Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 42.15

Updated Dec 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

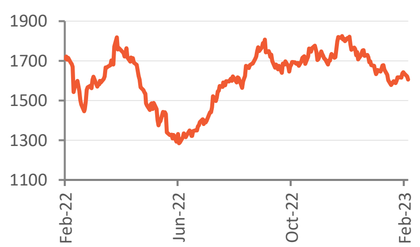
Company details

Market cap:	Rs. 1,05,680 cr
52-week high/low:	Rs. 1,839 / 1,278
NSE volume: (No of shares)	27.8 lakh
BSE code:	500300
NSE code:	GRASIM
Free float: (No of shares)	37.7 cr

Shareholding (%)

Promoters	42.8
FII	16.5
DII	16.8
Others	24.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.5	-7.4	0.8	-6.2
Relative to Sensex	-4.1	-6.1	-1.1	-11.2

Sharekhan Research, Bloomberg

Grasim Industries Ltd

Weak Q3; Retain Buy with a revised PT of Rs. 1,900

Diversified	Sharekhan code: GRASIM

Reco/View: Buy	↔	CMP: Rs. 1,605	Price Target: Rs. 1,900	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Grasim Industries Limited (Grasim) reported a marginal miss on standalone revenue, led by healthy growth in chemical and textile businesses. The sharp contraction in Viscose OPMs led to miss on operating and net profit.
- Viscose demand is expected to see a sequential improvement in Q4FY2023, while ADD on Indonesian imports is being recommended. Chemicals fare well, while OPM would normalise as per expectations.
- Paints expansion is expected to complete by FY2025-end with the commercial launch expected in Q4FY2024. The B2B e-commerce business would be launched in a phased manner from H1FY2024.
- We retain Buy on Grasim with a PT of Rs. 1,900, as we roll forward our valuation multiple to FY2025 earnings, factoring in our revised PT for UltraTech and downwardly revising its standalone business valuation.

Grasim Industries Limited (Grasim) reported a marginal miss on its standalone revenue (up 7% y-o-y at Rs. 6,196 crore), led by healthy performance from the chemical division (revenue up 10.5% y-o-y at Rs. 2,582 crore) and textiles (up 19% y-o-y at Rs. 569 crore). Viscose business saw a 5% y-o-y decline in revenue at Rs. 3,182 crore (down 19% y-o-y), led by a 4% y-o-y dip in volumes and a 9% q-o-q decline in blended realisations. Standalone OPM surprised negatively at 7.7% (down 8 ppts y-o-y) owing to a sharp contraction in Viscose OPM (2% in Q3FY2023 versus 8.3% in Q2FY2023). Globally, weak demand for textiles, rising imports from Indonesia, and higher cost pulp inventory resulted in weak Viscose OPM. Consequently, standalone operating profit/net profit was down 48%/51% y-o-y at Rs. 477 crore/Rs. 257 crore, much lower than our estimates. While textile demand is seeing a sequential improvement, the industry is trying for reinstatement of ADD on Indonesian imports (decision awaited at the Finance Ministry). Grasim remains on track to complete paints expansion by FY2025-end with the commercial launch expected in Q4FY2024. The B2B e-commerce business would be launched in a phased manner from H1FY2024.

Key positives

- Chemical revenue grew by 10.4% y-o-y with a 2% y-o-y increase in volumes and 9% y-o-y rise in blended realisations. ECU realisations were up 10% y-o-y at Rs. 46,689/tonne.
- Textile and insulators divisions recorded a rise of 19% y-o-y and 22% y-o-y in revenue to Rs. 569 crore and Rs. 106 crore, respectively.

Key negatives

- Viscose OPM stood at 2% compared to 12%/8.3% in Q3FY2022/Q2FY2023, owing to pricing pressure built by rising Indonesian imports and weak exports demand.
- Chemical division recorded over 3ppts decline in OPM both y-o-y and q-o-q at 18.9% owing to negative chlorine realisations.

Management Commentary

- It is seeing some signs of demand revival in Viscose for Q4FY2023. It expects Q4FY2023 capacity utilisation to be in mid-80s or high 80s compared to 71-72% in Q3FY2023.
- Management would be completing all capacity expansion in paints by FY2025-end. Commercial launch of the paints business will be in Q4FY2024. The company has done a pilot launch of B2B e-com during this quarter. It would be launching the platform in a phased manner from H1FY2024.
- Excluding paints, the company incurred Rs. 1,400 crore capex during 9MFY2023 and targets Rs. 1,000 crore capex in Q4. In Q3FY2023, the company incurred capex of Rs. 500 crore in paints. Total capex including paints and other businesses is estimated at Rs. 4,000-4,500 crore in FY2024.

