

**HOLD**  
 TP: Rs 240 | ▲ 9%

**ORIENT ELECTRIC**

Consumer Durables

02 February 2024

**Slow quarter; Hyderabad plant to spur growth**

- Topline flattish YoY due to high base and soft demand for fans; EBITDA margin lower on advertising expenses
- Hyderabad plant expected to produce commercially soon, fuelling growth; EPR mandate may cloud margins near term
- TP unchanged at Rs 240 as we cut FY24/FY25/FY26 EPS by 20%/8%/7% and roll over to Dec'25E – maintain HOLD

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**Muted quarter:** ORIENTEL reported a flattish December quarter with 2% YoY topline growth to Rs 7.5bn due to a poor performance in fans and a drop in lighting revenue, partially offset by a good showing in appliances and switchgears. Gross margin expanded 130bps YoY to 29.9% due to a better product mix and lower input costs, while EBITDA margin contracted 90bps YoY to 6.5% owing to soft demand and promotional expenses.

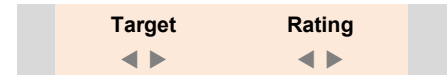
**Margins expected to improve:** ORIENTEL expects better margins ahead on the back of cost efficiencies, having achieved savings of Rs 450mn during 9MFY24 through its Project Sanchay initiative. We believe, however, that margin improvement could be clouded by potential provisions of ~Rs 150mn that the company may have to make on account of the extended producer responsibility (EPR) norms imposed by the government relating to recycling and waste disposal systems. The company awaits clarity on the same, even as peers such as VGRD have already provided an amount of Rs 450mn during Q3FY24.

**Hyderabad plant to foster long-term growth:** The Hyderabad plant will produce table, pedestal & wall (TPW) fans, which will likely be brought to market soon. ORIENTEL is looking to introduce this new line of TPW fans in the export market as well, where it sees large potential for growth. The company has spent a sum of Rs 1.8bn on the plant so far.

**Product premiumisation and direct distribution strategy:** ORIENTEL is adopting a strategy to boost premiumisation and to augment its own DTM (direct to market) channel. Its DTM network in Q3 grew 36% YoY in seven states and it is evaluating two more markets. 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 reduce our FY24/FY25/FY26 EPS estimates by 20%/8%/7% while continuing to value the stock at a 30x P/E multiple – a 5% discount to the 3Y average. On rolling valuations forward to Dec'25E, our TP remains unchanged at Rs 240, which offers just 9% upside and leads us to maintain our HOLD rating.

**Key changes**



Ticker/Price	ORIENTEL IN/Rs 220
Market cap	US\$ 568.8mn
Free float	62%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 285/Rs 208
Promoter/FPI/DII	38%/6%/28%

