

CMP: INR 309

Rating: ACCUMULATE

Target Price: INR 346

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)	6,557
52w H/L (INR)	408 / 277
Avg Yearly Volume (in 000')	160.3

Shareholding Pattern %

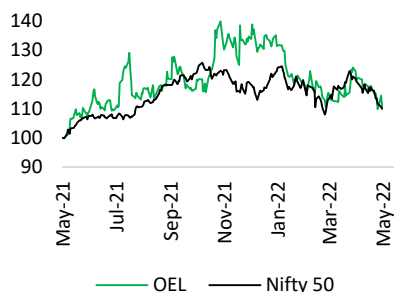
(As on Mar, 2022)

Promoters	38.52
DII	26.30
FII	8.26
Public & Others	26.92

Stock Performance (%)

	3m	6m	12m
OEL	-9.0	-21.0	10.5
NIFTY	-7.7	-10.5	10.0

OEL Vs Nifty



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Orient Electric Ltd (OEL) reported numbers, FY22 revenue stood at INR 2,448cr (+20.5% YoY), driven by demand revival across the products in Electric Consumer Durables (ECD) and Lighting & Switch gear segments. ECD segment grew by 18.9% to INR 1,799cr, due to gained market share in Tier 2/3 and rural areas in fans, response for new launches such as modular metal coolers, glassline water heaters etc. Lighting & Switch gear segment grew by 25.1% to INR 649cr, driven by new product introductions & product mix improvements and growth from consumer luminaries.

Gross profit stood at INR 682cr (+11.5% YoY), Gross margin down by 225 bps to 27.8% vs 30.1% in FY21. EBITDA stood at INR 231cr (+5.4% YoY), EBITDA margin contracted by 135bps to 9.4% vs 10.8% in FY21. The EBITDA margin contraction mainly due to higher raw material cost in terms of sales. In FY22, raw material cost in terms of sales stood at 72.2% vs 69.9% in FY21. The company has taken appropriate price hikes to 15% to 18% across the products, however raw material prices were increased to 18% to 20% which kept margin levels under pressure. PAT stood at INR 127cr (+5.8% YoY). PAT margin contracted by 72bps to 5.2% vs 5.9% in FY21.

Key Highlights

Increase in market share from Industry players: The company gained market share from south markets. The market share gained from existing organized and unorganized players. However, there is competitive pressure in the industry. The company focused on Odisha and Bihar markets to penetrate the market share through direct-to-dealer approach.

New product launches through innovative product approach: The company has launched new products led by focuses on customer centric approach and digital enablement. The new launches in appliances and ‘Stella’ series of switches witnessed encouraging response from markets.

Sharp increase in raw material prices kept margins under pressure: The sharp spike in raw material prices such as steel (+40%), aluminium (+34%), Polymers – Crude (+40%) during Q4FY22. The increase in input costs, due to Ukraine–Russia conflict and disruption in the global supply chain. The raw material inflation is expected to continue over the medium term. We believe raw material inflation will ease over the period and company will be able to bring back margin levels.

Outlook & Valuation: Orient Electric Ltd has witnessed revenue growth along with market share gain ahead of geopolitical tension and semiconductor shortages. The expansion of existing distribution model, customer centric approach with 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 309 per share, the stock is trading at a P/E multiple of 39.5x/32.1x its FY23E/FY24E EPS of INR 7.8/9.6 respectively. We have a “ACCUMULATE” rating at a TP of INR 346 per share; valued at PE multiple 36x and its FY24E EPS; an upside of 12.1%.

Q4FY22 Result update

Income statement summary

Particular (INR cr)	Q4FY21	Q3FY22	Q4FY22	YoY (%)	QoQ (%)
Revenue	802	678	753	-6.0%	11.1%
Net Raw Materials	578	491	544	-5.9%	10.7%
Employee Cost	48	49	46	-3.7%	-5.5%
Other Expenses	80	72	83	4.3%	15.2%
EBITDA	97	66	81	-16.7%	21.4%
EBITDA margin (%)	12.1%	9.8%	10.7%	-137 bps	91 bps
Depreciation	11	12	12		
Interest expense	5	5	6		
Other income	4.0	0.9	2.7		
Profit before tax	84	51	65	-22.5%	28.5%
Taxes	22	13	17		
Net profit	63	38	49	-22.2%	28.1%
Other Comprehensive income	(0.3)	(0.1)	0.4		
Net profit	62	38	49	-21.1%	29.6%
Net profit margin (%)	7.8%	5.6%	6.5%	-124 bps	93 bps
EPS (INR)	3.0	1.8	2.3		

