

GRASIM LIMITED: Demerger

About Demerged company Aditya Birla Capital Limited

Aditya Birla Capital Limited (“ABCL” or “the Company”), formerly known as Aditya Birla Financial Services Ltd., is the holding company of the financial services businesses of the **Aditya Birla Group**.

The Company had entered into a composite scheme of arrangement (“Scheme”) with Aditya Birla Nuvo Limited (“ABNL”) and Grasim Industries Limited (“Grasim”), basis which the financial services undertaking of Grasim will be transferred to and vested in the Company by way of demerger effective from 4 July 2017, following which ABCL shall be listed after obtaining necessary approvals.

In accordance with the Scheme, on or prior to 4 July 2017, the Company is permitted to issue additional equity shares, to one or more financial investors.

HIGHLIGHTS	
Event	Demerger
Demerged Company	Aditya Birla Capital Limited (ABCL)
Ratio	Seven equity shares of Rs.10 each of the Resulting Company (ABCL) credited as fully paid up for every five equity shares of Rs. 2 each held by the of the shareholder Demerged Company (Grasim).
Record date	20th July 2017
Ex-date	19th July 2017
Last trading day to participate	18th July 2017

Recent Development support valuation

ABCL has entered into a definitive Share Subscription Agreement (SSA) with PI Opportunities Fund - 1 (“the Fund”), an affiliate of Premji Invest, a leading Private Equity fund in India. As per the SSA, subject to the customary closing conditions, the Fund will subscribe to about 2.2 per cent of the post Scheme fully diluted equity share capital of ABCL. The proposed transaction values ABCL at Rs.32, 000 crore on a post money basis

According to the management of the company, it has built a high-quality customer franchise through a profitable and scalable business model, and achieved significant market leadership in certain segments.

About Aditya Birla Capital Limited - A Significant Non-Bank

Aditya Birla Capital Limited (“ABCL”) is the holding company of the financial services businesses of the Aditya Birla Group. Having a strong presence across life insurance, asset management, private equity, corporate lending, structured finance, general insurance broking, wealth management, equity, currency and commodity broking, online personal finance management, housing finance, pension fund management and health insurance businesses, the company is committed to serve the end-to-end financial services needs of its retail and corporate customers. It has recently applied to the Reserve Bank of India for seeking license to start asset reconstruction and securitisation business.

Grasim : Demerger entity

Grasim Industries has a leadership positions in cement, viscose staple fibre and chemicals businesses.

- VSF Business Outlook:** The management expects VSF Business to remain stable as no major capacity addition expected in next 12-18 months globally. However, short term variations likely in utilization level and pricing. Cotton consumption projected to be higher than production, in season 16-17. The Company guides it will continued focus on expanding usage and application of VSF in domestic textile market through better customer connect through brand Liva with sharp increase in Liva tagged garment sales. The company launched brand Liva CrÃ“me, a premium variant based on our specialty products (Modal, Micro Modal) and partnering with textile value chain through Liva Accredited Partnership Forum. The Company is in the process of debottlenecking of its plants to meet growing demand
- Chemical Business Outlook:** The management expects Caustic demand in India to record stable growth supported by growth in user industries like Textile, Aluminium, Paper, Soap and Detergent etc. The Caustic supply expected to increase on account of new capacity additions in the industry which may create temporary imbalance in the demand supply
- Cement Business Outlook:** The management expects affordable housing and interest subvention scheme, infrastructure growth, improving demand sentiments in Southern Markets, and bettering of rural housing due to improved rural cash flows will be favorable factors for demand growth going forward.

After merger with Aditya Birla Nuvo, Grasim would enjoy the position of holding company and solid business growth :

- Creates a large combination of manufacturing and service businesses commanding leadership
- Positions across the cement, financial services, telecom, textiles and chemicals sectors
- Grasim to have fast growing sectors such as financial services and telecom under its fold
- Financial Services business to grow faster under Grasim's strong parentage
- Listing of Financial Services business to unlock value for all the shareholders
- ABNL's shareholders to participate in Grasim's steady cash generating businesses while enabling its growth businesses to grow at a faster pace.
- Consolidates common businesses and investments of Grasim and ABNL.
- Lots of recent corporate actions (FII limit enhancement, share split, setting out dividend policy, etc.) reflect that shareholders' value creation will continue to remain high on the management's radar in the merged entity

Revenue sources

Post merger Grasim Aggregate Revenue % would be approximately 42% cement 17% textile 9% chemicals 17% telecom & others and 15% financial services

