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Generating Wealth

Q3FY23 Result update
1st Feb 2023

Orient Electric Ltd

Margin improvement on sequential basis

CMP: INR 263

Rating: BUY

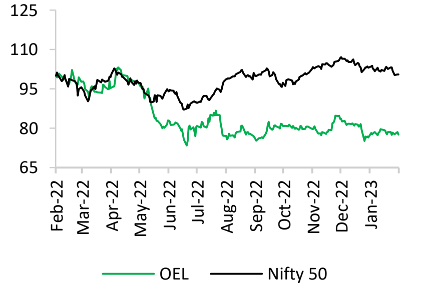
Target Price: INR 334

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)	369 / 244
Avg Yearly Volume (in 000')	236.1

Shareholding Pattern % *(As on Dec, 2022)*	
Promoters	38.42
DII	26.66
FII	6.13
Public & Others	28.79

Stock Performance (%)	3m	6m	12m
OEL	-2.8	0.6	-22.5
NIFTY	-1.9	2.9	0.5

OEL Vs Nifty



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

Balasubramanian A
bala@arihantcapital.com

Orient Electric Ltd (OEL) Q3FY23 revenue grew by 8.9% YoY (+44.7% QoQ) to INR 739cr vs our estimates of INR 696cr. Gross Profit stood at INR 212cr (+13% YoY/+57.6% QoQ) vs our estimates of INR 196cr; Gross margins improved by 371 bps YoY (up by 887 bps QoQ) to 28.6% vs 27.6% in Q3FY22. The raw material cost in terms of sales stood at 71.4% vs 72.4% in Q3FY22. EBITDA stood at INR 55cr (-17.5% YoY/+372.5% QoQ) vs our estimates of INR 47cr. EBITDA margin contracted by 237 bps YoY (up by 515 bps QoQ) to 7.4% vs 9.8% in Q3FY22. PAT stood at INR 33cr (-14.5% YoY) vs our estimates of INR 26cr, PAT margin contracted by 121 bps YoY (up by 446 bps QoQ) to 4.4% vs 5.6% in Q3FY22.

Key Highlights

Electrical Consumer Durables witnessed sustainable growth: Electric Consumer Durables (ECD) revenue stood at INR 539cr (+11.9% YoY/+73.8% QoQ) driven by fans and coolers. Fans grew by 15% YoY which is the highest-ever volume growth. The company has completed Direct to Market transition in 4 states which resulted in 60% YoY growth in Q3FY23. The appliances category was impacted due to the slowdown, low inventory holding by trade, and trade liquidity division to fans. The company liquidated all the non-star fans in Dec-2022. Star-rated fans restocking is expected in Q4FY23.

Focused on margin improvement through cost reduction initiatives: EBITDA margins witnessed pressure on YoY basis, and continue to do so due to competition. McKinsey is working with the company for cost-reduction initiatives. The consultancy cost is around 1.7% to 1.8% of sales. The company has done INR 36cr cost savings in 9MFY23 and further expected INR 100cr cost savings in the next 12 months.

B2B business witnessed strong growth in Lighting & Switchgears: B2B business witnessed double-digit growth in the Lighting and Switchgear segments led by infra sector spending by the government and strong growth in façade lighting. The company has completed projects such as Varanasi cant. Railway station, and Puducherry smart city projects. Srinagar Smart City projects are under execution.

Channel expansion initiative through Go-to-Market strategy: OEL has touched 12,000 retailers in 6 direct-to-market states. In lighting, OEL has reached 33,000 retail touchpoints, including 2,270 touchpoints in Q3FY23. Around 79 new distributors were appointed in Q3FY23. The direct distribution model along with channel expansion will lead to better business visibility in the future.

