

16 May 2024

India | Equity Research | Q4FY24 result review

Grindwell Norton

Capital Goods

Revenue and margin prime suspects of PAT decline

Grindwell Norton's (Grindwell) Q4FY24 print stood soft with mid-single digit revenue growth and 130bps YoY compression in EBITDA margin leading to PAT declining 6% YoY. However, the segments driving growth saw role reversal in contrast with the last three quarters. Abrasives revenue returned to double-digit growth after seven quarters while ceramics revenue declined 2% YoY. For FY24, company's revenue growth decelerated to 5.7%, a significant slowdown compared to over 20% revenue growth in each of the last two years. EBITDA margin slipped 40bps YoY to 19.3% leading to PAT growth of 6% YoY. We resume coverage on the stock with **HOLD** rating and TP of INR 2,170, based on 45x FY26E EPS.

Revenue growth leads to muted performance

Grindwell's revenue growth decelerated to 4% YoY in Q4FY24, continuing to tread in mid to high single digit range from the last three quarters. This resulted in FY24 revenue of INR 26.9bn (+5.7%), decelerating from over 20% growth in each of the last two years. While abrasive segment saw revenue growth decelerate to 6.5% in FY24 (12% in FY23), ceramic segment's revenue growth saw a steeper deceleration to 4.1% from 47.3% in FY23.

EBITDA margin compresses to 18.1% in Q4FY24

Grindwell's weak revenue growth and higher raw material cost also led to weak EBITDA margin performance during Q4FY24. EBITDA margin fell 130bps YoY/QoQ to 18.1% (lowest in 9 quarters). Ceramics plastic segment drove the underperformance with EBIT margin falling to 16.2% (-410bps YoY) while abrasive segment saw a minor dip in EBIT margin to 14.4%. FY24 EBITDA margin came in at 19.3% (-40bps YoY).

Resume coverage with HOLD; TP of INR 2,170

We believe Grindwell may be the prime beneficiary of industrial capex cycle recovery and strong opportunities in sunrise industries such as EV, battery solutions etc. We resume coverage on the stock with **HOLD** rating and TP of INR 2,170, based on 45x FY26E EPS.

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Market Data

Market Cap (INR)	253bn
Market Cap (USD)	3,028mn
Bloomberg Code	GWN IN
Reuters Code	GRNN.BO
52-week Range (INR)	2,495 /1,850
Free Float (%)	42.0
ADTV-3M (mn) (USD)	1.6

Price Performance (%)	3m	6m	12m
Absolute	5.0	7.6	15.5
Relative to Sensex	3.7	(3.5)	(1.5)

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	25,413	26,868	30,741	35,142
EBITDA	4,996	5,195	6,393	7,371
EBITDA Margin (%)	19.7	19.3	20.8	21.0
Net Profit	3,619	3,835	4,563	5,364
EPS (INR)	32.9	34.7	41.2	48.4
EPS % Chg YoY	22.7	5.8	18.7	17.6
P/E (x)	69.6	65.8	55.4	47.1
EV/EBITDA (x)	49.1	47.0	37.8	32.4
RoCE (%)	21.6	19.9	20.7	21.0
RoE (%)	21.4	19.8	20.5	20.8

How it compares with CUMI

Grindwell Norton's revenue growth (4% YoY) stood broadly in line with Carborundum Universal (4.2%, standalone) during Q4FY24 while PAT decline was sharper for Carborundum Universal on account of sharper fall in EBITDA margin and lower tax rate for Grindwell Norton on YoY basis.

Outlook and valuation

Recovery in abrasive business highlights lesser pain from Chinese competition. Additionally, strong capital formation and improvement in capacity utilisation in sectors such as auto and auto ancillaries, general engineering, infrastructure indicate healthy demand prospects going ahead.

Therefore, revenue growth is likely to revert to mid-single digits after moderation seen in FY24. We are building in revenue/PAT CAGR of 14%/18% over FY24-26E. Given the high growth in revenues with healthy RoE & RoCE projections, we assign the company a 45x PE multiple on FY26E. We resume coverage on the stock with **HOLD** rating and target price of **INR 2,170** based on 45x FY26E earnings.

