



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View

Change

Reco: Buy	↔
CMP: Rs. 1,567	
Price Target: Rs. 1,880	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

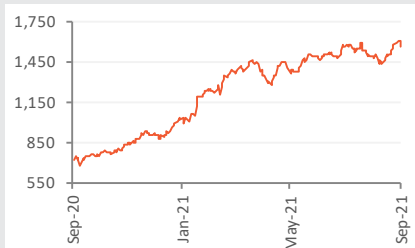
Company details

Market cap:	Rs. 1,03,131 cr
52-week high/low:	Rs. 1,623/676
NSE volume: (No of shares)	27.8 lakh
BSE code:	500300
NSE code:	GRASIM
Free float: (No of shares)	38.1 cr

Shareholding (%)

Promoters	42.1
FII	15.1
DII	16.2
Others	26.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.9	7.5	14.4	116.2
Relative to Sensex	-0.2	-5.2	-5.5	64.3

Sharekhan Research, Bloomberg

Summary

- Grasim stands to benefit from government's relief package to telecom sector as Vodafone Idea avoids bankruptcy and gets fairly longer period to better manage cash flows.
- Grasim's chemicals business is slated to benefit from rising caustic soda prices which have been on an uptrend with caustic soda flakes and lye prices rising 6% q-o-q and 17% q-o-q respectively during Q2FY2022 till date.
- VSF prices have been trading lower since March 2021 while spreads with cotton have risen to historic highs, which may drive up VSF prices as demand picks up.
- We retain a Buy on Grasim with a revised PT of Rs. 1880 reducing holding company discount for its listed entities in financial services and telecom.

Grasim stands to benefit from government's recent relief package to the telecom sector as Vodafone Idea gains from avoiding bankruptcy and getting more time to manage cash flows. Grasim's chemicals business is expected to benefit from rising caustic soda prices which are up both y-o-y and q-o-q. The VSF prices have been on downtrend since March 2021 but spread with cotton being at historic highs may improve prices with improvement in demand. Grasim's paints venture is a key positive trigger and yet to be factored in valuation which is expected to provide stability, scalability and higher returns.

- Government relief package to telecom – a Sigh of relief for Grasim:** Grasim, with an 11.55% stake in Vodafone Idea is expected to benefit from the recently announced relief package for telecom sector. Rationalising of the definition of adjusted gross revenue (AGR), four years' moratorium on telecom dues, increase of FDI cap to 100% and government's intention of taking equity as payment for dues has lead to avoidance of bankruptcy for Vodafone Idea and fairly long period for improve the cash flow position.
- Caustic soda prices on an uptrend:** We expect Grasim's chemical segment to benefit from rising caustic soda prices. Average caustic soda flake and lye prices in Mumbai for Q2FY2022 have risen by 6% q-o-q (up 12% y-o-y) till date and are up by 17% q-o-q (up 53% y-o-y). We had earlier stated in our report dated March 15, 2021 that caustic soda prices were bottoming out and should improve from hereon, with demand pick up from textile, paper, and other segments.
- VSF prices tread lower – Price gap widening against cotton:** VSF prices have been on a downtrend since March 2021, correcting by 16% to RMB 13200 in August 2021 (although up 55% y-o-y). However, the spread between Viscose and cotton has increased to historic levels due to rise in cotton prices. Consequently, it may provide a fillip to VSF prices as demand improves going ahead.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,880: Grasim is expected to benefit from increasing survival chances for Vodafone Idea led by government's relief package. The business outlook for its key subsidiary UltraTech remains buoyant. The company's ongoing capacity expansions in standalone operations are likely to capture high demand expected over the next two years. Further, we believe its foray in paints venture is expected to bring stability, scalability and higher returns to its standalone operations which is yet to be accounted in the valuation. We maintain a Buy rating on the stock with a revised price target of Rs. 1,880 (reducing holding company discount on its listed entities in financial services and telecom).

Key risk

Funding requirement of its group companies & weakness in standalone business are key risks.

