

November 03, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

# Orient Electric Ltd

**Enhanced capabilities to result in double digit growth; reiterate BUY**

## Result Synopsis

*Orient Electric (ORIENTEL) revenue grew 11% which has been higher than consensus, but lower than our expectations. The growth has been driven by ECD which grew 17.1%, which has been higher than peers. Fans has been the major contributor in the ECD growth growing by 25% on yoy basis. Lighting and switchgear growth has been flattish for the quarter as B2C consumer lighting has seen decline on technology change resulting in price erosion. Decline in B2C consumer lighting was off set by strong growth in B2B and professional lighting. Gross margins have seen improvement of 400bps on yoy basis, while EBITDA margin improvement of 137bps was modest as company continues to make investments which will give them sustainable long-term returns. Hyderabad plant has seen some delays as automated line could not be commissioned as there have been visa delays of Chinese officials. ORIENTEL has added Gujarat to direct distribution and expects maximum two more states to be added in direct distribution post that distribution revamp will be largely completed. ORIENTEL is now going with the strategy where there will be existence of direct distribution as well as master distributors where it wants to utilize the strength of both these distribution systems. Management is confident of robust double digit revenue growth in FY25 and expects to double digit EBITDA margin by next two to maximum three quarters. We continue to maintain our BUY rating with PT of Rs281.*

*We are anticipating revenue CAGR of 18%, and EBITDA and PAT CAGR of 45% and 50% respectively for FY23-25E. We believe ORIENTEL can outperform peers and could lead to market share gains. Considering potential of market share gains and increasing reach we continue to remain positive on the stock, we maintain BUY rating with PT of Rs281.*

## Result Highlights

- Quarter Summary** -Revenue growth was aided by strong performance of ECD segment which grew 17.1% yoy. Lighting and Switchgear segment saw flattish growth of 1.4%.
- ECD Segment** - Growth in ECD segment has been on back of strong growth in Fans which grew 25% with volume growth of ~20%. Water heaters and small appliances grew have been muted. Air-coolers were impacted due to failed summer.
- Margins** - Gross margin saw expansion of 400bps, while EBITDA margin saw modest improvement of 137bps as company continues to invest in building capabilities for long term sustainable growth.
- Working Capital** - Working Capital in the current quarter has increased to 26 days vs 22 days in Q2FY23. The increase is largely on account of inventory increase ahead of festive season.

## Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	5,669	6,569	5,840	-13.7	-2.9	ORIENTEL revenue growth has been better than the peers.
EBITDA	207	447	330	-53.8	-37.2	
EBITDA Margin (%)	3.6	6.8	5.7	-320 bps	-210 bps	
Adjusted PAT	37	211	120	-82.4	-77.5	

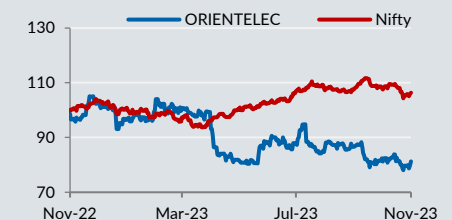
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 221
Target Price	: Rs 281
Potential Return	: +27.2%

## Stock data (as on Nov 03, 2023)

Nifty	19231
52 Week h/l (Rs)	291/208
Market cap (Rs/USD mn)	46290/556
Outstanding Shares (mn)	213
6m Avg t/o (Rs mn):	74
Div yield (%)	0.7
Bloomberg code:	ORIENTEL IN
NSE code:	ORIENTELE

## Stock performance



	1M	3M	1Y
Absolute return	-1.4%	-5.7%	-17.7%

## Shareholding pattern (As of Jun'23 end)

Promoter	38.3%
FII+DII	35.7%
Others	26.0%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	281	289

## Δ in earnings estimates

	FY24e	FY25e
EPS (New)	5.2	8.0
EPS (Old)	5.5	8.3
% change	-5.5%	-3.6%

## Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	25,292	29,766	35,124
YoY Growth	3.3%	17.7%	18.0%
EBIDTA	1,510	2,262	3,161
YoY Growth	-34.7%	49.8%	39.7%
PAT	758	1,100	1,709
YoY Growth	-40.1%	45.0%	55.4%
ROE	13.5	17.8	24.5
EPS	3.6	5.2	8.0
P/E	62.0	42.7	27.5
BV	27.5	30.5	35.1
EV/EBITDA	30.1	20.6	14.7

