

Strong performance led by ceramics & plastics...

Grindwell Norton (GNL) reported strong Q4FY21 numbers across operational parameters owing to better demand, favourable product mix and revival in key sectors like automotive, industrial, construction, engineering amid economic recovery. Revenues came in at ₹ 508.8 crore, up a strong 39.1% YoY (amid low base) while it grew 11.2% on a QoQ basis, primarily aided by strong performance in the ceramics & plastic segment. Revenue contribution from abrasives, ceramics & IT services were at ~60%, ~32.5% & ~6.5%, respectively. Overall, EBITDA margins were at 22.2%, improving significantly by 570 bps YoY whereas it improved 80 bps QoQ. This was primarily aided by a reduction in overall operating expenses and better gross margins, which improved 140 bps to 56.7% YoY. PAT grew 92.9% to ₹ 80.6 crore YoY, partly aided by higher other income.

Superior margins led by product mix, cost efficiencies...

Topline growth was driven by ceramics & plastics segment, which grew 44.5% to ₹ 165.6 crore YoY followed by abrasive segment, which grew 38.3% to ₹ 303.5 crore YoY while IT services segment grew 15.6% to ₹ 33.1 crore YoY. Abrasive segment registered EBIT margin of 16.1% (vs. 9.5% in Q4FY20). While EBIT margins for ceramics and plastic segment expanded to 26% YoY (vs. 15% in Q4FY20) and IT services segment EBIT margin was at 28.8% (vs. 22.4%, YoY). Superior margins are expected to sustain in the long term led by operational efficiencies and further addition of high margin value added products and solutions approach in performance plastics and performance ceramics & refractories segment (e.g. life science) providing better pricing power and strong incremental growth.

Export, value-added Solutions to drive long term growth

GNL enjoys a strong moat in abrasives segment, commanding ~26% market share (pegged at ~₹ 3200 crore). It sees strategic relevance of exports for incremental growth, which contributes ~15% to topline. It aims to focus on exports of niche high value products in ceramics & plastic segment in some cases to replace Chinese products and penetrate neighbouring countries of US, South East Asia markets and enter newer market for stronger growth.

Valuation & Outlook

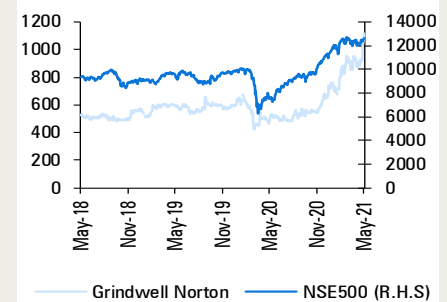
Going forward, accelerated growth in the plastics segment is expected to continue owing to niche value added products and solutions approach in performance plastics, performance ceramics & refractories segment and focus on export of niche high value products. We believe GNL is well placed to further gain from gradual economic revival in key segments. Overall, we expect abrasives, ceramics to grow at CAGR of 15%, 18.5%, respectively, in FY21-23E. We value GNL at 45x on FY23E EPS on the back of sustained superior margins with a target price of ₹ 1310 (earlier TP ₹ 805) and maintain **BUY** rating.



Particulars

Particular	Amount
Market Capitalization	₹ 12290 Crore
Total Debt (FY21)	₹ 0 Crore
Cash and Inv (FY21)	₹ 652 Crore
EV (FY21)	₹ 11638 Crore
52 week H/L (₹)	1142 / 451
Equity capital (FY20)	₹ 55.4 Crore
Face value (₹)	5.0

Price Performance



Key risk to our call

- Further ramp-up in demand in key sectors like auto, industrial, engineering, steel to aid growth
- Impact on export markets and any adverse situation on raw material sourcing could affect growth

