INDIA EQUITY RESEARCH

26 April 2007

Grasim Industries

Result Update — **Rs2,485; Buy**

Sector: Cement

Target Price	**Rs2,900**
Market cap (bn)	Rs227.8/US$5.1
52-week range	Rs2,908/1,392
Shares in issue (mn)	91.7
6-mon avg daily vol (no of shares)	170,383
6-mon avg daily vol (mn)	Rs427.4/US$9.5
Bloomberg	GRASIM IN
Reuters	GRASIM.BO
BSE Sensex	14229
Website	www.grasim.com

Shareholding Pattern (%)

Promoters	25.2
FIIs	23.3
MFs/FIs/Banks	20.1
Others	31.4

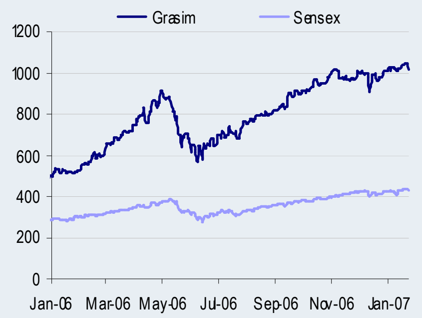
(As of 31 March 2007)

Price Performance (%)

	1M	3M	12M
Absolute	21.1	(12.4)	5.5
Relative*	12.7	(12.0)	(13.7)

**To the BSE Sensex*

Relative Performance



(As of 26 April 2007)

Analyst:

Deepal Shah
dshah@askrj.net
Tel: (91 22) 6646 0016

Jay Asher
jasher@askrj.net
Tel: (91 22) 6646 0034

In line with expectation

Grasim reported excellent 4Q FY07 results, reporting 69% YoY rise in adjusted net profits to Rs4.37 bn (our expectation of Rs4.47 bn) driven by higher operating margins in cement, VSF as well as sponge iron division. Overall EBITDA in 4Q grew by 71% YoY to Rs6.9 bn and EBITDA margin increased to 27.8%, an increase of 544 bps YoY. This was contributed by the 2.1% QoQ rise in cement realizations and 15% YoY growth in VSF realizations. Sponge iron division also showed a lot of improvement with increase in EBIDTA margin by 270 bps QoQ to 15.5%.

Considering the overall performance of all the divisions and also UltraTech's performance, we have marginally downgraded our consolidated PAT estimates by 3.6% for FY08E and are introducing our estimates for FY09E. This factors in the revision of UltraTech's numbers and also better performance by the sponge iron and VSF division.

Although the cement outlook is bleak, we remain positive on the company looking at the buoyant VSF outlook and better performance by the sponge iron division. The cement cycle is on a downturn, as the oversupply scenario in FY09E is likely to put pressure on cement prices. We are also lowering our target FY09E EV/EBIDTA multiple to 7.0x from 8.6x on the back of this downturn. The combined result of these two is how we have arrived at our new target price of Rs2,900 (earlier Rs3,320). At Rs2,900 the stock will trade at an EV/EBIDTA of 7.0x, PE of 12.5x and EV/tonne of US$144 on consolidated basis for FY09E. The valuations are at a discount to its peers due to the diversified nature of its businesses. We reiterate Buy.

Highlights

- **Cement EBIDTA margin at 34.3%:** The cement division (59% of sales, 33% EBITDA margin) reported an excellent performance in 4Q FY07. Sales volumes grew by 1.3% YoY to 3.92 mn tonnes (utilization of 118%) and realizations rose by 38% YoY (2.1% QoQ rise) to Rs2,979/tonne. Demand has also been firm and has grown by 9.5% YoY in FY07. The prices are currently stable since March, after the pass on of the higher excise duty. Grasim is adding a grinding unit of 1.5 mn tonnes, which will be operational in the last quarter of FY08E. We expect volume growth

Exhibit 1: Financial summary **(Rs mn)**

Y/E March	FY05	FY06	FY07AE	FY08E	FY09E
Consolidated sales	93,880	102,748	141,672	120,762	134,362
Consolidated EBIDTA	17,968	16,988	31,669	34,896	38,053
Growth (%)	25.7	-13.7	84.2	1.9	9.0
Consolidated net profit	9,380	10,406	19,304	19,999	21,242
EPS Consolidated (Rs)	96	114	215	218	232
Cons PER (x)	25.9	21.9	11.6	11.4	10.7
Cons EV/EBITDA (x)	12.8	13.5	7.4	6.8	6.0
Con EV/tonne Cem of cap (US$)	206	203	190	154	119
Cement EBIDTA/Tonne (Rs)	360	537	1040	1026	892
RoAE (%)	23.8	17.5	26.8	22.3	20.4
RoACE (%)	16.3	12.6	18.6	16.0	15.3

Source: Company, ASK Raymond James Note: Valuations as of 26 April 2007.

of 4% YoY to 15.1 mn tpa in FY08E and a higher rate of 19% YoY in FY09E to 18.1 mn tpa, benefiting from its ongoing expansion of 8 mn tonnes. We expect realizations to increase by 2.5% YoY in FY08E and decline by 5% YoY in FY09E due to excess capacity putting pressure on prices.

- **Aggressive expansion plans for VSF:** The VSF division (26% of sales, 30.8% EBITDA margin) reported substantial jump of 15% YoY in realizations to Rs88,687/tonne and 13.1% YoY rise in volumes. The EBIDTA margins remained flat YoY at 30.8% due to increasing pulp prices. The realizations went up due to tight supply in the market and strong demand from the downstream yarn market. VSF outlook remains positive on back of strong demand from global as well as domestic markets. The increasing application of cellulosic yarns has resulted in strong demand for the fibre and also increasing global warming has led to increased requirement of comfort fabric made of VSF. We expect prices to rise by 6% YoY in FY08E and 4% YoY in FY09E. EBIDTA margin is likely to remain at 30.8% in FY08E and flat in FY09E. The backward integration of in-house rayon grade pulp production should start by 1Q FY09, making the company 75% self sufficient for its pulp requirement. Grasim is expanding VSF capacity by 63,875 tpa and further by 31,000 tpa taking the total capacity to 364,975 tpa at a capex of Rs3.89 bn.

