CRISIL Ratings

Rating Rationale

March 31, 2023 | Mumbai

Carborundum Universal Limited

Ratings reaffirmed at 'CRISIL AA+/Stable/CRISIL A1+'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.750 Crore (Enhanced from Rs.550 Crore)**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Rs.200 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Reaffirmed)**
Rs.60 Crore Short Term Debt	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AA+/Stable/CRISIL A1+' ratings on non-convertible debentures, short term debt and bank facilities of Carborundum Universal Limited (CUMI).

CUMI's operation rebounded sharply in fiscal 2022 after the disruption caused by the COVID pandemic. The company's turnover grew by over 26% YoY in fiscal 2022 on the back of strong demand from the automotive, iron ore, real estate and engineering sectors. Demand for abrasives, ceramics & refractories and electromineral rem ained robust and the segment witnessed healthy double-digit growth in their business. In fiscal 2023, demand is expected to remain healthy across segments, leading to continued strong revenue growth, also supported by additional revenues from recently acquired companies (RHODIUS GmBH and CUMI AWUKO GmBH). Revenue growth is expected to remain in double digits over the medium term, due to CUMI's strong presence across business segments, steady demand, and ramp up in business levels from the new acquisitions.

Operating margins remained robust at 16.4% in fiscal 2022 but moderate d from 17.5% in fiscal 2021. Company maintained their healthy margins in the abrasive, ceramic and electromineral segments. Company was able to pass on the increase in raw material prices to the end customers and protected their margins. Effect of inflation and higher energy prices, as well as losses in newly acquired entities have impacted operating profitability in fiscal 2023, and operating margins are expected to range between 14-15% going forward.

CUMI continues to maintain a strong balance sheet, des pite ramp up in capex and three new acquisitions in the recent past. In fiscal 2022, CUMI completed acquisition of assets AWUKO GmBH (renamed to CUMI AWUKO Abrasives GmBH) and 72% stake in Pluss Advanced Technology Ltd with a cash outlay of ~Rs 200 crore . Acquisition of the third company, RHODIUS GmBH, announced in February 2022 was completed on April 1, 2022 for Rs.450 crore. The acquisitions were done through the internal accruals and company did not raise any fresh debt for the acquisitions. Ergo, debt protection metrics remained strong. CUMI is expected to incur capex of Rs.300 crore in fiscal 2023 and also raise additional short term borrowings for working capital, but with cash accruals remaining healthy, expected gearing and ratio of total outside l iabilties to tangible networth (TOL/TNW) will remain comfortable at below 0.2x and 0.50x respectively in fiscal 2023. Interest coverage ratio is also expected to remain robust at ~30x in fiscal 2023. With cash surpluses depleted to the utilization for acqu isitions and only moderate capex needs of under Rs.200 crore annually from next fiscal, debt protection metrics will sustain at comfortable levels over the medium term.

CRISIL Ratings' ratings on the debt facilities of CUMI continue to reflect the company' s healthy business risk profile, marked by its strong market position in key products, the diversity in its revenue base, and its fairly integrated operations. The ratings also factor in the company's healthy financial risk profile, marked by a very comfortable capital structure and robust debt protection metrics, and the company's financial flexibility emanating from being part of the Murugappa Group. These rating strengths are partially offset by the volatility in CUMI's operating profitability across business segments.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has combined the business and financial risk profiles of CUMI and its majority owned subsidiaries (prominent among them are Volzhsky Abrasive Works (VAW), Foskor Zirconia Pty Limited (FZL) and Sterling Abrasives Limited (rated 'CRISIL A+/Stable'), as well as newly acquired entities .

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Healthy business risk profile marked by strong market position, diversified revenue base and fairly integrated operations: CUMI's healthy business risk profile is supported by its well-diversified revenue streams. The abrasive divi sion contributed upto 44% of the total revenue of CUMI supported by robust demand in domestic and overseas market and contribution from RHODIUS and AWUKO in first 9 months of fiscal 2023. Electrominerals accounted for 36% of the overall revenue in the first nine months in fiscal 2 023. Ceramic & refractory segment accounted for remaining 20% of the business. Contributions from the abrasive segment is expected to remain high in the medium term due to higher contribution coming in from the newly acquired companies.

The company has a leadership position in the domestic abrasives market 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 (~50% of consolidated turnover) such as Russia, Australia, China, North America, and Europe. CUMI 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. With the two acquisitions done in Germany, the company expanded their market and cemented their market positions in the European market.

