

CMP: INR 240

Rating: ACCUMULATE

Target Price: INR 271

Stock Info

BSE	541301
NSE	ORIENTELEC
Bloomberg	ORIENTAL:IN
Reuters	ORIENTAL.BO
Sector	Consumer Durables
Face Value (INR)	1
Equity Capital (INR cr)	21
Mkt Cap (INR cr)	5,107
52w H/L (INR)	291 / 216
Avg Yearly Volume (in 000')	276

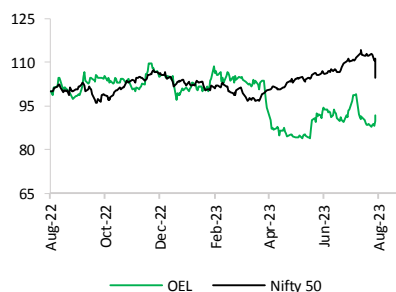
Shareholding Pattern %

(As on Jun, 2023)

Promoters	38.30
DII	27.87
FII	5.50
Public & Others	28.32

Stock Performance (%)	3m	6m	12m
OEL	8.6	-15.2	-8.0
NIFTY	1.4	3.1	4.5

OEL Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-422548871

Balasubramanian A
bala@arihantcapital.com
022-67114780

Orient Electric Ltd reported numbers, Q1FY24 revenue grew by 13.5% YoY (+7.3% QoQ) to INR 706cr vs our estimates of INR 556cr, backed by ECD portfolio respite headwinds. Gross Profit stood at INR 216cr (+25.2% YoY/+16% QoQ); above our estimates of INR 157cr; Gross margins improved by 285 bps YoY (up by 232 bps QoQ) to 30.7% vs 27.8% in Q1FY23. The margin improved backed by product mix changes with hero products, Project Sanchay, and lower commodity prices. The raw material cost in terms of sales stood at 69.3% vs 72.2% in Q1FY23. EBITDA stood at INR 44cr (+15.3% YoY/-5.1% QoQ); above our estimates of INR 33cr. EBITDA margin improved by 10 bps YoY (down by 81 bps QoQ) to 6.2% vs 6.1% in Q1FY23. EBITDA margin moderated due to an increase in gross margin offset by an increase in employee costs. PAT stood at INR 20cr (+3.9% YoY/ -20% QoQ); above our estimates of INR 15cr, PAT margin contracted by 26 bps YoY (down by 95 bps QoQ) to 2.8% vs 3% in Q1FY23.

Key Highlights

Witnessed traction in the ECD segment: Electric Consumer Durables (ECD) revenue stood at INR 515cr (+15.6% YoY/+12.5% QoQ); EBIT Stood at INR 49cr (+32.2% YoY/+10.4% QoQ). EBIT margin improved by 120 bps YoY (down by 18 bps QoQ) to 9.5% vs 8.3% in Q1FY23. The company has repositioned fan movement in different trajectories in the marketplace. The company has launched 3 BLDC fans in online and added more colour variants. The company has loaded-rated fans and completely kicked out the unrated fans. The company is focused on South India for Fans and expansion of overall distribution, Strengthening sales infra, and continuous focus on Direct to Market (DTM). Coolers demand has been impacted due to unseasonal rains and weather in North and West markets. Small appliances grew 32% YoY due to improvement in consumer demand revival in Tier 2 & 3 cities.

Lighting and Switchgear segment witnessed sustained growth: Lighting & Switchgears revenue stood at INR 191cr (+8.1% YoY/-4.8 QoQ); EBIT Stood at INR 31cr (+32.1% YoY/-21.4% QoQ). EBIT margin improved by 293 bps YoY (down by 340 bps QoQ) to 16.1% vs 13.2% in Q1FY23. B2B grew by 40% YoY, while B2C lighting growth remain soft due to stressed market conditions and price reductions. Switchgears witnessed traction backed by real estate B2B project wins. The company has continued channel partner additions in switchgear and house wires. Housing witnessed traction in Punjab and Bihar. The company has launched Razor Panel, Rainbow Panel – Square, Prism Surface, and Flexi Spotlight.

Focused on margin improvement through cost reduction initiatives: The company has saved INR 60cr in FY23 and INR 15cr in Q1FY24 through the Spark Sanchay program and further cost savings are expected going forward. The incremental EBITDA of INR 50cr per annum is expected due to cost reduction initiatives.

