



Farsight

MORNING FARSIGHT

Wednesday, October 10, 2018

**CARBORUNDUM
UNIVERSAL**

CMP:RS 332

TRGT:RS 380

TIME HORIZON: 1 YEAR

Carborundum Universal, of Murugappa group, manufactures abrasives, ceramics, refractories, and electro-minerals, through 30 manufacturing facilities (India, Russia, South Africa and China), is looking a good buy post recent correction, with good set of earnings for Q4FY18 / Q1FY19. In Q4FY18, PAT had risen to Rs. 62.9 cr from Rs. 56.5 cr QoQ and Rs. 46.3 cr YoY, a growth of 11% QoQ and 36% YoY, on an income of Rs. 654 cr. For FY18, company's income was at Rs. 2,418 cr (+7%), EBITDA was at Rs. 399 cr (+36% with EBITDA margin of 16.7%) and PAT of Rs. 220 cr (+19%), leading to an EPS of Rs. 11.42. In Q1FY19, company reported PAT of Rs. 65.3 cr against Rs. 41.8 cr YoY, delivering another quarter with over 56% YoY growth in PAT and EPS of Rs. 3.33. Management has guided to achieve turnover of Rs. 2,700 cr in FY19 and targets Rs.3,200 cr in FY20, led by scaling up of utilization of the capacities that are re-located from Africa (bubble Zirconia operates at 25-30% and Thukela refractories operates at 40-50% utilisation) and Japan (NTK, Metz cylinders operate at 25-30% utilisation) as well as growth in current business. Management highlighted that currently 20% of overall growth comes from price hikes and the company targets price hikes to contribute 33% of overall growth going ahead as well. The price hikes undertaken have yet to cover the total increase in input cost and current margin expansion is largely driven by volume growth, suggesting further room for margin expansion in the coming quarters. Company is having net cash balance-sheet with Net Cash of Rs. 61 cr. Besides this, company has investments in Wendt India, Grindwell Norton, Cholamandalam Investment & Finance, Tube Investments of India, Coromandel International etc, which are worth over Rs. 200 cr. The company has a leadership position in the domestic abrasives market with market share of 38% and strengthening market position in the global electro-minerals market. It also has a highly diversified customer base in terms of end-user industries, with revenue contribution from international markets (42%) such as Russia, Australia, China, North America, and Europe. It caters to a diverse set of end user industries including auto original equipment manufacturers (OEMs), auto ancillaries, general engineering, fabrication, foundry, industrial projects, construction and metal working etc, while none of the industries account for more than 10% of revenues. Promoters are holding 42.42% stake in the company while more than 28% is held by Institutional Houses. Current M Cap is at Rs. 6,300 cr and stock is trading at an EV/Sales of 2.2x, EV/EBITDA of 12x and PE of 23x on current years earnings, which the company deserves to command. Management guidance of 13% revenue growth in FY19 and further 19% revenue growth in FY20 offers comfort. Share ruling at Rs. 332 can move to Rs. 380 in 1 year. Buy as an investor only in this volatility and pessimism now seen prevailing.

DISCLAIMER: This is solely for information of clients of Farsight Securities Ltd. and does not constitute to be an investment advice. It is also not intended as an offer or solicitation for the purchase and sale of any financial instruments. Any action taken by you on the basis of the information contained herein is your responsibility alone and Farsight Securities Ltd. its subsidiaries or its employees or associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained in this recommendation, but Farsight Securities Ltd. or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this recommendation or any action taken on basis of this information. Technical analysis studies market psychology, price patterns and volume levels is used to forecast future price and market movements. Technical analysis is complementary to fundamental analysis and news sources. The recommendations issued herewith might be contrary to recommendations issued by Farsight Securities Ltd. in the company research undertaken as the recommendations stated in this report is derived purely from technical analysis. Farsight Securities Ltd. has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; Farsight Securities Ltd. makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. The opinions contained within the report are based upon publicly available information at the time of publication and are subject to change without notice. The information and any disclosures provided herein are in summary form and have been prepared for informational purposes. The recommendations and suggested price levels are intended purely for trading purposes. The recommendations are valid for the day of the report however trading trends and volumes might vary substantially on an intraday basis and the recommendations may be subject to change. The information and any disclosures provided herein may be considered confidential. Any use, distribution, modification, copying, forwarding or disclosure by any person is strictly prohibited. The information and any disclosures provided herein do not constitute a solicitation or offer to purchase or sell any security or other financial product or instrument. The current performance may be unaudited. Past performance does not guarantee future returns. There can be no assurance that investments will achieve any targeted rates of return, and there is no guarantee against the loss of your entire investment.

POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.