

HOLD

TP: Rs 230 | ▲ 7%

ORIENT ELECTRIC

Consumer Durables

10 May 2024

Strong revenue; profitability falters

- **Healthy 20% topline growth with gross margin expansion of 250bps in Q4; EBITDA lower on EPR provisioning**
- **Hyderabad plant primes for long-term growth; watch for market share gains**
- **We pare FY25E/FY26E EPS by 19%/11% on near-term margin fluctuations; lower TP to Rs 230 on forecast rollover, maintain HOLD**

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Strong quarter; margin miss: Orient reported a commendable quarter with 20% YoY growth at Rs 7.8bn, fuelled by a robust performance in ECD up 24% at Rs 5.6bn, credited to the early onset of the summer season. The Lighting and Switchgear segments displayed solid growth with +9% YoY at Rs 2.2bn. Despite gross margins expanding 250bps, EBITDA margin contracted by 310 bps, primarily due to EPR provisioning. FY24 revenue stood at Rs 28bn, up 11% YoY.

Hyderabad plant poised to cultivate long-term growth: Orient officially commissioned its Hyderabad plant on 6 May 2024, with the primary focus on manufacturing TPW fans, which are already in production. While management is confident of the plant's capabilities, it acknowledges the crucial role the segment must play in marketing and gaining market share. Despite the absence of capacity constraints at Orient, capturing the market remains imperative for success.

Direct distribution strategy: Orient has embraced a direct-to-market (DTM) strategy, bypassing traditional dealer and distributor channels to enter markets directly. It believes in employing aggressive sales tactics to promote and sell products according to its vision, which dealers may not have previously supported. The transition to DTM yielded 46% growth in regions where it has been implemented in Q4, along with a notable 65% growth in the overall strategy for the full year. In FY25, DTM will be expanded to encompass another 3-4 states.

Demand outlook: Management expects overall fans market growth in FY25 to remain in single digits YoY. However, Orient's management is confident of sustaining double-digit growth, primarily through market share gains.

Maintain HOLD: Despite management's confidence over market share gains increasing with the commencement of the Hyderabad facility, the lack of a specific timeline for anticipated revenue increments poses uncertainty. Consequently, we have pared our FY25/FY26 EPS estimates by 19%/11%. However, we maintain our valuation of the stock at 30x P/E, a 5% discount to the 3Y average. After rolling forward valuations to Mar'26E, we arrive at a TP of Rs 230. Maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 215
Market cap	US\$ 554.4mn
Free float	62%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 262/Rs 189
Promoter/FPI/DII	38%/6%/28%

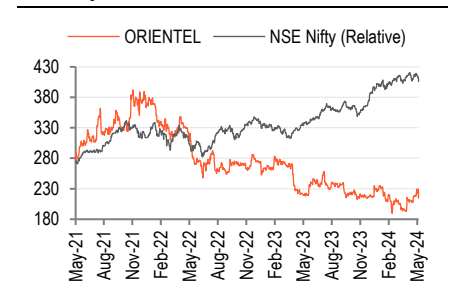
Source: NSE | Price as of 9 May 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	28,121	33,686	40,337
EBITDA (Rs mn)	1,443	2,576	3,321
Adj. net profit (Rs mn)	566	1,163	1,663
Adj. EPS (Rs)	2.7	5.5	7.8
Consensus EPS (Rs)	2.7	6.9	8.4
Adj. ROAE (%)	9.3	17.3	21.9
Adj. P/E (x)	80.7	39.3	27.5
EV/EBITDA (x)	31.6	17.7	13.7
Adj. EPS growth (%)	(25.4)	105.6	43.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	7,877	6,579	19.7	7,519	4.8	28,121	25,292	11.2
EBITDA	307	464	(33.7)	489	(37.2)	1,443	1,510	(4.4)
EBITDA Margin (%)	3.9	7.0	(310bps)	6.5	(260bps)	5.1	6.0	(80bps)
Depreciation	155	137		150		590	535	
Interest	68	61		54		233	222	
Other Income	50	63		43		155	266	
PBT	135	328	(58.9)	328	(58.9)	776	1,019	(23.9)
Tax	7	82		85		210	261	
Adjusted PAT	128	246	(48.0)	243	(47.4)	566	759	(25.4)
Exceptional item		-		0		(187)	-	
Reported PAT	128	246	(48.0)	243	(47.4)	753	759	(0.8)
Adj. PAT Margin (%)	1.6	3.7	(210bps)	3.2	(49.8)	2.0	3.0	(100bps)
EPS (Rs)	0.6	1.2	(48.0)	1.1	(47.4)	2.7	3.6	(25.4)

