

India

ADD (no change)

Consensus ratings*: Buy 12 Hold 4 Sell 3

Current price:	Rs263
Target price:	Rs312
Previous target:	Rs312
Up/downside:	18.6%
InCred Research / Consensus:	3.0%
Reuters:	ONTE.NS
Bloomberg:	ORIENTEL IN
Market cap:	US\$770m
	Rs55,924m
Average daily turnover:	US\$0.9m
	Rs67.3m
Current shares o/s:	212.2m
Free float:	61.6%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue raised by 5.1%/2.9%.
- FY23F EBITDA cut by 2.3%.
- FY23F/24F PAT cut by 2.3%/1.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.3)	(2.2)	(20.8)
Relative (%)	1.9	0.4	(21.7)

Major shareholders	% held
Promoters	38.4
NIPPON INDIA NIFTY SMALL CAP	6.4
MIRAE ASSET TAX SAVER FUND	5.9

Analyst(s)



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Orient Electric

Double-digit margins still some time away

- BEE star rating transition was smooth. OEL considerably beat 3Q revenue/PAT estimates. Fan sales volume grew 15% yoy. ECD/lighting sales: +12%/flat yoy.
- Consumer demand is steady and will improve in Mar-Jun (summer), as per OEL. Channel rejig nearing completion. Hyderabad plant to start in Jun 2023F.
- The worst is behind. We expect a back-ended margin recovery (2HFY24F). Bounce-back in the ECD segment could be meaningful in FY24F. Retain ADD.

Good execution even in a tough environment

Orient Electric or OEL reported 3QFY23 revenue/EBITDA/PAT of Rs7.4bn/Rs549/Rs326m, +9%/-18%/-15% yoy, respectively, considerably beating our/Bloomberg consensus expectations due to the smooth execution of ceiling fan BEE star rating transition. Gross margin improved to 28.6%, +100bp yoy and +230bp qoq, as the high-cost raw material inventory pressure eased. However, EBITDA margin stayed below the normal level at 7.4%, down 235bp yoy but sharply up by 515bp qoq due to operating leverage benefits. The ECD segment's sales (highest for any 3Q historically) stood at Rs5.4bn, +12% yoy, while the lighting and switchgear (L&S) segment's sales were at Rs2bn, +2% yoy. Within ECD, fan sales volume grew 15% yoy led by higher-than-normal channel stocking in economy/standard range fans (50% of total fan sales). B2C lighting (75% of the segment's sales) continued to witness lacklustre volume (no price cuts) while B2B demand stayed robust. Staff cost surprisingly increased to Rs573m, +18% yoy and 32% qoq, led by senior leadership hiring. OEL's board declared an interim dividend of Rs0.75/share.

We expect margins to revert to pre-covid levels in a gradual manner

OEL's management indicated a steady demand trend and expects it to improve over the next six months - the upcoming summer season (Mar-Jun 2023F). OEL does not expect 4QFY23F primary fan sales to be materially weak as premium fans channel inventory is near normal. Direct-to-market channel rejig in Uttar Pradesh, Karnataka, Odisha and Bihar has yielded strong results. Andhra Pradesh and Telangana rejig should get completed by Mar 2023F. 4Q is the highest revenue quarter every year based on the historical trend, and we expect the same in 4QFY23F as well with higher margins qoq. However, higher spending on manpower, technology, and capex will lead to a gradual recovery (in 2HFY24F) in EBITDA margin, in our view. The Hyderabad greenfield plant has been delayed and will start operations in Jun 2023F (Phase 1: TPW+BLDC fans).

