

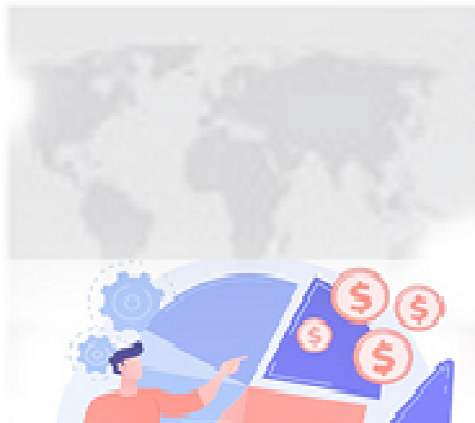


AJCONGLOBAL
YOUR FRIENDLY FINANCIAL ADVISORS
Equity Research Cell

Management interview - Mr. Atul Mehta, CMD, Compuage Infocom Limited

Investor's Delight - Orient Electric Limited

NEWSLETTER





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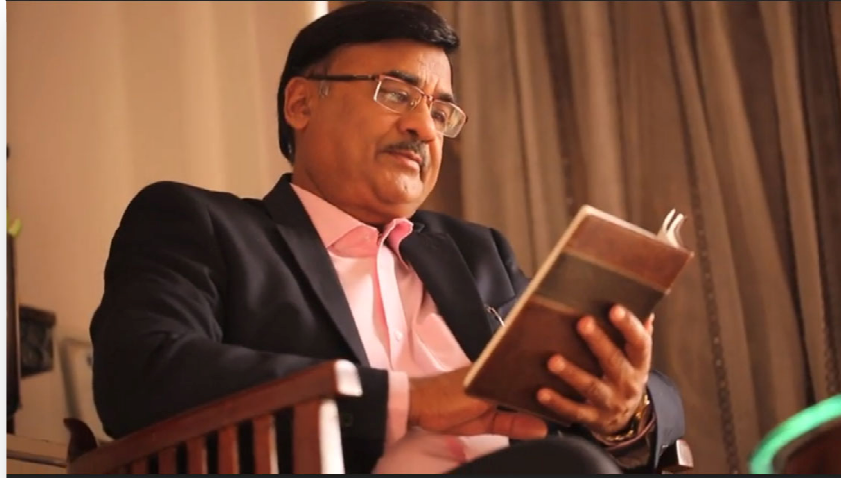
Monthly Newsletter

July 01, 2021

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Overview on Indian equities
- From the desk of our CMD - Dr. Ashok Ajmera, FCA



Unlock in various states improving sentiments; advisable to remain stock specific..

We expect Indian equities to consolidate after a stupendous run in recent times. Structurally, Indian equities are poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST, RERA, Insolvency and Bankruptcy Code, reforms in power, agriculture and labour laws, one of its kind Union Budget which focussed on investment led spending to drive growth with impetus on Privatisation, thrust on Aatmanirbhar Bharat resulting into Production Linked Incentive (PLI) schemes for various sectors, reforms in Direct Taxes, thrust on renewables sector Ethanol blending, scrapping policy etc. However, high inflation and unexpected spike in COVID-19 cases in future (in case of third wave) can act as headwinds.

Bulls have been in charge led by positive factors like Unlock in major states led by significant decline of COVID-19 cases in the second wave with recoveries surpassing new cases by a big margin on a daily basis, vaccination drive going strongly, positive GDP figure, strong Q4FY21 result by majority of the Companies with good management commentary for the future are supporting sentiments. In addition to liquidity provided by FPIs in equities, there is good spike in retail participation from Tier II and Tier III cities as people have become more financial literate in COVID-19 crisis.

Investors are also hopeful that vaccine shortages will be resolved in some months as vaccine manufacturers' ramp up supplies. The entry of new vaccines is also expected to ease the supply crunch. India has given the first dose of covid antidote to 33.28 crores beneficiaries in the nationwide vaccination till date. According to a government official, two billion doses of Covid-19 vaccines will be made available in the country between August and December, enough to vaccinate the entire population.

Key domestic factors like good GST collections in May 2021 despite second wave of COVID-19, positive GDP data, good proposals presented in Union Budget 2021-22 will always keep bulls in the hunt for long term. Improved US GDP data, talks about US\$6 trillion package in US will also support bulls. The Nifty valuations are trading in the range of 35x-40x. Q4FY21 results season has been good so far led by SBI, Asian Paints, Reliance Industries, L&T, Hindustan Unilever, Bajaj Finserv, Bajaj Finance, Shriram Transport Finance, SAIL, Tata Steel, Tata Elxsi, Tata Coffee, UPL, Siemens, Bosch, Borosil Renewables, Orient Electric, Godrej Consumer Products, HDFC Life, SBI Cards, Castrol, Marico, Torrent Pharma, Birla Corp, Container Corporation of India, DCB Bank, Bank of Maharashtra, Dr. Lal Path Labs, Lux Industries, Indoco Remedies, Angel Broking, TCI, TCI Express, Shakti Pumps etc. No doubt Q4FY21 results have been strong and encouraging but the second wave of COVID-19 would impact Q1FY22 results to some extent.

