Index

Grasim Industries

Apple Green

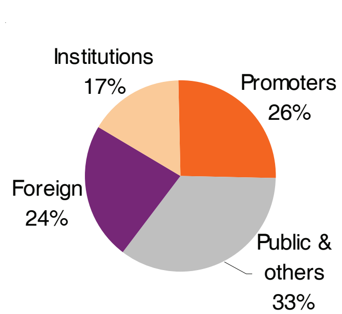
Stock Update

Price target revised to Rs3,405

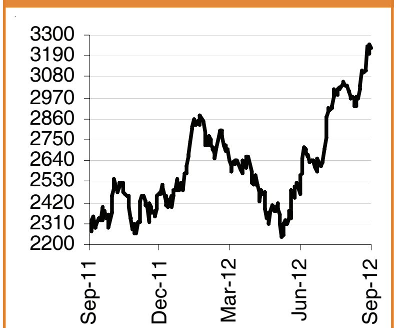
Hold; CMP: Rs3,237

Company details	
Price target:	Rs3,405
Market cap:	Rs29,675 cr
52 week high/low:	Rs3,277/2,207
NSE volume: (no. of shares)	66,735
BSE code:	500300
NSE code:	GRASIM
Sharekhan code:	GRASIM
Free float: (no. of shares)	6.86 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	32.6	21.5	39.4
Relative to Sensex	2.7	19.1	11.4	18.5

Key points

VSF prices increase in September 2012

The price of viscose staple fibre (VSF) has increased in September 2012 and with that the average price for Q2FY2013 is expected to be higher by around Rs3/kg on a quarter-on-quarter (Q-o-Q) basis. The VSF realisation of Grasim Industries (Grasim) was Rs128/kg in Q1FY2013. Now, as per the current price, the average realisation for Q2FY2013 is expected to be around Rs131/kg. The recent price hike is supported by a better demand environment and an increase in the prices of the competing fibres like cotton (whose price has increased by Rs8-10/kg).

VSF volume in Q2FY2013 to be higher on Y-o-Y as well as Q-o-Q basis

The better demand environment for VSF products in the domestic as well as the international markets will help the company to register a higher volume in Q2FY2013 as compared with Q2FY2012. The VSF volume is also expected to be higher on a sequential basis as the VSF plant was shut for about 27 days in Q1FY2013. Therefore, the likely growth in the realisation and the volume is expected to support the stand-alone revenues of the company in the coming quarter.

Government authority recommends de-allocation of Grasim's coalfield in Chhattisgarh

As per media reports, the Inter-Ministerial Group looking into coalfield allocations has recommended taking back coal blocks from Grasim. Grasim and Electrotherm jointly hold a coal block in Bhaskarpara, Chhattisgarh. The government panel has recommended that the block be cancelled. Grasim acquired the coal block in Chhattisgarh to produce cement and reduce its dependency on imported coal. However, the block is not operational and is not contributing to the coal requirement of the company at present. Therefore, the likely move will not have any direct impact on the earnings of the company. Further, the de-allocation of the coal

Valuations

Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales (Rs cr)	19,933	21,269	24,988	27,506	29,580
Net profit (Rs cr)	2,759	2,164	2,647	2,601	2,885
YoY growth %	*26.2*	*-21.6*	*22.3*	*-1.7*	*10.9*
Shares in issue (cr)	9.17	9.17	9.17	9.17	9.17
EPS (Rs)	301.0	236.0	288.8	283.8	314.7
YoY growth %	*26.2*	*-21.6*	*22.3*	*-1.7*	*10.9*
PER (x)	10.9	13.8	11.3	11.5	10.4
P/B (x)	2.4	2.1	1.8	1.5	1.3
EV/EBITDA	5.0	6.1	5.3	5.3	4.3
EV/Sales	1.4	1.3	1.1	1.0	0.9
RoCE (%)	26.9	19.4	20.5	18.2	17.7
RoNW (%)	22.0	14.8	15.5	13.0	12.4

block is just a recommendation made by the panel and needs to be finalised by the government.

