KEYNOTE

Eveready Industries India Limited

Margins improved as per expectations

6th August 2024

In Q1 FY25, Eveready Industries India Limited (EIIL) reported a de-growth in topline of ~4% on a YoY basis due to several factors, including a high base effect, slower offtake in the carbon-zinc range, ongoing weakness in battery-operated flashlights (albeit at a slower pace), and modest value erosion in the lighting segment. However, the Company has substantially improved its Gross and EBITDA margins by 447 bps and 220 bps on a YoY basis, respectively. Margins improved due to a change in product mix, specifically a push towards premiumization. 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 7% on a YoY basis due to weak demand from rural markets. The Company recorded a topline of Rs. 2.1 Bn in the battery segment, maintaining a stable EBITDA margin of ~19%. Although the Company achieved flat sales of Rs. 800 Mn in the lighting segment, management indicated that the Company has reached break-even and generated positive EBITDA during the quarter. In the flashlight segment, a shift towards rechargeable flashlights resulted in a 2% sales growth on a YoY basis and an improvement in EBITDA margins to 15%.

Capacity expansion

The Company is planning a capital expenditure of Rs. 1.8 Bn, primarily financed through borrowed funds, 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, with the Company projecting to achieve 50% capacity utilization within the next three years. The facility is expected to become operational in one year, although the location for this investment has not yet been determined.

View & Valuation

Due to lower than expected growth in topline, we believe that EIIL would be able to achieve a ~5-6% revenue growth and improve its PAT margins from ~5% in FY24 to ~6% in FY25E. This will be attributed to EIIL's focus on premiumization and strong sales growth in the lighting segment. However, we believe that the market has discounted the benefits of operating leverage at the current price. Based on our revised estimates, we have changed our rating from 'BUY' to 'NEUTRAL' rating with a target of Rs. 415 (35x FY25 earnings).

NEUTRAL

CMP Rs. 409

TARGET Rs. 415 (1.0%)

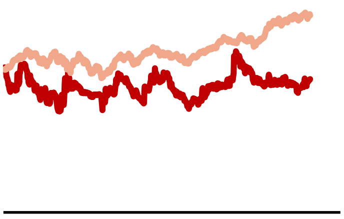
Company Data

Bloomberg Code	EVRIN IN
MCAP (Rs. Mn)	29,130
O/S Shares (Mn)	73
52w High/Low	463/295
Face Value (in Rs.)	5
Liquidity (3M) (Rs. Mn)	69.6

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	43.2	43.2	43.2
FIIs	3.7	3.6	0.5
DIIs	2.6	2.7	2.6
Non-Institutional	50.5	50.5	53.8

Eveready vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY24	FY25E	FY26E
Revenue	13,143	13,889	15,011
EBITDA	1,404	1,667	1,951
Net Profit	668	862	994
Total Assets	8,024	9,624	11,467
ROCE (%)	19%	16%	15%
ROE (%)	19%	20%	19%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue from Operation	3,494	3,636	-4%	2,809	24%	13,143
Gross Profit	1,585	1,487	7%	1,257	26%	5,679
Gross Profit %	***45.4%***	***40.9%***	***447 Bps***	***44.7%***	***64 Bps***	***43.2%***
Employee Cost	412	375	10%	419	-2%	1,604
Other Expenses	676	674	0%	583	16%	2,671
EBITDA	498	438	14%	255	95%	1,403
EBITDA %	***14.2%***	***12.0%***	***220 Bps***	***9.1%***	***516 Bps***	***10.7%***
Depreciation	75	72	5%	90	-17%	303
EBIT	422	366	15%	165	156%	1,101
EBIT %	***12.1%***	***10.1%***	***202 Bps***	***5.9%***	***622 Bps***	***8.4%***
Finance Cost	70	90	-22%	72	-3%	323
Other Income	2	28	-92%	-4	-158%	29
PBT	354	305	16%	89	299%	806
Tax Expenses	61	56	8%	8	638%	139
PAT attributable to shareholders	**294**	**249**	**18%**	**80**	**265%**	**668**
EPS	**4.04**	**3.42**		**1.11**		**9.19**

Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

General Highlights

- In Q1 FY25, Gross and EBITDA margins improved by 447 bps and 220 bps on a YoY basis, respectively, due to a change in product mix, specifically a push towards premiumization.

- Strategic investments in A&P are fueling brand awareness, driving sales, and propelling the Company towards market share leadership.

- Revenue growth for the quarter was constrained by several factors, including a high base effect, slower offtake in the carbon-zinc range, ongoing weakness in battery-operated flashlights (albeit at a slower pace), and modest value erosion in the lighting segment.

- In Q1 FY25, revenue from alternate channels stands at 15%.

- KKR's arbitration case was pushed to November 2024.

