

Eveready Industries

BSE SENSEX	S&P CNX
24,486	7,436
Bloomberg	EVRIIN IN
Equity Shares (m)	72.7
M.Cap.(INRb)/(USDb)	18.3 / 0.3
52-Week Range (INR)	375 / 186
1, 6, 12 Rel. Per (%)	-10/-16/33
12M Avg Val (INR M)	102
Free float (%)	56.0

Financials & Valuation (INR b)

Y/E Mar	2016E	2017E	2018E
Net Sales	13.4	16.0	18.7
EBITDA	1.3	1.8	2.2
PAT	0.7	1.1	1.4
EPS (INR)	9.3	14.7	19.5
Gr. (%)	8.7	58.1	33.2
BV/Sh (INR)	90.9	100.4	113.7
RoE (%)	10.5	15.3	18.2
RoCE (%)	14.7	19.9	24.5
P/E (x)	28.5	18.0	13.5
P/BV (x)	2.9	2.6	2.3

Estimate change 

TP change 

Rating change 

CMP: INR252 TP: INR387(+54%)

Buy

LED business shines; margins expand due to operating leverage

- Higher margins offset revenue miss:** EVRIIN's 3QFY16 revenue remained flat at -0.4% and was INR3,241m (est. of INR3,726m) on the back of flattish growth in battery business and sharp decline in flashlights—compensated by healthy growth in LED business, which recorded INR250m worth of sales in 3QFY16. EBITDA grew 8.6% to INR371m (est. of INR376m); EBITDA margin expanded 90bp to 11.4% (est. of 10.1%) due to lower raw material cost and benefits of operating leverage. Adjusted PAT grew 7.7% to INR201m (est. of INR194m).
- Participation in government LED projects to boost LED sales:** Eveready recently bid for Madhya Pradesh government's LED bulb tender—its first for a government order. The company has been declared L2 and expects order of 7m bulbs to be executed over the next six months. The bid price is INR64.6 per LED bulb and its impact on revenue is expected to reflect in 1Q and 2QFY17. As per industry sources, the total LED tender opportunity available in the next 12 months stands at 150m bulbs, which will be either in 7W or 9W category. The company intends to participate in more such orders during FY17. Driven by government LED orders and retail sales, we expect the revenue CAGR of 180% in LED business over FY15-18.
- Flashlights growth impacted due to poor monsoon:** Flashlights witnessed ~13% volume decline in 3QFY16 as it is a largely rural-driven business adversely impacted by poor monsoon. The company has also launched economy range flashlights, which are expected to gradually pick up in terms of growth in FY17.
- Valuation and view:** We expect 13.5% revenue CAGR along with 190bp EBITDA margin expansion over FY15-18, driving 32% PAT CAGR. Although we cut our FY16 PAT estimates by 9%, we maintain FY17 and FY18 estimates as participation in government LED business is expected to provide operating leverage benefits. We like the company because of its leadership in the battery segment, robust growth in the LED business, margin expansion and high RoCE, which we believe justifies a target PE valuation of 20x on FY18E EPS. We maintain **Buy** with a target price of INR387 (54% upside).

Standalone - Quarterly Earning Model

Y/E March	FY15				FY16				FY15	FY16E	FY16	Var %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	3,236	3,548	3,254	2,751	3,482	3,678	3,241	3,027	12,789	13,427	3,726	-13
YoY Change (%)	15.7	11.0	9.7	6.9	7.6	3.7	-0.4	10.0	10.9	5.0	14.5	
Total Expenditure	2,904	3,178	2,912	2,559	3,109	3,354	2,870	2,754	11,553	12,087	3,350	
EBITDA	332	370	342	193	373	323	371	272	1,237	1,340	376	-1
Margins (%)	10.3	10.4	10.5	7.0	10.7	8.8	11.4	9.0	9.7	10.0	10.1	
Depreciation	57	30	30	37	36	35	35	40	155	146	40	
Interest	87	76	80	78	80	75	72	70	321	297	72	
Other Income	0	9	10	20	14	20	18	8	39	60	5	
PBT before EO expense	188	273	241	97	271	233	282	170	800	957	269	5
Extra-Ord expense	48	45	43	44	46	44	45	41	180	175	41	
PBT	140	229	198	54	226	190	237	129	620	782	228	4
Tax	34	52	44	-1	67	52	68	36	130	222	64	
Rate (%)	24.1	22.9	22.4	-1.3	29.5	27.2	28.6	28.0	20.9	28.4	28.0	
Reported PAT	106	176	153	55	159	138	170	93	490	560	164	3
Adj PAT	143	211	187	99	191	170	201	123	633	685	194	4
YoY Change (%)	247.1	471.2	312.2	702.4	34.0	-19.5	7.7	24.3	366.2	8.3	3.6	
Margins (%)	4.4	5.9	5.8	3.6	5.5	4.6	6.2	4.1	4.9	5.1	5.2	

