

Orient Electric

Estimate change



TP change



Rating change



Bloomberg	ORIENTEL IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$b)	71.6 / 1
52-Week Range (INR)	368 / 197
1, 6, 12 Rel. Per (%)	-4/-8/18
12M Avg Val (INR M)	158

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	20.3	26.3	30.2
EBITDA	2.2	2.6	3.3
PAT	1.2	1.5	2.0
EBITDA (%)	10.8	9.7	10.9
EPS (INR)	5.6	6.9	9.3
EPS Gr. (%)	52.3	22.3	34.8
BV/Sh. (INR)	21.5	26.3	32.8

Ratios

Net D/E	(0.5)	(0.2)	(0.3)
RoE (%)	26.3	26.2	28.4
RoCE (%)	30.4	29.5	31.0
Payout (%)	22.1	30.0	30.0

Valuations

P/E (x)	59.7	48.8	36.2
P/BV (x)	15.7	12.8	10.3
EV/EBITDA (x)	31.5	27.6	21.2
Div Yield (%)	0.4	0.6	0.8
FCF Yield (%)	5.5	(1.3)	2.5

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	38.5	38.5	38.5
DII	23.8	22.4	22.0
FII	8.7	8.8	6.1
Others	29.0	30.4	33.4

FII Includes depository receipts

CMP: INR338
TP: INR500 (+48%)
Buy

Gross margin pressure offset by operating leverage

Demand environment steady, despite an erosion in pent up demand

- Revenue grew 37% YoY and came **in 19% above our estimate**. While the surge in commodity prices led to a 480bp YoY deterioration in gross margin, strong volume growth, led by operating leverage, cushioned the impact at the EBITDA margin level v/s our expectation. EBITDA grew 7% YoY and was 31% ahead of our expectation. Adjusted PAT grew by 7% and came in 46% ahead of our expectation.
- Working capital stood elevated owing to higher inventory in anticipation of global supply chain shortages and possibility of a third COVID wave. The management expects working capital to normalize over the next two quarters. Despite escalation in inventory levels, the company continues to remain net cash, a feat achieved in 4QFY21.
- OEL's cost structure (with higher employee costs and ad spends as a percentage of sales) makes it a strong operating leverage story, if strong topline growth materializes. 2QFY22 result performance reconfirms this hypothesis. On account of a superior performance in 2QFY22, we increase our FY22-24E EPS by 5-6%. Our TP stands at INR500/share (on an unchanged target multiple of 45x FY24E EPS, a 10% discount to HAVL). OEL trades at a discount of 40%/15% v/s HAVL/CROMPTON on a FY24E PE basis. On an EV/EBITDA basis, the discount stands at 48%/36%. We maintain our **Buy** rating. OEL is our top pick in the Consumer Electrical space.

Strong operating performance

- 2QFY22 snapshot:** Revenue rose 37% YoY to INR5.9b, **19% above our estimate**. EBITDA stood at INR619m, up 7% YoY (31% above our estimate). EBITDA margin stood at 10.4%, **higher than our estimate of 9.5%**. Adjusted PAT stood at INR348m, up 7% YoY (46% above our estimate).
- Key segmental highlights: a) Electrical Consumer Durables:** Revenue stood at INR4.2b, up 38% YoY (20% above our estimate). PBIT margin stood at 12.3%, up sequentially, but down YoY owing to commodity cost inflation. Note that ECD segment growth of HAVL/CROMPTON stood at 25%/18% YoY. **b) Lighting and Switchgear:** Revenue stood at INR1.7b, up 35% YoY, driven by Domestic, Home, and Small Office/Showroom segments. PBIT margin stood at 15.8%, up YoY and QoQ, on account of a favorable B2C mix and price increases across categories.

Key takeaways from the management interaction

- While pent up demand was strong towards the beginning of 2QFY22, it tapered towards the end. However, demand continues to remain normal and is expected to gather pace with the upcoming festive season.
- Growth in the ECD segment was equally split between value and volume. In Lighting, value growth was largely driven by a superior product mix.
- While inventory with the company stands higher than normal, that in the channel remains at normal levels.

