

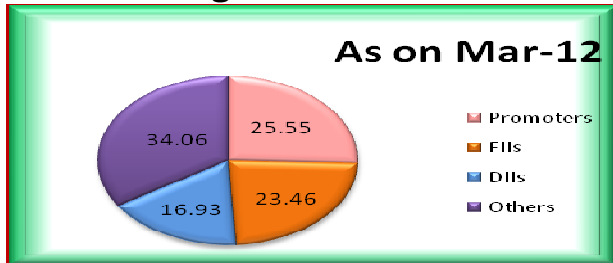
**C.M.P** : Rs. 2540.00  
**Target Price** : Rs. 2946.00  
**Date** : 25<sup>th</sup> April 2012

**BUY**

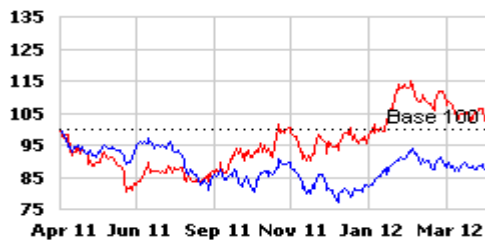
**Stock Data:**

<b>Sector:</b>	Diversified
<b>Face Value Rs.</b>	Rs.10.00
<b>52 wk. High/Low (Rs.)</b>	2924.45/1981.20
<b>Volume (2 wk. Avg.)</b>	4778.00
<b>BSE Code</b>	500300
<b>Market Cap (Rs.In mn)</b>	232968.80

**Share Holding Pattern**



**1 Year Comparative Graph**



Grasim Industries Ltd

BSE SENSEX

**SYNOPSIS**

- Grasim Industries Limited, a flagship company of the Aditya Birla Group, ranks among India's largest private sector companies, with consolidated net revenue of Rs.202 billion.
- The Company core businesses are VSF and cement, which contribute to over 90 per cent of its revenues and operating profits.
- Grasim has grown to become a leading cement player in India.
- The Company has a global market share of 10 per cent. It is also the second largest producer of caustic soda (which is used in the production of VSF) in India.
- Net Sales and PAT of the company are expected to grow at a CAGR of 13% and 8% over 2010 to 2013E respectively.
- The Company has acquired 1/3rd stake in Aditya Holding AB, Sweden, which acquired Domsjo Fabriker AB (Domsjo), Sweden, at an enterprise value of Swedish Kroner (SEK) 2.12 Billion (approx. Rs. 1,570 crore).

Years	Net sales	EBITDA	Net Profit	EPS	P/E
<b>FY 11</b>	215851.80	53967.40	28951.90	248.47	10.22
<b>FY 12E</b>	256479.83	64613.77	36683.72	309.60	8.20
<b>FY 13E</b>	294951.81	74437.97	43199.15	369.35	6.88



## Peer Group Comparison

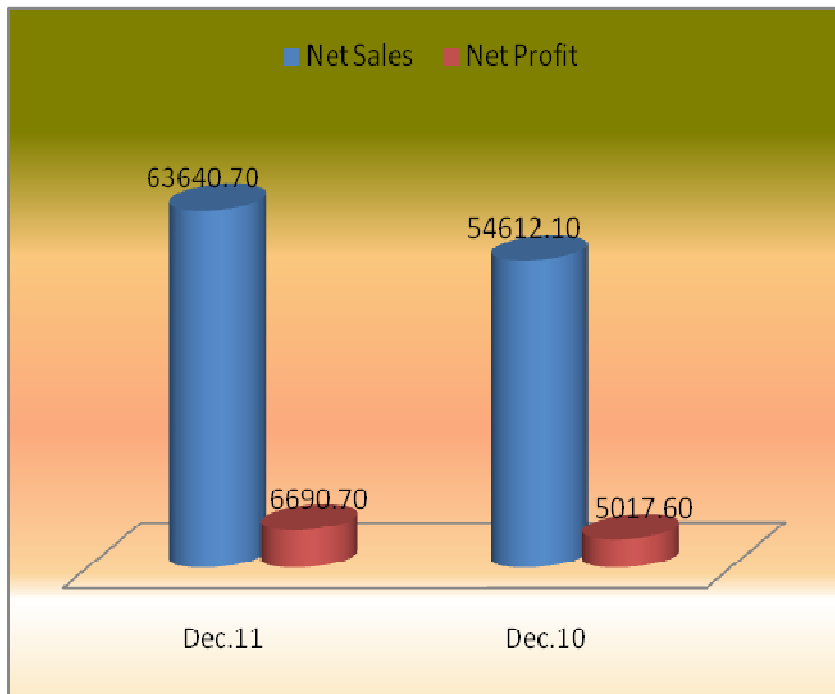
Name of the company	CMP(Rs.)	Market Cap. (Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Grasim Indus	2540.00	232968.80	248.47	10.22	1.60	200.00
Reliance Industries	732.50	2791925.1	52.58	13.93	1.90	80.00
Vardhman Tex	206.30	13131.4	30.23	6.82	0.68	45.00
Century Textiles	338.80	31449.4	10.28	32.88	1.62	55.00

