

August 02, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Orient Electric Ltd

## Capacity constraints results in muted growth; reiterate BUY

### Result Synopsis

**Orient Electric (ORIENTEL) revenue growth of 7% was lower than ours and consensus estimates as company faced capacity constraint in the TPW fans which resulted in lower supply. Lighting on the other hand saw growth of 10.2% with switchgears and house wires experienced robust double-digit growth, while consumer lighting saw high teens volume growth. On the gross margin front various actions taken by the company is bearing fruits resulting in highest gross margin in past 14 quarters. EBITDA margin is lower as company there was an additional cost of McKinsey project and company continues to invest in building capabilities. On the positive side the company has taken two rounds of price increase in Q1 amounting to 3-3.5% covering RM inflation. As far as secondary sales are concerned the company has not seen any slowdown in demand and there has been strong sell-out indicating market share gains. Hyderabad plant has got commissioned on 6<sup>th</sup> of May and is currently under the ramping up phase and will start to see its full benefits in from the month of November when the production starts for the next summer season. Company is targeting to grow at double the pace of the industry (15%-18% CAGR) in the medium term as investments are being made to achieve strong growth. On the margin front company is confident of margin returning to its normalized levels from 2HFY25 as there has been frontloading of investments which will normalize, and McKinsey related cost has ended in Q1. Given the investments that company is undertaking for strong growth in domestic markets and new exports opportunity we expect company to deliver industry leading growth with margins normalizing from 2HFY25. We continue to remain positive on the stock and reiterate our BUY rating with PT of Rs325 valuing 40x on FY26.**

**We are anticipating revenue CAGR of 17%, and EBITDA and PAT CAGR of 51% each respectively for FY24-26E. We believe ORIENTEL can outperform peers and could lead to further market share gains. We believe if strategy executed well could result in strong growth in medium term.**

### Result Highlights

- **Quarter Summary** -Revenue growth of 7% was lower as capacity constraint in TPW fans resulted in lower growth in ECD. Lighting and switchgear growth at 10.2% has been better on strong performance of switchgears and house wires.
- **ECD Segment** - ECD segment has disappointed on decline in international business due to geopolitical challenges and capacity constraint in TPW fans.
- **Margins** - Gross margin has seen expansion of 249bps, while EBITDA margin saw contraction of 93bps. Continued investments and frontloading of project expenses has resulted in gross margin contraction.
- **Hyderabad plant update** - Hyderabad plant has started commercial production from the May after delay of 4-5 months. The plant is currently in the ramping up phase. Its will start providing benefits from November ahead of next season.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	7,549	8,372	7,903	-9.8	-4.5	Capacity constraint and decline in exports has resulted in revenue miss
EBITDA	401	506	462	-20.8	-13.2	
EBITDA Margin (%)	5.3	6.0	5.8	-70 bps	-50 bps	
Adjusted PAT	143	236	212	-39.2	-32.5	

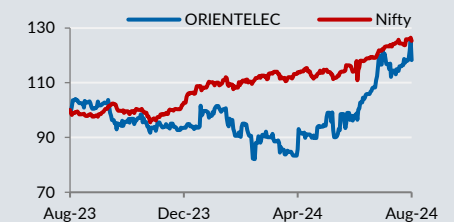
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 274
Target Price	: Rs 325
Potential Return	: +18.2%

### Stock data (as on Aug 02, 2024)

Nifty	24725
52 Week h/l (Rs)	297/189
Market cap (Rs/USD mn)	60159/719
Outstanding Shares (mn)	213
6m Avg t/o (Rs mn):	125
Div yield (%):	0.6
Bloomberg code:	ORIENTEL IN
NSE code:	ORIENTELE

### Stock performance



	1M	3M	1Y
Absolute return	-0.1%	21.2%	18.9%

### Shareholding pattern (As of Mar'24 end)

Promoter	38.3%
FII+DII	35.0%
Others	26.7%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	325	325

