Q1FY23 Result update
27th Jul, 2022

Orient Electric Ltd

Mixed trend in consumer demand

CMP: INR 276

Rating: ACCUMULATE

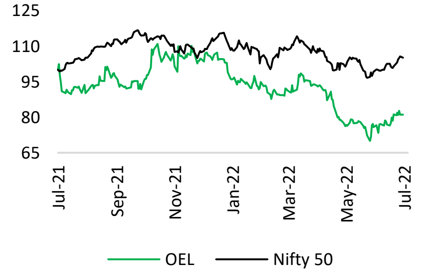
Target Price: INR 321

Stock Info	
BSE	541301
NSE	ORIENTELEC
Bloomberg	ORIENTAL:IN
Reuters	ORIENTAL.BO
Sector	Consumer Durables
Face Value (Rs)	1
Equity Capital (Rs cr)	21
Mkt Cap (Rs cr)	5,857
52w H/L (INR)	408 / 244
Avg Yearly Volume (in 000')	326

Shareholding Pattern % *(As on Jun, 2022)*	
Promoters	38.52
DII	29.08
FII	6.16
Public & Others	26.24

Stock Performance (%)	3m	6m	12m
OEL	-13.1	-15.5	-18.9
NIFTY	-1.9	-3.7	5.1

OEL Vs Nifty



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Orient Electric Ltd (OEL) reported strong numbers, Q1FY23 revenue grew by 47.2% YoY (-17.5% QoQ) to INR 622cr vs our estimates of INR 626cr. EBITDA stood at INR 38cr (+70.8% YoY/-52.7% QoQ) vs our estimates of INR 63cr, EBITDA Margin improved by 85 bps to 6.1% vs 5.3% in Q1FY22. The raw material cost in terms of sales stood at 72.2% vs 72.7% in Q1FY22. The Employee cost in terms of sales stood at 7.5% vs 11.1% vs Q1FY22. The other expenses are sharply increased in terms of sales stood at 14.1% vs 11% in Q1FY22. PAT stood at INR 19cr (+283.9% YoY/-61.7% QoQ) vs our estimates of INR 35cr, PAT Margin improved by 187 bps to 3% vs 1.2% in Q1FY22.

Key Highlights

Direct dealer approach results better penetration and cost savings: The company has followed direct to dealer approach from Q4FY22 onwards, instead of traditional approach of selling via master distributors which helps to increase sales in the underpenetrated markets of Odisha and Bihar. In Q1FY23, the company has further extended to low underpenetrated markets such as UP and Karnataka. The direct dealer approaches avoid cost to master distributers and leads towards better penetration.

Mixed trend with robust pickup in demand: In Q1FY23, 1st half witnessed robust demand due to heat waves in several regions across the country. However, 2nd half the consumer demand slowed down due to rain falls and expectation of price drop due to commodity correction led to de-stocking by the trade channel which resulted in lower primary sales. In Apr-2022, coolers witnessed strong demand due to intense heat waves which helped liquidation of channel inventory levels. Water heater witnessed strong demand in 2nd half due to cold weather conditions led by rain fall in several regions across the country.

B2C business witnessed strong growth: B2C business is witnessed strong growth in Lightening and Switchgear segment, while B2B business remains weak and government orders were slowed down, however government spending is expected to pick up which is expected to drive get more orders.

New products launches and change in product mix leads growth: The new product launches and ability to change the product mix brings in great agility in Light & Switchgear segment. The company has launched various products in fans, appliances and switchgear segments.

Outlook & Valuation: Orient Electric Ltd has witnessed mixed trend and robust pickup in demand across categories. The expansion of existing distribution model, direct dealer approach, new product launches, ability to change the product mix and consumer demand are expected to drive the growth going forward. At the CMP of INR 276 per share, the stock is trading at a P/E multiple of 36.2x/31.1x its FY23E/FY24E EPS of INR 7.6/8.9 respectively. We have a "ACCUMULATE" rating at a TP of INR 321 per share; valued at PE multiple 36.2x and its FY24E EPS; an upside of 16.3%.

