



Grasim Industries

 Relative to sector: **Outperformer**
Jagdishwar Toppo

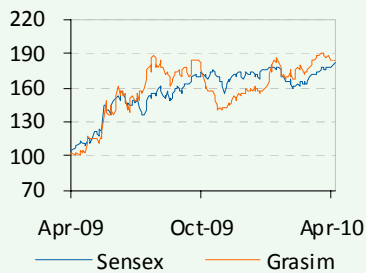
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 92 mn
Market cap	: Rs 265.3 bn
52 week high/low	: Rs 2952/ Rs 1506
Avg. daily vol. (6mth)	: 216,600 shares
Bloomberg code	: GRASIM IB
Reuters code	: GRAS.BO

Shareholding (%) Dec-09 QoQ chg

Promoters	: 25.5	0.3
FIs	: 22.5	(0.3)
MFs / UTI	: 3.4	(0.7)
Banks / FIs	: 17.2	0.7
Others	: 31.4	(0.0)

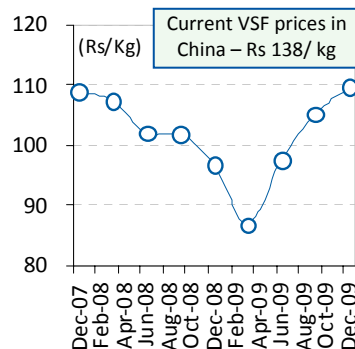
Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2009	173.7	22.0	-	240	(13)	-	19.2	23.4	-	34.5
2010E	197.8	28.6	317	312	30	9.3	20.0	27.3	5.1	31.0
2011E	205.5	24.2	272	264	(15)	10.9	14.1	20.4	5.7	24.8
2012E	224.6	25.9	283	283	7	10.2	13.0	19.8	5.0	19.9

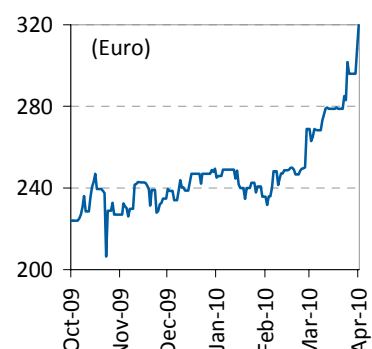
Source: Company, ENAM estimates, Note: Financials are pre merger of Samruddhi with UltraTech

VERY STRONG FUTURE (VSF) AS PRICE RISES

According to industry sources, Indian VSF prices have increased by Rs 4/ kg (or 3%) from 1st April, in line with the rising Chinese VSF prices. VSF prices in China (more than 50% of the global VSF production) recently touched Yuan 21,000/ tonne, up from Yuan 17,000/ tonne in November 2009. Yuan 21,000/ tonne translates into ~Rs 138/ kg vs Grasim's Q3 avg. of Rs 109/ kg. Firm VSF prices would certainly boost profitability of Grasim's VSF business. Grasim enjoys 10% market share in the global VSF industry and has 70% backward integration in terms of pulp sourcing (captive and through associates). We remain bullish on the structural shift in VSF demand on massive cotton shortage globally. Share price of Lenzing AG, world's no. 1 producer of VSF, has moved up sharply in last two months (Refer chart below).

Grasim's VSF realization


Source: Grasim, Bloomberg, ENAM Research

Lenzing share price

Valuations

Grasim is trading at 45% hold co discount for UltraTech. As VSF performance improves and sustains, we believe the hold co discount is likely to contract. We raise our target price to factor in lower hold co discount of 15% (against 30% currently) in our SOTP. **Maintain sector Outperformer with a revised target price of Rs 3,396.** (please refer page 2 for SOTP valuation)

Grasim – SOTP valuation

Rs mn	Value of GI stake (Rs bn)	Holding disc (Rs bn)	Value to GI investors (Rs bn)	Value (Rs/share)	Remark
UltraTech (Post merger)	170	26	145	1,578	60% stake of Grasim, 15% holding discount
VSF & Other biz - 5.5x FY12 EV/ EBITDA	96	0	96	1,050	5.5x FY12 EV/ EBITDA
VOI - 25% holdco disc.	22	6	17	181	Grasim's investment in listed equity
Target price ex-Samruddhi divestment	-	-	257	2,809	-
Value of direct allotment of UltraTech shares	-	-	54	587	0.57 share of UltraTech for every 1 share in Grasim
Target price	-	-	311	3,396	-

Source: Company, ENAM estimates

Valuation of Grasim's component businesses

(Rs bn)	FY12E EBITDA	EV/ EBITDA multiple	Enterprise Value	FY12E Net Debt	Equity Value	Remark
UltraTech (Post merger)	43	6.5	277	(4)	282	60% owned by Grasim
VSF & other business	13	5.5	70	(26)	96	100% owned by Grasim

Source: Company, Bloomberg, ENAM Research; Note: UltraTech equity base to expand to 274 mn shares post merger (Jul'10)

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