PL Capital
PRABHUDAS LILLADHER

Grindwell Norton (GWN IN)

Rating: BUY | CMP: Rs2,151 | TP: Rs2,528

October 31, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ☑ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		ACCUMULATE	
Target Price	2,528		2,749	
Sales (Rs. m)	34,592	40,503	36,475	42,728
% Chng.	*(5.2)*	*(5.2)*		
EBITDA (Rs. m)	6,936	8,283	7,496	8,781
% Chng.	*(7.5)*	*(5.7)*		
EPS (Rs.)	46.0	55.1	50.0	58.2
% Chng.	*(8.0)*	*(5.5)*		

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	27,049	29,769	34,592	40,503
EBITDA (Rs. m)	5,376	5,814	6,936	8,283
Margin (%)	*19.9*	*19.5*	*20.1*	*20.5*
PAT (Rs. m)	4,020	4,186	5,089	6,097
EPS (Rs.)	36.3	37.8	46.0	55.1
Gr. (%)	*11.1*	*4.1*	*21.6*	*19.8*
DPS (Rs.)	17.0	18.9	23.0	27.5
Yield (%)	*0.8*	*0.9*	*1.1*	*1.3*
RoE (%)	*20.8*	*19.3*	*20.9*	*22.1*
RoCE (%)	*23.4*	*21.9*	*23.9*	*25.8*
EV/Sales (x)	8.6	7.8	6.7	5.6
EV/EBITDA (x)	43.2	39.8	33.2	27.6
PE (x)	59.2	56.9	46.8	39.1
P/BV (x)	11.6	10.4	9.2	8.1

Key Data	GRNN.BO | GWN IN
52-W High / Low	Rs.2,960 / Rs.1,850
Sensex / Nifty	79,942 / 59,749
Market Cap	Rs.238bn/ $ 2,833m
Shares Outstanding	111m
3M Avg. Daily Value	Rs.153.1m

Shareholding Pattern (%)

Promoter's	58.04
Foreign	8.25
Domestic Institution	16.69
Public & Others	17.02
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.6)	1.2	0.9
Relative	(5.7)	(5.7)	(19.1)

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Soft quarter; volume growth in focus

Quick Pointers:

- Abrasives/Ceramics & Plastics segment revenue grew 3.7%/4.9% YoY while Digital Services revenue declined 1.8% YoY in Q2FY25.
- Abrasives/ Ceramics & Plastics/ Digital Services EBIT margin declined by 143/344/874bps YoY to 12.9%/16.5%/27% in Q2FY25.

We revise our FY25/26E EPS estimates by -7.9%/-8.0% factoring in lower revenue growth, but upgrade the rating to 'Buy' from Accumulate given the recent sharp correction in stock price, with a revised TP of Rs2,528 (Rs 2,749 earlier) Grindwell Norton (GWN) reported a mixed quarter with revenue growing by 4.0% YoY and EBITDA margin declining by 107bps to 18.6%. During H1FY25, Abrasives segment revenue grew by 5.5% YoY to Rs7.0bn while EBIT margin dipped to 13.2% (vs 14.0% in H1FY24). Opportunities in solar glass edge grinding, demand for high productivity solutions in sectors like steel and construction along with expansion of non-woven products in new market segments are expected to drive Abrasives growth. Ceramics & Plastics revenue came in at Rs5.9bn, up 6.8% YoY; however segment margin declined by 246bps to 17.2% (vs 19.7% in H1FY24). We expect margins to improve in this segment driven by better product mix and higher volume with recovery in export demand. Digital Services segment revenue came in at Rs911mn, down 5.9% YoY with margin declining by 867bps to 28.5%.

We believe GWN will likely see long-term profitable growth on the back of its 1) focus on technologically advanced niche/high performance products in performance plastics, 2) penetration in newer high growth markets, 3) attention on tapping new verticals in Ceramics & Refractories, 4) capacity expansion in coated abrasives, engineered ceramics and performance plastics, and 5) strong balance sheet, operating cash flows and return ratios (23.4% ROCE). The stock is trading at a P/E of 56.9x/46.8x/39.1x on FY25/26/27E earnings. We value it at a P/E of 55x on FY26E. Upgrade to 'BUY'.

