

## RESULT UPDATE

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## CARBORUNDUM UNIVERSAL LTD (CUMI)

PRICE: Rs.368

TARGET PRICE: Rs.318

RECOMMENDATION: SELL

FY19E PE: 24.4x

CUMI Q2FY18 PAT outperformed our estimate on back of higher margin in the Electrominerals division (EMD). Revenues at Rs 5.8 Bn came in line with our estimate. Management highlighted that the abrasives business has started to make up for the lost volumes in the previous quarter due to GST transition and would further report traction in 2HFY18. Industrial ceramics and EMD division have been witnessing rising demand across geographies. Company's Russian subsidiaries VAW reported significant volume led growth in the quarter.

We however believe that the company would take slightly longer to recover from GST led disruptions in the Indian market and accordingly tweak FY18/FY19 revenue estimates. We value CUMI stock at 21x FY19 estimated earnings and maintain 'SELL' recommendation with revised price target of Rs 318 (Rs 324 earlier).

## Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	21,125	23,966	28,447
Growth (%)	8.7	13.4	18.7
EBITDA	3,540	4,074	5,177
EBITDA margin (%)	16.8	17.0	18.2
PBT	2428	3305	4344
Net profit	1,841	2,215	2,911
EPS (Rs)	8.8	11.4	15.1
Growth (%)	27.5	29.6	32.6
CEPS (Rs)	13.9	17.2	21.4
BV (Rs/share)	77.3	85.0	95.0
DPS (Rs)	2.3	3.2	4.3
ROE (%)	12.2	14.6	17.3
ROCE (%)	10.7	11.2	14.0
Net cash (debt)	(30)	668	843
NW Capital (Days)	105.7	96.8	101.0
EV/Sales (x)	3.2	2.8	2.4
EV/EBITDA (x)	20.0	17.4	13.7
P/E (x)	41.9	32.3	24.4
P/Cash Earnings (x)	26.4	21.5	17.2
P/BV (x)	4.8	4.3	3.9

Source: Company, Kotak Securities – Private Client Research

## Consolidated Result

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
<b>Income from Operations</b>	<b>5871</b>	<b>5198</b>	<b>13.0</b>	<b>5195</b>	<b>13.0</b>
Decrease/ (Increase) in stock	251	(11)		(96)	
Material consumed	1618	1516	6.7	1479	9.3
Purchase of traded goods	191	382		299	
Employee expenses	761	671	13.5	757	0.6
Power and fuel	768	584	31.6	776	(1.0)
Other expenses	1224	1221	0.2	1257	
Total Expenses	4813	4364	10.3	4472	7.6
<b>EBITDA</b>	<b>1058</b>	<b>834</b>	<b>26.9</b>	<b>723</b>	<b>46.2</b>
Other income	45	108	(58.4)	105	(57.5)
Depreciation	258	240	7.4	257	0.5
<b>EBIT</b>	<b>845</b>	<b>702</b>	<b>20.4</b>	<b>572</b>	<b>47.6</b>
Finance cost	24	52	(54.4)	21	
Exceptional Items	0	0		0	
Foreign exchange difference expense	0	(31)		0	
<b>PBT</b>	<b>821</b>	<b>618</b>	<b>32.8</b>	<b>552</b>	<b>48.8</b>
Total tax	268	193	39.0	171	57.0
Minority Interest	21	(13)		28	
Share of profit/loss form associate	11	54		9	
<b>PAT</b>	<b>584</b>	<b>466</b>	<b>25.3</b>	<b>418</b>	<b>39.9</b>
<b>Adjusted PAT</b>	<b>584</b>	<b>466</b>	<b>25.3</b>	<b>418</b>	<b>39.9</b>
Other comprehensive income	75	(15)		0	
Total comprehensive income	660	452		418	
adj. EPS (Rs)	3.1	2.5	25.3	2.2	39.9
EBITDA%	18.0	16.0		13.9	
Tax Rate %	32.6	31.2		31.0	
RM/Sales	35.1	36.3		32.4	

Source: Company, Kotak Securities – Private Client Research

## Subsidiaries Result

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	Q4FY17	QoQ (%)
Income from Operations	1977	1645	20.2	1935	2.1
EBITDA	395	267	47.8	350	12.6
PAT	261	206		211	23.7
EBITDA%	20.0	16.2		18.1	

Source: Kotak-PCG Research

### Result Highlights

CUMI consolidated revenue stood at Rs 5.8 Bn in Q2FY18 (+13% YY) driven mainly by Electrominerals division. Standalone revenues reported 9.6% YY growth, stood at Rs 3.8 Bn on back of 11.1% YY growth in EMD division.

