RESULTS REVIEW

Share Data

Market Cap	Rs. 249.9 bn
Price	Rs. 2,725.45
BSE Sensex	16,123.67
Reuters	GRAS.BO
Bloomberg	GRASIM IN
Avg. Volume (52 Week)	0.05 mn
52-Week High/Low	Rs. 2,938 / 831
Shares Outstanding	91.7 mn

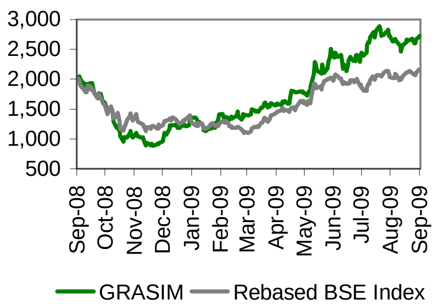
Valuation Ratios (Consolidated)

Year to 31 March	2010E	2011E
EPS (Rs.)	263.6	255.5
+/- (%)	10.5%	(3.1%)
PER (x)	10.3x	10.7x
EV/ Sales (x)	1.7x	1.6x
EV/ EBITDA (x)	6.2x	6.3x

Shareholding Pattern (%)

Promoters	25
FIIs	23
Institutions	20
Public & Others	31

Relative Performance



Grasim Industries Limited — Hold

Cement Segment continue to drive the growth

Grasim reported a good performance in Q1'10, primarily driven by strong results of the Cement segment. Consolidated revenue increased by 15.6% yoy to Rs. 50.8 bn in Q1'10, while the EBITDA margin surged by 264 bps yoy to 32%. Considering the strong demand for cement in the Infrastructure and Housing sectors, and the downward pressure on realisation and capacity utilisation rates, we have revised our rating from Buy to Hold.

Cement Segment to drive top-line growth: Cement demand has been growing at a robust rate of 9–12% over the last few months, and the trend is likely to continue with the increase in Infrastructure spending and the ongoing recovery in the Housing sector. This, along with Grasim's capacity additions of 3.15 million tonnes (mt) (including UltraTech Cement's capacity) by the end of FY10, is expected to support the Company's volume growth, and will also help in strengthening its market share. However, the huge capacity expansions planned by the industry (~50 mt by the end of 2009–10) are likely to surpass the incremental demand leading to an oversupply scenario, which is likely to put downward pressure on capacity utilisation and realisation rates in the coming quarters. As a result, we believe the operating margins are likely to decline from the second half of the FY10.

VSF Segment witnessed improvement, but recovery to remain subdued: The Viscose Staple Fibre (VSF) segment witnessed a strong growth mainly due to the resurgence of demand and prices, emanating from refilling of dried-up inventory in the value chain. However, demand for VSF is expected to decline further owing to the sluggish demand for textile across the globe and the increase in the rate of excise duty from 4% to 8% in India, resulting in a contraction in current volumes and lower realisation rates compared to H2 FY10. We continue to hold a cautious outlook towards the segment in the near term, unless there is a clear improvement in the global scenario.

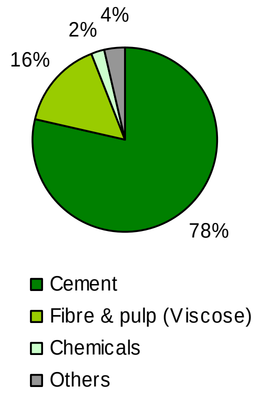
Key Figures (Consolidated)

Quarterly Data	Q1'09	Q4'09	Q1'10	YoY%	QoQ%	FY08	FY09	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	43,946	49,569	50,803	15.6%	2.5%	169,735	184,039	8.4%
EBITDA	12,890	12,834	16,241	26.0%	26.5%	51,267	45,286	(11.7%)
Adj. Net Profit	6,719	5,688	8,314	23.7%	46.2%	26,951	21,867	(18.9%)
Margins(%)								
EBITDA	29.3%	25.9%	32.0%			30.2%	24.6%	
NPM	15.3%	11.5%	16.4%			15.9%	11.9%	
Per Share Data (Rs.)								
Adj. EPS	73.3	62.0	90.7	23.7%	46.2%	294.0	238.5	(18.9%)

Valuation: The commissioning of Grasim's new cement capacities and the government's thrust on infrastructure is likely to provide a boost to revenues from Grasim's Cement segment, which accounts for ~80% of the consolidated revenues. We have revised our fair value estimate upwards to Rs. 2,992, which reflects a 9.8% upside potential from the current market price. Thus, we have revised our rating on the stock from Buy to Hold. .

