Eveready Industries India Limited

Burman Family's influx energizes EIIL's growth trajectory

Established in 1934, Eveready Industries India Ltd (EIIL) is a century-old company with a strong presence in the dry cell batteries and flashlight industry. The Company became a part of the Williamson Magor Group in 1993. In 2021, the Burman family (promoters of Dabur India) acquired a majority stake in the Company. Currently, it operates into three segments: batteries, flashlights and torches, and lighting & electrical products for consumer and commercial markets. The Company has maintained a dominant position in the dry cell batteries and battery-operated flashlights market, securing over 50% market share in FY23. The Company has a widespread distribution network across India, making its products easily available to consumers in urban and rural areas. The Company's presence is spread across more than 4 Mn touchpoints and covers over 20,000 villages.

The Burman family at the helm of EIIL

The Burman family, with its renowned history and track record of success, brings a wealth of experience and leadership to EIIL. Over the years, the Burman family's leadership has been instrumental in steering Dabur India Ltd (Dabur) through various challenges and transforming it into a global FMCG powerhouse. Drawing from their experiences at Dabur, the Burman family is well-positioned to provide strong leadership to EIIL. According to them, EIIL possesses a strong brand and longstanding legacy, suggesting significant potential for growth and value creation. The Burman family prioritize businesses where they can turn around the assets and have the management depth to add value. The Burmans believe that with the right strategy and a capable team to execute it, EIIL can double its revenue and improve its profitability in 3-4 years.

Doubling the revenue and improving margin

The Company is endeavoring to transform itself from several years of revenue stagnation to a growth-oriented trajectory, with a primary focus on enhancing profitability. The management is guiding to double the revenue in 3-4 years. The growth will be driven by a change in the product mix in the battery and flashlight segments. The Company is expecting a three-fold increase in revenue from the lighting & electrical segment over the next 3-4 years. Further, it expects margin improvement which is visible in 9MFY24 compared to FY23.

EIIL is focusing on branding and distribution as the key drivers for its growth strategy

EIIL has a strong distribution network spanning over 4 Mn touchpoints, reaching the retail trade from urban centres to deep into the interiors of the country. To optimally leverage this extensive network, the Company is in the process of rejuvenating the brand with the right approach and optimizing distribution network, with a focus on new growth areas.

View and Valuation

We initiate coverage on Eveready Industries India Ltd. with a BUY rating and a target price of Rs. 430 (30x FY25 PE). We believe that EIIL is set to grow its revenue by 9% and improve its PAT margins from ~2% in FY23 to ~7% in FY25E, because EIIL is set to focus on premiumization and improving its presence in the alkaline batteries and rechargeable flashlight segment.

4th April 2024

BUY

CMP Rs. 339

TARGET Rs. 430 (+26.8%)

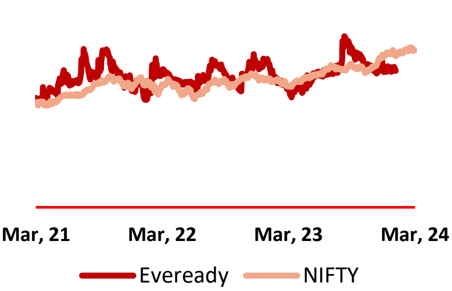
Company Data

Bloomberg Code	EVRIN IN
MCAP (Rs. Mn)	24,633
O/S Shares (Mn)	73
52w High/Low	442 / 273
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	63.9

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	43.21	43.21	43.21
FIIs	0.46	0.48	0.40
DIIs	2.55	2.93	2.17
Non-Institutional	53.78	53.37	54.21

Eveready vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24E	FY25E
Revenue	13,277	13,657	14,914
EBITDA	1,101	1,502	1,715
Net Profit	276	770	982
Total Assets	8,816	8,734	9,135
ROCE (%)	6%	16%	18%
ROE (%)	9%	22%	22%

Source: Company, Keynote Capitals Ltd.

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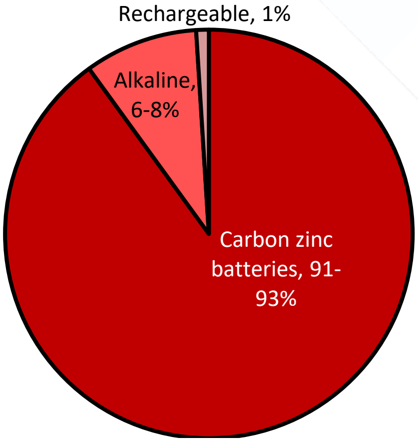
Indian Dry-Cell Battery market

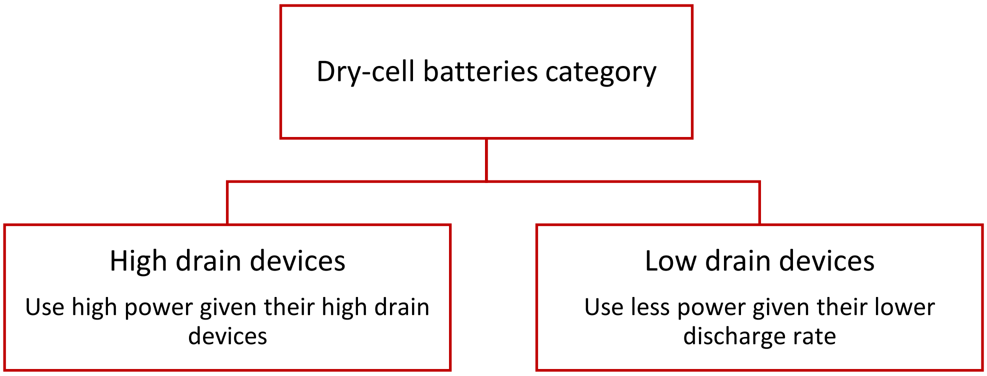
The Indian market for dry cell batteries comprises of carbon zinc, alkaline, and rechargeable batteries. As per EIIL, the Indian dry cell battery market in FY23 is estimated at Rs. 28 Bn in retail value. In terms of volume, it is expected to be ~3.0 Bn pcs. In India, the dry cell battery market is characterized by an oligopoly structure dominated by 3-4 key players who collectively command the majority share of the market. The industry is dominated by carbon zinc batteries, which form 91-93% of the market, 6-8% of alkaline, and <1% of rechargeable.

Indian Dry-Cell Battery market (%) in volume (FY23)



Source: Company, Keynote Capitals Ltd.

The dry-cell battery market's volume growth has been flat, with a 2% CAGR over the last five years, from ~2.7 Bn in FY18 to ~3.0 Bn in FY23. The Average Selling Price (ASP) for carbon-zinc cell batteries at Rs. 10-18 at the retail level accounts for 90% of the overall market. The ASP of alkaline batteries is ~3x than that of zinc carbon batteries, accounting for ~6-8% of the market.



Source: Company, Keynote Capitals Ltd.

The dry cell batteries category is divided into higher and lower drain devices. Lower-drain devices use less power, given their lower discharge rate. These devices include flashlights, TV and AC remotes, clocks, door alarms, etc. Alkaline batteries are more suitable for high-drain devices relative to carbon zinc variants. Products that use high-drain batteries as a source of energy are digital cameras, high-end toys, fire stick remotes, wireless mouse and keyboards, MP3, radios, etc.

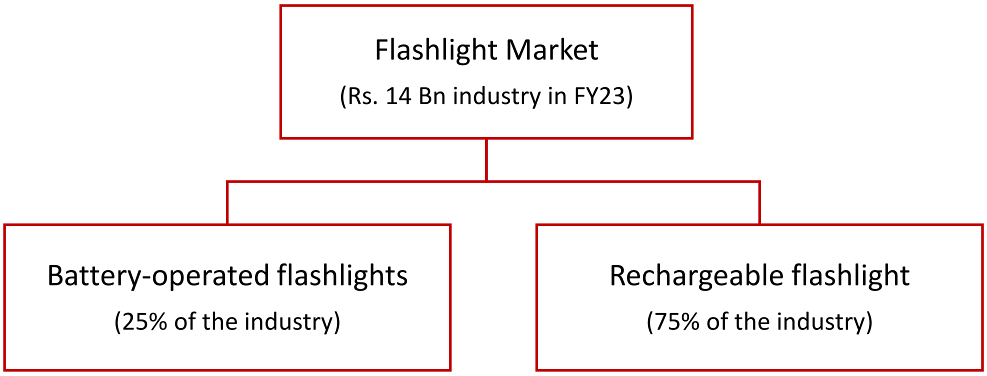
The penetration of alkaline batteries in India is very low compared to 50% in China, 60% in Brazil, and 80% in the US. In India, the alkaline segment is growing significantly higher than the traditional carbon zinc batteries due to the increasing usage of high-drain devices. The Indian market for alkaline batteries is growing by 20%. Over the years, the share of alkaline batteries has increased from <1% in FY19 to 6-8% in FY23. Further, alkaline batteries are expected to grow faster than carbon-zinc batteries.

Imports from China are less of an impediment, given that importers must comply with the standards set by the Bureau of Indian Standards (BIS) for carbon-zinc dry cell batteries. However, imports (from any region) of alkaline batteries still persist.

Going forward, the demand for dry cell batteries is expected to increase due to the rising usage of electronic devices in urban and rural areas, as well as the increasing popularity of portable electronic gadgets such as smartphones, tablets, and wearable devices. Additionally, the usage of dry cell batteries has been increasing across various industries such as consumer electronics, automotive, telecommunications, healthcare, and aerospace.

Indian Flashlight Market

In FY23, the overall flashlight market in India was valued at ~Rs. 14 Bn at the retail level. This market is segmented into two main categories: battery-operated flashlights and rechargeable flashlights.



Source: Company, Keynote Capitals Ltd.

The flashlight market in India has experienced significant growth over the years, driven by the increasing demand for portable lighting solutions in various sectors, including home, outdoor, industrial, and emergency use. Furthermore, rechargeable flashlights are increasingly preferred for their cost-effectiveness and eco-friendliness compared to disposable battery-operated models. Rechargeable flashlights offer the convenience of recharging batteries multiple times, reducing the need for disposable batteries and minimising environmental impact.

The flashlight market in India has traditionally been dominated by well-established brands that focus on quality, performance, and durability. However, in recent years, the flashlight market has witnessed a significant shift with an influx of inexpensive Chinese torches flooding the market. While these products may seem economical, they raise concerns regarding their quality and adherence to legal regulations. Specifically, concerns have been raised regarding the recycling practices of rechargeable batteries, as Indian regulations stipulate that companies must recycle 60% of the rechargeable batteries used in their products, a requirement that unorganized players may not adhere to.

