



THINK DIFFERENT PROFIT MORE

Company Name	: Eon Electric
BSE Code	: 532658
Time Duration	: 2 year
CMP	: ₹72.70 (as on 04 May, 2017)
Target Price	: ₹113

Our Upstream Pick for the month of May 2017 is Eon Electric Ltd. Eon Electric is one of the leading manufacturers of lighting products, wires and cables in India. The company has seen a turnaround with growth in LED business by riding on the wave of growth in energy efficient lighting. With the government's focus on promoting energy efficiency in lighting, Eon has been able to secure government orders in the states of UP and Rajasthan. The key drivers for its growth can be the change in UP government, push towards electrifying villages and shift towards LED lights. The expected demand for energy efficient lighting products like LED systems and electric cables and wires can be the revenue growth drivers for the company. Additionally, the company's focus on exports will augment the revenue further.

Industry Outlook

India's lighting market has been growing at a CAGR of 16.8% for the last 5 years and is anticipated to grow at a CAGR of 32.15% till FY22. The Government of India's 'Make in India', 'Digital India' and 'Smart Cities' schemes would further provide a push to this industry.

The cables and wires industry has shown positive outcomes over the last five years and is expected to grow in the upcoming years due to demand from power and infrastructure sectors and high growth rate of the Indian economy. Also, 100% FDI in the industry has been allowed by the government.

The production of fans and mobile phone batteries, which come under the consumer durable industry, have a promising future. The sales of fans have been growing at a CAGR of 9.1% over the last five years. With growing demand for housing, we expect demand for fans to increase. Mobile phone market is also one of the fastest growing markets with annual growth rate of 25% to 30%. Thus, lithium ion batteries used in mobile phones are expected to grow further. We expect all these factors will lead to favourable growth for company's revenues and profitability.

Eon has shifted its focus mainly on LEDs under lighting segment due to increasing use of energy efficient light sources by all consumer segments. LED lighting currently enjoys 19% share in the overall lighting market.

Eon - A turnaround in profits

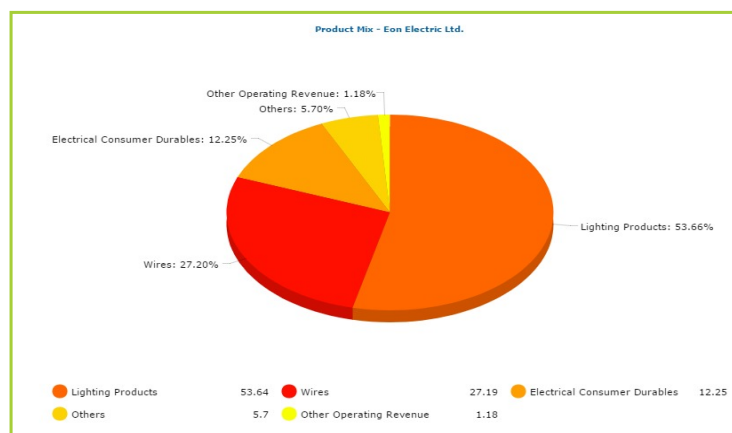
Eon Electric on a standalone basis was incurring operating losses due to high operating expenses and high interest outgo. We see that the company has been able to turn profitable for four consecutive quarters due to bagging of government orders and shift towards high margin LED business. We see a revenue pull turnaround, which helped it to service its debt. We also see that the company in FY16 increased its payable days to 53 days (as against 46 days in FY15) to provide for the high receivable days of 113. The high receivable days are due to its exposure to government orders and exports. We expect the company to usher in more efficiency going forward. Also, the company expects to see more stable demand for wires and cable division, which is currently dragging down the margins.

We see the company as an Upstream Pick as the company is planning to grow aggressively and has been garnering debt for the same. We see industry tailwinds support the growth and hence company to be able to service the debt if its continues to secure LED orders. We see management being optimistic about the growth, but we would like to take that with a pinch of salt.

