

Grasim Industries (GRAS.BO)

Alert: 2QFY13 – Cement Boosts Profits

- 2QFY13 PAT up 48% yoy** — Grasim's consol. PAT came in at Rs6.2bn, (9% above Citi est). The strong growth was on the back of cement profits almost doubling as realisations rose 19% yoy. VSF margins fell yoy due to high input costs. Overall EBITDA rose 38% yoy; margins rose to 21% from 18% last year (24% in 1QFY13).
- Cement (70% of EBITDA): strong pricing** — UltraTech Cement (ULTC, Grasim's 60% subsidiary) reported a 2QFY13 EBITDA of Rs10.1bn, +73% yoy. EBITDA margin was 21% vs 15% last year (26% in 1QFY13). Grey cement realizations rose 19% yoy and 1% qoq (ACC's realisations fell 1.4% qoq; Ambuja's declined 0.5% qoq). 2Q volumes (cement + clinker) at 9.3mt rose 1% yoy impacted by production bottlenecks (closures on account of pollution) in East India. Overall cost per tonne in 2Q grew ~10% yoy impacted by higher railway freight and diesel price hike.
- VSF: margins under pressure** — 2Q EBITDA margin was at 22% vs 28% last year and 26% in 1Q; impacted by higher input costs – caustic soda, coal and sulphur. Volumes grew 8% yoy despite the company taking an 11 day stoppage in July12 due to delayed monsoon. VSF prices were up 3% yoy but flat qoq – weak global prices were offset by a depreciating rupee. The near-term environment continues to be challenging. Cotton crop and prices are key.
- Planned expansions** — 1) Cement capacity is likely to be enhanced by 9.2mtpa (to 62mtpa) by 1QFY14 at capex of Rs59bn; 2) VSF: 18ktpa commissioned in Sep12 in Karnataka; additional 138ktpa to be commissioned by 4QFY13 (18ktpa in Karnataka, 120ktpa in Gujarat) – taking total capacity to 490ktpa; 3) Other plans include a 183ktpa caustic soda plant (Rs8bn) by 4QFY13 and a 52ktpa Epoxy plant (~Rs2bn) by 3QFY14 in Gujarat. The 45ktpa Domsjo pulp capacity expansion in Sweden (Grasim has 1/3rd stake) was completed this quarter.
- TP at Rs3,299** — We value Grasim using SOTP - its cement capacity at 9x Jun13 EV/EBITDA but apply a 30% holding company discount to get a value of Rs2,234/sh for Grasim's 60% stake in ULTC. Grasim's other businesses are valued at 6x Jun13 EV/EBITDA (Rs1,065/sh). Our TP implies Jun13 EV/EBITDA of 6.2x; 10.9xP/E.

Figure 1. Grasim – Consolidated Statistical Abstract

YE 31 Mar	Revenue (Rs m)	Net Profit (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US\$)
FY10	199,334	30,955	63,223	338	42%	10.0	6.7	
FY11	212,690	22,790	53,967	249	-26%	13.6	10.1	129
FY12	248,477	26,095	62,839	285	15%	11.9	7.9	131
FY13E	280,581	29,252	72,829	319	12%	10.6	6.8	134
FY14E	316,365	35,295	78,784	385	21%	8.8	5.3	102

Source: Citi Research. Price as of 29th October 2012, Rs/\$ rate at 53.

Company Update

Buy	1
Price (29 Oct 12)	Rs3,378.10
Target price	Rs3,299.00
Expected share price return	-2.3%
Expected dividend yield	0.6%
Expected total return	-1.7%
Market Cap	Rs309,909M
	US\$5,787M

Price Performance

(RIC: GRAS.BO, BB: GRASIM IN)



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2QFY13 Results

Figure 2. Grasim Industries – 2QFY13 Consolidated Results Summary

(Rs m)	2QFY13	2QFY12	% chg yoy	1QFY13	% chg qoq
Net Sales	66,021	57,553	15%	68,291	-3%
Operating costs	51,968	47,379	10%	51,974	0%
EBITDA	14,054	10,174	38%	16,318	-14%
EBITDA Margin (%)	21.3%	17.7%		23.9%	
Other Income	998	1,173	-15%	1,357	-26%
Interest	868	895	-3%	740	17%
Depreciation	3,066	2,837	8%	2,979	3%
PBT	11,118	7,615	46%	13,955	-20%
Tax	3,089	2,374	30%	3,856	-20%
Tax Rate (%)	27.8%	31.2%		27.6%	
PAT	8,029	5,241	53%	10,100	-21%
Add: Share of profit in associates	381	-41		86	
Less: Minority Interest	2,215	1,021		3,006	
Reported PAT	6,196	4,179	48%	7,180	-14%
Sales volumes (tonnes)					
VSF	85,312	78,959	8%	77,013	11%
Cement (mt)	9.29	9.22	1%	10.30	-10%
Caustic soda	65,500	67,321	-3%	69,466	-6%
Realizations (Rs/t)					
VSF	128,000	124,689	3%	128,024	0%
ULTC cement – grey cement	4,343	3,638	19%	4,300	1%
Caustic soda (ECU)	27,335	23,978	14%	26,448	3%
EBITDA (%)					
VSF	21.6	28.3		25.7	
ULTC cement	21.4	14.9		25.5	
Caustic soda	29.6	23.8		28.2	

