

Ceramics, plastic segment shine again!

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 and return ratios

Q2FY23 Results: GNL reported a decent set of Q2FY23 numbers.

- Revenues came in at ₹ 634.7 crore, up 23.8% YoY, primarily aided by strong performance in the ceramics & plastic segment
- EBITDA came in at ₹ 122.5 crore, up 21.2% YoY with margins at 19.3% while gross margins marginally declined by 20 bps to 53.5% YoY
- Consequently, PAT grew 26.6% YoY to ₹ 90.1 crore

What should investors do? Going forward, accelerated growth in performance plastics & ceramics and exports is 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 ₹ 2460 i.e. 60x 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 21.0% in FY24E)
- We expect revenue, EBITDA to grow at a CAGR of 20.5%, 23.0%, 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



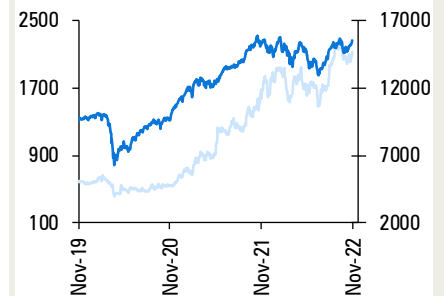
Particulars

Particular	Amount
Market Capitalization	₹ 23694 Crore
Total Debt (FY22)	₹ 2 Crore
Cash and Inv (FY22)	₹ 355 Crore
EV (FY22)	₹ 23342 Crore
52 week H/L (₹)	2328 / 1451
Equity capital (FY22)	₹ 55.4 Crore
Face value (₹)	5.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	58.1	58.1	58.1	58.1
FII	6.1	7.1	7.4	7.5
DII	16.0	15.7	15.5	15.6
Others	19.8	19.2	19.0	18.8

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	2,384.1	2,865.6	20.5%
EBITDA (₹ crore)	271.8	264.5	324.1	12.0%	401.4	491.8	602.5	23.0%
EBITDA margin (%)	17.0	16.7	19.8		19.9	20.6	21.0	
Net Profit (₹ crore)	167.2	182.5	239.3	17.9%	296.6	366.6	453.4	23.8%
EPS (₹)	15.1	16.5	21.6		26.8	33.1	41.0	
P/E (x)	141.7	129.8	99.0		79.9	64.6	52.3	
Price / Book (x)	21.6	20.0	17.4		15.2	13.2	11.2	
EV/EBITDA (x)	86.3	88.0	71.1		58.2	46.8	37.7	
RoCE (%)	23.3	20.3	23.1		25.4	26.8	28.2	
RoE (%)	15.2	15.4	17.5		19.1	20.4	21.4	

Key takeaways of recent quarter....

Q2FY23 Results: Ceramics & plastic segment shine again!

- Revenue came in at ₹ 634.7 crore, up 23.8% YoY and marginally declined 0.5% QoQ, primarily aided by strong performance in ceramics & plastic, others segment followed by abrasives. Revenue contribution from abrasives, ceramics, IT services & others was at ~50.3%, ~42.9%, ~5.7% & ~2.6%, respectively
- Abrasive segment revenue increased marginally by 3.6% YoY to ₹ 319 crore, Ceramics and plastic segment showed strong growth and grew 64.8% YoY to ₹ 272.6 crore, while IT services segment grew 8.7% YoY to ₹ 36.5 crore and others segment grew 89.7% YoY to ₹ 16.5 crore
- Abrasive segment registered EBIT margin of 12.8% (vs. 15% in Q2FY22 and 14% in Q1FY23). While EBIT margins for ceramics and plastic segment was at 21.7% (vs. 22% in Q2FY22, 23.9% in Q1FY23) and for IT services segment EBIT margin was at 17.6% (vs. 28.5% in Q2FY22 and 23% in Q1FY23)
- Overall, EBITDA margins came in at 19.3% (vs. 19.7% in Q2FY22 and declined 91 bps QoQ. Gross margins declined 20 bps to 53.5% YoY and declined 30 bps QoQ
- PAT grew 26.6% YoY to ₹ 90.1 crore and marginally declined 2.6% QoQ