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	5.1	7.9
EPS (Old)	5.1	7.9
% change	0.0%	0.0%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	28,121	33,183	38,569
YoY Growth	11.2%	18.0%	16.2%
EBIDTA	1,443	2,489	3,278
YoY Growth	-4.4%	72.4%	31.7%
PAT	753	1,222	1,696
YoY Growth	-0.8%	62.4%	38.8%
ROE	9.2	18.1	22.4
EPS	1.8	5.7	7.9
P/E	154.8	48.0	34.6
BV	29.9	33.2	37.8
EV/EBITDA	40.4	23.6	17.8

### AAKASH FADIA

Analyst

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## Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	7,056	5,669	7,519	7,877	7,549	7.0	(4.2)	28,121	25,292	11.2
EBITDA	440	207	489	307	401	(8.9)	30.3	1,443	1,510	(4.4)
EBITDA Margin %	6.2	3.6	6.5	3.9	5.3					
Depreciation	143.2	141.8	150.4	154.8	175.4	22.5	13.3	590	535	10.3
EBIT	297	65	339	153	225	(24.1)	47.6	853	975	(12.5)
EBIT Margin %	4.2	1.1	4.5	1.9	3.0			3.0	3.9	
Interest charges	59	52	54	68	57	(3.4)	(15.9)	233	222	5.0
Other Income	28.6	33.6	42.8	50.4	24.7	(13.6)	(51.0)	155	266	(41.6)
PBT	266	234	328	135	193	(27.6)	42.8	776	1019	(23.9)
Tax	69.1	49.2	84.7	6.9	49.2	(28.8)	613.0	210	261	(19.5)
Effective Tax Rate (%)	26.0	21.1	25.8	5.1	25.5			27.1	25.6	
PAT	197	185	243	128	143	(27.2)	12.0	566	758	(25.4)
PAT Margin %	2.8	3.3	3.2	1.6	1.9			2.0	3.0	
EPS (Rs)	0.9	0.9	1.1	0.6	0.7	(27.2)	12.0	3.5	3.6	(0.8)

Source: Company, YES Sec

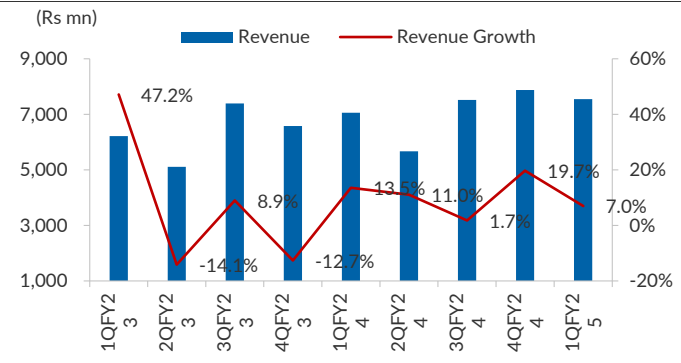
## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
Electrical consumer durable	5,150	3,634	5,352	5,691	5,449	5.8	(4.3)	19,828	17,518	13.2
Lighting & Switchgears	1,906	2,035	2,167	2,186	2,100	10.2	(3.9)	8,294	7,774	6.7
Net Sales	7,056	5,669	7,519	7,877	7,549	7.0	(4.2)	28,121	25,292	11.2
PBIT										
Electrical consumer durable	491.5	296.9	602.8	465.0	494.0	0.5	6.2	1,856	1,599	16.1
PBIT %	9.5	8.2	11.3	8.2	9.1			9.4	9.1	
Lighting & Switchgears	307.1	269.4	306.9	280.8	389.8	26.9	38.8	1,164	1,162	0.2
PBIT %	16.1	13.2	14.2	12.8	18.6			14.0	14.9	
Total PBIT	799	566	910	746	884	10.7	18.5	3,020	2,761	9.4
Finance Costs	42.9	33.0	37.1	50.9	40.9	(4.7)	(19.6)	164	167	(1.8)
Unallocable expense	490	486	545	560	650	32.8	16.1	2,081	1,575	32.1
as % of sales	6.9	8.6	7.2	7.1	8.6			7.4	6.2	
PBT	266	47	328	135	193	(27.6)	42.8	776	1019	(23.9)

