

Grasim Industries

BSE SENSEX
73,158

S&P CNX
22,217



Stock Info

Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	1470.4 / 17.7
52-Week Range (INR)	2245 / 1521
1, 6, 12 Rel. Per (%)	3/8/14
12M Avg Val (INR M)	1244
Free float (%)	57.3

Financials Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	253.4	289.7	309.8
EBITDA	23.7	27.3	35.1
Adj. PAT	15.6	13.4	16.5
EBITDA Margin (%)	9.4	9.4	11.3
S/A Adj. EPS (INR)	23.7	20.3	24.2
S/A EPS Gr. (%)	(25.5)	(14.3)	19.4
Consol EPS (INR)	94.3	96.2	105.7
BV/Sh. (INR)	737.7	769.7	796.9

Ratios

Net D:E	0.1	0.1	0.1
RoE (%)	4.6	3.0	3.9
RoCE (%)	5.9	5.4	6.3

Valuations

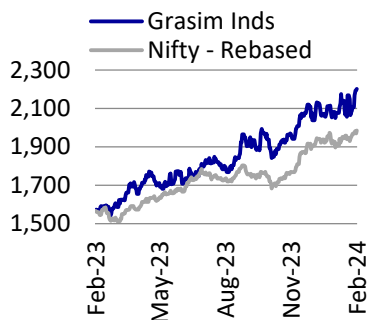
P/E (x)	92.9	108.4	90.8
P/BV (x)	6.0	4.8	4.0
EV/EBITDA (x)	0.3	0.3	0.3
Div. Yield (%)	(2.7)	(0.9)	(0.8)
FCF Yield (%)	253.4	289.7	309.8

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	42.8	42.8	42.8
DII	16.7	16.9	16.5
FII	16.8	16.4	16.8
Others	23.8	23.9	24.0

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR2,201

TP: INR2,670 (+21%)

Buy

Ambitious targets for the paint business

Aims for revenue of INR100b and turning profitable in three years

- Grasim Industries (GRASIM) on 22nd Feb'24 inaugurated its paint plants at three locations - Panipat (Haryana), Cheyyar (Tamil Nadu), and Ludhiana (Punjab). Construction at other three plants at Chamarajanagar (Karnataka), Mahad (Maharashtra) and Kharagpur (West Bengal) is in full swing and they will be commissioned in phases in FY25.
- GRASIM has the Paint business under the brand name, "Birla Opus".
- The company announced its foray into the paint business on 22nd Jan'21 with an initial capital outlay of INR50b. Later in May'22, the management indicated that the capital investments in this business would be INR100b (cumulative capex stood at INR59.96b as of Dec'23) with an aggregate installed capacity of 1.33m kl. This capacity will be further increased by 0.5m kl in the second phase at a much lower cost.
- The company aims to achieve a turnover of INR100b in the next three years and would become profitable at that time. The sales and distribution network is in place to support the launch of Birla Opus and the company plans to cover all towns with a population of over 100k by Jul'24 and 6,000 towns by FY25-end. GRASIM will focus on customer satisfaction, product quality, better incentives to contractors, and faster delivery of products (within four hours of placing orders at most of the locations).
- We largely retain our EPS estimates for FY24-26. **Reiterate BUY** with a TP of INR2,670 as we value its: 1) holding in subsidiary companies by assigning a discount of 40%; 2) standalone business at 7x EV/EBITDA, and 3) paint business at 1x of investments. We do not change our assumptions for the paint business as of now and would wait for the scalability of operations. We believe that the value of the company's paint business is not captured in its CMP (Exhibit 12).

Key takeaways from management interaction

- The per capita consumption of paints in India is 3kg vs. the global average of 10kg and 25kg in developed countries. India ranks at the bottom 10% of paint consumption globally; hence, there is a huge potential for growth. The paint business is a strategic extension to the company's presence in the housing construction segments. GRASIM is adding 40% of industry's installed capacities.
- The company has launched factories, operations, products, and services in one go on a large scale, which is unprecedented in this business. The company's paint capacity in its first year of operations will be greater than the combined capacity of the second, third and fourth largest players. All the plants are equipped with state-of-the-art technologies, which will help to achieve zero defects, zero liquid discharge, and unprecedented speed of operations. It has one R&D center with 120 people in Taloja, Mumbai.

