smc
Moneywise. Be wise.

Quarterly Result Update

GRASIM INDUSTRIES LIMITED

November 18, 2019

Current Price: ₹ 755.25

STOCK DATA

BSE Code	500300
NSE Symbol	GRASIM
Reuters	GRAS.BO
Bloomberg	GRASIM IN

VALUE PARAMETERS

52 W H/L(Rs)	958.55/635.60
Mkt. Cap.(Rs Cr)	49680.26
Latest Equity(Subscribed)	131.53
Latest Reserve (cons.)	55638.7
Latest EPS (cons.) -Unit Curr.	70.11
Latest P/E Ratio -cons	10.77
Latest Bookvalue (cons.) -Unit Curr.	867.37
Latest P/BV - cons	0.87
Dividend Yield -%	0.93
Face Value	2

SHARE HOLDING PATTERN (%)

Description as on	% of Holding 30/09/2019
Foreign	22.16
Institutions	22.13
Non Promoter Corp. Hold.	4.64
Promoters	40.15
Public & Others	10.92

Financial Results

In Cr.

	Qtr Ended Sep. 19	Qtr Ended Sep. 18	VAR %
Total Income	18430.27	16882.07	9
OPM (%)	22.31	6.26	256
OP	4112.29	1057.60	289
Other income	671.09	216.70	210
PBIDT	4783.38	1274.30	275
Net Finance Charges	1765.32	1390.93	27
PBDT	3018.06	-116.63	-2688
Depreciation	992.67	805.74	23
PBT before EO	2025.39	-922.37	-320
EO	-4.48	-1737.59	-100
PBT after EO	2029.87	815.22	149
Tax expense	552.62	377.49	46
PAT	1477.25	437.73	237
Minority Interest	471.1	146.18	222
Profit after Minority Interest and Share of profit of Associates	1001.69	-1439.43	-170
EPS (Rs)	15.30	4.43	245

Q2FY20, Margin misses street estimates

On a consolidated basis, Grasim Industries reported a net profit of Rs 1002 crore in Q2 September 2019 as against a net loss of Rs 1468 crore in Q2 September 2018. Net revenue rose 3% to Rs 18,430 crore while EBITDA increased by 7% to Rs 3,180 crore in Q2 September 2019 over Q2 September 2018. Profit was driven by superior performance of the company's subsidiaries, UltraTech Cement and Aditya Birla Capital. On standalone basis, the company reported a net profit of Rs 526.49 crore in Q2 2019 as against a net loss of Rs 1,186.66 crore in Q2 2018. Revenue from operations declined 6.3% to Rs 4,797.44 crore in Q2 September 2019 as against Q2 September 2018. The company reported an exceptional loss of Rs 2283.35 crore in Q2 September 2018 due to investments made in Vodafone Idea. At the standalone level, Q2 September 2019 profitability was impacted due to global weakening in prices of VSF and caustic soda.

Viscose business

In the VSF business production and sales volume recorded an increase of 8 per cent and 5 per cent YoY to 148KT and 142KT respectively.

The net revenue for the quarter stood at Rs.2,431 crore and EBITDA for the quarter stood at Rs.381crore. The global prices of VSF softened further on account of significant capacity additions in China and Indonesia (in last one year) and ongoing U.S.-China Trade war. The Indian VSF prices witnessed a weakening trend driven by a steep 23 per cent YoY correction in the Chinese VSF prices.

The weakness in the domestic VSF realisations impacted this quarter's profitability. The benefit of falling input costs like pulp prices will get reflected in the coming quarters due to inventory time lag.

Our Liva brand for VSF products continues to grow its reach in the domestic market. Today, Liva partners with over 40 retail brands and is available across 3,500 outlets in Exclusive Business Outlets and Large Format Stores in addition to many more MBOs (Multi-Brand Outlet) in 250 cities of India.

Sustainability has been the core focus area for the company. The business along with its global JVs has been the first one in the industry to be carbon positive on scope 1 and scope 2 emissions.

The 219 KTPA Vilayat Brownfield capacity expansion is progressing well and is expected to be commissioned by Fy21.

Chemical business

The net revenue for Q2FY20 stood at Rs.1,347 crore and EBITDA stood at Rs.273 crore. Softening of Caustic Soda prices globally has led to decline in the domestic prices, resulting in lower profitability on YoY basis.

