

Investor Release

Q3, Financial Year 2019-20

Tuesday, 28 January 2020



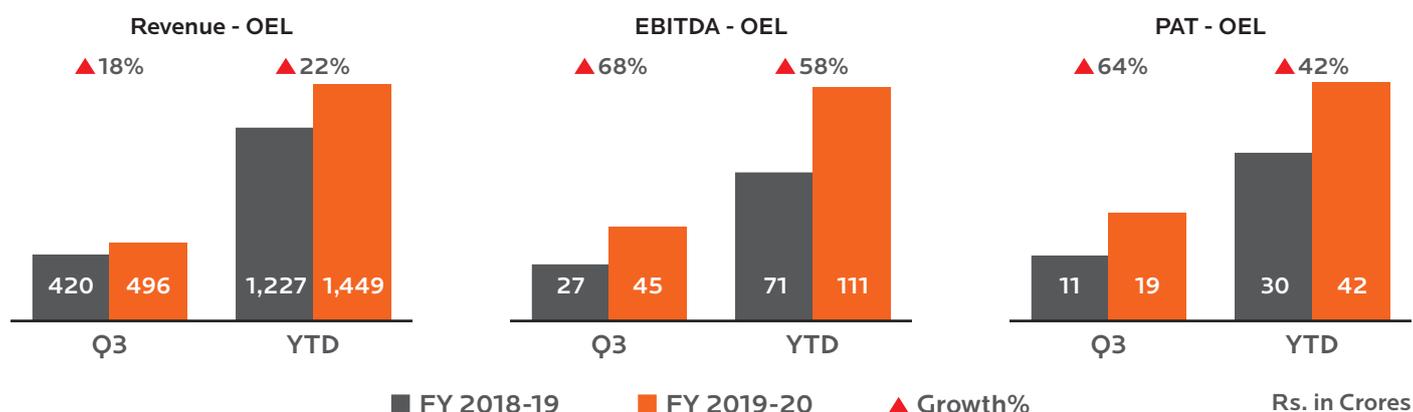
Dampened spirits overshadow economy sunshine

Industry sentiments continued to remain generally subdued during the quarter ended 31-Dec'19 with rains and floods affecting some parts of country beginning of the quarter. Festive season remained quite damp except for green shoots in e-commerce platforms. Global tension arose out of US-Iran face-off coupled with nationwide social unrest for anti-CAA stir posed a deterrent to all the fiscal stimulus announced by the Govt. in past few months. Mounting bad debts in the banking sector put pressure on liquidity and consumption and that persisted all through the quarter. Winter products, however, experienced high demand with the early onset of cold season but there was no respite from the woes of depression in LED Lights across the industry. Although slowdown in economy posed challenges for consumer products, long-term fundamentals of the market appear healthy and promising.

Orient Electric surges ahead

Harsh winters gave a positive push to room and water heaters. Uplift in lighting & switchgear segment business was majorly contributed by growth in Street Light and P-Lum business during the quarter.

Key Highlights Q3'FY20



Braving the sluggish economic weather, Orient Electric surged ahead with an aggregate growth of 18% y-o-y during the quarter which mirrors the trend of past several quarters and growing at 22% on a year-to-date basis. Whilst initial part of the quarter was affected by the demand contraction, strong seasonal pull for water heaters, channel fill-up pre-season on Fans & coolers and P-Lum businesses including Street Lighting fuelled the growth momentum during the quarter.

Op. EBITDA for the quarter recorded a margin expansion of 270 bps with 9.1% of revenue and having grown at 68% y-o-y for nine-month period ended 31-Dec'19. Favourable sales mix of premium and decorative fans topped up with steep demand in room heaters and water heaters enabled the expansion in gross margins. Besides, operating leverage for the fixed costs kicked in to register an expansion in the EBITDA margins.

Without the impact of leased assets accounting that impacted from 1st April'19, the interest cost has been held at flat levels y-o-y for Q3FY20, mainly due to better utilisation of borrowed funds and utilisation of channel and vendor financing facilities during the quarter. Depreciation for the period was also abruptly affected by the accounting change of leased assets.

New launches come out of the closet of Orient house during the period:

1. Luxury series of Fans with launch of “Eleganza” brand.
2. Smart Plugs
3. Salus Bloom Switches



Growth across segments

Amid economic slowdown across the industry and some political disturbances encountered during the quarter, consumption slowdown continued in Q3 after a mild Q2. Despite the headwinds, your company managed to put up a steady show across all segments during the quarter. Sales growth was mainly led by increased TPW and premium fans sale, high tender business in lighting & high cooler & kitchen appliances sales among appliances.

