ArihantCapital
Generating Wealth

Q4FY23 Result update
15th May 2023

Orient Electric Ltd

ECD segment dragged overall performance

CMP: INR 222

Rating: ACCUMULATE

Target Price: INR 252

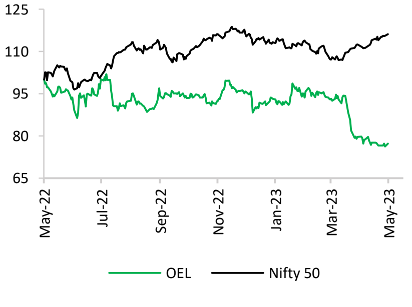
Stock Info	
BSE	541301
NSE	ORIENTELEC
Bloomberg	ORIENTAL:IN
Reuters	ORIENTAL.BO
Sector	Consumer Durables
Face Value (INR)	1
Equity Capital (INR cr)	21
Mkt Cap (INR cr)	4,724
52w H/L (INR)	302 / 216
Avg Yearly Volume (in 000')	244.1

Shareholding Pattern %
(As on Mar, 2023)

Promoters	38.41
DII	27.60
FII	5.75
Public & Others	28.23

Stock Performance (%)	3m	6m	12m
OEL	-18.6	-16.2	-22.7
NIFTY	2.1	0.0	16.1

OEL Vs Nifty



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

Balasubramanian A
bala@arihantcapital.com
022-67114780

Orient Electric Ltd reported numbers, Q4FY23 revenue de-grew by 12.7% YoY (-11% QoQ) to INR 658cr vs our estimates of INR 742cr, due to muted demand in ECD, offset by performance in Lighting and switchgear segments. Gross Profit stood at INR 186cr (-11.1% YoY/-11.8% QoQ) vs our estimates of INR 209cr; Gross margins improved by 51 bps YoY (down by 28 bps QoQ) to 28.3% vs 27.8% in Q4FY22 due to better realization and products mix. The raw material cost in terms of sales stood at 71.7% vs 72.2% in Q4FY22. EBITDA stood at INR 46cr (-42.5% YoY/-15.5% QoQ) vs our estimates of INR 59cr. EBITDA margin contracted by 366 bps YoY (down by 38 bps QoQ) to 7% vs 10.7% in Q4FY22 due to an increase in employee and other expenses. PAT stood at INR 25cr (-49.5% YoY/ -21.7% QoQ) vs our estimates of INR 35cr, PAT margin contracted by 273 bps YoY (down by 66 bps QoQ) to 3.7% vs 6.5% in Q4FY22.

Key Highlights

Lighting and Switchgear segment witnessed sustained growth: Lighting & Switchgears revenue stood at INR 200cr (+11.8% YoY/flat on QoQ); driven by consumer lighting and B2B segment. EBIT Stood at INR 39cr (+39.2% YoY/+25.5% QoQ). EBIT margin improved by 385 bps YoY (up by 396 bps QoQ) to 19.5% vs 15.7% in Q4FY22. The margin improvement was led by a better product mix despite of lower realization. Wires have launched in a few states, and the company is focused on deeper in 6 to 8 states. Wires witnessed responses from channel partners, contractors, and consumer levels. B2B segment is strongly growing due to projects and a decorative range of products. The investment push in the infra and realty sector along with strong traction in the B2B segment will drive the growth going forward.

Electrical Consumer Durables segment has muted due to fans: Electric Consumer Durables (ECD) revenue stood at INR 458cr (-20.3% YoY/-15.1% QoQ) due to muted demand. EBIT Stood at INR 45cr (-39.5% YoY/-31% QoQ). EBIT margin contracted by 309 bps YoY (down by 224 bps QoQ) to 9.7% vs 12.8% in Q4FY22. The lower fan sales and higher investments impacted margin levels. Non-star rated inventory almost cleared, some counters carrying high-cost inventories. Premium segments like 4-star and 5-star rated fans have witnessed a growth and a clear trend will be visible in the next quarter end. Coolers and fans were affected due to unseasonal rain in Q4FY23. In fans, the company is focusing on market share gain and profitability.

