

CARBORUNDUM UNIVERSAL

Healthy volumes across segments

India Equity Research | Abrasives

Carborundum Universal's (CUMI) Q4FY18 consolidated sales grew 16% YoY, led by strong double-digit sales growth across its three segments - abrasives' posted 12% YoY growth, electrominerals 23% and ceramics 18%. Management has guided for 16% sales CAGR over FY18-20 with sales of ~INR27bn by FY19 and ~INR32bn by FY20, with higher margins led by price hikes. On strong R&D and scaling up the value chain with advanced products, we believe CUMI is well positioned to leverage industrial growth across segments, both in India and globally. We estimate PAT CAGR of 25% over FY18-20. Maintain "BUY" with TP of 427 (24x FY20E EPS).

Broad-based growth; margins expand

Growth across CUMI's three segments was led by strong volume growth in domestic and VAW, Russia operations. For FY18, abrasives' sales grew 9% YoY, electrominerals' moved up 18% YoY and ceramics stood at 11% YoY. While cost of key raw materials and fuel continue to rise, CUMI managed to expand EBITDA margin by 134bps YoY to 17.8% in Q4FY18 and 100bps to 16.8% in FY18, driven by healthy volume growth and operational improvement. Management has guided for 16% sales CAGR over FY18-20, led by scale up of utilisation of the capacities relocated from Africa (bubble zirconia operates at 25-30% and Thukela refractories operates at ~40-50% utilisation) and Japan (metz cylinders at ~25-30% utilisation) and growth in current business.

Segment-wise key growth drivers

Abrasives' growth will be led by improvement in domestic demand and pricing actions. EMD's growth is aided by: i) potential superlative pricing-led growth at VAW; ii) cost-effective solutions like Z450 (targeting ~8,000TPA out of demand potential of 25,000-30,000TPA); and iii) scaling up utilisation of bubble zirconia in India (from current ~1,200MT to ~5,000MT). Going ahead, ceramics growth will be driven by value-added products like metz cylinder (management targets sales of 1.5-1.6mn units and ~INR1bn by FY19), demand growth in industrial ceramics and recovery in refractories following improving outlook for end user industries like iron and steel, aluminum, glass, etc.

Outlook and valuations: Positive; maintain 'BUY'

We believe CUMI is well positioned to ride demand recovery across segments in India and globally, by scaling up the value chain with advanced products. Maintain 'BUY' with TP of 427 (in line with five-year avg. P/E and 20% discount to Grindwell Norton).

Financials (Consolidated)

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net rev.	6,495	5,599	16.0	6,116	6.2	23,678	27,667	32,127
EBITDA	1,158	923	25.5	1,047	10.6	3,986	4,814	5,815
Adj. PAT	658	444	48.3	543	21.1	2,156	2,643	3,355
Adj. Dil. EPS (INR)	3.5	2.4	48.3	2.9	21.1	11.4	14.0	17.8
Diluted P/E (x)						32.3	26.3	20.8
EV/EBITDA (x)						17.6	14.5	11.7
ROAE (%)						13.4	14.8	16.6

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: CRBR.BO, B: CU IN)

CMP	: INR 370
Target Price	: INR 427
52-week range (INR)	: 428 / 285
Share in issue (mn)	: 188.9
M cap (INR bn/USD mn)	: 70 / 1,063
Avg. Daily Vol. BSE/NSE ('000)	: 168.3

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	43.7	43.7	43.7
MF's, FI's & BKs	21.8	21.8	21.4
FII's	4.5	4.5	4.4
Others	30.0	30.0	30.5
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	2.3	1.0	(1.3)
3 months	(0.1)	2.4	2.5
12 months	11.3	26.0	14.7

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Table 1: Segmental (Consolidated) (INRmn)

