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Tile competition turns benign on gas supply challenges

- **Real estate completion cycle driving demand recovery, with OBL's volume and value growth gaining momentum in Q1FY27**
- **Gas led cost inflation being absorbed through price hikes, with margin trajectory stable-to-improving on the back of operating leverage**
- **Orient Bell, with robust cash flow generation and existing installed capacity, is well placed to capture rising domestic tile demand**

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Demand recovery gaining traction; Q1FY27 trends remain healthy: Management highlighted a meaningful improvement in industry demand, with growth accelerating to ~8% YoY in Q4FY26, supported by the real-estate completion cycle as projects launched during FY22-23 enter the tiling stage. Orient Bell's (OBL) capacity utilization increased to 70-75% in Apr-May'26 from 65% in Q4FY26. Management indicated demand momentum remains healthy in Q1FY27, supported by both volume growth and higher realisations.

Morbi resumes operation in May; challenges persists for smaller players: Following the Mar-Apr'26 disruption, 75-80% of Morbi units resumed operations by May'26, although labour shortages initially constrained utilization levels. Management noted Morbi manufacturers currently have order visibility of 20-25 days and are contemplating another round of price hikes of Rs 3-4/sq ft in Jun'26 amid further increases in gas costs. Some smaller and less-efficient units may remain structurally challenged.

Shift towards organised players on supply challenges: The disruption has prompted several dealers to diversify sourcing beyond Morbi to ensure supply reliability. Management indicated that dealers who were previously fully dependent on Morbi are increasingly adding organized brands to their product portfolio. This trend, coupled with improved service levels and product availability, is supporting market share gains for organized players.

Gas inflation driving price hikes across companies: OBL's blended gas cost increased to Rs 60/scm in Q1FY27 from Rs 46/scm in Q4FY26, with sharp increases across all regions. To offset higher costs, the company implemented cumulative price hikes of 18-20% during Mar-May'26, while Morbi manufacturers increased prices by 35-40% and other organized players by 15-20%.

Pricing power keeping margin intact: Management believes current price hikes are sufficient to offset existing cost pressures and absorb a further Rs 1-2/scm increase in gas prices. Demand has remained resilient despite higher prices, aided by healthy project activity and limited supply availability. Consequently, management expects margins to remain stable-to-improve going forward.

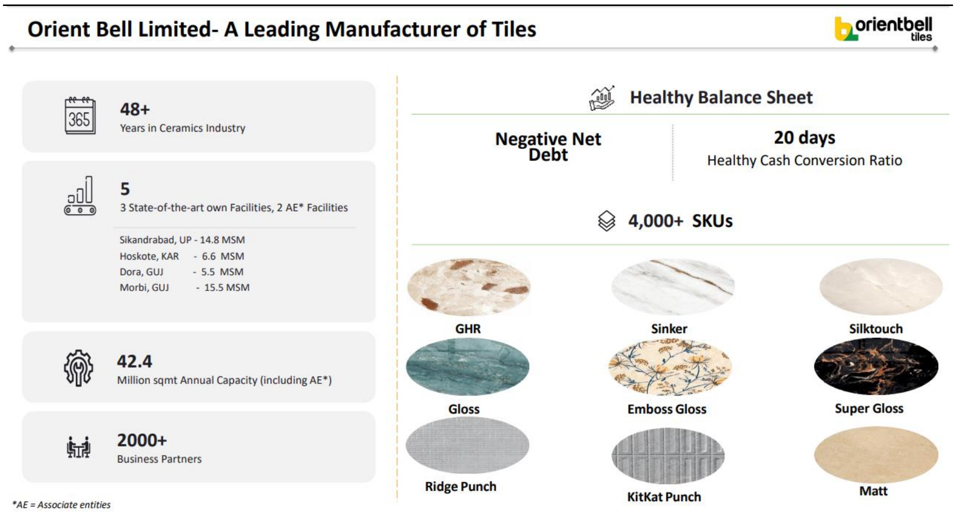
Premiumisation strategy delivering improvement in realisations: The company's product mix continues to improve, with vitrified tiles now accounting for 60% of sales versus 40% four-five years ago, which was a lower mix vs industry. GVT contributes 41-42% of overall sales and nearly two-thirds of vitrified volumes. Management noted that premium products have enabled the company to command pricing above inflation-led cost increases.

Technology led demand generation: OBL continues to invest in digital demand generation through AI-enabled visualization tools, online lead generation and dealer-support initiatives. Management highlighted that online-generated leads now contribute 8-9% of revenues and are helping improve dealer inventory turns and customer conversion rates.

Working capital improvement: DSO down 11 days, discipline to sustain: Working capital days improved by 6 days YoY to 20 days at FY26-end, while DSO reduced to 48 days from 59 days. Management attributed the improvement to stronger secondary sales, tighter credit discipline and better dealer inventory liquidation. Ad spends stood at 3.6% of FY26 revenue and is expected to increase by 10% in FY27.

