

HOLD

TP: Rs 310 | ▲ 8%

ORIENT ELECTRIC

Consumer Durables

26 July 2022

Headwinds in core portfolio, maintain HOLD

- Q1 gross margin maintained but EBITDA margin drained by higher A&P spend (+108% YoY) and logistics & warranty expense (+87% YoY)
- Sustained demand slowdown and trade-channel destocking in fans dampened primary sales
- Core fans portfolio remains under pressure; maintain HOLD with TP of Rs 310 as we continue to prefer larger players

 Vinod Chari | Tanay Rasal
 research@bobcaps.in

EBITDA margin still under pressure: While ORIENTEL's Q1FY23 gross margin was flat QoQ at 27.8%, EBITDA margin was soft at 6.1% (-460bps QoQ) owing to higher A&P spend (+108% YoY) and logistics and warranty expense (+87% YoY). ECD/lighting EBIT margins remained under pressure at 8.3%/13.2% as the company faced a double whammy of slowing demand (from the second half of Q1FY23) and high-cost inventory. Nonetheless, management believes that margins will recover in coming quarters as softer commodity prices come into play.

Fans facing the heat: ORIENTEL's Q1 revenue stood at Rs 6.2bn (-18% QoQ). The 3Y CAGR for ECD/lighting remained muted at 1%/8% (vs. 10%/10% for HAVL). ECD revenue was under pressure in the second half of Q1 due to a fall in consumer demand and expectations of a price drop amid the correction in commodities – this resulted in destocking by the trade channel and lower primary sales. Lighting, on the other hand, demonstrated resilience led by B2C orders, increasing by 79% YoY. Compared to other segments, the fans segment which accounts for 60-65% of sales was the most affected.

Change in distribution strategy: In Q4FY22, ORIENTEL adopted a direct-to-dealer approach in fans in the underpenetrated markets of Odisha and Bihar. Following a positive response, the company has expanded its distribution model to the states of Uttar Pradesh and Karnataka. In addition, as part of its long-term plan, management is also focusing on (i) go-to-market strategy – increasing distribution reach and depth, (ii) channel proliferation – limited reliance on distribution model and focus on growing through e-commerce, (iii) targeting the B2C space in lighting segment with a focus on façade lighting, and (iv) a deeper focus on innovation-led product development.

Maintain HOLD: The company's core portfolio of fans continues to face headwinds and is likely to remain weak over the next few months. Pertinently, margin pressure persists. We continue to prefer larger, leading players with a strong track record. Maintain HOLD on ORIENTEL with a TP of Rs 310, valuing the stock at an unchanged 35x FY24E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 287
Market cap	US\$ 763.5mn
Free float	62%
3M ADV	US\$ 1.0mn
52wk high/low	Rs 408/Rs 244
Promoter/FPI/DII	39%/6%/29%

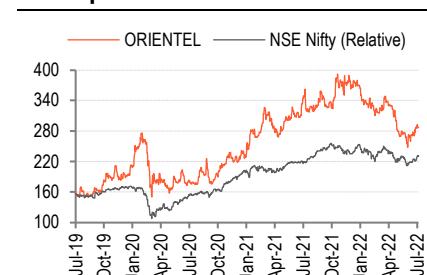
Source: NSE | Price as of 25 Jul 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	28,826	33,150
EBITDA (Rs mn)	2,313	2,718	3,269
Adj. net profit (Rs mn)	1,266	1,509	1,857
Adj. EPS (Rs)	6.0	7.1	8.7
Consensus EPS (Rs)	6.0	8.2	10.0
Adj. ROAE (%)	25.4	25.9	27.3
Adj. P/E (x)	48.1	40.3	32.8
EV/EBITDA (x)	26.3	22.4	18.6
Adj. EPS growth (%)	46.1	19.2	23.0