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 Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

With demand scaling back gradually and the upcoming festive season ahead, we believe OEL is best placed to capture this trend, with its strong manufacturing and distribution capabilities. On account of its superior performance in 2QFY22, we increase our FY22-24E EPS by 5-6%. We forecast a revenue/EBITDA/adjusted PAT CAGR of 19%/21%/25% over FY21-24E. We value OEL at 45x FY24E EPS, with a TP of INR500. At the CMP, the stock trades at a FY23E/FY24E P/E of 36x/30x. Our longer term thesis indicates a reduction in the margin differential between OEL and leading FMEG peers ([refer to our initiation report](#)). On a FY24E P/E multiple basis, OEL is trading at a discount of 40%/15% v/s HAVL/CROMPTON. On an EV/EBITDA basis, the discount stands at 48%/36%. We maintain our Buy rating.

Quarterly Performance**(INR m)**

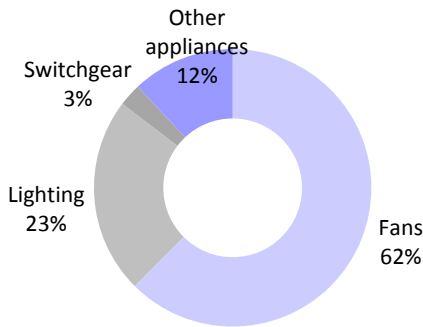
Y/E March	FY21				FY22E				FY21	FY22E	MOSL 2QE	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales	1,788	4,338	6,183	8,017	4,223	5,944	7,111	9,022	20,326	26,300	4,988	19.2%
Change (%)	-68.5	-0.2	24.7	42.4	136.2	37.0	15.0	12.5	-1.4	29.4	15.0	
Adj EBITDA	-193	578	842	968	223	619	760	958	2,195	2,560	473	30.9%
Change (%)	-143.6	164.2	86.0	48.5	NA	7.1	-9.7	-1.1	24.4	16.6	-18.2	
Adj EBITDA margin (%)	-10.8	13.3	13.6	12.1	5.3	10.4	10.7	10.6	10.8	9.7	9.5	
Depreciation	107	107	108	109	116	117	120	124	432	478	115	
Interest	63	45	46	54	48	50	50	52	207	200	50	
Other Income	9	7	7	40	9	13	15	38	63	75	10	
PBT	-353	433	694	845	68	466	605	819	1,619	1,957	318	46.5%
Tax	-80	109	175	218	18	118	152	205	422	493	80	
Effective Tax Rate (%)	22.7	25.1	25.2	25.8	26.4	25.3	25.2	25.0	26.0	25.2	25.2	
Reported PAT	-273	324	519	627	50	348	453	614	1,198	1,465	238	46.2%
Change (%)	-244.6	558.9	172.7	75.2	NA	7.2	-12.8	-2.0	52.3	22.3	-26.7	
Adj PAT	-273	324	519	627	50	348	453	614	1,198	1,465	238	46.2%
Change (%)	-244.6	558.9	172.7	75.2	NA	7.2	-12.8	-2.0	52.3	22.3	-26.7	

Segmental sales (INR m)

Y/E March	FY20				FY21				FY22			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Electrical Consumer Durables	4,291	2,832	3,248	4,545	1,035	3,044	4,605	6,456	3,241	4,198		
Lighting and Switchgear	1,392	1,514	1,709	1,086	753	1,294	1,579	1,561	982	1,746		
YoY growth (%)												
Electrical Consumer Durables	31.7	16.3	14.1	(4.5)	(75.9)	7.5	41.8	42.0	213.2	37.9		
Lighting and Switchgear	29.5	16.9	25.9	(32.9)	(45.9)	(14.5)	(7.6)	43.7	30.5	34.9		
EBIT												
Electrical Consumer Durables	435	264	402	716	(71)	512	685	926	227	516		
Lighting and Switchgear	139	109	226	123	48	189	230	225	103	276		
EBIT margin (%)												
Electrical Consumer Durables	10.1	9.3	12.4	15.8	(6.8)	16.8	14.9	14.3	7.0	12.3		
Lighting and Switchgear	10.0	7.2	13.2	11.3	6.4	14.6	14.6	14.4	10.5	15.8		

