



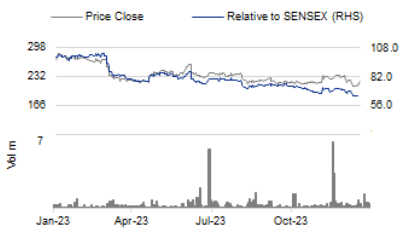
India

ADD (previously HOLD)

Consensus ratings*:	Buy 12	Hold 5	Sell 2
Current price:	Rs220		
Target price:	Rs269 ▲		
Previous target:	Rs232		
Up/downside:	22.3%		
InCred Research / Consensus:	4.7%		
Reuters:	ONTE.NS		
Bloomberg:	ORIENTEL IN		
Market cap:	US\$567m		
	Rs46,994m		
Average daily turnover:	US\$1.2m		
	Rs99.0m		
Current shares o/s:	213.4m		
Free float:	61.7%		
*Source: Bloomberg			

Key changes in this note

- EBITDA/PAT cut by 15-20% for FY24F.
- FY25F revenue/EBITDA/PAT cut by 1-3.5%.
- FY26F revenue/EBITDA/PAT cut by 1-2.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.7)	1.5	(19.1)
Relative (%)	(3.8)	(9.4)	(31.7)

Major shareholders

	% held
Promoters	38.3
ICICI Prudential Flexicap Fund	6.9
Nippon India Fund	6.5

Research Analyst(s)



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# Orient Electric

## Good pick-up in sales, but at lower margins

- Non-fan durables, small appliances and lighting products saw a healthy sales volume growth in 3Q. However, higher discounts to sell fans hit margins.
- TPW fan production at the Hyderabad plant to start in Apr-Jun 2024F. New CEO's appointment in a months' time. Expect margin recovery from 2QFY25F.
- We expect a sharp recovery in sales growth and margins in FY25F/26F. Net profits to recover and double over the next two years. Upgrade to ADD rating.

### Non-fan portfolio sees strong growth; margin recovers but stays low

Orient Electric (OEL) posted 3QFY24 revenue of Rs7.5bn, flat yoy, but EBITDA/PAT declined to Rs489m/Rs243m, down 11%/25% yoy, respectively. Revenue recovery was better than our estimate while gross margin was lower due to higher price discounts for fans (in line with competitors) to stimulate demand. Consolidated gross margin improved to 29.9%, +127bp yoy but the EBITDA margin fell to 6.5%, down 90bp yoy, due to flat sales yoy while opex grew 12% yoy led by new manpower hiring and strategic project investments. The ECD segment's sales were flat yoy at Rs5.4bn (high base last year due to inventory liquidation for energy rating transition). Premium/TPW fans and non-fan portfolio (water and room heaters, small appliances) supported 3Q sales growth. Digital sales and fan exports grew in mid-teens while ceiling fans declined yoy. Direct-to-market (DTM) channel sales for fans grew 36%/68% yoy (back to pre-DTM levels) in 3Q/9MFY24, respectively. The lighting products & switchgear segment's sales at Rs2.2bn grew by 8% yoy, despite the price decline in lamps/ battens. B2B, incl. B2G sales growth, outpaced B2C in 3Q. Switchgear and house wires did well, albeit on a small base. Interim dividend declared of Re0.75/share (annualized payout: ~30-35%). Net cash: Rs440m (Dec 2023).

### We expect a sharp recovery in sales growth & margins going ahead

The exit of the company's CEO in Apr 2023, coupled with weak consumer demand, led to sub-par sales/margins over the past one year. 3Q saw a good recovery and we expect a better 4QFY24F (sales/EBITDA/PAT: +23%/+40%/+42% yoy; low base). New products (premium fans, B2C lighting products), higher exports (TPW fans, switchgear), new capacity (Hyderabad plant) and stabilizing opex (new hiring and consultant costs to flatten) are key catalysts to achieve industry-leading growth and higher margins. We expect revenue/EBITDA CAGR of 13%/38%, respectively, over FY24F-26F.

