

HOLD

TP: Rs 290 | ▲ 11%

ORIENT ELECTRIC

Consumer Durables

31 January 2023

Back on track with Q3 rebound

- **Topline boosted by better ECD performance; profitability turns positive with sequential margin expansion**
- **Fans business rebounds with 15% YoY sales growth amidst BEE rating transition, though a slower Q4 expected**
- **We cut FY23/FY24 EPS 8%/1% on rating transition impact and roll over to a revised TP of Rs 290 (vs. Rs 280); retain HOLD**

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Solid recovery: ORIENTEL reported a strong sequential recovery in Q3FY23 after a blip in the previous quarter. The topline grew 9% YoY and 45% QoQ to Rs 7.4bn led by a better performance in the core electrical consumer durables (ECD) division (+12% YoY; 3Y CAGR 18%). Fans and water heaters drove ECD growth while appliances sales were muted. EBITDA margin expanded 510bps QoQ to 7.4%, and the company returned to the black (Rs 326mn net profit vs. Rs 3mn loss in Q2FY23).

Fans segment rebounds amidst uncertainty: After a weak performance from the fans division in H1FY23, the business rebounded in Q3FY23 with its high-volume growth (~15% YoY), aided by an aggressive push by trade partners to clear stocks of lower-end fans ahead of the new energy rating norms. Consequently, the company's entire non-BEE compliant inventory is out of stock and with new BLDC launches in the pipeline, ORIENTEL seem well placed amid the rating transition.

Distribution realignment starts to deliver: The company has implemented a direct-to-market strategy in four states which yielded 60% YoY revenue growth for Q3. This strategy will be put in place in Andhra Pradesh and Telangana by end-Q4.

Lighting remains resilient: The lighting segment was stable (+2% YoY) amid a benign demand environment. Traction continued in the B2B segment which reported double-digit YoY growth on the back of higher government infrastructure spend. Additionally, the momentum in facade lighting continued as the completion of several large projects buoyed growth.

Maintain HOLD: Now that its non-compliant inventory of fans has been exhausted, ORIENTEL is focusing on higher-end BLDC fans, with distribution realignment and product launches expected to boost performance medium term. We lower our FY23/FY24 EPS estimates by 8%/1% on rating transition impact and roll over to Dec'24E valuations for a revised TP of Rs 290 (vs. Rs 280). We continue to value the stock at 35x P/E – a 30% discount to the 3Y average on 2Y forward basis. Retain HOLD as we believe that HAVL and CROMPTON are better ways to play the energy rating transition in fans.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 261
Market cap	US\$ 680.6mn
Free float	62%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 358/Rs 244
Promoter/FPI/DII	38%/6%/27%

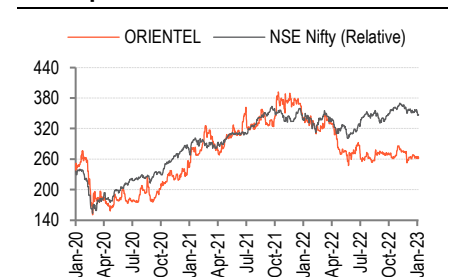
Source: NSE | Price as of 30 Jan 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	26,652	30,798
EBITDA (Rs mn)	2,313	1,827	2,584
Adj. net profit (Rs mn)	1,266	974	1,489
Adj. EPS (Rs)	6.0	4.6	7.0
Consensus EPS (Rs)	6.0	8.2	10.0
Adj. ROAE (%)	25.4	17.1	23.3
Adj. P/E (x)	43.8	56.9	37.3
EV/EBITDA (x)	24.0	30.4	21.5
Adj. EPS growth (%)	46.1	(23.1)	52.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	7,390	6,784	8.9	5,106	44.7	18,713	16,951	10.4
EBITDA	549	665	(17.5)	116	372.5	1,046	1,507	(30.6)
EBITDA Margin (%)	7.4	9.8	(240bps)	2.3	510bps	5.6	8.9	(330bps)
Depreciation	139	118	-	131	-	398	352	-
Interest	60	46	-	48	-	160	143	-
Other Income	86	9	-	65	-	203	31	-
PBT	436	509	(14.4)	1	NA	691	1,043	(33.7)
Tax	110	129	-	4	-	179	264	-
Adjusted PAT	326	381	(14.5)	(3)	NA	512	779	(34.2)
Exceptional item	-	-	-	0	-	-	-	-
Reported PAT	326	381	(14.5)	(3)	NA	512	779	(34.2)
Adj. PAT Margin (%)	4.4	5.6	(120bps)	(0.1)	NA	2.7	4.6	(190bps)
EPS (Rs)	1.5	1.8	(14.5)	0.0	NA	2.4	3.7	(34.2)

Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimate	Variance (%)
Revenue	7,390	6,745	9.6
EBITDA	549	438	25.1
EBITDA Margin (%)	7.0	6.5	90bps
Adj. PAT	326	230	41.8

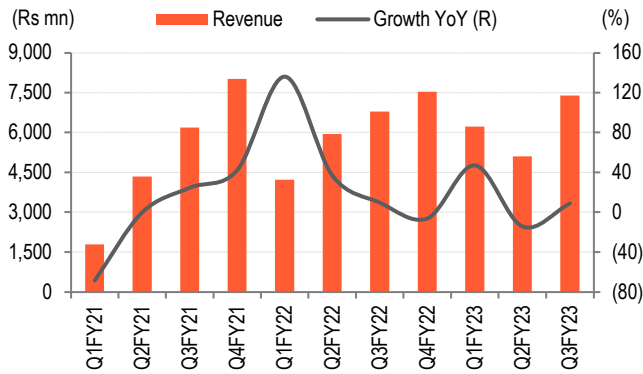
Source: Company, BOBCAPS Research

Fig 3 – Segment-wise performance

Particulars (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Revenue													
ECD	3,248	4,545	1,035	3,044	4,605	6,456	3,241	4,198	4,813	5,741	4,453	3,100	5,388
Lightning & Switchgear	1,709	1,086	753	1,294	1,579	1,561	982	1,746	1,971	1,792	1,763	2,006	2,003
EBIT													
Electrical Consumer Durables (ECD)	402	716	(71)	512	685	926	227	516	534	736	372	137	645
Margin (%)	12.4	15.8	(6.8)	16.8	14.9	14.3	7.0	12.3	11.1	12.8	8.3	4.4	12.0
Lightning & Switchgear	226	123	48	189	230	225	103	276	289	281	232	227	311
Margin (%)	13.2	11.3	6.4	14.6	14.6	14.4	10.5	15.8	14.7	15.7	13.2	11.3	15.6

