

BSE SENSEX 60,664
S&P CNX 17,872



Stock Info

	GRASIM IN
Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	1077.9 / 13.1
52-Week Range (INR)	1839 / 1273
1, 6, 12 Rel. Per (%)	-3/1/-8
12M Avg Val (INR M)	1448
Free float (%)	57.3

Financials Snapshot (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	266.0	277.1	313.3
EBITDA	35.3	35.7	35.4
Adj. PAT	22.7	21.7	17.8
EBITDA Margin (%)	13.3	12.9	11.3
S/A Adj. EPS (INR)	34.5	32.9	27.0
S/A EPS Gr. (%)	1.9	-4.7	-17.9
Consol EPS (INR)	100.3	100.5	98.7
BV/Sh. (INR)	765.0	789.4	806.5

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	10.2	8.5	5.7
RoCE (%)	11.5	9.3	6.9

Valuations

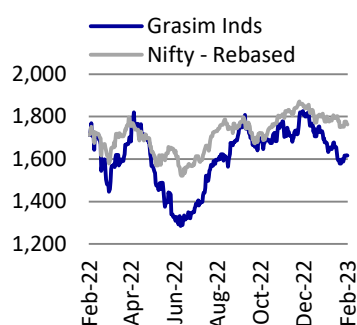
P/E (x)			
P/BV (x)	47.4	49.7	60.6
EV/EBITDA (x)	4.8	5.5	6.1
Div. Yield (%)	0.5	0.5	0.6
FCF Yield (%)	-3.3	-2.3	-1.2

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	42.8	42.8	42.5
DII	16.5	16.9	14.7
FII	16.8	16.2	13.1
Others	24.0	24.2	29.7

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR1,637 TP: INR1,900 (+16%) Buy

Margins under pressure; but should improve in 1HFY24E

- GRASIM has underperformed UTCEM in the last few months, which is also reflected in higher HoldCo discount (41% v/s 31-38% during Jul-Dec'22). The underperformance, in our view, is led by: 1) lower demand for textiles globally leading to a cut in production by VSF manufacturers, which in turn, led to lower VSF prices and 2) decline in Caustic soda price/margins.
- Though, VSF price in China is still down 8% v/s 2QFY23 average; there has been a fall in pulp price too (at USD890/t v/s average of USD1,180/t in 2QFY23 and USD950/t in 3QFY23). Benefits of pulp price reduction get reflected after a lag of about three months and hence, we believe that this will offset the pressure on VSF segment's profitability in 1HFY24E (after subdued margins in 2HFY23).
- In the Chemicals segment, capacity additions in India have put pressure on the margins, but global capacity additions are not happening. The industry has also increased exports to balance out the domestic availability. Energy costs are likely to decline led by a fall in coal prices and hence, we expect OPM to settle at 19-20% in FY24/25 (v/s peak OPM of 29.5% in 1QFY23).
- We reduce our FY23E/FY24E EBITDA for Grasim by ~4%/6%, respectively, on account of lower caustic soda prices. We incorporate the financials of Paints business into our assumptions that led us to reduce our EBITDA/EPS for FY25E by 16.5%/33.5%, respectively, as we assume this segment to make operating losses for the initial three years. **We maintain BUY with an SoTP-based (Exhibit: 8) TP of INR1,900 (v/s INR1,970 earlier).**

VSF segment: Pulp price corrects along with a decline in VSF price

- Globally, VSF capacity additions have been slow with no new capacities being added in China (total capacity at ~5m p.a.) in 2022 and 2023. Demand, however, has reduced recently given the slowdown in global textile consumption. This led to an increase in inventories (~25 days in China, which is higher than normal levels of 15-17 days) and forced companies to reduce their capacity utilization (Grasim's management indicated that utilization has been rationalized at 70% during Nov'22) in an effort to balance the demand-supply dynamics.
- Pressure on demand led to correction in VSF price in China with average price declining to RMB13,000/t in Dec'22 from an average of RMB14,600/t in 2QFY23. We believe that the current average price should be down by 8% (lower by INR14/kg than 2Q average). However, Pulp price too has softened in the last few months and currently the price stands at USD890/t v/s an average of USD1,180/t during 2QFY23 and USD950/t during 3QFY23. As per our understanding, sustenance of pulp price at current levels should help cost benefits of INR10/kg+; albeit with a lag of about three months.
- We expect VSF profits to improve in 1HFY24 post-muted profitability (around INR3/kg; at historical low) in 2HFY23. We have assumed VSF profitability to be at INR16/INR19 per kg in FY24/25E, respectively. FY23E average profits are likely to be at INR10/kg (at a decadal low; in FY15, average profit had declined to INR11.5/kg) v/s an average of INR22/kg during FY13-22.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Chemical: Chlorine realization improving; lower coal prices to help

