per tonne of Rs 1036 during 3QFY13. Improvement in EBITDA per tonne came on the back of better cost rationalizations; selling & distribution and power & fuel cost in particular. Power and fuel cost per tonne declined due to increased usage of pet coke. Consequently, EBITDA margins during the quarter came in 120bps higher qoq at 22%.

### Valuations:

Grasim's VSF business more or less has reported stable operating performance backed by its integrated business model. Going forward we expect VSF prices to remain stable owing to reduced cotton production globally. In case of cement, we expect it to report volume growth of 10% in FY14 backed by its ~10mn tonne capacity expansion. We expect Grasim to post healthy profitability growth over FY14E-FY15E across business. At current market price of Rs 2950, Grasim Industries trades at a P/E(x) of 10.1x and 8.5x and EV/EBITDA(x) of 5.1x and 4.2x its FY14E and FY15E estimates, respectively. **We maintain Buy recommendation on stock and target price of Rs 3639 per share.**

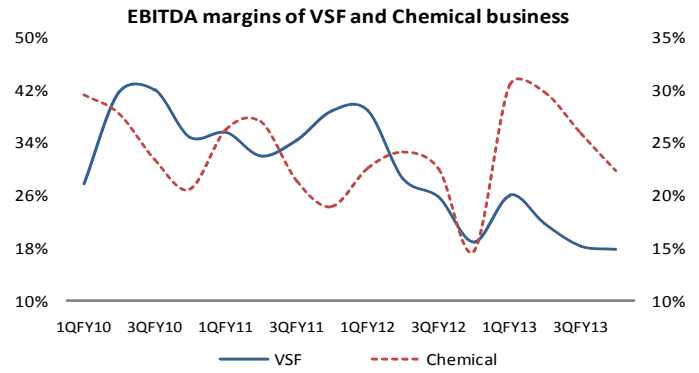
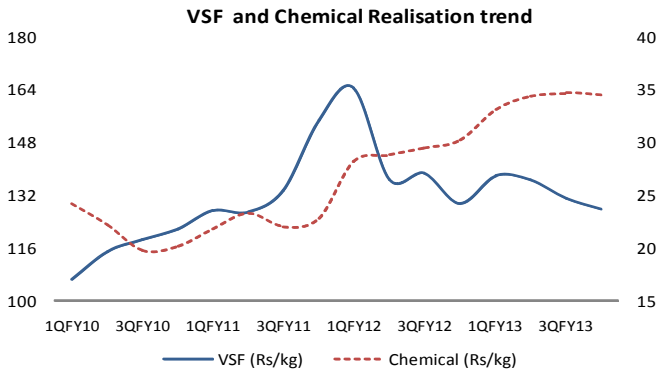
### Financials:

Y/E March, (Rs in Cr)	FY11	FY12	FY13E	FY14E	FY15E
Net Revenue	21550	25244	27904	31939	37124
EBITDA	4995	5575	5924	7184	8472
PAT	2279	2647	2704	2679	3175
EPS	249	289	295	292	346
EPS Growth (%)	-26%	16%	2%	-1%	19%
RONW (%)	16	16	14	12	13
P/E (x)	11.9	10.2	10.0	10.1	8.5
EV/EBITDA (x)	6.3	5.9	6.1	5.1	4.2



**Grasim Industries-Standalone**

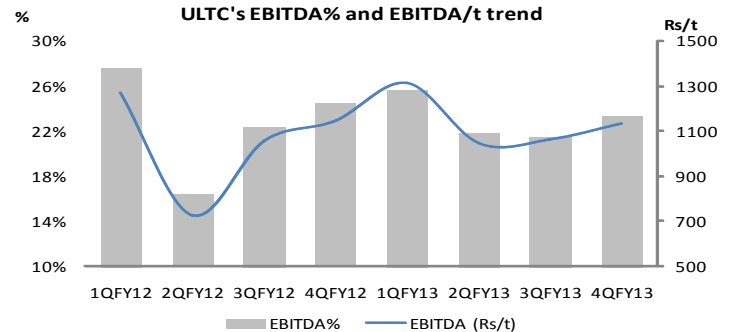
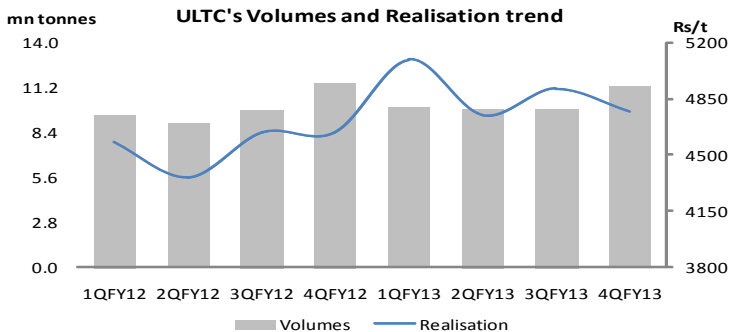
	4QFY13	4QFY12	yoy%	3QFY13	qoq%
VSF tonnes	95161	94904	2.7	78597	21.1
Realisations (Rs/kg)	128	129	-1.2%	131	-2.5%
Chemical business (tonne)	66357	72839	-8.9%	68115	-2.6%
ECU Realisations (Rs/kg)	27.6	24.6	12%	27.5	0.2%



