

CMP: Rs 275

Rating: Buy

Target Price: Rs 335

Stock Info

| | |
|--------------------------|-------------|
| BSE | 541301 |
| NSE | ORIENTELEC |
| Bloomberg | ORIENTAL IN |
| Reuters | ORIENTAL.BO |
| Sector | Electronics |
| Face Value (Rs) | 1 |
| Equity Capital (Rs cr) | 21 |
| Mkt Cap (Rs cr) | 5,805 |
| 52w H/L (Rs) | 286 / 138 |
| Avg Yearly Vol (in 000') | 398 |

Shareholding Pattern %

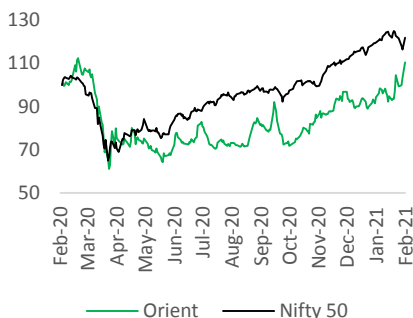
(As on December, 2020)

| | |
|-----------------|-------|
| Promoters | 38.52 |
| DII | 23.02 |
| FII | 7.53 |
| Public & Others | 30.93 |

Stock Performance (%) 3m 6m 12m

| | | | |
|--------|------|------|------|
| Orient | 28.8 | 52.5 | 13.8 |
| NIFTY | 25.5 | 32.3 | 25.6 |

Orient Electric Price Chart



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Orient Electric (OEL) has reported robust performance during Q3FY21 with a strong beat led by ECD segment. Revenue for the quarter grew by 25% YoY/43% QoQ to INR 618 cr vs our estimates of INR 572 cr. EBITDA for the quarter increased sharply by 86% YoY/46% QoQ to INR 84 cr. Despite a contraction in gross margin, EBITDA margin for the quarter expanded by 448bps YoY/30bps QoQ due to cost optimization. Other expenses for the quarter fell by 29% YoY and employee cost went down by 9% YoY. Profit for the quarter increased sharply by 2.7x YoY at INR 52 cr as against our estimate of INR 35 cr. Overall B2C business recorded steep growth during the quarter while institutional buying remained subdued owing to slower projects execution and capex spending.

Gross margin contracted due to RM pressure

Gross margin of the company was down by 310bps YoY (at 31%), because of steep increase in raw material cost and change in product mix with a higher increase in share of business in ECD vis-à-vis lighting. Though, gross margin of the company is likely to remain under pressure, company will manage the EBITDA margin level with the support of premiumisation and operating leverage.

Electric consumer durables (ECD) has recorded strong growth

Driven by price hike, pent up demand supported by the festive season, ECD segment revenue grew by 42% YoY/51% QoQ to INR 460 cr. Fans and home appliances product portfolio has registered healthy growth while coolers remained depressed. E-commerce drove the ECD segment volumes substantially during the quarter which has grown by 3x YoY. EBIT margin in ECD segment increased by 247bps YoY to 14.8%.

L&S recovering gradually

Consumer lighting business continued with its growth trajectory while tender business has reduced substantially due to non-clearance of new orders and high base. Lighting and Switchgears (L&S) revenue for the quarter de-grew by 8% YoY and grew by 22% QoQ to INR 158 cr. Lower costs, efficient sourcing and manufacturing together with a better product mix resulted to a margin expansion in L&S with EBIT margin at 14.6% vs. 13.5% YoY. With rising demand of housing and focus on Infra activities, L&S segment is expected to recover.

Valuation and Outlook: We continue to maintain our positive outlook on OEL due to its strong brand position, management pedigree, focus on premiumisation and free cash flow generation. We have increased our earnings estimates by 25%/35%/30% for FY21E/FY22E/FY23E, largely due to expectation of improvement in margin, at 10.7%/11% in FY22/FY23E. We maintain our Buy rating on the stock with a revised TP of INR 335 based on 46x FY23E P/E (our initiation level TP was INR 269).