Revenue from Operations	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY17	FY18	% change
Abrasives	2,714	2,429	11.7	2,703	0.4	9,379	10,184	8.6
Ceramics	1,493	1,264	18.1	1,220	22.4	4,514	5,025	11.3
Electrominerals	2,366	1,927	22.8	2,278	3.9	7,489	8,834	18.0
Others	174	163	6.2	161	8.0	659	640	(2.9)
Total	6,746	5,783	16.6	6,362	6.0	22,041	24,683	12.0
Less Inter Segment Revenue	362	305	18.5	359	0.8	1,241	1,379	11.1
Net Sales/Inc. From Ops.	6,384	5,478	16.5	6,003	6.4	20,800	23,305	12.0
EBIT								
Abrasives	379	279	35.7	364	4.0	1,133	1,325	16.9
Ceramics	234	209	11.8	202	15.5	704	759	7.7
Electrominerals	279	207	34.7	338	(17.3)	909	1,270	39.7
Others	37	28	29.9	21	77.2	118	100	(14.6)
Total	928	723	28.3	924	0.4	2,863	3,453	20.6
Less Interest	24	42	(43.6)	18	29.1	181	86	(52.5)
Less Other Unallocable Expenses(Net)	1	35	(98.0)	113	(99.4)	254	298	16.9
Add : Exceptional Item								
Total PBT	904	646	39.8	793	14.0	2,428	3,070	26.4
EBIT Margins								
Abrasives	13.9	11.5		13.5		12.1	13.0	
Ceramics	15.6	16.5		16.6		15.6	15.1	
Electrominerals	11.8	10.8		14.8		12.1	14.4	
Others	21.0	17.2		12.8		17.8	15.7	

Source: Company

Table 2: Segmental (Standalone) (INRmn)

Revenue from Operations	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY17	FY18	% change
Abrasives	2,306	2,070	11.4	2,241	2.9	7,866	8,470	7.7
Ceramics	1,178	992	18.8	1,013	16.3	3,688	4,013	8.8
Electrominerals	1,172	869	34.9	1,077	8.9	3,191	4,055	27.0
Others								
Total	4,657	3,931	18.5	4,331	7.5	14,745	16,538	12.2
Less Inter Segment Revenue	266	225	17.9	275	(3.4)	918	1,025	11.6
Net Sales/Inc. From Ops.	4,391	3,706	18.5	4,056	8.3	13,828	15,514	12.2
EBIT								
Abrasives	347	287	20.9	351	(1.2)	1,047	1,225	17.0
Ceramics	184	152	21.0	132	39.6	509	542	6.5
Electrominerals	119	26	366.0	97	23.5	212	325	53.7
Others								
Total	650	464	40.0	579	12.2	1,767	2,092	18.4
Less Interest	6	20	(71.6)	2	241.2	88	15	(83.2)
Less Other Unallocable Expenses(Net)	-96	-153		43		-28	25	NA
Add : Exceptional Item								
Total PBT	740	596	24.0	534	38.4	1,707	2,052	20.2
EBIT Margins								
Abrasives	15.0	13.8		15.7		13.3	14.5	
Ceramics	15.6	15.3		13.0		13.8	13.5	
Electrominerals	10.2	2.9		9.0		6.6	8.0	
Others								

Source: Company

Q4FY18: Conference call highlights

- Revenue grew 16% YoY (2% above estimates) to INR6.5bn after a similar growth rate in Q3FY18. Growth was broad based with a strong double digit growth across the three segments. For FY18, revenue grew by 12% YoY to INR23.7bn.
- Gross margin expanded marginally to 65.3%, despite inflationary pressure on key raw materials, such as, graphite electrode, bauxite, alumina and pet coke, leading to gross profit growth of 16% YoY for the quarter. For FY18, gross margin expanded by ~100bps leading to growth of ~13% YoY.
- EBITDA grew by a strong 25% YoY (3% below our estimate) to INR1.2bn as margin expanded by 134bps YoY to 17.8%. Margins expanded, despite higher fuel cost (~14% of net sales vs. ~12% in Q4FY17), led by operational improvement as other expenses fell to 21.3% of revenues from 23.2% in Q4FY17. For FY18, EBITDA grew by 19% as margin expanded ~100bps to 16.8%.
- Adjusted PAT for the group grew 48% YoY to INR658mn (above estimates by 2%). For FY18, PAT grew by 23% YoY to INR2.2bn.
- **Sales guidance:** Management has guided to achieve turnover of ~INR27bn in FY19 and targets ~INR32bn by FY20, led by scaling up of utilisation of the capacities that are relocated from Africa (bubble zirconia operates at 25-30% and Thukela refractories operates at ~40-50% utilisation) and Japan (NTK, metz cylinders operate at ~25-30% utilisation) as well as growth in current business.
- **Pricing:** Management highlighted that currently ~20% of overall growth comes from price hikes and the company targets price hikes to contribute ~33% of overall growth going ahead as well. The price hikes undertaken have yet to cover the total increase in input cost and current margin expansion is largely driven by volume growth.
- **Increase in raw material cost:** Management has guided that the next few quarters will be challenging given the inflationary pressure on key raw materials, such as, graphite electrode, bauxite, alumina and pet coke. Also, energy cost has jumped by ~15% YoY from INR4.7 to INR5.4 per unit in the standalone business. However, management has guided to maintain or improve margins as demand is strong and CUMI has pricing power (it leads pricing actions followed by competition) and will be able to take price hikes to offset the impact.
- **Margin guidance:** Segment-wise, the company highlighted: a) to sustain its current margin profile of ~13% plus in abrasives, it will be able to take price hikes particularly as the operating environment is conducive; b) in ceramics, management expects margins of ~15-16% in FY19 versus ~15.1% in FY18; c) in EMD, they expect margin expansion of ~16-17% in FY19 versus ~14.4% in FY18, led by strong price hikes and increasing utilisation.
- **Capex:** Management highlighted that capex required for achieving turnover of ~INR32bn by FY20 is largely done. To accelerate revenue beyond ~INR32bn after FY20, the company has budgeted capex of INR1.5bn which will include projects that will take ~18 months to be set up and commissioned. Capex outlay also includes a 12MW gas-based power station in Volzhsky, Russia.

