

18 November 2024

India | Equity Research | Q2FY25 results review

Grasim Industries

Cement

Impressive ramp-up in paints segment

Grasim Industries' (Grasim) Q2FY25 EBITDA, at INR 3.25bn, slipped 45% YoY (flat QoQ; being 35% below our forecast) due to – 1) higher-than-estimated loss for its new business of paints and b2b e-commerce; 2) loss in textiles and insulators business; and 3) lower-than-expected profitability for chemicals. However, on the brighter side, ramp-up of the new paints business was heartening. In just the second quarter, post its maiden foray, paints' revenues are estimated to have reached ~INR 4bn vs. our estimate of INR 810mn in Q1FY25. Acknowledging Grasim's endeavour to grab high-single-digit market share by end-FY25, we revise up our FY26E sales for paints to INR 40bn (vs. INR 30bn earlier). Even as we chop our FY25E/FY26E EBITDA by 31%/21% (to factor in the high EBITDA loss in ramp-up phase), our SoTP-based TP stands revised to INR 2,731 (INR 2,600 earlier). We upgrade Grasim to **ADD** (from Hold).

Maiden foray's losses drag margins

Even as margin recovery sustained for the 'cash-cow' VSF segment (EBITDA/kg stood at ~INR 19 vs. INR 16 in Q1FY25 and INR 14.5 in Q4FY24), Grasim's Q2FY25 EBITDA was impacted by: 1) higher-than-expected losses for the new 'paints + b2b e-commerce' business (derived at INR 3.53bn vs. INR 2.96bn in Q1FY25); 2) EBITDA loss for its small business segments of textiles + insulators (derived at INR 220mn vs. a positive INR 540mn in Q2 last year); and 3) lower-than-expected profitability for chemicals segment (EBITDA stood at INR 2.73bn vs. INR 3.1bn in Q1FY25). Even as EBITDA slipped 45% YoY (flat QoQ) and capitalisation of capex led to depreciation and interest cost rising ~15% QoQ, the drop in PAT was restricted to just 9% YoY due to the receipt of dividend from subsidiary UltraTech Cement (UTCEM).

New business ventures: near-term pain, long-term gain

Grasim's ramp-up of the new business ventures – paints and b2b e-commerce – has been impressive. While the initial aggression may drive-up EBITDA losses, we view it as 'near-term pain for long-term gain'. Even as we continue to value the paints business at 5x price/sales, we now value the e-commerce business at 1.5x price/sales given the steady ramp-up in revenue (estimated at INR 6.5bn in Q2 vs INR 5.5 in Q1FY25) and Grasim's endeavour to scale it up to USD 1bn by FY28). As a result, our SoTP-based TP (Exhibit 3) stands revised to INR 2,731. We upgrade Grasim to **ADD**.

Financial summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,68,397	2,58,473	3,05,229	3,49,677
EBITDA	31,799	23,161	15,086	25,705
EBITDA (%)	11.8	9.0	4.9	7.4
Net Profit	22,118	16,610	5,899	7,618
EPS (INR)	32.3	14.4	7.9	11.2
EPS % Chg YoY	(21.2)	(55.5)	(44.7)	41.1
P/E (x)	78.3	175.8	318.1	225.5
EV/EBITDA (x)	9.1	14.4	25.8	14.9
RoCE (%) (post-tax)	3.2	1.7	(0.1)	0.8
RoE (%)	4.6	3.5	1.2	1.5

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Market Data

Market Cap (INR)	1,697bn
Market Cap (USD)	20,094mn
Bloomberg Code	GRASIM IN
Reuters Code	GRAS.BO
52-week Range (INR)	2,878 /1,906
Free Float (%)	56.0
ADTV-3M (mn) (USD)	23.2

Price Performance (%)	3m	6m	12m
Absolute	0.5	6.4	31.4
Relative to Sensex	2.4	0.3	11.9

ESG Score	2022	2023	Change
ESG score	66.7	67.4	0.7
Environment	44.3	43.1	(1.2)
Social	71.8	73.8	2.0
Governance	78.7	80.4	1.7

