Company Update

EVEREADY INDUSTRIES INDIA LTD (EIIL)

PRICE RS.235 TARGET RS.322 BUY

We interacted with the management of EIIL to get perspective on the company's operations-core business and new initiatives. Following the immense disappointment in the Q4FY18 result when the company reported EBITDA loss, management is now able to reassure (during the course of our interaction) that most of the challenges are close to get sorted and situation across verticals have largely stabilized now.

Key Highlights

- As per management, after a prolonged period of disruption in the batteries & flashlight business, sales have now started to pick up and is expected to build further momentum going ahead. BIS compliance has also been leading to the reduction in the imports of cheap Chinese batteries, which has started to benefit the domestic industry.
- Operating margins are expected to recover in FY19 on back of improved volumes in the core business and normalization in costs overheads in the appliances/ confectionary business.

Valuation & outlook

- Maintain FY19/20 forecasts and DCF assumptions, we recommend 'BUY' with unchanged target price of Rs 322. Despite attractive upside potential, we expect stock to remain under pressure in the short term, susceptible to 1/ further developments in the CCI event and 2/ reversal in sales momentum.

Company Highlights

We interacted with the management of EIIL to get perspective on company's operations-core business and new initiatives. Below are the key highlights of our interaction.

Core business has become stable now after reporting immense disappointment in Q4FY18, consumer appliances business is expected to drive future growth for the company

Following the immense disappointment in the Q4FY18 result when the company reported EBITDA loss, management is able to reassure that most of the challenges are close to get sorted and situation across verticals have largely become stable now.

We highlight that over the last three quarters, the battery/flashlight business was severed by the lower off-take and de-stocking in the trade channels, post GST implementation. Uncertainties also prevailed during this period regarding the GST rate, which was initially fixed at 28% and later reduced to 18% in mid-November 2017.

As per management, after a prolonged period of disruption (led by above two factors), sales has now started to pick up and is expected to build further momentum going ahead. Further, on the positive side, BIS compliance has led to reduction in the imports of cheap Chinese batteries. This has started to benefit the domestic industry as incremental growth was severed by this trait.

In view of the above developments, we feel confident about company meeting our FY19/20 estimates, which take into account a modest growth in battery revenues, from c. Rs 7 Bn in FY18 to Rs 7.8 Bn in FY20. However, taking recent CCI

Stock Details

Market cap (Rs mn)	:	17045
52-wk Hi/Lo (Rs)	:	465 / 225
Face Value (Rs)	:	5
3M Avg. daily vol	:	129,554
Shares o/s (m)	:	72.7

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	14,563	15,679	17,359
Growth (%)	7.5	7.7	10.7
EBITDA	1,053	1,333	1,823
EBITDA margin (%)	7.2	8.5	10.5
PAT	546	690	1,046
EPS (Rs)	7.5	9.5	14.4
Growth (%)	(41.7)	26.2	51.7
BV (Rs/share)	47.4	55.0	67.6
Dividend/share (Rs)	1.5	1.5	1.5
ROE (%)	17.2	18.5	23.5
ROCE (%)	12.5	15.4	18.3
P/E (x)	31.3	24.8	16.3
EV/EBITDA (x)	17.9	14.2	10.4
P/BV (x)	5.0	4.3	3.5

Source: Kotak Securities - PCG; Company

Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	44.1	44.0	44.0
FII	16.7	16.2	17.1
DII	19.5	14.6	15.1
Others	19.6	25.2	23.8

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Eveready Ind	(9.6)	(35.4)	(46.5)
Nifty	1.5	7.6	2.6

Source: Bloomberg

Price chart

Source: Bloomberg

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development (discussed below) and increasing input price trend, we believe that the margin pressures shall continue to exist and company would find it rather difficult to take price hikes.

Flashlight market, which has been historically dominated by unorganized players, is also expected to offer gainful opportunity going ahead. We expect revenues to grow from c. Rs 1.8 Bn in FY18 to Rs 2.2 Bn in FY20 in the flashlight business.