Aditya Birla capital limited formerly known Aditya Birla Financial Services Limited as is a diversified group with businesses across all financial business segments NBFC, Life insurance, Payment Bank, AMC, Housing Finance and health insurance. ABCL ranks amongst the top fund managers in India with an aggregate AUM (across asset management, private equity and insurance businesses) of Rs.2.46 lakh crore and a lending book of Rs.38.8 thousand crore as of 31 March 2017. ABCL enjoys a strong presence across life insurance, asset management, private equity, corporate lending, structured finance, general insurance broking, wealth management, equity, currency and commodity broking, online personal finance management, housing finance, pension fund management and health insurance businesses.

Grasim Shareholding pattern:

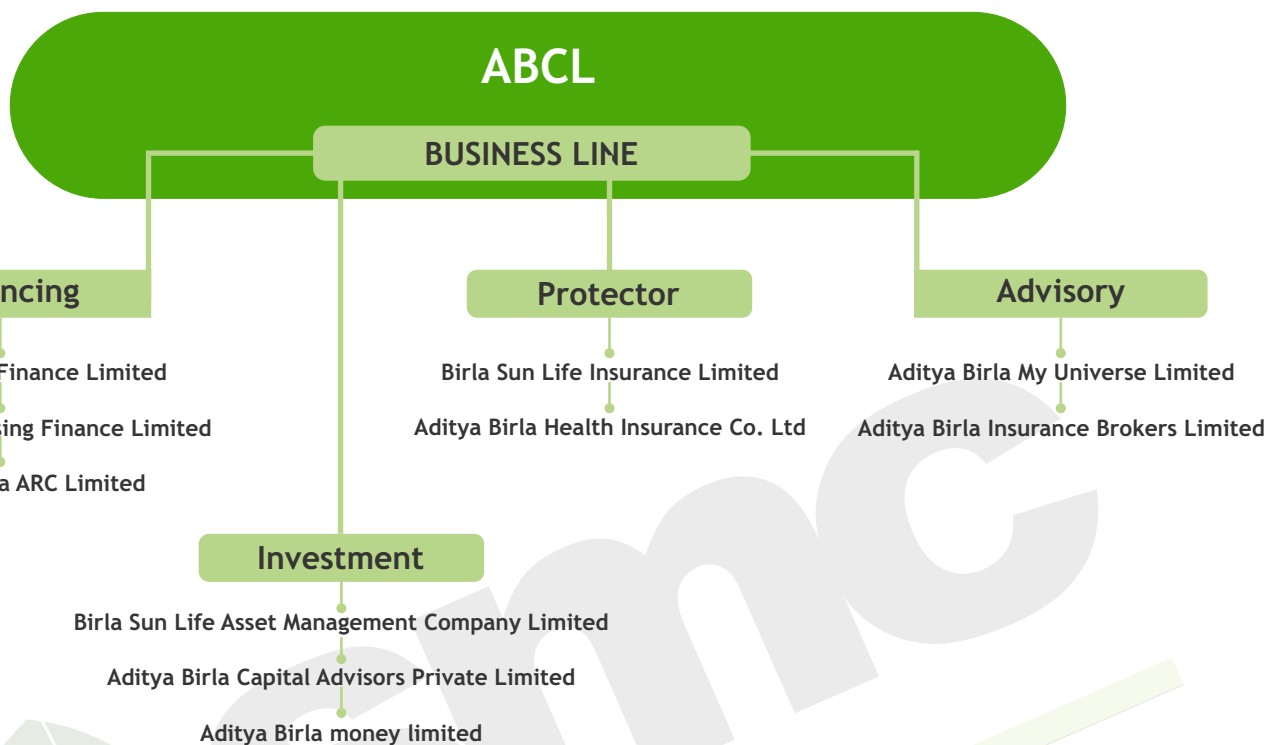
Description as on	31/03/2017	31/12/2016	30/09/2016	30/06/2016
Total Foreign	36.79	30.55	34.96	34.4
Total Institutions	16.45	19.66	15.11	16.83
Total Govt Holding	0	0	0	0
Total Non Promoter Corporate Holding	5.24	8.19	8.43	7.34
Total Promoters	31.27	31.28	31.28	31.28
Total Public & Others	10.26	10.33	10.23	10.15

*Note: Grasim Industries Ltd. informed the Exchange that the Allotment Committee of the Board of Directors of the Company has approved allotment of 19, 04, 62,665 Equity shares of Rs. 2 each of the Company under the Composite Scheme of Arrangement between Aditya Birla Nuvo Limited and Grasim Industries Limited and Aditya Birla Financial Services Limited (now known as Aditya Birla Capital Limited) and their respective shareholders and creditors.

