

# Grasim Industries

Refer to important disclosures at the end of this report

## Strong demand recovery; lower caustic soda prices remain a concern

**CMP: Rs 841**  
as of (November 13, 2020)

**TP: Rs 905 (▲)**  
12 months

**Rating: HOLD (■)**

**Upside: 7.6 %**

- Grasim benefited from a reduction in fixed costs in both VSF and Chemical segments in Q2, though lower realization continued to impact profits. EBITDA stood at Rs3.98bn vs. our estimate of Rs3.8bn and OPM was 11.6% - above our estimate of 9.4%.
- Key positives: 1) capacity utilization of VSF improved to 88% in Q2 from 26% in Q1; 2) capacity utilization of caustic soda improved to 80% in Q2 from 49% in Q1; and 3) 28%/34% yoy fixed-cost reduction for the VSF/Chemical segment.
- Grasim has approved the divestment of its fertilizer business for a consideration of Rs26.49bn. This deal is expected to get completed in 9-12 months. It has entered into an agreement with Lubrizol which will help improve chlorine sales, and Grasim will receive a fixed annual compensation.
- We raise EBITDA estimates for FY21/22/23 by 20%/4%/1% on higher volumes and lower fixed cost. Lower caustic soda prices due to surplus capacities will continue to affect the profitability of the Chemical segment. The sustainability of recent increase in VSF prices needs to be seen as CU in China remains at 72-73%. Maintain Hold with a TP of Rs905.

**Lower realization hurts but strong recovery in demand in Sep-Oct'20:** Grasim's performance continued to remain impacted by low VSF and caustic soda prices. Blended realization of the VSF segment was down 22.8% yoy/2.7% qoq, led by 26% yoy/5% qoq decline in VSF realization. Realization of caustic soda was down 15.8% yoy/1.3% qoq. After a 70% yoy fall in the sales of VSF in Q1FY21, there was a strong recovery in demand which restricted the volume decline to mere 8% yoy in Q2. Capacity utilization of VSF improved to 88% in Q2 from 26% in Q1. Capacity utilization in Oct'20 has further improved to 100%. Sales volume of caustic soda was down 2% yoy. Capacity utilization of caustic soda improved to 80% in Q2 from 49% in Q1. Cost-saving measures led to a fixed-cost reduction of Rs1.16bn for VSF and Rs530mn for caustic soda compared with the quarterly average of FY20. EBITDA of VSF/Chemical segment was down 49.3%/31.5% yoy. For the company, EBITDA was down 39.6% yoy, with a 2.2pp decline in OPM.

**Raise estimates but maintain Hold as concerns not yet over:** We raise FY21E EBITDA by 20%, considering higher volumes in H2 and lower fixed costs. FY22/23E EBITDA is being raised by 4%/1%. The caustic soda business remains impacted by excess chlorine capacity globally, and caustic soda prices have declined below US\$250/ton. Grasim is expanding caustic soda capacities by 27%, which may keep prices subdued in domestic markets in FY22. The sustainability of the recovery in VSF prices needs to be observed as the utilization rate in China remains at 72-73%. Even after the recent price increases, VSF price is still down 10-15% yoy. We expect opex of VSF to increase going forward, led by higher pulp prices (up 10%) and an increase in other overheads. We maintain Hold with a revised TP of Rs905, based on 4.5x Dec-22E EBITDA of the standalone business and assign a 50% HoldCo discount for its holding in subsidiaries. The downside risk could be any fund infusion in VIL or a decline in VSF demand/prices.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(Page 10\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2,05,504	1,86,094	1,39,974	1,79,216	1,97,477
EBITDA	40,712	23,105	12,447	24,522	28,251
EBITDA Margin (%)	19.8	12.4	8.9	13.7	14.3
APAT	28,833	15,640	4,222	12,802	15,578
EPS (Rs)	43.8	23.8	6.4	19.5	23.7
EPS (% chg)	41.2	(45.8)	(73.0)	203.2	21.7
ROE (%)	10.4	12.9	4.2	12.0	13.1
P/E (x)	19.2	35.4	131.1	43.2	35.5
EV/EBITDA (x)	13.7	25.3	47.7	24.1	20.8
P/BV (x)	1.3	1.5	1.5	1.4	1.4

Source: Company, Emkay Research



### Change in Estimates

EPS Chg FY21E/FY22E (%)	85/10
Target Price change (%)	7.4
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	6.4	19.5
Consensus	3.5	17.7
Mean Consensus TP (12M)	Rs 783	

### Stock Details

Bloomberg Code	GRASIM IN
Face Value (Rs)	2
Shares outstanding (mn)	658
52 Week H/L	848 / 380
M Cap (Rs bn/USD bn)	554 / 7.42
Daily Avg Volume (nos.)	31,84,160
Daily Avg Turnover (US\$ mn)	30.6

### Shareholding Pattern Sep '20

Promoters	40.9%
FIIs	12.6%
DIIIs	20.3%
Public and Others	26.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	12	33	61	14
<b>Rel. to Nifty</b>	5	18	19	6

