Orient Electric Ltd

Initiating Coverage

Fanning growth through innovation

July 4, 2019

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Orient Electric Ltd. (OEL)

Initiating Coverage Note

Absolute : LONG
Relative : Overweight
20% ATR in 18 months

Fanning growth through innovation — Initiate with LONG

Consumer Durables

Rating Information	
Price (Rs)	162
Target Price (Rs)	206
Target Date	31st Dec'20
Target Set On	3rd Jul'19
Implied yrs of growth (DCF)	20
Fair Value (DCF)	111
Fair Value (DDM)	42
Ind Benchmark	BSETCD
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	34,374
Free Float (%)	61.48 %
52 Wk H/L (Rs)	177/103.25
Avg Daily Volume (1yr)	201,864
Avg Daily Value (Rs Mn)	29
Equity Cap (Rs Mn)	212
Face Value (Rs)	1
Bloomberg Code	ORIENTEL IN

Ownership	Recent	3M	12M
Promoters	38.5 %	0.0 %	-
DII	19.1 %	0.8 %	-
FII	4.2 %	-0.2 %	-
Public	38.3 %	-0.7 %	-

Price %	1M	3M	12M
Absolute	-3.1 %	7.7 %	32.7 %
Vs Industry	-6.7 %	-3.3 %	4.3 %
Crom. Greaves	-3.6 %	2.5 %	3.7 %
Bajaj Elec.	-0.8 %	-2.9 %	1.5 %

Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (19A)	0.6	0.3	0.6	1.8
EPS (20E)	0.8	0.4	0.7	2.7

With an estimated ~15% organized market share, Orient Electric (OEL) is a leading player in the Indian fans industry and a top fan exporter from India. OEL is also focusing on new product categories like lighting, air cooler, water heaters, kitchen appliances and switchgears to diversify and tap growth opportunities in India's home appliances space. It has immensely benefitted from rising premiumisation, which should aid margins. Also, we expect some operating leverage gains to flow in from FY20E onwards. OEL's recent demerger from parent has led to fresh focus on various operational aspects and should drive robust operational performance ahead. We expect revenue/EBIDTA/PAT to increase from Rs 18.6bn/Rs 1.4bn/Rs 693mn in FY19 to Rs 28.3bn/Rs 2.6bn/Rs 1.5bn by FY22E, a 15%/22%/30% CAGR. We initiate coverage with LONG and a Dec'20 TP of Rs 206 set at 37x on TTM EPS of Rs 5.6.

Successful product launches, rising premiumisation to drive fans category: With its widely successful PSPO innovation in the 90s, OEL was able to establish itself as one of the top-3 fan brands in India. In the last few years, the company reignited its innovation streak and has been consistently launching novel products, thus differentiating itself from competition. Its Aero series has been a huge hit, shoring up its market share in premium fans from 19% in FY17 to 40% in FY19. Despite modest single-digit growth in the fans industry, we expect premiumization to improve OEL's realizations, enabling it to beat industry growth. Accordingly, we expect fans to grow at a 10% CAGR over FY19-FY22E.

Focus remains on increasing scale of smaller/newer product categories: With a new team in place post demerger, OEL has increased focus on smaller and newer product categories like air coolers/water heaters/switchgears/kitchen appliances. Sharp focus on product differentiation, supply chain efficiencies and distribution network expansion could act as key drivers for the aforesaid categories; we expect these categories to grow at a robust 25%/25%/26%/33% CAGR over FY19-FY22E, albeit off a smaller base.

Premiumization, innovation — key focus areas: In recent years, OEL has launched innovative products such as noiseless, dust-free, decorative and wifi-enabled fans, while also introducing innovations in LED lighting, air coolers and water heaters. OEL has been ahead of the curve than its peers in product innovation in the recent years. We think consistent innovation will be a key driver of differentiation and premiumization, leading to better realizations and market share gains.

Gradual margin expansion ahead: Stable commodity prices and better realizations (driven by premiumization) have led to a gradual improvement in consumer durable (EBIT) margins (from 3.8% in FY15 to 6.3% in FY19). Further, some operating leverage is likely to kick in from FY20E onwards, leading to EBITDAM expansion from 7.6% in FY19 to 9.1% by FY22E.

Standalone Financials

Rs. Mn YE Mar	FY19A	FY20E	FY21E	FY22E
Sales	18,644	21,751	24,843	28,300
EBITDA	1,413	1,870	2,221	2,586
Depreciation	231	274	317	361
Interest Expense	229	225	187	149
Other Income	95	117	166	205
Net Profit	689	989	1,252	1,517
Adj. Net Profit	689	989	1,252	1,517
Total Equity	3,066	3,723	4,567	5,599
Gross Debt	1,349	1,405	1,167	930
Cash	316	229	468	874
Rs. Mn YE Mar	**FY19A**	**FY20E**	**FY21E**	**FY22E**
Earnings	3.3	4.7	5.9	7.2
Book Value	14	18	22	26
Dividends	1	1	2	2
FCFF	5.5	1.9	4.8	5.8
P/E (x)	49.6	34.7	27.5	22.7
P/B (x)	11.2	9.2	7.5	6.1
EV/EBITDA (x)	25.2	19.1	15.8	13.3
ROE (%)	24%	29%	30%	30%
Core ROIC (%)	17%	22%	23%	25%
EBITDA Margin (%)	7.6%	8.6%	8.9%	9.1%
Net Margin (%)	3.7%	4.5%	5.0%	5.4%

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY20E	4.7	4.9	-5 %	We expect lower sales growth and gradual improvement in profitability
	FY21E	5.9	6.6	-11 %	
Sales	FY20E	21,751	22,346	-3 %	
	FY21E	24,843	25,926	-4 %	
PAT	FY20E	989	1,043	-5 %	
	FY21E	1,252	1,402	-11 %	

Key Estimates:

In Rs. Mn	FY18	FY19E	FY20E	FY21E	FY22E
Sales	15,998	18,644	21,751	24,843	28,300
Sales growth (%)	*17%*	*17%*	*17%*	*14%*	*14%*
EBIDTA	1,365	1,413	1,870	2,221	2,586
EBITDA margin (%)	*8.5%*	*7.6%*	*8.6%*	*8.9%*	*9.1%*
PAT	640	693	989	1,252	1,517
PAT margin (%)	*4.0%*	*3.7%*	*4.5%*	*5.0%*	*5.4%*

Risk to Our View:

- Inability to scale up or loss of market share in premium fans business could have a material impact on profitability
- Macroeconomic slowdown can hurt consumer discretionary demand
- Inability to scale up the relatively new switchgear and small appliance businesses
- Significant increase in WC requirement could impact return ratios
- Rise in competition can impact profitability
- Volatility in commodity prices could lead to RM cost fluctuations

Key Triggers

- Product mix improvements driven by premiumization could trigger revenue growth and margin expansion
- Launch of new innovative and premium products
- Scaling up business in newer and smaller categories
- Expansion and attaining efficiencies in distribution network

Sensitivity to Key Variables	% Change	% Impact on EPS
Raw Material Cost	1 %	-3 %
-	-	-
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
6.8 %	1.2	13.7 %	3.0 %	14.7 %

-	FY20E	FY21E	FY22-29E	FY30-34E	FY35-39E
Sales Growth	17 %	14 %	11 %	8 %	6 %
NOPAT Margin	5 %	5 %	6 %	6 %	6 %
IC Turnover	4.24	4.34	4.46	4.46	4.46
RoIC	22.1 %	23.3 %	29.2 %	29.5 %	29.1 %
Years of strong growth	1	2	10	15	20
Valuation as on date (Rs)	35	39	76	87	92
Valuation as of Dec'20	42	48	93	106	111

Based on DCF, assuming 20 years of 11% CAGR and 29% average ROIC, we derive our current fair value of Rs 92 and a Mar'20 fair value of Rs 111.

Company Description:

Headquartered in New Delhi, OEL is a leading player in the Indian fans industry. Previously known for its PSPO fans, it has also ventured into other consumer durable categories like lighting, small appliances and switchgears. It has four manufacturing facilities in India.

Comparable valuation			Mkt Cap	Price	Target	EPS			P/E			BPS	P/B	RoE			Div Yield	
Company	Reco.	CMP	Rs. Mn.	Target	Date	FY19A	FY20E	FY21E	FY19A	FY20E	FY21E	FY19A	FY20E	FY19A	FY20E	FY21E	FY19A	FY20E
Orient Electric	LONG	162	34,374	206	31st Dec'20	3.3	4.7	5.9	49.6	34.7	27.5	14.4	9.2	24 %	29 %	30 %	0.6 %	0.8 %
Crompton Greaves	-	235	147,060	-	-	6.4	7.5	8.8	36.6	31.2	26.8	17.5	11.6	43 %	39 %	37 %	0.9 %	1.3 %
Bajaj Electricals	-	533	54,620	-	-	16.3	19.1	25.3	32.7	27.9	21.1	105.3	4.4	17 %	17 %	19 %	0.7 %	0.7 %

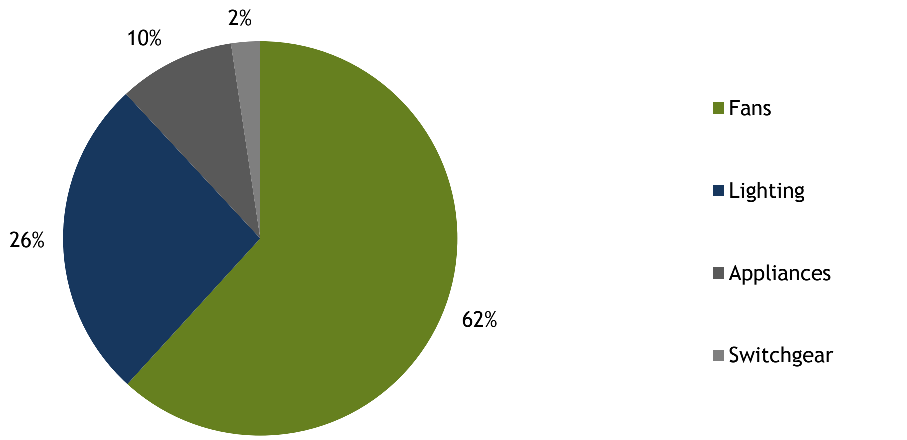
Investment Rationale

Among India's top-3 fan players

OEL is a prominent player in the Indian consumer durables industry with a focus on fans, lighting, appliances and switchgears. The erstwhile Calcutta Electrical Manufacturing Company became a part of the CK Birla Group in 1954 and was subsequently rechristened Orient Electric in 2014. The company is among India's top-3 players in electric fans and the largest exporter of fans from India (60% share), exporting to over 40 countries. Over the years, OEL has diversified into other product categories – lighting, appliances (water heaters, air coolers, kitchen appliances), and switchgears. Fans is the company's largest business and contributed ~62% of FY19 revenues.

In FY17, OEL demerged from its parent, Orient Paper & Industries Limited (OPIL), and has two broad business segments – Electrical Consumer Durables (ECD) and Lighting & Switchgear (L&S). In 2018, OEL formed a strategic partnership with Italy's De'Longhi group to market and sell De'Longhi's three brands – De'Longhi, Braun and Kenwood – in India.

Exhibit 1: Fans continue to dominate the revenue mix (FY18)

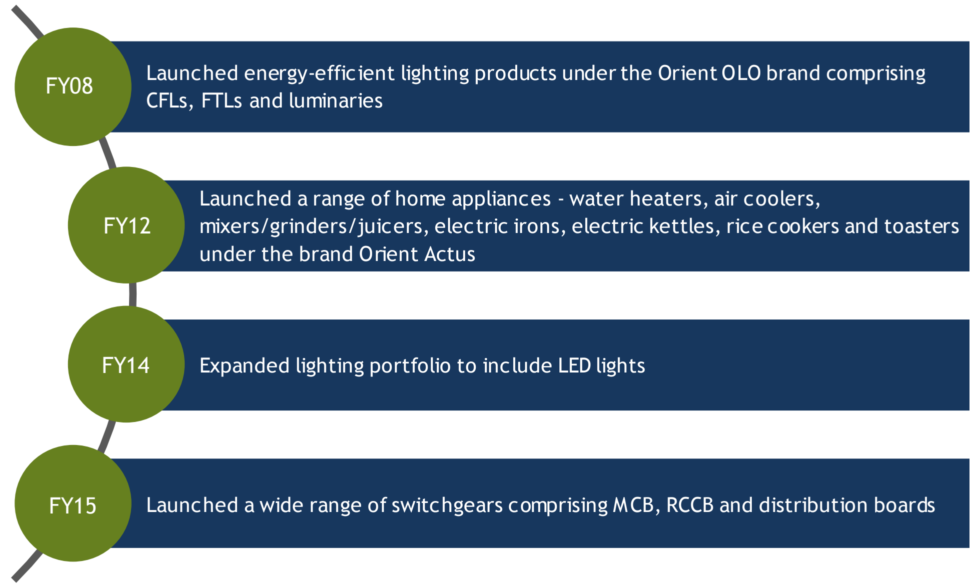


Source: Company, Equirus Securities

Gradual diversification into multiple categories

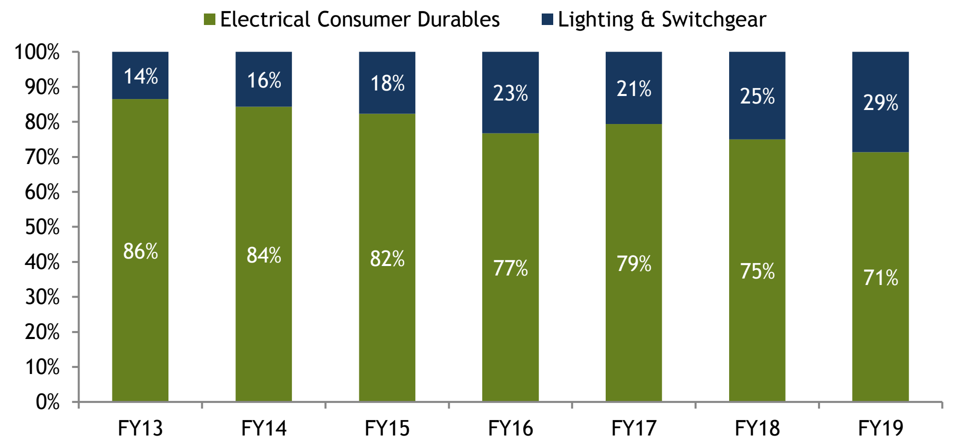
After being a dominant fans player for years, OEL has gradually ventured into other product categories to establish itself as a diversified electrical consumer durables brand. It forayed into llighting (FY08), appliance (FY12) and switchgear (FY15).

Exhibit 2: Drops 'fan-only' tag; diversifies into other electrical consumer durables



Source: Company, Equirus Securities

Exhibit 3: Strong growth in lighting & switchgears is lowering dependence on ECD

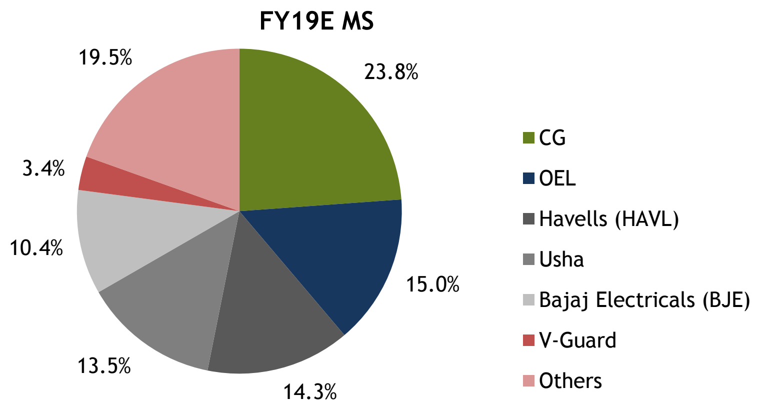


Source: Company, Equirus Securities

Market leadership in fans

OEL has been a dominant player in the domestic fans market over the years. It currently holds a ~15% market share in the overall fans industry and is only behind Crompton Greaves (CG) which leads the market with a ~24% share. However, OEL is the market leader in premium fans (price > Rs 4,000) with a 40% market share, largely driven by the success of its premium *Aero* series with superior operational features, noiseless performance and better aesthetics. As per media reports, OEL is targeting to increase its share in premium fans to 50%.

Exhibit 4: OEL among the top fans players in India



Source: Industry, Equirus Securities

Strong thrust on product innovation

Over the years, OEL has remained ahead of the curve with its product innovation — a key driver of its market dominance.

In 1994, OEL commercialized the PSPO (Peak Speed Performance Output) range of ceiling fans with patented DTA (Double Twist Angle) design; this design led to circulation of more air across a larger area at a lower per unit electricity cost. The PSPO range, widely popular over the years, was launched by OEL to reposition itself as a ***premium* brand from a *popular* brand.**

Since the past few years, the company launches new products and variants every year driven by consumer insights in line with changing market needs. Its product launches have focused on decorative, energy-saving and premium categories of fans. Some of the key recent launches are listed below.

