Orient Electric Ltd

Fan sales remain strong, EPR impacted profitability.

CMP: INR 209

Rating: ACCUMULATE

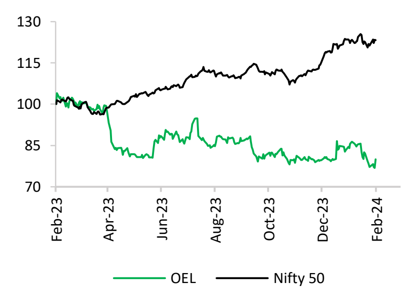
Target Price: INR 248

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)	4,460
52w H/L (INR)	263 / 189
Avg Yearly Volume (in 000')	428.5

Shareholding Pattern % *(As on Mar, 2024)*	
Promoters	38.30
DII	27.19
FII	6.52
Public & Others	27.97

Stock Performance (%)	3m	6m	12m
OEL	3.1	-4.1	-5.1
NIFTY	2.0	13.5	20.4

OEL Vs Nifty



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Orient Electric Ltd reported numbers, Q4FY24 revenue grew by 19.7% YoY (+4.8% QoQ) to INR 788cr; above estimates of INR 735cr. Gross Profit stood at INR 242cr (+30% YoY/+7.9% QoQ); above our estimates of INR 220cr; Gross margins improved by 244 bps YoY (up by 89 bps QoQ) to 30.8% vs 28.3% in Q4FY23. The raw material cost in terms of sales stood at 69.2% vs 71.7% in Q4FY23. EBITDA stood at INR 31cr (-33.7% YoY/-37.2% QoQ); below our estimates of INR 51cr. EBITDA margin contracted by 314 bps YoY (down by 260 bps QoQ) to 3.9% vs 7.0% in Q4FY23 led by higher employee and other expenses in-terms of sales. Employee cost in terms of sales stood at 8.9% vs 6.9% in Q4FY23. Other expenses in terms of sales stood at 18% vs 14.4% in Q4FY23. PAT stood at INR 13cr (-48% YoY/-47.4% QoQ); below our estimates of INR 26cr, PAT margin contracted by 212 bps YoY (down by 161 bps QoQ) to 1.6% vs 3.7% in Q4FY23.

Key Highlights

Strong fan sales led ECD: Electric Consumer Durables (ECD) revenue stood at INR 569cr (+24.3% YoY/+6.3% QoQ); led by strong sales in fans (+29% YoY) in Q4FY24. EBIT Stood at INR 47cr (+4.4% YoY/-22.9% QoQ). EBIT margin contracted by 156 bps YoY (down by 309 bps QoQ) to 8.2% vs 9.7% in Q4FY23. Extended Producer Responsibility (EPR) liability impacted the industry. The company made a provision of INR 19cr for EPR and expected INR 22cr of EPR provision in FY25E. The impact is around INR 20/fans whether INR 1,500-5,000 range fans or higher range. Fans are expected to grow 15%-20% CAGR over the next few years. Commercial production of TPW fans from 6th May-24 in Hyderabad plant. The capacity would double the sales of fans. It would improve the market share in the southern market share. In the Hyderabad plant, two lines of ceiling fans are under commissioning, and dispatch is expected by the end of May 24.

Switchgears led the growth of Lighting and Switchgear: Lighting & Switchgears revenue stood at INR 219cr (+9.1% YoY/+0.9% QoQ); EBIT Stood at INR 28cr (-28.1% YoY/-8.5% QoQ). EBIT margin contracted by 667 bps YoY (down by 131 bps QoQ) to 12.8% vs 19.5% in Q4FY23 due to higher marketing interventions at point--of sales. Switchgear costs are higher due to European technology. The company has reinvested in switchgear in the Noida plant to bring out more competitive switchgear. Switchgear margins are expected to improve going forward. Lighting price erosion came down in Q4FY24. House wires continued to see traction with steady distribution expansion.

