

Higher inventory cost and lower price realization due to competitive pricing.

CMP: INR 263

Rating: HOLD

Target Price: INR 285

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)	5,581
52w H/L (INR)	408 / 244
Avg Yearly Volume (in 000')	259.5

Shareholding Pattern %

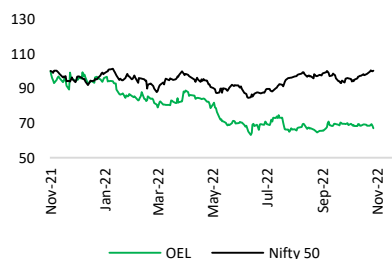
(As on Sep, 2022)

Promoters	38.42
DII	27.02
FII	6.12
Public & Others	28.43

Stock Performance (%)

	3m	6m	12m
OEL	0.0	-18.7	-33.0
NIFTY	4.2	8.6	-0.3

OEL Vs Nifty



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

Balasubramanian A
bala@arihantcapital.com

Orient Electric Ltd (OEL) reported weak numbers, Q2FY23 revenue de-grew by 14.1% YoY (-17.9% QoQ) to INR 511cr vs our estimates of INR 567cr. EBITDA stood at INR 12cr (-81.2% YoY/-69.6% QoQ) vs our estimates of INR 23cr, EBITDA Margin contracted by 814 bps to 2.3% vs 10.4% in Q2FY23. The raw material cost in terms of sales stood at 73.7% vs 71.5% in Q2FY22. The Employee cost in terms of sales stood at 8.5% vs 8.3% in Q2FY22. The other expenses are sharply increased in terms of sales stood at 15.5% vs 9.8% in Q2FY22. PAT stood at INR -0.4cr (-101.1% YoY/-102% QoQ) vs our estimates of INR 6cr, PAT Margin contracted by 591 bps to -0.1% vs 5.8% in Q2FY22.

Key Highlights

De-stocking in trade channels due to expectations of price corrections: The primary sales were impacted due to de-stocking in trade channels, because of expectations of price corrections. The expected price support for the stock clearance of non-rated fans by big brands also resulted in aggressive de-stocking by trade channels. The restructuring of distribution for fans business in select states required a one-time correction resulting in one-time revenue loss due to this transition in distribution. The low channel inventory with strong festival sentiments and seasonal sentiments with normalization of fans distribution indicates an optimistic H2FY23.

Margins were impacted due to high inventory cost and lower price realization: The gross margins were contracted by 222bps to 26.3% vs 28.5% in Q2FY22 due to higher inventory cost and lower price realization due to competitive pricing. The company also aggressively invested in advertisement, brand building, and high cost towards consultancies which further impacted EBITDA levels.

B2B business witnessed strong growth: B2B business is witnessed strong growth (+40% YoY) in the Lightening and Switchgear segment due to projects. The company has completed projects such as Varanasi cant. Railway station, Ganpur ganga barrage project, and Srinagar smart city project in lighting space. The company also aggressively invested in brand building with the launch of 'Joylight'. Further, government spending is expected to pick up which is expected to drive get more orders.

Channel expansion initiative through Go-to-Market strategy: OEL has touched 9,000 retailers in 6 direct-to-market states and focused to tap 85% of the market potential for fans. In lighting, OEL has reached 28,000 retail touchpoints which include 5,200 retail addition in Q2FY23. The direct distribution model along with channel expansion leads to better business visibility going forward.

Outlook & Valuation: OEL is expected to do re-stocking in trade channels from the end of Q3FY23 onwards. The B2B business is witnessing strong traction due to govt projects. The expansion of the existing distribution models, direct dealer approach, new product launches, ability to change the product mix and consumer demand are expected to drive growth going forward. At the CMP of INR 263 per share, the stock is trading at a P/E multiple of 54.9x/38.4x its FY23E/FY24E EPS of INR 4.8/6.9 respectively. We have a "HOLD" rating at a TP of INR 285 per share; valued at PE multiple 41.6x and its FY24E EPS; an upside of 8.4%.