It is advisable for investors to look out for stock specific opportunities. After strong run up in May and last few weeks; some profit booking is expected (witnessed in last few days) and warranted. Investors will track global cues, ongoing monsoon, vaccination drive and economic activity and COVID-19 cases in Unlock phase for further direction.

Key recent major developments..

Monthly FPI/FII Net Investments in equities

| Particulars (Rs. in crores) | FII |
|-----------------------------|--------------------|
| Month | Net Purchase/Sales |
| June 2021 | 17,215.01 |
| May 2021 | -2954.34 |
| April 2021 | -9659.14 |
| March 2021 | 10,481.96 |
| February 2021 | 25,786.76 |
| January 2021 | 19,472.51 |
| December 2020 | 62,015.68 |
| November 2020 | 60,357.67 |

Source: NSDL and CDSL

Support by Finance Ministry

The Government on Monday announced 1.1 Lakh crore loan guarantee scheme for COVID affected sectors. This includes Rs. 50,000 crore for ramping up health infrastructure in tier-2 and 3 cities, and Rs. 23,220 crore additional allocation with primary focus on paediatric care. The loan guarantee scheme would provide 75 per cent coverage for new projects and 50 per cent for those in expansion mode. Maximum loan of up to Rs. 100 crore would be given for up to three years at the interest rate capped at 7.95 per cent. "Other than the eight metro cities, health infrastructure in all other areas will be focused. If the focus is on aspirational districts 65 per cent cover will be provided," Finance Minister Sitharaman said. Other measures announced on Monday include:

- Additional 1.5 lakh crore for Emergency Credit Line Guarantee Scheme
- Free tourist visas for 500,000 visitors, which could have a financial impact worth Rs. 100 crores
- Incentives for creating new jobs extended to end-March 2022
- Facilitate micro-finance loans to 2.5 million persons, with guarantee up to Rs. 7,500 crores

Global rating agencies slashed India's growth projection

S&P Global has cut its growth forecasts for some of Asia's top economies including India, the Philippines and Malaysia on Monday, offsetting upgrades to China and South Africa and much of Latin America. The estimates, which feed into S&P's closely-followed sovereign ratings, saw India's growth projection reduced to 9.5 percent from 11 percent due to its Covid-19 outbreak, the Philippines' lowered to 6 percent from 7.9 percent and Malaysia's downgraded to 4.1 percent from 6.2 percent. In contrast, China's forecast was nudged up to 8.3 percent from 8 percent, Brazil's was upgraded to 4.7 percent from 3.4 percent, Mexico's to 5.8 percent from 4.9 percent while those of South Africa, Poland and Russia were lifted to 4.2 percent, 4.5 percent and 3.7 percent, respectively, from 3.6 percent, 3.4 percent and 3.3 percent. "The top risk facing emerging market economies (EMs) is a slower-than-expected rollout of the vaccines," S&P's economists said in new report, adding that the pandemic would only subside once vaccinations "reach a level consistent with herd immunity". In Asia's emerging economies, vaccines are currently being administered at a rate of 0.2 doses per 100 people per day. At this rate, S&P estimated it would take another 23 months for 70% of EM Asia's population to be fully vaccinated. The second big risk facing emerging economies, it said, was if strong U.S. growth and inflation cause an early tightening of U.S. monetary policy which then pushes up the dollar and makes servicing debt denominated in the U.S. currency more costly.

India Ratings & Research on June 25, 2021 cut its forecast for India's gross domestic product (GDP) growth in 2021-22 to 9.6 percent from 10.1 percent earlier due to the outbreak of the second wave of COVID-19. Adding, the growth in India's GDP may further fall to 9.1 percent if the country's vaccination drive is delayed by around three months and the country's entire adult population is not vaccinated by the end of the year. India Ratings in its report said that if the pace of vaccination is maintained close to the 21 June level, then India will be able to vaccinate its entire adult population by the end of the year. The cut in GDP growth estimate is on account of a consumption slowdown due to the outbreak of the second wave of COVID-19, the rating agency said, adding that, unlike the first wave of COVID-19, the second wave of COVID-19 has spread to the rural areas. India Ratings said that it expects the country's private final consumption expenditure growth to come in at 10.8 percent in 2021-22 after it slowed down due to the outbreak of the second wave of COVID-19.

Earlier, Moody's Investors Service slashed India's growth projection to 9.6 per cent for 2021 calendar year, from its earlier estimate of 13.9 per cent, and said faster vaccination progress will be paramount in restricting economic losses to June quarter. In its report titled

'Macroeconomics India: Economic shocks from second COVID wave will not be as severe as last year's', Moody's said high-frequency economic indicators show that the second wave of COVID-19 infections hit India's economy in April and May. With states now easing restrictions, economic activity in May is likely to signify the trough. "The virus resurgence adds uncertainty to India's growth forecast for 2021; however, it is likely that the economic damage will remain restricted to the April-June quarter. We currently expect India's real GDP to grow at 9.6 per cent in 2021 and 7 per cent in 2022," Moody's said.