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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.

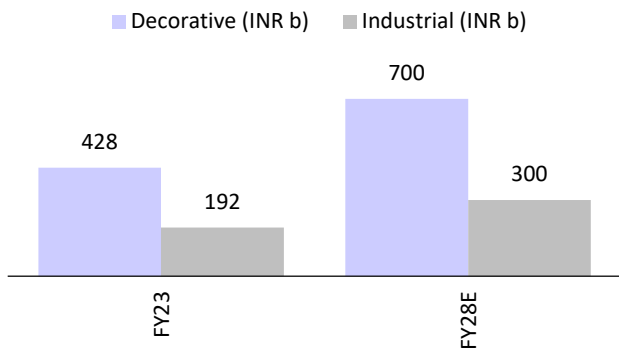
- GRASIM highlighted its 5D strategy: Design, Develop, Disrupt, Distribute, and Delight customers by offering differentiated products.
- **Design** – Birla Opus will offer the widest range in the industry, with 145+ products and 1,200+ SKUs across categories. Its product portfolio is on par with or, in some segments, ahead of the market leader. It will offer 2,300+ tintable color options. Over 300+ painters spanning 11 cities put the company product to test against leading incumbents in each category and over 95% of painters and contractors ranked Birla Opus as #1.
- **Develop** – GRASIM commissioned greenfield projects within 20 months of receiving regulatory approvals (Cheyyar plant became fully operational in 16 months). All six facilities are best-in-class with full automation, interconnected systems, and automated storage and warehousing. Backward integration will enable it to produce core ingredients in-house, including immersions for water-based paints and resin for both solvent-based and wood-finished paints.
- **Distribution** – In mid-Mar’24, Birla Opus will be launched in Punjab, Haryana, and Tamil Nadu. By Jul’24, it will be available in all markets with a population of over 100k, and in the next eight months it will also be available in towns with a population of just 50k. The company has established the 2nd largest network of painters even before the launch, with over 300k painters and contractors registered in just six months. It has already enrolled 5,000 dealers and the targets to reach to 50,000 dealers by Mar’25. GRASIM will provide free tinting machines, which will be digitally linked to the control hub and will be 40% smaller in size compared to existing machines. About 95% of its current dealers will install tinting machines of the company. The focus will also be on improving working capital for dealers. Warehousing network is being bolstered (150+ depots integrated with the latest warehousing systems). GRASIM will also offer preferred financing through financial services arm Aditya Birla Capital.
- **Disrupt** – It is committed to redefining the paradigm for institutional contractors and painters, who are the backbone of this industry. It has enrolled 300k+ painters and contractors before the launch. It will launch a painter partnership program, ‘Udaan’, to show case work and attract new business and a loyalty program with instant redemption. It will also offer unmatched rewards for all products. Moreover, learning centers are being established as hubs for training painters and educating network partners.
- **Delight** – It is taking a series of industry-first steps: 1) Company-owned Birla Opus paint studios in 11 major cities and Birla Opus paint galleries across 300 towns; 2) The track-and-trace system (QR based) will enable end-to-end traceability from production to application. Also there will be laser printing on the boxes, which will make them tamper-proof; 3) A consumer assurance program for customer satisfaction. It will offer an additional one-year warranty on most water-based products and first-time product warranty on enamels and wood-based products; 4) Digital experience with AI enhanced tools will help paint selection; 5) Paint craft services; and 6) Value offer: Extra 10% quantity on most water-based paint products during the promotion period.
- Break-up of capacities: 1,080m liters water-based paints; 120m liters distemper; 106m liters solvent-based paints; 14mn liters wood-based paints and 12mn liters of colorants.
- Product ranges: Luxury brand- One; Premium range- Calista; Economic range- Style; B2B products- Prime; Allwood for wood product range; and Alldry for water proofing range.

Valuation and view

- The VSF segment’s margin is expected to remain stable, and caustic soda prices appear to be bottoming out. GRASIM will benefit from the capacity expansion of Epoxy, where margins are better than caustic soda. This would help the company improve margins of the chemical segment. The management has successfully completed the rights issue of INR40b with an oversubscription of nearly 2x.
- We largely retain our EPS estimates for FY24-26. Reiterate BUY with a TP of INR2,670 as we value its: 1) holding in subsidiary companies by assigning a discount of 40%; 2) standalone business at 7x EV/EBITDA, and 3) paint business at 1x of investments.

