

7th September, 2018

CMP – ₹1020

View – Positive

Company Background and Business Model

Grasim Industries Limited (Grasim) is one of India's largest business conglomerates and the flagship of the prestigious Aditya Birla Group. From a humble beginning in 1947 as a textile manufacturer, Grasim grew exponentially to become India's largest Viscose Staple Fibre (VFS) and chlor Alkali producer. Post the merger with Aditya Birla Nuvo in June 2017, Grasim holds a majority stake of 60.21% in Ultratech Cement (India's largest cement producer with an annual capacity of over 90 million tonne) & 55.99% in Aditya Birla Capital (3rd largest mutual fund house in India with an AUM of over 250,000 crore).

Important Statistics

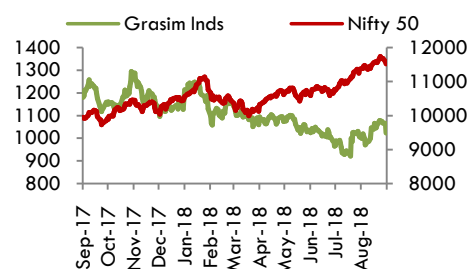
M.Cap (₹Cr)	67,074
52 Week H/L (₹)	915/1300
NSE Code	GRASIM
BSE Code	500300

Investment Rationale

- **Impressive business model** – Grasim has strategically integrated across the value chain from fibre to fashion (i.e. from Pulp, caustic soda and power & steam that are the basic building blocks to manufacture VSF to Liva the ingredient branding partner catering to the biggest brands), thereby offering the company an extremely stable business model. As of 2018, the VSF and Caustic Soda capacity at Grasim stood a 542,000tonne (MT) (post de-bottlenecking in Q1FY19) and 1,140,000 MT respectively.
- **Aggressive expansion to juice up profitability going forward** – Grasim has envisaged an aggressive 7540 crore capex plan to be executed over the FY18-21 period at its standalone level. After successfully commissioning the 146,000 MT brownfield expansion at Vilayat in Q1FY19, the company is on track to augment its caustic soda (expected commissioning by Q3FY20) and specialty chemicals capacity further by 14.9% to take the overall capacity to 1,310,000 MT and has earmarked ~₹1310 crore for the same. Grasim has also announced a 44% increase in VSF capacity from 546,000 MT to 788,000 MT at a capex of ~₹4250 crore. The brownfield expansion at Vilayat is progressing well with equipment ordering already completed. Therefore, the aggressive expansion plan at Grasim will drive volume led growth going forward and juice up its profitability.
- **Healthy volumes aid strong Q1FY19 show** – On a standalone basis, both VSF and chemical business delivered healthy sales volumes in Q1FY19 that stood at 134,000 MT (up 9.1% YoY) & 235,000 MT (up 18.1% YoY) respectively. Consequently, sales, EBITDA and PAT came in at ₹4789.2 crore (up 74.8% YoY), ₹871.4 crore (up 95.8% YoY) & ₹642.6 crore (up 85.1% YoY) respectively. EBITDA margins were at 22.0% (up 170 bps YoY).

Financials (Consolidated)

(₹ cr)		
Particulars	FY18	FY17
Net Sales	56,198	36,068
EBITDA	10,881	7,385
PAT	2,679	3,167
EPS (₹)	40.74	48.16

Source: Annual Report

Valuation

At the current market cap of ₹67,074 crore, the implied cumulative value of Grasim's long term holdings in Ultratech Cement (UTCL), Aditya Birla Capital (ABCL) and other group investments stood at ₹55,032 crore. We have assigned a 40% holding company discount for UTCL and ABCL and 50% holding company discount on other investments. As a result, the standalone entity is trading at inexpensive valuations on a TTM basis at a P/E of 5.8x and an EV/EBITDA of 3.4x. Therefore, we are **POSITIVE** on the stock given the improved operational performance in Q1FY19 and the aggressive expansion plans that are expected to drive robust and sustainable profitability growth going forward.

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Disclosure of Interest Statement in Grasim Industries Limited as on September 7th, 2018

Name of the Security	Grasim Industries Limited
Name of the analyst	Srinath Sridhar, CFA
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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