

## Strong performance by Ceramics & plastic segment

**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

**Q1FY23 Results:** GNL reported a strong set of Q1FY23 numbers.

- Revenues came in at ₹ 638 crore, grew by 45.2% YoY owing to better demand.
- EBITDA came in at ₹ 128.9 crore, grew by 48.2% YoY with margins at 20.2% while gross margins dipped by 280 bps YoY basis
- Consequently, PAT grew 46.2% YoY to ₹ 92.4 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 maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value GNL at ₹ 2110 i.e. 55x 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 18.8%, 20.3%, 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 ₹ 2450



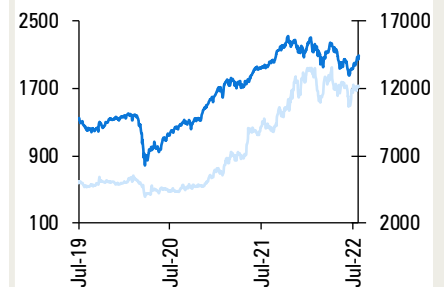
### Particulars

Particular	Amount
Market Capitalization	₹ 19265 Crore
Total Debt (FY22)	₹ 2 Crore
Cash and Inv (FY22)	₹ 355 Crore
EV (FY22)	₹ 18913 Crore
52 week H/L (₹)	2018 / 1161
Equity capital (FY22)	₹ 55.4 Crore
Face value (₹)	5.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	58.1	58.1	58.1	58.1
FII	5.0	6.1	7.1	7.4
DII	17.2	16.0	15.7	15.5
Others	19.7	19.8	19.2	19.0

### 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	2,746.8	18.8%
EBITDA (₹ crore)	271.8	264.5	324.1	12.0%	401.4	489.8	563.9	20.3%
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	424.5	21.1%
EPS (₹)	15.1	16.5	21.6		26.8	33.0	38.3	
P/E (x)	115.2	105.6	80.5		64.9	52.8	45.4	
Price / Book (x)	17.5	16.2	14.1		12.4	10.7	9.2	
EV/EBITDA (x)	70.0	71.2	57.4		47.1	37.9	32.5	
RoCE (%)	23.3	20.3	23.1		25.4	26.7	26.8	
RoE (%)	15.2	15.4	17.5		19.1	20.3	20.3	

## Key takeaways of recent quarter....

### Q1FY23 Results: Strong performance by Ceramics & plastic segment

- Revenue came at ₹ 638 crore grew by 45.2% YoY and grew by 14.2% on QoQ basis. primarily aided by strong performance in ceramics & plastic and Abrasive segment. Revenue contribution from abrasives, ceramics, IT services & others were at ~51.2%, ~40.5%, ~5.6% & 3.4%, respectively
- Abrasive segment revenue increased by 34.3% YoY to ₹ 326.7 crore, Ceramics and plastic segment shown a good growth and grew by 67.5% YoY to ₹ 258.6 crore, while IT Services segment grew by 4.5% YoY to ₹ 35.9 crore, and Others segment grew by 126.9% YoY to ₹ 21.4 crores.
- Abrasive segment registered EBIT margin of 14% (Vs. 12.3% in Q1FY22 and 14.9% in Q4FY22). While EBIT margins for Ceramics and plastic segment reported to 23.9% (Vs. 23.2% in Q1FY22 and 27.8% in Q4FY22) and for IT Services segment EBIT margin stood at 23% (Vs. 27.3% in Q1FY22 and 28.3% in Q4FY22)
- Overall, EBITDA margins came in at 20.2% (Vs. 19.8% Q1FY22 and declined by 192bps on QoQ basis. Gross margins declined by 280bps to 53.8% YoY, and declined by 420bps QoQ basis
- PAT grew by 46.2% YoY to ₹ 92.4 crore, and 3% by QoQ
- During the current quarter, the Company has acquired 100% equity shares of PRS Permacel Private Limited at a consideration of ₹ 122 crores. Consequently, PRS Permacel Private Limited has become a wholly owned subsidiary of the Company effective May 27, 2022. Further, the Board of Directors of the company at their meeting held on July 29, 2022 approved the scheme of amalgamation of PRS Permacel Private Limited with the Company, appointed date being May 27, 2022.

