

Witnessed margin pressure across segments

CMP: INR 220

Rating: ACCUMULATE

Target Price: INR 249

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) | 4,682 |
| 52w H/L (INR) | 285 / 206 |
| Avg Yearly Volume (in 000') | 362.9 |

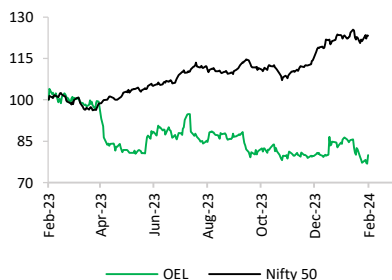
Shareholding Pattern %

(As on Dec, 2023)

| | |
|-----------------|-------|
| Promoters | 38.30 |
| DII | 29.23 |
| FII | 5.94 |
| Public & Others | 26.54 |

| Stock Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|-------|
| OEL | 1.5 | -4.4 | -19.1 |
| NIFTY | 14.2 | 11.9 | 24.1 |

OEL Vs Nifty



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Orient Electric Ltd reported numbers, Q3FY24 revenue grew by 1.7% YoY (+32.6% QoQ) to INR 752cr; above estimates of INR 733cr. The growth was majorly driven by appliances, lighting and switchgear. Gross Profit stood at INR 225cr (+6.2% YoY/+30.9% QoQ); above our estimates of INR 221cr; Gross margins improved by 127 bps YoY (down by 40 bps QoQ) to 29.9% vs 28.6% in Q3FY23, led by input cost reduction and mix improvement. The raw material cost in terms of sales stood at 70.1% vs 71.4% in Q3FY23. EBITDA stood at INR 49cr (-10.8% YoY/+136.7% QoQ); below our estimates of INR 53cr. EBITDA margin contracted by 92 bps YoY (up by 286 bps QoQ) to 6.5% vs 7.4% in Q3FY23, led by soft demand and continued investments across key thrust areas. PAT stood at INR 24cr (-25.3% YoY/+31.9% QoQ); below our estimates of INR 27cr, PAT margin contracted by 117 bps YoY (down by 2 bps QoQ) to 3.2% vs 4.4% in Q3FY23.

Key Highlights

ECD segment impacted by Fans: Electric Consumer Durables (ECD) revenue stood at INR 535cr (-0.7% YoY/+47.3% QoQ); EBIT Stood at INR 60cr (-6.5% YoY/+103% QoQ). EBIT margin contracted by 71 bps YoY (up by 309 bps QoQ) to 11.3% vs 12% in Q3FY23. Home appliances witnessed robust growth, especially in room heaters and water heaters. In Fans, heavy discounting and incentives to the channels happened in Q3FY24. The company is trying to get vendors from China, but the progress is not enough for TPW fans. The company has made connecting and assembly for ceiling fans, however commercial production has not progressed compared to TPW fans. Fans are largely in-house and lightings are 50% in-house and 50% outsourced. ECD is expected to grow 14%-15% growth over the next 3 years backed by consumption, exports, and new plant benefits.

Improvement in product mix led growth of Lighting and Switchgear: Lighting & Switchgears revenue stood at INR 217cr (+8.2% YoY/+6.5% QoQ); EBIT Stood at INR 31cr (-1.4% YoY/+13.9% QoQ). EBIT margin contracted by 139 bps YoY (up by 92 bps QoQ) to 14.2% vs 15.6% in Q3FY23. Lighting division growth is backed by value-added products like high-wattage lamps, professional lumens, C-beams, etc. In lighting, continuous traction is witnessed in B2B. In Lighting, B2C witnessed double-digit volume growth backed by Clum and Lamps. In lighting, the volume and value growth gap is expected to be smaller in FY25E. Lighting margins are expected to be 9% in FY25E.

DTM expansion, E-commerce, Cost savings and new launches remain on track: In Direct to Market, the growth stood at +36% YoY in Q3FY24 and Gujarat DTM is ramping up. The company has sold the products for INR 100cr in 100 days. The company has sold more than 1 lakh water heaters in e-commerce. The cost efficiency program "Spark Sanchay" resulted in cost savings of INR 45cr in 9MFY24. The company has launched 15 new products in Q3FY24. 12 launches in lighting which includes lamps, batten, and panels; 3 products in ECD.