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	1,598.1	1,579.6	1,637.9	1,883.1	2,202.2	16.0%
EBITDA (₹ crore)	271.8	264.5	324.1	375.2	443.3	17.0%
EBITDA margin (%)	17.0	16.7	19.8	19.9	20.1	
Net Profit (₹ crore)	167.2	182.5	239.3	273.9	322.5	16.1%
EPS (₹)	15.1	16.5	21.6	24.7	29.1	
P/E (x)	73.5	67.3	51.4	44.9	38.1	
Price / Book (x)	11.2	10.4	9.0	8.0	7.1	
EV/EBITDA (x)	44.3	44.8	35.9	30.7	25.6	
RoCE (%)	23.3	20.3	23.1	23.8	24.8	
RoE (%)	15.2	15.4	17.5	17.9	18.6	

Exhibit 1: Variance analysis

Year	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Income from Operation	508.8	365.9	39.1	457.7	11.2	Aided by 44.5% growth in ceramics & plastic segment (~32.5% of revenue) followed by 38.3% growth in abrasives segment (~60% contribution)
Other Income	12.4	9.7	28.6	5.0	151.3	
Cost of materials consumed	219.2	168.2	30.4	202.74	8.1	
Power & Fuel	20.8	18.7	11.2	18.7	11.1	
Changes in inventories of finished goods & WIP	1.1	(4.5)	(124.0)	(5.3)	(120.4)	
Employee cost	57.0	54.3	5.0	54.4	4.7	
Other expenses	97.8	68.9	41.8	89.1	9.7	
EBITDA	113.0	60.3	87.3	98.0	15.3	
EBITDA Margin (%)	22.2	16.5	572 bps	21.4	80 bps	Primarily due to better gross margins and controlled operating expenses
Depreciation	13.8	14.3	(3.5)	13.9	(0.6)	
Interest	1.1	1.5	(25.9)	0.8		
PBT	110.5	54.2	104.0	88.2	25.3	
Taxes	30.9	12.4	148.3	22.7	35.9	
PAT	80.6	41.8	92.9	66.0	22.3	
Segment Revenue	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
Abrasives	303.5	219.4	38.3	265.3	14.4	
% Contribution	59.7	60.0		58.0		
Ceramics & Plastics	165.6	114.6	44.5	155.1	6.8	
% Contribution	32.5	31.3		33.9		
IT Services	33.1	28.7	15.6	32.5	2.0	
% Contribution	6.5	7.8		7.1		
Others	9.9	7.7	29.1	8.7	13.9	
% Contribution	1.9	2.1		1.9		
Net Sales	508.8	365.9		457.7		

Source: Company, ICICI Direct Research

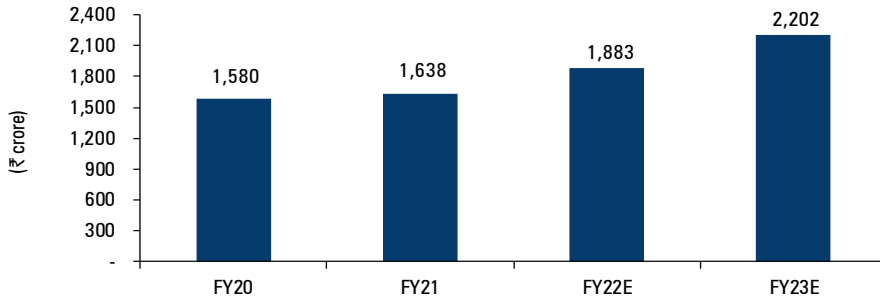
Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E			
	Actual	Actual	Old	New	% Change	Old	New	% Change	
Revenue	1,580	1,638	1,845	1,883	2.1	2,099	2202	4.9	Revised factoring in strong recovery
EBITDA	265	324	328	375	14.4	381	443	16.4	
EBITDA Margin (%)	16.7	19.8	17.8	19.9	212 bps	18.1	20.1	203 bps	
PAT	183	239	225	274	21.7	262	322	23.1	
EPS (₹)	16.5	21.6	20.3	24.7	21.9	23.7	29.1	22.9	

