

## Ceramics, plastics to drive growth...

**About the stock:** Grindwell Norton (GNL) is the market leader in the India abrasive market with ~27% market share. The segments include abrasives (contributing ~50.2%), ceramics & plastics (41.6%) and IT services & others (9.1%).

- GNL has witnessed strong and 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

**Q4FY23 Results:** GNL reported a decent set of Q4FY23 numbers.

- Revenues came in at ₹ 664.8 crore, 19% YoY, primarily aided by a strong performance in the ceramics & plastic segment
- EBITDA came in at ₹ 129.3 crore, up 4.6% YoY with margins at 19.4% while gross margins contracted 300 bps to 55% YoY
- Consequently, PAT grew 9.8% YoY to ₹ 98.5 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 ₹ 2490 i.e. 50x P/E on FY25E 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 20.4% in FY25E)
- We expect revenue, EBITDA to grow at a CAGR of 21.4%, 22.3%, respectively, over FY22-25E
- Net debt free b/s, double-digit return ratios and strong cash generation

**Alternate Stock Idea:** Apart from GNL, we also like AIA Engineering.

- New mining customer acquisition is expected to pick up allowing AIA to gain incremental volume growth in coming years
- BUY with a target price of ₹ 3135



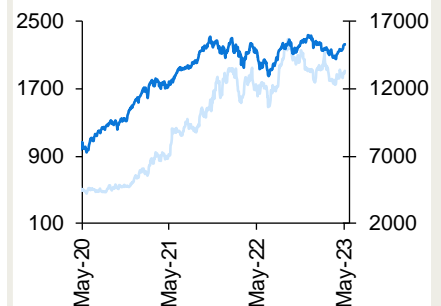
### Particulars

Particular	Amount
Market Capitalization	₹21679 Crore
Total Debt (FY22)	₹2 Crore
Cash and Inv (FY22)	₹355 Crore
EV (FY22)	₹21326 Crore
52 week H/L (₹)	2328 / 1451
Equity capital (FY22)	₹55.4 Crore
Face value (₹)	5.0

### Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoti	58.1	58.1	58.0	58.0
FII	7.4	7.5	8.4	8.3
DII	15.5	15.6	14.9	15.3
Others	19.0	18.8	18.7	18.4

### 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)	FY20	FY21	FY22	5 Year CAGR (FY18-22)	FY23	FY24E	FY25E	3 Year CAGR (FY22-FY25E)
Revenue (₹crore)	1,579.6	1,637.9	2,012.8	7.1%	2,541.3	3,008.6	3,605.1	21.4%
EBITDA (₹crore)	264.5	324.1	401.4	10.2%	499.6	585.3	733.9	22.3%
EBITDA margin (%)	16.7	19.8	19.9		19.7	19.5	20.4	
Net Profit (₹crore)	182.5	239.3	295.1	14.5%	361.5	435.2	548.1	22.9%
EPS (₹)	16.5	21.6	26.7		32.7	39.3	49.5	
P/E (x)	120.8	92.2	74.7		61.0	50.7	40.2	
Price / Book (x)	18.6	16.2	14.7		13.2	11.2	9.2	
EV/EBITDA (x)	81.8	66.0	54.2		43.7	37.3	29.5	
RoCE (%)	20.3	23.1	26.3		28.8	28.7	30.0	
RoE (%)	15.4	17.5	19.7		21.7	22.1	23.0	

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results:

