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IDBI capital

RESULTS REVIEW

Grasim Industries Ltd.

Rs. 2,498 | Buy

Q4FY07 results update

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Nifty: 4178; Sensex: 14229

Key Stock Data

Sector	Diversified
Bloomberg/Reuters	GRASIM@IN/GRAS.BO
Shares o/s (m)	91.7
Market cap (Rs bn)	229
Market cap (US$ m)	5,595
3-m daily average vol.	61,030

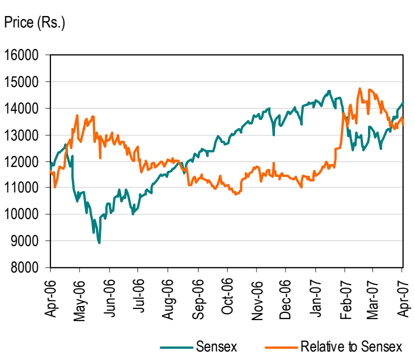
Price Performance

52-week high/low	Rs2,908/1,462		
	-1m	-3m	-12m
Absolute (%)	17.9	(14.7)	6.2
Rel to Sensex (%)	9.5	(14.3)	(15.9)

Shareholding Pattern (%)

Promoters	25.07
FIIs/NRIs/OCBs/GDR	37.75
MFs/Banks/FIs	20.93
Non Promoter Corporate	3.47
Public & Others	12.78

Stock vs Relative to Sensex



Source: Capitaline

Summary

Grasim Industries Ltd.'s (Grasim) Q4FY07 results were quite ahead of our expectations. Higher capacity utilisation, increased realization and strengthening of operational efficiencies resulted in both revenues and profits surpassing their previous level. The stock is currently trading at an EV/ EBITDA of 8x, EV/tonne of US$ 207 and a PE of 11x FY08E (Consolidated). While we are positive on the stock on account of strong demand for VSF we are revising the target price downwards to Rs.2,651 following price corrections for cement which may come in FY09 on account of excess supply. However, we maintain our 'Buy' recommendation.

Result highlights

Grasim standalone

Grasim's revenues for the current quarter jumped 37% YoY and 9% sequentially. For FY07 revenues were up 30% YoY. The EBITDA for Q4FY07 at Rs.7,718m earned a margin of 31% as against 25.6% for the same quarter last year. The EBITDA margins for FY07 at 30% were 600bps higher than previous year. PAT for Q4FY07 was up 86% YoY to Rs.4,745m with the net margins improving from 12.5% in FY06 to 17% in FY07.

Strong consolidated performance

The consolidated revenues of the company for the current quarter saw a 40% jump at Rs.41,071m as against Rs.29,262m in the previous corresponding quarter. The EBITDA at Rs.12,397m was up 71% YoY. This was also contributed to by a 75% YoY growth in the EBITDA of UltraTech, in which Grasim holds a controlling stake. For FY07, the EBITDA margin was up 800bps to 29%. The net profit margins at 16.3% were higher than the 11.02% margin in the previous year.

Table 1: Financial snapshot (Rs. m)

Year-end: March	Q4FY07	Q4FY06	YoY Ch. (%)	FY07	FY06	YoY Ch. (%)	FY08E
Net sales/Income from operations	41,071	29,262	40	141,673	102,749	38	151,797
Other income	782	673	16	2,456	2,171	13	3,205
EBITDA	12,397	7,257	71	42,901	23,366	84	44,986
Depreciation	1,652	1,481	12	6,100	5,631	8	5,809
Interest	658	498	32	2,286	2,183	5	1,880
Exceptional items	-	41	-	-	41	-	-
Pre-tax profits	10,087	5,319	90	34,515	15,593	121	37,297
Provision for taxation	3,352	1,182	183	10,921	4,027	171	11,460
Net profit	6,735	4,137	63	23,594	11,566	104	25,837
Less: Minority share	1,150	649	-	3,919	1,160	-	4,420
Net profit (After Minority Share)	5,585	3,488	60	19,675	10,406	89	21,417
Basic and diluted EPS (Rs.)	60.9	38.0	60	214.6	113.5	89	233.6