Outlook & Valuation: ECD segment witnessing traction and star-rated fan restocking is expected from Q4FY23 onwards. B2B business is witnessing strong traction from govt projects. 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. At the CMP of INR 263 per share, the stock is trading at a P/E multiple of 39.5x/31.1x its FY24E/FY25E EPS of INR 6.7/8.5 respectively. We are upgrading to a "BUY" rating ("HOLD" earlier) at a TP of INR 334 per share; valued at PE multiple 39.5x and its FY25E EPS; an upside of 27%.

Q3FY23 Result update

Income statement summary

Particular (INR cr)	Q3FY22	Q2FY23	Q3FY23	YoY (%)	QoQ (%)
Revenue	678	511	739	8.9%	44.7%
Net Raw Materials	491	376	528	7.4%	40.2%
Employee Cost	49	43	57	17.9%	32.2%
Other Expenses	72	79	99	37.8%	25.3%
EBITDA	**66**	**12**	**55**	-17.5%	372.5%
EBITDA Margin (%)	**9.8%**	**2.3%**	**7.4%**	**-237 bps**	**+515 bps**
Depreciation	12	13	14		
Interest expense	5	5	6		
Other income	0.9	6.5	8.6		
Profit before tax	**51**	**0**	**44**	-14.4%	
Taxes	13	0	11		
PAT	**38**	**(0)**	**33**	-14.5%	
PAT Margin (%)	**5.6%**	**-0.1%**	**4.4%**	**-121 bps**	**+446 bps**
Other Comprehensive income	(0.1)	(0.1)	(0.1)		
Net profit	**38**	**(0.38)**	**32.46**	-14.5%	
Net profit Margin (%)	**5.6%**	**-0.1%**	**4.4%**	**-121 bps**	**+447 bps**
EPS (INR)	**1.8**	**(0.0)**	**1.5**		

Source: Company Reports, Arihant Capital Research

Q3FY23 Results

Orient Electric Ltd (OEL) reported numbers, Q3FY23 revenue grew by 8.9% YoY (+44.7% QoQ) to INR 739 vs our estimates of INR 696cr.

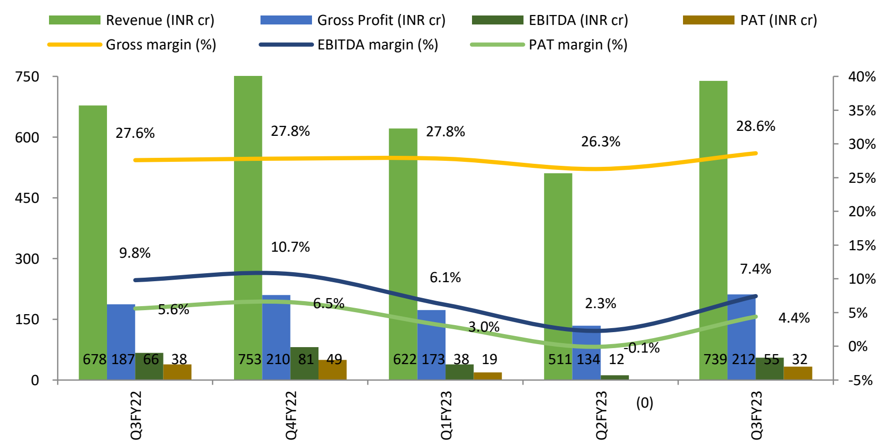
Gross Profit stood at INR 212cr (+13% YoY/+57.6% QoQ) vs our estimates of INR 196cr; Gross margins improved by 371 bps YoY (up by 887 bps QoQ) to 28.6% vs 27.6% in Q3FY22.

The raw material cost in terms of sales stood at 71.4% vs 72.4% in Q3FY22.

EBITDA stood at INR 55cr (-17.5% YoY/+372.5% QoQ) vs our estimates of INR 47cr. EBITDA margin contracted by 237 bps YoY (up by 515 bps QoQ) to 7.4% vs 9.8% in Q3FY22.

PAT stood at INR 33cr (-14.5% YoY) vs our estimates of INR 26cr, PAT margin contracted by 121 bps YoY (up by 446 bps QoQ) to 4.4% vs 5.6% in Q3FY22.

