

Strong Tailwinds present in the sector

CMP: INR 373

Rating: BUY

Target Price: INR 561

Stock Info

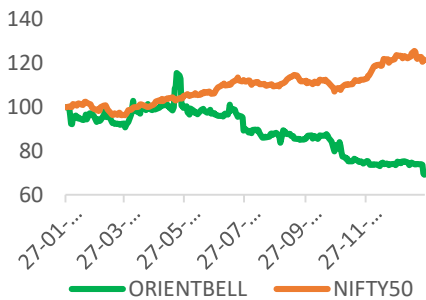
BSE	530365
NSE	ORIENTBELL
Bloomberg	OBL:IN
Sector	Ceramics
Face Value (INR)	10
Mkt Cap (INR Bn)	5.44
52w H/L (INR)	649/301
Avg Daily Volume (in 000')	34

Shareholding Pattern %
(As on March, 2024)

Promoters	64.9
Public & Others	35.1

Stock Performance (%)	1m	6m	12m
ORIENTBELL	5	-7	31
NIFTY	-1.5	15	22

Orient Bell Vs Nifty



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Overview: Strong performance, beat on our estimates on all counts led by strong topline growth.

- **Revenues** came in at INR 2.08 Bn (+28.4% QoQ) (+4% YoY) (+33.6% against our estimates)
- **Contribution margins** came in at 32.89% (Vs 36.17% QoQ) (Vs 32.00% YoY) (Vs our estimates of 34.72%)
- **EBITDA** came in at INR 117.8 Mn (+1140% QoQ) (-10.5% YoY) (+223.5% against our estimates)
- **EBITDA Margins** came in at 5.65% (Vs 0.59% QoQ) (Vs 6.57% YoY) (Vs 2.34% our estimates)
- **PAT Margins** came in at 2.36% (Vs -2.07% QoQ) (Vs 3.15% YoY) (Vs -3.16% our estimates)

Important factors to keep in mind:

- Morbi exports have slowed down in H2FY24. Moreover, there is speculation of ADD in USA on indian tiles which will result in more domestic dumping of Morbi tiles (weakening realisations). Morbi exports to USA are significant.
- Associate entity of company is adding 5.5 MSM of GVT capacity (at their own capex) which will be additional capacity available to company.
- Industry leader has reiterated growth in project sales going forward but retail sales draw more margins.
- Channel inventories are not stocked up at dealer level as dealers remain cautious.
- Industry leader has mentioned that the realisations have bottomed out for them. Reading-through, we believe the realisations can improve for other players a few quarters down the line.

Outlook: Company reported decent performance in Q4 to regain volumes. Going ahead, there are two positives, firstly is the addition in capacity in associate entity which will be available for domestic and export sales, secondly is the opportunity available in patent tile (which will be used in healthcare sector more). One big threat is the possible ADD in USA for Indian tiles which will see the shift in volumes of Morbi towards India. We remain optimistic on company to deliver strong performance and anticipate better volumes in H2 (contribution to start coming in from govt projects as well). **We have revised our estimates and also brought in FY27 estimates. We maintain our BUY rating and 25x FY26EEPS multiple to arrive at target price of INR 561 (down from INR 579 earlier). At CMP of INR 373, company trades 16.6x FY26EEPS.**

Valuation summary

Y/E Mar, Rs mn	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	6,543	7,051	6,745	8,537	9,473	10,712
EBIDTA	557	472	209	516	695	866
Net Profit	322	225	9	201	327	458
PAT Adj	322	225	9	201	327	458
Diluted EPS	22.0	15.3	0.6	13.8	22.4	31.4
PER, x	16.9	24.4	591.5	27.1	16.6	11.9
EV/EBIDTA, x	9.2	11.6	27.5	11.1	8.0	5.9
P/BV, x	2.0	1.8	1.8	1.7	1.5	1.4
ROE, %	11.3%	7.2%	0.3%	6.0%	8.9%	11.1%
Debt/Equity (x)	0.05	0.03	0.14	0.14	0.10	0.05

