

GRASIM INDUSTRIES LTD.

ADD

Choice

Paint Business to commence soon

- Grasim Industries Ltd. Q2FY24 standalone revenues** came at INR64,420 mn, up 3.3% QoQ but down 4.5% YoY. Raw Material cost during Q2 stood at INR33,971 mn vs INR30,977 mn for Q1FY24, up 8.9% YoY. The higher Rm Cost for the quarter had impacted the margins for the quarter. Q2FY24 EBITDA came at INR5,937 mn vs INR6,735 mn for Q1FY24, down 37.9% YoY. The EBITDA for the quarter is net of pre-operative expenses of the new businesses. PAT for Q2FY24 came at INR7,950 mn, up 123.8% QoQ but down 17.6% YoY. EPS for the quarter came at INR12.1.
- Viscose business:** In Q2FY24, the company's VSF sales volume saw a robust 23.7% YoY increase to 210KT. The uptick in domestic demand, fueled by the festive season, contrasted with weak export demand. China's operating rates nudged to 85% in Q2FY24; a slight increase compared to 82% in Q1FY24. Domestic prices remained under pressure due to the softening of international VSF prices by 7% from an average of \$1.67/kg in Q1FY24 to \$1.55/kg in Q2FY24. Although segment revenue rose 8.5% QoQ to INR 38,889 mn, it experienced a slight 0.4% YoY dip. The viscose business EBITDA surged 20.1% QoQ and an impressive 44.5% YoY, lead by heightened sales volume and lower input prices. Nevertheless, VFY business margins were pressured by China's assertive pricing strategy, prompting necessary domestic price adjustments.
- Chemicals business:** Caustic soda sales volume increased to 306 KT from 292 KT in Q1FY24, marking a 3% YoY growth. International Caustic Soda spot prices (CFR SEA) remained relatively stable at approximately \$417/ton in Q2FY24, maintaining a slight increase from \$415/ton in Q1FY24. However, prices experienced a dip to \$383/ton in July 2023, recovering later in the quarter and reaching \$470/ton in September 2023. The chemical business revenue totaled INR 19,884 mn, reflecting a decline of 7.3% QoQ and a more substantial decrease of 26.6% YoY. This reduction in revenue was primarily attributed to lower caustic soda realizations. The EBITDA for the quarter was INR 2,363 mn, marking a significant 34.0% QoQ decrease and a substantial 61.2% YoY decline. Notably, the specialty chemicals segment, encompassing epoxy polymers and curing agents, faced margin challenges due to lower realizations compared to Q1FY24.
- Paints business expansion plan on track:** The paints business is set to kick off its commercial operations in Q4FY24, with the brand name "Birla Opus" being officially announced by the company. Consent to operate plants has been secured for three key locations: Panipat, Ludhiana, and Cheyyar. In the same quarter, the company introduced a painting service named "Paint Craft" in eight major Indian cities. It's noteworthy that a significant portion of the capex will be allocated to the Paint Business.
- Capex Plan:** In Q2FY24, the total capex outlay amounted to INR 16,500 mn, with a significant portion of INR 12,690 mn allocated to the Paints Business. The Board approved a capex of INR 1,440 mn for various businesses and endorsed the rephasing of spending for previously approved capex, involving an additional expenditure of INR 1,380 mn in the current financial year. Consequently, the revised budgeted spend for FY24 now stands at INR 59,290 mn.
- Outlook and Valuation:** Grasim Industries is making strides in paints and e-commerce. Birla Pivot, a B2B e-commerce platform for construction materials, has been launched, covering markets in Maharashtra, Madhya Pradesh, and Delhi. Over 120 brands are on board. The paints business is set to start in Q4FY24 with the brand name "Birla Opus." These initiatives showcase Grasim's commitment to expansion and innovation in diverse sectors to drive further growth. We have introduced FY26E and are expecting Revenue/EBITDA to grow at a CAGR of 7.6%/10.4% respectively over FY23-FY26E. We value the company on a SOTP basis to arrive at a TP of INR 2,100, upgrading our rating to **ADD**.

