

Lighting & Switchgears witnessed margin improvement.

CMP: INR 274

Rating: REDUCE

Target Price: INR 251

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)	5,847
52w H/L (INR)	297 / 189
Avg Yearly Volume (in 000')	485.5

Shareholding Pattern %

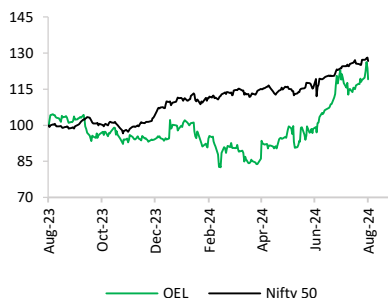
(As on Jun, 2024)

Promoters	38.30
DII	27.73
FII	6.56
Public & Others	27.36

Stock Performance (%)

	3m	6m	12m
OEL	21.4	24.5	19.0
NIFTY	9.1	13.1	26.6

OEL Vs Nifty



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Orient Electric Ltd reported numbers, Q1FY25 revenue grew by 7% YoY (-4.2% QoQ) to INR 755cr; above estimates of INR 770cr. Gross Profit stood at INR 250cr (+15.7% YoY/+3.2% QoQ); above our estimates of INR 237cr; Gross margins improved by 249 bps YoY (up by 237 bps QoQ) to 33.1% vs 30.7% in Q1FY24. The raw material cost in terms of sales stood at 66.9% vs 69.3% in Q1FY24. EBITDA stood at INR 40cr (-8.9% YoY/+30.3% QoQ); below our estimates of INR 48cr. EBITDA margin contracted by 93 bps YoY (up by 140 bps QoQ) to 5.3% vs 6.2% in Q1FY24 led by higher employee and other expenses in-terms of sales. Employee cost in terms of sales stood at 10.2% vs 9.5% in Q1FY24. Other expenses in terms of sales stood at 17.6% vs 14.9% in Q1FY24. PAT stood at INR 14cr (-27.2% YoY/+12% QoQ); below our estimates of INR 23cr, PAT margin contracted by 89 bps YoY (up by 27 bps QoQ) to 1.9% vs 2.8% in Q1FY24.

Key Highlights

Continued growth led by summer season for fans & coolers: Electric Consumer Durables (ECD) revenue stood at INR 545cr (+5.8% YoY/-4.3% QoQ); EBIT Stood at INR 49cr (+0.5% YoY/+6.2% QoQ). EBIT margin contracted by 48 bps YoY (up by 90 bps QoQ) to 9.1% vs 9.5% in Q1FY24. Ceiling fans and coolers witnessed strong demand due to heat waves in several parts of the country. The growth of TPW fans is muted due to limitations. Hyderabad plant commenced production on May 24 and the company is focused on stabilization & scale-up in the coming quarters.

Witnessed strong margin improvement in L&S: Lighting & Switchgears (L&S) revenue stood at INR 210cr (+10.2% YoY/-3.9% QoQ); EBIT Stood at INR 39cr (+26.9% YoY/+38.8% QoQ). EBIT margin improved by 245 bps YoY (up by 572 bps QoQ) to 18.6% vs 16.1% in Q1FY24. The value mix in the C-Lum business helped with margin improvement. Lighting business witnessed double-digit volume growth, despite industry-wide value contraction. The value-added and differentiated SKUs are gaining traction in Luminaries. Switchgears and wires witnessed double-digit growth in Q1FY25. Post-election, large inquiries, and tenders are coming for projects. B2B business witnessed double-digit value growth despite muted inquiries in tenders due to general elections.

DTM expansion, E-commerce, Cost savings, and new launches remain on track: DTM and non-DTM states and other channels witnessed high teen growth for the fans market in Q1FY25. DTM growth stood at 23% YoY in Q1FY25. The company has added J&K and Himachal to DTM. The cost efficiency program "Spark Sanchay" resulted in cost savings of INR 13cr in Q1FY25, There is no expense towards Mckinsey. E-commerce has grown at a double-digit rate in the fans and coolers category. The company has added 250-300 stores in the regional stores accounts in Q1FY25. The company has added seven states for its direct service network and currently has 16 states.

