

Management discussion & analysis

1. Overview

2017-18 was the first complete year of Orient Electric Ltd after its incorporation as an independent legal entity following its demerger from Orient Paper and Industries Limited. The process of demerger of 'Consumer electric business' from Orient Paper and Industries Limited into Orient Electric Limited was completed during this Financial Year. The appointed date of demerger was March 1, 2017 with the order effective date of December 8, 2017. All demerger activities were completed seamlessly and the application for listing of the Company on NSE and BSE has been submitted to SEBI.

The demerger of your Company will enable the unlocking of the true potential of Orient Electric Limited, thus creating enhanced value for its shareholder. Your Company's focus to generate superior profitable growth across all segments will be sharpened with the dedicated attention of the management team post the emergence of your Company as a pureplay consumer electric business.

The challenges of transition to GST regime in the early part of the year were successfully negotiated by your Company in terms of its impact on business continuity. However, the sales of almost every business were slow in the first quarter of the year due to destocking by the channels ahead of GST implementation. Necessary support was extended to the business partners (vendors and channel partners) in their transition to the new regime.

Despite the transition challenges, the proposition of 'One India, One Tax' presents a number of opportunities. With its proactive and agile responses, your Company has managed to redefine the supply chain, reduce its inventories and improve customer service. The implementation of e-Way Bill will further improve operating efficiencies.

The markets revived and the channel started restocking by the second half of the year. Through its quick adaptation to the new reality, your Company made up

for the slow start and ended the year on a high note. During the year, your Company continued to focus on innovation, quality and customer delight through after sales service across all business verticals, thus reinforcing "Orient Electric" as one of the most reliable premium brands in Indian consumer electrical space.

Going forward, your Company will continue its journey towards 'Switch to Smart' across the following focus areas:

- Innovative and trendsetting products, smarter in design and performance.
- Smart team that is constantly learning and stretching beyond the ordinary.
- Deployment of smart technologies resulting in cost efficiency and reliability.
- Smart use of IT in connecting with channel partners and consumers thus enhancing customer delight.

2. Segment-wise business analysis

a) Overall Economy

Global: In 2017, a decade after the global economy spiralled into a meltdown, a revival became visible. Every major economy expanded and a growth wave created jobs. This reality was marked by ongoing Euro-zone growth, modest growth in Japan, late revival in China and improving realities in Russia and Brazil leading to an estimated 3.7% global economic growth in 2017, some 60 bps higher than the previous year. Crude oil prices increased in 2017, closing the year at \$61.02 per barrel, the highest since 2013. Global growth forecasts for 2018 and 2019 were revised upward by 20 bps to 3.9%, reflecting improved momentum due to the impact of tax policy changes in the US.

Indian: After registering GDP growth of over 7% for the third year in succession in 2016-17, the Indian economy headed for slower growth, estimated at 6.6%, in 2017-18. Even with this lower growth

for 2017-18, GDP growth averaged 7.3% for the period 2014-15 to 2017-18, achieved through lower inflation, improved current account balance and reduction in fiscal deficit to GDP.

The year under review was marked by various structural reforms by the Government. In addition to GST introduction, the year witnessed significant resolution of problems associated with bank non-performing assets, FDI liberalization, bank recapitalization and privatization of coal mines. After remaining in negative territory for a couple of years, export growth rebounded during 2016-17 and strengthened in 2017-18; foreign exchange reserves rose to USD 414 billion as on January 2018. World Bank projected India's economic growth to accelerate to 7.3% in 2018-19 and 7.5% in 2019-20. Strong private consumption and services are expected to continue to support economic activity. Private investment is expected to revive as soon as the corporate sector adjusts to the GST. The recapitalisation package for public sector banks announced by the Government of India is expected to resolve banking sector Balance Sheets, enhance credit availability and spur investment. (Source: CSO, economic survey 2017-18 IMF, World Bank)

b) Industry overview

India is one of the fastest growing consumer electronics markets in the world. Consumer durables/light electricals market in India reached ₹ 1 trillion (USD 15.45 billion) in 2017. Urban India accounted for the major share (65%) of total revenues in the Indian consumer durables sector. There is considerable growth scope from rural markets with consumption expected to grow in these areas as brand penetration increases. Consumer electronics exports from India reached USD 385.15 million in 2017-18 (up to February 2018). The rural demand for durables like refrigerators as well as consumer electronic goods is likely to witness growing demand

as the government plans to invest significantly in rural electrification.

