

**Carborundum Universal****₹365****Building Business Architecture...!!!****Buy**

Apr 20, 2018

**Company Background**

Carborundum Universal was incorporated in the year 1954 as a joint venture between Carborundum company, USA, Universal Grinding Wheel company, UK & Murugappa Group, India. It is a largest high alumina ceramic manufacturing company in India. Company is an industrial ceramic material-based products and service provider, with operations spread across three business segments namely Abrasives, Ceramics and Electrominerals. Abrasives are used in metal removal, cutting and finishing operations in almost all industries, manufactured through a complex and high technology process. Ceramics offers products which harness heat resistance/containment, wear resistance & insulation properties of ceramics and also corrosion resistance properties of various materials. Electro minerals are used as basic raw material to manufacture of abrasives, refractories and also used for surface preparation and in tile and paint industries. Company's major customers include bearing, automobile & auto ancillary, alloy steel, foundry and forging, fabrication & general engineering industries. Products are manufactured in 14 locations across various parts of the country in which all its manufacturing units are ISO 9001:2000 certified. It has presence in 43 countries and also has 200,000 retail outlets.

**Key Highlights**

- ➔ For FY 2016-17 Net sales rose by 8.8% to ₹ 14,056.9 mn, operating profit improved by 3.3% to ₹ 2,464.1 mn and net profit was increased by 4.6% to ₹ 1,217.8 mn on YoY basis.
- ➔ Company has 3 segments such as Abrasives, Ceramics and Electrominerals revenue contributions are 57.34 %, 25.94 % and 16.72 % respectively.
- ➔ New facility combined with its existing Metz Plant, now it became the second largest producer of Metallised Cylinders in the world.
- ➔ During the year company has set up three new facilities; Zirconia Bubble Fusion plant and two Alumina Fusion plants will result in the creation of one of the most advanced and integrated electro mineral complexes in the world.
- ➔ Products are exporting to 43 countries across North America, Europe, Australia, South Africa and Asia.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	13,858.3	14,341.2	15,541.1
Rev. growth (%)	9.36	3.48	8.37
EBITDA (INR mn)	1,644.9	2,669.3	2,384.6
Net profit (INR mn)	1,483.3	1,164.4	1,217.8
Shares outstanding (mn)	188.2	188.4	188.7
EPS (INR)	7.8	6.1	6.4
EPS growth (%)	110.22	(22.25)	4.77
P/E (x)	24.09	28.87	45.68
RONW (%)	10.87	12.84	12.13
ROCE (%)	13.54	17.51	16.86

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**Info Codes**

Reuters	: CRBR.BO
Bloomberg	: CU IN
NSE	: CARBORUNIV
BSE	: 513375

**Market Data**

52 Wk Range (₹)	: 286/428
Shares in Issue (mn)	: 188.7
Market. Cap ( bn)	: 69
BSE 2 Wk Avg Vol	: 16000

**Share Holding Pattern (%)**

Promoters Holding	: 43.73
Public & Others	: 21.78
Corporate Holding	: 06.58
Foreign Institution	: 06.15
Institutions	: 21.76

**Investment Theme**

Global Abrasives market is valued at approximately \$ 36 bn is estimated to reach \$ 51 bn by 2019. North America & Europe together account for 50-55 % of the abrasives consumption followed by China with 17-20 %. Indian Abrasives market size is estimated to be above ₹ 25 bn. In India, abrasives industry is dominated by Carborundum Universal and another one, this both are commanding 70% of market share. During the year performance of the segments is Abrasives, Ceramics and Electrominerals are improved by 10,15,3 percent respectively against the previous year. For 2017 total sales turnover ₹ 14,969 mn, out of 79% from India and 21% from Global. India sales growth was 7% and global business improved by 15% against the previous year. Company has announced dividend ₹ 1.75 per share for 2016-17.

**Largest Alumina Ceramic  
Manufacturer...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	11,686.9	12,918.2	10.5	14,056.9	8.8
Other Income	1,178.8	399.5	(66.1)	343.3	(14.1)
Change in Stocks	161.4	69.6	(56.9)	(12.0)	(117.2)
Raw Material Con.	5,149.6	5,647.2	9.7	5,938.8	5.2
Employee Exp.	1,285.4	1,395.7	8.6	1,512.7	8.4
Indirect Taxes	992.6	1,023.5	3.1	1,140.9	11.5
Other Exp.	2,930.1	2,936.2	0.2	3,331.7	13.5
Operating Exp.	10,357.7	11,002.6	6.2	11,924.1	8.4
Operating Profit	2,669.4	2,384.7	(10.7)	2,464.1	3.3
Total Interest	87.1	89.1	2.3	87.6	(1.7)
Gross Profit	2,582.3	2,295.6	(11.1)	2,376.5	3.5
Net Dep.	588.3	620.7	5.5	669.4	7.8
Total Taxation	510.7	510.5	(0.0)	489.3	(4.2)
Net Profit/Loss	1,483.3	1,164.4	(21.5)	1,217.8	4.6

