

HOLD

TP: Rs 240 | ▲ 8%

ORIENT ELECTRIC

Consumer Durables

03 November 2023

ECD-led growth; working capital rises on festive inventory

- Q2 topline up 11% YoY as ECD grew 17%, gross margin up 400bps; working capital cycle doubles due to festive stocking
- Management reiterated its strategy to boost premiumisation, increase market penetration and focus on B2B lighting
- Our TP stands revised to Rs 240 (vs. Rs 250) as we pare FY24/FY25 EPS by 8% each and roll valuations over to Sep'25E; retain HOLD

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Growth led by ECD: ORIENTEL posted 11% YoY topline growth to Rs 5.7bn in Q2FY24 as the electrical consumer durables (ECD) business grew 17% to Rs 3.6bn, surpassing HAVL's -4% and POLYCAB's 8% print for the quarter. Lighting and switchgears grew at a muted 1.4% YoY to Rs 2bn. The company's exports have doubled YoY.

Cost savings lift gross margin, one-off buoys PAT: Gross margin swelled 400bps YoY to 30.3% aided by better pricing from premium products, cost reduction and mix improvement. The company's *Sanchay* cost control programme led to Rs 140mn in savings for Q2 (Rs 150mn in Q1), albeit partly offset at the EBITDA level by higher employee, marketing and logistics costs. EBITDA margin thus expanded at a slower 135bps YoY to 3.6%. ORIENTEL expects margins to remain under pressure in the near term as it invests in longer-term growth. PBT stood at Rs 234mn boosted by gains of Rs 187mn from land sale (Rs 47mn ex-one-off), leading to PAT of Rs 185mn.

Working capital rises on higher inventory: The company's working capital cycle climbed to 26 days from 13 days in Q1FY24, with management citing inventory stocking ahead of the festive season. Capex incurred during H1FY24 totalled Rs 780mn, of which Rs 630mn was spent on the upcoming Hyderabad plant. Net cash stood at Rs 2.9bn as of H1FY24.

Product premiumisation and direct distribution strategy: ORIENTEL is adopting a strategy to boost product premiumisation and to increase its own DTM (direct to market) network. The company has added a seventh state (Gujarat) to its DTM network in Q2 and is evaluating two more markets during H2. Management is also looking to transform its service model into a key differentiator for the company and to raise focus on the B2B lighting business.

Maintain HOLD: We pare our EPS estimates by 8% each for FY24/FY25 while continuing to value the stock at a 30x P/E multiple – a 5% discount to the 3Y average. On rolling valuations forward to Sep'25E, our TP moves to Rs 240 (vs. Rs 250), which offers just 8% upside and leads us to maintain our HOLD rating.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 221
Market cap	US\$ 571.2mn
Free float	62%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 291/Rs 208
Promoter/FPI/DII	38%/6%/28%

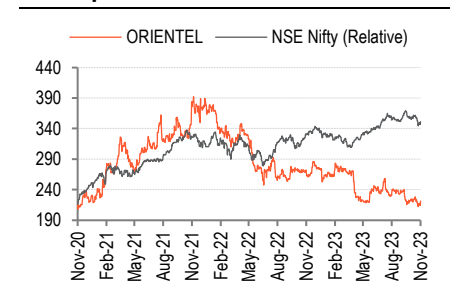
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,591	34,326
EBITDA (Rs mn)	1,510	2,372	2,906
Adj. net profit (Rs mn)	759	1,212	1,558
Adj. EPS (Rs)	3.6	5.7	7.3
Consensus EPS (Rs)	3.6	5.9	7.3
Adj. ROAE (%)	13.5	19.3	21.8
Adj. P/E (x)	62.1	38.8	30.2
EV/EBITDA (x)	31.1	19.8	16.1
Adj. EPS growth (%)	(40.3)	59.8	28.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	5,669	5,106	11.0	7,056	(19.7)	12,725	11,322	12.4
EBITDA	207	116	78.0	440	(53.0)	647	498	29.9
EBITDA Margin (%)	3.6	2.3	140bps	6.2	(260bps)	5.1	4.4	70bps
Depreciation	142	131		143		285	259	
Interest	52	48		59		111	100	
Other Income	34	65		29		62	117	
PBT*	234	1	3,507.7	266	(82.4)	313	255	22.6
Tax	49	4		69		118	69	
Adjusted PAT	185	(3)	NM	197	(6.3)	381	187	104.3
Exceptional item	-	-		0		-	-	
Reported PAT	185	(3)	NM	197	(6.3)	381	187	104.3
Adj. PAT Margin (%)	3.3	(0.1)	330bps	2.8	16.6	3.0	1.6	130bps
EPS (Rs)	0.9	0.0	NM	0.9	(6.3)	1.8	0.9	104.3

