

HOLD
 TP: Rs 300 | ▲ 9%

ORIENT ELECTRIC

Consumer Durables

02 August 2024

Modest quarter; Hyderabad facility gears up for growth

- Modest 7% topline growth with 240bps gross margin boost; EBITDA hit by rising staff costs
- Leadership shift and Hyderabad plant set the stage for long-term growth and market share wins
- We pare FY25E/FY26E EPS by 3%/2% on near-term margin fluctuations; raise TP to Rs 300 and rollover valuations to Jun'26. Maintain HOLD

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Modest growth amid capacity constraints: ORIENTEL reported a modest quarterly performance with 7% YoY growth, reaching Rs 7.5bn, driven primarily by strong demand for cooling products. Despite a 240bps improvement in gross margin, EBITDA margin fell by 90bps due to increased staff expenses, higher advertising costs, and greater discounts. APAT was Rs 143mn, marking a 27% decline from the previous year.

Growth across segments; lighting and switchgear outshine: The lighting and switchgear segment increased a notable 10%, reaching Rs 2.1bn, driven by significant market share gains and a sustained emphasis on innovative product launches and competitive tenders. Similarly, the ECD segment saw a 6% rise, totalling Rs 5.4bn. However, this growth lagged competitors like Havells (20%), V-Guard (26%), and Crompton (21%). Despite this growth, the segment's performance was somewhat hampered by capacity constraints in the table pedestal wall fan (TPW) segment, which experienced inventory stock-outs during the quarter.

Hyderabad plant poised to grow long term: On 6 May 2024, ORIENTEL officially commissioned its Hyderabad plant, designed with Industry 4.0 technologies to enhance manufacturing efficiency. This facility focuses on producing TPW fans, and is a significant step in optimising cost structures and expanding market reach. While the plant is currently serving southern and western India, it is poised to meet the demands of export markets. Management is confident of the plant's capabilities. As the plant ramps up production, ORIENTEL anticipates reductions in cost structures and expects to see significant benefits in the coming quarters, with a strategic goal of effectively serving domestic and global markets.

Maintain HOLD: Despite management's optimism about gaining market share with the launch of the Hyderabad facility, the absence of a clear timeline for expected revenue growth introduces some uncertainty. Hence, we pare our EPS estimates for FY25/FY26 by 3%/2%. Still, we uphold our stock valuation at 30x P/E, a 5% discount to the 3Y average. We roll forward our valuations to Jun'26 and raise TP to Rs 300 from Rs 230. We maintain a HOLD recommendation.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 274
Market cap	US\$ 695.0mn
Free float	62%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 297/Rs 189
Promoter/FPI/DII	38%/6%/28%

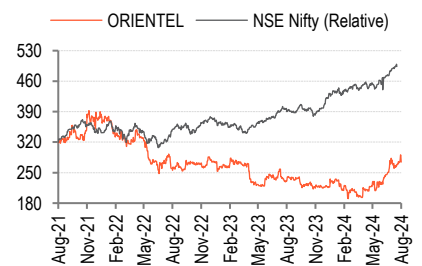
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,121	33,686	40,337
EBITDA (Rs mn)	1,443	2,529	3,279
Adj. net profit (Rs mn)	566	1,128	1,631
Adj. EPS (Rs)	2.7	5.3	7.7
Consensus EPS (Rs)	2.7	5.5	7.8
Adj. ROAE (%)	9.3	16.8	21.6
Adj. P/E (x)	103.1	51.7	35.8
EV/EBITDA (x)	40.3	23.0	17.8
Adj. EPS growth (%)	(25.4)	99.4	44.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	BOBCAPS Est. Q1FY25E	Variance (%)
Revenue	7,549	7,056	7.0	7,877	(4.2)	7,762	2.8
EBITDA	401	440	(8.9)	307	30.3	437	9.1
EBITDA Margin (%)	5.3	6.2	(90bps)	3.9	140bps	5.6	6.1
Depreciation	175	143		155			
Interest	57	59		68			
Other Income	25	29		50			
PBT	193	266	(27.6)	135	42.8		
Tax	49	69		7			
Adjusted PAT	143	197	(27.2)	128	12.0	191	33.0
Exceptional item		-		0			
Reported PAT	143	197	(27.2)	128	12.0		
Adj. PAT Margin (%)	1.9	2.8	(90bps)	1.6	16.9		
EPS (Rs)	0.7	0.9	(27.2)	0.6	12.0		

