Orient Electric

VP - Research: Vinod Chari
Tel: +91 22 40969776
E-mail: vinodc@dolatcapital.com

Associate: Pranav Lala
Tel: +9122 40969722
E-mail: pranavl@dolatcapital.com

DOLAT CAPITAL

January 14, 2021

Orient Electric

Accumulate

Initiating Coverage

Play on premiumisation

OEL is a well-established player under the ECD and Lighting space, being the largest exporter and manufacturer of fans in India. OEL has more than 6 decades of experience, with an extensive network of more than 125,000 retailers across the country. The company has seen a strong growth over the past 3 years at CAGR ~12.6%, ECD business witnessed a CAGR of ~10.7% while lighting and switchgears business rapidly grew by ~18.3% CAGR due to lower base and now contributes to 27.7% of revenues. It has in house manufacturing capability, a strong brand name, control on supply chain and exclusive access to premium branded partnerships; it aims to exploit the growing opportune FMEG market banking on the growth in demand for fans and small appliances. We are confident about the company's growth story and assume a revenue CAGR of 8.5% FY20-23E and PAT CAGR of 25.8% FY20-23E.

Premiumization and better product mix to drive growth

OEL has seen a strong growth ever since its inception at CAGR ~12.6%, ECD CAGR ~10.7% over the past 3 years; OEL has held up ECD margins at ~12% over past 3 years. The company has maintained revenue split between ECD and Lighting & Switchgears at 75% to 25%, maintaining total EBIT margin levels at +11%. The company has a strong focus on enhancing its brand image with a constant R&D spend of 4% of revenues at CAGR of 8.2% over 3 years. The company aims to play on the premiumization theme, by introducing 'Eleganza' series of chandelier fans and various foreign tie-ups with DeLonghi and other premium brands under the small appliances segment; it currently commands 50% market share in the premium fans segment. With the new greenfield project coming up in South India for manufacturing of fans, company is confident on improving revenues, cost control, supply chain control and exports under ECD business; we assume revenues CAGR of 8.5% FY20-23E and PAT CAGR of 25.8% FY20-23E.

Focus on innovation and expansion

OEL has been a pioneer in technological disruption within the industry, it has launched products like 3AB Modular Switches, IOT controlled Air Coolers, Alexa enabled Fans and Smart Lighting solutions. OEL continues to focus on innovation by successfully launching UV Sanitech in mid-July through e-commerce platforms. The company has adopted to a digital approach by launching its organization wide 'e-wings' platform in FY20-21. The company has a very strong retailer and distributor network with over 125,000 retailers and 5,000 dealers across the country; it plans to scale up to a network 150,000 retailers in the next 2 years. It also has an international presence in 32 countries and has established its first international representative office in Dubai in FY20.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	18,644	20,618	19,302	23,163	26,329
Growth(%)	16.5	10.6	(6.4)	20.0	13.7
EBITDA	1,413	1,764	1,407	2,124	2,655
OPM(%)	7.6	8.6	7.3	9.2	10.1
PAT	693	786	618	1,055	1,463
Growth(%)	8.2	13.4	(21.4)	70.7	38.6
EPS(Rs.)	3.3	3.7	2.9	5.0	6.9
Growth(%)	8.2	13.4	(21.4)	70.7	38.6
PER(x)	71.5	63.0	80.2	47.0	33.9
ROANW(%)	24.3	23.6	16.9	26.4	31.3
ROACE(%)	21.2	23.5	17.7	23.0	25.1

CMP	Rs 234
Target / Upside	Rs 270 / 16%
NIFTY	14,565

Scrip Details

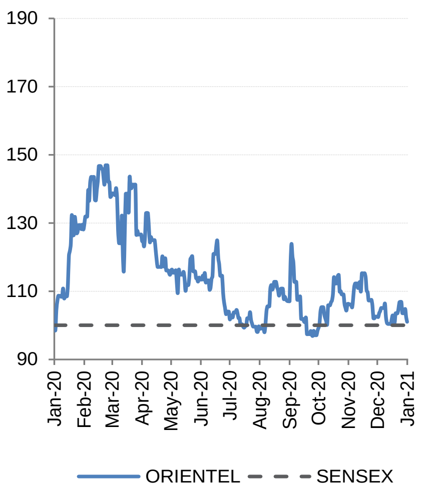
Equity / FV	Rs 212mn / Rs 1
Market Cap	Rs 50bn
	USD 677mn
52-week High/Low	Rs 287/ 145
Avg. Volume (no)	3,58,737
Bloom Code	

Price Performance	1M	3M	12M
Absolute (%)	6	22	21
Rel to NIFTY (%)	(1)	1	3

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	38.5	38.5	38.5
MF/Banks/FIs	19.9	21.2	22.0
FIIs	5.1	5.1	6.1
Public /	36.5	35.2	33.4

Company Relative to SENSEX



VP - Research: Vinod Chari
Tel: +91 22 40969776
E-mail: vinodc@dolatcapital.com

Associate: Pranav Lala
Tel: +9122 40969722
E-mail: pranavl@dolatcapital.com

Investment Thesis

- Increased focus on premium product portfolio expansion with 50% market share in premium fans.
- OEL continues to focus on strong expansion and currently has a strong retailer and dealer network with 125,000 retailers and 5,000 distributors, aims to expand retailer network to 150,000 in next 2 years.
- OEL has a major focus on innovation has been a pioneer in the fans, lighting and coolers space, with the introduction of IoT based smart fans and Flicker-Control-Technology lighting.

Risk

- Extended lockdowns and additional covid19 waves might cause major disruption in supply chain and a permanent loss of orders.
- OEL has a majorly seasonal business under ECD, mostly being a Q1 heavy summer business, varied seasonality could impact the future growth of this business.
- Although copper pricing is gradually stabilizing over recent months, a pricing risk and hedge cover risk looms over the company as it imports major copper requirement.

Catalyst

- Improvement in margins in ECD business with more control over manufacturing and supply chain.
- Retailer network expansion, rapid growth in rural, Tier 2 and 3 markets.

Event

- Q3 Earnings in January / February 2021.

Company Background

The company was incorporated as a separate entity when it demerged from Orient Paper and Industries Limited to become OEL in March 2017. The company has majority revenues at ~75% coming in from the ECD business with strong margins at ~11%+. The company has been in the FMEG business since 6+ decades and remains one of the leading manufacturers in fans and a major player in lighting.

Assumptions

- We expect revenues and PAT growth by 8.5% CAGR and 25.8% CAGR FY20-23E basis, although revenues and PAT will decline 6.4% and 19.8% YoY respectively in FY21 pandemic year.
- We expect ECD and Lighting & Switchgear revenues to grow by 9.4% CAGR and 5.9% CAGR for FY20-23E and ECD & Lighting EBIT growth of 9.8% CAGR & 8.3% CAGR FY20-23E.

Initiate Coverage with Accumulate

While FY21 would be a washout year in terms of profitability, a strong bounce back is expected in FY22 having revenue CAGR FY20-23E of 8.5% and PAT CAGR of 25.8%, with an additional dedicated capacity to manufacturing fans. We value the company at 45x September'22, giving us a TP of Rs250. While we like the company and its strategy, given the recent sharp run up in prices, we initiate at Accumulate and would recommend entering when correction occurs.

OEL is a well-established player under the ECD and Lighting space, being the largest exporter and manufacturer of fans in India. OEL has more than 6 decades of experience, with an extensive network of more than 125,000 retailers across the country. The company has seen a strong growth over the past 3 years at CAGR ~12.6%, ECD business witnessed a CAGR of ~10.7% while lighting and switchgears business rapidly grew by ~18.3% CAGR due to lower base and now contributes to 27.7% of revenues. It has in house manufacturing capability, a strong brand name, control on supply chain and exclusive access to premium branded partnerships; it aims to exploit the growing opportune FMEG market banking on the growth in demand for fans and small appliances. We are confident about the company's growth story and assume a Revenue CAGR of 8.5% FY20-23E and PAT CAGR of 25.8% FY20-23E.

Play on premiumization and better product mix to drive growth

OEL launched the "Eleganza" series under premium chandelier fans category, IoT controlled LED lamps and Kris Modular 3AB Technology switches to utilize this play on premiumization theme. The company has maintained focus on premium switches through binding retailer and engineer associate networks. OEL introduced premium brands in 2019 like Kenwood, Braun and De'Longhi into India, cementing the company's premium and quality brand image as a strong and reliable small appliances business player.

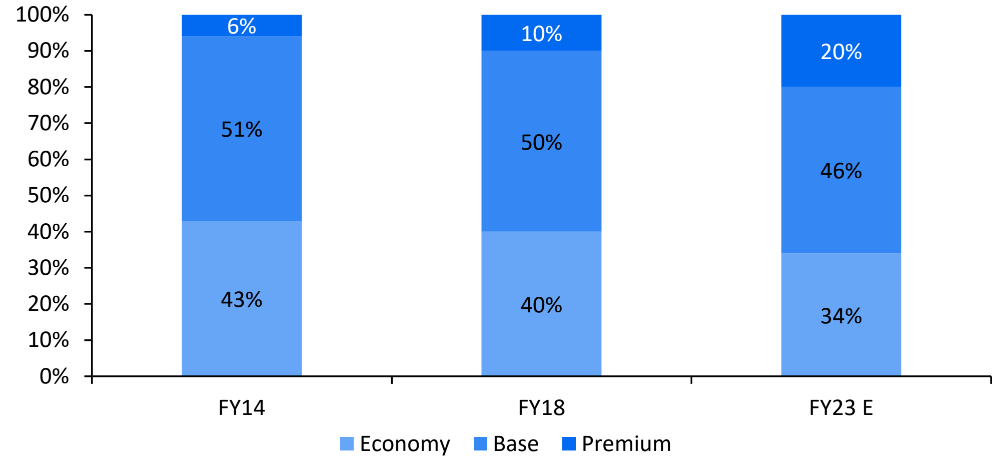
Exhibit 1: Significant new product launches

Year	Products Launched
2018	▪ Modular & Assembled Metal outdoor coolers
	▪ Launched 3 models under LED range
	▪ Launched 18 models under water heater appliances range
2019	▪ IoT enabled Aeroslim fan series
	▪ IoT enabled Coolers range
	▪ Launched Kenwood & Braun under small appliances
2020	▪ Eleganza premium chandelier fan series
	▪ EyeLuv Flicker-Control-Technology LED Lights
	▪ Kris Modular 3AB Technology Switches

Source: Company, DART

OEL has a strong focus on premium fans with 10% of total portfolio being premium fans, it commands a market share of ~50%+. Industry players like CG Consumer, Havells and V-guard are the other key competitors in the industry. The share of premium fans is expected to double over 5 years from FY18-23E from 10% to 20% of fans market.

Exhibit 2: Segment-wise share of ceiling fans

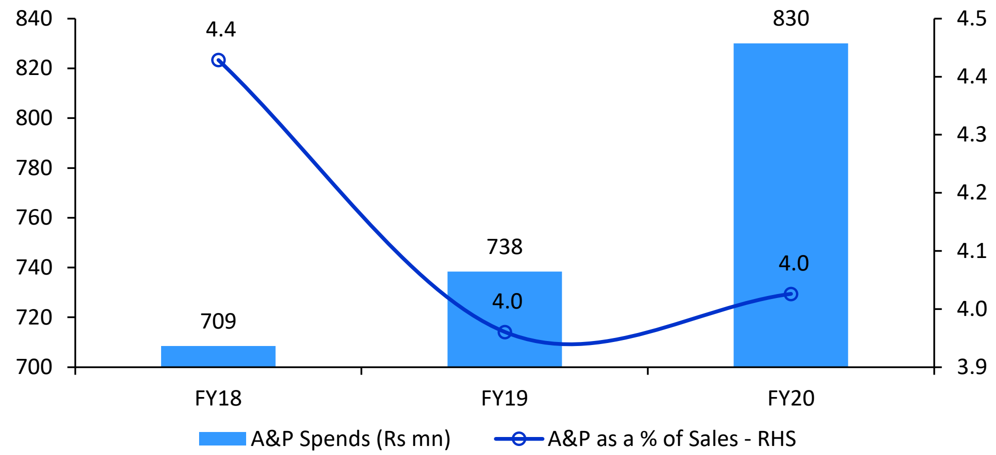


Source: IEMA, DART

Continuous focus on branding

OEL is aggressive in its offline media and print marketing strategy mainly under its lighting & switchgears business, it has lower focus over e-com social media marketing. The investment in branding (A&P spends) has grown at a CAGR of 8.2% over the last 3 years and has held up to ~4% of sales in FY20.