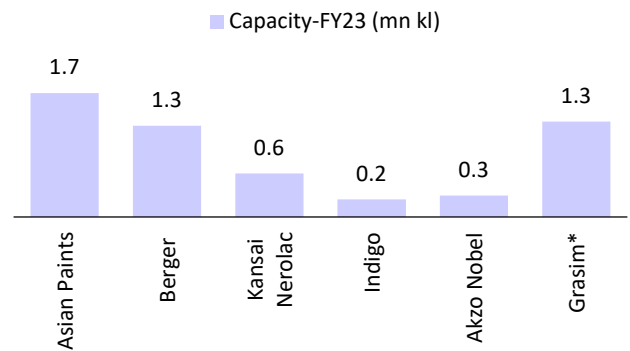
Story in charts

Exhibit 1: Industry estimated to see ~10% CAGR



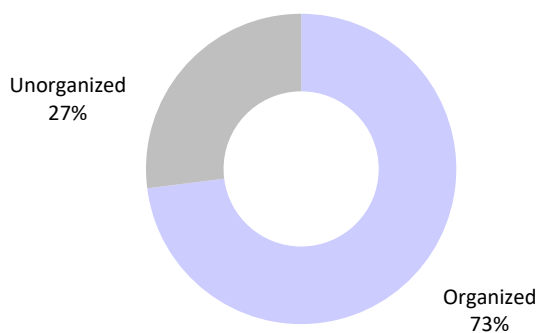
Source: MOFSL, Industry

Exhibit 2: Installed capacities of different players



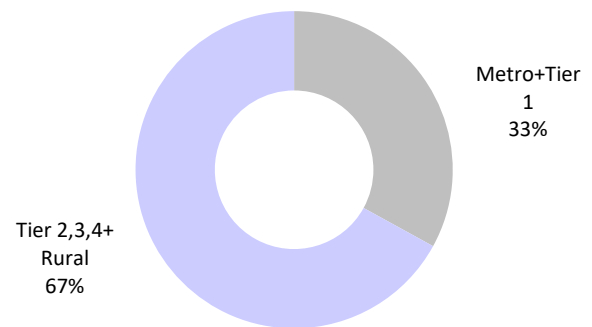
Source: MOFSL, Companies, *as per ongoing plans

