

BSE SENSEX 60,224 S&P CNX 17,711



Stock Info

Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	1053.2 / 12.9
52-Week Range (INR)	1839 / 1273
1, 6, 12 Rel. Per (%)	-1/-7/-1
12M Avg Val (INR M)	1398
Free float (%)	57.3

Financials Snapshot (INR b)

Y/E March	FY23E	FY24E	FY25E
Sales	265.4	276.6	312.7
EBITDA	34.7	35.7	35.4
Adj. PAT	22.9	21.7	17.8
EBITDA Margin (%)	13.1	12.9	11.3
S/A Adj. EPS (INR)	34.8	33.0	27.1
S/A EPS Gr. (%)	2.6	-5.1	-18.0
Consol EPS (INR)	100.5	100.5	98.7
BV/Sh. (INR)	765.2	789.7	806.8

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	9.8	8.5	5.7
RoCE (%)	11.3	9.3	7.0

Valuations

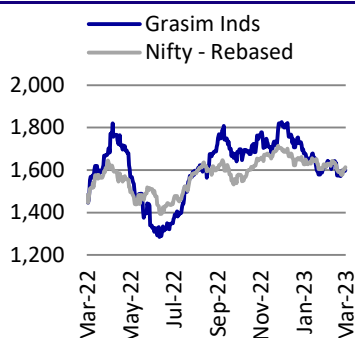
P/E (x)			
P/BV (x)	45.9	48.3	58.9
EV/EBITDA (x)	4.1	4.6	4.4
Div. Yield (%)	0.5	0.5	0.6
FCF Yield (%)	-3.4	-2.3	-1.2

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: INR1,600 TP: INR1,900 (+19%) Buy

Focusing on growth opportunities in core businesses

VSF demand to see 8-10% CAGR; Chemical business to maintain leadership position

At GRASIM's analyst meet, the management highlighted growth opportunities in core businesses, near-term challenges, strengths and market positioning, diversified chemical portfolio, sustainability initiatives and progress in high-growth businesses.

VSF segment: ranked #2 in world and #1 in India

- There are three basic fibers available globally – 1) cotton, 2) polyester (PSF), and 3) viscose staple (VSF). In global fiber production, the share of Cotton, PSF and VSF stood at 24-26%, 65-70% and 6-7%, respectively.
- Polyester is a synthetic material, which is durable and easy to maintain. However, it is not biodegradable. VSF and Cotton are used as a blend with PSF. VSF is a factory produce (made from wood pulp), a renewable and 100% biodegradable product.
- GRASIM is the largest VSF producer in India with a total capacity of 824KTPA. GRASIM's market share in VSF stood at ~90% in India. The management expects to see a CAGR of 8-10% in VSF demand over the next 10 years. The company is also the largest producer of Viscose filament yarn (VFY) in India. GRASIM's Raysil is the most popular VFY brand.
- GRASIM's Liva is a well-known VSF brand. The company has also started using VSF in sarees with the 'Navyasa' brand. Management noted that 1kg of VSF can make three sarees and currently VSF usage in the saree segment is ~50 tonne per day. There is huge headroom for growth in this segment.
- It has also developed technology for the usage of used cotton garments in place of pulp for VSF production and aims to replace 25-30% of pulp usage. GRASIM focuses on technology development and has received INR2.5b in funds from the Central government for technology development (largest government funding for technology development in textiles segment).
- VSF imports account for ~10-12% of total VSF consumption in India. VSF imports attract 5% basic custom duty. However, imports from Indonesia and Taiwan are duty free because of FTAs — a key challenge.
- Earlier, in Aug'21, the government revoked anti-dumping duty (ADD) on VSF. A representation has been made to the government to levy ADD again on VSF imports as it is not a level playing situation as imports of raw materials (such as Pulp) are not duty free.
- Water consumption by GRASIM for VSF production is the lowest globally. It consumes 17 cubic meter water per tonne of VSF produces (v/s 40 cubic meter per tonne being the best metrics in China). It is implementing zero liquid discharge plans across plants under sustainability initiatives.
- The company generates 10MW power from process waste steam in pulp manufacturing, which leads to savings of 1 lac tonne of coal, annually.