DTM expansion, E-commerce, Cost savings, and new launches remain on track: In Direct to Market, the growth stood at +46% YoY & 65% YoY in Q4FY24 & FY24 respectively. The company has initiated DTM operations in J&K and Himachal states in Apr-24. The cost efficiency program "Spark Sanchay" resulted in cost savings of INR 76cr in FY24. E-commerce grew 85% YoY and 75% YoY in Q4FY24 and FY24 respectively. Large format store growth stood at 80% YoY & 13% YoY in Q4FY24 & FY24. The company is scaling up E-Commerce and large-format retail business across categories.

Outlook & Valuation: **ECD segment growth led by strong sales and summer season would continue the momentum in Q1FY25. The Hyderabad plant commenced production and volumes are expected to be double going forward. The company has re-invested again for switchgear for more competitive and margins are expected to improve. The Light & Switchgear segment is expected to continue momentum backed by a change in product mix, B2B projects, traction in switchgear, housing wires, and new launches. 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 248 per share; valued at PE multiple 30x and its FY27E EPS of INR 8.3; an upside of 18.5%.**

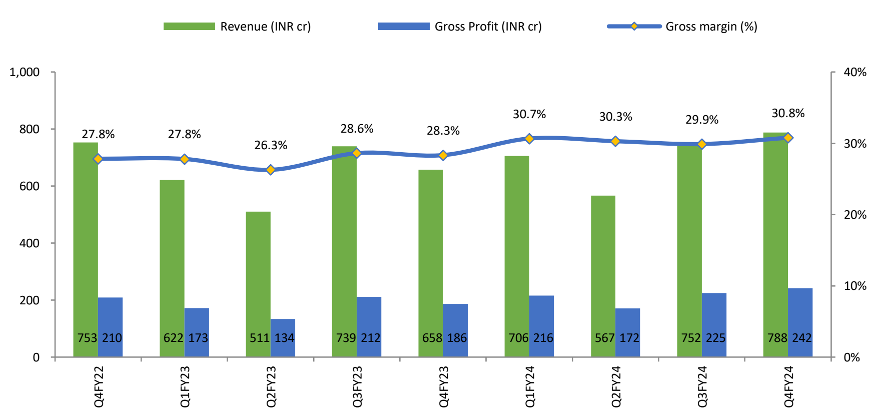
Q4FY24 Result update

Income statement summary

Y/e 31 Mar (INR cr)	Q4FY23	Q3FY24	Q4FY24	YoY (%)	QoQ (%)
Revenue	658	752	788	19.7%	4.8%
Net Raw Materials	471	527	545	15.7%	3.4%
Gross Profit	**186**	**225**	**242**	**30.0%**	**7.9%**
Gross Margins (%)	**28.3%**	**29.9%**	**30.8%**	**+244 bps**	**+89 bps**
Employee Cost	45	64	70	55.0%	9.8%
Other Expenses	95	112	142	49.3%	26.4%
EBITDA	**46**	**49**	**31**	**-33.7%**	**-37.2%**
EBITDA Margin (%)	**7.0%**	**6.5%**	**3.9%**	**-314 bps**	**-260 bps**
Depreciation	14	15	15		
Interest expense	6	5	7		
Other income	6.3	4.3	5.0		
Profit before tax	**33**	**33**	**13**		
Taxes	8	8	1		
PAT	**25**	**24**	**13**	**-48.0%**	**-47.4%**
PAT Margin (%)	**3.7%**	**3.2%**	**1.6%**	**-212 bps**	**-161 bps**
EPS (INR)	**1.2**	**1.1**	**0.6**		

