

**CMP: INR 377**

**Rating: Accumulate**

**Target Price: INR 426**

**Stock Info**

BSE	541301
NSE	ORIENTELEC
Bloomberg	ORIENTAL IN
Reuters	ORIENTAL.BO
Sector	Electronics
Face Value (INR)	1
Equity Capital (INR cr)	21
Mkt Cap (INR cr)	8,325
52w H/L (INR)	395 / 203
Avg Yearly Vol (in 000')	522

**Shareholding Pattern %**

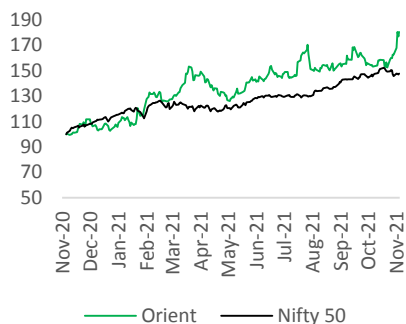
(As on September, 2021)

Promoters	38.52
DII	23.78
FII	8.74
Public & Others	28.96

**Stock Performance (%)**

	1m	3m	12m
Orient Electric	20.1	22.5	83.8
NIFTY	1.0	11.3	47.3

**Orient Electric Price Chart**



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**Result Highlights:**

- Orient Electric reported revenue growth of 37% YoY/41% QoQ to INR 594 cr led by good topline growth in both ECD (Electrical consumer durables) as well as Lighting & Switchgear (L&S) business.
- Due to surge in commodity prices, gross margin of the company has decreased by 477 bps YoY at 28.5%. However, on a sequential basis it has increased by 117bps. EBITDA for the quarter increased by 7% YoY to INR 62 cr. High gross margin pressure has resulted EBITDA margin contraction of 290bps YoY at 10.4%. On QoQ basis, EBITDA margin increased by 512bps supported by operating leverage.
- Profit for the quarter grew by 7% YoY to INR 35 cr.
- ECD segment has recorded revenue growth of 38% YoY/30% QoQ to INR 420 cr. Strong growth momentum in ECD business was led by premium, economy, and portable fans. In ECD segment, growth was 50% by value and 50% by volume.
- L&S business revenue of the company increased by 35% YoY/78% QoQ to INR 175 cr. EBIT margin in this business increased by 136bps YoY.
- Working capital of the company remained elevated due to built-up of Inventory from the past 2 quarters, to meet the future pent up demand and in anticipation of any supply disruption arising due to third wave. Working capital is expected to reduce gradually over the next two quarter.

**Key takeaways from Concall:**

- B2C markets performed well this quarter whereas B2B markets were bit sluggish, largely due to the slowdown in the tender business. It has started gaining traction at the end of Q2FY22.
- The input price increase have led the company to take some cost reduction initiatives. Company have also passed some price increase to the customers.
- Despite price hike, company have not seen any downtrend from customers. As a result, company have been able to pass on cost increases without seeing a decrease in overall demand.
- There was 20% overall increase in cost structure YoY. The company will carry on these strategic price increases in Q3 and Q4FY22 as well.
- Company gradually pass on small price increases in every 45 days to 2 months. Some products have 8-10% increase and some 3-4% increase.
- The company is largely dependent on domestic production and not much on imports. Only imports are of electrical components like semiconductors and IC's. Company haven't faced any major disruptions in the supply chain.
- Company has distribution network of 125000+ retail outlets.
- Average CAPEX of the company remains in the range of INR 40 cr per year but this year it will be in the range of INR 60-65 cr as company is kicking off new projects that will materialize around Q4FY23.

**Valuation and Outlook:**

We continue to maintain our positive outlook on OEL on the back of its strong brand position, premiumisation and distribution network. With strong recovery in B2C market, company has reported robust revenue growth and it has gained market share from unorganized players. In the short term, margin pressure will be there due to high raw material prices. We have introduced FY24E and now expect earnings CAGR of 24% over FY21-24E. We maintain our Accumulate rating on the stock with a revised target price of INR 426 (earlier INR 367), based on 40x FY24E P/E.

## Q2FY22 Result Snapshot

in Cr.	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
<b>Revenue</b>	<b>594.4</b>	<b>433.8</b>	<b>37%</b>	<b>422.3</b>	<b>41%</b>
<b>Expenses</b>					
Cost of Raw Material Consumed	189.0	129.0	47%	218.0	-13%
Purchase of Stock in trade	263.9	157.0	68%	169.8	55%
Change in inventories	-27.9	3.5	NA	-81.0	NA
Employee Cost	49.2	42.3	16%	46.7	5%
Other Expenses	58.4	44.3	32%	46.5	26%
<b>EBITDA</b>	<b>61.9</b>	<b>57.8</b>	<b>7%</b>	<b>22.3</b>	<b>177%</b>
<b>EBITDA Margin</b>	<b>10.4</b>	<b>13.3</b>	<b>-290bps</b>	<b>5.3</b>	<b>512bps</b>
Finance Cost	5.0	4.5	11%	4.8	3%
Depreciation	11.7	10.7	9%	11.6	1%
Other Income	1.3	0.7	81%	0.9	49%
<b>PBT</b>	<b>46.5</b>	<b>43.3</b>	<b>8%</b>	<b>6.8</b>	<b>584%</b>
Tax	11.8	10.9	8%	1.8	554%
<b>PAT</b>	<b>34.8</b>	<b>32.4</b>	<b>7%</b>	<b>5.0</b>	<b>594%</b>
PAT margin	5.8	7.5	NA	1.2	466bps
<b>EPS</b>	<b>1.6</b>	<b>1.5</b>	<b>7%</b>	<b>0.2</b>	<b>594%</b>