E: MOSL Estimates

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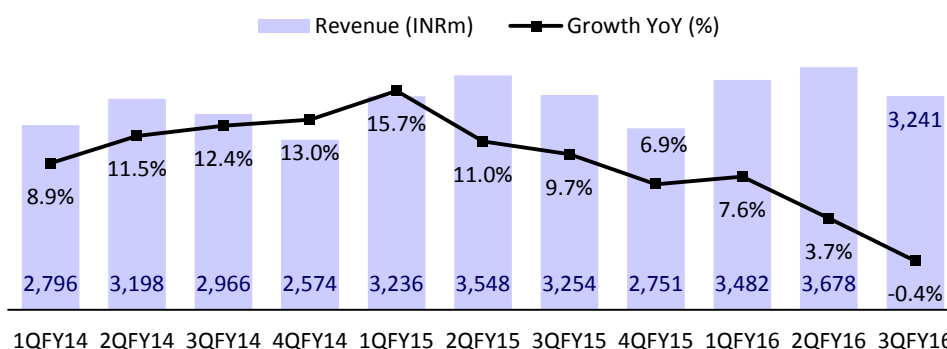
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Higher margins offset revenue miss

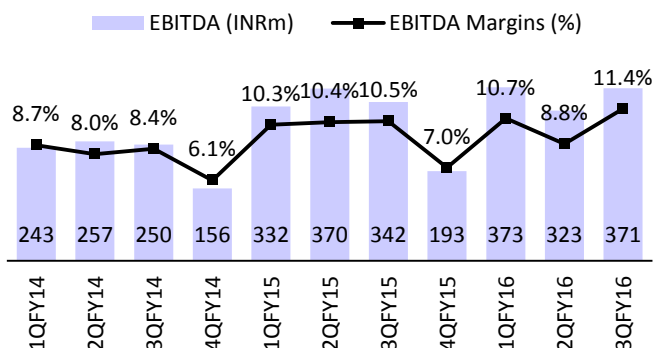
- EVRIN’s 3QFY16 revenue remained flat at -0.4% to INR3,241m (est. INR3,726m) on the back of flattish growth in battery business, sharp decline in flashlights compensated by healthy growth in LED business.
- The LED business recorded INR250m worth of sales in 3QFY16. EBITDA grew 8.6% to INR371m (est. INR376m); EBITDA margin expanded 90bp to 11.4% (est. 10.1%) due to lower raw material cost and benefits of operating leverage.
- Adjusted PAT grew 7.7% to INR201m (our estimate: INR194m).

