

# Grasim Industries

Refer to important disclosures at the end of this report

## Paint is 'Green' – a pan-India brand makes foray; upgrade to Buy

- Grasim Industries' entry into the paints business signals the company's diversification into a high-growth, high-RoCE segment from cyclical and non-core (fertilizer) business segments. Grasim had already announced divestment of the fertilizer business earlier.
- Brand strength and strong distribution network (70% overlap between white cement/putty and paints dealers) of Birla White and strong balance sheet of Grasim positions the company well for reasonable success in the paints business. We believe that Grasim is likely to pose a serious competition to incumbents in the paints business in the long run.
- The planned Rs50bn initial capex in paints partly alleviates investors' concerns about further investments in Vodafone Idea (VIL). Success in paints would ensure stable cash flows to the standalone entity and hence, likely higher valuation multiples for Grasim. We believe that weakness in the stock price, if any, due to this news should be bought into.
- Our channel checks indicate VSF prices are up 20% vs. Q3 average; after an increase of 20% qoq in Q3FY21. **We upgrade Grasim to BUY from Hold**, based on 1) 5% increase in TP of UTCEM after Q3 results, and 2) 5% premium to SoTP value for entry into the paints business. Management targets 20% IRR from the Paints business.

**Foray into paints business to provide stable cash flows in the long run:** On Friday, Grasim announced its foray into the paints business with a planned capex of Rs50bn over the next 3 years. Paints business offers high and steady growth potential as well as high profitability, and Grasim aims to become the No.2 player in the industry. Grasim already enjoys leadership position in its other two businesses (VSF and Chemical) and is in the process of increasing capacities in both. During Q2FY21 results, the company had announced divestment of the fertilizer business for Rs26.49bn. This deal is expected to be completed in 6-9 months. Paints companies reported EBITDA margins of 14-22% and RoCE of 18-33% in FY20, compared with 7-11% margins in the fertilizer business during FY18-20. We forecast Grasim may achieve meaningful scale in the paints business, with a volume market share of 6% and value share of 7% by FY28E.

**We upgrade Grasim to Buy:** Grasim's large capex plan shows its commitment to being a serious player in the paints industry. Management targets to achieve an IRR of 20% in this business. We think we are not highly optimistic in our assumptions as new entrants in the paints industry have found it difficult to build market share quickly; nonetheless, the distribution network of Birla White and strong brand identity of Birla group may help Grasim achieve a higher scale sooner than previous entrants. UTCEM (subsidiary company) already has presence in the white cement & wall putty segment with a distribution network of 54,000 dealers and over 70% overlap between paints and white cement/putty dealers as per management. Grasim has a strong balance sheet and we expect the company to become net cash positive in FY23E (considering the proceeds from divestment of fertilizer business), which would support investment requirements of the paints business. VSF prices too are on an upswing post Oct'20 and would help profitability of the standalone entity. We upgrade Grasim to Buy from Hold and raise the TP to Rs1,225 from Rs1,105. Our TP includes a 5% premium to underlying SoTP to capture the potential upside from its paints foray. Key risks are: 1) decline in VSF prices and 2) lower-than-expected market share gains in the paints industry.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Cement & Building Materials \(Page 11\)](#)

### Financial Snapshot (Standalone)

| (Rs mn)           | FY19    | FY20    | FY21E   | FY22E   | FY23E   |
|-------------------|---------|---------|---------|---------|---------|
| Revenue           | 205,504 | 186,094 | 145,978 | 186,982 | 206,293 |
| EBITDA            | 40,712  | 23,105  | 18,335  | 32,139  | 36,897  |
| EBITDA Margin (%) | 19.8    | 12.4    | 12.6    | 17.2    | 17.9    |
| APAT              | 28,833  | 15,640  | 8,614   | 18,637  | 22,474  |
| EPS (Rs)          | 43.8    | 23.8    | 13.1    | 28.3    | 34.2    |
| EPS (% chg)       | 41.0    | (45.8)  | (44.9)  | 116.4   | 20.6    |
| ROE (%)           | 10.4    | 12.9    | 8.4     | 16.3    | 17.0    |
| P/E (x)           | 22.9    | 42.2    | 76.7    | 35.4    | 29.4    |
| EV/EBITDA (x)     | 16.3    | 30.0    | 38.0    | 21.4    | 18.4    |
| P/BV (x)          | 1.6     | 1.8     | 1.7     | 1.6     | 1.6     |

Source: Company, Emkay Research

|                                      |                           |
|--------------------------------------|---------------------------|
| <b>CMP</b>                           | <b>Target Price</b>       |
| Rs 1,004<br>as of (January 24, 2021) | Rs 1,225 (▲)<br>12 months |
| <b>Rating</b>                        | <b>Upside</b>             |
| BUY (▲)                              | 22.0 %                    |

### Change in Estimates

|                         |      |
|-------------------------|------|
| EPS Chg FY21E/FY22E (%) | -/   |
| Target Price change (%) | 10.9 |
| Target Period (Months)  | 12   |
| Previous Reco           | HOLD |

### Emkay vs Consensus

|                         | EPS Estimates |       |
|-------------------------|---------------|-------|
|                         | FY21E         | FY22E |
| Emkay                   | 13.1          | 28.3  |
| Consensus               | 46.8          | 62.9  |
| Mean Consensus TP (12M) | Rs 986        |       |

### Stock Details

|                              |             |
|------------------------------|-------------|
| Bloomberg Code               | GRASIM IN   |
| Face Value (Rs)              | 2           |
| Shares outstanding (mn)      | 658         |
| 52 Week H/L                  | 1,053 / 380 |
| M Cap (Rs bn/USD bn)         | 661 / 9.05  |
| Daily Avg Volume (nos.)      | 2,200,153   |
| Daily Avg Turnover (US\$ mn) | 26.8        |

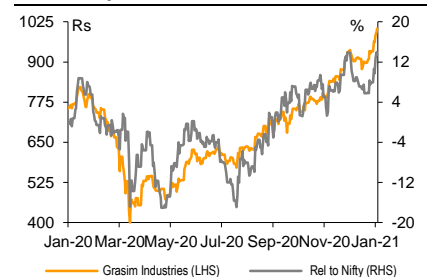
### Shareholding Pattern Sep '20

|                   |       |
|-------------------|-------|
| Promoters         | 40.9% |
| FIIIs             | 12.6% |
| DIIIs             | 20.3% |
| Public and Others | 26.3% |

### Price Performance

| (%)                  | 1M | 3M | 6M | 12M |
|----------------------|----|----|----|-----|
| <b>Absolute</b>      | 13 | 27 | 67 | 27  |
| <b>Rel. to Nifty</b> | 6  | 5  | 29 | 7   |

