

**BUY**

TP: Rs 278 | ▲ 26%

**ORIENT ELECTRIC**

Consumer Durables

29 January 2025

### Decent quarter; Hyderabad plant to spur growth

- Decent 9% YoY surge in revenue with 180bps boost to gross margin from smart cost cuts and strategic price hikes
- ORIENTEL accelerates premiumisation in fans, while ensuring quality through in-house PCB production
- We maintain our FY25/FY26/FY27 EPS estimates and value the stock at 30x P/E. We roll forward our valuation and raise our TP to Rs 278. BUY

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**Modest revenue growth:** Revenue grew 9% YoY to Rs 8bn which is the highest-ever quarterly revenue for ORIENTEL, supported by strong demand in appliances and fans, boosted by digital initiatives, festive sales, and higher realisations in line with our estimates. Gross margin improved by 180bps YoY to 31.7%, driven by effective cost optimisation, a favourable product mix and the impact of recent price hikes. EBITDA saw a notable 25% YoY increase to Rs 612mn, with margins rising 100bps YoY to 7.5%. Depreciation increased 34% YoY to Rs 202mn due to the new Hyderabad plant, while PAT rose to Rs 272mn.

**ECD sales surge with strong performance across segments:** ORIENTEL's ECD segment grew 7% YoY to Rs 5.7bn, driven by a favourable product mix and increased volumes. Despite being a non-seasonal quarter, fans recorded good growth. The focus on premiumisation across lighting, fans, and appliances has helped to improve gross margins, now back to pre-COVID levels of 31-33%. Over the next 1-2 years, the company expects margins to expand further by at least 100bps, supported by a better product mix and channel reorganisation. EBIT margin remained flat YoY at 11.2%.

**Lighting remains strong despite price erosion:** Lighting and switchgear sales grew 12% YoY to Rs 2.4bn, fueled by high double-digit volume growth in lighting despite LED price erosion. Although switchgear and wires faced challenges from pricing pressures and commodity cost fluctuations, overall, EBIT margin contracted by 90bps YoY to 13.3%.

**Maintain BUY:** Following ORIENTEL's Q3 results, we maintain our EPS estimates for FY25/FY26/FY27. We anticipate robust 19% revenue CAGR from FY24-27E, fueled by a low base and margin normalisation, which should drive a strong ~50% earnings CAGR. We value ORIENTEL at a P/E of 30x and maintain our BUY rating driven by management's optimism regarding market share growth with the upcoming Hyderabad facility launch. We roll forward our valuations to Dec'26, with a new TP of Rs 278 (from Rs 258).

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 220
Market cap	US\$ 539.1mn
Free float	62%
3M ADV	US\$ 0.6mn
52wk high/low	Rs 297/Rs 189
Promoter/FPI/DII	38%/6%/28%

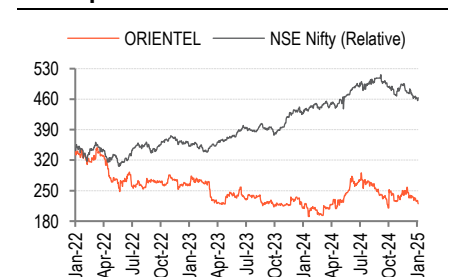
Source: NSE | Price as of 29 Jan 2025

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	28,121	33,150	39,471
EBITDA (Rs mn)	1,443	2,443	3,140
Adj. net profit (Rs mn)	566	1,066	1,531
Adj. EPS (Rs)	2.7	5.0	7.2
Consensus EPS (Rs)	2.7	5.5	7.8
Adj. ROAE (%)	9.3	15.9	20.4
Adj. P/E (x)	82.7	43.9	30.6
EV/EBITDA (x)	32.3	19.1	14.9
Adj. EPS growth (%)	(25.4)	88.4	43.6

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	Q3FY25E	Variance (%)
Revenue	8,168	7,519	8.6	6,602	23.7	22,318	20,245	10.2	8,271	1.3
EBITDA	612	489	25.0	357	71.6	1,369	1,136	20.5	523	(14.6)
EBITDA Margin (%)	7.5	6.5	100bps	5.4	210bps	6.1	5.6	50bps	6.3	(15.6)
Depreciation	202	150		196		573	435			
Interest	61	54		60		178	165			
Other Income	17	43		42		84	105			
PBT	366	328	11.6	142	157.3	701	641	9.4		
Tax	95	85		38		182	203			
Adjusted PAT	272	243	11.7	104	160.2	520	438	18.6	213	(21.5)
Exceptional item		-		0		-	(187)			
Reported PAT	272	243	11.7	104	160.2	520	625	(16.8)		
Adj. PAT Margin (%)	3.3	3.2	10bps	1.6	110.3	2.3	2.2	20bps		
EPS (Rs)	1.3	1.1	11.7	0.5	160.2	2.4	2.1	18.6		