Exhibit: Quarterly Data (Consol)

INR Mn unless mentioned otherwise	Quarterlies										
	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	
Capacity (MSM per quarter)											
Own	5.25	5.25	5.90	5.90	5.90	5.90	5.90	5.90	6.73	6.73	
AE+Trading	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	
Total	7.75	7.75	8.40	8.40	8.40	8.40	8.40	8.40	9.23	9.23	
Volumes (MSM)											
Own	4.67	5.41	4.09	4.36	4.30	4.59	3.52	3.86	3.93	4.66	
AE+Trading	1.96	2.35	1.22	1.59	1.88	2.44	1.48	1.86	1.85	2.87	
Total	6.63	7.76	5.31	5.95	6.18	7.03	5.00	5.72	5.78	7.53	
Utilisation Total (%)	86%	100%	63%	71%	74%	84%	60%	68%	63%	82%	
Average Selling Price (INR/MSM)											
Own	267	266	284	284	284	284	286	276	278	276	
AE+Trading	298	298	290	290	286	282	286	280	280	273	
Blended	276	276	286	286	284	283	286	277	279	275	
Total Operating Revenues	1,839.50	2,159.50	1,545.00	1,730.00	1,772.60	2,003.30	1,441.20	1,597.30	1,622.80	2,083.30	
<i>Growth (%)</i>					-3.64%	-7.23%	-6.72%	-7.67%	-8.45%	3.99%	
Total Raw Material Cost	737.70	882.90	459.00	644.70	703.60	941.80	605.70	713.10	636.80	1,001.70	
Gross Profit	1,101.80	1,276.60	1,086.00	1,085.30	1,069.00	1,061.50	835.50	884.20	986.00	1,081.60	
GP Margins	59.90%	59.12%	70.29%	62.73%	60.31%	52.99%	57.97%	55.36%	60.76%	51.92%	
<i>Growth (%)</i>					-2.98%	-16.85%	-23.07%	-18.53%	-7.76%	1.89%	
Employee Cost	244.30	245.90	247.70	262.20	257.20	241.50	244.40	239.90	257.80	249.80	
<i>Growth (%)</i>					5.28%	-1.79%	-1.33%	-8.50%	0.23%	3.44%	
Power & Fuel	388.70	449.80	457.40	443.70	463.30	419.50	336.30	349.50	400.00	399.10	
<i>Growth (%)</i>					19.19%	-6.74%	-26.48%	-21.23%	-13.66%	-4.86%	
Other Expenses	279.40	321.80	256.30	260.60	251.00	268.90	225.50	241.90	318.70	314.90	
<i>Growth (%)</i>					-10.16%	-16.44%	-12.02%	-7.18%	26.97%	17.11%	
EBITDA	189.40	259.10	124.60	118.80	97.50	131.60	29.30	52.90	9.50	117.80	
EBITDA Margins	10.30%	12.00%	8.06%	6.87%	5.50%	6.57%	2.03%	3.31%	0.59%	5.65%	
Other Income	10.00	7.10	21.30	16.50	6.30	9.70	11.30	7.50	3.10	5.30	
<i>Growth (%)</i>					-37.00%	36.62%	-46.95%	-54.55%	-50.79%	-45.36%	
Depreciation	57.30	55.50	48.60	52.60	57.00	52.90	53.80	50.40	55.00	55.00	
<i>Growth (%)</i>					-0.52%	-4.68%	10.70%	-4.18%	-3.51%	3.97%	
Finance Cost	7.00	11.60	6.50	5.30	5.80	6.30	4.80	4.40	4.40	5.70	
<i>Growth (%)</i>					-17.14%	-45.69%	-26.15%	-16.98%	-24.14%	-9.52%	
PBT	139.80	202.50	93.10	79.20	41.90	84.50	-17.30	9.20	-45.60	65.40	
Tax	18.80	37.30	23.10	19.30	10.50	21.10	-4.20	2.30	-12.00	16.10	
Adjusted PAT	121.00	165.20	70.00	59.90	31.40	63.40	-13.10	6.90	-33.60	49.30	
Adjusted PAT Margins	6.54%	7.62%	4.47%	3.43%	1.77%	3.15%	-0.90%	0.43%	-2.07%	2.36%	
EPS	8.40	11.45	4.85	4.14	2.17	4.38	-0.90	0.47	-2.31	3.38	
Contribution margins	38.87%	38.34%	39.62%	36.23%	34.21%	32.00%	34.64%	33.44%	36.17%	32.89%	