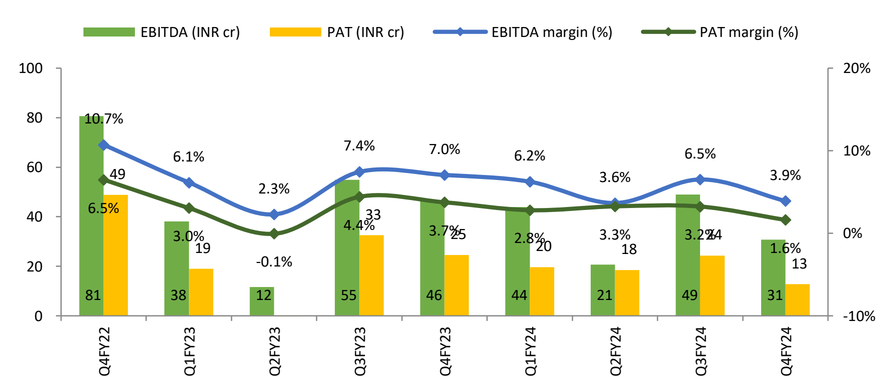
Source: Company Reports, Arihant Capital Research

Exhibit 1: Gross margins improved by 244 bps YoY (up by 89 bps QoQ) to 30.8% Q4FY24, due to improvement in product mix, price realization and cost reductions.



Source: Company Reports, Arihant Capital Research

Exhibit 2: EBITDA margin contracted by 314 bps YoY (down by 260 bps QoQ) to 3.9% in Q4FY24, due to EPR compliance of INR 18.6cr.

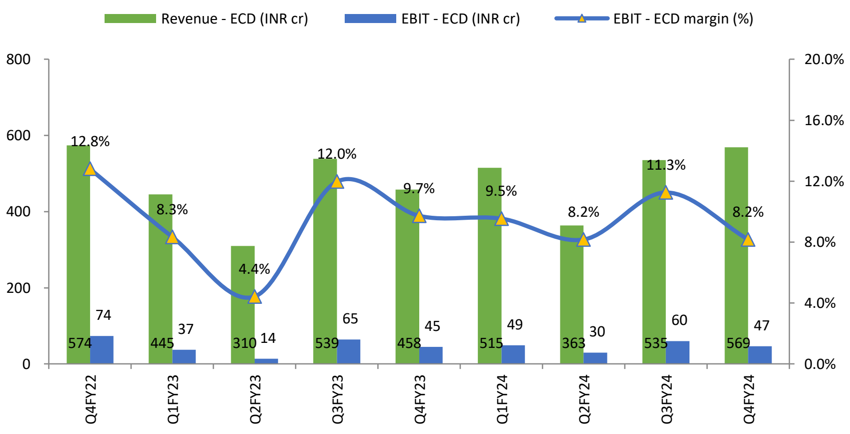


Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

- Electric Consumer Durables (ECD) revenue stood at INR 569cr (+24.3% YoY/+6.3% QoQ); backed by strong sales in Fans.
- EBIT Stood at INR 47cr (+4.4% YoY/-22.9% QoQ). EBIT margin contracted by 156 bps YoY (down by 309 bps QoQ) to 8.2% vs 9.7% in Q4FY23. The margin impact majorly from EPR compliance of INR 18.6cr in Q4FY24.
- Premium and Exhaust fans witnessed strong growth and Kitchen appliances witnessed double-digit growth in Q4FY24.
- Hyderabad manufacturing plant commenced commercial production on 6th May 2024 and fans sales are expected to be double going forward.
- High traction in pre-season stock built-up across the channels in Q4FY24.

Exhibit 3: Margins impacted due to EPR compliance of INR 18.6cr in Q4FY24. In FY25E, EPR compliance impact is expected INR 22cr.