## AAKASH FADIA

Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY23	Q2FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	5,106	7,390	6,579	7,056	5,669	11.0	(19.7)	12,725	11,322	12.4
EBITDA	116	549	464	440	207	78.0	(53.0)	647	498	29.9
EBITDA Margin %	2.3	7.4	7.0	6.2	3.6					
Depreciation	131.1	138.6	137.4	143.2	141.8	8.2	(1.0)	285	259	10.0
EBIT	-15	410	326	297	65	(532.7)	(78.1)	362	239	51.6
EBIT Margin %	-0.3	5.5	5.0	4.2	1.1			2.8	2.1	
Interest charges	48	60	61	59	52	6.6	(13.0)	111	100	10.9
Other Income	64.7	86.1	63.4	28.6	33.6	(48.1)	17.5	62	117	(46.7)
PBT	1	436	328	266	234	17,876.9	(12.1)	313	255	22.6
Tax	4.1	110.2	82.2	69.1	49.2	1,100.0	(28.8)	261	431	(39.5)
Effective Tax Rate (%)	315.4	25.3	25.0	26.0	21.1			83.4	169.0	
PAT	-3	326	246	197	185	(6,689.3)	(6.3)	52	-176	(129.5)
PAT Margin %	-0.1	4.4	3.7	2.8	3.3			0.4	-1.6	
EPS (Rs)	0.0	1.5	1.2	0.9	0.9	(6,689.3)	(6.3)	31	345	(90.9)

Source: Company, YES Sec

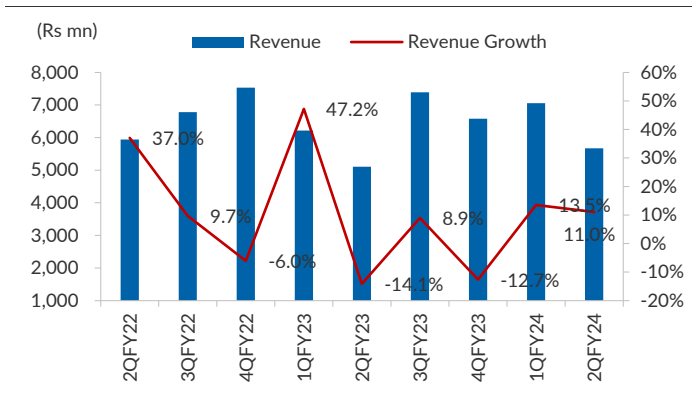
## Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Electrical consumer durable	3,100	5,388	4,577	5,150	3,634	17.2	(29.4)	8,785	7,554	16.3
Lighting & Switchgears	2,006	2,003	2,003	1,906	2,035	1.4	6.7	3,941	3,769	4.6
Net Sales	5,106	7,390	6,579	7,056	5,669	11.0	(19.7)	12,725	11,322	12.4
PBIT										
Electrical consumer durable	137.1	645.0	445.2	491.5	296.9	116.6	(39.6)	788	509	55.0
PBIT %	4.4	12.0	9.7	9.5	8.2			9.0	6.7	
Lighting & Switchgears	227.4	311.4	390.8	307.1	269.4	18.5	(12.3)	577	460	25.4
PBIT %	11.3	15.6	19.5	16.1	13.2			14.6	12.2	
Total PBIT	365	956	836	799	566	55.4	(29.1)	1,365	969	40.9
Finance Costs	45.3	28.7	44.0	42.9	33.0	(27.2)	(23.1)	76	94	(19.4)
Unallocable expense	318	492	464	490	486	53.0	(0.7)	976	619	57.6
as % of sales	6.2	6.7	7.0	6.9	8.6			7.7	5.5	
PBT	1	436	328	266	47	3,507.7	(82.4)	313	255	22.6

