

Eveready Industries India Limited

29th April 2024

Segmental growth to keep in check

In Q4 FY24, Eveready Industries India Limited (EIL) reported a slight de-growth in topline of ~2% on a YoY basis. However, the Company has substantially improved its Gross and EBITDA margins by 720 bps and 873 bps on a YoY basis, respectively. This improvement was driven by the softening of raw material prices and the reduction of one-time consulting charges. For the next phase of growth, EIL will focus on the lighting segment, and to enhance operating margins, it will concentrate on value-added products (alkaline batteries and rechargeable flashlights) and achieving breakeven in the lighting segment. The Company anticipates that the benefits of RTM strategy will lead to improvement in operating margin starting from H2 FY25. We believe it is crucial to closely monitor the sales growth in the lighting segment, flashlights, and the improvement in operating margins in the lighting business.

Management's focus is to double their sales in next 4 years

The management has set an ambitious target for the next four years, aiming to double their topline through robust sales growth in the lighting segment and the addition of a new product category. However, the management has highlighted that their goal to introduce a new category has been postponed by 12 months, as they intend to focus on the current verticals and streamline operational costs effectively. We believe that achieving this milestone of topline growth will be incredibly challenging for the Company.

Expect lighting segment to break even in FY25

In FY24, the lighting segment generated a topline of ~3 Bn. It is expected that this segment will witness a substantial sales growth of 20% and achieve a breakeven on operating profit levels in FY25. We believe that the Lighting segment has the potential to deliver gross margins in the range of 35-37.5% in the long run, and with the benefits of scaling and operating leverage, this will lead to improvements in operating margins.

View & Valuation

We believe that EIL is poised to achieve a 9% revenue growth and improve its PAT margins from ~5% in FY24 to ~7% in FY25E. This will be attributed to EIL focus on premiumization, strong sales growth in lighting segment and reduction in finance cost. Based on our revised estimates, we maintain our 'BUY' rating with a target of Rs. 394 (30x FY25 earnings).

Buy

CMP Rs. 356

TARGET Rs. 394 (10.8%)

Company Data

Bloomberg Code	EVRIN IN
MCAP (Rs. Mn)	23,245
O/S Shares (Mn)	73
52w High/Low	442/273
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	81.94

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	63.1	63.1	63.6
FII's	26.6	27.5	26.7
DII's	3.6	3.4	3.2
Non-Institutional	6.7	6.0	6.5

Eveready vs Nifty



Apr, 21 Apr, 22 Apr, 23 Apr, 24
— Eveready — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY23	FY24	FY25E
Revenue	13,277	13,143	14,367
EBITDA	1,101	1,404	1,702
Net Profit	276	668	956
Total Assets	8,816	8,024	8,300
ROCE (%)	6%	16%	18%
ROE (%)	9%	22%	22%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, Research Analyst
 Chirag@keynotecapitals.net

Q4 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue from Operation	2,809	2,862	-2%	3,049	-8%	13,143	13,277	-1%
Gross Profit	1,257	1,074	17%	1,349	-7%	5,679	5,010	13%
Gross Profit %	44.7%	37.5%	720 Bps	44.2%	50 Bps	43.2%	37.7%	547 Bps
Employee Cost	419	359	16%	401	4%	1,604	1,466	9%
Other Expenses	583	704	-17%	701	-17%	2,671	2,443	9%
EBITDA	255	10	2378%	247	3%	1,403	1,101	27%
EBITDA %	9.1%	0.4%	873 Bps	8.1%	99 Bps	10.7%	8.3%	239 Bps
Depreciation	90	71	28%	69	32%	303	274	10%
EBIT	165	-60	-374%	178	-8%	1,101	827	33%
EBIT %	5.9%	-2.1%	797 Bps	5.8%	2 Bps	8.4%	6.2%	215 Bps
Finance Cost	72	207	-65%	79	-8%	323	566	-43%
Other Income	-4	76	-105%	4	-200%	29	86	-66%
PBT	89	-191	-	103	-14%	806	347	133%
Tax Expenses	8	-47	-	19	-57%	139	70	97%
Net Profit	80	-144	-	84	-4%	668	276	142%
EPS	1.11	-1.98		1.16		9.19	3.80	

Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

General Highlights

- The Company intends to prioritize its trade channels, specifically Modern Trade and E-commerce platforms over General Trade channel.
- The benefits of RTM initiatives are anticipated to materialize from H2 FY25.
- During FY24, the revenue composition was as follows: Batteries contributed 64.6%, Flashlights accounted for 12.2%, and Lighting constituted 23.2%. Conversely, in FY23, the revenue mix was 65.4% for Batteries, 12.4% for Flashlights, and 22.2% for Lighting.
- The BIS standards are expected to formalize for flashlights soon. However, the management has guided that it may take time for the government to mandate compliance with these standards.
- Currently, the ad spends are ~10-12% of FY24 sales.
- The effective tax rate for the FY25 is expected to remain within the range of 16-18%.

Batteries

- The industry experienced stagnant growth in volume terms due to subdued demand from rural areas.
- The Ultima brand has catalyzed multifold growth in alkaline batteries, albeit from a lower base.
- Within the batteries segment, 94% of the revenue was derived from zinc carbon batteries, while 6% was generated from alkaline batteries. Furthermore, the alkaline battery category is subdivided into 75% value products and 25% premium products.
- The operating margins for FY24 stood at 15%.

Eveready Industries India Ltd | Quarterly Report

Flashlights

- The management's primary objective is to ensure that rechargeable batteries remain affordable for consumers.
- Within the industry, traditional flashlights are experiencing a decline in demand, while rechargeable flashlights are witnessing growth in the high single-digit to low double-digit range.
- The operating margins for FY24 stood at 9%.

Lighting

- The gross margins for FY24 stood at 35%.
- The operating margins are anticipated to reach the breakeven point in FY25.

Management guidance

- It is anticipated that rural demand will resurge from the H2 FY25.
- The management has provided guidance for a high single-digit revenue growth for FY25. Segmentally, the expected growth rates are as follows: Batteries - 5%, Flashlights - 10-12%, and Lighting - 20%.
- The EBITDA margins are projected to improve going forward.
- Advertisement and promotional expenditures will gradually decrease as a percentage of sales over the years.
- The management has postponed the goal of introducing a new category by 12 months, enabling them to concentrate solely on the current verticals and streamline operations more effectively.
- The management expects the arbitration case with KKR to be settled by July 2024, which is anticipated to be the final month for the resolution of this matter.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	12,068	13,277	13,143	14,367	15,723
Growth %	10%	-1%	9%	9%	9%
Raw Material Expenses	7,280	8,267	7,464	8,117	8,805
Employee Expenses	1,484	1,466	1,604	1,825	1,997
Other Expenses	2,166	2,443	2,671	2,722	2,980
EBITDA	1,137	1,101	1,404	1,702	1,942
Growth %	-3%	27%	21%	14%	14%
Margin%	9%	8%	11%	12%	12%
Depreciation	275	274	303	310	329
EBIT	862	827	1,101	1,393	1,613
Growth %	-4%	33%	26%	16%	16%
Margin%	7%	6%	8%	10%	10%
Interest Paid	480	566	323	261	189
Other Income & exceptional	47	86	29	20	20
PBT	429	347	807	1,151	1,445
Tax	17	70	139	196	246
Net Profit	412	276	668	956	1,199
Growth %	-33%	142%	43%	25%	25%
Shares (Mn)	72.7	72.7	72.7	72.7	72.7
EPS	6.39	3.80	9.19	13.15	16.50