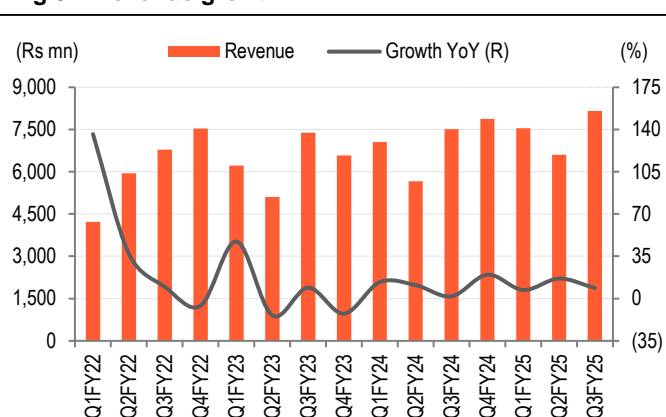
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
<b>Revenue</b>													
ECD	4,813	5,741	4,453	3,100	5,388	4,577	5,150	3,634	5,352	5,691	5,449	4,395	5,743
Growth YoY	4.5	(11.1)	37.4	(26.1)	11.9	(20.3)	15.6	17.2	(0.7)	24.3	5.8	20.9	7.3
Lighting & Switchgear	1,971	1,792	1,763	2,006	2,003	2,003	1,906	2,035	2,167	2,186	2,100	2,206	2,425
Growth YoY	24.8	14.8	79.5	14.9	1.6	11.8	8.1	1.4	8.2	9.1	10.2	8.4	11.9
<b>EBIT</b>													
Electrical Consumer Durables (ECD)	534	736	372	137	645	445	492	297	603	465	494	389	643
Margin (%)	11.1	12.8	8.3	4.4	12.0	9.7	9.5	8.2	11.3	8.2	9.1	8.8	11.2
Lighting & Switchgear	289	281	232	227	311	391	307	269	307	281	390	300	322
Margin (%)	14.7	15.7	13.2	11.3	15.6	19.5	16.1	13.2	14.2	12.8	18.6	13.6	13.3

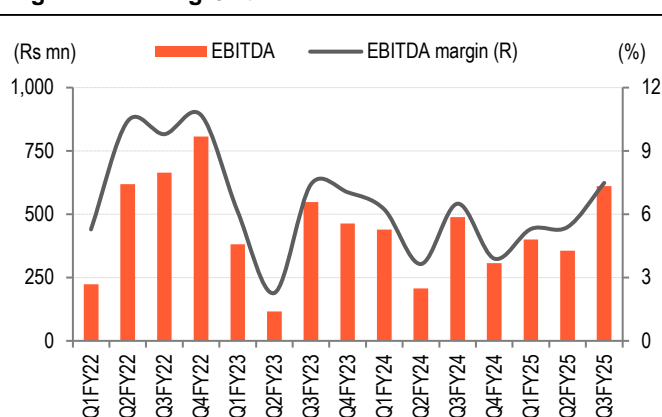
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**



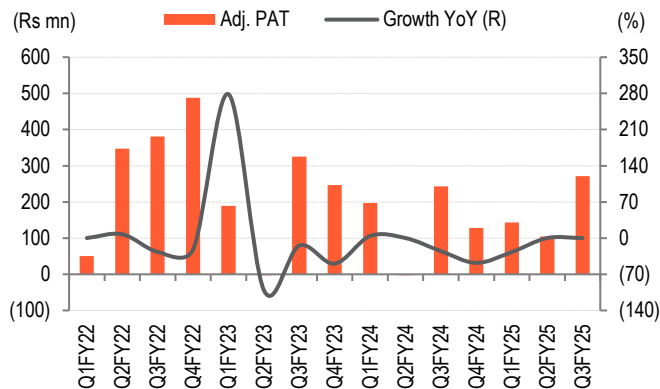
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**



