Orient Electric

Weak show continues

Orient Electric reported an underwhelming Q4FY23 print. Revenue fell 13% YoY as ECD clocked a 20% fall (Havells ECD fell 14%). Lighting remained strong and was up +12%. Primary sales of fans remained subdued due to (1) focus of channel partners to clear off non-rated fans inventory; (2) soft consumer demand; and (3) erratic weather. With non-rated fans inventory having seen liquidation, we expect healthy primary fans volume growth in FY24. It shall be aided by a price increase of 4-6% due to a rating change. Lighting continued its good traction with broad-based growth across B2B and B2C portfolios. GM expanded by 50bps YoY to 28.3%, aided by better price realisation and product mix. However, EBITDA margins fell 370bps YoY to 7% due to negative oplev, brand investments, and capability-building initiatives. EBITDA dipped by 43% YoY. With consistent miss in delivery and expected slow recovery in the margin, we cut our FY24/FY25 earnings by 3/3% and value the stock on 28x Mar-25 EPS to arrive at a TP of INR 230. Maintain REDUCE.

- **Soft ECD performance leads to a miss in revenue:** Revenue fell by 13% YoY to INR 6.6bn (HSIE INR 8.2bn) as ECD revenue fell 20% YoY while lighting grew 12% YoY. ECD's underperformance was due to sustained pressure on primary sales in fans due to a high channel inventory of non-rated fans, lacklustre consumer demand and erratic weather conditions. Direct-to-market (DTM) revenue grew 15% YoY. Water heaters grew 2x while air coolers grew in the mid-teens. The lighting segment saw healthy growth across B2B (20% YoY) and consumer lighting segment. We model a 10% revenue CAGR for FY22-25E with an 8% CAGR in ECD and 14% in lighting.
- **Margins contract on negative oplev:** GM expanded by 50bps YoY to 28.3%, aided by better price realization and product mix. Employee expenses fell by 2% YoY while other expenses grew by 14%. EBITDA margin fell by 370bps YoY to 7% vs. HSIE's 9%. Margins were impacted due to negative oplev, sustained brand investments and capability-building initiatives. ECD margins contracted 310bps YoY to 9.7% (lower than pre-COVID) on account of lower fan sales and higher investments. Lighting margins expanded by 390bps YoY to 19.5%, led by a better product mix despite lower realizations. We model the EBITDA margin at c.9% for FY24/FY25.
- **Con call and BS/CF takeaways:** (1) Orient is focusing on (a) scale-up of hero products across segments; (b) improving premium mix; (c) sustained traction in lighting portfolio; & (d) investing in A&P, R&D, GTM & capability building initiatives. (2) In fans, initiated price hike of 4/2.5% in Jan/Apr. (3) Fans gross margins at par QoQ as cost reduction initiatives offset cost increases for star-rated products. (4) B2B lighting segment emerging as a strong growth driver given the high government push on the infra and realty sector. (5) Operating margin improvement to be led by gross margin expansion (mix change, pricing). (6) Hyderabad plant (total capex of INR 1.8-1.9bn) to come online by Sep'23. (7) In FY23, FCF stood at INR 761mn vs INR -309mn YoY.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY22	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	6,579	7,533	(13)	7,390	(11)	24,484	25,292	29,344	32,589
EBITDA	464	807	(43)	549	(15)	2,313	1,510	2,587	2,987
APAT	246	488	(50)	326	(24)	1,266	758	1,522	1,794
Diluted EPS (INR)	1.2	2.3	(49.7)	1.5	(24.6)	6.0	3.6	7.2	8.5
P/E (x)						37.2	62.3	31.0	26.3
EV / EBITDA (x)						19.8	30.2	17.5	14.9
RoCE (%)						38.0	15.0	27.0	27.8

Source: Company, HSIE Research

REDUCE

CMP *(as on 15 May 23)*	INR 222
Target Price	INR 230
NIFTY	18,399

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 240	INR 230
EPS %	FY24E	FY25E
	-3%	-3%

KEY STOCK DATA	
Bloomberg code	ORIENTEL IN
No. of Shares (mn)	213
MCap (INR bn) / ($ mn)	47/577
6m avg traded value (INR mn)	57
52 Week high / low	INR 302/216

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(18.6)	(16.2)	(26.0)
Relative (%)	(20.4)	(17.0)	(44.1)

SHAREHOLDING PATTERN (%)	Dec-22	Mar-22
Promoters	38.42	38.41
FIs & Local MFs	26.66	27.60
FPIs	6.13	5.75
Public & Others	28.79	28.24
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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