Our IC report link : <https://bit.ly/2MQ1YFs>

| YE March (Rs Cr) | Net Sales | EBITDA | PAT | EPS (Rs) | EBITDA Margin % | RoE (%) | P/E (x) |
|------------------|-----------|--------|-----|----------|-----------------|---------|---------|
| FY19 | 1,864 | 141 | 69 | 3.3 | 7.6 | 22.6 | 84.3 |
| FY20 | 2,062 | 176 | 79 | 3.7 | 8.6 | 21.9 | 74.2 |
| FY21E | 1,884 | 191 | 105 | 4.9 | 10.2 | 26.8 | 55.6 |
| FY22E | 2,264 | 241 | 128 | 6.0 | 10.7 | 29.7 | 45.6 |
| FY23E | 2,607 | 291 | 155 | 7.3 | 11.2 | 32.2 | 37.8 |

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3FY21 Result Snapshot

| in Cr. | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ | 9MFY21 | 9MFY20 | YoY |
|-------------------------------|--------------|--------------|---------------|--------------|--------------|---------------|---------------|----------------|
| Revenue | 618.3 | 495.7 | 25% | 433.8 | 43% | 1230.9 | 1498.7 | -18% |
| Expenses | | | | | | | | |
| Cost of Raw Material Consumed | 194.5 | 208.8 | -7% | 129.0 | 51% | 273.5 | 575.4 | -52% |
| Purchase of Stock in trade | 232.2 | 163.4 | 42% | 157.0 | 48% | 369.1 | 494.4 | -25% |
| Change in inventories | -0.3 | -45.8 | NA | 3.5 | -110% | 63.9 | -51.6 | NA |
| Employee Cost | 46.5 | 51.0 | -9% | 42.3 | 10% | 131.4 | 148.9 | -12% |
| Other Expenses | 61.2 | 72.9 | -16% | 44.3 | 38% | 133.3 | 220.4 | -40% |
| EBITDA | 84.2 | 45.3 | 86% | 57.8 | 46% | 259.7 | 111.2 | 134% |
| EBITDA Margin | 13.6 | 9.1 | 448bps | 13.3 | 30bps | 21.1 | 7.4 | 1368bps |
| Finance Cost | 4.6 | 6.6 | -31% | 4.5 | 3% | 15.3 | 18.4 | -17% |
| Depreciation | 10.8 | 10.4 | 4% | 10.7 | 1% | 32.2 | 29.6 | 9% |
| Other Income | 0.7 | 1.2 | -45% | 0.7 | -8% | 2.3 | 2.6 | -13% |
| PBT | 69.4 | 29.5 | 136% | 43.3 | 60% | 77.4 | 65.9 | 18% |
| Tax | 17.5 | 10.4 | 68% | 10.9 | 61% | 35.3 | 23.0 | 53% |
| PAT | 51.9 | 19.1 | 173% | 32.4 | 60% | 57.1 | 42.8 | 33% |
| PAT margin | 8.4 | 3.8 | 456bps | 7.5 | 12% | 4.6 | 2.9 | 178bps |
| EPS | 2.4 | 0.9 | 173% | 1.5 | 60% | 2.7 | 2.0 | 33% |

Segment Wise Performance

| in Cr. | Q3FY21 | Q3FY20 | YoY | Q2FY21 | QoQ | 9MFY21 | 9MFY20 | YoY |
|---------------------------------|--------|--------|--------|--------|---------|--------|--------|--------|
| ECD | | | | | | | | |
| Revenue | 460.0 | 324.8 | 42% | 304.4 | 51% | 867.8 | 1037.1 | -16% |
| EBIT | 68.0 | 40.0 | 70% | 51.0 | 33% | 112.0 | 109.0 | 3% |
| EBIT Margin (%) | 14.8% | 12.3% | 247bps | 16.8% | -197bps | 12.9% | 10.5% | 240bps |
| Lighting and Switchgears | | | | | | | | |
| Revenue | 158.0 | 170.9 | -8% | 129.4 | 22% | 362.7 | 461.5 | -21% |
| EBIT | 23.0 | 23.0 | 0% | 19.0 | 21% | 47.0 | 48.0 | -2% |
| EBIT Margin (%) | 14.6% | 13.5% | 110bps | 14.7% | -12bps | 13.0% | 10.4% | 256bps |

Valuation and View

1 year Fwd PE Chart



Valuation

We believe, OEL will continue to gain market share backed by its strong team, brand recognition and wide distribution network. In the near term, B2C business is expected to recover strongly while B2B will take some time to grow.

With rising demand condition and company's focus on premiumisation and cost optimization, margins and return ratios are expected to improve.

We expect revenue and PAT CAGR of 8% and 25% over FY20-23E.

