

## Strong performance led by abrasives segment...

Grindwell Norton (GNL) reported decent Q2FY21 numbers across operational parameters owing to pent-up demand and revival in key sectors like automotive, industrial, construction, engineering amid unlock. Revenues were at ₹ 439.0 crore, decent growth of 11.9% YoY. Abrasives, ceramics & 'new initiatives' segment contributed ~59%, ~32% & ~9%, respectively. Overall, EBITDA margins were at 21.3%, improving 470 bps YoY. This was primarily aided by a reduction in overall operating expenses and employee expenses. Gross margins were at 54.3% with a marginal decline of 40 bps YoY. PAT grew 23.4% to ₹ 64.3 crore YoY despite lower other income and higher effective tax rate YoY. Other income fell 26.3% to ₹ 7.6 crore YoY.

## Better operating margins led by product mix, cost efficiencies...

Topline growth of 11.9% YoY was primarily led by abrasives segment (~59% contribution) that grew 16.4% to ₹ 260.8 crore YoY. Ceramics & plastic segment grew 3.9% to ₹ 143.0 crore YoY while 'new initiatives' segment posted growth of 12.4% to ₹ 39.6 crore YoY. Abrasive segment posted EBIT margin of 14.3%, improving 310 bps YoY. While EBIT margins for ceramics & plastic segment expanded 750 bps to 23.8% YoY, for 'new initiative' segment EBIT margin was at 31.7% (vs. 20.9% YoY). The better performance can be attributed to pent-up demand and revival in key sectors like automotive, industrial, engineering, construction indicating gradual economic recovery. Also, a better product mix, operational efficiencies led to margin expansion across segments. The management intends to sustain operating margins in the long term via introducing high margin value added products in plastics segment (e.g. life science) thereby better pricing power.

## Exports, new value-added plastic products to drive growth...

GNL enjoys a strong moat in abrasives segment, commanding ~26% market share (pegged at ~₹ 3200 crore). It sees strategic relevance of exports for incremental growth, which contributes ~15% to topline. GNL aims to focus on exports of niche high value products in some cases to replace Chinese products and penetrate neighbouring countries of US, South East Asia markets and enter newer market to drive for stronger growth.

## Valuation & Outlook

Going forward, we expect stable growth in plastics segment owing to niche value added products in life sciences. However, industrial/automotive slowdown will continue to affect abrasive, ceramics segments. On the whole, we expect abrasives, ceramics and 'new initiatives' to grow at a CAGR of -4.5%, 3.3% and 4.1%, respectively, in FY20-22E. With a cash balance of ₹ 429 crore and debt-free status, we believe GNL is well placed to gain from gradual economic revival with strong market share in key segments. We value GNL at 33x on FY22E EPS to arrive at a target price of ₹ 600. We maintain our **HOLD** rating on the stock.



### Particulars

Particular	Amount
Market Capitalization	₹6079 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv (FY 20)	₹429 Crore
EV (FY 20)	₹5650 Crore
52 week H/L (₹)	699 / 370
Equity capital (FY 18)	₹55.4 Crore
Face value (₹)	5.0

### Key Highlights

- Abrasive segment revenue grew 16.4% to ₹ 260.8 crore, YoY, Ceramics & plastic segment grew 3.9% to ₹ 143.0 crore, YoY while 'new initiatives' segment registered a of 12.4% to ₹ 39.6 crore, YoY
- EBITDA margins at 21.3%, improving 470 bps YoY, aided by reduction in overall operating expenses
- Value GNL at 33x FY22E EPS to arrive at target price of ₹ 600. Maintain HOLD rating

### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Amit Anwani  
amit.anwani@icicisecurities.com

### Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Revenue (₹crore)	1,431.0	1,598.1	1,579.6	1,442.4	1,714.3	4.2%
EBITDA (₹crore)	246.9	271.8	264.5	233.0	296.4	5.8%
EBITDA margin (%)	17.3	17.0	16.7	16.2	17.3	
Net Profit (₹crore)	149.7	167.2	182.5	156.0	201.5	5.1%
EPS (₹)	13.5	15.1	16.5	14.1	18.2	
P/E (x)	40.6	36.3	33.3	39.0	30.2	
Price / Book (x)	6.1	5.5	5.1	4.9	4.6	
EV/EBITDA (x)	23.5	21.5	21.4	24.4	19.1	
RoCE (%)	22.2	23.3	20.3	16.9	20.4	
RoE (%)	15.1	15.2	15.4	12.6	15.3	

