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Q4 FY07
Result Update

Grasim Industries

Market Performer

Rs 2,442

April 26, 2007

Strong topline growth overcome cost pressures

Company Details		Result Snapshot	
Market Cap:	Rs 223,879m	<p>Grasim's Q4 FY07 results matched our expectations, with recurring earnings, at Rs 4.37bn, up 69% yoy (our estimate, Rs 4.4bn). Sales rose 37% yoy to Rs 24.9bn (our estimate, Rs 22.8bn), mainly driven by higher-than-expected volumes in VSF and sponge iron. Robust realisations in VSF, cement and sponge iron helped overcome cost pressures (power, freight, pulp, naphtha and propane), resulting in a 544-bp expansion in the overall EBITDA margin, to 27.8%. While pulp prices are expected to be high, given the global supply tightness, we believe that strong VSF demand would aid in passing on cost pressures. However, with cement prices now under a freeze, the cement division is likely to post muted growth.</p> <p>At a P/E of 10.8x FY08 consolidated earnings, valuations are inexpensive. However, with the lack of specific growth triggers in the cement division—constituting 52% (standalone) and 70% (consolidated) of sales—we feel the stock is fairly valued. We maintain an MARKET PERFORMER rating.</p>	
52-Week High/Low:	Rs 2,908/1,462		
Bloomberg Code:	GRASIM@IN		
Reuters Code:	GRAS.BO / NS		
Shares O/s:	92m		
Average Volume (3 months):	0.2m		
Price Performance			
(%)	1m	3m	12m
Absolute	17.9	(14.7)	2.7
Relative to the Sensex	9.5	(14.3)	(16.4)

Quarterly Table

(Rs m)

Y/e March	Q4 FY07	Q4 FY06	YoY Gr. (%)	Q3 FY07	FY06	FY07E	YoY Gr. (%)
Net Sales	24,938	18,151	37.4	22,794	66,226	84,537	27.6
Raw Materials	7,614	5,495	38.6	6,672	18,665	21,552	15.5
Staff Costs	1,121	1,038	8.0	1,113	4,067	4,596	13.0
Power & Fuel	3,397	2,872	18.3	3,114	10,597	11,673	10.2
Freight	2,873	2,172	32.2	2,611	7,442	9,893	32.9
Other Expenses	2,991	2,509	19.2	2,624	11,188	12,770	14.1
Total Expenditure	17,995	14,086	27.8	16,133	51,959	60,484	16.4
EBITDA	6,942	4,065	70.8	6,661	14,267	24,052	68.6
<i>EBITDA Margin (%)</i>	<i>27.8</i>	<i>22.4</i>	<i>544.2bp</i>	<i>29.2</i>	<i>21.5</i>	<i>28.5</i>	<i>690.9bp</i>
Depreciation	876	759	15.3	807	2,965	3,104	4.7
Other Income	776	575	34.9	444	1,563	1,809	15.8
EBIT	6,843	3,881	76.3	6,298	12,865	22,757	76.9
Interest	366	236	55.5	240	1,152	987	(14.4)
PBT	6,476	3,645	77.7	6,058	11,713	21,771	85.9
Extraordinary Income/(Expense)	371	41	798.3	-	495	-	-
PBT (After EO)	6,847	3,687	85.7	6,058	12,208	21,771	78.3
Tax	2,102	1,059	98.5	1,942	3,572	6,792	90.1
<i>Tax Rate (%)</i>	<i>30.7</i>	<i>28.7</i>		<i>32.1</i>	<i>29.3</i>	<i>31.2</i>	
Reported PAT	4,745	2,627	80.6	4,116	8,635	14,978	73.5
Adjusted PAT	4,374	2,586	69.1	4,116	8,140	14,978	84.0

(Stock price as on April 25, 2007)

