

ORIENT CERAMICS & INDUSTRIES LTD

FURNITURE, FURNISHING, PAINTS

BSE Scrip Code: 530365

CMP Rs. 55¹

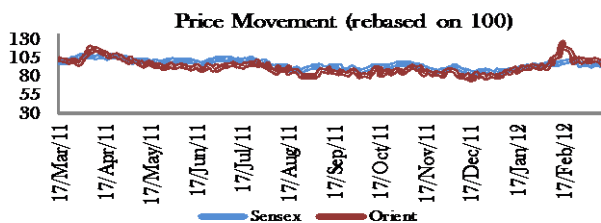
March 16, 2012

KEY EQUISTATS

Market Capitalisation	Rs. Crores	58
Enterprise Value	Rs. Crores	168
52 Week High / Low	Rs.	75.6/41.7
Diluted EPS (Consolidated, FY11)	Rs.	12.0
P/E (FY11)	times	4.6
Regression Beta	times	0.5
Average Daily Volumes *	Lakhs	0.3

* BSE + NSE for last 52 weeks

STOCK PERFORMANCE



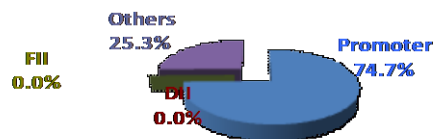
Returns	1M	3M	6M	1 Yr
Absolute	-19%	28%	13%	-7%
Rel. to Sensex	-16%	13%	8%	-3%

FINANCIAL STATISTICS

Rs. Crores	FY09	FY10	FY11
Net operating income	226	271	363
EBITDA	31	36	46
EBITDA margins	13.6%	13.2%	12.6%
PAT	6	11	13
PAT margins	2.8%	4.2%	3.5%
Gearing (times)	1.4	1.0	1.5
RoCE	14.3%	18.9%	15.6%
RoE	12.7%	20.1%	14.1%
P/E (times)			4.6
EV/EBITDA (times)			3.7

Financial Year: (April, 1 - March, 31)

SHARE HOLDING PATTERN



ANALYTICAL CONTACTS

Amod Khanorkar	General Manager	+91-22-6754 3520
Jumana Badshah	Manager	+91-22-6754 3481

¹ CMP: Current Market Price

Orient was incorporated on May 18, 1977 to manufacture ceramic tiles. The company was then promoted by Mr K C Kejriwal. Subsequently, in 1981, the company was taken over by the Somany-Pilkingtons Group under the rehabilitation package from IFCI. In 1993, Somany-Pilkington sold off their holding in the company to Mr Mahendra K Daga, who is the current promoter of the company. In FY11 (refers to the period April, 1 to March, 31), Orient acquired 62.92 per cent stake in Bell Ceramics Ltd.

Orient along with its subsidiary, Bell Ceramics Ltd (BCL), has three manufacturing facilities - 1) Sikandarabad in Uttar Pradesh, 2) Vadodara in Gujarat and 3) near Bengaluru, Karnataka

Outlook to be remain healthy with demand from the real estate sector and replacement demand but low-cost Chinese imports a key concern

CARE Research believes demand to remain healthy from the real estate sector and replacement demand but the industry may face stiff competition from cheap imports from China.

Key concerns

- High dependence on the real estate sector
- Competition from low-cost Chinese imports and unorganised sector
- Volatility in prices of raw materials

Valuations

Orient is currently trading at trailing P/E and EV/EBITDA multiples of 4.6x and 3.7x, respectively.



HISTORY AND BACKGROUND

Background

Orient was incorporated on May 18, 1977 to manufacture ceramic tiles. The company was then promoted by Mr K C Kejriwal. Subsequently, in 1981, the company was taken over by the Somany-Pilkingtons Group under the rehabilitation package from IFCI. In 1993, Somany-Pilkington sold off their holding in the company to Mr Mahendra K Daga, who is the current promoter of the company.

In FY11, Orient acquired 62.92 per cent stake (i.e. 76,59,925 equity shares of Rs. 10 each) in BCL, a company into manufacturing of glazed ceramic tiles at a premium of Rs.10.6 per share. Following the acquisition, with effect from 29th December, 2010 BCL became Orient's subsidiary.

Operations

Orient along with its subsidiary, BCL, has three manufacturing facilities - 1) Sikandarabad in Uttar Pradesh, 2) Vadodara in Gujarat and 3) near Bengaluru, Karnataka. The Vadodara and Bengaluru facilities are under the subsidiary BCL. The company, including its subsidiary BCL has a total capacity of 290 lakh square meters p.a. of ceramic tiles, of which 108.4 lakh square meters p.a. of capacity is under BCL. BCL also has a well-spread distribution network of 24 depots, 732 dealers and 1,410 exclusive retailers.

