

Stable results; capacity addition to fuel next leg of growth; capex commitment key monitorable; Maintain Buy with a revised TP of Rs 965

Current	Previous
CMP: Rs 732	
Rating: Buy	Rating: Buy
Target: Rs 965	Target: Rs 1113

(NR-Not Rated)

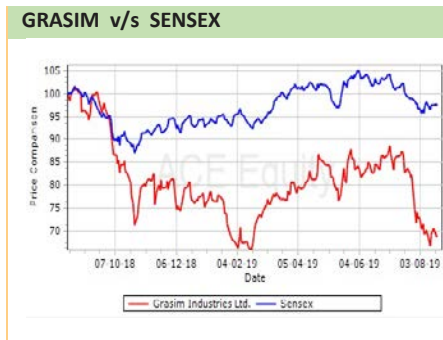
Stock Info	
INDEX	
BSE	500300
NSE	GRASIM
Bloomberg	GRASIM IN
Reuters	GRAS.BO
Sector	Diversified
Face Value (Rs)	2
Equity Capital (Rs Cr)	132
Market Cap (Rs Cr)	48,167
52w H/L (Rs)	1093/689
Avg Weekly Vol (BSE+NSE)	7,122,950

Shareholding Pattern	%
(As on June, 2019)	
Promoters	40.2
Public & Others	59.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GRASIM	-11.7	2.3	-29.9
SENSEX	-1.4	5.8	-1.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Grasim Industries came out with stable set of results in Q1FY20. Though optically numbers looked weak due to impairment loss of Rs 290 cr, taken on its investment in Aditya Birla Idea Payment Bank. Standalone revenue grew 4.4% YoY/-6.6% QoQ to Rs 5001 cr while EBITDA witnessed a decline of 21.8%YoY/6.1% QoQ to Rs 844 cr. EBITDA margin was stable at 16.9% on QoQ basis (+8bps) though on YoY basis margin contracted 565bps YoY. Adjusted PAT for the quarter (adjusted for payment bank impairment) stood at Rs 492 cr, a de-growth of 8.2% QoQ and 23.5% YoY. We remain positive on Grasim Industries from longer term perspective, and believe after recent steep correction, the stock is looking undervalued at current market price. Maintain Buy with a revised Target Price of Rs 965.

Q1FY20 Operational Highlights

- In Q1FY20, VSF volume grew 3.5% YoY, while domestic VSF sales grew 9% YoY against global average of 3-4%. VSF prices softened globally due to capacity over-hang and US-China trade war. However, India demand continues to remain buoyant and double-digit volume growth expected.
- Caustic soda prices impacted due to demand slowdown in Asia coupled with increased imports. Caustic Soda production partly impacted by monsoon delay and cyclone.

Conference Call Takeaways

- Trade war has disrupted nearly ~US\$ 50 bn of annual textile export of China to the US, resulting in dumping of these products by Chinese producers at lower rates to South East Asian and Indian markets.
- Domestic VSF prices have declined further by 2-3% from Q1FY20 level. Grasim management believes prices are already very low and should move up gradually. Globally also only ~200-400KT of global VSF capacity addition is on the cards, which is not material in a 6MTPA industry.

Valuations

We have valued the standalone business of Grasim at EV/EBITDA of 6x and 4x respectively for best and base case scenarios to its FY21E estimates and have ascribed 50% holding co discount for its subsidiaries to arrive at a fair value of Rs 1,047 (best case) and Rs 884 (base case) respectively. **We have taken an average of our best and base case price target to arrive at a final target price of Rs 965 for the stock. We believe after recent correction, the stock is looking undervalued and hence maintain our Buy rating on the stock with a revised target price of Rs 965, which gives an upside potential of 31.8% from the CMP of Rs 732.**