**Segment-wise break-up**

<i>Y/e March</i>	Q4 FY07	Q4 FY06	YoY Gr. (%)	Q3 FY07
VSF				
Volume Sales (t)	68,588	60,636	13.1	67,061
Realisation (Rs/t)	95,002	82,575	15.0	96,479
<i>EBITDA Margin (%)</i>	30.8	31.3		34.5
Grey Cement				
Volume Sales (m t)	3.9	3.9	1.3	3.7
Realisation (Rs/t)	3,210	2,323	38.2	3,160
White Cement				
Volume Sales (t)	102,200	95,598	6.9	93,571
Realisation (Rs/t)	6,518	6,117	6.6	6,456
<i>Cement EBITDA Margin (%)</i>	34.3	24.6		33.0
Sponge Iron				
Volume Sales (t)	171,942	95,949	79.2	147,339
Realisation (Rs/t)	13,518	10,885	24	12,344
<i>EBITDA Margin (%)</i>	15.5	(4.6)		12.8

Result Highlights**Cement division (52% of sales)**

Revenue from the cement division rose 40% yoy, fuelled by a 38% yoy improvement in average net realisations. However, volume growth, at 1.3% yoy, remained muted, constrained by installed capacity as the company has already been operating at 118% during the quarter. Higher cement prices helped overcome the rise in freight and fuel costs, significantly improving the EBITDA by 94% to Rs 4.7bn and expanding the EBITDA margin by 970bp to 34.3%.

VSF division (27% of sales)

Revenue in VSF was up 30.1% yoy, aided by both volumes and realisations. Higher VSF prices were fuelled partly by strong demand and by a rise in pulp prices, which grew 19% yoy. However qoq, prices declined by about 2% due to discounts and rebates along with a higher share of export volumes (which have lower realisations). Consequently, volume growth also rose by an impressive 13.1% yoy. Mounting pulp costs along with an increase in employee costs resulted in a 50-bp fall yoy in the EBITDA margin despite higher VSF prices.

Sponge Iron division (10% of sales)

Revenue from the sponge iron division rose an impressive 117%, chiefly due to the lower base. Sales volumes were up 79% yoy due to higher production and strong demand. While the restriction on gas supply continued, higher prices of sponge iron allowed the company to use more expensive substitutes (such as naphtha) to increase operating rates. Higher realisations (up 24% yoy) along with greater productivity helped better operating margins -- from -4.6% to 15.5%.



Valuations and Outlook

We expect VSF demand to remain robust from the shift of textile hubs to India, Pakistan and Bangladesh and a general preference for cellulose fibres. While pulp costs would remain a cause for concern, robust demand would allow the company to pass on the incremental costs to consumers. We expect VSF margins to be stable -- at 30-31% levels. However, the cement division is likely to see muted volume growth and flat realisations in FY08. Further, input cost for the cement division is expected to be absorbed by the company, given the absence of any price upside in FY08. We feel that the lack of triggers for cement would hamper the stock performance in the future. It currently trades at a PER of 10.8x FY08 estimates and at an EV/E of 6x. We maintain a **MARKET PERFORMER** rating.

Key Figures

Y/e March	FY05	FY06	FY07E	FY08E
Revenues (Rs m)	93,880	102,652	136,277	144,140
EBITDA (Rs m)	20,317	20,579	39,461	41,543
<i>Margins (%)</i>	<i>21.6</i>	<i>20.0</i>	<i>29.0</i>	<i>28.8</i>
PAT (Rs m)	10,081	9,311	19,571	20,765
EPS (Rs)	109.9	101.6	213.4	226.5
PER (x)	22.2	24.0	11.4	10.8
EV / E (x)	12.9	12.6	6.5	6.0
EV / Sales (x)	2.8	2.5	1.9	1.7
<i>RoCE (%)</i>	<i>21.3</i>	<i>17.4</i>	<i>32.8</i>	<i>30.5</i>
<i>RoE (%)</i>	<i>27.4</i>	<i>19.4</i>	<i>30.8</i>	<i>26.2</i>

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