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India | Equity research | Q1FY24 result review

## Carborundum Universal

Capital goods

### Ceramics shines; downgrade to HOLD due to overseas demand headwinds

Carborundum Universal (CUMI) reported consolidated revenue / EBITDA / PAT growth of 6% / 33% / 44% YoY at INR 12bn / 1.7bn / 1.1bn for Q1FY24. Increased supply from China in the domestic market and weakness in select overseas markets resulted in muted revenue growth. However, EBITDA margin expanded by 290bps YoY mainly on account of increased profitability in abrasives and ceramics. We believe the abrasives business will continue to grow on the back of industrial recovery – mainly in auto, agro processing, housing demand in tier-2&3 cities, and SME industrial clusters. However, near-term headwinds – such as weakness in Europe and increased dumping from China – could restrict volume growth. We downgrade our rating to **HOLD** and lower the TP to **INR 1,300**, implying 35x FY25E EPS (earlier: INR 1,318).

#### Ceramics supported Q1FY24 revenue growth

Consolidated ceramics revenue grew 18% YoY to INR 2.9bn, which partially compensated for flattish growth in abrasives (+1.1% YoY) and electro-minerals (+2.9% YoY). As per management, abrasives and electro-minerals' performance was impacted by increased supplies from China in the domestic markets and weakness in the Europe market. Ceramics performed well on the back of favourable product mix, and better demand and price realisation.

#### Mixed performance by overseas subsidiaries

VAW (Russia) operated at flat-out capacity utilisation in Q1FY24 and reported revenue of RUB 2.5bn vs RUB 2.1bn in Q1FY23. Sales to the local market increased to 60%. As per management, none of VAW's products are under any sanction, and collection efficiency remains stable during the year. Company will consider adding capacity here once the geopolitical situation improves. Rhodius and Awuko's performance varied from lower to flat on account of weak demand in Europe, which remains a key monitorable. Subsidiaries in America and Australia performed well during the quarter.

#### Downgrade to HOLD

Keeping in mind the near-term headwinds – such as weakness in Europe, increased competition from China and revised guidance from the management – we downgrade the stock to **HOLD** (earlier: **BUY**) with a target price of **INR 1,300** (earlier: INR 1,318).

### Financial summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	32,896	46,010	52,469	60,393
EBITDA	5,366	6,519	8,465	10,081
EBITDA Margin (%)	16.3	14.2	16.1	16.7
Net Profit	3,500	3,919	5,746	7,005
EPS (INR)	18.5	20.7	30.4	37.1
EPS % Chg YoY	12.8	15.1	39.9	22.2
P/E (x)	72.2	62.7	44.8	36.7
EV/EBITDA (x)	43.8	36.0	27.5	22.7
RoCE (%)	13.7	13.6	16.1	17.0
RoE (%)	15.1	15.4	17.9	18.6

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#### Market Data

Market Cap (INR)	239bn
Market Cap (USD)	2,892mn
Bloomberg Code	CU IN
Reuters Code	CRBR.BO
52-week Range (INR)	1,305 /766
Free Float (%)	58.0
ADTV-3M (mn) (USD)	2.5

Price Performance (%)	3m	6m	12m
Absolute	12.3	27.4	46.2
Relative to Sensex	7.2	9.0	14.2

ESG Disclosure	2021	2022	Change
ESG score	34.9	35.8	0.9
Environment	2.1	2.1	-
Social	19.0	21.6	2.6
Governance	83.6	83.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(1.3)	(1.3)
EBITDA	(1.3)	(1.5)
EPS	(1.4)	(1.6)

#### Previous Reports

10-05-2023: [Q4FY23 results review](#)

03-02-2023: [Q3FY23 results review](#)

## Concall highlights

### Abrasives

- Consolidated revenue was flat at INR 5.19bn vs INR 5.13bn in Q4FY23.
- Standalone revenue grew 5% QoQ to INR 2.8bn.
- Sales from Awuko and Rhodius for the quarter remained flat due to recessionary trends in Europe.
- The retail segment – which forms 30-35% of abrasives revenues – is facing challenges due to excessive competition from Chinese players.
- All other segments of abrasives have witnessed double-digit growth.
- Company expects the retail segment to remain flat and achieve double-digit growth in other segments resulting in an overall growth expectation of ~10% for the abrasives segment in FY24.

