

## Strong set of numbers amid challenging environment

**About the stock:** Grindwell Norton (GNL) is the market leader in the India abrasive market with ~26% market share. The segments include abrasives (contributing ~57%), ceramics & plastics (33%) and IT services & others (10%).

- GNL has witnessed strong & positive free cash flows consistently over more than a decade irrespective of the macro environment
- It has consistently operated with high (>16%) margins & return ratios

**Q4FY22 Results:** GNL reported a decent set of Q4FY22 numbers.

- Revenues came in at ₹ 558.9 crore, up 9.8% YoY owing to better demand
- EBITDA in Q4FY22 came in at ₹ 123.6 crore, up 9.4% YoY with margins at 22.1% with improved gross margins
- Consequently, PAT grew 12.5% YoY to ₹ 90.6 crore

**What should investors do?** Going forward, accelerated growth in performance plastics & ceramics and exports are expected to drive long term incremental growth.

- We remain long term positive and change our rating on the stock from HOLD to **BUY**

**Target Price and Valuation:** We value GNL at ₹ 1908 i.e. 50x P/E on FY24E EPS

**Key triggers for future price performance:**

- Ambition to maintain market share in abrasives and increase market share in ceramic & plastics with gradual penetration of new value added products
- High margin value added products and solutions oriented approach to drive margin expansion (from ~16.7% in FY20 to 20.5% in FY24E)
- We expect revenue, EBITDA to grow at CAGR of 18.6%, 20.1%, respectively, over FY21-24E
- Net debt free b/s, double-digit return ratios & strong cash generation

**Alternate Stock Idea:** Apart from GNL, in our coverage we also like Thermax.

- Leader with strong balance sheet, prudent working capital management, recent technological tie-ups, are expected to support growth
- BUY with target price of ₹ 2445



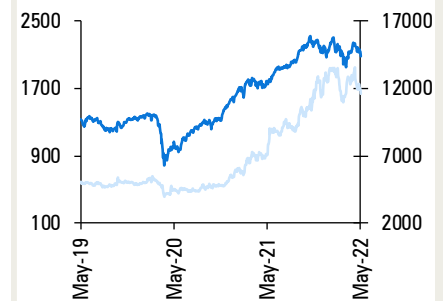
### Particulars

Particular	Amount
Market Capitalization	₹ 18313 Crore
Total Debt (FY22)	₹ 2 Crore
Cash and Inv (FY22)	₹ 355 Crore
EV (FY22)	₹ 17961 Crore
52 week H/L (₹)	2018 / 1002
Equity capital (FY22)	₹ 55.4 Crore
Face value (₹)	5.0

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	58.3	58.1	58.1	58.1
FII	4.6	5.0	6.1	7.1
DII	17.4	17.2	16.0	15.7
Others	19.7	19.7	19.8	19.2

### Price Performance



### Recent event & Key risks

- **Key Risk:** (i) Muted demand (ii) Adverse impact on export market

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22	FY23E	FY24E	3 Year CAGR (FY21-FY24E)
Revenue (₹ crore)	1,598.1	1,579.6	1,637.9	7.3%	2,012.8	2,374.3	2,733.7	18.6%
EBITDA (₹ crore)	271.8	264.5	324.1	12.0%	401.4	489.8	561.2	20.1%
EBITDA margin (%)	17.0	16.7	19.8		19.9	20.6	20.5	
Net Profit (₹ crore)	167.2	182.5	239.3	17.9%	296.6	365.1	422.5	20.9%
EPS (₹)	15.1	16.5	21.6		26.8	33.0	38.2	
P/E (x)	110.9	101.6	77.5		62.5	50.8	43.9	
Price / Book (x)	16.9	15.6	13.6		11.9	10.3	8.9	
EV/EBITDA (x)	67.3	68.5	55.2		45.3	36.4	31.3	
RoCE (%)	23.3	20.3	23.1		25.4	26.7	26.7	
RoE (%)	15.2	15.4	17.5		19.1	20.3	20.2	

