14 August 2021
1QFY22 Results Update | Sector: Cement

Grasim

CMP: INR1,498 | **TP: INR1,590 (+6%)** | **Neutral**

Higher VSF exports cushion weak domestic demand

Margin surprises positively

- GRASIM's 1QFY22 result surprised positively on EBITDA margin, which came in at 19.7% (est. 17.2%), driven by sustained cost reduction and better realization in the Chemicals business. EBITDA stood at INR7.4b v/s a loss of INR2.3b in 1QFY21.
- We raise our FY22E/FY23E standalone EBITDA by 18%/6% to factor in an improved demand outlook and better margin for both the VSF and Chemicals. The holding company discount of 46% is in line with its 10-year average of 48%. We maintain our **Neutral** rating.

Realization and margin in Chemicals drives 17% EBITDA beat

- Revenue/EBITDA/adjusted PAT (excluding the Fertilizer business in the base quarter) stood at INR37.6b/INR7.4b/INR4.5b as against INR13.4b/-INR2.3b/-INR2.5b in 1QFY21 and was 2%/17%/36% higher than our estimate. The beat was led by better than expected performance in the Chemicals business on the back of higher realization and margin.
- Revenue for the VSF segment improved 277% YoY to INR21b, led by higher volumes (+173% YoY). EBITDA stood at INR4.9b v/s a loss of INR1.1b in 1QFY21, with margin at 23.2% (est. 21%).
- In the VSF business, the management increased the share of exports to 31% in 1QFY22 v/s 11% in 4QFY21, which cushioned the impact of the slowdown in the domestic Textile sector.
- Revenue/EBITDA for the Chemicals business rose 105%/571% YoY (low base) to INR14.4b/INR2.8b, led by better realization (+19% YoY) and higher margin at 19.2% (+13.3pp YoY, est. 13%).

Highlights from the management commentary

- Domestic demand for Fiber is witnessing a gradual uptick, with the easing of restrictions across states.
- VSF expansion at Vilayat has progressed as per schedule, and the first line of 300TPD is expected to be commissioned in 2QFY22. Another line of 300TPD will be commissioned in 3QFY22.
- The management is focused on: 1) increasing the VAP mix to 40% by CY25 in both VSF and Chemicals, and 2) rationalizing cost of production across all businesses.
- Divestment of its Fertilizer business is expected to be completed in 2QFY22. The management has guided at an enterprise value of INR16b as against its earlier guidance of INR26.5b as it has received INR10b of government subsidies, which was due earlier.

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	985.6 / 13.3
52-Week Range (INR)	1610 / 609
1, 6, 12 Rel. Per (%)	-10/13/92
12M Avg Val (INR M)	2363

Financial Snapshot (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	123.9	187.3	211.4
EBITDA	15.6	33.4	34.8
Adj. PAT	8.9	24.6	24.7
EBITDA Margin (%)	12.6	17.9	16.5
S/A Adj. EPS (INR)	13.5	37.5	37.5
S/A EPS Gr. (%)	-29.4	176.5	0.1
Consol EPS (INR)	67.9	102.3	110.3
BV/Sh. (INR)	652.6	686.1	719.5
Ratios			
Net D:E	0.0	0.0	0.0
RoE (%)	2.1	5.5	5.2
RoCE (%)	2.7	7.0	6.6
Valuations			
P/E (x)	110.6	40.0	40.0
P/BV (x)	2.3	2.2	2.1
Div. Yield (%)	0.3	0.3	0.3
FCF Yield (%)	1.2	0.9	0.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	42.1	41.8	40.3
DII	16.0	16.8	21.4
FII	15.3	14.6	12.9
Others	26.6	26.7	25.5

FII Includes depository receipts

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Valuation and view

- While the outlook for the Viscose business has improved further, we expect margin for the Chemicals segment to improve. However, it will remain weak due to significant capacity expansion over the next two years.
- Given GRASIM's conglomerate business structure, we value it on a SoTP basis at INR1,590. Our TP values: a) the standalone business (Viscose, Chemicals, etc.) at 6x FY23E EV/EBITDA, b) UTCEM at a 50% holding company discount to our TP, and c) other listed investments (ABCAP, IDEA, HNDL, and ABFRL) at a 50% holding company discount to its market price. We maintain our **Neutral** rating.