Exhibit 1: Margin improvement witnessed on sequential basis due to RM costs, however other expenses remain elevated.

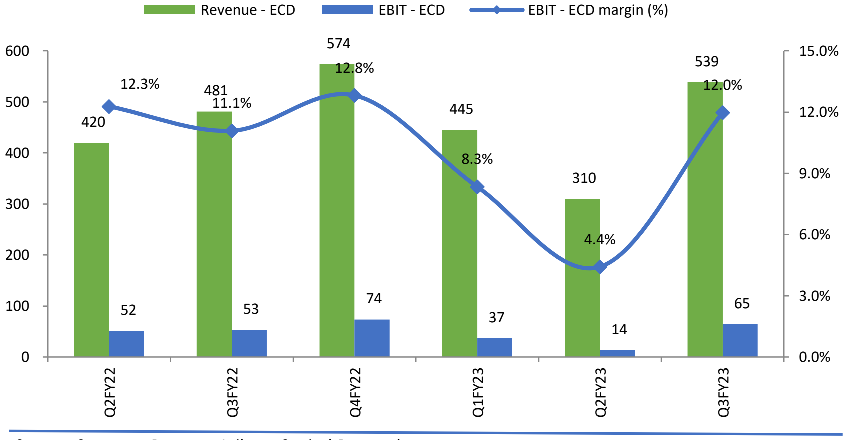


Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 539cr (+11.9% YoY/+73.8% QoQ) driven by fans and coolers.
- The company has a 25% -30% market share among BLDC fans. BLDC fan's costs significantly reduced over the past 2 years. The company also planned rollout of new SKUs to drive growth.
- Water heaters grew by 21% YoY supported by ecommerce growth (2.5x).
- The company liquidated all the non-star fans in Dec-2022. Star-rated fans restocking is expected in Q4FY23.
- EBIT Stood at INR 65cr (+20.9% YoY/+370.5% QoQ). EBIT margin improved by 88 bps YoY (up by 755 bps QoQ) to 12% vs 11.1% in Q3FY22.

Exhibit 2: ECD Margins were improved due to better operating leverage.

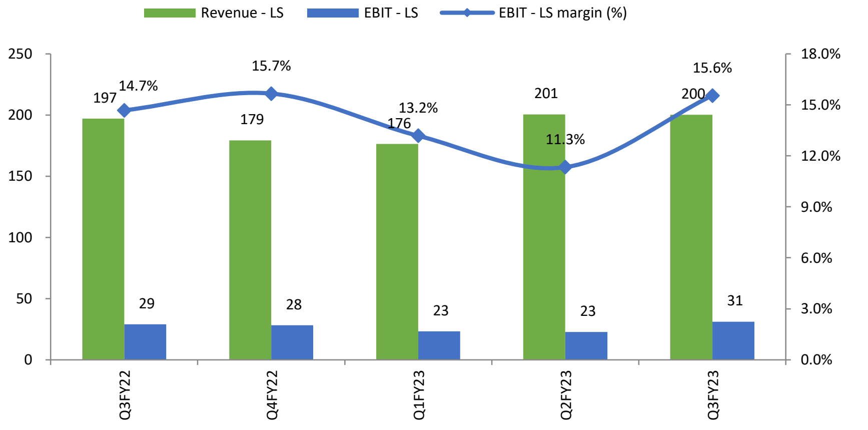


Source: Company Reports, Arihant Capital Research

Lighting & Switchgear segment (L&S) Segment)

- Lighting & Switchgears revenue stood at INR 194cr (+1.6% YoY/-0.2% QoQ) due softness in demand environment.
- In the Lights and Switchgears segments, B2B revenue was around 25% (10%-15% earlier) and 75% in B2C (85%-95%) earlier.
- Wires were launched in 6 states and witnessed traction.
- Prestigious projects in façade lighting executed and enquiry bank scaling up in façade.
- Professional luminaries achieved higher growth of revenue.
- Healthy enquiry pipeline in all PSUs and government institutions which includes NHAI and Railways.
- EBIT Stood at INR 31cr (+7.7% YoY/+36.9% QoQ). EBIT margin improved by 87 bps YoY (up by 421 bps QoQ) to 15.6% vs 14.7% in Q3FY22.

