FIRST LIGHT

07 November 2022

RESEARCH

AJANTA PHARMA | TARGET: Rs 1,470 | +9% | HOLD

No respite from margin pressure; cut to HOLD

BOB ECONOMICS RESEARCH | FUEL & FREIGHT

What freight data shows

BOB ECONOMICS RESEARCH | QUARTERLY RESULTS

Update on Q2FY23 performance

MARUTI SUZUKI | TARGET: Rs 9,933 | +8% | HOLD

Healthy performance

CIPLA | TARGET: Rs 1,320 | +15% | BUY

Robust US and India sales

BLUE STAR | TARGET: Rs 1,350 | +10% | HOLD

Best Q2 performer among AC pack

ORIENT ELECTRIC | TARGET: Rs 280 | +7% | HOLD

One-offs mar performance

Daily macro indicators

Indicator	02-Nov	03-Nov	Chg (%)
US 10Y yield (%)	4.10	4.15	5bps
India 10Y yield (%)	7.40	7.48	8bps
USD/INR	82.79	82.89	(0.1)
Brent Crude (US$/bbl)	96.2	94.7	(1.5)
Dow	32,148	32,001	(0.5)
Hang Seng	15,827	15,339	(3.1)
Sensex	60,906	60,836	(0.1)
India FII (US$ mn)	**01-Nov**	**02-Nov**	**Chg ($ mn)**
FII-D	(11.2)	(47.6)	(36.5)
FII-E	748.8	168.1	(580.6)

Source: Bank of Baroda Economics Research

SUMMARY

AJANTA PHARMA

- Q2 revenue growth muted at 6% YoY as lower Africa/US sales offset a strong uptick in India/Asia business
- High freight costs, US price erosion and adverse currency impact drove an 875bps YoY drop in EBITDA margin to 20.9%
- We lower margin estimates and revise our TP to Rs 1,470 (vs. Rs 1500) – cut from BUY to HOLD on limited upside potential

Click here **for the full report.**

BOBCAPS Research
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INDIA ECONOMICS: FUEL & FREIGHT

Often when we talk of supply chain bottleneck, an indicator which comes across our mind is freight cost. Also this indicator gives an idea about the pace of economic activity and domestic trade. We have analyzed the data on truck freight rates for the past 6 years. The freight rates vary with respect to different cities depending upon distance, demand, supply and fuel cost among others. For major metro cities, in FYTD23 freight rates (Apr-Sep'22) for 15 tonne of truck load was highest for Chennai at Rs 86,116 tonne from Delhi, followed by Kolkata at Rs 53,872 and Mumbai at Rs 51,046.

Click here for the full report.

INDIA ECONOMICS: QUARTERLY RESULTS

Net sales of companies remained robust, despite slight moderation in Q2FY23 compared to the same period of previous year. However, higher raw material cost impacted profitability numbers. Notably, excluding banks, financial services, insurance and IT software companies, the profitability numbers have declined in Q2FY23. This is on account of the performance of companies in important sectors such as iron and steel, oil and construction. Interest coverage ratio also declined as interest rates in the economy went up.

Click here for the full report.

MARUTI SUZUKI

- Q2 gross margin improved to 27% (25% in Q1) due to softer raw material cost and better synergies; volumes up 11% QoQ on festive sales
- Pending customer orders total 0.41mn vehicles at Q2-end and include 0.13mn units of high-margin models such as Ertiga/Baleno
- Growth outlook healthy but priced in post recent rally; we assume coverage with HOLD and TP of Rs 9,933

Click here for the full report.

CIPLA

- Q2 revenue up 6% YoY as US/India sales offset decline in other markets; growth at 12% YoY ex-Covid sales in base quarter
- Gross margin up 165bps YoY but EBITDA margin flat at 22.3% on higher operating cost
- We raise FY23-FY24 EBITDA 9-12% and revise TP to Rs 1,320 (vs. Rs 1,100) at a higher EV/EBITDA multiple of 17x (vs. 16x); retain BUY

Click here for the full report.