Q1FY23 Result update

Income statement summary

Particular (INR cr)	Q1FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Revenue	422	753	622	47.2%	-17.5%
Net Raw Materials	307	544	449	46.3%	-17.4%
Employee Cost	47	46	47	0.2%	1.8%
Other Expenses	46	83	88	89.2%	5.8%
EBITDA	**22**	**81**	**38**	70.8%	-52.7%
EBITDA (%)	**5.3%**	**10.7%**	**6.1%**	**85 bps**	**-457 bps**
Depreciation	12	12	13		
Interest expense	5	6	5		
Other income	0.9	2.7	5.2		
Profit before tax	**7**	**65**	**25**	272.8%	-61.2%
Taxes	2	17	6		
Net profit	**5**	**49**	**19**	278.2%	-61.2%
Other Comprehensive income	(0.1)	0.4	(0.1)		
Net profit	**5**	**49**	**19**	283.9%	-61.7%
Net profit Margin (%)	**1.2%**	**6.5%**	**3.0%**	**187 bps**	**-350 bps**
EPS (INR)	**0.2**	**2.3**	**0.9**		

Source: Company Reports, Arihant Capital Research

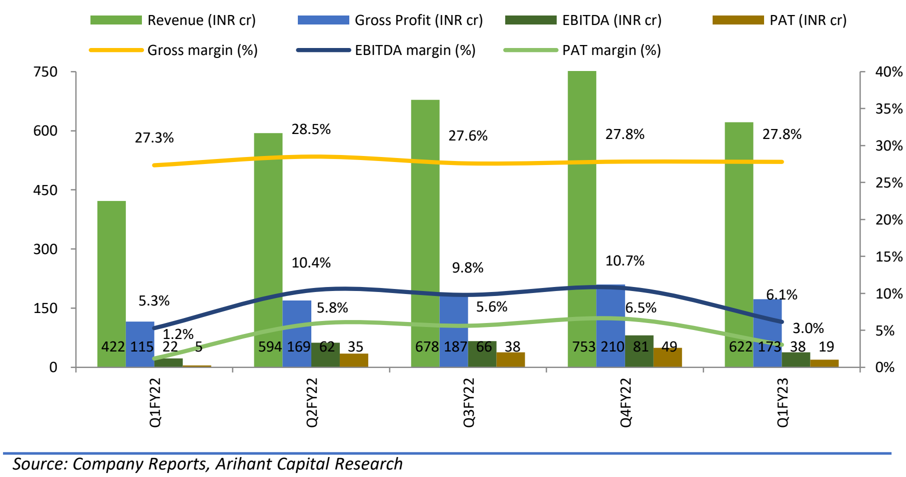
Q1FY23 Results

Orient Electric Ltd (OEL) reported strong numbers, Q1FY23 revenue grew by 47.2% YoY (-17.5% QoQ) to INR 622cr vs our estimates of INR 626cr; strong demand was witnessed from consumers due to heat waves; however post mid-may rain started in several parts across the country and steep inflation which slowed demand for summer range of products.

Gross Margins stood at INR 173cr (+49.7% YoY/-17.6% QoQ) vs our estimates of INR 172cr, Gross Margin improved by 46 bps to 27.8% vs 27.3% in Q1FY22. Gross margins are improved YoY basis and maintained QoQ basis despite cost pressures. The ease of commodity prices in the coming quarters are expected to boost margin levels.

EBITDA stood at INR 38cr (+70.8% YoY/-52.7% QoQ) vs our estimates of INR 63cr, EBITDA Margin improved by 85 bps to 6.1% vs 5.3% in Q1FY22. PAT stood at INR 19cr (+283.9% YoY/-61.7% QoQ) vs our estimates of INR 35cr, PAT Margin improved by 187 bps to 3% vs 1.2% in Q1FY22.

Exhibit 1: Gross margins improved on YoY basis and maintained on QoQ basis.