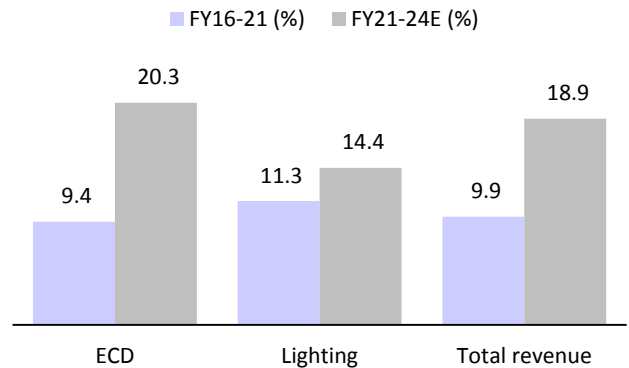
Story in charts

Exhibit 1: Revenue breakdown (FY21E)



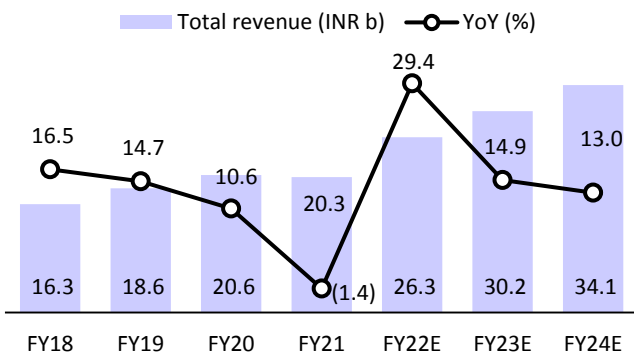
Source: MOFSL, Company

Exhibit 2: Revenue growth to be led by double-digit CAGR in ECD and Lighting segments



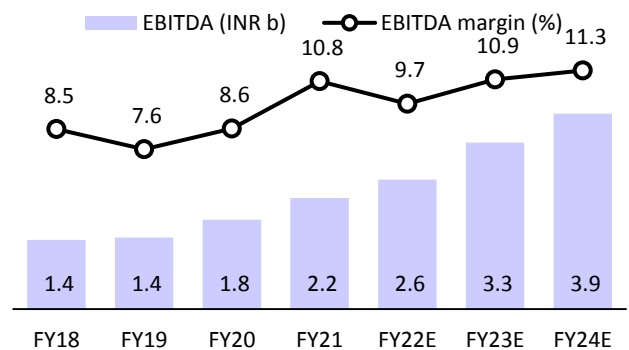
Source: MOFSL, Company

Exhibit 3: Expect total revenue to grow at ~19% CAGR over FY21-24E



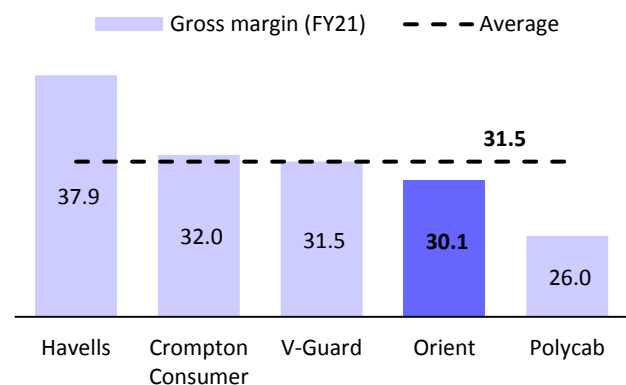
Source: MOFSL, Company

Exhibit 4: Expect EBITDA of 21% CAGR over FY21-24E, with double-digit margin over FY23-24E



