

# Orient Electric Ltd

ADD

CMP Rs281

Target Rs319

Upside 13.5%

## Improving growth momentum and cost efficiencies; upgrade to ADD

### Result Highlights

- ✓ **Quarter summary** – Orient Electric delivered better than expected revenue growth of 42% yoy. ECD and Lighting and switchgears have registered growth of 42% and 44% respectively. Increased commodity prices led to 257bps contraction in gross margin while EBITDA growth stood at 48.5% yoy on cost control initiatives.
- ✓ **Growth across segments** – ECD and Lighting & switchgears have equally contributed to revenue growth. Growth was on back of low base, sustained consumer demand and high growth from B2C business.
- ✓ **Commodity inflation impact** – Gross margins contracted sharply by 257bps to 28% on back of steep increase in commodity prices part of which could not be passed on in view of prevailing business environment.
- ✓ **Working capital** – ORIENTEL's initiatives on higher channel financing, reduction of outstanding and increasing vendor financing has been bearing fruits. Working capital cycle has reduced to 11 days in Mar'21 vs 47 days in Mar'20.

**Valuation and view** – 4Q saw broad based growth across segments with both ECD and Lighting & Switchgear equally contributing. Growth has been led by B2C business across channels with E-commerce delivering 2x growth. Gross margins were impacted on rising commodity prices; however, improving product mix and some pricing action has partly offset the impact. Lockdown/restrictions across various part of the country on back of second wave could challenge growth momentum in the near term; but we expect ORIENTEL to sail through as new product launches, comfortable channel inventory and high retail demand continue to support growth.

**ORIENTEL is on strong footing as B2C business is witnessing increased traction with well entranced distribution network, product innovation and brand investments. We expect strong growth momentum to continue in B2C this along with gradual recovery in tender and project business from 2HFY22. This along with increased working capital efficiencies and sharp reduction in borrowings should result in increased efficiencies. We expect FY21-23E Revenue/EBITDA/PAT to grow 14%/7%/12% and arrive at PT of Rs319 valuing it at 45x FY23 EPS. We upgrade stock to ADD rating as recent stock price correction gives a good entry opportunity.**

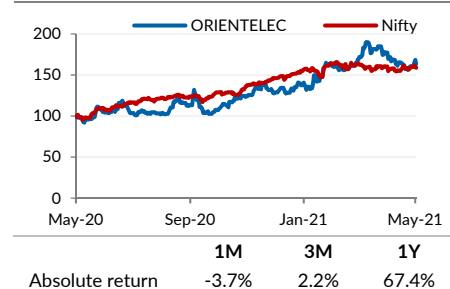
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	8,017	5,631	42.4%	6,183	29.7%
EBITDA	968	652	48.5%	842	15.0%
EBITDAM (%)	12.1%	11.6%		13.6%	
Depreciation	109	106	3.5%	108	0.8%
Interest	53.9	76.8	-29.8%	45.9	17.4%
Other income	40	15	173.3%	7	486.8%
PBT	845	484	74.5%	694	21.7%
Tax	218	126	72.5%	175	24.6%
Adjusted PAT	627	358	75.2%	519	20.7%
Reported PAT	627	358	75.2%	519	20.7%
PATM (%)	7.8%	6.4%		8.4%	
EPS (Rs)	3.0	1.7		2.4	

### Stock data (as on May 12, 2021)

Nifty:	14,697
52 Week h/l (Rs)	345/152
Market cap (Rs/USD mn)	59,539/811
Outstanding Shares	212
6m Avg t/o (Rs mn):	125
Div yield (%):	0.4
Bloomberg code:	ORIENTEL IN
NSE code:	ORIENTELEC

### Stock performance



### Shareholding pattern (As of Mar'21 end)

Promoter	38.5%
FII+DII	31.8%
Others	29.7%

### Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	5.6	6.3	7.1
EPS (Old)	5.6	6.3	7.6
% Change	NA	0.0	(7.0)

### Change in Rating and TP

	Rating	TP
New	ADD	319
Old	REDUCE	342

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	20,326	23,531	26,538
YoY Growth	-1.4	15.8	12.8
EBITDA	2,195	2,118	2,495
Margins (%)	10.8	9.0	9.4
PAT	1,197	1,326	1,504
YoY Growth	52.3	10.8	13.4
ROE	29.5	26.3	24.5
ROCE	39.5	36.4	24.5
EPS	5.6	6.3	7.1
P/E	49.8	45.0	39.6
EV/EBITDA	26.6	28.0	23.4