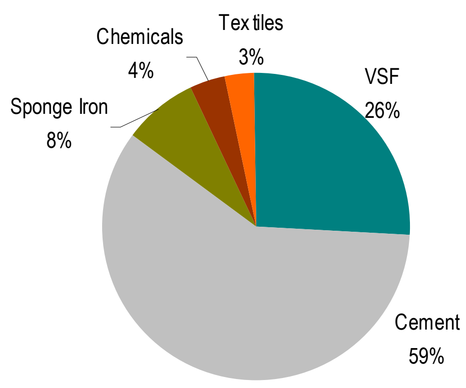
Source: Company reports; IDBI Capital Market Services

Highlights

Good performance by both the major segments – VSF and Cement – helped Grasim post impressive results. The consolidated revenue of the company for FY07 were up 38% YoY to Rs.14,1673m and PAT was up 104% YoY to Rs.23,594m. The EPS for the year was Rs.214.6 as compared to Rs.113.5 in the last fiscal showing an increase of 89%.

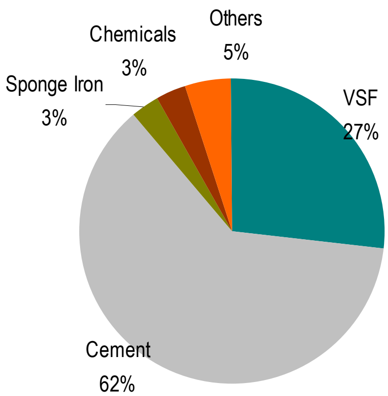
The revenue mix and EBITDA mix reported by the company (Standalone) for the year is as below:

Figure 1: Revenue mix FY07



Source: Company reports; IDBI Capital Market Services

Figure 2: EBITDA mix FY07



Source: Company reports; IDBI Capital Market Services

Segment analysis (Standalone)

Cement segment

With a high capacity utilization of 118%, the company sold 4.02m tonnes of cement in Q4FY07. This number marked a 5.5% jump QoQ and a 1.4% jump YoY. The realizations for the same quarter jumped 34% YoY and 4% QoQ. The realizations reported were Rs.149/bag as against Rs.146/bag in the last quarter and Rs.110 in March 2006. This was the key driver for revenue growth, as the realizations for FY07 at Rs.51,579m were higher by 43% over the last year.

Table 2: Cement segment – Operating performance

Particulars	Q4FY07	Q4FY06
Sales volumes (MT)	3.92	3.87
% change YoY	1.29	
Realization per bag (50 kg) (Rs.)	149	110
% change YoY	35	
Revenue (Rs. m)	14,733	10,855
% change YoY	35.7	
EBITDA (Rs. m)	4,702	2,651
% change YoY	77	
EBITDA margin (%)	32	24
EBITDA per tonne (Rs.)	1,169	669

Source: Company reports; IDBI Capital Market Services

Higher realizations also lead to a sharp improvement in EBITDA margins, which were 32% vs 24% in the same quarter last year and for 31% for FY07 against 22% for FY06. White cement, albeit a small segment could increase its volumes in Q4FY07 by 7% YoY to 102,200 tonnes. The turnover for the same period was up by 31% led by value added products.

Grasim is bringing in the capex plans in the cement segment very aggressively. It is planning to add 4m tonnes in FY08 and another 4m tonnes by the end of FY08. Its subsidiary Ultratech cement is also running on the same path. It will add 4m tonnes by the end of FY08. We believe the capacities in FY08 are coming at the 'Best Prices' (as the prices may remain free zed for a year). We expect the the company will be beneficiary of good realizations on account of a demand supply gap prevailing in the, market till FY09.

VSF – Buoyant performance

Notwithstanding the suspension in operations for 48 days on account of water shortage, the VSF segment showed all time high levels of production, sales, and profitability. The capacity utilization of 93% was higher as against 90% during the same quarter last year. With this, the quarter saw the highest ever sales volume of 68,588 tonnes representing a 13% YoY and 2% QoQ jump. AT 250,725 tonnes, the business registered a 3% YoY increase in sales volume in FY07. As reported by the company, realizations saw a jump of 15% YoY on the back of a good demand at Rs.88,687/tonne. EBITDA margin for FY07 saw an improvement of 500 basis over FY06 amounting 30%.