## Investment Highlights

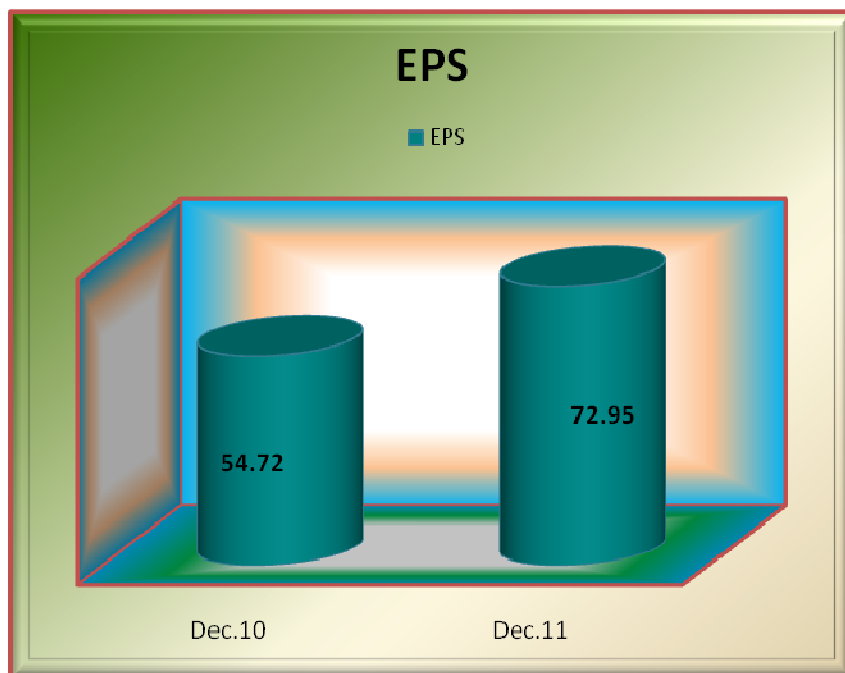
### ➔ Q3 FY12 Results Update

Grasim Industries Ltd disclosed results for the quarter ended Dec 2011. Net sales for the quarter moved up 17% to Rs.63640.70 million as compared to Rs.54612.10 million during the corresponding quarter last year. During the quarter, the company has reported Net Profit increased to Rs.6690.70 million from Rs.5017.60 million in previous year same quarter. The Basic EPS of the company stood at Rs.72.95 for the quarter ended Dec 2011.

Quarterly Results - Consolidate (Rs in mn)			
As At	Dec-11	Dec-10	%change
Net sales	63640.70	54612.10	17
Net Profit	6690.70	5017.60	33
Basic EPS	72.95	54.72	33