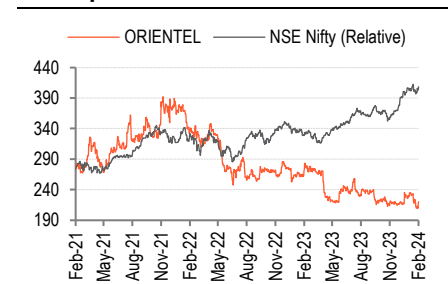
Source: NSE | Price as of 2 Feb 2024

**Key financials**

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	25,292	29,183	33,852
EBITDA (Rs mn)	1,510	1,835	2,476
Adj. net profit (Rs mn)	759	965	1,432
Adj. EPS (Rs)	3.6	4.5	6.7
Consensus EPS (Rs)	3.6	5.9	7.3
Adj. ROAE (%)	13.5	15.6	20.6
Adj. P/E (x)	61.8	48.6	32.7
EV/EBITDA (x)	31.0	25.5	18.9
Adj. EPS growth (%)	(40.3)	27.2	48.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	7,519	7,390	1.7	5,669	32.6	20,245	18,713	8.2
EBITDA	489	549	(10.8)	207	136.7	1,136	1,046	8.6
EBITDA Margin (%)	6.5	7.4	(90bps)	3.6	290bps	5.6	5.6	0bps
Depreciation	150	139		142		435	398	
Interest	54	60		52		165	160	
Other Income	43	86		34		105	203	
PBT	328	436	(24.7)	47	599.4	641	691	(7.3)
Tax	85	110		49		203	179	
Adjusted PAT	243	326	(25.3)	185	31.9	625	512	21.9
Reported PAT	243	326	(25.3)	185	31.9	625	512	21.9
Adj. PAT Margin (%)	3.2	4.4	(120bps)	3.3	(0.6)	3.1	2.7	30bps
EPS (Rs)	1.1	1.5	(25.3)	0.9	31.9	2.9	2.4	21.9

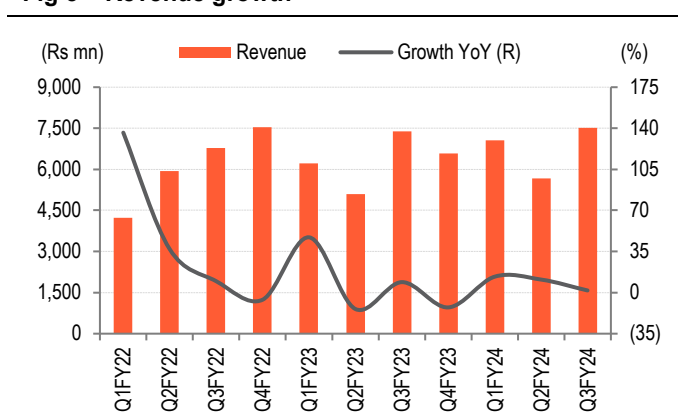
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Revenue</b>													
ECD	4,605	6,456	3,241	4,198	4,813	5,741	4,453	3,100	5,388	4,577	5,150	3,634	5,352
Growth YoY	41.8	42.0	213.2	37.9	4.5	(11.1)	37.4	(26.1)	11.9	(20.3)	15.6	17.2	(0.7)
Lightning & Switchgear	1,579	1,561	982	1,746	1,971	1,792	1,763	2,006	2,003	2,003	1,906	2,035	2,167
Growth YoY (%)	(7.6)	43.7	30.5	34.9	24.8	14.8	79.5	14.9	1.6	11.8	8.1	1.4	8.2
<b>EBIT</b>													
Electrical Consumer Durables (ECD)	685	926	227	516	534	736	372	137	645	445	492	297	603
Margin (%)	14.9	14.3	7.0	12.3	11.1	12.8	8.3	4.4	12.0	9.7	9.5	8.2	11.3
Lightning & Switchgear	230	225	103	276	289	281	232	227	311	391	307	269	307
Margin (%)	14.6	14.4	10.5	15.8	14.7	15.7	13.2	11.3	15.6	19.5	16.1	13.2	14.2

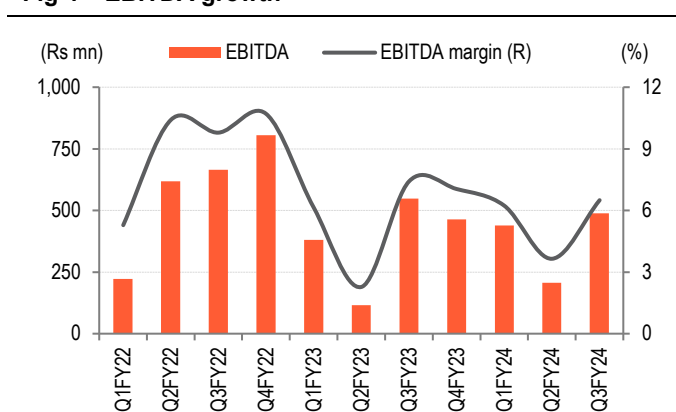
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth**