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	2.4	3.8
EBITDA	(30.6)	(21.5)
EPS	(50.7)	(45.7)

Previous Reports

[12-08-2024: Q1FY25 results review](#)
[24-05-2024: Q4FY24 results review](#)

Conference call takeaways

Paints

- Grasim is currently ramping up three of its plants (Ludhiana, Cheyyar and Panipat), which were commissioned on 30 Apr'24.
- Trial runs have started at Chamarajanagar (Karnataka) and Mahad (Maharashtra) in Q2FY25; while trial-runs at Kharagpur (West Bengal) plant is scheduled during Q4FY25.
- 114 depots (out of 150) are already operational with market presence reaching to >4,300 cities and towns.
- Grasim's target to onboard 50k dealers by FY25-end is under execution across all Indian states. ~84% of planned products have been placed in the distribution channel.
- Grasim continues to offer 10% higher volumes on pan-India basis and have no plans to suspend the same.
- Trade discounts/incentives stood higher than the price hikes taken in Q2FY25 which led to weaker EBITDA margins for the industry.
- The product quality is garnering positive feedback and Grasim expects to capture high single-digit market share by FY25-end.
- Capex in H1FY25 stood at ~INR 14bn, while total capex till date stood at ~INR 85bn (out of the commitment of INR 100bn).
- 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 Q2FY25, Cellulosic Staple Fibre (CSF) volumes rose 4% YoY to 219kt (all time high), implying capacity utilisation at ~100%.
- EBITDA margins improved on the back of higher sales volume and improving trend in global prices.
- Volume growth in CFY business was driven by festive demand, however realisation stood under pressure due to Chinese producers' aggressive pricing for the Indian markets.

Chemicals

- Caustic soda sales volume was down 4% YoY due to lower production on account of maintenance shutdown of the captive power plant at Vilayat.
- Chlorine prices are under pressure on account of continued oversupply conditions.

B2B business

- Grasim maintains its guidance to achieve USD 1bn of revenues in the B2B segment by FY27.

Others

- The cumulative installed capacity increased to 1 GW, of which 42% is with group companies; Grasim aims to double its renewable energy capacity to 2GW in FY25.
- FY25 capex guidance for standalone business is ~INR 47bn; board approved ~INR 3bn for additional pulp capacity at Harihar & INR 200mn for textiles business.
- Grasim maintains its target net debt to EBITDA of 3-3.5x on completion of the pending capex.

Exhibit 1: Q2FY25 standalone result review

(INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Q2FY25E	% var
Net Sales	76,233	64,420	18.3	68,939	10.6	75,282	1.3
Raw Materials	42,299	33,971	24.5	38,395	10.2	-	
Personnel Cost	6,527	5,331	22.4	5,896	10.7	-	
Power & Fuel	10,175	10,179	(0.0)	9,861	3.2	-	
Other Expenses	13,980	9,003	55.3	11,536	21.2	-	
Total Expenses	72,981	58,484	24.8	65,688	11.1	70,286	3.8
EBITDA	3,252	5,936	(45.2)	3,251	0.0	4,996	(34.9)
Interest	1,615	1,069	51.1	1,399	15.4	1,772	(8.9)
Depreciation	4,058	2,919	39.0	3,486	16.4	3,803	6.7
Other Income + Other operating income	12,936	7,603	70.1	931	1,289.3	12,510	3.4
Recurring pre-tax income	10,516	9,552	10.1	(702)	NA	11,931	(11.9)
Taxation	2,807	1,604	75.0	(181)	NA	2,983	(5.9)
Recurring Net Income	7,708	7,948	(3.0)	(521)	NA	8,948	(13.9)
Extraordinary income/(expense)	500	-	-	-	-	-	
Reported Net Income	7,209	7,948	(9.3)	(521)	NA	8,948	(19.4)
% Margins							
EBITDA	4.3	9.2		4.7		6.6	
PAT	10.1	12.3		(0.8)		11.9	

