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Investor Release

Q3, Financial Year 2020-21

Revival of Home Appliances

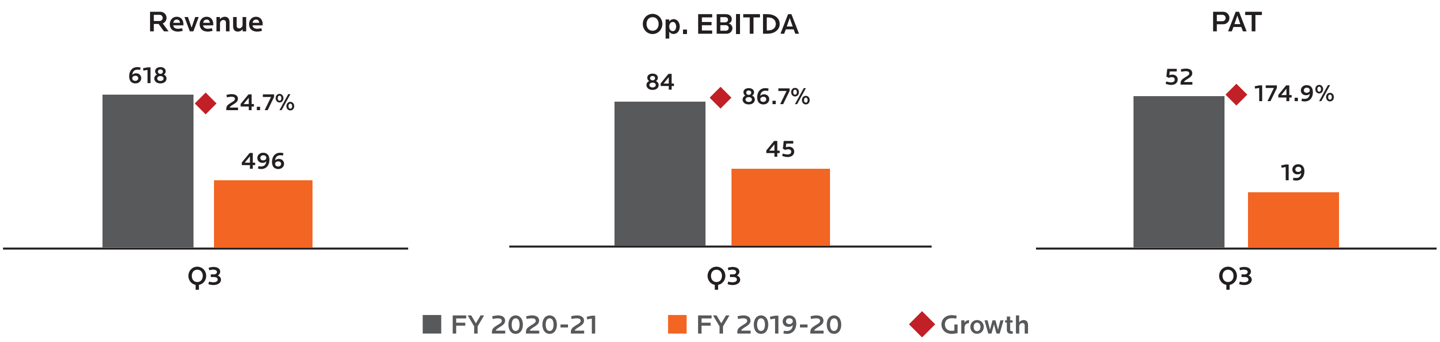
Tailwinds due to heightened consumer demand for all types of home appliances in the wake of increased home bound working, together with a strong support of pent-up demand and festival season in the last quarter, led to encouraging growth in offtakes. The upsurge in organised industry revenues presumably 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.

Orient rides the tide

Orient Electric Limited (OEL) continued the growth momentum for all product segments riding on the market pull in B2C retail and e-commerce. Institutional buying remained subdued owing to slower projects execution and capex spending, thus restraining the aggregate entity and lighting segmental growth. Whilst the overall B2C retail businesses recorded steep growth in the quarter across all product segments, fans, Water heaters, small kitchen appliances and consumer luminaires were more dominant to drive the growth engine in the quarter. Premium products are steadily making a comeback with rising share of business. Following industry trends, pre-season stock up and advance purchase by general trade, has also further fueled the growth of OEL.

Further, advertisement and brand promotion expenses have been initiated with a targeted focus during the quarter with TVC campaigns, dealer & distributor engagement programs, influencer meets, and on ground activation.

Key Highlights Q3'FY21



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Profit growth recovery

OEL registered 25% revenue growth for the Q3'FY21 with a healthy bottom-line delivery of ~175% over last year in the same period and operating margin expansion by 4.5% y-o-y for the quarter. For the nine-month period, OEL has recorded growth of ~34% in Net Profit year on year after wiping out net loss for the complete lockdown period during April-May'20.

	Quarter Ended			Year-to-date		
	Q3 20-21 (A)	Q3 19-20 (A)	YOY %	YTD 20-21 (A)	YTD 19-20 (A)	YOY %
Revenue	618.3	495.7	24.7%	1,230.9	1,498.7	-17.9%
Op. EBITDA	84.2	45.1	86.7%	122.6	110.7	10.7%
EBITDA%	13.6%	9.1%		10.0%	7.4%	
PBT	69.4	29.3	136.9%	77.3	65.3	18.3%
PBT %	11.2%	5.9%		6.3%	4.4%	
PAT	51.9	18.9	174.9%	57.0	42.5	34.2%
PAT %	8.4%	3.8%		4.6%	2.8%	

Profit is Net of Other comprehesive income

Gross Margin:
Gross margin contraction both Y-o-Y and sequentially Q-o-Q was primarily driven 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. With steep input cost increases resulting from ongoing commodity trends, gross margin is likely to be under continued pressure.

Expenses:
Employee Cost reduced year-on-year by 9% and Other Expenses reduced by 16% enabled by rapid digitization and process transformation. In view of the positive consumer sentiment, Advertisement and promotion expenses have resumed at last year levels during the quarter.

