



# Orient Bell Ltd

Night is darkest before dawn



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**CMP: INR 315**

**Rating: BUY**

**Outlook: Positive**

**Target Price: INR 579**

**Stock Info**

BSE	530365
NSE	ORIENTBELL
Bloomberg	OBL:IN
Sector	Ceramics
Face Value (INR)	10
Mkt Cap (INR Mn)	4,730
52w H/L (INR)	649/301
Avg Daily Volume (in 000')	34

**Shareholding Pattern %**

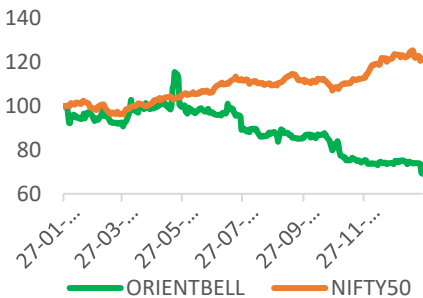
(As on Dec, 2023)

Promoters	64.97
Public & Others	35.03

**Stock Performance (%)** 1m 6m 12m

ORIENT BELL	-15	-29	-35
NIFTY	-0.1	11.9	28.7

**ORIENTBELL Vs Nifty**



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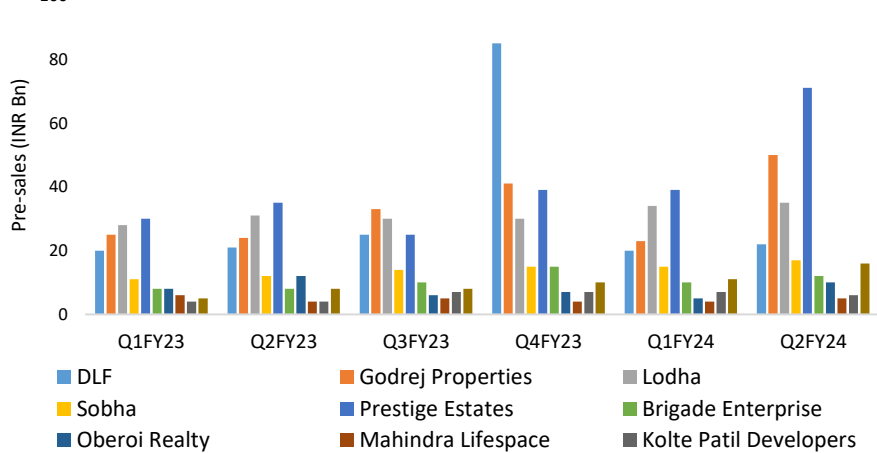
**Ready for a jumpstart recovery**

**Investment Rationale:**

**1. Niche player with recovery in sight**

Orient Bell is a niche player in tiles segment which will be a key beneficiary of the Real Estate story which has started to play out. Orient Bell was originally a ceramic tile player. Over the course of the past 5 years, with the increase in demand of vitrified tiles, company has significantly added capacity of vitrified tiles at its locations (and converted some of its ceramic facilities to vitrified tiles).

Over the past few quarters, several Real Estate companies have reported strong presales with several projects still under commissioning. The tile sales usually happen post possession (which is approximately 12-36 months from presales). **Following are the highlights of presales for some of the top RE companies:**



Presales break up was 50:50 between ongoing projects and new launches. The average inventory for RE companies was 12 months at the start of FY24 but has come down below 10 months in H1FY24. This shows the pick up in real estate sales.

Moreover, the adjacent businesses such as Ply, sanitaryware, houseware have also shown strong growth in sales over the past 3 years. This implies that the consumption of tiles is imminent.

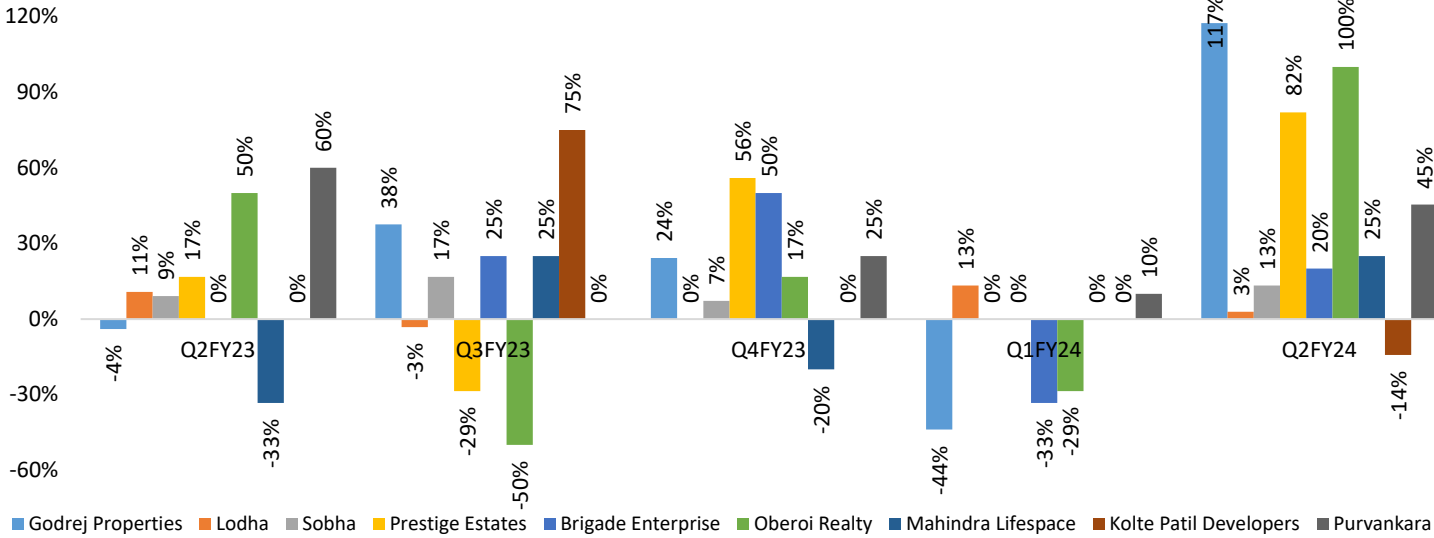
In the Real Estate lifecycle (from project announcement to delivery of possession), the sale of tiles and ceramics take place after 85-90% completion of the lifecycle. Currently we are at that stage, and we will be

**Valuation summary**

Y/E Mar, Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	5,711	4,923	5,025	6,543	7,051	6,221	8,741	9,746
EBIDTA	370	261	324	557	472	128	502	713
Net Profit	93	71	77	322	225	-89	193	338
PAT Adj	93	71	59	322	225	-89	193	338
Diluted EPS	6.5	4.9	5.3	22.0	15.3	(6.1)	13.3	23.2
PER, x	48.7	63.8	59.2	14.3	20.6	(51.4)	23.7	13.6
EV/EBIDTA, x	14.4	19.0	13.6	7.7	9.8	40.7	10.3	6.8
P/BV, x	2.1	2.0	1.9	1.7	1.5	1.6	1.5	1.4
ROE, %	4.0%	3.0%	2.4%	11.3%	7.2%	-3.0%	6.0%	9.5%
Debt/Equity (x)	0.38	0.21	0.16	0.05	0.03	0.14	0.14	0.12

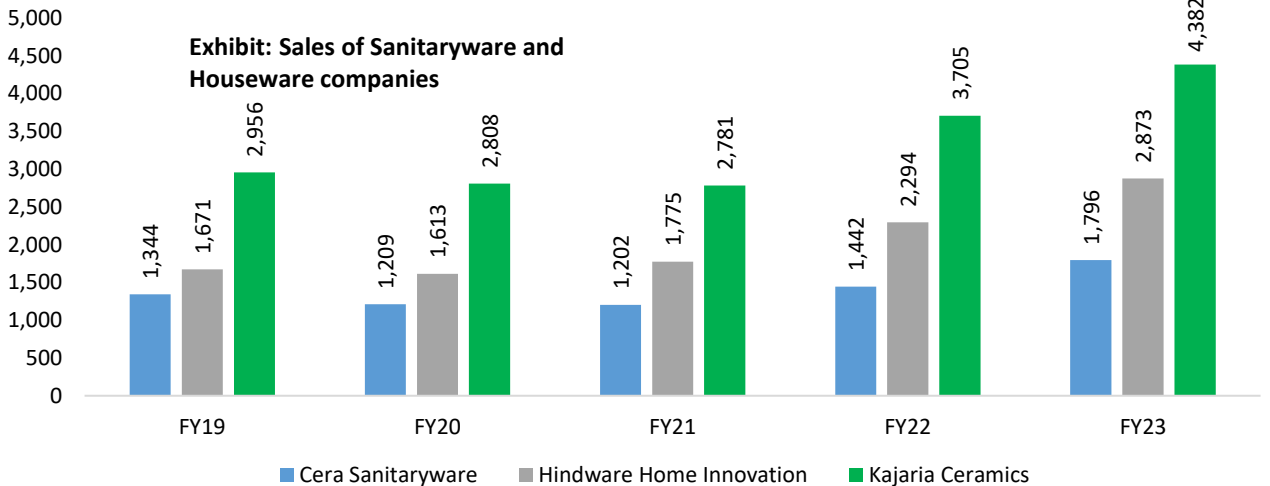
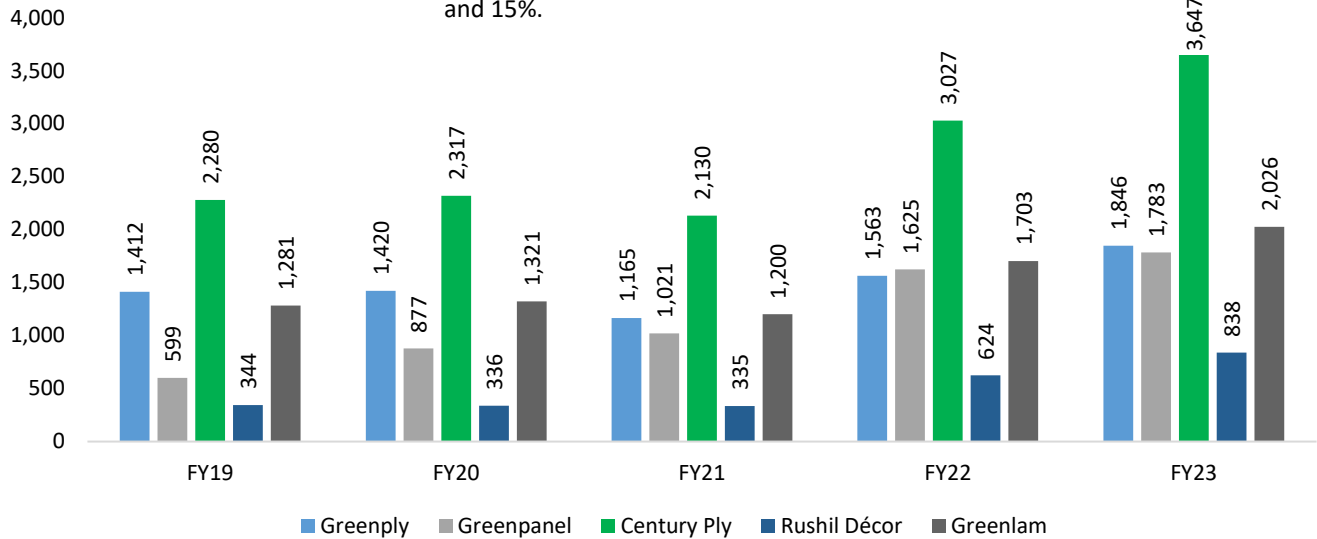
Exhibit: Growth in presales of RE companies

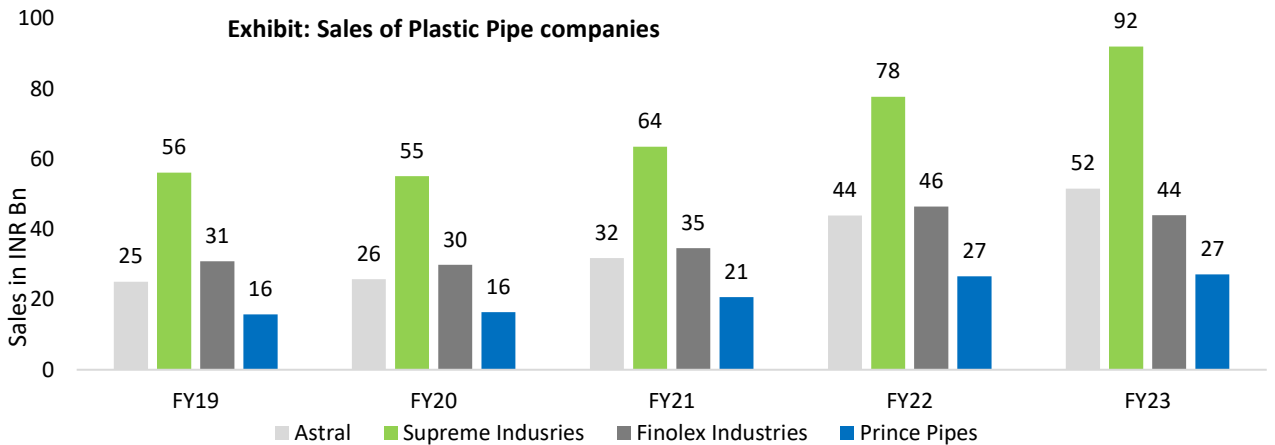
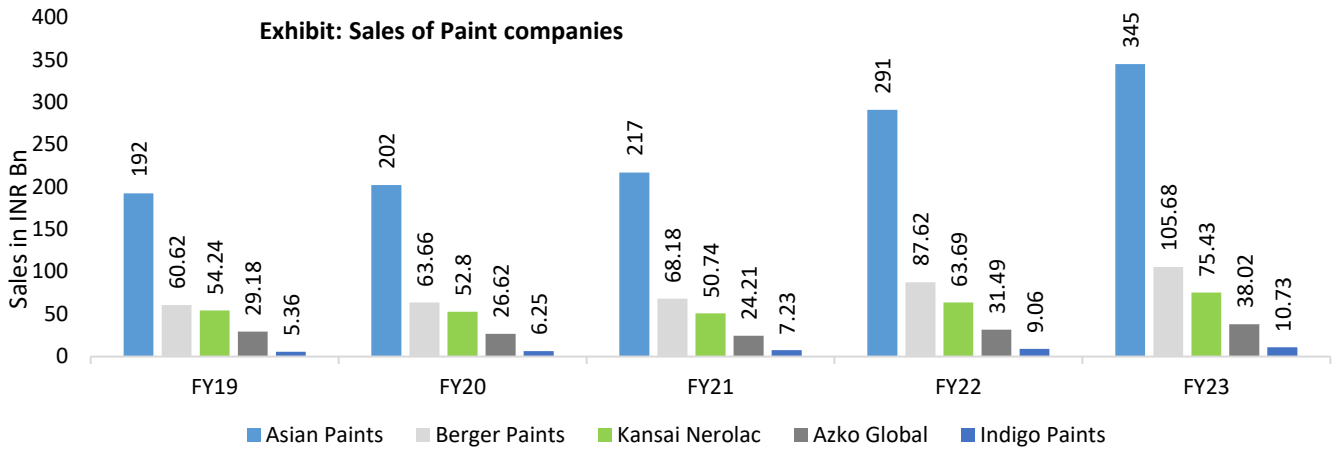
Investment Rationale (continued):



Adjacent businesses which are used in home improvement have also seen an increase in sales over the past 3 years. This has largely been in domestic growth. CAGR sales growth for Ply and Woodpanel companies between FY19-23 has been between 7% and 31%. At the same time, CAGR sales growth for Sanitaryware and Houseware companies has been between 8% and 15%.

