

Strong performance led by ceramics segment...

Grindwell Norton (GNL) reported strong Q2FY21 numbers across operational parameters owing to owing to better demand and revival in key sectors like automotive, industrial, construction, engineering amid economic recovery. Revenues were at ₹ 457.7 crore, decent growth of 11.6% YoY primarily aided by strong performance in ceramics & plastic segment. Revenue contribution from abrasives, ceramics & 'new initiatives' segment were at ~58%, ~34% & ~9%, respectively. Overall, EBITDA margins were at 21.4%, improving 460 bps YoY. This was primarily aided by reduction in overall operating expenses and better gross margins that improved 180 bps to 56.9%, YoY. PAT grew 40.3% to ₹ 66.0 crore YoY despite lower other income, which declined 35% YoY to ₹ 5.0 crore.

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

Topline growth of 11.6% YoY was primarily led by ceramics & plastics segment (~34% contribution), up 18.0% to ₹ 155.1 crore YoY. Abrasive segment (~58% contribution) grew 12% to ₹ 265.3 crore YoY while 'new initiatives' segment de-grew 9.2% to ₹ 41.2 crore YoY. Abrasive segment posted EBIT margin of 13.5%, an improvement of 170 bps YoY. While EBIT margins for ceramics and plastic segment expanded to 24.1%, YoY (vs. 12.7% in Q3FY20) and for 'new initiative' segment EBIT margin was at 28.5% (vs. 27.6%, YoY). The better performance can be attributed to better demand from key sectors like automotive, industrial, engineering, construction, life sciences etc. Also, a better product mix, operational efficiencies led to margin expansion across segments. The management intends to sustain operating margins in the long term by introducing high margin value added products in plastics segment (e.g. life science) thereby better pricing power.

Export, value-added plastic products to drive long term 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. It 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 accelerated growth in plastics segment owing to niche value added products in life sciences. Also, a revival in industrial/automotive, engineering activities would gradually provide growth opportunities for abrasive, ceramics segments. Overall, we expect abrasives, ceramics, 'new initiatives' to grow at CAGR of 6.7%, 10.6%, 17.5%, respectively, in FY20-23E. We believe GNL is well placed to further gain from gradual economic revival in key segments. We introduce FY23E estimates and value GNL at 34x FY23E EPS to arrive at a target price of ₹ 805 (earlier ₹ 600). We change our rating from HOLD to BUY.



Particulars

Particular	Amount
Market Capitalization	₹7618 Crore
Total Debt (FY 20)	₹0 Crore
Cash and Inv (FY 20)	₹429 Crore
EV (FY 20)	₹7189 Crore
52 week H/L (₹)	780 / 370
Equity capital (FY 20)	₹55.4 Crore
Face value (₹)	5.0

Key Highlights

- Abrasive segment revenue grew 12% to ₹ 265.3 crore, YoY, Ceramics & plastic segment grew 18% to ₹ 155.1 crore, YoY while 'new initiatives' segment registered de-grew by 9.2%, YoY
- EBITDA margins came in at 21.4%, which improved by 460bps YoY basis.

Key risk to our call

- Further ramp-up in demand in key sectors like auto, industrial, engineering, steel to aid growth
- Impact on export markets and any adverse situation on raw material sourcing could affect growth

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Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Revenue (₹crore)	1,598.1	1,579.6	1,550.8	1,844.7	2,098.6	9.9%
EBITDA (₹crore)	271.8	264.5	274.7	327.6	380.7	12.9%
EBITDA margin (%)	17.0	16.7	17.7	17.8	18.1	
Net Profit (₹crore)	167.2	182.5	187.2	224.5	262.0	12.8%
EPS (₹)	15.1	16.5	16.9	20.3	23.7	
P/E (x)	45.5	41.7	40.7	33.9	29.1	
Price / Book (x)	6.9	6.4	6.0	5.5	5.0	
EV/EBITDA (x)	27.1	27.2	26.2	21.8	18.5	
RoCE (%)	23.3	20.3	19.7	21.6	22.8	
RoE (%)	15.2	15.4	14.7	16.2	17.1	