Exhibit 1: Variance analysis

Year	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Income from Operation	634.7	512.7	23.8	638.0	(0.5)	Aided by ~64.8% growth in Ceramics & Plastics (~42.9% of Revenue)
Other Income	15.0	10.1	48.5	10.9	37.7	
Cost of materials consumed	310.2	247.8	25.2	308.45	0.6	
Changes in inventories of finished goods & WIP	(14.8)	(10.4)	42.5	(13.7)	8.1	
Employee cost	72.1	62.1	16.1	69.1	4.3	
Other expenses	144.7	92.3	56.8	145.2	(0.4)	
EBITDA	122.5	101.1	21.2	128.9	(5.0)	
EBITDA Margin (%)	19.3	19.7	-42 bps	20.2	-91 bps	
Depreciation	15.6	13.3	17.1	13.7	13.6	
Interest	1.5	0.7	111.6	0.5	180.8	
PBT	120.4	97.2	23.9	125.6	(4.1)	
Taxes	29.5	25.2	17.0	32.4	(8.9)	
PAT	90.1	71.1	26.6	92.4	(2.6)	
Segment Revenue	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Abrasives	319.0	307.9	3.6	326.7	(2.3)	
% Contribution	50.3	60.0		51.2		
Ceramics & Plastics	272.6	165.4	64.8	258.6	5.4	
% Contribution	42.9	32.3		40.5		
IT Services	36.5	33.5	8.7	35.9	1.6	
% Contribution	5.7	6.5		5.6		
Others	16.5	8.7	89.7	21.4	(22.9)	
% Contribution	2.6	1.7		3.4		
Net Sales	634.7	512.7		638.0		

Source: Company, ICICI Direct Research

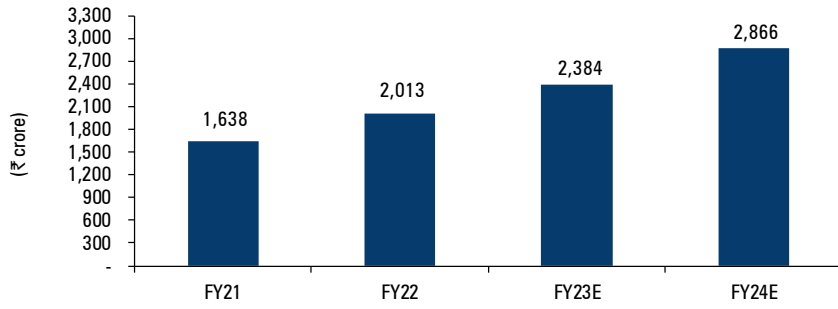
Exhibit 2: Change in estimates

	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	New	Old	New	% Change	Old	New	% Change
Revenue	1,638	2,013	2,374	2384	0.4	2747	2866	4.3
EBITDA	324	401	490	492	0.4	564	602	6.8
EBITDA Margin (%)	19.8	19.9	20.6	20.6	-1 bps	20.5	21.0	52 bps
PAT	239	297	365	367	0.4	424	453	6.9
EPS (₹)	21.6	26.8	33.0	33.1	0.3	38.3	41.0	6.9

Source: Company, ICICI Direct Research

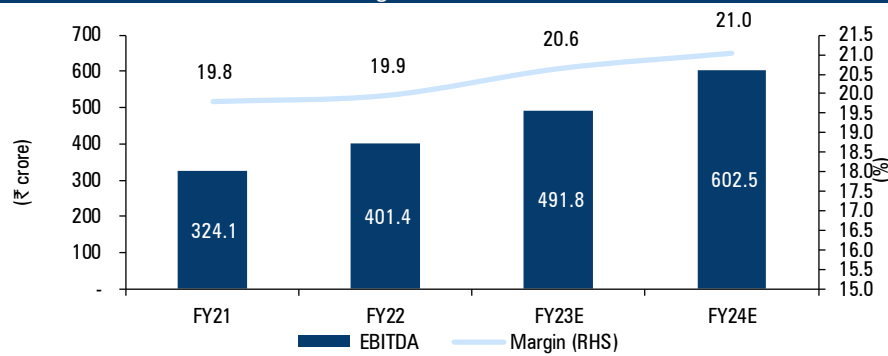
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