Exhibit 3: A&P Spends as a % of Total Sales (CAGR 8.2%)



Source: Company, DART

Focus on innovation and expansion

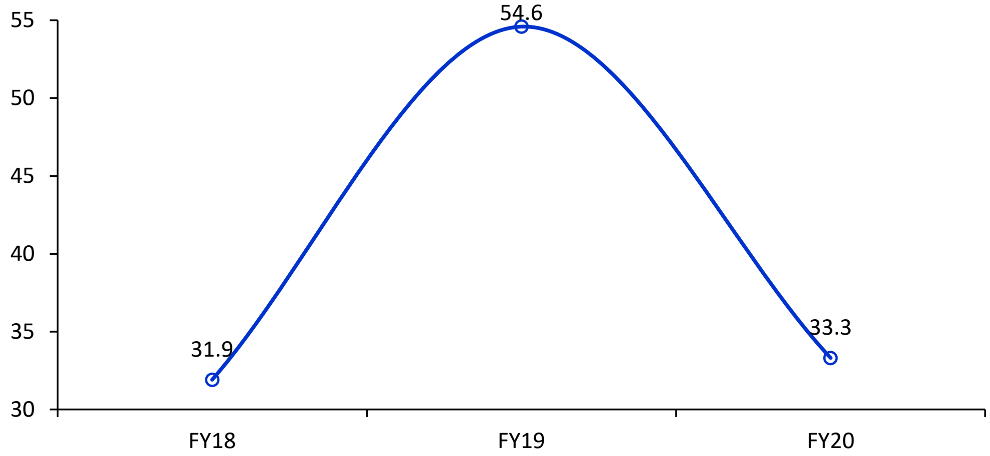
R&D Focus

Company has strong plans to combat pandemic impact and simultaneously utilize the opportunity present in alternative channels mainly with a focus on disruption through e-commerce channels. Orient continues to focus on strong momentum in R&D and product innovation by successfully launching UV Sanitech in mid-July through e-commerce platforms.

OEL incurred a Rs11mn R&D expense in FY20, on the newly incorporated dedicated R&D center. The company implemented automation within organizational limits and across its product range; a 3-year digitization road map was prepared with an aim of enhancing channel connectivity, efficiency and data- driven decision making through its 'e-Wings' project. The green field project in South India will strengthen OEL's position as the largest manufacturer and exporter of fans in the country.

OEL has increased R&D expenses on an absolute YoY basis, but it is not visible in Exhibit 4, as major R&D expenses incurred over highly skilled employees are classified as employee cost.

Exhibit 4: Trend in R&D expenditure (Rs Mn)



Source: Company, DART, Note: Company allocated certain R&D spends under manpower

The company made major breakthroughs in FY20 by developing new Inverter Series Electronically Commutated Motors, Wi-Fi / IoT based products and Flicker-Control-Technology. Company launched Aero series, Eleganza series and i-Series fans, IoT-enabled Coolers and EyeLuv series lighting becoming #1 company in India to launch IoT based smart fans operated through Alexa / Google assistant.

'Sanchay' Cost Saving Initiatives

The company launched a cost reduction program 'Sanchay' in FY18, integrating various avenues and levels within the organization to focus on cost moderation, waste optimization and process optimization. There was a significant savings ~7% of EBITDA in FY18. OEL was about to further save Rs6.5mn in its Noida factory through implementing shrink wrap packaging and resizing packing cartons. OEL was able to rationalize warehouse space by 40%, which resulted in cost savings and space optimization.

OEL was able to implement major savings across operating functions, 'Sanchay' program delivered ~50% EBITDA savings and helped avoid further cost of Rs40mn in FY20. The company continues to prioritize cost savings regarding travel, advertising and other operating expenses through 'Sanchay' over the medium-term, prompted by the pandemic induced impact over the company and industry.

Exhibit 5: Sanchay cost savings

Year	Savings
2018	~7% of EBIDTA and Rs6.5mn on packaging
2019	Rationalized warehousing space by 40%
2020	~50% of EBITDA and Rs40mn

Source: Company, DART

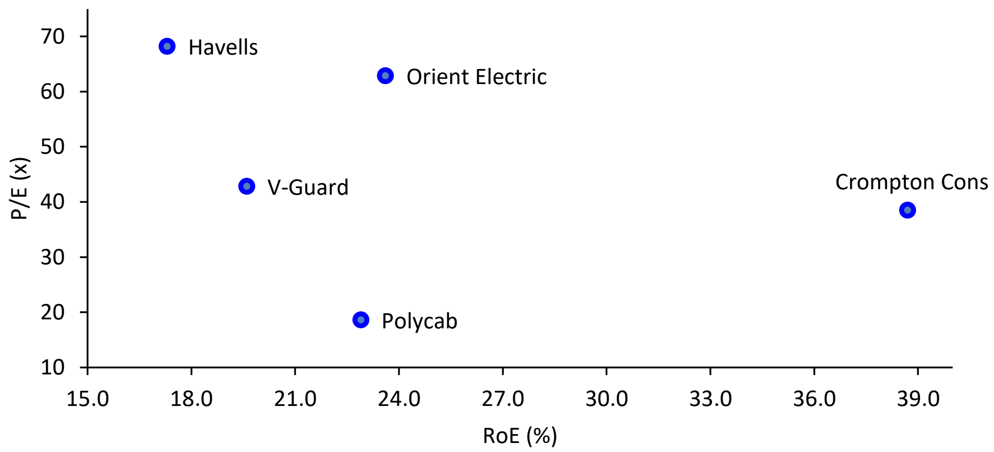
Expansion push to distribution

OEL has a distribution network of more than 5,000 dealers and 125,000 retailers across the country; it has expanded its after-sales service penetration by more than 50% to about 450+ towns FY20. The company has over 100,000+ retailers under fans business and over 40,000 retailers under lighting business pan-India. OEL has an international presence across 32 countries, it has established a representative office in Dubai in FY20. The company continues to engage its network through the Channel Loyalty program through its mobile platform 'Orient Connect'.

Initiate Coverage at Accumulate

We initiate coverage on the company with an Accumulate rating, valuing at 45x of September 2022 which gives us a target price of Rs250. We have assigned a similar multiple to OEL compared to its closest peers CG Consumer at 40x and Havells at 42x, mainly due to the growth and scaling opportunity; we believe that OEL has a strong all-weather cross segment diversified business model.

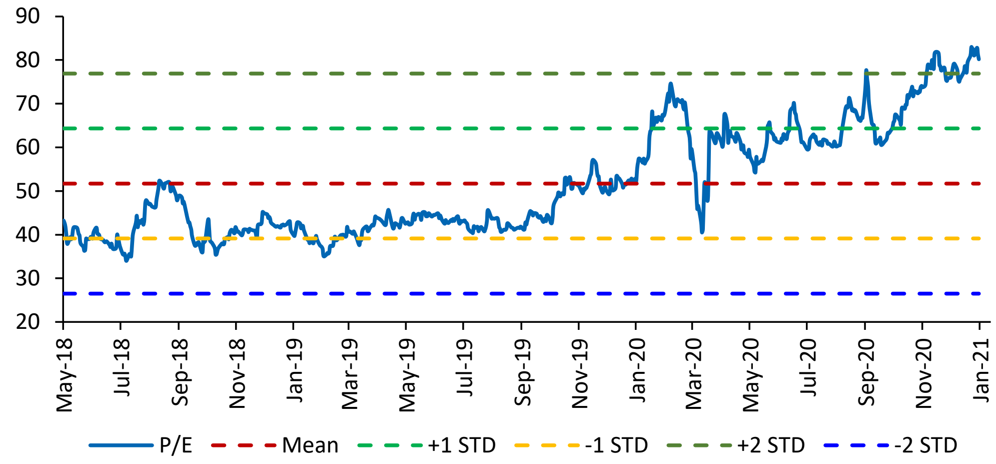
Exhibit 6: How OEL compares to its peers (ROE and P/E for FY20)



Source: Company, DART, BJE excluded due to FY20 loss

We expect to see a slight de-growth in FY21 being hit by covid19, a bounce back in FY22 is expected with a 20% revenue growth and a 79% profit growth YoY. The company is valued at par with major peers due to its strong fundamentals and growth proposition, as a similar value offering as CG Consumer.

Exhibit 7: OEL 1-yr Forward P/E Band Chart



Source: Company, DART

Company Background

Introduction

Orient Electric, was incorporated as a division of Orient Paper and Industries Limited, when erstwhile Calcutta Electrical Company became a part of the CK Birla Group in 1954. Orient Electric was demerged from OPIL w.e.f. 9th November, 2017 and listed as a separate entity OEL on NSE and BSE on 14th May, 2018 at FV Rs1 per share with valuation of Rs212mn. Orient has been a strong name under fans, lighting and switchgears business for over 60 years and dominates premium fan market space with a share of ~50%.

Manufacturing

Orient Electric has manufacturing facilities in Kolkata, Faridabad and Noida. The Company is the largest manufacturer and exporter of fans in the country. The company has a constant focus on manufacturing automation and has a greenfield project in South India under execution in order to solidify its position.

Exhibit 8: Manufacturing Facilities

Location	Product
Faridabad	Fans
Kolkata	Fans
Guwahati	Fans
Noida	LED Lighting
Noida	Switchgear

Source: Company, DART

Electrical Consumer Durables

The company has a wide range of fans and appliances under its ECD business. It contributes to 72% if revenues as in FY20, OEL has maintained an average mix of 75%/25% with ECD to Lighting & Switchgear businesses.

Fans

Fans make up for about 90% of the company's ECD portfolio; premium fans constitute 10% of the OEL's fans portfolio. The company has 3 manufacturing facilities for fans business with a new greenfield facility in execution in South India.

Exhibit 9: ECD Products

Segments	Products
Fans	▪ Ceiling fans: Company's flagship product line Aeroseries, the first fan of the series Aeroquiet was launched in 2016.
	▪ Wall fans
	▪ Stand fans
	▪ Table fans
	▪ Exhaust fans
	▪ Wall mounted fans
Appliances	▪ Air Coolers: IoT controlled air coolers
	▪ Water heaters: Instant and storage water heaters
	▪ Small appliances: small appliances include dry iron, mixer grinders, blenders, juicer, mixers, toasters, rice cooker, electric kettles, pop-up toaster and sandwich toaster.
	▪ Major collaborations with DeLonghi, Kenwood and Braun

Source: Company, DART

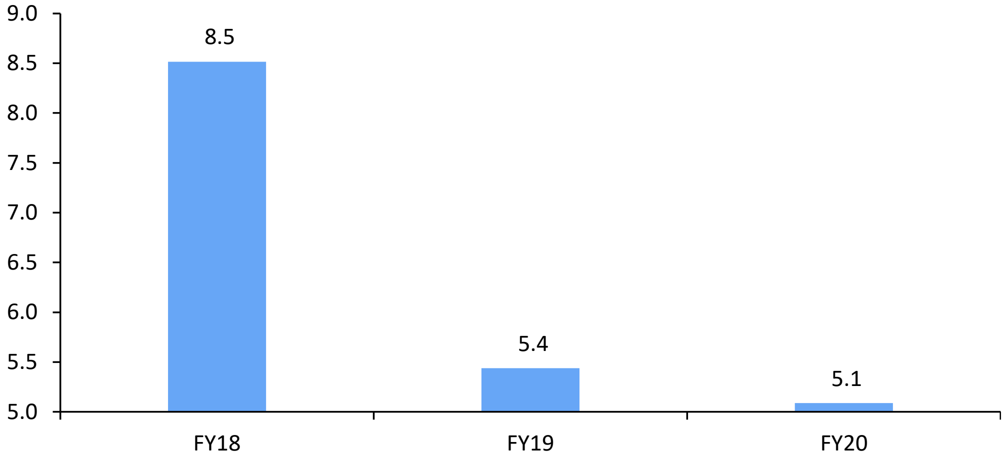
Major Product Launches

- Launch Aero series fans; developed energy efficient BLDC motor-based fans.
- Launch of Invertor series fan with Inverter technology which consumes % less power compared to Induction Fan Motor.
- Electronically Commutated Motor, Eco Friendly Insulation Puff, are some areas in which research & development was carried out.

