

**HOLD**

TP: Rs 350 | ▲ 9%

**ORIENT ELECTRIC**

Consumer Durables

11 May 2022

**Premiumisation is key**

- ECD weakness hurt Q4 topline growth; aggressive price hikes helped to sustain gross margin despite RM cost pressure
- Management confident of gradual premiumisation as energy-efficiency trends rise and is working to deepen distribution
- ORIENTEL a strong brand but lags HAVL and CROMPTON in terms of market share – we assume coverage with HOLD and a TP of Rs 350

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**ECD a drag on sales:** ORIENTEL’s Q4FY22 revenue declined 6% YoY to Rs 7.5bn primarily due to a 11% decrease in the electrical consumer durables segment, which was partially set off by a 15% increase in lighting and switchgears. Gross margin dipped 13bps YoY to 27.8% as prudent price escalations and cost reductions came up against rising raw material inflation. EBIT margin declined by 160bps YoY to 9.1% due to the lower gross margin and reduced operating leverage. Net income fell 22% YoY to Rs 488mn.

**Fans segment expected to lead growth:** ORIENTEL is the largest exporter of fans and the business has been a major contributor to the topline. The company has taken various steps to strengthen its market position, including the launch of energy-efficient fans. It is expanding its geographical network and has deepened its footprint in South India. Management believes rising consumer demand for premium and energy-efficient fans, a shorter replacement cycle and a shift from unorganised to organised players augur well for the company.

**Stock has corrected but upside remains limited:** The stock has rallied +100% since its pandemic trough of May’20, followed by a 21% correction in recent months. At 36x FY24E EPS, current valuations are still close to the peak and offer limited upside, in our view.

**HOLD, TP Rs 350:** While export opportunities in fans and growth in other product categories look promising, the spiralling raw material prices continue to pose a risk to margins. Further, ORIENTEL has been unable to catch up to HAVL and CROMPTON in terms of market share. We value the stock at 40x FY24E EPS, a 7% premium to its 1Y average, for a TP of Rs 350 and assume coverage with a HOLD rating. Key upside risks to our view are faster premiumisation and above-expected export opportunities. Key downside risks are loss in market share and further margin pressure from supply-side inflation.

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	ORIENTEL IN/Rs 321
Market cap	US\$ 880.8mn
Free float	61%
3M ADV	US\$ 0.8mn
52wk high/low	Rs 408/Rs 277
Promoter/FPI/DII	39%/8%/26%

