

Decent revenue growth, investment and brand building impacted EBITDA margins

Q2FY24 Result Update | Sector: Consumer Electrical | November 06, 2023

BUY

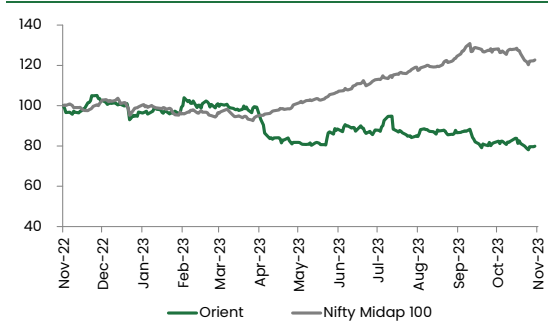
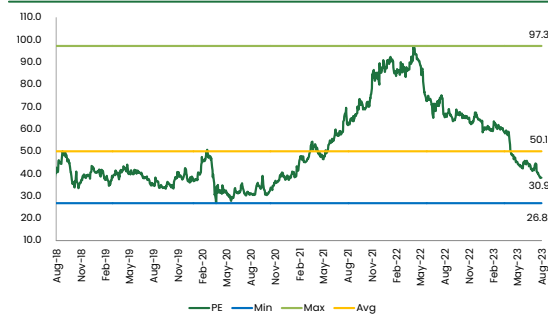
CMP (Rs)	220
Target Price (Rs)	271
Potential Upside	23.2%
Sensex	64,760
Nifty	19,355

Key Stock data

BSE Code	541301
NSE Code	ORIENTELEC
Bloomberg	ORIENTEL:IN
Shares o/s, Cr (FV 1)	21.3
Market Cap (Rs Cr)	4,690
3M Avg Volume	291,976
52 week H/L	291/217

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	38.4	38.3	38.3
FII	5.8	5.5	5.7
DII	27.6	27.9	30.0
Others	28.2	28.3	26.0

1 year relative price performance

1 year P/E Forward (x)

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Decent overall performance: Orient Electric revenue from operations came in at Rs 567 Cr, up by 11% YoY. The in revenue was mainly led by healthy growth in its fans category which witnessed healthy demand. Amongst segments, Electrical Consumer Durables (ECD) contribution to revenue was 64.1% of the overall revenue at Rs 363 Cr, up by 17.2%. Its Lighting and Switchgears contribution to the revenue was 35.9% at Rs 203 Cr, marginally up by up by 1.4% YoY. PAT was at Rs 18.4 Cr, supported by the sale of its land parcel.

Mixed margins performance: Its gross profit stood at Rs 172 Cr, up by 27.9% YoY while gross margin improved by 400bps YoY to 30.3%, supported by decline in price of key raw materials while the cost optimization measures through project Sanchay aided the margin expansion further. EBITDA was reported at Rs 21 Cr experiencing a growth of 78% YoY and margin expansion of 137bps YoY to 3.6%. Despite the decline in the price of key raw material and cost optimization measures, the pace of EBITDA margin expansion was offset by investment and brand building expenses.

Segmental operational performance: ECD revenue was up by 17.2% YoY while its EBIT was up by a healthy 116.6% YoY to Rs 30 Cr. The growth in ECD segments was primarily driven by robust demand for fans as well as 2x growth in its DTM channel. Lighting and Switchgear revenue was marginally up by 1.4% YoY mainly due to muted B2C growth and price revisions in LED, however, EBIT was up by 18.5% YoY to Rs 27 Cr.

Delay in Hyderabad facility commencement: The company indicated that the Hyderabad facility will be operational at the beginning of Q4FY24. The delay in the commencement is due to difficulty in necessary visa approvals for its few foreign technicians. Going ahead, the management has indicated that this facility will be beneficial for fans category and also tap the international market which shall aid in revenue growth in FY25.

Key concall & other highlights: 1) Continues to maintain strong presence in North and Eastern markets. 2) Company indicated that Hyderabad facility will require a capex of ~Rs 200 Cr while maintenance capex for FY24 will be ~Rs 60 Cr. 3) Inventory build-up due to festive period which shall aid in revenue growth. 4) BLDC and TPW fans witnessed double digit growth with premium fans contributing ~40% of the revenue. 5) Demand for fans in exports markets was driven by TPW category.

Outlook & Valuations: Orient has diversified range of product categories in its ECD segment and Lighting & Switchgears segment with robust distribution network across India. The company is under the process of expanding its fans capacity with the commencement of Hyderabad facility which will prove to be the next leg of growth for the company. The upcoming festive period followed by summer season shall prove favorable for its overall category of products eventually driving the revenue growth. Financially, we estimate its revenue/EBITDA/PAT to grow at a CAGR of 16.5%/32.7%/43.1% over FY23-25E and recommend **Buy** rating with a target price of **Rs 271** valuing the company at 37x on FY25E EPS.

