

ICICI Securities Limited  
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Q1FY22 result review,  
earnings and target  
price revision

## Capital Goods

Target price: Rs817

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.9	↑ 4.8
EBITDA	↑ 12.6	↑ 15.2
PAT	↑ 14.0	↓ 5.7

### Target price revision

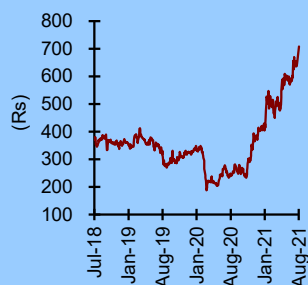
Rs817 from Rs771

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	42.0	42.0	42.0
Institutional investors	35.3	35.5	35.7
MFs and others	24.7	24.7	24.7
FIs / Banks	0.0	0.0	0.0
Insurance	1.0	0.9	0.8
FII	9.6	9.9	10.1
Others	22.7	22.5	22.4

Source: BSE

### Price chart



INDIA

# Carborundum Universal

**BUY**  
Maintain  
**Rs712**

## Healthy growth despite challenges

Carborundum Universal (CUMI) has reported healthy execution in Q1FY22 led by outperformance of abrasives and electro mineral segments. Ceramic segment issues in terms of logistical bottlenecks may be streamlined in Q2FY22. The company is gearing up to tap into future growth areas like electric vehicles, batteries, high purity silicon carbide used in 5G technology etc. The loss from overseas subsidiaries has reduced, and export market is expected to perform well. Improvement in domestic utilisation along with investments due to PLI scheme are expected to fuel growth. Factoring in strong growth outlook, we raise our FY22/FY23 earnings estimates by 14%/5.7%. We maintain our BUY rating with a revised target price of Rs817 (previously: Rs771)

- **Healthy growth despite second covid wave impact and logistical issues:** Localised lockdown arising due to the second wave of the pandemic had impacted the execution in April/May. Despite that the company was able to improve its performance due to focus on domestic markets, gain in market share and preference of local suppliers by most clients.
- **Logistic bottlenecks and commodity prices impacted ceramics, expected to streamline:** The performance of ceramics segment was impacted by logistical issues in terms of availability of containers for exports and disruption of Hosur plant. However, this is expected to streamline and margins will increase with growth of value added high margin sales.
- **Focus on exports and value-added products to propel ceramic segment:** With the installation of new coater maker, the company is set to exploit new export opportunities under wear ceramics. It has identified certain high-potential markets and will gradually increase its supply to the same. Metz cylinders is the key product segment under engineered ceramics; CUMI also caters to specialised injection moulding segments like spark plugs, 3D printing and base materials used in fuel cells, etc. under engineered ceramics. We believe engineered ceramics will be the major driver of margins going forward.
- **Maintain BUY; focus on value addition will improve returns:** We believe the company will gradually move up the value chain with lucrative products, thereby, increasing margins and returns. Opening up of export markets, *Atmanirbhar* impetus in domestic market and gradual increase in factory utilisation levels lend growth visibility despite second wave covid challenges. Hence, we maintain our **BUY** rating with a revised target price of Rs817 (previously: Rs771).

Market Cap	Rs135bn/US\$1.8bn
Reuters/Bloomberg	CRBR.BO / CU IN
Shares Outstanding (mn)	189.6
52-week Range (Rs)	712/234
Free Float (%)	57.8
FII (%)	9.9
Daily Volume (US\$'000)	2,640
Absolute Return 3m (%)	24.3
Absolute Return 12m (%)	193.6
Sensex Return 3m (%)	11.1
Sensex Return 12m (%)	47.4

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	25,990	26,317	30,910	36,013
EBITDA (Rs mn)	3,986	4,656	5,827	6,908
Net Income (Rs mn)	2,750	3,075	3,970	4,895
EPS (Rs)	14.5	16.3	21.0	25.9
P/E (x)	48.7	43.5	33.7	27.3
CEPS (Rs)	19.1	20.0	26.5	31.6
EV/E (x)	32.8	27.3	21.3	17.4
Dividend Yield	0.4	0.2	0.3	0.3
RoCE (%)	13.5	13.8	15.9	16.9
RoE (%)	15.4	15.4	17.2	18.1

### Research Analyst:

**Renjith Sivaram**

renjith.sivaram@icicisecurities.com  
+91 22 6637 7340

## Outlook and Valuation

We value the stock using SoTP methodology, wherein we assign P/E multiples to FY23E core PAT of various business segments and subsidiaries, and add back cash to the final valuation.