Financial Snapshot

Quarter end: March	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR Mn)	2,08,568	2,68,397	2,72,926	3,25,541	3,34,180
EBITDA (INR Mn)	32,057	31,799	28,940	38,489	42,835
EBITDA Margins (%)	15.4	11.8	10.6	11.8	12.8
Adj. PAT	26,955	21,237	23,320	26,289	23,588
Adj. PAT Margins (%)	12.9	7.9	8.5	8.1	7.1
EPS	40.9	32.3	34.8	39.9	46.7

Source: Company, CEBPL

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Nov 16, 2023

CMP (Rs.)	1,944
Target Price (Rs.)	2,100
Potential Upside (%)	8.1

Company Info

BB Code	GRASIM IN EQUITY
ISIN	INE047A01021
Face Value (Rs.)	2.0
52 Week High (Rs.)	2,021.9
52 Week Low (Rs.)	1,528.0
Mkt Cap (Rs bn)	1,279.7
Mkt Cap (\$ bn)	15.5
Shares o/s (Mn)/F.Float	658.4/56
FY23 EPS (Rs.)	32.3
FY26E EPS (Rs.)	46.7

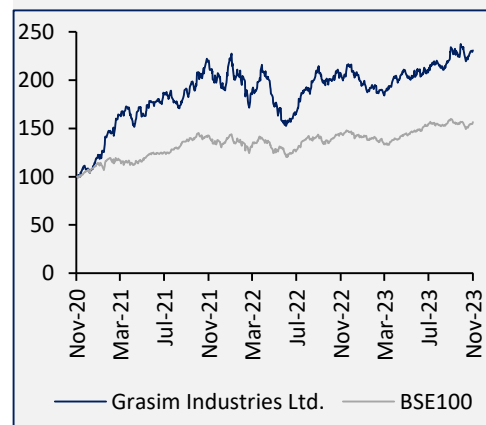
Shareholding Pattern (%)

	Sep-23	Jun-23	Mar-23
Promoters	42.75	42.75	42.75
FII's	12.17	12.29	12.45
DII's	16.90	16.82	16.82
Public	28.18	28.14	27.98

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 100	56.5	9.6	7.8
Grasim Industries	130.6	4.7	12.0

Rebased Price Performance



Operating Performance

	FY22	FY23	FY24E	FY25E	FY26E
VSF & VFY Segment					
Volume Capacity (K.Tons)	872	874	874	874	874
Sales Volume (K.Tons)	646	756	763	780	805
Revenue	1,22,090	1,51,490	1,45,105	1,58,600	1,63,431
Realisation (INR/KT)	189	200	190	203	203
Cost	1,04,880	1,41,180	1,31,753	1,45,163	1,45,053
Cost (INR/KT)	162	187	173	186	180
EBITDA	17,210	10,310	13,352	13,437	18,378
EBITDA (INR/KT)	27	14	17	17	23
Chemical Segment					
Volume Capacity (K.Tons)	1,413	1,434	1,776	1,776	1,776
Sales Volume (K.Tons)	1,114	1,224	1,369	1,406	1,460
Revenue	78,880	1,04,200	1,10,160	1,27,261	1,25,594
Realisation (INR/Kg)	71	85	80	91	86
Cost	63,540	81,490	95,913	1,10,046	1,09,470
Cost (INR/Kg)	57	67	70	78	75
EBITDA	15,340	22,710	14,247	17,215	16,124
EBITDA (INR/Kg)	14	19	10	12	11
Other Segments					
Revenue	7,580	15,747	22,045	39,681	59,522
EBITDA	8,580	8,185	6,512	7,837	8,333