Exhibit 5: Product innovation remains a key focus area

Fans product launches	
FY19	Launched **Aeroslim**, an IoT-enabled fan which can be controlled via Orient Smart mobile app. It is also India's first Inverter fan with 40% energy-saving feature.
	Launched four fans in the Lifestyle series - **Orient Bladeless** - a curvaceous fan with no blades, with a remote control, in-built mood lighting with four colour options and 7.5 hours of standby timer **Orient Monroe** - a compact tower fan with speed settings, in-built timer and remote control **Orient Auctor** - an oscillating fan with 3-D auto-oscillation feature (which helps circulate air to every nook and corner of the room), touch screen control, in-built timer function and remote-controlled operation **Orient Proteus** - a luxury box fan with compact design, super silent motor, vertical adjustment feature and 3-speed setting along with timer control.
	Launched 5-blade **Wind-Pro** series of portable fans with a sweep of 400 mm, air delivery of 95 CMM and silent operation.
FY18	Expanded Aero series with **Aerostorm**, **Aerocool**, **Aeroquiet BLDC**, **Aerolite** models
	Launched **Aerostorm** premium ceiling fan in a tie-up with Amazon. Its features include a sweep of 1320 mm, 100% rust-free blade made of high-grade glass filled compounded ABS, 18-pole heavy motor and air delivery of 300 CMM
	Also launched **Aerolite**, an underlight fan and Aeroquiet BLDC, the 50% power saving and super silent fan
	Launched **Aerocool**, a super-premium ceiling fan with aerofoil blade design, winglet technology, unique bottom canopy and air delivery of 300 CMM.
FY17	Launched the **Aeroquiet** ceiling fans in the super premium segment focusing on silent operation, higher air delivery and aesthetics. Its features consist of Aerodynamic blade design with a sweep of 1200mm, air delivery of 240 CMM, 100% rust-free blade made of high-grade glass filled compounded ABS, and 18-pole heavy motor with double ball bearing
	Introduced 48" **Eco Quasar** (Decorative BLDC fan with highly efficient DC motor)
FY16	Introduced 48" **Ecogale** - a premium fan with BLDC motor and LCD display which displays power saving details, speed and time);
FY15	Introduced **Ecotech** - energy saving BLDC fan of 1200 mm, 1400 mm, 600mm and 900mm

Source: Company, Equirus Securities

Exhibit 6: OEL remains ahead of the curve in product innovation; launches lifestyle fans in FY19

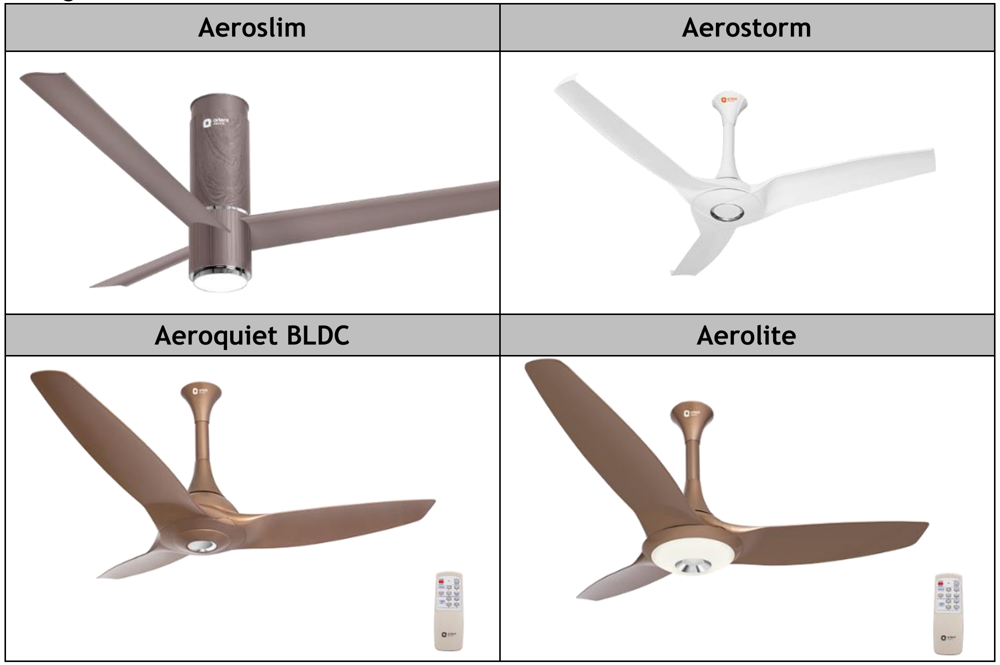
Source: Company, Equirus Securities

Product innovation drives premiumization

In the economy segment of fans, there is stiff competition from several organized as well as unorganized players due to low entry barriers. The bottom of the pyramid is thus a volume play with negligible scope for differentiation.

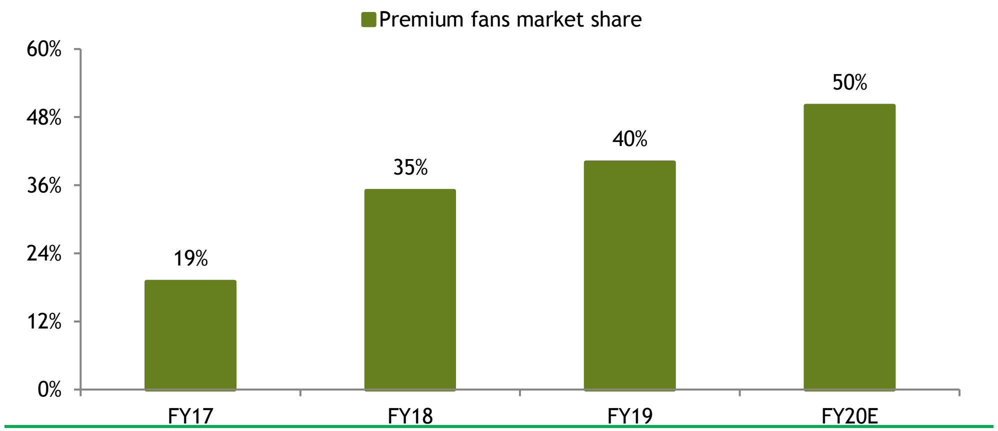
OEL has therefore, sharpened its focus on decorative (price point Rs 2,500-4,000) and premium (price point above Rs 4,000) fans to differentiate itself through innovation. These segments offer a value proposition of better aesthetics and better performance parameters like greater air flow, lower noise, etc. The contribution of premium fans in OEL's fans revenues stands at ~10% and that of decorative fans at ~30%. Compared to peers, OEL's product mix remains favorable towards premiumization. The company has steadily shored up its market share in the premium segment from 19% in FY17 to 40% currently (management targets to raise the share to 50% in the current year), largely driven by the success of the *Aero* series with continual product launches (Exhibit 5).

Exhibit 7: *Aero* series: A game changer in premium segment with unique aerodynamic design & features



Source: Company, Equirus Securities

Exhibit 8: Steadily gaining market share in premium fans



Source: Company, Equirus Securities

Channel Checks

- Among the intensely competitive fans market, our channel checks indicate that CG and OEL stand out with different strengths and strong brand recognition in the market.

- **Preference towards premium fans continue to increase**: One positive feedback received was that over the last 2-3 years, preference has been shifting towards premium products driven by rising disposable incomes and shortening replacement cycle as the frequency of home renovation has increased. This has led to overall improvement in the product mix.

- Further products like decorative, noiseless, dust-free, BLDC fans, are aiding to premiumization. Channel checks indicate that decorative fans are now the largest contributors to the product mix. Latest innovations like wifi-enabled IoT fans have also started seeing a rise in offtake.

- These trends have led to premiumization in the product mix across brands; however, **OEL and Havells (HAVL) dominate the market in this segment**. The market leader CG dominates in the economy segment and sustains its leadership due to high-quality products at value pricing and wide distribution. CG has the widest distribution network, which is far ahead of other popular brands in the market - OEL, HAVL, Bajaj Electricals (BJE), Usha and Polycab.

- **Aero vs. Stealth**: OEL's *Aero* series has been a huge hit in the premium-end of the market. To target the customer segment, HAVL launched Stealth series with a design similar to *Aero*. However, with respect to visibility, *Aero* products seem to be way ahead of Stealth. While *Aero* products were visible across most OEL dealers, Stealth was nowhere close.

- **Brand visibility**: Most of the dealers stock multiple brands and CG has emerged as the leader in visibility across stores. CG products were seen across stores and were proportionally higher than other brands. However, dealers stocking OEL products provide greater visibility to its decorative and premium ranges; as against this, CG had more visibility for its economy and decorative ranges.

- **Product mix across brands**: Among the stores we visited, the share of premium and decorative fans was as high as 80% with an average of 50-60% for OEL. On the other hand, the contribution for premium and decorative fans for CG was about 30-35% on an average.

Price comparison of fans

A brief analysis of MRP and selling prices of fans of OEL, Havells (HAVL) and Crompton Greaves (CG) reveals that fans are sold at a heavy discount to their MRPs. For OEL, the discounting is higher for the economy segment (in a high double-digit range) and reduces for higher segments. For HAVL, the discounting range seems to be in high double-digits across categories while for CG, the discounts are largely in high single-digits for lower segments but more for higher segments.

Exhibit 9: OEL has higher discounts in economy models, CG in premium, HAVL across segments

	OEL			HAVL			CG		
	MRP	Selling Price	Discount %	MRP	Selling Price	Discount %	MRP	Selling Price	Discount %
Economy (basic)	1,840	1,329	28%	2,215	1,735	22%	1,570	1,439	8%
	2,060	1,691	18%	2,310	1,929	16%	1,825	1,699	7%
Mid (energy saving, decorative, anti-dust)	2,900	2,540	12%	3,195	2,599	19%	3,300	3,099	6%
	3,490	3,002	14%	4,000	3,440	14%	4,060	3,599	11%
Premium (underlight, premium finish)	5,750	5,180	10%	6,610	4,660	30%	6,250	5,290	15%
	5,990	5,569	7%	8,050	7,124	12%	7,860	7,299	7%

Source: Companies, Equirus Securities

An analysis of MRPs of same brands indicates that HAVL's products are higher priced and have a large product range in the premium segment. CG prices are low whereas OEL is somewhere in the middle.

Exhibit 10: MRP pricing for HAVL on higher end, CG on lower and OEL in middle

	OEL		HAVL		CG	
	Min	Max	Min	Max	Min	Max
Economy	1,680	2,610	2,200	3,000	1,570	2,250
Mid	2,280	3,750	2,800	4,670	2,375	4,060
Premium	5,200	17,230	4,890	44,455	5,965	8,995

Source: Companies, Equirus Securities

A comparative analysis of the fans SKUs indicates that OEL/HAVL/CG have 95/72/115 SKUs. However, for OEL and HAVL, the Economy and Mid segments dominate the mix whereas for CG the economy segment dominates.

Exhibit 11: Product mix of fan SKUs indicates higher focus of mid and premium categories for OEL and HAVL and economy segment for CG

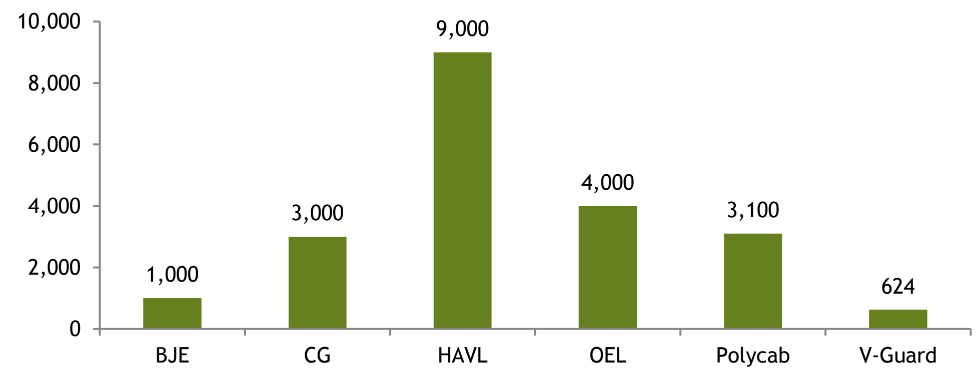
	OEL	HAVL	CG
Economy	31%	25%	46%
Mid	49%	40%	41%
Premium	20%	35%	13%
Total no. of SKUs	95	72	115

Source: Companies, Equirus Securities

Focus on distribution network to deepen OEL's presence

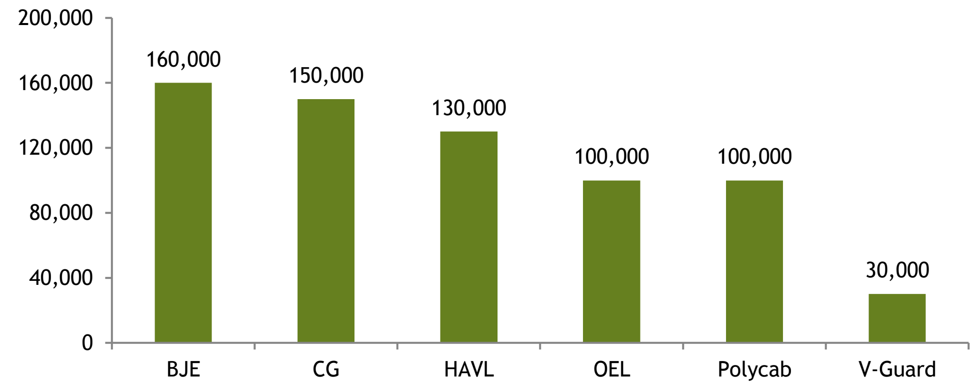
OEL's overall distribution network as of FY19 stands at 5,000 distributors and 125,000 retail touchpoints. For fans, OEL has a distribution reach of 4,000 distributors and 100,000+ retail touchpoints. While OEL's number of distributors are higher than those of peers, it is still less than half of HAVL's. OEL's retail touchpoint reach is fairly large but far below that of BJE and CG. Accordingly, there is still broad scope for distribution network expansion. Similarly, there is also vast potential to improve distribution network efficiency given that the average number of dealers per distributor stands at 25 vs. 160 for BJE.

Exhibit 12: OEL has a strong distribution network for fans



Source: Industry, Equirus Securities

Exhibit 13: Despite a strong retail network, there is scope for increasing the number of touchpoints in line with industry leaders

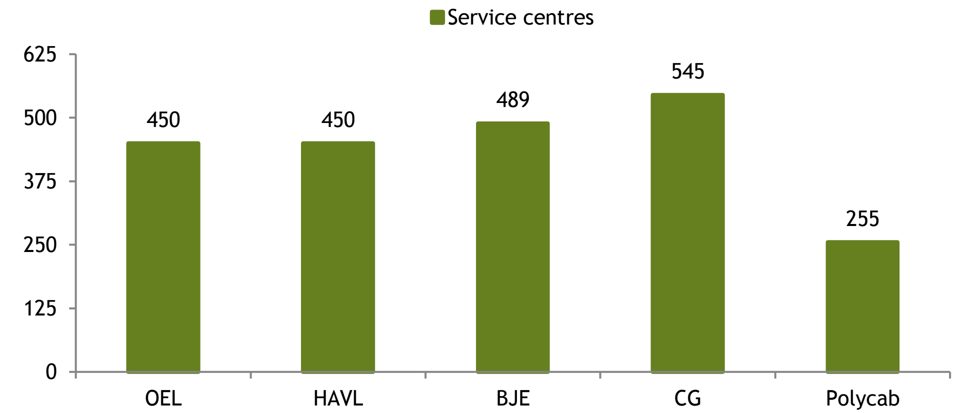


Source: Industry, Equirus Securities

Effective after-sales service builds brand equity

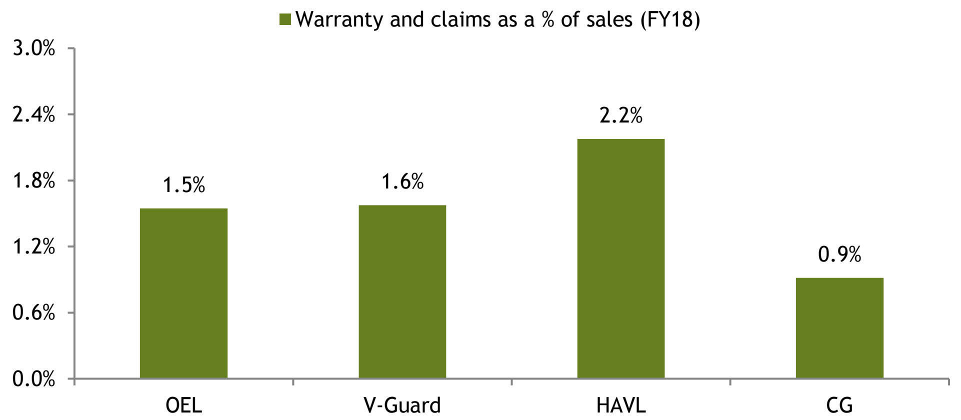
OEL has put in place a 450 city-wide after-sales service network, in line with peers. However, its warranty and claims expenses as a percentage of sales are lower than HAVL's but higher than CG's. Note that on excluding cables revenues, HAVL's warranty and claims as a percentage would rise to 3.2% as cables contributed 32.5% of sales in FY18. We believe low claims expenses indicate OEL's and CG's superior product quality.