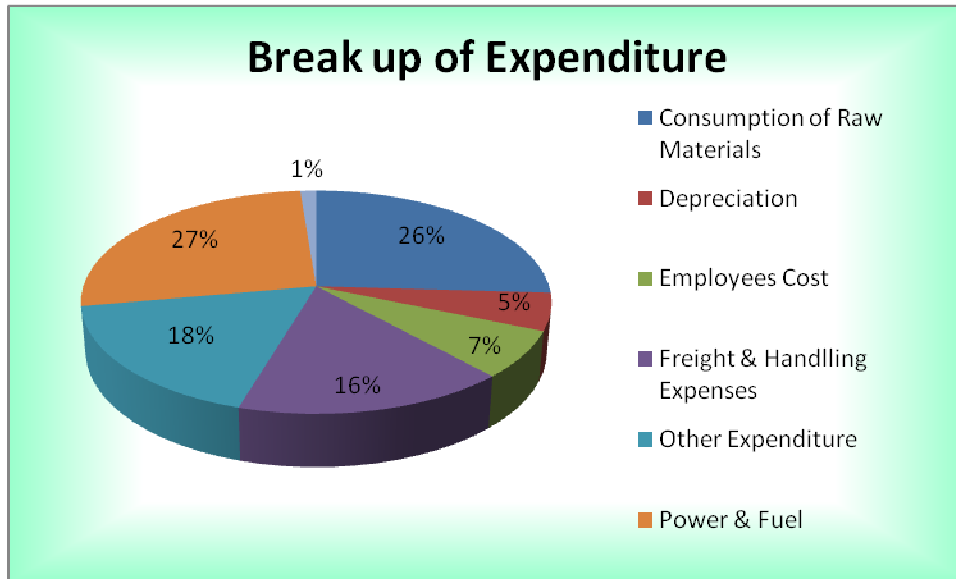


**Basic EPS of the company stood at Rs.72.95**

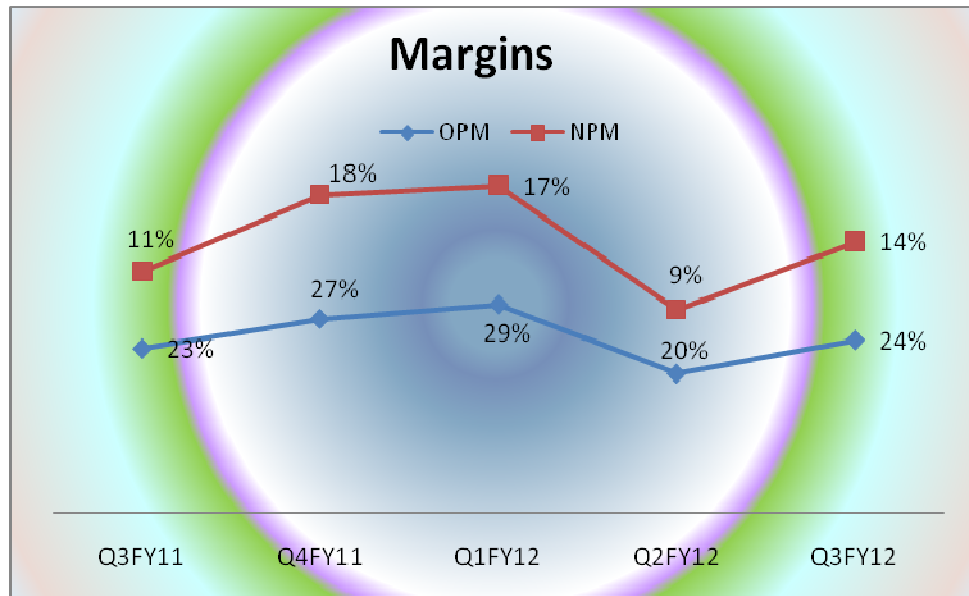


➤ **Break up of Expenditure**

Expenditure for the quarter stood at Rs.49511.00mn, which is around 16.10% higher than the corresponding period of the previous year. Raw Material Consumed cost of the company for the quarter accounts for 22% of the sales of the company and stood at Rs.13797.60mn from Rs.12205.40mn of the corresponding period of the previous year. Power & Fuel cost increased 24%YoY to Rs.14144.9mn from Rs.11384.00mn and accounts for 22% of the revenue of the company for the quarter.



OPM and NPM for the quarter stood at 24% and 14% respectively from 23% and 11% respectively of the same period of the last year.



## ◆ Allotment of Shares

Grasim Industries Ltd has allotted 670 (Six Hundred Seventy) Equity Shares under the Company's Employee Stock Option Scheme, 2006. On allotment, the equity share capital of the Company stands increased to 9,17,09,742 equity shares of Rs. 10/- each aggregating to Rs. 91,70,97,420.

## Company Profile

Grasim Industries Limited, a flagship company of the Aditya Birla Group, ranks among India's largest private sector companies, with consolidated net revenue of Rs.202 billion.

Starting as a textiles manufacturer in 1948, today Grasim's businesses comprise viscose staple fibre (VSF), cement, chemicals and textiles. Its core businesses are VSF and cement, which contribute to over 90 per cent of its revenues and operating profits.

The Aditya Birla Group is the world's largest producer of VSF, commanding a 21 per cent global market share. Grasim, with an aggregate capacity of 333,975 tpa has a global market share of 10 per cent. It is also the second largest producer of caustic soda (which is used in the production of VSF) in India.

In cement, Grasim through its subsidiary UltraTech Cement Limited ("UltraTech") has a capacity of 52 million tpa and is a leading player in India. In July 2004, Grasim acquired a majority stake and management control in UltraTech. One of the largest of its kind in the cement sector, this acquisition catapulted the Aditya Birla Group to the top of the league in India.

The amalgamation of Samruddhi Cement Limited (SCL) with UltraTech w.e.f. 1 July 2010 completed the restructuring of the cement business. Earlier, Grasim's cement business was demerged into SCL. The merger has created the largest cement company in India, providing a platform that will help in pursuing aggressive growth going forward.

## **Businesses**

### ➤ **Viscose Staple Fibre**

Grasim is India's pioneer in Viscose Staple Fibre (VSF), a man-made, biodegradable fibre with characteristics akin to cotton. As an extremely versatile and easily blendable fibre, VSF is widely used in apparels, home textiles, dress material, knitted wear and non-woven applications.

Grasim's VSF plants are located at Nagda in Madhya Pradesh, Kharach in Gujarat and Harihar in Karnataka, with an aggregate capacity of 333,975 tpa.

### ➤ **Cement**

Grasim ventured into cement production in the mid 1980s, setting up its first cement plant at Jawad in Madhya Pradesh and since then it has grown to become a leading cement player in India.

