

GRASIM INDUSTRIES LTD.**BUY****Choice**

Boosting Growth Engines by Enhancing Presence in Paints and E-commerce

Grasim Industries Ltd. reported standalone revenues of INR68,939mn for Q1FY25, reflecting a 1.9% increase QoQ and a 10.5% increase YoY, driven by strong performance across its diversified business portfolio. The Cellulosic Staple Fibre, Building Materials, and Financial Services segments particularly excelled. However, EBITDA for the quarter declined to INR3,251mn, down 38.3% QoQ and 51.7% YoY, primarily due to investments in the Paints business. The EBITDA margin for the quarter dropped to 4.7%, a decrease of 307 basis points QoQ and 608 basis points YoY. The quarter's PAT stood at negative INR (521) mn, negatively impacted by higher depreciation and interest expenses associated with new growth businesses.

- Paint and E-commerce Business:** The Paints business commenced commercial production at three plants in April 2024, with over 80% of its 145 product range already placed in the distribution channel. Trial production has also begun at the Chamarajanagar plant, with commercial production expected to start in Q3FY25E. Construction at the other 2 plants is progressing according to plan and is anticipated to be completed within the budgeted project cost. The company's first flagship experience centre store in Mumbai is now operational, with plans to add more such centers in FY25E. Revenue for the B2B e-commerce platform, Birla Pivot, is gradually increasing, with the current quarterly run rate exceeding INR 5,500 mn and a growing number of buyers. Private label products are now available in three categories: plywood, doors, and tiles. The company is also working on building a retail distribution channel for these private labels, along with providing sales support to enhance penetration in its financial services business. Additionally, Grasim is exploring new product categories under Birla Pivot to expand its total addressable market, with a goal of achieving \$1 million in revenue within the next three years.
- Cellulosic business:** The Cellulosic Fibre Business (formerly known as viscose) reported volumes of 212 KT for Q1FY25, marking a 13.4% YoY increase. Revenue for the cellulosic segment reached INR 37,872 million, reflecting a 0.7% increase QoQ and a 5.7% increase YoY. During the quarter, operating rates in China remained stable at approximately 82%, with inventory levels at 12 days. The business continues to be affected by low consumption across the value chain, though there are signs of recovery. Retail sales in India have been underwhelming, but the company anticipates that the upcoming festival and wedding seasons will boost retail sales. Additionally, expectations of an interest rate cut in the West could improve consumer sentiment. Overall, the company is forecasting a stable outlook for the Cellulosic Fibre Business.
- Chemicals business:** The company reported revenues of INR20,656mn for Q1FY25, a decrease of 0.8% QoQ and 3.7% YoY. The average spot price for International Caustic Soda (CFR-SEA) was \$469 per ton, marking a 13% increase YoY and a 4% increase QoQ. The company has a positive outlook as both Chinese and domestic consumer demand are improving, and government initiatives are expected to further boost this trend. The management also expects continued strong volume growth in its specialty chemical epoxy business, supported by favorable conditions across all sectors where epoxy is used.

Outlook and Valuation: Grasim's chemical division, covering chlorine and caustic soda, is anticipated to benefit from global demand and pricing trends. The company's strategy involves expanding its presence, improving operational efficiencies, and prioritizing sustainability and innovation. The government's ongoing emphasis on infrastructure and housing, financialization, and efforts to boost economic prosperity for a large segment of the population are favorable for the company. Grasim expects to see increased premiumization in this market. Additionally, the positive reception of private label tiles in the B2B sector has prompted plans to broaden the product line with private label plywood and doors. We expect Revenue/ EBITDA to grow at a CAGR of 10.5%/13.9% respectively over FY24-FY26E. We value the company on a SOTP basis to arrive at a TP of INR 2,780, maintaining our rating to **BUY**.

Financial Snapshot

Quarter end: March	FY22	FY23	FY24	FY25E	FY26E
Revenue (INR Mn)	2,08,568	2,68,397	2,58,473	2,79,516	3,15,853
EBITDA (INR Mn)	32,057	31,799	23,160	20,247	30,036
EBITDA Margins (%)	15.4	11.8	9.0	7.2	9.5
PAT	26,955	21,237	9,453	6,207	13,728
PAT Margins (%)	12.9	7.9	3.7	2.2	4.3
EPS	40.9	32.3	14.4	8.7	20.8

