



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	■	↔	■

Company details

Market cap:	Rs. 1,49,788 cr
52-week high/low:	Rs. 2245/1522
NSE volume: (No of shares)	27.8 lakh
BSE code:	500300
NSE code:	GRASIM
Free float: (No of shares)	39.0 cr

Shareholding (%)

Promoters	42.8
FII	16.4
DII	17.0
Others	23.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.5	11.5	21.9	39.9
Relative to Sensex	3.5	0.7	9.7	17.4

Sharekhan Research, Bloomberg

Grasim Industries Ltd
Magnum "OPUS" unveiled; Retain Buy

Diversified	Sharekhan code: GRASIM		
Reco/View: Buy	↔	CMP: Rs. 2,201	Price Target: Rs. 2,600
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ◆ We retain a Buy on Grasim with an unchanged PT of Rs. 2,600, considering a healthy growth outlook for its key subsidiaries and standalone businesses.
- ◆ Grasim formally launches the Paints business with an ambitious target of achieving Rs. 10,000 crore in revenues and turning profitable within three years of full-scale operations.
- ◆ Its 1332 MLPA capacity target remains on track by the FY2025 end, while it highlighted that incremental 500 MLPA additions in the next phase would be made at a much lower capex outlay.
- ◆ The management presented its 5D strategy viz. Design, Develop, Distribute, Disrupt and Delight strategy touching key aspects which are being implemented to achieve scale expeditiously.

Grasim formally launched its decorative paints brand "Birla Opus" on February 22, 2024, commencing operations at three plants having 630 MLPA capacity out of the planned six plants (the remaining three to be operational each during Q1, Q2 and Q4 of FY2025) with 1332 MLPA capacity (40% of the current industry capacity). It would expand capacity by 500 MLPA in the next phase at a much lower capex outlay. It has set a target of achieving Rs. 10,000 crore in revenues and turning profitable within three years of full-scale operations in the paints business. Birla Opus would offer 145+ products, 1200 SKUs, and 2300+ tintable color choices through a network of over 150 depots touching over 6000 towns by FY2025 end. It has already enrolled over 3 lakh painters & contractors, which would be provided loyalty benefits. For customers, it would be providing an additional warranty, 10% additional volume on water-based products, and introducing an assurance program. Overall, it is slated to capitalise on the high growth opportunities in the paints sector, which is poised to surpass Rs. 3 lakh crore mark by 2034 from the current Rs. 80,000 crore.

- ◆ **Eyeing Rs. 10,000 crore in revenues & be profitable within three years of full scale operations:** Grasim has set an ambitious target of achieving Rs. 10,000 crore revenues and turn profitable within three years of full scale operations in its paints business. After inaugurating three plants with 630 MLPA capacity, three more plants would get operational by FY2025 end, helping it reach 1332 MLPA capacity, which is 40% of the current industry capacity. Further, it would be increasing capacities by 500 MLPA in the next phase which will be undertaken at a much lower capex outlay. The company remains steadfast in achieving the number two spot in a highly competitive and rapidly expanding paints industry.
- ◆ **"5D" strategy unveiled:** The management highlighted its "5D" strategy viz. Design, Develop, Distribute, Disrupt and Delight. In a nutshell, it has designed a complete range of 145 products across six categories with over 2300 tintable colors. It is on the path of developing six plants of 1332 MLPA capacities in a record twenty months. It would be distributing to over 6000 towns by FY2025 end achieving second largest network within first year itself. It would disrupt by already enrolling over 3 lakh painters and contractors, who would be provided loyalty programs and financing through AB Capital. Lastly, as an inaugural offer, it would delight customers through additional warranties, incremental volumes and assurance programs.
- ◆ **An opportunity in a high-growth industry:** As per management, the construction sector is booming and expected to reach 9% of GDP or \$900 bn in a decade. India's per capita paints consumption being at bottom 10% globally at 3.5 kg compared to 10 kg globally and 25 kg in developed economies provide a strong growth opportunity. India's economy is expected to reach 10 trillion USD by 2034, with the paints sector set to surpass the Rs 3 lakh crore mark by that time from the current 80,000 crore.

Our Call

Valuation – Retain Buy with an unchanged PT of Rs. 2,600: Grasim's formal launch of its paints business has provided an expeditious scale-up time period along with hinting at further capacity expansion plans at a much lower capex outlay. It showcased "Birla Opus's" product depth and network expansion plans, although it remained tight-lipped on detailed pricing strategy and operational profitability guidance. We believe the company's expedited paints expansion would provide next leg of growth for its standalone business with lesser volatility. Further, the outlook for its key subsidiaries, UltraTech and AB Capital, remains healthy. We maintain Buy with an unchanged price target (PT) of Rs. 2,600, considering a healthy growth outlook for its key subsidiaries and standalone businesses.

