

HOLD

TP: Rs 250 | ▲ 4%

ORIENT ELECTRIC

Consumer Durables

04 August 2023

Reasonably healthy quarter

- Q1 topline grew 14% YoY led by ECD, with gross margin up 290bps though EBITDA margin was flat on higher wages
- New FY24 strategy to boost premiumisation, plug distribution gaps and train the spotlight on B2B lighting
- We retain estimates and roll over to a new TP of Rs 250 (vs. Rs 240); maintain HOLD

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Healthy Q1: ORIENTEL posted 14% YoY topline growth in Q1FY24 led by the electrical consumer durables (ECD) and switchgears businesses. The ECD segment grew 16% YoY to Rs 5.2bn while lighting and switchgears grew 8% to Rs 1.9bn. ECD growth surpassed HAVL's 5% and POLYCAB's 2% print during Q1. Exports increased 38% YoY despite headwinds in key international markets of Sudan, Sri Lanka and Ghana. The company aims to achieve an overall topline of US\$ 1bn in the next 5-6 years.

Gross margin improvement offset by wage costs: Gross margin expanded 290bps YoY to 30.7% on the back of (i) a favourable product mix with a higher contribution from "hero" products that the company defines as premium products that are expected to foster higher growth, (ii) Project Sanchay – a cost savings programme that led to savings of Rs 150mn in Q1 (Rs 600mn in FY23), and (iii) lower commodity prices that were partially offset at the EBITDA level by higher employee cost and other expenses.

Working capital has improved: The working capital cycle reduced to 13 days during the quarter (vs. 25 days in Q1FY23). This can be attributed to two reasons – firstly, sluggish consumer demand led to an inventory pileup last year, causing a greater difference in the working capital cycle on an annual basis. Secondly, the company demonstrated better inventory and cash management in terms of receivables collection and payables.

New FY24 strategy: ORIENTEL is adopting a strategy to boost premiumisation and increase its focus on B2B lighting, especially B2G, while targeting ~5% revenue growth from switchgears and wires in FY24. Further, the company has identified gaps in distribution and plans to launch its own D2C network in FY24. Management expects e-commerce and large-format retail sales to double in two years.

Maintain HOLD: We retain our estimates and continue to value the stock at a 30x P/E multiple – at a 5% discount to the stock's 3Y average. On rolling valuations over to Jun'25E, our TP stands revised to Rs 250 (vs. Rs 240), which offers just 4% upside and leads us to maintain our HOLD rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 240
Market cap	US\$ 619.8mn
Free float	62%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 291/Rs 216
Promoter/FPI/DII	38%/6%/28%

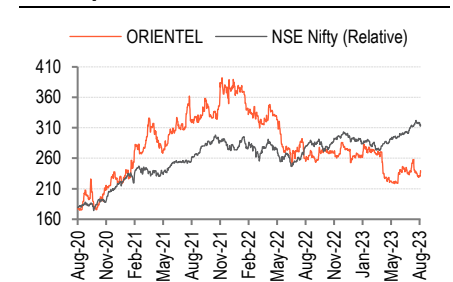
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,591	34,326
EBITDA (Rs mn)	1,510	2,518	3,094
Adj. net profit (Rs mn)	759	1,322	1,698
Adj. EPS (Rs)	3.6	6.2	8.0
Consensus EPS (Rs)	3.6	7.1	8.4
Adj. ROAE (%)	13.5	21.2	23.8
Adj. P/E (x)	67.3	38.6	30.1
EV/EBITDA (x)	33.7	20.2	16.5
Adj. EPS growth (%)	(40.3)	74.2	28.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	7,056	6,216	13.5	6,579	7.3
EBITDA	440	382	15.3	464	(5.1)
EBITDA Margin (%)	6.2	6.1	10bps	7.0	(80bps)
Depreciation	143	128		137	
Interest	59	52		61	
Other Income	29	52		63	
PBT	266	254	4.8	328	(19.0)
Tax	69	64		82	
Adjusted PAT	197	190	3.9	246	(20.0)
Exceptional item				0	
Reported PAT	197	190	3.9	246	(20.0)
Adj. PAT Margin (%)	2.8	3.0	(30bps)	3.7	(25bps)
EPS (Rs)	0.9	0.9	3.9	1.2	(20.0)