### Relative price chart



Source: Bloomberg

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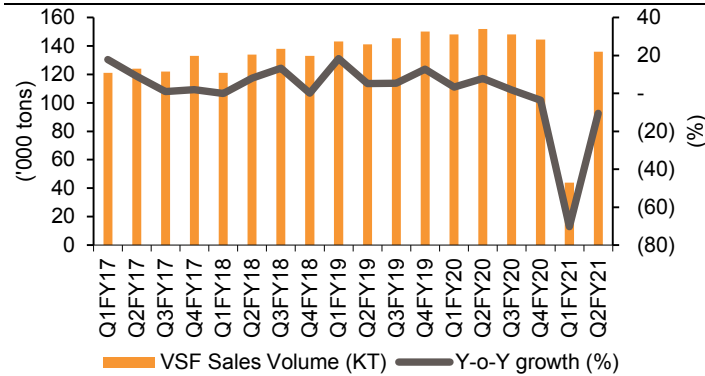
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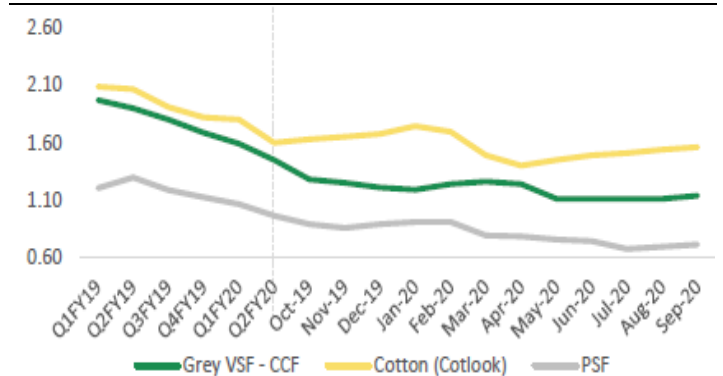
# Story in Charts

