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Initiating Coverage

Grasim Industries Ltd.

31-October-2020

RETAIL RESEARCH

Grasim Industries Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diversified	Rs 778.7	Buy on dips to Rs.686-690 band and add more on dips to Rs.607-611 band	Rs 746	Rs 815	2 quarters

HDFC Scrip Code	GRAINDEQNR
BSE Code	500300
NSE Code	GRASIM
Bloomberg Code	GRASIM: IN
CMP Oct 30, 2020	778.7
Equity Capital (Rs cr)	131.5
Face Value (Rs)	2
Equity Share O/S (cr)	65.8
Market Cap (Rs cr)	51233
Book Value (Rs)	573
Avg. 52 Wk Volumes	1788221
52 Week High	836.5
52 Week Low	380

Share holding Pattern % (Sep, 2020)	
Promoters	40.9
Institutions	37.2
Non Institutions	21.9
Total	100.0

Fundamental Research Analyst
Kushal Rughani
kushal.rughani@hdfcsec.com

Our Take

Grasim is the global leader in VSF (Viscose Staple Fibre) manufacturing having a ~9% global market share. It is also the largest producer of VSF in India. It has presence across the value chain right from fiber to fashion. Its brand "Liva" has been a preferred choice for lot of leading brands. In our view, its brownfield capacity expansion at Vilayat plant and leveraging Liva initiative shall further consolidate Grasim's market position in the domestic market. Company has been in the process of executing capex plan of Rs 7,800cr (standalone level) for raising capacities in both the VSF and Chemical businesses and towards modernization at various facilities. The company has spent Rs 2800cr in FY20 and the remaining would be spent over the next 2-3 years.

The company is a leader in the caustic soda and epoxy resins segments in India. Captive application of caustic soda and the presence of leading paint companies and electrical machinery manufacturers as clientele benefits the epoxy resins segment. In the last year, the company faced severe pressure on its margin in both of its key segments and that is likely to continue in FY21 as well. Besides VSF and chemicals, Grasim enjoys a leading market position in VFY, linen yarn/fabric and insulator production in India. The Viscose Filament Yarn (VFY) operational and financial performance was impacted by the lack of demand for tyre cord due to the slowdown in the global automotive market, apart from the general economic slowdown leading to lower demand in the fashion industry. In urea manufacturing, the company ranks among the top-10 in the country. Its subsidiary, Ultratech Cement is the leader in the domestic cement industry. Grasim has an overhang related to financing of investments in group entities to maintain its stake along with deterioration in profitability of standalone businesses. In the near term, Grasim's standalone businesses are expected to remain muted owing to oversupply and weak user-industry demand.

Valuation & View

We expect standalone revenues and EBITDA to see 3% and ~5% CAGR over FY20-22E. Return ratios (RoE/RoCE) would continue to be weak at around 2-3% over the next two years due to: i) margin pressure in both VSF and Chemicals and ii) higher depreciation and interest cost due to capacity additions. While near term outlook continues to remain uncertain, we may see sharp recovery in H2FY21 as compared to H1FY21. Given that Grasim's conglomerate business structure, we value based upon SoTP basis: a) the standalone businesses (Fibre, Chemicals, etc.) at 5x FY22E EV/EBITDA, b) All listed investments at 55%/50% holding company discount to market prices. Thus, we arrive at a base case fair value of Rs 746 and bull case fair value at Rs 815. Investors can consider to buy the stock on dips to Rs.686-690 band (standalone business @ 5x FY22E EV/EBITDA + listed investments at 60% holding company discount) and add more on dips to Rs.607-611 band (standalone business @ 5x FY22E EV/EBITDA + listed investments at 65% holding company discount).

Financial Summary (Standalone)

Particulars (Rs cr)	Q1 FY21	Q1 FY20	YoY (%)	Q4 FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
Total Revenues	1944	5001	-61.1	4312	-54.9	20,550	18,609	16,748	19,763
EBITDA	-145	844	-117.2	376	-138.6	4071	2310	1559	2530
Depreciation	213	203	4.9	223	-4.5	760	847	984	1107
Other Income	41	-205	-120.0	97	-57.7	568	526	553	608
Interest Cost	77.5	78.2	-0.9	72	7.6	199	304	374	419
Tax	-126	155	-181.3	177	-171.2	796	121	181	407
APAT	-269	202	-233.2	357	-175.4	515	1270	573	1208
EPS (Rs)						7.8	19.3	8.7	18.4
RoE (%)						1.2	3.2	1.5	3.1
P/E (x)						99.3	40.3	89.2	42.4
EV/EBITDA						14.1	24.9	36.8	22.7

(Source: Company, HDFC sec)

Q1FY21 result update

Standalone net revenue declined by 61% yoy (down 55% qoq) as both viscose and chemical divisions were significantly affected by COVID-19 led lockdown that sharply dragged down volumes (viscose volumes fell 70% yoy, chemicals segment witnessed a decline of 42% yoy). Viscose and caustic soda remained under pressure led by sharp decline in prices on account of weak demand from user industries resulting in high inventory and low capacity utilization (26% VSF, 48% chemicals). Share of VSF exports improved by 26% QoQ.

