

Eveready Industries India Limited

14th November 2024

Margins improved as per expectations

In Q2 FY25, Eveready Industries India Limited (EIIL) reported a de-growth in topline of ~1% on a YoY basis due to several factors, including slower offtake in the carbon-zinc batteries, ongoing weakness in battery-operated flashlights, and modest value erosion in the lighting segment. However, the Company has improved its Gross and EBITDA margins by 340 bps and 48 bps on a YoY basis, respectively. Margins improved due to a change in product mix, specifically a push towards premiumization (alkaline batteries and rechargeable flashlights). Management has guided that the Company will do better EBITDA margins than FY24.

Segmental Performance

In the battery segment, the Company experienced a topline decline of ~6% on a YoY basis due to weak demand from rural markets. The Company recorded a topline of ~Rs. 2.4 Bn in the battery segment, maintaining a stable EBITDA margin of ~17-18%. Although the Company achieved flat sales of Rs. 830 Mn in the lighting segment, the Company has generated positive EBITDA during the quarter. In the flashlight segment, a shift towards rechargeable flashlights resulted in double-digit sales growth on a YoY basis but a slightly lower-than-expected EBITDA margin (high single digit).

Capacity expansion

The Company is planning a capital expenditure of Rs. 1.8 Bn, primarily financed through borrowed funds (Rs. 1.5Bn), to establish a facility for producing 360 Mn units of AA and AAA alkaline batteries in response to the growing demand. Currently, the Company imports alkaline batteries, and domestic manufacturing is expected to yield a 10% cost savings. The anticipated asset turnover for this capacity is 1x. The facility is expected to commence in H2 FY26. Although the Company has yet to finalize the location, equipment construction has already begun.

View & Valuation

Due to lower than expected growth in topline, we believe that EIIL would do a flat revenue growth and improve its PAT margins from ~5% in FY24 to ~5.5% in FY26E due to the change in product mix. However, we believe that the market has discounted the benefits of operating leverage at the current price. Based on our revised estimates, we have maintained our 'NEUTRAL' rating with a target of Rs. 381 (35x FY26 earnings).

NEUTRAL

CMP Rs. 360

TARGET Rs. 381 (5.8%)

Company Data

Bloomberg Code	EVRIN IN
MCAP (Rs. Mn)	29,130
O/S Shares (Mn)	73
52w High/Low	505/295
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	130

Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	43.2	43.2	43.2
FIIIs	3.9	3.7	3.6
DIIIs	2.6	2.6	2.7
Non-Institutional	50.3	50.5	50.5

Eveready vs Nifty



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

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY24	FY25E	FY26E
Revenue	13,143	13,130	14,088
EBITDA	1,404	1,444	1,332
Net Profit	668	746	791
Total Assets	8,024	9,384	11,029
ROCE (%)	19%	13%	13%
ROE (%)	19%	18%	16%

Source: Company, Keynote Capitals Ltd.

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Q2 FY25 Result Update

Result Highlights (Rs. In Mn)

Particulars	Q2 FY25	Q2 FY24	Change % (Y-o-Y)	Q1 FY25	Change % (Q-o-Q)	H1 FY25	H1 FY24	Change % (Y-o-Y)	FY24
Revenue from Operation	3,626	3,649	-1%	3,494	4%	7,120	7,285	-2%	13,143
Gross Profit	1,699	1,586	7%	1,585	7%	3,285	3,073	7%	5,679
Gross Profit %	46.9%	43.5%	340 Bps	45.4%	148 Bps	46.1%	42.2%	394 Bps	43.2%
Employee Cost	434	409	6%	412	5%	845	785	8%	1,604
Other Expenses	788	713	10%	676	16%	1,464	1,388	5%	2,671
EBITDA	478	463	3%	498	-4%	975	901	8%	1,403
EBITDA %	13.2%	12.7%	48 Bps	14.2%	-107 Bps	13.7%	12.4%	133 Bps	10.7%
Depreciation	72	72	0%	75	-5%	147	144	2%	303
EBIT	406	392	4%	422	-4%	828	758	9%	1,101
EBIT %	11.2%	10.7%	47 Bps	12.1%	-89 Bps	11.6%	10.4%	124 Bps	8.4%
Finance Cost	63	82	-24%	70	-11%	133	172	-23%	323
Other Income	7	1	1240%	2	205%	9	29	-69%	29
PBT	350	310	13%	354	-1%	704	615	15%	806
Tax Expenses	55	56	-2%	61	-10%	115	112	3%	139
PAT attributable to shareholders	296	254	16%	294	1%	589	503	17%	668
EPS	4.07	3.50		4.04		8.11	6.92		9.19

Source: Company, Keynote Capitals Ltd.

Q2 FY25 Conference Call Takeaways

General Highlights

- A&P expenditure as a percentage of revenue for Q2 FY25 was 11.3%, aimed at strengthening the brand and effectively promoting new product offerings.
- There is no update on the KKR's arbitration case.
- During the quarter, the alternate channel contributed 16% to the topline.

Batteries

- The moderation in revenue is due to value de-growth in batteries, as Carbon Zinc volumes declined in favor of Alkaline. Alkaline now accounts for 5.4% of the battery mix, up from 3.3% in Q2 FY24.
- The Company holds a 53% market share in batteries.
- Carbon Zinc batteries experienced weak demand in rural India.
- The Company has an outlet reach of 5 Mn.
- Alkaline batteries are sold 50% to OEMs and 50% to retail.
- Duracell holds 85% of the market share in Alkaline batteries, while Nippo and Panasonic generate low revenue from this segment.

