

Eveready Industries

BSE SENSEX	S&P CNX
34,196	10,498
Bloomberg	EVRIN IN
Equity Shares (m)	73
M.Cap.(INRb)/(USDb)	26.8 / 0.4
52-Week Range (INR)	227 / 464
1, 6, 12 Rel. Per (%)	-15/17/32
12M Avg Val (INR M)	63.0
Free float (%)	56.0

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Sales	14.9	16.8	19.5
EBITDA	1.4	1.7	2.1
NP	0.9	1.2	1.5
EPS (INR)	11.7	16.7	20.8
EPS Gr. (%)	-8.7	42.5	24.1
BV/Sh. (INR)	46.9	57.8	72.7
RoE (%)	27.1	32.0	31.8
RoCE (%)	21.9	26.8	38.7
P/E (x)	29.9	21.0	16.9
P/BV (x)	7.5	6.1	4.8

Estimate change 

TP change 

Rating change 

CMP: INR378 TP: INR458 (+21%)

Buy

Segments recover from GST-related hiccups

■ **Revenue marginally below estimate; records a miss on PAT too:** EVRIN's revenue rose 12.2% YoY to INR3,696m (est. of INR3,792m) in 3QFY18. EBITDA margin shrunk 144bp YoY to 9.3% (est. of 10.0%), while EBITDA fell 2.9% YoY to INR342m (est. of INR375m) due to a significant rise of 200bp in other expenses (led by INR100m ad spends during the festive season in the appliances and lighting segment). Consequently, adjusted PAT grew 23% YoY to INR209m, lower than our estimate of INR253m. Turnover in battery and flashlights remained flat, while that in LED segment grew by 33% YoY.

■ **Newer segment to de-risk business model and drive growth:** EVRIN expects to do a turnover of INR1b in FY18 in the appliances segment, and expects to grow by 50% YoY in FY19. While EBITDA loss stood at INR125m due to initial investments made in this business, EVRIN expects to achieve 12-14% EBITDA margin in the next 2-3 years. The company has recently entered into confectionary (fruit chew) segment with its brand Jollies, which should start contributing to growth from H2FY19. EVRIN plans to do this under the asset light model and will start rolling out products pan-India by May-June 2018. It has also recently entered into a JV with Indonesia's largest FMCG conglomerate Wings Group – EVRIN will invest INR75m for a 30% stake in the JV and will leverage its distribution strength to market new products.

■ **Valuation view:** EVRIN is on track for not only de-risking the business model, but also recording faster growth over the next few years driven by higher growth in the appliances, lighting and newly planned confectionary segments. We have cut EPS for FY18E by 15% to factor in higher ad spends, with FY19 and FY20 earnings largely unchanged. We value the stock at 22x FY20E EPS, and maintain **Buy** with a target price of INR458.

Quarterly Perf. (Standalone)

(INR Million)

Y/E March	FY17				FY18				FY17	FY18	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Net Sales	3,718	3,847	3,294	3,173	3,577	3,982	3,696	3,649	13,572	3,792	-3
YoY Change (%)	1.2	-0.5	-3.8	6.6	-3.8	3.5	12.2	15.0	2.5	10.0	
Total Expenditure	3,341	3,421	2,942	2,997	3,298	3,511	3,354	3,449	12,235	3,416	
EBITDA	377	426	352	177	279	471	342	201	1,337	375	-9
Margins (%)	10.1	11.1	10.7	5.6	7.8	11.8	9.3	5.5	9.9	9.9	
Depreciation	34	36	38	42	48	47	48	28	149	28	
Interest	60	59	51	62	66	71	69	60	238	50	
Other Income	19	20	22	36	15	128	42	18	96	19	
PBT before EO expense	301	351	286	109	179	481	267	131	1,046	316	-16
Extra-Ord expense	0	0	-83	0	0	0	0	0	0	0	
PBT	301	351	369	109	179	481	267	131	1,046	316	-16
Tax	78	95	17	5	43	118	58	34	111	63	
Rate (%)	25.8	27.0	4.6	4.3	24.2	24.5	21.7	26.0	10.6	20.0	
Reported PAT	224	256	352	105	136	364	209	97	935	253	
Adj PAT	224	256	272	105	136	364	209	97	935	253	-17
YoY Change (%)	17.0	40.3	27.7	12.3	-39.4	41.9	-23.1	-7.5	35.5	-7.1	
Margins (%)	6.0	6.7	8.3	3.3	3.8	9.1	5.7	2.7	6.9	6.7	