Q2FY23 Result update

Income statement summary

Particular (INR cr)	Q2FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)
Revenue	594	622	511	-14.1%	-17.9%
Net Raw Materials	425	449	376	-11.4%	-16.1%
Employee Cost	49	47	43	-11.8%	-7.3%
Other Expenses	58	88	79	35.7%	-9.9%
EBITDA	62	38	12	-81.2%	-69.6%
EBITDA Margin (%)	10.4%	6.1%	2.3%	-814 bps	-386 bps
Depreciation	12	13	13		
Interest expense	5	5	5		
Other income	1.3	5.2	6.5		
Profit before tax	47	25	0	-99.7%	-99.5%
Taxes	12	6	0		
Net profit	35	19	(0)	-100.8%	-101.5%
Other Comprehensive income	(0.1)	(0.1)	(0.1)		
Net profit	35	19	(0.38)	-101.1%	-102.0%
Net profit Margin (%)	5.8%	3.0%	-0.1%	-591 bps	-311 bps
EPS (INR)	1.6	0.9	(0.0)		

Source: Company Reports, Arianth Capital Research

Q2FY23 Results

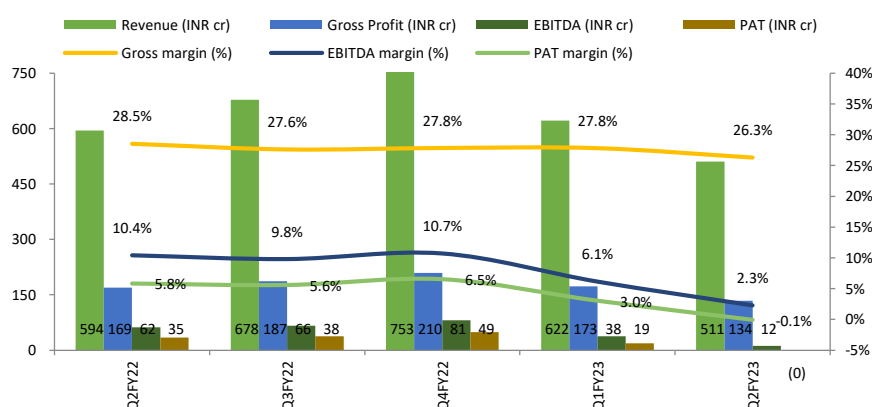
Orient Electric Ltd (OEL) reported weak numbers, Q2FY23 revenue de-grew by 14.1% YoY (-17.9% QoQ) to INR 511cr vs our estimates of INR 567cr. The overall performance impacted due to weak performance in Electric Consumer Durables.

Gross Profit stood at INR 134cr (-20.8% YoY/-22.3% QoQ) vs our estimates of INR 150cr, Gross Margin contracted by 222bps to 26.3% vs 28.5% in Q2FY22 due to higher inventory cost and lower price realization.

EBITDA stood at INR 12cr (-81.2% YoY/-69.6% QoQ) vs our estimates of INR 23cr, EBITDA Margin contracted by 814 bps to 2.3% vs 10.4% in Q2FY22. The raw material cost in terms of sales stood at 73.7% vs 71.5% in Q2FY22. The other expenses are sharply increased in terms of sales stood at 15.5% vs 9.8% in Q2FY22. The increase in other expenses because of advertisement, brand building and high cost towards consultancies.

PAT stood at INR -0.4cr (-101.1% YoY/-102% QoQ) vs our estimates of INR 6cr, PAT Margin contracted by 591 bps to -0.1% vs 5.8% in Q2FY22.

Exhibit 1: Margins were impacted due to higher inventory cost and lower price realization.