Soft revenue growth leads to miss on all estimates: Consolidated revenue rose 4.0% YoY to Rs6.9bn (PLe: Rs7.1bn), led by growth in Ceramics & Plastics and Abrasives. Gross margin increased by 54bps YoY to 55.7% (PLe: 54.5%). EBITDA declined by 1.7% YoY to Rs1.3bn (PLe: Rs1.5bn). EBITDA margin declined by 107bps YoY to 18.6% (PLe: 19.5%) on the back of significant margin contraction in both Ceramics & Plastics and Digital Services segments. Adj. PBT fell 5.7% YoY to Rs1.3bn (PLe: Rs1.4bn). Adj. PAT fell 5.6% YoY to Rs962mn (PLe: Rs1.0bn) due to weaker operating performance and high D&A expenses (+34.8% YoY to Rs228mn).

Margins declined across segments: Abrasives revenue came in at Rs3.5bn (up 3.7% YoY) while Ceramics & Plastics revenue was up by 4.9% YoY to Rs2.9bn. Digital Services revenue declined by 1.8% YoY to Rs455mn. Digital services EBIT margin saw a sharp decline of 874bps YoY to 27.0% while Ceramics & Plastics margin came in at 16.5% (vs 20.0% in Q2FY24). Abrasives segment margin came in at 12.9% in Q2FY25, with a decline of 143bps YoY (vs 14.3% in Q2FY24).

Exhibit 1: Revenue and margins come in below estimates; higher D&A drags the PAT lower

Y/e March (Rs mn)	Q2FY25	Q2FY24	YoY gr.	Q2FY25E	% Var.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Revenue	**6,939**	**6,674**	***4.0%***	**7,451**	***-6.9%***	**7,056**	***-1.7%***	**13,995**	**13,358**	***4.8%***
Gross Profit	3,868	3,684	*5.0%*	4,061	*-4.8%*	3,852	*0.4%*	7,720	7,342	*5.2%*
Margin (%)	*55.7*	*55.2*	*54*	*54.5*	*124*	*54.6*	*115*	*55.2*	*55.0*	*20*
Employee Cost	825	782	*5.5%*	909	*-9.2%*	897	*-8.0%*	1,722	1,578	*9.1%*
as % of sales	*11.9*	*11.7*	*17*	*12.2*	*(31)*	*12.7*	*(82)*	*12.3*	*11.8*	*49*
Other expenditure	1,750	1,588	*10.2%*	1,699	*3.0%*	1,624	*7.8%*	3,375	3,097	*9.0%*
as % of sales	*25.2*	*23.8*	*143*	*22.8*	*243*	*23.0*	*221*	*24.1*	*23.2*	*93*
EBITDA	**1,292**	**1,314**	***-1.7%***	**1,453**	***-11.1%***	**1,331**	***-2.9%***	**2,624**	**2,666**	***-1.6%***
Margin (%)	*18.6*	*19.7*	*(107)*	*19.5*	*(87)*	*18.9*	*(24)*	*18.7*	*20.0*	*(121)*
Depreciation	228	169	*34.9%*	220	*3.7%*	214	*6.4%*	443	336	*31.7%*
EBIT	**1,064**	**1,145**	***-7.1%***	**1,233**	***-13.7%***	**1,117**	***-4.7%***	**2,181**	**2,330**	***-6.4%***
Margin (%)	*15.3*	*17.2*	*(182)*	*16.5*	*(121)*	*15.8*	*(49)*	*15.6*	*17.4*	*(186)*
Other Income	234	226	*3.6%*	180	*30.1%*	158	*48.4%*	392	372	*5.4%*
Interest	23	18	*26.5%*	20	*14.5%*	25	*-6.9%*	48	40	*19.6%*
PBT (ex. Extra-ordinaries)	**1,275**	**1,353**	***-5.7%***	**1,393**	***-8.4%***	**1,250**	***2.0%***	**2,526**	**2,662**	***-5.1%***
Margin (%)	*18.4*	*20.3*	*(189)*	*18.7*	*(31)*	*17.7*	*66*	*18.0*	*19.9*	*(189)*
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT	**1,275**	**1,353**	***-5.7%***	**1,393**	***-8.4%***	**1,250**	***2.0%***	**2,526**	**2,662**	***-5.1%***
Total Tax	304	331	*-8.1%*	359	*-15.4%*	320	*-5.1%*	625	665	*-6.0%*
Effective Tax Rate (%)	*23.9*	*24.5*	*(61)*	*25.8*	*(195)*	*25.6*	*(178)*	*24.7*	*25.0*	*(24)*
PAT	**971**	**1,022**	***-5.0%***	**1,034**	***-6.0%***	**930**	***4.5%***	**1,901**	**1,998**	***-4.8%***
Share of JV and Assocciates	(0)	1	*-127.3%*	(5)	*-94.0%*	4	*-107.5%*	4	(6)	*-164.9%*
Minority interest	(9)	(4)	-	-	-	(2)	-	(11)	(3)	-
Reported PAT	**962**	**1,019**	***-5.6%***	**1,029**	***-6.5%***	**932**	***3.2%***	**1,894**	**1,989**	***-4.8%***
Adj. PAT	**962**	**1,019**	***-5.6%***	**1,029**	***-6.5%***	**932**	***3.2%***	**1,894**	**1,989**	***-4.8%***
Adj. EPS	**8.7**	**9.2**	***-5.6%***	**9.3**	***-6.5%***	**8.4**	***3.2%***	**17**	**18.0**	***-4.8%***