Exhibit: Sales of Ply and Woodpanel companies





Adjacent businesses which are used in home improvement have also seen an increase in sales over the past 3 years. This has also largely been in domestic growth. CAGR sales growth for Paints companies between FY19-23 has been between 7% and 19%. At the same time, CAGR sales growth for Plastic Pipe companies has been between 9% and 20%.

**2. Building Strength and readying capacity to service demand post recovery:**

Over the past few years, company has focused itself on adding the capacities in Vitrified tiles division. This is due to the change in customer demand from ceramics to Vitrified tiles.

To service the demand of the industry, company has been adding capacities in the Vitrified tiles division. Over the past 4 years (FY20-23), company has added 25% capacity (completely in their own facilities) to service the growing demand. The total capacity has been increased from 29.3 MSM to 36.9 MSM. This entire capex has been done in the inhouse capacity. With the help of this capacity, the revenues have jumped form INR 4.92 Bn in FY20 to INR 7.05 in FY23.

**Exhibit: Total Capacity since FY20**

Capacity MSM p.a.	As on FY20	As on FY23	As on Q3FY24
Own	19.3	23.6	26.9
Associated Entity	10	10	10
<b>Total capacity</b>	<b>29.3</b>	<b>33.6</b>	<b>36.9</b>

**The most important part is that the capex cycle is completed and facilities are operational now**

The capacity in the associated entities is split equally between ceramic and vitrified tiles. Having associated entities gives the company access to tiles supply as and when needed at a determined cost. Orient Bell holds a minority stake in two of its associated entities which provides supply of tiles at a market determined price. Due to the nature of this association, company assures the supply at a minority investment and bears no risk of production or operations of business.

Going ahead in the future, company can build on more such associations if need be. This will result in steady and immediate supply of tiles (which would otherwise be a lengthened process if it were to add capacity at own facilities). The utilization levels have been stable at ~70% since FY20 to FY23. In 9MFY24, the utilization levels have dropped to 63.4% but this is due to starting of the new Dora line (which was commissioned in Q3FY24 hence no utilization in H1).

## Exhibit: Capacity addition since FY21

Quarter	Q3FY21	Q3FY22	Q1FY23	Q1FY23	Q2FY23	Q3FY24
Capex Plan	Restart of MF-2 (Ceramic Floor)	Modernisation of MP 1 (Ceramic Wall)	Debottlenecking MF 4 (GVT Floor)	Conversion of Dora plant from Ceramic to Vitrified floor	Expansion of Hoskote plant (Ceramic)	New GVT Line-2 at Dora (Vitrified)
Capacity (MSM p.a.)	1.1	0.7	0.7	2.2 (not incremental)	1.8	3.3
Cost (INR Mn)	~50	~100	~110	~90	~340	~760

## Exhibit: Change in capacity mix since 2018

Capacity change over the past 8 years		
	2018	Q3FY24
Ceramic	14.3	17.9
Vitrified	5.7	9.0
<b>Total</b>	<b>20.0</b>	<b>26.9</b>

Over the past 4 years, company has spent INR 1.45 Bn in adding 7.6 MSM to their capacity. As on today, out of the 26.9 MSM of in-house capacity, 17.9 MSM is for ceramics while 9 MSM is for Vitrified tiles. Company also has 5 MSM capacity of vitrified and ceramic tiles each in its associate entities.

Company has historically held a stronger hold in the northern and eastern markets for all its products. But with the introduction of the new Dora GVT facility, company will penetrate the southern and western markets.

To strategize their target of gaining market share in the southern markets, company has commenced marketing campaigns (Mainly TV ad campaigns). For this, the ad spends have gone from 3.6% of sales to 7% of sales. This increase is temporary, to gain strong footings in the southern markets.

The Company has added capacities in Ceramic and Vitrified tiles depending on the demand. Since the demand of Vitrified tiles have been increasing, company has added more capacities in Vitrified tiles. This has resulted in increased share of revenues from Vitrified tiles compared to Ceramics. Following is the revenue mix between vitrified tiles and ceramic tiles:

Revenue Mix between Ceramics and Vitrified Tiles (Quarterly)								
Revenue Mix	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Vitrified Mix	35%	39%	41%	44%	43%	42%	45%	42%
Ceramics	65%	61%	59%	56%	57%	58%	55%	58%

Revenue Mix between Ceramics and Vitrified Tiles (Quarterly continued)								
Revenue Mix	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	
Vitrified Mix	39%	43%	46%	48%	46%	48%	51%	
Ceramics	61%	57%	54%	52%	54%	52%	49%	

Revenue Mix between Ceramics and Vitrified Tiles (Annually)								
Revenue mix	FY17	FY18	FY19	FY20	FY21	FY22	FY23	
Vitrified Mix	31%	35%	37%	38%	41%	43%	44%	
Ceramics	69%	65%	63%	62%	59%	57%	56%	

We expect this mix to continue to improve in favour of Vitrified tiles due to stronger demand and future contribution from new Dora line. At this point, company has prepared and readied itself to service demand from both ceramic and vitrified tiles. With addition of high value and premium SKUs in Vitrified segment, the margins are also expected to improve going forward.

## 3. Focus on key metrics for profitability:

The management has maintained their view to focus on improving operating profitability (Contribution margins).

**Along with contribution margins, company has prioritized generation of FCF and maintaining WC management.**

Contribution margins consider RM, gas & fuel and electricity expenses. Company aims to maintain the highest contribution margins in the industry.

Following are the **contribution margins** for the company compared to its peers. Company has maintained the highest contribution margins for the past 10 consistent quarters.

Contribution Margins Comparison										
	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Orient Bell	37.42%	38.87%	38.34%	39.62%	36.23%	34.21%	32.00%	34.64%	33.44%	36.17%
Kajaria Ceramics	32.03%	30.01%	28.02%	29.30%	26.21%	26.55%	28.22%	30.44%	32.06%	30.03%
Somany Ceramics	25.54%	22.65%	19.18%	20.47%	19.46%	20.26%	20.23%	22.25%	23.41%	22.92%
Exxaro Tiles	31.82%	29.96%	28.29%	26.91%	28.06%	33.38%	27.42%	26.40%	26.59%	
Asian Granito	21.23%	20.29%	19.41%	16.27%	16.55%	19.76%	10.82%	22.91%	27.05%	27.14%

Following are the annual contribution margins including estimates. We expect company’s margins to stabilize and improve from here, however, the estimates taken are on a conservative basis. The company has one of the lowest ASP among the organized competition so any increase in ASP will result in improving contribution margins

Annual Contribution Margins						
	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Orient Bell</b>	35.67%	37.95%	35.65%	34.81%	33.47%	35.33%

Average Selling Price Comparison					
	FY19	FY20	FY21	FY22	FY23
Orient Bell	241.25	236.83	239.71	265.92	285.90
Kajaria Ceramics	343.03	333.66	335.73	364.77	388.48
Somany Ceramics	290.76	286.93	288.47	317.22	336.24
Exxaro Tiles	326.21	265.47	264.25	275.94	290.22
Asian Granito	317.72	331.54	289.80	346.64	369.63

Along with the focus on contribution margins and gas prices, company also lays an emphasis on **FCFF generation and WC management**. The FCFF in FY23 and FY24 is negative due to the planned capex. **We expect company to generate INR 96/339 Mn in FY25/26 on back of better WC management.**

	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Free Cash Flow to Firms</b>	617.11	240.37	-412.14	-538.88	96.57	339.11
<b>Cash Flow from Operations</b>	636.80	376.27	336.11	278.41	219.04	465.99

The company procures gas from GAIL for their own entities. The gas costs have long term linkages which assure them supplies at stable prices. The long term contracts insulate them during volatile prices. The prices are based on long term structures (average pricing over a period). With the help of this, company gets a benefit of lower prices during rising gas prices but also faces higher average cost during falling gas prices. Orient Bell started this practice and many other players have followed the long term contract pricing methodology.

The Sikandarabad plant pricing is linked to crude (most of the northern plants are linked to crude). The Dora plant has APM (Administered Pricing Mechanism) which is gas at subsidized prices and the Hoskote plant has CGD (City Distribution Gas) which is linked to spot prices.

The associated entities procure gas from Gujarat Gas or they can use propane/coal (depending on the per unit cost).

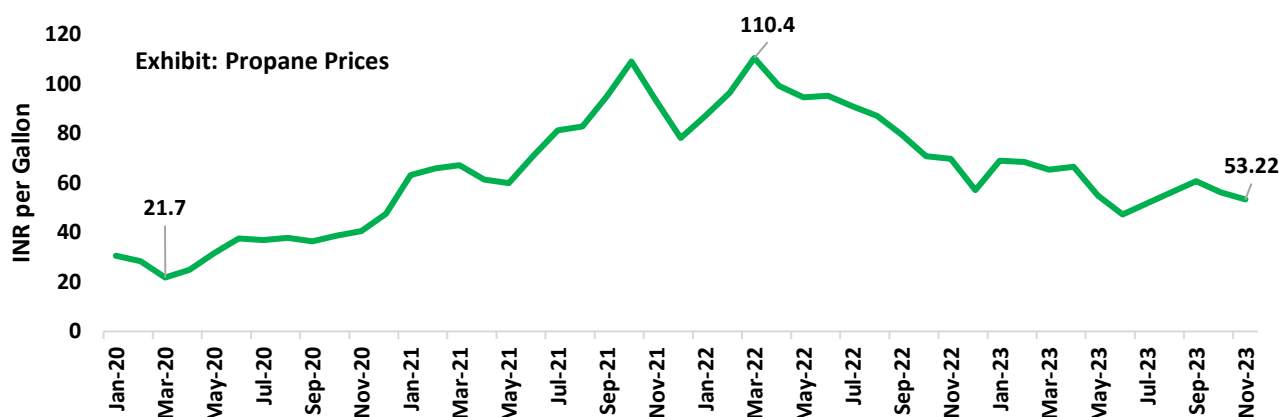
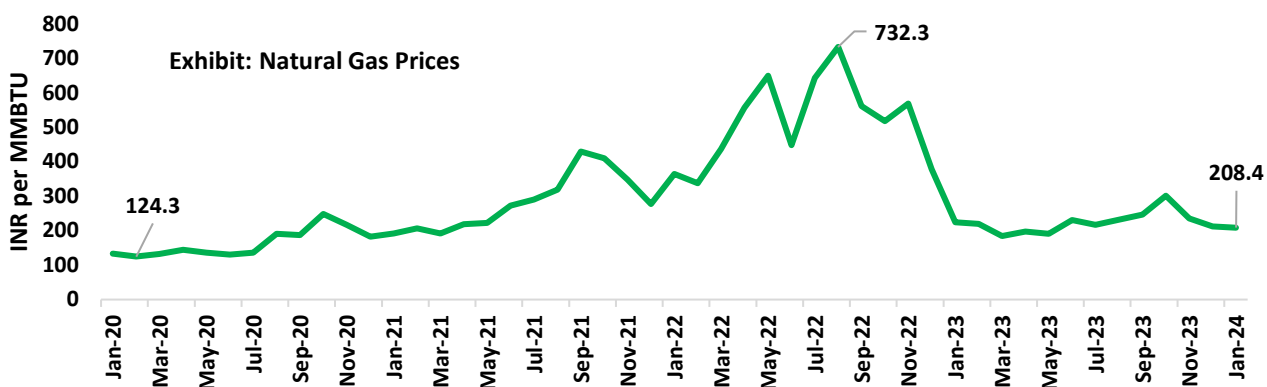


Exhibit: Henry Hub Natural Gas Spot Price (Dollars per MMBTU)



Henry Hub tracks the international natural gas price.

The company has maintained a very stringent cash management system. **The focus has been on maintaining the credit period with discipline to monitor an improve working capital.** The company has successfully brought down the CC Days (from 84 in FY19) to 42 (FY23) We expect the company to maintain the current cash conversion cycle but with increase in utilization, **there is scope for further improvement in CC Days as well.**

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash Conversion Days	84	67	40	40	42	42	39	40

#### 4. Experienced management with diverse experience:

The managerial background brings expertise from different sectors where they have previously implemented initiatives which can be replicated at Orient Bell. Moreover, the impact of rich cumulative experience will help Orient Bell to identify and weigh the options for future growth/cost saving strategies.

Personnel	Designation	Description
Mr. Aditya Gupta	Chief Executing Officer	With over 32 years of multifaceted experience in leading organizations, Mr. Aditya Gupta brings a wealth of expertise to the table. His extensive professional journey includes noteworthy contributions in renowned companies such as UB Spirits, Bharti Airtel, Reliance Communications, and the TATA Group. He is equipped with a rich background in strategic leadership and operational excellence, making them a valuable asset with a proven track record in the corporate landscape.
Mr. Anil Agarwal	Chief Operations Officer	Mr. Anil Agarwal is an industry stalwart with over 36+ years of experience in the ceramics industry. A dedicated member of the OBL team for over 16 years, bringing extensive experience and commitment to the organization.
Mr. Himanshu Jindal	Chief Financial Officer	Mr. Himanshu Jindal has accumulated over 21 years of experience in key finance positions, showcasing his expertise at organizations like Heidelberg Cement, Cipla, Cargill, Pfizer, and, most recently, as the CFO at Den Networks. His adept financial management and strategic leadership underscore his role as a seasoned professional in the field.
Mr. Alok Agarwal	Chief Marketing Officer	Boasting a career of more than 27 years in influential marketing positions, Mr. Alok Agarwal has showcased his expertise across esteemed organizations including Unilever, GSK Consumer Healthcare, SaraLee, and Ebay India. His wealth of experience and strategic acumen positions him as a seasoned marketing professional, adept at steering through the ever-evolving industry landscape.
Mr. Ajay Srivastava	Chief Human Resources Officer	Mr. Ajay Srivastava brings over 27 years of expertise in human resource management, having previously held key roles at PepsiCo, ITC Limited, Dainik Jagran, and most recently serving as the Head of HR at Baxter.
Mr. Pinaki Nandy	Chief Sales Officer	Mr. Pinaki Nandy, with over 27 years of experience, has excelled in leading sales roles. His impressive career includes significant contributions at Vodafone and Cadbury, and he most recently served as the Business Head for Philippines and Bangladesh at AkzoNobel.

#### Outlook and Valuation:

We believe Orient Bell is excellently placed in the recovery story of building materials. The RE presales have delivered record figures and the inventory has also come down (below 10 months). We believe FY25 and FY26 will drive in optimum volumes. The capex cycle is completed so the free cash flow will start reflecting in the coming quarters. Moreover, with the improvement in scale of operations and increase in utilization, the contribution margins have room to improve even further. And with maintaining the cash conversion cycle at current levels, the company will generate even superior free cash flows.

