

Strong performance across key segments...

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

Q1FY22 Results: GNL reported robust Q1FY22 results.

- Revenues came in at ₹ 439.3 crore, up 89% YoY on a low base
- EBITDA in Q1FY22 came in at ₹ 87 crore, up 345% YoY with margins at 19.8% aided by positive operating leverage and stronger growth
- Consequently, PAT grew 123.4% to ₹ 63.2 crore, YoY

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

- Considering strong growth outlook, margins, we maintain BUY rating

Target Price and Valuation: We value GNL at ₹ 1510 i.e. 48x P/E on FY23E 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 20.6% in FY23E)
- We expect revenue, EBITDA to grow at CAGR of 16.7%, 19.2%, respectively, over FY21-23E
- Net debt free b/s, double-digit return ratios & strong cash generation

Alternate Stock Idea: Apart from GNL, in our coverage we also like Elgi Equipment.

- Among leaders in domestic compressor market with strong b/s and return ratios, gaining traction in international markets would drive growth
- BUY with target price of ₹ 260



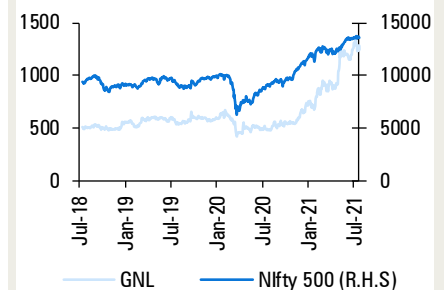
Particulars

Particular	Amount
Market Capitalization	₹ 14283 Crore
Total Debt (FY21)	₹ 0 Crore
Cash and Inv (FY21)	₹ 651 Crore
EV (FY21)	₹ 13632 Crore
52 week H/L (₹)	1389 / 470
Equity capital (FY20)	₹ 55.4 Crore
Face value (₹)	5.0

Shareholding pattern

(in %)	Sep-20	Dec-20	Sep-20	Dec-20
Promoter	58.3	58.3	58.3	58.3
FII	3.8	3.9	4.2	4.6
DII	16.3	16.3	16.1	17.4
Others	21.6	21.5	21.4	19.7

Price Performance



Recent event & Key risks

- **Key Risk:** (i) Muted Demand in key sectors, (ii) Impact on export markets and any adverse situation on raw material sourcing could

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-FY23E)
Revenue (₹ crore)	1,598.1	1,579.6	1,637.9	7.3%	1,892.2	2,231.0	16.7%
EBITDA (₹ crore)	271.8	264.5	324.1	12.0%	381.7	460.2	19.2%
EBITDA margin (%)	17.0	16.7	19.8		20.2	20.6	
Net Profit (₹ crore)	167.2	182.5	239.3	17.9%	285.2	349.1	20.8%
EPS (₹)	15.1	16.5	21.6		25.8	31.5	
P/E (x)	85.4	78.3	59.7		50.1	40.9	
Price / Book (x)	13.0	12.0	10.5		9.3	8.1	
EV/EBITDA (x)	51.6	52.4	42.1		35.3	28.9	
RoCE (%)	23.3	20.3	23.1		24.3	26.0	
RoE (%)	15.2	15.4	17.5		18.5	19.7	

Key takeaways of the recent quarter....

Q1FY22 Results: Robust performance continues amid pandemic.