Indian banks likely to get impacted by second wave of COVID-19

Indian banks face systemic risks as the country wades through the aftermath of the Covid-19 second wave. The banking sector's weak loans are likely to remain elevated at 11-12 per cent of gross loans in the next 12-18 months, according to Standard and Poor's (S&P). The second wave will impair the performance of Indian financial institutions in the first half of fiscal 2022, with much resting on the effectiveness of government measures to address this problem. Credit losses should remain high at 2.2 per cent before recovering to 1.8 per cent in the year ending March 2023. Lenders struggled with a high level of weak loans well before the pandemic struck and, conditions have clearly deteriorated, the rating agency said. Disbursements slowed considerably in April and May. The credit that banks extended fell by about one per cent in the first two months of this fiscal year. The drop was largely seasonal--there were similar declines in the same period for fiscals 2018 and 2019. The credit growth in India started improving in June, and will continue to do so.

Direct tax collections portray a good picture

The direct tax collections for FY22, as on June 15, 2021 show that net collections are at Rs. 1.85 trillion as compared to Rs. 92,762 crore over the corresponding period of the preceding year, representing an increase of 100.4% over the collections of the preceding year. The net direct tax collections include Corporation Tax (CIT) at Rs. 74,356 crore (net of refund) and Personal Income Tax (PIT) including Security Transaction Tax (STT) at Rs. 1.11 trillion (net of refund), said Ministry of Finance on Wednesday. The gross collection of direct taxes (before adjusting for refunds) for FY22 stands at Rs. 2.16 trillion as compared to Rs. 1.37 trillion in the corresponding period of the preceding year. This includes Corporation Tax (CIT) at Rs. 96,923 crore and Personal Income Tax (PIT), including Security Transaction Tax (STT), at Rs. 1.19 trillion. Minor head wise collection comprises Advance Tax of Rs 28,780 crore, Tax Deducted at Source of Rs 1.56 trillion, Self-Assessment Tax of Rs. 15,343 crore; regular assessment tax of Rs 14,079 crore; dividend distribution tax of Rs 1,086 crore and tax under other minor heads of Rs. 491 crore. "Despite extremely challenging initial months of the new fiscal, the Advance Tax collections for the first quarter of the FY22 stand at Rs. 28,780 crore as against advance tax collections of Rs. 11,714 crore for the corresponding period of the immediately preceding financial year, showing a growth of approximately 146%. This comprises Corporation Tax (CIT) at Rs. 18,358 crore and Personal Income Tax (PIT) at Rs. 10,422 crore. This amount is expected to increase as further information is received from banks," the ministry said.

Inflation jumped in May 2021

Wholesale inflation in the country touched a significant high of 12.94 percent in May, as the constant rise in cost of fuel, including petrol, LPG and high speed diesel percolated down into the economy and a low base effect pushed up figures. Measured by the Wholesale Price Index (WPI), wholesale inflation in India began FY22 with a major rise. It had already spiked in the previous month of April when it reached 10.94 percent, up from March's 7.39 percent, and February's 4.17 per cent. The pace of inflation has now accelerated for the fifth-month in a row.

India's retail inflation shot up to six-month high of 6.3 per cent in May, after easing to a three-month low of 4.23 per cent in April, according to the government data released on Monday. Inflation, based on Consumer Price Index (CPI), has breached the Reserve Bank of India's (RBI) target range for the first time after five months.

Decent GST collections despite lockdowns in various states in COVID-19 second wave..

Goods and Services Tax (GST) collections at over Rs 1.02 lakh crore in the month of May 2021. The monthly collection is 27 percent lower as compared to April 2021, when the GST revenue had peaked to a record-high of Rs 1.41 lakh crore. The gross revenue for the month of May, stated as Rs 1,02,709 crore, includes a collection of Rs 17,592 crore in form of CGST, Rs. 22,653 crore SGST and Rs. 53,199 crore IGST (including Rs. 26,002 crore collected on import of goods), said a statement issued by the Finance Ministry. The revenue collected through cess is Rs. 9,265 crore (including Rs. 868 crore collected on import of goods). "The above figure includes GST collection from domestic transactions till 4th of June since taxpayers were given various relief measures in the form of waiver/reduction in interest on delayed return filing for 15 days for the return filing month May'21 in the wake of Covid pandemic second wave," the government said.

RBI keeps repo rate unchanged with an accommodative stance..

The Reserve Bank of India (RBI) kept repo rate unchanged for the sixth consecutive time at 4 per cent and maintained the policy stance as Accommodative. The six-member monetary policy committee (MPC), however, revised the growth projection downward to 9.5 per cent from 10.5 per cent for the current financial year and revised the inflation projection upward to 5.1 per cent. "The MPC also decided unanimously to continue with the accommodative stance as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward," said RBI governor Shaktikanta Das while announcing the policy review decision.

