

GRINDWELL NORTON LTD

 28th Feb 2019

Initiating Coverage (BUY)

CMP

INR 534

Target Price

INR 614

Stock Details

Industry	Other Industrial Products
Bloomberg Code	GWN:IN
BSE Code	506076
Face Value (Rs.)	5.00
Market Cap. (Rs. mn)	58,355.00
52wk. Low/High (Adjusted) (Rs.)	471.80/600.75

Shareholding Pattern Dec '18

Promoter (%)	58.33
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	41.67
No. of Share Outstanding (mn)	110.72

Valuation Summary

	FY 17A	FY 18A	FY 19P	FY 20P
P/E (x)*	32.55	39.50	36.00	34.00
EV/EBITDA (x)	16.51	20.61	18.48	17.17
P/BV (x)	4.35	5.97	6.08	5.38

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 17A	FY 18A	FY 19P	FY 20P
Net Sales	12,634	14,310	15,741	17,315
EBITDA	2,240	2,738	3,200	3,517
Net Profit	1,209	1,509	1,797	1,998
EPS (Rs.)*	10.9	13.5	16.2	18.0

*Un adjusted

Key Ratios

	FY 17A	FY 18A	FY 19P	FY 20P
EBITDA Margin (%)	17.3	18.8	19.9	19.9
EBIT Margin (%)	14.0	15.7	17.1	17.3
Net Pro. Margin (%)	9.3	10.3	11.2	11.3
Debt/Equity (x)	0.00	0.00	0.00	0.00
RoNW (%)	15.3	15.9	17.5	17.2
RoCE (%)	14.5	15.1	16.6	16.4

We recommend 'BUY' on GRINDWELL NORTON LTD for a target of INR 614 - valuing the company at P/E 34x of FY20E Earning.

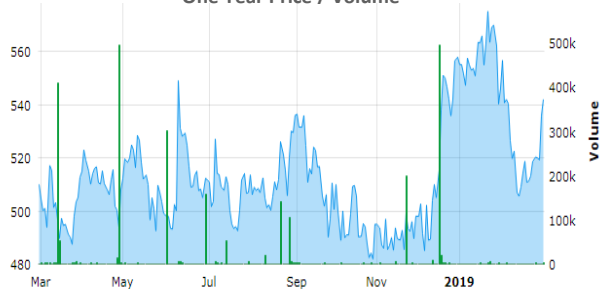
INVESTMENT RATIONALE:

- Grindwell Norton is a leading company in the domestic abrasives market.
- Backed by the strong parentage of Saint Gobain, a strong financial track record
- Strong parentage, leadership in domestic market to drive growth.
- Strong moat, new value-added products, robust exports.
- GNL keeps introducing new value-added products every year with the support of its strong parent - Saint Gobain.
- With rising prospects in the fabrication segment and greater manufacturing activity in user industries, management expects to maintain healthy volume growth in abrasives.
- Constant addition of products to its range would lead to strong sales growth.

VALUATIONS AND VIEW:

Grindwell Norton is a part of the High Performance Materials division, which is a part of the Innovative Materials Sector of the Group. The CertainTeed business, which is a part of the Construction Products Sector of Saint-Gobain, also operates under GNO. GNO provides its expertise in the areas of innovation and co-development through a wide range of high-performance materials for demanding applications in diverse segments such as the automotive, health, defense, security and even the food & beverage industries. **We value the business at 34x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 614 per share.**

One Year Price / Volume



RISK & CONCERNS:

- **Industry and Market:** The dependence on any single industry segment is less than 15%.
- **Technology:** Abrasives have been used over a very long period of time and technological changes in terms of applications are gradual.
- **Competition:** The Abrasives Market has clearly been evolving from two major players to multi-players. The competitive landscape has become much more dynamic.

COMPANY BACKGROUND:

Grindwell Norton (GNO), a company listed on the Bombay and National Stock Exchanges, pioneered the manufacture of grinding wheels in India in 1941. Today, GNO's businesses include: Abrasives, Silicon Carbide, High Performance Refractories, Performance Plastics and ADFORS. The Saint-Gobain Delegation (Country Head) office, and INDEC (the captive India IT Development Centre for the Saint-Gobain Group globally) are also part of GNO. GNO's subsidiary, Saint-Gobain Ceramic Materials Bhutan Pvt. Ltd., manufactures Silicon Carbide. GNO is part of the Saint-Gobain Group. The Group currently holds 51.66% of the equity capital of GNO.

The businesses of the Saint-Gobain Group in India are housed in two large entities, Grindwell Norton Limited (GNO), a publicly traded company, and Saint-Gobain India Pvt. Ltd. (SGI). Grindwell Norton is a part of the High Performance Materials division, which is a part of the Innovative Materials Sector of the Group. GNO's subsidiary, Saint-Gobain Ceramic Materials Bhutan Pvt. Ltd., manufactures Silicon Carbide. GNO holds 70% of the equity of this Company. The CertainTeed business, which is a part of the Construction Products Sector of Saint-Gobain, also operates under GNO.