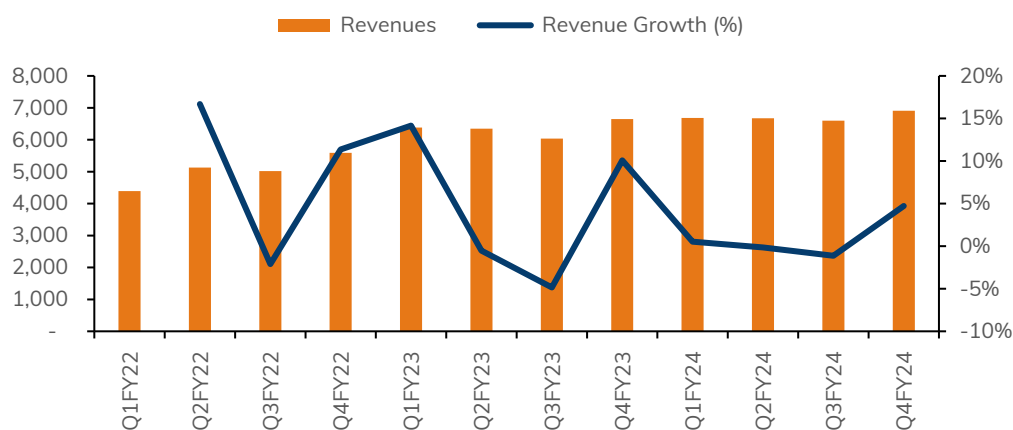
Key Risks: i) Faster-than-anticipated turnaround in new subsidiary Permacel; ii) strong growth in abrasives segment iii) decrease in Chinese imports is a positive risk

Exhibit 1: PE base valuation

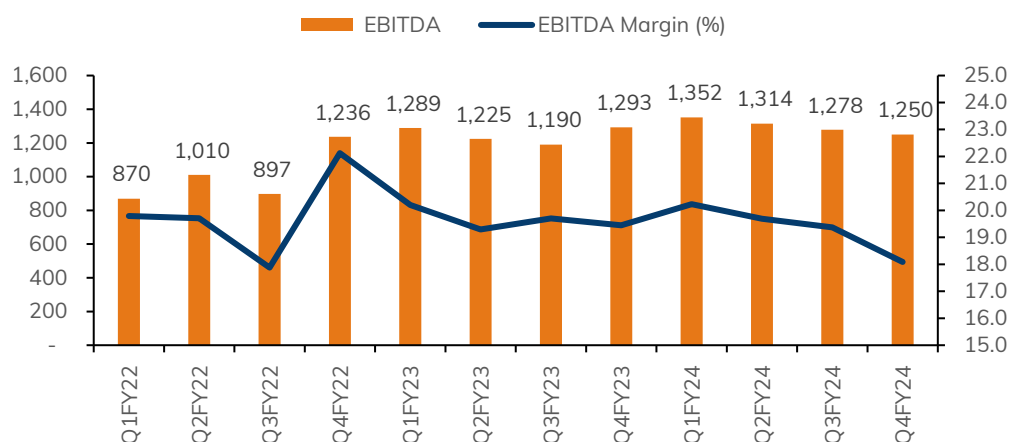
INR mn	FY25E Estimates	FY26E Estimates
Revenue	30,741	35,142
EBIDTA	6,393	7,371
PAT	4,566	5,367
EPS	41.2	48.5
Multiple		45x
TP		2,170

Source: I-Sec research

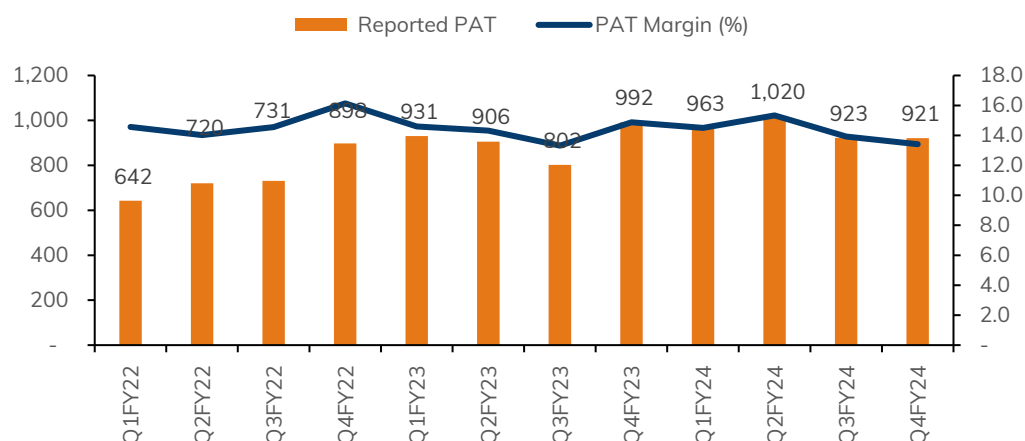
Exhibit 2: Muted revenue growth for multiple quarters (INR mn)