Source: Company, Bloomberg, BOBCAPS Research

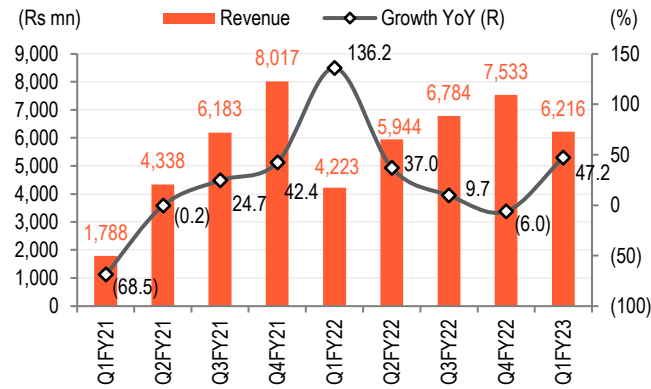
Stock performance



Source: NSE

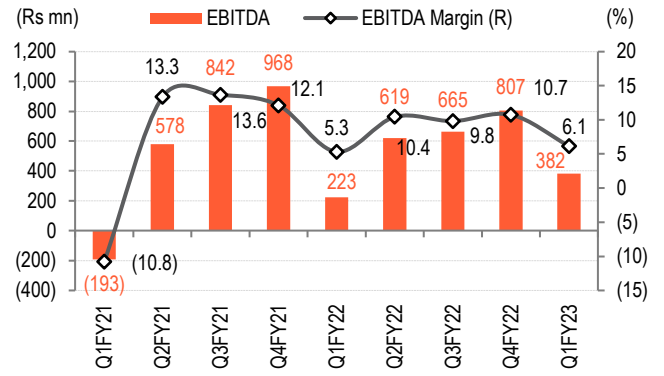


Fig 1 – Revenue growth softened due to muted performance in fans



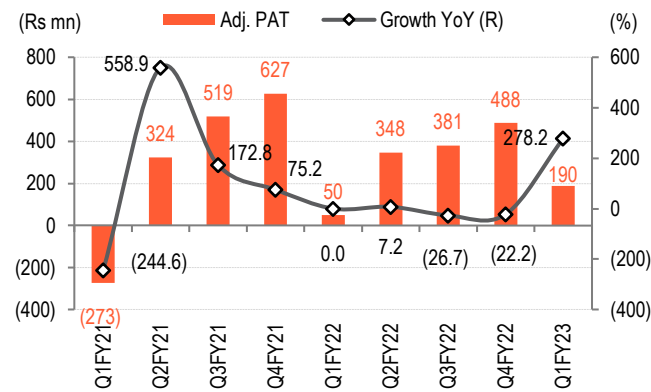
Source: Company, BOBCAPS Research

Fig 2 – EBITDA margin affected by higher A&P, logistics & warranty expenses...