Positive GDP data..

India's gross domestic product (GDP) grew at 1.6 per cent in the January-March quarter of fiscal year 2020-21, but witnessed a contraction of 7.3 per cent for the entire fiscal year. This is the first full-year contraction in the Indian economy in the last four decades since 1979-80, when GDP had shrunk by 5.2 per cent. However, this is also the second straight quarter of expansion amidst COVID-19 crisis. India's GDP figures showed the growth at 3 per cent in Q4 of FY20, while growth for FY20 came at 4 per cent, an 11-year low. According to the National Statistical Office data, gross value added (GVA) growth in the manufacturing sector accelerated to 6.9 per cent in the fourth quarter of 2020-21 compared to a contraction 4.2 per cent a year ago.

Fiscal deficit above expectations

The Centre's fiscal deficit for the financial year 2020-21 settled at 9.2 per cent of the gross domestic product, marginally below the government's revised target of 9.5 per cent. This was on the back of better-than-expected revenue receipts with expenditure staying broadly at the level targeted in the revised estimates of the Budget. In absolute terms, India's fiscal deficit was Rs. 18.21 trillion, about Rs. 27,194 crore lower than the projected Rs. 18.48 trillion, as per the provisional estimates released by Controller General of Accounts. The fiscal deficit of 9.2 per cent has been estimated based on provisional estimates for FY21 GDP of Rs 197.46 trillion. The Centre had revised its fiscal deficit target in the Budget from 3.5 per cent to 9.5 per cent due to increased expenditure on various schemes announced by the government to tide over the Covid-19 pandemic, and a sharp shortfall in revenue receipts (both tax and non-tax).

PMI data affected to some extent

Data released by IHS Markit showed that domestic factory orders and production slowed to a 10-month low in May 2021 as most states restricted businesses amid localised lockdowns. The Manufacturing PMI slipped to 50.8 in May against 55.5 in April, making it one of the steepest fall.

**Management Interview - Mr. Atul Mehta, CMD - Compuage
Infocom Limited**



About Mr. Atul Mehta, Chairman and Managing Director, Compuage Infocom

He is a visionary and has been instrumental in the Company's journey over the years. Under his able guidance, the Company has continued to scale new heights in the ever - changing IT landscape for over 30 years.

About Compuage Infocom Limited

Compuage Infocom Ltd. is the distribution giant that creates opportunities for enterprise advancement for its channel partners through aggressive market development and continuous improvement through agility. The Company with its 46 offices and 69 service centers, across the country lets its 12500+ online & offline retailers, resellers and system integrators enjoy doing business at ease. Compuage Infocom Ltd. acts as a strategic link between vendors and partners, thus readying them for unprecedented levels of business performance by catering to SOHO, SMB, Mid size, Large Enterprises and Government Organizations across various industry verticals. The Company's global infrastructure consists footprints in 7 countries across SAARC nations, coupled with a direct focus on Enterprise solutions, Cloud computing, PC & Components and Mobility.

- 1) **In the listed space, there are few companies in the IT distribution space and Compuage Infocom is one of them? Could you elaborate about the Company's journey over the years?**

Compuage founded in 1987 has been in to distribution of technology products and services since early 2000. Since then it has had a wonderful journey growing from a few hundred crores of revenue to Rs 3700 crores in FY 21. The company from pure IT Consumer play has blossomed into a full fledged distribution house with Enterprise, Cloud Computing and Hardware Services under its arm. In the process, the company has established 46 sales offices, 25 warehouses, 69 service centers and a team of 750 professionals driving the business successfully. The company operates on SAP and has established strong systems and processes. It is this disciplined approach that has enabled the company to tide over ups and downs without any major challenges.

- 2) **Could you give us an outlook for IT distribution space in India, given the lower penetration of IT products in India? How is the industry panning out?**

India's penetration of IT products is indeed very low when compared to the rest of the world. Covid 19 pandemic has made people realise the importance of technology and technology products and services and will give a major thrust to this industry.

- 3) **What were the challenges faced by the IT distribution space in COVID-19 era?**

Unlike several other industries, the IT industry has not had any impact. On the contrary with work from home and study from home has fueled demand for laptops and smart phones. It was supply chain constraints that impacted the business.

- 4) **Could you throw some light on your Company's business model?**

Compuage operates in 4 verticals. One, IT Consumer (laptops, printers, peripherals, supplies, memory products, etc ,) Enterprise products (network infrastructure, security, software, power, etc,) Cloud Computing (supply of products as a service) and Hardware Services (services on behalf of the brands.) In each of the verticals, Compuage sources directly from the Vendor (Brand) and sells to Reseller/VAR/Sustem Integrator/Retailer (online and Offline) who in turn supply's to the end customers be it individual or corporate. The whole supply chain from bulk procurement, warehousing, Sales and credit deployment is effectively managed by the Distributor-Compuage.