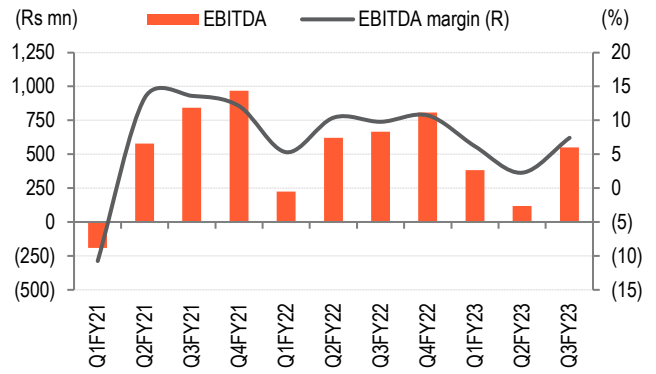
Source: Company, BOBCAPS Research

Fig 4 – Strong topline performance



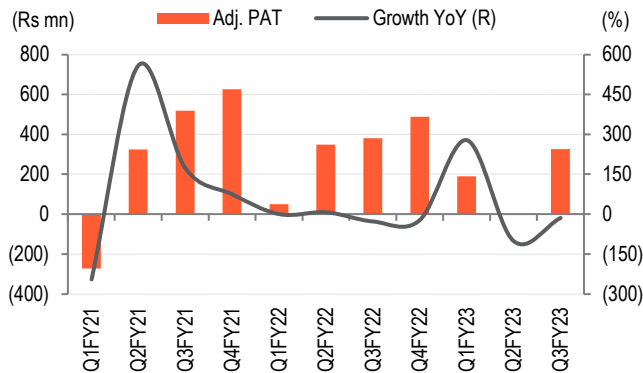
Source: Company, BOBCAPS Research

Fig 5 – Sequential margin expansion



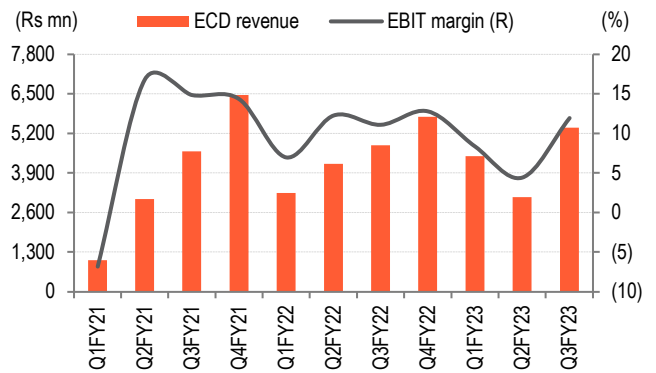
Source: Company, BOBCAPS Research

Fig 6 – Profitability turns positive



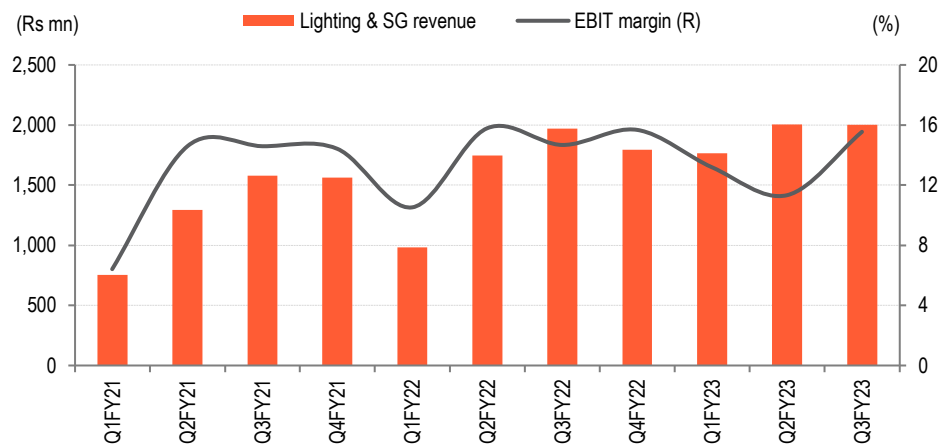
Source: Company, BOBCAPS Research

Fig 7 – Robust ECD performance



Source: Company, BOBCAPS Research

Fig 8 – Lighting and Switchgear segment remain resilient



Source: Company, BOBCAPS Research

Earnings call highlights

- **Demand:** ORIENTEL is seeing stable demand and expects a pickup ahead of the summer season.
- **Margins:** Better operating leverage offset pricing pressure and high-cost inventory during Q3FY23, aiding sequential EBITDA margin gains. Management is optimistic about achieving double-digit margins over the medium-to-long term as ongoing cost initiatives (high-level recruitments and consultancy fees) are expected to be completed by FY23-end, with benefits visible from FY24 and FY25. Gross margin expanded during the quarter due to cost-saving measures and is expected to improve further over the next 12 months.
- **Distribution realignment:** The process to restructure distribution in favour of a direct-to-market strategy has stabilised in the states of Bihar, Odisha and Karnataka where ORIENTEL's sales grew 60% YoY in Q3. ORIENTEL expects the ongoing network rejig in Andhra Pradesh and Tamil Nadu to be completed by Q4FY23-end, with a focus on improving direct dealers in both states.

The company estimates that it has captured 25% of the potential market in states where the distribution realignment is complete and sees scope to further expand market share. Per management, these activities are cost-neutral in nature and hence have had no impact on operational performance.

- **Fans business transition:** The company has four broad categories of fans – (i) basic (white and brown fans) which contribute roughly half of the business, (ii) premium – priced at Rs 5,000+ (10% of revenue), (iii) BLDC (10%), and (iv) decorative (~30%). The share of premium fans is steadily improving and is guided to accelerate further with mandatory Bureau of Energy Efficiency (BEE) norm upgrades.

Channel partners have been operating at low inventory over the past few months (ahead of the BEE rating transition in Jan'23), prioritising and pushing sales of non-compliant fans ahead of premium products. The company was thus able to exhaust its non-BEE compliant inventory during the quarter.

- **Revenue mix:** The core ECD business contributes ~73% of revenue, of which fans form the bulk at 61-62% while water coolers & heaters contribute 10-12%. The lighting and switchgear vertical brings in ~27% of revenue.
- **Exports:** Exports remained buoyant in Q3, growing in double digits despite geopolitical headwinds.
- **Working capital:** Working capital days have improved to 20 from 34 days in Q2FY23.
- **Hyderabad plant:** The company is adding greenfield capacity in Hyderabad for its table-wall-pedestal (TPW) fans with the aim of reducing production from the Kolkata plant. Phase-1 commercial production for ceiling and TPW fans is scheduled to begin from Jun'23.

