

## Orient Electric Ltd (OEL)

Sensex: 33957

CMP: INR 180

Target Price: INR 215



## Consumer Electrical

On the back of COVID impact, Revenue fell 12% YoY to INR 5,631mn with revenue from Lighting division dropping 33% to INR 1,086mn and that of ECD division dropping 5% to INR 4,545mn. During Jan-Feb'20 the company had a reasonable mid-teens growth with reasonably good response from the market with signs of secondary sales picking up. Fans and air-coolers remained the focus of attention in the Electrical Consumer Durables (ECD) segment during the quarter and Consumer Luminaries (C-Lum) business continued to lead the way in Lighting segment. However, Pan-India lockdown impacted revenue for nearly 1/3rd of March month & revenue growth turned negative. EBITDA in absolute terms was affected by the significantly lower sales in Mar'20 which could not generate adequate margins to recover the cost which by the time lockdown started was virtually committed and fixed. Unfavourable sales mix primarily contributed to gross margin fall of 240bps to 30.5%. PAT stood at INR 357mn, down 8%. Segmental profitability of Lighting division fell 480bps to 11.3% and that of ECD division rose 220bps to 15.8%.

**ECD & Lighting division revenue down 5% & 33% YoY respectively**

During Jan-Feb'20 the company had a reasonable mid-teens growth with reasonably good response from the market with signs of secondary sales picking up. However, Pan-India lockdown impacted revenue for nearly 1/3rd of March month & revenue growth turned negative. Hence, Revenue for the quarter fell 12% YoY to INR 5,631mn with revenue from Lighting division dropping 33% to INR 1,086mn and that of ECD division dropping 5% to INR 4,545mn. Fans and air-coolers remained the focus of attention in the Electrical Consumer Durables (ECD) segment during the quarter and Consumer Luminaries (C-Lum) business continued to lead the way in Lighting segment.

**Gross Margin drops 240bps YoY to 30.5%**

Unfavourable sales mix primarily contributed to gross margin fall of 240bps to 30.5%. Secondary sales started receding early Mar'20 resulting to a cascading impact on primary sales and distorting the sales mix for the first half of the month until the economic activities came to a grinding halt. As a result, the sales volume, coupled with the misbalanced product mix did not generate enough gross margins to recover the fixed costs. However, EBITDA margin rose 50 bps to 11.6% with very good control over S&A overheads. EBITDA in absolute terms was affected by the significantly lower sales in Mar'20 which could not generate adequate margins to recover the cost which by the time lockdown

started was virtually committed and fixed. Segmental profitability of Lighting division fell 480bps to 11.3% and that of ECD division rose 220bps to 15.8%. Net Profit fell 8% YoY to INR 357mn for the quarter. The company has opted for the lower tax rate of 25.17% (effective) as per the new Taxation Laws regime.

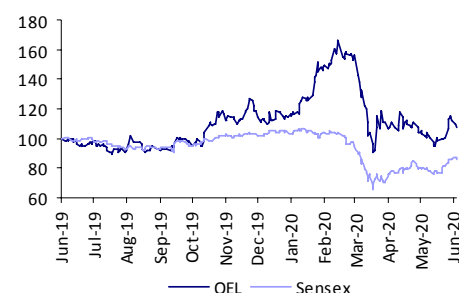
**Working Capital**

Working capital has increased by around 13 days end-Mar'20 over LY due to unsold inventory build-up, unrecovered receivables due to abrupt closure and liquidity challenges in the market. The company had also initiated an aggressive overdue recovery action plan through legal intervention which yielded results by early recovery of outstanding over 120 days and enabling reduction of overdue. The company plans to take this forward with more rigor.

**Outlook & Valuation**

Relatively younger product profile of businesses other than fans & focus on innovative & premiumised product categories enables it to outperform peers in terms of growth as well as profitability over longer term. However, in the short term, we revise our earnings estimate (on the back of COVID impact) with Revenue & PAT to compound annually at 18% & 28% respectively during FY20-22. As revival of business growth is estimated to be more towards H2FY21 & FY22, we reduce earning multiple to 35x from 40x earlier & derive at target price of INR 215 & continue to maintain BUY on the stock.

Shareholding (%)	Mar-20
Promoters	38.5
FII's	5.1
DII's	19.9
Others	36.5

**Relative Price Performance**

Key Data	
NSE Symbol	ORIENTELEC
Bloomberg Code	ORIENTEL IN
Reuters Code	ONTE.BO
Shares Outstanding (mn)	212.2
Face Value	1
Mcap (INR bn)	38.2
52 Week H/L	286/138
2W Avg. Vol, NSE (000's)	274
Beta	0.78

Consolidated (INR Mn)	FY19	FY20E	FY21E	FY22E
Net Sales	18644	20617	23881	28791
Growth (%)	16.5	10.6	15.8	20.6
EBITDAM (%)	7.6	8.6	8.1	8.8
Adj. PAT	691.5	792.3	903.5	1302.1
Growth (%)	8.0	14.6	14.0	44.1
Adj. EPS (INR)	3.3	3.7	4.3	6.1
P/E(x)	55.2	48.2	42.3	29.3
EV/EBITDA	27.7	22.1	20.2	15.2
EV/Sales	2.1	1.9	1.6	1.3
ROACE (%)	29.7	31.5	28.9	34.4
ROAE (%)	24.3	23.8	23.2	28.3

### Fans

The volumes in the quarter suffered a setback due to the quarter-end dampener and therefore the margin expansion could not be delivered to the desired levels. Exports have also shown up some demand generation resulting in YoY growth. Working capital has consequently increased on 31st Mar'20, with higher receivables and inventory holding due to closure of normal business activities.