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Diversified Product Mix

Eon Electric manufactures range of products such as LED lights, lighting products, energy efficient fans, water heaters, lithium ion batteries, mobile phone accessories, wires & cables and other allied products. For FY16, 53.6% of the total revenue was derived from the lighting products while wires contributed 27.19% and consumer durables like fans and water heaters contributed 12.3%. The contribution by lighting products in the revenue is increasing year-on-year and the management is planning to focus more on these high margin products. The wires and cables segment offers potential growth, but the company faces stiff competition and pricing pressures leading to thin margins.



For the nine-month ended Dec 2016, the company's total revenue touched Rs 139.9 crore. Out of this, lighting division contributed Rs 81.67 crore (58.39%), wires & cables segment Rs 33.47 crore (23.93%) and consumer durables segment Rs 17.41 crore (12.45%).

Government push leading to order growth

The company's order book in lighting business stood at Rs 60 crore, while for cables segment it was Rs 68 crore as of FY16.

In July 2015, Eon Electric bagged some huge government contracts worth Rs 51 crore for LED streetlights in Aligarh, UP, and worth Rs 40 crore in Jodhpur, Rajasthan. The company installed 60,000 LED streetlights in Jodhpur and 13,000 in Aligarh. Around 1 lakh LED streetlights were installed in cities of Jaisalmer, Gangapur, Sri Ganga Nagar, etc. in Rajasthan. These contracts have helped the company to boost its revenue and profitability. It is also in the process of taking up similar projects with other state governments in India. The company also exports LED lights to Dubai and is planning to extend the export market to Africa and other Middle East and South East Asian countries.

Financial Performance

The company's revenue for nine months ending Dec 16 increased by 11.6% to Rs 134.40 crore as against Rs 120.44 crore for the corresponding period of the previous year. Since December 2015, the company has started earning profits due to rise in the revenues. The company recorded operating profit margin of ~5% in Q3FY17. Its net profit in Q3FY17 was Rs 0.97 crore, an increase of 16.9% on YoY basis. The company has low debt-equity ratio of 0.59x. However, due to low earnings, it has risky low interest coverage ratio of 0.51%. It is seeing improvement in asset turnover ratio of 0.78x as of FY16.

The management expects to grow sales by ~30% in the coming years. However, we are a bit cautious and expect growth to be in the range of 22%-25%.

Valuation

The company is currently trading at TTM P/E of 28.93x with TTM EPS of Rs 2.50. It delivers TTM ROCE of 2.78%. Its revenue has grown at a CAGR of 35.15% over the last five years. We expect the returns to grow further due to rise in revenues and profitability of the company. We recommend our investors to **BUY** the scrip. We expect an upside of 56% in the price, with a target price of Rs 113.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	174.67	129.17	136.72	156.14	56.15
Total Income	182.43	136.78	142.86	164.62	69.14
Total Expenditure	175.54	147.45	158.34	178.77	78.53
PBIDT	6.89	-10.67	-15.48	-14.15	-9.39
PAT	-4.02	-20.43	-23.44	-19.80	-16.93
Dividend %					
Adj. EPS(Rs)	-2.50	-12.73	-14.60	-12.33	-10.54

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201612	201609	Q on Q Var%	201512	Y on Y Var%
Net Sales	47.38	42.94	10.34	45.42	4.33
Total Expenditure	45.53	42.15	8.04	44.37	2.62
PBIDT (Excl OI)	2.38	1.54	54.64	1.88	26.62
PAT	0.97	0.91	7.51	0.83	16.95
PBIDTM% (Excl OI)	4.76	3.42	39.18	4.07	16.95
PBIDTM%	7.74	8.33	-7.08	7.77	-0.39
PATM%	1.95	2.01	-2.99	1.80	8.33
Adj. EPS(Rs)	0.61	0.56	8.93	0.52	17.31