Exhibit 1: Variance analysis

Year	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Income from Operation	457.7	410.0	11.6	439.0	4.2	Aided by 18% growth in ceramics & plastic segment (~34% of revenue) followed by 12% growth in abrasives segment (~58% contribution)
Other Income	5.0	9.0	(45.0)	7.6	(34.9)	
Cost of materials consumed	202.7	161.9	25.2	160.68	26.2	
Power & Fuel	18.7	27.1	(31.0)	18.1	3.6	
Changes in inventories of finished goods & WIP	(5.3)	22.1	(123.9)	39.9	(113.3)	
Employee cost	54.4	47.3	15.2	50.9	7.0	
Other expenses	89.1	82.5	8.0	76.0	17.3	
EBITDA	98.0	69.1	41.8	93.6	4.7	
EBITDA Margin (%)	21.4	16.9	455 bps	21.3	9 bps	Primarily due to better gross margins and controlled operating expenses
Depreciation	13.9	14.6	(4.7)	13.9	0.0	
Interest	0.8	1.0	(19.6)	0.7		
PBT	88.2	62.5	41.2	86.5	1.9	
Taxes	22.7	15.5	46.4	22.1	2.7	
PAT	66.0	47.0	40.3	64.3	2.6	
Segment Revenue	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	
Abrasives	265.3	237.0	12.0	260.8	1.7	
% Contribution	58.0	57.8		59.4		
Ceramics & Plastics	155.1	131.4	18.0	143.0	8.4	
% Contribution	33.9	32.0		32.6		
Others	41.2	45.3	(9.2)	39.6	4.0	
% Contribution	9.0	11.1		9.0		
Net Sales	457.7	410.0		439.0		

Source: Company, ICICI Direct Research

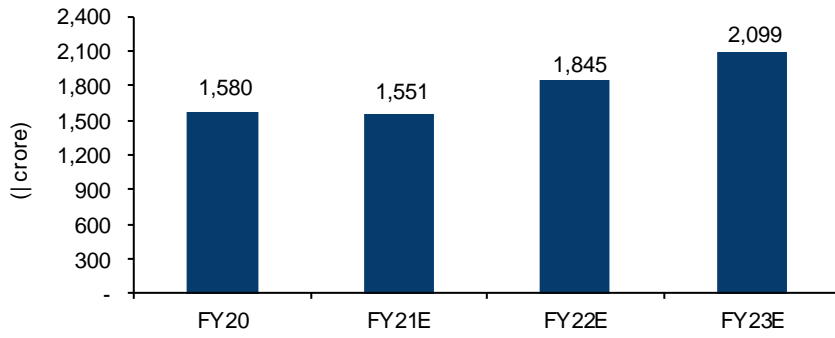
Exhibit 2: Change in estimates

(₹Crore)	FY19		FY21E			FY22E			FY23E
	Actual	Actual	Old	New	% Change	Old	New	% Change	Introduced
Revenue	1,598	1,580	1,442	1,551	7.5	1,714	1845	7.6	2099
EBITDA	272	265	233	275	17.9	296	328	10.7	381
EBITDA Margin (%)	17.0	16.7	16.2	17.7	156 bps	17.3	17.8	49 bps	18.1
PAT	167	183	156	187	20.0	202	225	11.1	262
EPS (₹)	15.1	16.5	14.1	16.9	19.9	18.2	20.3	11.4	23.7

Source: Company, ICICI Direct Research

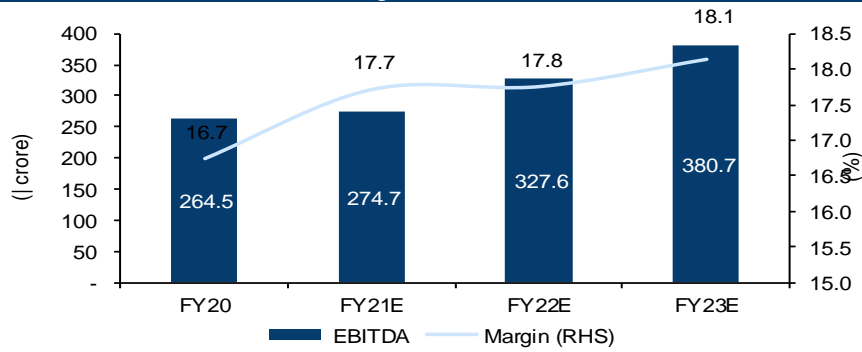
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