Outlook & Valuation: ECD segment witnessed moderate growth due to capacity constraints in TPW fans, however, ceiling fans and coolers witnessed strong growth due to heatwaves in several parts of the country. The Hyderabad plant commenced operations on May-24 and the company is focused on stabilizing and scaling up in coming quarters, which will lead to additional sales going forward. L&S witnessed strong growth led by Luminaries, Switchgears, and house wires. The margin improvement witnessed in L&S is due to high-margin SKUs. The Light & Switchgear segment is expected to continue momentum backed by a change in product mix, B2B projects, traction in switchgear, housing wires, and new launches. 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 downgrading to a "REDUCE" (earlier "ACCUMULATE") rating at a TP of INR 251 per share; valued at PE multiple 40x and its FY27E EPS of INR 6.3; a downside of 8.3%.

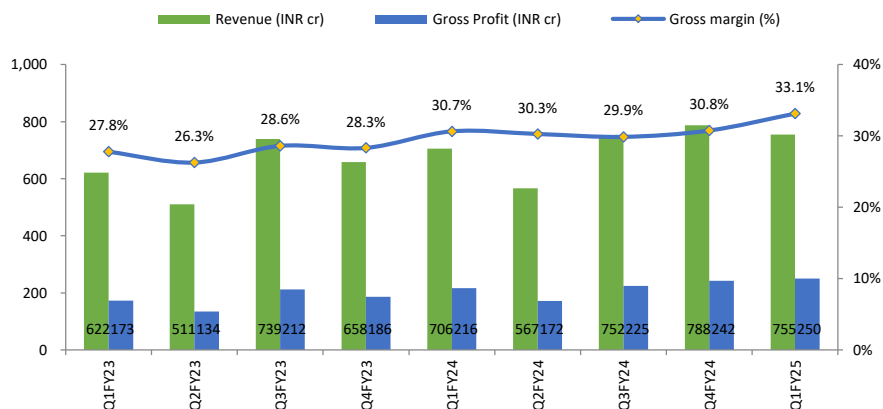
Q1FY25 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q1FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)
Revenue	706	788	755	7.0%	-4.2%
Net Raw Materials	489	545	505	3.1%	-7.4%
Gross Profit	216	242	250	15.7%	3.2%
Gross Margins (%)	30.7%	30.8%	33.1%	+249 bps	+237 bps
Employee Cost	67	70	77	14.7%	10.1%
Other Expenses	105	142	133	26.5%	-6.1%
EBITDA	44	31	40	-8.9%	30.3%
EBITDA Margin (%)	6.2%	3.9%	5.3%	-93 bps	+140 bps
Depreciation	14	15	18		
Interest expense	6	7	6		
Other income	2.9	5.0	2.5		
Profit before tax	27	13	19		
Taxes	7	1	5		
PAT	20	13	14	-27.2%	12.0%
PAT Margin (%)	2.8%	1.6%	1.9%	-89 bps	+27 bps
EPS (INR)	0.9	0.6	0.7		

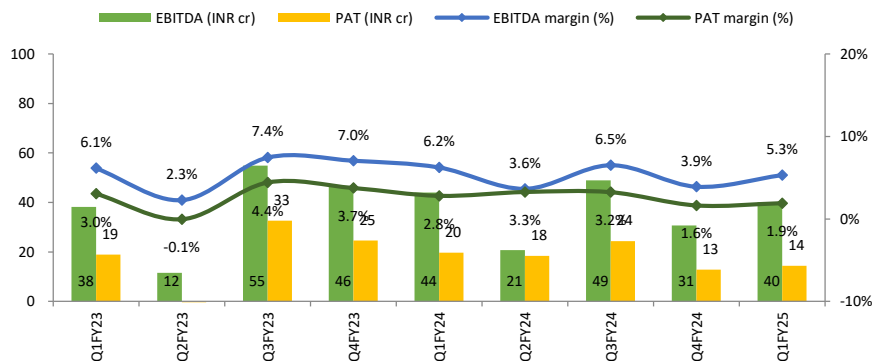
Source: Company Reports, Arihant Capital Research

