



HIDDEN GEMS

UNEXPLORED MULTIBAGGER SMALL CAP STOCKS

EQUITY RESEARCH REPORT

ORIENT BELL LTD.	NSE CODE: ORIENTBELL BSE CODE: 530365
Industry: Ceramics / Granite	CMP: Rs. 67.75 (10/03/2013)
Market Cap: 938.6 (INR in Millions)	Target Price: Rs. 145.00
Date: March 10, 2013	Time Period: 18 – 24 months



Saral Gyan Capital Services

www.saralgyan.in

An Independent Equity Research Firm

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1. Company Background

ORIENT BELL LIMITED

For Over 30 years, Orient Bell Ltd (OBL) has stayed ahead in the tile craft with breakthrough technology and original designs for India's thriving real estate and home décor industry.

OBL is a company that has been on the forefront of innovation in home décor. Innovative and forward-looking, Orient Bell Ltd is pioneer in the manufacturing of ultra vitrified tiles in India and the first to have an in-house European designer. Quality and durability, combined with the aesthetics of design and colour has transformed company into experts that offer extraordinary wall and floor solutions. Orient's latest initiative of launching a chain of signature showrooms is to display our complete product range and help company's retailers in concept selling.

In India, apart from decorating a million homes, Orient has lent its design expertise to the prestigious Rashtrapati Bhavan, the Delhi High Court and the new Kolkata Airport. Internationally, Orient's has extended its décor solutions to Europe, SE Asia, the Middle East and SAARC nations. In multiple manufacturing hubs in North, West and South India, you'll find yourself in the company of perfectionists. Company's obsession with quality control has earned them many international -accreditations and critical acclaim.

But quality is only a consequence. Emerging from the collective passion of everyone at Orient for whom customer is the only inspiration. It reflects on every product that bears company's stamp. OBL products categorized on a simple insight - Varied needs, distinct users.

Manufacturing Facilities

OBL has multiple manufacturing hubs in North, West and South India. OBL have state-of-the-art environment friendly manufacturing unit at Sikandrabad - U.P., Vadodara – Gujarat and Hoskote - Karnataka which can cover more than 30 crore square feet of walls and floors every year which conforms to IS 15622:2006 of BIS specifications and ISO 10545-1/17, ISO 13006 for dust pressed Ceramic Tiles. The unit has its internal norms, designated as "Orient Norms" which are more stringent than the IS & ISO standards.

The unit offers the finest working conditions and is adequately provided with lighting, ventilation, and sanitation services. Process control methods are practiced at each stage i.e. procurement, manufacturing, designing, development, testing, installation, marketing and feedback information of performance and training of employees.

The company today possesses state of the art technology, which enables a finished tile to be produced from ceramic powder and packed untouched by hands, within 2 hours of processing raw materials.

The adherence to quality standards and utilization of the state-of-the-art technology ensures optimum utilization of resources with minimum cost and time consumption. The environment friendly unit is ISO-14001: 2004 certified and operates in all the necessary pollution control conditions. The Unit is OHSAS 18001:2007 certified and performed under all legislative regulations in relevant to Employee/Workers' Health and Safety Norms.

Brands:



Available at thousands of retailers across the country, it's the most popular wall and floor offering in the mid-value segment.



Orient International is a specialized division which brings innovative and exclusive product ranges from countries like Spain, Italy and Turkey for the customers who value luxury and exclusivity.



Quality and durability, combined with the aesthetics of design and colour has transformed Company into experts that offer unmatched style, resulting in extraordinary wall and floor solutions

For 30 years, Company has transformed ordinary spaces into state-of-the-art living spaces with many firsts to our name. Company is pioneer in the manufacturing of ultra vitrified tiles in India and the first to have an in-house European Designer to create unique designs.



Orient Tile Boutique (OTB) | Bell Tile Boutique (BTB) | HomeTown OTBs

Orient Tile Boutique is an experience akin to being in the very heart of contemporary design and décor solutions.



Orient Bell is the only tile company in the world that has four amazing patent pending technologies for solution. Here is the brief description:



Forever tiles come with a surface that is highly abrasion, scratch and stain resistant. These tiles are **rated 8 on Moh's scale of hardness** where diamond is on 10 and iron is on 4.