Orient Bell Q4FY24 Concall Highlights**Key Highlights from the Call:**

- Lots of new projects have been started in FY24 which is encouraging for sales 3 years down the line. Projects started in FY22 will start reflecting in sales now
- Associate entity Proton is going to add 5.5 MSM capacity in GVT through their own internal accruals. Full capacity will be available to Orient Bell.
- Company received 1st patent on antiviral and antimicrobial tiles.
- Dora plant is stabilizing now. 2 lines running in Dora, the new line is ramping up, 1 more year for optimum utilization.
- FY24 project sales stood at 25% (includes sales to dealers which are sold to institutions later). Company anticipates the project sales to improve in FY25 as more and more projects are near completion
- Slowdown in government projects due to elections, company expects govt orders to come back in H2 (post elections)
- On orderbook side, project orders are healthy, govt orders are low
- Company will also participate in exports through units in Morbi and Dora.
- Channel partners are conscious and not stocking up inventory

Realisations and expenses:

- Ad spends as percentage of sales stood at 4.6% in Q4 as well. Ad spends to continue till FY25. 3-5% of sales can be taken as an estimate going forward
- Gas costs and RM costs have been dropping in FY24.
- Realisation drop sequentially in Q4 was due to more aggressive stance in ceramics division (discounts on certain products)
- Gas costs remained stable till May 1st week. QoQ, Q4 gas prices were same as Q3

Morbi:

- Exports has slowed down in H2. Industry was at a run rate of INR 30 Bn per month in H1 but fell to INR 15 Bn per month in H2 (precovid, exports were INR 7.5 Bn per month). Slowed exports have impacted realizations
- As of April, roughly 50% of 1,000 units in Morbi are shut. Roughly 250 are permanently shut. The permanently shut units are ceramic units. Wall tile units are under pressure due to low demand. Wall tile units are operating at 40-50% utilization
- Small units with 6,000-10,000 sqm/day capacities have shut down
- No new capacities coming in, the ones that were expected to come have already come
- Currently Morbi has 90 Mn SQM/month capacity for ceramics and vitrified tiles each.
- One of the big threats is the possible threat of ADD in USA for Indian tiles. Although OBL doesn't export significantly to US, Morbi does. This will impact realization for all players.

Other Highlights:

- Company has spent INR 2.28 Bn to add 10.2 MSM between FY19-24
- 600+ SKUs added in FY24
- 70 new display centres added
- 1st GVT unit was added in Sept 2018
- **Own Volumes** came in at 4.66 MSM (Vs 3.93 QoQ) (Vs 4.59 YoY)
- **Trading Volumes** came in at 2.87 MSM (Vs 1.85 QoQ) (Vs 2.44 YoY)
- **Own ASP** came in at INR 276/MSM (Vs 278 QoQ) (Vs 284 YoY)
- **Trading ASP** came in at INR 273/MSM (Vs 280 QoQ) (Vs 282 YoY)
- Dividend of INR 0.5 declared
- Brand investments stood at 4.6% of sales (Vs 3.2% last year)
- GVT contribution at 29.9% of sales (Vitrified mix stood at 50.5%)
- Net Debt came down to INR 276 Mn (Vs 360 Mn QoQ)

