



IMV Equity Investment Report: Grindwell Norton Limited

From Research Desk

- *Fundamentals*
- *Recommendation*
- *Disclaimer*



<i>Stock</i>	<i>Industry</i>	<i>Recommendation</i>	<i>CMP</i>	<i>Target</i>	<i>Time Horizon</i>
GRINDWELL	ABRASIVES	Buy above 475 and accumulate around 450--420	471	600	6--12 months

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Grindwell

Recommendation: Buy

Grindwell Norton Limited is a holding company, which manufactures abrasives. The Company's segments include Abrasives, and Ceramics & Plastics. Its Abrasives segment offers bonded abrasives in the form of wheels and other shapes, such as segment and sticks, which are used for various applications ranging from polishing or lapping to removing high quantities of materials. Bonded Abrasives are used in precision applications, such as lapping, honing, super-finishing, race grinding, thread grinding, fluting, outside diameter (OD) grinding, internal and inside diameter (ID) grinding and surface grinding. They are also used in rough applications, such as snagging and weld preparation. Its Ceramics & Plastics segment includes Silicon Carbide, which are used as raw material in the manufacture of Abrasives; High Performance Refractories, which are used for processing ferrous and non-ferrous metals, and Performance Plastics, which produces and markets standard and custom-made polymer products.

Stock Info	
NSE Code	GRINDWELL
BSE Code	506076
CMP	470
Face Value	5
Market Cap(Cr.)	5203.84
Beta	1.03
Book Value	80.35
EPS	10.99
PE Ratio	42.77
52 Week High	475
52 Week Low	305

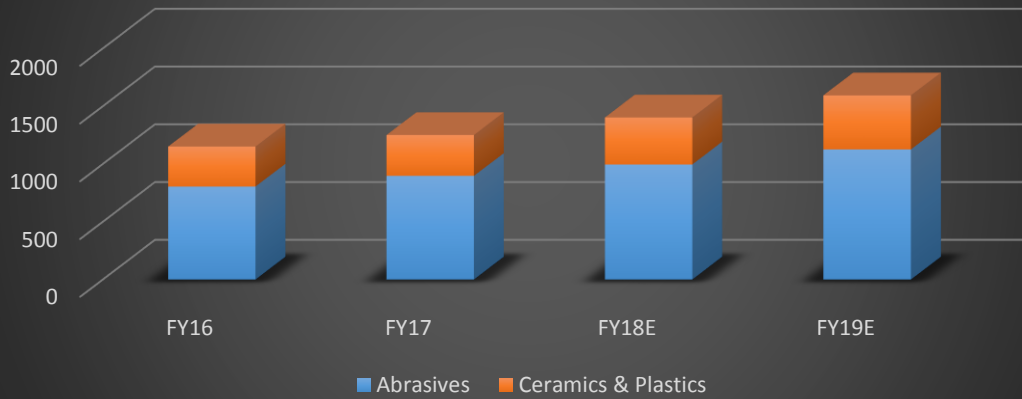
Results

- Grindwell Norton's (GNL) reported Q1FY18 results, which were below estimates. This was mostly on account of weak growth of 2.6% YoY in the abrasives segment (our estimate 10% YoY). The abrasives segment contributed ~64% of topline, while the Ceramics & Plastics segment contributed ~28% to the topline.
- Revenues came in at 337.7 crore up 8.5% YoY, marginally below estimates of 343.1 crore. Abrasives segment grew 2.6% YoY, 228.6 crore in Q1FY18 vs. 222.9 crore in Q1FY17. Ceramics & Plastics segment grew 18% YoY, 100.4 crore in Q1FY18 vs. 85.1 crore in Q1FY17.
- Absolute EBITDA came in at 51.9 crore vs. our estimate of 55.3 crore. EBITDA margins came in at 15.4% vs. 16.2% in Q1FY17.
- PAT came in at 30 crore up 3.3% YoY (mostly on account of lower operating margins, due to higher employee expenses and other expenses)

Share Holding Pattern (%)		
Category	No. of shares	Percentage
Promoters	8378770	7.57
Foreign Promoters	56,828,000	51.33
General Public	20,721,390	18.72
NBFC and Mutual Funds	15,497,992	14.00
Foreign Institutions	4,714,861	4.26
Others	4,568,226	4.13
Financial Institutions	10,761	0.01

Peer Comparison							
Name	Cmp	Market Cap	Sales Turnover	Net Profit	PE	EV/EBITDA	PEG Ratio
Carborundum	345.20	6518.89	1405.68	121.77	37.24	20.07	2.35
Grindwell Norton	471.60	5221.56	1236.43	116.01	42.59	25.03	4.08
Wendt (India)	2374	474.80	129.50	11.69	47.17	20.43	-3.90
Orient Abrasives	36.65	438.48	219.75	6.92	67.00	23.72	-0.93

