

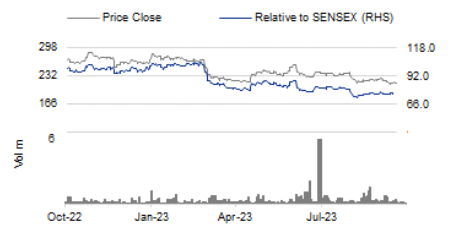
India

**HOLD** (no change)

Consensus ratings*: Buy 12 Hold 5 Sell 2	
Current price:	Rs221
Target price:	Rs232
Previous target:	Rs250
Up/downside:	5.0%
InCred Research / Consensus:	-10.4%
Reuters:	ONTE.NS
Bloomberg:	ORIENTEL IN
Market cap:	US\$567m
	Rs47,197m
Average daily turnover:	US\$1.1m
	Rs87.8m
Current shares o/s:	212.8m
Free float:	61.7%
*Source: Bloomberg	

**Key changes in this note**

- FY24F revenue/EBITDA/PAT cut by 1.9%/2.5%/8.7%.
- FY25F revenue/EBITDA/PAT cut by 1.6%/3.9%/7.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.1	(7.8)	(15.9)
Relative (%)	2.6	(5.9)	(20.3)

Major shareholders	% held
Promoters	38.3
NIPPON INDIA FUND	6.5
ICICI Prudential Flexicap Fund	6.2

**Analyst(s)**



**Rahul AGARWAL**  
 T (91) 22 4161 1553  
 E rahul.agarwal@incredcapital.com

**Harshit SARAWAGI**  
 T (91) 22 4161 0000  
 E harshit.sarawagi@incredcapital.com

# Orient Electric

## Things should stabilize by Mar 2024F

- 2Q revenue was in line with expectations but lower sales volume & higher opex hit margins, leading to an EBITDA miss of 40-50%. B2C continues to be soft.
- Appointment of a new CEO, shift to direct-to-market, starting Hyderabad plant and realignment/filling of operational gaps are critical milestones going ahead.
- It will take two more quarters to stabilize operations. We expect an EPS CAGR of 36% over FY23-26F. Retain HOLD rating with a lower target price of Rs232.

### Lower sales volume & higher opex leads to abnormally low margins

Orient Electric (OEL) posted 2QFY24 revenue/EBITDA of Rs5.7bn/Rs207m, +11%/+78% yoy, respectively. Adj. PAT stood at Rs34m vs. a loss in the base quarter. Revenue was in line with Incred/Bloomberg consensus estimates, but lower sales throughput and higher opex led to EBITDA miss of 40-50%. Consol. gross/EBITDA margins improved to 30.3%/3.6%, +400bp/+137bp yoy, respectively, but were lower than the long-term average. Staff costs and other expenditure grew 26% yoy vs. sales growth of 12% yoy in 2Q. The ECD segment's sales grew to Rs3.6bn, +17% yoy, led by fan sales growth of 25% yoy. The lighting & switchgear segment's sales were flat yoy at Rs2bn due to a fall in LED prices & weak demand. Switches, switchgear and house wires saw healthy growth on a low base yoy. Profit from the sale of land to the tune of Rs187m was accounted for as an exceptional income in 2Q. Higher capex (Rs780m) and an increase in working capital investment (Rs1bn) in 1HFY24 led to a negative OCF of Rs492m

### 2HFY24F to be better than 1H

We expect B2C demand to recover in 2HFY24F with the start of the festive season and consumer inflation declining in India. Appointment of a new CEO, DTM channel realignment in more states (started in Gujarat in 2Q, two more states under observation), start of commercial production at the greenfield Hyderabad plant (delayed by three months due to visa delay of Chinese engineers) and filling operational gaps would need some more time. Management indicated that most of these things would be sorted out by Mar 2024F. We expect a meaningful market share gain, bounce-back in revenue growth and operating leverage benefits to flow in via higher margins from 1QFY25F. We expect revenue/EBITDA CAGR of 14%/31%, respectively, over FY23-26F.

### Change in our estimates

We cut revenue/EBITDA/PAT estimates by 2-9% owing to a weak demand trend, higher opex, capex delay and lower treasury income over FY24F-25F and introduce FY26F. We expect an EPS CAGR of 35% and cumulative FCF of Rs3.5bn over FY23-26F.