Source: Company Reports, Arihant Capital Research

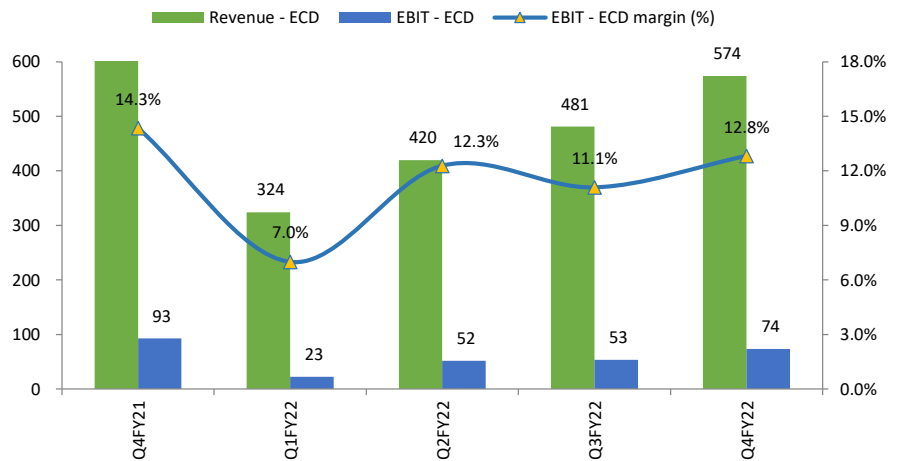
Q4FY22 Results

Orient Electric Ltd revenue stood at INR 753cr (-6% YoY/+11.1% QoQ). EBITDA stood at INR 81cr (-16.7% YoY/21.4% QoQ), EBITDA margin contracted by 137bps to 10.7% vs 12.1% in Q4FY21. The EBITDA Margin contraction mainly due to rise in other expenses and higher raw material cost in terms of sales. In Q4FY22, raw material cost in terms of sales stood at 72.2% vs 72% in Q4FY21 respectively. PAT stood at INR 49cr (-21.1% YoY/+29.6% QoQ). PAT Margin contracted by 124bps to 6.5% vs 7.8% in Q4FY21.

Electric and Consumer Durable (ECD) segment

- In Q4FY22, ECD segment revenue stood by INR 574cr (-11.1% YoY/+19.3% QoQ), the demand remained subdued in January and remained till mid of march due to 3rd wave negative sentiment, eastern european conflict. However, the recovery started in mid of march and witnessed positive momentum led to uptick on primary sales.
- Premium, Luxury and Decorative fans continued satisfactory performance ahead of challenging macro environment.
- The exports sales impacted due to geopolitical tensions and economic emergencies in countries such as Russia, Ukraine, Sri Lanka and Sudan.
- The secondary sales witnessed anticipation which resulted inventory drawdown on the distributors front.
- The company focused on Odisha and Bihar markets to penetrate the market share through direct-to-dealer approach.
- The EBIT declined by 20.6% YoY to INR 74cr, EBIT margin declined by 153 bps to 12.8% vs 14.3% in Q4FY21, due to commodity price inflation and expected to continue margin pressure over medium term.