Existing No. of shares	=	65, 73, 30,630
Allotment due to merger	=	19, 04, 62,665
Total Shares after merger	=	84, 77, 93,295

KEY POINTS:-

- According to the management of the ABCL, combination of grasim's cash generating manufacturing businesses and ABCL high growth service sector business would give good return to its shareholders. ABCL is consistently reporting its AUM growth at the rate of 23% and 16% growth in lending book since last 5 years and the company would continue to widen & deepen this growth momentum and enhance its competitive advantage under the parentage of Grasim . The merged entity, will have pro forma consolidated revenue from operations of Rs.54, 824 crore, EBITDA of Rs.12259 crore and a net profit after tax of Rs.4076 crore for the year ended March 31, 2017.
- The demerged entity would list on both NSE and BSE and it is expected to become effective during next 60-90 days according to SEBI regulations.
- ABCL ranks amongst the top fund managers in India with an aggregate AUM (across asset management, private equity and insurance businesses) of Rs.2,463 billion and a lending book of Rs.388 billion as of 31 March 2017. Anchored by over 12,000 employees, present across more than 400 cities in India through over 1,300 points of presence and more than 142,000 agents and channel partners. Delivering a wide range of protection, investment, financing and advisory services to its customers, ABCL has emerged as a significant financial services player in the non-bank space.



BUSINESS LINES

- The company through its business lines delivers financing, investment, protection and advisory services to customers and clients.

FINANCING

Aditya Birla Finance Limited (ABFL)

Through the subsidiary Aditya Birla Finance Limited, the company offers end to end lending, financing and wealth management solutions to retail, micro SME, SME and corporate customers. ABFL offers customized solutions in areas of personal and business loans, corporate finance, mortgages, capital market based lending, project loans, structured finance, wealth management and digital lending, debt capital markets and syndication. ABFL has grown approximately 9.5 times in the last five years with a loan book of approximately Rs 347 billion as of March 31, 2017. Along with its growth, ABFL has maintained healthy asset quality with GNPA of 0.47% as of March 31, 2017. This is reflected in its AA+ long term credit rating by ICRA and India ratings and short term credit rating of A1+ by ICRA.

Aditya Birla Housing Finance Limited (ABHFL)

Aditya Birla Housing Finance offers a complete range of housing finance solutions such as home loans, home improvements and construction loans, balance transfer and top-up loans, loans against property and construction finance. It is registered with the National Housing Bank as a systematically Important Non Deposit Accepting Housing Finance Company. ABHFL is a fast growing housing finance company with a Net Worth of Rs 3675 million and lending book value at 41363 million as on march31, 2017.

Aditya Birla ARC Limited

Recently, the company has incorporated Aditya Birla ARC Limited to venture into the asset reconstruction business. Upon commencement of business, it will primarily focus on acquiring the idle non-performing assets(NPA) lying in the financial sector with a sector agnostic focus on the NPAs in the Micro, Small and Medium Enterprises sector and the mid-corporate sector.

INVESTMENT

Birla Sun Life Asset Management Company Limited (BSLAMC)

Birla Sun Life Asset Management Company Limited (BSLAMC) has been one of the leading providers of asset management services in India, catering to a diverse group of customers through a wide variety of investment solutions focused on regular income, wealth creation, tax savings, sector specific equity schemes, fund of fund schemes, debt, treasury products etc. It provides portfolio management services and investment advisory services to offshore funds, Aditya Birla Real Estate Fund and high net worth investors. It is the 4th largest asset management company in India based on domestic average assets under management as published by AMFI for the quarter ended march. 2017, with a market share of 10.67% of domestic AAUM. BSLAMC has over 3.9 million investor folios as of march 31, 2017 and had AAUM of 2107 billion for the quarter ended march 2017, growing at CAGR of 26% since fiscal year 2013 to fiscal year 2017.