Exhibit 1: Revenue trend



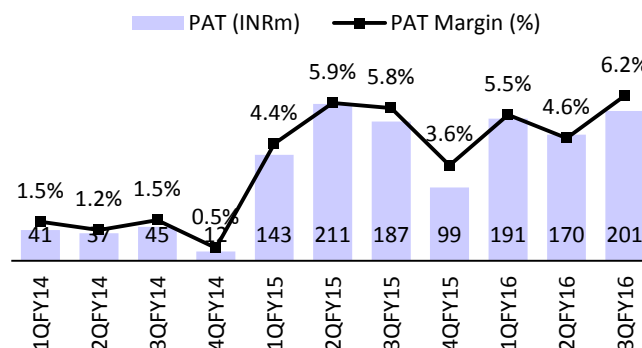
Source: MOSL, Company

Exhibit 2: EBITDA margins expanded 90bp YoY



Source: MOSL, Company

Exhibit 3: PAT posted a growth of 7.7% YoY



Source: MOSL, Company

Participation in government LED projects to boost LED sales

- Eveready recently bid for Madhya Pradesh government LED bulb tender which is its first tender in government order. It has been declared L2 and expects order of 7m bulb pcs to be executed over 6months.
- The bid price is INR64.6 per LED bulb and its impact in revenue is expected to be seen in 1Q and 2QFY17.
- As per industry sources, the total LED tender opportunity available in next 12months stands at 150m pcs of bulb which will be either in 7W or 9W category.
- The company intends to participate in more such orders during FY17.
- Driven by Government LED orders and retail sales, we expect the revenue CAGR of 180% in LED business over FY15-18E.

Flashlights growth impacted due to poor monsoon

- Flashlights witnessed ~13% volume decline in 3QFY16 as it is largely rural driven business adversely impacted by poor monsoon.
- The company has also launched economy range flashlights which are expected to gradually pick up in terms of growth in FY17.

Plans new launches in appliances segment

- Eveready currently is present in appliances segment through products like rechargeable fans and lanterns.
- Management plans new launches in the segment like ceiling fans and kitchen appliances. The products offered will be comparable with the likes of Bajaj Electricals and Havells.
- The products will have a soft launch in March 2016 through ecommerce and modern retail, which management believes is an effective way of reaching consumers, given the already strong brand equity of EVRIN.

Valuation and view

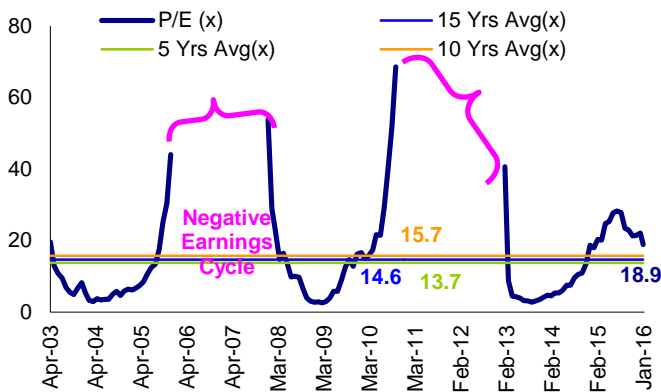
Over FY15-18, we expect EILL’s revenue to grow at 14% CAGR (to INR19b), EBITDA margin to expand 190bp (to 11.6%) and adj. PAT to grow at 32% CAGR. We also expect strong FCF generation (INR1.2b in FY16, INR1b in FY17 and INR1.4b in FY18) and significant improvement in return ratios (adj. RoCE to improve from 32% to 52% over FY15-18).

We like the company because of its sustainable leadership (52% market share) and competitive advantages in the battery segment, Robust growth in LED business, opportunity to diversify into new product categories like small home appliances backed by its brand power and vast distribution network, margin expansion, high RoCE and cash flows.

On account of these reasons, we believe EILL should be valued at PE of 20x on FY18E EPS. The stock trades at 29x FY16E, 18x FY17E and 13.5x FY18E adj. earnings (adjusted for amortization of brand).

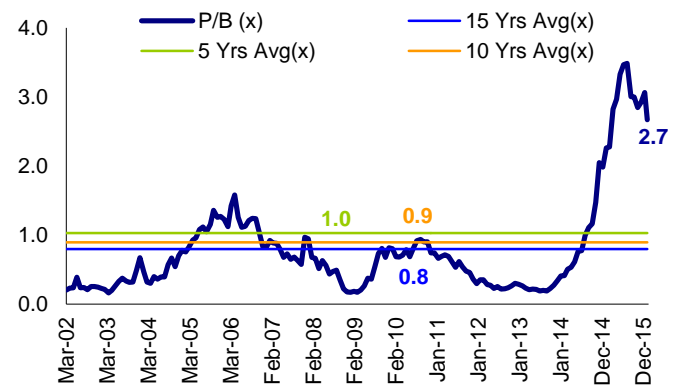
We maintain Buy valuing the stock at 20x FY18E EPS with a PT of INR390.