## Key takeaways of recent quarter....

### Q4FY22 Results: Strong set of numbers amid challenging environment

- Revenues came in at ₹ 558.9 crore, up 9.8% YoY and grew by 11.4% on QoQ basis. primarily aided by strong performance in ceramics & plastic and IT segment. Revenue contribution from abrasives, ceramics & IT services were at ~53.9%, ~39.8% & ~6.4%, respectively
- Abrasive segment revenue marginally declined by 0.8% to ₹ 301.1 crore YoY, ceramics and plastic segment grew well by 34.3% to ₹ 222.4 crore YoY while IT services segment grew 7.8% to ₹ 35.7 crore, YoY
- Abrasive segment registered EBIT margin of 14.9% (vs. 16.1% in Q4FY21). EBIT margins for ceramics and plastic segment reported 27.8% (vs. 26% in Q4FY21) while in IT services segment EBIT margin was at 28.3% (vs. 28.8% YoY)
- Overall, EBITDA margins came in at 22.1% (vs. 22.2% Q4FY21) and substantially increased 424 bps QoQ. Gross margins also increased by 130 bps to 58% YoY, quarterly by 330 bps
- PAT grew 12.5% YoY, 30% QoQ to ₹ 90.6 crore

**Exhibit 1: Variance analysis**

Year	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Income from Operation	558.9	508.8	9.8	501.9	11.4	Aided by ~34.3% growth in Ceramics & Plastics (~39.8% of Revenue), followed by 7.8% growth in IT (~6.4% of Revenue)
Other Income	11.6	12.4	(7.1)	17.2	(32.8)	
Cost of materials consumed	241.4	219.2	10.1	237.48	1.7	
Changes in inventories of finished goods & WIP	(6.9)	1.1	(738.0)	(10.0)	(31.2)	
Employee cost	68.3	57.0	19.8	62.7	8.8	
Other expenses	132.4	97.8	35.4	122.0	8.6	
EBITDA	123.6	113.0	9.4	89.7	37.8	
EBITDA Margin (%)	22.1	22.2	-9 bps	17.9	424 bps	Not much of margin blip despite higher input cost.
Depreciation	13.2	13.8	(4.6)	13.0	1.5	
Interest	2.0	1.1	87.2	0.8		
PBT	120.0	110.5	8.6	93.1	28.9	
Taxes	29.8	30.9	(3.5)	23.1	28.7	
PAT	90.6	80.5	12.5	69.6	30.2	
Segment Revenue	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Abrasives	301.1	303.5	(0.8)	283.4	6.2	
% Contribution	53.9	59.7		56.5		
Ceramics & Plastics	222.4	165.6	34.3	176.5	26.0	
% Contribution	39.8	32.5		35.2		
IT Services	35.7	33.1	7.8	32.6	9.7	
% Contribution	6.4	6.5		6.5		
Others	6.6	9.9	(33.8)	15.1	(56.5)	
% Contribution	1.2	1.9		3.0		
Net Sales	558.9	508.8		501.9		

Source: Company, ICICI Direct Research

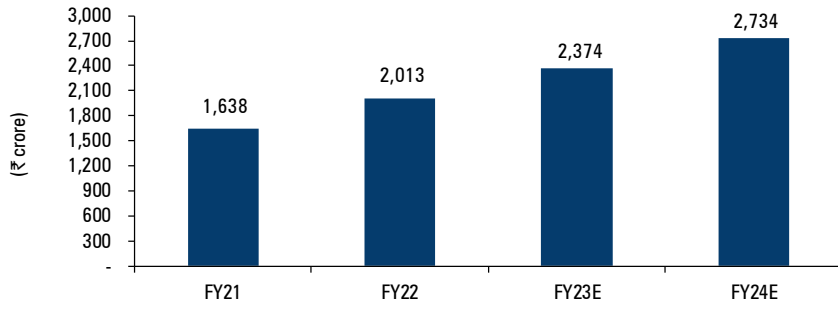
**Exhibit 2: Change in estimates**

	FY21		FY23E			FY24E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,638	2,013	2,270	2374	4.6	2612	2734	4.7
EBITDA	324	401	468	490	4.7	536	561	4.7
EBITDA Margin (%)	19.8	19.9	20.6	20.6	3 bps	20.5	20.5	3 bps
PAT	239	297	354	365	3.1	409	422	3.3
EPS (₹)	21.6	26.8	32.0	33.0	3.1	37.0	38.2	3.1

Source: Company, ICICI Direct Research

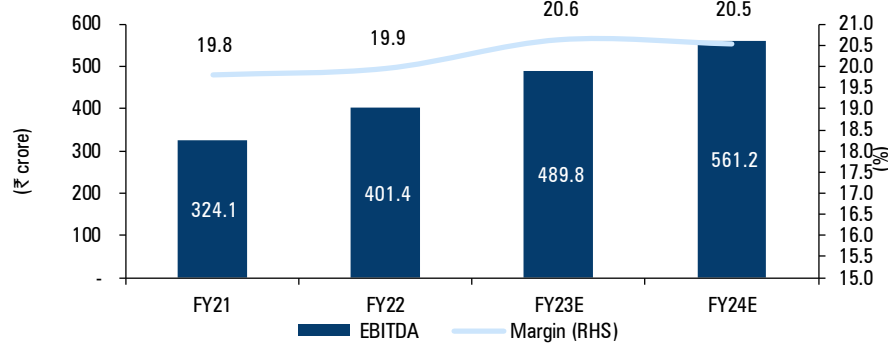
## Financial story in charts

Exhibit 3: Revenue trend (consolidated)