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- In 3QFY23, the VSF business reported an operating loss due to macro headwinds as input prices were very abnormal and demand was weak. However, there is a recovery in demand as well as in VSF prices.

Chemical segment: a pan-India player with leading positions in three areas

- GRASIM has leading market position in three areas of the Chemical business – 1) it has a 27-30% market share in caustic soda in India which it aims to maintain; 2) it has the largest chlorine integration capacity of ~60%, which will reach to 72% post the commissioning of ongoing projects; 3) it is the largest Epoxy player with more than 50% market share.
- The company's revenue mix in the Chemical business in FY22 – 52% from Chlor-Alkali business (out of which 27-30% used in backward integration), 30% from specialty chemicals and 18% from chlorine derivatives.
- Average EBITDA margin of the Chemical segment in the last five years stood at 19-22%. This segment has been generating annual free cash flow of INR6-7b for the last few years. RoCE has been in the range of 19-22% for the last five years. The company expects to incur a capex of INR15b in this segment in FY23.
- GRASIM is the largest producer of Epoxy in India. It is doubling the capacity of epoxy polymers from 123KTPA to 246KTPA, which will further strengthen its market share in this segment.
- GRASIM is a major supplier (holds almost entire market share) of Epoxy resin used in manufacturing of blades of wind mills. With a pickup in the pace of construction activity and a thrust on renewable energy, this segment has huge growth potential.
- In the last board meeting, the board had approved a capex of INR3.63b for two new Chlorine derivatives (Chloromethane & Carbon Tetrachloride).
- There is not much import of caustic soda into India. Caustic soda imports attract 7.5% of basic custom duty.

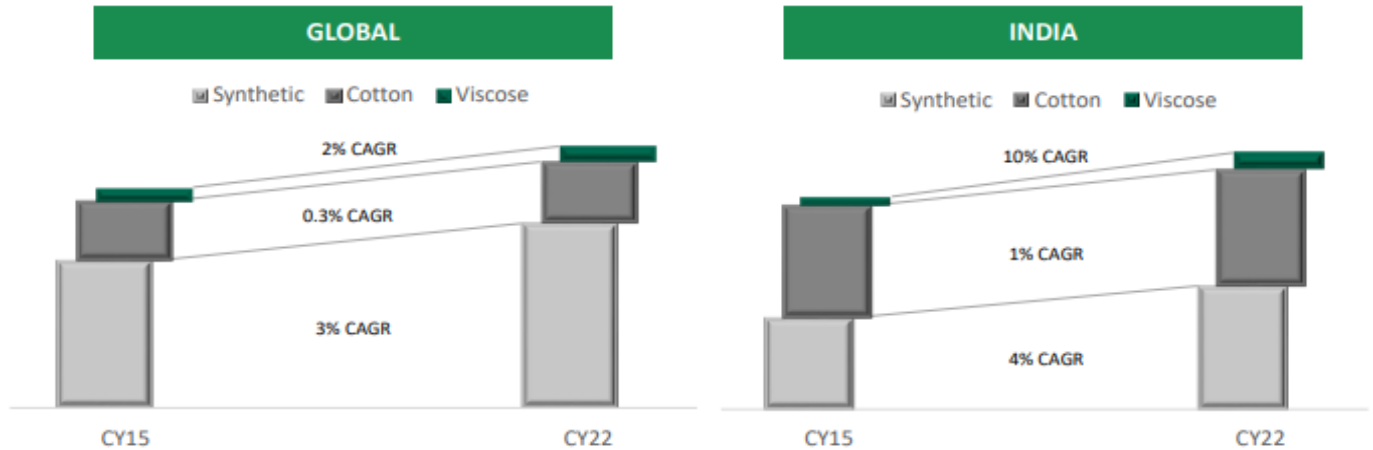
Other highlights

- The company is committed to sustainability and invests in renewable energy. Its renewable energy capacity stood at 650MW, which will increase to 950MW by FY23-end and 2GW by FY24-end. Currently the company's renewable power portfolio comprises mainly solar power. However, it is also exploring wind energy and hydro power to reach 2GW of renewable power.
- **High-growth businesses:** The company continues to evaluate new high-growth opportunities. Currently, GRASIM is investing in two high-growth businesses, Paints and B2B e-commerce. The company has committed a total capex of INR100b for Paints (including working capital) and INR20b for B2B e-commerce. Plant construction in Paints is progressing across six locations and the commissioning should start from 4QFY24. It expects all capacities to become operational by FY25-end.