Revision in estimates – We have lowered our estimates for FY2023-FY2025, factoring in weak demand and operating margins in the Viscose business.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,900: Grasim's Viscose business is expected to face near-term headwinds in terms of demand and pricing, led by increased Indonesian imports and weak exports market. However, as global textile demand picks up, it should see volume growth and OPM reverting. The company's chemical business continues to fare well, although OPM is expected to normalise. The company's expedited expansion in paints is likely to provide the next leg of growth for the company. Further, the outlook for its key subsidiary UltraTech remains healthy. We maintain Buy on the stock with a revised price target (PT) of Rs. 1,900, as we roll forward our valuation multiple to FY2025 earnings, factoring in our revised PT for UltraTech and downwardly revising its standalone business valuation.

Key Risks

The funding requirement of its group companies and weakness in standalone business are key risks.

Valuation (Standalone) Rs cr

Particulars	FY22	FY23E	FY24E	FY24E
Revenue	20,857	26,859	30,447	33,820
OPM (%)	15.4%	12.6%	13.5%	14.7%
Adjusted PAT	2,545	2,384	2,533	3,019
% YoY growth	185.5	(6.3)	6.3	19.2
Adjusted EPS (Rs.)	38.7	36.2	38.5	45.9
P/E (x)	41.5	44.3	41.7	35.0
P/B (x)	2.2	2.1	2.0	1.9
EV/EBITDA (x)	22.8	22.1	18.7	15.5
RoNW (%)	5.2	4.7	4.9	5.5
RoCE (%)	4.9	4.2	4.2	4.7

Source: Company; Sharekhan estimates

Operational performance affected by Viscose

Grasim reported marginal miss on its standalone revenue (up 7% y-o-y at Rs. 6,196 crore), led by a healthy performance from the chemical division (revenue up 10.5% y-o-y at Rs. 2,582 crore) and textiles (up 19% y-o-y at Rs. 569 crore). Viscose business saw a 5% y-o-y decline in revenue at Rs. 3,182 crore (down 19% y-o-y), led by a 4% y-o-y dip in volumes and a 9% q-o-q decline in blended realisations. Standalone OPM surprised negatively at 7.7% (down 8 ppts y-o-y) owing to a sharp contraction in Viscose OPM (2% in Q3FY2023 versus 8.3% in Q2FY2023). Globally, weak demand for textiles, rising imports from Indonesia, and higher cost pulp inventory resulted in weak Viscose OPM. Consequently, standalone operating profit/net profit was down 48%/51% y-o-y at Rs. 477 crore/Rs. 257 crore, much lower than our estimates.