Grasim's cement operations through its subsidiary UltraTech, span the length and breadth of India, with 11 composite plants, 11 split grinding units, five bulk terminals and 74 ready-mix concrete plants. All the plants are located close to sizeable limestone mines and are fully automated to ensure consistent quality. All units use state-of-the-art equipment and technology and are certified with ISO 9001 for quality systems and ISO 14001 for environment management systems.

### ➤ **Chemicals**

Rayon grade caustic soda is an important raw material in VSF production. To achieve reliable and economical supply of this chemical, Grasim set up a rayon grade caustic soda unit at Nagda in 1972 with an initial capacity of 33,000 tpa. This has since grown to 258,000 tpa, making it the country's second largest caustic soda unit.

## ➤ **Textiles**

Grasim has a strong presence in fabrics and synthetic yarns, through its subsidiary; Grasim Bhiwani Textiles Limited (GBTL) is well known for its branded suitings, Grasim and Graviera, mainly in the polyester – cellulosic branded menswear. GBTL's plant is located at Bhiwani (Haryana).

## **Joint Ventures**

### ➤ **AV Cell Inc. and AV Nackawic Inc. in Canada**

AV Cell and AV Nackawic supply dissolving grade pulp to the Group's VSF units in India, Thailand and Indonesia.

### ➤ **Birla Lao Pulp & Plantation Limited in Laos**

To further strengthen the backward integration in pulp, Birla Lao has been formed as a JV with other associate companies for raising captive plantations at Laos. This will provide a low cost source for wood to meet future requirements of a green field pulp plant in due course of time.

### ➤ **Birla Jingwei Fibres Company Limited in China**

The company originally promoted as a joint venture with Fujian Jingwei Group in 2006 for manufacturing VSF is now a 100 per cent Aditya Birla Group Company. Currently, this plant has the capacity to produce 70,000 tpa of VSF.

## Financial Results

### 12 Months Ended Profit & Loss Account (Consolidate)

Value(Rs.in million)	FY10A	FY11A	FY12E	FY13E
	12m	12m	12m	12m
<b>Description</b>				
<b>Net Sales</b>	<b>201953.90</b>	<b>215851.80</b>	<b>256479.83</b>	<b>294951.81</b>
<b>Other Income</b>	2735.60	3973.50	5253.42	6304.10
<b>Total Income</b>	204689.50	219825.30	261733.25	301255.91
<b>Expenditure</b>	-141466.80	-165857.90	-197119.49	-226817.94
<b>Operating Profit</b>	<b>63222.70</b>	<b>53967.40</b>	<b>64613.77</b>	<b>74437.97</b>
<b>Interest</b>	-3345.50	-4055.70	-2819.66	-2961.27
<b>Gross Profit</b>	59877.20	49911.70	61794.11	71476.70
<b>Depreciation</b>	-9947.10	-11383.70	-11513.22	-11973.75
<b>Profit before Tax</b>	49930.10	38528.00	50280.89	59502.96
<b>Tax</b>	-15704.80	-9576.10	-13597.17	-16303.81
<b>Profit after Tax</b>	<b>34225.30</b>	<b>28951.90</b>	<b>36683.72</b>	<b>43199.15</b>
<b>Extraordinary Items</b>	3360.70	0.00	0.00	0.00
<b>Minority Interest</b>	-7141.20	-6599.60	-8695.79	-9739.28
<b>Share of Profit &amp; Loss Asso</b>	510.50	437.80	408.52	416.69
<b>Net profit</b>	<b>30955.30</b>	<b>22790.10</b>	<b>28396.45</b>	<b>33876.56</b>
<b>Equity Capital</b>	917.00	917.20	917.20	917.20
<b>Reserves</b>	123826.60	144291.90	180975.62	224174.76
<b>Face Value(Rs.)</b>	10.00	10.00	10.00	10.00
<b>Total No. of Shares</b>	91.70	91.72	91.72	91.72
<b>EPS</b>	<b>337.57</b>	<b>248.47</b>	<b>309.6</b>	<b>369.35</b>

