

## RESULT UPDATE

**Ruchir Khare**  
ruchir.khare@kotak.com  
+91 22 6218 6431

## CARBORUNDUM UNIVERSAL LTD (CUMI)

PRICE: Rs.355  
TARGET PRICE: Rs.418

RECOMMENDATION: BUY  
FY20E PE: 18.6x

CUMI Q3FY18 result was in line with our estimate. Volumes across divisions have started to pick up with exception to channel abrasives, severed by GST rollout. Industrial ceramics and EMD division have been witnessing rising demand across geographies. Company's Russian subsidiary VAW reported significant volume led growth in the quarter.

We are encouraged by the strong growth reported across key high margin products and expect earnings momentum to flow into FY19/20. We expect turnaround across all the divisions led by global recovery for company's products. In view of significant upside to our target price, we upgrade CUMI stock (ascribe PER 22x FY20 estimated earnings) to BUY (SELL earlier) with revised price target of Rs 418 (Rs 408 earlier).

## Summary table - Consolidated

(Rs mn)	FY18E	FY19E	FY20E
Sales	24,008	28,500	33,064
Growth (%)	13.6	18.7	16.0
EBITDA	4,081	5,187	6,282
EBITDA margin (%)	17.0	18.2	19.0
PBT	3312	4354	5449
Net profit	2,219	2,917	3,651
EPS (Rs)	11.4	15.1	19.0
Growth (%)	29.9	32.6	25.8
CEPS (Rs)	17.2	21.4	25.4
BV (Rs/share)	85.0	95.1	107.6
DPS (Rs)	3.2	4.4	5.7
ROE (%)	14.6	17.3	19.2
ROCE (%)	11.2	14.0	16.3
Net cash (debt)	1,192	1,482	2,206
NW Capital (Days)	94.3	98.6	99.7
EV/Sales (x)	2.9	2.4	2.1
EV/EBITDA (x)	16.8	13.2	10.9
P/E (x)	31.1	23.5	18.6
P/Cash Earnings (x)	20.7	16.6	14.0
P/BV (x)	4.2	3.7	3.3

Source: Company, Kotak Securities – Private Client Research

## Consolidated Result

(Rs mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
<b>Income from Operations</b>	<b>6116</b>	<b>5273</b>	<b>16.0</b>	<b>5871</b>	<b>4.2</b>
Decrease/ (Increase) in stock	15	2		251	
Material consumed	1843	1502	22.7	1618	13.9
Purchase of traded goods	193	255		191	
Employee expenses	790	695	13.7	761	3.7
Power and fuel	835	684	22.2	768	8.7
Other expenses	1394	1327	5.0	1224	
Total Expenses	5069	4464	13.6	4813	5.3
<b>EBITDA</b>	<b>1047</b>	<b>809</b>	<b>29.4</b>	<b>1058</b>	<b>(1.1)</b>
Other income	34	67	(49.9)	45	(25.2)
Depreciation	269	243	10.7	258	4.4
<b>EBIT</b>	<b>811</b>	<b>633</b>	<b>28.2</b>	<b>845</b>	<b>(4.0)</b>
Finance cost	18	40	(54.8)	24	
Exceptional Items	0	0		0	
Foreign exchange difference expense	0	0		0	
<b>PBT</b>	<b>793</b>	<b>592</b>	<b>33.8</b>	<b>821</b>	<b>(3.4)</b>
Total tax	268	181	48.4	268	(0.1)
Minority Interest	26	42		21	
Share of profit/loss form associate	13	10		11	
<b>PAT</b>	<b>565</b>	<b>464</b>	<b>21.8</b>	<b>584</b>	<b>(3.4)</b>
<b>Adjusted PAT</b>	<b>565</b>	<b>464</b>	<b>21.8</b>	<b>584</b>	<b>(3.4)</b>
Other comprehensive income	76	113		75	
Total comprehensive income	641	576		660	
Adj. EPS (Rs)	3.0	2.5	21.8	3.1	(3.4)
EBITDA (%)	17.1	15.3		18.0	
Tax Rate (%)	33.8	30.5		32.6	
RM/Sales	33.5	33.4		35.1	

Source: Company, Kotak Securities – Private Client Research

## Subsidiaries Result

(Rs mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Income from Operations	2002	1938	3.3	1977	1.3
EBITDA	405	315	28.4	395	2.7
PAT	189	225		261	(27.7)
EBITDA%	20.2	16.3		20.0	

Source: Kotak Securities – Private Client Research

### Result Highlights

CUMI consolidated revenue reported at Rs 6.1 Bn in Q3FY18 (+16% YY, +15.4% YY adjusted for GST impact) was driven by all the divisions. Standalone revenues reported revenue at Rs 4.1 Bn driven by 45% YY growth in EMD division.