### Rhodius

- Rhodius achieved sales of EUR 15.5mn in Q1YD24 vs EUR 17.4mn in Q4FY23 and EUR 18mn in Q1FY23. The decline in sales is a result of lower order intake due to the price increases taken to offset higher costs.
- Management maintains that the increase in energy cost could be in the range of EUR 2mn-2.5mn in FY24.
- Due to softening demand in Europe, management has guided for flat sales in FY24 against its earlier guidance of 8-9% growth.
- Additionally, management expects the subsidiary to make a loss in FY24 – similar to FY23 – against its earlier guidance of profit.
- Rhodius is operating on a very high capacity utilisation.

### Awuko

- The subsidiary's sales for Q1FY24 came in at EUR 2.5mn vs EUR 2.6mn for both Q1FY23 and Q4FY23.
- Awuko has reduced its losses to EUR 0.7mn from EUR 1.2mn in the previous quarter thanks to drop in input costs and cost control measures taken by the company.
- Management sticks to its previous guidance of Awuko making a loss of EUR 2.5mn in FY24 and breaking even by FY25.

### Electro-minerals

- Consolidated revenue for the quarter was flat YoY at INR 4.18bn vs INR 4.06bn in Q1FY23.
- VAW and South African subsidiary Foskor Zirconia were flat QoQ and marginally lower YoY in revenue terms.
- Consolidated PBIT grew 25% YoY to INR 740mn due to good performance from VAW.

- Standalone PBIT declined QoQ due to lower realisations on product sales, which were impacted by higher commodity prices.
- EMD margins have been below guidance due to the impact of Chinese imports.
- Company is aiming for 13-14% EBIT margin for electro-minerals.
- *High-purity silicon carbide*: Company is working on it in India as well as Russia. Currently, it is in the testing phase and will take another 2 years to establish it completely.

#### **Volzhsky Abrasive Works (VAW)**

- The subsidiary registered its highest-ever quarterly sales of RUB 2.4bn vs RUB 2.12bn in Q4FY23 and RUB 2.11 in Q1FY23 – thanks to higher realisation across the three segments and a weaker RUB against the USD and EUR.
- VAW delivered a PAT of RUB 417mn.
- RUB-INR conversion rate for the quarter stood at INR 1.19 vs INR 1.16 in Q4FY23. The rate in FY23 was INR 1.23.
- VAW's capacity utilisation remained normal and its share of sales in Russia increased to 60%.
- VAW's collection of receivables remains stable and the company continues to be debt-free.
- Not planning to add any capacity in the near future. Will consider it after the geopolitical situation stabilises.
- VAW's current installed capacity is of 90,000te of silicon carbide.

#### **Ceramics**

- Consolidated revenue grew 18% QoQ to INR 2.87bn.
- Standalone revenue grew 19% QoQ and 9% YoY to INR 2.3bn due to strong demand across industries and geographies.
- PBIT grew 39% to INR 810mn from INR 580mn QoQ due to margin improvement, which was a result of growth in volumes, higher realisations and better product mix.
- While both the sub-segments – refractories and industrial ceramics – are doing well, refractories are doing relatively better.
- Company currently is not facing any capacity constraint in ceramics.

#### **Capex**

- Company spent INR 550mn on capex in Q1FY24.
- Management expects FY24 capex to be similar to FY23 levels of INR 3bn.

**Exhibit 1: Quarterly financial highlights (consolidated)**

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY23	FY22	YoY(%)
Net Sales	12,032	11,399	5.6	11,996	0.3	46,543	33,248	40.0
EBITDA	1,694	1,275	32.9	1,903	(11.0)	6,519	5,366	21.5
Margin	14.1	11.2	289bps	15.9	-179bps	14.0	16.1	-210bps
Depreciation	457	428	6.8	527	(13.2)	1,873	1,146	63.5
Finance Cost	52	45	15.7	72	(28.3)	235	56	317.2
Other Income	309	249	24.3	198	56.0	767	398	92.7
PBT	1,494	1,051	42.2	1,752	(14.7)	5,177	4,562	13.5
Tax	418	261	60.3	408	2.5	1,382	1,265	9.2
Tax rate	28.0	24.8	315bps	23.3	468bps	26.7	27.7	-100bps
Reported PAT	1,132	788	43.7	1,371	(17.4)	3,919	3,333	17.6
Margin(%)	9.8	7.5	224bps	10.3	-54bps	9.0	10.5	-160bps
EPS	6.2	4.6		6.6		22.1	18.5	

