



Recharged to glow

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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.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

BSE Sensex
25,519S&P CNX
7,762

CMP: INR291

TP: INR390 (+34%)

Buy



Stock Info

Bloomberg	EVRIN IN
Equity Shares (m)	72.7
M.Cap. (INR b)/USD b)	21.1/0.3
52-Week Range (INR)	375 / 170
1, 6, 12 Rel. Per (%)	8/2/71
12M Avg Val (INR M)	120
Free float (%)	56.0

Financial Snapshot (INR b)

Y/E Mar	2016E	2017E	2018E
Sales	14.2	16.3	19.0
EBITDA	1.4	1.8	2.1
NP	0.7	1.0	1.4
EPS (INR)	10.1	14.8	19.4
EPS Gr. (%)	19.0	46.2	30.4
BV/Sh. (INR)	91.8	101.5	114.6
RoE (%)	11.4	15.4	17.9
RoCE (%)	15.7	20.0	23.8
P/E (x)	28.7	19.6	15.0
P/BV (x)	3.2	2.9	2.5

* PAT adjusted for amortization cost of brand value. RoCE adjusted for outstanding value of brand.

Shareholding pattern (%)

As on	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

FII Includes depository receipts

Initiating Coverage
Eveready

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[Please click here for Video Link](#)

Recharged to glow

Strong brand and distribution network to fuel LED growth

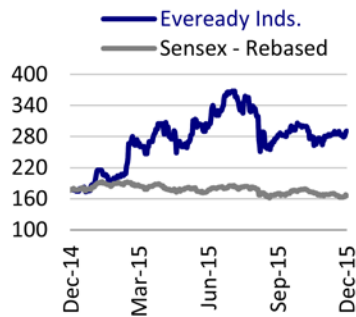
- Eveready Industries India Ltd (EIL) commands premium pricing over peers, has been a consistent market leader in dry batteries (52% share) and flashlights (70% share) driven by regular brand building exercise and vast distribution network (3.2m outlets) unmatched by its peers.
- Digitization of television is expected to generate high demand for batteries going ahead. EIL will boost its distribution network by doubling electrical outlets from 30,000 to 60,000 over next two years.
- Backed by its core strengths, diversification into lighting business allows it to make the most of LED lighting opportunity in India. Size of opportunity in LED is huge at INR216b by 2020 (36% CAGR over CY14-20). EIL has dedicated 70% of its advertisement spends towards LED promotion fueled by its battery business.
- We expect EBITDA/*adj. PAT CAGR of 20%/31% over FY15-18—led by (a) operating leverage benefits from high growth in LED business coupled with improving margins in battery business and (b) improving financial leverage (interest expense as percent of EBITDA to decline from 27% in FY15 to 5% in FY18E).
- We like the company because of its leadership in battery segment and robust growth in LED business, coupled with margins expansion and high RoCE, which we believe justifies a PE valuation of 20x on FY18E EPS. The stock trades at 29x FY16E, 20x FY17E and 15x FY18E *adj. earnings (adjusted for amortization of brand). We initiate coverage with a Buy rating and a target price of INR390 (upside 34%).

Brand power + vast distribution network = market leadership

Despite charging 5-20% premium in battery business (at dealer-landed cost), EIL's market share continues to be the highest (52% share) in the organized dry battery industry due to strong brand recall. Consistent investment of ~5% of sales in advertisement campaigns during the last 10 years has created a strong brand recall. Further, its vast network of 3.2m outlets (1m outlets serviced directly) across the country cover almost 45% of the FMCG distribution universe and 70% of the battery outlet universe. Post completion of transition from D-Size to AA-Size, the company has led the price increase in the battery business, with 23% realization improvement over FY13-15 and a recent hike of 5% in September 2015—improving EBITDA margins from 3.9% in FY12 to 9.7% in FY15.

Digitization to drive volume growth in battery business

India's per capita consumption of batteries is very low—2p.a v/s China's 10p.a. Remote is the largest category, which accounts for ~40% of battery consumption in India, and is growing at ~20% p.a on the back of digitization. As per the digitization plan, sales of set top box are expected to be 124m in FY17 and 151m in FY18—higher than previous years; this shall lead to strong demand for batteries.

Stock Performance (1-year)

Low-priced Chinese batteries have been taking away larger pie of this opportunity in the primary sales, but demand for EIL continues to remain strong in replacement market—where it has maintained its market share.

Backed by core competence and strategy, EIL well placed to capitalize on LED opportunity

The LED-based lighting industry is expected to grow at 36% CAGR to INR216b over CY2014-20, as per ELCOMA. The growth is on the back of shift from CFL and incandescent bulb towards LED due to energy efficiency and cost savings. We believe, EIL is well placed to capitalize on the LED opportunity on account of increasing its presence in electrical outlets from 30,000 to 60,000, tie-ups with online players, dedicated 70% of total advertisement spends on LED, set up own manufacturing facility which shall help to save COGS of ~5% and participate in government tenders. The industry is characterized by high competitive intensity, with new entrants like Syska (~21% share), established players like Phillips (little lower share than Syska), while Bajaj, Havells and Eveready share would be ~7% each and many unorganized players.

