

12 August 2024

India | Equity Research | Q1FY25 results review

Grasim Industries

Cement

Little to cheer

Grasim Industries' Q1FY25 was in the limelight for it being the first quarter of its commercial launch in the paints segment. While revenues from this segment stood at INR 814mn (can be much higher, if one factors in the sale of production during trial-runs), it is too early to judge the performance of this maiden foray. Having said that, Q1FY25 EBITDA of INR 3.25bn (down 52% YoY/38% QoQ, being 41% below our estimate) offered little reason to cheer. Higher-than-expected losses for the paints and b2b e-commerce segments along with subdued VSF performance shoulder the blame. We prefer to wait on the sidelines given – 1) limited visibility on revenue and EBITDA traction for paints (even as we maintain our INR 30bn revenue forecast for FY26E and continue to value the segment at 5x FY26E price/sales); and 2) no change in levers for its standalone business as well as for its subsidiary UltraTech Cement. Maintain **HOLD** with a revised TP of INR 2,600 (INR 2,501 earlier).

Q1FY25 in the slow lane; maiden foray losses drag margins

Q1FY25 EBITDA for the standalone entity slipped ~600bps YoY/~300bps QoQ owing to: 1) higher-than-expected losses at the paints and e-commerce segment. While not mentioned explicitly, we calculate the EBITDA loss to be INR 2.96bn vs. our INR 2.5bn estimate; 2) weak performance from the VSF segment wherein realisation stood subdued (flat QoQ/down 6.5% YoY) while blended cost/t inched up >1% QoQ. As a result, segment's EBITDA/t slipped 8% YoY/13% QoQ to INR 18.3/kg. Performance of the chemicals segment was in-line (blended EBITDA at INR 3.1bn slipped 13% YoY but staged a massive 59% recovery on a QoQ-basis). Owing to a sequential increase in depreciation and interest cost (related to capitalisation of paints capex), Grasim posted a loss of INR 521mn.

Need more proof of the pudding; maintain HOLD

With operations just kick starting, it is too early to judge the revenue and EBITDA performance of the paints business. Having said that, revenue traction for this segment will be keenly watched as the next trigger for the stock (given Grasim's quest to scale revenue to INR 100bn by FY28). With no major change in business fundamentals, we continue to value the standalone business (mainly VSF and chemicals) at 8x EV/EBITDA. Also, we continue to assume 40% holdco discount to our fair value estimate across its key holdings (including UltraTech Cement and AB Capital). Our TP stands revised to INR 2,600 (INR 2,501 earlier) factoring in a change in TP for UltraTech Cement.

Financial summary

Y/E March (INR mn)	FY23A	FY24P	FY25E	FY26E
Net Revenue	2,68,397	2,58,473	2,98,076	3,37,024
EBITDA	31,799	23,161	21,741	32,736
EBITDA (%)	11.8	9.0	7.3	9.7
Net Profit	22,118	16,610	11,680	14,023
EPS (INR)	32.3	14.4	17.7	20.6
EPS % Chg YoY	(21.2)	(55.5)	23.5	16.2
P/E (x)	79.8	179.2	145.0	124.9
EV/EBITDA (x)	10.2	15.8	17.0	12.4
RoCE (%) (post-tax)	3.2	1.7	0.9	1.8
RoE (%)	4.6	2.5	2.4	2.7

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Market Data

Market Cap (INR)	1,731bn
Market Cap (USD)	20,612mn
Bloomberg Code	GRASIM IN
Reuters Code	GRAS.BO
52-week Range (INR)	2,878 /1,751
Free Float (%)	56.0
ADTV-3M (mn) (USD)	31.4

Price Performance (%)	3m	6m	12m
Absolute	9.3	18.6	39.9
Relative to Sensex	(0.8)	7.3	19.2

Earnings Revisions (%)	FY25E	FY26E
Revenue	10.7	19.5
EBITDA	(38.2)	(12.5)
EPS	(44.6)	(34.6)

Previous Reports

24-05-2024: [Q4FY24 results review](#)
23-02-2024: [Company Update](#)