Exhibit 14: OEL's aftersales service network in line with peers



Source: Company, Equirus Securities

Exhibit 15: OEL's warranty and claims as % of sales much lower than HAVL's



Source: Company, Equirus Securities

Consistently invested in branding and promotions

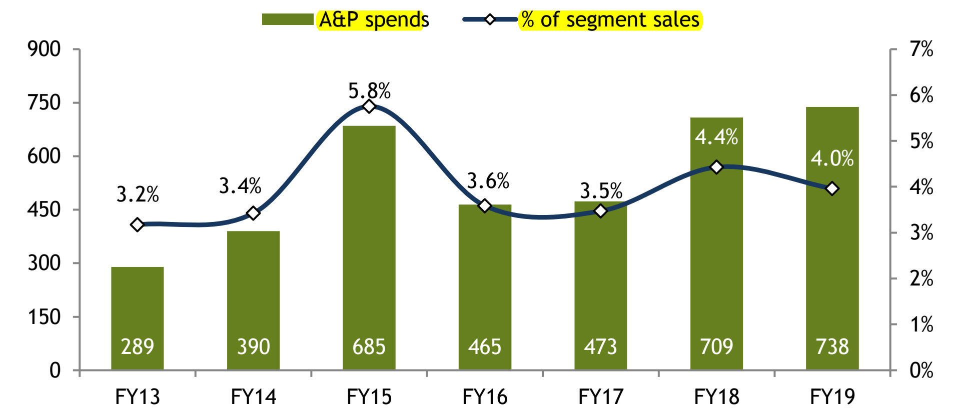
OEL brought on board India's leading cricketer, Mr. M. S. Dhoni, as a brand ambassador in FY06 and has regularly launched branding campaigns with him. The company has always reached out to consumers through the popularity of Mr. Dhoni – from promoting PSPO fans earlier to diverse categories now. In FY15, the company launched a new brand identity with the tagline '*Switch to Smart*', which is in use till date.

In recent years, OEL's A&P spends as a percentage of ECD business have consistently been above 3% of sales. A&P investments (as a percentage of sales) are amongst the highest in industry.

Exhibit 16: OEL's recent advertisements featuring M. S. Dhoni

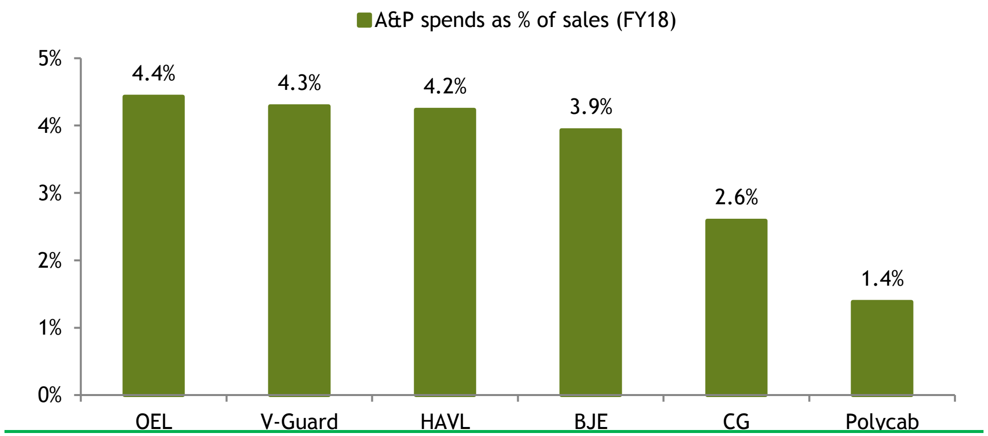
Source: Company, Equirus Securities

Exhibit 17: OEL's A&P spends consistently above 3% of sales



Source: Company, Equirus Securities

Exhibit 18: OEL's A&P spends (% of sales) amongst the highest in industry



Source: Companies, Equirus Securities

OEL focuses on both traditional media as well digital and social media for marketing. In FY19, it doubled its digital marketing budget to enhance its visibility across social media and digital platforms.

Exhibit 19: OEL has launched several digital campaigns across categories with Mr. M. S. Dhoni to drive brand awareness and recall

Source: Company, Equirus Securities

Game upped post demerger

Mr. Rakesh Khanna has been leading the consumer durables business since FY15. Under his leadership, OEL brought in a new management team with strong experience in the consumer durables space to lead various business units. The background of the new team is given below.

Exhibit 20: OEL's new management team with strong experience in consumer durables

Name	Designation	Age (years)	Experience (years)	Previous experience
Mr. Rakesh Khanna	MD & CEO	56	33	Jumbo Electronic-Head, Sony & IT Products, UAE
Mr. Puneet Dhawan	SBU Head (Lighting & Switchgear)	51	28	Crompton Greaves - GM Sales (Consumer Business Unit)
Mr. Atul Jain	SBU Head (Fans)	52	29	LG LeEco Technology - COO & Head of India Operations
Mr. Saurabh Baishakhia	SBU Head (Appliances)	45	21	LG Electronics India - Business Head
Mr. Saibal Sengupta	CFO	55	32	Usha International - CFO

Source: Company, Equirus Securities

In the last 2-3 years, the new team has ushered in several changes in supply chain, distribution and logistics which are expected to improve operational performance in the near-to-medium term.

Cost control initiatives to aid margins

OEL has initiated several initiatives to control costs which should improve margins. The key ones are discussed below:

(1) Project 'Sanchay'

In FY18, OEL launched 'Sanchay', a structured program to cut costs across business functions. It set up a national-level group along with a Sanchay unit in every manufacturing location. The Sanchay teams comprise a cross-functional mix of employees (technology, quality, R&D, supply chain, procurement etc.). The project focused on waste identification, product design and process innovation. It also derived value addition through increased automation and productivity. Although the project ran without any targets, it achieved savings which contributed to ~7% of EBITDA in FY18, as per the company.

(2) Consolidation of warehouses

Post-GST, OEL has consolidated its warehouses from 22 to only 2 across the entire country. It restructured the movement of products from its factories to the market. This move is expected to strengthen OEL's competitiveness through reduction in inventory and logistics costs as well as improve the speed of response to market demand.

(3) Improved working capital management

In FY18, OEL introduced a stronger credit and collection policy to control its receivables, especially in the fans business. At the same time, the company is also seeking vendor and dealer financing to improve its working capital. The efforts seem to be bearing fruit as the receivable days have declined from 88 days in FY18 to ~77 days in FY19. Similarly, non-cash working capital days have declined from 63 days in FY18 to 50 days in FY19.

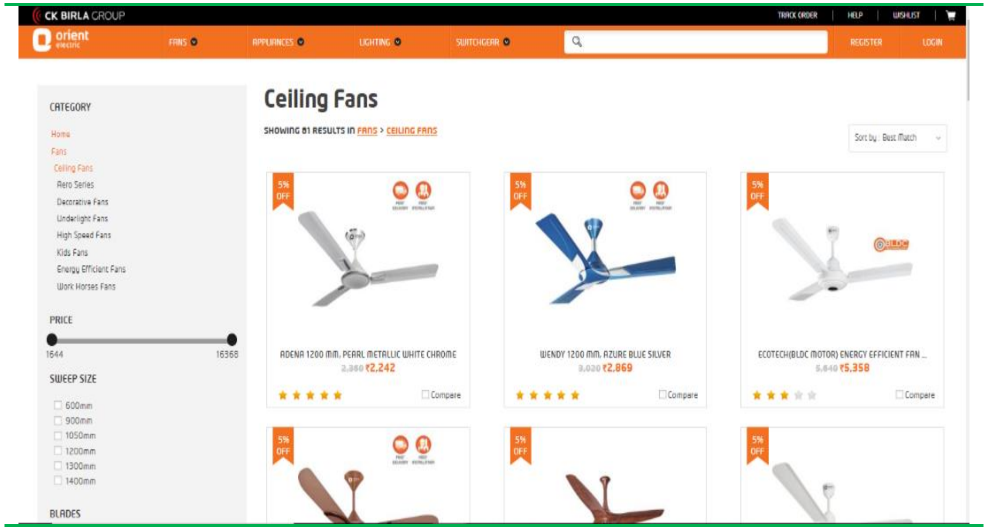
Channel management initiatives continue to strengthen OEL's position

OEL has introduced measures to improve its distribution network: (a) increased focus on online channels (b) strengthening direct connect with retailers (c) launching 'Smart Shops' to directly reach consumers.

(1) Increased focus on online channels

In tune with the evolving consumer behavior, OEL launched its e-commerce portal www.orientelectricshop.com in FY16. At the same time, it also maintains strong relationships with other e-commerce platforms like Amazon (OEL launched Aerostorm fan exclusively on Amazon in FY18). With these initiatives, OEL has emerged as the largest Indian online seller of fans.

Exhibit 21: OEL has launched the e-commerce platform to cater to online consumers



Source: Company, Equirus Securities

(2) Strengthening direct connect with retailers

To strengthen relationship with retailers, OEL has launched the 'Orient Connect' program in FY18. The program aims to understand retailer needs and motivational drivers. Further, OEL is also gaining insights on consumer preferences by tracking retail sales on real-time basis. In the course of one year, the engagement has doubled and Orient Connect has emerged as one of the most user-friendly application among retail community, as per the company.

(3) Launching 'Smart Shops' to directly reach the consumers

To enhance customer reach, OEL has also launched Smart Shops (on franchisee model) mostly in small towns. These 'Smart Shops' help to exhibit OEL's entire product range, directly reach end consumers and also provide the company in-depth consumer insights. This is in line with most competitors in the consumer durables space who are also launching their brand shops – HAVL, Galaxy, IFB Points, Voltas Brand Shops, etc.

Exhibit 22: 'Smart Shops' launched in small towns to market entire product range

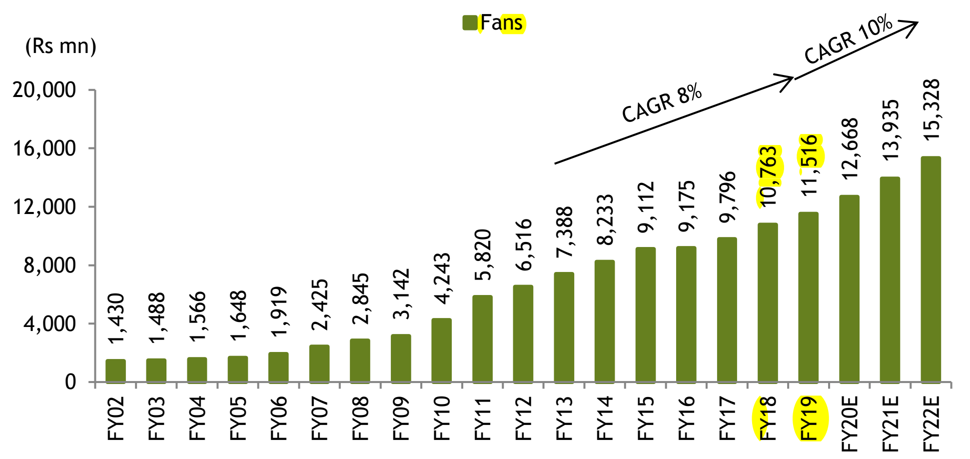
Source: Company, Equirus Securities

Fans business to see steady growth driven by improved product mix

The Indian fans industry is estimated to be Rs 77bn-80bn in size and expected to grow at a ~7 CAGR over FY18-FY23E. Growth is expected to be driven by premium fans (price > Rs 4,000) and their share in the industry product mix is expected to improve from 10% in FY18 to 20% in FY23E.

With the Indian fans industry being saturated, volume growth is expected to be in mid-to-high single digits. However, we expect OEL to achieve higher realizations due to its focus on premiumization. With see continued innovative and premium launches from OEL, and accordingly build in a growth rate slightly higher than that of the industry. We therefore model a 10% CAGR for the fans business over FY19-FY22E and expect it to grow from ~Rs 11.5bn in FY19 to Rs 15.3bn in FY22E.

Exhibit 23: Fans to grow at a 10% CAGR over FY19-FY22E



Source: Company, Equirus Securities

Product innovation a key focus area across categories

Product innovation has not been restricted to fans alone. OEL has also unleashed innovation across categories like lighting and small appliances. Some of the key innovations are listed below.

Exhibit 24: Innovation not restricted to fans alone

Lighting	
FY20	Launched **"EyeLuv series LED Lights"** range with Flicker-Control technology which reduces the harmful invisible flicker present in LED light
FY19	Among the first Indian lighting brands to have been awarded **5-Star BEE** (Bureau of Energy Efficiency) rating for **9W LED bulbs**
	Launched **smartphone controlled smart-lamp** with light intensity control and switching on/off features managed through a smartphone
	Developed **2x2 panel with occupancy sensors** for office segment with options for colour-changing, dimming, and switching
FY18	Expanded LED lighting portfolio with a new range of **LED battens** which offer high lumen efficacy with high energy and cost savings (LED battens deliver more light and offer up to 80% energy savings in comparison to conventional tube lights)
	Expanded the LED batten range with three new products - **Moodlight LED batten** - 18W, provides three different colours of light **Sunlight LED batten** - 24W, provides high brightness **Pearl LED Glass Tube batten** - 20W, with fixture-free design and low glare light
FY16	The first Indian brand to receive **BEE 3-star rating** in 2016 for LED bulbs
Appliances	
FY19	Introduced a range of **IoT-enabled** desert, tower and outdoor air coolers
FY18	Launched 18 new models of water heaters including **Glassline** - with Whirlflow technology which provides 20% more hot water supply **Enamour** - with a distinctive design and features such as corrosion-free titanium enamel tank, advanced anti-bacterial technology, super thick magnesium anode rod and digital temperature display **Aura Plus** - with powerful heating element to instantly provide hot water on demand
	Launched a new range of air coolers with distinctive features such as low power consumption of 2.7 watts, **DenseNest technology** (with 45% more water absorbent media) in cooling pads, anti-mosquito breeding, anti-bacteria feature, dust protection and high airflow
	Launched **metal bodied, modular outdoor air cooler** that can be assembled and dissembled quickly and can be easily transported, stacked and stored when not in use.

Source: Company, Equirus Securities

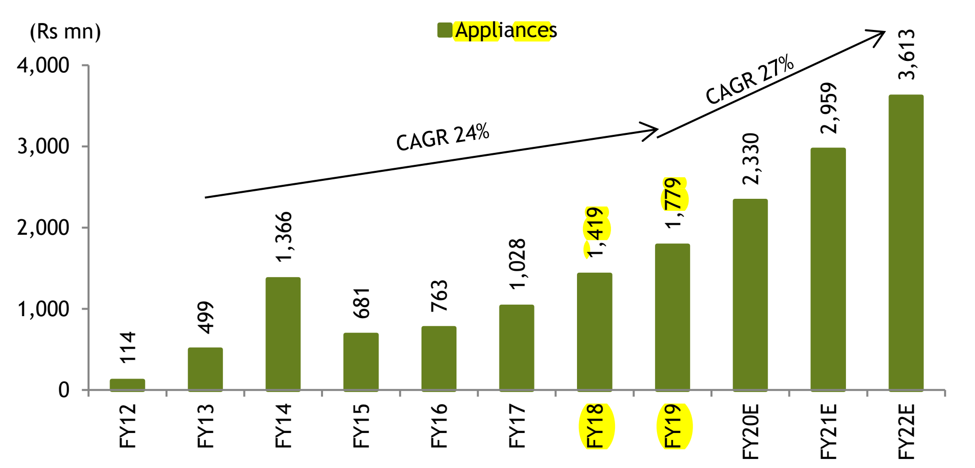
Strong potential to grow appliance business on the back of product launches, distribution network expansion and branding push

The size of India's water heater/air cooler/kitchen appliance industry is estimated to be Rs 18-20bn/Rs 45bn/Rs 48bn. OEL's appliance business has been growing at a fast double-digit range over the years, albeit off a small base. Growth has been driven by focused product launches across categories as well as through distribution network expansion. OEL has maintained its focus on innovation in air coolers and water heaters just like other categories (refer exhibit 24). OEL further backed up these efforts by effective and continual branding initiatives across both traditional as well as digital and social media.

The distribution reach for appliance business is, however, still under-penetrated. As of Dec'18, OEL had launched appliances in only ~150 cities. Considering the premium positioning of De'Longhi products, OEL aims to focus only on top metros and cities, and also through online channels. However, there is clearly a vast scope for expanding the distribution network for other categories, especially by leveraging OEL's existing network of dealers and distributors.

Accordingly, we expect the appliance business to grow from Rs 1.8bn in FY19 to Rs 3.6bn in FY22E, registering a strong 27% CAGR during FY19-FY22E.