Exhibit 4: Price to earnings (one year forward)



Source: MOSL, Company

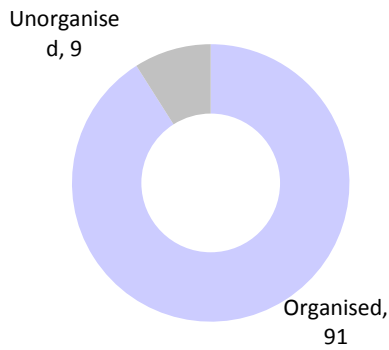
Exhibit 5: Price to book (one year forward)



Source: MOSL, Company

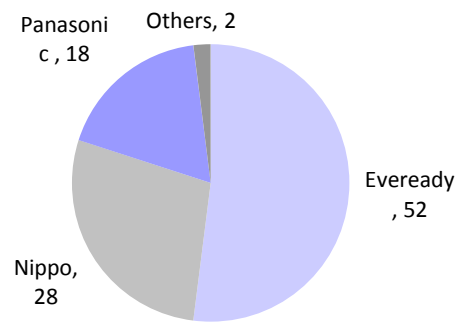
Story in charts

Exhibit 6: Chinese players dominate unorg. Battery market



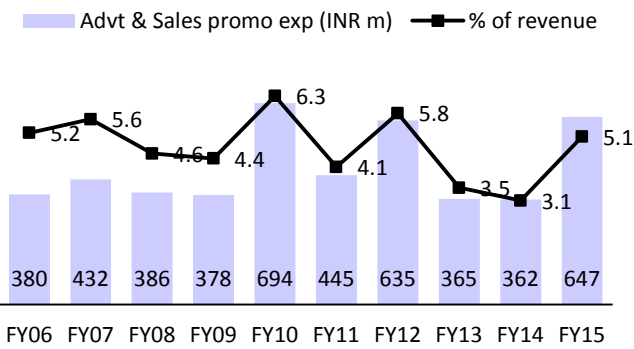
Source: MOSL, Company

Exhibit 7: EIL has consistently led the organized market



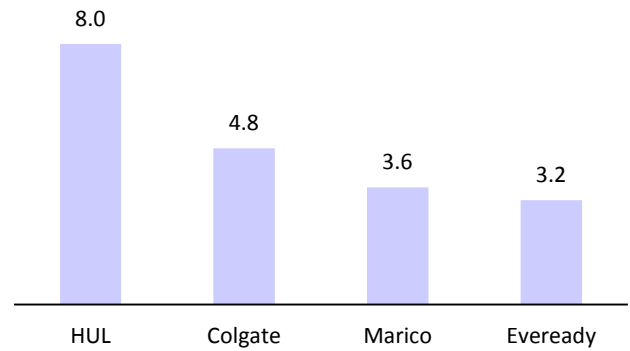
Source: MOSL, Company

Exhibit 8: Consistent spends lead to top of the mind recall



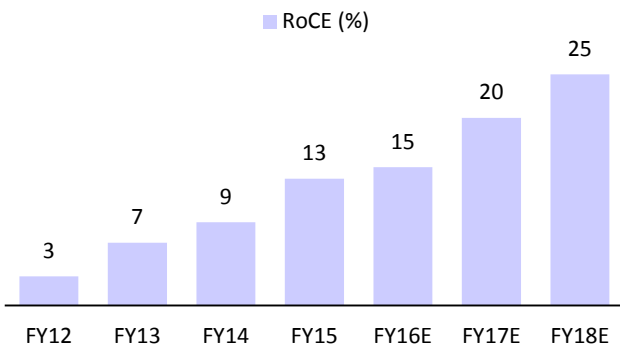
Source: MOSL, Company

Exhibit 9: Distribution strength matches top FMCG players



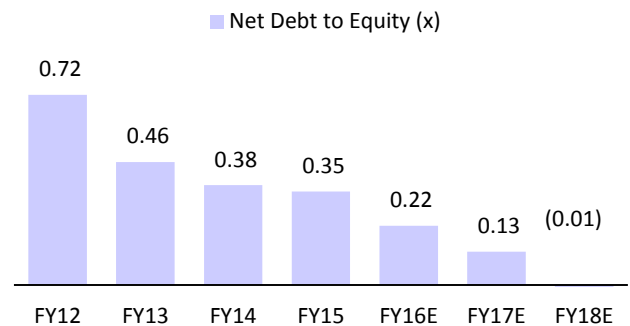
Source: MOSL, Company

Exhibit 10: RoCE to double over FY15-18



Source: MOSL, Company

Exhibit 11: Expected to be debt-free by FY18



Source: MOSL, Company

Exhibit 12: Key assumptions (INR m)

Y/E March	Notes	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Income from Operations									
Volumes Sold (Unit)									
Battery	MN	1,256	1,274	1,292	1,348	1,351	1297	1323	1350
Flashlight	MN	25	26	27	25	24	21	22	23
Tea	Ton	4,615	4,577	4,357	4,386	4,375	4156	4239	4324
CFL	MN	7	7	6	8	10	11	12	13
GLS	MN	28	41	38	44	49	51	53	54
Led Lamp	MN	-	-	-	0	1	5	19	33
Volumes Sold Growth %									
Battery	MN		1%	1%	4%	0%	-4%	2%	2%
Flashlight	MN		4%	2%	-6%	-4%	-13%	4%	4%
Tea	Ton		-1%	-5%	1%	0%	-5%	2%	2%
CFL	MN		-5%	-11%	37%	18%	12%	10%	10%