Source: Company, CEBPL

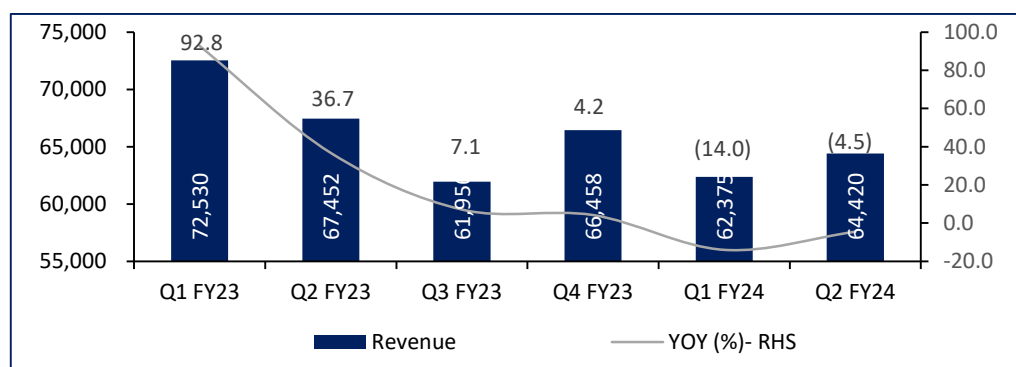
Valuations

Valuation of Standalone Entity	EV/EBITDA(x)	SEP25E EBITDA (INR Mn)	EV (INR Mn)	Net Debt (INR Mn)	Market Cap (INR Mn)
Viscose	6	15,914	95,482.09	-	-
Chemicals	8	17,904	1,43,231	-	-
Other Business (Textile, Insulator, Paints, Ecommerce)	16	8,333	1,33,329	-	-
Valuation of Standalone entity		42,151	3,72,042	99,980	2,72,062
No. of shares					658
Standalone Price Per Share					413

Valuation Of Subsidiaries & Investments	Basis	Market Cap INR Mn	Ownership (%)	Holding Company Disc (%)	Value
Ultratech Cement	CEBPL Valuation	25,30,133	57.3	40.0	8,69,860
Aditya Birla Capital	Market Cap	4,72,181	54.2	40.0	1,53,553
Vodafone idea ltd	Market Cap	6,84,923	11.6	40.0	47,671
ABFRL	Market Cap	2,04,539	10.4	40.0	12,763
Hindalco	Market Cap	11,34,170	3.9	40.0	26,540
Total					11,10,386
No. of Shares					658
TP					1,687
SOTP					2,100
				CMP	1,944
				Upside (%)	8.1%

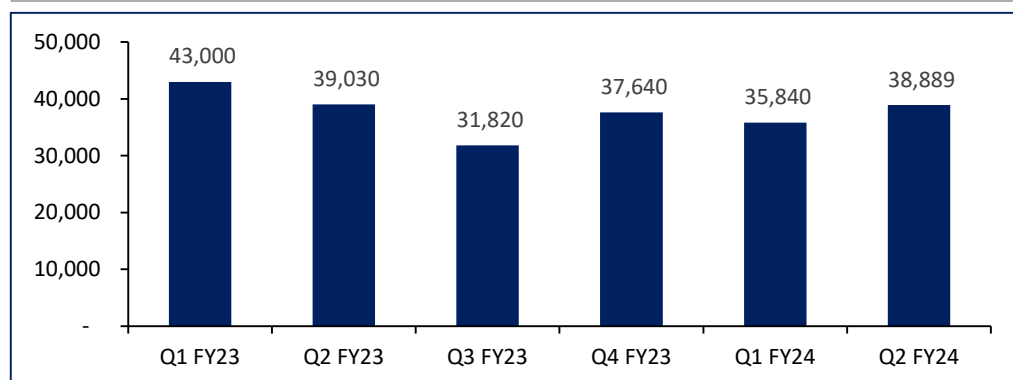
Source: Company, CEBPL

Revenue (INR mn) & YoY Growth (%)