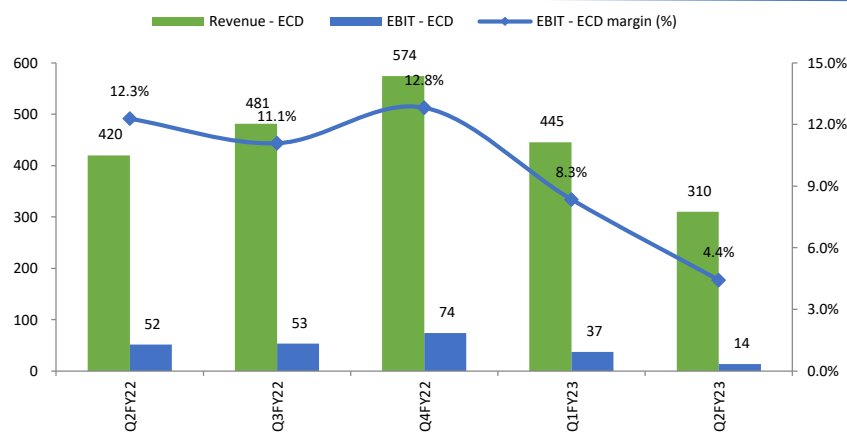


Source: Company Reports, Arianth Capital Research

Electric and Consumer Durable (ECD) Segment

- ECD segment revenue de-grew by 26.1% YoY (-30.4% QoQ) to INR 374cr, due to negative impact from fans. The fans business de-grow by 13% YoY, due to one-time set-up of the direct distribution in 4 states comprising UP, Karnataka, AP and Telangana. Bihar and Orissa states has stabilized and witnessed 50% YoY growth with increase in market share.
- The de-stocking in trade channel also impacted business due to BEE transition in fans.
- The EBIT de-grew by 73.4% YoY (-63.1% QoQ) to INR 14cr. EBIT margin contracted by 786 bps YoY (-392 bps QoQ) to 4.4% vs 12.3% in Q2FY22. The high inventory cost with accelerated schemes and unabsorbed manufacturing costs for lower volumes resulted drop in margin levels. The high production ahead of season and cost initiatives which is expected to regain the margins by Q4FY23 onwards.
- There was steep push for channel filling in Q1FY23 of water heaters, followed by weak consumer demand in Q2FY23, stock corrections by trade and liquidity challenges were impacted the Electric and Consumer Durables business in Q2FY23.

Exhibit 2: ECD Margins were impacted due to high inventory cost and other expenses



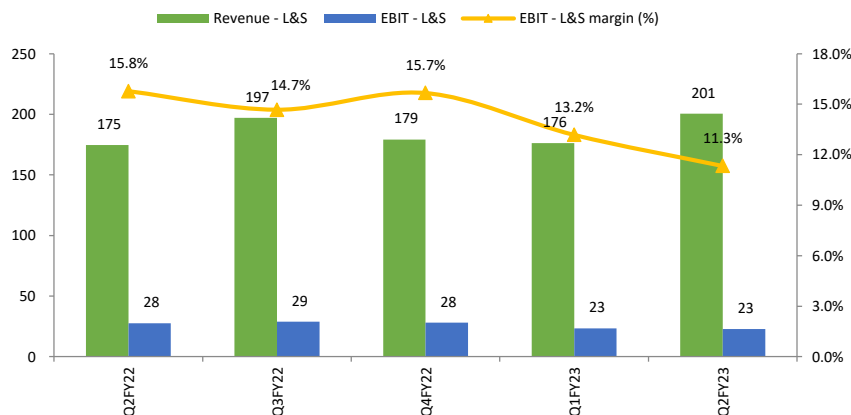
Source: Company Reports, Aриhant Capital Research

Lighting & Switchgear segment (L&S) Segment

- The lighting and switchgear segment revenue grew by 14.9% YoY (+13.8% QoQ) to INR 201cr, driven by B2B business.
- B2B business is witnessed strong growth (+40% YoY) in Lightening and Switchgear segment due to projects. The company has completed projects such as Varanasi cant. Railway station, Ganpur ganga barrage project and Srinagar smart city project in lighting space.
- OEL also aggressively invested in brand building with the launch of 'Joylight'. Further, the government spending is expected to pick up which leads to get more orders.

- Luminaires witnessed 17% YoY growth and newly launched house wires witnessed traction.
- The EBIT de-grew by 17.5% YoY (-2.2% QoQ) to INR 23cr. EBIT margin contracted by 444 bps YoY (-184 bps QoQ) to 11.3% vs 15.8% in Q2FY22.

Exhibit 3: L&S margins were impacted due to RM costs and brand building costs.



