

January 27, 2011

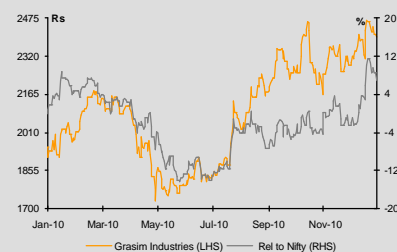
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs2,359	Rs2,730
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,604
Sensex	18,684

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	4	29	21
Rel. to Nifty	10	12	23	7

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Cement
Bloomberg	GRASIM@IN
Equity Capital (Rs mn)	917
Face Value(Rs)	10
No of shares o/s (mn)	92
52 Week H/L	2,510/1,672
Market Cap (Rs bn/USD mn)	217/4,747
Daily Avg Volume (No of sh)	70353
Daily Avg Turnover (US\$mn)	3.6

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	25.5	25.5	25.5
FII/NRI	38.2	38.3	36.0
Institutions	19.6	19.6	21.0
Private Corp	5.2	5.0	5.6
Public	11.5	11.7	12.0

Source: Capitaline

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- **Grasim's Q3FY11 net profit at Rs2.83bn (+7.9%yoy) ahead of estimates (led by high other income earned through dividends from subsidiaries)**
- **Revenue (Rs 12.1 bn) grew 17.8% yoy driven by better VSF volumes (+4.1% yoy) and improved realizations (+12.3 % yoy). EBITDA at Rs3.64bn declined 6.7%yoy but improved 38% qoq**
- **Higher pulp prices led to decline of 3.7% yoy in VSF EBIDTA (Rs 3.88bn). However improved realizations resulted in margin expansion of 252 bps qoq to 34.4%**
- **At CMP stock implying holdco discount of ~43%. Standalone biz significantly undervalued with implied multiples of 2.5x EV/EBITDA which are unwarranted. Maintain ACCUMULATE**

Standalone revenues grow 17.8% yoy

Standalone revenues at Rs12.13bn (our estimate of Rs11.9bn) registered a growth of 17.8% yoy and 30.1% qoq, as VSF revenues grew 17.3% yoy to Rs11.3bn with realizations improving 12.3% yoy and 5.7% qoq. Chemical division revenues at Rs1.47bn posted a growth a 21.6% yoy and 23% qoq.

EBITDA at Rs3.64 bn , down 6.7% yoy but improved 38% qoq

EBITDA at Rs3.64bn declined 6.7%yoy as higher pulp prices resulted in 3.7% decline in VSF EBITDA (Rs3.8 bn). VSF margins contracted by 753bps yoy to 34.4%. However on sequential basis margins expanded by 252 bps driven by better production and improved VSF realization. We would like to highlight that though on standalone basis VSF EBITDA declined by 3.7% yoy (due to higher pulp prices) , on consolidated basis it grew by 2.1% to Rs4.28 bn on account of better profitability from Pulp JVs.

P&F costs(Rs1.4 bn) increased 19.7% yoy and 24% qoq due to higher imported coal contract prices which rose from USD110/t (in Q2FY11) to USD125/t. Freight costs increased 34.6% yoy and 34%qoq (Rs142 mn)due to increase in rail freight whereas other expenses increased 40%yoy thereby exerting further pressure on margins. Overall EBIDTA margins at 29.9% declined 789 bps yoy but improved 166bps qoq.

Net Profit grew 8% yoy

Net profit at Rs2.83bn grew by 8% yoy , higher than our estimates of Rs2.64bn due to higher other income that the company received through dividends from subsidiaries. Depreciation charges increased 18% yoy whereas interest charges increased by 5.3%yoy.