EBITDA:
Firm control on expenses coupled with higher scale enabled better operating leverage to offset the gross margin contraction and yet deliver an expansion in the operating margins by 450 bps during the quarter ended Dec'20 and by 260 bps for the year to date, overcoming the adverse margin impact of the complete lockdown period earlier in the year.

Finance cost:
Aggregate Finance Cost has reduced by 30% Y-o-Y for the quarter and reduced by ~17% for the year to date primarily due to repayment of working capital and term loans. However, other bank charges will continue to remain and also increase with scale.

Income Tax:
Lower corporate tax rate opted last year has helped in reducing the incidence of tax year on year.

Working capital:
Sharper inventory planning, increased collections and channel financing, coupled with restructuring Vendor terms assisted a reduction of working capital from 60 days (Rs. 364 cr.) last year to 18 days (Rs. 146 cr.) end-Dec'20. This has also resulted in improving the cash conversion cycle by around 40 days y-o-y, thereby generating stronger cash flows in the quarter.

Net Debt position as on 31st Dec'20:
- Gross Borrowings at Rs. 15 cr.
- Cash & Bank Bal = Rs. 170 cr.
- Net Debt = (-) Rs. 155 cr.

Key Ratios:

		Q3 20-21	Q2 20-21	Q3 19-20	YTD 20-21	YTD 19-20
PROFITABILITY AND GROWTH	EBITDA % to Revenue	13.6%	13.3%	9.1%	10.0%	7.4%
	PAT % to Revenue	8.4%	7.5%	3.8%	4.6%	2.8%
	ROCE	43.0%	29.5%	28.0%	43%	28%
	EPS	2.44	1.52	0.90	2.68	2.02
SOLVENCY AND LIQUIDITY	Debt to Equity	0.04	0.04	0.49	0.04	0.49
	TOL/TNW	1.45	1.31	2.00	1.45	2.00
	Current Ratio	1.40	1.39	1.32	1.40	1.32

Outlook: Optimistic with caution

Higher recovery rate of the virus infection, declining trend of newly affected cases, and arrival of the vaccines is building consumer sentiment and business confidence. On the other hand, the concern about second wave and new virus strain is still keeping the situation unpredictable. The growth trend for the industry has remained encouraging for the second quarter in succession after the initiation of Unlock-1. However, the immediate strong headwinds of rising input costs pose a challenge to the margins. Adding further difficulty, lead times and costs for overseas shipments through Indian ports has aggravated. Over and above, the uprising of farmers' agitation is alerting sporadic business disruptions mainly in North India and across some other parts of the country as well. Under the given circumstances, the company is exercising cautious optimism and shall remain agile and resilient to advance the growth momentum and enhance market share, as well as address the margin pressures through a combination of calibrated price increases, product mix changes, inventory planning and cost reduction initiatives. Structured and targeted brand campaigns and on-ground promotions is well planned in coming months to support the growth plans.

The greenfield project for manufacturing capacity expansion at South India is progressing well and we expect to perform ground-breaking during Q1'FY22.

The company will continue the efforts on Working Capital reduction with sharper inventory planning and cash management, despite the onset of high seasonal volumes in the final quarter of the current fiscal, without comprising on the market shares.

Consistent performance across segments

The Segmental performance for the quarter and year ended 31st Dec'20 stack up as follows:

	Quarter Ended				Year-to-date		
Rs Cr.	Q3 20-21	YOY %	Q2 20-21	Q3 19-20	YTD 20-21	YOY %	YTD 19-20
ECD							
Revenue	460	41.8%	304	325	868	-16.3%	1,037
PBIT	68	70.3%	51	40	113	2.2%	110
Lighting & Switchgear							
Revenue	158	-7.6%	129	171	363	-21.4%	462
PBIT	23	2.1%	19	23	47	-1.3%	47
OEL							
Revenue	618	24.7%	434	496	1,231	-17.9%	1,499
PBT	69	135.6%	43	29	77	17.6%	66