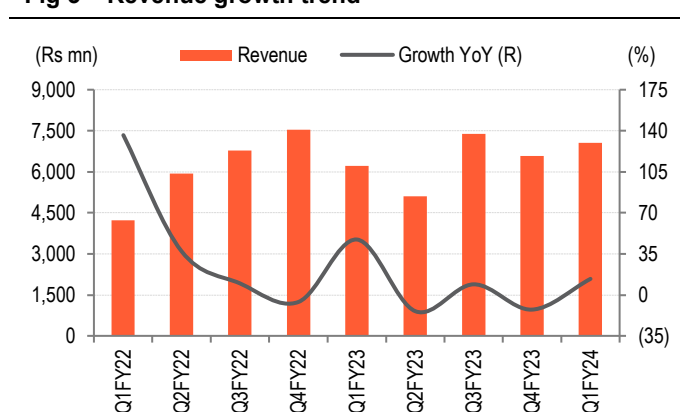
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue													
Electrical Consumer Durables (ECD)	1,035	3,044	4,605	6,456	3,241	4,198	4,813	5,741	4,453	3,100	5,388	4,577	5,150
Lightning & Switchgear	753	1,294	1,579	1,561	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003	1,906
EBIT													
Electrical Consumer Durables (ECD)	(71)	512	685	926	227	516	534	736	372	137	645	445	492
Lightning & Switchgear	48	189	230	225	103	276	289	281	232	227	311	391	307
Margin (%)													
Electrical Consumer Durables (ECD)	(6.8)	16.8	14.9	14.3	7.0	12.3	11.1	12.8	8.3	4.4	12.0	9.7	9.5
Lightning & Switchgear	6.4	14.6	14.6	14.4	10.5	15.8	14.7	15.7	13.2	11.3	15.6	19.5	16.1

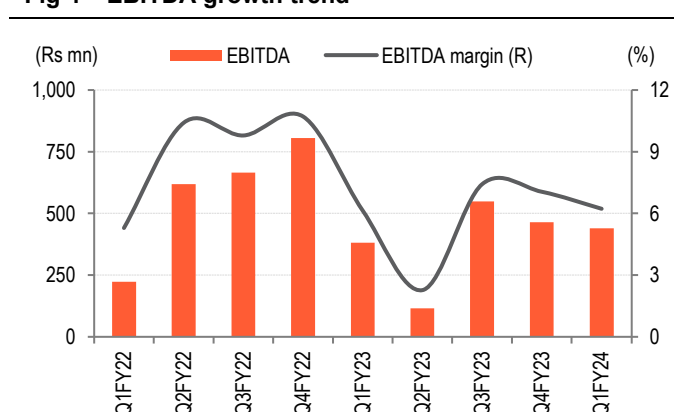
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



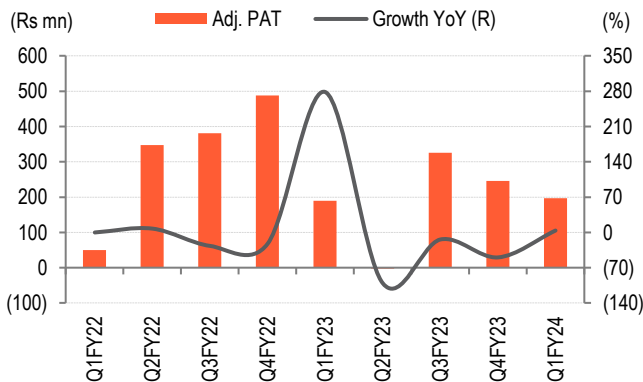
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