Batteries

- In Q1 FY25, alkaline batteries accounted for 6% of total battery sales, compared to 3% in Q1 FY24.

- The Company holds a 53% market share in this segment.

- According to Nielsen, carbon zinc batteries account for 90% of the Indian dry cell battery industry (industry is valued at Rs. 30 Bn).

- Premium alkaline batteries have 3-5% higher gross margins than carbon zinc batteries. However, value alkaline batteries have similar margins to carbon zinc batteries.

Flashlights

- The moderation of growth in battery-operated flashlights is being offset by the growth in rechargeable flashlights.
- The revenue mix in the flashlight segment stands at 65% for battery-operated flashlights and 35% for rechargeable flashlights.

Lighting

- The lighting business is showing early signs of recovery, with performance holding steady. Although value erosion persists, there is a volume uptick in certain segments as the company strategically focuses on high-growth areas like professional luminaires and emergency lights.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**13,277**	**13,143**	**13,889**	**15,011**	**16,250**
Growth %		-1%	6%	8%	8%
Raw Material Expenses	8,267	7,464	7,778	8,331	9,019
Employee Expenses	1,466	1,604	1,736	1,876	2,031
Other Expenses	2,443	2,671	2,708	2,852	3,087
EBITDA	**1,101**	**1,404**	**1,667**	**1,951**	**2,112**
Growth %		27%	19%	17%	8%
Margin%	8%	11%	12%	13%	13%
Depreciation	274	303	329	385	423
EBIT	**827**	**1,101**	**1,338**	**1,567**	**1,690**
Growth %		33%	22%	17%	8%
Margin%	6%	8%	10%	10%	10%
Interest Paid	566	323	329	399	434
Other Income & exceptional	86	29	30	30	30
PBT	**347**	**807**	**1,039**	**1,198**	**1,286**
Tax	70	139	177	204	219
Net Profit	**276**	**668**	**862**	**994**	**1,067**
Growth %	0	0	0	0	0
Shares (Mn)	**276**	**668**	**862**	**994**	**1,067**
EPS		142%	29%	15%	7%

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

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	71	81	965	2,009	2,996
Current Investments	0	0	0	0	0
Debtors	1,024	1,134	1,250	1,351	1,462
Inventory	2,596	2,505	2,567	2,749	2,976
Short Term Loans & Advances	776	5	5	5	5
Other Current Assets	164	914	914	914	914
Total Current Assets	4,631	4,638	5,700	7,027	8,353
Net Block & CWIP	3,111	2,957	3,496	4,012	3,914
Long Term Investments	75	75	75	75	75
Other Non-current Assets	999	353	353	353	353
Total Assets	**8,816**	**8,024**	**9,625**	**11,467**	**12,696**
Creditors	1,672	1,686	1,725	1,873	2,034
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	4,011	4,159	4,320
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	4,366	5,360	6,428
Shareholders' Equity	3,194	3,867	4,729	5,724	6,791
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**8,816**	**8,024**	**9,625**	**11,467**	**12,696**

Valuation Ratios

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	4	9	12	14	15
Growth %		142%	29%	15%	7%
Book Value Per Share	44	53	65	79	93
Return Ratios					
Return on Assets (%)	3%	8%	10%	9%	9%
Return on Equity (%)	9%	19%	20%	19%	17%
Return on Capital Employed (%)	6%	19%	16%	15%	14%
Turnover Ratios					
Asset Turnover (x)	1.6	1.6	1.6	1.4	1.3
Sales / Gross Block (x)	2.9	2.7	2.6	2.4	2.4
Working Capital / Sales (x)	0%	4%	8%	15%	21%
Receivable Days	19	30	31	32	32
Inventory Days	110	125	119	116	116
Payable Days	71	83	79	77	77
Working Capital Days	59	72	71	71	70
Liquidity Ratios					
Current Ratio (x)	1.1	1.2	1.4	1.7	1.9
Interest Coverage Ratio (x)	1.6	3.5	4.2	4.0	4.0
Total Debt to Equity	1.0	0.7	0.8	0.7	0.6
Net Debt to Equity	1.0	0.7	0.5	0.4	0.2
Valuation					
PE (x)	76.9	36.9	33.5	29.1	27.1
Earnings Yield (%)	1%	3%	3%	3%	4%
Price to Sales (x)	1.6	1.9	2.1	1.9	1.8
Price to Book (x)	6.6	6.4	6.1	5.1	4.3
EV/EBITDA (x)	22.6	17.6	19.3	16.4	15.2
EV/Sales (x)	1.9	1.9	2.3	2.1	2.0

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
4th April 2024	BUY	339	+26.8%
29th April 2024	BUY	356	+10.8%
6th August 2024	NEUTRAL	409	+1.0%

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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