

RESULT UPDATE Q4FY20

Orient Electric

Performed better than peers; Maintain Buy

Orient Electric (OEL) reported a mixed set of numbers in Q4FY20 as revenue fell short of our estimate by 6.5% while earnings before interest, tax, depreciation and amortisation (EBITDA) and profit after tax (PAT) was in line. Sales declined ~11.7% YoY to INR 563 crore due to a 33% and ~4.5% degrowth in the lighting and switchgear (L&S) and electrical consumer durables (ECD) segments, respectively. Till February, both segments were growing in high teens, with reasonably good response from the market and signs of a secondary pick up. Gross margin contracted 240bps due to a misbalanced product mix, which did not recover fixed costs. EBITDA margin improved 40bps to 11.5% and was well above our expectation of 10.2%. EBITDA at INR 65 crore (down 8.1% YoY) was above our estimate of INR 62 crore but was affected by lower revenue and disrupted product mix due to the novel coronavirus, or COVID-19, led shutdown. PAT at INR 36 crore (down 8.1% YoY) was in line with our estimate. In FY20, the company incurred a capex of INR 25 crore as against cash flow from operations of INR 129 crore. Total debt reduced to INR 99 crore in FY20 from INR 135 crore in FY19. Long term loans of INR 3.8 crore are due for repayment. We maintain our positive outlook on the company and expect it to continue its growth momentum with the launch of new products and marketing initiatives. Sale of low ticket consumer durable items should recover faster. Maintain 'BUY'.

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CMP: INR 190

Rating: BUY

Target price: INR 220

Upside: 16%

Strong underlying growth in ECD segment continues, gains market share in fans

ECD sales moderated considerably and was down 4.5% YoY led by strong traction in sale of premium and TPW (table, wall, pedestal) fans. The company gained market share in fans. The strong traction in water heaters in Q3FY20 rolled over until the middle of the quarter. Favourable summer season indicators also saw early stock up of coolers by the trade channel. The ECD segment was well placed with high-teen growth until February. It was poised for a quantum leap but was restrained by a 4.5% fall in Q4. On a comparative basis, performance of the ECD segment has been better than its listed peers (most reported double-digit degrowth). Earnings before interest and tax (EBIT) margin improved 220bps to 15.8% in Q4FY20 from 13.6% YoY. In comparison, Crompton Greaves Consumer (CGCEL) and Havells reported 30bps and 20bps improvement, respectively. For FY20, the segment reported a 12% increase in revenue and EBIT margin improved 90bps to 12.2%.

Sluggish L&S performance due to deferment in the tender business

The L&S segment registered a 33% degrowth as large tender orders could not be delivered to project sites because of business disruptions in March. The same is expected to make a comeback once the lockdown is lifted. The lighting business continued its performance track till February. The CLUM business, which is primarily retail, was impacted due to closure of business activity. Though the pricing challenge continued, there were expectations of a price increase. There was an overall slowdown in the trade channel due to sluggish consumer offtake in this segment.

Performed better than peers; Maintain Buy

We maintain our positive outlook and expect OEL to continue its growth momentum with the launch of new products and marketing initiatives. Sale of the low ticket consumer durable items will recover faster. However, FY21 will be a challenging year for the company and sector. The company in the long term is poised to improve its operating profit on expectations of market share gains (i.e. fans, appliances) and margin improvement due to greater contribution from the premium portfolio and benefit of operating leverage. At the current market price of INR 190, the stock is trading at 52/35x FY21/FY22E earnings, respectively. We maintain our 'BUY' rating with a revised target price of INR 220 per share.

Bloomberg:	ORIENTEL:IN
52-week range (INR):	137/287
Share in issue (crore):	21
M-cap (INR crore):	3,770
Average daily volume BSE/NSE ('000):	42/214
Promoter holding (%)	38.52

Year to March	Q4FY20	Q4FY19	% chg	Q3FY20	% chg	FY20	FY21E	FY22E
Revenues (INR cr)	563	638	-11.7%	496	13.6%	2,062	1,965	2,314
Rev growth (%)						10.6	-4.7	17.7
EBITDA (INR cr)	65	71	-8.1%	45	43.5%	176	169	216
EBITDA Margin (%)	11.5	11.1		9.1		8.6	8.6	9.3
Net Profit (INR cr)	36	39	-8.1%	19	86.1%	79	78	117
Net Profit Margin (%)	6.3	6.1		3.9		3.8	4.0	5.0
EPS (INR)						3.7	3.7	5.5
EPS Growth (%)						13.4	-1.2	50.1
P/E (x)						51.3	51.9	34.6
EV/EBITDA (x)						23.4	24.5	19.0
RoACE (%)						31.7	25.9	32.5

