

October 30, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,408		1,482	
Sales (Rs.m)	49,452	57,550	51,223	59,991
% Chng.	(3.5)	(4.1)		
EBITDA (Rs.m)	7,640	9,582	7,914	9,988
% Chng.	(3.5)	(4.1)		
EPS (Rs.)	24.5	31.9	25.6	33.6
% Chng.	(4.3)	(5.0)		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	46,543	49,452	57,550	65,117
EBITDA (Rs. m)	6,519	7,640	9,582	11,363
Margin (%)	14.0	15.5	16.7	17.5
PAT (Rs. m)	3,954	4,653	6,064	7,425
EPS (Rs.)	20.8	24.5	31.9	39.1
Gr. (%)	18.6	17.7	30.3	22.4
DPS (Rs.)	3.5	5.4	7.3	9.0
Yield (%)	0.3	0.5	0.7	0.8
RoE (%)	15.3	15.4	17.5	18.4
RoCE (%)	16.5	17.0	19.5	20.7
EV/Sales (x)	4.4	4.1	3.4	3.0
EV/EBITDA (x)	31.1	26.2	20.6	17.0
PE (x)	51.7	43.9	33.7	27.5
P/BV (x)	7.2	6.3	5.5	4.7

Key Data

CRBR.BO | CU IN

52-W High / Low	Rs.1,305 / Rs.788
Sensex / Nifty	64,113 / 19,141
Market Cap	Rs.205bn / \$ 2,456m
Shares Outstanding	190m
3M Avg. Daily Value	Rs.286.2m

Shareholding Pattern (%)

Promoter's	41.50
Foreign	9.98
Domestic Institution	29.40
Public & Others	19.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.6)	(0.1)	25.3
Relative	(6.1)	(4.8)	17.1

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Mixed performance; all eyes on competition

Quick Pointers:

- Reported double digit growth in Abrasives (precision abrasives), Refractories and Wear Ceramics.
- Softening demand in European market, Chinese product dumping and forex translation impacted performance.

Carborundum Universal (CU) reported mixed quarterly performance with consolidated revenue growth of 1.6% YoY, owing to forex impact and Chinese product dumping leading to lower price realization in ~30% of the business (despite healthy growth in remaining businesses). EBITDA margin remained broadly flat at 14.6% YoY. Domestic Abrasives is witnessing challenges in retail segment (~30-35% of abrasives business) with increased dumping by Chinese players and competition from new players (eg. Paint players) leveraging their distribution network. Amongst subsidiaries, VAW reported healthy revenue of Ruble 2.5bn (up ~39% YoY on CC basis), partly impacted by adverse currency translations. While, Rhodius and AWUKO performance guidance has been retained for FY24. Consequently, management revised its guidance downwards for 1) Consolidated revenue growth of ~5% vs 10% guided earlier and 2) Standalone growth of ~10-12% vs ~15% guided earlier.

We believe CU will perform better in the long run given 1) new products launches across segments, 2) better market reach, 3) strong exports and 4) likely improvement in recently acquired subsidiaries. The stock is trading at PE of 43.9x/33.7x/27.5x FY24/25/26E. We change our FY24/25/26E estimates by -4.3%/-5%/-5.4% factoring in forex translation impact, slowdown in European markets delaying subsidiaries performance recovery and Chinese product dumping impacting realizations, particularly retail abrasives (~30%) segment. Maintain 'Buy' with revised SoTP of Rs1,408 (Rs1,482 earlier), valuing Abrasives /Ceramics /Electrominerals at 35x/48x/25x Sep'25E EPS.

Electrominerals segments drags revenue growth: Revenue came in at Rs11.5bn, up 1.6% YoY (vs PLe ~Rs12.8bn) driven by growth in Ceramics (up 4.2% YoY to Rs2.7bn) and Abrasives segment (up 5.5% YoY to Rs5.1bn). While Electrominerals segment declined 7.8% YoY to Rs3.8bn, owing to forex translation. EBITDA grew 2.8% YoY to Rs1.7bn (PLe ~Rs1.9bn) with EBITDA margin remain broadly flat at 14.6% (PLe 14.8%). PAT grew ~14.5% YoY to Rs1bn (vs PLe Rs1.2bn) aided by higher other income (up 144.3% to Rs196mn).

Recently acquired subsidiaries: Rhodius revenue came in at Euro 15.2mn vs 14.2mn in Q2FY23. Growth was flat mainly due to softening demand and increasing competition from Chinese player. AWUKO revenue came in at Euro1.9mn vs 1.95mn in Q2FY24. Maintained AWUKO guidance of breakeven in FY25.

