RESULT UPDATE

CARBORUNDUM UNIVERSAL

Improved performance; outlook positive

India Equity Research| Abrasives

Edelweiss
Ideas create, values protect

Carborundum Universal's (CUMI) Q4FY17 consolidated revenue growth of 11% to INR5.6bn came in line, while 9% EBITDA growth to INR923mn surpassed estimate. Abrasives' sales jumped 11% YoY and ceramics recovered with 19% revenue spurt. Electrominerals revenue grew 7%, though margin fall continued. CUMI guided for: (1) improvement in abrasives to sustain; (2) sustenance of robust surge in ceramics (20% plus in industrial segment); and (3) turnaround in electrominerals with rapid growth and strong margin expansion due to improving conditions. Riding improving outlook across segments, benefits of restructuring and economic uptick, we estimate robust ~25% EBITDA CAGR and 612bps pre-tax RoCE expansion to 23% over FY17-19E. Maintain 'BUY'.

Abrasives steady, ceramics recover; margin improves

Consolidated abrasives revenue grew 11% YoY in Q4FY17 and 10% in FY17, while EBIT margin improved 61bps to 10.6% (11.0% in FY17). All round performance was good and is expected to sustain driven by strong market growth in India. Ceramics growth recovered to 19% YoY (16% in FY17) after being impacted by demonetisation in Q3FY17 as industrial ceramics continued to grow upwards of 20%. Management has guided for this strong growth rate to sustain in industrial ceramics and improve in refractories. EBIT margin expanded 122bps to 15.8% (15.0% in FY17) and margin expansion is expected to continue on account of increasing capacity utilisation.

Electrominerals continues to struggle, but outlook positive

While electrominerals' revenue growth recovered a tad to 6.6% YoY in Q4FY17 (3.0% in FY17), EBIT margin contracted 406bps to 10.4% (12.0% in FY17) due to power, exchange rate, rising input prices and restructuring issues. However, CUMI believes the worst is over as restructuring has been completed, which will yield improved volumes and rising finished goods prices will trigger revenue spurt and margin expansion. It guided for margin of ~14.5% in FY18 and 17.0% thereafter.

Outlook and valuations: Positive; maintain 'BUY'

Improving outlook across segments, anticipated economic uptick and benefits of restructuring place CUMI to log revenue, EBITDA and PAT CAGR of 16%, 25% and 32%, respectively, over FY17-19E. At CMP, the stock trades at 18.2x FY19E EPS. We maintain **'BUY'** with target price of INR324 (20x FY19E EPS).

Financials (Consolidated) **(INR mn)**

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net rev.	5,599	5,025	*11.4*	5,273	*6.2*	21,125	24,461	28,390
EBITDA	923	845	*9.2*	809	*14.1*	3,346	4,207	5,224
Adj. PAT	444	409	*8.6*	437	*1.4*	1,749	2,334	3,060
Adj. Dil. EPS (INR)	2.4	2.2	*8.4*	2.3	*1.4*	9.3	12.4	16.2
Diluted P/E (x)						31.9	23.9	18.2
EV/EBITDA (x)						16.9	13.5	10.6
ROAE (%)						12.2	14.5	16.9

EDELWEISS RATINGS

Absolute Rating	**BUY**
Investment Characteristics	Growth

MARKET DATA *(R: CRBR.BO, B: CU IN)*

CMP	: INR 296
Target Price	: INR 324
52-week range (INR)	: 307 / 206
Share in issue (mn)	: 188.7
M cap (INR bn/USD mn)	: 56 / 863
Avg. Daily Vol. BSE/NSE ('000)	: 313.1

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	43.8	43.8	43.8
MF's, FI's & BKs	20.4	19.3	18.4
FII's	5.3	8.7	8.7
Others	30.5	28.2	29.1

** Promoters pledged shares (% of share in issue)* : *NIL*

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	4.4	(1.4)	(5.8)
3 months	11.0	12.2	1.3
12 months	34.4	39.7	5.3