Outlook: Company reported decent performance in Q4 to regain volumes. Going ahead, there are two positives, firstly is the addition in capacity in associate entity which will be available for domestic and export sales, secondly is the opportunity available in patent tile (which will be used in healthcare sector more). One big threat is the possible ADD in USA for Indian tiles which will see the shift in volumes of Morbi towards India. We remain optimistic on company to deliver strong performance and anticipate better volumes in H2 (contribution to start coming in from govt projects as well). **We have revised our estimates and also brought in FY27 estimates. We maintain our BUY rating and 25x FY26EEPS multiple to arrive at target price of INR 561 (down from INR 579 earlier). At CMP of INR 373, company trades 16.6x FY26EEPS.**

Income Statement (Consolidated)

Income Statement									
Y/E Mar, Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net sales	5,711	4,923	5,025	6,543	7,051	6,745	8,537	9,473	10,712
Growth, %		-13.8%	2.1%	30.2%	7.8%	-4.3%	26.6%	11.0%	13.1%
Other income	19	52	19	30	54	27	29	30	31
Raw material expenses	2,567	2,363	2,413	2,697	2,749	2,957	3,614	3,839	4,282
Employee expenses	756	736	793	925	1,009	992	1,218	1,343	1,478
Other Operating expenses	2,018	1,564	1,494	2,365	2,821	2,586	3,189	3,596	4,086
EBITDA (Core)	370	261	324	557	472	209	516	695	866
Growth, %		-29.58%	24.42%	71.71%	-15.14%	-55.70%	146.53%	34.69%	24.67%
Margin, %	6.48%	5.29%	6.45%	8.51%	6.70%	3.10%	6.04%	7.34%	8.09%
Depreciation	165	206	206	206	211	214	236	258	269
Interest paid	87	81	57	41	24	19	47	36	22
Other Income									
Non-recurring Items									
Pre-tax profit	141	29	114	351	299	11	271	442	620
Tax provided	48	-42	38	30	74	2	71	115	161
Profit after tax	93	71	77	322	225	9	201	327	458
PAT Adj.	93	71	59	322	225	9	201	327	458
Growth, %	-59.13%	-23.31%	-17.67%	449.13%	-30.13%	-95.91%	2082.00%	63.05%	40.07%
Unadj. shares (m)	14	14	14	14	14	15	15	15	15

Balance Sheet (Consolidated)

Balance Sheet									
As at 31st Mar, Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
PPE	2,387	2,321	2,065	2,072	2,500	2,964	2,928	2,870	2,801
CWIP	10	7	3	6	28	1	1	1	1
Financial Assets	100	107	113	123	130	137	137	143	149
Other Non Current Assets	9	13	26	65	35	13	14	14	15
Total Non current Assets	2,506	2,448	2,207	2,265	2,693	3,114	3,079	3,027	2,965
Inventories	855	806	602	688	861	890	1,076	1,142	1,233
Receivables	1,162	869	926	1,033	1,112	1,315	1,544	1,583	1,614
Cash & CE	35	30	510	411	33	134	196	260	590
Other Current Assets	29	48	99	125	111	91	94	99	104
Total Current Assets	2,081	1,753	2,137	2,256	2,118	2,429	2,909	3,083	3,541
Total assets	4,587	4,202	4,344	4,522	4,811	5,543	5,988	6,111	6,506
Total Equities	2,326	2,396	2,493	2,848	3,102	3,130	3,331	3,658	4,117
Non current borrowings	451	412	305	65	44	430	430	316	181
Other Non current liabilities	400	340	343	286	302	309	308	307	307
Total Non current liabilities	851	752	648	351	346	739	738	623	488
Current borrowings	430	82	93	91	43	24	43	43	43
Trade Payables	709	772	972	997	1,153	1,489	1,707	1,609	1,673
Other Current Liabilities	271	200	138	235	167	161	169	177	186
Total Current Liabilities	1,410	1,053	1,203	1,323	1,363	1,674	1,919	1,829	1,902
Total equity & liabilities	4,587	4,202	4,344	4,522	4,811	5,543	5,988	6,111	6,506

Cash Flow (Consolidated)