E: MOSL Estimates

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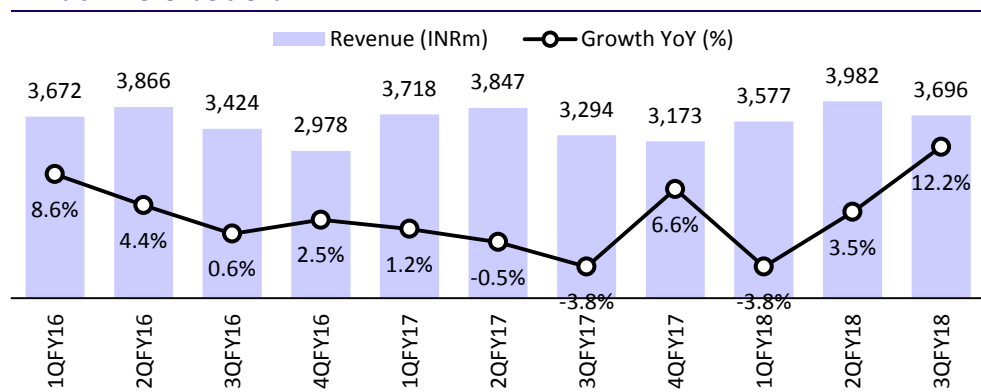
Revenue in-line, EBITDA and PAT below estimates

- EVRIN’s overall revenue increased 12.2% YoY to INR3,696m (est. of INR3,792m) in 3QFY18.
- EBITDA margin contracted 144bp YoY to 9.3% (est. of 10.0%), while EBITDA also declined 2.9% YoY to INR342m (est. of INR375) on account of a significant increase of 200bp in other expenses (due to INR100m ad spends during the festive season in the appliances and lighting segment).
- Consequently, adjusted PAT grew 23% YoY to INR209m (est. of INR253m).
- Turnover in battery and flashlights remained flat, while that in LED segment grew by 33% YoY.

Newer segment to de-risk business model and drive growth

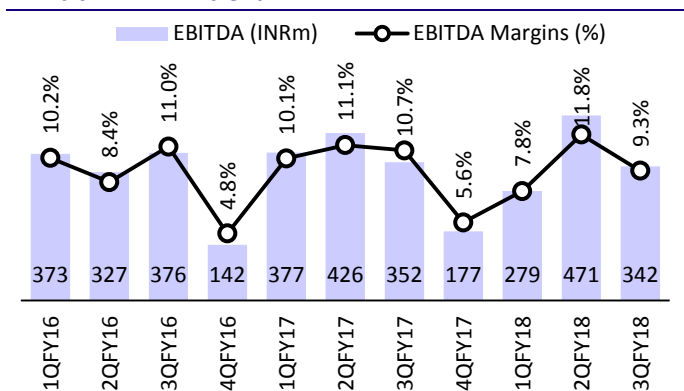
- EVRIN expects to do a turnover of INR1b in FY18 in the appliances segment, and expects to grow by 50% YoY in FY19. While EBITDA loss stood at INR125m due to initial investments made in this business, EVRIN expects to achieve 12-14% EBITDA margin in the next 2-3 years.
- The company has recently entered into confectionary (fruit chew) segment with its brand Jollies, which should start contributing to growth from H2FY19. EVRIN plans to do this under the asset light model and will start rolling out products pan-India by May-June 2018.
- It has also recently entered into a JV with Indonesia’s largest FMCG conglomerate Wings Group – EVRIN will invest INR75m for a 30% stake in the JV and will leverage its distribution strength to market new products.

