

CMP: INR 221

Rating: ACCUMULATE

Target Price: INR 257

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)	4,703
52w H/L (INR)	291 / 208
Avg Yearly Volume (in 000')	285.3

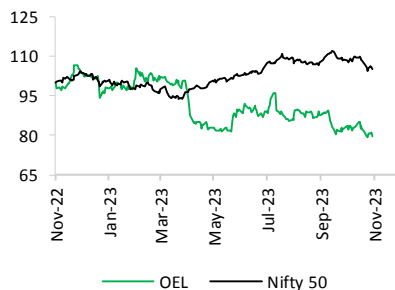
Shareholding Pattern %

(As on Sep, 2023)

Promoters	38.30
DII	29.98
FII	5.69
Public & Others	26.04

Stock Performance (%)	3m	6m	12m
OEL	-5.7	-0.5	-17.7
NIFTY	-0.8	6.3	6.5

OEL Vs Nifty



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Orient Electric Ltd reported numbers, Q2FY24 revenue grew by 11% YoY (-19.7% QoQ) to INR 567cr vs our estimates of INR 582cr backed strong growth in fans. Gross Profit stood at INR 172cr (+27.9% YoY/-20.6% QoQ); above our estimates of INR 166cr; Gross margins improved by 400 bps YoY (down by 37 bps QoQ) to 30.3% vs 26.3% in Q2FY23, due to better price realization, cost reduction and improvement in mix. The raw material cost in terms of sales stood at 69.7% vs 73.7% in Q2FY23. EBITDA stood at INR 21cr (+78% YoY/-53% QoQ); below our estimates of INR 33cr. EBITDA margin improved by 137 bps YoY (down by 259 bps QoQ) to 3.6% vs 2.3% in Q2FY23, due continued investments in brands and capability. PAT stood at INR 18cr (-6.3% QoQ); above our estimates of INR 12cr, PAT margin expanded by 331 bps YoY (up by 46 bps QoQ) to 3.3% vs -0.1% in Q2FY23.

Key Highlights

ECD segment backed by Fans: Electric Consumer Durables (ECD) revenue stood at INR 363cr (+17.2% YoY/-29.4% QoQ); led by fans despite non-peak season and transition of Gujarat to Direct-to-Market (DTM). EBIT Stood at INR 30cr (+116.6% YoY/-39.6% QoQ). EBIT margin improved by 375 bps YoY (down by 137 bps QoQ) to 8.2% vs 4.4% in Q2FY23. Fans witnessed a growth of 25% YoY in Q2FY24, while others were muted in the ECD segment. Fan volumes grew less than 25% and witnessed value growth due to the product mix. Fan sales are expected to be weak in Q3FY24 and expected to pick up in Q4FY24. Coolers, water heaters, and appliances were impacted due to mild summers and heavy rains.

Witnessed margin expansion in Lighting and Switchgear: Lighting & Switchgears revenue stood at INR 203cr (+1.4% YoY/+6.7% QoQ); led by switchgear segment. EBIT Stood at INR 27cr (+18.5% YoY/-12.3% QoQ). EBIT margin improved by 190 bps YoY (down by 287 bps QoQ) to 13.2% vs 11.3% in Q2FY23. The margin expansion supported by favourable product mix and raw material cost reduction. Switchgear witnessed double-digit growth and stacks up to 1%. The distribution network and electrician touchpoint expansion were witnessed in Q2FY24. Housing wires witnessed growth backed by a distribution network.

Capex, DTM expansion and new launches remain on track: The capex stood at INR 78cr which includes capex of INR 63cr in Hyderabad facility, overall the Capex is expected around INR 200cr for the Hyderabad facility. The maintenance capex is expected around INR 50cr to INR 60cr per annum which includes replacements, technologies Dies, and tools. The company has added 6 states in Direct to Market (DTM). The company has recently added Gujarat and Gujarat is a significant part of the business. The company is closely observing two states because lower performance of the master distributors. The company has launched 17 products which includes 4 launches in kitchen appliances, 3 launches in water heaters and Lightings each respectively and 4 launches in fans which includes Ceiling, Pedestal and Exhaust

Outlook & Valuation: ECD segment witnessed strong growth backed by fans and expected new launches 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 257 per share; valued at PE multiple 30x and its FY26E EPS of INR 8.6; an upside of 16.2%.