This technology in tiles **kills more than 99.5% disease causing bacteria**. What is amazing is that these tiles are safer than ceramic cookware which doubly protects your family health.



Life tiles is an amazing technology that **removes smog and poisonous NOx and CO2 gases** which improves the air inside and outside your living spaces. This technology also kill >99.2% of disease causing bacteria.



Cool tiles have been invented to reflect almost all solar heat back to atmosphere. This **helps bring the building temperature down by 5-10 degree Celsius**, reducing cooling requirement and saving costs while helping in the fight against global warming.

Key Person behind Company's Foundation & Growth

1. Mr. Mahendra K Daga [Chairman & Managing Director]

A successful businessman and a sound technocrat, Mr. Mahendra K. Daga's name is synonymous with the tiles industry. He has vast experience in erecting, commissioning and successfully managing various multi location tiles plants, and is acclaimed as an authority in this field. He has successfully commissioned various Ceramic Tile Plants / Ceramic Refractories / Ceramic Transfers at various locations. He takes an active part in overall functional areas of the Company. Under the overalls upervision of the Board of Directors, he has been instrumental in taking the company from strength to strength.



Mr. Mahendra K Daga
[Chairman & Managing Director]

Mr. Daga is a Founder member of the Indian Council of Ceramic Tiles & Sanitaryware (ICCTAS), the apex body in India representing the Ceramic Tile Industry. He has also represented India as one of the eight speakers from all over the world at the "International Meeting on Ceramic Industry" organised by Associazione Costruttori Italiani Machine Attrezzature per Ceramica, at Modena, Italy on 26th May, 2000

2. Mr. Madhur Daga [Executive Director]

Mr. Madhur Daga is Executive Director, Orient Bell Limited. Mr. Daga graduated in 1993 with a BBA degree from the University of Southern California (USC), Los Angeles, US. In 1997, he completed his post graduation with a degree in International Corporate Finance from the University of New South Wales (UNSW), Sydney, Australia. After completing his graduation, Mr. Madhur Daga worked in the US for a year and later joined Orient Ceramics after completing his PG. Subsequently, he pursued his entrepreneurial skills and set up a software business, which he exited in the year 2005.



Mr. Madhur Daga
[Executive Director]

He then rejoined Orient Ceramics as Executive Director. Although responsible for the overall management of the company in his present role as Executive Director, Mr. Daga spends most of his time leading Orient's Product Innovation Team & interacting with customers. Mr. Madhur Daga has more than fifteen years of work experience.

European Design Studio:

For centuries, the Art of Ceramic Design and Development has centered in Europe. Whether reproduction nuances of stone & slate, or replicating the veins & color combinations of marble slabs, European artists have constantly used the ceramic medium, including tiles, to transport the mystique & beauty of nature to our living & working spaces.

The Orient Bell Limited (OBL) design studio is located in Castellon, Spain's hub of ceramic tile design & development. This is where OBL's Chief Product & Solution Designer Ms. Maria Jose Castillo & her team conceptualize & translate decor dreams into reality on the ceramic medium.



Ms. Maria Jose Castillo
[Chief Product & Solution Designer]

Maria Jose Castillo is among the leading representatives of contemporary Spanish tile design & development. She is among the rare group of professionals in the tile industry with equal experience in Technical Development & Creative Product Design. OBL products & solutions reflect the latest in design trends which have been brought to life at our state-of-the-art, high quality manufacturing plants.

2. Recent Development

Orient Ceramics turnaround Bell business within 15 months of its acquisition

Orient Ceramics and Industries Ltd (OCIL) has turnaround the ailing tile maker Bell Ceramics that it acquired in December 2010 within 15 months through infusion of new technology and improving efficiencies.

OCIL, which became India's largest tile maker after the acquisition with a 10 percent market share had bought 68 per cent in Bell at a cost of Rs 19 crore. With this buyout, Orient, which is strong in the northern and eastern markets, could get an immediate presence in the southern and western markets that Bell had been servicing.

“We have already begun to get improved results from Bell operations. We expect to notch up a combined turnover of Rs 500 crore this fiscal (Bell results are being merged with OCIL's from the current quarter of this fiscal),” Mr Madhur Daga, OCIL Executive Director, told presspersons here on Tuesday.

