

# Carborundum Universal

**Rs252**  
**OUTPERFORMER**

## RESULT NOTE

**Mkt Cap: Rs23.5bn; US\$505m**

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**Result:** Q3FY11

**Comment:** In line with estimates led by strong abrasive segment demand

### Key financials

Year ended	Revenues (Rs m)	% growth, yoy	Adj. PAT (Rs m)	EPS (Rs)	% growth, yoy	PE (x)
2007	6,210	27.7	681	7.3	33.3	34.5
2008	9,055	45.8	667	7.1	(2.1)	35.3
2009	11,930	31.7	865	9.3	29.8	27.2
2010	12,822	7.5	1,012	10.8	17.0	23.2
2011E	15,941	24.3	1,396	14.9	37.9	16.8
2012E	18,532	16.3	1,615	17.3	15.7	14.5

### Key highlights

- CUMI's consolidated PAT (post minority interest and income from associates) at Rs368mn (+60.4% yoy) was in line with our estimates (Rs374mn) as the abrasives demand revived and margins in the segment expanded.
- Consolidated revenues grew by 24.5% yoy to Rs4.08bn (in line with our estimates) led by a strong growth in abrasive segments.
  - Abrasives segment witnessed a strong growth of 64% yoy in revenues (Rs1.85bn) led by higher demand, especially in the domestic market. The growth in international markets, especially Russia was strong in the quarter. CUMI is witnessing demand from user industries such as the auto, bearings, steel, general engineering, etc.
  - Ceramics division witnessed revenue growth of 37% yoy to Rs853mn in the quarter as demand of high alumina ceramics and super refractories was strong from user industries such as cement, material handling, mineral processing industries, iron and steel, etc. Further, demand for metalised cylinder was very strong as also exports to N. America of wear resistant tiles. However, the revenues in Australia were muted due to floods as also competition from China.
  - The electrominerals division revenues were flat at Rs1.45bn despite strong demand for products in India as the strong appreciation of the South African Rand impacted revenues of Foskar Zirconia.
- Operating margins fell by 290bps to 14.8% led by sharp fall in electrominerals (-620bps to 15.7%) as also the ceramics (-550bps to 16.9%) business. The higher power costs across geographies as also increase in raw petroleum coke prices in Russia impacted profitability. Further, the adverse product mix of the refractories business and competition from China impacted margins.
- On the other hand, the margins improved by 570bps to 15.4% led by strong revenue growth, improvement in raw material consumption as also price hikes undertaken during the quarter. Further, CUMI has been focussing on the non standard customised products which has further boosted margins in the quarter.

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- Interest expenses fell during the quarter by 10% yoy to Rs68mn led by lower interest rates and control on working capital. CUMI has been consistently reducing its consolidated debt levels over the past few quarters, which has fallen to Rs4.15bn at the quarter end against Rs4.39bn at the end of FY10.
- Other income (inclusive of other operating income) jumped by 213% yoy to Rs152mn led by higher scrap sales, DEPB benefits, dividend, etc. Further, CUMI sold the excess power booked in Russian markets, which boosted the other income in the quarter.
- Consequently, the adjusted PAT post minorities and associate profits grew by 60.4% yoy to Rs368mn.

### Segmental trends

(Rs m)	1Q10	2Q10	3Q10	4Q10	FY10P	1Q11	2Q11	3Q11
Abrasives	1,153	1,313	1,132	1,602	5,199	1,482	1,800	1,855
Electro minerals	942	1,198	1,456	1,194	4,789	1,327	1,526	1,449
Ceramics	530	570	621	635	2,356	793	862	853
Others	58	56	62	65	241	60	60	73
Less: intersegment	119	134	158	186	597	144	164	153
<b>Total revenues</b>	<b>2,563</b>	<b>3,004</b>	<b>3,112</b>	<b>3,310</b>	<b>11,988</b>	<b>3,517</b>	<b>4,084</b>	<b>4,076</b>
<b>yoy % change</b>								
Abrasives	(15.9)	(14.3)	(0.1)	58.2	3.0	28.6	37.1	63.9
Electro minerals	(0.3)	1.8	14.8	29.0	11.0	40.9	27.4	(0.4)
Ceramics	(3.1)	(2.9)	(5.1)	25.5	2.7	49.7	51.2	37.4
<b>Total revenues</b>	<b>(4.1)</b>	<b>(3.0)</b>	<b>11.4</b>	<b>39.3</b>	<b>9.6</b>	<b>37.2</b>	<b>36.0</b>	<b>31.0</b>
<b>EBIT</b>								
Abrasives	126	155	110	128	519	171	245	286
Electro minerals	191	267	319	251	1028	207	358	227
Ceramics	102	110	139	108	458	155	149	144
Others	16	16	16	18	66	12	6	21
<b>EBIT (%)</b>								
Abrasives	10.9	11.8	9.7	8.0	10.0	11.5	13.6	15.4
Electro minerals	20.3	22.3	21.9	21.0	21.5	15.6	23.4	15.7
Ceramics	19.2	19.2	22.4	16.9	19.4	19.5	17.3	16.9
Others	27.1	28.6	25.8	28.3	27.4	19.2	9.3	28.7

