

**BSE Code:** 500300    **NSE Code:** GRASIM    **Reuters Code:** GRAS.BO    **Bloomberg Code:** GRASIM:IN

Grasim Industries Limited (GIL), a flagship company of the Aditya Birla Group, is one of the largest private sector companies in India in terms of assets and turnover. Originally established as a textile manufacturer in 1947, GIL has successfully diversified into VSF (Viscose Staple Fiber), Cement, Sponge Iron and Chemicals over the years. During FY11, the cement division contributed to 75% of revenues, while VSF contributed 21%. The other segments include textiles and chemicals, which contributed 2% each.

### Investor's Rationale

GIL's Q3FY'12 net profit inclined 33.3% YoY to ₹6.7 billion on consolidated basis buoyed by a strong performance from its cement business. The cement subsidiary, UltraTech Cement reported a net profit of ₹5.9 billion while VSF segment reported 8% decline in volumes, due to global slowdown and Euro-zone uncertainties.

For the period April-January 2012, GIL's Cement production was marginally up by 2.8% at 322.6 lakh mt as against 313.8 lakh mt in the same period prior year while Cement dispatches increased by 2.9% to 322.2 lakh mt during the period. Government's increased focus in infrastructure development is likely to drive the sector in the long run, with ~8-9% demand growth over next 2-3 years.

In Q3FY12, the margin of VSF segment contracted by 8,820bps to 25.6% as a result of higher landed cost of imported pulp due to rupee depreciation and super inflated energy costs. VSF business volumes were 78,215 tonnes (lower than estimate of 88,500 tonnes), impacted by cautious approach adopted by the value chain due to global economic uncertainties thus, dragging VSF sales by 3.9% yoy to ₹10.8 billion.

Volumes sales in the chemical division during the quarter improved 6.1% yoy at 71,232 tonnes on the back of full capacity utilization. Caustic prices continued to move upward as production was curtailed globally due to lower chlorine demand, thereby resulting in higher ECU realizations to ₹24,385/tonne. Consequently, revenues at ₹2.09 billion grew 42% yoy.

The company is implementing a capacity expansion programme for viscose staple fibre (VSF) and allied chemicals, that include a capital expenditure of ₹34.4 billion. Further, it is also investing around ₹110 billion to increase its cement capacity and set up captive power plants.

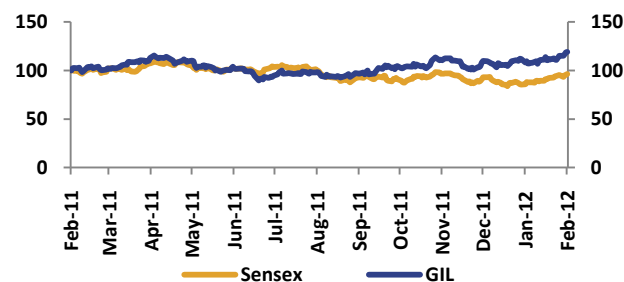
### Market Data

<b>Rating</b>	<b>BUY</b>
<b>CMP (₹)</b>	2,807
<b>Target (₹)</b>	<b>3,087</b>
<b>Potential Upside</b>	~10%
<b>Duration</b>	Mid Term
52 week H/L (₹)	2,891/1,981
All time High (₹)	3,830
Decline from 52WH (%)	2.9
Rise from 52WL (%)	41.6
Beta	0.69
Mkt. Cap (₹bn)	257.8
Enterprise Value (₹bn)	366.3

### Quarterly performance

(₹ billion)	Q3 FY'12	Q3 FY'11	Q2 FY'12	YoY Chg%	QoQ Chg%
Revenue	62.6	53.8	56.5	16.3	10.8
Op. exp	49.5	42.6	47.5	16.1	4.3
EBITDA	13.0	11.2	9.0	16.9	45.0
OPM	20.9	20.8	16.0	10bps	492bps
Net profit	6.7	5.0	4.2	33.3	60.1
NPM (%)	10.7	9.3	7.4	136bps	329bps
EPS	73.0	54.7	45.6	33.5	60.1