The management believes they can reach the peak capacity utilization next year (85-90%). There is no more capex on cards, only maintenance and upgrading capex if needed. Company further evaluating entities for associates/JVs going ahead to add capacities as and when needed. For the above reasons, we are positive on Orient Bell. **We assign BUY rating to the stock and arrive at target price of INR 579 (25x FY26EEPS). At CMP, company trades 13.6x FY26EEPS and 6.8x FY26E EV/EBITDA. We believe the current performance is at an inflection points and that the company will deliver strong numbers from hereon.**



## Orient Bell – Management Meeting KTAs

**Capacity and industry:**

- Company has capacity of 36.9 MSM in ceramics and tiles put together. Out of the total capacity, **~8 MSM is for Vitrified tiles** (3.3 MSM commercialized in Q3FY24 in Dora facility)
- The **total industry size (pan India consumption) is close to INR 450 Bn.**
- The recent trend has been the shift from ceramic tiles to vitrified tiles. Due to this, majority of the players have expanded in vitrified tiles. Certain pockets of India still have the demand for ceramic tiles but the general consensus shows that vitrified tiles characteristics and appeal is outplaying ceramic tiles.
- Company currently **operates at 70% utilization levels currently**, optimum levels are 85-90%
- Demand in industry is separated between project and residential, 30:70 respectively

**Operational details:**

- The product and pricing are commoditized, based on a function of RM input and demand/supply. Currently, the supplies are higher in the industry. Large chunk of the production happens in Morbi. Company has facilities in UP, Karnataka & Gujarat
- Alternative products such as marble and quartz are also available but the costs of these products are extremely high. The demand preference is stuck towards Glazed Vitrified Tiles (GVT) and Ceramics
- The production costs are extremely high and majority portion is Power & Fuel required in Kilns and pre-Kilns processes. Adjusting to this, company started to use biofuels and other cost efficient resources. **Company was the one of the first ones to start using biofuel in the industry.**
- Taking price cuts to push more sales is not an effective strategy as it will be immediately be met by the competitors taking price cuts. Hence company has taken a different approach to spend on advertising (online along with TV and print). The approach is to directly reach the customer instead of dealer/distributors. Company recently started an ad campaign which is expected to create a strong brand pull.

**Gauging demand:**

- The construction cycle has been on a robust growth phase. On a general level, several projects are close to completion (pan India). In a general sense, one the projects are close to completion, **it will take 6-12 months for the projects to complete, occupancies to fill in and the sales to start.**
- There are many metrics available to gauge the anticipated demand growth (like performance of companies in adjacent sectors, RE sales, housing loan growth, etc.)

**Company details:**

- Company has brought down its WC days to 25 (DSO & DIO counted on sales and DPO on COGS) and the net debt also stands at INR 366 Mn. **Both the levels are comfortable for the company. Company doesn't intend to take any aggressive steps from here to still bring down the WC days.** To generate more long term relation and sales, company may evaluate giving certain extra credit to customers.
- Company has any 361 boutique shops of which a very small number of shops are company owned. These are primarily for display. Remainder of the shops are franchise owned which generate the sales. **Company has been cutting down on non-performing shops regularly.**
- Company has 2 JVs, both located in Morbi. Company has minimal JV ownership in both but **derives a strong advantage of ROFO in inventories**. For further growth, company can plan to add more JVs which will consequently deliver more volumes in the desired product.
- Company has over 3000 SKUs which include new varieties like anti-static, anti-slip. Germ free, etc. Company is one of the few producers in many of these products. These are extremely premium products and also have high margins but the demand for such products is low currently.

**Outlook:**

- Keeping in check the recent performance of RE companies, building material players (like PVC pipes, sanitaryware, bathware, home improvement companies) and other adjacent companies, we believe the tile sales will pick up soon. **To be proactively ahead of the curve, we believe tile companies will start delivering better performance and hence should be part of the portfolio.** Amongst the tile companies, we are positive on Orient Bell.
- The management team is extremely diversified and experienced from different sectoral backgrounds. **This helps in bringing in the successful practices (tried and tested strategies) taken earlier in their respective corporations and applying them in Orient Bell.** The experience of management team gives a lot of comfort for the future of the company.
- At the same time, we are gauging how soon the recovery may be. Since the company is not a leader in the industry, they are a price taker. So the performance will currently be dependent on demand and generating the brand pull. For now we believe that strong performance will start to kick in starting FY25.
- **To display optimum performance, company believes in delivering highest contribution margin.** This will help in delivering higher operating profit.
- For future once the Dora plant stabilizes and the sales have reached optimum levels, company can plan the leg of growth which may be brownfield expansion (land bank available in Dora and Hoskote), addition of JVs, conversion of ceramic to GVT lines (to fulfill additional GVT demand), associating with new JVs or greenfield expansion.

## Exhibit: Quarterly Data (Consol)

	Quarterlies								
INR Mn unless mentioned otherwise	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Capacity (MSM per quarter)</b>									
Own	5.25	5.25	5.90	5.90	5.90	5.90	5.90	5.90	6.73
AE+Trading	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
<b>Total</b>	<b>7.75</b>	<b>7.75</b>	<b>8.40</b>	<b>8.40</b>	<b>8.40</b>	<b>8.40</b>	<b>8.40</b>	<b>8.40</b>	<b>9.23</b>
<b>Volumes (MSM)</b>									
Own	4.67	5.41	4.09	4.36	4.30	4.59	3.52	3.86	3.93
AE+Trading	1.96	2.35	1.22	1.59	1.88	2.44	1.48	1.86	1.85
<b>Total</b>	<b>6.63</b>	<b>7.76</b>	<b>5.31</b>	<b>5.95</b>	<b>6.18</b>	<b>7.03</b>	<b>5.00</b>	<b>5.72</b>	<b>5.78</b>
<b>Utilisation Total (%)</b>	<b>86%</b>	<b>100%</b>	<b>63%</b>	<b>71%</b>	<b>74%</b>	<b>84%</b>	<b>60%</b>	<b>68%</b>	<b>63%</b>
<b>Average Selling Price (INR/MSM)</b>									
Own	267	266	284	284	284	284	286	276	278
AE+Trading	298	298	290	290	286	282	286	280	280
<b>Blended</b>	<b>276</b>	<b>276</b>	<b>286</b>	<b>286</b>	<b>284</b>	<b>283</b>	<b>286</b>	<b>277</b>	<b>279</b>
<b>Total Operating Revenues</b>	<b>1,839.50</b>	<b>2,159.50</b>	<b>1,545.00</b>	<b>1,730.00</b>	<b>1,772.60</b>	<b>2,003.30</b>	<b>1,441.20</b>	<b>1,597.30</b>	<b>1,622.80</b>
<i>Growth (%)</i>					-3.64%	-7.23%	-6.72%	-7.67%	-8.45%
Total Raw Material Cost	737.70	882.90	459.00	644.70	703.60	941.80	605.70	713.10	636.80
<b>Gross Profit</b>	<b>1,101.80</b>	<b>1,276.60</b>	<b>1,086.00</b>	<b>1,085.30</b>	<b>1,069.00</b>	<b>1,061.50</b>	<b>835.50</b>	<b>884.20</b>	<b>986.00</b>
<b>GP Margins</b>	<b>59.90%</b>	<b>59.12%</b>	<b>70.29%</b>	<b>62.73%</b>	<b>60.31%</b>	<b>52.99%</b>	<b>57.97%</b>	<b>55.36%</b>	<b>60.76%</b>
<i>Growth (%)</i>					-2.98%	-16.85%	-23.07%	-18.53%	-7.76%
Employee Cost	244.30	245.90	247.70	262.20	257.20	241.50	244.40	239.90	257.80
<i>Growth (%)</i>					5.28%	-1.79%	-1.33%	-8.50%	0.23%
Power & Fuel	388.70	449.80	457.40	443.70	463.30	419.50	336.30	349.50	400.00
<i>Growth (%)</i>					19.19%	-6.74%	-26.48%	-21.23%	-13.66%
Other Expenses	279.40	321.80	256.30	260.60	251.00	268.90	225.50	241.90	318.70
<i>Growth (%)</i>					-10.16%	-16.44%	-12.02%	-7.18%	26.97%
<b>EBITDA</b>	<b>189.40</b>	<b>259.10</b>	<b>124.60</b>	<b>118.80</b>	<b>97.50</b>	<b>131.60</b>	<b>29.30</b>	<b>52.90</b>	<b>9.50</b>
<b>EBITDA Margins</b>	<b>10.30%</b>	<b>12.00%</b>	<b>8.06%</b>	<b>6.87%</b>	<b>5.50%</b>	<b>6.57%</b>	<b>2.03%</b>	<b>3.31%</b>	<b>0.59%</b>
Other Income	10.00	7.10	21.30	16.50	6.30	9.70	11.30	7.50	3.10
<i>Growth (%)</i>					-37.00%	36.62%	-46.95%	-54.55%	-50.79%
Depreciation	57.30	55.50	48.60	52.60	57.00	52.90	53.80	50.40	55.00
<i>Growth (%)</i>					-0.52%	-4.68%	10.70%	-4.18%	-3.51%
Finance Cost	7.00	11.60	6.50	5.30	5.80	6.30	4.80	4.40	4.40
<i>Growth (%)</i>					-17.14%	-45.69%	-26.15%	-16.98%	-24.14%
<b>PBT</b>	<b>139.80</b>	<b>202.50</b>	<b>93.10</b>	<b>79.20</b>	<b>41.90</b>	<b>84.50</b>	<b>-17.30</b>	<b>9.20</b>	<b>-45.60</b>
Tax	18.80	37.30	23.10	19.30	10.50	21.10	-4.20	2.30	-12.00
<b>Adjusted PAT</b>	<b>121.00</b>	<b>165.20</b>	<b>70.00</b>	<b>59.90</b>	<b>31.40</b>	<b>63.40</b>	<b>-13.10</b>	<b>6.90</b>	<b>-33.60</b>
<b>Adjusted PAT Margins</b>	<b>6.54%</b>	<b>7.62%</b>	<b>4.47%</b>	<b>3.43%</b>	<b>1.77%</b>	<b>3.15%</b>	<b>-0.90%</b>	<b>0.43%</b>	<b>-2.07%</b>
EPS	8.40	11.45	4.85	4.14	2.17	4.38	-0.90	0.47	-2.31
<b>Contribution margins</b>	<b>38.87%</b>	<b>38.34%</b>	<b>39.62%</b>	<b>36.23%</b>	<b>34.21%</b>	<b>32.00%</b>	<b>34.64%</b>	<b>33.44%</b>	<b>36.17%</b>

## Orient Bell Q3FY24 Concall KTAs

## Demand Outlook:

- The overall demand outlook has been challenging, ceramic demand has been falling off rapidly and been overtaken by vitrified tile demand simultaneously.
- Weak ceramic sales has dragged profitability this quarter. Higher inquiry for vitrified tiles coming in
- Export market has weakened as freight costs are high. This is leading to higher domestic sell off.
- More than 50% Morbi units closed off due to weak exports caused by higher freight
- Lot of export has halted/postponed due to high freight cost. Export oriented capacities are dumping domestically
- Company lost market share in H1 but is competitive now

**Q3FY24 Concall KTAs (Continued):****Capacity:**

- Company reached 50% vitrified sales in Q3 with GVT volumes at 30%.
- Overall capacity, company has 23 MSM of ceramic tiles and 14 MSM of vitrified tiles capacity
- Capacity Utilisation at 63%, Dora line capacity utilization not mentioned separately

**New ad campaign:**

- 7.1% of sales spent in ad spends this quarter, mainly for new TV ad campaign
- New ad campaign being displayed in 9 languages (5 of which are southern languages)
- Aim to penetrate the southern markets with new vitrified product line
- Ad spends will go on till FY24, target to signify brand equity in southern markets
- Ad spends will be 3.5-5% of topline for next 15 months

**RM Cost:**

- Gas prices for the quarter were close to INR 50. No significant movement in January.
- Gas cost has come down QoQ and YoY
- Propane cost in Morbi at INR 45-47

**Other KTAs:**

- WC management still intact at 26 days (Inventory and receivables on Sales basis and payables on COGS basis), headroom still available
- Additional debt of INR 160 Mn taken to stabilize Dora plant, long term debt.
- Debt is anticipated to increase further.
- Company has faced high attrition this year
- Own volumes at 3.93 msm (Vs 3.86 QoQ) (Vs 4.3 YoY)
- Trading volumes at 1.85 msm (Vs 1.86 QoQ) (Vs 1.88 YoY)
- GVT 30% of total volumes, Vitrified tiles 50.6%

**Investment Rationale:**

We like Orient Bell for a number of reasons, primarily it is a niche player in tiles segment which will be a key beneficiary of the Real Estate story which has started to play out. Several Real Estate companies have reported strong presales with several projects still under commissioning.

The adjacent sectors like building materials, pipes, ply, sanitaryware, houseware have also started displaying improvement in performance. This leads us to believe that tiles segment will witness a similar reversal in coming quarters.

Over the past few quarters, Orient Bell has readied itself with capacities to serve the demand whenever it recovers. The current GVT salience has reached 30% and the total capacity for Vitrified tiles is 37.8%. The current capacity utilization is only 63% (9MF24) which gives ample headroom to grow.

At the current juncture, **Orient Bell has improved on contribution margins even with lack of volume pick up. In Q3FY24, company delivered 36.17% contribution margins (Vs 33.44% QoQ) (Vs 34.21% YoY). This is on back of maintaining WC days at 43 (FY23). This gives us comfort that with pick up in volumes, the contribution margins will improve further (due to economies of scale). Moreover, the company aims to focus on FCF generation (which has been negative in FY24 due to weak volumes and high capex) which is expected to strongly pick up in FY25.**

The managerial background brings expertise from different sectors where the management has previously implemented initiatives which can be implemented at Orient Bell. Moreover, the impact of rich cumulative experience will help Orient Bell to identify and weigh the options for future growth/cost saving strategies.

For example, the gas & fuel cost is one of the major inputs in tile manufacturing. To reduce the impact of volatility in gas prices, company tied up long term contracts with suppliers at lag pricing methodology. Through this, company safeguards its profits from volatility in gas pricing. Orient Bell was the first player in the industry to implement this.

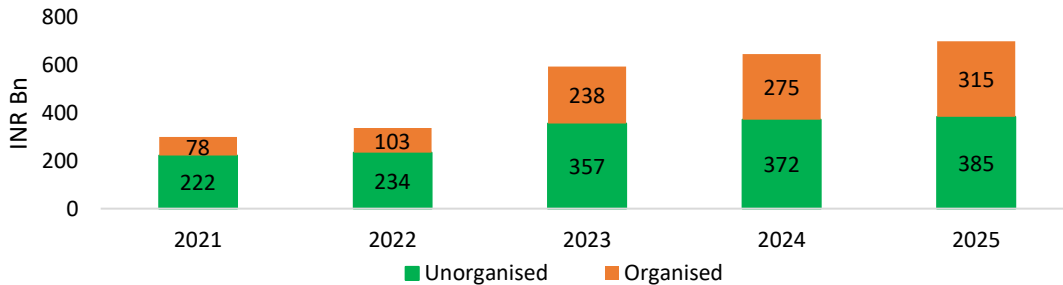
**Outlook:**

The management believes they can reach the peak capacity utilization next year (85-90%). There is no more capex on cards, only maintenance and upgrading capex if needed. Company further evaluating entities for associates/JVs going ahead to add capacities as and when needed. For the above reasons, we are positive on Orient Bell. **We assign BUY rating to the stock and arrive at target price of INR 579 (25x FY26EEPS). We believe the current performance is at an inflection points and that the company will deliver strong numbers from hereon.**

### About the Industry

The market size of domestic tiles industry is estimated at INR 595bn for CY2023 and the same is anticipated to reach INR 707bn by 2025-end, implying a CAGR of 13.6% during CY2023E-2025E. Of this, 30% is exports at ~INR 179bn, which is expected to almost double by 2025-end to ~INR 304bn.