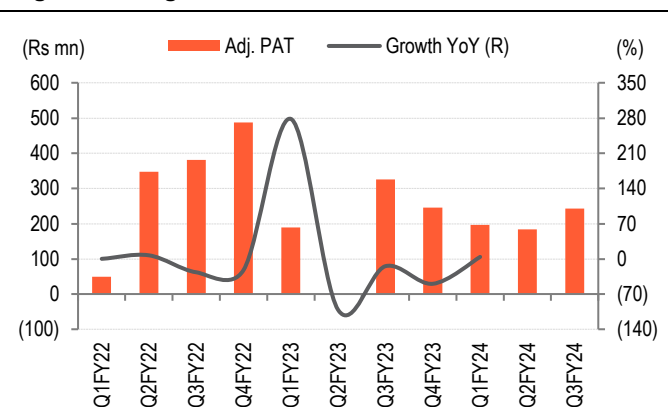
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth**



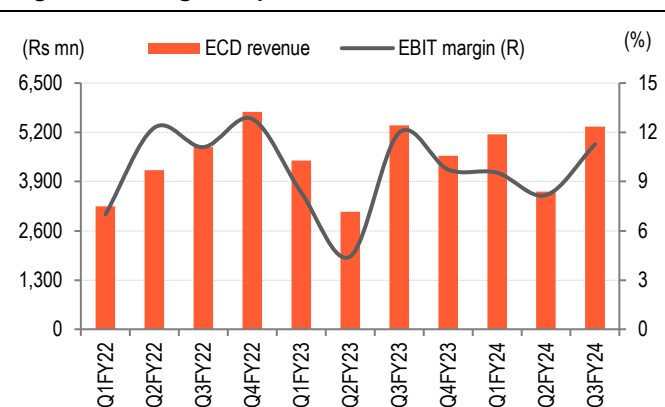
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth**



