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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 Feb 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. 1,05,354 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	-2.6	-11.1	-8.5	7.1
Relative to Sensex	-1.8	-8.2	-9.5	-3.4

Sharekhan Research, Bloomberg

Diversified	Sharekhan code: GRASIM		
Reco/View: Buy	↔	CMP: Rs. 1,600	Price Target: Rs. 1,900 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on Grasim with an unchanged PT of Rs. 1900 considering healthy growth outlook for its key subsidiaries and standalone businesses
- Grasim is expected to benefit from stabilizing VSF prices in Q4FY2023 to date post sharp q-o-q correction seen during Q3FY2023 while it continues to focus on leveraging LIVA brand.
- Caustics soda prices witness q-o-q correction in Q4FY2023 till date post sharp uptick seen in Q3FY2023. Focus to remain on chlorine integration and capacity expansions to improve ECU realisations.
- It remains to track to set up six units in paints by Q4FY2023 end while it remains committed on becoming second largest player in paints serving premium to basic range of products.

Grasim is expected to benefit from stabilizing VSF prices post witnessing a sharp q-o-q contraction during Q3FY2023 while it continues to reap benefits from business development measures by promoting LIVA brand through co-branding with market leaders. Viscose is expected to grow at 8-10% CAGR p.a. over long term outpacing cotton/synthetic fibres as its share in the global fibre market is just 6%. In chemicals, the caustic soda prices witnessed q-o-q correction during Q4FY2023 till date post sharp uptick seen during Q3FY2023. The company focuses on increasing chlorine integration while it continues to expand capacities in chloralkali/chlorine derivatives and speciality chemicals. The above would aid in improving ECU realisations. Grasim remains on track to set up six units in paints by Q4FY2023 end while it remains committed on becoming the second largest player in paints serving 8-9 categories across premium to a basic range of products.

- VSF prices stable – Volume growth to outpace Cotton and Synthetic fibres:** VSF prices stayed almost flattish during Q4FY2023 till date compared to Q3FY2023/Q4FY2022 post witnessing 9.4% q-o-q decline in Q3FY2023. Viscose-cotton spreads improved during Q4FY2023 post venturing into a negative zone during Q2FY2023 and Q3FY2023 which augurs well for Viscose demand. As per the company, Viscose has a huge growth potential (6% share in the global fibre market). Domestically, over CY15-CY22, Viscose has grown at a CAGR of 10% compared to 1%/4% for Cotton/Synthetic fibres. We believe Viscose's growth rate of 8-10% CAGR is achievable for the company over the long term.
- Caustic soda prices correct – Focus on chlorine integration and speciality chemicals:** Average caustic soda flake and lye prices in Mumbai for Q4FY2023 till date has declined by 11% q-o-q (down 16% y-o-y) and down 26% q-o-q (down 30% y-o-y). The same is on the backdrop of a 17%/4% q-o-q rise in average caustic soda flakes/lye prices witnessed during Q3FY2023. Its focus on increasing chlorine integration (72% by FY2026 end from 60% in 9MFY2023) would aid in improving ECU realisations. It is undergoing capacity expansion in chlor-alkali from 1311 KTPA to 1530KTPA by Q2FY2024, chlorine derivatives from 891 KTPA to 1164 KTPA by Q4FY2026 and Speciality chemicals from 123 KTPA to 246 KTPA by Q2FY2024.
- Paints Venture – on track to become the second largest player:** Grasim remains on track to complete six plants by Q4FY2023 end while it remains committed to achieving number two position in India's decorative paints industry by capacity. The company is expected to foray into 8-9 categories in paints across premium to basic offerings leveraging its subsidiary Ultratech's pan-India distribution reach. It has spent Rs. 1817 crore in paints till December 2022 out of total of Rs. 10,000 crore earmarked. It is likely to spend Rs. 500 crore capex in Q4FY2023 and Rs. 4000-4500 crore during FY2024.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 1,900: Grasim's Viscose business is expected to see gradual improvement with bottoming out of prices while its long-term growth outlook remains intact outpacing cotton and synthetic fibres growth rates. The company's chemical business continues to fare well, with expediting chlorine integration and capacity expansions. 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 an unchanged price target (PT) of Rs. 1,900, considering a healthy growth outlook in its key subsidiaries and standalone businesses.