Financial Performance

YE March (Rs Cr)	Net Sales	EBITDA	Adj. PAT	Adj. EPS (Rs)	EBITDA Margin %	RoE (%)	EV/EBITDA (x)
FY18	15,788	3,080	1,769	26.9	19.5	3.9	16.6
FY19	20,550	4,071	2,883	43.8	19.8	6.9	12.5
FY20E	21,330	4,228	2,733	41.6	19.8	6.2	11.9
FY21E	23,126	4,627	2,982	45.4	20.0	6.4	10.7

Source: Company, Arihant Research

Q1FY20 Financial Performance

Rs Cr (standalone)	Q1FY20	Q4FY19	Q1FY19	Q-o-Q	Y-o-Y
Net Revenue	5,001	5,352	4,789	-6.6%	4.4%
Material Cost	3,150	3,383	2,875	-6.9%	9.6%
Employee Cost	393	425	351	-7.5%	12.1%
Other Expenses	614	645	485	-4.9%	26.5%
EBITDA	844	899	1,079	-6.1%	-21.8%
<i>EBITDA Margin %</i>	<i>16.9%</i>	<i>16.8%</i>	<i>22.5%</i>	<i>+8bps</i>	<i>-565bps</i>
Other Income	85	101	97	-16.4%	-12.8%
Depreciation	203	197	183	2.9%	11.2%
EBIT	725	802	993	-9.6%	-27.0%
Finance Cost	78	47	59	66.9%	32.7%
Exceptional Item	-290	-85	-	-	-
PBT	357	671	934	-46.8%	-61.8%
Tax Expense	155	220	292	-29.4%	-46.8%
Effective Tax Rate %	43.5%	32.8%	31.2%	+1074bps	+1227bps
PAT	202	451	643	-55.3%	-68.6%
Adjusted PAT	492	536	643	-8.2%	-23.5%
<i>Adjusted PAT Margin %</i>	<i>9.8%</i>	<i>10.0%</i>	<i>13.4%</i>	<i>-18bps</i>	<i>-358bps</i>
Adjusted EPS (Rs)	7.5	8.1	9.8	-8.2%	-23.5%

Source: Company, Arianth Research

Viscose Business – Capacity Expansion to provide next leg of growth

- The Viscose business reported quarterly sales volume of 148KT. The share of domestic sales volume in the overall sales volume declined to 85% (Q1FY20) from 86% (Q4FY19).
- Total viscose capacity is around 612KT out of which VSF (viscose staple yarn) capacity is 566 KT and Grasim will increase capacity in the VSF to 788 KT by FY21.
- QoQ performance is better despite global price softening, led by volume improvement and operational efficiency. Profitability impacted on YoY basis due to higher pulp cost on account of time lag effect of pulp prices and a weaker rupee.
- Highest ever quarterly production; Domestic VSF sales volume are up 9% to 118KT (109KT Q1FY19) v/s global average of 3% to 4%.

Viscose	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	FY20E	FY21E
Capacity Annual (KT)	592	592	593	612	612	612	612	788
Sales volume (KT)	143	149	145	150	587	148	606	630.4
Revenue in Rs Cr	2480	2606	2617	2625	10325	2509	10603	11347
Realization in Rs Cr/KT	17.3	17.4	18.0	17.5	17.6	17.0	17.5	18
EBITDA in Rs Cr	586	576	477	413	2052	442	2068	2269
EBITDA Margin	23.6%	22.1%	18.2%	15.7%	19.9%	17.6%	19.5%	20%

- We are expecting margin and realization to remain stable going forward. Grasim's total Viscose capacity will increase to 788KT by FY21E and we expect the company to clock a sales volume of 630KT in FY21E, which will generate **revenue of Rs 11,347 cr in FY21E, with an expected EBITDA of Rs 2,269 cr.**

Caustic Soda – Lower demand from user segment put downward pressure on the prices

- Caustic soda prices in Asia declined during the quarter led by lower demand from key user industries.
- In India prices have softened with increase in imports and production ramp up of newly commissioned capacities in the domestic industry.
- Chlorine supply exceeded the demand during the quarter leading to negative realisation.
- Work on newly acquired plant (146 KTPA) at Balabhadrapuram started, ordering of long lead items in progress.