BLUE STAR

- Q2 unitary product margin up 110bps YoY to 6.2%; management commentary positive, unlike tepid outlook from peers
- Strong, sustained traction in EMP business led by peak order book in a favourable market
- FY23/FY24 EPS pared 4.5%/0.3% to bake in the H1 print; on rollover, our TP rises to Rs 1,350 (vs. Rs 1,100) – retain HOLD

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ORIENT ELECTRIC

- Q2 in the red as fans business remained a drag, marked by transition to new energy norms and one-time distribution exercise
- Streamlining of distribution in new states likely to stabilise by Q4, with plans to increase coverage area in fans by the year-end
- We slash FY23/FY24 EPS 30%/19% post the Q2 upset and roll over to a new TP of Rs 280 (vs. Rs 310); retain HOLD

Click here for the full report.

BOBCAPS
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HOLD
TP: Rs 1,470 | ⮝ 9%

AJANTA PHARMA | Pharmaceuticals | 04 November 2022

No respite from margin pressure; cut to HOLD

- **Q2 revenue growth muted at 6% YoY as lower Africa/US sales offset a strong uptick in India/Asia business**
- **High freight costs, US price erosion and adverse currency impact drove an 875bps YoY drop in EBITDA margin to 20.9%**
- **We lower margin estimates and revise our TP to Rs 1,470 (vs. Rs 1500) – cut from BUY to HOLD on limited upside potential**

Saad Shaikh
research@bobcaps.in

Subdued growth as Africa/US business declines: AJP posted muted Q2FY23 revenue growth of 6% YoY to Rs 9.4bn. The India and Asia branded businesses (+31% YoY) performed well on the back of 15 launches during H1FY23, with healthy volume-driven growth in the domestic formulations business (+27% YoY). However, growth was offset by lower sales in the African market (-20% YoY) and a steep drop in other operating income (-65% YoY).

US business remains flat; regulatory clearance at Dahej holds the key: US revenue for the quarter was flat QoQ at US$ 23mn owing to sustained price erosion coupled with a lack of new approvals as the Dahej (Gujarat) plant remains under regulatory scrutiny. Management is hopeful of USFDA clearance (procedural observations) and expects to file 10-12 products in FY23 (3 filed so far in H1).

Adverse currency movement hurts Africa business: Africa branded sales (16% of Q2 revenue) declined 8% YoY due to INR appreciation vs. the EUR (Africa business denominated in euros). AJP earns most of its export revenue in dollars and a small portion in euros. Per management, it is difficult to hike prices in Africa to counter adverse forex movement, and improved hedging is the only way to mitigate the impact.

High operating cost exacts toll on margins: Increased raw material cost, US price erosion and elevated freight cost took a toll on EBITDA margin which contracted 875bps YoY to 20.9% in Q2 – the lowest quarterly margin in three years. Font-loading of some costs (R&D, promotional) further dampened margins. Management has reduced margin guidance from 26-27% for FY23 to 25-27% for H2 (H1 at 22.1%).

Cut to HOLD: Given the steady fall in EBITDA margin to 22.1% in H1FY23 vs. a ~30% average until recently and management's guidance cut, we lower our FY23-FY24 margin estimates 70-100bps to 24-25%. We continue to value the stock at 12x FY24E EV/EBITDA, ~20% discount to the 5Y average, yielding a TP of Rs 1,470 (vs. Rs 1,500). In our view, the stock holds limited upside given sustained margin stress and a weak US outlook, prompting our downgrade from BUY to HOLD. Sustained domestic/Asia branded growth and pickup in US filings/approvals would fuel stock upsides.

Key changes

Target	Rating
▼	▼

Ticker/Price	AJP IN/Rs 1,348
Market cap	US$ 2.1bn
Free float	31%
3M ADV	US$ 1.3mn
52wk high/low	Rs 2,354/Rs 1,112
Promoter/FPI/DII	70%/9%/12%