### Two more quarters for things to stabilize; retain HOLD rating

We would closely monitor the appointment of a new CEO. Retain HOLD rating with a lower TP of Rs232 (Rs250 earlier), retaining exit P/E of 35x (5-year mean; ex-FY23) FY25F EPS. Upside risk: Quick margin recovery. Downside risk: Employee attrition and capex delay.

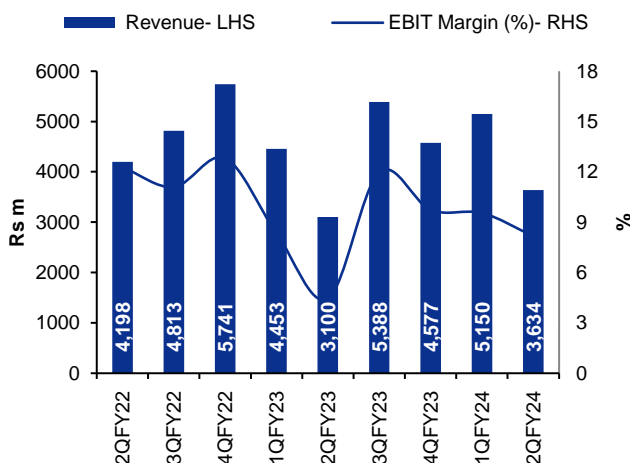
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	24,484	25,292	28,346	32,598	37,113
Operating EBITDA (Rsm)	2,313	1,510	2,098	2,787	3,414
Net Profit (Rsm)	1,266	759	1,162	1,416	1,878
Core EPS (Rs)	6.0	3.6	4.8	6.7	8.8
Core EPS Growth	5.8%	(40.1%)	34.4%	38.6%	32.6%
FD Core P/E (x)	37.06	61.88	40.46	33.24	25.07
DPS (Rs)	2.0	1.5	1.5	2.0	2.5
Dividend Yield	0.90%	0.68%	0.68%	0.90%	1.13%
EV/EBITDA (x)	19.55	30.07	21.90	16.10	12.79
P/FCFE (x)	68.26	78.97	(114.34)	35.73	31.17
Net Gearing	(31.6%)	(26.4%)	(16.0%)	(28.7%)	(37.8%)
P/BV (x)	8.67	8.03	7.03	6.13	5.22
ROE	25.4%	13.5%	16.3%	19.7%	22.5%
% Change In Core EPS Estimates			(4.48%)	(7.38%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 2QFY24 earnings-call highlights

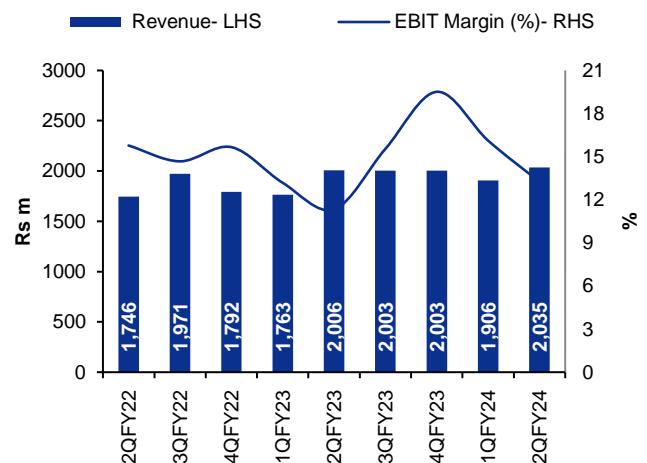
- **Expansion of DTM shift:** Orient Electric had implemented DTM channel realignment to six states earlier that led to meaningful market share gains. The company added Gujarat (4% of domestic fan sales) to its DTM roll-out in 2Q and two more states are under close observation.
- **New D2C website:** OEL launched its new website – [www.shop.orientelectric.com](http://www.shop.orientelectric.com) - with a focus on gathering valuable feedback and insights from its customers, provide better navigation, product recommendation engine and special customized offers.
- **ECD segment:** Despite the non-peak season and transition of Gujarat to the direct-to-market status, fan sales grew strongly by 25%+ yoy in 2Q. DTM sales saw a 2x growth yoy during the quarter. BLDC (18% of domestic fan sales) and TPW fan sales saw a healthy growth. Digital sales grew by high double digits in 2Q. Coolers, water heaters and appliances were impacted by a mild summer and heavy rains. Revenue from the International business doubled during the quarter.
- **L&S segment:** P-Lum and C-Lum segment, ex-lamps and battens, saw good momentum and volume growth in 2Q. The switchgear business delivered high double-digit growth with distribution expansion and a rise in electrician touchpoints. The house wire segment reported a higher revenue run-rate on the back of better distribution network.
- **Exceptional income:** The company sold a parcel of land at Hyderabad and accounted for the profit on its sale of Rs 186.8m as an exceptional income in 2Q. The net consideration (net of taxes) stood at ~Rs150m.
- **Cost savings:** Project Sanchay - the flagship cost-saving initiative – moved ahead with ~Rs140m savings in 2QFY24. Under the scheme, the company aspires to save Rs500m+ in FY24F.
- **Capex update:** OEL incurred Rs780m capex in 1H, of which Rs630m was incurred on the greenfield plant at Hyderabad. We estimate a total capex of Rs1.6bn, including maintenance capex of Rs450-500m, in FY24F. The Hyderabad plant is expected to start commercial production in 4QFY24F, as per management.
- **Cash flow:** Stocking-up of inventory ahead of the festive season led to a longer net working capital cycle of 31 days of TTM sales at the end of Sep 2023 vs. 22 days at the end of Mar 2023. Higher capex (Rs780m) and an increase in working capital investment (Rs1bn) led to negative OCF of Rs492m in 1HFY24 and a decline in the cash surplus to Rs290m at the end of Sep 2023 vs. Rs1.5bn at the end of Mar 2023.

