Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Grasim Industries Ltd

Broadly in-line Q2; Retain Buy

Diversified	Sharekhan code: GRASIM
Reco/View: Buy ⇔	CMP: Rs. 2,529
	Price Target: Rs. 2,975 ↓

↑ Upgrade ⇔ Maintain ↓ Downgrade

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		⇔	

Summary

- We retain Buy on Grasim with a revised PT of Rs. 2,975, led by marginal downward revision in valuation of Aditya Birla Capital and Vodafone Idea.
- Company reported marginally higher-than-expected standalone revenues aided by decent revenue growth in both cellulosic fibres and chemicals. OPMs were tad lower with continued losses in new businesses.
- Grasim remains on track to achieve a high single digit market share in Paints by FY2025 end. Two plants under trial runs while sixth is expected to come by Q4FY2025.
- Quarterly run-rate of the B2B e-commerce business is rising. It remains committed on achieving $ 1 billion revenues over three years.

Grasim reported marginally higher standalone revenue at Rs. 7,624 crore (up 18.3% y-o-y) led by 6.1% y-o-y growth in Cellulosic fibres revenues (aided by 4.1% y-o-y volume growth) and a 3.3% y-o-y growth in chemicals revenues (led by 7% y-o-y rise in realisations). Standalone OPM at 4.3% (down 495 bps y-o-y) came in a tad bit lower than our estimate of 4.7%. Cellulosic fibres saw q-o-q improvement in OPMs while chemicals saw y-o-y improvement. However, the textile business reported 17 crore operating loss due to weak demand. Overall, standalone operating profit was down 45% y-o-y at Rs. 325 crore, while adjusted net profit was down 3% y-o-y at Rs.771 crore (both lower by 6% against our estimates). Grasim's paints business is seeing scale up of capacity utilisations at its three plants while trial runs at other two plants has started trial runs and sixth plant is expected by Q4FY2025. Overall, it remains committed on achieving high single digit market share by FY2025 end. Its B2B e-Commerce business remains on improving trend with respect to revenue run-rate.

Key positives

- Cellulosic fibre segment reported 4% y-o-y volume growth, leading to 6.1% y-o-y revenue growth.
- EBITDA margins in both cellulosic fibres and chemicals beat our estimates.

Key negatives

- Textile business saw 1% y-o-y decline in revenues and reported Rs. 17 crore operating loss.
- Operating losses continued q-o-q in new businesses.

Management Commentary

- In paints segment, it remains on track to achieve high single digit market share by fiscal year end. Profitability target over three years stays. Total capex for the business is ~Rs. 8,470 crore. till September 2024, ~85% of the planned Capex outlay.
- B2B business remains on track to achieve $ 1 billion revenues in three years. The division has 35 products, 40,000 SKUs from 300 Indian and international brands.
- Capital expenditure for H1FY25 stood at Rs. 1,884 crore. The budgeted standalone capex for FY25 is Rs. 4,691 crore., of which ~Rs. 3,000 crore, is towards new growth businesses. Additionally, the Board has approved an investment of Rs. 287 crore (Rs. 118 crore to be spent in FY25) for additional pulp capacity at Harihar and Rs. 20 crore for Textiles business.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2026-FY2027.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,975: Standalone businesses are expected to face muted demand and pressure on OPM, especially in the chemicals business, in the near term. However, its efforts to increase asset productivity and focus on increasing value-added products are expected to yield results as demand recovers. The company's expedited paints expansion along with strong traction being witnessed in the B2B e-Commerce business is likely to provide it with the next leg of growth. Further, the outlook for its key subsidiary, UltraTech, remains healthy. We maintain a Buy with a revised price target (PT) of Rs. 2,975, led by lower valuation of Aditya Birla Capital and Vodafone Idea.

Key Risks

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

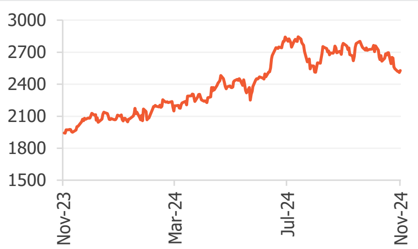
Company details

Market cap:	Rs. 1,72,081 cr
52-week high/low:	Rs. 2875/1907
NSE volume: (No of shares)	27.8 lakh
BSE code:	500300
NSE code:	GRASIM
Free float: (No of shares)	38.7 cr

Shareholding (%)

Promoters	43.1
FII	15.8
DII	18.1
Others	23.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.3	0.7	6.7	30.1
Relative to Sensex	-2.0	2.6	0.5	12.0

Sharekhan Research, Bloomberg

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenue	26,840	25,847	29,758	33,800
OPM (%)	11.8%	9.0%	5.8%	7.6%
Adjusted PAT	2,212	1,661	938	1,352
YoY growth (%)	(5.8)	(24.9)	(43.5)	44.2
Adjusted EPS (Rs.)	33.6	25.3	14.3	20.6
P/E (x)	75.3	101.1	179.1	124.1
P/B (x)	3.5	3.2	3.2	3.2
EV/EBITDA (x)	43.9	60.5	82.5	56.4
RoNW (%)	4.7	3.2	1.8	2.5
RoCE (%)	4.1	2.8	1.4	2.0