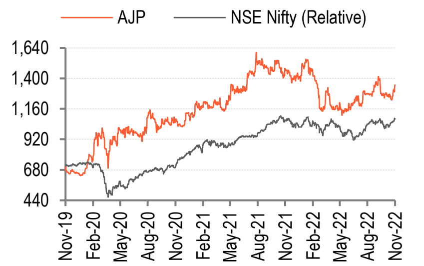
Source: NSE | Price as of 3 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	33,410	37,858	41,438
EBITDA (Rs mn)	9,293	9,224	10,361
Adj. net profit (Rs mn)	7,127	6,415	7,440
Adj. EPS (Rs)	83.0	49.9	57.9
Consensus EPS (Rs)	83.0	57.2	66.9
Adj. ROAE (%)	22.5	17.9	17.9
Adj. P/E (x)	16.2	27.0	23.3
EV/EBITDA (x)	18.5	18.6	16.4
Adj. EPS growth (%)	7.2	(39.9)	16.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

FUEL & FREIGHT

03 November 2022

What freight data shows

Often when we talk of supply chain bottleneck, an indicator which comes across our mind is freight cost. Also this indicator gives an idea about the pace of economic activity and domestic trade. We have analyzed the data on truck freight rates for the past 6 years. The freight rates vary with respect to different cities depending upon distance, demand, supply and fuel cost among others. For major metro cities, in FYTD23 freight rates (Apr-Sep'22) for 15 tonne of truck load was highest for Chennai at Rs 86,116 tonne from Delhi, followed by Kolkata at Rs 53,872 and Mumbai at Rs 51,046.

Dipanwita Mazumdar
Economist

Some takeaways

- A theoretical exercise has been conducted where a composite freight index of 16 cities and also of three major metro cities (Mumbai, Chennai and Kolkata) has been constructed with base 2016-17=100. The 16 cities equal weighted freight index inched up by 14% since FY17 till date. For the three major metro cities, the increase has been 10%.
- Mumbai takes the lead with 16.8% increase in freight rate since FY17, followed by Chennai with 10.5%. Freight rates for Kolkata on the other hand, has only risen by 3.7%.
- The freight data also moved in tandem with the diesel prices. Since FY17, a 67% increase in diesel price (from Rs 56.9/lt in FY17 to Rs 95.1/lt in FYTD23) was associated with 14% increase in freight rates, ceteris paribus.

How freight rates have moved?

Freight rates data in India is a proxy indicator of mobility, economic activity as well as intra State trade. We have analyzed the truck Freight Rates from Delhi to Various cities in India since FY17. This is measured in Rs /15tonne of truck load. Some useful results which emerge are:

- In the past 6 years amongst major cities, truck freight rates as measured from Delhi have been the highest for Chennai, Bangalore, Hyderabad, Kolkata and Mumbai.
- Interestingly, in the top three metro cities, in both FY20 and FY21, truck freight rates have fallen. In FY20, the falling freight rates was due to the slowdown which Indian economy faced. GDP growth moderated to 3.7% in FY20 from 6.5% in FY19. Demand induced slowdown, crisis in the auto sector and contagion effect of US-China tariff war and uncertainty over Brexit were amongst the reasons that took a toll on domestic growth numbers. In FY21, the falling freight rates were reflective of the Covid induced restrictions as well as decline in price of fuel.

QUARTERLY RESULTS

04 November 2022

Update on Q2FY23 performance

Dipanwita Mazumdar
Economist

Net sales of companies remained robust, despite slight moderation in Q2FY23 compared to the same period of previous year. However, higher raw material cost impacted profitability numbers. Notably, excluding banks, financial services, insurance and IT software companies, the profitability numbers have declined in Q2FY23. This is on account of the performance of companies in important sectors such as iron and steel, oil and construction. Interest coverage ratio also declined as interest rates in the economy went up.

Key takeaways from financial results of an aggregate of **630 companies:**

1. Quarterly financial performance shows that net sales continue to grow at a robust double digit pace of 25% in Q2FY23 against 26.4% in Q2FY22.

2. In absolute terms as well, net sales saw an uptick of Rs 13.75 lakh crore in Q2FY23 against Rs 11 lakh crore in Q2FY22 and far above pre pandemic level of Rs 8.70 lakh crore.

3. However, divergence on the profitability frontier still continued. Higher input cost have impacted the PAT numbers. Thus moderation in growth was noticed, from 30.9% in Q2FY22, it grew by only 2% in Q2FY23 and far lower to pre pandemic's growth of 61.4%.