Exhibit 25: Appliance business to grow at a 25% CAGR over FY19-FY22E



Source: Company, Equirus Securities

Among top-3 players in LED lamps

OEL ventured into the lighting business in FY08 and has systematically grown the business over the years by launching products in tune with shifting market demand, expanding the distribution network and launching branding initiatives. Initially focused on CFLs, OEL gradually shifted to LEDs as the market started moving in that direction. OEL also set up a PCB facility to ensure control on quality; this has helped improving product quality while reducing its warranty expenses.

In the past few years, LED lighting started gaining traction on account of:

- Higher energy efficiency
- Short payback period
- Longer life
- Continually declining cost
- Better aesthetics and design flexibility

Further govt. projects like Ujala and SLNP (Street Lighting National Programme) also provided a trigger for LEDs. This led to strong double-digit growth in the LED lighting segment and LEDs have now become a larger segment than conventional lighting.

Exhibit 26: Comparison of LED, CFL and incandescent bulbs

	LED bulbs	CFLs	Incandescent bulbs
Life expectancy (hours)	25,000	8,000	1,200
Power required (W)	8-10	14-18	60
Hazardous materials	None	Mercury	None

Source: Industry, Equirus Securities

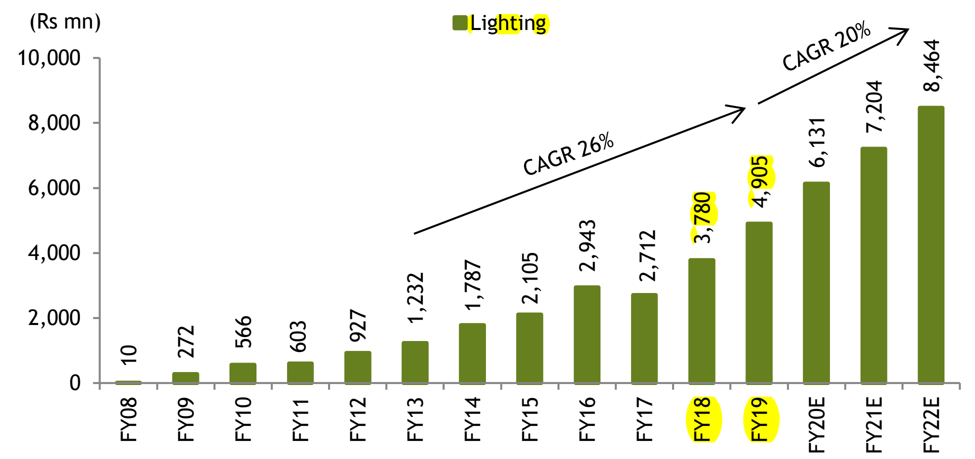
OEL capitalized on this shift in the market and launched LED products in FY14 to cater to this segment. With high growth potential in LED bulbs market, OEL completely stopped manufacturing CFL in FY16 and shifted its assembly lines to LED bulbs. Strong focus on this segment led to rapid scale up and market share gains. Total lighting industry in India is estimated to be Rs 210bn in size, of which total LED lighting industry is estimated to be Rs 140-150bn and the consumer segment accounts for ~40% of this. OEL is now one of the largest manufacturers of LED lamps with a total capacity of 3mn lamps per month. It has a high single-digit market share in LED bulbs and LED-based products contribute ~90% of OEL's lighting revenues. It aims to become a 100% LED company in the near term.

The lighting business has grown at a ~26% CAGR over FY13-FY19, largely driven by the low-margins power lamps business. On the back of changing trends towards LED lightings, OEL successfully launched a range of LED battens (colour changing, high brightness, low glare battens). Continuing with its innovation streak and thrust on premiumization, it just recently launched low flicker 'EyeLuv' LED products. With a price range of Rs 140-150, these bulbs will cost 30-40% higher than a normal LED bulb. Distribution network expansion is another focus area for the company in this business. As per media reports, OEL currently has 700 distributors and 50,000 retailers in this segment; it plans to increase the network by 10-12% in FY20.

OEL is also exploring opportunities for retrofits by targeting IT, banking and healthcare sectors. The company believes the annual business opportunity through retrofits could be Rs 4bn-5bn. Besides, OEL has stopped participating in EESL tenders for business due to stiff pricing competition. While it has largely exited the government segment (~50% of OEL's FY19 street-light revenues), it does continue to supply street lighting. Currently, about 75% of OEL's lighting revenues are contributed by the B2C segment while the rest by the B2B segment and government combined. OEL expects this mix to change to 50:50 in about three years.

We expect OEL to sharpen focus on LED tubes and fixtures; we accordingly expect the business to grow from Rs 4.9bn in FY19 to Rs 8.5bn in FY22E, at a 20% CAGR.

Exhibit 27: Lighting to grow at a CAGR of 20% during FY19-22E

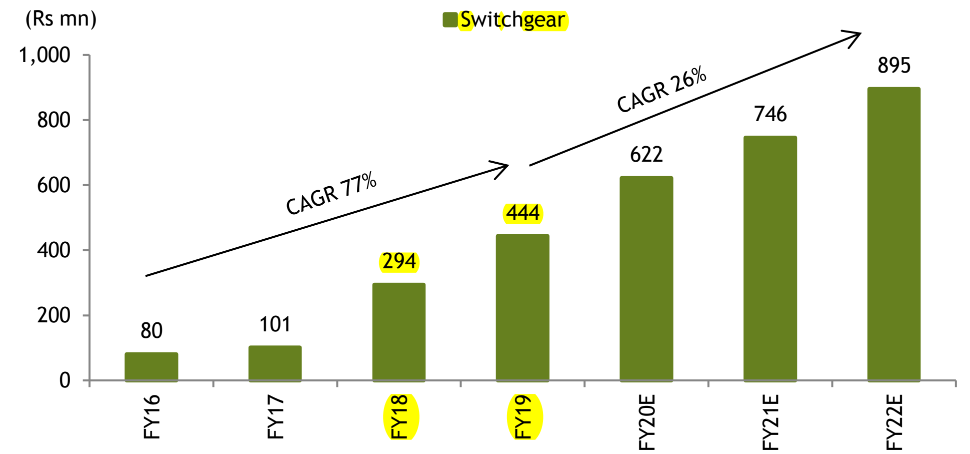


Source: Company, Equirus Securities

Switchgears biz growing at robust pace with aggressive network expansion

OEL's switchgear business launched in FY15 is still at a nascent stage (~Rs 444mn revenues in FY19) in an industry estimated to Rs 180bn in size. The company is targeting premium positioning through high-quality products and simultaneously conducting BTL activities. It has been aggressively expanding the distribution network with a reach to 17 states as of FY19 as against 7 in FY18. In FY18, it had a network of 200 distributors and 3,000 retailers. OEL engaged with 30,000 electricians in FY19 as against 25,000 in FY18. Electricians are key influencers in this business. The business has been growing at a hyper growth rate (~200% in FY18) albeit off a small base. With vast scope for distribution expansion, we believe the switchgear business will continue to register strong growth over the coming years. We build in a 26% CAGR during FY19-FY22E, expecting revenues to grow to Rs 895mn in FY22E.

Exhibit 28: Switchgear business to grow at a 26% CAGR during FY19-FY22E



Source: Company, Equirus Securities

Financial profile — Robust operating performance across verticals

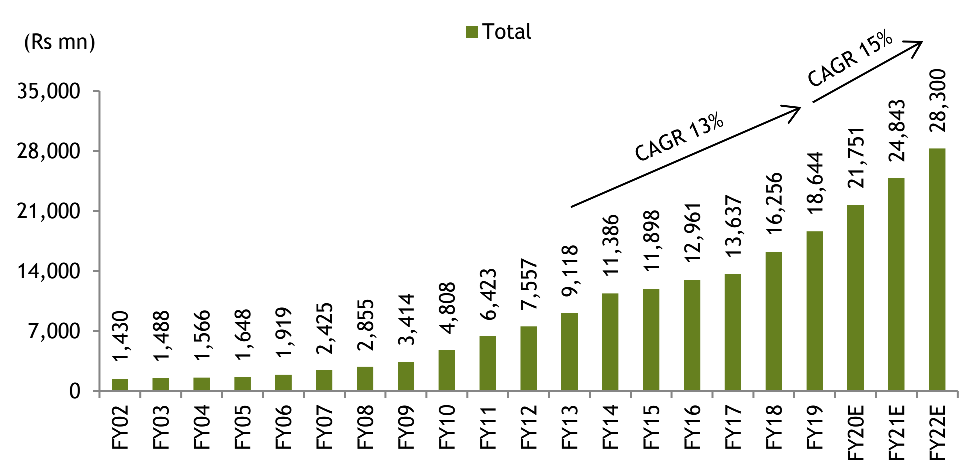
Expect revenue/EBIDTA/PAT CAGR of 15%/22%/30% over FY19-FY22E

We expect healthy operational performance for OEL in the mid-to-long term. Revenue growth is likely to be driven by a thrust on innovation and premiumization across product categories. Accordingly, we expect revenues to increase from Rs 18.6bn in FY19 to Rs 28.3bn in FY22E, a 15% CAGR. We expect strong growth in the non-fan categories and accordingly see revenue contribution of fans declining from 62% in FY19 to 54% in FY22E.

Margins in FY19 were impacted by several one-offs such as demerger costs, one-off provisions, and supply chain rationalization initiatives. Going forward, margins are expected to normalize and improve due to premiumization and kicking in of operational leverage, pushing up EBITDA from Rs 1.4bn in FY19 to Rs 2.6bn in FY22E. During this period, we expect EBIDTAM to improve from 7.6% in FY18 to 9.1% in FY22E.

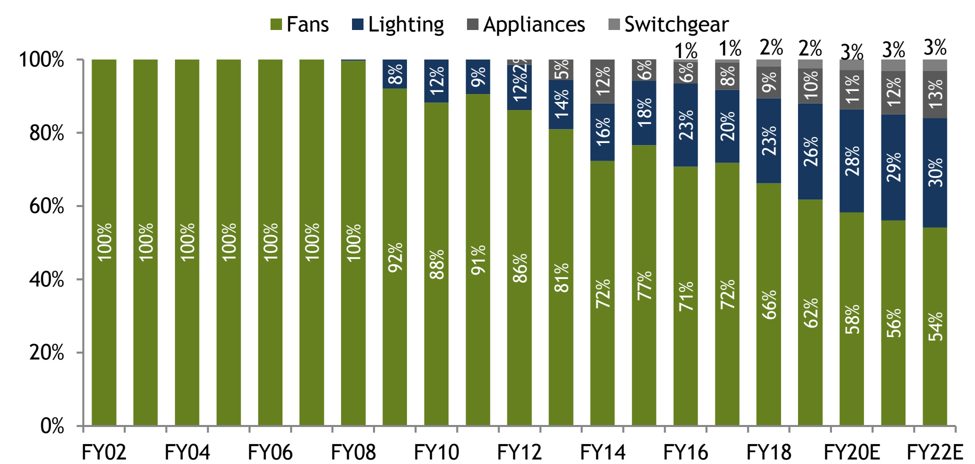
We expect PAT to grow at a 30% CAGR during FY19-FY22E, from Rs 693mn in FY19 to Rs 1.5bn in FY22E.

Exhibit 29: We expect revenues to grow at a 15% CAGR over FY19-FY22E



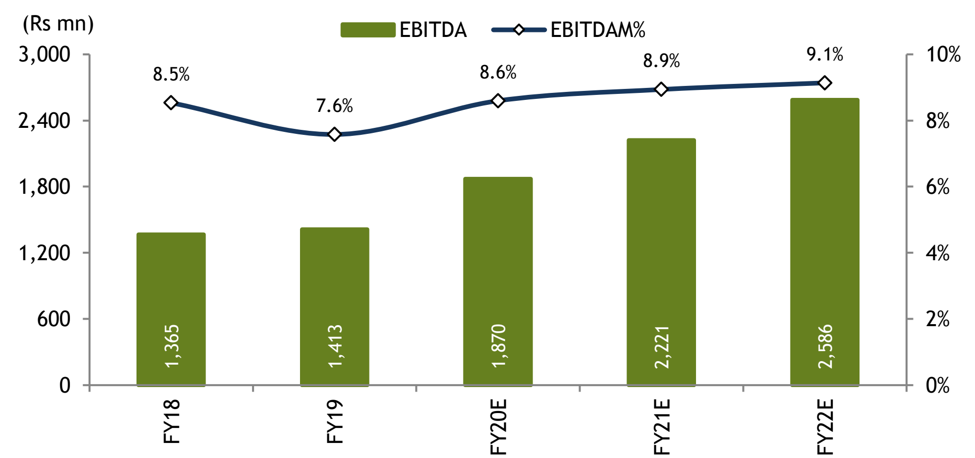
Source: Company, Equirus Securities

Exhibit 30: Non-fans categories to see strong growth, higher revenue contribution



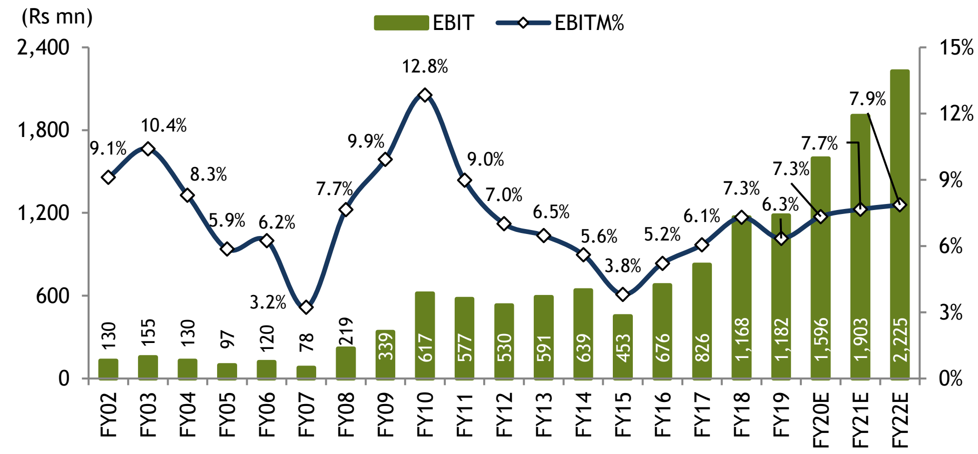
Source: Company, Equirus Securities

Exhibit 31: We expect strong profitability with gradual margin expansion



Source: Company, Equirus Securities

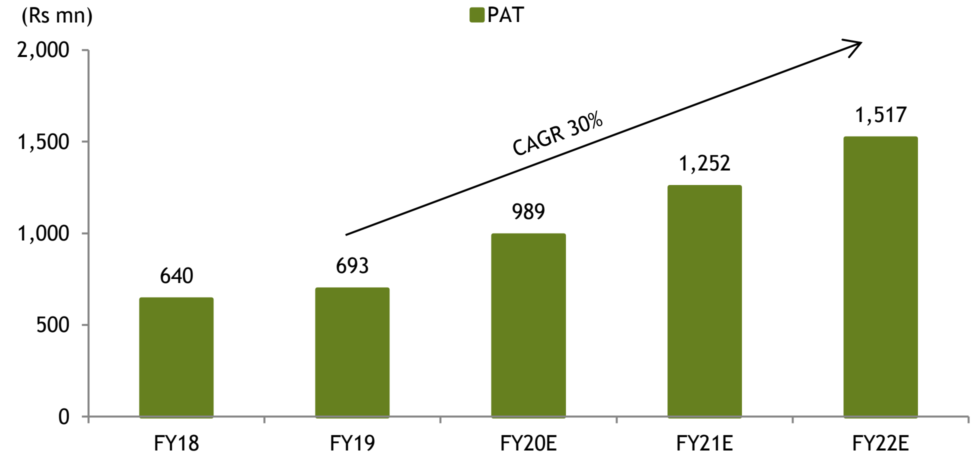
Exhibit 32: EBIT and margins* expected to improve over FY19-FY22E with better realizations and operational leverage



Source: Company, Equirus Securities

**EBIT and EBITM from FY02 to FY17 correspond to ECD segment of erstwhile OPIL (excluding unallocated income and expenses)*

Exhibit 33: We expect a robust 30% PAT CAGR over FY19-FY22E



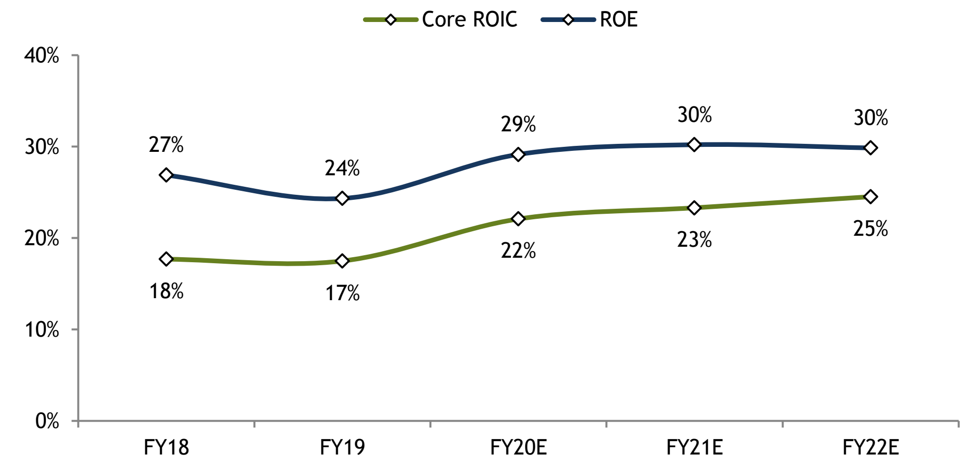
Source: Company, Equirus Securities

ROE/ROIC to improve on strong profitability growth

With improving profitability, we expect OEL's ROE/ROIC to improve sharply. Further, we see the company largely incurring regular maintenance capex going forward. Accordingly ROE/core ROIC would thus increase from 24%/17% in FY19 to 30%/25% in FY22E as margins improve.

