

UBS Investment Research

Grasim Industries

Strong Q2 results, as expected

■ EBITDA better than expected; PAT in line

Grasim's Q2 standalone PAT (Rs5bn, up 48% YoY) was in line with our estimate (Rs4.96bn). The slightly higher-than-expected EBITDA was neutralised by slightly lower other income and slightly higher taxes.

■ Consolidated earnings growth stronger than standalone

Grasim's Q2 consolidated PAT (Rs6.2bn) grew 50% YoY, driven by Ultratech's strong performance. Grasim's H1 FY08 consolidated PAT was Rs12.9bn (up 52% YoY); that is, an EPS of Rs140.70. This is 48% of our FY08 EPS estimate of Rs293.50, implying that our estimate is reasonable, as H2 is traditionally stronger than H1 for Grasim's core (cement and VSF) businesses. Q2 was characterised by strong earnings growth in all divisions—VSF (EBITDA growth +82% YoY), cement (25%) and sponge iron (+418%).

■ Capex plans on schedule

Grasim's total capex plan is Rs61.2bn for FY08 and Rs18.2bn for FY09. In addition to 95KTPA VSF capacity expansion in Kharach (Gujarat) and Harihar (Karnataka), Grasim is planning an 88KTPA greenfield VSF plant in Vilayat (Gujarat). For cement, the company expects Shambhupura (4.4mt) and Ultratech's Tadipatri (4.9mt) be commissioned by end-FY08 and Kotputli (4.4mt) by Q1 FY09.

■ Valuation: maintain Rs4,100 price target

We value Grasim on a sum-of-the-parts methodology (details in our note dated 23 October).

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	102,176.90	140,620.70	164,022.09	181,873.30	196,143.39
EBIT (UBS)	15,055.60	33,623.60	44,310.36	48,958.38	51,670.70
Net Income (UBS)	10,365.10	19,674.90	26,915.02	30,227.53	32,963.18
EPS (UBS, Rs)	113.05	214.58	293.54	329.67	359.51
Net DPS (UBS, Rs)	20.00	27.49	29.69	32.07	34.64

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	15.5	23.9	27.0	26.9	26.3
ROIC (EBIT) %	19.5	34.5	34.9	32.5	32.8
EV/EBITDA (core) x	6.3	6.5	7.8	7.0	6.2
PE (UBS) x	9.0	11.0	12.9	11.4	10.5
Net dividend yield %	2.3	1.2	0.8	0.9	0.9

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs3,772.60 on 26 Oct 2007 23:39 HKT

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Global Equity Research

India

Industrial, Diversified

12-month rating **Buy**
Unchanged

12m price target **Rs4,100.00/US\$104.01**
Unchanged

Price **Rs3,772.60/US\$95.87 (ADR)**

RIC: GRAS.BO BBG: GRASIM IN

29 October 2007

Trading data (local/US\$)

52-wk range	Rs3,811.60-2,011.75/US\$97.43-45.65
Market cap.	Rs346bn/US\$8.79bn
Shares o/s	91.7m (ORD)/91.7m (ADR)
ADR ratio	1 ADR:1 ORD
Free float	75%
Avg. daily volume ('000)	32/-
Avg. daily value (Rsm)	104.1/-

Balance sheet data 03/08E

Shareholders' equity	Rs90.6bn
P/BV (UBS)	3.8x
Net Cash (debt)	(Rs30.1bn)

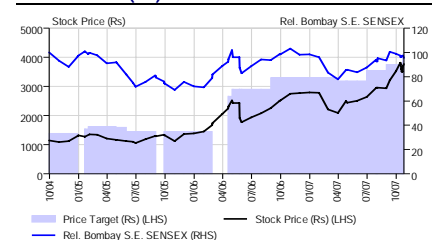
Forecast returns

Forecast price appreciation	+8.7%
Forecast dividend yield	0.9%
Forecast stock return	+9.6%
Market return assumption	11.9%
Forecast excess return	-2.3%

EPS (UBS, Rs)