Source: Company, PL

Exhibit 2: Muted revenue growth and margin contraction across all segments

Segmental Performance	Q2FY25	Q2FY24	YoY gr.	Q1FY25	QoQ gr.	H1FY25	H1FY24	YoY gr.
Revenue (Rs mn)								
Abrasives	3,520	3,394	*3.7%*	3,494	*0.7%*	7,014	6,650	*5.5%*
Ceramics & Plastics	2,886	2,751	*4.9%*	3,059	*-5.6%*	5,944	5,568	*6.8%*
Digital Services	455	463	*-1.8%*	456	*-0.2%*	911	968	*-5.9%*
Others	127	110	*15.2%*	96	*32.0%*	223	251	*-11.0%*
EBIT (Rs mn)								
Abrasives	453	486	*-6.7%*	474	*-4.3%*	927	933	*-0.6%*
Ceramics & Plastics	477	549	*-13.2%*	548	*-13.0%*	1,025	1,097	*-6.6%*
Digital Services	123	166	*-25.8%*	136	*-10.0%*	259	360	*-27.9%*
Others	19	21	*-11.0%*	6	*204.9%*	25	51	*-51.8%*
EBIT Margin (%)			***bps***		***bps***			***bps***
Abrasives	12.9	14.3	*(143)*	13.6	*(69)*	13.2	14.0	*(82)*
Ceramics & Plastics	16.5	20.0	*(344)*	17.9	*(139)*	17.2	19.7	*(246)*
Digital Services	27.0	35.7	*(874)*	29.9	*(293)*	28.5	37.1	*(867)*
Others	14.6	18.9	*(431)*	6.3	*830*	11.1	20.4	*(935)*