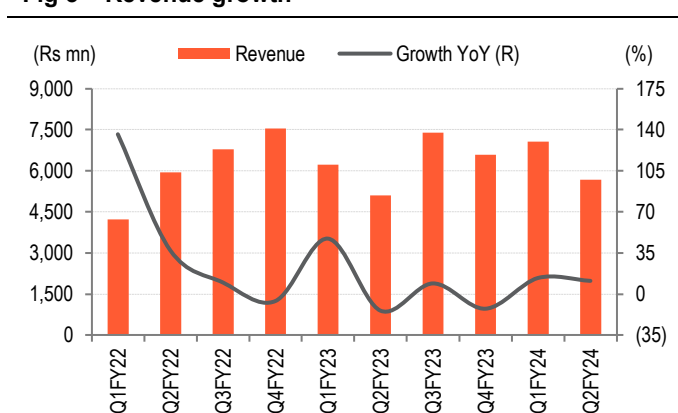
Source: Company, BOBCAPS Research | * PBT for Q2FY24 and H1FY24 includes Rs 186.8mn from the sale of land

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenue													
ECD	3,044	4,605	6,456	3,241	4,198	4,813	5,741	4,453	3,100	5,388	4,577	5,150	3,634
Growth YoY (%)	7.5	41.8	42.0	213.2	37.9	4.5	(11.1)	37.4	(26.1)	11.9	(20.3)	15.6	17.2
Lightning & Switchgear	1,294	1,579	1,561	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003	1,906	2,035
Growth YoY (%)	(14.5)	(7.6)	43.7	30.5	34.9	24.8	14.8	79.5	14.9	1.6	11.8	8.1	1.4
EBIT													
Electrical Consumer Durables (ECD)	512	685	926	227	516	534	736	372	137	645	445	492	297
Margin (%)	16.8	14.9	14.3	7.0	12.3	11.1	12.8	8.3	4.4	12.0	9.7	9.5	8.2
Lightning & Switchgear	189	230	225	103	276	289	281	232	227	311	391	307	269
Margin (%)	14.6	14.6	14.4	10.5	15.8	14.7	15.7	13.2	11.3	15.6	19.5	16.1	13.2

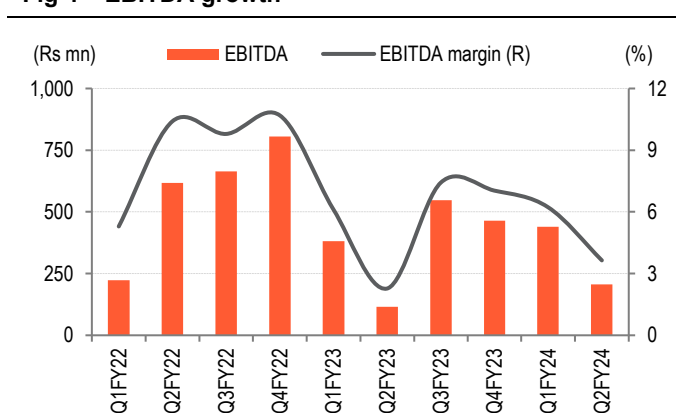
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



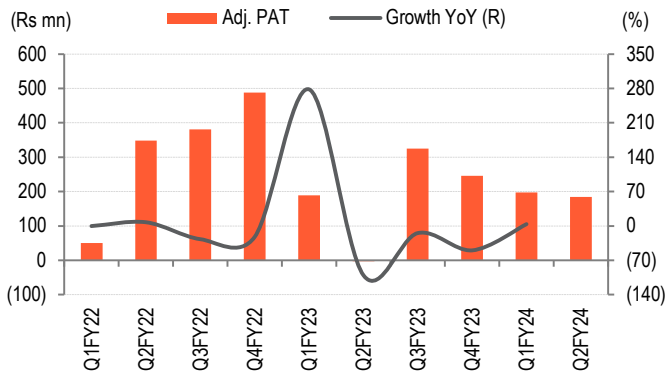
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