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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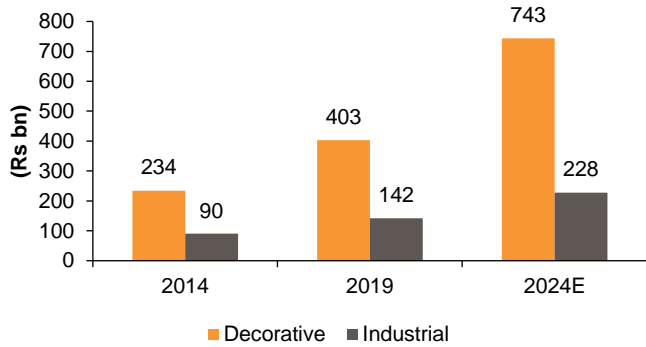
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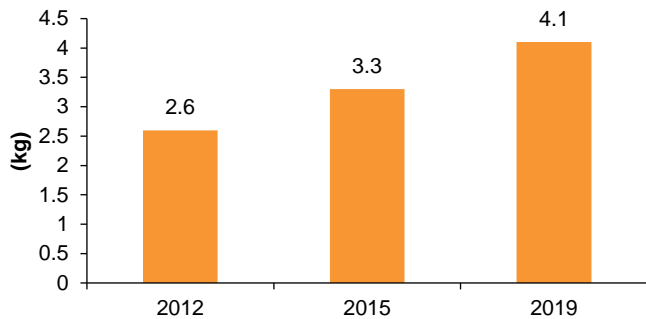
## Story in Charts

**Exhibit 1: Industry has growth potential of 9-10% in value terms**



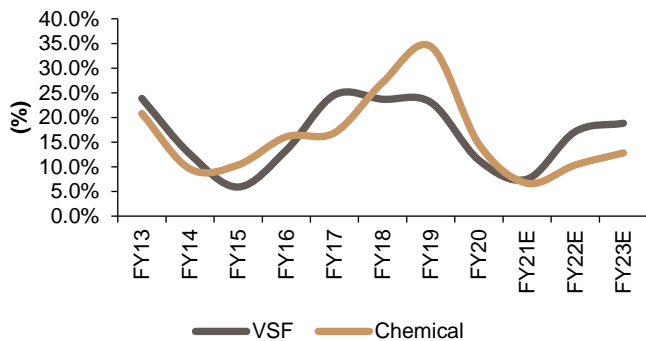
Source: Indigo Paints DRHP

**Exhibit 3: Domestic per capita consumption growing at 7% CAGR**



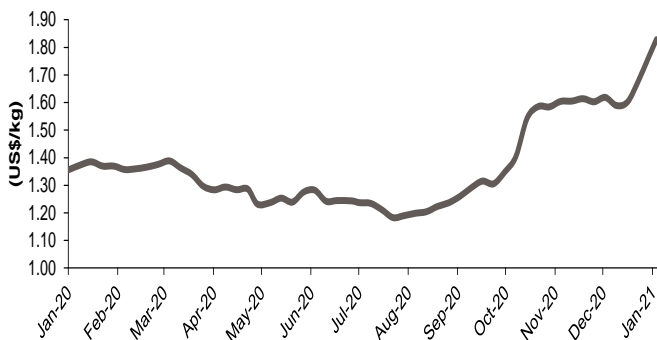
Source: Indigo Paints DRHP

**Exhibit 5: RoCE of VSF and Chemical segments of Grasim**



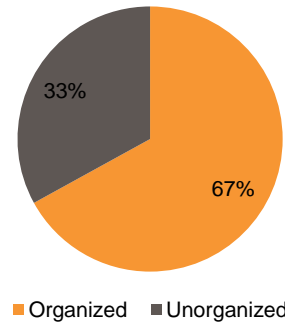
Source: Indigo Paints DRHP

**Exhibit 7: VSF prices are up 59% from their lows in Jul-Aug'20**



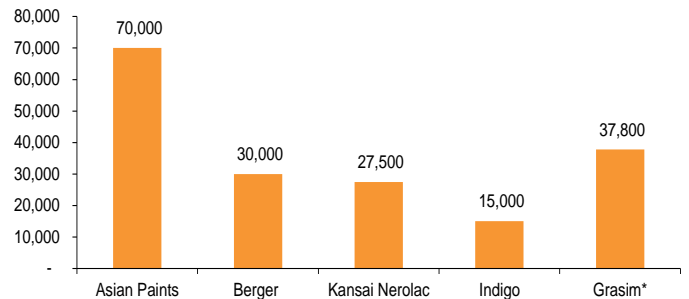
Source: Emkay Research, Industry

**Exhibit 2: Large unorganized segment would help growth of a serious branded players**



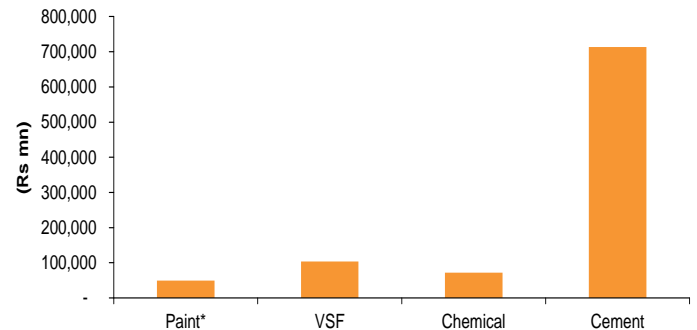
Source: Indigo Paints DRHP

**Exhibit 4: Distribution network of other companies compared with current overlap of Birla White**



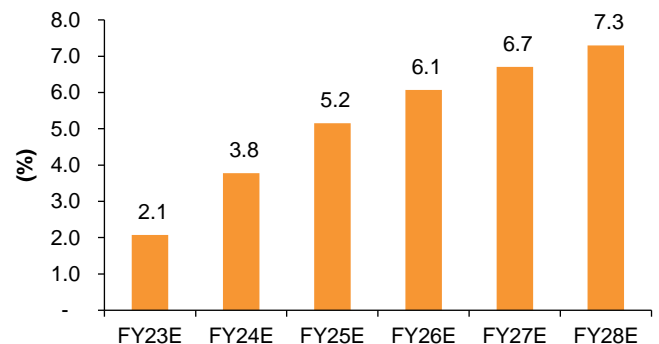
Source: Company, Indigo Paints DRHP, \* we have considered 70% of Birla White dealers where the overlap exists

**Exhibit 6: Capital employed in different business segments: Cement business is much larger compared with VSF and Chemical segment**



Source: Company, Emkay Research, \* Capital employed of paints business after completion of committed capex

**Exhibit 8: Value share expected for Grasim's paint business**

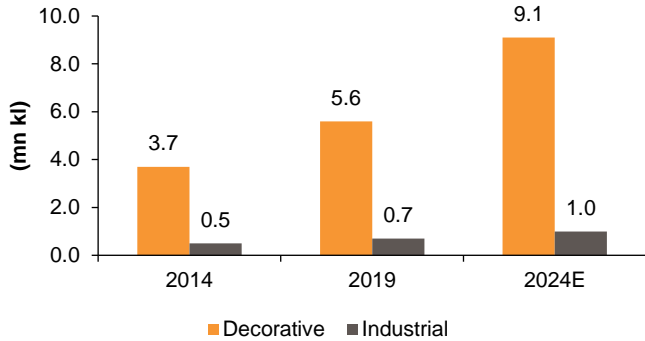


Source: Emkay Research, Industry

### Paints industry growing at CAGR of 11% for last few years

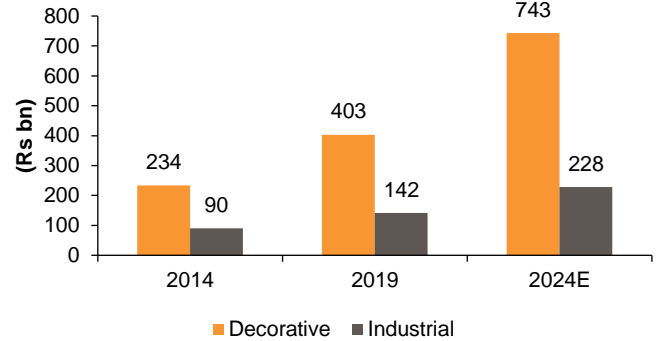
Management indicated that the decorative paints industry has a revenue size of Rs400bn and is growing at a CAGR of 11% for the last few years. Our FMCG analyst believes that the industry has growth potential of 7-8% easily in volume terms and 9-10% in value terms over the next few years.