Source: Company data, I-Sec research

**Exhibit 2 : Quarterly segmental trend (consolidated)**

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY23	FY22	YoY(%)
<b>Revenue</b>								
Abrasives	5,189	5,134	1.1	5,251	-1.2	20,353	12,830	58.6
Ceramics	2,870	2,432	18.0	2,654	8.1	10,274	7,980	28.7
Electro-minerals	4,182	4,064	2.9	4,055	3.1	16,338	13,120	24.5
Power and IT Services	343	289	18.7	425	-19.3	1,386	698	98.6
<b>Total Segment Revenues</b>	<b>12,584</b>	<b>11,919</b>	<b>5.6</b>	<b>12,384</b>	<b>1.6</b>	<b>48,350</b>	<b>34,627</b>	<b>39.6</b>
Less: Inter Segment Revenue	674	630	7.0	553	22.0	2,340	1,922	21.7
<b>Net Sales</b>	<b>11,909</b>	<b>11,289</b>	<b>5.5</b>	<b>11,832</b>	<b>0.7</b>	<b>46,010</b>	<b>32,705</b>	<b>40.7</b>
<b>EBIT</b>								
Abrasives	312	179	74.8	381	-18.1	1,048	1,563	-33.0
Ceramics	810	583	38.9	616	31.5	2,507	1,593	57.4
Electro-minerals	740	590	25.5	649	14.0	2,753	1,942	41.8
<b>Total EBIT</b>	<b>1,802</b>	<b>1,291</b>	<b>39.5</b>	<b>1,608</b>	<b>12.1</b>	<b>6,132</b>	<b>5,085</b>	<b>20.6</b>
<b>EBIT Margin</b>								
Abrasives	6.0	3.5	254bps	7.3	-124bps	5.1	12.2	-700bps
Ceramics	28.2	24.0	425bps	23.2	501bps	24.4	20.0	440bps
Electro-minerals	17.7	14.5	319bps	16.0	169bps	16.9	14.8	200bps

Source: Company data, I-Sec research

**Exhibit 3: Quarterly financial highlights (standalone)**

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY23	FY22	YoY(%)
Net Sales	6,675	6,066	(9.1)	6,416	(5.5)	25,099	22,152	(11.7)
EBITDA	1,216	1,024	(15.7)	1,365	(24.9)	4,644	3,696	(20.4)
Margin	18.2	16.9	-133bps	21.3	-438bps	18.5	16.7	-180bps
Depreciation	173	168	(2.6)	233	(27.8)	745	650	(12.7)
Finance Cost	25	24	(1.6)	43	(44.0)	150	10	(93.6)
Other Income	179	125	(29.8)	83	51.0	319	420	31.5
PBT	1,197	957	(20.0)	1,171	(18.3)	4,067	3,455	(15.0)
Tax	266	229	(13.9)	280	(18.2)	1,007	911	(9.6)
tax rate	22.2	23.9	170bps	23.9	2bps	24.8	26.4	160bps
Reported PAT	931	728	(21.8)	1,141	(36.1)	3,310	2,545	(23.1)
Adjusted PAT	931	728	(21.8)	892	(18.3)	3,060	2,545	(16.8)
Margin(%)	14.0	12.0	-194bps	13.9	-189bps	12.2	11.5	-70bps
EPS	4.9	3.9		4.7		16.2	13.5	

Source: Company data, I-Sec research

**Exhibit 4: Quarterly segmental trend (standalone)**

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY23	FY22	YoY(%)
<b>Revenue</b>								
Abrasives	2,824	2,691	-4.7	2,801	-3.9	11,069	10,516	-5.0
Ceramics	2,308	1,932	-16.3	2,108	-8.3	8,342	6,612	-20.7
Electro-minerals	1,971	1,792	-9.1	1,780	0.7	7,020	6,207	-11.6
<b>Total Segment Revenues</b>	<b>7,103</b>	<b>6,415</b>	<b>-9.7</b>	<b>6,689</b>	<b>-4.1</b>	<b>26,431</b>	<b>21,916</b>	<b>-17.1</b>
Less: Inter Segment Revenue	511	412	-19.4	406	1.3	1,699	1,419	-16.5
<b>Net Sales</b>	<b>6,593</b>	<b>6,004</b>	<b>-8.9</b>	<b>6,283</b>	<b>-4.4</b>	<b>24,732</b>	<b>20,497</b>	<b>-17.1</b>
<b>EBIT</b>								
Abrasives	432	325	-24.8	442	-26.5	1,512	1,627	7.6
Ceramics	621	448	-27.8	512	-12.4	2,048	1,316	-35.8
Electro-minerals	144	303	110.9	144	110.9	986	612	-37.9
<b>Total EBIT</b>	<b>1,196</b>	<b>1,075</b>	<b>-10.1</b>	<b>1,097</b>	<b>-1.9</b>	<b>4,546</b>	<b>3,554</b>	<b>-21.8</b>
<b>EBIT Margin</b>								
Abrasives	15.3	12.1	-323bps	15.8	-370bps	13.7	15.5	180bps
Ceramics	26.9	23.2	-369bps	24.3	-106bps	24.6	19.9	-470bps
Electro-minerals	7.3	16.9	961bps	8.1	883bps	14.0	9.9	-420bps

Source: Company data, I-Sec research

## Outlook and Valuation

Due to its well diversified and large product basket, CUMI is a key beneficiary of the increased focus on hi-tech manufacturing in the domestic market. The geographical expansions and high-value customised solutions are likely to drive growth in both abrasives and ceramics segments in the medium to long term. However, near-term headwinds – such as weakness in Europe and increased dumping from China – could restrict volume growth.