With a market share of over 30% in the bonded abrasives segment, CUMI is a strong player in the Indian abrasives industry. The acquisition of VAW in 2007 and the 51% stake in South Africa-based FZL in 2008 established CUMI among a handful of global players with product offerings across the electro-minerals value chain; besides, with these acquisitions, the company emerged as the second-largest producer of silicon carbide, and the third-largest producer of zirconia globally. The company has also achieved healthy cost advantages through its strategy of securing the back-end. It integrated backward into silicon carbide, zirconia, and brown/white fused alumina, which are key inputs for its businesses. CRISIL Ratings believes that the diversified revenue profile will benefit CUMI's business position over the medium term, and benefit of recent acquisitions will enable it to register healthy double digit revenue growth over the near to medium term. Operating profitability is also expected to sustain at healthy levels of 13-15%, supported by better utilisation of capacities in the newly acquired companies and continued focus on cost reduction through debottlenecking.

Healthy financial risk profile and the financial flexibility as part of the Murugappa Group:
CUMI's financial risk profile remains healthy as reflected by its gearing of under 0.10 times at March 31, 2022; gearing levels are expected to be low in the medium term, despite moderate increase in working capital borrowings. CUMI's strong balance sheet strength has provided it with the flexibility to weather material volatility on its cash accruals, as was witnessed during fiscal 2013 to fiscal 2015.

The improvement in profitability from fiscal 2015 onwards, and reducing debt levels, has strengthened CUMI's debt protection metrics over time; its interest coverage and net cash accruals to debt ratios for fiscal 2023 are estimated to be over 40 times and over 1 time, respectively, from 11.1 times and 0.61 times in fiscal 2015. CRISIL Ratings believes that CUMI's debt protection metrics will remain strong on the back of healthy cash accruals and only moderate capital spending. Company not planning to raise any material debt in the medium to fund its capexplans. Liquidity also continues to remain healthy, as reflected in only moderately utilised bank lines ~Rs 400 crores (standalone) as of December 2022. Cash surpluses expected to moderate at Rs.50-75 crores in the current fiscal, with most surpluses used up for acquisitions. Besides, it is a leading company of the Murugappa group, which adds to its financial flexibility.

Weakness:

Volatility in operating profitability across business segments:
CUMI's profitability margins across its key business segments - abrasives, electro-minerals, and industrial ceramics and refractories have been volatile from fiscal 2013 onwards. The abrasives division had been impacted by competitive pressures and rise in input costs due to rupee depreciation in the past. However, with an increase in volumes, the margins have improved since fiscal 2015. Though the abrasive segment witnessing strong demand and healthy growth, operating margins have come under pressure due to higher raw material cost, competitive pressures, elevated energy prices and higher expenditure done towards ramping up of operations in the newly acquired companies in fiscal 2023. However, strong ramp up in industrial ceramics business and electromineral businesses will arrest any significant decline in profitability in the near term. The electro-minerals business was earlier impacted due to weak capacity utilization in South-Africa. The division's profitability is now improved driven by relocation of facilities of South African entities, uptick in pricing due to strict environmental regime in China and improvement in demand environment.

Furthermore, continuation of improvement in industrial activity is expected to bode well for CUMI's profitability across business divisions over the medium term. CRISIL Ratings, however, believes that CUMI's profitability will remain susceptible to economic cycles over the medium term. Besides, trade regulations, sanctions and volatile foreign exchange movements also render moderate susceptibility to business performance of its key subsidiary, VAW.

Liquidity: Strong
CUMI had ample liquidity until fiscal 2021, and the same moderated from over Rs.700 crore due to utilisation of these proceeds for acquisitions. The company's accruals are expected to remain at healthy levels of over Rs.350-400 crores (annually), and will be sufficient to fund the ongoing and proposed annual capex of 300 crore and Rs 150 crore in fiscals 2023 and 2024 respectively Additionally, the company has access to bank lines of Rs 640 cr, of which almost Rs.300 crore was unutilised as of December 2022. Cash and cash equivalents are expected to moderate to Rs 70-80 crore in fiscal 2023, and then gradually ramp up, due to healthy cash generation and moderate capital spend.

Given the company's strong fund-raising abilities, expected healthy accruals, CRISIL Ratings believes that CUMI will maintain its strong financial flexibility over the medium term.

Outlook: Stable
CRISIL Ratings believes that CUMI will maintain its strong business risk profile over the medium term, driven by its diversified revenue streams and strong market position across its business segments.. Also, the company is expected to sustain adequate operating profitability over the medium term. Besides, CUMI is also expected to continue maintaining its strong financial risk profile driven by its healthy cash generating ability and well managed balance sheet.

Rating Sensitivity factors
Upward factors
- Significant improvement in CUMI's scale of operations and sustenance of operating margins at over 18-20%, leading to better cash generation
- Prudent expansion plans and working capital management, resulting in continued strong debt metrics; for instance, gearing of 0.5 times on a sustainable basis
- Substantial increase in cash surplus

Downward factors:
- Sharp decline in CUMI's scale of operations leading to pressure on its operating profitability, and cash generation
- Significant increase in gearing beyond 1.2 times due to large acquisitions or larger-than-expected debt-funded capex or working capital requirements

About the Company
CUMI, a part of the ~Rs. 57000 crore Chennai-based Murugappa group, manufactures abrasives, ceramics, refractories, and electro-minerals. The company has manufacturing plants in several locations across India, besides having plants in Russia, Germany, South Africa and Australia, and marketing operations in China, Middle East and North America.