Source: Company Reports, Aриhant Capital Research

Concall Highlights

- OEL has won the contract for Srinagar smart lights project under the smart city program. The company was awarded the prestigious contract to design and provide facade lights for decorating the Kanpur Ganga Barrage to celebrate India's 75th year anniversary.
- In fans, OEL has covered 25% of potential in some of the states.
- OEL has observing market trends and re-stocking is expected Q3FY23 or beginning of Q4FY23.
- The pipeline inventory is much longer than other players.
- UP, Karnataka, AP and Telangana is expected to pick-up from Q4FY23 onwards.
- Non-star inventories stood at very small quantity and very limited quantity for zero rated fans. The company wants zero inventory of zero star fans by end of December.
- OEL has changed its distribution policy for fans. The master distribution is only for fans and rest of the products will be follow by existing policy.
- The exports were impacted due to political and economic turmoil, speciality in African Markets.
- The cost advantage of no-star and star fans around 3% to 10% depends upon the category of fans.
- E-commerce sales witnessed 2.5x growth in Q2FY23.

New Launches

Exhibit 4: New launches in fans category



Exhibit 5: New launches in Appliances category



Exhibit 6: New launches in Lighting & Switchgears category



Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	2,062	2,033	2,448	2,578	2,801	3,095
Net Raw Materials	1,409	1,421	1,767	1,882	2,008	2,191
Employee Cost	198	179	190	206	218	238
Other Expenses	278	213	260	289	313	355
EBITDA	176	220	231	201	261	310
EBITDA Margin (%)	8.6%	10.8%	9.4%	7.8%	9.3%	10.0%
Depreciation	(40)	(43)	(47)	(50)	(50)	(56)
Interest expense	(26)	(21)	(20)	(21)	(23)	(25)
Other income	4	6	6	8	8	9
Profit before tax	114	162	170	136	197	239
Taxes	(36)	(42)	(43)	(35)	(51)	(62)
Net profit	79	120	127	102	145	177
Reported Netprofit Margin (%)	3.8%	5.9%	5.2%	3.9%	5.2%	5.7%
Other Comprehensive income	(0)	(0)	0	-	-	-
Net profit	79	119	127	102	145	177
EPS (INR)	4	6	6	5	7	8

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	21	21	21	21	21	21
Reserves	338	434	520	588	684	802
Net worth	359	456	541	609	706	823
Provisions	46	54	53	42	38	42
Debt	190	95	101	107	117	125
Other non-current liabilities	10	9	13	13	14	15
Total Liabilities	606	614	709	771	875	1,006
Fixed assets	130	130	142	148	155	157
Capital Work In Progress	3	3	2	2	2	3
Other Intangible assets	13	23	23	23	23	23
Investments	7	9	10	13	14	15
Other non current assets	81	76	90	95	104	114
Net working capital	363	115	291	193	203	213
Inventories	287	249	326	294	303	318
Sundry debtors	389	384	416	424	460	509
Other current assets	42	30	28	35	38	42
Sundry creditors	(330)	(519)	(449)	(521)	(557)	(610)
Other current liabilities & Prov	(24)	(30)	(29)	(39)	(42)	(46)
Cash	7	258	151	295	372	480
Other Financial Assets	1	1	0	1	1	1
Total Assets	606	614	709	771	875	1,006

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	114	162	170	136	197	239
Depreciation	40	43	47	50	50	56
Tax paid	(36)	(42)	(43)	(35)	(51)	(62)
Working capital Δ	(36)	248	(177)	98	(10)	(10)
Operating cashflow	82	411	(3)	250	186	223
Capital expenditure	(57)	(43)	(59)	(57)	(57)	(58)
Free cash flow	26	368	(61)	193	129	165
Equity raised	4	3	1	-	-	0
Investments	(1)	(2)	(0)	(3)	(1)	(1)
Others	(65)	(4)	(14)	(6)	(8)	(11)
Debt financing/disposal	24	(95)	6	6	10	8
Other items	17	6	4	(11)	(3)	5
Net Δ in cash	(24)	250	(107)	144	78	107
Opening Cash Flow	32	7	258	151	295	372
Closing Cash Flow	7	258	151	295	372	480