The flashlight industry continuously fights against low-cost Chinese imports, addressing concerns related to quality, innovation, sustainability and regulation. In light of these challenges posed by low-cost Chinese imports, many consumers and organizations have advocated for supporting local manufacturing.

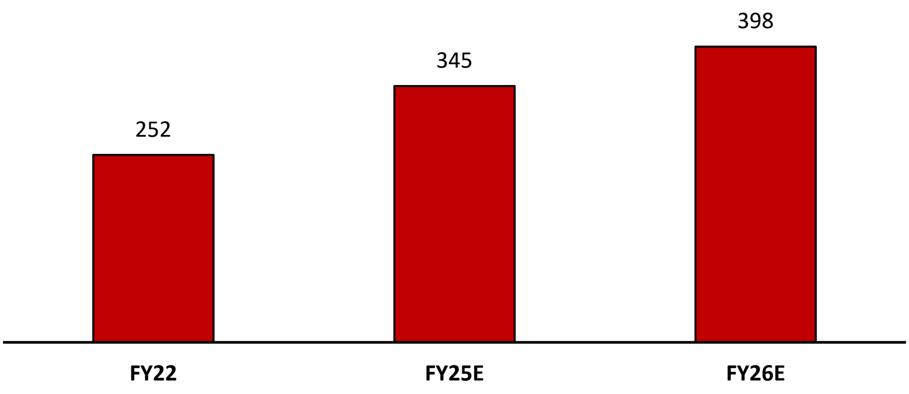
Indian Lighting & Electrical Products Market

The incandescent bulbs, halogens and CFL lights have dominated the lighting market for centuries, but over the last decade, LED lights have become very popular in the Indian lighting industry.

The lighting market in India has witnessed a remarkable surge in the adoption of LED lighting. This trend is driven by increasing electricity consumption rates and the demand for environmentally sustainable and cost-effective lighting solutions. LEDs consume up to 60% less electricity than fluorescent lights and can last three times longer, thus delivering significant cost savings for consumers. Moreover, they offer a critical solution for reducing carbon-dioxide (CO_2) emissions, aligning with the growing focus on sustainability in the country.

As of FY22, the Indian lighting market stood at Rs. 252 Bn, exhibiting a growth rate of 12%. This growth trend is expected to continue at the same rate in the coming periods.

Indian lighting market (Rs. Bn)



Source: IKIO RHP, Keynote Capitals Ltd.

In the lighting market, LED dominates with 80% market share.

The Indian lighting market is experiencing robust growth, driven by several key factors. Firstly, the implementation of smart city projects and infrastructure developments across the country is fueling demand for lighting solutions. Additionally, there is a rising preference for energy-efficient lighting solutions, propelled by environmental concerns and government regulations. Furthermore, the surge in real estate projects, including residential and commercial developments, is driving the need for lighting solutions in these spaces.

Moreover, the increasing affordability of individuals, coupled with their desire for convenience and ease of use, is boosting demand for home and decorative lighting products. This segment is witnessing strong growth on the back of the booming housing sector and hospitality industry.

Overall, the Indian lighting market is poised for sustained growth, propelled by these various growth drivers and the evolving needs of consumers and industries alike.

About Eveready Industries India Ltd

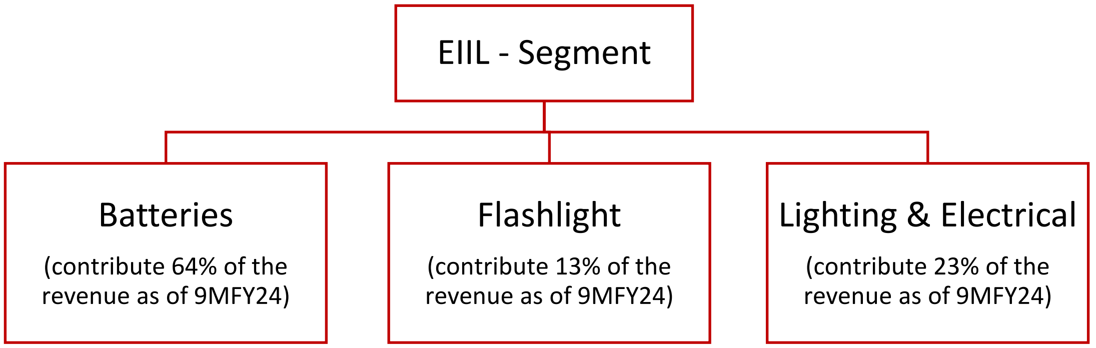
Established in 1934, Eveready Industries India Ltd (EIIL) is a century-old company with a strong presence in the dry cell batteries and flashlight industry. The Company became a part of the Williamson Magor Group in 1993. In 2021, the Burman family promoters of Dabur acquired a majority stake in the Company.

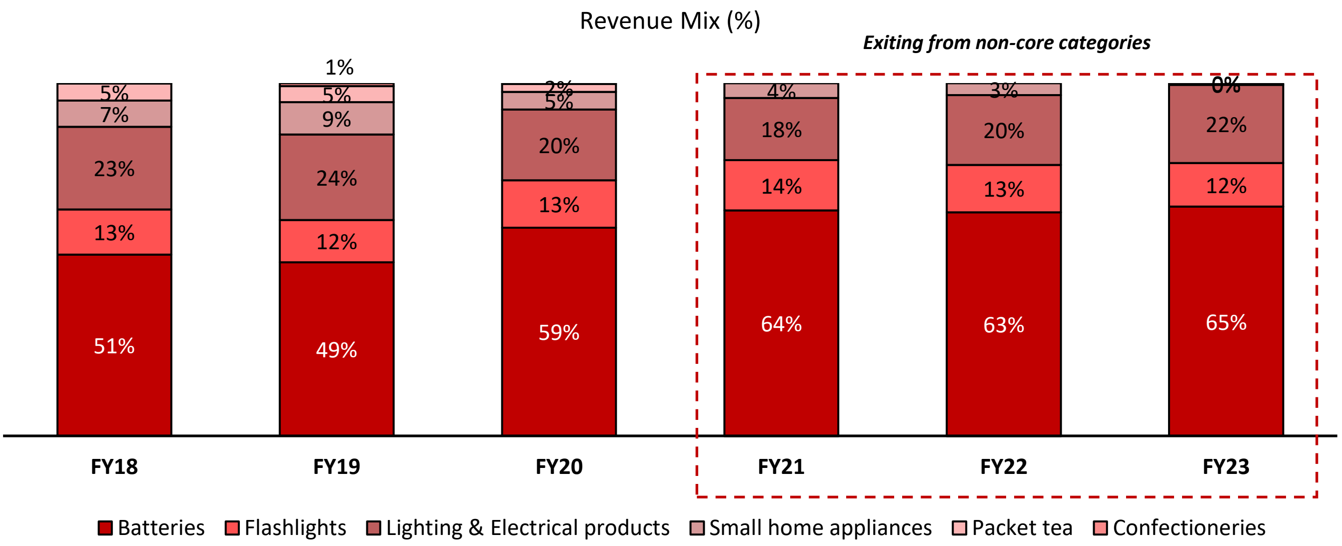
EIIL operates into three segments: batteries, flashlights and torches, and lighting & electrical products for consumer and professional markets. It is India's no.1 organized battery and flashlight (battery operated flashlight market) company with >50% market share in the Indian dry cell battery and flashlight segment.

EIIL has a widespread distribution network across India, making its products easily available to consumers in urban and rural areas. The Company's presence is spread across more than 4 Mn touchpoints and covers over 20,000 villages.

Segment

Currently, EIIL operates in three segments.





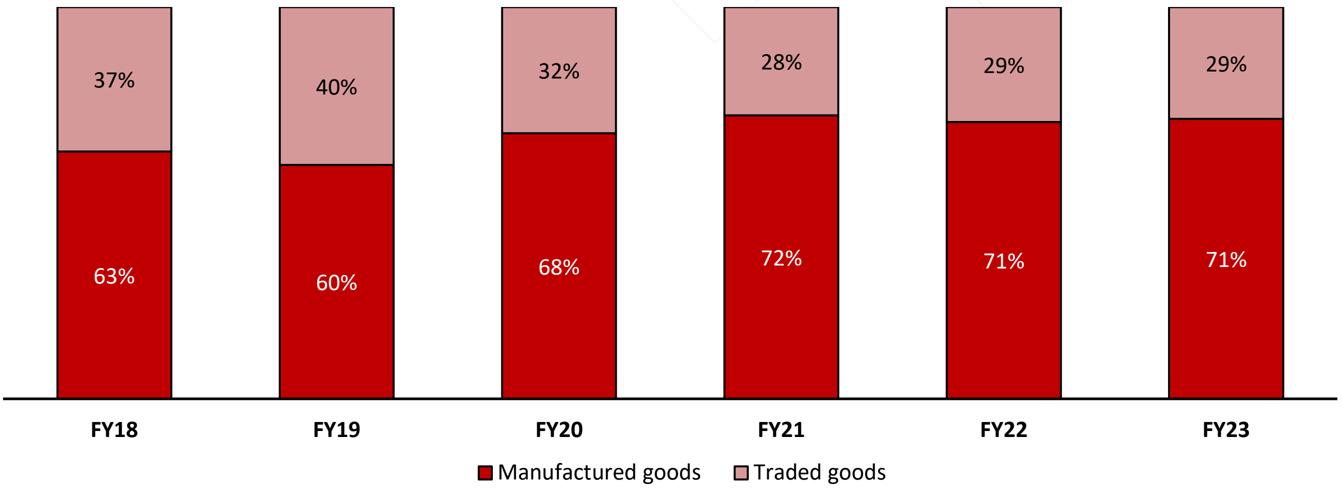
Source: Company, Keynote Capitals Ltd.

In the past, EIIL has diversified into various categories, like packet tea, confectioneries, and home appliance segments. However, the Company couldn't scale up as these verticals don't fit under the Eveready brand and require different distribution channels. At the same time, the previous promoters (Khaitan group) faced financial trouble due to the heavy borrowings taken at the group level, which led to the sell-off of the unrelated packet tea and confectionaries segment in FY22.