Source: Company, CEBPL

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Aug 12, 2024

CMP (Rs.)	2,576
Target Price (Rs.)	2,780
Potential Upside (%)	8.0

Company Info

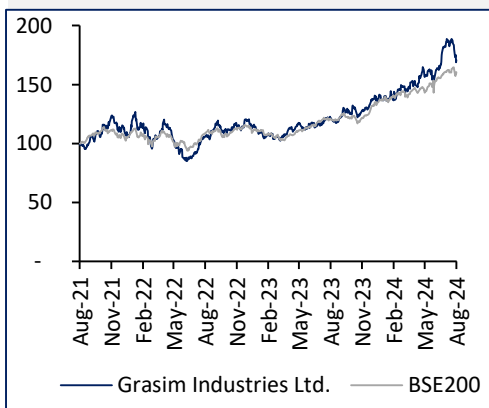
BB Code	GRASIM IN EQUITY
ISIN	INE047A01021
Face Value (Rs.)	2.0
52 Week High (Rs.)	2,875.5
52 Week Low (Rs.)	1,751.7
Mkt Cap (Rs bn)	1,753.2
Mkt Cap (\$ bn)	20.9
Shares o/s (Mn)/F.Float	680.5/56
FY24 EPS (Rs.)	14.4
FY26E EPS (Rs.)	20.8

Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	43.05	43.05	42.75
FII's	13.69	12.70	12.52
DII's	16.66	16.69	16.70
Public	27.60	27.56	28.03

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE 200	32.7	48.0	60.5
Grasim Industries	40.0	61.8	70.8

Rebased Price Performance**Ashutosh Murarka, Associate**

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Operating Performance

	FY22	FY23	FY24	FY25E	FY26E
VSF & VFY Segment					
Volume Capacity (K.Tons)	872	874	874	874	874
Sales Volume (K.Tons)	646	756	851	801	783
Revenue	1,22,090	1,51,490	1,49,496	1,39,088	1,52,882
Realisation (INR/KT)	189	200	176	174	195
Cost	1,04,880	1,41,180	1,32,273	1,26,779	1,36,018
Cost (INR/KT)	162	187	155	158	174
EBITDA	17,210	10,310	17,223	12,309	16,864
EBITDA (INR/KT)	27	14	20	15	22
Chemical Segment					
Volume Capacity (K.Tons)	1,413	1,434	1,605	1,605	1,605
Sales Volume (K.Tons)	1,114	1,228	1,291	1,222	1,256
Revenue	78,880	1,04,200	82,134	86,190	99,327
Realisation (INR/Kg)	71	85	64	71	79
Cost	63,540	81,490	71,599	75,105	87,931
Cost (INR/Kg)	57	66	55	61	70
EBITDA	15,340	22,710	10,535	11,086	11,395
EBITDA (INR/Kg)	14	19	8	9	9
Other Segments					
Revenue	7,580	15,747	21,848	30,587	44,350
EBITDA	8,580	8,960	7,722	5,452	6,117

Source: Company, CEBPL

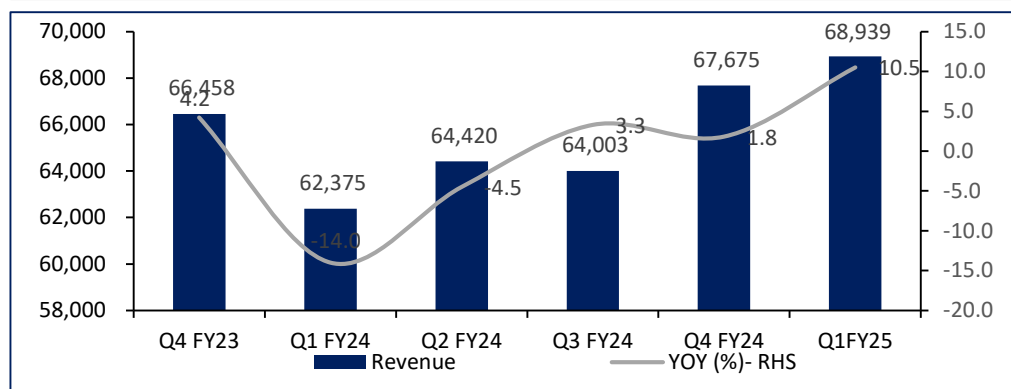
Valuations

Valuation of Standalone Entity	EV/EBITDA(x)	FY26E EBITDA (INR Mn)	EV (INR Mn)	Net Debt (INR Mn)	Market Cap (INR Mn)
Viscose	6	16,864	1,01,185	-	-
Chemicals	9	11,395	1,02,559	-	-
Paints & E-commerce	1	1,265	1,265	-	-
Other Business (Textile, Insulator, Paints, Ecommerce)	16	6,117	97,877	-	-
Valuation of Standalone entity		35,642	3,02,886	1,21,058	1,81,827
No. of shares					658
Standalone Price Per Share					276

