

Grasim : VFY Business Expansion

12 December 2017

Transaction Overview

- Grasim to receive 'Right to Manage & Operate' Viscose Filament Yarn (VFY) business of Century Textiles & Ind. Ltd. (CTIL) for a period of 15 years
- Consequently, Grasim will have 'Right to Use' the relevant assets
- Ownership of assets to remain with CTIL

Transaction Rationale

- Expand the VFY business of Grasim through this arrangement, given limited capacities available in the market and organic expansion not being feasible
- Synergies in product rationalisation, branding and operations likely to enhance overall profitability of the business
- CTIL's VFY is a steady cash generating business

Valuation & Consideration

- Payment to be discharged through:
 - Commuted Royalty sum: Rs. 600 Cr.
 - Refundable security deposit: Rs. 200 Cr. (interest free)
 - Net Working Capital at closing: estimated at ~Rs. 165 Cr.
- Valuation done by PWC

Timeline

- 1 – 2 months

Industry

- **50K MT VFY (ex Rayon tyre yarn) domestic industry turnover at ~Rs 2,000 Cr. catering to niche markets**
- Industry employs 3 main technologies – Pot spun yarn, continuous spun yarn and cutting edge spool spun yarn
- Applications – Chiffons (super fine) ; Georgette/ Crepe/ embroidery (fine) & home textiles (coarse)

Grasim

- **With 22K MT capacity , Grasim is one of the leading players**
- Grasim in unique position by possessing cutting edge Enka SSY technology thereby producing super fine yarn
- Grasim produces super fine / fine and coarse yarns with all three technologies
- Caters to the export markets in higher denier segments

Combined business

- **Combined business to create synergy for overall operations**
- Grasim with new SSY technology & CTIL with presence in Rayon tyre yarn offer significant growth prospects
- Synergy potential in plant and sales operations to provide additional benefits
- Possible to leverage brand strength in value chain

Snapshot of the Transaction

Transaction Rationale/Details

<p>Expansion Opportunity</p>	<ul style="list-style-type: none"> • Capex light capacity expansion (Greenfield would have cost ~Rs. 2,000 Cr. for a similar capacity) • Land constraints at Veraval (existing plant) limit the ability of Grasim to expand • Combination enables expansion in VFY, strengthening Viscose segment
<p>Strategic Location</p>	<ul style="list-style-type: none"> • Strategically located at Shahad which is closer to customers (mainly Surat) and port location (JNPT) for raw material imports and exports
<p>Value Accretive</p>	<ul style="list-style-type: none"> • The transaction is value accretive, generating net profit right from commencement of the arrangement • The anticipated growth in profitability and synergy from combination is expected to make the transaction further value accretive
<p>Product Mix & Customer base</p>	<ul style="list-style-type: none"> • Access to a new product (Rayon tyre yarn) and wider customer base
<p>Funding Mix</p>	<ul style="list-style-type: none"> • Mainly from internal accruals

Established in 1956 at Shahad, Dist. Thane (Maharashtra) Area ~134 acres

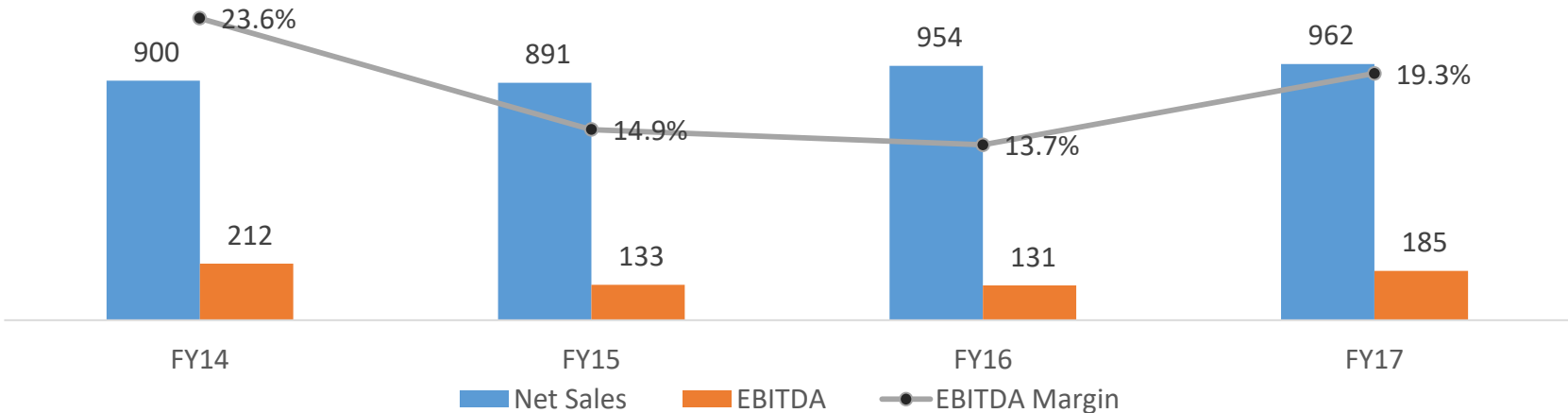
25,000 TPA with a network of 98 dealers pan India