Industry Segments

The company is present primarily in two segments i.e. Ceramic tiles and Vitrified tiles.

The company's rationalized brand portfolio includes 'Orient Tiles' and sub brands viz, 'Orient Europa', 'Orient Stiler' and 'Orient International'. The ceramic tiles can be classified into Wall & Floor tiles. Orient makes wall tiles with finishes like marbles, leather, rustics, wooden, fabrics; metallic etc whereas the floor tiles are with finishes like marbles, wooden, geometrics, etc. In vitrified tiles the Orient makes finishes like marbles, double charge, rustics and stone finish. In terms of revenue the company reports only one industry segment i.e. tiles segment.



Orient: Peer comparison

(FY11)	Units	Orient Ceramics & Industries Ltd	NITCO Ltd	Somany Ceramics Ltd	Asian Granito India Ltd
Net operating income	Rs. Crores	363	754	737	521
EBITDA	Rs. Crores	46	79	70	59
PAT	Rs. Crores	13	25	24	20
Growth in net operating income	%	33.8%	47.2%	33.6%	24.3%
EBITDA Margin	%	12.6%	10.5%	9.4%	11.3%
PAT Margin	%	3.5%	3.3%	3.2%	3.9%
RoCE	%	15.6%	5.3%	17.7%	10.8%
RoE	%	14.1%	4.7%	25.9%	9.5%
Price/Earnings (P/E) Ratio	times	4.6	5.7	5.7	5.3
Price/Book Value(P/BV)	times	0.5	0.3	1.3	0.5
Enterprise Value (EV)/EBITDA	times	3.7	9.5	4.5	4.3

Source: Capitaline and CARE Research



CONSOLIDATED FINANCIAL PERFORMANCE AND ANALYSIS

Top line up 33.8 per cent in FY11

Orient's reported a consolidated top line of about Rs.363 crore in FY11 as against Rs.271 crore reported in FY10. The company acquired BCL on 29th December 2010 and hence FY11 top-line for the company includes revenue from BCL for the last quarter of FY11. The growth was also supported by the healthy demand in the tiles market which helped Orient to increase its sales by around 16 per cent y-o-y even on the standalone basis.

Operating profits up due to consolidation of BCL business, but EBITDA margins slip

The EBITDA margins slipped marginally by 53 bps in FY11 over FY10 on account of consolidation of BCL. Also with the increase in interest expenses the net profit margins dropped by about 75 bps. Net profits margins declined to 3.5 per cent in FY11 from 4.2 per cent in FY10.

Orient: Consolidated Financial Performance (FY07-11)

(Rs. Crore)	FY07	FY08	FY09	FY10	FY11
Net operating income	181.4	225.0	226.4	271.2	362.8
EBITDA	31.0	23.6	30.8	35.7	45.8
PAT	11.7	2.5	6.4	11.5	12.6
Fully Diluted EPS* (Rs.)	11.1	2.4	6.0	10.9	12.0
EBITDA margins	0.0%	10.5%	13.6%	13.2%	12.6%
PAT margins	0.0%	1.1%	2.8%	4.2%	3.5%

Source: Company and CARE Research



EXPANSIONS, NEW INITIATIVES AND CONCERNS

Expansion plans and initiatives

- During FY11, Orient has, as a strategic step towards expansion of Orient's operations, acquired 76,59,925 equity shares in Bell Ceramics Ltd. (BCL) of Rs.10 each constituting 62.92% of total equity shares capital of BCL at a price of Rs.20.6. Following the deal, BCL became Orient's subsidiary with effect from 29th December, 2010.
- In order to reduce fuel and power expenses, the company has tied up with Italian manufactures to replace the existing burners with modified burners in the kilns.

Key concerns

- The tiles industry is highly dependent on the real estate sector. Slowdown in the sector can affect the demand volumes and realisations.
- Orient faces competition from the unorganised sector (which controls around 50 per cent of the total tiles market) and cheap Chinese imports.
- Volatility in raw material prices (Ukraine clay and soluble salts) can exert pressure on the company's profitability as raw materials constitute about 40% of operating costs in the tile industry.