- 5) **As the demand for IT related products saw a significant spike in COVID-19 era? What is the sustainable trend you foresee?**

With low penetration of IT products in the country, while the steep rise of laptops and smart phones may not be sustainable, but we should see a higher year over year growth as against the past 5 years.

- 6) **How does our Company benefit or get affected from the Government's thrust on Atmanirbhar Bharat? IT products majorly imported from China? What is your outlook on the same? What is the trend you are seeing now in terms of customers preferences?**

Atmanirbhar Bharat should hopefully help reduce costs. With increased affordability, we should surely see rise in demand which will benefit the industry. At this point of time, with bulk of the products coming from China, there is very little choice the customers have.

- 7) **What is your dependence on Chinese brands and what is your strategy going forward?**

Directly or indirectly, bulk of the hardware products come from China. We hope the Atmanirbhar Bharat initiative to change the same.

- 8) **IT distribution space is predominantly a working capital intensive industry? How is your Company placed on that front vis a vis peers?**

Working capital is the raw material for our business. We are well placed to handle the needs and are putting in plans to ensure that we continue our growth.

- 9) **Post COVID situation, how do you expect industry to behave?**

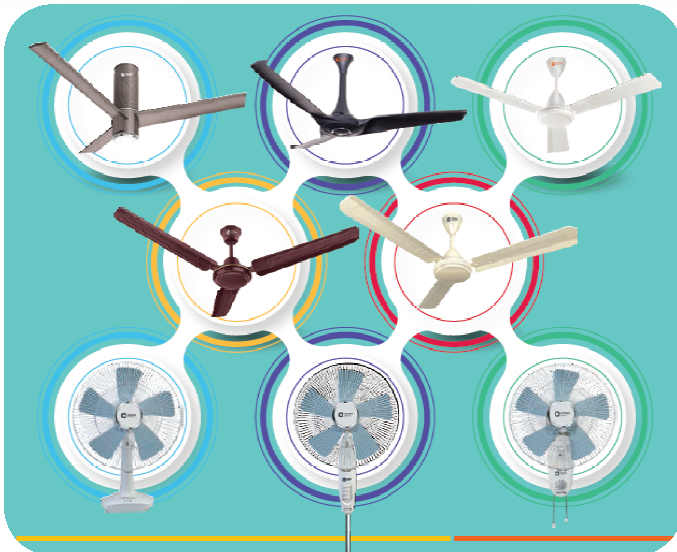
Post COVID, we see good growth potential for the technology industry. We are quite bullish for the whole decade as such.



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Investor's delight: Orient Electric Limited (OEL)

July 01, 2021



Company background and history..

Orient Electric Limited (C.K. Birla group) was formed via the demerger of the consumer electric business of Orient Paper & Industries Ltd., approved by the Kolkata Bench of the National Company Law Tribunal on November 9, 2017, and the demerged entity OEL got listed on May 14, 2018. The shareholders of Orient Paper got 1 share of the company for every share held in Orient Paper. Orient Electric, tracing its origins to the erstwhile Calcutta Electrical Company, became a part of the 150-year-old CK Birla Group in 1954. A distinguished name in the consumer electrical space for more than 60 years, Orient Electric has established itself as a one-stop provider of fans, lighting, home appliances, switchgears and other electrical solutions. Orient Electric has manufacturing facilities in Kolkata, Faridabad and Noida. OEL Fan manufacturing capacity is 95 lakh units p.a., lights & luminaries (capacity of 341 lakh units p.a.) and switchgear units (capacity of 3.1 lakh units p.a.). It also sells home appliances (coolers, toasters, etc). It sells under the brand name "Orient Electric" and its brand ambassador is Indian Cricket legend Mr. M.S. Dhoni. In terms of retail presence, the Company enjoys a marketing presence across 32 countries. In the domestic market, the Company has a robust distribution network with more than 5,000 dealers, 125,000 retail outlets and a service network in over 450+ cities. It is the largest manufacturer and exporter of fans in India with more than 60% market share in exports.

Third largest player in the fans segment with strong brand recall..

The Company is the third largest player in the fans segment. It is behind Cromptons and Havells. OEL has established itself over the years and is a 60-year old brand in the Fans segment. Being an industry veteran, the Company enjoys good brand recall in the Fans segment. In Q4FY21, the Fans segment did well led by meticulous planning, incentivization & investment in brand building. Launch of semi-rural product Rapid Air expanded the product portfolio in fast expanding entry-level category. Despite material availability and social distancing challenges, production was scaled up in Q4FY21 at both plants for timely service of demand.

Strategic alliances

Orient Electric has a strong and continuing partnership with the De'Longhi group since 2018-19. This tie-up enabled the entry of the premium brands of De'Longhi, Kenwood & Braun into India. Each of these brands is an international market leader in its core product category, providing the Company with a strategic market placement advantage. The company's partnership with the De'Longhi Group could help expand its premium appliances portfolio. De'Longhi Group is an Italian company, engaged in small appliances and plans to foray into the Indian market through this partnership with OEL. Under the partnership, Orient Electric will exclusively market and distribute premium small appliance brands — De'Longhi, Kenwood and Braun — in the country. The De'Longhi Group's product portfolio comes under the above three brands — Braun, De'Longhi and Kenwood.