**Exhibit 1: VSF (including VFY) volumes decline by 10.5% yoy**



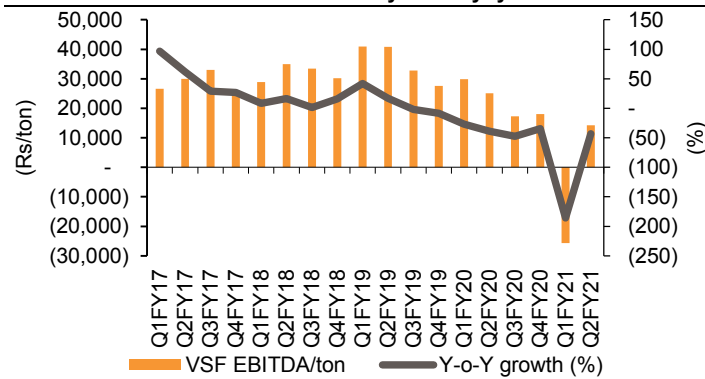
Source: Emkay Research, Company

**Exhibit 2: VSF and PSF prices stabilized in Aug-Sep'20**



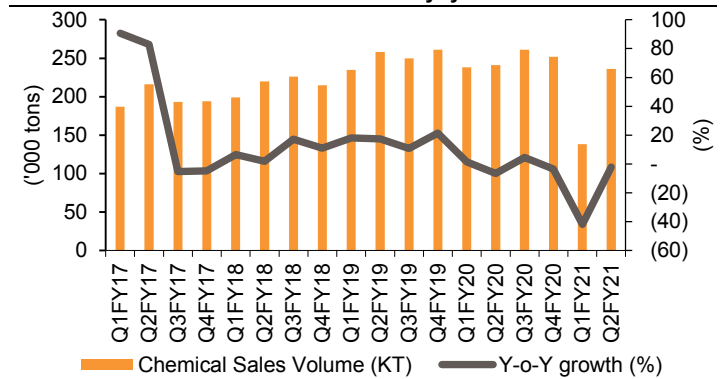
Source: Emkay Research, Company

**Exhibit 3: VSF EBITDA/ton declined by 43.4% yoy**



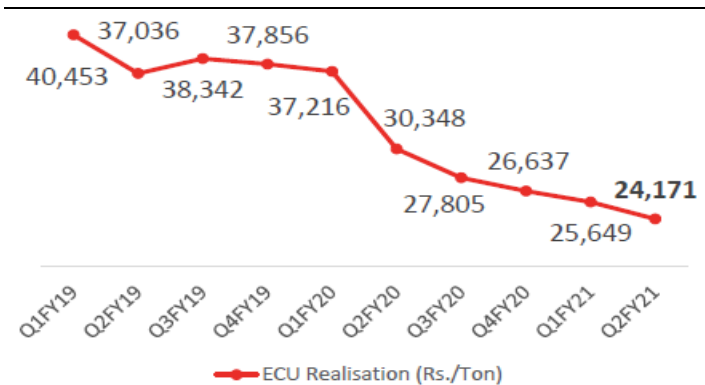
Source: Emkay Research, Company

**Exhibit 4: Chemical volumes down 2.1% yoy**



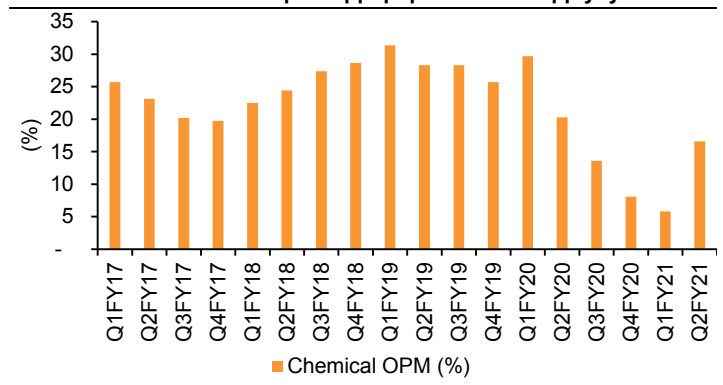
Source: Emkay Research, Company

**Exhibit 5: Decline in ECU realization continues**



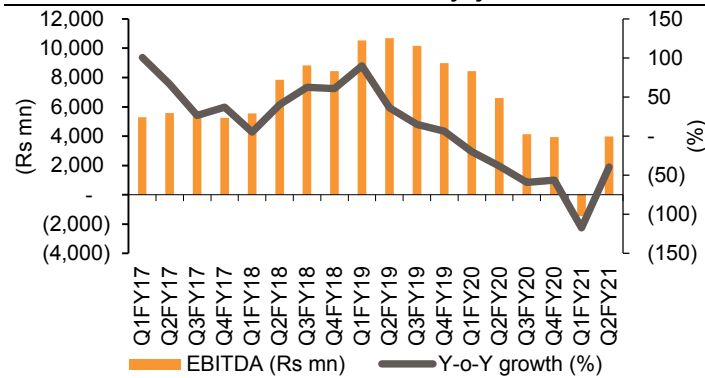
Source: Emkay Research, Company

**Exhibit 6: Chemical OPM up 10.8pp qoq but down 3.7pp yoy**



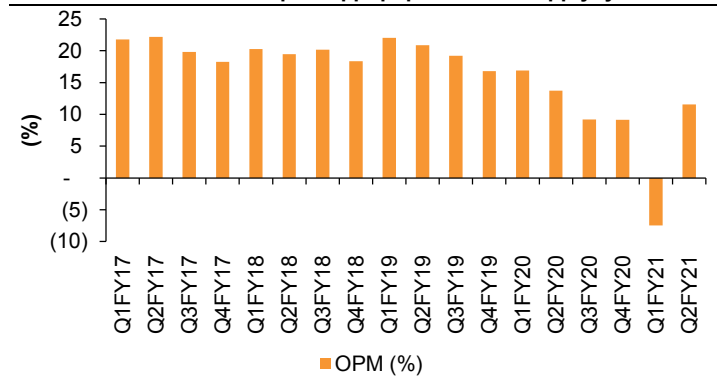
Source: Emkay Research, Company

**Exhibit 7: Grasim's EBITDA declines 39.6% yoy**



Source: Emkay Research, Company

**Exhibit 8: Grasim's OPM up 10.8pp qoq but down 3.7pp yoy**



Source: Emkay Research, Company

**Exhibit 9: Actual vs. Estimates (Q2FY21)**

(Rs mn)	Actual	Estimates		Estimate		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	34,382	40,224	36,248	(14.5)	(5.1)	On lower VSF realization
EBITDA	3,979	3,795	2,926	4.9	36.0	Led by cost-saving strategies
EBITDA margin (%)	11.6	9.4	8.1	214bps	350bps	
Adj. PAT	3,602	2,653	1,770	35.8	103.5	Led by higher operating profit and lower ETR

Source: Company, Emkay Research, Bloomberg

**Exhibit 10: Quarterly results (Standalone)**

(Y/E Mar, Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY20	H1FY21	YoY (%)
Net Sales	47,974	44,989	43,125	19,436	34,382	(28.3)	76.9	97,980	53,819	(45.1)
Total Expenditure	41,381	40,855	39,184	20,886	30,403	(26.5)	45.6	82,950	51,289	(38.2)
as % of sales	86%	91%	91%	107%	88%			85%	95%	
Stock	(500)	(153)	445	960	836	(267.4)	(12.9)	(1,932)	1,796	(193.0)
as % of sales	-1%	0%	1%	5%	2%			-2%	3%	
Raw material consumed	23,473	21,965	20,219	8,539	15,634	(33.4)	83.1	48,283	24,173	(49.9)
as % of sales	49%	49%	47%	44%	45%			49%	45%	
Purchase of traded goods	680	1,201	451	771	666	(2.2)	(13.6)	1,457	1,436	(1.4)
as % of sales	1%	3%	1%	4%	2%			1%	3%	
Employees costs	4,039	4,066	4,168	3,106	3,094	(23.4)	(0.4)	7,968	6,201	(22.2)
as % of sales	8%	9%	10%	16%	9%			8%	12%	
Power and fuel	7,856	7,509	7,231	4,006	6,110	(22.2)	52.5	15,204	10,116	(33.5)
as % of sales	16%	17%	17%	21%	18%			16%	19%	
Other expenditure	5,832	6,266	6,671	3,504	4,063	(30.3)	16.0	11,970	7,567	(36.8)
as % of sales	12%	14%	15%	18%	12%			12%	14%	
EBIDTA	6,593	4,134	3,941	(1,450)	3,979	(39.6)	(374.5)	15,030	2,530	(83.2)
Depreciation	2,085	2,123	2,227	2,126	2,153	3.2	1.2	4,117	4,279	3.9
EBIT	4,508	2,011	1,714	(3,576)	1,827	(59.5)	(151.1)	10,913	(1,749)	(116.0)
Other Income	2,862	813	733	987	2,824	(1.3)	186.2	3,709	3,811	2.7
Interest	861	673	724	784	757	(12.0)	(3.4)	1,641	1,542	(6.1)
PBT	6,510	2,150	1,723	(3,374)	3,894	(40.2)	(215.4)	12,981	520	(96.0)
Tax	1,245	202	600	(1,260)	292	(76.6)	(123.1)	2,797	(969)	(134.6)
Adjusted PAT	5,265	1,949	1,123	(2,114)	3,602	(31.6)	(270.4)	10,184	1,489	(85.4)
APAT after MI	5,265	1,949	1,123	(2,114)	3,602	(31.6)	(270.4)	10,184	1,489	(85.4)
Extra ordinary items	-	(102)	2,448	(577)	-	n/m	(100.0)	(2,902)	(577)	(80.1)
Reported PAT	5,265	1,847	3,571	(2,691)	3,602	(31.6)	(233.9)	7,282	911	(87.5)
Reported EPS (Rs)	8.0	3.0	1.7	(3.2)	5.5	(31.6)	(270.4)	15.5	2.3	(85.4)