- Revenue came in at ₹ 664.8 crore, up 19% YoY and 10.1% QoQ, primarily aided by strong performance in ceramics & plastic, IT and abrasives. Revenue contribution from abrasives, ceramics, IT services & others was at ~48.2%, ~42.4%, ~7.9% & ~2.1%, respectively. In FY23, the company reported revenue of ₹ 2541.3 crore, up 26.3% YoY
- Abrasive segment revenue increased 6.4% YoY to ₹ 320.4 crore, ceramics and plastic segment showed strong growth and grew 26.6% YoY to ₹ 281.6 crore while IT services segment grew 47.3% YoY to ₹ 52.6 crore and others segment grew 113.6% YoY to ₹ 14 crore. In FY23, abrasive segment revenue increased 12.3% YoY to ₹ 1275.1 crore, ceramics and plastic segment showed strong growth and grew 47.3% YoY to ₹ 1058.4 crore while IT services segment grew 21.8% YoY to ₹ 165.9 crore and others segment grew 64.3% YoY to ₹ 65.3 crore
- Abrasive segment registered EBIT margin of 14.6% (vs. 14.9% in Q4FY22 and 14.9% in Q3FY23). While EBIT margins for ceramics and plastic segment were at 20.3% (vs. 27.8% in Q4FY22, 20.5% in Q3FY23) and for IT services segment EBIT margin was at 37.4% (vs. 28.3% in Q4FY22 and 20% in Q3FY23). In FY23, abrasive segment registered EBIT margin of 14.1% (vs. 13.7% in FY22). While EBIT margins for ceramics and plastic segment were at 21.6% (vs. 24.1% in FY22) and for IT Services segment EBIT margin was at 24.4% (vs. 28.3% in FY22)
- Overall, EBITDA margins came in at 19.4% (vs. 22.1% Q4FY22 and 19.7% in Q3FY23) contracting 268 bps, 25 bps YoY and QoQ, respectively. In FY23, EBITDA margin came in at 19.7% vs. 19.9% in FY22. Gross margins contracted 300 bps to 55% YoY and expanded 10 bps QoQ. In FY23, gross margin came in at 54.3% vs. 55.8% in FY22
- PAT grew 9.8% YoY to ₹ 98.5 crore, and grew 23.1% QoQ. In FY23, it came in at ₹ 361 crore, up 22.5% YoY

### Grindwell No - ESG Disclosure Score\*

Score	FY20	FY21	FY22
Environmental	16.8	18.5	18.5
Social	18.7	24.4	24.4
Governance	78.6	78.6	78.6
<b>Overall ESG Score</b>	<b>38.1</b>	<b>40.6</b>	<b>40.5</b>

*Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

### Q4FY23 Earnings Conference Call highlights

- Grindwell Norton (GNL) has doubled its revenues in six years from ₹ 1364 crore in FY17 to ₹ 2541 crore in FY23. Full year FY23 revenues grew 26% with good volume growth ~10% and price value mix has contributed to overall growth. One third of total revenues comes from PRS Permacel. EBITDA margins profile moving towards 19-20% from 16-17%. The company will maintain the similar trajectory, going forward. The company has invested heavily in the last 2.5 years and did a capex of ₹ 424 crore in growth markets. GNL's average 10-year capex is at ₹ 54 crore. For FY24, the company expects a similar kind of capex like last year. All segments have done quite well. Abrasives continue to maintain the growth rate higher than the GDP rate and other business are moving smartly contributing ~15% CAGR over FY17-23. Grindwell Norton is extremely bullish on India as it is becoming a base for advance manufacturing in the medium to long term

### Exports

- GNL's exports have consistently grown faster than its domestic revenues and contributed ~20% to total revenues, which used to be 12-13% in FY17. Exports business is a high margins business for the company. Ceramics is the segment with maximum exports opportunities
- Exports grew 34.1% YoY in FY23. However, for FY24, the company is cautious as it is witnessing western countries like the US and Europe seeing a rapid slowdown in their volumes month after month. GNL expects same

proportions of exports share for FY24 as well but there would be some sluggishness in export led growth in certain areas.

### Abrasives Business

- Over the last three quarters, underlying growth was in single digits in this segment. Slowdown due to imports from China has come back though the GNL's growth rate was higher than the rest. Clearly, the abrasive segment is going through the tough time. In last one year in nonwoven line where the FMCG based products not grown as fast as GNLs expectations also, the company has seen a slowdown in in the scrubber market where GNL is pretty strong
- Recently, the company invested in construction industry related products and is expecting to grow in a big way. One third of the abrasive business revenue comes from the construction and infrastructure industry. With auto component part, paper based products, recently introduced products like water proofing paper, the construction industry has a very big opportunity to grow. In FY23, GNL did 10-12 patents in the abrasives segment
- Railways is another big opportunity for abrasives as the upgradation of the rail infra is happening amid the average speed expected to go up from 60 kmph to 80 kmph. Then maintenance of railway tracks will go up. Abrasive helps to maintain the railway tracks and improve the noise level and the efficiency of the tracks. In aerospace industry abrasives are required for castings and foundries
- In the abrasive segments, GNL's exports are less than 10% currently and there is enough room to grow these exports opportunities specifically in south east Asian region. As per the management, GNL has notched up the market share from 26% to 27% in FY23 and continues to be positive and optimistic on the abrasive segment

