

BSE SENSEX 55,398 S&P CNX 16,521

CMP: INR1,442 TP: INR1,715 (+19%) Buy

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Stock Info

Bloomberg	GRASIM IN
Equity Shares (m)	657
M.Cap.(INRb)/(USDb)	949 / 11.9
52-Week Range (INR)	1939 / 1277
1, 6, 12 Rel. Per (%)	2/-14/-14
12M Avg Val (INR M)	1844
Free float (%)	57.2

Financials Snapshot (INR b)

Y/E MARCH	FY22	FY23E	FY24E
Sales	208.6	271.7	269.0
EBITDA	32.2	39.0	41.2
Adj. PAT	22.3	26.1	27.6
EBITDA Margin (%)	15.4	14.4	15.3
S/A Adj. EPS (INR)	33.9	39.6	41.9
S/A EPS Gr. (%)	150.1	17.0	5.6
Consol EPS (INR)	111.5	103.5	107.7
BV/Sh. (INR)	738.4	769.1	801.5

Ratios

Net D:E	-0.0	-0.0	-0.1
RoE (%)	12.0	12.7	12.0
RoCE (%)	13.2	14.4	14.1

Valuations

P/E (x)	39.2	33.5	31.7
P/BV (x)	1.8	1.7	1.7
EV/EBITDA (x)	5.0	4.0	3.3
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	0.1	1.1	2.1

Forays into B2B e-commerce for Building Products

To invest INR20b over the next five years and launch in six-to-12 months

- GRASIM plans to foray into B2B e-commerce in the Building Materials segment. This will entail an investment of INR20b over the next five years. The commercial launch of this platform is expected in six-to-12 months.
- This business is expected to turn EBITDA positive at the end of the investment period and achieve cash breakeven in seven years. All OPEX and capex have been considered in deciding the required investments in the business.
- The Building Materials Procurement segment (industry size: USD100b) has clocked ~14% CAGR over the last three years. The management said this space offers a huge growth opportunity (current digital penetration of ~2%).
- Lower capital requirements compared to standalone business segments, along with a very high growth potential, makes this an exciting business case. The decision for evaluation of any new business depends on: 1) growth opportunities, 2) scalability, 3) ability to generate better profitability/IRR, and 4) adjacencies with existing business segments.

To focus on the MSME segment initially; reach to be increased gradually

- This vertical will cover the entire gamut of Building Products (like cement, steel, concrete, electrical, construction chemicals, tiles, plywood, etc.). The initial focus will be on the MSME segment as the unorganized nature of the business provides bigger opportunities due to inefficiencies in the value chain. Later, other growth opportunities will be explored.
- GRASIM has undertaken a survey of over 150 customers and vendors to get a sense of the difficulties they are facing. The management will focus on: 1) on-time delivery, 2) better product range, and 3) consistent quality and reliability. The platform will initially be launched in a particular geography, and its reach will be increased gradually.
- This platform will work as an intermediary and there won't be any need to maintain higher inventory. The platform will be brand agnostic, but the selection of vendors will be controlled and will depend on product quality and cost parameters.
- The management aims to be among the top three players in this space.

The capital allocation policy remains unchanged

- Investments in this platform will mostly be through internal accruals, given the lesser deployment of funds annually. The management said there is no change in its capital allocation policy, and this decision has been arrived at considering the attractive proposition of this business.
- We remain positive on GRASIM's entry into the Paints business, and believe its brand equity as well as its ability to leverage the distribution network of Birla White will help it achieve a reasonable scale in this business.
- We maintain our Buy rating with a SoTP-based TP of INR1,715 per share (6.5x FY24E EV/EBITDA for the standalone business and 35% holding company discount for its holding in subsidiary companies).

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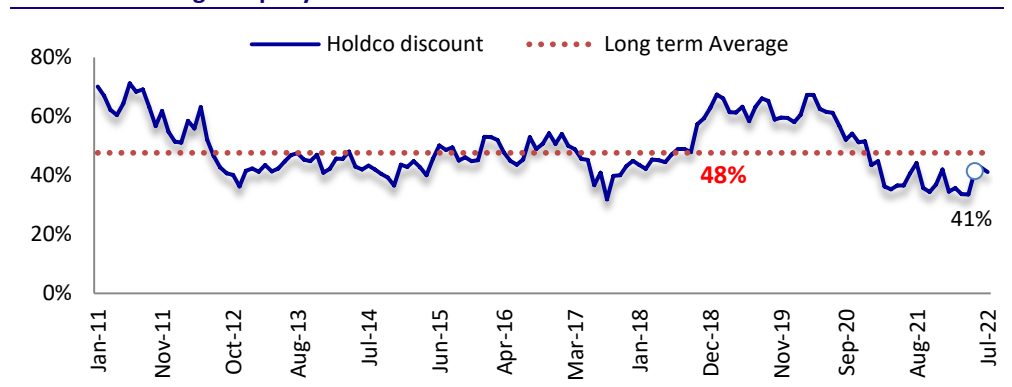
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Exhibit 1: SoTP valuation