**Exhibit 9: Paints industry grew at 11% CAGR over FY14-19**



Source: Indigo Paints DRHP

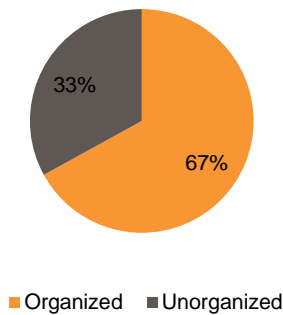
**Exhibit 10: Industry has growth potential of 9-10% in value terms**



Source: Indigo Paints DRHP

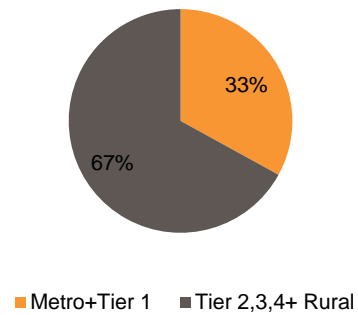
33% of the industry is catered by unorganized players (Source: Indigo Paints DRHP) and hence, provides an opportunity for the entry of a serious branded player. In terms of consumption, metros and Tier 1 cities forms 33% of total industry size, while the rest is from Tier 2/3/4 and rural areas.

**Exhibit 11: Large unorganized segment would help growth of a serious branded players**



Source: Indigo Paints DRHP

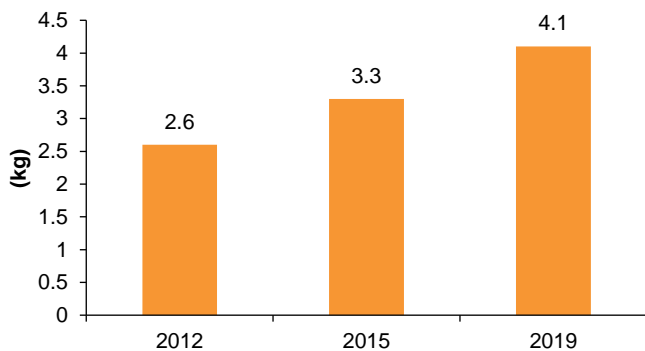
**Exhibit 12: Consumption mix of paints**



Source: Indigo Paints DRHP

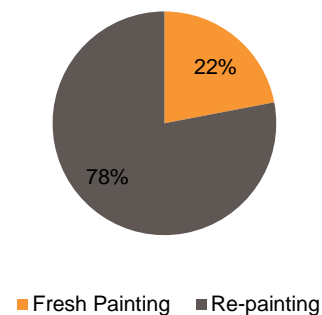
Domestic per capita consumption of paints is growing at a CAGR of 7% for the last seven years. The repainting cycle has been shortened and repainting is done after 4-5 years vs. 7-8 years earlier. This would ensure growth of the industry in the long run.

**Exhibit 13: Domestic per capita consumptions growing at 7% CAGR**



Source: Indigo Paints DRHP

**Exhibit 14: Re-painting contributes to 78% of industry revenues**

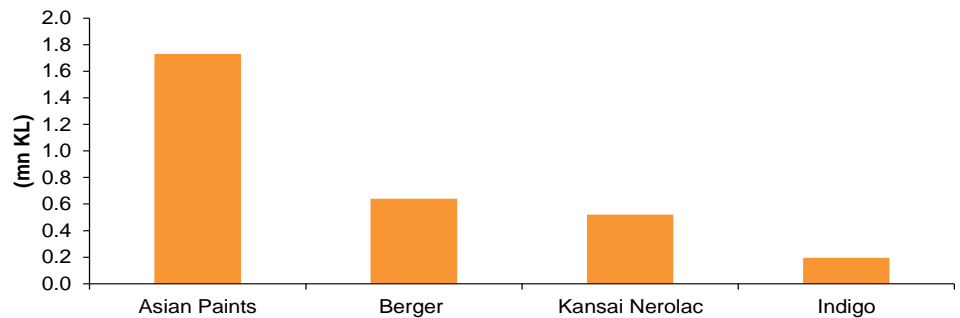


Source: Indigo Paints DRHP

## Grasim commits large capex for the paints business; indicates being a serious player

Grasim has committed an investment of Rs50bn for the paints business, which as per our calculation can help it create a capacity of 1.2mn kl. Management indicated their aim to become the No. 2 profitable player in the industry. We believe that post completion of the capex, Grasim will become the No. 2 player for decorative paints in terms of capacities, unless Berger Paints becomes aggressive for capacity additions.

**Exhibit 15: Current capacities of Paint companies**

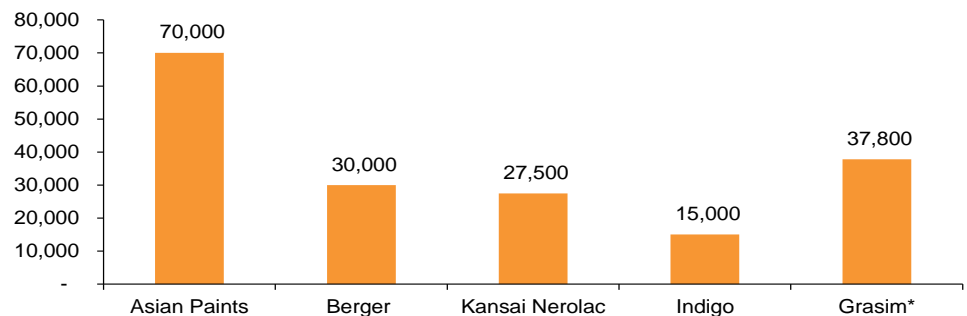


Source: Indigo Paints DRHP

## Strong brand recall of Birla White & Putty should help Grasim

Though, capacity commissioning does not guarantee instant acceptance of a new brand and there have been instances when few players (e.g. Akzo Nobel, Indigo Paints and Nippon Paints) have found it difficult to achieve a reasonable market share initially, we believe that strong brand identity of “Birla” group and its subsidiary UTCEM’s presence in the White Cement/Wall Putty segment would help Grasim to establish a reasonable market share sooner than later. Birla White division of UTCEM has a dealer network of 54,000 and there exists a 70% overlap between the distributors of paints and white cement/putty, which may help Grasim create a distribution network. UTCEM also has “UltraTech Building Solutions” division with a network of 2,300 outlets and plans to double it over net 3-4 years. This may also help Grasim initially.