**Exhibit 1: Variance analysis**

Year	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Income from Operation	638.0	439.3	45.2	558.9	14.2	Aided by ~67.5% growth in Ceramics & Plastics (~40.5% of Revenue), followed by 34.3% growth in Abrasives (~51.2% of Revenue)
Other Income	10.9	14.2	(23.5)	11.6	(5.9)	
Cost of materials consumed	308.5	234.6	31.5	241.43	27.8	
Changes in inventories of finished goods & WIP	(13.7)	(44.1)	(69.0)	(6.9)	98.4	
Employee cost	69.1	57.6	19.9	68.3	1.2	
Other expenses	145.2	84.3	72.3	132.4	9.6	
EBITDA	128.9	87.0	48.2	123.6	4.3	
EBITDA Margin (%)	20.2	19.8	41 bps	22.1	-192 bps	Marginally improvement on YoY basis
Depreciation	13.7	14.0	(1.9)	13.2	3.9	
Interest	0.5	0.6	(5.5)	2.0		
PBT	125.6	86.7	44.9	120.0	4.7	
Taxes	32.4	22.7	43.0	29.8	8.8	
PAT	92.4	63.2	46.2	89.7	3.0	
<b>Segment Revenue</b>	<b>Q1FY23</b>	<b>Q1FY22</b>	<b>YoY (%)</b>	<b>Q4FY22</b>	<b>QoQ (%)</b>	
Abrasives	326.7	243.2	34.3	301.1	8.5	
% Contribution	51.2	55.4		53.9		
Ceramics & Plastics	258.6	154.4	67.5	222.4	16.3	
% Contribution	40.5	35.2		39.8		
IT Services	35.9	34.3	4.5	35.7	0.3	
% Contribution	5.6	7.8		6.4		
Others	21.4	9.4	126.9	6.6	226.7	
% Contribution	3.4	2.1		1.2		
Net Sales	638.0	439.3		558.9		

Source: Company, ICICI Direct Research

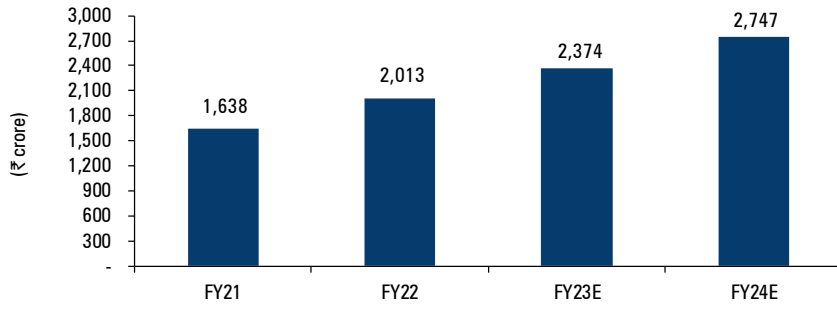
**Exhibit 2: Change in estimates**

FY21	FY22	FY23E			FY24E				
		Actual	New	Old	New	% Change	Old	New	% Change
(₹ Crore)									
Revenue	1,638	2,013	2,374	2374	0.0	2734	2747	0.5	
EBITDA	324	401	490	490	(0.0)	561	564	0.5	
EBITDA Margin (%)	19.8	19.9	20.6	20.6	-1 bps	20.5	20.5	1 bps	
PAT	239	297	365	365	0.0	422	424	0.6	
EPS (₹)	21.6	26.8	33.0	33.0	(0.1)	38.2	38.3	0.4	

Source: Company, ICICI Direct Research

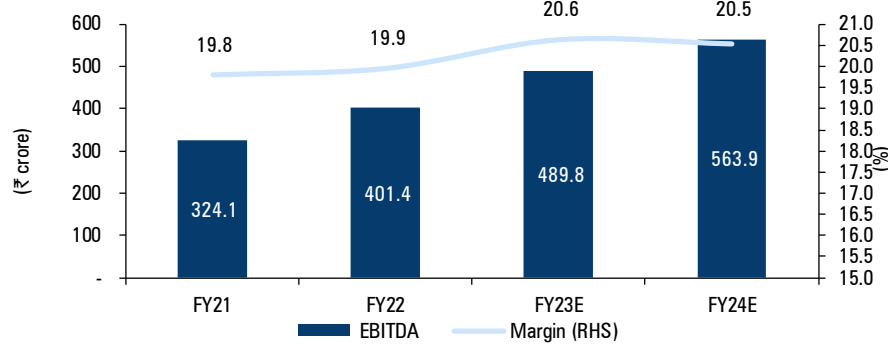
## Financial story in charts

Exhibit 3: Revenue trend (consolidated)



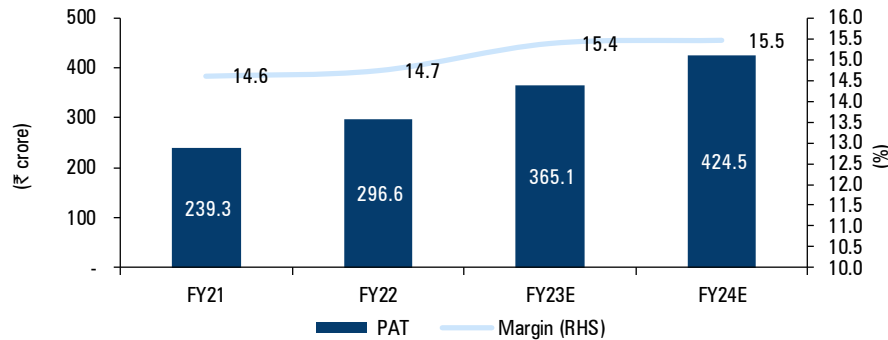
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



