

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	GRNN.BO
Bloomberg code	GWN IN
Market cap. (US\$ mn)	137
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	55
Target price (Rs)	140

Performance (%)	1M	3M	12M
Absolute	(6)	12	25
Relative	5	16	(16)

Valuation ratios

Yr to 31 Dec	FY09E	FY10E
EPS (Rs.)	11.3	13.0
+/- (%)	13.9	15.2
PER (x)	10.3	9.0
PBV (x)	1.9	1.7
Dividend/Yield (%)	3.4	3.4
EV/Sales (x)	1.2	1.1
EV/EBITDA (x)	7.1	6.3

Major shareholders (%)

Promoters	59
MFs	6
BFSI's	1
Public & Others	34

Financial highlights

(Rs mn)	3QCY09	3QCY08	YoY (%)	9MCY09	9MCY08	YoY (%)	CY08	CY09E	YoY (%)	CY10E	YoY (%)
Net Revenues	1,368	1,390	(1.6)	3,785	3,875	(2.3)	5,021	5,139	2.4	5,977	16.3
EBITDA	243	221	10.2	624	589	5.9	715	895	25.2	1,001	11.8
EBITDA Margin (%)	17.8	15.9	-	16.5	15.2	-	14.2	17.4	-	16.7	-
Other Income	42	38	8.9	123	144	(14.9)	221	184	(16.7)	223	21.2
Depreciation	36	37	(2.4)	104	104	0.4	140	168	20.5	175	4.2
Interest	1	2	-	2	6	-	6	4	-	4	-
Profit before Tax & EoI	249	220	13.1	641	623	2.8	791	907	14.7	1,045	15.2
Tax	79	66	20.6	206	196	4.8	241	281	16.6	324	15.2
Adjusted PAT	170	154	9.9	435	427	1.9	550	626	13.9	721	15.2
Reported PAT	170	154	9.9	435	427	1.9	550	626	13.9	721	15.2
EPS adjusted (Rs)	3.1	2.8	-	7.9	7.7	-	10.0	11.3	-	13.1	-

Grindwell Norton

Maintain Outperformer

Price: Rs 118

BSE Index: 15,405

03 November 2009

3QCY09 Result – Volumes picking up

Sales for the quarter dropped by 1.6% YoY and by 2.3% for 9MCY09. In 9MCY09, abrasives volumes dropped by 10% and realisations were up 4% YoY. Silicon Carbide grain sales volumes dropped by 6% YoY in 9MCY09 and realisations were up 15% YoY. Capacity utilisation in abrasives is 70-80% and in the Bhutan plant it has reached 70%. Operating margins for 9MCY09 are higher by 130 bps YoY. In 9MCY09, although sales has dropped by 2.3%, material and employee cost have grown by 3.3% each but power & fuel and other expenses have dropped by 15% and 17%, respectively, leading to the margin improvement. Since overall sales volumes are down 8-10% YoY, at least 50% drop in other expenses can be attributed to that and the balance to cost containment. Fuel expenses are lower due to lower furnace oil prices and lower energy prices at the company's Bhutan facility.

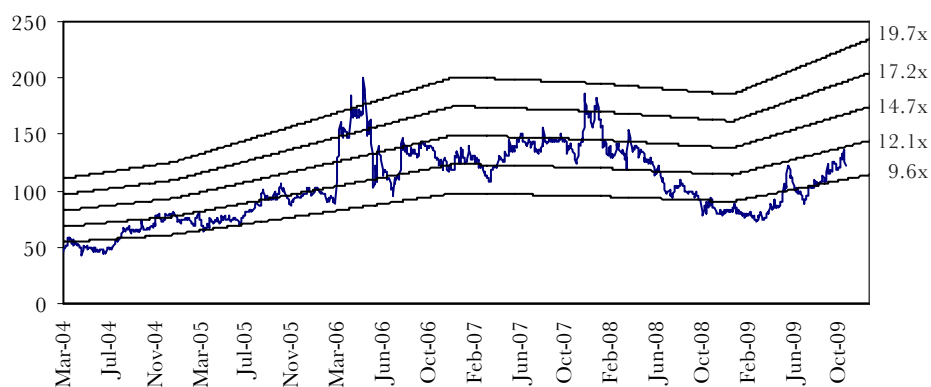
Volume growth for the next year is expected 8-10% YoY with realisations moving up by an average of 4%. Although prices of raw material like silicon carbide, pet coke and fused Alumina have corrected significantly from peak, exchange rate movements and import duties have obviated this. Raw material prices are likely to firm up or increase to an extent from the present levels. The power cost advantage of the Bhutan facility will increase, as by November the monthly production there is expected to ramp-up to 1,000T/month from the present level of 700T/month.

We have revised earnings upward by 18% for CY09 and 8% for CY10. At the current market price of Rs 118, the stock is trading at 10.4x CY09E and 9x CY10E earnings. We maintain our Outperformer rating with a target price of Rs 140 based on 11x CY10E earnings.

