

13 November 2024

India | Equity Research | Q2FY25 results review

Grindwell Norton

Capital Goods

Revenue growth moderates further; higher growth in fixed cost impacts margin

Grindwell Norton (Grindwell) reported weak Q2 print; revenue growth was down to low single digits and higher fixed cost led to margin compression. Both sources of weakness (revenue growth and margin) persisted across segments. While there has been a growing concern of a weakening pricing power (twin whammy – increasing alumina prices and increased Chinese competition), the company’s gross margin expansion (YoY) seems heartening. H1FY25 revenue growth of 5% YoY and lower absorption of fixed cost have resulted in ~5% YoY fall in PAT. Trim FY25/26E EPS by 11%/7% to factor in revenue and margin weakness. Maintain **HOLD** with revised TP of **INR 2,025** (vs INR 2,170 earlier) based on 45x FY26E earnings.

Low revenue growth coupled with shrinking margins...

Revenue for Q2FY25 came in at INR 6.9bn, up 4% YoY consistent with the low single digit growth witnessed over the previous five quarters as well. EBITDA for the quarter was INR 1.3bn, (-1.7% YoY) with margins contracting to 18.6% (-160bps YoY; -30bps QoQ). PAT for the quarter was INR 962mn, down 6% YoY. Margins have seen compression across segments.

...an outcome of weakening pricing power

Grindwell has been plagued by weakening pricing power, a coalescence of increasing alumina prices and increasing Chinese competition causing margins to drop at EBITDA level. At the same time, lower revenue and consistent fixed costs further resulted in a drop in margins at the bottom line.

Margins have seen compression across major segments

Revenue and EBIT for abrasives segment came in at INR 3.5bn (+3.7% YoY) and INR 453mn (-7% YoY), for ceramics and plastics segment at INR 2.9bn (+4.9% YoY) and INR 477mn (-13% YoY), respectively.

Maintain HOLD at revised TP of INR 2,025

With H1FY25 revenue/EBITDA/PAT at INR 14bn/INR 2.6bn/1.9bn, +5% YoY/-2% YoY/-5% YoY, we believe this errant market scenario may persist over H2FY25E and FY26E. Thus, we cut estimates and maintain **HOLD** on the stock with revised TP of **INR 2,025/share** (45x FY26E EPS).

Financial Summary

Y/E Mar-31 (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	25,413	26,868	29,325	33,529
EBITDA	4,996	5,195	5,539	6,647
EBITDA Margin (%)	19.7	19.3	18.9	19.8
Net Profit	3,638	3,842	4,075	5,003
EPS (INR)	32.9	34.7	36.8	45.2
EPS % Chg YoY	22.7	5.8	6.1	22.7
P/E (x)	64.6	61.0	57.6	46.9
EV/EBITDA (x)	45.5	43.5	40.4	33.3
RoCE (%)	21.6	19.9	18.7	20.1
RoE (%)	21.4	19.8	18.5	19.9

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Market Data

Market Cap (INR)	235bn
Market Cap (USD)	2,782mn
Bloomberg Code	GWN IN
Reuters Code	GRNN.BO
52-week Range (INR)	2,960 / 1,850
Free Float (%)	42.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	(12.3)	(2.0)	1.9
Relative to Sensex	(11.0)	(10.3)	(18.6)

ESG Score	2022	2023	Change
ESG score	47.6	63.4	15.8
Environment	23.6	41.5	17.9
Social	35.0	76.6	41.6
Governance	71.1	72.1	1.0

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	-4.6	-4.6
EBITDA	-13.4	-9.8
EPS	-10.8	-6.8

Previous Reports

16-05-2023: [Q4FY24 result review](#)

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. We on the stock with **HOLD** rating and revised target price of **INR 2,025** (vs INR 2,170 earlier) based on 45x FY26E earnings.

Risks: i) further price rises in alumina ii) strong growth in abrasives segment is a positive risk iii) decrease in Chinese imports is a positive risk

Exhibit 1: Earnings revision with revised TP of INR 2,025/share

INR mn	FY25E			FY26E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	30,741	29,325	-4.6	35,142	33,529	-4.6
EBIDTA	6,393	5,539	-13.4	7,371	6,647	-9.8
PAT	4,566	4,075	-10.8	5,367	5,003	-6.8
EPS		36.8			45.2	
Multiple					45x	
TP					2,025	

Source: I-Sec research, Company data

Exhibit 2: Quarterly financial highlights

INR mn	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	FY24	FY23	YoY(%)
Revenues	6,939	6,674	4.0	7,056	(1.7)	26,868	25,413	5.7
EBITDA	1,292	1,314	(1.7)	1,331	(2.9)	5,195	4,996	4.0
Margin	18.6	19.7	-107bps	18.9	-24bps	19.3	19.7	-33bps
Depreciation	228	169	34.9	214	6.4	711	601	18.2
Finance Cost	23	18	26.5	25	(6.9)	78	78	(0.5)
Other Income	234	226	3.6	158	48.4	683	561	21.8
PBT	1,275	1,354	(5.8)	1,254	1.7	5,089	4,878	4.3
Tax	304	331	(8.1)	320	(5.1)	1,244	1,244	-
Tax rate	23.9	24.4	-58bps	25.5	-169bps	24.4	25.5	-106bps
Reported PAT	962	1,019	(5.6)	932	3.2	3,845	3,634	5.8
Adjusted PAT	971	1,023	(5.1)	934	4.0	3,845	3,634	5.8
Margin(%)	14.0	15.3	-134bps	13.2	76bps	14.3	14.2	3bps
EPS	8.8	9.2	(5.1)	8.4	4.0	34.7	32.8	5.8