Innovation driving outperformance in flashlight

Flashlight is the second biggest contributor to revenue (19% in FY15). EIL has leveraged the 'Eveready' brand to build the flashlight business and enjoys 70% market share in the organized flashlight market. The company has a wide product portfolio in the segment, catering to almost all price points and market segments. Another key advantage that Eveready enjoys is that it has been an early innovator and first mover in several key products. The company was an early mover in the LED torch segment, and introduced Digi LED technology in torches. Recently, EIL announced the launch of economy range of flashlights—expected to be INR2.5b-3b market.

Valuation and view

- Over FY15-18, we expect EIL's revenue to grow at 14% CAGR (to INR19b), EBITDA margin to expand 160bp (to 11.3%) and adj. PAT to grow at 31% 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 43% over FY15-18).
- We like the company because of its leadership in battery segment and robust growth in LED business, coupled with margins expansion and high RoCE, which we believe justifies a target PE valuation of 20x on FY18E EPS. The stock trades at 29x FY16E, 20x FY17E and 15x FY18E adj. earnings (adjusted for amortization of brand). We initiate coverage with a Buy rating and a target price of INR390 (upside 34%).

Battery: Sustainable leadership, competitive advantage

Digitization of TV to drive volume growth

- As per EIL, the total Indian dry battery market is estimated at ~2.8b pcs and has grown at 4% CAGR over FY11-15. In FY15, organized players constituted 91% and unorganized players (mainly low-priced imports from China) constituted 9% of the total market. The organized market consists of three main players led by EIL (market share of 52% in volume terms, highest in the segment) under the brand 'Eveready'.
- EIL has strong presence in the battery business, with large product portfolio across categories (carbon zinc, alkaline and rechargeable) and sizes (D,AA and AAA). EIL is set to capitalize on changing consumption pattern of end-use applications.
- EIL has led the price increases in the battery business with a 23% realization improvement over FY13-15 and a price hike of 5% in September 2015; this has improved overall EBITDA margins from 3.9% in FY12 to 9.7% in FY15.
- Volumes to grow on the back of increasing penetration of set top boxes. BIS regulations/anti-dumping duty can be a positive surprise.

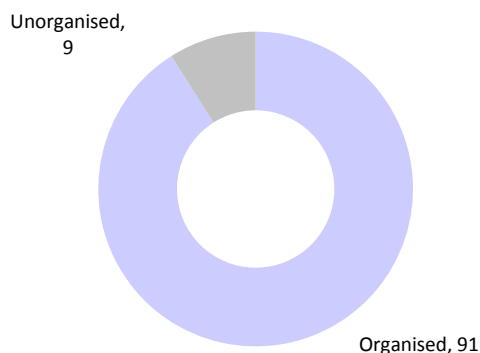
Indian dry battery market dominated by three players, led by EIL

The total Indian dry battery is estimated at ~2.8b pcs and has grown at 4% CAGR over FY11-15. In FY15, organised players constituted 91% and unorganized players (mainly low priced imports from China) constituted 9% of the total market.

The organized market consists of three main players led by EIL (market share of 52% in volume terms, highest in the segment) under the brand 'Eveready' and 'Powercell', followed by Indo National under the brand 'Nippo' and Panasonic Energy under the brand 'Panasonic'.

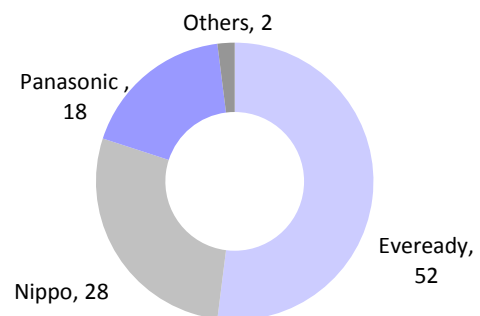
The unorganized segment is largely dominated by low priced Chinese batteries, which constitute 9% of the total market. Chinese batteries are available at 1/5th the price of Indian batteries (INR2/pc v/s INR10-14/pc). The share of unorganized players was negligible during the period 2002 to end of 2013 as anti-dumping duty was applicable on Chinese import. Post removal of the anti-dumping duty the share of unorganized players has gradually increased to 9%.

Exhibit 1: Chinese players dominate unorg. battery market (%)



Source: Company, MOSL

Exhibit 2: EIL has consistently led the org. market (%)



Source: Company, MOSL

Carbon zinc is the dominating category in India's dry battery market

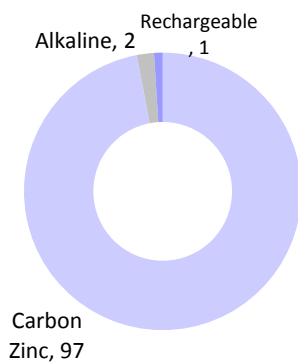
Carbon zinc is the dominating category in India's dry battery business (97% share), followed by alkaline (2%) and rechargeable (1%). The key difference between Carbon Zinc and Alkaline battery is the type of electrolyte used due to which the

capacity of alkaline battery is higher compared to carbon zinc and the shelf life is also higher.