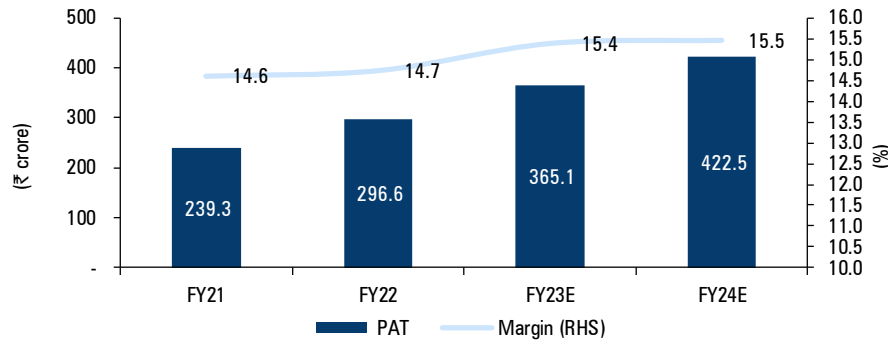
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



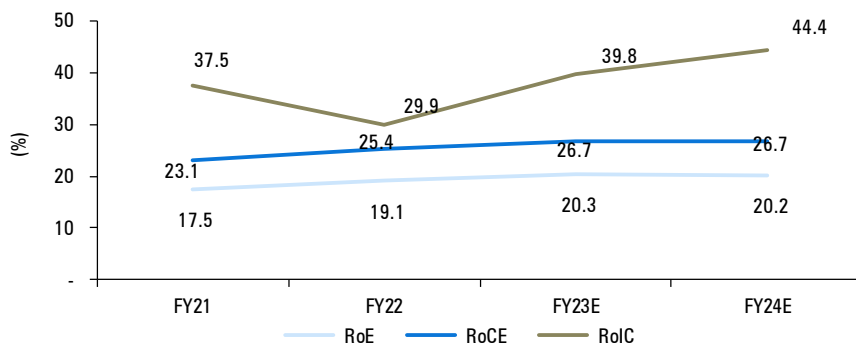
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	1,627.5	2,012.8	2,353.0	2,709.1
Other Operating Income	-	-	21.4	24.6
Total Operating Income	1,637.9	2,012.8	2,374.3	2,733.7
% Growth	2.5	22.9	18.0	15.1
Other Income	51.0	53.1	62.1	73.3
Total Revenue	1,688.9	2,065.9	2,436.4	2,807.0
Cost of materials consumed	522.0	702.8	861.2	991.5
Purchase of stock-in-trade	165.3	258.6	197.1	226.9
Other Expenses	317.7	470.8	429.8	494.8
Total expenditure	1,313.8	1,611.4	1,884.5	2,172.5
EBITDA	324.1	401.4	489.8	561.2
% Growth	19.2	23.8	22.0	14.6
Interest	3.4	4.1	2.0	2.0
Depreciation	54.4	53.5	63.8	69.9
PBT	317.3	396.9	486.2	562.6
Tax	79.5	100.8	121.5	140.7
PAT	239.3	296.6	365.1	422.5
% Growth	43.1	24.0	23.1	15.7
EPS	21.6	26.8	33.0	38.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	239.3	296.6	365.1	422.5
Depreciation	54.4	53.5	63.8	69.9
Interest	3.4	4.1	2.0	2.0
Other income	(51.0)	(53.1)	(62.1)	(73.3)
Prov for Taxation	79.5	100.8	121.5	140.7
Cash Flow before WC changes	325.5	401.9	490.3	561.7
Change in Working Capital	60.9	(129.7)	101.5	(30.6)
Taxes Paid	(82.1)	(103.0)	(121.5)	(140.7)
Cashflow from Operating Activities	304.3	169.2	470.3	390.4
(Purchase)/Sale of Fixed Assets	(34.7)	(113.2)	(63.8)	(75.0)
(Purchase)/Sale of Investments	(31.2)	(296.6)	-	-
Other Income	51.0	53.1	62.1	73.3
Cashflow from Investing Activities	(14.9)	(356.6)	(1.6)	(1.7)
Issue/(Repayment of Debt)	-	2.2	-	-
Changes in Minority Interest	(1.4)	(0.6)	0.5	0.5
Changes in Networth	(61.7)	(106.6)	(120.0)	(133.3)
Interest	(3.4)	(4.1)	(2.0)	(2.0)
Others	-	-	-	-
Cashflow from Financing Activities	(66.6)	(109.2)	(121.5)	(134.8)
Changes in Cash	222.8	(296.7)	347.1	253.9
Opening Cash/Cash Equivalent	428.6	651.4	354.7	701.9
Closing Cash/ Cash Equivalent	651.4	354.7	701.9	955.8