Cash Flow									
Y/E Mar, INR mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Pre-tax profit	122	-23	123	321	245	-16	243	412	588
Depre & Other Items	136	300	160	207	191	239	194	173	139
Chg in working capital	69	323	354	-152	-100	156	-186	-195	-48
Cash flow from operating activities	327	600	637	376	336	379	250	391	679
Capital expenditure	-589	-137	55	-216	-661	-650	-200	-200	-200
Other investing activities	-4	-7	-4	-9	-6	-9	0	-5	-5
Cash flow from investing activities	-592	-144	50	-226	-667	-659	-200	-205	-205
Equity raised/(repaid)	9	-1	20	33	30	19	0	0	0
Debt raised/(repaid)	240	-396	-218	-242	-68	366	20	-114	-136
Other financing activities	24	-65	-9	-41	-9	-5	-8	-8	-7
Cash flow from financing activities	273	-461	-207	-250	-47	380	12	-122	-143
Net chg in cash	8	-6	480	-100	-378	101	62	64	331
Opening cash balance	28	35	30	510	411	33	134	196	260
Closing cash balance	36	30	510	411	33	134	196	260	590

Ratios (Consolidated)

Ratios	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Per Share data									
EPS (INR)	6.5	5.0	4.1	22.3	15.5	0.6	13.8	22.4	31.4
Growth, %	-59.2%	-23.5%	-18.1%	446.2%	-30.4%	-95.9%	2082.0%	63.1%	40.1%
Book NAV/share (INR)	163.2	167.8	173.7	197.3	214.2	214.6	228.3	250.7	282.2
DPS (INR)									
Return ratios									
Return on assets (%)	3.70%	2.91%	2.66%	14.21%	8.35%	0.30%	6.52%	10.81%	15.46%
Return on equity (%)	3.99%	2.97%	2.35%	11.30%	7.25%	0.29%	6.03%	8.95%	11.14%
Return on capital employed (%)	7.06%	3.41%	4.37%	11.91%	9.14%	0.58%	7.59%	10.91%	13.66%
Turnover ratios									
Asset turnover (x)	1.2	1.2	1.2	1.4	1.5	1.2	1.4	1.6	1.6
Sales/Working Capital (x)	9.0	7.3	11.9	12.5	9.8	10.9	10.7	9.5	10.2
Receivable days	74.3	64.5	67.3	57.6	57.6	71.2	66.0	61.0	55.0
Inventory days (on sales)	54.6	59.8	43.7	38.4	44.6	48.2	46.0	44.0	42.0
Payable days (on sales)	45.3	57.2	70.6	55.6	59.7	80.6	73.0	62.0	57.0
Working capital days	83.6	67.0	40.3	40.4	42.5	38.7	39.0	43.0	40.0
Liquidity ratios									
Current ratio (x)	1.5	1.6	1.4	1.4	1.5	1.4	1.4	1.5	1.6
Quick ratio (x)	0.8	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9
Interest cover (x)	2.6	1.3	2.4	9.3	13.2	1.1	6.5	13.0	28.2
Dividend cover (x)	-	-	-	-	-	-	-	-	-
Total debt/Equity (%)	0.38	0.21	0.16	0.05	0.03	0.14	0.14	0.10	0.05
Net debt/Equity (%)	0.36	0.19	(0.04)	(0.09)	0.02	0.10	0.08	0.03	(0.09)
Valuation									
PER (x)	6.5	4.9	5.3	22.0	15.3	0.6	13.8	22.4	31.4
PEG (x) - y-o-y growth	(0.1)	(0.2)	(0.3)	0.0	(0.5)	(0.0)	0.0	0.4	0.8
Price/Book (x)	2.4	2.4	2.3	2.0	1.8	1.8	1.7	1.5	1.4
EV/Net sales (x)	1.1	1.2	1.0	0.8	0.8	0.9	0.7	0.6	0.5
EV/EBITDA (x)	16.6	22.2	16.2	9.2	11.6	27.5	11.1	8.0	5.9
EV/EBIT (x)	27.5	54.0	38.2	13.5	17.3	258.4	18.5	11.9	8.1

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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