### Exhibit: Organized players increasing their market share



Source: Arihant Research

### Demand Drivers leading to growth:

The domestic tiles industry is expected to grow at 13.6% CAGR over FY23-FY25E vs global industry growth anticipated at 5-6% CAGR. This growth would be driven by multiple factors: (1) increasing housing demand (2) government's focus on policy framework and ecosystem support (3) competitive pricing, low cost labour and technological efficiency.

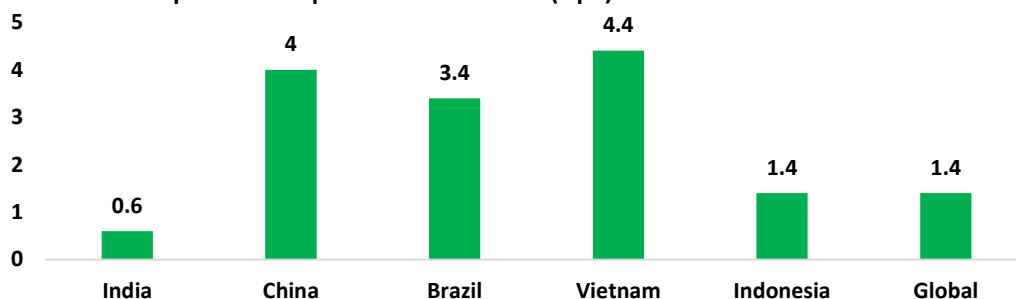
- **Exports market to grow rapidly:** India is the 4<sup>th</sup> largest tiles exporter globally, with the annual volume of 483MSM for CY21. 30% of the overall domestic tiles market is constituted by exports. It has grown at 15% CAGR during FY18-23 and is expected to grow at 40%+ CAGR over FY23-25E, primarily led by "China+1" factor.
- **Market share shifting to organized players:** Unorganized sector constitutes 60% of the market as of CY2023, but is expected to come down to 55% by 2025. Big organized players like Karjaria, Somany and some export oriented players are highly focused on penetrating domestic market through brand promotion and capturing unorganized player's market share.
- **Residential sector:** The residential sector drives about 70% of the demand generated for ceramic tiles in India. This momentum is likely to continue with recovery of real estate sector and increased spending on home and workplace beautification.
- **Upcoming government projects:** The government has announced creation of 100 new airports and expansions of other premier airports in India by 2024, majority of them based in Tier 1 and Tier 2 cities. The Indian railway is also in plans to develop 43,000 hectares of surplus land and commercially develop the land parcels. These projects will give a boost to the tiles industry.
- **Premiumisation:** The tile industry is changing, with a focus on more high-end products. In India, there's a growing interest in large slab tiles and GVT, especially among architects, interior designers, and the higher middle class. Morbi already has about 20 factories making these tiles, and they plan to add a few more soon. These large slab tiles are becoming popular because they are cheaper than marble and granite but have a similar look and feel. Some key domestic players have seen a surge in demand for premium tiles, with a contrasting decline in ceramic tiles.

### Exports boost in H1FY24:

- Ceramic tile exports increased significantly over the last decade. Post-pandemic, however, Indian tiles have also found interest from newer and bigger markets from Asia-Pacific, Europe, Africa, and America, creating more possibilities for growth. The broader acceptance of Indian tiles globally is reflected in the statistics - tile exports in FY23 were up 24% YoY, implying average monthly exports of INR 13Bn in FY23. This number stood at around INR 7-8 Bn in the pre-pandemic times.
- The demand was largely for large slab tiles. Export's figures for FY24 are expected to be around INR 210bn, with a strong growth trajectory to persist for the next 2-3 years. Realizations from exports have been about 15% higher than domestic tiles sales of similar products. Key players in Morbi are targeting 40-50% contribution from exports in the foreseeable future.

**India's per capita consumption of tiles:**

India is the second largest ceramics tiles consumer in the world only after China. Consumption in FY23 pegged at 750MSM, constituting 6% of the world's total consumption. India currently has the lowest per capita consumption rates of ceramic tiles. With low per capita consumption, the industry sees potential growth. Improved living standards and government initiatives like Smart City and Pradhan Mantri Awas Yojana are key drivers for this growth.

**Exhibit: Per Capita Consumption of ceramic tiles (sqm)****Low export realisations:**

India has a competitive advantage being one of the lowest priced exporter of tiles at INR 263/MSM as of CY22 as it is more of a volume player. India accounts to almost 15% of the global tiles market. This provides the Indian tile manufacturers an opportunity to command a higher price in the international market through effective branding and innovation.

**Morbi**

The city is the 2<sup>nd</sup> largest ceramic tile producing cluster in the world with more than 800 production units, just behind Foshan in China. Morbi accounts for 90% of India's production. On average, Morbi operated at 60-70% capacity utilisation for most of the year. With great connectivity to ports, it has played a key role in the export boost the in the industry.

**Possible consolidation of unorganized players:**

Anticipating consolidation, Morbi's industry leaders predict a market shift, potentially involving acquisitions done by large organized players and partnerships between smaller players and industry giants like Asian Paints to target similar segments.

**Increase in demand for Glazed Vitrified Tiles (GVT):**

Good traction in demand can be seen for GVT Tiles and going forward, GVT Tiles are set to replace traditional ceramic wall tiles as they are better in quality and provide the modern touch with the designs. The expansion initiative in Morbi involves the addition of around 40 new plants by Organised players, primarily emphasizing Glazed Vitrified Tiles (GVT). These upcoming installations are expected to replace older wall tile plants and smaller facilities, potentially leading to the closure of approximately 15-20 existing wall tile plants.

**Share of Organized Players:**

The share of organized players in the Tiles industry is set to increase from 40% to 45% in the next two years. The shift will mainly happen as the organized players have an edge over others with better technologies and product quality. With the customers becoming more sensitive towards quality, the forthcoming demand is expected to be largely catered by the organized players.

**Key cost drivers:**

- **Gas Prices:** Natural and Propane gas constitute 10-12% of the total production costs for tiles and ceramics companies. CY21 and CY22 witnessed rapid increase in global gas prices, impacting the overall cost structure and profitability of tiles manufacturers. The prices peaked in September 2022 at US\$43/mmbtu. However, the prices have cooled down lately to US\$11.5/mmbtu in August 2023. This is likely to result in a stable and improved cost structure, with return of healthy profit margins for the industry.

- **Positive effects of the GST system:** The introduction of GST enhanced transparency and accountability within the industry, resulting in a nearly 50% reduction in cash transactions. Likewise, the inclusion of GST on natural gas allows tile manufacturers to benefit from input tax credits, thereby improving margins—a benefit that was not available previously.

- **Availability of Feldspar:** India has a big advantage when it comes to availability of Feldspar. Morbi's close proximity to the feldspar mines in Rajasthan helps in cost efficiency and stabilizes the floor price. Average cost of feldspar per ton is around INR 2,400, which is way below the industry average.

## Exhibit: Recent Commentaries from industry players in Building materials sector

Recent Commentary from Industry Players	
Somany Ceramics (Q3FY24)	This quarter has been muted. But the long-term view is very positive. If you've seen it in the budget, they've been extremely positive towards housing. So I think we're very, very well poised to start utilizing all our capacity in the next year.
Somany Ceramics (Q2FY24)	I think it is to do with all the inventory which is got sold was all made inventory so in the real estate now that a lot of new launches have happened tile demand generally picks up maybe 9 to 12 months from when the real estate starts getting built so you will see a lot of the tile demand coming in next year and in India I guess the traders have diverted their funds to various other investments in property in the last 12 months so that is also reduced the demand a little bit but otherwise there is no threat in the long term of any demand this is for short term.
Somany Ceramics (Q1FY24)	The Tier 2, Tier 3, Tier 4 continue to grow faster than Tier 1. But that's also because the Tier 1 is a builder market, and we are not very, very penetrated in the builders. We're more focused on retail, that's why. But otherwise, Tier 1 is also very large, which is where Morbi guys are supplying to the small and the medium-sized builders, even the large builders for that matter
Kajaria Ceramics (Q3FY24)	we maintained a positive outlook for the tile industries' demand in FY25. Considering the likely rub-off of strong real estate demand to drive improvement in offtake for tiles in financial year '25, we are confident of achieving better than industry growth going forward. Industry is passing through a tough time. Two reasons. you see, real estate has been good for the last two years, as you all have been saying. First year, what they did sold the inventory, which was locked. Second year, new construction started, whereby they made these structure where cement, steel, cables and all that got used. Now is time for our kind of industry like paint, tiles, sanitary ware, ply, all will come in now. So, we hope that next three years should be good for the industry.
Kajaria Ceramics (Q2FY24)	While first half of 2024 witnessed weaker demand than anticipated we have observed a gradual uptake in volume since September. Furthermore we expect a favorable shift in the demand environment driven by the positive impact of the healthy growth in the real estate sector. Real Estate has been good for the last two years which we accept, now what has happened is first year as I said earlier they have sold their old inventory what was there, second year the new construction started. Our demand has started coming now as I said September has been better than last five months and things are looking positive. First they use steel and cement and all kinds of things for making the building cables and all that, now a time has come where they will be using the finishing end where the tiles, sanitary wear, ply and all kinds of things will come and paints and all that all will come in so that is a scenario which is now emerging and I think it should be better from here. Now we are seeing the demand coming in the real estate sector so going forward things are going to be much better.
Kajaria Ceramics (Q1FY24)	We are in the midst of a growing demand environment on the back of a positive real estate cycle already kicking in and government's continued emphasis on infrastructure development. As tile consumption typically occurs in the later stages of construction process, the momentum gained from new launches over the past one year is expected to translate into stable tile demand from September onwards. Presently the United States, United Kingdom, Israel, Russia, Mexico, Kuwait and UAE stand as the primary export destinations for Indian tile manufacturers. Looking ahead we anticipate exports to touch and be around INR210 Bn in fiscal year 23-24, surpassing last year's figure of INR 175 Bn. This substantial increase reflects the rising global demand for Indian tiles and the industry's expanding presence in international markets.
Asian Granito (Q2FY24)	Demand for tiles in domestic market likely to remain mix bag on account of inflation pressure on retail as well as institutional customers, however we believe that government will continue to spend on low cost housing and construction which will drive demand for ceramic products.
Century Ply (Q3FY24)	The demand for our products is correlated to the occupancy of new housing units, as our products are used for the interior of houses. The demand for our product comes only after the apartment is ready for occupation. Any real estate project, depending on its size, has a time horizon ranging from 4 to 6 years or say average 5 years. Out of these 5 years, 3 years are for the superstructure stage – steel, cement, pipes, bricks, etc., are used. After this comes at the second stage of completion of the house where tiles, paint, sanitary-ware, electricals, doors, windows, glass, elevators, etc., are required. After completion of 5 years when the building is completed and the apartment is handed over to buyers for occupation, interior work-related materials like plywood, laminate, fitting, drapery, and other home improvement products are required.

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Century Ply (Q1FY24)	Going forward the demand scenario in India remains robust. If you look at sales yes, the wood panel industry right now the demand might not be great but the sale of essential real estate and real estate in general gives us a lot of confidence. The cycle is not about to turn anytime soon.
Greenlam Industries (Q3FY24)	Massive real estate projects being announced, being constructed, being at various phases of construction at the moment across the country will come up for interior fit-outs maybe in the next couple of quarters and clearly, we'll see a great demand at that point. There's also been implementation of the BIS quality standards, which we think will benefit one part of our business, which is particle board business. So, our long-term thesis, our line of thinking, I think is playing out in market.
Greenpanel (Q3FY24)	Given the market conditions of the MDF industry which is at this point of time highly impacted by imports and by increasing raw material costs. So, we have to look at our industry sort of a little bit independent of the real estate market, I mean we are connected, but at the same time, market conditions of the MDF industry currently are not as rosy as it may be in the real estate market.
Greenply Industries (Q3FY24)	From the industry perspective I think if you really look at it, I do not see anything negative happening now for the country in the next 5 to 10 years. Things are looking better only. I was just looking at some residential house sell data, first time in H2 of last year I am sure you guys have also looked at that report. First time it has happened that in H2 of last year the premium sales of housing is much more than the mid level. It has crossed that level so these are very encouraging sign of course they define the premium level is anything above 1 Crores as the ticket size so these are very encouraging signs and the housing sales trend also is growing.
Rusil Decor (Q3FY24)	Moving ahead we anticipate robust volume growth given by the healthy demand from the domestic and export, upcoming capacity addition and market share gains from unorganized player. Key catalyst for the growth includes the upward trajectory of incomes, rapid urbanization, ongoing real estate development and initiatives such as housing for all.
Cera Sanitaryware (Q3FY24)	We are very optimistic that this situation will improve from FY25 onwards, which is going to be supported by real estate upswing, retail market improvements and increasing home renovations. And as you all know that real estate market is doing extremely well and it is expected that the same will continue in future, so we do not see any major challenges as far as our products demand is concerned. And like you all know, most of the real estate projects are nearing to completion. And since products like sanitary, faucets, tiles and even paints, they are installed in the final stage. So, we are likely to see the increase in consumption pattern in the FY25.
Hindware Home Innovation Ltd (Q3FY24)	In my view, we have seen muted demand as seen in the entire category. But if you look at the real estate sector, the real estate sector goes through a cycle. In last two years we saw huge demand for this business, if you will recall, last two years, I mean, even our business grew by nearly 35s-39% in the previous two years. This year, we've seen a muted demand because of the real estate cycle. What we see is an early-stage real estate cycle right now and for which demand for our products will come in the next financial year. So I personally believe this muted demand will start looking clearly positive as we enter the next year when construction gets into a cycle with sanitaryware and faucets gets installed. I think what has happened in this previous year is that a lot of projects which kind of got held up during COVID and got impacted, in FY21 and FY22, got completed in FY23. We saw huge buoyancy in the market. And immediately after this, there was a period there were no launches as for the real estate market. And those launches, is what was supposed to get fructified in FY24, which got delayed quite a lot. In my view, we can see a lot of launches right now, but for them to really start using our products, and to actually buying them, it actually got delayed. So what I believe is in FY25, we'll see a huge buoyancy in the market. So that's one definite aspect of market demand, which is going to happen.
Hindware Home Innovation (Q1FY24)	While the demand in the premium real estate is relatively okay, mid and affordable segments demand has seen larger impact and it is expected to last for one or two more quarters. This is also visible in the town tier level sales where we see degrowths in smaller towns. Unpredictable rains and erratic overall weather situation has also impacted consumer demand especially for renovation. While we are only seeing offshoots of an improving demand situation in Quarter 2, we expect the demand to revive from Quarter 3 onwards.