Conference call takeaways

Paints

- Grasim is currently ramping up three of its plants (Ludhiana, Cheyyar and Panipat), which were commissioned on 30 Apr'24. These plants were in trial production between 22 Feb'24 to 30 Apr'24.
- While revenues (derived) stood at INR 814mn in Q1FY25, the sale of products during trial-runs has been booked against CWIP.
- Similarly, the corresponding expenses (input cost, interest during construction, capex on tinting machines etc.) incurred to generate the revenue during the trial period too were capitalised under CWIP.
- Going ahead, Grasim will continue to book the revenue and cost related to new plants under trial production under CWIP. Average trial-run duration ranges between 90-120 days.
- Trial run production has started at Chamarajanagar (Karnataka) plant and construction activity at other two plants (Mahad, Maharashtra) and Kharagpur (West Bengal) is on-track.
- The company aims to commission Chamarajanagar and Mahad plants in Q3FY25 and Kharagpur plant in Q4FY25.
- Grasim's target to onboard 50k dealers by FY25-end is under execution across all Indian states; >80% of planned products have been placed in the distribution channel.
- Dealer on-boarding shall accelerate post the complete launch of planned products.
- 102 depots (out of 150) are already operational with market presence reaching to 3,300 cities and towns
- Capex in Q1FY25 stood at ~INR 7.3bn, while total capex till date stood at ~INR 78bn (out of the commitment of INR 100bn).
- Advertisement expenses incurred during T20 cricket world cup (held in Jun'24) were expensed in the P&L statement.
- The company is able to source real-time data, through their unique tinting machines, about – 1) type of product being sold; 2) inventory information etc. which is providing Grasim an edge over peers.
- Grasim maintains its guidance to turn EBITDA positive within three years of full-scale operations (by FY28E, in our view).

Cellulosic fibres (CSF & CFY)

- In Q1FY25, Cellulosic Staple Fibre (CSF) volumes rose 14% YoY to 212kt (all time high), implying capacity utilisation at ~100%.
- The CFY business reported marginal volume growth of 2% YoY, due to subdued demand conditions in the downstream value chain and lower priced export into India by Chinese producers.
- CSF EBITDA was higher by 16% YoY led by lower input (caustic and sulphur) costs and higher volumes.
- Management expects fibre segment margin to remain rangebound, going ahead.

Chemicals

- Caustic soda sales volume declined 4% YoY/9% QoQ due to lower production at Vilayat on account of plant shutdown.
- Sequentially EBITDA improved 59% led by higher profitability in chlorine derivatives and lower power & fixed costs.
- Grasim consumes >75% of the Hydrogen (H₂) gas produced during the chlor-alkali process ($2\text{NaCl} + 2\text{H}_2\text{O} \rightarrow 2\text{NaOH} + \text{Cl}_2 (\text{g}) + \text{H}_2$) for captive purpose and balance is for external sales.
- Chlorine prices are under pressure on the back of significant capacity addition in Gujarat by one of competitive firm.
- Chlorine derivative price outlook is mildly positive on the back of demand pick-up in Agrochemical and Pharma industries
- Management believes favourable tailwinds in the speciality chemical prices on the back of strong volume growth.
- Grasim's VAP portfolio break-up (based on industries) stood as 40% water treatment, 30% industrial uses and balance in PVC additives, refrigerants, pharma, agrochemicals etc.

B2B business

- Birla Pivot achieved quarterly revenue of INR 5.5bn during the quarter.
- Grasim maintains its guidance to achieve USD 1bn of revenues in the B2B segment over next three years.
- The gross margins are in the range of 1.5% to 4% in different product categories.
- B2B segment does not require heavy capex; investment is towards team building, developing technology platform and increasing penetration.

Others

- FY25 capex guidance for standalone business is ~INR 45.5bn.
- The company aims to double its renewable energy capacity to 2GW in FY25 and plans to add 1GW/annum over next 2–3 years depending upon the tenders won.

Exhibit 1: Q1FY25 standalone result review

(INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Q1FY25E	% var
Net Sales	68,939	62,376	10.5	67,675	1.9	75,954	(9.2)
Raw Materials	38,395	30,978	23.9	36,956	3.9	-	
Personnel Cost	5,896	5,368	9.8	4,883	20.8	-	
Power & Fuel	9,861	10,503	(6.1)	9,491	3.9	-	
Other Expenses	11,536	8,793	31.2	11,080	4.1	-	
Total Expenses	65,688	55,642	18.1	62,409	5.3	70,459	(6.8)
EBITDA	3,251	6,734	(51.7)	5,266	(38.3)	5,495	(40.8)
Interest	1,399	1,057	32.3	1,207	15.9	1,791	(21.9)
Depreciation	3,486	2,878	21.1	3,390	2.8	3,723	(6.4)
Other Income + Other operating income	931	1,159	(19.6)	2,603	(64.2)	808	15.2
Recurring pre-tax income	(702)	3,958	(117.7)	3,271	(121.5)	789	(189.0)
Taxation	(181)	405	(144.7)	525	(134.5)	197	(191.7)
Recurring Net Income	(521)	3,553	(114.7)	2,747	(119.0)	592	(188.1)
Extraordinary income/(expense)	-	-		7,156		-	
Reported Net Income	(521)	3,553	(114.7)	(4,409)	NA	592	(188.1)
% Margins							
EBITDA	4.7	10.8		7.8		7.2	
PAT	(0.8)	5.7		4.1		0.8	