Exhibit 3: L&S margins improvement backed by cost saving initiatives.



Source: Company Reports, Arihant Capital Research

Concall Highlights

Revenue

- The company is aspired to reach a topline of INR 7,000cr to INR 10,000cr going forward. Fans and water heater shows good traction, Lighting is also a high-growth area.

Margins and Cost savings

- EBITDA margin witnessed pressure on YoY basis and continue due to competition. McKinsey is working with the company on cost-reduction initiatives.
- McKinsey is working with Orient electric for consultancy. The cost is around 1.7% to 1.8% of sales.
- The company has done INR 36cr cost savings in 9MFY23 and further expected INR 100cr cost savings in the next 12 months.

Electric Consumer Durables (ECD)

- Fans witnessed 15% YoY growth in value and volume levels.
- The company is largely manufacturing 1-star rated fans right now.
- The company liquidated all the non-star fans in Dec-2022. Star-rated fans restocking is expected in Q4FY23.
- 1-star fans are price-sensitive and 5-star fans are efficiency sensitive. The customers tend to settle between mid-range.
- The cost increase is expected in star-rated fans, however, the company is working on cost reduction initiatives.
- Ceiling category fans accounted for 50% of fans, Premium fans (10%), BLDC fans (10%), and the remaining decorative fans.
- There are no changes in prices of fans and air-coolers, strong rollout in fans, and strong line-up in air-coolers.

Lights and Switchgears

- B2C revenue remains flat due to a high base last year, B2B segment witnessed double-digit growth backed by robust infrastructure.
- In the Lights and Switchgears segments, B2B revenue was around 25% (10%-15% earlier) and 75% in B2C (85%-95%) earlier.
- The company is selecting projects which are near-term payments and healthy margins.

Concall Highlights

Market Share

- The company has reached a 25% market share in Direct to market category.
- The company has an 18% market share in the organized fans market.
- The company has a 40% market share in premium fans, premium fans accounted for 10% of fans, and a 10% price hike is expected going forward. The premium fans range above INR 5,000.
- The company has a 25% -30% market share among BLDC fans. BLDC fan's costs significantly reduced over the past 2 years.

Capex

- The Capex is under progress in the green field facility at Hyderabad. Capex incurred around INR 38cr in 9MFY23. Total Capex is expected around INR 175cr.
- The initial investment for building and equipment will come in smaller phases. Phase 1 is expected to complete by FY24. Commercial production is expected to start from June onwards. Ceiling fans and BLDC fans will be manufactured at this facility.

One-time cost

- The one-time cost due to employment recruitment costs, consultancy costs, and Advertisement costs have also gone up significantly.

Other Highlights

- Exports witnessed double-digit growth, majorly from Sri Lanka and the middle east.
- The critical products will be manufactured in-house and simple technology & duplicated products will be outsourced.
- BEE norms impact is smaller and continues to Q4FY23. Trade pickup is expected going forward.
- The company is focused on the expansion of distributors and dealers.