Valuation methodology

An aggressive push by trade partners to clear stocks of lower-end fans ahead of the new energy rating norms has worked well for ORIENTEL in terms of exhausting its non-BEE-compliant inventory. The company is now focusing on higher-end BLDC fans, with distribution realignment and product launches expected to boost performance over the medium term.

We lower our FY23/FY24 EPS estimates by 8%/1% on rating transition impact. We continue to value the stock at 35x P/E – a 30% discount to the three-year average on two-year forward basis. Our HOLD rating remains unchanged as we believe that HAVL and CROMPTON offer better ways to play the energy rating transition in the fans business.

Fig 9 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY254E
Sales	26,652	30,798	35,417	27,336	31,591	36,330	(2.5)	(2.5)	(2.5)
EBITDA	1,827	2,584	3,131	2,117	2,790	3,436	(13.7)	(7.4)	(8.9)
PAT	974	1,489	1,842	1,064	1,503	1,915	(8.4)	(0.9)	(3.8)
EPS (Rs)	4.6	7.0	8.7	5.0	7.1	9.0	(8.4)	(0.9)	(3.8)
EBITDA Margin (%)	6.9	8.4	8.8	7.7	8.8	9.5	(90bps)	(40bps)	(60bps)

Source: BOBCAPS Research

Key risks

- Delays in achieving the desired results from the ongoing distribution rejig represent a downside risk to our estimates.
- Aggressive market share gains in BLDC fans post BEE rating transition presents an upside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,909	2,100	HOLD
Blue Star	BLSTR IN	1.4	1,219	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.6	329	500	BUY
Dixon Technologies	DIXON IN	2.0	2,680	4,100	BUY
Havells India	HAVL IN	9.0	1,177	1,500	BUY
KEI Industries	KEII IN	1.8	1,609	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	261	290	HOLD
Polycab India	POLYCAB IN	5.2	2,819	3,300	BUY
Syrma SGS	SYRMA IN	0.5	252	390	BUY
V-Guard Industries	VGRD IN	1.3	247	250	HOLD
Voltas	VOLT IN	3.1	775	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	19,993	24,484	26,652	30,798	35,417
EBITDA	1,864	2,313	1,827	2,584	3,131
Depreciation	432	471	532	616	700
EBIT	1,433	1,842	1,294	1,967	2,431
Net interest inc./(exp.)	(207)	(203)	(224)	(232)	(249)
Other inc./(exp.)	63	58	232	256	281
Exceptional items	0	0	0	0	0
EBT	1,288	1,698	1,302	1,991	2,463
Income taxes	422	431	328	502	621
Extraordinary items	(331)	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,197	1,266	974	1,489	1,842
Adjustments	(331)	0	0	0	0
Adjusted net profit	867	1,266	974	1,489	1,842

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	5,191	4,495	5,476	6,328	7,278
Other current liabilities	1,036	930	1,012	1,169	1,345
Provisions	0	0	0	0	0
Debt funds	614	675	724	775	831
Other liabilities	226	361	393	454	522
Equity capital	212	212	212	212	212
Reserves & surplus	4,344	5,201	5,737	6,630	7,735
Shareholders' fund	4,557	5,413	5,949	6,842	7,948
Total liab. and equities	11,624	11,874	13,554	15,569	17,923
Cash and cash eq.	2,576	1,505	2,028	2,328	2,806
Accounts receivables	3,552	3,904	4,492	5,191	5,969
Inventories	2,492	3,261	3,435	3,970	4,565
Other current assets	345	280	305	353	405
Investments	0	0	0	0	0
Net fixed assets	1,716	1,900	2,200	2,500	2,800
CWIP	0	0	0	0	0
Intangible assets	230	234	234	234	234
Deferred tax assets, net	0	0	0	0	0
Other assets	714	789	859	993	1,142
Total assets	11,624	11,874	13,554	15,569	17,923