4. PBT numbers also showed the same trend. It moderated to 2.4% in Q2FY23 compared to 33.5% growth in Q2FY22.

All companies	Sep-20	Sep-21	Sep-22
Net Sales			
Absolute, Rs crore	8,69,983	10,99,925	13,75,354
YoY Growth, %	(1.1)	26.4	25.0
PAT			
Absolute, Rs crore	1,01,640	1,33,028	1,35,718
YoY Growth, %	61.4	30.9	2.0
PBT			
Absolute, Rs crore	1,30,292	1,73,985	1,78,099
YoY Growth, %	74.9	33.5	2.4

Source: Ace Equity, bank of Baroda Research

We have analysed the financial results of companies excluding Banks, Finance, Insurance and IT companies. This exercise is conducted to see the performance of non-financial/IT companies in Q2FY23 as profit indicators of financial companies improved considerably, which might overshadow the performance.

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HOLD
TP: Rs 9,933 | ▲ 8%

MARUTI SUZUKI | Automobiles | 05 November 2022

Healthy performance

- **Q2 gross margin improved to 27% (25% in Q1) due to softer raw material cost and better synergies; volumes up 11% QoQ on festive sales**
- **Pending customer orders total 0.41mn vehicles at Q2-end and include 0.13mn units of high-margin models such as Ertiga/Baleno**
- **Growth outlook healthy but priced in post recent rally; we assume coverage with HOLD and TP of Rs 9,933**

Milind Raginwar
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Buoyant revenue growth: MSIL's Q2FY23 revenue jumped 13% QoQ (+46% YoY) to Rs 299bn supported by an 11% increase in volumes as festive demand kicked in (we prefer a sequential comparison due to YoY distortions from a weak Covid-hit base). Net blended realisation per vehicle (NRPV) came in at Rs 578k (+2% QoQ).

Margins improve as RM cost softens: Raw material cost inflation softened following better synergies (operating leverage) at 73% of sales (74%/76% in Q1FY23/Q2FY22) to Rs 218bn vs. Rs 265bn in Q1FY23. This helped gross margin improve to 27% (25%/24% in Q1FY23/Q2FY22). Other expenses were flat QoQ at 14% of sales. In addition to cost savings, favourable currency movement helped EBITDA to grow 45% QoQ to Rs 27.7bn (3x YoY) and EBITDA margin to rise +200bps to 9.3%.

Focus on market share: MSIL is striving to regain market share (currently at 41%) and retains its dominant presence in the passenger vehicle space (51% pre-Covid in FY19). The company has focused on the high-end SUV segment with launches of 'Grand Vitara', the new 'Brezza' and upgrades to 'XL6' and 'Ertiga'. In the medium term, management expects the contribution from the small/mini segment to reduce as that of SUVs and compact SUVs increases.

Capacity expansion and capex: MSIL is planning capacity expansion to 2.5mn units which includes 0.1mn units of brownfield capacity in Manesar (Haryana) by FY24. A new facility at Kharkhoda in Haryana will contribute from FY25 (0.25mn units). Management plans to spend Rs 70bn in FY23 (Rs 35bn incurred in H1FY23) which includes R&D and maintenance-related capex.

HOLD, TP Rs 9,854: We expect MSIL to report a revenue/EBITDA/PAT CAGR of 19%/43%/48% over FY22-FY25. Our FY24/FY25 estimates for gross/EBITDA margins stand at 27%/11% as input costs ease and realisations gain traction, EPS is forecast at Rs 331/Rs 406 and ROE/ROCE at 15-16% by FY25. Despite an upbeat growth outlook, we assume coverage with HOLD as the stock has rallied ~10% in the past month and prices in the positives at current valuations of 28x FY24E EPS. We value MSIL at 30x FY24E EPS, in line with its long-term (10Y) average, for a TP of Rs 9,933.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	MSIL IN/Rs 9,230
Market cap	US$ 33.9bn
Free float	44%
3M ADV	US$ 67.6mn
52wk high/low	Rs 9,769/Rs 6,537
Promoter/FPI/DII	56%/23%/16%