Exhibit 4: Façade lighting by orient Electric

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	2,709	2,993	3,328
Net Raw Materials	1,409	1,421	1,767	1,967	2,146	2,356
Employee Cost	198	179	190	217	233	256
Other Expenses	278	213	260	331	358	402
EBITDA	**176**	**220**	**231**	**195**	**255**	**314**
EBITDA Margin (%)	**8.6%**	**10.8%**	**9.4%**	**7.2%**	**8.5%**	**9.4%**
Depreciation	(40)	(43)	(47)	(50)	(50)	(56)
Interest expense	(26)	(21)	(20)	(21)	(23)	(25)
Other income	4	6	6	8	9	10
Profit before tax	**114**	**162**	**170**	**131**	**191**	**243**
Taxes	(36)	(42)	(43)	(33)	(50)	(63)
PAT	**79**	**120**	**127**	**98**	**141**	**180**
PAT Margin (%)	**3.8%**	**5.9%**	**5.2%**	**3.6%**	**4.7%**	**5.4%**
Other Comprehensive income	(0)	(0)	0	-	-	-
Net profit	**79**	**119**	**127**	**98**	**141**	**180**
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	585	679	798
Net worth	**359**	**456**	**541**	**606**	**700**	**820**
Provisions	46	54	53	45	41	46
Debt	190	95	101	107	117	125
Other non-current liabilities	10	9	13	14	15	17
Total Liabilities	**606**	**614**	**709**	**771**	**873**	**1,007**
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	14	15	17
Other non current assets	81	76	90	100	111	123
Net working capital	**363**	**115**	**291**	**198**	**211**	**224**
Inventories	287	249	326	307	323	342
Sundry debtors	389	384	416	445	492	547
Other current assets	42	30	28	37	41	46
Sundry creditors	(330)	(519)	(449)	(551)	(600)	(661)
Other current liabilities & Prov	(24)	(30)	(29)	(41)	(45)	(50)
Cash	7	258	151	285	354	459
Other Financial Assets	1	1	0	1	1	1
Total Assets	**606**	**614**	**709**	**771**	**873**	**1,007**

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	131	191	243
Depreciation	40	43	47	50	50	56
Tax paid	(36)	(42)	(43)	(33)	(50)	(63)
Working capital Δ	(36)	248	(177)	93	(14)	(13)
Operating cashflow	82	411	(3)	241	178	223
Capital expenditure	(57)	(43)	(59)	(57)	(57)	(58)
Free cash flow	26	368	(61)	184	121	165
Equity raised	4	3	1	-	-	-
Investments	(1)	(2)	(0)	(4)	(1)	(2)
Others	(65)	(4)	(14)	(11)	(11)	(12)
Debt financing/disposal	24	(95)	6	6	10	8
Other items	17	6	4	(9)	(2)	6
Net Δ in cash	(24)	250	(107)	134	69	105
Opening Cash Flow	32	7	258	151	285	354
Closing Cash Flow	7	258	151	285	354	459

Source: Company Reports, Arihant 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%	10.7%	10.5%	11.2%
Op profit growth	24.9%	24.4%	5.4%	-15.9%	31.3%	22.9%
Profitability ratios (%)						
OPM	8.6%	10.8%	9.4%	7.2%	8.5%	9.4%
Net profit margin	3.8%	5.9%	5.2%	3.6%	4.7%	5.4%
RoCE	17.5%	22.5%	21.8%	15.6%	19.6%	21.4%
RoNW	23.6%	29.4%	25.4%	17.0%	21.6%	23.6%
RoA	13.0%	19.5%	17.9%	12.6%	16.2%	17.8%
Per share ratios (INR)						
EPS	3.7	5.6	6.0	4.6	6.7	8.5
Dividend per share	1.4	1.2	2.0	1.5	2.2	2.8
Cash EPS	5.6	7.7	8.2	7.0	9.0	11.1
Book value per share	16.9	21.5	25.5	28.6	33.0	38.6
Valuation ratios (x)						
P/E	71.1	46.8	44.0	57.2	39.5	31.1
P/CEPS	47.0	34.3	32.1	37.7	29.1	23.7
P/B	15.5	12.2	10.3	9.2	8.0	6.8
EV/EBITDA	32.6	24.6	23.9	27.7	20.9	16.7
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	58	57	57
Inventory days	71	69	59	59	54	52
Creditor days	66	86	80	73	77	76
WC Days	76	53	39	44	34	32
Leverage ratios (x)						
Interest coverage	5.2	8.5	9.1	6.7	8.9	10.3
Net debt / equity	0.5	-0.4	-0.1	-0.3	-0.3	-0.4
Net debt / op. profit	1.0	-0.7	-0.2	-0.9	-0.9	-1.1

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 5: Revenue growth is expected to be continue ahead of BEE transition norms.