### We expect net profit to be 2x in two years; upgrade to ADD rating

Though we have cut our EBITDA/PAT estimates sharply by 15-20% for FY24F (very weak margins in 9M), we expect a sharp rebound from 2QFY25F. The new CEO, operational efficiency, stable opex and the Hyderabad plant (full commissioning) will be done by Jun 2024F. We expect an EPS CAGR of 50%+ and FCF of Rs2.7bn over FY24F-26F. We upgrade OEL's rating to ADD (from HOLD) with a higher target price of Rs269 (from Rs232 earlier) based on a higher exit P/E of 42x (mean P/E ex-FY23 is 40-45x). Downside risks: Delay in CEO's appointment, capex delay and new recycling regulations.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	24,484	25,292	28,317	32,059	36,179
Operating EBITDA (Rsm)	2,313	1,510	1,784	2,725	3,383
Net Profit (Rsm)	1,266	759	974	1,370	1,856
Core EPS (Rs)	6.0	3.6	3.9	6.4	8.7
Core EPS Growth	5.8%	(40.1%)	9.4%	64.1%	35.5%
FD Core P/E (x)	36.91	61.62	48.13	34.31	25.32
DPS (Rs)	2.0	1.5	1.5	1.7	2.5
Dividend Yield	0.91%	0.68%	0.68%	0.79%	1.13%
EV/EBITDA (x)	19.46	29.94	25.86	16.75	13.16
P/FCFE (x)	67.97	78.63	(65.43)	62.95	32.98
Net Gearing	(31.6%)	(26.4%)	(11.1%)	(17.9%)	(28.0%)
P/BV (x)	8.63	7.99	7.21	6.27	5.33
ROE	25.4%	13.5%	13.5%	19.6%	22.7%
% Change In Core EPS Estimates			(18.56%)	(3.53%)	(1.40%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

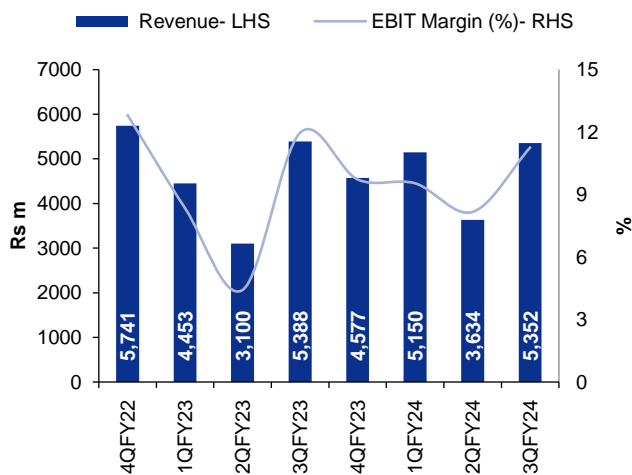
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## 3QFY24 earnings-call highlights