Financial Snapshot

										Rs Mn	
YE-	Net	EBITDA		EPS	EPS	RoE		EV/	P/BV		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA		
FY09	184,039	43,298	23.5	21,867	238.5	-24.3	21.1	9.9	5.5	1.9	
FY10	199,334	57,867	29.0	27,595	301.0	26.2	22.9	7.9	3.5	1.7	
FY11E	195,198	44,728	22.9	18,539	202.2	-32.8	13.9	11.7	4.4	1.5	
FY12E	220,233	52,950	24.0	21,518	234.7	16.1	14.2	10.1	3.8	1.4	

Result Table

(Y/E Mar, Rs mn)	Q3FY10*	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10**	YoY (%)
Net Sales	10,302	11,037	9,449	9,326	12,137	17.8%	30.1%	30,912	70,685	NA
Total Expenditure	6,404	7,999	6,437	6,689	8,502	32.8%	27.1%	21,628	47,756	NA
as % of sales	62%	72%	68%	72%	70%			70%	68%	NA
stock	-75	271	-198	-203	-13	-82.3%	-93.5%	-415	-162	NA
as % of sales	-1%	2%	-2%	-2%	0%			-1%	0%	NA
raw material consumption	3,833	4,501	4,131	4,088	5,365	40.0%	31.3%	13,584	17,180	NA
as % of sales	37%	41%	44%	44%	44%			44%	24%	NA
purchase of traded goods	0	0	0	0	0	#DIV/0!	#DIV/0!	0	309	NA
as % of sales	0%	0%	0%	0%	0%			0%	0%	NA
payment to employees	793	730	705	827	802	1.1%	-3.0%	2,334	4,079	NA
as % of sales	8%	7%	7%	9%	7%			8%	6%	NA
power and fuel	1,174	1,178	1,057	1,133	1,406	19.7%	24.1%	3,596	10,478	NA
as % of sales	11%	11%	11%	12%	12%			12%	15%	NA
freight and handling	106	149	118	106	142	34.6%	33.7%	367	7,145	NA
as % of sales	1%	1%	1%	1%	1%			1%	10%	NA
other expenditure	573	1,170	623	739	801	39.6%	8.4%	2,163	8,726	NA
as % of sales	6%	11%	7%	8%	7%			7%	12%	NA
EBIDTA	3,897	3,037	3,012	2,638	3,635	-6.7%	37.8%	9,284	22,928	NA
Depreciation	375	408	445	453	442	18.1%	-2.4%	1340	3104	NA
EBIT	3,523	2,629	2,567	2,185	3,192	-9.4%	46.1%	7,944	19,825	NA
Other Income	798	925	593	1623	842	5.5%	-48.1%	3058	2833	NA
Interest	112	112	102	103	117	5.3%	14.2%	323	1092	NA
PBT	4,209	3,443	3,058	3,705	3,917	-6.9%	5.7%	10,679	21,565	NA
Tax	1590	549	820	908	1089	-31.5%	19.9%	2817	6899	NA
Adjusted PAT	2619	2894	2238	2796	2827	7.9%	1.1%	7862	14667	NA
(Profit)/loss from JV's/Ass/MI									3361	NA
APAT after MI	2619	2894	2238	2796	2827	7.9%	1.1%	7862	18028	NA
Extra ordinary items										NA
Reported PAT	2,619	2,894	2,238	2,796	2,827	7.9%	1.1%	7,862	18,028	NA
Reported EPS	65.0	65.8	58.8	30.5	30.8	-52.6%	1.1%	85.7	160.0	NA

Margins (%)

EBIDTA	37.8%	27.5%	31.9%	28.3%	29.9%	-789	166	30.0%	32.4%	240
EBIT	34.2%	23.8%	27.2%	23.4%	26.3%	-789	288	25.7%	28.0%	235
EBT	40.9%	31.2%	32.4%	39.7%	32.3%	-859	-745	34.5%	30.5%	-404
EAT	25.4%	26.2%	23.7%	30.0%	23.3%	-213	-669	25.4%	20.7%	-468
Tax rate	37.8%	15.9%	26.8%	24.5%	27.8%	-996	329	26.4%	32.0%	561

*Note: YoY figures for Q3FY10 are restated by the company and are comparable on yoy basis . However YTD'10 nos are not adjusted for demerger of cement business hence are not strictly comparable.