Caustic Soda sales and production volume for Q2FY20 stood at 249KT and 241KT respectively. Weak demand conditions from user industry for chlorine and caustic soda, capacity addition in domestic market and increase in the imports impacted the company's production.

The Speciality Chemicals (chlorine Value added products) witnessed a consistent operational and financial performance. The share of EBITDA from Speciality chemicals including Epoxy resins stood at ~29 per cent of the Chemical business.

The Caustic Soda capacity expansion plan at Rehla, Vilayat and Balabhadrapuram are at different stages of execution with expansion of specialty chemical products too.

Insulators joint venture

The company has entered into a joint venture with Maschinenfabrik Reinhausen GmbH ("MR") of Germany for the manufacturing and sale of Composite Hollow Core Insulators (CHCI) used in Power Transmission & Distribution industry globally. Aditya Birla Power Composites Limited ("ABPCL") the new JV company, will set up a state-of-the-art CHCI manufacturing plant at Halol (Gujarat) bringing the latest technology for Composite Hollow Insulators from Europe.

Composite Hollow Core insulators is the fastest growing segment of insulators, and improves the performance as well as safety of power equipment. This facility will be the first such large scale plant for this range of products in India and will be the largest such plant outside of China.

Capex plan

The total capex plan of ~Rs.7,800 crore (at standalone level) is under execution for raising capacities in both the VSF and Chemical businesses, apart from ongoing modernisation capex at various plants. This capital expenditure is expected to be incurred over three years period from FY20-FY22.

Cement Subsidiary - UltraTech

UltraTech reported consolidated revenue of Rs.9,620 crore up 4 per cent YoY and EBITDA of Rs.2,072 crore in Q2FY20 up 33 per cent YoY. The consolidated sales volume stood at ~18.69 MTPA.

UltraTech completed the acquisition of Century Textiles and Industries Ltd.'s cement business, with the Scheme of Demerger becoming effective from 01 October 2019. With this acquisition, UltraTech's cement manufacturing capacity stands augmented to 117.4 MTPA, including its overseas capacity. This makes UltraTech the 3rd largest cement company in the world, outside

of China. It is also the only company in the world to have a capacity of over 100 million tonnes in a single country, outside of China.

Financial services subsidiary – Aditya Birla Capital Limited (ABCL)

The revenue and net profit after minority interest for Q2FY20 (as reported by ABCL) are at Rs.3,976 crore and Rs.256 crore up by 11 per cent and 37 per cent respectively. The overall lending book (NBFC and Housing Finance) grew 4 per cent YoY to Rs.60,477 crore (Q2FY20). The Average Assets Under Management stood at Rs.2,69,393 crore (Q2FY20).

In Life Insurance business, the individual first year premium are up 12 per cent to Rs.423 crore in Q2FY20. The persistency ratios witnessed a consistent improvement, the 13th month persistency ratio improved by 610 bps to 80.2 per cent in Q2FY20. In the Health Insurance business, Gross written premium increased to Rs.315 crore (Q2FY20), up 78 per cent YoY.

During the quarter, Aditya Birla Capital decided to raise Rs.2,100 crore of equity capital through preferential allotment to marquee investors and the Promoter / Promoter Group entities. The equity capital raised at Rs.100 per share, at a premium over the traded price, reflects the strong confidence in the business. In pursuance of above, in October 2019, the company invested Rs.770 crore in preferential allotment which has increased its shareholding in Aditya Birla Capital to 56.61 per cent. Post participation from Advent (Jomei Investment) the company shareholding will get diluted to 54.29 per cent. Advent, through its affiliate, will hold approximately 4.15 per cent of ABCL's equity capital and is currently awaiting regulatory approval.

Outlook

The VSF business will continue to focus on expanding the market in India by partnering with the textile value chain, achieving better customer connect through its brand LIVA, extensions into new categories. VSF continues to be the fastest growing textile fibre globally. However, the new capacities commissioned in Asia in the recent past are expected to create short-term demand supply mismatch and resultant pressure on prices.

The Chemical business is under an expansion mode for both chlor-alkali and specialty chemicals. The ongoing expansion projects at different sites and new product lines for specialty chemicals will enable significant growth of the business in near future.