Key Risk: Volatile raw material prices; higher competition

Financial Performance

Exhibit 1: Quarterly Revenue trend; Strong rebound in sales

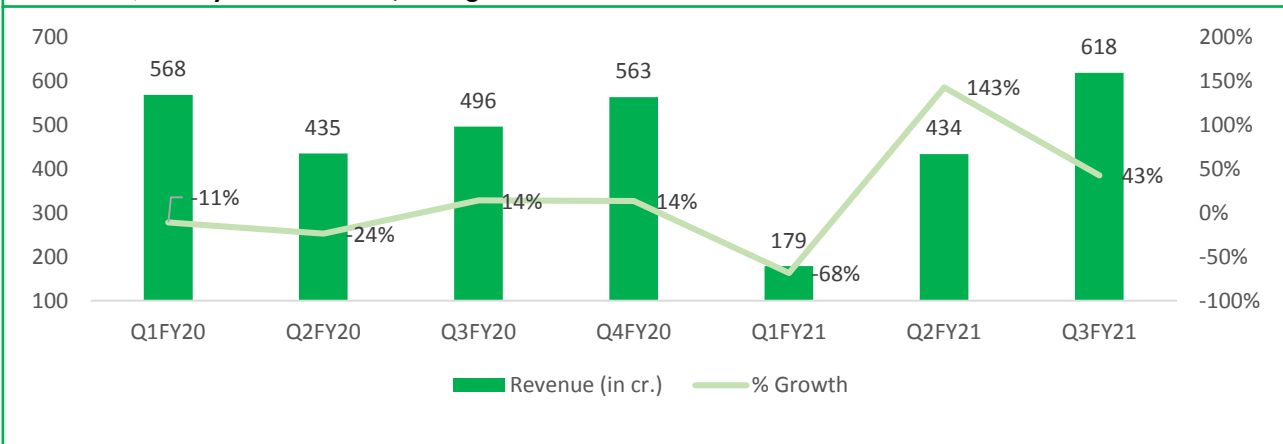


Exhibit 2: EBITDA margin at its peak

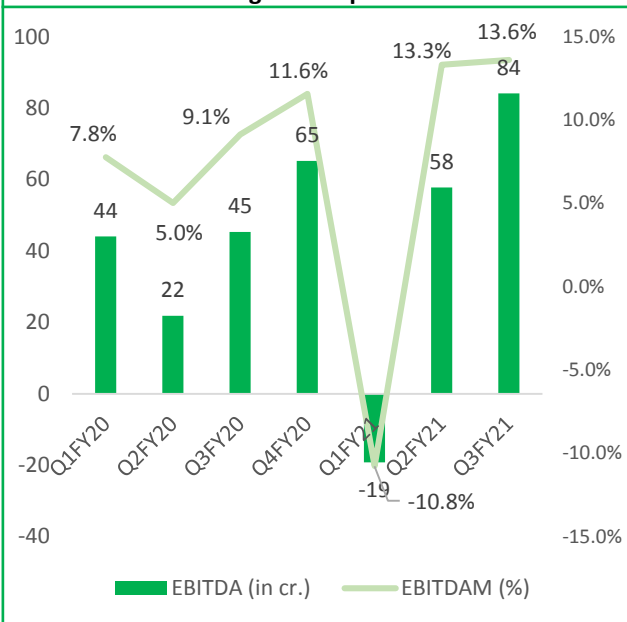


Exhibit 3: PAT and PAT margin trend

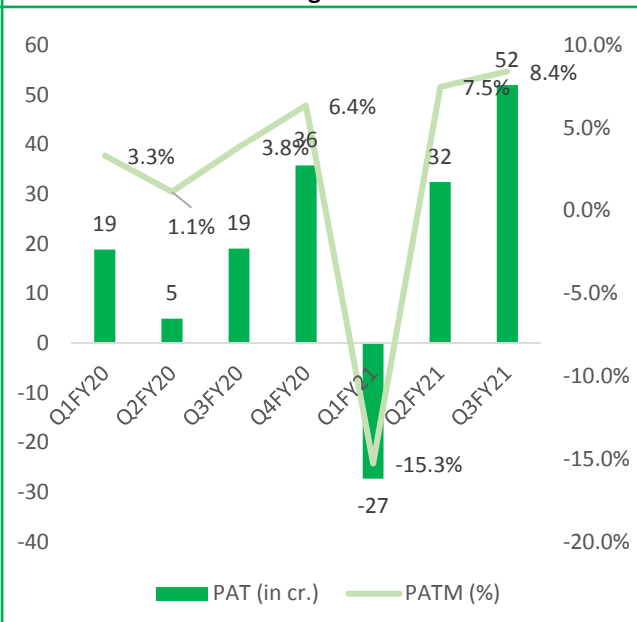


Exhibit 4: ECD segment revenue and EBIT margin trend

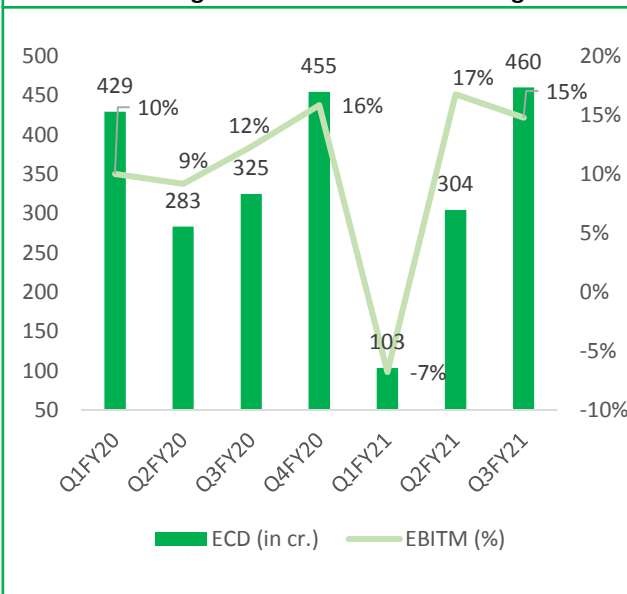
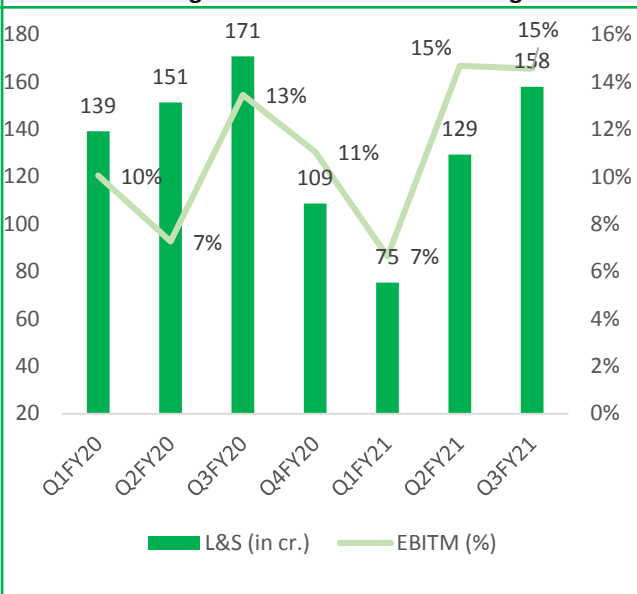


Exhibit 5: L&S segment revenue and EBIT margin trend



Source: Company, Arianth Research

Annual Financials

Income Statement

| Y/E March (Rs cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 1,864 | 2,062 | 1,884 | 2,264 | 2,607 |
| Change (%) | 14.7% | 10.6% | -8.6% | 20.1% | 15.2% |
| Cost of Goods Sold | 1,271 | 1,409 | 1,286 | 1,540 | 1,771 |
| Employee costs | 174 | 198 | 181 | 216 | 248 |
| Other expenses | 278 | 278 | 225 | 266 | 296 |
| Total operating Expense | 1,723 | 1,885 | 1,693 | 2,022 | 2,316 |
| EBITDA | 141 | 176 | 191 | 241 | 291 |
| Other Income | 10 | 4 | 4 | 4 | 5 |
| Depreciation | 23 | 40 | 43 | 55 | 67 |
| Interest | 23 | 26 | 12 | 20 | 23 |
| PBT | 105 | 114 | 140 | 171 | 207 |
| Extra-ordinary | 0 | 0 | 0 | 0 | 0 |
| PBT after ext-ord. | 105 | 114 | 140 | 171 | 207 |
| Tax | 36 | 36 | 35 | 43 | 52 |
| Rate (%) | 34.0% | 31.2% | 25.2% | 25.2% | 25.2% |
| PAT | 69 | 79 | 105 | 128 | 155 |
| Change (%) | 8.1% | 13.5% | 33.6% | 22.0% | 20.7% |