Segment-wise performance

Abrasives – Sustained domestic demand and price hikes to drive growth

- Abrasives registered adjusted growth of 11.7% YoY for the quarter. Growth momentum is sustaining post GST related disruptions. EBIT margin expanded by a strong 240bps to 13.9% driven by buoyancy in revenues, cost reduction projects and other initiatives, leading to EBIT growth of 36% YoY.
- For FY18, revenue and EBIT grew by 9% and 16.9% YoY, respectively, as the Indian operations delivered good growth on higher volumes.
- Management expects segment growth to be driven by strong domestic demand (75% of business comes from India) and price hikes to offset the increase in raw material cost. Also, while the company has yet to see any positive impact (shift towards organised players) of GST on distribution side of domestic abrasives (accounts for 60-70% of overall domestic sales), it expects implementation of E-Way bill to be a key positive in the shift towards organised players and driving growth.
- **Margin guidance:** Company highlighted that it can sustain its current margin profile of ~13% plus, as the operating environment is conducive and it will be able to take price hikes.

Ceramics – Key growth drivers: Metz cylinders and refractories

- Revenues grew by a strong 18.1% YoY, while EBIT margin dipped ~90bps YoY to 15.6%, leading to EBIT growth of 12% YoY. For FY18, net sales stood higher by 10% from INR4.6bn to INR5.0bn and EBIT increased from INR704mm to INR759mm (up 8% YoY), driven by higher volumes in both standalone and overseas operations.
- Revenue from Australia grew 10% YoY and management expects it to grow at 10% plus rate over the foreseeable future.
- Management sees a broad based pick up in domestic demand across industries for industrial ceramics.
- **Metz cylinder:** As per management, the new lines for metz cylinders are operating at 25-30% utilisation currently and expects to achieve sales of 1.5-1.6mn units, leading to sales turnover of INR1bn by FY19. Also, product approvals with key customers are completed and the company expects metz cylinders to be a key growth driver for the segment.
- **Refractories:** Company recorded ~INR1.6bn of sales in the current year and expects refractories to grow significantly in coming years, driven by improving outlook for its end user industries, such as, iron and steel, aluminum, glass, etc.
- **Margin guidance:** Management expects margins of ~15-16% in FY19 versus ~15.1% in FY18.