Change in our estimates; valuation and risks

We have incorporated 3Q actuals and alter revenue growth and margin assumptions. Our revenue estimates are higher by 3-5% and EBITDA/PAT have been altered in the range of -2% to +5% over FY23F-25F. The worst is behind, and we expect a back-ended margin recovery for OEL. We expect revenue/EPS CAGR of 13%/40%, respectively, on a low base over FY23F-25F. Retain ADD rating with a target price of Rs312 (P/E of 44x FY24F EPS). Downside risks: Channel rejig and capex delay.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	20,326	24,484	27,221	31,304	34,973
Operating EBITDA (Rsm)	2,195	2,313	1,797	2,896	3,445
Net Profit (Rsm)	1,197	1,266	934	1,483	1,847
Core EPS (Rs)	5.6	6.0	4.4	7.0	8.7
Core EPS Growth	52.3%	5.8%	(26.2%)	58.7%	24.5%
FD Core P/E (x)	46.59	44.05	59.70	37.61	30.20
DPS (Rs)	2.0	2.0	1.5	2.0	2.5
Dividend Yield	0.76%	0.76%	0.57%	0.76%	0.95%
EV/EBITDA (x)	24.14	23.38	30.32	18.60	15.22
P/FCFE (x)	31.72	81.13	350.53	64.98	31.15
Net Gearing	(61.5%)	(31.6%)	(21.9%)	(27.3%)	(39.8%)
P/BV (x)	12.24	10.30	9.25	7.87	6.63
ROE	29.4%	25.4%	16.3%	22.6%	23.8%
% Change In Core EPS Estimates			(2.30%)	(1.38%)	5.16%
InCred Research/Consensus EPS (x)					

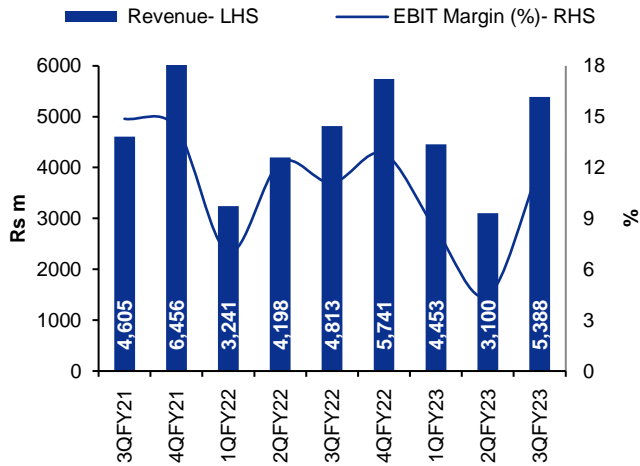
SOURCE: INCRED RESEARCH, COMPANY REPORTS

3QFY23 earnings-call highlights

- **Sales mix and 3-year sales CAGR:** ECD and L&S segments accounted for 73% (fans: 62% + appliances 11%) and 27% of consolidated sales, respectively. Within the lighting segment, B2C accounted for 75% while B2B stood at 25% of total lighting sales in 3QFY23. Within fans, base category fan sales stood at 50% of total fan sales, decorative at 30%, premium fans at 10% (ASP of >Rs5k per fan) and BLDC at 10% in 3QFY23. The 3-year CAGR (3QFY20-3QFY23) in consolidated sales was at +14.2%, for ECD sales it was at +18.4% and for L&S it was at +5.4% yoy.
- **Direct-to-market channel rejig:** The transition from the master distributor agreement to direct dealers in the four states of Bihar, Uttar Pradesh, Odisha and Karnataka has been completed. During 3Q, revenue grew by 60% yoy because of sales in these states. Andhra Pradesh and Telangana changeover is expected to be completed by the end of the Mar 2023F. OEL did not indicate additional weak states, if any, that could undergo the transition over CY23F.
- **Ceiling fan BEE transition:** The transition to the new regulatory norms relating to energy efficiency of ceiling fans was carried out smoothly during 3Q. The entire inventory of non-star rated fans was sold out amidst the BEE transition. The 1 star-rated fan is now expensive by 3-5% vs. zero-star rating fan. The channel has a meaningful zero-star inventory and star-rated fan stocking will pick up as the summer sets in from Feb 2023F. OEL maintains its leadership position for BLDC fans in the trade channel. About 350 SKUs have been upgraded as per new BEE specifications and 400+ SKUs have BEE certifications now.
- **Lighting segment update:** While B2C sales were largely flat yoy, B2B sales grew in double digits yoy led by infrastructure sector spending by the government and strong growth in façade lighting. Professional luminaires (B2B) achieved the highest revenue in 3Q. The ongoing projects of Varanasi Cantt. railway station and Puducherry Smart City have been completed while the Srinagar smart city project was under progress in 3QFY23. EESL organization restructuring has been completed and the company expects the order flow for street lighting to meaningfully improve over the next 12 months.
- **Higher opex:** OEL recruited a few senior leadership personnel during 3Q, leading to higher-than-normal employee expenses during the quarter. Also, management consultancy firm McKinsey has been engaged for a consulting assignment to improve efficiency across the organization. Including these and higher marketing expenses, the total impact of was 1.7-1.8% of total sales on EBITDA margin. Management indicated that the benefits from these investments will flow through over the medium term, but upfront investments will restrict the margin expansion in the near term.
- **Old provisions written back:** During the earlier years, OEL had initiated legal action against Orient General Agencies (Bombay) Pvt Ltd (OGA) and Apollo Supply Chain Private Limited (formerly Alco Logistics Private Limited) (Apollo) for recovery of the outstanding amount against which an appropriate provision was already made in the books of accounts. OGA and Apollo have agreed for an out-of-court settlement of all the disputes and have agreed to pay Rs30m and Rs27.5m, respectively, as a full and final settlement. Accordingly, the said total amount of Rs57.5m has been considered as other income in 3QFY23.
- **Capex:** The upcoming greenfield plant at Hyderabad is expected to be operational in phases, with the first phase expected to start operations from Jun 2023F. The total estimated cost is Rs1.75bn, of which Rs370m has been spent in 9MFY23. The first phase will include the manufacturing of TPW fans (shift production from the Kolkata factory) to focus on the export market. The company will also undertake manufacturing of BLDC fans at this plant in addition to the existing facility for BLDC fans at Faridabad. Other product categories would be added later as a part of Phase-2 of the project that would need additional capex.