The year 2017-18 started with anxious GST anticipation. There were initial challenges during GST implementation, which got addressed with every subsequent month. Channel destocking due to GST transition resulted in low primary sales in the early part of the year. The sluggish growth in the construction and real estate sectors limited volume growth to a low single-digit percentage number. Erratic weather conditions had a negative impact on seasonal products like coolers, water heaters and fans. However, subdued consumer inflation, coupled with an increase in consumer incomes, increased the demand for aspirational products in the consumer electricals industry.

The high growth of the LED lighting category coupled with a slow-down in conventional lighting continued into the Financial Year under review. An increased government focus on energy-efficient lighting and other segments led to robust growth in institutional demand.

The market demand for LED consumer luminaires continued to increase. Automation and consumer centric lighting could emerge as key focus areas. There could be an increase in sectoral focus on energy-efficient products in the lighting, fan and home appliance categories.

c) Segment wise review and analysis

i) Electrical Consumer Durables

For the Financial Year ended March 31, 2018, sales revenue for Electric Consumer Durables was ₹ 1,21,814 lacs and EBIT was ₹ 14,748 lacs. The home appliances segment was the fastest growing product segment for the Company, followed by Fans.

Orient Electric continues to be one of the largest players in the electrical fans segment in India. The

Company continued to be the largest exporter and largest manufacturer of fans from India. The Company's focus on building strengths in the premium fans category gained momentum in the Financial Year. The Company introduced the aerodynamically designed Aero series range of fans, proving to be far superior in air delivery and noise levels. The Company added variants to its range, leveraging strengths around silence, aesthetics, innovation and technology superiority. The Company also launched a series of innovative products in the mid-range of ceiling fans category, adding variants across table, pedestal and exhaust fan categories.

The Company consolidated its position in the air cooler and water heater product categories following the launch of a new range of premium products. It strengthened its reach, improving width & depth of distribution and strengthening its footprint through better market coverage and service. Since the cooler and water heater segments represent attractive potential, the Company will continue investing in them.

To strengthen its edge in a highly competitive arena, the Company plans to further build on the R&D and innovation capability, manufacturing capacity, quality and service level enhancement.

ii) Lighting & Switchgear

For the year ended March 31, 2018, sales revenue for Lighting & Switchgear was ₹ 40,744 lacs and EBIT was ₹ 3,447 lacs.

The Company's Lighting business grew at a rate significantly higher than the industry's growth during the Financial Year under review. The Company consolidated its position as the second largest LED lamp player in the country. It launched a series of new LED products. The growth story was led by Consumer luminaire business and LED Batten advertising campaign, which helped in establishing Orient Electric as a strong brand in the segment. The Company made substantial inroads into the street lighting

segment, bagging sizeable orders from EESL.

The Switchgear business reported rapid retail expansion, expanding its distribution reach to seven states and growing at > 200%.

The strength in this segment lies in product development and indigenizing component manufacture. Reliance on imported components reduced significantly and cost optimisation translated into a competitive advantage.

d) Major opportunities

- **Rural electrification:** The 'Power for All' programme is a major step in this direction. Of 180 million rural households, 146 million have been electrified by 2017-18. The demand of consumer durables and light electrical products is expected to benefit from Electricity availability. (Source: Ministry of Power)
- **Focus on developing infrastructure:** Government's focus on infrastructure development, specially roads, and "Street Lighting National Program" will open street-lighting opportunities.
- **Emerging focus on energy efficiency:** Increasing focus by the government through programs like UJALA, NEEP, SEEP and increasing consumer awareness on energy-efficient products will increase the speed of transition to more energy efficient products like LED lights and BLDC fans.
- **Growing middle-class:** A rising middle-class with higher disposable incomes, aided by favourable demographics, strengthens the consumer goods industry's prospects. India's middle-class could more than double from 2015-16 to 113.8mn households or 547mn individuals by 2026, entailing growth for its consumer goods sector. (Source: Edelweiss)
- **Increasing incomes:** Per capita incomes during 2017-18 was estimated at ₹ 1,11,782, rising 8.3% compared to 2016-17. Moreover,

rising literacy contributed to the evolution of new retail structures and emergence of better standards of living. (Source: Economic Survey)