\*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,309.5	1,499.5	1,744.7	2,033.8
Networth	1,364.9	1,554.9	1,800.0	2,089.2
Total Debt	-	2.2	2.2	2.2
Deferred tax liability (net)	26.3	24.1	24.1	24.1
Total Liabilities	1,403	1,593	1,838	2,128
Gross Block	632.5	702.5	777.5	852.5
Acc: Depreciation	271.5	325.0	388.8	458.7
Net Block	361.0	377.5	388.8	393.8
Capital WIP	24.0	66.2	55.0	55.0
Investments	223.8	520.3	520.3	520.3
Inventory	322.5	447.6	399.7	460.2
Sundry debtors	201.8	236.9	258.8	284.5
Cash and bank balances	651.4	354.7	701.9	955.8
Loans and advances	0.5	0.7	0.7	0.8
Other Current Assets	70.7	86.0	96.5	111.1
Total current Assets	1,246.9	1,125.8	1,457.6	1,812.3
CL& Prov.	461.4	507.3	593.4	663.6
Net Current Assets	785.5	618.6	864.2	1,148.8
Total Assets	1,403	1,593	1,838	2,128

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	21.6	26.8	33.0	38.2
Cash EPS	26.5	31.6	38.7	44.5
BV	123.3	140.4	162.6	188.7
DPS	7.5	8.0	9.0	10.0
Cash Per Share	24.5	29.4	35.1	41.4
EBITDA Margin	19.8	19.9	20.6	20.5
PBT / Net Sales	16.5	17.3	17.9	18.0
PAT Margin	14.6	14.7	15.4	15.5
Inventory days	71.9	81.2	61.4	61.4
Debtor days	45.0	43.0	39.8	38.0
Creditor days	92.0	82.2	82.3	80.3
RoE	17.5	19.1	20.3	20.2
RoCE	23.1	25.4	26.7	26.7
RoIC	37.5	29.9	39.8	44.4
P/E	77.5	62.5	50.8	43.9
EV / EBITDA	55.2	45.3	36.4	31.3
EV / Net Sales	10.9	9.0	7.5	6.4
Market Cap / Sales	11.3	9.2	7.8	6.8
Price to Book Value	13.6	11.9	10.3	8.9
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.3	1.5	1.3	1.3
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct coverage universe (Capital Goods)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1603	2,270	Buy	224933	54.7	55.7	64.1	29.3	28.8	25.0	8.0	9.3	10.1	12.0	11.7	12.7
Siemens Ltd	2173	2,856	Buy	77385	29.5	37.8	45.6	73.7	57.5	47.6	13.9	16.1	17.5	10.1	11.9	13.0
AIA Engineering (AIAENG)	1866	1,895	Hold	17596	56.8	59.9	67.8	32.9	31.1	27.5	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1980	2,445	Buy	23588	27.4	42.5	48.9	72.3	46.6	40.5	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	366	379	Hold	9402	12.7	15.8	25.3	28.8	23.1	14.5	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	148	220	Hold	3424	1.3	2.8	4.4	111.0	53.7	33.7	3.5	10.4	15.7	2.4	7.4	11.4
Elgi Equipment (ELGEQU)	309	410	Hold	9789	4.0	6.3	8.2	77.8	48.8	37.4	12.7	18.0	20.3	14.0	19.1	20.7
Bharat Electronics (BHAELE)	223	250	Buy	54409	9.4	11.2	12.5	23.9	19.9	17.9	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	317	500	Buy	4172	44.0	55.6	-	7.2	5.7	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3159	4,115	Buy	15617	77.0	81.0	102.9	41.0	39.0	30.7	26.0	26.5	28.6	20.6	21.0	21.5
Timken India (TIMIND)	1848	2,405	Buy	13900	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	112	220	Buy	1086	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	211	290	Buy	2516	9.8	12.7	16.2	21.6	16.6	13.0	22.5	24.4	25.9	15.1	16.6	17.7

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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