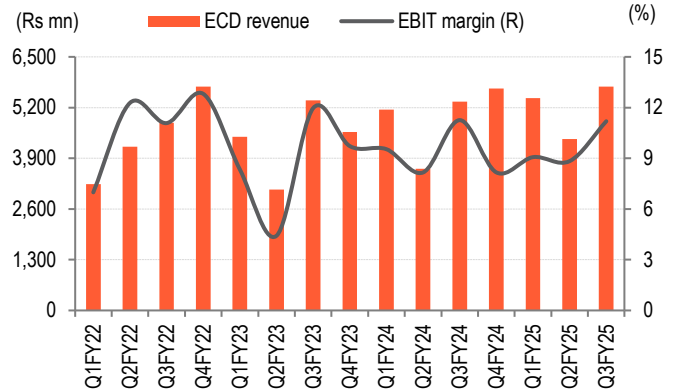
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth**



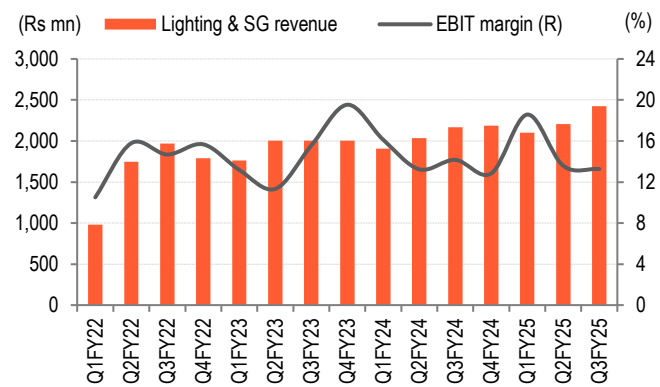
Source: Company, BOBCAPS Research

**Fig 6 – ECD segment performance**



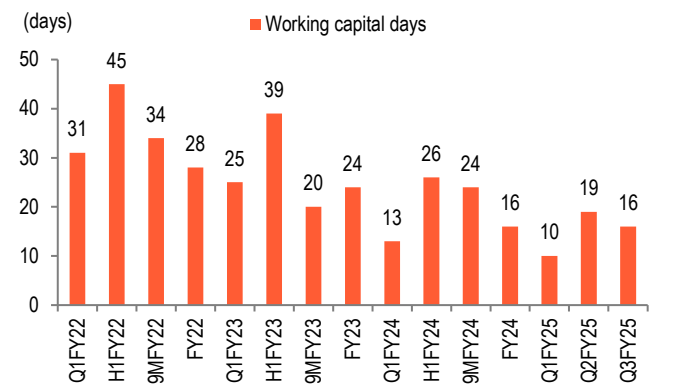
Source: Company, BOBCAPS Research

**Fig 7 – Lighting & Switchgear performance**



Source: Company, BOBCAPS Research

**Fig 8 – Working capital cycle**



Source: Company, BOBCAPS Research

## Earnings call highlights

- Q3 demand trends & market outlook:** Festive demand in October drove strong growth, but demand slowed from November to mid-December. However, heating product sales rebounded in late December as winter intensified in North India. Despite these fluctuations, the company remains optimistic about overall growth. Early indications suggest that summer could arrive sooner in North and East India, which may drive early seasonal demand. Trade inventory levels remain stable, ensuring smooth supply chain operations.
- Margin expansion:** The focus on premiumisation across lighting, fans, and appliances has helped improve gross margins, now back to pre-COVID levels of 31-33%. Over the next 1-2 years, the company expects margins to expand by at least 100bps, supported by a better product mix and channel reorganisation.
- Cost optimisation:** Cost management efforts under the Spark Sanchay programme yielded Rs 520mn in YTD savings, marking a 13% YoY improvement. With gross margins stabilising, upcoming revenue growth should provide operating leverage, bringing EBITDA margins to a high single-digit range, with a long-term ambition of reaching double digits.

- **Leadership & strategy initiatives:** ORIENTEL has strengthened its leadership team with Tapas Roy Chowdhary as the new business unit head for switchgears and wires. His extensive experience at General Motors, POLYCAB, HAVL and Philips is expected to drive growth in these segments.