Valuation (Standalone)

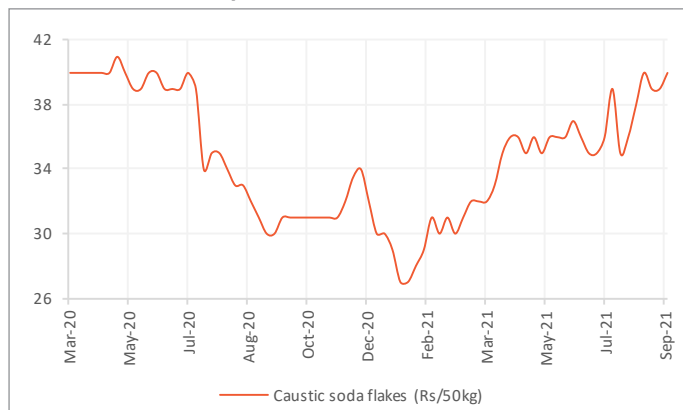
	Rs cr			
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	12,386	14,682	17,468	19,850
OPM (%)	12.6%	14.2%	15.4%	15.4%
Adjusted PAT	891	1,158	1,566	1,796
% YoY growth	(31.6)	29.9	35.2	14.7
Adjusted EPS (Rs.)	13.6	17.6	23.8	27.3
P/E (x)	115.7	89.1	65.9	57.4
P/B (x)	2.4	2.3	2.3	2.2
EV/EBITDA (x)	48.5	36.4	28.2	24.6
RoNW (%)	2.1	2.6	3.4	3.8
RoCE (%)	1.9	2.3	3.1	3.4

Source: Company; Sharekhan estimates

Government relief package to Telecom – a sigh of relief for Grasim: The government recently announced relief package for telecom sector rationalizing the definition of adjusted gross revenue (AGR), keeping non-telecom revenue out of its ambit and approved four years' moratorium on telecom dues. It also decided to increase the FDI cap through automatic route for telecom sector from 49% to 100%. The government also accepted taking equity as payment for dues. The move would provide much needed relief to Vodafone Idea avoiding bankruptcy and fairly long period for moratorium. It would not have to pay over Rs. 16,200 crore per annum as AGR and spectrum payments for four years. Consequently, we believe Grasim having 11.55% stake in Vodafone Idea would be benefited.

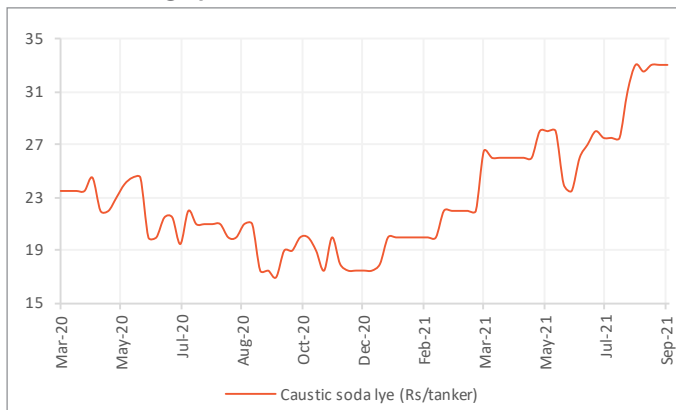
Caustic soda prices on an uptrend: Average caustic soda flake and lye prices in Mumbai for Q2FY2022 till date has risen by 6% q-o-q (up 12% y-o-y) and up 17% q-o-q (up 53% y-o-y). The average caustic soda flakes price rose during August and September 2021 rising by 6% and 4% m-o-m, respectively. We have earlier stated in our report dated March 15, 2021 that caustic soda prices were bottoming out and should improve from hereon, with demand pick up from textile, paper and other segments. We expect Grasim's chemical segment to benefit from the rising caustic soda prices.