Source: Company, YES Sec

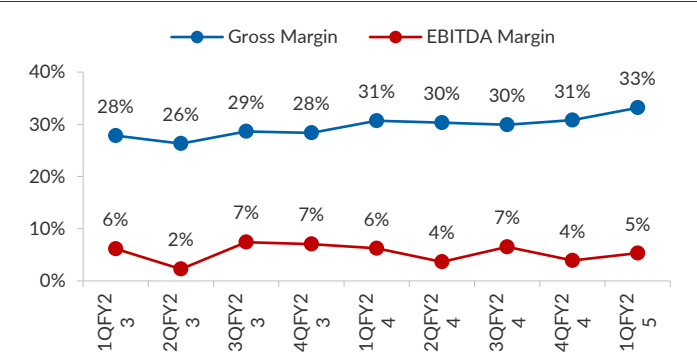
## CHARTS

**Exhibit 4: Capacity constraint along with decline in international business impacted revenue growth**



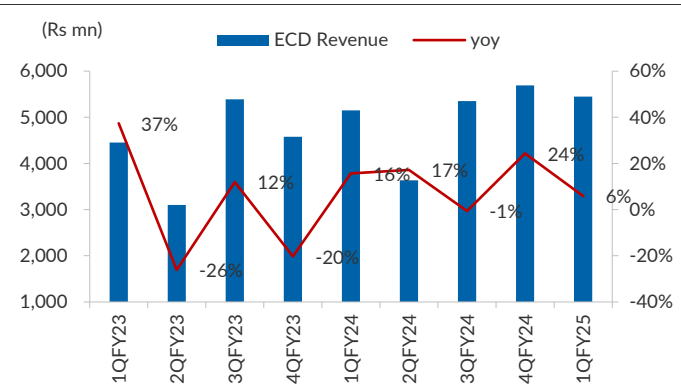
Source: Company, YES Sec

**Exhibit 5: Pricing actions coupled with cost reduction initiatives has resulted in gross margin expansion**



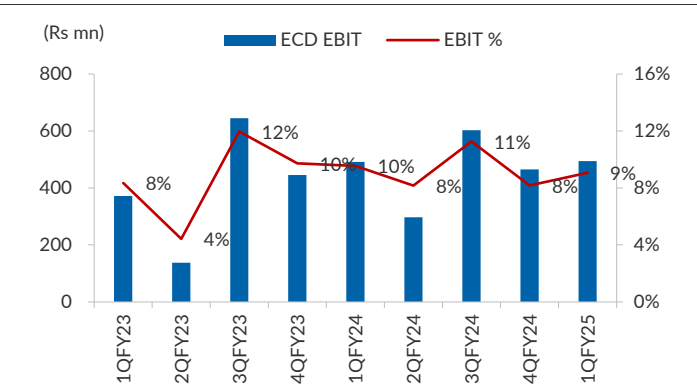
Source: Company, YES Sec

**Exhibit 6: Capacity constraint in TPW fans led to muted growth**



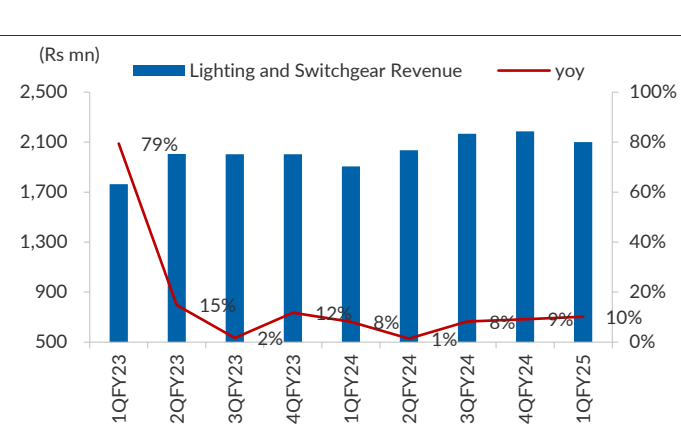
Source: Company, YES Sec

**Exhibit 7: EBIT margins have been better despite higher investments**



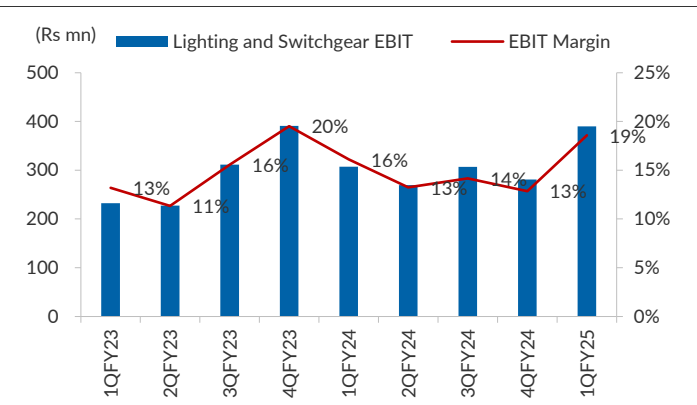
Source: Company, YES Sec

**Exhibit 8: Switchgears and wires have led to growth**



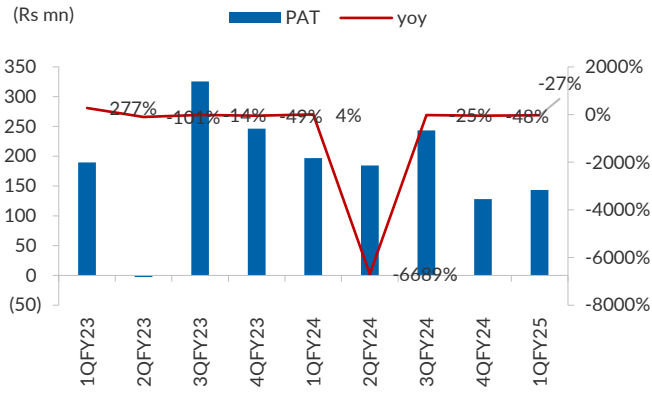
Source: Company, YES Sec

**Exhibit 9: Improvement in LED lighting has resulted in margin expansion**



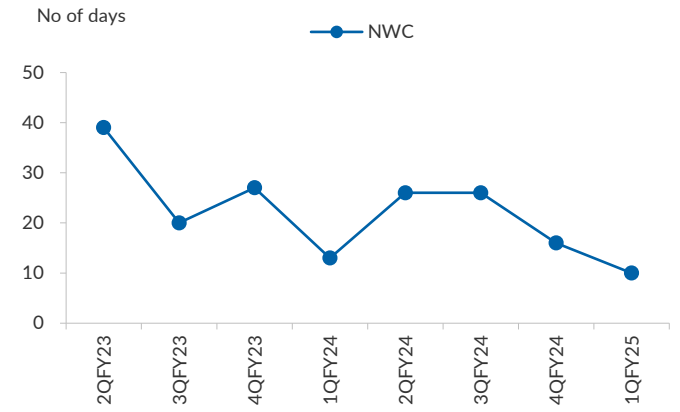
Source: Company, YES Sec

**Exhibit 10: PAT is lower on lower EBITDA**



Source: Company, YES Sec

**Exhibit 11: Working capital continues to improve**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Management commentary – Capacity constraint resulted in company unable to supply the strong demand requirement. Jan to June'24 saw fans growing in mid-teens.
- **Business plans** – DTM strategy, focus on e-comm and modern retail will yield results in coming time.
- EBITDA margins – EBITDA margins have impacted as there has been Hyderabad plant had been behind schedule hence efficiency could not be realized in Q1
- Investments – Strategic investments will continue but now the time has come to leverage the investments. Hyderabad plant scaleup is in place and there will be no capacity constraints in the next season
