

Earnings miss estimates, margin pressure persists

CMP: INR 292

Rating: BUY

Target Price: INR 415

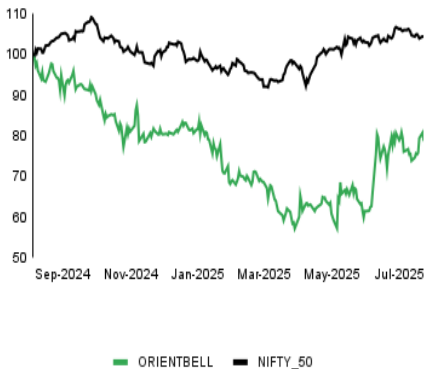
Stock Info

BSE	530365
NSE	ORIENTBELL
Bloomberg	OBL:IN
Sector	Ceramics
Face Value (INR)	10
Mkt Cap (INR Bn)	4.28
52w H/L (INR)	447/215
Avg Daily Volume (in 000')	24.4

Shareholding Pattern %

Promoters	65.42
Public & Others	34.58

Stock Performance (%)	1m	6m	12m
ORIENTBELL	+2.2	+12.1	-22.5
NIFTY	-3.2	+4.0	+2.5



Abhishek Jain

Abhishek.jain@arihantcapital.com

022-42254827

Ashvath Rajan

Ashvath.rajan@arihantcapital.com

022-42254870

Orient Bell Ltd reported revenue of INR 1,429 Mn, degrowth on YoY/QoQ basis, missing our estimate of INR 1,593 Mn. Gross Profit stood at INR 811 Mn (-78.5% YoY/-15.5% QoQ); Gross margins improved to 56.8% vs 55.2% in Q1FY25. EBITDA stood at INR 49.7 Mn (-76.3% YoY/-42.8% QoQ); significantly missing our estimates of INR 72 Mn. EBITDA margin stood at 3.5%, improving YoY(+3%), missing estimates of 4.5%. Loss stood at INR -3.7 Mn improving on YoY basis from a loss of INR -18.7 Mn but degrowing sequentially from INR 27.5 Mn; significantly missing our estimate of INR 7 Mn.

Investment Rationale:

Temporary sluggish demand: Q1FY26 reported below estimated numbers as volumes remained subdued and average selling prices (ASP's) declined due to industry-wide discounting particularly from Morbi. We believe as export conditions improve and gas prices normalize an improvement in demand is imminent.

ASP's expected to stabilize: As the industry witnessed overcapacity, OBL continues to align its ASP to match competitive intensity. We expect volumes to gradually improve and ASP's to stabilize from Q3 onwards as oversupply conditions normalize.

Expansion in distribution channels: OBL is focused on expanding its distribution in Tier 2/3 cities, where demand for ceramic tiles remains resilient. The company is also pursuing aggressive pricing strategies to drive market share gains.

Margins to improve as freight costs normalize: As global freight costs recover and gas prices stabilize, any recovery in demand is expected to flow directly into EBITDA margins due to fixed cost absorption.

Outlook:

With growing share of vitrified tiles and adequate capacity to cater to incremental demand, we expect OBL to benefit from an anticipated uptick in the real estate sector. While export market challenges have led to increased dumping by unorganized players in the domestic market, we view this as a transitional headwind. A recovery in freight rates and gas prices should restore pricing discipline going forward. We expect performance to improve from Q3/Q4FY26E, driven by i) recovery in volumes, ii) improving ASP's iii) pent-up demand, and iv) better penetration in Tier2/3 cities through widening distribution network. We reiterate our BUY recommendation with a target price of INR 415 with a PE of 19x, 2028E EPS of INR 21.6.

Valuation

Y/E Mar, INR Mn	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	7,051	6,745	6,698	8,567	9,604	10,937
EBIDTA	472	209	281	503	627	732
Net Profit	225	9	30	158	242	314
PAT Adj	225	9	30	158	242	314
EPS	15.3	0.6	2.0	10.8	16.6	21.6
PER, x	21.4	520.3	159.6	30.3	19.7	15.2
EV/EBIDTA, x	10.1	24.3	17.4	9.5	7.1	6.0
P/BV, x	1.6	1.6	1.6	1.5	1.4	1.3
ROE, %	7.2%	0.3%	0.9%	4.7%	6.8%	8.1%
Debt/Equity (x)	0.03	0.14	0.15	0.10	0.06	0.04

Exhibit: Quarterly Data (Consol, INR Mn):