Outlook & Valuation: ECD segment witnessed strong growth backed by fans, water heaters, and small appliances, and expected new launches in BLDC fans would improve further going forward. The Light & Switchgear segment is expected to continue momentum backed by B2B projects, traction in switchgear, housing wires, and new launches. Capacity expansion and expansion of the existing distribution models, direct dealer approach, new product launches, the ability to change the product mix, and consumer demand will drive growth going forward. We are maintaining an “ACCUMULATE” rating at a TP of INR 271 per share; valued at PE multiple 35x and its FY26E EPS of INR 7.7; an upside of 12.7%.

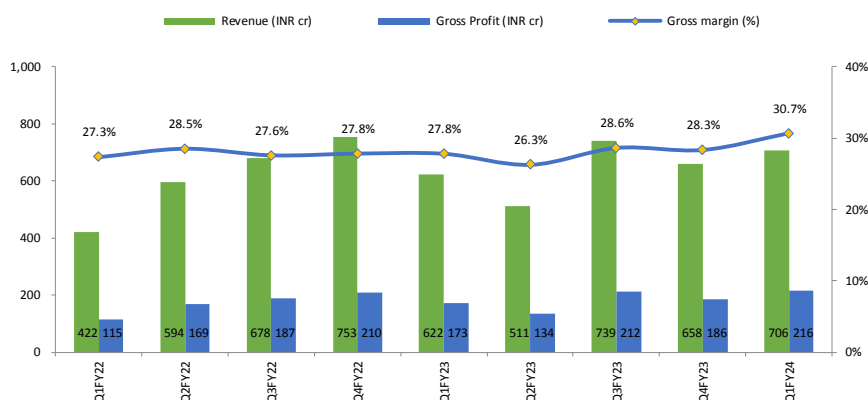
Q1FY24 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q1FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	622	658	706	13.5%	7.3%
Net Raw Materials	449	471	489	9.0%	3.8%
Employee Cost	47	45	67	43.4%	48.8%
Other Expenses	88	95	105	19.7%	10.8%
EBITDA	38	46	44	15.3%	-5.1%
EBITDA Margin (%)	6.1%	7.0%	6.2%	10 bps	-81 bps
Depreciation	13	14	14		
Interest expense	5	6	6		
Other income	5.2	6.3	2.9		
Profit before tax	25	33	27		
Taxes	6	8	7		
PAT	19	25	20	3.9%	-20.0%
PAT Margin (%)	3.0%	3.7%	2.8%	-26 bps	-95 bps
Other Comprehensive income	(0.1)	0.8	0.0		
Net profit	19	25	20	4.6%	-22.5%
Net profit Margin (%)	3.0%	3.9%	2.8%	-24 bps	-107 bps
EPS (INR)	0.9	1.2	0.9		

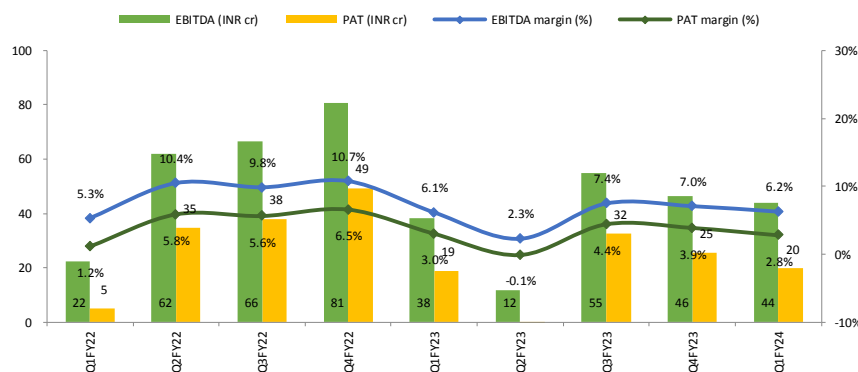
Source: Company Reports, Arianth Capital Research

Exhibit 1: Gross margins improved by 285 bps YoY to 30.7% in Q1FY24, due to product mix changes with hero products, Project Sanchay, and lower commodity prices.



Source: Company Reports, Arianth Capital Research

Exhibit 2: EBITDA margins improved by 10bps YoY to 6.2% in Q1FY24, due to an increase in gross margin offset by an increase in employee costs.

