

Investor Release

Q2, Financial Year 2019-20

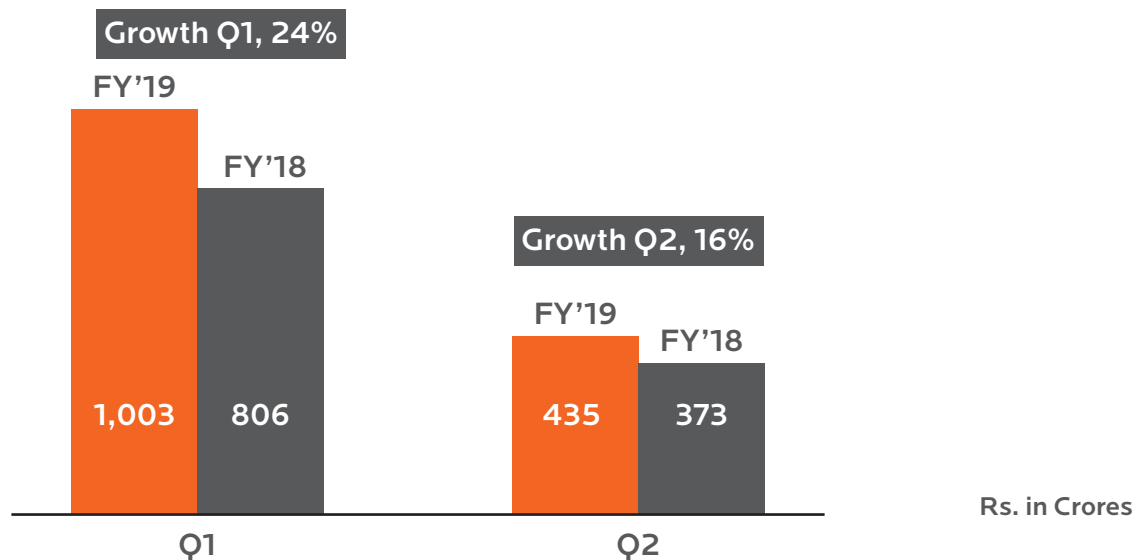


Industry overview

General slowdown in consumption during the quarter had set negative sentiments in the market, after a robust seasonal uptick in earlier quarter for summer products. This was further evidenced by sluggish IIP trends, weaker GST collections, global headwinds and adverse growth impact particularly in auto, housing and several other sectors. The slew of governmental interventions announced are yet to see the light of the day on ground to get the negative sentiments converted to positive consumer demand and spending.

Key Highlights Q2FY20

Revenue-OEL



Key events of the period:

1. New launches:

- Launch of “EyeLuv” range of Flicker-Control LED lights
- Launch of IoT & voice controlled Coolers and Water Heaters

2. Scratch and Win Consumer Scheme for Fans



OEL Business performance in Q2

Amidst the economic turbulence that surged in Q2'FY20, OEL clocked a double-digit growth owing to distribution expansion across segments, marketing initiatives like "scratch card" in fans, Eye luv campaign in lighting, launch & success of new cooler products, continuous go-to-market of new products, besides, increased orders from lighting tender business. OEL reported a revenue growth of 16.5% during the quarter and 24% during H1 'FY20 on y-o-y basis. EBITDA margin for the quarter posted at 5.0% of revenue registering a 27.8% growth and H1'FY20 EBITDA margin posted at 6.6% grew 51% on y-o-y basis.