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: 2QFY24 results snapshot

YE Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
Revenue	5,669	5,106	11.0	7,056	(19.7)	12,725	11,322	12.4
EBITDA	207	116	78.0	440	(53.0)	647	498	29.9
EBITDA margin (%)	3.6	2.3	137 bp	6.2	-259 bp	5.1	4.4	69 bp
Adj. PAT	34	-3	(1,332.1)	197	(82.5)	381	187	104.3
Diluted EPS (Rs)	-0.0	-0.0		0.9		0.9	0.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 2QFY24 segmental results snapshot

	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
<b>Revenue (Rs m)</b>								
Electrical consumer durables	3,634	3,100	17.2	5,150	(29.4)	8,785	7,554	16.3
Lighting & switchgear	2,035	2,006	1.4	1,906	6.7	3,941	3,769	4.6
<b>Total</b>	<b>5,669</b>	<b>5,106</b>	<b>11.0</b>	<b>7,056</b>	<b>(19.7)</b>	<b>12,725</b>	<b>11,322</b>	<b>12.4</b>
<b>EBIT (Rs m)</b>								
Electrical consumer durables	297	137	116.6	492	(39.6)	788	509	55.0
Lighting & switchgear	269	227	18.5	307	(12.3)	577	460	25.4
<b>Total</b>	<b>566</b>	<b>365</b>	<b>55.4</b>	<b>799</b>	<b>(29.1)</b>	<b>1,365</b>	<b>969</b>	<b>40.9</b>
<b>EBIT margin (%)</b>								
Electrical consumer durables	8.2	4.4	375 bp	9.5	-137 bp	9.0	6.7	224 bp
Lighting & switchgear	13.2	11.3	190 bp	16.1	-287 bp	14.6	12.2	243 bp
<b>Total</b>	<b>10.0</b>	<b>7</b>	<b>285 bp</b>	<b>11.3</b>	<b>-133 bp</b>	<b>10.7</b>	<b>9</b>	<b>217 bp</b>

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	5,669	6,032	(6.0)
EBITDA	207	392	(47.3)
EBITDA margin (%)	3.6	6.5	-285 bp
Adj. PAT	34	167	(79.4)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	5,669	5,843	(3.0)
EBITDA	207	333	(37.9)
EBITDA margin (%)	3.6	5.7	-205 bp
Adj. PAT	34	141	(75.6)