Aditya Birla Capital Advisors Private Limited (ABCAP)

It provides financial advisory and management services with focus on managing venture capital funds and alternate investments funds. Currently, it manages two SEBI registered domestic venture capital fund, namely Aditya Birla Private Equity - Fund 1 and Aditya Birla private equity - Sunrise fund, where it currently manages gross AUM of Rs 11.79 billion. In addition, ABCAP offers investment management and advisory services as Aditya Birla Private Equity (ABPE) to domestic and global investors and partners with its portfolio companies to provide them strategic direction for their operations and growth. It focuses on growth investments in mid market companies, with India as the investment destination.

Aditya Birla money limited (ABML)

It is a listed company with its shares listed on BSE and NSE, is currently engaged in the business of securities broking and registered as stock broker with SEBI. It offers a wide range of solutions including broking, portfolio management's services, depository and e-insurance repository solutions and distributions of other financial products. Aditya Birla commodities broking limited subsidiary, it is engaged in the business of commodities broking. It is registered as a commodity broker with SEBI and is a member of MCX and NCDEX.

PROTECTION

Birla Sun Life Insurance Limited (BSLI)

It is one of the leading private sector life insurance companies in India in terms of market share 7.1% of First Year Premium. As of March 2017, BSLI was among the leading private life insurers in India in terms of AUM with the total AUM of BSLI amounting to Rs 345230 crore million. It offers customer solutions and products ranging from unit linked insurance products, participating and non participating to pure protection. It offers a complete range of offerings comprising protection solutions, children future solutions, wealth with protection solutions, health and wellness solutions, retirement solutions and savings with protection solutions.

Aditya Birla Health Insurance Co. Ltd (ABHICL)

It is engaged in the business of health insurance. MMI Holdings, 49% joint venture partner, is a diversified financial services leader from South Africa. Its current product portfolio includes Group Activ Health, Group Activ Secure, Retail Activ Health and unique offerings including chronic care and incentivized wellness. It aims to help its customers know their health better through continuous engagement and adopt a holistic approach towards health management. Aditya Birla wellness private limited manages the wellness benefits under approved insurance products of ABHICL and is in process of launching 'Multiply', wellness and rewards program which rewards customers with discounts on a variety of partner brands.

ADVISORY

Aditya Birla My Universe Limited (ABMUL)

Through its online platform, the company offers its customers account aggregation of all financial services products including bank accounts, credit cards, loans, mutual funds, demat accounts, insurance, incomes and expenses in a highly secure environment.

Aditya Birla Insurance Brokers Limited (ABIBL)

It is the leading composite insurance broker (non-life and reinsurance) registered and regulated by the Insurance Regulatory and Development Authority of India. It is in business of insurance broking and advisory services in non-life and reinsurance business. It specializes in providing general insurance broking and risk management solutions to companies and individuals. It also offers reinsurance solutions to insurance companies and has developed strong relations with Indian as well as global insurers operating in India, South Asia, Middle East, South East Asia. ABIBL is among the leading players in the retail industry and enjoys a strong presence in the corporate business industry where it provides solutions to a vast array of sectors ranging from manufacturing and metals to financial services with a market share of 2.02% in fiscal year 2017.

Key performance indicators of ABCL

Particulars* (in ₹ million)	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017*
Total Revenue	7,200.1	12,031.3	17,804.5	24,866.0	34,266.6
Net interest income	2,360.6	4,083.0	6,059.4	8,391.1	11,949.5
Fee Income (Incl DCM & Syndication)	447.8	508.1	680.9	1,039.1	1,546.5
Operating expense	1,011.1	1,401.5	1,993.0	2,304.7	4,187.5
Diminution in Inv / Bonds	48.3	12.7	21.5	53.2	22.6
Prov of Std Assets	110.8	83.3	142.1	327.2	419.1
Prov for Bad Debts	166.8	580.5	475.2	481.6	547.5
Profit before tax	1,471.47	2,513.21	4,108.46	6,263.56	8,319.3
Profit after tax	1,003.03	1,657.14	2,706.76	4,086.01	5,852.5
Key balance sheet items					
Loans	80,583.6	1,17,347.8	1,75,882.0	2,57,552.0	3,47,032.3
Borrowings	69,030.6	97,207.7	1,45,937.1	2,14,089.7	2,89,131.5
Equity	10,786.1	17,692.3	25,848.3	36,958.0	49,913.3
Margins					
Yield on advances	13.53%	13.29%	12.97%	12.38%	11.77%
Cost of funds	8.42%	8.35%	8.20%	7.84%	7.38%
NIM (incl Net Processing Fee) Excl DCM & Syndication Fees	5.11%	4.94%	4.77%	4.54%	4.39%
Operating efficiency					
Cost income ratio	36%	31%	30%	24%	31%
Profitability					
RoE**	14.30%	13.07%	14.63%	15.42%	15.43%

CONCLUSION WITH RATIONALE:

Post demerger Valuation of ABCL and GRASIM

Aditya Birla Capital Limited

The management of the company expects ABCL has ability to set up and scale new product lines resulting in diversified portfolio, strong track record of consistent growth, maintaining high asset quality with high growth as well as would get the benefit of Grasim parentage.