The Segmental performance for the period ended Dec'19 has been as follows:

Rs Cr.	Quarter Ended				Nine Month Ended		
	Q3 19-20	YOY %	Q2 19-20	Q3 18-19	YTD 19-20	YOY %	YTD 18-19
ECD							
Revenue	325	14.1%	283	285	1,037	21.5%	854
PBIT	40	34.1%	26	30	110	28.0%	86
Lighting & Switchgear							
Revenue	171	25.9%	151	136	462	23.8%	373
PBIT	23	55.9%	11	14	47	38.4%	34
OEL							
Revenue	496	17.9%	435	420	1,499	22.2%	1,227
PBT	29	66.3%	8	18	66	46.6%	45

Electrical Consumer Durables

Q3 is generally not a business enabling quarter for the ECD segment, which is comprised of summer products. Yet it grew @ 14% for the quarter y-o-y.

Fans

The fan industry is indicating a modest single digit value growth in sell-out in Q3 (Oct-Nov'19), whereas Orient has shown a mid-teens value growth in same period. To-date, Orient Electric seemingly stands as outperforming the industry with an indicative uptick in the market shares. Premium incl. Decorative sale contribution remaining steady with higher than normal growth trends. Our South strategy hinging on distribution thrust, focus on premium segment and visibility focus, is gradually gaining momentum, growing faster than All India growth. Better price extraction and sales mix improvement helped delivery of better margins. Exports have also shown some demand improvement resulting in y-o-y growth. Working capital has marginally increased year on year with higher inventory holding but somewhat compensated by better credit management both for customers and vendors.



Home Appliances

Industry space in coolers is becoming more competitive and e-Commerce is rapidly gaining ground for both Water Heater and Kitchen appliances category. Besides, entry of Sanitaryware players is increasing. Heightened season-led demand showed up a stockout situation for Room Heating Solution. Liquidity bottlenecks resulted in slowdown in collections. Your company has gradually started mainline media coverage for appliances, whereas thrust on focused BTL activities continues. De'Longhi business is steadily gaining ground. Aggressive action towards improving working capital in previous 2 quarters has helped in substantially improving working capital.



Lighting & Switchgear

Lighting & Switchgear segment maintained a growth momentum at 26% YOY but continued experiencing external industry challenges of pricing and liquidity.

Lighting

Overall Lighting Industry continued to remain flat in this quarter. B2B channel was subdued due to slow infrastructure and industrial growth. Price erosion and down trading for LED Lamps and CLUM in B2C segment across the industry continue to pose challenge for revenue growth in LED. Restricted cash flows in the trade further added to the challenges. Revenue grew by high double digit for Q3 YOY, led by the P-Lum and Tender business. The newly launched EYELUV series with flicker control technology has been well appreciated by trade and health experts. However, it will take some more time and effort for mass awareness and gains in revenue.



Switchgear

The industry here is on a negative growth trend in FY19-20 due to slowdown in Real Estate. Switches as a category is growing at a nominal pace driven by Luxury and Economy Segment whereas premium & popular Range is degrowing. Competitors are introducing products at lower price in the same market segment. Most of the launches in the last two years have been in lower price band. With this background in place, the Switchgear business has done moderately as per trends on a lower base, enabled mostly by switches during the quarter. Continued focus on Electrician Meets & IB calls, expansion of distribution in newer districts and initiation of Architect/ Contractor meets are helping to drive our business.

Financial performance for the quarter in good stead

Key Highlights

Rs Cr.	Quarter Ended				Nine-Month Ended		
	Q3 19-20	Q2 19-20	Q3 18-19	YOY %	YTD 19-20	YTD 18-19	YOY %
Revenue	495.7	434.7	420.4	17.9%	1,498.7	1,226.7	22.2%
EBITDA	45.3	21.9	27.0	67.8%	111.2	70.6	57.5%
EBITDA%	9.1%	5.0%	6.4%		7.4%	5.8%	
PBT	29.5	7.8	17.7	66.3%	65.8	44.9	46.6%
PBT %	5.9%	1.8%	4.2%		4.4%	3.7%	
PAT	18.9	4.8	11.5	64.4%	42.5	29.9	42.0%
PAT %	3.8%	1.1%	2.7%		2.8%	2.4%	

Profitability: There was an encouraging uptick in the EBITDA margins aided by the expansion in gross margins and operating leverage on costs. This coupled with interest and tax reduction enabled a Net Profit growth year-on-year of 64% for Q3 and 42% for year-to-date respectively.