VFY
(PSY ~16,000 TPA and CSY ~3,000 TPA)

Rayon Tyre Yarn
(~6,000 TPA)

Chemical Products (CS₂, Sulphuric Acid, Caustic Soda, Hydrogen and Liquid Chlorine)

Financial Performance (Rs. Cr.)



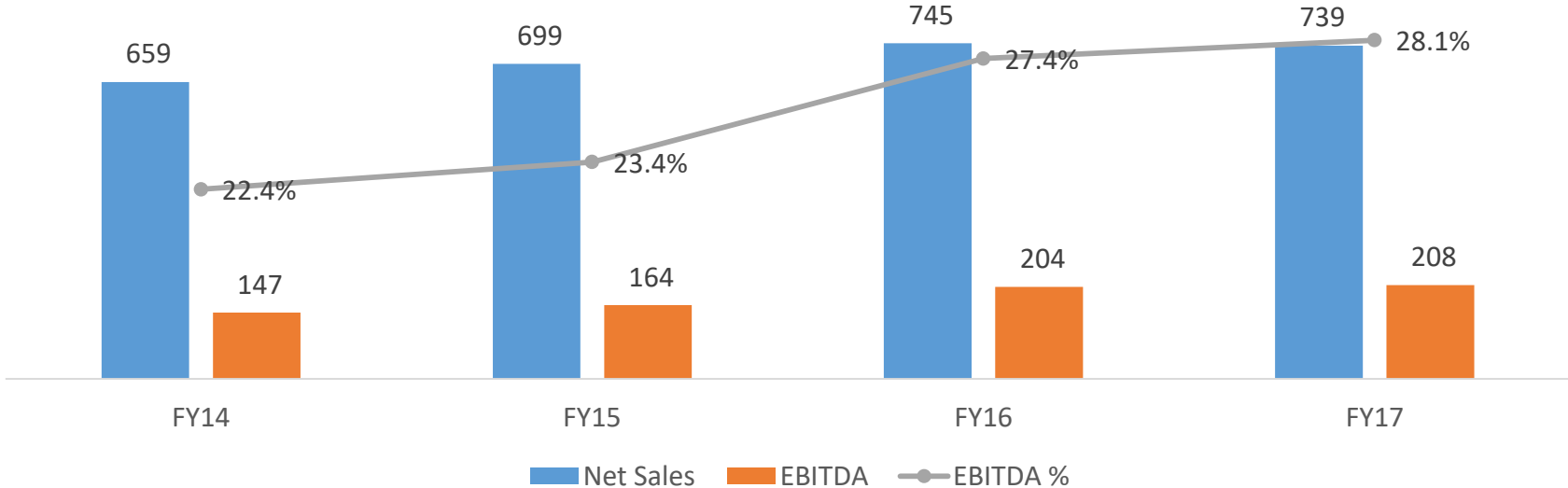
Robust margins of ~18% on average

Estimated cost of Greenfield project of this size and infrastructure is ~Rs. 2,000 Cr. & a gestation period of ~3 years

21,300 TPA Capacity

- Amongst the top 2 VFY producers in India
- Accounts for 61% of the exports from India, making it the largest exporter of VFY
- Business is looking to exploit the significant opportunities in the fine deniers space

Financial Performance (Rs. Cr.)



Key Metrics: Combined Business



The combined business will have a capacity of ~46,300 Tons

FY17 (Rs. Cr.)	CTIL VFY	Grasim VFY	Combined business
Capacity	25,000	21,300	46,300
Products	PSY/ CSY/ Tyre Yarn	SSY/ PSY/ CSY	SSY/PSY/ CSY/ Tyre Yarn
Location	Shahad (MAH)	Veraval (GUJ)	Shahad/Veraval
Revenue	962	739	1,701
EBIDTA	185	208	393
EBIDTA %	19%	28%	23%

Continues to be a high margin business with potential to improve further

The combined business numbers are simple aggregation and has not been done using accounting principles

Disclaimer



Certain statements in this report may be “forward looking statements” within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the company’s operations include global and Indian demand supply conditions, finished goods prices, feed stock availability and prices, cyclical demand and pricing in the company’s principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the company conducts business and other factors such as litigation and labor negotiations. The company assume no responsibility to publicly amend, modify or revise any forward looking statement, on the basis of any subsequent development, information or events, or otherwise.

Thank you