Source: Company, BOBCAPS Research

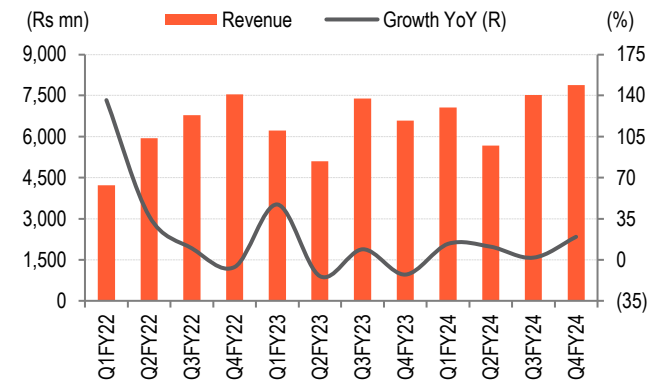
Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
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
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
Lighting & Switchgear	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003	1,906	2,035	2,167	2,186
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
EBIT												
Electrical Consumer Durables (ECD)	227	516	534	736	372	137	645	445	492	297	603	465
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
Lighting & Switchgear	103	276	289	281	232	227	311	391	307	269	307	281
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

Source: Company, BOBCAPS Research

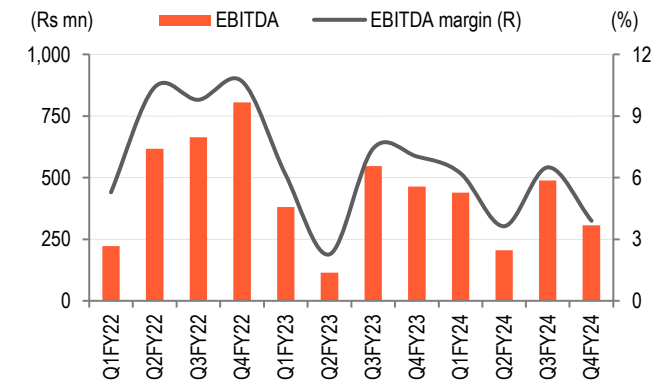
Key metrics: Quarterly

Fig 3 – Revenue growth



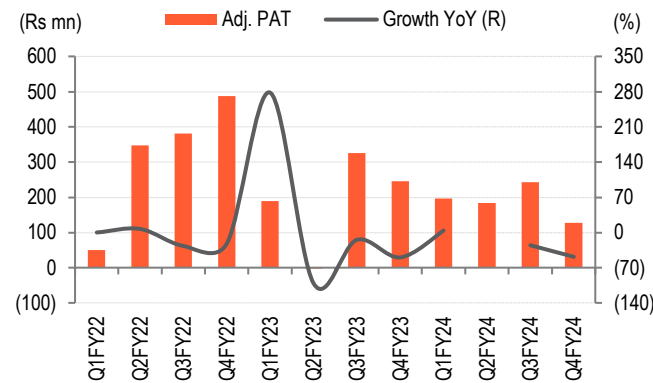
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



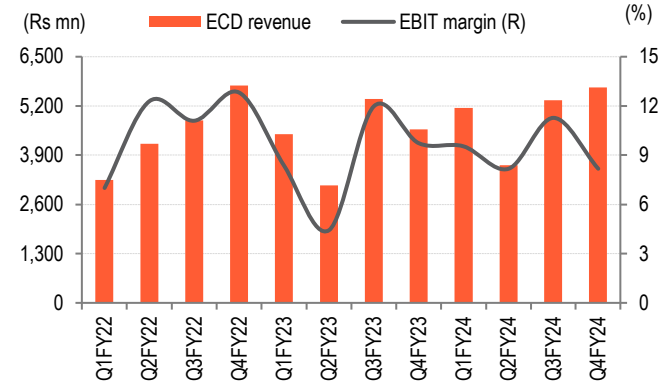
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