Exhibit 3: Unorganized players constitute 27% of the market



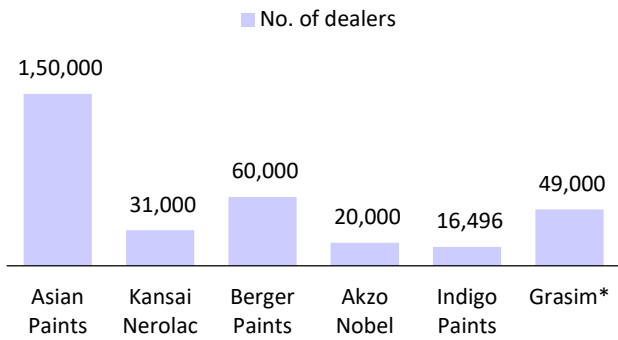
Source: MOFSL, Industry

Exhibit 4: Consumption of paints in different areas



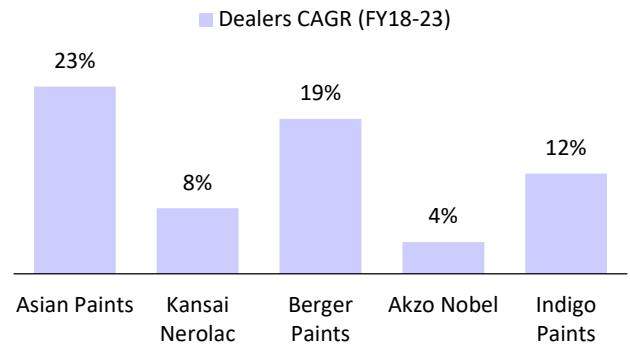
Source: MOFSL, Industry

Exhibit 5: Dealers' network of different companies



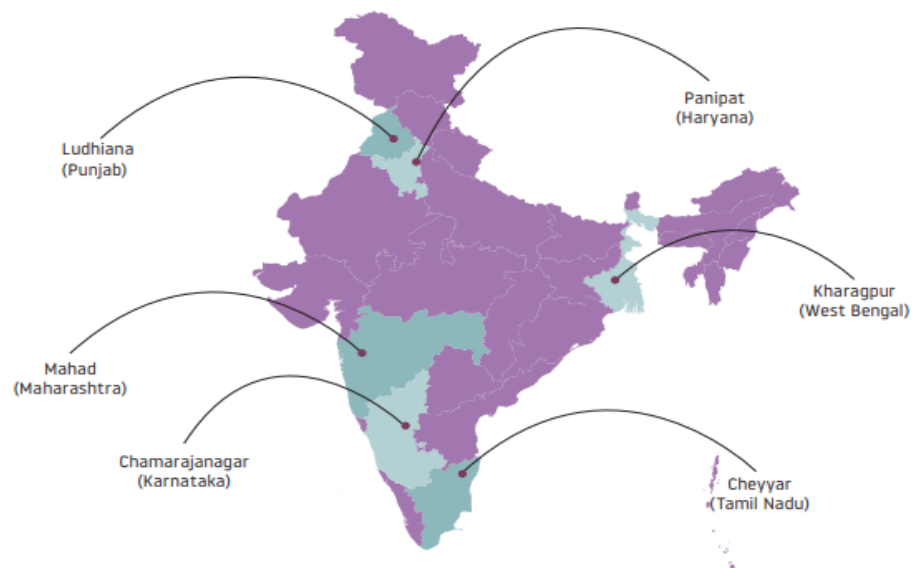
Source: MOFSL, Companies, *Birla White has 70k+ dealers and there exists a 70% overlap between Paints & white cement dealers

Exhibit 6: Strong dealer addition by many players



Source: MOFSL, Companies

Exhibit 7: Grasim targets a pan-India reach through plants at strategic locations



Source: Company, MOFSL

Exhibit 8: Factors that will drive GRASIM's success in the paint business

Decorative Paints

PAN INDIA REACH	WIDE PRODUCT OFFERING	DISTRIBUTION PROWESS	MANUFACTURING EXCELLENCE	ESTABLISHED ECOSYSTEM
<p>Capacity 1,332 MLPA*</p> <p>Large competitive capacities at strategic locations for Pan India reach</p>	<p>Best in class product proposition & digital experience to customers</p>	<p>Building strong retail and dealer network aiming shortest time to market</p>	<p>State of the art plants with latest technology and automation</p>	<p>Leveraging existing trust and loyalty commanded by the Aditya Birla Group</p>

*million liters p.a.

