Grasim

Neutral

CMP: Rs 2,498

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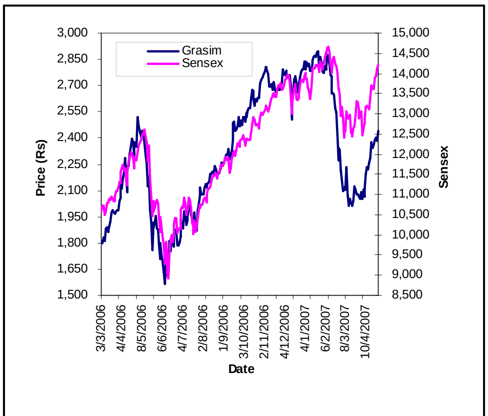
Sector	Diversified
Market Cap (Rs cr)	22,908
Beta	1.1
52 WK High / Low	2,908 / 1,462
Avg Daily Volume	56,549
Face Value (Rs)	10
BSE Sensex	14,229
Nifty	4,178
BSE Code	500300
NSE Code	GRASIM
Reuters Code	GRAS.BO
Bloomberg Code	GRASIM@IN

Shareholding Pattern (%)	
Promoters	25.2
MF/Banks/Indian FIs	20.1
FII/ NRIs/ OCBs	27.1
Indian Public	27.6

Share Price Vs Sensex



Q4FY2007 Result Update

Performance Highlights

- **Grasim reports robust numbers:** Grasim from the Aditya Birla Group stable and a diversified major having presence in Cement, Viscose Staple Fibre (VSF), Sponge Iron, Chemicals and Textiles, reported strong Q4FY2007 results. The company has a 53.0% stake in UltraTech Cement and a 53.7% stake in Shree DigVijay Cement.

- **Cement and VSF lead charge:** Consolidated Net Sales for the March 2007 quarter was higher by 40.4% YoY at Rs 4,107.1cr (Rs 2,926.2cr). This growth was primarily contributed by the Cement and VSF divisions, which contributed to about 63% and 23% of the incremental sales during the quarter. Also, considering that revenue of the Sponge Iron division increased by 116% YoY, it too contributed to ~11% of the incremental sales of the company. The Chemicals and Textiles businesses continued their lackluster performance.

- **Significant improvement in Operating Margins:** Operating Margins for the quarter improved by 578bps to 28.3% in Q4FY2007 as compared to 22.5% in the corresponding quarter of last year. This improvement in margins came largely on the back of the splendid performance delivered by the Cement division of the company. The Sponge Iron division also contributed its bit here. However, on account of cost pressures, the VSF division witnessed pressure on margins. Overall, higher capacity utilisation, better realisations and improved operational efficiencies helped the company report a 76.4% YoY growth in Operating Profits to Rs 1,161.6cr (Rs 658.4cr).

- **Net Profit up 60% YoY:** Despite the robust performance at the operating level, higher Interest costs (up 32.2% YoY at Rs 65.8cr), higher Depreciation charges (up 11.5% YoY at Rs 165.2cr) and a significantly higher Tax outgo at Rs 335.2cr (33% of PBT) as compared to Rs 118.3cr (22% of PBT), Grasim reported a consolidated Net Profit growth of 60.1 YoY to Rs 558.5cr (Rs 348.8cr). The company has declared a dividend of 275% (Rs 27.5 per share on Face Value of Rs 10), which is also the final dividend for FY2007.