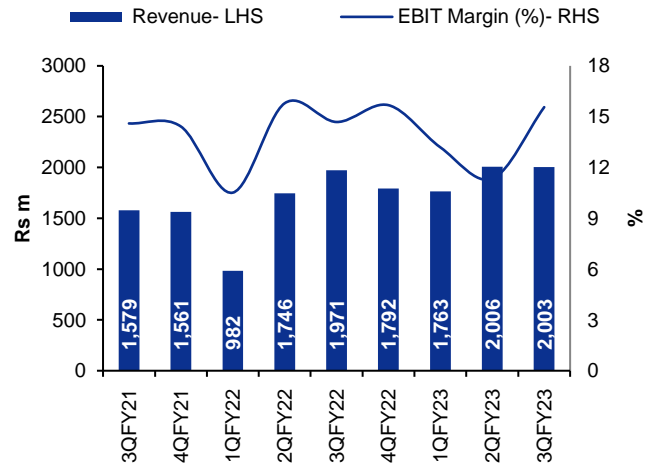
- **Cash conversion cycle:** Net working capital cycle has improved to 20 days vs. 34 days of sales yoy at end of Dec 2022. Net cash (including equivalents) stood at Rs2bn at the end of Dec 2022.

Figure 1: ECD segment's revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Lighting and switchgear segment's revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	7,390	6,784	8.9	5,106	44.7	18,713	16,951	10.4
EBITDA	549	665	(17.5)	116	372.5	1,046	1,507	(30.6)
EBITDA margin (%)	7.4	9.8	-237 bp	2.3	515 bp	5.6	8.9	-330 bp
Adj. PAT	326	381	(14.5)	-3	(11,728.6)	512	777	(34.0)
Diluted EPS (Rs)	1.5	1.8		-0.0		2.4	3.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 3QFY23 segmental results snapshot

	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue (Rs m)								
Electrical consumer durables	5,388	4,813	11.9	3,100	73.8	12,942	12,252	5.6
Lighting & switchgear	2,003	1,971	1.6	2,006	(0.2)	5,771	4,699	22.8
Total	7,390	7,409	(0.2)	5,106	44.7	18,713	16,951	10.4
EBIT (Rs m)								
Electrical consumer durables	645	534	20.9	137	370.5	1,154	1,276	(9.6)
Lighting & switchgear	311	289	7.7	227	36.9	771	668	15.4
Total	956	823	16.2	365	162.4	2,570	1,944	32.2
EBIT margin (%)								
Electrical consumer durables	12.0	11.1	88 bp	4.4	755 bp	8.9	10.4	-150 bp
Lighting & switchgear	15.6	14.7	87 bp	11.3	421 bp	13.4	14.2	-85 bp
Total	12.9	11.1	184 bp	7.1	580 bp	13.7	11.5	227 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	7,390	6,278	17.7
EBITDA	549	356	54.0
EBITDA margin (%)	7.4	5.7	175 bp
Adj. PAT	326	146	123.3

