

HOLD

TP: Rs 240 | ▲ 10%

ORIENT ELECTRIC

Consumer Durables

15 May 2023

Weak end to a challenging FY23

- Growth in lighting & switchgears (+12% YoY) offset by decline in ECD business (-20%) as fans business underperformed in Q4
- New FY24 strategy identifies “hero” products, distribution gaps and B2B lighting as focus areas
- TP cut to Rs 240 (vs. Rs 290) as we pare FY24/FY25 EPS by 12%/8% and roll forward with a revised target P/E of 30x (vs. 35x); retain HOLD

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Subdued quarter: While ORIENTEL recovered in Q3FY23 after hitting a trough in Q2, its performance has slipped once again in Q4. Revenue at Rs 6.6bn fell 13% YoY and was 17%/19% below our/consensus estimates owing to a weaker print in electrical consumer durables (ECD: -20% YoY), partly set off by 12% growth in lighting and switchgears. Gross margin expanded 50bps YoY on lower raw material costs (-13%), but higher other expenses (+14%) dragged EBITDA margin down 370bps YoY to 7%.

ECD demand tepid: ECD revenue at Rs 4.6bn declined 20% YoY (4Y CAGR of -1%) due to muted consumer sentiments and unseasonal rains. Additionally, sales of fans remained weak on account of high channel inventory that had been stockpiled in Q3 ahead of energy rating transition. The company offset rating transition-led costs with effective measures, but lower fan sales led to a 310bps YoY drop in ECD EBIT margin to 9.7%.

Lighting maintains momentum: Improving B2B demand in the lighting and switchgears division aided 12% YoY revenue growth. While the push for infrastructure development is boosting demand for lighting, growth in house wires is aiding offtake in the switchgears segment. The lighting and switchgears division posted a strong 19.5% EBIT margin (+380bps YoY) on the back of a better product mix.

FY24 strategy unveiled: ORIENTEL is adopting a “hero” product strategy to boost premiumisation and increasing its focus on B2B lighting, 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 distribution in FY24. Management expects e-commerce and large-format retail sales to double in two years.

Maintain HOLD: We cut our FY24/FY25 EPS estimates by 12%/8% following a weak FY23 and uncertainty over demand recovery. We value the stock at 30x P/E (earlier 35x) as ORIENTEL lags HAVL (well-positioned in the premium segment) and CROMPTON (overall market leadership) in our pecking order. On rollover to Mar'25E valuations, our TP stands revised to Rs 240 (vs. Rs 290) – HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 219
Market cap	US\$ 564.9mn
Free float	62%
3M ADV	US\$ 0.7mn
52wk high/low	Rs 309/Rs 216
Promoter/FPI/DII	38%/6%/28%

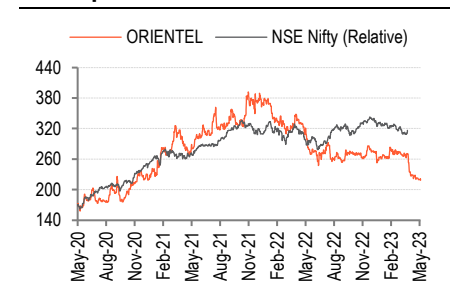
Source: NSE | Price as of 12 May 2023

Key financials

Y/E 31 Mar	FY23P	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	10.0	10.0
Adj. ROAE (%)	13.5	21.2	23.8
Adj. P/E (x)	61.4	35.2	27.4
EV/EBITDA (x)	30.7	18.4	15.0
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)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	6,579	7,533	(12.7)	7,390	(11.0)	25,292	24,484	3.3
EBITDA	464	807	(42.5)	549	(15.5)	1,510	2,313	(34.7)
EBITDA Margin (%)	7.0	10.7	(370bps)	7.4	(40bps)	6.0	9.4	(350bps)
Depreciation	137	119	-	139	-	535	471	-
Interest	61	60	-	60	-	222	203	-
Other Income	63	27	-	86	-	266	58	-
PBT	328	655	(49.8)	436	(24.6)	1,019	1,698	(40.0)
Tax	82	167	-	110	-	261	431	-
Adjusted PAT	246	488	(49.5)	326	(24.4)	758	1,266	(40.1)
Exceptional item	-	-	-	0	-	-	-	-
Reported PAT	246	488	(49.5)	326	(24.4)	758	1,266	(40.1)
Adj. PAT Margin (%)	3.7	6.5	(270bps)	4.4	(15.1)	3.0	5.2	(220bps)
EPS (Rs)	1.2	2.3	(49.5)	1.5	(24.4)	3.6	6.0	(40.1)

Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

Particulars (Rs mn)	Actuals	Estimates	Variance (%)
Revenue	6,579	7,939	(17.1)
EBITDA	464	856	(45.8)
EBITDA Margin (%)	7	10.8	(370bps)
Adj. PAT	246	537	(54.2)

