

## Equirus Express: Key Takeaways from Abrasives (CUMI and GNO) Channel Checks

We recently interacted with dealer/distributors of Carborundum Universal (CUMI) and Grindwell Norton (GNO). Key takeaways:

### Distribution of products

- CUMI dealers get a ~2% discount (~2.5% for coated as the company has increased focus here) for meeting targets (1% quarterly + 1% annually); another 1% is given only to Ratna dealers. GNO dealers get 2-2.5% of cash discount (CD) and another 1.5-2% of turnover discount (TD). Turnover discount is paid on quarterly basis.
- At present, there is a significant inventory build-up in the system for GNO as (a) dealers have continued buying in order to get TD and (b) the company has been pushing dealers to buy as much as they can, even as customer demand is sluggish. On the other hand, CUMI has normalized level of inventory present in the system as they have pushed dealers to buy more in the recent past.
- The credit period is 30-45 days for old relationships and only 7 days for CUMI's new dealers; however, a ~2% prompt payment discount is given to new dealers. On the other hand, GNO's credit period to dealers is far shorter than CUMI.
- CUMI has started appointing more dealers in the same region; new dealers are given only new products and not supplied all products. In contrast, old dealers can sell both legacy and new products. Also, new dealers are not given customized products.
- There are four GNO dealers in Ahmedabad, who buy at different price points from the company depending on the quantity they order. In this scenario, a dealer may try to undercut the pricing provided by the other dealer/retailer by buying and selling in huge quantities. On the other hand, CUMI sells products at the same prices to all its dealers.
- Dealers typically have to give a 60-90 days credit to customers. However, given the liquidity crunch in the market, some customers have not been able to pay on time.
- If CUMI wants to promote a product, it gives Free Scheme Order (FSO) to dealers — free products for which dealers don't need to pay; in other words, dealers can buy other products of an equivalent amount from the company.
- CUMI gives free trials to customers whenever required (up to ~Rs 2L), including for customized products. For instance, this dealer did trials for about two years with AIA Engineering. AIA Engineering gives ~80% business to CUMI as of now; earlier, GNO had a bigger share from this company. AIA's yearly abrasives requirement is Rs 120mn-130mn, half of which is directly served by CUMI.
- As per CUMI's policy, no two dealers can supply to the same customer. However, in case of GNO, multiple dealers can supply to the same customer.

### CUMI — Business update

- Of late, CUMI has been very aggressive in introducing new products; it has started doing better in flap and mop wheels (both varieties of coated abrasives).
- CUMI has taken a price hike in coated abrasives from Jun'19 with the blended price hike being 3-4%; it has also stopped giving extra discounts to dealers.
- CUMI has enhanced focus on ancillary products like power tools and metal working fluids (CIMCOOL range of products). Confidence and trust on the CUMI brand facilitate initial traction for such products as many small-scale players still use non-branded fluids. It also gives a good entry point to acquire customers on the abrasives side.
- CUMI has not been able to put up service centres for power tools — a key reason behind its power tools business not picking up.
- The non-standard product division (custom-made products) of CUMI has been separated now, and

the sales team for the division is also different. This division is being run from Pune; for standard products, dealers have to deal with regional offices.

- CUMI is unable to take sufficient price hikes in some standard products, and makes up for this in some specialized custom-made products.
- CUMI gives different names (branding) to the same products, depending on geographies.
- Many of GNO's new products are not very different from older ones. They are just given a new brand name and sold at a lower price so that the company's brand image doesn't take a hit.
- CUMI is aggressively marketing the *Chamak* brand of non-woven products, and is doing promotional activities in some South India-based malls.

### CUMI vs GNO

- Both CUMI and GNO have their own strengths. In certain products, CUMI has done far better than GNO, while in some products GNO (Zircon-based products) has done better.
- Broadly speaking, CUMI is stronger in bonded products and GNO is stronger in coated products.
- Historically, CUMI has not done much advertisement at the industrial level; also, it has not been as good as GNO in packaging.
- There is almost no price differential between similar products of both the companies. Also, there isn't any difference at all in the product quality in terms of various parameters such as metal removal rate, longevity of the products, power required etc.

### Other competition

- CUMI lags some competitors in coated abrasives as most of its products are cloth-based. DEEROS (Korea) and Big Champion (Indonesia) have been supplying good-quality, flexible, belt-coated abrasive products. Some customers have switched to such products. CUMI will try to outdo DEERFOS in the coated abrasive business by introducing bottom-of-the-pyramid products. In belt abrasives, DEERFOS' products are ~35% cheaper and are of better quality.
- Apidor Abrasives has recently come up with cheaper DC wheels, and has replaced CUMI in some accounts recently.
- Bipico — a manufacturer and supplier of industrial cutting tools — has entered the abrasives business and is doing very well as of now.
- YURI, a Chinese player, has started doing very well in the Indian market.
- Chinese products are ~25% cheaper and are almost of the same quality as CUMI/GNO products. Only drawback for customers is that there is no one to report to if they find some issues with the products/applications.
- Bosch procures abrasives from Indonesia; CUMI has made abrasives products (DC Wheels) suitable for Bosch power tools in order to switch customers from Bosch.
- While there are not many entry barriers in the abrasives industry, new players have only been able to pick up business in lower-end abrasives due to their inability to supply good-quality products. Some customers come back to CUMI/GNO after using such products.
- Local players sometimes work on just one product, leading to better economies of scale in such cases; on the other hand, CUMI manufactures several products. As per the dealer, these local players won't be able to sustain pricing competition over the long term as both CUMI and GNO have started focusing on lower-bracket products.