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY23A	3QFY23C	Var (%)
Revenue	7,390	6,599	12.0
EBITDA	549	438	25.3
EBITDA margin (%)	7.4	6.6	79 bp
Adj. PAT	326	225	44.8

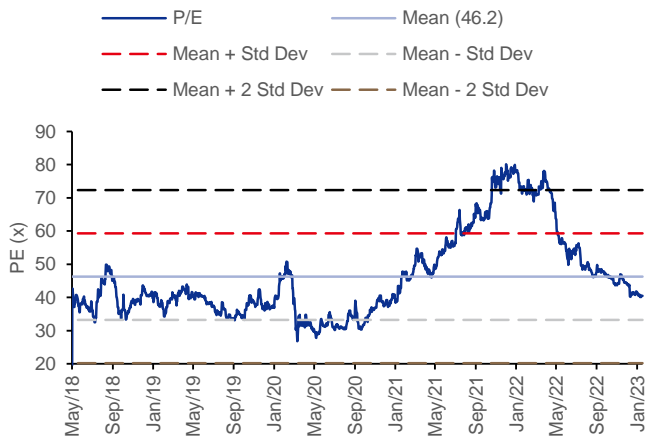
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: Revised earnings estimates

	New Estimates			Old Estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	27,221	31,304	34,973	25,891	30,436	33,994	5.1	2.9	2.9
EBITDA	1,797	2,896	3,445	1,838	2,891	3,314	-2.3	0.1	3.9
Adjusted consol. PAT	934	1,483	1,847	956	1,504	1,757	-2.3	-1.4	5.2
EPS	4.4	7.0	8.7	4.5	7.1	8	-2.3	-1.4	5.2
EBITDA margin (%)	6.6	9.3	9.9	7.1	9.5	10	-50 bp	-25 bp	10 bp

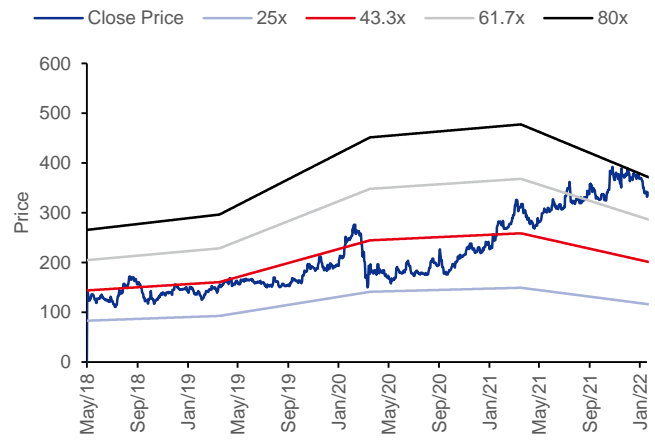
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: P/E SD (since demerger)



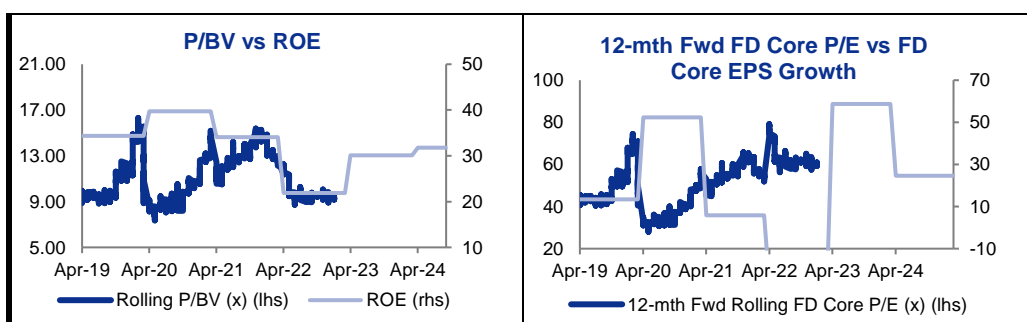
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	20,326	24,484	27,221	31,304	34,973
Gross Profit	6,117	6,818	7,676	9,626	10,929
Operating EBITDA	2,195	2,313	1,797	2,896	3,445
Depreciation And Amortisation	(432)	(471)	(541)	(689)	(748)
Operating EBIT	1,764	1,842	1,255	2,207	2,697
Financial Income/(Expense)	(179)	(191)	(193)	(282)	(290)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	35	46	190	50	53
Profit Before Tax (pre-EI)	1,619	1,698	1,253	1,975	2,460
Exceptional Items					
Pre-tax Profit	1,619	1,698	1,253	1,975	2,460
Taxation	(422)	(431)	(318)	(492)	(612)
Exceptional Income - post-tax					
Profit After Tax	1,197	1,266	934	1,483	1,847
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,197	1,266	934	1,483	1,847
Recurring Net Profit	1,197	1,266	934	1,483	1,847
Fully Diluted Recurring Net Profit	1,197	1,266	934	1,483	1,847