Key Risks

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

Valuation (Standalone)

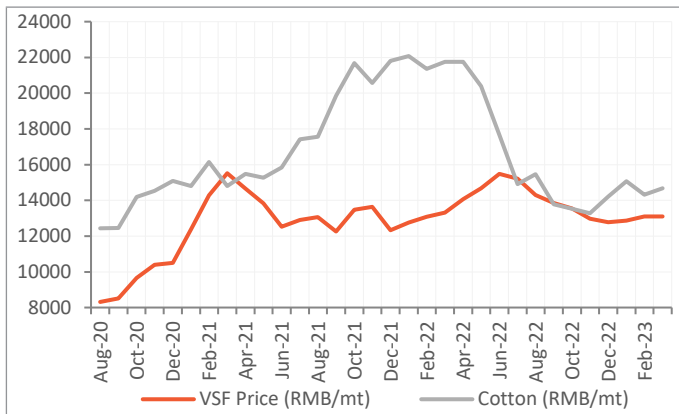
Particulars	FY22	FY23E	FY24E	FY24E
Revenue	20,857	26,859	30,447	33,820
OPM (%)	15.4%	12.6%	13.5%	14.7%
Adjusted PAT	2,545	2,384	2,533	3,019
% YoY growth	185.5	(6.3)	6.3	19.2
Adjusted EPS (Rs.)	38.7	36.2	38.5	45.9
P/E (x)	41.3	44.3	41.7	35.0
P/B (x)	2.2	2.1	2.0	1.9
EV/EBITDA (x)	22.6	22.1	18.7	15.5
RoNW (%)	5.2	4.7	4.9	5.5
RoCE (%)	4.9	4.2	4.2	4.7

Source: Company; Sharekhan estimates

VSF prices stable – Volume growth to outpace Cotton and Synthetic fibres

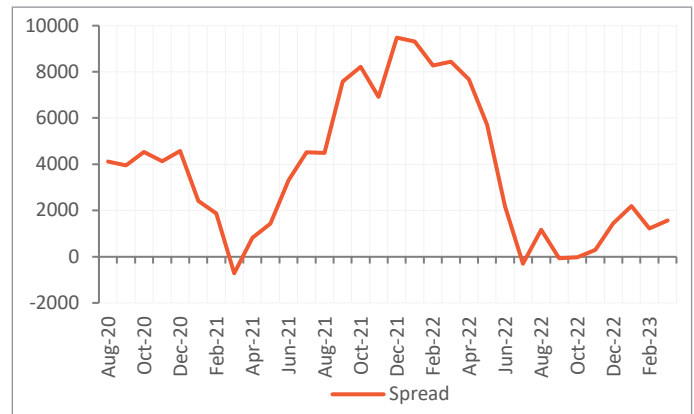
VSF prices stayed almost flattish during Q4FY2023 to date compared to Q3FY2023/Q4FY2022 post witnessing 9.4% q-o-q decline in Q3FY2023. The same was in tandem with cotton prices seeing a bounce back during Q4FY2023 till date (up 7.4% q-o-q) post correcting by 7.1% q-o-q in Q3FY2023. Viscose-cotton spreads improved during Q4FY2023 post venturing into a negative zone during Q2FY2023 and Q3FY2023 which augurs well for Viscose demand. Grasim has been promoting its LIVA brand domestically through business development measures like co-branding it with the domestic leaders providing consumer stickiness for its viscose fibres. As per the company, Viscose has a high growth potential owing to just a 6% share in the global fibre market. Domestically, over CY15-CY22, Viscose has grown at a CAGR of 10% compared to 1%/4% for Cotton/Synthetic fibres. We believe a Viscose growth rate of 8-10% CAGR is achievable for the company over the long term.