Source: Company, MOFSL

Exhibit 9: Inaugurated its paint plants at three locations



Source: Company, MOFSL

Exhibit 10: Birla Opus product range - display

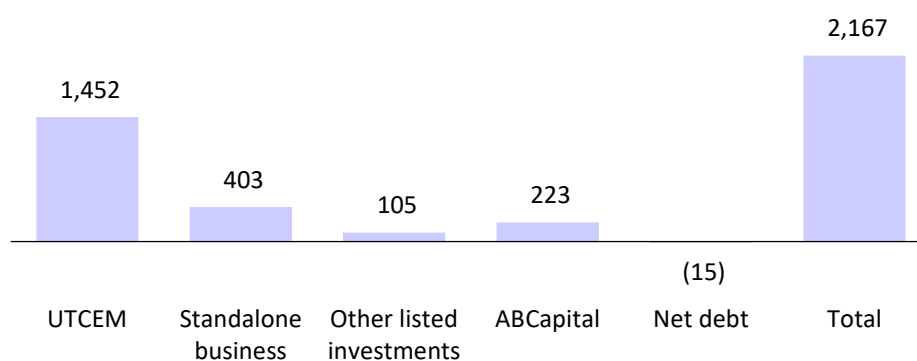


Source: Company, MOFSL

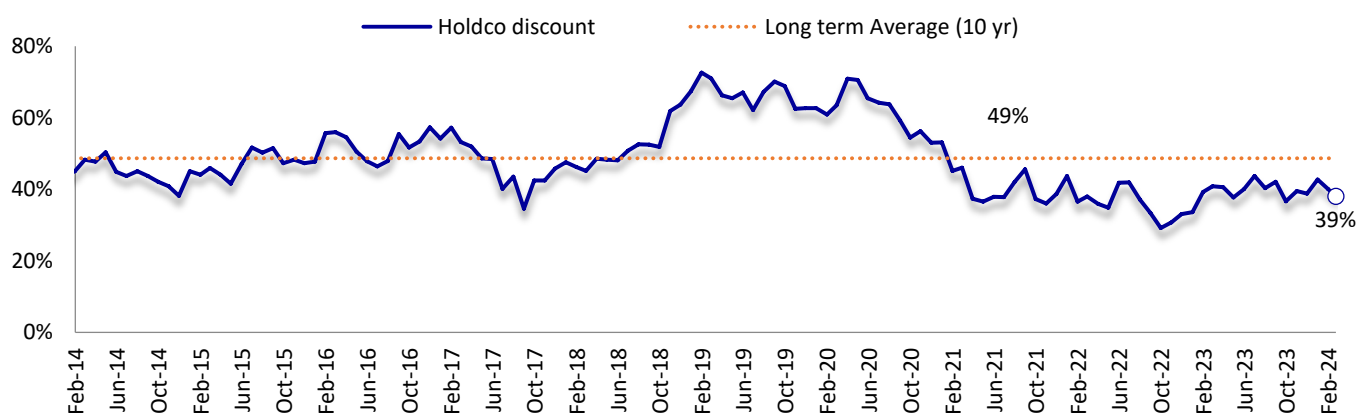
Exhibit 11: Assumptions for Paints business

Particulars	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Volume (mn litre)	0.13	0.20	0.28	0.38	0.48	0.57	0.66
YoY growth (%)		47.1	45.6	33.5	26.7	18.6	14.9
Volume share (%)	2.9	4.0	5.4	6.7	8.0	8.9	9.5
Revenue (INR m)	15,273	22,461	33,521	45,875	59,599	72,474	85,386
EBITDA (INR m)	(5,667)	(4,811)	(1,682)	1,827	4,464	6,904	9,325
Depreciation (INR m)	4,250	5,000	5,200	5,400	5,600	5,800	6,000
NOPAT (INR m)	(9,917)	(9,811)	(6,882)	(3,573)	(849)	826	2,487

Source: MOFSL, Company

Exhibit 12: GRASIM's CMP factors in a negligible value for the paint business (value of different businesses in CMP; in INR)

Source: MOFSL, Company; HoldCo discount 40% on CMP of subsidiaries; standalone business (ex-losses for Paints) at 7x FY25E EV/EBITDA and net debt adjusted for investments into Paints

Exhibit 13: Holding company discount at 39%; below the last three years' average

Source: Company, MOFSL

Exhibit 14: SoTP valuation

Particulars	Valuation method	Unit	FY26E	INR/share
UTCCEM's m-cap based on TP		INR b	3,464	
Holding company discount		%	40	
GRASIM's stake		%	57	
Value of its cement stake		INR b	1,190	
Value/share	40% HoldCo discount to our TP	INR		1,810
Value of standalone business (excluding-Paint)		INR b	320	
Value/share	7x for the standalone business			486
Value of listed investments		INR b	107	
Holding company discount		%	40	
Assigned value to listed investments		INR b	64	
Value/share	40% HoldCo discount on the CMP	INR		98
VSF and Fiber JV		INR b	8	
Value/share	1x P/BV	INR		12
Standalone net debt		INR b	(63)	
Value/share		INR		(95)
ABCAP		INR b	463	
Holding company discount		%	40	
GRASIM's stake		%	53	
Value of ABCAP's stake in GRASIM		INR b	146	
Value/share	40% HoldCo discount on the CMP	INR		222
Paint Business		INR b	90	
Value/share	1x of invested capital	INR		137
SoTP-based TP		INR		2,670