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Table 1: Segmental- Consolidated

Revenue from Operations	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17	% change
Abrasives	2,631	2,377	10.7	2,540	3.6	9,217	10,163	10.3
Ceramics	1,324	1,111	19.2	1,081	22.5	4,085	4,724	15.6
Electrominerals	1,993	1,869	6.6	2,000	(0.3)	7,487	7,694	2.8
Others	163	148	10.1	176	(7.2)	515	659	28.1
Total	6,112	5,505	11.0	5,797	5.4	21,304	23,240	9.1
Less Inter Segment Revenue	305	263	16.2	303	0.8	1,059	1,241	17.1
Net Sales/Inc. From Ops.	5,807	5,242	10.8	5,494	5.7	20,244	21,999	8.7
EBIT								
Abrasives	279	237	17.5	287	(2.7)	831	1,133	36.3
Ceramics	209	162	29.2	163	27.8	501	704	40.6
Electrominerals	207	270	(23.3)	214	(3.2)	1,270	909	(28.4)
Others	28	17	65.3	36	(22.8)	54	118	118.6
Total	723	686	5.4	701	3.2	2,656	2,863	7.8
Less Interest	42	54	(22.3)	40	3.5	229	181	(20.9)
Less Other Unallocable Expenses(Net)	35	(5)	(790.2)	68	(48.1)	212	254	20.0
Add : Exceptional Item		565						
Total PBT	646	1,203	(46.3)	593	9.1	2,215	2,428	9.6
EBIT Margins								
Abrasives	10.6	10.0		11.3		9.0	11.1	
Ceramics	15.8	14.6		15.1		12.3	14.9	
Electrominerals	10.4	14.5		10.7		17.0	11.8	
Others	17.2	11.5		20.7		10.5	17.8	

Source: Company

Table 2: Segmental (Standalone)

Revenue from Operations	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17	% change
Abrasives	2,259	2,107	7.2	2,098	7.6	7,844	8,592	9.5
Ceramics	1,052	923	13.9	911	15.4	3,383	3,899	15.2
Electrominerals	935	845	10.6	789	18.5	3,299	3,396	2.9
Others								
Total	4,245	3,876	9.5	3,799	11.8	14,526	15,886	9.4
Less Inter Segment Revenue	225	191	18.0	226	(0.4)	767	918	19.7
Net Sales/Inc. From Ops.	4,020	3,685	9.1	3,573	12.5	13,759	14,969	8.8
EBIT								
Abrasives	287	261	9.7	249	15.1	938	1,047	11.7
Ceramics	152	133	14.7	107	41.9	398	509	27.9
Electrominerals	26	41	(38.2)	45	(42.7)	334	212	(36.6)
Others								
Total	464	435	6.7	401	15.8	1,669	1,767	5.9
Less Interest	20	30	(32.9)	20	0.0	89	88	(1.6)
Less Other Unallocable Expenses(Net)	(153)	(38)	NA	37	NA	(95)	(28)	NA
Add : Exceptional Item								
Total PBT	596	443	34.7	344	73.6	1,675	1,707	1.9
EBIT Margins								
Abrasives	12.7	12.4		11.9		12.0	12.2	
Ceramics	14.5	14.4		11.8		11.7	13.0	
Electrominerals	2.7	4.9		5.7		10.1	6.2	
Others								

