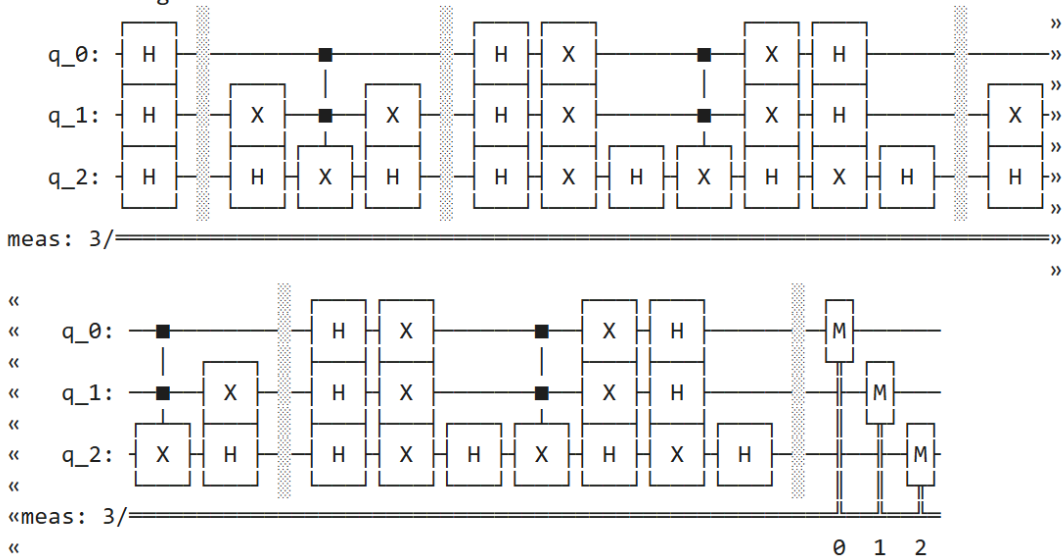
Circuit Diagram:



Circuit diagram for 3 qubits.
Target state = |101>
In the explanation below I sometimes refer to 2 qubit grover with target state as |11> for simplicity.

1. Initialization:
First apply Hadamard gate on all input qubits. Same as the math.
Now we have a superposition of all possible 8 states. That's what Hadamard does.
Current state of the system: |s> = ½(|00> + |01> + |10> + |11>) (This is 2-bit state, apply to 3-bit similarly).

2. Oracle function circuit:
2a. Aim of the Oracle is to change the sign(phase) of the target state in |s>
So that the new state is: ½(|00> + |01> + |10> - |11>) (For the 3 bit system all positive except |101>)

2b. Note that the black dots(controls) on q0 and q1 are activating Z gate(HXH) on q2. Z gate is for phase flip. In the math we noticed that we want to change the sign(phase) of the target state. Here target state is |101> so there is an X-gate on q1 so that the Z gate on q2 will activate only when q0 = 1 and q1 = 0.

2c. Phase flip on q2 is as good as phase flip on the entire system q0q1q2.
So effectively, all states in the superposition are positive except the target state which is now negative.
So current state = |s> - |w> where w = target state.

3. Diffuser function circuit:
As per the math we wanted to apply this operator:

$$D = 2\left|s\right\rangle\left\langle s\right| - I$$

How to convert it to a quantum circuit?

To do that remember that H-gate is inverse of itself.
So H|000>= |s> and H|s> = |000>
We will use this to show that:
2|s><s| - I = H x (2|0><0| - I) x H (here x denotes matrix multiplication).

Ok, so here is the proof:
We know that |s> = H|0>
For 2 qubit system H is a 4x4 matrix and |0> is a 4x1 column vector.
So |s> will be a 4x1 matrix(or column vector) resulting by multiplication of 4x4 and 4x1 matrices.

Similarly:
<s| = <0|H (it follows from the fact that H is symmetric and its own conjugate transpose.
Again LHS is 1x4 = 1x4 mult 4x4
So:
2|s><s| - I
= 2(H|0>)(<0|H) - I
= 2(H)(|0><0|)(H) - I
I can be written has H.I.H (. means matrix mult). Since H*H is also I. H is its own inverse.
= 2(H)(|0><0|)(H) - H.I.H
= H.(2|0><0| - I).H

So this can be implemented easily as a quantum circuit.
In the circuit diagram you can see H gates at beginning at end, they directly map to this.

Now focus on the part in-between:
2|0><0| - I
Let’s see what happens when we apply it on any state.
When it is applied on all zeroes, i.e. |000>, we get:
2|0> - |0> = |0>
So it remains unchanged.
But on any other state, e.g. |100> the first part of multiplication will become all zeroes since there is no overlap in |000> and |100> so effectively the result will be -|100>
So for |000> (all zeroes), the output is same as input, for every other state the sign gets flipped.

Now look at the circuit.

We have X-gate columns adjacent to H-gates.
And in between we have Z-gate(phase-flip, H.X.H) which gets activated only if all 3 inputs are 0s(the X-gates ensure that).
And X-gates at the end undo this.
So this is how diffuser is implemented as a quantum circuit.