\*A=Actual, \*E=Estimated



### Quarterly Ended Profit & Loss Account (Consolidate)

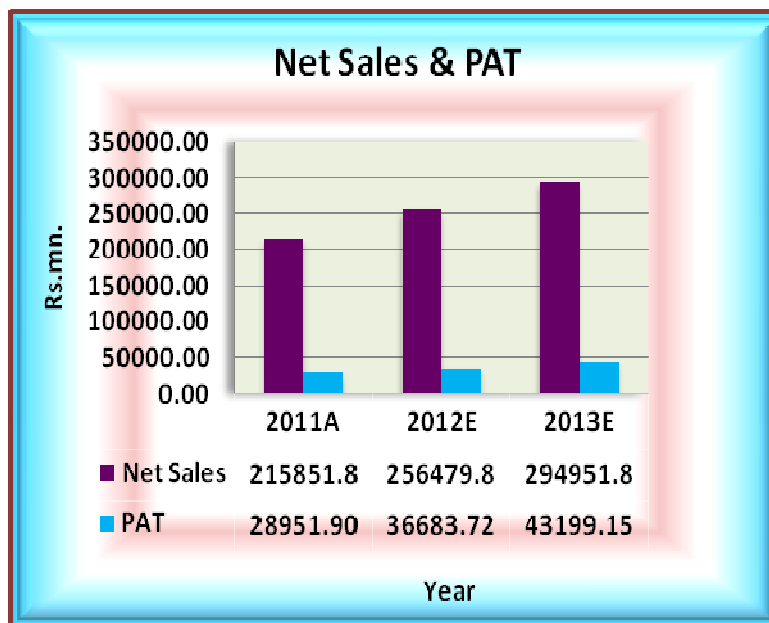
Value(Rs.in million)	30-Jun-11	30-Sep-11	31-Dec-11	31-Mar-12
	3m(A)	3m(A)	3m(A)	3m(E)
<b>Description</b>				
<b>Net Sales</b>	<b>59365.40</b>	<b>57741.30</b>	<b>63640.70</b>	<b>75732.43</b>
<b>Other Income</b>	1085.30	1068.10	1409.10	1690.92
<b>Total Income</b>	60450.70	58809.40	65049.80	77423.35
<b>Expenditure</b>	-42966.90	-47463.60	-49511.00	-57177.99
<b>Operating Profit</b>	<b>17483.80</b>	<b>11345.80</b>	<b>15538.80</b>	<b>20245.37</b>
<b>Interest</b>	-941.50	-893.90	-497.10	-487.16
<b>Gross Profit</b>	16542.30	10451.90	15041.70	19758.21
<b>Depreciation</b>	-2814.70	-2837.30	-2887.30	-2973.92
<b>Profit before Tax</b>	13727.60	7614.60	12154.40	16784.29
<b>Tax</b>	-3725.50	-2373.50	-3302.10	-4196.07
<b>Profit after Tax</b>	<b>10002.10</b>	<b>5241.10</b>	<b>8852.30</b>	<b>12588.22</b>
<b>Minority Interest</b>	-2,626.80	-1,021.00	-2,347.90	-2700.09
<b>Share of Profit &amp; Loss Asso</b>	141.40	-40.70	186.30	121.52
<b>Net Profit</b>	<b>7,516.70</b>	<b>4,179.40</b>	<b>6,690.70</b>	<b>10009.65</b>
<b>Equity Capital</b>	917.20	917.20	917.20	917.20
<b>Face Value(Rs.)</b>	10.00	10.00	10.00	10.00
<b>Total No. of Shares</b>	91.72	91.72	91.72	91.72
<b>EPS</b>	<b>81.95</b>	<b>45.57</b>	<b>72.95</b>	<b>109.13</b>

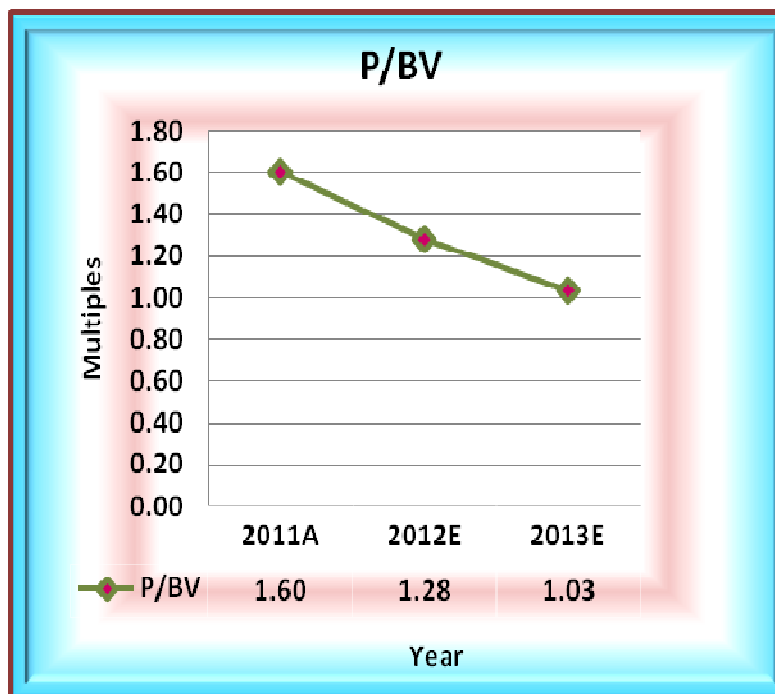
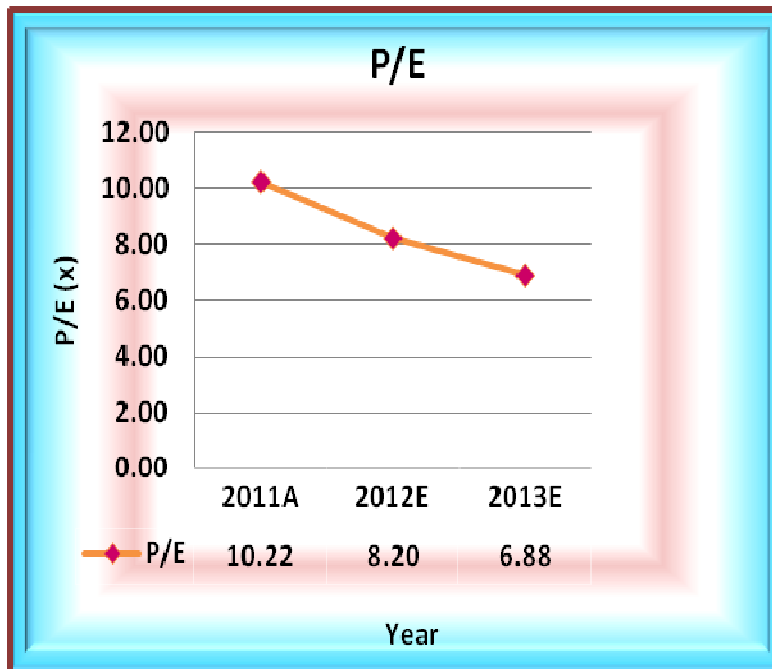
\*A=Actual, \*E=Estimated