Businesses

- Abrasives Business
- Ceramics and Plastic Business
- Other Businesses

INDUSTRY OVERVIEW:

The Abrasives industry has two major players offering a full range of Abrasive products, one of which is GNO. GNO has a leadership position in several product-market segments. Apart from the two major players in the market, there are a few medium-sized players and a number of small local players. Besides, imports from china are present in many categories, particularly at the low end. Some of the players from Europe and Japan have their agents and/or distributors to service mainly the precision grinding or polishing or surface preparation segments. In the case of Coated Abrasives, a few important international players have set up conversion facilities. Also, most of the Power Tool players are now focusing on developing their accessories business which includes Thin Wheels and some Coated Abrasives. The market, over a period of time, has become highly price sensitive. Over the past few years, import of low cost products with acceptable quality has substantially increased. Unscrupulous trade practices by some of the players give them undue cost advantage. Key success factors are good quality, cost, innovation, differentiation, service and capability to provide total grinding solutions.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Wendt India	2,867	28.2	573.4	0.87	5.4	64.85	43.6	20.50	4.43
Orient Abrasives	23	15.2	273.3	1.09	5.0	28.90	84.2	(6.10)	1.32
Welcast Steels	603	30.4	38.6	0.33	0.4	566.67	62.4	10.19	1.14
Carborundum Uni.	350	26.3	6,617.1	0.64	58.6	3.74	692.9	13.29	3.98
Grindwell Norton	534.1	36.0	5,913.0	0.93	41.3	3.10	394.8	8.04	5.97

*TTM

FINANCIAL OVERVIEW

Q3 FY18 Performance Highlight

(in Million)	Dec FY17	Mar FY17	June FY17	Sept FY18	Dec FY18	YoY (%)	QoQ (%)
Revenue	3,573.60	3,775.70	3,732.60	4,078.30	3,869.80	8.29%	-5.11%
Other Income	73.7	68.6	93.3	54.8	116.9		
Total Income	3,647.30	3,844.30	3,825.90	4,133.10	3,986.70	9.31%	-3.54%
Expenditure	-2,956.60	-3,075.60	-3,073.00	-3,398.50	-3,262.10		
As a % of Sales	82.73%	81.46%	82.33%	83.33%	84.30%		
Interest	-2.6	-2.6	-2.4	-2.2	-3.5	34.62%	59.09%
PBDT	690.7	768.7	752.9	734.6	724.6		
As a % of Sales	19.33%	20.36%	20.17%	18.01%	18.72%		
Depreciation	-110.5	-104.3	-102.3	-105.8	-107.9		
PBT	580.2	664.4	650.6	628.8	616.7	6.29%	-1.92%
As a % of Sales	16.24%	17.60%	17.43%	15.42%	15.94%		
Tax	-186.4	-227.5	-226.1	-228.9	-210.2	12.77%	-8.17%
Net Profit	393.8	436.9	424.5	399.9	406.5	3.22%	1.65%
As a % of Sales	11.02%	11.57%	11.37%	9.81%	10.50%		
Equity	553.6	553.6	553.6	553.6	553.6	0.00%	0.00%
EPS (Rs)	3.56	3.95	3.83	3.62	3.67	3.09%	1.38%
CEPS (Rs)	4.55	4.89	4.76	4.57	4.65		
OPM %	19.33	20.36	20.17	18.01	18.72		
NPM %	11.02	11.57	11.37	9.81	10.5		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Net Sales	11,354	11,827	12,634	14,310	15,741	17,315	18,700
Other Operating Income	177	208	309	269	320	341	383
Expenditure	9,548	10,007	10,702	11,841	12,860	14,139	15,272
EBITDA	1,983	2,029	2,240	2,738	3,200	3,517	3,810
Depreciation	416	419	422	448	460	466	468
EBIT	1,567	1,609	1,817	2,290	2,740	3,051	3,342
Interest Expenses	29	24	20	15	21	21	24
PBT	1,538	1,586	1,797	2,275	2,719	3,030	3,318
Tax	496	528	588	766	922	1,032	1,133
Other Income	-	-	-	-	-	-	-
Net Income Before Adjustment	1,042	1,058	1,209	1,509	1,797	1,998	2,185
Minority Int./Income from Assoc.	10	12	-	-	-	-	-
Adjusted PAT	1,032	1,046	1,209	1,509	1,797	1,998	2,185

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18A	FY 19E	FY 20P	FY 21P
Equity share capita	277	277	554	554	554	554	554
Reserves & surplus	5,882	6,461	8,489	9,352	10,084	12,083	14,268
Misc Expenditure	-	-	-	-	-	-	-
Net worth	6,158	6,738	9,043	9,905	10,638	12,637	14,822
Minority Interest	86	97	-	124	-	144	145
Share Application Money	-	-	-	-	-	-	-
Loan Funds	64	28	19	-	2	0	(2)
Net deferred tax liability	187	174	230	259	259	259	259
Other Long-term Liabilities	61	77	20	16	17	19	20
Long-term Provisions	146	106	173	204	224	246	266
Total Liabilities	6,702	7,221	9,485	10,510	11,142	13,307	15,512
Net block	3,670	3,581	3,743	3,667	3,298	2,880	2,456
Investment, Loan & Adv.	499	646	1,608	2,007	278	263	317
Total Current Assets	5,206	5,723	6,748	7,764	11,066	13,660	16,334
Current Liabilities & Provisions	2,673	2,729	2,615	2,930	3,501	3,498	3,597
Net Current Assets	2,534	2,994	4,133	4,834	7,565	10,162	12,737
Total Assets	6,702	7,221	9,485	10,510	11,142	13,307	15,512

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 18A	FY 19E	FY 20P	FY 21P
Operating Cash Flow	1,337	1,807	2,106	2,318
Cash Flow from Investments	(458)	1,578	(43)	(107)
Cash Flow from Financing	(601)	(552)	(23)	(26)
Net Changes in Cash	278	2,834	2,040	2,185
Opening Cash	2,407	2,706	5,539	7,580
Closing Cash Balance	2,685	5,539	7,580	9,765

Research Analyst Details

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