**Exhibit 1: Variance analysis**

Year	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Income from Operation	439.0	392.3	11.9	232.4	88.9	Aided by 16.4% growth in abrasive segment (~59% of revenue) followed by 3.9% growth in ceramics segment
Other Income	7.6	10.3	(26.3)	26.0	(70.7)	
Cost of materials consumed	160.7	184.7	(13.0)	104.65	53.5	
Power & Fuel	18.1	18.9	(4.6)	10.0	80.8	
Changes in inventories of finished goods & WIP	39.9	(7.1)	(662.8)	(2.2)	(1955.8)	
Employee cost	50.9	51.7	(1.6)	45.6	11.7	
Other expenses	76.0	79.0	(3.8)	54.8	38.5	
EBITDA	93.6	65.1	43.7	19.5	378.9	
EBITDA Margin (%)	21.3	16.6	472 bps	8.4	1291 bps	Primarily due to reduction in operating expenses
Depreciation	13.9	14.5	(4.3)	12.7	9.8	
Interest	0.7	1.0	(25.3)	0.8		
PBT	86.5	59.9	44.4	32.0	170.1	
Taxes	22.1	7.7	188.5	3.8	481.6	
PAT	64.3	52.1	23.4	28.3	127.1	
Segment Revenue	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	
Abrasives	260.8	224.0	16.4	103.2	152.7	
% Contribution	59.4	57.1		44.4		
Ceramics & Plastics	143.0	137.6	3.9	87.4	63.5	
% Contribution	32.6	35.1		37.6		
Others	39.6	35.2	12.4	42.6	(7.0)	
% Contribution	9.0	9.0		18.3		
Net Sales	439.0	392.3		232.4		

Source: Company, ICICI Direct Research

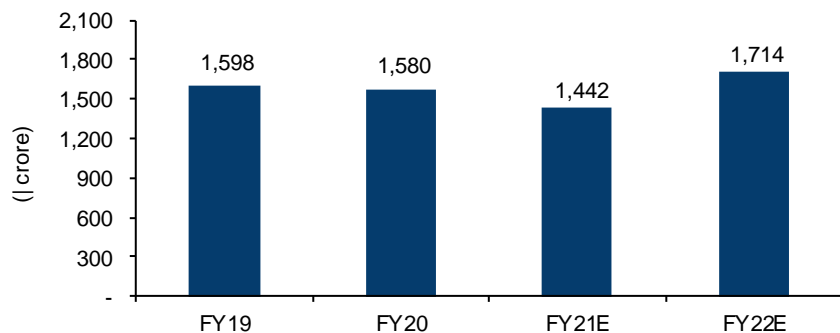
**Exhibit 2: Change in estimates**

(₹ Crore)	FY19	FY20	FY21E			FY22E			
	Actual	Actual	Old	New	% Change	Old	New	% Change	
Revenue	1,598	1,580	1,364	1,442	5.8	1,606	1714	6.7	Revised factoring in signs of recovery
EBITDA	272	265	214	233	8.9	266	296	11.4	
EBITDA Margin (%)	17.0	16.7	15.7	16.2	47 bps	16.6	17.3	72 bps	
PAT	167	183	144	156	8.3	185	202	8.9	
EPS (₹)	15.1	16.5	13.0	14.1	8.4	16.7	18.2	9.0	

Source: Company, ICICI Direct Research

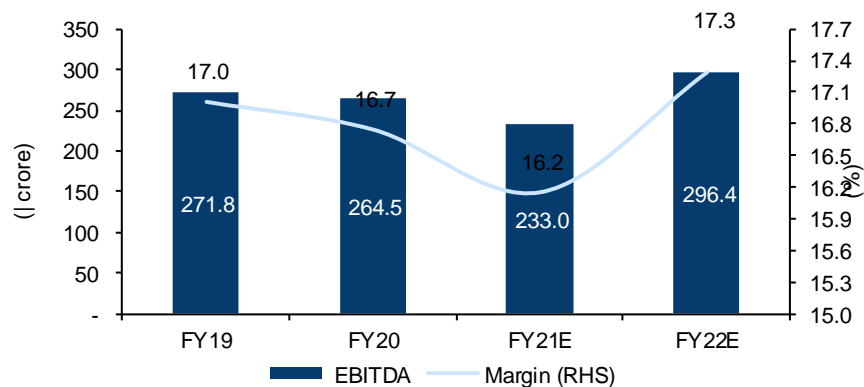
## Financial story in charts

Exhibit 3: Revenue trend (consolidated)