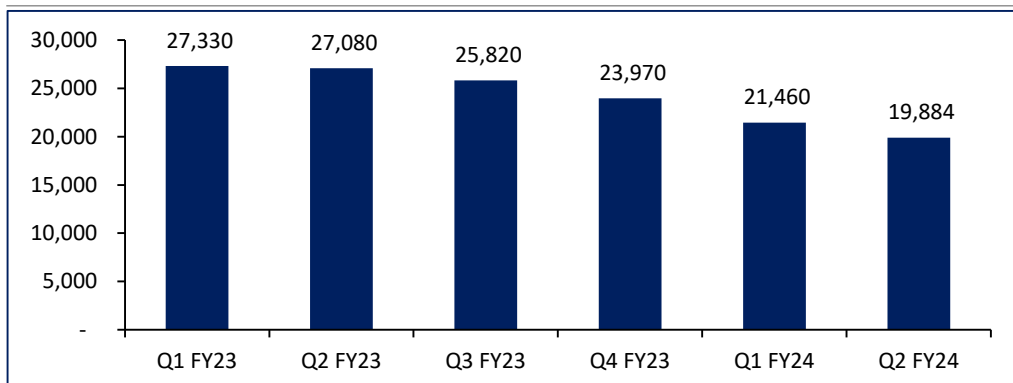
Source: Company, CEBPL

Viscose business revenue (INR mn)



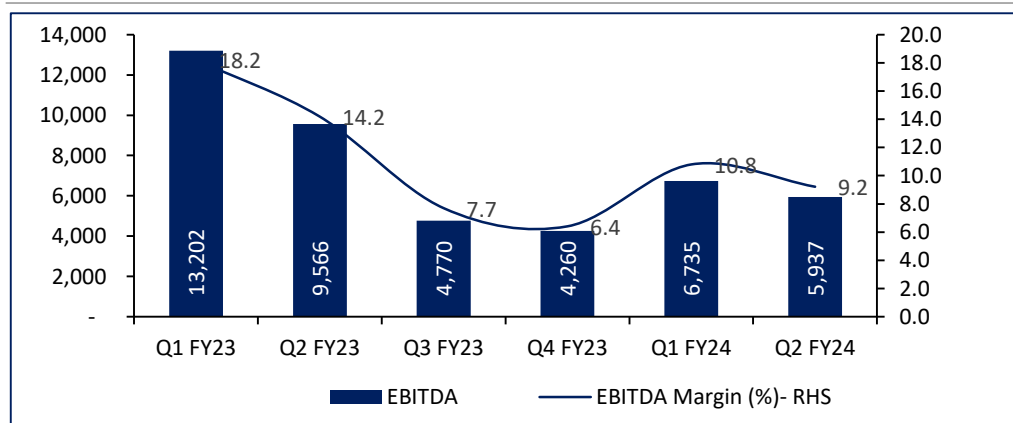
Source: Company, CEBPL

Chemical business revenue (INR mn)



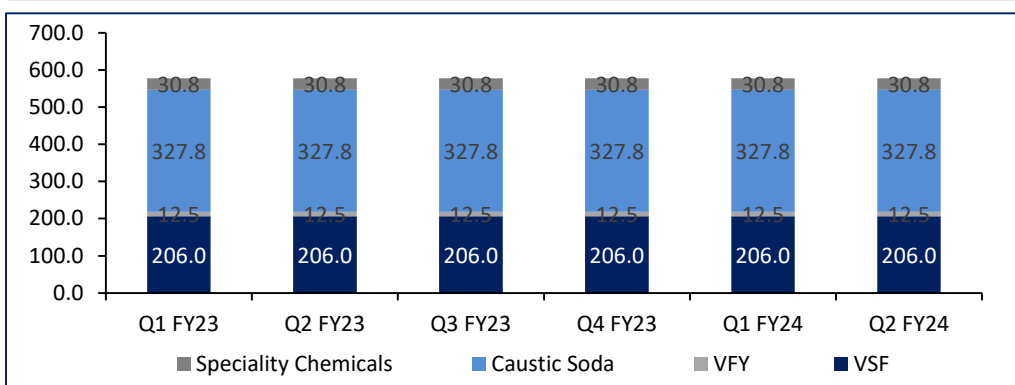
Source: Company, CEBPL

EBITDA & EBITDA Margins (%)



