

## Orient Electric

2 June 2020

Reuters: ONTE.BO; Bloomberg: ORIENTEL IN

### Revenue in-line; lower other expenses aids margins

Orient Electric posted revenue of Rs5.6bn in 4QFY20, down 12% YoY but in line with our estimate. Electrical Consumer Durables (ECD) segment's revenue fell 5% YoY to Rs4.5bn (81% of total sales) while Lighting & Switchgears (L&S) segment's revenue fell 33% YoY to Rs1.1bn, on a high base. Both the segments had witnessed mid-to-high teens growth prior to the lockdown in 4QFY20 led by Fans and Air Coolers (for ECD) and Consumer Luminaires (for L&S). Gross margin fell 240bps YoY to 30.5% due to adverse product mix and lower sales volume. Lower other expenses (down 39% YoY to Rs572mn) restricted the fall in EBITDA to 8% YoY at Rs652mn. Thus, operating margin rose 50bps YoY to 11.6%, above our estimate of 10.3%. EBIT margin of the ECD segment rose 220bps YoY to 15.8%, led by improved product mix in Fans and Home Appliances. EBIT margin of the L&S segment fell 380bps YoY to 11.3%. PAT fell 7% YoY to Rs358mn (aided by lower tax rate at 26.1% vs. 35.6% YoY), 10% above our estimate. While Orient Electric is gradually restarting operations from mid-May, various touch points of channels, logistics & sourcing were shut for seven weeks which will impact FY21 performance. We have cut our earnings estimates and downgraded the rating to Accumulate (from Buy) with a revised target price of Rs192 (Rs210 earlier) based on 38x FY22E EPS.

**ECD segment update:** ECD segment sales fell 5% YoY to Rs4.5bn in 4QFY20 but grew 12% YoY to Rs14.9bn in FY20. In fans, industry grew in modest low single digit value-wise but Orient continued to outperform. Fans growth was aided by market share gains and higher offtakes of premium, base and TPW fans. Demand generation in the exports market also aided in revenue growth for FY20. Volume in 4QFY20 was affected owing to lockdown at end-March. Home Appliances products such as Air Coolers witnessed early up-stocking by trade channels for the summer season, while Kitchen Appliances also witnessed robust growth YoY on a low base till Feb 2020. Water Heaters category continued its growth momentum pre-lockdown. EBIT for ECD segment grew 11% YoY to Rs716mn in 4QFY20 with an EBIT margin of 15.8% (up 220bps YoY), led by improved product mix. For FY20, EBIT was up 21% YoY at Rs1.8bn, leading to EBIT margin of 12.2%, up 90bps YoY.

**L&S segment update:** L&S segment sales fell 33% YoY to Rs1.1bn in 4QFY20 on a high base while it grew 7% YoY to Rs5.7bn in FY20. Lighting sales growth in 4QFY20 was in high teens in Jan-Feb, led by consumer luminaires business. However, low consumer offtakes owing to lockdown disruption led to overall slowdown in trade channels. For its B2B segment, Orient was unable to deliver large tender orders at project sites due to lockdown, despite building sufficient inventory. For Switchgears, premium segment witnessed growth till Feb 2020, while industry continues to face pressure due to down trading and weaker real estate demand. EBIT fell 50% YoY to Rs123mn in 4QFY20, leading to EBIT margin of 11.3%, down 380bps YoY. In FY20, EBIT was flat YoY at Rs597mn with a margin of 10.5%, down 50bps YoY.

**Working capital position:** Working capital increased by ~13 days YoY in FY20 due to challenges such as build-up of unsold inventories (in fans), sudden closures of business activity due to lockdown and liquidity crunch in the market. Total debt reduced to Rs990mn in FY20 (vs. Rs1.4bn YoY).

**Outlook:** We expect 6%/8% revenue/EBITDA CAGR over FY20-FY22E (due to COVID-19 impact) but earnings CAGR will be healthy at 17% due to lower tax rate. Healthy return ratios/fixed asset turn/cash flows and long term revenue growth/margin expansion potential will support Orient's valuation.