In a price-sensitive market like India, carbon zinc batteries are generally preferred for low-drain items like remote controls, clocks, flashlights and low-end toys whereas alkaline batteries are preferred for high-drain items like gaming consoles, digital cameras, MP3, radio, wireless mouse and high-end toys. However, in practice in India, carbon zinc batteries are used even in high-drain items owing to the prohibitive cost of alkaline batteries—an AA alkaline battery costs INR35/pc compared with INR10-14/pc for an AA carbon zinc battery.

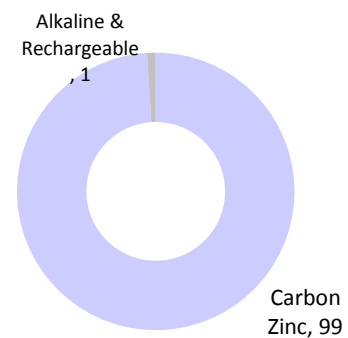
Eveready is present in all the three battery segments, reflecting the same pattern of mix as the industry.

Exhibit 3: Zinc batteries dominate due to affordability (%)



Source: Company, MOSL

Exhibit 4: Eveready's mix in-line with industry (%)



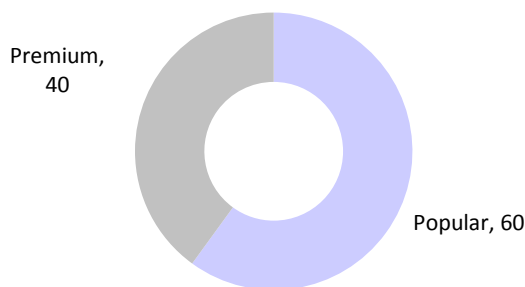
Source: Company, MOSL

EIL present in premium as well as popular category batteries

Additionally within the carbon zinc batteries, EIL offers popular batteries which are priced at INR8 per pc against premium batteries priced at INR12.5 per pc. The key difference between popular and premium batteries is that of life/energy and positioning. 60% of the volume is contributed by popular battery and 40% is contributed by premium batteries.

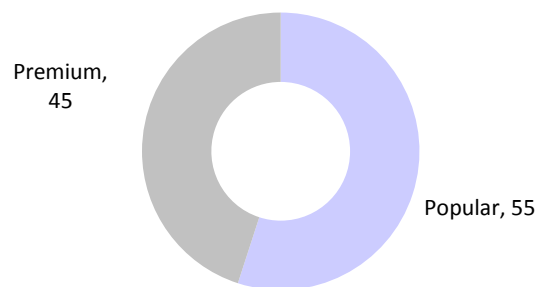
The Red coloured batteries from EIL are premium category while Blue colored batteries are popular category batteries. It also offers Yellow colored batteries which is placed in between Red and Blue and is used for scaling up to Red (premium batteries)

Exhibit 5: Volume mix of Popular vs Premium batteries (%)



Source: Company, MOSL

Exhibit 6: Value mix of Popular vs Premium batteries (%)



Source: Company, MOSL

Exhibit 7: Colour based positioning



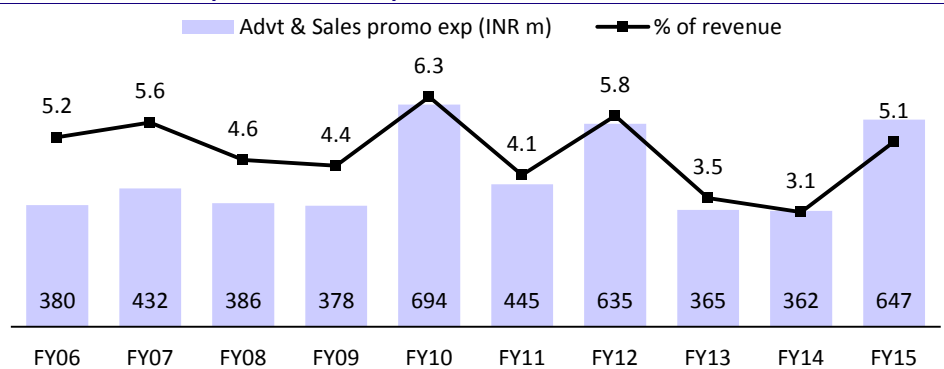
Within each segment, the batteries are available mainly in three sizes— D, AA and AAA. Over a period of time, the Indian market has seen a shift from D to AA and AAA due to the changing pattern in end-use.