1) The abrasive business at 35x FY23E core earnings (led by growth from industrial activity recovery and benefits from vertical integration); 2) ceramic and refractory business at 45x FY23E core earnings (healthy growth from high-margin exports in engineered ceramics providing healthy RoEs); 3) electrominerals at 25x FY23E core earnings (increasing share of high-margin specialities); 4) subsidiary – VAW Russia – at 20x (global supply chain realignment to benefit VAW); 5) Australian subsidiary at 20x; 6) IT services business at 30x FY23E core earnings; and 7) SEDCO at 1x P/B FY23E. We then add back cash of Rs13.8bn to arrive at an SoTP-based target price of Rs817 per share. The stock is currently trading at 27.3x FY23 P/E and we maintain our BUY rating with a target price of Rs817 implying consolidated P/E of 32x.

**Table 1: SoTP valuation**

SoTP	FY23E Core PAT	Method	Multiple (x)	Value (Rs bn)	Value per Share
Abrasives	1,334	P/E	35	46.7	247
Ceramics	1,070	P/E	45	48.1	255
Electrominerals	454	P/E	25	11.4	60
VAW Russia	1,363	P/E	20	27.3	144
CUMI Australia	187	P/E	30	5.6	30
IT services	36	P/E	25	0.9	5
SEDCO		P/B	1x	0.8	4
Cash and investments				13.8	73
<b>Total</b>				<b>154.5</b>	<b>817</b>

Source: Company data, I-Sec research

**Table 2: Earnings revision (consolidated)**

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	29,479	30,910	4.9	34,357	36,013	4.8
EBITDA	5,176	5,827	12.6	5,998	6,908	15.2
PAT	3,482	3,970	14.0	4,212	4,895	16.2

Source: Company data, I-Sec research

**Table 3: Quarterly financial highlights (consolidated)**

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
Net Sales	4,496	7,116	58.3	7,566	(5.9)	7,365	(3.4)	13,524	13,336	(1.4)
EBITDA	434	1,182	172.5	1,585	(25.4)	1,230	(3.9)	2,115	2,009	(5.0)
Margin	9.6	16.6	696bps	20.9	-434bps	16.7	-9bps	15.6	15.1	-60bps
Depreciation	233	256	9.9	274	(6.7)	256	(0.1)	544	530	(2.6)
Finance Cost	10	8	(24.2)	9	(14.8)	10	(27.8)	39	28	(29.7)
Other Income	65	97	50.1	100	(2.9)	58	66.8	154	107	(30.5)
<b>PBT</b>	256	1,015	297.2	1,401	(27.6)	1,022	(0.6)	1,686	1,559	(7.6)
Tax	72	280	290.2	358	(21.7)	255	9.5	581	374	(35.5)
tax rate	28.1	27.6	-49bps	25.5	205bps	25.0	256bps	34.4	24.0	-1040bps
Reported PAT	197	780	295.4	905	(13.8)	774	0.8	1,229	1,273	3.6
<b>Adjusted PAT</b>	193	780	305.2	1,106	(29.5)	774	0.8	1,213	1,297	6.9
<b>EPS</b>	1.0	4.1		5.9		4.1		6.4	6.9	

Source: Company data, I-Sec research

Table 4: Quarterly segmental trend (consolidated)

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
<b>Revenue</b>										
Abrasives	1,314	2,730	107.8	2,996	-8.9	2,365	15.4	9,953	9,931	-0.2
Ceramics	1,076	1,732	61.0	1,902	-9.0	1,937	-10.6	6,290	6,272	-0.3
Electrominerals	2,096	2,878	37.3	2,895	-0.6	3,143	-8.4	10,258	10,644	3.8
Power and IT Services	118	172	46.1	174	-1.0	180	-4.4	708	640	-9.7
<b>Total Segment Revenues</b>	<b>4,603</b>	<b>7,512</b>	<b>63.2</b>	<b>7,968</b>	<b>-5.7</b>	<b>7,625</b>	<b>-1.5</b>	<b>27,209</b>	<b>27,486</b>	<b>1.0</b>
Less: Inter Segment Revenue	165	454	175.5	465	-2.3	300	51.4	1,515	1,445	-4.6
<b>Net Sales</b>	<b>4,438</b>	<b>7,058</b>	<b>59.0</b>	<b>7,503</b>	<b>-5.9</b>	<b>7,325</b>	<b>-3.6</b>	<b>25,694</b>	<b>26,041</b>	<b>1.4</b>
Abrasives	-30	377		503	-25.1	307	22.6	1,129	1,343	18.9
Ceramics	118	325	174.9	416	-21.8	387	-16.0	1,317	1,359	3.2
Electrominerals	233	400	71.6	423	-5.3	346	15.7	1,042	1,359	30.5
<b>Total EBIT</b>	<b>337</b>	<b>1,140</b>	<b>237.9</b>	<b>1,378</b>	<b>-17.2</b>	<b>1,061</b>	<b>7.5</b>	<b>3,588</b>	<b>4,188</b>	<b>16.7</b>
<b>EBIT Margin</b>										
Abrasives	-2.3	13.8		16.8	-299bps	13.0	80bps	11.3	13.5	220bps
Ceramics	11.0	18.8	778bps	21.9	-309bps	20.0	-122bps	20.9	21.7	70bps
Electrominerals	11.1	13.9	277bps	14.6	-69bps	11.0	290bps	10.2	12.8	260bps