	03/08E	03/07	03/10E
	UBS	Cons.	Actual
Q1E	48.95	-	35.73
Q2E	32.63	-	23.82
Q3E	30.26	-	22.09
Q4E	181.70	-	132.94
03/08E	293.54	293.54	
03/09E	329.67	329.67	

Performance (Rs)



Source: UBS

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

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Table 1: Q2FY08 results summary

(Rs m)	Q2 FY07	Q1 FY08	Q2 FY08E	YoY	QoQ
Total revenue (standalone)	20080	24448	25492	27%	4%
Total EBITDA	5326	7922	8050	51%	2%
EBITDA margin	26.5%	32.4%	31.6%	19%	-3%
Interest	245	285	272	11%	-5%
Depreciation	756	850	875	16%	3%
Other Income	502	677	573	14%	-15%
PBT	4827	7464	7476	55%	0%
Extraordinary (emp separation etc.)					
Tax (Incl deferred tax provision)	1449	2347	2478	71%	6%
PAT	3378	5117	4998	48%	-2%
Stand alone Pre-ex PAT	3378	5117	4998	48%	-2%

Source: Company data

VSF division performance

Consequent to two successive price hikes (Rs6.5/kg each) in Q1 and Q2, Grasim's VSF realisations were 24% higher YoY and 9% higher QoQ. Even though the cost increased (pulp prices higher 10% YoY), rupee appreciation and Grasim's increased captive pulp capacity helped neutralise the cost push effect somewhat.

Table 2: Grasim's VSF division performance

(Rs m)	Q2 FY07	Q1 FY08	Q2 FY08E	YoY	QoQ
VSF vol (MMT)	0.063	0.069	0.070	11%	1%
VSF revenue (Rs m)	5583	6999	7837	40%	12%
Realisation (Rs/kg)	83.3	94.5	103.0	24%	9%
EBITDA margin (%)	31.15%	36.6%	40.3%		
VSF cost per Kg	60.9	63.9	66.7	9%	4%
VSF EBITDA	1739	2562	3158	82%	23%

Source: Company data

Global demand for VSF is currently supported by increasing demand for comfort fabrics and knitted fabrics. Strong demand, coupled with upcoming capacity expansion, is likely to support Grasim's revenue and earnings growth in VSF.

Cement division

The 20% growth in revenue and 25% rise in EBITDA were driven primarily by 12% YoY realisation growth. Even though the operating cost increased Rs160/t (fuel cost rose Rs60/t due to the rise in imported coal and petcoke prices), Grasim has been able to pass on the cost increases to consumers in the strong demand environment.

Table 3: Grasim's cement division performance

(Rs m)	Q2 FY07	Q1 FY08	Q2 FY08E	YoY	QoQ
Cement volume (MT)	3.38	3.90	3.60	7%	-8%
Cement revenue (Rs mn)	9538	12024	11423	20%	-5%
Cement realisation (Rs/T)	2822	3083	3173	12%	3%
Cement - cost per ton	2264	2197	2425	7%	10%
RMC - sales volume (mn cu. M)	0.365	0.37	0.443	21%	18%
RMC realisation	2424	2585	2727	13%	5%
RMC - revenue	885	967	1208	37%	25%
White cement volume	0.09	0.09	0.09	3%	9%
White cement revenue (Rs m)	597	544	634	6%	16%
White cement realisation	6614	6403	6850	4%	7%
Total cement revenue	11393.1	13534.8	13620.0	20%	1%
Cement (grey and white) EBITDA	3438	4778	4311	25%	-10%

Source: Company data

We expect cement prices to remain firm for at least another 12-15 months, before some large capacity is commissioned in H1 FY10. In FY09, Grasim's cement division performance is likely to be stronger than in FY08, as new capacity (about 14mt) is to be commissioned by end-FY08 or Q1 FY09.

Sponge iron

Although sponge iron realisations and margins were down slightly on a QoQ basis, they remained significantly stronger on a YoY basis. Sponge iron currently contributes 8% on Grasim's standalone revenue and 3.5-4% of Grasim's standalone EBITDA, and hence, we think is relatively unimportant.