Standalone abrasives sales, reported at Rs 2.2 Bn grew 17%YY and 4.2% sequentially. Management stated that while the volumes in abrasives segment has started to improve, channel sales continues to remain muted due to GST led disruptions.

In international abrasives business, company's Russian subsidiary VAW has reported meaningful pick-up in sales. The abrasives part of Russian business has cut losses last year and is now operating at c.100% capacity utilization levels (Capacity 800000 tpa). CUMI has planned to expand capacity for thin wheeled and coated abrasives in Russia. Abrasives division reported, consolidated sales of Rs 2.7 Bn in Q3FY18 (+15.4 % YY and 4.2% QQ) in Q3FY17. EBIT margins for abrasives segment reported at 13.5% in Q3FY18.

#### Segment reporting (Consolidated)

(Rs mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
<b>Segment Revenue</b>					
Abrasives	2,703	2,343	15.4	2,593	4.2
Ceramics	1,220	1,033	18.1	1,209	1.0
Electrominerals	2,278	1,952	16.7	2,169	5.0
<b>Segment EBIT</b>					
Abrasives	364	287	27.0	365	(0.2)
Ceramics	202	163	23.7	167	20.8
Electrominerals	338	214	57.7	374	(9.7)
<b>Segment Margins (%)</b>					
Abrasives	13.5	12.2		14.1	
Ceramics	16.6	15.8		13.9	
Electrominerals	14.8	11.0		17.2	

Source: Company, Kotak Securities – Private Client Research

Ceramics business reported sales at Rs 1.2 Bn in Q3FY18 (+18.1% YoY) in Q3FY18 at consolidated level. Demand for ceramics has been driven by improved demand for value added/engineered ceramics in the past few quarters (industrial ceramics). Further, management expects margins to further improve driven by operating leverage and higher capacity utilization going ahead. The company has launched a new products (developed in house) Z450 which is likely to significantly reduce graphite electrodes and power consumption.

Outlook for metalized cylinder (Metz) remains encouraging and volumes are expected to further improve in FY19/FY20. Commissioning of NTK is over and management expects contribution of 1.2-1.5 cylinders in next two quarters. EBIT margins expanded to 16.6% in Q3FY18 against 15.8% in Q3FY17.

Electrominerals division (EMD), consolidated sales reported at c.Rs 2.2 Bn in Q3FY18 (+ 16.7% YoY). With streamlining of operation in Russia (fixing power related issues) management expects significant ramp up in EMD business going ahead. Also note that CUMI has successfully shifted Thukela/Foskor plants in India and these businesses would realize full potential from FY19 onwards. Standalone EMD business reported impressive growth of 45% YY. SIC (Silicon Carbide) prices have remained firm, increased by 4-5% in the quarter.

Power & fuel costs, reported sharp increase, reported at Rs 835 mn (+22.2% in Q3FY18, VAW power tariff increased by 20% YY). Consolidated EBITDA margins expanded to 17.1% in the quarter against 15.3% in Q3FY17 (standalone EBITDA margin at 15.6%). We highlight that the company has been observing input price pressure across key commodities graphite electrodes, fuel cost, pet coke and sand. Management highlighted that the company would take two to three quarters to fully pass on these inflationary pressures to the end customers.

Finance cost reduced to Rs 18 mn in Q3FY18 from Rs 40 mn in Q3F717. CUMI incurred capex of Rs 700 mn in 9MFY18 and management maintained capex guidance of Rs 1 Bn for FY18 (further expects to maintain same level of capex in FY19 as well). We note that with exception to bubble zirconia, CUMI is currently operating at 70-85% capacity utilization across product categories.

We recommend **BUY**  
Carborundum Universal Ltd  
with a price target of Rs.418

#### **Valuation and Recommendation**

We expect turnaround across all the divisions led by global recovery for company's products. In view of significant upside to our target price, we upgrade CUMI stock (ascribe PER 22x FY20 estimated earnings) to **BUY** (SELL earlier) with revised price target of Rs 418 (Rs 408 earlier).