Source: Company data, I-Sec research

Table 5: Quarterly financial highlights (standalone)

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
Net Sales	2,381	4,698	97.3	5,094	(7.8)	4,540	3.5	8,581	8,707	1.5
EBITDA	94	818	768.2	976	(16.2)	769	6.4	1,418	1,281	(9.6)
Margin	4.0	17.4	1345bps	19.2	-175bps	16.9	48bps	16.5	14.7	-180bps
Depreciation	141	160	13.5	162	(1.1)	165	(2.9)	388	342	(11.7)
Finance Cost	0	0	200.0	2	(84.2)	3	(89.6)	1	0	(90.9)
Other Income	153	154	0.5	106	45.5	100	53.7	196	215	10.1
<b>PBT</b>	<b>106</b>	<b>811</b>	<b>665.1</b>	<b>918</b>	<b>(11.6)</b>	<b>701</b>	<b>15.7</b>	<b>1,224</b>	<b>1,154</b>	<b>(5.7)</b>
Tax	1	181	17,950.0	231	(21.7)	175	3.0	406	268	(34.0)
tax rate	0.9	22.3	2131bps	25.1	-286bps	25.0	-274bps	33.2	23.2	
Reported PAT	105	631	500.5	575	9.6	526	20.0	818	886	8.3
<b>Adjusted PAT</b>	<b>105</b>	<b>631</b>	<b>500.5</b>	<b>687</b>	<b>(8.3)</b>	<b>526</b>	<b>20.0</b>	<b>818</b>	<b>886</b>	<b>8.3</b>
<b>EPS</b>	<b>0.6</b>	<b>3.3</b>		<b>3.6</b>		<b>3.6</b>		<b>4.3</b>	<b>4.7</b>	

Source: Company data, I-Sec research

Table 6: Quarterly segmental trend (standalone)

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var (%)	FY20	FY21	YoY(%)
<b>Revenue</b>										
Abrasives	1,009	2,240	122.0	2,533	-11.6	2,300	-2.6	8,147	8,177	0.4
Ceramics	788	1,412	79.2	1,491	-5.3	1,400	0.9	5,120	5,008	-2.2
Electrominerals	654	1,341	105.2	1,366	-1.8	1,183	13.4	4,109	4,396	7.0
<b>Total Segment Revenues</b>	<b>2,451</b>	<b>4,993</b>	<b>103.7</b>	<b>5,390</b>	<b>-7.4</b>	<b>4,883</b>	<b>2.3</b>	<b>17,376</b>	<b>16,494</b>	<b>-5.1</b>
Less: Inter Segment Revenue	112	344	206.5	355	-3.1	383	-10.1	1,145	1,087	-5.1
<b>Net Sales</b>	<b>2,339</b>	<b>4,649</b>	<b>98.8</b>	<b>5,035</b>	<b>-7.7</b>	<b>4,500</b>	<b>3.3</b>	<b>16,231</b>	<b>15,407</b>	<b>-5.1</b>
Abrasives	-19	348	-1,950.0	435	-20.1	368	-5.5	1,083	1,179	8.9
Ceramics	70	285	305.1	328	-13.1	280	1.7	1,001	1,056	5.5
Electrominerals	14	143	931.7	83	73.4	101	42.6	217	317	46.1
<b>Total EBIT</b>	<b>65</b>	<b>776</b>	<b>1,086.5</b>	<b>845</b>	<b>-8.2</b>	<b>749</b>	<b>3.7</b>	<b>2,301</b>	<b>2,552</b>	<b>10.9</b>
<b>EBIT Margin</b>										
Abrasives	(1.9)	15.5		17.2		16.0	-47bps	13.3	14.4	110bps
Ceramics	8.9	20.2	1125bps	22.0	-181bps	20.0	17bps	19.5	21.1	150bps
Electrominerals	2.1	10.7	856bps	6.1	463bps	8.5	219bps	5.3	7.2	190bps