### ACCUMULATE

**Sector:** Consumer Electricals

**CMP:** Rs178

**Target Price:** Rs192

**Upside:** 8%

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#### Key Data

Current Shares O/S (mn)	212.2
Mkt Cap (Rsbn/US\$m)	37.7/499.1
52 Wk H / L (Rs)	287/137
Daily Vol. (3M NSE Avg.)	341,277

#### Price Performance (%)

	1 M	6 M	1 Yr
Orient Electric	(3.7)	(16.2)	6.8
Nifty Index	(0.3)	(18.5)	(17.6)

Source: Bloomberg

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Net revenues</b>	<b>6,377</b>	<b>4,957</b>	<b>5,631</b>	<b>(11.7)</b>	<b>13.6</b>	<b>18,644</b>	<b>20,618</b>	<b>10.6</b>
Raw material costs	4,281	3,265	3,912	(8.6)	19.8	12,713	14,094	10.9
Staff costs	460	510	496	7.7	(2.8)	1,736	1,985	14.3
Other expenses	930	729	572	(38.5)	(21.6)	2,782	2,776	(0.2)
Total expenditure	5,671	4,504	4,979	(12.2)	10.5	17,231	18,854	9.4
EBITDA	707	453	652	(7.7)	44.1	1,413	1,764	24.9
<b>EBITDA margin (%)</b>	<b>11.1</b>	<b>9.1</b>	<b>11.6</b>	-	-	<b>7.6</b>	<b>8.6</b>	-
Depreciation	63	104	106	67.9	1.3	231	401	74.1
Interest costs	69	66	77	11.0	16.2	229	261	14.3
Other income	26	12	15	(43.0)	17.7	95	41	(57.1)
PBT	600	295	484	(19.3)	64.3	1,049	1,143	8.9
Tax	214	104	126	(40.9)	21.3	356	357	0.2
<b>PAT</b>	<b>386</b>	<b>191</b>	<b>358</b>	<b>(7.4)</b>	<b>87.8</b>	<b>693</b>	<b>786</b>	<b>13.4</b>
PAT margin (%)	6.1	3.8	6.4	-	-	3.7	3.8	-
<b>EPS (Rs)</b>	<b>1.8</b>	<b>0.9</b>	<b>1.7</b>	<b>(7.4)</b>	<b>87.8</b>	<b>3.3</b>	<b>3.7</b>	<b>13.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: Financial summary**

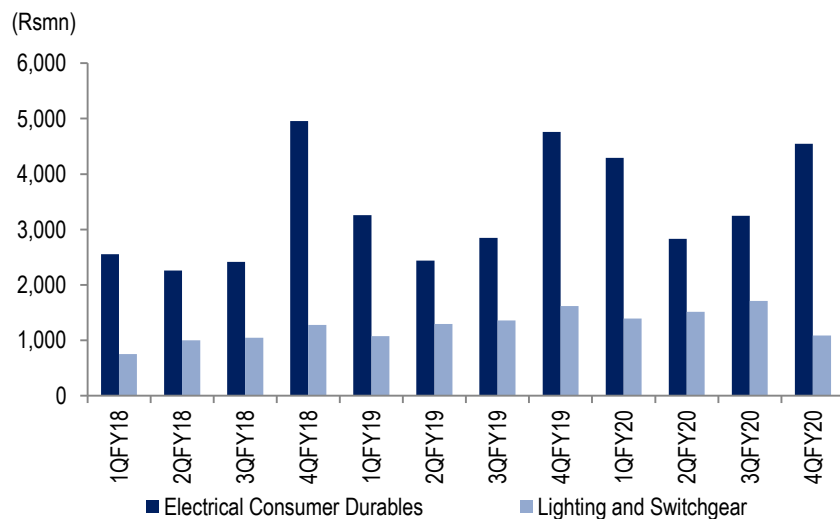
Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net revenues	15,998	18,644	20,618	19,460	23,102
EBITDA	1,365	1,413	1,764	1,596	2,054
Net profit	640	693	786	730	1,070
EPS (Rs)	3.0	3.3	3.7	3.4	5.0
EPS growth (%)	NA	8.2	13.4	(7.1)	46.6
EBITDA margin (%)	8.5	7.6	8.6	8.2	8.9
P/E (x)	59.0	54.5	48.0	51.7	35.3
P/BV (x)	14.3	12.3	10.5	9.2	7.8
EV/EBITDA (x)	28.6	27.4	21.9	23.8	18.6
Dividend yield (%)	0.3	0.6	0.6	0.6	0.9
RoCE (%)	30.2	29.0	32.3	25.5	30.6
RoE (%)	26.9	24.3	23.6	19.0	24.0