Standalone quarterly performance **(INR m)**

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
(Standalone)	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	**13,357**	**29,598**	**36,966**	**43,943**	**37,627**	**47,950**	**49,203**	**52,519**	**123,864**	**187,299**	**36,941**	2
YoY Change (%)	-73.3	-38.3	-17.8	1.9	181.7	62.0	33.1	19.5	-33.4	51.2	174.3	
EBITDA	**-2,257**	**3,346**	**6,445**	**8,109**	**7,402**	**9,170**	**8,519**	**8,346**	**15,643**	**33,437**	**6,338**	17
Margin (%)	-16.9	11.3	17.4	18.5	19.7	19.1	17.3	15.9	12.6	17.9	17.2	
Depreciation	2,029	2,056	2,051	2,145	2,018	2,250	2,350	2,505	8,282	9,123	2,200	
Interest	658	649	516	536	581	600	570	664	2,360	2,415	500	
Other Income	992	2,816	638	692	649	7,901	850	805	5,137	10,205	900	-28
PBT before EO Items	**-3,951**	**3,456**	**4,515**	**6,119**	**5,453**	**14,220**	**6,449**	**5,982**	**10,139**	**32,104**	**4,538**	20
Extraordinary Inc./(Exp.)	-577	0	0	-233	0	0	0	0	-810	0	0	
PBT after EO Items	**-4,529**	**3,456**	**4,515**	**5,886**	**5,453**	**14,220**	**6,449**	**5,982**	**9,329**	**32,104**	**4,538**	20
Tax	-1,414	175	1,208	1,256	993	2,844	1,806	1,813	1,224	7,456	1,271	
Rate (%)	31.2	5.1	26.7	21.3	18.2	20.0	28.0	30.3	13.1	23.2	28.0	
Reported PAT	**-3,115**	**3,281**	**3,308**	**4,630**	**4,459**	**11,376**	**4,643**	**4,169**	**8,105**	**24,648**	**3,268**	36
Adj. PAT	**-2,538**	**3,281**	**3,308**	**4,863**	**4,459**	**11,376**	**4,643**	**4,169**	**8,914**	**24,648**	**3,268**	36
Margin (%)	-19.0	11.1	8.9	11.1	11.9	23.7	9.4	7.9	7.2	13.2	8.8	
YoY Change (%)	-157.7	-37.7	75.3	350.8	-275.7	246.7	40.4	-14.3	-29.4	176.5	-223.7	

E: MOFSL estimates; FY20 earnings include the Fertilizer business and hence are not comparable

Highlights from the management commentary

Viscose business

- The share of value-added products in the overall sales mix improved to 26% in 1QFY22 v/s 22% in FY21.
- It brought forward the Harihar plant maintenance shutdown to May'21 (earlier scheduled for Sep'21).
- Domestic demand for Fiber is witnessing a gradual uptick, with the easing of restrictions across states.
- In China, VSF prices have stabilized at RMB13,000 after moderating to RMB12,871 in Jun'21 from RMB15,805 in Mar'21. Inventory at the plants has risen to 24 days in Jun'21 from 13 days in Mar'21, which led to a readjustment of production levels by Chinese VSF players.
- Deceleration in restocking during 4QFY21 and seasonal factors led to a lower VSF demand in China, resulting in a moderation in prices in 1QFY22.
- Revenue/EBITDA for VFY stood at INR3.4b/INR0.4b.

Chemicals business

- In India, the Chemicals business was impacted due to the second COVID wave as demand for Chlorine value added products from MSMEs remained subdued in 1QFY22. Weak demand from Textiles and Organic Chemicals and excess supply capped the rise in domestic Caustic Soda prices.