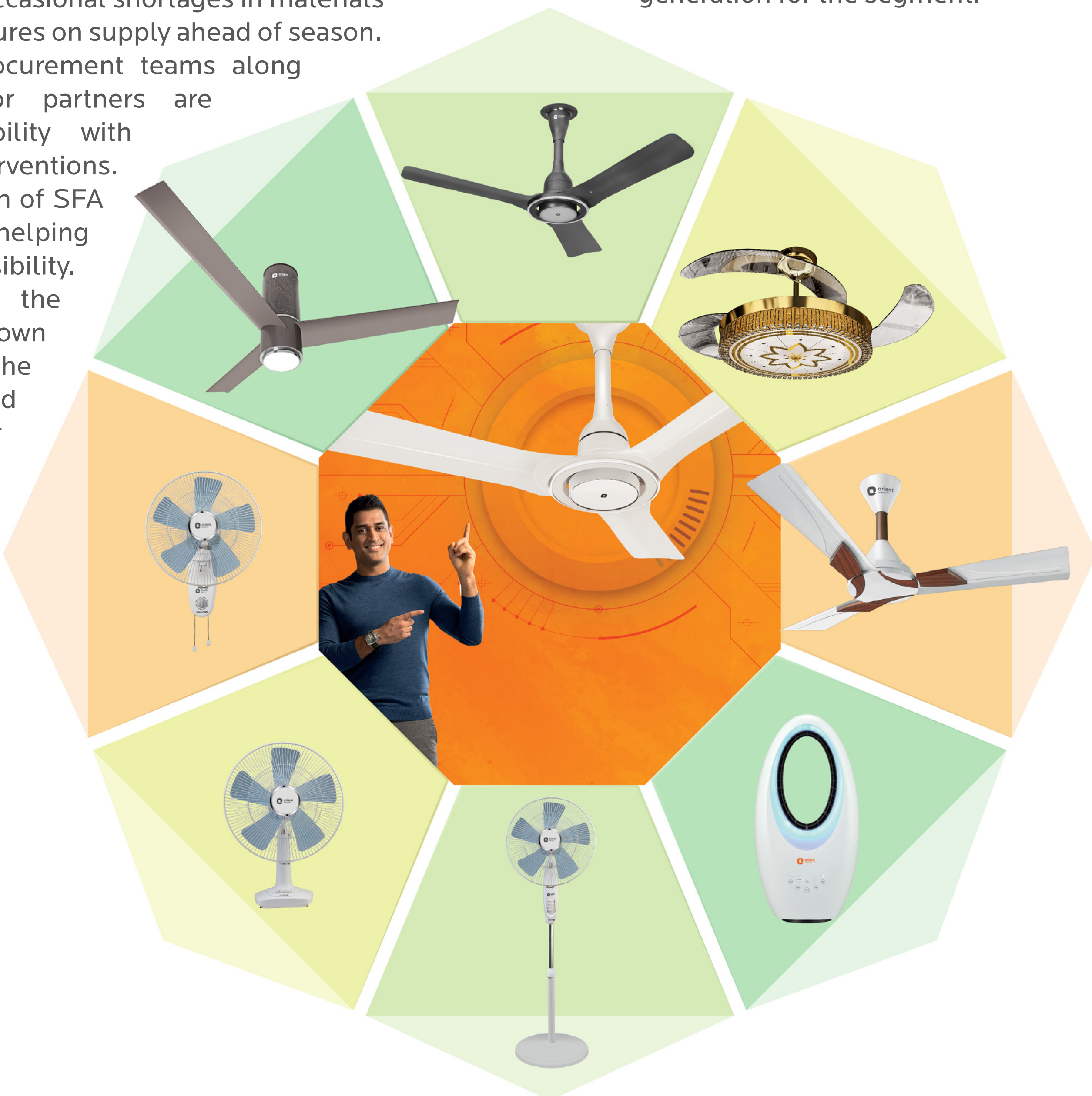
Electrical Consumer Durables

ECD segment further picked up overall momentum during the quarter supported by the festive season and advance buying by Dealers due to anticipated price increase. Coolers continued to remain depressed during the quarter, whereas all other product segments have performed well. While all channels have shown good growths, e-commerce drove the segment volumes substantially in the quarter having grown by more than 3x over LY. The segment was confronted with commodity price pressures and intermittent shortage of materials which is likely to continue into the next quarter. Hence, in lines with industry trends, price increases in all product lines are lined up to address the commodity pressures.