- **Growth and margin guidance:** Management indicated its target consolidated sales CAGR of 14-15% over the next three years with a recovery in the EBITDA margin to 9% in 1HFY25F and its aspiration to achieve ~10% in FY26F.
- **DTM channel update:** The company has implemented Direct-To-Market or DTM channel realignment in seven states. The company added Gujarat (4% of domestic fan sales) to its DTM rollout in 2Q and four more states have been shortlisted for FY25F. The DTM shift has led to meaningful market share gains and absolute revenue is back to the pre-DTM level already in six states. For 3Q/9MFY24, the DTM sales grew 38%/68% yoy, respectively.
- **Framework for generation of EPR certificate related to E-waste recycling:** The extended producer responsibility (EPR) focuses on the responsibility of the producer of goods for the impact of their product in the final stage of its life cycle, after consumption, and gives producers a greater motivation to design products that minimize environmental and health impact at end of the life of the product. The Central Pollution Control Board of India (CPCB) has come out with draft regulations on EPR which include a list of 106 items that would have financial implications for consumer durable companies under our coverage. OEL's management indicated that the company is undergoing consultations with experts and will update on the same through stock exchange filings about further developments. In our view, every company that manufactures the list of items mentioned in the draft regulations must ensure effective recycling of plastic and metal parts used for the product manufactured by them at the end of the product's life in the form of subscription to EPR certificates to be issued by recyclers, as authorized by the Central Pollution Control Board or CPCB. This is applicable retrospectively for products manufactured and sold over the past 10 years and the liability for recycling would be applicable to these products reaching the end of their life cycle now. We would be closely monitoring the operational and financial implications of the new regulations and their impact on our coverage universe.
- **Senior management hiring:** OEL's board is in the final stages of shortlisting the new MD and CEO for the company and management indicated the appointment will be announced before the end of Mar 2024F. The position of the lighting products' SBU head is vacant currently and would also be filled simultaneously.
- **ECD segment update:** TPW, exhaust, and premium category fans did well in 3QFY24 yoy. Ceiling fan sales declined yoy due to the high base last year owing to inventory liquidation relating to implementation of new energy efficiency ratings. The price discounts remained higher-than-normal for fans as competition resorted to similar discounting owing to weak consumer demand and the need for higher sales throughput. Heating appliances (room heaters and water heaters) posted robust growth following a growing thrust on improving distribution in the appliances segment in high potential markets. Digital revenue (e-commerce) grew in high teens yoy, especially driven by exceptional growth in online sales of water heaters. Export revenue grew in high teens yoy, despite global disturbances, particularly the Red Sea disruption in key markets like Iraq, Sri Lanka and Ghana.
- **L&S segment:** Despite price erosion in LEDs continuing qoq, the segment reported healthy sales volume growth yoy. Segment margins improved yoy led by a better product mix (increase in the share of consumer luminaires [C-Lum] and high-wattage lamps) and raw material cost reduction. B2C lighting products delivered double-digit volume growth led by C-Lum (high double-digit growth) and lamps (mid-single digit). Professional luminaires (P-Lum), tender-based supplies and facade lighting delivered a high double-digit growth, with continued execution of key projects and healthy enquiry base. Switchgear delivered a healthy growth with B2B project wins while house wires saw a relatively higher sales growth in the northern region in 3QFY24.

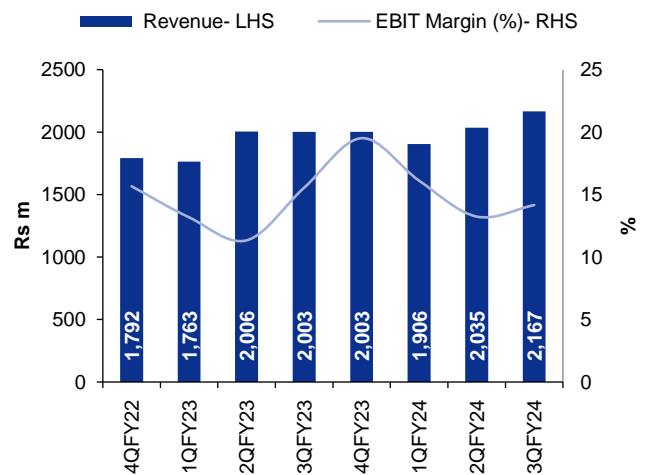
- **Cost savings:** Project Sanchay - the flagship cost-saving initiative – moved ahead with ~Rs450m savings in 9MFY24. Under the scheme, the company aspires to save Rs500m+ in FY24F.
- **Capex update:** OEL has spent ~Rs2bn on its greenfield facility in Hyderabad till Dec 2023. The full commissioning of the plant has been delayed by six months on account of non-availability of Chinese engineers for travel to India. Management indicated the start of commercial production of TPW fans at the plant in Apr-Jun 2024F that could aid export sales in FY25F-26F. Management plans to upgrade the existing Faridabad plant at a capex outlay of ~Rs200m. We expect total cash capex of Rs1.3bn in FY24F and a meaningful decline in capex intensity over FY25F-26F (~Rs1bn).