**Ultratech Cement**

	4QFY13	4QFY12	yoy%	3QFY13	qoq%
Volumes (mn tonnes)	11.3	11.5	-1.9%	9.9	14.2%
Realisations (Rs/t)	4775	4639	2.9%	4915	-2.9%

Per Tonne Analysis								
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
Realisation (Rs/t)	4581	4363	4639	4639	5094	4746	4915	4775
RM	530	744	641	668	747	658	672	753
Employee cost	194	230	226	191	224	242	247	231
Power & Fuel	1091	1066	1135	1035	1090	1085	1096	936
Mfg Exp	607	840	806	700	695	805	793	734
S&D Exp	908	835	853	947	1040	938	1071	1059
<b>EBITDA/t</b>	<b>1251</b>	<b>649</b>	<b>979</b>	<b>1099</b>	<b>1297</b>	<b>1017</b>	<b>1036</b>	<b>1063</b>





**Concall and Capex Update**

**Grasim Industries:**

- Commissioned 2<sup>nd</sup> phase of brown field expansion (18250 tonne) at Harihar.
- 1,82,500 tonne caustic soda plant at Vilayat stated commercial production in May-13. Other units of green field unit are near completion and are expected to come on stream by end of 2QFY14.
- Company has started revamping of VSF plant at Nagda, which is expected to be completed in next two years.
- Management expects VSF realisation to remain stable going forward.
- Around 50,000 tonne of VSF capacity is expected to come on stream globally in 2013.

**Cement Business**

- Cement prices continue to trade weak and are the same levels of 4QFY12.
- Demand has been sluggish. However, it expects it to inch up going forward owing to election induced spending.
- Company witnessed 9% jump in cement demand during April.
- Demand in Gujarat has been in excess of 10%, while demand in Maharashtra has been impacted by draught.

**Projects commissioned during the quarter includes**

- ✓ *Clinkerisation plant at Rawan, Chhattisgarh*
- ✓ *Grinding unit at Hotgi, Maharashtra.*
- ✓ *Increase in cement grinding capacity at Gujarat plan*
- ✓ *Bulk terminal at Cochin, Kerala*
- ✓ *Wall care putty plant at Katni, Madhya Pradesh*
- Company is adding up 2.9mn tonne of cement capacity at Aditya cement works in Rajasthan. This includes setting up of two grinding units. Total outlay for the project is Rs 2000cr and is expected to complete by March 2015.
- Other ongoing expansion projects like 3.3mtpa clinker unit at Karnataka will come on stream by end of 1QFY14.

	Capex under Implementation <sup>5</sup>	Work in Progress as on 01-04-13	Net Capex	Cash Outflow		Capex spent during 2012-13
				FY 14	FY15 onward	
<b>Standalone</b>						
VSF Expansion : Vilayat (120K TPA), Harihar (36K TPA)	2,165					
Chemical Expansion : Vilayat (182K TPA)	966					
Epoxy Project : Vilayat (51,500 TPA)	238					
Nagda Revamp	278					
Normal Capex : VSF	383					
: Chemical & Others	163					
<b>Standalone Capex (A)</b>	<b>4,193</b>	<b>2,688</b>	<b>1,505</b>	<b>1,224</b>	<b>281</b>	<b>2,417</b>
<b>Cement Subsidiary</b>						
Capacity expansion : Raipur (4.8 Mn. TPA) (With GU and Bulk Terminal) : Malkhed (4.4 Mn. TPA) : Shambhupura (2.9 Mn. TPA)	6,759					
Material Evacuation, Logistic Infrastructure	874					
Thermal Power (50 MW) & Waste Heat Recovery (45 MW)	622					
RMC Business	254					
Modernisation, Upgradation and others (Incl. Land)	2,938					
<b>Cement Business Capex (B)</b>	<b>11,447</b>	<b>4,352</b>	<b>7,095</b>	<b>4,060</b>	<b>3,035</b>	<b>3,570</b>
<b>Capex (A + B)</b>	<b>15,640</b>	<b>7,040</b>	<b>8,600</b>	<b>5,284</b>	<b>3,316</b>	<b>5,987</b>

<sup>5</sup> Excludes capex already capitalised on commissioning

Source: Grasim Ind- Investor presentation



## 4QFY13 Results (Consolidated)

Rs in Crore	4QFY13	4QFY12	YOY (%)	3QFY13	QoQ (%)
Net Sales	7672	7289	5%	6768	13%
Expenditure	6094	5680	7%	5461	12%
EBITDA	1578	1610	-2%	1307	21%
EBITDA Margins (%)	26	28		24	
Other Income	207	273	-24%	178	17%
Interest	81	80	1%	82	-1%
Depreciation	329	300	9%	319	3%
Exceptional Items (Loss)	204	0		0	
PBT after exceptional items	1581	1503	5%	1083	46%
Tax	470	381	23%	303	55%
Tax rate (%)	30%	25%		28%	
Minority Int	-307	-348	-12%	-244	26%
Share of Associate	14	34	-61%	13	2%
PAT after extraordinary items	818	809	1%	549	49%
Net Profit Margin (%)	11%	11%		8%	