Exhibit 1: Higher other income drive PAT growth of 14.5% YoY

Consolidated (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenue	11,166	11,725	11,832	11,909	11,234	0.6	(5.7)	23,144	22,454	3.1
Other Operating income	112	146	165	123	229	104.3	86.6	352	222	58.6
Total Revenues	11,278	11,871	11,996	12,032	11,463	1.6	(4.7)	23,496	22,676	3.6
Expenditure	9,647	10,160	10,093	10,338	9,788	1.5	(5.3)	20,126	19,771	1.8
<i>as % of sales</i>	<i>85.5</i>	<i>85.6</i>	<i>84.1</i>	<i>85.9</i>	<i>85.4</i>			<i>85.7</i>	<i>87.2</i>	
Consumption of RM	4,000	4,409	4,567	4,681	4,047	1.2	(13.6)	8,728	8,165	6.9
<i>as % of sales</i>	<i>35.5</i>	<i>37.1</i>	<i>38.1</i>	<i>38.9</i>	<i>35.3</i>			<i>37.1</i>	<i>36.0</i>	
Employee Cost	1,703	1,825	1,667	1,799	1,786	4.9	(0.7)	3,584	3,431	4.5
<i>as % of sales</i>	<i>15.1</i>	<i>15.4</i>	<i>13.9</i>	<i>14.9</i>	<i>15.6</i>			<i>15.3</i>	<i>15.1</i>	
Other expenditure	3,944	3,926	3,859	3,858	3,956	0.3	2.5	7,814	8,175	(4.4)
<i>as % of sales</i>	<i>35.0</i>	<i>33.1</i>	<i>32.2</i>	<i>32.1</i>	<i>34.5</i>			<i>33.3</i>	<i>36.1</i>	
EBITDA	1,630	1,710	1,903	1,694	1,675	2.8	(1.1)	3,369	2,905	16.0
Depreciation	445	473	527	457	459	3.1	0.3	916	873	4.9
EBIT	1,185	1,237	1,376	1,237	1,217	2.6	(1.6)	2,453	2,032	20.8
Other Income	80	240	198	309	196	144.3	(36.5)	506	329	53.6
Interest	51	68	72	52	49	(3.6)	(5.6)	100	95	5.5
Extra ordinary items	-	-	249	-	-	-	-	-	-	-
PBT	1,215	1,409	1,752	1,494	1,364	12.3	(8.7)	2,859	2,266	26.2
Total Tax	374	340	408	418	437	16.9	4.7	855	635	34.7
Reported PAT	841	1,069	1,344	1,076	927	10.2	(13.9)	2,003	1,631	22.8
(Profit)/loss from JV's/Ass/MI	49	22	27	56	92	88.1	64.2	148	47	216.3
PAT after MI	890	1,091	1,371	1,132	1,019	14.5	(10.0)	2,151	1,678	28.2
Adj. PAT	890	1,091	1,180	1,132	1,019	14.5	(10.0)	2,151	1,678	28.2
Adjusted EPS	4.7	5.7	7.2	6.0	5.4	14.5	(10.0)	11.3	8.8	28.2
Margins (%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	bps	bps	H1FY24	H1FY23	bps
EBIDTA	14.5	14.4	15.9	14.1	14.6	16	53	14.3	12.8	153
EBIT	10.5	10.4	11.5	10.3	10.6	10	33	10.4	9.0	148
EBT	10.8	11.9	14.6	12.4	11.9	113	(52)	12.2	10.0	217
PAT	7.9	9.2	9.8	9.4	8.9	100	(52)	9.2	7.4	176
Effective Tax rate	30.8	24.1	23.3	28.0	32.1	127	409	29.9	28.0	190

