

Muted performance in abrasives, ceramics segment...

Grindwell Norton (GNL) reported muted Q4FY20 numbers across operational parameters owing to overall automotive, industrial slowdown amid Covid-19. Revenues came in at ₹ 365.9 crore, down 9.7% YoY. Abrasives, ceramics, new initiatives segment contributed ~60%, ~31%, ~9%, respectively. EBITDA margins were at 16.5%, down marginally by 20 bps YoY. This was primarily due to a decline in gross margins by ~20 bps YoY to 55.3% for the quarter. However, the margin decline was partly offset by lower power & fuel and other expenses, which were down 10.8%, 23% YoY, respectively. PAT de-grew 1.4% to ₹ 41.8 crore, YoY, primarily aided by lower taxes. It has also recommended a dividend of ₹ 7.5 per share.

Abrasives segment drags operating performance...

Topline growth of 9.7% YoY was primarily dragged by abrasives segment, which de-grew 13.4% to ₹ 219.4 crore YoY. Ceramics and plastic segment de-grew 5.6% to ₹ 114.6 crore YoY while new initiatives segment posted growth of 5.6% to ₹ 36.3 crore YoY. This segment contributed 33.4% to the topline. Abrasives segment grew 6.6% YoY, contributing 59.3% to the overall topline. EBIT margins of the abrasive segment came in at 9.5% (vs. 13.9% YoY). Margins of ceramics and plastic segment were at 15.0% (vs. 15.5% YoY) while for new initiative segment EBIT margin was at 28.4% (vs. 23.9% YoY). Mix in abrasives segment significantly impacted segment margins due to its effect on volumes and pricing. GNL imports ~50% of its raw material, mainly from China and Europe. However, to avoid disruptions, it has started sourcing raw materials from domestic and other regions. The management intends to sustain operating margins in the long term via introduction of high margin value added products in the plastics segment (e.g. life science) and thereby better pricing power.

Strong relevance of exports, new value-added plastic products

GNL enjoys a strong moat in the abrasives segment, with ~26% market share (pegged at ~₹ 3200 crore). New entrant 3M's market share is pegged at ~10%. Exports for FY20 were at ~14% of topline. GNL sees strategic relevance of exports for incremental growth. It is focusing on export of niche high value products in some cases to replace Chinese products and penetrate in neighbouring countries of the US, South East Asia.

Valuation & Outlook

Going forward, we expect stable growth in plastics segment due to niche value added products in life sciences. However, industrial/automotive slowdown will continue to affect abrasive, ceramics segments. On the whole, abrasives, ceramics, new initiatives are expected to grow at CAGR of -0.6%, 2.6%, 2.0%, respectively, in FY20-22E. With cash balance of ₹ 429 crore, debt-free status, we believe GNL is well placed to gain from any revival with strong market share in key segments. We value GNL at 33x FY22E EPS to arrive at a TP of ₹ 550 & change our rating from BUY to HOLD.

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22I
Revenue (₹crore)	1,431.0	1,598.1	1,579.6	1,364.3	1,605.5	0.8%
EBITDA (₹crore)	246.9	271.8	264.5	213.6	266.2	0.3%
EBITDA margin (%)	17.3	17.0	16.7	15.7	16.6	
Net Profit (₹crore)	149.7	167.2	181.7	143.5	184.8	0.9%
EPS (₹)	13.5	15.1	16.4	13.0	16.7	
P/E (x)	36.8	33.0	30.3	38.4	29.8	
Price / Book (x)	5.6	5.0	4.7	4.5	4.3	
EV/EBITDA (x)	21.2	19.4	19.2	23.8	19.1	
RoCE (%)	22.2	23.3	20.3	15.7	19.2	
RoE (%)	15.1	15.2	15.3	11.7	14.3	

Source: Company, ICICI Direct Research

NORTON GRINDWELL NORTON LTD.

Particulars

Particular	Amount
Market Capitalization	₹5514 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv (FY 20)	₹429 Crore
EV (FY 20)	₹5085 Crore
52 week H/L (₹)	699 / 370
Equity capital (FY 18)	₹55.4 Crore
Face value (₹)	5.0

Key Highlights

- Abrasive segment de-grew 13.4% to ₹ 219.4 crore, YoY. Ceramics and plastic segment de-grew 5.6% to ₹ 114.6 crore YoY while new initiatives segment registered growth of 5.6% to ₹ 36.3 crore YoY
- Expect revenue, EBITDA, PAT to grow at 0.8%, 0.3%, 0.9% respectively, over FY20-22E
- Value GNL at 33x FY22E EPS to arrive at a target price of ₹ 550 and change our rating from BUY to HOLD

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Exhibit 1: Variance analysis