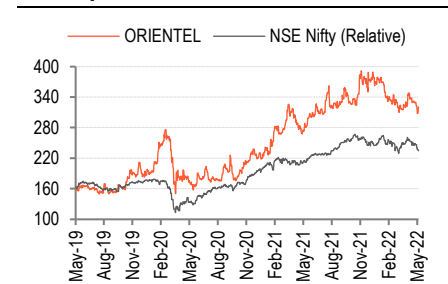
Source: NSE | Price as of 10 May 2022

**Key financials**

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	24,484	29,230	33,567
EBITDA (Rs mn)	2,313	2,951	3,474
Adj. net profit (Rs mn)	1,266	1,514	1,903
Adj. EPS (Rs)	6.0	7.1	8.9
Consensus EPS (Rs)	6.0	8.5	10.1
Adj. ROAE (%)	25.4	25.4	26.3
Adj. P/E (x)	53.9	45.1	35.9
EV/EBITDA (x)	29.3	22.6	19.2
Adj. EPS growth (%)	46.7	19.6	25.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly and annual performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue (post indirect taxes)</b>	<b>7,533</b>	<b>8,017</b>	<b>(6.0)</b>	<b>6,784</b>	<b>11.1</b>	<b>24,484</b>	<b>20,326</b>	<b>20.5</b>
Cost of Revenue	(5,437)	(5,775)	(5.9)	(4,912)	10.7	(17,666)	(14,210)	24.3
<b>Gross Profit</b>	<b>2,097</b>	<b>2,242</b>	<b>(6.5)</b>	<b>1,872</b>	<b>12.0</b>	<b>6,818</b>	<b>6,117</b>	<b>11.5</b>
Gross Margin (%)	27.8	28.0	(13bps)	27.6	24bps	27.8	30.1	(225bps)
Employee Benefits Expense	(460)	(477)	(3.7)	(487)	(5.5)	(1,905)	(1,792)	6.3
Other Expense	(831)	(796)	4.3	(721)	15.2	(2,600)	(2,130)	22.1
Other Income	0	0	-	0	-	0	0	-
<b>EBITDA</b>	<b>807</b>	<b>968</b>	<b>(16.7)</b>	<b>665</b>	<b>21.4</b>	<b>2,313</b>	<b>2,195</b>	<b>5.4</b>
EBITDA margin (%)	10.7	12.1	(137bps)	9.8	90.9bps	12.1	11.2	87bps
Depreciation & Amortization	(119)	(109)	9.0	(118)	0.6	(471)	(432)	9.1
<b>EBIT</b>	<b>687</b>	<b>859</b>	<b>(20.0)</b>	<b>546</b>	<b>25.9</b>	<b>1,842</b>	<b>1,764</b>	<b>4.5</b>
EBIT margin (%)	9.1	10.7	(159bps)	8.1	107bps	7.5	8.7	(115bps)
Interest Income	0	0	-	0	-	0	0	-
Interest Expense	(60)	(54)	10.4	(46)	29.9	(203)	(207)	(2.1)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	27	40	(32.8)	9	201.1	58	63	(7.3)
Forex	0	0	-	0	-	0	0	-
<b>Total Financials</b>	<b>(33)</b>	<b>(14)</b>	<b>133.6</b>	<b>(37)</b>	<b>(11.4)</b>	<b>(145)</b>	<b>(145)</b>	<b>0.1</b>
<b>Income after financial items</b>	<b>655</b>	<b>845</b>	<b>(22.5)</b>	<b>509</b>	<b>28.5</b>	<b>1,698</b>	<b>1,619</b>	<b>4.9</b>
Margin (%)	8.7	10.5	(185bps)	7.5	118bps	6.9	8.0	(103bps)
Associate Income	0	0	-	0	-	0	0	-
<b>Pretax income</b>	<b>655</b>	<b>845</b>	<b>(22.5)</b>	<b>509</b>	<b>28.5</b>	<b>1,698</b>	<b>1,619</b>	<b>4.9</b>
Total Non-Recurring	0	0	-	0	-	0	0	-
Reported Pretax	655	845	(22.5)	509	28.5	1,698	1,619	4.9
Taxation	0	0	-	0	-	0	0	-
Total	(167)	(218)	(23.5)	(129)	29.9	(431)	(422)	2.3
% of pretax income before Associates	25	26	(1.3)	25	0.0	102	99	0.0
<b>Net income before minorities</b>	<b>488</b>	<b>627</b>	<b>(22.2)</b>	<b>381</b>	<b>28.1</b>	<b>1,266</b>	<b>1,197</b>	<b>5.8</b>
Minorities	0	0	-	0	-	0	0	-
<b>Net income after minorities</b>	<b>488</b>	<b>627</b>	<b>(22.2)</b>	<b>381</b>	<b>28.1</b>	<b>1,266</b>	<b>1,197</b>	<b>5.8</b>
Tax on non-core	0	0	-	0	-	0	0	-
<b>Core net income</b>	<b>488</b>	<b>627</b>	<b>(22.2)</b>	<b>381</b>	<b>28.1</b>	<b>1,266</b>	<b>1,197</b>	<b>5.8</b>
Net margin (%)	6.5	7.8	(134bps)	5.6	86bps	5.2	5.9	(72bps)

Source: Company, BOBCAPS Research

**Fig 2 – Segment performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue</b>								
Electrical Consumer Durables	5,741	6,456	(11.1)	4,813	19.3	17,993	15,139	18.9
Lightning & Switchgear	1,792	1,561	14.8	1,971	(9.1)	6,491	5,187	25.1
<b>Segment Profit</b>								
Electrical Consumer Durables	736	926	(20.6)	534	37.9	2,012	2,052	(2.0)
Lightning & Switchgear	281	225	24.8	289	(2.9)	949	692	37.0
<b>Segment Margin (%)</b>								
Electrical Consumer Durables	12.8	14.3	(153bps)	11.1	173bps	11.2	13.6	(237bps)
Lightning & Switchgear	15.7	14.4	125bps	14.7	99bps	14.6	13.3	127bps

Source: Company, BOBCAPS Research

## Valuation methodology

The shift to energy-saving BLDC fans together with growing export opportunities augurs well for ORIENTEL. After a +100% rally since the pandemic trough of May'20, the stock has seen some correction in recent months due to inflation fears. Nevertheless, at 36x FY24E EPS, it is still trading close to peak valuations since listing. We value the stock at 40x FY24E EPS, a 7% discount to its one-year average, for a TP of Rs 350 and assume coverage with a HOLD rating.