Exhibit 1: EBIT margin under pressure in ECD segment

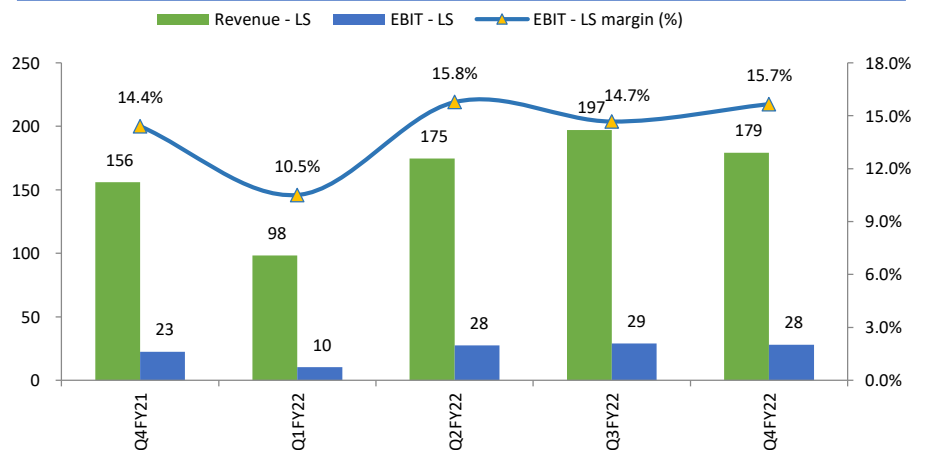


Source: Company Reports, Arihant Capital Research

Lighting & Switchgear (LS) segment

- The lighting and switch gear segment witnessed growth of 14.8% YoY (-9% QoQ) to INR 179cr,
- The lighting business grew by 9.6% YoY, due to demand for consumer lamps, luminaries from small offices, showrooms and homes. The lighting orders has witnessing good traction and company have healthy enquiry pipeline. The order book has encouraged by government spending.
- The switch gear segment catering to mass premium segment. The segment is very well received by channels & consumers and volumes continue to pick up.
- The continued focus on distribution through digital enablement have helped to increase the share of lighting and switch gear segment.
- The EBIT grew by 24.8% YoY to INR 28cr. EBIT margin increased by 125 bps to 15.7% vs 14.4% in Q4FY21, in line with increase in volume sales.

Exhibit 2: EBIT margin improved in LS segment, due to higher volume sales



Source: Company Reports, Arihant Capital Research

Financial Statements

Income statement summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,864	2,062	2,033	2,448	2,882	3,202
Net Raw Materials	1,271	1,409	1,421	1,767	1,977	2,187
Employee Cost	174	198	179	190	225	247
Other Expenses	278	278	213	260	393	427
EBITDA	141	176	220	231	287	342
EBITDA margin (%)	7.6%	8.6%	10.8%	9.4%	10.0%	10.7%
Depreciation	(23)	(40)	(43)	(47)	(50)	(52)
Interest expense	(23)	(26)	(21)	(20)	(21)	(23)
Other income	10	4	6	6	9	10
Profit before tax	105	114	162	170	224	276
Taxes	(36)	(36)	(42)	(43)	(58)	(72)
Net profit	69	79	120	127	166	204
Net profit margin (%)	3.7%	3.8%	5.9%	5.2%	5.8%	6.4%
Other Comprehensive income	(0)	(0)	(0)	0	-	-
Net Profit	69	79	119	127	166	204
EPS (INR)	3	4	6	6	8	10

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity capital	21	21	21	21	21	21
Reserves	285	338	434	520	630	766
Net worth	307	359	456	541	652	787
Provisions	39	46	54	53	47	44
Debt	165	190	95	101	107	117
Other non-current liabilities	-	10	9	13	14	16
Total Liabilities	511	606	614	709	820	964
Fixed assets	112	130	130	142	148	173
Capital Work In Progress	4	3	3	2	2	2
Other Intangible assets	5	13	23	23	23	23
Investments	7	7	9	10	14	16
Other non current assets	25	81	76	90	107	118
Net working capital	326	363	115	291	210	225
Inventories	264	287	249	326	309	330
Sundry debtors	405	389	384	416	474	526
Other current assets	35	42	30	28	39	44
Sundry creditors	(351)	(330)	(519)	(449)	(569)	(627)
Other current liabilities & Prov	(26)	(24)	(30)	(29)	(43)	(48)
Cash	32	7	258	151	314	405
Other Financial Assets	1	1	1	0	1	1
Total Assets	511	606	614	709	820	964

