

Retail Equity Research

Grasim Industries Limited

Construction Materials

BSE CODE: 500300

NSE CODE: GRASIM

Bloomberg CODE: GRASIM:IN

SENSEX: 81,086

BUY

12 Months Investment Period Rating as per Large Cap

 CMP Rs. 2,747 TARGET Rs. 3,058 RETURN 11% ↑
 (Closing: 23-08-24)

KEY CHANGES:
TARGET ↑

RATING ↔

EARNINGS ↑

Upswing gains momentum, outlook brightens

Grasim Industries Ltd, a subsidiary of Aditya Birla Group, is a diversified company with interests in cement, textiles, retail and chemicals. It is also the world's largest producer and exporter of viscose rayon fibre.

- In Q1FY25, consolidated revenue increased 9.0% YoY to Rs. 33,861cr, aided by steady growth in the building materials, cellulosic staple fibre and financial services businesses.
- EBITDA declined 4.4% YoY to Rs. 4,760cr and margin contracted to 14.1%, led by building materials segment with lower price realisation in cement coupled with investments in paints business.
- Grasim is poised for robust growth, fueled by government initiatives, improved demand for viscose staple fibre, favourable cement outlook, improved traction in Birla Pivot and increased production capacity in the paints decorative segment. We are optimistic about its long-term growth and reiterate our BUY rating with a revised target price of Rs. 3,058 based on the sum-of-the-parts (SOTP) valuation.

Financial services and cements businesses drive topline surge

In Q1FY25, Grasim's consolidated revenue grew 9.0% YoY to Rs. 33,861cr, driven by the financial services, building materials and cellulosic staple fibre businesses. Aditya Birla Capital, the financial services arm, demonstrated a significant 25.3% YoY growth, reaching Rs. 8,807cr, attributed to an expanding lending portfolio and growing market presence. The cellulosic staple fibre business grew 5.7% YoY to Rs. 3,787cr, driven by improving domestic demand and favourable prices. The building materials segment grew 4.7% YoY to Rs. 18,701cr, led by increased cement sales volume, expanding paints business capacity and a thriving B2B e-commerce platform with a high rate of repeat orders. While other segments collectively grew 5.9% YoY to Rs. 798cr, the chemicals business experienced a 3.7% YoY decline to Rs. 2,066cr, affected by the shutdown of the Vilayat plant.

Costs surge, margin contracts

EBITDA declined by 4.4% YoY to Rs. 4,760cr and margin contracted 190bps YoY to 14.1%, primarily due to rising employee benefit expenses, selling and administrative costs, insurance business-related benefits. Lower cement price realisations and investments in the paints segment also impacted on EBITDA margin. Reported profit after tax decreased 12.0% YoY to Rs. 2,268cr, mainly due to elevated finance costs.

Key concall highlights

- Aditya Birla Capital's lending portfolio grew 37% YoY to Rs. 127,705cr, with assets under management (AUM) up 20% to Rs. 462,891cr.
- Grasim's FY25 capex is anticipated to be Rs. 4,500cr, with Rs. 3,000cr allocated for new business growth initiatives.
- Birla Pivot, the B2B e-commerce platform, had a quarterly run rate of over Rs. 550cr and expanded to over 200 cities in 25 states and union territories.

Valuation

Grasim, with its diversified presence across various sectors, is strategically positioned to leverage growth opportunities. The government's ongoing emphasis on infrastructure and housing is expected to benefit the company. Viscose staple fibre is expected to improve during the upcoming festival and wedding seasons. The financial services segment is expected to maintain robust growth, driven by digital expansion and new product launches. Additionally, favourable cement prices, an expanding customer base in Birla Pivot, and rising production across products and investments in the paints decorative business are poised to contribute to Grasim's strong earnings performance. Hence, we reiterate our BUY rating with a revised target price of Rs. 3,058 based on SOTP valuation.

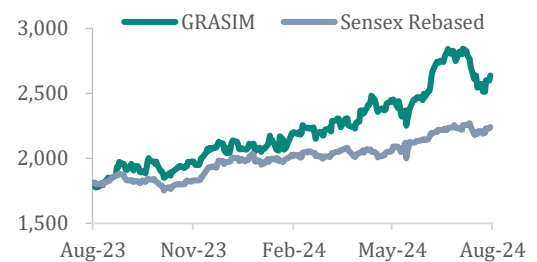
Company Data

Market Cap (cr)	Rs. 181,357
Enterprise Value (cr)	Rs. 386,291
Outstanding Shares (cr)	68.1
Free Float	56.0%
Dividend Yield	0.4%
52 week high	Rs. 2,875
52 week low	Rs. 1,752
6m average volume (lacs)	10.1
Beta	1.0
Face value	Rs. 2

