

*Stable results, capacity addition to fuel next leg of growth;
Upgrade to Buy with a revised target price of Rs 1,113*

Current	Previous
CMP: Rs 910	Rating:
Rating: Buy	Accumulate
Target: Rs 1,113	Target: Rs 818

(NR-Not Rated)

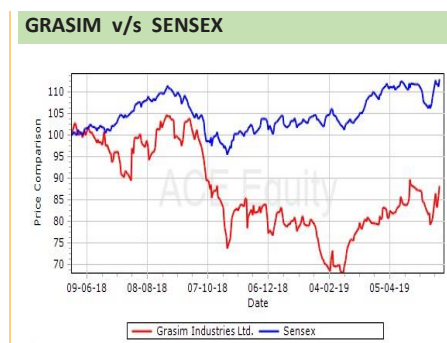
Stock Info	
INDEX	
BSE	500300
NSE	GRASIM
Bloomberg	GRASIM IN
Reuters	GRAS.BO
Sector	Diversified
Face Value (Rs)	2
Equity Capital (Rs Cr)	132
Market Cap (Rs Cr)	59,731
52w H/L (Rs)	1094 / 689
Avg Weekly Vol (BSE+NSE)	6,721,470

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

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
GRASIM	19.8	7.6	-10.9
SENSEX	9.9	12.7	13.8

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

Grasim Industries came out with stable set of results in Q4FY19, ahead of our estimates. Standalone revenue for the quarter grew 16.1% YoY to Rs 5352 cr against our estimate of Rs 5124 cr. EBITDA for Q4FY19 came at Rs 899 cr (estimate Rs 932 cr) a growth of 5.6% YoY. EBITDA margin contracted 166bps YoY to 16.8% for the quarter against 18.4% in corresponding quarter last year. Adjusted PAT for the quarter stood at Rs 536 cr in line with our estimate of Rs 540 cr, a de-growth of 9.4% YoY. We remain positive on Grasim Industries from longer term perspective, and upgrade our rating from Accumulate to Buy with a revised Target Price of Rs 1,113.

Q4FY19 and FY19 Operational Highlights

- Grasim has achieved Caustic Soda sales of 1mt mark in FY19, a first in the country by any company. The company also acquired under-construction Chlor-Alkali plant on east coast (AP) in close proximity of its Caustic Soda consumption hub which has potential capacity of around 365 ktpa.
- The company also reported record sales volume of VSF at 541 KT in FY19 led by volume growth of 17% YoY in domestic market.
- Grasim has been focussing on its specialty chemical business and ramping up its capacity. Its third generation Specialty fibre-line of 16KTPA based on in-house green technology was commissioned at Kharach in May-2019.
- Grasim has launched LIVAEco and LIVAhome brands for VSF business.

Conference Call Takeaways

- 20-22% domestic growth sustainable due to Liva efforts.
- Focusing on transition from cotton to viscose and polyester to viscose. Globally also due to high cotton prices the above shifting is taking place.
- New VSF capacity of 219 ktpa will come on stream by FY21 (Sept, 2020).
- In VSF, currently specialty is around 30%, post capacity expansion, share of Specialty Fibre will be enhanced to ~40-50% of the overall portfolio.
- The total capex plan of Rs 6,159 cr (at standalone level) is under execution for raising capacities in both the VSF and Chemical businesses, apart from maintenance capex at various plants. This capital expenditure will be incurred over FY20-FY21 and will be majorly funded by internal accruals.

Valuations

We have valued the standalone business of Grasim at EV/EBITDA of 6x to its FY21E estimate and have ascribed 50% holding co discount for its subsidiaries and arrived at a fair value of Rs 1,113 per share (our base case scenario). We have upgraded our rating from Accumulate to Buy, with a revised target price of Rs 1,113, which yields 22% upside from CMP of Rs 910.

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	20.4
FY19	20,550	4,071	2,883	43.8	19.8	6.9	15.4
FY20E	21,330	4,228	2,733	41.6	19.8	6.2	14.6
FY21E	23,126	4,627	2,982	45.4	20.0	6.4	13.3