Good Q4FY21 performance

In Q4FY21, the growth momentum for the company continued partly led by sustained consumer demand and partly due to lower base of last year. Consumer centricity, accelerated push over digital adoption, optimised inventory and faster recoveries had been key thrust areas in the quarter to ensure business performance amidst strong headwinds of commodity-led cost push. On QoQ basis, witnessed a good revenue growth of 42 percent in Q4FY21. However, for the full year it witnessed a fall of 1 percent on YoY basis. Q1 lockdowns had initially held back the pre-Covid momentum. All product categories performed well in the quarter mainly driven by the B2C segment in retail outlets and e-commerce. It was the lacklustre Tender business that pulled back the strong consumer.B2C business led the high-growth engine for the company in Trade and e-commerce channels but at a slower pace since Mar'21

| CMP | Rs. 313.55 (Face value: Re. 1) | | | |
|--------------------------|--|-------|-------|-------|
| Book value | Rs. 22.66 per share | | | |
| Recommendation | Accumulate | | | |
| Target price | Rs. 360 | | | |
| Upside | 14.8 % | | | |
| 52 Week High/Low | Rs. 171/Rs. 345 | | | |
| Beta | 0.40 | | | |
| Market Cap | Rs. 6,585 crores | | | |
| EPS (TTM)/P/E(x) | Rs. 5.64/55x | | | |
| BSE code | 541301 | | | |
| Bloomberg code | ORIENTEL:IN | | | |
| Promoter holding | 38.52 % | | | |
| 3 year CAGR | Revenue: 8.3%, EBITDA :17.1%, PAT: 23.2 % | | | |
| Price performance | 1 month: 3.72%, 3 months: 1.03 %, YTD: 39.54 %, 1 Year: 53.97 %, 3 years: 149.94%, | | | |
| Particulars (Rs. crores) | FY21 | FY20 | FY19 | FY18 |
| Topline | 2,033 | 2,062 | 1,864 | 1,600 |
| EBITDA | 219 | 176 | 143 | 139 |
| EBITDA (%) | 10.77 | 8.54 | 7.67 | 8.69 |
| Profit after tax | 119 | 79 | 69 | 64 |
| PAT margin (%) | 5.85 | 3.83 | 3.70 | 4.00 |
| Equity share cap. | 21 | 21 | 21 | 21 |
| Networth | 455 | 359 | 306 | 263 |
| Debt/Equity (x) | 0.13 | 0.27 | 0.44 | 0.71 |
| EPS (Rs.) | 5.63 | 3.70 | 3.27 | 3.02 |
| P/E (x) | 55 | 84 | 95 | 103 |
| RoE (%) | 26.15 | 22.00 | 22.55 | 24.33 |

Source: Company

with headwinds of a commodity-induced price increase. The institutional business showed some signs of revival but got affected by restrained capex spending by corporates. The most significant factor was Tender business that remained sluggish owing to slower projects execution and/or non-availability of project clearances, thus restricting the aggregate entity growth. In Q4FY21, EBITDA witnessed yoy growth of 47 percent. The net profit for the company grew by 73 percent in Q4FY21 and by 52 percent for the year, over last year, respectively. Full repayment of loans enabled the reduction of finance cost by 30 percent on yoy basis for the quarter and reduced by 21 percent for the year to date.

Investment recommendation and rationale

At CMP of Rs. 313.55, the Company is valued at P/E of 55x on FY21 EPS of Rs. 5.94 The stock has significantly rallied in last financial year as the Company has performed exceptionally even in an unprecedented crisis of COVID-19. The Company will enjoy premium considering its leadership position in the Fans exports segment. We like the Company due to the following factors: a) third largest player in the fans segment with strong brand recall, b) diversified revenue stream, c) Company's focus on innovation aiding in new product launches, d) strong distribution network and good focus on branding, e) improvement in Working Capital cycle led by increasing collections owing to channel financing and restructuring vendor terms, f) strong Balance sheet with low Debt/Equity, g) positive operating cashflow, h) good ROE and ROCE profile. We recommend "Accumulate" with a target price of Rs. 360 (P/E of 55x at estimated FY22 EPS of Rs. 6.54).