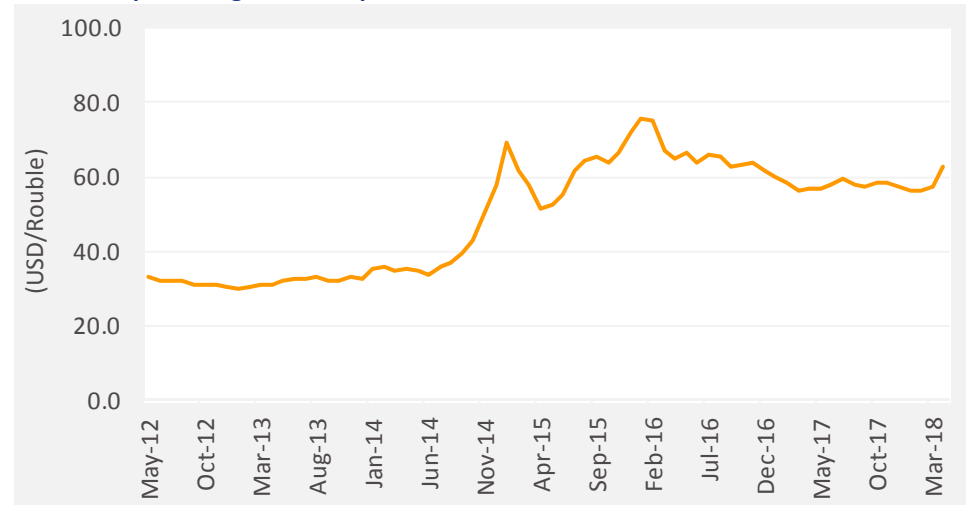
Electrominerals – Robust performance at VAW, Russia

- Revenue grew by strong 23% YoY and EBIT margin expanded 100bps to 11.8%, leading to EBIT growth of 35% YoY. For FY18, revenue and EBIT grew by 18% and 40% YoY, respectively. Russian subsidiary and standalone business posted better performance.
- Operations at VAW, Russia (accounts for ~60% of EMD business) was robust recording strong growth and management expects it do well in the foreseeable future led by

superlative price growth and incremental volume growth. The company's sales volume at VAW increased by ~15% YoY to ~78,000MT.

- **Zirconia:** Management highlighted that the Zirconia business is in a transitional phase as the global zirconia prices are less than the cost. Also, the company has marked down its inventory to current market prices of zirconia. Management expects to increase production volume at the bubble zirconia plant to ~5,000MT from the current ~1,200MT, which will be a significant margin lever.
- **Z450:** The company is focusing on Z450 which has far less impact on cost as power consumption and graphite requirement are significantly lower. Management estimates demand potential in the range of 25,000-30,000 tonne per annum and the company is targeting at least 8,000 tonne per year of sales from the product. The company has already got orders and expects the positive impact to be visible in numbers from Q1FY19.
- **Margin guidance:** Management expects strong margin expansion to ~16-17% in FY19 versus ~14.4% in FY18, led by strong price hikes and increasing utilisation.

Chart 1: Depreciating Rouble, a positive



Source: Edelweiss research

Financial snapshot**(INR mn)**

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	6,495	5,599	16.0	6,116	6.2	23,678	27,667	32,127
Raw material	2,257	1,958	15.3	2,051	10.1	8,049	9,379	10,827
Staff costs	801	695	15.2	790	1.4	3,109	3,624	4,177
Other expenses	2,279	2,024	12.6	2,229	2.3	8,533	9,850	11,309
Total expenditure	5,337	4,676	14.1	5,069	5.3	19,691	22,853	26,312
EBITDA	1,158	923	25.5	1,047	10.6	3,986	4,814	5,815
Depreciation	276	248	11.2	269	2.6	1,060	1,167	1,227
EBIT	882	675	30.7	778	13.4	2,927	3,647	4,588
Other income	46	13	239.6	34	35.8	229	216	328
Interest	24	42	(43.6)	18	29.1	86	85	85
Add: Prior period items								
Add: Exceptional items								
Profit before tax	904	646	39.8	793	14.0	3,070	3,778	4,831
Provision for taxes	314	224	40.2	268	17.1	1,020	1,247	1,594
Minority interest	(68)	(21)	NA	(18)	NA	(107)	(112)	(118)
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	658	444	48.3	543	21.1	2,156	2,643	3,355
Adjusted Profit	658	444	48.3	543	21.1	2,156	2,643	3,355
Diluted shares (mn)	189	189		189		189	189	189
Adjusted Diluted EPS	3.5	2.4	48.3	2.9	21.1	11.4	14.0	17.8
Diluted P/E (x)						32.3	26.3	20.8
EV/EBITDA (x)						17.6	14.5	11.7
ROAE (%)						13.4	14.8	16.6
As % of net revenues								
Raw material	34.8	35.0		33.5		34.0	33.9	33.7
Employee cost	12.3	12.4		12.9		13.1	13.1	13.0
Other expenses	35.1	36.1		36.4		36.0	35.6	35.2
EBITDA	17.8	16.5		17.1		16.8	17.4	18.1
Reported net profit	10.1	7.9		8.9		9.1	9.6	10.4