Exhibit 1: Revenue trend



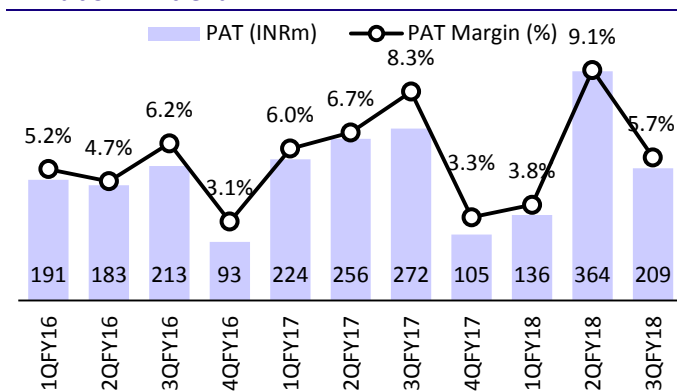
Source: MOSL, Company

Exhibit 2: EBITDA trend



Source: MOSL, Company

Exhibit 3: PAT trend

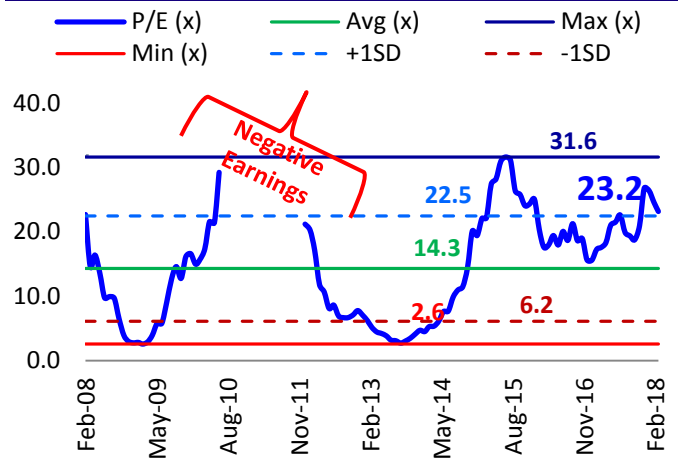


Source: MOSL, Company

Valuation and view

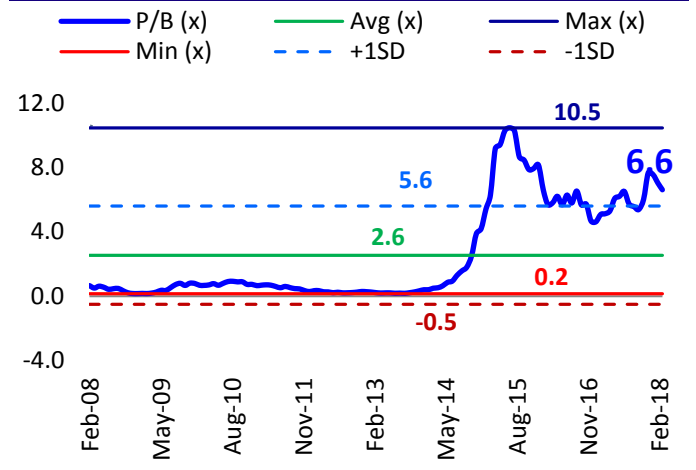
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Exhibit 4: Price to earnings (one-year forward)



Source: MOSL, Company

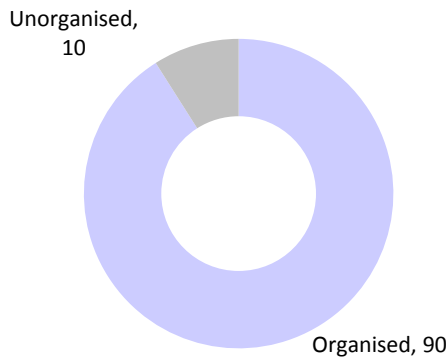
Exhibit 5: Price to book (one-year forward)