Source: Company, Aриhant Research

Balance Sheet

| Y/E March (Rs cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|------------|------------|------------|--------------|--------------|
| Sources of Funds | | | | | |
| Share Capital | 21 | 21 | 21 | 21 | 21 |
| Reserves & Surplus | 285 | 338 | 371 | 411 | 458 |
| Net Worth | 307 | 359 | 392 | 432 | 480 |
| Total Debt | 125 | 95 | 38 | 91 | 104 |
| Other non-current liabilities | 0 | 67 | 137 | 224 | 330 |
| Deferred Tax & other liabilities | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | 457 | 439 | 412 | 474 | 531 |
| Total Liabilities | 889 | 960 | 978 | 1,220 | 1,445 |
| Application of Funds | | | | | |
| Net Block | 112 | 130 | 180 | 230 | 280 |
| Capital Work in Progress | 4 | 3 | 3 | 3 | 3 |
| Goodwill | 5 | 13 | 13 | 13 | 13 |
| Other non-current assets | 32 | 89 | 92 | 95 | 99 |
| Debtors | 405 | 389 | 310 | 366 | 421 |
| Inventories | 264 | 287 | 194 | 253 | 291 |
| Cash & bank balance | 32 | 7 | 144 | 217 | 295 |
| Other Current Assets | 36 | 43 | 43 | 43 | 43 |
| Total Assets | 889 | 960 | 978 | 1,220 | 1,445 |

Source: Company, Aриhant Research

Annual Financials

Cash Flow Statement

| Y/E March (Rs cr) | FY19 | FY20 | FY21E | FY22E | FY23E |
|--|--------------|--------------|--------------|-------------|-------------|
| PBT | 105 | 114 | 140 | 171 | 207 |
| Depreciation | 23 | 40 | 43 | 55 | 67 |
| Interest & others | 64 | 65 | 12 | 20 | 23 |
| Cash flow before WC changes | 192 | 220 | 195 | 246 | 296 |
| (Inc)/dec in working capital | (30) | (43) | 142 | (56) | (40) |
| Operating CF after WC changes | 162 | 177 | 337 | 189 | 256 |
| Less: Taxes | (30) | (48) | (35) | (43) | (52) |
| Operating cash flow | 132 | 129 | 301 | 146 | 204 |
| (Inc)/dec in F.A + CWIP | (35) | (53) | (50) | (50) | (50) |
| Cash flow from investing | (31) | (51) | (52) | (55) | (59) |
| Free cash flow (FCF) | 98 | 76 | 248 | 89 | 144 |
| Equity raised | (21) | (31) | 0 | 0 | 0 |
| Interest & others | (53) | (31) | (69) | 33 | (9) |
| Dividend | 0 | 0 | 0 | 0 | 0 |
| Cash flow from financing activities | (100) | (103) | (113) | (18) | (68) |
| Net inc / (dec) in cash | 1 | (25) | 137 | 73 | 78 |
| Opening balance of cash | 30 | 31 | 7 | 144 | 217 |
| Closing balance of cash | 31 | 7 | 144 | 217 | 295 |

Source: Company, Arianth Research

Key Ratios

| Y/E March | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|-------|-------|-------|-------|-------|
| Per share (Rs) | | | | | |
| EPS | 3.3 | 3.7 | 4.9 | 6.0 | 7.3 |
| CEPS | 4.3 | 5.6 | 7.0 | 8.6 | 10.4 |
| BVPS | 144.5 | 169.4 | 184.7 | 203.5 | 226.1 |

Valuation (x)

| | | | | | |
|-----------|------|------|------|------|------|
| P/E | 84.3 | 74.2 | 55.6 | 45.6 | 37.8 |
| P/CEPS | 63.2 | 49.1 | 39.5 | 31.9 | 26.4 |
| P/BV | 1.9 | 1.6 | 1.5 | 1.4 | 1.2 |
| EV/EBITDA | 42.0 | 33.6 | 29.9 | 23.7 | 19.4 |

Return Ratios (%)

| | | | | | |
|---------------|-------|-------|-------|-------|-------|
| Gross Margin | 31.8% | 31.6% | 31.7% | 31.9% | 32.0% |
| EBIDTA Margin | 7.6% | 8.6% | 10.2% | 10.7% | 11.2% |
| PAT Margin | 3.7% | 3.8% | 5.6% | 5.7% | 5.9% |
| ROE | 22.6% | 21.9% | 26.8% | 29.7% | 32.2% |
| ROCE | 27.4% | 30.0% | 34.6% | 35.7% | 38.4% |

Leverage Ratio (%)

| | | | | | |
|-----------|-----|-----|-----|-----|-----|
| Total D/E | 0.4 | 0.3 | 0.1 | 0.2 | 0.2 |
|-----------|-----|-----|-----|-----|-----|

Turnover Ratios

| | | | | | |
|--------------------|-----|-----|-----|-----|-----|
| Asset Turnover (x) | 2.2 | 2.2 | 1.9 | 2.1 | 2.0 |
| Inventory Days | 76 | 74 | 55 | 60 | 60 |
| Receivable Days | 79 | 69 | 60 | 59 | 59 |
| Payable days | 69 | 59 | 58 | 58 | 57 |

Source: Company, Arianth Research

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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% |

Absolute Return**Research Analyst
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