

Investor Release

Q2, Financial Year 2020-21



Consumer Durable Industry gets “unlocked”

After a long business disruption, unlocking the economy in a phased manner ever since June'20 brought positive sentiments for business recovery. Consumer durable industry witnessed good demand comeback with some pent-up demand, supported by higher rural consumption from tier-3 and tier-4 towns. Home appliances and lighting segment found renewed traction as “home focus” increased due to consumers by and large staying indoors. On the contrary, quite many projects and infra push by the government as well as the private sector was slow or withheld leading to sluggish demand in the B2B space. With gradual reduction in infection rate and improving recovery rate, consumer confidence is improving. Further, the unlocking of all public utility services in phase-5 including transport, hospitality, entertainment, and social gathering, is likely to further improve the demand comeback in coming festival season. However, the situation still remains unpredictable and demands caution.

Positive Outlook

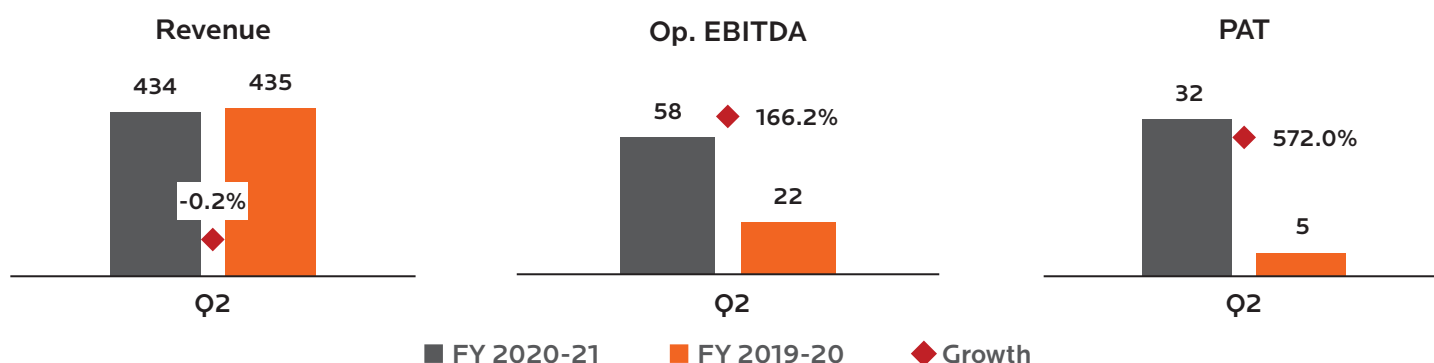
As the markets opened up during the quarter with some pent-up consumer demand and intermittent disruptions due to lockdowns and floods, Orient Electric was able to perform at last year levels on the aggregate revenue. B2C business further aided by high growth in rural demand, Ecommerce channel and large format stores enabled growth year-on-year. Pipeline inventory levels in trade were rationalised across the value chain and with high uncertainties the trade channel is not holding higher inventories thereafter, with some exception of Coolers. This has helped Orient in maintaining optimum inventory. The B2B business was negatively impacted due to held up projects, non-availability of project sites and absence of new orders. Liquidity position considerably strengthened with high collections from the market, withdrawal of lockdown support and tightening of exposures. Long term strategic initiatives continued with rigor.

UV Sanitech launched successfully in mid-July exclusively in e-commerce platforms experienced a very quick demand pickup amidst the rising pandemic scare with good traction in the market, not yet significant in scale from an overall standpoint.

Orient emerged with the “new normal” by transforming the sales and distribution processes through digital enablement on fast track. All backend processes and support systems are gradually converting faceless. Orient Connect program was expanded to bring more retailers and segments in the net.

With this backdrop, Orient Electric closed the quarter with Rs. 434 Cr. aggregate revenue, flattish at LY level, spearheaded by the consumer businesses like Fans, C-Lum, Water Heaters and Kitchen appliances, that registered good growth year-on-year. However, the muted demand in B2B and Tender businesses pulled down the aggregate growth.