Overall, Grasim reported standalone operating loss of Rs 145cr for Q1FY21 as against Rs 844cr operating profit during Q1FY20. It included one-time cost of COVID related CSR expense of about Rs 40cr and an exceptional cost of Rs 58Cr on account of additional provision for stamp duty and registration fees related to merger of erstwhile AB Novo with the company. Weak operational performance led to standalone adjusted net loss of Rs 215cr as compared to adjusted net profit of Rs 439cr in Q1FY20. On a positive note, the company improved capacity utilisation in both of key verticals to over 75% during July 2020.

Company continues to maintain cash flow-focused approach given the current situation. It has calibrated capex plan based on demand outlook and cash flows. Board has approved capex of Rs. 1,615 crore for FY21 while capex for the first quarter stood at Rs. 131 crore. Company has decided to continue the Vilayat VSF project and brownfield project, with revised time lines. Management anticipated that the demand will start growing significantly by middle of FY22, and said that there will be a shortage of Grey fiber. Its main focus would be on completing expansion of the viscose division by Q3FY22 while capacity expansion in chemicals division is currently on hold. Company is comfortable with net debt to EBITDA at around 2-2.5x.

The facility has got the largest capacity lines therefore, there would be a very low cost of production and has a consistent advantage in variable cost from this plant. Second, this plant is sharing site with the existing plant. It will become the largest single location plant; fixed cost will be very less. Thirdly, the quality of products from this plant will be world-class (the machines are the latest generation machines). So, the company believes that this project is right thing for the business to do to grow its competitiveness.

Across the businesses, the company has been able to reduce fixed costs by 35%, which amounts to savings of around Rs 250 crore compared to FY20 quarterly average. Management said that they target more actions on cost savings, which will be more permanent in nature. So of course, this fixed cost has, for example, repairs and maintenance, which has come down because of the lockdown as well.

Leadership position in VSF and Chemical segment

Grasim is the global leader in VSF manufacturing and has ~9% global market share and also is the largest producer of VSF in India. Operations are highly integrated, with a pulp plant and caustic soda capacity in India, two global dissolving pulp joint ventures, and captive thermal power plants, providing strong control over production costs. Moreover, ramping-up of the Vilayat plant (Bharuch, Gujarat) and leveraging of the Liva brand have strengthened the market position. The company is likely to maintain its leadership position and benefit from the growth in demand. Brownfield capacity expansion at Vilayat plant and leveraging Liva initiative shall further consolidate Grasim's market position in the domestic market.

The company is a leader in the caustic soda and epoxy resins segments in India. Captive application of caustic soda and the presence of leading paint companies and electrical machinery manufacturers as clientele benefits the epoxy resins segment. A focus on expanding the existing set of value-added products from chlorine (by-product of caustic soda), should result in better realisations. In the Chlor-Alkali business, caustic soda is the main product and chlorine is the byproduct. The prices of caustic soda have been under pressure across the world mainly on account of demand-supply imbalance. The demand for caustic soda will depend on the prospects of the end-user industries such as aluminium, textiles, paper etc. The ECU (Electro Chemical Unit) realisation may remain under pressure, given that global prices may take time to recover, in addition to the demand-supply imbalance in the domestic market. The chlorine derivative products (value-added products) are expected to perform better, given the increased demand in the health and hygiene segment. Grasim plans to augment its VSF capacity by ~40% vs. in FY21 to 801 KTPA with capex outlay of Rs 850cr in FY21. In the chemical segment in plans to expand its capacity from 1147 KTPA in FY20 to 1457 KTPA by FY21 with an overall investment of Rs 320cr.

VSF and VFY Segment	FY18	FY19	FY20
Installed Capacity VSF (KT)	498	566	578
Installed Capacity VFY (KT)	46	47	48
Production VSF (KT)	499	541	567
Production VFY (KT)	19	46	42
Sales Volumes – VSF (KT)	508	541	554
Sales Volumes – VFY (KT)	19	46	41
Revenue (Rs cr)	8374	10325	9237
EBITDA (Rs cr)	1680	2052	1339
EBITDA Margin (%)	20.1	19.9	14.5

Chemical Business	FY18	FY19	FY20
Caustic Soda			
Installed Capacity (KT)	938	1147	1147
Production (KT)	886	995	998
Sales Volume (KT)	879	1003	991
Specialty Chemicals			
Production (KT)	513	555	611
Sales Volume (KT)	555	549	605
Chemicals			
Revenue (Rs cr)	5004	6437	5504
EBITDA (Rs cr)	1300	1827	1008
EBITDA Margin (%)	26	28.4	18.3

Grasim Industries and Lubrizol partner for India's largest CPVC resin plant

On Oct 30, 2020, Grasim Industries announced that it has entered into a definitive agreement with Lubrizol Advanced Materials to manufacture and supply chlorinated polyvinyl chloride (CPVC) resin in India with initial production expected in the late CY22. This special type of polymer material that is widely used in hot and cold water pipes, will be manufactured at chlor-alkali unit located at Vilayat to take advantage of captive chlorine integration. Construction of the ~100,000 metric ton plant will take place in a phased manner, and once commissioned, this would be the single largest site capacity for CPVC resin production globally.

