

Grasim Industries

| | |
|--------------------|--------------|
| STOCK INFO. | BLOOMBERG |
| BSE Sensex: 10,813 | GRASIM IN |
| | REUTERS CODE |
| S&P CNX: 3,151 | GRAS.BO |

7 August 2006

Buy

Previous Recommendation: Buy

Rs2,115

| | |
|-----------------------|-------------|
| Equity Shares (m) | 91.7 |
| 52-Week Range | 2,605/1,087 |
| 1,6,12 Rel. Perf. (%) | 8/30/30 |
| M.Cap. (Rs b) | 193.9 |
| M.Cap. (US\$ b) | 4.2 |

| YEAR | NET SALES | PAT | EPS | EPS | P/E | P/BV | ROE | ROCE | EV/ | EV/ |
|--------|-----------|--------|-------|------------|------|------|------|------|-------|--------|
| END | (RS M) | (RS M) | (RS) | GROWTH (%) | (X) | (X) | (%) | (%) | SALES | EBITDA |
| 03/06A | 100,129 | 9,403 | 102.6 | -2.7 | 20.6 | 3.8 | 18.5 | 19.5 | 2.7 | 12.5 |
| 03/07E | 119,202 | 15,139 | 165.1 | 61.0 | 12.8 | 3.1 | 24.1 | 30.6 | 2.4 | 8.8 |
| 03/08E | 125,069 | 13,189 | 143.8 | -12.9 | 14.7 | 2.7 | 18.6 | 22.5 | 2.3 | 9.4 |

- Grasim's 1QFY07 results were better than expectations. EBITDA at Rs5.1b was better than our estimates of Rs4.7b, driven largely by better-than-expected operating performance of the cement division. Key highlights:
- Revenues up 20.8% YoY to Rs18.8b driven by 37% growth in cement revenues (4.8% up in volumes and 35.3% up in realizations); and 5.6% growth in VSF revenues (realizations up 8% but volumes decline 1.9%). Sponge iron revenues declined by 20.5% (volumes down 1.9%, and realizations lower 14.4%).
- EBITDA was up 37.1% YoY to Rs5.1b. EBITDA margin expanded 320bp to 27.1%. Strong cement division performance drove this margin expansion, which more than compensated for the lower-expected performance of the VSF division. Cement division has delivered strong margin expansion (driven by realization growth) — 1,090bp YoY and 623bp QoQ to 34.3%. VSF margins also improved 391bp to 25.9%, but lower than our estimates owing to cost push on account of production shutdown. Sponge iron reported PBIDT of Rs104m v/s Rs692m in 1QFY06 on account of falling realization (down 14.4%) and sharp increase in operating cost per ton.
- Lower interest expenses (declined 11% YoY to Rs235m) and higher other income (86% higher YoY) resulted in recurring standalone PAT moving up by 51.7% YoY to Rs3.1b. Consolidated PAT for the quarter was up 71% to Rs4.35b on account of sharp improvement in operating performance of UltraTech Cemco.
- We expect Grasim to report EPS of Rs165.1 in FY07E and Rs143.8 in FY08E. As near-term cement price outlook is favorable, we believe Grasim will continue to report strong numbers in the forthcoming quarters. The stock quotes at a valuation of 12.8x PER and 8.8x EV/EBITDA FY07E. Grasim as our most preferred bet in cement sector.

QUARTERLY PERFORMANCE (STANDALONE)

(Rs Million)