Key Highlights Q2'FY21



Profitability restored

	Quarter Ended				Year Ended		
	Q2 20-21 (A)	Q1 20-21 (A)	Q2 19-20 (A)	YOY %	YTD 20-21 (A)	YTD 19-20 (A)	YOY %
Revenue	433.8	178.8	434.7	-0.2%	612.6	1,003.0	-38.9%
Op. EBITDA	57.7	-19.3	21.7	166.2%	38.4	65.6	-41.4%
EBITDA%	13.3%	-10.8%	5.0%		6.3%	6.5%	
PBT	43.3	-35.4	7.6	468.5%	7.9	36.1	-78.1%
PBT %	10.0%	-19.8%	1.8%		1.3%	3.6%	
PAT	32.4	-27.3	4.8	572.0%	5.1	23.6	-78.5%
PAT %	7.5%	-15.3%	1.1%		0.8%	2.4%	

Profit is Net of Other comprehensive income

Gross Margin: Gross margins % to revenue expanded by 150 bps over LY as a result of better price realization and cost optimization across all categories. Hardening of commodity prices and competitive forces may pose a challenge to maintain this expansion rate going forward and will depend on market scenario.

Expenses: Employee costs reduced by 13.9% Y-o-Y and other expenses reduced by 34% over LY during the quarter backed by manpower cost optimisation and process efficiency improvement. Some cost savings due to salary correction, reduced travel, A&P and some others are not fully sustainable. Some parts of these expense reduction are likely to come back partly like brand investments, key recruitments, travel and variable spends linked to activity scale up.

EBITDA: EBITDA more than doubled over LY and expanded by 8.3% of revenue year-on-year during the quarter. Gross margin expansion and cost optimisation across all spends, especially with substantially lower discretionary spends of advertisement and promotion expenses helped deliver better EBITDA margins. With normalcy gradually regaining, the marketing expenses and brand investments are likely to increase and therefore the EBITDA expansion of 830 bps y-o-y will not be sustainable.

Finance cost: Reduction of interest cost was due to better cash generation resulting to in repayment of debts. Interest on borrowings declined 39% for the quarter due to pre-payment of WCDL loans. Lower Volume of business also kept the bank charges relating to Vendor financing, LC and BG charges at lower levels. With increase in volumes these costs are likely to increase in future from current levels.

Income Tax: Lower tax rates with a higher profitability and adjustment of deferred tax assets created in Q1'FY21 due to generation of profits in Q2'FY21.

Working capital: Working capital was Rs. 136 cr. lower from same period last year and reduced by Rs. 122 cr. during the quarter. This has been influenced by accelerated collections during the quarter, reducing Inventory during the quarter through liquidation and better planning, enhancing the payables credit and strengthening the cash management through digital and other treasury initiatives.

Final Dividend paid for 19-20 during the quarter was @ 50%. After aggregating dividend paid was @ 115% for the full year 19-20.

Net Debt position as on 30th Sep'20 :

- Gross Borrowings at Rs. 11.92 cr. reduced by Rs. 87 cr. in H1.
- Cash & Bank Bal = Rs. 84.21 cr.
- Net Debt = (-) Rs. 72.29 cr

Key Ratios:

		Q2 20-21	Q1 20-21	Q2 19-20	YTD 20-21	YTD 19-20
PROFITABILITY AND GROWTH	EBITDA % to Revenue	13.3%	-10.8%	5.0%	6.3%	6.5%
	PAT % to Revenue	7.5%	-15.3%	1.1%	0.8%	2.4%
	ROCE	29.5%	15.0%	23.2%	30%	23%
	EPS	1.52	-1.29	0.23	0.24	1.12
SOLVENCY AND LIQUIDITY	Debt to Equity	0.04	0.34	0.29	0.04	0.29
	TOL/TNW	1.31	1.34	1.57	1.31	1.57
	Current Ratio	1.39	1.37	1.44	1.39	1.44
	Cash Conversion Cycle	20	148	31	20	31

Future uncertain but hopeful

With renewed consumer sentiments post-Unlock, the festive season sales are expected to be better than LY owing to pent up demand from previous quarters. Established bigger brands in the industry have experienced better traction and consumer pull, with higher preference for reliability and quality. Despite the positive trends, the concerns for growing virus affected cases are on the rise. Many overseas territories are already confronting the 2nd and 3rd wave of the pandemic and re-imposing advisories. In India, with the lifting of restrictions largely across the country, except for containment zones, uncertainty and unpredictability of normal market and economic conditions continue to persist. However, with a positive demand outlook, the entire supply chain is geared up for adequate stock availability and unrestricted supplies under any eventuality to service the market.

Greenfield project based in South India for Fans manufacturing is under active consideration awaiting govt. approvals.

With an intention to de-risk geo-political fallouts, localisation drive is being continued and initial success has been achieved for localising Water Heaters. Alternative sourcing for LED & other components is under active consideration with high possibilities emerging.