**Margins (%)**

EBIDTA	13.7	9.2	9.1	(7.5)	11.6	(217)	1,903	15.3	4.7	(1,064)
EBIT	9.4	4.5	4.0	(18.4)	5.3	(408)	2,371	11.1	(3.2)	(1,439)
EBT	13.6	4.8	4.0	(17.4)	11.3	(224)	2,868	13.2	1.0	(1,228)
EAT	11.0	4.3	2.6	(10.9)	10.5	(50)	2,135	10.4	2.8	(763)
Tax rate	19.1	9.4	34.8	37.4	7.5	(1,163)	(2,986)	21.5	(186.3)	(20,782)

Source: Company, Emkay Research

**Exhibit 11: Segment breakdown (Standalone)**

(Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY20	H1FY21	YoY (%)
<b>Sales</b>										
VSF	24,310	21,940	21,020	5,580	16,790	(30.9)	200.9	49,400	22,370	(54.7)
Chemical	13,470	13,620	12,900	7,040	11,260	(16.4)	59.9	28,500	18,300	(35.8)
Textiles	4,200	4,010	3,440	750	1,760	(58.1)	134.7	8,570	2,510	(70.7)
Insulators	970	900	1,090	450	900	(7.2)	100.0	2,070	1,350	(34.8)
<b>EBIDTA</b>										
VSF	3,810	2,560	2,610	(1,130)	1,930	(49.3)	(270.8)	8,230	800	(90.3)
Chemical	2,730	1,850	1,040	410	1,870	(31.5)	356.1	7,190	2,280	(68.3)
Textiles	130	(20)	(10)	(550)	(220)	(269.2)	(60.0)	440	(770)	(275.0)
Insulators	(20)	30	30	(150)	90	(550.0)	(160.0)	40	(60)	(250.0)
<b>EBIDTA (%)</b>										
VSF	15.7	11.7	12.4	(20.3)	11.5	(418)	3,175	16.7	3.6	(1,308)
Chemical	20.3	13.6	8.1	5.8	16.6	(366)	1,078	25.2	12.5	(1,277)
Textiles	3.1	(0.5)	(0.3)	(73.3)	(12.5)	(1,560)	6,083	5.1	(30.7)	(3,581)
Insulators	(2.1)	3.3	2.8	(33.3)	10.0	1,206	4,333	1.9	(4.4)	(638)

Source: Company, Emkay Research

**Exhibit 12: VSF segment performance**

VSF segment	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)	H1FY20	H1FY21	YoY (%)
Sales volume (Ton)	1,52,000	1,48,000	1,44,500	44,000	1,36,000	(10.5)	209.1	3,00,000	1,80,000	(40.0)
Realization (Rs/Kg)	159.9	148.2	145.5	126.8	123.5	(22.8)	(2.7)	329.5	250.3	(24.0)
EBIDTA (%)	15.7	11.7	12.4	(20.3)	11.5	(418)	3,175	16.7	3.6	(1,308.4)
EBIDTA/Kg	25.1	17.3	18.1	(25.7)	14.2	(43.4)	(155.3)	54.9	(11.5)	(120.9)
Op Cost /Kg	134.9	130.9	127.4	152.5	109.3	(19.0)	(28.4)	274.5	261.8	(4.7)

Source: Company, Emkay Research

## Changes in estimates

We increase VSF sales volume estimates by 12%/4/1% for FY21/22/23E. We also increase our realization assumptions of VSF by 2% for H2FY21, considering the recent increase in VSF prices. This leads to an EBITDA increase of 20.1%/4.3%/0.8% for FY21/22/23E. Profit estimates are being increased by 85.2%/9.7%/9.3% for FY21/22/23E.

We have not made any changes due to the proposed sale of fertilizer business as the exact timeline is not yet known. However, the completion of sale of the fertilizer business will lead us to reduce revenue estimates by 12.7% and EBITDA estimates by 7.8% for FY23. We have adjusted EBITDA of fertilizer business and the amount received through this transaction for calculation of the target price.

**Exhibit 13: Changes in estimates**

Rs mn	FY21E			FY22E			FY23E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Sales	1,42,848	1,39,974	(2.0)	1,83,248	1,79,216	(2.2)	2,02,064	1,97,477	(2.3)
EBIDTA	10,361	12,447	20.1	23,517	24,522	4.3	28,016	28,251	0.8
EBIDTA (%)	7.3	8.9	164	12.8	13.7	85	13.9	14.3	44
Net Profit	2,279	4,222	85.2	11,665	12,802	9.7	14,939	15,578	4.3
EPS (Rs)	3.5	6.4	85.2	17.7	19.5	9.7	22.7	23.7	4.3

Source: Company, Emkay Research

**Exhibit 14: Key Assumptions**

Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
VSF Volume (ton)	5,08,000	5,41,000	5,54,000	4,57,040	5,54,900	6,05,350
Realization/kg	160	155	135	131	135	139