Standalone abrasives sales stood at Rs 2.1 Bn (flat YY; 10.9% QQ). Management stated that the volumes in abrasives segment has started to improve and would normalize in 2HFY18 (company reported weak primary standalone sales in Q1FY18 affected by GST transition). Moreover, it further anticipates hardening of abrasives prices (eventually improving margins) in 2HFY18 due to shift of market from unorganized to organized sector.

In international abrasives business, company's Russian subsidiary VAW has reported meaningful pick-up in sales. The abrasives part of Russian business has cut losses last year and is now operating at c.100% capacity utilization levels (Capacity 800000 tpa). CUMI has planned to expand capacity for thin wheeled and coated abrasives in Russia. Abrasives division reported, consolidated sales of Rs 2.5 Bn in Q2FY18 (+2.7 % YY and 10.1% QQ) in Q2FY17. EBIT margins for abrasives segment stood at 14.1% in Q2FY18.

### Segment reporting (Consolidated)

	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
<b>Segment Revenue (Rs mn)</b>					
Abrasives	2593	2,525	2.7	2354	10.1
Ceramics	1209	1,211	(0.2)	1146	5.4
Electrominerals	2169	1,853	17.0	2073	4.6
<b>Segment EBIT</b>					
Abrasives	365	299	22.2	218	67.7
Ceramics	167	171	(1.8)	155	7.7
Electrominerals	374	242	54.3	279	34.0
<b>Segment Margins (%)</b>					
Abrasives	14.1	11.8		9.2	
Ceramics	13.9	14.1		13.6	
Electrominerals	17.2	13.1		13.5	

Source: Company, Kotak Securities – Private Client Research

Ceramics business reported sales at Rs 1.2 Bn in Q2FY18 (flat YoY; +5.4% QQ) in Q2FY18 at consolidated level. Demand for ceramics has been driven by improved demand for value added/engineered ceramics in the past few quarters (industrial ceramics).

Outlook for metalized cylinder (Metz) remains encouraging and volumes are expected to further improve in FY18. Commissioning of NTK plant (currently in setting up phase) would start contributing in FY18 and meaningfully pick up from FY18 onwards. EBIT margins stood at 13.9% in Q2FY18 against 14.1% in Q2FY17. We anticipate significant improvement in margin going ahead driven by higher contribution from value added products. Refractories part of ceramics business, continues to remain sluggish.

Electrominerals division (EMD), consolidated sales stood at c.Rs 2.1 Bn in Q2FY18 (+ 17% YoY). With streamlining of operation in Russia (fixing power related issues) management expects significant ramp up in EMD business going ahead. Also note that CUMI has successfully shifted Thukela/Foskor plants in India and these businesses would realize full potential from FY19 onwards.

Power & fuel costs, reported sharp rise at Rs 768 mn (+31.6% in Q2FY18). However stabilized sequentially. Power production for Maniyar power plant got adversely affected by lower rainfall in the area. Consolidated EBITDA margins stood at 18% in the quarter affected by lower volumes.

Finance cost reduced to Rs 24 mn in Q2FY18 from Rs 52 mn in Q2FY17. CUMI incurred capex of Rs 520 mn in 1HFY18 and management has guided for capex of Rs 1 Bn for FY18.

We maintain **SELL** on  
Carborundum Universal Ltd  
with a price target of Rs.318

#### Valuation and Recommendation

At current price of Rs.368, HIL stock is trading at 24.4x P/E and 13.7x EV/EBITDA on FY19E earnings.

We value CUMI stock at 21x FY19 estimated earnings and maintain '**SELL**' recommendation with revised price target of Rs 318 (Rs 324 earlier).

## RATING SCALE

### Definitions of ratings

<b>BUY</b>	– We expect the stock to deliver more than 12% returns over the next 9 months
<b>ACCUMULATE</b>	– We expect the stock to deliver 5% - 12% returns over the next 9 months
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<b>NOTE</b>	– Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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