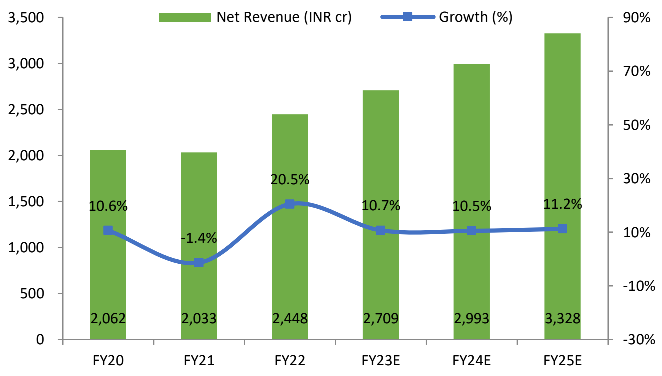


Exhibit 6: In FY23, Gross Margins are expected to impact due to RM costs.

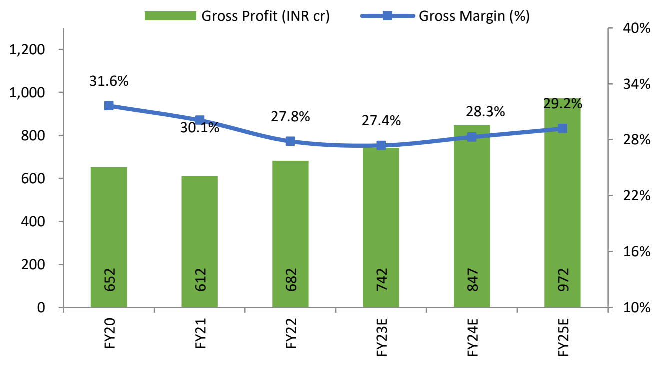


Exhibit 7: The higher other expenses are expected to impact on EBITDA levels in FY23.

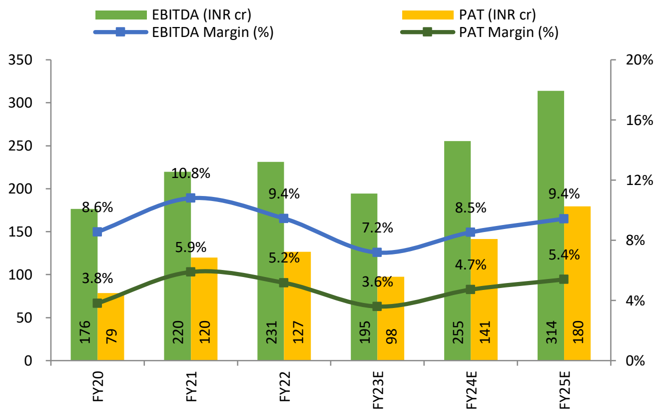


Exhibit 8: Return ratios is expected to improve from FY24 onwards.