Cement prices increased by Rs5-6/bag to offset the diesel price hike; the average cement price remains lower compared with Q1FY2013

On account of the recent hike in the diesel prices by Rs5/litre, the cement manufacturers have increased cement prices by Rs5-6/bag to offset the cost inflation. However, cement prices corrected significantly in August and early September 2012. Therefore, the average price of cement in the major Indian cities has corrected by around Rs10-12/bag compared with the Q1FY2013 level. Further, as per our channel check with the cement dealers, the price correction has been relatively high in the southern region and less in the northern and western regions. On the demand front, most of the regions in India have witnessed a slowdown on account of slower than expected execution of the infrastructure projects and a sluggish demand from the real estate segment. Therefore, the revenues of Grasim's cement business would decline sequentially in the coming quarter. However, the revenues from the cement business are expected to be higher in Q2FY2013 on a year-on-year (Y-o-Y) basis.

Outlook and valuation

We continue to prefer Grasim to the other large players due to its strong balance sheet, comfortable debt-equity ratio (0.32x Q1FY2013), attractive valuation and diversified business. On the valuation front, we continue to value the stock using the sum-of-the-parts valuation method and arrive at a revised fair value of Rs3,405 per share. However, on account of a sharp run-up in the stock price of the company in recent times (Grasim has appreciated by 27% in the past three months), we maintain our Hold recommendation on the stock with a revised price target of Rs3,405. At the current market price, the stock trades at a price/earnings ratio of 11.5x and 10.4x, discounting its FY2013 and FY2014 estimated earnings per share respectively.

Banking

Sector Update

CDR restructuring cases continue to rise

We recently met the deputy general manager of the Corporate Debt Restructuring (CDR) cell to understand the asset quality scenario and the reasons for a rise in the restructuring cases.

Restructuring proposals rising rapidly

Due to weakness in the macro economy there has been a significant increase in the number of bank loan restructuring proposals. In the first five months of the fiscal, around 60 cases amounting to Rs31,000 crore were approved by the CDR cell. Going ahead, the cumulative restructured loans could inch up to Rs3.25 lakh crore by FY2013 end (~6.1% of the system's advances) as projected by rating agency CRISIL.

Iron & steel the largest contributor so far; infrastructure's contribution could rise

The iron & steel sector is the largest contributor (23%) to the restructured loans followed by the infrastructure, textiles and telecommunications sectors. As per the CDR cell, the proportion of restructuring proposals from the infrastructure sector is expected to increase due to the ongoing issues in the power and road segments.

RBI committee's recommendations on restructuring largely positive for the sector

The Reserve Bank of India (RBI) committee's recommendations on restructured loans are positive for the banking sector. The committee recommended increased provisions and higher promoters' contribution in sacrifice in cases of restructuring of loans. Banks have submitted the feedback and the final guidelines are expected by October end.

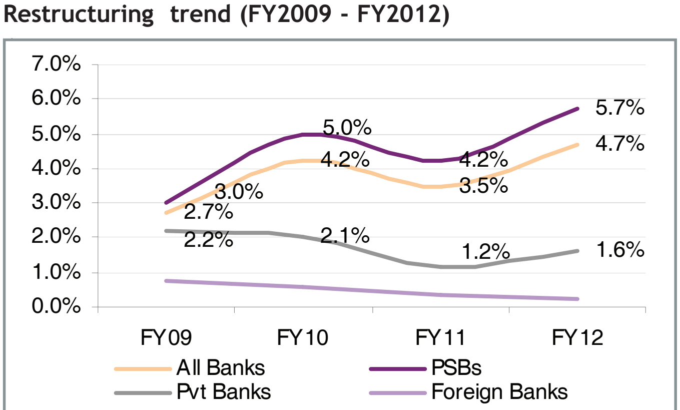
...but two points of contention emerge

The banks have a difference of opinion over mainly two points, ie on the regulatory forbearance and the calculation of the sacrifice amount. According to them, doing away with the regulatory forbearance on standard restructured loans would result in a sharp increase in the non-performing assets (NPAs) and provisioning. The banks want clarity on the calculation of the diminution in the fair value of the restructured advances. Further, the banks also want some relaxation in the right to recompense which is 100% at present.