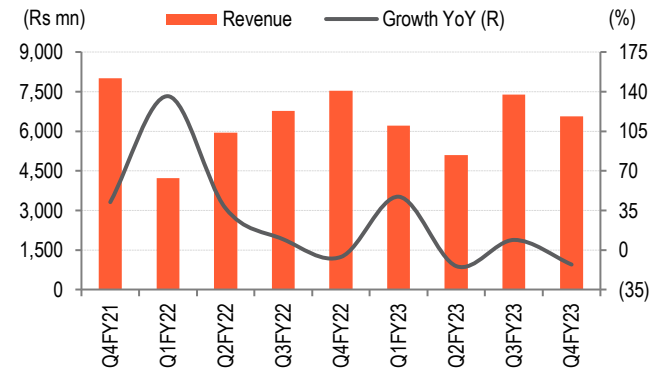
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise performance

Particulars (Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Revenue													
ECD	4,545	1,035	3,044	4,605	6,456	3,241	4,198	4,813	5,741	4,453	3,100	5,388	4,577
Lightning & Switchgear	1,086	753	1,294	1,579	1,561	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003
EBIT													
Electrical Consumer Durables (ECD)	716	(71)	512	685	926	227	516	534	736	372	137	645	445
Margin (%)	15.8	(6.8)	16.8	14.9	14.3	7.0	12.3	11.1	12.8	8.3	4.4	12.0	9.7
Lightning & Switchgear	123	48	189	230	225	103	276	289	281	232	227	311	391
Margin (%)	11.3	6.4	14.6	14.6	14.4	10.5	15.8	14.7	15.7	13.2	11.3	15.6	19.5

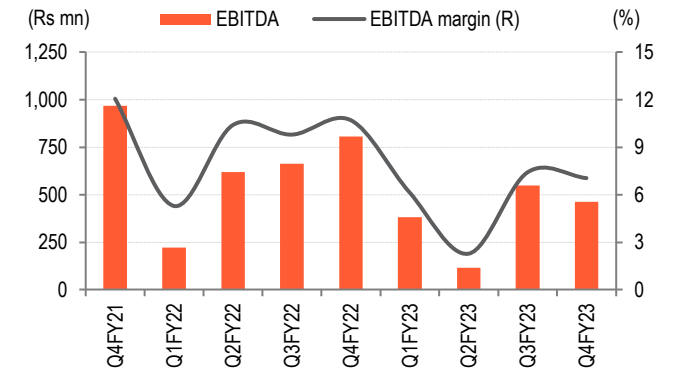
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth trend