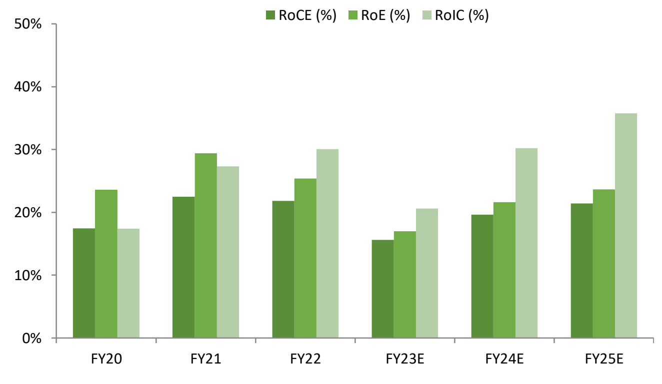


Exhibit 9: Working capital days to be improve

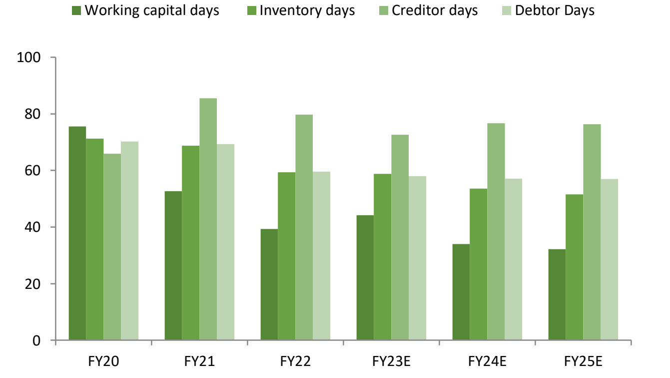
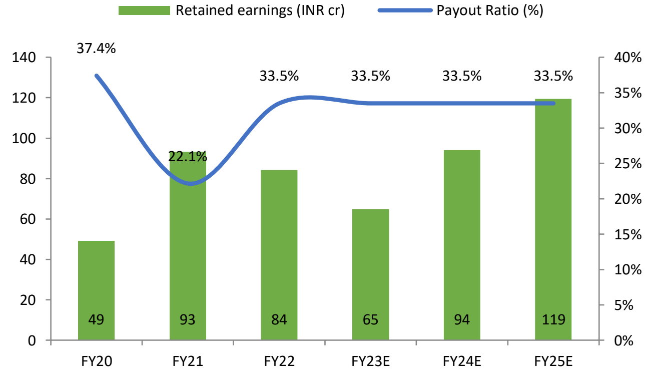


Exhibit 10: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 11: Ad & Sales Promotion expenses is less than 5% of sales. In FY23, OEL has aggressively investing for brand building.

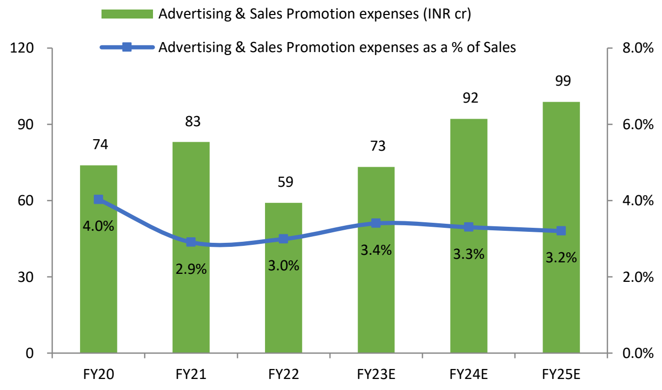


Exhibit 12: Warranty and claims expenses are expected to be around 1% of sales.

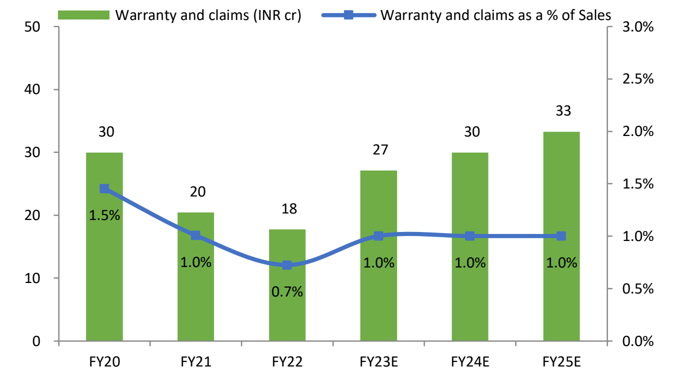


Exhibit 13: Payments to auditors charges are expected to remains flat.