Fans

Orient registered healthy growth across all categories in the quarter though remaining lower than last year for 9-month ended Dec20 due to eroded Q1'FY21. Soaring input prices seen during the quarter and occasional shortages in materials are causing pressures on supply ahead of season. However, the procurement teams along with the vendor partners are ensuring availability with timely interventions. Speedier adoption of SFA and DMS is helping acquire market visibility. The margin for the segment has grown substantially on the back of controlled costs and better leverage of expenses.

Working capital has been substantially reduced y-o-y by around 40 days with better inventory planning, higher collections and restructuring of vendor terms. This has resulted in better cash generation for the segment.



Home Appliances

Encouraging growth of the segment was driven by Small Appliances and Water Heaters across all geographies. Consistent network expansion is the key enabler for driving the growth. Retail Connect programs and launch of SFA / DMS during the quarter is being leveraged to track markets and harness expansion opportunities. New products have been launched during the quarter across all the categories. In view of the rising input costs of ABS and Steel affecting the product costs, alternate materials are also under consideration. There has been considerable expansion of operating margins for this category due to protection of gross margins, reduction in operating costs resulting in leverage of spends. This segment also reduced working capital by around 20 days y-o-y with strategic inventory planning together with restructuring of payment terms and also with higher collections.

Lighting & Switchgear

Demand for Consumer Lighting indicate high teens growth y-o-y in the industry in Q3'FY21. Upsurge in consumption in tier 2 and tier 3 cities is generating demand for electrical products like switches, and lighting. CLUM growth is at a faster pace than Lamps in Q3 with changing consumer preference and rising home consumption. LED Lamps demand continues to remains healthy fueled mainly by smaller towns. In L&S segment too, the growth in Dec'20 was driven due to advance channel buying because of impending price increase propelled by rising input prices of PC, PP, Electronic components and metals. B2B Business environment remain sluggish as new projects are still on hold. B2G project tendering, especially in infra sector, has started and tenders are expected to be awarded in next 3-6 months.

Lighting

Consumer Lighting continued its growth trajectory during the quarter mainly driven by Consumer Luminaire business. High focus on C-Lum and effective supply planning enabled the growth. Tender business for OEL had a high base last year which has reduced substantially due to non-clearance of new orders. The business has a good order bank awaiting execution subject to site clearances. The significant drop in the Tender business y-o-y resulted in a negative growth for the segment, despite strong traction in the B2C. The company has successfully entered into the Façade Lighting category and completed the prestigious "Dobra Chanti Bridge" project in Uttarakhand, "ODISHA Vidhan Sabha" building at Bhubaneswar, amongst other projects completed during this quarter. Rising input cost concerns are influenced by prices of polycarbonate, polypropylene, and metals. Going forward, the cost push will be addressed through a combination of cost reduction initiatives and price increase. During the quarter, advance planning for component and FG sourcing helped to keep down LED Lamp cost. Targeted focus on high wattage lamps enabled volumes and mix resulting to improvement in the margins. Lower costs, efficient sourcing and manufacturing together with a better product mix resulted to a margin expansion of Lighting business. Working Capital for Lighting reduced by around 40 days y-o-y resulting to healthy cash generation.

Switchgear

The addressable market of OEL Switches is small and in the premium segment which has been under pressure, though OEL stands to remain focused within this niche' space only. Accordingly, the OEL focus is on select markets and penetration in such markets coupled with the B2B segment and influencer programs. Sales promotion activities including electrician meets have resumed during the quarter. OEL is trending at lower than last year levels in this segment primarily due to muted B2B business. As a result, the margins have suffered y-o-y though with very low share of business. However, this business had also reduced Working Capital by almost 90 days on a very low base.

Key developments of the quarter

Digitisation under "e-Wings"

The company's journey in fast pacing the digital interventions and technology enablement across every touchpoint in the entity is progressing with promise. Several implementations are currently underway, which have started showing some positive indications in terms of changeover of processes and efficiencies. The level and adoption and seamless integration across all modules of digitisation will finally determine the business results delivery over a period in future.

1. TCS enablement

With the new rule of paying TCS on all collections of the company, OEL has been very agile to quickly put the digitally enabled seamless process in place during the quarter not only for complying with the rule but also to facilitate visibility, reconciliation and compliance without any added effort.