Source: Company

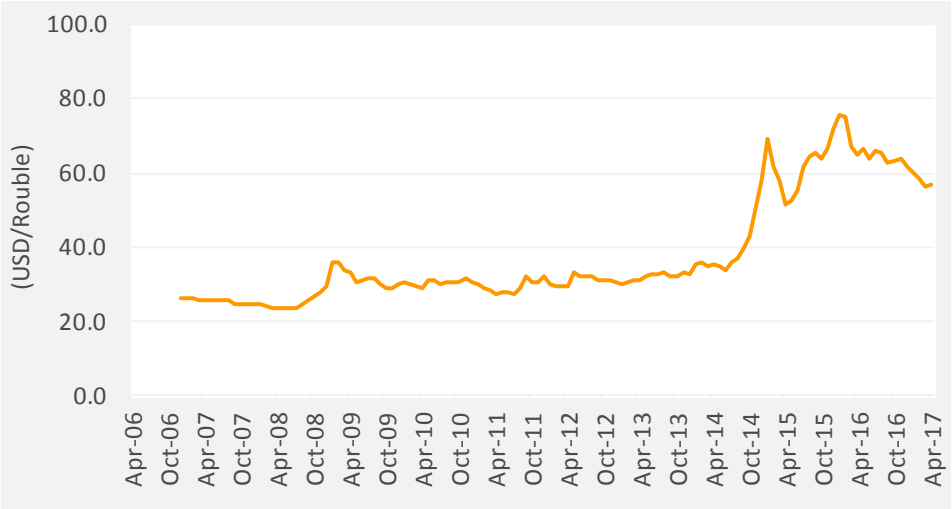
Q4FY17: Concall highlights

- Consolidated sales improved to 11% YoY led by 11% and 19% growth in abrasives and ceramics, respectively. Electrominerals segment picked up slightly—up 6.6% YoY.
- Consolidated EBITDA rose mere 9% YoY on margin contraction in electrominerals as well as higher expenses.
- Exchange loss stood at INR60mn versus INR46mn in Q4FY16 due to Rouble appreciating versus USD, though volatility in the exchange rate seems to be waning.
- Adjusted PAT grew 8.6% YoY led by lower other income and higher tax rate.
- **Abrasives—Steady performance:** Consolidated abrasives revenue grew 10.7% YoY (10.0% in FY17), continuing its steady performance as India and overseas operations clocked decent growth. Coated abrasives did well during the year. Management expects strong growth in India over the next few years driven by growth in market. EBIT margin expanded 61bps YoY to 10.6% due to higher volumes driving efficiencies. Management expects to sustain around 13% EBIT margin over the medium term.
- **Ceramics—Strong growth:** Consolidated revenue grew 19% YoY continuing the strong growth seen throughout the year (15% in FY17). Industrial ceramics has grown impressively at greater than 20% during FY17, while refractories grew ~13% during the year despite being impacted by demonetisation in Q3FY17. Management guided for this strong trajectory to sustain in industrial ceramics and improve further in refractories. CUMI has been entering recession-proof niche markets, which ensures sustainable growth. EBIT margin expanded 122bps to 15.8% in Q4FY17 due to higher capacity utilisation. Management has guided for continued margin expansion due to higher volumes.
- **Electrominerals—Continues to struggle:** Revenue grew 6.6% YoY (3% YoY FY17), slight improvement over the first 3 quarters where growth was merely 1-2%. Poor performance during the year was due to power issues in Russia & Maniyar, increase in input costs, relocation of plants and exchange losses which impacted revenue growth and margin. However, management has guided for much improved performance in FY18 due to completion of all strategic initiatives in the year. While input prices are unlikely to increase further, prices of minerals (finished goods) have been picking up due to global shortage and rising demand. Further, the completion of 3 projects will see improved traction and higher volumes. Management has guided that this will be one of the faster growing segments going forward, while margins will also improve due to favourable price movement. PBIT, during the quarter, contracted 406bps due to continuing issues stated above. However, management estimates margin of 14.0-14.5% in FY18 and sustained improvement to up to 17% in the medium term as restructuring starts yielding benefits.
- **Capex** incurred during FY17 was INR1.27bn, of which INR450-500mn was on relocation of 3 plants. Management has guided for INR750-1,000mn capex for the next 2 years.
- **Debt:** Strong cash flow generation has led to robust capex and debt repayment. The standalone company has become debt free, while at the consolidated level, debt-equity stands at merely 0.1.
- **GST:** Impact will be seen primarily in the abrasives segment, where 20-30% of the industry is unorganised. Management believes it will be positive in the long term, though is unsure on how the transition will pan out. Long-term benefits will be derived

from capturing market share from unorganised players and likely reduction of tax. Inventory liquidation is underway due to the uncertainty.