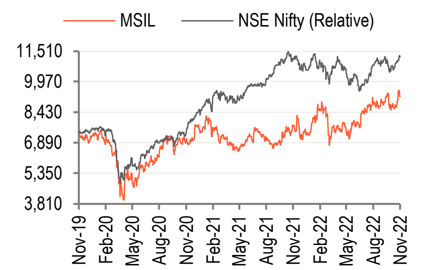
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	882,956	1,127,358	1,302,099
EBITDA (Rs mn)	57,012	103,263	140,889
Adj. net profit (Rs mn)	37,662	70,352	100,019
Adj. EPS (Rs)	124.7	232.9	331.1
Consensus EPS (Rs)	124.7	290.5	366.4
Adj. ROAE (%)	7.1	12.5	15.1
Adj. P/E (x)	74.0	39.6	27.9
EV/EBITDA (x)	48.5	26.6	19.5
Adj. EPS growth (%)	(11.0)	86.8	42.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

BUY
TP: Rs 1,320 | ▲ 15%

CIPLA | Pharmaceuticals | 05 November 2022

Robust US and India sales

- **Q2 revenue up 6% YoY as US/India sales offset decline in other markets; growth at 12% YoY ex-Covid sales in base quarter**
- **Gross margin up 165bps YoY but EBITDA margin flat at 22.3% on higher operating cost**
- **We raise FY23-FY24 EBITDA 9-12% and revise TP to Rs 1,320 (vs. Rs 1,100) at a higher EV/EBITDA multiple of 17x (vs. 16x); retain BUY**

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Strong US growth: Cipla reported Q2FY23 revenue growth of 6% YoY (+8% QoQ) to Rs 58.3bn led by the US and India businesses. US sales grew at a strong 16% QoQ and 26% YoY to US$ 179mn, backed by sustained expansion of differentiated products, launch of gRevlimid and market share gains in Lanreotide to 9.6% (4.6%/ 1.9% in Q1FY23/Q4FY22). The company expects to reach 15% market share in Lanreotide by FY23-end.

One-India growth momentum continues: Excluding Covid revenue in the base quarter, domestic sales grew 15% YoY (reported growth at 6% YoY), with strong demand traction across therapies. Cipla launched eight new brands during the quarter in the cardiology, diabetes, urology, gynaecology and respiratory therapies. All its three segments of branded generics, trade generics and consumer health, under the One-India initiative, reported double-digit YoY growth.

Decline in SAGA and international business: SAGA revenue (South Africa, sub-Saharan Africa and Cipla Global Access) declined 13% YoY in Q2 but grew 10% QoQ led by sequential recovery in South Africa private business (double-digit growth). In secondary terms, the private business grew 7.2% vs. market growth of just 2.8%, as per IQVIA MAT Aug'22. Higher Covid product sales in the base quarter, forex volatility and a challenging operating environment resulted in a 7% YoY decline in the international market (+6% QoQ), but the business has grown YoY when adjusted for pandemic-related sales.

Flat margin guidance: Cipla reported H1FY23 gross/EBITDA margins of 62.6%/ 21.8% and has guided for a full-year EBITDA margin of 21-22% despite the gRevlimid launch. This can be attributed to weak seasonality in Q4.

Retain BUY; TP raised to Rs 1,320: Based on strong US growth and continued India momentum, we raise our FY23-FY24 EBITDA estimates by 9-12% and move to a higher FY24E EV/EBITDA multiple of 17x (16x earlier) – a 15% premium to the stock's 5Y average. Retain BUY with a revised TP of Rs 1,320 (vs. Rs 1,100).