Source: Company, PL

Exhibit 2: Abrasives and Ceramics drive revenue growth

	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY gr. (%)	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Revenue										
Abrasives	4,839	5,130	5,251	5,189	5,105	5.5	(1.6)	10,294	9,973	3.2
Ceramics	2,543	2,644	2,654	2,870	2,650	4.2	(7.6)	5,520	4,975	11.0
Electrominerals	4,096	4,123	4,055	4,182	3,775	(7.8)	(9.7)	7,956	8,160	(2.5)
Others	334	339	425	343	360	7.6	4.8	702	623	12.7
Less: Intersegmental	(646)	(511)	(553)	(674)	(655)	1.4	(2.9)	(1,329)	(1,276)	4.1
Total	11,166	11,725	11,832	11,909	11,234	0.6	(5.7)	23,144	22,454	3.1
EBIT (Rs mn)										
Abrasives	280	208	381	312	371	32.6	18.8	683	459	49.1
Ceramics	645	663	616	810	737	14.3	(9.0)	1,547	1,228	26.0
Electrominerals	692	823	649	740	615	(11.1)	(16.9)	1,355	1,281	5.8
Others	(41)	(36)	(38)	(60)	(51)	25.0	(15.1)	(111)	(101)	10.5
EBIT (margin)						YoY bps change	QoQ bps change			bps
Abrasives	5.8	4.0	7.3	6.0	7.3	148.6	124.8	6.6	4.6	204
Ceramics	25.4	25.1	23.2	28.2	27.8	244.8	-39.9	28.0	24.7	334
Electrominerals	16.9	20.0	16.0	17.7	16.3	-59.1	-140.4	17.0	15.7	133
Others	-12.2	-10.6	-9.0	-17.5	-14.2	NA	NA	-15.8	-16.1	NA

Source: Company, PL

Exhibit 3: Industrial ceramics accounts for ~51% of SoTP

Particular	Sep'25 EPS	Multiple (x)	Net Value/share
Abrasives	10.7	35	373
Ceramics	14.9	48	717
Electrominerals	12.7	25	318
SoTP			1,408

Source: Company, PL

Conference Call Highlights

- Consolidate revenue growth was impacted due to lower currency conversion from Ruble to INR. If currency would have been stable, CUMI would have reported consolidated revenue growth of 9.6%-10%.
- Abrasives:** Consol revenue grew 5% YoY to Rs 5.1bn; for standalone it grew 3% YoY to Rs2.8bn. Retail segment (30-35% of abrasives) is facing challenges due to increased Chinese competition & new players entering the business.
 - Subsidiaries in America, Germany and India registered good growth.
 - Softening input cost and better realization aided margins.
- Guidance:** Expect revenue growth of 8-10% in FY24 with margins to be at healthy level, driven by product mix and internal efficiency.
- Rhodius:** Q2FY24 revenue came in at Euro 15.2mn vs 14.2mn in Q2FY23, growth was flat mainly due to softening demand and increasing competition from Chinese player. Reported YTD loss of Euro1.7mn vs Rs2mn. FY24 loss to be same reported in FY23 (loss of €4.7mn in FY23)