| Y/E MARCH | FY06 | | | | FY07 | | | | FY06 | FY07E |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | |
| Net Sales | 15,533 | 16,391 | 16,482 | 18,151 | 18,770 | 18,996 | 19,610 | 18,712 | 66,557 | 76,089 |
| YoY Change (%) | 2.4 | 6.9 | 5.7 | 10.5 | 20.8 | 15.9 | 19.0 | 3.1 | 6.5 | 14.3 |
| Total Expenditure | 11,789 | 13,173 | 13,291 | 14,086 | 13,637 | 14,188 | 14,761 | 12,995 | 52,339 | 55,582 |
| EBITDA | 3,744 | 3,218 | 3,191 | 4,065 | 5,133 | 4,808 | 4,850 | 5,717 | 14,218 | 20,507 |
| Margins (%) | 24.1 | 19.6 | 19.4 | 22.4 | 27.3 | 25.3 | 24.7 | 30.6 | 21.4 | 27.0 |
| Depreciation | 705 | 720 | 733 | 759 | 741 | 732 | 736 | 988 | 2,916 | 3,197 |
| Interest | 265 | 237 | 235 | 236 | 235 | 334 | 324 | 462 | 973 | 1,355 |
| Other Income | 201 | 308 | 152 | 575 | 375 | 303 | 242 | 493 | 1,237 | 1,413 |
| PBT before EO Items | 2,975 | 2,570 | 2,376 | 3,645 | 4,532 | 4,045 | 4,032 | 4,760 | 11,565 | 17,369 |
| Extraordinary Inc/(Exp) | 454 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 454 | 0 |
| PBT after EO Items | 3,429 | 2,570 | 2,376 | 3,645 | 4,532 | 4,045 | 4,032 | 4,760 | 12,019 | 17,369 |
| Tax | 919 | 693 | 757 | 1,019 | 1,413 | 1,359 | 1,355 | 1,188 | 3,388 | 5,315 |
| Rate (%) | 26.8 | 27.0 | 31.9 | 28.0 | 31.2 | 33.6 | 33.6 | 25.0 | 28.2 | 30.6 |
| Reported PAT | 2,510 | 1,877 | 1,619 | 2,627 | 3,119 | 2,686 | 2,677 | 3,572 | 8,631 | 12,054 |
| Adj. PAT | 2,056 | 1,877 | 1,619 | 2,627 | 3,119 | 2,686 | 2,677 | 3,572 | 8,177 | 12,054 |
| YoY Change (%) | -6.2 | -14.7 | -21.5 | -3.3 | 25.6 | 23.5 | 39.0 | 31.9 | -14.2 | 47.4 |

E: MOST Estimates

SEGMENTAL PERFORMANCE (RS M)

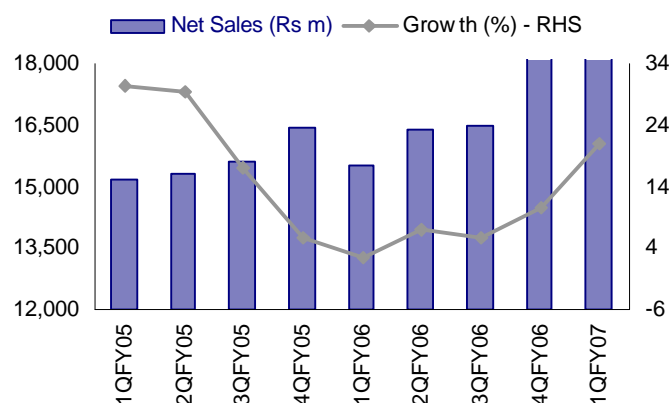
| | 1QFY07 | 1QFY06 | % YOY | 4QFY06 | % QOQ |
|-------------------------|---------------|---------------|-------------|---------------|-------------|
| Revenue Mix | | | | | |
| Fiber | 4,411 | 4,178 | 5.6 | 5,007 | -11.9 |
| Cement | 10,968 | 8,004 | 37.0 | 9,438 | 16.2 |
| Sponge Iron | 1,754 | 2,205 | -20.5 | 1,098 | 59.7 |
| Chemical | 715 | 993 | -28.0 | 887 | -19.4 |
| Textile | 528 | 505 | 4.6 | 778 | -32.1 |
| Total | 18,770 | 15,533 | 20.8 | 18,151 | 3.4 |
| PBIT | | | | | |
| Fiber | 979 | 767 | 27.6 | 1,381 | -29.1 |
| Cement | 3,342 | 1,473 | 126.9 | 2,229 | 49.9 |
| Sponge Iron | 56 | 607 | -90.8 | -135 | -141.5 |
| Chemical | 134 | 331 | -59.5 | 226 | -40.7 |
| Textile | 1 | -6 | -116.7 | 0 | - |
| Total | 4,512 | 3,172 | 42.2 | 3,701 | 21.9 |
| EBIT Margins (%) | | | | | |
| Fiber | 22.2 | 18.4 | | 27.6 | |
| Cement | 30.5 | 18.4 | | 23.6 | |
| Sponge Iron | 3.2 | 27.5 | | -12.3 | |
| Chemical | 18.7 | 33.3 | | 25.5 | |
| Textile | 0.2 | -1.2 | | 0.0 | |
| Unallocated | 0.0 | 0.0 | | 0.0 | |
| Total | 24.0 | 20.4 | | 20.4 | |