Widening Network and Increasing International Presence

The company has maintained an average international revenue contribution of ~5% over FY19 and FY20, with a major presence across 32 countries. The company established an international representative office in Dubai in FY20.

Exhibit 10: Export as a % of sales



Source: Company, DART

Lighting & Switchgear

Lighting & Switchgears business contributes to ~25%, with a relatively lower base the company has seen a revenue growth of 18% CAGR and profit growth of 32% CAGR over FY18 – FY20.

Lighting

This segment contributes to 95% of sales with major portfolio ~75% being from B2C business. 25% business is mainly from B2G EESL business.

Types of lighting and luminaires

- General Lighting Service (incandescent lamp or GLS) and Fluorescent Tubular Lamps (FTL)
- High-Intensity Discharge lamps (HID)
- Compact Fluorescent Lamp (CFL)
- Light-Emitting Diode (LED) lamps
- Plum lighting
- Conventional luminaires:
  - Residential
  - Office

  - Commercial: Consist of recessed, office lighting, surface, wall mounted, suspended, pendant mounted, downlight, retail, health care and pharma lighting luminaires.
  - Flood lighting

- LED Luminaires

Switchgear

Switchgear business has a very low contribution to overall revenues at ~1% of revenues, the switchgear industry has very low margins and is highly competitive.

Types of switchgear

- Miniature circuit breaker
- Residual current circuit breaker
- Distribution board
- Isolators
- Accessories

Major Product Launches

- Launch of IOT based Products LED lamp and LED Batten.
- EyeLuv LEDs with Flicker-Control- Technology (FCT) launched for LED Bulbs and LED Battens; being a health focus themed launch.
- Development of BEE Star rated LED lamps which are more efficient as compared to 3 Star rated LED lamps.
- Introduction of Facade Lighting segment focusing on lighting of heritage monuments / buildings.
- Introduced Modular switch range (Kris) developed with 3AB Technology.
- Launched Smart Plug, Key Tag Holder, Hospitality range, Wireless Bells, Ringo Holder, Salus Bloom Plate Range, Shakti Metal Boxes, Reel, MCB type change over & Off load change over DP/ FP plastic enclosure.

JV & Alliances

Orient Electric has a strong and continuing partnership with the De'Longhi group since 2018- 19. This tie-up enabled the entry of the premium brands of De'Longhi, Kenwood & Braun into India. Each of these brands is an international market leader in its core product category, providing the Company with a strategic market placement advantage. The company made inroads in small appliances business by launching 'Breakfast' series of kitchen appliances – induction cooktop and toasters were launched in the year, by leveraging these synergies.

Management

Chandra Kant Birla, Chairman

Chandra Kant Birla, was appointed as the Chairman and Non-Executive Director of the Company w.e.f. 19th January, 2018. He is the Chairman of several companies of the CK Birla Group and a keen philanthropist.

Deepak Khetrapal, Vice Chairman

Desh Deepak Khetrapal, was appointed as the Vice Chairman w.e.f. 19th January, 2018. He holds a degree in Economics, a and a degree in Marketing and Finance. He has extensive rich experience across industrial, consumer and retail businesses.

Rakesh Khanna, Managing Director & CEO

Rakesh Khanna, was appointed as MD & CEO w.e.f. 23rd January, 2018. He holds a bachelor's degree in mechanical engineering and has more than 31 years of work experience in India and abroad in the consumer durables, consumer electronics, electrical and lighting sectors.

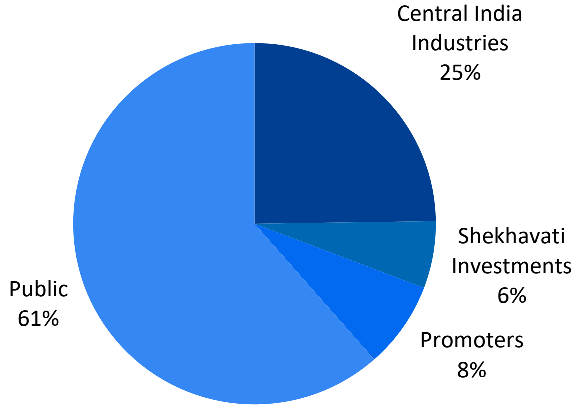
Saibal Sengupta, Chief Financial Officer

Saibal Sengupta was appointed as Chief Financial Officer with effect from April 27th, 2018; he is a member of the Institute of Chartered Accountants of India with 29 years of work experience. He is the successor to erstwhile CFO Manoj Kumar Dugar who resigned from office w.e.f. April 24th, 2018.

Shareholding Pattern

Total Promoter shareholding lies at 38.52% of which Individual Promoters hold 3.58% share, with Chandra Kant Birla holding 1.61%.

Exhibit 11: Shareholding Pattern (Sep 20)



Source: Company, DART

Major promoter stake is held by Central India Industries Ltd. holding 24.77% stake and Shikhavati Investment and Traders Ltd. holding 6.01% stake which is entirely pledged.

Key Personnel

Exhibit 12: Management Remuneration

Name	Designation	Joining Date	Remuneration (Rs. mn)	Commission as % of Remuneration	Stake – 31st Mar'21
Chandra Kant Birla	Chairman	Jan'18	4.1	85.40%	1.6
Desh Deepak Khetrapal	Vice Chairman	Jan'18	3.3	53.80%	0
Rakesh Khanna	MD & CEO	Jan'18	33.1	19.00%	0
Saibal Sengupta	CFO	Apr'18	18.5	0%	0

Source: Company, DART

FMEG Industry Review

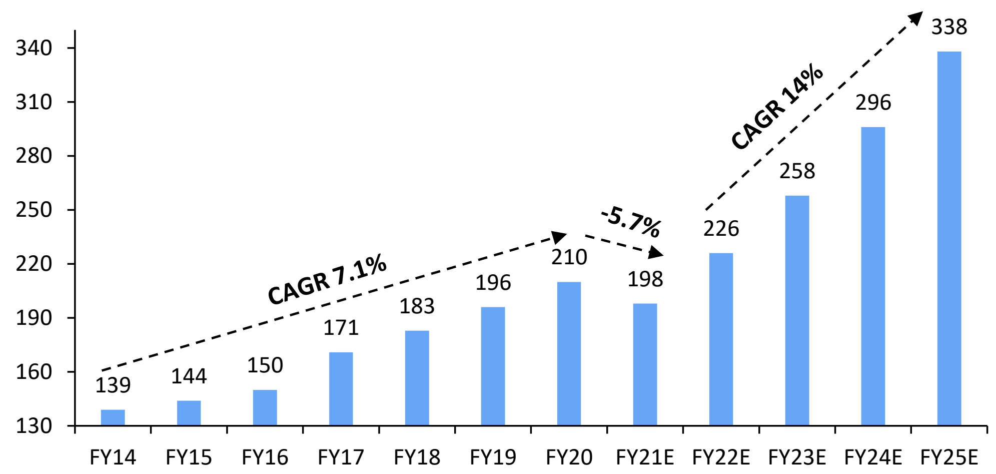
Fast-Moving Electrical Goods (FMEG) includes OEL's ECD division and B2C components of lighting and switchgear business, can also be referred to as consumer electrical goods, sold either through retail or e-commerce network. The industry has seen a rising demand with a growing middle class, rising organized player market share and addressable export market.

Industry Size

Switchgears

The switchgear industry, estimated at Rs210bn in FY20 has also experienced a slowdown due to the slowing real estate sector, especially for the LV gears. The MV/HV segment is driven by industry and power distribution. As the expected revamp of power distribution happens, demand for MV/HV switches should go up.

Exhibit 13: Size of domestic switchgear industry (Rs bn)

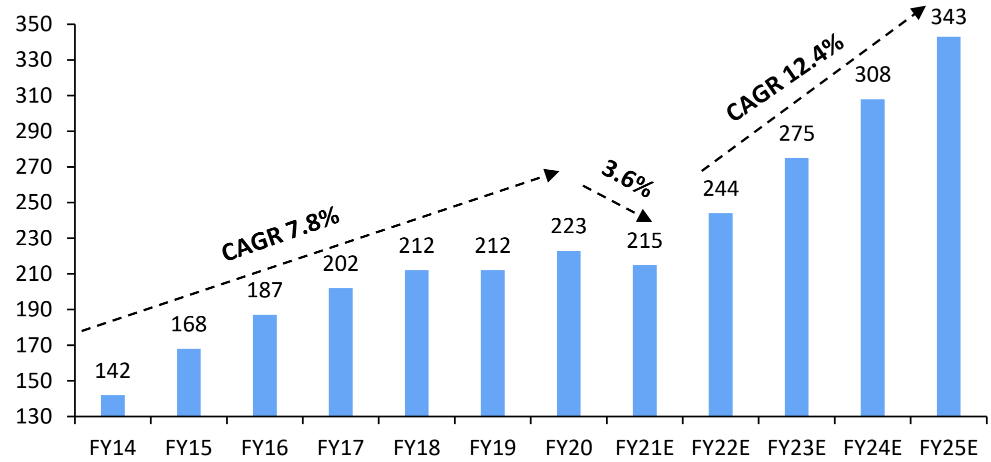


Source: CRISIL, DART

Lighting

This segment which is estimated to be Rs223bn in FY20 is mainly driven by growth of LED lighting; OEL being a pioneer in LED migration. LED has by and large replaced traditional lighting with ~70% penetration. However, this industry has also seen rapid LED price declines with prices having fallen almost 80%, though it has stabilized at lower levels.

Exhibit 14: Size of domestic lighting industry (Rs bn)

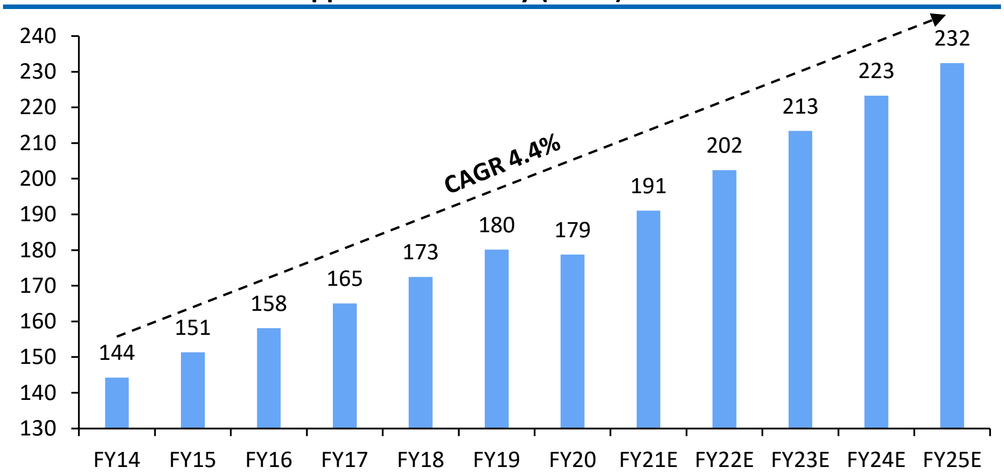


Source: CRISIL, IBEF, DART

Small Appliances

India's total Appliances and Consumer Electricals (ACE) industry is sized at ~Rs790bn of which small domestic appliances constitutes ~23%, Rs179bn in value as in FY20, according to an IBEF report. This industry is expected to show a steady CAGR of 5.4% over FY25, with the increase in home construction and demand pick up for convenience products.