Source: Company, Arihant Research

Q4FY19 and FY19 Financial Performance

Rs Cr (standalone)	Q4FY19	Q3FY19	Q4FY18	Q-o-Q	Y-o-Y	FY19	FY18	Y-o-Y
Net Revenue	5,352	5,291	4,612	1.2%	16.1%	20,550	15,786	30.2%
Material Cost	3,383	3,292	2,774	2.8%	22.0%	12,718	9,600	32.5%
Employee Cost	425	383	344	10.8%	23.7%	1,529	1,143	33.8%
Other Expenses	645	565	644	14.2%	0.3%	2,232	1,965	13.6%
EBITDA	899	1,051	851	-14.5%	5.6%	4,071	3,078	32.3%
<i>EBITDA Margin %</i>	<i>16.8%</i>	<i>19.9%</i>	<i>18.4%</i>	<i>-308bps</i>	<i>-166bps</i>	<i>19.8%</i>	<i>19.5%</i>	<i>+32bps</i>
Other Income	101	60	96	68.7%	5.7%	568	464	22.4%
Depreciation	197	193	185	2.4%	6.6%	760	628	21.1%
EBIT	802	918	761	-12.6%	5.4%	3,879	2,914	33.1%
Finance Cost	47	41	49	13.1%	-3.7%	199	128	55.4%
Exceptional Item	-85	-	-219	-	-	-2,368	-273	-
PBT	671	877	494	-23.5%	35.8%	1,312	2,513	-47.8%
Tax Expense	220	269	121	-18.3%	81.6%	796	744	7.0%
<i>Effective Tax Rate %</i>	<i>32.8%</i>	<i>30.7%</i>	<i>24.5%</i>	<i>+209bps</i>	<i>+826bps</i>	<i>60.7%</i>	<i>29.6%</i>	<i>+3109bps</i>
PAT	451	608	373	-25.8%	20.9%	515	1,769	-70.9%
Adjusted PAT	536	608	592	-11.9%	-9.4%	2,883	2,041	41.3%
<i>Adjusted PAT Margin %</i>	<i>10.0%</i>	<i>11.5%</i>	<i>12.8%</i>	<i>-148</i>	<i>-282</i>	<i>14.0%</i>	<i>12.9%</i>	<i>110</i>
Adjusted EPS (Rs)	8.1	9.2	9.0	-11.9%	-9.4%	43.8	31.0	41.3%

Source: Company, Arianth Research

Viscose Business – Capacity Expansion to provide next leg of growth

- The Viscose business (VSF+VFY) reported quarterly sales volume of 150KT. The share of domestic sales volume in the overall sales volume improved to 86% (Q4FY19) from 83% (Q4FY18).
- Total viscose capacity is around 612KT out of which VSF (viscose staple yarn) capacity is 566 KT which is running at 95.6% utilization and Grasim will increase capacity in the VSF to 788 KT by FY21 (Sept. 2020).
- Grasim has commissioned its Value Added Specialty fibre-line of 16KTPA based on in-house technology at Kharach in May-2019 in a record timing ahead of scheduled timelines.
- Overall EBITDA margin was maintained on the back of better efficiencies and higher volumes despite steep input cost (pulp) and significant drop in global VSF prices.

Viscose (VSF & VFY)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	FY20E	FY21E
Capacity Annual	544	592	592	593	612	*612	612	788
Sales volume (KT)	133	143	149	145	150	587	606	630
Revenue in Cr	2232	2480	2606	2617	2625	10325	10603	11347
Realization in Cr/KT	16.8	17.3	17.4	18.0	17.5	17.6	17.5	18
EBITDA in Cr	401	586	576	477	413	2052	2068	2269
EBITDA Margin	18.0%	23.6%	22.1%	18.2%	15.7%	19.9%	19.5%	20%

* includes newly added capacity of 16ktpa at Kharach to be commissioned w.e.f. May 2019

- 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 – Demand from user segment will support the prices

- Caustic soda prices in Asia recovered during the quarter due to supply limitation and rising demand. Caustic prices in India may soften in the near term with increase in imports.
- Chlor-Alkali prices in India remained firm during the quarter. Demand growth for Chlorine is expected to exceed the Caustic demand growth in India.

Total Chemical unit capacity is currently at 1147KT which is running at 86.7% utilization and **Grasim will increase capacity to 1457KT by FY21E.**

Chemicals	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	FY19	FY20E	FY21E
Capacity(KT)	938	1140	1140	1140	1147	1147	1147	1457
Sales volume (KT)	215	235	258	250	261	995	1032	1093
Revenue in Cr	1439	1579	1612	1559	1688	6436	6710	7321
Realization in Cr/KT	6.7	6.7	6.2	6.2	6.5	6.5	6.5	6.7
EBITDA	412	495	456	441	434	1827	1879	2087
EBITDA Margin	28.6%	31.3%	28.3%	28.3%	25.7%	28.4%	28.0%	28.5%

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

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 8x then we arrive at EV of 37,013 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 **35,522 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 6x then we arrive at EV of 27,760 cr, on standalone basis debt is 3,268 cr. By subtracting debt and adding cash from the EV, we arrive at market cap of **25,775 cr for standalone business (B).**