Quarterlies										
	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Total Operating Revenues	2,003.30	1,441.20	1,597.30	1,622.80	2,083.30	1,481.40	1,603.50	1,630.20	1,982.53	1,429.04
<i>Growth (%)</i>			0.00%	-8.45%	3.99%	2.79%	0.39%	0.46%	-4.84%	-27.92%
Total Raw Material Cost	941.80	605.70	713.10	636.80	1,001.70	664.40	735.40	738.90	1,022.40	617.70
Gross Profit	1,061.50	835.50	884.20	986.00	1,081.60	817.00	868.10	891.30	960.13	811.35
GP Margins	52.99%	57.97%	55.36%	60.76%	51.92%	55.15%	54.14%	54.67%	48.43%	56.78%
<i>Growth (%)</i>			0.00%	-7.76%	1.89%	-2.21%	-1.82%	-9.60%	-11.23%	-15.50%
Employee Cost	241.50	244.40	239.90	257.80	249.80	248.30	242.10	257.90	254.03	246.69
<i>Growth (%)</i>			0.00%	0.23%	3.44%	1.60%	0.92%	0.04%	1.69%	-2.89%
Power & Fuel	419.50	336.30	349.50	400.00	399.10	289.20	288.90	311.00	282.56	284.19
<i>Growth (%)</i>			0.00%	-13.66%	-4.86%	-14.01%	-17.34%	-22.25%	-29.20%	0.58%
Other Expenses	268.90	225.50	241.90	318.70	314.90	235.70	262.10	247.50	336.68	230.76
<i>Growth (%)</i>			0.00%	26.97%	17.11%	4.52%	8.35%	-22.34%	6.92%	-31.46%
EBITDA	131.60	29.30	52.90	9.50	117.80	43.80	75.00	74.90	86.86	49.71
EBITDA Margins	6.57%	2.03%	3.31%	0.59%	5.65%	2.96%	4.68%	4.59%	4.38%	3.48%
Other Income	9.70	11.30	7.50	3.10	5.30	5.50	4.90	5.10	11.64	6.09
<i>Growth (%)</i>			0.00%	-50.79%	-45.36%	-51.33%	-34.67%	64.52%	119.58%	-47.66%
Depreciation	52.90	53.80	50.40	55.00	55.00	56.90	57.10	56.30	54.98	53.86
<i>Growth (%)</i>		#DIV/0!	0.00%	-3.51%	3.97%	5.76%	13.29%	2.36%	-0.03%	-2.03%
Finance Cost	6.30	4.80	4.40	4.40	5.70	12.80	13.50	10.80	10.68	10.17
<i>Growth (%)</i>			0.00%	-24.14%	-9.52%	166.67%	206.82%	145.45%	87.35%	-4.74%
PBT	84.50	17.30	9.20	-45.60	65.40	-19.70	7.90	13.80	35.57	-8.24
Tax	21.10	4.20	2.30	-12.00	16.10	-1.00	-1.80	4.10	8.10	-2.00
Adjusted PAT	63.40	13.10	6.90	-33.60	49.30	-18.70	9.70	9.70	27.47	-3.75
Adjusted PAT Margins	3.15%	-0.90%	0.43%	-2.07%	2.36%	-1.26%	0.60%	0.59%	1.38%	-3.75%
EPS	4.38	0.90	0.47	-2.31	3.38	-1.28	0.66	0.66	1.88	-0.26

Orient Bell Q1FY26 Concall Highlights**Forward-Looking Statements**

- Management commentary indicates a subdued near-term demand outlook, with no recovery expected until trade-related uncertainties subside.
- Despite a strong cement recovery in Q1, a indicator for tile demand, overall demand remains sluggish, with domestic traction still muted even amid a healthy real estate cycle.
- Management expects industry consolidation, with weaker players continuing to exit and larger, organized players gaining share.
- The slowdown in new capacity addition, especially in Morbi, is seen as a mid-term structural positive for the organized segment.
- Management expects conditions to improve from current levels, aided by India's technical and cost advantage in tile manufacturing.

Future Outlook & Strategy

- The company's primary focus is on volume-led growth to improve operating leverage, rather than chasing margins.
- OBL plans to gain market share through differentiated product offerings, aggressive price positioning, and deeper distribution penetration, particularly in Tier 2 and Tier 3 markets.
- Ceramics segment strategy includes aggressive targeting of high-volume SKUs, new product development, and improved channel outreach.
- Entry into tile-bonding chemicals will be via outsourced manufacturing initially; capex will be considered later based on traction. The segment is not capital-intensive and leverages the existing distribution network.
- Cost optimization remains a focus, with tight control on manufacturing wastage and frugal operations supporting gross margin resilience.
- Branding investments will continue, with marketing spends across TV, digital media, and dealer displays, targeting improved brand recall for the brand.