Year	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Income from Operation	365.9	405.3	(9.7)	410.0	(10.8)	Impacted by 13.3% decline in Abrasive segment (~60% of revenue) followed by 5.6% drop in ceramics segment
Other Income	9.7	10.6	(8.8)	9.0	7.4	
Cost of materials consumed	168.2	187.4	(10.2)	161.93	3.9	
Power & Fuel	18.7	21.0	(10.8)	27.1	(31.1)	
Changes in inventories of finished goods & WIP	(4.5)	(7.1)	(37.0)	22.1	(120.4)	
Employee cost	54.3	47.0	15.5	47.3	14.8	
Other expenses	68.9	89.5	(23.0)	82.5	(16.5)	
EBITDA	60.3	67.7	(10.9)	69.1	(12.7)	
EBITDA Margin (%)	16.5	16.7	-22 bps	16.9	-37 bps	Primarily due to 20bps decline in gross margin owing to abrasive segment
Depreciation	14.3	11.4	25.9	14.6	(1.8)	
Interest	1.5	0.7	119.4	1.0		
PBT	54.2	66.3	(18.2)	62.5	(13.3)	
Taxes	12.4	23.5	(47.0)	15.5	(19.9)	
PAT	41.8	42.4	(1.4)	47.0	(11.0)	
Segment Revenue	Q4FY 20	Q4FY 19	YoY (%)	Q3FY 20	QoQ (%)	
Abrasives	219.4	253.4	(13.4)	237.0	(7.4)	
% Contribution	60.0	62.5		57.8		
Ceramics & Plastics	114.6	121.4	(5.6)	131.4	(12.8)	
% Contribution	31.3	29.9		32.0		
Others	36.3	34.4	5.6	45.3	(19.9)	
% Contribution	9.9	8.5		11.1		
Net Sales	365.9	405.3		410.0		

Source: Company, ICICI Direct Research

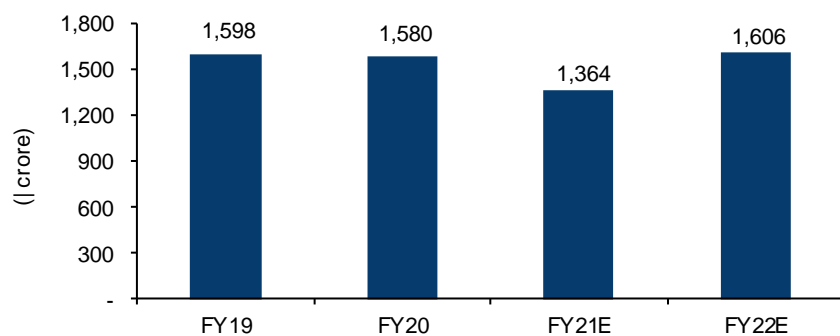
Exhibit 2: Change in estimates

	FY19	FY20	FY21E	FY22E	
(₹Crore)	Actual	Actual	Old	New	% Change
Revenue	1,598	1,580	2,023	1,364	(32.5)
EBITDA	272	265	347	214	(38.4)
EBITDA Margin (%)	17.0	16.7	17.1	15.7	-140 bps
PAT	167	182	213	144	(32.6)
EPS (₹)	15.1	16.4	19.3	13.0	(32.8)
					Introduced
					- 1606
					- 266
					- 16.6
					- 185
					- 16.7

Source: Company, ICICI Direct Research

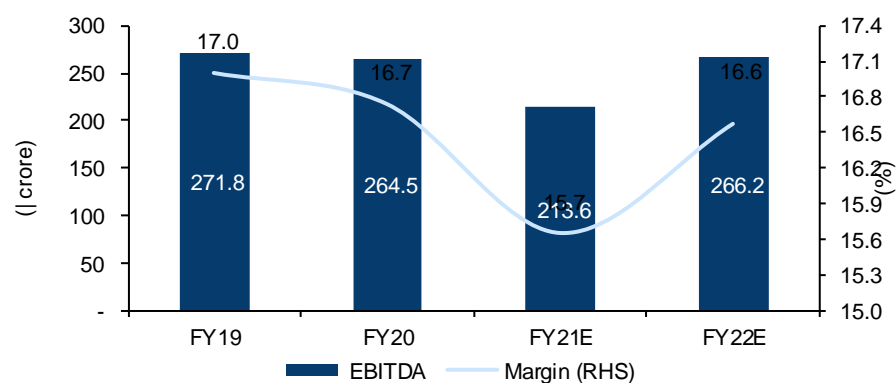
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