**Fig 3 – Estimates Vs. Consensus**

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	29.2	33.6	28.7	32.2	1.8	4.3
EBITDA	3.0	3.5	3.0	3.7	(2.7)	(5.8)
EBIT	2.4	2.8	2.6	3.2	(8.4)	(11.0)
Pretax Income	2.0	2.5	2.3	2.9	(13.6)	(11.8)
Net Income	1.5	1.9	1.7	2.2	(13.3)	(11.5)
EPS (Rs)	7.1	8.9	8.2	10.0	(12.8)	(10.3)

Source: Bloomberg, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected growth in fans due to market share gains or higher ASP driven by an increased share of premium/BLDC fans,
- increased export opportunities for fans, and
- entry into a new consumer product category.

Key downside risks to our estimates are:

- a drop in volumes due to a weak market or loss of market share,
- continued raw material inflation which could dent demand, and
- increased freight and logistics cost which could impact export opportunities.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.5	3,470	3,471	HOLD
Blue Star	BLSTR IN	1.3	1,027	1,200	HOLD
Crompton Greaves	CROMPTON IN	2.8	346	621	BUY
Dixon Technologies	DIXON IN	2.8	3,680	5,431	HOLD
Havells India	HAVL IN	9.9	1,224	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	321	350	HOLD
Polycab India	POLYCAB IN	4.6	2,394	2,401	HOLD
V-Guard Industries	VGRD IN	1.1	201	321	BUY
Voltas	VOLT IN	4.2	989	1,250	BUY
Whirlpool India	WHIRL IN	2.6	1,565	2,901	BUY

Source: BOBCAPS Research, NSE | Price as of 10 May 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>20,328</b>	<b>19,993</b>	<b>24,484</b>	<b>29,230</b>	<b>33,567</b>
EBITDA	1,477	1,864	2,313	2,951	3,474
Depreciation	(401)	(432)	(471)	(576)	(634)
EBIT	1,076	1,433	1,842	2,375	2,840
Net interest inc./(exp.)	(242)	(179)	(203)	(413)	(362)
Other inc./(exp.)	22	35	58	58	58
Exceptional items	287	331	0	0	0
EBT	1,143	1,619	1,698	2,019	2,537
Income taxes	(357)	(422)	(431)	(505)	(634)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>786</b>	<b>1,197</b>	<b>1,266</b>	<b>1,514</b>	<b>1,903</b>
Adjustments	(287)	(334)	0	0	0
<b>Adjusted net profit</b>	<b>499</b>	<b>863</b>	<b>1,266</b>	<b>1,514</b>	<b>1,903</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	3,305	5,191	4,495	5,366	6,162
Other current liabilities	3,598	5,594	4,800	5,671	6,467
Provisions	171	137	226	226	226
Debt funds	1,514	614	675	2,314	397
Other liabilities	276	226	370	370	370
Equity capital	212	212	212	212	212
Reserves & surplus	3,382	4,344	5,201	6,291	7,740
Shareholders' fund	3,594	4,557	5,413	6,503	7,953
<b>Total liab. and equities</b>	<b>9,604</b>	<b>11,624</b>	<b>11,883</b>	<b>15,483</b>	<b>15,811</b>
Cash and cash eq.	75	2,576	1,505	4,093	3,357
Accounts receivables	3,637	3,552	3,904	4,660	5,352
Inventories	2,865	2,492	3,261	3,684	4,230
Other current assets	427	345	280	280	280
Investments	0	0	0	0	0
Net fixed assets	1,838	1,716	1,900	1,750	1,592
CWIP	0	0	0	0	0
Intangible assets	131	230	234	234	234
Deferred tax assets, net	214	263	263	263	263
Other assets	418	451	536	519	503
<b>Total assets</b>	<b>9,604</b>	<b>11,624</b>	<b>11,883</b>	<b>15,483</b>	<b>15,811</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>1,292</b>	<b>4,273</b>	<b>114</b>	<b>2,137</b>	<b>2,398</b>
Capital expenditures	(526)	(359)	(427)	(409)	(461)
Change in investments	0	0	0	0	0
Other investing cash flows	1	(1,169)	1,176	(1,170)	0
<b>Cash flow from investing</b>	<b>(525)</b>	<b>(1,529)</b>	<b>749</b>	<b>(1,579)</b>	<b>(461)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	1,639	(1,917)
Interest expenses	0	0	0	(385)	(385)
Dividends paid	(294)	(265)	(424)	(424)	(453)
Other financing cash flows	(440)	(906)	52	(829)	2,755
<b>Cash flow from financing</b>	<b>(734)</b>	<b>(1,171)</b>	<b>(372)</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(245)</b>	<b>1,330</b>	<b>99</b>	<b>1,418</b>	<b>(736)</b>
<b>Closing cash &amp; cash eq.</b>	<b>75</b>	<b>2,576</b>	<b>2,675</b>	<b>4,093</b>	<b>3,357</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	3.7	5.6	6.0	7.1	8.9
Adjusted EPS	2.3	4.1	6.0	7.1	8.9
Dividend per share	1.2	2.0	2.0	2.1	2.7
Book value per share	16.9	21.5	25.5	30.6	37.5