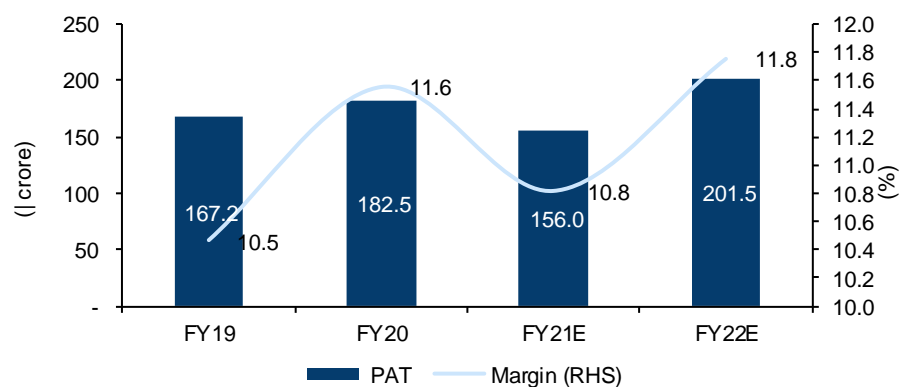
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



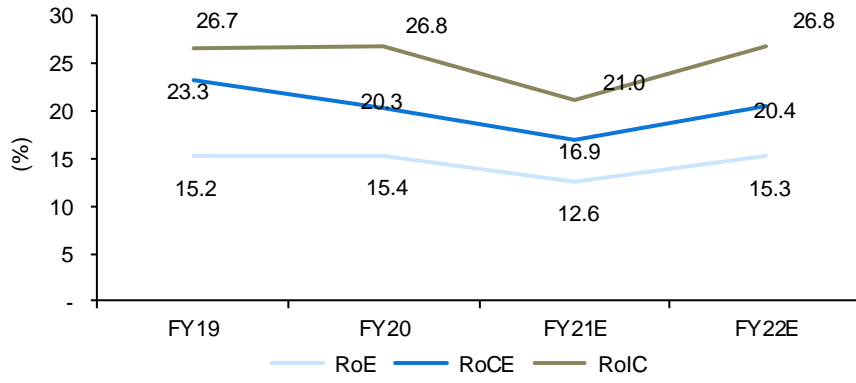
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