- Chlorine price is improving, though, it still continues to remain negative (3QFY23 was negative INR10/kg, which has come below INR5/kg as of now). As per the management of DCM Shriram, there are expectations of further improvement in chlorine price in Jan-Feb'23.
- Domestic caustic soda capacity has been increased by 1mtpa in the last one year (current capacity is at 5.4mtpa; FY22-end capacity was at 5mtpa with capacity utilization of 82% in FY22), which has put pressure on price. The industry has also increased exports to balance out the domestic availability. Caustic Soda exports from India were 0.3mt in 9MFY23 v/s 0.18mt last year. Imports into India have come down to 0.09mt in 9MFY23 from 0.18mt last year.
- Caustic soda manufacturing is energy intensive (2.2 units of electricity are required for 1 kg of caustic soda production) and hence, operating costs spiked with the increase in global coal price. However, we believe that the industry will benefit from the recent correction in global coal price and transportation costs (Baltic Dry Index has corrected by 50% in the last one month). We expect OPM to be at 19-20% in FY24/25 which is lower than the peak margin of 29.5% in 1QFY23 (and average OPM of 22% over FY11-20).

Paints segment: remain optimistic on its entry into Paints

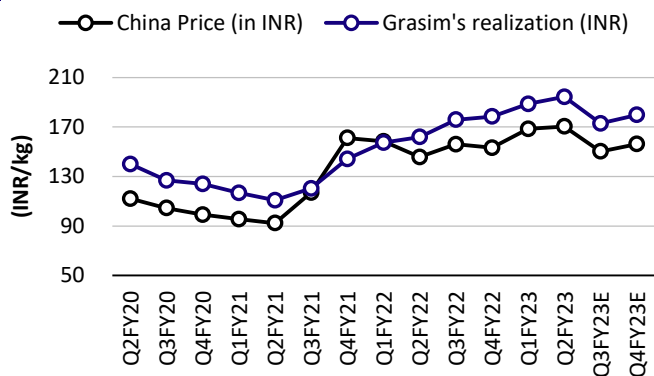
- Grasim's management announced its intention to enter into the Paints business in Jan'21 with a capex guidance of INR50b; however; the company later raised it to INR100b in May'22 (production capacity to be 1.33m kl).
- The higher capex was due to revision in plants configuration to achieve economies of scale (aspire to be positioned at number 2 in the paints business), enjoy comprehensive product offerings and improve the lead time to service markets. Management targets to achieve an IRR of 20% in this business.
- Commissioning of first plant with a capacity of 0.2-0.22m kl/annum is expected in 4QFY24 and other plants will be commissioned in phases in FY25. We remain hopeful on Grasim and believe it should make a mark in the Paints business, considering its brand strength and distribution network (overlap between White Cement/Putty and Paints' distribution channels).

Incorporate financials of the Paints business; maintain BUY

- We incorporate the financials of the Paints business into our assumptions and assume this business to make operating losses for the initial three years (FY25-FY27E). Assumptions of operating losses in FY25 lead us to reduce our standalone EBITDA estimate by 16.5%.
- We estimate net debt of the company to be INR29b/INR56.5b/INR75b in FY23/FY24/FY25 (v/s net debt of INR5.4b in FY23 and net cash of INR5b/INR23b in FY24/FY25, earlier), respectively. Higher interest and depreciation assumptions led to an EPS reduction of 33.5% for FY25E.
- We maintain our **BUY rating** on the stock with a revised TP of INR1,900 (v/s INR1,970 earlier) as we value: 1) its holding in subsidiary companies by assigning a discount of 35%; 2) standalone business at 6.5x EV/EBITDA and 3) investments into Paints business at 1x of investments (excluding our assumptions of working capital requirements out of announced capex).