Segment break-up: Abrasives and Ceramics

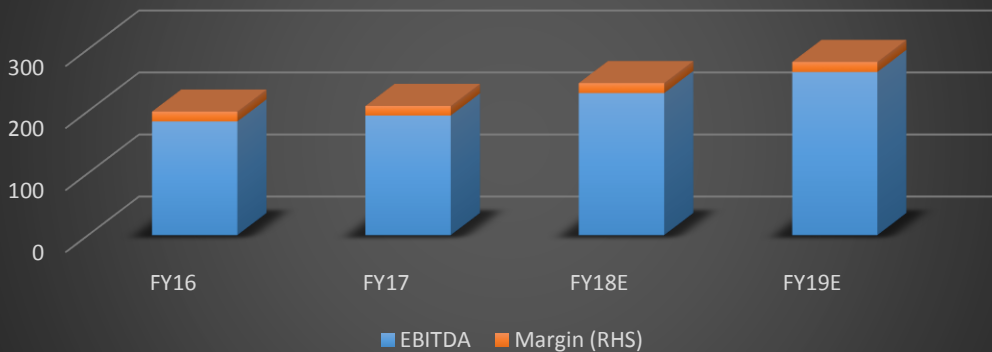


Revenue trend

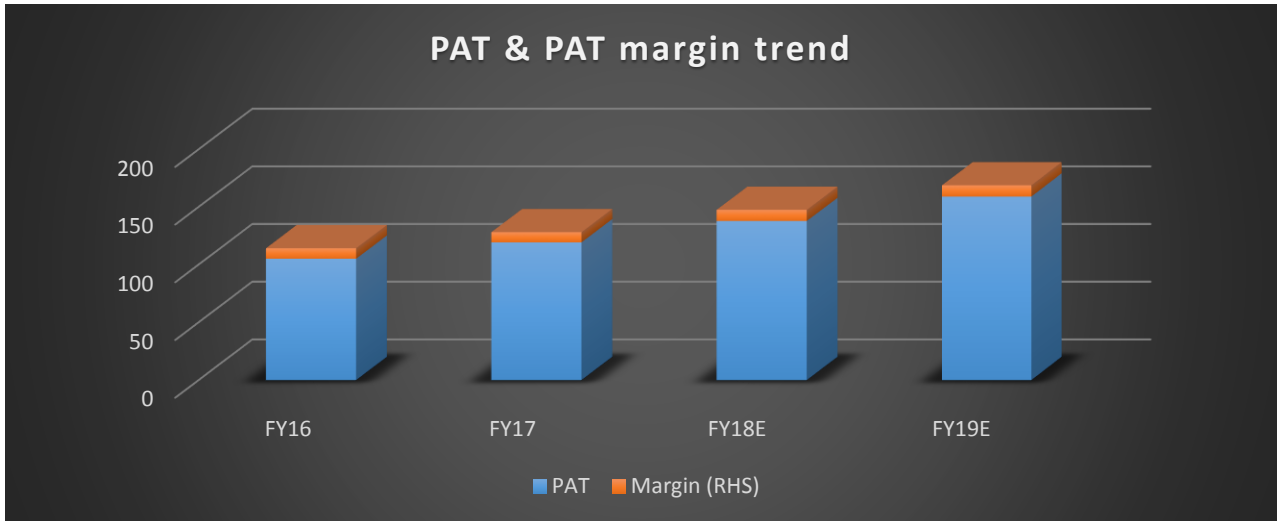


Exports have historically contributed to 8-12% to the topline of the company.