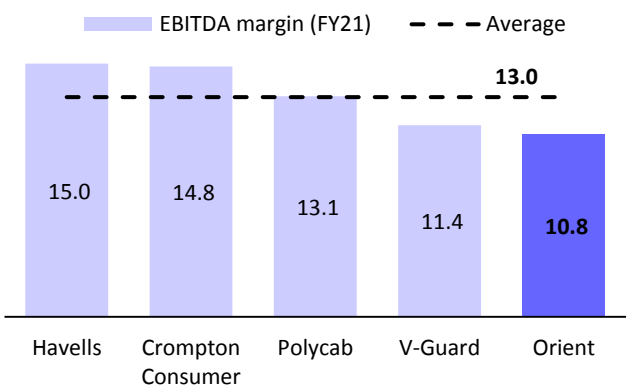
Source: MOFSL, Company

Exhibit 5: OEL enjoys a gross margin at par with peers...



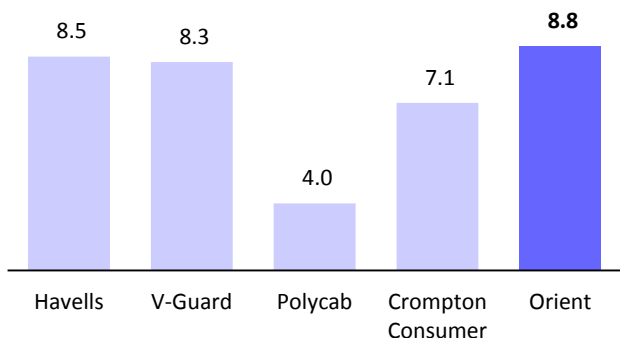
Source: MOFSL, Company

Exhibit 6: ...while the differential is slightly higher on EBITDA margin due to higher overheads



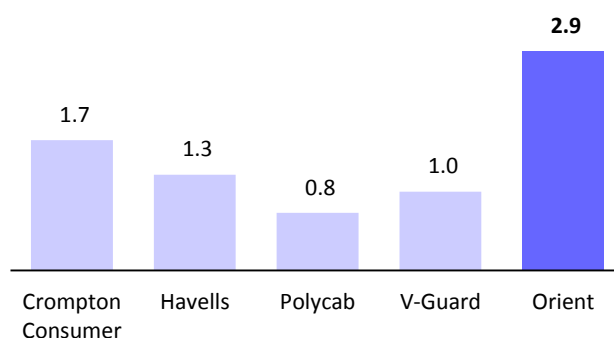
Source: MOFSL, Company

Exhibit 7: Employee costs, as a percentage of sales, v/s peers (FY21)



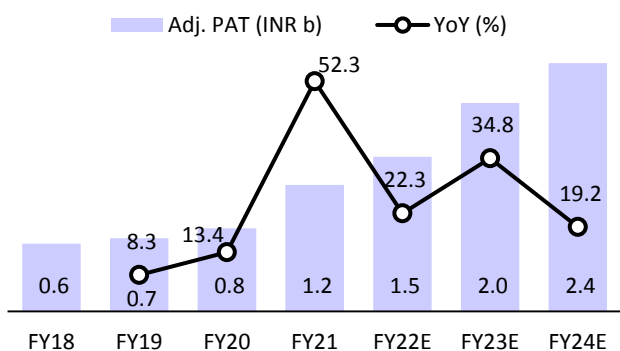
Source: MOFSL, Company

Exhibit 8: Ad spends, as a percentage of sales, v/s peers (FY21)