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

Rs Cr.	Quarter Ended				Half Year Ended		
	Q2 19-20	YOY %	Q1 19-20	Q2 18-19	H1 19-20	YOY %	H1 18-19
ECD							
Revenue	283	16.3%	429	243	712	25.2%	569
PBIT	26	6.4%	43	25	70	24.7%	56
Lighting & Switchgear							
Revenue	151	16.9%	139	130	291	22.6%	237
PBIT	11	30.3%	14	8	25	25.5%	20
OEL							
Revenue	435	16.5%	568	373	1,003	24.4%	806
PBIT	37	12.5%	57	33	95	24.9%	76

Electrical Consumer Durables

ECD (Electrical Consumer Durables) segment, essentially comprised of summer products, has grown @ 15% for the quarter y-o-y. Satisfactory demand was seen in Coolers, Water Heaters and in Fans as well. Whilst the new IoT enabled Coolers and water heater range with a good thrust on distribution coupled with e-commerce pull enabled the demand, on the other hand the consumer "scratch card scheme" in Fans pulled out a favourable double-digit growth in the quarter.

Fans

There was noteworthy progress of our presence in the market as per third Party sell-out data available, wherein during H1, we were the fastest growing brand, well ahead of industry growth. Orient Electric also seemed to dominate the premium space in Fans with a near-50% market share. Even with sluggish market conditions, Fans continued its double-digit growth rate with similar secondary sales trend. DSOs came down by around 10 days for the quarter y-o-y.



Home Appliances

Steep off-season growth in Cooler business and high growth in Water Heater and Kitchen appliances led the momentum in Appliances business. The growth in Appliances increased its share of business for the quarter.

Accelerated disposal of slow-moving stocks with a minor impact on margins and careful planning of inventory during the quarter, resulted in better managed supply chain to support sales and despatches.



De'Longhi

Orient Electric entered into a partnership with Italy-based DeLonghi Group to expand premium brands of DeLonghi, Braun and Kenwood in India. As of today, we have presence in top premium outlets across 15 cities in India. The aim is to gradually expand the reach upto the Tier II cities. The response so far had been quite encouraging; however we are taking calibrated steps to grow and nurture a long standing sustainable & profitable business.

Lighting & Switchgear

Lighting & Switchgear segment clearly experienced the heat of industry-wide price depression paired with the liquidity challenges in the market. Yet the segment managed to record a 14% growth y-o-y for the quarter.

Lighting

LED Lamps business continued to be challenged with high competitive intensity leading to price erosion. To add worries to the woes, the import curbs in components earlier in the year had also aggravated the issue. Yet, our overall Consumer luminaires business has outpaced the growth run followed by very good traction from the Professional luminaires business including street lighting.

This quarter marked the pan-India launch of "EyeLuv" flicker-Control LED lights by the company, which is gradually attracting the attention of consumers. We further expanded the product portfolio for EyeLuv range of products for the B2B business. It will take a little time for consumers to be aware and experience the change till it occupies a place of significance in the market.

Further, the street lighting supplied through the Govt-aided Tender Business propelled the growth of the quarter. This product and the channel are currently on a fast track. With execution of current orders at hand, our supplies have maintained a high double-digit growth.



Switchgear

This segment continued to clock a steep double-digit y-o-y growth on a much lower base gaining traction in the market. The expansion of product portfolio & distribution footprint is going as per plan.



Financial performance for Q2

Rs Cr.	Quarter Ended				Half Year Ended		
	Q2 19-20	Q1 19-20	Q2 18-19	YOY %	H1 19-20	H1 18-19	YOY %
Revenue	434.7	568.3	373.1	16.5%	1,003	806	24.4%
Gross Margin	148.8	186.6	119.4	24.6%	335	267	25.8%
Gross Margin %	34.2%	32.8%	32.0%		33.4%	33.1%	
EBITDA	21.9	44.1	17.1	27.8%	66.0	43.6	51.2%
EBITDA %	5.0%	7.8%	4.6%		6.6%	5.4%	
PBT	7.8	28.6	9.1	-14.2%	36.4	27.2	33.8%
PBT %	1.8%	5.0%	2.4%		3.6%	3.4%	
PAT	4.8	18.8	6.6	-27.0%	23.6	18.4	28.2%
PAT %	1.1%	3.3%	1.8%		2.4%	2.3%	

EBITDA: Characteristically skewed as a lower delivery quarter together with economic downturns, OEL has succeeded in delivering a net profit of Rs. 5 cr. for the quarter. This profit was influenced by EBITDA expansion, lower interest burden owing to repayment of loans, increased for in lease accounting principles w.e.f. 1st Apr'19 and higher tax expense due to higher allowable expenditure in the base last year.