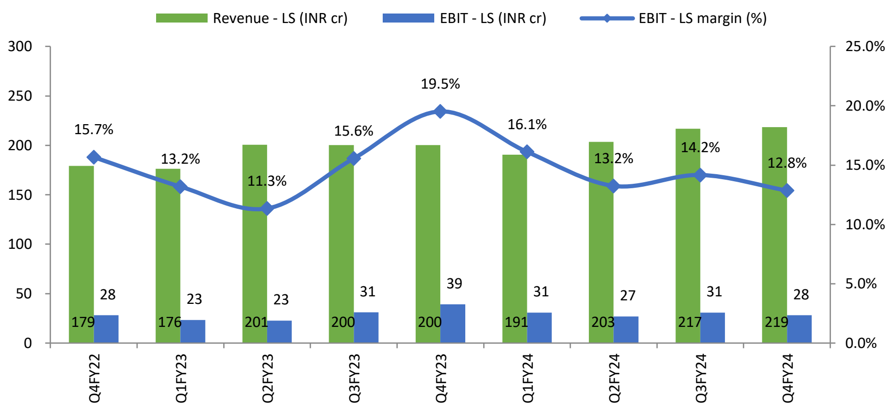


Source: Company Reports, Arihant Capital Research

Lighting & Switchgear segment (L&S) Segment)

- Lighting & Switchgears revenue stood at INR 219cr (+9.1% YoY/+0.9% QoQ); led by strong growth in switchgears.
- EBIT Stood at INR 28cr (-28.1% YoY/-8.5% QoQ). EBIT margin contracted by 667 bps YoY (down by 131 bps QoQ) to 12.8% vs 19.5% in Q4FY23 due to higher marketing interventions at point-of sales.
- B2C business impacted due to price erosion. The volume growth stood at mid-single digit rate and new launches led the overall growth of L&S.
- PLum continued strong traction with double digit growth rates in Q4FY24.
- Key projects execution remain healthy and Façade leading to significant growth going forward.
- House wires continued to see traction with steady distribution expansion.

Exhibit 4: L&S segment growth majorly led by switchgears. The margins impacted due to higher marketing interventions at point-of sales.



Source: Company Reports, Arihant Capital Research

Q4FY24 Concall Highlights

Hyderabad Plant

- Commercial production of TPW fans from 6th May-24 in Hyderabad plant. The capacity would double the sales of fans. It would improve the market share in the southern market share.
- In the Hyderabad plant, two lines of ceiling fans are under commissioning, and dispatch is expected by the end of May 24.

ERP

- Extended Producer Responsibility (EPR) liability impacted the industry. The company made a provision of INR 19cr for EPR and expected INR 22cr of EPR provision in FY25E. The impact is around INR 20/fans whether INR 1,500-5,000 range fans or higher range.

ECD

- Fans grew at 29% YoY & 15% YoY Q4FY24 & FY24 respectively and gained some market share.
- Fans are expected to grow 15%-20% CAGR over the next few years.
- Air cooler sales have been impacted due to untimely and extended rains, and products are not sold on time. The season starts, while channels are occupied with last year's inventory.

Switchgear

- Switchgear costs are higher due to European technology. The company has reinvested in switchgear in the Noida plant to bring out more competitive switchgear. Switchgear margins are expected to improve going forward.

Lighting

- Lightings are doing well, switchgear and wires would take some time.
- Lighting price erosion came down in Q4FY24.

Q4FY24 Concall Highlights

Go to market

- The go-to-market grew 46% YoY & 65% YoY in Q4FY24 & FY24 respectively. The company has decided to go direct to the markets and replace some of the legacy distributors. The company has established two more states in Q1FY24.

Price

- The company has taken a price hike from Apr-24 onwards and pricing is linked to market dynamics.

- The company does not want to play in the market by cutting prices to gain market share.

Other highlights

- South market grew 33% YoY and accounted for a sales share of 32% in Q4FY24.

- E-commerce grew 85% YoY and 75% YoY in Q4FY24 and FY24 respectively.

- Large format store growth stood at 80% YoY & 13% YoY in Q4FY24 & FY24.

- Direct-to-market sales share stood at 30% and General trade share stood at 30%.

Exhibit 5: New launches in Q4FY24.

Source: Company Reports, Arihant Capital Research

Exhibit 5: Marketing Initiatives in Q4FY24.

Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,033	2,448	2,529	2,812	3,148	3,558	4,052
Net Raw Materials	1,421	1,767	1,824	1,957	2,188	2,466	2,800
Employee Cost	179	190	193	259	290	317	353
Other Expenses	213	260	361	452	465	497	546
EBITDA	**220**	**231**	**151**	**144**	**206**	**279**	**354**
EBITDA Margin (%)	**10.8%**	**9.4%**	**6.0%**	**5.1%**	**6.5%**	**7.8%**	**8.7%**
Depreciation	(43)	(47)	(54)	(59)	(100)	(114)	(129)
Interest expense	(21)	(20)	(22)	(23)	(22)	(24)	(25)
Other income	6	6	27	16	18	32	36
Profit before tax	**162**	**170**	**102**	**96**	**121**	**172**	**236**
Taxes	(42)	(43)	(26)	(21)	(31)	(44)	(60)
PAT	**120**	**127**	**76**	**75**	**90**	**129**	**176**
PAT Margin (%)	**5.9%**	**5.2%**	**3.0%**	**2.7%**	**2.9%**	**3.6%**	**4.3%**
Other Comprehensive income	(0)	0	1	1	-	-	-
Net profit	**119**	**127**	**76**	**77**	**90**	**129**	**176**
EPS (INR)	5.6	6.0	3.6	3.6	4.2	6.0	8.3

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	21	21	21	21	21	21	21
Reserves	434	520	563	618	678	763	880
Net worth	**456**	**541**	**585**	**639**	**699**	**784**	**902**
Provisions	54	53	50	51	17	19	22
Debt	95	101	139	157	145	155	163
Other non-current liabilities	9	13	11	9	16	18	20
Total Liabilities	**614**	**709**	**784**	**855**	**876**	**976**	**1,107**
Fixed assets	130	142	127	140	363	367	353
Capital Work In Progress	3	2	83	223	4	5	5
Other Intangible assets	23	23	22	17	17	17	17
Investments	9	10	15	18	19	21	24
Other non current assets	76	90	133	125	126	142	162
Net working capital	**115**	**291**	**238**	**227**	**293**	**333**	**379**
Inventories	249	326	285	315	354	385	422
Sundry debtors	384	416	372	472	492	546	611
Other current assets	30	28	63	36	43	49	56
Sundry creditors	(519)	(449)	(453)	(544)	(548)	(593)	(648)
Other current liabilities & Prov	(30)	(29)	(28)	(52)	(47)	(53)	(61)
Cash	258	151	164	66	55	90	166
Other Financial Assets	1	0	2	40	1	1	1
Total Assets	**614**	**709**	**784**	**855**	**876**	**976**	**1,107**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	162	170	102	96	121	172	236
Depreciation	43	47	54	59	100	114	129
Tax paid	(42)	(43)	(26)	(21)	(31)	(44)	(60)
Working capital Δ	248	(177)	53	11	(66)	(40)	(45)
Operating cashflow	**411**	**(3)**	**182**	**145**	**124**	**203**	**259**
Capital expenditure	(43)	(59)	(119)	(211)	(104)	(120)	(115)
Free cash flow	**368**	**(61)**	**63**	**(66)**	**20**	**83**	**144**
Equity raised	3	1	10	11	-	-	-
Investments	(2)	(0)	(5)	(3)	(1)	(2)	(3)
Others	(4)	(14)	(43)	(25)	39	(16)	(20)
Debt financing/disposal	(95)	6	38	18	(12)	10	8
Dividends paid	(27)	(42)	(42)	(32)	(30)	(43)	(59)
Other items	6	4	(6)	(1)	(27)	4	5
Net Δ in cash	**250**	**(107)**	**14**	**(98)**	**(12)**	**35**	**76**
Opening Cash Flow	**7**	**258**	**151**	**164**	**66**	**55**	**90**
Closing Cash Flow	**258**	**151**	**164**	**66**	**55**	**90**	**166**