Source: Company/Motilal Oswal Securities

Cement business drives revenues

Revenues were up 20.8% YoY to Rs18.8b driven by 37% growth in cement revenues (growth of 4.8% in volumes and 35.3% in realizations), and 5.6% growth in VSF revenues (8% up in realizations but 1.9% volume decline). Sponge iron revenues declined by 20.5% (decline of 1.9% in volumes and 14.4% in realizations).

TREND IN NET SALES



Source: Company/Motilal Oswal Securities

Operating performance in line with our expectation

Grasim's 1QFY07 performance was better than our expectation as the significant improvement in the cement division's performance more than compensated for the decline in sponge iron profits. Operating margins improved by 320bp YoY on account of 10.9% margin expansion in cement business and 3.2% margin expansion in VSF.

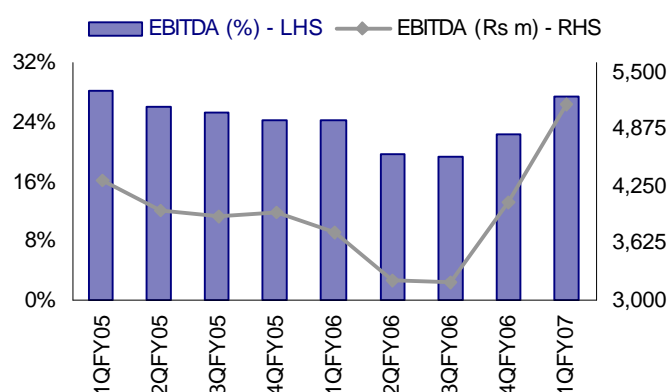
Revenue mix improved significantly in favor of the core businesses (cement and VSF), which accounted for 81.9% of revenues v/s 78.4% in 1QFY06. Also EBIT mix also improved significantly with core business accounting for 95.7% of EBIT.

EBITDA margins improved

EBITDA was up 37.1% YoY to Rs5.1b. EBITDA margin expanded 320bp to 27.1%. Strong performance of the cement division drove this EBITDA margin expansion, which more than compensated for the lower-expected performance of the VSF division.

Cement division has delivered strong margin expansion (driven by realization growth) of 1,090bp YoY and 623bp QoQ to 34.3%. VSF margins also improved by 391bp to 25.9%, although it was lower than our estimates due to cost push on account of production shutdown. On account of falling realizations (down 14.4%) and sharp increase in operating cost per ton, sponge iron reported PBIDT of Rs104m versus Rs692m in 1QFY06.

TREND IN EBITDA



Source: Company/Motilal Oswal Securities

Lower interest expenses (declined 11% YoY to Rs235m) and higher other income (86% higher YoY) resulted in recurring standalone PAT moving up by 51.7% YoY to Rs3.1b. Consolidated PAT for the quarter moved up by 71% to Rs4.35b on account of sharp improvement in operating performance of UltraTech Cemco.

Segmentwise performance

VSF division: lower-than-expected volumes due to plant shutdown

— Performance of the VSF division was impacted by a 45-day shutdown at the Nagda plant owing to water shortage. This resulted in lower VSF production and thereby 1.9% lower sales volumes. Realizations for the quarter, on the other hand, moved up significantly, by 8% YoY, on account of rising prices for competing fibers.