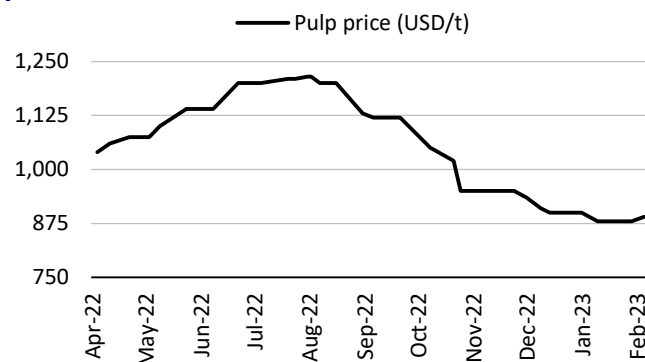
Story in charts

Exhibit 1: China's VSF price v/s Grasim's VSF realization



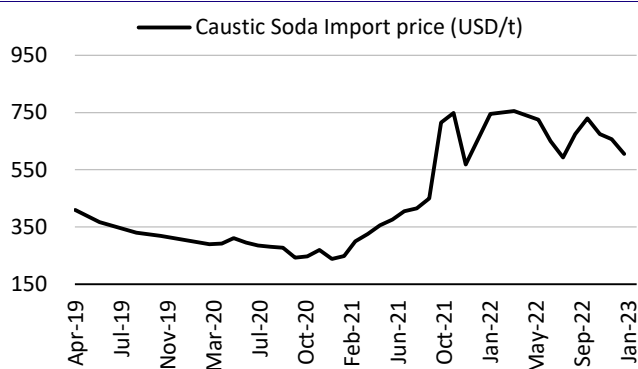
Source: MOFSL, Company, Industry

Exhibit 2: Pulp price softened in the last few months



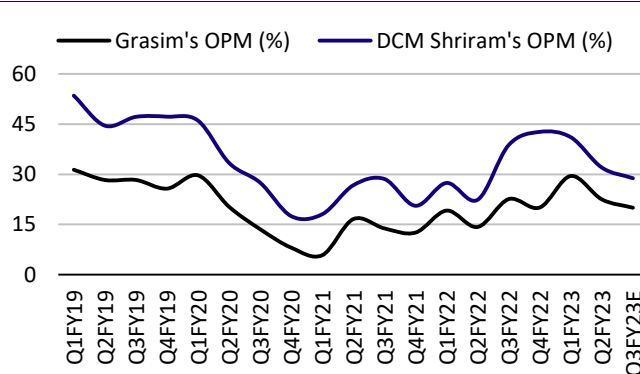
Source: MOFSL, Industry

Exhibit 3: Caustic soda price has declined from peak...