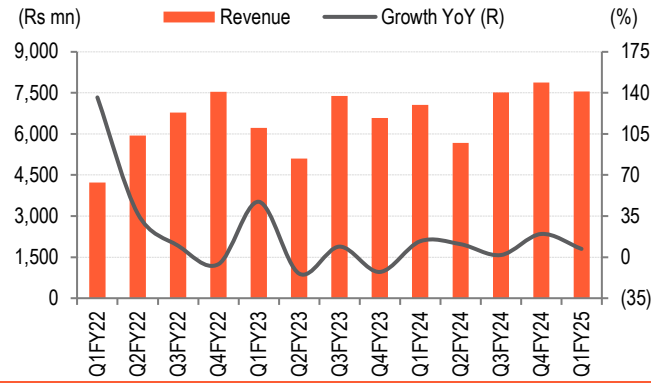
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Revenue													
ECD	3,241	4,198	4,813	5,741	4,453	3,100	5,388	4,577	5,150	3,634	5,352	5,691	5,449
Growth YoY (%)	213.2	37.9	4.5	(11.1)	37.4	(26.1)	11.9	(20.3)	15.6	17.2	(0.7)	24.3	5.8
Lightning & Switchgear	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003	1,906	2,035	2,167	2,186	2,100
Growth YoY (%)	30.5	34.9	24.8	14.8	79.5	14.9	1.6	11.8	8.1	1.4	8.2	9.1	10.2
EBIT													
Electrical Consumer Durables (ECD)	227	516	534	736	372	137	645	445	492	297	603	465	494
Margin (%)	7.0	12.3	11.1	12.8	8.3	4.4	12.0	9.7	9.5	8.2	11.3	8.2	9.1
Lightning & Switchgear	103	276	289	281	232	227	311	391	307	269	307	281	390
Margin (%)	10.5	15.8	14.7	15.7	13.2	11.3	15.6	19.5	16.1	13.2	14.2	12.8	18.6

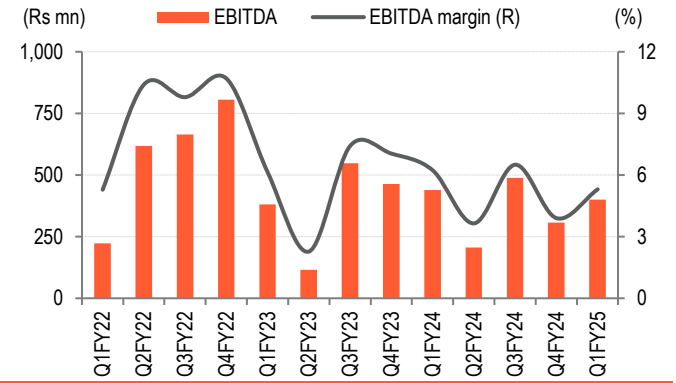
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



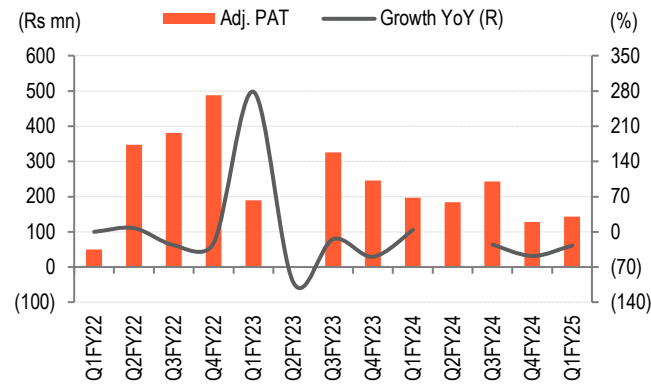
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