**Exhibit 16: Distribution network of other companies compared with current overlap of Birla White**



Source: Company, Indigo Paints DRHP, \* we have considered 70% of Birla White dealers where the overlap exists

## New distributors may opt for Grasim’s paints due to group’s brand recall

In the paints industry, addition of new dealers keep on happening and most of the companies, except Akzo Nobel, have added new dealers at a CGAR of 10-15% during FY18-20. Apart from conversion of current dealers, Grasim may target potential dealers who might opt for Grasim’s paints due to 1) brand recall of Birla group and 2) competitive schemes/incentives, if offered.

**Exhibit 17: Active distribution/dealer network of companies**

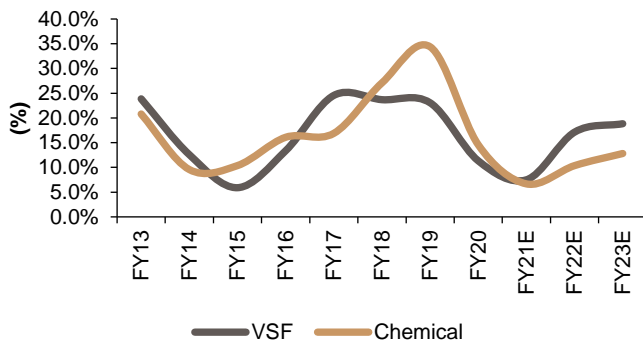
| Active distribution/dealer network | 2017-18 | 2019-20 | CAGR (%) |
|------------------------------------|---------|---------|----------|
| Asian Paints                       | 53000   | 70000   | 14.9%    |
| Kansai Nerolac                     | 21000   | 27500   | 14.4%    |
| Berger Paints                      | 25000   | 30000   | 9.5%     |
| Akzo Nobel                         | 16500   | 15000   | -4.7%    |
| Indigo Paints                      | 9210    | 11230   | 10.4%    |

Source: Indigo Paints DRHP

### Entry into paints business would help stable cash flows

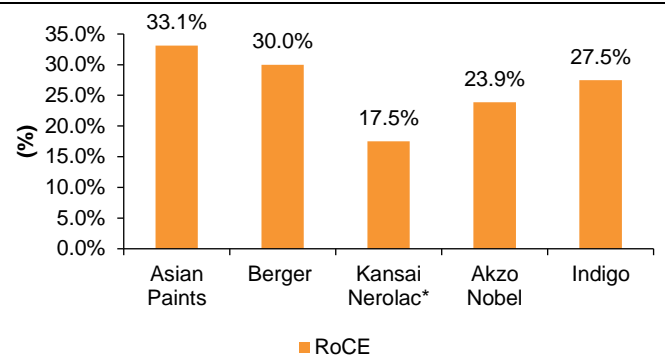
Grasim has two main business segments- VSF and Chemical. Both these segments are cyclical and hence, its entry into a high growth/high RoCE (Decorative Paints companies had RoCE of 24-33% in FY20) business would help stable cash flows in the long run.

**Exhibit 18: RoCE (pre-tax) of VSF and Chemical segments of Grasim**



Source: Company, Emkay Research

**Exhibit 19: RoCE (pre-tax) of paints companies in FY20**

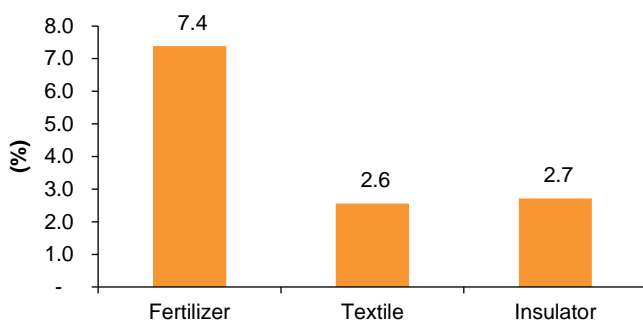


Source: Indigo Paints DRHP, \* higher share of industrial paints leads to lower RoCE

### Grasim announced exit from fertilizer business in Nov'20

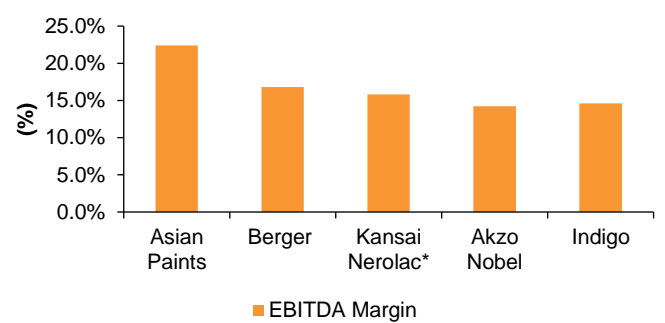
Grasim had announced the divestment of its fertilizer business, Indo Gulf Fertilizers (IGF), to Indorama India Pvt. Ltd. for a lump-sum cash consideration of Rs26.49bn in Nov'20. In FY20, revenues of IGF was Rs26.8bn (14% of standalone revenues) with an EBITDA of Rs2.22bn (7% of standalone EBITDA). This deal is expected to be completed in 6-9 months. Management had mentioned that there was limited rationale to remain invested in a non-core business.

**Exhibit 20: OPM of other business segments of Grasim**



Source: Company, Emkay Research

**Exhibit 21: OPM of Paint companies**

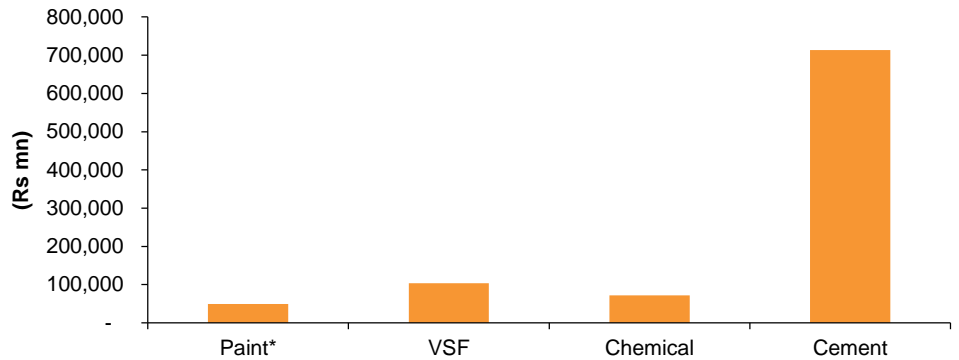


Source: Indigo Paints DRHP

### UTCEM is a large business entity focused on grey cement and hence, Grasim opted for paints business

UTCEM enjoys numero uno position in grey cement with a capacity share of 22.3% in FY20. The company has already announced large expansion plans in the grey cement business and does not want to deviate its focus from a large business, which has significant organic and inorganic expansion opportunities. Grasim's investors have always seen it as a large conglomerate and a holding company and hence, it makes sense for Grasim to undertake the paints business. This would also help to create another business segment with huge growth potential as the key business segments, VSF and Chemicals, have achieved a critical mass and Grasim enjoys leadership position in both these segments.