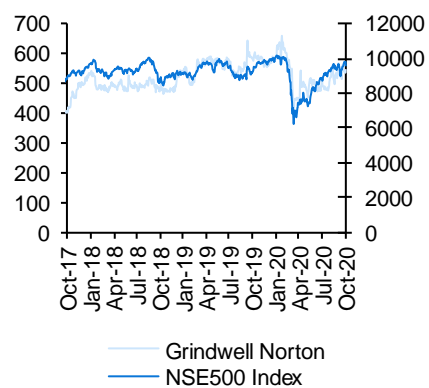
Source: Company, ICICI Direct Research

**Exhibit 6: RoE and RoCE trend**



Source: Company, ICICI Direct Research

**Exhibit 7: Price Chart:**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	58.3	58.3	58.3	58.3	58.3
FII	4.4	4.1	4.0	3.8	3.8
DII	15.7	16.3	16.6	16.3	16.4
Others	21.5	21.3	21.1	21.6	21.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	1,582.9	1,566.9	1,429.4	1,698.9
Other Operating Income	-	12.7	13.0	15.4
Total Operating Income	1,598.1	1,579.6	1,442.4	1,714.3
% Growth	11.7	(1.2)	(8.7)	18.8
Other Income	35.4	40.4	40.4	42.0
Total Revenue	1,633.4	1,620.0	1,482.8	1,756.3
Cost of materials consume	628.9	593.0	531.8	637.1
Purchase of stock-in-trade	109.1	122.4	103.9	132.9
Other Expenses	342.4	313.5	288.5	330.9
Total expenditure	1,326.3	1,315.1	1,209.4	1,417.9
EBITDA	271.8	264.5	233.0	296.4
% Growth	10.1	(2.7)	(11.9)	27.2
Interest	1.5	4.5	2.5	3.0
Depreciation	45.2	57.8	59.2	62.8
PBT	260.4	242.6	211.7	272.5
Tax	91.7	58.8	53.3	68.6
PAT	167.2	182.5	156.0	201.5
% Growth	11.7	9.1	(14.5)	29.2
EPS	15.1	16.5	14.1	18.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	167.2	182.5	156.0	201.5
Depreciation	45.2	57.8	59.2	62.8
Interest	1.5	4.5	2.5	3.0
Other income	(35.4)	(40.4)	(40.4)	(42.0)
Prov for Taxation	91.7	58.8	53.3	68.6
Cash Flow before WC changes	270.3	263.2	230.6	294.0
Change in Working Capital	(101.0)	108.8	(43.8)	(33.3)
Taxes Paid	(102.8)	(58.3)	(53.3)	(68.6)
Cashflow from Operating Activ	66.6	313.7	133.6	192.0
(Purchase)/Sale of Fixed Asse	(66.5)	(83.5)	(94.9)	(75.0)
(Purchase)/Sale of Investments	(1.4)	9.6	-	-
Other Income	35.4	40.4	40.4	42.0
Cashflow from Investing Activii	(32.6)	(33.5)	(54.5)	(33.0)
Issue/(Repayment of Debt)	(0.0)	-	-	-
Changes in Minority Interest	1.5	(0.3)	(2.4)	(2.4)
Changes in Networth	(59.9)	(93.0)	(104.0)	(120.0)
Interest	(1.5)	(4.5)	(2.5)	(3.0)
Others	-	-	-	-
Cashflow from Financing Activ	(59.9)	(97.8)	(108.9)	(125.4)
Changes in Cash	(26.0)	182.3	(29.8)	33.6
Opening Cash/Cash Equivalent	272.2	246.2	428.6	398.8
Closing Cash/ Cash Equivalent	246.2	428.6	398.8	432.4

\*calculated, Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,042.5	1,132.0	1,184.0	1,265.6
Networth	1,097.9	1,187.4	1,239.4	1,320.9
Total Debt	-	-	-	-
Deferred tax liability (net)	28.5	29.0	29.0	29.0
Total Liabilities	1,140	1,230	1,280	1,359
Gross Block	510.4	606.6	676.6	751.6
Acc: Depreciation	166.3	223.0	282.2	345.0
Net Block	344.1	383.6	394.4	406.6
Capital WIP	43.0	29.1	54.0	54.0
Investments	202.1	192.5	192.5	192.5
Inventory	328.6	303.3	293.7	339.8
Sundry debtors	205.6	205.0	215.8	217.5
Cash and bank balances	246.2	428.6	398.8	432.4
Loans and advances	1.9	3.1	2.8	3.4
Other Current Assets	76.8	48.8	62.9	74.7
Total current Assets	859.1	988.9	974.1	1,067.7
CL& Prov.	309.1	365.3	336.5	363.2
Net Current Assets	550.1	623.6	637.6	704.5
Total Assets	1,140	1,230	1,280	1,359

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
EPS	15.1	16.5	14.1	18.2
Cash EPS	19.2	21.7	19.4	23.9
BV	99.2	107.2	111.9	119.3
DPS	5.0	6.0	7.8	9.0
Cash Per Share	15.0	20.1	25.5	31.2
EBITDA Margin	17.0	16.7	16.2	17.3
PBT / Net Sales	14.2	13.1	12.1	13.6
PAT Margin	10.5	11.6	10.8	11.8
Inventory days	75.0	70.1	74.3	72.3
Debtor days	47.0	47.4	54.6	46.3
Creditor days	62.2	73.6	73.3	67.4
RoE	15.2	15.4	12.6	15.3
RoCE	23.3	20.3	16.9	20.4
RoIC	26.7	26.8	21.0	26.8
P/E	36.3	33.3	39.0	30.2
EV / EBITDA	21.5	21.4	24.4	19.1
EV / Net Sales	3.6	3.6	3.9	3.3
Market Cap / Sales	3.8	3.8	4.2	3.5
Price to Book Value	5.5	5.1	4.9	4.6
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	1.7
Quick Ratio	0.9	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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