Figure 1: ECD segment's revenue and margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 3QFY24 results snapshot

YE Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	7,519	7,390	1.7	5,669	32.6	20,245	18,713	8.2
EBITDA	489	549	(10.8)	207	136.7	1,136	1,046	8.6
EBITDA margin (%)	6.5	7.4	-92 bp	3.6	286 bp	5.6	5.6	2 bp
Adj. PAT	243	326	(25.3)	-2	NM	438	512	(14.5)
Diluted EPS (Rs)	1.1	1.5		-0.0		2.1	2.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: 3QFY24 segmental results snapshot

	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
<b>Revenue (Rs m)</b>								
Electrical consumer durables	5,352	5,388	(0.7)	3,634	47.3	14,137	12,942	9.2
Lighting & switchgear	2,167	2,003	8.2	2,035	6.5	6,108	5,771	5.8
<b>Total</b>	<b>7,519</b>	<b>7,390</b>	<b>1.7</b>	<b>5,669</b>	<b>32.6</b>	<b>20,245</b>	<b>18,713</b>	<b>8.2</b>
<b>EBIT (Rs m)</b>								
Electrical consumer durables	603	645	(6.5)	297	103.0	1,391	1,154	20.6
Lighting & switchgear	307	311	(1.4)	269	13.9	883	771	14.5
<b>Total</b>	<b>910</b>	<b>956</b>	<b>(4.9)</b>	<b>566</b>	<b>60.6</b>	<b>2,275</b>	<b>2,570</b>	<b>(11.5)</b>
<b>EBIT margin (%)</b>								
Electrical consumer durables	11.3	12.0	-71 bp	8.2	309 bp	9.8	8.9	93 bp
Lighting & switchgear	14.2	15.6	-139 bp	13.2	92 bp	14.5	13.4	110 bp
<b>Total</b>	<b>12.1</b>	<b>13</b>	<b>-84 bp</b>	<b>10.0</b>	<b>211 bp</b>	<b>11.2</b>	<b>13.7</b>	<b>-250 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	7,519	6,887	9.2
EBITDA	489	517	(5.3)
EBITDA margin (%)	6.5	7.5	-99 bp
Adj. PAT	243	244	(0.5)

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	7,519	7,672	(2.0)
EBITDA	489	538	(9.1)
EBITDA margin (%)	6.5	7.0	-51 bp
Adj. PAT	243	282	(13.7)

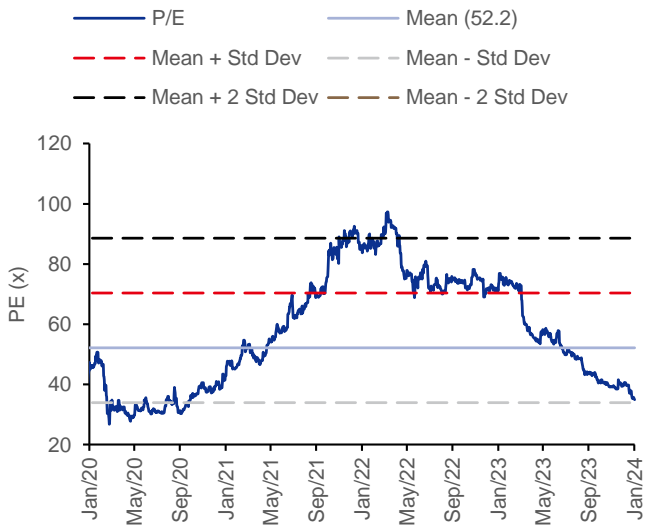
SOURCES: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 7: Our revised earnings estimates