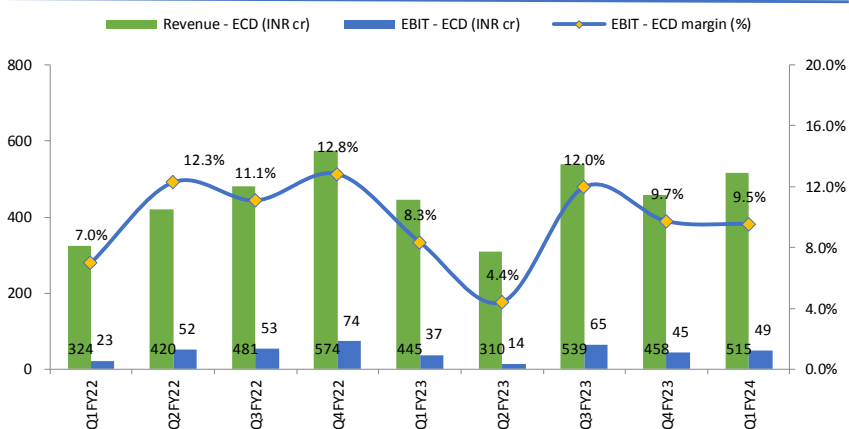


Source: Company Reports, Arianth Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 515cr (+15.6% YoY/+12.5% QoQ); backed by broad based growth across categories.
- EBIT Stood at INR 49cr (+32.2% YoY/+10.4% QoQ). EBIT margin improved by 120 bps YoY (down by 18 bps QoQ) to 9.5% vs 8.3% in Q1FY23.
- Fans grew by 10% YoY and volume growth witnessed 10% YoY led by reduction in channel inventory and continued thrust of strategic initiatives. Premium segment accounts for ~32% of fans sales and company launched three BLDC fans to strengthen fans portfolio.
- Water heaters grew by 23% YoY, while Air Coolers sales impacted due to unseasonal rains across North and West markets Small appliances grew 32% YoY due to improvement in consumer demand revival in Tier 2 & 3 cities.

Exhibit 3: ECD revenue grew by 15.6% YoY to INR 515cr; backed by fans, water heaters and small appliances.

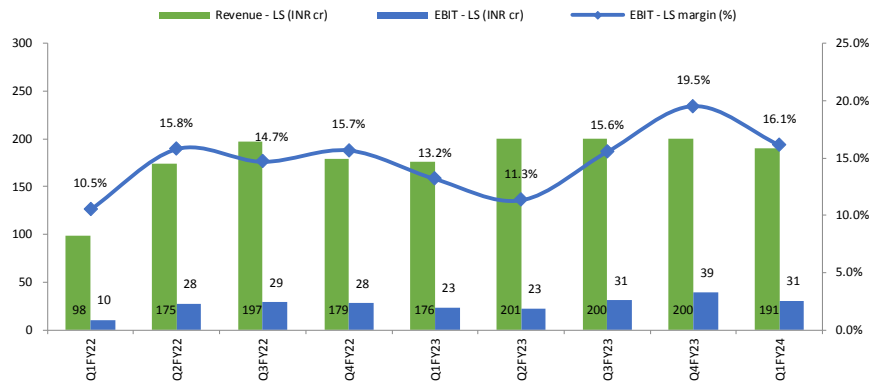


Source: Company Reports, Arianth Capital Research

Lighting & Switchgear segment (L&S) Segment

- Lighting & Switchgears revenue stood at INR 191cr (+8.1% YoY/-4.8 QoQ); despite lower collections and price reduction in lamps due to lower cost of DoB technology passed on a market.
- EBIT Stood at INR 31cr (+32.1% YoY/-21.4% QoQ). EBIT margin improved by 293 bps YoY (down by 340 bps QoQ) to 16.1% vs 13.2% in Q1FY23. The margin improvement led by better product mix and raw material cost reduction.
- B2B grew by 40% YoY, while B2C lighting growth remain soft due to stressed market conditions and price reductions.
- Switchgears witnessed traction backed by real estate B2B project wins.
- The company has continued channel partner additions in switchgears and house wires. Housing witnessed traction in Punjab and Bihar.
- The company has launched Razor Panel, Rainbow Panel – Square, Prism Surface, Flexi Spotlight.

Exhibit 4: L&S margins improved by 293 bps YoY to 16.1% due to better product mix and reduction raw material costs.



Source: Company Reports, Aриhant Capital Research

Q1FY24 Concall Highlights

Revenue

- The company is focused to reach a topline of \$1bn going forward.

Margin

- Gross margin stood at 30.7% (+285 bps YoY/ improvement backed by product mix changes with hero products, Project Sanchay, and lower commodity prices.
- EBITDA margin stood at 6.2% YoY (+10 bps YoY); due to an increase in gross margin offset by an increase in employee costs.