View and valuation

- We have a BUY rating on the stock with a TP of INR1,900, 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 in the Paints business at 1x of investments (excluding our assumptions of working capital requirements out of announced capex).

Exhibit 1: Inter fiber dynamics – India Viscose industry growing at a faster pace vs. globally



- Viscose demand in India is increasing at a faster pace led by intensive business development initiatives and support to textile value chain under “LIVA” brand by the company
- Viscose has huge growth potential as it’s share in global fibre basket is merely at 6%
- Huge opportunity to bridge the burgeoning cellulosic gap as there are limitations to cotton supply

INDIA VISCOSE INDUSTRY GROWING AT FASTEST PACE WITH CAGR HIGHER THAN 2X OF OTHER FIBRES

Source: Company

Exhibit 2: Expanding capacity across Chemicals portfolio

CHLOR-ALKALI

- Largest Caustic Soda producer in India. Market growing at a steady pace with demand from Alumina, Organic & Inorganic Chemicals, Textiles & FMCG industries
- Maintaining Market leadership position in Chlor-Alkali business with projected capacity of 1.5 Million MTPA by Q2FY24

Capacity Expansion (KTPA)

Category	Existing Capacity	Expansion	Total Capacity	Timeline
Chlor-Alkali	1,311	219	1,530	Q2FY24
Chlorine Derivatives	891	273	1,164	Q4FY26
Speciality Chemicals	123	123	246	Q2FY24

CHLORINE DERIVATIVES

- Large capacity in Chlorine Derivatives catering to high growth markets such as Pharma, Agrochemicals, Water Treatment, Food & Feed, Plastic additives, Industrial etc.
- Presence in high value speciality products such as Chloromethanes and Phosphoric Acid
- Further expansion of products portfolio to include Epichlorohydrin (ECH), Mono Chloro Acetic Acid, Carbon Tetrachloride along with products under evaluation such as Pyrethroids, Trichloroisocyanuric Acid, Chlorinated Polymers, Carboxy Methyl Cellulose
- Chlorine Integration to reach 72% post commissioning of the ongoing projects

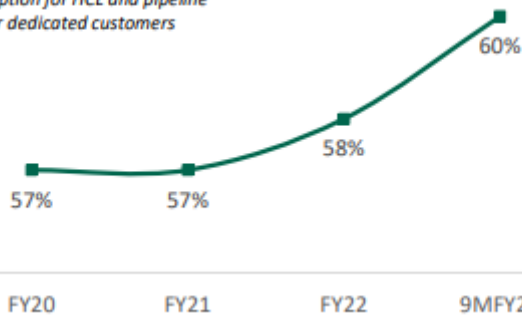
SPECIALITY CHEMICALS

- Largest producer of Speciality Chemicals (Epoxy Polymers & Curing Agents), which will be further strengthened by doubling our capacity to 246 KTPA by FY24
- The business to serve growing end markets such as construction and coatings, renewables, electrical and electronics

Source: Company

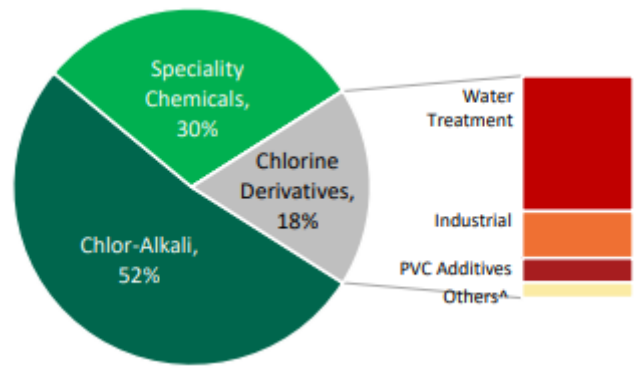
Exhibit 3: Chlorine integration improves