### Ceramics & high performance plastics business

- Ceramics and high performing plastics segment did phenomenally well in FY23. This business has nearly contributed 60% to the total EBITDA of GNL. It is a very large diverse segment that includes life sciences, infrastructure, steel, aluminium and advanced ceramics. High performance plastic, ceramics and infra that covers 75% of the segment. Ceramics is the segment where GNL is seeing maximum exports opportunities. It is possible to double the revenues in the ceramics segment in the next three to four years
- In the life sciences space, the company has biopharma. GNL sees rapid growth in this sub segment. Also, quite a lot digitisation is happening in biopharma space. With the PRS Permacel, it has a very unique portfolio of solutions for EV batteries segments and sees a huge opportunity in that area. In life sciences there are many segments where the company has opportunities. It just started investing in some of those segments
- The electrification of mobility will give a lot of opportunity to the company, GNL has very good products like advanced thermal insulation materials, gascades, etc
- Also, some high growth segments like, body armour is one area where plastics and ceramics integrate for security concern, dinnerware, sanitary ware, steel and aluminium. In ceramics segment, GNL has massive global opportunities

**New acquisition - PRS Permacel**

- GNL expects Permacel is very good opportunity for company. PRS Permacel develops and markets a wide range of adhesive tape and thermal insulation solutions for the industrial, railways & metro, two wheelers and EV markets. The company has a manufacturing facility in Ambarnath near Mumbai

**New areas for opportunities**

- New areas for opportunities: Paint protection, in auto care repair, collision and paint and all of that together very big opportunity, glass, renovation side solar control products, tapes solutions for glass glaze, fire safety glazing, fire protection tapes and foam, battery solution for EV players, thermal insulation foams, electric motors for defence, Railways. For the steel industry the company provides insulation foams, Electrolysers

Exhibit 1: Variance analysis

Year	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Income from Operation	664.8	558.9	19.0	603.9	10.1	Aided by ~26.6% growth in ceramics & plastics (~42.4% of revenue)
Other Income	21.2	11.6	83.0	9.1	133.8	
Cost of materials consumed	275.4	241.4	14.1	296.82	(7.2)	
Changes in inventories of finished goods & WIP	24.0	(6.9)	(448.8)	(24.7)	(197.1)	
Employee cost	84.5	68.3	23.9	71.6	18.0	
Other expenses	151.6	132.4	14.4	141.2	7.3	
EBITDA	129.3	123.6	4.6	119.0	8.7	
EBITDA Margin (%)	19.4	22.1	-268 bps	19.7	-25 bps	Margin trajectory to remain in range of 19.5-20%
Depreciation	15.3	13.2	15.8	15.6	(1.8)	
Interest	1.8	2.0	(9.8)	4.0	(53.8)	
PBT	133.3	120.0	11.1	108.5	22.9	
Taxes	34.4	29.8	15.6	28.1	22.6	
PAT	98.5	89.7	9.8	80.0	23.1	
Segment Revenue	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Abrasives	320.4	301.1	6.4	308.9	3.7	
% Contribution	48.2	53.9		51.2		
Ceramics & Plastics	281.6	222.4	26.6	245.6	14.7	Consistency of growth seen in this segment
% Contribution	42.4	39.8		40.7		
IT Services	52.6	35.7	47.3	40.9	28.7	
% Contribution	7.9	6.4		6.8		
Others	14.0	6.6	113.6	13.4	4.2	
% Contribution	2.1	1.2		2.2		
Net Sales	664.8	558.9		603.9		

Source: Company, ICICI Direct Research

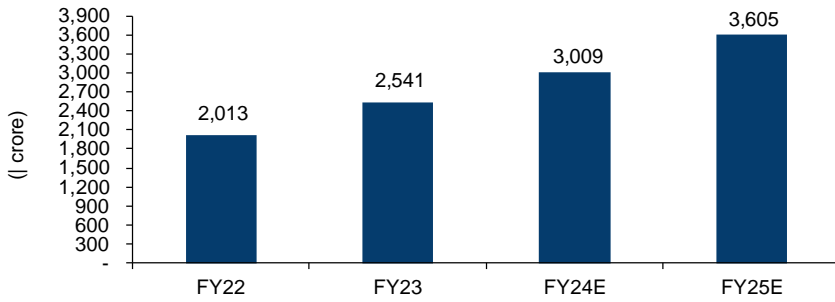
Exhibit 2: Change in estimates

	FY22	FY23	FY24E			FY25E		
(₹C rore)	Actual	Actual	Old	New	% C hange	Old	New	C hange
Revenue	2,013	2,541	2,724	3009	10.4	3131	3605	15.1
EBITDA	401	500	571	585	2.5	681	734	7.8
EBITDA Margin (%)	19.9	19.7	21.0	19.5	-154 bps	21.8	20.4	-144 bps
PAT	295	362	430	435	1.2	518	548	5.8
EPS (₹)	26.7	32.7	38.8	39.3	1.3	46.8	49.5	5.8