Private banks better placed vs PSBs

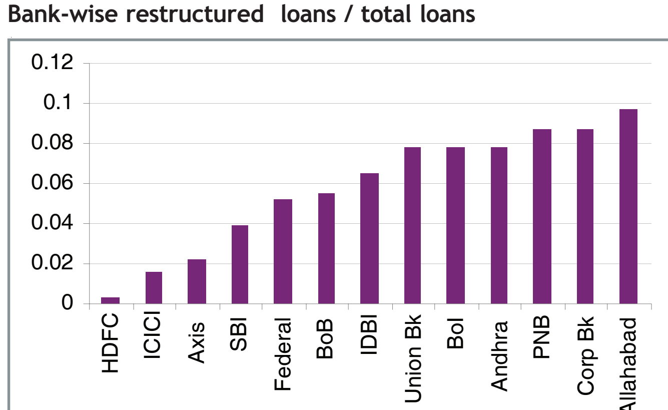
The number of restructuring proposals continues to rise at a scorching pace and the public sector banks (PSBs) have seen a faster growth in the number of restructuring proposals. The sharp increase in the CDR referrals and even in the non-CDR restructuring cases suggests rising stress on the asset quality of banks. Going ahead, we believe the restructuring proposals would increase, albeit at a slower rate, since most of the big-ticket accounts, Air India etc, have been restructured. Further, the RBI's final guidelines on restructuring (expected by October end) will also discourage the non-genuine cases. The private banks are better placed as for them the proportion of restructured loans (1.6% of advances vs 5.7% for the PSBs) remains much lower than the PSBs'. Though we are cautious on most PSBs because of their high exposure to the troubled segments and higher proportion of restructured loans, we prefer Bank of Baroda, Punjab and National Bank, and State Bank of India due to their reasonable valuation and stronger earnings profile which shall help them to withstand asset quality pressures.

Restructuring trend (FY2009 - FY2012)



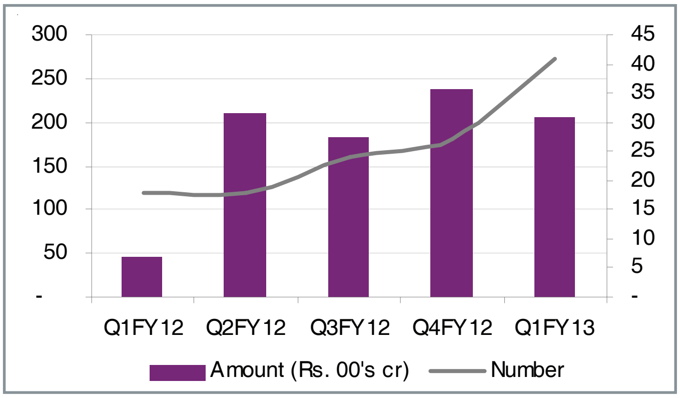
Source: RBI

Bank-wise restructured loans / total loans



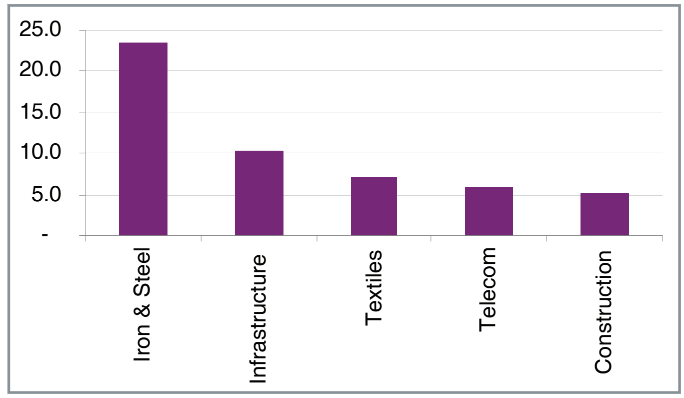
Source: Company, Sharekhan Research

CDR cases



Source: CDR

Industry-wise contribution to CDR cases



Source: CDR

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Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Oil India
Piramal Enterprises (Piramal Healthcare)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
CMC
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Relaxo Footwears
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

AGC Networks
Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Dishman Pharmaceuticals & Chemicals
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
Jaiprakash Associates
Kewal Kiran Clothing
Mcleod Russel India
NIIT Technologies
Orbit Corporation
Polaris Financial Technology
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects

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