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.4	3.5	2.8	2.3	2.0
EV/EBITDA	46.9	37.2	29.3	22.6	19.2
Adjusted P/E	136.9	79.1	53.9	45.1	35.9
P/BV	19.0	14.9	12.6	10.5	8.6

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	58.3	67.0	74.6	75.0	75.0
Interest burden (PBT/EBIT)	79.5	89.9	92.1	85.0	89.3
EBIT margin (EBIT/Revenue)	5.3	7.2	7.5	8.1	8.5
Asset turnover (Rev./Avg TA)	219.9	188.4	208.3	213.6	214.5
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.4	2.3	2.2
<b>Adjusted ROAE</b>	<b>15.0</b>	<b>21.2</b>	<b>25.4</b>	<b>25.4</b>	<b>26.3</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	10.9	(1.7)	22.5	19.4	14.8
EBITDA	32.4	26.2	24.1	27.6	17.7
Adjusted EPS	26.3	73.0	46.7	19.6	25.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	7.3	9.3	9.4	10.1	10.4
EBIT margin	5.3	7.2	7.5	8.1	8.5
Adjusted profit margin	2.5	4.3	5.2	5.2	5.7
Adjusted ROAE	15.0	21.2	25.4	25.4	26.3
ROCE	27.8	30.4	32.6	33.1	34.0
<b>Working capital days (days)</b>					
Receivables	65	65	58	58	58
Inventory	51	45	49	46	46
Payables	59	95	67	67	67
<b>Ratios (x)</b>					
Gross asset turnover	8.4	7.3	8.0	8.4	8.6
Current ratio	1.3	1.4	1.6	1.7	1.8
Net interest coverage ratio	4.4	8.0	9.1	5.7	7.9
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>	<b>0.0</b>

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

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

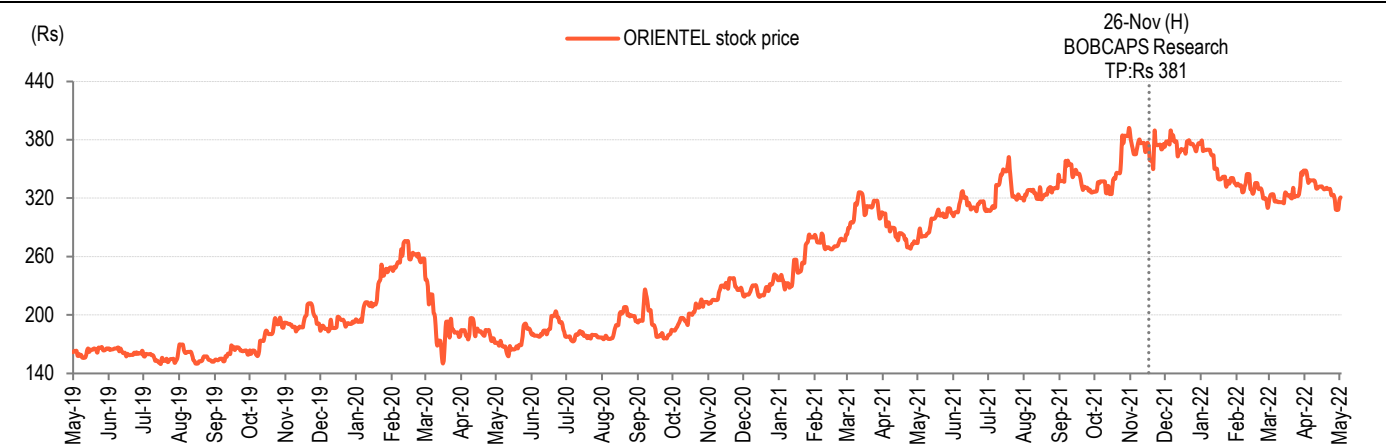
**HOLD** – Expected return from -6% to +15%

**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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