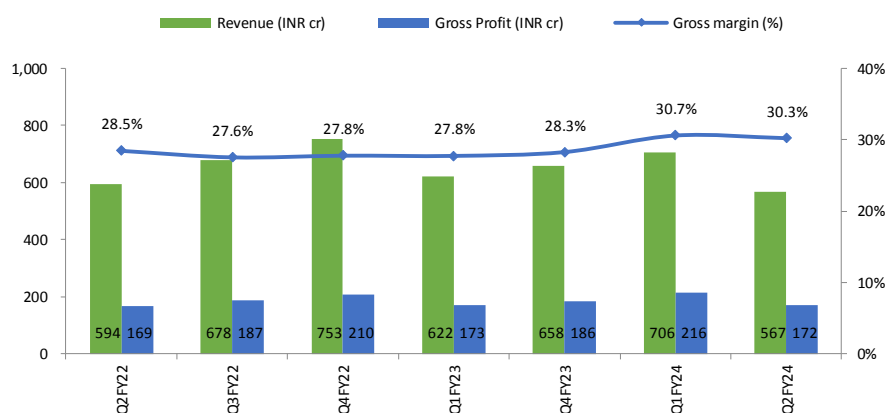
Q2FY24 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	511	706	567	11.0%	-19.7%
Net Raw Materials	376	489	395	5.0%	-19.2%
Employee Cost	43	67	58	34.3%	-13.2%
Other Expenses	79	105	93	17.1%	-11.9%
EBITDA	12	44	21	78.0%	-53.0%
EBITDA Margin (%)	2.3%	6.2%	3.6%	+137 bps	-259 bps
Depreciation	13	14	14		
Interest expense	5	6	5		
Other income	6.5	2.9	3.4		
Profit before tax	0	27	23		
Taxes	0	7	5		
PAT	(0)	20	18		-6.3%
PAT Margin (%)	-0.1%	2.8%	3.3%	+331 bps	+46 bps
EPS (INR)	(0.0)	0.9	0.9		

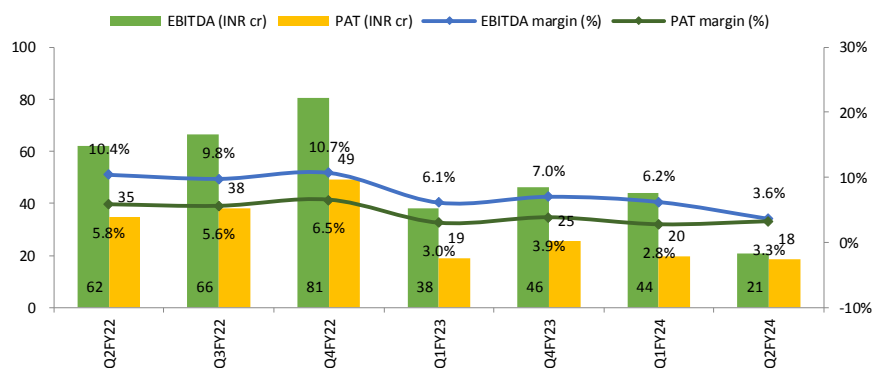
Source: Company Reports, Arihant Capital Research

Exhibit 1: Gross margins improved by 400bps YoY (-37bps QoQ) to 30.3% in Q2FY24, due to better price realization, cost reduction and improvement in mix.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA margins improved by 137bps YoY (-259bps QoQ) to 3.6% in Q2FY24, due to continued investments in brands and capability.