Source: Company data, I-Sec research

## Key conference call highlights

### Abrasives

- Segment margin declined due to increased cost on temporary manpower that returned to their respective hometowns during the 2nd covid wave.
- April/May operations were challenging owing to auto segment slowdown and availability of semiconductor.
- There was increased preference towards local suppliers by auto sector.
- The company gained market share in thin wheels, coated and precision abrasives.
- US subsidiary performance was muted and the company has currently set up coated abrasive portfolio to cater to hardwood cleaning in the US.

### Ceramics

- Disruption in Hosur plant and shortage of containers impacted overall sales.
- Technical ceramics, alternate energy (fuel cells) and power distribution had witnessed strong growth.
- The company is building on the capability of technical ceramics to enter fuel cells using natural gas.
- Confident of 20% growth in the segment for FY22E.
- Current utilisation of met-cylinders is 70-75%, while new unit is currently at 40% utilisation levels.
- Sintered silicon carbide- set up new capacity- used in higher wear industry like nuclear or chemical, will be used in ceramic bearings.
- Engineering ceramics that require small parts which cannot be manufactured by traditional methods will use 3D printing. This will help cater aerospace and defence sectors.
- Witness healthy traction from the EV side of the business.

### Electrominerals (EMD)

- Demand had been healthy and the China plus one strategy by clients is also supporting growth.
- Currently, ~20-25% is the contribution from specialty chemicals, which is expected to increase to 30%.
- Healthy rainfall under Maniyar hydro plant supported its performance.
- Silicon carbide sale from VAW was good despite the impact of electricity disruptions and covid-related lockdown.

**Other key highlights**

- Capex earmarked at ~Rs1.2-1.5bn in FY22. 1) Industrial ceramics 2) alumina fusion facility conversion in EMD, 3) VAW - furnacing and refractories and 4) coated abrasives - as utilisation of the existing coater maker is coming up faster than expectations. Have incurred Rs300mn of capex in Q1FY22.
- Trying to take price hikes wherever possible, the company will be looking at maintaining FY21 margin levels.
- Advanced cell chemical- graphite and graphene will be required to increase energy density. This should benefit CUMI. Currently, clients are testing.
- Steel and cement are doing well. In steel sector - refractories - project orders are increasing. Minerals segment supplies raw mat to foundries and steel plants that drove sales in Q1 as well.

## Financial summary (consolidated)

**Table 7: Profit & loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>25,990</b>	<b>26,317</b>	<b>30,910</b>	<b>36,013</b>
<b>Operating Expenses</b>	<b>22,004</b>	<b>21,661</b>	<b>25,084</b>	<b>29,105</b>
<b>EBITDA</b>	<b>3,986</b>	<b>4,656</b>	<b>5,827</b>	<b>6,908</b>
% margins	15.3	17.7	18.9	19.2
Depreciation & Amortisation	1,045	995	1,206	1,258
<b>EBIT</b>	<b>2,941</b>	<b>3,661</b>	<b>4,620</b>	<b>5,650</b>
Gross Interest	63	36	38	39
Other Income	450	314	489	672
<b>PBT before exceptional</b>	<b>3,328</b>	<b>3,939</b>	<b>5,072</b>	<b>6,283</b>
Add: Extraordinary	-	-	-	-
/Exceptionals	-	(144)	-	-
Add: Share in associates	178	151	166	183
<b>PBT</b>	<b>3,505</b>	<b>3,946</b>	<b>5,238</b>	<b>6,466</b>
Less: Taxes	756	1,016	1,268	1,571
Less: Minority Interests	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,750</b>	<b>2,931</b>	<b>3,970</b>	<b>4,895</b>
<b>Adjusted Net Income</b>	<b>2,750</b>	<b>3,075</b>	<b>3,970</b>	<b>4,895</b>