The Company's manufacturing facilities are spread across six locations: Matia, Lucknow, Noida, Haridwar, Maddur, and Kolkata. They are equipped with globally benchmarked technology platforms and adhere to best-in-class operating standards, with a relentless focus on quality, environmental best practices, and rapid technological adoption. The Company's research and development facility is approved by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India.

The Company internally manufactures ~98% of its batteries and ~61% of its flashlights. For the lighting segment, all sales are derived from contract manufacturing.

Increasing share of in-house manufacturing in revenue mix (%)



Source: Company, Keynote Capitals Ltd.

Change in hand – 'Power Play'

Back in 2020, one of the companies of the Khaitan group (the erstwhile promoters), McNally Bharat Engineering, had gotten deep into financial troubles. At that time, the Khaitan group had pledged their shares in McLeod Russel and EIIL as security to these creditors of McNally Bharat Engineering.

However, the Khaitan group could not repay these loans, which resulted in creditors taking over the shares and selling them on the market. This resulted in the stake of the Khaitan family in EIIL coming down from over 44% in FY19 to a <5% in Q3FY21. At that point, to prevent the Khaitan family from losing control, the Burman's of Dabur acquired the stake over the period, taking their holdings in the Company to 19.84%.

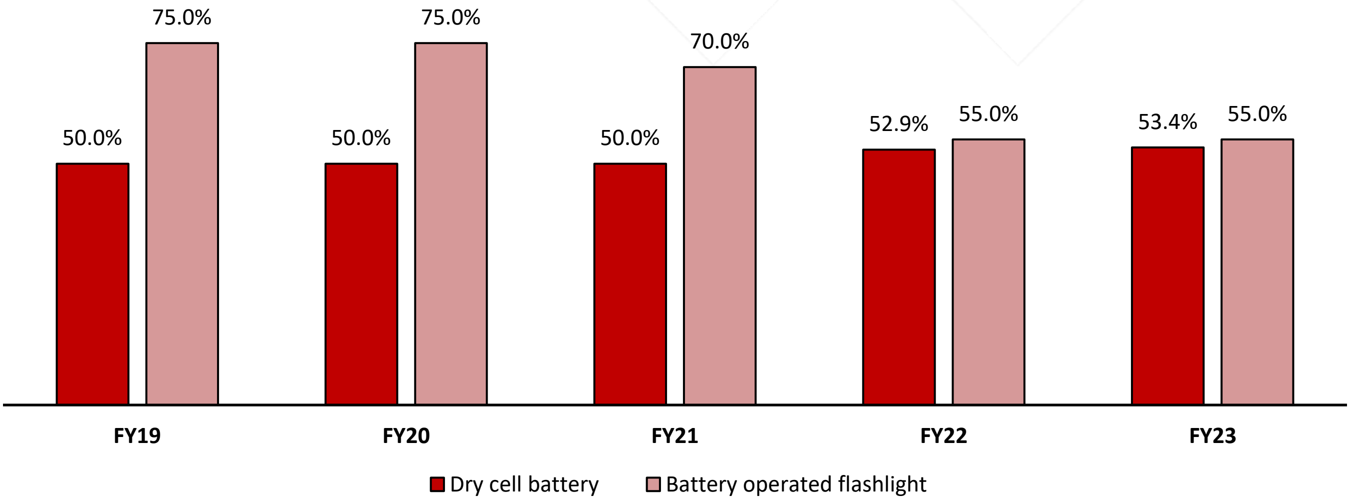
Initially, the Burmans were not interested in a takeover of the Company as the Khatian family wanted to continue running the business. According to Burman, they invested because of undervaluation. However, after nearly two years, in Feb'22, the Burman family acquired an additional 5.26% stake through JM Financial Services, triggering an open offer to acquire an additional 26% of EIIL shareholding under the Securities and Exchange Board of India (SEBI) acquisition rules.

With Burmans at the Helm, 'Eveready' finds its spark again

The Burman family, with a legacy spanning over 135 years in business, has a track record of investments extending beyond Dabur. Their approach to acquisitions emphasizes valuation and sectors they are well-versed in, particularly consumer goods, healthcare, and financial services. Furthermore, they prioritize businesses where they can turn around the assets and have the management depth to add value.

According to the Burmans, EIIL possesses a strong brand and longstanding legacy, suggesting significant potential for growth and value creation.

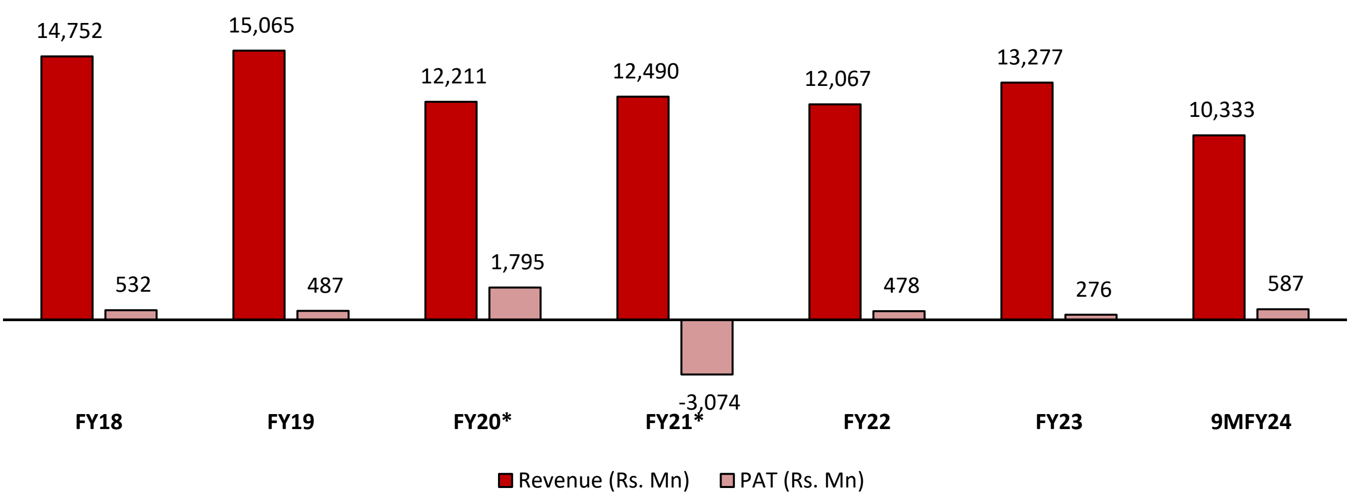
EIIL holds a dominating position in the organized market share (%)



Source: Company, Keynote Capitals Ltd.

EIIL is a market leader in dry-cell batteries and flashlights. However, past issues related to the erstwhile promoters have hindered the Company's performance. The Burmans believe that with the right strategy and a capable team to execute it, EIIL can grow to double its revenue and improve its profitability margin.

Flat revenue and profit across the years



Source: Company, Keynote Capitals Ltd.

*Note: *In FY20 and FY21, the PAT numbers look unusual because of exceptional items related to land sales and provisions created, respectively.*

Burmans are long-term active investors who have invested in various other Indian businesses such as Punjab Kings, Aviva India, Universal Sompo, Taco Bell (master franchise in India), Oncquest Labs, Health Care at Home, etc. Their major investments are in the FMCG, Healthcare, Financial Services and Hospitality areas. They have been one of the first families in India to push through professional management in all their investments and have remained committed to running the companies through a strong and independent board of directors.

For the past eight years, EIIL revenues have remained stagnant, but a turning point occurred in FY23 following the entry of the Burmans, with the Company achieving a double-digit growth rate of ~10% YoY.

Steps initiated by the Burman Family to revamp the Company

1. Professional management

Under the leadership of the Burmans, EIIL went through a significant overhaul. The Company have augmented the board with seasoned professionals. This change signalled a fresh start for the Company, with new strategies to move forward. The Company have also brought in new management talent at all levels, such as Senior VP & Business Head of the Battery & Flashlight segment, Senior VP of Lighting & Electrical segment, and Senior VP of sales and distribution. Additionally, they have appointed a new CFO & CHRO from various well-reputed consumer-facing companies. With this new professional team in place, EIIL is ready to tackle its challenges and seize new opportunities in the market, setting a whole new stage for growth and success in the future. EIIL is now a family-owned, professionally managed company. Under the guidance of Burmans, the management is focusing on profitable growth as a core mantra for the Company.

2. Strengthen the balance sheet by taking a hit on non-recurring costs and emphasizing debt reduction

Under the Khaitan group, EIIL has given inter-corporate deposits to certain group companies, and the Competition Commission of India (CCI) imposed a penalty on the Company related to anti-competitive practices.

Under the leadership of the Burmans, EIIL's initial priority was to make provisions for these charges and move forward with a strong balance sheet. The Company took a one-time hit of Rs. 6,297 Mn in FY21 related to the provision for inter-corporate deposits, writing off the entire amount of interest accrued on deposits and the amount of capital advance.

Further, the Company has set its sights on reducing its debt burden. In FY21, the Company's total borrowings amounted to Rs. 4,230 Mn. However, over the years, as various debt obligations have come due, the Company has diligently worked to repay them. This effort has resulted in a significant decrease in total borrowings, which stood at Rs. 3,210 Mn in H1FY24. The Company aims to trim its debt by Rs. 1,000 Mn annually over the next three years to achieve a debt-free status.

3. Transitioning away from unrelated ventures and focusing on untapped segments within the current portfolio

EIIL, under the tenure of the Khaitan group, has ventured into unrelated businesses like tea, confectionary, home appliance, and lighting segments. At the same time, only the lighting segment was a partial success. The other unrelated businesses were unsuccessful. Further, they missed out on seizing the opportunities in the existing segments like alkaline batteries and rechargeable flashlights, leaving considerable potential untapped.

Under Burman's control, management has stated its clear objective to focus on core categories first. Regarding this, the Company hived off its home appliance business in Q2FY23.

Additionally, management identified untapped opportunities in the rechargeable flashlight and alkaline battery categories, which are experiencing a strong growth. Recognizing this significant opportunity, the Company has launched a new line of rechargeable flashlights and also re-introduced its alkaline batteries. Going forward, the Company is expecting a strong growth in these categories and aims to improve margin as well.

4. Appointed Bain & Company to improve operational efficiencies

According to Burman's, "We use the model that we use for all of our businesses where we hire a team, we incentivize the team, and we get one of the best consultants to do a five-year strategy. That's how it has been for all of our businesses, including Dabur."