### □ Other highlights

- CUMI expects the improvement in product mix and realizations to continue as the inventory in the market decreases for the abrasives segment. Further, operating leverage is likely to kick in as the utilization levels improve, especially in for VAW. Accordingly, the abrasives margins are likely to increase on a qoq basis.
- The electromineral division margins are likely to improve on a qoq basis as CUMI has initiated price increases across geographies to pass on the input price increases.
- With capacities at high utilization levels, CUMI is undertaking de-bottlenecking at various facilities to increase capacities.
- Overall, the capex plans on a standalone basis is Rs750mn for FY11 and Rs1.75bn on consolidated basis towards capacity expansion. The same will be funded through internal accruals.

## □ Reiterate Outperformer

We have upgraded our earnings estimates for FY11E and FY12E by 13% and 7% respectively. CUMI has invested to augment its capacity so as to cater to the domestic and international demand for the abrasives segment, which is being driven by investments in infrastructure and construction sectors. On the other hand, the ceramics demand is being led by strong traction in power and cement sectors. Accordingly, we believe CUMI, with its integrated operations, timely capacity expansions as well as value accretive acquisition of VAW is likely to witness a 26% CAGR in CUMI's consolidated earnings over FY10-12E. At 16.8x FY11E and 14.5x FY12E earnings, we believe the stock is trading at attractive valuations. Reiterate Outperformer with a target price of Rs277/share.

### Consolidated quarterly results

Rs mn	1Q10	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	3Q11	FY11E
<b>Net Sales</b>	<b>2,770</b>	<b>3,250</b>	<b>3,275</b>	<b>3,528</b>	<b>12,822</b>	<b>3,517</b>	<b>4,084</b>	<b>4,076</b>	<b>15,941</b>
Total Expenses	2,322	2,663	2,696	3,020	10,712	2,998	3,428	3,473	13,531
<b>EBITDA</b>	<b>448</b>	<b>586</b>	<b>579</b>	<b>508</b>	<b>2,110</b>	<b>519</b>	<b>657</b>	<b>603</b>	<b>2,410</b>
OPM (%)	16.2	18.0	17.7	14.4	16.5	14.8	16.1	14.8	15.1
Other Income	61	44	48	164	319	106	190	152	633
Interest	95	73	76	60	307	69	61	68	269
Depreciation	104	106	109	93	413	124	128	132	529
<b>PBT</b>	<b>310</b>	<b>452</b>	<b>443</b>	<b>518</b>	<b>1,709</b>	<b>432</b>	<b>658</b>	<b>555</b>	<b>2,245</b>
Tax	102	155	167	137	560	124	212	161	730
Tax Rate (%)	32.8	34.2	37.7	26.5	32.8	28.8	32.2	29.0	32.5
PAT	208	297	276	381	1,149	308	446	394	1,516
Profit from associates	6	(13)	(11)	21	3	(13)	1	(8)	(10)
Less: Minority	7	19	36	78	140	24	36	18	110
<b>Adjusted PAT</b>	<b>207</b>	<b>265</b>	<b>229</b>	<b>324</b>	<b>1,012</b>	<b>270</b>	<b>411</b>	<b>368</b>	<b>1,396</b>
Extra-ordinary items	(15)	-	7	-	(8)	164	-	-	164
<b>Reported PAT</b>	<b>192</b>	<b>265</b>	<b>236</b>	<b>324</b>	<b>1,004</b>	<b>435</b>	<b>411</b>	<b>368</b>	<b>1,560</b>
<b>Growth (yoy, %)</b>									
<b>Net Sales</b>	<b>(5.3)</b>	<b>(3.2)</b>	<b>7.6</b>	<b>35.4</b>	<b>7.5</b>	<b>27.0</b>	<b>25.7</b>	<b>24.5</b>	<b>24.3</b>
<b>EBITDA</b>	<b>(3.4)</b>	<b>6.7</b>	<b>70.9</b>	<b>38.3</b>	<b>23.0</b>	<b>16.0</b>	<b>12.0</b>	<b>4.2</b>	<b>14.2</b>
PBT	(14.7)	4.6	52.5	77.5	25.7	39.6	45.6	25.3	31.4
<b>PAT</b>	<b>(7.9)</b>	<b>(2.5)</b>	<b>40.2</b>	<b>59.0</b>	<b>17.0</b>	<b>30.6</b>	<b>55.3</b>	<b>60.4</b>	<b>37.9</b>
Reported PAT	0.1	6.0	(38.6)	59.0	(2.6)	126.5	55.3	55.7	55.4
Outstanding shares (mn)	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4	93.4
EPS (Rs/share)	2.2	3.2	3.0	4.1	10.8	3.3	4.8	4.2	14.9
PER (x)	28.3	19.8	21.3	15.4	23.2	19.1	13.2	14.9	16.8

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