

### RESULTS REVIEW

### Grasim Industries Limited

Buy

#### Share Data

Market Cap	Rs. 235.7 bn
Price	Rs. 2,570.00
BSE Sensex	15,695.10
Reuters	GRAS.BO
Bloomberg	GRASIM IN
Avg. Volume (52 Week)	0.03 mn
52-Week High/Low	Rs. 4,074/2,185
Shares Outstanding	91.7 mn

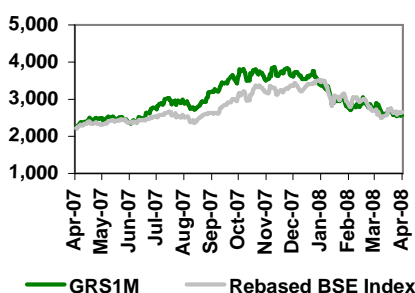
#### Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	258.6	340.6
+/- (%)	20.8%	31.7%
PER (x)	9.9x	7.5x
EV/ Sales (x)	1.9x	1.5x
EV/ EBITDA (x)	6.1x	4.7x

#### Shareholding Pattern (%)

Promoters	25
FII's	22
Institutions	21
Public & Others	32

#### Relative Performance



#### Core sectors continue to fuel growth

**Viscose Staple Fibre (VSF):** The Company is in the process of expanding the VSF capacity more by 31,000 tonnes in Q2'09. Upon completion of the planned expansion, VSF capacity is expected to be 364,975 tonnes. The quarterly performance of this segment was largely driven by an improvement in realization rates. Going forward, we expect volumes to rise significantly driven by capacity expansion; however the growth in realization rates is expected to moderate a bit from the present levels.

**Cement:** Expansion plans for cement capacity additions are also on track. These expansion plans are likely to augment the cement capacity by 10 mtpa in Q1'09. We believe the Company will reap the benefit of timely capacity addition in the present scenario of strong demand for cement and firm realization rates.

**Sponge Iron:** Net revenue grew by 25% yoy to Rs. 2,443 mn on the back of higher realisation rate; however decline in volumes was a disappointment. We expect this business to register strong growth in the future as the gas availability is likely to improve by March 08.

**Valuation:** At the current market price, Grasim is valued at a forward P/E of 9.9x FY08E and 7.5x FY09E. Based on SOTP valuation, we have arrived at a target price of Rs. 3,622 which provides an upside of 40.9% from the CMP. Hence, we maintain our Buy rating.

#### Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08	Q3'08	YoY%	QoQ%	9M'07	9M'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	36,681	39,726	43,583	18.8%	9.7%	100,683	123,828	23.0%
EBITDA	11,177	11,833	13,808	23.5%	16.7%	28,829	38,318	32.9%
Net Profit	5,593	6,200	7,219	29.1%	16.4%	14,090	20,115	42.8%
<b>Margins(%)</b>								
EBITDA	30.5%	29.8%	31.7%			28.6%	30.9%	
NPM	15.2%	15.6%	16.6%			14.0%	16.2%	
<b>Per Share Data (Rs.)</b>								
Adj. EPS	61.0	67.6	78.7	29.0%	16.4%	153.7	219.4	42.8%

### Result Highlights

Grasim's net sales increased by 18.8% yoy to Rs. 43,583.4 mn on the back of robust demand and higher realisation in the Company's core businesses, Cement and Viscose Staple Fibre (VSF). Around 57% of the increase in sales is contributed by cement business and around 25% by VSF business. Grasim's EBITDA was higher by 23.5% yoy to Rs. 13,807.5 mn. Though all the major costs have shown increasing trend, the rise in EBITDA is mainly caused by an improvement in realisation rates.

Net profit increased by 29.1% yoy to Rs. 7,218.6 mn driven by 39.5% yoy increase in other income and around 6% yoy decrease in interest expense.