GLS	MN		48%	-9%	18%	10%	5%	3%	2%
Led Lamp	MN		-	-	-	272%	330%	275%	75%
Average Realization (INR/Unit)									
Battery	unit	4.6	4.6	4.7	5.1	5.7	6.0	6.3	6.6
Flashlight	unit	81.1	82.1	93.9	97.2	100.0	100.0	103.0	106.1
Tea	unit	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
CFL	unit	100.7	103.8	114.8	111.7	113.7	113.7	113.7	113.7
GLS	unit	6.8	7.7	8.4	8.7	8.9	8.9	8.9	8.9
Led Lamp	unit				43.7	156.3	179.7	134.8	121.3
Average Realization Growth %									
Battery	MN		0%	2%	9%	12%	5%	5%	5%
Flashlight	MN		1%	14%	4%	3%	0%	3%	3%
Tea	Ton		0%	8%	2%	-1%	0%	3%	3%
CFL	MN		3%	11%	-3%	2%	0%	0%	0%
GLS	MN		13%	10%	3%	2%	0%	0%	0%
Led Lamp	MN					258%	15%	-25%	-10%
Sales Value (INR Million)									
Battery		5,749	5,854	6,038	6,870	7,700	7,762	8,313	8,903
Flashlight		2,048	2,151	2,516	2,441	2,417	2,103	2,253	2,413
Tea		733	724	745	768	762	724	761	799
Electrical & Lightings		974	1,033	1,044	1,444	1,898	2,833	4,689	6,575
CFL		724	707	699	934	1,121	1,256	1,381	1,519
GLS		190	317	317	385	431	452	466	475
Led Lamp		-	-	-	14	182	898	2,526	3,979
Total Sales Value		9,504	9,762	10,343	11,523	12,778	13,421	16,015	18,691
Sales Value Growth %									
Battery			2%	3%	14%	12%	1%	7%	7%
Flashlight			5%	17%	-3%	-1%	-13%	7%	7%
Tea			-1%	3%	3%	-1%	-5%	5%	5%
Electrical & Lightings			6%	1%	38%	31%	49%	66%	40%
CFL			-2%	-1%	34%	20%	12%	10%	10%
GLS			67%	0%	21%	12%	5%	3%	2%
Led Lamp			-	-	-	1229%	395%	100%	50%
Total Growth %			3%	6%	11%	11%	5%	19%	17%