Shareholding (%)	Q3FY24	Q4FY24	Q1FY25
Promoters	42.8	43.1	43.1
FII's	16.4	16.5	16.7
MFs/Insti	16.7	16.7	16.7
Public	12.3	12.2	12.1
Others	11.8	11.6	11.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	13.1%	25.1%	52.5%
Absolute Sensex	9.2%	10.8%	24.3%
Relative Return*	3.9%	14.4%	28.3%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	130,978	147,881	165,913
Growth (%)	11.4	12.9	12.2
EBITDA	20,837	25,015	29,064
EBITDA Margin (%)	15.9	16.9	17.5
Adj. PAT	6,194	7,535	8,553
Growth (%)	(14.0)	27.8	13.3
Adj. EPS	93.8	110.7	125.7
Growth (%)	(6.1)	22.9	15.5
P/E	24.4	24.9	21.9
P/B	1.7	1.9	1.8
EV/EBITDA	16.1	15.4	13.9
ROE (%)	11.2	13.5	14.4
D/E	1.0	1.0	0.9

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Revenue	33,861	31,065	9.0	37,727	(10.2)
EBITDA	4,760	4,981	(4.4)	6,196	(23.2)
EBITDA margins	14.1	16.0	(190bps)	16.4	(230bps)
Depreciation	1,368	1,183	15.7	1,329	2.9
EBIT	3,392	3,799	(10.7)	4,867	(30.3)
Interest	481	361	33.1	463	3.7
Other Income	-	(0)	100.0	(0)	100.0
Exceptional Items	33	-	n.m.	(569)	n.m.
Share of profit from Associate	32	0	11,777.8	94	(65.9)
PBT	2,976	3,438	(13.4)	3,928	(24.2)
Tax	708	862	(17.8)	1,207	(41.3)
Reported PAT	2,268	2,576	(12.0)	2,722	(16.7)
Minority Interest	1,060	1,000	6.0	1,352	(21.6)
PAT att. to shareholders	1,208	1,576	(23.4)	1,370	(11.8)
Adjustments	(33)	-	n.m.	569	n.m.
Adj. PAT	1,175	1,576	(25.4)	1,939	(39.4)
No. of shares	68.1	65.8	3.4	66.1	3.1
Adj. EPS (Rs.)	17.3	23.9	(27.8)	29.4	(41.2)

Segment revenue

	Q1FY25	Q1FY24	YoY Growth (%)	Q4FY24	QoQ Growth (%)
Cellulosic Fibres	3,787	3,584	5.7	3,762	0.7
Cement	18,701	17,867	4.7	20,919	(10.6)
Chemicals	2,066	2,146	(3.7)	2,083	(0.8)
Financial Services	8,807	7,030	25.3	10,484	(16.0)
Others	798	753	5.9	790	1.0
Inter Segment Revenue	(298)	(315)	(5.3)	(310)	(3.7)
Gross Revenue	33,861	31,065	9.0	37,727	(10.2)

Sum of the parts (SOTP) valuation

Particulars	Basis	Base	Multiple	% holding	Value (Rs. cr.)	Value/share (Rs.)
Standalone	FY26E P/E	1,605	12.5x	100%	20,068	295
UltraTech (holding company discount at 30%)	Geojit TP	12,800		57%	147,887	2,173
ABCL (holding company discount at 30%)	FY24 P/BV	37,478	1.9x	54%	27,001	397
Others (holding company discount at 50%)	FY26E P/BV	13,182	2.0x	100%	13,182	194
Total					208,139	3,058

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	147,286	164,151	147,881	165,913	0.4	1.1
EBITDA	24,803	28,354	25,015	29,064	0.9	2.5
Margins (%)	16.8	17.3	16.9	17.5	10bps	20bps
Adj. PAT	7,302	8,253	7,535	8,553	3.2	3.6
Adj. EPS	110.1	124.4	110.7	125.7	0.6	1.0

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	95,701	117,627	130,978	147,881	165,913
% change	25.3	22.9	11.4	12.9	12.2
EBITDA	17,772	20,478	20,837	25,015	29,064
% change	12.7	15.2	1.8	20.1	16.2
Depreciation	4,161	4,552	5,001	5,625	6,545
EBIT	13,611	15,926	15,835	19,390	22,518
Interest	1,296	1,320	1,655	1,752	2,142
Other Income	311	121	(481)	126	98
PBT	12,627	14,727	13,700	17,764	20,474
% change	29.2	16.6	(7.0)	29.7	15.3
Tax	1,936	3,649	3,774	4,441	5,119
Tax Rate (%)	15.3	24.8	27.5	25.0	25.0
Reported PAT	11,206	11,078	9,926	13,323	15,356
PAT att. to common shareholders	7,550	6,827	5,624	7,568	8,553
Adj*	69	88	569	(33)	-
Adj PAT	7,619	6,915	6,194	7,535	8,553
% change	69.5	(9.4)	(14.0)	27.8	13.3
No. of shares (cr)	65.8	66.0	66.1	68.1	68.1
Adj EPS (Rs.)	115.9	104.8	93.8	110.7	125.7
% change	53.7	(1.3)	(6.1)	22.9	15.5
DPS (Rs.)	10.0	10.0	10.0	10.0	10.0