Financial Outlook

- Margins are expected to improve from Q2FY26 onward, driven by higher utilization. Gross margins are already among the best in the industry and are not a concern.
- Q1FY26 saw capacity utilization at ~50%; with no major capex planned.
- Management reiterated that margin expansion is highly correlated with utilization, and the company currently has the infrastructure to support revenues of up to INR 12,000 Mn, including associate entities.
- ASPs have declined due to aggressive discounting, contributing to a 3% revenue dip. The company intends to continue strategic price interventions to protect volumes and tackle sectoral overcapacity.
- Marketing spend guidance remains at ~3.5–4% of revenue over the next nine months, with continued investments in displays and digital. A broader commitment of ~10% of revenue for branding efforts was reiterated, depending on market conditions.

Income Statement (Consolidated, INR Mn)

Income Statement

Y/E Mar, Rs mn	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net sales	4,923	5,025	6,543	7,051	6,745	6,698	8,567	9,604	10,937
Growth, %	-13.8%	2.1%	30.2%	7.8%	-4.3%	-0.7%	27.9%	12.1%	13.9%
Other income	52	19	30	54	27	29	30	31	33
Raw material expenses	2,363	2,413	2,697	2,749	2,957	3,161	4,064	4,456	4,904
Employee expenses	736	793	925	1,009	992	1,002	1,251	1,345	1,586
Other Operating expenses	1,564	1,494	2,365	2,821	2,586	2,254	2,750	3,177	3,714
EBITDA (Core)	261	324	557	472	209	281	503	627	732
Growth, %	-29.58%	24.42%	71.71%	-15.14%	-55.73%	34.20%	79.07%	24.7%	16.8%
Margin, %	5.3%	6.5%	8.5%	6.7%	3.1%	4.2%	5.9%	6.5%	6.7%
Depreciation	206	206	206	211	214	225	256	267	278
Interest paid	81	57	41	24	19	48	100	108	118
Other Income									
Non-recurring Items									
Pre-tax profit	29	114	351	299	11	39	180	287	374
Tax provided	-42	38	30	74	2	9	43	68	80
Profit after tax	71	77	322	225	9	30	137	219	294
PAT Adj.	71	59	322	225	9	30	137	219	294
Growth, %	-23.31%	-17.67%	449.13%	-30.13%	-95.92%	226.00%	359.60%	59.50%	34.11%
Unadj. shares (m)	14	14	14	14	15	15	15	15	15

Balance Sheet (Consolidated, INR Mn)

Balance Sheet

As at 31st Mar, Rs mn	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
PPE	2,387	2,321	2,065	2,072	2,500	2,963	2,781	2,652	2,515	2,463
CWIP	10	7	3	6	28	1	8	0	0	0
Financial Assets	100	107	113	123	130	137	135	141	147	154
Other Non Current Assets	9	13	26	65	35	13	31	34	36	39
Total Non current Assets	2,506	2,448	2,207	2,265	2,693	3,114	2,956	2,827	2,699	2,656
Inventories	855	806	602	688	861	890	616	1,033	1,105	1,258
Receivables	1,162	869	926	1,033	1,112	1,315	1,306	1,432	1,447	1,648
Cash & CE	35	30	510	411	33	134	344	310	504	550
Other Current Assets	29	48	99	125	111	90	73	73	76	80
Total Current Assets	2,081	1,753	2,137	2,256	2,118	2,429	2,339	2,847	3,132	3,536
Total assets	4,587	4,202	4,344	4,522	4,811	5,543	5,295	5,673	5,831	6,193
Total Equities	2,326	2,396	2,493	2,848	3,102	3,130	3,161	3,318	3,560	3,874
Non current borrowings	451	412	305	65	44	430	303	302	165	116
Other Non current liabilities	400	340	343	286	302	309	324	322	321	321
Total Non current liabilities	851	752	648	351	346	739	627	624	486	436
Current borrowings	430	82	93	91	43	24	156	31	31	31
Trade Payables	709	772	972	997	1,153	1,489	1,114	1,455	1,500	1,588
Other Current Liabilities	271	200	138	235	167	161	237	245	254	263
Total Current Liabilities	1,410	1,053	1,203	1,323	1,363	1,674	1,507	1,732	1,785	1,882
Total equity & liabilities	4,587	4,202	4,344	4,522	4,811	5,543	5,295	5,673	5,831	6,193