- **Guidance:** Management has guided for 15% revenue growth in FY18 and is targeting revenue of INR30bn by FY19. It also envisages robust margin expansion across segments, particularly in electrominerals.

Chart 1: USD-Rouble exchange rate movement



Source: Bloomberg

Q3FY17 conference call: Key highlights

- Consolidated sales slowed to 6% YoY impacted by slowdown in ceramics (5% YoY) and EMD (grew mere 1.5% YoY). However, abrasives segment performed relatively better—up 9.3% YoY.
- Consolidated EBITDA increased 10% YoY on margin expansion in abrasives and ceramics segments.
- Exchange loss stood at INR77mn versus exchange gain of INR43mn in Q3FY16 due to RUB appreciating versus USD. RUB appreciated 9% between March and December 2016, while it depreciated 26% in the same period the year before.
- Adjusted PAT grew 44% YoY led by higher other income and lower tax rate.
- **Abrasives—Improved performance:** Consolidated abrasives revenue grew 9.3% YoY (6% in Q2FY17). Demonetisation impacted revenue from counter sales, of which CUMI has higher proportion compared to competition. Institutional sales were relatively less affected. Management stated that this will normalise going forward. PBIT margin expanded an impressive 332bps YoY to 11.3% due to higher contribution of domestic operations. Management expects to sustain 12-14% PBIT margin over medium term.
- **Ceramics—Sharp slowdown:** Consolidated revenue grew mere 4.6% YoY after posting growth of 22% in Q2FY17. This was due to slowdown in the super refractories segment, as sectors like steel, cement, etc., were impacted by demonetisation. However, industrial ceramics continued to perform well, growing at ~20% in Q3FY17 as well. Management expects growth to revive in Q4FY17 and sustain good run rate in FY18. PBIT margin expanded 289bps YoY to 15.1%, as per guidance. Management expects to sustain PBIT margin of 14-16% over the medium term.
- **Electrominerals:** Revenues grew mere 1.5% YoY (2% YoY in Q2FY17) as issues related to power continued in this quarter as well. Almost 4,000MT of production was lost due to power issues in Volzky Abrasives (VAW) last year, which has impacted the segment strongly. However, management is looking to increase production going forward to cover the losses in the last year. This may be done through putting in an extra furnace which will add capacity of 3,000MT. CUMI faced power issues in Maniyar, their captive power plant, too due to lower rainfall this year in Kerala. PBIT margin contracted sharply 385bps YoY and 236bps QoQ to 10.7% due to power issues stated above, exchange rate swing and plant relocation issues. Crude oil price rise has not affected prices of silicon carbide yet due to some lag and demand still remains strong. Management guided for margin of 13-14% for the full year and 18% margin over medium to long term as restructuring starts yielding benefits.
- **Demonetisation:** It has had a direct impact on abrasives and an indirect impact on ceramics due to slowdown in the user industry. Demonetisation has impacted the unorganised sector which imports low-end products from China and deals in cash. This provides better opportunities for organised players.
- **R&D:** CUMI continues to invest in R&D. The company has filed for 12-14 more patents. Management says there are quite a few new products in the pipeline.
- **Capex:** CUMI has incurred INR800mn capex in the year so far and expects full year capex of INR1.2-1.3bn, of which INR400-500mn is carryover of relocation cost and INR500-600mn is fresh capex.

- **FY17 guidance:** On overall basis, CUMI expects sales of INR22bn and PAT of INR1.75-1.8bn in FY17. Guidance implies strong 20% plus growth in PAT. The same is achievable, in our view, with normalisation of VAW's silicon carbide operations and strong earnings growth in abrasives.