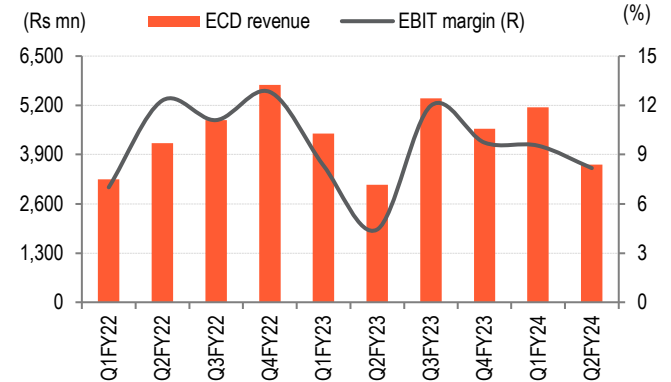
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



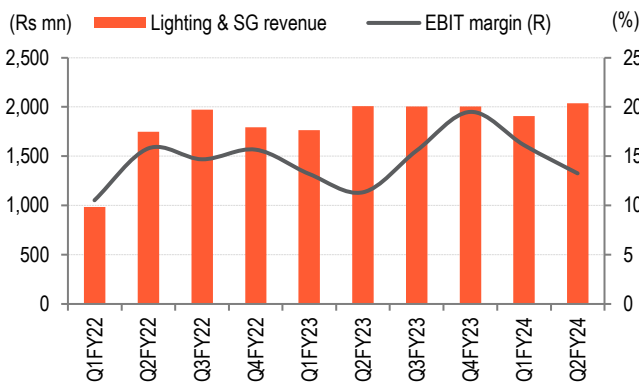
Source: Company, BOBCAPS Research

Fig 6 – ECD segment performance



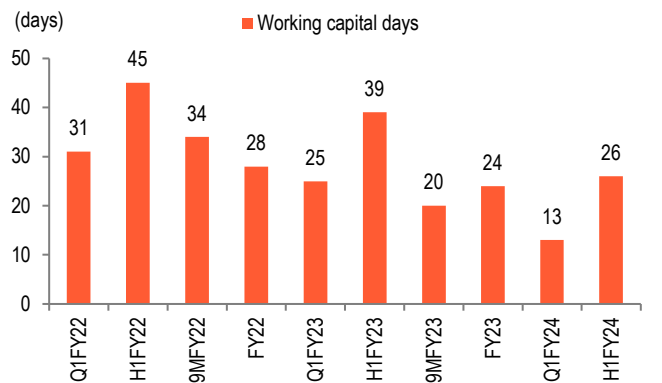
Source: Company, BOBCAPS Research

Fig 7 – Lighting and Switchgear segment performance



Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



Source: Company, BOBCAPS Research

Earnings call takeaways

Electrical consumer durables

- **Fans:** ECD revenue grew 17% YoY in Q2FY24 led by demand for fans despite the quarter being a non-peak period for cooling products. Revenue from fans increased 25% YoY and while management expects Q3 to be muted, a likely pickup in Q4 is guided to support 20% growth for FY24. The BLDC (brushless direct current) and TPW (table, pedestal, wall) fan categories are growing at a rapid pace, and ORIENTEL launched four new SKUs during the quarter.
- **Other appliances:** Water heaters and cooler sales were adversely affected by the mild summers and heavy rainfall across various parts of the country. Whereas the coolers business continues to struggle due to channel inventory, management indicated that the water heater business has started seeing good traction. The company launched three new water heaters in Q2.

Lighting and switchgears

- **Lighting:** Operating margins improved in the lighting business supported by raw material cost reduction. Per management, the professional luminaries segment has a healthy order book and the company is witnessing continued traction in the B2B space. Pricing erosion continues in B2C, which the company is looking to counter by focusing on B2B sales.
- **Switchgears:** Switchgears delivered high-double-digit revenue growth for the quarter backed by an increase in distribution and electrician touchpoints.

Other highlights

- **Premiumisation:** ORIENTEL is transitioning to more premium products, which aided 400bps YoY expansion in the quarter's gross margin to 30.3%.
- **DTM strategy:** Sales through the DTM route grew 2x YoY in Q2. The company has fully transitioned Gujarat to its DTM network and has two more states on the anvil.
- **E-commerce and modern retail:** Revenue from the e-commerce and modern retail channel grew 48% YoY (vs. 58% in Q1FY24). The company is taking steps to double sales from this channel in two years.
- **Working capital:** Higher inventory days ahead of the festival season saw the working capital cycle rise to 26 days from 13 days in Q1FY24.
- **Greenfield plant:** The greenfield plant set up in Hyderabad will be ready for commissioning by H2FY24.
- **Capex:** Capex incurred during H1FY24 totalled Rs 780mn, of which Rs 630mn was spent on the greenfield Hyderabad facility.
- **Balance sheet:** Net cash stood at Rs 2.9bn as of Q2FY24 (vs. Rs 1.6bn in Q1).