Cash Flow (Consolidated)

CashFlow									
Y/E Mar, INR mn	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Pre-tax profit	-23	123	321	245	-16	11	177	286	367
Depre & Other Items	300	160	207	191	239	244	210	193	199
Chg in working capital	323	354	-152	-100	154	-77	-189	-34	-257
Cash flow from operating activities	600	637	376	336	378	178	198	444	309
Capital expenditure	-137	55	-216	-661	-650	-51	-92	-100	-200
Other investing activities	-7	-4	-9	-6	-9	-3	-5	-6	-6
Cash flow from investing activities	-144	50	-226	-667	-659	-53	-97	-106	-206
Equity raised/(repaid)	-1	20	33	30	19	1	-1	0	0
Debt raised/(repaid)	-396	-218	-242	-68	366	75	-126	-137	-50
Other financing activities	-65	-9	-41	-9	-3	10	-9	-8	-8
Cash flow from financing activities	-461	-207	-250	-47	382	86	-135	-145	-57
Net chg in cash	-6	480	-100	-378	101	210	-34	194	46
Opening cash balance	35	30	510	411	33	134	344	310	504
Closing cash balance	30	510	411	33	134	344	310	504	550

Ratios (Consolidated)

Ratios	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Per Share data									
EPS (INR)	5.0	4.1	22.3	15.5	0.6	2.0	10.8	16.6	21.5
Growth, %	-23.5%	-18.1%	446.2%	-30.4%	-95.9%	226.0%	427.1%	53.6%	29.9%
Book NAV/share (INR)	167.8	173.7	197.3	214.2	214.6	216.6	227.4	244.0	265.5
DPS (INR)									
Return ratios									
Return on assets (%)	2.91%	2.66%	14.21%	8.35%	0.29%	1.01%	5.57%	8.97%	11.84%
Return on equity (%)	2.97%	2.35%	11.30%	7.25%	0.29%	0.95%	4.75%	6.80%	8.11%
ROCE (%)	3.41%	4.37%	11.91%	9.14%	0.57%	2.22%	7.69%	10.42%	11.92%
Turnover ratios									
Asset turnover (x)	1.2	1.2	1.4	1.5	1.2	1.3	1.5	1.6	1.8
Sales/Working Capital (x)	7.3	11.9	12.5	9.8	10.9	13.7	10.6	11.4	9.9
Receivable days	64.5	67.3	57.6	57.6	71.2	66.0	61.0	55.0	55.0
Inventory days (on sales)	59.8	43.7	38.4	44.6	48.2	46.0	44.0	42.0	42.0
Payable days (on sales)	57.2	70.6	55.6	59.7	80.6	73.0	62.0	57.0	53.0
Working capital days	67.0	40.3	40.4	42.5	38.7	39.0	43.0	40.0	44.0
Liquidity ratios									
Current ratio (x)	1.6	1.4	1.4	1.5	1.4	1.3	1.5	1.5	1.6
Quick ratio (x)	0.9	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9
Interest cover (x)	1.3	2.4	9.3	13.2	1.1	1.8	3.0	3.9	4.4
Dividend cover (x)	-	-	-	-	-	-	-	-	-
Total debt/Equity (%)	0.21	0.16	0.05	0.03	0.14	0.15	0.10	0.06	0.04
Net debt/Equity (%)	0.19	(0.04)	(0.09)	0.02	0.10	0.04	0.01	(0.09)	(0.10)
Valuation									
PER (x)	4.9	5.3	22.0	15.3	0.6	2.0	10.8	16.6	21.5
PEG (x) - y-o-y growth	(0.2)	(0.3)	0.0	(0.5)	(0.0)	0.0	0.0	0.3	0.7
Price/Book (x)	2.1	2.0	1.7	1.6	1.6	1.6	1.5	1.4	1.3
EV/Net sales (x)	1.0	0.9	0.7	0.7	0.8	0.7	0.6	0.5	0.4
EV/EBITDA (x)	19.7	14.1	8.0	10.1	24.3	17.4	9.5	7.1	6.0
EV/EBIT (x)	47.9	33.4	11.7	15.2	228.9	58.1	15.8	10.6	8.5

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800

Registered Office

6 Lad Colony,
 Y.N. Road,
 Indore - 452003, (M.P.)
 Tel: (91-731) 4217100/101
 CIN: L66120MP1992PLC007182

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

Absolute Return

Research Analyst
 Registration No.

Contact

Website

Email Id

INH000002764

SMS: 'Arihant' to 56677

www.arihantcapital.com

instresearch@arihantcapital.com

Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800