Source: Company Reports, Arihant Capital Research

Electric and Consumer Durable (ECD) Segment

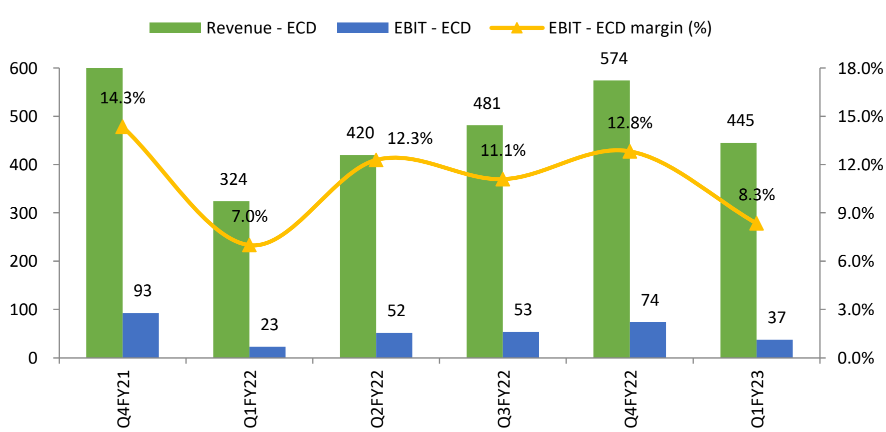
- ECD segment revenue grew by 37.4% YoY (-22.4% QoQ) to INR 445cr, driven by mixed trend and uptick in consumer demand. In Apr-2022, coolers witnessed strong demand due to intense heat waves which helped liquidation of channel inventory levels. Water heater witnessed strong demand in 2nd half due to cold weather conditions due to rain fall in several regions across the country. ECD revenue has reached pre-covid levels despite inflation, raw material bottlenecks and geopolitical turmoils.

- The company has followed direct to dealer approach from Q4FY22 onwards, instead of traditional approach of selling via master distributors which helps to increase sales in the underpenetrated markets of Odisha and Bihar. In Q1FY23, the company has further extended to low underpenetrated markets such as UP and Karnataka.

- In Q1FY23, 1st half witnessed robust demand due to heat waves in several regions across the country. However, 2nd half the consumer demand slowed down due to rain falls and expectation of price drop due to commodity correction led to de-stocking by the trade channel which resulted in lower primary sales.

- The EBIT grew by 64% YoY (-49.5% QoQ) to INR 37cr. EBIT margin increased by 135 bps YoY (-450 bps QoQ) to 8.3% vs 7% in Q1FY22. The strategic cost controls has helped to withstand EBIT Margins.

Exhibit 2: Strategic cost control measures helped to reduce significant fall in margins



Source: Company Reports, Arihant Capital Research

Lighting & Switchgear segment (L&S) Segment)

- The lighting and switchgear segment revenue grew by 79.5% YoY (-1.6% QoQ) to INR 176cr, driven by consumer lamps and luminaries demand from homes, small offices and showrooms.

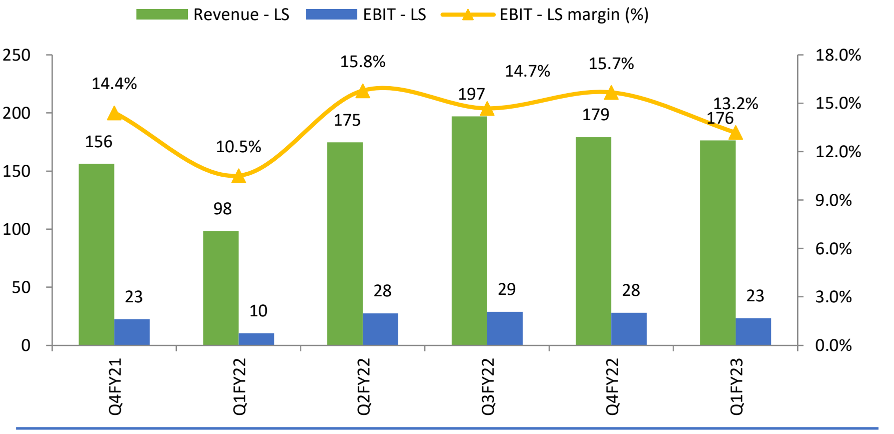
- Government spending has started picking up and the order book is encouraging in the lighting segment. Façade lighting orders have been witnessing traction and have a healthy enquiry pipeline.

- The company's new range of switches catering to the mass premium segment received response from channels and consumers and volume continue to pick up going forward.