Textile Business

Grasim's Textiles business has Linen and Wool as the popular product lines. For FY20, this business reported revenue of Rs 1,601cr and EBITDA of Rs 41cr. The demand for Linen fabric remained muted due to sluggish market conditions. Wool prices, which had weakened at the start of the year, witnessed some recovery during H2FY20. European fabric and garment makers are viewing COVID-19 as the major game-changer; this could mark the revival of the European industry as brands have to now look for sourcing beyond China. The retail arm of the Textiles business, under the brand 'Linen Club', is one of the largest single brand franchise networks in India. It added 25 new 'Linen Club' exclusive brand outlets during the year, taking the total count to 200 EBOs. Besides fabrics, Linen Club stores also offer a wide range of linen apparel.

Grasim premium fabric segment markets products from the company's wholly-owned subsidiary Grasim Premium Fabrics Private Ltd. GPFPL is focused on the premium cotton segment, with brands such as SÖKTAS, Excellence by Söktas, and Giza House, complementing Grasim's linen business. GPFPL reported revenue and EBITDA of Rs 165cr and Rs 23cr during FY20.

Fertiliser Business

Fertiliser business achieved a sales revenue of Rs 2,680cr and EBITDA of Rs 198cr in FY20. EBITDA included credit of fixed cost reimbursement pertaining to earlier years accrued during the year. Fertiliser segment includes the non-urea business (referred to as PURAK), comprising agro solutions, seeds, crop protection products, and soil health products, sold to farmers through a common distribution channel. Sales volume and value of PURAK saw an improvement of 11% yoy and 16% yoy, respectively.

Weak operational performance in FY20

Company reported weak performance in FY20 on account of subdued demand and lower realisations. Revenue from the VSF segment declined by 10.5% to Rs 9,236cr in FY20 on account of lower volumes due to the outbreak of COVID-19 and fall in realisations. Margins in its viscose segment contracted by 540bps to 14.5%. Global VSF prices continued its slump due to capacity overhang and inventory pile up.

During FY20, the chemicals segment reported sharp fall of 14.5%. The segment witnessed deteriorating performance due to lower demand from user industry, rise in the imports, weak global prices and ramping up of new capacities resulted in weaker off take as well as realisations. Due to COVID-19, the demand for value added chlorine products has improved due to increased usage in the health and sanitation segment.

Significant value of investments in listed entities

Grasim is the holding company for two large listed investments of the Aditya Birla group companies Ultratech Cement (57.3% stake) and AB Capital (54.2% stake). Ultratech is the largest cement producer in India and ABCL houses financial services businesses. Both of these are growing businesses and strategic to the Aditya Birla group, thus making Grasim a key entity within the group. Grasim receives annual dividend from Ultratech, which has a healthy dividend track record. Financial flexibility has been enhanced following the merger of ABNL and the listing of ABCL. Significant shareholdings in listed entities of the group (Hindalco Industries, Aditya Birla Fashion and Retail Limited (ABFRL), Ultratech Cement, Aditya Birla Capital Limited (ABCL) and Vodafone Idea) are together valued at about Rs 88500 crore as on Oct-2020.

Grasim's holding companies and its outlook

Ultratech Cement

Ultratech Cement is India's largest exporter of cement, meeting the demands in countries around the Indian Ocean and the Middle East. With 100+ Ready Mix Concrete (RMC) plants in 35 cities, Ultratech is the largest manufacturer of concrete in India. As the utilization levels rise for the company, and the costs stabilize, the pricing power will come leading to an upcycle. Grasim, the flagship company of the Aditya Birla Group, is a majority shareholder in Ultratech with 57.3% ownership as on Sep-2020.

Ultratech cement is a largest cement company in India and one of the leading cement producers globally in terms of cement capacity (114.8 MTPA) with ~24% market share in Indian cement Industry. It is also India's largest exporter of cement, meeting the demand in countries around the Indian Ocean and the Middle East. The company has gradually strengthened its balance sheet through repayment of debt and divesting non-core assets. The acquisition of cement business (capacity 14.6 mn tonnes per annum) of Century Textiles and Industries has provided UltraTech market leadership not only pan India, but also in each Zone of India - North, South, East, West and Central.