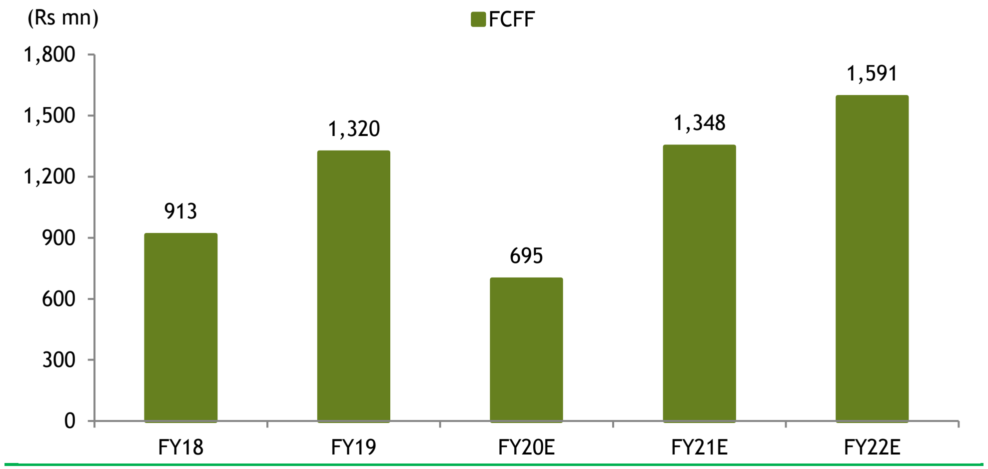
We forecast CFO to decline in FY20E due to an increase in WC, and expect it to improve gradually thereafter. We also expect FCFF to fall in FY20E and improve thereafter with the trend likely to continue in the near term as cash outflows from the company are likely to be minimal.

Exhibit 34: While ROE and core ROIC came under pressure in FY19 due to lower margins, we expect them to normalize going forward



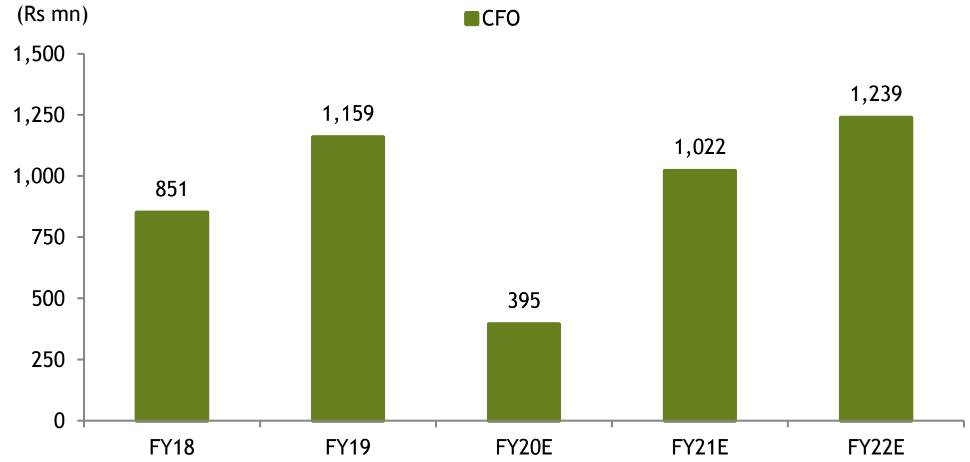
Source: Company, Equirus Securities

Exhibit 35: FCFF to grow from Rs 1.3bn in FY19 to Rs 1.6bn in FY22E



Source: Company, Equirus Securities

Exhibit 36: CFO to fall in FY20E and improve thereafter



Source: Company, Equirus Securities

FCFF = CFO + CFI + (Interest expense(1- tax rate))

CFO = Profit before tax + Depreciation + Extraordinaries - Tax + (non-cash working capital of previous year - non-cash working capital of current year)

Peer comparison

Exhibit 37: Market overview of OEL's business categories

Product category	Market size (Rs bn)	Orient's market share	Key competitors
Fans	Rs 77-80bn	Overall industry: 13-16% Organised mkt: 18-20%	Crompton, Havells, Usha, Bajaj
Lighting	LED: Rs 140-150bn Overall: Rs 210bn	LED bulbs: 10%	Philips, Havells, Bajaj, Wipro, Crompton, Surya, Syska
Appliances	Water Heater: Rs 18-20bn Air Cooler: Rs 45bn Kitchen Appl : Rs 48bn	<2%	Philips, Bajaj, Preethi, Havells, Racold
Switchgear	~Rs 180bn	<2%	Havells, Legrand, Schneider, GM

Source: Industry, Equirus Securities

Key takeaways (exhibit 38) from financial comparison of OEL and its peers:

- In overall growth, OEL has outpaced CG for two consecutive years.
- BJE witnessed a sharp 42% growth in FY19 led by its EPC business (+58% yoy). Nevertheless, its Consumer Products segment saw a robust 23% growth as well.
- HAVL's revenues grew by 24% in FY19 led by the Lloyd segment (+31% yoy). However, its ECD registered a strong 27% growth as well.
- Polycab grew at a strong 17% in FY19 led by its FMEG segment (+30% yoy) which continues to grow sharply, albeit off a smaller base.
- On blended basis, OEL's margins lag those of its peers (except BJE), which indicates that there is significant scope for margin expansion.
- Accordingly, OEL's ROE and core ROIC have scope for expansion as well.
- On trailing basis, OEL's P/E and EV/EBITDA are second to those of HAVL but higher than those of others.

Exhibit 38: Strong scope for OEL to improve margins

	OEL		CG		BJE		HAVL		Polycab	
	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19
Sales	15,998	18,644	40,716	44,789	46,870	66,389	81,386	100,576	67,587	79,106
Sales growth	17.3%	16.5%	4.5%	10.0%	10.4%	41.6%	32.7%	23.6%	22.9%	17.0%
EBITDA	1,365	1,413	5,310	5,858	2,934	3,401	10,493	11,922	7,238	9,189
EBITDAM %	8.5%	7.6%	13.0%	13.1%	6.3%	5.1%	12.9%	11.9%	10.7%	11.6%
PBT	978	1,049	4,854	5,616	1,645	2,411	10,028	11,553	5,668	7,570
PAT	640	693	3,238	4,025	836	1,536	7,006	7,915	3,584	5,019
ROE	26.9%	24.3%	49.5%	42.6%	9.3%	15.7%	20.0%	19.8%	16.5%	19.3%
Core ROIC	17.7%	17.5%	27.1%	29.4%	10.3%	9.0%	31.4%	22.9%	12.6%	17.6%
EPS (FY19)	3.0	3.3	5.2	6.4	8.2	15.3	11.2	12.7	24.1	33.8
CMP	162	162	235	235	533	533	790	790	644	644
P/E (trailing)	54x	50x	45x	37x	65x	35x	70x	62x	27x	19x
EV/EBITDA	26x	25x	28x	24x	22x	21x	46x	41x	14x	10x
D/E	0.7	0.4	0.8	0.3	0.8	1.5	0.0	0.0	0.3	0.1

Source: Companies, Bloomberg, Equirus Securities

Key takeaways from segment analysis (exhibit 39) of key players in ECD categories reveals:

- OEL outperformed most of its peers in revenue growth in FY18 and FY19.
- In the consumer durables segment, while CG's and BJE's revenues contracted in FY18, OEL registered a commendable 12.5% growth. Although OEL lagged the revenue growth rate in FY19, it should be noted that CG and BJE achieved their growth rates off a soft base. In fact, BJE managed to grow by 23% after two consecutive years of contraction.
- In the ECD segment, OEL's margins compressed in FY19 due to input cost pressures and rising other expenses (warranty claims and miscellaneous expenses).
- In the lighting and switchgear segment, OEL has outperformed the corresponding segments of CG and HAVL with respect to both revenue growth and margins; however, the size of the business (FY19) at Rs 5.3bn is way smaller than that of CG/HAVL at Rs 12.7bn/Rs 12.9bn.
- Polycab and Finolex are relatively new players and therefore have high growth rates due to small bases. They also have low margins due to lower volumes. Finolex hasn't been able to break even yet.

Exhibit 39: OEL has beaten revenue growth rates of most of the large players in FY18 and FY19

		Segment margins				Revenue Growth		
Company	**Segment Name**	**FY16**	**FY17**	**FY18**	**FY19**	**FY17**	**FY18**	**FY19**
OEL	Electrical Consumer Durables (ECD)	-	-	12.1%	11.3%	8.9%	12.5%	9.2%
	Lighting & Switchgear (L&S)	-	-	8.5%	11.0%	-7.0%	44.9%	31.3%
CG	Electrical Consumer Durables (ECD)	15.8%	17.1%	18.9%	19.2%	131.2%	-2.0%	13.6%
	Lighting	8.7%	8.8%	11.5%	8.4%	100.7%	13.1%	-0.9%
Bajaj Electricals	Consumer Products (CP)	4.6%	4.3%	4.9%	6.0%	-10.9%	-3.7%	23.3%
Havells	Consumer Durables (CD)	25.0%	24.6%	26.8%	26.8%	24.2%	10.5%	27.0%
	Lighting & Fixtures (L&F)	22.8%	25.9%	28.7%	28.6%	22.1%	14.3%	10.7%
Polycab	Fast Moving Electrical Goods (FMEG)	-10.2%	1.0%	3.0%	1.2%	70.8%	46.1%	30.2%
Finolex Cables	Others	-22.2%	-38.2%	-16.7%	-16.9%	7.0%	44.8%	18.5%

Source: Companies, Equirus Securities

Fans Industry

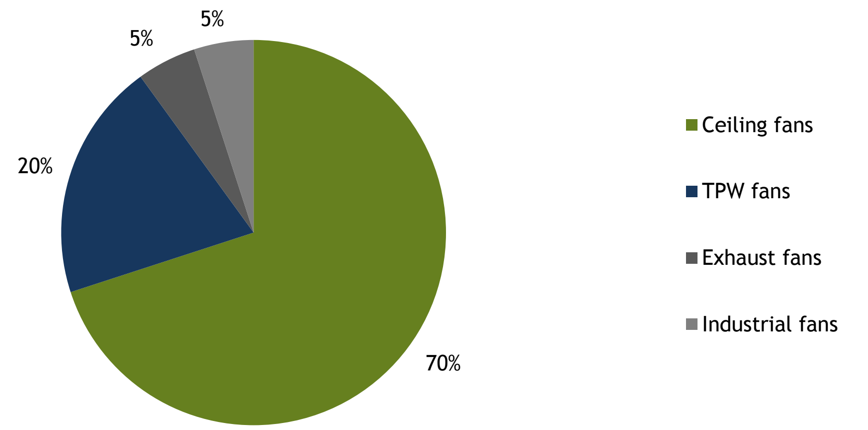
Fans industry growing at a steady pace

Based on the product type, the fans industry can be classified into four categories:

- Ceiling fans
- Table, pedestal, and wall (TPW) fans
- Exhaust fans — typically used in kitchens and bathrooms
- Industrial fans

Of these four categories, ceiling fans are the largest category contributing 69-71% of the industry. Although overall fans volumes faced a setback in the past few years due to a real estate slowdown, growth has been driven by rising demand for premium products (decorative, energy-efficient and custom-made fans). TPW fans have greater demand from rural areas than urban areas on account of their portability, which helps avoid multiple fan purchases. On account of the government's universal electrification initiative, rural areas have better electricity supply and has aided growth of TPW fans. TPW fans constitute 19-21%, while exhaust and industrial fans 4-6% each of the total fans industry.

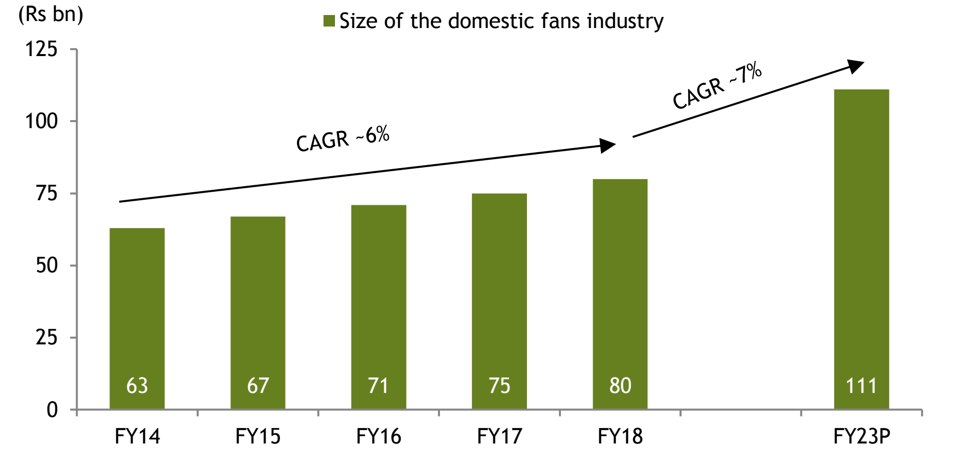
Exhibit 40: Ceiling fans dominate the overall fans industry (as of FY18)



Source: Industry, Equirus Securities

Due to the factors mentioned above, the fans industry has grown from Rs 63bn in FY14 to Rs 80bn in FY18 (~6% CAGR), and is further expected to grow to Rs 111bn by FY23P (~7% CAGR). In terms of volumes, the fans industry is estimated to be 55mn in FY17. Given the high base of ceiling fans, volume growth is expected to be moderate. However, growth will be driven by premium products.

Exhibit 41: Fans industry to grow by ~7% CAGR over FY18-FY23P

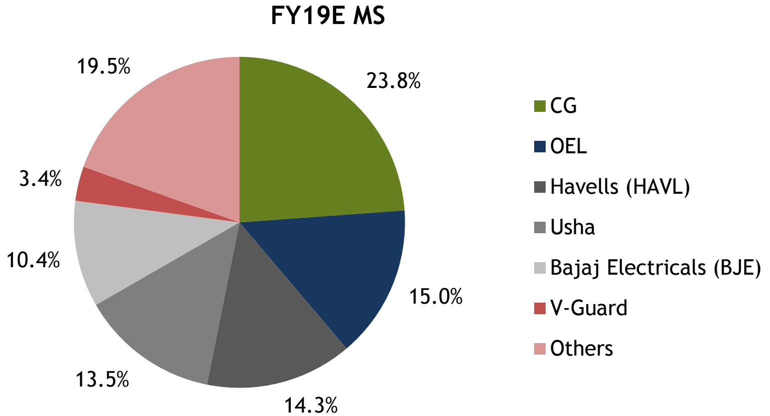


Source: Industry, Equirus Securities

Crompton Greaves dominates the fans market

Crompton Greaves (CG) is the market leader in the fans industry with a 22% market share (as of FY17). CG is followed by Usha with a 16% market share. HAVL is a key player in the premium fans segment. OEL is the third leading player in the fans industry with a market share of 12%. OEL has gained market share with continuous innovation and introduction of energy efficient products. It has also launched premium fans with better performance, reliability and lifespan. Other key players in the fans industry include Bajaj Electricals, V-Guard, Polycab, Khaitan and several unorganized players.