Source: Company, ICICI Direct Research

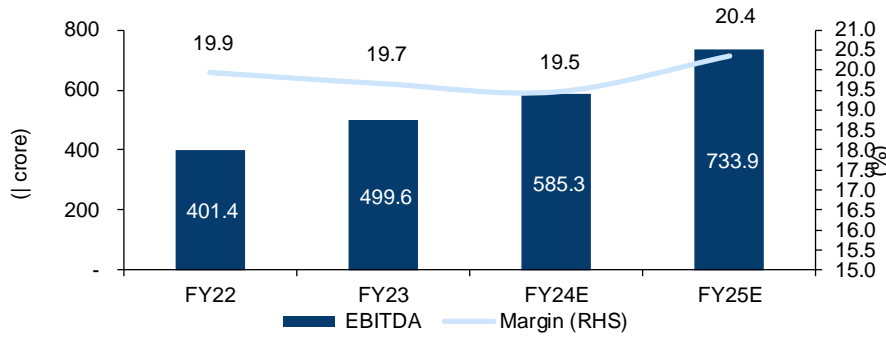
## Financial story in charts

Exhibit 3: Revenue trend (consolidated)



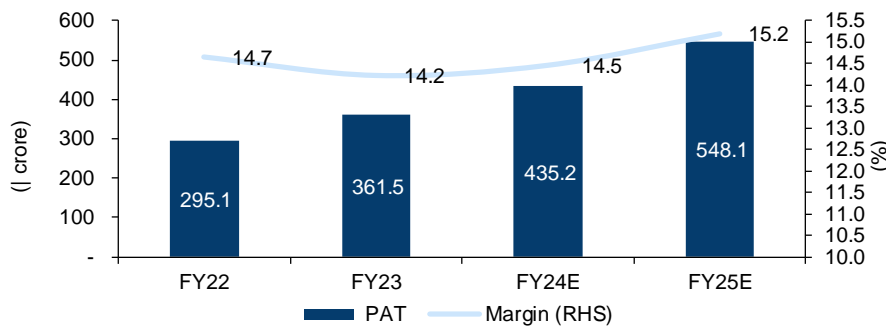
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



