

RESULT UPDATE

MID CAP

Share Data

Reuters code	CRBR.BO
Bloomberg code	CU IN
Market cap. (US\$ mn)	271
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	93
Target price (Rs)	140

Performance (%) 1M 3M 12M

Absolute	(6)	9	30
Relative	2	8	(13)

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	10.5	11.5
+/- (%)	22.0	9.8
PER (x)	13.1	11.9
PBV (x)	2.0	1.8
Dividend/Yield (%)	1.5	1.5
EV/Sales (x)	1.3	1.2
EV/EBITDA (x)	7.8	7.1

Major shareholders (%)

Promoters	43
FII's	9
MF's	8
BFSI's	9
Public & Others	31

Financial highlights

(Rs mn)	2QFY10	2QFY09	YoY (%)	1HFY10	1HFY09	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	3,272	3,404	(3.9)	6,096	6,369	(4.3)	11,930	12,887	8.0	14,114	9.5
EBITDA	609	567	7.4	1,095	1,035	5.8	1,653	2,213	33.9	2,417	9.2
EBITDA Margin (%)	18.6	16.6	-	18.0	16.3	-	13.9	17.2	-	17.1	-
Other Income	22	7	-	29	7	-	328	114	(65.1)	137	19.8
Depreciation	106	89	19.8	210	172	22.5	352	448	27.1	496	10.9
Interest	73	83	(12.5)	168	140	19.9	324	378	16.9	410	8.3
PBT	452	401	12.6	746	731	2.1	1,305	1,501	15.0	1,648	9.8
Non-recurring	-	-	-	-	-	-	293	-	-	-	-
PBT after non-recurring	452	401	12.6	746	731	2.1	1,598	1,501	(6.1)	1,648	9.8
Tax	155	134	15.2	256	256	-	551	525	(4.6)	577	9.8
Adjusted PAT	297	267	11.3	490	475	3.3	813	976	20.0	1,071	9.8
Reported PAT	297	267	11.3	490	475	3.3	1,047	976	(6.8)	1,071	9.8
Associate Profit	(13)	20	-	(7)	42	-	95	-	-	-	-
Minority Interest	19	37	-	27	68	-	108	-	-	-	-
Reported PAT	265	250	5.9	457	449	1.8	1,035	976	(5.7)	1,071	9.8

Carborundum Universal Maintain Underperformer

Price: Rs 136

BSE Index: 15,912

04 November 2009

2QFY10 Result – Volumes recovering

Standalone sales for Carborundum Universal (CUMI) grew by 3.2% whereas consolidated sales dropped by 4%. With reference to standalone sales, volume growth in abrasives was largely limited to low priced products and stood at 10% for bonded abrasives and 2% for coated abrasives. Although prices of products have increased by 5-7%, the downgrading has nullified this advantage. Capacity utilisation in bonded and coated abrasives stood at 70% and 65%, respectively. In the fired refractories, the delay in capex by end users has caused capacity utilisation to drop to 50%. In monolithic refractories, utilisation stands at 60% and in wear and corrosion resistant tiles it stood at 70%. In mets cylinders, capacity utilisation is almost full. In electrominerals, capacity utilisation is at 75% and for micro-grits capacity is fully utilised. At VAW, the silicon carbide capacity is fully utilised but the abrasives capacity utilisation remains below 30%. In China, Middle East and North America, losses are likely to continue in 2HFY10. Recovery in order intake at Foskor is anticipated. The capex for FY10 on standalone basis is Rs 500 mn and on consolidated basis it is Rs 750 mn. The next phase of micro-grits with 2,400T capacity is expected to become operational by November 2009. The debt on standalone basis is Rs 3.3 bn and on consolidated basis it is Rs 5 bn. To optimise operations in China, CUMI is exploring demerger of the abrasives and diamond/diamond tool businesses of the Chinese JV. The abrasives business would be hived in a 100% subsidiary of CUMI.

Intake from critical segments of auto, auto components and bearings is likely to push up volumes in abrasives and will also help realisations. No further fall is expected in raw material prices sequentially in 2HFY10. For FY11, volumes are expected to grow 8-10% in the abrasives segment and higher in the ceramics and refractories segment, with improving realisations, as the share of fired refractories, mets cylinders and micro-grits increases in the sales. We have revised earnings upwards by 10% for FY10 to Rs 10.5 and by 8% for FY11 to Rs 11.5. At the current market price of Rs 136, the stock is trading at 13x FY10E and 11x FY11E earnings. We retain Underperformer rating on the stock with a target price of Rs 140 based on 12x FY11E.