- **AWUKO:** Revenue came in at Euro1.9mn vs 1.95mn in Q2FY24. Reported YTD loss of Euro 0.8mn vs Euro 0.5mn in Q2FY23. FY24 loss to be ~Euro2.5mn and to breakeven in FY25.
- **Electrominerals:** Volumes and margins were impacted due to dumping from Chinese players in various geographies. Margins to be under pressure, going forward. Subsidiaries in Russia did well in local currency, but were lower when converted to INR due to weakening of Ruble. Ruble to INR stood at Rs0.94 in H1FY24 vs Rs1.24 in H1FY24. South African subsidiary showed negative growth due to postponement of orders by key customers.
- **VAW:** Revenue came in at Ruble 2.5bn vs Ruble 1.8bn in Q2FY23, while lower currency conversion impacted the performance. Ruble to INR conversion stood at 0.88 in Q2FY24 vs 1.2 in Q3FY23. Domestic sales stood at 59% in Q2FY24 vs 55% in Q2FY23.
- **Foskor Zirconia:** Revenue was impacted due to postponement of offtake from top three player and increasing completion from Chinese player.
- **Ceramics:** Revenue were impacted due to delay in offtake in Engineered ceramics. The subsidiaries in Australia and America registered significant growth. Refractories reported double digit growth in volume and price. Wear Ceramics too reported double digit growth. Engineered ceramics will take couple of quarter to normalize due to de-stocking of access inventory by customers.
- D/E ratio at the consolidated stands at 0.05.
- Cash and cash equivalents net of borrowings was at Rs2.2bn vs Rs1.9bn inQ1FY24.
- **Capex** during H1FY24 stood at Rs970mn. Capex for FY24 to be ~Rs2.6-2.8bn vs Rs3bn guided earlier.
- **Competition intensity:** Chinese competition in abrasives segment is in retail business (~35%). Electrominerals faced Chinese competition in domestic market for Alumina based Electrominerals.
- **Guidance:** Management revised its guidance downwards for 1) Consolidated revenue growth of 5% vs 10% guided earlier and 2) Standalone revenue growth of 10-12% vs 15% guided earlier.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	46,543	49,452	57,550	65,117
YoY gr. (%)	40.0	6.3	16.4	13.1
Cost of Goods Sold	17,141	17,704	20,143	22,596
Gross Profit	29,402	31,748	37,408	42,521
Margin (%)	63.2	64.2	65.0	65.3
Employee Cost	6,923	6,998	7,741	8,563
Other Expenses	15,960	17,110	20,085	22,596
EBITDA	6,519	7,640	9,582	11,363
YoY gr. (%)	21.5	17.2	25.4	18.6
Margin (%)	14.0	15.5	16.7	17.5
Depreciation and Amortization	1,873	2,131	2,443	2,665
EBIT	4,645	5,509	7,140	8,698
Margin (%)	10.0	11.1	12.4	13.4
Net Interest	235	170	135	85
Other Income	767	701	791	932
Profit Before Tax	5,426	6,040	7,796	9,545
Margin (%)	11.7	12.2	13.5	14.7
Total Tax	1,382	1,522	1,965	2,405
Effective tax rate (%)	25.5	25.2	25.2	25.2
Profit after tax	4,044	4,518	5,831	7,140
Minority interest	277	226	233	286
Share Profit from Associate	373	361	466	571
Adjusted PAT	3,954	4,653	6,064	7,425
YoY gr. (%)	18.6	17.7	30.3	22.4
Margin (%)	8.5	9.4	10.5	11.4
Extra Ord. Income / (Exp)	186	-	-	-
Reported PAT	4,140	4,653	6,064	7,425
YoY gr. (%)	24.2	12.4	30.3	22.4
Margin (%)	8.9	9.4	10.5	11.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,140	4,653	6,064	7,425
Equity Shares O/s (m)	190	190	190	190
EPS (Rs)	20.8	24.5	31.9	39.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	18,582	20,682	22,982	25,482
Tangibles	18,582	20,682	22,982	25,482
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,133	10,264	12,707	15,372
Tangibles	8,133	10,264	12,707	15,372
Intangibles	-	-	-	-
Net fixed assets	10,449	10,418	10,275	10,110
Tangibles	10,449	10,418	10,275	10,110
Intangibles	-	-	-	-
Capital Work In Progress	875	630	690	750
Goodwill	4,818	4,979	5,121	5,263
Non-Current Investments	1,805	1,998	2,243	2,507
Net Deferred tax assets	(250)	(105)	(36)	28
Other Non-Current Assets	762	915	1,097	1,317
Current Assets				
Investments	-	-	-	-
Inventories	8,989	9,519	11,070	12,362
Trade receivables	6,274	6,837	7,952	8,830
Cash & Bank Balance	4,001	5,937	8,822	12,962
Other Current Assets	910	1,236	1,439	1,628
Total Assets	39,244	42,978	49,303	56,399
Equity				
Equity Share Capital	190	190	190	190
Other Equity	28,016	32,004	37,045	43,075
Total Networkth	28,206	32,194	37,235	43,265
Non-Current Liabilities				
Long Term borrowings	429	429	429	429
Provisions	238	198	230	260
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	1,872	1,622	1,372	1,122
Trade payables	3,359	3,929	4,888	5,530
Other current liabilities	2,950	2,189	2,499	2,856
Total Equity & Liabilities	39,244	42,978	49,303	56,399

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	5,799	6,040	7,796	9,545
Add. Depreciation	1,873	2,131	2,443	2,665
Add. Interest	235	170	135	85
Less Financial Other Income	767	701	791	932
Add. Other	(450)	-	-	-
Op. profit before WC changes	7,458	8,342	10,373	12,295
Net Changes-WC	(1,531)	(1,577)	(1,615)	(1,372)
Direct tax	(1,625)	(1,522)	(1,965)	(2,405)
Net cash from Op. activities	4,302	5,243	6,794	8,518
Capital expenditures	(2,917)	(2,175)	(2,532)	(2,732)
Interest / Dividend Income	277	-	-	-
Others	68	338	284	368
Net Cash from Invt. activities	(2,572)	(1,838)	(2,248)	(2,364)
Issue of share cap. / premium	28	-	-	-
Debt changes	(313)	(250)	(250)	(250)
Dividend paid	(765)	(665)	(1,024)	(1,395)
Interest paid	(220)	(170)	(135)	(85)
Others	(64)	(347)	(253)	(285)
Net cash from Fin. activities	(1,334)	(1,432)	(1,661)	(2,015)
Net change in cash	396	1,973	2,885	4,140
Free Cash Flow	1,373	3,068	4,262	5,786