Valuation Of Subsidiaries & Investments	Basis	Market Cap INR Mn	Ownership (%)	Holding Company Disc (%)	Value
Ultratech Cement	CEBPL Valuation	35,29,658	57.3	35.0	13,14,621
Aditya Birla Capital	Market Cap	5,51,423	54.2	35.0	1,94,266
Vodafone idea ltd	Market Cap	10,93,258	11.6	35.0	82,432
ABFRL	Market Cap	3,27,846	10.4	35.0	22,162
Hindalco	Market Cap	14,04,173	3.9	35.0	35,596
Total					16,49,077
No. of Shares					658
TP					2,506
SOTP					2,780
				CMP	2,576
				Upside (%)	8.0%

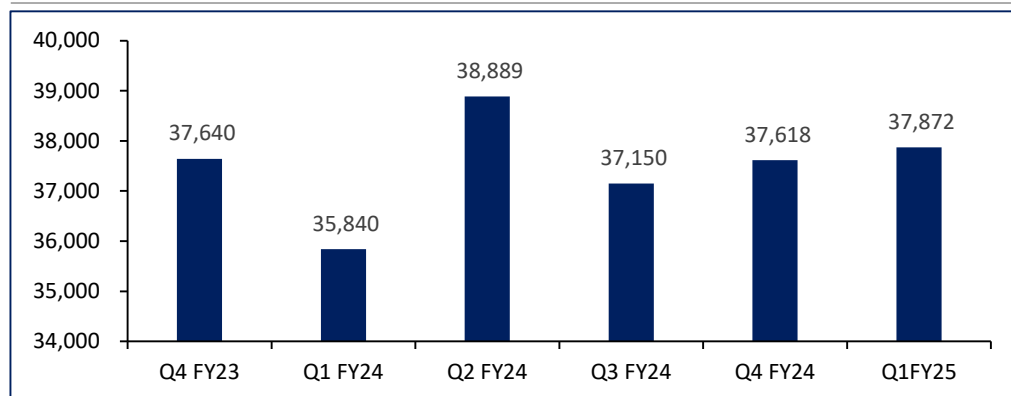
Source: Company, CEBPL

Revenue (INR mn) & YoY Growth (%)



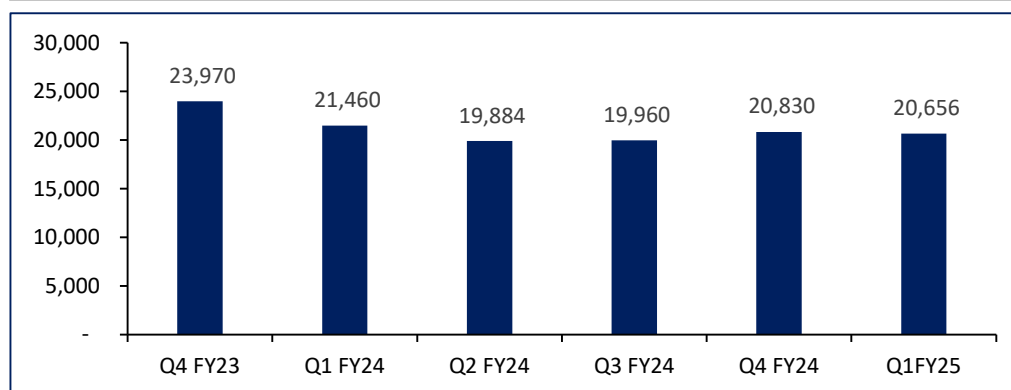
Source: Company, CEBPL

Cellulosic business revenue (INR mn)