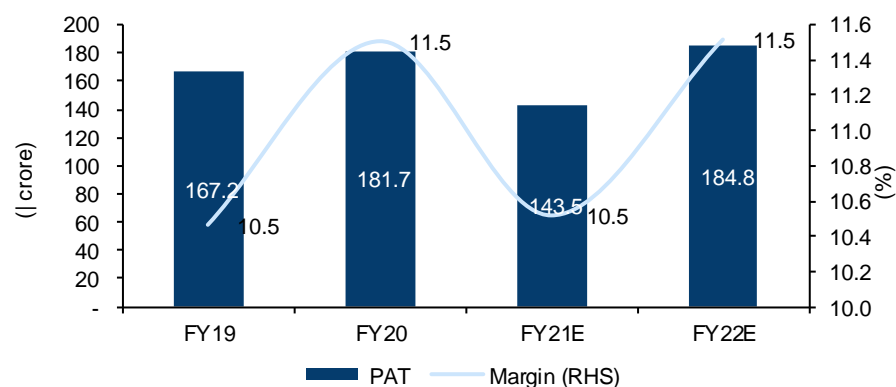
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



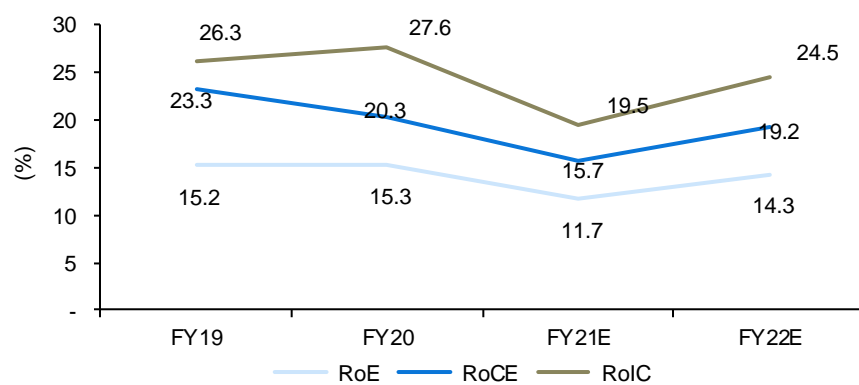
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



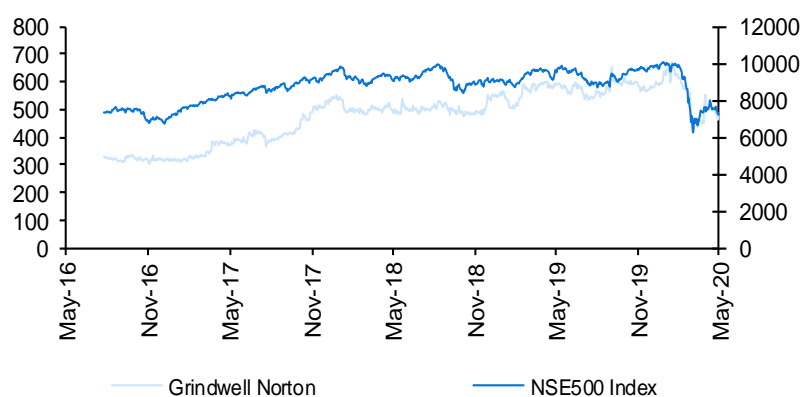
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Chart:



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Saint Gobain Abrasiv	30-Jun-19	26.8	29.64m	0.00m
2	Societe Financiere D	30-Jun-19	24.6	27.19m	0.00m
3	Sundaram Asset Manag	31-Mar-20	3.3	3.69m	0.01m
4	Sbi Funds Management	31-Mar-20	3.3	3.65m	0.02m
5	Uti Asset Management	31-Mar-20	3.0	3.35m	0.10m
6	Na	30-Jun-19	2.7	3.03m	(0.83)m
7	L&T Mutual Fund	31-Mar-20	2.7	2.98m	(0.08)m
8	Mahajan Vera A	30-Jun-19	1.7	1.89m	0.00m
9	Hdfc Asset Managemen	31-Mar-20	1.7	1.88m	0.00m
10	Narang Khurshid Malv	30-Jun-19	1.5	1.70m	0.00m

Source: Reuters, Company, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	58.3	58.3	58.3	58.3	58.3
FII	4.4	4.4	4.4	4.1	4.0
DII	15.3	15.2	15.7	16.3	16.6
Others	22.0	22.1	21.5	21.3	21.1