On the basis of positive demand seen in North India in Q2 as many parts of North India were not impacted by heavy rains and floods, there is a good possibility of a normalised demand for cement going forward. The Government's firm commitment to revive the economy and the thrust on infrastructure spending augur well for the growth of cement demand. The heavy rains in the country should also prove beneficial for the kharif crop, which should again help revive rural demand. The company with its presence across the country, is the best positioned to take advantage of the revival in cement demand, despite the anomalies that may get created in demand patterns in some parts of the country due to extraneous reasons.

In Financial Services, ABCL is a universal financial solution provider catering to the diverse needs of its customers across their life cycle. ABCL is committed to serving the end-to-end financial services needs of its retail and corporate customers under a unified brand — Aditya Birla Capital.

Grasim is incurring capex to increase capacities across its key business lines and is potentially well positioned to leverage the next phase of the economic growth.

Moneywise. Be wise.

E-mail: smc.care@smcindiaonline.com

Moneywise. Be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401 / 402 , 4th Floor , Graham Firth Steel Compound, Off Western Express Highway, Jay Coach Signal, Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-67341697

Kolkata Office:
18, Rabindra Sarani, Poddar Court, Gate No-4,
5th Floor, Kolkata - 700001
Tel.: 033 6612 7000/033 4058 7000
Fax: 033 6612 7004/033 4058 7004

SMC Global Securities Ltd. (hereinafter referred to as "SMC") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. SMC is a registered member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, MSEI (Metropolitan Stock Exchange of India Ltd) and M/s SMC Comtrade Ltd is a registered member of National Commodity and Derivative Exchange Limited and Multi Commodity Exchanges of India and other commodity exchanges in India. SMC is also registered as a Depository Participant with CDSL and NSDL. SMC's other associates are registered as Merchant Bankers, Portfolio Managers, NBFC with SEBI and Reserve Bank of India. It also has registration with AMFI as a Mutual Fund Distributor.

SMC is a SEBI registered Research Analyst having registration number INH100001849. SMC or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities market. SMC or its associates or its Research Analyst or his relatives do not hold any financial interest in the subject company interest at the time of publication of this Report. SMC or its associates or its Research Analyst or his relatives do not hold any actual/beneficial ownership of more than 1% (one percent) in the subject company, at the end of the month immediately preceding the date of publication of this Report. SMC or its associates its Research Analyst or his relatives does not have any material conflict of interest at the time of publication of this Report.

SMC or its associates/analyst has not received any compensation from the subject company covered by the Research Analyst during the past twelve months. The subject company has not been a client of SMC during the past twelve months. SMC or its associates has not received any compensation or other benefits from the subject company covered by analyst or third party in connection with the present Research Report. The Research Analyst has not served as an officer, director or employee of the subject company covered by him/her and SMC has not been engaged in the market making activity for the subject company covered by the Research Analyst in this report.

The views expressed by the Research Analyst in this Report are based solely on information available publicly available/internal data/ other reliable sources believed to be true. SMC does not represent/ provide any warranty expressly or impliedly to the accuracy, contents or views expressed herein and investors are advised to independently evaluate the market conditions/risks involved before making any investment decision. The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the subject company.

Disclaimer: This Research Report is for the personal information of the authorized recipient and doesn't construe to be any investment, legal or taxation advice to the investor. It is only for private circulation and use. The Research Report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. No action is solicited on the basis of the contents of this Research Report. The Research Report should not be reproduced or redistributed to any other person(s)in any form without prior written permission of the SMC. The contents of this material are general and are neither comprehensive nor inclusive. Neither SMC nor any of its affiliates, associates, representatives, directors or employees shall be responsible for any loss or damage that may arise to any person due to any action taken on the basis of this Research Report. It does not constitute personal recommendations or take into account the particular investment objectives, financial situations or needs of an individual client or a corporate/s or any entity/s. All investments involve risk and past performance doesn't guarantee future results. The value of, and income from investments may vary because of the changes in the macro and micro factors given at a certain period of time. The person should use his/her own judgment while taking investment decisions. Please note that SMC its affiliates, Research Analyst, officers, directors, and employees, including persons involved in the preparation or issuance if this Research Report: (a) from time to time, may have long or short positions in, and buy or sell the securities thereof, of the subject company(ies) mentioned here in; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender/borrower to such subject company(ies); or (c) may have any other potential conflict of interest with respect to any recommendation and related information and opinions.

All disputes shall be subject to the exclusive jurisdiction of Delhi High court.