Exhibit 1: Gross margins improved by 249 bps YoY (up by 237 bps QoQ) to 33.1% in Q1FY25, due to improvement in product mix, price realization and cost reductions.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA margin contracted by 93 bps YoY (up by 140 bps QoQ) to 5.3% in Q1FY25 led by higher employee and other expenses in-terms of sales.

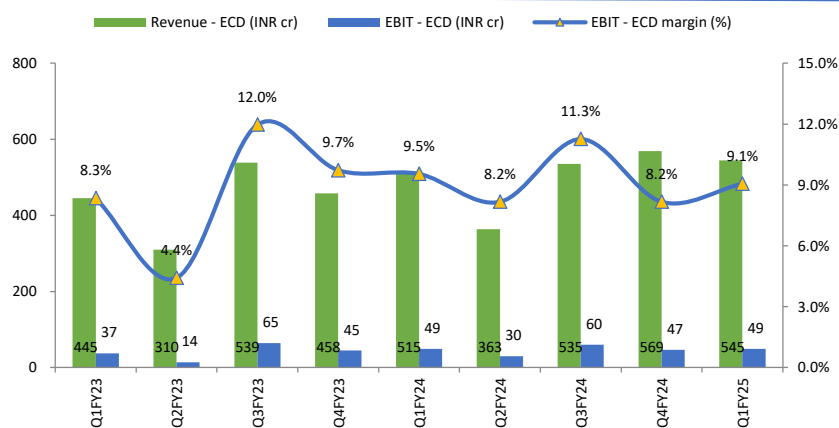


Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 545cr (+5.8% YoY/-4.3% QoQ); led by strong season sell-out and secondary sales.
- EBIT Stood at INR 49cr (+0.5% YoY/+6.2% QoQ). EBIT margin contracted by 48 bps YoY (up by 90 bps QoQ) to 9.1% vs 9.5% in Q1FY24.
- Ceiling fans and coolers witnessed strong demand due to heat wave in several parts in the country. TPW fans growth muted due to limitations.
- Hyderabad plant commenced production in May-24 and company is focused on stabilization & scale-up in coming quarters.
- DTM states grew by 23% YoY in Q1FY25.

Exhibit 3: The company has taken price hike of 3%-3.5% in Q1FY25 for fans. The strategic measures helped margin improvement on a QoQ basis.