Date: June 3, 2020

Orient Electric

Q4FY20 result highlights

Particulars (INR crore)	Q4FY20	Q4FY19	% change	Q3FY20	% change	FY20	FY19	% change
Net revenue	563	638	(11.7)	496	13.6	2,062	1,864	10.6
Cost of goods sold	391	428	(8.6)	327	19.9	1,409	1,244	13.3
Gross profit	172	210	(18)	169	1.5	652	621	5.1
Employee expense	50	46	8.1	51	(2.7)	198	173	14.9
Other expenses	57	93	(38.5)	73	(21.5)	278	305	(8.9)
Total operating expenses	107	139	(23.1)	124	(13.8)	476	477	(0.3)
EBITDA	65	71	(8.1)	45	43.5	176	143	23.2
EBITDA margin	11.5	11.1	45	9.1	240	8.6	7.7	88
Depreciation and amortisation	11	6	67.9	10	1.3	40	23	74.1
EBIT	54	64	(15.5)	35	56	136	120	13.4
Interest expense	8	7	11	7	16.2	26	23	14.3
Other income	1	3	(43)	1	17.7	4	8	(46.3)
PBT	48	60	(19.7)	30	63.3	114	105	8.9
Provision for tax	13	21	(40.8)	10	21.5	36	36	0.2
Core profit	36	39	(8.1)	19	86.1	79	69	13.4
As a % of net revenue								
COGS	69.5	67.1		65.9		68.4	66.7	
Operating expenses	19.0	21.8		25.0		23.1	25.6	
EBITDA	11.5	11.1		9.1		8.6	7.7	
Reported net profit	6.3	6.0		3.8		3.8	3.7	
Tax rate (%)	26.2	35.6		35.3		31.2	33.9	

Change in estimates

(INR crore)	FY21E			FY22E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	2,154	1,965	(8.8)	2,521	2,314	(8.2)
Other income	6	6	0	10	10	0
Total income	2,160	1,971	(8.7)	2,531	2,324	(8.2)
EBITDA	185	169	(9.0)	242	216	(10.8)
EBITDA margin (%)	8.6	8.6	(2)	9.6	9.3	(27)
PBT	127	104	(18.4)	183	156	(15)
PBT margin	5.9	5.3	(62)	7.2	6.7	(53)
Net profit	95	78	(18.4)	137	117	(15)
Adjusted EPS (INR)	4.5	3.7	(18.4)	6.5	5.5	(15)

Previous result outlooks

In Q1FY20: We maintain our 'BUY' rating on the stock. We expect strong (48% in FY20) growth in operating profit on continued market share gains (i.e. fans, lighting) and margin improvement (projected to improve to low double-digits from 7.7% in FY19 due to increased contribution from the premium portfolio and benefit of operating leverage). At the CMP, the stock is trading at an attractive valuation (28/23.5x FY20/FY21 earnings, respectively).

In Q2FY20: We have tweaked our estimates post the Q2 result to adjust for higher warranty costs for lighting, higher depreciation expense due to Ind-AS 116 adjustment and lower tax outgo post change in the corporate tax rate. We maintain our 'BUY' rating on the stock. We expect strong (43% in FY20) growth in operating profit on continued market share gains (i.e. fans, lighting) and margin improvement (projected to improve to low double-digits from 7.7% in FY19 due to increased contribution from the premium portfolio and benefit of operating leverage). At the CMP, the stock is trading at a FY20/FY21 earnings per share of 34/28.4x, respectively.

In Q3FY20: We maintain our 'BUY' rating on the stock. We expect strong growth in operating profit on continued market share gains (i.e. fans, lighting) and margin improvement (projected to improve due to increased contribution from the premium portfolio and benefit of operating leverage). We have introduced our FY22 numbers and roll forward our target price. At the CMP of INR 230, the stock is trading at 36/28x FY21/FY22E earnings, respectively. We maintain our 'BUY' rating but have revised the target price to INR 278 per share.