METHOD (A) : After considering management's comment and prospect of the industry, as per industry average P/E, we expect post demerger price of the company i.e. Aditya Birla Capital Ltd to be at Rs. 234 on the basis of industry P/E multiple of 18.06 and Expected EPS of Rs. 12.85

METHOD (B) : But if we value that the proposed transaction values ABCL at Rs.32, 000 crore on a post money basis then it may list at Rs.270/-.

Working on valuation of demerged entity

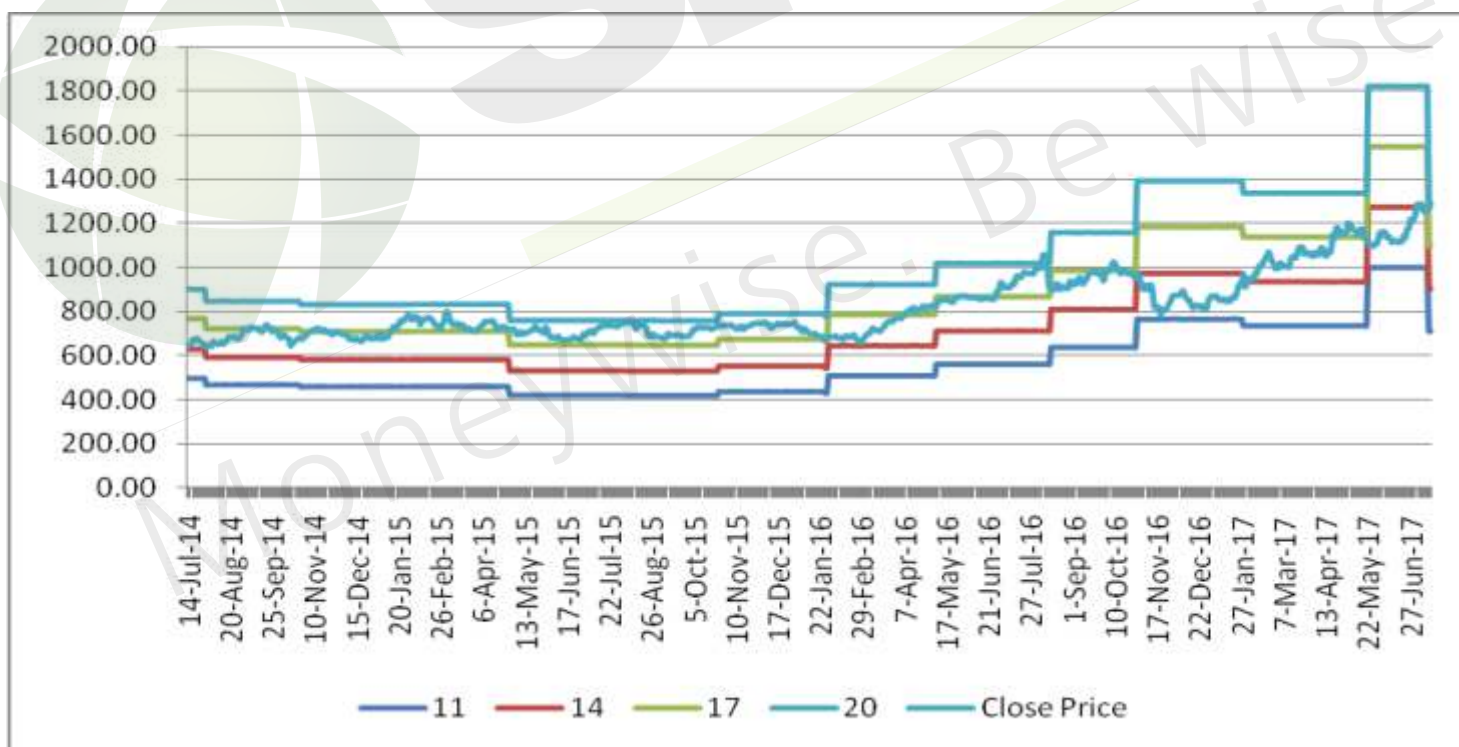
Demerged Entity				
Aditya Birla Capital Ltd				
Revenue	March 2017	Revenue	2018	
Life Insurance & financial	10341	Financial services	12926	
Total	10341	Total	12926	
Revenue cont (%)			125	
PBIT	%	PBIT		
Life Insurance & financial	1220	Financial services	1525	
Total	1220	Total	1525	
Net Profit	1220	Net Profit	1525.00	
EPS			13	
		Tax @ 25%	381.25	
		PAT	1143.75	
Capital Employed		% Capital Employed		
Life Insurance & financial	10341	Financial services	10341	
Total	10341	Total	10341	
		Capital Cont (%)	100	
Shareholdings	31/03/2017			
Total Share O/S	1186910613	Total Share O/S	1186910613	
Total Share O/S (in Cr.)	118.69		118.69	
Face Value	2		2	
Equity Capital (Rs. Cr.)	237.38		237.38	
Ratio		5:7		
P/E (industry)				
	P/E	Book Value	P/Bv	EPS
Reliance Capital	15.27	606.95	1.08	42.99
VLS Finance	4.63	72.94	0.86	13.61
Cholaman. Inv.&Fn	24.44	276.76	4	45.32
Shriram Trans.	18.68	499.47	2.06	54.98
Sundaram Finance	27.3	433.49	3.82	60.61
	18.064	377.922	2.364	43.502
(A)	As per industry average			234
				based on P/E
(B)	Post money basis after the acquisition of PI fund			32000
	No of shares			118.69
	Expected Price to list			270