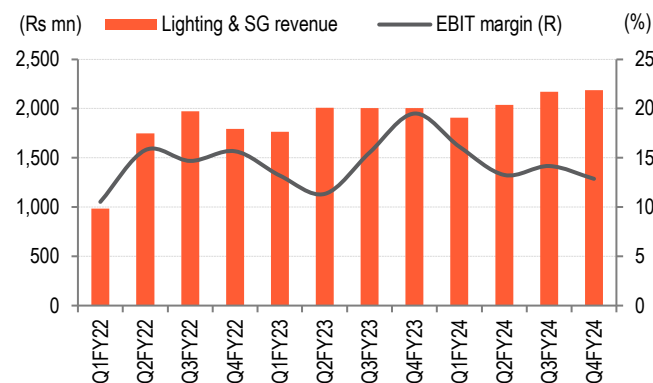
Source: Company, BOBCAPS Research

Fig 6 – ECD segment performance



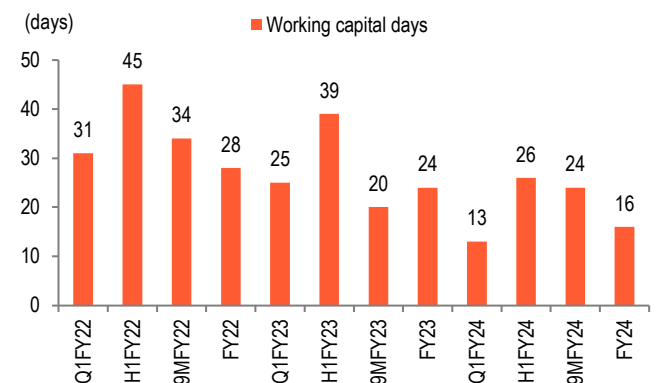
Source: Company, BOBCAPS Research

Fig 7 – Lighting & Switchgear performance



Source: Company, BOBCAPS Research

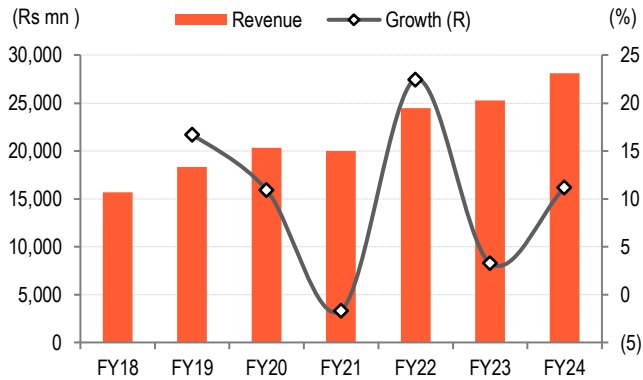
Fig 8 – Working capital cycle



Source: Company, BOBCAPS Research

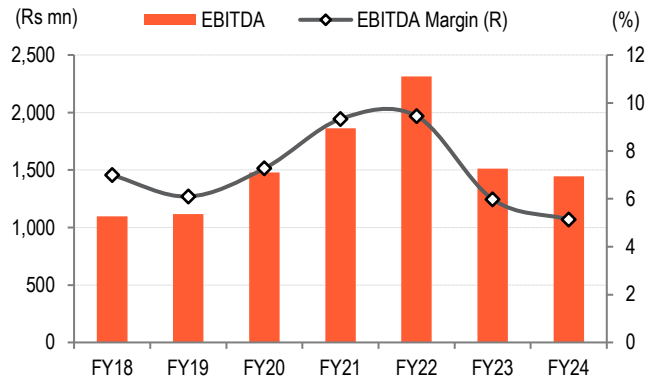
Key metrics: Yearly

Fig 9 – Revenue growth



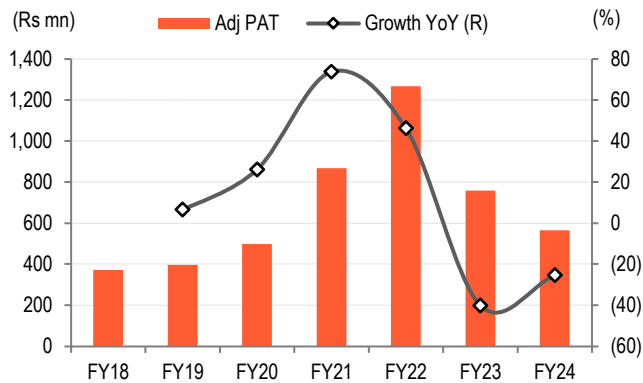
Source: Company, BOBCAPS Research

