



## Orient Abrasives

Rs 34

*A dominant player in a niche segment*

Sensex: 17,992

Nifty: 5,409

### FINANCIAL SUMMARY

	NET SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	TAX	PAT	EPS (RS)*
1103 (12P)	388.8	26	101.09	0.12	101.21	3.19	98.02	12	86.02	24.08	61.93	5.2
1003 (12)	324	25.3	81.85	0.1	84.17	4.56	79.61	10.81	68.8	17.64	51.16	4.3
0903 (12)	304.46	20.8	63.18	0.15	65.78	7.03	58.75	9.71	49.04	17.2	31.84	2.7
0803 (12)	241.26	17	41.05	0.13	41.18	6.27	34.91	7.92	26.99	7.51	19.48	1.6

\* On current equity of Rs 11.97 crore. Face Value: Re 1. (P): Projections. Figures in Rs crore.

Source: Capitaline Databases

Orient Abrasives (OAI) was set up in 1974, in technical collaboration with Karborundum, Bentueky, Czechoslovakia by the Rajgarhia group of industries as a venture to manufacture Calcined and Fused Alumina products. Today, the Company enjoys the position of being the largest producer of Calcined and Fused Products in India.

Orient Abrasives manufactures bauxite based high alumina raw material for grinding wheel manufacturers (Vitrified, Resinoid & Coated Products) and refractory manufacturers. Alumina grains are also used for shot blasting & cleaning purpose. The company also manufactures Castable Refractory, which is supplied to different steel and cement plants.

Notably, OAL is the largest manufacturer of synthetic raw material like Brown Fused Alumina, White Fused Alumina, Pink Fused Alumina, White Fused Mullite, Calcined Bauxite, High Alumina Refractory Cement, Zirconia Mullite (ZIRMUL), Almag (Spinnel). It has its own mines of raw bauxite, which is the basic raw material for its products.

The company has three business divisions namely the Abrasives Grains Division (AGD) at Porbander, Gujarat that manufactures fused alumina grains and calcined products and the Refractory Division (RD) that manufactures refractories and monolithics and the Power Division. The Abrasives Grains Division, the first of Company's all divisions, was established in the year 1974.

Thereafter the company established the Bonded Abrasives Division in 1980 at Bhiwadi, Rajasthan, which was divested in the year 2006-07. The Refractory Division was set up in the year in 1985 at Bhiwadi, Rajasthan.

The company also has a Power Division that generates electricity for captive consumption, which was expanded in 2007-08 with the addition of a 9 MW coal based thermal power plant.

During 2009-10 the company ventured into green energy projects by setting up 4 wind turbines of a total generation capacity of 5.1 MW and the capacity shall be further increased in the current year.

#### Dominant position

In terms of the nature of output the Company's business division can be trifurcated into i) Fused Aluminium Oxide Grains including Calcined Products and ii) Refractories and Monolithics and iii) Electricity (Power Division).

The Abrasives Grains Division at Porbander is the first manufacturing unit set up by the Company. The Division manufactures calcined bauxite and fused aluminium oxide abrasive



### STOCK DATA

<b>BSE Code</b>	:	504879
<b>BSE Group</b>	:	S
<b>NSE Code</b>	:	ORIENTABRA
<b>Bloomberg</b>	:	OA IN
<b>Reuters</b>	:	ORNT.BO
<b>52-week High/Low</b>	:	Rs 37/Rs 19
<b>Sector</b>	:	Pharmaceuticals

### SHAREHOLDING PATTERN \*

Category	% of equity
Foreign	: 0.48
Institutions	: 0.05
Corporate Holding	: 10.33
Promoters	: 53.44
Public & Others	: 35.7
Totals	: 100

\* as on 30<sup>th</sup> June 2010

Source: Capitaline Corporate Database

grains. Raw bauxite and calcined alumina are the basic raw materials used for the manufacture of abrasive grains. Raw bauxite is procured from mines owned by the Company and others and calcined alumina is purchased from aluminium companies. A portion of these products is captively consumed by the Refractory Division at Bhiwadi and are also sold in the domestic market.

