

## Orient Electric

Sensex: 50814

CMP: INR 285

Target Price: INR 330


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## Electrical Goods

OEL recorded a revenue of INR 6183mn for the quarter compared to INR 4957mn a year ago with revenue from ECD division rising 42% to INR 4605mn whereas that of Lighting division dropping 8% to INR 3044mn. Tailwinds due to heightened consumer demand for all types of home appliances in the wake of increased home bound working, together with a strong support of pent-up demand and festival season, led to encouraging growth in offtakes. Gross margins as % to revenue dropped by 320 bps YoY to 31% primarily led by a substantial change in segment mix and product mix with a higher increase in share of business during the quarter in ECD vs-a-vis Lighting. EBITDAM expanded 440bps despite drop in gross margins primarily driven by better operating leverage. PAT witnessed a substantial jump to INR 520mn from INR 192mn, up 171%.

**Revenue growth accelerated to 25% YoY driven by ECD business growth at 42%**

OEL revenue growth accelerated to 25% to INR 6183mn for the quarter from INR 4957 mn a year ago driven by ECD business growth at 42%, 4605mn revenue. Lighting division revenue dropped 8% to INR 1579 mn despite consumer luminaires business doing well as B2B environment remained sluggish due to new projects still remaining on hold. Tailwinds due to heightened consumer demand for all types of home appliances in the wake of increased home bound working, together with a strong support of pent-up demand and festival season, led to encouraging growth in offtakes. Consistent network expansion has been the key enabler for driving the growth. The upsurge in organised industry revenues presumably were also arising from a supply chain shift from smaller scale and unorganized sector to larger established brands. The steep increase in commodity prices compelled all industry players to take up the prices effective Q4'21. The forewarning of price increase propelled dealer stocking during Dec'20. Premium products are steadily making a comeback with rising share of business. A&SP spends have been initiated with a targeted focus with TVC campaigns, dealer & distributor engagement programs, influencer meets, and on ground activation.

**EBITDAM expanded 440bps YoY to 13.6% despite drop in Gross Margins**

Gross margins as % to revenue dropped by 320 bps YoY to 31% primarily led by a substantial change in segment mix and product mix with a higher increase in share of business during the quarter in ECD vs-a-vis Lighting. Contribution to revenue from air coolers, having one of the highest gross margins amongst its product basket, was very much low during the quarter due to inventory pile up in the channel & that drove gross margins lower. EBITDAM expanded 440bps despite drop in gross margins primarily driven by better operating leverage. In view of the positive consumer sentiment, Advertisement and promotion expenses have resumed at last year levels during the quarter.

**Working Capital**

Sharper inventory planning, increased collections and channel financing, coupled with restructuring vendor terms assisted a reduction of working capital from 60 days (INR 364 cr.) last year to 18 days (INR 146 cr.) end-Dec'20. This has also resulted in improving the cash conversion cycle by around 40 days YoY.

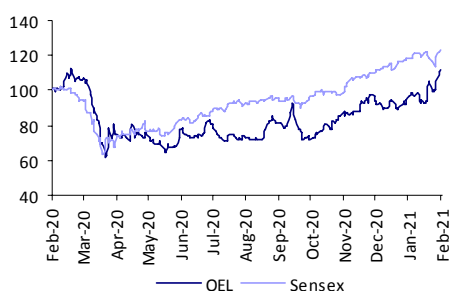
**Outlook & Valuation**

Consumer durable industry witnessed good demand comeback with some pent-up demand, supported by higher rural consumption from tier-3 and tier-4 towns. Home appliances and lighting segment found renewed traction as "home focus" increased due to consumers by and large staying indoors. On the contrary, quite many projects and infra push by the government as well as the private sector was slow or withheld leading to sluggish demand in the B2B space. Net Debt stood at a negative INR 155 crore at Q3FY21 end from a positive INR 12 crore at FY20 end. Greenfield project based in South India for capacity expansion is progressing well & construction work for the same is likely to commence from Q1FY22. Gross margins are likely to witness normalcy on the back of average price increase undertaken to the tune of 3-7% across product line starting Jan'21. We introduce FY23 earnings & fine tune our earnings estimates for FY21 & 22 to adjust for accelerated growth in revenue & profitability. During FY20-23, Revenue & PAT are estimated to compound annually at 14% & 23% respectively. We maintain BUY on the stock with revised target price of INR 330 (40x FY22E EPS). Relatively younger product profile of businesses other than fans & focus on innovative & premiumised product categories should enable it to outperform peers in terms of growth as well as profitability over longer term.