Source: MOSL, Company

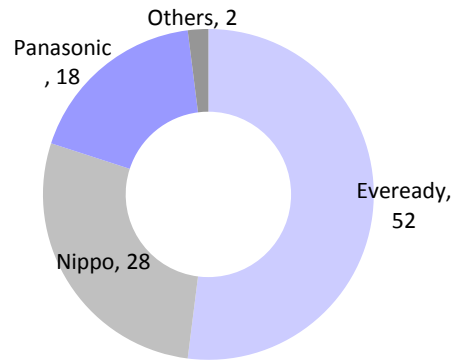
Story in charts

Exhibit 6: Chinese players dominate unorg. battery market



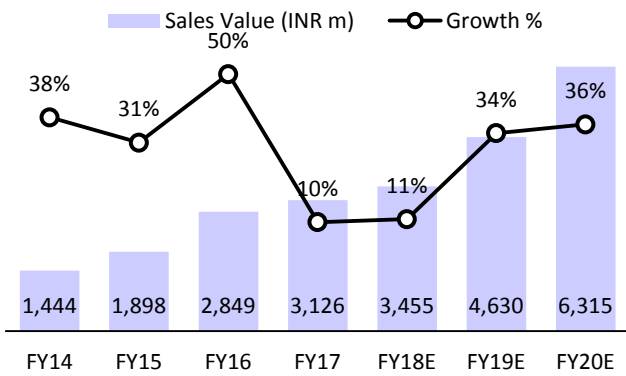
Source: MOSL, Company

Exhibit 7: EVRIN has consistently led the organized market



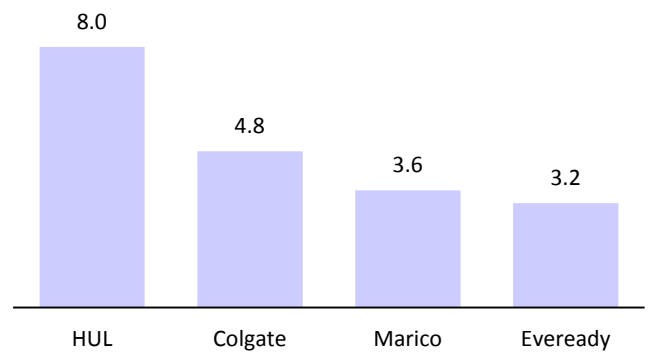
Source: MOSL, Company

Exhibit 8: Growth in Lighting segment to pick up



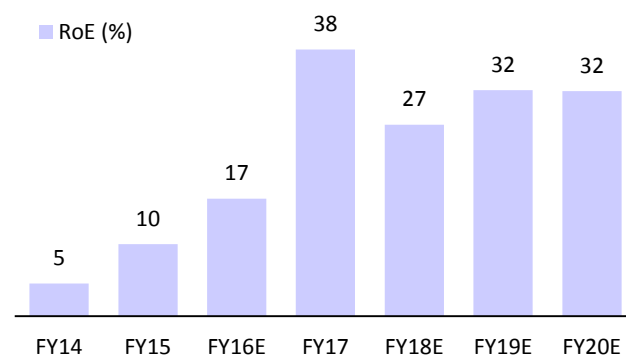
Source: MOSL, Company

Exhibit 9: Distribution strength matches top FMCG players



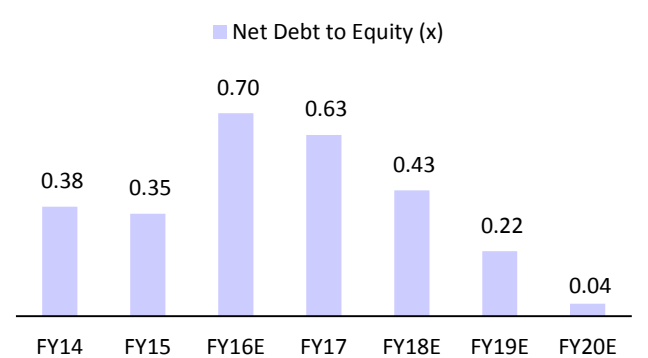
Source: MOSL, Company

Exhibit 10: RoE to improve to 32%



Source: MOSL, Company

Exhibit 11: Surging toward becoming debt-free



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	11,534	12,789	13,237	13,572	14,855	16,810	19,462
Change (%)	11.4	10.9	3.5	2.5	9.4	13.2	15.8
Cost of Materials Consumed	7,670	8,065	8,288	8,396	9,180	10,389	12,027
% of Sales	66.5	63.1	62.6	61.9	61.8	61.8	61.8
Personnel Expenses	999	1,134	1,301	1,442	1,634	1,765	2,005
% of Sales	8.7	8.9	9.8	10.6	11.0	10.5	10.3
Other Expenses	1,957	2,351	2,423	2,397	2,674	2,908	3,367
% of Sales	17.0	18.4	18.3	17.7	18.0	17.3	17.3
Total Expenditure	10,627	11,549	12,011	12,235	13,488	15,062	17,399
% of Sales	92.1	90.3	90.7	90.1	90.8	89.6	89.4
EBITDA	907	1,240	1,226	1,337	1,367	1,748	2,063
Margin (%)	7.9	9.7	9.3	9.9	9.2	10.4	10.6
Depreciation	253	155	139	149	192	135	139
EBIT	654	1,085	1,087	1,188	1,175	1,613	1,924
Int. and Finance Charges	411	340	308	238	267	173	87
Other Income	87	39	78	96	215	160	150
PBT bef. EO Exp.	330	784	856	1,046	1,123	1,600	1,986
EO Items	-165	-165	0	0	0	0	0
PBT after EO Exp.	165	619	856	1,046	1,123	1,600	1,986
Current Tax	6	128	150	67	270	384	477
Deferred Tax	23	1	15	44	0	0	0
Tax Rate (%)	17.5	21.0	19.4	10.6	24.0	24.0	24.0
Reported PAT	136	489	690	935	854	1,216	1,510
Adjusted PAT	272	620	690	935	854	1,216	1,510
Change (%)	96.4	127.7	11.4	35.5	-8.7	42.5	24.1
Margin (%)	2.4	4.8	5.2	6.9	5.7	7.2	7.8

