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DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

Grasim Industries

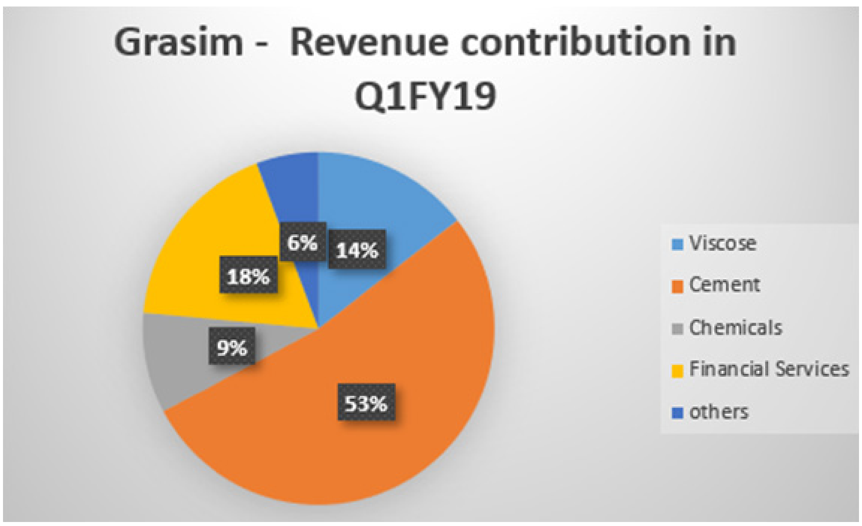
BSE Code	:	**500300**
Time Duration	:	**18 months**
CMP	:	**₹1045 (as on 23 August, 2018)**
Target Price	:	**₹1310**

LargeRhino
Swiftest Performers
Among Heavy Weights

The large Rhino for the month of August is Grasim Industries Limited, an Aditya Birla conglomerate company and well-diversified into different segments including speciality chemicals, cement, financial services and VSP production, etc. Today, Grasim is the world's leading producer of VSF. Over the years, the company has diversified in cement and chemicals, emerging as the largest cement manufacturer and largest Chlor Alkali player in India. The company's geographic reach and presence are beyond India, spanning to Canada, China, Sweden, Sri Lanka, Middle East and Bangladesh. The company holds a leadership position in most segments. It is No.1 producer of Viscose Staple Fibre (VSF), caustic soda and speciality chemicals in India. It also leads in the cement segment and is the fourth largest producer Ex-china.

Diversified Entity

The company has a versatile range of business ranging from viscose fibre to cement products. Also, it is the largest producer of caustic soda in the country. The company's caustic soda capacities are running at 92 per cent utilization. The cement business which is a major contributor to its revenue stream has huge capacities around the country which are running at 70 per cent capacity utilization, giving enough potential for growth. While the VSF business has expanded across segments and brands in the country. The company's VSF product is currently used in almost all 33 brands in the industry which gives enough vision about its market reach. Aditya Birla Capital, is the company's financial services division and has seen good traction in AUM in the past few quarters and contributes 18 per cent to the total revenue in Q1FY19.



Cement segment to be growth driver

Cement segment under the brand of Ultratech cement is the major contributor to the total revenue at 57 per cent as of Q1FY19. The company steady demand in cement which resulted strong volume growth in past few quarters. The cement segment witnessed 29 per cent yoy increase in volumes to 18 MTPA in Q1FY19. The cement demand is expected to remain strong due to significant growth in infrastructure and realty segment across the country.The acquisition of JPA assets are also expected to show traction in revenue going forward. While theamalgamation of century's assets of 14million tonnes by the end of FY19. Post acquisition it will take the cement capacity of the company to 106.5 million tonnes from 88.5 million tonnes currently. This will help in augmenting market share to 23 per cent and assuage the capability to cater to increasing demand. The Governments initiative under PMAY has aided strong rural demand in past few quarter and contributed 40 per of the volumes for consistent four to five quarters. With many big ticket infrastructure coming up the cement demand is expected to grow at 8-10 per cent CAGR over FY18-20.

Strong performance in Chemical & VSF segments

The VSF and chemical business possess leadership position in the market and boast strong potential for growth. Together they contribute 25 per cent to the total revenue for Q1FY19. The company achieved record production of VSF in Q1FY19 at 134 KTPA and highest ever sales of 109 KTPA. The de-bottlenecking of higher volumes and firm prices aided record production in the quarter. In addition, Vilayat facility expansion by December end will also increase the company's the serving ability. The chemicals business saw 18 per cent rise in volumes to 235 ktpa in Q1FY19 with capacities running at 92 per cent utilization levels. The company further envisages of Rs.1,112 crore capacity expansion for caustic soda and speciality chemicals segment. Also, the VSF & chemical segment posted high EBITDA margins in the quarter.

Financial

The company posted significant quarterly performance in the quarter ending June 2018. The total revenue for the quarter rose by 53 per cent yoy to Rs. 16,856 crore in Q1FY19 vs Rs. 10,986 crore in the previous year's corresponding quarter. This was largely aided by strong performances of all major segments in the quarter. The EBITDA for the quarter rose by 36.4 per cent yoy to Rs. 2,978 crore in Q1FY19 vs Rs. 2,183 crore in the corresponding quarter the previous year. The EBITDA margin for the quarter stood at contracted 200 bps on account of higher energy costs and surge in major raw materials. The EBITDA margin stood at 17.7 per cent in Q1FY19 vs 19.9 per cent in the corresponding quarter previous year. The company's bottom-line stood firm for the quarter at Rs. 1,399 crore in Q1FY19 vs Rs. 1,248 crore in the corresponding quarter previous year.