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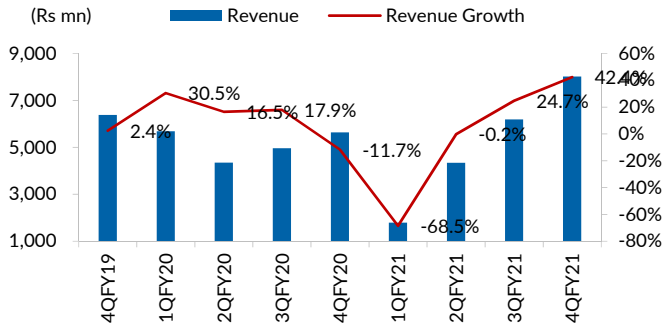
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## PRESENTATION TAKEAWAYS

- ✓ **Business update** – Strong growth momentum has continued in Q4FY21 with B2C business growing at faster clip across the channels. The institutional business showed some signs of revival but got affected by restrained capex spending by corporates. The most significant factor was Tender business that remained sluggish owing to slower projects execution and/or non-availability of project clearances, thus restricting the aggregate entity growth.
- ✓ **Near term headwinds** - The pandemic started reappearing with the second wave towards the end of the quarter causing early fears of lockdowns. Rising commodity-led costs and availability created strong headwinds for margin protection. However, the cost-push price increases and onset of the second wave in South & western India raised alarm bells in the market to alert the distribution setup in exercise restraint while building pipeline inventory.
- ✓ **ECD business** – The ECD segment delivered 42% growth yoy in Q4'FY21. This was partly on a lower base of March'20 and pick-up of pre-season build-up from distribution. The commodity supply-cost effect rolled into this quarter and adversely affected this segment because of large dependence on steel, copper, ABS and plastics. The cost push was partly passed on through price increase. All retail channels including large format stores and e-commerce registered high growths, with e-commerce delivering 2x of last year in the quarter.
  - **Fans** - Meticulous planning, incentivization & investment in brand building helped the growth in the quarter. Launch of semi-rural product Rapid Air expanded the product portfolio in fast expanding entry-level category. Despite material availability and social distancing challenges, production was scaled up in-quarter at both plants for timely service of demand.
  - **Home Appliances** - Change in consumer behavior with more focus on home cooking led to higher growth of Kitchen appliances. Ecommerce saw significant growth for kitchen & small appliances category. Despite short winter & delayed product availability, industry witnessed aggressive pre-season growth in Heating appliances.
- ✓ **Lighting & Switchgears** – Good traction in Consumer Lighting and down trading of switchgear is driving the market whereas B2B business is still suffering a setback owing to constrained capex investments. No major Tenders from EESL have been awarded in the quarter or in the year. Besides, slow ground clearance is also hindering the execution of projects. Input prices of PC, PP, Electronic components and metals is impacting the cost but still leverage of spends due to high C-Lum volumes, better product mix and effective cost optimisation enabled a margin increase.
  - **Lighting** - Lighting growth was predominantly driven by consumer luminaries' segment and was fueled by upsurge in consumer demand in T-2 and T-3 cities, increase in consumer preference and rising home consumption and some switch of share from unorganized to established brands.
  - **Switchgears** - This business faced strong headwinds for B2C & B2B segments in Covid environment. Consumer preferred established brands and retailers also preferred brands with quick sale conversion and minimum advocacy.