Following their past activity, the Burmans appointed Bain & Company in January 2022 to advise on the future roadmap for EIIL and improve its operational efficiencies. The Company plans to focus on its existing business in the immediate future and look at new verticals in the medium to long term.

Bain & Company's involvement has been pivotal in refining EIIL's Route-to-Market (RTM) strategy and identifying new market segments for potential expansion. This strategic partnership is expected to drive sustainable growth and maximise value across its segment.

5. Focus on brand building

The Eveready brand is virtually synonymous with batteries that cater to the diverse portable energy needs of modern India, earning enduring trust from consumers. But off-lately, under the leadership of the Khaitan group, the Company could not catch up with market trends and lost its mojo. With the strategy reset initiated by Burman's, the Company has increased its Advertisement & Promotional (A&P) as a percentage of sales from 3% in FY22 to ~10% in 9MFY24. Further, EIIL revamped its logo, which marks a strategic brand transformation, forging a future-ready, self-aware brand committed to trust, quality, innovation, collaboration and care. The Company is making all efforts to improve its brand and distribution at the cost of impacting profitability for the short term.

According to the Burmans, "Eveready is a strong brand that has faced uncertainty over various issues in recent years. We are now in the process of rejuvenating the brand with the right approach and investment to scale up the business, with a focus on new growth areas".

6. Revamping the distribution strategy

Since the Burmans took over the command of EIIL, the focus on enhancing the brand and distribution has been the top priority for the Company. To improve this, the Company introduced an RTM initiative, which aims to streamline the distribution channels, making it cost-effective to deliver the products to the customers.

EIIL has a strong distribution network spanning over 4 Mn touchpoints, reaching the retail trade from urban centres to deep into the interiors of the country. To optimally leverage this extensive network, the Company has implemented an RTM strategy where previously reaching 4 Mn touchpoints involved working with 4,000 distributors. This new strategy has been rationalized to 1,000 distributors, which led to consolidations in the town-wise distributors from 7-8 in a specific town to 2-3. This initiative is designed to streamline the distribution channels, ensuring clear accountability at every level, cost efficiency, expedited decision-making, and enhanced communication to facilitate the delivery of the products to consumers.

The RTM strategy has replaced the previous small dealer network in rural areas with a super-sub infrastructure model. Under this arrangement, the super dealers now act as direct distributors for the Company, with all former small dealers operating as their sub-dealers. This strategy worked well for the Company in FY23, growing its revenue by 11% YoY. During this process, the Company has faced challenges in selecting the appropriate channel partners. As a result, the implementation of the RTM strategy has experienced some disruptions in Q2 and Q3 of FY24. However, the management claimed that they have identified the gaps, which will be resolved in the coming 1-2 quarters.

7. Double the revenue and improve profitability

Under the helm of new management, the Company is endeavoring to transform itself from several years of revenue stagnation to a growth-oriented trajectory, with a primary focus on enhancing profitability. This transformation is driven by a concerted effort to change the product mix, revamp distribution channels, and intensify brand-building initiatives. By emphasizing these strategic shifts, the Company aims to rejuvenate its business model and unlock new avenues for sustainable growth. EIIL management is guiding to double the revenue in three to four years.

Battery

EIIL has long emerged as a name synonymous with pencil/ dry cell batteries, and this trust makes it a leader in this segment, commanding over ~53% of India's organized dry cell battery market share. The battery segment continues to be the Company's mainstay. Roughly 67% of revenue and ~90% of the bottom line is generated from this segment.

In the past, the Company concentrated on zinc-based dry-cell batteries, a mature category with widespread penetration, experiencing a growth of ~2% annually. Under the new management, the Company expects a high single-digit growth in this segment, primarily driven by premiumization efforts. Previously, the company neglected high-price point batteries, a gap that has now been addressed by introducing alkaline batteries.

Currently, alkaline batteries constitute ~6-8% of the Indian battery market. The Company's current product portfolio comprises 92% zinc carbon and 8% alkaline batteries.

What is the difference between Zinc and Alkaline batteries?

If a device operates on a zinc-based battery for one-week, alkaline batteries will extend their usage to approximately three to four weeks under similar conditions.

The Company has revamped its alkaline battery product portfolio under Ultima (400% more power than regular batteries) and Ultima Pro (800% more power). EIIL expects this category to contribute 20% of the battery segment revenue within the next two years from ~4% in FY23.

Flashlight

The Company has a very strong presence in an organized battery-operated flashlight market, commanding a 55% market share. However, its market share has steadily declined over the years, dropping from 75% in FY19 to 55% in FY23. This decline can be attributed to the significant emergence of unorganized players, particularly from Chinese manufacturers, who have disrupted the industry. Moreover, many of these players operate outside regulatory frameworks. Additionally, under the previous management (Khaitan Group), the Company neglected the rechargeable flashlight segment, which experiences annual growth exceeding 20%, while the battery-operated flashlight segment continues to decline.

Under the new management, the Company is making every effort to develop a complete portfolio of rechargeable products. However, the rechargeable segment faces tough competition from unorganized players, mainly low-value imports or small and medium-sized enterprises (SMEs) operating at a local level. Unfortunately, quality and safety are not always a priority for these competitors. In contrast, EIIL products are superior in terms of quality and safety standards and cater to a wide variety of requirements. The Company is confident that its quality product offering, backed by a strong brand and easy availability, will help to regain its market share. Further, the Company is making all efforts to bring this category under the purview of BIS standards to arrest the adverse impacts of cheap imports.

Looking ahead, the Company anticipates significant growth in the rechargeable flashlight category, leveraging its robust product lineup tailored to diverse customer needs. Supported by its strong brand reputation and extensive distribution network, the company is well-positioned to drive this growth.

Lighting

EIIL follows an asset-light approach in the lighting segment, utilizing an in-house design and development team. Within this vertical, 30% of segmental revenue is generated through exclusive manufacturing contracts overseen by the Company, while the remaining balance is outsourced to prominent lighting manufacturers. The Company is expected to set up its manufacturing facility once the division achieves revenue of Rs. 5 Bn. Currently, this segment is loss-making, and management is expecting to have a 5% EBITDA margin in FY25.

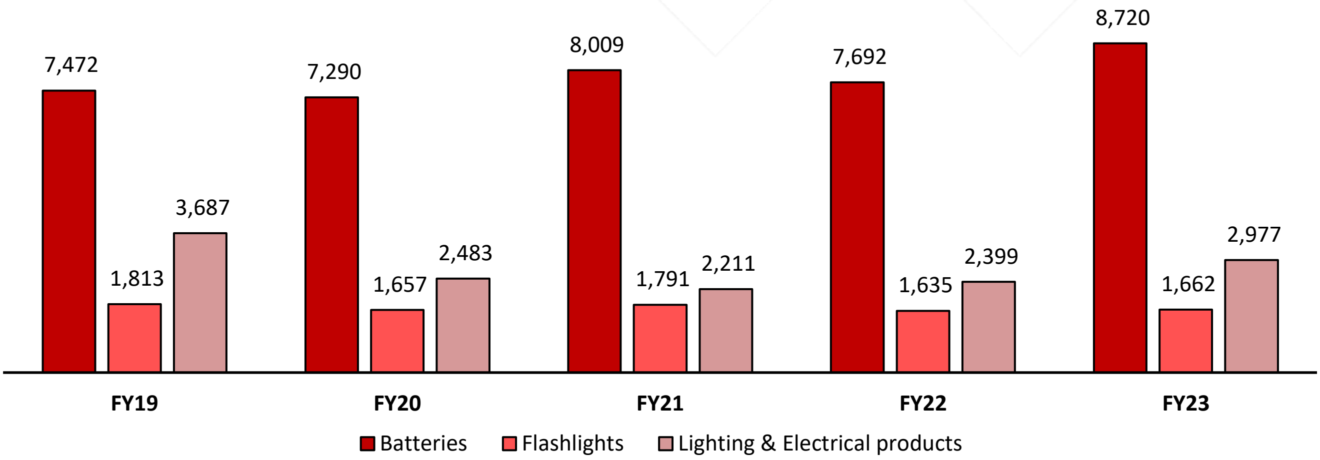
In the past, the Company was heavily skewed towards lamp-selling. But recently, the Company revamped its new portfolio and emphasised on luminate side. The Company is introducing a range of products in this category to expand its market presence.

In this segment, the Company currently commands ~1% market share, presenting a substantial growth opportunity given its strong brand and extensive distribution network. EIIL provides a diverse range of products available through various channels including general trade, modern trade, and electrical channels. Further, it aims to strengthen its distribution network by expanding its presence from 50,000 electrical touchpoints to 120,000 within the next two to three years. Additionally, the Company is building relationships with professional influencers such as architects, interior designers, contractors, and developers.

The Company is expecting a three-fold increase in revenue from the lighting business over the next 3-4 years, from Rs. 3 Bn in FY23 to Rs. 10 Bn. The growth is driven by an increasing emphasis on premium offerings, a diverse product range, and expanding its distribution network. Further, the Company expects this segment to report an EBITDA margin of 5% in FY25 and aim to increase it to 10%.

Going forward, the Company expects strong growth from the flashlight and lighting business segment, which accounts for 35% of the revenue in FY23 to increase it to 50% in the next three to four years.