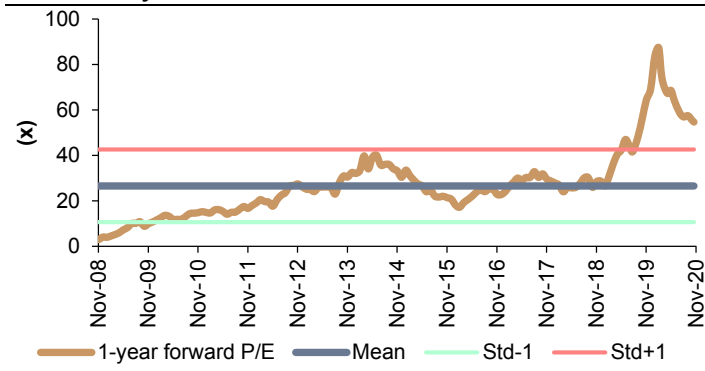
Source: Company, Emkay Research

Exhibit 15: Peer Valuation

Company	Rs bn	EV/EBITDA (x)			ROE (%)			EPS (Rs)			P/E (x)		
	Mcap	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Grasim Industries</b>	<b>554</b>	<b>47.7</b>	<b>24.1</b>	<b>20.8</b>	<b>4.2</b>	<b>12.0</b>	<b>13.1</b>	<b>6.4</b>	<b>19.5</b>	<b>23.7</b>	<b>131.1</b>	<b>43.2</b>	<b>35.5</b>
GHCL <sup>^</sup>	16	4.3	3.3	2.8	10.7	14.5	15.6	25.8	38.9	49.7	6.5	4.3	3.4
ACC*	315	11.0	9.7	8.9	10.9	11.4	11.5	69.4	79.6	87.3	24.2	21.1	19.2
Ambuja Cements*	512	16.2	14.7	12.3	8.0	8.5	9.2	8.6	8.9	10.4	30.1	28.8	24.9
India Cements	39	9.5	8.6	7.4	3.0	3.4	4.3	5.2	6.2	8.1	24.0	20.4	15.6
Ramco Cements	201	16.1	15.5	13.1	14.0	12.4	13.4	31.2	31.1	37.7	27.4	27.5	22.7
Shree Cements	844	22.0	19.2	16.7	12.9	13.1	13.3	491.5	560.0	637.5	47.6	41.8	36.7
UltraTech Cement	1,414	15.8	13.9	12.0	11.0	11.8	12.5	156.8	186.4	220.8	31.2	26.3	22.2

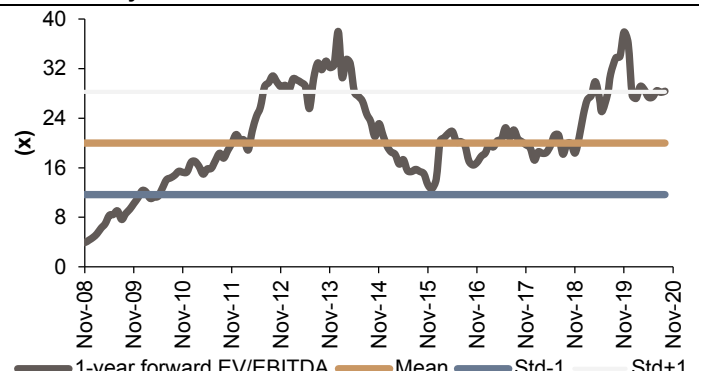
Source: Company, Emkay Research, \*Dec-ending companies, <sup>^</sup>Bloomberg Consensus estimates

Exhibit 16: 1-yr forward P/E chart



Source: Company, Emkay Research

Exhibit 17: 1-yr forward EV/EBITDA chart



Source: Company, Emkay Research

Exhibit 18: SoTP Valuation for Grasim

Particulars	Valuation method	Unit	Dec-22E	Rs
UltraTech's Mcap based on our target price		Rs mn	15,19,641	
HoldCo discount		%	50	
Grasim's stake		%	57.9	
Value of cement stake		Rs mn	4,39,936	
Value/share	50% HoldCo discount to our PT	Rs		<b>670</b>
Value of Grasim's standalone business		Rs mn	1,20,714	
Value/share	4.5x for standalone business			<b>184</b>
Value of listed investments		Rs mn	30,403	
HoldCo discount		%	50	
Value of listed investments post HoldCo		Rs mn	15,202	
Value/share	50% HoldCo discount on CMP	Rs		<b>23</b>
VSF & Fibre JV		Rs mn	7,750	
Value/share	1x P/BV	Rs		<b>12</b>
Standalone Net Debt of Grasim*		Rs mn	40,080	
Value/share		Rs		<b>61</b>
Aditya Birla Capital		Rs mn	1,85,799	
HoldCo discount		%	50	
Grasim's stake		%	54.23	
Value of AB Capital's stake in Grasim		Rs mn	50,379	
Value/share	50% HoldCo discount on CMP	Rs		<b>77</b>
<b>Target price</b>		<b>Rs</b>		<b>905</b>
<b>CMP</b>		<b>Rs</b>		841
<b>UP/(down)side</b>		<b>%</b>		<b>7.6</b>

Source: Company, Emkay Research, \* we have considered 25% probability of Grasim to take up VIL debt burden as a promoter in the worst case assumption