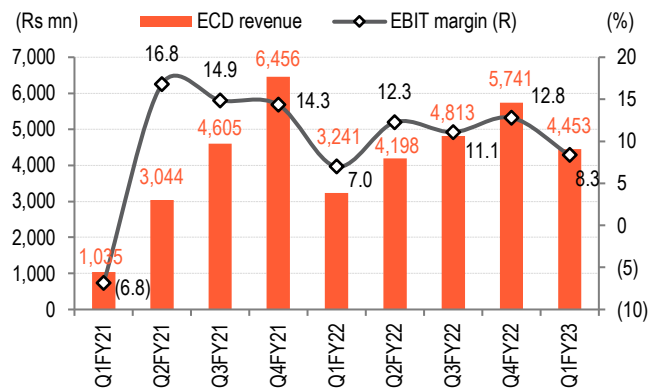
Source: Company, BOBCAPS Research

Fig 3 – ...leading to a sequential drop in PAT



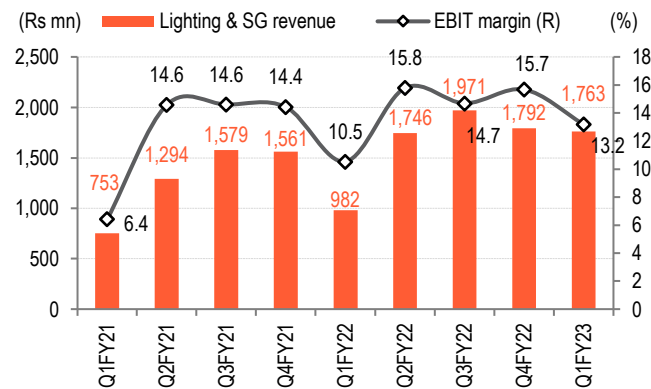
Source: Company, BOBCAPS Research

Fig 4 – ECD margin hit by demand slowdown and high-cost inventory



Source: Company, BOBCAPS Research

Fig 5 – Lighting segment performance driven by B2C



Source: Company, BOBCAPS Research

Fig 6 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	6,216	4,223	47.2	7,533	(17.5)
EBITDA	382	223	70.8	807	(52.7)
EBITDA margin (%)	6.1	5.3	85bps	10.7	(457bps)
Depreciation	128	116	-	119	-
Interest	52	48	-	60	-
Other Income	52	9	-	27	-
PBT	254	68	272.8	655	(61.2)
Tax	64	18	-	167	-
Adjusted PAT	190	50	278.2	488	(61.2)
Exceptional item	-	-	-	0	-
Reported PAT	190	50	278.2	488	(61.2)
Adj. PAT margin (%)	3.0	1.2	186bps	6.5	(343bps)
EPS (Rs)	0.9	0.2	278.2	2.3	(61.2)

Source: Company, BOBCAPS Research

Fig 7 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	6,216	6,611	(6.0)
EBITDA	382	648	(41)
EBITDA margin (%)	6.1	9.8	(367bps)
Adj. PAT	190	362	(48)

Source: Company, BOBCAPS Research

Fig 8 – Segment performance

Particulars (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue													
ECD	4,291	2,832	3,248	4,545	1,035	3,044	4,605	6,456	3,241	4,198	4,813	5,741	4,453
Lightning & Switchgear	1,392	1,514	1,709	1,086	753	1,294	1,579	1,561	982	1,746	1,971	1,792	1,763
EBIT													
ECD	435	264	402	716	(71)	512	685	926	227	516	534	736	372
Margin (%)	10.1	9.3	12.4	15.8	(6.8)	16.8	14.9	14.3	7.0	12.3	11.1	12.8	8.3
Lightning & Switchgear	139	109	226	123	48	189	230	225	103	276	289	281	232
Margin (%)	10.0	7.2	13.2	11.3	6.4	14.6	14.6	14.4	10.5	15.8	14.7	15.7	13.2

Source: Company, BOBCAPS Research

Valuation methodology

ORIENTEL's core portfolio of fans continues to face headwinds and is likely to remain weak over the next few months. Pertinently, margin pressure persists. We continue to prefer larger, leading players with a strong track record. Maintain HOLD on ORIENTEL with a TP of Rs 310, valuing the stock at an unchanged 35x FY24E EPS.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	28,826	33,150	29,230	33,567	(1.4)	(1.2)
EBITDA	2,718	3,269	2,951	3,474	(7.9)	(5.9)
PAT	1,509	1,857	1,514	1,903	(0.3)	(2.4)
EPS	7.1	8.7	7.1	9.0	(0.3)	(2.4)
EBITDA margin (%)	9.4	9.9	10.1	10.3	(67bps)	(49bps)

Source: BOBCAPS Research, Company

Fig 10 – Peer comparison

Company	Rating	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)		
						FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
VOLT	BUY	324	978	1,250	28	79	92	110	18	6.8	8.3	10.9	27	8.6	9.1	9.9
BLSTR	HOLD	96	998	1,200	20	60	70	81	16	3.5	4.4	5.0	20	5.7	6.2	6.2
POLYCAB	BUY	330	2,210	3,000	36	122	143	162	15	12.7	16.0	19.4	24	10.4	11.2	12.0
CROMPTON	BUY	239	377	500	33	54	75	85	26	7.7	10.2	12.2	26	14.3	13.7	14.3
HAVL	BUY	759	1,211	1,500	24	139	158	179	13	17.6	21.1	25.4	20	12.6	13.3	14.2
VGUARD	HOLD	99	230	250	9	35	40	43	11	3.3	4.0	4.5	16	9.5	10.2	10.4
DIXON	BUY	219	3,690	4,600	25	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8
AMBER	HOLD	79	2,356	3,500	49	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9

Source: Company, BOBCAPS Research

Fig 11 – Peer comparison (contd.)