Outlook & Valuation: ECD segment has impacted due to discounting on fans and softening on consumer demand and expected revival gradually due to upcoming summer seasons. The Light & Switchgear segment is expected to continue momentum backed by change in product mix, 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 249 per share; valued at PE multiple 30x and its FY26E EPS of INR 8.3; an upside of 13.3%.

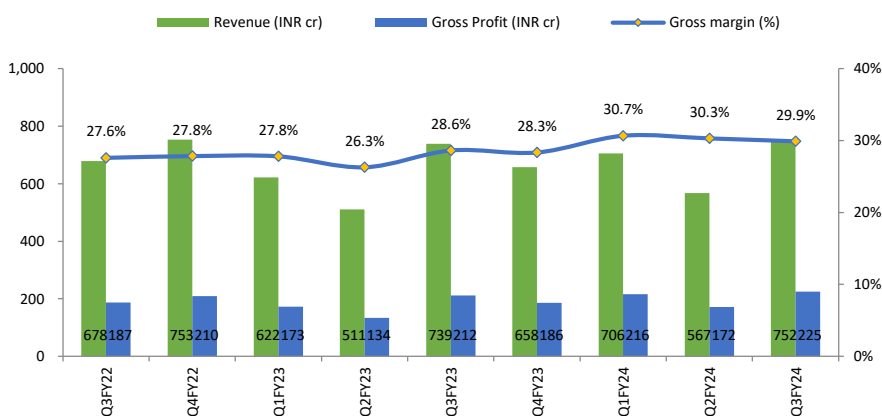
Q3FY24 Result update

Income statement summary

| Y/e 31 Mar (INR cr) | Q3FY23 | Q2FY24 | Q3FY24 | YoY (%) | QoQ (%) |
|--------------------------|-------------|-------------|-------------|-----------------|-----------------|
| Revenue | 739 | 567 | 752 | 1.7% | 32.6% |
| Net Raw Materials | 528 | 395 | 527 | -0.1% | 33.4% |
| Employee Cost | 57 | 58 | 64 | 11.0% | 9.2% |
| Other Expenses | 99 | 93 | 112 | 12.9% | 20.9% |
| EBITDA | 55 | 21 | 49 | -10.8% | 136.7% |
| EBITDA Margin (%) | 7.4% | 3.6% | 6.5% | -92 bps | +286 bps |
| Depreciation | 14 | 14 | 15 | | |
| Interest expense | 6 | 5 | 5 | | |
| Other income | 8.6 | 3.4 | 4.3 | | |
| Profit before tax | 44 | 23 | 33 | | |
| Taxes | 11 | 5 | 8 | | |
| PAT | 33 | 18 | 24 | -25.3% | 31.9% |
| PAT Margin (%) | 4.4% | 3.3% | 3.2% | -117 bps | -2 bps |
| EPS (INR) | 1.5 | 0.9 | 1.1 | | |

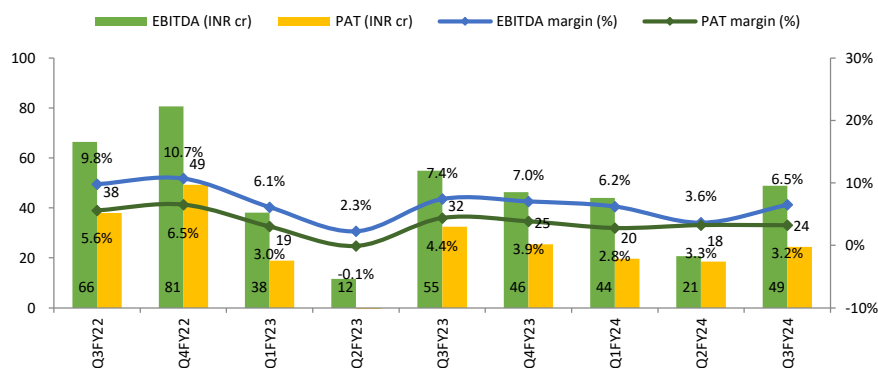
Source: Company Reports, Aриhant Capital Research

Exhibit 1: Gross margins improved by 127 bps YoY (-40 bps QoQ) to 29.9% in Q3FY24, due to input cost reduction and improvement in mix.