High market share on the back of promotional spends and strong distribution network

The ‘Give Me Red’ campaign in the early 90s caught the imagination of people and irreversibly powered the brand into the consciousness of Indian audience, who came to associate the company’s batteries with red color. The campaign received a new fillip after Mr. Akshay Kumar (leading Bollywood actor) was signed as a brand ambassador to promote the company’s LED business.

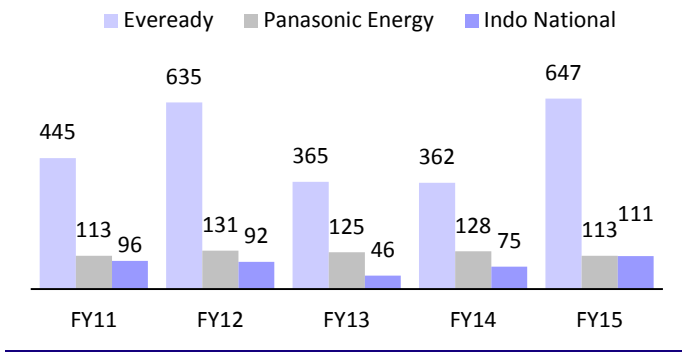
EIIL has a regularly invested in advertising and sales promotion to maintain its brand strength. The strategy has borne fruit, as evidenced by top of the mind recall incase of batteries business. Also, EIIL enjoys the highest market share in batteries (52%) and flashlights (70%) businesses. Going ahead, the company intends to maintain the run rate of spends at 5% of sales on brand building; however, high-growth LED business will occupy a larger share in the pie.

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



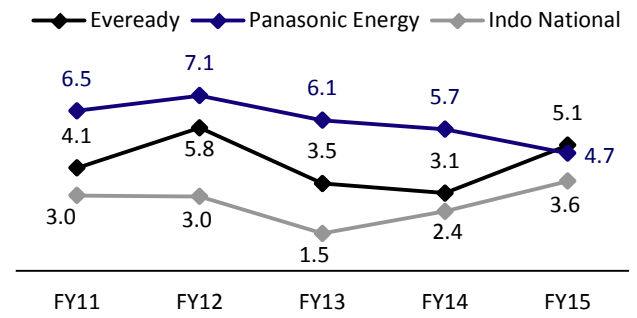
Source: Company, MOSL

Exhibit 9: Highest absolute spends (INR m)



Source: Company, MOSL

Exhibit 10: Average 5% spends (as % of sales) maintained



Source: Company, MOSL

Apart from TV commercials, Eveready employs unique ways of conducting advertising campaigns targeting urban and rural regions separately

Exhibit 11: Advertising campaigns



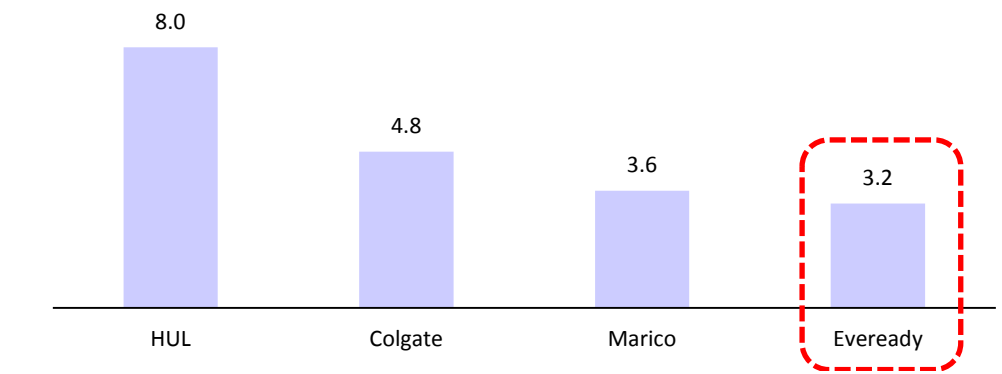
Source: Company, MOSL

Extensive distribution network with rural reach

EIIL has a presence in 3.2 million outlets (1 million directly) through a network of 4,000 dealers across India. Out of the total FMCG universe of 8million outlets, Eveready batteries cover almost 45% of the universe and 70% of battery outlets. The company in its FMCG network covers grocery, general provision, chemist, music, electrical, hardware, stationary and gift stores.