Fig 10 – EBITDA trend



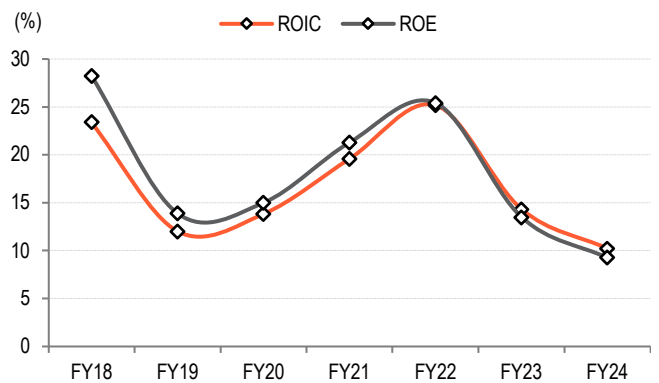
Source: Company, BOBCAPS Research

Fig 11 – Profit trend



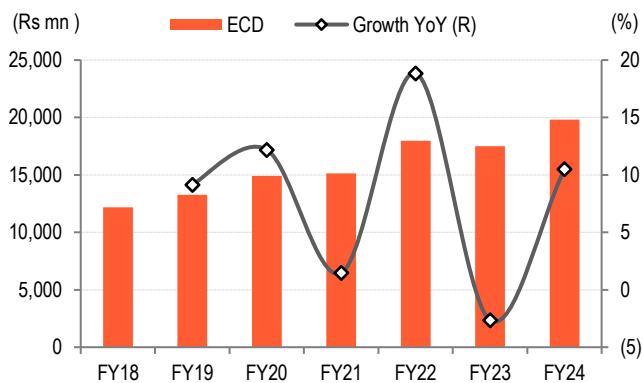
Source: Company, BOBCAPS Research

Fig 12 – Return ratios



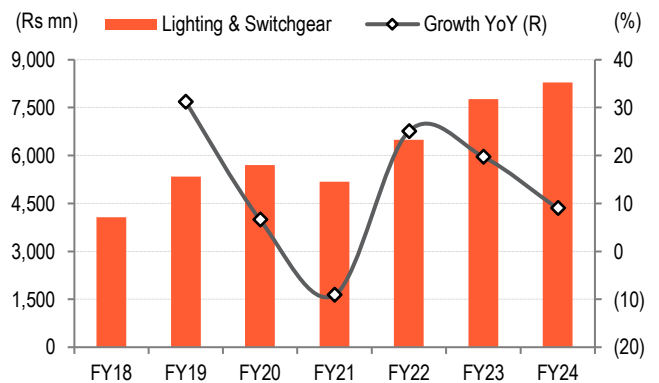
Source: Company, BOBCAPS Research

Fig 13 – ECD segment performance



Source: Company, BOBCAPS Research

Fig 14 – Lighting & Switchgear performance



Source: Company, BOBCAPS Research

Earnings call highlights

Electric consumer durables (ECD)