- In 1QFY22, international Caustic Soda prices remained strong, driven by supply outages due to supply constraints/maintenance activities and modest improvement in demand.
- Caustic Soda capacity utilization stood at 85% in 1QFY22, while Chlorine consumption in VAPs stood at 28%.
- The Advanced Materials (Epoxy) business has delivered a robust performance, led by strong realization and robust demand in the Wind and Auto segments.

Capex

- VSF expansion at Vilayat has progressed as per schedule, and the first line of 300TPD is expected to be commissioned in 2QFY22. Another line of 300TPD will be commissioned in 3QFY22.
- In the Chlor-Alkali business, the Rehla plant/CMS plant/BB Puram (Phase I)/Vilayat (Phase I) is expected to be commissioned in 2Q/2Q/2H/2HFY22 and will have a capacity of 91kt/54.8kt/73kt/73kt. Vilayat (Phase II)/BB Puram (Phase II) is expected to be commissioned in FY23, and will have a capacity of 73kt/73kt.
- Epoxy expansion of 125kt is expected to be commissioned in FY24.
- The management has guided at a capex of INR25b in FY22 (excluding the Paints and Fertilizer business).

Debt

- Standalone gross debt stood at INR48.6b and net debt stood at INR18.2b v/s INR9.1b in Mar'21.
- Consolidated gross debt stood at INR254.3b and net debt stood at INR89.8b v/s INR86.3b in Mar'21.

Other highlights

- The management is focused on: 1) increasing the VAP mix to 40% by CY25 in both VSF and Chemicals, and 2) rationalizing cost of production across all businesses.
- Divestment of its Fertilizer business is expected to be completed in 2QFY22. The management has guided at an enterprise value of INR16b as against its earlier guidance of INR26.5b as it has received INR10b of government subsidies, which was due earlier.
- The Paint business is progressing as planned. Land acquisition for setting up plants in different states is in process and so are its project engineering plans.
- Freight has emerged as a major challenge across the globe, while raw material prices have gone up across businesses.
- The management expects businesses to resume their growth trajectory on the assumption of a lower impact from the third COVID wave.

Key exhibits

Exhibit 1: SoTP valuation

	INR b	(INR/share)
UltraTech Cement at the target price	1,449	2,204
Aditya Birla Capital at CMP	148	225
Vodafone Idea at CMP	22	33
Hindalco at CMP	41	62
Aditya Birla Fashion and Retail at CMP	18	28
Total value of listed investments	**1,677**	**2,551**
Conglomerate discount at 50%	839	1,275
Net value of listed investments post discount	839	1,275
Parent business at 6x FY23E EV/EBITDA	207	315
Total equity value	**1,046**	**1,590**
SoTP-based target price		**1,590**

Source: MOFSL, Company

Exhibit 2: VSF's business performance

	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)
Production (tonne)	143,000	38,000	276.3	154,000	-7.1
Sales volume (tonne)	120,000	44,000	172.7	158,000	-24.1
Net Turnover (INR m)	21,030	5,580	276.9	25,830	-18.6
PBIDT margin (%)	23.20	(20.25)	43.5	24.20	-1.0
EBITDA (INR m)	4,880	-1,130	-531.9	6,250	-21.9

Source: MOFSL, Company

Capex for FY22 stands at INR25b

Particulars (Rs. Cr.)	Capex spent Q1 FY22	Balance Budget
Viscose Staple Fibre (from 578 KTPA to 810 KTPA)		
Capacity Expansion	189	757
Normal Modernisation and Maintenance Capex	50	344
Chemical (from 1,147 KTPA to 1,530 KTPA)		
Capacity Expansion, Normal Modernisation and Maintenance	109	591
Capex related to other businesses		
VFY, Epoxy, Textiles and Insulator	28	432
Total	**376**	**2,124**

Exhibit 3: Performance of the Chemicals business

	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)
Production (tonne)	242,000	139,000	74.1	265,000	-8.7
Sales volume (tonne)	238,000	138,000	72.5	267,000	-10.9
Net Turnover (INR m)	14,360	7,020	104.6	14,720	-2.4
PBIDT margin (%)	19.2	5.8	13.3	12.6	6.6
EBITDA (INR m)	2,750	410	570.7	1,850	48.6

Source: MOFSL, Company

Valuation and view

Strong outlook for VSF, the same for Chemicals improves

While the outlook for the Viscose business has improved further, we expect margin for the Chemicals segment to improve on account of cost reduction and a better demand outlook. We expect VSF margin to recover to INR32/kg in FY22E, aided by: 1) strong demand for VSF, and 2) supportive regional dynamics as VSF inventory at plants in China has declined significantly (22 days at present from 45 days in Apr'20).