Source: Company Reports, Citi Research

Figure 3. Grasim Industries – 2QFY13 Standalone Results Summary

(Rs m)	2QFY13	2QFY12	% chg yoy	1QFY13	% chg qoq
Net sales	13,534	12,470	9%	12,583	8%
Total Expenses	10,447	9,115	15%	9,438	11%
EBITDA	3,087	3,355	-8%	3,145	-2%
EBITDA Margin (%)	22.8%	26.9%		25.0%	
Other income	1,917	1,707	12%	651	194%
Interest	78	107	-27%	61	28%
Depreciation	386	356	8%	360	7%
Pre-tax profit	4,540	4,599	-1%	3,376	34%
Tax	712	1,150	-38%	647	10%
Tax rate (%)	16%	25%		19%	
PAT reported	3,827	3,448	11%	2,729	40%

Source: Company Reports, Citi Research

Grasim Industries

Valuation

We value Grasim using SOTP. We value its 51mtpa cement capacity (ULTC) using EV/EBITDA (a common metric used for cement companies) of 9x for June13, at a slight premium to peers such as ACC and Ambuja as ULTC has a shorter valuation history (listed since 2006) and its size also changed substantially in FY11 when it was merged with the cement business of Grasim. We take a small premium versus ACC and Ambuja in valuing ULTC. We take a 3% premium to ACC's EV/EBITDA due to ULTC's relatively larger size, presence in niche markets such as white cement/putty, access to strong cash flows from a cash rich parent (Grasim). Though ULTC's EBITDA/t is lower than Ambuja's we take a 2% as ULTC is ~80% bigger than Ambuja. Our TP for ULTC works out to Rs1,770. We apply a 30% holding company discount which imputes a value of Rs2,234 per Grasim share for Grasim's 60.3% holding in ULTC. Grasim's other businesses (VSF/Chemicals) are valued at an EV/EBITDA of 6x June13, at a premium to hard commodity businesses which are trading at ~5x (given its steady margin generating capability), giving a value of Rs1,065 per Grasim share. Our Grasim target price of Rs3,299 implies June13 EV/EBITDA of 6.2x and P/E of 10.9x.

Risks

Key downside risks to our target price include: 1) Government action against cement producers; 2) An inability by cement producers to pass on cost hikes; 3) A fall in prices of VSF and/or competing fibres which would negatively impact margins; and 4) Changes in the duty/tax regime to the detriment of producers.

Appendix A-1

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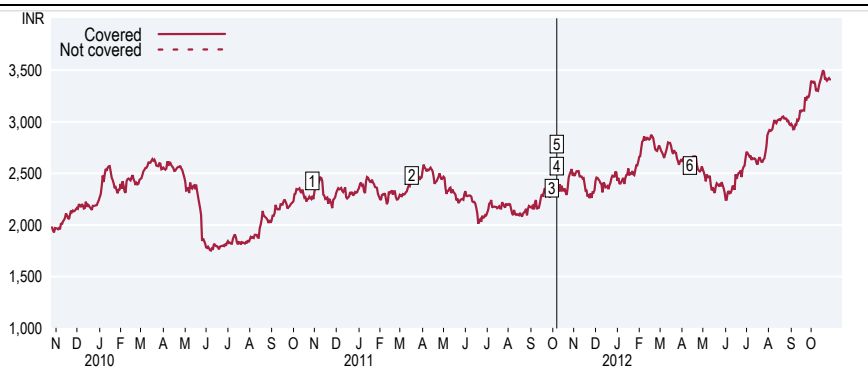
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Ratings and Target Price History Fundamental Research

Analyst: Raashi Chopra, CFA
Covered since July 30 2012



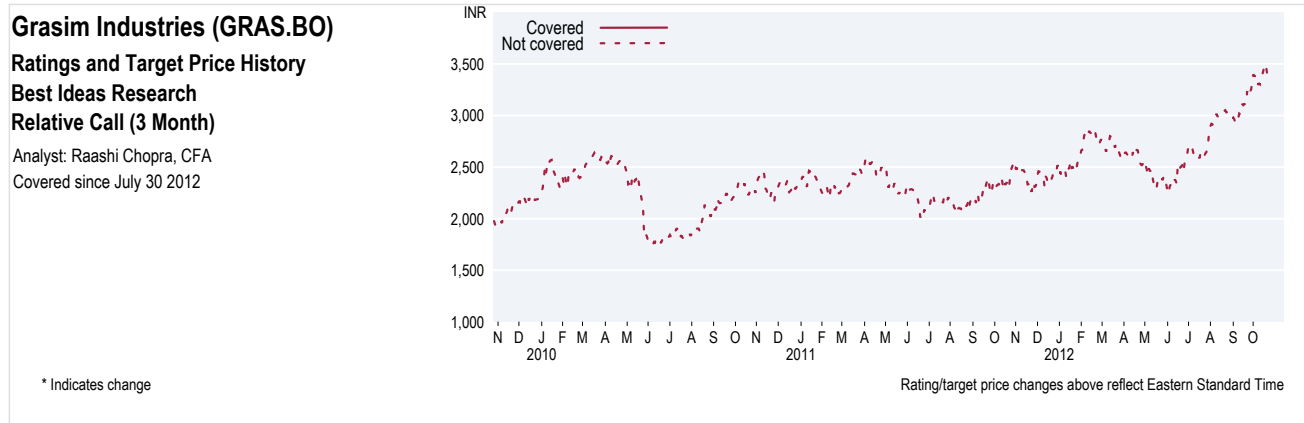
	Date	Rating	Target Price	Closing Price
1	28-Oct-10	*1L	*2,640.00	2,281.95
2	17-Mar-11	1L	*3,010.00	2,438.60

	Date	Rating	Target Price	Closing Price
3	30-Sep-11	1L	*2,728.00	2,343.60
4	7-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
5	7-Oct-11	*1	2,728.00	2,336.45
6	12-Apr-12	1	*3,299.00	2,589.80

* Indicates change

Rating/target price changes above reflect Eastern Standard Time



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Data current as of 5 Oct 2012

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