Table 3: VSF segment – Operating performance

Particulars	Q4FY07	Q4FY06
Sales volumes (Tonnes)	68,588	60,636
% change YoY	13	
Realization per tonne (Rs.)	88,687	77,133
% change YoY	15	
Revenue (Rs. m)	6,618	5,015
% change YoY	32	
EBITDA (Rs. m)	2,005	1,557
% change YoY	29	
EBITDA margin (%)	30	31

Source: Company reports; IDBI Capital Market Services

To meet the growing demand for the product the company will be augmenting its capacity. With the Brownfield expansion of 63,875 tonnes in Gujarat and 31,000 tonnes in Karnataka (which is in the process of regulatory approvals), and 30,000 tonnes at Chinese joint venture, the company is planning to enhance its capacity to 365,000 tonnes. The expansion plans at Gujarat will be completed by-end FY08 and the capacity of its Chinese joint venture will be ramped up by Q2FY09. The total capex for the above project amounts Rs.7,120m.

The thrust on specialty fiber both in domestic as well export markets bode well for the company. With the capacity expansions plans the company is well geared to capitalize the demand for the product which it has generated. With stable to firm outlook for the realizations we expect the company to report performance in line with the current year for the next fiscal year.

Other segments

Chemical segment performance for the year was impacted due to shutdown at one of the company's captive power plant in the 2nd and 3rd quarter. However, the normalcy in operations was restored during Q4FY07.

For Q4FY07, the realizations improved marginally to Rs.17,718/tonne but the sales volumes were up by 8%. Hence, the revenue of this segment saw an increase of 5% YoY to Rs.936m and EBITDA was up 26% YoY to Rs.342m. The EBITDA margins for FY07 moved downwards to 25% against 32% in FY06. The capacity in this segment was increased to 258,000 tonnes in the current quarter. However, going forward, the realizations will remain under pressure due to demand supply mismatch arising on account of new capacity additions.

Sponge Iron segment reported 80% YoY jump in volumes to 171,942 tonnes in Q4FY07. During the same quarter, higher volumes and better realizations caused to record EBITDA at Rs.370m as compared to a negative EBITDA in the same period last fiscal. The realizations for FY07 however improved by 18% at Rs.7,511m. With performance in the short term expected to be sustained, the company is hopeful of improvement in the long term with adequate gas availability by the end of CY07. The thrust of the company would continue to be on optimum utilisation of plant capacity and enhancing volumes.

Textiles segment reported 6% YoY increase in revenues to Rs.719m in Q4FY07. The segment was characterized by high costs due to high yarn and furnace oil prices and higher brand building expenses.

Financials consolidated

Table 4: Segmental break up (Rs. m)

Year-end: March	Q4FY07	Q4FY06	% change YoY	FY07	FY06	% change YoY
Segment revenues						
Fiber and pulp	7,926	5,132	54.5	27,253	19,901	37
Cement	28,718	21,212	35.3	99,512	69,383	43
Sponge iron	2,398	1,110	116	7,511	6,348	18
Chemicals	936	894	5	3,190	3,864	(17)
Textiles	719	676	6	2,710	2,471	10
Others	955	637	50	3,269	2,338	40
Less: Inter segmental revenues	581	399	46	1,772	1,556	
Total	41,071	29,262	40	141,673	102,749	38
Segment EBIT						
Fiber and pulp	1846	1,357	36	6,717	4,259	58
Cement	8115	4,020	102	27,670	10,748	157
Sponge iron	283	(124)	N.A.	504	398	27
Chemicals	283	226	25	601	1,075	44
Textiles	(15)	(31)	NA	(46)	(30)	N.A.
Others	202	136	49	626	391	60
Segment EBIT margins (%)						
Fibre and pulp	23	26		25	21	
Cement	28	19		28	16	
Sponge iron	12	(11)		7	6	
Chemicals	30	25		19	28	
Textiles	(2)	(5)		(2)	(1)	
Others	21	21		19	17	

Source: Company reports; IDBI Capital Market Services

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