Source: I-Sec research, Company data

Exhibit 2: Segment wise results – standalone

(INR mn)	Q1FY25	Q1FY24	% change	Q4FY24	% change
Cellulosic fibres					
Revenue (INR mn)	37,870	35,836	5.7	37,618	0.7
Volume ('000 tonnes)	221.5	196.0	13.0	218.8	1.2
Net realisation (INR/tonne)	1,70,971	1,82,837	(6.5)	1,71,926	(0.6)
PBIDTA (INR mn)	4,047	3,900	3.8	4,620	(12.4)
PBIDTA margin (%)	10.7	10.9	(0.2)	12.3	(1.6)
PBIDTA / tonne (INR/tonne)	18,271	19,898	(8.2)	21,116	(13.5)
Chemicals					
Revenue (INR mn)	20,660	21,458	(3.7)	20,830	(0.8)
Volume ('000 tonnes)	282	292	(3.4)	308	(8.4)
Net realisation (INR/tonne)	73,262	73,485	(0.3)	67,629	8.3
PBIDTA (INR mn)	3,102	3,580	(13.3)	1,952	58.9
PBIDTA margin (%)	15.0	16.7	(1.7)	9.4	5.6
PBIDTA / tonne (INR/tonne)	11,001	12,260	(10.3)	6,338	73.6

Source: I-Sec research, Company data

Exhibit 3: SoTP-based valuation

Particulars	INR mn	% of TP
Valuation of standalone business:		
Fair value for VSF & Chemicals (@ 8x FY26E EV/EBITDA)	1,99,088	11
Fair value for Paints business (@ 5x Price/Sales)	1,50,000	8
Investment holdings - at 40% holdco. discount to I-Sec fair value est.		
Holdings	% Stake	Value
Idea Cellular	4.8	31,850
Hindalco	3.9	43,869
UltraTech Cement	57.3	10,95,807
ABCL	52.6	2,21,897
ABFRL	9.6	16,973
L&T	0.3	9,546
Total investment holdings	14,19,941	80
Market cap. - Consolidated	17,69,029	100
Total shares outstanding (mn)*	680.5	
Target price (INR)	2,600	100

Source: I-Sec research, Company data, * No. of shares post rights issue

Key risks

- Sharp uptick in cellulosic fibres or chemical prices is key upside earnings risk.
- Prolonged weakness in prices and/or a sharp rise in input prices (across segments) are key downside risks.

Exhibit 4: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	2,98,076	2,69,371	10.7	3,37,024	2,82,143	19.5
EBITDA	21,741	35,159	(38.2)	32,736	37,431	(12.5)
PAT	11,680	21,070	(44.6)	14,023	21,443	(34.6)

Source: I-Sec research, Company data

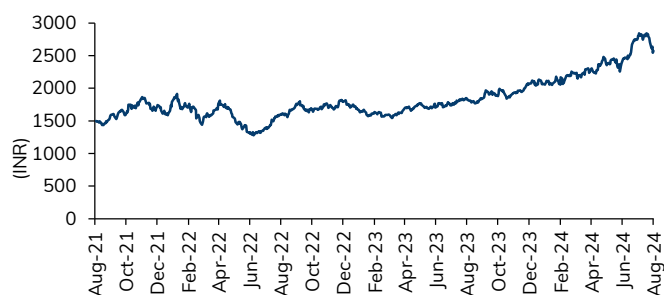
Change in EBITDA estimates is due to factoring the losses for the paints and e-commerce segment.

Exhibit 5: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	42.8	43.0	43.1
Institutional investors	33.2	33.2	31.3
MFs and others	5.8	6.1	6.1
FIs/Banks	0.2	0.1	0.1
Insurance	8.7	8.5	8.4
FIIIs	18.5	18.5	16.7
Others	24.0	23.8	25.6

Source: Bloomberg

Exhibit 6: Price chart



Source: Bloomberg

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Net Sales	2,68,397	2,58,473	2,98,076	3,37,024
Operating Expenses	2,36,598	2,35,313	2,76,335	3,04,288
EBITDA	31,799	23,161	21,741	32,736
EBITDA Margin (%)	11.8	9.0	7.3	9.7
Depreciation & Amortization	10,973	12,151	14,893	18,248
EBIT	20,826	11,010	6,847	14,488
Interest expenditure	3,677	4,404	6,716	6,715
Other Non-operating Income	10,183	12,566	15,435	10,924
Recurring PBT	27,333	19,172	15,566	18,697
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,215	2,562	3,886	4,674
PAT	22,118	16,610	11,680	14,023
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	880	7,156	-	-
Net Income (Reported)	21,237	9,454	11,680	14,023
Net Income (Adjusted)	22,118	16,610	11,680	14,023