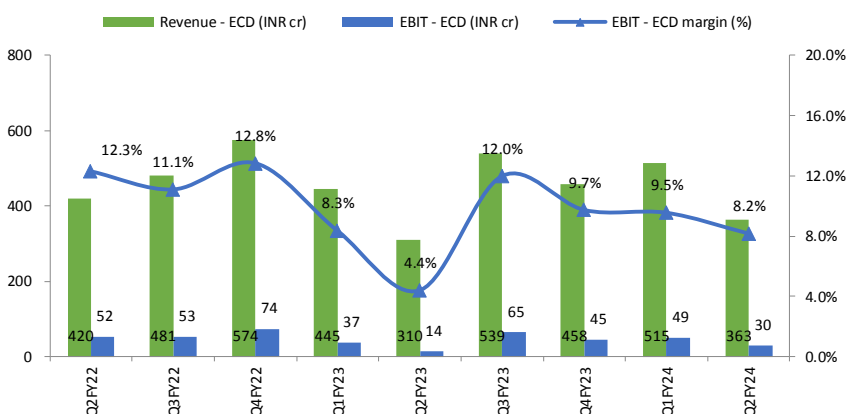


Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 363cr (+17.2% YoY/-29.4% QoQ); led by fans despite non-peak season and transition of Gujarat to Direct-to-Market (DTM).
- EBIT Stood at INR 30cr (+116.6% YoY/-39.6% QoQ). EBIT margin improved by 375 bps YoY (down by 137 bps QoQ) to 8.2% vs 4.4% in Q2FY23.
- BLDC and TPW are fast growing products and witnessing traction.
- Digital revenue witnessed double digit growth and DTM witnessed 2x YoY in Q2FY24.
- Coolers, water heaters, and appliances were impacted due to mild summers and heavy rains.

Exhibit 3: ECD growth driven by fans segment. ECD segment witnessed healthy growth despite soft demand environment.

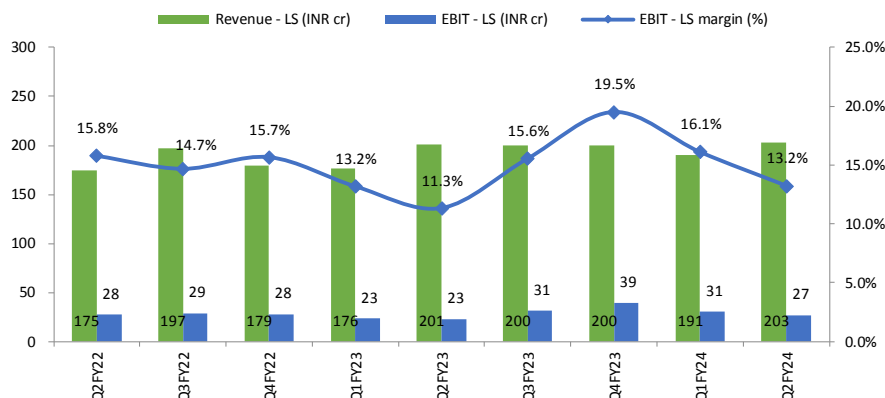


Source: Company Reports, Aриhant Capital Research

Lighting & Switchgear segment (L&S) Segment

- Lighting & Switchgears revenue stood at INR 203cr (+1.4% YoY/+6.7% QoQ); led by switchgear segment.
- EBIT Stood at INR 27cr (+18.5% YoY/-12.3% QoQ). EBIT margin improved by 190 bps YoY (down by 287 bps QoQ) to 13.2% vs 11.3% in Q2FY23. The margin expansion supported by favourable product mix and raw material cost reduction.
 - Switchgear witnessed double-digit growth and stacks up to 1%. The distribution network and electrician touchpoint expansion were witnessed in Q2FY24.
 - Housing wires witnessed growth backed by a distribution network.

Exhibit 4: L&S growth were backed by switchgear segment and favourable product mix and raw material cost reduction led to margin expansion.



Source: Company Reports, Arihant Capital Research

Q2FY24 Concall Highlights

Margins

- Gross margins improved by 400 bps YoY (down by 37 bps QoQ) to 30.3% in Q2FY24 due to the right product mix.

ECD

- Fans witnessed a growth of 25% YoY in Q2FY24, while others were muted in the ECD segment.
- Fan volumes grew less than 25% and witnessed value growth due to the product mix.
- The Hyderabad project is expected to provide better PTW fans and cost savings leads to better margins.
- Fan sales are expected to be weak in Q3FY24 and expected to pick up in Q4FY24.
- BLDC is growing around 15% which is in line with industry growth.
- The company has witnessed higher volumes in BLDC and premium fans.
- Coolers, water heaters, and appliances were impacted due to mild summers and heavy rains.