- Grindwell Norton (GNL) reported a robust set of Q1FY22 numbers across all operational parameters owing to better demand, favourable product mix and revival in key sectors despite pandemic challenges
- Revenues came in at ₹ 439.3 crore, strong growth of 89% YoY (amid low base) while it declined marginally by 13.7% on QoQ basis, primarily aided by strong performance in abrasives, ceramics & plastic segment. Revenue contribution from abrasives, ceramics & IT services was at ~55%, ~35% & ~8%, respectively
- Abrasive segment revenue grew 135.6% to ₹ 243.2 crore, YoY on a low base. Ceramics and plastic segment grew 76.6% to ₹ 154.4 crore YoY while IT services segment grew by 14.7% to ₹ 34.3 crore YoY
- Abrasive segment registered EBIT margin of 12.3% (vs. loss in Q1FY21). While EBIT margins for ceramics and plastic segment expanded to 23.2%, YoY (vs. 17.7% in Q1FY21) and for IT services segment EBIT margin were at 27.3% (vs. 22.0% YoY). Superior margins are expected to sustain in the long term led by operational efficiencies and further addition of high margin value added products in performance plastics and performance ceramics & refractories segment (e.g. life science) providing better pricing power and strong incremental growth
- Overall, EBITDA margins came in at 19.8% (vs. 8.4% Q1FY21) whereas it declined marginally 240 bps QoQ. This was primarily aided by reduction in overall operating expenses and better gross margins that improved 70 bps to 56.6%, YoY and remained stable QoQ
- PAT grew 123.4% to ₹ 63.2 crore, YoY, despite lower other income that declined 45.2% to ₹ 14.2 crore YoY
- Overall, GNL has registered a strong set of numbers with better product mix and demand led by plastics & ceramics segment despite pandemic challenges. Going forward, accelerated growth in plastics segment expected to continue owing to niche value added products in life sciences and focus on export of niche high value products. Also, a revival in industrial/automotive, engineering activities would gradually provide further growth opportunities for abrasive, ceramics segments driving the overall performance in long term

Exhibit 1: Variance analysis

Year	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Income from Operation	439.3	232.4	89.0	508.8	(13.7)	Aided by 135.6% growth in Abrasives (~55.4% of revenue) followed by 76.6% growth in Ceramics & Plastic segment (~35.2% contribution).
Other Income	14.2	26.0	(45.2)	12.4	14.4	
Cost of materials consumed	234.6	104.7	124.2	219.21	7.0	
Power & Fuel	20.0	10.0	99.7	20.8	(4.0)	
Changes in inventories of finished goods & WIP	(44.1)	(2.2)	1951.2	1.1	(4183.3)	
Employee cost	57.6	45.6	26.5	57.0	1.2	
Other expenses	84.3	54.8	53.7	97.8	(13.8)	
EBITDA	87.0	19.5	345.0	113.0	(23.0)	
EBITDA Margin (%)	19.8	8.4	1139 bps	22.2	-242 bps	Primarily due to better gross margins and controlled operating expenses.
Depreciation	14.0	12.7	10.2	13.8	0.9	
Interest	0.6	0.8	(31.3)	1.1		
PBT	86.7	32.0	170.5	110.5	(21.6)	
Taxes	22.7	3.8	496.3	30.9	(26.6)	
PAT	63.2	28.3	123.4	80.5	(21.5)	
Segment Revenue	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	
Abrasives	243.2	103.2	135.6	303.5	(19.9)	
% Contribution	55.4	44.4		59.7		
Ceramics & Plastics	154.4	87.4	76.6	165.6	(6.7)	
% Contribution	35.2	37.6		32.5		
IT Services	34.3	29.9	14.7	33.1	3.6	
% Contribution	7.8	12.9		6.5		
Others	9.4	12.6	(25.4)	9.9	(4.7)	
% Contribution	2.1	5.4		1.9		

Source: Company, ICICI Direct Research

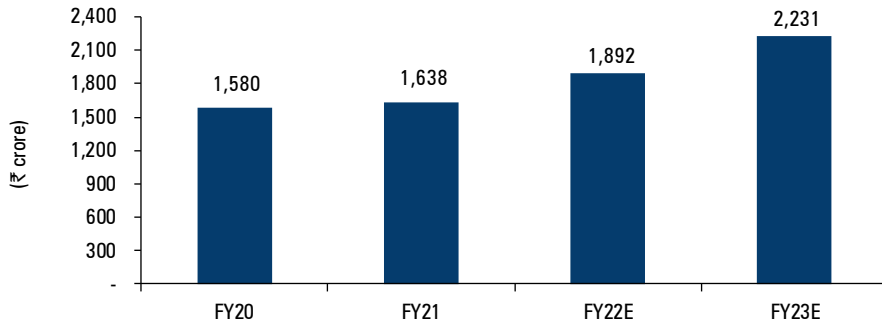
Exhibit 2: Change in estimates

	FY20	FY21	FY22E			FY23E			
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change	
Revenue	1,580	1,638	1,883	1,892	0.5	2,202	2231	1.3	Revised factoring in strong recovery
EBITDA	265	324	375	382	1.8	443	460	3.9	
EBITDA Margin (%)	16.7	19.8	19.9	20.2	27 bps	20.1	20.6	53 bps	
PAT	183	239	274	285	4.1	322	349	8.4	
EPS (₹)	16.5	21.6	24.7	25.8	4.3	29.1	31.5	8.4	