Financials and Valuation

Consolidated - Income Statement						(INR Million)		
Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Total Income from Operations	10,739	11,001	10,353	11,534	12,789	13,421	16,015	18,691
Change (%)	-2.7	2.4	-5.9	11.4	10.9	4.9	19.3	16.7
EBITDA	699	424	654	907	1,240	1,342	1,762	2,168
Margin (%)	6.5	3.9	6.3	7.9	9.7	10.0	11.0	11.6
Depreciation	333	292	170	253	155	157	160	193
EBIT	366	132	484	654	1,085	1,185	1,602	1,975
Int. and Finance Charges	353	383	405	411	340	297	179	72
Other Income	104	150	94	87	39	47	56	68
PBT bef. EO Exp.	117	-101	173	330	784	936	1,479	1,971
EO Items	-183	-773	-181	-165	-165	-165	-165	-165
PBT after EO Exp.	-66	-874	-8	165	619	771	1,314	1,806
Current Tax	98	0	-49	6	128	216	368	506
Deferred Tax	-25	6	-10	23	1	0	0	0
Tax Rate (%)	-111.4	-0.8	753.5	17.5	21.0	28.0	28.0	28.0
Reported PAT	-140	-881	51	136	489	555	946	1,300
Adjusted PAT	248	-102	139	272	620	674	1,065	1,419
Change (%)	-44.4	-141.1	-235.9	96.4	127.7	8.7	58.1	33.2
Margin (%)	2.3	-0.9	1.3	2.4	4.8	5.0	6.7	7.6

Consolidated - Balance Sheet						(INR Million)		
Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	363	363	363	363	363	363	363	363
Total Reserves	5,740	4,711	5,478	5,571	5,883	6,246	6,937	7,897
Net Worth	6,103	5,075	5,841	5,935	6,246	6,610	7,301	8,261
Deferred Liabilities	139	147	134	149	148	148	148	148
Total Loans	3,429	3,720	2,761	2,251	2,278	1,678	1,078	28
Capital Employed	9,655	8,917	8,736	8,334	8,672	8,435	8,526	8,436
Gross Block	13,548	13,517	13,296	13,173	13,255	13,505	13,755	14,005
Less: Accum. Deprn.	5,485	5,562	5,659	5,870	6,292	6,613	6,938	7,296
Net Fixed Assets	8,063	7,955	7,637	7,303	6,964	6,892	6,817	6,709
Capital WIP	137	111	89	144	278	198	124	14
Curr. Assets, Loans&Adv.	3,769	3,635	3,317	3,629	3,715	4,224	5,049	5,806
Inventory	2,111	2,321	2,210	2,569	2,596	2,695	3,205	3,729
Account Receivables	682	619	442	490	489	662	878	1,024
Cash and Bank Balance	150	72	46	11	71	196	161	86
Loans and Advances	828	623	620	559	559	671	806	967
Curr. Liability & Prov.	3,020	2,846	2,357	2,785	2,344	2,938	3,524	4,152
Account Payables	2,725	2,615	2,187	2,566	2,169	2,536	3,016	3,509
Provisions	295	231	170	219	175	401	507	643
Net Current Assets	749	789	961	845	1,371	1,286	1,526	1,654
Deferred Tax assets	61	63	50	43	59	59	59	59
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	9,655	8,917	8,736	8,334	8,671	8,435	8,526	8,436