Flashlights

- Flashlights achieved double-digit growth, driven by the rechargeable segment. This was led due to innovative models made by the Company.
- Rechargeable flashlights demonstrated impressive value growth of 63% on a YoY basis, supported by new product launches and premiumization.
- The intensity of the decline in battery-operated flashlights has slowed down.
- The revenue mix for flashlights is now evenly split, with 50% from battery-operated flashlights and 50% from rechargeable flashlights (compared to 65:35 in Q1 FY25).
- The decline in sales of battery-operated flashlights negatively impacts demand for Carbon Zinc batteries.

Lighting

- Although some value de-growth continues in the lighting segment, significant volume growth has been observed, particularly in subcategories such as emergency lamps, luminaires, and accessories.
- The Company is investing in manpower within this segment, which has been the primary driver behind increased employee costs.
- The Company is intensifying its focus on both professional and consumer luminaires.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	13,277	13,143	13,130	14,088	15,129
Growth %		-1%	0%	7%	7%
Raw Material Expenses	8,267	7,464	7,353	7,819	8,396
Employee Expenses	1,466	1,604	1,720	1,803	1,936
Other Expenses	2,443	2,671	2,613	2,747	2,950
EBITDA	1,101	1,404	1,444	1,719	1,846
Growth %		27%	3%	19%	7%
Margin%	8%	11%	11%	12%	12%
Depreciation	274	303	313	387	427
EBIT	827	1,101	1,131	1,332	1,419
Growth %		33%	3%	18%	7%
Margin%	6%	8%	9%	9%	9%
Interest Paid	566	323	252	399	434
Other Income & exceptional	86	29	20	20	20
PBT	347	807	899	953	1,005
Tax	70	139	153	162	171
Net Profit	276	668	746	791	834
Growth %		142%	12%	6%	5%
Shares (Mn)	72.7	72.7	72.7	72.7	72.7
EPS	3.80	9.19	10.27	10.88	11.48

Cash Flow Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	347	807	1,039	1,198	1,286
Adjustments	1,041	529	628	754	827
Change in Working Capital	71	95	-139	-135	-177
Total Tax Paid	-516	109	-177	-204	-219
Cash flow from operating Activities	943	1,539	1,351	1,612	1,716
Net Capital Expenditure	-243	-337	-900	-900	-325
Change in investments	9	0	0	0	0
Other investing activities	984	108	30	30	30
Cash flow from investing activities	750	-229	-870	-870	-295
Equity raised / (repaid)	1.84	0	0	0	0
Debt raised / (repaid)	-2,408	-887	700	700	0
Dividend (incl. tax)	-410	0	0	0	0
Other financing activities	-193	-382	-329	-399	-434
Cash flow from financing activities	-3,009	-1,268	371	301	-434
Net Change in cash	-1,316	42	852	1,044	988

Valuation Ratios

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	4	9	10	11	11
Growth %		142%	12%	6%	5%
Book Value Per Share	44	53	63	74	86
Return Ratios					
Return on Assets (%)	3%	8%	9%	8%	7%
Return on Equity (%)	9%	19%	18%	16%	14%
Return on Capital Employed (%)	6%	19%	13%	13%	13%
Turnover Ratios					
Asset Turnover (x)	1.6	1.6	1.5	1.4	1.3
Sales / Gross Block (x)	2.9	2.7	2.6	2.4	2.2
Working Capital / Sales (x)	0%	4%	10%	16%	19%
Receivable Days	19	30	32	32	32
Inventory Days	110	125	122	117	116
Payable Days	71	83	82	77	77
Working Capital Days	59	72	72	72	71
Liquidity Ratios					
Current Ratio (x)	1.1	1.2	1.5	1.6	1.8
Interest Coverage Ratio (x)	1.6	3.5	4.6	3.4	3.3
Total Debt to Equity	1.0	0.7	0.8	0.8	0.7
Net Debt to Equity	1.0	0.7	0.5	0.5	0.3
Valuation					
PE (x)	76.9	36.9	35.5	33.5	31.8
Earnings Yield (%)	1%	3%	3%	3%	3%
Price to Sales (x)	1.6	1.9	2.0	1.9	1.8
Price to Book (x)	6.6	6.4	5.7	4.9	4.3
EV/EBITDA (x)	22.6	17.6	20.6	17.3	16.1
EV/Sales (x)	1.9	1.9	2.3	2.1	2.0

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	71	81	1,424	1,806	2,464
Current Investments	0	0	0	0	0
Debtors	1,024	1,134	1,182	1,268	1,362
Inventory	2,596	2,505	2,426	2,580	2,771
Short Term Loans & Advances	776	5	5	5	5
Other Current Assets	164	914	914	914	914
Total Current Assets	4,631	4,638	5,950	6,573	7,515
Net Block & CWIP	3,111	2,957	3,006	4,028	4,055
Long Term Investments	75	75	75	75	75
Other Non-current Assets	999	353	353	353	353
Total Assets	8,816	8,024	9,384	11,029	11,998
Creditors	1,672	1,686	1,600	1,754	1,889
Provision	211	164	164	164	164
Short Term Borrowings	1,223	1,417	1,417	1,417	1,417
Other Current Liabilities	1,187	705	705	705	705
Total Current Liabilities	4,293	3,972	3,887	4,040	4,175
Long Term Debt	2,080	1,435	2,135	2,835	2,835
Deferred Tax Liabilities	-1,620	-1,532	-1,532	-1,532	-1,532
Other Long Term Liabilities	869	281	281	281	281
Total Non Current Liabilities	1,329	185	885	1,585	1,585
Paid-up Capital	363	363	363	363	363
Reserves & Surplus	2,831	3,504	4,250	5,041	5,875
Shareholders' Equity	3,194	3,867	4,613	5,404	6,239
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	8,816	8,024	9,384	11,029	11,998

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%
6 th August 2024	NEUTRAL	409	+1.0%
14 th November 2024	NEUTRAL	360	+5.8%

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

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