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**27,049**	**29,769**	**34,592**	**40,503**
YoY gr. (%)	*6.4*	*10.1*	*16.2*	*17.1*
Cost of Goods Sold	12,066	13,336	15,324	17,821
Gross Profit	14,983	16,432	19,268	22,682
Margin (%)	*55.4*	*55.2*	*55.7*	*56.0*
Employee Cost	3,258	3,483	3,788	4,589
Other Expenses	6,349	7,136	8,544	9,810
EBITDA	**5,376**	**5,814**	**6,936**	**8,283**
YoY gr. (%)	*7.6*	*8.2*	*19.3*	*19.4*
Margin (%)	*19.9*	*19.5*	*20.1*	*20.5*
Depreciation and Amortization	709	882	914	947
EBIT	**4,667**	**4,932**	**6,022**	**7,336**
Margin (%)	*17.3*	*16.6*	*17.4*	*18.1*
Net Interest	78	45	38	41
Other Income	683	716	829	888
Profit Before Tax	**5,269**	**5,603**	**6,813**	**8,184**
Margin (%)	*19.5*	*18.8*	*19.7*	*20.2*
Total Tax	1,244	1,401	1,703	2,062
Effective tax rate (%)	*23.6*	*25.0*	*25.0*	*25.2*
Profit after tax	**4,025**	**4,203**	**5,110**	**6,121**
Minority interest	3	(4)	(5)	(6)
Share Profit from Associate	(4)	(21)	(26)	(31)
Adjusted PAT	**4,020**	**4,186**	**5,089**	**6,097**
YoY gr. (%)	*11.1*	*4.1*	*21.6*	*19.8*
Margin (%)	*14.9*	*14.1*	*14.7*	*15.1*
Extra Ord. Income / (Exp)	(3)	-	-	-
Reported PAT	**4,018**	**4,186**	**5,089**	**6,097**
YoY gr. (%)	*11.0*	*4.2*	*21.6*	*19.8*
Margin (%)	*14.9*	*14.1*	*14.7*	*15.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,018	4,186	5,089	6,097
Equity Shares O/s (m)	**111**	**111**	**111**	**111**
EPS (Rs)	**36.3**	**37.8**	**46.0**	**55.1**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**10,554**	**11,754**	**13,054**	**14,454**
Tangibles	10,554	11,754	13,054	14,454
Intangibles	-	-	-	-
Acc: Dep / Amortization	**3,932**	**4,813**	**5,727**	**6,674**
Tangibles	3,932	4,813	5,727	6,674
Intangibles	-	-	-	-
Net fixed assets	**6,622**	**6,940**	**7,327**	**7,780**
Tangibles	6,622	6,940	7,327	7,780
Intangibles	-	-	-	-
Capital Work In Progress	2,213	1,717	1,819	1,916
Goodwill	-	-	-	-
Non-Current Investments	2,790	2,885	3,260	3,711
Net Deferred tax assets	(221)	(221)	(221)	(221)
Other Non-Current Assets	338	566	657	770
Current Assets				
Investments	4,473	4,882	5,708	6,480
Inventories	4,876	5,383	6,160	7,213
Trade receivables	3,575	3,891	4,334	5,079
Cash & Bank Balance	2,130	2,607	3,162	3,950
Other Current Assets	449	566	657	770
Total Assets	**27,696**	**29,688**	**33,374**	**38,008**
Equity				
Equity Share Capital	554	554	554	554
Other Equity	19,999	22,303	25,299	28,851
Total Networth	**20,553**	**22,856**	**25,853**	**29,405**
Non-Current Liabilities				
Long Term borrowings	605	605	605	605
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	221	221	221	221
Trade payables	3,624	3,262	3,601	4,217
Other current liabilities	2,358	2,411	2,767	3,240
Total Equity & Liabilities	**27,696**	**29,688**	**33,374**	**38,008**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	5,083	5,603	6,813	8,184
Add. Depreciation	709	882	914	947
Add. Interest	11	-	-	-
Less Financial Other Income	683	716	829	888
Add. Other	(426)	24	13	10
Op. profit before WC changes	5,378	6,509	7,739	9,140
Net Changes-WC	(324)	(1,513)	(811)	(1,061)
Direct tax	(1,374)	(1,401)	(1,703)	(2,062)
Net cash from Op. activities	**3,679**	**3,595**	**5,225**	**6,017**
Capital expenditures	(1,724)	(705)	(1,401)	(1,497)
Interest / Dividend Income	(432)	(487)	(1,137)	(1,147)
Others	339	-	-	-
Net Cash from Invt. activities	**(1,817)**	**(1,192)**	**(2,539)**	**(2,644)**
Issue of share cap. / premium	-	-	-	-
Debt changes	80	-	-	-
Dividend paid	(1,605)	(1,882)	(2,093)	(2,545)
Interest paid	(78)	(45)	(38)	(41)
Others	(146)	-	-	-
Net cash from Fin. activities	**(1,749)**	**(1,927)**	**(2,131)**	**(2,585)**
Net change in cash	**114**	**476**	**555**	**788**
Free Cash Flow	1,956	2,890	3,824	4,520

