

VSF volume growth drives EBITDA above estimates

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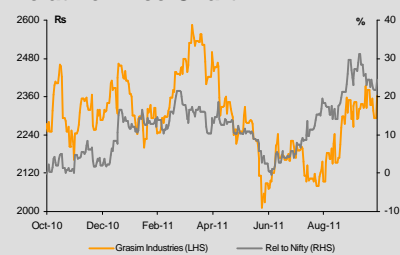
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs2,362	Rs2,700
EPS change FY11E/12E (%)	+1.0 / +1.2
Target Price change (%)	+4
Nifty	5,098
Sensex	16,939

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	6	(4)	5
Rel. to Nifty	(4)	18	10	25

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	2,625/1,981
Market Cap (Rs bn/USD mn)	217/4,347
Daily Avg Volume (No of sh)	82333
Daily Avg Turnover (US\$mn)	3.7

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	25.6	25.5	25.5
FII/NRI	38.2	38.2	38.2
Institutions	17.8	18.2	19.6
Private Corp	7.0	6.7	5.2
Public	11.4	11.4	11.5

Source: Capitaline

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- **Grasim's Q2FY12 EBITDA at Rs2.9 bn (+10% yoy) above estimates led by higher VSF volumes. PAT at Rs3.44 bn (+23%yoy) ahead of est, led by high other income**
- **17% jump in VSF volumes help rev. growth of 29%. Post high volatility seen in VSF prices in Q1FY12, prices have started recovering in Sept-11. Management shares uncertain price trend for VSF due to economic conditions in the euro zone**
- **Though we expect Grasim standalone EBITDA to decline over H2FY12 (led by lower VSF prices & high Base of H2FY11), we expect cement business to improve consol EBITDA profile**
- **Upgrade in Ultratech earnings along with higher volumes for VSF have led to earnings upgrade for FY12E/13E by 1%/1.2%. Maintain Accumulate with revised price target of Rs2700**

EBITDA above estimates led by higher VSF volumes

Grasim's Q2FY12 EBITDA at Rs2.9bn (+ 10% yoy) came in above estimates (Rs2.6bn) driven by higher than estimated VSF volumes. VSF volumes improved 17% yoy (due to low base as Q2FY11 had seen 25 days plant shutdown) & 44% qoq (led by re-stocking of inventories in the market which had come in Q1FY12). Also VSF realizations for the quarter at Rs125/kg started showing some recovery in the month of September as compared to quarter average taking the revenues from VSF to Rs10.82 bn, up 26.5% yoy, above estimates of Rs9.36bn. Similarly with 30.4% yoy growth in chemical volumes and 24% improvement in ECU realizations, revenues from the chemical division at Rs1.92bn (vs estimates of Rs1.53bn) grew 60% yoy. Margins in VSF business at 28.5% contracted 340 bps yoy & 1040 bps sequentially fully reflecting the sharp increase in pulp & caustic price yoy and the decline in VSF realization sequentially.

Sharp jump in other income drive net profit significantly above estimates

PAT at Rs3.44bn grew 23.3% yoy, significantly above our estimates of Rs2.35 bn on account of higher other income of Rs2.15bn that the company received through dividends from subsidiaries & high investment yields. Also Grasim's tax rate for the quarter at 25% was lower than our estimates of 28%.

Better show from Ultratech helps conso net profit growth of 29% yoy

With Ultratech delivering an EBITDA growth 43%, Grasim consolidated EBITDA grew by a healthy 25.2% yoy to Rs9.02 bn, while consolidated net profit grew by 29% yoy to Rs4.18 bn.

Financial Snapshot (Consolidated) Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	199,334	57,867	29.0	27,595	300.9	26.2	22.9	7.3	3.5	1.6
FY11	212,690	46,832	22.0	22,790	248.5	-17.4	16.8	8.9	4.5	1.4
FY12E	224,493	51,602	23.0	22,324	243.4	-2.0	14.4	9.1	4.0	1.2
FY13E	245,500	57,894	23.6	23,343	254.5	4.6	13.3	8.7	4.1	1.1

