

*Weak results amidst margin pressure in Viscose & Chemical businesses; equity infusion in Vodafone Idea remains an overhang; Downgrade to Hold*

Current	Previous
CMP: Rs 755	
Rating: Hold	Rating: Buy
Target: Rs 833	Target: Rs 965

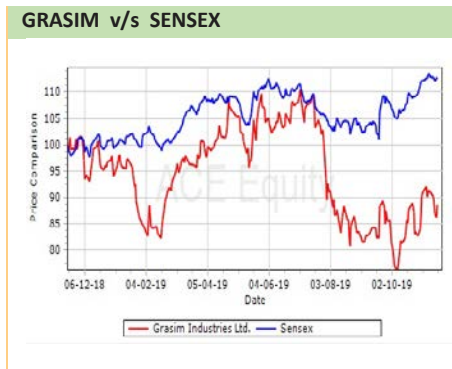
(CMP as on November 15, 2019)

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)	49,680
52w H/L (Rs)	959/636
Avg Weekly Vol (BSE+NSE)	13,175,420
Shareholding Pattern	
	%
<b>(As on Sept, 2019)</b>	
Promoters	40.2
Public & Others	59.8

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GRASIM	2.8	-7.4	-6.5
SENSEX	8.2	8.7	14.4

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

**Monami Manna**

Sr. Research Analyst

Tel: +91 22 42254817

monami.manna@arihantcapital.com

*Grasim Industries came out with weak set of results in Q2FY20, below our estimate. Standalone revenue declined 6.3% YoY/4.1% QoQ to Rs 4,797 cr, below our estimate of Rs 4,906 cr, while EBITDA declined 38.8%YoY/21.9% QoQ to Rs 659 cr, below our estimate of Rs 883 cr. EBITDA margin contracted 731bps YoY/313bps QoQ to 13.7% below our estimate of 18%. PAT for the quarter stood at Rs 526 cr, above our estimate of Rs 500 cr. We are positive on Grasim Industries from longer term perspective, however due to capital infusion overhang in Vodafone Idea, and weak Q2FY20 results, downgrade the stock from Buy to Hold with revised TP of Rs 833.*

**Conference Call Takeaways**

- In Viscose business, domestic demand was steady, hence Grasim shifted one specialty line to viscose business. As a result, specialty share has come down from 33% in Q1 to 20% in Q2 in sales volume mix.
- VSF prices have come down but at the same time pulp prices which carry a lag of 6-months have also come down in tandem. However, due to the above lag effect, the consumption price still remains high for Grasim, hence not reflected in margin. As pulp prices are in a downtrend, so full effect of the benefit will be visible in Q4FY20 rather than in Q3FY20.
- As far as infusion of capital in Vodafone Idea is concerned, Grasim is not obligated to fund the losses of Vodafone Idea, it is just an equity holder.
- Internal consumption of Chlorine will go up from 28% currently to 32% going forward, which will tackle the negativity and realisation pressure in India. So instead of incurring negative EBITDA in chlorine in India, they use it internally to make more value added products.

**Valuations**

After factoring in weak Q2FY20 results, we have cut our FY20E/FY21E estimates to factor in margin pressure in both the VSF and Chemical businesses of Grasim. We have valued the standalone business of Grasim at EV/EBITDA of 6x and 5x respectively for best and base case scenarios to its FY21E estimates and have ascribed 60% holding co discount for its subsidiaries to arrive at a fair value of Rs 859 (best case) and Rs 807 (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 833 for the stock. **We are positive on Grasim from longer term perspective, however due to uncertainty over capital infusion to Vodafone Idea, downgrade our rating from Buy to Hold with a revised target price of Rs 833, which gives an upside potential of 10.3% from the CMP of Rs 755.**

**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	2,041	31.0	19.5	3.9	17.1
FY19	20,550	4,071	2,883	43.8	19.8	6.9	12.9
FY20E	21,218	3,670	2,462	37.4	17.3	5.6	14.4
FY21E	23,005	4,205	2,839	43.2	18.3	6.1	12.6