Q4FY21 result and concall highlights

Segmental performance- FY20 (Rs. in crores)

| Particulars | FY21 | FY20 | YoY (%) | Q4FY21 | Q3FY21 | Q4FY20 | YoY (%) |
|-----------------------|-------|-------|---------|--------|--------|--------|---------|
| ECD | | | | | | | |
| Revenue | 1,514 | 1,492 | 1 | 646 | 460 | 455 | 42 |
| PBIT | 205 | 182 | 13 | 93 | 68 | 72 | 29 |
| PBIT (%) | 13.50 | 12.19 | | 14.39 | 14.78 | 15.82 | |
| Lighting & Switchgear | | | | | | | |
| Revenue | 519 | 570 | (9) | 156 | 158 | 109 | 44 |
| PBIT | 69 | 60 | 16 | 23 | 23 | 12 | 83 |
| PBIT (%) | 13.29 | 10.53 | | 14.74 | 14.55 | 11.01 | |

Source: Company

ECD segment

The ECD segment witnessed strong growth of 42 percent on yoy basis in Q4'FY21. This was partly on a lower base of March'20 and pick-up of pre-season build-up from distribution. The commodity supply-cost effect rolled into this quarter and adversely affected this segment because of large dependence on steel, copper, ABS and plastics. The cost push was partly passed on through price increase. All retail channels including large format stores and e-commerce registered high growths, with e-commerce delivering 2x of last year in the quarter.

Lighting & Switchgear

This segment has registered a growth of 44 percent on YoY basis for the quarter on a lower base of last year and a decline of 9 percent for the year. However, excluding Tender revenue, this L&S segment has grown at 46 percent on YoY basis for Q4FY'21 and at 6 percent on YoY basis for the full year. Good traction in Consumer Lighting and down trading of switchgear is driving the market whereas B2B business is still suffering a setback owing to constrained capex investments. No major Tenders from EESL have been awarded in the quarter or in the year. Besides, slow ground clearance is also hindering the execution of projects. Input prices of PC, PP, Electronic components and metals is impacting the cost but still leverage of spends due to high C-Lum volumes, better product mix and effective cost optimisation enabled a margin increase of 83 percent on yoy basis for the segment in the quarter and similarly a 16% growth y-o-y for the year.

Improvement in Working Capital Cycle

The Company improved its Working Capital cycle from 47 days in March 20 to 11 days in March 2021. This was led by well-planned inventory, higher channel financing utilisation, reduction of outstanding and increasing payment terms of Vendor with vendor financing support to partners.

Outlook

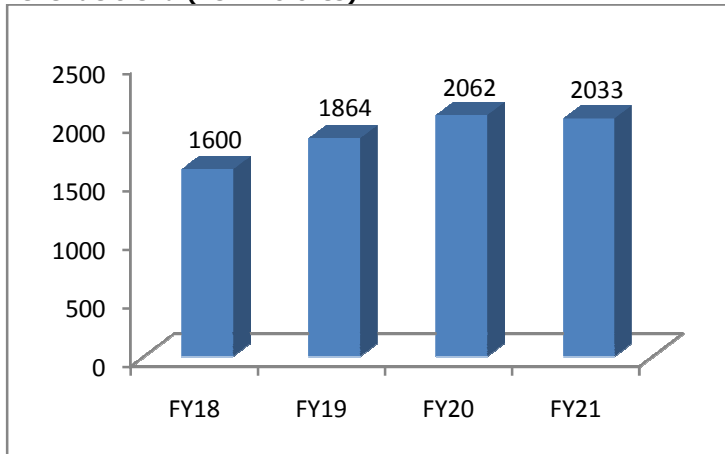
The mid-term outlook for the consumer electricals industry continues to be optimistic with increased adoption and shorter replacement cycles, driven by increased work-from-home and shift to energy-efficient products. However, in the short term, sudden steep upswing in the Covid positivity rate since March'21 is resulted in lockdowns, market closures and logistics challenges during Q4FY21 across most of the states. Furthermore, the steep material costs arising from commodity supply chain challenges, restrained cash flows from the market, currency fluctuations and seasonal support resulted in slowdown in consumption and margin pressures with heightened competition. Despite the obstacles, the company foresees the increasing latent demand for home consumption with all consumers and resurgence of a sharper and newer normal of lifestyle. The focus of the company on consumer centricity will continue to remain supported by innovation in products, reach expansion, digitisation and talent. The company will need to tread with utmost caution and topmost priority in securing the health and safety of all its employees and enabling business continuity amidst the constraints. The greenfield project for manufacturing capacity expansion at South India is on track but is likely to get affected by few months in view of the new lockdown restrictions across the country.



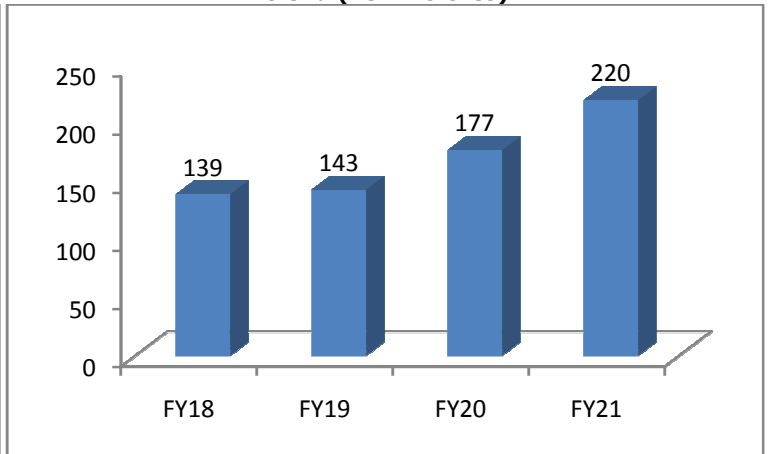
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Story in charts