Exhibit 15: Size of small appliances industry (Rs bn)

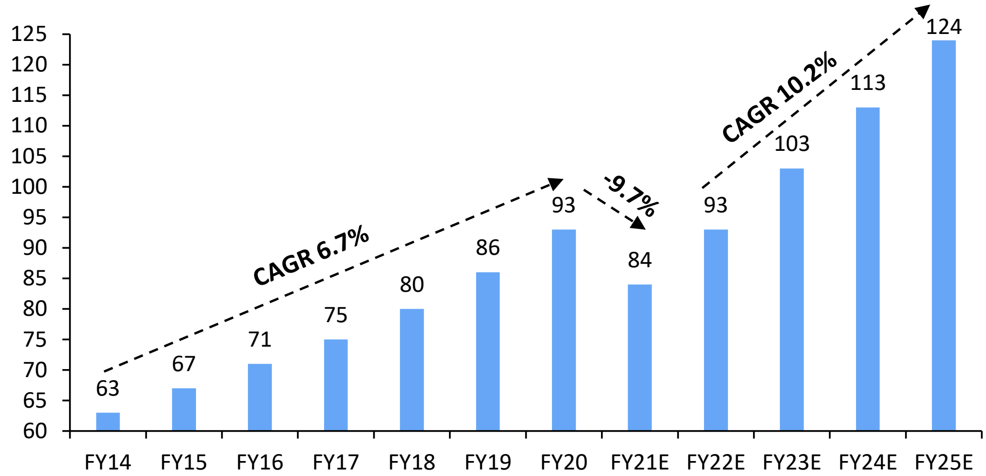


Source: IBEF, Statista, DART

Fans

Fan market is estimated to be Rs93bn in FY20 and is highly penetrated. Its growth has been driven more by replacement and preference for premium fans due to slowing real estate sector; OEL has a 50% market share in the premium fans segment.

Exhibit 16: Size of domestic fans industry (Rs bn)



Source: CRISIL, IBEF, DART

Growth Drivers for FMEG

Rural Electrification Focus

The government is well on target to electrify about 350mn households by 2025, having already achieved 80% to 90% electrification levels by 2019. This is expected to further drive demand for consumer durables. Rural market contributes to 60% to 65% of total sales, as per ministry data. Towards its stated aim of 'Housing for All', the Government's target to build over 2+ crore houses by 2022 via its affordable housing schemes, is expected to widen the headroom for the consumer durable sector.

Increased Urbanization Leading to Premiumization Focus

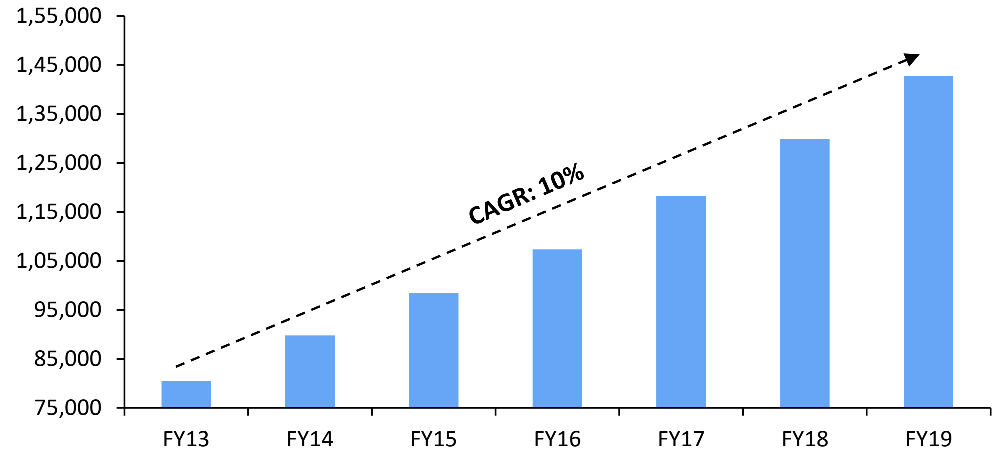
India's urban population is envisaged at 40% of its total population by 2030 from the current 34% levels, which will catalyze offtake for ECD, Lighting & Switchgear industries. Two-thirds of total demand was accounted by replacement need, bulk of replacement demand is likely to come from the highly-penetrated urban and semi-urban markets. Better warranty, after sale service and aesthetics will play a key role in capturing repeat demand.

The Indian government has focus on programs like UJALA, NEEP and SEEP. This is strengthening the consumer's preference for energy- efficient products, which is in turn driving the demand for relevant products like LED lighting and BLDC fans, among others. Besides, the government intends to develop 100,000 digital villages across five years; the Smart City mission is expected to benefit 70mn people, strengthening demand for the OEL's products.

Rising National Income and a Growing Middle Class

A rising middle class with higher disposable incomes, aided by favorable demographics, are expected to boost prospects of consumer durables industry. India's middle-class could more than double from 2015-16 to 113.8mn households or 547mn individuals by 2026, entailing growth for its consumer goods sector. Per capita incomes during 2017-18 was estimated at Rs111,782, rising 8.3% compared to 2016-17. India's per capita income grew to an estimated Rs125,397 in 2018-19, faster than the 8.6% growth achieved in 2017-18. India's per capita income is expected to grow more than two-fold by 2027.

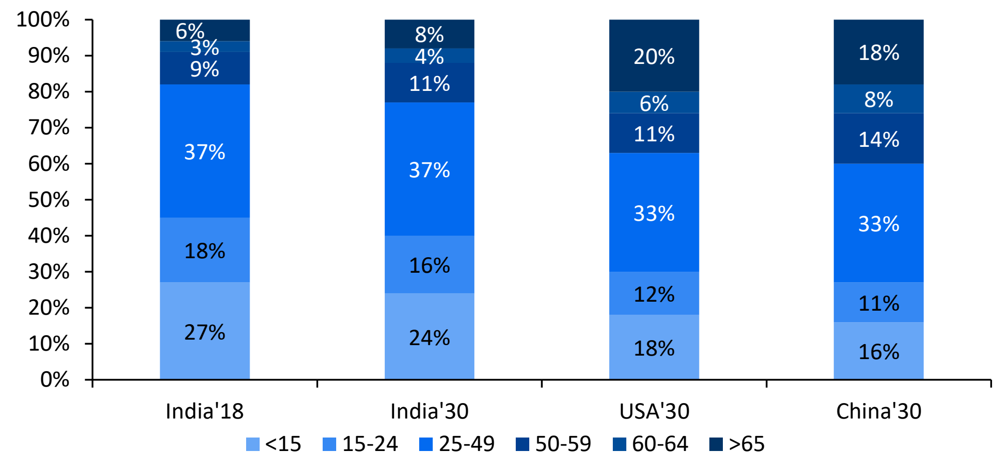
Exhibit 17: Per Capita GDP (Rs)



Source: RBI

India currently possesses the world's youngest working population with a median working age of 28 years and 64% of population being a part of the working age group, according to Bain & Company. A rise in disposable incomes with higher consumption among affluent segments and the youth are expected to propel discretionary spends from 29% in 2015 to ~45% in 2025 as a proportion to total spends.

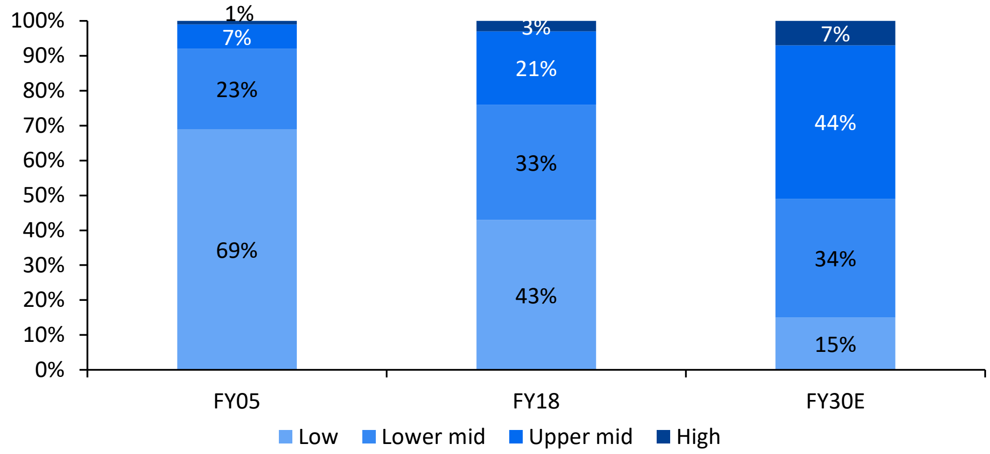
Exhibit 18: Working age population forecast 2030 across different countries (%)



Source: Bain & Company

It is estimated that additional 500 million middle and high-income earners will be added to economy by 2030 – pushing the share of upper-middle and high-income earners to 48% of the total population. Income growth would see consumption spending increase from $1.5 trillion to a massive $5.7 trillion by 2030, according to Bain & Company. The growth is largely driven by increase in the middle-class households, set to expand by 140 million, while the high-income earners are set to grow by 21 million – together a 51% increase on 2018. The middle class will see its share of total consumption increase from 30% to 47%, while around 25 million people will be rise out of poverty, with total poverty decreasing from 15% to 5% of the population.

Exhibit 19: Evolution of household income in India (%)



Source: Bain & Company

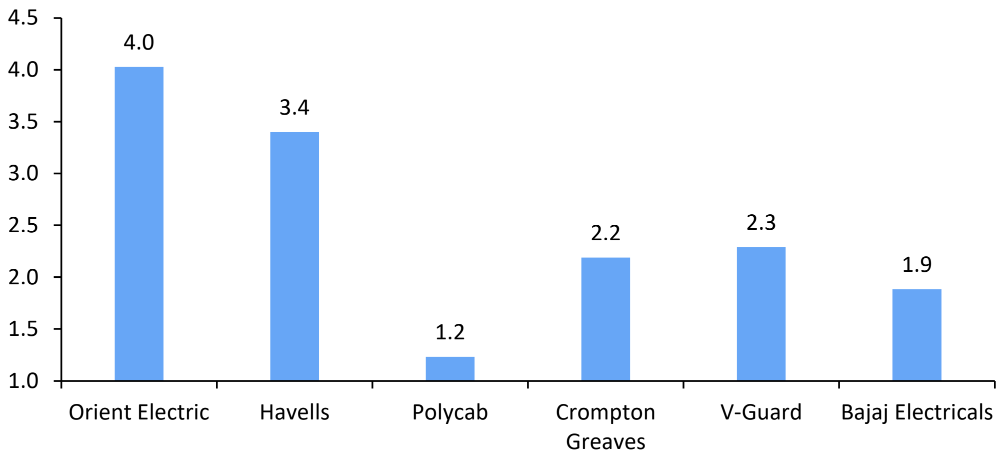
Competition and Peers

A&P spends

Orient Electric has a higher A&P spend as a % of sales on an average compared to peers, with majority of business being B2C (B2B how much). As ECD contribution to revenues goes up with expanding brand focus, A&P spends are expected to increase in the future.

OEL A&P spends have remained stable at an average ~4% of sales over FY19 and FY20 at Rs738mn and Rs830mn respectively and we expect this run rate to continue. The company incurred significant A&P spends on its i-Series campaign and the EyeLuv campaign with MS Dhoni.

Exhibit 20: A&P spends as a % of FY20 sales

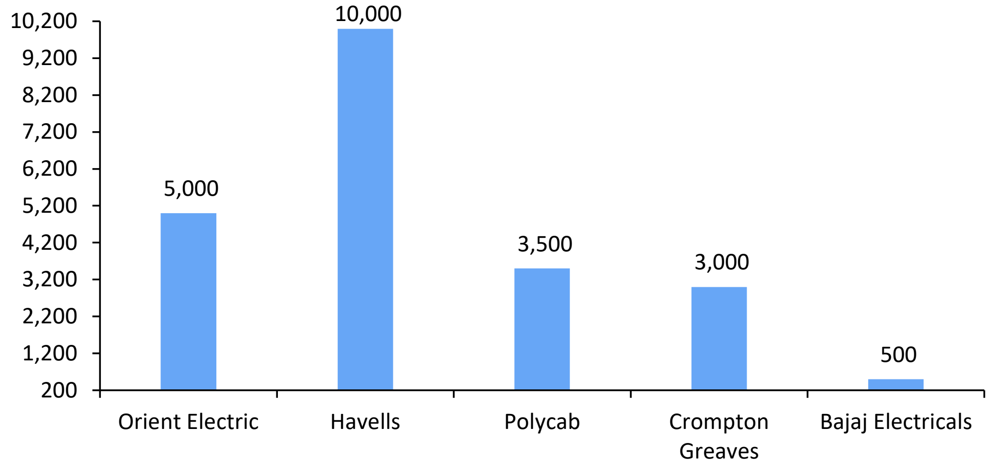


Source: Company, DART

Distribution network

OEL has a strong retailer network with about 125,000 retailers across the country, with 40,000 retailers under the lighting segment and 100,000 retailers under the fans segment. The company continues to focus on Tier 2 and 3 markets expansion; the number of dealers and retailers is expected to go up as focus on ECD B2C segment increases over time.