Lighting and Switchgear

- Switchgear witnessed double-digit growth and stacks up to 1%. The distribution network and electrician touchpoint expansion were witnessed in Q2FY24.
- Housing wires witnessed growth backed by a distribution network.

Capex

- The maintenance capex is expected around INR 50cr to INR 60cr per annum which includes replacements, technologies Dies, and tools.
- The Capex is expected around INR 200cr for the Hyderabad facility.

B2B and B2C

- B2B business witnessed traction, while B2C business remains disappointing.
- In B2C, Lamps and battens are RR negative due to price erosion. Ceiling lights are RR positive to some extent which is neutralized by the B2B segment backed by protective luminaries. Overall, B2C lamps are negative and consumer luminaries positive.
- B2C demand is expected to pick up in the next 5 months.

Q2FY24 Concall Highlights

Direct to Market

- The company has added 6 states in Direct to Market (DTM). The company has recently added Gujarat and Gujarat is a significant part of the business. The company is closely observing two states because lower performance of the master distributors.
- Gujarat accounts for 4% of the domestic sales of fans. The fan's prices are fairly low and sales are expected on a large scale once got a large market.

Working capital

The working capital days stood at 26 days in Q2FY24 which is marginally higher due to higher inventories. The inventory liquidation is expected in the peak season.

E-Commerce

- E-commerce and retail growth witnessed around 50% YoY in Q2FY24.

Other highlights

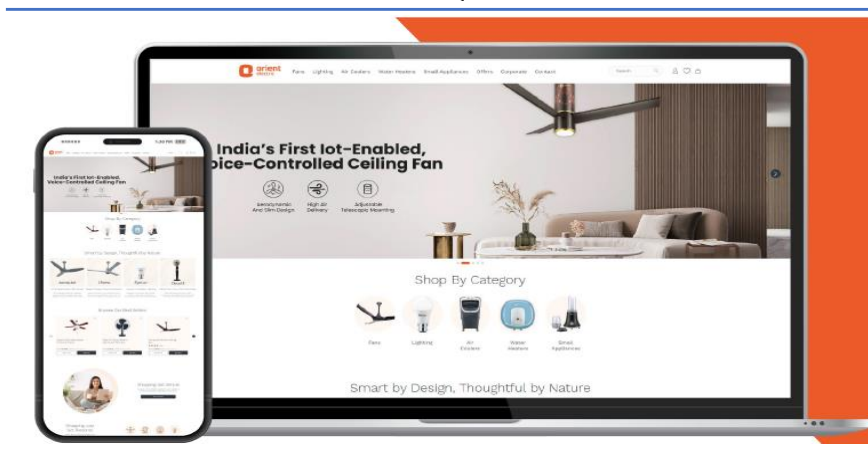
- The company has taken technology from Europe which makes it quickly acceptable in overseas markets.
- The cost optimization efforts lead to cost savings of INR 14cr.
- D2C is expected to pick up in the next 4 to 6 weeks due to the festive season.
- France's business is expected to grow by 20% by FY25E.
- The company has a stronger presence in the North and East.

Exhibit 5: New product launches strengthens appliances portfolio for festive season.



Source: Company Reports, Arihant Capital Research

Exhibit 6: New website launched for D2C in Q2FY24.



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	1,955	2,135	2,355
Employee Cost	198	179	190	193	226	247	270
Other Expenses	278	213	260	361	389	410	423
EBITDA	176	220	231	151	191	254	321
EBITDA Margin (%)	8.6%	10.8%	9.4%	6.0%	6.9%	8.3%	9.5%
Depreciation	(40)	(43)	(47)	(54)	(57)	(63)	(69)
Interest expense	(26)	(21)	(20)	(22)	(26)	(31)	(33)
Other income	4	6	6	27	21	23	25
Profit before tax	114	162	170	102	128	182	244
Taxes	(36)	(42)	(43)	(26)	(31)	(46)	(62)
PAT	79	120	127	76	97	136	182
PAT Margin (%)	3.8%	5.9%	5.2%	3.0%	3.5%	4.5%	5.4%
Other Comprehensive income	(0)	(0)	0	1	-	-	-
Total Comprehensive income	79	119	127	76	97	136	182
EPS (INR)	3.7	5.6	6.0	3.6	4.6	6.4	8.6

