

Carborundum Universal

BUY

INDUSTRY CAPITAL GOODS

CMP (as on 10 May 2017) Rs 296

Target Price Rs 340

Nifty 9,407

Sensex 30,248

KEY STOCK DATA

Bloomberg /Reuters CU IN

No. of Shares (mn) 189

MCap (Rs bn) / (\$ mn) 56 / 863

6m avg traded value (Rs mn) 59

STOCK PERFORMANCE (%)

52 Week high / low Rs 307 / 206

3M 6M 12M

Absolute (%) 12.2 11.8 39.7

Relative (%) 5.5 1.9 22.3

SHAREHOLDING PATTERN (%)

Promoters 43.76

FIs & Local MFs 20.38

FIIs 5.34

Public & Others 30.52

Source : BSE

Pawan Parakh, CFA

pawan.parakh@hdfcsec.com

+91-22-6171-7314

Ashutosh Mehta, ACA

ashutosh.mehta@hdfcsec.com

+91-22-3078-8241

Electrominerals drag but better days ahead

Carborundum Universal's (CUMI's) 4QFY17 revenues (+11% YoY) were below our estimates led by the Electro minerals (EM) segment (+7% YoY rev growth and -406bps YoY EBIT margins). The EM segment was impacted by (1) Increase in alumina and pet coke prices (2) High power costs and (3) RUB appreciation. Abrasive/Ceramic segments stood strong, with 11/19% YoY revenue growth and 56/122bps margin expansion to 10.6/15.8%. APAT for the quarter grew 10% YoY to Rs 483mn.

As per the management, Silicon Carbide (SiC) prices have increased offsetting the cost inflation witnessed in FY17. Additionally, the EM segment would benefit from revenues from the newly-commissioned plants (Foskor and Thukela). The same is expected to aid revenue growth and improve capital efficiency, thereby return ratios. Improving auto volumes and the push for 'Make in India' augurs well for growth in the Abrasive segment. Despite a soft 4QFY17, we see long-term drivers to be in place for CUMI. Reiterate **BUY** with a TP of Rs 340/share (25x FY19E EPS).

Financial Summary: Consolidated

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16P	FY17P	FY18E	FY19E
Net Sales	5,599	5,025	11	5,273	6	20,502	19,440	21,125	23,962	26,848
EBITDA	983	893	10	886	11	2,634	3,013	3,540	3,997	4,529
PAT	483	439	10	491	(2)	852	1,535	1,617	2,183	2,568
Diluted EPS (Rs)	2.6	2.3	10	2.6	(2)	4.5	8.1	8.6	11.6	13.6
P/E (x)						65.4	36.3	34.5	25.6	21.8
EV / EBITDA (x)						21.9	18.9	15.8	13.8	11.9
RoE (%)						7.8	13.5	12.6	14.9	15.5

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- The company has set a target to achieve Rs 30bn (Rs 21bn in FY17) consolidated revenue in the next two to three years. As per the mgmt, this is attainable, as there exist strong growth potential across all segments.
- The mgmt expects GST to have a positive impact on its Abrasive segment, as 20-30% of the market comprises of unorganised players. In the Ceramics segment, CUMI is further expanding its product portfolio which should be the growth driver over the next two to three years.
- Improving utilisation in the newly-commissioned plants is the key objective for CUMI in FY18E. With global shortage of alumina and a strong existing client relationship for metalized cylinder (NTK plants), the mgmt expects strong growth in the EM segment's revenue and profitability in FY18E.
- With strong operational cash flows of Rs 2.6bn in FY17, CUMI has reduced its debt by ~1.5bn, despite incurring a capex of Rs 1.3bn in FY17.
- Near-term outlook:** Improving earnings profile augurs well for the stock. Reiterate BUY.

Revenue grew 11% YoY, led by growth in the Abrasives (~11% YoY) and Ceramic business (~19% YoY)

With appreciation of the RUB, the company reported an exchange loss amounting to Rs 60mn in 4QFY17 (vs loss of Rs 46mn YoY)

Quarterly Financials Snapshot: Consolidated

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Revenues	5,599	5,025	11	5,273	6
Material Expenses	1,958	1,857		1,759	
Employee Expenses	695	581		695	
Other Operating Expenses	1,963	1,695		1,934	
EBITDA	983	893	10	886	11
Interest Cost	42	54		40	
Depreciation	248	216		243	
Other Income	13	60		67	
Exchange Gain / (Loss) Net	(60)	(46)		(77)	
PBT	646	638	1	593	9
Tax	224	219		181	
RPAT	423	419	1	412	3
Minority Interest	(21)	10		(25)	
RPAT after MI	444	409	9	438	1
E/o (adj for tax)	(39)	(30)		(54)	
APAT	483	439	10	491	(2)