We expect that Covid-19 led lockdown and slowdown in the economy will lead to decline in revenue in the near term but lower costs will drive EBIDTA growth. The industry has a higher dependence on real estate and infra sector which is expected to post slow growth due to expected slowdown in the economy. A slowdown will bring down volume growth which will bring down capacity utilization and that may result in softening of cement prices. However, in FY22 the industry will see sharp bounce back and also Ultratech Cement as well.

We expect that the company will get benefits from its leadership position, wide range of products, regional presence across India, integration of acquisitions, improvement in realizations, debt reduction plan. We expect 4% CAGR in revenues and 12% EPS CAGR over FY20-22E. Company is trading at an FY22 EV of US$ 160/T which is at a premium to replacement cost which is at around US$ 110/T EV/T. Due to its leadership position, integrated plants, pan-India presence the company commands premium valuation over industry. Company has constantly expanded its capacities via organic and inorganic route over the last 3-4 years. It acquired cement capacities of JP Associates in June 2017, which provided additional diversification with an increased presence in central India, coastal Andhra Pradesh, Uttarakhand and Himachal Pradesh. On 19 November 2018, the company further acquired Binani Cements with 6.25 MTPA in India (Rajasthan) and a presence in China and Dubai through its subsidiaries. Company has also acquired 14.6 MTPA capacities from Century Textiles and Industries. Even though, Ultratech keeps on doing acquisitions, it has been constantly focusing on reducing its debt through free cash flow generation and selling off non-core assets. Company has target to bring down the net debt to EBITDA > 2x.

Imported petcoke prices continue to drift down at almost 40 months low in FY20. Even domestic petcoke prices are at 30 months low. The benefits of lower fuel cost will continue to accrue across the industry in FY21. These should keep the cement industry’s opex inflation low.

Domestic Cement Industry

India is the second-largest cement producer in world. The cement industry occupies an important place in the Indian economy because of its strong linkages with other sectors such as construction, transportation, coal and power. The sector notably plays a critical role in the economic growth of the country, in its journey towards inclusive and decidedly conclusive growth.

The construction sector alone constitutes about 7 per cent of the country's gross domestic product (GDP). India is the second-largest producer of cement in the world after China, with an installed capacity of ~509 MTPA. Presently, the Indian cement industry has 225 plants, owned by 65 players.

Aditya Birla Capital

Aditya Birla Capital (ABCL) is a subsidiary of Grasim, which held 54.2% as of June 30, 2020 while the other promoters hold 16.2% stake. It is the holding company of all the financial services entities of the Aditya Birla Group and is a prominent growth driver for the Group. Its strategic significance to the ABCL Group is reflected in the regular capital support from the parent (Rs. 4,783 crore in the last four years). The ABCL Group enjoys strong financial flexibility by virtue of being a part of the Aditya Birla Group.

Aditya Birla Capital (ABCL) is the holding company of all the financial services businesses of the Aditya Birla group and it's an end-to-end financial services provider. It has built a strong and diversified loan book with presence across SME/Retail/HNI, SME, Large/Mid corporates and others through its financing arms ABFL and ABHFL. It is gaining market share in its asset management business and its insurance business is growing above the industry average. Some of its nascent stage businesses have huge growth potential and can add meaningful value to the consolidated valuation in the coming years. Its strategic significance to the ABCL Group is reflected in the regular capital support from the parent (Rs 4783cr in the last four years). Improvement in sentiments towards the shadow banking space could lead to re-rating of the NBFC and HF businesses as both the businesses have stood out in the recent tough industry environment with prudent asset liability management, adequate liquidity buffers and improving ROE's.

Aditya Birla Finance which is a wholly owned subsidiary and the lending arm of the business has witnessed healthy growth of 16.5% CAGR in AUM to Rs 45988cr over the last 4 years. Loan book of the company is well diversified with 45% of the advances given to large & mid corporates, 27% to SMEs, 19% to retail clients and the rest is given to HNI and others as of Q1FY21.

Asset Management Business

ABSLAMC is a JV between Aditya Birla Group (51%) and Sun Life Financial of Canada (49%). It has an impressive mix of reach, a wide range of product offerings across equity, debt, balanced as well as structured asset classes, sound investment performance and over 7 million investor folios as of June 30, 2020. With a track record spanning 25 years, ABSLAMC has grown to be India's fourth-largest mutual fund (excluding ETF), based on domestic Average Assets Under Management (AAUM) as published by the Association of Mutual Funds in India (AMFI). ABSLAMC with 7.2mn folios and closing AUM as on Jun'20 at Rs 217,643 Cr commands market share of ~8.2% in the Indian Equity Mutual Fund with a strong pan-India distribution network in India.