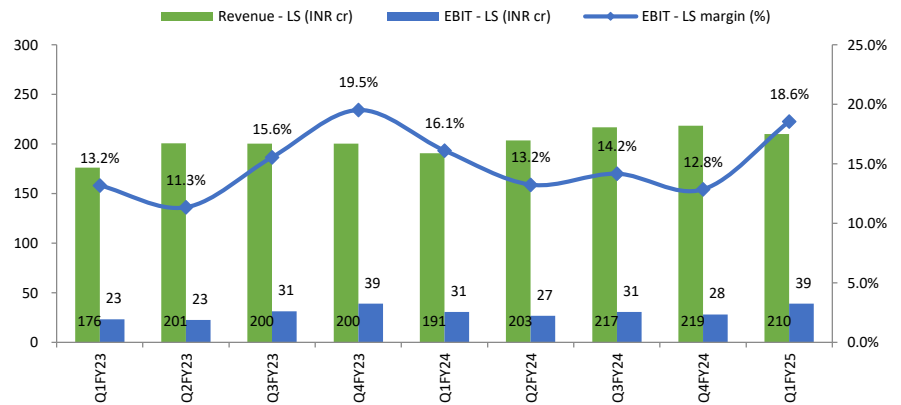


Source: Company Reports, Arianth Capital Research

Lighting & Switchgear segment (L&S) Segment

- Lighting & Switchgears revenue stood at INR 210cr (+10.2% YoY/-3.9% QoQ); led by Luminaries, Switchgears and house wires.
- EBIT Stood at INR 39cr (+26.9% YoY/+38.8% QoQ). EBIT margin improved by 245 bps YoY (up by 572 bps QoQ) to 18.6% vs 16.1% in Q1FY24, led by better product mix and high margin SKU's.
- Switchgears and house wires witnessed double-digit growth with improved sales efficiency and calibrated distribution expansion.
- P-Lum witnessed double-digit growth and inquiries are started coming in.
- The company has continued execution of key projects in Street Lighting & Façade drove significant growth with pipeline of new tenders.

Exhibit 4: EBIT margin improved by 245 bps YoY (up by 572 bps QoQ) to 18.6% in Q1FY25 led by better product mix and high margin SKU's.



Source: Company Reports, Aриhant Capital Research

Q1FY25 Concall Highlights

Hyderabad Plant

- Hyderabad plant started operating from May-24 onwards and focused to achieve cost efficiency in coming quarters.
- The facility will be fully ready for next seasonal pickup and majorly focused on south and western India markets.

Price hike

- The price hike is around 3%-3.5% for fans in Q1FY25. The hike happened in 2 tranches. 1st hike in Apr-24 and 2nd hike in Jun-24.

DTM

- In DTM, the company has added Jammu & Kashmir and Himachal. Currently, 10 states are there in DTM.
- DTM states grew 23% YoY in Q1FY25 for fans category.
- Around 1/3 of revenue is coming from DTM.

ECD

- TPW fans witnessed stronger growth in fans category.
- Around 25%-30% of TPW contribution to the overall fans in the industry. It will vary brands to brand.
- Capacity constraints impacted sales, especially TPW fans.

Lighting & Switchgear

- Switchgears and wires witnessed double digit growth in Q1FY25. The value added and differentiated SKU's are gaining traction. Post election, large inquiries and tenders are coming.
- Lighting business witnessed double digit volume growth, despite industry-wide value contraction. The value mix in C-Lum business helped for margin improvement.
- B2B business witnessed double digit value growth despite muted inquiries in tenders due to general elections.

Q1FY25 Concall Highlights

Cost Savings

- Spark Sanchay program cost savings stood at INR 13cr in Q1FY25. There is no expense towards to Mckinsey.

Exports

- The exports de-growth impact due to slight dependent of one African country, where there being geopolitical situation. The company is focusing on de-risking through other countries.

Market share

- The company is one of the top players for premium and super premium fan in-terms of market share.
- The company is witnessing consistent market share gains for lighting over past few quarters.

E-commerce

- E-commerce has grown high double digit rate in fans and coolers category.

Stores

- The company has added 250-300 stores in the regional stores accounts in Q1FY25.
- The universe of 80-84 regional accounts, the company has 40-45 accounts.

Other highlights

- The company has added seven states for direct service network and currently having 16 states.
- Some states business are run by master distributors. The company will work with hybrid models of DTM and master distribution.
- DTM and non-DTM states and other channels were witnessed high teens growth for fans market in Q1FY25.

Exhibit 5: New launches in Q1FY25.

Fans

5 New Launches in Fans

- Introduced new fans in multiple designs and across price points.
- BLDC Pro range launched with features like IoT controls, integrated lighting, and reverse rotation.

8+ Products Introduced in Lighting

- Strengthened the portfolio with the addition of new value-added products

Lighting

Source: Company Reports, Arihant Capital Research

Exhibit 6: Marketing Initiatives in Q1FY25.