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	15,367	15,630	14,927	18,948	21,901
Non-cash adj.	3,075	7,440	10,730	1,752	2,142
Changes in W.C	(11,405)	(35,755)	(36,376)	(3,904)	(5,237)
C.F. Operation	7,038	(12,685)	(10,719)	16,796	18,806
Capital exp.	(8,505)	(11,925)	(19,322)	(21,773)	(23,670)
Change in inv.	3,454	(1,588)	(3,455)	(3,608)	(3,118)
Other invest.CF	1,508	(174)	(336)	0	(0)
C.F - Investment	(3,543)	(13,687)	(23,113)	(25,381)	(26,788)
Issue of equity	253	(138)	3,524	3,000	-
Issue/repay debt	(4,341)	29,152	33,728	11,247	12,249
Dividends paid	(1,066)	(1,151)	(1,126)	(681)	(681)
Other finance.CF	(1,580)	(1,394)	(2,219)	(1,752)	(2,142)
C.F - Finance	(6,733)	26,469	33,908	11,815	9,426
Chg. in cash	(3,239)	97	76	3,230	1,445
Closing cash	2,241	2,313	2,388	5,617	7,062

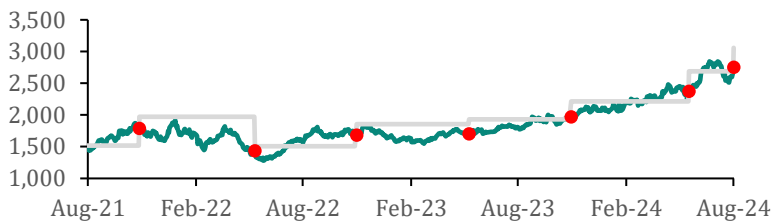
BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	2,241	2,313	2,388	5,617	7,062
Accounts Receivable	5,429	5,915	6,979	7,690	8,379
Inventories	9,536	11,159	13,545	14,765	16,062
Other Cur. Assets	39,561	48,136	63,476	62,793	67,662
Investments	51,899	60,058	75,038	78,645	81,763
Gross Fixed Assets	78,595	88,405	107,728	129,501	153,171
Net Fixed Assets	60,027	66,153	72,024	86,758	102,265
CWIP	6,572	7,730	18,229	20,052	22,057
Intangible Assets	28,997	28,777	28,585	28,176	27,789
Def. Tax (Net)	246	382	423	497	573
Other Assets	84,886	106,583	131,853	133,230	136,023
Total Assets	289,395	337,205	412,539	438,224	469,635
Current Liabilities	31,006	34,618	43,067	44,556	47,962
Provisions	733	766	869	929	994
Debt Funds	74,744	103,039	137,155	148,402	160,651
Other Liabilities	66,737	75,870	92,510	89,755	90,772
Equity Capital	132	132	133	136	136
Reserves & Surplus	75,567	78,610	88,520	98,403	106,276
Shareholder's Fund	75,698	78,742	88,652	98,539	106,412
Minority Interest	40,476	44,171	50,286	56,042	62,844
Total Liabilities	289,395	337,205	412,539	438,224	469,635
BVPS (Rs.)	1,151	1,193	1,342	1,448	1,564

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	18.6	17.4	15.9	16.9	17.5
EBIT margin (%)	14.2	13.5	12.1	13.1	13.6
Net profit mgn.(%)	11.7	9.4	7.6	9.0	9.3
ROE (%)	14.8	14.1	11.2	13.5	14.4
ROCE (%)	7.1	7.0	5.7	6.4	6.8
W.C & Liquidity					
Receivables (days)	20.7	18.4	19.4	19.0	18.4
Inventory (days)	105.8	89.0	103.8	100.2	97.8
Payables (days)	126.4	106.5	117.7	119.2	121.0
Current ratio (x)	1.0	1.0	0.9	0.9	1.0
Quick ratio (x)	0.4	0.3	0.3	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	1.3	1.4	1.3	1.2	1.2
Total asset T.O (x)	0.3	0.4	0.3	0.3	0.4
Int. coverage ratio (x)	10.5	12.1	9.6	11.1	10.5
Adj. debt/equity (x)	0.6	0.8	1.0	1.0	0.9
Valuation					
EV/Sales (x)	2.3	2.1	2.6	2.6	2.4
EV/EBITDA (x)	12.5	12.3	16.1	15.4	13.9
P/E (x)	14.4	15.6	24.4	24.9	21.9
P/BV (x)	1.4	1.4	1.7	1.9	1.8

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
1-Jun-21	HOLD	1,517
17-Nov-21	HOLD	1,971
1-Jun-22	HOLD	1,506
21-Nov-22	HOLD	1,854
31-May-23	BUY	1,933
20-Nov-23	BUY	2,212
7-Jun-24	BUY	2,687
26-Aug-24	BUY	3,058

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock. To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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