Bell, which has two manufacturing facilities near Bangalore and in Gujarat, had a limited product range and lower operational efficiency, he pointed out. “Since we took over the company, Bell's operational efficiency improved from 60-65 per cent to 80-85 per cent with little or no investments from our side. Its turnaround will be reflected in our consolidated revenues next fiscal,” he said.

Imports: Orient, which has a current capacity of 30 crore sq feet per annum, is planning to sharpen focus on trading of imported tiles for the upper premium domestic market. “We are in talks with a clutch of European and Asian tile markers for import of their products for the domestic market. We expect to finalise a deal in the next quarter. We will create a new umbrella brand for such imported products,” Mr Vijay Shankar Sharma, the company's CFO, said.

The company's trading revenue at present is about 15 per cent of its overall sales and this is expected to double in the next two years.

To expand reach: OCIL is also increasing its marketing spends on its brand and expansion of its retail outreach.

The company, which opened its first shop-in-shop in Andhra Pradesh in Hyderabad, is on the way to open 25 franchisee stores, with four company-owned showrooms, and 75 shop-in-shop outlets across India.

3. Financial Performance

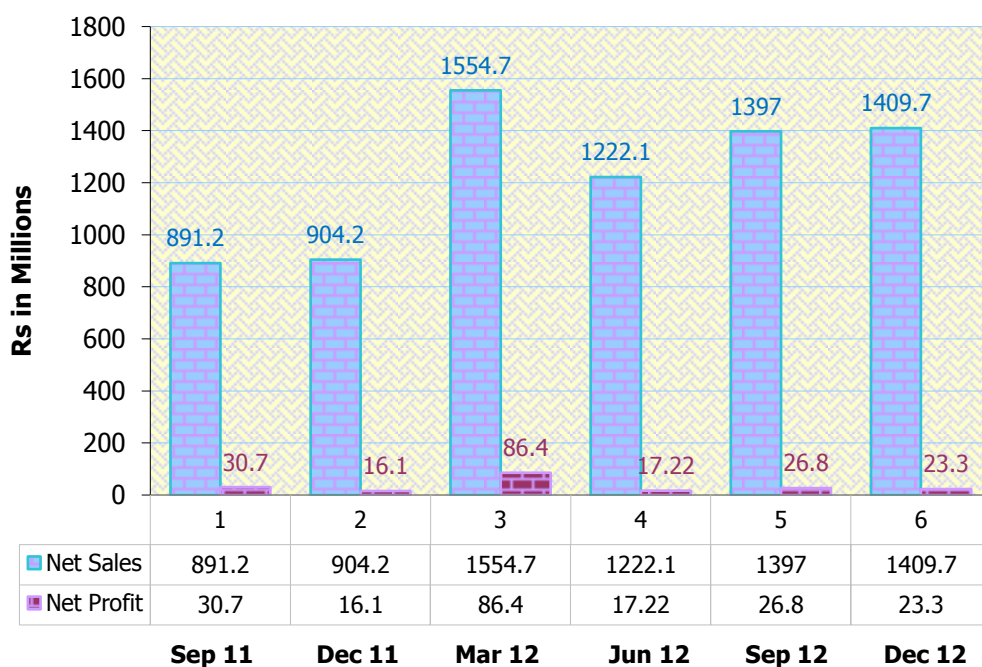
Orient Bell net profit rises 44.72% in the December 2012 quarter

Net profit of Orient Bell rose 44.72% to Rs 23.3 million in the quarter ended December 2012 as against Rs 16.1 million during the previous quarter ended December 2011. Sales rose 55.90% to Rs 1409.7 million in the quarter ended December 2012 as against Rs 904.2 million during the previous quarter ended December 2011.

Orient Bell net profit declines 12.70% in the September 2012 quarter

Net profit of Orient Bell declined 12.70% to Rs 26.8 million in the quarter ended September 2012 as against Rs 30.7 million during the previous quarter ended September 2011. Sales rose 56.75% to Rs 1397 million in the quarter ended September 2012 as against Rs 891.2 million during the previous quarter ended September 2011.