- The new product launches and ability to change the product mix brings in great agility in this segment. The company focused on expanding the distribution network through digital enablement which helps to increase segment share going forward.

- The EBIT grew by 125% YoY (-17.2% QoQ) to INR 23cr. EBIT margin increased by 267 bps YoY (-250 bps QoQ) to 13.2% vs 10.5% in Q1FY22. Higher volumes and better economies of scales brings better margins.

Exhibit 3: Higher volumes and economies of scale led better margins on YoY basis.



Source: Company Reports, Arihant Capital Research

Concall Highlights

- Fans market share is around 18% to 20% in organized markets. The company has continued to dominate in premium and decorative fans. The company has also focused on improving lower end fans also. More than INR 4,000 range of fans having 40% market share, while decorative fans share is low. Around 70% to 75% of the market is organized in fans.

- In the transition period, pre-buying in channels at star rated fans. The company is working to reduce the difference between star rated and non-star rated fans.

- B2C business has witnessed strong growth in the Lightening and Switchgear segment, while B2B business remains weak and government orders were slowed down, however government spending is expected to pick up which is expected to drive more orders.

- The fans have 60% of business and 27% to 28% from Lights and Switchgear segments and remaining from others.

- The company has 1,25,000 outlets; 50,000 retailers from orient connects, sales force automation has 50,000 retailers and remaining from others.

- Hyderabad project is going as per plan and significant progress during the quarter which results in awarding of contracts.

- The company focused on rural penetration through micro markets in district wise.

New Launches

Exhibit 4: New launches in fans category

Exhibit 5: New launches in Appliances category

Exhibit 6: New launches in Lighting & Switchgears category

Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Revenue	2,062	2,033	2,448	2,882	3,202
Net Raw Materials	1,409	1,421	1,767	2,075	2,283
Employee Cost	198	179	190	225	247
Other Expenses	278	213	260	300	354
EBITDA	**176**	**220**	**231**	**282**	**318**
EBITDA (%)	**8.6%**	**10.8%**	**9.4%**	**9.8%**	**9.9%**
Depreciation	(40)	(43)	(47)	(50)	(50)
Interest expense	(26)	(21)	(20)	(21)	(23)
Other income	4	6	6	9	10
Profit before tax	**114**	**162**	**170**	**219**	**254**
Taxes	(36)	(42)	(43)	(57)	(66)
Net profit	**79**	**120**	**127**	**162**	**188**
Reported Netprofit Margin (%)	**3.8%**	**5.9%**	**5.2%**	**5.6%**	**5.9%**
Other Comprehensive income	(0)	(0)	0	-	-
Net profit	**79**	**119**	**127**	**162**	**188**
EPS (INR)	4	6	6	8	9

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	21	21	21	21	21
Reserves	338	434	520	628	753
Net worth	**359**	**456**	**541**	**649**	**774**
Provisions	46	54	53	47	44
Debt	190	95	101	107	117
Other non-current liabilities	10	9	13	14	16
Total Liabilities	**606**	**614**	**709**	**817**	**951**
Fixed assets	130	130	142	148	155
Capital Work In Progress	3	3	2	2	2
Other Intangible assets	13	23	23	23	23
Investments	7	9	10	14	16
Other non current assets	81	76	90	107	118
Net working capital	**363**	**115**	**291**	**224**	**234**
Inventories	287	249	326	324	344
Sundry debtors	389	384	416	474	526
Other current assets	42	30	28	39	44
Sundry creditors	(330)	(519)	(449)	(570)	(632)
Other current liabilities & Prov	(24)	(30)	(29)	(43)	(48)
Cash	7	258	151	298	400
Other Financial Assets	1	1	0	1	1
Total Assets	**606**	**614**	**709**	**817**	**951**

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	114	162	170	219	254
Depreciation	40	43	47	50	50
Tax paid	(36)	(42)	(43)	(57)	(66)
Working capital Δ	(36)	248	(177)	67	(10)
Operating cashflow	82	411	(3)	279	228
Capital expenditure	(57)	(43)	(59)	(57)	(57)
Free cash flow	26	368	(61)	222	171
Equity raised	4	3	1	-	-
Investments	(1)	(2)	(0)	(5)	(2)
Others	(65)	(4)	(14)	(17)	(12)
Debt financing/disposal	24	(95)	6	6	10
Other items	17	6	4	(5)	(2)
Net Δ in cash	(24)	250	(107)	147	103
Opening Cash Flow	32	7	258	151	298
Closing Cash Flow	7	258	151	298	400