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement ₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	1,582.9	1,566.9	1,352.1	1,591.1
Other Operating Income	-	12.7	12.3	14.4
Total Operating Income	1,598.1	1,579.6	1,364.3	1,605.5
% Growth	11.7	(1.2)	(13.6)	17.7
Other Income	35.4	40.4	43.6	47.1
Total Revenue	1,633.4	1,620.0	1,407.9	1,652.6
Cost of materials consumed	628.9	593.0	504.3	598.2
Purchase of stock-in-trade	109.1	122.4	98.2	123.6
Other Expenses	342.4	313.5	272.9	319.5
Total expenditure	1,326.3	1,315.1	1,150.7	1,339.4
EBITDA	271.8	264.5	213.6	266.2
% Growth	10.1	(2.7)	(19.3)	24.6
Interest	1.5	4.5	2.5	2.5
Depreciation	45.2	57.8	59.7	60.6
PBT	260.4	242.6	195.0	250.2
Tax	91.7	58.8	49.1	63.0
PAT	167.2	181.7	143.5	184.8
% Growth	11.7	8.6	(21.0)	28.8
EPS	15.1	16.4	13.0	16.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	167.2	181.7	143.5	184.8
Depreciation	45.2	57.8	59.7	60.6
Interest	1.5	4.5	2.5	2.5
Other income	(35.4)	(40.4)	(43.6)	(47.1)
Prov for Taxation	91.7	58.8	49.1	63.0
Cash Flow before WC changes	270.3	262.3	211.2	263.8
Change in Working Capital	(113.1)	120.9	(28.3)	(38.9)
Taxes Paid	(102.8)	(58.3)	(49.1)	(63.0)
Cashflow from Operating Activ	54.4	325.0	133.8	161.9
(Purchase)/Sale of Fixed Asse	(66.6)	(83.5)	(72.2)	(75.0)
(Purchase)/Sale of Investments	(1.4)	9.6	-	-
Other Income	35.4	40.4	43.6	47.1
Cashflow from Investing Activi	(32.6)	(33.5)	(28.6)	(27.9)
Issue/(Repayment of Debt)	(0.0)	-	-	-
Changes in Minority Interest	1.5	1.4	(2.4)	(2.4)
Changes in Networth	(59.9)	(93.9)	(104.0)	(120.0)
Interest	(1.5)	(4.5)	(2.5)	(2.5)
Others	-	-	-	-
Cashflow from Financing Activ	(59.9)	(97.0)	(108.9)	(124.9)
Changes in Cash	(38.1)	194.5	(3.7)	9.1
Opening Cash/Cash Equivalent	272.2	234.1	428.6	424.9
Closing Cash/ Cash Equivalent	234.1	428.6	424.9	434.0

*calculated, Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet ₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,042.6	1,130.3	1,169.9	1,234.7
Networth	1,097.9	1,185.7	1,225.2	1,290.1
Total Debt	-	-	-	-
Deferred tax liability (net)	28.5	29.0	29.0	29.0
Total Liabilities	1,140	1,230	1,267	1,329
Gross Block	519.3	593.5	663.5	738.5
Acc: Depreciation	174.7	232.5	292.2	352.8
Net Block	344.6	361.0	371.3	385.7
Capital WIP	43.0	51.8	54.0	54.0
Investments	202.1	192.5	192.5	192.5
Inventory	328.6	303.3	277.8	326.9
Sundry debtors	205.6	205.0	204.2	205.2
Cash and bank balances	234.1	428.6	424.9	434.0
Loans and advances	1.9	3.1	2.7	3.1
Other Current Assets	88.9	48.8	59.5	70.0
Total current Assets	859.1	988.9	969.1	1,039.4
CL& Prov.	309.1	365.3	320.8	343.1
Net Current Assets	550.1	623.6	648.3	696.3
Total Assets	1,140	1,230	1,267	1,329

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
EPS	15.1	16.4	13.0	16.7
Cash EPS	19.2	21.6	18.4	22.2
BV	99.2	107.1	110.7	116.5
DPS	6.0	7.1	7.8	9.0
Cash Per Share	15.8	21.0	26.4	31.9
EBITDA Margin	17.0	16.7	15.7	16.6
PBT / Net Sales	14.2	13.1	11.3	12.8
PAT Margin	10.5	11.5	10.5	11.5
Inventory days	75.0	70.1	74.3	74.3
Debtor days	47.0	47.4	54.6	46.7
Creditor days	62.2	73.6	73.3	67.4
RoE	15.2	15.3	11.7	14.3
RoCE	23.3	20.3	15.7	19.2
RoIC	26.3	27.6	19.5	24.5
P/E	33.0	30.3	38.4	29.8
EV / EBITDA	19.4	19.2	23.8	19.1
EV / Net Sales	3.3	3.2	3.7	3.2
Market Cap / Sales	3.5	3.5	4.0	3.4
Price to Book Value	5.0	4.7	4.5	4.3
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.0	1.5	1.7	1.8
Quick Ratio	1.0	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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