Source: Company Reports, Aриhant 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	628	719	840
Net worth	359	456	541	585	649	740	861
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	861	960	1,096
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	228	245	265
Inventories	287	249	326	285	305	322	342
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)	(528)	(574)	(626)
Other current liabilities & Prov	(24)	(30)	(29)	(28)	(41)	(46)	(51)
Cash	7	258	151	164	189	253	356
Other Financial Assets	1	1	0	2	1	1	1
Total Assets	606	614	709	784	861	960	1,096

Source: Company Reports, Aриhant 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	128	182	244
Depreciation	40	43	47	54	57	63	69
Tax paid	(36)	(42)	(43)	(26)	(31)	(46)	(62)
Working capital Δ	(36)	248	(177)	53	11	(17)	(20)
Operating cashflow	82	411	(3)	182	165	182	231
Capital expenditure	(57)	(43)	(59)	(119)	(153)	(69)	(69)
Free cash flow	26	368	(61)	63	12	114	162
Equity raised	4	3	1	10	-	-	-
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)	(33)	(46)	(61)
Other items	17	6	4	(6)	6	(1)	7
Net Δ in cash	(24)	250	(107)	14	25	65	103
Opening Cash Flow	32	7	258	151	164	189	253
Closing Cash Flow	7	258	151	164	189	253	356

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%	26.8%	32.6%	26.6%
Profitability ratios (%)							
OPM	8.6%	10.8%	9.4%	6.0%	6.9%	8.3%	9.5%
Net profit margin	3.8%	5.9%	5.2%	3.0%	3.5%	4.5%	5.4%
RoCE	17.5%	22.5%	21.8%	12.6%	14.5%	17.8%	20.4%
RoNW	23.6%	29.4%	25.4%	13.5%	15.8%	19.6%	22.8%
RoA	13.0%	19.5%	17.9%	9.7%	11.3%	14.2%	16.6%
Per share ratios (INR)							
EPS	3.7	5.6	6.0	3.6	4.6	6.4	8.6
Dividend per share	1.4	1.2	2.0	2.0	1.5	2.1	2.9
Cash EPS	5.6	7.7	8.2	6.1	7.3	9.4	11.8
Book value per share	16.9	21.5	25.5	27.5	30.5	34.8	40.5
Valuation ratios (x)							
P/E	59.7	39.3	37.0	61.6	48.4	34.6	25.8
P/CEPS	39.5	28.8	27.0	36.4	30.5	23.6	18.7
P/B	13.0	10.3	8.7	8.0	7.2	6.4	5.5
EV/EBITDA	27.6	20.6	20.0	30.9	24.3	18.1	14.0
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%	24.3%	25.4%	25.4%
Liquidity ratios							
Debtor days	70	69	60	57	55	57	57
Inventory days	71	69	59	61	55	54	51
Creditor days	66	86	80	69	70	72	72
WC Days	76	53	39	49	40	39	37
Leverage ratios (x)							
Interest coverage	5.2	8.5	9.1	4.4	5.1	6.2	7.7
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	-0.4	-0.6

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.

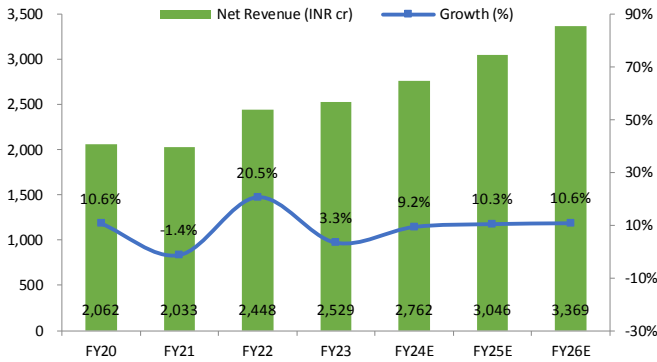


Exhibit 8: Gross Margins are expected to improve gradually due to Raw material cost optimization, better realization and product mix.