**Key Risks :**

- Volatility in raw material prices
- Prolonged slowdown in new construction activities

Shareholding (%)	Dec-20
Promoters	38.5
FII's	7.5
DII's	23.5
Others	30.5

**Relative Price Performance**


Key Data	
BSE Code	541301
NSE Symbol	ORIENTELEC
Bloomberg Code	ORIENTEL IN
Reuters Code	ONTE.BO
Shares Outstanding (mn)	212.2
Face Value	1
Mcap (INR bn)	60.5
52 Week H/L	296/138
2W Avg. Vol, NSE (000's)	699
Beta	0.73

(INR mn)	FY20	FY21E	FY22E	FY23E
Net Sales	20618	18410	26822	30602
Growth (%)	10.6	-10.7	45.7	14.1
EBITDAM (%)	8.5	12.0	11.1	11.3
Adj. PAT	784.1	1181.0	1746.1	2060.2
Growth (%)	13.4	50.6	47.8	18.0
Adj. EPS (INR)	3.7	5.6	8.2	9.7
P/E(x)	77.1	51.2	34.6	29.4
EV/EBITDA	34.8	27.0	20.0	16.8
EV/Sales	3.0	3.2	2.2	1.9
ROACE (%)	31.3	36.9	44.4	41.5
ROAE (%)	23.5	29.8	35.8	34.0



Quarterly performance

INR mn	Q3FY21	Q3FY20	Q2FY21	% Chg (YoY)	% Chg (QoQ)
<b>Revenue</b>	<b>6183.4</b>	<b>4956.9</b>	<b>4337.7</b>	<b>24.7</b>	<b>42.6</b>
RM cost	4264.5	3265.2	2894.4	30.6	47.3
Employee Cost	465.1	510.1	423.2	-8.8	9.9
Other Expenses	611.9	729	442.5	-16.1	38.3
<b>Total Expenditure</b>	<b>5341.5</b>	<b>4504.3</b>	<b>3760.1</b>	<b>18.6</b>	<b>42.1</b>
<b>EBITDA</b>	<b>841.9</b>	<b>452.6</b>	<b>577.6</b>	<b>86.0</b>	<b>45.8</b>
Depreciation	108.4	104.2	107.3	4.0	1.0
Other Income	6.8	12.4	7.4	-45.2	-8.1
<b>EBIT</b>	<b>740.3</b>	<b>360.8</b>	<b>477.7</b>	<b>105.2</b>	<b>55.0</b>
Interest	45.9	66.1	44.7	-30.6	2.7
<b>PBT</b>	<b>694.4</b>	<b>294.7</b>	<b>433</b>	<b>135.6</b>	<b>60.4</b>
Tax	175	104.2	108.8	67.9	60.8
<b>Profit After Tax</b>	<b>519.4</b>	<b>190.5</b>	<b>324.2</b>	<b>172.7</b>	<b>60.2</b>
Equity	212.2	212.2	212.2		
Face Value	1	1	1		
EPS	2.4	0.9	1.5	172.7	60.2
	25.2%	35.4%	25.1%		
<b>% of Sales</b>				<b>bps</b>	<b>bps</b>
RM Cost	69.0%	65.9%	66.7%	309.5	224.0
Employee Expenses	7.5%	10.3%	9.8%	-276.9	-223.5
Other Expenses	9.9%	14.7%	10.2%	-481.1	-30.5
				0.0	0.0
EBITDAM Excl Other Income (%)	13.6%	9.1%	13.3%	448.5	30.0
PATM (%)	8.4%	3.8%	7.5%	455.7	92.6



## Financials

### Income Statement

Y/E (INR mn)	FY20	FY21E	FY22E	FY23E
Net Sales	20618.0	18410.0	26821.6	30601.8
Net Sales Growth (%)	10.6	-10.7	45.7	14.1
Cost of Goods Sold	14093.5	12546.4	17675.4	20166.6
Employee Cost	1985.0	1786.5	2224.2	2491.1
Other Optg. Exps.	2777.7	1867.8	3950.9	4473.9
Total Optg. Exps.	18856.2	16200.7	23850.5	27131.6
EBITDA (excl OI)	1761.8	2209.3	2971.1	3470.3
EBITDA Margin (%)	8.5	12.0	11.1	11.3
Dep./Amortisation	401.0	437.0	527.7	660.0
EBIT	1360.8	1772.3	2443.4	2810.3
EBIT Margin (%)	6.7	6.6	7.4	8.4
Interest Expense	262.0	194.2	109.7	77.2
Other Income	41.3	39.7	58.2	89.2
EBT	1140.1	1617.8	2391.9	2822.2
Tax Expenses	356.0	436.8	645.8	762.0
PAT	784.1	1181.0	1746.1	2060.2
PAT Growth (%)	13.4	50.6	47.8	18.0
PAT Margins (%)	3.8	6.4	6.5	6.7