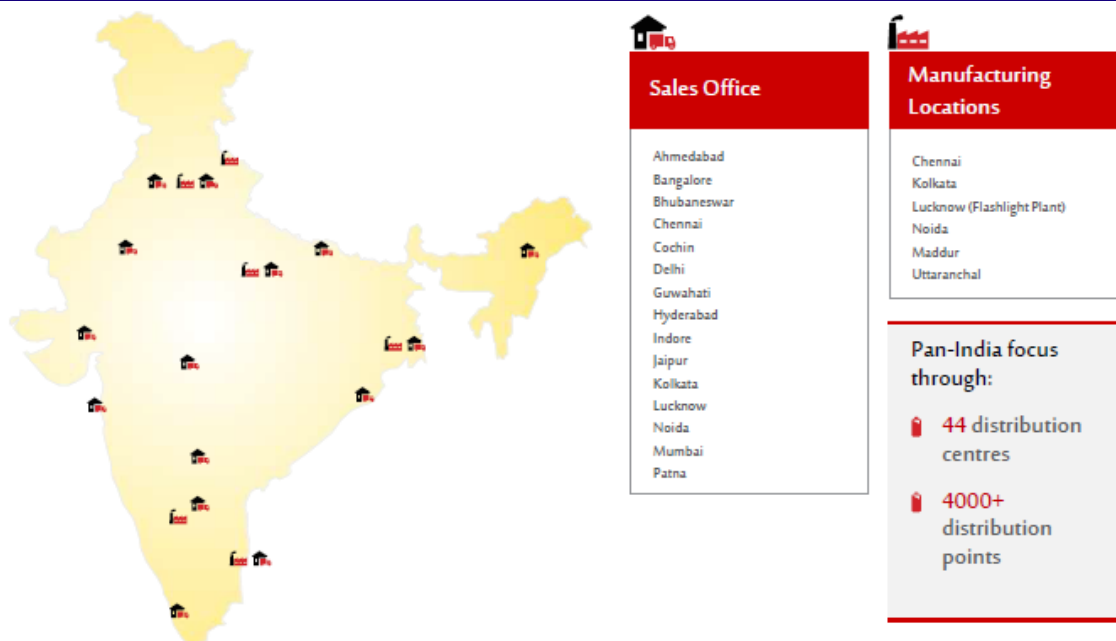
Eveready reaches out to a million outlets directly, upto 5-10k population town. It also has 500+ upcountry vans and 800 local vans running which ensures deep rural reach.

Exhibit 12: Distribution strength of Eveready matches Top FMCG companies in India (million outlets)



Source: Company, MOSL

Exhibit 13: Pan India network



Source: Company, MOSL

Exhibited strong pricing power from FY13-15

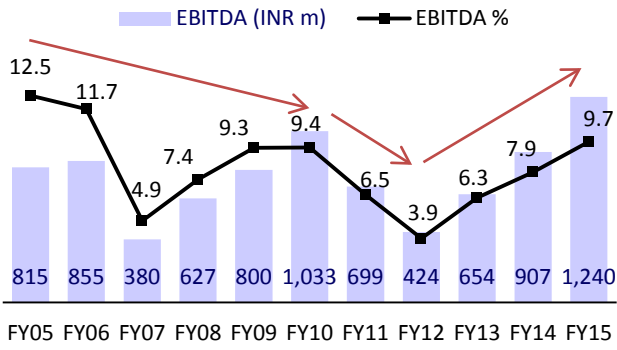
FY05-10 (Sharp volatility in Zinc prices leading to oscillations in margins)

During this period, D-Size battery occupied the largest component in the revenue of EIL and because of its larger energy capacity, the zinc content was higher at 30% of total cost. This period was correlated with high volatility in zinc prices along with transition from D-Size to AA-Size battery which led to fluctuation in the EBITDA margin of the company.

FY11-12 (EBITDA margins declined from 9.4% to 3.9%)

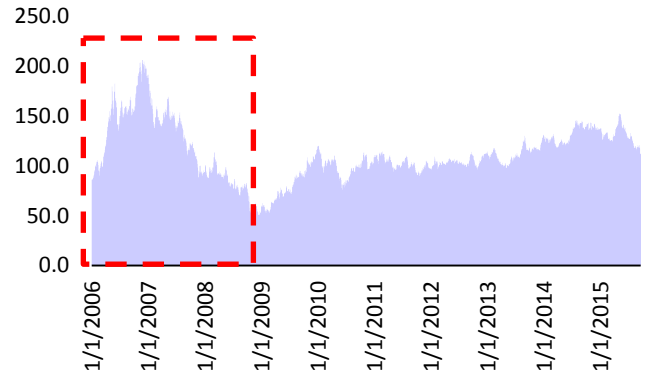
This period saw rapid transition from D-Size battery to AA-Size battery which was coupled with rise in Zinc prices. EIL took price increases in D-Size battery but it was seeing rapid decline in volumes so it did not contribute to the margins. However, on the other side where AA-Size battery was seeing rapid growth during this time all players in industry stayed away from taking any price hikes as that would risk their market share. This led to fall in EBITDA margins from 9.4% to 3.9%.