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	2,195	2,313	1,797	2,896	3,445
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,211	(1,906)	205	(289)	28
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	101	23	(207)	(467)	(500)
Net Interest (Paid)/Received	179	191	193	282	290
Tax Paid	(414)	(508)	(318)	(492)	(612)
Cashflow From Operations	4,273	114	1,669	1,930	2,651
Capex	(359)	(427)	(1,550)	(608)	(415)
Disposals Of FAs/subsidiaries	1	4			
Acq. Of Subsidiaries/investments	(1,170)	1,172	3	(500)	(500)
Other Investing Cashflow	22	33	33	36	56
Cash Flow From Investing	(1,506)	782	(1,514)	(1,072)	(860)
Debt Raised/(repaid)	(1,008)	(208)	4		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(265)	(424)	(318)	(424)	(531)
Preferred Dividends					
Other Financing Cashflow	(164)	(164)	(226)	(318)	(346)
Cash Flow From Financing	(1,437)	(797)	(540)	(742)	(876)
Total Cash Generated	1,330	99	(385)	116	915
Free Cashflow To Equity	1,759	688	159	858	1,791
Free Cashflow To Firm	2,559	693	(71)	541	1,445

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	2,956	1,858	1,470	2,086	3,501
Total Debtors	3,552	3,904	4,102	4,717	4,982
Inventories	2,492	3,261	3,356	3,859	4,312
Total Other Current Assets	345	390	433	498	556
Total Current Assets	9,345	9,412	9,361	11,161	13,352
Fixed Assets	1,442	1,642	1,621	2,974	2,904
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	837	820	2,054	854	854
Total Non-current Assets	2,279	2,462	3,675	3,829	3,759
Short-term Debt	135	147	151	151	151
Current Portion of Long-Term Debt					
Total Creditors	5,191	4,495	4,848	5,575	6,228
Other Current Liabilities	1,036	930	1,119	1,286	1,437
Total Current Liabilities	6,362	5,572	6,118	7,012	7,817
Total Long-term Debt	17				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	688	886	886	886	886
Total Non-current Liabilities	705	886	886	886	886
Total Provisions					
Total Liabilities	7,067	6,457	7,003	7,898	8,702
Shareholders Equity	4,557	5,417	6,033	7,091	8,408
Minority Interests					
Total Equity	4,557	5,417	6,033	7,091	8,408

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(1.4%)	20.5%	11.2%	15.0%	11.7%
Operating EBITDA Growth	24.4%	5.4%	(22.3%)	61.2%	19.0%
Operating EBITDA Margin	10.8%	9.4%	6.6%	9.3%	9.8%
Net Cash Per Share (Rs)	13.21	8.06	6.21	9.12	15.79
BVPS (Rs)	21.47	25.53	28.43	33.42	39.62
Gross Interest Cover	8.51	9.08	5.55	6.95	7.80
Effective Tax Rate	26.0%	25.4%	25.4%	24.9%	24.9%
Net Dividend Payout Ratio	26.2%	25.0%	25.4%	21.5%	21.6%
Accounts Receivables Days	64.55	55.57	53.67	51.41	50.62
Inventory Days	68.80	59.42	61.78	60.74	62.02
Accounts Payables Days	109.12	100.06	87.23	87.74	89.59
ROIC (%)	32.7%	75.5%	27.3%	39.4%	44.6%
ROCE (%)	38.4%	36.1%	21.9%	33.4%	34.8%
Return On Average Assets	16.9%	16.1%	11.6%	16.1%	17.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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