

Orient Electric

23 October 2019

Reuters: ONTE.BO; Bloomberg: ORIENTEL IN

Healthy revenue growth and gross margin expansion

Orient Electric posted healthy revenue growth of 16.5% YoY at Rs4.4bn in 2QFY20, in line with our estimate. Electrical Consumer Durables (ECD) segment's revenue rose 16% YoY to Rs2.8bn (65% of total sales), led by high growth in air cooler, water heater and kitchen appliances while fans also reported double digit growth. Lighting and Switchgears (L&S) segment's sales grew 17% YoY to Rs1.5bn (35% of total sales), aided by healthy growth in consumer luminaries and street lighting. Gross margin was up 220bps YoY and 140bps QoQ at 34.2% led by favourable product mix due to premiumization. EBITDA jumped 28% YoY to Rs219mn, leading to an operating margin of 5%, up 40bps YoY. EBITDA margin was below our estimate of 5.4% owing to Rs46mn one-time provision for doubtful debts. Excluding the provision impact, the EBITDA margin would have been 6.1%. EBIT margin of the ECD segment declined 90bps YoY to 9.3% owing to minor impact from the disposal of slow moving stocks of appliances and consumer promotional schemes. EBIT margin of the L&S segment grew 70bps YoY to 7.2% despite price erosion in LED lamps. Adjusted tax rate at 34% (vs. our assumption of 26%) as the company is still evaluating shift to new income taxes regime led to 29% YoY decline in PAT to Rs49mn (adjusted for one-time provision, PAT was up 18% YoY). We maintain Buy rating on the stock with a revised target price of Rs209 (Rs197 earlier) based on 35x September 2021 EPS.

ECD segment outlook: ECD segment sales grew 16% YoY to Rs2.8bn (65% of total sales) in 2QFY20. Sales were aided by higher growth in air cooler, water heater and kitchen appliances (led by new product launches and distribution expansion). Fans grew in double digits where Orient emerged as the fastest growing brand for fans as per the third party data. In 1HFY20, sales grew by a robust 25% YoY to Rs7.1bn (71% of total sales). EBIT for ECD segment grew 6% YoY to Rs264mn in 2QFY20 with an EBIT margin of 9.3% (down 90bps YoY). Accelerated disposal of slow moving stocks of appliances and consumer promotional schemes affected margins in 2QFY20. In 1HFY20, EBIT was up 25% YoY at Rs699mn, leading to EBIT margin of 9.8%, flat YoY.

L&S segment outlook: L&S segment grew 17% YoY to Rs1.5bn (35% of total sales) in 2QFY20. Sales were driven by healthy growth in consumer luminaries and street lighting. LED lamps continued to face price erosion owing to high competitive intensity. To premiumize its offerings, Orient has launched new flicker control LED lights in the current quarter. Switchgear sales grew by steep double digit owing to a low base, enhanced product portfolio and distribution footprint expansion. In 1HFY20, sales grew by a robust 23% YoY to Rs2.9bn. EBIT grew 30% YoY to Rs109mn in 2QFY20, leading to EBIT margin of 7.2%, up 70bps YoY. In 1HFY20, EBIT rose by 26% YoY to Rs248mn, translating into EBIT margin of 8.5%, up 20bps YoY.

Working capital position: Ex-cash net working capital cycle improved to 11.7% of sales as on 1HFY20 versus 14.8% of sales as on 1HFY19 (annualised). The improvement was led by lower debtor days (at 54 versus 63 YoY) and higher creditor days (at 75 versus 69 YoY).

Outlook and valuation: Orient Electric is a strong financial franchise with FY19-FY22E revenue/earnings CAGR of 15%/26%, respectively. It operates at healthy return ratios (RoCE/RoE of 29%/24% in FY19), fixed asset turn (7.8x) and cash flows. We retain Buy rating with a target price of Rs209 based on P/E of 35x September 2021 EPS. At our assigned P/E, Orient Electric is valued at PEG ratio of 1.3x.