The margin for Chemicals, while recovering from the COVID-19 lows, is expected to improve on a better demand outlook. However, it will remain weak in the medium term, given the significant capacity addition over the next two years.

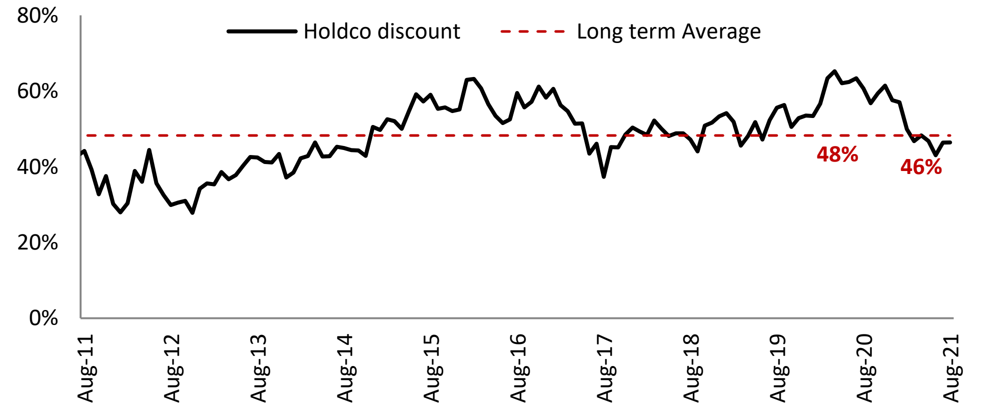
Exhibit 4: Margin trend in VSF and Chemicals

EBITDA/kg	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
VSF	44.1	34.3	25.1	17.1	9.3	17.6	26.7	29.2	29.9	18.1	23.1	32.0	28.0
Chemicals	6.8	7.5	11.9	9.2	16.0	8.9	10.9	15.1	18.2	10.2	6.6	10.5	10.0

Source: MOFSL, Company

Given GRASIM's conglomerate business structure, we value it on a SoTP basis. Our TP values: a) the standalone business (Viscose, Chemicals, etc.) at 6x FY23E EV/EBITDA, b) UTCEM at a 50% holding company discount to our TP, and c) other listed investments (ABCAP, IDEA, HNDL, and ABFRL) at a 50% holding company discount to its market price. We thus arrive at a fair value of INR1,590 per share. We maintain our **Neutral** rating.

