

Orient Electric (ORIENTEL)

Consumer Electricals | Management Meeting

BUY

CMP: Rs194 | Target Price (TP): Rs230 | Upside: 18.4%

March 19, 2024

Cooler weather expected to moderate Fans sales

Key Points

- We recently interacted with the management of Orient Electric.
- Despite primary sales of Fans picking up from Nov'23 to mid-Feb'24, unfavourable weather + tepid consumer demand has led to slowdown in secondary sales. Channel partners have turned cautious and have reduced their inventory levels. They will replenish the same as and when necessary.
- Channel de-stocking continues in the Lighting segment due to continuous value erosion. The B2C Lighting industry is expected to contract by at least 10% in FY24. Management expects stabilization from 2HFY24.
- We maintain BUY with a revised TP of Rs230, valuing it at 30x March'26E EPS. The stock has seen a sharp correction lately and therefore entry at CMP offers a favorable risk-reward ratio. While DTM strategy is a step in the right direction, tepid B2C demand, any significant delay in the full commissioning of the Hyderabad plant and delay in on-boarding the new MD & CEO remain key risks to the overall business strategy.

Hyderabad plant expected to start in 1QFY25: In spite of only five visas sanctioned out of the initially 13 planned, production trials at the TPW has started and full commissioning is expected in May'25. Product trials for Ceiling Fan are expected to start by April'24 and full commissioning is seen by 1HFY25. Stabilisation is expected two quarters post commissioning. While this plant will help increase focus on the Southern & Western markets, any delay will remain a key monitorable.

Cooler weather + tepid consumer demand delay offtake of cooling products:

While primary sales of Fans were healthy from Nov'23 till mid-Feb'24, secondary sales have been tepid. Furthermore, channel has been very cautious in terms of blocking excessive capital to stock higher inventory. Some players continue to discount /increase seller margins. While Orient Electric has taken a slight price hike recently, stocks still remain with the channel and we believe that aggressive price discounts by market leaders in 1QFY25 could force other players to follow suit.

EPR liability to strain margins across industry: The company cited in its 3QFY24 con-call that the EPR provision for 4QFY24 is expected to be ~Rs150mn. This is a cost applicable to all Consumer Durables companies and the same is expected to be margin dilutive.

Other updates: (1) Deepak Khetrapal – the current CEO & MD's term is expected to be over ~June'24 and management cited that a new MD (most likely external) is expected to join before that. (2) DTM states continue to perform well and management's focus is to push specific SKUs through this channel; it plans to concentrate on better channel extraction. (3) Water Heaters continue to do well and e-commerce sales continue to outperform GT sales (albeit on a lower base). (4) Value erosion continues to affect B2C Lighting and therefore while 9MFY24 volume remains in the positive territory, value-wise, Lighting remains in the negative territory. Value erosion is expected to stabilise 2HFY25 onwards.

Est Change	Downward
TP Change	Downward
Rating Change	No Change

Particulars	3QFY24	4QFY24
Multiple	33x	30x
Target Price	255	230

Company Data and Valuation Summary

Reuters:	ONTE.BO
Bloomberg:	ORIENTEL
Mkt Cap (Rsbn/US\$mn):	41.5 / 501.4
52 Wk H / L (Rs):	275 / 189
ADTV-3M (mn) (Rs/US\$):	115.6 / 1.4
Stock performance (%) 1M/6M/1yr:	(4.7) / (11.9) / (26.9)
Nifty 50 performance (%) 1M/6M/1yr:	1.0 / 4.3 / 28.9

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	38.3	38.3	38.3
DILs	27.9	30.0	29.2
FII	5.5	5.7	5.9
Others	28.3	26.0	26.5
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rs Mn)	FY23	FY24E	FY25E	FY26E
Net Sales	25,292	28,092	31,690	35,218
Growth YoY (%)	3.3	11.1	12.8	11.1
Gross Margin (%)	27.9	30.5	31.5	32.0
EBITDA	1,510	1,669	2,444	2,939
EBITDA Margin (%)	6.0	5.9	7.7	8.3
Adj. PAT	758	703	1,278	1,627
Adj. PAT Margin (%)	3.0	2.5	4.0	4.6
Adj. PAT YoY Growth (%)	(40.1)	(7.3)	81.7	27.3
Adj. EPS (Rs)	3.6	3.3	6.0	7.7
ROCE (%)	17.7	17.6	27.4	30.7
ROCE (Post-Tax) (%)	13.2	12.4	20.5	23.0
ROE (%)	13.5	11.9	20.3	23.0
P/E	54.4	58.6	32.3	25.3
EV/EBITDA	26.3	23.6	15.8	12.8
P/B	7.1	6.9	6.2	5.5

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links – [3QFY24 Results](#) | [3QFY24 Investor PPT](#)

Please refer to the disclaimer towards the end of the document.