Exhibit 42: OEL is among the top 3 players in the fans market



Source: Industry, Equirus Securities

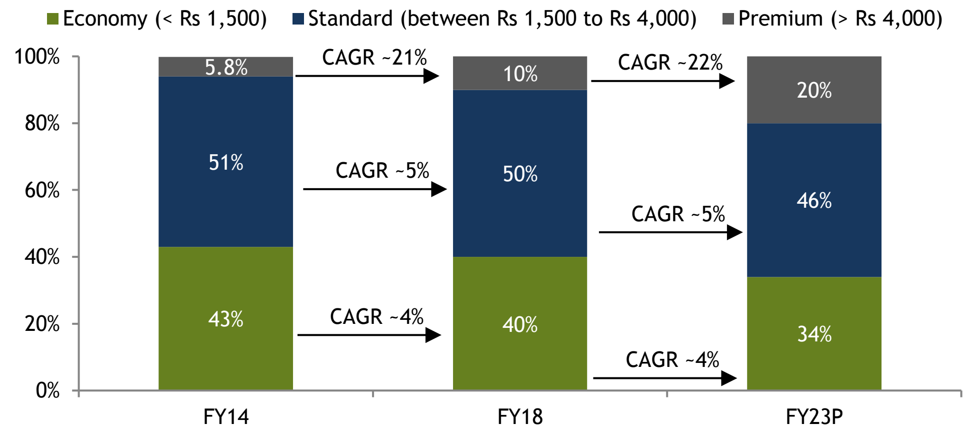
Premium ceiling fans to continue growing in high double digits

Based on the pricing, ceiling fans can be classified as below:

- Economy (priced up to Rs 1,500)
- Standard (priced between Rs 1,500 to Rs 4,000) and
- Premium (priced above Rs 4,000)

During FY14-FY18, premium fans grew at a ~21% CAGR and improved their market share from 5.8% to 10% (Exhibit 68). This growth was driven by improving disposable incomes, evolving consumer preferences and greater electricity availability. Accordingly, premium products are expected to grow by ~22% CAGR over FY18-FY23P.

Exhibit 43: Premium ceiling fans gaining market share



Source: Industry, Equirus Securities

Changing industry dynamics

The fans industry is witnessing various shifts in product demand. Key trends are as below:

(1) Energy-efficient products gaining traction

GoI's National Energy Efficient Fans Program (NEEFP) provides 50-watt fans through EESL at Rs 1,150 per unit on upfront payment, or at a total of Rs 1,200 if taken on EMI. The EMI is adjusted against consumer electricity bills. As of Aug'18, about 1.98mn fans have been distributed, leading to energy savings of 770MWh and cost savings of Rs 2.6mn per day.

BEE's Super-Efficient Equipment Program (SEEP) aims to improve adoption of super-efficient appliances by offering financial stimulus at key intervention points. For ceiling fans, this program has targeted 50% higher efficiency than the currently available models by financially incentivizing manufacturers to produce super-efficient fans and sell them at a discount. SEEP aims to promote super-efficient 35W ceiling fans as against 70W ones which are currently popular in the market.

(2) Improving realizations driven by value-added products

Manufacturers are adding innovative features to fans, aiding realizations. Some such innovations include silent fans, dust-free fans and fans with remote brushless direct current (BLDC) motors. Some of the latest features being added to fans include temperature sensors and Wifi/mobile app control. While the penetration of these products is currently low, it is expected to rise in the future owing to increasing disposable incomes and evolving preferences, especially among the younger generation.

Profit realizations were under pressure in the last 2-3 years on account of concomitant rise in RM prices leading to profit realizations rising by only 3-3.5%. However, with the share of premium fans likely to improve going forward, the realizations for the sector are also expected to rise from 6-8% levels to 15-20% levels.

(3) Replacement demand gaining momentum

Home improvement cycles in urban areas are shortening on account of rising disposable incomes and changing consumer preferences. This has shored up replacement demand, especially in premium and economy fans.

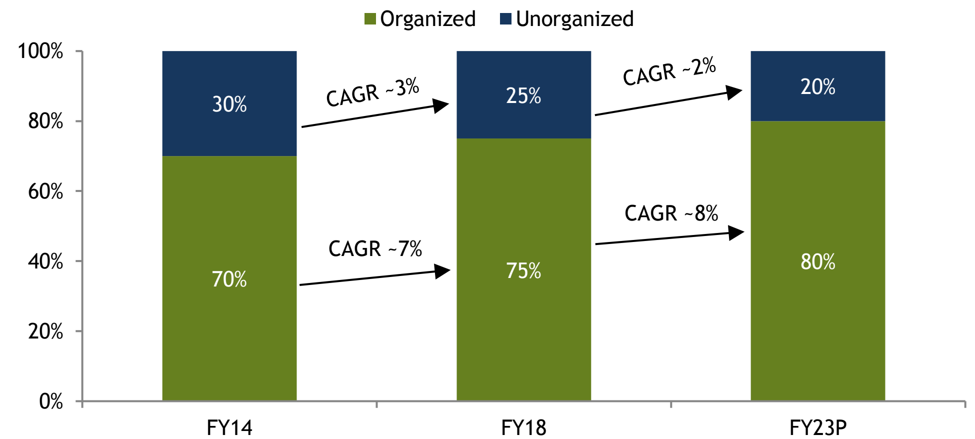
(4) Govt. initiatives for universal electrification to improve rural penetration

Govt. initiatives like DDUGJY, Saubhagya and UDAY aimed at universal electrification are expected to drive rural demand for fans. Accordingly, the base and economy segments of ceiling fans as well as TPW fans are expected to witness greater demand from rural areas.

Organized sector to improve market share

On account of the standardized nature of fans, there are many organized as well as unorganized players in the industry. Over the years, consumer preferences have shifted towards quality and branded products. Therefore, the market share of organized players has increased from ~70% in FY14 to 75% in FY18. Further, with GST rollout, the price gap between branded and unbranded products is expected to reduce. This would further increase the share of organized players to ~80% by FY23P.

Exhibit 44: Organized sector steadily gaining market share in fans



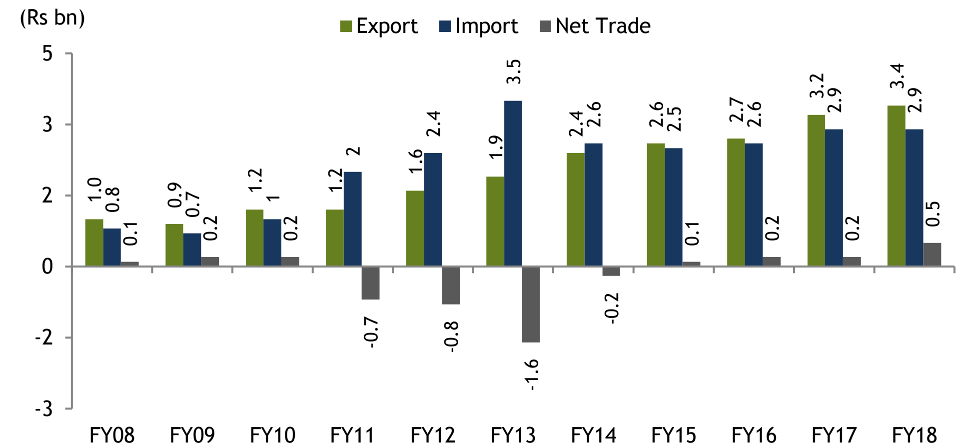
Source: Industry, Equirus Securities

India continues to be a net exporter of fans

India's fan exports have grown from Rs 1.0bn in FY08 to Rs 3.4bn in FY18 whereas imports have grown from Rs 0.8bn to Rs 2.9bn; during this period, India has largely been a net exporter of fans (barring FY11-FY14). India was a net importer during FY11-FY14 due to a jump in imports of pedestal fans. Thereafter, it again turned a net exporter on the back of healthy ceiling fan exports.

OEL continues to be the largest exporter of fans from India with a ~60% share in the total exports.

Exhibit 45: India is a net exporter of fans



Source: Industry, Equirus Securities

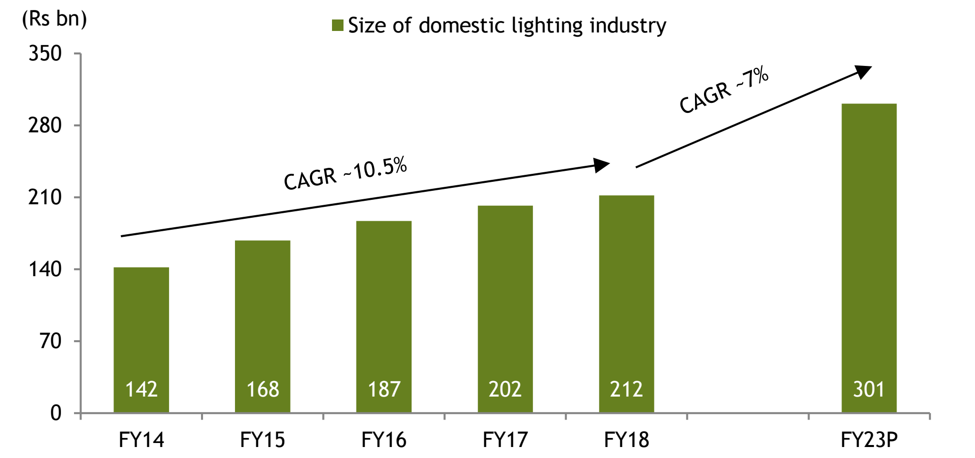
Lighting & Luminaires Industry

Domestic lighting & luminaire industry registers strong growth

Domestic lighting & luminaire industry comprises conventional lighting, LED lighting and accessories. This industry has grown at a 10.5% CAGR over FY12-FY18, from Rs 142bn in FY12 to Rs 212bn in FY18, driven by a fast shift to LED lighting from conventional lighting catalyzed by govt. initiatives like affordable housing and rural electrification.

Initially, LED lighting growth was driven by the institutional segment (Energy Efficiency Services Ltd) due to higher prices. Retail sales however have picked up with the recent decline in prices, better aesthetics, awareness on energy efficiency, and LED eco-friendliness.

Exhibit 46: Lighting & luminaire industry sees strong growth



Source: Industry, Equirus Securities

Growth triggers for the lighting & luminaire industry in the mid-to-long term include (1) the government's affordable housing initiative, (2) rural electrification, (3) automobile industry growth, and (4) an overall upbeat economic environment. Industry growth is expected to be slower than that seen in the last five years as LEDs already enjoy good market penetration Further, on account of longer LED lifespan, replacement demand is likely to be muted. The industry is expected to grow at a ~7% CAGR to Rs 301bn by FY23P.

Exhibit 47: Comparison of LED, CFL and incandescent bulbs

	LED bulbs	CFLs	Incandescent bulbs
Life expectancy (hours)	25,000	8,000	1,200
Power required (W)	8-10	14-18	60
Hazardous materials	None	Mercury	None

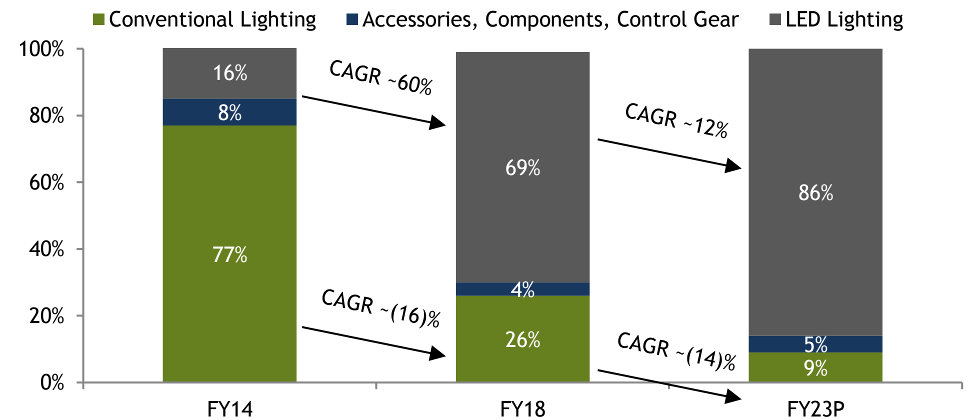
Source: Industry, Equirus Securities

LEDs to dominate lighting industry

Historically, conventional lighting sources contributed a major share to the lighting industry. However, the adoption of LED lighting has gained traction in recent years due to (1) a decline in LED chip prices by 60%, making it viable to manufacture LED lights, (2) government initiatives to replace FTL, GLS and CFL with energy-efficient LEDs and (3) growing awareness on eco-friendliness and energy efficiency of LED lighting. The government aims to replace 700-800mn GLS and 30-35mn streetlights in the long term. It has also enforced a ban on 100W GLS sales.

Although the initial cost of LEDs is higher than incandescent bulbs and CFLs, LEDs are more energy efficient and have a longer lifespan, making them cheaper over their entire lifespan. Nevertheless, due to higher initial cost of LEDs, their penetration is higher in urban areas vis-a-vis rural areas. However, govt incentives such as UJALA and DDUGJY are likely to increase adoption of LEDs in rural areas as well. The share of LED lighting has improved from 16% in FY14 to 69% in FY18 and should touch 86% by FY23P.

Exhibit 48: LED lighting to improve share

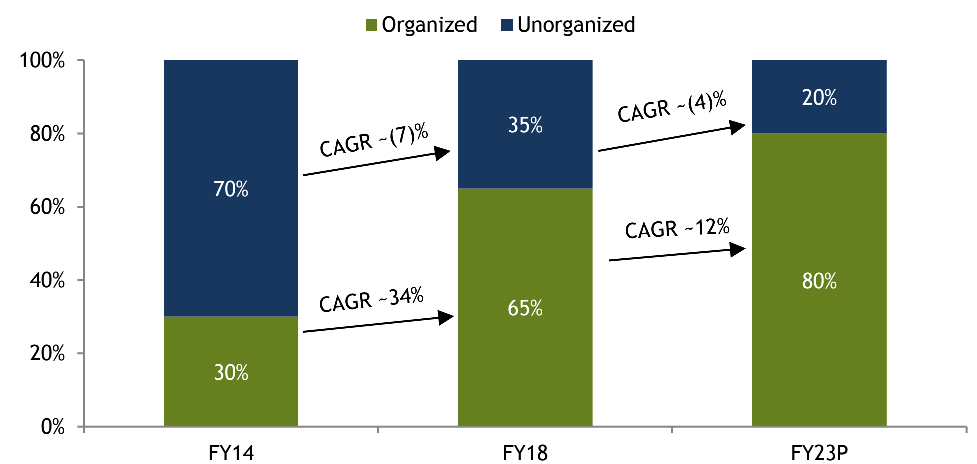


Source: Industry, Equirus Securities

Share of organized sector to improve

The conventional lighting industry has been fragmented due to the presence of many regional players on account of (1) low entry barriers in terms of technology, (2) absence of quality standards, and (3) inability of branded players to scale up distribution across India. However, with the introduction of LED lighting, market dynamics started changing. Organized players started gaining share as (1) LED technology required large investments, (2) institutional demand and government initiatives drove penetration and (3) BIS quality norms and BEE mark required stricter quality adherence, thereby limiting competition from the unorganized sector. Further, recent GST introduction is likely to reduce the organized-unorganized price gap, boosting share of the organized sector. The organized sector share has improved from ~30% in FY14 to ~65% in FY18 and is expected to increase further to ~80% by FY23P.

Exhibit 49: Organized sector gaining share in LED lighting and luminaires market

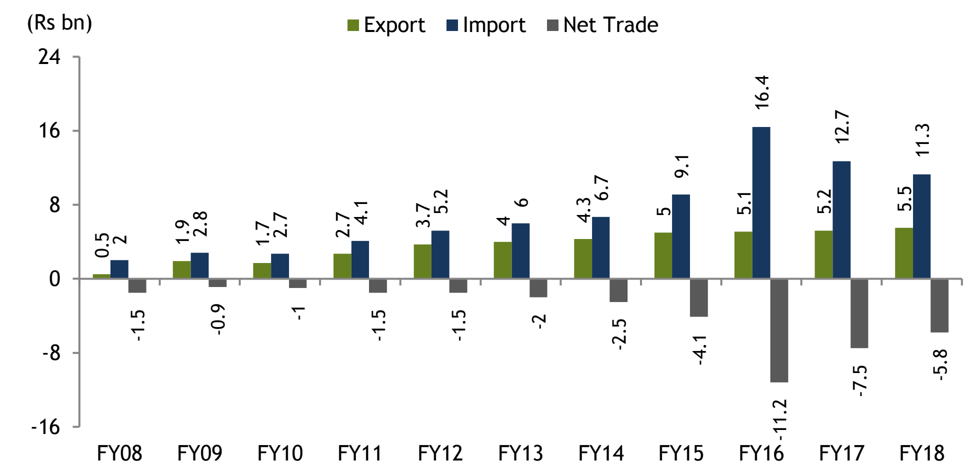


Source: Industry, Equirus Securities

India remains a net importer of lightings and luminaires

India's imports of lightings and luminaires increased from Rs 2bn in FY08 to Rs 11.3bn in FY18 whereas its exports jumped from Rs 0.5bn to Rs 5.5bn during the same period. This has led India to be a consistent net importer of lightings and luminaires.