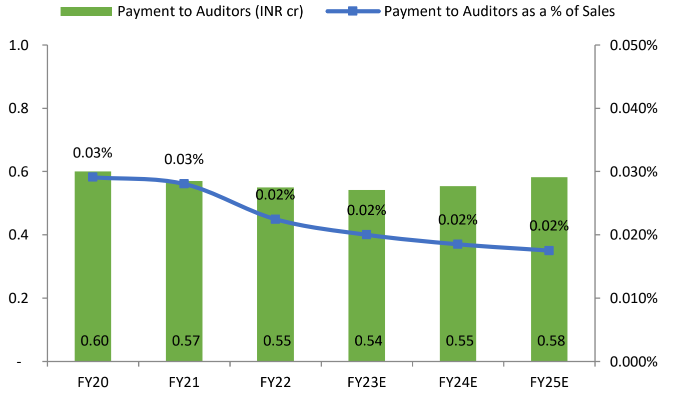


Exhibit 14: Power and Fuel cost are expected to be less than 1% of sales.

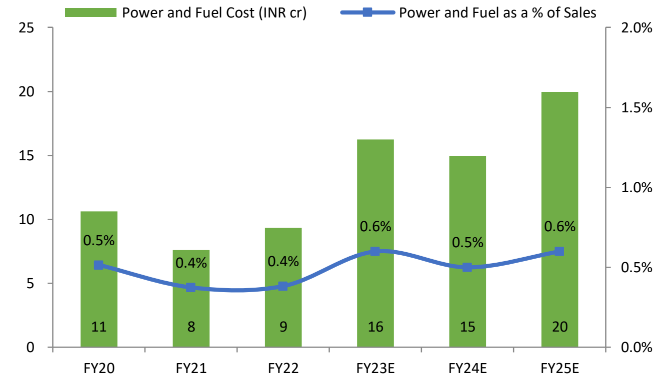


Exhibit 15: Freight and Forwarding charges are expected to be less than 3% of sales.

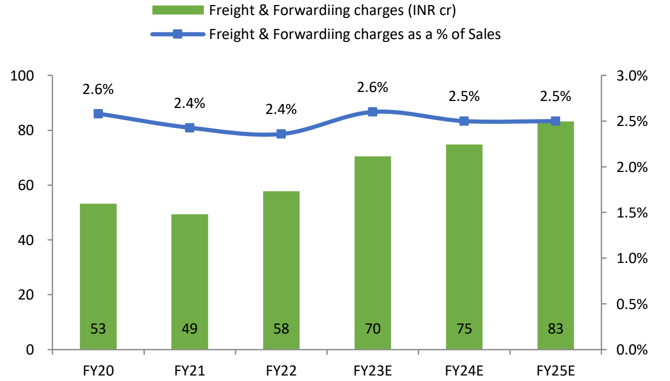
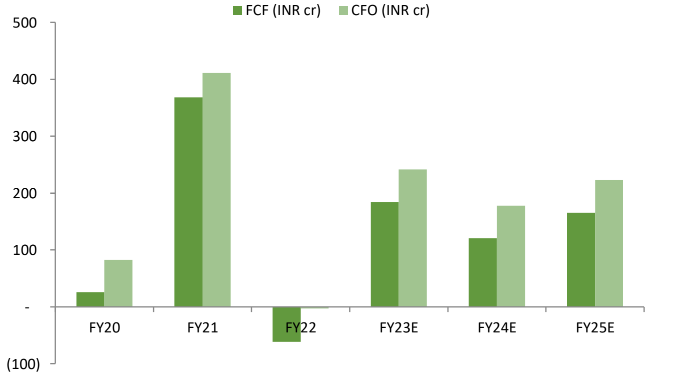


Exhibit 16: Cash flows to be improve.



Source: Company Reports, Arihant Capital Research

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1st 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

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