Companies	PAT (Rs bn)				EPS (Rs)				RoE (%)			PE (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E
VOLT	5.0	6.1	8.2	28	15.2	18.5	24.8	28	9.6	10.6	12.6	64	53	39
BLSTR	1.7	2.5	2.8	29	17.4	26.3	29.0	29	17.6	23.7	23.9	57	38	34
POLYCAB	8.4	10.6	13.0	25	56.0	71.0	87.1	25	16.2	17.7	18.7	39	31	25
CROMPTON	5.9	7.3	9.4	26	9.3	11.6	14.8	26	27.0	25.5	25.1	40	33	25
HAVL	12.0	14.6	17.4	21	19.1	23.3	27.8	21	21.4	21.4	21.4	63	52	44
VGUARD	2.3	2.7	3.1	16	5.3	6.3	7.1	16	17.4	17.9	17.5	44	37	32
DIXON	1.9	3.5	4.8	59	32.2	58.8	81.0	59	22	29.8	30.3	115	63	46
AMBER	1.0	1.9	2.9	71	30.1	57.9	87.7	71	5.8	10.4	13.9	78	41	27

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued slowdown in the fans segment, and
- B2B orders not translating in the lighting segment.

Key upside risks to our estimates are:

- better than expected recovery in Lighting & Fans

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,428	3,500	HOLD
Blue Star	BLSTR IN	1.2	997	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	375	500	BUY
Dixon Technologies	DIXON IN	2.8	3,764	4,600	BUY
Havells India	HAVL IN	9.6	1,226	1,500	BUY
Orient Electric	ORIENTEL IN	0.8	287	310	HOLD
Polycab India	POLYCAB IN	4.2	2,222	3,000	BUY
V-Guard Industries	VGRD IN	1.3	232	250	HOLD
Voltas	VOLT IN	4.1	1,000	1,250	BUY
Whirlpool India	WHIRL IN	2.7	1,728	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Jul 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	20,328	19,993	24,484	28,826	33,150
EBITDA	1,477	1,864	2,313	2,718	3,269
Depreciation	401	432	471	532	616
EBIT	1,076	1,433	1,842	2,186	2,653
Net interest inc./(exp.)	(261)	(207)	(203)	(233)	(241)
Other inc./(exp.)	41	63	58	64	70
Exceptional items	0	0	0	0	0
EBT	855	1,288	1,698	2,017	2,482
Income taxes	357	422	431	508	625
Extraordinary items	(287)	(331)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	786	1,197	1,266	1,509	1,857
Adjustments	(287)	(331)	0	0	0
Adjusted net profit	499	867	1,266	1,509	1,857

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	3,305	5,191	4,495	5,923	6,812
Other current liabilities	916	1,036	930	1,094	1,259
Provisions	0	0	0	0	0
Debt funds	1,514	614	675	751	803
Other liabilities	276	226	361	425	489
Equity capital	212	212	212	212	212
Reserves & surplus	3,382	4,344	5,201	6,031	7,145
Shareholders' fund	3,594	4,557	5,413	6,243	7,357
Total liab. and equities	9,604	11,624	11,874	14,436	16,719
Cash and cash eq.	75	2,576	1,505	2,168	2,676
Accounts receivables	3,637	3,552	3,904	4,859	5,587
Inventories	2,865	2,492	3,261	3,716	4,273
Other current assets	427	345	280	330	380
Investments	0	0	0	0	0
Net fixed assets	1,838	1,716	1,900	2,200	2,500
CWIP	0	0	0	0	0
Intangible assets	131	230	234	234	234
Deferred tax assets, net	0	0	0	0	0
Other assets	632	714	789	929	1,069
Total assets	9,604	11,624	11,874	14,436	16,719

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	1,292	4,273	114	2,175	2,190
Capital expenditures	(526)	(359)	(423)	(300)	(300)
Change in investments	17	22	1,172	0	0
Other investing cash flows	1	(1,169)	33	(608)	(692)
Cash flow from investing	(508)	(1,506)	782	(908)	(992)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	264	(900)	(208)	75	53
Interest expenses	0	0	0	0	0
Dividends paid	(1,292)	(537)	(588)	(679)	(743)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,029)	(1,437)	(797)	(604)	(690)
Chg in cash & cash eq.	(245)	1,330	99	663	508
Closing cash & cash eq.	75	2,576	1,505	2,168	2,676