Focused on margin improvement through cost reduction initiatives: EBITDA margins are impacted due to operating de-leverage and higher investment in brand buildings. McKinsey is working with the company for cost-reduction initiatives and digital capabilities. The company has saved INR 60cr in FY23 and further cost savings are expected going forward. The incremental EBITDA of INR 50cr per annum is expected due to cost reduction initiatives.

Outlook & Valuation: Lighting and Switchgear segment witnessed sustained growth with margin improvement and is expected to continue going forward. B2B business remained stronger backed by the infra and realty sector will add strength to the L&S segment. The ECD segment is expected to normalize gradually going forward. 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 downgrading to an "ACCUMULATE" rating ("BUY" earlier) at a TP of INR 252 per share; valued at PE multiple 35x and its FY26E EPS; an upside of 13.5%.

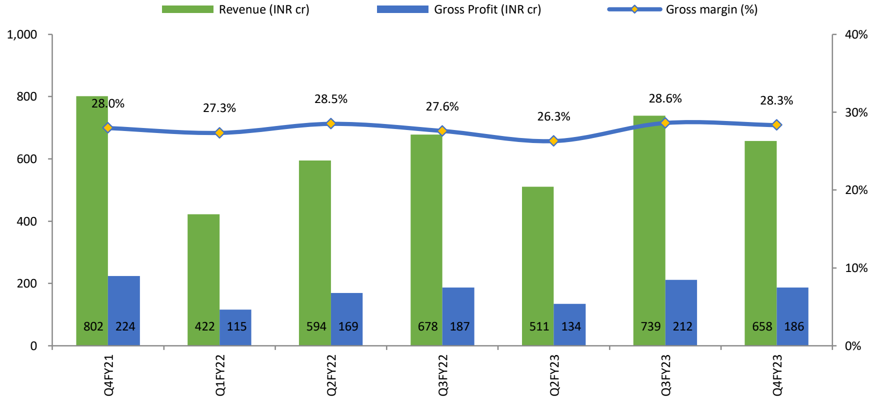
Q4FY23 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q4FY22	Q3FY23	Q4FY23	YoY (%)	QoQ (%)
Revenue	753	739	658	-12.7%	-11.0%
Net Raw Materials	544	528	471	-13.3%	-10.6%
Employee Cost	46	57	45	-1.9%	-21.4%
Other Expenses	83	99	95	14.4%	-4.3%
EBITDA	**81**	**55**	**46**	**-42.5%**	**-15.5%**
EBITDA Margin (%)	**10.7%**	**7.4%**	**7.0%**	**-366 bps**	**-38 bps**
Depreciation	12	14	14		
Interest expense	6	6	6		
Other income	2.7	8.6	6.3		
Profit before tax	**65**	**44**	**33**		
Taxes	17	11	8		
PAT	**49**	**33**	**25**	**-49.5%**	**-24.4%**
PAT Margin (%)	**6.5%**	**4.4%**	**3.7%**	**-273 bps**	**-66 bps**
Other Comprehensive income	0.4	(0.1)	0.8		
Net profit	**49**	**32**	**25**	**-48.4%**	**-21.7%**
Net profit Margin (%)	**6.5%**	**4.4%**	**3.9%**	**-267 bps**	**-53 bps**
EPS (INR)	**2.3**	**1.5**	**1.2**		

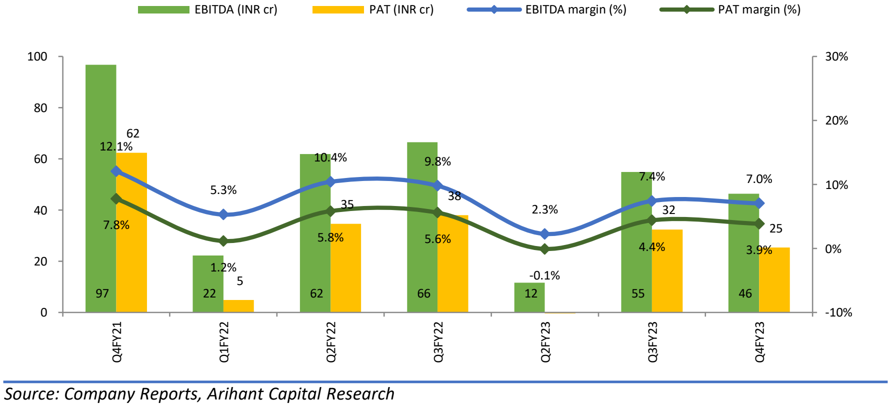
Source: Company Reports, Arihant Capital Research

Exhibit 1: Gross margins improved by 51 bps to 28.3% in Q4FY23, due to better price realization and product mix.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA margins contracted by 366bps YoY to 7% in Q4FY23 due to increase in employee cost and other expenses.