Key Risks

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

Valuation (Standalone)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	26,840	25,620	27,594	29,897
OPM (%)	11.8%	9.5%	12.6%	13.1%
Adjusted PAT	2,212	1,413	1,877	2,024
% YoY growth	(5.8)	(36.1)	32.8	7.8
Adjusted EPS (Rs.)	33.6	21.5	28.5	30.8
P/E (x)	65.5	102.5	77.2	71.6
P/B (x)	3.1	3.0	3.0	2.9
EV/EBITDA (x)	37.2	50.0	35.2	31.7
RoNW (%)	4.7	3.0	3.8	4.0
RoCE (%)	4.1	2.6	3.3	3.4

Source: Company; Sharekhan estimates

Key Event Takeaways

- ◆ **Why Paints?:** The construction sector is booming and is expected to contribute 9% of GDP or \$ 900 bn in a decade. The business venture is a strategic extension for its presence from foundation to facade. India's per capita paints consumptions stands at 3.5 kg compared to global average of 10 kg and developed economies average of 25 kg. India is at the bottom 10% globally in paints consumption. The above provides significant growth opportunities for the company.
- ◆ **Guidance:** The company targets to achieve Rs. 10,000 crore revenues by third year and turn profitable with full scale of operations.
- ◆ **Capacity:** The company is investing Rs. 10,000 crore with six plants that currently forms 40% of industry capacity. The planned 1332 MLPA capacity would be greater than combined capacities of second, third and fourth companies. It plans to further add 500 MLPA capacity in the next phase of expansion. Panipat (Haryana), Ludhiana (Punjab) and Cheyyar (Tamil Nadu) Birla Opus plants started operations today while Chamarajanagar (Karnataka) plant is expected in Q1FY2025, Mahad (Maharashtra) in Q2FY2025 and Kharagpur (West Bengal) in Q4FY2025.
- ◆ **5D strategy:** The company elaborated on its 5D strategy viz. Design, Develop, Distribute, Disrupt and Delight.
 - **Design:** Birla Opus will offer the widest range with 145+ products and 1200+ SKUs across water-based paints, enamel paints, wood finishes, waterproofing and wallpapers. The products offered will be across consumer segments – economy, premium, luxury, designer finishes and institutional clients. It will present the largest range of 2,300+ tintable colour choices including 216 iconic Indian colours. The company's product was evaluated by 300 painters across eleven cities in which the product was ranked number one by 95% of painters in blind tests.
 - **Develop:** The company is executing six plants within twenty months of receiving regulatory approvals. Its Cheyyar plant is operational in just sixteen months. All 6 manufacturing plants are fully sustainable with zero liquid discharge and equipped with 4th generation manufacturing technology to manage supply chain processes at lightning speed, zero defects and end-to-end traceability.
 - **Distribute:** Birla Opus is committed to meet industry standard of 4-hour delivery of its 1200 + SKUs to dealers in Depot towns through the largest network of 150+ depots integrated with the latest warehousing systems. Birla Opus products will be available in Punjab, Haryana, and Tamil Nadu from midMarch 2024 and across all 1 lakh population towns in India by July 2024. The company aims to expeditiously expand its distribution to over 6,000 towns by the fiscal year end. It will be having second largest network in the first year itself. It is installing free tinting machines with 40% reduced footprint which will be digitally linked to the central hub. It would provide financing to dealers through Aditya Birla Capital. The company had invited 1 lakh plus paint dealers to participate in the event.
 - **Disrupt:** Birla Opus has already enrolled over 300,000 painting contractors and is starting the largest-ever sampling program. For painters, it would have an app, website and loyalty programme.
 - **Delight:** It would be opening paint studios in eleven major cities and galleries in 300 towns through franchise partnerships. It would provide additional one year warranty across most of the water based products. Birla Opus is also setting a benchmark by offering first-time warranty on enamels and wood finish products. As part of the inaugural offer, consumers will get an additional 10% volume on water-based products and contractors will get loyalty benefits across most of its products.
- ◆ **Employee strength:** Birla Opus has an employee strength of 2400 with an average age of 31 years and 70% heading from outside the paints industry.

Outlook and Valuation

■ Sector view - Standalone business faces near-term challenges

Grasim is facing subdued demand in its standalone businesses, led by global oversupply and volatility in the pricing environment. However, the viscose demand environment is expected to remain stable with gradual improvement in OPM. The chemical division's performance would be determined by global demand and pricing environment. 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.