Integration includes chlorine consumption for HCL and pipeline sales for dedicated customers



Source: Company

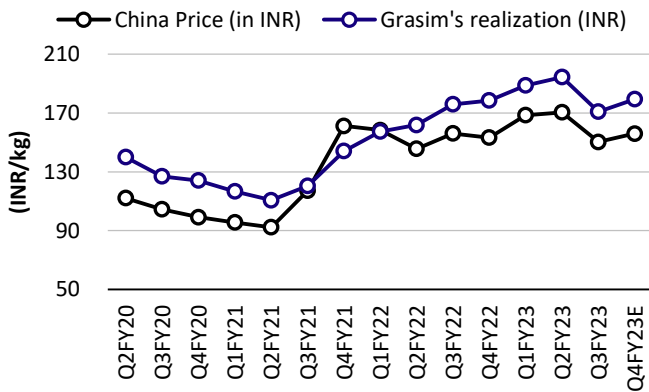
Exhibit 4: Chemical segment – revenue break-up (FY22)



Source: Company

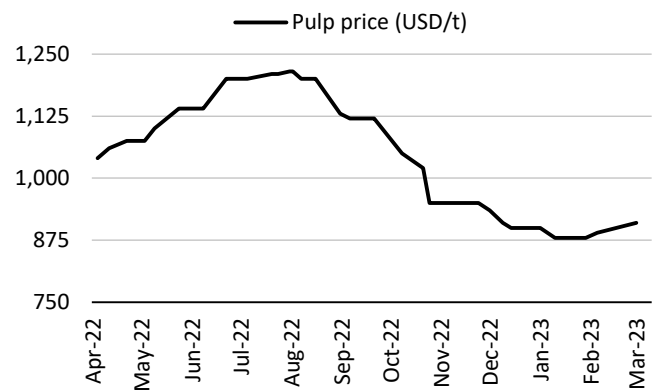
Story in charts

Exhibit 5: China's VSF price v/s Grasim's VSF realization



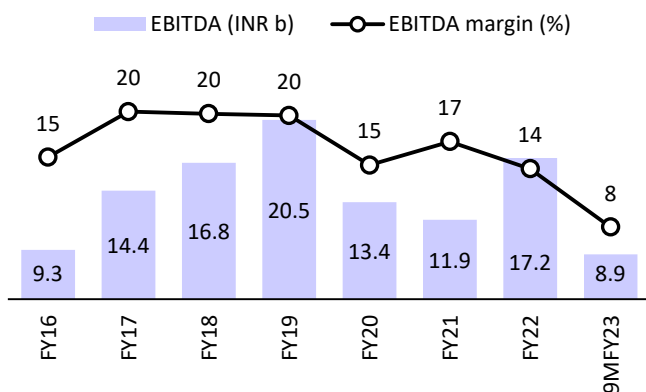
Source: MOFSL, Company, Industry

Exhibit 6: Pulp price softened in the last few months



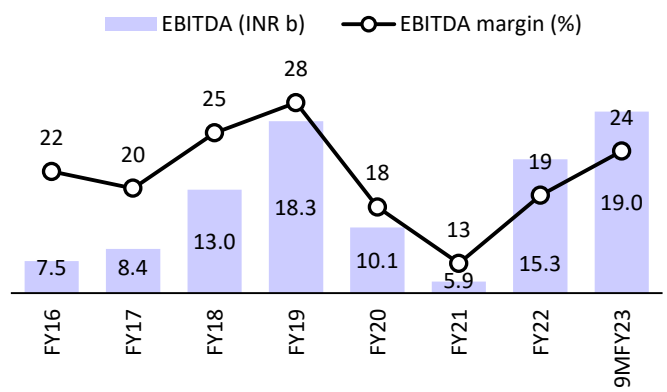
Source: MOFSL, Industry

Exhibit 7: VSF EBITDA margin were under pressure due to higher input costs and lower demand