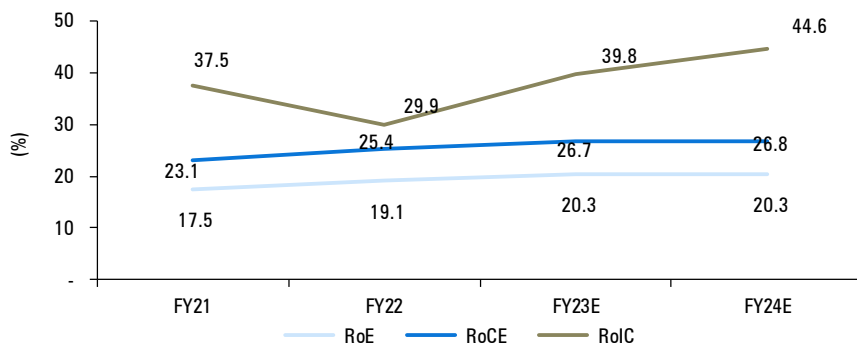
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Net Sales	1,627.5	2,012.8	2,353.0	2,722.1
Other Operating Income	-	-	21.4	24.7
Total Operating Income	1,637.9	2,012.8	2,374.3	2,746.8
% Growth	2.5	22.9	18.0	15.7
Other Income	51.0	53.1	62.1	73.3
Total Revenue	1,688.9	2,065.9	2,436.4	2,820.1
Cost of materials consumed	522.0	702.8	861.2	996.3
Purchase of stock-in-trade	165.3	258.6	197.1	228.0
Other Expenses	317.7	470.8	429.8	497.2
Total expenditure	1,313.8	1,611.4	1,884.5	2,182.9
EBITDA	324.1	401.4	489.8	563.9
% Growth	19.2	23.8	22.0	15.1
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	565.3
Tax	79.5	100.8	121.5	141.3
PAT	239.3	296.6	365.1	424.5
% Growth	43.1	24.0	23.1	16.3
EPS	21.6	26.8	33.0	38.3

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	424.5
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	141.3
Cash Flow before WC changes	325.5	401.9	490.3	564.4
Change in Working Capital	60.9	(129.7)	101.5	(31.8)
Taxes Paid	(82.1)	(103.0)	(121.5)	(141.3)
Cashflow from Operating Activities	304.3	169.2	470.3	391.2
(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	254.7
Opening Cash/Cash Equivalent	428.6	651.4	354.7	701.9
Closing Cash/ Cash Equivalent	651.4	354.7	701.9	956.6

\*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	2,035.8
Networth	1,364.9	1,554.9	1,800.0	2,091.2
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	2,130
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	462.4
Sundry debtors	201.8	236.9	258.8	285.8
Cash and bank balances	651.4	354.7	701.9	956.6
Loans and advances	0.5	0.7	0.7	0.8
Other Current Assets	70.7	86.0	96.5	111.6
Total current Assets	1,246.9	1,125.8	1,457.6	1,817.2
CL& Prov.	461.4	507.3	593.4	666.5
Net Current Assets	785.5	618.6	864.2	1,150.8
Total Assets	1,403	1,593	1,838	2,130

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	21.6	26.8	33.0	38.3
Cash EPS	26.5	31.6	38.7	44.7
BV	123.3	140.4	162.6	188.9
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	20.3
RoCE	23.1	25.4	26.7	26.8
RoIC	37.5	29.9	39.8	44.6
P/E	80.5	64.9	52.8	45.4
EV / EBITDA	57.4	47.1	37.9	32.5
EV / Net Sales	11.4	9.4	7.8	6.7
Market Cap / Sales	11.8	9.6	8.1	7.0
Price to Book Value	14.1	12.4	10.7	9.2
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)	1,804	2,175	Buy	253137	56.8	65.0	76.7	31.8	27.8	23.5	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,701	2,900	Buy	96188	29.5	36.6	48.2	91.6	73.7	56.1	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,394	2,570	Buy	22580	64.6	79.6	85.7	37.1	30.1	27.9	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2,055	2,450	Buy	24487	26.2	42.3	53.0	78.4	48.6	38.8	11.3	16.5	18.5	8.9	13.0	14.4
KEC International (KECIN)	458	381	Hold	11775	12.7	13.0	25.4	36.1	35.3	18.0	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	163	179	Buy	3757	0.7	2.6	3.3	229.6	61.7	49.3	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	371	390	Buy	11745	5.7	6.6	8.7	64.9	56.2	42.6	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	275	315	Buy	67006	9.6	11.3	12.6	28.5	24.4	21.8	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	333	340	Hold	4380	42.9	38.6	42.3	7.8	8.6	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,219	4,920	Buy	20858	77.0	104.8	122.9	54.8	40.3	34.3	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	2,983	2,810	Buy	22438	43.5	54.8	62.5	97.0	77.0	67.5	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	137	220	Buy	1328	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)	225	230	Buy	2675	9.8	11.5	13.6	22.9	19.5	16.5	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	777	870	Buy	4029	18.1	21.7	27.2	42.9	35.8	28.6	23.8	24.4	25.8	16.4	18.1	19.1
HAL (HINAER)	2,030	2,200	Buy	67881	151.9	123.6	137.4	13.4	16.4	14.8	27.4	29.7	30.5	26.3	22.5	23.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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