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	531	71	81	160	410
Current Investments	0	0	0	0	0
Debtors	356	1,024	1,134	1,293	1,415
Inventory	2,407	2,596	2,505	2,597	2,818
Short Term Loans & Advances	715	776	5	5	5
Other Current Assets	118	164	914	914	914
Total Current Assets	4,127	4,631	4,638	4,968	5,561
Net Block & CWIP	3,092	3,111	2,957	2,903	2,888
Long Term Investments	0	75	75	75	75
Other Non-current Assets	1,017	999	353	353	353
Total Assets	8,236	8,816	8,024	8,300	8,878
Creditors	1,608	1,672	1,686	1,806	1,986
Provision	301	211	164	164	164
Short Term Borrowings	1,253	1,223	1,417	1,217	1,017
Other Current Liabilities	1,216	1,187	705	705	705
Total Current Liabilities	4,378	4,293	3,972	3,892	3,872
Long Term Debt	1,835	2,080	1,435	835	235
Deferred Tax Liabilities	-1,726	-1,620	-1,532	-1,532	-1,532
Other Long Term Liabilities	847	869	281	281	281
Total Non Current Liabilities	957	1,329	185	-416	-1,016
Paid-up Capital	363	363	363	363	363
Reserves & Surplus	2,537	2,831	3,504	4,459	5,658
Shareholders' Equity	2,901	3,194	3,867	4,823	6,022
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	8,236	8,816	8,024	8,300	8,878

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	429	347	807	1,151	1,445
Adjustments	978	1,041	529	551	497
Change in Working Capital	-133	71	95	-131	-163
Total Tax Paid	11	-516	109	-196	-246
Cash flow from operating Activities	1,284	943	1,539	1,375	1,533
Net Capital Expenditure	-115	-243	-337	-287	-314
Change in investments	47	9	0	0	0
Other investing activities	-485	984	108	20	20
Cash flow from investing activities	-553	750	-229	-267	-294
Equity raised / (repaid)	0	1.84	0	0	0
Debt raised / (repaid)	-502	-2,408	-887	-800	-800
Dividend (incl. tax)	0	-410	0	0	0
Other financing activities	-579	-193	-382	-261	-189
Cash flow from financing activities	-1,080	-3,009	-1,268	-1,061	-989
Net Change in cash	-349	-1,316	42	47	250

Valuation Ratios

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	6	4	9	13	16
Growth %		-41%	142%	43%	25%
Book Value Per Share	40	44	53	66	83
Return Ratios					
Return on Assets (%)	6%	3%	8%	12%	14%
Return on Equity (%)	18%	9%	19%	22%	22%
Return on Capital Employed (%)	15%	6%	19%	18%	20%
Turnover Ratios					
Asset Turnover (x)	1.4	1.6	1.6	1.8	1.8
Sales / Gross Block (x)	2.7	2.9	2.7	2.9	3.0
Working Capital / Sales (x)	-3%	0%	4%	6%	9%
Receivable Days	11	19	30	31	31
Inventory Days	122	110	125	115	112
Payable Days	85	71	83	78	77
Working Capital Days	47	59	72	68	67
Liquidity Ratios					
Current Ratio (x)	0.9	1.1	1.2	1.3	1.4
Interest Coverage Ratio (x)	2.0	1.6	3.5	5.4	8.7
Total Debt to Equity	1.3	1.0	0.7	0.4	0.2
Net Debt to Equity	1.1	1.0	0.7	0.4	0.1
Valuation					
PE (x)	52.4	76.9	38.7	27.1	21.6
Earnings Yield (%)	2%	1%	3%	4%	5%
Price to Sales (x)	2.0	1.6	2.0	1.8	1.6
Price to Book (x)	8.4	6.6	6.7	5.4	4.3
EV/EBITDA (x)	24.2	22.6	20.7	17.1	14.9
EV/Sales (x)	2.3	1.9	2.2	2.0	1.8

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4 th April 2024	BUY	339	+26.8%
29 th April 2024	BUY	356	+10.8%

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

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.