- **ECD** – If the capacity constraint would not been there then the ECD growth would have been in teens
- Price hikes – There have been price hikes taken in two tranches one in April and other in June total price increase is amounting to 3-3.5%.
- **DTM** – The company would focus on hybrid model. The states where master distributors are strong will remain with them. There will be constant evaluation after regular intervals. Share of revenue from DTM states would be around 33% earlier it was 25%. After Gujarat being added DTM share has seen increase.
- **Large format stores** – The company has small base in LFR and growth is on the small base. The company has added 250-300 stores, largely on the regional side. The company products are available on all the national stores
- **Market share** – 3<sup>rd</sup> Party data suggest that the company has largely maintained its market share and some states the market share has increased. Market share is trending in the right direction and its should result in higher market share post the transition to DTM vs the pre DTM. The company is consistently seeing market share gain in past few quarters
- TPW – Contribution from TPW stands from 45-50% depending on the brands
- **Lighting price erosion** – Pace of price erosion has slowdown, the company is focusing on better value mix as certain LED product categories like panels and downlighter have not been much impacted as compared to Battens and LED bulbs.
- **Exports** – Exports has de-grew on back of high dependence on the African market which were impacted by geopolitical issues.
- **Employee costs** – Q1 had the impact of increments and bonus. It has element of wages built in. Wages will get moderated as production improves.

## FINANCIALS

### Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	212	213	213	213	213