Financial snapshot **(INR mn)**

Year to March	Q4FY17	Q4FY16	*% change*	Q3FY17	*% change*	FY17	FY18E	FY19E
Net revenues	5,599	5,025	*11.4*	5,273	*6.2*	21,125	24,461	28,390
Raw material	1,958	1,857	*5.4*	1,759	*11.3*	7,348	8,243	9,369
Staff costs	695	581	*19.7*	695	*0.1*	2,735	3,155	3,606
Other expenses	2,024	1,743	*16.1*	2,011	*0.6*	7,696	8,855	10,192
Total expenditure	4,676	4,180	*11.9*	4,464	*4.8*	17,779	20,253	23,166
EBITDA	923	845	*9.2*	809	*14.1*	3,346	4,207	5,224
Depreciation	248	214	*16.2*	243	*2.2*	965	1,051	1,094
EBIT	675	631	*6.9*	566	*19.2*	2,381	3,156	4,130
Other income	13	60	*(77.8)*	67	*(79.9)*	228	300	380
Interest	42	54	*(22.3)*	40	*3.5*	181	182	174
Add: Prior period items								
Add: Exceptional items								
Profit before tax	646	638	*1.3*	592	*9.1*	2,428	3,275	4,336
Provision for taxes	224	219	*2.1*	181	*23.9*	781	1,048	1,387
Minority interest	(21)	10	*NA*	(25)	*NA*	(102)	(107)	(112)
Associate profit share								
Profit- Discontinued Ops								
Reported net profit	444	409	*8.6*	437	*1.4*	1,749	2,334	3,060
Adjusted Profit	444	409	*8.6*	437	*1.4*	1,749	2,334	3,060
Diluted shares (mn)	189	188		189		189	189	188
Adjusted Diluted EPS	2.4	2.2	*8.4*	2.3	*1.4*	9.3	12.4	16.2
Diluted P/E (x)	-	-		-		31.9	23.9	18.2
EV/EBITDA (x)	-	-		-		16.9	13.5	10.6
ROAE (%)	-	-		-		12.2	14.5	16.9
As % of net revenues	-	-		-		-	-	1
Raw material	35.0	36.9		33.4		34.8	33.7	33.0
Employee cost	12.4	11.6		13.2		12.9	12.9	12.7
Other expenses	36.1	34.7		38.1		36.4	36.2	35.9
EBITDA	16.5	16.8		15.3		15.8	17.2	18.4
Reported net profit	7.9	8.1		8.3		8.3	9.5	10.8

Company Description

CUMI was incorporated as a joint venture between Carborundum Company USA, Universal Grinding Wheel Company, UK and the Murugappa, India in 1954. The company manufactures a wide range of abrasives (bonded, coated and super abrasives), ceramics (wear resistance, lined equipment, engineered ceramics and metallised ceramics), refractories (fired products and monolithics) and electrominerals (silicon carbide, aluminaand zircoania). The company has 30 plants located across 7 countries. Abrasives contributes around 43%, ceramics and refractories 24% and electrominerals 33% of consolidated sales.

Investment Theme

CUMI is set to post robust 32% earnings CAGR over FY17-19E led by: (1) jump in realisation led by progress in product value chains across segments; (2) recovery in abrasives and ceramics margins on improved industrial production growth after earnings dropped by average ~45% from peak in FY12. We expect revenue growth of 16% CAGR over FY17-19E; and (3) 256bps EBITDA margin spurt as profitability of the domestic business recovers riding recovery in abrasives led by major user industries along with recovery in ceramics led by better project investments, better product mix with increasing contribution of the better profitable metz cylinders in the overall mix and global tie ups like Anderman and Sheffield in refractories. In Electrominerals, recovery will be led by moving up the value chain like micronisation in case of sic microgrit, finding alternate utilization to photovoltaic like diesel particulate filters and increasing utilisation in metallurgical sales in Volzhsky Abrasive Works (Russia) and monoclinic capacity in Foskor Zirconia (South Africa).