Exhibit 14: Recovery in EBITDA margins of company






Source: Company, MOSL

Exhibit 15: Zinc prices (INR per kg)



Source: Industry, MOSL

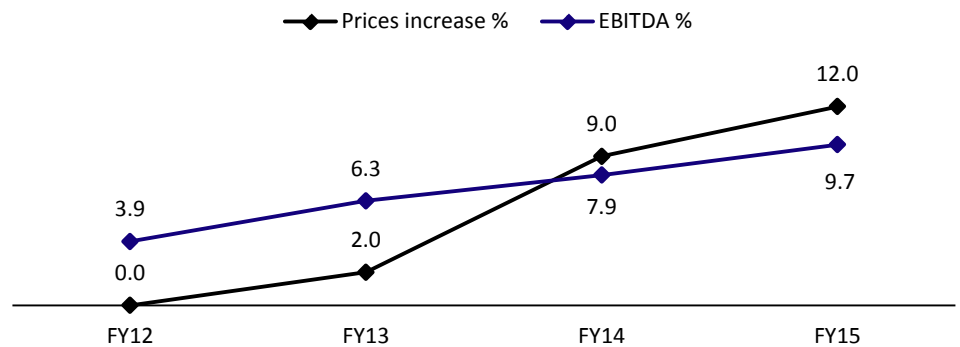
Exhibit 16: Transition from D size to AA size, going ahead high growth in applications using AAA size

Timeline	Historically	Today	Future
Predominant Size types	D-Size	AA-Size	AAA-Size
Moving toward slimmer batteries			
Changing end-use	Brass Flashlights and Transistors	Moved to LED flashlights and increase in use of TV remotes	Set top box and TV remotes, air conditioner remotes
Market Share based on size	D-Size - 80% AA & AAA - 20%	D-Size battery - 12%, AA-size battery - 75% AAA - 13%	Market share of AAA to increase

FY13-15 (Pricing led margin improvement)

Post completion of transition from D-Size to AA-Size, the company has led the price increase in the battery business, with 23% realization improvement over FY13-15 and a recent hike of 5% in September 2015—improving EBITDA margins from 3.9% in FY12 to 9.7% in FY15.

Exhibit 17: EBITDA margins improve on the back of price increases



Source: Company, MOSL

Exhibit 18: Zinc price fall has been restricted due to INR depreciation

Period	Zinc Prices		YoY change (%)	
	USD	INR	USD	INR
2QFY16	1,874	12,1409	-18.9	-13.3
1QFY16	2,189	13,8764	0.3	6.4
4QFY15	2,082	12,9547	2.6	3.4
3QFY15	2,234	13,8413	18.0	17.9
2QFY15	2,312	14,0092	24.1	21.1
1QFY15	2,183	13,0439	18.6	26.8

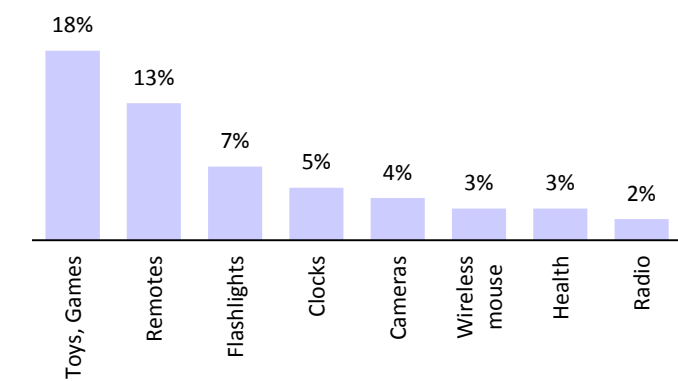
Source: Industry, MOSL

Additionally, the key development post transition from D-Size to AA-Size is that contribution of Zinc (as a % of total cost) in AA-Size is 15% compared to 30% in D-Size battery. Therefore, going ahead any volatility in Zinc prices can be easily passed on by taking price hikes and the company has also put in place a hedging mechanism to counter the volatility in Zinc prices.

Volume growth to rebound

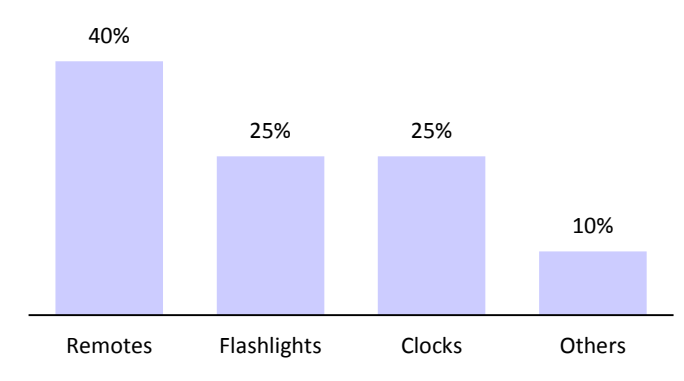
Indian dry cell batteries market is estimated at 2.8b pieces in volume and INR16b in value. The TV remote segment is the biggest consumer (accounts for 40% of the total consumption of batteries; growing at 20% p.a on the back of digitization), followed by flashlights (25% share). In the case of LED flashlights, the trend is moving from 0.1W to 0.5W and 1W LED lights as a result, replacement cycle has reduced from 100hrs to 30-40hrs; this will lead to increased demand for batteries. The share is followed by wall clock (25% share), which is growing at slow pace. The last category includes toys and games, which is a very nascent category (3-4% of the share). **Compared with China’s per capita consumption of 10 batteries per year, India’s per capita consumption is a mere 2 batteries. Thus, there is considerable scope for growth in the battery market.**

Exhibit 19: Battery consumption pattern in the US



Source: Energizer, MOSL

Exhibit 20: Battery consumption pattern in India



Source: Company, MOSL

The overall market in last 2 years has grown at 7-8% in volume terms mainly driven by high demand in remotes (led by digitization) whereas from FY11-13 the market grew at a moderate pace of ~1.5% annually. However, in the last two years, the majority share has been captured by low priced Chinese batteries.

