

Result Update	Book Part Profit
CMP	3503
Target Price	3660
Previous Target Price	3180
Upside	4%
Change from Previous	

Market Data

BSE Code	500300
NSE Symbol	GRASIM
52wk Range H/L	3159/2121
Mkt Capital (Rs Crores)	24172
Average Daily Volume (Nos.)	16920
Nifty	7511

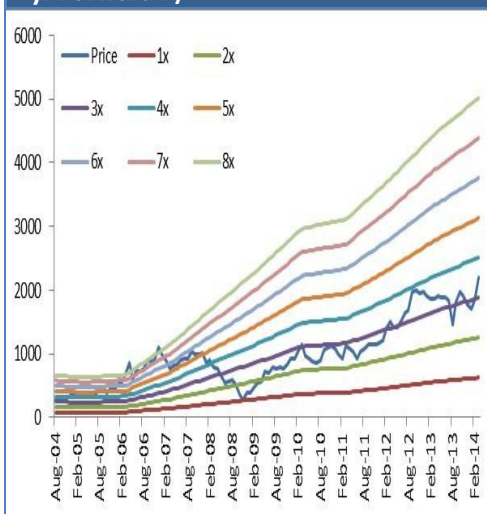
Stock Performance-%

	1M	1yr	YTD
Absolute	15.6	27.2	26.0
Rel. to Nifty	12.3	-5.6	-3.3

Share Holding Pattern-%

	Current	3QFY14	2QFY14
Promoters	25.5	25.5	25.5
FII	22.8	22.9	22.0
DII	16.1	16.0	16.3
Others	35.6	35.6	35.3

1 yr Forward P/B



During Q4FY2014, Grasim Industries reported a steep decline in the earnings to 29.5% on account of a decline in the OPM (-475bps) across all divisions, and a higher interest (up 33.5% YoY) and depreciation costs (up 18.5% YoY). The revenues for the quarter grew by 9% largely driven by a volume growth across divisions: the cement division (volume up 8% YoY), the VSF division (volume up 4% YoY) and the chemical division (volume up 30% YoY).

Volume growth leads to overall consolidated revenue growth:

The consolidated net sales of Grasim grew by 9.2% YoY to Rs 8,246 crore in Q4FY2014. VSF division posted an 8.7% year-on-year (Y-o-Y) growth on account of a better volume as compared with the same period last year. The chemical division grew by 47.2% YoY on account of the higher volumes followed by an increased production. The cement division posted an 8.5% Y-o-Y growth in the revenues on the back of a 9% volume growth.

Cement division

During Q4FY14, the grey cement sales grew 8% YoY to 12.98 million ton on account of a better demand in the infrastructure and housing segments. On the realization front, the cement prices improved marginally by 1% YoY. Consequently, the revenues from the cement division grew 8.5% YoY to Rs6,316 crore in Q4FY2014. The PBIT margin of the division contracted to 16.2% from 18.8% in the corresponding quarter of the previous year.

VSF division

The sales volume for the VSF division increased by 4.4% YoY to 99,385 million ton led by the higher exports, which was supported by an increase in the production (Harihar brownfield expansion). Though the VSF prices in the international markets witnessed a decline, but the rupee depreciation against the dollar (of 14%) converted the decline in the realization. Consequently, the net revenues from the VSF division grew by 8.7% YoY to Rs 1,717 crore.

Chemical

During the quarter, the sales volume of the chemical division increased by 30% YoY to 86,469 ton. The improvement in the volume was on account of the higher production at the Vilayat plant. However, the realisation improved on a Y-o-Y basis on account of an uptick in the chlorine realization. As a result of the higher sales volume, the revenues from the division increased by 47.2% YoY to Rs337 crore. Further, owing to the lower production and initial expenses at the Vilayat plant, the PBIT margin contracted by 904bps YoY to 9.5%.

Financials :

	Q4FY14	Y-o-Y %	Q-o-Q %	Q4FY13	Q3FY14
Revenue	8419	9.7	18.2	7672	7120
EBIDTA	1527	-3.3	47.2	1578	1037
Net Profit	679	-16.9	104.6	818	332
EBIDTA%	18%	-11.8	24.5	21%	15%
NPM%	8%	-24.3	73.1	11%	5%

(In Crs)

Grasim Industries Ltd.

Lower realization dragged operating performance:

In Q4FY2014, Grasim on a consolidated basis posted an operating profit of Rs1,354 crore (-7.2% YoY). A decline in PBIT margin across the cement (-257 BPS), VSF (-412BPS) and chemical (-904BPS) divisions led to a steep contraction in the margin. A lower than expected other income, and a higher interest and depreciation cost further dragged the earnings.