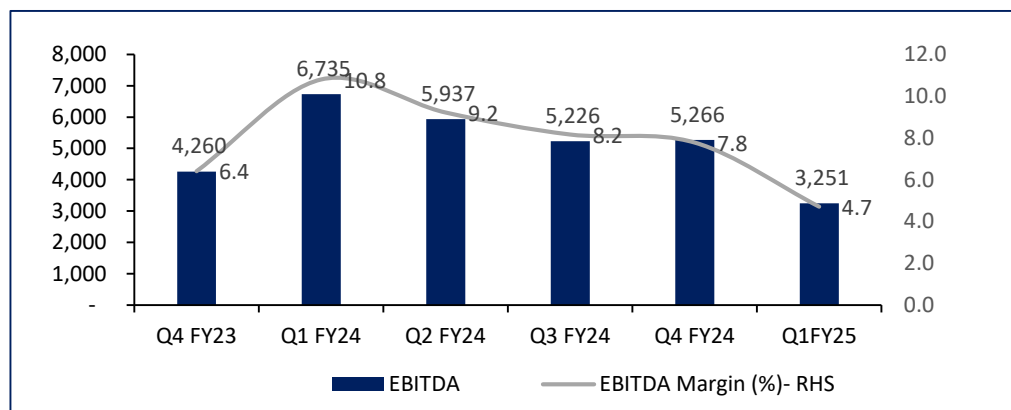
Source: Company, CEBPL

Chemical business revenue (INR mn)



Source: Company, CEBPL

EBITDA & EBITDA Margins (%)



Source: Company, CEBPL

Management Call Highlights

- The CSF business achieved its highest-ever quarterly sales volume at 212 KT, marking a 14% increase YoY. The CFY business saw marginal volume growth of 2% YoY, attributed to subdued demand conditions in the downstream value chain and lower-priced exports into India from Chinese producers.
- The Building Materials business generated revenue of INR187bn an 11% increase YoY, driven by growth in the Cement segment and a ramp-up in revenues from new growth areas, including Paints and B2B E-Commerce.
- The Financial Services business, Aditya Birla Capital, reported consolidated revenue and EBITDA at INR8,807crs and INR1,058crs, respectively. This represents a growth of 25% in revenue and 17% in EBITDA.
- Revenue from other businesses rose by 6% YoY to INR 7.98bn, while EBITDA decreased by 16% YoY to INR1.09bn.
- Capital expenditure for Q1FY25 was INR9.83bn. The budgeted standalone capital expenditure for FY25 is INR45bn, of which INR30bn is allocated to new growth businesses.
- Grasim Industries Ltd. acquired a 26% equity stake in AMPIN Energy C&I Three Private Limited for INR1.20crs and AMPIN Energy C&I One Private Limited for INR1.26crs. These Special Purpose Vehicles (SPVs) are focused on the generation and transmission of renewable energy to the company's paint plants in Chamarajanagar, Karnataka, and Cheyyar, Tamil Nadu.
- In the renewable sector, the company increased its capacity to nearly 1GW in Q1FY25 and remains on track to double this capacity to 2GW by the end of FY25E.
- Grasim had aimed to reach 150 depots by the end of FY25. As of Q1FY25, the Company has already surpassed 102 depots. The plan to achieve 50,000 active dealers by the end of FY25 is on track.
- Aditya Birla Capital launched its D2C platform, Aditya Birla Capital Digital ABCD, offering over 20 products and services across various financing solutions, including payments, loans, insurance, and investments. The total lending portfolio and average assets under management surpassed INR1,250bn and INR5,000bn, respectively, in Q1FY25.
- The company has allocated a total capital expenditure of INR 7,080 million for Cellulosic Fiber in FY25E. Of this amount, INR 1,000 million is earmarked for capacity expansion, while the remainder will be dedicated to modernization and maintenance expenses.
- The company has allocated a capital expenditure budget of INR8,000mn for its chemicals business. Of this amount, INR2,670mn will be used to enhance the capacity of caustic soda from 1,359KTPA to 1,530KTPA and chlorine derivatives from 1,029KTPA to 1,168KTPA. Additionally, INR360mn will be dedicated to increasing the capacity of epoxy polymers and curing agents from 123KTPA to 246KTPA. The remaining INR4,970mn will be invested in modernization and maintenance capital expenditures.
- The company has also planned a CAPEX of INR480mn for its other businesses, including textiles, insulators, and others.

Financial Summary (Standalone in INR Mn)

Income Statement (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,08,568	2,68,397	2,58,473	2,79,516	3,15,853
EBITDA	32,057	31,799	23,160	20,247	30,036
Depreciation	9,140	10,973	12,151	12,121	11,497
EBIT	22,918	20,826	11,009	8,126	18,539
Other income	9,057	10,183	12,565	4,934	5,606
Interest expense	2,472	3,677	4,404	5,473	6,985
Adj. PAT	27,646	22,118	16,609	6,207	13,728
EPS (INR)	40.9	32.3	14.4	8.7	20.8