Segmental highlights

(Rs mn)	3QCY09	3QCY08	YoY (%)	9MCY09	9MCY08	YoY (%)
Revenue						
Abrasives	972	989	(1.8)	2,634	2,818	(6.5)
Ceramics & Plastics	405	370	9.4	1,059	1,029	2.9
Others	28	29	(3.8)	179	75	138.0
Total	1,404	1,388	1.1	3,872	3,922	(1.3)
Inter segment	37	22	–	88	71	–
Net sales	1,368	1,308	4.6	3,785	3,851	(1.7)
PBIT						
Abrasives	157	137	15.1	392	437	(10.3)
Ceramics & Plastics	79	60	32.1	217	132	63.8
Others	2	(5)	–	28	12	137.1
Total	239	192	24.3	637	581	9.5
PBT	248	220	12.9	642	623	3.1
PBIT margins (%)						
Abrasives	16.2	13.8	–	14.9	15.5	–
Ceramics & Plastics	19.6	16.2	–	20.5	12.9	–
Others	8.6	(15.5)	–	15.3	15.4	–
Total	17.0	13.8	–	16.4	14.8	–
Capital employed						
Abrasives	1,982	2,003	(1)	–	–	–
Ceramics & Plastics	635	624	1.9	–	–	–
Others	38	13	195.3	–	–	–
Total	2,655	2,640	0.6	–	–	–

PER Band



Source: B&K Research

Income Statement

Yr end 31 Dec (Rs mn)	CY07	CY08	CY09E	CY10E
Net sales	4,408	5,021	5,139	5,977
<i>Growth (%)</i>	<i>18.2</i>	<i>13.9</i>	<i>2.4</i>	<i>16.3</i>
Operating expenses	(3,677)	(4,306)	(4,244)	(4,976)
Operating profit	731	715	895	1,001
Other operating income				
EBITDA	731	715	895	1,001
<i>Growth (%)</i>	<i>12.9</i>	<i>(2.2)</i>	<i>25.2</i>	<i>11.8</i>
Depreciation	(122)	(140)	(168)	(175)
Other income	216	221	184	223
EBIT	825	797	911	1,049
Interest paid	(3)	(6)	(4)	(4)
Pre-tax profit	822	791	907	1,045
(before non-recurring)				
Non-recurring items	770	–	–	–
Pre-tax profit	1,592	791	907	1,045
(after non-recurring)				
Tax (current + deferred)	(258)	(241)	(281)	(324)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,335	550	626	721
Reported PAT	1,335	550	626	721
Adjusted net profit	565	550	626	721
<i>Growth (%)</i>	<i>23.3</i>	<i>(2.7)</i>	<i>13.9</i>	<i>15.2</i>

Balance Sheet

Yr end 31 Dec (Rs mn)	CY07	CY08	CY09E	CY10E
Cash & Marketable securities	215	165	611	1,099
Other current assets	1,795	1,944	1,901	1,944
Investments	811	627	627	627
Net fixed assets	1,536	1,815	1,771	1,905
Total assets	4,356	4,552	4,911	5,575
Current liabilities	1,495	1,418	1,450	1,647
Total debt	23	–	–	–
Other non-current liabilities	39	44	–	–
Total liabilities	1,556	1,462	1,450	1,647
Share capital	277	277	277	277
Reserves & surplus	2,523	2,813	3,184	3,651
Shareholders' funds	2,800	3,090	3,461	3,927
Total equity & liabilities	4,356	4,552	4,911	5,575
Capital employed	2,861	3,134	3,461	3,928

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY07	CY08	CY09E	CY10E
Pre-tax profit	1,592	791	907	1,045
Depreciation	122	140	168	175
Change in working capital	(220)	(176)	44	145
Total tax paid	(219)	(287)	(290)	(314)
Cash flow from oper. (a)	1,275	468	829	1,051
Capital expenditure	(358)	(396)	(107)	(292)
Change in investments	(284)	184		
Others	(38)	(24)	(17)	(17)
Cash flow from inv. (b)	(681)	(235)	(124)	(309)
Free cash flow (a+b)	595	232	705	742
Equity raised/(repaid)	(0)	(0)	1	(0)
Debt raised/(repaid)	0	(23)	–	–
Dividend (incl. tax)	(480)	(259)	(259)	(255)
Cash flow from fin. (c)	(480)	(282)	(258)	(255)
Net change in cash (a+b+c)	115	(49)	447	487

Key Ratios

Yr end 31 Dec (%)	CY07	CY08	CY09E	CY10E
Adjusted EPS (Rs)	10.2	9.9	11.3	13.0
Growth	23.3	(2.7)	13.9	15.2
Book NAV/share (Rs)	49.7	55.0	61.6	70.1
Dividend/share (Rs)	8.0	4.0	4.0	4.0
Dividend payout ratio	91.7	47.1	40.7	35.3
Tax	16.2	30.5	31.0	31.0
EBITDA margin	16.6	14.2	17.4	16.7
EBIT margin	18.7	15.9	17.7	17.5
RoCE	33.7	26.6	27.6	28.4
Net debt/Equity	(6.9)	(5.3)	(17.7)	(28.0)

Valuations

Yr end 31 Dec (x)	CY07	CY08	CY09E	CY10E
PER	11.5	11.8	10.3	9.0
PCE	9.4	9.4	8.2	7.2
Price/Book	2.4	2.1	1.9	1.7
Yield (%)	6.8	3.4	3.4	3.4
EV/Net sales	1.4	1.3	1.2	1.1
EV/EBITDA	8.6	8.8	7.1	6.3

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY07	CY08	CY09E	CY10E
Net margin (%)	12.8	10.9	12.2	12.1
Asset turnover	1.2	1.1	1.1	1.1
Leverage factor	1.6	1.5	1.4	1.4
Return on equity (%)	23.6	18.7	19.1	19.5

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