Company Description

CUMI was incorporated as a joint venture between Carborundum Company USA, Universal Grinding Wheel Company, UK and the Murugappa, India in 1954. The company manufactures a wide range of abrasives (bonded, coated and super abrasives), ceramics (wear resistance, lined equipment, engineered ceramics and metallised ceramics), refractories (fired products and monolithics) and electrominerals (silicon carbide, alumina and zirconia). The company has 30 plants located across 7 countries. Abrasives contributed 41%, ceramics and refractories 22% and electrominerals 36% of consolidated sales in FY14.

Investment Theme

CUMI is set to post robust 44% earnings CAGR over FY14-17E led by: (1) jump in realization led by progress in product value chains across segments; (2) recovery in abrasives and ceramics margins on improved industrial production growth after earnings dropped by average ~45% from peak in FY12. We expect revenue growth of 13% CAGR over FY14-17E; and (3) 618bps EBITDA margin spurt as profitability of the domestic business recovers riding recovery in abrasives led by major user industries along with recovery in ceramics led by better project investments, better product mix with increasing contribution of the better profitable metz cylinders in the overall mix and global tie ups like Anderman and Sheffield in refractories. In Electrominerals, recovery will be led by moving up the value chain like micronisation in case of sic microgrit, finding alternate utilization to photovoltaic like diesel particulate filters and increasing utilisation in metallurgical sales in Volzhsky Abrasive Works (Russia) and monoclinic capacity in Foskor Zirconia (South Africa).

Key Risks

Delay in recovery in India and overseas

Recovery in demand for abrasives and ceramics is dependent on industrial activities in India and overseas. The company's 25% abrasives sales, 75% ceramics sales (35% from overseas subsidiaries and 65% exported from standalone) and 75% electro-minerals sales are dependent on global markets. International operations contribute 52% to its overall business. Hence, any slowdown in India abrasives and refractories and Russia & South Africa electro-minerals can significantly impact our sales growth projections since they are the biggest drivers of the company's revenues.

Dependent on raw material sourcing through imports

The industry is dependent on imports of key raw materials like high grade alumina, bauxite, silicon carbide, etc. China is a major supplier and has imposed heavy taxes on export of raw materials. This has resulted in sharp increase in imported raw material costs. However, CUMI has a near natural hedge since imports constitute ~11% of net sales also including currency headwinds on ~31% of raw material costs which are imported, whereas exports constitute ~9% of sales.

Exchange rate fluctuation

CUMI derives 52% of sales from international business. Having a diverse clientele and manufacturing base exposes the company to fluctuations in different currencies. Around 18% of its standalone business comes from exports. Hence, INR appreciation will risk competitiveness. Also, appreciation of Rouble impacts margins as ~65% of Russian Sic is exported to Europe.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Raw Material (% net rev)	36.0	34.5	34.2	34.0
Abrasives	10.3	7.5	10.9	16.4
Ceramics	15.8	9.0	12.0	17.0
Electrominerals	0.6	21.0	11.0	14.4
Abrasives	45.4	43.7	41.2	41.3
Ceramics	21.2	21.6	20.5	20.7
Mfg. gross margin (%)	0.6	66.0	66.1	66.3
Mfg exp (% of net rev.)	0.2	23.1	23.0	22.9
Employee (% of net rev)	12.9	13.1	13.1	13.0
Admin exp(as % of rev)	15.5	12.9	12.6	12.3

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	21,125	23,677	27,667	32,127
Materials costs	7,348	8,049	9,379	10,827
Gross profit	13,777	15,628	18,288	21,300
Employee costs	2,735	3,109	3,624	4,177
Other Expenses	7,696	8,533	9,850	11,309
Operating expenses	10,431	11,642	13,474	15,485
Total operating expenses	17,779	19,691	22,853	26,312
EBITDA	3,346	3,986	4,814	5,815
Depreciation	965	1,059	1,167	1,227
EBIT	2,381	2,927	3,647	4,588
Add: Other income	228.00	229.2	216.08	328.03
Less: Interest Expense	181	85	85	85
Profit Before Tax	2,428	3,071	3,778	4,831
Less: Provision for Tax	781	1,020	1,247	1,594
Less: Minority Interest	(102)	(107)	(112)	(118)
Reported Profit	1,749	2,157	2,643	3,355
Adjusted Profit	1,749	2,157	2,643	3,355
Shares o/s (mn)	189	189	189	189
Basic EPS (INR)	9.3	11.4	14.0	17.8
Diluted shares o/s (mn)	189	189	189	189
Adj. Diluted EPS (INR)	9.3	11.4	14.0	17.8
Adjusted Cash EPS	18.7	17.0	20.2	24.3
Dividend per share (DPS)	1.8	2.3	3.0	3.5
Dividend Payout Ratio(%)	20.4	21.3	23.1	21.3