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)							
Revenue growth	-1.4%	20.5%	3.3%	11.2%	11.9%	13.0%	13.9%
Op profit growth	24.4%	5.4%	-34.7%	-4.4%	42.4%	35.6%	27.0%
Profitability ratios (%)							
OPM	10.8%	9.4%	6.0%	5.1%	6.5%	7.8%	8.7%
Net profit margin	5.9%	5.2%	3.0%	2.7%	2.9%	3.6%	4.3%
RoCE	22.5%	21.8%	12.6%	10.8%	16.1%	19.1%	0.0%
RoNW	29.4%	25.4%	13.5%	13.5%	17.3%	20.9%	0.0%
RoA	19.5%	17.9%	9.7%	10.3%	13.2%	15.9%	0.0%
Per share ratios (INR)							
EPS	5.6	6.0	3.6	3.6	4.2	6.0	8.3
Dividend per share	1.2	2.0	2.0	1.5	1.4	2.0	2.8
Cash EPS	7.7	8.2	6.1	6.3	8.9	11.4	14.3
Book value per share	21.5	25.5	27.5	29.9	32.8	36.8	42.2
Valuation ratios (x)							
P/E	37.2	35.0	58.3	58.3	49.5	34.7	25.3
P/CEPS	27.2	25.5	34.4	33.2	23.5	18.4	14.6
P/B	9.7	8.2	7.6	7.0	6.4	5.7	4.9
EV/EBITDA	19.4	18.9	29.2	31.4	22.0	16.2	12.5
Payout (%)							
Dividend payout	22.1%	33.5%	56.0%	42.5%	33.5%	33.5%	33.5%
Tax payout	26.0%	25.4%	25.6%	21.8%	25.4%	25.4%	25.4%
Liquidity ratios							
Debtor days	69	60	57	55	56	53	52
Inventory days	69	59	61	56	56	55	53
Creditor days	86	80	69	68	68	64	61
WC Days	53	39	49	43	44	44	43
Leverage ratios (x)							
Interest coverage	8.5	9.1	4.4	3.7	4.9	6.9	8.9
Net debt / equity	-0.4	-0.1	-0.0	0.1	0.1	0.1	-0.0
Net debt / op. profit	-0.7	-0.2	-0.2	0.6	0.4	0.2	-0.0

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 6: Revenue growth is expected to grow at CAGR of 12.9% over the period of FY24-27E.

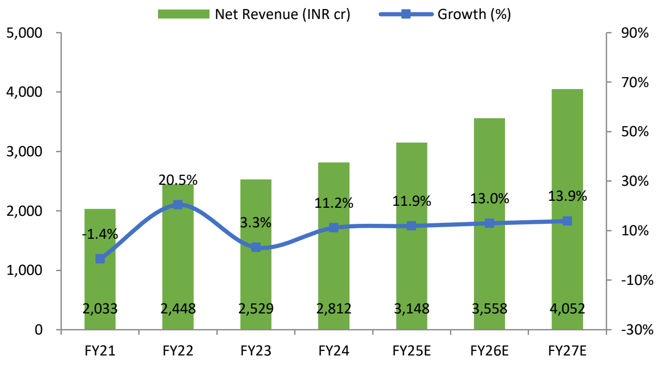


Exhibit 7: Gross Margins are expected to improve gradually due to Raw material cost optimization, better realization and product mix.

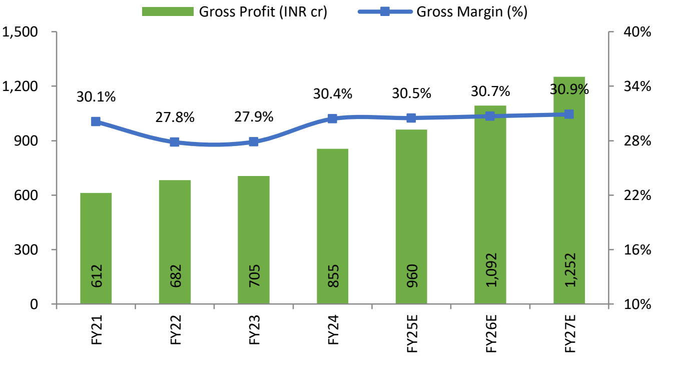


Exhibit 8: Rationalization of other expenses will improve the EBITDA margin going forward.