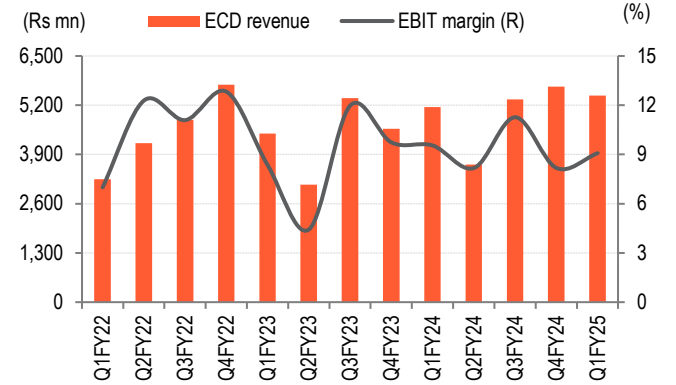
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



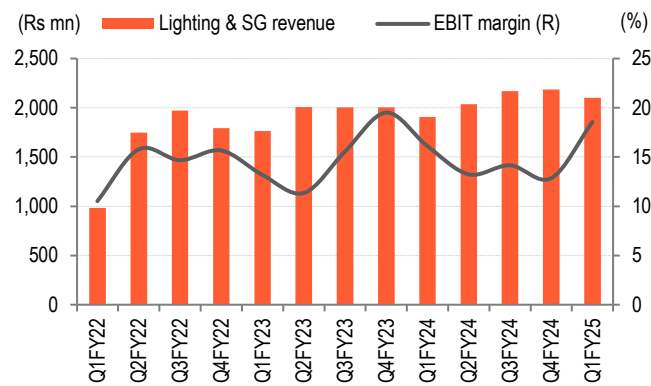
Source: Company, BOBCAPS Research

Fig 6 – ECD segment performance



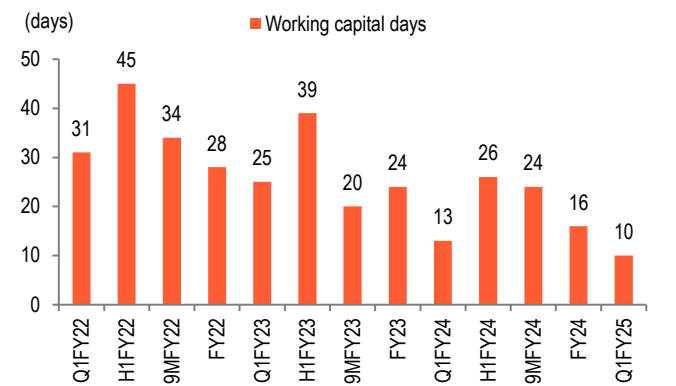
Source: Company, BOBCAPS Research

Fig 7 – Lighting & Switchgear performance



Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



Source: Company, BOBCAPS Research

Earnings call highlights

Electric consumer durables

- **Segmental performance:** ECD revenue grew by about 6% YoY. There was robust demand for summer products, especially ceiling fans and coolers, driven by a heatwave in several parts of the country, resulting in a strong seasonal sell-out and indicating market share gains.
- **DTM:** Revenue from direct-to-market (DTM) states increased by 23%, while TPW fans experienced muted growth due to capacity limitations. Production commenced at the Hyderabad plant on 6 May 2024, with management expecting stabilisation and scale-up over the coming quarters. The digital channel saw high sellout with market share gains, and coolers registering high double-digit growth.
- **International business:** The international business faced constraints due to geopolitical challenges in key markets. Despite these challenges, EBIT stood at Rs 490mn with a margin of 9.1%. The margin improved despite accelerated investments during the quarter.