Particulars	Valuation method	Unit	Mar'24E	INR/share
UTCEM's m-cap based on TP		INR b	1,850	
Holding company discount		%	35	
GRASIM's stake		%	57	
Value of its cement stake		INR b	689	
Value/share	A 35% holding company to our TP	INR		1,047
Value of GRASIM's standalone business		INR b	268	
Value/share	6.5x for the standalone business			407
Value of listed investments		INR b	59	
Holding company discount		%	35	
The value of listed investments after levying a holding company discount		INR b	38	
Value/share	A 35% holding company discount on the CMP	INR		58
VSF and Fiber JV		INR b	8	
Value/share	1x P/BV	INR		12
Standalone net debt of GRASIM		INR b	(33)	
Value/share		INR		(50)
ABCAP		INR b	269	
Holding company discount		%	35	
GRASIM's stake		%	54	
Value of ABCAP's stake in GRASIM		INR b	95	
Value/share	A 35% holding company discount on the CMP	INR		141
SoTP-based TP		INR		1,715

Source: MOFSL, Company

Exhibit 2: Holding company discount at 41%



Source: MOFSL, Company

Financials and valuations

Standalone Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	1,03,457	1,57,885	2,05,504	1,86,094	1,23,864	2,08,568	2,71,687	2,68,953
Change (%)	15.3	52.6	30.2	-9.4	-33.4	68.4	30.3	-1.0
Total Expenditure	81,909	1,27,083	1,64,793	1,62,989	1,08,220	1,76,407	2,32,685	2,27,738
EBITDA	21,548	30,802	40,712	23,105	15,643	32,162	39,002	41,215
Change (%)	44.4	42.9	32.2	-43.2	-32.3	105.6	21.3	5.7
Margin (%)	20.8	19.5	19.8	12.4	12.6	15.4	14.4	15.3
Depreciation	4,461	6,277	7,604	8,468	8,282	9,140	10,460	11,271
EBIT	17,086	24,525	33,108	14,638	7,362	23,022	28,542	29,944
Int. and Finance Charges	576	1,281	1,991	3,039	2,360	2,472	2,294	1,905
Other Income - Rec.	4,739	4,614	5,680	5,255	5,137	8,953	8,642	8,814
PBT and EO Items	21,249	27,858	36,797	16,854	10,139	29,503	34,889	36,852
Change (%)	68.8	31.1	32.1	-54.2	-39.8	191.0	18.3	5.6
Extra Ordinary (income)/expense	0	2,726	23,680	2,941	810	691	0	0
PBT but after EO Items	21,249	25,131	13,117	13,913	9,329	28,812	34,889	36,852
Tax	5,649	7,445	7,964	1,214	1,224	1,857	8,792	9,287
Tax Rate (%)	26.6	26.7	21.6	7.2	12.1	6.3	25.2	25.2
Reported PAT	15,600	17,687	5,153	12,700	8,105	26,955	26,097	27,566
PAT Adj. for EO items	15,600	19,684	23,708	15,640	8,914	22,306	26,097	27,566
Change (%)	57.0	26.2	20.4	-34.0	-43.0	150.2	17.0	5.6
Margin (%)	15.1	12.5	11.5	8.4	7.2	10.7	9.6	10.2

Standalone Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	934	1,315	1,315	1,316	1,316	1,317	1,317	1,317
Employee Stock options outstanding				527	527	527	527	527
Reserves	1,61,376	4,46,584	4,18,277	3,74,898	4,27,636	4,84,315	5,04,507	5,25,799
Net Worth	1,62,310	4,47,898	4,19,592	3,76,740	4,29,479	4,86,158	5,06,350	5,27,642
Loans	7,015	29,690	33,108	50,681	41,634	41,208	36,961	27,961
Deferred liabilities	6,630	18,350	18,789	14,025	17,339	18,414	18,414	18,414
Capital Employed	1,75,955	4,95,938	4,71,488	4,41,447	4,88,452	5,45,779	5,61,725	5,74,016
Gross Block	81,549	1,27,290	1,38,489	1,54,142	1,48,940	1,96,991	2,21,419	2,29,419
Less: Accum. Deprn.	12,681	19,125	26,166	33,310	39,302	48,442	58,902	70,173
Net Fixed Assets	68,868	1,08,166	1,12,322	1,20,832	1,09,637	1,48,549	1,62,517	1,59,246
Capital WIP	3,755	7,451	15,672	27,919	40,334	17,428	3,000	3,000
Non-Current Investments/Strategic	74,241	3,35,867	2,81,616	2,56,621	3,05,230	3,39,418	3,39,418	3,39,418
Current - Financial	16,053	20,790	29,931	20,504	41,553	47,490	47,490	47,490
Curr. Assets	35,594	65,015	78,398	69,070	46,827	73,477	88,152	1,05,334
Inventory	17,327	25,917	29,317	26,262	21,790	39,408	39,473	44,436
Account Receivables	11,896	26,093	34,916	29,053	13,120	16,904	22,368	25,921
Cash and Bank Balance	527	419	425	789	1,327	2,253	5,935	13,461
Others	5,844	12,586	13,741	12,965	10,590	14,912	20,377	21,516
Curr. Liability and Prov.	22,557	41,351	46,452	53,499	55,130	80,583	78,852	80,471
Account Payables	11,434	21,705	23,757	26,648	27,069	46,507	42,762	44,436
Provisions	1,626	5,087	4,604	5,514	3,250	3,419	5,434	5,379
Other Liabilities	9,497	14,559	18,091	21,337	24,811	30,656	30,656	30,656
Net Current Assets	13,038	23,664	31,947	15,571	-8,303	-7,105	9,300	24,863
Appl. of Funds	1,75,954	4,95,938	4,71,488	4,41,447	4,88,452	5,45,779	5,61,725	5,74,016