Source: Company, ICICI Direct Research

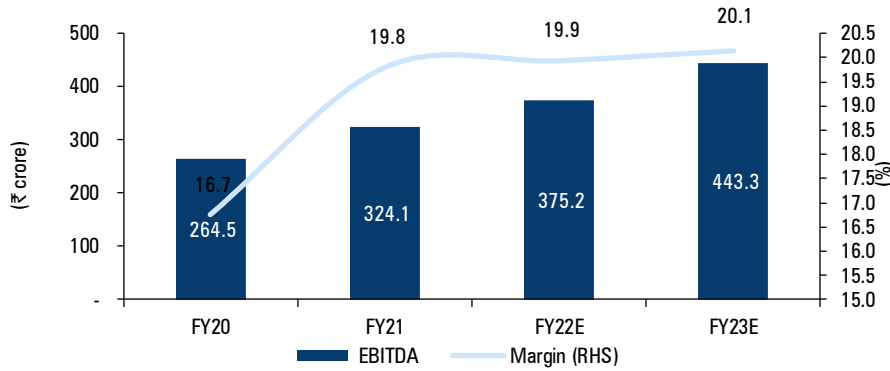
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



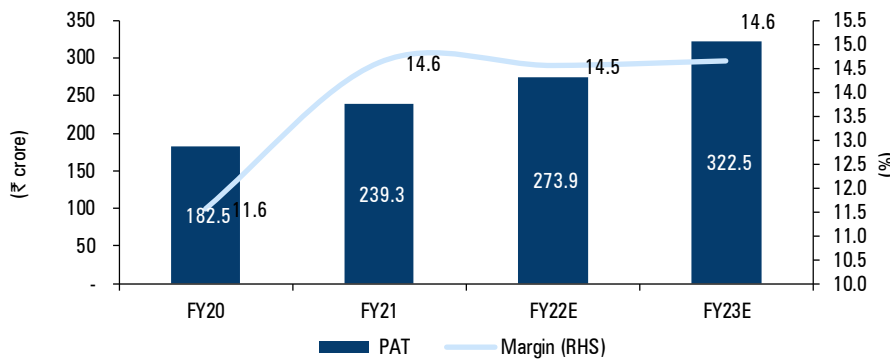
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