Financial Summary - standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	2,448	2,529	2,909	3,432
EBITDA	231	151	160	266
EBITDAM (%)	9.4	6.0	5.5	7.8
PAT	127	76	97	155
PATM (%)	5.2	3.0	2.7	4.5
EPS (Rs)	6.0	3.6	4.6	7.3
PE (x)	36.8	61.4	47.9	30.0
RoE (%)	25.4	13.5	12.4	20.4

Source : RBL Research

Decent revenue growth driven by its fans category

Decline in raw material prices aid in gross margin expansion while brand building expenses suppressed EBITDA margin expansion

Healthy growth in ECD segment driven by fans category while Lighting & Switchgears remained flat.

P&L Account Quarterly – standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net sales	567	511	11.0	706	(19.7)
Total material cost	395	376	5.0	489	(19.2)
Gross Profit	172	134	27.9	216	(20.6)
Gross Profit Margin (%)	30.3	26.3	400 bps	30.7	-37 bps
Employee cost	58	43	34.3	67	(13.2)
Other overheads	93	79	17.1	105	(11.9)
EBITDA	21	12	78.0	44	(53.0)
EBITDA Margin (%)	3.6	2.3	137 bps	6.2	-259 bps
Depreciation	14	13	8.2	14	(1.0)
Interest	5	5	6.6	6	(13.0)
Other income	3	6	(48.1)	3	17.5
PBT	5	0	-	27	(82.4)
Tax	5	0	-	7	(28.8)
Effective tax rate (%)	104.9	315.4	-	20	432.8
Adj. PAT	(0)	(0)	-	20	-
Exceptional Items	19	0	-	0	-
Reported PAT	18	(0)	-	20	-
Reported PAT margin (%)	3.2	-	-	2.8	40 bps

Source : RBL Research

Cost analysis – standalone

As a % of net sales	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Material costs	69.7	73.7	-400 bps	69.3	37 bps
Personnel Costs	10.3	8.5	178 bps	9.5	77 bps
Other overheads	16.4	15.5	85 bps	14.9	145 bps
Total costs	96.4	97.7	-137 bps	93.8	259 bps

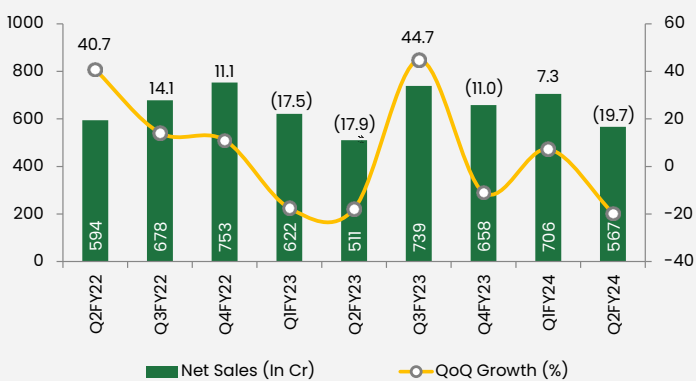
Segmental Revenue, Rs cr					
Electric Consumer Durables	363	310	17.2	515	(29.4)
Lighting & Switchgears	203	201	1.4	191	6.7
Total	567	511	11.0	706	(19.7)

Segmental EBIT, Rs cr					
Electric Consumer Durables	30	14	116.6	49	(39.6)
Lighting & Switchgears	27	23	18.5	31	(12.3)
Less: Other Unallocable Expenses	49	32	53.0	49	(0.7)
Total EBIT	8	5	71.5	31	(74.1)