EBITDA for Q3FY20 grew by 68% y-o-y expanding by 270 bps from 6.4% last year Q3 to 9.1% in current year. Primarily, the EBITDA gain was influenced by expansion of gross margins resulting from favourable mix of premium and decorative fans, water heaters, street lighting partially offset by lower contribution from lamps. This was further supported by leverage of the expenses incurred together with control of expenditure.

Income Tax: Your company has estimated the tax impact for the year ended March 31, 2020 and has opted for the lower tax rates as per the Taxation Laws ordinance passed. The impact of this change, including on remeasurement of deferred tax assets, is not material and has been adjusted in the current quarter.

Working capital has increased by around 11 days over LY due to strategic inventory build-up pre-season for fans and higher street lighting business.

End-Dec'19 our Debts increased by Rs. 31 cr. from Mar'19 which is as per the normal business cycle for higher capital requirement during this quarter.

Snapshot of operating ratios, leverage ratios and RoI ratios is as follows.

		Q3 19-20	Q2 19-20	Q3 18-19	YTD 19-20	YTD 18-19
PROFITABILITY AND GROWTH	EBITDA % to Revenue	9.1%	5.0%	6.4%	7.4%	5.8%
	PAT % to Revenue	3.8%	1.1%	2.7%	2.8%	2.4%
	ROCE (Adj.)	33%	34%	37%	33%	37%
	EPS	0.90	0.23	0.55	2.02	1.45
SOLVENCY AND LIQUIDITY	Debt to Equity	0.49	0.29	0.53	0.49	0.53
	TOL/TNW	2.00	1.64	2.03	2.00	2.03
	Current Ratio	1.32	1.34	1.36	1.32	1.36

Note: ROCE is adjusted for ROU assets

During the quarter your Company has initiated legal action against Orient General Agencies (Bombay) Private Limited and Alco Logistics Pvt. Ltd. (Formerly known as Apollo Fiege Integrated Logistics Pvt. Ltd.) for the recovery of outstanding amount of Rs 14 crores together with interest and damages. The Company has already taken appropriate provisions of such outstanding in the books of account in earlier reporting periods and therefore there is no impact on the quarter results.

Awards and Accolades

We are pleased to inform the investors of the impressive line up of industry recognition received by the Orient Electric.



CII SCALE award 2019
for excellence in Supply
Chain and Logistics



TAVF 2019 award
for Best Integrated
Media Campaign



GCI Safety Award 2019
for excellence in Safety
Management



**India Content
Leadership Award 2019**

Achievers during the period



Mr. Punit Rastogi (Chief Information Officer) bagged 'CIO of the Year' award at Enterprise IT World's CIO 500 Conclave and Awards 2019 for his pioneering work in the industry.

Special Mention



OEL successfully migrated to SAP S/4HANA in Dec'19, marking a major milestone in its digitisation journey.

Actions During the Quarter & Future Growth Levers

Innovation:

Furthering the vision of innovation, your company has introduced the new Luxury series of “air circulating chandeliers” bringing innovation in design with elegance. Also, with BEE energy efficiency norms becoming mandatory for fans from July 2020, the company is geared up to introduce a gamut of energy-efficient products which will be smart, energy efficient, IoT enabled, and consumer-centric. It is our commitment to the cause of environmental protection and sustainability by developing energy efficient products and we hope that it will go a long way in creating value for our consumers by also saving costs. Watch this space for more innovation to come.

Digitisation:

Your company has successfully migrated to the latest generation ERP platform SAP S4 HANA in a record time of 4 months start to finish with immense dedication and perseverance of entire Orient Electric team, led by our IT team. This was at the core of all our digital ambition and the first successful milestone of the digital journey. The Digitisation program titled “e-Wings”, that was launched in Q2FY20 aimed at driving culture change through new ways of working, is now spearheading with several streams of digital enablement of business processes in Wave-1 and is fully on track of our pre-determined 3-year roadmap.

Talent:

Your company is continuing all efforts to build capabilities and high-quality talent pool within the group. Mr. Salil Kapoor (in picture) has joined Orient family as the Business Head for Appliances business. Salil is a Mechanical Engineer from Dayanand Sagar College of Engineering, Bangalore & has also done MBA from FMS- Delhi. He comes with a rich experience of more than 29 years in consumer durables, electronics & IT products across companies like Fedders Llyod, Blue Star, LG Electronics, Samsung, Microsoft & DishTV. His past assignment was with Voltas Limited where he was working as COO for UPBG division & was leading Air conditioners and small appliances business.



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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**



switch to smart

Fans • Home Appliances • Lighting • Switchgear

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