Result Update

Stock Details

Market cap (Rs mn)	:	16718
52-wk Hi/Lo (Rs)	:	465 / 217
Face Value (Rs)	:	5
3M Avg. daily vol	:	125,270
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	26.23	51.65
BV (Rs/share)	47	55	68
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: Company

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	44.1	41.0	44.0
FII	15.1	16.7	16.2
DII	19.5	12.9	14.6
Others	21.2	29.4	25.2

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Eveready Ind	(0.8)	(25.0)	(46.4)
Nifty	3.7	5.2	0.9

Source: Bloomberg

Price chart (Rs)

Source: Bloomberg

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EVEREADY INDUSTRIES INDIA LTD (EIIL)

PRICE RS.230 TARGET RS.322 BUY

EIIL Q1FY19 result was higher than our estimates; company posted operating margin expansion following the immense disappointment in the previous quarter, when the company reported EBITDA loss. Management is 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

- EIIL reported 13.2% y/y revenue growth, reported at Rs 3.8 Bn in Q1FY19 driven by LED and home appliances segment. Battery business reported 8.6 y/y growth in the quarter
- Operating margins have recovered after company reporting operating loss in the preceding quarter. This makes us feel more confident about the company's ability to protect margins; and that the company is less vulnerable to fluctuations in the 1/ input prices and 2/ costs related to new business areas viz. consumer appliances, confectionary and FMCG.

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.

Quarterly performance

(Rs mn)	Q1FY19	Q1FY18	YoY (%)	Q4FY18	QoQ (%)
Income from Operations	**3833**	**3388**	**13.2**	**3498**	**9.6**
Decrease/ (Increase) in stock	(59)	(174)		(96)	
Material consumed	1331	1281	3.8	1007	32.2
Purchase of traded goods	1110	926		1357	(18.2)
Employee expenses	424	403	5.2	443	(4.3)
Other expenses	679	673	1.0	826	(17.8)
Total Expenses	3485	3109	12.1	3537	(1.5)
EBITDA	**348**	**279**	**24.9**	**(39)**	**nm**
Other income	37	15	153.4	13	191.3
Depreciation	53	48	8.7	49	8.2
EBIT	**333**	**245**	**35.8**	**(75)**	**(543.6)**
Finance cost	97	66	45.8	81	
Exceptional Items	0	1		0	
PBT	**236**	**179**	**32.1**	**(156)**	**(251.2)**
Total tax	52	43	20.7	6	852.7
PAT	**184**	**135**	**35.7**	**(162)**	**(213.6)**
Adjusted PAT	**184**	**135**	**35.7**	**(162)**	**(213.6)**
Adj. EPS (Rs)	2.5	1.9	35.7	-2.2	(213.6)
EBITDA (%)	9.1	8.2		-1.1	
Tax Rate (%)	22.2	24.3		-3.5	
RM/Sales	62.1	60.0		64.8	

Source: Company, Kotak-PCG Research

Result Highlights

Core business shows stability in Q1FY19 after reporting immense disappointment in Q4FY18; consumer appliances business is expected to drive future growth for the company

EIIL reported 13.2% y/y revenue growth, reported at Rs 3.8 Bn in Q1FY19 driven by LED and home appliances segment.

Battery business reported 8.6 y/y growth in the quarter (we note that Q1FY18 had a low base; quarter preceded GST implementation). The segment continues to get adversely affected by cheap Chinese products finding way into Indian market. However, we are encouraged by the operating margin expansion in the battery business despite volatile input price/rupee environment and withdrawal of tax benefits at company's Haridwar unit (this was partly offset by EIIL's newly commissioned manufacturing unit in Assam, which started accruing CGST benefit from Q4FY18).

We note that the Zinc prices have soften in recent past, if the trend continues then there could be a positive impact of 100-120 bps at EBITDA level. Further, on the positive side, BIS compliance could potentially lead to the reduction in the imports of the cheap Chinese batteries. This could benefit the domestic industry as incremental growth was severed by this trait.

Post reduction in GST rate on batteries (reduced form 28% to 18% in mid-November), we have maintained that the battery sales could bottom out and the impact of reduced rates should get reflected from the current year onwards.

Flashlight business was flat y/y despite 5.2% y/y volume growth in the quarter. Segment reported operating margins of 11% in the quarter. We note that the flashlight business is dominated by the unorganized sector. Being the market leader in the organized space, EIIL could potentially benefit immensely going ahead, as more and more such unorganized players come under GST net.

