Grasim reports excellent performance for Q4FY 2007

Consolidated net profit Rs.559 crore; up 60 per cent; Consolidated net revenue Rs.4,107 crore; up 40 per cent

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Grasim, an Aditya Birla Group company, has posted excellent performance for the quarter ended 31 March 2007. Consolidated revenues increased by 40 per cent from Rs.2,926 crore to Rs.4,107 crore. Net profit rose by 60 per cent from Rs.349 crore to Rs.559 crore, despite a substantially higher provision for tax expenses, which were up by 183 per cent at Rs.335 crore. Grasim's superior performance has been driven by its VSF business, cement business and its subsidiaries.

The FY 2007 results too have been impressive. Higher capacity utilisation, increased realisation and strengthening of operational efficiencies resulted in both revenues and profits surpassing their previous levels. Consolidated revenues, at Rs.14,167 crore, reflected a 38 per cent growth. EBITDA crossed the USD 1 billion mark for the first time ever, at Rs.4,290 crore. Net profit grew sharply by 89 per cent at Rs.1,968 crore. Its VSF and cement businesses reported an admirable performance, which led to the surge in revenues and earnings during the year.

Grasim's results, both for the quarter and the full year, crossed all previous records. While revenues for the quarter grew by 36 per cent at Rs.2,494 crore, net profit rose admirably by 81 per cent at Rs.474 crore. For the year under review, net profit was at Rs.1,536 crore, historically the highest. The notable performance by its cement and VSF businesses continued. The sponge iron business showed a marked improvement.

Dividend

The company has paid interim dividend at 275 per cent for FY07. Together with the corporate tax on dividend, the total outflow on account of dividend was Rs.287 crore, vis-à-vis Rs.209 crore paid for FY06, an increase of 37 per cent. The board at its meeting has decided not to recommend any final dividend and to treat the interim dividend as final.

Viscose Staple Fibre (VSF) business

The VSF business turned in a very good performance. Production, sales and profitability were at an all time high. The strong demand for cellulosic fibres coupled with the company's strategy of increased focus on specialty fibres and concentrating on emerging textile hubs has resulted in a record performance. Notwithstanding the suspension in operations for 48 days on account of water shortage, capacity utilisation was higher at 93 per cent, vis-à-vis 90 per cent recorded for the preceding year. The business registered a 3 per cent increase in sales volumes at 250,725 tons. Realisations were up by 16 per cent at Rs.85,729 per ton. This positive performance has helped to offset the steep rise in input costs. The robust growth in VSF business is a reflection of the shift in consumer preference towards cellulosic products.

The business' performance during the quarter too was good. Higher production, sales volumes and improved realisations led to a 29 per cent jump in operating profits.

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To meet the growing demand for the product, the company will be augmenting its capacity. A 63,875 tons per annum brownfield expansion at Kharach (Gujarat) has been planned. It is expected to be completed by end FY08. The company's investment on the expansion and modernisation at its various plants would be to the tune of Rs.712 crore. Additionally, the company is in the process of obtaining regulatory approvals for expanding its capacity at Harihar (Karnataka) by around 31,000 tons per annum. Upon completion, the company's VSF capacity would stand enhanced to 365,000 tons. The capacity of its Chinese joint venture will be ramped up from 30,000 tpa to 60,000 tpa by Q2FY09.

The company, being the lowest cost producer of quality VSF, is fully geared to capitalise on the increased demand for the product, which it has generated. The thrust on propagation of speciality fibres, both in domestic and export markets bode well for the business. The outlook for the VSF business continues to be bright.

Cement business

The cement business posted a strong performance during the year. Capacity utilisation was higher at 110 per cent. Sales volumes appreciated by 4 per cent at 14.52 million tons. Realisation grew by 40 per cent from its depressed level of last year, leading to higher operating profits. Operating margins expanded due to higher realisations, increase in blended cement ratio and better economies of scale. The gains from higher price levels were however, offset to a large extent by the steep rise in fuel and freight costs.