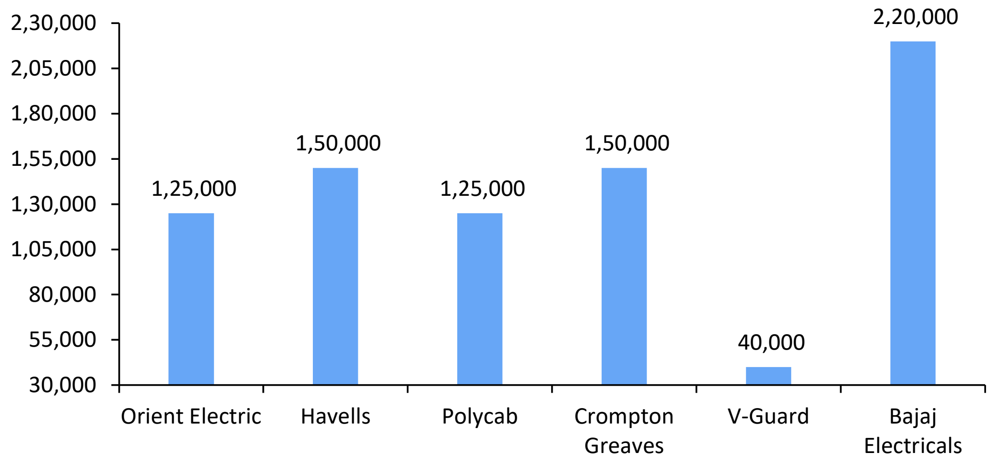
Exhibit 21: Number of Dealers/Distributors



Source: Company, DART

OEL has an immediate target of expanding the retailer network to about 150,000 across the country.

Exhibit 22: Number of Retailers

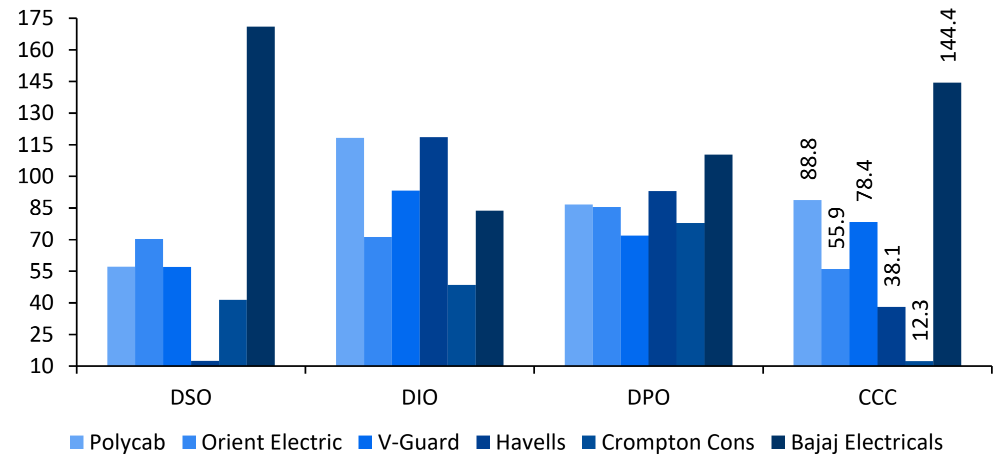


Source: Company, DART

Working capital

OEL has a comfortable WC cycle relative to its peers, company has a strong control on receivables and has managed channel inventory smoothly over the years, it has channel financing currently at ~35% and expects to drive it closer to 65% in the future. CG Consumer has a relatively strong cash conversion cycle with a higher channel. Havells has the lowest DSO (Days of sales outstanding) amongst all the peers. Bajaj Electricals' DSO is unusually high because of the pandemic induced impact on the EPC business.

Exhibit 23: Cash Conversion Cycle (no. of days)



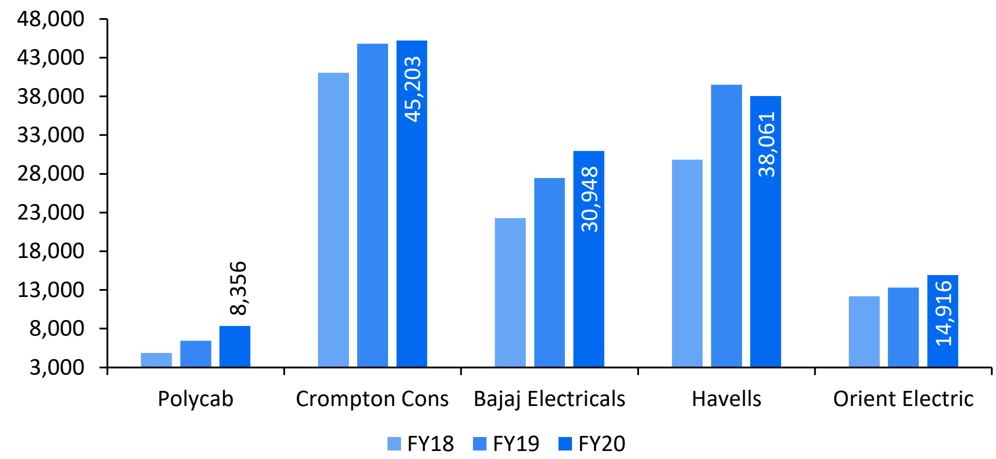
Source: Company, DART

ECD Peers

The peers chosen for comparison are Crompton Greaves Consumer Electricals Ltd, Bajaj Electricals Ltd., Polycab India Ltd., Havells India Ltd., where only the FMEG/ECD segment of each company is used for comparison.

OEL has a slower growth compared to its peers, due to a stronger base.

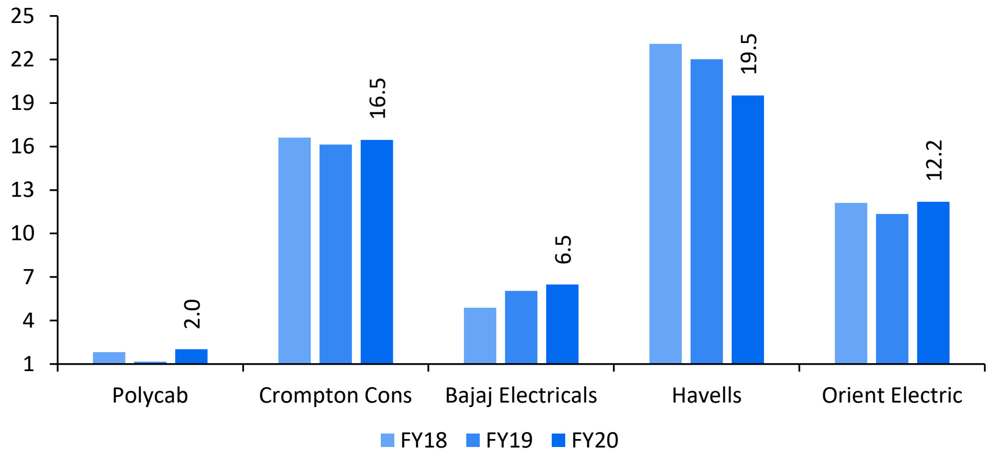
Exhibit 24: ECD Revenues (Rs mn)



Source: Company, DART

OEL's ECD business has maintained its double-digit margins ~12% levels since inception, it ranks lower than some of its peers like CG consumer due to high A&P and network expansion spends. We expect margins to improve with scale leverage kicking in on commencement of new fans facility in the South.

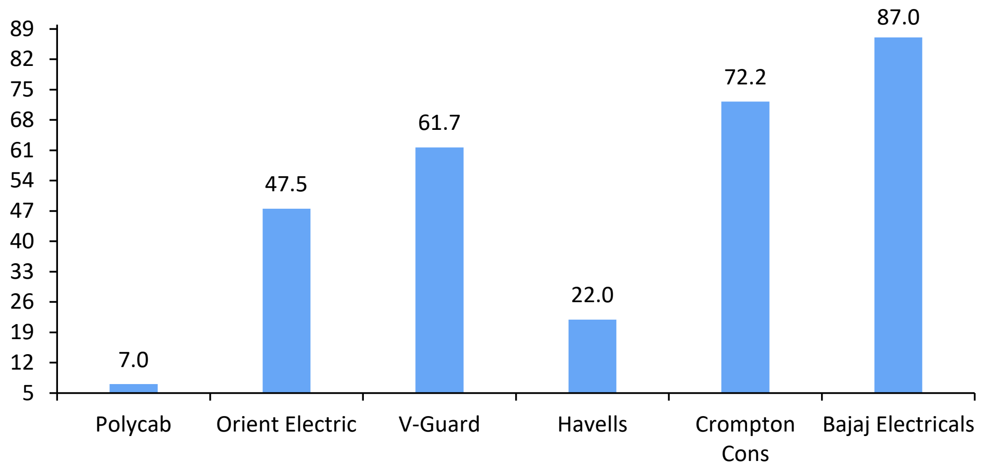
Exhibit 25: ECD EBIT Margins (%)



Source: Company, DART

OEL produces ~60% of its total output in-house, giving it fairly better control over the supply chain, general commodities make up 50% of material costs which are mainly sourced from India; company imports less than 10% material. Company has a major focus on increasing the inhouse component which will be possible with the new greenfield facility coming in.

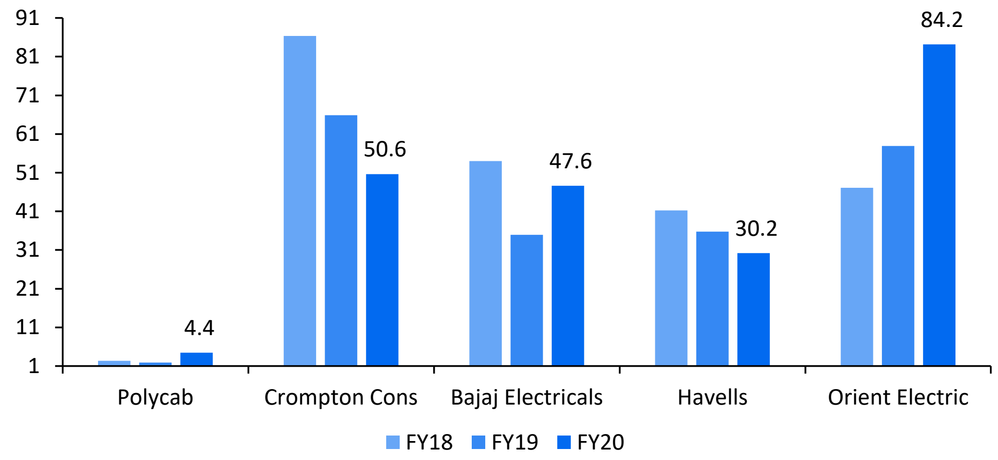
Exhibit 26: FY20 Purchase of stock in trade as a % of Cost of Goods Sold



Source: Company, DART

The ROCE for the ECD business is the best in class at about 85% levels, company has delivered superior return due to its inhouse manufacturing and steady growth in revenues and stronghold on margins.