Consolidated revenues decline 5% yoy- net profit declines 59%

On account of improved performance of VSF division, Grasims consolidated revenues for the quarter at Rs53.84bn grew 12%yoy and 21% qoq. Consolidated EBITDA at Rs11.2bn declined 19% yoy on account of 24.4% decline in EBITDA from cement division. Similarly APAT after minority interest at Rs5.02bn declined 30% yoy.

Consolidated Results

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)	Q3FY10
Revenues	47884	53856	50552	44390	53845	12%	21%	148787	145427	2.3%	47884
Exp	34035	40416	37513	37179	42644	25%	15%	117335	100959	16.2%	34035
EBITDA	13848	13441	13039	7211	11202	-19%	55%	31452	44468	-29.3%	13848
Other income	1263	1560	1598	1625	1472	17%	-9%	4694	3751	25.2%	1263
Operating Margin	29%	25%	26%	16%	21%	-812	456	21%	31%	-9.4%	29%
PAT	7153	6545	5751	3234	5018	-30%	55%	14002	23411	-40.2%	7153

Segmental Performance**VSF**

- Volumes at 84,621mnt grew 4.1% yoy and 25.4%qoq as Nagda Plant (which affected volumes last quarter due to shutdown for 25 days) remained functional throughout the quarter.
- Realizations are at Rs123.06/kg which have improved 12.3% yoy driven by cotton shortage globally which has further deteriorated by damage of crops in Pakistan due to floods and has resulted in improved demand for VSF.
- We would like to highlight that though on standalone basis VSF EBITDA declined by 3.7% yoy to Rs3.8bn (due to higher pulp prices), on consolidated basis it grew by 2.1% to Rs4.28 bn on account of better profitability from Pulp JVs.
- EBITDA margins at 34.4 were lower by 753 bps from their highest margins of Q3FY10 but improved by 252 bps sequentially on account of improved realizations.

Chemical

- Sales volumes at 67136 tonnes grew 9.5%yoy and 30.1% qoq
- However realizations at Rs18125/t though improved 10%yoy declined by 6.6% sequentially
- Resultant sales at Rs 1.47 bn (our estimate of Rs1.36bn) grew 22% yoy, while EBITDA at Rs314 mn (lower than our estimates of Rs381 mn), grew by 11% yoy but declined by 2.8%qoq.

Segmental performance

(Rs mn)	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Sales										
VSF	9624	10447	8561	8555	11293	17.3%	32.0%	28409	25278	12.4%
Chemical	1213	1201	1187	1200	1475	21.6%	22.9%	3862	3728	3.6%
EBIDTA										
VSF	4037	3632	3042	2728	3886	-3.7%	42.4%	9656	9566	0.9%
Chemical	283	247	311	323	314	11.0%	-2.8%	948	1001	-5.3%
EBIDTA (%)										
VSF	42%	35%	36%	32%	34%	-753	252	34%	38%	-385
Chemical	23%	21%	26%	27%	21%	-204	-563	25%	27%	-230

Standalone Capex

Grasim has planned investments of Rs33.79 bn over next three years in VSF and Chemical businesses. This includes Greenfield project of 120,000 tons at Vilayat, Gujarat at a cost of Rs.1,690 Crores, which is expected to start commercial operation by FY2013 and Brownfield expansion at Harihar with a capacity of 36,500 tons and plant upgradation at a cost of Rs.449 Crores.

Rs Mn	Net Capex to be spent	Cash Outflow	
		FY11	FY12 & onwards
VSF Business			
- Vilayat (120,000 TPD) and Harihar Project (36,500 TPD)	21390		
- Other Capex	3340		
Chemical Plant – Vilayat (182,500 TPD)	7720		
Chemical Business and Other Capex	1340		
Standalone Capex (A)	33790	5870	27920

Cement business Capex

Grasim has planned a total cement capex of Rs101.56 bn out of which UTCL has an ongoing capex plan of Rs100 bn which will be spent over the next 3 years on augmenting its grinding capacity in Gujarat, installing waste heat recovery systems and setting up of packaging terminals across locations. Also the capex plans entails setting up of clinkerization plants at Chhattisgarh and Karnataka. Consequent to these expansions total cement capacity additions will be 9.2 mtpa with Overall capacity reaching 61.2mtpa.