Asian Paints (Q3FY24)	The Projects Institutional business has again done fairly well. The good performance continues and is definitely significantly higher than the retail growth rates we see. Largely sectors which have done well are the builder segment, the factories, and the government sector, which are the three big contributors to the overall Projects Institutional B2B business.
Berger paints (Q3FY24)	As far as business outlook is concerned, company expects demand momentum to continue in quarter four in decorative segment on the back of improvement in usual demand.
Kansai Nerolac paints (Q3FY24)	The industrial business, which is Performance Coating that also continued to do well. And it's also getting benefit from the infrastructure development spend by the government, the capex cycle, all that is supporting the non-auto industrial business.
Prince Pipes & Fittings (Q3FY24)	I think the way real estate and infrastructure is growing. I think for the foreseeable future, the building material part of the portfolio will continue to grow at a faster pace. We believe real estate demand is strong. I think the numbers are out in the open. You guys would know better than we do. And whatever ground-level interaction that I'm having with the developers across the country and my sales team and project channel partners, I think this seems to be sustainable. And all of this is despite the cost of capital being high, we believe once cost of capital reduces, you will see a more sustainable demand in real estate. I think the real estate demand is here to stay. And as far as pipes is concerned, we come somewhere in the middle of the cycle for any new project. So, we believe that at least for the next two to three years, if not more taking a longer-term view, overall real estate demand should do well and as a result of which demand for piping we believe should be sustainable.
Finolex Industries (Q3FY24)	So the CPVC pipe segment is a growing segment for us. And we have been showing steady growth in the last 3 to 4 years. And it is going to increase its contribution to the overall business for Finolex Industries because most of these pipes go into apartments and housing, and the need for hot water and cold water pipes is going to be existent across and that segment is growing anywhere between 15% and 20%.
Supreme Industries (Q3FY24)	The polymers price has become further affordable and there is good demand from infrastructure and housing and last year in the month of January and February the demand was low.

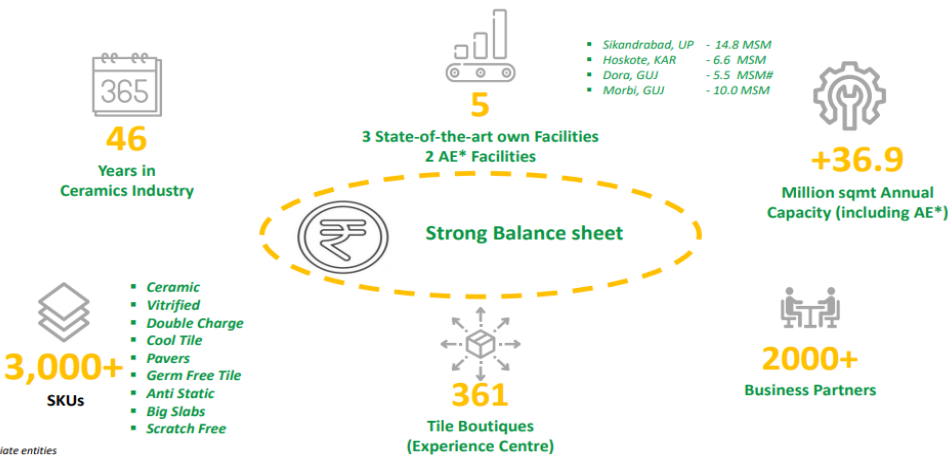


### About the company:

Orient Bell Ltd., established in 1977, is a prominent player in the Indian ceramics industry, specializing in the manufacturing and distribution of ceramic and vitrified tiles. With a diverse product range offering various designs, colors, and sizes, the company caters to residential, commercial, and industrial applications. Boasting modern manufacturing facilities, Orient Bell emphasizes innovation and design to stay competitive in the market.

The company has 3 state of the art manufacturing facilities and 2 AE facilities situated in Sikandrabad, Dora, Morbi and Hoskote. The company has 3,000+ SKUs like Ceramic, Vitrified, Double Charge, Cool Tile, Pavers, Germ free, Anti Static, Big Slabs, Scratch free.

The company has expanded its business onto digital platforms, providing customers with the convenience of perusing their catalog and making purchases at their own leisure.



**Exhibit: Snapshot of Orient Bell Ltd.**

Production facility	Annual Capacity
Sikandrabad, UP	14.8 MSM
Hoskote, KAR	6.6 MSM
Dora, GUJ	5.5 MSM
Morbi, GUJ	10 MSM

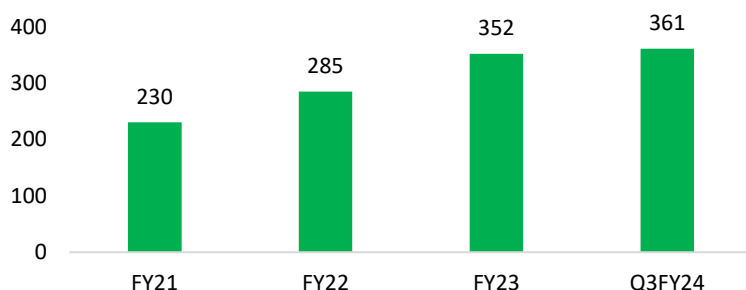
**Exhibit: Manufacturing Facilities**

The Morbi facilities are owned by the Associate Entities, with split of 50:50 between manufacturing of Vitrified and ceramic tiles. As of the Q3FY24, Vitrified mix volume of the entire entity (including own capacities) contribute to 50.6% of total sales, while Ceramic Tiles account for 49.4%.

Sales are evenly distributed across the four regions; however, the company is adopting an assertive marketing approach to expand its presence in the South and West markets with its new line of Vitrified products. The company has strong presence in the North and Western region. With the aim of expanding business in the south and west regions, the company is marketing its new Vitrified products through aggressive ad campaigns.

### Exhibit: Expansion of manufacturing capacity over the years

Facilities	FY20	FY21	FY22	FY23	Q3FY24
Sikandrabad	-	13.2	14.1	14.8	14.8
Hoskote	-	4.8	4.8	6.6	6.6
Dora	-	2.4	2.4	2.2	5.5
Morbi (AE)	-	10	10	10	10
<b>Total Capacity (MSM)</b>	<b>29.3</b>	<b>30.4</b>	<b>31.3</b>	<b>33.6</b>	<b>36.9</b>



**Exhibit: Rapid expansion of boutique stores**

**Distribution network and Dealers:**

Orient Bell has been a pioneer of the industry and has been in this business for the past 46 years. The company has developed a wide distribution network through the years and it continues to grow. The distribution network includes 2,000+ business partners and 361 state-of-the-art boutique stores (experience centre). The 5 manufacturing facilities are well connected and have easy access to distributors which helps them in increasing turnaround time. Three of the facilities are situated in Gujarat which is the hub of ceramics industry.

**Product Portfolio:**

Over the years, Orient bell has developed 3,000+ SKUs including all types of tiles like Floor Tiles, Wall Tiles. With the technology, customer preference and market dynamics evolving, the product mix has also evolved. The product portfolio includes Ceramics, Vitrified, Double Charge, Cool Tile, Pavers, Germ Free, Anti Static, Big slabs and Scratch free Tiles and with the recent Dora investment specifically for GVT, they continue to focus on premiumisation of the product portfolio.

**Geographical sales mix:**

Orient Bell has significant presence in the Northern and Western market with majority of revenue coming from these regions. The anticipated growth in real estate specially in Northern India will aid in increased sales in the North region. The new marketing strategies, particularly targeting the South and West markets will enable them to foray into Southern region and further penetrate Western region.

**Increasing share of Vitrified products:**

Orient Bell is gradually seeing an increasing share in revenue of Vitrified mix. The share of vitrified mix increased from 37% in FY19 to 50.6% as of Q3FY24. The industry is seeing an increasing demand for Vitrified products and Large Slab Tiles, and the company is ready to cater to this demand. The new products have higher margins, thus the company's penetration into these products will eventually improve their margins.

**Aggressive Marketing strategies:**

Orient Bell has been aggressive with its marketing campaigns and are focusing on building the brand imagery. A new marketing campaign has been initiated in December'23 which are to be continued till FY25. The new strategy includes TV campaign in nine languages, particularly targeting South and West regions. The TV campaigns are expected to ease out the process of buying for customers. Though these campaigns have increased overall cost of marketing, they are expected to generate good results.

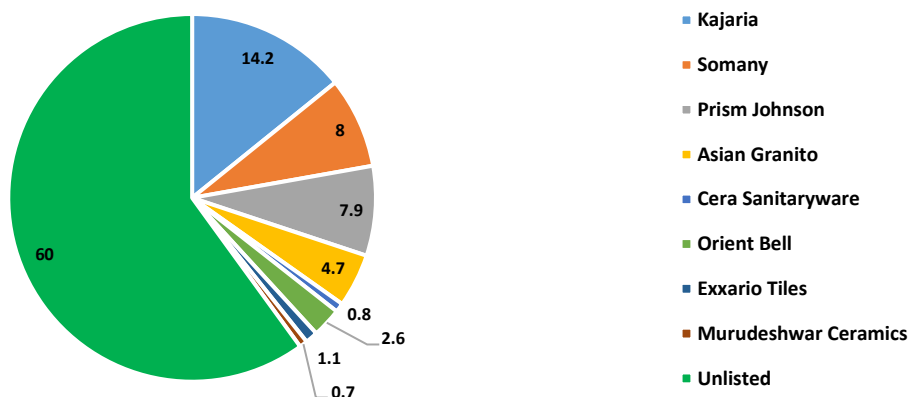
**Significant sales coming from in-house manufactured products:**

In-house manufactured products have better margins are compared to trading business. Orient Bell has been able to maintain an average of 70% of revenue coming from In-house manufactured products; significantly better as compared to peers, providing them an added advantage of better margins and control over operating costs. The company has been increasing its capacity gradually and with increased focus on maximising capacity utilisation, the share is expected to improve further with significant improvement in margins.

## Peer Comparison

Company	Capacity (MSM) FY23	Sales Volume FY23	Revenue (INR Mn) FY23	Avg Realisation (INR/sqmt) FY23	EBITDA Margin (%) FY23
Orient Bell	33.6	24.48	7051	286	7.50%
Kajaria Ceramics	86.07	101.71	43819	431	13.51%
Somany Ceramics	61.86	63.89	24785	337	7.70%

## Exhibit: Market Share (%) of Indian players

**About Kajaria Ceramics:**

Kajaria Ceramics Ltd manufactures and markets a diverse range of products including ceramic and vitrified tiles, bathware, plywood, and adhesives in India under the brands Kajaria Ceramics Limited, Kerovit, Gresbond, and Kajaria Plywood. The company's product portfolio encompasses ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitary ware, faucets, plywood, laminates, as well as tile adhesives, epoxy, non-sanded grout, and tile cleaner. Additionally, it exports its products to approximately 35 countries.

With a well-established dealer network comprising over 1,800 dealers, including a net addition of more than 100 dealers in FY23, the company has strengthened its market presence.

Notably, Kajaria Ceramics recently executed brownfield expansions at three separate units, enhancing its production capacity from around 70 million square meters per annum (MSM p.a.) to approximately 83MSM in FY23, marking a significant increase after a period of stagnant production capacity from FY18 until this expansion. Revenue in FY23 was generated from Ceramic Wall and Floor Tiles (36%), PVT (25%), GVT (30%) and Bathware and others (9%).

The company's highest revenue comes from North (38%), followed by South (30%), East (18%) and West (14%).

Kajaria has the highest realization/sqmt in the industry at INR 431. Several key factors underpin Kajaria's margin performance, including a well-calibrated product mix, rural market reach, major supplier 60%+ of its production caters to key commercial & residential projects, high proportion of in-house produced tiles and technologically advanced manufacturing process.

**About Somany Ceramics:**

Somany Ceramics Ltd is involved in the production and distribution of ceramic tiles and associated products within India. The company offers a diverse range of products, including ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitaryware, bath fittings, adhesives, and tile laying solutions. These products are marketed under various brand names such as Somany Duragress, Somany Durastone, Somany Glostra.

Catering to a wide range of sectors, including banks, corporates, defense, developers, educational institutions, hospitals, hotels, IT, malls, residential complexes, and retail stores, the company has established a global presence by exporting its products to over 70 countries. Operating through an extensive network of dealers and showrooms, Somany Ceramics boasts a dealer network of over 3,000 dealers with approximately 12,000 touchpoints and around 450 exclusive showrooms across India as of FY23.

With a strategic focus on Tier-II, III, and IV cities, the company aims to leverage rapid urbanization and intensified branding and marketing activities for further expansion. Geographically, the North Indian region stands as the company's strongest market, contributing 44% of its revenue, followed by the South (26%), East (18%), and West (9%), while the remaining 3% comes from exports.

The revenue contribution from lower-priced ceramic tiles has decreased to 34% in 2023, while the share of higher-priced Glazed Vitrified Tiles (GVT) has increased to 29% in FY23. Additionally, the revenue contribution from Sanitaryware and other Non-tile business segments has grown from 10% in the past to 11% in FY23.

**About Asian Granito:**

Asian Granito India Limited stands out as the 4th largest listed ceramic tiles company in India, with an extensive reach and presence in over 100 export countries. With 235 exclusive franchise outlets, 6,000 employees, and 14 plants, the company has established itself as a key player in the industry. Its widespread influence is further exemplified by a network of 6,500 touchpoints across India and 11 company-owned display centers.

In FY 2023, Asian Granito achieved a substantial revenue of INR 15,627 mn, supported by an impressive installed capacity of 54.5 million square meters. The company's expansive reach is facilitated by a robust distribution network comprising 2,700 distributors, dealers, and sub-dealers across 35 states and union territories.

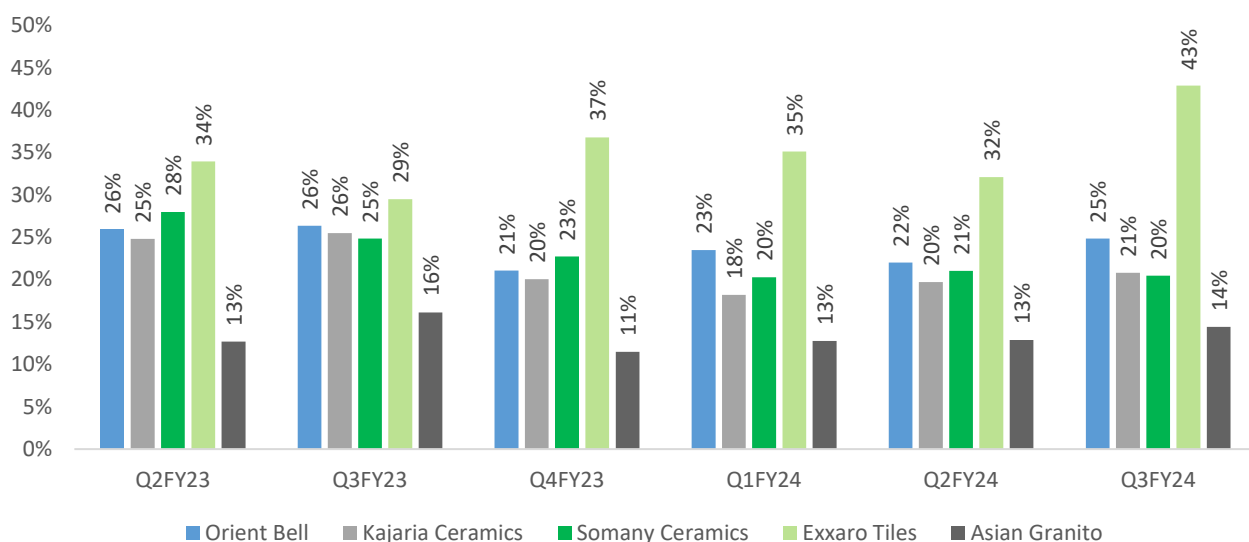
Notably, Asian Granito has maintained an 8% sales CAGR from FY 2013 to FY 2023, reflecting its sustained growth and market significance in the ceramic tiles sector.