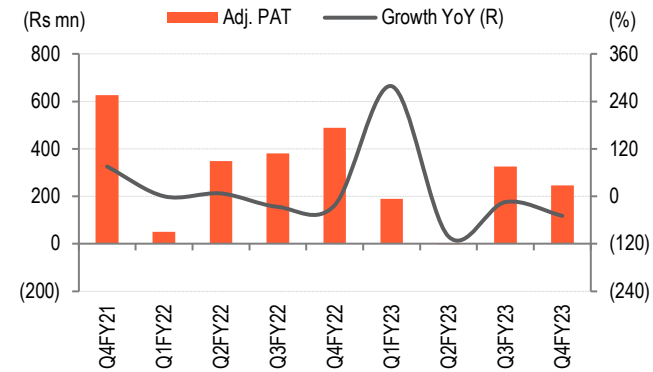
Source: Company, BOBCAPS Research

Fig 5 – EBITDA growth trend



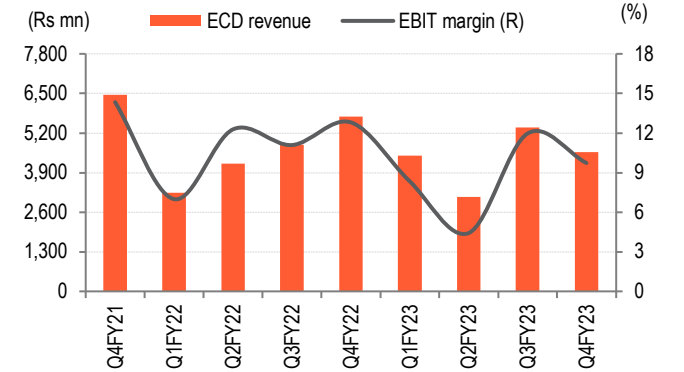
Source: Company, BOBCAPS Research

Fig 6 – Profitability growth trend



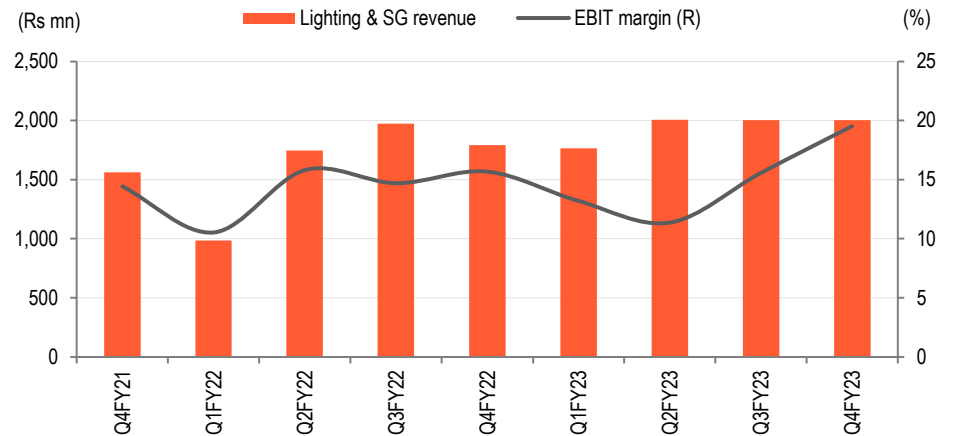
Source: Company, BOBCAPS Research

Fig 7 – ECD segment growth trend



Source: Company, BOBCAPS Research

Fig 8 – Lighting segment growth trend



Source: Company, BOBCAPS Research

Valuation methodology

We cut our FY24/FY25 EPS estimates by 12%/8% following a weak FY23 and uncertainty over demand recovery. We now value the stock at 30x P/E (vs. 35x), near its five-year low on a two-year forward basis, as ORIENTEL lags HAVL (well-positioned in the premium segment) and CROMPTON (overall market leadership) in our pecking order. On rollover to Mar'25E valuations, our TP stands revised to Rs 240 (vs. Rs 290) – retain HOLD.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	29,591	34,326	30,798	35,417	(3.9)	(3.1)
EBITDA	2,518	3,094	2,584	3,131	(2.5)	(1.2)
PAT	1,322	1,698	1,489	1,842	(11.2)	(7.8)
EPS (Rs)	6.2	8.0	7.0	8.7	(11.5)	(8.1)
EBITDA Margin (%)	8.5	9.0	8.4	8.8	10bps	20bps

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- Upside risk: Above-industry growth (HAVL and CROMPTON) in the fans segment
- Downside risk: Slower-than-anticipated recovery in ECD segment

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.7	1,816	2,100	HOLD
Blue Star	BLSTR IN	1.7	1,417	1,650	BUY
Crompton Greaves	CROMPTON IN	2.0	255	440	BUY
Dixon Technologies	DIXON IN	2.1	2,868	4,100	BUY
Havells India	HAVL IN	10.0	1,306	1,500	BUY
KEI Industries	KEII IN	2.2	2,034	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	219	240	HOLD
Syrma SGS	SYRMA IN	0.7	313	400	BUY
V-Guard Industries	VGRD IN	1.3	250	260	HOLD
Voltas	VOLT IN	3.3	809	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 12 May 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	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	FY23P	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	FY23P	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	FY23P	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	FY23P	FY24E	FY25E
EV/Sales	2.3	1.9	1.8	1.6	1.4
EV/EBITDA	24.9	20.1	30.7	18.4	15.0
Adjusted P/E	53.6	36.7	61.4	35.2	27.4
P/BV	10.2	8.6	8.0	7.0	6.1

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	FY23P	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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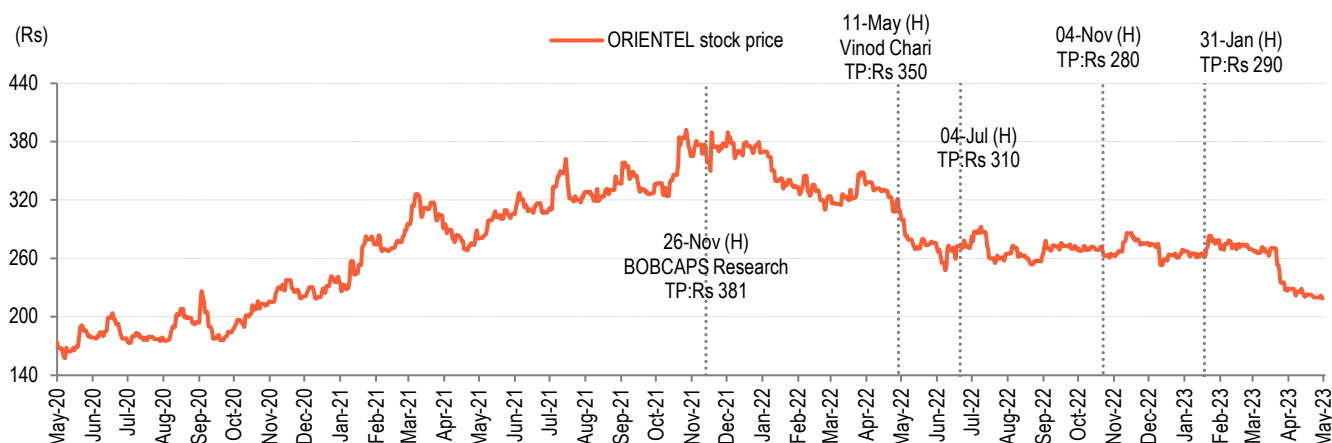
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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