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India | Equity Research | Company Update

Grasim Industries

Cement

Scaling up of paint business exudes confidence

At our recently hosted Grasim Industries' (Grasim) Investors Meet, the management exuded confidence on further ramp-up of its new paint business. Flushed with initial success of product/brand acceptability in the market, Grasim is on track to meet its guidance of seizing a high-single-digit industry market share (on Mar'25 exit basis). Further, buoyed by the success of its economy product range (fetching repeat orders from dealers), Grasim is all set to make its mark in premium decorative paint segment (fortified by recent commissioning of its plant in Mahad). With expected scale-up in institutional segment sales (over 6-9 months) and broader endeavour to operate at optimal capacity utilisation, Grasim reiterated its guidance of INR 100bn revenue and EBITDA breakeven in FY28. Tracking the beaming confidence, we see limited risk to our INR 40bn revenue estimate for the paint segment for FY26. Maintain **BUY** with an unchanged TP of INR 3,093.

Birla Opus to target premium decorative paint segment

Buoyed by the success of its economy range products, Birla Opus is set to foray into the premium segment category. The recently commissioned Mahad facility (in Maharashtra) will exclusively cater to the same. To penetrate this high-margin category, it has begun engagement with architects/ interior designers and will also offer wallpapers and texture-paint products/services. While its revenue share of B2B (institutional) segment is currently in single digit (vs 10-15% for industry), Grasim endeavours to bring it at par in coming 6-9 months.

Scale, scale, scale – the only way to profitability

Grasim reiterated its relentless focus to operate its paints capacity at optimal utilisations. With investments in fixed cost (marketing/sales force) and brand building being broadly at par with industry majors, Grasim strongly believes that high capacity utilisation will drive the road to profitability.

All eyes on ramp-up of paint business

Bulk of discussion during investor meet was about paint segment. We maintain that the expected ramp-up of sales in paint business, if complemented by a reduction in EBITDA loss, has the potential to drive significant re-rating in the stock. We stay in the optimistic camp. With outlook of other business segments – VSF and chemicals – remaining broadly positive (unchanged) and that for its cement subsidiary UltraTech Cement remaining benign, we maintain **BUY** with an SoTP-based unchanged TP of INR 3,093.

Financial Summary

Y/E March (Rs mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	268,397	258,473	312,026	369,037
EBITDA	31,799	23,161	13,611	25,650
EBITDA (%)	11.8	9.0	4.4	7.0
Net Profit	21,237	9,454	4,510	7,082
EPS (INR)	32.3	14.4	6.6	10.4
EPS % Chg YoY	(21.2)	(55.5)	(53.8)	57.0
P/E (x)	75.1	168.7	365.4	232.7
EV/EBITDA (x)	7.3	11.9	24.3	12.9
RoCE (%)	3.2	1.7	(0.3)	0.8
RoE (%)	4.6	3.5	1.0	1.4

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Market Data

Market Cap (INR)	1,648bn
Market Cap (USD)	19,037mn
Bloomberg Code	GRASIM IN
Reuters Code	GRAS.BO
52-week Range (INR)	2,878 /2,131
Free Float (%)	56.0
ADTV-3M (mn) (USD)	17.6

Price Performance (%)	3m	6m	12m
Absolute	(6.6)	(11.1)	9.9
Relative to Sensex	(0.6)	(1.8)	6.4

ESG Score	2022	2023	Change
ESG score	66.7	67.4	0.7
Environment	44.3	43.1	(1.2)
Social	71.8	73.8	2.0
Governance	78.7	80.4	1.7

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

12-02-2025: [Q3FY25 results review](#)

18-11-2024: [Q2FY25 results review](#)

Consolidation appears imminent; difficult to predict the timing

As per Grasim, consolidation appears imminent in paints industry – though the timing will be difficult to predict. Besides the unorganised segment (which used to be 1/4th of the market three years back), there is bound to be consolidation among players with low market share as well. As the industry makes quality products more affordable, unorganised segment may have to make room for large players.