Result Highlights (Consolidated)

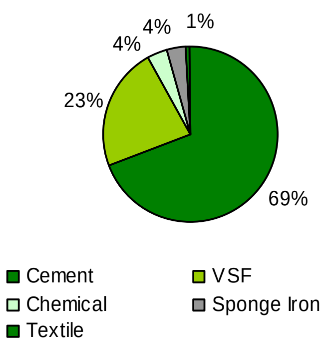
Revenue mix (Consolidated) for Q1'10



Grasim's consolidated net sales grew by 15.6% yoy and 2.5% qoq to Rs. 50.8 bn in Q1'10, primarily driven by a 30% yoy increase in the Cement segment's revenue, which accounts for around 80% of the total revenue. During the quarter, the EBITDA margin surged by 264 bps yoy to 32%, mainly due to a 2.5% yoy decline in raw material cost. On a sequential basis, the EBITDA margin increased by 608 bps due to a drop in raw material and power and fuel costs by 6.2% and 5.9%, respectively. The adjusted net profit increased by 23.7% yoy and 46.2% qoq to Rs. 8.3 bn on account of strong sales growth during the period. The reported net profit jumped by 60.7% yoy due to an extraordinary gain of Rs. 3,360.7 mn received from the sale of sponge iron.

Segmental Highlights (Standalone)

Revenue mix (Standalone) for Q1'10

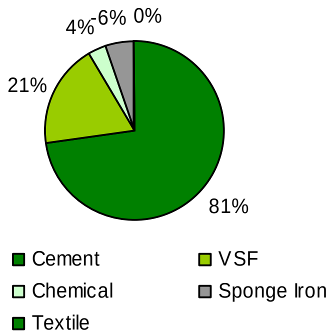


Source: Company data

Cement: The Company's Cement segment put up an impressive show during the quarter. Sales volumes of grey cement increased significantly by 23% yoy, while the realisation rate increased by 9%; the corresponding figures for white cement were 16% and 5%. However, the RMC business witnessed a slowdown on account of a lower demand from the organised Real Estate sector. Overall, the net revenue from the Cement segment surged 32% yoy to Rs. 19,788 mn in Q1'10, primarily due to the addition of 2.9 mt of new capacity and higher growth in the Northern region, as compared to a sector growth of 13% during the period. At the same time, the Company's EBITDA margin also improved by 460 bps yoy to 34.5% on the back of higher volumes, increased share of captive power, and softening of imported coal and petcoke prices. The share of thermal power increased from 41% to 78% during the quarter.

VSF: During Q1'10, the VSF segment also witnessed strong growth, mainly due to the resurgence of demand and prices, emanating from the refilling of dried up inventory in the value chain. This resulted in a 19% yoy increase in sales volumes during the period, despite the shutdown of the Nagda plant between

Operating profit mix (Standalone) for Q1'10



Source: Company data

May 22, 2009 and July 9, 2009, owing to water shortage in that period. Meanwhile, realisation rates were lower by 4% yoy in Q1'10; however, they increased sequentially by 12%. The fall in the realisation rate effected the segment's EBITDA margin, which declined by a 220 bps yoy to 27.5% during the quarter. However, on a sequential basis the EBITDA margins improved considerably from 17% in Q4'09 due to a better realisation rate and a reduction in input cost.

Chemicals: During the quarter, the performance of the Chemical business was subdued. Despite an 11% yoy increase in sales volume, the net revenue declined by 5% yoy to Rs. 1,202 mn in Q1'10 due to a 7% yoy decline in ECU realisation rate. The EBITDA margin also declined by 390 bps yoy to 29.4% during the quarter due to a steep fall in the prices of chlorine and hydrochloric acid, and higher salt cost.

Sale of sponge-iron business: During the quarter, the Company had sold the sponge-iron business to Welspun for a consideration of Rs. 10,300 mn, resulting in a net capital gain of Rs. 3,360 mn (net of taxes). The transaction was completed on May 22, 2009.

CAPEX Plans

Grasim's capital expenditure plans across its major business segments are at various stages of either commissioning or construction.