Exhibit 1: Key Financials (Consolidated)

(Rs. cr)	FY2006	FY2007	FY2008E	FY2009E
Net Sales	**8,466**	**11,416**	**12,171**	**13,907**
% chg	13.5	34.9	6.6	14.3
Net Profit	**1,041**	**1,968**	**2,106**	**2,347**
% chg	18.2	89.1	7.0	11.5
EPS	**113.5**	**214.6**	**229.7**	**256.0**
EBITDA Margin (%)	20.1	28.0	29.3	28.4
Cons. P/E (x)	22.0	11.6	10.9	9.8
P/CEPS (x)	17.0	10.1	9.6	8.5
ROE (%)	17.3	24.6	20.9	18.9
ROCE (%)	11.7	17.9	15.7	16.4
P/BV (x)	3.8	2.9	2.3	1.8
EV/Sales (x)	3.0	2.3	2.2	1.8
EV/EBITDA (x)	15.2	8.1	7.3	6.3

Source: Company; Angel Research

Q4FY2007 Result Highlights

- **Cement:** Grasim reported strong numbers for the quarter ended March 2007 with a Consolidated Net Sales growth of 40.4% YoY to Rs 4,107.1cr (Rs 2,926.2cr). As mentioned earlier, this growth was primarily contributed by the cement division, which could be credited for 63% of the incremental sales for the company during the quarter. The cement division revenues recorded a 35% YoY growth, which came about on the back of a 30% YoY improvement in cement realisations and 5% volume sales growth. The PBIT margins reported by the company for this division improved from 19% in Q4FY2006 to 28.3% in Q4FY2007. While a large part of this improvement was on account of the sharp improvement in cement realisations, increase in blended cement ratio and better economies of scale also helped matters. The Cement division contributed to 69% of the company's total Turnover and 76% of PBIT in Q4FY2007.

- **VSF:** As far as the company's VSF division was concerned, it too contributed positively to the company's Topline growth as well as Net Profits. However, while the revenues from this segment registered a growth of 54.5% YoY on the back of both – higher volume sales and better realisations, the PBIT grew by a lesser 36.0% YoY owing to compression in margins on account of hardening input costs, particularly pulp. This division contributed to 19% of the company's total Turnover and 17% of PBIT in Q4FY2007.

- **Sponge Iron:** There was a marked improvement in the Sponge Iron division performance during the quarter. While production was higher by 54% YoY, sales volumes showed an impressive growth of 79% YoY. Realisations for the division improved by 24% YoY on the back of hardening of scrap prices and sea freight. Thus, higher volumes and realisations and lower usage of pellets as input helped the company to improve its PBIT margins from -11% in Q4FY2006 to 12% in Q4FY2007.

- **Chemicals, Textiles and Others:** As far as the other divisions were concerned, Chemicals and Textiles continued to underperform. It must be noted that these divisions combined accounted for a mere 6.3% (7.4% in Q4FY2006) of Grasim's Consolidated Topline whereas their contribution at the PBIT level declined from 5.9% in Q4FY2006 to 4.4% in Q4FY2007.

Grasim's Capex Plans

Cement: The company's expansion plans at Shambhupura and Kotputli in Rajasthan are progressing as scheduled. While the Shambhupura plant (4 MTPA) is likely to be commissioned by the end of FY2008, the Kotputli plant (4 MTPA) is expected to go on stream in Q1FY2009. The company would also be setting up thermal power plants at both these places. The company has so far invested Rs 834cr on these projects. Additionally, it has envisaged a total capital outlay of Rs 2,345cr over the next two years, which includes the cost of modernisation, de-bottlenecking, setting up of grinding unit at Dadri, RMCs and captive power plants. Upon completion of these expansions and the commissioning of the grinding unit at Dadri, the company's cement capacity will go up by 9.5 MTPA to 22.6 MTPA. Further, the capex plan of UltraTech, which includes setting up of a 4 MTPA project at Tadpatri (Andhra Pradesh) and captive power plants at different locations, is on track. UltraTech plans to invest over Rs.1,900 crore in the next two years on capacity expansion, thermal power plants, modernisation, RMCs, etc.

VSF: To meet the growing demand for the product, the company is augmenting its capacity by 63,875 tons per annum through a brownfield expansion at Kharach (Gujarat). It is expected to be completed by end FY2008. The company's investment on the expansion and modernisation at its various plants would be to the tune of Rs 712cr. Additionally, the company is in the process of obtaining regulatory approvals for expanding its capacity at Harihar (Karnataka) by around 31,000 tons per annum. Upon completion, the company's VSF capacity would stand enhanced to 365,000 tons per annum. The capacity of its Chinese joint venture is also being ramped up from 30,000 tons per annum to 60,000 tons per annum and will be completed by Q2FY2009.