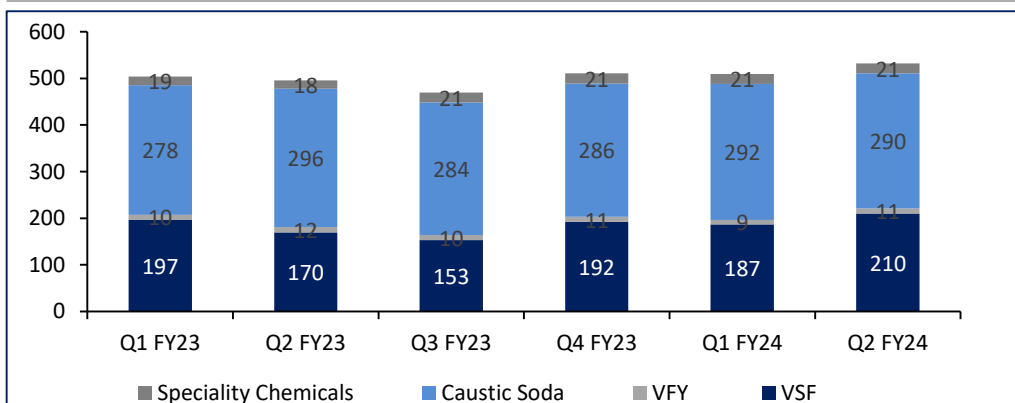
Source: Company, CEBPL

Installed Capacity (KT)



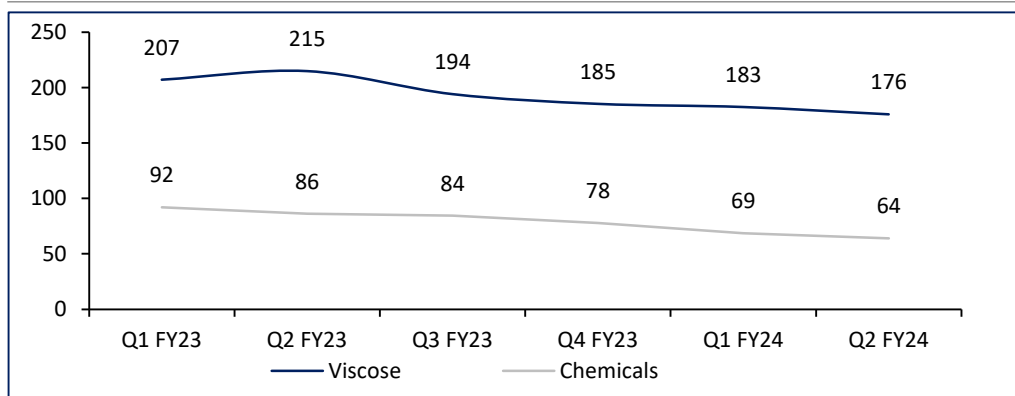
Source: Company, CEBPL

Sales Capacity (KT)



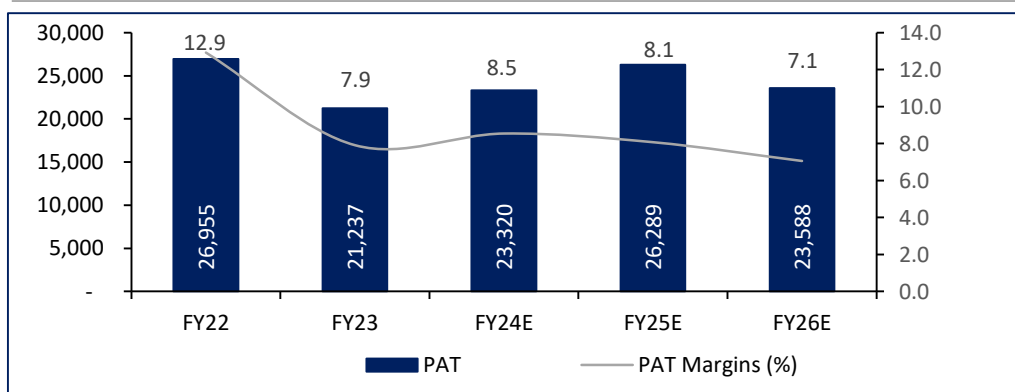
Source: Company, CEBPL

Realization (INR Kg)