Insurance business gaining strength through improved business mix

With the opening of insurance sector for private players since the year 2000, it has seen significant growth. Aditya Birla Group in a 74:26 JV with Sun Life Financial incorporated and commenced life insurance operations in FY01. It was among the first few private insurers to start operations. In April 2016, Sun Life increased its stake in the JV to 49%. The value of new business is one of the most important value metrics in the life insurance industry and measures profitability over the long term. In FY20, ABSLI achieved a gross margin of 33.8% (FY19: 34.6%), while net Value of new business (VNB) margin stood at 6.9% (FY19: 9.8%). Embedded value increased y-o-y by 5.9% to Rs 5187cr from Rs 4900cr in FY19.

Aditya Birla Fashions (ABFRL)

ABFRL is India’s largest pure-play fashion and retail entity with an elegant bouquet of leading fashion brands and retail formats supported by a pan-India distribution network with a combined retail footprint of 8 mn sq. ft. across 750 cities, which includes 2,600+ brand stores and around 340 Pantaloons stores. Grasim has 11.3% stake in the company. The company comprises of two segments, Madura Fashion and Lifestyle (MFL) and Pantaloons. MFL includes lifestyle brands (Louis Philippe, Van Heusen, Allen Solly and Peter England), fast fashion brands (Forever 21) and other businesses such as the innerwear business. The company has also acquired stake in ethnic wear brands Jaypore and entered into a partnership with designers Shantanu and Nikhil with an aim of retail expansion.

Recently, Aditya Birla Fashions (ABFRL) raised announced that Flipkart would invest Rs 1500cr in the company through preferential allotment at Rs 205 per share. Following the same, Flipkart will own 7.8% stake in the company. Net debt stood at Rs 3,250cr as on Q1FY21. The company has successfully completed its rights issue of Rs. 1,000 crore, of which ~Rs. 500 crore was received in Jul-2020 and Rs. 250 crore is expected in Jan-2021. This will be utilised to reduce the debt on books.

ABFRL’s business recovered to just 26% of pre-covid sales in June. Around 80% of stores were opened in June and more than 90% stores were operational in July 2020. Management expects business to gradually improve with recovery in footfalls as scare of virus eases.

Rental negotiations, employee cost savings and reduction in discretionary cost led to Rs. 450 crore cost savings. Benefits of cost saving measures (especially on rental front) will continue in the coming quarters. Funds of Rs. 1,000 crore raised through rights issue and stable working capital management would strengthen balance sheet further.

With an expected recovery in footfalls, management expects recovery in Q4FY21 with revenues expected to see yoy growth. Strong traction to new launches, increase in contribution from private labels, share gains from unorganised players and increase in contribution from online sales are some of the near-term growth catalysts for the company. This, along with sustained focus on strengthening its balance sheet augurs well from a long-term perspective. Currently, the stock trades at 28x its FY22E EV/EBIDTA.

Vodafone Idea

Recently, Vodafone Idea unveiled a new brand identity, ''Vi'' as it looked to regain lost market share through an image makeover. Vodafone Group has received an approval from its lenders on Oct 05, 2020, who contributed in funding for Vodafone Idea, to proceed with the merger of Indus Towers with Bharti Infratel. Vodafone Idea holds 11.15 percent stake in Indus Towers, which is estimated to be valued at around Rs 4,000 crore. Vodafone Group PLC had announced on Sep-2020 that it had agreed to proceed with the merger of Indus Towers Limited and Bharti Infratel Limited (Bharti Infratel, together the 'combined company'). Vodafone Idea could also look at full or part sale of its optic fibre business to raise funds. Grasim holds 11.5% stake in the company.

VIL's net debt stood at Rs 1.16 lakh crore on June-2020 and was up by ~Rs 3,030 crore QoQ. In terms of total debt repayment of Rs 3,660 crore in FY21, Rs 2,940 crore was paid till July 2020. Remaining Rs 720 crore is yet to be paid over rest of the period in FY21. The company received dividends worth Rs 110 crore from Indus Towers. It also received Rs 1,530 crore from Vodafone Group (as a part of contingent liability mechanism wherein Vodafone group has to pay up to Rs 8,400 crore for pre-merger liabilities that would crystallise in future). Vodafone Idea continues to lose subscribers and make large losses quarter after quarter. In Dec 2019, Kumar mangalam Birla had said that Vodafone Idea will shut its business and move towards insolvency if it does not get any relief regarding the over Rs 40,000 crore adjusted gross revenue-based (AGR) dues it has to pay the Department of Telecom (DoT). In Sep-2020, Vodafone Idea approved raising up to 25,000 crore through equity and debt. Any large-scale investment in the group company may widen the holding company discount although it appears a low probability event although it cannot be ruled out.