## 4QFY13 Results (Standalone)

Rs in Crore	4QFY13	4QFY12	YOY (%)	3QFY13	QoQ (%)
Net Sales	1396	1412	-1%	1220	14%
Expenditure	1162	1172	-1%	990	17%
EBITDA	234	241	-3%	230	2%
EBITDA Margins (%)	17%	17%		19%	
Other Income	98	127	-22%	79	24%
Interest	15	7	97%	11	36%
Depreciation	45	37	22%	40	14%
Exceptional Items (Loss)	204	0		0	
PBT after exceptional items	477	323	48%	259	84%
Tax	105	79	32%	62	68%
Tax rate (%)	22%	25%		24%	
PAT after extraordinary items	372	244	53%	197	89%
Net Profit Margin (%)	27%	17%		16%	65%
EPS (Rs)	28	18	53%	15	89%



Financials

Profit & Loss Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E	FY15E
Net Sales	21550	25244	27904	31939	37124
% Chg	8	17	11	14	16
Total Expenditure	16555	19669	21981	24754	28652
% chg	17	19	12	13	16
EBITDA	4995	5575	5924	7184	8472
EBITDA Margin %	23	22	21	22	23
Other Income	399	745	620	299	327
Depreciation	1138	1154	1252	1498	1749
EBIT	4256	5166	5291	5985	7050
Interest	407	314	324	485	455
PBT bfr EI	3849	4852	4967	5501	6595
EI	-	-	204	-	-
PBT after EI	3849	4852	5171	5501	6595
Tax	954	1321	1467	1640	1970
PAT before MI	2895	3531	3704	3861	4626
MI & Associate pft	-616	-884	-1000	-1182	-1451
Reported PAT	2279	2647	2704	2679	3175
PAT %	10.6	10.5	9.7	8.4	8.6

Cash Flow Statement

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E	FY15E
PBT	3849	4852	4967	5501	6595
Oper. profit before Work. Cap.	5059	5666	5973	7184	8472
Changes in WC	-493	-246	89	-458	-333
Cash generated from Ops	4566	5420	6062	6727	8139
Direct Tax Paid	-1021	-1113	-1455	-1640	-1970
Net Cash From Oper. Act	3545	4307	4607	5087	6170
Net Cash From Investing Act	-3210	-3641	-4239	-4253	-4575
Cash flow from Financing Act	-295	-680	-96	-954	-983
Net increase in cash & Equiv	40	-14	272	-120	611
Opening Cash Balance	245	285	325	597	477
Others	-	54	-	-	-
Closing Cash Balance	285	325	597	477	1088

Balance sheet

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E	FY15E
Equity + Pref. capital	129	134	134	134	134
Reserves and Surplus	14444	16935	19154	21579	24500
Minority Interest	4351	5233	6308	7554	9068
Non-current liabilities	6242	7870	8443	8140	7830
Long-term borrowings	4115	5701	6226	5878	5524
Deferred Tax	1962	1979	1979	1979	1979
Other Long term Liab	12	23	15	19	21
Long-term prov	154	167	224	264	306
Current liabilities	6854	6363	6442	7191	8061
Equity + Liability	32021	36534	40482	44597	49593
Net Fixed assets	15297	17514	23317	25899	26751
Goodwill on Consolidation	2419	2496	2496	2496	2496
NC investments	1200	2854	2912	2976	3039
Deferred tax assets (net)	-	-	-	-	-
Long-term loans and Adv	694	2067	1317	1076	817
Current assets	12411	11604	10439	12149	16491
Assets	32021	36534	40482	44597	49593

Key Ratios

Y/E March (Rs Cr)	FY11	FY12	FY13E	FY14E	FY15E
Per Share data (Rs)					
EPS	249	289	295	292	346
Cash EPS	373	415	431	455	537
DPS	20.0	22.5	22.5	22.5	22.5
Book value	1589	1861	2128	2392	2711
Operating, Returns Ratio					
Debt/ Equity (X)	0.5	0.4	0.4	0.3	0.3
Current Ratio (X)	1.8	1.8	1.6	1.7	2.1
RoE (%)	16	16	14	12	13
RoCE (%)	13	14	13	13	14
Dividend Yield (%)	0.7	0.8	0.8	0.8	0.8
Valuation Ratio (X)					
P/E	11.9	10.2	10.0	10.1	8.5
P/BV	1.9	1.6	1.4	1.2	1.1
EV/ Sales	1.5	1.3	1.3	1.1	1.0
EV/EBITDA	6.3	5.9	6.1	5.1	4.2



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### Stock Rating Scale

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

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