Viscose & Cotton PriceTrend



Source: Industry; Sharekhan Research

Viscose-Cotton Spread trend

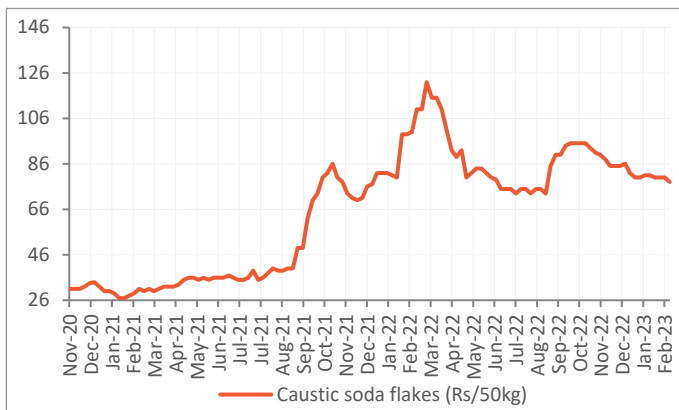


Source: Industry; Sharekhan Research

Caustic soda prices correct – Focus on chlorine integration and speciality chemicals

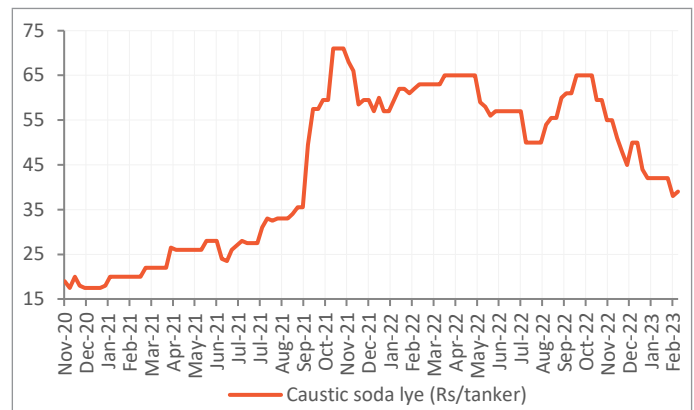
Average caustic soda flake and lye prices in Mumbai for Q4FY2023 till date have declined by 11% q-o-q (down 16% y-o-y) and down 26% q-o-q (down 30% y-o-y). The same is on the backdrop of a 17%/4% q-o-q rise in average caustic soda flakes/lye prices witnessed during Q3FY2023. The company is focusing on increasing chlorine integration to 72% by FY2026 end from 60% in 9MFY2023 which would aid in improving ECU realizations. It is undergoing capacity expansion in chlor-alkali from 1311 KTPA to 1530KTPA by Q2FY2024, chlorine derivatives from 891 KTPA to 1164 KTPA by Q4FY2026 and Specialty chemicals from 123 KTPA to 246 KTPA by Q2FY2024.

Caustic soda flakes price in Mumbai trend



Source: Industry; Sharekhan Research

Caustic soda lye price in Mumbai trend



Source: Industry; Sharekhan Research

Paints Venture – on track to become the second largest player

Grasim remains on track to complete six plants by the Q4FY2023 exit while it remains committed to achieving number two position in India's decorative paints industry by capacity. The company is expected to foray into 8-9 categories in paints across premium to basic offerings leveraging its subsidiary Ultratech's pan-India distribution reach. It has spent Rs. 1817 crore in paints till December 2022 out of total of Rs. 10,000 crores earmarked. It is likely to spend Rs. 500 crore capex in Q4FY2023 and Rs. 4000-4500 crore during FY2024.