Source: Company Reports, Aриhant Capital Research

Exhibit 2: EBITDA margin contracted by 92 bps YoY (+286 bps QoQ) to 6.5% in Q3FY24, due continued investments in key areas despite softened demand.

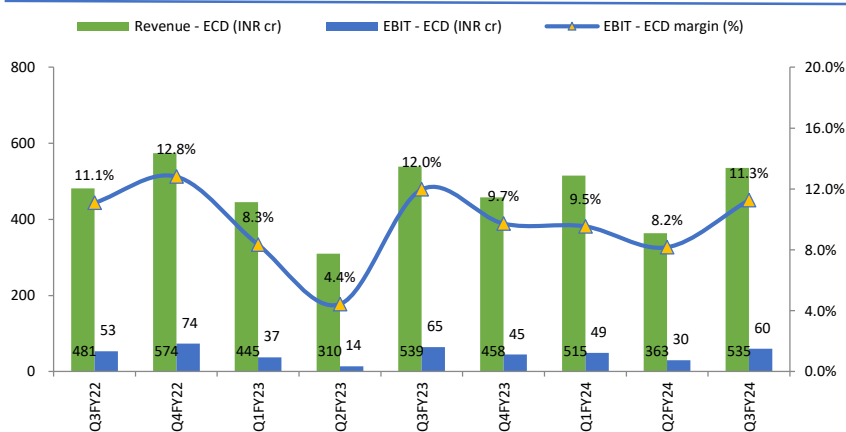


Source: Company Reports, Aриhant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 535cr (-0.7% YoY/+47.3% QoQ); due to high base effect, soft consumer demand and discounting fans.
- EBIT Stood at INR 60cr (-6.5% YoY/+103% QoQ). EBIT margin contracted by 71 bps YoY (up by 309 bps QoQ) to 11.3% vs 12% in Q3FY23.
- TPW, Exhaust and premium category fans witnessed growth YoY basis and Home appliances like room heaters and water heaters witnessed robust growth. Water heaters witnessed strong traction in e-commerce.
- Direct-to-Market grew 36% YoY in Q3FY24 with continued market share improvement.

Exhibit 3: Margins remain under pressure on YoY basis due to price erosion and discounting of fans.

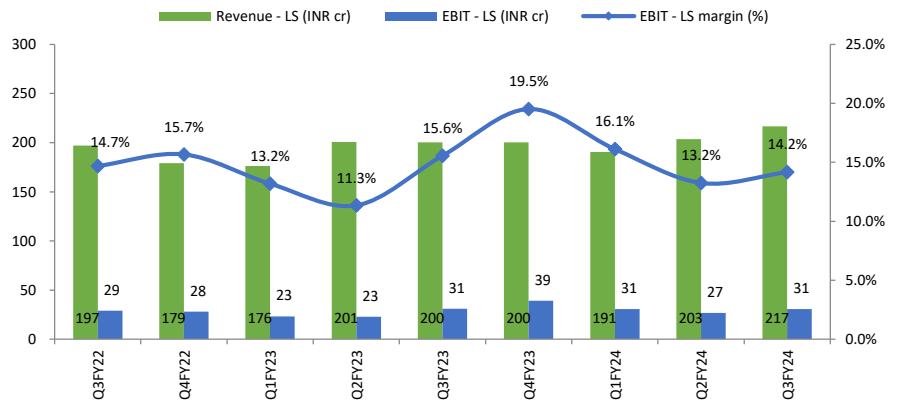


Source: Company Reports, Arianth Capital Research

Lighting & Switchgear segment (L&S) Segment

- Lighting & Switchgears revenue stood at INR 217cr (+8.2% YoY/+6.5% QoQ); driven by volume growth.
- EBIT Stood at INR 31cr (-1.4% YoY/+13.9% QoQ). EBIT margin contracted by 139 bps YoY (up by 92 bps QoQ) to 14.2% vs 15.6% in Q3FY23. The margin improvement on QoQ basis, increase in share of Clum and high wattage lamps and raw material cost reduction.
- Switchgear witnessed healthy growth in B2B projects.
- Housing wires witnessed traction in the north region.
- Plum Tender and Façade witnessed high double digit growth in Q3FY24 and execution remain robust.