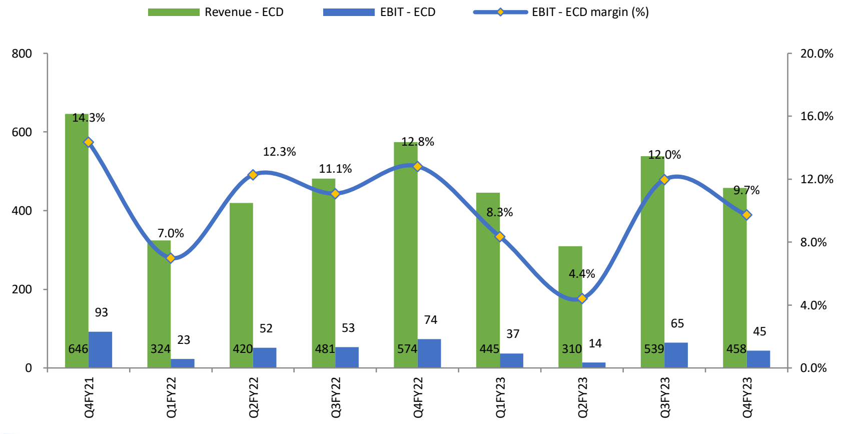


Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 458cr (-20.3% YoY/-15.1% QoQ) due to muted demand.
- EBIT Stood at INR 45cr (-39.5% YoY/-31% QoQ). EBIT margin contracted by 309 bps YoY (down by 224 bps QoQ) to 9.7% vs 12.8% in Q4FY22. The lower fan sales and higher investments are impacted on margin levels.
- Water heater grew by 2x and Air coolers grew mid-teens in Q4FY23.
- Fans witnessed higher channel stocking due to BEE star transition. Fans sales get impacted because of muted consumer demand and erratic weather condition.
- Direct to Market witnessed +15% growth in FY23.

Exhibit 3: ECD Margins were impacted due to lower fan sales and higher investments in brand buildings.

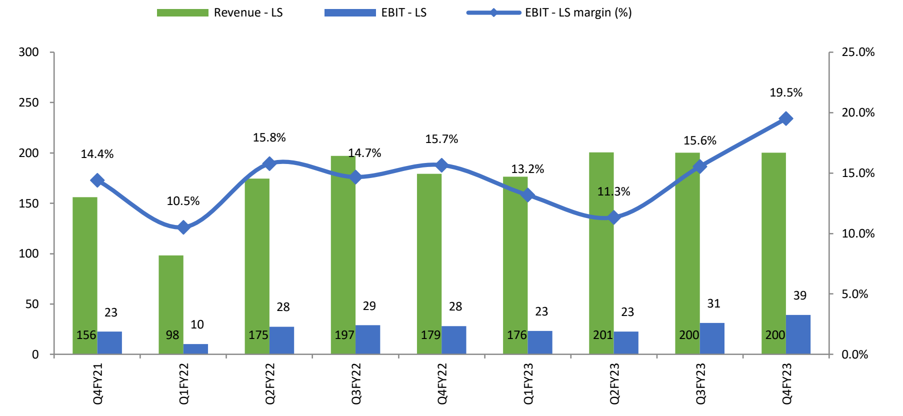


Source: Company Reports, Arihant Capital Research

Lighting & Switchgear segment (L&S) Segment)

- Lighting & Switchgears revenue stood at INR 200cr (+11.8% YoY/flat on QoQ); driven by consumer lighting and B2B segment.
- EBIT Stood at INR 39cr (+39.2% YoY/+25.5% QoQ). EBIT margin improved by 385 bps YoY (up by 396 bps QoQ) to 19.5% vs 15.7% in Q4FY22. The margin improvement led by better product mix despite of lower realization.
- B2B channel witnessed more than 20% growth in Q4FY23.
- In Façade lighting projects, the company has completed Srinagar Smart city project, Rail Bhawan, Baroda house & Dwarkadhish Highway Bridge Project.
- Wires has launched in few states and company is focused to deeper in 6 to 8 states. Wires witnessed response from channel partners, contractors and consumer levels.
- B2C value growth driven by C-Lum.