Grasim

Quarterly Result as on 31st March, 2017

	Qtr Ending Mar. 17	Qtr Ending Mar. 16	VAT %
Total Income	9995.40	9454.64	6
OPM (%)	18.73	19.31	-3
OP	1871.90	1825.45	3
Other income	269.20	252.63	7
PBIDT	2141.10	2078.08	3
Net Finance Charges	176.30	156.55	13
PBDT	1964.80	1921.53	2
Depreciation	472.06	508.00	-7
PBT before EO	1492.74	1413.53	6
EO	0.00	-20.79	-100
PBT after EO	1492.74	1434.32	4
Tax expense	429.12	358.27	20
PAT	1063.62	1076.05	-1
EPS (Rs)	22.78	23.05	-1

P/E Chart of Grasim



Grasim is well-poised to benefit from the expected upturn in the economy given its leadership position in all its businesses and large investments for growth, made in recent years. The company will continue to focus on expanding VSF market in India by partnering with the textile value chain and better customer connect through Brand Liva. Enhancing product mix through larger share of specialty fibre will be yet another focus area. In the Chemical Business, It will benefit from additional volumes from capacity additions. In Cement, UltraTech is well positioned across the country to cater to the growth in demand with a vast network of manufacturing units, split grinding units, bulk terminals and large dealership network spanning across the country. Thus, it is expected that the stock will see a price target of Rs. 1522 in 8 to 10 months time frame on a target P/Ex of 20x and FY18 EPS of Rs.77.85.

Peer comparison on business wise

Segment	Aditya Birla Capital Limited	Reliance Capital Limited
Finance	AUM = 13518 crore Total Income = 3399 crore PAT = 588 crore	AUM=16759 crore Total Income=1953 crore PBT=343 crore
Housing Finance	Total Income = 304 crore EBT = -10 CRORE Net Worth = 377 crore Loan Book = 4136 crore	AUM=11174 crore Total Income=1114 crore PAT=173 crore Loan book=9983 crore
Asset Management	AAUM= 210742 crore Total Income= 968 crore PAT= 260 crore	AUM=358059 crore Total Income=1436 crore PBT=581 crore
Capital Advisors/ PE	AUM=1179 crore Total Income = 17 crore EBT=2 crore Net Worth	N.A.
Money/ Broking	Total Income= 125 crore EBT= 5 crore Net Worth	Total Income=308 crore Profit=42 crore Net Worth
Life Insurance	AUM= 35004 crore	AUM=17253 crore
Insurance Brokers/ general	EBT= 39 crore	Profit=130 crore

E-mail: researchfeedback@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: 91-22-28805606

Kolkata Office:

18, Rabindra Sarani,
Poddar Court, Gate No. - 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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 of 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.