Lighting and switchgear

- **Segmental performance:** ORIENTEL demonstrated accelerated growth of about 10% YoY. The consumer lighting segment in the B2C market saw high teens volume growth, with value contraction persisting at a slower pace. A better product mix in luminaries enhanced gross margin, with high-margin stock-keeping units (SKUs) gaining traction.
- **Switchgears:** Switchgears and house wires experienced robust double-digit growth due to improved sales efficiency and calibrated distribution expansion. The strong traction in P-Lum continued with double-digit growth, supported by a resurgence of inquiries and tenders post-elections.
- **Financial and strategic advancements:** The company's continued execution of key projects in street lighting and facade lighting drove significant growth, supported by a pipeline of new tenders. EBIT margin improved to 18.6%, primarily driven by LED lighting, although it was impacted by a spike in copper prices for wires which is now easing. This improvement reflects the company's strategic focus on high-margin products and effective project execution, positioning ORIENTEL for sustained growth and profitability.
- **Lighting business growth and B2B expansion:** ORIENTEL's continuous focus on the lighting business is yielding results, with high double-digit volume growth in consumer lighting despite industry-wide value contraction. The value mix in the lighting business is contributing positively to margins, and the B2B segment has registered double-digit value growth, amid muted inquiries due to general elections. Lighting remains a key strategic pillar for long-term profitable growth.

Other highlights

- **Strategic advantages of the Hyderabad plant:** ORIENTEL newly-commissioned Hyderabad plant is designed with Industry 4.0 technologies to enhance manufacturing efficiency. This facility, which focuses on producing TPW fans,

marks a significant step in optimising cost structures and expanding market reach. While the plant currently serves southern and western India, it is also poised to meet the demands of export markets. Management is confident of the plant's capabilities but acknowledges that capturing market share remains crucial for success. As the plant ramps up production, ORIENTEL anticipates reductions in cost structures and expects to see significant benefits in the coming quarters, with a strategic goal of effectively serving domestic and international markets.

- **Strategic expansion and market share gains:** ORIENTEL's focus on distribution expansion and sales execution under the DTM strategy are driving growth and market share gains. The company has extended its reach to Jammu and Kashmir and Himachal Pradesh, bringing its total presence in India to ten states. In Q1, DTM states saw 23% growth in the fans category, showcasing strong performance. The direct service network has been expanded to 16 states, significantly enhancing consumer experience, and improving service statistics, fostering greater brand affinity.
- **Enhancing consumer experience and e-commerce success:** Consumer-centricity remains a cornerstone of ORIENTEL's strategy. The company is investing in the e-commerce marketplace to align with modern consumer preferences, resulting in high double-digit sell-out growth in the cooling category, including fans and coolers. Market share gains have been achieved in the ceiling fan category on e-commerce platforms. The company is increasing its presence in large format retail stores, further strengthening its market reach.
- **Operational advancements and cost leadership:** The commencement of commercial production at the greenfield Hyderabad plant marks a significant milestone. According to management, this plant will deliver superior products at competitive costs, catering to markets in South and West India. Although stabilisation of operations will take a few more months, the plant is expected to be fully operational by the next seasonal pickup. Additionally, the Spark Sanchay programme is effectively driving cost leadership, delivering about 2% annualised cost reduction, and mitigating commodity and pricing risks.
- **New fan launches:** ORIENTEL introduced five new fan models, offering designs and price points to cater to diverse customer preferences. The new BLDC Pro range features advanced technologies such as IoT controls, integrated lighting, and reverse rotation, enhancing the product's appeal and functionality.
- **Expanded lighting portfolio:** The company expanded its lighting portfolio by introducing over eight new value-added products. These additions strengthen ORIENTEL's market position and demonstrate its commitment to innovation and meeting consumer demand with enhanced product offerings.
- **Market leadership in premium segments:** ORIENTEL holds a leading position in the premium and super-premium segments, establishing itself as one of the top players in terms of market share. The company's strategic focus on delivering high-quality, innovative products has resonated well with discerning consumers in these categories.
- **Capex:** In the first quarter of FY25, ORIENTEL invested Rs 310mn in capital expenditures. Management emphasised that it had no plans for additional capital

expenditures in the near future as it had made substantial investments in its Hyderabad facility.