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Total Current Assets	1,13,505	1,18,761	1,32,842	1,47,900
of which cash & cash eqv.	35,300	34,716	31,728	40,064
Total Current Liabilities & Provisions	83,411	91,160	1,03,935	1,07,166
Net Current Assets	30,094	27,601	28,907	40,734
Investments	3,16,813	3,26,813	3,26,813	3,26,813
Net Fixed Assets	1,62,262	1,67,612	2,62,718	2,56,470
Capital Work-in-Progress	29,191	71,191	1,191	4,191
Deferred Tax assets	-	-	-	-
Total Assets	5,38,360	5,93,217	6,19,629	6,28,208
Liabilities				
Borrowings	52,542	94,529	94,529	84,529
Deferred Tax Liability	16,269	16,269	16,269	16,269
Equity Share Capital	1,317	1,317	1,317	1,361
Reserves & Surplus	4,68,232	4,81,102	5,07,515	5,26,049
Total Net Worth	4,69,549	4,82,419	5,08,831	5,27,410
Minority Interest	-	-	-	-
Total Liabilities	5,38,360	5,93,217	6,19,629	6,28,208

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	64,420	64,003	67,675	68,939
% growth (YoY)	(4.5)	(3.3)	1.8	10.5
EBITDA	5,936	5,225	5,266	3,251
Margin %	9.2	8.2	7.8	4.7
Other Income	7,603	1,202	2,603	931
Extraordinaries	-	-	-	-
Adjusted Net Profit	7,948	2,363	2,747	(521)

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24P	FY25E	FY26E
Operating Cashflow	32,686	12,016	15,566	18,697
Working Capital Changes	(5,426)	(2,091)	(4,294)	(3,492)
Capital Commitments	(40,113)	(59,500)	(40,000)	(15,000)
Free Cashflow	(16,925)	(39,986)	(17,721)	13,780
Other investing cashflow	18,211	(4,648)	4,204	(10,000)
Cashflow from Investing Activities	(21,902)	(64,148)	(35,796)	(25,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	11,374	41,987	-	(10,000)
Dividend paid	(6,574)	(6,585)	(5,268)	(5,444)
Others	(6,448)	10,000	20,000	10,000
Cash flow from Financing Activities	(1,648)	45,402	14,732	(5,444)
Chg. in Cash & Bank balance	(362)	768	1,216	(1,664)
Closing cash & balance	1,891	5,512	6,728	5,064

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24P	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.3	14.4	17.7	20.6
Adjusted EPS (Diluted)	32.3	14.4	17.7	20.6
Cash EPS	50.3	43.7	40.4	47.4
Dividend per share (DPS)	10.0	10.0	8.0	8.0
Book Value per share (BV)	713.1	732.7	772.8	775.0
Dividend Payout (%)	31.0	69.6	45.1	38.8
Growth (%)				
Net Sales	28.7	(3.7)	15.3	13.1
EBITDA	(1.1)	(27.2)	(6.1)	50.6
EPS (INR)	(21.2)	(55.5)	23.5	16.2
Valuation Ratios (x)				
P/E	6	8	11	10
P/CEPS	51.2	58.9	63.7	54.3
P/BV	3.6	3.5	3.3	3.3
EV / EBITDA	10.2	15.8	17.0	12.4
EV / t (USD)	-	-	-	-
Dividend Yield (%)	0.4	0.4	0.3	0.3
Operating Ratios				
EBITDA Margins (%)	11.8	9.0	7.3	9.7
Effective Tax Rate (%)	19.1	13.4	25.0	25.0
Net Profit Margins (%)	7.9	3.7	3.9	4.2
Net Debt / Equity (x)	0.0	0.1	0.1	0.1
Net Debt / EBITDA (x)	0.5	2.6	2.9	1.4
Profitability Ratios				
RoCE (%) (Post Tax)	3.2	1.7	0.9	1.8
RoE (%)	4.6	3.5	2.4	2.7
RoIC (%)	4.8	3.7	2.8	3.1
Fixed Asset Turnover (x)	1.7	1.6	1.4	1.3
Inventory Turnover Days	65	75	77	80
Receivables Days	22	25	27	28
Payables Days	72	79	81	83

Source Company data, I-Sec research

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