Rs Mn	Net Capex To be spent	Cash Outflow	
		FY11	FY12 & onwards
Cement Subsidiaries			
- Capacity expansion – 4.8 Mn TPA at Raipur, Chhattisgarh and 4.4 Mn. TPA at Malkhed, Karnataka	56000		
- Residual capex for earlier projects	6290		
- Material Evacuation and Logistic Infrastructure	11810		
- Thermal Power Plant (25 MW) & Waste Heat Recovery System (38 MW)	4600		
- Bricks (2 Units) & RMC Plants	1350		
- Modernisation, Upgradation and others	21510		
Cement Business Capex	101560	20690	80870

Grasim SoTP fair value at Rs2,730

Business segment	Valuation measure	Rsmn	Rs/share	(Rs/share)
Equity value of consolidated cement business		284481		
Grasim's Stake in cement business		60.3%		
Value of Grasim's stake in cement business		171627	1870	1870
Holding Co disc			0%	25%
Total value of cement business		171627.4	1872	1404
ADD: Value of Non Cement Business				
Viscose Staple Fibre	5X EV/EBIDTA	72047	786	786
Chemical	3X EV/EBIDTA	3640	40	40
Other	3X EV/EBIDTA	934	10	10
Total Value Of Non Cement Business		76621	836	836
Total value of Investments	@25% discount	52747	575	575
Total Enterprise value		300996	3282	2814
Less:				
Standalone Debt		7362	80	80
Target Mcap		293634	3202	2734

Source: Emkay Research

Grasim's Standalone Business significantly undervalued – FY12E implied EV/EBIDTA at 2.5X

At current levels the stock is implying holding company discount of ~4.3%. Assigning a 25% holdco discount to all investments of Grasim, at current levels, Grasim's standalone business looks significantly undervalued with the implied multiples of 2.5x FY12 EV/EBITDA. We believe such pessimistic valuations are unwarranted, given that peak VSF margins are ahead for us. Maintain our ACCUMULATE rating on the stock with a revised price target of Rs2730.

	Rs mn
Grasim's Current EV	221165
Less:	
Value of Grasim 60.3% stake in Ultratech @ 25% Holdco Discount	128605
Value of other investment @ 25% discount to CMP	52689
Implied Value of Grasim Standalone business	39870
Grasim FY12E Standalone EBIDTA	15934
Implied EV/EBIDTA (X)	2.5

Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Net Sales	184039	199334	195198	220233
Growth (%)	7.9	8.3	-2.1	12.8
Total Expenditure	140741	141467	150470	167283
Raw Materials Cost	40813	37637	16863	18748
Power & Fuel cost	61016	62733	30856	34517
Freight	9536	10586	10705	11775
Others	29378	30510	92047	102243
EBIDTA	43298	57867	44728	52950
Growth (%)	-12.6	33.6	-22.7	18.4
EBIDTA %	23.5	29.0	22.9	24.0
Depreciation	8658	9947	10710	12498
EBIT	34640	47920	34018	40452
EBIT Margin (%)	18.8	24.0	17.4	18.4
Other income	4530	5356	5120	5563
Interest	3104	3346	3855	4253
EBT	36066	49930	35283	41762
Tax	9914	15705	10797	13040
Effective tax rate (%)	27.5	31.5	30.6	31.2
Adjusted PAT	26152	34225	24485	28722
Growth (%)	-21.8	30.9	-28.5	17.3
Net Margin (%)	14.2	17.2	12.5	13.0
E/O items	-4444	-7141	-5947	-7204
Reported PAT	21867	27595	18539	21518
(Profit)/loss from JV's/Ass/MI	0.0	-3360.7	0.0	0.0
PAT after MI	21867	30955	18539	21518
Growth (%)	-24.3	41.6	-40.1	16.1