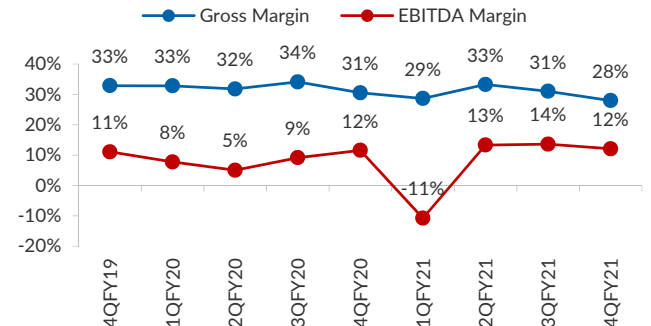
## CHARTS

**Exhibit 2: Revenue growth on back of strong performance in B2C business**



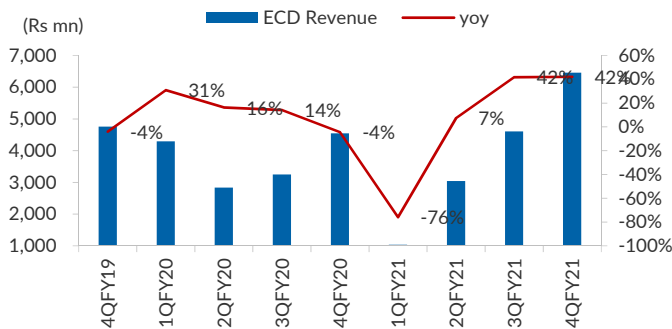
Source: Company, YES Sec - Research

**Exhibit 3: High commodity prices dent gross margins**



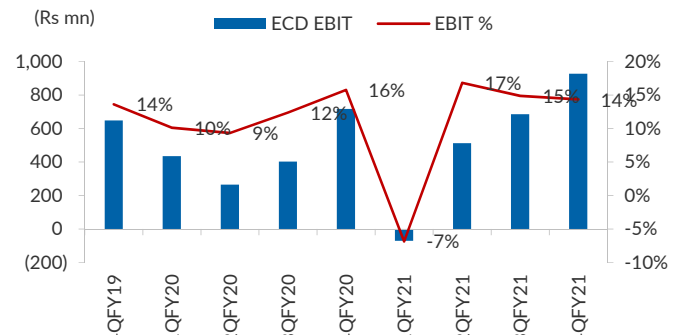
Source: Company, YES Sec - Research

**Exhibit 4: Growth across all channels has propelled ECD growth**



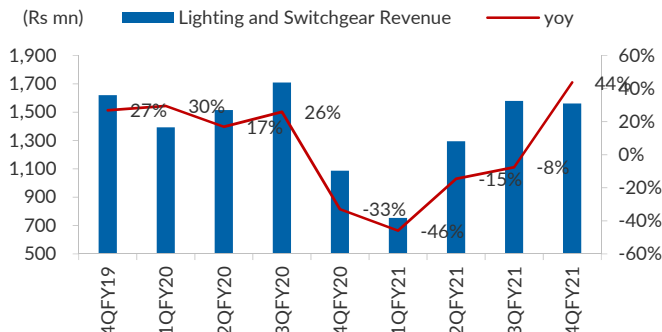
Source: Company, YES Sec - Research

**Exhibit 5: EBIT margins continues to remain healthy**



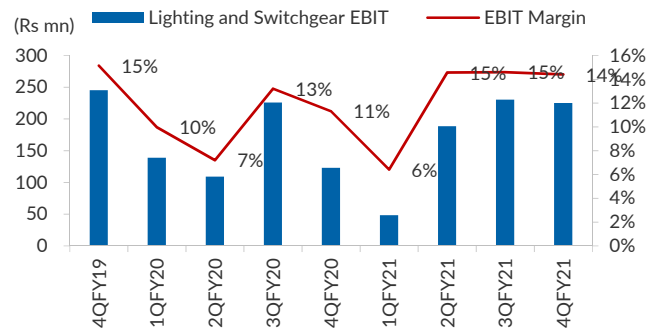
Source: Company, YES Sec - Research

**Exhibit 6: Good traction in consumer lighting from tier 2 and 3 cities propelled revenue growth**



Source: Company, YES Sec - Research

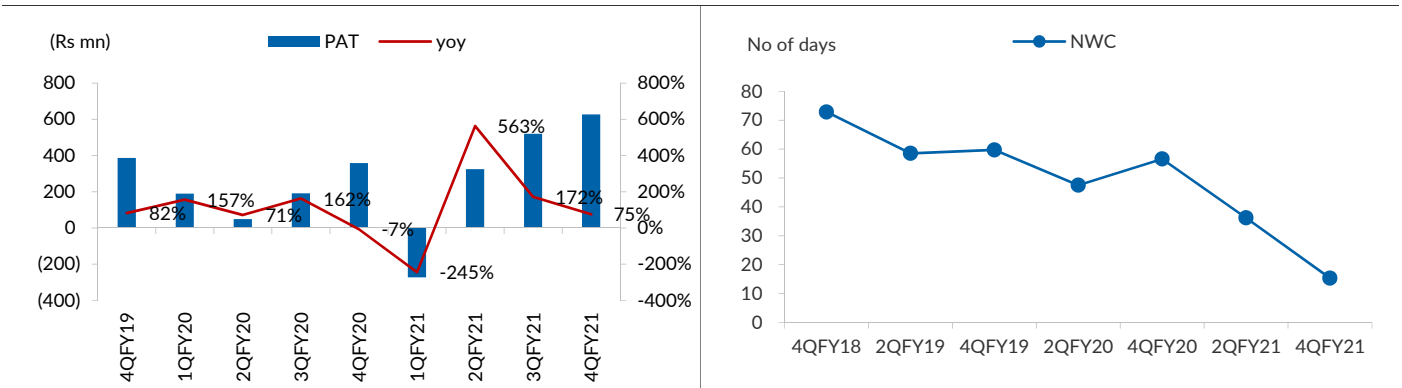
**Exhibit 7: Stable LED lighting prices have led to strong margin**



Source: Company, YES Sec - Research

**Exhibit 8: Reduction in interest expense and higher other income boosts PAT**

**Exhibit 9: NWC has seen marked improvement**



Source: Company, YES Sec – Research

Source: Company, YES Sec – Research

**Exhibit 10: Revenue and Margin Assumptions**

(Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Electrical Consumer durables	12,181	13,296	14,916	15,139	17,410	19,499
YoY (%)		9.2	12.2	1.5	15.0	12.0
Lighting & Switchgear	4,074	5,348	5,702	5,187	6,121	7,039
YoY (%)		31.3	6.6	-9.0	18.0	15.0
Net Sales	16,256	18,644	20,618	20,326	23,531	26,538
YoY (%)		14.7	10.6	(1.4)	15.8	12.8
<b>PBIT</b>						
Electrical Consumer durables	1,475	1,508	1,818	2,052	2,246	2,535
PBIT (%)	12.1	11.3	12.2	13.6	12.9	13.0
Lighting & Switchgear	345	588	597	693	777	880
PBIT (%)	8.5	11.0	10.5	13.4	12.7	12.5
Total PBIT	1,820	2,096	2,414	2,745	3,023	3,415