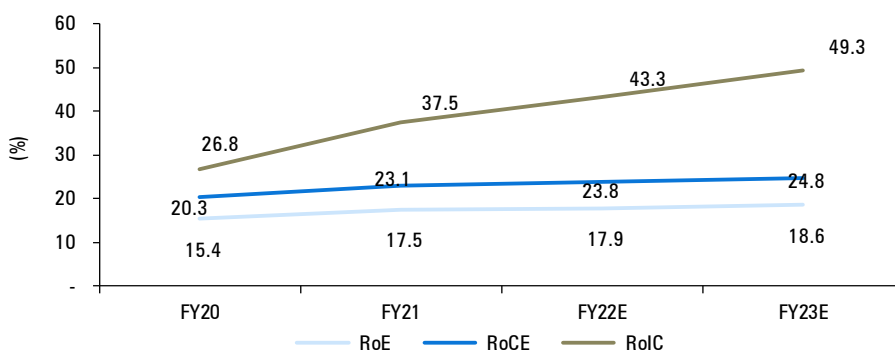
Source: Company, ICICI Direct Research

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)	FY20	FY21	FY22E	FY23E
Net Sales	1,566.9	1,627.5	1,866.2	2,182.4
Other Operating Income	-	10.4	16.9	19.8
Total Operating Income	1,579.6	1,637.9	1,883.1	2,202.2
% Growth	(1.2)	3.7	15.0	16.9
Other Income	40.4	51.0	55.0	60.0
Total Revenue	1,620.0	1,688.9	1,938.2	2,262.2
Cost of materials consumed	593.0	522.0	671.8	800.9
Purchase of stock-in-trade	122.4	165.3	148.8	182.8
Other Expenses	313.5	317.7	352.1	398.6
Total expenditure	1,315.1	1,313.8	1,507.9	1,758.9
EBITDA	264.5	324.1	375.2	443.3
% Growth	(2.7)	22.5	15.8	18.2
Interest	4.5	3.4	3.0	2.8
Depreciation	57.8	54.4	58.8	67.4
PBT	242.6	317.3	368.4	433.1
Tax	58.8	79.5	92.1	108.3
PAT	182.5	239.3	273.9	322.5
% Growth	9.1	31.1	14.5	17.7
EPS	16.5	21.6	24.7	29.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	182.5	239.3	273.9	322.5
Depreciation	57.8	54.4	58.8	67.4
Interest	4.5	3.4	3.0	2.8
Other income	(40.4)	(51.0)	(55.0)	(60.0)
Prov for Taxation	58.8	79.5	92.1	108.3
Cash Flow before WC changes	263.2	325.5	372.8	440.9
Change in Working Capital	108.8	61.1	(0.3)	(24.1)
Taxes Paid	(58.3)	(82.1)	(92.1)	(108.3)
Cashflow from Operating Activities	313.7	304.5	280.3	308.5
(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	55.0	60.0
Cashflow from Investing Activities	(33.5)	(14.9)	(36.0)	(25.0)
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	(0.3)	(1.4)	(2.4)	(2.4)
Changes in Networth	(93.0)	(61.8)	(106.6)	(120.0)
Interest	(4.5)	(3.4)	(3.0)	(2.8)
Others	-	-	-	-
Cashflow from Financing Activities	(97.8)	(66.6)	(112.0)	(125.2)
Changes in Cash	182.3	223.0	132.3	158.3
Opening Cash/Cash Equivalent	246.2	428.6	651.5	783.9
Closing Cash/ Cash Equivalent	428.6	651.5	783.9	942.2

*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	1,476.8	1,679.2
Networth	1,187.4	1,364.8	1,532.1	1,734.6
Total Debt	-	-	-	-
Deferred tax liability (net)	29.0	26.3	26.3	26.3
Total Liabilities	1,230	1,403	1,568	1,768
Gross Block	606.6	638.3	708.3	783.3
Acc: Depreciation	223.0	277.3	336.1	403.5
Net Block	383.6	361.0	372.2	379.8
Capital WIP	29.1	24.0	45.0	55.0
Investments	192.5	223.8	223.8	223.8
Inventory	303.3	322.5	340.0	376.7
Sundry debtors	205.0	201.8	220.2	242.2
Cash and bank balances	428.6	651.5	783.9	942.2
Loans and advances	3.1	0.5	0.6	0.7
Other Current Assets	48.8	70.5	78.4	91.7
Total current Assets	988.9	1,246.9	1,423.0	1,653.5
CL& Prov.	365.3	461.4	504.9	552.9
Net Current Assets	623.6	785.4	918.1	1,100.6
Total Assets	1,230	1,403	1,568	1,768

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	16.5	21.6	24.7	29.1
Cash EPS	21.7	26.5	30.1	35.2
BV	107.2	123.3	138.4	156.7
DPS	6.0	7.5	8.0	9.0
Cash Per Share	20.1	25.0	30.4	36.4
EBITDA Margin	16.7	19.8	19.9	20.1
PBT / Net Sales	13.1	16.5	16.8	17.1
PAT Margin	11.6	14.6	14.5	14.6
Inventory days	70.1	71.9	65.9	62.4
Debtor days	47.4	45.0	42.7	40.2
Creditor days	73.6	92.0	87.7	82.3
RoE	15.4	17.5	17.9	18.6
RoCE	20.3	23.1	23.8	24.8
RoIC	26.8	37.5	43.3	49.3
P/E	67.3	51.4	44.9	38.1
EV / EBITDA	44.8	35.9	30.7	25.6
EV / Net Sales	7.5	7.1	6.1	5.2
Market Cap / Sales	7.8	7.5	6.5	5.6
Price to Book Value	10.4	9.0	8.0	7.1
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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