Exhibit 50: India's imports of lighting &luminaires continue to be higher than exports



Source: Industry, Equirus Securities

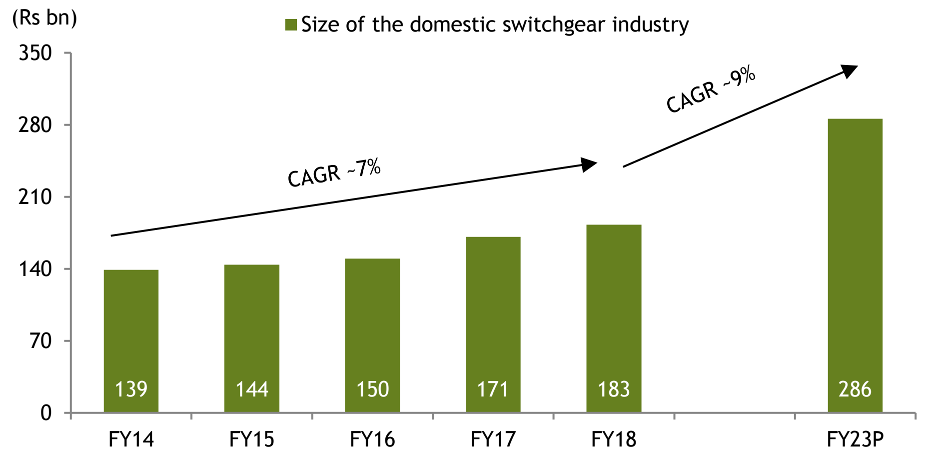
Switchgears Industry

Modest growth for switchgears

LV switchgear demand arises from residential and industrial segments largely driven by MCBs, DBs, RCCBs and other products. Residential segment demand was muted due to a slowdown in the sector owing to (1) subdued demand, (2) demonetization and (3) introduction of RERA. Demand from the industrial sector was low due to a slowdown in capacity expansion plans.

MV/HV switchgears, having applications in power distribution stations and sub-stations with high voltage requirements, also experienced subdued demand due to problems roiling discoms. As discoms suffered from financial distress and closure, demand for switchgears was impacted. Accordingly, the domestic switchgear industry grew at a ~7% CAGR, from Rs 139bn in FY14 to Rs 183 bn in FY18.

Exhibit 51: Switchgear industry experienced modest growth



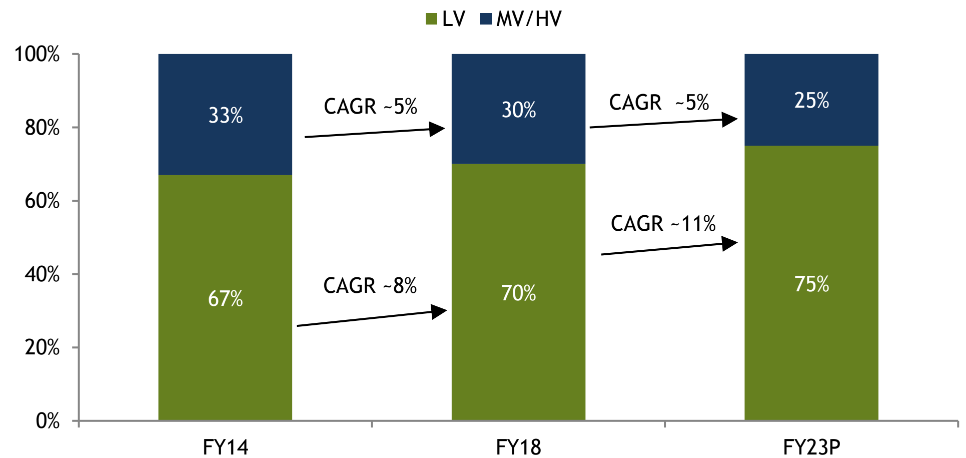
Source: Industry, Equirus Securities

LV switchgears to grow faster than MV/HV switchgears

LV constituted 67% of switchgears in FY14, and its share increased to 70% in FY18 on account of better growth than MV/HV (Exhibit 39). Going forward, LV switchgears are expected to continue growing faster than MV/HV switchgears on account of (1) an increase in residential demand due to the govt.'s affordable housing initiative, (2) an increase in industrial demand driven by the expected capex cycle, and (3) infrastructure development leading to demand from railways and metro segments.
Some other key trends in this space include the following: (1) Rising preference for modular devices. (2) Government initiatives like Saubhagya and DDUGJY to boost demand for power, thereby leading to demand for switchgear. (3) Rising safety awareness is boding well for branded players. (4) UDAY scheme would help rejuvenate stressed discoms, thereby leading to demand for MV/HV switchgears.

LV switchgear demand from real estate and industrial sectors is expected to be higher than MV/HV switchgear demand from discoms. Accordingly, LV is expected to grow by ~11% CAGR whereas MV/HV by ~5% during FY18-23P (Exhibit 62).

Exhibit 52: LV switchgear to continue dominating the switchgear market

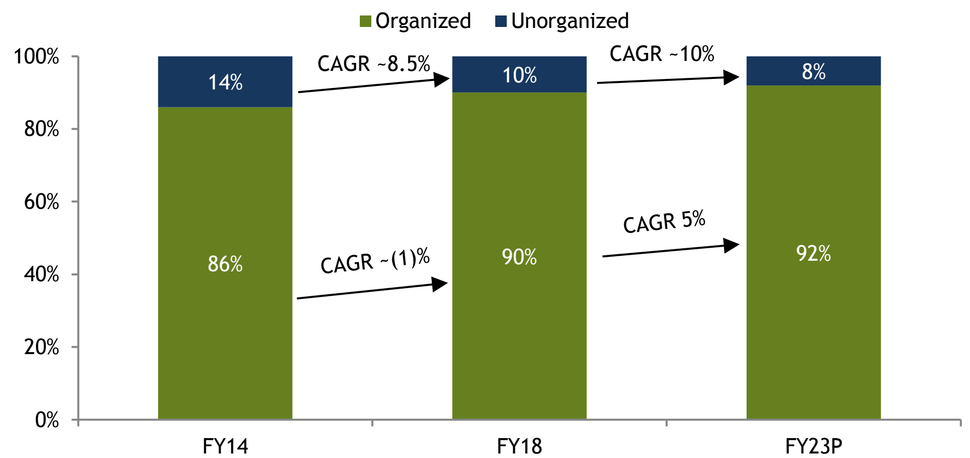


Source: Industry, Equirus Securities

Organized players dominate the switchgear industry

The switchgear industry is largely technology-intensive, making it difficult for unorganized players to be competitive. This has led to entry barriers for small players and substantial dominance by large players. Unorganized players are limited to less technologically- intensive products such as distribution boards and switching devices. Further, norms laid down by CEA require large investments for adherence to rigorous technical standards. Due to these reasons, organized players have gained market share, from 86% in FY14 to 90% in FY18; this is further expected to touch 92% by FY23P.

Exhibit 53: Organized players have captured major market share

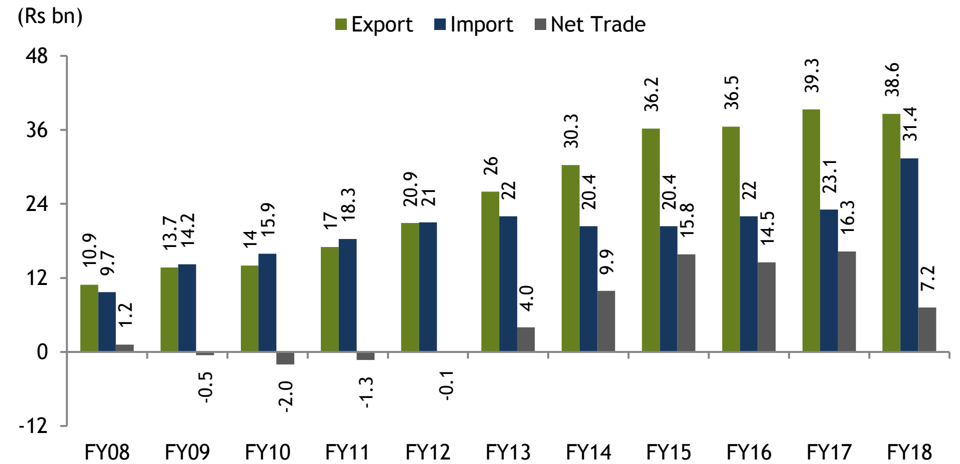


Source: Industry, Equirus Securities

India becomes a net exporter of switchgears

India's switchgear imports during FY08-FY11 increased drastically, leading it to become a net importer. However FY12 onwards, India started exporting MCBs, boards, panels and consoles, and turned into a net exporter.

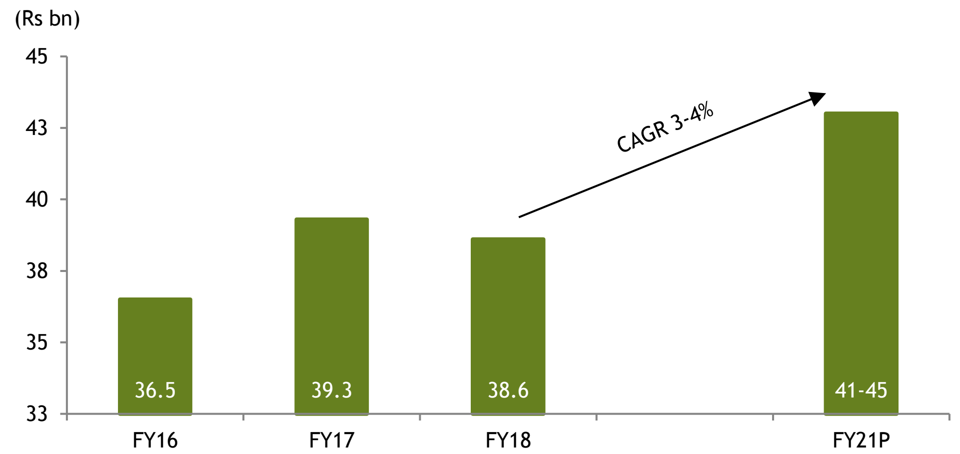
Exhibit 54: Indian exports jump FY12 onwards to make it a net exporter of switchgear



Source: Industry, Equirus Securities

While an improvement in global sentiment bodes well for India's switchgear exports, they are expected to grow at a moderate rate of 3-4%.

Exhibit 55: Switchgear exports to grow at a modest rate



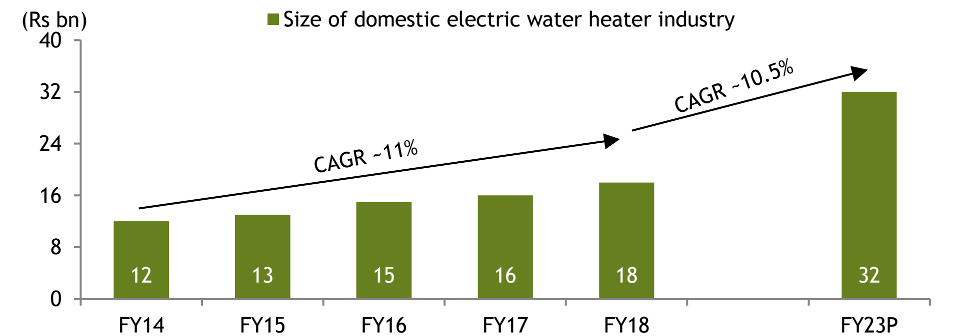
Source: Industry, Equirus Securities

Water Heaters Industry

Indian water heater industry growing steadily

The Indian water heater market has been smaller than other consumer durable markets due to low product penetration on account of seasonal demand, high energy costs, irregular electricity supply in rural areas, and availability of cheaper alternatives like cooking stoves for heating water. However, the industry has grown from Rs 12bn in FY14 to Rs 18bn in FY18, at an ~11% CAGR. It is expected to grow to Rs 32bn by FY23P, at an ~10.5% CAGR.

Exhibit 56: Indian water heater industry to witness healthy growth



Source: Industry, Equirus Securities

Some of the key trends in the Indian water heater industry are:

(1) Rising disposable incomes & electricity availability to be key growth drivers

The penetration of water heaters has been low on account of high energy costs and availability of cheaper substitutes like cooking stoves and fireplaces. However, with government initiatives for universal electricity along with rising disposable incomes, the adoption of water heaters is expected to rise. Rising affordability of water heaters would further drive growth.

(2) Product development with enhanced features to improve penetration

Manufacturers are adding new features (Wifi control, automated temperature adjustments, leak detection) to water heaters in order to differentiate products from solar and water heaters. These developments are expected to drive growth in the mid-to-long term.

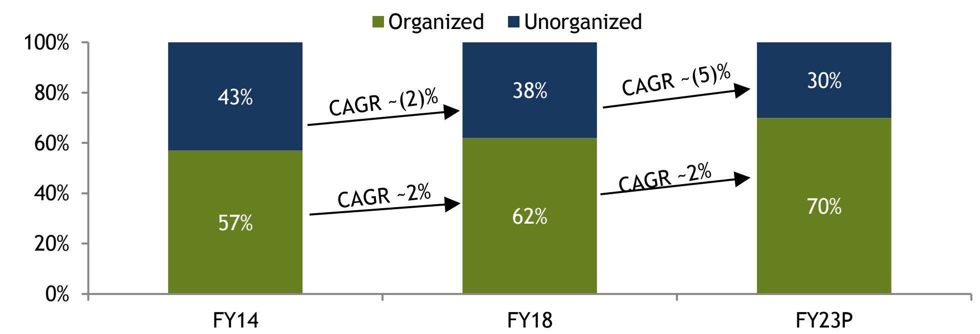
(3) Energy-efficient products to improve demand

BEE's Standards and Labelling Programme included water heaters as a mandatory appliance in Jul'15. This has led manufacturers to produce more energy-efficient products, in turn reducing energy costs and improving demand for water heaters.

Organized players to gain market share

Organized players have improved their market share from ~57% in FY14 to ~62% in FY18. With rising disposable incomes and a shifting preference for branded and quality products, organized players are expected to improve their share to ~70% by FY23P. Further, the introduction of GST is likely to reduce the organized-unorganized price gap, thereby catalyzing a shift towards branded players. Key market players are AO Smith, Bajaj Electricals, Crompton Greaves Consumer Electricals, HAVL, Racold Thermo, Venus, and V-Guard Industries.

Exhibit 57: Organized players gaining share of water heaters market

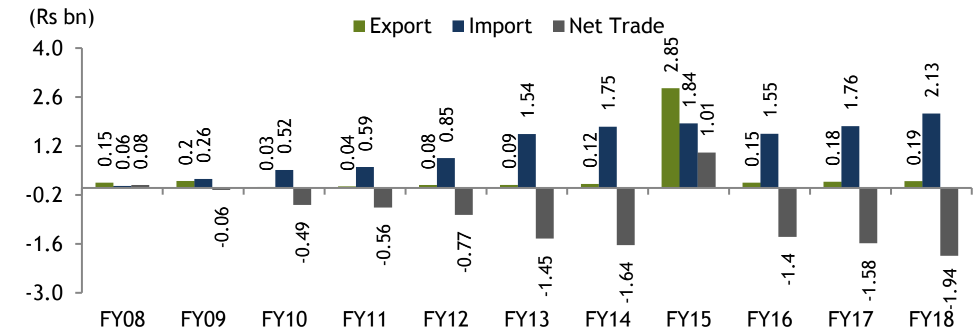


Source: Industry, Equirus Securities

India a net importer of water heaters

India's imports of water heaters have been significantly higher than exports, making it a net importer in this category. Except for FY15, India has been a net importer of water heaters in the last decade. Exports are set to grow at an 11-11.5% CAGR over FY18-23P to touch Rs 0.3bn in FY23P.

Exhibit 58: India remains a net importer of water heaters



Source: Industry, Equirus Securities

Key Management Profile

Mr. Chandra Kant Birla, Chairman
Mr. Birla has been associated with Orient Paper Industries Ltd (OPIL) since 1978 and it the current Chairman of OEL (post-demerger) since Jan'18. He is an industrialist heading the C K Birla group which has interests in multiple business verticals such as cement, paper, chemicals, consumer durables, auto components, precision bearings, building materials, construction, earth moving equipment, information technology, health care and education.

Mr. Rakesh Khanna, MD & CEO
Mr. Khanna joined the company (previously OPIL) in Dec'14 and has been heading the consumer durables business since then. Before joining OEL, he worked with Jumbo Electronics as Head Sony & IT Products, UAE. He has 30+ years of experience working with reputed companies such as Hitachi, Wipro and Eureka Forbes. He holds an MBA from the Bombay University.

Mr. Puneet Dhawan, SBU Head - Lighting BU, Switchgear & Wiring Accessories BU
Mr. Dhawan has been associated with the company (previously OPIL) since Sep'13 and previously served as Sr. VP & Business Head (Lighting). Prior to joining OEL, he has worked with Crompton Greaves and Bajaj Electricals Ltd. He holds a B.Tech. in Agriculture and an MBA in Sales & Marketing.

Mr. Atul Jain, SBU Head (Fans)
Mr. Jain joined the company in Jul'17 from LeEco Technology where he served as COO & Head of India Operations. He has ~30 years of experience having previously worked with eminent companies such as Samsung Electronics, Jumbo Electronics, Godfrey Phillips, Airtel, Coca-Cola and McDowell. He holds an MBA from IIM Calcutta and a B.Tech. in Mehanical Engineering from IIT Delhi.