Outlook

Cement: The cement industry recorded a growth of 6.6% YoY during Q4FY2007. Healthy demand for cement on the back of strong growth being witnessed in housing and infrastructure sectors has helped keep the demand-supply balance in favour of manufacturers, thus helping cement prices to hold forte.

However, there have been some adverse developments during the quarter pertaining to the freeze on cement prices for 1-year even if input costs were to rise and the scrapping of import duties on cement, thus making its import cheaper in certain markets in the country, which is a harsh blow for the Indian cement industry. While the import of cement into the country in significant quantities is unlikely to get materialized owing to logistics constraints, it would nonetheless put pressure on cement manufacturers to refrain from raising prices.

While we expect the industry and Grasim to continue to do well on the volumes front, the above adverse developments will keep a cap on the profits of the Cement division in the absence of pricing power. Further, considering that cement supply would start to catch up from FY2009 onwards, we expect cement prices to come under pressure, which will have a negative impact on the profitability of cement companies. It must be noted that 69% and 77% of Grasim's revenues and PBIT being contributed by the Cement division, the underperformance by this division will have an adverse impact on the overall profitability of the company.

VSF: Considering that Grasim is the lowest cost producer of quality VSF and its capacity expansion would be completed by end FY2008, it is fully geared to capitalise on the increased demand for the product. The thrust on propagation of speciality fibres, both in domestic and export markets bode well for the business. Thus, the outlook for the VSF business continues to be bright.

Sponge Iron: The profitability of this division would continue to remain under pressure due to inadequate gas availability, which is expected to improve only by the end of 2007, as the Dahej-Dabhol pipeline and the spur pipeline connecting the same to the existing GAIL pipeline is expected to be commissioned by then.

Valuation

At Rs 2,498, the stock trades at 9.8x our consolidated FY2009E EPS. Though we are positive on the financial prospects of Grasim despite the expected pressure on the Cement division, which we believe would be negated to a large extent by the improvement in volumes, we believe that the current market price adequately discounts the same. **We thus maintain our NEUTRAL view on the stock.**

Exhibit 2: Financial Performance (Consolidated)

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	%chg	FY2007	FY2006	%chg
Net Sales	**4,107.1**	**2,926.2**	*40.4*	**14,167.3**	**10,274.9**	*37.9*
Total Expenditure	2,945.5	2,267.8	*29.9*	10,122.8	8,155.3	*24.1*
Operating Profits	**1,161.6**	**658.4**	*76.4*	**4,044.4**	**2,119.5**	*90.8*
OPM (%)	*28.3*	*22.5*		*28.5*	*20.6*	
Interest	65.8	49.8	*32.2*	228.6	218.3	*4.7*
Depreciation	165.2	148.1	*11.5*	610.0	563.1	*8.3*
Other Income	78.2	67.3	*16.1*	245.6	217.1	*13.2*
Extraordinary Items	-	4.1		-	4.1	
Profit before Tax	**1,008.7**	**531.9**	*89.6*	**3,451.5**	**1,559.3**	*121.3*
Current Tax	335.2	118.3	*183.4*	1,092.1	402.7	*171.2*
(% of PBT)	*33.2*	*22.2*		*31.6*	*25.8*	
Profit after Tax	**673.5**	**413.7**	*62.8*	**2,359.4**	**1,156.6**	*104.0*
(% of Net Sales)	*16.4*	*14.1*		*16.7*	*11.3*	
Minority interest	115.0	64.9		391.9	116.0	
Reported Net Profit	**558.5**	**348.8**	*60.1*	**1,967.5**	**1,040.6**	*89.1*
Equity shares (crores)	9.2	9.2		9.2	9.2	
EPS	**60.9**	**38.0**		**214.6**	**113.5**	

Source: Company; Angel Research

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