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	**6,599**	**6,911**	**7,056**	**6,939**
YoY gr. (%)	*9.3*	*4.0*	*5.6*	*4.0*
Raw Material Expenses	2,902	3,149	3,204	3,071
Gross Profit	3,698	3,762	3,852	3,868
Margin (%)	*56.0*	*54.4*	*54.6*	*55.7*
EBITDA	**1,278**	**1,250**	**1,331**	**1,292**
YoY gr. (%)	*7.4*	*(3.3)*	*(1.5)*	*(1.7)*
Margin (%)	*19.4*	*18.1*	*18.9*	*18.6*
Depreciation / Depletion	176	197	214	228
EBIT	**1,102**	**1,053**	**1,117**	**1,064**
Margin (%)	*16.7*	*15.2*	*15.8*	*15.3*
Net Interest	19	19	25	23
Other Income	138	173	158	234
Profit before Tax	**1,218**	**1,208**	**1,250**	**1,275**
Margin (%)	*18.5*	*17.5*	*17.7*	*18.4*
Total Tax	303	276	320	304
Effective tax rate (%)	*24.9*	*22.9*	*25.6*	*23.9*
Profit after Tax	**915**	**932**	**930**	**971**
Minority interest	(1)	1	2	9
Share Profit from Associates	6	(5)	4	-
Adjusted PAT	**925**	**926**	**932**	**962**
YoY gr. (%)	*15.4*	*(6.7)*	*(3.9)*	*(5.6)*
Margin (%)	*14.0*	*13.4*	*13.2*	*13.9*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**925**	**926**	**932**	**962**
YoY gr. (%)	*15.4*	*(6.7)*	*(3.9)*	*(5.6)*
Margin (%)	*14.0*	*13.4*	*13.2*	*13.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**925**	**926**	**932**	**962**
Avg. Shares O/s (m)	111	111	111	111
EPS (Rs)	**8.4**	**8.4**	**8.4**	**8.7**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	36.3	37.8	46.0	55.1
CEPS	42.7	45.8	54.2	63.6
BVPS	185.6	206.4	233.5	265.6
FCF	17.7	26.1	34.5	40.8
DPS	17.0	18.9	23.0	27.5
Return Ratio(%)				
RoCE	23.4	21.9	23.9	25.8
ROIC	26.7	24.6	27.7	30.4
RoE	20.8	19.3	20.9	22.1
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	65	74	73	73
Valuation(x)				
PER	59.2	56.9	46.8	39.1
P/B	11.6	10.4	9.2	8.1
P/CEPS	50.4	47.0	39.7	33.8
EV/EBITDA	43.2	39.8	33.2	27.6
EV/Sales	8.6	7.8	6.7	5.6
Dividend Yield (%)	0.8	0.9	1.1	1.3

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	2,749	2,441
2	18-Jul-24	Accumulate	2,749	2,650
3	08-Jul-24	Accumulate	2,737	2,850
4	03-Jun-24	Accumulate	2,749	2,576
5	07-May-24	Accumulate	2,512	2,196
6	12-Apr-24	Accumulate	2,512	2,075
7	05-Feb-24	Accumulate	2,512	2,243
8	09-Jan-24	BUY	2,604	2,283
9	08-Nov-23	BUY	2,604	2,159

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,930
2	Apar Industries	BUY	10,399	9,514
3	BEML	Accumulate	4,484	3,664
4	Bharat Electronics	BUY	341	270
5	BHEL	Accumulate	260	230
6	Carborundum Universal	Hold	1,650	1,469
7	Cummins India	Accumulate	4,081	3,624
8	Engineers India	BUY	250	188
9	GE T&D India	Hold	1,601	1,661
10	Grindwell Norton	Accumulate	2,749	2,441
11	Harsha Engineers International	Hold	566	502
12	Hindustan Aeronautics	Hold	4,515	4,257
13	Kalpataru Projects International	Accumulate	1,413	1,348
14	KEC International	Hold	880	1,032
15	Larsen & Toubro	BUY	4,130	3,494
16	Praj Industries	BUY	804	700
17	Siemens	Accumulate	7,374	7,247
18	Thermax	Reduce	4,186	5,193
19	Triveni Turbine	BUY	719	671
20	Voltamp Transformers	BUY	14,326	10,516

PL's Recommendation Nomenclature (Absolute Performance)

Buy : > 15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

ANALYST CERTIFICATION

(Indian Clients)

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