Capex

- The Greenfield plant in Hyderabad is ready for commissioning and waiting for the arrival of a few technicians from foreign vendors of automated lines. The commissioning is expected to complete in the next few weeks.
- The company has incurred investments of INR 130cr to 140cr through internal accruals.
- The company sold the land parcel for INR 35cr and took the land for better quality, vicinity land from the government.

B2B and B2C

- B2B witnessed 40% YoY growth while B2C remained flat due to stressed market conditions and price reductions in Q1FY24.
- The company also focused on B2G and projects are coming from government departments, municipalities, and smart cities.

ECD

- The company has repositioned fan movement in different trajectories in the marketplace. The company has launched 3 BLDC fans in online and added more color variants.
- The company has loaded-rated fans and completely kicked out the unrated fans.
- Coolers demand has been impacted due to unseasonal rains and weather in North and West markets.
- Small appliances grew 32% YoY due to improvement in consumer demand revival in Tier 2 & 3 cities.

Lighting and Switchgear

- Switchgears witnessing traction due to B2B project wins in Real-estate sector.
- Housing wires witnessed momentum in Punjab and Bihar.
- In the lighting business, market price erosion was witnessed in the B2C category.

E-Commerce and Digital

- E-commerce and modern retails grew by 58% YoY (+28% QoQ) due to a small base. The revenue share is expected to move from single digit to double-digit going forward.
- Digital revenue witnessed 58% YoY growth in Q1FY24.

Q1FY24 Concall Highlights

Employee cost

- Peoples cost is around IN 200cr in FY23 and expected around INR 240cr in FY24. Consultant’s costs are heavy during the period of engagement.
- The employee cost increased due to hiring in the wire business.

Other highlights

- Direct to Market (DTM) grew by 107% YoY, gaining regional markets share.
- The power segment witnessed growth of 8% YoY in Q1FY24.
- Exports grew by 38% YoY in Q1FY24 and strong sales were witnessed in Sudan, Africa, Srilanka, etc.
- Working capital days have been reduced from 25 days to 13 days in Q1FY24.
- The company has replaced master distributors with a go-to-market strategy.

Exhibit 5: Three new BLDC fans launched in Q1FY24.



Source: Company Reports, Arihant Capital Research

Exhibit 6: New Launches in Lighting and Water Heaters in Q1FY24.



Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	2,062	2,033	2,448	2,529	2,762	3,046	3,369
Net Raw Materials	1,409	1,421	1,767	1,824	1,986	2,184	2,389
Employee Cost	198	179	190	193	238	247	259
Other Expenses	278	213	260	361	337	365	407
EBITDA	176	220	231	151	201	251	314
EBITDA Margin (%)	8.6%	10.8%	9.4%	6.0%	7.3%	8.2%	9.3%
Depreciation	(40)	(43)	(47)	(54)	(57)	(63)	(69)
Interest expense	(26)	(21)	(20)	(22)	(26)	(31)	(33)
Other income	4	6	6	27	8	9	10
Profit before tax	114	162	170	102	126	166	222
Taxes	(36)	(42)	(43)	(26)	(32)	(43)	(58)
PAT	79	120	127	76	94	123	164
PAT Margin (%)	3.8%	5.9%	5.2%	3.0%	3.4%	4.0%	4.9%
Other Comprehensive income	(0)	(0)	0	1	-	-	-
Net profit	79	119	127	76	94	123	164
EPS (INR)	3.7	5.6	6.0	3.6	4.4	5.8	7.7

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	21	21	21	21	21	21	21
Reserves	338	434	520	563	626	707	817
Net worth	359	456	541	585	647	729	838
Provisions	46	54	53	50	53	50	55
Debt	190	95	101	139	145	155	163
Other non-current liabilities	10	9	13	11	14	15	17
Total Liabilities	606	614	709	784	858	948	1,073
Fixed assets	130	130	142	127	303	308	307
Capital Work In Progress	3	3	2	83	3	4	4
Other Intangible assets	13	23	23	22	22	22	22
Investments	7	9	10	15	14	15	17
Other non current assets	81	76	90	133	102	113	125
Net working capital	363	115	291	238	234	251	269
Inventories	287	249	326	285	310	329	347
Sundry debtors	389	384	416	372	454	501	554
Other current assets	42	30	28	63	38	42	46
Sundry creditors	(330)	(519)	(449)	(453)	(526)	(574)	(628)
Other current liabilities & Prov	(24)	(30)	(29)	(28)	(41)	(46)	(51)
Cash	7	258	151	164	180	235	330
Other Financial Assets	1	1	0	2	1	1	1
Total Assets	606	614	709	784	858	948	1,073