Source: Company, YES Sec

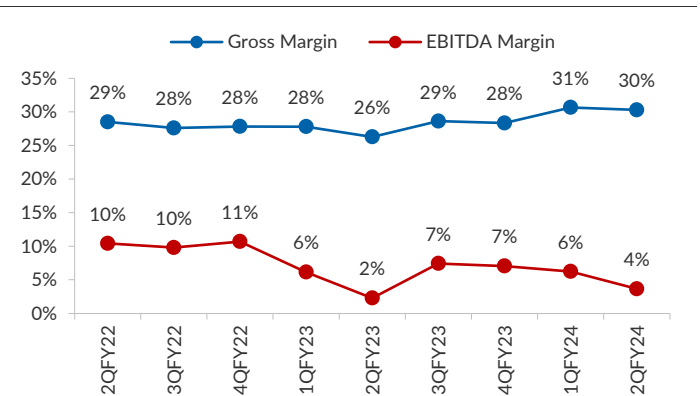
## CHARTS

**Exhibit 4: Strong growth in ECD has resulted in double digit revenue growth**



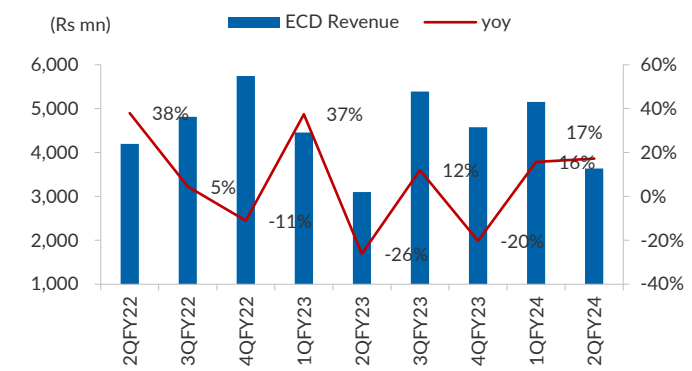
Source: Company, YES Sec

**Exhibit 5: Gross margin has seen sharp improvement, while higher investments see modest EBITDA margin improvement**



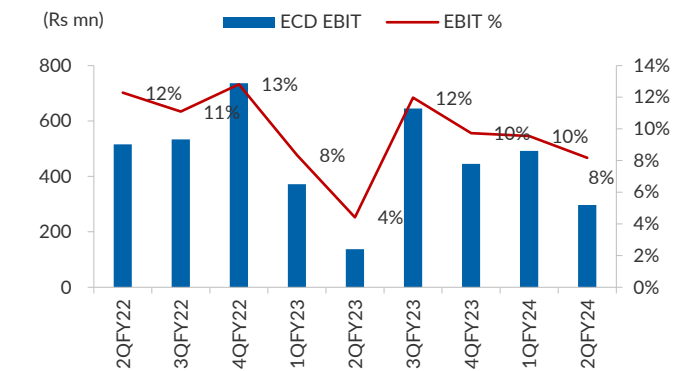
Source: Company, YES Sec

**Exhibit 6: Fans have led the revenue growth for ECD**



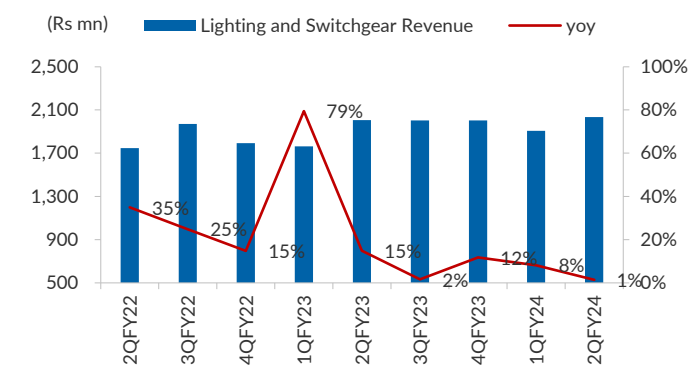
Source: Company, YES Sec

**Exhibit 7: Margins have been range bound**



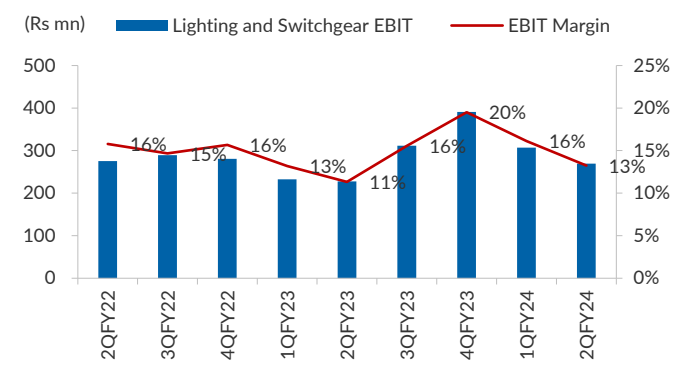
Source: Company, YES Sec

**Exhibit 8: Muted growth was on account of price reductions in B2C lighting**



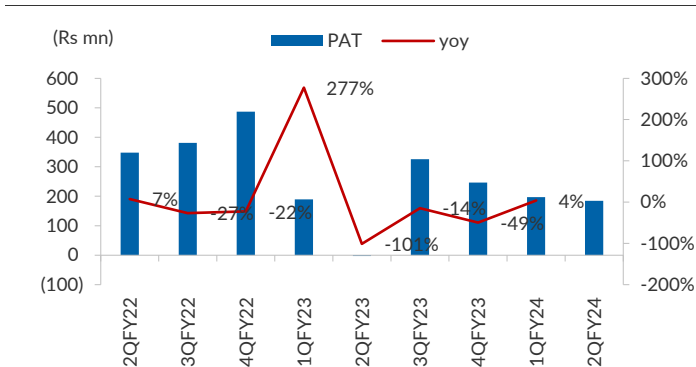
Source: Company, YES Sec

**Exhibit 9: Margin improvement is on better product mix**



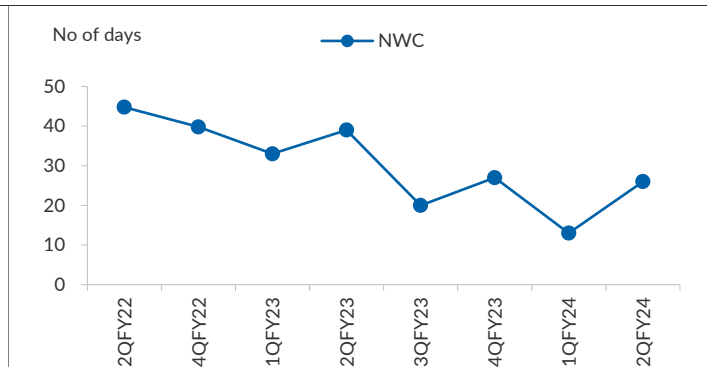
Source: Company, YES Sec

**Exhibit 10: PAT growth is in line with EBITDA**



Source: Company, YES Sec

**Exhibit 11: Working capital has increased on higher inventory ahead of festive season**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Growth strategy** – 1) Company’s focus has been building volume growth which company is managing to achieve; 2) Gross margin improvement which company is on track to achieving it; 3) Revamping GTM structure; 4) Investments to be made in organization largely for capability building; 5) Room for improving quality of products and services.
- **Management** – The company is in advance stages of finalizing the leader for the company, which is likely to be concluded in next few weeks
- **Guidance** – Company is expecting robust double digit growth in FY25 for Fans. Company expects double digit margins returning in next two quarters at best or not later than three quarters