Key Conference Call Takeaways

- **Q3FY2023 performance:** Consolidated revenue increased by 17% y-o-y to Rs. 28,638 crore, led by strong growth in AB Capital and UltraTech. EBITDA declined by 7% y-o-y to Rs. 3,834 crore due to increased cost pressure at UltraTech and standalone businesses. Standalone revenue increased by 7% y-o-y to Rs. 6,196 crore, while EBITDA and PAT stood at Rs. 580 crore and Rs. 257 crore, respectively. Global demand slowdown led by geopolitical instability and recessionary fears impacted exports, leading to weak demand. Textile exports faced the sixth consecutive month of decline from July to December 2022. During 9MFY2023, textile exports declined by 10% y-o-y.
- **Viscose:** Viscose division reported a 5% y-o-y dip in revenue at Rs. 3,182 crore, while EBITDA dipped 84% y-o-y to Rs. 63 crore. VSF volumes declined by 3% y-o-y. VFY reported stable performance despite an 11% y-o-y decline in volumes. Lower demand in developed economies and the inflationary environment (higher pulp, caustic soda, and energy prices) led to weak performance. VSF reported marginally negative EBITDA, while VFY contributed to the entire profitability.
- **Viscose imports:** Imports from Indonesia started picking up from Q1FY2023, with Q3FY2023 witnessing 250 tonne per day of imports. Higher imports were on account of traditional markets witnessing a slowdown, while Indian markets looked attractive. The ADD on VSF was removed from August 2021, while freight rates fell from 20 cents/kg during COVID period to 5-6 cents/kg. The Commerce Ministry has recommended reinstating of ADD on VSF to the Finance Ministry, which is expected to take one month time for arriving at a decision.
- **Viscose demand:** It is seeing some signs of demand revival in Q4FY2023. It expects Q4FY2023 capacity utilisation to be in mid-80s or high 80s compared to 71-72% in Q3FY2023. Speciality volumes will take time to pick up as Europe, UK, and US markets demand has been impacted.
- **Pulp prices:** The company imports pulp from South Africa, Canada, and Sweden. The current pulp prices are at $900/tonne. It has changed pulp pricing from three months' lag to last months' price.
- BThe chemical division reported a 10% y-o-y increase in revenue at Rs. 2,582 crore, while EBITDA was lower 8% y-o-y at Rs. 488 crore. ECU realisation was up 10% y-o-y but down 6% q-o-q, led by negative chlorine realisations.
- **Textile:** The textile division reported a 19% y-o-y rise in revenue at Rs. 569 crore, while EBITDA declined by 4% y-o-y to Rs. 49 crore.
- **Paints:** It would be completing all the capacity expansion by FY2025-end. The commercial launch of paints business will be in Q4FY2024.
- **B2B e-commerce:** It has done the pilot launch during this quarter. It would be launching the platform in a phased manner from H1FY2024. Digital penetration is less than 2% in the $100bn building materials market. Over three years, as digital market reaches 10%, it would provide a $10bn market size.
- **Capex:** Excluding paints, it incurred Rs. 1,400 crore capex during 9MFY2023 and targets Rs. 1,000 crore capex in Q4. In Q3FY2023, it incurred capex of Rs. 500 crore in paints. Total capex, including paints and other businesses, is estimated at Rs. 4,000-4,500 crore in FY2024.
- **Debt:** Standalone net debt stands at Rs. 485 crore.

Results (Standalone) Rs cr

Particulars	Q3FY23	Q3FY23	Y-o-Y %	Q2FY23	Q-o-Q %
Net sales	**6,195.6**	**5,784.7**	**7.1**	**6,745.2**	**(8.1)**
Total expenditure	5,718.6	4,862.6	17.6	5,788.6	(1.2)
Operating profit	**477.0**	**922.1**	**(48.3)**	**956.6**	**(50.1)**
Other Income	102.7	40.6	153.3	755.5	(86.4)
EBIDTA	579.7	962.7	(39.8)	1,712.1	(66.1)
Interest	89.2	53.4	66.9	85.1	4.9
PBDT	490.5	909.2	(46.1)	1,627.1	(69.9)
Depreciation	275.5	221.8	24.2	266.2	3.5
Extraordinary item	-	-	-	88.0	-
PBT	**215.0**	**687.5**	**(68.7)**	**1,272.8**	**(83.1)**
Tax	(42.4)	198.5	-	308.5	(113.7)
Net profit/(loss) from discontinued operations	-	33.5	-	-	-
Reported PAT	**257.4**	**522.5**	**(50.7)**	**964.3**	**(73.3)**
Extraordinary item	-	-	-	88.0	-
Adjusted PAT	**257.4**	**522.5**	**(50.7)**	**1,052.3**	**(75.5)**
EPS (Rs.)	3.9	7.9	(50.7)	16.0	(75.5)
Margin (%)					
Operating margin	7.7%	15.9%	-824	14.2%	-648
Net Margin	4.2%	9.0%	-488	15.6%	-1145
Tax rate	-19.7%	28.9%	-4858	24.2%	-4394

Source: Company; Sharekhan Research

Outlook and Valuation

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

Grasim is witnessing an improving outlook for its standalone business with easing lockdown restrictions domestically and improving the textile demand environment in China. Firming up VSF prices and caustic soda prices, driven by demand from textile and paper industries along with improvement in operating margins, are 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 market from rural and individual home builders.