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)						
Revenue growth	10.6%	-1.4%	20.5%	5.3%	8.7%	10.5%
Op profit growth	24.9%	24.4%	5.4%	-13.3%	30.3%	18.8%
Profitability ratios (%)						
OPM	8.6%	10.8%	9.4%	7.8%	9.3%	10.0%
Net profit margin	3.8%	5.9%	5.2%	3.9%	5.2%	5.7%
RoCE	17.5%	22.5%	21.8%	16.2%	20.1%	21.1%
RoNW	23.6%	29.4%	25.4%	17.7%	22.1%	23.1%
RoA	13.0%	19.5%	17.9%	13.2%	16.6%	17.6%
Per share ratios (INR)						
EPS	3.7	5.6	6.0	4.8	6.9	8.3
Dividend per share	1.4	1.2	2.0	1.6	2.3	2.8
Cash EPS	5.6	7.7	8.2	7.2	9.2	11.0
Book value per share	16.9	21.5	25.5	28.7	33.3	38.8
Valuation ratios (x)						
P/E	71.1	46.8	44.0	54.9	38.4	31.6
P/CEPS	47.0	34.3	32.1	36.7	28.5	24.0
P/B	15.5	12.2	10.3	9.2	7.9	6.8
EV/EBITDA	32.6	24.6	23.9	26.8	20.3	16.8
Payout (%)						
Dividend payout	37.4%	22.1%	33.5%	33.5%	33.5%	33.5%
Tax payout	31.2%	26.0%	25.4%	25.4%	26.0%	26.0%
Liquidity ratios						
Debtor days	70	69	60	59	58	57
Inventory days	71	69	59	60	54	52
Creditor days	66	86	80	75	77	76
WC Days	76	53	39	45	34	32
Leverage ratios (x)						
Interest coverage	5.2	8.5	9.1	7.0	9.1	10.2
Net debt / equity	0.5	-0.4	-0.1	-0.3	-0.4	-0.4
Net debt / op. profit	1.0	-0.7	-0.2	-0.9	-1.0	-1.1

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 7: Revenue growth is expected to be slower down due to weak consumer demand in FY23.

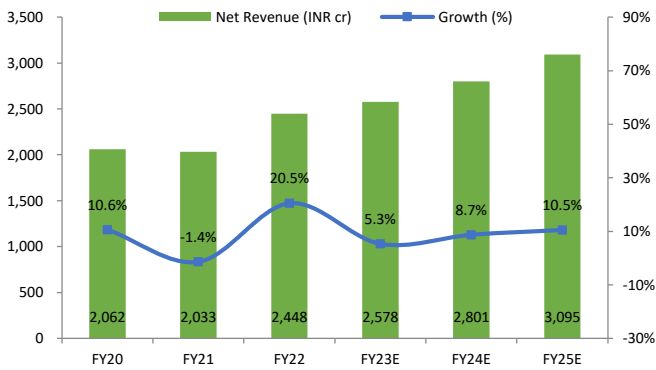


Exhibit 8: In FY23, Gross Margins are expected to impact due to RM costs.

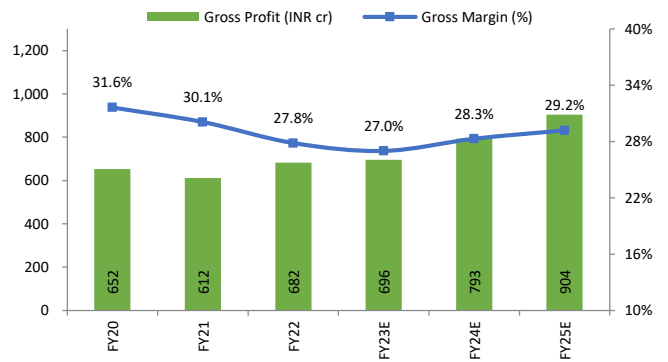


Exhibit 9: The higher other expenses are expected to impact on EBITDA levels in FY23.

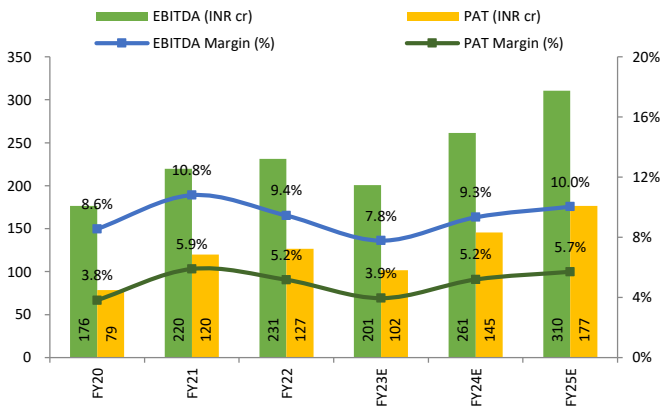


Exhibit 10: Return ratios is expected to improve from FY24 onwards.