Source: Company, HDFC sec Inst Research

Margin Analysis: Consolidated

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	35.0	36.9	-199	33.4	161
Employee Expenses as % of Net Sales	12.4	11.6	86	13.2	-76
Other operating expenses as % of Net Sales	35.1	33.7	134	36.7	-161
EBITDA Margin (%)	17.6	17.8	-22	16.8	75
Net Profit Margin (%)	7.5	8.3	-79	7.8	-27
Tax Rate (%)	34.6	34.3	28	30.5	415

Source: Company, HDFC sec Inst Research

With ~20-30% of the abrasives market comprising of unorganised players, mgmt expects GST to have a positive impact on that segment

Quarterly Financials Snapshot: Standalone

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Net Revenues	3,822	3,475	10	3,335	15
Material Expenses	1,658	1,511		1,307	
Employee Expenses	374	324		395	
Other Operating Expenses	1,210	1,083		1,140	
EBITDA	580	558	4	494	18
Interest Cost	20	30		20	
Depreciation	169	159		169	
Other Income	226	76		43	
Exchange Gain / (Loss) Net	(21)	(2)		(4)	
PBT	596	443	35	344	74
Tax	142	144		105	
RPAT	454	298	52	238	90
E/o (adj for tax)	(16)	(1)		(3)	
APAT	470	300	57	241	95

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	43.4	43.5	-10	39.2	419
Employee Expenses as % of Net Sales	9.8	9.3	46	11.8	-206
Other operating expenses as % of Net Sales	31.7	31.2	50	34.2	-251
EBITDA Margin (%)	15.2	16.1	-87	14.8	38
Net Profit Margin (%)	12.3	8.6	367	7.2	506
Tax Rate (%)	23.9	32.6	-874	30.6	-673

Source: Company, HDFC sec Inst Research

*EM segment was impacted by
(1) An increase in alumina and
pet coke prices (2) High power
costs and (3) RUB appreciation*

Segmental Quarterly Performance: Consolidated

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Segmental Revenues					
Abrasives	2,631	2,377	11	2,540	4
Ceramics	1,324	1,111	19	1,081	22
Electrominerals	1,993	1,869	7	2,000	(0)
Others	163	148	10	176	(7)
Less : Inter segmental revenues	305	263	16	303	1
Total Gross Revenue	5,807	5,242	11	5,494	6
EBIT					
Abrasives	279	239	17	287	(3)
Ceramics	209	162	29	163	28
Electrominerals	207	270	(23)	214	(3)
Others	28	17	64	36	(23)
Total	723	688	5	701	3
EBIT margin (%)			bps		bps
Abrasives	10.6	10.0	56	11.3	(69)
Ceramics	15.8	14.6	122	15.1	66
Electrominerals	10.4	14.5	(406)	10.7	(30)
Others	17.2	11.5	567	20.7	(347)

Source: Company, HDFC sec Inst Research

Expansion of the product portfolio will be the key growth driver for the Ceramics segment over the next 2-3 years

Segmental Quarterly Performance: Standalone

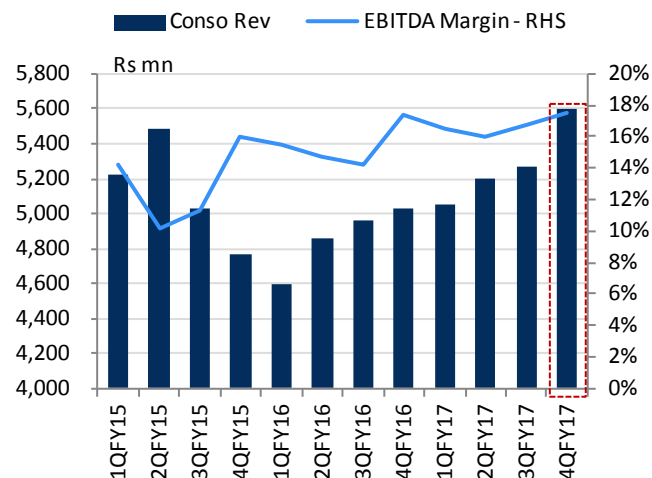
(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
Segmental Revenues					
Abrasives	2,259	2,107	7	2,098	8
Ceramics	1,052	923	14	911	15
Electrominerals	935	845	11	789	18
Less : Inter segmental revenues	225	191	18	226	(0)
Total Gross Revenue	4,020	3,685	9	3,573	13
EBIT					
Abrasives	287	261	10	249	15
Ceramics	152	133	15	107	42
Electrominerals	26	41	(38)	45	(43)
Total	464	435	7	401	16
EBIT margin (%)			bps		bps
Abrasives	12.7	12.4	29	11.9	82
Ceramics	14.5	14.4	10	11.8	270
Electrominerals	2.7	4.9	(216)	5.7	(293)