Mr. Pushp Saurabh Baishakhia, SBU Head (Appliances)
Mr. Baisakhia joined the company (previously OPIL) in Oct'15 from LG Electronics India where he served as Business Head of Air Conditioners division. He has ~20 years of experience in the consumer durables and electronics industry. He holds an MBA in Sales & Marketing and a B.Sc. in Electronics.

Mr. Saibal Sengupta, CFO
Mr. Sengupta joined the company in Apr'18. He has ~30 years of work experience having worked with reputed companies like Usha International, Dabur India, Carrier Air Conditioning & Refrigeration, GSK Consumer Healthcare and others. He is a CA and holds a B.Com(Hons) from St. Xavier's College, Kolkata.

Promoter Background

The C K Birla group is a $2bn conglomerate with interests in multiple sectors including engineering, IT, housing, cement, consumer durables, paper, healthcare and others. It operates in three industry clusters - Technology and Automotive, Home and Building, and Healthcare and Education. Some of the key companies under the group include:

Companies	Details
AVTEC Ltd	Manufacturing of powertrain and precision-engineered products in India
Birlasoft Ltd	Global IT services provider
GMMCO Ltd	Distributor of construction and mining equipment, and engine power systems
NEI Ltd	Manufacturer of bearings
Neosym	Manufacturer of grey and SG iron casting
HIL Ltd	Manufacturer of building products industrial thermal insulation
Orient Cement	Cement producer with Birla A1 brand
Orient Electric	Consumer durables company selling fans, LED lamps, appliances and switchgears
Orient Paper	Manufacturer of writing, printing, industrial and specialty papers

Corporate Governance

- The Board of Directors as on 31 Mar'19 consists of 6 Directors; 1 of the Directors is Executive Director and the remaining 5 Directors are Non-Executive Directors. The Executive Director is the Managing Director and CEO of the company. 1 of the 6 Directors belongs to the promoter group.
- During FY19, the Board met 5 times and the audit committee 5 times. In FY19, the company paid Rs 4mn as audit fees (0.02% of net revenues).
- During the last three years, there were no instances of non-compliance on any matter related to the capital markets. No penalties or strictures were imposed on the company by any Stock Exchange or SEBI or any Statutory Authority on any matter related to capital markets.
- The company does not hold conference calls.
- Dividend payout is 37% for FY19.
- The books of accounts in FY18 were audited by S R Batliboi Co. LLP (SRBC). The auditor has not made any adverse comments in its report of FY18 and FY19.
- OEL has code of internal procedures & conducts to prevent insider trading.

Standalone Quarterly Financials

Rs in Mn	1Q19A	2Q19A	3Q19A	4Q19A	1Q20E	2Q20E	3Q20E	4Q20E	1Q21E	2Q21E	3Q21E	4Q21E	FY19A	FY20E	FY21E	FY22E
Revenue	4,355	3,731	4,204	6,377	5,063	4,253	4,571	7,864	5,644	4,954	5,406	8,839	18,644	21,751	24,843	28,300
Cost of materials consumed	1,804	1,163	1,731	2,338	2,066	1,467	1,618	3,092	2,348	1,793	1,962	3,312	7,023	8,243	9,416	10,726
Stock-in-trade	1,281	1,154	1,409	1,749	1,418	1,361	1,463	2,088	1,580	1,486	1,730	2,408	5,590	6,329	7,204	8,150
(Inc)/ Dec in inv. of finished goods, WIP and traded goods	-208	220	-421	29	-152	43	-137	-145	-226	50	-216	-80	-381	-392	-472	-538
Employee benefits expenses	415	409	442	459	405	425	457	681	452	495	541	727	1,727	1,969	2,215	2,509
Other expenses	797	614	773	1,096	978	737	857	1,159	1,091	844	954	1,371	3,273	3,731	4,260	4,866
EBITDA	265	171	270	707	349	220	313	988	399	285	436	1,101	1,413	1,870	2,221	2,586
Depreciation	51	55	61	63	56	59	65	94	60	65	72	120	231	274	317	361
EBIT	215	116	208	644	293	161	248	894	339	220	364	980	1,182	1,596	1,903	2,225
Interest	53	53	54	69	56	56	56	56	47	47	47	47	229	225	187	149
Other Income	19	28	23	26	23	30	26	38	34	40	46	46	95	117	166	205
PBT	181	91	177	600	260	135	218	875	326	214	363	980	1,049	1,488	1,883	2,282
Tax	61	22	60	214	87	45	73	293	109	72	122	328	356	498	631	764
Recurring PAT	120	69	118	386	173	90	145	582	217	142	241	652	693	989	1,252	1,517
Extraordinary	3	3	3	-4	0	0	0	0	0	0	0	0	4	0	0	0
Reported PAT	118	66	115	390	173	90	145	582	217	142	241	652	689	989	1,252	1,517
EPS (Rs)	0.6	0.3	0.6	1.8	0.8	0.4	0.7	2.7	1.0	0.7	1.1	3.1	3.3	4.7	5.9	7.2
Key Drivers																
Fans													11,516	12,668	13,935	15,328
Lighting													4,905	6,131	7,204	8,464
Appliances													1,779	2,330	2,959	3,613
Switchgear													444	622	746	895
Sequential Growth (%)																
Revenue	-30%	-14%	13%	52%	-21%	-16%	7%	72%	-28%	-12%	9%	64%				
Cost of Materials	-21%	-36%	49%	35%	-12%	-29%	10%	91%	-24%	-24%	9%	69%				
EBITDA	-68%	-36%	58%	162%	-51%	-37%	42%	215%	-60%	-29%	53%	153%				
EBIT	-73%	-46%	80%	209%	-55%	-45%	54%	260%	-62%	-35%	65%	170%				
Recurring PAT	-74%	-43%	71%	228%	-55%	-48%	62%	301%	-63%	-35%	70%	170%				
EPS	-74%	-43%	71%	228%	-55%	-48%	62%	301%	-63%	-35%	70%	170%				
Yearly Growth (%)																
Revenue	43%	15%	21%	2%	16%	14%	9%	23%	11%	16%	18%	12%	17%	17%	14%	14%
EBITDA	175%	-2%	2%	-15%	31%	29%	16%	40%	14%	30%	39%	11%	3%	32%	19%	16%
EBIT	363%	-2%	-6%	-18%	36%	39%	19%	39%	16%	37%	46%	10%	1%	35%	19%	17%
Recurring PAT	3982%	51%	-3%	-18%	43%	30%	23%	51%	26%	59%	66%	12%	8%	43%	27%	21%
EPS	3982%	51%	-3%	-18%	43%	30%	23%	51%	26%	59%	66%	12%	8%	43%	27%	21%
Margin (%)																
EBITDA	6%	5%	6%	11%	7%	5%	7%	13%	7%	6%	8%	12%	8%	9%	9%	9%
EBIT	5%	3%	5%	10%	6%	4%	5%	11%	6%	4%	7%	11%	6%	7%	8%	8%
PBT	4%	2%	4%	9%	5%	3%	5%	11%	6%	4%	7%	11%	6%	7%	8%	8%
PAT	3%	2%	3%	6%	3%	2%	3%	7%	4%	3%	4%	7%	4%	5%	5%	5%

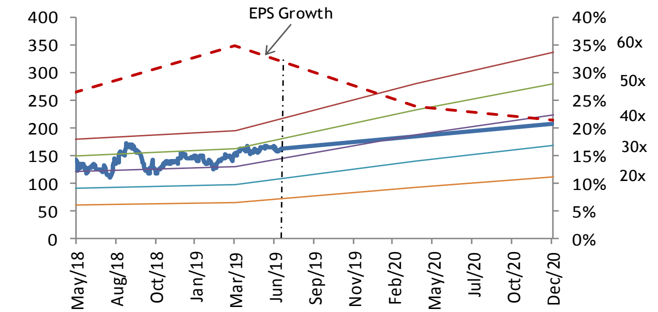
Standalone Financials

P&L (Rs Mn)	FY19A	FY20E	FY21E	FY22E
Revenue	18,644	21,751	24,843	28,300
Op. Expenditure	17,231	19,881	22,622	25,714
EBITDA	1,413	1,870	2,221	2,586
Depreciation	231	274	317	361
EBIT	1,182	1,596	1,903	2,225
Interest Expense	229	225	187	149
Other Income	95	117	166	205
PBT	1,049	1,488	1,883	2,282
Tax	356	498	631	764
Recurring PAT	689	989	1,252	1,517
Extraordinaires	4	0	0	0
Reported PAT	684	989	1,252	1,517
EPS (Rs)	3.3	4.7	5.9	7.2
DPS (Rs)	1.0	1.3	1.6	1.9
CEPS (Rs)	4.4	6.0	7.4	8.9
FCFF (Rs)	5.5	1.9	4.8	5.8
BVPS (Rs)	14.4	17.5	21.5	26.4
Sales Growth (%)	17%	17%	14%	14%
PAT Growth (%)	8%	43%	27%	21%
EPS Growth (%)	8%	43%	27%	21%
EBITDAM (%)	8%	9%	9%	9%
PATM (%)	4%	5%	5%	5%
Tax Rate (%)	34%	34%	34%	34%

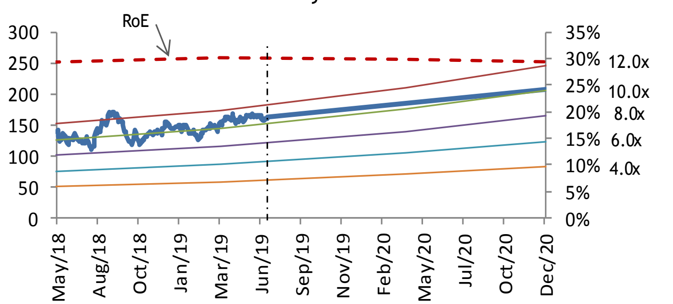
Balance Sheet (Rs Mn)	FY19A	FY20E	FY21E	FY22E
Equity Capital	212	212	212	212
Reserve	2,854	3,511	4,354	5,387
Networth	3,066	3,723	4,567	5,599
Long Term Debt	1,349	1,405	1,167	930
Def Tax Liability	129	74	61	49
Account Payables	3,509	4,065	4,643	5,289
Other Curr Liabilities	834	1,088	1,242	1,415
Total Liabilities & Equity	8,888	10,355	11,681	13,282
Net Fixed Assets	1,166	1,342	1,474	1,564
Capital WIP	43	0	0	0
Investment	443	486	486	486
Inventory	2,640	2,980	3,403	3,877
Account Receivables	3,924	4,469	5,105	5,815
Other Current Assets	357	850	745	668
Cash	316	229	468	874
Total Assets	8,888	10,355	11,681	13,282
Non-cash Working Capital	2,577	3,146	3,367	3,655
Cash Conv Cycle	50.5	52.8	49.5	47.1
WC Turnover	7.2	6.9	7.4	7.7
FA Turnover	15.4	16.2	16.8	18.1
D/E	0.4	0.4	0.3	0.2
Net D/E	0.3	0.3	0.2	0.0
Interest Coverage	5.2	7.1	10.2	15.0

Cash Flow (Rs Mn)	FY19A	FY20E	FY21E	FY22E
PBT	1,049	1,488	1,883	2,282
Depreciation	231	274	317	361
Others	618	0	0	0
Taxes Paid	301	498	631	764
Change in WC	-276	-568	-222	-288
Operating C/F	1,320	695	1,348	1,591
Capex	-345	-450	-450	-450
Change in Invest	3	0	0	0
Others	30	0	0	0
Investing C/F	-312	-450	-450	-450
Change in Debt	-513	55	-238	-238
Change in Equity	0	0	0	0
Others	-485	-387	-421	-498
Financing C/F	-998	-332	-659	-735
Net change in cash	10	-87	239	405
RoE (%)	24%	29%	30%	30%
RoIC (%)	19%	23%	25%	26%
Core RoIC (%)	17%	22%	23%	25%
P/E	49.6	34.7	27.5	22.7
P/BV	11.2	9.2	7.5	6.1
EV/EBITDA	25.2	19.1	15.8	13.3
EV/Sales	1.9	1.6	1.4	1.2
Div Yield(%)	0.6%	0.8%	1.0%	1.2%

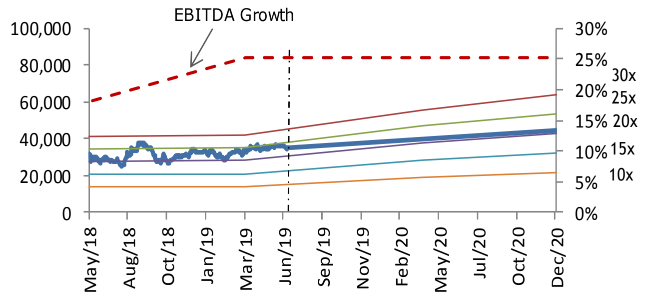
TTM P/E vs. 2 yr forward EPS growth



TTM P/B vs. 2 yr forward RoE



TTM EV/EBITDA vs. 2 yr forward EBITDA



Historical Standalone Financials

P&L (Rs Mn)	FY16A	FY17A	FY18A	FY19A
Revenue	12,961	13,637	15,998	18,644
Op. Expenditure	-	-	14,632	17,231
EBITDA	-	-	1,365	1,413
Depreciation	-	-	198	231
EBIT	-	-	1,168	1,182
Interest Expense	-	-	245	229
Other Income	-	-	55	95
PBT	-	-	978	1,049
Tax	-	-	338	356
Recurring PAT	-	-	631	689
Extraordinaires	-	-	10	4
Reported PAT	-	-	621	684
EPS (Rs)	-	-	3.0	3.3
DPS (Rs)	-	-	0.5	1.0
CEPS (Rs)	-	-	3.9	4.4
FCFF (Rs)	-	-	4.0	5.5
BVPS (Rs)	-	-	12.4	14.4
Sales Growth (%)	9%	5%	17%	17%
PAT Growth (%)	-	-	-	8%
EPS Growth (%)	-	-	-	8%
EBITDAM (%)	-	-	9%	8%
PATM (%)	-	-	4%	4%
Tax Rate (%)	-	-	35%	34%

Balance Sheet (Rs Mn)	FY16A	FY17A	FY18A	FY19A
Equity Capital	-	212	212	212
Reserve	-	1,917	2,420	2,854
Networth	-	2,130	2,632	3,066
Long Term Debt	-	2,105	1,859	1,349
Def Tax Liability	-	34	60	129
Account Payables	-	1,925	2,762	3,509
Other Curr Liabilities	-	1,204	771	834
Total Liabilities & Equity	-	7,398	8,084	8,888
Net Fixed Assets	-	1,090	1,057	1,166
Capital WIP	-	5	47	43
Investment	-	459	388	443
Inventory	-	1,765	2,091	2,640
Account Receivables	-	3,613	3,864	3,924
Other Current Assets	-	233	333	357
Cash	-	234	305	316
Total Assets	-	7,398	8,084	8,888
Non-cash Working Capital	-	2,482	2,755	2,577
Cash Conv Cycle	-	66.4	62.9	50.5
WC Turnover	-	5.5	5.8	7.2
FA Turnover	-	12.5	14.5	15.4
D/E	-	1.0	0.7	0.4
Net D/E	-	0.9	0.6	0.3
Interest Cov	-	NA	4.8	5.2

Cash Flow (Rs Mn)	FY16A	FY17A	FY18A	FY19A
PBT	-	-	978	1,049
Depreciation	-	-	198	231
Others	-	-	485	618
Taxes Paid	-	-	259	301
Change in WC	-	-	-489	-276
Operating C/F	-	-	913	1,320
Capex	-	-	-254	-345
Change in Invest	-	-	-3	3
Others	-	-	34	30
Investing C/F	-	-	-223	-312
Change in Debt	-	-	-246	-513
Change in Equity	-	-	0	0
Others	-	-	-373	-485
Financing C/F	-	-	-619	-998
Net change in cash	-	-	72	10
RoE (%)	-	-	45%	24%
RoIC (%)	-	-	34%	19%
Core RoIC (%)	-	-	33%	17%
P/E	-	-	51.7	49.6
P/BV	-	-	12.6	11.2
EV/EBITDA	-	-	26.1	25.2
EV/Sales	-	-	2.2	1.9
Div Yield(%)	-	-	0%	1%

Rating & Coverage Definitions: **Absolute Rating** • LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies • ADD: ATR >= 5% but less than Ke over investment horizon • REDUCE: ATR >= negative 10% but <5% over investment horizon • SHORT: ATR < negative 10% over investment horizon **Relative Rating** • OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon • BENCHMARK: likely to perform in line with the benchmark • UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon **Investment Horizon** Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter. Lite vs. Regular Coverage vs. Spot Coverage We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.	**Registered Office:** Equirus Securities Private Limited Unit No. 1201, 12th Floor, C Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai-400013. Tel. No: +91 – (0)22 – 4332 0600 Fax No: +91- (0)22 – 4332 0601 **Corporate Office:** 3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge, S.G. Highway Ahmedabad-380054 Gujarat Tel. No: +91 (0)79 - 6190 9550 Fax No: +91 (0)79 – 6190 9560

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