VSF DIVISION PERFORMANCE

| | 1QFY07 | 1QFY06 | % YOY | 4QFY06 | % QOQ |
|----------------------|--------|--------|-------|--------|-------|
| Production (ton) | 45,194 | 52,282 | -13.6 | 64,606 | -30.0 |
| Sales Volume (ton) | 51,957 | 52,956 | -1.9 | 60,636 | -14.3 |
| Net Turnover (Rs m) | 4,411 | 4,178 | 5.6 | 5,007 | -11.9 |
| Avg Realiz. (Rs/ton) | 78,983 | 73,102 | 8.0 | 77,133 | 2.4 |
| PBDIT (Rs m) | 1,143 | 918 | 24.5 | 1,557 | -26.6 |
| PBIDT Margin (%) | 25.9 | 22.0 | | 31.1 | |

Source: Company/Motilal Oswal Securities

On account of higher demand and higher prices of competing fibers, Grasim raised VSF prices from Rs79/kg to Rs84/kg, which resulted in improved margins for the quarter. We believe that with higher volumes and better realizations, the outlook for the VSF division remains positive.

Cement: Significant margin expansion due to all-time high cement prices

— The grey cement business witnessed sharp margin expansion on the back of all-time high cement prices. Grey cement revenues were up 38.4% on account of a sharp increase in realizations. Realizations moved up 35.3% to Rs2,731/ton while volumes moved up by 4.8% to 3.5m ton. White cement revenues were also higher by 21% to Rs754m. Higher realizations resulted in PBIDT margin expansion of 10.9% to 34.3%.

CEMENT DIVISION PERFORMANCE

| | 1QFY07 | 1QFY06 | % YOY | 4QFY06 | % QOQ |
|-----------------------|--------|--------|-------|--------|-------|
| A. Grey Cement | | | | | |
| Production (m ton) | 3.6 | 3.35 | 6.3 | 3.78 | -5.8 |
| Sales Volume (m ton) | 3.5 | 3.34 | 4.8 | 3.87 | -9.6 |
| Net Turnover (Rs m) | 10,214 | 7,381 | 38.4 | 8,580 | 19.0 |
| Avg Realiz. (Rs/ton) | 2,731 | 2,019 | 35.3 | 2,155 | 26.7 |

B. White Cement

| | | | | | |
|----------------------|--------|--------|-------|--------|-------|
| Production (ton) | 83,045 | 78,774 | 5.4 | 96,260 | -13.7 |
| Sales volume (ton) | 81,143 | 79,871 | 1.6 | 95,598 | -15.1 |
| Net Turnover (Rs M) | 754 | 623 | 21.0 | 858 | -12.1 |
| Avg Realiz. (Rs/ton) | 6,213 | 5,870 | 5.8 | 6,117 | 1.6 |
| PBDIT (Rs m) | 3,765 | 1,872 | 101.1 | 2,651 | 42.0 |
| PBIDT Margin (%) | 34.3 | 23.4 | | 28.1 | |

Source: Company/Motilal Oswal Securities

Near-term cement prices are likely to remain firm; this will result in strong operating performance for the company in coming quarter. However, from 2HFY08, we expect significant addition on the supply side, which will put pressure on cement prices.

Sponge iron: double squeeze continues

— Dismal performance of the sponge iron division continued in 1QFY07 also. While production declined by 29.4% YoY, sales volume was down 1.9% to 140,912 tons. Sponge iron realizations also declined 14.4% YoY to Rs12,054/ton. Steep increase in cost on account of 110% YoY increase in natural gas prices and 60% YoY increase in iron ore prices, resulted operating margins falling sharply from 31.4% to 8.1%.

SPONGE IRON DIVISION PERFORMANCE

| | 1QFY07 | 1QFY06 | % YOY | 4QFY06 | % QOQ |
|----------------------|---------|---------|-------|---------|--------|
| Production (ton) | 126,941 | 179,816 | -29.4 | 109,073 | 16.4 |
| Sales volume (ton) | 140,912 | 143,627 | -1.9 | 95,949 | 46.9 |
| Net Turnover (Rs m) | 1,754 | 2,205 | -20.5 | 1,098 | 59.7 |
| Avg Realiz. (Rs/ton) | 12,054 | 14,075 | -14.4 | 10,885 | 10.7 |
| PBDIT (Rs m) | 142 | 692 | -79.5 | -50 | -384.0 |
| PBIDT Margin (%) | 8.1 | 31.4 | | -4.6 | |

Source: Company/Motilal Oswal Securities

We believe that Grasim's sponge iron division will continue to perform poorly, as its operating cost per ton is much higher due to poor raw material linkages. We believe that sponge iron realizations, going forward, will remain stable but due to inflated cost structure of the division, it will continue to operate at breakeven levels.