- **Margins** – All products has seen improvement in margins on the gross basis. Operating margin improvement will take couple of quarter more as company is looking to make investments which are strategic in nature which will benefit the company in terms of growth for longer period of time.
- **E-commerce** – Company is further enhancing its e-commerce capabilities by launching its own e-comm website, where there will be much more information about the products available to the end consumer.
- **Increase product Innovation** – After launching Aero series of Fans the company has not launched any ground breaking product. Now the focus would be to launch innovative products at the right price to the customer.
- **Business update** – B2C business environment has been sluggish for all the product category in which company operates. B2B business remains strong. The company is enhancing its B2B capability and will increase its presence in Façade lighting and luminaries including professional lighting.
- **FANS** – Fans growth has been 25% which has been better in the current challenging environment. Over ECD growth for the company has been 17%. BLDC and Premium fans volume has seen much more increase. Company expects Fans growth of 20% plus for Fans in FY24. Fans growth would be subdued in Q3 as there was push of inventory on account of change in BEE ratings.
- **DTM** – The company has added Gujarat to the DTM from the master distributors. The company is realizing 2x growth in the states where GTM is implemented. It will take 2 months for transition in the state of Gujarat. Company has identified two more states for DTM and

there is not much scope beyond two more states. Gujarat contributes 4% of the overall fans sales.