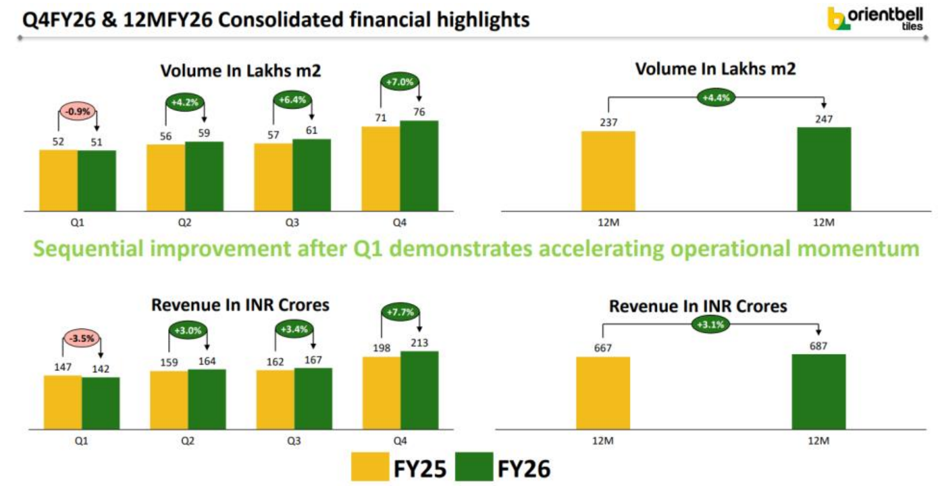
No near term capacity expansion, focus on efficiency and fuel optimisation: Management does not intend to undertake any major capacity additions during FY27 and will reassess expansion opportunities based on demand trends. The company remains focused on operational efficiency and fuel optimization, with 40% of power requirements currently met through biofuels and additional alternatives under evaluation.

Fig 1 – Orient Bell: Established tile player with pan-India presence



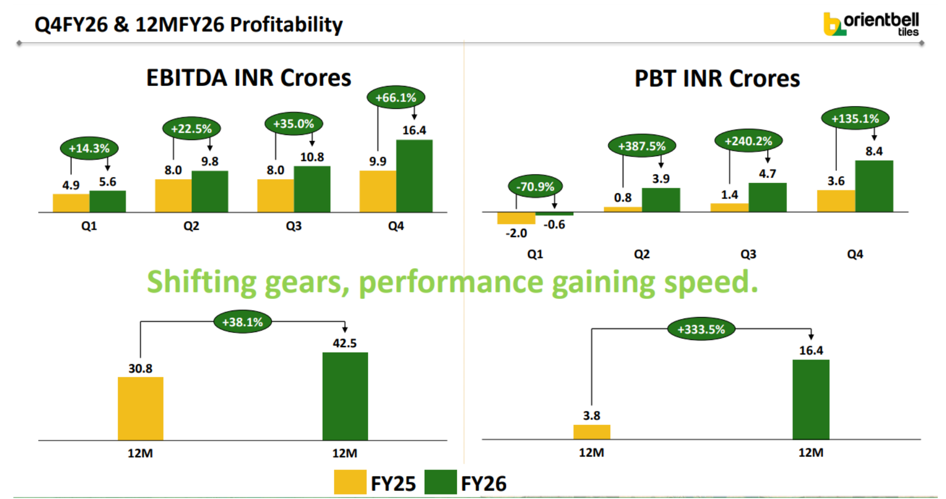
Source: Orient Bell Investor Presentation, BOBCAPS Research

Fig 2 – Demand recovery driving volume and revenue growth



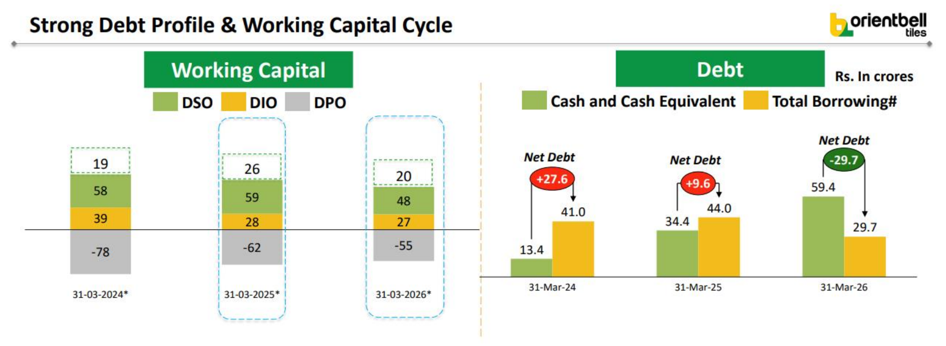
Source: Orient Bell Investor Presentation, BOBCAPS Research

Fig 3 – Operating leverage supports profitability improvement



Source: Orient Bell Investor Presentation, BOBCAPS Research

Fig 4 – Improving Cash Conversion and Net Debt Position



- Steadily enhancing working capital efficiency driven by tighter debtor management and collections discipline.
- Negative Net debt (Rs 29.8 crores).
- Ample liquidity available to accelerate growth initiatives.

Notes :
1. Day Sales Outstanding (DSO) and Days Inventory Outstanding (DIO) computed on the basis of sales while Days Payable Outstanding (DPO) derived using Cost of Goods Sold.
2. Working Capital (WC) Cycle or Cash Conversion Cycle (CCC) Days = DSO + DIO - DPO
*3. *Calculated based on last 3 Trailing Months*
4. # Includes Short term + Long term Borrowings'.
5. Cash and cash equivalent includes short term investments.

Source: Orient Bell Investor Presentation, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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