DETAILS OF PROJECT FOR GRASIM (STANDALONE)

| PLACE | STATE | CAPACITY (M TON) | CPP (MW) | CAPITAL OUTLAY | COST PER TON(US\$) | IMPLEMENTATION |
|--------------------------------|-----------|---------------------|-------------|-------------------|-----------------------|----------------|
| Kotputli (Greenfield) | Rajasthan | 4.0 | 40.0 | 12,750 | 71.6 | 21 month |
| Sambhupura (Brownfield) | Rajasthan | 4.0 | 46.0 | 12,000 | 67.4 | 21 month |
| Modernization, Debottlenecking | All Plant | 1.5 | | 11,660.0 | | 24 month |
| Total | | | | 36,410.0 | | |

Source: Company/Motilal Oswal Securities

DETAILS OF CAPEX PLAN FOR CEMCO

| PLACE | STATE | CAPACITY (M TON) | CPP (MW) | CAPITAL OUTLAY | COST PER TON(US\$) | IMPLEMENTATION |
|-----------------------|-------|---------------------|-------------|-------------------|-----------------------|----------------|
| Tadpatri (Brownfield) | AP | 4.0 | 46.0 | 12,750 | 70.8 | around 3 years |
| 2 Thermal power plant | | | 142.0 | 8,100 | | around 3 years |
| Others | | | | 6,150 | | around 3 years |
| Total | | | | 27,000 | | |

Source: Company/Motilal Oswal Securities

Mega expansion plan in cement sector with a capital outlay of Rs63.4b:

Grasim has announced capex of Rs63.4b for the cement sector (Rs36.4b in Grasim and Rs27b in Cemco) to expand cement capacity by 13.5m ton, set up a captive power plant and modernize and debottleneck all plants. Post-expansion, Grasim's standalone capacity will increase from 14m ton to 23.5m ton (single largest capacity) by end-FY08. On a consolidated basis, the A.V. Birla group will have direct control of 46m ton of capacity (this is much higher than the Holcim group companies' total capacity of 35m ton).

Upgrading estimates significantly

We have upgraded our earnings estimate for Grasim significantly on account of higher-than-expected increase in cement prices and increase in VSF prices (Rs79/kg to Rs84/ kg). With our revised assumption we have upgraded

Grasim's (standalone) FY07 net profit estimate to Rs12.1b (6.7% upgrade) and FY08 net profit estimate to Rs10.4b (19.3% upgrade). In line with superior standalone performance and significant improvement in UltraTech Cemco's performance, we have revised our consolidated PAT estimate for FY07 to Rs15.1b (5% upgrade) and FY08 net profit to Rs13.2b (14.5% upgrade).

Valuation and view

We expect Grasim to report EPS of Rs165.1 in FY07 and Rs143.8 in FY08. As the near-term outlook on cement prices is extremely favorable, Grasim will continue to report strong numbers in forthcoming quarters. The stock quotes at a valuation of 12.8x PER and 8.8x EV/EBITDA FY07E. Considering the attractive valuation and highest volume growth visibility at economical cost, we maintain Grasim as our most preferred bet in the cement sector.

Grasim Industries: an investment profile

Company description

Grasim is a diversified company with cement and VSF being core business, accounting for 60.4% and 23.1% of FY06 revenue. Its other business includes sponge iron, chemicals and textiles. The acquisition of UltraTech Cement, the cement division of L&T, by Grasim catapulted it to number one position in the Indian cement industry with total capacity under control of 31mt.