As per our interactions with various dealers (refer our dealer interaction section) low priced Chinese batteries are procured by remote sellers because from their

perspective installing a high priced branded battery does not add value. Therefore, it is not expected to impact replacement market where EILL is present.

Exhibit 21: Digitization -> growth in Set top box -> remote controls -> AAA batteries



Exhibit 22: Digitization driving Set top box sales

Particulars	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18ECAGR	FY15-18
Total Households (m)	238	241	243	245	247	249	251	0.8%
TV Households (m)	148	153	161	169	177	185	193	4.5%
C&S HHs (m)	119	130	139	149	158	166	174	5.3%
Set top box (m)	45	62	71	79	97	124	151	24.0%

Source: Company, MOSL

Checking China: BIS regulation/anti-dumping duty can drive volume growth

Chinese batteries constitute 8-9% of the total market in India (in volume terms) and sell for 1/5th the price of Indian batteries (INR2 v/s average INR10-14 for an Indian battery). The Indian battery industry has applied to the government seeking anti-dumping duty on Chinese dry cell batteries or compulsory application of BIS regulations. An implementation of either of the two could be a dampener to Chinese batteries, which can result in significant volume growth for existing domestic players for atleast one or two years. The government has already issued notification to investigate into AA battery dumping from China and Vietnam while incase of AAA battery the industry has applied for anti-dumping and government is yet to issue notification for its investigation.

Our interaction with Mr Partha Biswas, VP – Sales of EILL highlights that EILL has a strong distribution network and commands premium over peers in battery business

Why do you think market share of Eveready is sustainable?

- We spend consistently in Brand building activity year after year in order to maintain brand salience and Top of Mind recall. These activities include rural engagement programs like Haat / Mela activation across the country.
- Eveready distribution is the most extensive one among its Battery peers. We reach out to a million outlets directly, up to a 5-10K population town. We have 500+ upcountry vans and 800 local vans running and exclusively distributing Eveready products.
- As a result, we are available in 3.2 million outlets through direct and indirect distribution.

- These make Eveready market share in batteries and flashlights quite sustainable.

Do we offer higher distribution margins compared to peers?

- Eveready offers similar per unit margins as peers. Eveready sells at a total lower margin as we command 20 percent premium in the premium segment and 5 percent in the popular segment. But even with higher prices our ROI is very high for all trade partners as the brand pull is very strong thereby ensuring faster rotation. We also provide extensive product range which helps our channel partners to grow their business and improve ROI.

How much has low priced imports from China impacted Eveready and going ahead what would be our strategy incase anti-dumping duty doesn't come through?

- Low priced imports from China are products which are also low in quality. There is definitely a segment of customers who go for these.
- The industry is also going for BIS marking to reduce the influx of cheap batteries. This will reduce them even if anti-dumping does not come.

Can you highlight, how has Eveready grown in terms of distribution network over the last 8-10 years and regionally how it is spread?

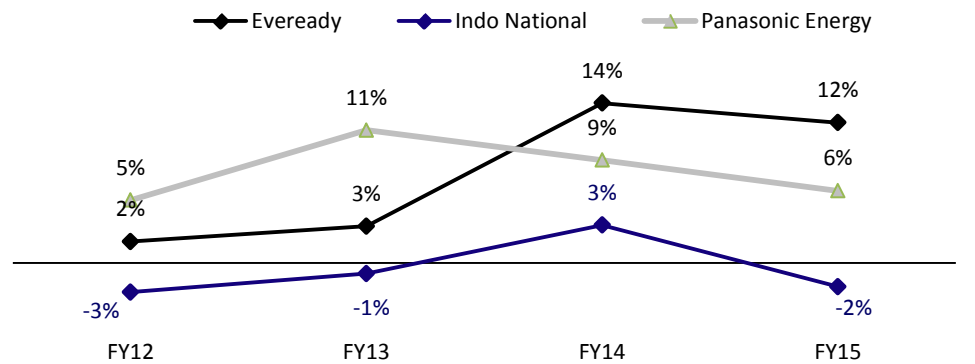
- Eveready General Trade network covers Kirana / general merchant / pan / chemist shops / some C and D class electrical outlets (in tier III towns). These comprise of a million outlets.
- On top of this we have developed a Team for covering all National Modern trade chains (brick and mortar) as well as e-retail like Flipkart / Snapdeal / PayTM / Amazon / Shopclues. This team works closely with these chains to work out year-long promotions and activations. We are leaders in all relevant categories.
- We have also created a network for covering all major electrical outlets in the Metro / Tier I / II towns. This is a dedicated team which specializes in electrical products and forms the backbone for our Lighting Business. It has helped us to emerge as one of the leading companies in consumer lighting business.