Source: MOFSL, Company

Financials and Valuation

Standalone Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,05,504	1,86,094	1,23,864	2,08,568	2,68,397	2,53,434	2,89,730	3,09,832
Change (%)	30.2	(9.4)	(33.4)	68.4	28.7	(5.6)	14.3	6.9
Total Expenditure	1,64,793	1,62,989	1,08,220	1,76,407	2,36,598	2,29,698	2,62,394	2,74,695
EBITDA	40,712	23,105	15,643	32,162	31,799	23,736	27,336	35,138
Change (%)	32.2	(43.2)	(32.3)	105.6	(1.1)	(25.4)	15.2	28.5
Margin (%)	19.8	12.4	12.6	15.4	11.8	9.4	9.4	11.3
Depreciation	7,604	8,468	8,282	9,140	10,973	11,875	14,427	17,617
EBIT	33,108	14,638	7,362	23,022	20,826	11,861	12,908	17,521
Int. and Finance Charges	1,991	3,039	2,360	2,472	3,677	4,300	7,317	8,602
Other Income - Rec.	5,680	5,255	5,137	8,953	10,183	11,231	11,109	11,690
PBT & EO Items	36,797	16,854	10,139	29,503	27,333	18,791	16,700	20,609
Change (%)	32.1	(54.2)	(39.8)	191.0	(7.4)	(31.2)	(11.1)	23.4
Extra Ordinary (income)/expense	23,680	2,941	810	691	880	0	0	0
PBT but after EO Items	13,117	13,913	9,329	28,812	26,452	18,791	16,700	20,609
Tax	7,964	1,214	1,224	1,857	5,215	3,195	3,340	4,122
Tax Rate (%)	21.6	7.2	12.1	6.3	19.1	17.0	20.0	20.0
Reported PAT	5,153	12,700	8,105	26,955	21,237	15,597	13,360	16,487
PAT Adj for EO items	23,708	15,640	8,817	22,306	20,933	15,597	13,360	16,487
Change (%)	20.4	(34.0)	(43.6)	153.0	(6.2)	(25.5)	(14.3)	23.4
Margin (%)	11.5	8.4	7.1	10.7	7.8	6.2	4.6	5.3

Standalone Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	1,315	1,316	1,316	1,317	1,317	1,317	1,317	1,361
Employee Stock options outstanding		527	567	708	708	708	708	708
Reserves	4,18,277	3,74,898	4,27,595	4,84,133	4,67,524	4,83,700	5,04,799	5,40,243
Net Worth	4,19,592	3,76,740	4,29,479	4,86,158	4,69,549	4,85,726	5,06,824	5,42,312
Loans	33,108	50,681	41,634	41,208	52,542	95,454	1,12,154	97,654
Deferred liabilities	18,789	14,025	17,339	18,414	15,348	15,348	15,348	15,348
Capital Employed	4,71,488	4,41,447	4,88,452	5,45,779	5,37,440	5,96,528	6,34,327	6,55,314
Gross Block	1,38,489	1,54,142	1,48,940	1,95,985	2,20,577	2,64,124	3,37,021	3,82,021
Less: Accum. Deprn.	26,166	33,310	39,302	47,435	58,408	70,283	84,711	1,02,327
Net Fixed Assets	1,12,322	1,20,832	1,09,637	1,48,549	1,62,169	1,93,840	2,52,310	2,79,693
Capital WIP	15,672	27,919	40,334	17,428	29,257	45,000	10,000	8,000
Non-Current Investments /Strategic	2,81,616	2,56,621	3,05,230	3,39,418	3,08,412	3,18,412	3,18,412	3,18,412
Current - Financial	29,931	20,504	41,553	47,490	30,556	30,556	30,556	30,556
Curr. Assets	78,398	69,070	46,827	73,477	91,378	92,501	1,09,391	1,08,985
Inventory	29,317	26,262	21,790	39,408	44,928	45,035	46,132	49,279
Account Receivables	34,916	29,053	13,120	16,904	15,973	16,441	17,113	18,890
Cash and Bank Balance	425	789	1,327	2,253	4,744	3,147	15,724	8,283
Others	13,741	12,965	10,590	14,912	25,734	27,878	30,422	32,532
Curr. Liability & Prov.	46,452	53,499	55,130	80,583	84,332	83,781	86,342	90,332
Account Payables	23,757	26,648	27,069	46,507	47,112	49,324	51,340	55,028
Provisions	4,604	5,514	3,250	3,419	3,866	3,802	4,346	4,647
Other Liabilities	18,091	21,337	24,811	30,656	33,353	30,656	30,656	30,656
Net Current Assets	31,947	15,571	-8,303	-7,105	7,046	8,720	23,049	18,653
Appl. of Funds	4,71,488	4,41,447	4,88,452	5,45,779	5,37,440	5,96,528	6,34,327	6,55,314