## Segment Wise Performance

in Cr.	Q2FY22	Q2FY21	YoY	Q1FY22	QoQ
<b>ECD</b>					
Revenue	419.8	304.4	38%	324.0	30%
EBIT	52.0	51.0	2%	22.7	129%
EBIT Margin (%)	12.4%	16.8%	-437bps	7.0%	539bps
<b>Lighting and Switchgears</b>					
Revenue	174.6	129.4	35%	98.2	78%
EBIT	28.0	19.0	47%	10.3	171%
EBIT Margin (%)	16.0%	14.7%	136bps	10.5%	552bps

## Charts

Exhibit 1: Revenue and revenue growth trend

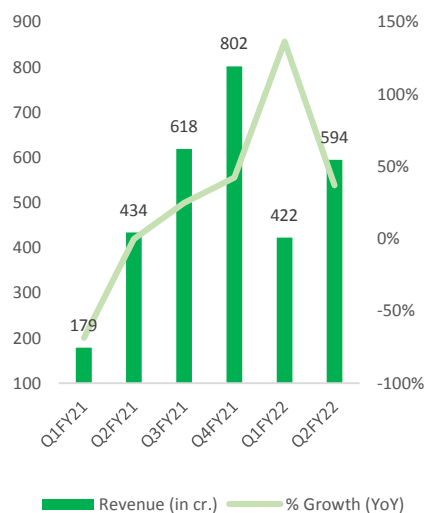


Exhibit 2: EBITDA trend

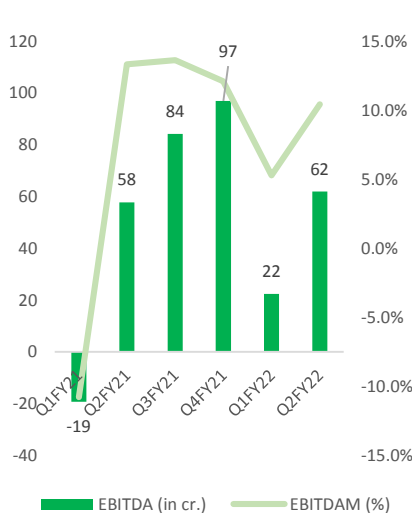
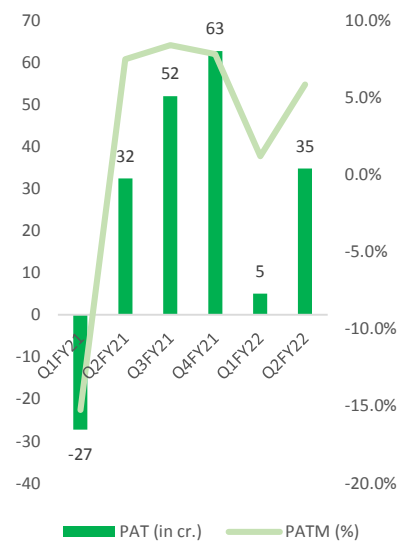


Exhibit 3: Profitability trend



## Annual Financials

## Income Statement

Y/E March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	<b>2,062</b>	<b>2,033</b>	<b>2,327</b>	<b>2,711</b>	<b>3,086</b>
Change (%)	10.6%	-1.4%	14.5%	16.5%	13.8%
Cost of Goods Sold	1,409	1,421	1,627	1,895	2,157
Employee costs	198	179	210	244	278
<b>Other expenses</b>	<b>278</b>	<b>213</b>	<b>244</b>	<b>279</b>	<b>311</b>
Total operating Expense	<b>1,885</b>	<b>1,813</b>	<b>2,080</b>	<b>2,418</b>	<b>2,747</b>
<b>EBITDA</b>	<b>176</b>	<b>220</b>	<b>247</b>	<b>293</b>	<b>339</b>
Other Income	4	6	7	8	10
Depreciation	40	43	33	36	40
Interest	26	21	5	6	7
<b>PBT</b>	<b>114</b>	<b>162</b>	<b>216</b>	<b>259</b>	<b>302</b>
Extra-ordinary	0	0	0	0	0
<b>PBT after ext-ord.</b>	<b>114</b>	<b>162</b>	<b>216</b>	<b>259</b>	<b>302</b>
Tax	36	42	54	65	76
Rate (%)	31.2%	26.0%	25.2%	25.2%	25.2%
<b>PAT</b>	<b>79</b>	<b>120</b>	<b>162</b>	<b>194</b>	<b>226</b>
Change (%)	13.5%	52.3%	35.0%	19.8%	16.7%