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	114	162	170	102	126	166	222
Depreciation	40	43	47	54	57	63	69
Tax paid	(36)	(42)	(43)	(26)	(32)	(43)	(58)
Working capital Δ	(36)	248	(177)	53	4	(17)	(17)
Operating cashflow	82	411	(3)	182	155	169	217
Capital expenditure	(57)	(43)	(59)	(119)	(153)	(69)	(69)
Free cash flow	26	368	(61)	63	2	100	148
Equity raised	4	3	1	10	-	0	-
Investments	(1)	(2)	(0)	(5)	1	(1)	(2)
Others	(65)	(4)	(14)	(43)	32	(11)	(12)
Debt financing/disposal	24	(95)	6	38	6	10	8
Dividends paid	(29)	(27)	(42)	(42)	(31)	(41)	(55)
Other items	17	6	4	(6)	6	(1)	7
Net Δ in cash	(24)	250	(107)	14	16	56	94
Opening Cash Flow	32	7	258	151	164	180	235
Closing Cash Flow	7	258	151	164	180	235	330

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)							
Revenue growth	10.6%	-1.4%	20.5%	3.3%	9.2%	10.3%	10.6%
Op profit growth	24.9%	24.4%	5.4%	-34.7%	33.2%	24.7%	25.4%
Profitability ratios (%)							
OPM	8.6%	10.8%	9.4%	6.0%	7.3%	8.2%	9.3%
Net profit margin	3.8%	5.9%	5.2%	3.0%	3.4%	4.0%	4.9%
RoCE	17.5%	22.5%	21.8%	12.6%	14.0%	16.4%	19.0%
RoNW	23.6%	29.4%	25.4%	13.5%	15.2%	17.8%	21.0%
RoA	13.0%	19.5%	17.9%	9.7%	10.9%	12.9%	15.3%
Per share ratios (INR)							
EPS	3.7	5.6	6.0	3.6	4.4	5.8	7.7
Dividend per share	1.4	1.2	2.0	2.0	1.5	1.9	2.6
Cash EPS	5.6	7.7	8.2	6.1	7.1	8.7	11.0
Book value per share	16.9	21.5	25.5	27.5	30.4	34.2	39.4
Valuation ratios (x)							
P/E	64.9	42.7	40.2	66.9	54.5	41.7	31.0
P/CEPS	42.9	31.3	29.3	39.5	33.8	27.5	21.8
P/B	14.2	11.2	9.4	8.7	7.9	7.0	6.1
EV/EBITDA	29.9	22.4	21.8	33.6	25.2	20.0	15.7
Payout (%)							
Dividend payout	37.4%	22.1%	33.5%	56.0%	33.5%	33.5%	33.5%
Tax payout	31.2%	26.0%	25.4%	25.6%	25.4%	26.0%	26.0%
Liquidity ratios							
Debtor days	70	69	60	57	55	57	57
Inventory days	71	69	59	61	55	53	52
Creditor days	66	86	80	69	70	72	72
WC Days	76	53	39	49	39	39	37
Leverage ratios (x)							
Interest coverage	5.2	8.5	9.1	4.4	5.4	6.1	7.5
Net debt / equity	0.5	-0.4	-0.1	-0.0	-0.1	-0.1	-0.2
Net debt / op. profit	1.0	-0.7	-0.2	-0.2	-0.2	-0.3	-0.5

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 7: Revenue growth is expected to grow at CAGR of 10% over the period of FY23-26E.

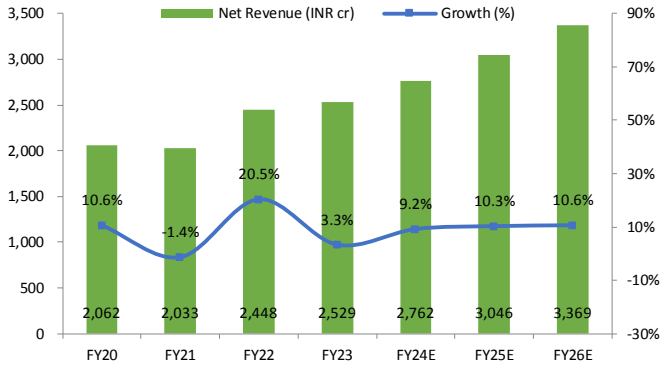


Exhibit 8: Gross Margins are expected to improve gradually due to Raw material cost optimization, better realization and product mix.