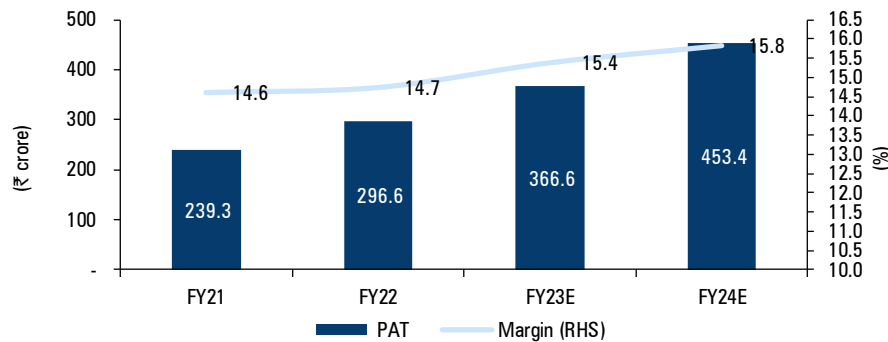
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



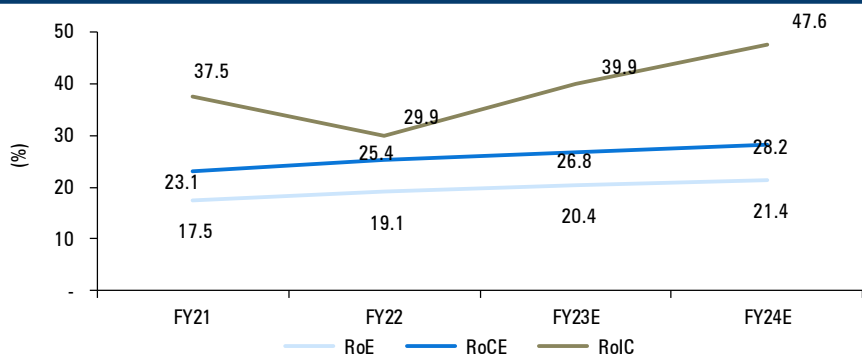
Source: Company, ICICI Direct Research

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	2,362.6	2,839.8
Other Operating Income	-	-	21.5	25.8
Total Operating Income	1,637.9	2,012.8	2,384.1	2,865.6
% Growth	2.5	22.9	18.4	20.2
Other Income	51.0	53.1	62.1	73.3
Total Revenue	1,688.9	2,065.9	2,446.2	2,938.9
Cost of materials consumed	522.0	702.8	864.7	1,025.2
Purchase of stock-in-trade	165.3	258.6	197.9	237.8
Other Expenses	317.7	470.8	431.5	518.7
Total expenditure	1,313.8	1,611.4	1,892.2	2,263.1
EBITDA	324.1	401.4	491.8	602.5
% Growth	19.2	23.8	22.5	22.5
Interest	3.4	4.1	2.0	2.0
Depreciation	54.4	53.5	63.8	69.9
PBT	317.3	396.9	488.2	603.9
Tax	79.5	100.8	122.0	151.0
PAT	239.3	296.6	366.6	453.4
% Growth	43.1	24.0	23.6	23.7
EPS	21.6	26.8	33.1	41.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	239.3	296.6	366.6	453.4
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	122.0	151.0
Cash Flow before WC changes	325.5	401.9	492.3	603.0
Change in Working Capital	60.9	(129.7)	100.6	(42.0)
Taxes Paid	(82.1)	(103.0)	(122.0)	(151.0)
Cashflow from Operating Activities	304.3	169.2	470.9	410.0
(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)	347.7	273.5
Opening Cash/Cash Equivalent	428.6	651.4	354.7	702.5
Closing Cash/ Cash Equivalent	651.4	354.7	702.5	975.9

*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	1,746.2	2,066.3
Networth	1,364.9	1,554.9	1,801.5	2,121.6
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	1,840	2,160
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	401.3	482.4
Sundry debtors	201.8	236.9	259.9	298.2
Cash and bank balances	651.4	354.7	702.5	975.9
Loans and advances	0.5	0.7	0.7	0.9
Other Current Assets	70.7	86.0	96.9	116.4
Total current Assets	1,246.9	1,125.8	1,461.3	1,873.8
CL& Prov.	461.4	507.3	595.5	692.6
Net Current Assets	785.5	618.6	865.7	1,181.2
Total Assets	1,403	1,593	1,840	2,160