Source: Company Reports, Arihant Capital Research

Financial Statements

Cashflow summary

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	105	114	162	170	224	276
Depreciation	23	40	43	47	50	52
Tax paid	(36)	(36)	(42)	(43)	(58)	(72)
Working capital Δ	(31)	(36)	248	(177)	81	(15)
Operating cashflow	61	82	411	(3)	297	242
Capital expenditure	(35)	(57)	(43)	(59)	(57)	(77)
Free cash flow	26	26	368	(61)	240	164
Equity raised	(7)	4	3	1	-	(0)
Investments	3	(1)	(2)	(0)	(5)	(2)
Others	5	(65)	(4)	(14)	(17)	(12)
Debt financing/disposal	(16)	24	(95)	6	6	10
Other items	9	17	6	4	(5)	(2)
Net Δ in cash	1	(24)	250	(107)	164	90
Opening Cash Flow	30	32	7	258	151	314
Closing Cash Flow	32	7	258	151	314	405

Source: Company Reports, Arianth Capital Research

Ratio analysis

Y/e 31 Mar (INR cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)						
Revenue growth	16.5%	10.6%	-1.4%	20.5%	17.7%	11.1%
Op profit growth	3.5%	24.9%	24.4%	5.4%	24.2%	18.9%
Profitability ratios (%)						
OPM	7.6%	8.6%	10.8%	9.4%	10.0%	10.7%
Net profit margin	3.7%	3.8%	5.9%	5.2%	5.8%	6.4%
RoCE	17.1%	17.5%	22.5%	21.8%	24.2%	25.2%
RoNW	24.3%	23.6%	29.4%	25.4%	27.8%	28.4%
RoA	13.6%	13.0%	19.5%	17.9%	20.2%	21.2%
Per share ratios (INR)						
EPS	3.2	3.7	5.6	6.0	7.8	9.6
Dividend per share	0.6	1.4	1.2	2.0	2.6	3.2
Cash EPS	4.4	5.6	7.7	8.2	10.2	12.1
Book value per share	14.4	16.9	21.5	25.5	30.7	37.1
Valuation ratios (x)						
P/E	95.2	83.5	54.9	51.7	39.5	32.1
P/CEPS	71.0	55.2	40.3	37.7	30.3	25.6
P/B	21.4	18.2	14.4	12.1	10.1	8.3
EV/EBITDA	47.3	38.2	29.1	28.1	22.0	18.3
Payout (%)						
Dividend payout	27.1%	37.4%	22.1%	33.5%	33.5%	33.5%
Tax payout	33.9%	31.2%	26.0%	25.4%	26.0%	26.0%
Liquidity ratios						
Debtor days	77	70	69	60	56	57
Inventory days	68	71	69	59	59	53
Creditor days	66	66	86	80	72	76
WC Days	79	76	53	39	43	34
Leverage ratios (x)						
Interest coverage	5.2	5.2	8.5	9.1	11.0	12.5
Net debt / equity	0.4	0.5	-0.4	-0.1	-0.3	-0.4
Net debt / op. profit	0.9	1.0	-0.7	-0.2	-0.7	-0.8