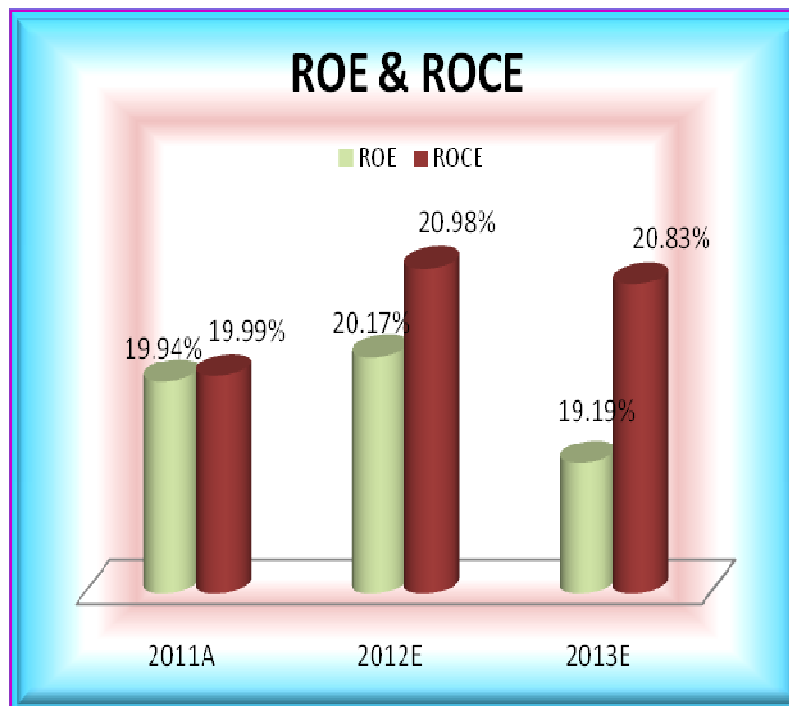
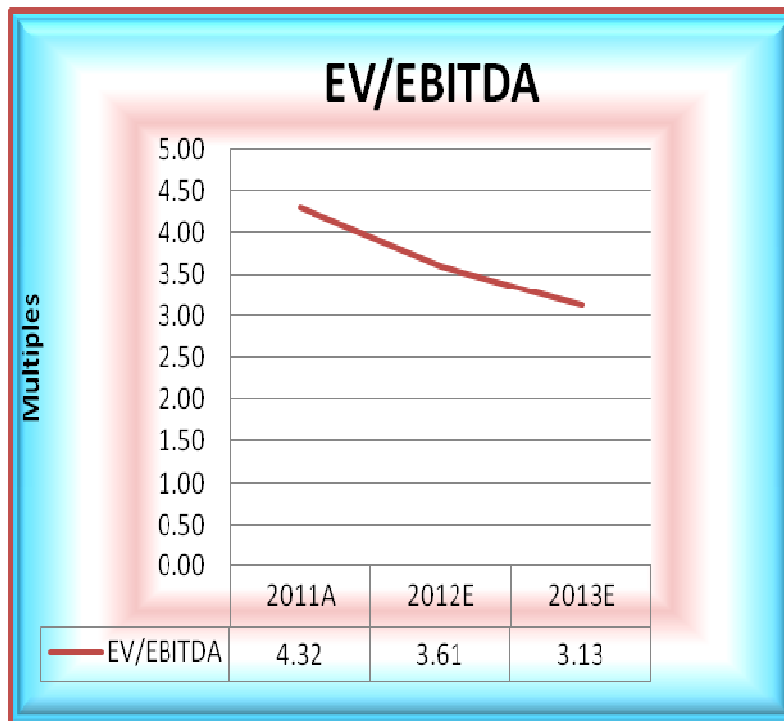
## Key Ratio