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	49.4	49.2	48.7	48.2
Gross margin	65.2	66.0	66.1	66.3
Interest Expense	0.9	0.4	0.3	0.3
EBITDA margins	15.8	16.8	17.4	18.1
EBIT margins	11.3	12.4	13.2	14.3
Net Profit margins	7.8	8.7	9.1	10.1

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	8.7	12.1	16.9	16.1
EBITDA	11.0	19.1	20.8	20.8
Adjusted Profit	21.4	23.4	22.5	26.9
EPS	21.2	23.4	22.5	26.9

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	189	189	189	189	
Reserves & Surplus	13,639	15,339	17,371	20,015	
Shareholders' funds	13,828	15,528	17,560	20,203	
Minority Interest	657	615	615	615	
Short term borrowings	1,493	1,182	1,082	1,082	
Long term borrowings	67	66	66	66	
Total Borrowings	1,559	1,248	1,148	1,148	
Long Term Liabilities	76	92	92	92	
Def. Tax Liability (net)	374	274	274	274	
Sources of funds	16,493	17,756	19,687	22,331	
Gross Block	7,751	9,054	10,354	11,654	
Net Block	5,818	6,144	6,277	6,350	
Capital work in progress	726	303	500	400	
Intangible Assets	1,230	1,213	1,213	1,213	
Total Fixed Assets	7,774	7,659	7,989	7,963	
Non current investments	1,195	1,664	1,664	1,664	
Cash and Equivalents	1,310	1,173	1,443	3,256	
Inventories	3,867	4,380	4,871	5,215	
Sundry Debtors	3,806	4,751	5,862	6,461	
Loans & Advances	1,180	625	735	863	
Other Current Assets	-	507	596	700	
Current Assets (ex cash)	8,853	10,263	12,063	13,239	
Trade payable	1,650	1,976	2,136	2,254	
Other Current Liab	989	1,029	1,337	1,536	
Total Current Liab	2,639	3,004	3,473	3,790	
Net Curr Assets-ex cash	6,214	7,259	8,591	9,449	
Uses of funds	16,493	17,756	19,687	22,331	
BVPS (INR)	73.3	82.3	93.1	107.1	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	1,749	2,157	2,643	3,355	
Add: Depreciation	965	1,059	1,167	1,227	
Interest (Net of Tax)	121	57	57	57	
Others	(110)	(392)	(385)	(501)	
Less: Changes in WC	(228)	538	1,243	754	
Operating cash flow	2,953	2,344	2,240	3,384	
Less: Capex	1,061	858	1,498	1,200	
Free Cash Flow	1,892	1,485	742	2,184	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow	2,953	2,344	2,240	3,384	
Investing cash flow	(813)	(1,328)	(1,498)	(1,200)	
Financing cash flow	(2,071)	(434)	(383)	(267)	
Net cash Flow	69	582	359	1,916	
Capex	(1,061)	(858)	(1,498)	(1,200)	
Dividend paid	(286)	(458)	(611)	(713)	

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROAE (%)	12.2	13.4	14.8	16.6	
ROACE (%)	16.4	18.9	21.0	23.8	
ROA	10.7	12.6	14.1	16.0	
Debtors Days	65	66	70	70	
Payable Days	74	82	80	74	
Cash Conversion Cycle	178	171	170	166	
Current Ratio	3.9	3.8	3.9	4.4	
Gross Debt/EBITDA	0.5	0.3	0.2	0.2	
Gross Debt/Equity	0.1	0.1	0.1	0.1	
Adjusted Debt/Equity	0.1	0.1	0.1	0.1	
Interest Coverage Ratio	13.1	34.2	42.9	54.0	
LT debt /Cap empl. (%)	9.5	7.0	5.8	5.1	
Debt / Cap employed (%)	27.7	25.5	24.9	23.3	