Other takeaways from paints segment include:

- Competitive intensity is unlikely to come down anytime soon. The company is emerging stronger despite intense competition.
- The guidance of high-single-digit market share – on Mar'25 exit basis – remains intact. The said market share is in context of – a) decorative segment; b) only for organised segment and c) excludes putty volumes.
- The company already has presence in >6,000 towns with >140 depots. Ramp-up of distribution network remains the key focus.
- It is not looking at any acquisition in paints segment.
- Product quality feedback remains good. As per a random survey, 9 out of 10 painters may want to use Birla Opus products again. This will help gain more sales from its existing dealer network. Also, their level of providing samples (to dealers/contractors/ painters) has been immense – which also helps to convert into sales.
- Since the past few years, festive sales are not the same as before. They are more evenly spread across the year and do not see any huge surge during the festive period.
- Having spent ~INR 90bn until Q3FY25, capex spends for paints (out of total INR 100bn) will complete by Q1FY26. Company will make further investments (towards brand building and increase market share) in paints space, if required.

Cellulosic fibre (CSF & CFY)

- Global industry-wide capacity utilisation remains high at >88% (including China). The utilisation for Grasim stands at ~100%. With no new major upcoming grey VSF capacity globally, Grasim believes prices are likely to improve going ahead.
- To meet the growth requirement of the segment, Grasim has recently announced capex to increase capacity of the fastest growing specialty cellulosic fibre – Lyocell by 110ktpa. The capex will take its capacity for Lyocell to 153ktpa. First phase of 55ktpa will come on board by mid-2027 at a cost of INR 13.5bn.
- Given its track record, Grasim's management is confident of accelerated ramp-up of the new capacity.

B2B business segment (Birla Pivot)

- The foray into the b2b e-commerce segment (of building material products) is in sync with Grasim's strategy to become a major player in the building material segment.
- The current EBITDA loss in the segment is not from trading activities but it is due to investment in technology and platform building.
- Grasim maintains its guidance to achieve USD 1bn revenues in the B2B segment by FY27.

Others

- Grasim maintains its net debt/ EBITDA target of 3–3.5x for pursuing capex going ahead.
- The decision to foray into new segments is driven by adjacencies (to existing line of businesses).

Exhibit 1: SoTP based target price working

Particulars	INR mn	% of TP
Valuation of standalone business:		
Fair value for VSF & Chemicals (@ 8x FY26E EV/EBITDA)	226,255	11
Fair value for Paints business (@ 5x FY26E Price/Sales)	200,000	10
Fair value for b2b e-commerce business (@ 1.5x FY26E Price/Sales)	70,830	3
Investment holdings - at 40% holdco. discount to I-Sec fair value est.		
Holdings	% Stake	Value
Vodafone Idea	4.8	31,850
Hindalco Industries	3.9	43,869
UltraTech Cement	57.3	1,292,928
Aditya Birla Capital	52.6	221,897
Aditya Birla Fashion & Retail	9.6	16,973
Total investment holdings		1,607,517
Market cap. - Consolidated		2,104,602
Total shares outstanding (mn)*	680.5	
Target price (INR)	3,093	100

Source: I-Sec research, Company data, * No of shares post Rights Issue

Key risks

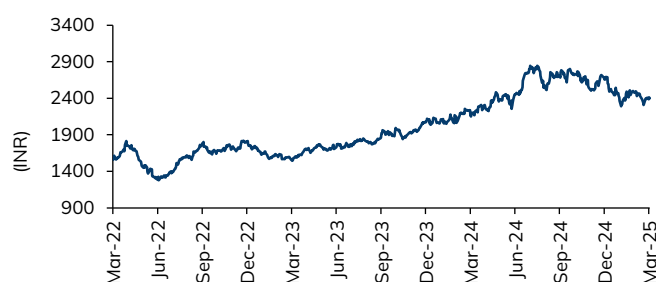
- Sharp fall in cellulosic fibres or chemical prices is key downside earnings risk.
- Sharp reduction in target price of subsidiary UltraTech Cement will impact Grasim's target price as well.

Exhibit 2: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	43.1	43.1	43.1
Institutional investors	33.4	33.5	31.3
MFs and others	6.1	7.0	7.1
FIs/Banks	2.1	2.2	0.2
Insurance	8.4	8.3	8.4
FIIIs	16.8	16.0	15.6
Others	23.5	23.4	25.6