Exhibit 27: ECD ROCE (%)



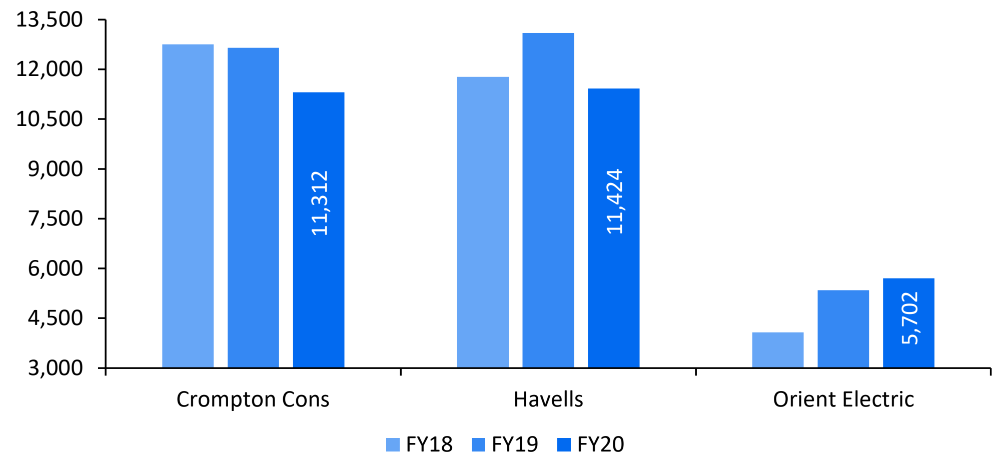
Source: Company, DART

Lighting & Switchgear Peers

The peers under lighting & switchgear that are the closest comparable are Havells and CG Consumer. OEL offers multiple lighting solutions under B2B, B2G and B2C segments with different load classes of switchgears.

OEL has a higher CAGR at ~9% due to the lower base under lighting and switchgear business.

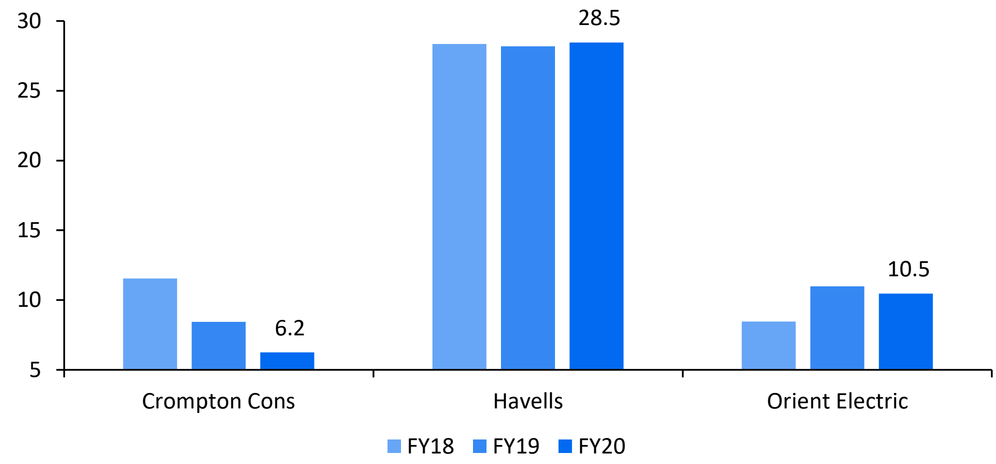
Exhibit 28: Lighting & Switchgear Revenues (Rs mn)



Source: Company, DART

OEL has managed to boost margins by ~1% consistently on YoY basis, it expects to improve margins on achieving better scale under lighting business. Its peer Havells has a larger exclusive network and better mix between outsourcing and inhouse production.

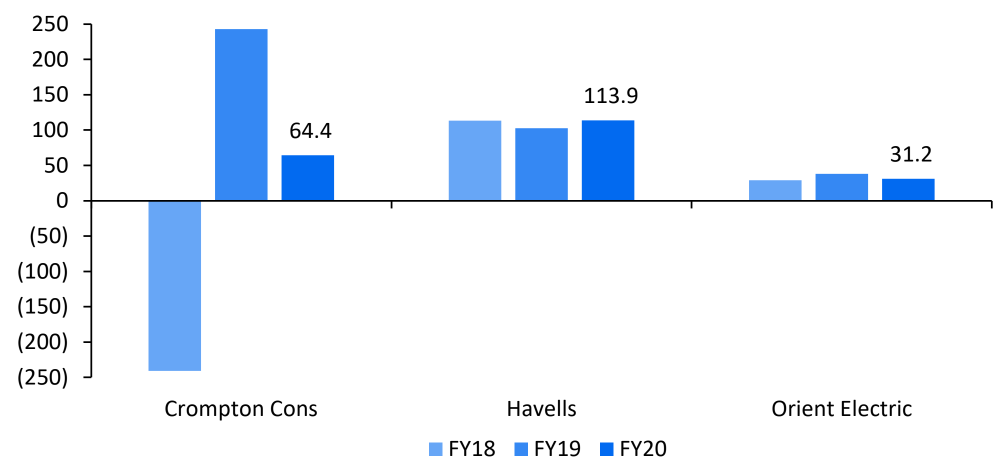
Exhibit 29: Lighting & Switchgear Margins (%)



Source: Company, DART

Lighting & Switchgear ROCEs came in stable at ~31% in FY20 which was relatively lower than its peers, CG Consumer enjoys a better margin due to its network and outsourcing ability.

Exhibit 30: Lighting & Switchgear ROCE (%)



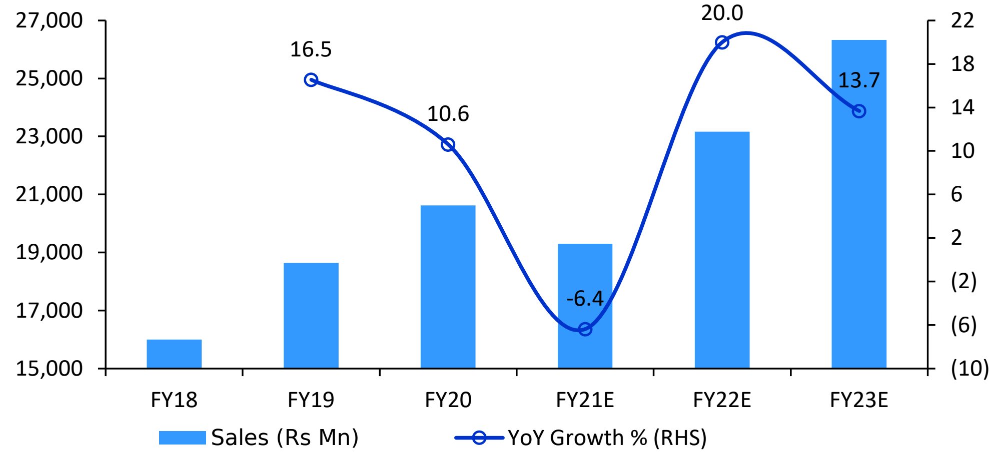
Source: Company, DART

Financial Analysis

Historical Snapshot

OEL has seen a high growth trend over the past two years since operations began, growing at a CAGR of 12.6%. Although growth was slightly muted compared to FY19 at 11.6% in FY20, mainly due to pandemic impact in Q4FY20 hampering peak summer sales. Going forward we expect the pandemic to slightly impact FY21 revenues, we expect a bounce back in FY22 to normalized growth trajectory.

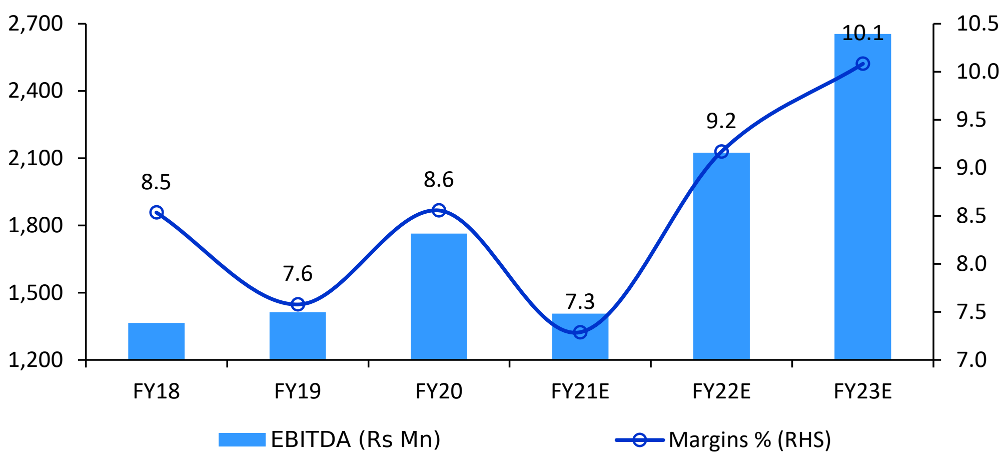
Exhibit 31: Revenues (Rs mn)



Source: Company, DART, Note: Sales Growth compared to FY17 one-month operations

OEL improved margins significantly in FY20 bringing them back to FY18 levels of 8.6%; we expect a decline in margins in FY21 due to pandemic induced impact over B2B dependent segmental topline. We expect margins to significantly improve in FY22 with the cost efficiencies achieved at an EBITDA level through the 'Sanchay' program to be retained in the future as well as a higher penetration on account of the FMEG business.

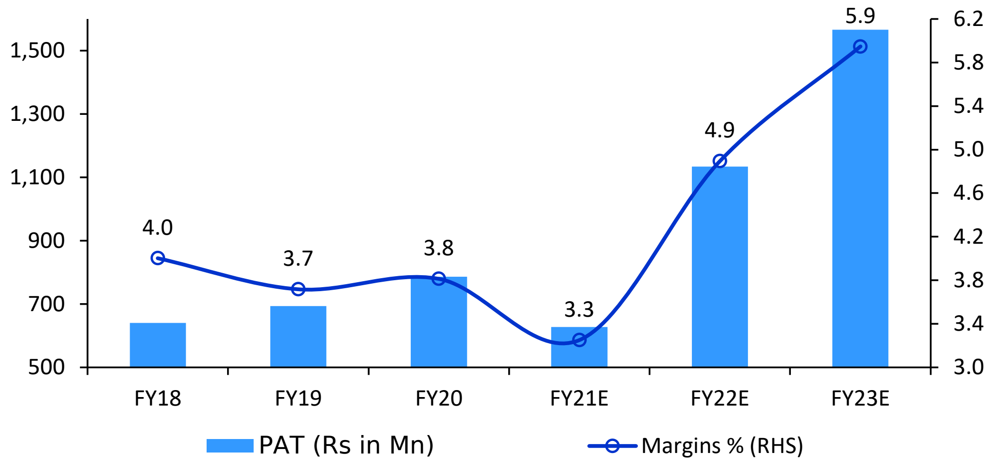
Exhibit 32: EBITDA (Rs mn) and EBITDA Margin (%)



Source: Company, DART

We expect PAT to improve over the long-term with better cost efficiencies and a stronger topline; led by B2C ECD business scaling up coupled with revival in B2B tendering.

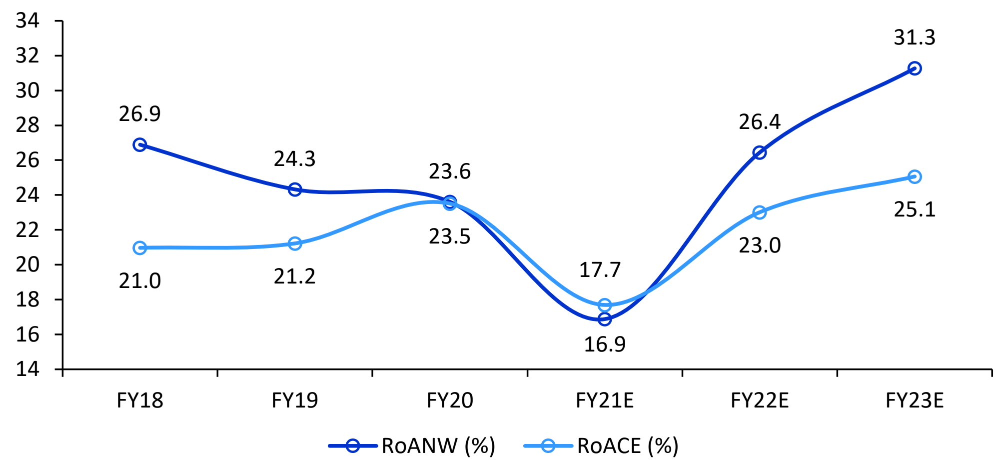
Exhibit 33: PAT (Rs mn) and PAT Margin (%)



Source: Company, DART

Company has delivered strong ROANW (Return on Average Net-worth) and ROACE (Return on Average Capital Employed) ever since commencing operations. Although we expect a significant dip in returns over FY21, FY22 and FY23 are expected to witness a massive growth due to ECG penetration scope and higher capacity utilization.

