

## Higher costs impact margins

<b>CMP:</b>	<b>Rs.2625</b>
<b>Target Price:</b>	<b>Rs.2799</b>
<b>Recommendation:</b>	<b>Hold</b>

### Stock Info

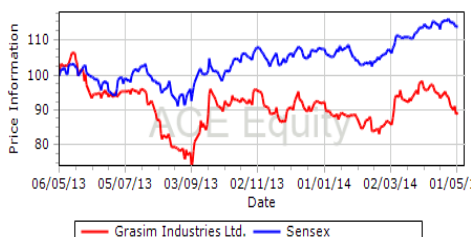
<b>BSE Group</b>	A
<b>BSE Code</b>	500300
<b>NSE Symbol</b>	GRASIM
<b>Bloomberg</b>	GRASIMIN
<b>Reuters</b>	GRAS.BO
<b>BSE Sensex</b>	22404
<b>NSE Nifty</b>	6695

### Market Info

<b>Market Capital</b>	Rs 23984cr
<b>Equity Capital</b>	Rs 91.7cr
<b>Avg. Trading Vol.</b>	80020
<b>52 Wk High/ Low</b>	3159/2121
<b>Face Value</b>	10

### Shareholding Pattern (%) (March 2014)

<b>Promoters</b>	25.5
<b>Domestic Institutions</b>	16.1
<b>Foreign Institutions</b>	22.8
<b>Non Promoters Corp.</b>	9.0
<b>Public &amp; Others</b>	26.6
<b>Govt. Holdings</b>	-



May 05, 2014

### Standalone business

Grasim Industries' operating performance came lower than estimate largely on higher input costs. VSF volumes were flat qoq, while those of chemical business on expanded capacity, jumped 11.4% qoq. VSF realisations dipped marginally by 0.5% qoq to Rs 128/kg, while chemical realisation jumped 16.4% qoq to Rs 39/kg.

Standalone VSF operating margins dropped qoq to 10.0% (13.5%), while margins of chemical business dropped to 16.3% (22.3%). Significant erosion in operating margin was primarily due to jump in raw material cost (sans pulp prices which remained flat qoq) and increase in other operating expenses. Consequently, standalone EBITDA margins dropped qoq by 400bps to 10.2%. This is one of the lowest EBITDA margins company has reported in many years.

### Cement business

Ultratech's (ULTC) 4QFY14 numbers came well above estimates largely driven by lower operating cost and tax liability. ULTC reported 8.9% yoy growth in revenues on 9.4% yoy increase in volumes. On qoq basis volumes were 26% up and this we believe was result of shutdown at a North based cement plant that resulted in constrained supply to a certain extent. Supply side crunch however did not result in better realisation and it rather dipped 3% qoq, which was a negative surprise in our view. Notwithstanding the fall in realisation, EBITDA per tonne improved 24% qoq to Rs 1016 per tonne and this was a result of 7.2% qoq decline in operating costs. EBITDA margin improved qoq by 480bps to 21.3%, while it declined yoy by 210bps.

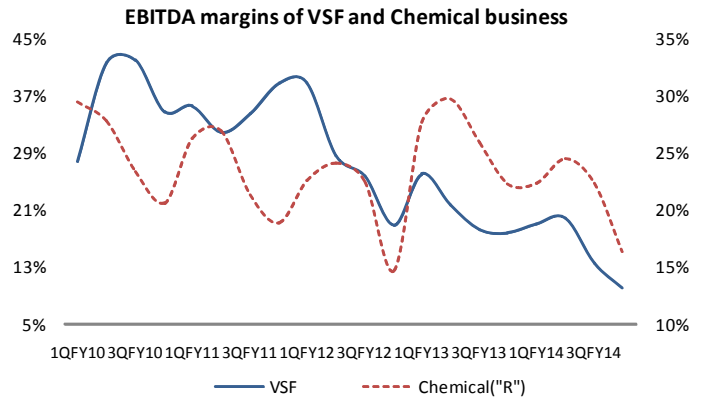
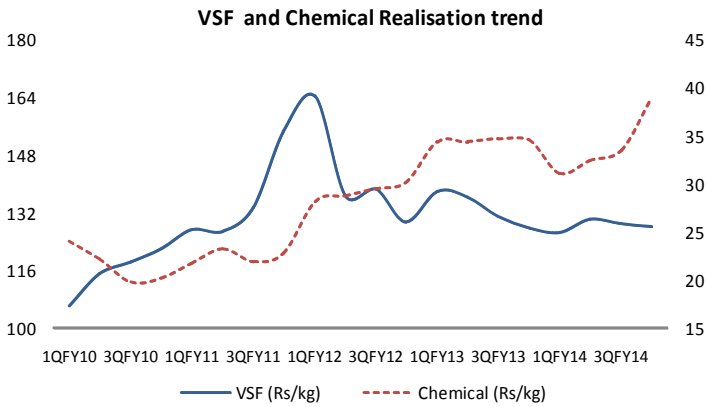
### Valuations:

Grasim's VSF business continues to report subdued operating margins impacted by sluggish VSF prices and higher operating costs, even though demand remains healthy. We believe persistent overcapacity in China will continue to put pressure on VSF prices and thus margins of Grasim. We forecast ULTC's margins profile, on the back of expected subdued pricing environment, likely to remain range bound over next one year. 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 2118 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 2625, Grasim Industries trades at P/E(x) of 10.8x and 8.4x and EV/EBITDA(x) of 5.5x and 4.1x on its FY15E and FY16E estimates, respectively. **We recommend Hold rating on the stock with price target of Rs 2799 per share.**

Y/E March, (Rs in Cr)	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	27904	29324	31866	36505
<b>EBITDA</b>	5924	4914	6205	7454
<b>PAT</b>	2704	2072	2234	2870
<b>EPS</b>	295	226	243	313
<b>EPS Growth (%)</b>	2%	-23%	8%	28%
<b>RONW (%)</b>	14	10	10	11
<b>P/E (x)</b>	8.9	11.6	10.8	8.4
<b>EV/EBITDA (x)</b>	5.6	6.8	5.5	4.1

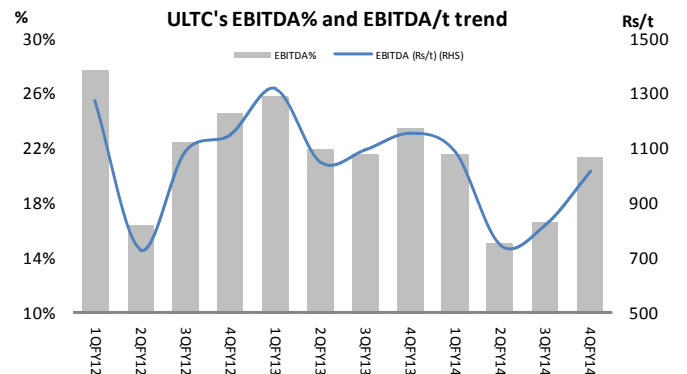
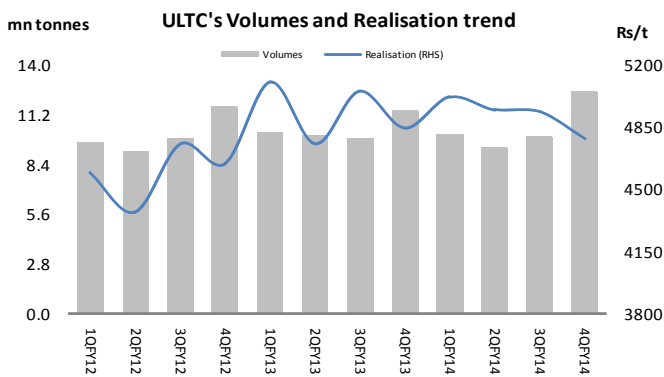


**Grasim Industries-Standalone**



**Ultratech Cement**

	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
Realisation (Rs/t)	4590	4373	4757	4645	5105	4752	5049	4842	5018	4947	4934	4788
RM	531	746	657	669	749	659	690	763	790	832	842	799
Employee cost	194	230	232	191	225	242	254	234	254	313	252	193
Power & Fuel	1093	1068	1164	1036	1093	1086	1125	949	1002	1051	1033	974
Mfg Exp	608	842	826	701	697	806	814	744	796	934	865	762
S&D Exp	910	837	874	948	1043	940	1101	1074	1115	1093	1154	1121
<b>EBITDA/t</b>	<b>1275</b>	<b>730</b>	<b>1086</b>	<b>1148</b>	<b>1316</b>	<b>1047</b>	<b>1090</b>	<b>1152</b>	<b>1085</b>	<b>747</b>	<b>820</b>	<b>1016</b>





## 4QFY14 Results (Consolidated)

Rs in Crore	4QFY14	4QFY13	YoY (%)	3QFY14	QoQ (%)
Net Sales	8419	7672	10%	7120	18%
Expenditure	6892	6094	13%	6083	13%
EBITDA	1527	1578	-3%	1037	47%
EBITDA Margins (%)	22	26		17	
Other Income	128	207	-38%	106	21%
Interest	108	81	34%	125	-13%
Depreciation	389	329	18%	367	6%
Exceptional Items (Loss)	0	204		0	
PBT after exceptional items	1158	1581	-27%	652	78%
Tax	168	470	-64%	184	-8%
Tax rate (%)	15%	30%		28%	
Minority Int	-340	-307	11%	-161	112%
Share of Associate	30	14	123%	25	22%
PAT after extraordinary items	679	818	-17%	332	105%
Net Profit Margin (%)	8%	11%		5%	

## 4QFY14 Results (Standalone)

Rs in Crore	4QFY14	4QFY13	YoY (%)	3QFY14	QoQ (%)
Net Sales	1549	1396	11%	1470	5%
Expenditure	1390	1162	20%	1261	10%
EBITDA	159	234	-32%	209	-24%
EBITDA Margins (%)	10%	17%		14%	
Other Income	63	98	-36%	35	81%
Interest	11	15	-25%	13	-18%
Depreciation	64	45	41%	55	16%
Exceptional Items (Loss)	0	204		0	
PBT after exceptional items	147	477	-69%	176	-16%
Tax	17	105	-84%	50	-66%
Tax rate (%)	12%	22%		28%	
PAT after extraordinary items	130	372	-65%	126	3%
Net Profit Margin (%)	8%	27%		9%	-2%
EPS (Rs)	10	28	-65%	9	3%



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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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