[(Investment Idea](#)

Carborundum Universal Ltd. (CUMI)

CUMI has reported good results for Quarter ended December 2006 (Q3 FY 2007). Standalone net sales increased by 25.0% to Rs. 118.9 crore (Rs. 95.1 crore) backed by strong performance across its various business segments (gross sales from abrasives rose by 20.3% to Rs. 95.0 crore, that from ceramics went up by 31.9% to Rs. 26.3 crore and that for electrominerals by 18.4% to Rs. 23.5 crore). Exports spurted 70% to Rs. 19.3 crore (Rs. 11.3 crore). OPM% remained unchanged at 20.8% as better operating efficiency was negated by higher raw material costs (up to 35.2% from 32.7% as % of sale). PBT (before extraordinary item) went up by only 17.7% to Rs. 20.1 crore (Rs. 17.1 crore), being affected by higher interest cost of Rs. 2.3 crore (Rs. 0.6 crore). After accounting for extraordinary income of Rs. 32.4 crore on sale of shares in Q3 FY 2006, PBT (after extraordinary item) declined by 59.4% to Rs. 20.1 crore (Rs. 49.5 crore). Higher average tax rate restricted PAT at Rs. 12.6 crore (Rs. 43.4 crore).

CUMI's consolidated net sales was Rs. 140.1 crore and PAT was Rs. 17.8 crore for Q3 FY 2006.
Future growth prospects:

- Commenced commercial production of world class products at its coated abrasives plant at Sriperumbudur, Chennai in December '06 (capacity of 15 million square metres). This will boost company's export initiatives (plans to export 50% produce). This facility is expected to contribute ~Rs. 200-250 crore (at optimum capacity) to revenues in 2-3 years time.
- New facility for bonded abrasives at tax heaven Uttaranchal (to supply to ancilliaries of Hero Honda, Bajaj Auto, M&M, Tata Motors) is on target to commence production in Q3 FY 2008.
- Has entered into joint venture with China Engineering and Exploration Bureau to acquire 49% stake in Chinese company Jingri Industrial Diamond Company for Rs. 23 crore; Jingri will set up 3,000 tonne greenfield bonded abrasives plant in China expected to be operational by Q3 FY 2008. CUMI will have competitive edge from low cost outsourcing opportunities for its relatively high cost Indian manufacturing facilities, enhanced product basket and facing threat from cheap Chinese imports in domestic market.
- Acquisition of 2 ceramic plants at Jabalpur in December '06 (@ Rs. 3.20 crore) and likely commissioning of new facility for manufacture of industrial ceramic tiles at Hosur in Q4 FY 2007 to boost ceramic sales significant.
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At CMP of Rs. 185/-, share is trading at 23.1 times FY 2007 expected consolidated EPS of Rs. 8/- and 15.6 times FY 2008 expected consolidated EPS of Rs. 12/-. In view of strong demand from major user industries (like auto, auto anciliary, steel, metals, refractories, etc.) and increased thrust on exports (by leveraging presence in various geographies and key world markets through its subsidiaries and joint ventures), we recommend to "BUY" the share at CMP.

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