Source: Company, Arihant Research

## Q2FY20 and H1FY20 Financial Performance

Rs Cr (standalone)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
<b>Net Revenue</b>	<b>4,797</b>	<b>5,001</b>	<b>5,118</b>	<b>-4.1%</b>	<b>-6.3%</b>	<b>9,798</b>	<b>9,907</b>	<b>-1.1%</b>
Material Cost	3,151	3,150	3,169	0.0%	-0.6%	6,301	6,043	4.3%
Employee Cost	404	393	370	2.8%	9.2%	797	720	10.6%
Other Expenses	583	614	502	-5.0%	16.2%	1,197	986	21.3%
<b>EBITDA</b>	<b>659</b>	<b>844</b>	<b>1,078</b>	<b>-21.9%</b>	<b>-38.8%</b>	<b>1,503</b>	<b>2,157</b>	<b>-30.3%</b>
<i>EBITDA Margin %</i>	<i>13.7%</i>	<i>16.9%</i>	<i>21.1%</i>	<i>-313bps</i>	<i>-731bps</i>	<i>15.3%</i>	<i>21.8%</i>	<i>-643bps</i>
Other Income	286	85	275	238.0%	4.2%	371	372	-0.2%
Depreciation	209	203	187	2.6%	11.2%	412	370	11.2%
<b>EBIT</b>	<b>737</b>	<b>725</b>	<b>1,165</b>	<b>1.6%</b>	<b>-36.7%</b>	<b>1,462</b>	<b>2,158</b>	<b>-32.2%</b>
Finance Cost	86	78	52	10.3%	65.0%	164	111	47.9%
Exceptional Item	-	-290	-2,283	-	-	-290	-2,283	-
<b>PBT</b>	<b>651</b>	<b>357</b>	<b>-1,171</b>	<b>82.4%</b>	<b>-</b>	<b>1,008</b>	<b>-236</b>	<b>-</b>
Tax Expense	124	155	16	-19.8%	676.5%	280	308	-9.1%
Effective Tax Rate %	19.1%	43.5%	-1.4%	-	-	27.8%	-130.2%	-
<b>PAT</b>	<b>526</b>	<b>202</b>	<b>-1,187</b>	<b>161.0%</b>	<b>-</b>	<b>728</b>	<b>-544</b>	<b>-</b>
<b>Adjusted PAT</b>	<b>526</b>	<b>492</b>	<b>1,097</b>	<b>7.0%</b>	<b>-52.0%</b>	<b>1,018</b>	<b>1,739</b>	<b>-41.4%</b>
<i>Adjusted PAT Margin %</i>	<i>11.0%</i>	<i>9.8%</i>	<i>21.4%</i>	<i>+114bps</i>	<i>-1045bps</i>	<i>10.4%</i>	<i>17.6%</i>	<i>-716bps</i>
<b>Adjusted EPS (Rs)</b>	<b>8.0</b>	<b>7.5</b>	<b>16.7</b>	<b>7.0%</b>	<b>-52.0%</b>	<b>15.5</b>	<b>26.4</b>	<b>-41.5%</b>

Source: Company, Arianth Research

## Viscose Business – Capacity Expansion to provide next leg of growth

- The Viscose business reported quarterly sales volume of 152KT. The share of domestic sales volume in the overall sales volume increased to 88% (Q2FY20) from 85% (Q1FY20).
- 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 fall in the domestic realisation.
- Pulp price down 22% YTD, eased below \$650 in October. The impact of weakening input costs (pulp prices) will get reflected in the subsequent quarters.
- VFY profitability impacted due to increase in imports from China.

Viscose (VSF + VFY)	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	Q2FY20	FY20E	FY21E
Capacity Annual (KT)	592	593	612	612	612	612	612	788
Sales volume (KT)	148	145	150	587	148	152	606	630
<b>Revenue in Rs Cr</b>	<b>2606</b>	<b>2617</b>	<b>2625</b>	<b>10325</b>	<b>2509</b>	<b>2431</b>	<b>10603</b>	<b>11347</b>
Realization in Rs Cr/KT	17.6	18.0	17.5	17.6	17.0	16.0	17.5	18
EBITDA in Rs Cr	576	477	413	2052	442	381	1696	2042
EBITDA Margin	22.1%	18.2%	15.7%	19.9%	17.6%	15.7%	16%	18%

- We are expecting some margin pressure 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 2,042 cr.**

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

- Caustic soda prices in global market remained sluggish due to weak demand in China and Asia.
- In India prices have seen sharp decline due to slowdown in domestic demand as well as production ramp up of newly commissioned capacities in the domestic industry.
- Chlorine realisation in India turned negative for two consecutive quarters led by excess supply from new capacities.
- Work on newly acquired plant (146 KTPA) at Balabhadrapuram going on in full swing, with ordering of long lead items already done.