Source: Company data, I-Sec research

**Table 8: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	13,401	17,094	21,640	27,411
of which cash & cash eqv.	3,615	6,890	9,942	13,781
Total Current Liabilities & Provisions	3,150	4,604	4,668	5,387
<b>Net Current Assets</b>	<b>10,252</b>	<b>12,489</b>	<b>16,972</b>	<b>22,024</b>
Investments	1,212	1,271	1,398	1,537
Other Non-Current Assets	1,035	1,088	1,120	1,155
<b>Net Fixed Assets</b>	<b>5,939</b>	<b>6,135</b>	<b>5,038</b>	<b>4,280</b>
Goodwill	1,330	1,298	1,298	1,298
<b>Total Assets</b>	<b>19,767</b>	<b>22,281</b>	<b>25,825</b>	<b>30,294</b>
<b>Liabilities</b>				
Borrowings	595	405	405	405
Deferred Tax Liability	133	96	96	96
Minority Interest	455	464	464	464
Equity Share Capital	189	189	189	189
Face Value per share (Rs)	1.00	1.00	1.00	1.00
Reserves & Surplus	18,394	21,125	24,670	29,140
<b>Net Worth</b>	<b>18,583</b>	<b>21,314</b>	<b>24,859</b>	<b>29,329</b>
<b>Total Liabilities</b>	<b>19,766</b>	<b>22,280</b>	<b>25,825</b>	<b>30,294</b>

Source: Company data, I-Sec research

**Table 9: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>3,617</b>	<b>3,918</b>	<b>5,011</b>	<b>5,970</b>
Working Capital Changes	1,068	909	(1,443)	(1,227)
Capital Commitments	(1,016)	(694)	(500)	(500)
<b>Free Cashflow</b>	<b>3,669</b>	<b>4,133</b>	<b>3,068</b>	<b>4,243</b>
<b>Cashflow from Investing Activities</b>	<b>86</b>	<b>87</b>	<b>390</b>	<b>513</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(323)	(190)	-	-
Interest paid	(63)	(36)	(38)	(39)
Dividend paid	(888)	(284)	(425)	(425)
<b>Extraordinary Items/Others</b>	<b>(802)</b>	<b>(435)</b>	<b>57</b>	<b>(452)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,679</b>	<b>3,275</b>	<b>3,052</b>	<b>3,840</b>

Source: Company data, I-Sec research

**Table 10: Key ratios**
*(Year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Diluted adjusted EPS	14.5	16.3	21.0	25.9
Recurring Cash EPS	20.1	20.8	27.4	32.6
Dividend per share (DPS)	2.8	1.5	2.3	2.3
Book Value per share (BV)	98.3	112.8	131.5	155.2
<b>Growth Ratios (%)</b>				
Operating Income	(3.3)	1.3	17.5	16.5
EBITDA	(9.1)	16.8	25.2	18.6
Recurring Net Income	11.1	11.8	29.1	23.3
Diluted adjusted EPS	11.1	11.8	29.1	23.3
Diluted Recurring CEPS	13.0	3.4	31.9	18.9
<b>Valuation Ratios</b>				
P/E	48.7	43.5	33.7	27.3
P/CEPS	35.3	34.1	25.8	21.7
P/BV	7.2	6.3	5.4	4.6
EV / EBITDA	32.8	27.3	21.3	17.4
EV / Operating Income	5.0	4.8	4.0	3.3
EV / Op. FCF (pre-capex)	27.9	26.4	34.8	25.4
<b>Operating Ratios</b>				
Raw Material/Sales (%)	34.1	34.1	34.0	34.0
SG&A/Sales (%)	37.3	35.0	34.8	35.2
Other Income / PBT (%)	13.5	8.0	9.6	10.7
Effective Tax Rate (%)	22.7	25.8	25.0	25.0
NWC / Total Assets (%)	34.4	26.5	28.4	28.3
Inventory Turnover (days)	71.3	63.9	65.0	65.0
Receivables (days)	56.4	66.2	67.0	67.0
Payables (days)	32.4	51.1	45.0	45.0
Net D/E Ratio (x)	(0.2)	(0.3)	(0.4)	(0.5)
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	10.6	11.7	12.8	13.6
RoCE	13.7	14.0	16.1	17.1
RoNW	15.4	15.4	17.2	18.1
Dividend Payout Ratio	18.9	9.2	10.7	8.7
Dividend Yield (%)	0.4	0.2	0.3	0.3
EBITDA Margins	15.3	17.7	18.9	19.2

Source: Company data, I-Sec research

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