### One year Relative Price Chart



### Shareholding Pattern

	Dec'11	Sep'11	Diff.
Promoters	25.6%	25.6%	-
Institutional	23.5%	41.1%	(17.6)
General Public	18.0%	11.2%	6.8
Others	33.0%	22.2%	10.8



## Balance Sheet (Consolidated)

(₹billion)	FY10A	FY11A	FY12E
Share Capital	0.9	0.9	0.9
Preference Paid up & Esop o/s	0.5	0.5	0.5
Reserve and surplus	123.8	144.3	173.2
Net Worth	125.2	145.7	174.6
Minority Interest	37.5	43.5	51.4
Loan funds	56.0	67.8	71.2
Deferred Tax Liability	20.1	19.6	22.7
<b>Capital Employed</b>	<b>238.8</b>	<b>276.7</b>	<b>319.9</b>
Gross fixed assets	209.4	228.1	263.7
Less: acc. depreciation	71.6	83.7	96.3
Capital WIP	7.7	13.6	15.7
Net Fixed assets	145.5	157.9	183.1
Investment	66.8	79.3	91.7
Goodwill	20.1	24.2	28.0
Net Current Assets	6.5	15.3	17.1
<b>Capital Deployed</b>	<b>238.8</b>	<b>276.7</b>	<b>319.9</b>

## Key Ratios

	FY10A	FY11A	FY12E
EBITDA Margin (%)	30.8	24.3	21.1
EBIT Margin (%)	26.0	19.2	16.1
NPM (%)	15.1	10.3	13.3
ROCE (%)	22.3	15.4	12.4
ROE (%)	24.7	15.6	18.9
EPS (₹)	337.6	248.5	359.5
P/E (x)	8.3	11.3	7.8
BVPS (₹)	1,365.8	1,588.9	1,903.5
P/BVPS (x)	2.1	1.8	1.5
EV/Operating Income (x)	1.7	1.7	1.6
EV/EBITDA (x)	5.5	6.8	7.2
EV/EBIT (x)	6.5	8.6	9.5

## Profit & Loss Account (Consolidated)

(₹billion)	FY10A	FY11A	FY12E
Operating Income	204.9	221.4	247.7
Expenses	141.9	167.7	195.3
EBITDA	63.0	53.8	52.4
EBITDA Margin %	30.8	24.3	21.1
Depreciation	9.7	11.2	12.5
EBIT	53.3	42.6	39.8
Interest	3.3	4.1	4.5
Extra ord. Item	3.4	-	-
Profit Before Tax	53.3	38.5	35.3
Tax	15.7	9.6	10.7
Profit After Tax	37.6	29.0	24.6
Minority Interest	7.1	6.6	7.9
Share of asso.	0.5	0.4	0.5
Adj. Net Profit	31.0	22.8	33.0
NPM %	15.1	10.3	13.3

## Valuation and views

GIL commands strong valuation, due to its strong balance sheet, comfortable debt - equity ratio (0.4x FY'11), attractive valuation and diversified business. According to our estimate, GIL's consolidated earnings are likely to see ~45% bounce by the end of FY12. Further, in order to retain its leadership position in both key businesses, the company has lined up total capex of around ~₹144 billion to be spent over FY'12-FY'14E in order to capitalise on future growth. The Group's financial position remains good, with ongoing focus on working capital, delivering a strong cash flow performance in the period. Further the valuations look very attractive at the current market price ₹2,807 and therefore we rate the stock as 'BUY'. At the current market price, the stock is trading at a PE of 7.8x on FY'12E EPS of ₹359.5



Indbank Merchant Banking Services Ltd.  
I Floor, Khiviraj Complex I,  
No.480, Anna Salai, Nandanam, Chennai 600035  
Telephone No: 044 – 24313094 - 97  
Fax No: 044 – 24313093  
[www.indbankonline.com](http://www.indbankonline.com)

**Disclaimer**

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced, duplicated or sold in any form.