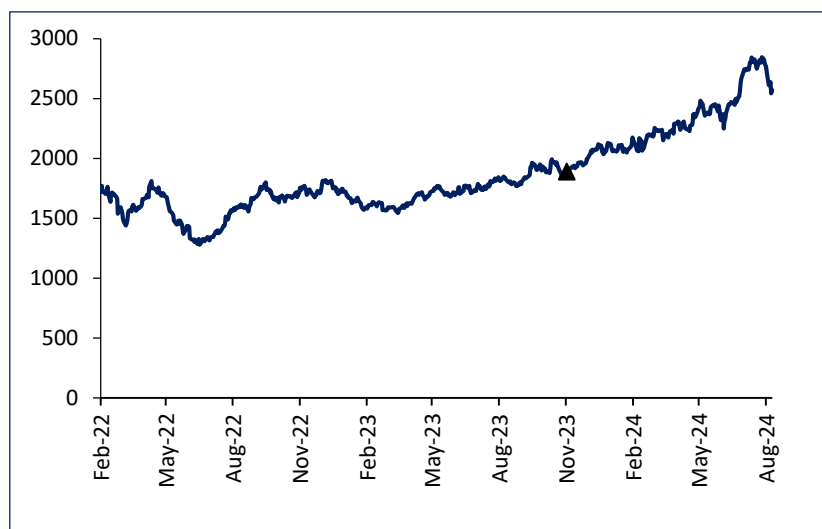
Balance Sheet (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Tangible fixed assets	1,48,577	1,62,196	1,71,052	2,03,930	2,42,433
Capital Work in Progress	16,098	29,191	71,156	-	-
Investments	3,86,908	3,38,967	3,92,122	4,18,652	4,17,033
Cash & Cash equivalents	2,253	4,744	3,096	2,909	3,584
Loans & Advances and Other Assets	16,214	25,772	32,058	29,208	32,111
Net Working Capital	9,805	13,788	17,067	17,437	15,559
Total assets	5,79,855	5,74,658	6,86,551	6,72,137	7,10,721
Shareholder's funds	4,86,158	4,69,549	5,21,146	4,80,397	4,94,126
Borrowings	32,371	52,542	94,529	1,08,182	1,24,642
Deffered Tax Assets/ Liabilities	18,414	15,348	22,971	25,268	27,795
Other Liabilities & Provisions	42,912	37,219	47,905	58,289	64,158
Total equity & liabilities	5,79,855	5,74,658	6,86,551	6,72,137	7,10,721
Capital Employed	5,36,769	5,29,192	6,21,275	6,02,823	6,34,078
Invested Capital	5,16,276	5,17,348	6,12,579	5,85,671	6,15,184

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
Cash flows from Operations	26,562	23,189	17,776	29,584	27,810
Cash flows from Investing	(34,857)	(21,903)	(55,863)	9,006	(36,610)
Cash flows from financing	(7,766)	(1,649)	38,404	6,759	9,475

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Growth Ratios (%)					
Revenue	68.4	28.7	(3.7)	8.1	13.0
EBITDA	104.9	(0.8)	(27.2)	(12.6)	48.3
PAT	232.6	(21.2)	(55.5)	(34.3)	121.2
Margin Ratios (%)					
EBITDA Margin	15.4	11.8	9.0	7.2	9.5
PAT Margin	12.9	7.9	3.7	2.2	4.3
Profitability (%)					
Return on equity	5.5	4.5	1.8	1.3	2.8
Return on invested capital (pre-tax)	4.4	4.0	1.8	1.4	3.0
Return on capital employed	4.3	3.9	1.8	1.3	2.9
Valuation					
OCF / IC (%)	5.1	4.5	2.9	5.1	4.5
EV / EBITDA (x)	53.8	54.8	77.1	91.8	62.4
EV/IC (%)	334.2	337.0	291.7	317.3	304.6

Source: Company, CEBPL

Historical recommendations and target price: GRASIM



GRASIM INDUSTRIES LTD

1.	16-02-2022	NEUTRAL,	Target Price 1,583
2.	27-05-2022	ADD,	Target Price 1,528
3.	16-08-2022	ADD,	Target Price 1,802
4.	16-11-2022	OUTPERFORM,	Target Price 2,003
5.	15-02-2023	OUTPERFORM,	Target Price 1,888
6.	29-05-2023	ADD,	Target Price 1,860
7.	11-08-2023	NEUTRAL,	Target Price 1,920
8.	16-11-2023	ADD,	Target Price 2,100
9.	10-02-2024	ADD,	Target Price 2,480
10.	23-05-2024	BUY,	Target Price 2,600
11.	12-08-2024	BUY,	Target Price 2,780

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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