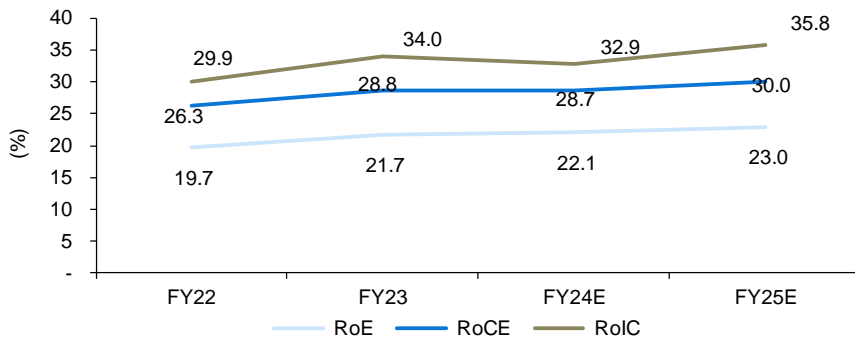
Source: Company, ICICI Direct Research

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

(₹C crore)	FY22	FY23	FY24E	FY25E
Net Sales	2,002.1	2,525.2	2,987.5	3,579.9
Other Operating Income	-	16.1	21.1	25.2
Total Operating Income	2,012.8	2,541.3	3,008.6	3,605.1
% Growth	27.4	26.3	18.4	19.8
Other Income	53.1	56.1	66.2	78.1
Total Revenue	2,065.9	2,597.4	3,074.7	3,683.2
Cost of materials consumed	702.8	923.8	1,090.4	1,310.2
Purchase of stock-in-trade	258.6	267.1	309.9	371.3
Other Expenses	470.8	582.7	692.0	793.1
Total expenditure	1,611.4	2,041.7	2,423.2	2,871.3
EBITDA	401.4	499.6	585.3	733.9
% Growth	51.7	24.5	17.2	25.4
Interest	4.1	7.8	2.0	2.0
Depreciation	53.5	60.1	69.9	79.7
PBT	396.9	487.8	579.6	730.2
Tax	100.8	124.4	144.9	182.5
PAT	295.1	361.5	435.2	548.1
% Growth	61.7	22.5	20.4	26.0
EPS	26.7	32.7	39.3	49.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(₹C crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	295.1	361.5	435.2	548.1
Depreciation	53.5	60.1	69.9	79.7
Interest	4.1	7.8	2.0	2.0
Other income	(53.1)	(56.1)	(66.2)	(78.1)
Prov for Taxation	100.8	124.4	144.9	182.5
Cash Flow before WC changes	400.4	497.8	585.8	734.4
Change in Working Capital	(129.7)	(4.7)	(268.1)	(218.9)
Taxes Paid	(103.0)	(106.8)	(144.9)	(182.5)
Cashflow from Operating Activities	167.6	386.3	172.9	333.0
(Purchase)/Sale of Fixed Assets	(113.2)	(216.3)	(101.9)	(70.0)
(Purchase)/Sale of Investments	(296.6)	(113.2)	-	-
Other Income	53.1	56.1	66.2	78.1
Cashflow from Investing Activities	(356.6)	(273.4)	(35.7)	8.1
Issue/(Repayment of Debt)	2.2	11.4	-	-
Changes in Minority Interest	(0.6)	(0.5)	0.5	0.5
Changes in Networth	(160.0)	(193.3)	(220.0)	(253.3)
Interest	(4.1)	(7.8)	(2.0)	(2.0)
Others	-	-	-	-
Cashflow from Financing Activities	(162.5)	(190.1)	(221.5)	(254.8)
Changes in Cash	(351.5)	(77.3)	(84.3)	86.3
Opening Cash/Cash Equivalent	651.4	299.8	222.6	138.3
Closing Cash/Cash Equivalent	299.8	222.6	138.3	224.5

\*calculated, Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore

(₹C crore)	FY22	FY23	FY24E	FY25E
Share Capital	55.4	55.4	55.4	55.4
Reserves & Surplus	1,444.6	1,612.9	1,828.1	2,122.9
Networth	1,500.0	1,668.2	1,883.4	2,178.3
Total Debt	2.2	13.6	13.6	13.6
Deferred tax liability (net)	24.1	41.7	41.7	41.7
Total Liabilities	1,538	1,735	1,950	2,246
Gross Block	702.5	777.5	852.5	972.5
Acc: Depreciation	325.0	385.2	455.1	534.8
Net Block	377.5	392.4	397.5	437.7
Capital WIP	66.2	123.2	150.0	100.0
Investments	520.3	633.6	633.6	633.6
Inventory	447.6	463.9	589.3	706.2
Sundry debtors	236.9	280.2	418.3	537.0
Cash and bank balances	299.8	222.6	138.3	224.5
Loans and advances	0.7	1.1	0.9	1.1
Other Current Assets	86.0	59.0	122.5	146.8
Total current Assets	1,070.9	1,026.8	1,269.3	1,615.6
CL & Prov.	507.3	535.7	594.4	635.6
Net Current Assets	563.7	491.1	674.9	980.0
Total Assets	1,538	1,735	1,950	2,246

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹

(Year-end March)	FY22	FY23	FY24E	FY25E
EPS	26.7	32.7	39.3	49.5
Cash EPS	31.5	38.1	45.6	56.7
BV	135.5	150.7	170.1	196.7
DPS	12.0	14.5	16.5	19.0
Cash Per Share	29.4	34.8	41.1	48.3
EBITDA Margin	19.9	19.7	19.5	20.4
PBT / Net Sales	17.3	17.3	17.1	18.1
PAT Margin	14.7	14.2	14.5	15.2
Inventory days	81.2	66.6	71.5	71.5
Debtor days	43.0	40.2	50.7	54.4
Creditor days	82.2	68.6	64.5	57.6
RoE	19.7	21.7	23.1	25.2
RoCE	26.3	28.8	30.0	32.8
RoIC	29.9	34.0	32.9	35.8
P/E	74.7	61.0	50.7	40.2
EV / EBITDA	54.2	43.7	37.5	29.8
EV / Net Sales	10.8	8.6	7.3	6.1
Market Cap / Sales	11.0	8.7	7.3	6.1
Price to Book Value	14.7	13.2	11.7	10.1
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	1.5	1.9	2.2
Quick Ratio	0.6	0.6	0.9	1.1