Cash Flow

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	36066	49930	30163	36199
Depreciation	8658	9947	10710	12498
Interest Provided	2658	3143	3855	4253
Other Non-Cash items	-2859	-2045	0	0
Chg in working cap	-2885	-1497	19511	7838
Tax paid	-5509	-11190	-10797	-13040
Operating Cashflow	36129	48288	53442	47748
Capital expenditure	-26412	-14555	-45114	-53237
Free Cash Flow	9717	33733	8328	-5489
Other income	1548	12497	5120	5563
Investments	-11661	-32909	0	0
Investing Cashflow	-36526	-34967	5120	5563
Equity Capital Raised	222	18	0	0
Loans Taken / (Repaid)	6664	-4647	-1143	7000
Interest Paid	-3316	-4039	-3855	-4253
Dividend paid (incl tax)	-3033	-3025	-2218	-2574
Income from investments	392	-1009	0	0
Others	-1166	-520	0	0
Financing Cashflow	-237	-13221	-7216	173
Net chg in cash	-633	100	6232	246
Opening cash position	2903	2270	2379	8611
Closing cash position	2270	2370	8611	8858

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	917	917	917	917
Preference paid up	332	363	363	363
Reserves & surplus	114209	123827	140148	159091
Networth	115579	125246	141567	160511
Minority Interest	16704	37548	43495	50699
Secured Loans	37197	38508	37544	43544
Unsecured Loans	21964	17484	17305	18305
Loan Funds	59162	55992	54850	61850
Net Deferred tax liability	15919	20057	20057	20057
Total Liabilities	207364	238844	259969	293117
Gross Block	210631	229509	251212	289684
Less: Depreciation	68254	71646	82355	94853
Net block	142377	157864	168857	194831
Capital work in progress	19822	7734	31145	45910
Investment	35627	66759	66759	66759
Current Assets	45343	45379	47364	50519
Inventories	22210	21835	18366	20496
Sundry debtors	8239	8803	6912	7690
Cash & bank balance	2270	2379	8611	8858
Loans & advances	12625	12362	13475	13475
Current liabilities	35806	38891	54156	64902
Current liabilities	29245	30370	44247	54993
Provisions	6562	8522	9909	9909
Net current assets	9537	6488	-6792	-14383
Miscellaneous expenditure	1	0	0	0
Total Assets	207363	238844	259969	293117

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	23.5	29.0	22.9	24.0
Net Margin	14.2	17.2	12.5	13.0
ROCE	20.7	23.9	15.7	16.6
ROE	21.1	22.9	13.9	14.2
RoIC	28.1	30.8	21.6	24.9
Per Share Data (Rs)				
EPS	238.5	301.0	202.2	234.7
CEPS	333.0	409.5	319.1	371.1
BVPS	1261	1366	1544	1751
DPS	30	30	20	23
Valuations (x)				
PER	9.9	7.9	11.7	10.1
P/CEPS	7.1	5.8	7.4	6.4
P/BV	1.9	1.7	1.5	1.4
EV / Sales	1.3	1.0	1.0	0.9
EV / EBITDA	5.5	3.5	4.4	3.8
Dividend Yield (%)	1.3	1.3	0.9	1.0
Gearing Ratio (x)				
Net Debt/ Equity	0.2	-0.1	-0.1	-0.1
Net Debt/EBIDTA	0.5	-0.2	-0.5	-0.3
Working Cap Cycle (days)	2.4	0.5	0.0	0.0

Recommendation History: Grasim Industries – GRASIM IN

Date	Reports	Reco	CMP	Target
15/12/2010	Grasim Industries Company Update	Accumulate	2,365	2,730
01/11/2010	Grasim Q2FY11 Result Update	Accumulate	2,240	2,600
02/08/2010	Grasim Industries Q1FY11 Result Update	Accumulate	1,587	2,340
24/05/2010	Grasim Industries Q4FY10 Result Update	Accumulate	2,453	2,997

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/01/2011	Ultratech Cement Q3FY11 Result Update	Reduce	1,019	1,040
21/01/2011	Orient Paper Q3FY11 Result Update	Buy	50	77
21/01/2011	Cement Sector Update			
31/12/2010	IRB Infrastructure Event Update	Accumulate	224	304

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