Source: Company, ICICI Direct Research

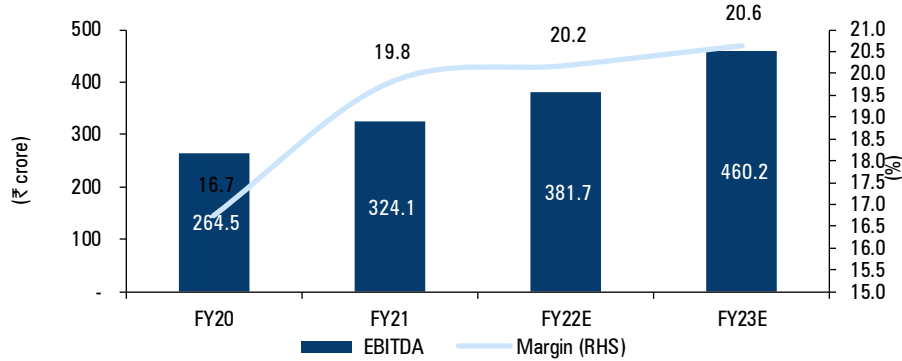
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



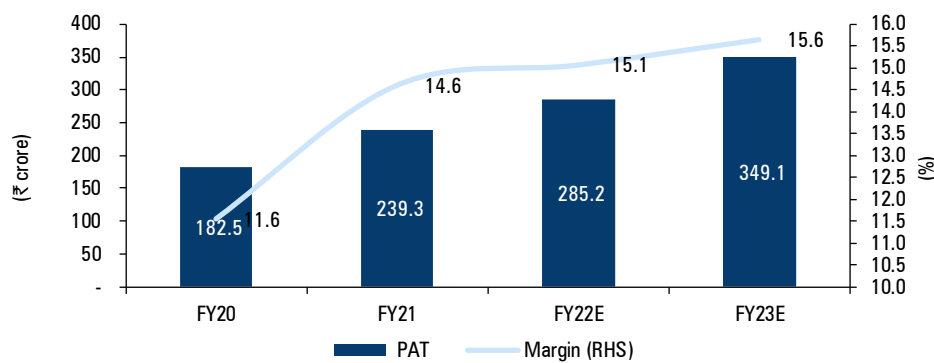
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