Natasha Jain, CFA, CAIA

Research Analyst

natasha.jain@nirmalbang.com

+91-22-6273-8110

Financials

Exhibit 1: Income statement

Y/E March (Rs Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	24,484	25,292	28,092	31,690	35,218
% Growth	20.5	3.3	11.1	12.8	11.1
Rm Costs	17,666	18,242	19,524	21,707	23,948
Gross Profit	6,818	7,050	8,568	9,982	11,270
Gross Margin (%)	27.8	27.9	30.5	31.5	32.0
Staff Cost	1,905	1,926	2,219	2,503	2,712
Other Expenses	2,600	3,614	4,680	5,035	5,619
EBITDA	2,313	1,510	1,669	2,444	2,939
% Growth	5.4	(34.7)	10.6	46.4	20.3
EBITDA Margin (%)	9.4	6.0	5.9	7.7	8.3
Other Income	58	266	180	220	250
Interest	203	222	202	201	200
Depreciation	471	535	652	755	815
Profit Before Tax	1,698	1,019	995	1,707	2,174
Tax	431	261	292	430	547
Reported Net Profit	1,267	758	703	1,278	1,627
Adj. Net Profit	1,267	758	703	1,278	1,627
Adj. PAT Margin	5.2	3.0	2.5	4.0	4.6
Adj. EPS (Rs)	6.0	3.6	3.3	6.0	7.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Balance Sheet

Y/E March (Rs Mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	212	213	213	213	213
Reserves	5,201	5,634	5,797	6,394	7,340
Net Worth	5,413	5,846	6,010	6,607	7,553
Total Loans	147	101	101	100	100
Deferred Tax Liability Net	(263)	(255)	(255)	(255)	(255)
Liabilities	5,298	5,693	5,857	6,452	7,398
Net Block	1,900	2,075	2,700	2,464	2,169
Capital Work-In-Progress	15	827	50	50	50
Intangible Assets	234	216	216	216	216
Inventories	3,261	2,846	2,996	3,330	3,674
Debtors	4,159	3,718	4,233	4,775	5,307
Cash	1,505	1,642	1,989	2,738	3,830
Other Current Assets	537	1,068	758	761	845
Total Current Assets	9,461	9,274	9,976	11,604	13,656
Creditors	4,495	4,530	4,868	5,412	5,971
Other Current Liabilities	1,819	2,169	2,217	2,470	2,722
Total Current Liabilities	6,313	6,699	7,085	7,882	8,693
Net Current Assets	3,148	2,575	2,891	3,722	4,963
Total Assets	5,298	5,693	5,857	6,452	7,398

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Cash Flow

Y/E March (Rs Mn)	FY22	FY23	FY24E	FY25E	FY26E
EBIT	1,842	975	1,017	1,688	2,124
(Inc)/Dec In Working Capital	(1,744)	709	31	(82)	(150)
Cash Flow From Operations	99	1,684	1,048	1,607	1,974
Other Income	58	266	180	220	250
Depreciation	471	535	652	755	815
Tax Paid (-)	(430)	(253)	(292)	(430)	(547)
Net Cash From Operations	197	2,233	1,588	2,152	2,492
Capital Expenditure (-)	(645)	(1,521)	(500)	(520)	(520)
Net Cash After Capex	(447)	711	1,088	1,632	1,972
Interest Paid (-)	(203)	(222)	(202)	(201)	(200)
Dividends Paid (-)	(424)	(319)	(532)	(681)	(681)
Inc./Dec. In Total Borrowings	(6)	(46)	-	(1)	-
(Inc./Dec. In Investments	-	-	-	-	-
Cash From Financial Activities	(633)	(586)	(734)	(883)	(881)
Others	10	12	(7)	(0)	(0)
Opening Cash	2,576	1,505	1,642	1,989	2,738
Closing Cash	1,505	1,642	1,989	2,738	3,830
Change In Cash	(1,070)	137	347	749	1,091