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>8,562.8</b>	<b>9,479.2</b>	<b>10,718.8</b>	<b>10,620.1</b>
Equity Share capital	187.8	188.2	188.4	188.7
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	7,147.9	8,410.7	9,395.9	10,361.6
Secured Loans	629.3	216.0	213.3	26.0
Unsecured Loans	597.8	664.3	921.2	43.8
<b>USES OF FUNDS</b>	<b>8,562.8</b>	<b>9,479.2</b>	<b>10,718.8</b>	<b>10,620.1</b>
Gross Block	7,957.3	8,258.7	4,370.7	5,363.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,810.8	4,365.4	617.3	1,282.1
Net Block	4,146.5	3,893.3	3,753.4	4,080.9
Capital Work in Progress	136.5	176.5	681.5	514.4
Investments	1,306.2	2,375.0	2,560.6	2,541.2
Current Assets	4,707.0	4,826.4	5,326.0	5,507.7
Less : Current Liabilities	1,435.1	1,564.3	1,606.3	2,012.4
Total Net Current Assets	3,271.9	3,262.1	3,719.7	3,495.3
Misc. Expenses not writtenoff	(298.3)	(227.7)	3.6	(11.7)
<b>NOTE</b>				
Book Value of Unquoted Investments	1,235.4	2,304.2	2,375.6	2,409.6
Market Value of Quoted Investments	1,024.0	1,497.1	1,562.1	1,633.2
Contingent Liabilities	4,742.0	3,532.9	2,929.2	2,083.4
Dividend (%)	125.0	125.0	150.0	175.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Mar 17	June 17	Sep 17	Dec 17
Net Sales	3,705.8	3,211.3	3,855.3	4,056.0
Cost Of Sales	3,241.5	2,887.3	3,231.1	3,472.8
Operating Profit	464.3	324.0	624.2	583.2
Other Income	320.9	143.8	54.7	138.7
Adjusted PBDIT	785.2	467.8	678.9	721.9
Financial Expenses	20.4	2.0	5.2	1.7
Depreciation	168.5	179.2	182.5	185.8
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	596.3	286.6	491.2	534.4
Tax Charges	142.3	80.3	167.9	158.6
Reported Profit	454.0	206.3	323.3	375.8
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	454.0	206.3	323.3	375.8

**52 Week Index Relative Percentage Appreciation**

**Carborundum vs SENSEX**
**Risks Associated**

- ➔ Petroleum based products are used, either as direct raw material or as fuel for the firing process. If any increase in fuel cost, that will impact adversely on profit.
- ➔ As the company involved in the exports and company getting foreign currency. If any price changes in currency rates will impact the profit of the company.

**Scope of Growth**

- ➔ Company business is in 3 categories, Abrasives is a major revenue generating business nearly 60% to total revenue, followed by Ceramics and Electrominerals.
- ➔ During the year company expand the Coated Abrasives Plant at Sriperumbudur, already the Abrasive segment is major one this development will add some more quantity.
- ➔ In last March company set up 3 new facilities-a Zirconia Bubble Fusion plant & two Alumina Fusion plants, with 80 cr investment to produce 25,000 tonnes of fused minerals generation.
- ➔ Electro-mineral division's products used in diverse industries, including engineering, energy and environment. Nearly 75 % of the divisions revenue is from exports and overseas operations.
- ➔ Products exporting to 43 countries across North America, Europe, Australia, South Africa and Asia and company plans to extend channel with 100 new dealers.
- ➔ New facility combined with its existing Metz Plant makes the company second largest producer of Metallised Cylinders in the world.

## Carborundum

### In a Nutshell

Carborundum Universal is a ceramic manufacturing company in India. It is a industrial ceramic material-based products and service provider, with operations spread across three business segments namely Abrasives, Ceramics and Electrominerals. Company has their presence in 43 countries and also has 200,000 retail outlets. In March 2017 it has set up three new facilities; one Zirconia Bubble Fusion plant & two Alumina Fusion plants with 80 cr and added about 25,000 tonnes capacity of fused minerals generation. Electro-mineral business of Carborundum is spread over India, Russia and South Africa, but has its headquarters and R&D wing in Kerala. Electrominerals division made a major technological transition to non fused fine minerals, constantly innovating at each stage. During the year company undertaken; Expansion of the Coated Abrasives Plant at Sriperumbudur, Automation and modernisation of the Manufacturing lines at the Bonded Abrasives plant at Tiruvottiyur, Scaling up and optimisation of Thin Wheel manufacturing across Uttarakhand and Maraimalai Nagar, Modernisation of the Coated operations and some other activities to increase capability and capacity. It has also started work on Industry 4.0 it is a name for the current trend of automation and data exchange in manufacturing technologies. It includes cyber-physical systems, the Internet of things, cloud computing and cognitive computing. Commonly referred to as the fourth industrial revolution. It creates what has been called a "smart factory". Channel expansion for greater market penetration progressed aggressively with over 100 new dealer appointments. International customer meets and agreements on Joint Development Plan with customers were some of the key customer centric initiatives.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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