Exhibit 4: L&S growth were backed by volume growth and increase in share of CLum and High wattage lamps.



Source: Company Reports, Arihant Capital Research

Q3FY24 Concall Highlights

ECD

- In Fans, heavy discounting and incentives to the channels happened in Q3FY24.
- Home appliances witnessed robust growth, especially in room heaters and water heaters.
- ECD is expected to grow 14%-15% growth over the next 3 years backed by consumption, exports, and new plant benefits.
- Fans are largely in-house and lightings are 50% in-house and 50% outsourced.
- The company is trying to get vendors from China, but the progress is not enough for TPW fans. The company has made connecting and assembly for ceiling fans, however commercial production has not progressed compared to TPW fans.

Lightings

- Lighting division growth is backed by value-added products like high-wattage lamps, professional lumens, C-beams, etc.
- In lighting, continuous traction is witnessed in B2B.
- In Lighting, B2C witnessing double-digit volume growth backed by Clum and Lamps.
- In lighting, the volume and value growth gap is expected to be smaller in FY25E.
- Lighting margins are expected to be 9% in FY25E.

Direct to market

- In Direct to Market, the growth stood at +36% YoY in Q3FY24 and Gujarat DTM is ramping up.

Q3FY24 Concall Highlights

Capex

- The modernization is expected in the Faridabad plant with a capex of INR 20cr.

Exports

- The company is focused on West Asia and Africa. The company also focused on penetrating the eastern Europe side.
- The Hyderabad facility has TPW fan's art lines and TPW fans are majorly expected to export.
- Exports revenue grew in the high teens YoY, backed by key markets like Iraq, Sri Lanka, and Ghana despite of Red Sea disruption.

Cost savings

- The cost efficiency program resulted in cost savings of INR 45cr in 9MFY24.

Hiring

- The company is in the final stages of hiring a new CEO for Total Electric. The company is in significant progress in hiring other positions also.

E-commerce

- The company has sold the products for INR 100cr in 100 days. The company has sold more than 1 lakh water heaters in e-commerce.

New launches

- The company has launched 15 new products in Q3FY24. 12 launches in lighting which includes lamps, batten, and panels; 3 products in ECD.

Working capital days

- The working capital days stood at 24 days (up by 4 days YoY) due to stocking up inventory during the festive season.

Other highlights

- The company is improving on after-sales services of products in the past 3-4 months.
- Wires are a small portion of business. It comes with switch and switchgear bundles in the lighting division.
- Housing wires witnessed traction in northern markets.

Exhibit 5: New launches in Q3FY24.



Source: Company Reports, Arianth 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 | 2,759 | 2,062 | 2,033 |
| Net Raw Materials | 1,409 | 1,421 | 1,767 | 1,824 | 1,926 | 1,409 | 1,421 |
| Employee Cost | 198 | 179 | 190 | 193 | 250 | 198 | 179 |
| Other Expenses | 278 | 213 | 260 | 361 | 418 | 278 | 213 |
| EBITDA | 176 | 220 | 231 | 151 | 165 | 176 | 220 |
| EBITDA Margin (%) | 8.6% | 10.8% | 9.4% | 6.0% | 6.0% | 8.6% | 10.8% |
| Depreciation | (40) | (43) | (47) | (54) | (51) | (40) | (43) |
| Interest expense | (26) | (21) | (20) | (22) | (22) | (26) | (21) |
| Other income | 4 | 6 | 6 | 27 | 13 | 4 | 6 |
| Profit before tax | 114 | 162 | 170 | 102 | 124 | 114 | 162 |
| Taxes | (36) | (42) | (43) | (26) | (31) | (36) | (42) |
| PAT | 79 | 120 | 127 | 76 | 93 | 79 | 120 |
| PAT Margin (%) | 3.8% | 5.9% | 5.2% | 3.0% | 3.4% | 3.8% | 5.9% |
| Other Comprehensive income | (0) | (0) | 0 | 1 | - | (0) | (0) |
| Total Comprehensive income | 79 | 119 | 127 | 76 | 93 | 79 | 119 |
| EPS (INR) | 3.7 | 5.6 | 6.0 | 3.6 | 4.3 | 3.7 | 5.6 |