- **Segment performance:** The ECD segment's robust topline growth in Q4FY24 can be attributed to multiple factors, including a low base in fans and heightened consumer demand stemming from the early onset of summer. Alongside the healthy performance of the fan segment, water heaters exhibited strong growth, further bolstering ECD's overall performance.
- **Outlook:** In the outlook for the fans market in FY25, it is anticipated that overall market growth will remain in the single digits YoY. However, Orient expects to sustain double-digit growth, primarily through market share gains. The expansion of its Hyderabad facility will also play a crucial role in boosting sales and facilitating this growth trajectory.
- **BIS and ISI standards:** Management confirmed that all its ceiling fans now adhere to BIS standards and prominently display the BSI and ISI marks. Management's attention is now directed towards transitioning table, pedestal, and wall (TPW) fans to meet these standards by September this year. Management is confident that this transition will progress smoothly, offering customers a seamless experience from order placement to product delivery.
- **Direct to market:** Strategic initiatives include the implementation of direct to market (DTM) models, which have replaced distributors in specific states, resulting in 46% growth in those regions and robust 65% growth in DTM for the full year. This fiscal year, DTM will be introduced in another 3-4 states. Directly engaging with the market enables the company to promote and push more products, a task often not fully executed by distributors.

Lighting and Switchgears

- **Segment performance:** In the lighting segment, there has been a notable 9% growth, despite continuous price erosion in LED lamps. The professional lighting sector has performed well, securing new customers, and experiencing steady demand for professional luminaires. Notably, there have been successful bookings of new orders, with efficient execution. In the last quarter, significant projects such as the completion of the smart city lighting and the illumination of Sudarshan Setu were accomplished. Additionally, lighting projects in Ayodhya and contributions to the Jagannath Puri temple have been undertaken, solidifying the company's presence in the market.
- **Margins:** The EBIT margin stood at 12.8%, affected by increased marketing interventions at point-of-sales. Despite the continuous price erosion in the B2C sector, the segment achieved mid-single-digit growth, driven by robust volume expansion and successful new product launches.
- **Lighting B2B:** The B2B segment maintained its momentum, registering double-digit growth in value terms. This growth was fueled by heightened public spending in the infrastructure sector, successful B2G initiatives by the company, and the accumulation of a robust order book in professional luminaire.

- **Switchgears:** There has been a drag due to switchgear and wires, occasionally exhibiting fluctuations. However, switchgear (SG) has shown signs of improvement recently.

Other highlights

- **Revenue is strong, but profits are significantly lower:** While there has been healthy growth in topline and gross margin, the absence of an uptick in EBITDA is notable, standing at Rs 307mn. A significant differentiator in this regard is the allocation of provisions amounting to nearly Rs 9bn due to Electrical & Power Review (EPR). This reflects the adoption of a stringent provisioning policy.
- **New product additions:** The company launched over 25 new products, including 18 in the Lighting category, featuring downlighters, desk lamps, lantern lamps, torches, and floodlights, available in a wide colour range. There were 3 launches in Appliances, 2 in Coolers, and 2 in Fans.
- **E-commerce and modern trade:** E-commerce emerged as another significant area of focus for Orient, representing a comprehensive approach to business operations. The company achieved 75% growth from e-commerce channels over the full year. Emphasis has been placed on modern formats, large retail stores, and collaborations with top partners in India. In recent months, large-format stores have also experienced significant traction, culminating in 13% growth for the full year.
- **South India markets:** In the South India project, overall sales for FY24 indicate that 32% of the revenue was attributed to South India, signifying the region's importance and significant contribution to the company's sales figures.
- **Exports:** International business grew in the mid-teens during Q4.
- **Capex:** Orient incurred capex of Rs 4.6bn in Q4FY24 and the full-year capex was Rs 18.2bn.
- **Balance sheet:** The company's net cash position stood at Rs 8.3bn at end-Q4 as against Rs 15.4bn in Q4FY23. ROCE for FY24 was 15.4%, a contraction of 550bps YoY due to higher capital employed at the Hyderabad plant.

Valuation methodology

Orient Electric is transitioning to a premium product business and actively targeting B2B clients to drive growth. While we recognise a significant business opportunity for the company, it is important to acknowledge that margins may face pressure in the short term as the company invests in initiatives aimed at long-term growth.