The Refractory Division unit manufactures various types of continuous casting and slide gate refractories, low cement castables etc. which are exclusively consumed in the steel plants.

The Refractory Division exports a fair share of its output to various overseas customers. The major export customers are based in Egypt, Turkey, Indonesia, Italy, Pakistan, Kingdom of Saudi Arabia, Sultanate of Oman, Greece, Nigeria, Azerbaijan, Malaysia, Bulgaria, Thailand, Iran, etc.

OAL caters to almost 70% of the domestic demand for fused aluminium oxide grains. Over 60% of the demand for calcined products and 20% for monolithic products is met by the company.

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.

#### **18 MW power division for captive consumption; power from windmill is sold to the state**

The Company has a total thermal power plant capacity of 18 MW out of which 9 MW is based on coal and 9 MW on furnace oil. The thermal power plant based on coal is more economical and is operated at full capacity. The electricity from this power division is meant for captive consumption by the manufacturing division at Porbander.

The company has set up wind mills of total power generation capacity of 5.1 MW in FY 2010. The power generated by these plants is sold to the respective state power distribution companies.

FY 2010 sales were up 6% and net profit had jumped 61% despite unfavourable conditions; OPM soared 450 basis points

In FY 2010, the company registered 6% rise in sales to Rs 324.00 crore. However a 450 basis points improvement in OPM from 20.8% to 25.3% took OP higher by 30% to Rs 81.85 crore.

Other income fell 33% to Rs 10 lakh against Rs 15 lakh and interest cost fell 35% to Rs 4.56 crore.

After providing for depreciation (up 11% to Rs 10.81 crore), PBT jumped 40% to Rs 68.80 crore.

As taxation grew just 3% to Rs 17.64 crore, net profit soared 61% to Rs 51.16 crore.

#### **Buoyant outlook**

The demand for abrasive grains will continue to be stable in future while that for refractories is likely to be higher. This is in view of the emphasis laid by the Government on core infrastructure development paving way for increased production of steel.

Since the abrasive grains division is a power intensive unit, the cost of production largely depends on the cost of fuel which is very inconsistent. However the company has a huge 18 MW power plant in place for captive consumption.

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The company is a dominant and fully integrated player in Calcined and Fused Products in India. The Company has a total thermal power plant capacity of 18 MW out of which 9 MW is based on coal and 9 MW on furnace oil. It has set up wind mills of total power generation capacity of 5.1 MW in FY 2010. The power generated by these plants is sold to the respective state power distribution companies

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Thus the management is confident that the future of its manufacturing divisions is encouraging. The management is confident that despite the crisis in Europe, export of refractories shall grow in the current year and the wind power division will definitely yield the desired results as the future belongs to renewable energy and green environment friendly projects.

#### Valuation-available at a P/E of just 6.4

In FY 2011 we expect the company to register sales and net profit of Rs 388.80 crore and Rs 61.93 crore respectively. On equity of Rs 11.97 crore and face value of Re 1 per share, EPS works out to Rs 5.2 The share price trades at Rs 34. P/E works out to just 6.5. Buy with a medium term target price of Rs 42.75.

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### ORIENT ABRASIVES: RESULTS

	1003 (3)	0903 (3)	VAR. (%)	1003 (12)	0903 (12)	VAR. (%)
Net sales	82.22	71.07	16	324.00	304.46	6
OPM (%)	21.8	23.9		25.3	20.8	
OP	17.96	17.02	6	81.85	63.18	30
Other inc.	-0.13	-0.22	-41	0.10	0.15	-33
PBIDT	19.52	17.31	13	84.17	65.78	28
Interest	1.32	1.67	-21	4.56	7.03	-35
PBDT	18.2	15.64	16	79.61	58.75	36
Dep.	2.73	2.56	7	10.81	9.71	11
PBT	15.47	13.08	18	68.8	49.04	40
Tax	3.22	5.34	-40	17.64	17.2	3
PAT	12.25	7.74	58	51.16	31.84	61
EPS (Rs)*	4.1	2.6		4.3	2.7	

\* On current equity of Rs 11.97 crore. Face Value: Re 1. (P): Projections. Figures in Rs crore.

Source: Capitaline Databases

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