- **Housing for all:** The government is targeting the addition of 26 million households, apart from the normal growth in the number of households, to 350 million households by 2025 and complete >90% electrification by 2019. This could drive demand for consumer durables/light electrical items. With incremental focus on housing and sustained impetus on village electrification, it is estimated the above-mentioned segments to clock reasonable 14.5% growth over 2017-22. (Source: Edelweiss)

e) **Major threats**

- **Erratic weather:** Fan, air cooler and water heater categories are dependent on weather conditions. Unseasonal rains during summer and mild winter can adversely impact sales in these product categories.
- **Rising input costs:** A number of our products are dependent on commodity prices. Metal and oil prices are rising, which can put pressure on margins.
- **Low entry and trade barriers:** Low entry barriers in some product segments pose a challenge marked by the import and entry of low-priced sub-standard products. Increasing global uncertainties could trigger trade barriers.

c) **Strategic focus areas**

a) **Innovation: Our key differentiator**

The Company is respected for its undisputed legacy across more than 60 years, characterized by breakthrough innovation in production processes and industry-first technologies (the recent Aero series being the worthy successor to the legendary PSPO fans). Emboldened by the success of Aeroquiet in 2016, the first silent fan of India, the Company launched a series

of aerodynamic fans in the last quarter of the Financial Year, showcasing your Company's in-house R&D capability and manufacturing excellence.

The Company's Lighting Design and Innovation Centre at Noida responded with speed to fast changing technology upgrades in the Lighting industry, helping customize solutions, retain market leadership and optimize costs. The Company was the first to be awarded 3-Star rating by Bureau of Energy Efficiency for its 5w, 7w and 9w LED lamps. It also enhanced its capability to manufacture smart street-lighting, thus becoming a preferred supplier of EESL.

Orient Switchgear leveraged its unique SDB technology to retain its position as the safest low-voltage switchgear in the Indian retail market. It received overwhelming acceptance based on this superior technology, performance and almost zero-defect performance. The premium switchgear range was augmented by the launch of wiring accessories.

Quality and innovation lie at the core of Orient Electric, driven by the objective of providing the best in class products, smarter in every way for the new smart generation of consumers.

The Company is swiftly progressing in its digital journey to make Orient Electric a highly efficient organisation, capturing and using information in most efficient manner for smart business decisions. During the year under review, Orient Electric invested in IT initiatives that helped in improving process capabilities seamlessly across the vendors and customers.

b) **Bolstering the brand**

Orient Electric has transformed into a contemporary brand offering smart solutions to its customers in the consumer electric space. The Company's global reach and a rich and innovative portfolio (fans, lighting, home appliances and switchgears) have helped it stay ahead of competition. Its continuous

rejuvenation around product innovation has been a key differentiator.

Orient Electric is one of the most trusted and respected consumer electrical brands, having received numerous awards including Economic Times Most Promising Brand Award and the Superbrand status consecutively over the last few years.

During the year under review, the Company built brand recall through two mega advertising campaigns for Fans and Lighting. The Company's sustained efforts in enhancing brand sheen and customer proximity boosted recall to 100%. While the Aeroquiet fans campaign helped increase share in the premium fans segment, the LED Batten campaign helped the consumer luminaire business increase market share in a competitive space.

c) Building reach and reinforcing partnerships

Our long-standing and trusted channel partnership with distributors, wholesalers and retailers provides us a competitive edge. To augment channel strength, we embarked on the following initiatives:

- **'Orient Connect' program for retailers:** To strengthen relationships with more than 100,000 retailers, the Company launched the Orient Connect program in 2017-18. The program is helping us to understand retailer; needs, its motivation, and real time information on consumer response to Orient Products.
- **E-commerce tie-ups:** Orient Electric is the largest Indian online seller of fans. The Company's exclusive launch of Aerostorm (an Aero series fan) with Amazon was one of numerous steps in this direction.
- **Orient Smart Shop and modern retail:** Our Smart Shops provide exclusive consumer experience touch points for the brand, helping us derive direct consumer feedback.