Key investment argument

- Being largest player with total capacity of 31MT (existing capacity) under control and highest organic growth visibility, Grasim would be biggest beneficiary of any further increase in cement price.
- Potential cost savings, apart from pricing power, arising out of synergies with UltraTech Cement could be additional Rs1b to the consolidated profits

Key investment risks

- Cement sector is likely to add huge capacities in coming year which can result in significant softening in cement prices.
- Poor performance of non core business will remain a drag on Grasim's overall operating performance.

COMPARATIVE VALUATIONS

| | | GRASIM | ACC | GACL |
|---------------|-------|--------|------|------|
| P/E (x) | FY07E | 12.8 | 17.5 | 15.8 |
| | FY08E | 14.7 | 18.5 | 18.0 |
| P/BV (x) | FY07E | 3.1 | 5.5 | 4.5 |
| | FY08E | 2.7 | 4.5 | 4.0 |
| EV/Sales (x) | FY07E | 2.4 | 2.9 | 3.0 |
| | FY08E | 2.3 | 2.8 | 3.0 |
| EV/EBITDA (x) | FY07E | 8.8 | 11.5 | 8.9 |
| | FY08E | 9.4 | 11.3 | 10.1 |

SHAREHOLDING PATTERN (%)

| | MAR.06 | DEC.05 | MAR.05 |
|-----------------------|--------|--------|--------|
| Promoters | 25.0 | 25.0 | 22.0 |
| Domestic Institutions | 22.2 | 23.6 | 19.5 |
| FII's/FDIs | 36.5 | 34.5 | 40.0 |
| Others | 16.3 | 16.9 | 18.5 |

Recent development

- Plans to develop wood pulp plantations, over the next 7 years, at Laos
- Company has announced Rs63.4b capex plan in which Grasim will be increasing its group capacity from 31m ton to 46m ton in next three years.

Valuation and view

- The stock quotes at a valuation of 12.8x PER and 8.8x EV/EBITDA FY07E.
- We believe that Grasim will be one of the biggest beneficiary of current upturn in cement prices as well as its organic expansion plan.. Our SOTP based target price is Rs2,694. We maintain Grasim as our most preferred bet in the sector.

Sector view

- Volume expected to grow by 8% driven by continuous momentum in housing and infrastructure projects
- Improved demand supply dynamics due to limited capacity addition in previous years. However, Greenfield capacity addition can disturb the tight demand supply scenario
- Near term outlook for sector remains positive but longer-term prospects will be determined by sector's allocation of cash flow

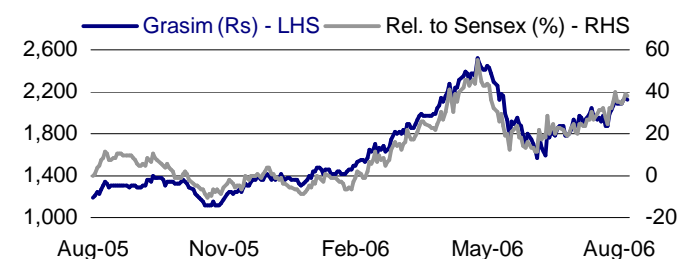
EPS: MOST FORECAST VS CONSENSUS (RS)

| | MOST FORECAST | CONSENSUS FORECAST | VARIATION (%) |
|------|---------------|--------------------|---------------|
| FY07 | 165.1 | 141.9 | 16.3 |
| FY08 | 143.8 | 162.7 | -11.6 |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|--------------------|-------------------|------------|-------|
| 2,115 | 2,694 | 27.4 | Buy |

STOCK PERFORMANCE (1 YEAR)