Company is also working on new applications – e.g. solid oxide fuel cells (SOFC), hydrogen fuel cells and EVs, graphene and high-purity silicon carbide, among others.

Keeping the near-term headwinds in mind and revised guidance of the company, we marginally cut our earnings estimates and downgrade our rating to **HOLD** (earlier: **Buy**) with a revised target price of **INR 1,300** (35x FY25E EPS).

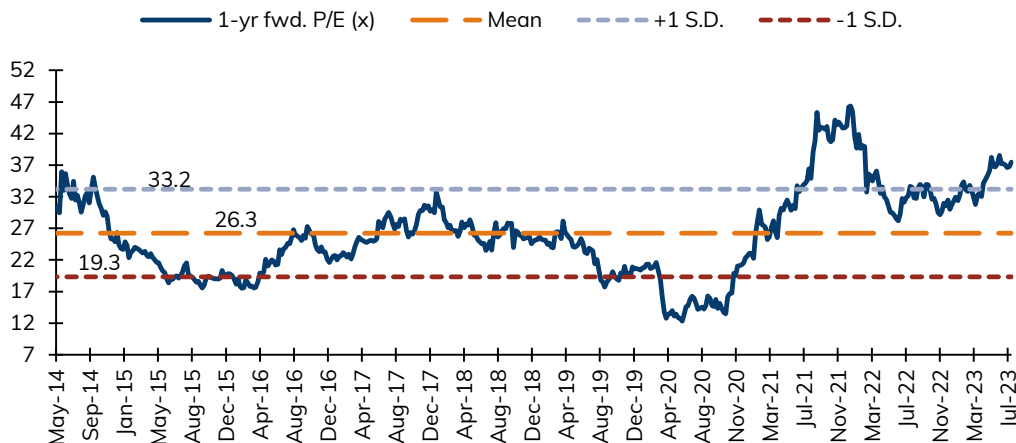
**Key risks:** i) Escalation in geopolitical tensions, which might impact operations in Russia, and ii) delay in stabilisation and profitability of new acquisitions.

### Exhibit 5: Earnings revision (consolidated)

INR mn	FY24E			FY25E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	53,777	53,055	(1.3)	61,838	61,038	(1.3)
EBIDTA	8,575	8,465	(1.3)	10,231	10,081	(1.5)
PAT	5,829	5,746	(1.4)	7,117	7,005	(1.6)

Source: I-Sec research

### Exhibit 6: 1-year forward P/E chart



Source: Bloomberg, I-Sec research

### Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	41.9	41.5	41.5
Institutional investors	37.3	38.2	39.4
MFs and others	25.8	26.5	27.1
FIs/Banks	0.0	0.0	0.0
Insurance	2.2	2.1	2.2
FIIIs	9.3	9.6	10.1
Others	20.8	20.3	19.1

Source: Bloomberg

### Exhibit 8: Price chart



Source: Bloomberg

## Financial summary

### Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>32,896</b>	<b>46,010</b>	<b>52,469</b>	<b>60,393</b>
Operating Expenses	16,304	22,883	25,050	28,477
<b>EBITDA</b>	<b>5,366</b>	<b>6,519</b>	<b>8,465</b>	<b>10,081</b>
EBITDA Margin (%)	16.3	14.2	16.1	16.7
Depreciation & Amortisation	1,146	1,873	1,982	2,097
EBIT	4,221	4,645	6,483	7,984
Interest expenditure	56	235	247	259
Other Non-operating Income	398	767	844	928
<b>Recurring PBT</b>	<b>4,562</b>	<b>5,177</b>	<b>7,080</b>	<b>8,653</b>
<b>Profit / (Loss) from Associates</b>	<b>203</b>	<b>373</b>	<b>436</b>	<b>515</b>
Less: Taxes	1,265	1,382	1,770	2,163
PAT	3,297	3,795	5,310	6,490
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	(249)	-	-
<b>Net Income (Reported)</b>	<b>3,500</b>	<b>3,919</b>	<b>5,746</b>	<b>7,005</b>
<b>Net Income (Adjusted)</b>	<b>3,500</b>	<b>4,168</b>	<b>5,746</b>	<b>7,005</b>