Hindalco

Hindalco Industries, the metals flagship company of the Aditya Birla Group, is the world's largest aluminium rolling and recycling company, and a major player in copper as well. It is also one of Asia's largest producers of primary aluminium. Total promoters' holding in Hindalco stands at 34.7% while Grasim holds 3.9% stake. In India, the Company's aluminium manufacturing units comprise the full value chain-from bauxite mining, alumina refining, coal mining, captive power generation and aluminium smelting to downstream value addition of aluminium rolling, extruding and foil making. Hindalco's copper facility in India comprises a world-class copper smelter, downstream facilities, a fertilizer plant and a captive jetty. The copper smelter is among the world's largest custom smelters at a single location.

Hindalco completed the acquisition of Aleris in April-2020. The integration process to drive synergies and unlock the long-term value has begun. The acquisition of Aleris provides Novelis further product diversification with the addition of high-end aerospace and expanded speciality capabilities. It insulates Hindalco-Novelis from global price volatility and sharpens focus on the downstream business. From being a largely commodity-driven Company, Hindalco has become the world's largest downstream player.

Grasim Industries Ltd.

Base Case SoTP Valuation

Contribution to Grasim	Grasim's holding	Value (Rs cr)	Rs/share for Grasim
Ultratech Cement	57.3	75668	1150
Aditya Birla Capital	54.2	8526	130
Vodafone Idea	11.5	2769	42
Hindalco	3.9	1472	22
ABFRL	11.3	1449	22
Total		**89664**	**1366**
At 55% Discount		**35866**	**615**
Standalone Business at 5x EV/EBITDA		8644	
Total Equity Value		**131**	**131**
SoTP			**746**

Bull Case SoTP Valuation

Contribution to Grasim	Grasim's holding	Value (Rs cr)	Rs/share for Grasim
Ultratech Cement	57.3	75668	1150
Aditya Birla Capital	54.2	8526	130
Vodafone Idea	11.5	2769	42
Hindalco	3.9	1472	22
ABFRL	11.3	1449	22
Total		**89664**	**1366**
At 50% Discount		**44942**	**684**
Standalone Business at 5x EV/EBITDA		8644	
Total Equity Value		**131**	**131**
SoTP			**815**

Key Risks

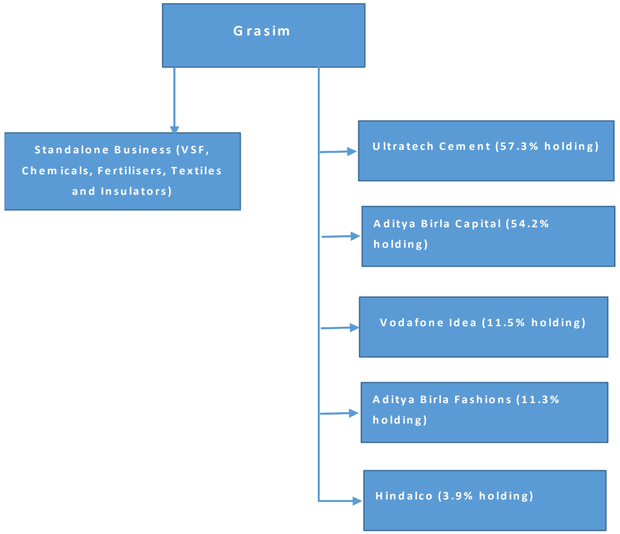
- Funding requirements of its other listed entities. – Investments in group companies by way of loans and equity pulls down the return ratios till the time these start to pay off. Also, Grasim continues to face dilemma on capital allocation for profits earned by the standalone entity. Minority shareholders of Grasim may at times be unhappy with investments made the Grasim in other group companies.
- Higher holding company discounts of its other business such as telecom, cement and financial services etc. – The above also leads to holding company discount which typically widens when the investee companies are not doing well or the market sentiments are low.
- Exposure to cyclicality associated with the VSF and chemicals businesses
- The demand for VSF and chemicals businesses are cyclical in nature and vulnerable to economic slowdown. The profitability in these segments also remains exposed to input costs, demand environment and industry capacity additions. This was visible in FY20, when sizeable capacity expansions done by global and domestic players, realisations and thus, profitability for these segments have witnessed moderation. The near-term outlook on demand and realisations for both VSF and caustic soda remains challenging, aggravated by the lockdown imposed due to the global pandemic.

Grasim Industries Ltd.

Company Background

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 capacity of 0.5 MTPA. Aditya Birla Nuvo was merged with Grasim in July-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 Sep-2017. Currently, it is a leading global player in VSF, and is the largest chemicals (Chlor-Alkalis), cement and diversified financial services (NBFC, Asset Management and Life Insurance) player in India. It is a leading global producer of Viscose Staple Fibre, the largest Chlor-Alkali, Linen (textiles) and Insulators player in India. Through its subsidiaries, UltraTech Cement and Aditya Birla Capital, it is also India's largest cement producer and a leading diversified financial services player. Grasim is the promoter of Ultratech Cement with 57.3% stake in the company. In Aditya Birla Capital, Grasim is one of the promoter with 54.2% stake. Grasim has ~11% stake each in Vodafone Idea and Aditya Birla Fashions and holds 3.9% stake in Hindalco. Grasim is a global leader in VSF, with a capacity of 5.7 lac tonne at four facilities in India, and global capacity share of 9%. Grasim's operations are integrated with a rayon grade pulp facility, for 50% of the production. Grasim has JVs in Canada and Sweden for rayon grade pulp.