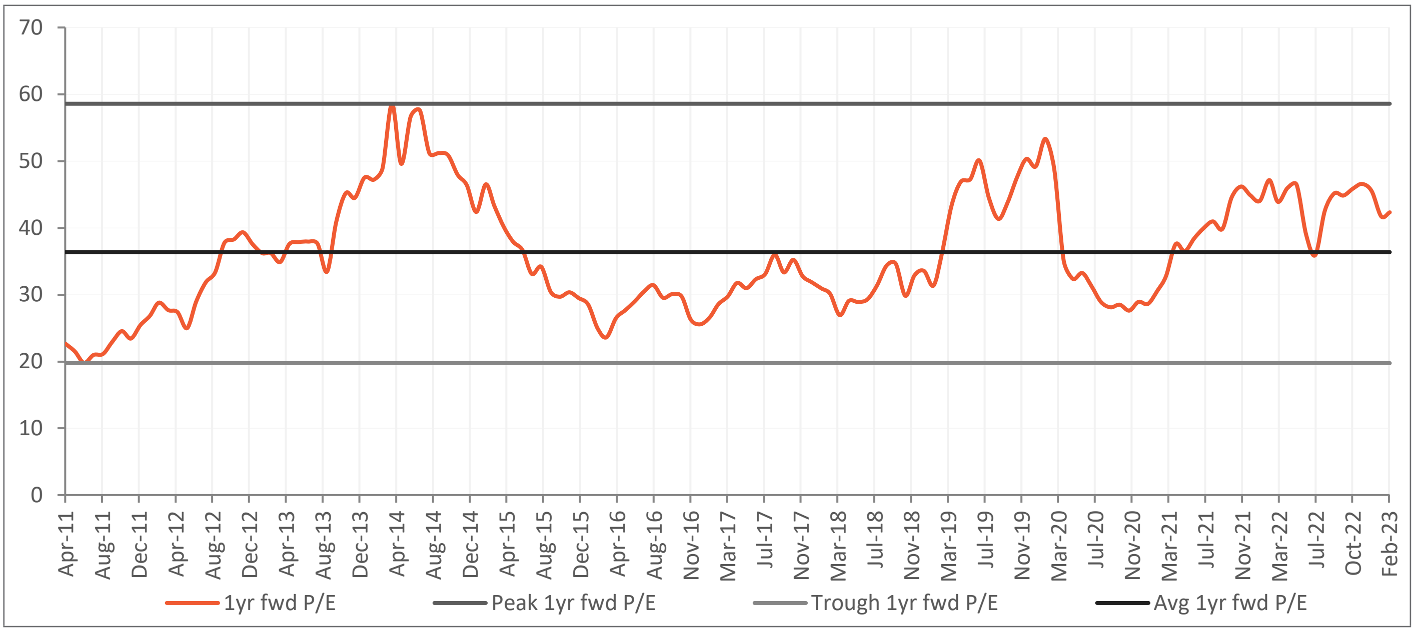
■ Company Outlook – Improved business environment and clarity on capital allocation

Grasim is benefiting from the rise in domestic demand for its key standalone businesses as offtake from end-user industries improves. The same has led to increased capex expenditure and expansion in both verticals. Further, management's clarity on capital allocation with priority being given to the standalone business and nil investments in listed telecom investment removes a key hangover. The company's venture into the paints business will provide scale and growth and reduce the cyclicality of the standalone business. Grasim is venturing into the decorative paints business with an investment of Rs. 10,000 crore by FY2025. Hence, overall, improvement in standalone business along with clarity on capital allocation is expected to improve its earnings and valuation.

■ Valuation – Retain Buy with a revised PT of Rs. 1,900

Grasim's viscose business is expected to face near-term headwinds in terms of demand and pricing, led by increased Indonesian imports and weak exports market. However, as global textile demand picks up, it should see volume growth and OPM reverting. The company's chemical business continues to fare well, although OPM is expected to normalise. The company's expedited expansion in paints is likely to provide the next leg of growth for the company. Further, the outlook for its key subsidiary UltraTech remains healthy. We maintain Buy on the stock with a revised PT of Rs. 1,900, as we roll forward our valuation multiple to FY2025 earnings, factoring in our revised PT for UltraTech and downwardly revising its standalone business valuation.

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 a 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, the company 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

Grasim benefits from an improved domestic demand environment for its key standalone businesses, led by pickup in demand from end-user industries. The same has led to increased capex expenditure and expansion in both verticals. Further, management's clarity on capital allocation with first priority to be given to the standalone business and nil future investment for listed telecom investment removes a key hangover on the stock. The company's venture into the paints business will provide scale and growth and reduce the cyclicality 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 businesses 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	18.99
2	Life Insurance Corp of India	9.69
3	IGH Holdings Pvt Ltd	6.45
4	Hindalco Industries Ltd	4.29
5	Umang Commercial Co Ltd	4.06
6	Pilani Investment & Industries Cor	3.75
7	GOVERNMENT PENSI	1.92
8	Vanguard Group Inc/The	1.91
9	Norges Bank	1.41
10	SHAMYAK INVESTMENT PRIVA	1.40

Source: Bloomberg

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 detoriating 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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.