Total Chemical unit capacity is currently at 1147KT and Grasim will increase capacity to 1457KT by FY21E.

Chemicals	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	FY20E	FY21E
Capacity	1140	1140	1140	1147	1147	1147	1147	1457
Sales volume (KT)	235	258	250	261	995	238	1032	1093
Revenue in Cr	1579	1612	1559	1688	6436	1503	6710	7321
Realization in Cr/KT	6.7	6.2	6.2	6.5	6.5	6.3	6.5	6.7
EBITDA	495	456	441	434	1827	446	1879	2087
EBITDA Margin	31.3%	28.3%	28.3%	25.7%	28.4%	29.7%	28.0%	28.5%

We are expecting realization to remain in same range and expecting an EBITDA of Rs 2,087 cr in FY21E.

Other Businesses	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	FY20E	FY21E
Total Sales	973	1152	1380	1278	4783	1244	5022	5547
Fertilizer	521	743	868	679	2811	697	2952	3247
Textile	356	298	411	475	1540	437	1617	1779
Insulator	96	111	101	124	432	110	454	522

Total EBITDA	48	98	141	114	401	89	342	378
Fertilizer	30	75	81	52	238	52	207	227
Textile	16	14	57	52	139	31	113	125
Insulator	2	9	3	10	24	6	23	26
EBITDA Margin								
Fertilizer	6%	10%	9%	8%	8.5%	7%	7%	7%
Textile	4%	5%	14%	11%	9.0%	7%	7%	7%
Insulator	2%	8%	3%	8%	5.6%	5%	5%	5%

Total Revenue	5032	5370	5556	5591	21544	5256	22335	24216
Reported	4789	5118	5293	19806	20550	5001	21330	23126
Inter Segment Revenue	4059	4218	4176	4313	994	255	1005	1090

Total EBITDA	1129	1130	1059	961	4280	977	4289	4734
Reported	1079	1071	1053	899	4071	844	4228	4627
Inter Segment EBITDA	50	59	6	62	209	133	61	107

Valuation and View

Best Case Scenario

Combined standalone estimated EBITDA for FY21E is Rs.4,627 cr and if we value standalone business at EV/EBITDA Multiple of 6x then we arrive at EV of 27,760 cr. On standalone basis debt is Rs 3,268 cr. By subtracting debt and adding cash from the EV, we arrive at market cap of **26,269 cr for standalone business (A)**.

Base Case Scenario

Combined standalone estimated EBITDA is Rs.4,627 cr and if we value standalone business at EV/EBITDA Multiple of 4x then we arrive at EV of 18,507 cr, on standalone basis debt is 3,268 cr. By subtracting debt and adding cash from the EV, we arrive at market cap of **16,521 cr for standalone business (B)**.

Holdings*	Holding Value	Discount 50%
1 Grasim holds 60.2% in Ultratech Cement	68,803	34,401
2 Grasim holds 11.6% in Vodafone Idea	1,997	998
3 Grasim holds 56% in Aditya Birla Capital	11,175	5,588
4 Grasim holds 3.9% in Hindalco and 11.3% in Aditya Birla Fashion	3,247	1,623

* holding value calculated on closing price basis of 19th August, 2019

Estimated Market Cap (Best case)

Combined market cap (A+1+2+3+4) with 50% holding co. discount	68,879 cr
No. of shares	65.8 cr
Target Price	Rs 1,047

Estimated Market Cap (Base case)

Combined market cap (B+1+2+3+4) with 50% holding co. discount	58,134 cr
No. of shares	65.8 cr
Target Price	Rs 884