**Exhibit 22: Capital employed in different business segments: Cement business is much larger compared with VSF and Chemical segment**

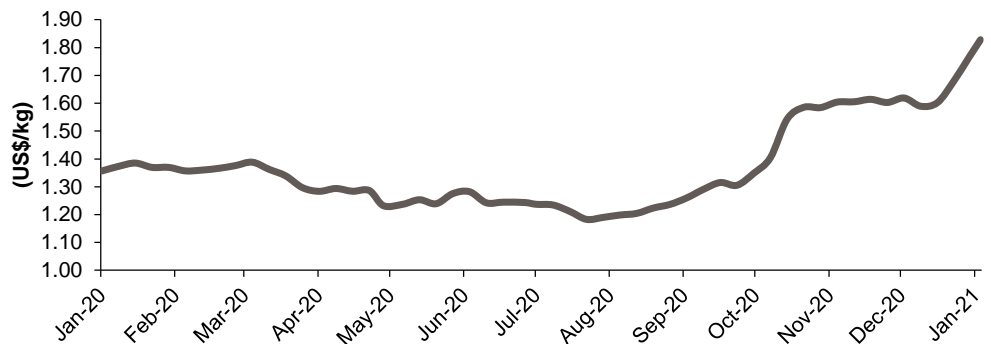


Source: Company, Emkay Research, \* Capital employed of paints business after completion of committed capex

**VSF prices are on an upswing after Oct'20**

There has been a strong uptick in VSF prices in China. As per channel checks, VSF prices increased 22% qoq in China and currently they are up 20% vs. Q3FY21 average price. This will help improve the profitability of the standalone business. VSF utilization rate in China has improved to 82% vs. 65% in Jun'20 and current inventory days stand at 14 vs. 35 in Jun'20. This will support VSF prices. Pulp prices too have started rising and current pulp prices are at USD725/ton vs. USD615/ton in Jun'20. The impact of higher pulp prices will be felt in 3-4 months.

**Exhibit 23: VSF prices are up 59% from their lows in Jul-Aug'20**

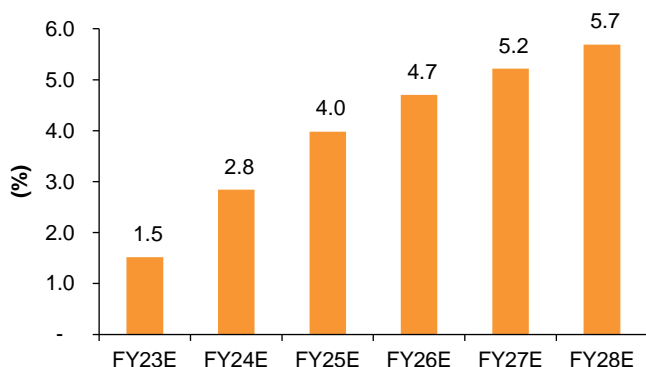


Source: Emkay Research, Industry

**Expect 6% volume share and 7% value share for Grasim's paint business by FY28E**

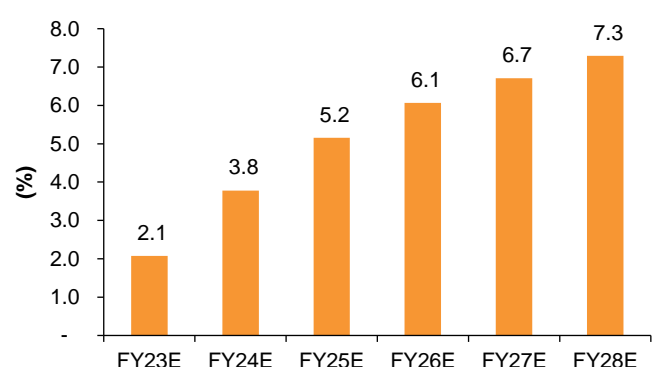
We believe that Grasim should be able to achieve a volume share of 5.7% and value share of 7.3% by FY28E (we have assumed launch in FY23E) gradually. We believe that our assumptions are not aggressive and factor in the challenges faced by few new entrants earlier. Grasim through its brand strength and presence in white cement/wall putty segments may achieve higher scales sooner than later.

**Exhibit 24: Market share expected for Grasim's paint business**



Source: Industry, Emkay Research

**Exhibit 25: Value share expected for Grasim's paint business**



Source: Industry, Emkay Research

## Pro-forma financials of Grasim's paints business

### Exhibit 26: Expect gradual improvement in market share and profitability

| Rs mn                               | FY23E         | FY24E         | FY25E         | FY26E        | FY27E        | FY28E       | FY29E       | FY30E       |
|-------------------------------------|---------------|---------------|---------------|--------------|--------------|-------------|-------------|-------------|
| Decorative industry volumes (mn kl) | 7.3           | 7.8           | 8.3           | 8.9          | 9.5          | 10.2        | 10.9        | 11.7        |
| YoY growth (%)                      | 7.0           | 7.0           | 7.0           | 7.0          | 7.0          | 7.0         | 7.0         | 7.0         |
| Capacity (Million KL)               | 0.37          | 0.74          | 1.11          | 1.20         | 1.24         | 1.29        | 1.34        | 1.38        |
| Utilization (%)                     | 30.0          | 30.0          | 30.0          | 45.0         | 40.0         | 45.0        | 55.0        | 65.0        |
| Sales Volume (Million KL)           | 0.11          | 0.22          | 0.33          | 0.42         | 0.50         | 0.58        | 0.74        | 0.90        |
| Yoy growth (%)                      |               | 100.0         | 50.0          | 26.0         | 19.0         | 17.0        | 27.0        | 22.0        |
| <b>Grasim's market share (%)</b>    | <b>1.5</b>    | <b>2.8</b>    | <b>4.0</b>    | <b>4.7</b>   | <b>5.2</b>   | <b>5.7</b>  | <b>6.7</b>  | <b>7.7</b>  |
| Net Sales                           | 11,062        | 22,124        | 33,186        | 42,992       | 52,299       | 62,541      | 81,148      | 101,689     |
| Paints industry market size         | 532,400       | 585,640       | 644,204       | 708,624      | 779,487      | 857,436     | 943,179     | 1,037,497   |
| <b>Grasim's revenue share</b>       | <b>2.1</b>    | <b>3.8</b>    | <b>5.2</b>    | <b>6.1</b>   | <b>6.7</b>   | <b>7.3</b>  | <b>8.6</b>  | <b>9.8</b>  |
| EBITDA                              | (5,130)       | (3,097)       | (568)         | 1,634        | 4,214        | 6,691       | 11,288      | 16,537      |
| <b>OPM (%)</b>                      | <b>(46.4)</b> | <b>(14.0)</b> | <b>(1.7)</b>  | <b>3.8</b>   | <b>8.1</b>   | <b>10.7</b> | <b>13.9</b> | <b>16.3</b> |
| Dep.                                | 737           | 2,065         | 3,982         | 4,794        | 4,978        | 5,162       | 5,347       | 5,531       |
| Depreciation (%)                    | 5.0           | 7.0           | 9.0           | 10.0         | 10.0         | 10.0        | 10.0        | 10.0        |
| EBIT                                | (5,868)       | (5,162)       | (4,550)       | (3,159)      | (764)        | 1,529       | 5,941       | 11,006      |
| <b>EBIT Margin (%)</b>              | <b>(53.0)</b> | <b>(23.3)</b> | <b>(13.7)</b> | <b>(7.3)</b> | <b>(1.5)</b> | <b>2.4</b>  | <b>7.3</b>  | <b>10.8</b> |
| FCFF                                | (23,879)      | (19,599)      | (5,472)       | (1,194)      | 433          | 3,497       | 5,755       | 9,649       |
| <b>RoAIC (%)</b>                    |               |               | <b>(13.8)</b> | <b>(9.8)</b> | <b>(2.5)</b> | <b>3.9</b>  | <b>16.3</b> | <b>31.9</b> |