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	363	363	363	363	363	363	363
Total Reserves	5,571	5,883	1,700	2,532	3,045	3,836	4,920
Net Worth	5,935	6,246	2,063	2,895	3,408	4,199	5,284
Deferred Liabilities	149	148	0	12	12	12	12
Total Loans	2,251	2,278	1,515	1,866	1,466	966	266
Capital Employed	8,334	8,672	3,578	4,774	4,888	5,179	5,562
Gross Block	13,173	13,255	8,662	9,954	10,254	10,554	10,854
Less: Accum. Deprn.	5,870	6,292	6,431	6,580	6,772	6,907	7,046
Net Fixed Assets	7,303	6,964	2,232	3,374	3,482	3,647	3,807
Capital WIP	144	278	210	32	0	0	0
Curr. Assets, Loans&Adv.	3,629	3,715	4,252	4,647	4,659	5,088	5,884
Inventory	2,569	2,596	2,381	2,844	2,767	2,989	3,394
Account Receivables	490	489	705	839	814	875	1,013
Cash and Bank Balance	11	71	72	56	-11	26	39
Loans and Advances	559	559	1,094	908	1,089	1,198	1,438
Curr. Liability & Prov.	2,785	2,344	3,116	3,280	3,254	3,557	4,129
Account Payables	2,566	2,169	2,949	3,079	3,018	3,273	3,789
Other Current Liabilities	0	0	0	0	0	0	0
Provisions	219	175	167	200	236	283	340
Net Current Assets	845	1,371	1,136	1,368	1,405	1,531	1,755
Deferred Tax assets	43	59	1	0	0	0	0
Appl. of Funds	8,334	8,671	3,578	4,774	4,888	5,179	5,562

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)							
EPS	3.7	8.5	9.5	12.9	11.7	16.7	20.8
Cash EPS	7.2	10.7	11.4	14.9	14.4	18.6	22.7
BV/Share	81.7	85.9	28.4	39.8	46.9	57.8	72.7
DPS	0.5	0.0	2.3	3.0	4.0	5.0	5.0
Payout (%)	31.0	0.0	27.7	27.3	39.9	35.0	28.2
Valuation (x)							
P/E				27.3	29.9	21.0	16.9
Cash P/E				23.5	24.4	18.9	15.5
P/BV				8.8	7.5	6.1	4.8
EV/Sales				2.2	2.0	1.7	1.4
EV/EBITDA				21.9	21.2	16.3	13.5
Dividend Yield (%)				0.9	1.1	1.4	1.4
FCF per share				0.1	12.9	15.6	16.9
Return Ratios (%)							
RoE	4.6	10.2	16.6	37.7	27.1	32.0	31.8
RoCE	7.3	10.6	15.5	27.5	21.9	26.8	38.7
RoIC	6.4	10.4	15.1	26.6	18.6	24.4	
Working Capital Ratios							
Asset Turnover (x)	1.4	1.5	3.7	2.8	3.0	3.2	3.5
Inventory (Days)	122	117	105	124	110	105	103
Debtor (Days)	15	13	18	22	20	19	19
Creditor (Days)	122	98	130	134	120	115	115
Working Cap. Turnover (Days)	26	37	29	35	35	33	32
Leverage Ratio (x)							
Current Ratio	1.3	1.6	1.4	1.4	1.4	1.4	1.4
Interest Cover Ratio	2	3	4	5	4	9	22
Debt/Equity	0.4	0.4	0.7	0.6	0.4	0.2	0.1

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	165	619	856	1,046	1,123	1,600	1,986
Depreciation	418	320	139	149	192	135	139
Interest & Finance Charges	408	314	308	238	267	173	87
Direct Taxes Paid	3	-103	-150	-67	-270	-384	-477
(Inc)/Dec in WC	7	-440	323	-248	-104	-90	-210
CF from Operations	1,000	710	1,476	1,119	1,208	1,434	1,526
Others	-69	7	0	0	0	0	0
CF from Operating incl EO	931	717	1,476	1,119	1,208	1,434	1,526
(inc)/dec in FA	-66	-323	-259	-1,113	-268	-300	-300
Free Cash Flow	865	394	1,217	5	940	1,134	1,226
Others	3	33	-15	121	0	0	0
CF from Investments	-63	-290	-274	-992	-268	-300	-300
Inc/(Dec) in Debt	-499	36	-762	351	-400	-500	-700
Interest Paid	-398	-362	-308	-238	-267	-173	-87
Dividend Paid	-5	-42	-191	-255	-340	-425	-425
CF from Fin. Activity	-902	-368	-1,201	-142	-1,007	-1,098	-1,213
Inc/Dec of Cash	-35	60	1	-16	-67	37	13
Opening Balance	46	11	71	72	57	-11	26
Closing Balance	11	71	72	57	-11	26	39

E: MOSL Estimates

NOTES

Explanation of Investment Rating

Investment Rating

BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Eveready Industries

No

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