Segment wise revenue (Rs. Mn)

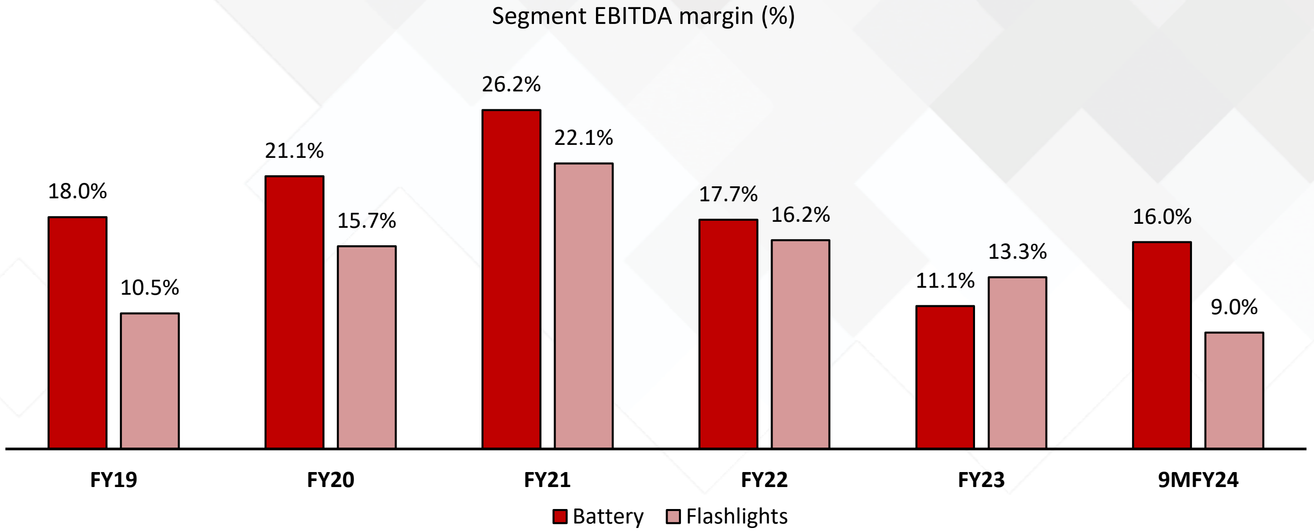


Total number of products sold annually	FY19	FY20	FY21	FY22	FY23
Dry-cell batteries (Mn)	~1300	~1300	~1300	~1300	~1,300
Flashlights (Mn)	~21	~20	~20	~20	~19
LED Lights (Mn)			~20	~20	~20

Revenue per piece*	FY19	FY20	FY21	FY22	FY23
Batteries	5.7	5.6	6.2	5.9	6.7
Flashlight	86.3	82.9	89.6	81.7	87.5
Lighting & Electrical products			110.5	119.9	148.8

Source: Company, Keynote Capitals Ltd.

Revenue per piece - Revenue for each segment to the total number of products sold annually.*



Source: Company, Keynote Capitals Ltd.

8. Eye on the new category

EIIL is contemplating entry into a new category within the next one or two years to bolster revenue growth. However, the new category must align with the brand identity. In contrast to past experiences where diversification led to segment closures, the management emphasizes that any new launch under the Eveready brand should resonate with its values of power and empowerment. Additionally, there should be synergy with existing categories in terms of distribution network.

EIIL's strong distribution network

EIIL has a strong distribution network spanning over ~4 Mn touchpoints (0.8 Mn directly) catering to 20,000 villages and engaged with 1,000 distributors directly. This extensive distribution infrastructure provides a strong foundation for the successful launch and expansion of new product categories, ensuring widespread availability and accessibility to consumers nationwide.

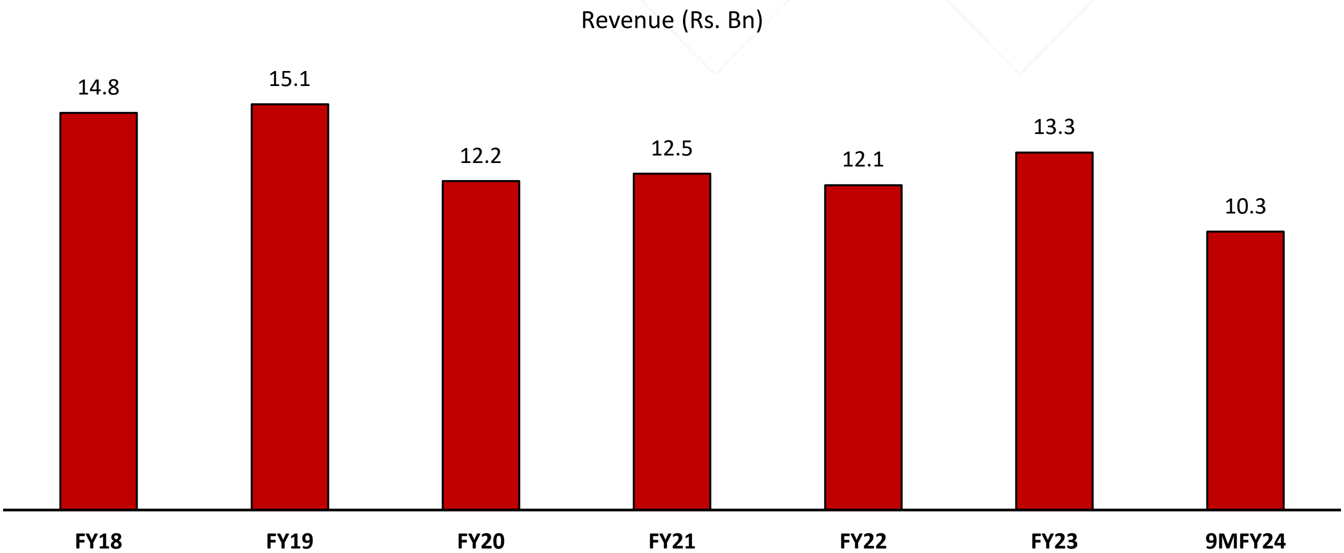
Particulars	FY19	FY20	FY21	FY22	FY23
Direct distribution points	4,000	4,000	4,000	4,000	1,000
Total number of outlets selling company products (In Mn)	3.2	4.0	4.0	4.0	4.0
Outlets serviced directly through dealers (In Mn)	0.8	0.8	0.8	0.8	0.8
Van servicing retailers	1,000	1,000	1,000	1,000	1,000
Distribution centers	37	38	38	38	38
Villages being catered to				15,000	20,000
Towns covered directly					5,000

Source: Company, Keynote Capitals Ltd.

Financials

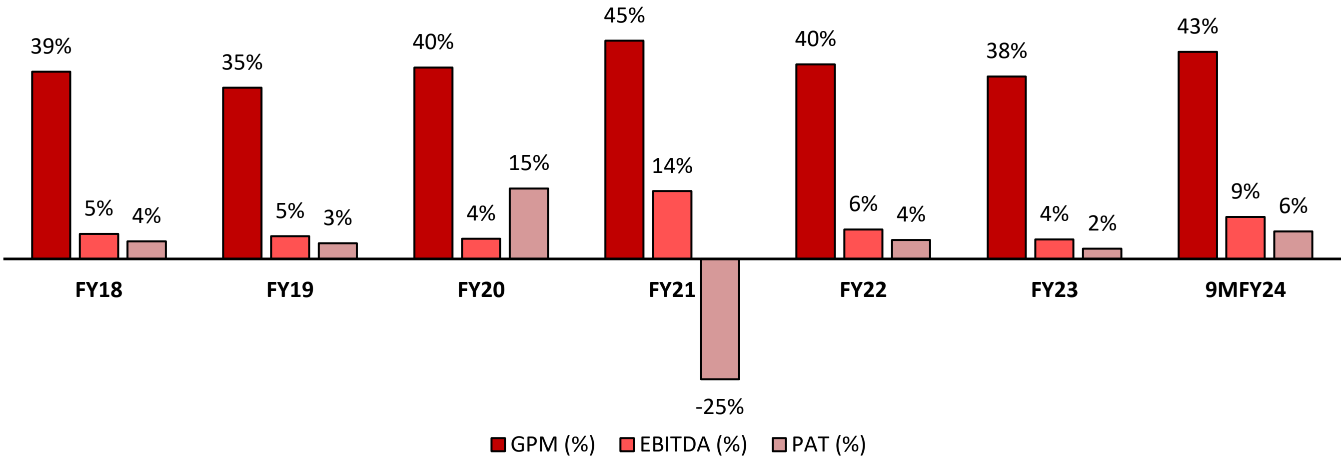
Over the past eight years, the Company's revenue has stagnated. In 2022, following the guidance of new management, the Company exited the unrelated non-core business and focused on growing its revenue and profitability. These decisions yielded positive results, with the Company achieving a growth rate of 10% in FY23. However, in 9MFY24, the Company experienced flat growth. This was attributed to weak demand in the rural segment and the impact of the RTM strategy.

The management has identified areas for improvement and foresees achieving double-digit growth in FY25. Furthermore, they envision doubling the revenue within three to four years.



Source: Company, Keynote Capitals Ltd.

Margin (%)



The Company's GPM margin is hovering around ~40%. In FY23, the margin was impacted due to a rise in raw material prices. As it advanced to FY24, the raw material price started easing off and company saw an increasing margin to 43% in 9MFY24.

Previously, at EBITDA and PAT levels, the margin had been impacted because other businesses such as Tea, Confectionary, and Lighting segments are loss-making.

In 9MFY24, the improvement in the margin is due to the improvement in gross profit margin and very minimal loss in the lighting segment. Further, the Company has increased A&P cost as a percentage of sales from 5% in FY23 to 10% in 9MFY24. Going forward, the margin is expected to improve due to the lighting segment starting to generate profit, ease of A&P cost, and decrease its employee cost from 11% to 9%.

Management Analysis

The Burman family – promoters of Dabur, continuously increased their stake in EIIL from 2019 to 2022 and became the promoters of the Company. Over the last couple of years, the Company has hired multiple new professionals across segments to push through the next leg of growth in the organization.

Key Managerial Personnel

Name	Designation	Brief profile
Dr. Anand Chand Burman	Chairman and NED	He is a trained pharmacist and is widely recognized for his interest in R&D, with a particular interest in Pharmaceutical Science and Biotechnology and Technology issues.
Mr. Mohit Burman	NED	He is the Chairman of Dabur India Ltd. and is the driving force behind the Burman family's foray into several high-growth sectors, such as Financial Services, Life Insurance, Healthcare, and FMCG.
Mr. Suvamoy Saha	Managing Director (MD)	He has over 37 years of experience in IT, quality and general management. In 2022, Mr Saha was appointed as MD. He has been part of EIIL for over a decade.
Mr. Anirban Banerjee	Senior VP & Business Head – Battery & Flashlight	He has over 25 years of experience and worked with Godrej Consumers, Godrej Natures, and The Hershey Company. He joined EIIL one year before.
Mr. Arun Kumar Sahay	Senior VP & Head of Operations	He has over 33 years of experience handling various functions in manufacturing, materials, and supply chain. Presently he is heading the entire Operations of Eveready.
Mr. Bibek Agarwala	CFO	He has over 20 years of experience providing strategic, financial and operating expertise to deliver strong earnings. He joined EIIL one year before. Previously, he worked with Essel, Raymond, PwC, and Dabur.
Mr. Gourabh Nath Ghosh	Senior VP – Sales & Distribution	He has over 23 years of experience working with companies such as Godfrey Philips India Ltd, Bacardi India Pvt Ltd, and Ferrero India. He joined EIIL's team two years ago but decided to leave in April 2024 due to personal commitments.
Mr. Mohit Sharma	Senior VP & Business Head – Lighting & Electricals	He has over 28 years of experience heading the lighting segment in companies such as Havells India, HPL Electrical and Power Ltd, Jaquar, and Philips India Ltd. He has been with EIIL for more than two years.
Mr. Sandeep Banerjee	CHRO	He has more than 27 years of experience in the end-to-end HR domain and has performed multiple leadership roles in TAJ Hotels, Reliance India Ltd., and Prism Johnson Ltd. He has been with EIIL for more than two years.
Mr. Suddhajit Sinha	VP & Head - Technology	He has over 27 years of experience in design and research and development (R&D). Having spent more than 14 years at Philips and another 12 years at EIIL, handling design and R&D.