Reserves	5,186	5,634	6,176	6,878	7,853
Net worth	5,399	5,846	6,389	7,092	8,067
Debt	163	101	209	246	286
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	739	964	943	964	1,015
Total liabilities	6,300	6,912	7,541	8,302	9,368
Fixed Asset	1,673	2,315	3,788	4,194	4,416
Investments	0	0	373	373	373
Other Non-current Assets	1,251	1,636	1,527	1,684	1,745
Net Working Capital	1,875	1,325	1,196	1,774	2,099
Inventories	3,261	2,846	3,151	4,109	4,776
Sundry debtors	3,904	3,560	4,620	5,409	6,287
Loans and Advances	1	22	31	37	43
Sundry creditors	4,495	4,530	5,439	6,446	7,492
Other current liabilities	775	894	1,225	1,400	1,586
Cash & equivalents	1,501	1,636	657	277	736
Total Assets	6,300	6,912	7,541	8,302	9,368

Source: Company, YES Sec

### Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	24,484	25,292	28,121	33,183	38,569
Operating profit	2,313	1,510	1,443	2,489	3,278
Depreciation	471	535	590	733	867
Interest expense	203	222	233	222	258
Other income	58	266	155	99	113
Profit before tax	1,698	1,019	776	1,634	2,267
Taxes	431	261	210	411	571
Minorities and other	-	-	-	-	-
Adj. profit	1,266	758	566	1,222	1,696
Exceptional items	-	-	187	-	-
Net profit	1,266	758	379	1,222	1,696

Source: Company, YES Sec

## Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	1,901	1,241	1,008	1,855	2,525
Depreciation	471	535	590	733	867
Tax paid	(431)	(261)	(210)	(411)	(571)
Working capital Δ	(672)	550	(244)	(578)	(325)
Other operating items					
Operating cashflow	1,268	2,065	1,145	1,599	2,496
Capital expenditure	(589)	(1,176)	(2,064)	(1,139)	(1,088)
Free cash flow	679	889	(919)	460	1,408
Equity raised	-	9	484	-	0
Investments	-	-	-	-	-
Debt financing/disposal	10	(62)	108	38	40
Interest paid	(203)	(222)	(233)	(222)	(258)
Dividends paid	(424)	(319)	(320)	(520)	(721)
Net Δ in cash	100	135	(979)	(380)	458