BUY

Sector: Consumer Electricals

CMP: Rs180

Target Price: Rs209

Upside: 16%

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Key Data

Current Shares O/S (mn)	212.2
Mkt Cap (Rsbn/US\$m)	38.4/541.1
52 Wk H / L (Rs)	183/115
Daily Vol. (3M NSE Avg.)	251,086

Price Performance (%)

	1 M	6 M	1 Yr
Orient Electric	13.1	15.6	48.4
Nifty Index	2.8	(1.4)	12.5

Source: Bloomberg

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	3,731	5,683	4,347	16.5	(23.5)	8,063	10,030	24.4
Raw material costs	2,537	3,817	2,859	12.7	(25.1)	5,397	6,676	23.7
Staff costs	409	487	492	20.1	1.0	826	978	18.5
Other expenses	614	938	778	26.7	(17.1)	1,404	1,716	22.3
Total expenditure	3,560	5,242	4,128	16.0	(21.3)	7,626	9,370	22.9
EBITDA	171	441	219	27.8	(50.5)	436	660	51.2
EBITDA margin (%)	4.6	7.8	5.0	-	-	5.4	6.6	-
Depreciation	55	92	99	78.5	7.1	106	191	80.1
Interest costs	53	68	51	(3.7)	(25.5)	105	119	12.5
Other income	28	5	9	(68.6)	67.3	47	14	(70.4)
PBT	91	286	78	(14.3)	(72.8)	272	364	33.9
Tax	22	97	29	30.3	(70.7)	82	126	52.7
PAT	69	189	49	(28.5)	(73.9)	189	238	25.7
PAT margin (%)	1.8	3.3	1.1	-	-	2.3	2.4	-
EPS (Rs)	0.3	0.9	0.2	(28.5)	(73.9)	0.9	1.1	25.7

Source: Company, Nirmal Bang Institutional Equities Research

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net revenues	15,998	18,644	22,027	25,215	28,546
EBITDA	1,365	1,413	1,817	2,202	2,607
Net profit	640	693	937	1,148	1,388
EPS (Rs)	3.0	3.3	4.4	5.4	6.5
EPS growth (%)	NA	8.2	35.2	22.5	20.9
EBITDA margin (%)	8.5	7.6	8.2	8.7	9.1
P/E (x)	59.6	55.1	40.8	33.3	27.5
P/BV (x)	14.5	12.5	10.3	8.4	6.9
EV/EBITDA (x)	29.0	27.7	22.0	18.4	15.4
Dividend yield (%)	0.3	0.6	0.6	0.7	0.8
RoCE (%)	30.2	29.0	30.6	29.8	30.2
RoE (%)	26.9	24.3	27.6	27.8	27.5