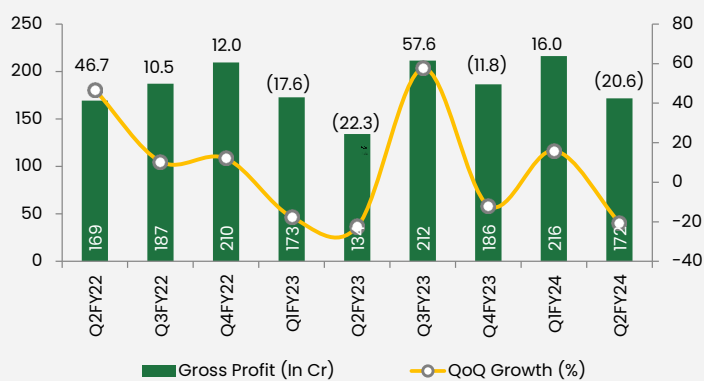
Source : RBL Research

Story in charts

Decent revenue growth led by fans category

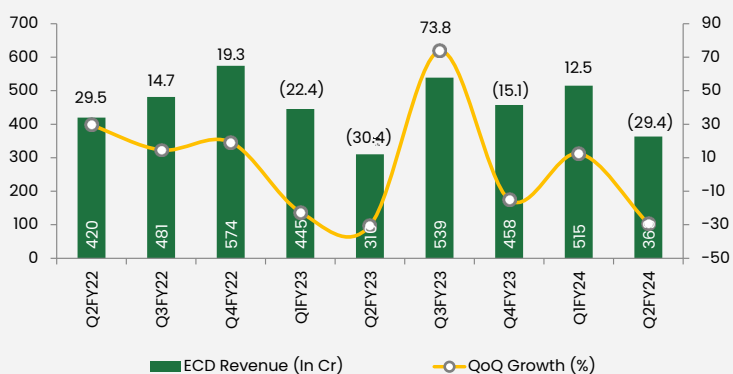


Decline in input cost aided in yearly gross profit and margin growth

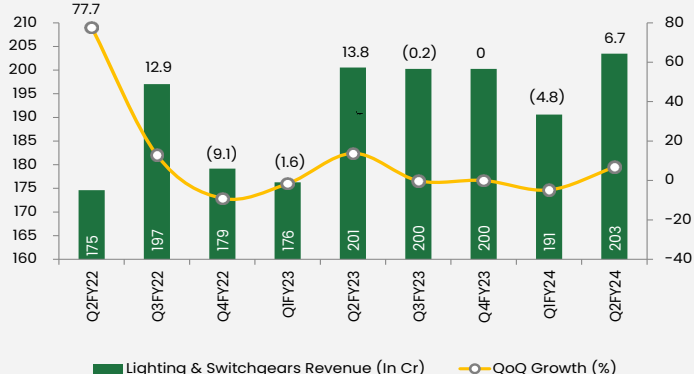


Source : RBL Research

Fans category drove the growth as compared to last year

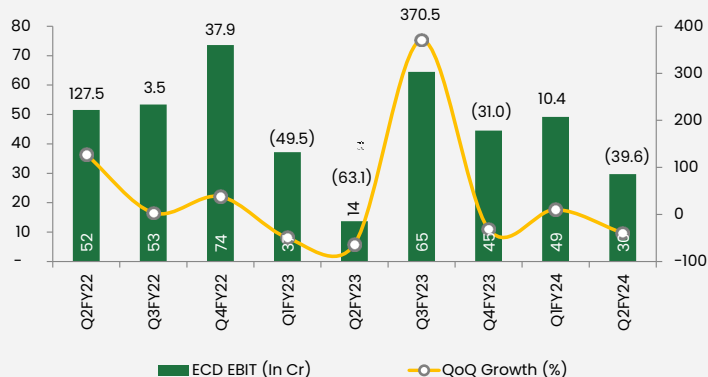


Sequential increase in Lighting & Switchgear business

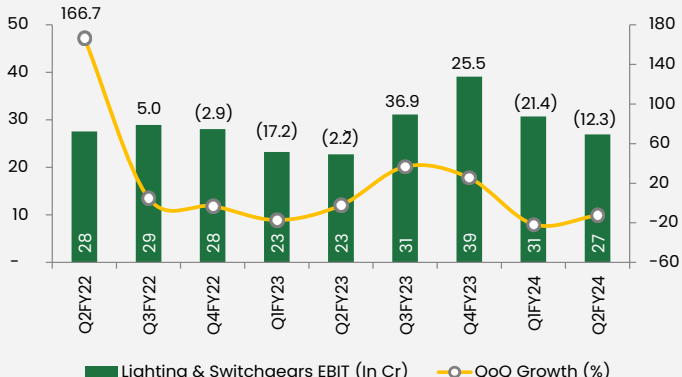


Source : RBL Research

Better product mix aiding profitability

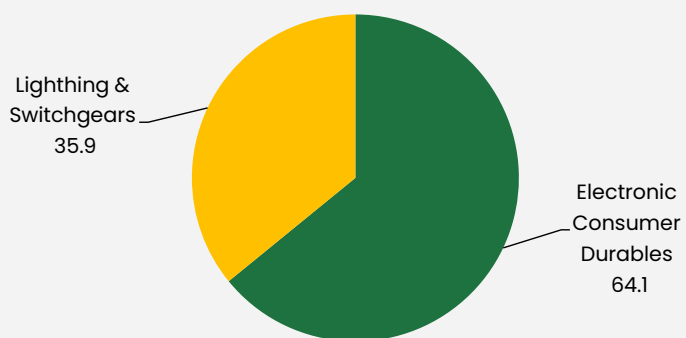


Softer demand impacted the profitability performance

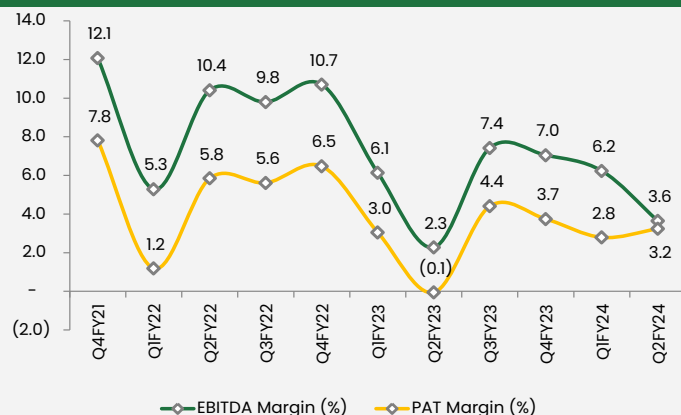


Source : RBL Research

Segmental contribution to revenue (in %)



Trend of EBITDA and PAT Margins



Source : RBL Research

P&L Account – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	2,448	2,529	2,909	3,432
Expenditure				
Total raw material cost	1,767	1,824	2,094	2,454
Employee cost	190	193	218	249
Other expenses	260	361	436	463
Total expenditure	2,217	2,378	2,749	3,166
EBITDA	231	151	160	266
EBITDAM (%)	9.4	6.0	5.5	7.8
Other income	6	27	29	33
Depreciation	47	54	60	66
PBIT	190	124	129	233
Interest expenses	20	22	24	26
PBT	170	102	105	207
Tax	43	26	26	52
Adj. PAT	127	76	79	155
Exceptional Items	0	0	18.6	0
Reported PAT	127	76	97	155
PATM (%)	5.2	3.0	3.3	4.5

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	21	21	21	21
Reserves & Surplus	520	563	661	816
Total Shareholder's Fund	541	585	682	837
Non-Current Liabilities				
Total borrowings	15	10	10	10
Long term provision	23	19	29	37
Current Liabilities				
Trade payables	449	453	521	615
Short term provisions	31	32	36	43
Other current liabilities	78	80	92	109
Total Liabilities	1,187	1,256	1,478	1,773
Fixed Assets	190	215	265	300
Current work in process	2	83	83	83
Intangible assets	23	22	22	22