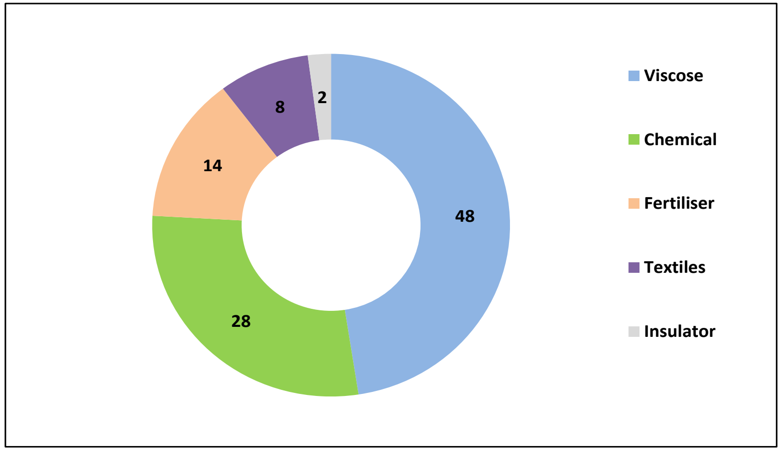
Grasim Structure



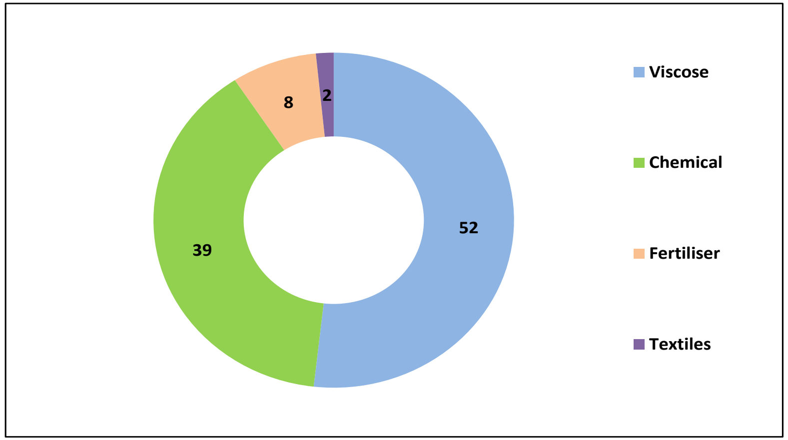
RETAIL RESEARCH

Grasim Industries Ltd.

Standalone Revenues Mix (%)

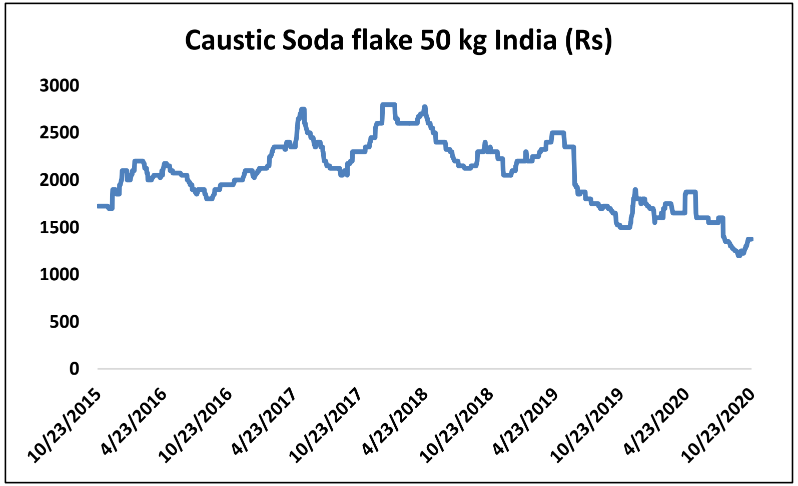


EBITDA Mix (%)



(Source: Company, HDFC sec)

Caustic Soda price continues to decline



Grasim Industries Ltd.