Exhibit 4: L&S margins improvement backed by better product mix.



Source: Company Reports, Arihant Capital Research

Q4FY23 Concall Highlights

Revenue & EBITDA

- Lighting and switchgear segment is continuing to perform well and ECD segment gradual recovery is expected in coming quarters.
- EBITDA margins are impacted due to operating de-leverage and higher investment in brand buildings. Around INR 50cr incremental EBITDA is expected in FY25E. The cost reduction initiatives and digital capabilities through Consultancy initiatives.
- Direct to Market (DTM) and Non-DTM margins are same and DTM is basically reaching closure to customers.

Fans

- Fans growth are flat in FY23 and appliances growth are moderate in FY23.
- The fans average channel inventory levels around 35 days to 45 days.
- Non star rated inventory almost cleared, some counters carrying high cost inventories. Premium segments like 4-star and 5-star rated fans are witnessed growth and clear trend will be visible in next quarter end.
- Cooler and fans affected due to unseasonal rain in Q4FY23. In fans, the company is focusing on market share gain and profitability.

B2B

- B2B segment strongly growing due to projects and decorative range of products.
- B2B and B2C mix is around 15:85 in FY23.

Switch gears and wires

- Switchgear business share around 2%-3% of sales.
- Wires has launched in few states and company is focused to deeper in 6 to 8 states. Wires witnessed response from channel partners, contractors and consumer levels.

Direct to Market (DTM)

- Direct to Market has launched in 6 states and witnessed 15% growth. In DTM, the company have not given any discounts.
- Direct to Market is only for fans and 25% of fans sales coming from DTM sales.

Concall Highlights

Price hike

- Pricing action happened in Jan-23. The company has taken average price hike of 2.5% for fans. Most of the fan players taken price hike in Apr-23.

Capex

- The company has done capex of INR 78cr in Hyderabad plant. The overall capex is expected INR 185cr to INR 190cr. The capacity additions are expected around 1/3 of current capacity. Hyderabad plant is expected fully in-place by Sep-23.
- The replacement capex is expected ~INR 40cr – INR 50cr.

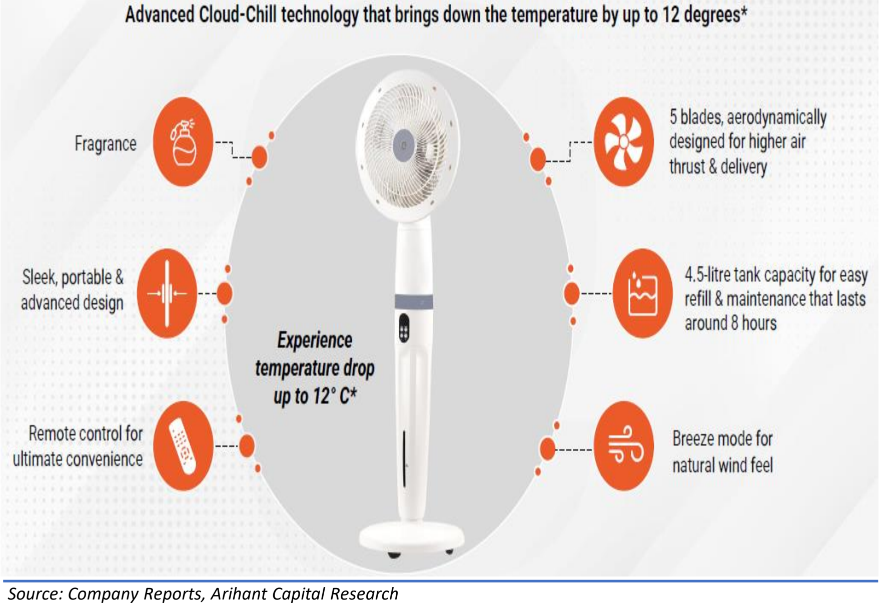
Other highlights

- E-commerce is expected to doubling in next couple of years.