- **Switchgears and Wires** – Focus of Switchgears and wires will be in the B2C market, while there is opportunity for increasing presence in B2B space and also exports
- **Appliances** – Appliances business has been slow as Air-coolers has struggled on back of failed summer, while water heater season is about to start. The water heater is getting more and more traction and company has launched new products in in the water heater segment.
- **Hyderabad plant** – Construction of Hyderabad plant is completed, however automated line is yet to be commissioned as there has been some delay in obtaining visa for Chinese officials which have to commission the automated line. Benefit from Hyderabad plant will accrue from FY25 vs earlier expected Q4FY24.
- **Lighting** – Based on current orders there could be strong growth in lighting in Q3 and Q4. B2C lighting de-growth is significant, while B2B lighting growth has offset the decline in B2C lighting.
- **Inventory** – The company has higher inventory as it has stocked up for the upcoming festive season.
- **Festive demand** – Green shoots are visible and demand should be picking in coming weeks.
- **Geographical presence** – The company is strong in North and East, while it is moderate in West and weak in South.
- **Working capital** – Working capital cycle at 26 days in Q3 should see considerable reduction by end of the year
- **Capex** – Normal maintenance capex is around 50-60cr each year.

## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	212	212	213	213	213
Reserves	4,344	5,186	5,634	6,271	7,261
Net worth	4,557	5,399	5,846	6,484	7,474
Debt	153	163	101	119	140
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	554	739	964	1,028	1,082
Total liabilities	5,263	6,300	6,912	7,630	8,696
Fixed Asset	1,555	1,673	2,315	2,614	2,852
Investments	0	0	0	0	0
Other Non-current Assets	1,105	1,251	1,636	1,921	2,135
Net Working Capital	1,203	1,875	1,325	2,602	3,085
Inventories	2,492	3,261	2,846	3,866	4,561
Sundry debtors	3,552	3,904	3,560	5,130	6,053
Loans and Advances	9	1	22	26	30
Sundry creditors	5,191	4,495	4,530	5,758	6,794
Other current liabilities	766	775	894	1,015	1,161
Cash & equivalents	1,401	1,501	1,636	493	624
Total Assets	5,263	6,300	6,912	7,630	8,696

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	20,326	24,484	25,292	29,766	35,124
Operating profit	2,195	2,313	1,510	2,262	3,161
Depreciation	432	471	535	741	893
Interest expense	207	203	222	178	126
Other income	63	58	266	131	150
Profit before tax	1,619	1,698	1,019	1,475	2,291
Taxes	422	431	261	375	582
Minorities and other	-	-	-	-	-
Adj. profit	1,197	1,266	758	1,100	1,709
Exceptional items	-	-	-	-	-
Net profit	1,197	1,266	758	1,100	1,709

Source: Company, YES Sec

## Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	1,826	1,901	1,241	1,653	2,418
Depreciation	432	471	535	741	893
Tax paid	(422)	(431)	(261)	(375)	(582)
Working capital Δ	1,411	(672)	550	(1,278)	(483)
Other operating items					
Operating cashflow	3,247	1,268	2,065	741	2,246
Capital expenditure	(525)	(589)	(1,176)	(1,040)	(1,131)
Free cash flow	2,722	679	889	(299)	1,115
Equity raised	30	-	9	(0)	0
Investments	-	-	-	-	-
Debt financing/disposal	(832)	10	(62)	18	21
Interest paid	(207)	(203)	(222)	(178)	(126)
Dividends paid	(265)	(424)	(319)	(463)	(719)
Net Δ in cash	1,330	100	135	(1,143)	131