Source: Company, HDFC sec Inst Research

Improving auto volumes and push for 'Make in India' augurs well for growth in the abrasive business

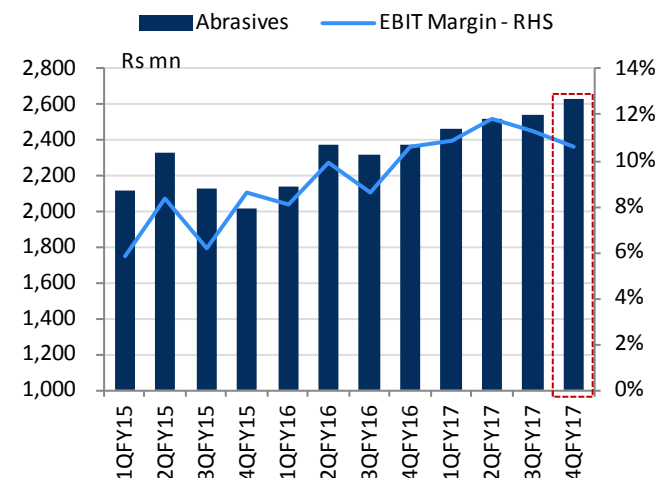
Going ahead, EM segment revenues are likely to benefit from the newly-commissioned plants (Foskor and Thukela)

Consolidated Revenue Growth Trajectory



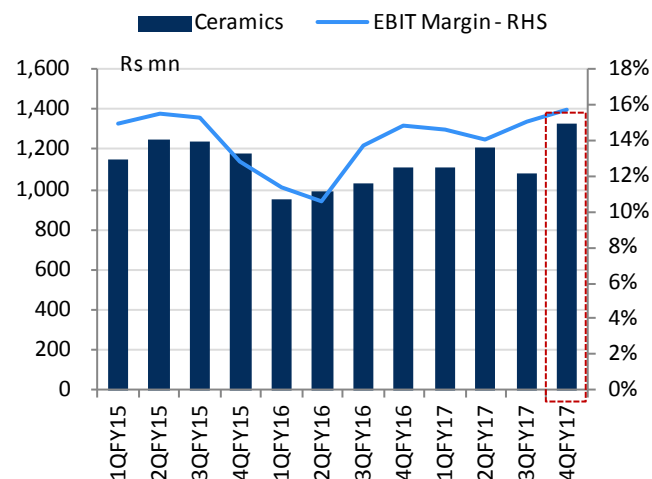
Source : Company, HDFC sec Inst Research

Abrasives: Steady Growth



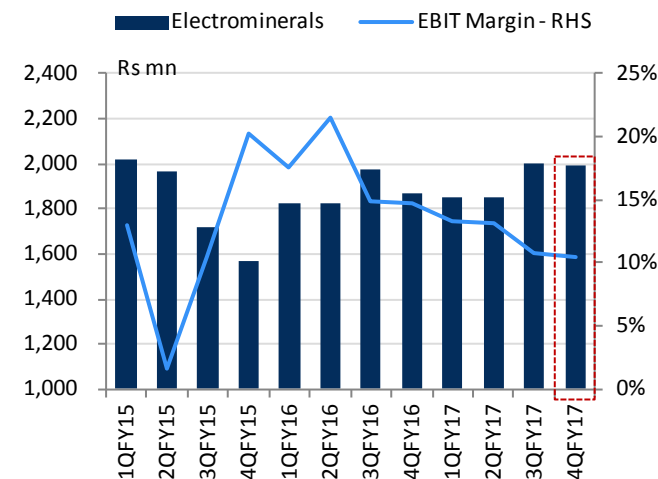
Source : Company, HDFC sec Inst Research