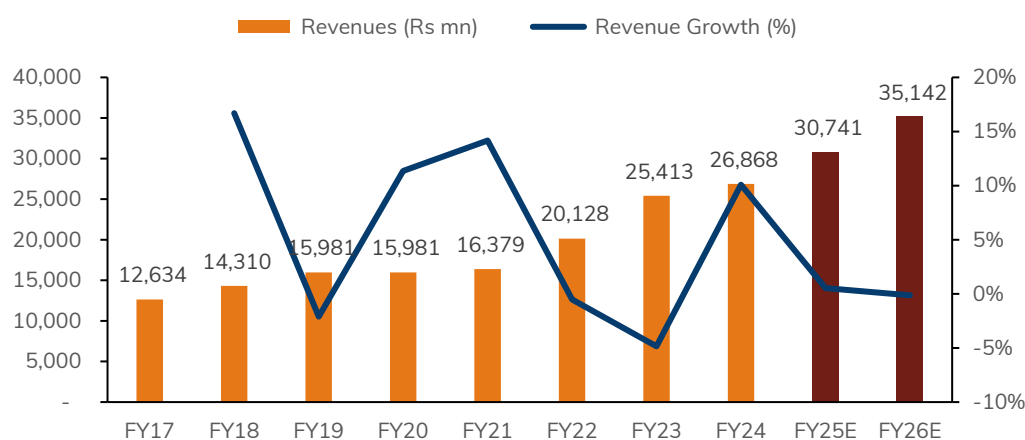
Source: I-Sec research, Company data

Exhibit 3: EBITDA, EBITDA margin for the last 12 quarters (INR mn)

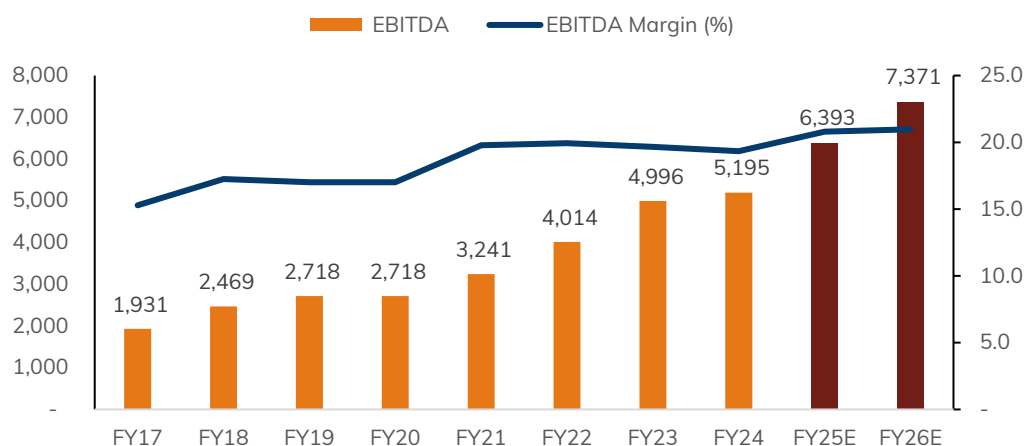
Source: I-Sec research, Company data

Exhibit 4: PAT, PAT margin for the last 12 quarters (INR mn)