Source: Company, Nirmal Bang Institutional Equities Research

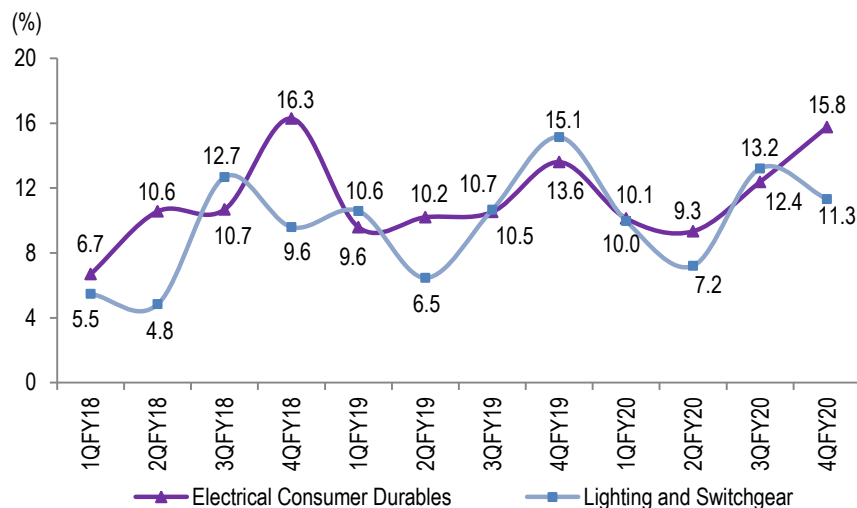
**Exhibit 2: Segment-wise analysis**

Y/E March (Rsmn)	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
<b>Revenues</b>								
Electric consumer durables	4,758	3,248	4,545	(4.5)	39.9	13,296	14,916	12.2
Lighting& Switchgear	1,619	1,709	1,086	(32.9)	(36.4)	5,348	5,702	6.6
<b>Revenue mix (%)</b>								
Electric consumer durables	74.6	65.5	80.7	-	-	71.3	72.3	-
Lighting& Switchgear	25.4	34.5	19.3	-	-	28.7	27.7	-
<b>EBIT (Rsmn)</b>								
Electric consumer durables	648	402	716	10.6	78.2	1,508	1,818	20.5
Lighting& Switchgear	245	226	123	(49.9)	(45.5)	588	597	1.5
<b>EBIT margin (%)</b>								
Electric consumer durables	13.6	12.4	15.8	-	-	11.3	12.2	-
Lighting& Switchgear	15.1	13.2	11.3	-	-	11.0	10.5	-

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**

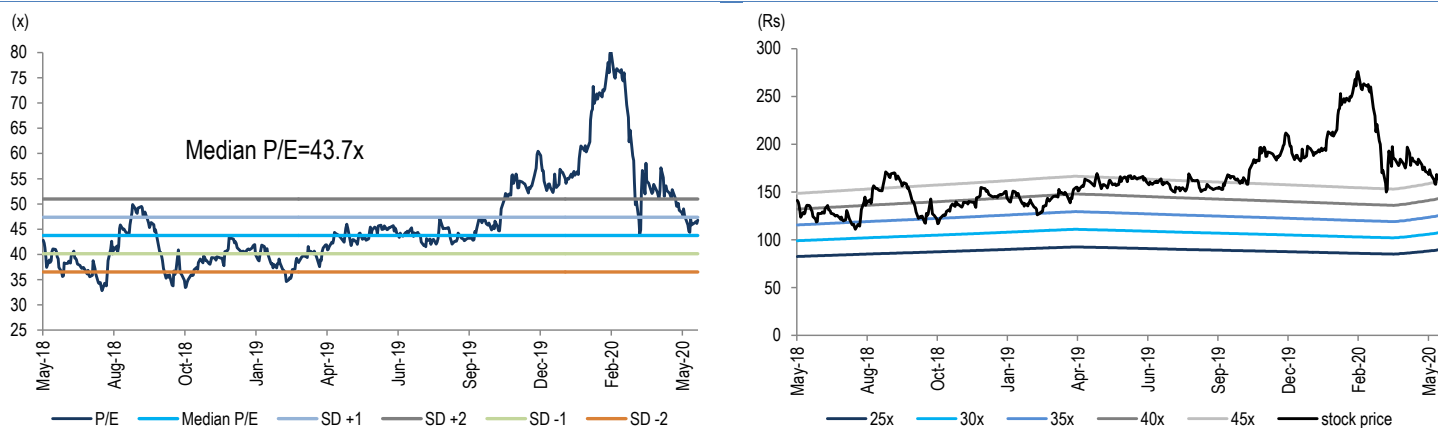
4QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)
Revenues	5,631	5,705	(1.3)
EBITDA	652	585	11.4
PAT	358	324	10.5