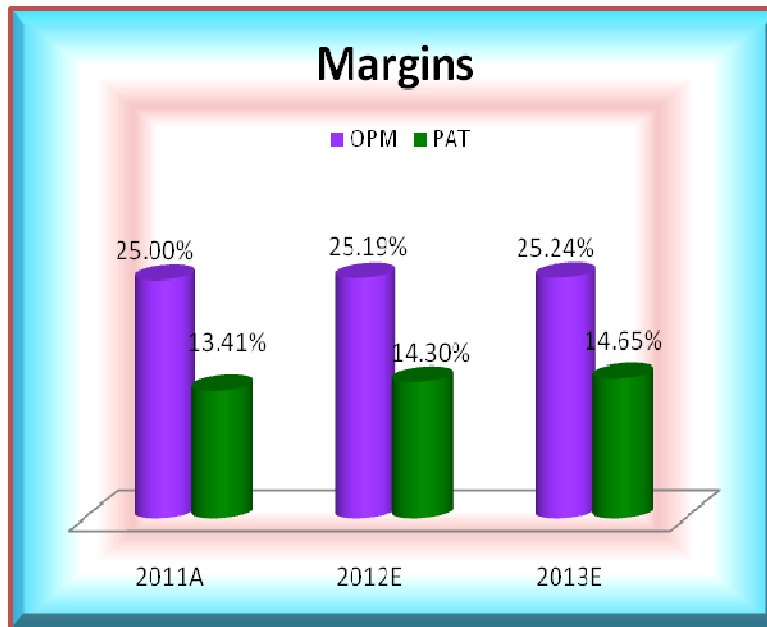
Particulars	FY10	FY11	FY12E	FY13E
EPS (Rs.)	337.57	248.47	309.60	369.35
EBITDA Margin (%)	31.31%	25.00%	25.19%	25.24%
PAT Margin (%)	16.95%	13.41%	14.30%	14.65%
P/E Ratio (x)	7.18	10.22	8.20	6.88
ROE (%)	27.44%	19.94%	20.17%	19.19%
ROCE (%)	29.48%	19.99%	20.98%	20.83%
EV/EBITDA (x)	3.52	4.32	3.61	3.13
Debt-Equity Ratio	0.45	0.47	0.39	0.33
Book Value (Rs.)	1360.34	1583.18	1983.13	2454.12
P/BV	1.78	1.60	1.28	1.03

## Charts:









## Outlook and Conclusion

- At the current market price of Rs.2540.00, the stock is trading at 8.20 x FY12E and 6.88 x FY13E respectively.
- Price to Book Value of the stock is expected to be at 1.28 x and 1.03 x respectively for FY12E and FY13E.
- Earning per share (EPS) of the company for the earnings for FY12E and FY13E is seen at Rs.309.60 and Rs.369.35 respectively.
- The Company has a global market share of 10 per cent. It is also the second largest producer of caustic soda (which is used in the production of VSF) in India.
- Net Sales and PAT of the company are expected to grow at a CAGR of 13% and 8% over 2010 to 2013E respectively.
- During the quarter, the company has reported Net Profit increased to Rs.6690.70 million from Rs.5017.60 million in previous year same quarter.
- On the basis of EV/EBITDA, the stock trades at 3.61 x for FY12E and 3.13 x for FY13E.
- We expect that the company will keep its growth story in the coming quarters also. We recommend **'BUY'** in this particular scrip with a target price of **Rs.2946.00** for Medium to Long term investment.

## **Industry Overview**

### **Textile industry**

The Indian textile industry is one of the major sectors of Indian economy largely contributing towards the growth of the country's industrial sector. Textiles sector contributes to 14 per cent of industrial production, 4 per cent of National GDP and 10.63 per cent of country's export earnings. The opening up of the sector through liberalisation policies set up by the Indian Government have given the much-needed thrust to the Indian textile industry, which has now successfully become one of the largest in the world. Textile sector in India provides direct employment to over 35 million people and holds the second position after the agriculture sector in providing employment to the masses.

Growing at a rapid pace, the Indian Market is being flocked by foreign investors exploring investment purposes and with an increasing trend in the demand for the textile products in the country, a number of new companies and joint ventures are being set up in the country to capture new opportunities in the market.