Source: Company, CEBPL

PAT (INR mn) & PAT margins (%)



Source: Company, CEBPL

Financial Summary (Standalone in INR Mn)

Income Statement (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,08,568	2,68,397	2,72,926	3,25,541	3,34,180
EBITDA	32,057	31,799	28,940	38,489	42,835
Depreciation	9,140	10,973	11,403	13,576	18,630
EBIT	22,918	20,826	17,537	24,913	24,205
Other income	9,057	10,183	15,333	15,201	16,854
Interest expense	2,472	3,677	3,687	4,968	7,103
Adj. PAT	27,646	22,118	23,320	26,289	23,588
EPS (INR)	40.9	32.3	34.8	39.9	46.7

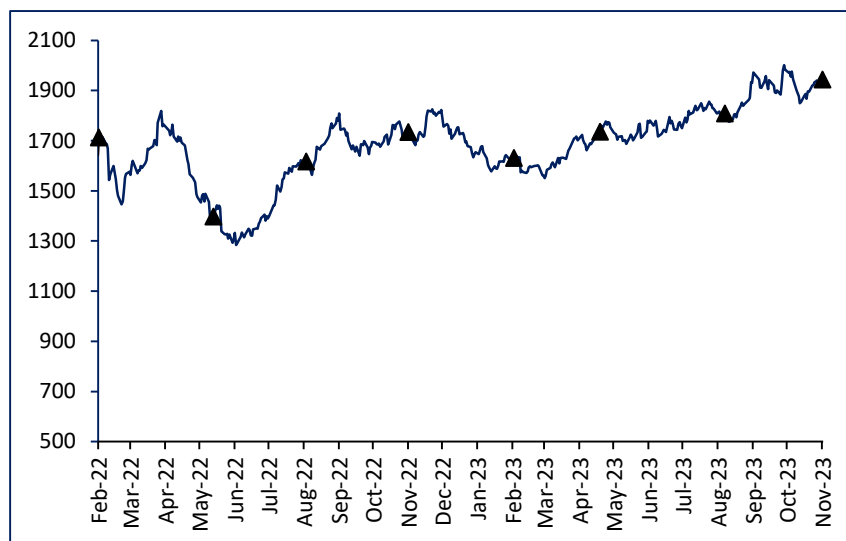
Balance Sheet (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Tangible fixed assets	1,48,577	1,62,196	2,00,885	2,88,402	3,19,771
Capital Work in Progress	16,098	29,191	26,272	-	-
Investments	3,86,908	3,38,967	3,70,884	3,89,697	4,01,172
Cash & Cash equivalents	2,253	4,744	5,672	4,928	3,555
Loans & Advances and Other Assets	16,214	25,772	26,286	29,130	27,026
Net Working Capital	9,805	13,788	31,357	32,234	29,306
Total assets	5,79,855	5,74,658	6,61,356	7,44,391	7,80,830
Shareholder's funds	4,86,158	4,69,549	5,21,068	5,41,042	5,41,042
Borrowings	32,371	52,542	66,392	1,04,909	1,40,016
Deffered Tax Assets/ Liabilities	18,414	15,348	15,348	15,348	15,348
Other Liabilities & Provisions	42,912	37,219	58,548	83,092	84,424
Total equity & liabilities	5,79,855	5,74,658	6,61,356	7,44,391	7,80,830
Capital Employed	5,36,769	5,29,192	6,00,711	6,55,685	6,90,685
Invested Capital	5,16,276	5,17,348	5,81,788	6,41,022	6,77,502