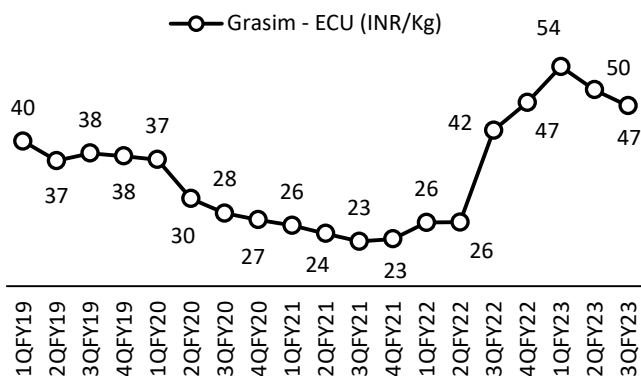
Source: MOFSL, Company

Exhibit 8: Chemical segment EBITDA margin improved led by better volume growth and realization



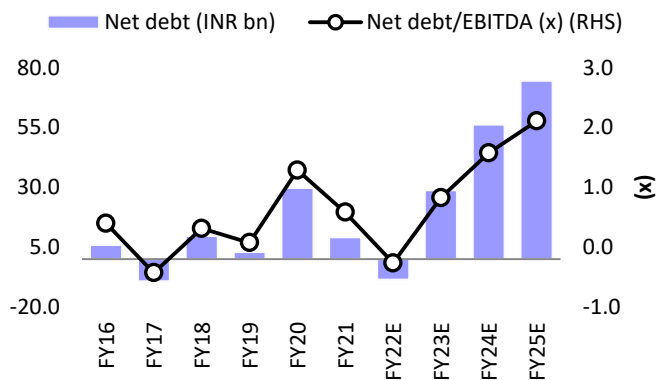
Source: MOFSL, Company

Exhibit 9: ECU corrects from its peak



Source: MOFSL, Company

Exhibit 10: Net debt to increase considering investments in Paint business

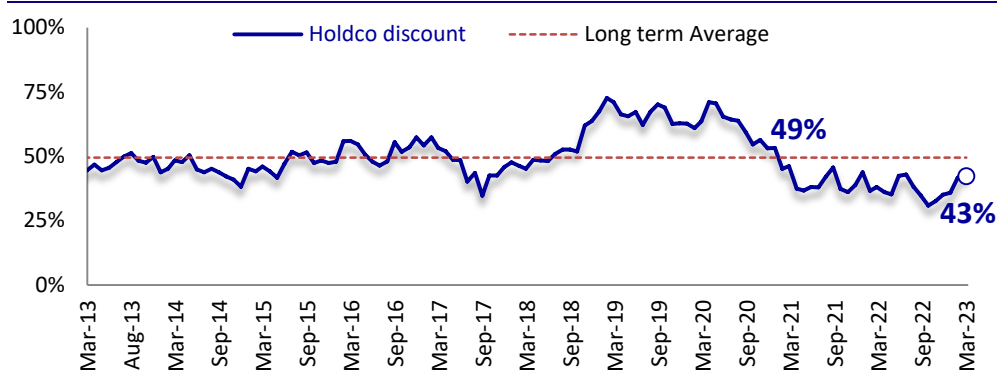


Source: MOFSL, Company

Exhibit 11: 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	350	
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