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: Change in our estimates**

(Rsmn)	Old		New		Deviation (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Y/E March						
Revenues	24,805	28,922	19,460	23,102	(21.5)	(20.1)
EBITDA	2,229	2,706	1,596	2,054	(28.4)	(24.1)
PAT	1,150	1,477	730	1,070	(36.5)	(27.5)

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: One-year forward P/E charts**


Source: Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 8: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Net sales	15,998	18,644	20,618	19,460	23,102
% growth	NA	16.5	10.6	(5.6)	18.7
Raw material costs	10,434	12,713	14,094	13,233	15,663
Staff costs	1,428	1,736	1,985	2,141	2,426
Other overheads	2,770	2,782	2,776	2,491	2,959
Total expenditure	14,632	17,231	18,854	17,864	21,047
EBITDA	1,365	1,413	1,764	1,596	2,054
% growth	NA	3.5	24.9	(9.5)	28.7
EBITDA margin (%)	8.5	7.6	8.6	8.2	8.9
Other income	55	95	41	45	49
Interest costs	245	229	261	237	208
Depreciation	198	231	401	428	465
Profit before tax	978	1,049	1,143	976	1,430
Tax	338	356	357	246	360
PAT	640	693	786	730	1,070
PAT margin (%)	4.0	3.7	3.8	3.8	4.6
EPS (Rs)	3.0	3.3	3.7	3.4	5.0
% growth	NA	8.2	13.4	(7.1)	46.6

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

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
Share capital	212	212	212	212	212
Reserves	2,420	2,854	3,382	3,878	4,609
Net worth	2,633	3,066	3,594	4,091	4,821
Borrowings	1,641	1,250	947	947	947
Deferred tax liabilities	(245)	(197)	(214)	(214)	(214)
<b>Total liabilities</b>	<b>4,029</b>	<b>4,120</b>	<b>4,327</b>	<b>4,824</b>	<b>5,554</b>
Gross block	2,115	2,388	3,592	4,342	5,442
Depreciation	1,058	1,223	1,624	2,052	2,517
Net block	1,057	1,166	1,969	2,290	2,925
Capital Work in Progress	47	43	35	30	30
Inventories	2,091	2,640	2,865	2,719	3,261
Debtors	3,864	4,047	3,889	3,839	4,747
Cash	305	316	75	743	516
Other current assets	476	479	559	506	601
Total current assets	6,736	7,483	7,387	7,807	9,125
Creditors	2,762	3,509	3,305	3,444	4,377
Other current liabilities & provisions	1,048	1,063	1,759	1,859	2,148
Total current liabilities	3,810	4,572	5,064	5,303	6,525
Net current assets	2,926	2,911	2,324	2,504	2,599
<b>Total assets</b>	<b>4,029</b>	<b>4,120</b>	<b>4,327</b>	<b>4,824</b>	<b>5,554</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	FY21E	FY22E
EBIT	1,168	1,182	1,363	1,167	1,589
(Inc.)/dec. in working capital	(255)	26	346	488	(323)
<b>Cash flow from operations</b>	<b>913</b>	<b>1,208</b>	<b>1,709</b>	<b>1,656</b>	<b>1,267</b>
Other income	55	95	41	45	49
Depreciation	198	231	401	428	465
Tax paid (-)	(234)	(308)	(374)	(246)	(360)
<b>Net cash from operations</b>	<b>932</b>	<b>1,226</b>	<b>1,777</b>	<b>1,884</b>	<b>1,421</b>
Capital expenditure (-)	(207)	(336)	(1,196)	(745)	(1,100)
<b>Net cash after capex</b>	<b>725</b>	<b>891</b>	<b>581</b>	<b>1,138</b>	<b>321</b>
Interest paid (-)	(245)	(229)	(261)	(237)	(208)
Dividends paid (-)	(128)	(256)	(272)	(233)	(340)
Inc./(dec.) in total borrowings	(272)	(391)	(303)	-	-
Inc./(dec.) in investments	-	-	-	-	-
<b>Cash from financial activities</b>	<b>(644)</b>	<b>(875)</b>	<b>(837)</b>	<b>(470)</b>	<b>(548)</b>
Others	(10)	(4)	14	-	-
Opening cash balance	234	305	316	75	743
Closing cash balance	305	316	75	743	516
Change in cash balance	71	11	(241)	668	(227)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