Cash Flows (INR Mn.)	FY22	FY23	FY24E	FY25E	FY26E
Cash flows from Operations	26,562	23,189	4,250	41,912	38,064
Cash flows from Investing	(34,857)	(21,903)	(41,684)	(69,889)	(43,854)
Cash flows from financing	(7,766)	(1,649)	4,514	27,233	28,004

Ratio Analysis	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (%)					
Revenue	68.4	28.7	1.7	19.3	2.7
EBITDA	104.9	(0.8)	(9.0)	33.0	11.3
PAT	232.6	(21.2)	9.8	12.7	(10.3)
Margin Ratios (%)					
EBITDA Margin	15.4	11.8	10.6	11.8	12.8
PAT Margin	12.9	7.9	8.5	8.1	7.1
Profitability (%)					
Return on equity	5.5	4.5	4.5	4.9	4.4
Return on invested capital (pre-tax)	4.4	4.0	3.0	3.9	3.6
Return on capital employed	4.3	3.9	2.9	3.8	3.5
Valuation					
OCF / IC (%)	5.1	4.5	0.7	6.5	5.6
EV / EBITDA (x)	34.7	39.2	46.2	36.3	33.0
EV/IC (%)	215.3	240.8	229.7	217.9	208.5

Source: Company, CEBPL

Historical recommendations and target price: GRASIM



GRASIM INDUSTRIES LTD

1.	16-02-2022	NEUTRAL,	Target Price 1,583
2.	27-05-2022	ADD,	Target Price 1,528
3.	16-08-2022	ADD,	Target Price 1,802
4.	16-11-2022	OUTPERFORM,	Target Price 2,003
5.	15-02-2023	OUTPERFORM,	Target Price 1,888
6.	29-05-2023	ADD,	Target Price 1,860
7.	11-08-2023	NEUTRAL,	Target Price 1,920
8.	16-11-2023	ADD,	Target Price 2,100

Institutional Research Team

Kripashankar Maurya	AVP - Institutional Research – Automobiles/Defence/Healthcare	kripashankar.maurya@choiceindia.com	+91 22 6707 9949
CA Vatsal Vinchi	Analyst - Information Technology	vatsal.vinchi@choiceindia.com	+91 22 6767 9224
Deepika Murarka	Analyst - Pharmaceuticals	deepika.murarka@choiceindia.com	+91 22 6707 9513
CA Yogesh Soni	Analyst - Automobiles	yogesh.soni@choiceindia.com	+91 22 6707 9919
Putta Ravi Kumar	Associate - Goods & Defence	ravi.putta@choiceindia.com	+91 22 6707 9512
CA Sheetal Murarka	Vice President - Institutional Sales	sheetal.murarka@choiceindia.com	+91 22 6707 9857
Nitesh Jalan	AVP – Institutional Sales	nitesh.jalan@choiceindia.com	+91 22 6707 9886 /877 /878 /879

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OUTPERFORM	The security is expected to generate more than 15% returns over the next 12 months
ADD	The security is expected to generate greater than 5% to less than 15% returns over the next 12 months
NEUTRAL	The security expected to show downside or upside returns by 5% over the next 12 months
REDUCE	The security expected to show less than -5% to greater than -15% over the next 12 months
UNDERPERFORM	The security is expected to generate returns in excess of -15% over the next 12 months

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Choice Equity Broking Private Limited-Research Analyst - INH00000222. (CIN. NO.: U65999MH2010PTC198714). Reg. Add.: Sunil Patodia Tower, J B Nagar, Andheri(East), Mumbai 400099. Tel. No. 022-6707 9999

Compliance Officer-Swati Matkar. Tel. 022-6707 9999-Ext. 896. Email- Compliance@choiceindia.com

Grievance officer-Deepika Singhvi Tel.022-67079999- Ext-834. Email- ig@choiceindia.com

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