Dhoni in a clutter breaking avatar

Robust digital presence and outreach

Large format print advertising to introduce new BLDC Pro range

High Impact TV properties

Presence across General

Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,033	2,448	2,529	2,812	3,102	3,539	4,085
Net Raw Materials	1,421	1,767	1,824	1,957	2,156	2,456	2,831
Employee Cost	179	190	193	259	295	329	372
Other Expenses	213	260	361	452	477	533	601
EBITDA	220	231	151	144	175	221	281
EBITDA Margin (%)	10.8%	9.4%	6.0%	5.1%	5.6%	6.2%	6.9%
Depreciation	(43)	(47)	(54)	(59)	(72)	(87)	(98)
Interest expense	(21)	(20)	(22)	(23)	(22)	(24)	(25)
Other income	6	6	27	16	17	19	22
Profit before tax	162	170	102	96	117	129	180
Taxes	(42)	(43)	(26)	(21)	(30)	(33)	(46)
PAT	120	127	76	75	87	96	134
PAT Margin (%)	5.9%	5.2%	3.0%	2.7%	2.8%	2.7%	3.3%
Other Comprehensive income	(0)	0	1	1	-	-	-
Net profit	119	127	76	77	87	96	134
EPS (INR)	5.6	6.0	3.6	3.6	4.1	4.5	6.3

Source: Company Reports, Arianth Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	21	21	21	21	21	21	21
Reserves	434	520	563	618	675	739	828
Net worth	456	541	585	639	697	761	850
Provisions	54	53	50	51	17	19	22
Debt	95	101	139	157	145	155	163
Other non-current liabilities	9	13	11	9	16	18	20
Total Liabilities	614	709	784	855	874	952	1,055
Fixed assets	130	142	127	140	390	423	439
Capital Work In Progress	3	2	83	223	4	5	5
Other Intangible assets	23	23	22	17	17	17	17
Investments	9	10	15	18	19	21	25
Other non current assets	76	90	133	125	124	142	163
Net working capital	115	291	238	227	283	322	370
Inventories	249	326	285	315	348	384	427
Sundry debtors	384	416	372	472	484	543	616
Other current assets	30	28	63	36	42	48	56
Sundry creditors	(519)	(449)	(453)	(544)	(545)	(600)	(667)
Other current liabilities & Prov	(30)	(29)	(28)	(52)	(47)	(53)	(61)
Cash	258	151	164	66	36	23	35
Other Financial Assets	1	0	2	40	1	1	1
Total Assets	614	709	784	855	874	952	1,055

Source: Company Reports, Arianth Capital Research

Du-Pont Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Interest burden (x)	0.9	0.9	1.0	1.1	1.1	1.0	1.0
EBIT margin (x)	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Asset turnover (x)	2.0	2.1	2.1	2.2	2.2	2.4	2.5
Financial leverage (x)	2.5	2.3	2.1	2.1	2.1	2.1	2.1
RoE (%)	29.4%	25.4%	13.3%	12.0%	12.6%	12.6%	16.0%

Source: Company Reports, Arianth Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	162	170	102	96	117	129	180
Depreciation	43	47	54	59	72	87	98
Tax paid	(42)	(43)	(26)	(21)	(30)	(33)	(46)
Working capital Δ	248	(177)	53	11	(56)	(38)	(48)
Operating cashflow	411	(3)	182	145	103	144	184
Capital expenditure	(43)	(59)	(119)	(211)	(104)	(120)	(115)
Free cash flow	368	(61)	63	(66)	(1)	25	69
Equity raised	3	1	10	11	(0)	-	-
Investments	(2)	(0)	(5)	(3)	(1)	(3)	(3)
Others	(4)	(14)	(43)	(25)	40	(18)	(22)
Debt financing/disposal	(95)	6	38	18	(12)	10	8
Dividends paid	(27)	(42)	(42)	(32)	(29)	(32)	(45)
Other items	6	4	(6)	(1)	(27)	5	6
Net Δ in cash	250	(107)	14	(98)	(30)	(13)	12
Opening Cash Flow	7	258	151	164	66	36	23
Closing Cash Flow	258	151	164	66	36	23	35