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

Chemicals	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	Q2FY20	FY20E	FY21E
<b>Capacity</b>	<b>1140</b>	<b>1140</b>	<b>1147</b>	<b>1147</b>	<b>1147</b>	<b>1147</b>	<b>1147</b>	<b>1457</b>
Sales volume (KT)	258	250	261	995	238	241	1032	1093
Revenue in Cr	1612	1559	1688	6436	1503	1347	6710	7321
Realization in Cr/KT	6.2	6.2	6.5	6.5	6.3	5.6	6.5	6.7
EBITDA	456	441	434	1827	446	273	1677	1830
EBITDA Margin	28.3%	28.3%	25.7%	28.4%	29.7%	20.3%	25.0%	25.0%

**We are expecting margins to decline to 25% level and expecting an EBITDA of Rs 1,830 cr in FY21E.**

Other Businesses	Q2FY19	Q3FY19	Q4FY19	FY19	Q1FY20	Q2FY20	FY20E	FY21E
<b>Total Sales</b>	<b>1152</b>	<b>1380</b>	<b>1278</b>	<b>4783</b>	<b>1244</b>	<b>1238</b>	<b>5022</b>	<b>5547</b>
Fertilizer	743	868	679	2811	697	721	2952	3247
Textile	298	411	475	1540	437	420	1617	1779
Insulator	111	101	124	432	110	97	454	522

<b>Total EBITDA</b>	<b>98</b>	<b>141</b>	<b>114</b>	<b>401</b>	<b>89</b>	<b>60</b>	<b>297</b>	<b>332</b>
Fertilizer	75	81	52	238	52	49	207	227
Textile	14	57	52	139	31	13	81	89
Insulator	9	3	10	24	6	-2	9	16

<b>EBITDA Margin</b>								
Fertilizer	10%	9%	8%	8.5%	7%	7%	7%	7%
Textile	5%	14%	11%	9.0%	7%	3%	5%	5%
Insulator	8%	3%	8%	5.6%	5%	-2%	2%	3%

<b>Total Revenue</b>	<b>5370</b>	<b>5556</b>	<b>5591</b>	<b>21544</b>	<b>5256</b>	<b>5016</b>	<b>22335</b>	<b>24216</b>
Reported	5118	5293	5352	20550	5001	4797	21218	23005
Inter Segment Revenue	252	263	239	994	255	219	1117	1211

<b>Total EBITDA</b>	<b>1130</b>	<b>1059</b>	<b>961</b>	<b>4280</b>	<b>977</b>	<b>714</b>	<b>3670</b>	<b>4205</b>
Reported	1071	1053	899	4071	844	659	3670	4205
Inter Segment EBITDA	59	6	62	209	133	55	0	0

## Valuation and View

## Best Case Scenario

Combined standalone estimated EBITDA for FY21E is Rs.4,205 cr and if we value standalone business at EV/EBITDA Multiple of 6x then we arrive at EV of 25,228 cr. On standalone basis debt is Rs 3,243 cr. By subtracting debt and adding cash from the EV, we arrive at market cap of **22,035 cr for standalone business (A)**.

## Base Case Scenario

Combined standalone estimated EBITDA is Rs.4,205 cr and if we value standalone business at EV/EBITDA Multiple of 5x then we arrive at EV of 21,024 cr, on standalone basis debt is 3,243 cr. By subtracting debt and adding cash from the EV, we arrive at market cap of **19,063 cr for standalone business (B)**.

Holdings*	Holding Value	Discount 60%
1 Grasim holds 60.2% in <b>Ultratech Cement</b>	70,875	28,350
2 Grasim holds 11.6% in <b>Vodafone Idea</b>	1,227	491
3 Grasim holds 56% in <b>Aditya Birla Capital</b>	10,550	4,220
4 Grasim holds 3.9% in <b>Hindalco</b> and 11.3% in <b>Aditya Birla Fashion</b>	3,521	1,408

\* holding value calculated on closing price basis of 15<sup>th</sup> November, 2019

## Estimated Market Cap (Best case)

Combined market cap (A+1+2+3+4) with <b>60% holding co. discount</b>	56,504 cr
No. of shares	65.8 cr
<b>Target Price</b>	<b>Rs 859</b>

## Estimated Market Cap (Base case)

Combined market cap (B+1+2+3+4) with <b>60% holding co. discount</b>	53,042 cr
No. of shares	65.8 cr
<b>Target Price</b>	<b>Rs 807</b>

## Target Price Calculation

Best Case (A) Rs 859

Base Case (B) Rs 807

**Final Target Price [(A+B)/2] Rs 833**

## Standalone Financials

## Profit &amp; Loss Statement

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
Revenue	10346	15788	20550	21218	23005
Expenditure	8191	12708	16479	20658	22405
EBITDA	2155	3080	4071	3670	4205
Other Income	474	461	568	560	600
Depreciation	446	628	760	745	820
Interest	58	128	199	328	345
PBT	2125	2786	3680	3157	3640
Exceptional Items	0	-273	-2368	-580	0
Tax	565	744	796	695	801
Reported PAT	1560	1769	515	1882	2839
Adjusted PAT	1560	2041	2883	2462	2839
Adjusted EPS	33.4	31.0	43.8	37.4	43.2