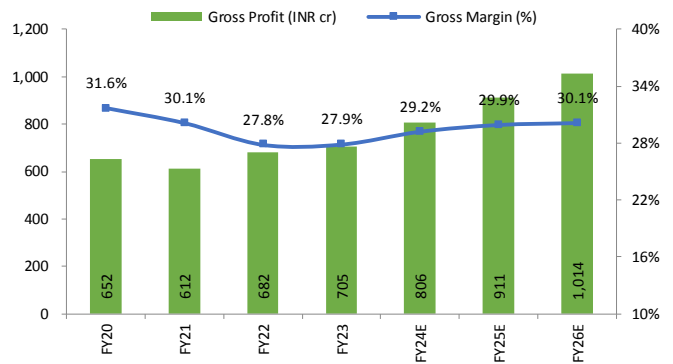


Exhibit 9: Rationalization of other expenses will improve the EBITDA margin going forward.

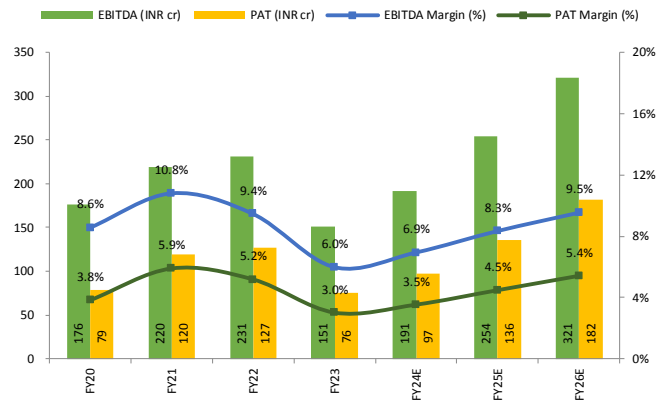


Exhibit 10: Return ratios is expected to improve from FY24 onwards.

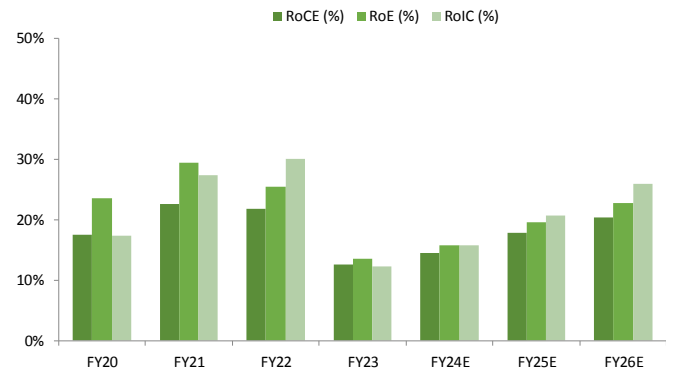


Exhibit 11: Working capital days to be improve

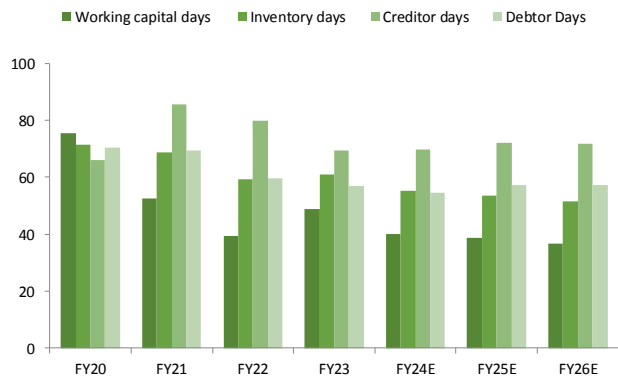
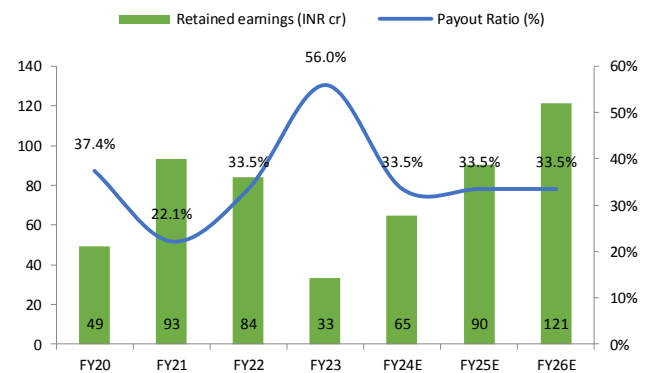


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

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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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