Table 4: Grasim's sponge iron division performance

(Rs m)	Q2 FY07	Q1 FY08	Q2 FY08	YoY	QoQ
Sponge iron volume (MT)	0.11	0.140	0.142	28%	2%
Sponge iron revenue (Rs mn)	1412	2188	2096	48%	-4%
Sponge iron realisation (Rs/T)	12728	15661	14765	16%	-6%
EBITDA margin (%)	4%	16.1%	14.3%	249%	-11%
Sponge iron cost per ton	12207	13140	12653	4%	-4%
Sponge iron EBITDA	58	352	300	418%	-15%

Source: Company data

Grasim does not intend to make significant new investments in the sponge iron business, and will likely maintain its strategy of maximum possible asset utilisation. Currently sponge iron capacity utilisation is 60-65%, supported by expensive alternative fuels. Grasim expects natural gas availability to increase from end-FY08.

Capex plans

Grasim's total capex plan is Rs61.2bn for FY08 and Rs18.2bn for FY09. In addition to 95KTPA VSF capacity expansion in Kharach (Gujarat) and Harihar (Karnataka), Grasim is planning an 88KTPA greenfield VSF plant in Vilayat (Gujarat). For cement, the company expects Shambhupura (4.4mt) and Ultratech's Tadipatri (4.9mt) to be commissioned by end-FY08 and Kotputli (4.4mt) by Q1 FY09.

Table 5: Capex plans

Rs bn	Total Cost	Project	Net Capex ¹	Cash FY08	Outflow- FY09	Cash FY09	Outflow-
1. Cement		51.23	40.85		33.5		7.15
- Kotputli & Shambhupura Projects, Rajasthan		32.76	25.29				
4.5 Mn. TPA each, (incl. 96 MW TPP)		0	0				
- 2 Nos. Thermal Power Plants (75 MW)		4.02	2.12				
- Grinding unit -North (1.3 Mn. MT)		2.04	1.16				
- RMC Plants (27 Nos., Capacity 6.2 mn. cu. mtrs.)		1.64	1.51				
- Modernisation & Upgradation, Land etc.		10.77	10.77				
2. VSF		7.32	6.9		5.2		1.3
- Capacity expansion, Kharach, Gujarat (63,875 TPA)		3.89	3.47				
- Modernisation & Upgradation		3.43	3.43				
3. Other Businesses		1.63	1.63		1.45		0.18
Grasim		60.18	49.38		40.15		8.63
UltraTech		39.65	33.4		21.1		9.59
- 4.9 Mn. TPA Tadpatri Project, A.P. (incl. 50 MW TPP)		16.13	12.68				
- 3 Nos. Thermal Power Plants (175 MW)		10.96	8.44				
- 2 Mn. GCW Grinding Capacity Augmentation		3.7	3.7				
- RMC plants (19 Nos., Capacity 3.6 mn. cu. mtrs.)		1.12	0.84				
- Modernisation & Upgradation, Land etc.		7.74	7.74				
Cement Business (Grasim & UltraTech)		90.88	74.25		54.60		16.74

Note: Net of capex incurred until FY07.