### Major expansion plans

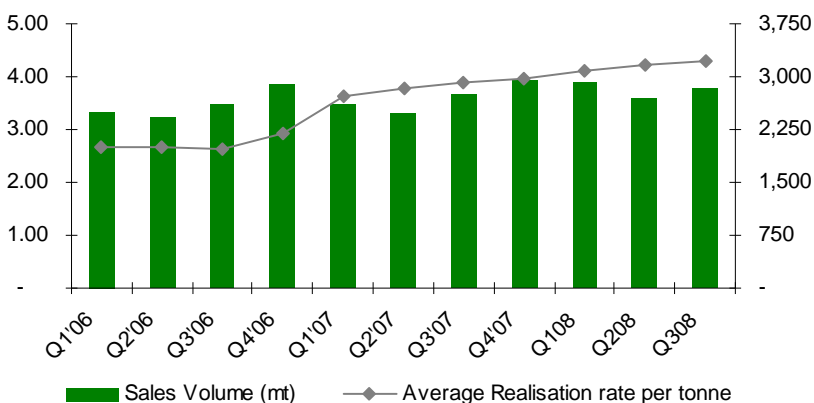
Type of Plant	Location	Capacity Addition	Expected Completion
VSF	Harihar (Karnataka)	31000 tpa	FY09
Cement	Shambhupura (Rajasthan)	4.4 mtpa	Q4FY08
Cement	Kotputli (Rajasthan)	4.5 mtpa	Q1FY09

Source: Company Data, Indiabulls research

### Segmental Highlights

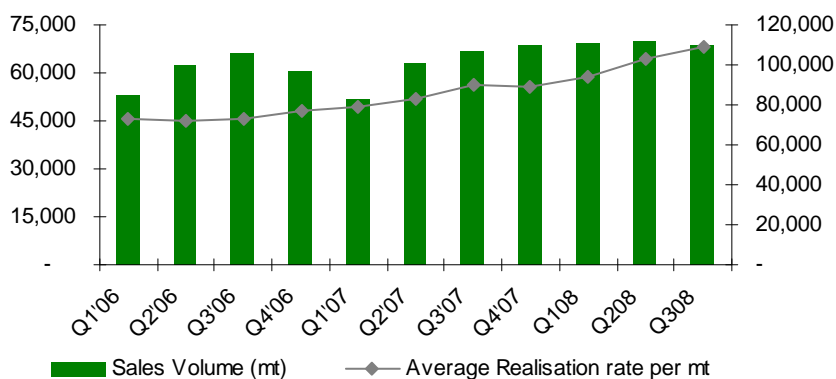
**Cement:** During the quarter, standalone revenues from the cement segment jumped 15.6% yoy to Rs. 29,618.8 mn on the back of improved sales volume and higher realisations. In the grey cement segment the improvement in realisation rate was the major contributor to growth. Realisation rate of grey cement was up by 10% yoy to Rs. 3,215 whereas sales volume increased by just 1% yoy. However in the white cement category both sales volume and realisation rate contributed to the growth in revenues. Sales volume of white cement increased by 11% yoy whereas realisation rate increased by 10% yoy. The Company plans to ramp up the current capacity of 13.1 mtpa by 4.4 mtpa till the end of FY08E and by another 4.5 MMT in Q1'09.

UltraTech has also reported a good performance, thus providing thrust to the top-line growth. Being one of the largest cement manufacturers in the country, we expect Grasim to be the major beneficiary of the current upsurge in the cement realisation rates.



Source: Company Data, Indiabulls research

**Viscose Staple Fibre (VSF):** Strong global and domestic demand led to a significant rise in VSF realisation rate. Though sales volume increased by just 2% yoy to 68,552 mt, the realisation rate increased by 21% yoy to Rs. 1,08,935. The plants are working at a capacity utilisation rate of more than 100%. The Company has plans to expand the capacity by more by 31,000 tonnes in FY09E. This capacity expansion will help the Company to gain from the growing market of comfort clothing. Margins, which are currently at 30% plus levels, are expected to see some decline in the short-to- medium term due to an increase in raw material prices.