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Key Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per Share (Rs)					
Adjusted EPS	6.0	3.6	3.3	6.0	7.7
Book Value	25.5	27.6	28.3	31.1	35.6
Valuation (X)					
P/E	32.5	54.4	58.6	32.3	25.3
P/BV	7.6	7.1	6.9	6.2	5.5
EV/EBITDA	17.2	26.3	23.6	15.8	12.8
EV/Sales	1.6	1.6	1.4	1.2	1.1
Return Ratio (%)					
RoCE	37.8	17.7	17.6	27.4	30.7
RoCE (Post-Tax)	28.2	13.2	12.4	20.5	23.0
RoE	25.4	13.5	11.9	20.3	23.0
RoIC	65.1	24.9	25.7	44.5	58.3
Profitability Ratio (%)					
EBITDA Margin	9.4	6.0	5.9	7.7	8.3
EBIT Margin	7.5	3.9	3.6	5.3	6.0
PAT Margin	5.2	3.0	2.5	4.0	4.6
Turnover Ratio					
Total Asset Turnover Ratio (X)	5.7	5.0	4.5	4.6	4.8
Fixed Asset Turnover Ratio (X)	4.6	4.4	4.8	4.9	4.8
Debtor Days	62	54	55	55	55
Inventory Days	67	57	56	56	56
Creditors Days	93	91	91	91	91
Solvency Ratio (X)					
Net Debt-Equity	0.0	0.0	0.0	0.0	0.0
Interest Coverage	9.1	4.4	5.0	8.4	10.6

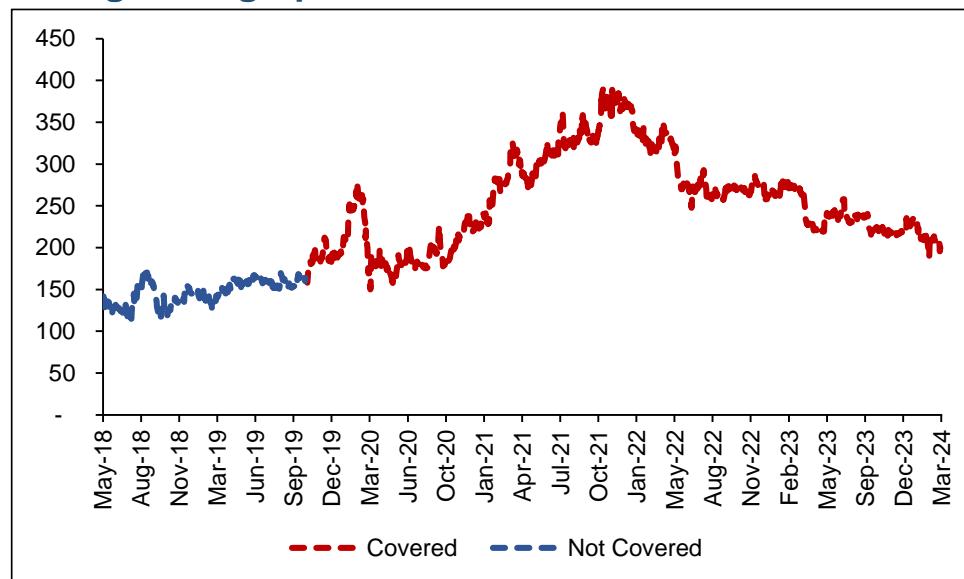
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
14 October 2019	Buy	161	197
23 October 2019	Buy	180	209
9 January 2020	Buy	196	209
29 January 2020	Buy	230	265
26 March 2020	Buy	153	210
9 April 2020	Buy	184	210
2 June 2020	Accumulate	178	192
9 July 2020	Accumulate	178	192
29 July 2020	Accumulate	179	180
23 September 2020	Accumulate	190	195
9 October 2020	Accumulate	184	195
29 October 2020	Accumulate	203	215
7 January 2021	Accumulate	242	270
31 January 2021	Buy	253	300
9 April 2021	Buy	304	300
13 May 2021	Buy	280	325
1 August 2021	Buy	323	375
26 September 2021	Buy	345	410
25 October 2021	Buy	335	438
22 January 2022	Buy	350	440
21 February 2022	Buy	345	475
11 May 2022	Buy	310	400
16 June 2022	Buy	262	400
26 July 2022	Buy	276	370
19 September 2022	Buy	274	390
06 November 2022	Buy	263	325
1 February 2023	Buy	263	330
22 March 2023	Buy	267	310
15 May 2023	Accumulate	222	235
05 August 2023	Accumulate	240	260
04 November 2023	Buy	221	260
21 December 2023	Buy	227	265
03 February 2024	Buy	220	255
19 March 2024	Buy	194	230

Coverage was transferred to Natasha Jain with effect from 1st July 2023

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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Team Details:			
Name	Email Id	Direct Line	
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010