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- **Q2FY2025 highlights:** Consolidated revenue for Q2FY2025 grew 11% y-o-y to Rs. 33,563 crore, reporting 16th consecutive quarter of y-o-y growth. Standalone revenues stood at Rs. 7623 crore. Consolidated EBITDA was down 10% y-o-y at Rs. 4042 crore on account of lower cement EBITDA and initial expenses for new businesses.
- **Paints:** The business is seeing utilisation levels rising m-o-m from the initial three plants commenced in April 2024. The trial runs at other two plans has started while the sixth plant is in line to go live in Q4FY2024. The company launched second marketing campaign after the success of the first one. It remains on track to exit the fiscal year end with high single digit market share. Its tinting machines are placed as second and third machines at dealers, also some have removed competition's machines. It is not planning any inorganic expansion at this moment. It had reasonably good October. The slowdown is exaggerated by competition while it has taken market share from competition. Back end discounts by competition have gone up. It continues to drive distribution, counter shares at dealers and plans to open speciality franchise stores. It expects to be profitable at the end of three years. The product availability has increased to 129 products with 900+ SKUs already placed in the distribution channel. The product reach has increased to 4,300+ towns being serviced from 114 depots operational across India. The total Capex for the business is ~Rs. 8,470 crore till September 2024, ~85% of the planned Capex outlay.
- **Building materials:** It is remains on track to achieve $ 1 billion revenues in three years. The division has 35 products, 40,000 SKUs from 300 Indian and international brands.
- **Cellulosic staple fibre:** China inventory levels has reached its lowest level of 8 days compared to 12 days a year ago. Domestic realisations improved in-line with global prices. CSF business achieved its highest ever quarterly sales volumes of 219 KT, up 4% y-o-y. VSF capacity is operating at almost 100% capacity. It is working on de-bottlenecking of capacities and doing exports at low levels.
- **Chemicals:** Caustic soda international average spot prices (CFR-SEA) recovered for the fifth consecutive quarter to $471/ton in Q2FY25, up 13% y-o-y. Domestic realisations also improved, however ECU realisations declined by 4% YoY to Rs. 30,650/ton mainly due to increased negative chlorine realisations on account of continued oversupply conditions. The Chemicals business revenue stood at Rs. 2,054 crore, up 3% y-o-y. Caustic soda sales volume was down by 4% YoY due to lower production on account of maintenance shutdown of the captive power plant at Vilayat. EBITDA for the Chemicals segment stood at Rs. 273 Cr. up by 16% YoY driven by higher profitability in Chlorine Derivatives and Specialty Chemicals businesses. It would be commissioning ECH capacity in next fiscal, which would lead to 80% integration. At Vilayat, it has additional place to double ECH capacity. It is acquiring land near its Vilayat facility which has potential to further doubling of capacity. ECH growth factor is 1.5x-1.8x GDP.
- **Textiles:** Profitability was impacted by weak demand. The division reported 17 crore EBITDA loss.
- **Renewable energy:** The business cumulative installed capacity crossed milestone of 1 GW, up 21% from 894 MW in Mar'24. It remains on track to achieve 2 GW by current fiscal year end.
- **Capex:** Capital expenditure for H1FY25 stood at Rs. 1,884 Cr. The budgeted standalone capex for FY25 is Rs. 4,691 Cr., of which ~Rs. 3,000 crore, is towards new growth businesses. Additionally, the Board has approved an investment of Rs. 287 crore (Rs. 118 crore to be spend in FY25) for additional pulp capacity at Harihar and Rs. 20 Cr. for Textiles business.
- **Rights issue:** The company's ongoing Rs. 4000 crore rights issue has seen over 2 times over-subscription. It has already raised Rs. 2000 crore.

Results (Standalone) **Rs cr**

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Net sales	**7,623.3**	**6,442.0**	**18.3**	**6,893.9**	**10.6**
Total expenditure	7,298.1	5,848.4	24.8	6,568.8	11.1
Operating profit	**325.2**	**593.6**	**(45.2)**	**325.1**	**0.0**
Other Income	1,293.6	760.3	70.1	93.1	1,289.0
EBITDA	1,618.8	1,353.9	19.6	418.2	287.1
Interest	161.5	106.9	51.1	139.9	15.4
PBDT	1,457.3	1,247.0	16.9	278.3	423.6
Depreciation	405.8	291.9	39.0	348.6	16.4
Extraordinary item	50.0	-	-	-	-
PBT	**1,001.6**	**955.2**	**4.9**	**(70.2)**	**-**
Tax	280.7	160.4	75.0	(18.1)	-
Reported PAT	**720.9**	**794.7**	**(9.3)**	**(52.1)**	**-**
Extraordinary item	50.0	-	-	-	-
Adjusted PAT	**770.8**	**794.7**	**(3.0)**	**(52.1)**	**-**
EPS (Rs.)	11.3	11.7	(3.0)	(0.8)	-
Margin (%)			**BPS**		**BPS**
Operating margin	4.3%	9.2%	-495	4.7%	-45
Net Margin	10.1%	12.3%	-223	-0.8%	1087
Tax rate	28.0%	16.8%	1123	25.8%	225

Source: Company, Sharekhan Research

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 homebuilders.

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 likely to drive valuation.

Valuation - Retain Buy with a revised PT of Rs. 2,975

Standalone businesses are expected to face muted demand and pressure on OPM, especially in the chemicals business, in the near term. However, its efforts to increase asset productivity and focus on increasing value-added products are expected to yield results as demand recovers. The company's expedited paints expansion along with strong traction being witnessed in the B2B e-Commerce business is likely to provide it with the next leg of growth. Further, the outlook for its key subsidiary, UltraTech, remains healthy. We maintain a Buy with a revised price target (PT) of Rs. 2,975, led by lower valuation of Aditya Birla Capital and Vodafone Idea.

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 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 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 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 Corp. Ltd.	3.75
7	The Vanguard Group Inc.	2.23
8	GOVERNMENT PENSI	1.93
9	Norges Bank	1.92
10	Shamyak Investment Private Limited	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

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