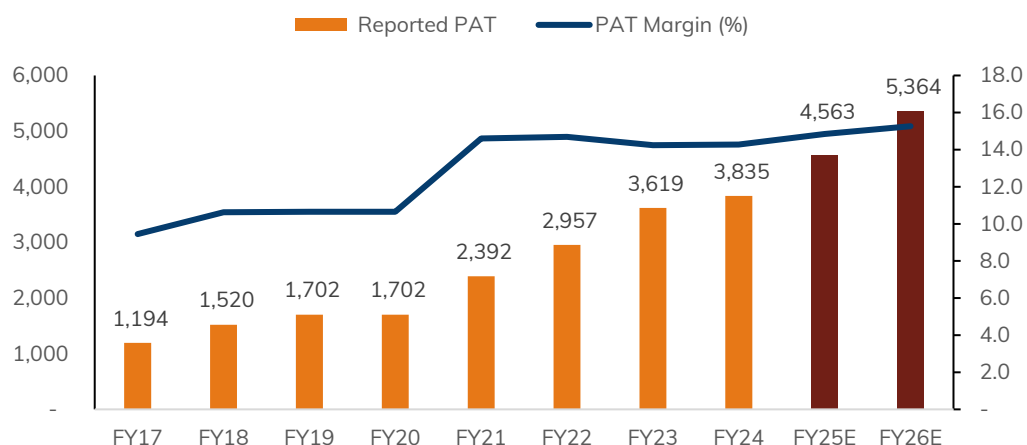
Source: I-Sec research, Company data

Exhibit 5: Revenue and growth for last 10 years (INR mn)

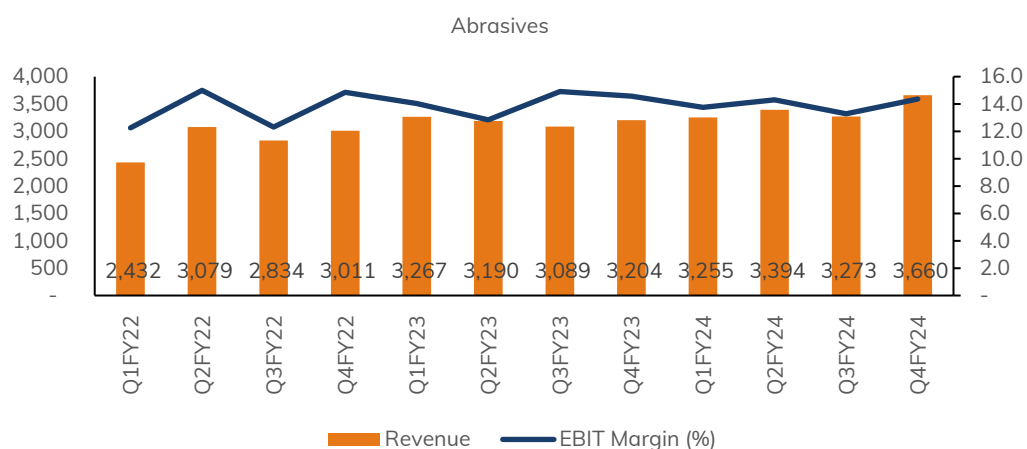
Source: I-Sec research, Company data

Exhibit 6: EBITDA, EBITDA margin for last 10 years (INR mn)

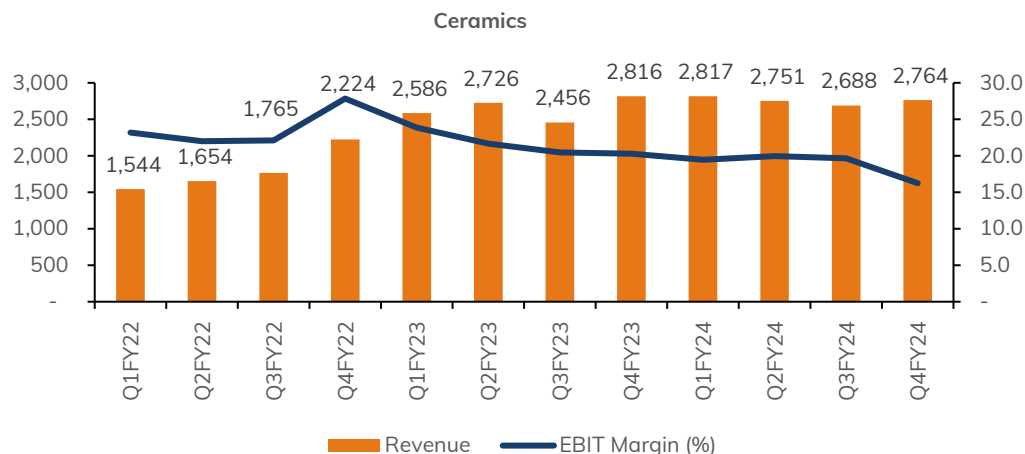
Source: I-Sec research

Exhibit 7: PAT, PAT margin for last 10 years (INR mn)