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	4,273	114	1,782	1,834	2,240
Capital expenditures	(359)	(423)	(300)	(300)	(300)
Change in investments	22	1,172	0	0	0
Other investing cash flows	(1,169)	33	(570)	(689)	(781)
Cash flow from investing	(1,506)	782	(870)	(989)	(1,081)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(900)	(208)	49	50	56
Interest expenses	0	0	0	0	0
Dividends paid	(537)	(588)	(438)	(596)	(737)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,437)	(797)	(390)	(545)	(681)
Chg in cash & cash eq.	1,330	99	523	300	478
Closing cash & cash eq.	2,576	1,505	2,028	2,328	2,806

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	5.6	6.0	4.6	7.0	8.7
Adjusted EPS	4.1	6.0	4.6	7.0	8.7
Dividend per share	2.0	2.0	2.1	2.8	3.5
Book value per share	21.5	25.5	28.0	32.2	37.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.8	2.3	2.1	1.8	1.6
EV/EBITDA	29.8	24.0	30.4	21.5	17.7
Adjusted P/E	64.0	43.8	56.9	37.3	30.1
P/BV	12.2	10.2	9.3	8.1	7.0

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	67.3	74.6	74.8	74.8	74.8
Interest burden (PBT/EBIT)	89.9	92.1	100.6	101.2	101.3
EBIT margin (EBIT/Revenue)	7.2	7.5	4.9	6.4	6.9
Asset turnover (Rev./Avg TA)	11.7	12.9	12.1	12.3	12.6
Leverage (Avg TA/Avg Equity)	0.4	0.4	0.4	0.4	0.4
Adjusted ROAE	21.3	25.4	17.1	23.3	24.9

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(1.7)	22.5	8.9	15.6	15.0
EBITDA	26.2	24.1	(21.0)	41.4	21.2
Adjusted EPS	73.7	46.1	(23.1)	52.8	23.7
Profitability & Return ratios (%)					
EBITDA margin	9.3	9.4	6.9	8.4	8.8
EBIT margin	7.2	7.5	4.9	6.4	6.9
Adjusted profit margin	4.3	5.2	3.7	4.8	5.2
Adjusted ROAE	21.3	25.4	17.1	23.3	24.9
ROCE	19.6	25.2	17.9	23.3	24.7
Working capital days (days)					
Receivables	65	58	62	62	62
Inventory	45	49	47	47	47
Payables	95	67	75	75	75
Ratios (x)					
Gross asset turnover	11.3	13.5	13.0	13.1	13.4
Current ratio	1.4	1.6	1.5	1.5	1.5
Net interest coverage ratio	6.9	9.1	5.8	8.5	9.8
Adjusted debt/equity	0.1	0.1	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%

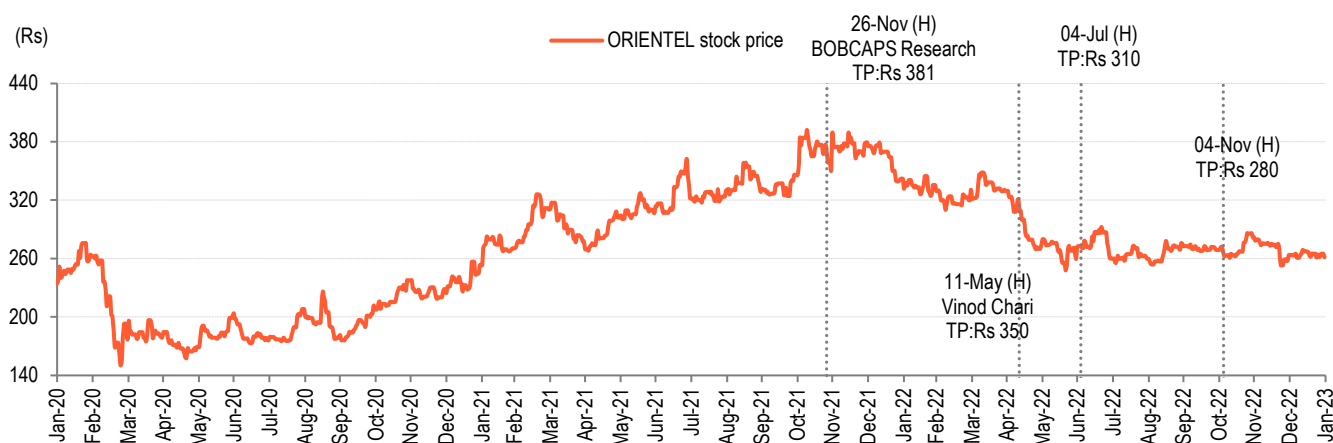
HOLD – Expected return from -6% to +15%

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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