Source: Company Data, PL Research

Key Financial Metrics

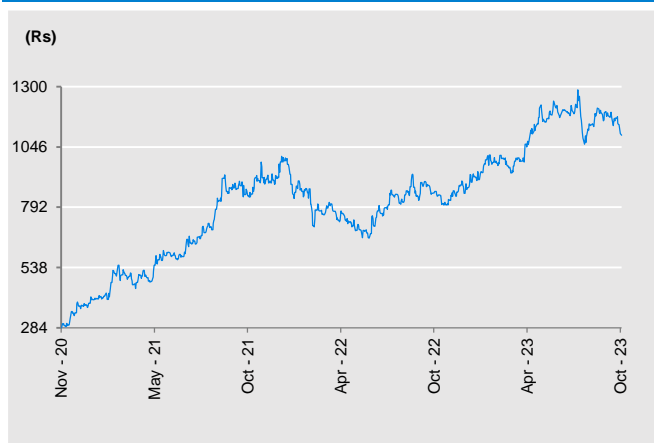
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	20.8	24.5	31.9	39.1
CEPS	30.7	35.7	44.8	53.1
BVPS	148.5	169.5	196.1	227.8
FCF	7.2	16.2	22.4	30.5
DPS	3.5	5.4	7.3	9.0
Return Ratio(%)				
RoCE	16.5	17.0	19.5	20.7
ROIC	14.3	15.6	19.2	22.5
RoE	15.3	15.4	17.5	18.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	93	92	90	88
Valuation(x)				
PER	51.7	43.9	33.7	27.5
P/B	7.2	6.3	5.5	4.7
P/CEPS	35.1	30.1	24.0	20.3
EV/EBITDA	31.1	26.2	20.6	17.0
EV/Sales	4.4	4.1	3.4	3.0
Dividend Yield (%)	0.3	0.5	0.7	0.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	11,871	11,996	12,032	11,463
YoY gr. (%)	32.0	38.0	5.6	1.6
Raw Material Expenses	4,409	4,567	4,681	4,047
Gross Profit	7,462	7,429	7,351	7,417
Margin (%)	62.9	61.9	61.1	64.7
EBITDA	1,710	1,903	1,694	1,675
YoY gr. (%)	8.5	71.6	32.9	2.8
Margin (%)	14.4	15.9	14.1	14.6
Depreciation / Depletion	473	527	457	459
EBIT	1,237	1,376	1,237	1,217
Margin (%)	10.4	11.5	10.3	10.6
Net Interest	68	72	52	49
Other Income	240	198	309	196
Profit before Tax	1,409	1,752	1,494	1,364
Margin (%)	11.9	14.6	12.4	11.9
Total Tax	340	408	418	437
Effective tax rate (%)	24.1	23.3	28.0	32.1
Profit after Tax	1,069	1,344	1,076	927
Minority interest	41	117	45	20
Share Profit from Associates	63	144	101	112
Adjusted PAT	1,091	1,180	1,132	1,019
YoY gr. (%)	7.4	106.9	43.7	14.5
Margin (%)	9.2	9.8	9.4	8.9
Extra Ord. Income / (Exp)	-	191	-	-
Reported PAT	1,091	1,371	1,132	1,019
YoY gr. (%)	7.4	140.4	43.7	14.5
Margin (%)	9.2	11.4	9.4	8.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,091	1,371	1,132	1,019
Avg. Shares O/s (m)	190	190	190	190
EPS (Rs)	5.7	6.2	6.0	5.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Oct-23	BUY	1,482	1,192
2	05-Aug-23	BUY	1,482	1,259
3	06-Jul-23	BUY	1,501	1,203
4	26-Jun-23	BUY	1,501	1,193

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	5,013	4,068
2	Apar Industries	Accumulate	5,630	5,165
3	Bharat Electronics	Accumulate	140	139
4	BHEL	Reduce	67	127
5	Carborundum Universal	BUY	1,482	1,192
6	Cummins India	Hold	1,788	1,691
7	Engineers India	Accumulate	165	143
8	GE T&D India	Hold	260	413
9	Grindwell Norton	BUY	2,604	2,092
10	Harsha Engineers International	Accumulate	474	415
11	Hindustan Aeronautics	BUY	2,266	1,889
12	Kalpataru Projects International	BUY	732	647
13	KEC International	Hold	645	672
14	Larsen & Toubro	BUY	3,302	3,096
15	Praj Industries	Accumulate	618	571
16	Siemens	Accumulate	4,241	3,559
17	Thermax	Hold	2,613	3,101
18	Triveni Turbine	Accumulate	419	421
19	Voltamp Transformers	Hold	5,079	4,989

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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