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	CIPLA IN/Rs 1,146
Market cap	US$ 11.2bn
Free float	63%
3M ADV	US$ 20.4mn
52wk high/low	Rs 1,185/Rs 850
Promoter/FPI/DII	36%/25%/21%

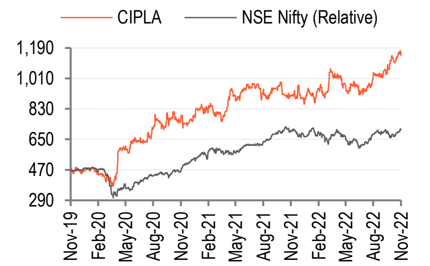
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	2,17,634	2,45,618	2,67,276
EBITDA (Rs mn)	45,528	52,874	61,391
Adj. net profit (Rs mn)	26,989	33,049	40,094
Adj. EPS (Rs)	33.5	41.0	49.8
Consensus EPS (Rs)	33.5	39.5	50.9
Adj. ROAE (%)	13.9	15.0	15.8
Adj. P/E (x)	34.2	27.9	23.0
EV/EBITDA (x)	20.1	17.0	14.4
Adj. EPS growth (%)	12.2	22.5	21.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 1,350 | ⮝ 10%

BLUE STAR | Consumer Durables | 04 November 2022

Best Q2 performer among AC pack

- **Q2 unitary product margin up 110bps YoY to 6.2%; management commentary positive, unlike tepid outlook from peers**
- **Strong, sustained traction in EMP business led by peak order book in a favourable market**
- **FY23/FY24 EPS pared 4.5%/0.3% to bake in the H1 print; on rollover, our TP rises to Rs 1,350 (vs. Rs 1,100) – retain HOLD**

Vinod Chari | Nilesh Patil
Tanay Rasal
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Better Q2 despite unfavourable seasonality: BLSTR reported a relatively stronger Q2FY23 performance than peers with in-line revenue (+27% YoY) and modest margin deterioration vis-à-vis competitors. In addition to robust momentum in electromechanical projects (EMP), a better performance in the unitary cooling product (UCP) vertical boosted overall growth. BLSTR has maintained market share at 13.25% for Q2FY23, expects to add 50bps in FY23 and to close FY24 at 15%.

UCP margin expansion a rarity for the quarter: UCP EBIT margin at 6.2% climbed 110bps YoY in Q2 as compared to declines for peers (VOLT: -280bps YoY to 7.3%, Lloyd: -20%). While other players in the air conditioner space expect stress on margins to persist in H2, BLSTR reiterated its optimistic 8-8.5% target for FY23. An expanding distribution footprint and new affordable product range are buoying growth.

EMP maintains traction: The EMP business clocked stronger margins as the carried-forward order book scaled to record highs of Rs 4.2bn (vs. Rs 3.2bn in Q2FY22). EMP revenue grew 33% YoY to Rs 9.6bn. The judicious selection of projects offering adequate cash flow during the ongoing construction capex upcycle is fuelling growth. Management forecasts a 20-25% CAGR increase in EMP revenue at 6-6.5% margins over next few years

Retain HOLD; TP revised to Rs 1,350: Accounting for H1FY23 numbers, we trim FY23/FY24 EPS estimates marginally by 4.5%/0.3%. On rolling valuations forward to Sep'24E, our TP rises to Rs 1,350 (vs. Rs 1,100), based on an unchanged 38x P/E – a 13% premium to the 5Y average. BLSTR continues to focus on taking growth higher via tactical market share gains and margin expansion. We retain HOLD given limited upside potential, but now prefer BLSTR over VOLT (also rated HOLD, TP Rs 1,000) in light of the company's resilient performance in the cooling business during trying times, management's upbeat outlook and cushioning from robust EMP traction.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	BLSTR IN/Rs 1,223
Market cap	US$ 1.4bn
Free float	61%
3M ADV	US$ 1.7mn
52wk high/low	Rs 1,274/Rs 836
Promoter/FPI/DII	39%/12%/23%

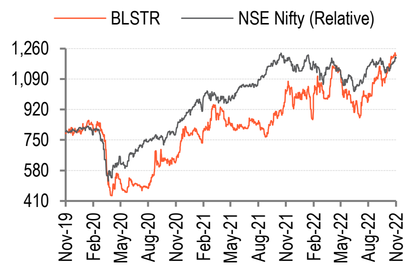
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	60,456	69,965	80,341
EBITDA (Rs mn)	3,465	4,074	4,995
Adj. net profit (Rs mn)	1,677	2,369	2,772
Adj. EPS (Rs)	17.4	24.6	28.8
Consensus EPS (Rs)	17.4	27.8	36.1
Adj. ROAE (%)	17.6	21.9	22.6
Adj. P/E (x)	70.2	49.7	42.5
EV/EBITDA (x)	34.0	28.9	23.6
Adj. EPS growth (%)	67.1	41.2	17.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