**About Exxaro tiles:**

Exxaro Tiles Limited (Exxaro Tiles) has emerged as a prominent player in the manufacturing of vitrified tiles. In FY23, the company did a substantial revenue of INR 3.17 Bn. The company demonstrates substantial manufacturing prowess with a annual production capacity of 14.6 million square meters. Operating from two advanced manufacturing facilities, the company has firmly established its footprint in 25 states, showcasing a robust domestic presence. Expanding beyond national borders, it exports products to six countries, reflecting a noteworthy global reach. The company has a diverse portfolio of over 1,000 designs. Further underscoring extensive market engagement, the company collaborates with a vast network of more than 2,000 dealers, sub-dealers, and touchpoints, highlighting dedication to servicing both local and international markets.

(FY23)	Kajaria Ceramics	Somany Ceramics	Asian Granito	Exxaro Tiles	Orient Bell
Revenue (INR mn)	43,820	24,646	15,627	3,171	7,051
EBITDA Margin(%)	13.51%	7.70%	-4.35%	10.60%	7.50%
Revenue mix	Ceramic tiles (36%), PVT (25%), GVT (30%), Bathware and others (9%)	Ceramic Tiles (34%), PVT (26%), GVT (29%), Sanitaryware (11%)	Ceramic Tiles (35%), PVT (6%), GVT (42%), DC (17%)	GVT (56%), Double charged (26%), Outsourced (12%), Slab (6%)	Vitrified mix (50.6%) and Ceramic Tiles (49.4%)
Sales Volume (MSM)	101.71	63.89	42.28	10.85	24.48
Capacity	86.07 MSM	61.86 MSM	54.5 MSM	14.6 MSM	36.9 MSM
Utilisation	97%	103%	78%	74%	66%
Average Realisations	431	386	370	292	286
Manufacturing facilities	6 plants - Sikandrabad, Gailpur, Malootana, Morbi, Srikalahasti, Balanagar	11 facilities - Kassar, Kadi, Somany Piastrelle Private Limited, Sudha Somany Ceramics Private Limited, Amora Tiles Private Limited, Somany Fine Vitrified Private Limited, Vintage Tiles Private Limited, Acer Granito Private Limited, Vicon Ceramics Private Limited	14 plants - Dalpur, Dholka, Idar, Mehsana, Morbi	2 units - Padra and Talod	5 facilities - Sikandrabad, Hoskote, Dora, Morbi
Distributors/showrooms	1800+ dealers	3000 dealer and 450 exclusive showrooms	2700 distributors and 11 display centres with 235 exclusive franchises	2000+ dealers	2000+ partners and 361 experience centres

Exhibit: Power and Fuel costs (% of total sales)



Comparison of sales volume between in-house manufacturing and outsourcing in relation to industry peers:

Orient Bell						
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Own manufacturing	73%	70%	65%	70%	67%	68%
Outsourcing	27%	30%	35%	30%	33%	32%

Kajaria Ceramics						
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Own manufacturing	59%	55%	54%	55%	56%	56%
Subsidiaries	17%	20%	22%	19%	18%	20%
Outsourcing	24%	25%	24%	26%	26%	24%

Somany Ceramics						
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Own manufacturing	41%	40%	43%	42%	37%	37%
Subsidiaries	37%	37%	31%	32%	32%	35%
Outsourcing	22%	24%	26%	26%	31%	28%

Exxaro Tiles						
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Own manufacturing	88%	86%	87%	90%	91%	-
Outsourcing	12%	14%	13%	10%	9%	-

Asian Granito						
	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Own manufacturing	44%	34%	42%	36%	17%	18%
Outsourcing	56%	66%	58%	64%	83%	82%

## How are Tiles made?

**Preparation of Raw Materials:** The tile-making process starts with raw materials being brought into the plant, where various types of clay are combined with measured amounts of quartz and feldspar. These are collected, cleaned, and prepared for the next step of the process. The raw mixture is transported to a ball mill, and combined with water and additional additives to achieve the desired consistency. Once the mixture is prepared, it undergoes further processing. It is sent through an agitator and spray dryer, where the soil moisture content is reduced to between 5 and 6%. This reduction in moisture makes the mixture more conducive to shaping during the pressing stage of tile production.



**Pressing:** The prepared mixture of raw materials is transported to the pressing stage. These pressing machines contain specific molds designed to give the clay the correct shape and size for the desired type of tile.

**Drying and Glazing:** The produced tiles then undergo drying, an essential stage to eliminate any moisture trapped during pressing. After drying, perfectly shaped tiles are sent to the glaze line for glaze coating. A glaze could either be glossy or matte is applied to add an aesthetic layer of finish to the tile. This creates a protective shell that ensures the longevity and durability of the tile. After coating, the tile is rapidly placed in a cooling system to prevent complications, if caused by heating so that the designs printed on the tile fit properly.

**Printing Design:** After cooling, designs are printed onto the tiles using advanced computers. The printed tiles then undergo another glaze line process, applying a transparent coating to enhance durability and prevent scratching and abrasions, ensuring longevity of the design.

**Firing:** After glazing, the tiles must be heated intensely to strengthen them and achieve the desired porosity. The tiles go through the furnace, where they're exposed to a temperature of 1200 degrees Celsius for 45 minutes.



**Quality Control:** Next comes quality control. Tiles undergo comprehensive quality checks. In this phase, each tile is inspected to ensure it meets the required standards. These inspections, using cutting-edge technology, checking for uniformity of size, colour, pattern, and finish, are conducted to ensure a quality product that aligns with customer satisfaction.

**Polishing and Rectification:** Cut tiles are sent to a unique polishing machine for polishing. Polished tiles then undergo inspection in an Automatic Sorting Machine, where each tile is meticulously checked manually for any defects or flaws.

Exhibit: Total Volume

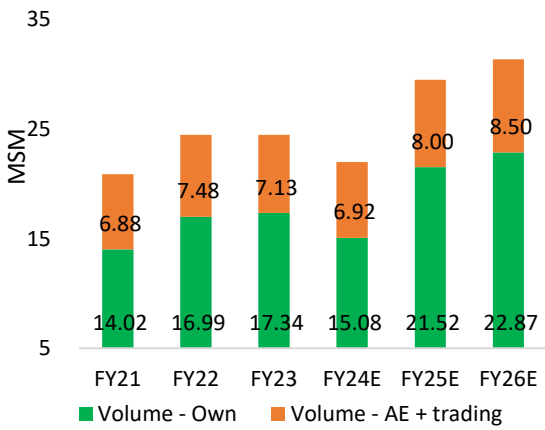


Exhibit: Revenue Vs Revenue Growth

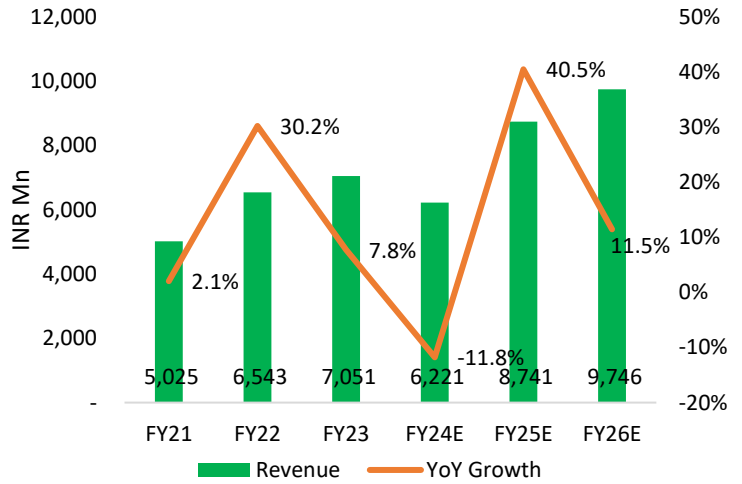


Exhibit: ASP per SQM

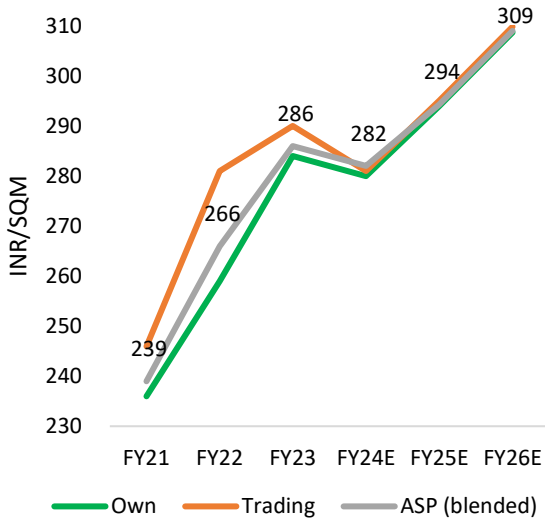


Exhibit: Gross Profit Vs Margins

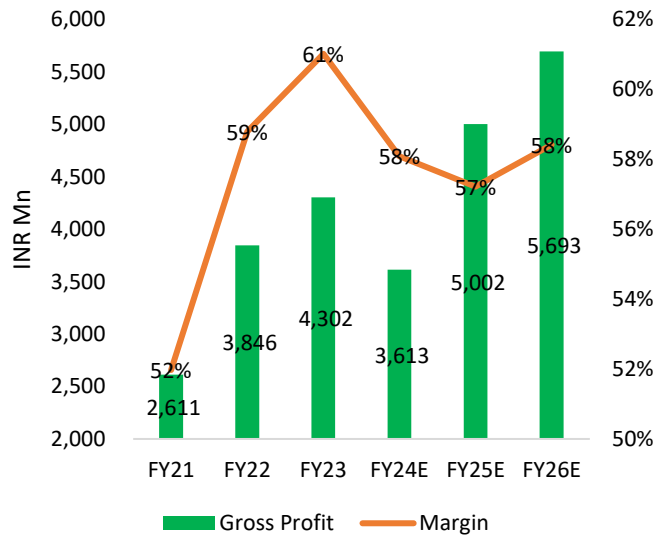


Exhibit: EBITDA Vs EBITDA Margins

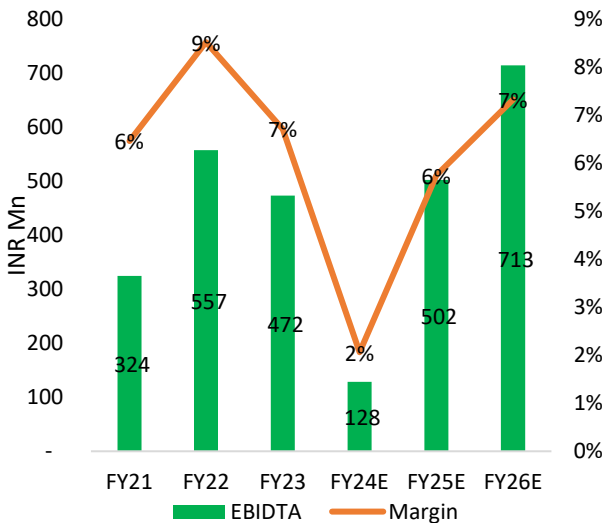


Exhibit: Adjusted PAT Vs PAT Margins

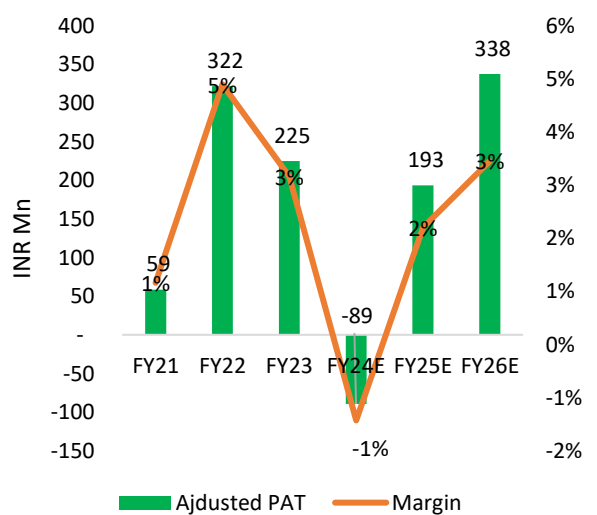


Exhibit: CFO Vs CFI Vs CFF

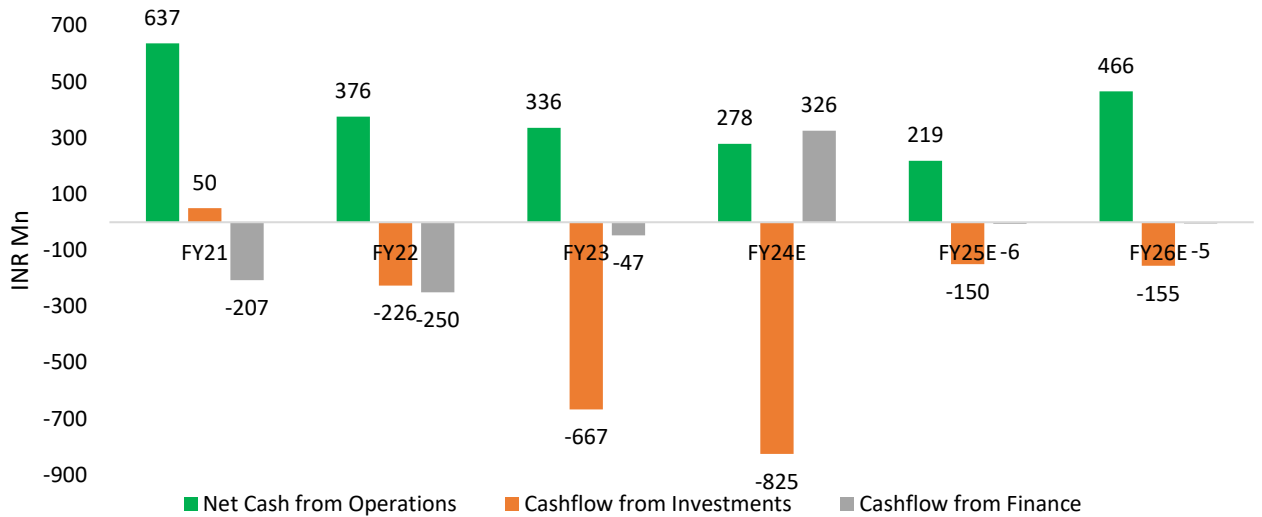


Exhibit: Free Cash Flow to Firm & Free Cash Flow to Equity

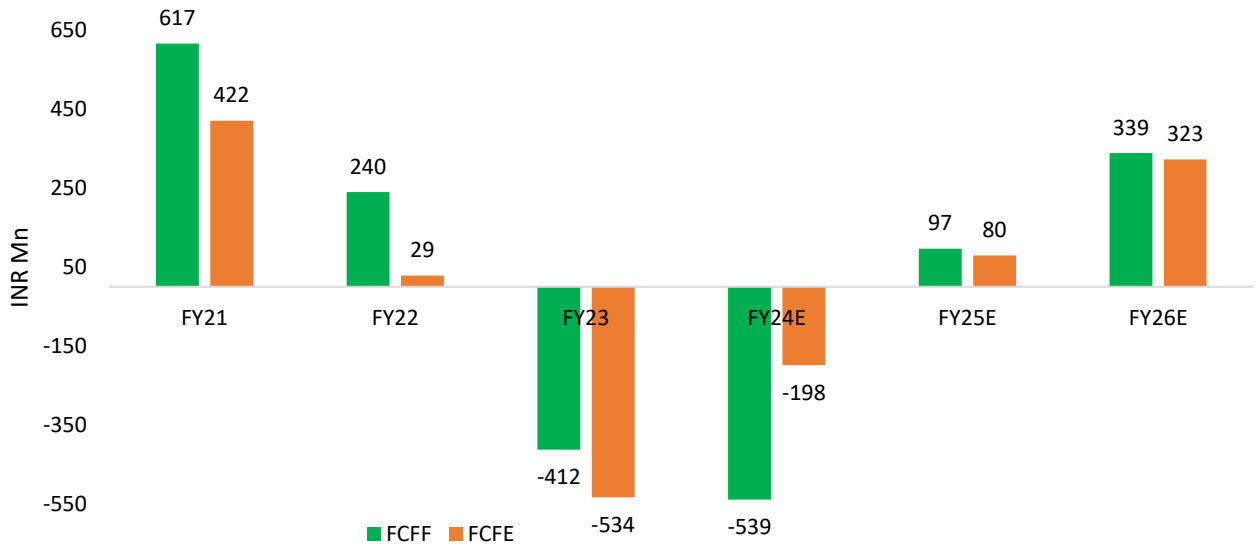


Exhibit: Total Revenues Vs Growth (Quarterlies)