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E
EPS	21.6	26.8	33.1	41.0
Cash EPS	26.5	31.6	38.9	47.3
BV	123.3	140.4	162.7	191.6
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	21.0
PBT / Net Sales	16.5	17.3	18.0	18.6
PAT Margin	14.6	14.7	15.4	15.8
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	20.4	21.4
RoCE	23.1	25.4	26.8	28.2
RoIC	37.5	29.9	39.9	47.6
P/E	99.0	79.9	64.6	52.3
EV / EBITDA	71.1	58.2	46.8	37.7
EV / Net Sales	14.1	11.6	9.6	7.9
Market Cap / Sales	14.5	11.8	9.9	8.3
Price to Book Value	17.4	15.2	13.2	11.2
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			EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
L&T (LARTOU)	2,011	2,355	Buy	282184	56.8	66.1	76.7	35.4	30.4	26.2	8.9	9.3	11.6	12.1	12.9	13.6		
Siemens Ltd	2,910	3,660	Buy	103631	29.5	36.7	50.5	98.7	79.2	57.6	13.9	15.7	19.2	10.1	11.6	14.2		
AIA Engineering (AIAENG)	2,759	3,011	Buy	26023	64.6	79.8	86.0	42.7	34.6	32.1	16.5	17.9	17.1	13.2	14.3	13.6		
Thermax (THERMA)	2,227	2,405	Buy	26536	26.2	38.7	53.4	85.0	57.6	41.7	11.3	15.4	18.7	8.9	12.0	14.6		
KEC International (KECIN)	434	542	Buy	11158	12.9	16.0	31.9	33.6	27.1	13.6	11.9	13.9	20.3	10.6	11.1	18.6		
Greaves Cotton (GREAVE)	152	209	Buy	3514	0.7	3.5	3.6	214.7	43.1	42.5	2.5	9.4	10.7	1.3	6.7	7.7		
Elgi Equipment (ELGEQU)	485	474	Hold	15370	5.7	6.6	9.1	84.9	73.6	53.2	18.9	17.8	21.0	18.7	18.5	21.1		
Bharat Electronics (BHAELE)	110	135	Buy	80700	3.2	3.8	4.5	34.5	29.1	24.5	26.1	28.4	30.0	19.5	21.2	22.4		
Cochin Shipyard (COCSHI)	604	445	Buy	7938	42.9	38.6	42.3	14.1	15.6	14.3	10.9	12.5	12.7	12.7	10.8	11.1		
SKF (SKFIND)	4,397	4,920	Buy	21738	77.0	104.8	122.9	57.1	42.0	35.8	26.0	29.8	30.1	20.6	22.7	22.4		
Timken India (TIMIND)	2,705	3,561	Buy	20347	43.5	61.3	71.2	62.2	44.1	38.0	25.3	36.2	42.0	19.7	27.9	32.2		
NRB Bearing (NRBBEA)	172	220	Buy	1663	7.8	9.2	12.1	22.0	18.7	14.2	15.0	15.3	19.2	12.6	12.6	14.8		
Action Construction (ACTCON)	300	365	Buy	3572	8.8	13.9	18.2	34.1	21.6	16.5	23.0	24.0	25.8	13.9	17.1	18.3		
Data Patterns (DATPAT)	1406	1,280	Buy	7295	18.1	22.2	30.4	77.6	63.4	46.2	23.8	24.9	28.1	16.4	18.4	20.9		
HAL (HINAER)	2,523	2,860	Buy	84367	151.9	130.9	143.1	16.6	19.3	17.6	27.4	30.6	30.8	26.3	23.2	23.4		
ABB (ABB)	3,268	3,275	Buy	69252	25.5	38.9	43.7	128.3	84.1	74.8	45.0	49.2	64.9	11.2	13.0	17.6		
Ador Welding (ADOWEL)	910	890	Buy	1237	33.2	37.5	49.3	27.4	24.2	18.4	19.9	23.8	26.8	13.6	17.1	19.3		
Bharat Dynamics (BHADYN)	984	1,068	Buy	18035	27.3	33.0	42.7	33.3	27.6	21.3	24.6	24.7	27.9	17.3	17.7	20.0		
Mazagon Dock (MAZDOC)	760	562	Buy	15328	30.3	31.2	40.1	30.0	29.2	22.7	20.0	18.1	20.9	16.1	14.6	16.6		

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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