Source: Company data

Grasim Industries

Income statement (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	45,924.30	51,889.00	95,101.70	102,176.90	140,620.70	164,022.09	16.6	181,873.30	10.9	196,143.39	7.8
Operating expenses (ex deprn)	(35,837.60)	(39,139.60)	(74,785.00)	(81,490.30)	(100,897.40)	(113,211.74)	12.2	(125,414.91)	10.8	(136,722.68)	9.0
EBITDA (UBS)	10,086.70	12,749.40	20,316.70	20,686.60	39,723.30	50,810.36	27.9	56,458.38	11.1	59,420.70	5.2
Depreciation	(2,541.40)	(2,730.60)	(7,185.80)	(5,631.00)	(6,099.70)	(6,500.00)	6.6	(7,500.00)	15.4	(7,750.00)	3.3
Operating income (EBIT, UBS)	7,545.30	10,018.80	13,130.90	15,055.60	33,623.60	44,310.36	31.8	48,958.38	10.5	51,670.70	5.5
Other income & associates	933.10	1,451.20	1,975.50	2,384.60	2,821.60	3,500.00	24.0	3,680.00	5.1	3,900.00	6.0
Net interest	(1,287.40)	(986.00)	(2,072.50)	(1,888.30)	(1,930.60)	(2,173.31)	12.6	(2,029.49)	-6.6	(668.89)	-67.0
Abnormal items (pre-tax)	(1,745.40)	288.90	0.00	41.30	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	5,445.60	10,772.90	13,033.90	15,593.20	34,514.60	45,637.05	32.2	50,608.90	10.9	54,901.81	8.5
Tax	(1,770.00)	(2,980.00)	(4,420.90)	(4,027.00)	(10,920.70)	(14,019.33)	28.4	(15,182.67)	8.3	(16,470.54)	8.5
Profit after tax	3,675.60	7,792.90	8,613.00	11,566.20	23,593.90	31,617.72	34.0	35,426.23	12.0	38,431.27	8.5
Abnormal items (post-tax)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	0.00	0.00	190.30	(1,159.80)	(3,919.00)	(4,702.69)	20.0	(5,198.70)	10.5	(5,468.09)	5.2
Net income (local GAAP)	3,675.60	7,792.90	8,803.30	10,406.40	19,674.90	26,915.02	36.8	30,227.53	12.3	32,963.18	9.1
Net Income (UBS)	5,421.00	7,504.00	8,803.30	10,365.10	19,674.90	26,915.02	36.8	30,227.53	12.3	32,963.18	9.1
Tax rate (%)	32.50	27.66	33.92	25.83	31.64	30.72	-2.9	30.00	-2.3	30.00	0.0
Pre-abnormal tax rate (%)	24.61	28.42	33.92	25.89	31.64	30.72	-2.9	30.00	-2.3	30.00	0.0
Per share (Rs)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	40.09	84.99	96.01	113.50	214.58	293.54	36.8	329.67	12.3	359.51	9.1
EPS (UBS)	59.12	81.84	96.01	113.05	214.58	293.54	36.8	329.67	12.3	359.51	9.1
Net DPS	11.28	15.79	16.49	20.00	27.49	29.69	8.0	32.07	8.0	34.64	8.0
Cash EPS	86.84	111.62	174.38	174.46	281.11	364.43	29.6	411.47	12.9	444.03	7.9
BVPS	324.71	393.81	445.58	527.60	724.17	988.02	36.4	1,285.62	30.1	1,670.13	29.9
Balance sheet (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	32,700.90	32,182.70	62,998.80	64,155.80	84,721.40	119,234.10	40.7	129,914.10	9.0	131,164.10	1.0
Net intangible fixed assets	0.00	0.00	19,577.40	17,727.80	19,217.00	19,217.00	0.0	19,217.00	0.0	19,217.00	0.0
Net working capital (incl. other assets)	5,026.30	3,221.60	5,097.70	4,149.00	4,892.80	6,560.88	34.1	7,274.93	10.9	7,845.74	7.8
Other liabilities	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	37,727.20	35,404.30	87,673.90	86,032.60	108,831.20	145,011.98	33.2	156,406.03	7.9	158,226.84	1.2