Lighting division reported sales at Rs 747 mn (+8% y/y) driven primarily by 24% y/y growth in LED lighting (volume led growth, per unit LED price continues to fall). EIIL reported operating margin at 10% in the lighting division in Q1FY19. Management sounded confident about further margin improvement in the lighting business on back of its company's recent entrance in luminaire and professional lighting business.

Appliances business reported sales at Rs 360 mn in Q1FY19 vis-à-vis Rs 179 mn in Q1FY18 and Rs 482 mn in Q4FY18. EIIL reported EBITDA loss of Rs 39 mn in the appliances segment (Rs 55 mn in Q4FY18). We note that the consumer appliances segment is still in the built-up phase and expansion/promotion related costs continues to outgrow revenues. Management has guided for reducing losses in consumer appliances business by Rs 70-80 mn in FY19. The distribution base has been constantly growing taking company's reach to over 15000 outlets currently. Management believes that the consumer appliances business has the potential to grow revenues to c. Rs 3 Bn (with 10% EBITDA margin) in the next three to four years.

Operating margins have recovered after company reporting operating loss in the preceding quarter. This makes us feel more confident about the company's ability to protect margin; and that the company is less vulnerable to fluctuations in the 1/ input prices and 2/ costs related to new business areas viz. consumer appliances, confectionary and FMCG. We treat the disappointment in the previous quarter as a one-time event. EIIL reported an EBITDA margin at 9.1% in Q1FY19 vis-à-vis 8.2% in Q1FY18.

We also highlight that the margin appears to be less encouraging when compared with other consumer facing appliances (and electrical) companies especially taking the effect of low base in the previous year into account. However, we keep in mind the impact of increased manpower/other overheads related to company's expansion/growth in new areas-consumer appliances, confectionary and FMCG space.

Employee expense grew 5.2% y/y to Rs 424 mn (driven by increased manpower including high cost resources in the appliances segment and other new ventured initiatives like confectionary). Advertising expense were reported at c.2.5% of sales in Q1FY19 (similar to Q1FY18) against c.6% in Q4FY18. 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.

Finance cost increased by 45% y/y to Rs 97 mn in the quarter due to increased working capital requirement in the quarter. Management believes it to get normalized in succeeding quarters. Tax expense at Rs 52 mn (22.2% of PBT) vis-à-vis Rs 43 mn (24.3% of PBT) in Q4FY18 resulted in the PAT of Rs 184 mn in the quarter.

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 FMCG 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 one 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.

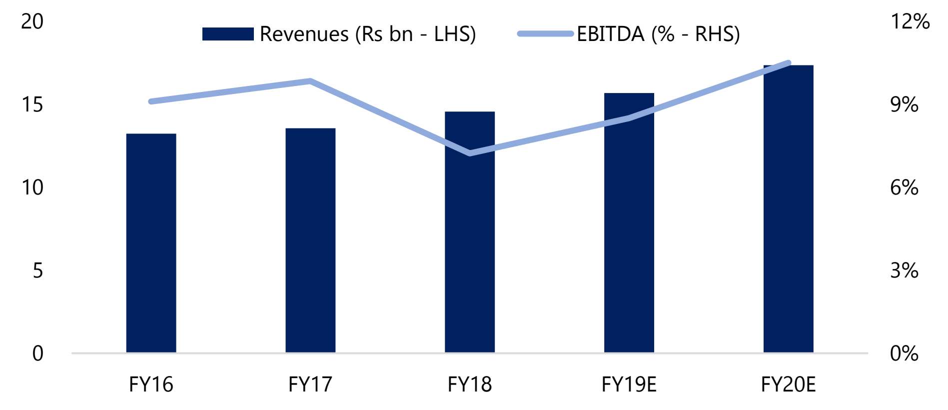
EIIL has appealed and got a stay order on this order from NCLAT (National Company Law Appellate). It has made a deposit of 10% of the penalty amount with NCLAT and awaits further directions in this regards.

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.

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 and 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
Other current assets	409	1,101	859	951
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
Other non-current assets	521	500	500	500
Total Assets	**8,056**	**10,304**	**10,702**	**11,548**
Debt	1,672	1,888	2,388	2,388
Equity & reserves	2,895	3,443	4,001	4,916
Other non-current liabilities	117	166	166	166
Current Liabilities	3,372	4,808	4,147	4,078
Total Liabilities	**8,056**	**10,304**	**10,702**	**11,548**
BVPS (Rs)	40	47	55	68

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(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
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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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