Source: I-Sec research, Company data

Exhibit 2: Segment wise results – standalone

(INR mn)	Q2FY25	Q2FY24	% change	Q1FY25	% change
Cellulosic fibres					
Revenue (INR mn)	41,250	38,889	6.1	37,870	8.9
Volume ('000 tonnes)	230.1	221.0	4.1	221.5	3.9
Net realisation (INR/tonne)	1,79,270	1,75,967	1.9	1,70,971	4.9
PBIDTA (INR mn)	4,943	4,683	5.6	4,047	22.1
PBIDTA margin (%)	12.0	12.0	(0.1)	10.7	1.3
PBIDTA / tonne (INR/tonne)	21,483	21,191	1.4	18,271	17.6
Chemicals					
Revenue (INR mn)	20,540	19,884	3.3	20,660	(0.6)
Volume ('000 tonnes)	295	306	(3.6)	282	4.6
Net realisation (INR/tonne)	69,627	64,980	7.2	73,262	(5.0)
PBIDTA (INR mn)	2,991	2,363	26.6	3,102	(3.6)
PBIDTA margin (%)	14.6	11.9	2.7	15.0	(0.5)
PBIDTA / tonne (INR/tonne)	10,140	7,722	31.3	11,001	(7.8)

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)	2,34,150	13
Fair value for Paints business (@ 5x Price/Sales)	2,00,000	11
Fair value for b2b e-commerce business (@ 1.5x FY26E Price/Sales)	52,500	
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	10,47,034
ABCL	52.6	2,21,897
ABFRL	9.6	16,973
L&T	0.3	9,948
Total investment holdings		13,71,572
Market cap. - Consolidated		18,58,221
Total shares outstanding (mn)*	680.5	
Target price (INR)	2,731	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.

Exhibit 4: Earnings revision

(INR mn)	FY25E			FY26E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	3,05,229	2,98,076	2.4	3,49,677	3,37,024	3.8
EBITDA	15,086	21,741	(30.6)	25,705	32,736	(21.5)
PAT *	5,755	11,680	(50.7)	7,618	14,023	(45.7)

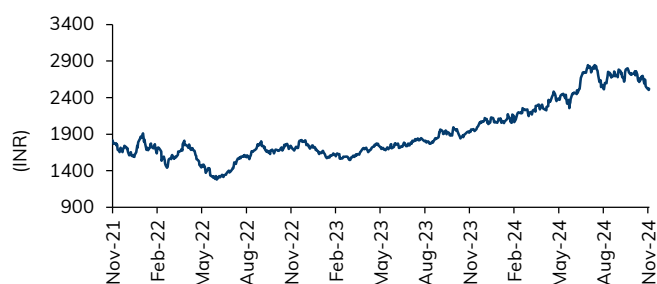
Source: I-Sec research, Company data, *Profit after adjusting the extraordinaries post tax

Exhibit 5: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	43.0	43.1	43.1
Institutional investors	33.3	33.4	33.5
MFs and others	6.1	6.1	7.0
FIs/Banks	2.1	2.1	2.2
Insurance	8.5	8.4	8.3
FIIIs	16.6	16.8	16.0
Others	23.7	23.5	23.4

Source: Bloomberg

Exhibit 6: Price chart



Source: Bloomberg

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,68,397	2,58,473	3,05,229	3,49,677
Operating Expenses	2,36,598	2,35,313	2,90,143	3,23,972
EBITDA	31,799	23,161	15,086	25,705
EBITDA Margin (%)	11.8	9.0	4.9	7.4
Depreciation & Amortization	10,973	12,151	16,259	18,746
EBIT	20,826	11,010	(1,173)	6,959
Interest expenditure	3,677	4,404	6,393	6,902
Other Non-operating Income	10,183	12,566	15,650	10,168
Recurring PBT	27,333	19,172	8,084	10,225
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,215	2,562	2,185	2,607
PAT	22,118	16,610	5,899	7,618
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	880	7,156	500	-
Net Income (Reported)	21,237	9,454	5,399	7,618
Net Income (Adjusted)	22,118	16,610	5,899	7,618