Despite management's confidence in increasing market share gains with the commencement of the Hyderabad facility, the lack of a specific timeline for anticipated revenue increments poses uncertainty. Consequently, we have lowered our FY25/FY26 EPS estimates by 19%/11%. However, we maintain our valuation of the stock at 30x P/E, a 5% discount to the 3Y average. After rolling forward valuations to Mar'26E, we arrive at a TP of Rs 230, offering a marginal 7% upside, thereby prompting us to maintain our HOLD rating.

Fig 15 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	33,686	40,337	33,852	38,591	(0.5)	4.5
EBITDA	2,576	3,321	2,476	3,105	4.0	7.0
PAT	1,163	1,663	1,432	1,869	(18.8)	(11.0)
EPS (Rs)	5.5	7.8	6.7	8.8	(18.8)	(11.0)
EBITDA Margin (%)	7.6	8.2	7.3	8.0	30bps	20bps

Source: Company, BOBCAPS Research

Key risks

- 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.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,877	3,200	SELL
Blue Star	BLSTR IN	3.3	1,388	1,670	BUY
Havells India	HAVL IN	12.8	1,674	1,780	HOLD
KEI Industries	KEII IN	4.2	3,842	3,680	HOLD
Orient Electric	ORIENTEL IN	0.6	215	230	HOLD
Syrma SGS	SYRMA IN	1.0	464	550	HOLD
V-Guard Industries	VGRD IN	1.8	343	310	HOLD
Voltas	VOLT IN	5.1	1,276	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Total revenue	24,484	25,292	28,121	33,686	40,337
EBITDA	2,313	1,510	1,443	2,576	3,321
Depreciation	471	535	590	903	964
EBIT	1,842	975	853	1,672	2,357
Net interest inc./(exp.)	(203)	(222)	(233)	(288)	(321)
Other inc./(exp.)	58	266	155	171	188
Exceptional items	0	0	0	0	0
EBT	1,698	1,019	776	1,555	2,224
Income taxes	431	261	210	392	560
Extraordinary items	0	0	(187)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,266	759	753	1,163	1,663
Adjustments	0	0	(187)	0	0
Adjusted net profit	1,266	759	566	1,163	1,663

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	4,495	4,530	5,439	6,922	8,288
Other current liabilities	930	1,000	1,270	1,522	1,822
Provisions	0	0	0	0	0
Debt funds	675	973	1,116	960	1,070
Other liabilities	361	297	295	353	423
Equity capital	212	213	213	213	213
Reserves & surplus	5,201	5,634	6,176	6,874	7,872
Shareholders' fund	5,413	5,846	6,389	7,087	8,085
Total liab. and equities	11,874	12,646	14,509	16,844	19,689
Cash and cash eq.	1,505	1,642	663	919	1,289
Accounts receivables	3,904	3,560	4,620	5,534	6,626
Inventories	3,261	2,846	3,151	3,774	4,519
Other current assets	280	647	761	862	1,032
Investments	0	0	0	0	0
Net fixed assets	1,900	2,902	4,442	4,742	5,042
CWIP	0	0	0	0	0
Intangible assets	234	216	167	167	167
Deferred tax assets, net	0	0	0	0	0
Other assets	789	833	707	847	1,014
Total assets	11,874	12,646	14,510	16,844	19,690

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Cash flow from operations	114	1,897	1,183	2,162	2,287
Capital expenditures	(423)	(1,136)	(1,400)	(300)	(300)
Change in investments	1,172	(58)	(376)	0	0
Other investing cash flows	33	95	70	(985)	(1,062)
Cash flow from investing	782	(1,099)	(1,705)	(1,285)	(1,362)
Equities issued/Others	0	1	1	0	0
Debt raised/repaid	(208)	(292)	(183)	(156)	111
Interest expenses	0	0	0	0	0
Dividends paid	(588)	(370)	(274)	(465)	(665)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(797)	(661)	(457)	(621)	(555)
Chg in cash & cash eq.	99	137	(980)	256	370
Closing cash & cash eq.	1,505	1,642	663	919	1,289