Source: Bloomberg, I-Sec research

Exhibit 3: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	268,397	258,473	312,026	369,037
Operating Expenses	236,598	235,313	298,416	343,387
EBITDA	31,799	23,161	13,611	25,650
EBITDA Margin (%)	11.8	9.0	4.4	7.0
Depreciation & Amortization	10,973	12,151	16,165	18,746
EBIT	20,826	11,010	(2,555)	6,904
Interest expenditure	3,677	4,404	6,492	6,865
Other Non-operating Income	10,183	12,566	15,897	9,467
Recurring PBT	27,333	19,172	6,850	9,506
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,215	2,562	1,841	2,424
PAT	22,118	16,610	5,010	7,082
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	880	7,156	500	-
Net Income (Reported)	21,237	9,454	4,510	7,082
Net Income (Adjusted)	22,118	16,610	5,010	7,082

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	113,505	118,761	142,902	147,667
of which cash & cash eqv.	35,300	34,716	34,259	22,741
Total Current Liabilities & Provisions	83,411	91,160	109,668	121,666
Net Current Assets	30,094	27,601	33,235	26,000
Investments	316,813	326,813	326,813	326,813
Net Fixed Assets	162,262	167,612	261,447	254,701
ROU Assets	-	-	-	-
Capital Work-in-Progress	29,191	71,191	6,191	14,191
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	538,360	593,217	627,685	621,705
Liabilities				
Borrowings	52,542	94,529	96,529	86,529
Deferred Tax Liability	16,269	16,269	16,269	16,269
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,317	1,317	1,361	1,361
Reserves & Surplus	468,232	481,102	513,527	517,546
Total Net Worth	469,549	482,419	514,888	518,907
Minority Interest	-	-	-	-
Total Liabilities	538,360	593,217	627,685	621,705

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	67,675	68,939	76,233	81,203
% growth (YOY)	1.8	10.5	18.3	26.9
EBITDA	5,266	3,251	3,252	2,706
Margin %	7.8	4.7	4.3	3.3
Other Income	2,603	931	12,936	1,015
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,747	(521)	7,209	(1,687)

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	32,686	12,016	6,351	9,506
Working Capital Changes	(5,426)	(2,091)	(6,090)	(4,284)
Capital Commitments	(40,113)	(59,500)	(45,000)	(20,000)
Free Cashflow	(16,925)	(39,986)	(30,415)	1,544
Other investing cashflow	18,211	(4,648)	4,204	4,000
Cashflow from Investing Activities	(21,902)	(64,148)	(40,796)	(16,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	11,374	41,987	2,000	(10,000)
Dividend paid	(6,574)	(6,585)	(2,042)	(3,062)
Others	(6,448)	-	-	-
Cash flow from Financing Activities	(1,648)	35,402	(42)	(13,062)
Chg. in Cash & Bank balance	(362)	(9,232)	(26,253)	(7,518)
Closing cash & balance	1,891	(4,488)	(20,741)	1,741

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.3	14.4	6.6	10.4
Adjusted EPS (Diluted)	32.3	14.4	6.6	10.4
Cash EPS	50.3	43.7	31.1	38.0
Dividend per share (DPS)	10.0	10.0	3.0	4.5
Book Value per share (BV)	713.1	732.7	756.6	762.5
Dividend Payout (%)	31.0	69.6	45.3	43.2
Growth (%)				
Net Sales	28.7	(3.7)	20.7	18.3
EBITDA	(1.1)	(27.2)	(41.2)	88.5
EPS (INR)	(21.2)	(55.5)	(53.8)	57.0
Valuation Ratios (x)				
P/E	75.1	168.7	365.4	232.7
P/CEPS	48.2	55.4	77.8	63.8
P/BV	3.4	3.3	3.2	3.2
EV / EBITDA	7.3	11.9	24.3	12.9
EV / te (USD)	-	-	-	-
Dividend Yield (%)	0.4	0.4	0.1	0.2
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	11.8	9.0	4.4	7.0
Effective Tax Rate (%)	19.1	13.4	26.9	25.5
Net Profit Margins (%)	7.9	3.7	1.4	1.9
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.0	0.1	0.1	0.1
Net Debt / EBITDA (x)	0.5	2.6	4.6	2.5
Profitability Ratios				
RoCE (%) (Post Tax)	3.2	1.7	(0.3)	0.8
RoE (%)	4.6	3.5	1.0	1.4
RoC (%)	4.8	3.7	1.6	2.0
Fixed Asset Turnover (x)	1.7	1.6	1.5	1.4
Inventory Turnover Days	65	75	75	81
Receivables Days	22	25	27	29
Payables Days	72	79	78	84

Source Company data, I-Sec research

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