Investments	12,078.10	13,826.40	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	49,805.30	49,230.70	87,673.90	86,032.60	108,831.20	145,011.98	33.2	156,406.03	7.9	158,226.84	1.2
Shareholders' equity	29,773.10	36,108.30	40,855.00	48,375.80	66,399.00	90,591.34	36.4	117,878.38	30.1	153,133.91	29.9
Minority interests	0.00	0.00	5,002.30	5,135.60	8,587.10	12,811.22	49.2	17,004.66	32.7	21,415.39	25.9
Total equity	29,773.10	36,108.30	45,857.30	53,511.40	74,986.10	103,402.56	37.9	134,883.03	30.4	174,549.30	29.4
Net debt / (cash)	13,777.20	6,797.40	30,022.50	20,938.40	22,319.50	30,083.82	34.8	9,997.40	-66.8	(27,848.07)	-
Debt deemed provisions	6,255.00	6,325.00	11,794.10	11,582.80	11,525.60	11,525.60	0.0	11,525.60	0.0	11,525.60	0.0
Total capital employed	49,805.30	49,230.70	87,673.90	86,032.60	108,831.20	145,011.98	33.2	156,406.03	7.9	158,226.84	1.2
Cash flow (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	7,545.30	10,018.80	13,130.90	15,055.60	33,623.60	44,310.36	31.8	48,958.38	10.5	51,670.70	5.5
Depreciation	2,541.40	2,730.60	7,185.80	5,631.00	6,099.70	6,500.00	6.6	7,500.00	15.4	7,750.00	3.3
Net change in working capital	819.20	1,804.70	(1,876.10)	948.70	(743.80)	(1,668.08)	124.3	(714.05)	-57.2	(570.80)	-20.1
Other (operating)	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	10,905.90	14,554.10	18,440.60	21,635.30	38,979.50	49,142.27	26.1	55,744.34	13.4	58,849.90	5.6
Net interest received / (paid)	(1,287.40)	(986.00)	(2,072.50)	(1,888.30)	(1,930.60)	(2,173.31)	12.6	(2,029.49)	-6.6	(668.89)	-67.0
Dividends paid	(1,034.20)	(1,447.80)	(1,512.40)	(1,833.50)	(2,521.00)	(2,722.68)	8.0	(2,940.49)	8.0	(3,175.73)	8.0
Tax paid	(1,770.00)	(2,980.00)	(4,420.90)	(4,027.00)	(10,920.70)	(14,019.33)	28.4	(15,182.67)	8.3	(16,470.54)	8.5
Capital expenditure	(2,551.20)	(2,237.30)	(4,590.30)	(6,797.70)	(26,649.60)	(41,012.70)	53.9	(18,180.00)	-55.7	(9,000.00)	-50.5
Net (acquisitions) / disposals	(1,882.60)	(1,748.30)	(19,673.60)	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	(1,917.50)	(5,697.70)	3,890.50	(5,831.00)	(9,198.40)	0.00	-	0.00	-	(.00)	-
Share issues	(10.30)	(9.90)	(2,544.00)	(1,052.30)	869.30	0.00	-100.0	0.00	-25.0	0.00	-33.3
Cash flow (inc)/dec in net debt	452.70	(552.90)	(12,482.60)	205.50	(11,371.50)	(10,785.75)	-5.2	17,411.68	-	29,534.73	69.6
FX / non cash items	969.40	7,532.70	(10,742.50)	8,878.60	9,990.40	3,021.42	-69.8	2,674.74	-11.5	8,310.74	210.7
Balance sheet (inc)/dec in net debt	1,422.10	6,979.80	(23,225.10)	9,084.10	(1,381.10)	(7,764.32)	462.2	20,086.43	-	37,845.47	88.4
Core EBITDA	10,086.70	12,749.40	20,316.70	20,686.60	39,723.30	50,810.36	27.9	56,458.38	11.1	59,420.70	5.2
Maintenance capital expenditure	(2,541.40)	(2,730.60)	(5,561.30)	(5,631.00)	(6,099.70)	(6,500.00)	6.6	(7,500.00)	15.4	(7,750.00)	3.3
Maintenance net working capital	0.10	0.10	0.10	0.10	0.10	0.10	0.0	0.10	0.0	0.10	0.0
Operating free cash flow, pre-tax	7,545.40	10,018.90	14,755.50	15,055.70	33,623.70	44,310.46	31.8	48,958.48	10.5	51,670.80	5.5