Source: Emkay Research, Industry

### Exhibit 27: SoTP Valuation for Grasim

| Particulars                                   | Valuation method              | Unit      | FY23E     | Rs           |
|---|-------------------------------|-----------|-----------|--------------|
| UltraTech's Mcap based on our target price    |                               | Rs mn     | 1,738,538 |              |
| HoldCo discount                               |                               | %         | 50        |              |
| Grasim's stake                                |                               | %         | 57.9      |              |
| Value of cement stake                         |                               | Rs mn     | 503,307   |              |
| Value/share                                   | 50% HoldCo discount to our PT | Rs        |           | <b>766</b>   |
| Value of Grasim's standalone business         |                               | Rs mn     | 181,996   |              |
| Value/share                                   | 5x for standalone business    |           |           | <b>277</b>   |
| Value of listed investments                   |                               | Rs mn     | 37,829    |              |
| HoldCo discount                               |                               | %         | 50        |              |
| Value of listed investments post HoldCo       |                               | Rs mn     | 18,914    |              |
| Value/share                                   | 50% HoldCo discount on CMP    | Rs        |           | <b>29</b>    |
| VSF & Fibre JV                                |                               | Rs mn     | 7,750     |              |
| Value/share                                   | 1x P/BV                       | Rs        |           | <b>12</b>    |
| Standalone Net Debt of Grasim*                |                               | Rs mn     | (4,332)   |              |
| Value/share                                   |                               | Rs        |           | <b>(7)</b>   |
| Aditya Birla Capital                          |                               | Rs mn     | 185,799   |              |
| HoldCo discount                               |                               | %         | 50        |              |
| Grasim's stake                                |                               | %         | 54.23     |              |
| Value of AB Capital's stake in Grasim         |                               | Rs mn     | 50,379    |              |
| Value/share                                   | 50% HoldCo discount on CMP    | Rs        |           | <b>77</b>    |
| <b>Value/share through SoTP</b>               |                               | <b>Rs</b> |           | <b>1,167</b> |
| <b>Premium for entry into paints business</b> | 5% to SoTP based prices       |           |           |              |
| <b>Target Price</b>                           |                               |           |           | <b>1,225</b> |
| <b>CMP</b>                                    |                               | <b>Rs</b> |           | <b>1,004</b> |
| <b>UP/(down)side</b>                          |                               | <b>%</b>  |           | <b>22.0</b>  |

Source: Company, Emkay Research, \* we have considered divestment of fertilizer business for target price calculation



**Key Financials (Standalone)****Income Statement**

| Y/E Mar (Rs mn)                  | FY19           | FY20           | FY21E          | FY22E          | FY23E          |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Revenue</b>                   | <b>205,504</b> | <b>186,094</b> | <b>145,978</b> | <b>186,982</b> | <b>206,293</b> |
| <b>Expenditure</b>               | <b>164,793</b> | <b>162,989</b> | <b>127,642</b> | <b>154,843</b> | <b>169,396</b> |
| <b>EBITDA</b>                    | <b>40,712</b>  | <b>23,105</b>  | <b>18,335</b>  | <b>32,139</b>  | <b>36,897</b>  |
| Depreciation                     | 7,604          | 8,468          | 8,634          | 9,478          | 9,941          |
| <b>EBIT</b>                      | <b>33,108</b>  | <b>14,638</b>  | <b>9,701</b>   | <b>22,661</b>  | <b>26,956</b>  |
| Other Income                     | 5,680          | 5,254          | 5,426          | 6,009          | 6,345          |
| Interest expenses                | 1,991          | 3,039          | 3,486          | 3,486          | 2,930          |
| <b>PBT</b>                       | <b>36,797</b>  | <b>16,854</b>  | <b>11,641</b>  | <b>25,185</b>  | <b>30,371</b>  |
| Tax                              | 7,964          | 1,214          | 3,027          | 6,548          | 7,896          |
| Extraordinary Items              | (23,680)       | (2,941)        | 0              | 0              | 0              |
| Minority Int./Income from Assoc. | 0              | 0              | 0              | 0              | 0              |
| <b>Reported Net Income</b>       | <b>5,153</b>   | <b>12,699</b>  | <b>8,614</b>   | <b>18,637</b>  | <b>22,474</b>  |
| <b>Adjusted PAT</b>              | <b>28,833</b>  | <b>15,640</b>  | <b>8,614</b>   | <b>18,637</b>  | <b>22,474</b>  |

**Balance Sheet**

| Y/E Mar (Rs mn)                            | FY19           | FY20           | FY21E          | FY22E          | FY23E          |
|--|----------------|----------------|----------------|----------------|----------------|
| Equity share capital                       | 1,315          | 1,316          | 1,316          | 1,316          | 1,316          |
| Reserves & surplus                         | 418,303        | 375,425        | 382,578        | 399,025        | 418,578        |
| <b>Net worth</b>                           | <b>419,619</b> | <b>376,740</b> | <b>383,894</b> | <b>400,340</b> | <b>419,894</b> |
| <b>Minority Interest</b>                   | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>Loan Funds</b>                          | <b>33,046</b>  | <b>50,680</b>  | <b>59,180</b>  | <b>50,680</b>  | <b>41,680</b>  |
| Net deferred tax liability                 | 18,789         | 14,025         | 14,025         | 14,025         | 14,025         |
| <b>Total Liabilities</b>                   | <b>471,453</b> | <b>441,445</b> | <b>457,099</b> | <b>465,045</b> | <b>475,599</b> |
| <b>Net block</b>                           | <b>112,322</b> | <b>120,832</b> | <b>146,637</b> | <b>160,659</b> | <b>165,719</b> |
| <b>Investment</b>                          | <b>311,276</b> | <b>276,762</b> | <b>277,952</b> | <b>277,952</b> | <b>277,952</b> |
| <b>Current Assets</b>                      | <b>78,862</b>  | <b>69,383</b>  | <b>68,418</b>  | <b>75,578</b>  | <b>80,853</b>  |
| Cash & bank balance                        | 425            | 739            | 4,831          | 4,592          | 5,104          |
| Other Current Assets                       | 0              | 0              | 0              | 0              | 0              |
| <b>Current liabilities &amp; Provision</b> | <b>46,705</b>  | <b>53,451</b>  | <b>47,908</b>  | <b>52,644</b>  | <b>52,425</b>  |
| <b>Net current assets</b>                  | <b>32,157</b>  | <b>15,933</b>  | <b>20,511</b>  | <b>22,935</b>  | <b>28,429</b>  |
| Misc. exp                                  | 0              | 0              | 0              | 0              | 0              |
| <b>Total Assets</b>                        | <b>471,427</b> | <b>441,445</b> | <b>457,099</b> | <b>465,045</b> | <b>475,599</b> |