Q1FY20

Quarterly Results Q1FY20
Orient Electric Ltd

Strong earnings visibility, attractive valuation

Key Highlights:
 - Revenue growth of 15% QoQ
 - Operating profit margin of 12.5%
 - EPS of ₹10.50

Particulars	Q1 FY20	Q1 FY19	Q1 FY20 (Adj)
Revenue (₹ Cr)	1,000	850	950
Operating Profit (₹ Cr)	125	65	115
Operating Profit Margin (%)	12.5%	7.7%	12.1%
EPS (₹)	10.50	5.50	10.00

Q2FY20

Quarterly Results
Orient Electric Ltd

Good Q2FY20 results, Multiple Buy

Key Highlights:
 - Revenue growth of 18% QoQ
 - Operating profit margin of 13.5%
 - EPS of ₹12.00

Particulars	Q2 FY20	Q2 FY19	Q2 FY20 (Adj)
Revenue (₹ Cr)	1,180	1,000	1,100
Operating Profit (₹ Cr)	159	77	149
Operating Profit Margin (%)	13.5%	7.7%	13.5%
EPS (₹)	12.00	6.30	11.50

Q3FY20

Quarterly Results Q3FY20
Orient Electric Ltd

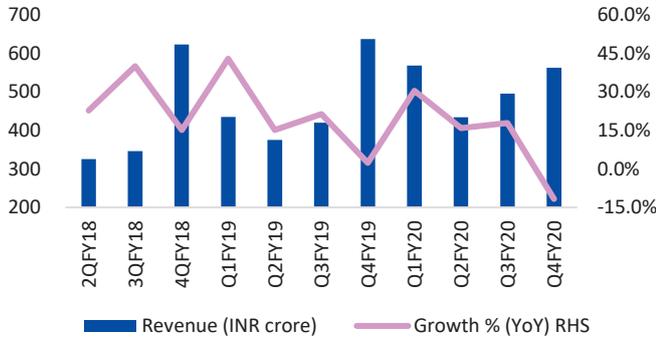
Good performance, Multiple Buy

Key Highlights:
 - Revenue growth of 16% QoQ
 - Operating profit margin of 14.5%
 - EPS of ₹13.50

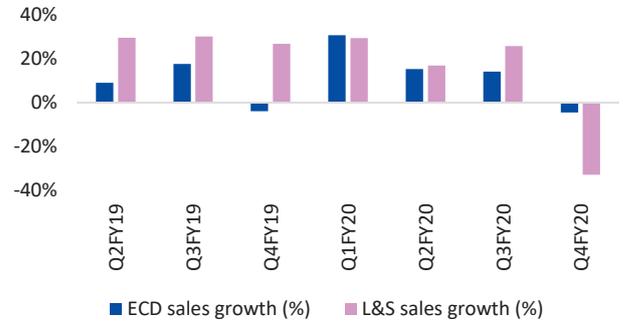
Particulars	Q3 FY20	Q3 FY19	Q3 FY20 (Adj)
Revenue (₹ Cr)	1,300	1,100	1,250
Operating Profit (₹ Cr)	188	84	181
Operating Profit Margin (%)	14.5%	7.7%	14.5%
EPS (₹)	13.50	7.00	13.00

Financials in charts

OEL revenue degrew 11.7% YoY in Q4FY20...

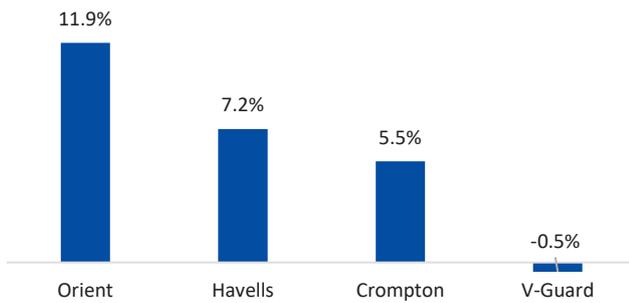


..due to degrowth in both ECD (-4.5%) and L&S (-33%)