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	6.0	3.6	3.5	5.5	7.8
Adjusted EPS	6.0	3.6	2.7	5.5	7.8
Dividend per share	2.0	1.5	1.5	2.2	3.1
Book value per share	25.5	27.5	30.0	33.3	38.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	1.9	1.8	1.6	1.4	1.1
EV/EBITDA	19.7	30.2	31.6	17.7	13.7
Adjusted P/E	36.0	60.2	80.7	39.3	27.5
P/BV	8.4	7.8	7.2	6.4	5.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.4	72.9	74.8	74.8
Interest burden (PBT/EBIT)	92.1	104.6	90.9	93.0	94.4
EBIT margin (EBIT/Revenue)	7.5	3.9	3.0	5.0	5.8
Asset turnover (Rev./Avg TA)	12.9	8.7	6.3	7.1	8.0
Leverage (Avg TA/Avg Equity)	0.4	0.5	0.7	0.7	0.7
Adjusted ROAE	25.4	13.5	9.3	17.3	21.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	22.5	3.3	11.2	19.8	19.7
EBITDA	24.1	(34.7)	(4.4)	78.5	29.0
Adjusted EPS	46.1	(40.3)	(25.4)	105.6	43.0
Profitability & Return ratios (%)					
EBITDA margin	9.4	6.0	5.1	7.6	8.2
EBIT margin	7.5	3.9	3.0	5.0	5.8
Adjusted profit margin	5.2	3.0	2.0	3.5	4.1
Adjusted ROAE	25.4	13.5	9.3	17.3	21.9
ROCE	25.2	14.3	10.2	17.7	22.1
Working capital days (days)					
Receivables	58	51	60	60	60
Inventory	49	41	41	41	41
Payables	67	65	71	75	75
Ratios (x)					
Gross asset turnover	13.5	10.5	7.7	7.3	8.2
Current ratio	1.6	1.5	1.3	1.2	1.2
Net interest coverage ratio	9.1	4.4	3.7	5.8	7.3
Adjusted debt/equity	0.1	0.2	0.2	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%

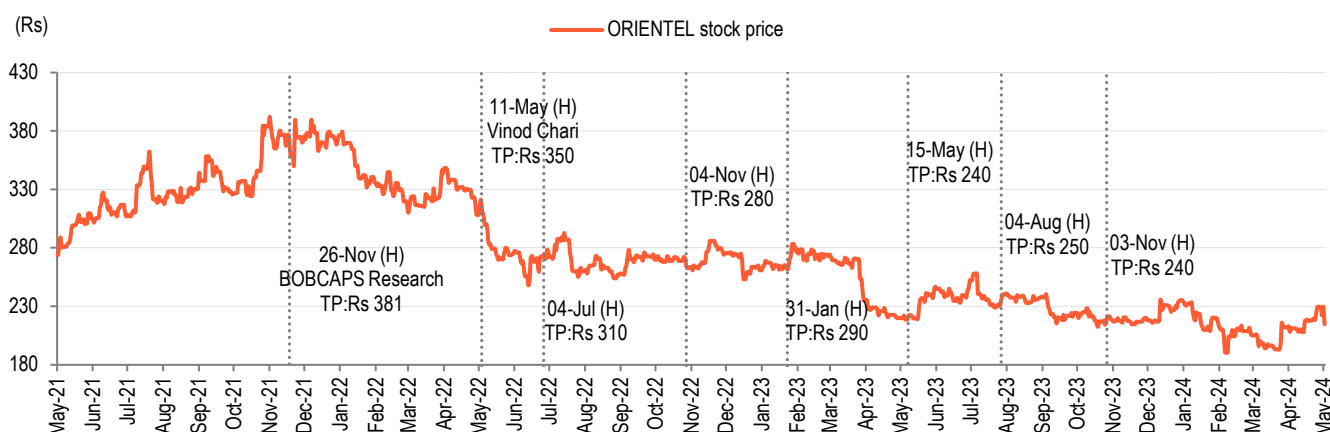
HOLD – Expected return from -6% to +15%

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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