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)							
Revenue growth	-1.4%	20.5%	3.3%	11.2%	10.3%	14.1%	15.4%
Op profit growth	24.4%	5.4%	-34.7%	-4.4%	21.0%	26.3%	27.5%
Profitability ratios (%)							
OPM	10.8%	9.4%	6.0%	5.1%	5.6%	6.2%	6.9%
Net profit margin	5.9%	5.2%	3.0%	2.7%	2.8%	2.7%	3.3%
RoCE	22.5%	21.8%	12.6%	10.5%	12.7%	15.5%	0.0%
RoNW	29.4%	25.4%	13.5%	13.0%	13.2%	16.7%	0.0%
RoA	19.5%	17.9%	9.7%	10.0%	10.1%	12.7%	0.0%
Per share ratios (INR)							
EPS	5.6	6.0	3.6	3.6	4.1	4.5	6.3
Dividend per share	1.2	2.0	2.0	1.5	1.4	1.5	2.1
Cash EPS	7.7	8.2	6.1	6.3	7.4	8.6	10.9
Book value per share	21.5	25.5	27.5	29.9	32.7	35.6	39.8
Valuation ratios (x)							
P/E	48.7	45.9	76.4	76.4	67.2	60.9	43.6
P/CEPS	35.7	33.5	45.1	43.5	36.9	32.0	25.2
P/B	12.8	10.7	10.0	9.2	8.4	7.7	6.9
EV/EBITDA	25.7	24.9	38.4	41.0	34.0	27.0	21.2
Payout (%)							
Dividend payout	22.1%	33.5%	56.0%	42.5%	33.5%	33.5%	33.5%
Tax payout	26.0%	25.4%	25.6%	21.8%	25.5%	25.5%	25.5%
Liquidity ratios							
Debtor days	69	60	57	55	56	53	52
Inventory days	69	59	61	56	56	54	52
Creditor days	86	80	69	68	68	63	61
WC Days	53	39	49	43	45	44	43
Leverage ratios (x)							
Interest coverage	8.5	9.1	4.4	3.7	4.8	5.6	7.2
Net debt / equity	-0.4	-0.1	-0.0	0.1	0.2	0.2	0.1
Net debt / op. profit	-0.7	-0.2	-0.2	0.6	0.6	0.6	0.5

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 7: Revenue growth is expected to grow at CAGR of 13.3% over the period of FY24-27E.

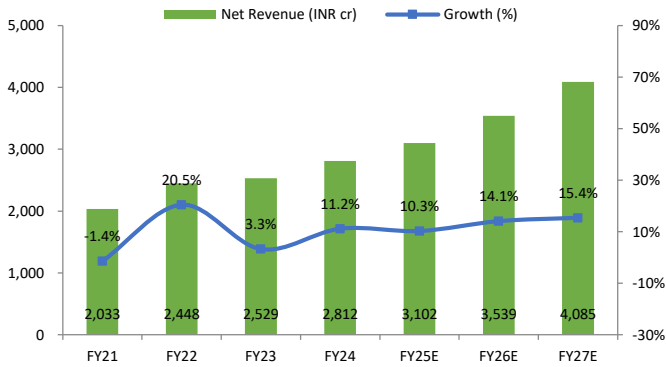


Exhibit 8: Gross Margins are expected to improve gradually due to Raw material cost optimization, better realization and product mix.

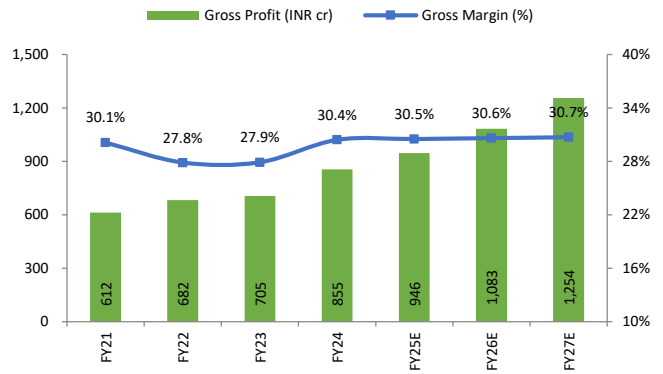


Exhibit 9: Rationalization of other expenses will improve the EBITDA margin going forward.

