Stock Update

Result Update

Grasim Industries Ltd

Good growth in the paint business; Retain Buy

Diversified	Sharekhan code: GRASIM
Reco/View: Buy ↔	CMP: Rs. 2,431	Price Target: Rs. 2,800 ↓

↑ 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		↔	

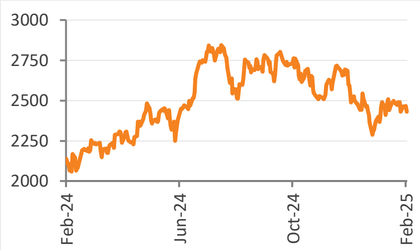
Company details

Market cap:	Rs. 1,65,442 cr
52-week high/low:	Rs. 2,875 / 2,106
NSE volume: (No of shares)	7.0 lakh
BSE code:	500300
NSE code:	GRASIM
Free float: (No of shares)	38.7 cr

Shareholding (%)

Promoters	43.1
FII	13.5
DII	17.9
Others	25.5

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	-4.1	-11.7	10.9
Relative to Sensex	3.2	-1.7	-4.7	7.2

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- We retain Buy on Grasim with a revised PT of Rs. 2,800, accounting for lower profitability in the standalone business.
- The company reported lower than-expected EBITDA, affected by high raw material costs in the CSF business.
- Grasim remains on track to achieve a high single digit market share in paints by FY2025 end. Four plants are operational while the Mahad plant will start in Q4FY25 and the sixth plant at Kharagpur will go live by Q1FY26.
- B2B e-commerce business is progressing as per expectation. Company remains committed to achieve $1 billion revenues in three years.

Grasim's standalone EBITDA of Rs. 271 crore fell 48% y-o-y and 17% q-o-q with decline in operating profit of Cellulosic fibres and textile business but mitigated a little by the chemical business. Cellulosic fibres' revenue was up 6% y-o-y led by improved realization. CSF volumes were flat y-o-y while CFY volumes grew 10% y-o-y but was impacted by lower realization due to China dumping. Cellulosic fibres EBITDA was down 18% y-o-y because of higher RM costs of the CSF business. Chemicals business operating profit increased 25% y-o-y driven by higher realization of caustic soda and improved profitability in chlorine derivatives. The standalone building materials segment revenue rose ~50% q-o-q with good traction in the paints business as well. The paint business losses declined q-o-q. In other businesses, EBITDA increased by 26% y-o-y led by capacity increase in renewable business.

Key positives

- The paint business grew ~50% q-o-q and losses declined sequentially.
- There are four operational plants in the paint business with two soon to be commissioned.

Key negatives

- CSF volumes were flat y-o-y and declined q-o-q.
- Cellulosic fibres EBITDA decreased y-o-y.

Management Commentary

- In paints segment, it remains on track to achieve high single digit market share by fiscal year end. Capex for the business till now is ~Rs. 9,015 crore. It is 90% of the designated total capex.
- B2B business remains on track to achieve $ 1 billion revenues in three years. The division has 35 product categories, 40,000 SKUs from 300 Indian and international brands.
- The Board has approved setting up of 110K TPA capacity of Lyocell, the fastest growing Cellulosic Fibre, at Harihar, Karnataka. The first phase of 55K TPA will entail an investment of ₹1,350 Cr. over the next 2 years.
- Capital expenditure for 9MFY25 stood at Rs. 2,785 crore of which the spend for the paint business was Rs. 1,952 crore. The budgeted standalone capex for FY25 is Rs. 4,691 crore and for paints is Rs. 2,976 crore. The management expects Net debt/EBITDA to be below 3.5x at all times.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 2,800: Standalone businesses faced pressure in the Cellulosic fibres business while the chemicals business recovered well. Company's focus on increasing value-added products in both the segments are expected to yield good results. The paint business saw strong traction with four plants now operationalized and the B2B e-Commerce business is witnessing good growth as well. These segments are going to provide it with the next leg of growth. Further, the outlook for its key subsidiary, UltraTech, has improved now. We maintain a Buy with a revised price target (PT) of Rs. 2,800, accounting for lower profitability in the standalone business.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	26,840	25,847	31,355	36,623	42,838
OPM (%)	11.8	9.0	4.8	6.4	7.6
Adjusted PAT	2,212	1,661	753	1,190	1,696
YoY growth (%)	(5.8)	(24.9)	(54.7)	58.2	42.5
Adjusted EPS (Rs.)	33.6	25.3	11.4	18.1	25.8
RoNW (%)	4.7	3.2	1.4	2.3	3.2
RoCE (%)	4.1	2.8	1.2	1.8	2.4