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 | 625 | 719 | 837 |
| Net worth | 359 | 456 | 541 | 585 | 646 | 740 | 858 |
| Provisions | 46 | 54 | 53 | 50 | 53 | 50 | 55 |
| Debt | 190 | 95 | 101 | 139 | 127 | 137 | 145 |
| Other non-current liabilities | 10 | 9 | 13 | 11 | 14 | 15 | 17 |
| Total Liabilities | 606 | 614 | 709 | 784 | 839 | 942 | 1,075 |
| Fixed assets | 130 | 130 | 142 | 127 | 259 | 316 | 317 |
| 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 | 269 | 277 | 283 |
| Inventories | 287 | 249 | 326 | 285 | 317 | 331 | 346 |
| Sundry debtors | 389 | 384 | 416 | 372 | 454 | 500 | 553 |
| Other current assets | 42 | 30 | 28 | 63 | 38 | 42 | 46 |
| Sundry creditors | (330) | (519) | (449) | (453) | (498) | (551) | (613) |
| Other current liabilities & Prov | (24) | (30) | (29) | (28) | (41) | (46) | (51) |
| Cash | 7 | 258 | 151 | 164 | 170 | 196 | 307 |
| Other Financial Assets | 1 | 1 | 0 | 2 | 1 | 1 | 1 |
| Total Assets | 606 | 614 | 709 | 784 | 839 | 942 | 1,075 |

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 | 124 | 190 | 237 |
| Depreciation | 40 | 43 | 47 | 54 | 51 | 61 | 67 |
| Tax paid | (36) | (42) | (43) | (26) | (31) | (48) | (60) |
| Working capital Δ | (36) | 248 | (177) | 53 | (31) | (8) | (6) |
| Operating cashflow | 82 | 411 | (3) | 182 | 113 | 195 | 238 |
| Capital expenditure | (57) | (43) | (59) | (119) | (103) | (119) | (69) |
| Free cash flow | 26 | 368 | (61) | 63 | 10 | 77 | 169 |
| Equity raised | 4 | 3 | 1 | 10 | 0 | - | 0 |
| Investments | (1) | (2) | (0) | (5) | 1 | (1) | (2) |
| Others | (65) | (4) | (14) | (43) | 32 | (11) | (12) |
| Debt financing/disposal | 24 | (95) | 6 | 38 | (12) | 10 | 8 |
| Dividends paid | (29) | (27) | (42) | (42) | (31) | (47) | (59) |
| Other items | 17 | 6 | 4 | (6) | 6 | (1) | 7 |
| Net Δ in cash | (24) | 250 | (107) | 14 | 6 | 26 | 111 |
| Opening Cash Flow | 32 | 7 | 258 | 151 | 164 | 170 | 196 |
| Closing Cash Flow | 7 | 258 | 151 | 164 | 170 | 196 | 307 |