Result Table

(Y/E Mar, Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTD'12	YTD'11	YoY (%)
Net Sales	9,326	12,137	14,258	10,234	12,035	29.0%	17.6%	22,269	18,776	18.6%
Total Expenditure	6,689	8,502	9,638	6,705	9,130	36.5%	36.2%	15,835	13,126	20.6%
as % of sales	72%	70%	68%	66%	76%			71%	70%	1.7%
stock	-203	-13	285	-1,430	-516	154.0%	-63.9%	-1,946	-401	384.8%
as % of sales	-2%	0%	2%	-14%	-4%			-9%	-2%	308.7%
raw material consumption	4,088	5,365	5,942	5,177	6,063	48.3%	17.1%	11,240	8,219	36.8%
as % of sales	44%	44%	42%	51%	50%			50%	44%	15.3%
purchase of traded goods	0	0	0	0	41			41	0	
as % of sales	0%	0%	0%	0%	0%			0%	0%	
payment to employees	827	802	666	764	809	-2.2%	5.8%	1,572	1,532	2.6%
as % of sales	9%	7%	5%	7%	7%			7%	8%	-13.5%
power and fuel	1,133	1,406	1,393	1,381	1,751	54.6%	26.7%	3,132	2,190	43.0%
as % of sales	12%	12%	10%	13%	15%			14%	12%	20.6%
freight and handling	106	142	161	111	170	59.7%	52.7%	281	225	25.0%
as % of sales	1%	1%	1%	1%	1%			1%	1%	5.4%
other expenditure	739	801	1,191	702	813	10.1%	15.9%	1,515	1,362	11.2%
as % of sales	8%	7%	8%	7%	7%			7%	7%	-6.2%
EBIDTA	2,638	3,635	4,620	3,529	2,905	10.1%	-17.7%	6,434	5,650	13.9%
Depreciation	453	442	423	351	356	-21.4%	1.6%	707	898	-21.3%
EBIT	2,185	3,192	4,197	3,178	2,549	16.7%	-19.8%	5,727	4,752	20.5%
Other Income	1623	842	1209	1010	2157	32.9%	113.6%	3167	2216	42.9%
Interest	103	117	133	106	107	3.9%	0.8%	213	205	3.8%
PBT	3,705	3,917	5,273	4,082	4,599	24.1%	12.7%	8,681	6,763	28.4%
Tax	908	1089	1318	941	1150	26.7%	22.3%	2091	1728	21.0%
Adjusted PAT	2796	2827	3955	3141	3448	23.3%	9.8%	6590	5035	30.9%
(Profit)/loss from JV's/Ass/MI										
APAT after MI	2796	2827	3955	3141	3448	23.3%	9.8%	6590	5035	30.9%
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	2,796	2,827	3,955	3,141	3,448	23.3%	9.8%	6,590	5,035	30.9%
Reported EPS	30.5	30.8	43.1	34.3	37.6	23.3%	9.8%	71.9	54.9	30.9%

Margins (%)

EBIDTA	28.3%	29.9%	32.4%	34.5%	24.1%	-414.61	-1,034.73	28.9%	30.1%	-120
EBIT	23.4%	26.3%	29.4%	31.1%	21.2%	-224.85	-988.11	25.7%	25.3%	41
EBT	39.7%	32.3%	37.0%	39.9%	38.2%	-150.74	-167.58	39.0%	36.0%	297
EAT	30.0%	23.3%	27.7%	30.7%	28.7%	-132.75	-204.10	29.6%	26.8%	278
Tax rate	24.5%	27.8%	25.0%	23.0%	25.0%	49.64	196.64	24.1%	25.6%	-146

Consolidated Results

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTD'12	YTD'11	YoY (%)
Revenues	44390	53845	63903	58721	56492	27%	-4%	115213	94942	21.4%
Exp	37179	42644	48524	42967	47464	28%	10%	90431	74692	21.1%
EBITDA	7211	11202	15380	15754	9028	25%	-43%	24782	20250	22.4%
Other income	1625	1472	2442	1730	2318	43%	34%	4047	3222	25.6%
Operating Margin	16%	21%	24%	27%	16%	-26	-1,085	22%	21%	0.2%
PAT	3234	5018	7831	7517	4179	29%	-44%	11696	8984	30.2%

Segmental Performance

Higher than estimated volumes boost VSF business performance

- VSF volumes at 78,959 mnt (vs estimates of 70,188 mnt) improved 17% yoy, (due to low base as Q2FY11 had seen 25 days plant shutdown vs full production at Nagda plant this quarter with early onset of monsoons) & 44% qoq (led by re-stocking of inventories in the market which had come in Q1FY12).
- VSF Realizations though +7% yoy to Rs125/kg, decline 18% qoq reflecting the declining trend in prices of competing fibres. However Sept-11 has seen marginal recovery in VSF prices as compared to Q2FY12 average with the company posting highest sales for the month. As a result, revenues at Rs10.82 bn grew 26.5% yoy, above estimates of Rs9.36bn.
- Though key costs like pulp, caustic soda and coal increased and resulted in contraction of margins at 28.5% (-343 bps yoy), higher than estimated volumes helped post higher than estimated EBITDA/t of Rs38,995 (vs est of Rs35,386/t). Overall EBITDA of Rs3.08bn grew 13% yoy , above estimates of Rs2.55bn .
- Though on standalone basis EBIT grew by 15% yoy, it improved by just 5% on consolidated basis as profit from JV Domsjo was affected due to nominal forex loss on restatement of forex borrowings and long term cover to hedge forward sales, while planned maintenance shutdown affect profits from AV Nackawic.
- The progress of Grasim's Greenfield project of 120,000 tons at Vilayat, Gujarat (expected completion Dec 2012) and Brownfield expansion at Harihar with a capacity of 36,500 tons (expected completion Sept 2012) is on track. Post this expansion Grasim VSF capacity would jump by 50% to 490KTPA by end of FY13 with focus on specialty fibres.