Source: I-Sec research, Company data

Exhibit 3: Quarterly segmental highlights

INR mn	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	FY24	FY23	YoY(%)
Abrasives	3,520	3,394	3.7	3,494	0.7	13,583	12,751	6.5
Ceramics & Plastics	2,886	2,751	4.9	3,059	(5.6)	11,020	10,584	4.1
Others	582	573	1.5	552	5.4	2,430	2,312	5.1
Total*	6,939	6,674	4.0	7,056	(1.7)	27,034	25,646	5.4
EBIT								
Abrasives	453	486	(6.7)	474	(4.3)	1,894	1,796	5.5
Ceramics & Plastics	477	549	(13.2)	548	(13.0)	2,075	2,281	(9.1)
Others	141	186	(24.1)	143	(0.8)	714	532	34.3
EBIT Margin (%)								
Abrasives	12.9	14.3	-140bps	13.6	-70bps	13.9	14.1	-14bps
Ceramics & Plastics	16.5	20.0	-340bps	17.9	-140bps	18.8	21.6	-273bps
Others	24.3	32.5	-820bps	25.8	-150bps	29.4	23.0	639bps
Total	15.4	18.3	-290bps	16.5	-110bps	17.3	18.0	-65bps

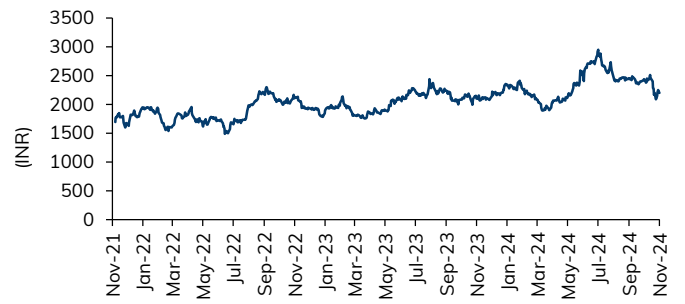
Source: I-Sec research, Company data; *Total is ex intersegmental revenues

Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	58.0	58.0	58.0
Institutional investors	24.2	24.8	25.0
MFs and others	14.9	15.2	15.8
FIs/Banks	0.0	0.2	0.2
Insurance	0.7	0.7	0.7
FIIIs	8.6	8.6	8.3
Others	17.8	17.2	17.0

Source: Bloomberg

Exhibit 5: Price chart



Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Net Sales	25,413	26,868	29,325	33,529
Operating Expenses	8,800	9,607	10,590	11,794
EBITDA	4,996	5,195	5,539	6,647
EBITDA Margin (%)	19.7	19.3	18.9	19.8
Depreciation & Amortization	601	711	737	802
EBIT	4,395	4,484	4,802	5,845
Interest expenditure	78	78	81	84
Other Non-operating Income	561	683	731	932
Recurring PBT	4,878	5,089	5,452	6,693
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,244	1,244	1,374	1,687
PAT	3,634	3,845	4,078	5,006
Less: Minority Interest	(4)	3	3	3
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	3,638	3,842	4,075	5,003
Net Income (Adjusted)	3,638	3,842	4,075	5,003

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	9,432	11,260	13,891	17,796
of which cash & cash eqv.	1,390	2,130	3,947	6,460
Total Current Liabilities & Provisions	5,020	5,906	6,361	7,148
Net Current Assets	4,412	5,353	7,529	10,648
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	1,228	1,538	1,854	2,061
Deferred Tax Assets	40	40	40	40
Total Assets	19,262	22,110	24,682	28,245
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	22,635	26,199
Total Net Worth	18,058	20,553	23,189	26,752
Minority Interest	111	115	115	115
Total Liabilities	19,262	22,110	24,682	28,245

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,925	3,679	3,894	4,442
Working Capital Changes	(81)	(324)	(352)	(602)
Capital Commitments	(1,629)	(1,690)	(189)	(1,040)
Free Cashflow	5,555	5,370	4,083	5,482
Other investing cashflow	(971)	(127)	(146)	722
Cashflow from Investing Activities	(2,601)	(1,817)	(335)	(318)
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	(79)	113	1,887	2,514
Closing cash & balance	1,390	2,130	3,947	6,460

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending Mar-31)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	32.8	34.7	36.8	45.2
Adjusted EPS (Diluted)	32.9	34.7	36.8	45.2
Cash EPS	38.3	41.1	43.5	52.4
Dividend per share (DPS)	12.0	13.0	13.0	13.0
Book Value per share (BV)	163.1	185.6	209.4	241.6
Dividend Payout (%)	36.6	37.4	35.3	28.8
Growth (%)				
Net Sales	26.3	5.7	9.1	14.3
EBITDA	24.5	4.0	6.6	20.0
EPS (INR)	22.7	5.8	6.1	22.7
Valuation Ratios (x)				
P/E	64.6	61.0	57.6	46.9
P/CEPS	55.4	51.6	48.8	40.4
P/BV	13.0	11.4	10.1	8.8
EV / EBITDA	45.5	43.5	40.4	33.3
P / Sales	9.2	8.7	8.0	7.0
Dividend Yield (%)	0.6	0.6	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	54.3	55.1	55.0	55.0
EBITDA Margins (%)	19.7	19.3	18.9	19.8
Effective Tax Rate (%)	25.5	24.4	25.2	25.2
Net Profit Margins (%)	14.3	14.3	13.9	14.9
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)	(1.9)	(2.0)
Profitability Ratios				
RoCE (%)	21.6	19.9	18.7	20.1
RoE (%)	21.4	19.8	18.5	19.9
RoC (%)	21.6	19.9	18.7	20.1
Fixed Asset Turnover (x)	6.3	5.6	5.5	6.0
Inventory Turnover Days	74	68	69	71
Receivables Days	45	50	51	52
Payables Days	45	51	51	53

Source Company data, I-Sec research

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