Key Risks

Delay in recovery in India and overseas

Recovery in demand for abrasives and ceramics is dependent on industrial activities in India and overseas. The company's 25% abrasives sales, 75% ceramics sales (35% from overseas subsidiaries and 65% exported from standalone) and 75% electro-minerals sales are dependent on global markets.

Dependent on raw material sourcing through imports

The industry is dependent on imports of key raw materials like high grade alumina, bauxite,silicon carbide, etc. China is a major supplier and has imposed heavy taxes on export of raw materials. This has resulted in sharp increase in imported raw material costs. However,CUMI has a near natural hedge since imports constitute ~11% of net sales.

Exchange rate fluctuation

CUMI derives 44% of sales from international business. Having a diverse clientele and manufacturing base exposes the company to fluctuations in different currencies. Around 18% of its standalone business comes from exports. Hence, INR appreciation will risk competitiveness. Also, appreciation of Rouble impacts margins as ~65% of Russian Sic is exported to Europe.

Intensifying competition

International players like Saint Gobain, which have a dominant position in abrasives globally,are also increasing their base in India with capacity expansion. Also global players like 3M, Bosch have set up base in India.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.0	5.8	5.8
USD/INR (Avg)	65.0	67.5	67.0	67.0
Company				
Abrasives	(1.1)	10.3	14.9	15.4
Ceramics	(16.6)	15.6	17.0	17.7
Electrominerals	12.1	2.8	14.2	16.2
Abrasives	42.1	42.6	42.5	42.2
Ceramics	19.3	20.5	20.8	21.0
Mfg. gross margin (%)	64.9	65.2	66.3	67.0
Raw Material (% net rev)	35.7	35.5	34.3	33.5
Employee (% of net rev)	13.0	12.9	12.9	12.7
Mfg exp (% of net rev.)	0.2	0.2	22.2	22.1
Admin exp(as % of rev)	12.5	12.8	14.0	13.8

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	19,440	21,125	24,461	28,390
Materials costs	6,816	7,348	8,243	9,369
Gross profit	12,624	13,777	16,217	19,021
Employee costs	2,519	2,735	3,155	3,606
Other Expenses	6,942	7,696	8,855	10,192
Operating expenses	9,462	10,431	12,010	13,798
Total operating expenses	16,278	17,779	20,253	23,166
EBITDA	3,162	3,346	4,207	5,224
Depreciation	868	965	1,051	1,094
EBIT	2,294	2,381	3,156	4,130
Add: Other income	146.19	228.00	300.16	379.9
Less: Interest Expense	229	181	182	174
Profit Before Tax	2,211	2,428	3,275	4,336
Less: Provision for Tax	814	781	1,048	1,387
Less: Minority Interest	(44)	(102)	(107)	(112)
Reported Profit	1,441	1,749	2,334	3,060
Adjusted Profit	1,441	1,749	2,334	3,060
Shares o /s (mn)	188	189	189	189
Basic EPS (INR)	7.6	9.3	12.4	16.2
Diluted shares o/s (mn)	188	189	189	189
Adj. Diluted EPS (INR)	7.6	9.3	12.4	16.2
Adjusted Cash EPS	12.3	14.4	17.9	22.0
Dividend per share (DPS)	1.5	1.8	2.1	2.8
Dividend Payout Ratio(%)	19.9	24.5	22.0	22.4

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	48.7	49.4	49.1	48.6
Gross margin	64.9	65.2	66.3	67.0
Interest Expense	1.2	0.9	0.7	0.6
EBITDA margins	16.3	15.8	17.2	18.4
EBIT margins	11.8	11.3	12.9	14.5
Net Profit margins	7.2	7.8	9.1	10.4

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(5.2)	8.7	15.8	16.1
EBITDA	16.0	5.8	25.7	24.2
Adjusted Profit	53.0	21.4	33.4	31.2
EPS	52.8	21.2	33.4	31.2