Exhibit 5: Holding company discount at 46% below its long-term average of 48%



Source: MOFSL, Company

Financials and valuations

Standalone Income Statement								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	**89,692**	**1,03,457**	**1,57,858**	**2,05,504**	**1,86,094**	**123,864**	**187,299**	**211,440**
Change (%)	41.4	15.3	52.6	30.2	-9.4	-33.4	51.2	12.9
Total Expenditure	74,766	81,909	1,27,083	1,64,793	1,62,989	108,220	153,862	176,619
EBITDA	**14,927**	**21,548**	**30,775**	**40,712**	**23,105**	**15,643**	**33,437**	**34,820**
Change (%)	121.3	44.4	42.8	32.3	-43.2	-32.3	113.7	4.1
Margin (%)	16.6	20.8	19.5	19.8	12.4	12.6	17.9	16.5
Depreciation	4,449	4,461	6,277	7,604	8,468	8,282	9,123	12,118
EBIT	**10,478**	**17,086**	**24,499**	**33,108**	**14,638**	**7,362**	**24,314**	**22,702**
Int. and Finance Charges	1,474	576	1,281	1,991	3,039	2,360	2,415	3,264
Other Income - Rec.	3,585	4,739	4,614	5,680	5,255	5,137	10,205	11,943
PBT and EO Items	**12,588**	**21,249**	**27,831**	**36,797**	**16,854**	**10,139**	**32,104**	**31,380**
Change (%)	77.0	68.8	31.0	32.2	-54.2	-39.8	216.6	-2.3
Extra-ordinary Income	-292	0	-2,726	-23,680	-2,941	-810	0	1
PBT but after EO Items	**12,297**	**21,249**	**25,105**	**13,117**	**13,913**	**9,329**	**32,104**	**31,381**
Tax	2,590	5,649	7,446	7,964	1,214	1,224	7,456	6,718
Tax Rate (%)	21.1	26.6	29.7	60.7	8.7	13.1	23.2	21.4
Reported PAT	**9,706**	**15,600**	**17,659**	**5,153**	**12,700**	**8,105**	**24,648**	**24,663**
PAT Adj. for EO items	**9,998**	**15,600**	**20,385**	**28,833**	**12,625**	**8,914**	**24,648**	**24,662**
Change (%)	79.8	56.0	30.7	41.4	-56.2	-29.4	176.5	0.1
Margin (%)	11.1	15.1	12.9	14.0	6.8	7.2	13.2	11.7

Standalone Balance Sheet								(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	934	934	1,315	1,315	1,316	1,316	1,316	1,316
Reserves	1,37,785	1,61,376	4,46,584	4,18,277	3,75,425	428,162	450,178	472,209
Revaluation Reserves	0	0	0	0	0	0	0	0
Net Worth	**1,38,718**	**1,62,310**	**4,47,898**	**4,19,592**	**3,76,740**	**429,479**	**451,494**	**473,525**
Loans	16,152	7,015	25,825	33,108	50,681	41,634	41,634	51,634
Deferred liabilities	4,941	6,630	18,350	18,789	14,025	17,339	17,339	17,339
Capital Employed	**1,59,811**	**1,75,954**	**4,92,073**	**4,71,488**	**4,41,447**	**488,452**	**510,468**	**542,498**
Gross Block	77,947	81,549	1,27,316	1,38,501	1,54,142	158,742	188,940	228,940
Less: Accum. Deprn.	8,316	12,681	19,125	26,166	33,310	39,302	48,425	60,544
Net Fixed Assets	**69,631**	**68,868**	**1,08,191**	**1,12,335**	**1,20,832**	**119,439**	**140,514**	**168,396**
Capital WIP	3,177	3,755	7,451	15,672	27,919	40,334	30,334	20,334
Non-Current Investments/Strategic	58,869	74,241	3,35,867	2,81,616	2,56,621	305,230	305,230	305,230
Current - Financial	12,127	15,723	19,599	29,660	20,141	31,167	31,167	31,167
Curr. Assets	**34,161**	**35,924**	**66,067**	**78,850**	**69,433**	**47,411**	**65,005**	**84,141**
Inventory	16,054	17,327	25,917	29,317	26,262	21,790	30,467	34,436
Account Receivables	9,924	11,896	26,093	34,841	29,053	13,120	17,773	20,087
Cash and Bank Balance	350	527	419	425	789	1,327	5,592	18,445
Others	7,833	6,174	13,639	14,268	13,328	11,174	11,174	11,174
Curr. Liability and Prov.	**18,152**	**22,557**	**45,103**	**46,643**	**53,499**	**55,129**	**61,783**	**66,771**
Account Payables	5,932	11,259	22,534	23,738	26,648	27,069	33,723	38,711
Provisions	1,702	1,626	5,087	4,614	5,514	3,249	3,249	3,249
Other Liabilities	10,518	9,672	17,481	18,291	21,337	24,811	24,811	24,811
Net Current Assets	**16,008**	**13,367**	**20,965**	**32,206**	**15,934**	**-7,719**	**3,222**	**17,370**
Appl. of Funds	**1,59,811**	**1,75,955**	**4,92,073**	**4,71,489**	**4,41,447**	**488,452**	**510,468**	**542,498**