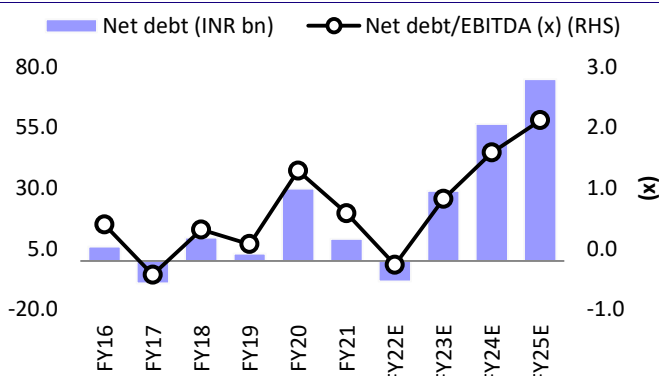
Source: MOFSL, DCM Shriram

Exhibit 4: ...leading to lower OPM of Chemical segment



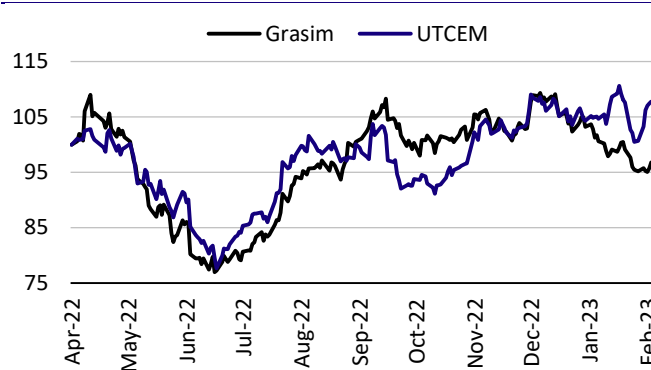
Source: MOFSL, Company, DCM Shriram

Exhibit 5: Net debt to increase considering Paint business



Source: MOFSL, Company

Exhibit 6: UTCЕМ v/s Grasim's performance (re-based)



Source: MOFSL, Company

Exhibit 7: Changes to our earnings estimates

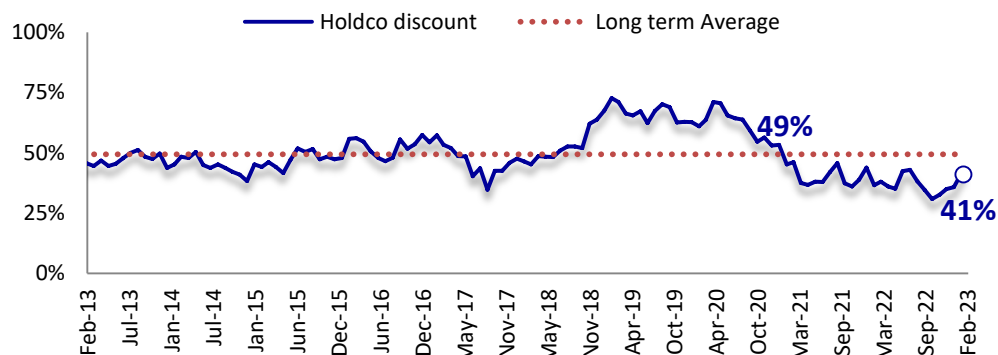
(INR b)	Revised			Old			Change %		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Net Sales	266	277	313	266	279	299	0.0	-0.7	4.8
EBITDA	35	36	35	37	38	42	-4.1	-5.8	-16.5
PAT	23	22	18	24	24	27	-4.5	-7.9	-33.5
EPS (INR/sh)	34.5	32.9	27.0	36.2	35.7	40.6	-4.5	-7.9	-33.5

Source: Company, MOFSL; Note: included Paint business into our assumption

Exhibit 8: SoTP valuation

Particulars	Valuation method	Unit	Sep'24E	INR/share
UTCEM's m-cap based on TP		INR b	2,220	
Holding company discount		%	35	
GRASIM's stake		%	57	
Value of its cement stake		INR b	826	
Value/share	A 35% holding company to our TP	INR		1,257
Value of standalone business (excluding-Paint)		INR b	241	
Value/share	6.5x for the standalone business			367
Value of listed investments		INR b	68	
Holding company discount		%	35	
The value of listed investments after levying a holding company discount		INR b	44	
Value/share	A 35% holding company discount on the CMP	INR		67
VSF and Fiber JV		INR b	7.8	
Value/share	1x P/BV	INR		12
Standalone net debt		INR b	(66)	
Value/share		INR		(100)
ABCAP		INR b	352	
Holding company discount		%	35	
GRASIM's stake		%	54	
Value of ABCAP's stake in GRASIM		INR b	124	
Value/share	A 35% holding company discount on the CMP	INR		188
Paint Business		INR b	71.5	
Value/share	1x of invested capital	INR		109
SoTP-based TP		INR		1,900