EBITDA for Q2FY20 grew by 27.8% y-o-y expanding by 40 bps from 4.6% last year Q2 to 5.0% in current year Q2. Primarily, the EBITDA gain was influenced by :

1. Higher gross margins,
2. Advertising and promotion spend grew disproportionately over last year on the back of new product launches and consumer promotions.
3. Employment expenses for the quarter grew by 20% due to increase in feet-on-street since last year, ESOP & LTI provisions and annual increments.
4. One-time impact of provision for doubtful debts for Rs. 4.6 cr.

Without the one-time impact of the provision mentioned above and despite the enhanced brand and sales promotion investments, our normative EBITDA stood at 6.1% of revenue (grown at 55% over LY) and normative net profit recorded flattish at 1.8% (grown by 18% y-o-y).

Gross Margin also grew by 24% expanding by 220 bps, from 32% last year Q2 to 34.2% this year Q2. This resulted due to:

- Favourable mix as compared to last year in all businesses, marginally tapered by price erosion in Lighting.
- Lighting was able to protect and/or marginally increase margins despite price erosion in lamps due to recovery through Street lighting and Consumer luminaires.
- Besides, enhancement of gross margin in fans was due to better mix of Deco+premium range as compared to Q2 last year.
- Quicker opportunistic sale of slow-moving stocks at discounted prices in home appliances and tighter hygiene measures led to partial offset of the gross margin increase due to Coolers and Water heaters.

Income Tax: Tax expenses growth was 30% in the quarter and 52% for the H1. This was due to base effect of higher allowances of expenses last year in Sep'18, coupled with impact of leased assets capitalisation in current year. Besides, higher effective tax rate was also due to lower profit before tax for current year.

The company is currently assessing its position to opt for lower rates of taxation as per the Ordinance passed by the Ministry of Finance, Govt. of India and therefore has retained its tax provision for the quarter at prevailing marginal rates.

Working capital has increased by Rs. 19 cr. over LY and reduced by Rs. 25 cr. from March'19, whereas cash conversion cycle improved by 7 days over LY. Strategic inventory build-up and higher tender business impacted the working capital for the period ended Sep'19. The company has internally generated operating cash from business in the first half of the year to the tune of Rs. 70 cr. as against Rs. 67 cr. same period last year (increased by 4%).

During the 6-months ended 30th Sep'19, OEL has been able to reduce total debts by Rs. 43 cr. through prepayments out of internal cash generation.

All operating ratios, leverage ratios and RoI ratios has improved Y-o-y.

		Q2 19-20	Q2 18-19	H1 19-20	H1 18-19
PROFITABILITY & GROWTH	EBITDA % to Revenue	5.0%	4.6%	6.6%	5.4%
	PAT % to Revenue	1.1%	1.8%	2.4%	2.3%
	ROCE	34%	31%	34%	31%
	EPS	0.23	0.32	1.12	0.89
SOLVENCY	Debt to Equity	0.29	0.44	0.29	0.44
	TOL / TNW	1.64	1.90	1.64	1.90

Awards and Accolades

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



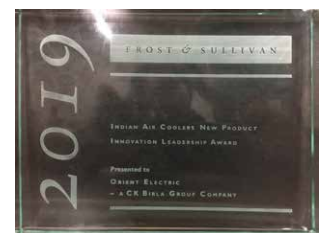
India's Best Design Project 2019 for Ultimo Tower Cooler



Asia's Most Promising Brand 2019



India Content Leadership Award 2019



Frost & Sullivan - New Product Innovation Leadership Award for Coolers

Achievers during the period



Mr. Anshuman Chakravarty (Head of Brand & Communication) has been listed amongst 'Super 30' – CMO Honor Roll 2019 by Internet & Mobile Association of India (IAMI)



