Orient Electric

Mixed bag

Orient Electric's Q1FY24 performance was a mixed bag as it positively surprised on revenue while continuing to disappoint on margins. Revenue grew 14% YoY, led by 16% growth in the ECD portfolio (Havells ECD grew 5%). ECD growth was broad-based across categories with fans registering 10/16% volume/value growth on improving primary sales. Weak performance in the previous quarters recouped to some extent, with ECD down by 5% during TTM. With the channel inventory of non-rated fans now nearly liquidated, we expect healthy primary fans volume growth in FY24. B2B lighting grew 40% YoY while soft B-C demand and price erosion (lower cost DOB technology) led to lighting growth moderating to 8% YoY. GM expanded by 290bps YoY to 30.7% on a better mix and stable RM basket. Higher employee/other expenses (43/20%) restricted EBITDAM expansion to 10bps at 6.2% (HSIE 7.4%). Orient will continue to invest in long-term strategic initiatives like (1) capability building; (2) branding; (3) distribution; and (4) talent, which shall keep margins under pressure in the near term. We cut our FY24-FY26 earnings by 1-4% and value the stock on 28x Jun-25 EPS to arrive at a TP of INR 230. Maintain REDUCE.

- **Revenue surprises positively:** Revenue grew by 14% YoY to INR 7.1bn (HSIE INR 6.8bn), led by 16% YoY growth in ECD revenue and 8% YoY growth in lighting. Within ECD, fans grew by 16/10% in value/volume as a reduction in channel inventory aided primary sales. Water heaters/small appliances grew 23/32% while the air cooler was impacted by unseasonal rains. Within the lighting segment, while the B2B portfolio grew 40% YoY, the B2C portfolio was soft due to stressed market conditions and price reductions. We model a 13% revenue CAGR for FY23-26E with an 14% CAGR in ECD and 11% in lighting.
- **Gross margin expands; higher spending impacts EBITDAM:** GM expanded by 290bps YoY to 30.7%, aided by product mix changes, with a focus on hero products, Project Sanchay and lower RM prices. However, higher spending on capability building, A&P and talent led to a 43/20% increase in employee/ other expenses. This limited EBITDAM expansion to a modest 10bps at 6.2% vs. HSIE's 7.4%. ECD EBIT margin expanded by 120bps YoY to 9.5% (9.7% in Q4) while the lighting margin expanded by 290bps YoY to 16% (19.5% in Q4). We model the EBITDA margin at c.8-9% for FY24-FY26.
- **Con call takeaways:** (1) Appointment of Mr Khetrapal is a short-term arrangement providing the company sufficient time to search for a new MD & CEO. (2) Within fans, the premium fans mix stood at 32%. (3) Within B2C lighting, new lower cost of Driver on Board (DOB) technology was passed on to consumers. B2B portfolio to lead growth in the near term. (4) Project Sanchay led to INR 150mn cost savings in Q1FY24. (5) Orient is improving (a) after-sale service; (b) R&D efforts; and (c) more agile and cost-efficient logistics set-up. (6) MT and e-com channel saw 58/28% growth. (7) Working capital days improved to 13 days (from 25 LY), led by inventory management.

Quarterly/annual financial summary

(INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	7,056	6,216	14	6,579	7	24,484	25,292	29,163	32,767	36,397
EBITDA	440	382	15	464	(5)	2,313	1,510	2,395	2,845	3,226
APAT	197	190	4	246	(20)	1,266	758	1,398	1,704	1,968
EPS (INR)	0.9	0.9	3.3	1.2	(20.2)	6.0	3.6	6.6	8.0	9.3
P/E (x)						40.0	67.1	36.3	29.8	25.8
EV / EBITDA (x)						21.3	32.5	20.4	16.9	14.6
Core RoCE (%)						38.0	14.9	24.8	26.2	28.2

Source: Company, HSIE Research

REDUCE

CMP (*as on 4 Aug 2023*)	INR 239
Target Price	INR 230
NIFTY	19,517

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 240	INR 230
EPS %	FY24E	FY25E
	-4%	-1%

KEY STOCK DATA	
Bloomberg code	ORIENTEL IN
No. of Shares (mn)	213
MCap (INR bn) / ($ mn)	51/626
6m avg traded value (INR mn)	82
52 Week high / low	INR 291/216

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.6	(15.2)	(8.7)
Relative (%)	2.2	(23.2)	(21.5)

SHAREHOLDING PATTERN (%)	Mar-23	Jun-23
Promoters	38.41	38.31
FIs & Local MFs	27.60	27.87
FPIs	5.75	5.51
Public & Others	28.24	28.31
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Naveen Trivedi
naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Paarth Gala
paarth.gala@hdfcsec.com
+91-22-6171-7336

Riddhi Shah
riddhi.shah@hdfcsec.com
+91-22-6171-7359

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com