	New Estimates			Old Estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	28,317	32,059	36,179	28,346	32,598	37,113	-0.1	-1.7	-2.5
EBITDA	1,784	2,725	3,383	2,098	2,787	3,414	-15.0	-2.2	-0.9
<b>Adjusted consol. PAT</b>	<b>787</b>	<b>1,370</b>	<b>1,856</b>	<b>975</b>	<b>1,416</b>	<b>1,878</b>	<b>-19.3</b>	<b>-3.3</b>	<b>-1.1</b>
EPS	3.7	6.4	8.7	4.6	6.7	8.8	-19.4	-3.5	-1.4
<b>EBITDA margin (%)</b>	<b>6.3</b>	<b>8.5</b>	<b>9.3</b>	<b>7.4</b>	<b>8.6</b>	<b>9.2</b>	<b>-110 bp</b>	<b>-5 bp</b>	<b>15 bp</b>

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 8: P/E standard deviation



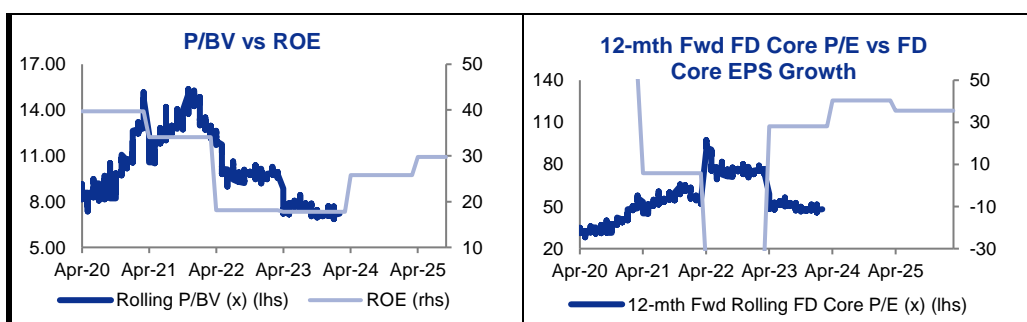
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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>28,317</b>	<b>32,059</b>	<b>36,179</b>
<b>Gross Profit</b>	<b>6,818</b>	<b>7,050</b>	<b>8,637</b>	<b>10,179</b>	<b>11,668</b>
<b>Operating EBITDA</b>	<b>2,313</b>	<b>1,510</b>	<b>1,784</b>	<b>2,725</b>	<b>3,383</b>
Depreciation And Amortisation	(471)	(535)	(590)	(823)	(880)
<b>Operating EBIT</b>	<b>1,842</b>	<b>975</b>	<b>1,194</b>	<b>1,902</b>	<b>2,503</b>
Financial Income/(Expense)	(191)	(171)	(196)	(204)	(187)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	46	215	100	105	110
<b>Profit Before Tax (pre-EI)</b>	<b>1,698</b>	<b>1,019</b>	<b>1,098</b>	<b>1,802</b>	<b>2,427</b>
Exceptional Items			187		
<b>Pre-tax Profit</b>	<b>1,698</b>	<b>1,019</b>	<b>1,285</b>	<b>1,802</b>	<b>2,427</b>
Taxation	(431)	(261)	(311)	(433)	(570)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,266</b>	<b>759</b>	<b>974</b>	<b>1,370</b>	<b>1,856</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>974</b>	<b>1,370</b>	<b>1,856</b>
Recurring Net Profit	1,266	759	832	1,370	1,856
<b>Fully Diluted Recurring Net Profit</b>	<b>1,266</b>	<b>759</b>	<b>832</b>	<b>1,370</b>	<b>1,856</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>1,784</b>	<b>2,725</b>	<b>3,383</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,906)	567	(571)	(277)	(305)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	23	196	(150)	(372)	(384)
Net Interest (Paid)/Received	191	(27)	196	204	187
Tax Paid	(508)	(349)	(311)	(433)	(570)
<b>Cashflow From Operations</b>	<b>114</b>	<b>1,897</b>	<b>948</b>	<b>1,848</b>	<b>2,310</b>
Capex	(427)	(1,139)	(1,250)	(650)	(468)
Disposals Of FAs/subsidiaries	4				
Acq. Of Subsidiaries/Investments	1,172	(56)	(500)	(500)	(500)
Other Investing Cashflow	33	95	38	47	82