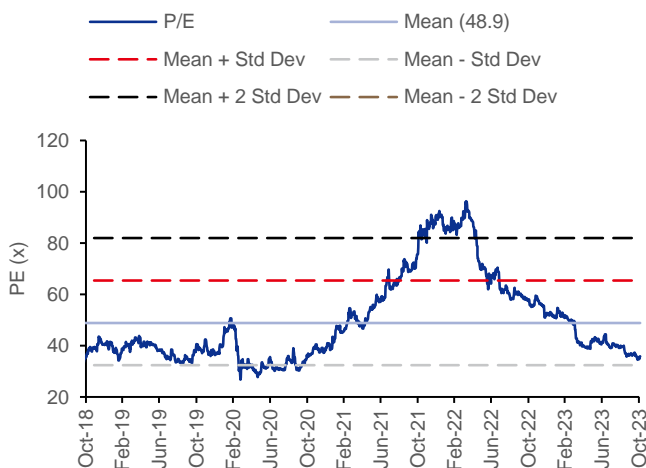
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: Our revised earnings estimates

	New Estimates			Old Estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	28,346	32,598	37,113	28,891	33,137	NA	-1.9	-1.6	NA
EBITDA	2,098	2,787	3,414	2,152	2,900	NA	-2.5	-3.9	NA
Adjusted consol. PAT	975	1,416	1,878	1,068	1,529	NA	-8.7	-7.4	NA
EPS	4.6	6.7	8.8	5.0	7.2	NA	-8.7	-7.4	NA
EBITDA margin (%)	7.4	8.6	9.2	7.5	8.7	NA	-5 bp	-20 bp	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: P/E standard deviation (since demerger)