Ceramics: Margins Improve



Source : Company, HDFC sec Inst Research

Electro-minerals: Margins Bottoming Out



Source : Company, HDFC sec Inst Research

Global shortage of alumina and a strong existing client relationship for metalized cylinder (NTK plants) are likely to improve EM segment margins to 15.1% by FY19E (from 12.5% in FY17)

Key Assumptions And Estimates: Consolidated

Revenue (Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Abrasives	8,583	8,731	9,613	10,735	11,987
YoY (%)	-0.1%	1.7%	10.1%	11.7%	11.7%
Ceramics	4,793	3,840	4,435	5,107	5,874
YoY (%)	2.5%	-19.9%	15.5%	15.2%	15.0%
Electrominerals	6,544	6,082	6,094	7,064	7,819
YoY (%)	-12.1%	-7.1%	0.2%	15.9%	10.7%
Others	582	787	984	1,056	1,168
YoY (%)	8.9%	35.3%	25.0%	7.4%	10.6%
Total Revenue	20,502	19,440	21,125	23,962	26,848
YoY (%)	-3.5%	-5.2%	8.7%	13.4%	12.0%

EBIT margins (%)

Abrasives	7.3%	10.2%	11.8%	12.0%	12.2%
Ceramics	14.1%	17.0%	15.7%	15.7%	15.7%
Electrominerals	11.0%	18.3%	12.5%	14.1%	15.1%
Others	8.3%	10.5%	17.8%	17.0%	17.0%

Source: Company, HDFC sec Inst Research

Peer Valuation

Company	MCap (Rs bn)	CMP (Rs)	Rating	TP (Rs)	EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Larsen & Toubro ^	1,621	1740	BUY	1,798	64.8	69.2	69.8	21.3	20.0	19.8	19.0	17.2	15.2	13.1	12.8	11.9
Cummins India *	294	1059	NEU	1033	27.3	30.6	34.4	38.7	34.6	30.7	35.2	31.0	27.2	22.8	23.3	23.6
Voltas	146	440	BUY	462	13.3	15.3	17.7	33.2	28.9	24.9	24.7	20.6	17.4	17.2	17.4	17.8
Thermax	124	1040	SELL	796	26.3	27.8	31.8	39.5	37.4	32.7	28.2	24.9	21.0	12.8	12.4	13.0
Engineers India *	113	168	BUY	178	5.6	6.2	8.0	30.1	27.1	21.1	24.2	21.5	15.1	13.8	14.6	18.0
Suzlon	107	21	BUY	24	1.0	1.1	1.2	20.4	20.0	17.3	10.2	10.1	8.4	NA	NA	NA
KEC International	61	237	NEU	212	10.2	12.3	14.1	23.3	19.3	16.8	11.0	9.6	8.6	16.1	16.8	16.6
Carborundum Universal	56	296	BUY	340	8.6	11.6	13.6	34.5	25.6	21.8	15.8	13.8	11.9	12.6	14.9	15.5
CG Power & Industrial ^	56	89	BUY	84	-1.2	1.6	1.6	NA	49.2	47.6	16.5	14.5	13.2	-1.7	2.2	2.3
Kalpataru Power * ^	55	359	BUY	392	17.2	18.5	21.3	16.6	15.5	13.4	11.2	10.2	9.0	11.1	10.8	11.2
Techno Electric ^ #	46	407	NEU	400	12.0	15.5	18.4	27.3	21.1	17.9	14.1	12.9	11.4	20.1	20.7	20.1
Triveni Turbine	45	137	BUY	152	4.0	4.5	5.1	34.7	30.8	27.0	24.7	21.4	18.3	39.0	34.5	31.1
Skipper Limited *	20	196	BUY	220	9.5	11.8	14.7	20.6	16.6	13.4	10.6	9.0	7.8	23.1	23.7	23.9
Sanghvi Movers *	12	267	BUY	331	21.8	25.7	27.6	12.2	10.4	9.7	4.8	4.5	3.9	12.0	12.7	12.2

* Represents SA numbers ^ P/E adjusted for value of Subs /JV's / non-core businesses # For comparative purpose, EPS represents earnings from Core T&D EPC business