NED is Non-Executive Director, CFO is Chief Financial Officer, and CHRO is Chief Human Resource officer
Source: Company, Keynote Capitals Ltd.

Compensation and Skin in the Game

Particulars	FY19	FY20	FY21	FY22	FY23
% Promoter Holding	44.1%	22.9%	4.7%	4.9%	43.2%
Management Salary (Rs Mn)	41.5	57.3	41.0	51.2	29.3
As a % of PAT	16.6%	1.7%	-	10.9%	10.5%

Source: Company, Keynote Capitals Ltd.

In Feb-22, the Burman family launched an open offer to increase their stake in the Company and became promoters of the company in Jul-22. As of FY23, the Burman family holds a 38.66% stake in the Company.

The compensation structure was high under the Khaitan Group. Going forward, under Burman's leadership, we anticipate a decrease in management salaries as a percentage of PAT.

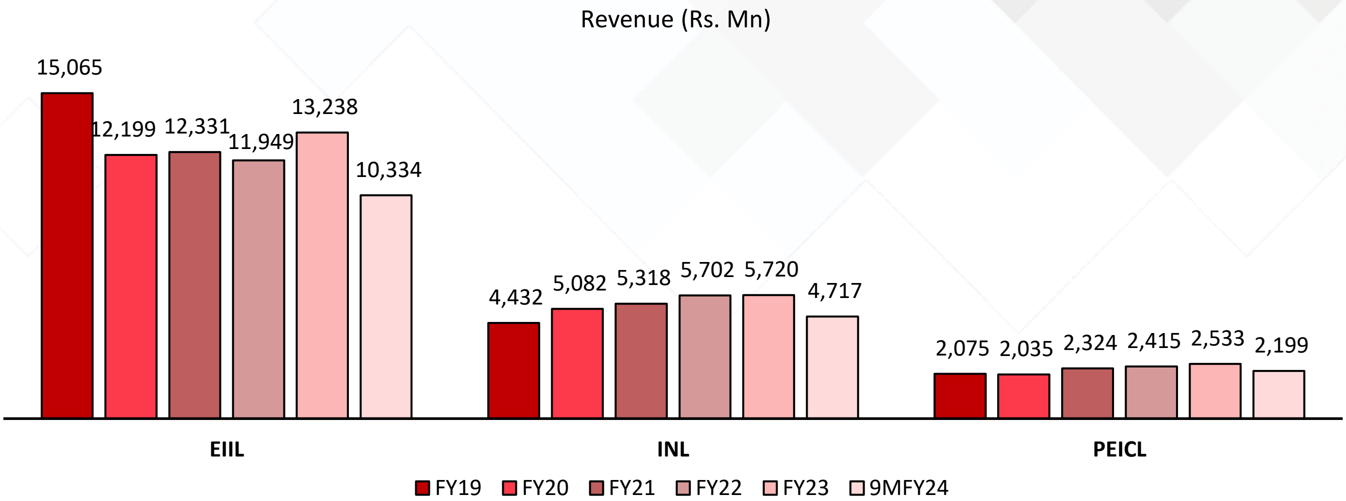
Top shareholders >1%

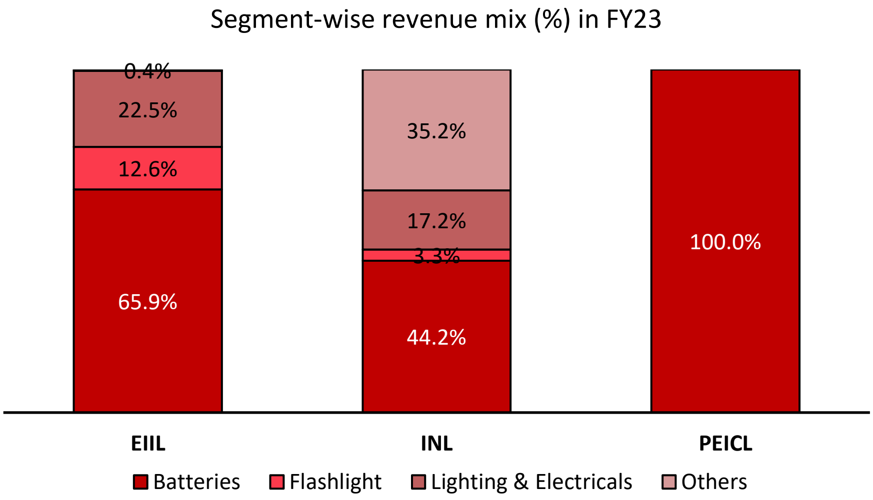
Stakeholders	FY20	FY21	FY22	FY23	Q3FY24
ICM Finance Pvt. Ltd.	3.3%	3.3%	3.3%	3.3%	3.3%
Gladiator Vyapar Pvt. Ltd.	1.8%	3.1%	3.1%	3.1%	3.1%
Progressive Star Finance Pvt. Ltd.	2.4%	2.4%	2.6%	2.6%	2.6%
Anjana Projects Pvt. Ltd.	2.3%	2.3%	2.3%	2.3%	2.3%
Tata Mutual Fund	-	-	1.1%	2.1%	2.4%
Nexome Realty LLP	1.7%	1.7%	1.7%	1.7%	1.7%
Olympia Tech Park Chennai Pvt. Ltd.	1.5%	1.5%	1.5%	1.5%	1.5%
Vistara ITCL India Ltd.	2.5%	1.9%	1.4%	1.4%	1.3%
Total stake held	**15.5%**	**16.2%**	**17.0%**	**18.0%**	**18.2%**

Source: Company, Keynote Capitals Ltd.

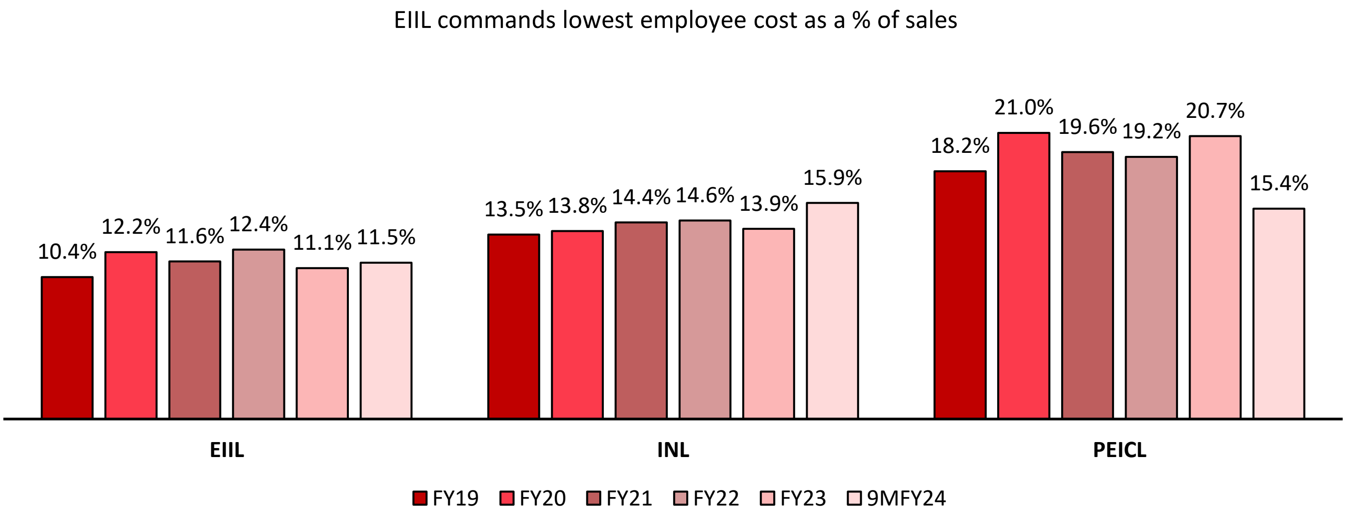
Peer Comparison

We reviewed EIIL against its closest peers, Indo National Ltd (INL), and Panasonic Energy India Company Ltd (PEICL).