Balance sheet (INR mn)

As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	188	189	189	189
Reserves & Surplus	11,734	13,639	15,461	17,837
Shareholders' funds	11,923	13,828	15,649	18,026
Minority Interest	622	657	657	657
Short term borrowings	2,271	1,425	2,206	2,106
Long term borrowings	362	67	67	67
Total Borrowings	2,633	1,491	2,273	2,173
Long Term Liabilities	65	76	76	76
Def. Tax Liability (net)	408	374	374	374
Sources of funds	**15,650**	**16,425**	**19,029**	**21,305**
Gross Block	12,085	13,597	14,497	15,197
Net Block	5,271	5,818	5,667	5,273
Capital work in progress	842	726	500	400
Intangible Assets	1,324	1,231	1,231	1,231
Total Fixed Assets	7,437	7,774	7,397	6,903
Non current investments	1,293	1,195	1,195	1,195
Cash and Equivalents	1,150	1,310	2,025	3,402
Inventories	3,704	3,867	5,167	5,614
Sundry Debtors	3,675	3,806	5,040	5,849
Loans & Advances	161	165	192	223
Other Current Assets	1,182	1,015	1,177	1,368
Current Assets (ex cash)	8,721	8,853	11,575	13,054
Trade payable	1,341	1,650	1,963	1,836
Other Current Liab	1,610	1,057	1,200	1,414
Total Current Liab	2,950	2,707	3,164	3,249
Net Curr Assets-ex cash	5,771	6,146	8,411	9,804
Uses of funds	**15,650**	**16,425**	**19,029**	**21,305**
BVPS (INR)	63.3	73.3	82.9	95.5

Free cash flow (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	1,441	1,749	2,334	3,060
Add: Depreciation	868	965	1,051	1,094
Interest (Net of Tax)	153	121	122	116
Others	(9)	(451)	(528)	(609)
Less: Changes in WC	291	542	2,104	1,202
Operating cash flow	2,163	1,842	875	2,461
Less: Capex	1,069	1,369	674	600
Free Cash Flow	**1,094**	**473**	**201**	**1,861**

Cash flow metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	2,163	1,842	875	2,461
Investing cash flow	(1,009)	(1,303)	(674)	(600)
Financing cash flow	(891)	(1,239)	676	(292)
Net cash Flow	263	(701)	876	1,569
Capex	(1,069)	(1,369)	(674)	(600)
Dividend paid	(394)	(428)	(513)	(684)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	11.6	12.2	14.5	16.9
ROACE (%)	16.2	16.7	20.0	22.9
ROA	9.3	10.9	13.2	15.2
Inventory Days	203	188	200	210
Debtors Days	69	65	66	70
Payable Days	82	74	80	74
Cash Conversion Cycle	191	178	186	206
Current Ratio	3.3	3.8	4.3	5.1
Gross Debt/EBITDA	0.8	0.4	0.5	0.4
Gross Debt/Equity	0.2	0.1	0.1	0.1
Adjusted Debt/Equity	0.2	0.1	0.1	0.1
Interest Coverage Ratio	10.0	13.1	17.4	23.8
LT debt /Cap empl. (%)	16.8	9.1	11.9	10.2
Debt / Cap employed (%)	38.3	27.8	30.5	27.2

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.3	1.3	1.4	1.4
Fixed Asset Turnover	2.7	3.1	3.5	4.2
Equity Turnover	1.6	1.6	1.6	1.6

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	7.6	9.3	12.4	16.2
Y-o-Y growth (%)	*52.8*	*21.2*	*33.4*	*31.2*
Adjusted Cash EPS (INR)	12.3	14.4	17.9	22.0
Diluted P/E (x)	38.7	31.9	23.9	18.3
P/B (x)	4.7	4.0	3.6	3.1
EV / Sales (x)	3.0	2.7	2.3	1.9
EV / EBITDA (x)	18.3	16.9	13.5	10.6
Dividend Yield (%)	0.5	0.6	0.7	0.9