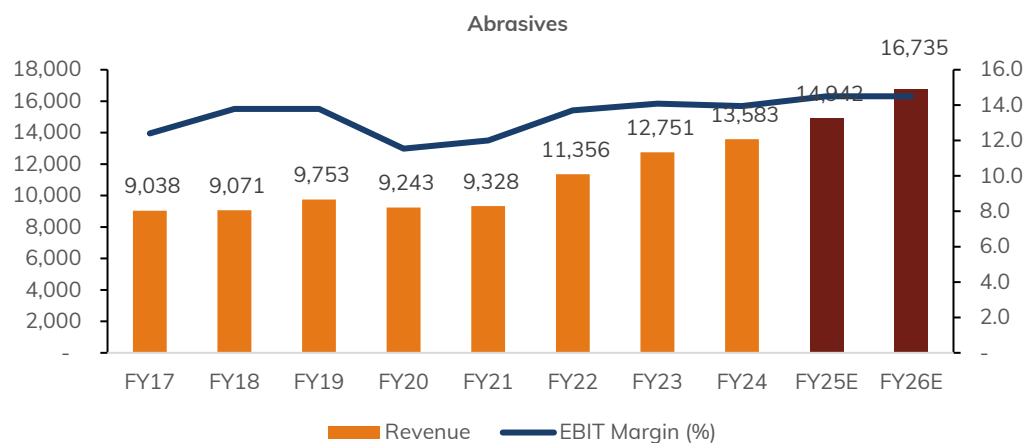
Source: I-Sec research

Exhibit 8: Revenue in abrasive segment for last 12 quarters (INR mn)

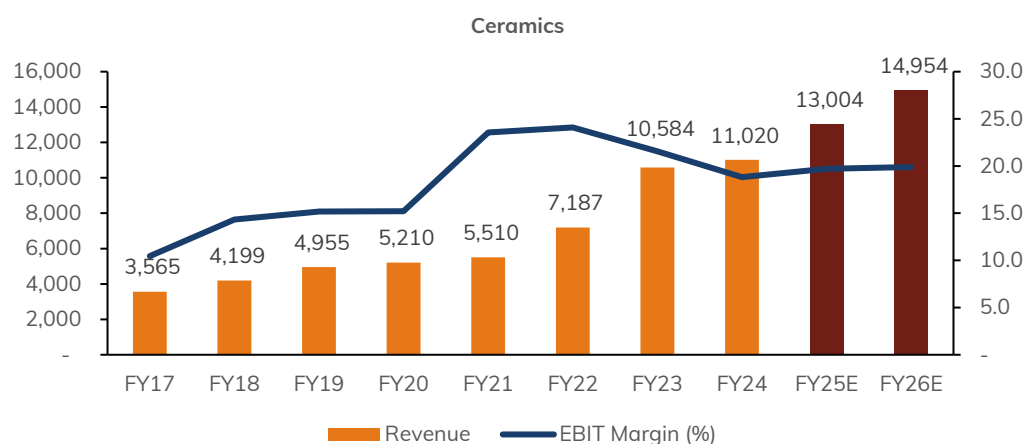
Source: I-Sec research

Exhibit 9: Revenue in ceramics segment for last 12 quarters (INR mn)

Source: I-Sec research

Exhibit 10: Revenue in abrasive segment for last 10 years (INR mn)

Source: I-Sec research

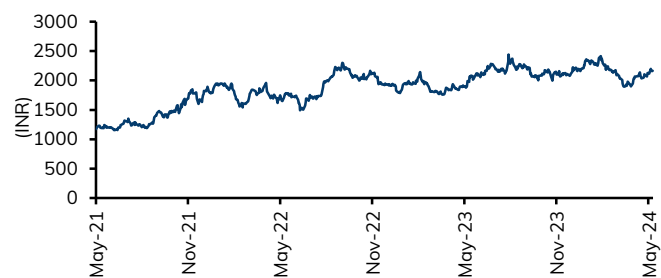
Exhibit 11: Revenue in ceramics segment for last 10 years (INR mn)

Source: I-Sec research

Exhibit 12: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	58.0	58.0	58.0
Institutional investors	23.7	23.9	24.2
MFs and others	14.0	14.4	14.9
FIs/Banks	0.0	0.0	0.0
Insurance	0.7	0.7	0.7
FIIIs	9.0	8.8	8.6
Others	18.3	18.1	17.8