- **Balance sheet:** The company's net cash position stood at Rs 1.3bn at end-Q1.
- **Cash conversion cycle:** The company's working capital cycle continued to improve, decreasing to 10 days in Q1FY25 compared to 13 days in Q1FY24.

Valuation methodology

ORIENTEL is pivoting towards a premium product strategy and strategically focusing on B2B clients to fuel its growth trajectory. While this shift presents substantial business opportunities, it introduces potential short-term margin pressures as the company invests heavily in long-term initiatives.

Despite management's optimism about the Hyderabad facility driving market share gains, the lack of a precise timeline for revenue growth adds a layer of uncertainty. Consequently, we have cut our EPS forecasts for FY25 by 3% and for FY26 by 2%. However, we retain our stock valuation at 30x P/E, reflecting a 5% discount to the three-year average. With updated valuations extending to Jun'26, we set a new TP of Rs 300, from Rs 230, indicating a modest 9% upside. Thus, we maintain our HOLD rating.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	33,686	40,337	48,345	33,686	40,337	NA	0.0	0.0	NA
EBITDA	2,529	3,279	4,211	2,576	3,321	NA	(1.8)	(1.3)	NA
PAT	1,128	1,631	2,267	1,163	1,663	NA	(3.0)	(1.9)	NA
EPS (Rs)	5.3	7.7	10.7	5.5	7.8	NA	(3.0)	(1.9)	NA
EBITDA Margin (%)	7.5	8.1	8.7	7.6	8.2	NA	(10bps)	(10bps)	NA

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- Above-industry growth in the fans segment is a key upside risk to our estimates.
- Slower-than-industry growth in the ECD business is a key downside risk.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	25,292	28,121	33,686	40,337	48,345
EBITDA	1,510	1,443	2,529	3,279	4,211
Depreciation	535	590	903	964	1,026
EBIT	975	853	1,626	2,314	3,185
Net interest inc./(exp.)	(222)	(233)	(288)	(321)	(361)
Other inc./(exp.)	266	155	171	188	207
Exceptional items	0	0	0	0	0
EBT	1,019	776	1,509	2,181	3,031
Income taxes	261	210	380	550	764
Extraordinary items	0	(187)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	759	753	1,128	1,631	2,267
Adjustments	0	(187)	0	0	0
Adjusted net profit	759	566	1,128	1,631	2,267

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	4,530	5,439	6,922	8,288	9,934
Other current liabilities	1,000	1,270	1,522	1,822	2,184
Provisions	0	0	0	0	0
Debt funds	973	1,116	960	1,070	1,204
Other liabilities	297	295	353	423	507
Equity capital	213	213	213	213	213
Reserves & surplus	5,634	6,176	6,853	7,832	9,192
Shareholders' fund	5,846	6,389	7,066	8,045	9,405
Total liab. and equities	12,646	14,509	16,823	19,649	23,234
Cash and cash eq.	1,642	663	898	1,249	1,915
Accounts receivables	3,560	4,620	5,534	6,626	7,942
Inventories	2,846	3,151	3,774	4,519	5,416
Other current assets	647	761	862	1,032	1,237
Investments	0	0	0	0	0
Net fixed assets	2,902	4,442	4,742	5,042	5,342
CWIP	0	0	0	0	0
Intangible assets	216	167	167	167	167
Deferred tax assets, net	0	0	0	0	0
Other assets	833	707	847	1,014	1,215
Total assets	12,646	14,510	16,823	19,650	23,234

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,897	1,183	2,127	2,255	2,882
Capital expenditures	(1,136)	(1,400)	(300)	(300)	(300)
Change in investments	(58)	(376)	0	0	0
Other investing cash flows	95	70	(985)	(1,062)	(1,143)
Cash flow from investing	(1,099)	(1,705)	(1,285)	(1,362)	(1,443)
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(292)	(183)	(156)	111	133
Interest expenses	0	0	0	0	0
Dividends paid	(370)	(274)	(451)	(653)	(907)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(661)	(457)	(607)	(542)	(774)
Chg in cash & cash eq.	137	(980)	235	351	666
Closing cash & cash eq.	1,642	663	898	1,249	1,915