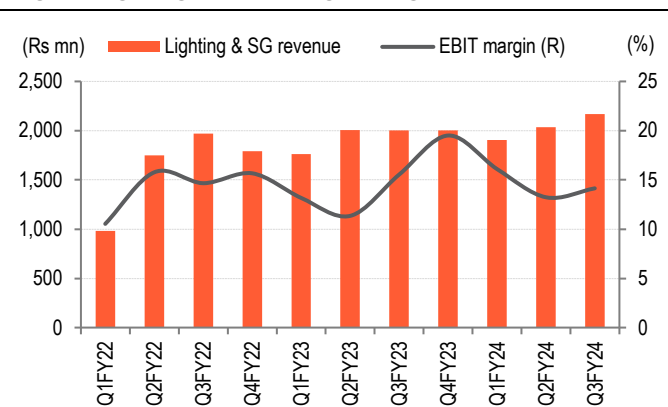
Source: Company, BOBCAPS Research

**Fig 6 – ECD segment performance**



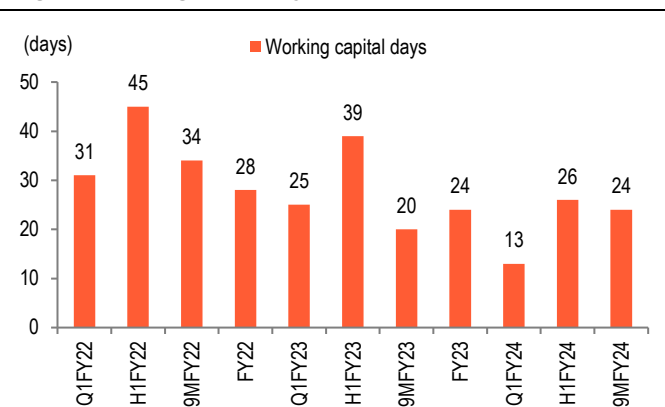
Source: Company, BOBCAPS Research

**Fig 7 – Lighting and Switchgear segment performance**



Source: Company, BOBCAPS Research

**Fig 8 – Working capital cycle**



Source: Company, BOBCAPS Research

## Earnings call takeaways

### Electric consumer durables (ECD)

- **Segment performance:** The ECD segment had a flattish topline YoY in Q3FY24 on account of a high base in fans as well as soft consumer demand and continuing discounts. Heating appliances showed strong growth.
- **Channel performance:** Digital revenue grew in the high teens with continuing momentum in e-commerce business, especially for water heaters.
- **Fans:** Fans declined by low single digits due to tepid consumer demand and price discounting during the quarter. Margins were higher in the category due to a better product mix and relatively stable commodity prices. The TPW, exhaust and premium fan categories grew over FY23.
- **Fans DTM:** Revenues from the DTM channel for fans implemented by ORIENTEL in seven states grew 36% YoY in Q3 and 68% YoY in 9MFY24, with market share improvement in these states. Sales in the state of Gujarat, which was added to the DTM channel in Q2, have started ramping up as well.

### Lighting and Switchgears

- **Segment performance:** The lighting and switchgears segment grew 8.2% YoY in Q3 accompanied by EBIT margin expansion of 100bps QoQ, as LED CLum and high-wattage lamps grew in the product mix, aided by input cost reduction.
- **Lighting:** Continuing price erosion in the lighting industry saw revenues decline despite double-digit volume growth during the quarter.
- **Lighting B2B:** The B2B segment continued to gain traction, growing in double digits in value terms, as public spending increased in the infrastructure sector, the company's B2G initiatives yielded results, and it notched up a healthy order book in professional luminaires.
- **Lighting B2C:** B2C volumes grew in double digits during the quarter as ORIENTEL focused on new product development, LED CLum (high double-digit growth) and high-wattage lamps (mid-single digit growth). In the façade segment, the company saw an increase in project inquiries and execution.
- **Switchgears:** This product category grew well with B2B project wins. ORIENTEL also witnessed good traction in house wires in North India.

### Other highlights

- **Digital business:** ORIENTEL's digital business doubled YoY in Q3FY24 and grew 27% QoQ. The company added new products across digital platforms for its key categories of BLDC fans and water heaters, besides scaling up kitchen appliances.
- **Large format retail (LFR):** The LFR channel grew 43% over Q2, albeit on a low base, as the company expanded its portfolio with existing modern trade partners and onboarded new, large partners during Q3.
- **Project Spark Sanchay:** ORIENTEL achieved costs savings of Rs 450mn during 9MFY24 as part of its Project Spark Sanchay initiatives.
- **Exports:** International business grew in the high teens during Q3 despite weakness in the key markets of Iraq, Sri Lanka and Ghana due to the ongoing conflict in the Red Sea region. TPW fans are in greater demand than ceiling fans in the export market. The company continues to expand more product categories into the international market but indicated that it isn't seeing much traction in lighting products overseas.
- **Capex:** ORIENTEL has incurred capex of Rs 1.8bn at the Hyderabad plant to date. Going forward, it expects to incur Rs 200mn at the Faridabad plant in small tranches, largely funded through internal accruals.
- **Balance sheet:** The company's debt and net cash position stood at Rs 150mn and Rs 440mn respectively as at end-Q3 as against Rs 150mn and Rs 2bn at the end of Q3FY23. ROCE for 9MFY24 was 18.2%, a contraction of 840bps YoY due to higher capital employed at the Hyderabad plant and high working capital.

## 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.

Baking in the subdued quarter and demand overhang, we reduce our FY24/FY25/FY26 EPS estimates by 20%/8%/7%. We continue to value the stock at a 30x P/E multiple – a 5% discount to the three-year average – while rolling valuations forward to Dec'25E, which translates to an unchanged TP of Rs 240. Considering the low 9% upside potential, we maintain our HOLD rating.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	29,183	33,852	38,591	29,591	34,326	39,132	(1.4)	(1.4)	(1.4)
EBITDA	1,835	2,476	3,105	2,372	2,906	3,575	(22.6)	(14.8)	(13.2)
PAT	965	1,432	1,869	1,212	1,558	2,006	(20.4)	(8.0)	(6.8)
EPS (Rs)	4.5	6.7	8.8	5.7	7.3	9.4	(20.4)	(8.0)	(6.8)
EBITDA Margin (%)	6.3	7.3	8.0	8.0	8.5	9.1	(170bps)	(120bps)	(110bps)