| CONSOLIDATED INCOME STATEMENT (Rs Million) | | | | | |
|--|---------------|---------------|----------------|----------------|----------------|
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Net Sales | 75,052 | 90,230 | 100,129 | 119,202 | 125,069 |
| Change (%) | 62.9 | 20.2 | 11.0 | 19.0 | 4.9 |
| EBITDA | 15,983 | 19,982 | 19,979 | 32,543 | 30,740 |
| Margin (%) | 21.3 | 22.1 | 20.0 | 27.3 | 24.6 |
| Depreciation | 5,205 | 5,155 | 5,277 | 5,657 | 6,527 |
| Int. and Finance Charges | 2,723 | 2,481 | 1,868 | 2,005 | 1,969 |
| Other Income - Rec. | 2,444 | 1,905 | 1,549 | 1,633 | 1,699 |
| PBT & EO items | 10,498 | 14,250 | 14,383 | 26,515 | 23,944 |
| Change (%) | 47.2 | 35.7 | 0.9 | 84.4 | -9.7 |
| Extra Ordinary items | 289 | -577 | 454 | 0 | 0 |
| PBT but after EO items | 10,787 | 13,674 | 14,837 | 26,515 | 23,944 |
| Tax | 2,822 | 4,136 | 4,067 | 8,425 | 8,078 |
| Tax Rate (%) | 26.2 | 30.2 | 27.4 | 31.8 | 33.7 |
| Reported PAT | 7,966 | 9,538 | 10,770 | 18,091 | 15,866 |
| PAT Adj for EO items | 7,752 | 9,940 | 10,440 | 18,091 | 15,866 |
| Less: Minority Interest | 150 | 281 | 1,037 | 2,952 | 2,676 |
| Consolidated PAT | 7602 | 9659 | 9403 | 15139 | 13189 |
| Change (%) | 46.3 | 27.1 | -2.7 | 61.0 | -12.9 |

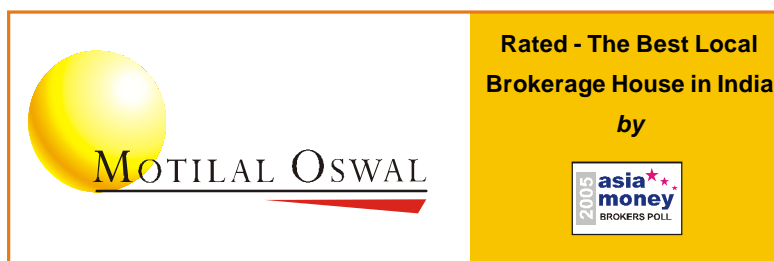
| CONSOLIDATED BALANCE SHEET (Rs Million) | | | | | |
|---|---------------|---------------|----------------|----------------|----------------|
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Equity Share Capital | 917 | 917 | 917 | 917 | 917 |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 |
| Reserves | 35,123 | 42,592 | 49,919 | 61,888 | 69,975 |
| Revaluation Reserves | 68 | 68 | 68 | 68 | 0 |
| Net Worth | 36,108 | 43,577 | 50,905 | 62,873 | 70,892 |
| Loans | 20,652 | 34,747 | 32,473 | 30,241 | 44,431 |
| Deferred liabilities | 6,325 | 11,656 | 11,983 | 15,069 | 17,385 |
| Minority Interest | 0 | 4,434 | 5,471 | 8,423 | 11,099 |
| Capital Employed | 63,086 | 94,414 | 100,833 | 116,606 | 143,808 |
| Gross Block | 57,055 | 107,325 | 111,793 | 129,707 | 153,049 |
| Less: Accum. Deprn. | 25,889 | 48,610 | 53,584 | 56,352 | 62,066 |
| Net Fixed Assets | 31,166 | 58,715 | 58,209 | 73,354 | 90,983 |
| Capital WIP | 1,017 | 2,447 | 3,436 | 5,093 | 4,750 |
| Investments | 25,407 | 8,472 | 14,321 | 11,347 | 12,479 |
| Goodwill | 0 | 17,323 | 17,323 | 17,323 | 17,323 |
| Curr. Assets | 14,960 | 25,073 | 27,431 | 33,952 | 43,788 |
| Inventory | 4,595 | 9,448 | 10,267 | 11,194 | 11,748 |
| Account Receivables | 4,846 | 7,121 | 6,250 | 9,860 | 9,912 |
| Cash and Bank Balance | 2,275 | 1,317 | 1,996 | 6,158 | 15,275 |
| Others | 3,244 | 7,187 | 8,919 | 6,740 | 6,853 |
| Curr. Liability & Prov. | 9,464 | 17,617 | 19,888 | 24,463 | 25,516 |
| Account Payables | 7,521 | 13,852 | 16,168 | 19,332 | 20,565 |
| Other Liabilities | 1,943 | 3,247 | 3,546 | 2,733 | 2,757 |
| Net Current Assets | 5,496 | 7,456 | 7,543 | 9,489 | 18,273 |
| Appl. of Funds | 63,086 | 94,414 | 100,833 | 116,606 | 143,808 |