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	10.6%	-1.4%	20.5%	17.7%	11.1%
Op profit growth	24.9%	24.4%	5.4%	21.8%	12.8%
Profitability ratios (%)					
OPM	8.6%	10.8%	9.4%	9.8%	9.9%
Net profit margin	3.8%	5.9%	5.2%	5.6%	5.9%
RoCE	17.5%	22.5%	21.8%	23.7%	23.6%
RoNW	23.6%	29.4%	25.4%	27.2%	26.5%
RoA	13.0%	19.5%	17.9%	19.8%	19.8%
Per share ratios (INR)					
EPS	3.7	5.6	6.0	7.6	8.9
Dividend per share	1.4	1.2	2.0	2.6	3.0
Cash EPS	5.6	7.7	8.2	10.0	11.2
Book value per share	16.9	21.5	25.5	30.6	36.5
Valuation ratios (x)					
P/E	74.6	49.1	46.2	36.2	31.1
P/CEPS	49.3	36.0	33.7	27.6	24.6
P/B	16.3	12.9	10.8	9.0	7.6
EV/EBITDA	34.2	25.9	25.1	20.1	17.5
Payout (%)					
Dividend payout	37.4%	22.1%	33.5%	33.5%	33.5%
Tax payout	31.2%	26.0%	25.4%	26.0%	26.0%
Liquidity ratios					
Debtor days	70	69	60	56	57
Inventory days	71	69	59	57	53
Creditor days	66	86	80	72	76
WC Days	76	53	39	42	34
Leverage ratios (x)					
Interest coverage	5.2	8.5	9.1	10.8	11.6
Net debt / equity	0.5	-0.4	-0.1	-0.3	-0.4
Net debt / op. profit	1.0	-0.7	-0.2	-0.7	-0.9

Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 7: Recovery in revenue growth

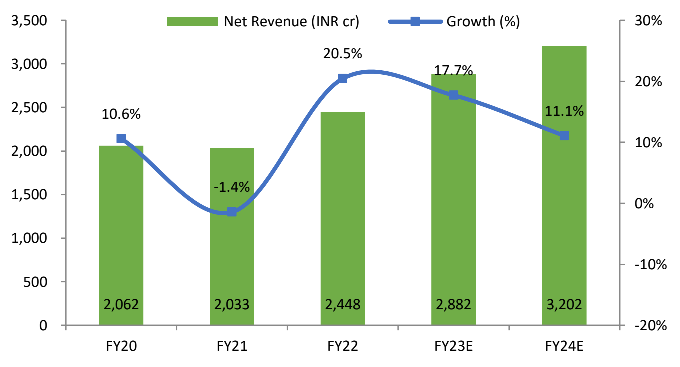


Exhibit 8: Gross Margins are expected to improve due to ease of commodity prices.