Financials and Valuation

Ratios

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Basic (INR)								
EPS	3.4	-1.4	1.9	3.7	8.5	9.3	14.7	19.5
Cash EPS	8.0	2.6	4.2	7.2	10.7	11.4	16.9	22.2
BV/Share	84.0	69.8	80.4	81.7	85.9	90.9	100.4	113.7
DPS	0.5	0.0	0.0	0.5	0.0	2.3	3.0	4.0
Payout (%)	-30.2	0.0	0.0	31.0	0.0	34.5	27.0	26.2
Valuation (x)								
P/E			138.4	70.5	31.0	28.5	18.0	13.5
Cash P/E				36.5	24.8	23.1	15.7	11.9
P/BV			3.3	3.2	3.1	2.9	2.6	2.3
EV/Sales				2.0	1.8	1.7	1.4	1.1
EV/EBITDA			36.5	25.8	18.8	16.9	12.5	9.7
Dividend Yield (%)	0.2	0.0	0.0	0.2	0.0	0.9	1.1	1.5
FCF per share	6.6	1.9	7.5	11.9	5.4	16.7	13.8	19.1
Return Ratios (%)								
RoE	3.9	-1.8	2.5	4.6	10.2	10.5	15.3	18.2
RoCE	4.8	3.1	6.6	8.8	13.5	14.7	19.9	24.5
Working Capital Ratios								
Asset Turnover (x)	1.1	1.2	1.2	1.4	1.5	1.6	1.9	2.2
Inventory (Days)	111	118	117	122	117	117	117	117
Debtor (Days)	22	20	15	15	13	17	19	19
Creditor (Days)	143	133	116	122	98	110	110	110
Working Cap. Turnover (Days)	20	24	32	26	37	30	31	31
Leverage Ratio (x)								
Current Ratio	1.2	1.3	1.4	1.3	1.6	1.4	1.4	1.4
Interest Cover Ratio	1	0	1	2	3	4	9	27
Debt/Equity	0.6	0.7	0.5	0.4	0.4	0.3	0.1	0.0

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
OP/(Loss) before Tax	-66	-874	-8	165	619	936	1,479	1,971
Depreciation	333	292	351	418	320	157	160	193
Interest & Finance Charges	284	353	336	408	314	297	179	72
Direct Taxes Paid	-284	49	76	3	-103	-216	-368	-506
(Inc)/Dec in WC	210	-119	-134	7	-440	209	-274	-203
CF from Operations	475	-300	621	1,000	710	1,383	1,176	1,527
Others	172	693	23	-69	7	0	0	0
CF from Operating incl EO	647	393	644	931	717	1,383	1,176	1,527
(inc)/dec in FA	-170	-257	-101	-66	-323	-170	-176	-140
Free Cash Flow	477	135	543	865	394	1,213	1,000	1,387
Others	-17	58	-55	3	33	0	0	0
CF from Investments	-187	-199	-156	-63	-290	-170	-176	-140
Inc/(Dec) in Debt	-186	138	-97	-499	36	-600	-600	-1,050
Interest Paid	-336	-367	-417	-398	-362	-297	-179	-72
Dividend Paid	-42	-42	0	-5	-42	-191	-255	-340
CF from Fin. Activity	-564	-271	-514	-902	-368	-1,088	-1,034	-1,462
Inc/Dec of Cash	-104	-78	-26	-35	60	125	-34	-75
Opening Balance	254	150	72	46	11	71	196	161
Closing Balance	150	72	46	11	71	196	161	86

Corporate profile

Company description

EIIL has a well-diversified product portfolio spanning four products, with strong leadership in two key products segments—batteries (~52% market share) and flashlights (~70% market share). It commands premium pricing over peers driven by regular brand building exercise and vast distribution network (3.2m outlets) unmatched by its peers. Battery segment contributes 60% to revenues, flashlights contribute 19% to revenues, lighting and electrical contribute 15% to revenues while packet tea contributes balance.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-15	Jun-15	Sep-14
Promoter	44.0	43.9	43.4
DII	7.5	7.8	10.5
FII	16.9	16.3	3.4
Others	31.6	31.9	42.8

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Goldman Sachs India Fund Limited	5.0
DSP Blackrock Micro Cap Fund	3.2
Citigroup Global Market Mauritius Pvt Ltd	2.4
Ashish Kacholia	2.1
Nomura India Investment Fund Mother Fund	1.7

Source: Capitaline

Exhibit 4: Top management

Name	Designation
B M Khaitan	Chairman
Aditya Khaitan	Vice Chairman
Amritanshu Khaitan	Managing Director
S Saha	Whole Time Director & CFO
T Punwani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ramni Nirula	S R Dasgupta
Sanjiv Goenka	Sudipto Sarkar

*Independent

Exhibit 6: Auditors

Name	Type
Delloite Haskins & Sells	Statutory
Mani & Co	Cost Auditor
MKB & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	12.4	8.6	44.9
FY17	17.1	13.0	31.8
FY18	21.6	18.8	15.3

Source: Bloomberg

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