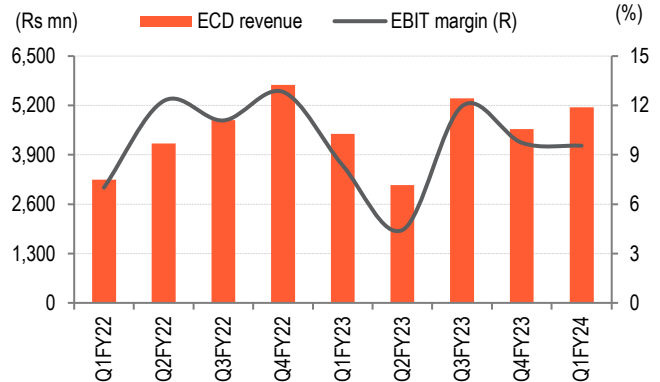
Source: Company, BOBCAPS Research

Fig 5 – Profit growth trend



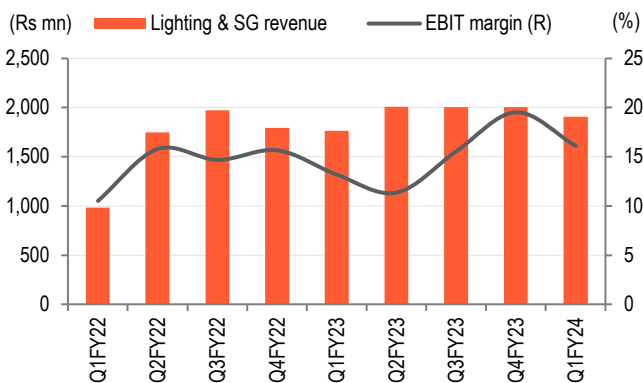
Source: Company, BOBCAPS Research

Fig 6 – ECD segment performance



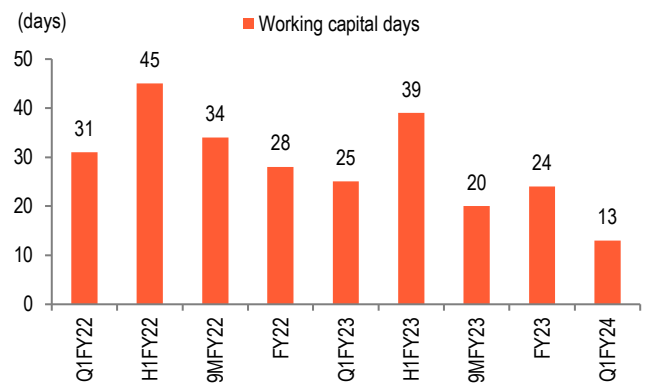
Source: Company, BOBCAPS Research

Fig 7 – Lighting and Switchgear segment performance



Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



Source: Company, BOBCAPS Research

Earnings call highlights

- Employee cost:** Employee cost rose 43% YoY to Rs 671mn on account of (i) overprovisioning in FY22 and under-provisioning in FY23 that caused a reversal effect in Q1FY23 and Q1FY24 respectively; and (ii) recruitment in the wires business. On a normalised basis, employee cost should clock in at Rs 2.5bn for the full fiscal year (Rs 2bn in FY23).
- Premiumisation:** ORIENTEL is transitioning to more premium products and as a result, gross margin inched up to 6.2% in Q1FY24 vs. 6.1% in Q1FY23. Premium products grew 32% YoY for the quarter.
- E-commerce and modern retail:** E-commerce and modern retail grew 58% YoY, albeit on a low base. The company is taking steps to double sales from this channel in two years.
- Greenfield plant:** The greenfield plant set up in Hyderabad will be ready for commissioning once certain technicalities are complete. The company has spent Rs 1.3bn-1.4bn on this plant through internal accruals.
- Balance sheet:** ORIENTEL had a net cash position of Rs 1.6bn in Q1FY24 (vs. Rs 1.5bn in Q4), after the Hyderabad project spend.

- **Working capital:** Working capital cycle improved to 13 days from 25 days in Q1FY23.

ECD

- **Revenue:** The ECD business grew 13.5% YoY despite muted consumer sentiment, outdoing HAVL's 5% and POLYCAB's 2% print during Q1.
- **Fans:** Volume growth in the fans segment stood at 10% YoY while value growth was at 16%. The difference between the two was mostly due to reduction in channel inventory pursuant to the new energy ratings. The premium segment did well, contributing to 32% of segment revenue. This is largely a B2C business, but management sees opportunities in B2B as well.
- **Other appliances:** Water heaters grew 23% YoY during the quarter, whereas air cooler sales were impacted by unseasonal rains in the northern and western markets. Per management, the summer season this year was shorter and cooler, which hurt sales of most companies in the cooling business. Small appliances grew 32% YoY led by tier-2/3 cities.