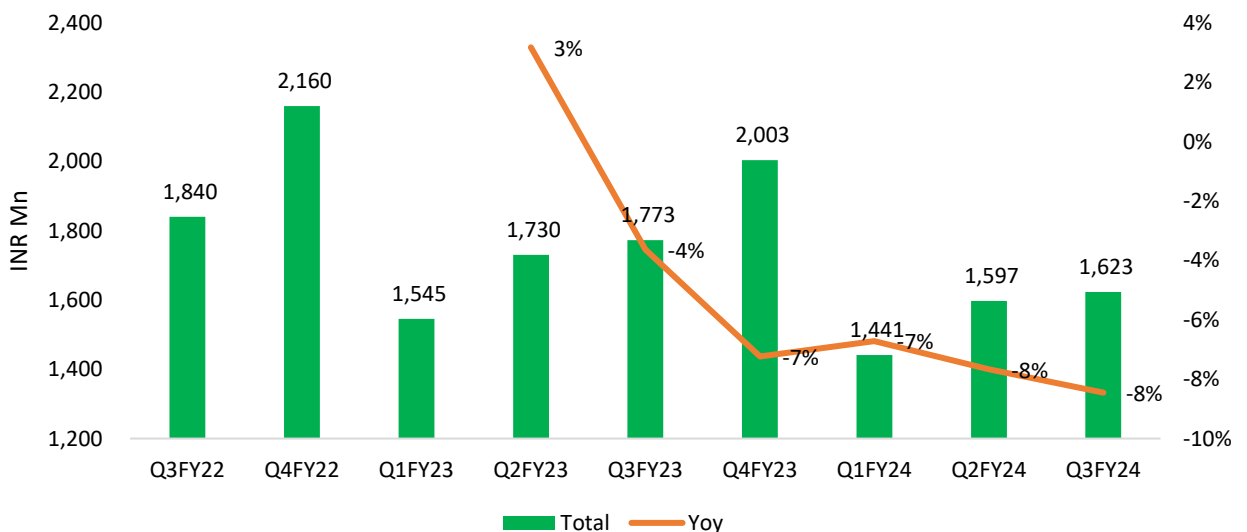




Exhibit: Gross Profit Vs Margins (Quarterlies)

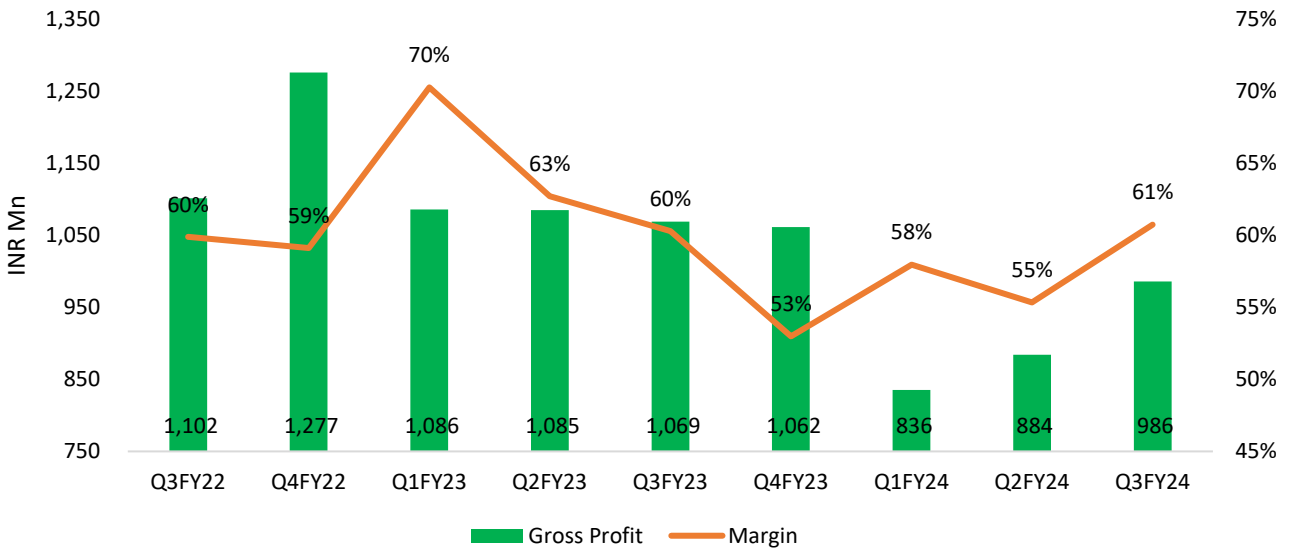


Exhibit: EBITDA Vs Margins (Quarterlies)

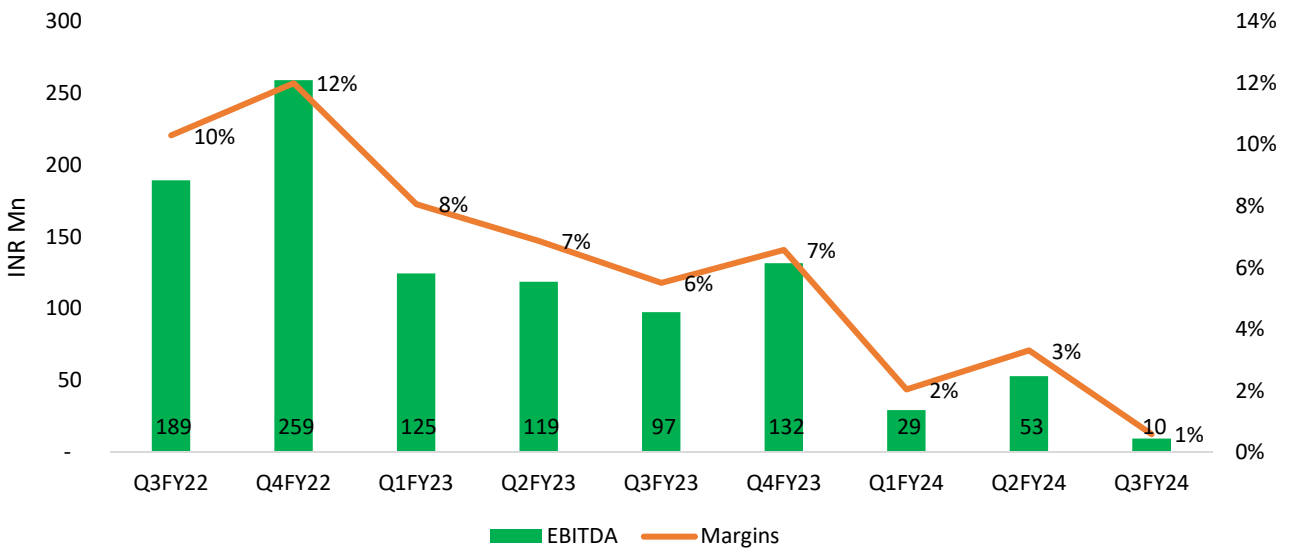


Exhibit: PBT Vs Margins (Quarterlies)

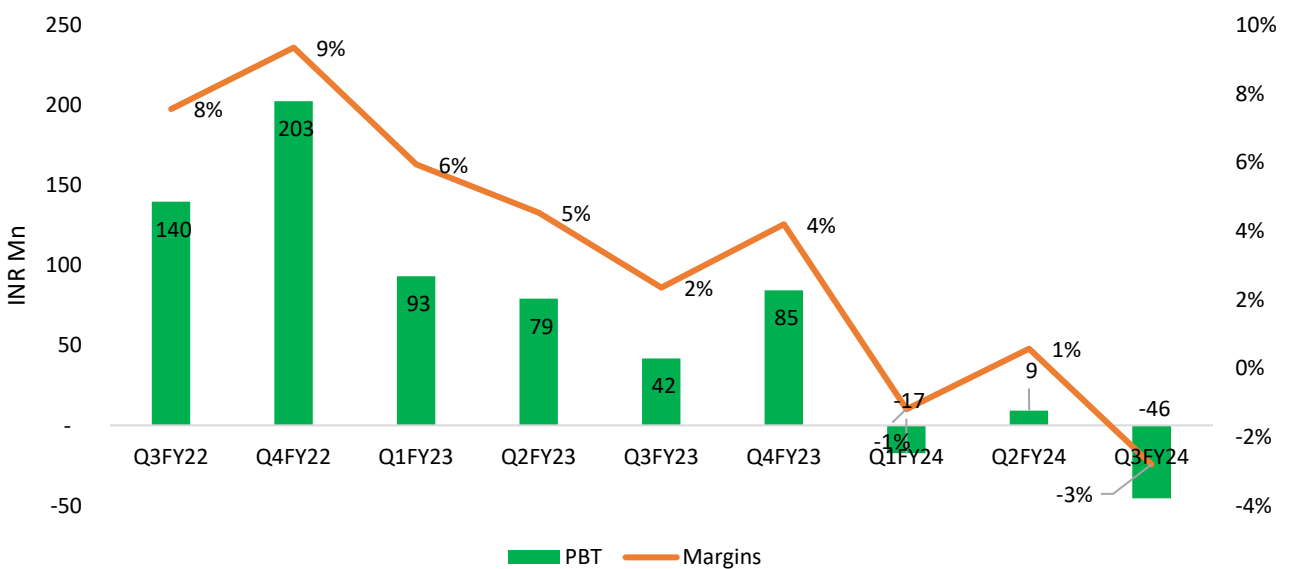


Exhibit: PAT Vs Margins (Quarterlies)

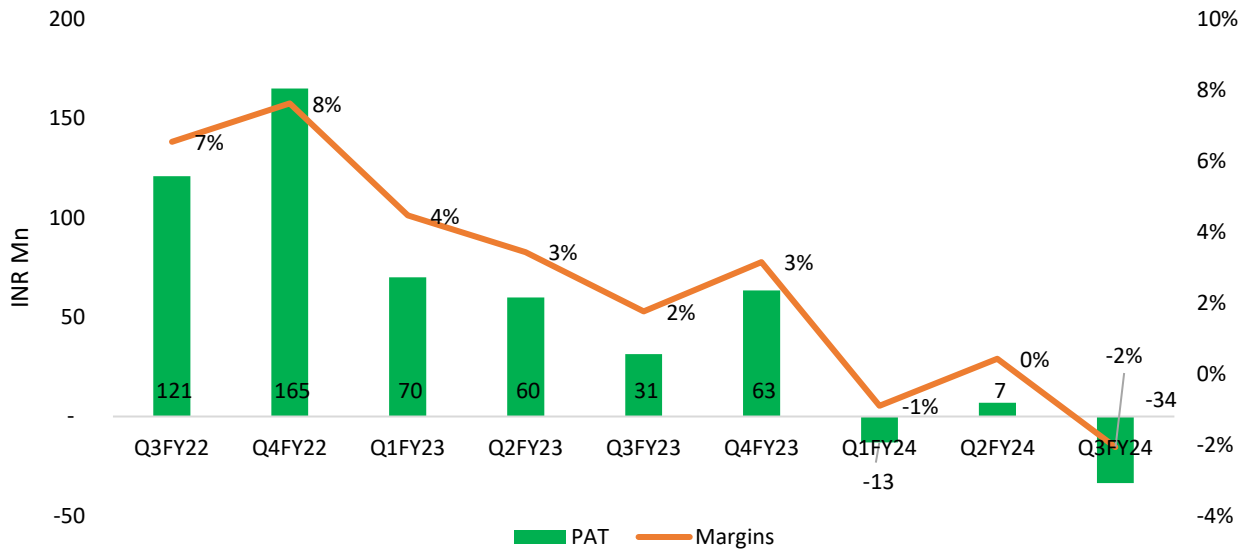


Exhibit: Volumes (MSM) (Quarterlies)

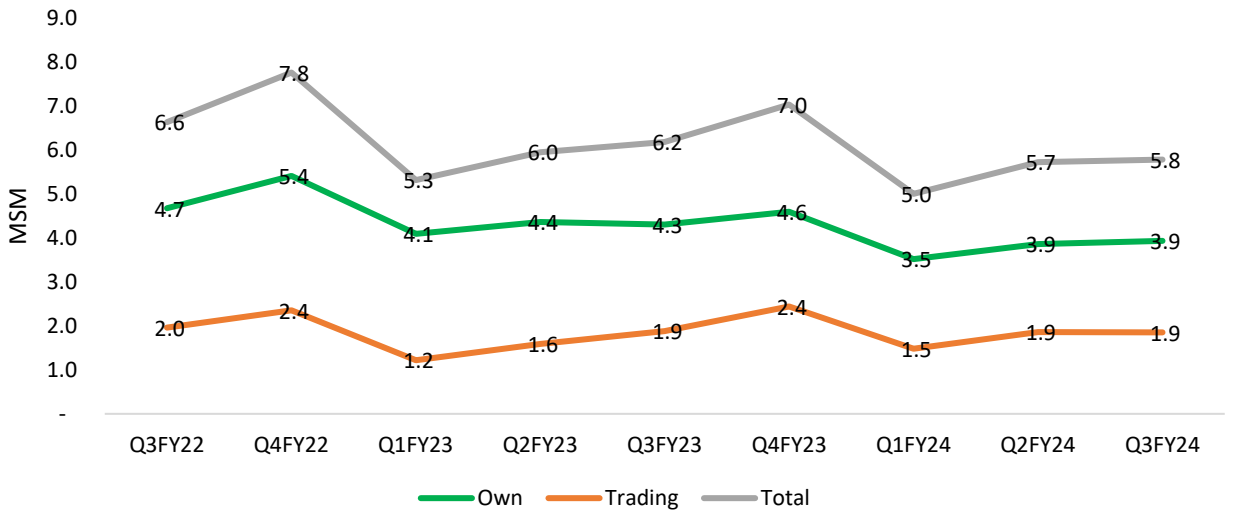


Exhibit: Average Selling Price (Quarterlies)