Last 6 Quarters Net Sales & Profit



Current & Expected Earnings

Quarterly Ended Profit & Loss Account

Particulars (Rs in Millions)	Mar 2012	Jun 2012	Sep 2012	Dec 2012	Mar 2013 E	Jun 2013 E
Audited / UnAudited	UA	UA	UA	UA	UA	UA
Net Sales	1554.7	1222.1	1397	1409.7	1634.8	1707.8
Total Expenditure	1404.2	1094.3	1250	1260.7	1476.3	1526.5
PBIDT (Excl OI)	150.5	127.8	147	149	158.5	181.3
Other Income	12.8	3.02	3.6	3.3	5.7	4.5
Operating Profit	163.3	130.82	150.6	152.3	164.2	176.8
Interest	57.4	65.09	58.2	65.8	64.1	66.5
Exceptional Items	-1.8	0	0	0	0	0
PBDT	104.1	65.73	92.4	86.5	100.1	110.3
Depreciation	47	46.44	45.2	46.5	47.5	47.5
Profit Before Tax	57.1	19.3	47.2	40	52.6	62.8
Tax	-29.3	2.08	20.4	16.7	23.4	27.1
Provisions and contingencies	0	0	0	0	0	0
Profit After Tax	86.4	17.22	26.8	23.3	29.2	35.7
Extraordinary Items	0	0	0	0	0	0
Prior Period Expenses	0	0	0	0	0	0
Other Adjustments	0	0	0	0	0	0
Net Profit	86.4	17.22	26.8	23.3	29.2	35.7
Equity Capital	105.3	135.74	135.7	135.7	135.7	135.7
Face Value (IN RS)	10	10	10	10	10	10
Reserves						
Calculated EPS	8.21	1.27	1.97	1.72	2.15	2.63
Calculated EPS (Annualised)	32.82	5.07	7.9	6.87	8.61	10.52
No of Public Share Holdings	2659726	3604041	3414764	3410164	NA	NA
% of Public Share Holdings	25.26	26.55	25.16	25.12	NA	NA

Expected Earnings for FY 2012-13 & FY 2013-14:

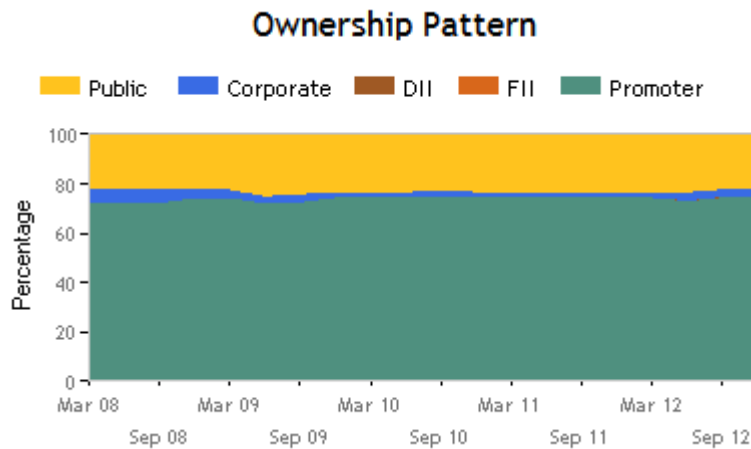
We expect Orient Bell will achieve total sales of 5663 million in FY 2012-13 and 6596 million in FY 2013-14. We expect company to deliver EPS of Rs. 7.1 and Rs. 11 in FY 2012-13 and 2013-14 respectively.

Company's operating margin in FY 2012-13 is expected to remain above 10 where as net profit margin is expected to improve from 1.75 in FY 2012-13 to 2.85 in FY 2013-14.

4. Charts & Graphs

i) Share holding Pattern:

Promoters share holding is 74.88%. FII exposure is nil where as DII exposure is negligible at 0.11%.