Source: Company, YES Sec

## Exhibit 15: Du-pont analysis

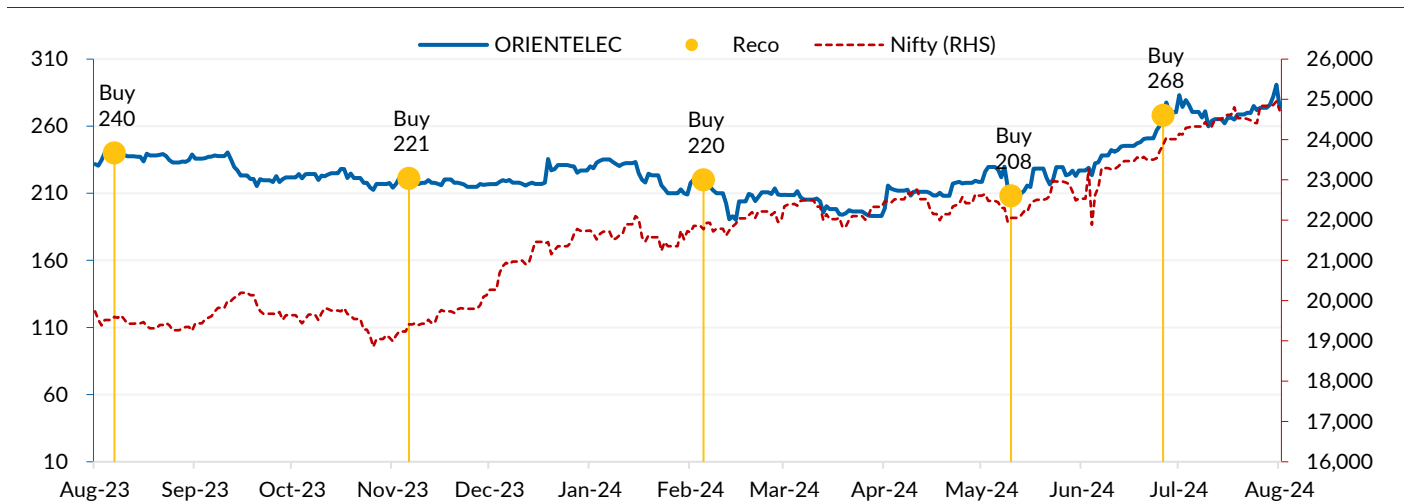
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.75	0.74	0.73	0.75	0.75
Interest burden (x)	0.89	0.82	0.77	0.88	0.90
EBIT margin (x)	0.08	0.05	0.04	0.06	0.07
Asset turnover (x)	2.08	2.06	2.07	2.14	2.18
Financial leverage (x)	2.36	2.18	2.22	2.30	2.33
RoE (%)	25.4	13.5	9.2	18.1	22.4

## Exhibit 16: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	20.5	3.3	11.2	18.0	16.2
Op profit growth	5.4	(34.7)	(4.4)	72.4	31.7
EBIT growth	4.1	(34.7)	(18.7)	84.0	36.1
Net profit growth	5.8	(40.1)	(25.4)	116.0	38.8
<b>Profitability ratios (%)</b>					
OPM	9.4	6.0	5.1	7.5	8.5
EBIT margin	7.8	4.9	3.6	5.6	6.5
Net profit margin	5.2	3.0	2.0	3.7	4.4
RoCE	37.0	21.6	16.1	26.6	32.2
RoNW	25.4	13.5	9.2	18.1	22.4

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	10.8	6.2	4.2	7.9	9.6
<b>Per share ratios</b>					
EPS	6.0	3.6	2.7	5.7	7.9
Dividend per share	2.0	1.5	1.5	2.4	3.4
Cash EPS	8.2	6.1	5.4	9.2	12.0
Book value per share	25.4	27.5	29.9	33.2	37.8
<b>Valuation ratios</b>					
P/E	46.1	77.2	154.8	48.0	34.6
P/CEPS	33.6	45.2	43.7	30.0	22.9
P/B	10.8	10.0	9.2	8.3	7.3
EV/EBIDTA	24.6	37.7	40.4	23.6	17.8
<b>Payout (%)</b>					
Dividend payout	33.5	42.1	56.6	42.5	42.5
Tax payout	25.4	25.6	27.1	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	58.2	51.4	60.0	59.5	59.5
Inventory days	48.6	41.1	40.9	45.2	45.2
Creditor days	67.0	65.4	70.6	70.9	70.9

## Recommendation Tracker





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