**RATING SCALE****Definitions of ratings**

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

**FUNDAMENTAL RESEARCH TEAM****Sanjeev Zarbade**

Capital Goods, Engineering  
sanjeev.zarbade@kotak.com  
+91 22 6218 6424

**Ruchir Khare**

Capital Goods, Engineering  
ruchir.khare@kotak.com  
+91 22 6218 6431

**Amit Agarwal**

Logistics, Paints, Transportation  
agarwal.amit@kotak.com  
+91 22 6218 6439

**Nipun Gupta**

Information Technology  
nipun.gupta@kotak.com  
+91 22 6218 6433

**Teena Virmani**

Construction, Cement, Building Mat  
teena.virmani@kotak.com  
+91 22 6218 6432

**Ritwik Rai**

FMCG, Media  
ritwik.rai@kotak.com  
+91 22 6218 6426

**Jatin Damania**

Metals & Mining  
jatin.damania@kotak.com  
+91 22 6218 6440

**Jayesh Kumar**

Economy  
kumar.jayesh@kotak.com  
+91 22 6218 5373

**Arun Agarwal**

Auto & Auto Ancillary  
arun.agarwal@kotak.com  
+91 22 6218 6443

**Sumit Pokharna**

Oil and Gas  
sumit.pokharna@kotak.com  
+91 22 6218 6438

**Pankaj Kumar**

Midcap  
pankajr.kumar@kotak.com  
+91 22 6218 6434

**K. Kathirvelu**

Production  
k.kathirvelu@kotak.com  
+91 22 6218 6427

**TECHNICAL RESEARCH TEAM****Shrikant Chouhan**

shrikant.chouhan@kotak.com  
91 22 6218 5408

**Amol Athawale**

amol.athawale@kotak.com  
+91 20 6620 3350

**DERIVATIVES RESEARCH TEAM****Sahaj Agrawal**

sahaj.agrawal@kotak.com  
+91 79 6607 2231

**Malay Gandhi**

malay.gandhi@kotak.com  
+91 22 6218 6420

**Prashanth Lalu**

prashanth.lalu@kotak.com  
+91 22 6218 5497

**Prasenjit Biswas, CMT**

prasenjit.biswas@kotak.com  
+91 33 6625 9810

**Disclosure/Disclaimer**

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited. Kotak Securities is one of India's largest brokerage and distribution house.

Kotak Securities Limited is a corporate trading and clearing member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and Portfolio Management.

Kotak Securities Limited is also a depository participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority as Corporate Agent for Kotak Mahindra Old Mutual Life Insurance Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). We are registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise/warning/deficiency letters/ or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to clients as well as our prospects.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates/associates, officers, directors, and employees, Research Analyst(including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of Research Report or at the time of public appearance. Kotak Securities Limited (KSL) may have proprietary long/short position in the above mentioned scrip(s) and therefore may be considered as interested. The views provided herein are general in nature and does not consider risk appetite or investment objective of particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with KSL. Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation. Kotak Securities Limited does not provide any promise or assurance of favourable view for a particular industry or sector or business group in any manner. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and take professional advice before investing.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Details of Associates are available on our website ie [www.kotak.com](http://www.kotak.com)

Research Analyst has served as an officer, director or employee of subject company(ies): No

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) in the past 12 months: No

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report. Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

"A graph of daily closing prices of securities is available at [www.nseindia.com](http://www.nseindia.com) and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" icon in the price chart)."

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kurla Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051, Telephone No.: +22 43360000, Fax No.: +22 67132430. Website: [www.kotak.com](http://www.kotak.com)/[www.kotaksecurities.com](http://www.kotaksecurities.com). Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856825. SEBI Registration No: NSE INB/INF/INE 230808130, BSE INB 010808153/INF 011133230, MSE INE 260808130/INB 260808135/INF 260808135, AMFI ARN 0164, PMS INP000000258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-NSDL-23-97. Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing. Investments in securities market are subject to market risks, read all the related documents carefully before investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Kotak Securities Limited is a distributor of IPO. Compliance Officer Details: Mr. Manoj Agarwal. Call: 022 - 4285 8484, or Email: [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com).

- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at [ks.demat@kotak.com](mailto:ks.demat@kotak.com) or call us on: Online Customers - 30305757 (by using your city STD code as a prefix) or Toll free numbers 18002099191 / 1800222299, Offline Customers - 18002099292
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at [ks.escalation@kotak.com](mailto:ks.escalation@kotak.com) or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at [ks.servicehead@kotak.com](mailto:ks.servicehead@kotak.com) or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal ) at [ks.compliance@kotak.com](mailto:ks.compliance@kotak.com) or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at [ceo.ks@kotak.com](mailto:ceo.ks@kotak.com) or call on 91- (022) 4285 8301.