Exhibit 5: The company has made investments in brand capability building initiatives.

Source: Company Reports, Arihant Capital Research

Exhibit 6: New product launch – Cloud 3.



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	2,704	2,923	3,191
Net Raw Materials	1,409	1,421	1,767	1,824	1,963	2,096	2,263
Employee Cost	198	179	190	193	216	228	246
Other Expenses	278	213	260	361	330	350	385
EBITDA	**176**	**220**	**231**	**151**	**194**	**249**	**298**
EBITDA Margin (%)	**8.6%**	**10.8%**	**9.4%**	**6.0%**	**7.2%**	**8.5%**	**9.3%**
Depreciation	(40)	(43)	(47)	(54)	(57)	(62)	(68)
Interest expense	(26)	(21)	(20)	(22)	(26)	(31)	(33)
Other income	4	6	6	27	8	9	10
Profit before tax	**114**	**162**	**170**	**102**	**119**	**165**	**207**
Taxes	(36)	(42)	(43)	(26)	(30)	(43)	(54)
PAT	**79**	**120**	**127**	**76**	**89**	**122**	**153**
PAT Margin (%)	**3.8%**	**5.9%**	**5.2%**	**3.0%**	**3.3%**	**4.2%**	**4.8%**
Other Comprehensive income	(0)	(0)	0	1	-	-	-
Net profit	**79**	**119**	**127**	**76**	**89**	**122**	**153**
EPS (INR)	3.7	5.6	6.0	3.6	4.2	5.7	7.2

Source: Company Reports, Arihant 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	622	703	805
Net worth	**359**	**456**	**541**	**585**	**643**	**725**	**826**
Provisions	46	54	53	50	52	48	52
Debt	190	95	101	139	145	155	163
Other non-current liabilities	10	9	13	11	14	15	16
Total Liabilities	**606**	**614**	**709**	**784**	**853**	**942**	**1,057**
Fixed assets	130	130	142	127	303	299	289
Capital Work In Progress	3	3	2	83	3	3	4
Other Intangible assets	13	23	23	22	22	22	22
Investments	7	9	10	15	14	15	16
Other non current assets	81	76	90	133	100	108	118
Net working capital	**363**	**115**	**291**	**238**	**197**	**206**	**215**
Inventories	287	249	326	285	307	316	329
Sundry debtors	389	384	416	372	445	480	525
Other current assets	42	30	28	63	37	40	44
Sundry creditors	(330)	(519)	(449)	(453)	(550)	(586)	(634)
Other current liabilities & Prov	(24)	(30)	(29)	(28)	(41)	(44)	(48)
Cash	7	258	151	164	214	288	393
Other Financial Assets	1	1	0	2	1	1	1
Total Assets	**606**	**614**	**709**	**784**	**853**	**942**	**1,057**

Source: Company Reports, Arihant Capital Research

Du-Pont Analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.8	0.9	0.9	1.0	0.9	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Asset turnover (x)	2.3	2.0	2.1	2.1	2.1	2.0	2.0
Financial leverage (x)	2.7	2.5	2.3	2.1	2.1	2.2	2.1
RoE (%)	**23.6%**	**29.4%**	**25.4%**	**13.3%**	**14.1%**	**17.4%**	**19.2%**

Source: Company Reports, Arihant 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	119	165	207
Depreciation	40	43	47	54	57	62	68
Tax paid	(36)	(42)	(43)	(26)	(30)	(43)	(54)
Working capital Δ	(36)	248	(177)	53	41	(9)	(8)
Operating cashflow	**82**	**411**	**(3)**	**182**	**187**	**175**	**212**
Capital expenditure	(57)	(43)	(59)	(119)	(153)	(58)	(59)
Free cash flow	**26**	**368**	**(61)**	**63**	**33**	**117**	**154**
Equity raised	4	3	1	10	-	-	-
Investments	(1)	(2)	(0)	(5)	1	(1)	(1)
Others	(65)	(4)	(14)	(43)	34	(8)	(10)
Debt financing/disposal	24	(95)	6	38	6	10	8
Dividends paid	(29)	(27)	(42)	(42)	(30)	(41)	(51)
Other items	17	6	4	(6)	5	(3)	6
Net Δ in cash	**(24)**	**250**	**(107)**	**14**	**50**	**74**	**105**
Opening Cash Flow	**32**	**7**	**258**	**151**	**164**	**214**	**288**
Closing Cash Flow	**7**	**258**	**151**	**164**	**214**	**288**	**393**