SECTOR OUTLOOK

Sector outlook

The Indian ceramic industry ranks among the world's third-largest ceramic tiles producing industry with total annual production of around 520 million sq meters with market size of approximate Rs.150 billion for the year 2010-11. The industry is dominated by unorganised segment, which constitutes approximately 60 per cent of the domestic ceramic tiles industry whereas the organized segment constitutes around 40 per cent of the market. The ceramic tile industry can be classified into multiple segments along with their price band as follows:

Tiles: Price Trend

Type	Price Band
High End Tiles (Porcelain & Glazed)	Rs 800-4,000 per sq meter
Vitrified Tiles (Glazed & Polished)	Rs 350-1,250 per sq meter
Ceramic Tiles (High End includes imports of Spanish & Italian Tiles)	Rs 200-600 per sq meter
Ceramic Tiles (Low End)	Rs 150-200 per sq meter

Source: Industry and CARE Research

Though the Indian ceramic tiles market is significantly fragmented, organized players have been gaining market share over the unorganized players. The unorganized players are mainly the smaller players primarily clustered in Gujarat. Some of the key players in the organized segment include H&R Johnson, Kajaria Ceramics, Nitco Tiles and Somany Tiles.

The ceramic tile industry is dependent on the overall growth of the economy. The growth is highly correlated to the rise in demand in the construction and real estate sectors. The ceramic industry demand emanates from both retail as well as builders/contractor segments. Builders/ contractors buy directly from companies on wholesale basis and use the materials in construction projects like apartments, commercial complexes and shopping malls and the individual buyers buy from retail outlets for residential applications. The per capita consumption of tiles in India is as low as 0.42 sq meters as compared to China at 2 sq meters. Similarly, demand of tiles from the replacement market is just around 12 per cent as compared to the world average of approximate 40 per cent. The Indian tile industry is highly indigenous with abundance of raw material, technical skills and infrastructure facilities despite its capital-intensive nature.



CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
Income Statement					
Net operating income	181.4	225.0	226.4	271.2	362.8
EBITDA	31.0	23.6	30.8	35.7	45.8
Depreciation and amortisation	8.7	9.6	10.6	10.8	12.6
EBIT	22.3	14.0	20.2	24.9	33.2
Interest	4.9	9.6	9.9	7.4	16.5
PBT	17.4	4.4	10.3	17.5	16.8
Ordinary PAT (After minority interest)	11.7	2.5	6.4	11.5	12.6
PAT (After minority interest)	11.7	2.5	6.4	11.5	12.6
Fully Diluted Earnings Per Share* (Rs.)	11.1	2.4	6.0	10.9	12.0
Dividend, including tax	1.1	0.5	1.6	2.1	2.1
* Calculated based on ordinary PAT on Current Face Value of Rs. 5/- per share					
Balance sheet					
Net worth (incl. Minority Interest)	46.0	48.0	52.5	61.5	117.0
Debt	60.0	94.3	72.5	63.8	180.2
Deferred Liabilities / (Assets)	6.3	7.1	6.7	5.5	(1.2)
Capital Employed	112.2	149.4	131.7	130.8	296.0
Net Fixed Assets (incl. Capital WIP)	69.6	94.4	88.3	81.1	252.7
Investments	-	-	-	-	-
Loans and Advances	22.4	15.0	11.9	13.4	20.7
Inventory	27.8	42.4	41.4	57.4	103.2
Receivables	34.9	40.5	26.3	31.6	52.3
Cash and Cash Equivalents	2.0	0.7	1.2	1.6	2.5
Current Assets, Loans and Advances	87.1	98.5	80.8	104.0	178.6
Less: Current Liabilities and Provisions	44.5	43.6	37.4	54.3	135.0
Total Assets	112.2	149.4	131.7	130.8	296.0
Ratios					
Growth in Operating Income		24.0%	0.6%	19.8%	33.8%
Growth in EBITDA		-24.0%	30.5%	15.9%	28.4%
Growth in PAT		-78.8%	156.9%	79.9%	9.9%
Growth in EPS		-78.8%	156.9%	79.9%	9.9%
EBITDA Margin		10.5%	13.6%	13.2%	12.6%
PAT Margin		1.1%	2.8%	4.2%	3.5%
RoCE		10.7%	14.3%	18.9%	15.6%
RoE		5.3%	12.7%	20.1%	14.1%
Debt-Equity (times)		2.0	1.4	1.0	1.5
Interest Coverage (times)		1.5	2.0	3.4	2.0
Current Ratio (times)		2.3	2.2	1.9	1.3
Inventory Days		69	67	77	104
Receivable Days		66	42	43	53
Price / Earnings (P/E) Ratio					4.6
Price / Book Value(P/BV) Ratio					0.5
Enterprise Value (EV)/EBITDA					3.7

Source: Capitaline, CARE Equity Research



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- This report has been sponsored by the Bombay Stock Exchange (BSE).

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