### **Growth Trends**

The Indian textile industry can be divided into a number of segments such as cotton, silk, woolen, readymade, jute and handicraft. The total cloth production registered during September 2010 was 10.2 per cent higher than that registered for September 2009. The total production of cloth during April – September 2010 increased by 2.1 per cent as compared to the period April – September 2009. The highest growth was observed in the power loom sector (13.2 per cent), followed by hosiery sector (9.1 per cent).

The total textile exports during April-July 2010 (provisional) were valued at US\$ 7.58 billion as against US\$ 7.21 billion during the corresponding period of the previous year. The share of textile exports in total exports was 11.04 per cent during April-July 2010. Cotton textiles has registered a growth of 8.2 per cent during April-September

2010 -11, while wool, silk and man-made fibre textiles have registered a growth of 2.2 per cent while textile products including apparel have registered a growth of 3 per cent. Textiles and apparel industry exports, valued at US\$ 20.02 billion, contributed about 11.5 per cent to the country's total exports in 2008–09. The total textiles imports into India in 2008–09 were valued at US\$ 3.33 billion.

The total foreign exchange earnings from the textile exports during the current financial year (April-July 2011) was registered at US\$ 10.32 billion against US\$ 7.75 billion during the corresponding period of financial year 2010-11.

India has the potential to increase its textile and apparel share in the world trade from the current level of 4.5 per cent to 8 per cent and reach US\$ 80 billion by the end of the year 2020.

The Textile sector grew at 3-4 per cent during the last 6 decades. As per the 11th Five Year Plan (FYP), it was projected to fast-track to a growth rate of 16 per cent in value and is further expected to reach US\$ 115 billion (exports US\$ 55 billion and domestic market US\$ 60 billion) by 2012. Exports are likely to reach US\$ 32 billion in 2011-12 and domestic market US\$ 55 billion.

### **Government Initiatives**

The Government of India has promoted a number of export promotion policies for the Textile sector in the Union Budget 2011-12 and the Foreign Trade Policy 2009-14. This also includes the various incentives under Focus Market Scheme and Focus Product Scheme; broad basing the coverage of Market Linked Focus Product Scheme for textile products and extension of Market Linked Focus Product Scheme etc. to increase the Indian shares in the global trade of textiles and clothing. The various schemes and promotions by the Government of India are as follows -

**Welfare Schemes:** The Government has offered health insurance coverage and life insurance coverage to 161.10 million weavers and ancillary workers under the Handloom Weavers' Comprehensive Welfare Scheme, while 733,000 artisans were provided health coverage under the Rajiv Gandhi Shilpi Swasthya Bima Yojna.

**E-Marketing:** The Central Cottage Industries Corporation of India (CCIC), and the Handicrafts and Handlooms Export Corporation of India (HHEC) have developed a number of e-marketing platforms to simplify marketing issues. Also, a number of marketing initiatives have been taken up to promote niche handloom and handicraft products with the help of 600 events all over the country.

**Skill Development:** As per the 12th FYP, the Integrated Skill Development Scheme aims to train over 2,675,000 people within the next 5 years (this would cover over 270,000 people during the first two years and the rest during the remaining three years). This scheme would cover all sub sectors of the textile sector such as Textiles and Apparel; Handicrafts; Handlooms; Jute; and Sericulture.

**Credit Linkages:** As per the Credit Guarantee program, over 25,000 Artisan Credit Cards have been supplied to artisans, and 16.50 million additional applications for issuing up credit cards have been forwarded to banks for further consideration with regards to the Credit Linkage scheme.

**Financial package for waiver of overdues:** The Government of India has announced a package of US\$ 604.56 million to waive of overdue loans in the handloom sector. This also includes the waiver of overdue loans and interest till 31st March, 2010, for loans disbursed to handloom sector. This is expected to benefit at least 300,000 handloom weavers of the industry and 15,000 cooperative societies.

**Textiles Parks:** The Indian Government has given approval to 21 new Textiles Parks to be set up and this would be executed over a period of 36 months. The new Textiles Parks would leverage employment to 400,000 textiles workers. The product mix in these parks would include apparels and garments parks, hosiery parks, silk parks, processing parks, technical textiles including medical textiles, carpet and power loom parks.



## **Recent Developments**

- Along with the increasing export figures in the Indian Apparel sector in the country, Bangladesh is planning to set up two Special Economic Zones (SEZ) for attracting Indian companies, in view of the duty free trade between the two countries. The two SEZs are intended to come up on 100-acre plots of land in Kishoreganj and Chattak, in Bangladesh.
- Italian luxury major Canali has entered into a 51:49 joint venture with Genesis Luxury Fashion, which currently has distribution rights of Canali-branded products in India. The company will now sell Canali branded products in India exclusively.

## **The Road Ahead**

With the increase in investments in the Indian textile sector, the subsequent increase in the industrial production, and the positivity observed by the Textile sector has resulted in progress and development of the sector. Integrating the sectoral needs and continued investments with technical advancements will completely modernize the industry chains across the country, and further assist in reaping benefits for the Indian Textile sector.

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