Lighting division is expected to gain further momentum in FY19/20 driven by the LED segment. We note that the company has reported over 40% y/y growth in the LED segment in the past four quarters. Management sounded confident about sales/margin improvement in the lighting business on back of its company's recent entrance in luminaire and professional lighting business. Management foresees significant potential in the street lighting (B2B) segment and rural electrification, on back of various schemes sponsored by both center and state governments. We note that the street lighting is the tender based volume business and margins typically are lower than the product business.

The housing market is the primary demand driver, recovery in this segment would likely provide further thrust to the lighting business. In our estimates, we build growth at 15% CAGR in the lighting segment from c. Rs 3.2 Bn in FY18 to Rs 4.4 Bn in FY20.

In the appliances business (primary argument of our investment thesis into EIIL), management expects to break even in FY19-2HFY20. We note that the appliances business reported an operating loss of Rs 201 mn in FY18 (sales of Rs 1 Bn) for segment being in the built-up phase and expansion/promotion related costs continues to outgrow revenues. Company is continuously rolling out plans to increase its reach in traditional/modern format stores and E-commerce platforms. EIIL has positioned its products in the mid-range segment. We expect appliances segment to grow at 35% CAGR between FY18-20 from Rs 1.09 Bn in FY18 to c. Rs 2 Bn in FY20.

EIIL is set to enter the FMCG space in JV with Indonesia based Universal Wellbeing Pte. Ltd; it also eyes opportunity in confectionary market in the fruit chew segment with its 'Jollies' brand

In FY18, EIIL had announced entering into 30% JV with Indonesia based Universal Wellbeing Pte. Ltd to enter into FMCC market. Universal Wellbeing Pte. Ltd (UWL) is one of the leaders in the FMCG market in South East Asia with active presence in several countries. It develops, manufactures and sells a wide variety of products in household and personal care.

As per management, EIIL has strategized to distribute UWL products in India leveraging on its vast distribution network. EIIL distribution network consists of over 4000 dealers providing access to 3.5 mn outlets (including grocery stores).

EIIL had also entered into the confectionary market in the fruit chew segment with its 'Jollies' brand. As per management, fruit chew market has been less cluttered and is pegged at Rs 4-5 Bn and has been growing at 17-18% per year. Competitive landscape includes players like ITC (Candyman and Mint-o brands) Falero and Alpenliebe (brand Juzt Jelly).

As per management, fruit chew is a high gross margin business (similar to other business areas of the company) and could potentially clock Rs 350 mn in FY19 and further grow to Rs 1 Bn by FY20. EIIL aims at attaining pan India reach of Jollies in 2HFY19.

CCI imposed penalty on EIIL along with other key industry players for colluding to fix prices of zinc-carbon dry cells; we view this as a clear and present threat to the company

EIIL stock price suffered a significant drop in last two month following the announcement from the CCI (Competition Commission of India) to impose penalty (in Sou Moto case) on Eveready, Nippo (Indo-National and Association of Indian Dry Cell Manufacturers (AIDCM) for colluding to fix prices of zinc-carbon dry cell batteries in India.

CCI notice alleged that the anti-competitive practices were being carried out from 2008 till August 23, 2016, the date of search and seizure operations by the Director General of CCI.

The quantum of penalty has been fixed at Rs 1.72 Bn (c.2x of FY17 reported PAT) for EIIL which in our view, could have a sizable negative impact on company's balance sheet.

EIIL has appealed and got a stay order on this order from NCLAT (National Company Law Appellate). It has made a deposit of 10% of the penalty amount with NCLAT and awaits further directions in this regards.