- **Substantial improvement in sponge iron margin at 15.5% against loss in 4Q FY06:** The sponge iron division (9% of sales, 15.5% EBIDTA margin) reported substantive performance. This was driven by 79% YoY rise in volumes and 24.2% YoY rise in realizations. It reported a 270 bps QoQ improvement in margins to 15.5%. Operating margins were better as the company changed the mix of raw material and used more of iron ore than pellets. The outlook will improve post the adequate supply of natural gas, which is likely to come by end CY07.

- **Introducing FY09E estimates:** Considering the overall performance of all the divisions and also UltraTech's performance, we have marginally downgraded our consolidated PAT estimates by 3.6% for FY08E and are introducing our estimates for FY09E. This factors in the revision of UltraTech's numbers and also better performance by the sponge iron and VSF division.

- **Reiterate Buy with a revised target price of Rs2,900:** Although the cement outlook is bleak, we remain positive on the company looking at the buoyant VSF outlook and better performance by the sponge iron division. The cement cycle is on a downturn, as the oversupply scenario in FY09E is likely to put pressure on cement prices. We are also lowering our target FY09E EV/EBIDTA multiple to 7.0x from 8.6x on the back of this downturn. The combined result of these two is how we have arrived at our new target price of Rs2,900 (earlier Rs3,320). At Rs2,900 the stock will trade at an EV/EBIDTA of 7.0x, PE of 12.5x and EV/tonne of US$144 on consolidated basis for FY09E. The valuations are at a discount to its peers due to the diversified nature of its businesses. We reiterate Buy.

Exhibit 2: Segmental break-up

	Sales (Rs mn)			EBIDTA margins (%)		
	% Sales	4Q FY 07	4Q FY 06	% Chg	4Q FY 07	4Q FY 06
VSF	26	6,618	5,015	32	30.8	31.1
Cement	59	14,733	10,855	36	34.3	26.9
Chemicals	4	936	894	5	36.9	30.5
Sponge iron	8	2,398	1,110	116	15.5	-4.6
Textiles	3	719	676	6	3.4	-1.7

Source: Company data, ASK Raymond James.

Exhibit 3: Quarterly results (Rs mn)

Y/E March	4QFY07	4Q FY06	% chg	3QFY07	3Q FY06	% chg
Net sales	24,938	18,151	37	22,794	16,482	38.3
Total Expenses	17,995	14,086	28	16,133	13,291	21.4
EBITDA	**6,942**	**4,065**	**71**	**6,661**	**3,191**	**108.7**
EBITDA margin (%)	27.8	22.4	-	29.2	19.4	-
Interest	366	236	55	240	235	2.2
Depreciation	876	759	15	807	733	10.1
Other income	776	575	35	444	152	191.3
PBT	**6,476**	**3,645**	**78**	**6057**	**2,376**	**155.0**
Tax	2102	1059	98	1942	757	156
Tax rate (%)	32.5	29.1	-	32.1	31.9	-
PAT (adj)	**4,374**	**2,586**	**69**	**4116**	**1,619**	**154.3**
Less: Extraordinary items	371	41	798	0	0	-
PAT (reported)	**4,745**	**2,627**	**81**	**4116**	**1,619**	**154.3**

Source: Company data, ASK Raymond James.

Equity (Trading)		
Bhavesh Jangla *(Vice President - Sales Trading)*	(91 22) 2497 5601-05	bjangla@askrj.net
Dipesh Upadhyay	(91 22) 2497 5601-05	upadhyay@askrj.net
Amit Shah	(91 22) 2497 5601-05	ashah@askrj.net
Equity Derivatives (Trading)		
Vinay Goel	(91 22) 2497 5601-05	vgoel@askrj.net
Babita Sharma	(91 22) 2497 5601-05	bsharma@askrj.net
Dharmesh Shah	(91 22) 2497 5601-05	dvshah@askrj.net
Dwaipayan Ray	(91 22) 2497 5601-05	dray@askrj.net

Sales		
Kalpesh Parekh *(Head of Institutional Sales)*	(91 22) 6646 0017/94	kparekh@askrj.net
Pankti Bhansali	(91 22) 6646 0052	pbhansali@askrj.net
Hiren Ghelani	(91 22) 6646 0050	hghelani@askrj.net
Mayana Rajani	(91 22) 6646 0048	mrajani@askrj.net
Editor		
Chetna Rathod	(91 22) 6646 0031	crathod@askrj.net
Production & Database		
Sajid Merchant	(91 22) 6646 0030	smerchant@askrj.net

ASK | RJ

ASK RAYMOND JAMES & ASSOCIATES PVT. LTD.

MEMBER, BOMBAY AND NATIONAL STOCK EXCHANGES

Bandbox House (Rear), 1st Floor, 254-D, Dr Annie Besant Road, Worli, Mumbai-400 025. (India).
Tel: +91 22 6646 0000 • Dealers: +91 22 2498 5680/90 • Fax: +91 22 2498 5666 • E-mail: broking@askrj.net

Analyst Certification

The research analysts, with respect to each issuer and its securities covered by them in this research report, certify that:

- All of the views expressed in this research report accurately reflect his or her personal views about all of the issuers and their securities; and
- No part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.