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	3.6	3.5	5.3	7.7	10.7
Adjusted EPS	3.6	2.7	5.3	7.7	10.7
Dividend per share	1.5	1.5	2.1	3.1	4.3
Book value per share	27.5	30.0	33.2	37.8	44.2

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.3	2.1	1.7	1.4	1.2
EV/EBITDA	38.5	40.3	23.0	17.8	13.8
Adjusted P/E	77.0	103.1	51.7	35.8	25.7
P/BV	10.0	9.1	8.3	7.3	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.4	72.9	74.8	74.8	74.8
Interest burden (PBT/EBIT)	104.6	90.9	92.8	94.2	95.2
EBIT margin (EBIT/Revenue)	3.9	3.0	4.8	5.7	6.6
Asset turnover (Rev./Avg TA)	8.7	6.3	7.1	8.0	9.1
Leverage (Avg TA/Avg Equity)	0.5	0.7	0.7	0.7	0.6
Adjusted ROAE	13.5	9.3	16.8	21.6	26.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	3.3	11.2	19.8	19.7	19.9
EBITDA	(34.7)	(4.4)	75.2	29.6	28.4
Adjusted EPS	(40.3)	(25.4)	99.4	44.6	39.0
Profitability & Return ratios (%)					
EBITDA margin	6.0	5.1	7.5	8.1	8.7
EBIT margin	3.9	3.0	4.8	5.7	6.6
Adjusted profit margin	3.0	2.0	3.3	4.0	4.7
Adjusted ROAE	13.5	9.3	16.8	21.6	26.0
ROCE	14.3	10.2	17.3	21.8	25.7
Working capital days (days)					
Receivables	51	60	60	60	60
Inventory	41	41	41	41	41
Payables	65	71	75	75	75
Ratios (x)					
Gross asset turnover	10.5	7.7	7.3	8.2	9.3
Current ratio	1.5	1.3	1.2	1.2	1.3
Net interest coverage ratio	4.4	3.7	5.6	7.2	8.8
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.1

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

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

BUY – Expected return >+15%

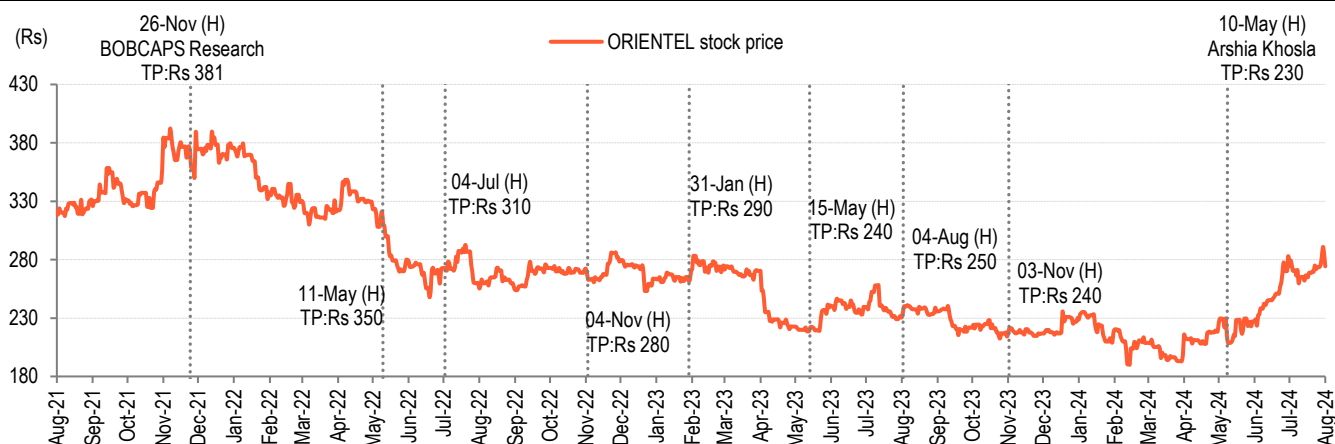
HOLD – Expected return from -6% to +15%

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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