Source: MOFSL, Company

Exhibit 9: Holding company discount increased to 41%

Source: MOFSL, Company

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	1,57,885	2,05,504	1,86,094	1,23,864	2,08,568	2,65,999	2,77,125	3,13,282
Change (%)	52.6	30.2	-9.4	-33.4	68.4	27.5	4.2	13.0
Total Expenditure	1,27,083	1,64,793	1,62,989	1,08,220	1,76,407	2,30,680	2,41,460	2,77,925
EBITDA	30,802	40,712	23,105	15,643	32,162	35,318	35,665	35,357
Change (%)	42.9	32.2	-43.2	-32.3	105.6	9.8	1.0	-0.9
Margin (%)	19.5	19.8	12.4	12.6	15.4	13.3	12.9	11.3
Depreciation	6,277	7,604	8,468	8,282	9,140	10,735	11,768	15,466
EBIT	24,525	33,108	14,638	7,362	23,022	24,583	23,897	19,890
Int. and Finance Charges	1,281	1,991	3,039	2,360	2,472	3,542	4,717	6,597
Other Income - Rec.	4,614	5,680	5,255	5,137	8,953	9,170	9,346	9,526
PBT and EO Items	27,858	36,797	16,854	10,139	29,503	30,211	28,526	22,819
Change (%)	31.1	32.1	-54.2	-39.8	191.0	2.4	-5.6	-20.0
Extra Ordinary (income)/expense	2,726	23,680	2,941	810	691	880	0	0
PBT but after EO Items	25,131	13,117	13,913	9,329	28,812	29,331	28,526	22,819
Tax	7,445	7,964	1,214	1,224	1,857	7,251	6,846	5,020
Tax Rate (%)	26.7	21.6	7.2	12.1	6.3	24.0	24.0	22.0
Reported PAT	17,687	5,153	12,700	8,105	26,955	22,080	21,680	17,799
PAT Adj. for EO items	19,684	23,708	15,640	8,914	22,306	22,740	21,680	17,799
Change (%)	26.2	20.4	-34.0	-43.0	150.2	1.9	-4.7	-17.9
Margin (%)	12.5	11.5	8.4	7.2	10.7	8.5	7.8	5.7

Standalone Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,315	1,315	1,316	1,316	1,317	1,317	1,317	1,317
Employee Stock options outstanding			527	567	708	708	708	708
Reserves	4,46,584	4,18,277	3,74,898	4,27,595	4,84,133	5,01,606	5,17,690	5,28,906
Net Worth	4,47,898	4,19,592	3,76,740	4,29,479	4,86,158	5,03,631	5,19,715	5,30,931
Loans	29,690	33,108	50,681	41,634	41,208	78,461	1,06,461	1,25,461
Deferred liabilities	18,350	18,789	14,025	17,339	18,414	18,414	18,414	18,414
Capital Employed	4,95,938	4,71,488	4,41,447	4,88,452	5,45,779	6,00,506	6,44,590	6,74,805
Gross Block	1,27,290	1,38,489	1,54,142	1,48,940	1,95,985	2,33,412	2,56,912	3,61,746
Less: Accum. Deprn.	19,125	26,166	33,310	39,302	47,435	58,170	69,938	85,404
Net Fixed Assets	1,08,166	1,12,322	1,20,832	1,09,637	1,48,549	1,75,242	1,86,974	2,76,341
Capital WIP	7,451	15,672	27,919	40,334	17,428	43,333	67,000	4,000
Non-Current Investments/Strategic	3,35,867	2,81,616	2,56,621	3,05,230	3,39,418	3,39,418	3,39,418	3,39,418
Current - Financial	20,790	29,931	20,504	41,553	47,490	47,490	47,490	47,490
Curr. Assets	65,015	78,398	69,070	46,827	73,477	76,505	84,546	93,004
Inventory	25,917	29,317	26,262	21,790	39,408	40,306	44,640	48,527
Account Receivables	26,093	34,916	29,053	13,120	16,904	18,203	20,832	22,646
Cash and Bank Balance	419	425	789	1,327	2,253	2,037	2,446	3,035
Others	12,586	13,741	12,965	10,590	14,912	15,960	16,627	18,797
Curr. Liability and Prov.	41,351	46,452	53,499	55,130	80,583	81,482	80,839	85,448
Account Payables	21,705	23,757	26,648	27,069	46,507	45,506	44,640	48,527
Provisions	5,087	4,604	5,514	3,250	3,419	5,320	5,542	6,266
Other Liabilities	14,559	18,091	21,337	24,811	30,656	30,656	30,656	30,656
Net Current Assets	23,664	31,947	15,571	-8,303	-7,105	-4,977	3,707	7,556
Appl. of Funds	4,95,938	4,71,488	4,41,447	4,88,452	5,45,779	6,00,506	6,44,590	6,74,805