For the first nine months of fiscal 2023, CUMI, on a consolidated basis, reported a net profit of Rs 293 crore (Rs 291 crore for the corresponding period in the previous year) on revenue of Rs 3455 crore (Rs 2431 crore for the corresponding period in the previous year).

Key Financial Indicators

As on / for the period ended March 31	Unit	2022	2021
Revenue	Rs crore	3332	2632
Profit After Tax (PAT)	Rs crore	350	293
PAT Margin	%	10.5	11.1
Adjusted debt/adjusted networth	Times	0.10	0.02
Interest coverage	Times	104.23	140.96

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank guarantee	NA	NA	NA	8	NA	CRISIL A1+
NA	Cash credit*	NA	NA	NA	182	NA	CRISIL AA+/Stable
NA	Cash credit^	NA	NA	NA	560	NA	CRISIL AA+/Stable
NA	Short-term debt	NA	NA	7-365 days	60	Simple	CRISIL A1+
NA	Non-Convertible Debentures#	NA	NA	NA	200	Simple	CRISIL AA+/Stable

** Interchangeable with bank guarantees*
^ Interchangeable with short term loan, working capital demand loan, packing credit in foreign currency, buyer's credit, bill discounting, bank guarantees and letter of credit.
 # Yet to be placed

Annexure – List of entities consolidated

Name of Entity	Extent of Consolidation	Rationale for Consolidation
Volzhsky Abrasive Works (VAW), Russia	Full	Subsidiary, business synergies
Foskor Zirconia Pty Limited (FZL), South Africa	Full	Subsidiary, business synergies
Sterling Abrasives Limited	Full	Subsidiary, business synergies
Net Access India Limited	Full	Subsidiary, business synergies
Southern Energy Development Corporation Limited	Full	Subsidiary, business synergies
CUMI International Limited	Full	Subsidiary, business synergies
CUMI (Australia) Pty Limited	Full	Subsidiary, business synergies
CUMI America Inc	Full	Subsidiary, business synergies
CUMI Middle East FZE	Full	Subsidiary, business synergies
CUMI Abrasives & Ceramics Co., Limited	Full	Subsidiary, business synergies
CUMI Europe s.r.o	Full	Subsidiary, business synergies
PLUSS Advanced Technologies Pvt Ltd, and its subsidiary, Pluss Advanced Technology B.V	Full	Subsidiary, business synergies
RHODIUS Abrasives GmBH	Full	Subsidiary, business synergies
CUMI AWUKO Abrasives GmBH	Full	Subsidiary, business synergies

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	742.0	CRISIL AA+/Stable	16-02-23	CRISIL AA+/Stable	16-02-22	CRISIL AA+/Stable	19-02-21	CRISIL AA+/Stable	27-02-20	CRISIL AA+/Stable	CRISIL AA+/Stable
Non-Fund Based Facilities	ST	8.0	CRISIL A1+	16-02-23	CRISIL A1+	16-02-22	CRISIL A1+	19-02-21	CRISIL A1+	27-02-20	CRISIL A1+	CRISIL A1+
Non Convertible Debentures	LT	200.0	CRISIL AA+/Stable	16-02-23	CRISIL AA+/Stable	16-02-22	CRISIL AA+/Stable	19-02-21	CRISIL AA+/Stable	27-02-20	CRISIL AA+/Stable	CRISIL AA+/Stable
Short Term Debt	ST	60.0	CRISIL A1+	16-02-23	CRISIL A1+	16-02-22	CRISIL A1+	19-02-21	CRISIL A1+	27-02-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	**6.4**	**Standard Chartered Bank Limited**	**CRISIL A1+**
Bank Guarantee	**1.6**	**Bank of America N.A.**	**CRISIL A1+**
Cash Credit^	**105**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA+/Stable**
Cash Credit^	**96**	**BNP Paribas Bank**	**CRISIL AA+/Stable**
Cash Credit^	**216**	**Bank of America N.A.**	**CRISIL AA+/Stable**
Cash Credit^	**13**	**Standard Chartered Bank Limited**	**CRISIL AA+/Stable**
Cash Credit*	**112**	**State Bank of India**	**CRISIL AA+/Stable**
Cash Credit*	**70**	**HDFC Bank Limited**	**CRISIL AA+/Stable**
Cash Credit^	**130**	**Standard Chartered Bank Limited**	**CRISIL AA+/Stable**

This Annexure has been updated on 31-Mar-2023 in line with the lender-wise facility details as on 31-Mar-2023 received from the rated entity.

^ - Interchangeable with short term loan, working capital demand loan, packing credit in foreign currency, buyer's credit, bill discounting, bank guarantees and letter of credit.

** - Interchangeable with bank guarantees*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Engineering Sector
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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