### Air-Coolers&Home Appliances

Favourable summer season indicators saw early stock up of Coolers by Trade. The company strategically kept this segment energized with the launch of the new-gen inverter air coolers. Similarly, Kitchen appliances on a relatively smaller base went leapfrogging through to Feb'20. The company's partnership with the globally renowned De'Longhi Group was strengthened further with enhanced distribution and product portfolio augmentation in the year. But for the Covid outbreak, appliances category would have experienced focused and heightened media campaigns than in earlier periods. Working Capital cycle had improved as compared to last year aided by better utilization of channel finance and vendor finance.

### Lighting

The lighting business continued its performance track until Feb'20. Despite building inventory, large Tender orders could not be fulfilled for delivery at project sites, due to business disruptions in Mar'20. Similarly, the C-LUM business, which is primarily retail, also got impacted due to the slowdown of business activities. Though no new tenders for street lighting came up in the quarter, the company had an unfulfilled order book before the lockdown started. Though the pricing challenge continued, there was expectations of price increase. There was an overall slowdown in the trade due to sluggish consumer offtakes.

### Switchgear

The sluggish trend of the industry continued with down trading and weaker demand in real estate. However, the premium segment showed some signs of growth until Feb'20. With thrust on electrician meets, increasing influencer programs, focus on B2B business and enhancement of the depth of distribution in markets of presence helped the growth momentum of the switchgear business. Whilst all supplies were in place, the muted consumer sentiments affected the revenues in Mar'20.

### Quarterly Financials (standalone)

INR mn	Q4FY20	Q4FY19	Q3FY20	% Chg (YoY)	% Chg (QoQ)	FY20	FY19	% Chg (YoY)
<b>Revenue</b>	<b>5631</b>	<b>6377</b>	<b>4957</b>	<b>-11.7</b>	<b>13.6</b>	<b>20618.2</b>	<b>18644</b>	<b>10.6</b>
RM cost	3912	4280.8	3133	-8.6	24.9	14094	12713	10.9
Employee Cost	495.7	460.2	510	7.7	-2.8	1984.8	1736	14.3
Other Expenses	571.8	929.5	861	-38.5	-33.6	2775.7	2782	-0.2
<b>Total Expenditure</b>	<b>4979.5</b>	<b>5670.5</b>	<b>4504</b>	<b>-12.2</b>	<b>10.6</b>	<b>18854</b>	<b>17231</b>	<b>9.4</b>
<b>EBITDA</b>	<b>651.5</b>	<b>706.5</b>	<b>453</b>	<b>-7.8</b>	<b>43.8</b>	<b>1764.2</b>	<b>1413</b>	<b>24.9</b>
Depreciation	105.6	62.9	104	67.9	1.5	401.2	231	73.7
Other Income	14.6	25.6	12.0	-43.0	21.7	40.9	95.0	-56.9
<b>EBIT</b>	<b>560.5</b>	<b>669.2</b>	<b>361</b>	<b>-16.2</b>	<b>55.3</b>	<b>1403.9</b>	<b>1277.0</b>	<b>9.9</b>
Interest	76.8	69.2	66	11.0	16.4	261.2	228	14.6
<b>PBT</b>	<b>483.7</b>	<b>600</b>	<b>295</b>	<b>-19.4</b>	<b>64.0</b>	<b>1142.7</b>	<b>1049</b>	<b>-4.6</b>
Tax	126.4	213.8	104	-40.9	21.5	356.5	356.0	0.1
<b>Profit After Tax</b>	<b>357.3</b>	<b>386.2</b>	<b>191</b>	<b>-7.5</b>	<b>87.1</b>	<b>786.2</b>	<b>693</b>	<b>13.4</b>
Equity	212	212	212			212	212	
Face Value	1	1	1			1	1	
EPS	1.7	1.8	0.9	-7.5	87.1	3.7	3.3	13.4
	26.1%	35.6%	35.3%			31.2%	33.9%	
<b>% of Sales</b>				<b>bps</b>	<b>bps</b>			<b>bps</b>
RM Cost	69.5%	67.1%	63.2%	234.4	626.9	68.4%	68.2%	16.7
Employee Expenses	8.8%	7.2%	10.3%	158.6	-148.5	9.6%	9.3%	31.5
Other Expenses	10.2%	14.6%	17.4%	-442.1	-721.5	13.5%	14.9%	-145.9
EBITDAM Excl Other Income (%)	11.6%	11.1%	9.1%	49.1	243.1	8.6%	7.6%	97.8
PATM (%)	6.3%	6.1%	3.9%	28.9	249.2	3.8%	3.7%	9.6