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	212	212	212	212	212
Reserves	2,854	3,382	4,314	5,346	6,517
Net worth	3,066	3,594	4,526	5,559	6,730
Debt	1,349	985	153	174	194
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	129	706	554	590	623
Total liabilities	4,545	5,285	5,233	6,322	7,547
Fixed Asset	1,209	1,461	1,555	1,718	1,840
Investments	0	0	0	0	0
Other Non-current Assets	443	1,140	1,105	1,043	973
Net Working Capital	2,578	2,614	1,203	2,977	3,220
Inventories	2,640	2,865	2,492	3,127	3,526
Sundry debtors	3,924	3,637	3,552	4,190	4,726
Loans and Advances	8	10	9	10	11
Sundry creditors	3,509	3,305	5,191	4,577	5,162
Other current liabilities	569	721	766	866	959
Cash & equivalents	315	71	1,370	584	1,514
Total Assets	4,545	5,285	5,233	6,322	7,547

### Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	18,644	20,618	20,326	23,531	26,538
Operating profit	1,413	1,764	2,195	2,118	2,495
Depreciation	231	401	432	478	524
Interest expense	229	261	207	122	136
Other income	95	41	63	254	176
Profit before tax	1,049	1,143	1,619	1,772	2,010
Taxes	356	357	422	446	506
Minorities and other	-	-	-	-	-
Adj. profit	693	786	1,197	1,326	1,504
Exceptional items	-	-	-	-	-
Net profit	693	786	1,197	1,326	1,504

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,278	1,404	1,826	1,894	2,146
Depreciation	231	401	432	478	524
Tax paid	(356)	(357)	(422)	(446)	(506)
Working capital Δ	177	(35)	1,411	(1,774)	(243)
Other operating items					
Operating cashflow	1,329	1,413	3,247	152	1,921
Capital expenditure	(336)	(654)	(525)	(642)	(646)
Free cash flow	994	760	2,722	(489)	1,276
Equity raised	(4)	32	0	-	-
Investments	-	-	-	-	-
Debt financing/disposal	(510)	(364)	(832)	21	20
Interest paid	(229)	(261)	(207)	(122)	(136)
Dividends paid	(256)	(290)	(265)	(294)	(333)
Net Δ in cash	15	(121)	(117)	97	103