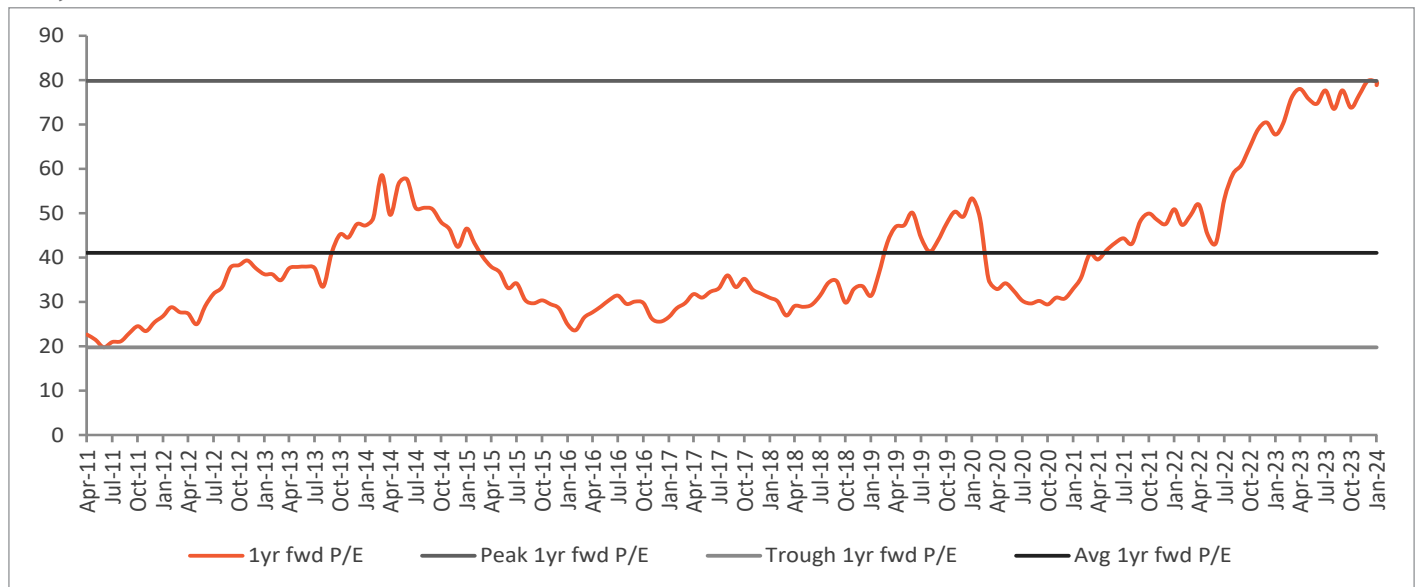
■ Company outlook - Healthy times ahead for key subsidiary and paints venture

Grasim is benefiting from the healthy growth outlook in its key subsidiary, UltraTech, while its standalone businesses are expected to face near-term subdued demand and volatility in OPMs. The company would focus on increasing asset productivity and the share of value-added products to improve OPM in the viscose and chemical divisions. 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, a healthy growth outlook in UltraTech and a venture into paints are expected to drive valuation.

■ Valuation - Retain Buy with an unchanged PT of Rs. 2,600

Grasim's formal launch of its paints business has provided an expeditious scale up time period along with hinting at further capacity expansion plans at a much lower capex outlay. It showcased "Birla Opus's" product depth and network expansion plans although remained tight lipped on detailed pricing strategy and operational profitability guidance. We believe the company's expedited paints expansion would provide next leg of growth for its standalone business with lesser volatility. Further, the outlook for its key subsidiaries UltraTech and AB Capital remains healthy. We maintain Buy with an unchanged price target (PT) of Rs. 2,600, considering a healthy growth outlook for its key subsidiaries and standalone businesses.

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 India's largest chemicals chemical (Chlor-Alkalis), cement, and diversified financial services (NBFC, Asset Management, and Life Insurance) player.

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 priority 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 negatively affects profitability.
- ◆ Higher holding company discounts for any of its other businesses such as telecom, cement, and financial services.

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Birla Group Holdings Pvt Ltd	18.99
2	Life Insurance Corp of India	9.35
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	Vanguard Group Inc/The	2.23
8	GOVERNMENT PENSI	1.93
9	Norges Bank	1.92
10	SHAMYAK INVESTMENT PRIVA	1.40

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200 / 022-69920600