Outlook

The company envisages expanding its scalability with massive expansion plans in the coming years. This will aid better gain in market share. The high margin VSF & chemical business capacity addition at 44 per cent and 14.9 per cent CAGR over FY21 gives enough growth visibility. The business has 80 per cent backward integration which resembles opportunity for strong margin expansion, going forward. However, the prices are expected to remain volatile going forward due to capacity additions in China. The impact on the bottom-line is expected to be minimal due to cost rationalisation measures adopted by the company. On a consolidated basis, the cement business will continue to drive higher revenue growth with its planned expansion of Rs. 2,537 crore in FY19. Also, its financial services division is witnessing significant traction in its AUM and lending book has aided strong revenue growth in the segment and has placed itself in the top three mutual funds in the country. The rising participation of domestic investment in the capital market gives enough potential for growth.

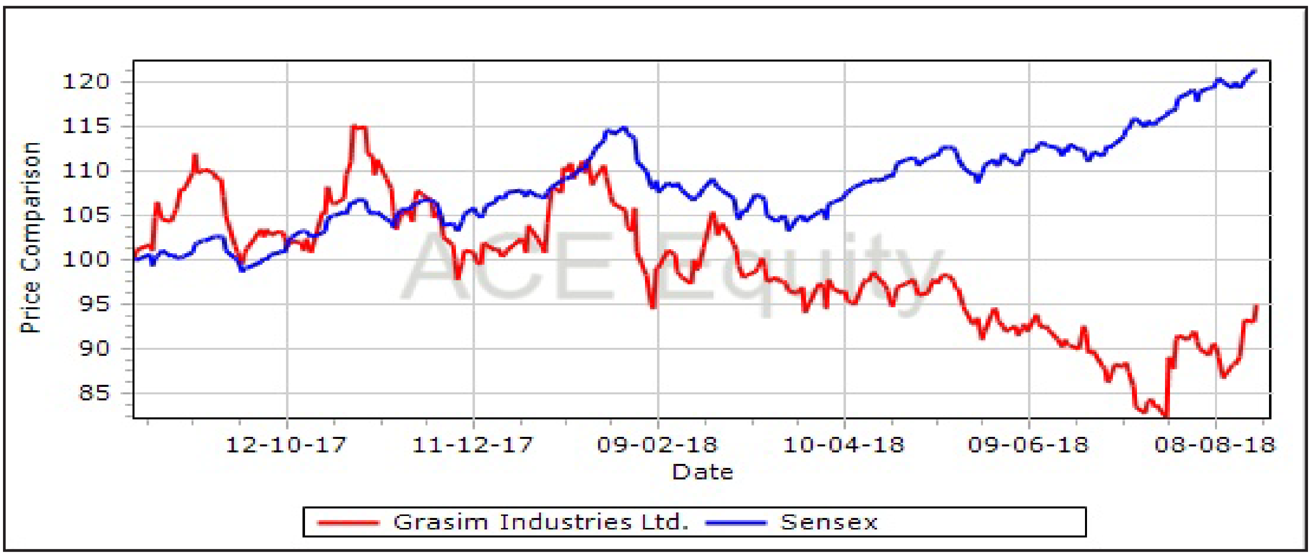
'On the valuation front, the company boasts attractive valuations. The company has posted 14.5 per cent bottom-line growth over past three years and has generated significant free cash flow for the year. The company generated Rs. 400 crore free cash flow after incurring expansion cost of Rs. 300 crore in the quarter. Its net debt to equity stands at 0.29x giving enough growth potential. The stock is currently trading at an attractive P/E valuation of 17.11x on FY18 EPS of Rs. 58.3. We recommend our investors to **BUY** the stock considering its strong business profile and expansion capabilities supported by sound fundamentals.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	57338.20	36068.40	34487.47	32838.36	29323.34
Total Income	58328.43	37016.18	35149.07	33497.85	29899.59
Total Expenditure	45147.85	28683.27	28083.02	27693.90	24408.57
PBIDT	13180.58	8332.91	7066.05	5803.95	5491.02
PAT	4417.63	4116.21	3261.72	2427.43	2851.43
Dividend %	0.00	275.00	225.00	180.00	210.00
Adj. EPS(Rs)	40.75	67.84	52.88	37.97	45.12

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	16856.70	17437.95	-3.33	10986.09	53.44
Total Expenditure	12987.96	13917.99	-6.68	8803.30	47.54
PBIDT (Excl OI)	3868.74	3519.96	9.91	2182.79	77.24
PAT	1357.89	996.85	36.22	1249.13	8.71
PBIDTM% (Excl OI)	22.95	20.19	13.67	19.87	15.50
PBIDTM%	24.33	21.64	12.43	22.02	10.49
PATM%	8.06	5.72	40.91	11.37	-29.11
Adj. EPS(Rs)	16.97	10.95	54.98	19.07	-11.01



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