Source Company data, I-Sec research

### Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	16,478	20,259	24,916	30,867
of which cash & cash eqv.	3,516	4,001	5,395	8,409
Total Current Liabilities & Provisions	5,460	5,004	5,617	6,433
<b>Net Current Assets</b>	<b>11,018</b>	<b>15,256</b>	<b>19,299</b>	<b>24,434</b>
Investments	1,378	1,437	1,537	1,637
Net Fixed Assets	8,085	9,876	9,905	10,308
ROU Assets	395	574	574	574
Capital Work-in-Progress	577	875	875	875
Total Intangible Assets	1,581	4,818	4,818	4,818
Other assets	4,307	644	844	1,044
Deferred Tax assets	269	762	838	922
<b>Total Assets</b>	<b>27,767</b>	<b>34,241</b>	<b>38,690</b>	<b>44,611</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>2,122</b>	<b>2,301</b>	<b>1,801</b>	<b>1,301</b>
<b>Deferred Tax Liability</b>	<b>409</b>	<b>525</b>	<b>525</b>	<b>525</b>
provisions	370	743	607	686
other Liabilities	370	1,187	1,187	1,187
Equity Share Capital	189	190	190	190
Reserves & Surplus	23,448	28,016	33,101	39,444
<b>Total Net Worth</b>	<b>23,637</b>	<b>28,206</b>	<b>33,290</b>	<b>39,634</b>
Minority Interest	859	1,279	1,279	1,279
<b>Total Liabilities</b>	<b>27,767</b>	<b>34,241</b>	<b>38,690</b>	<b>44,611</b>

Source Company data, I-Sec research

### Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>3,005</b>	<b>1,962</b>	<b>4,237</b>	<b>6,259</b>
Working Capital Changes	(1,437)	(3,706)	(3,055)	(2,328)
Capital Commitments	(3,123)	(3,988)	(2,317)	(2,526)
<b>Free Cashflow</b>	<b>6,128</b>	<b>5,951</b>	<b>6,554</b>	<b>8,785</b>
<b>Other investing cashflow</b>	<b>291</b>	<b>708</b>	<b>744</b>	<b>828</b>
Cashflow from Investing Activities	(2,832)	(3,280)	(1,573)	(1,698)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,717	179	(500)	(500)
Dividend paid	(662)	(662)	(662)	(662)
Others	(2,537)	2,289	(108)	(386)
Cashflow from Financing Activities	(1,481)	1,807	(1,269)	(1,548)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(1,308)</b>	<b>489</b>	<b>1,394</b>	<b>3,014</b>
Closing cash & balance	3,475	3,964	5,358	8,372

Source Company data, I-Sec research

### Exhibit 12: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	17.4	20.1	28.1	34.3
Adjusted EPS (Diluted)	18.5	20.7	30.4	37.1
Cash EPS	24.6	30.6	40.9	48.2
Dividend per share (DPS)	3.5	3.5	3.5	3.5
Book Value per share (BV)	125.1	149.2	176.1	209.7
Dividend Payout (%)	20.1	17.4	12.5	10.2
<b>Growth (%)</b>				
Net Sales	26.3	39.9	14.0	15.1
EBITDA	15.3	21.5	29.9	19.1
EPS (INR)	12.8	15.1	39.9	22.2
<b>Valuation Ratios (x)</b>				
P/E	72.2	62.7	44.8	36.7
P/CEPS	51.2	41.1	30.8	26.1
P/BV	10.1	8.4	7.1	6.0
EV / EBITDA	43.8	36.0	27.5	22.7
P / Sales	7.2	5.2	4.5	3.9
Dividend Yield (%)	0.3	0.3	0.3	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	65.9	63.9	63.9	63.8
EBITDA Margins (%)	16.3	14.2	16.1	16.7
Effective Tax Rate (%)	27.7	26.7	25.0	25.0
Net Profit Margins (%)	10.0	8.2	10.1	10.7
NWC / Total Assets (%)	27.0	32.9	35.9	35.9
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.5)	(0.5)	(0.6)	(0.9)
<b>Profitability Ratios</b>				
RoCE (%)	13.7	13.6	16.1	17.0
RoE (%)	15.1	15.4	17.9	18.6
RoC (%)	13.7	13.6	16.1	17.0
Fixed Asset Turnover (x)	4.7	5.2	5.4	6.0
Inventory Turnover Days	85	82	75	75
Receivables Days	59	57	52	53
Payables Days	45	31	27	27

Source Company data, I-Sec research

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