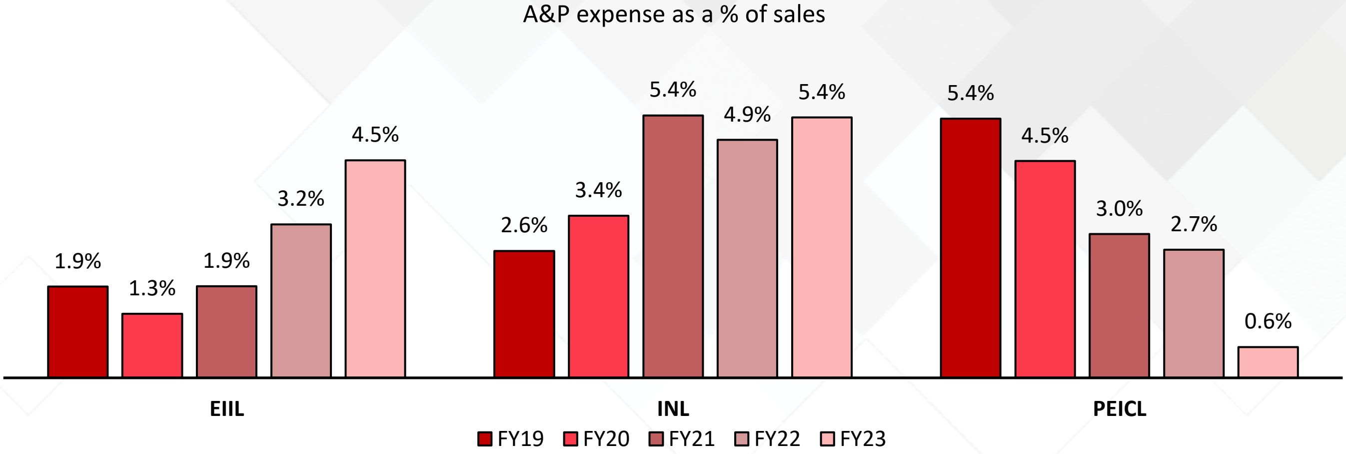


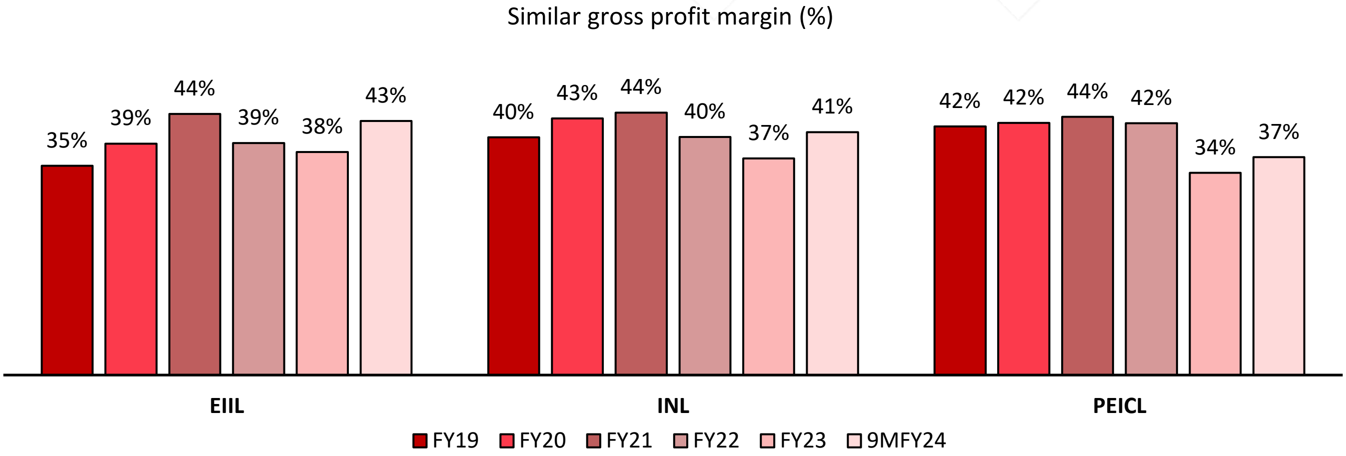


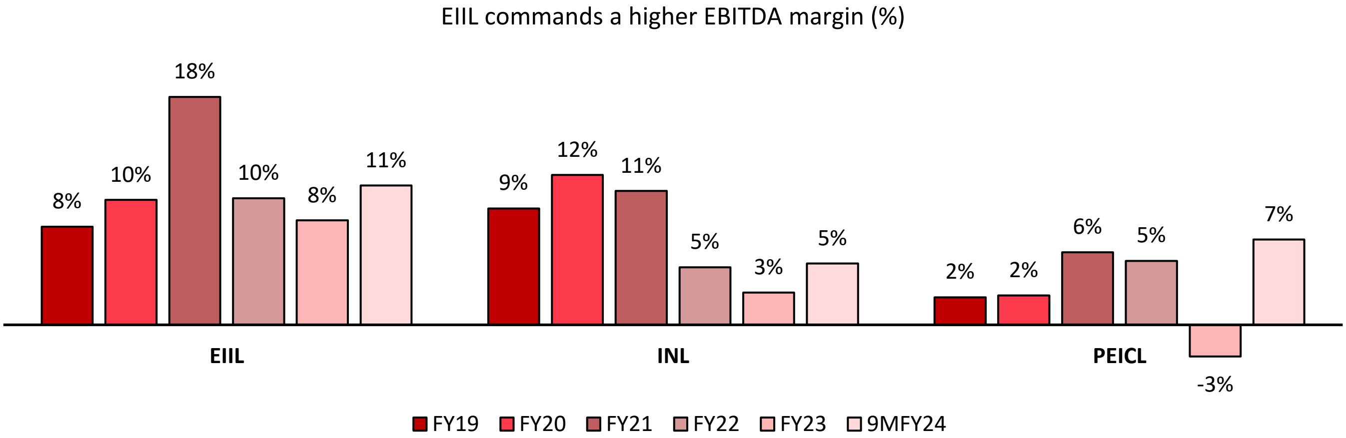
INL holds a 51% stake in Kineco Ltd., which manufactures composites for Railways, Industrial applications, and defence. Kineco further holds a 51% stake in Kineco Kaman Composites Pvt Ltd, which is a joint venture with Kaman Aerospace Group, USA (A NYSE listed entity), to manufacture advanced composites for the medical and aerospace industries

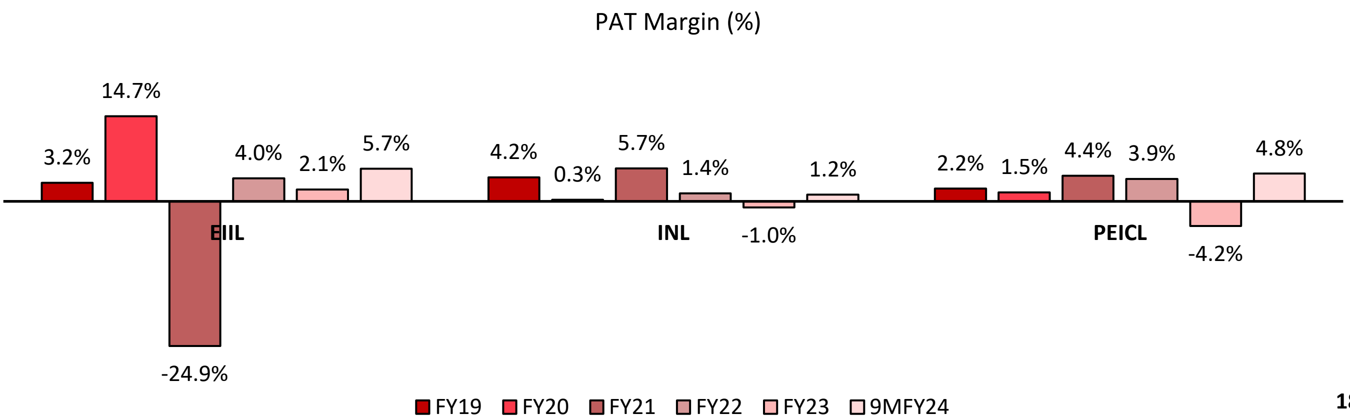


Source: Company, Keynote Capitals Ltd.









Source: Company, Keynote Capitals Ltd.

Particulars	EIIL	INL	PEICL
9MFY24 ROE %	16%	2%	11%
9MFY24 ROCE %	14%	3%	13%
5Y cummulative CFO/EBITDA %	79%	36%	35%
Organized dry-cell batteries market share (%) in FY23	53.4%	15.5%	15.3%
Retailers / Retail outlets (Mn)	4.0	1.7	-
Debt/ Equity (9MFY24)	0.9	0.5	-
Net Working Capital Days (9MFY24)	96	151	70

Source: Company, Keynote Capitals Ltd.

Opportunities

The Burman Family at the helm of EIIL

The Burman family, with its illustrious history and track record of success, brings a wealth of experience and leadership to EIIL. Rooted in a legacy of entrepreneurial spirit and business acumen, the Burmans have established themselves as stalwarts in the Indian business landscape.

The family's journey dates back several generations, with its roots tracing to the establishment of Dabur India Limited in 1884 by Dr. S.K. Burman. Over the years, the Burman family's leadership has been instrumental in steering Dabur through various challenges and transforming it into a global FMCG powerhouse.

Drawing from their experiences at Dabur, the Burman family is well-positioned to provide strong leadership to EIIL. Their proven track record of navigating complex business landscapes, fostering a culture of excellence, and driving growth will benefit the Company.

The Burman family prioritize businesses where they can turn around the assets and have the management depth to add value. According to the Burmans, EIIL possesses a strong brand and longstanding legacy, suggesting significant potential for growth and value creation.

EIIL is a market leader in dry-cell batteries and battery operated flashlights. However, past issues related to the erstwhile promoters have hindered the Company's performance. The Burmans believe that with the right strategy and a capable team to execute it, EIIL can double its revenue and improve its profitability.

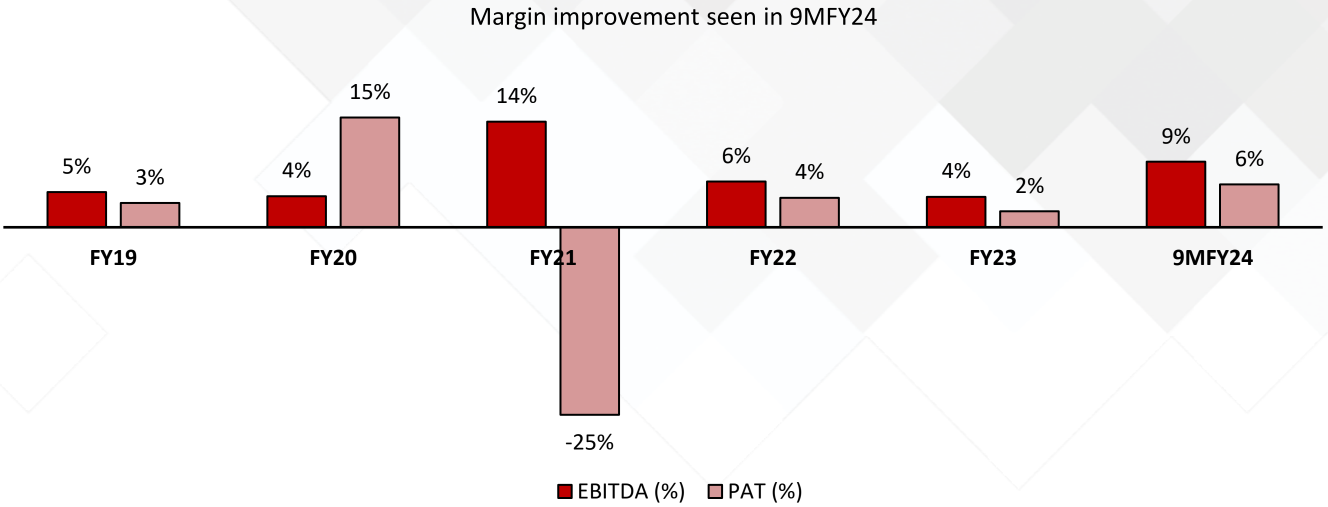
Under the leadership of the Burmans, the Company professionalized its management, strengthened its balance sheet by taking a one-time hit of non-recurring costs and emphasizing debt reduction, transitioning away from unrelated ventures and focusing on untapped segments within the current portfolio.