Source: Company, YES Sec

## Exhibit 15: Du-pont analysis

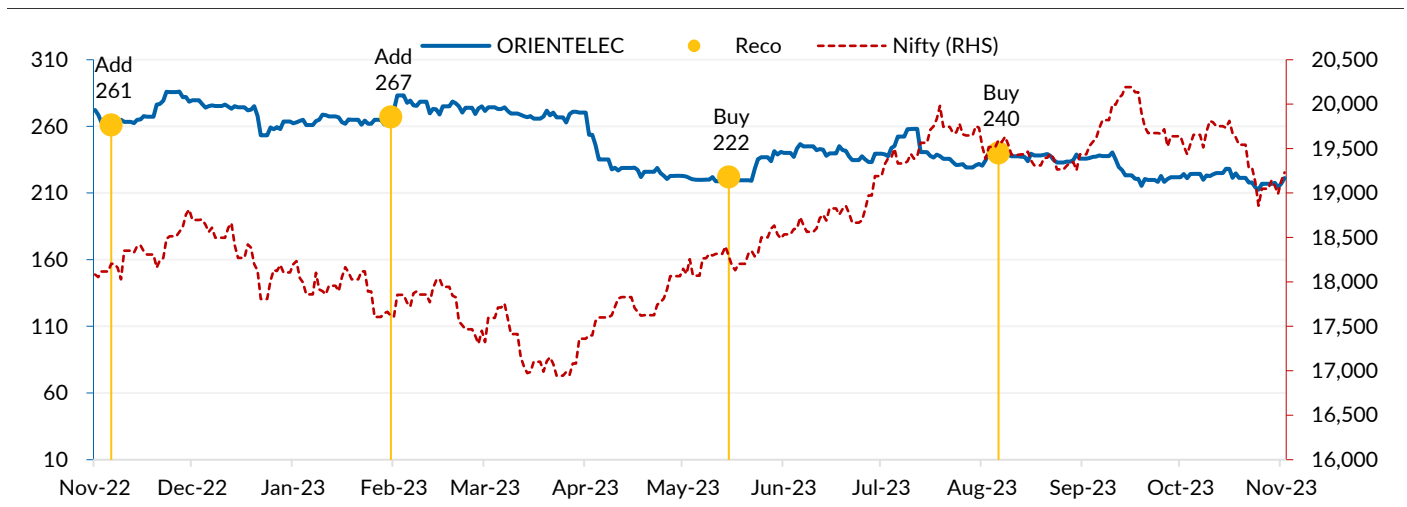
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.74	0.75	0.74	0.75	0.75
Interest burden (x)	0.89	0.89	0.82	0.89	0.95
EBIT margin (x)	0.09	0.08	0.05	0.06	0.07
Asset turnover (x)	1.92	2.08	2.06	2.17	2.21
Financial leverage (x)	2.60	2.36	2.18	2.22	2.28
RoE (%)	29.4	25.4	13.5	17.8	24.5

## Exhibit 16: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>					
Revenue growth	(1.4)	20.5	3.3	17.7	18.0
Op profit growth	24.4	5.4	(34.7)	49.8	39.7
EBIT growth	30.1	4.1	(34.7)	33.2	46.2
Net profit growth	52.3	5.8	(40.1)	45.0	55.4
<b>Profitability ratios (%)</b>					
OPM	10.8	9.4	6.0	7.6	9.0
EBIT margin	9.0	7.8	4.9	5.6	6.9
Net profit margin	5.9	5.2	3.0	3.7	4.9
RoCE	39.3	37.0	21.6	26.3	34.0
RoNW	29.4	25.4	13.5	17.8	24.5

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	11.3	10.8	6.2	8.0	10.7
<b>Per share ratios</b>					
EPS	5.6	6.0	3.6	5.2	8.0
Dividend per share	1.2	2.0	1.5	2.2	3.4
Cash EPS	7.7	8.2	6.1	8.6	12.2
Book value per share	21.5	25.4	27.5	30.5	35.1
<b>Valuation ratios</b>					
P/E	39.2	37.0	62.0	42.7	27.5
P/CEPS	28.8	27.0	36.4	25.5	18.1
P/B	10.3	8.7	8.0	7.3	6.3
EV/EBIDTA	20.8	19.7	30.1	20.6	14.7
<b>Payout (%)</b>					
Dividend payout	22.1	33.5	42.1	42.1	42.1
Tax payout	26.0	25.4	25.6	25.4	25.4
<b>Liquidity ratios</b>					
Debtor days	63.8	58.2	51.4	62.9	62.9
Inventory days	44.7	48.6	41.1	47.4	47.4
Creditor days	93.2	67.0	65.4	70.6	70.6

## Recommendation Tracker





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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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