Source: Company, BOBCAPS Research

## Key risks

- Above-industry 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
Dixon Technologies	DIXON IN	4.5	6,238	6,900	BUY
Havells India	HAVL IN	10.2	1,341	1,600	BUY
KEI Industries	KEII IN	3.5	3,201	3,120	HOLD
Orient Electric	ORIENTEL IN	0.6	220	240	HOLD
Polycab India	POLYCAB IN	8.0	4,384	5,200	BUY
Syrma SGS	SYRMA IN	1.3	581	560	HOLD
V-Guard Industries	VGRD IN	1.6	310	300	HOLD
Voltas	VOLT IN	4.3	1,058	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>24,484</b>	<b>25,292</b>	<b>29,183</b>	<b>33,852</b>	<b>38,591</b>
EBITDA	2,313	1,510	1,835	2,476	3,105
Depreciation	471	535	580	640	700
EBIT	1,842	975	1,255	1,836	2,404
Net interest inc./(exp.)	(203)	(222)	(226)	(243)	(260)
Other inc./(exp.)	58	266	293	322	354
Exceptional items	0	0	0	0	0
EBT	1,698	1,019	1,322	1,915	2,499
Income taxes	431	261	357	483	630
Extraordinary items	0	0	(187)	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>1,266</b>	<b>759</b>	<b>1,152</b>	<b>1,432</b>	<b>1,869</b>
Adjustments	0	0	(187)	0	0
<b>Adjusted net profit</b>	<b>1,266</b>	<b>759</b>	<b>965</b>	<b>1,432</b>	<b>1,869</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	4,495	4,530	5,996	6,956	7,930
Other current liabilities	930	1,000	1,154	1,339	1,526
Provisions	0	0	0	0	0
Debt funds	675	973	753	809	866
Other liabilities	361	297	343	398	454
Equity capital	212	213	213	213	213
Reserves & surplus	5,201	5,634	6,325	7,184	8,305
Shareholders' fund	5,413	5,846	6,537	7,397	8,518
<b>Total liab. and equities</b>	<b>11,874</b>	<b>12,646</b>	<b>14,784</b>	<b>16,899</b>	<b>19,294</b>
Cash and cash eq.	1,505	1,642	2,266	2,625	3,243
Accounts receivables	3,904	3,560	4,107	4,765	5,432
Inventories	3,261	2,846	3,284	3,810	4,343
Other current assets	280	647	747	866	988
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	961	1,115	1,271
<b>Total assets</b>	<b>11,874</b>	<b>12,646</b>	<b>14,784</b>	<b>16,899</b>	<b>19,294</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>114</b>	<b>1,897</b>	<b>2,268</b>	<b>1,915</b>	<b>2,409</b>
Capital expenditures	(423)	(1,136)	(300)	(300)	(300)
Change in investments	1,172	(58)	0	0	0
Other investing cash flows	33	95	(663)	(739)	(801)
<b>Cash flow from investing</b>	<b>782</b>	<b>(1,099)</b>	<b>(963)</b>	<b>(1,039)</b>	<b>(1,101)</b>
Equities issued/Others	0	1	0	0	0
Debt raised/repaid	(208)	(292)	(220)	56	57
Interest expenses	0	0	0	0	0
Dividends paid	(588)	(370)	(461)	(573)	(748)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(797)</b>	<b>(661)</b>	<b>(681)</b>	<b>(517)</b>	<b>(690)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>99</b>	<b>137</b>	<b>624</b>	<b>359</b>	<b>618</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,505</b>	<b>1,642</b>	<b>2,266</b>	<b>2,625</b>	<b>3,243</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	6.0	3.6	5.4	6.7	8.8
Adjusted EPS	6.0	3.6	4.5	6.7	8.8
Dividend per share	2.0	1.5	2.2	2.7	3.5
Book value per share	25.5	27.5	30.7	34.8	40.0