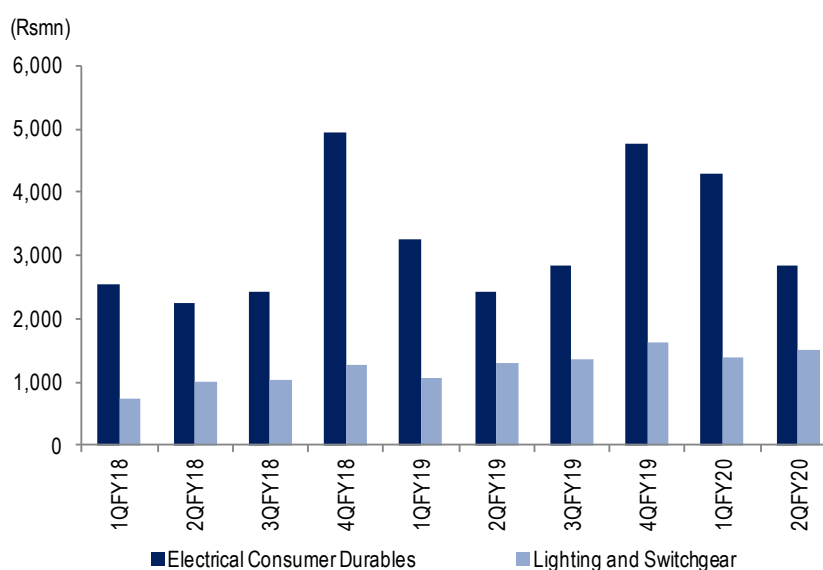
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues								
Electric consumer durables	2,435	4,291	2,832	16.3	(34.0)	5,692	7,123	25.2
Lighting & Switchgear	1,296	1,392	1,514	16.9	8.8	2,371	2,907	22.6
Revenue mix (%)								
Electric consumer durables	65.3	75.5	65.2	-	-	70.6	71.0	-
Lighting & Switchgear	34.7	24.5	34.8	-	-	29.4	29.0	-
EBIT (Rsmn)								
Electric consumer durables	248	435	264	6.4	(39.2)	561	699	24.7
Lighting & Switchgear	84	139	109	30.3	(21.4)	198	248	25.5
EBIT margin (%)								
Electric consumer durables	10.2	10.1	9.3	-	-	9.8	9.8	-
Lighting & Switchgear	6.5	10.0	7.2	-	-	8.3	8.5	-

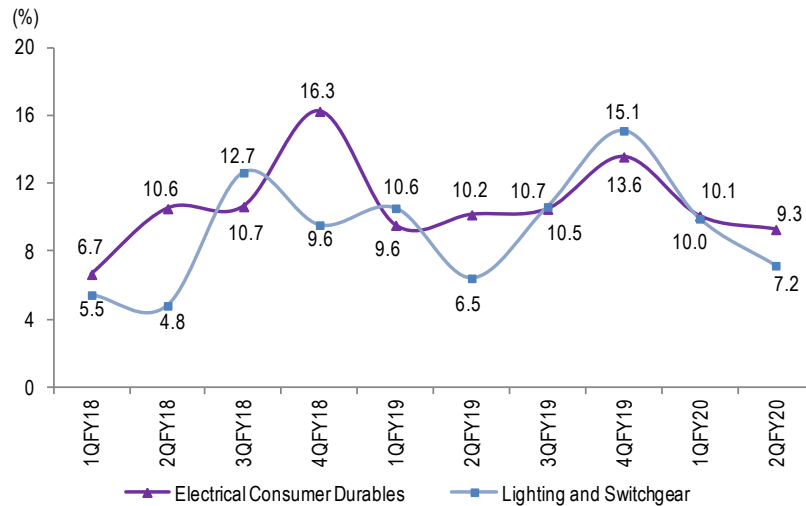
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Segment-wise Revenue trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Segment-wise EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

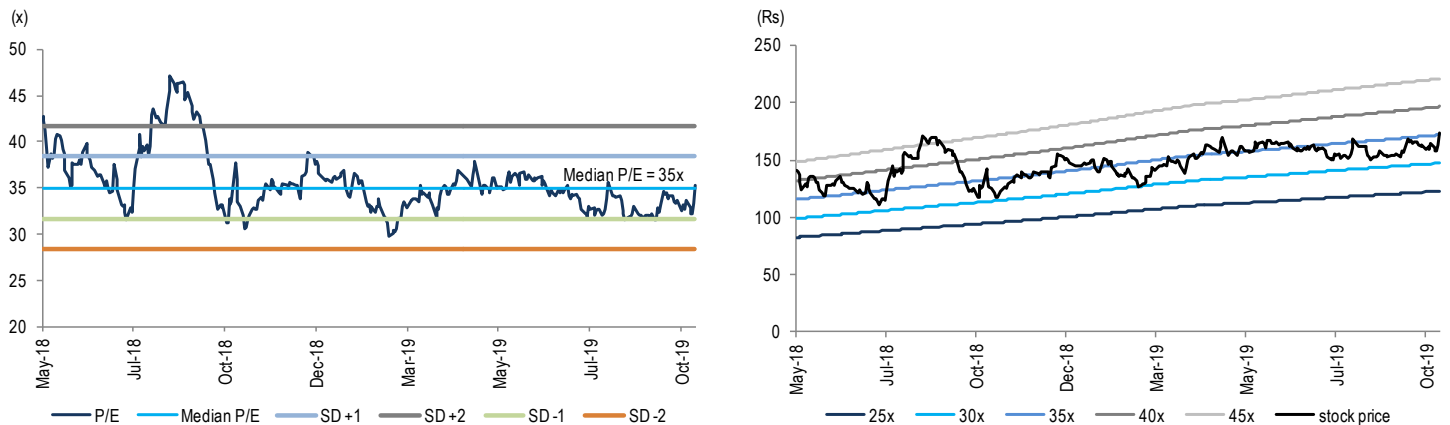
Exhibit 5: Actual performance versus our estimates

2QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	4,347	4,405	(1.3)
EBITDA	219	239	(8.6)
PAT	49	77	(36.1)

Note: One-time provision for doubtful debts worth Rs46mn led to lower than expected EBITDA while adjusted tax rate at 34% led to lower than expected PAT.

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: One-year forward P/E charts



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	15,998	18,644	22,027	25,215	28,546
% growth	NA	16.5	18.1	14.5	13.2
Raw material costs	10,434	12,232	14,384	16,415	18,526
Staff costs	1,428	1,727	2,027	2,295	2,569
Other overheads	2,770	3,273	3,800	4,304	4,843
Total expenditure	14,632	17,231	20,211	23,013	25,939
EBITDA	1,365	1,413	1,817	2,202	2,607
% growth	NA	3.5	28.6	21.2	18.4
EBITDA margin (%)	8.5	7.6	8.2	8.7	9.1
Other income	55	95	57	63	69
Interest costs	245	229	252	323	341
Depreciation	198	231	356	391	459
Profit before tax	978	1,049	1,266	1,551	1,876
Tax	338	356	329	403	488
PAT	640	693	937	1,148	1,388
PAT margin (%)	4.0	3.7	4.3	4.6	4.9
EPS (Rs)	3.0	3.3	4.4	5.4	6.5
% growth	NA	8.2	35.2	22.5	20.9

Note: YoY growth figures in FY18 are not applicable as FY17 comprises of only 1 month

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	1,168	1,182	1,461	1,811	2,148
(Inc.)/dec. in working capital	(255)	26	(627)	(570)	(584)
Cash flow from operations	913	1,208	834	1,241	1,564
Other income	55	95	57	63	69
Depreciation	198	231	356	391	459
Tax paid (-)	(234)	(308)	(329)	(403)	(488)
Net cash from operations	932	1,226	918	1,291	1,605
Capital expenditure (-)	(207)	(336)	(1,157)	(1,150)	(600)
Net cash after capex	725	891	(239)	141	1,005
Interest paid (-)	(245)	(229)	(252)	(323)	(341)
Dividends paid (-)	(128)	(256)	(281)	(332)	(384)
Inc./(dec.) in total borrowings	(272)	(391)	650	500	(250)
Inc./(dec.) in investments	-	-	-	-	-
Cash from financial activities	(644)	(875)	117	(155)	(975)
Others	(10)	(4)	-	-	-
Opening cash balance	234	305	316	193	179
Closing cash balance	305	316	193	179	209
Change in cash balance	71	11	(123)	(14)	30