<b>Cash Flow From Investing</b>	<b>782</b>	<b>(1,100)</b>	<b>(1,712)</b>	<b>(1,103)</b>	<b>(886)</b>
Debt Raised/(repaid)	(208)	(203)	49		
Proceeds From Issue Of Shares		1			
Shares Repurchased					
Dividends Paid	(424)	(425)	(319)	(372)	(532)
Preferred Dividends					
Other Financing Cashflow	(164)	(34)	(234)	(252)	(269)
<b>Cash Flow From Financing</b>	<b>(797)</b>	<b>(661)</b>	<b>(504)</b>	<b>(624)</b>	<b>(801)</b>
Total Cash Generated	99	137	(1,269)	122	624
<b>Free Cashflow To Equity</b>	<b>688</b>	<b>594</b>	<b>(715)</b>	<b>746</b>	<b>1,425</b>
<b>Free Cashflow To Firm</b>	<b>693</b>	<b>710</b>	<b>(998)</b>	<b>494</b>	<b>1,156</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	873	1,495	2,619
Total Debtors	3,904	3,560	3,879	4,392	4,956
Inventories	3,261	2,846	3,491	3,952	4,460
Total Other Current Assets	390	647	543	615	694
<b>Total Current Assets</b>	<b>9,412</b>	<b>8,696</b>	<b>8,787</b>	<b>10,454</b>	<b>12,729</b>
Fixed Assets	1,642	1,455	1,216	3,265	3,161
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	820	2,495	3,636	1,686	1,686
<b>Total Non-current Assets</b>	<b>2,462</b>	<b>3,951</b>	<b>4,852</b>	<b>4,951</b>	<b>4,846</b>
Short-term Debt	147	101	150	150	150
Current Portion of Long-Term Debt					
Total Creditors	4,495	4,530	4,655	5,270	5,947
Other Current Liabilities	930	1,000	1,164	1,317	1,487
<b>Total Current Liabilities</b>	<b>5,572</b>	<b>5,631</b>	<b>5,969</b>	<b>6,737</b>	<b>7,584</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>7,137</b>	<b>7,906</b>	<b>8,753</b>
Shareholders Equity	5,417	5,846	6,501	7,498	8,823
Minority Interests					
<b>Total Equity</b>	<b>5,417</b>	<b>5,846</b>	<b>6,501</b>	<b>7,498</b>	<b>8,823</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%	12.0%	13.2%	12.9%
Operating EBITDA Growth	5.4%	(34.7%)	18.2%	52.7%	24.1%
Operating EBITDA Margin	9.4%	6.0%	6.3%	8.5%	9.4%
Net Cash Per Share (Rs)	8.06	7.26	3.40	6.30	11.57
BVPS (Rs)	25.53	27.55	30.55	35.14	41.35
Gross Interest Cover	9.08	4.40	5.10	7.56	9.31
Effective Tax Rate	25.4%	25.6%	24.2%	24.0%	23.5%
Net Dividend Payout Ratio	25.0%	31.3%	29.1%	20.7%	21.9%
Accounts Receivables Days	55.57	53.85	47.94	47.08	47.15
Inventory Days	59.42	61.10	58.77	62.09	62.64
Accounts Payables Days	100.06	90.28	85.17	82.78	83.52
ROIC (%)	75.5%	21.2%	21.8%	27.4%	34.2%
ROCE (%)	36.1%	17.8%	19.6%	27.3%	31.1%
Return On Average Assets	16.1%	9.7%	9.8%	13.8%	15.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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