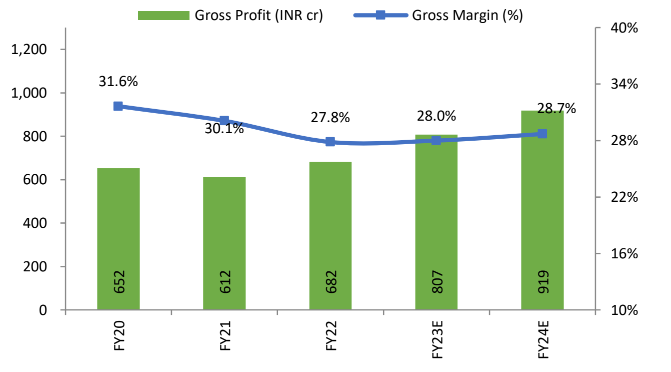


Exhibit 9: Growth in EBITDA & PAT levels

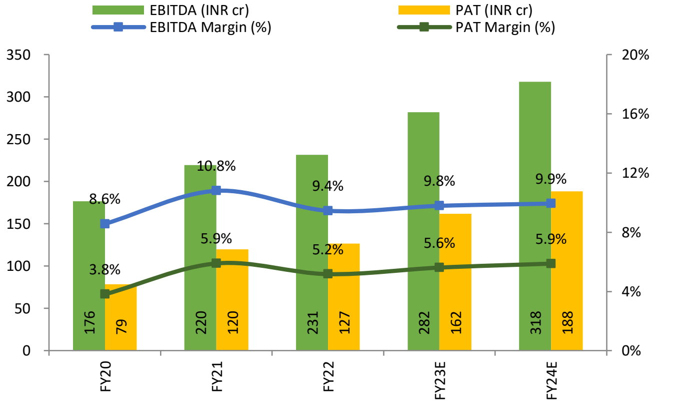


Exhibit 10: Return ratios to be improve

Exhibit 11: Working capital days to be improve

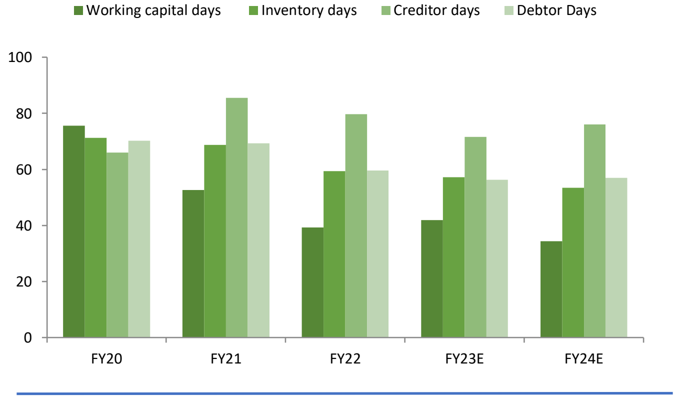
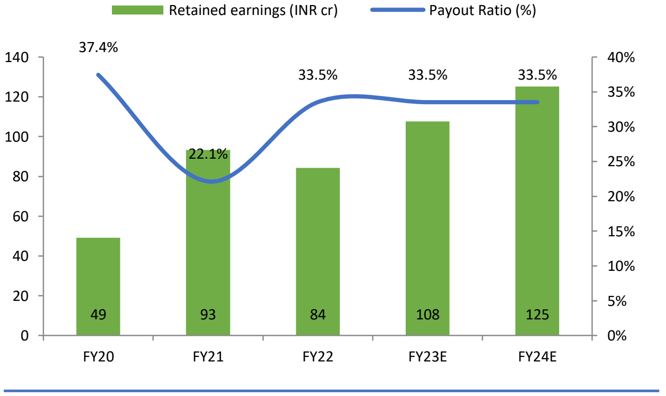


Exhibit 12: Dividend pay-out to be continue



Source: Company Reports, Arihant Capital Research

Story in Charts

Exhibit 13: Ad & Sales Promotion expenses is less than 5% of sales.

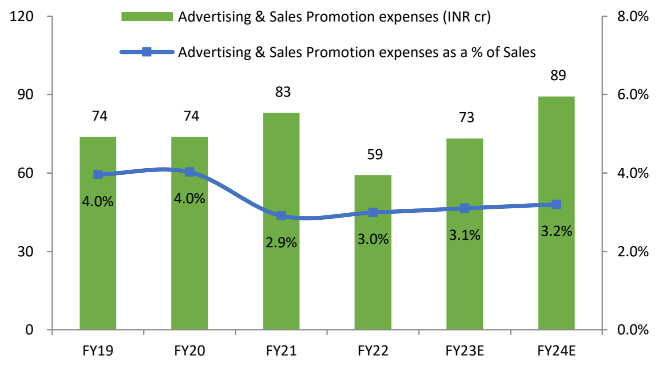


Exhibit 14: Warranty and claims expenses are under control.