E: MOFSL estimates

Financials and valuations

Standalone Ratios								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Share price								
EPS	**107.1**	**167.1**	**31.0**	**43.8**	**19.2**	**13.5**	**37.5**	**37.5**
Cash EPS	31.0	43.0	40.6	55.4	32.1	26.1	51.3	55.9
BV/Share	297.2	347.7	681.4	638.1	572.7	652.6	686.1	719.5
DPS	3.6	5.5	6.2	7.0	4.0	4.0	4.0	4.0
Valuation								
P/E						110.6	40.0	40.0
PEG (x)						-3.8	0.2	706.1
Cash P/E						57.3	29.2	26.8
P/BV						2.3	2.2	2.1
EV/Sales						0.1	0.0	0.0
EV/EBITDA						63.6	29.6	28.4
Dividend Yield (%)						0.3	0.3	0.3
Return Ratios (%)								
RoE	7.2	9.6	4.6	6.9	3.4	2.1	5.5	5.2
RoCE	9.1	12.9	6.1	8.6	4.7	2.7	7.0	6.6
RoIC	6.0	7.8	5.4	2.8	3.0	1.4	3.9	3.6
Working Capital Ratios								
Debtor (Days)	40	42	60	62	57	39	35	35
Asset Turnover (x)	0.6	0.6	0.3	0.4	0.4	0.3	0.4	0.4
Leverage Ratio								
Debt/Equity	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1

Standalone Cash Flow Statement								(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
OP/(Loss) before Tax	12,297	21,249	25,131	13,117	13,913	10,139	32,104	31,381
Depreciation	4,449	4,461	6,277	7,604	8,468	8,282	9,123	12,118
Interest and Finance Charges	930	-591	701	941	2,604	1,867	2,415	3,264
Direct Taxes Paid	-3,212	-2,210	-5,233	-5,123	-2,154	-1,786	-7,456	-6,718
(Inc.)/Dec. in WC	571	2,802	-2,796	-10,752	12,855	9,350	-6,675	-1,295
CF from Operations	**15,034**	**25,712**	**24,080**	**5,788**	**35,686**	**27,852**	**29,510**	**38,751**
Others	-1,628	-3,118	-551	19,767	-501	-3,878	0	0
CF from Operations incl. EO	**13,407**	**22,593**	**23,529**	**25,555**	**35,185**	**23,974**	**29,510**	**38,751**
(Inc.)/Dec. in FA	-6,405	-4,217	-10,521	-20,384	-27,032	-11,830	-20,198	-30,000
Free Cash Flow	**7,002**	**18,376**	**13,007**	**5,171**	**8,153**	**12,144**	**9,312**	**8,751**
(Pur.)/Sale of Investments	-3,221	-7,674	-1,850	-1,488	18,104	-8,976	0	0
Others	2,667	3,512	-6,754	-687	-36,033	12,490	0	0
CF from Investments	**-6,958**	**-8,378**	**-19,125**	**-22,559**	**-44,961**	**-8,316**	**-20,198**	**-30,000**
Issue of Shares	53	26	23	86	90	126	0	0
Inc./(Dec.) in Debt	-3,275	-11,322	942	3,504	17,475	-9,170	0	10,000
Interest Paid	-1,577	-597	-1,417	-2,050	-2,103	-3,241	-2,415	-3,264
Dividend Paid	-1,774	-2,037	-3,660	-4,050	-4,598	-2,622	-2,633	-2,634
Others	-58	-108	-399	-481	-725	-213	0	0
CF from Fin. Activity	**-6,631**	**-14,038**	**-4,512**	**-2,990**	**10,140**	**-15,120**	**-5,047**	**4,102**
Inc./Dec. in Cash	**-182**	**177**	**-109**	**7**	**364**	**537**	**4,265**	**12,853**
Opening Balance	532	350	527	418	425	789	1,327	5,592
Closing Balance	**350**	**527**	**418**	**425**	**789**	**1,327**	**5,592**	**18,445**

N O T ES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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