Lighting and Switchgears

- **Lighting:** The lighting industry saw price erosion of close to 20% in Q1, in line with that reported by competitors. Despite this, ORIENTEL posted 3% YoY growth in lighting as compared to a 1% decline registered by HAVL. The B2C category was flat with steady market share, whereas B2B grew 30%. The company expects good growth in B2B and has launched new products in the lighting space, especially catering to the B2G subsegment (business-to-government).
- **Switchgears:** Switchgears saw healthy project wins in the real estate sector, while house wires fared well in the states of Punjab and Bihar.

Valuation methodology

ORIENTEL is shifting to a premium product business, even outdoing HAVL in Q1FY24, and focusing on B2B clients to bolster growth. We see a large business opportunity for the company, but note that consumer demand remains muted. We retain our estimates and continue to value the stock at a 30x P/E multiple – at a 5% discount to the stock’s 3Y average. On rolling valuations forward to Jun’25E, our TP stands revised to Rs 250 (vs. Rs 240), which offers just 4% upside and leads us to maintain our HOLD rating.

Fig 9 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E
Sales	29,591	34,326
EBITDA	2,518	3,094
PAT	1,322	1,698
EPS (Rs)	6.2	8.0
EBITDA Margin (%)	8.5	9.0

Source: BOBCAPS Research

Key risks

- Above-industry (HAVL and CROMPTON) growth in the fans segment is a key upside risk to our estimates.
- Slower-than anticipated recovery in the ECD business is a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,504	2,500	HOLD
Blue Star	BLSTR IN	1.8	762	880	BUY
Crompton Greaves	CROMPTON IN	2.3	297	370	BUY
Dixon Technologies	DIXON IN	3.3	4,616	4,300	HOLD
Havells India	HAVL IN	10.0	1,314	1,600	BUY
KEI Industries	KEI IN	2.7	2,425	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	240	250	HOLD
Polycab India	POLYCAB IN	8.4	4,615	5,000	BUY
Syrma SGS	SYRMA IN	1.0	477	600	BUY
V-Guard Industries	VGRD IN	1.5	285	270	HOLD
Voltas	VOLT IN	3.3	819	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	19,993	24,484	25,292	29,591	34,326
EBITDA	1,864	2,313	1,510	2,518	3,094
Depreciation	432	471	535	817	901
EBIT	1,433	1,842	975	1,701	2,192
Net interest inc./(exp.)	(207)	(203)	(222)	(227)	(244)
Other inc./(exp.)	63	58	266	293	322
Exceptional items	0	0	0	0	0
EBT	1,288	1,698	1,019	1,767	2,270
Income taxes	422	431	261	445	572
Extraordinary items	(331)	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,197	1,266	759	1,322	1,698
Adjustments	(331)	0	0	0	0
Adjusted net profit	867	1,266	759	1,322	1,698

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	5,191	4,495	4,530	6,080	7,053
Other current liabilities	1,036	930	1,000	1,170	1,358
Provisions	0	0	0	0	0
Debt funds	614	675	973	757	815
Other liabilities	226	361	297	348	403
Equity capital	212	212	213	213	213
Reserves & surplus	4,344	5,201	5,634	6,427	7,445
Shareholders' fund	4,557	5,413	5,846	6,639	7,658
Total liab. and equities	11,624	11,874	12,646	14,996	17,287
Cash and cash eq.	2,576	1,505	1,642	2,351	2,866
Accounts receivables	3,552	3,904	3,560	4,165	4,831
Inventories	2,492	3,261	2,846	3,330	3,863
Other current assets	345	280	647	757	879
Investments	0	0	0	0	0
Net fixed assets	1,716	1,900	2,902	3,202	3,502
CWIP	0	0	0	0	0
Intangible assets	230	234	216	216	216
Deferred tax assets, net	0	0	0	0	0
Other assets	714	789	833	975	1,131
Total assets	11,624	11,874	12,646	14,996	17,287

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	4,273	114	1,897	2,660	2,439
Capital expenditures	(359)	(423)	(1,136)	(300)	(300)
Change in investments	22	1,172	(58)	0	0
Other investing cash flows	(1,169)	33	95	(908)	(1,002)
Cash flow from investing	(1,506)	782	(1,099)	(1,208)	(1,302)
Equities issued/Others	0	0	1	0	0
Debt raised/repaid	(900)	(208)	(292)	(215)	57
Interest expenses	0	0	0	0	0
Dividends paid	(537)	(588)	(370)	(529)	(679)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,437)	(797)	(661)	(744)	(622)
Chg in cash & cash eq.	1,330	99	137	709	515
Closing cash & cash eq.	2,576	1,505	1,642	2,351	2,866