Target Price Calculation

Best Case (A)	Rs 1,047
Base Case (B)	Rs 884
Final Target Price [(A+B)/2]	Rs 965

Standalone Financials

Profit & Loss Statement

Y/E Mar (Rs cr)	FY18	FY19	FY20E	FY21E
Revenue	15788	20550	21330	23126
Expenditure	12708	16479	17102	18499
EBITDA	3080	4071	4228	4627
Other Income	461	567.98	560.00	600.00
Depreciation	628	760	745	820
Interest	128	199.05	139	146
PBT	2786	3680	3904	4260
Exceptional Items	273	-2368	0	0
Tax	744	796	1171	1278
Reported PAT	1496	5251	2733	2982
Adjusted PAT	1769	2883	2733	2982
Adjusted EPS	26.9	43.8	41.6	45.4

Balance Sheet

Y/E Mar (Rs cr)	FY18	FY19	FY20E	FY21E
Share Capital	131	132	132	132
Total Reserves	44636	41828	44100	46536
Shareholder's Funds	44790	41959	44254	46690
Borrowings	2968	2904	3098	3268
Net Deffered tax Lib	1835	1879	1834	1834
Total Liabilities	53729	51813	52356	55061
Net Block	10817	11232	11487	12167
Investment	35547	31128	32002	32757
Current Asset	6177	7427	8402	9666
Cash	26	20	1010	1777
Bank Balance	16	23	16	16
Other Current assets	6135	7384	7376	7873
Non current asses	1189	2027	465	470
Current Lib & Provision	4136	5072	3170	3268
Net Current asset	2041	2355	5232	6398
Total Assets	53729	51813	52356	55061

Cash Flow Statement

Y/E Mar (Rs cr)	FY18	FY19	FY20E	FY21E
Profit Before Tax	2513	3680	3904	4260
Adjustment	645	677	602	684
Changes In working Capital	-280	2102	-1165	940
Cash Flow after WC changes	2878	6459	3341	5885
Cash flow from Operations	2355	6061	2756	5246
Capex	-1052	-1238	-1000	-1500
FCF	1303	4823	1756	3746
Cash flow from investing	-1925	-956	-4848	-3119
Equity Capital raised	2	0	0	0
Loan Taken/Repaid	-618	-267	-618	-618
Equity Dividend Paid	-366	-460	-547	-596
Interest Paid	-142	-199	-139	-146
Cash flow from Financing	-451	-724	-1304	-1360
Net Cash Inflow / Outflow	-21	4381	-3396	767
Opening Cash & Cash Equivalents	35	26	4407	1010
Cash & Cash Equivalent on				
Amalgamation	12	0	0	0
Closing Cash & Cash Equivalent	26	4407	1010	1777

Key Ratios

Profitability	FY18	FY19	FY20E	FY21E
EBITDA Margin	19.5%	19.8%	19.8%	20.0%
EBIT Margin	15.5%	16.1%	16.3%	16.5%
PAT Margin	11.2%	14.0%	12.8%	12.9%
ROE	3.9%	6.9%	6.2%	6.4%
Growth	FY18	FY19E	FY20E	FY21E
Sales	52.6%	30.2%	3.8%	8.4%
EBITDA	42.9%	32.2%	3.9%	9.4%
PAT	13.4%	63.0%	-5.2%	9.1%
Per Share Data	FY18	FY19E	FY20E	FY21E
DPS	5.6	7.0	8.3	9.1
EPS	26.9	43.8	41.6	45.4
BVPS	681.1	638.1	673.0	710.0
Efficiency Ratios	FY18	FY19E	FY20E	FY21E
Asset Turnover (x)	2.3	1.9	1.7	1.7
Inventory (days)	50.0	49.1	50.0	50.0
Debtors (days)	43.9	54.1	60.0	60.0
Payables (days)	42.3	20.4	20.0	20.0
Cash Conversion Cycle (days)	51.6	82.7	90.0	90.0
Valuation Ratios	FY18	FY19E	FY20E	FY21E
P/E	27.2	16.7	17.6	16.1
P/B	1.1	1.1	1.1	1.0
EV/EBITDA	16.6	12.5	11.9	10.7

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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