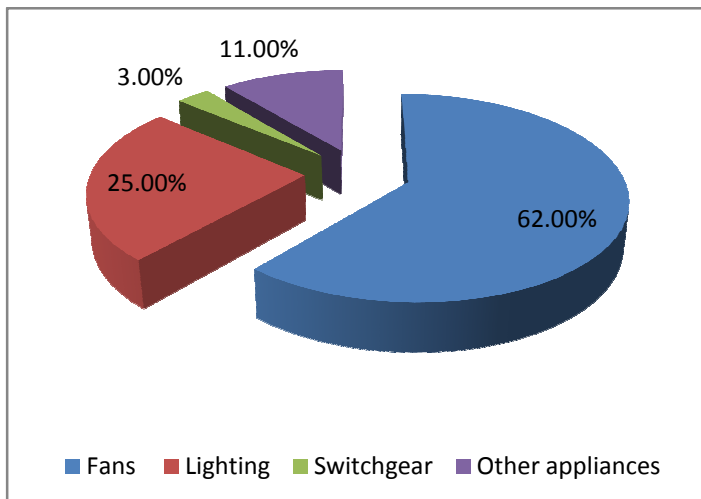
Revenue trend (Rs. in crores)



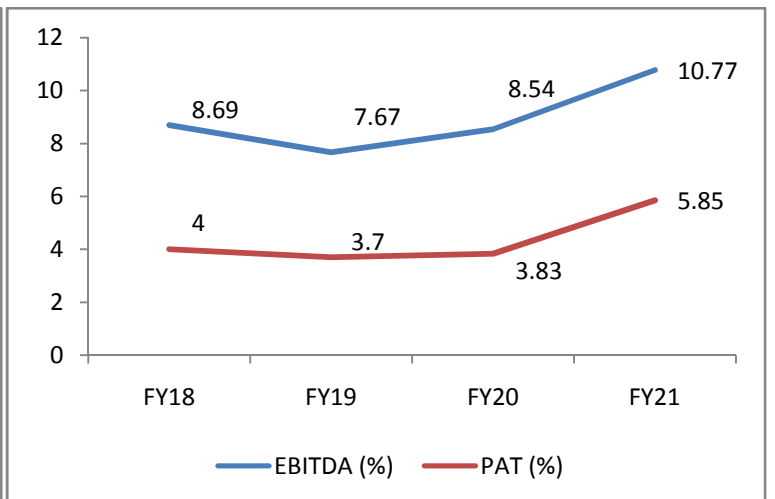
EBITDA trend (Rs. in crores)



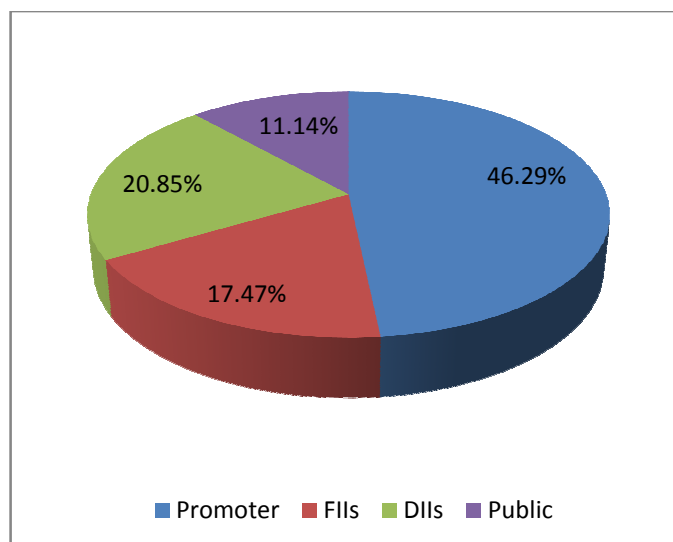
Total FY20 Revenue breakup



EBITDA and PAT Margins trend



Shareholding of the Company





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Peer comparison

| Particulars | Orient Electric | Havells India | Crompton Greaves Consumer Electricals |
|--------------------------------------|-----------------|---------------|---------------------------------------|
| CMP (Rs.) as on June 29, 2021 | 309 | 992.30 | 430 |
| FV (Rs.) | 1 | 1 | 2 |
| P/E | 55 | 62 | 45 |
| Market Cap | 6,549 | 62,148 | 26,996 |
| Net Sales | 2,033 | 10,457 | 4,750 |
| Market Cap/Net Sales (x) | 3.2 | 5.9 | 5.6 |
| EBITDA (%) | 10.8 | 15.2 | 14.8 |
| PAT | 119.74 | 1004 | 605 |
| ROE (%) | 25.15 | 29.2 | 42.51 |

Source: Company

One year price movement



Source: Trading view



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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Not rated/Neutral - No recommendation but only outlook given

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