## Concall highlights

- **Divestment of fertilizer business:** Grasim has approved the divestment of its fertilizer business, Indo Gulf Fertilizers (IGF), to Indorama India Pvt. Ltd. for a lump-sum cash consideration of Rs26.49bn. IGF has a urea production capacity of 1.2mt in Uttar Pradesh. In FY20, revenues of IGF was Rs26.8bn with an EBITDA of Rs2.22bn. This deal is expected to be completed in 9-12 months and the consideration value will be adjusted for any changes in working capital at the time of the completion of the deal. Management mentioned that there was limited rationale to remain invested in a non-core business.
- **Agreement with Lubrizol:** Grasim has entered into an agreement with Lubrizol Advanced Materials to manufacture and supply chlorinated polyvinyl chloride (CPVC) resin. Lubrizol will set up a 100KTPA plant at Vilayat, Gujarat in two phases, with the first phase of 50KTPA expected to get commissioned in H2FY23. Investments will be done by Lubrizol, whereas Grasim will provide land, material and utilities. This will help Grasim improve the sales of chlorine in a sustained way and it will get a fixed annual compensation for operating the plant. The amount received annually will be included in the profitability of the Chemicals segment.
- **View on VSF and VFY:** Capacity utilization of VSF improved to 88% in Q2 from 26% in Q1. Capacity utilization of VFY improved to 39% from 12% Q1. Demand of VSF is back to pre-Covid-19 levels and capacity utilization reached to ~100% in Oct'20. In domestic markets, VSF demand is growing at a CAGR of 14-15% for last two years compared with 5-6% growth in global markets. VSF sales into domestic market was 82% of total volumes in Q2. Grey VFY sales was 85%, whereas Value-Added Products (VAPs) contributed 15% to sales volumes. Fixed cost of VSF has been reduced by 28% (Rs1.16bn) from the quarterly average of FY20, led by: 1) reduction in employee expenses; 2) lower repair & maintenance expenses; and 3) reduction in overheads.
- **Chinese VSF industry:** In China, VSF inventory at plants declined significantly from 45 days in Apr'20 to 16 days in Sep'20. China Yarn inventory with spinners also declined from 39 days in Apr'20 to 12 days in Sep'20 on the back of higher demand. Lower inventory, along with an improvement in capacity utilization (mid-70s in Sep'20 vs. mid-60s in Apr'20), reflects an improving demand scenario without inventory pile-up, which is a positive. VSF prices in China recovered to RMB10,700/ton in Nov'20 from RMB8,500/ton in Sep'20. Sep'20 exit price for VSF in global markets was 2% higher than Q2FY21 average price. Pulp prices have also increased by 10% recently.
- **View on the Chemical segment:** Capacity utilization of caustic soda improved to 80% in Q2 from 49% in Q1. Epoxy capacity utilization improved to 43% from 23% in Q1. Chlorine consumption in VAPs increased to 30% in Q2, up 3pp qoq. Capacity utilization of caustic soda at present is 80-85% and a strong recovery will help up the newly commissioned capacities to ramp up very soon. Fixed-cost optimization measures led to a saving of Rs530mn (down 34%) from FY20 quarterly average. There has been a glut of caustic soda in global markets due to high chlorine demand which has put pressure on prices (prices have declined below US\$250/ton).
- **Capex plans:** In Q2FY21, Grasim received additional approval for capex spent of Rs2.37bn and total approved capex for FY21 stands now at Rs18.52bn. It is in the process of increasing VSF capacity to 801KTPA from 578KTPA and caustic soda capacity to 1,457KTPA from 1,147KTPA. The expansion of VSF capacity will be completed in Q2/Q3FY22. The expansion of caustic soda capacity will be completed in phases: 1) 73KTPA in Q4FY21; 2) 164KTPA in Q1FY22; and 3) 73KTPA after FY22.
- **Comments on capital allocation:** Organic capex will always be the priority for Grasim. As the financial services business always requires funds and if Grasim does not want to dilute its stake in the business, it may invest there. There is no intention to invest in any other group company.
- **Gross debt and net debt:** Gross debt as of Sep-20 stood at Rs49.8bn vs. Rs50.7bn at Mar-20, while net debt stood at Rs23.3bn vs. Rs29.8bn at Mar-20.