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Company profile

The AV Birla group holds 22% of Grasim. Grasim is India's largest manufacturer of viscose staple fibre (VSF) and cement (31.5mt consolidated) following the takeover of L&T's cement division. It also has interests in sponge iron and textiles.

Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	9.8	11.8	11.0	12.9	11.4	10.5
P/E (UBS)	9.0	11.8	11.0	12.9	11.4	10.5
P/CEPS	5.7	7.7	8.4	10.4	9.2	8.5
Net dividend yield (%)	2.3	1.5	1.2	0.8	0.9	0.9
P/BV	1.8	2.5	3.3	3.8	2.9	2.3
EV/revenue (core)	1.3	1.6	1.8	2.4	2.2	1.9
EV/EBITDA (core)	6.3	8.0	6.5	7.8	7.0	6.2
EV/EBIT (core)	8.8	10.9	7.7	8.9	8.1	7.2
EV/OpFCF (core)	8.5	10.9	7.7	8.9	8.1	7.2
EV/op. invested capital	1.7	1.9	2.6	3.1	2.6	2.4

Enterprise value (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Average market cap	122,427.1	215,887.5	345,909.7	345,909.7	345,909.7
+ minority interests	5,135.60	8,587.10	12,811.22	17,004.66	21,415.39
+ average net debt (cash)	25,480.45	21,628.95	26,201.66	20,040.61	(8,925.34)
+ pension obligations and other	11,582.80	11,525.60	11,525.60	11,525.60	11,525.60
- non-core asset value	0.00	0.00	0.00	0.00	0.00
Core enterprise value	164,626.0	257,629.2	396,448.1	394,480.5	369,925.3

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	24.3	7.4	37.6	16.6	10.9	7.8
EBITDA (UBS)	26.5	1.8	92.0	27.9	11.1	5.2
EBIT (UBS)	28.3	14.7	123.3	31.8	10.5	5.5
EPS (UBS)	27.9	17.7	89.8	36.8	12.3	9.1
Cash EPS	25.8	0.0	61.1	29.6	12.9	7.9
Net DPS	22.1	21.2	37.5	8.0	8.0	8.0
BVPS	15.5	18.4	37.3	36.4	30.1	29.9

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	21.4	20.2	28.2	31.0	31.0	30.3
EBIT / revenue	15.5	14.7	23.9	27.0	26.9	26.3
Net profit (UBS) / revenue	10.9	10.1	14.0	16.4	16.6	16.8

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	19.5	17.3	34.5	34.9	32.5	32.8
ROIC post tax	-	12.8	23.6	24.2	22.7	23.0
Net ROE	20.3	23.2	34.3	34.3	29.0	24.3

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	7.9	9.2	18.9	22.0	25.9	NM
Dividend cover (UBS EPS)	5.3	5.7	7.8	9.9	10.3	10.4
Div. payout ratio (% , UBS EPS)	18.9	17.7	12.8	10.1	9.7	9.6
Net debt / EBITDA	1.2	1.0	0.6	0.6	0.2	NM

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	1.3	1.2	1.4	1.3	1.2	1.2
Revenue / fixed assets	1.4	1.2	1.5	1.4	1.3	1.3
Revenue / net working capital	13.3	22.1	31.1	28.6	26.3	25.9

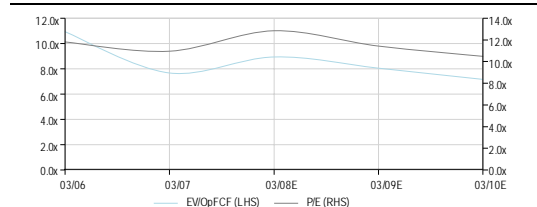
Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	5.3	6.7	19.0	25.0	10.0	4.6
Capex / depreciation	0.9	1.2	4.4	6.3	2.4	1.2

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	47.6	43.3	33.6	33.2	8.5	(18.2)
Net debt / (net debt + equity)	32.2	30.2	25.2	24.9	7.8	(22.2)
Net debt (core) / EV	18.3	15.5	8.4	6.6	5.1	(2.4)

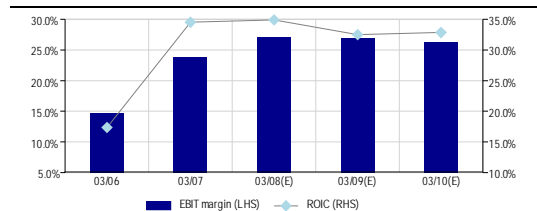
Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.