Cement Capex: The Cement segment's major capital expansion plans are underway. During the quarter, the consolidated cement capacity (including UltraTech Cement's capacity) increased by 31% to 45.65 mt with the addition of 4.1 mt of new capacity. For the next two years, a total capital outlay of Rs. 41.6 bn has been allocated towards its cement business including the UltraTech Cement's capex of Rs. 20.6 bn. The major part of this will be used for developing logistics infrastructure, waste heat recovery system, captive thermal power plant, evacuation facility, and modernisation and completion of existing projects.

Capex plans

Expansion Plans (Figures in Rs. Mn)	Total Project Cost	Net CAPEX to be incurred	Cash Outflow		Incurred in
			FY10	FY11	Q1 FY10
Cement Business	59,880	21,050	16,860	4,190	1,970
VSF Business	850	850	770	80	150
Other Businesses (Mainly Chemical)	820	820	540	280	70
GRASIM	**61,550**	**22,720**	**18,170**	**4,550**	**2,190**
ULTRATECH	39,070	20,550	9,200	11,350	630
GRASIM & ULTRATECH	**100,620**	**43,270**	**27,370**	**15,900**	**2,820**

Source: Company data

Outlook

The Company will continue to have market leadership position in the Cement and VSF businesses with a substantial increase in capacities and improved cost optimisation. We believe that the Company's long-term growth prospects remain positive, though, we are little cautious about the prospects in the near term.

Cement Business: The demand for cement has grown at a robust rate of 9–12% over the last few months, and the trend is likely to continue with the increase in Infrastructure spending and the ongoing recovery in the Housing sector. However, as the Cement industry plans to add ~50 mt of capacity in 2009–10, the incremental capacity is likely to be higher than the incremental demand, and an excess supply scenario is inevitable. Thus, the current strong realisations are likely to come under pressure in the coming quarters, resulting in a pressure on margins. However, the Company's initiatives in the form of capacity addition, new thermal power plants, and increased capital productivity are likely to help in partially offsetting the impact on margins.

VSF Business: The demand for VSF is expected to decline further owing to the sluggish demand for textile across the globe and the increase in the rate of excise duty from 4% to 8% in India, resulting in some contraction in the current volumes and lower realisation rates from H2 FY10. Though margins may continue to improve in the short term due to an increased realisation rate and lower input costs, the trend may reverse in the second half of FY10 unless there is a sustainable improvement in the global scenario.

Chemical Business: The demand for caustic soda is likely to be depressed due to the slowdown in growth in the Alumina segment in the international markets. The ECU realisation is expected to remain under pressure due to the prevailing global market conditions.

Valuation

We have revised our target price upwards to Rs. 2,992 per share, taking into account the current buoyancy in demand for cement and the commissioning of the Company's new capacities. Though we have factored the price decline in our valuation, we remain cautious about the effect of the capacity additions of 45–50 mt by the industry during FY10, which is likely to put some kind of a downward pressure on realisation and capacity utilisation rates.

The stock is currently trading at a forward P/E of 10.3x FY10 earnings and an EV/EBITDA of 6.2x. Our DCF-based fair value estimate reflects a 9.8% upside potential from the current stock price. Thus, we have revised our rating to Hold from Buy.

Key Figures (Consolidated)

Year to March	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY09-11E)
Net Sales	140,695	169,735	184,039	192,101	196,837	3.4%
EBITDA	39,344	51,267	45,286	52,463	51,002	6.1%
Adj. Net Profit	19,647	26,951	21,867	24,166	23,425	3.5%
Margins(%)						
EBITDA	28.0%	30.2%	24.6%	27.3%	25.9%	
NPM	14.0%	15.9%	11.9%	12.6%	11.9%	
Per Share Data (Rs.)						
Adj. EPS	214.3	294.0	238.5	263.6	255.5	3.5%
PER (x)	9.8x	8.8x	11.4x	10.3x	10.7x	

Sensitivity analysis of fair value estimate

DCF Sensitivity Analysis

		Cost of Capital (WACC)				
		11.8%	12.3%	12.8%	13.3%	13.8%
Terminal growth	4.0%	2,984	2,874	2,778	2,691	2,614
	4.5%	3,112	2,988	2,878	2,781	2,695
	5.0%	3,260	3,117	2,992	2,882	2,785
	5.5%	3,430	3,264	3,121	2,996	2,886
	6.0%	3,630	3,435	3,269	3,126	3,001

Source: Indiabulls research

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