



## Company Report

### Orient Abrasives Ltd.

30<sup>th</sup> August'08

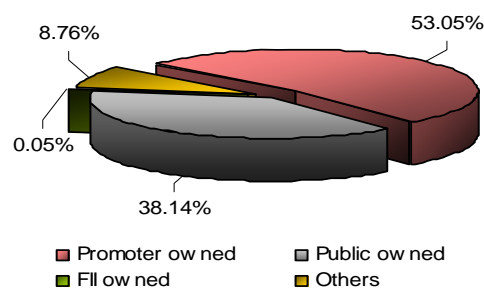
BUY

<b>CMP</b>	<b>Rs 27.00</b>
<b>Target Price</b>	<b>Rs 36.00</b>

BSE Code	504879
NSE Code	Orientabra
Market Cap (Rs Mn)	Rs 1621.11
52 Week High/Low	41.90/17.80
Industry	Abrasives
Face Value	Re 1
Shares O/S	5, 98, 19,600
Avg Daily Vol (30 Days)	0.11

EPS	4.60
CEPS	6.05
Book Value	17.08
Beta	1.08
P/E	5.89
P/B	1.59

#### Shareholding Pattern



### Company Snapshot

Orient Abrasives' principal activity is to manufacture abrasive grains, refractory and monolithic products. The Company operates in three segments namely Refractories and Monolithics, Oxide Grains and Bonded Abrasives. The Company's product includes fused aluminum oxide grains, slide gate and continuous casting refractories, refractory cement and castables.

### Q1FY09 Performance Highlights

Particulars	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Rs Mn Q2FY09
Sales	543.40	546.23	572.92	627.52	784.64
Operating Profit	66.29	71.37	102.10	140.01	207.70
PAT	32.85	37.79	50.62	73.50	113.08
Operating Margin%	12.20	13.07	17.82	22.31	26.47
Net Profit Margin %	6.05	6.92	8.84	11.71	14.41
EPS	0.55	0.63	0.85	1.23	1.89
CEPS	0.80	0.91	1.22	1.65	2.27

- The company has posted excellent results for the quarter ended June 2008. The net sales for the quarter stood at Rs 784.64 million against Rs 543.40 million clocked last year showing a growth of 44.39 per cent. Refractories and Monolithics contributed 507.99 million while fused aluminum and calcined products earned 387.14 million and the power division added 83.61 million to the turnover.
- On the other hand the expenditures have also increased by 20.92 per cent. Operating profit stood at Rs 207.70 million against Rs 66.29 million clocked in Q2FY08 portraying a whopping growth of 213.32 per cent and indicating the operational strength of the company. Interest expenses have risen by 38.96% in Q2FY09 to Rs 17.94 million. The bottom line stood at Rs 113.08 million versus Rs 32.85 million in the corresponding quarter in the previous year, showing a sharp growth of 244.23 per cent.
- On the margins front, the company has emerged victorious in keeping the margins intact. Operating margins for Q2FY09 stood at 26.47 per cent showing an expansion of 1427 bps while the net profit margins also saw a massive surge of 837 bps to 14.41 per cent in the quarter ended June 2008. Looking at shareholder's value, the EPS of the company for Q2FY09 stood at Rs 1.89 against Rs 0.55 clocked a year ago; CEPS stood at Rs 2.27 versus cash earning of Rs 0.80 a year ago.

### **Business Details**

Orient Abrasives Limited engages in the manufacture and sale of calcined and fused alumina products in India. Its products include calcined bauxite, brown fused alumina, white fused alumina, pink fused alumina, white fused mullite, high alumina refractory cement, zirconia mullite, and alumina magnesia. The company's products also consist of refractories and monolithics, including casting refractories, slide gate plates, nozzles and well blocks, tundish nozzles, bottom purging refractories and top purging lances, slag arresting darts, spray masses, and castables. It serves iron and steel industries, and cement and nonferrous companies, as well as grinding wheel and refractory manufacturers. It supplies to all the major core sector companies such as Tata Steel, Jindal Strips, Gujarat Ambuja, L&T Cement, Hindustan Zinc, Hindustan Copper. Its other clients include OCL India, Grindwel Norton, Carborundum Universal, Premier Abrasives, Tata Refractories and ACC Refractories. Orient Abrasives also exports its products to Spain, Turkey, Egypt, Indonesia, Saudi Arabia, Thailand, and Greece. The company was incorporated in 1971 and is headquartered in New Delhi, India.