Outlook and Valuation

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

Grasim is witnessing an improving outlook for its standalone business by 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.

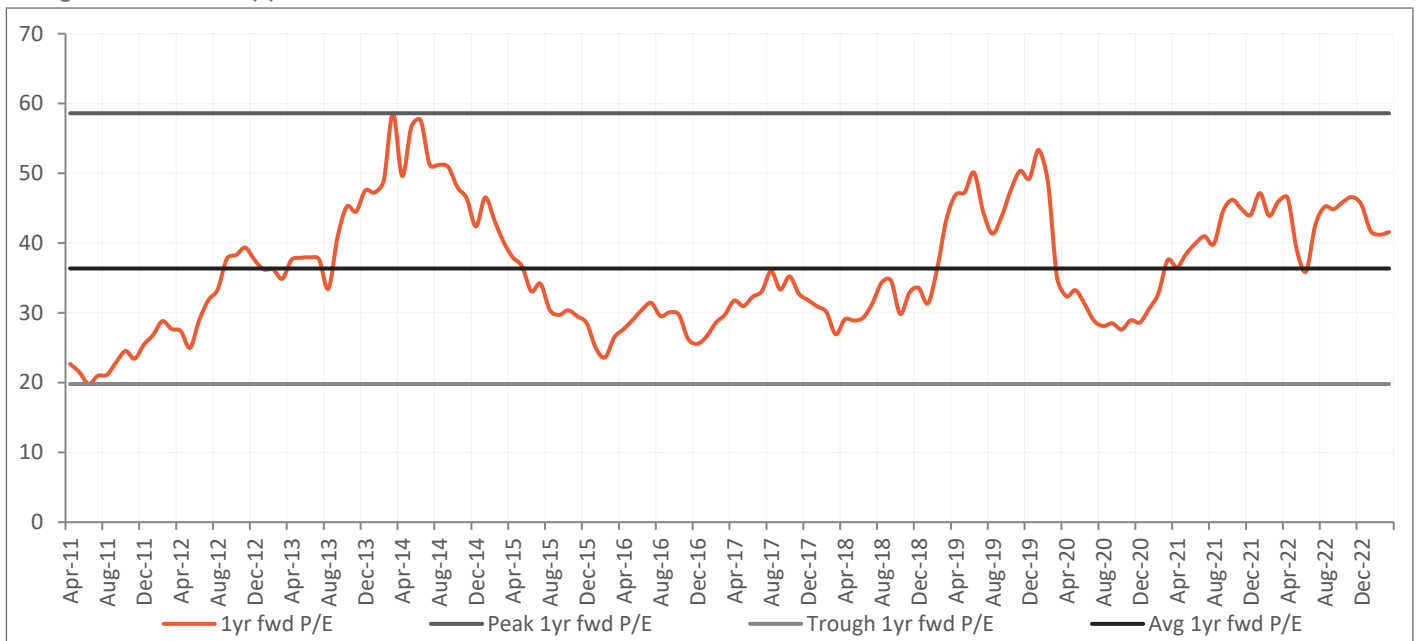
■ Company Outlook – Improved business environment and clarity on capital allocation

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, the 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 crores 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 an unchanged PT of Rs. 1,900

Grasim's Viscose business is expected to see gradual improvement with bottoming out of prices while its long-term growth outlook remains intact outpacing cotton and synthetic fibres growth rates. The company's chemical business continues to fare well, with expediting chlorine integration and capacity expansions. 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 an unchanged price target (PT) of Rs. 1,900, considering a healthy growth outlook in its key subsidiaries and standalone businesses.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Grasim is the flagship company of the 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 a 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 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 businesses such as telecom, cement, and financial services.

Additional Data

Key management personnel

Mr. Kumar Mangalam Birla	Chairman
Mr. H K Agarwal	Managing Director
Mr. Pavan K Jain	Chief Financial Officer

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

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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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