Standalone highlights

(Rs mn)	2QFY10	2QFY09	YoY (%)	1HFY10	1HFY09	YoY (%)
Net Revenues	1,857	1,799	3.2	3,495	3,369	3.7
EBITDA	350	308	13.7	645	538	19.9
EBITDA Margin (%)	18.8	17.1	–	18.5	16.0	–
Other Income	23	26	(10.9)	83	84	(1.4)
Depreciation	91	74	23.0	181	145	25.3
Interest	59	66	(10.3)	130	114	14.4
PBT	222	193	15.0	416	363	14.5
PBT after non-recurring	222	193	15.0	416	363	14.5
Tax	73	59	24.2	128	118	8.8
Adjusted PAT	149	134	11.0	288	246	17.3
Reported PAT	149	134	11.0	288	246	17.3

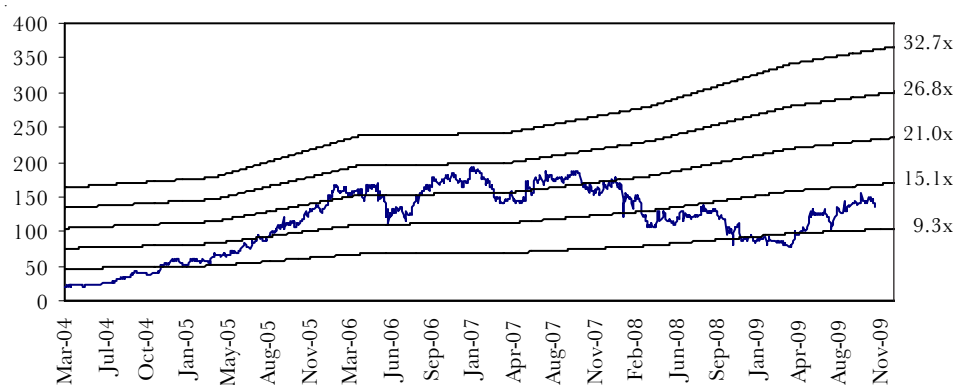
Segmental results (Standalone)

(Rs mn)	2QFY10	2QFY09	YoY (%)	1HFY10	1HFY09	YoY (%)
Segment revenue						
Abrasives	1,086	1,096	(0.9)	2,017	2,057	(1.9)
Ceramics	463	441	5.1	887	825	7.5
Electro-minerals	396	356	11.1	770	663	16.1
Total	1,944	1,893	2.7	3,674	3546	3.6
Less: Inter-segment revenue	104	111	(6.7)	209	194	7.7
Net sales	1,841	1,782	3.3	3,465	3,351	3.4
Segmental results						
Abrasives	147	152	(3.6)	259	292	(11.3)
Ceramics	71	69	3.2	132	135	(2.4)
Electro-minerals	102	89	14.7	192	149	29.2
Extraordinary						
Total	319	310	3.1	582	575	1.3
Less:						
1. Interest	59.4	66	(10.3)	130	114	14.5
2. Other un-allocable exp.	37.8	50	(24.9)	36	98	(63.4)
Total PBT	222	193	15.0	416	363	14.5
Segment assets						
Abrasives	2,930	3,119	(6.1)	2,930	3,119	(6.1)
Ceramics	2,070	1,884	9.9	2,070	1,884	9.9
Electro-minerals	984	749	31.4	984	749	31.4
Others	1,600	1,887	(15.2)	1,600	1,887	(15.2)
PBIT margins (%)						
Abrasives	13.5	13.9	–	12.8	14.2	–
Ceramics	15.3	15.6	–	14.8	16.3	–
Electro-minerals	25.7	24.9	–	25.0	22.4	–
Total	17.4	17.4	–	16.8	17.2	–

Segmental results (Consolidated)

(Rs mn)	2QFY10	2QFY09	YoY (%)	1HFY10	1HFY09	YoY (%)
Segment revenue						
Abrasives	1,313	1,532	(14.3)	2,466	2,902	(15.0)
Ceramics	570	587	(2.9)	1,100	1,134	(3.0)
Electro-minerals	1,198	1,177	1.8	2,139	2,121	0.9
Information Technology	24	26	(7.0)	49	50	(3.4)
Power	32	31	2.9	66	62	6.5
Total	3,138	3,353	(6.4)	5,820	6,269	(7.2)
Less: Inter-segment revenue	134	254	(47.5)	253	499	(49.3)
Net sales	3,004	3,098	(3.0)	5,567	5,770	(3.5)
Segmental results						
Abrasives	155.3	200	(22.5)	281	381	(26.2)
Ceramics	110	123	(11.1)	211	225	(6.0)
Electro-minerals	267	194	37.8	458	329	39.1
Information Technology	3	3	4.0	7	6	19.6
Power	13	14	(0.7)	25	25	(0.4)
Total	547	533	2.7	981	965	1.7
Proportionate share of JV's	23	37	(36.9)	36	74	(51.8)
Less:						
1. Interest	73	83	(12.5)	168	140	19.9
2. Other un-allocable exp.	46	86	(46.0)	103	168	(38.8)
Total PBT	452	401	12.6	746	731	2.1
Segment assets						
Abrasives	3,372	3,572	(5.6)	-	-	-
Ceramics	2,408	2,108	14.2	-	-	-
Electro-minerals	1,974	1,867	5.7	-	-	-
Information Technology	24	19	26.3	-	-	-
Power	51	63	(18.2)	-	-	-
Proportionate share of JV's	687	738	(6.9)	-	-	-
Others	2,369	2,875	(17.6)	-	-	-
Total	10,885	11,242	(3.2)	-	-	-