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Carborundum Universal	863	23.9	18.3	13.5	10.6	14.5	16.9
Grindwell Norton	667	30.2	25.0	18.0	15.1	18.4	20.1
Median	-	27.1	21.6	15.8	12.8	16.4	18.5
AVERAGE	-	27.1	21.6	15.8	12.8	16.4	18.5

Source: Edelweiss research

Additional Data

Directors Data

M M Murugappan	Chairman	T L Palani Kumar	Director
Shobhan M Thakore	Director	M Lakshminarayan	Director
Sanjay Jayavarthanavelu	Director	Aroon Raman	Director
K Srinivasan	Managing Director	Bharati Rao	Director

Auditors - Deloitte Haskins & Sells

**as per last available data*

Holding Top -10

	Perc. Holding		Perc. Holding
HDFC Asset Management	8.21	Templeton Asset Management	1.26
Capital Group	3.61	L&T Investment Management	1.24
SBI Funds Management	2.62	Birla Sun Life Asset Management	1.18
Ambadi Investments	1.65	AADI Financial Advisors	1.16
GIC of India	1.59	Kotak Mahindra	1.06

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
13 Jul 2016	Aadi Financial Advisors Llp	Buy	2200000	230.25
13 Jul 2016	Amrit Petroleums Pvt Ltd	Buy	2000000	230.25
13 Jul 2016	Nemish Shantilal Shah Huf	Buy	1500000	230.25
13 Jul 2016	Nalanda India Equity Fund Ltd	Sell	4018619	230.14
13 Jul 2016	Nalanda India Fund Ltd	Sell	14953362	230.14

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Sep 2016	Ranjan Dey	Sell	30822.00

**as per last available data*

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Date: 2017.05.10 21:28:07 +05'30'

Coverage group(s) of stocks by primary analyst(s): Abrasives

Carborundum Universal, Grindwell Norton

Recent Research

Date	Company	Title	Price (INR)	Recos
01-Mar-17	**Grindwell Norton**	Healthy growth in tough conditions; *Result Update*	336	Buy
07-Feb-17	**Carborundum Universal**	Muted growth; margin expansion continues; *Result Update*	260	Buy
02-Nov-16	**Carborundum Universal**	Cyclical and restructuring based recovery ahead; *Result Update*	271	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

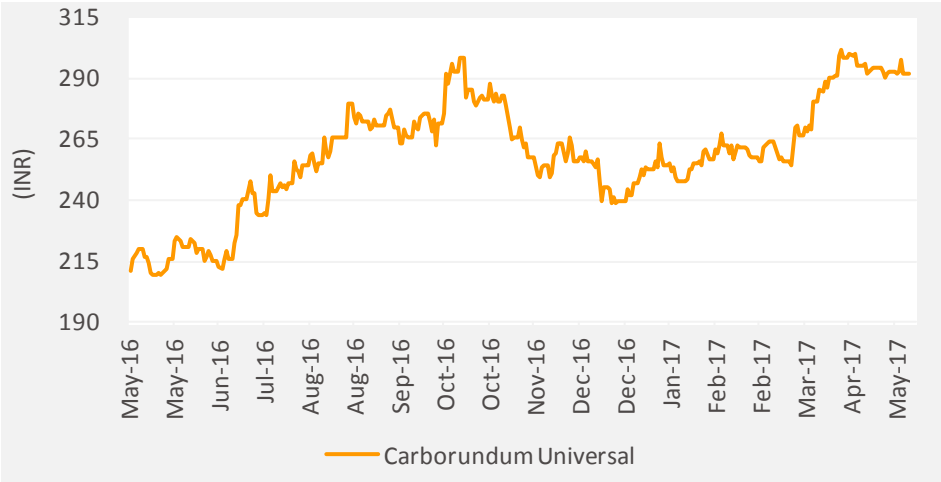
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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