Valuations: based on an average share price that year, (E): based on a share price of Rs3,772.60 on 26 Oct 2007 23:39 BST Market cap(E) may include forecast share issues/buybacks.

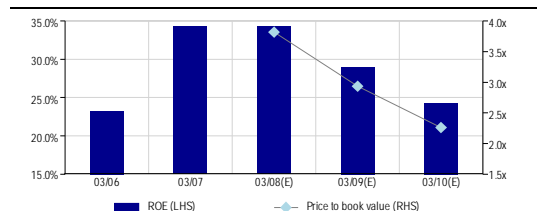
Value (EV/OpFCF & P/E)



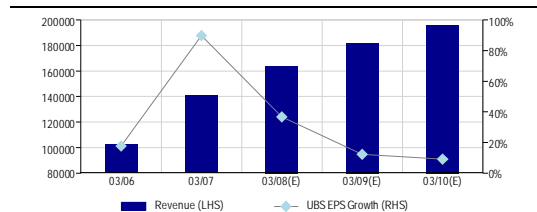
Profitability



ROE v Price to book value



Growth (UBS EPS)



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■ Grasim Industries

The AV Birla group holds 22% of Grasim. Grasim is India's largest manufacturer of viscose staple fibre (VSF) and cement (31.5mt consolidated) following the takeover of L&T's cement division. It also has interests in sponge iron and textiles.

■ Statement of Risk

The principal risk to Grasim's earnings estimate arises from fluctuations in the selling prices of its various commodity businesses—particularly cement—which contributes more than 70% to Grasim's consolidated EBITDA

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Grasim Industries ¹⁶	GRAS.BO	Buy	N/A	Rs3,772.60	26 Oct 2007

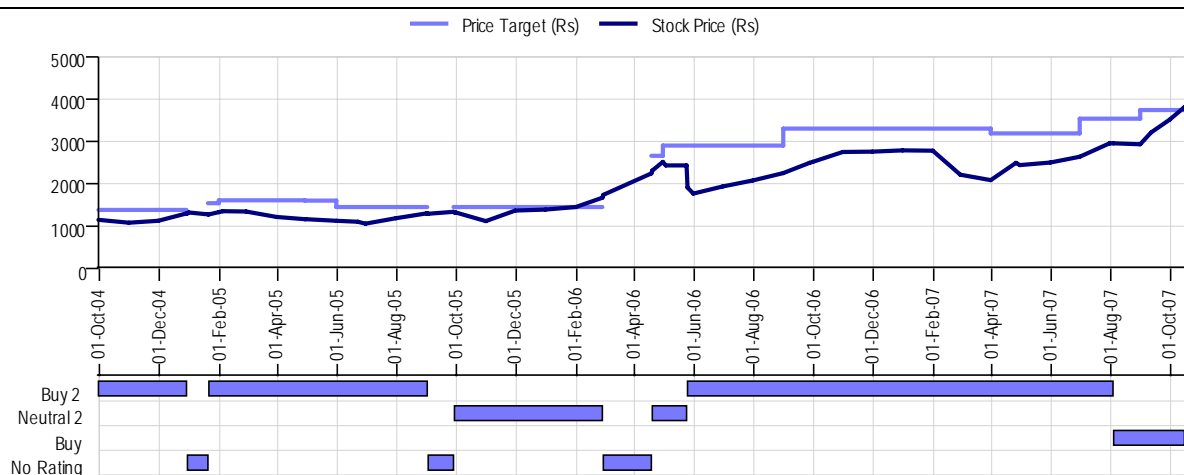
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities LLC makes a market in the securities and/or ADRs of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Grasim Industries (Rs)



Source: UBS; as of 26 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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