Financials and valuations

Standalone Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share price								
EPS	36.0	23.8	13.4	33.9	31.8	23.7	20.3	24.2
Cash EPS	47.6	36.6	26.0	47.8	48.5	41.7	42.2	50.1
BV/Share	638.0	572.7	652.6	738.4	713.1	737.7	769.7	796.9
DPS	6.2	7.0	9.0	10.0	10.0	6.0	6.0	6.5
Valuation								
P/E	61.0	92.5	164.2	64.9	69.2	92.9	108.4	90.8
Cash P/E	46.2	60.0	84.7	46.0	45.4	52.7	52.1	43.9
P/BV	3.4	3.8	3.4	3.0	3.1	3.0	2.9	2.8
EV/Sales*	0.7	0.9	1.1	0.6	0.6	0.8	0.7	0.6
EV/EBITDA*	3.2	6.9	8.2	3.6	4.4	6.0	4.8	4.0
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.5	0.3	0.3	0.3
Return Ratios (%)								
RoE*	17.1	10.3	4.9	11.5	9.0	4.6	3.0	3.9
RoCE*	20.8	9.4	5.3	12.9	11.0	5.9	5.4	6.3
Working Capital Ratios								
Debtor (Days)	70	54	31	37	24	23	23	23
Asset Turnover (x)	0.4	0.4	0.3	0.4	0.5	0.4	0.5	0.5
Leverage Ratio								
Debt/Equity	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2

*calculated for standalone business

Standalone Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	36,797	12,916	9,329	28,812	26,452	18,791	16,700	20,609
Depreciation	7,604	8,135	8,282	9,140	10,973	11,875	14,427	17,617
Interest & Finance Charges	(1,435)	(249)	(421)	(4,552)	(4,184)	(3,727)	(691)	116
Direct Taxes Paid	(5,123)	(2,183)	(1,786)	(6,502)	(4,071)	(3,195)	(3,340)	(4,122)
(Inc)/Dec in WC	(10,735)	12,611	9,350	132	(5,426)	(3,270)	(1,752)	(3,045)
CF from Operations	27,108	31,231	24,754	27,029	23,744	20,475	25,344	31,175
Others	(1,553)	1,919	(780)	(467)	(556)	-	-	-
CF from Operating incl EO	25,555	33,150	23,974	26,562	23,188	20,475	25,344	31,175
(Inc)/Dec in FA	(20,440)	(26,823)	(11,932)	(25,382)	(40,225)	(59,290)	(37,897)	(43,000)
Free Cash Flow	5,115	6,328	12,041	1,181	(17,036)	(38,815)	(12,553)	(11,825)
(Pur)/Sale of Investments	56	127	102	66	111	-	-	-
Others	(2,247)	(17,904)	(10,249)	(9,541)	18,211	(1,973)	8,008	8,486
CF from Investments	(22,631)	(44,600)	(22,079)	(34,857)	(21,902)	(61,263)	(29,889)	(34,514)
Issue of Shares	86	90	126	(425)	(902)	4,530	11,690	23,424
Inc/(Dec) in Debt	3,504	17,127	(9,384)	(583)	11,306	42,912	16,700	(14,500)
Interest Paid	(2,050)	(2,130)	(3,241)	(843)	(5,478)	(4,300)	(7,317)	(8,602)
Dividend Paid	(4,530)	(5,155)	(2,622)	(5,915)	(6,574)	(3,951)	(3,951)	(4,423)
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	(2,990)	9,932	(15,120)	(7,766)	(1,648)	39,191	17,122	(4,102)
Inc/Dec of Cash	(65)	(1,517)	(13,226)	(16,061)	(362)	(1,596)	12,577	(7,441)
Opening Balance	261	195	510	692	527	4,744	3,147	15,724
Add: Cash on amalgamation	-	1,832	13,408	15,895	-	-	-	-
Closing Balance	196	510	692	527	165	3,147	15,724	8,283

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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

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