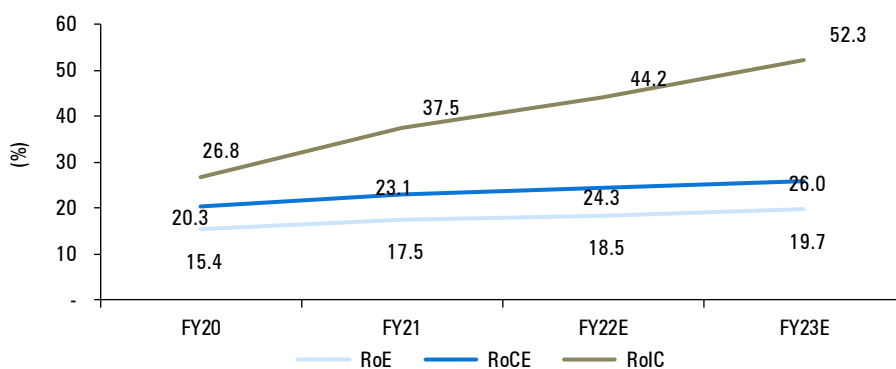
Source: Company, ICICI Direct Research

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)	FY20	FY21	FY22E	FY23E
Net Sales	1,566.9	1,627.5	1,875.2	2,211.0
Other Operating Income	-	10.4	17.0	20.1
Total Operating Income	1,579.6	1,637.9	1,892.2	2,231.0
% Growth	(1.2)	3.7	15.5	17.9
Other Income	40.4	51.0	58.6	70.3
Total Revenue	1,620.0	1,688.9	1,950.8	2,301.4
Cost of materials consumed	593.0	522.0	675.1	809.2
Purchase of stock-in-trade	122.4	165.3	149.5	185.2
Other Expenses	313.5	317.7	352.9	403.8
Total expenditure	1,315.1	1,313.8	1,510.5	1,770.8
EBITDA	264.5	324.1	381.7	460.2
% Growth	(2.7)	22.5	17.8	20.6
Interest	4.5	3.4	2.5	2.0
Depreciation	57.8	54.4	58.3	63.8
PBT	242.6	317.3	379.5	464.8
Tax	58.8	79.5	94.9	116.2
PAT	182.5	239.3	285.2	349.1
% Growth	9.1	31.1	19.2	22.4
EPS	16.5	21.6	25.8	31.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	182.5	239.3	285.2	349.1
Depreciation	57.8	54.4	58.3	63.8
Interest	4.5	3.4	2.5	2.0
Other income	(40.4)	(51.0)	(58.6)	(70.3)
Prov for Taxation	58.8	79.5	94.9	116.2
Cash Flow before WC changes	263.2	325.5	382.2	460.7
Change in Working Capital	108.8	60.9	(1.0)	(15.6)
Taxes Paid	(58.3)	(82.1)	(94.9)	(116.2)
Cashflow from Operating Activities	313.7	304.3	286.3	329.0
(Purchase)/Sale of Fixed Assets	(83.5)	(34.7)	(91.0)	(85.0)
(Purchase)/Sale of Investments	9.6	(31.2)	-	-
Other Income	40.4	51.0	58.6	70.3
Cashflow from Investing Activities	(33.5)	(14.9)	(32.4)	(14.7)
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	(0.3)	(1.4)	0.5	0.5
Changes in Networth	(93.0)	(61.7)	(106.6)	(120.0)
Interest	(4.5)	(3.4)	(2.5)	(2.0)
Others	-	-	-	-
Cashflow from Financing Activities	(97.8)	(66.6)	(108.6)	(121.5)
Changes in Cash	182.3	222.8	145.3	192.9
Opening Cash/Cash Equivalent	246.2	428.6	651.4	796.6
Closing Cash/ Cash Equivalent	428.6	651.4	796.6	989.5

*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,132.0	1,309.5	1,488.0	1,717.2
Networth	1,187.4	1,364.9	1,543.4	1,772.5
Total Debt	-	-	-	-
Deferred tax liability (net)	29.0	26.3	26.3	26.3
Total Liabilities	1,230	1,403	1,582	1,812
Gross Block	606.6	632.5	702.5	777.5
Acc: Depreciation	223.0	271.5	329.9	393.6
Net Block	383.6	361.0	372.7	383.9
Capital WIP	29.1	24.0	45.0	55.0
Investments	192.5	223.8	223.8	223.8
Inventory	303.3	322.5	341.6	375.6
Sundry debtors	205.0	201.8	221.3	243.2
Cash and bank balances	428.6	651.4	796.6	989.5
Loans and advances	3.1	0.5	0.6	0.7
Other Current Assets	48.8	70.7	78.8	90.6
Total current Assets	988.9	1,246.9	1,438.9	1,699.6
CL& Prov.	365.3	461.4	507.1	559.4
Net Current Assets	623.6	785.5	931.8	1,140.2
Total Assets	1,230	1,403	1,582	1,812

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	16.5	21.6	25.8	31.5
Cash EPS	21.7	26.5	31.0	37.3
BV	107.2	123.3	139.4	160.1
DPS	6.0	7.5	8.0	9.0
Cash Per Share	20.1	24.5	29.8	35.6
EBITDA Margin	16.7	19.8	20.2	20.6
PBT / Net Sales	13.1	16.5	17.1	17.8
PAT Margin	11.6	14.6	15.1	15.6
Inventory days	70.1	71.9	65.9	61.4
Debtor days	47.4	45.0	42.7	39.8
Creditor days	73.6	92.0	87.7	82.3
RoE	15.4	17.5	18.5	19.7
RoCE	20.3	23.1	24.3	26.0
RoIC	26.8	37.5	44.2	52.3
P/E	78.3	59.7	50.1	40.9
EV / EBITDA	52.4	42.1	35.3	28.9
EV / Net Sales	8.8	8.3	7.1	6.0
Market Cap / Sales	9.0	8.7	7.5	6.4
Price to Book Value	12.0	10.5	9.3	8.1
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	1.3	1.3	1.3
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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