### Electrical Consumer Durable

- **Fans business:** The company continues to focus on premiumisation in fans, with BLDC fans growing 60% YoY in Q3, now constituting 20% of total ceiling fan sales (9MFY25), growing at 25%. New product launches contributed 19% of total fan sales.
- **Hyderabad plant impact:** The Hyderabad plant has stabilised, and benefits are expected to flow in upcoming quarters. Currently, master distributor-led states contribute 70% of fan sales, while direct-to-market (DTM) states account for 30%, with West Bengal recently added to the DTM network, expanding ORIENTEL's reach to 11 states.
- **Appliances:** Appliances sales started strong in Q3 but slowed towards the quarter-end due to the cold wave in North India. A focused sell-out strategy on e-commerce platforms has yielded positive results in both fans and appliances.
- **Digital strategy:** A digital campaign for water heaters successfully boosted premium product sales, leading to a 300bps improvement in the sales mix. This highlights the effectiveness of targeted marketing efforts in driving product premiumisation.

### Lighting

- **Consumer lighting & premiumisation:** Consumer lighting saw high double-digit volume growth, with premium products now contributing 50% of sales, up 400bps YoY. The Chip-on-Board (COB) segment continues to expand, growing in the high teens
- Currently, the B2C-to-B2B revenue split stands at 80-20, with B2B lighting expected to gain momentum.

### Switchgears and Wires

- Switchgears and wires have shown consistent growth, and with increased investments in these categories, the company sees significant long-term potential.
- A new business unit head has been appointed to drive expansion in this segment. Given its nascent stage, there is ample room for growth, aligning with the company's broader strategy of strengthening its presence in electrical solutions.

## Valuation methodology

Following ORIENTEL's Q3 results, we maintain our EPS estimates for FY25/FY26/FY27. We anticipate robust 19% revenue CAGR from FY24-27E, fueled by a low base and margin normalisation, which should drive a strong ~50% earnings CAGR. We continue to value ORIENTEL at a P/E of 30x and maintain our BUY rating, driven by management's optimism regarding market share growth with the upcoming Hyderabad facility launch. We roll forward our valuations to Dec'26, with a new TP of Rs 278 (from Rs 258).

## Key risks

Key downside risks to our estimates are:

- delays in ramping up the Hyderabad facility, and
- excessive raw material price volatility.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>25,292</b>	<b>28,121</b>	<b>33,150</b>	<b>39,471</b>	<b>47,095</b>
EBITDA	1,510	1,443	2,443	3,140	4,011
Depreciation	535	590	903	964	1,026
EBIT	975	853	1,540	2,176	2,985
Net interest inc./(exp.)	(222)	(233)	(285)	(317)	(355)
Other inc./(exp.)	266	155	171	188	207
Exceptional items	0	0	0	0	0
EBT	1,019	776	1,426	2,047	2,837
Income taxes	261	210	359	516	715
Extraordinary items	0	(187)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>759</b>	<b>753</b>	<b>1,066</b>	<b>1,531</b>	<b>2,122</b>
Adjustments	0	(187)	0	0	0
<b>Adjusted net profit</b>	<b>759</b>	<b>566</b>	<b>1,066</b>	<b>1,531</b>	<b>2,122</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	4,530	5,439	6,812	8,110	9,677
Other current liabilities	1,000	1,270	1,497	1,783	2,127
Provisions	0	0	0	0	0
Debt funds	973	1,116	951	1,056	1,183
Other liabilities	297	295	348	414	494
Equity capital	213	213	213	213	213
Reserves & surplus	5,634	6,176	6,816	7,734	9,008
Shareholders' fund	5,846	6,389	7,029	7,948	9,221
<b>Total liab. and equities</b>	<b>12,646</b>	<b>14,509</b>	<b>16,637</b>	<b>19,311</b>	<b>22,702</b>
Cash and cash eq.	1,642	663	887	1,194	1,792
Accounts receivables	3,560	4,620	5,446	6,484	7,736
Inventories	2,846	3,151	3,714	4,422	5,276
Other current assets	647	761	848	1,010	1,205
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	833	992	1,184
<b>Total assets</b>	<b>12,646</b>	<b>14,510</b>	<b>16,637</b>	<b>19,312</b>	<b>22,703</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>1,897</b>	<b>1,183</b>	<b>2,092</b>	<b>2,172</b>	<b>2,757</b>
Capital expenditures	(1,136)	(1,400)	(300)	(300)	(300)
Change in investments	(58)	(376)	0	0	0
Other investing cash flows	95	70	(977)	(1,057)	(1,137)
<b>Cash flow from investing</b>	<b>(1,099)</b>	<b>(1,705)</b>	<b>(1,277)</b>	<b>(1,357)</b>	<b>(1,437)</b>
Equities issued/Others	1	1	0	0	0
Debt raised/repaid	(292)	(183)	(165)	105	127
Interest expenses	0	0	0	0	0
Dividends paid	(370)	(274)	(427)	(612)	(849)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(661)</b>	<b>(457)</b>	<b>(591)</b>	<b>(507)</b>	<b>(722)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>137</b>	<b>(980)</b>	<b>224</b>	<b>307</b>	<b>598</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,642</b>	<b>663</b>	<b>887</b>	<b>1,194</b>	<b>1,792</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	3.6	3.5	5.0	7.2	10.0
Adjusted EPS	3.6	2.7	5.0	7.2	10.0
Dividend per share	1.5	1.5	2.0	2.9	4.0
Book value per share	27.5	30.0	33.0	37.3	43.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.8	1.7	1.4	1.2	1.0
EV/EBITDA	30.9	32.3	19.1	14.9	11.6
Adjusted P/E	61.7	82.7	43.9	30.6	22.1
P/BV	8.0	7.3	6.7	5.9	5.1