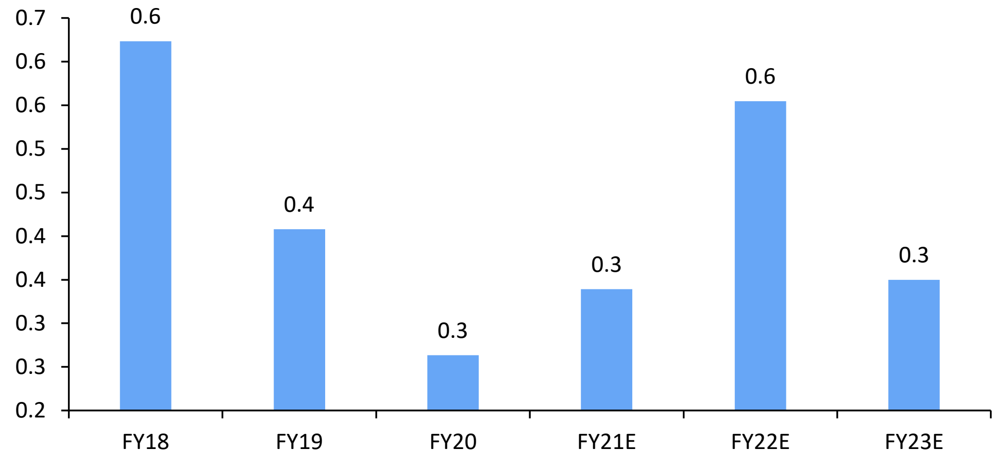
Exhibit 34: ROANW and ROACE (%)



Source: Company, DART

The company repaid the long-term debt in FY19, OEL is expected to raise term loans from banks for the South India greenfield expansion project to the tune of Rs1.2bn majorly in FY22. OEL plans to repay debt steadily through better cash position on books with improved cash collections.

Exhibit 35: Debt/Equity (x)



Source: Company, DART

OEL has delivered consistent ROEs in the early 20s. Although FY21 is expected to be a sluggish year in terms of PAT margins, FY22 and FY23 NPMs are expected to bounce back rapidly to new highs, while maintaining Asset Turns and Asset to Equity levels at ~3.7 and ~1.3.

Exhibit 36: DuPont Analysis

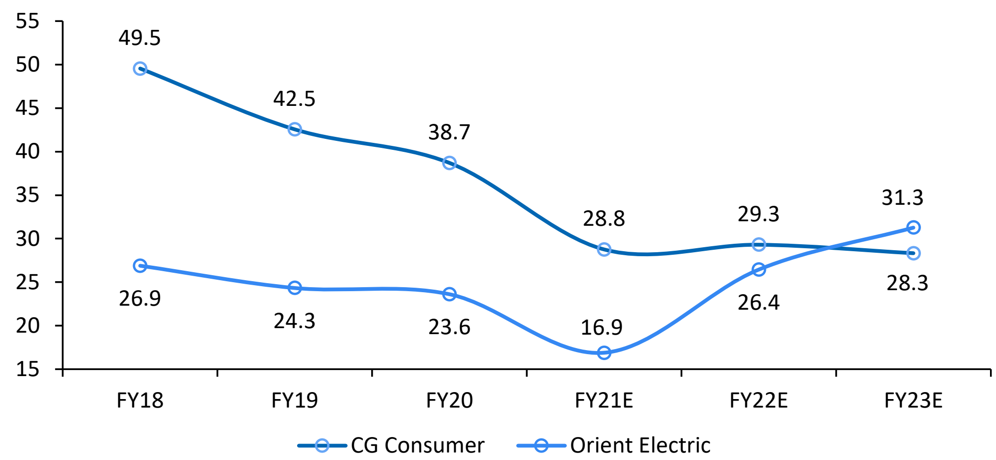
Particulars	FY18	FY19	FY20	FY21E	FY22E	FY23E
PAT/Sales (x)	4.0	3.7	3.8	3.2	4.6	5.6
Asset TO (x)	3.7	4.3	4.5	3.9	3.5	3.8
Asset to Equity (x)	1.6	1.4	1.3	1.3	1.6	1.4
ROE (%)	24.3	22.6	21.9	16.6	24.8	28.7

Source: Company, DART

How OEL compares to closest peer CG Consumer

As per comparison, the nearest peer CG Consumer is better on all terms, this is due to better control on inventory, higher channel financing, better scale and higher market share.

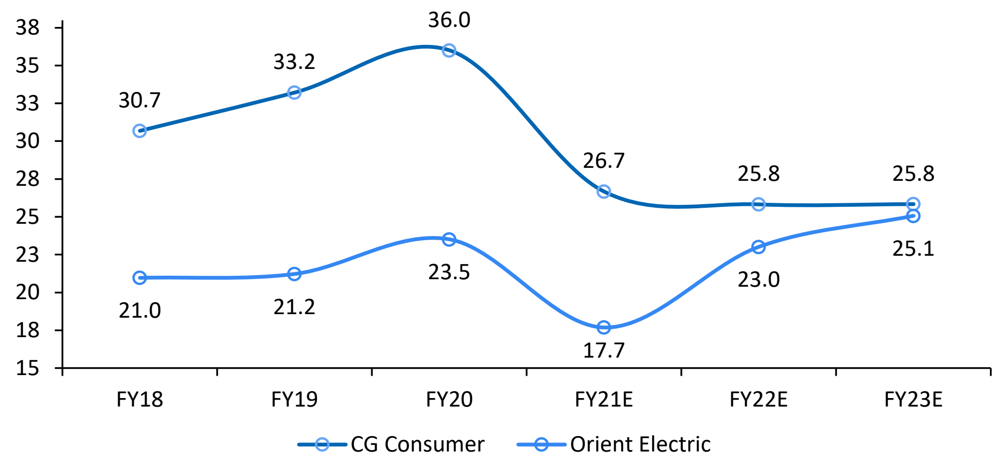
Exhibit 37: ROAE Comparison (%)



Source: Company, DART

CG Consumer has a better RoE and RoCE as compared to OEL due to better asset turns. CG's asset turns are almost ~2x of OEL. CG Consumer has a more flexible outsourcing model, through which it can control its inventories and enjoys a larger market share overall.

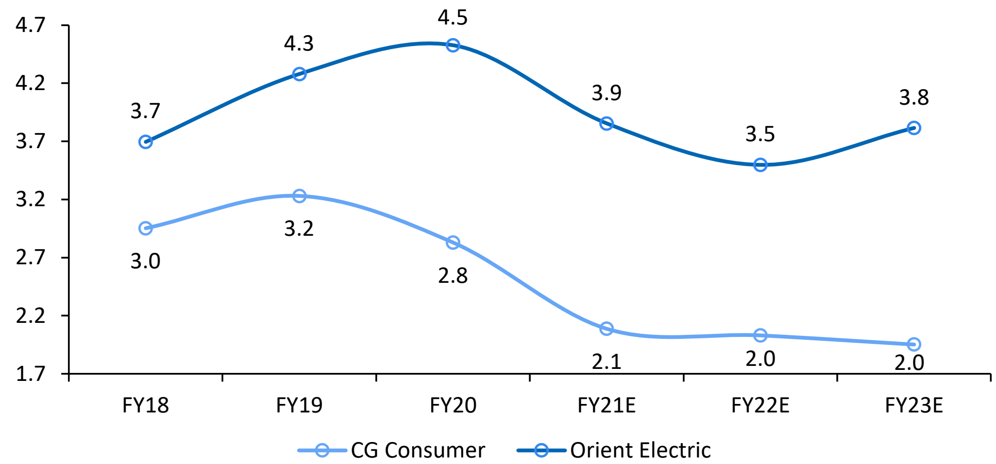
Exhibit 38: ROACE Comparison (%)



Source: Company, DART

Major South CAPEX in coming future is expected to drive asset turns lower, we expect these to stabilize over the future.

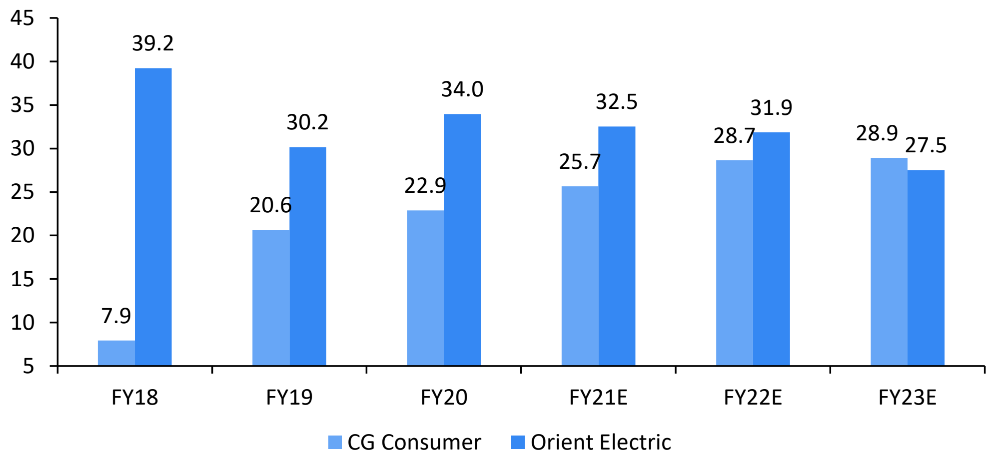
Exhibit 39: Asset T/O Comparison (%)



Source: Company, DART

Cash conversion cycle is expected to reduce gradually with better channel financing facility. Company currently has a channel financing of ~35% levels as compared to average industry levels at ~65%, it expects to drive up this share in the future thus improving WC cycle overall.

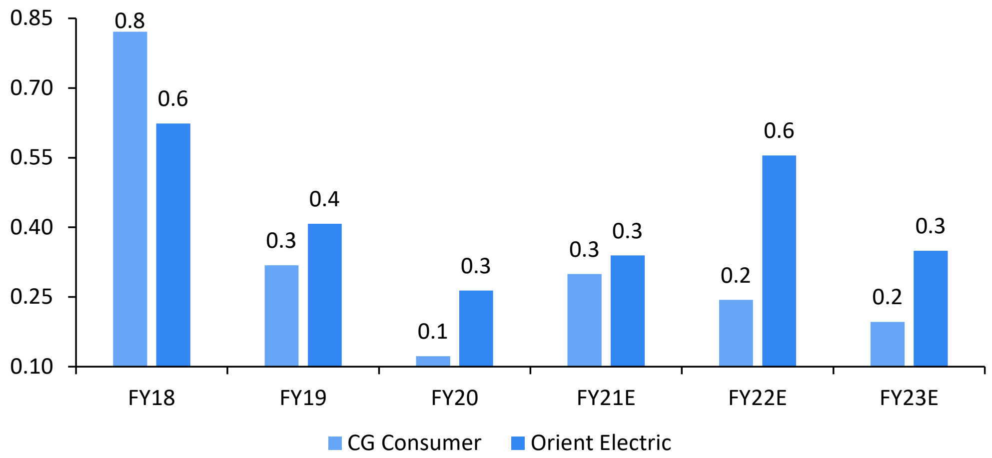
Exhibit 40: Cash Conversion Cycle (%)



Source: Company, DART

Crompton has a better Debt/Equity profile; as OEL plans to fund its capex planned at Rs1.8bn over 3 years for the new South India greenfield fans facility majorly with term loans ~80%. We expect a partial payback in FY23 with enough cash on books being used to pay debt.