Holdings	Holding Value	Discount 50%
1 Grasim holds 60.21% in Ultratech Cement	79315	39,657
2 Grasim Hold 56% in Aditya Birla Capital	12026	6,013
3 Grasim hold 3.92% in Hindalco and 11.3% in Aditya Birla Fashion	3491	1,746

Estimated market cap (Best case)

Combined market cap (A+1+2+3) with 50% holding co. discount	82,938 cr
No. of shares	65.8 cr
Target Price	Rs 1,261

Estimated market cap (Base case)

Combined market cap (B+1+2+3) with 50% holding co. discount	73,191 cr
No. of shares	65.8 cr
Target price	Rs 1,113

Standalone Financials

Profit & Loss Statement

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
Revenue	10346	15788	20550	21330	23126
Expenditure	8191	12708	16479	17102	18499
EBITDA	2155	3080	4071	4228	4627
Other Income	474	461	567.98	560.00	600.00
Depreciation	446	628	760	745	820
Interest	58	128	199.05	139	146
PBT	2125	2786	3680	3904	4260
Exceptional Items	0	273	-2368	0	0
Tax	565	744	796	1171	1278
Reported PAT	1560	1496	5251	2733	2982
Adjusted PAT	1560	1769	2883	2733	2982
Adjusted EPS	33.4	26.9	43.8	41.6	45.4

Balance Sheet

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
Share Capital	93	131	132	132	132
Total Reserves	16117	44636	41828	44100	46536
Shareholder's Funds	16231	44790	41959	44254	46690
Borrowings	701	2968	2904	3098	3268
Net Deferred tax Lib	663	1835	1879	1834	1834
Total Liabilities	19851	53729	51813	52356	55061
Net Block	6887	10817	11232	11487	12167
Investment	8996	35547	31128	32002	32757
Current Asset	3360	6177	7427	8402	9666
Cash	35	26	20	1010	1777
Bank Balance	18	16	23	16	16
Other Current assets	3307	6135	7384	7376	7873
Non current asses	608	1189	2027	465	470
Current Lib & Provision	2256	4136	5072	3170	3268
Net Current asset	1104	2041	2355	5232	6398
Total Assets	19851	53729	51813	52356	55061

Cash Flow Statement

Y/E Mar (Rs cr)	FY17	FY18	FY19	FY20E	FY21E
Profit Before Tax	2125	2513	3680	3904	4260
Adjustment	74	645	677	602	684
Changes In working Capital	281	-280	2102	-1165	940
Cash Flow after changes in Working Capital	2480	2878	6459	3341	5885
Cash flow from Operations	2259	2355	6061	2756	5246
Capex	-422	-1052	-1238	-1000	-1500
FCF	1838	1303	4823	1756	3746
Cash flow from investing	-844	-1925	-956	-4848	-3119
Equity Capital rised	3	2	0	0	0
Loan Taken/Repaid	-223	-618	-267	-618	-618
Equity Dividend Paid	-204	-366	-460	-547	-596
Interest Paid	-60	-142	-199	-139	-146
Cash flow from Financing	-1404	-451	-724	-1304	-1360
Net Cash Inflow / Outflow	12	-21	4381	-3396	767
Opening Cash & Cash Equivalents	23	35	26	4407	1010
Cash & Cash Equivalent on Amalgamation	0	12	0	0	0
Closing Cash & Cash Equivalent	35	26	4407	1010	1777

Key Ratios

Profitability	FY17	FY18	FY19	FY20E	FY21E
EBITDA Margin	20.8%	19.5%	19.8%	19.8%	20.0%
EBIT Margin	16.5%	15.5%	16.1%	16.3%	16.5%
PAT Margin	15.1%	11.2%	14.0%	12.8%	12.9%
ROE	10%	3.9%	6.9%	6.2%	6.4%
Growth	FY17	FY18	FY19E	FY20E	FY21E
Sales	15.3%	52.6%	30.2%	3.8%	8.4%
EBITDA	44.4%	42.9%	32.2%	3.9%	9.4%
PAT	60.7%	13.4%	63.0%	-5.2%	9.1%
Per Share Data	FY17	FY18	FY19E	FY20E	FY21E
DPS	4.4	5.6	7.0	8.3	9.1
EPS	33.4	26.9	43.8	41.6	45.4
BVPS	347.6	681.1	638.1	673.0	710.0
Efficiency Ratios	FY17	FY18	FY19E	FY20E	FY21E
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
Valuation Ratios	FY17	FY18	FY19E	FY20E	FY21E
P/E	27.2	33.8	20.8	21.9	20.1
P/B	2.6	1.3	1.4	1.4	1.3
EV/EBITDA	20.0	20.4	15.4	14.6	13.3

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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%

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