### 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	92.6	94.1	95.0
EBIT margin (EBIT/Revenue)	3.9	3.0	4.6	5.5	6.3
Asset turnover (Rev./Avg TA)	8.7	6.3	7.0	7.8	8.8
Leverage (Avg TA/Avg Equity)	0.5	0.7	0.7	0.7	0.6
Adjusted ROAE	13.5	9.3	15.9	20.4	24.7

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	3.3	11.2	17.9	19.1	19.3
EBITDA	(34.7)	(4.4)	69.3	28.5	27.7
Adjusted EPS	(40.3)	(25.4)	88.4	43.6	38.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.0	5.1	7.4	8.0	8.5
EBIT margin	3.9	3.0	4.6	5.5	6.3
Adjusted profit margin	3.0	2.0	3.2	3.9	4.5
Adjusted ROAE	13.5	9.3	15.9	20.4	24.7
ROCE	14.3	10.2	16.5	20.8	24.6
<b>Working capital days (days)</b>					
Receivables	51	60	60	60	60
Inventory	41	41	41	41	41
Payables	65	71	75	75	75
<b>Ratios (x)</b>					
Gross asset turnover	10.5	7.7	7.2	8.1	9.1
Current ratio	1.5	1.3	1.2	1.2	1.3
Net interest coverage ratio	4.4	3.7	5.4	6.9	8.4
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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**BUY** – Expected return >+15%

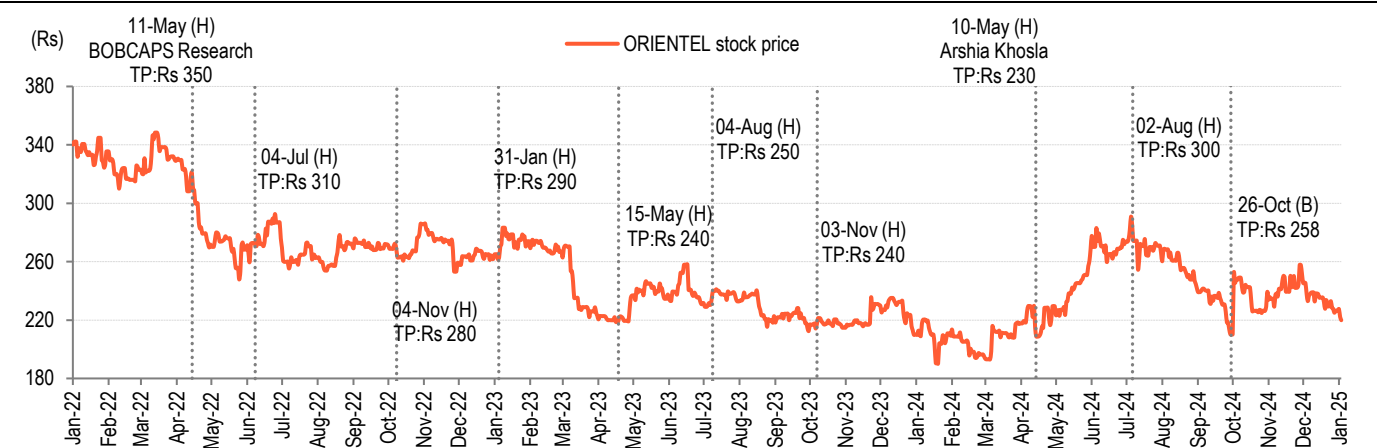
**HOLD** – Expected return from -6% to +15%

**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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