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	5.6	6.0	3.6	6.2	8.0
Adjusted EPS	4.1	6.0	3.6	6.2	8.0
Dividend per share	2.0	2.0	1.5	2.5	3.2
Book value per share	21.5	25.5	27.5	31.2	36.0

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	2.5	2.1	2.0	1.7	1.5
EV/EBITDA	27.3	22.0	33.7	20.2	16.5
Adjusted P/E	58.8	40.2	67.3	38.6	30.1
P/BV	11.2	9.4	8.7	7.7	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	67.3	74.6	74.4	74.8	74.8
Interest burden (PBT/EBIT)	89.9	92.1	104.6	103.8	103.5
EBIT margin (EBIT/Revenue)	7.2	7.5	3.9	5.7	6.4
Asset turnover (Rev./Avg TA)	11.7	12.9	8.7	9.2	9.8
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.5	0.5	0.5
Adjusted ROAE	21.3	25.4	13.5	21.2	23.8

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(1.7)	22.5	3.3	17.0	16.0
EBITDA	26.2	24.1	(34.7)	66.8	22.9
Adjusted EPS	73.7	46.1	(40.3)	74.2	28.5
Profitability & Return ratios (%)					
EBITDA margin	9.3	9.4	6.0	8.5	9.0
EBIT margin	7.2	7.5	3.9	5.7	6.4
Adjusted profit margin	4.3	5.2	3.0	4.5	4.9
Adjusted ROAE	21.3	25.4	13.5	21.2	23.8
ROCE	19.6	25.2	14.3	21.0	23.7
Working capital days (days)					
Receivables	65	58	51	51	51
Inventory	45	49	41	41	41
Payables	95	67	65	75	75
Ratios (x)					
Gross asset turnover	11.3	13.5	10.5	9.7	10.2
Current ratio	1.4	1.6	1.5	1.4	1.4
Net interest coverage ratio	6.9	9.1	4.4	7.5	9.0
Adjusted debt/equity	0.1	0.1	0.2	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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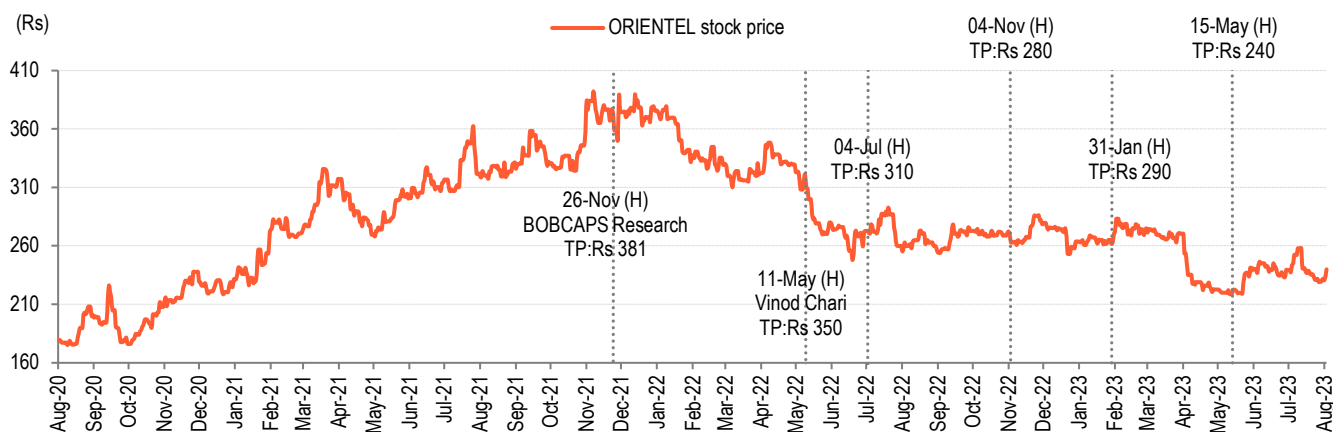
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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Ratings and Target Price (3-year history): ORIENT ELECTRIC (ORIENTEL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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