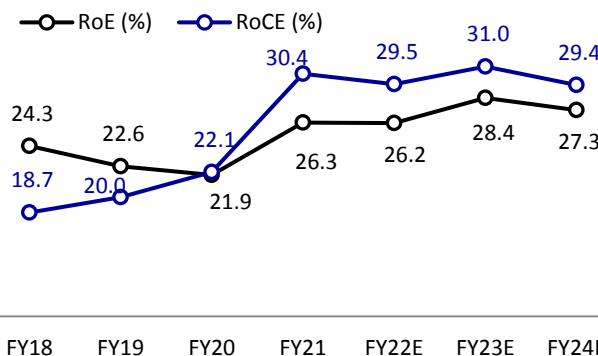
Source: MOFSL, Company

Exhibit 9: Expect higher operating leverage to lead to ~25% PAT CAGR over FY21-24E



Source: MOFSL, Company

Exhibit 10: Expect return ratios to remain robust over FY21-24E, led by strong operating performance



Source: MOFSL, Company



Key highlights from the 2QFY22 conference call

Demand update

- Pent up demand was seen in early part of the quarter as country recovered from Covid 2nd wave. Tender business remains to be muted.
- The management has witnessed tapering of **pent up demand** since Sep'21. **Normal demand is continuing as per normal trends.** As we enter towards the season, believe demand will be strong.
- OEL has launched multiple new products during the 2QFY22. New range of switches has been launched. Consumer lighting business continues to do well.
- Water heater and small appliances grew 50% YoY and doubled vs pre COVID level. Exports grew 50% YoY on suppressed base of last year

Margins

- Commodity prices continue to remain elevated as the company has undertaken price hikes. Impact of input cost pressure has been more on ECD segment than Lighting.
- Gross margins improved 120bps QoQ but declined 490bps YoY on account of commodity price inflation.
- OEL has increased manpower along with salary increases, which has led to increase in employee expenses.
- Ad-spends has resumed to pre-COVID level.

Lighting and Switchgear

- Consumer lighting business grew by 50% YoY, aided by favourable product mix.
- **B2B business:** Non-tender business has started to show traction, with order executions ongoing. Tender business continues to witness slowdown.
- Commodity cost inflation has not been so high compared to ECD. Large part of margin expansion is via growing share of high margin products.
- OEL is more focused on fast moving categories in this segment. However, the company has been adding other products as well with an eye on portfolio expansion.

Other takeaways

- **Working capital:** OEL has started building up inventory to mitigate commodity price inflation. This has resulted in increase in working capital. The management expects the same to reverse by the end of the year.
- Revenue growth is equally attributable to volume and price hikes in the ECD segment.
- Channel inventory is at reasonable level, while inventory level with OEL is a bit higher as it has stocked up on key supplies to mitigate the commodity price increase and possible supply chain disruption owing to 3rd COVID wave.
- The management has not witnessed any down-trading in the market. So far, the price hikes undertaken by OEL has not dented consumer demand.
- Channel financing is 35% of total trade receivables of the company, which roughly translated to INR0.8-1b. The management aims to scale it up to ~50% by the end of FY22.