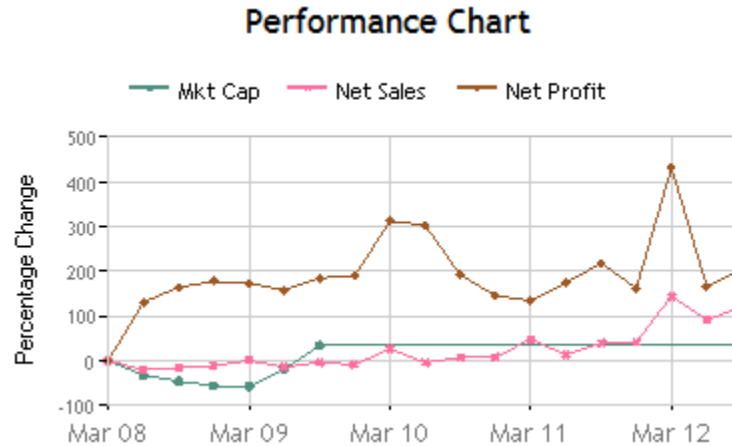
ii) Share Price Moving Average:

OBL is currently trading below its 50 and 200 day price moving average. Stock has good support in the range of Rs 60-65.



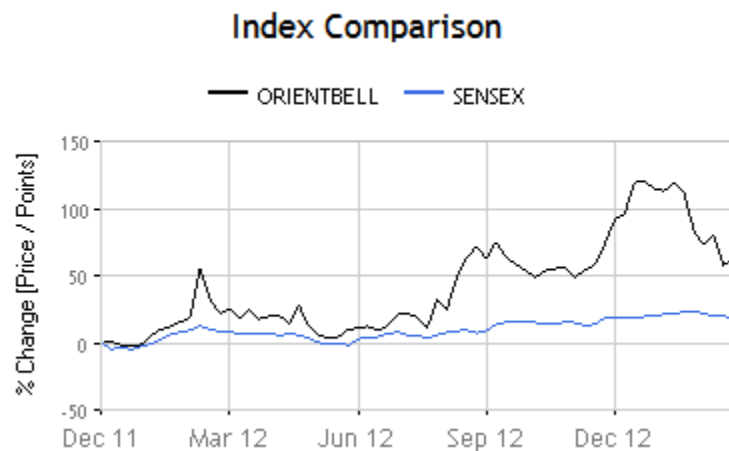
iii) Performance Chart:

Profit margins of the company got impacted in 2011-2012 due to interest paid on the debt borrowed for acquisition of another company.



iv) Comparative Graph:

OBL has given positive returns of 23.3% compared to Sensex returns of 8.39% in last one year.



5. Peer Group Comparison

PEER GROUP	Orient Bell	Kajaria Ceramics	Nitco	Somany Ceramics
CMP	67.75	195.35	15.35	76.50
52 W H/L	108.70/43.00	261.40/144.30	14.50/45.70	114.95/34.85
Market Cap	938.60	14374.55	500.41	2639.02
Results (in Million)	Dec-12	Dec-12	Dec-12	Dec-12
Sales	1409.70	4035.20	1798.08	2671.90
PAT	23.30	245.70	-650.00	81.60
Equity	135.70	147.20	326 .00	69.00
EPS	11.33	13.29	-82.51	8.67
P/E	6.11	14.70	0.00	8.82

6. Key Concerns / Risks

- Imports and the unorganized tile sector are the major risk to the Indian tile market. Cheap import from China can affect sales and margins.
- Freight, power and gas are the key cost related issues which can impact the Industry. Increase in cost of natural gas and cost of raw materials, particularly imported ones may increase the cost of production substantially putting pressure on margins and profitability.

7. Industry Outlook

Ceramic Tiles today have become an integral part of home improvement. It can make a huge difference to the way your interiors and outdoors look and express. The Indian tile industry, despite an overall slowdown of the economy continues to grow at a healthy 15% per annum. Investments in the last 5 years have aggregated over Rs. 5000 crores. The overall size of the Indian ceramic tile industry is approximately Rs 18,000 crore (FY12). The production during 2011-12 stood at approx. 600 million square meters.

The Indian tile industry is divided into organized and unorganized sector. The organized sector comprises of approximately 14 players. The current size of the organized sector is about Rs 7,200 Crores. The unorganized sector accounts for nearly 60% of the total industry bearing testimony of the growth potential of this sector.

India ranks in the top 3 list of countries in terms of tile production in the world. With proper planning and better quality control our exports (presently insignificant) contribution can significantly increase.