Source: Bloomberg

Exhibit 13: Price chart

Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	25,413	26,868	30,741	35,142
Operating Expenses	8,800	9,607	10,419	11,918
EBITDA	4,996	5,195	6,393	7,371
EBITDA Margin (%)	19.7	19.3	20.8	21.0
Depreciation & Amortization	601	711	737	802
EBIT	4,395	4,484	5,657	6,569
Interest expenditure	78	78	81	84
Other Non-operating Income	561	683	528	691
Recurring PBT	4,878	5,089	6,104	7,176
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,244	1,244	1,538	1,808
PAT	3,634	3,845	4,566	5,367
Less: Minority Interest	(4)	3	3	3
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,619	3,835	4,563	5,364
Net Income (Adjusted)	3,619	3,835	4,563	5,364

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	9,432	11,260	14,574	18,867
of which cash & cash eqv.	1,390	2,130	4,161	6,997
Total Current Liabilities & Provisions	5,020	5,906	6,628	7,451
Net Current Assets	4,412	5,353	7,946	11,416
Investments	6,421	6,894	6,894	6,894
Net Fixed Assets	4,405	5,194	5,457	5,655
ROU Assets	509	800	800	800
Capital Work-in-Progress	1,235	1,275	1,091	1,131
Total Intangible Assets	950	938	938	938
Other assets	1,044	590	1,537	1,757
Deferred Tax Assets	40	40	40	40
Total Assets	19,078	21,161	24,782	28,709
Liabilities				
Borrowings	175	181	117	117
Deferred Tax Liability	139	221	221	221
provisions	520	496	496	496
other Liabilities	4	3	3	3
Equity Share Capital	554	554	554	554
Reserves & Surplus	17,505	19,999	23,123	27,047
Total Net Worth	18,058	20,553	23,676	27,601
Minority Interest	111	115	115	115
Total Liabilities	19,078	21,161	24,782	28,709

Source Company data, I-Sec research

Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,925	3,679	4,381	5,016
Working Capital Changes	(81)	(324)	(555)	(630)
Capital Commitments	(1,629)	(1,690)	(189)	(1,040)
Free Cashflow	5,555	5,370	4,570	6,056
Other investing cashflow	(971)	(127)	(419)	471
Cashflow from Investing Activities	(2,601)	(1,817)	(608)	(569)
Issue of Share Capital	(2)	(1)	-	1
Interest Cost	(78)	(78)	(81)	(84)
Inc (Dec) in Borrowings	118	80	(64)	-
Dividend paid	(1,329)	(1,605)	(1,439)	(1,439)
Others	(113)	(146)	(88)	(88)
Cash flow from Financing Activities	(1,404)	(1,750)	(1,672)	(1,610)
Chg. in Cash & Bank balance	1,009	740	2,031	2,836
Closing cash & balance	1,390	2,130	4,161	6,997

Source Company data, I-Sec research

Exhibit 17: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.8	34.7	41.2	48.5
Adjusted EPS (Diluted)	32.9	34.7	41.2	48.4
Cash EPS	38.3	41.1	47.9	55.7
Dividend per share (DPS)	12.0	13.0	13.0	13.0
Book Value per share (BV)	163.1	185.6	213.8	249.3
Dividend Payout (%)	36.6	37.4	31.5	26.8
Growth (%)				
Net Sales	26.3	5.7	14.4	14.3
EBITDA	24.5	4.0	23.1	15.3
EPS (INR)	22.7	5.8	18.7	17.6
Valuation Ratios (x)				
P/E	69.6	65.8	55.4	47.1
P/CEPS	59.6	55.5	47.7	41.0
P/BV	14.0	12.3	10.7	9.2
EV / EBITDA	49.1	47.0	37.8	32.4
P / Sales	9.9	9.4	8.2	7.2
Dividend Yield (%)	0.5	0.6	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	54.3	55.1	54.7	54.9
EBITDA Margins (%)	19.7	19.3	20.8	21.0
Effective Tax Rate (%)	25.5	24.4	25.2	25.2
Net Profit Margins (%)	14.3	14.3	14.9	15.3
NWC / Total Assets (%)	0.1	0.1	0.1	-
Net Debt / Equity (x)	(0.4)	(0.4)	(0.5)	(0.5)
Net Debt / EBITDA (x)	(1.5)	(1.7)	(1.7)	(1.9)
Profitability Ratios				
RoCE (%)	21.6	19.9	20.7	21.0
RoE (%)	21.4	19.8	20.5	20.8
RoIC (%)	21.6	19.9	20.7	21.0
Fixed Asset Turnover (x)	6.3	5.6	5.8	6.3
Inventory Turnover Days	74	68	71	71
Receivables Days	45	50	52	52
Payables Days	45	51	53	53

Source Company data, I-Sec research

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