HOLD

TP: Rs 280 | ⮝ 7%

ORIENT ELECTRIC | Consumer Durables | 04 November 2022

One-offs mar performance

- **Q2 in the red as fans business remained a drag, marked by transition to new energy norms and one-time distribution exercise**
- **Streamlining of distribution in new states likely to stabilise by Q4, with plans to increase coverage area in fans by the year-end**
- **We slash FY23/FY24 EPS 30%/19% post the Q2 upset and roll over to a new TP of Rs 280 (vs. Rs 310); retain HOLD**

Vinod Chari | Nilesh Patil
Tanay Rasal
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Gloomy quarter: ORIENTEL's Q2FY23 revenue declined 14% YoY (23% below our est.) as a one-time revenue loss reduced growth by 11ppt. EBITDA margin plunged 800bps YoY to 2.3% due to (i) low operating leverage, (ii) higher A&P spends, and (iii) investment in strategic initiatives. Excluding strategic investments, the normalised EBITDA margin would have been ~6%. All these factors led to a net loss of Rs 2.8mn vs. our estimate of Rs 325mn in profits.

Fans a drag for second consecutive quarter: The electrical consumer durables (ECD) segment saw a steep revenue drop of 26% YoY due to transition to new energy norms (resulting in channel destocking), sales disruption in the key African market, and exceptional loss due to a one-time distribution exercise. Adjusted for the latter exceptional loss, ECD fell 10%. Lower fan volumes weighed on ECD EBIT margin, which stood at 4.4% (vs. 12.3% in Q2FY22). Management remains uncertain of how channel partners will react as energy efficiency ratings turn stricter (effective Jan'23).

Streamlining of distribution dents Q2: ORIENTEL undertook phase-2 of its fan distribution streamlining exercise in Uttar Pradesh (UP), Karnataka, Andhra Pradesh (AP) and Telangana – per management, this caused a one-time revenue loss. The company expects UP and Karnataka to grow in Q3FY23, followed by AP and Telangana in Q4. Bihar and Orissa (part of Phase 1) have stabilised and are growing at +50% YoY.

Lighting segment a silver lining: Lighting segment growth was at 15% YoY, led by a 40% upswing in the B2B category. The company is gaining traction in the facade lighting space after winning major projects. It has introduced house wires in order to enhance product portfolio in ECD.

Maintain HOLD: With new energy rating norms kicking in and the phase-2 distribution model yet to find its feet, we expect ORIENTEL's fans business to remain weak in the near term. Following the Q2 upset, we slash FY23/FY24 EPS estimates by 30%/19%. On rollover to Sep'24E valuations, our TP moves to Rs 280 (vs. Rs 310). We continue to value the stock at 35x P/E – a 20% discount to the 3Y mean – and retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 263
Market cap	US$ 677.8mn
Free float	62%
3M ADV	US$ 0.9mn
52wk high/low	Rs 408/Rs 244
Promoter/FPI/DII	39%/6%/29%

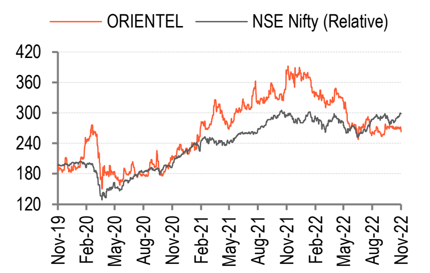
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	24,484	27,336	31,591
EBITDA (Rs mn)	2,313	2,117	2,790
Adj. net profit (Rs mn)	1,266	1,064	1,503
Adj. EPS (Rs)	6.0	5.0	7.1
Consensus EPS (Rs)	6.0	8.2	10.0
Adj. ROAE (%)	25.4	18.6	23.3
Adj. P/E (x)	44.0	52.4	37.1
EV/EBITDA (x)	24.1	26.3	20.0
Adj. EPS growth (%)	46.1	(16.0)	41.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

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