The Company is strengthening its reach in large format retail chains, providing potent sales opportunity for premium products.

d) Fortifying customer relationships

A network of more than 300 service centers and over 1000 field technicians provides 24x7 home service to customers right up to the remotest corners of the country. The CRM-monitored call management with mobile app provides real-time service visibility. A 'Happy Code' is provided to the customer on call registration thus empowering the customer to decide and convey to the Company if call was closed to the satisfaction of the customer, while outbound calling is done to continuously measure the Customer Satisfaction Index.

e) Our employees: Our core strength

'One Orient: One team, One dream' is the thread that binds all employees around a common vision. We continuously invest in employee's learning and development to make them future-ready while rewarding and recognizing their efforts. The Company was conferred Best Employer Brand Award at Delhi Leadership Awards 2017. The quarterly Hi-Flyer program, which rewards and recognises best-performing employees won Amity HR Excellence Award for Best Employee Performance Management.

d) Risk mitigation

The Company has a robust Enterprise Risk Management system and framework, which outlines the processes and structures used to assess, monitor and mitigate risks. The system was institutionalized with a demarcation of responsibilities and time-bound assessments.

Technology obsolescence is one of the major risks faced by the industry. Focus on innovation and product development is a major step to mitigate this risk. Your Company's ability to remain agile and innovate faster than the market helps it remain ahead on the change curve.

An excessive dependence on the retail housing sector and stagnant growth in this segment are potential risks. To reduce this dependence, we are increasing our product portfolio to increase replacement demand and also enhancing our export focus.

Increasing input costs and a dependence on commodities are other risks faced by the Company. The Company has strengthened cost management and component innovation to mitigate this risk.

Business environment changes like GST pose a risk to business continuity. Strong planning processes have helped the Company to ensure that risks posed as a result of the changing business environment do not impact business continuity.

e) Internal control systems

The robust internal control systems provide efficiency, reliability, and completeness of accounting records thus helping the Company in timely and accurate dispersion of financial and management information. These controls help the Company to ensure compliance of all applicable laws and regulations. These internal controls also facilitate optimum utilization of resources, protect Company's assets and investors' interests. The clearly defined organization structure, delegation of authority, code of conduct, and standard operating procedures enable all of the Company's employees to conduct business in an orderly and efficient manner.

The Company has Whistleblower Policy and Fraud Risk Framework Policy to address fraud risk. The Audit Committee of the Board regularly reviews significant audit findings of the Internal Audit Function, covering operational, financial and other areas and providing guidance on strengthening internal controls.

f) Outlook

The economy was able to overcome the short-term challenge of GST resulting in a rebound in the last quarter. The outlook is optimistic as all major economic indicators appear to be in good health. Inflation is range-bound and the consumer sentiment is positive.

The outlook for Orient Electric's business is positive, riding on emerging growth in segments like Consumer LED luminaires and LED street lighting, premium fans and coolers. Deeper distribution will give a further boost to the Company's growth.

The challenges that we foresee comprise a stagnant real estate sector and erratic weather.

g) Cautionary statement

The Management of Orient Electric Limited has prepared and is responsible for the financial statements that appear in this report. These are in conformity with accounting principles generally accepted in India and, therefore, may include amounts based on informed judgements and estimates. The Management also accepts responsibility for the preparation of other financial information that is included in this report. Statements in this Management Discussion and Analysis describing the Company's objectives, projections, estimation and expectations may be 'forward looking statements' within the meaning of applicable law and regulations. Management has based these forward looking statements on its current expectations and projections about future events. Such statements involve known and unknown risks, significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations, exchange rate fluctuations, interest and other costs and may cause actual results to differ materially.