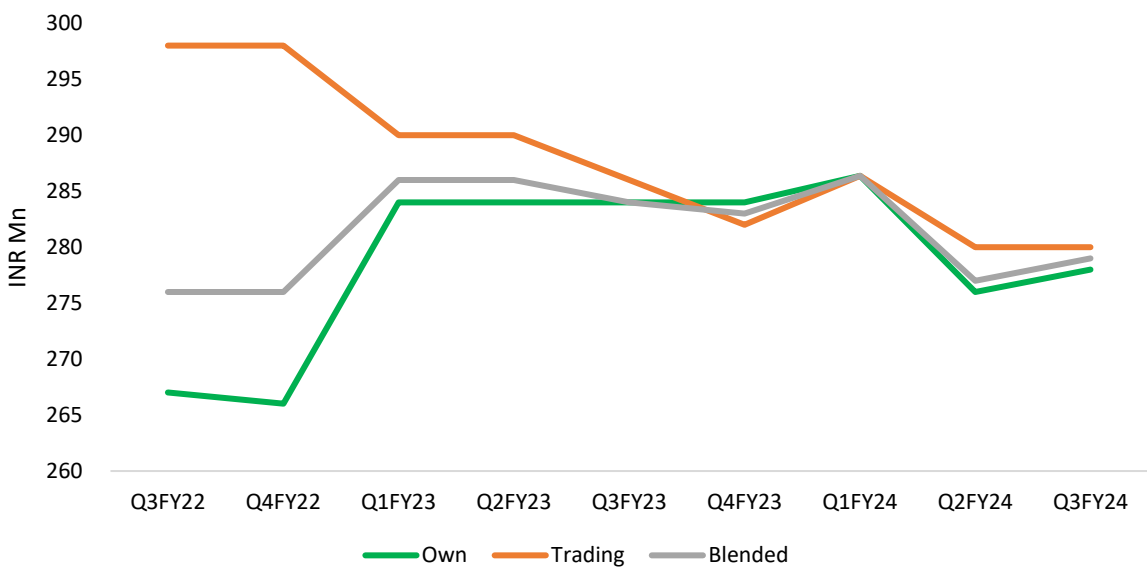


Exhibit: Contribution Cost per tonne (Quarterlies)

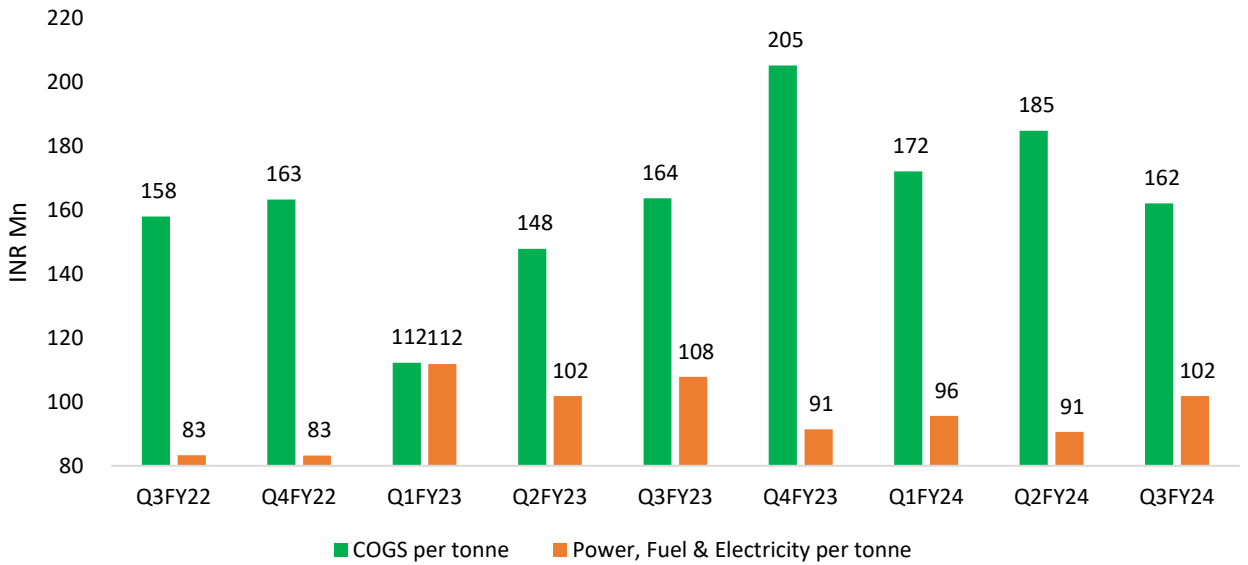
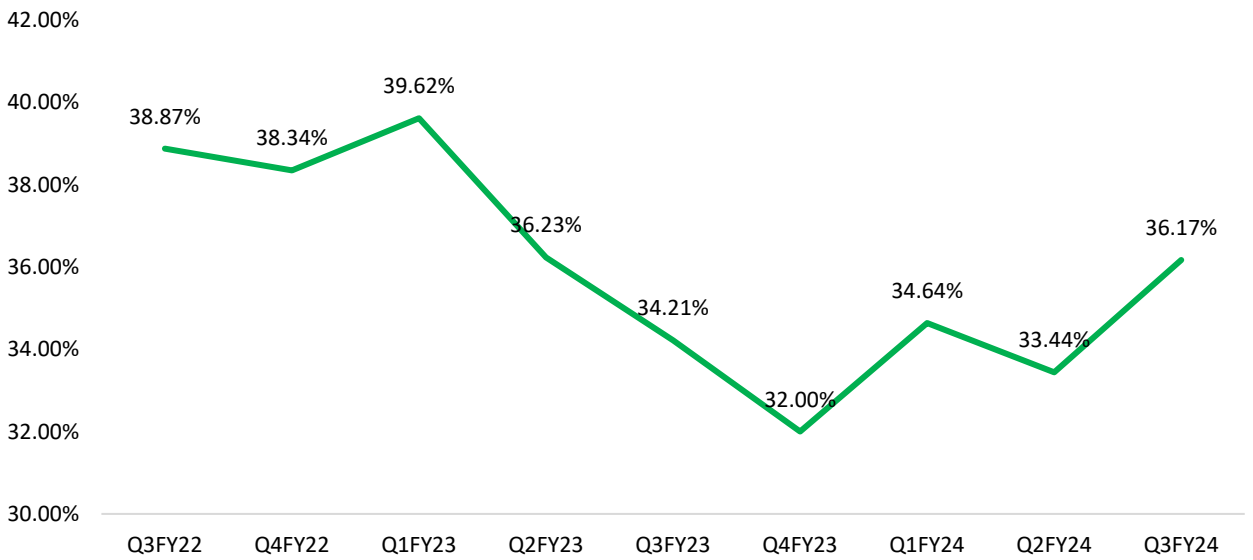


Exhibit: Contribution Margins per tonne (Quarterlies)



## Exhibit: Profit &amp; Loss Statement (Consol)

Income Statement								
Y/E Mar, INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>5,711</b>	<b>4,923</b>	<b>5,025</b>	<b>6,543</b>	<b>7,051</b>	<b>6,221</b>	<b>8,741</b>	<b>9,746</b>
Growth, %		-13.8%	2.1%	30.2%	7.8%	-11.8%	40.5%	11.5%
Other income	19	52	19	30	54	29	31	32
Raw material expenses	2,567	2,363	2,413	2,697	2,749	2,607	3,740	4,053
Employee expenses	756	736	793	925	1,009	989	1,218	1,343
Other Operating expenses	2,018	1,564	1,494	2,365	2,821	2,496	3,282	3,636
<b>EBITDA (Core)</b>	<b>370</b>	<b>261</b>	<b>324</b>	<b>557</b>	<b>472</b>	<b>128</b>	<b>502</b>	<b>713</b>
Growth, %		-29.58%	24.42%	71.71%	-15.14%	-72.88%	291.71%	42.13%
Margin, %	6.48%	5.29%	6.45%	8.51%	6.70%	2.06%	5.74%	7.32%
Depreciation	165	206	206	206	211	251	237	257
Interest paid	87	81	57	41	24	18	44	44
Other Income								
Non-recurring Items								
<b>Pre-tax profit</b>	<b>141</b>	<b>29</b>	<b>114</b>	<b>351</b>	<b>299</b>	<b>-103</b>	<b>261</b>	<b>456</b>
Tax provided	48	-42	38	30	74	-14	68	119
<b>Profit after tax</b>	<b>93</b>	<b>71</b>	<b>77</b>	<b>322</b>	<b>225</b>	<b>-89</b>	<b>193</b>	<b>338</b>
<b>PAT Adj.</b>	<b>93</b>	<b>71</b>	<b>59</b>	<b>322</b>	<b>225</b>	<b>-89</b>	<b>193</b>	<b>338</b>
Growth, %	-59.13%	-23.31%	-17.67%	449.13%	-30.13%	-139.72%	-316.61%	74.45%
Unadj. shares (m)	14	14	14	14	14	15	15	15

## Exhibit: Balance Sheet (Consol)

Balance Sheet								
As at 31st Mar, INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PPE	2,387	2,321	2,065	2,072	2,500	3,022	2,935	2,829
CWIP	10	7	3	6	28	75	75	75
Financial Assets	100	107	113	123	130	135	136	141
Other Non Current Assets	9	13	26	65	35	35	38	41
<b>Total Non current Assets</b>	<b>2,506</b>	<b>2,448</b>	<b>2,207</b>	<b>2,265</b>	<b>2,693</b>	<b>3,267</b>	<b>3,184</b>	<b>3,086</b>
Inventories	855	806	602	688	861	750	1,030	1,121
Receivables	1,162	869	926	1,033	1,112	971	1,293	1,469
Cash & CE	35	30	510	411	33	-188	-125	181
Other Current Assets	29	48	99	125	111	106	110	116
<b>Total Current Assets</b>	<b>2,081</b>	<b>1,753</b>	<b>2,137</b>	<b>2,256</b>	<b>2,118</b>	<b>1,639</b>	<b>2,308</b>	<b>2,887</b>
<b>Total assets</b>	<b>4,587</b>	<b>4,202</b>	<b>4,344</b>	<b>4,522</b>	<b>4,811</b>	<b>4,907</b>	<b>5,492</b>	<b>5,973</b>
<b>Total Equities</b>	<b>2,326</b>	<b>2,396</b>	<b>2,493</b>	<b>2,848</b>	<b>3,102</b>	<b>3,014</b>	<b>3,207</b>	<b>3,545</b>
Non current borrowings	451	412	305	65	44	394	396	399
Other Non current liabilities	400	340	343	286	302	285	286	287
<b>Total Non current liabilities</b>	<b>851</b>	<b>752</b>	<b>648</b>	<b>351</b>	<b>346</b>	<b>679</b>	<b>682</b>	<b>685</b>
Current borrowings	430	82	93	91	43	43	43	43
Trade Payables	709	772	972	997	1,153	1,006	1,389	1,522
Other Current Liabilities	271	200	138	235	167	165	171	178
<b>Total Current Liabilities</b>	<b>1,410</b>	<b>1,053</b>	<b>1,203</b>	<b>1,323</b>	<b>1,363</b>	<b>1,214</b>	<b>1,603</b>	<b>1,743</b>
<b>Total equity &amp; liabilities</b>	<b>4,587</b>	<b>4,202</b>	<b>4,344</b>	<b>4,522</b>	<b>4,811</b>	<b>4,907</b>	<b>5,492</b>	<b>5,973</b>

## Exhibit: Cash Flow Statement (Consol)

Cash Flow								
Y/E Mar, INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	122	-23	123	321	245	-132	231	424
Depre & Other Items	136	300	160	207	191	294	200	170
Chg in working capital	69	323	354	-152	-100	117	-212	-128
<b>Cash flow from operating activities</b>	<b>327</b>	<b>600</b>	<b>637</b>	<b>376</b>	<b>336</b>	<b>278</b>	<b>219</b>	<b>466</b>
Capital expenditure	-589	-137	55	-216	-661	-820	-150	-150
Other investing activities	-4	-7	-4	-9	-6	-5	0	-5
<b>Cash flow from investing activities</b>	<b>-592</b>	<b>-144</b>	<b>50</b>	<b>-226</b>	<b>-667</b>	<b>-825</b>	<b>-150</b>	<b>-155</b>
Equity raised/(repaid)	9	-1	20	33	30	1	0	0
Debt raised/(repaid)	240	-396	-218	-242	-68	350	2	2
Other financing activities	24	-65	-9	-41	-9	-25	-8	-7
<b>Cash flow from financing activities</b>	<b>273</b>	<b>-461</b>	<b>-207</b>	<b>-250</b>	<b>-47</b>	<b>326</b>	<b>-6</b>	<b>-5</b>
Net chg in cash	8	-6	480	-100	-378	-221	63	306
Opening cash balance	28	35	30	510	411	33	-188	-125
Closing cash balance	36	30	510	411	33	-188	-125	181

## Exhibit: Ratios

Ratios	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share data</b>								
EPS (INR)	6.5	5.0	4.1	22.3	15.5	(6.1)	13.3	23.2
Growth, %	-59.2%	-23.5%	-18.1%	446.2%	-30.4%	-139.5%	-316.6%	74.5%
Book NAV/share (INR)	163.2	167.8	173.7	197.3	214.2	206.9	220.1	243.3
DPS (INR)								
<b>Return ratios</b>								
Return on assets (%)	3.70%	2.91%	2.66%	14.21%	8.35%	-2.73%	6.08%	10.94%
Return on equity (%)	3.99%	2.97%	2.35%	11.30%	7.25%	-2.96%	6.03%	9.52%
Return on capital employed (%)	7.06%	3.41%	4.37%	11.91%	9.14%	-2.54%	7.60%	11.56%
<b>Turnover ratios</b>								
Asset turnover (x)	1.2	1.2	1.2	1.4	1.5	1.3	1.6	1.6
Sales/Working Capital (x)	9.0	7.3	11.9	12.5	9.8	10.1	10.5	10.1
Receivable days	74.3	64.5	67.3	57.6	57.6	57.0	54.0	55.0
Inventory days (on sales)	54.6	59.8	43.7	38.4	44.6	44.0	43.0	42.0
Payable days (on sales)	45.3	57.2	70.6	55.6	59.7	59.0	58.0	57.0
Working capital days	83.6	67.0	40.3	40.4	42.5	42.0	39.0	40.0
<b>Liquidity ratios</b>								
Current ratio (x)	1.5	1.6	1.4	1.4	1.5	1.5	1.5	1.6
Quick ratio (x)	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Interest cover (x)	2.6	1.3	2.4	9.3	13.2	(5.2)	6.7	11.1
Dividend cover (x)	-	-	-	-	-	-	-	-
Total debt/Equity (%)	0.38	0.21	0.16	0.05	0.03	0.14	0.14	0.12
Net debt/Equity (%)	0.36	0.19	(0.04)	(0.09)	0.02	0.21	0.18	0.07
<b>Valuation</b>								
PER (x)	6.5	4.9	5.3	22.0	15.3	(6.1)	13.3	23.2
PEG (x) - y-o-y growth	(0.1)	(0.2)	(0.3)	0.0	(0.5)	0.0	(0.0)	0.3
Price/Book (x)	2.1	2.0	1.9	1.7	1.5	1.6	1.5	1.4
EV/Net sales (x)	0.9	1.0	0.9	0.7	0.7	0.8	0.6	0.5
EV/EBITDA (x)	14.4	19.0	13.6	7.7	9.8	40.7	10.3	6.8
EV/EBIT (x)	23.8	46.3	32.1	11.3	14.6	(55.7)	17.4	9.9

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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