Caustic soda flakes price in Mumbai trend



Source: Industry; Sharekhan Research

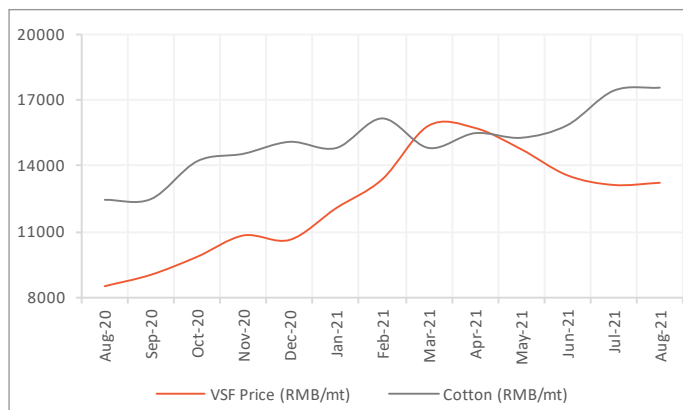
Caustic soda lye price in Mumbai trend



Source: Industry; Sharekhan Research

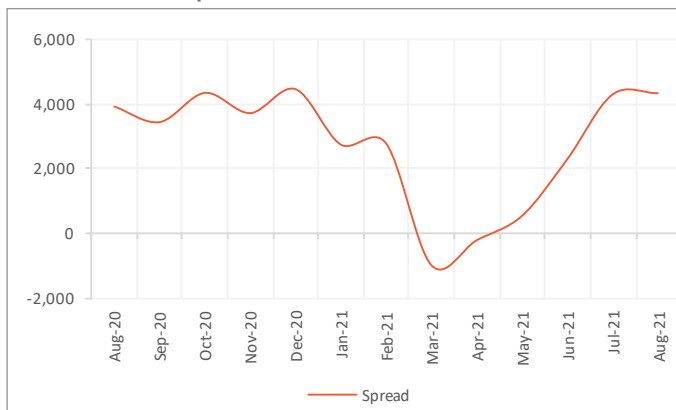
VSF prices tread lower – Price gap widening against cotton: VSF prices have been on a downtrend since March 2021 (VSF price had increased by 86% from their historic low of RMB 8300/tonne in August 2020 to RMB 15,800), correcting by 16% to RMB 13200 in August 2021 (although up 55% y-o-y). On the other hand, cotton prices steeply increased by 19% from March 2021 to RMB 17555 in August 2021 led by supply constraints increasing the spread between viscose and cotton at historic level. Higher spreads may provide a fillip to VSF prices as demand improves going ahead.

Viscose & Cotton PriceTrend



Source: Industry; Sharekhan Research

Viscose-Cotton Spread trend



Source: Industry; Sharekhan Research

Paints Venture – a key positive trigger yet to be factored in valuation: Grasim had announced a foray into the decorative paints business in January 2021 with an initial capex of Rs. 5000 crores over three years. The paints business is expected to bring stability in earnings, scalability and boost RoCE. It plans to leverage its strong distribution network established by Birla White (its subsidiary UltraTech's premium brand) which is a market leader in white cement and putty. The decorative paints sector is a large Rs.40,000 crore market, with unorganised players holding one-fourth of the market share. The decorative paint segment has been growing at an 11% CAGR over trailing five years till 2019. The venture into the paints business will provide scale, growth and reduce cyclicity of the standalone business. The capex in paints will commence this year and it is looking at land acquisitions for plant. The company is currently acquiring land after which it will require environment clearances and other approvals and would take 18 months for setting up the plant, which means the plant would take at least two years to set up. Currently, we are not factoring the paints business in our valuation as the company is yet to provide detailed plan for the same. However, we believe that the paints business can provide a meaningful upside to Grasim's current valuation.

Outlook and Valuation

■ Sector View – Improving outlook of the standalone business and healthy outlook of key subsidiary

Grasim is witnessing improving outlook for its standalone business with the easing of lockdown restrictions domestically and improving textile demand environment in China. Firming up of VSF prices and bottoming out of caustic soda prices driven by demand from textile and paper industries is expected to benefit Grasim going ahead. Further, the outlook for its key subsidiary, UltraTech, remains healthy with expected demand from government-led infrastructure investments and sustained demand from rural and individual home-builders.

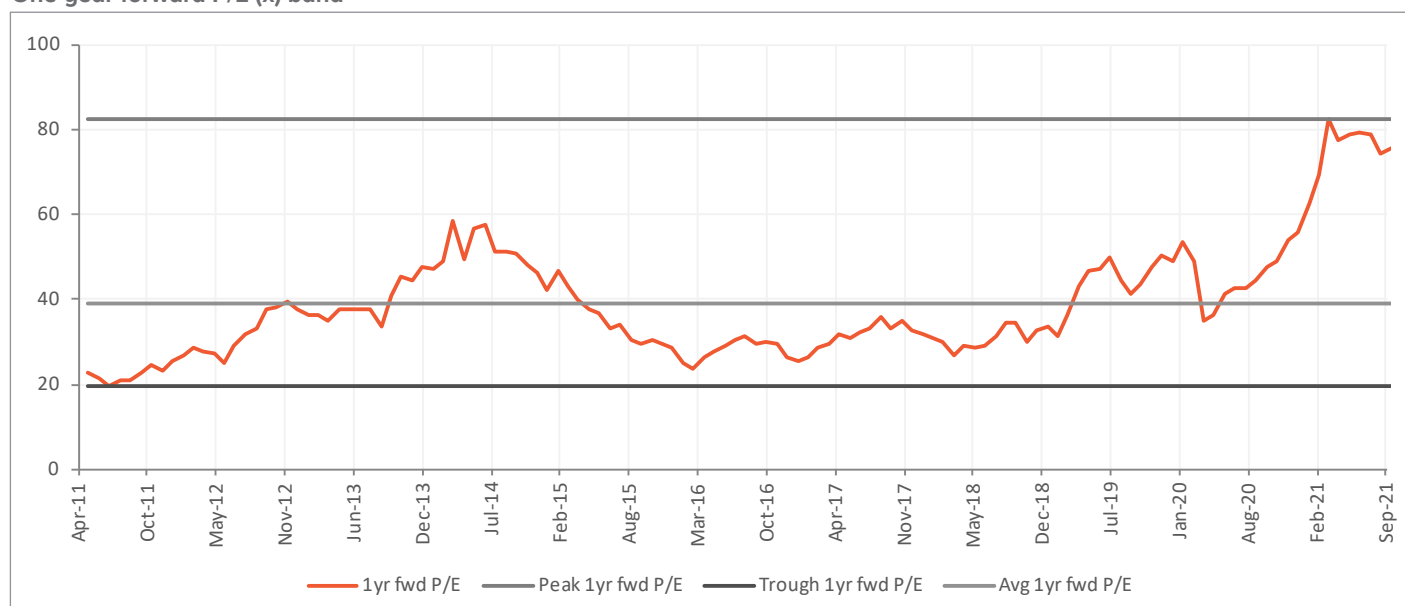
■ Company Outlook – Improved business environment and clarity on capital allocation