2. Sales Force Automation (SFA)

Whist the implementation was carried out in the previous quarter, but the adoption and KPI tracking with change in the ways of working has seen substantial adoption rate, not only with own sales team but also with targeted Distributor sales staff by close handholding and training.

3. Distributor Management System (DMS)

Despite all complexities of heterogenous backend systems and practices of distributors, OEL continues to progress with encouraging initial results of implementation and integration, on the ground, at the distributor point across select target distributors across all businesses.

4. Transport Management System (TMS)

User confidence on ground is continuously increasing with fast paced adoption across all warehouses and logistics touchpoints with supporting results of process stability showing a promise of benefit delivery.

5. Employee engagement

Employee engaging processes including attendance, leave management, recruitment, travel & expense reimbursements as well as rewards & recognition processes, all are mobility enabled real time user friendly adoption which has successfully happened during the quarter.

Response to Covid19

Re-opening: All operating locations are working full time in normal course with all necessary precautions of distancing, sanitization and masks. Corporate Office has also resumed in the New Year subject to added restrictions and roster.

People first: Keeping health & well-being of people on high priority, Covid Response Team continues to monitor the ground situation and continuously re-setting and addressing working policies and processes.

Business resumption: All businesses across all channels and physical meeting with all types of business partners has resumed and continuously increasing within the bounds of restrictions. Business travel has commenced in the normal course for the Sales and Business development teams and have been kept in abeyance, subject to critical needs, for the Corporate and other administrative staff across locations.

Implications: The global pandemic outbreak of Covid-19 had substantially disrupted the economic activities with high uncertainty & intermittent lockdowns during the quarter ended June'20. In line with government directive, the Company had temporarily shut down all its branch & factory operations since March 23, 2020 until mid-May'20 leading to a near halt of the business activities during the said period, impacting sales and profit of the Company. Since the announcement by the Government of Unlock 1.0 from June 8, 2020, the industry is gradually coming back to normalcy followed by vaccination which was initiated by the Government in the month of January-2021. Hence, the restoration of fully normal business conditions are dependent on the future state of the pandemic and positive outcome of vaccine on the masses. Basis the best estimates of revenue, expenses and current assets, as on the date of reporting, the Company does not anticipate any material impact on the recoverability of the carrying value of its assets including trade and other receivables, contract assets, unbilled revenue, inventories, property, plant and equipment and right to use assets. Basis above, management has also estimated future cash flows for the Company and believes that there is no impact on its ability to continue as going concern and meeting its liabilities as and when they fall due. However, considering the unpredictable situation giving rise to inherent uncertainty around the extent and timing of the potential future impact of the COVID 19 pandemic and thus, the impact of COVID-19 on the Company's financial results may differ from that estimated as on the date of approval of these financial results.

Opportunities: Business process re-engineering in the new normal is under active consideration and being implemented in a measured way. As a first, physical branch offices are being withdrawn selectively after migrating to digital ways of working through SFA/ DMS and other Employee engagement enablement.

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our values

Excellence

- We consistently aim to achieve and exceed **global benchmarks** in **quality** and **best practices**
- We always strive for **fresher ideas** and **newer ways** of doing things
- We are most responsive to changing **modern lifestyles** and **consumer needs**
- We **demonstrate drive** and **commitment for performance**

Integrity

- We are committed to the highest standards of **professional ethics** and **honesty**
- We are credible, **we do what we say**
- We act in accordance to **our roles** and **responsibilities**
- We are **accountable** for both our **successes** and **failures** and do not allocate blame
- **We speak up openly** without fear

Collaboration

- We collaborate across functions and businesses to drive **organization goals**
- We build mutually rewarding **long term relationship** based on **trust** and **credibility**
- We respect **diversity** and believe in consulting, engaging and **empowering people**
- We celebrate collaboration and take **pride in our own work** and that of others

Trust

- We foster a **culture of belief** and **trust**
- We are open and **transparent in sharing** relevant information to all stakeholders
- We are an **open organization** which values **everyone's point of view** regardless of one's position in the hierarchy
- We provide **enough freedom** and **space** for people to deliver on their commitments

Care

- We encourage **practicing empathy** in all our acts
- We **respect** each individual and **value everyone's contribution** in the value chain
- We care for the need of **individual** and **professional development**
- We partner in creating a **caring environment**

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Fans • Home Appliances • Lighting • Switchgear

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