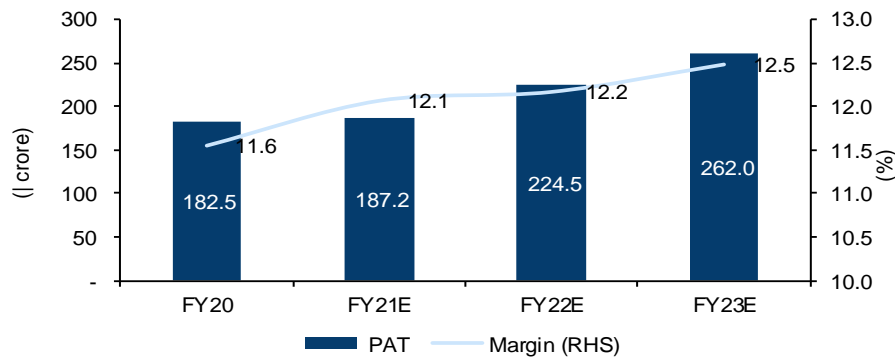
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



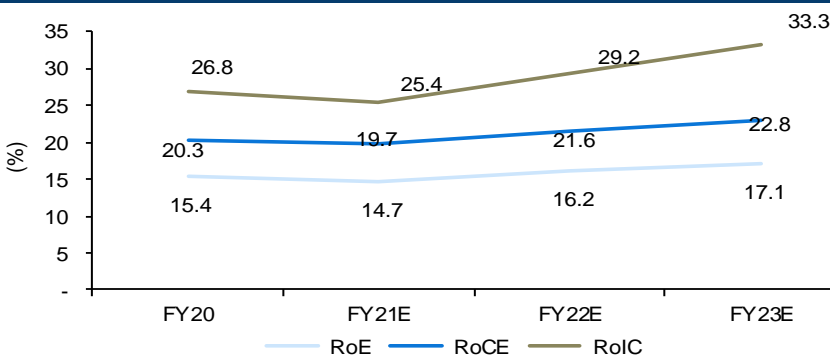
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



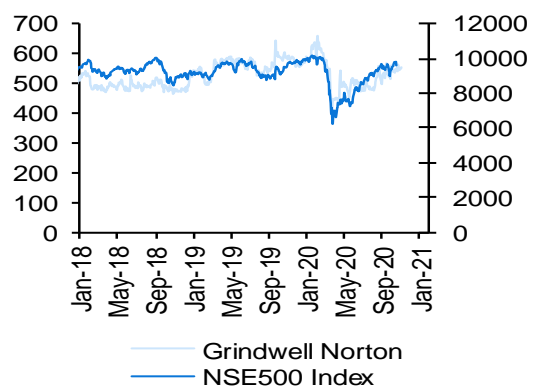
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoter	58.3	58.3	58.3	58.3	58.3
FII	4.1	4.0	3.8	3.8	3.9
DII	16.3	16.6	16.3	16.4	16.3
Others	21.3	21.1	21.6	21.5	21.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(₹Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	1,566.9	1,537.6	1,828.1	2,079.7
Other Operating Income	-	13.2	16.6	18.9
Total Operating Income	1,579.6	1,550.8	1,844.7	2,098.6
% Growth	(1.2)	(1.8)	19.0	13.8
Other Income	40.4	40.4	42.0	44.9
Total Revenue	1,620.0	1,591.2	1,886.7	2,143.5
Cost of materials consume	593.0	572.0	683.3	784.1
Purchase of stock-in-trade	122.4	111.7	143.0	162.6
Other Expenses	313.5	308.6	356.0	397.7
Total expenditure	1,315.1	1,276.1	1,517.1	1,717.9
EBITDA	264.5	274.7	327.6	380.7
% Growth	(2.7)	3.9	19.2	16.2
Interest	4.5	2.5	3.0	2.8
Depreciation	57.8	59.3	63.3	69.4
PBT	242.6	253.3	303.2	353.4
Tax	58.8	63.8	76.3	88.9
PAT	182.5	187.2	224.5	262.0
% Growth	9.1	2.6	20.0	16.7
EPS	16.5	16.9	20.3	23.7