Higher volumes & improved ECU realizations drive EBIDTA growth of 44.3%

- Chemical division volumes at 67,321 tones improved 31% yoy on the back of full capacity utilization (which was impacted during the corresponding quarter last year due to water shortage). Caustic prices continued to move upward with higher international prices and lower imports taking ECU realizations to Rs23, 978/t, up 24% yoy. Consequently revenues at Rs1.92 bn, grew 60% yoy better than estimates of Rs1.53bn.
- Despite higher energy costs chemical EBITDA/t at Rs6922 grew 10.6% yoy led by higher realizations. Overall, EBITDA from chemical division at Rs0.47 bn grew 44.3% yoy , better than estimates of Rs0.34bn.

Segmental performance

(Rs mn)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Yoy (%)	Qoq (%)	YTD'12	YTD'11	YoY (%)
Sales										
VSF	8555	11293	13287	9012	10820	26.5%	20.1%	19832	17116	15.9%
Chemical	1200	1475	1561	1534	1915	59.6%	24.8%	3449	2387	44.5%
EBIDTA										
VSF	2728	3886	5137	3498	3079	12.9%	-12.0%	6577	5770	14.0%
Chemical	323	314	294	346	466	44.3%	34.7%	812	634	28.1%
EBIDTA (%)										
VSF	32%	34%	39%	39%	28%	-3x43	-1,036	33%	34%	-55
Chemical	27%	21%	19%	23%	24%	-258	178	24%	27%	-302

Sharp cement price hikes and higher VSF volumes drive EPS upgrade

Post the volatility seen in VSF prices in Q1FY12, VSF prices have started showing some recovery in Sept-11. This pullback in demand post the period of dried up inventory in the value chain has led to record sales in the month of Sept with normalized sales seen in the current month. However, the management remains uncertain on the demand trend for VSF due to the macro economic conditions and the volatility in the euro zone. In cement business, however, the increased momentum in cement price hikes in the domestic markets has led to revision in our numbers for Ultratech. Though we expect Grasim standalone EBIDTA to decline over H2FY12 (led by lower VSF prices & high Base of H2FY11), we expect cement business to improve consol EBIDTA profile. Also, this quarter VSF volumes surprised us positively and have led to revision in our volume estimates. Both these factors collectively have led to an upgrade in our consolidated earnings for Grasim for FY12E/13E by 1%/1.2%. Led by upgrade in target for Ultratech cement, we upgrade our target for Grasim to Rs2,700 (Rs2600 earlier)

Grasim SoTP fair value at Rs2,735

Business segment	Valuation measure	Rsmn	Rs/share	(Rs/share)
Equity value of consolidated cement business	At our target price of Rs1050 for Ultratech	322001		
Grasim's Stake in cement business		60.33%		
Value of Grasim's stake in cement business		194263	2118	2118
Holding Company disc		0%	0%	30%
Total value of cement business		194263	2118	1482.6
ADD: Value of Non Cement Business				
Viscose Staple Fibre	4.5X EV/EBIDTA	64475	703	703
Chemical and others	3.0X EV/EBIDTA	4619	50	50
Total Value Of Non Cement Business		69094	753	753
Total value of Investments	@25% discount	50235	548	548
Total Enterprise value		313593	3419	2784
Less:				
Standalone Debt		7820	85	85
Fair value		305773	3334	2698

Financials

Income Statement

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	199334	212690	224493	245500
<i>Growth (%)</i>	8.3	6.7	5.5	9.4
Total Expenditure	141467	165858	172940	187659
Raw Materials Expenses	37637	45048	20371	19119
Power & Fuel + Freight cost	62733	89083	35307	39531
Employee cost	10586	12375	11479	12562
Admin & Other expenses	30510	19351	105783	116447
EBIDTA	57867	46832	51602	57894
<i>Growth (%)</i>	33.6	-19.1	10.2	12.2
EBIDTA %	29.0	22.0	23.0	23.6
Depreciation	9947	11384	10748	11971
EBIT	47920	35449	40854	45922
EBIT margin (%)	24.0	16.7	18.2	18.7
Other income	5356	7135	6120	6120
Interest	3346	4056	3266	5148
EBT	49930	38528	43708	46894
Tax	15705	9576	13407	14401
Effective tax rate (%)	31.5	24.9	30.7	30.7
Adjusted PAT	34225	28952	30301	32493
<i>Growth (%)</i>	30.9	-15.4	4.7	7.2
Net Margin (%)	17.2	13.6	13.5	13.2
(Profit)/loss from JVs/Ass/MI	-7141	-6600	-7977	-9150
Adj. PAT After JVs/Ass/MI	27595	22790	22324	23343
E/O items	-3360.7	0.0	0.0	0.0
Reported PAT	30955	22790	22324	23343
<i>Growth (%)</i>	41.6	-26.4	-2.0	4.6