Financials and valuations

Standalone ratios						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share price								
EPS	29.9	36.0	23.8	13.5	33.9	34.5	32.9	27.0
Cash EPS	39.5	47.6	36.6	26.1	47.8	50.8	50.8	50.5
BV/Share	681.3	638.0	572.7	652.6	738.4	765.0	789.4	806.5
DPS	6.2	6.2	7.0	9.0	10.0	8.0	8.5	10.0
Valuation								
P/E ratio	54.7	45.4	68.9	120.9	48.3	47.4	49.7	60.6
Cash P/E ratio	41.5	34.4	44.7	62.7	34.3	32.2	32.2	32.4
P/BV ratio	2.4	2.6	2.9	2.5	2.2	2.1	2.1	2.0
EV/Sales ratio	1.0	0.7	0.9	1.2	0.7	0.7	0.7	0.7
EV/EBITDA ratio	5.0	3.6	7.5	9.2	4.1	4.8	5.5	6.1
Dividend Yield (%)	0.4	0.4	0.4	0.5	0.6	0.5	0.5	0.6
Return Ratios (%)								
RoE	17.4	17.1	10.4	5.0	11.5	10.2	8.5	5.7
RoCE	20.5	20.8	9.4	5.3	12.9	11.5	9.3	6.9
Working Capital Ratios								
Debtor (Days)	73	70	54	31	37	28	28	28
Asset Turnover (x)	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.5
Leverage Ratio								
Debt/Equity ratio	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2

Standalone Cash Flow Statement						(INR m)		
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	27,858	36,797	12,916	9,329	28,812	30,211	28,526	22,819
Depreciation	6,277	7,604	8,135	8,282	9,140	10,735	11,768	15,466
Interest and Finance Charges	-1,540	-1,435	-249	-421	-4,552	-3,358	-2,321	-582
Direct Taxes Paid	-5,233	-5,123	-2,183	-1,786	-6,502	-7,471	-6,846	-5,020
(Inc.)/Dec. in WC	-2,797	-10,735	12,611	9,350	132	-2,344	-8,275	-3,260
CF from Operations	24,564	27,108	31,231	24,754	27,029	27,773	22,851	29,423
Others	-1,009	-1,553	1,919	-780	-467	0	0	0
CF from Operations incl. EO	23,555	25,555	33,150	23,974	26,562	27,773	22,851	29,423
(Inc.)/Dec. in FA	-10,689	-20,440	-26,823	-11,932	-25,382	-63,333	-47,167	-41,833
Free Cash Flow	12,867	5,115	6,328	12,041	1,181	-35,561	-24,316	-12,410
(Pur.)/Sale of Investments	167	56	127	102	66	0	0	0
Others	-8,726	-2,247	-17,904	-10,249	-9,541	6,900	7,038	7,179
CF from Investments	-19,247	-22,631	-44,600	-22,079	-34,857	-56,433	-40,128	-34,654
Issue of Shares	23	86	90	126	-425	0	0	0
Inc./(Dec.) in Debt	942	3,504	17,127	-9,384	-583	37,253	28,000	19,000
Interest Paid	-1,417	-2,050	-2,130	-3,241	-843	-3,542	-4,717	-6,597
Dividend Paid	-4,060	-4,530	-5,155	-2,622	-5,915	-5,267	-5,596	-6,584
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	-4,512	-2,990	9,932	-15,120	-7,766	28,444	17,687	5,820
Inc./Dec. in Cash	-204	-65	-1,517	-13,226	-16,061	-216	409	589
Opening Balance	346	261	195	510	692	2,253	2,037	2,446
Add: Cash on amalgamation	119	0	1,832	13,408	15,895	0	0	0
Closing Balance	261	196	510	692	527	2,037	2,446	3,035

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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