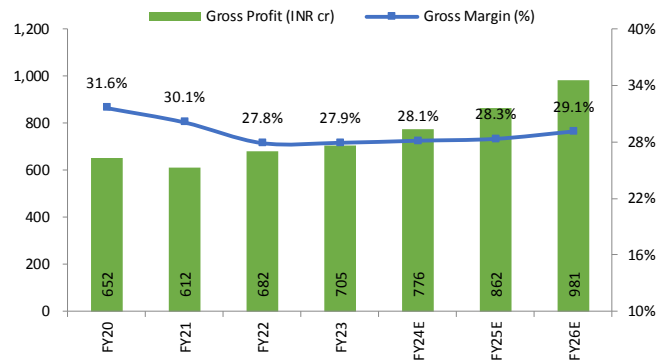


Exhibit 9: Cost reduction initiatives leads to additional EBITDA of INR 50cr per annum going forward.

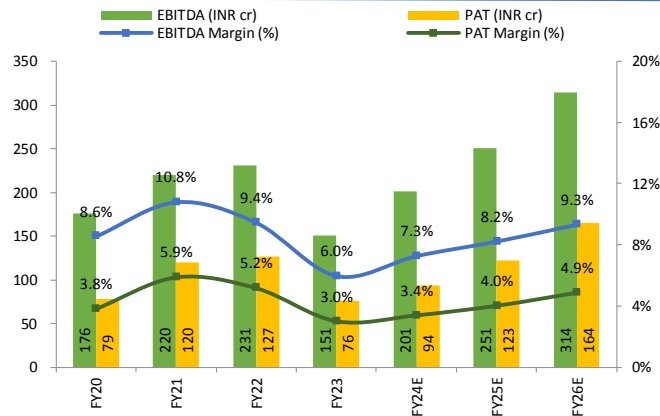


Exhibit 10: Return ratios is expected to improve from FY24 onwards.

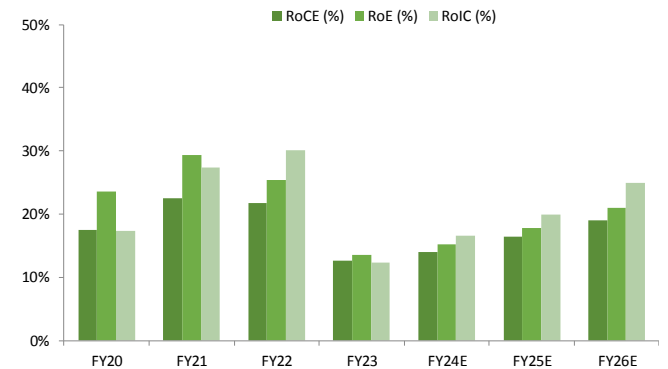


Exhibit 11: Working capital days to be improve

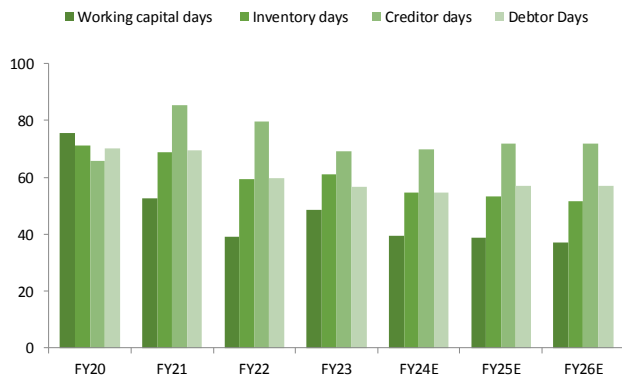
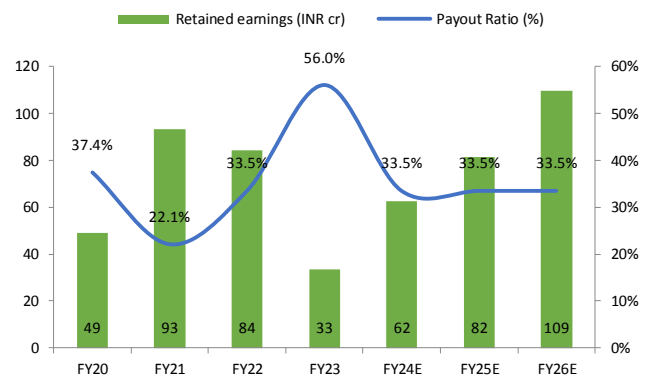


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880