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>2,05,504</b>	<b>1,86,094</b>	<b>1,39,974</b>	<b>1,79,216</b>	<b>1,97,477</b>
<b>Expenditure</b>	<b>1,64,793</b>	<b>1,62,989</b>	<b>1,27,527</b>	<b>1,54,694</b>	<b>1,69,227</b>
<b>EBITDA</b>	<b>40,712</b>	<b>23,105</b>	<b>12,447</b>	<b>24,522</b>	<b>28,251</b>
Depreciation	7,604	8,468	8,634	9,478	9,941
<b>EBIT</b>	<b>33,108</b>	<b>14,638</b>	<b>3,812</b>	<b>15,044</b>	<b>18,310</b>
Other Income	5,680	5,254	5,378	5,947	6,274
Interest expenses	1,991	3,039	3,486	3,692	3,533
<b>PBT</b>	<b>36,797</b>	<b>16,854</b>	<b>5,705</b>	<b>17,300</b>	<b>21,051</b>
Tax	7,964	1,214	1,483	4,498	5,473
Extraordinary Items	(23,680)	(2,941)	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
<b>Reported Net Income</b>	<b>5,153</b>	<b>12,699</b>	<b>4,222</b>	<b>12,802</b>	<b>15,578</b>
<b>Adjusted PAT</b>	<b>28,833</b>	<b>15,640</b>	<b>4,222</b>	<b>12,802</b>	<b>15,578</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	1,315	1,316	1,316	1,316	1,316
Reserves & surplus	4,18,277	3,75,425	3,78,186	3,88,797	4,01,454
<b>Net worth</b>	<b>4,19,592</b>	<b>3,76,740</b>	<b>3,79,502</b>	<b>3,90,113</b>	<b>4,02,770</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>33,046</b>	<b>50,680</b>	<b>59,180</b>	<b>57,180</b>	<b>54,180</b>
Net deferred tax liability	18,789	14,025	14,025	14,025	14,025
<b>Total Liabilities</b>	<b>4,71,427</b>	<b>4,41,445</b>	<b>4,52,707</b>	<b>4,61,318</b>	<b>4,70,975</b>
<b>Net block</b>	<b>1,12,322</b>	<b>1,20,832</b>	<b>1,46,637</b>	<b>1,60,659</b>	<b>1,65,719</b>
<b>Investment</b>	<b>3,11,276</b>	<b>2,76,762</b>	<b>2,77,952</b>	<b>2,77,952</b>	<b>2,77,952</b>
<b>Current Assets</b>	<b>78,862</b>	<b>69,383</b>	<b>62,282</b>	<b>69,894</b>	<b>74,225</b>
Cash & bank balance	425	739	751	1,280	1,108
Other Current Assets	0	0	0	0	0
<b>Current liabilities &amp; Provision</b>	<b>46,705</b>	<b>53,451</b>	<b>46,164</b>	<b>50,686</b>	<b>50,420</b>
<b>Net current assets</b>	<b>32,157</b>	<b>15,933</b>	<b>16,118</b>	<b>19,207</b>	<b>23,805</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>4,71,427</b>	<b>4,41,445</b>	<b>4,52,707</b>	<b>4,61,318</b>	<b>4,70,975</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>36,797</b>	<b>16,854</b>	<b>327</b>	<b>11,353</b>	<b>14,777</b>
Other Non-Cash items	(4,962)	(3,876)	0	0	0
Chg in working cap	(10,752)	12,855	(174)	(2,560)	(4,770)
<b>Operating Cashflow</b>	<b>25,555</b>	<b>35,185</b>	<b>10,789</b>	<b>17,464</b>	<b>18,008</b>
Capital expenditure	(20,440)	(27,155)	(18,520)	(15,000)	(15,000)
<b>Free Cash Flow</b>	<b>5,115</b>	<b>8,030</b>	<b>(7,731)</b>	<b>2,464</b>	<b>3,008</b>
Investments	0	0	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(2,191)</b>	<b>(17,806)</b>	<b>4,188</b>	<b>5,947</b>	<b>6,274</b>
Equity Capital Raised	86	90	0	0	0
Loans Taken / (Repaid)	3,504	17,258	8,500	(2,000)	(3,000)
Dividend paid (incl tax)	(4,530)	(5,155)	(1,460)	(2,191)	(2,921)
Other Financing Cash Flow	0	0	0	0	0
<b>Financing Cashflow</b>	<b>(2,990)</b>	<b>10,091</b>	<b>3,554</b>	<b>(7,883)</b>	<b>(9,454)</b>
<b>Net chg in cash</b>	<b>(65)</b>	<b>315</b>	<b>12</b>	<b>529</b>	<b>(172)</b>
Opening cash position	262	196	739	751	1,280
<b>Closing cash position</b>	<b>196</b>	<b>511</b>	<b>751</b>	<b>1,280</b>	<b>1,108</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EBITDA Margin	19.8	12.4	8.9	13.7	14.3
EBIT Margin	16.1	7.9	2.7	8.4	9.3
Effective Tax Rate	21.6	7.2	26.0	26.0	26.0
Net Margin	14.0	8.4	3.0	7.1	7.9
ROCE	11.8	11.1	5.4	11.7	13.1
ROE	10.4	12.9	4.2	12.0	13.1
RoIC	23.9	10.5	2.6	8.8	10.0

<b>Per Share Data (Rs)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
EPS	43.8	23.8	6.4	19.5	23.7
CEPS	55.4	36.6	19.5	33.9	38.8
BVPS	638.0	572.7	576.9	593.0	612.3
DPS	6.2	4.0	2.0	3.0	4.0

<b>Valuations (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
PER	19.2	35.4	131.1	43.2	35.5
P/CEPS	15.2	23.0	43.1	24.8	21.7
P/BV	1.3	1.5	1.5	1.4	1.4
EV / Sales	2.7	3.1	4.2	3.3	3.0
EV / EBITDA	13.7	25.3	47.7	24.1	20.8
Dividend Yield (%)	0.7	0.5	0.2	0.4	0.5

<b>Gearing Ratio (x)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Net Debt/ Equity	0.0	0.1	0.1	0.1	0.1
Net Debt/EBIDTA	0.1	1.4	3.3	1.6	1.3
Working Cap Cycle (days)	56.4	29.8	40.1	36.5	42.0

<b>Growth (%)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
Revenue	30.2	(9.4)	(24.8)	28.0	10.2
EBITDA	32.3	(43.2)	(46.1)	97.0	15.2
EBIT	35.1	(55.8)	(74.0)	294.6	21.7
PAT	(70.9)	146.4	(66.8)	203.2	21.7

<b>Quarterly (Rs mn)</b>	<b>Q2FY20</b>	<b>Q3FY20</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>
Revenue	47,974	44,989	43,125	19,436	34,382
EBITDA	6,593	4,134	3,941	(1,450)	3,979
<b>EBITDA Margin (%)</b>	<b>13.7</b>	<b>9.2</b>	<b>9.1</b>	<b>(7.5)</b>	<b>11.6</b>
PAT	5,265	1,847	3,571	(2,691)	3,602
<b>EPS (Rs)</b>	<b>8.0</b>	<b>2.8</b>	<b>5.4</b>	<b>(4.1)</b>	<b>5.5</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>
Promoters	40.2	40.1	40.3	40.3	40.9
FII	17.0	16.0	13.5	12.7	12.6
DII	22.1	22.6	22.9	21.4	20.3
Public and Others	20.8	21.3	23.4	25.7	26.3