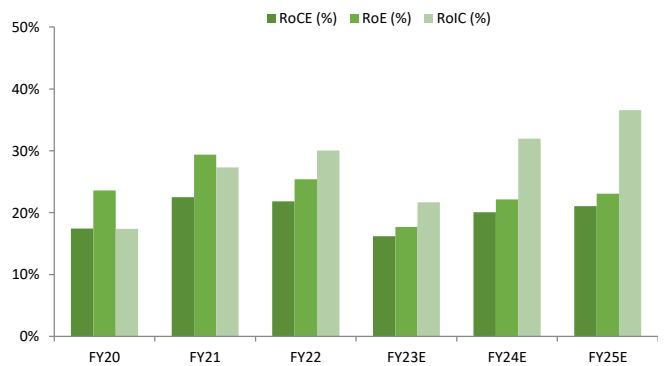


Exhibit 11: Working capital days to be improve

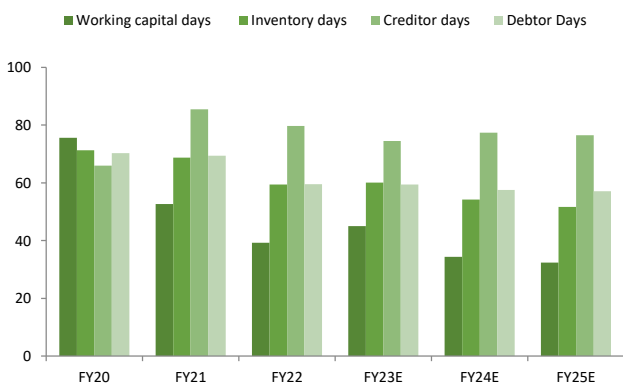
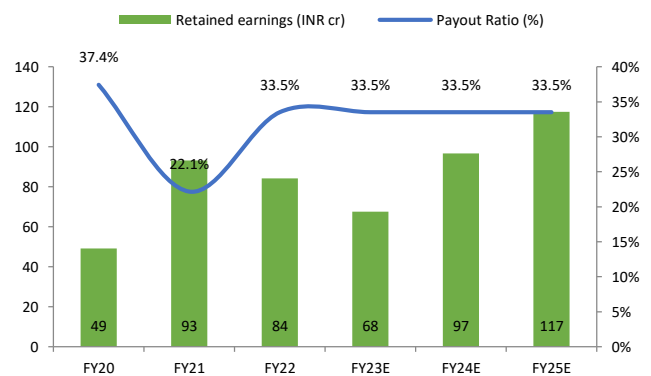


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 13: Ad & Sales Promotion expenses is less than 5% of sales. In FY23, OEL has aggressively investing for brand building.

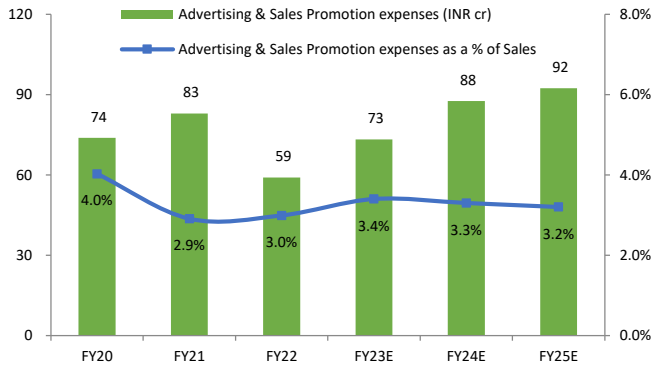


Exhibit 14: Warranty and claims expenses are expected to be around 1% of sales.