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(₹Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	182.5	187.2	224.5	262.0
Depreciation	57.8	59.3	63.3	69.4
Interest	4.5	2.5	3.0	2.8
Other income	(40.4)	(40.4)	(42.0)	(44.9)
Prov for Taxation	58.8	63.8	76.3	88.9
Cash Flow before WC changes	263.2	272.3	325.2	378.3
Change in Working Capital	108.8	(65.4)	(45.3)	(24.4)
Taxes Paid	(58.3)	(63.8)	(76.3)	(88.9)
Cashflow from Operating Activ	313.7	143.2	203.5	264.9
(Purchase)/Sale of Fixed Asse	(83.5)	(94.9)	(75.0)	(81.0)
(Purchase)/Sale of Investments	9.6	-	-	-
Other Income	40.4	40.4	42.0	44.9
Cashflow from Investing Activii	(33.5)	(54.5)	(33.0)	(36.1)
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	(0.3)	(2.4)	(2.4)	(2.4)
Changes in Networth	(93.0)	(104.0)	(106.6)	(120.0)
Interest	(4.5)	(2.5)	(3.0)	(2.8)
Others	-	-	-	-
Cashflow from Financing Activ	(97.8)	(108.9)	(112.0)	(125.2)
Changes in Cash	182.3	(20.2)	58.4	103.7
Opening Cash/Cash Equivalent	246.2	428.6	408.4	466.8
Closing Cash/ Cash Equivalent	428.6	408.4	466.8	570.5

*calculated, Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(₹Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,132.0	1,215.2	1,333.1	1,475.1
Networth	1,187.4	1,270.6	1,388.4	1,530.5
Total Debt	-	-	-	-
Deferred tax liability (net)	29.0	29.0	29.0	29.0
Total Liabilities	1,230	1,311	1,426	1,566
Gross Block	606.6	676.6	751.6	826.6
Acc: Depreciation	223.0	282.3	345.5	415.0
Net Block	383.6	394.4	406.1	411.6
Capital WIP	29.1	54.0	54.0	60.0
Investments	192.5	192.5	192.5	192.5
Inventory	303.3	316.0	365.6	404.5
Sundry debtors	205.0	232.2	243.1	264.1
Cash and bank balances	428.6	408.4	466.8	570.5
Loans and advances	3.1	3.0	3.6	4.1
Other Current Assets	48.8	67.7	80.6	91.5
Total current Assets	988.9	1,027.2	1,159.8	1,334.8
CL& Prov.	365.3	358.4	387.3	434.2
Net Current Assets	623.6	668.8	772.6	900.6
Total Assets	1,230	1,311	1,426	1,566

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	16.5	16.9	20.3	23.7
Cash EPS	21.7	22.3	26.0	29.9
BV	107.2	114.8	125.4	138.2
DPS	6.0	7.8	8.0	9.0
Cash Per Share	20.1	25.5	31.2	37.5
EBITDA Margin	16.7	17.7	17.8	18.1
PBT / Net Sales	13.1	13.9	14.3	14.8
PAT Margin	11.6	12.1	12.2	12.5
Inventory days	70.1	74.4	72.3	70.4
Debtor days	47.4	54.6	48.1	45.9
Creditor days	73.6	73.4	67.4	67.4
RoE	15.4	14.7	16.2	17.1
RoCE	20.3	19.7	21.6	22.8
RoIC	26.8	25.4	29.2	33.3
P/E	41.7	40.7	33.9	29.1
EV / EBITDA	27.2	26.2	21.8	18.5
EV / Net Sales	4.6	4.6	3.9	3.4
Market Cap / Sales	4.8	4.9	4.1	3.6
Price to Book Value	6.4	6.0	5.5	5.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Net Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.5	1.7	1.8	1.8
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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