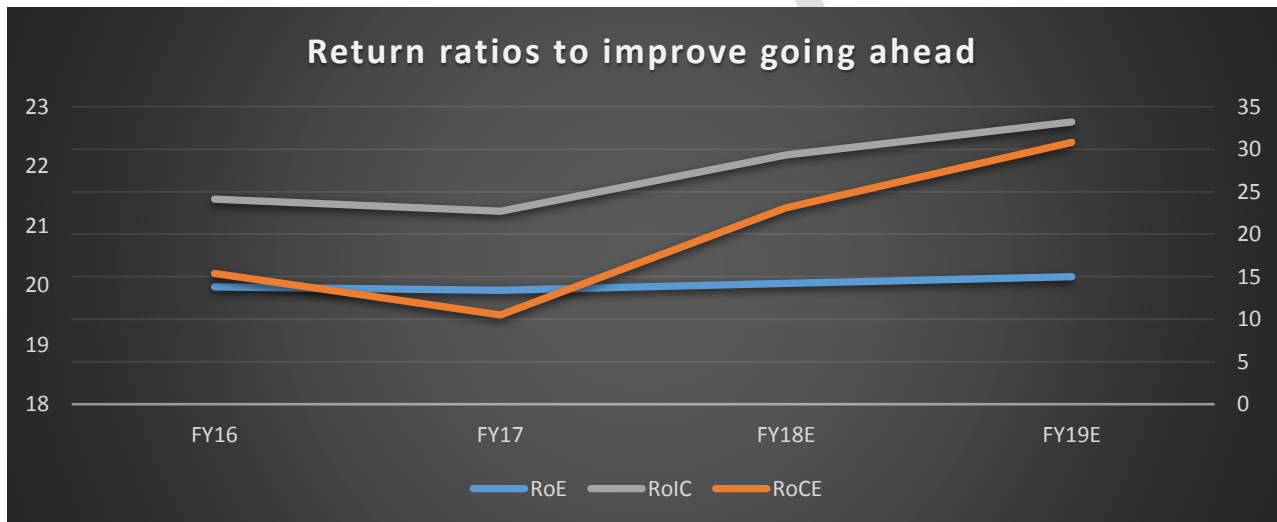
EBITDA growth trend



EBITDA to grow at 16.8% CAGR in FY17-19E



PAT & PAT margin trend



Return ratios to improve led by earnings

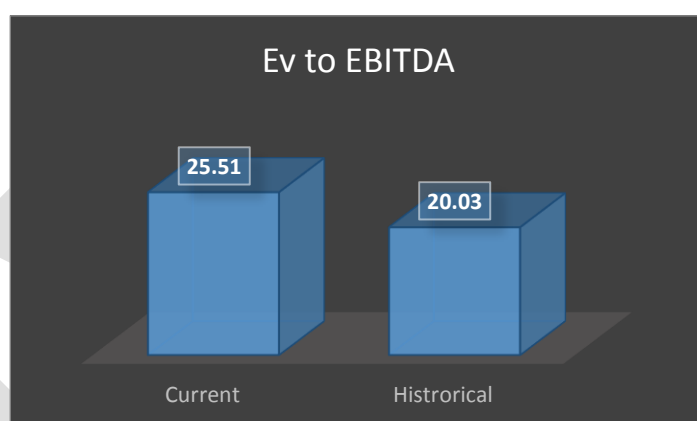
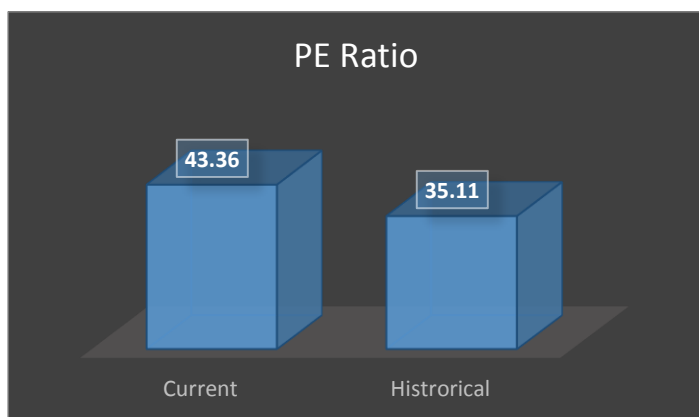
Investment Rationale

- **Abrasives:** In the abrasives segment, GNL witnessed higher growth (compared to the preceding three years) in the industrial sector, buoyed by the domestic demand.
- **Ceramics & Plastics:** GNL's silicon carbide business is likely to have stabilized, after a hitting a new low in FY17 in the face of excess global supply and low prices.
- In the High-Performance Refractories segment, GNL expects significant growth due to up-tick in the foundry market – both domestic & exports. Similarly, non-ferrous segment in the domestic markets is also likely to act to key growth driver for this segment in 2017-18.

Outlook and valuation

As per the management, capacity utilisation for abrasives and ceramics segment was currently at ~70% and ~40%, respectively. GNL has planned capex of ~75 crore for FY18 (FY17 capex at 59 crore). Some of this capex is for newer initiatives (Road grids for defence & civil airports, shingles for roof-tops), while the rest is maintenance related for abrasives and ceramics. With cash balance of 200 crore and debt-free status.

With the anticipated recovery in industrial demand, expect a top line, EBITDA and Bottom line to grow at 13.4%, 16.8% and 15.4% respectively. Accordingly, we value GNL at 35x FY19E earnings to arrive at a target price of 600 and continue to retain BUY recommendation on the stock.



At the current stock price, Grindwell has Expensive Valuation.

Investment call:

Buy Grindwell Norton above 475 and add more in panic around 450--420 for the initial upside target of 600 mark.

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