We maintain FY19/20 estimates; expect costs overheads to normalize from 2HFY19 onwards

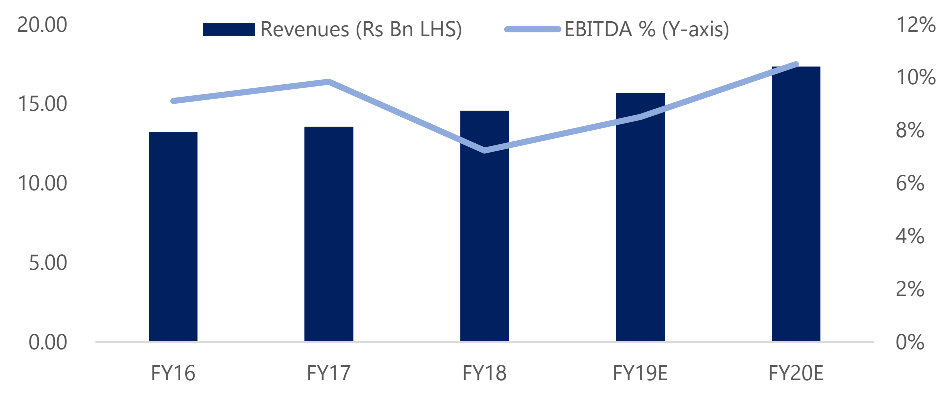
Following our interaction with the management, we maintain our FY19/FY20 earnings estimate. We project revenue growth at 8.6% CAGR between FY17-20 from Rs.13.5 Bn in FY17 to Rs 17.3 Bn in FY20E largely driven by the consumer appliance segmented supported by deeper penetration and lower base.

In FY18, EBITDA margin contracted sharply to 7.2% due to 1/ 16% y/y increase in employee expense, reported at Rs 1.6 Bn (driven by increased manpower including high cost resources in the appliances segment and other new ventured initiatives like confectionary) and 2/ higher advertising expense at over 5% of sales. Management stated that the higher promotional expense are in line with the factors necessitated to upscale new categories-appliances and lighting. Management expect advertising expenses to come down to c.4%-4.5% of sales in subsequent quarters.

Operating margin were also affected by higher input prices in the battery business (mainly Zinc). We also note that battery margins were also impacted by the withdrawal of fiscal benefits at company's Hardwar plant. This was partly offset by EIIL's newly commissioned manufacturing unit in Assam, which started accruing CGST benefit from current quarter.

We expect EBITDA margin to start recovering in 2HFY19 due to increased volumes in the core business and normalization in costs overheads in the appliances/confectionary business. Overall, in our projections, we build EBITDA margin at 8.5% and 10.5% in FY19E and FY20E respectively.

Revenues (Rs bn - LHS) EBITDA (% - RHS)



Source: Company, Kotak Securities – Private Client Research

We note that the company owns certain non-strategic real estate assets, spread all across India which it can look to monetize and cover any such unforeseen liability (related to CCI).

Valuation & Recommendation

Maintain FY19/20 forecasts and DCF assumptions, we recommend 'BUY' with unchanged target price of Rs 322. Despite attractive upside potential, we expect stock to remain under pressure in the short term, susceptible to 1/ further developments in the CCI event and 2/ reversal in sales momentum.

About the company

Eveready Industries India Ltd (EIIL) is market leader in Indian batteries industry, commanding c.55% market share in batteries and holding c.75% market share in India's organized flashlight market. EIIL became part of the Williamson Magor Group in 1993. Founded in 1869, the Williamson Magor Group, gradually progressed to become the world's largest tea producer (McLeod Russel India Limited) and diversified into consumer goods, engineering and construction, emerging as a multi-business enterprise with a turnover of Rs. 50 Bn. The Group is headquartered in Kolkata and has expanded its operations worldwide through its subsidiaries. Mr. Amritanshu K. Khaitan, has been the Managing Director of Eveready Industries India Limited since May 5, 2014. Under his leadership, company has undergone incessant transition in terms of diversifying itself into other segments like small home appliances and lighting businesses.