## Financials

### Income Statement

Y/E (INR mn)	FY19	FY20E	FY21E	FY22E
Net Sales	18644	20617	23881	28791
Net Sales Growth (%)	16.5	10.6	15.8	20.6
Cost of Goods Sold	12232	13713	15570	18714
Employee Cost	1727	1985	2313	2694
Other Optg. Exps.	3273	3149	4074	4836
Total Optg. Exps.	17231	18847	21957	26244
EBITDA (excl OI)	1413	1770	1924	2547
EBITDA Margin (%)	7.6	8.6	8.1	8.8
Dep./Amortisation	231	401	471	525
EBIT	1182	1369	1452	2022
EBIT Margin (%)	6.3	6.7	6.6	7.4
Interest Expense	229	262	189	189
Other Income	94	41	46	54
EBT	1047	1148	1310	1887
Tax Expenses	356	356	406	585
PAT	692	792	904	1302
PAT Growth (%)	8.0	14.6	14.0	44.1
PAT Margins (%)	3.7	3.8	3.8	4.5

### Key Ratios

Y/E	FY19	FY20E	FY21E	FY22E
<b>Per Share Data (INR)</b>				
Adj.EPS	3.3	3.7	4.3	6.1
CEPS	4.3	5.6	6.5	8.6
DPS	1.2	1.3	1.5	2.1
BVPS	14.4	16.9	19.7	23.7
<b>Return Ratios(%)</b>				
RoACE	29.7	31.5	28.9	34.4
RoANW	24.3	23.8	23.2	28.3
<b>Liquidity Ratios</b>				
Net Debt/Equity	0.3	0.2	0.2	0.1
Interest Coverage Ratio	5.2	5.2	7.7	10.7
Current Ratio	1.6	1.6	1.6	1.7
Quick Ratio	1.0	0.9	1.0	1.0
<b>Efficiency Ratios</b>				
Asset Turnover Ratio	4.6	4.4	4.4	4.5
Inventory Days	79	76	78	78
Debtor Days	77	64	64	64
Creditor Days	105	88	90	90
<b>Valuation Ratios</b>				
P/E(x)	55.2	48.2	42.3	29.3
P/BV(x)	12.5	10.6	9.1	7.6
P/CEPS(x)	41.4	32.0	27.8	20.9
Dividend Yield(%)	0.7	0.7	0.8	1.2
EV/Net Sales(x)	2.1	1.9	1.6	1.3
EV/EBITDA(x)	27.7	22.1	20.2	15.2

### Balance Sheet

Y/E (INR mn)	FY19	FY20E	FY21E	FY22E
<b>Source of Funds</b>				
Share Capital	212	212	212	212
Reserves & Surplus	2854	3382	3969	4816
Total Networth	3066	3594	4181	5028
Total Debt	1250	947	947	947
Other Non current Liab	129	706	818	986
Deferred tax liab (net)	-197	-214	-214	-214
<b>Total Liab</b>	<b>4249</b>	<b>5033</b>	<b>5732</b>	<b>6747</b>
<b>Application of Funds</b>				
Net Block	1120	1296	1375	1600
CWIP	43	35	35	35
Goodwill/Intangible Assets	46	674	674	674
Investments	192	327	327	327
Other non-current assets	54	58	58	58
Current Assets	7237	7001	8311	10139
Current Liabilities	4442	4358	5048	6086
Net Current Assets	2794	2643	3263	4053
<b>Total Assets</b>	<b>4249</b>	<b>5033</b>	<b>5732</b>	<b>6747</b>

### Cash Flow

Y/E	FY19	FY20E	FY21E	FY22E
EBT	1047	1148	1310	1887
Less: Other Income/Exceptionals	94	41	46	54
Add: Depreciation	231	401	471	525
Add: Interest Paid	229	262	189	189
Direct Tax Paid	-356	-356	-406	-585
Change in Working Capital	58	-79	-405	-609
Others	44	-22	0	0
<b>Cash Flow from Operations (a)</b>	<b>1159</b>	<b>1313</b>	<b>1113</b>	<b>1353</b>
Change in Fixed Assets	-253	-1197	-550	-750
Change in Investments	-98	-135	0	0
Other	-83	0	0	0
<b>Cash Flow from Investing (b)</b>	<b>-434</b>	<b>-1332</b>	<b>-550</b>	<b>-750</b>
Change in Equity	-2	13	0	0
Debt Raised/(Repaid)	-321	273	112	168
Dividend Paid	-256	-277	-316	-456
Interest Paid	-229	-262	-189	-189
Others Paid	94	41	46	54
<b>Cash Flow from Financing (c)</b>	<b>-715</b>	<b>-211</b>	<b>-347</b>	<b>-423</b>
<b>Net Change in Cash (a+b+c)</b>	<b>10</b>	<b>-230</b>	<b>215</b>	<b>180</b>
Opening Cash	305	315	85	301
Closing Cash	315	85	301	481

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