Source: Company; Mirae Asset Sharekhan estimates

Results (Standalone) Rs cr

Particulars	Q3FY25	Q3FY24	Y-o-Y (%)	Q2FY25	Q-o-Q (%)
Net sales	**8,120.3**	**6,400.3**	**26.9**	**7,623.3**	**6.5**
Total expenditure	7,849.7	5,877.8	33.5	7,298.1	7.6
Operating profit	**270.6**	**522.5**	**(48.2)**	**325.2**	**(16.8)**
Other Income	101.5	120.2	(15.5)	1,293.6	(92.2)
Interest	181.4	107.1	69.3	161.5	12.3
PBDT	190.7	535.5	(64.4)	1,457.3	(86.9)
Depreciation	421.1	296.5	42.0	405.8	3.8
Extraordinary item	-	-	-	50.0	-
PBT	**(230.4)**	**239.1**	**(196.4)**	**1,001.6**	**(123.0)**
Tax	(61.8)	2.8	(2,337.7)	280.7	(122.0)
Reported PAT	**(168.7)**	**236.3**	**(171.4)**	**720.9**	**(123.4)**
EPS (Rs.)	(2.5)	3.5	(171.4)	10.6	(123.4)
Margin (%)			**BPS**		**BPS**
Operating margin	3.3%	8.2%	-483	4.3%	-93
Net Margin	-2.1%	3.7%	-577	10.1%	-1219
Tax rate	26.8%	1.2%	2565	28.0%	-122

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector View – Positive outlook for new high growth segments

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 decorative paints segments is a huge 76,000 crore market in India with 25% unorganized share. 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 is facing subdued demand and volatility. 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. 2,800

Standalone businesses faced pressure in the Cellulosic fibres business while the chemicals business recovered well. Company's focus on increasing value-added products in both the segments are expected to yield good results. The paint business saw strong traction with four plants now operationalized and the B2B e-Commerce business is witnessing good growth as well. These segments are going to provide it with the next leg of growth. Further, the outlook for its key subsidiary, UltraTech, has improved now. We maintain a Buy with a revised price target (PT) of Rs. 2,800, accounting for lower profitability in the standalone business.

About company

Grasim is the flagship company of Aditya Birla Group. It's one of India's largest private sector companies and a diversified conglomerate. The company started as a textiles manufacturer in India in 1947. The cement business started in 1985 with a capacity of 0.5 MTPA. Originally focused on textiles, Grasim has evolved into a powerhouse across multiple sectors. The company is a global leader in viscose staple fiber (VSF) production and is India's largest cement manufacturer through its subsidiary UltraTech Cement. Grasim has expanded its portfolio to include chemicals, pulp, insulators, and more recently, paints. With operations across 36+ countries and employing thousands, the company maintains a strong commitment to sustainability while delivering consistent financial performance and shareholder value.

Investment theme

Grasim is benefiting from the healthy growth outlook in its key subsidiary, UltraTech, while its standalone businesses is facing subdued demand and volatility. 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. 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.
- Weakness in the standalone business.

Additional Data

Key management personnel

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

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	7.79
2	Vanguard Group Inc/The	2.21
3	THELEME MASTER FUND LTD	1.47
4	SBI Funds Management Ltd	1.47
5	Gagandeep Credit Capital Pvt Ltd	1.41
6	Blackrock Inc	1.39
7	Norges Bank	1.35
8	ICICI Prudential Asset Management	0.94
9	Quant Money Managers Ltd	0.69
10	Nippon Life India Asset Management	0.63

Source: Bloomberg

Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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