Source : Company, HDFC sec Inst Research

Income Statement: Consolidated

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
Net Revenues	20,502	19,440	21,125	23,962	26,848
Growth (%)	(3.5)	(5.2)	8.7	13.4	12.0
Material Expenses	7,176	6,816	7,348	8,267	9,262
Employee Expenses	2,754	2,519	2,735	3,009	3,309
SG&A Expenses	7,937	7,091	7,502	8,690	9,747
Total Expenses	17,867	16,427	17,585	19,965	22,319
EBITDA	2,634	3,013	3,540	3,997	4,529
EBITDA Margin (%)	12.8	15.5	16.8	16.7	16.9
EBITDA Growth (%)	4.7	14.4	17.5	12.9	13.3
Depreciation	1,004	868	965	1,076	1,173
EBIT	1,631	2,145	2,575	2,921	3,355
Other Income (Including EO Items)	827	295	34	251	288
Interest	253	229	181	67	19
PBT	2,204	2,211	2,428	3,105	3,625
Tax (Incl Deferred)	822	814	781	1,025	1,160
RPAT	1,383	1,397	1,647	2,080	2,465
Minority interest	57	(44)	(102)	(102)	(103)
EO (Loss) / Profit	474	(94)	132	0	0
APAT	852	1,535	1,617	2,183	2,568
APAT Growth (%)	1.4	80.2	5.3	35.0	17.6
Adjusted EPS (Rs)	4.5	8.1	8.6	11.6	13.6
EPS Growth (%)	1.2	80.0	5.2	35.0	17.6

Source: Company, HDFC sec Inst Research

Balance Sheet: Consolidated

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	188	188	189	189	189
Reserves	10,699	11,734	13,639	15,359	17,399
TOTAL SHAREHOLDERS FUNDS	10,887	11,923	13,828	15,547	17,588
Minority interest	578	622	657	755	862
Long Term Debt	567	362	67	67	67
Short Term Debt	2,835	2,271	1,425	425	0
TOTAL DEBT	3,402	2,633	1,491	491	67
Net Deferred Taxes	400	408	374	374	374
Long Term Provisions & Others	50	65	76	66	74
TOTAL SOURCES OF FUNDS	15,317	15,650	16,425	17,233	18,964
APPLICATION OF FUNDS					
Net Block	7,963	6,591	7,048	7,222	7,549
CWIP	397	845	726	476	226
Investments	78	1,293	1,195	1,195	1,195
LT Loans & Advances	254	406	343	460	515
Total Non-current Assets	8,692	9,135	9,312	9,352	9,484
Inventories	3,883	3,704	3,867	4,595	5,149
Debtors	3,703	3,675	3,806	4,595	5,149
Other Current Assets	554	776	672	656	736
Cash & equivalents	1,325	1,311	1,476	1,053	1,830
TOTAL CURRENT ASSETS	9,465	9,465	9,820	10,900	12,864
Creditors	1,708	1,341	1,650	1,838	2,060
Other Current Liabilities & Provns	1,131	1,610	1,057	1,182	1,324
TOTAL CURRENT LIABILITIES	2,840	2,950	2,707	3,020	3,384
NET CURRENT ASSETS	6,625	6,515	7,114	7,881	9,480
TOTAL APPLICATION OF FUNDS	15,317	15,650	16,425	17,233	18,964

Source: Company, HDFC sec Inst Research

Cash Flow: Consolidated

(Rs mn)	FY15	FY16P	FY17P	FY18E	FY19E
Reported PBT	2,204	2,211	2,428	3,105	3,625
Non-operating & EO items	(827)	(295)	(34)	(251)	(288)
Interest Expenses	253	229	181	67	19
Depreciation	1,004	868	965	1,076	1,173
Working capital change	826	(41)	(361)	(1,316)	(870)
Tax Paid	(822)	(814)	(781)	(1,025)	(1,160)
Other operating items	(431)	1,130	543	0	0
OPERATING CASH FLOW (a)	2,208	3,288	2,942	1,656	2,499
Capex	(959)	(1,179)	(1,302)	(1,000)	(1,250)
Free Cash Flow	1,248	2,108	1,640	656	1,249
Investments	3	(1,215)	98	0	0
Non-operating Income	827	295	34	251	288
INVESTING CASH FLOW (b)	(129)	(2,099)	(1,170)	(749)	(962)
Debt Issuance/(Repaid)	(1,161)	(769)	(1,142)	(1,000)	(425)
Interest	(253)	(229)	(181)	(67)	(19)
FCFE	664	191	448	(160)	1,094
Share Capital Issuance	0	0	0	0	0
Minority Interest	(121)	44	35	98	108
Dividend	(264)	(249)	(318)	(361)	(425)
FINANCING CASH FLOW (c)	(1,799)	(1,203)	(1,606)	(1,330)	(760)
NET CASH FLOW (a+b+c)	279	(14)	165	(423)	777
Closing Cash & Equivalents	1,325	1,311	1,476	1,053	1,830