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,13,505	1,18,761	1,41,592	1,46,278
of which cash & cash eqv.	35,300	34,716	36,618	34,411
Total Current Liabilities & Provisions	83,411	91,160	1,06,875	1,13,258
Net Current Assets	30,094	27,601	34,718	33,019
Investments	3,16,813	3,26,813	3,26,813	3,26,813
Net Fixed Assets	1,62,262	1,67,612	2,61,353	2,54,607
Capital Work-in-Progress	29,191	71,191	6,191	9,191
Deferred Tax assets	-	-	-	-
Total Assets	5,38,360	5,93,217	6,29,074	6,23,630
Liabilities				
Borrowings	52,542	94,529	97,029	87,029
Deferred Tax Liability	16,269	16,269	16,269	16,269
Equity Share Capital	1,317	1,317	1,361	1,361
Reserves & Surplus	4,68,232	4,81,102	5,14,416	5,18,971
Total Net Worth	4,69,549	4,82,419	5,15,777	5,20,332
Minority Interest	-	-	-	-
Total Liabilities	5,38,360	5,93,217	6,29,074	6,23,630

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	64,003	67,675	68,939	76,233
% growth (YoY)	(3.3)	1.8	10.5	18.3
EBITDA	5,225	5,266	3,251	3,252
Margin %	8.2	7.8	4.7	4.3
Other Income	1,202	2,603	931	12,936
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,363	2,747	(521)	7,209

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	32,686	12,016	7,585	10,225
Working Capital Changes	(5,426)	(2,091)	(5,215)	(508)
Capital Commitments	(40,113)	(59,500)	(45,000)	(15,000)
Free Cashflow	(16,925)	(39,986)	(28,557)	10,855
Other investing cashflow	18,211	(4,648)	4,204	-
Cashflow from Investing Activities	(21,902)	(64,148)	(40,796)	(15,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	11,374	41,987	2,500	(10,000)
Dividend paid	(6,574)	(6,585)	(2,042)	(3,062)
Others	-6,448	10,000	30,000	0
Cash flow from Financing Activities	-1,648	45,402	30,458	-13,062
Chg. in Cash & Bank balance	(362)	768	6,106	-2,207
Closing cash & balance	1,891	5,512	11,618	9,411

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.3	14.4	7.9	11.2
Adjusted EPS (Diluted)	32.3	14.4	7.9	11.2
Cash EPS	50.3	43.7	32.6	38.7
Dividend per share (DPS)	10.0	10.0	3.0	4.5
Book Value per share (BV)	713.1	732.7	757.9	764.6
Dividend Payout (%)	31.0	69.6	37.8	40.2
Growth (%)				
Net Sales	28.7	(3.7)	18.1	14.6
EBITDA	(1.1)	(27.2)	(34.9)	70.4
EPS (INR)	(21.2)	(55.5)	(44.7)	41.1
Valuation Ratios (x)				
P/E	6	8	11	10
P/CEPS	50.2	57.8	77.5	65.2
P/BV	3.5	3.4	3.3	3.3
EV / EBITDA	9.1	14.4	25.8	14.9
EV / t (USD)	-	-	-	-
Dividend Yield (%)	0.4	0.4	0.1	0.2
Operating Ratios				
EBITDA Margins (%)	11.8	9.0	4.9	7.4
Effective Tax Rate (%)	19.1	13.4	27.0	25.5
Net Profit Margins (%)	7.9	3.7	1.8	2.2
Net Debt / Equity (x)	0.0	0.1	0.1	0.1
Net Debt / EBITDA (x)	0.5	2.6	4.0	2.0
Profitability Ratios				
RoCE (%) (Post Tax)	3.2	1.7	(0.1)	0.8
RoE (%)	4.6	3.5	1.2	1.5
RoIC (%)	4.8	3.7	1.8	2.1
Fixed Asset Turnover (x)	1.7	1.6	1.4	1.4
Inventory Turnover Days	65	75	75	78
Receivables Days	22	25	27	28
Payables Days	72	79	79	83

Source Company data, I-Sec research

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