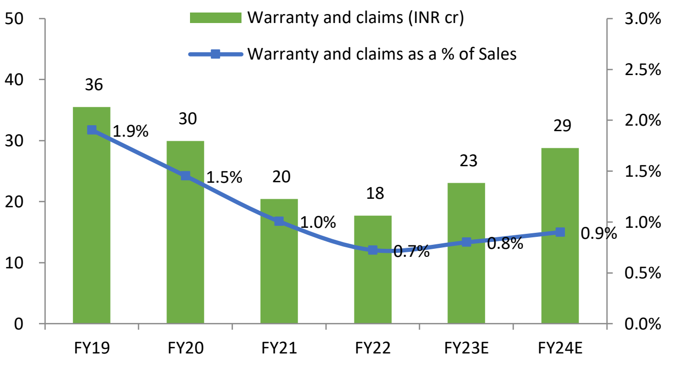


Exhibit 15: Payments to auditors remains flat.

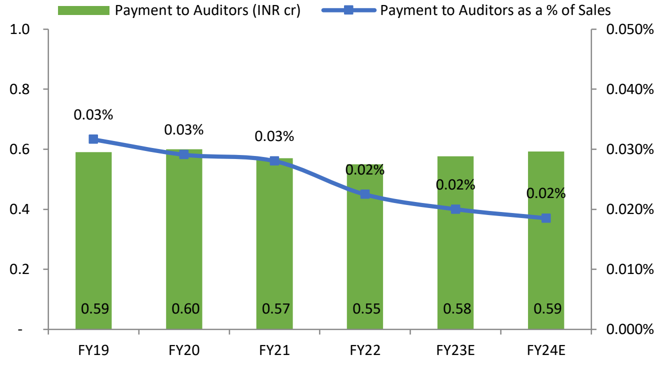


Exhibit 16: Power and Fuel cost is less than 1% of sales.

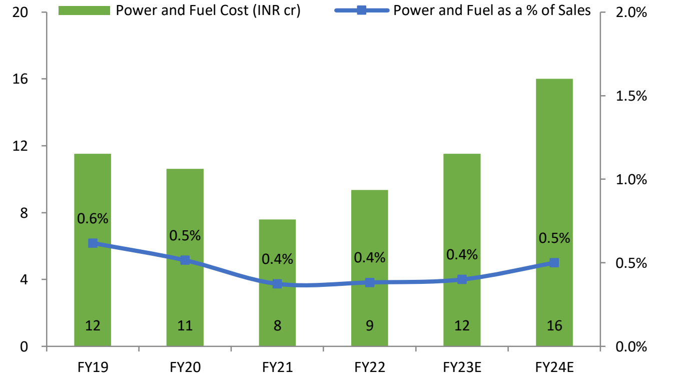


Exhibit 17: Freight and Forwarding charges is less than 3% of sales.

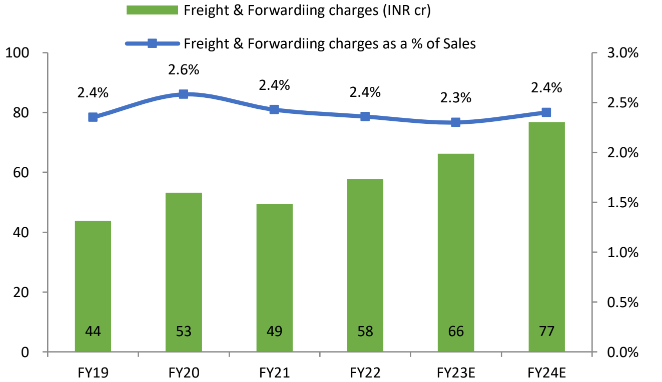
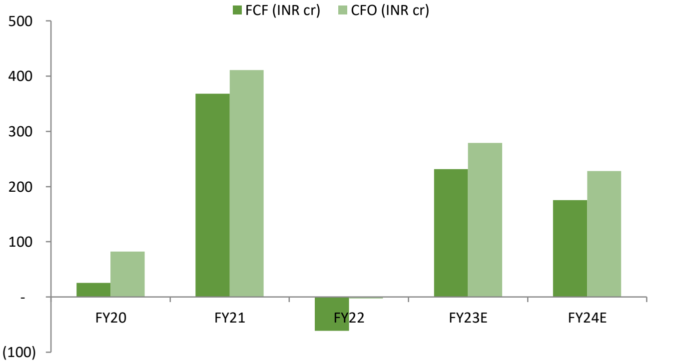


Exhibit 18: Cash flows to be improve.



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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