Valuation and view

- **Established brand in the Fans segment, new product offerings encouraging:** OEL is a 60-year old brand in the Fans segment and the third largest player currently after CROMPTON and HAVL. Being a seasoned player, it enjoys a superior brand recall in the Fans segment. Recently, it started diversifying into related categories, including Lighting, Switchgears, Air Coolers, and Water Heaters, besides growing its market share in the Fans segment. The ECD segment, comprising Fans and other Appliances, saw ~10% CAGR over FY11-21 and constitutes ~70% of revenue. The Lighting and Switchgear segment posted ~24% CAGR and constitutes the remaining revenue. Over the longer term, we expect the product portfolio to post 12% revenue CAGR structurally.
- **Innovation at the heart of its growth strategy:** Although the company is an established player in the Fans segment, it continues to re-invent its product offerings, thereby negating any complacency. OEL has impressed with its innovative noise-reducing 'Aeroquiet' Fans, thereby creating a new price category. It has introduced a range of aerodynamic fans, showcasing its in-house R&D capabilities. In the Lighting segment, it has launched LED lighting products, which have improved lighting quality by controlling the flickering of LED bulbs. It has introduced new modular switches with the Triple Arc Blocking (3AB) technology to provide the highest level of safety.
- **Higher return ratios attributed to its asset-light model:** Despite higher investments in people and branding-related spends, and potentially lower margin at present, OEL generates an RoE of over 26%, which is superior to many of its peers. Our DuPont Analysis suggests the key reason for higher return ratios is its asset-light model, as reflected in the high asset turnover ratio. With the potential for margin expansion, as it bridges the wide gap with peers, we expect RoE to remain robust at 26-28% over FY22-24E.
- **Maintain Buy with a TP of INR500/share:** With demand scaling back gradually and the upcoming festive season ahead, we believe OEL is best placed to capture this trend with its strong manufacturing and distribution capabilities. On account of superior performance in 2QFY22, we increase our FY22-24E EPS by 5-6%. We forecast a revenue/EBITDA /adjusted PAT CAGR of 19%/21%/25% over FY21-24E. We value OEL at 45x FY24E EPS, with a TP of INR500. At the CMP, the stock trades at a FY23E/FY24E P/E of 36x/30x. Our longer term thesis indicates a reduction in the margin differential between OEL and leading FMEG peers ([refer to our initiation report](#)). On a FY24E P/E multiple basis, OEL is trading at a discount of 40%/15% v/s HAVL/CROMPTON. On an EV/EBITDA basis, the discount stands at 48%/36%. We maintain our Buy rating. Orient is our top-pick in consumer electrical space.

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	15,998	18,644	20,618	20,326	26,300	30,210	34,127
Change (%)		16.5	10.6	-1.4	29.4	14.9	13.0
EBITDA	1,365	1,413	1,764	2,195	2,560	3,288	3,862
% of Net Sales	8.5	7.6	8.6	10.8	9.7	10.9	11.3
Depreciation	198	231	401	432	478	535	602
Interest	245	229	261	207	200	200	200
Other Income	55	95	41	63	75	85	85
PBT	978	1,049	1,143	1,619	1,957	2,638	3,144
Tax	338	356	357	422	493	664	791
Rate (%)	34.6	33.9	31.2	26.0	25.2	25.2	25.2
Extra-ordinary Inc. (net)	0	0	0	0	0	0	0
Reported PAT	640	693	786	1,198	1,465	1,974	2,353
Change (%)		8.3	13.4	52.3	22.3	34.8	19.2
Adjusted PAT	640	693	786	1,198	1,465	1,974	2,353
Change (%)		8.3	13.4	52.3	22.3	34.8	19.2

Balance sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	212	212	212	212	212	212	212
Reserves	2,420	2,854	3,382	4,344	5,370	6,752	8,399
Net Worth	2,632	3,066	3,594	4,557	5,582	6,964	8,611
Loans	1,641	1,349	985	153	153	153	153
Deferred Tax Liability	0	-197	-214	-263	-263	-263	-263
Capital Employed	4,274	4,219	4,365	4,446	5,472	6,854	8,501
Gross Fixed Assets	2,115	2,388	2,788	3,112	3,712	4,212	4,712
Less: Depreciation	1,058	1,223	1,430	1,670	2,148	2,683	3,285
Net Fixed Assets	1,057	1,166	1,358	1,442	1,564	1,529	1,427
Capital WIP	47	43	103	113	113	113	113
Investments	0	0	0	0	0	0	0
Curr. Assets	6,980	7,483	7,929	9,806	10,347	12,738	15,464
Inventory	2,091	2,640	2,865	2,492	3,224	3,703	4,183
Debtors	3,864	4,047	3,889	3,838	4,966	5,704	6,444
Cash and Bank Balance	305	316	75	2,576	992	1,992	3,324
Loans and Advances	97	0	0	0	0	0	0
Other Current Assets	624	479	1,101	901	1,166	1,339	1,513
Current Liab. and Prov.	3,810	4,473	5,025	6,914	6,553	7,527	8,503
Creditors	2,762	3,509	3,305	5,191	4,323	4,966	5,610
Other Liabilities	743	569	1,257	1,183	1,531	1,758	1,986
Provisions	306	395	464	540	699	803	907
Net Current Assets	3,170	3,010	2,904	2,892	3,795	5,211	6,961
Application of Funds	4,274	4,219	4,365	4,446	5,472	6,854	8,501