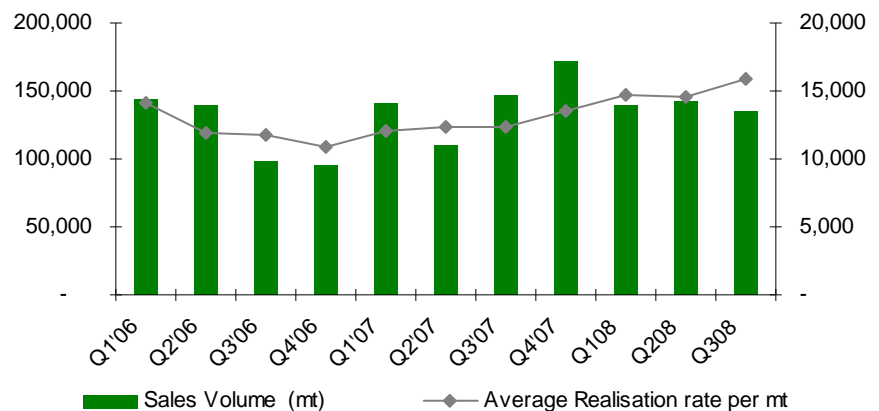


Source: Company Data, Indiabulls research

**Chemical:** Though the realisation rate has declined on a yoy basis, higher production and improvement in capacity utilisation rate resulted in a revenue growth of 52% yoy to Rs. 1,167 mn. Going forward, the realisations are likely to remain under pressure due to the demand-supply mismatch; hence,

we believe that sales growth will primarily be driven by the improvement in production volumes.

**Sponge Iron:** Net revenue grew by 25% yoy to Rs. 2,443 mn on the back of higher realisation rate. Though sales volume fell by 8% yoy as the Company has liquidated its stock in Q3'07; realisation rate increased by 29% yoy to Rs. 15,875. The increase in sponge iron prices is caused by firm global scrap prices and high bulk freight rates. Expected adequacy in gas availability will boost the growth in volumes in FY09E however uncertainty in gas prices is a cause of concern.



Source: Company Data, Indiabulls research

### Key Events

- During the quarter, the Company has completed the sale of its entire holding of 7,58,16,681 equity shares representing 53.63% of issued equity share capital of Shree Digvijay Cement Co. Ltd. (SDCCL), a subsidiary company. SDCCL has now ceased to be a subsidiary of the Company.
- The Company has commenced its new 1.30 mtpa grinding Unit at Dadri (U.P.).

### Key Risks

- Unexpected increase in gas prices could affect the margins of sponge iron business of the Company.

- Delay in the capacity expansion across segments will affect production volumes and might pose a threat to our rating.

### Outlook

Grasim's core business segments, Cement and VSF continue to be the key revenue generators for the Company. Grasim has put in place most of its capex plans to augment the production capacity of its core business. In the light of expected improvement in realisations and extensive market presence, we have a positive outlook for its Cement and VSF business and believe that they will continue to add tremendous value to the Company's bottomline.

At the current market price, Grasim is trading at a forward P/E of 9.9x FY08E and 7.5x FY09E. Based on SOTP valuation we have arrived at a target price of Rs. 3,622. Maintain Buy.

#### SOTP Valuation

Segments	Target Multiple	EV	Basis of Valuation
(In Rs. mn except per share data)			
Cement	8.7x	248,132	EV/EBIT (FY09E)
Viscose Staple Fibre (VSF)	7.0x	99,821	EV/EBIT (FY09E)
Sponge Iron	5.0x	3,645	EV/EBIT (FY09E)
Chemicals	5.0x	4,551	EV/EBIT (FY09E)
Textiles	1.0x	2,925	EV/Sales (FY09E)
Others (6.6% Equity stake in Idea Cellular Ltd.)		17,359	Current Market Cap
<b>Total</b>		<b>376,433</b>	
Market Capitalization		349,664	
Number of shares		91.7	
Value per share		3,813	
Less: Conglomerate Discount		5%	
<b>Target price</b>		<b>3,622</b>	

#### Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	92,917	102,240	140,952	150,893	192,805	17.0%
EBITDA	20,272	20,687	39,723	47,079	61,119	24.0%
Net Profit	9,433	9,910	19,626	23,705	31,221	26.1%
<b>Margins(%)</b>						
EBITDA	21.8%	20.2%	28.2%	31.2%	31.7%	
NPM	10.2%	9.7%	13.9%	15.7%	16.2%	
<b>Per Share Data (Rs.)</b>						
Adj. EPS	102.9	108.1	214.1	258.6	340.6	26.1%
PER (x)	11.8x	19.0x	12.0x	9.9x	7.5x	

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