Capex on Track

Trial runs for ~44ktpa VSF green-field project in Gujarat commenced in April 2014, and the entire 120ktpa project will get commissioned in FY15 in phases. With the acquisition of a 4.8mtpa capacity of Jaypee Cement's Gujarat cement unit, the total capacity of Grasim is slated to increase to 70mtpa. The present debt-equity ratio at 0.34x ensures a comfortable debt raising to fund the capital expenditure.

Outlook And Recommendation

Down the line we expect the VSF volume will remain muted with low realization, As per management there will be no such capex like Villayat in near term. Also we don't see any capacity addition in china so it might help.

We don't see any reduction in over capacity in china,there is still liquidity crunch,further the china's cotton policy (Govt encourages domestic players to increase their production) dissapoints the cotton market.

The remarkable achievement in this quarter is nothing but the cost management and significant volume growth. Fuelmix and other measures helped offset higher input and logistics costs. It was able to maintain raw material, staff and other costs as a percentage of sales at the year-ago period levels.We believe Grasim will able to maintain this growth for FY15 as its major Capex plans are nearly over.

We are bullish on its cement segment as we are expecting a good domestic economic condition after election.We are expecting Demand Growth for FY15 it will be in the range of 8% - 12%. Govt initiatives to expedite large infrastructure projects have yielded little so far. We expect a better volume from ultratech in this monsson as monsoon is expected to be lower this year. Infrastructure activity may ramp up by Govt, in this period.

We valued the stock and arrived at a revised target price of Rs.3660. At CMP we recommend Book Part Profit on the stock but with correction in the stock price it provides an opportunity for investors to buy the stock.

Company Description

Grasim is the flagship company of the Aditya Birla Group, and is one of the largest private sector companies in India. Incorporated in 1947, it commenced operations in 1948 as a textile manufacturer. Over the years, it has become a diversified conglomerate with presence in four business segments—VSF, cement, chemicals, and textiles. VSF and cement are the main segments, contributing ~90% to the company's revenue and operating profit. Post the de-merger of its cement business, Grasim holds 60.3% in UltraTech, which now has a cement capacity of 56mtpa.

Grasim Industries Ltd.

P/L PERFORMANCE	FY11	FY12	FY13	FY14
Total income from operations (net)	21550	25300	27880	29324
Raw Materials Cost	4500	5357	6143	7025
Purchases of stock-in-trade	152	262	340	457
WIP	-159	-86	-196	45
Employee Cost	1232	1381	1671	1847
Power & Fuel	4364	5461	5604	5653
Freight and handling charges	3468	3700	4469	4910
EBITDA	4977	5627	5922	4914
Depreciation	1138	1154	1252	1457
Other Income	418	694	621	577
EBIT	3839	4472	4670	3457
Interest Cost	407	314	324	447
Provision for Taxes	958	1321	1467	735
Tax Rate	0	0	0	0
Net Profit (+)/Loss (-)	2892	3531	3704	2851
B/S PERFORMANCE	FY11	FY12	FY13	FY14
Share Capital	129	134	134	136
Reserves and Surplus	14444	16935	19522	21478
Networth	14573	17069	19657	21614
Long Term Borrowings	4115	5725	6653	7612
Short Term Borrowings	836	829	1774	1530
Trade Payables	2178	2632	2881	3246
Total Liabilities	<u>32021</u>	<u>36530</u>	<u>44064</u>	<u>47747</u>
Net Block	14390	15009	17484	25969
Intangible Assets	42	44	68	0
Goodwill	2419	2496	3010	3277
Non-Current Investments	1200	2854	3165	2673
Long Term Loans and Advances	694	2132	1592	1842
Share Capital	129	134	134	136
Inventories	2722	3071	3741	4257
Trade Receivables	1411	1729	2186	2509
Cash and Bank Balances	285	327	229	397
Short Term Loans and Advances	1210	1354	1621	1810
Total Assets	<u>32021</u>	<u>36530</u>	<u>44064</u>	<u>47747</u>
RATIOS	FY11	FY12	FY13	FY14
EBIDTA%	23%	22%	21%	17%
OPM%	18%	19%	19%	12%
NPM%	11%	10%	10%	7%
EPS	248	289	388	226
P/B (Trailing)	1.6	1.7	1.1	1.2
Debt / Equity	0.4	0.5	0.5	0.5