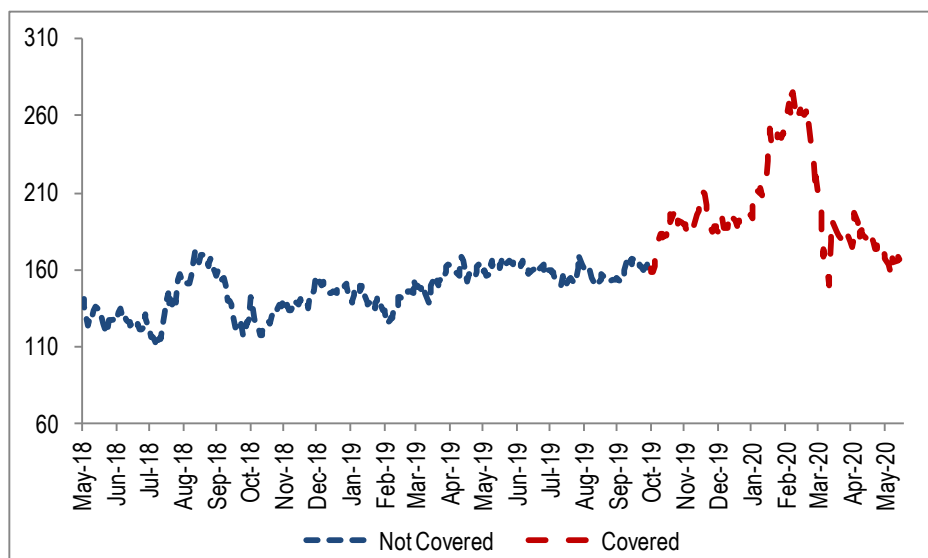
Y/E March	FY18	FY19	FY20	FY21E	FY22E
<b>Per share (Rs)</b>					
EPS	3.0	3.3	3.7	3.4	5.0
Book value	12.4	14.4	16.9	19.3	22.7
<b>Valuation (x)</b>					
P/E	59.0	54.5	48.0	51.7	35.3
P/BV	14.3	12.3	10.5	9.2	7.8
EV/EBITDA	28.6	27.4	21.9	23.8	18.6
EV/sales	2.4	2.1	1.9	2.0	1.7
<b>Return ratios (%)</b>					
RoCE	30.2	29.0	32.3	25.5	30.6
RoE	26.9	24.3	23.6	19.0	24.0
RoIC	32.5	31.4	33.8	28.0	34.9
<b>Profitability ratios (%)</b>					
EBITDA margin	8.5	7.6	8.6	8.2	8.9
EBIT margin	7.3	6.3	6.6	6.0	6.9
PAT margin	4.0	3.7	3.8	3.8	4.6
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	7.6	7.8	5.7	4.5	4.2
Total asset turnover ratio (x)	4.0	4.5	4.8	4.0	4.2
Debtor days	88	79	69	72	75
Inventory days	73	76	74	75	76
Creditor days	97	101	86	95	102
<b>Solvency ratio (x)</b>					
Debt-Equity	0.6	0.4	0.3	0.2	0.2

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
9 January 2020	Buy	196	209
29 January 2020	Buy	230	265
26 March 2020	Buy	153	210
9 April 2020	Buy	184	210
2 June 2020	Accumulate	178	192

## Rating track graph



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