**Cash Flow**

| Y/E Mar (Rs mn)                       | FY19           | FY20            | FY21E          | FY22E           | FY23E           |
|---------------------------------------|----------------|-----------------|----------------|-----------------|-----------------|
| <b>PBT (Ex-Other income) (NI+Dep)</b> | <b>36,797</b>  | <b>16,854</b>   | <b>6,215</b>   | <b>19,175</b>   | <b>24,026</b>   |
| Other Non-Cash items                  | (4,962)        | (3,876)         | 0              | 0               | 0               |
| Chg in working cap                    | (10,752)       | 12,855          | (487)          | (2,663)         | (4,983)         |
| <b>Operating Cashflow</b>             | <b>25,555</b>  | <b>35,185</b>   | <b>14,822</b>  | <b>22,928</b>   | <b>24,018</b>   |
| Capital expenditure                   | (20,440)       | (27,155)        | (18,520)       | (15,000)        | (15,000)        |
| <b>Free Cash Flow</b>                 | <b>5,115</b>   | <b>8,030</b>    | <b>(3,698)</b> | <b>7,928</b>    | <b>9,018</b>    |
| Investments                           | 0              | 0               | 0              | 0               | 0               |
| Other Investing Cash Flow             | 0              | 0               | 0              | 0               | 0               |
| <b>Investing Cashflow</b>             | <b>(2,191)</b> | <b>(17,806)</b> | <b>4,236</b>   | <b>6,009</b>    | <b>6,345</b>    |
| Equity Capital Raised                 | 86             | 90              | 0              | 0               | 0               |
| Loans Taken / (Repaid)                | 3,504          | 17,258          | 8,500          | (8,500)         | (9,000)         |
| Dividend paid (incl tax)              | (4,530)        | (5,155)         | (1,460)        | (2,191)         | (2,921)         |
| Other Financing Cash Flow             | 0              | 0               | 0              | 0               | 0               |
| <b>Financing Cashflow</b>             | <b>(2,990)</b> | <b>10,091</b>   | <b>3,554</b>   | <b>(14,176)</b> | <b>(14,851)</b> |
| <b>Net chg in cash</b>                | <b>(65)</b>    | <b>315</b>      | <b>4,091</b>   | <b>(238)</b>    | <b>512</b>      |
| Opening cash position                 | 262            | 196             | 739            | 4,831           | 4,592           |
| <b>Closing cash position</b>          | <b>196</b>     | <b>511</b>      | <b>4,831</b>   | <b>4,592</b>    | <b>5,104</b>    |

Source: Company, Emkay Research



**Key Ratios**

| <b>Profitability (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| EBITDA Margin            | 19.8        | 12.4        | 12.6         | 17.2         | 17.9         |
| EBIT Margin              | 16.1        | 7.9         | 6.6          | 12.1         | 13.1         |
| Effective Tax Rate       | 21.6        | 7.2         | 26.0         | 26.0         | 26.0         |
| Net Margin               | 14.0        | 8.4         | 5.9          | 10.0         | 10.9         |
| ROCE                     | 11.8        | 11.1        | 8.8          | 15.7         | 17.3         |
| ROE                      | 10.4        | 12.9        | 8.4          | 16.3         | 17.0         |
| RoIC                     | 23.9        | 10.5        | 6.5          | 13.3         | 14.6         |

| <b>Per Share Data (Rs)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|----------------------------|-------------|-------------|--------------|--------------|--------------|
| EPS                        | 43.8        | 23.8        | 13.1         | 28.3         | 34.2         |
| CEPS                       | 55.4        | 36.6        | 26.2         | 42.7         | 49.3         |
| BVPS                       | 638.1       | 572.7       | 583.6        | 608.6        | 638.3        |
| DPS                        | 6.2         | 4.0         | 2.0          | 3.0          | 4.0          |

| <b>Valuations (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| PER                   | 22.9        | 42.2        | 76.7         | 35.4         | 29.4         |
| P/CEPS                | 18.1        | 27.4        | 38.3         | 23.5         | 20.4         |
| P/BV                  | 1.6         | 1.8         | 1.7          | 1.6          | 1.6          |
| EV / Sales            | 3.2         | 3.7         | 4.8          | 3.7          | 3.3          |
| EV / EBITDA           | 16.3        | 30.0        | 38.0         | 21.4         | 18.4         |
| Dividend Yield (%)    | 0.6         | 0.4         | 0.2          | 0.3          | 0.4          |

| <b>Gearing Ratio (x)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|--------------------------|-------------|-------------|--------------|--------------|--------------|
| Net Debt/ Equity         | 0.0         | 0.1         | 0.1          | 0.1          | 0.0          |
| Net Debt/EBIDTA          | 0.1         | 1.4         | 2.0          | 0.9          | 0.5          |
| Working Cap Cycle (days) | 56.4        | 29.8        | 39.2         | 35.8         | 41.3         |

| <b>Growth (%)</b> | <b>FY19</b> | <b>FY20</b> | <b>FY21E</b> | <b>FY22E</b> | <b>FY23E</b> |
|-------------------|-------------|-------------|--------------|--------------|--------------|
| Revenue           | 30.2        | (9.4)       | (21.6)       | 28.1         | 10.3         |
| EBITDA            | 32.2        | (43.2)      | (20.6)       | 75.3         | 14.8         |
| EBIT              | 35.0        | (55.8)      | (33.7)       | 133.6        | 19.0         |
| PAT               | (70.9)      | 146.4       | (32.2)       | 116.4        | 20.6         |

| <b>Quarterly (Rs mn)</b> | <b>Q3FY20</b> | <b>Q4FY20</b> | <b>Q1FY21</b> | <b>Q2FY21</b> | <b>Q3FY21E</b> |
|--------------------------|---------------|---------------|---------------|---------------|----------------|
| Revenue                  | 44,989        | 43,125        | 19,436        | 34,382        | 45,880         |
| EBITDA                   | 4,134         | 3,941         | (1,450)       | 3,979         | 6,348          |
| <b>EBITDA Margin (%)</b> | <b>9.2</b>    | <b>9.1</b>    | <b>(7.5)</b>  | <b>11.6</b>   | <b>13.8</b>    |
| PAT                      | 1,847         | 3,571         | (2,691)       | 3,602         | 3,142          |
| <b>EPS (Rs)</b>          | <b>2.8</b>    | <b>5.4</b>    | <b>(4.1)</b>  | <b>5.5</b>    | <b>4.8</b>     |

Source: Company, Emkay Research

| <b>Shareholding Pattern (%)</b> | <b>Sep-19</b> | <b>Dec-19</b> | <b>Mar-20</b> | <b>Jun-20</b> | <b>Sep-20</b> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Promoters                       | 40.2          | 40.1          | 40.3          | 40.3          | 40.9          |
| FII                             | 17.0          | 16.0          | 13.5          | 12.7          | 12.6          |
| DII                             | 22.1          | 22.6          | 22.9          | 21.4          | 20.3          |
| Public and Others               | 20.8          | 21.3          | 23.4          | 25.7          | 26.3          |