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%	6.9%	8.1%	9.2%
Op profit growth	24.9%	24.4%	5.4%	-34.7%	28.6%	28.4%	19.4%
Profitability ratios (%)							
OPM	8.6%	10.8%	9.4%	6.0%	7.2%	8.5%	9.3%
Net profit margin	3.8%	5.9%	5.2%	3.0%	3.3%	4.2%	4.8%
RoCE	17.5%	22.5%	21.8%	12.6%	13.4%	16.4%	18.0%
RoNW	23.6%	29.4%	25.4%	13.5%	14.4%	17.8%	19.7%
RoA	13.0%	19.5%	17.9%	9.7%	10.4%	12.9%	14.5%
Per share ratios (INR)							
EPS	3.7	5.6	6.0	3.6	4.2	5.7	7.2
Dividend per share	1.4	1.2	2.0	2.0	1.4	1.9	2.4
Cash EPS	5.6	7.7	8.2	6.1	6.8	8.7	10.4
Book value per share	16.9	21.5	25.5	27.5	30.2	34.1	38.8
Valuation ratios (x)							
P/E	60.0	39.5	37.2	61.9	53.4	38.7	30.9
P/CEPS	39.7	28.9	27.1	36.5	32.4	25.6	21.4
P/B	13.1	10.3	8.7	8.1	7.3	6.5	5.7
EV/EBITDA	27.7	20.7	20.1	31.0	23.9	18.3	15.0
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%	25.4%	26.0%	26.0%
Liquidity ratios							
Debtor days	70	69	60	57	55	58	57
Inventory days	71	69	59	61	55	54	52
Creditor days	66	86	80	69	73	78	77
WC Days	76	53	39	49	37	34	32
Leverage ratios (x)							
Interest coverage	5.2	8.5	9.1	4.4	5.2	6.0	7.0
Net debt / equity	0.5	-0.4	-0.1	-0.0	-0.1	-0.2	-0.3
Net debt / op. profit	1.0	-0.7	-0.2	-0.2	-0.4	-0.5	-0.8

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 7: Revenue growth is expected to grow at CAGR of 8.1% over the period of FY23-26E.

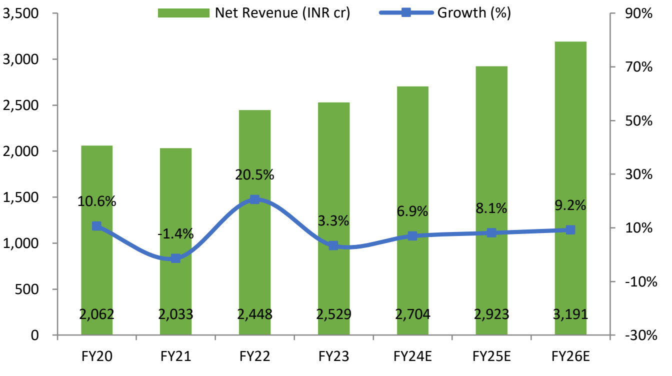


Exhibit 8: In FY23, Gross Margins are expected to improve gradually due to better realization and product mix.

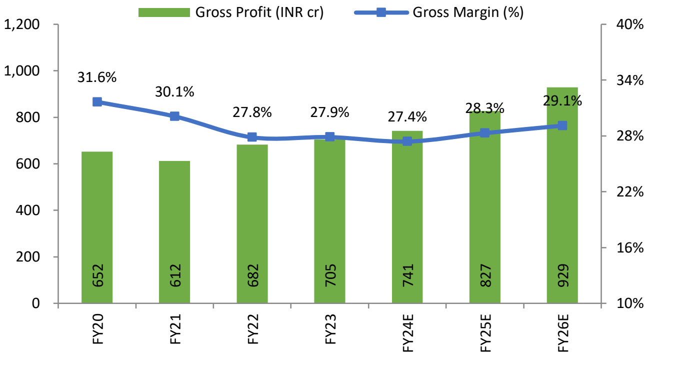


Exhibit 9: Cost reduction initiatives leads to additional EBITDA of INR 50cr per annum going forward.