## Balance Sheet

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	93	131	132	132	132
Total Reserves	16117	44636	41828	43830	46176
<b>Shareholder's Funds</b>	<b>16231</b>	<b>44790</b>	<b>41959</b>	<b>43984</b>	<b>46331</b>
Borrowings	701	2968	2904	3079	3243
Net Deferred tax Lib	663	1835	1879	1834	1834
<b>Total Liabilities</b>	<b>19851</b>	<b>53729</b>	<b>51813</b>	<b>51353</b>	<b>53297</b>
Net Block	6887	10817	11232	11487	12167
Investment	8996	35547	31128	32002	32757
<b>Current Asset</b>	<b>3360</b>	<b>6177</b>	<b>7427</b>	<b>7399</b>	<b>7903</b>
Cash	35	26	20	41	50
Bank Balance	18	16	23	16	16
Other Current assets	3307	6135	7384	7342	7837
Non current asses	608	1189	2027	465	470
Current Lib & Provision	2256	4136	5072	2456	1890
<b>Net Current asset</b>	<b>1104</b>	<b>2041</b>	<b>2355</b>	<b>4943</b>	<b>6014</b>
<b>Total Assets</b>	<b>19851</b>	<b>53729</b>	<b>51813</b>	<b>51353</b>	<b>53297</b>

**Cash Flow Statement**

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
<b>Profit Before Tax</b>	<b>2125</b>	<b>2513</b>	<b>3680</b>	<b>3157</b>	<b>3640</b>
Adjustment	74	645	677	791	883
Changes In working Capital	281	-280	2102	-1223	936
Cash Flow after changes in Working Capital	2480	2878	6459	2725	5458
<b>Cash flow from Operations</b>	<b>2259</b>	<b>2355</b>	<b>6061</b>	<b>2378</b>	<b>5058</b>
Capex	-422	-1052	-1238	-1000	-1500
<b>FCF</b>	<b>1838</b>	<b>1303</b>	<b>4823</b>	<b>1378</b>	<b>3558</b>
<b>Cash flow from investing</b>	<b>-844</b>	<b>-1925</b>	<b>-5343</b>	<b>-918</b>	<b>-3518</b>
Equity Capital raised	3	2	0	0	0
Loan Taken/Repaid	-223	-618	-267	-618	-618
Equity Dividend Paid	-204	-366	-460	-492	-568
Interest Paid	-60	-142	-199	-328	-345
<b>Cash flow from Financing</b>	<b>-1404</b>	<b>-451</b>	<b>-724</b>	<b>-1439</b>	<b>-1530</b>
<b>Net Cash Inflow / Outflow</b>	<b>12</b>	<b>-21</b>	<b>-6</b>	<b>21</b>	<b>9</b>
Opening Cash & Cash Equivalents	23	35	26	20	41
Cash & Cash Equivalent on Amalgamation	0	12	0	0	0
Closing Cash & Cash Equivalent	35	26	20	41	50

**Key Ratios**

<b>Profitability</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>
EBITDA Margin	20.8%	19.5%	19.8%	17.3%	18.3%
EBIT Margin	16.5%	15.5%	16.1%	13.8%	14.7%
PAT Margin	15.1%	11.2%	14.0%	11.6%	12.3%
ROE	10%	3.9%	6.9%	5.6%	6.1%
<b>Growth</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Sales	15.3%	52.6%	30.2%	3.2%	8.4%
EBITDA	44.4%	42.9%	32.2%	-9.8%	14.6%
PAT	60.7%	13.4%	63.0%	-14.6%	15.3%
<b>Per Share Data</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
DPS	4.4	5.6	7.0	7.5	8.6
EPS	33.4	26.9	43.8	37.4	43.2
BVPS	347.6	681.1	638.1	668.9	704.5
<b>Efficiency Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Asset Turnover (x)	1.5	2.3	1.9	1.7	1.7
Inventory (days)	61.1	50.0	49.1	50.0	50.0
Debtors (days)	42.0	43.9	54.1	60.0	60.0
Payables (days)	98.2	42.3	20.4	20.0	20.0
Cash Conversion Cycle (days)	4.9	51.6	82.7	90.0	90.0
<b>Valuation Ratios</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
P/E	22.6	28.1	17.2	20.2	17.5
P/B	2.2	1.1	1.2	1.1	1.1
EV/EBITDA	16.7	17.1	12.9	14.4	12.6

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park ,  
 Building No. 10, 1<sup>st</sup> Floor,  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E).  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 RatlamKothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**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%

**Research****Analyst****Contact****Website****Email Id****Registration No.**

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)[research@arihantcapital.com](mailto:research@arihantcapital.com)

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880