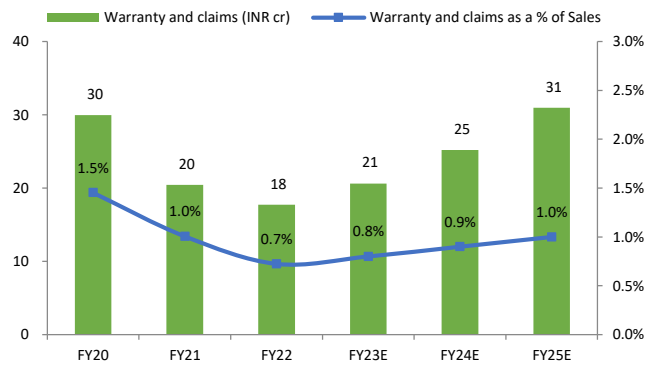


Exhibit 15: Payments to auditors charges are expected to remain flat.

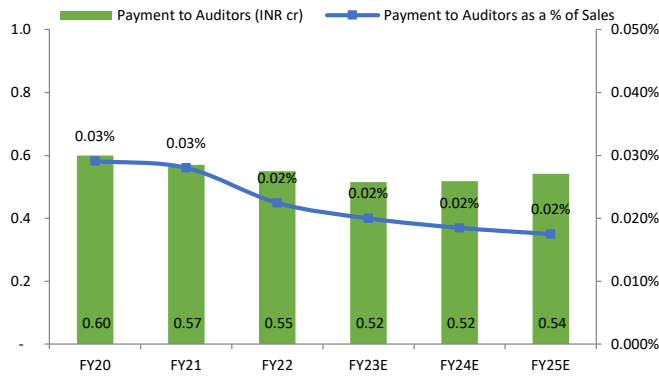


Exhibit 16: Power and Fuel cost are expected to be less than 1% of sales.

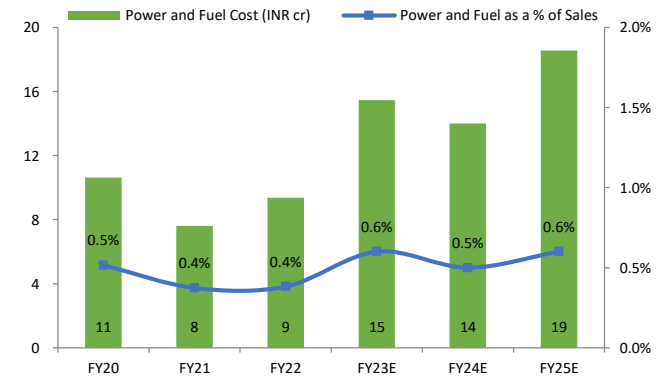


Exhibit 17: Freight and Forwarding charges are expected to be less than 3% of sales.

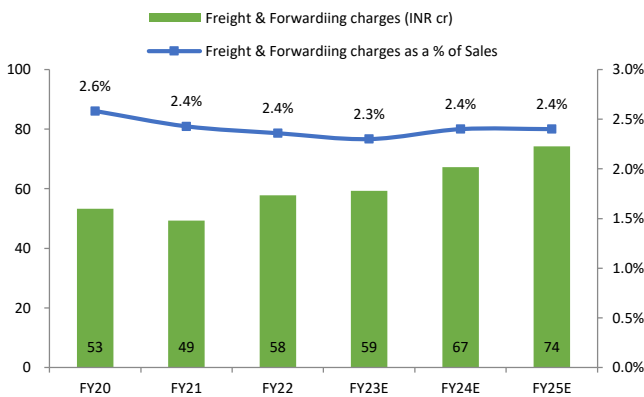
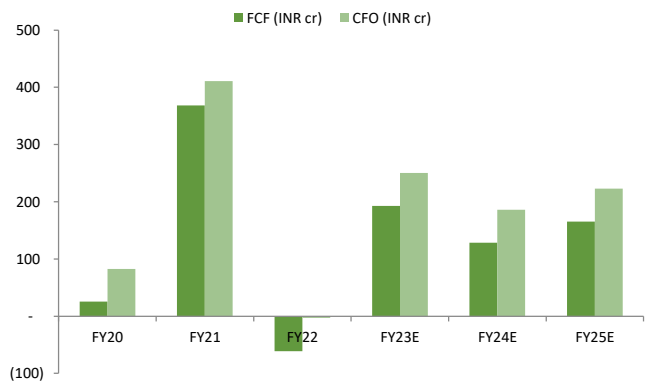


Exhibit 18: Cash flows to be improve.



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

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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