Valuation methodology

ORIENTEL is transitioning to a premium product business and looking to B2B clientele to bolster growth. We see a large business opportunity for the company but note that margins are likely to remain under pressure in the short term as it invests in longer-term growth.

We pare our EPS estimates by 8% each for FY24/FY25 while continuing to value the stock at a 30x P/E multiple – a 5% discount to the three-year average. On rolling valuations forward to Sep'25E, our TP moves to Rs 240 (vs. Rs 250), which offers just 8% upside and leads us to maintain our HOLD rating.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY254E
Sales	29,591	34,326	29,591	34,326	0.0	0.0
EBITDA	2,372	2,906	2,518	3,094	(5.8)	(6.1)
PAT	1,212	1,558	1,322	1,698	(8.3)	(8.3)
EPS (Rs)	5.7	7.3	6.2	8.0	(8.3)	(8.3)
EBITDA Margin (%)	8.0	8.5	8.5	9.0	(50bps)	(50bps)

Source: Company, BOBCAPS Research

Key risks

- Above-industry (HAVL) growth in the fans segment is a key upside risk to our estimates.
- Slower-than-anticipated recovery 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	1.3	3,117	2,900	HOLD
Blue Star	BLSTR IN	2.3	972	1,100	BUY
Crompton Greaves	CROMPTON IN	2.2	287	360	BUY
Dixon Technologies	DIXON IN	3.8	5,274	6,300	BUY
Havells India	HAVL IN	9.7	1,271	1,600	BUY
KEI Industries	KEII IN	2.8	2,570	2,400	HOLD
Orient Electric	ORIENTEL IN	0.6	221	240	HOLD
Polycab India	POLYCAB IN	9.2	5,037	6,100	BUY
Syrma SGS	SYRMA IN	1.1	510	560	HOLD
V-Guard Industries	VGRD IN	1.6	296	300	HOLD
Voltas	VOLT IN	3.4	836	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	24,484	25,292	29,591	34,326	39,132
EBITDA	2,313	1,510	2,372	2,906	3,575
Depreciation	471	535	817	901	986
EBIT	1,842	975	1,555	2,005	2,590
Net interest inc./(exp.)	(203)	(222)	(227)	(244)	(262)
Other inc./(exp.)	58	266	293	322	354
Exceptional items	0	0	0	0	0
EBT	1,698	1,019	1,620	2,083	2,682
Income taxes	431	261	408	525	676
Extraordinary items	0	0	(187)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,266	759	1,399	1,558	2,006
Adjustments	0	0	(187)	0	0
Adjusted net profit	1,266	759	1,212	1,558	2,006

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	4,495	4,530	6,080	7,053	8,041
Other current liabilities	930	1,000	1,170	1,358	1,548
Provisions	0	0	0	0	0
Debt funds	675	973	757	815	873
Other liabilities	361	297	348	403	460
Equity capital	212	213	213	213	213
Reserves & surplus	5,201	5,634	6,473	7,408	8,611
Shareholders' fund	5,413	5,846	6,686	7,620	8,824
Total liab. and equities	11,874	12,646	15,042	17,249	19,745
Cash and cash eq.	1,505	1,642	2,397	2,828	3,526
Accounts receivables	3,904	3,560	4,165	4,831	5,508
Inventories	3,261	2,846	3,330	3,863	4,404
Other current assets	280	647	757	879	1,002
Investments	0	0	0	0	0
Net fixed assets	1,900	2,902	3,202	3,502	3,802
CWIP	0	0	0	0	0
Intangible assets	234	216	216	216	216
Deferred tax assets, net	0	0	0	0	0
Other assets	789	833	975	1,131	1,289
Total assets	11,874	12,646	15,042	17,249	19,745