E: MOSI Estimates

| RATIOS | | | | | |
|-------------------------------|-------------|--------------|--------------|--------------|--------------|
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Basic (Rs) | | | | | |
| EPS | 82.9 | 105.3 | 102.6 | 165.1 | 143.8 |
| Cash EPS | 115.7 | 161.9 | 151.5 | 218.9 | 186.3 |
| BV/Share | 393.1 | 474.5 | 554.4 | 685.0 | 773.2 |
| DPS | 14.0 | 16.0 | 16.0 | 20.0 | 20.0 |
| Payout (%) | 18.7 | 16.9 | 16.0 | 11.5 | 13.1 |
| Valuation (x) | | | | | |
| P/E | | 20.1 | 20.6 | 12.8 | 14.7 |
| Cash P/E | | 13.1 | 14.0 | 9.7 | 11.4 |
| P/BV | | 4.5 | 3.8 | 3.1 | 2.7 |
| EV/Sales | | 2.8 | 2.6 | 2.2 | 2.3 |
| EV/EBITDA | | 11.9 | 12.6 | 8.2 | 9.3 |
| Dividend Yield (%) | | 0.8 | 0.8 | 0.9 | 0.9 |
| Return Ratios (%) | | | | | |
| RoE | 21.1 | 22.2 | 18.5 | 24.1 | 18.6 |
| RoCE | 23.3 | 21.4 | 19.5 | 30.6 | 22.5 |
| Working Capital Ratios | | | | | |
| Debtor (Days) | 24 | 29 | 23 | 30 | 29 |
| Asset Turnover (x) | 12 | 10 | 10 | 10 | 0.9 |
| Leverage Ratio | | | | | |
| Debt/Equity | 0.6 | 0.8 | 0.6 | 0.5 | 0.6 |

| CONSOLIDATED CASH FLOW STATEMENT (Rs Million) | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| Y/E MARCH | 2004 | 2005 | 2006 | 2007E | 2008E |
| Oper. Profit/(Loss) before Ta | 15,983 | 24,415 | 21,016 | 35,495 | 33,416 |
| Interest/Dividends Recd. | 2,444 | 1,905 | 1,549 | 1,633 | 1,699 |
| Direct Taxes Paid | -2,752 | 1,195 | -3,740 | -5,339 | -5,762 |
| (Inc)/Dec in WC | 1,805 | -2,918 | 592 | 2,216 | 334 |
| CF from Operations | 17,480 | 24,598 | 19,417 | 34,006 | 29,687 |
| EO items | -289 | 577 | -454 | 0 | 0 |
| CF from Op. incl EO | 17,769 | 24,021 | 19,871 | 34,006 | 29,687 |
| (inc)/dec in FA | -4,687 | -34,135 | -5,761 | -22,458 | -23,813 |
| (Pur)/Sale of Investments | -7,446 | -389 | -5,849 | 2,974 | -1,132 |
| CF from Investments | -12,133 | -34,523 | -11,610 | -19,484 | -24,945 |
| Issue of Shares | -183 | -393 | -1,773 | -4,036 | -5,761 |
| (Inc)/Dec in Debt | -108 | 14,095 | -2,273 | -2,232 | 14,190 |
| Interest Paid | -2,723 | -2,481 | -1,868 | -2,005 | -1,969 |
| Dividend Paid | -1,448 | -1,676 | -1,669 | -2,086 | -2,086 |
| CF from Fin. Activity | -4,462 | 9,545 | -7,583 | -10,359 | 4,375 |
| Inc/Dec of Cash | 1,174 | -958 | 679 | 4,163 | 9,117 |
| Add: Beginning Balance | 1,101 | 2,275 | 1,317 | 1,996 | 6,158 |
| Closing Balance | 2,275 | 1,317 | 1,996 | 6,158 | 15,275 |

N O T E S



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Disclosure of Interest Statement

Grasim Industries

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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