The company has established a very strong liquidity position and will continuously remain cost conscious to recover the bottom-line, subject to market conditions.

All segments rebound

The Segmental performance for the period ended 30th September'20 has been as follows:

	Quarter Ended				Year Ended		
Rs Cr.	Q2 20-21	YOY %	Q1 20-21	Q2 19-20	YTD 20-21	YOY %	YTD 19-20
ECD							
Revenue	304	7.5%	103	283	408	-42.7%	712
PBIT	51	93.5%	-7	26	44	-36.9%	70
Lighting & Switchgear							
Revenue	129	-14.5%	75	151	205	-29.6%	291
PBIT	19	72.9%	5	11	24	-4.4%	25
OEL							
Revenue	434	-0.2%	179	435	613	-38.9%	1,003
PBT	43	457.3%	-35	8	8	-78.1%	36

Electrical Consumer Durables

The segment experienced a demand comeback in both the product segments through the general trade and alternate channels as was seen from the secondary sales. This resulted a growth of 7.5% in the segment. Distribution expansion was continued in the quarter with all markets opened up. With a disrupted summer season, there was good pent-up demand noticed all across. Price increase taken early this quarter in fans, and cost reduction initiatives carried out resulted a 93% increase in the PBIT of the segment year on year. Very good collections and sharper inventory planning helped to reduce the working capital considerably.

Fans

The industry has returned to its growth path in the quarter. For Orient Electric, sales picked up with a year-on-year single digit growth for Q2 mainly driven by lower segment fans and portable fans supported by steep growth in Ecommerce channel. The secondary pick-up in Q2'21 also enabled a good clean-up of the pipeline stocks across the value chain. Expansion of distribution footprint, enhancing visibility and increasing share in Ecommerce channel will continue to remain the thrust areas. Gross margins of the business improved on the back of better price

realization and cost reduction due to sustained efforts through Sanchay (cost reduction program). However hardening of commodity rates may put pressure on margins in coming months. Normal liquidity has been restored in Fans business with high collections during Q2'21, reduction of inventory through better planning, thereby substantially improving the cash conversion cycle and reducing the exposures. This enabled a significant improvement in working Capital days by 40 days against same period last year.



Home Appliances

After the lacklustre Coolers business in Q1 which impacted high pipelines stocks, Water Heater and Kitchen Appliances led the growth engine in the second quarter with revenue growth of >45%, substantially offset by steep decline in Cooler business due to very high channel inventory. E-commerce channel share of business increased substantially in the quarter and strengthening our position in this high growth channel will continue to remain a key driver across all product lines. A high teens growth in Appliance business was registered across most territories. Expansion in

distribution continued during the quarter with good results. Retailer engagement programs through Orient Connect program extended to Appliance business to improve retailer loyalty and get better visibility of last mile connect over a period. De-risking of China dependency is being addressed through localization initiatives of make-in-India drive in Gas Water Heaters, Glassine and Room Heaters. Strong collections and better inventory planning helped reduction of exposures and improvement in working capital by 10 days over same period last year.



Lighting & Switchgear

The Segment revenue remains depressed owing to muted demand from the B2B segment. However, increase in housing activities resulting to some demand generation in Tier 2 and Tier 3 cities for Lighting and Switches. Tendering from Govt. channels has initiated including for EESL and expected to increase in future. Some of the high offtake areas remained affected due to floods in most of the quarter. The consumer business pulled up the revenue growth for the quarter over last year. The segment recorded a strong 73% gain in PBIT over last year. The strained Indo-China diplomatic ties did not affect the business in the last quarter with adequate stock up to service the demand.

Lighting

Consumer luminaries business delivered a mid-teens growth in the quarter followed by LED lamps. However, the growth was depressed due to sluggish demand from the Tender business. Despite firm orders in hand, supplies could not be made due to non-availability of sites. Lighting segment has delivered high double digit margins with higher gross margins supported by favourable mix and price increase, lower discretionary spends and cost optimisation. Price increase had been taken early in the quarter though some competitive pressures may see some dilution in future months to impact the margins. Tendering from Govt. channels has initiated including for EESL and expected to increase in future. Pilot projects underway by EESL. Import components have been sufficiently stocked up to ensure uninterrupted supplies. A

good enquiry bank is built up for the Plum business. Non availability of project sites, withholding of projects by institutions and poor cash flows due to territorial lockdowns affected the B2B business in Lighting as against a higher base. OEL has entered into Façade lighting as part of the B2B business and has successfully delivered the façade Lighting of "Dobra-Chanti" Bridge in Uttarakhand and Orissa Bidhan Sabha. With market opening up in all states, gradually with Mumbai, Punjab, UP, Uttarakhand and Eastern region, capacity utilisation has come back to pre-Covid levels. Higher collections and better inventory management helped in improving cash conversion cycle by 9 days. Lockdown posed procedural challenges for collections in the Tender business thereby limiting further improvement.