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	114	1,897	2,737	2,299	2,829
Capital expenditures	(423)	(1,136)	(300)	(300)	(300)
Change in investments	1,172	(58)	0	0	0
Other investing cash flows	33	95	(908)	(1,002)	(1,088)
Cash flow from investing	782	(1,099)	(1,208)	(1,302)	(1,388)
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	(208)	(292)	(215)	57	58
Interest expenses	0	0	0	0	0
Dividends paid	(588)	(370)	(560)	(623)	(802)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(797)	(661)	(775)	(566)	(744)
Chg in cash & cash eq.	99	137	755	431	697
Closing cash & cash eq.	1,505	1,642	2,397	2,828	3,526

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	6.0	3.6	6.6	7.3	9.4
Adjusted EPS	6.0	3.6	5.7	7.3	9.4
Dividend per share	2.0	1.5	2.6	2.9	3.8
Book value per share	25.5	27.5	31.4	35.8	41.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.9	1.9	1.6	1.4	1.2
EV/EBITDA	20.3	31.1	19.8	16.1	13.1
Adjusted P/E	37.1	62.1	38.8	30.2	23.5
P/BV	8.7	8.1	7.0	6.2	5.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.4	74.8	74.8	74.8
Interest burden (PBT/EBIT)	92.1	104.6	104.2	103.9	103.6
EBIT margin (EBIT/Revenue)	7.5	3.9	5.3	5.8	6.6
Asset turnover (Rev./Avg TA)	12.9	8.7	9.2	9.8	10.3
Leverage (Avg TA/Avg Equity)	0.4	0.5	0.5	0.5	0.5
Adjusted ROAE	25.4	13.5	19.3	21.8	24.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	22.5	3.3	17.0	16.0	14.0
EBITDA	24.1	(34.7)	57.1	22.5	23.0
Adjusted EPS	46.1	(40.3)	59.8	28.5	28.8
Profitability & Return ratios (%)					
EBITDA margin	9.4	6.0	8.0	8.5	9.1
EBIT margin	7.5	3.9	5.3	5.8	6.6
Adjusted profit margin	5.2	3.0	4.1	4.5	5.1
Adjusted ROAE	25.4	13.5	19.3	21.8	24.4
ROCE	25.2	14.3	19.4	21.9	24.3
Working capital days (days)					
Receivables	58	51	51	51	51
Inventory	49	41	41	41	41
Payables	67	65	75	75	75
Ratios (x)					
Gross asset turnover	13.5	10.5	9.7	10.2	10.7
Current ratio	1.6	1.5	1.4	1.4	1.4
Net interest coverage ratio	9.1	4.4	6.8	8.2	9.9
Adjusted debt/equity	0.1	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

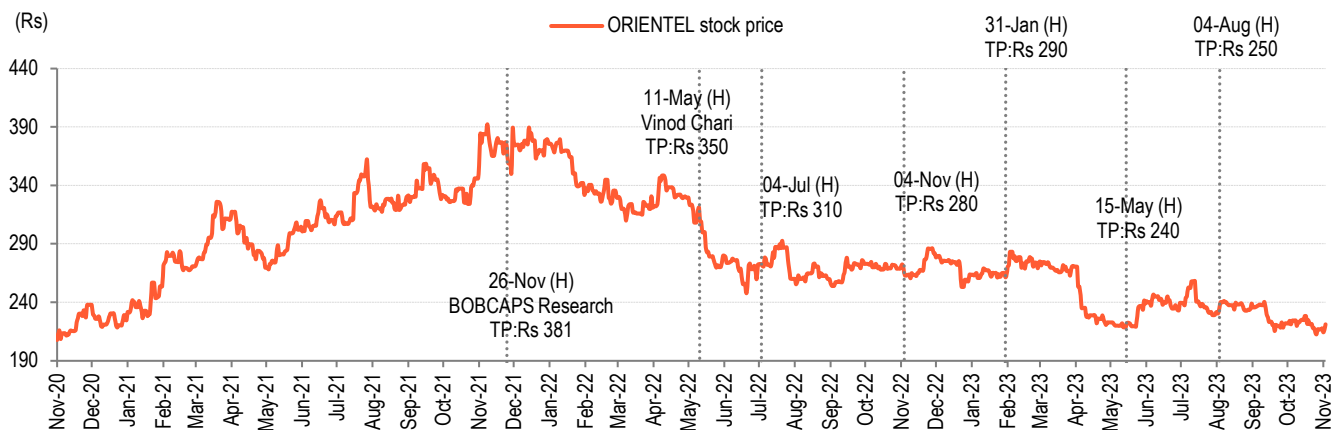
HOLD – Expected return from -6% to +15%

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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