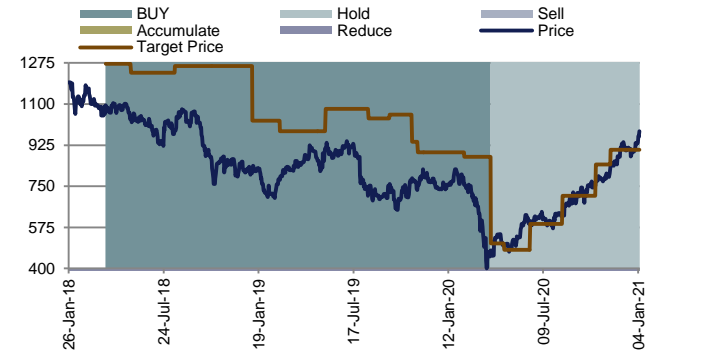
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

| Date      | Closing Price | TP    | Period (months) | Rating | Analyst             |
|-----------|---------------|-------|-----------------|--------|---------------------|
| 13-Nov-20 | 841           | 905   | 12m             | Hold   | Sanjeev Kumar Singh |
| 16-Oct-20 | 773           | 843   | 12m             | Hold   | Sanjeev Kumar Singh |
| 14-Aug-20 | 629           | 709   | 12m             | Hold   | Sanjeev Kumar Singh |
| 14-Jun-20 | 602           | 589   | 12m             | Hold   | Sanjeev Kumar Singh |
| 18-May-20 | 496           | 479   | 12m             | Hold   | Sanjeev Kumar Singh |
| 26-Apr-20 | 499           | 479   | 12m             | Hold   | Sanjeev Kumar Singh |
| 01-Apr-20 | 476           | 507   | 12m             | Hold   | Sanjeev Kumar Singh |
| 11-Feb-20 | 759           | 876   | 12m             | Buy    | Sanjeev Kumar Singh |
| 15-Nov-19 | 755           | 894   | 12m             | Buy    | Sanjeev Kumar Singh |
| 04-Nov-19 | 784           | 939   | 12m             | Buy    | Sanjeev Kumar Singh |
| 23-Sep-19 | 759           | 1,055 | 12m             | Buy    | Sanjeev Kumar Singh |
| 14-Aug-19 | 735           | 1,039 | 12m             | Buy    | Sanjeev Kumar Singh |
| 25-May-19 | 910           | 1,079 | 12m             | Buy    | Sanjeev Kumar Singh |
| 28-Feb-19 | 777           | 984   | 12m             | Buy    | Sanjeev Kumar Singh |
| 07-Jan-19 | 821           | 1,029 | 12m             | Buy    | Sanjeev Kumar Singh |
| 14-Aug-18 | 987           | 1,262 | 12m             | Buy    | Sanjeev Kumar Singh |
| 23-May-18 | 1,047         | 1,233 | 12m             | Buy    | Sanjeev Kumar Singh |
| 05-Apr-18 | 1,094         | 1,271 | 12m             | Buy    | Sanjeev Kumar Singh |

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Cement & Building Materials



### Analyst: Sanjeev Kumar Singh

#### Contact Details

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#### Sector

Cement & Building materials

#### Analyst bio

Sanjeev Kumar Singh holds an MBA and has over 10 years of experience in the Cement sector. His team currently covers 17 stocks in the Cement and Building Materials space.

#### EAP sector portfolio

| Company Name                           | BSE200 Weight | EAP Weight  | OW/UW (%) | OW/UW (bps) | EAP Weight (Normalised) |
|--|---------------|-------------|-----------|-------------|-------------------------|
| <b>Cement &amp; Building Materials</b> | <b>2.10</b>   | <b>2.10</b> | <b>0%</b> | <b>0</b>    | <b>100.00</b>           |
| ACC                                    | 0.17          | 0.00        | -100%     | -17         | 0.00                    |
| Ambuja Cements                         | 0.23          | 0.25        | 9%        | 2           | 11.91                   |
| Grasim Industries                      | 0.50          | 0.49        | 0%        | 0           | 23.54                   |
| Birla Corporation                      | 0.00          | 0.04        | NA        | 4           | 1.91                    |
| India Cements                          | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| JK Cement                              | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| JK Lakshmi Cement                      | 0.00          | 0.04        | NA        | 4           | 1.97                    |
| Orient Cement                          | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Prism Johnson                          | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Ramco Cements                          | 0.13          | 0.14        | 10%       | 1           | 6.58                    |
| Shree Cements                          | 0.29          | 0.28        | 0%        | 0           | 13.57                   |
| Star Cement                            | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Ultratech Cement                       | 0.79          | 0.85        | 8%        | 6           | 40.52                   |
| Century Plyboards                      | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Kajaria Ceramics                       | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| Somany Ceramics                        | 0.00          | 0.00        | NA        | 0           | 0.00                    |
| <b>Cash</b>                            | <b>0.00</b>   | <b>0.00</b> | <b>NA</b> | <b>0</b>    | <b>0.00</b>             |

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

#### Sector portfolio NAV

|   | Base     |           |           |           |           | Latest    |
|---|----------|-----------|-----------|-----------|-----------|-----------|
|   | 1-Apr-19 | 23-Jan-20 | 23-Jul-20 | 22-Oct-20 | 22-Dec-20 | 21-Jan-21 |
| EAP - Cement & Building Materials       | 100.0    | 106.4     | 90.1      | 106.1     | 111.7     | 121.2     |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 103.2     | 87.1      | 103.9     | 110.5     | 119.9     |

\*Performance measurement base date 1<sup>st</sup> April 2019

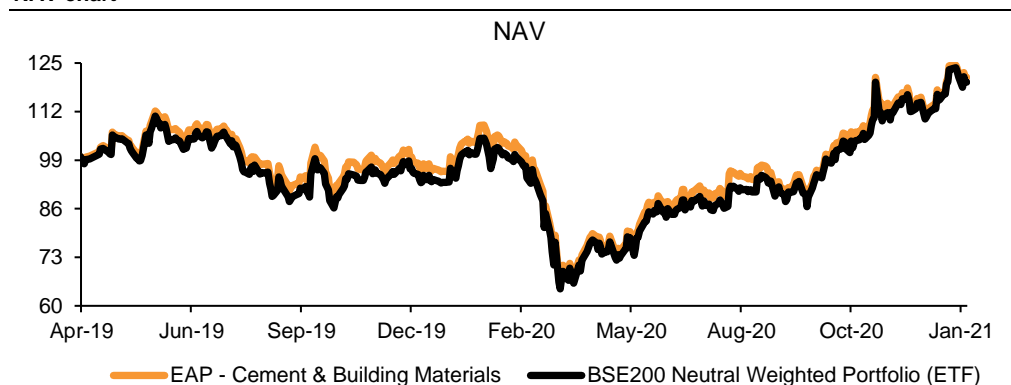
Source: Emkay Research

#### Price Performance (%)

|   | 1m   | 3m    | 6m    | 12m   |
|---|------|-------|-------|-------|
| EAP - Cement & Building Materials       | 8.5% | 14.2% | 34.5% | 13.8% |
| BSE200 Neutral Weighted Portfolio (ETF) | 8.5% | 15.4% | 37.7% | 16.2% |

Source: Emkay Research

#### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 25 Jan 2021 19:11:26 (SGT)

Dissemination Date: 25 Jan 2021 19:12:26 (SGT)

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