Source: Company Reports, Arihant Capital Research

Ratio analysis

| Y/e 31 Mar | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------|-------|-------|-------|--------|-------|-------|-------|
| Growth matrix (%) | | | | | | | |
| Revenue growth | 10.6% | -1.4% | 20.5% | 3.3% | 9.1% | 10.3% | 10.6% |
| Op profit growth | 24.9% | 24.4% | 5.4% | -34.7% | 9.3% | 52.7% | 20.7% |
| Profitability ratios (%) | | | | | | | |
| OPM | 8.6% | 10.8% | 9.4% | 6.0% | 6.0% | 8.3% | 9.0% |
| Net profit margin | 3.8% | 5.9% | 5.2% | 3.0% | 3.4% | 4.7% | 5.3% |
| RoCE | 17.5% | 22.5% | 21.8% | 12.6% | 11.9% | 18.2% | 19.7% |
| RoNW | 23.6% | 29.4% | 25.4% | 13.5% | 15.0% | 20.4% | 22.1% |
| RoA | 13.0% | 19.5% | 17.9% | 9.7% | 11.0% | 15.0% | 16.4% |
| Per share ratios (INR) | | | | | | | |
| EPS | 3.7 | 5.6 | 6.0 | 3.6 | 4.3 | 6.7 | 8.3 |
| Dividend per share | 1.4 | 1.2 | 2.0 | 2.0 | 1.5 | 2.2 | 2.8 |
| Cash EPS | 5.6 | 7.7 | 8.2 | 6.1 | 6.7 | 9.5 | 11.5 |
| Book value per share | 16.9 | 21.5 | 25.5 | 27.5 | 30.4 | 34.8 | 40.3 |
| Valuation ratios (x) | | | | | | | |
| P/E | 59.5 | 39.1 | 36.8 | 61.3 | 50.6 | 33.0 | 26.5 |
| P/CEPS | 39.3 | 28.7 | 26.9 | 36.2 | 32.6 | 23.1 | 19.2 |
| P/B | 13.0 | 10.2 | 8.6 | 8.0 | 7.2 | 6.3 | 5.5 |
| EV/EBITDA | 27.5 | 20.5 | 19.9 | 30.7 | 28.0 | 18.3 | 14.8 |
| 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% | 25.1% | 25.4% | 25.4% |
| Liquidity ratios | | | | | | | |
| Debtor days | 70 | 69 | 60 | 57 | 55 | 57 | 57 |
| Inventory days | 71 | 69 | 59 | 61 | 57 | 56 | 53 |
| Creditor days | 66 | 86 | 80 | 69 | 67 | 69 | 69 |
| WC Days | 76 | 53 | 39 | 49 | 45 | 44 | 41 |
| Leverage ratios (x) | | | | | | | |
| Interest coverage | 5.2 | 8.5 | 9.1 | 4.4 | 5.2 | 8.1 | 9.4 |
| 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 | -0.3 | -0.2 | -0.5 |

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 6: Revenue growth is expected to grow at CAGR of 10% over the period of FY23-26E.

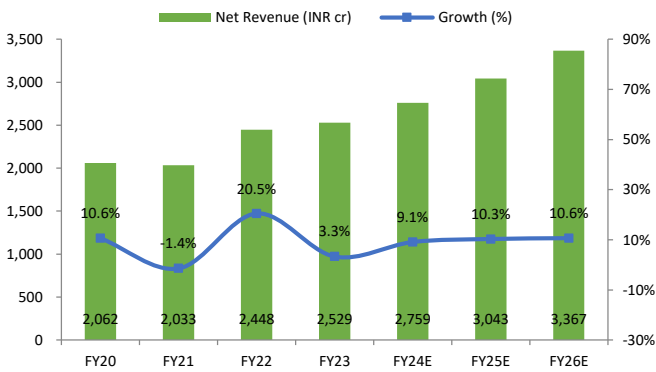


Exhibit 7: Gross Margins are expected to improve gradually due to Raw material cost optimization, better realization and product mix.

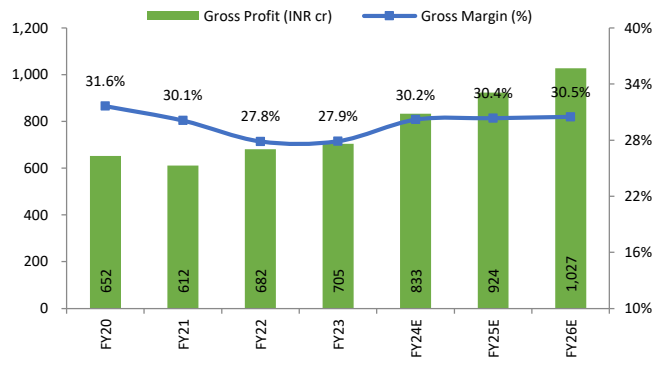


Exhibit 8: Rationalization of other expenses will improve the EBITDA margin going forward.