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	9,093	11,930	12,887	14,114
Growth (%)	46.5	31.2	8.0	9.5
Operating expenses	(7,687)	(10,277)	(10,674)	(11,697)
Operating profit	1,406	1,653	2,213	2,417
EBITDA	1,406	1,653	2,213	2,417
Growth (%)	15.8	17.5	33.9	9.2
Depreciation	(301)	(352)	(448)	(496)
Other income	137	328	114	137
EBIT	1,243	1,629	1,880	2,058
Interest paid	(189)	(324)	(378)	(410)
Pre-tax profit (before non-recurring)	1,054	1,305	1,501	1,648
Non-recurring items	500	293	–	–
Pre-tax profit (after non-recurring)	1,553	1,598	1,501	1,648
Tax (current + deferred)	(355)	(551)	(525)	(577)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,198	1,047	976	1,071
Minority interests	(64)	(108)	–	–
Preference dividend	54	95	–	–
Reported PAT	1,189	1,035	976	1,071
Adjusted net profit	689	800	976	1,071
Growth (%)	1.5	16.1	22.0	9.8

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and Marketable sec.	471	604	644	706
Other current assets	4,503	5,737	6,260	6,859
Investments	356	402	1,273	1,720
Net fixed assets	5,381	6,417	6,455	6,768
Total assets	10,711	13,160	14,632	16,053
Current liabilities	1,716	2,074	2,350	2,563
Total debt	3,804	5,127	5,590	5,941
Other non-current liabilities	344	434	425	425
Total liabilities	5,864	7,635	8,365	8,929
Share capital	187	187	187	187
Reserves & surplus	4,281	4,852	5,595	6,452
Shareholders' funds	4,468	5,039	5,782	6,639
Minorities interests	379	486	486	486
Total equity & liabilities	10,711	13,160	14,632	16,053
Capital employed	8,995	11,086	12,283	13,490

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,553	1,598	1,501	1,648
Depreciation	301	352	448	496
Change in working capital	(1,389)	(865)	(253)	(386)
Total tax paid	(252)	(470)	(525)	(577)
Cash flow from oper. (a)	212	615	1,171	1,182
Capital expenditure	(2,719)	(1,390)	(447)	(771)
Change in investments	72	(46)	(871)	(447)
Others	445	1	(39)	(39)
Cash flow from inv. (b)	(2,203)	(1,434)	(1,358)	(1,257)
Free cash flow (a+b)	(1,990)	(819)	(187)	(75)
Debt raised/(repaid)	1,868	1,323	463	351
Dividend (incl. tax)	(109)	(120)	(218)	(215)
Others	203	(251)	(18)	–
Cash flow from fin. (c)	1,962	952	227	136
Net change in cash (a+b+c)	(28)	133	40	62

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	7.4	8.6	10.5	11.5
Growth	1.5	16.1	22.0	9.8
Book NAV/share (Rs)	51.6	58.9	66.8	76.0
Dividend/share (Rs)	2.0	2.0	2.0	2.0
Dividend payout ratio	31.1	26.7	22.0	20.0
Tax	22.9	34.5	35.0	35.0
EBITDA margin	15.5	13.9	17.2	17.1
EBIT margin	13.7	13.7	14.6	14.6
RoCE	16.8	16.2	16.1	16.0
Net debt/Equity	68.8	81.9	78.9	73.5

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	18.5	15.9	13.1	11.9
PCE	12.9	11.1	9.0	8.1
Price/Book	2.6	2.3	2.0	1.8
Yield (%)	1.5	1.5	1.5	1.5
EV/Net sales	1.9	1.4	1.3	1.2
EV/EBITDA	12.3	10.5	7.8	7.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	7.6	6.7	7.6	7.6
Asset turnover	1.0	1.0	0.9	0.9
Leverage factor	2.1	2.3	2.4	2.3
Return on equity (%)	16.3	15.4	16.6	16.0

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 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
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