



# L&T deal positive for Grasim shareholders

The L&T deal is expected to benefit Grasim shareholders over the longterm, as they will reap the benefits of synergies and cost savings.

The demerger of Larsen & Toubro, L&T's cement unit is expected to be positive for shareholders of L&T and Grasim Industries. But, over the longer term, the major chunk of benefit will flow to Grasim shareholders, as they would reap the benefits of synergies and cost savings, according to **Jon Thorn of India Capital Fund**.

**He said consolidation within the Indian cement companies in the longer term would also benefit Grasim. "Once cement consolidates, pricing power will come in. Also, the supply-demand ratio is getting tight over the next couple of years," he told CNBC India.**

Abhijit Basu of Dow Jones Newswires believes that the acquisition is positive for Grasim and the overall cement industry. "The consolidation will help pricing in the cement sector. Also, many foreign cement majors, which were keen on buying out Larsen, may now think of looking at some other units like India Cement or Jaiprakash Industries," he said.

Rajesh Jain of Pranav Securities feels that Grasim is getting valued higher for achieving a commanding position in the cement sector. He said given the government's infrastructure plans and boom in the housing sector, there should be good upsides.

**Thorn said that investors could stay with L&T's engineering and construction business only if the management focuses on adding shareholder value. "The problem with L&T is that it has two separate businesses. It is difficult for the management to focus on two separate businesses, the way they were trying to do. Going forward there will be a lot of engineering and construction work, of which L&T could be prime beneficiary," he said.**

Grasim has agreed to acquire 8.50% equity shares of the new cement company, CemCo, from L&T at Rs 171.30 per share. Thereafter, it will make an open offer to the shareholders of the new cement company for acquiring 30% of the equity shares at the same price, with a view to take management control.

Though Grasim's open offer depends on shareholders — whether they accept it or not — **Thorn feels the offer price should be about \$71 per tonne, to buy more in L&T's cement unit.**

Grasim will ultimately achieve 51% stake in L&T's new cement company, on a net cash outflow of Rs 2,300 crore (Rs 23 billion).

## CLSA upgrades Grasim, L&T

The demerger deal has moved CLSA, a leading Asian brokerage and investment bank, to upgrade Grasim to a buy with a price target of Rs 520. It has also upgraded L&T to outperformer with a target price of Rs 285.

CLSA said the deal would propel Grasim to leadership position in the cement industry. This will also give room for the company to exploit synergistic gains on cost and pricing.

At \$80/tonne, the house said the acquisition is inexpensive. The Rs 1,100 crore (Rs 11 billion) cash outlay will not strain Grasim's balance sheet, as the debt-equity will be contained at 1 times earnings.

CLSA believes the restructuring is positive for L&T's minority shareholders with a realisable value of Rs 285 per share. With a 40% acceptance ratio for the open offer at Rs 171 per share and assuming a post open offer listing price of Rs 102 per share, the realisable value for cement business is Rs 130 per share.

CLSA has valued L&T business, excluding cement, at Rs 152 per share and its stake in CemCo would be worth Rs 29 per share.

### CLSA on Grasim

- Upgrades to buy, post L&T Cement acquisition
- Leadership position in cement industry
- Allow synergistic gains in cost & pricing
- Deal inexpensive at \$80/tonne

### CLSA on L&T

- Upgrades to outperformer
- Deal positive for minority shareholders
- Realisable value of Rs 285/share
- 40% acceptance ratio for open offer
- Post offer listing price at Rs 102/share
- Realisable value for cement: Rs 130/share
- Other business valuation: Rs 152/share
- Cement valuation: Rs 29/share