Mr. Anupam Roop Rai (Head Recruitment) has been conferred Zee Business presents "North India's HR Super Achiever"



Ms. Pratibha Bajpai (Head L&D) has been conferred with the "Innovative Woman Leader of the Year" award by UBS Forums in the Consumer Goods sector

Actions During the Quarter & Future Growth Levers

Innovation:

During the quarter we have introduced the flicker controlled LED lighting “EyeLuv” series which is the first of its kind introduction in the country on the platform of “health centric lighting”. Prior to this, we launched our Aero serious range of Fans & IoT enabled Air Coolers both with IoT & voice controls aided by Google assistant & Amazon Alexa. In our commitment to challenge the status quo and innovate, we will continue to introduce disruptive and smart products in all our consumer centric segments. In this endeavour the company is also working with innovative startups to develop consumer-centric smart products.

Profitable Growth:

All strategic actions taken by us are directed towards achieving a long term sustainable and profitable growth. On a normative basis without consideration of one-time impact, we have been consistently expanding our EBITDA margins y-o-y even after recognising accelerated investments on brand and operations.

Digitisation:

At Orient Electric Limited, we are now on the cusp of entering a new era. We have stepped into the next phase of our ambitious journey towards Digitisation program titled “e-Wings”, which is aimed at driving culture change through new ways of working. We have defined the roadmap of many projects encompassing all the key business and support processes which is scheduled for a phase-wise rollout and adoption in the next 2-3 years. The implementation plan has already kicked off for the initial phase.

Talent:

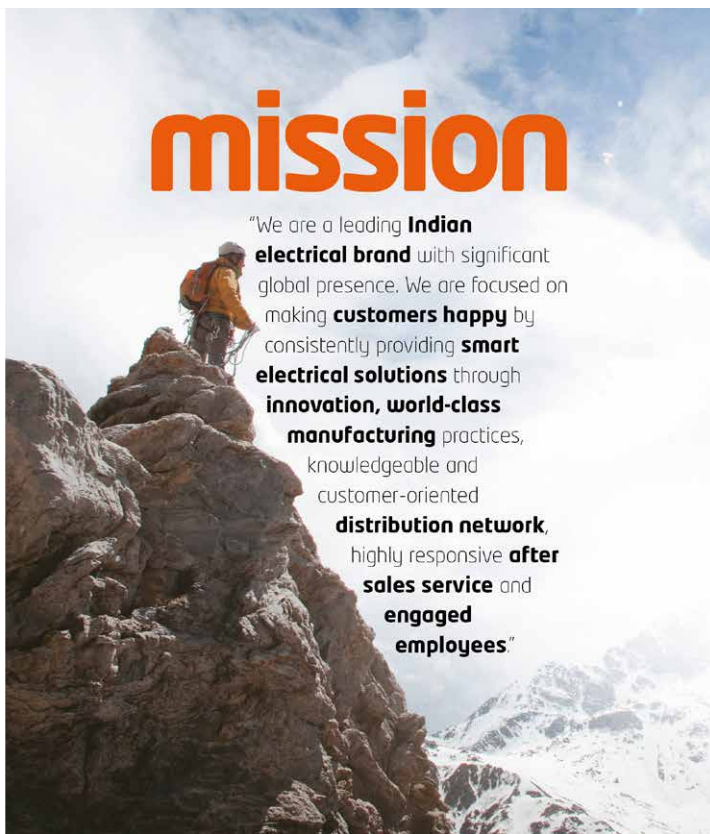
In order to create a future-ready and motivated organisation, we have rolled out a leadership development program for Level 2 Managers across the organisation, during the quarter. Besides, we have also unleashed an entity-wide training and development program.

Governance:

Maintaining strict discipline and adherence of regulations, our control processes has evolved as a way of life with zero tolerance on compliance. We are continuously streamlining our policies and processes to enable agility with embedded governance rigor.

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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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