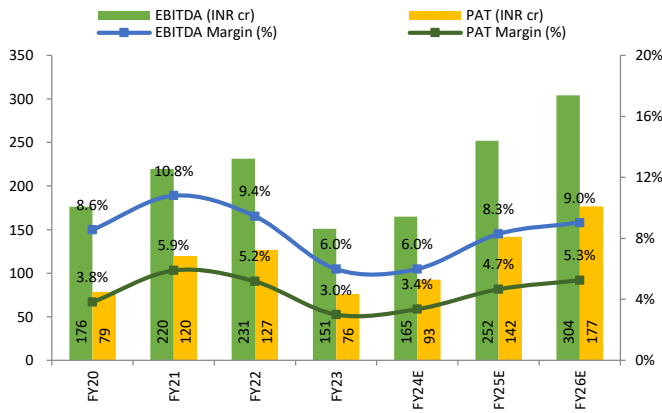


Exhibit 9: Return ratios is expected to improve from FY24 onwards.

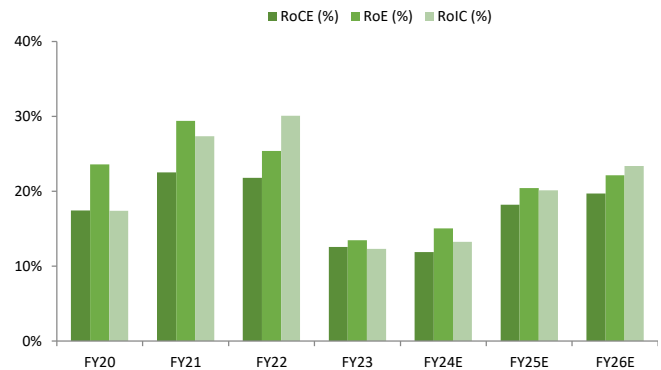


Exhibit 10: Working capital days to be improve

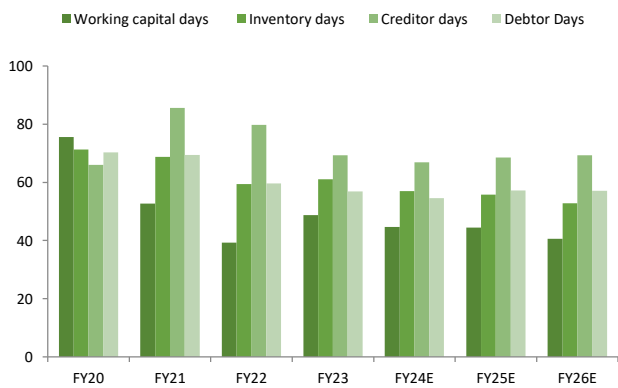
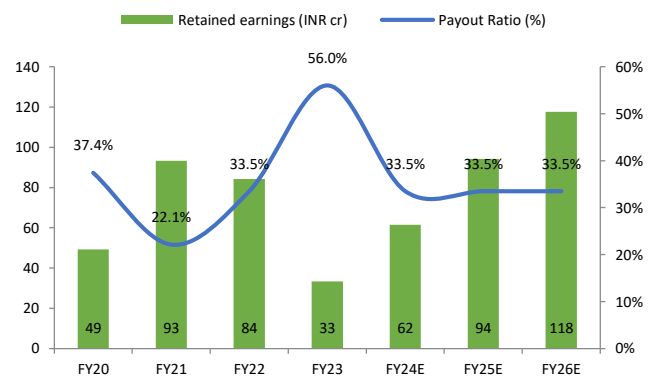


Exhibit 11: Dividend pay-out to be continue



Source: Company Reports, Arianth Capital Research

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|---|--|
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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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