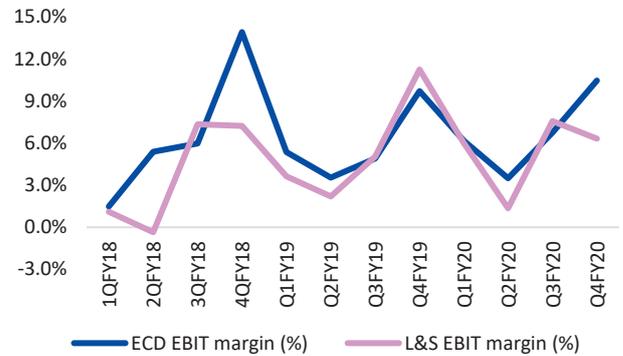


OEL continues to gain market share in ECD segment

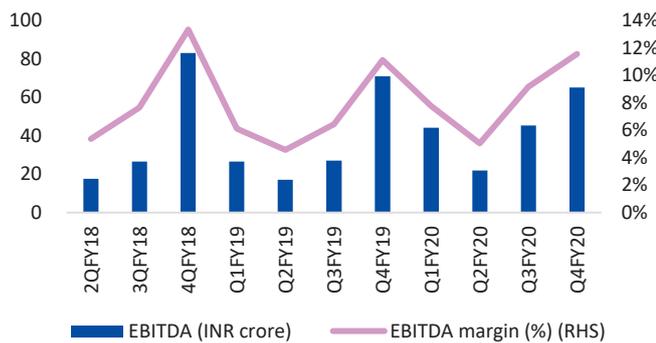
ECD segment revenue growth in FY20



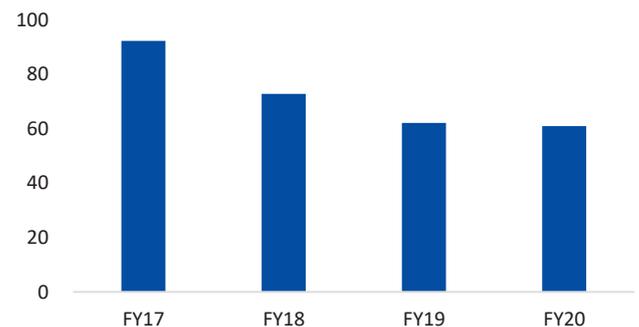
Margin improvement continues in Q4FY20



EBITDA margin up 40bps YoY in Q4FY20



Operating cycle (days)



Source: Edelweiss Professional Investor Research

Income Statement (Standalone)

(INR crore)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Income from operations	1,600	1,864	2,062	1,965	2,314
Direct costs	1,062	1,244	1,409	1,285	1,510
Employee costs	143	173	198	198	216
Other expenses	256	305	278	313	372
Total operating expenses	1,461	1,721	1,885	1,797	2,098
EBITDA	139	143	176	169	216
Depreciation and amortisation	20	23	40	45	44
EBIT	119	120	136	124	172
Interest expense	24	23	26	26	26
Other income	3	8	4	6	10
Profit before tax	98	105	114	104	156
Provision for tax	34	36	36	26	39
Core profit	64	69	79	78	117
Extraordinary items	0	0	0	0	0
Profit after tax	64	69	79	78	117
Minority interest	0	0	0	0	0
Share from associates	0	0	0	0	0
Adjusted net profit	64	69	79	78	117
Equity shares outstanding (cr)	21	21	21	21	21
EPS basic (INR)	3.0	3.3	3.7	3.7	5.5
Diluted shares (crore)	21.2	21.2	21.2	21.2	21.2
EPS fully diluted (INR)	3.0	3.3	3.7	3.7	5.5
Dividend per share	1.0	1.0	1.2	1.0	1.2
Dividend payout (%)	33.1	30.6	31.0	27.3	21.8

Common size metrics as a % of net revenue

Year to March	FY18	FY19	FY20	FY21E	FY22E
Operating expenses	91.3	92.3	91.4	91.4	90.7
Depreciation	1.2	1.2	1.9	2.3	1.9
Interest expenditure	1.5	1.2	1.3	1.3	1.1
EBITDA margin	8.7	7.7	8.6	8.6	9.3
Net profit margin	4.0	3.7	3.8	4.0	5.0

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Revenue	17.3	16.5	10.6	(4.7)	17.7
EBITDA	35.1	2.9	23.2	(4.4)	27.8
Profit before tax	59.5	7.2	8.9	(9.1)	50.1
Net profit	57.9	8.3	13.4	(1.2)	50.1
Earnings per share	57.9	8.3	13.4	(1.2)	50.1

Orient Electric

Financials

Balance Sheet (Standalone)

(INR crore)