EIIL activities are spreads mainly across five areas-1/Batteries 2/ Flashlights, 3/ Lighting & electrical products, 4/ Small home appliances and 5/ Packet tea.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Revenues	**13,552**	**14,563**	**15,679**	**17,359**
% change yoy	2.4	7.5	7.7	10.7
EBITDA	**1,333**	**1,053**	**1,333**	**1,823**
% change yoy	10.6	(21.0)	26.5	36.8
Depreciation	149	193	175	190
EBIT	**1,184**	**860**	**1,158**	**1,633**
% change yoy	11.3	(27.3)	34.6	41.0
Net Interest	232	287	358	358
Earnings Before Tax	1,047	771	919	1,394
% change yoy	24.7	(26.4)	19.3	51.7
Tax	111	225	230	349
as % of EBT	10.6	29.1	25.0	25.0
XO Items	0	0	0	0
Recurring PAT	**936**	**546**	**690**	**1,046**
% change yoy	68.4	(41.7)	26.2	51.7
Shares outstanding (m)	72.7	72.7	72.7	72.7
EPS (Rs)	12.9	7.5	9.5	14.4
DPS (Rs)	1.0	1.5	1.5	1.5
CEPS	14.9	10.2	11.9	17.0

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	31	41	178	189
Accounts receivable	839	1,206	1,289	1,427
Loans & advances	74	896	896	896
Inventories	2,843	3,001	3,222	3,626
Current Assets	**4,165**	**6,204**	**6,265**	**6,900**
Investments	27	27	27	27
Net fixed assets	3,312	3,532	3,732	3,932
Current Liabilities	3,372	4,808	4,147	4,078
Other non-current assets	521	500	500	500
Total Assets	**4,684**	**5,496**	**6,555**	**7,470**
Debt	1,672	1,888	2,388	2,388
Other liabilities(deferred tax)	12	62	62	62
Equity & reserves	2,895	3,443	4,001	4,916
Other liabilities	104	103	103	103
Total Liabilities	**4,684**	**5,496**	**6,555**	**7,470**
BVPS (Rs)	40	47	55	68

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
PBT	1,047	771	919	1,394
Depreciation	149	193	175	190
Current liabilities incl provisions	242	1,436	(661)	(69)
inc in inventory	(469)	(158)	(221)	(405)
inc in sundry Debtors	(133)	(368)	(83)	(138)
inc in advances	289	(822)	-	-
Tax Paid	(111)	(225)	(230)	(349)
Other Adjustments	(178)	(531)	242	(92)
Net cash from operations	**836**	**297**	**142**	**532**
Purchase of fixed Assets	(1,271)	(413)	(375)	(390)
Net investments	-	-	-	-
Other investment activities	238	42	0	0
Net cash from investing	**(1,033)**	**(371)**	**(375)**	**(390)**
Change in Borrowings	289	216	500	-
Dividend Paid	(88)	(131)	(131)	(131)
Net Cash from financing	**201**	**85**	**369**	**(131)**
Cash at the end of year	31	41	178	189

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	9.8	7.2	8.5	10.5
EBIT margin (%)	8.7	5.9	7.4	9.4
Net profit margin (%)	6.9	3.8	4.4	6.0
Adjusted EPS growth (%)	68.4	(41.7)	26.2	51.7
Receivables (days)	22.6	30.2	30.0	30.0
Inventory (days)	123.9	121.2	120.0	125.0
Sales / Net Fixed Assets (x)	4.9	4.3	4.3	4.5
Interest coverage (x)	5.1	3.0	3.2	4.6
Debt/ equity ratio	0.6	0.5	0.6	0.5
ROE (%)	37.8	17.2	18.5	23.5
ROCE (%)	26.1	12.5	15.4	18.3
EV/ Sales	1.4	1.3	1.2	1.1
EV/EBITDA	14.2	17.9	14.2	10.4
Price to earnings (P/E)	18.2	31.3	24.8	16.3
Price to book value (P/B)	5.9	5.0	4.3	3.5
Price to cash earnings	15.7	23.1	19.8	13.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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