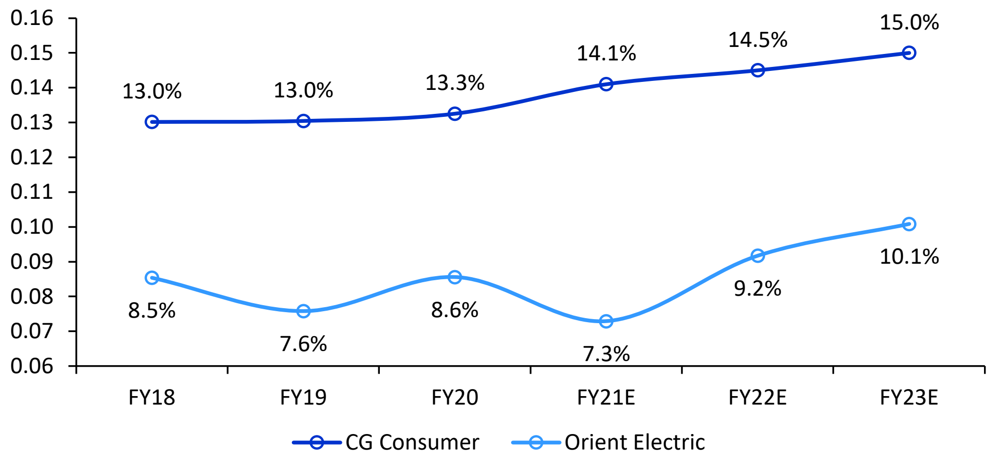
Exhibit 41: Debt/Equity Comparison (%)



Source: Company, DART

CG Consumer has better EBIDTA than OEL due to major leadership position in high margin ECD business. We expect margins to improve in FY23 with the new facility in South India coming in, increasing revenue contribution of strong margin ECD business.

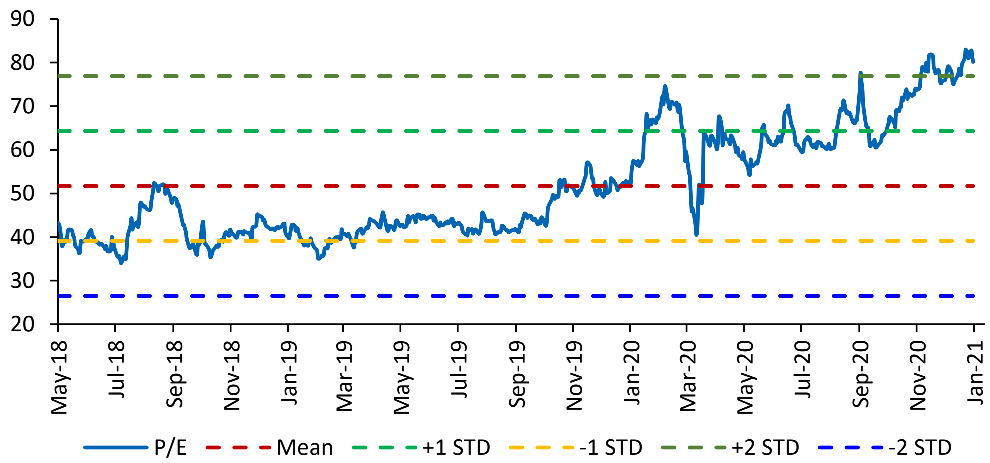
Exhibit 42: EBITDA Margin Comparison (%)



Source: Company, DART

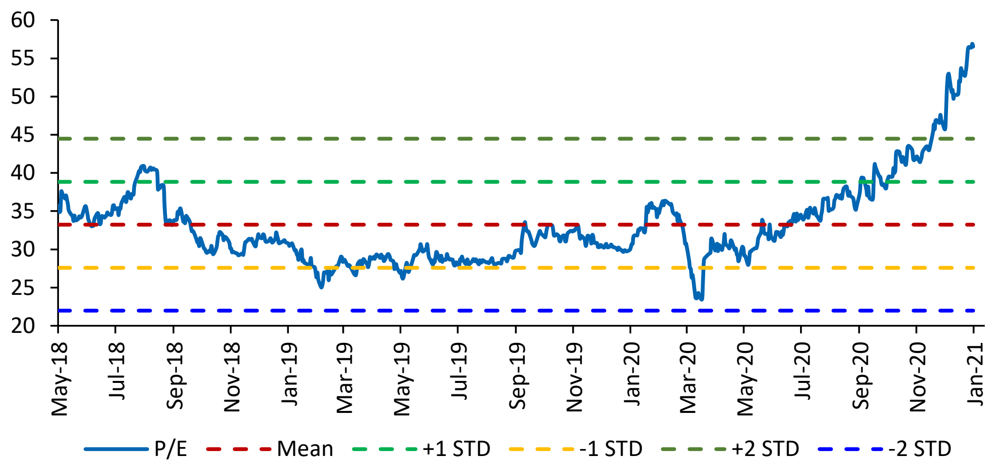
OEL P/E is expected to stabilize with better bottom line due to scale leverage, CG Consumer has stronger bottom line and better margins.

Exhibit 43: OEL 1-yr Forward P/E Band



Source: Company, DART

Exhibit 44: CG Consumer 1-yr Forward P/E Band



Source: Company, DART

How OEL is dealing with the Pandemic

Business was impacted by pandemic induced lockdowns across the country in Q4FY20 and H1FY21 with sales coming in flat YoY in Q2. Operations gradually opened up post May 2020, June Q2FY21 and Q3FY21 saw higher than 100% volumes. Consumer business saw a pent-up demand in Q2FY21 supported by higher consumption in Tier 3 & 4 cities and WFH based demand. Inventories for the ECD business were back to normal levels ~45 days with an exception of Coolers; fans business was back to normal levels in Q2FY21 and home appliances saw a steep growth of over 45% mainly boosted by higher ecommerce sales.

Lighting business saw a muted growth in Q2 due to lower tendering B2B business, on B2C front the consumer luminary's business saw a mid-teens growth followed by LED lamps. Lighting business revenues were impacted due to non-availability of sites and material constraints; OEL is actively searching local sourcing alternatives under the LED business. Lighting margins came in at 14.6% in Q2FY21, due to better product mix and implemented price increase. Switchgear segment has been going through price contraction and down trading. Lower spend on premium products, real estate projects affected this segment.

OEL continued to focus on R&D and new product launches, with the launch of UV Sanitech in mid-July utilizing opportunity for increased health and hygiene focus. Executing greenfield project in the South India for fans manufacturing remains a key priority for OEL. The company has reduced operating costs by 1/3rd through its cost reduction program 'Sanchay' and has restored liquidity with CCC days falling by 20 days to 42 days as compared to March quarter. Net debt in Q2 came in at -Rs723mn as compared to Rs872mn in March 2020. The company has a positive outlook to sustain margins and cost optimization benefits, it expects higher footfalls in festive season and a larger revenue contribution of ecommerce channel.

Risks for OEL

Commodity Price & Forex Pressure

The total cost of materials consumed forms 39% of sales on an average over last 3 years and 37.5% in FY20. LED price erosion has led to a major depletion in Lighting & Switchgears business with a lower growth of 7% in FY20 compared to 31% in FY19. Fans, switchgears and small appliances businesses use copper as a primary raw material; copper prices saw high fluctuations in FY20 which led to uncertainty in margins. As the company is the largest manufacturer and exporter of fans in India, a constant threat of major currency swings looms over the company.

Unpredictable Seasonality

OEL faced issues as it's Lighting B2B and ECD segment is seasonal to an extent, with a loss of 40 days of production in H1FY20 due to extended monsoons. Fans business is to an extent dependent on summer season sales, being a Q4 and Q1 heavy business.

Closure of Markets & Disruption of Supply Chain

The onset of covid19 outbreak has disrupted the supply chain for raw materials across the industry, although OEL has little ECD import content from China the LED price disruption affected revenues for lighting & switchgear business. The company faced issues with the shutdown across India in H1FY21 and end Q4FY20 losing 2 to 3 months of production. Retail footfalls fell due to covid19 worries impacting the ECD segment along with slowing down investments in infra affecting B2B lighting business.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**20,618**	**19,302**	**23,163**	**26,329**
Total Expense	**18,854**	**17,895**	**21,039**	**23,674**
COGS	14,094	13,415	15,751	17,641
Employees Cost	1,985	1,834	2,200	2,501
Other expenses	2,776	2,646	3,088	3,532
EBIDTA	**1,764**	**1,407**	**2,124**	**2,655**
Depreciation	401	411	523	573
EBIT	**1,363**	**996**	**1,601**	**2,081**
Interest	261	228	283	232
Other Income	41	58	93	105
Exc. / E.O. items	0	0	0	0
EBT	**1,143**	**826**	**1,410**	**1,955**
Tax	357	208	355	492
RPAT	786	618	1,055	1,463
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**786**	**618**	**1,055**	**1,463**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	212	212	212	212
Minority Interest	0	0	0	0
Reserves & Surplus	3,382	3,517	4,039	4,891
Net Worth	**3,594**	**3,729**	**4,251**	**5,103**
Total Debt	947	1,265	2,358	1,785
Net Deferred Tax Liability	14	14	14	14
Total Capital Employed	**4,555**	**5,009**	**6,623**	**6,902**
Applications of Funds				
Net Block	**1,969**	**1,957**	**2,434**	**2,260**
CWIP	35	0	0	0
Investments	0	0	0	0
Current Assets, Loans & Advances	**7,616**	**8,257**	**9,842**	**10,777**
Inventories	2,865	2,776	3,052	3,470
Receivables	3,889	3,966	4,569	4,761
Cash and Bank Balances	75	448	781	747
Loans and Advances	0	0	0	0
Other Current Assets	787	766	839	899
Less: Current Liabilities & Provisions	**5,064**	**5,205**	**5,652**	**6,135**
Payables	3,305	3,490	3,808	4,184
Other Current Liabilities	1,759	1,715	1,845	1,952
sub total				
Net Current Assets	2,552	3,051	4,189	4,642
Total Assets	**4,555**	**5,009**	**6,623**	**6,902**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	31.6	30.5	32.0	33.0
EBIDTA Margin	8.6	7.3	9.2	10.1
EBIT Margin	6.6	5.2	6.9	7.9
Tax rate	31.2	25.2	25.2	25.2
Net Profit Margin	3.8	3.2	4.6	5.6
(B) As Percentage of Net Sales (%)				
COGS	68.4	69.5	68.0	67.0
Employee	9.6	9.5	9.5	9.5
Other	13.5	13.7	13.3	13.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.6	0.3
Interest Coverage	5.2	4.4	5.7	9.0
Inventory days	51	53	48	48
Debtors days	69	75	72	66
Average Cost of Debt	23.8	20.6	15.6	11.2
Payable days	59	66	60	58
Working Capital days	45	58	66	64
FA T/O	10.5	9.9	9.5	11.6
(D) Measures of Investment				
AEPS (Rs)	3.7	2.9	5.0	6.9
CEPS (Rs)	5.6	4.9	7.4	9.6
DPS (Rs)	1.1	1.3	1.5	1.8
Dividend Payout (%)	31.0	44.6	30.2	26.1
BVPS (Rs)	16.9	17.6	20.0	24.0
RoANW (%)	23.6	16.9	26.4	31.3
RoACE (%)	23.5	17.7	23.0	25.1
RoAIC (%)	32.0	22.0	30.8	34.7
(E) Valuation Ratios				
CMP (Rs)	234	234	234	234
P/E	63.0	80.2	47.0	33.9
Mcap (Rs Mn)	49,556	49,556	49,556	49,556
MCap/ Sales	2.4	2.6	2.1	1.9
EV	50,428	50,073	50,533	49,693
EV/Sales	2.4	2.6	2.2	1.9
EV/EBITDA	28.6	35.6	23.8	18.7
P/BV	13.8	13.3	11.7	9.7
Dividend Yield (%)	0.5	0.6	0.6	0.8
(F) Growth Rate (%)				
Revenue	10.6	(6.4)	20.0	13.7
EBITDA	24.9	(20.2)	51.0	25.0
EBIT	15.3	(26.9)	60.7	30.0
PBT	8.9	(27.7)	70.7	38.6
APAT	13.4	(21.4)	70.7	38.6
EPS	13.4	(21.4)	70.7	38.6

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,813	1,281	1,207	1,932
CFI	(1,196)	(665)	(1,300)	(700)
CFF	(859)	(242)	426	(1,266)
FCFF	617	915	207	1,532
Opening Cash	316	75	448	781
Closing Cash	75	448	781	747

E – Estimates

DART

***DART* RATING MATRIX**

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797
Member: BSE Limited and National Stock Exchange of India Limited.
SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com