Background:

Apart from their decorative looks, Ceramic Tiles are primarily hygiene products and that is how our broad spectrum of consumers views the product. This is fairly evident from its varied usage from bathrooms and kitchens in average Indian households to medical centers, labs, milk booths, schools, public conveniences, shopping malls and numerous other centers; which dot our day to day life. A ceramic tile is basically a "utility product" and that remains our promotional slogan. Popular housing projects are increasingly switching over to Ceramic Tiles moving away from the traditional use mosaic and even granite or marble, owing to several factors viz. ease in laying ability, versatility, low price and hygiene.

Nevertheless, this decorative aspect of a Ceramic Tiles has forever been in the forefront. Heavy churning out of bolder and colorful designs by the industry are testament to the fact that most households regard a ceramic tile as an "adornment" for an otherwise "drab look" of their age-old floorings or an unfurnished wall.

Ceramic tiles as a product segment have grown to a sizeable chunk today at approximately 680 Millions Square meters production per annum. However, the potential seems to be great, particularly as the housing sector, retail, IT & BPO sectors have been witnessing an unprecedented boom in recent times.

The key drivers for the ceramic tiles in India are the boom in housing sector coupled by government policies fuelling strong growth in housing sector. The retail boom in the Indian economy has also influenced the demand for higher end products. Overall the

bullish growth estimates in the Indian economy has significantly influenced the growth of the Indian Ceramic tile industry.

Segmentation:

The main product segments are the Wall tile, Floor tile, Vitrified tile and Industrial tile segments. The market shares (in value terms) are 20%, 23% 50%, and 7% respectively for Wall, Floor, Vitrified, and Industrial tiles. The tiles are available in a wide variety of designs, textures and surface effects. They cater to tastes as varied from rustics to contemporary marble designs in super glossy mirror finishes.

Both, traditional methods of manufacturing (tunnel) and the latest single fast firing methods are deployed in manufacturing. Some of the latest trends in manufacturing methods can be seen in India.

Consumption:

The industry also enjoys the unique distinction of being highly indigenous with an abundance of raw materials, technical skills, infrastructural facilities despite being fairly capital intensive. A total of over 5,50,000 people are employed in the sector. Out of this, 50,000 people are directly employed and 5,00,000 are indirectly associated. The potential is huge considering the per capita consumption of ceramic tiles in India. Currently it is at 0.50 square meters per person in comparison to over 2 square meters per person for like countries like China, Brazil and Malaysia.

As a foreign exchange earner or a global player, Indian Tile industry has captured the attention of the world in the ceramic tiles segment. To compete internationally, Indian plants must be geared up to large units currently operating in China and Turkey are driven by economies of scale. These will also help us in lowering our cost of production significantly. Also, infrastructural support is a key factor that determines the speed of growth. Better infrastructure will bring in better growth in terms of consistency and sustenance. Freight, supply of power and gas remains the key cost-related issues impacting the industry. Availability, consistent supply and reasonable rates are extremely important for the growth of the ceramic tile industry.

Also, the prevailing anomalies pertaining to Basic Customs Duty on import of ceramic tiles from China and raw materials imported from abroad need to be corrected to prevent dumping of tiles from China. Rural thrust should be enhanced by favorable excise duty and MRP structure.

Current Scenario of the Industry in India:

The ceramic tiles industry in India has followed similar trends internationally which have been characterized by excess capacities and falling margins. Countries like Malaysia, Thailand, Indonesia, Sri Lanka and Vietnam are setting up their own plants. China has

emerged as a major competitor. Producers from Spain and Italy have the advantage of lower transportation costs while exporting to USA and Germany. In India, the per capita consumption is as low as 0.50 square meters per person compared to China (2.6 square meters per person), Europe (5 to 6 square meters per person) or Brazil (3.4 square meters per person). Rising disposable incomes of the growing middle class and 40 million units of housing shortage hold out a great potential.

A major change that took over the ceramic tiles industry, was the introduction of vitrified and porcelain tiles. These new entrant product types are said to be the tiles of the future. Internationally these tiles are already the major sellers. These categories of products account for almost 50% of total tile sales by value in this industry.

These new products and the conventional wall & floor tiles have together made the organized industry grow to a formidable Rs. 7,200 crores industry. This coupled with a spate of expansions by many players make the industry look very promising in the future.