Source: Capitaline

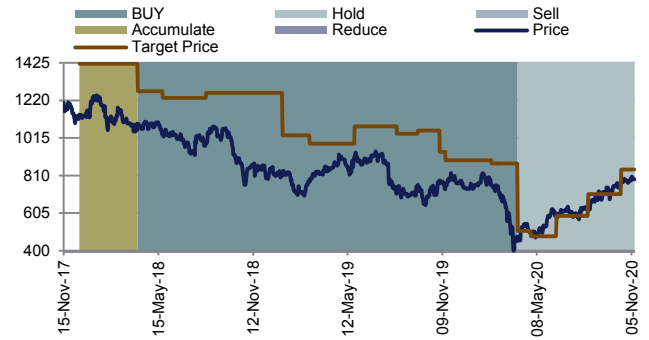


## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Oct-20	773	843	12m	Hold	Sanjeev Kumar Singh
14-Aug-20	629	709	12m	Hold	Sanjeev Kumar Singh
14-Jun-20	602	589	12m	Hold	Sanjeev Kumar Singh
18-May-20	496	479	12m	Hold	Sanjeev Kumar Singh
26-Apr-20	499	479	12m	Hold	Sanjeev Kumar Singh
01-Apr-20	476	507	12m	Hold	Sanjeev Kumar Singh
11-Feb-20	759	876	12m	Buy	Sanjeev Kumar Singh
15-Nov-19	755	894	12m	Buy	Sanjeev Kumar Singh
04-Nov-19	784	939	12m	Buy	Sanjeev Kumar Singh
23-Sep-19	759	1,055	12m	Buy	Sanjeev Kumar Singh
14-Aug-19	735	1,039	12m	Buy	Sanjeev Kumar Singh
25-May-19	910	1,079	12m	Buy	Sanjeev Kumar Singh
28-Feb-19	777	984	12m	Buy	Sanjeev Kumar Singh
07-Jan-19	821	1,029	12m	Buy	Sanjeev Kumar Singh
14-Aug-18	987	1,262	12m	Buy	Sanjeev Kumar Singh
23-May-18	1,047	1,233	12m	Buy	Sanjeev Kumar Singh
05-Apr-18	1,094	1,271	12m	Buy	Sanjeev Kumar Singh
15-Dec-17	1,140	1,420	12m	Accumulate	Sanjeev Kumar Singh
14-Nov-17	1,207	1,420	12m	Accumulate	Sanjeev Kumar Singh

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Cement & Building Materials



### Analyst: Sanjeev Kumar Singh

#### Contact Details

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#### Sector

Cement & Building materials

#### Analyst bio

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

#### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Cement &amp; Building Materials</b>	<b>2.23</b>	<b>2.23</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
ACC	0.20	0.22	10%	2	9.98
Ambuja Cements	0.28	0.31	11%	3	13.69
Grasim Industries	0.47	0.14	-69%	-32	6.44
Birla Corporation	0.00	0.08	NA	8	3.59
India Cements	0.00	0.00	NA	0	0.00
JK Cement	0.00	0.05	NA	5	2.19
Jk Lakshmi Cement	0.00	0.05	NA	5	2.06
Orient Cement	0.00	0.00	NA	0	0.00
Prism Johnson	0.00	0.00	NA	0	0.00
Ramco Cements	0.16	0.16	0%	0	6.96
Shree Cements	0.33	0.33	0%	0	14.65
Star Cement	0.00	0.00	NA	0	0.00
Ultratech Cement	0.80	0.90	12%	10	40.43
Century Plyboards	0.00	0.00	NA	0	0.00
Kajaria Ceramics	0.00	0.00	NA	0	0.00
Somany Ceramics	0.00	0.00	NA	0	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

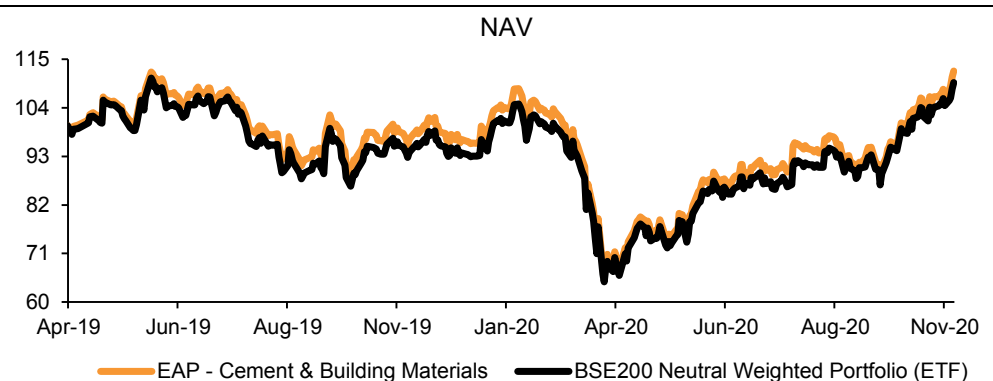
#### Sector portfolio NAV

	Base					Latest
	1-Apr-19	13-Feb-20	14-May-20	13-Aug-20	13-Oct-20	12-Nov-20
EAP - Cement & Building Materials	100.0	103.5	79.9	94.6	101.5	112.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	100.4	78.2	91.1	99.4	109.7

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

#### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 13 Nov 2020 23:34:53 (SGT)

Dissemination Date: 13 Nov 2020 23:35:53 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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