As on March 31	FY18	FY19	FY20	FY21E	FY22E
Equity share capital	21	21	21	21	21
Preference share capital	0	0	0	0	0
Reserves and surplus	242	285	338	390	477
Shareholders' funds	263	307	359	412	498
Long term borrowing	56	35	4	24	4
Short term borrowing	130	100	95	100	90
Minority interest	0	0	0	0	0
Other liabilities	0	0	54	45	45
Sources of funds	449	442	512	581	637
Gross block	197	224	336	386	444
Depreciation	97	112	152	197	240
Net block	100	112	184	189	204
Capital work in progress	5	4	10	10	10
Total fixed assets	104	116	194	199	214
Intangible assets	6	5	6	6	6
Investments	9	7	7	7	20
Inventories	209	264	287	296	323
Sundry debtors	386	405	389	388	412
Cash and equivalents	31	32	7	30	41
Loans and advances	0	0	0	0	0
Other current assets	33	36	43	55	65
Total current assets	659	736	726	769	841
Sundry creditors and others	329	408	402	383	427
Provisions	31	39	46	44	43
Total current liabilities and provisions	359	447	449	428	470
Other assets	29	25	27	27	27
Uses of funds	449	442	512	581	637
Book value per share (INR)	12	14	17	19	23

Cash flow statement

Year to March	FY18	FY19	FY20	FY21E	FY22E
Net profit	64	69	79	78	117
Add: Depreciation	20	23	40	45	44
Add: Deferred tax	10	5	(2)	0	0
Add: Others	0	0	0	0	0
Gross cash flow	94	97	117	122	160
Less: Changes in working capital	29	(12)	13	42	18
Operating cash flow	65	109	104	81	142
Less: Capex	19	34	120	50	58
Free cash flow	46	76	(15)	31	84

Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
RoAE (%)	26.9	24.3	23.6	20.2	25.7
RoACE (%)	30.4	29.0	31.7	25.9	32.5
Current ratio	1.9	1.7	1.7	1.9	1.9
Debtors (days)	88	79	69	72	65
Inventory (days)	48	52	51	55	51
Payable (days)	63	69	59	60	58
Cash conversion cycle (days)	73	62	61	67	58
Debt-to-EBITDA	1.3	0.9	0.6	0.7	0.4
Debt-to-equity	0.7	0.4	0.3	0.3	0.2
Adjusted debt-to-equity	0.6	0.3	0.3	0.2	0.1

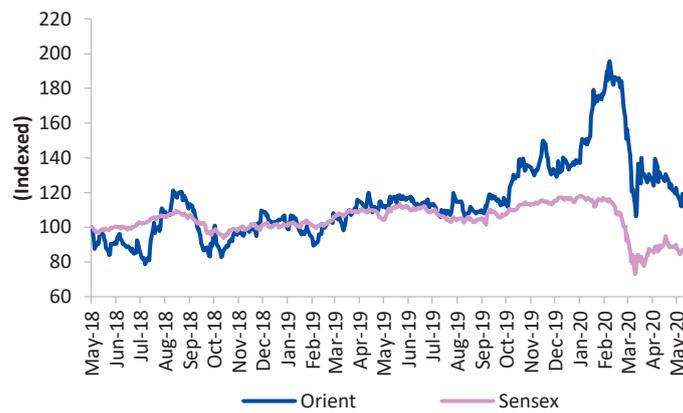
Valuation parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
			48	45	32
Diluted EPS (INR)	3.0	3.3	3.7	3.7	5.5
YoY growth (%)	57.9	8.3	13.4	(1.2)	50.1
Cash EPS (INR)	4.9	3.9	5.5	5.8	7.5
Diluted P/E (x)	63.0	58.2	51.3	51.9	34.6
Price-to-book value (x)	15.3	13.2	11.2	9.8	8.1
Enterprise value-to-sales (x)	2.6	2.2	2.0	2.1	1.8
EV-to-EBITDA (x)	30.1	28.9	23.4	24.5	19.0
Diluted shares outstanding	21.2	21.2	21.2	21.2	21.2
Basic EPS	3.0	3.3	3.7	3.7	5.5
Basic P/E (x)	63.0	58.2	51.3	51.9	34.6
Dividend yield (%)	0.5	0.5	0.6	0.5	0.6

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Rating	Expected to
BUY	appreciate more than 15% over a 12-month period
HOLD	appreciate between 5-15% over a 12-month period
REDUCE	return below 5% over a 12-month period



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