Source: Company, Arianth Research

## Balance Sheet

Y/E March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>Sources of Funds</b>					
Share Capital	21	21	21	21	21
Reserves & Surplus	338	434	546	679	835
<b>Net Worth</b>	<b>359</b>	<b>456</b>	<b>567</b>	<b>701</b>	<b>856</b>
Total Debt	95	15	25	29	33
Other non-current liabilities	67	55	55	55	55
Deferred Tax & other liabilities	0	0	0	0	0
Current liabilities	439	636	541	611	679
<b>Total Liabilities</b>	<b>960</b>	<b>1,162</b>	<b>1,188</b>	<b>1,395</b>	<b>1,623</b>
<b>Application of Funds</b>					
Net Block	130	130	157	161	160
Capital Work in Progress	3	3	3	3	3
Goodwill	13	23	23	23	23
Other non-current assets	89	82	82	82	82
Debtors	389	384	439	512	583
Inventories	287	249	285	332	378
Cash	7	140	47	131	242
Other Current Assets	43	152	152	152	152
<b>Total Assets</b>	<b>960</b>	<b>1,162</b>	<b>1,188</b>	<b>1,395</b>	<b>1,623</b>

Source: Company, Arianth Research

## Annual Financials

## Cash Flow Statement

Y/E March (Rs cr)	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT</b>	<b>114</b>	<b>162</b>	<b>216</b>	<b>259</b>	<b>302</b>
Depreciation	40	43	33	36	40
Interest & others	65	42	5	6	7
Cash flow before WC changes	220	248	254	301	349
<b>(Inc)/dec in working capital</b>	<b>(43)</b>	<b>221</b>	<b>(187)</b>	<b>(50)</b>	<b>(49)</b>
Operating CF after WC changes	177	469	66	251	300
Less: Taxes	(48)	(41)	(54)	(65)	(76)
<b>Operating cash flow</b>	<b>129</b>	<b>427</b>	<b>12</b>	<b>186</b>	<b>224</b>
(Inc)/dec in F.A + CWIP	(53)	(36)	(60)	(40)	(40)
<b>Cash flow from investing</b>	<b>(51)</b>	<b>(151)</b>	<b>(60)</b>	<b>(40)</b>	<b>(40)</b>
<b>Free cash flow (FCF)</b>	<b>76</b>	<b>274</b>	<b>(48)</b>	<b>146</b>	<b>184</b>
Equity raised	(31)	(2)	0	0	0
Interest & others	(31)	(102)	5	(2)	(3)
Dividend	0	0	0	0	0
<b>Cash flow from financing activities</b>	<b>(103)</b>	<b>(143)</b>	<b>(46)</b>	<b>(62)</b>	<b>(73)</b>
<b>Net inc /(dec) in cash</b>	<b>(25)</b>	<b>133</b>	<b>(94)</b>	<b>84</b>	<b>111</b>
Opening balance of cash	31	7	140	47	131
Closing balance of cash	7	140	47	131	242

Source: Company, Arianth Research

## Key Ratios

Y/E March	FY20	FY21	FY22E	FY23E	FY24E
<b>Per share (Rs)</b>					
EPS	3.7	5.6	7.6	9.1	10.6
CEPS	5.6	7.7	9.2	10.8	12.5
BVPS	169.4	214.7	267.3	330.2	403.6
<b>Valuation (x)</b>					
P/E	101.8	66.8	49.5	41.3	35.4
P/CEPS	67.4	49.1	41.2	34.8	30.1
P/BV	2.2	1.8	1.4	1.1	0.9
EV/EBITDA	45.8	35.9	32.4	27.0	23.0
<b>Return Ratios (%)</b>					
Gross Margin	31.6%	30.1%	30.1%	30.1%	30.1%
EBIDTA Margin	8.6%	10.8%	10.6%	10.8%	11.0%
PAT Margin	3.8%	5.9%	6.9%	7.1%	7.3%
ROE	21.9%	26.3%	28.5%	27.6%	26.4%
ROCE	30.0%	37.4%	36.1%	35.1%	33.7%
<b>Leverage Ratio (%)</b>					
Total D/E	0.3	0.0	0.0	0.0	0.0
<b>Turnover Ratios</b>					
Asset Turnover (x)	2.2	1.9	2.0	2.1	2.0
Inventory Days	74	64	64	64	64
Receivable Days	69	69	69	69	69
Payable days	59	93	66	66	66

Source: Company, Arianth Research

**Recommendation and Rating History**

Date	Recommendation	Reco. Price (INR)	TP (INR)	Report Type
03-Aug-2021	Accumulate	319	367	Q1FY22 Result Update
14-May-2021	Accumulate	281	335	Q4FY21 Result Update
04-Feb-2021	Buy	275	335	Q3FY21 Result Update
03-Dec-2020	Buy	224	269	IC

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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