Cash Flow

Cash Flow	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	49930	31393	37588	40774
Depreciation	9947	11384	10748	11971
Interest Provided	3143	4056	3266	5148
Other Non-Cash items	-2045	0	0	0
Chg in working cap	-1497	-8309	10870	1079
Tax paid	-11190	-9576	-13407	-14401
Operating Cashflow	48288	28947	49065	44572
Capital expenditure	-14555	-28603	-49706	-75208
Free Cash Flow	33733	344	-641	-30636
Other income	12497	7135	6120	6120
Investments	-32909	-12574	4429	6000
Investing Cashflow	-34967	-5439	10549	12120
Equity Capital Raised	18	22	0	0
Loans Taken / (Repaid)	-4647	11835	2861	19000
Interest Paid	-4039	-4056	-3266	-5148
Dividend paid (incl tax)	-3025	-2726	-2670	-2792
Income from investments	-1009	0	0	0
Others	-520	0	0	0
Financing Cashflow	-13221	5075	-3076	11059
Net chg in cash	100	464	6832	-7456
Opening cash position	2270	2379	2844	9676
Closing cash position	2379	2844	9676	2219

Balance Sheet

Y/E, Mar (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	917	917	917	917
Preference paid up	363	377	377	377
Reserves & surplus	123827	144292	163945	184496
Networth	125246	145733	165387	185938
Minority Interest	37548	43514	51491	60641
Secured Loans	38508	38346	43842	62842
Unsecured Loans	17484	29481	26846	26846
Loan Funds	55992	67827	70688	89688
Net Deferred tax liability	20057	19616	19616	19616
Total Liabilities	238844	276690	307182	355883
Gross Block	229509	252268	274412	344358
Less: Depreciation	71646	83749	94497	106469
Net block	157864	168519	179915	237890
Capital work in progress	7734	13578	41141	46402
Investment	66759	79333	74904	68904
Current Assets	45379	58784	66862	62817
Inventories	21835	27216	28521	31070
Sundry debtors	8803	14346	12762	13625
Cash & bank balance	2379	2844	9676	2219
Loans & advances	12362	14378	15903	15903
Other current assets	0	0	0	0
Current liabilities	38891	43524	55639	60130
Current liabilities	30370	35753	45320	49810
Provisions	8522	7771	10319	10319
Net current assets	6488	15261	11223	2688
Miscellaneous expenditure	0	0	0	0
Total Assets	238844	276690	307182	355883

Key Ratios

Valuations Ratios	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	29.0	22.0	23.0	23.6
Net Margin	17.2	13.6	13.5	13.2
ROCE	23.9	16.5	16.1	15.7
ROE	22.9	16.8	14.4	13.3
RoIC	29.7	18.8	20.1	20.3
Per Share Data (Rs)				
EPS	300.9	248.5	243.4	254.5
CEPS	409.4	372.6	360.6	385.0
BVPS	1366	1589	1803	2027
DPS	30	25	24	25
Valuations (x)				
PER	7.3	8.9	9.1	8.7
P/CEPS	5.4	5.9	6.1	5.7
P/BV	1.6	1.4	1.2	1.1
EV / Sales	1.0	1.0	0.9	1.0
EV / EBITDA	3.5	4.5	4.0	4.1
Dividend Yield (%)	1.4	1.1	1.1	1.2
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.1	0.0	0.2
Net Debt/EBIDTA	0.0	0.2	0.1	0.6
Working Cap Cycle (days)	0.5	10.0	0.0	0.0

Recommendation History: Grasim Industries – GRASIM IN

Date	Reports	Reco	CMP	Target
01/08/2011	Grasim Industries Q1FY12 Result Update	Accumulate	2,193	2,600
12/05/2011	Grasim Industries Q4FY11 Result Update	Accumulate	2,362	2,672
27/01/2011	Grasim Industries Q3FY11 Result Update	Accumulate	2,359	2,730
15/12/2010	Grasim Industries Company Update	Accumulate	2,365	2,730

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/10/2011	Ultratech Cement Q2FY12 Result Update	Hold	1,111	1,170
19/10/2011	Cement Sector Update			
30/08/2011	Shree Cement Management Meet Update	Accumulate	1,641	2,050
12/08/2011	India Cements Q1FY12 Result Update	UR	72	UR

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