Switchgear

This segment, like all other small appliances, has been going through price contraction and down trading. Lower spend on premium products, real estate projects affected this segment. Going forward, ISI has banned production of non-ISI Plugs & Sockets effective from 1st Dec 2020. Physical electrician meets and influencer programs are planned for resumption. Focus has

been strengthened for footprint expansion, penetration and market share from high performing and high traction territories. Also, sharper focus on "independent bungalows" are expected to drive scale. New product offerings in switches are also in the pipeline to complete the range and service a pallet of next generation switches.



Key developments of the quarter

Digitisation under “e-Wings”

The string of digital rollouts that happened in previous quarters spread into entity-wide adoption drive with high engagement of almost every employee of the organisation in different applications. Adoption metrics and KPIs were taken up to monitor and fast track the implementation at every level. It is not only the individual digital tracks that are in course of implementation across all functions, employees and business partners but also integration of the processes with each other to ensure end-to-end digital process activation at the soonest.



1. E-Way Bill and E-Invoicing

With a view to sharpen compliance and control requirements, in line with the Govt.'s objective of setting up a seamless digitally controlled transactions under GST, the company has implemented the integrated E-Waybill system. This is an auto generation of e-waybill with all data pre-populated real time, with online reconciliation real time, avoid duplicate generation of E-way bills and help in invoice wise tracking. Besides, the company has also introduced e-Invoicing for 100% customers as per Govt. notifications.

2. Sales Force Automation (SFA)

Entire Sales Force has been connected to the SFA application in course of the quarter with full scale functionalities and is now gradually transforming to a new age working style which is more enriched and seamless. Initial challenges are being ironed out and it is expected to give a more flexible, hassle free and informed ways of working for the sales force.

3. Distributor Management System (DMS)

Manoeuvring through the busy business activities, the DMS rollout is finding its own way to the desks of Distributors after sorting out initial challenges of accessibility, training, compatibility, and integration for each distributor. The aim is to provide distributor satisfaction for ease of doing business. Apart from giving sales visibility, this is expected to establish more efficient ways of selling through user friendliness and experience.

4. Transport Management System (TMS)

TMS implementation has been completed during the quarter at all warehouses and with all transporters. Full focus is now on speedy adoption to get better efficiencies and visibility on despatches and order fulfilment and ability to track shipments and costs of logistics.

5. Travel & Expense (T&E) management system

The T&E digital rollout is completed with all employees logged in and fully operational for employee expense management.

Response to Covid-19

Re-opening: Embracing complete protective and preventive measures, all manufacturing plants, warehouses and logistics are operational in full capacity, the sales force and backend operations are in full swing.

People first: Health & well-being of people continues to get priority attention. Insurance cover for all employees have been stepped up. During the quarter, the learning and development programs of employees have been stepped up. Corporate office has been opened with very restricted need-based exceptions, after thorough background checks. A central “Covid Response Team” continues tracking attendance and any risks with background checks at all locations across India.

Business resumption: Business resumption is gaining speed on ground as has been indicated in the business sections above. The liquidity position of the company has improved substantially over the quarter.

Implications: The global pandemic outbreak of Covid-19 has substantially disrupted the economic activities during past six months, affected by the lockdown until May’20, impacting sales and profit of the Company. While there have been series of measures for unlocking the economy since June’20, the restoration of normal business conditions is still dependent on the future state of the pandemic on the people and economy and any future directives from the Government. Basis the best estimates as on the date of reporting, the Company does not anticipate any material impact on the recoverability of the carrying value of its assets including trade and other receivables, contract assets, unbilled revenue, inventories, property, plant and equipment and right to use assets. The management has also estimated future cash flows for the Company and believes that there is no impact on its ability to continue as going concern and meeting its liabilities as and when they fall due. However, considering the unpredictable situation giving rise to inherent uncertainty around the extent and timing of the potential future impact of the COVID 19 pandemic, the impact of COVID-19 on the Company’s financial results may differ from that estimated as on the date of approval of these financial results.

Opportunities: The company has already initiated migration to the new normal with business process re-engineering across all functions and is still in progress with high priority.

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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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