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	3.7	5.6	6.0	7.1	8.7
Adjusted EPS	2.4	4.1	6.0	7.1	8.7
Dividend per share	1.2	2.0	2.0	3.2	3.5
Book value per share	16.9	21.5	25.5	29.4	34.7

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	3.0	3.0	2.5	2.1	1.8
EV/EBITDA	41.2	32.7	26.3	22.4	18.6
Adjusted P/E	122.0	70.2	48.1	40.3	32.8
P/BV	16.9	13.4	11.2	9.8	8.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	58.3	67.3	74.6	74.8	74.8
Interest burden (PBT/EBIT)	79.5	89.9	92.1	92.3	93.6
EBIT margin (EBIT/Revenue)	5.3	7.2	7.5	7.6	8.0
Asset turnover (Rev./Avg TA)	11.1	11.7	12.9	13.1	13.3
Leverage (Avg TA/Avg Equity)	0.6	0.4	0.4	0.4	0.4
Adjusted ROAE	15.0	21.3	25.4	25.9	27.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	10.9	(1.7)	22.5	17.7	15.0
EBITDA	32.4	26.2	24.1	17.5	20.2
Adjusted EPS	26.1	73.7	46.1	19.2	23.0
Profitability & Return ratios (%)					
EBITDA margin	7.3	9.3	9.4	9.4	9.9
EBIT margin	5.3	7.2	7.5	7.6	8.0
Adjusted profit margin	2.5	4.3	5.2	5.2	5.6
Adjusted ROAE	15.0	21.3	25.4	25.9	27.3
ROCE	13.8	19.6	25.2	25.7	26.9
Working capital days (days)					
Receivables	65	65	58	62	62
Inventory	51	45	49	47	47
Payables	59	95	67	75	75
Ratios (x)					
Gross asset turnover	13.7	11.3	13.5	14.1	14.1
Current ratio	1.3	1.4	1.6	1.5	1.5
Net interest coverage ratio	4.1	6.9	9.1	9.4	11.0
Adjusted debt/equity	0.4	0.1	0.1	0.1	0.1

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

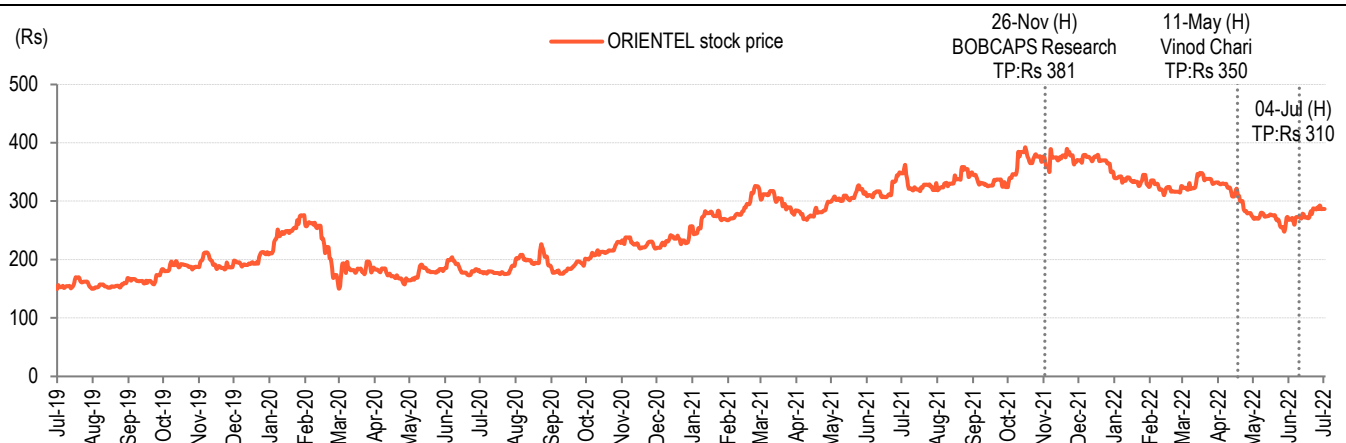
HOLD – Expected return from -6% to +15%

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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