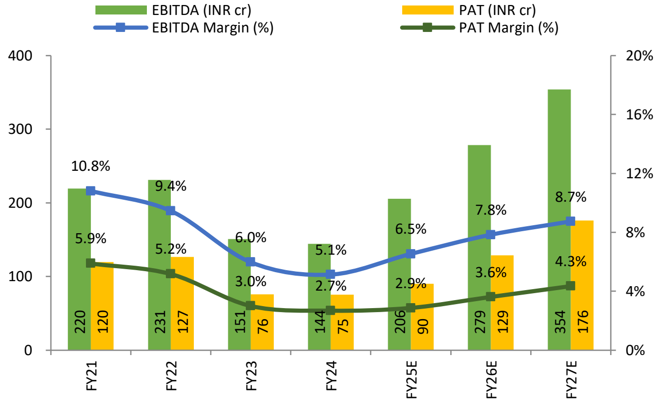


Exhibit 9: Return ratios is expected to improve from FY24 onwards.

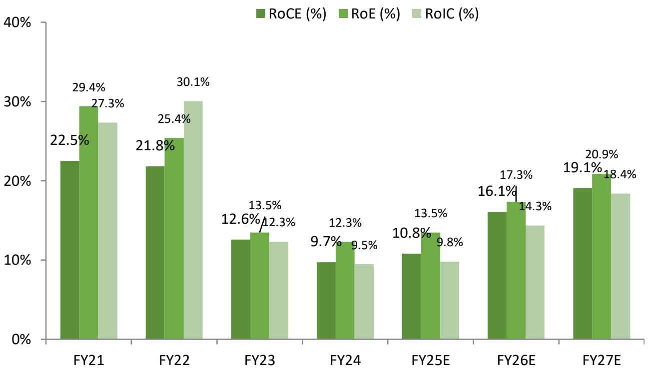


Exhibit 10: Working capital days to be improve

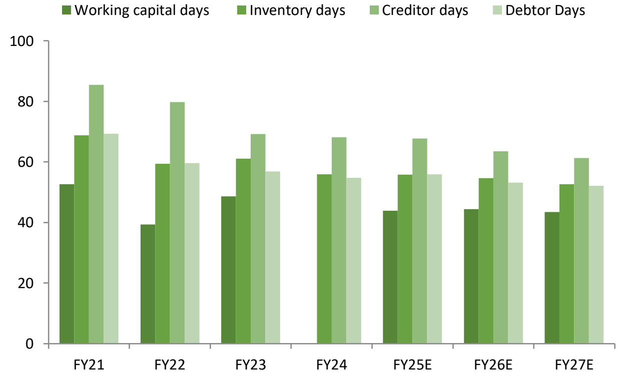
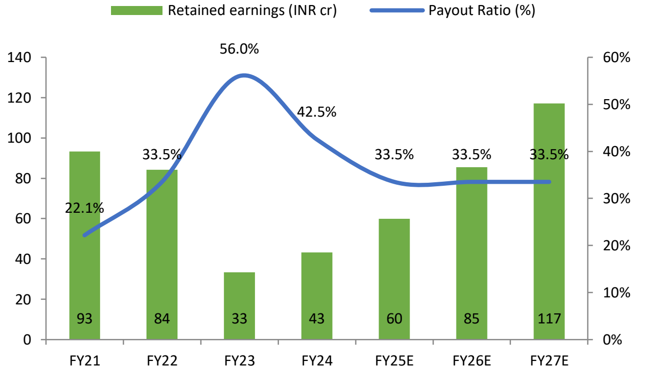


Exhibit 11: Dividend pay-out to be continue



Source: Company Reports, 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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