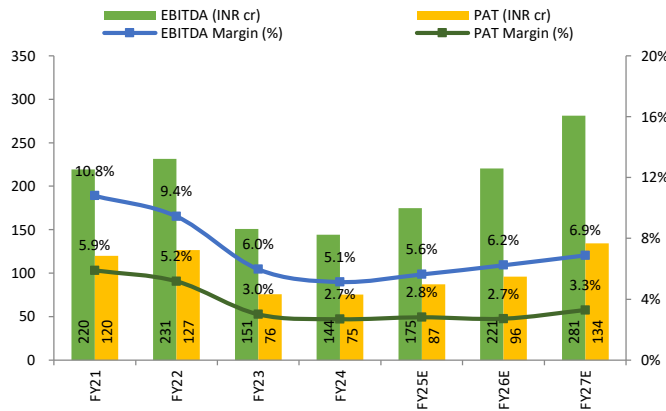


Exhibit 10: Return ratios is expected to improve from FY25E onwards.

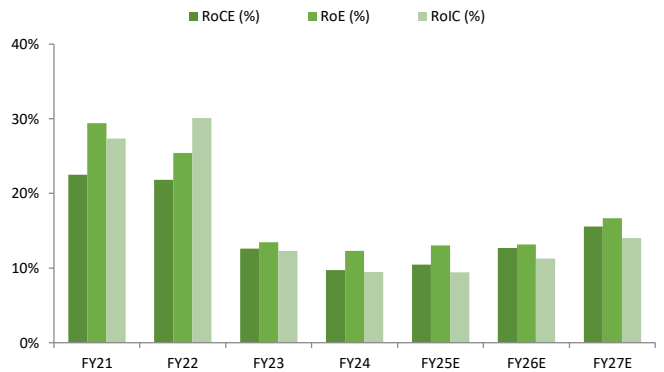


Exhibit 11: Working capital days to be improve

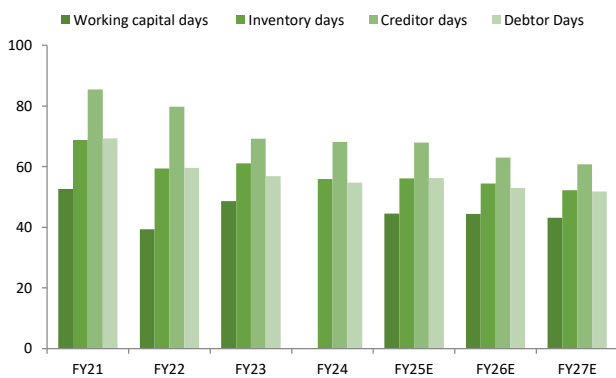
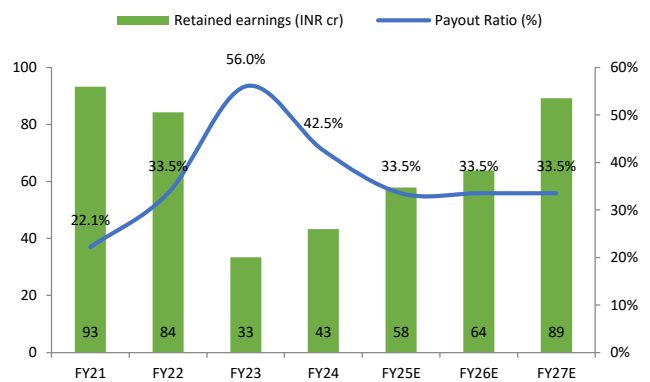


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arianth Capital Research

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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%

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