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.9	1.8	1.6	1.4	1.2
EV/EBITDA	20.2	31.0	25.5	18.9	15.1
Adjusted P/E	36.9	61.8	48.6	32.7	25.1
P/BV	8.6	8.0	7.2	6.3	5.5

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.4	73.0	74.8	74.8
Interest burden (PBT/EBIT)	92.1	104.6	105.3	104.3	103.9
EBIT margin (EBIT/Revenue)	7.5	3.9	4.3	5.4	6.2
Asset turnover (Rev./Avg TA)	12.9	8.7	9.1	9.7	10.2
Leverage (Avg TA/Avg Equity)	0.4	0.5	0.5	0.5	0.5
Adjusted ROAE	25.4	13.5	15.6	20.6	23.5

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	22.5	3.3	15.4	16.0	14.0
EBITDA	24.1	(34.7)	21.5	34.9	25.4
Adjusted EPS	46.1	(40.3)	27.2	48.5	30.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.4	6.0	6.3	7.3	8.0
EBIT margin	7.5	3.9	4.3	5.4	6.2
Adjusted profit margin	5.2	3.0	3.3	4.2	4.8
Adjusted ROAE	25.4	13.5	15.6	20.6	23.5
ROCE	25.2	14.3	16.0	20.8	23.5
<b>Working capital days (days)</b>					
Receivables	58	51	51	51	51
Inventory	49	41	41	41	41
Payables	67	65	75	75	75
<b>Ratios (x)</b>					
Gross asset turnover	13.5	10.5	9.6	10.1	10.6
Current ratio	1.6	1.5	1.4	1.4	1.4
Net interest coverage ratio	9.1	4.4	5.6	7.6	9.3
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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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

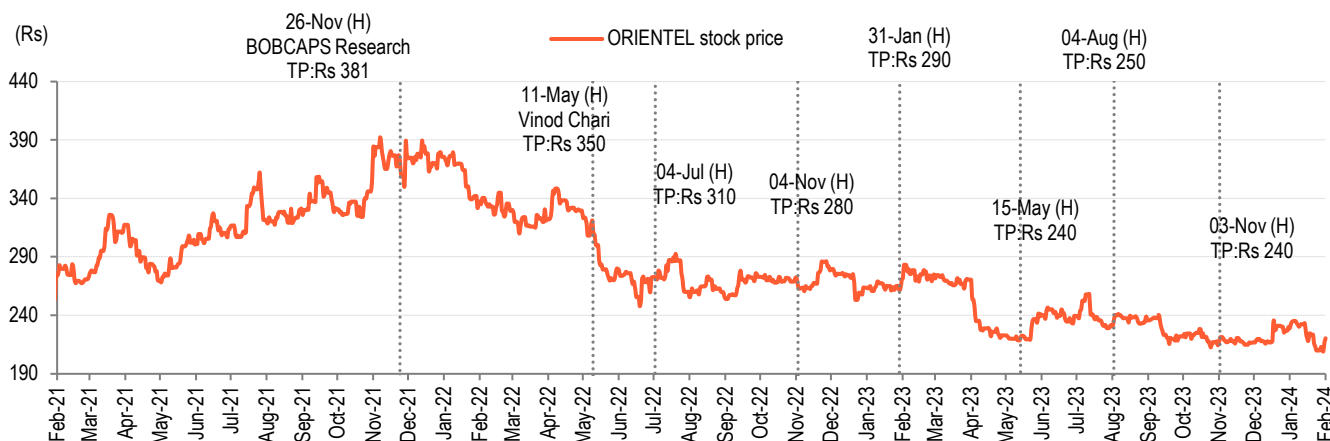
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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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