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic EPS (INR)							
Adjusted EPS	3.0	3.3	3.7	5.6	6.9	9.3	11.1
Growth (%)		8.2	13.4	52.3	22.3	34.8	19.2
Cash EPS	3.9	4.4	5.6	7.7	9.2	11.8	13.9
Book Value	12.4	14.4	16.9	21.5	26.3	32.8	40.6
DPS	0.5	1.0	1.2	1.2	2.1	2.8	3.3
Payout (incl. Div. Tax.)	19.9	36.9	37.4	22.1	30.0	30.0	30.0
Valuation (x)							
P/Sales	4.5	3.8	3.5	3.5	2.7	2.4	2.1
P/E	111.7	103.2	91.0	59.7	48.8	36.2	30.4
Cash P/E	85.4	77.4	60.2	43.9	36.8	28.5	24.2
EV/EBITDA	53.3	51.3	41.1	31.5	27.6	21.2	17.7
EV/Sales	4.6	3.9	3.5	3.4	2.7	2.3	2.0
Price/Book Value	27.2	23.3	19.9	15.7	12.8	10.3	8.3
Dividend Yield (%)	0.1	0.3	0.3	0.4	0.6	0.8	1.0
Profitability Ratios (%)							
RoE	24.3	22.6	21.9	26.3	26.2	28.4	27.3
RoCE	18.7	20.0	22.1	30.4	29.5	31.0	29.4
RoIC	19.3	20.0	21.9	69.7	34.8	42.4	47.1
Turnover Ratios							
Debtors (Days)	88	79	69	69	69	69	69
Inventory (Days)	48	52	51	45	45	45	45
Creditors (Days)	63	69	59	93	60	60	60
Asset Turnover (x)	3.7	4.4	4.7	4.6	4.8	4.4	4.0
Leverage Ratio							
Net Debt/Equity (x)	0.5	0.3	0.3	(0.5)	(0.2)	(0.3)	(0.4)

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
PBT before EO Items	978	1,049	1,143	1,619	1,957	2,638	3,144
Add: Depreciation	198	231	401	432	478	535	602
Interest	245	229	261	207	200	200	200
Less: Direct Taxes Paid	259	301	482	414	493	664	791
(Inc.)/Dec. in WC	489	303	423	(2,211)	2,487	417	417
Others	274	446	409	240	-	-	-
CF from Operations	947	1,349	1,310	4,295	(344)	2,292	2,738
(Inc.)/Dec. in FA	(254)	(345)	(522)	(359)	(600)	(500)	(500)
Free Cash Flow	693	1,005	788	3,936	(944)	1,792	2,238
(Pur.)/Sale of Investments	-	-	-	-	-	-	-
CF from Investments	(254)	(345)	(522)	(359)	(600)	(500)	(500)
(Inc.)/Dec. in Debt	(246)	(513)	(476)	(961)	-	-	-
Less: Interest Paid	245	229	259	210	200	200	200
Dividend Paid	128	256	294	265	439	592	706
Others	(3)	4	(0)	1	-	-	-
CF from Fin. Activity	(622)	(994)	(1,029)	(1,436)	(639)	(792)	(906)
Inc./Dec. in Cash	71	11	-241	2,500	(1,584)	1,000	1,332
Add: Beginning Balance	234	305	316	75	2,575	991	1,991
Closing Balance	305	316	75	2,575	991	1,991	3,323

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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