Income Statement (Standalone Financials)

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Total Revenues	**15789**	**20550**	**18609**	**16748**	**19763**
Growth (%)	52.6	30.2	-9.4	-10	18
Operating Expenses	12708	16479	16299	15189	17233
EBITDA	**3081**	**4071**	**2310**	**1559**	**2530**
Growth (%)	43	32.2	-43.3	-32.5	62.2
EBITDA Margin (%)	**19.5**	**19.8**	**12.4**	**9.3**	**12.8**
Depreciation	628	760	847	984	1107
EBIT	2453	3311	1463	576	1423
Other Income	461	568	526	553	608
Interest expenses	128	199	304	374	419
PBT	2513	1312	1391	754	1614
Tax	745	796	121	181	407
RPAT	**1768**	**515**	**1270**	**573**	**1208**
Growth (%)	13.3	-70.9	146.4	-54.9	110.7
EPS	26.9	7.8	19.3	8.7	18.4

Balance Sheet

As at March	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share Capital	131.5	131.5	131.5	131.5	131.5
Reserves	44659	41828	37543	37845	38574
Shareholders' Funds	**44790**	**41960**	**37674**	**37976**	**38706**
Long Term Debt	853	1055	2714	3610	4007
Net Deferred Taxes	1803	1852	1371	1371	1371
Long Term Provisions & Others	75	97	196	201	209
Total Source of Funds	**47522**	**44964**	**41955**	**43157**	**44291**
APPLICATION OF FUNDS					
Net Block (incl. CWIP)	10285	11620	13781	14636	15709
Intangible Assets	1277	1179	1094	1094	1094
Non-Current Investments	33587	28162	25906	26243	26374
Long Term Loans & Advances	412	433	435	464	468
Total Non-Current Assets	**45561**	**41394**	**41216**	**42528**	**43737**
Current Investments	1960	2966	1770	1717	1631
Inventories	2592	2932	2626	2386	2734
Trade Receivables	2609	3492	2905	2790	3151
Cash & Equivalents	42	43	79	84	68
Other Current Assets	934	942	864	900	873
Total Current Assets	**8137**	**10374**	**8246**	**7877**	**8459**
Short-Term Borrowings	1729	1848	2199	2111	2364
Trade Payables	2132	2376	2665	2373	2649
Other Current Liab & Provisions	1836	2150	2121	2185	2283
Short-Term Provisions	477	431	522	579	608
Total Current Liabilities	**6175**	**6804**	**7507**	**7248**	**7905**
Net Current Assets	1962	3570	739	629	554
Total Application of Funds	**47522**	**44964**	**41955**	**43157**	**44291**

Grasim Industries Ltd.

Cash Flow Statement

(Rs Cr)	FY18	FY19	FY20	FY21E	FY22E
Reported PBT	2513	1312	1391	754	1614
Non-operating & EO items	-461	-568	-526	-553	-608
Interest Expenses	128	199	304	374	419
Depreciation	628	760	847	984	1107
Working Capital Change	426	-1608	2869	114	59
Tax Paid	-745	-796	-121	-181	-407
OPERATING CASH FLOW (a)	**2489**	**-701**	**4764**	**1492**	**2184**
Capex	-4943	-1942	-2934	-1930	-2180
Free Cash Flow	-2454	-2643	1933	-438	4
Investments	-26374	5409	2249	-366	-135
Non-operating income	461	568	526	553	608
INVESTING CASH FLOW (b)	**-30856**	**4035**	**-160**	**-1743**	**-1707**
Debt Issuance / (Repaid)	1677	268	1282	901	405
Interest Expenses	-128	-199	-304	-374	-419
FCFE	-905	-2574	2911	88	-10
Share Capital Issuance	38	0	0	0	0
Dividend	-472	-551	-273	-271	-478
FINANCING CASH FLOW (c)	**1115**	**-482**	**705**	**255**	**-492**
NET CASH FLOW (a+b+c)	-27252	2851	5309	5	-16

Key Ratios

	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin	19.5	19.8	12.4	9.3	12.8
EBIT Margin	15.5	16.1	7.9	3.4	7.2
APAT Margin	11.2	2.5	6.8	3.4	6.1
RoE	5.8	1.2	3.2	1.5	3.1
RoCE	5	7.1	3.3	1.3	3
Solvency Ratio					
Net Debt/EBITDA (x)	0.2	0	1.3	2.5	1.8
D/E	0.1	0.1	0.1	0.2	0.2
Net D/E	0	0	0.1	0.1	0.1
PER SHARE DATA					
EPS	26.9	7.8	19.3	8.7	18.4
CEPS	36.5	19.4	32.2	23.7	35.2
BV	681.3	638.2	573	577.6	588.7
Dividend	6.2	7	4	4	7
Turnover Ratios (days)					
Debtor days	60	62	57	61	58
Inventory days	50	49	55	52	51
Creditors days	68	58	66	63	62
VALUATION					
P/E	28.9	99.3	40.3	89.2	42.4
P/BV	1.1	1.2	1.4	1.3	1.3
EV/EBITDA	18.7	14.1	24.9	36.8	22.7
EV / Revenues	3.6	2.8	3.1	3.4	2.9
Dividend Payout	23	89.3	20.7	45.9	38.1

(Source: Company, HDFC sec)

Grasim Industries Ltd.

One Year Price Chart

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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