Source: Company Reports, Arianth Capital Research

Story in Charts

Exhibit 3: Recovery in revenue growth

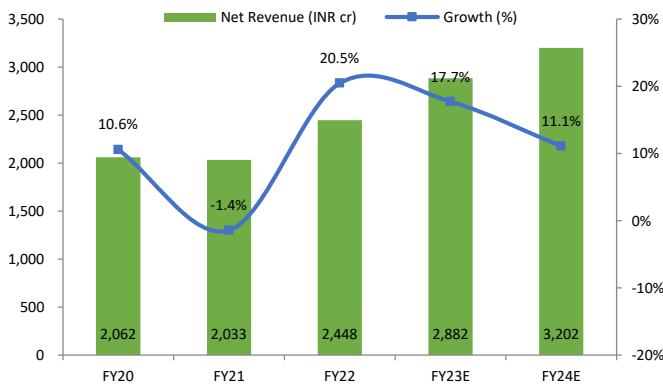


Exhibit 4: Input prices impacted gross margins

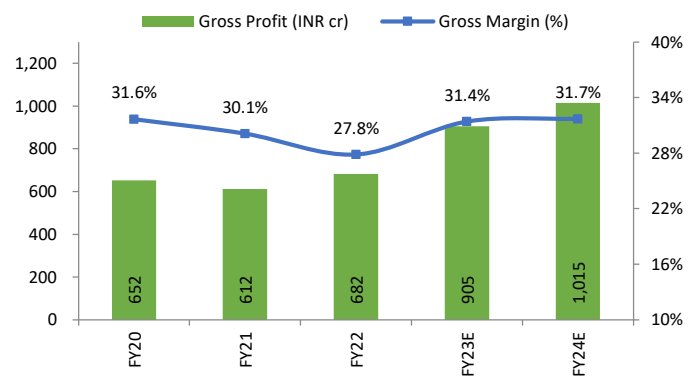


Exhibit 5: Growth in EBITDA & PAT levels

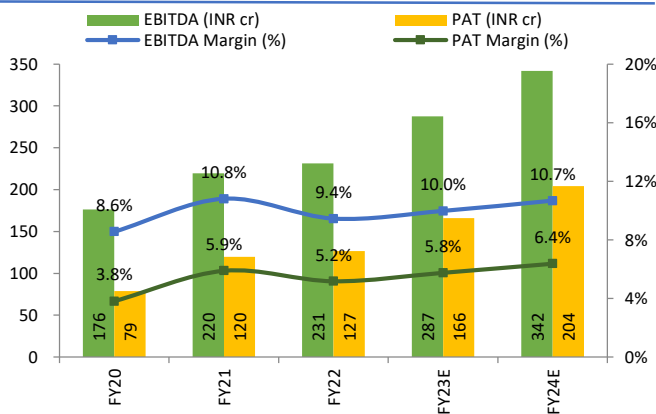


Exhibit 6: Return ratios to be improve

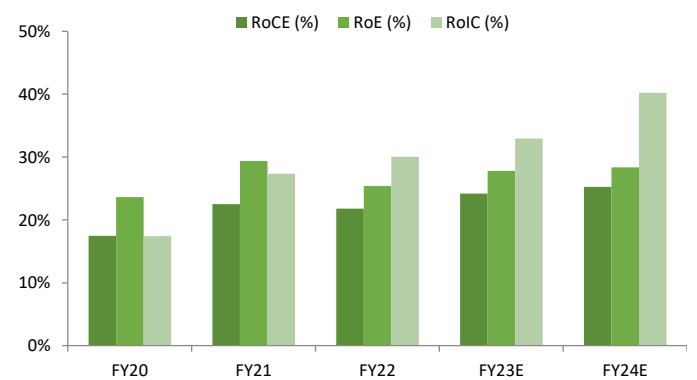


Exhibit 7: Working capital days to be improve

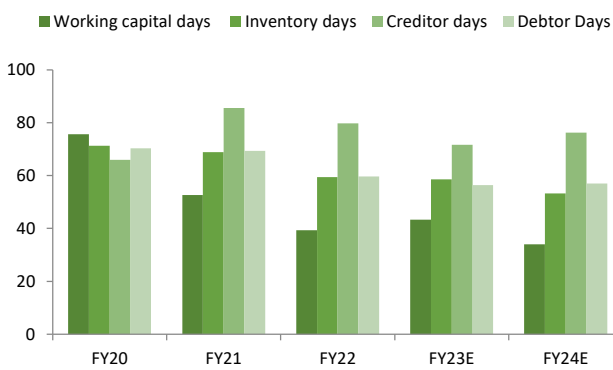
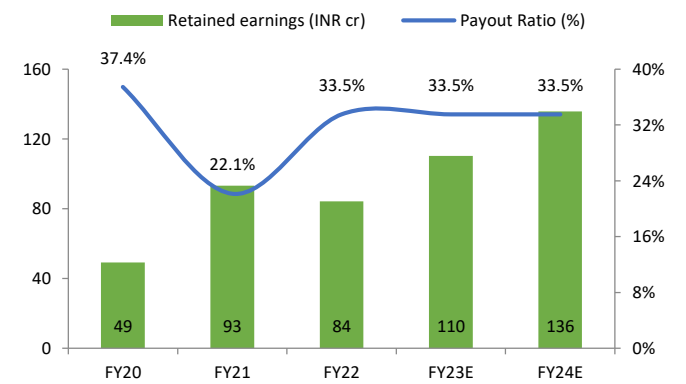


Exhibit 8: Dividend pay-out to be continue



Source: Company Reports, Arianth 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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