Other non-current assets	16	27	27	27
Deferred Tax Assets	26	25	25	25
Current Assets				
Inventories	326	285	327	386
Trade receivables	416	372	428	505
Cash & Cash equivalents	151	164	215	310
Other current assets	28	49	56	66
Total Assets	1,187	1,256	1,478	1,773

Source : RBL Research

Cashflow – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Reported PBT	170	102	105	207
Depreciation	47	54	60	66
Tax paid	(43)	(26)	(26)	(52)
Working capital Change	(210)	72	(21)	(29)
Operating Cash Flow (a)	(36)	201	118	192
Capex	(65)	(158)	(110)	(101)
Free Cash Flow	(101)	44	8	91
Investments	17	(16)	(15)	(20)
Investing Cash Flow (b)	(48)	(174)	(125)	(121)
Debt Issuance/ (Repaid)	(1)	(5)	-	-
Dividend Paid	(42)	(51)	(53)	(74)
Others	20	42	112	97
Financing Cash Flow (c)	(23)	(14)	59	23
Net Cash Flow (a + b + c)	(107)	14	51	94
Closing Cash	151	164	215	310

Source : RBL Research

Key ratios – standalone

Particulars	FY22	FY23	FY24E	FY25E
Per Share Ratios				
Dividend per share Rs	2.0	2.4	2.5	3.5
EPS Rs	6.0	3.6	3.7	7.3
CEPS Rs	8.2	6.1	6.5	10.4
Book value per share Rs	25.5	27.5	32.1	39.5
Profitability Ratios				
EBITDA Margin (%)	9.4	6.0	5.5	7.8
PBT Margin (%)	6.9	4.0	3.6	6.0
Net Profit Margin (%)	5.2	3.0	2.7	4.5
RoCE (%)	27.8	16.2	15.1	22.7
RoE (%)	25.4	13.5	12.4	20.4
Dividend Payout (%)	33.5	67.1	67.4	47.8
Efficiency				
Inventory (Days)	49	41	41	41
Creditor (Days)	79	77	77	77
Debtor (Days)	62	54	54	54
Interest Cover Ratio (x)	9.4	5.6	5.3	9.0
Debt-Equity Ratio (x)	0.0	0.0	0.0	0.0
Current ratio (x)	1.4	1.2	1.2	1.2
Valuation Ratios				
P/E (x)	36.8	61.4	47.9	30.0
P/B (x)	8.6	8.0	6.8	5.6
EV/EBIDTA (x)	19.6	29.8	27.8	16.4
Dividend Yield (%)	0.7	0.9	0.9	1.3

Source : RBL Research

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		Yes	No
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Nature of Interest (if answer to F (a) above is Yes :

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