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)	2,250	2,650	Buy	315783	56.1	71.5	87.2	40.1	31.5	25.8	8.7	10.5	11.8	11.1	13.0	14.3
AIA Engineering (AIAENG)	2,720	3,251	Buy	25659	114.0	98.5	107.7	23.9	27.6	25.2	24.7	18.5	18.1	19.4	14.8	14.2
Thermax (THERMA)	2,432	2,372	Hold	28981	36.9	50.8	59.3	65.9	47.9	41.0	14.7	18.0	18.3	11.5	14.1	14.1
KEC International (KECIN)	527	611	Buy	13553	4.8	18.7	35.9	109.4	28.2	14.7	9.6	17.1	22.9	3.5	12.6	20.0
Greaves Cotton (GREAVE)	157	194	Buy	3638	5.0	4.7	5.5	31.6	33.2	28.5	13.4	13.3	13.9	9.8	9.7	10.2
Elgi Equipment (ELGEQU)	455	500	Buy	14423	7.5	10.2	11.9	61.0	44.5	38.3	21.2	25.9	24.8	20.4	22.6	21.3
Bharat Electronics (BHAELE)	108	130	Buy	78946	3.2	3.7	4.5	33.6	29.2	24.1	43.2	42.6	43.4	32.1	31.7	32.3
Cochin Shipyard (COCSHI)	540	620	Buy	7097	42.5	39.6	41.1	12.7	13.6	13.1	11.4	10.8	10.4	12.7	11.1	10.9
SKF (SKFIND)	4,330	5,215	Buy	21408	79.9	109.2	130.3	54.2	39.7	33.2	27.6	30.7	31.3	21.0	23.3	23.4
Timken India (TIMIND)	3,160	3,560	Buy	23769	43.5	51.1	58.0	72.6	61.8	54.5	25.3	24.7	23.6	19.7	19.1	20.8
NRB Bearing (NRBBEA)	155	220	Buy	1497	7.8	9.4	12.1	19.8	16.4	12.8	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	455	435	Buy	5419	8.8	15.4	20.1	51.7	29.5	22.6	23.0	29.8	29.7	13.9	18.6	19.6
Data Patterns (DATPAT)	1542	1,670	Buy	8002	18.1	22.0	30.4	85.2	70.2	50.8	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	3021	3,300	Buy	101016	151.9	177.4	143.9	19.9	17.0	21.0	27.4	32.8	28.0	26.3	28.6	21.2
ABB (ABB)	3873	3,830	Hold	82064	26.3	48.4	44.7	147.4	80.0	86.7	46.6	57.8	49.9	11.6	15.6	16.2
Ador Welding (ADOWEL)	1137	1,054	Buy	1546	33.2	34.2	49.3	34.2	33.2	23.1	19.9	21.6	26.7	13.6	15.8	19.6
Bharat Dynamics (BHADYN)	1021	1,215	Buy	18712	26.8	18.8	40.4	38.1	54.3	25.3	24.7	15.5	28.7	17.0	11.0	20.6
Mazagon Dock (MAZDOC)	755	745	Hold	15219	30.3	49.7	46.6	24.9	15.2	16.2	20.0	27.7	22.6	16.1	21.7	17.8
Solar Industries India (SOLIN)	3750	4,700	Buy	33934	48.8	83.7	97.3	76.9	44.8	38.5	21.7	29.1	30.5	23.1	29.0	27.8
Anup Engineering (THEANU)	1282	1,080	Buy	1269	62.7	49.5	72.3	20.4	25.9	17.7	15.3	16.6	19.4	12.2	12.5	14.4
Control Prints (CONTROLPR)	611	690	Buy	998	24.7	32.4	39.2	24.7	18.9	15.6	21.7	26.8	28.4	14.6	17.9	17.8
KSB Ltd. (KSBPUM)	2116	2,390	Buy	7363	42.9	52.5	66.3	49.3	40.3	31.9	16.4	17.6	19.8	14.8	16.0	17.6
Garden Reach (GARREA)	513	520	Hold	5878	16.5	19.7	33.4	31.0	26.0	15.4	21.1	22.5	33.8	15.5	16.7	24.9

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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