The Indian Industry has developed an export market although at the lower end. In volume it constitutes less than half a percent of the global market. (Presently India does not figure in the list of major exporting countries). But this reality could change as Indian exports are rising at an accelerating growth annually. The top-end of the global export market is presently dominated by China (36.8%) and Italy (15.1%).

8. Saral Gyan Recommendation

- ✚ The Indian tile industry, despite an overall slowdown of the economy continues to grow at a healthy 15% per annum. The organized sector comprises of approximately 14 players. The current size of the organized sector is about Rs 7,200 Crores. The unorganized sector accounts for nearly 60% of the total industry bearing testimony of the growth potential of this sector.
- ✚ With more than 30 years of experience, Orient Bell Ltd is the pioneer in the business it operates and recent acquisition of a loss making company – Bell Ltd and turning it around to profitable business within 15 months indicates the professional approach and ability of management to drive their business effectively.
- ✚ Sales turnover of the company has doubled in last 4 years, operating margin was improved from 11 to 13.5 and net profit margin was improved from 1 to 4 during 2008 - 2011 period but later it got impacted due to acquisition of Bell Ltd and higher interest paid on debt, we believe the same will improve going forward considering higher realisation of sales and decrease in interest rates.
- ✚ Promoters have increased their share holding to almost 75% which indicate the confidence of promoters in future prospects of the company.
- ✚ OBL management has paid regular and interrupted dividend since last 15 years. Also rewarded share holders by giving bonus share in FY 2000-01 and 2006-07.

Year	% of Paid-up Capital	Dividend Amount (Rs.)
1997-98	25%	22,50,000
1998-99	10%	22,88,117
1999-00	12%	28,08,000
2000-01	12%	56,16,000 *
2001-02	14%	65,52,000
2002-03	14%	65,52,000
2003-04	14%	65,52,000
2004-05	16%	74,88,000
2005-06	16%	74,88,000
2006-07	10%	1,05,30,000 **
2007-08	5%	52,65,000
2008-09	15%	1,57,95,000
2009-10	20%	2,10,60,000
2010-11	20%	2,10,60,000
2011-12	15%	2,03,60,176.5 #

* Dividend on the enhanced paid up capital of Rs. 4,68,00,000 (after Bonus issue) for the FY 2000-01

** Dividend on the enhanced paid up capital of Rs. 10,53,00,000 (after Bonus issue) for the FY 2006-07

Dividend paid on enhanced paid up capital of Rs. 1,35,73,451 (shares allotted in term of Amalgamation of Bell Ceramics Ltd. with Orient Bell Limited)

- ✚ Looking at fundamentals, dividend yield of the stock is above 2% and trailing PE of the company is below 6 with price to book value of 0.5 which indicates that there is limited down side risk at CMP, whereas company offers huge upside potential in future to long term investors.
- ✚ Considering recent acquisition and growth opportunities in the industry, we expect Orient Bell Ltd to deliver bottom line of 96.5 million in FY'12–13 and 149 million in FY'13–14 with estimated annualized EPS of Rs. 7.1 & Rs. 11 respectively.
- ✚ On equity of Rs. 135.7 million, the estimated annualized EPS for FY 12-13 works out to Rs. 7.1. Book value per share is Rs. 124.68 and stock price to book value is 0.54. At current market price of Rs. 67.75, share is trading at a P/E of 9.5X on FY 12–13 and 6.2X on FY 13–14 which makes stock valuations attractive with a medium to long term view of 18-24 months.
- ✚ Only concern is debt on the balance sheet (due to acquisition of another company in past) which is almost 2 times the market cap and is a major reason of muted bottom line. We believe that debt could be a concern for short term investors but long term investors who can hold this company for next 2 to 5 years can have a potential multibagger in their portfolio. With professional management behind the company, we expect that this could be a dark horse giving returns of 500% to 1000% in next 3 to 5 years.

Considering decent valuations and long term growth potential, Saral Gyan Team recommends “BUY” on Orient Bell Ltd for a target of Rs. 145 over a period of 18-24 months.

Buying Strategy:

- 60% at current market price of Rs. 67.75
- 40% at price range of Rs. 50 – 60

9. Disclaimer

Important Notice: Saral Gyan Capital Services is an Independent Equity Research Company.

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