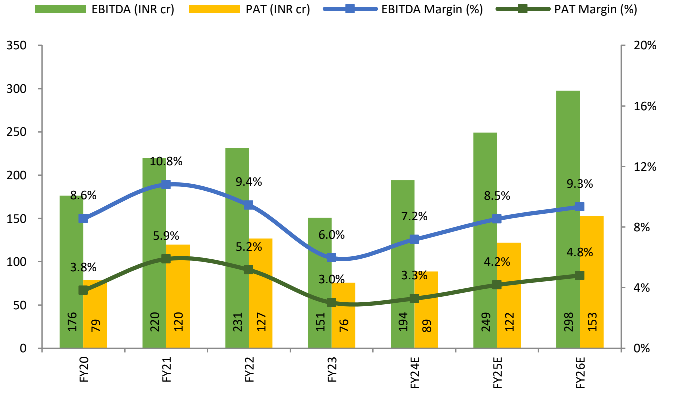


Exhibit 10: Return ratios is expected to improve from FY24 onwards.

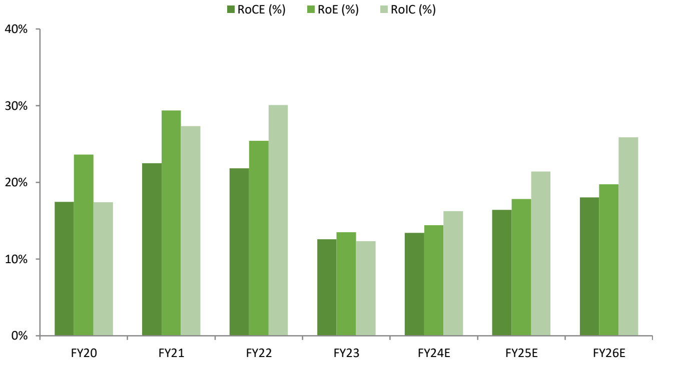


Exhibit 11: Working capital days to be improve

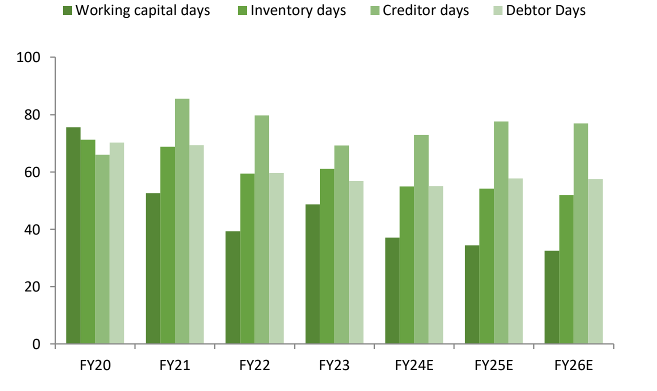
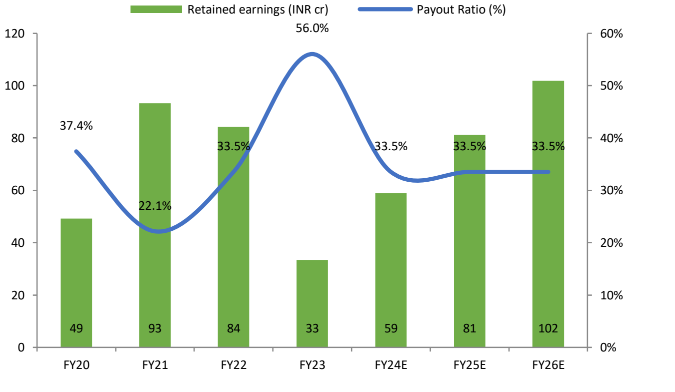


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

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