### Key Ratios

Y/E	FY20	FY21E	FY22E	FY23E
Adj.EPS	3.7	5.6	8.2	9.7
CEPS	5.6	7.6	10.7	12.8
DPS	1.4	2.1	3.1	3.6
BVPS	16.9	20.4	25.6	31.6
<b>Return Ratios(%)</b>				
RoACE	31.3	36.9	44.4	41.5
RoANW	23.5	29.8	35.8	34.0
<b>Liquidity Ratios</b>				
Net Debt/Equity	0.2	-0.2	-0.2	-0.3
Interest Coverage Ratio	5.2	9.1	22.3	36.4
Current Ratio	1.6	1.7	1.7	1.8
Quick Ratio	0.9	1.2	1.1	1.2
<b>Efficiency Ratios</b>				
Asset Turnover Ratio	4.4	3.7	4.4	4.1
Inventory Days	74	63	63	63
Debtor Days	64	58	58	58
Creditor Days	86	86	86	86
<b>Valuation Ratios</b>				
P/E(x)	77.1	51.2	34.6	29.4
P/BV(x)	16.8	14.0	11.2	9.0
P/CEPS(x)	51.0	37.4	26.6	22.2
Dividend Yield(%)	0.5	0.7	1.1	1.3
EV/Net Sales(x)	3.0	3.2	2.2	1.9
EV/EBIDTA(x)	34.8	27.0	20.0	16.8

### Balance Sheet

Y/E (INR mn)	FY20	FY21E	FY22E	FY23E
<b>Source of Funds</b>				
Share Capital	212.2	212.2	212.2	212.2
Reserves & Surplus	3382.0	4119.8	5210.7	6497.9
Total Networth	3594.2	4332.0	5422.9	6710.1
Total Debt	947.0	547.0	297.0	297.0
Other Non current Liab	705.9	630.3	918.3	1047.7
Deferred tax liab (net)	-214.0	-214.0	-214.0	-214.0
<b>Total Liab</b>	<b>5033.1</b>	<b>5295.3</b>	<b>6424.2</b>	<b>7840.8</b>
<b>Application of Funds</b>				
Net Block	1296.0	1334.0	1656.3	1745.3
CWIP	35.0	35.0	35.0	36.0
Goodwill/Intangible Assets	674.0	674.0	674.0	674.0
Investments	327.0	327.0	327.0	327.0
Other non-current assets	58.0	58.0	58.0	58.0
Current Assets	7001.0	6749.8	9188.8	11292.6
Current Liabilities	4358.0	3882.4	5514.8	6292.1
Net Current Assets	2643.0	2867.4	3674.0	5000.6
<b>Total Assets</b>	<b>5033.0</b>	<b>5295.3</b>	<b>6424.2</b>	<b>7840.8</b>

### Cash Flow

Y/E	FY20	FY21E	FY22E	FY23E
EBT	1140	1618	2392	2822
Less: Other Income/Exceptionals	41	40	58	89
Add: Depreciation	401	437	528	660
Add: Interest Paid	262	194	110	77
Direct Tax Paid	-356	-437	-646	-762
Change in Working Capital	-79	980	-758	-329
Others	-22	0	0	0
<b>Cash Flow from Operations (a)</b>	<b>1305</b>	<b>2752</b>	<b>1567</b>	<b>2379</b>
Change in Fixed Assets	-1197	-475	-850	-750
Change in Investments	-135	0	0	0
Other	0	0	0	0
<b>Cash Flow from Investing (b)</b>	<b>-1332</b>	<b>-475</b>	<b>-850</b>	<b>-750</b>
Change in Equity	39	0	0	0
Debt Raised/(Repaid)	273	-476	38	129
Dividend Paid	-294	-443	-655	-773
Interest Paid	-262	-194	-110	-77
Others Paid	41	40	58	89
<b>Cash Flow from Financing (c)</b>	<b>-203</b>	<b>-1073</b>	<b>-669</b>	<b>-632</b>
<b>Net Change in Cash (a+b+c)</b>	<b>-230</b>	<b>1204</b>	<b>48</b>	<b>997</b>
Opening Cash	315	85	1289	1338
Closing Cash	85	1289	1338	2335



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