Grasim is benefiting from a rise in domestic demand for key standalone businesses as offtake from end-user industries improves. The same has led to an increase in capex and expansion in both verticals. Further, the management's clarity on capital allocation with priority being given to standalone business and nil investments in listed telecom investment removes a key hangover. The venture into the paints business will provide scale, growth and reduce cyclicalities of the standalone business. The company is venturing into decorative paints business with an investment of Rs. 5,000 crore over three years. Hence, overall, the improvement in standalone business along with clarity on capital allocation is expected to improve upon its earnings and valuation.

■ Valuation – Retain Buy with a revised PT of Rs. 1,880

Grasim is expected to benefit from increasing survival chances for Vodafone Idea led by government's relief package. The business outlook for its key subsidiary UltraTech remains buoyant. The company's ongoing capacity expansions in standalone operations are likely to capture high demand expected over the next two years. Further, we believe its foray in paints venture is yet to be accounted in the valuation. We maintain a Buy rating on the stock with a revised price target of Rs. 1,880 (reducing holding company discount on its listed entities in financial services and telecom).

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Grasim is the flagship company of Aditya Birla Group. The company started as a textiles manufacturer in India in 1947. The cement business was started in 1985 with capacity of 0.5 MTPA. Aditya Birla Nuvo Limited, an Aditya Birla Group Company, was merged with Grasim w.e.f. July 1, 2017. Subsequently, the financial services business was demerged from the merged entity and was listed on the bourses as Aditya Birla Capital Limited (ABCL) on September 1, 2017. Currently, it is a leading global player in VSF, and is the largest chemicals (Chlor-Alkalis), cement and diversified financial services (NBFC, Asset Management and Life Insurance) player in India.

Investment theme

The company is benefitting from improved domestic demand environment for its key standalone businesses led by a pickup in demand from end user industries. The same has led to increase in capex expenditure and expansion in both the verticals. Further, the management's clarity on capital allocation with first priority to be given to standalone business and nil future investment for listed telecom investment removes a key hangover on the stock. The venture into paints business will provide scale, growth and reduce cyclicity of the standalone business. Further, UltraTech's growth outlook remains buoyant which comprises over 70% of Grasim's SOTP valuation.

Key Risks

- ♦ Funding requirements of its other listed entities.
- ♦ Pressure on VSF and chemical division's demand and/or realisations affects profitability negatively.
- ♦ Higher holding company discounts for any of its other business such as telecom, cement and financial services.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Chairman
Mr. Dilip Gaur	Managing Director
Mr. Ashish Adukia	Chief Financial Officer
Mrs. Hutokshi R Wadia	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Birla Group Holdings Pvt Ltd	19
2	Life Insurance Corp of India	11.29
3	IGH Holdings Pvt Ltd	5.77
4	Hindalco Industries Ltd	4.29
5	Umang Commercial Co Ltd	4.07
6	Standard Life Aberdeen PLC	3.98
7	Pilani Investment & Industries Cor	3.76
8	ICICI Prudential Asset Management	1.93
9	Vanguard Group Inc/The	1.73
10	ICICI Prudential Life Insurance Co	1.4

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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