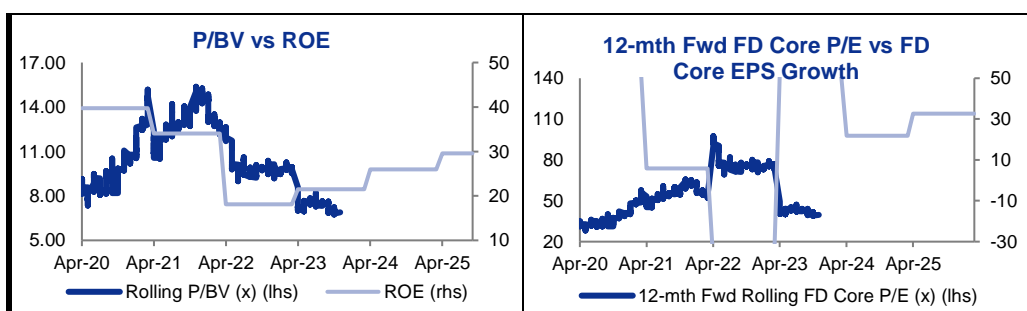
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 9: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>24,484</b>	<b>25,292</b>	<b>28,346</b>	<b>32,598</b>	<b>37,113</b>
<b>Gross Profit</b>	<b>6,818</b>	<b>7,050</b>	<b>8,787</b>	<b>10,268</b>	<b>11,876</b>
<b>Operating EBITDA</b>	<b>2,313</b>	<b>1,510</b>	<b>2,098</b>	<b>2,787</b>	<b>3,414</b>
Depreciation And Amortisation	(471)	(535)	(608)	(825)	(911)
<b>Operating EBIT</b>	<b>1,842</b>	<b>975</b>	<b>1,490</b>	<b>1,962</b>	<b>2,504</b>
Financial Income/(Expense)	(191)	(171)	(176)	(135)	(72)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	46	215	35	37	39
<b>Profit Before Tax (pre-EI)</b>	<b>1,698</b>	<b>1,019</b>	<b>1,349</b>	<b>1,863</b>	<b>2,471</b>
Exceptional Items			187		
<b>Pre-tax Profit</b>	<b>1,698</b>	<b>1,019</b>	<b>1,535</b>	<b>1,863</b>	<b>2,471</b>
Taxation	(431)	(261)	(374)	(447)	(593)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,266</b>	<b>759</b>	<b>1,162</b>	<b>1,416</b>	<b>1,878</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,266</b>	<b>759</b>	<b>1,162</b>	<b>1,416</b>	<b>1,878</b>
Recurring Net Profit	1,266	759	1,020	1,416	1,878
<b>Fully Diluted Recurring Net Profit</b>	<b>1,266</b>	<b>759</b>	<b>1,020</b>	<b>1,416</b>	<b>1,878</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>2,313</b>	<b>1,510</b>	<b>2,098</b>	<b>2,787</b>	<b>3,414</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,906)	567	(107)	113	(210)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	23	196	(167)	(343)	(311)
Net Interest (Paid)/Received	191	(27)	176	135	72
Tax Paid	(508)	(349)	(374)	(447)	(593)
<b>Cashflow From Operations</b>	<b>114</b>	<b>1,897</b>	<b>1,626</b>	<b>2,245</b>	<b>2,371</b>
Capex	(427)	(1,139)	(1,600)	(550)	(565)
Disposals Of FAs/subsidiaries	4				
Acq. Of Subsidiaries/investments	1,172	(56)	(500)	(500)	(500)
Other Investing Cashflow	33	95	63	122	204
<b>Cash Flow From Investing</b>	<b>782</b>	<b>(1,100)</b>	<b>(2,037)</b>	<b>(928)</b>	<b>(861)</b>
Debt Raised/(repaid)	(208)	(203)			
Proceeds From Issue Of Shares		1			
Shares Repurchased					
Dividends Paid	(424)	(425)	(319)	(426)	(532)
Preferred Dividends					
Other Financing Cashflow	(164)	(34)	(240)	(257)	(275)
<b>Cash Flow From Financing</b>	<b>(797)</b>	<b>(661)</b>	<b>(559)</b>	<b>(683)</b>	<b>(807)</b>
Total Cash Generated	99	137	(970)	634	703
<b>Free Cashflow To Equity</b>	<b>688</b>	<b>594</b>	<b>(411)</b>	<b>1,317</b>	<b>1,510</b>
<b>Free Cashflow To Firm</b>	<b>693</b>	<b>710</b>	<b>(651)</b>	<b>1,060</b>	<b>1,235</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	1,858	1,642	1,172	2,306	3,509
Total Debtors	3,904	3,560	3,883	4,287	4,881
Inventories	3,261	2,846	2,951	3,215	3,660
Total Other Current Assets	390	647	544	625	712
<b>Total Current Assets</b>	<b>9,412</b>	<b>8,696</b>	<b>8,550</b>	<b>10,434</b>	<b>12,762</b>
Fixed Assets	1,642	1,455	3,420	3,389	3,322
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	820	2,495	1,736	1,736	1,736
<b>Total Non-current Assets</b>	<b>2,462</b>	<b>3,951</b>	<b>5,156</b>	<b>5,125</b>	<b>5,057</b>
Short-term Debt	147	101	101	101	101
Current Portion of Long-Term Debt					
Total Creditors	4,495	4,530	4,660	5,359	6,101
Other Current Liabilities	930	1,000	1,087	1,250	1,424
<b>Total Current Liabilities</b>	<b>5,572</b>	<b>5,631</b>	<b>5,848</b>	<b>6,710</b>	<b>7,625</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	886	1,169	1,169	1,169	1,169
<b>Total Non-current Liabilities</b>	<b>886</b>	<b>1,169</b>	<b>1,169</b>	<b>1,169</b>	<b>1,169</b>
Total Provisions					
<b>Total Liabilities</b>	<b>6,457</b>	<b>6,800</b>	<b>7,017</b>	<b>7,879</b>	<b>8,794</b>
Shareholders Equity	5,417	5,846	6,689	7,679	9,025
Minority Interests					
<b>Total Equity</b>	<b>5,417</b>	<b>5,846</b>	<b>6,689</b>	<b>7,679</b>	<b>9,025</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	20.5%	3.3%	12.1%	15.0%	13.8%
Operating EBITDA Growth	5.4%	(34.7%)	38.9%	32.9%	22.5%
Operating EBITDA Margin	9.4%	6.0%	7.4%	8.6%	9.2%
Net Cash Per Share (Rs)	8.06	7.26	5.04	10.36	16.02
BVPS (Rs)	25.53	27.55	31.48	36.09	42.41
Gross Interest Cover	9.08	4.40	6.21	7.63	9.10
Effective Tax Rate	25.4%	25.6%	24.3%	24.0%	24.0%
Net Dividend Payout Ratio	25.0%	31.3%	23.7%	22.8%	21.5%
Accounts Receivables Days	55.57	53.85	47.92	45.74	45.08
Inventory Days	59.42	61.10	54.10	50.40	49.72
Accounts Payables Days	100.06	90.28	85.74	81.88	82.87
ROIC (%)	75.5%	21.2%	27.2%	28.9%	37.7%
ROCE (%)	36.1%	17.8%	24.4%	28.6%	32.0%
Return On Average Assets	16.1%	9.7%	11.6%	13.7%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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