Exhibit 12: Holding company discount increased to 43%



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	2,65,428	2,76,591	3,12,721
Change (%)	52.6	30.2	-9.4	-33.4	68.4	27.3	4.2	13.1
Total Expenditure	1,27,083	1,64,793	1,62,989	1,08,220	1,76,407	2,30,714	2,40,915	2,77,345
EBITDA	30,802	40,712	23,105	15,643	32,162	34,714	35,676	35,376
Change (%)	42.9	32.2	-43.2	-32.3	105.6	7.9	2.8	-0.8
Margin (%)	19.5	19.8	12.4	12.6	15.4	13.1	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	23,979	23,908	19,909
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	9,979	9,413	9,529
PBT and EO Items	27,858	36,797	16,854	10,139	29,503	30,416	28,604	22,842
Change (%)	31.1	32.1	-54.2	-39.8	191.0	3.1	-6.0	-20.1
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	29,536	28,604	22,842
Tax	7,445	7,964	1,214	1,224	1,857	7,300	6,865	5,025
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	23,200	21,739	17,817
PAT Adj. for EO items	19,684	23,708	15,640	8,914	22,306	22,896	21,739	17,817
Change (%)	26.2	20.4	-34.0	-43.0	150.2	2.6	-5.1	-18.0
Margin (%)	12.5	11.5	8.4	7.2	10.7	8.6	7.9	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	5,01,762	5,17,905	5,29,138
Net Worth	4,47,898	4,19,592	3,76,740	4,29,479	4,86,158	5,03,787	5,19,930	5,31,163
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	6,00,662	6,44,805	6,75,038
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	76,595	84,660	93,136
Inventory	25,917	29,317	26,262	21,790	39,408	40,257	44,549	48,437
Account Receivables	26,093	34,916	29,053	13,120	16,904	18,181	20,790	22,604
Cash and Bank Balance	419	425	789	1,327	2,253	2,231	2,726	3,332
Others	12,586	13,741	12,965	10,590	14,912	15,926	16,595	18,763
Curr. Liability and Prov.	41,351	46,452	53,499	55,130	80,583	81,416	80,737	85,347
Account Payables	21,705	23,757	26,648	27,069	46,507	45,452	44,549	48,437
Provisions	5,087	4,604	5,514	3,250	3,419	5,309	5,532	6,254
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	-4,821	3,923	7,789
Appl. of Funds	4,95,938	4,71,488	4,41,447	4,88,452	5,45,779	6,00,662	6,44,805	6,75,038

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	34.8	33.0	27.1
Cash EPS	39.5	47.6	36.6	26.1	47.8	51.1	50.9	50.6
BV/Share	681.3	638.0	572.7	652.6	738.4	765.2	789.7	806.8
DPS	6.2	6.2	7.0	9.0	10.0	8.0	8.5	10.0
Valuation								
P/E ratio	53.3	44.3	67.1	117.8	47.1	45.9	48.3	58.9
Cash P/E ratio	40.4	33.5	43.5	61.1	33.4	31.2	31.3	31.6
P/BV ratio	2.3	2.5	2.8	2.4	2.2	2.1	2.0	2.0
EV/Sales ratio	0.8	0.6	0.8	1.0	0.5	0.6	0.6	0.6
EV/EBITDA ratio	4.1	3.0	6.4	7.5	3.3	4.1	4.6	4.4
Dividend Yield (%)	0.4	0.4	0.4	0.6	0.6	0.5	0.5	0.6
Return Ratios (%)								
RoE	17.4	17.1	10.4	5.0	11.5	9.8	8.5	5.7
RoCE	20.5	20.8	9.4	5.3	12.9	11.3	9.3	7.0
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	30,416	28,604	22,842
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	-4,055	-2,327	-524
Direct Taxes Paid	-5,233	-5,123	-2,183	-1,786	-6,502	-7,520	-6,865	-5,025
(Inc.)/Dec. in WC	-2,797	-10,735	12,611	9,350	132	-2,306	-8,250	-3,259
CF from Operations	24,564	27,108	31,231	24,754	27,029	27,270	22,930	29,499
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	27,270	22,930	29,499
(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	-36,064	-24,237	-12,334
(Pur.)/Sale of Investments	167	56	127	102	66	0	0	0
Others	-8,726	-2,247	-17,904	-10,249	-9,541	7,597	7,044	7,121
CF from Investments	-19,247	-22,631	-44,600	-22,079	-34,857	-55,736	-40,123	-34,712
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	-22	494	607
Opening Balance	346	261	195	510	692	2,253	2,231	2,726
Add: Cash on amalgamation	119	0	1,832	13,408	15,895	0	0	0
Closing Balance	261	196	510	692	527	2,231	2,726	3,332

NOTES

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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