### **Industry Outlook**

The Indian abrasives industry is characterized by diverse user industries, an insignificant threat from substitute products, adequate raw material availability and extensive application in the industry. The industry has shown a healthy rate of growth as a result of strong momentum seen in the fabrication segment, chemicals, pharmaceuticals and equipment manufacturer industries. The buoyancy in the construction and infrastructure space has rendered higher demand for abrasives. The pick up in the core sectors of the economy has started seeping into industries at the lower end of the manufacturing cycle. Orient Abrasives is one such company that has bright business prospects on the back of the buoyant core sector.

### **Investment Rationale**

- Orient Abrasives makes fused alumina abrasive grains and refractory raw material. The grains are used in core sectors such as cement, steel and copper and zinc smelters, refractories, ceramic industry and in manufacturing grinding wheels. The growth prospects for user industries in the core sectors and engineering sector appear bright in the near-to-medium term. This would, in turn, generate higher revenues and earnings for the company.
- The company has set up a 8.5 mw power plant, which became operational in October 2007. With power as a major cost constituent in production of grains, it is likely to save more than Rs 8 crore per annum.

## Financial Matrix

Rs Million

Particulars	FY06	FY07	FY08
Total Income	1609.58	1858.33	2299.7
Growth%	-----	15.45	23.75
Expenditure	1332.09	1641.16	1910.29
EBITDA	277.49	217.17	389.41
Growth%	-----	(21.74)	79.31
EBITDA margin	17.24	11.69	16.93
Other income	18.38	14.74	21.08
Depreciation	47.27	57.63	79.22
EBIT	248.60	174.28	331.27
Interest	26.00	26.43	61.42
PBT	222.60	147.85	269.85
Tax	65.23	77.46	75.10
Adjusted PAT	157.37	70.39	194.75
Growth %	-----	(55.27)	176.67
Net Profit margins	9.78	3.79	8.47
Extraordinary Income	0.00	184.56	0.00
Reported PAT	157.37	254.95	194.75
Equity Capital	59.83	59.83	59.83
Reserves & Surplus	593.65	723.17	848.81
Net Worth	653.48	783.00	908.64
EPS	2.63	1.18	3.26
CEPS	3.42	2.14	4.58

### Past Price movement of the stock



### Valuation

The company with strong hold in the sector supplemented by robust demand for its products, rising prices, gains from capacity addition and backward integration make the stock attractive in the medium to long term. The global scenario also offers positive outlook as strong momentum seen in the fabrication segment, chemicals, pharmaceuticals and equipment manufacturer industries. Orient Abrasives is one such company that has bright business prospects on the back of the buoyant core sector.

Presently, the stock is trading at Rs 27 which is at 5.89 times to its earnings and 1.59 times to its book value of Rs 17.08. Since the stock seems to offer extremely good investment opportunities, we initiate a 'BUY' signal on the stock with a target price of **Rs 36** in medium to long term investment horizon expecting an appreciation of about 33 % from the current level of **Rs 27**.

[www.hemonline.com](http://www.hemonline.com)

[research@hemonline.com](mailto:research@hemonline.com)

HEM SECURITIES LIMITED

MEMBER-BSE,CDSL

MUMBAI OFFICE: 14/15, KHATAU BLDG., 1ST FLOOR, 40, BANK STREET, FORT, MUMBAI-400001

PHONE- 0091 22 2267 1000

FAX- 0091 22 2262 5991

JAIPUR OFFICE: 203-204, JAIPUR TOWERS, M I ROAD, JAIPUR-302001

PHONE- 0091 141 405 1000

FAX- 0091 141 510 1757

GROUP COMPANIES

HEM FINLEASE PRIVATE LIMITED

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