Doubling the revenue and improving margin

Under the helm of new management, the Company is endeavoring to transform itself from several years of revenue stagnation to a growth-oriented trajectory, with a primary focus on enhancing profitability. This transformation is driven by a concerted effort to change the product mix, revamp distribution channels, and intensify brand-building initiatives. By emphasizing these strategic shifts, the Company aims to rejuvenate its business model and unlock new avenues for sustainable growth.

EIIL management is guiding to double the revenue in 3-4 years. The growth will be driven by a change in the product mix in the battery and flashlight segments. The Company expects high single-digit growth in the battery segment, primarily driven by premiumization. In the flashlight segment, the Company expects significant growth from the rechargeable flashlights.

The Company is expecting a three-fold increase in revenue from the lighting business over the next three to four years, from Rs. 3 Bn in FY23 to Rs. 10 Bn. The growth is driven by an increasing emphasis on premium offerings, a diverse product range, and expanding its distribution network. Further, the Company expects this segment to report an EBITDA margin of 5% in FY25 and aim to increase it to 10%.



Source: Company, Keynote Capitals Ltd.

EIIL is focusing on branding and distribution as the key drivers for its growth strategy

The Eveready brand is virtually synonymous with batteries that cater to the diverse portable energy needs of modern India, earning enduring trust from consumers. But off-lately, under the leadership of the Khaithan group, the Company could not catch up with market trends and lost its spark. With the strategy reset initiated by Burman, the Company has increased its A&P as a percentage of sales from 3% in FY22 to ~10% in 9MFY24.

According to the Burmans, "Eveready is a strong brand that has faced uncertainty over various issues in recent years. We are now in the process of rejuvenating the brand with the right approach and investment to scale up the business, with a focus on new growth areas".

EIIL has a strong distribution network spanning over 4 Mn touchpoints, reaching the retail trade from urban centres to deep into the interiors of the country. To optimally leverage this extensive network, the Company has implemented an RTM strategy where previously reaching 4 Mn touchpoints involved working with 4,000 distributors. This new strategy has been rationalized to 1,000 distributors, which led to consolidations in the town-wise distributors from 7-8 in a specific town to 2-3. This initiative is designed to streamline the distribution channels, ensuring clear accountability at every level, cost efficiency, expedited decision-making, and enhanced communication to facilitate the delivery of the products to consumers. After the implementation, the process of reaching those outlets has become more efficient.

The revitalized brand strategy and an optimized distribution network positions EIIL for renewed growth.

Challenges

Restriction on raising any fresh capital

The legal proceedings initiated by KKR India against one of EIIL's former promoter group companies have led to restrictions on EIIL's ability to sell or transfer its assets. Subsequently, InCred took over the case, which was later taken over by another NBFC, resulting in the adjournment of the case. Consequently, the Burman family has encountered difficulties in injecting new capital into the Company, which can hinder its growth.

Intense competition and market saturation

Due to market saturation, the demand for mature product categories such as batteries and flashlights has stabilized, leading to limited growth opportunities in the industry. Further, EIIL faces intense competition from industry giants in the lighting segment, which poses a challenge in achieving growth in these segments. The presence of established brands and emerging players further increases the competitive pressure, impacting EIIL’s market position and profitability.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**12,068**	**13,277**	**13,657**	**14,914**	**16,340**
Growth %		10%	3%	9%	10%
Raw Material Expenses	7,280	8,267	7,921	8,650	9,477
Employee Expenses	1,484	1,466	1,502	1,641	1,716
Other Expenses	2,166	2,443	2,731	2,908	3,105
EBITDA	**1,137**	**1,101**	**1,502**	**1,715**	**2,043**
Growth %		-3%	36%	14%	19%
Margin%	9%	8%	11.0%	11.5%	12.5%
Depreciation	275	274	287	296	305
EBIT	**862**	**827**	**1,215**	**1,419**	**1,738**
Growth %		-4%	47%	17%	22%
Margin%	7%	6%	9%	10%	11%
Interest Paid	480	566	287	212	142
Other Income & exceptional	47	86	35	20	20
PBT	**429**	**347**	**963**	**1,228**	**1,616**
Tax	17	70	193	246	323
PAT	**412**	**276**	**770**	**982**	**1,293**
Growth %		-33%	179%	28%	32%
Shares (Mn)	72.7	72.7	72.7	72.7	72.7
EPS	**6.39**	**3.80**	**10.60**	**14.33**	**18.68**

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	531	71	211	432	867
Current Investments	0	0	0	0	0
Debtors	356	1,024	1,093	1,193	1,307
Inventory	2,407	2,596	2,455	2,682	2,938
Short Term Loans & Advances	715	776	776	776	776
Other Current Assets	118	164	164	164	164
Total Current Assets	4,127	4,631	4,699	5,247	6,053
Net Block & CWIP	3,092	3,111	2,960	2,814	2,672
Long Term Investments	0	75	75	75	75
Other Non-current Assets	1,017	999	999	999	999
Total Assets	**8,236**	**8,816**	**8,734**	**9,135**	**9,799**
Creditors	1,608	1,672	1,556	1,775	1,947
Provision	301	211	211	211	211
Short Term Borrowings	1,253	1,223	886	686	486
Other Current Liabilities	1,216	1,187	1,187	1,187	1,187
Total Current Liabilities	4,378	4,293	3,839	3,859	3,830
Long Term Debt	1,835	2,080	1,680	1,080	480
Deferred Tax Liabilities	-1,726	-1,620	-1,620	-1,620	-1,620
Other Long-Term Liabilities	847	869	869	869	869
Total Non-Current Liabilities	957	1,329	929	329	-271
Paid-up Capital	363	363	363	363	363
Reserves & Surplus	2,537	2,831	3,601	4,583	5,876
Shareholders' Equity	2,901	3,194	3,965	4,947	6,239
Non-Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**8,236**	**8,816**	**8,734**	**9,135**	**9,799**

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	429	347	963	1,228	1,616
Adjustments	978	1,041	539	487	427
Change in Working Capital	-133	71	-44	-107	-199
Total Tax Paid	11	-516	-193	-246	-323
Cash flow from operating Activities	**1,284**	**943**	**1,266**	**1,362**	**1,520**
Net Capital Expenditure	-115	-243	-137	-149	-163
Change in investments	47	9	0	0	0
Other investing activities	-485	984	35	20	20
Cash flow from investing activities	**-553**	**750**	**-102**	**-129**	**-143**
Equity raised / (repaid)	0	1.84	0	0	0
Debt raised / (repaid)	-502	-2,408	-737	-800	-800
Dividend (incl. tax)	0	-410	0	0	0
Other financing activities	-579	-193	-287	-212	-142
Cash flow from financing activities	**-1,080**	**-3,009**	**-1,024**	**-1,012**	**-942**
Net Change in cash	-349	-1,316	140	221	435

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	6	4	11	14	18
Growth %		-41%	179%	28%	32%
Book Value Per Share	40	44	55	68	86
Return Ratios					
Return on Assets (%)	6%	3%	9%	11%	14%
Return on Equity (%)	18%	9%	22%	22%	23%
Return on Capital Employed (%)	15%	6%	16%	18%	21%
Turnover Ratios					
Asset Turnover (x)	1.4	1.6	1.6	1.7	1.7
Sales / Gross Block (x)	2.7	2.9	2.9	3.0	3.2
Working Capital / Sales (x)	-3%	0%	4%	8%	11%
Receivable Days	11	19	28	28	28
Inventory Days	122	110	116	108	108
Payable Days	85	71	76	68	70
Working Capital Days	47	59	69	68	66
Liquidity Ratios					
Current Ratio (x)	0.9	1.1	1.2	1.4	1.6
Interest Coverage Ratio (x)	2.0	1.6	4.4	6.8	12.4
Total Debt to Equity	1.3	1.0	0.6	0.4	0.2
Net Debt to Equity	1.1	1.0	0.6	0.3	0.0
Valuation					
PE (x)	52.4	76.9	31.4	24.7	18.7
Earnings Yield (%)	2%	1%	3%	4%	5%
Price to Sales (x)	2.0	1.6	1.8	1.6	1.5
Price to Book (x)	8.4	6.6	6.1	4.9	3.9
EV/EBITDA (x)	24.2	22.6	18.2	16.0	13.4
EV/Sales (x)	2.3	1.9	2.0	1.8	1.7

Valuations

Particulars (Rs. Mn, unless mentioned)	Estimates
Estimate Period	**FY25E**
Revenue	14,914
Profit After Tax	982
Earnings Per Share (Rs.)	14.3
PE Multiple (x)	30
Expected Price per Share (Rs.)	**430**
Current Price (Rs.)	339
Upside / (Downside) (%)	**26.8%**

Source: Company, Keynote Capitals Ltd. estimates

Based on our analysis, we anticipate overall revenue growth of ~9%, primarily driven by lighting and flashlight segments. Furthermore, we project an improved trajectory for margins in the future. This is attributed to the lighting segment EBITDA margin turning positive, a marginal improvement in employee cost, a decrease in A&P expense, and a decline in interest expense resulting from reduced debt. The Company continue to make investments in brand development and improving its distribution. Further, it emphasizes on premiumization and significantly improving its presence in the alkaline and rechargeable flashlight segment. With a range of revamping of existing categories and the launch of new verticals, the Company is well-positioned to maintain its growth momentum. Considering all these factors, we have assigned a price-to-earnings (P/E) multiple of 30x to our estimated earnings per share (EPS) for FY25E.

Our Recent Reports


Lemon Tree Hotels | Initiating Coverage Report
KEYNOTE
Lemon Tree Hotels Limited
26th February 2024
BUY

Lemon Tree Hotels Ltd.


PI Industries Ltd| Initiating Coverage Report
KEYNOTE
PI Industries Limited
1st February 2024
BUY

PI Industries Ltd.


IGPL | Initiating Coverage Report
KEYNOTE
I G Petrochemicals Limited
2nd January 2024
BUY

I G Petrochemicals Ltd.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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