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover	1.3	1.4	1.5	1.5	
Fixed Asset Turnover	3.0	3.3	3.7	4.3	
Equity Turnover	1.6	1.5	1.6	1.6	

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)	9.3	11.4	14.0	17.8	
Y-o-Y growth (%)	21.2	23.4	22.5	26.9	
Adjusted Cash EPS (INR)	18.7	17.0	20.2	24.3	
Diluted P/E (x)	39.9	32.4	26.4	20.8	
P/B (x)	5.1	4.5	4.0	3.5	
EV / Sales (x)	3.3	3.0	2.5	2.1	
EV / EBITDA (x)	21.1	17.7	14.6	11.8	
Dividend Yield (%)	0.5	0.6	0.8	0.9	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Carborundum Universal	1,063	26.4	20.8	14.6	11.8	14.8	16.6
Grindwell Norton	867	33.0	27.5	19.3	16.0	17.1	18.6
Median	-	29.7	24.2	16.9	13.9	15.9	17.6
AVERAGE	-	29.7	24.2	16.9	13.9	15.9	17.6

Source: Edelweiss research

Additional Data

Directors Data

M M Murugappan	Chairman	K Srinivasan	Managing Director
Shobhan M Thakore	Director	M Lakshminarayan	Director
Sanjay Jayavarthanavelu	Director	Aroon Raman	Director
T L Palani Kumar	Director	Bharati Rao	Director
M A M Arunachalam	Director	P S Raghavan	Director
Sujain S Talwar	Director		

Auditors - Deloitte Haskins & Sells

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
HDFC Asset Management	8.94	Ambadi Investments	1.65
L&T Mutual Fund	4.05	Birla Sun Life Asset Management	1.63
Capital Group	3.23	GIC of India	1.59
L&T Investment Management	2.23	AADI Financial Advisors	1.16
SBI Funds Management	2.14	Templeton Asset Management	1.15

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
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No Data Available

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
02 Apr 2018	Ambadi Investments Private Limited	Sell	2500000.00

**as per last available data*

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Aditya Narain

Head of Research

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Coverage group(s) of stocks by primary analyst(s): Abrasives

Carborundum Universal, Grindwell Norton

Recent Research

Date	Company	Title	Price (INR)	Recos
16-Feb-18	Carborundum Universal	Healthy volumes across segments; <i>Result Update</i>	351	Buy
06-Feb-18	Grindwell Norton	Strong margin show; growth catalysts ahead; <i>Result Update</i>	500	Buy
02-Aug-17	Carborundum Universal	GST disruption sharper than expected;	334	Hold

Distribution of Ratings / Market Cap

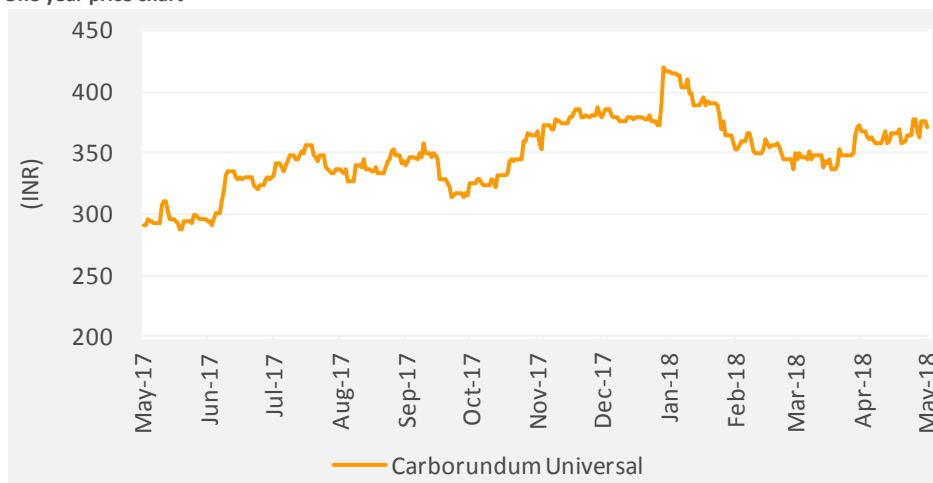
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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