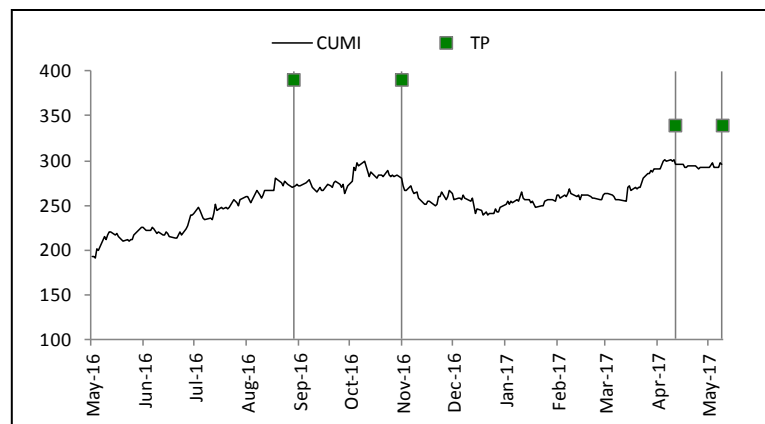
Source: Company, HDFC sec Inst Research

Key Ratios: Consolidated

	FY15	FY16P	FY17P	FY18E	FY19E
PROFITABILITY %					
GPM	65.0	64.9	65.2	65.5	65.5
EBITDA margin	12.8	15.5	16.8	16.7	16.9
APAT margin	4.2	7.9	7.7	9.1	9.6
RoE	7.8	13.5	12.6	14.9	15.5
Core RoCE (RoIC)	6.9	10.1	13.0	13.6	14.8
RoCE	6.3	10.8	10.8	13.2	14.3
EFFICIENCY					
Tax Rate (%)	37.3	36.8	32.2	33.0	32.0
Fixed Asset Turnover (x)	2.5	2.6	2.7	3.1	3.5
<i>Inventory (days)</i>	<i>69.1</i>	<i>69.6</i>	<i>66.8</i>	<i>70.0</i>	<i>70.0</i>
<i>Debtors (days)</i>	<i>65.9</i>	<i>69.0</i>	<i>65.8</i>	<i>70.0</i>	<i>70.0</i>
<i>Other Current Assets (days)</i>	<i>9.9</i>	<i>14.6</i>	<i>11.6</i>	<i>10.0</i>	<i>10.0</i>
<i>Payables (days)</i>	<i>8.3</i>	<i>6.9</i>	<i>7.8</i>	<i>7.7</i>	<i>7.7</i>
<i>Other Current Liab & Provns (days)</i>	<i>5.5</i>	<i>8.3</i>	<i>5.0</i>	<i>4.9</i>	<i>4.9</i>
<i>Cash conversion cycle (days)</i>	<i>131.1</i>	<i>137.9</i>	<i>131.4</i>	<i>137.4</i>	<i>137.4</i>
Debt/EBITDA (x)	1.3	0.9	0.4	0.1	0.0
Net D/E (x)	0.2	0.1	0.0	(0.0)	(0.1)
Interest Coverage (x)	10.4	13.2	19.5	59.7	240.4
PER SHARE DATA (Rs)					
EPS	4.5	8.1	8.6	11.6	13.6
CEPS	9.9	12.8	13.7	17.3	19.8
Dividend	1.3	1.2	1.5	1.7	2.0
Book Value	57.8	63.3	73.3	82.4	93.2
VALUATION					
P/E (x)	65.4	36.3	34.5	25.6	21.8
P/BV (x)	5.1	4.7	4.0	3.6	3.2
EV/EBITDA (x)	21.9	18.9	15.8	13.8	11.9
EV/Revenues (x)	2.8	2.9	2.6	2.3	2.0
OCF/EV (%)	3.8	5.8	5.3	3.0	4.6
FCF/EV (%)	2.2	3.7	2.9	1.2	2.3
FCFE/Mkt Cap (%)	1.2	0.3	0.8	(0.3)	2.0
Dividend yield (%)	0.4	0.4	0.5	0.6	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
30-Aug-16	270	BUY	391
1-Nov-16	280	BUY	391
12-Apr-17	298	BUY	340
10-May-17	296	BUY	340

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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