Financials and valuations

Standalone ratios

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share price								
EPS	167.1	29.9	36.0	23.8	13.5	33.9	39.6	41.9
Cash EPS	43.0	39.5	47.6	36.6	26.1	47.8	55.5	59.0
BV/Share	347.7	681.3	638.0	572.7	652.6	738.4	769.1	801.5
DPS	4.5	4.5	6.2	7.0	9.0	7.5	8.0	8.5
Valuation								
P/E ratio	8.0	44.4	36.9	55.9	98.1	39.2	33.5	31.7
PEG ratio (x)	0.1	1.7	1.8	-1.6	-2.3	0.3	2.0	5.6
Cash P/E ratio	30.9	33.6	27.9	36.3	50.8	27.8	23.9	22.5
P/BV ratio	3.8	2.0	2.1	2.3	2.0	1.8	1.7	1.7
EV/Sales ratio	1.6	1.2	0.9	1.1	1.4	0.8	0.6	0.5
EV/EBITDA ratio	7.7	6.0	4.3	8.8	11.1	5.0	4.0	3.3
Dividend Yield (%)	0.3	0.3	0.5	0.5	0.7	0.6	0.6	0.6
Return Ratios (%)								
RoE	16.4	17.6	17.2	10.6	5.5	12.0	12.7	12.0
RoCE	19.3	20.5	20.8	9.4	5.6	13.2	14.4	14.1
Working Capital Ratios								
Debtor (Days)	42	60	62	57	39	30	30	35
Asset Turnover (x)	0.6	0.3	0.4	0.4	0.3	0.4	0.5	0.5
Leverage Ratio								
Debt/Equity ratio	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Standalone Cash Flow Statement

	(INR m)							
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	21,249	27,858	36,797	12,916	9,329	28,812	34,889	36,852
Depreciation	4,461	6,277	7,604	8,135	8,282	9,140	10,460	11,271
Interest and Finance Charges	-2,609	-1,540	-1,435	-249	-421	-4,552	-4,079	-4,596
Direct Taxes Paid	-2,210	-5,233	-5,123	-2,183	-1,786	-6,502	-8,792	-9,287
(Inc.)/Dec. in WC	2,802	-2,797	-10,735	12,611	9,350	132	-12,724	-8,037
CF from Operations	23,694	24,564	27,108	31,231	24,754	27,029	19,754	26,204
Others	-1,100	-1,009	-1,553	1,919	-780	-467	0	0
CF from Operations incl. EO	22,593	23,555	25,555	33,150	23,974	26,562	19,754	26,204
(Inc.)/Dec. in FA	-4,325	-10,689	-20,440	-26,823	-11,932	-25,382	-10,000	-8,000
Free Cash Flow	18,269	12,867	5,115	6,328	12,041	1,181	9,754	18,204
(Pur.)/Sale of Investments	108	167	56	127	102	66	0	0
Others	-4,224	-8,726	-2,247	-17,904	-10,249	-9,541	6,374	6,501
CF from Investments	-8,440	-19,247	-22,631	-44,600	-22,079	-34,857	-3,626	-1,499
Issue of Shares	26	23	86	90	126	-425	0	0
Inc./(Dec.) in Debt	-11,322	942	3,504	17,127	-9,384	-583	-4,247	-9,000
Interest Paid	-597	-1,417	-2,050	-2,130	-3,241	-843	-2,294	-1,905
Dividend Paid	-2,145	-4,060	-4,530	-5,155	-2,622	-5,915	-5,905	-6,274
Others	0	0	0	0	0	0	0	0
CF from Fin. Activity	-14,038	-4,512	-2,990	9,932	-15,120	-7,766	-12,446	-17,179
Inc./Dec. in Cash	115	-204	-65	-1,517	-13,226	-16,061	3,681	7,526
Opening Balance	231	346	261	425	789	1,327	2,253	5,935
Add: Cash on amalgamation	0	119	0	1,832	13,408	15,895	0	0
Closing Balance	346	261	196	740	971	1,162	5,935	13,461

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

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