## Exhibit 14: Du-pont analysis

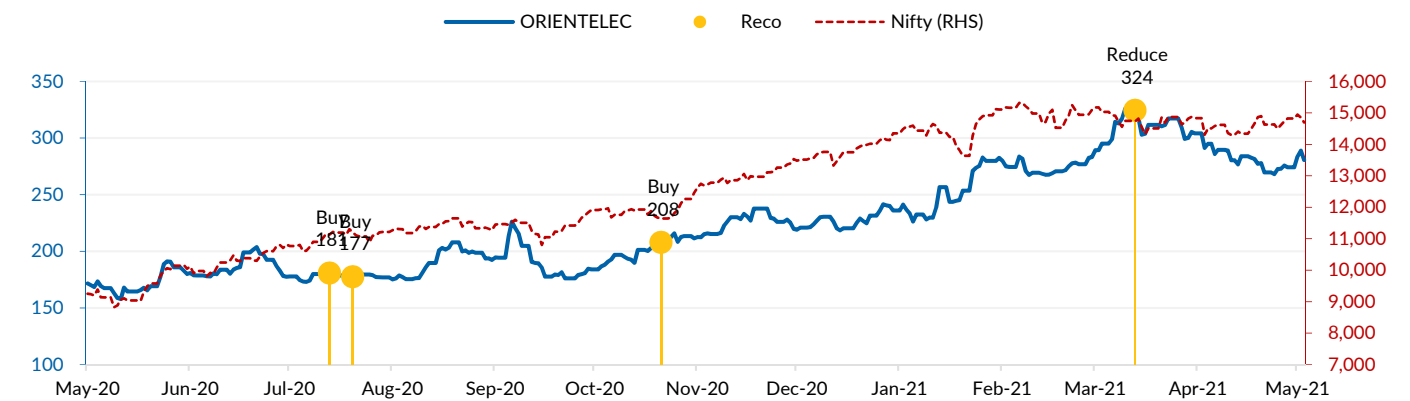
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.66	0.69	0.74	0.75	0.75
Interest burden (x)	0.82	0.81	0.89	0.94	0.94
EBIT margin (x)	0.07	0.07	0.09	0.08	0.08
Asset turnover (x)	2.19	2.23	1.92	1.98	2.01
Financial leverage (x)	2.99	2.78	2.61	2.36	2.15
RoE (%)	24.3	23.6	29.5	26.3	24.5

## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	17	11	(1.4)	15.8	12.8
Op profit growth	3	25	24.4	(3.5)	17.8
EBIT growth	4	10	30.1	3.7	13.3
Net profit growth	8	13	52.3	10.8	13.4
<b>Profitability ratios (%)</b>					
OPM	7.6	8.6	10.8	9.0	9.4
EBIT margin	6.9	6.8	9.0	8.1	8.1
Net profit margin	3.7	3.8	5.9	5.6	5.7
RoCE	28.7	31.2	39.5	36.4	33.9
RoNW	24.3	23.6	29.5	26.3	24.5
RoA	8.1	8.5	11.3	11.1	11.4
<b>Per share ratios</b>					
EPS	3.3	3.7	5.6	6.3	7.1
Dividend per share	1.0	1.1	1.3	1.4	1.6
Cash EPS	4.4	5.6	7.7	8.5	9.6
Book value per share	14.4	16.9	21.3	26.2	31.7
<b>Valuation ratios</b>					
P/E	86.0	75.8	49.8	45.0	39.6
P/CEPS	64.6	50.2	36.6	33.0	29.4
P/B	19.4	16.6	13.2	10.7	8.9
EV/EBIDTA	42.9	34.3	26.1	27.4	22.9
<b>Payout (%)</b>					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	37	37	22.2	22.2	22.2
Tax payout	34	31	26.0	25.2	25.2
Liquidity ratios					
Debtor days	77	64	63.8	65.0	65.0
Inventory days	52	51	44.7	48.5	48.5
Creditor days	68.7	58.5	93.2	71.0	71.0

## Recommendation tracker



Source: Company, YES Sec – Research

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**SELL:** Potential return <-10% over 12 months

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