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	212	212	212	212	212
Reserves	2,420	2,854	3,509	4,325	5,330
Net worth	2,632	3,066	3,722	4,537	5,542
Borrowings	1,641	1,250	1,900	2,400	2,150
Deferred tax liabilities	(245)	(197)	(197)	(197)	(197)
Total liabilities	4,029	4,120	5,425	6,741	7,496
Gross block	2,115	2,388	3,538	4,688	5,288
Depreciation	1,058	1,223	1,578	1,969	2,428
Net block	1,057	1,166	1,960	2,719	2,860
Capital Work in Progress	47	43	50	50	50
Inventories	2,091	2,640	3,074	3,463	3,908
Debtors	3,864	4,047	4,828	5,596	6,335
Cash	305	316	193	179	209
Other current assets	476	479	595	681	771
Total current assets	6,736	7,483	8,690	9,919	11,223
Creditors	2,762	3,509	4,059	4,587	5,126
Other current liabilities & provisions	1,048	1,063	1,216	1,360	1,511
Total current liabilities	3,810	4,572	5,275	5,947	6,638
Net current assets	2,926	2,911	3,415	3,972	4,585
Total assets	4,029	4,120	5,425	6,741	7,496

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

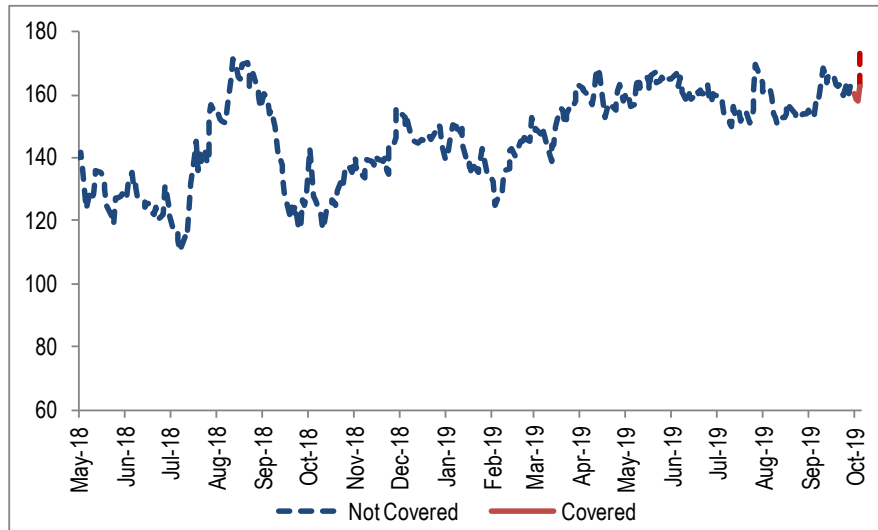
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
EPS	3.0	3.3	4.4	5.4	6.5
Book value	12.4	14.4	17.5	21.4	26.1
Valuation (x)					
P/E	59.6	55.1	40.8	33.3	27.5
P/BV	14.5	12.5	10.3	8.4	6.9
EV/EBITDA	29.0	27.7	22.0	18.4	15.4
EV/sales	2.5	2.1	1.8	1.6	1.4
Return ratios (%)					
RoCE	30.2	29.0	30.6	29.8	30.2
RoE	26.9	24.3	27.6	27.8	27.5
RoIC	32.5	31.4	32.3	30.7	31.0
Profitability ratios (%)					
EBITDA margin	8.5	7.6	8.2	8.7	9.1
EBIT margin	7.3	6.3	6.6	7.2	7.5
PAT margin	4.0	3.7	4.3	4.6	4.9
Turnover ratios					
Fixed asset turnover ratio (x)	7.6	7.8	6.2	5.4	5.4
Total asset turnover ratio (x)	4.0	4.5	4.1	3.7	3.8
Debtor days	88	79	80	81	81
Inventory days	73	79	78	77	77
Creditor days	97	105	103	102	101
Solvency ratio (x)					
Debt-Equity	0.6	0.4	0.5	0.5	0.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
14 October 2019	Buy	161	197
23 October 2019	Buy	180	209

Rating track graph



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SELL < -5%

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