The business posted a good performance during the quarter. Production increased by 3 per cent at 3.88 million tons. Sales volumes rose marginally constrained by capacity. Revenues expanded by 35 per cent on the back of improved realisations. On a sequential basis, the realisations were flat.

The white cement business performed well during the year. Production was higher by 4 per cent. Revenues grew by 30 per cent with enhanced contribution from value added products and an increase in realisations.

Cement subsidiaries

The performance of UltraTech Cement Limited (UltraTech), a subsidiary, was good. Cement sales during the year were higher at 14.63 million tons, an increase of 7 per cent. Clinker sales recorded a growth of 89 per cent at 2.50 million tons. Domestic cement realisations were higher.

Shree Digvijay Cement Company Limited, another subsidiary, too has bettered its performance. Profit before exceptional items was higher by 59 per cent at Rs.53 crore, driven by higher realisations.

Cement capex plan

The company's expansion plans at Shambhupura and Kotputli in Rajasthan are progressing as scheduled. While the Shambhupura plant is likely to be commissioned by the end of FY08, the Kotputli plant is expected to go on stream in Q1FY09. The company would also be setting up thermal power plants at both these places. The company has so far invested Rs.834 crore on these projects. Additionally, it has envisaged a total capital outlay of Rs.2,345 crore over the next two

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years, which includes the cost of modernisation, de-bottlenecking, setting up of grinding unit at Dadri, RMCs and captive power plants. Upon completion of these expansions and the commissioning of the grinding unit at Dadri, the company's cement capacity will go up by 9.5 million tons to 22.6 million tons.

The capex plan of UltraTech, which includes setting up of a 4 million tpa project at Tadpatri (Andhra Pradesh) and captive power plants at different locations, is on track. UltraTech plans to invest over Rs.1,900 crore in the next two years on capacity expansion, thermal power plants, modernisation, RMCs, etc.

The substantial increase in industrial investment coupled with higher spending on infrastructure portend well for the company's cement business. The robust demand emanating from residential and commercial construction will also be a growth driver. The addition of new capacities is likely to result in a surplus scenario in FY09, which could impact realisations. However, such a short-term phenomenon is likely to get reversed in the medium term, given the strong demand momentum.

Sponge iron business

The sponge iron business remained under pressure during the year, largely due to the inadequate availability of natural gas and the sharp increase in the cost of iron ore and natural gas. While sales volumes were up by 19 per cent, average realisations remained flat owing to pressure from the coal-based sponge iron segment.

However, there was a marked improvement in performance during the quarter. While production was higher by 54 per cent, sales volumes showed an impressive growth of 79 per cent. Higher volumes and realisations and minimised usage of pellets resulted in improved operating margins.

The business' profitability would continue to be under pressure due to inadequate gas availability, which is expected to improve by the end of 2007, as the Dahej-Dabhol pipeline and the spur pipeline connecting the same to the existing GAIL pipeline is expected to be commissioned by then.

The thrust of the company would continue to be on optimum utilisation of plant capacity and enhancing volumes.

Chemical business

The performance of the chemical business was constrained during the year due to the breakdown of a captive power plant, which remained shut during the second and third quarters. Its operations were also affected due to water shortage during the first quarter of the year. Both production and sales, as a result, were impacted. The abnormally low prices of chlorine and hydrochloric acid resulted in subdued ECU realisations. Realisations are expected to remain depressed.

The normalcy in operations was restored during Q4FY07. As a result, production was higher by 10 per cent at 47,076 tons and sales volumes were up by 8 per cent at 47,709 tons for the quarter. The caustic soda capacity was raised from 190,800 tpa to 258,000 tpa during the quarter.

Going forward, the focus would be on optimising resource utilisation and reducing costs through R&D and development of ancillary and value-added products.

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Outlook

VSF and cement will continue to be the growth enablers. Besides, Grasim's financial framework enables it to pursue aggressive business growth strategies while retaining the prudent capital structure. The cost optimisation measures, sweating of assets, far-sighted financial management and above all, Grasim's solid fundamentals, will have a salutary effect on the company's future. The prospects for the company continue to be positive.

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