If zinc prices fall further and competition takes price decrease, how will EIL react to it and has such a scenario happened in the past?

- The battery business being flattish in nature, most battery players understand that any drop in prices would lead to a negative spiral in the whole industry which will adversely impact the viability of all. Today Eveready is more diversified in its product portfolio as compared to its peers. Hence any such event would have relatively much lower impact on us. Chances of any such scenario are quite bleak; it has not happened in the past.

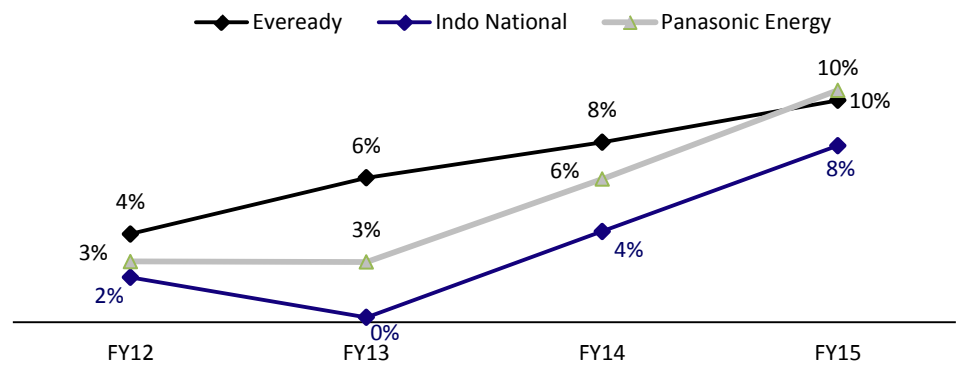
Performance has been superior compared to peers

Exhibit 23: Strong revenue growth as against competitors



Source: Company, MOSL

Exhibit 24: Recording high EBITDA margins compared to competition

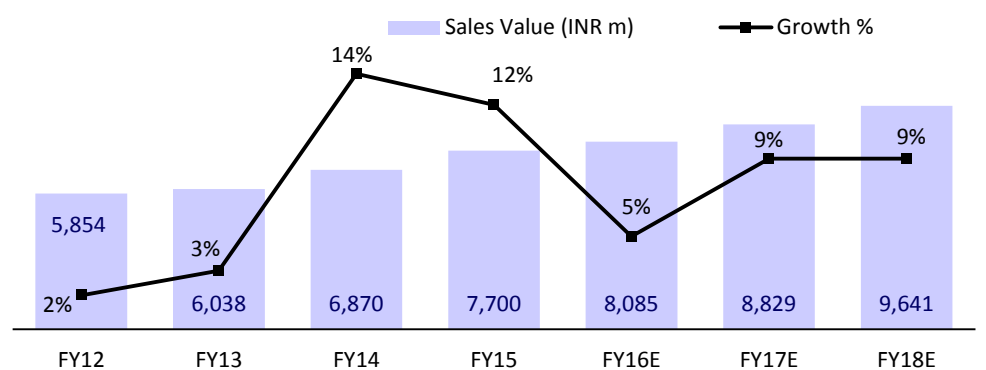


Source: Company, MOSL

Growth over the next two years to be a mix of volume and pricing

Overall, we expect 8% of revenue CAGR over FY15-18—driven by a mix of volume growth and realization improvement. The growth can be higher if the anti-dumping duty is levied on Chinese battery. In FY14 and FY15, the growth was mainly pricing driven with 9%/12% realization improvement, respectively.

Exhibit 25: Battery segment sales growth



Source: Company, MOSL

Exhibit 26: Volume growth to rebound

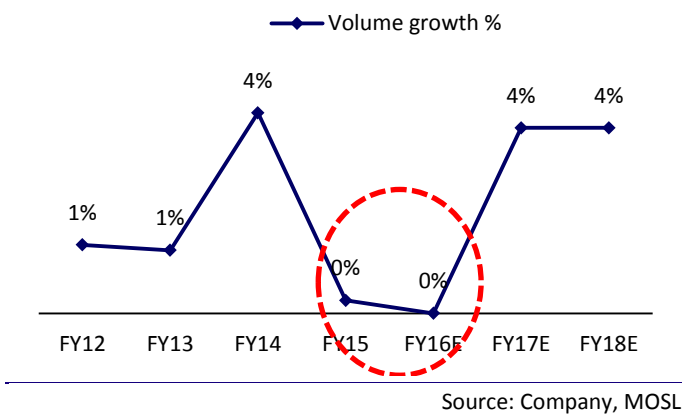
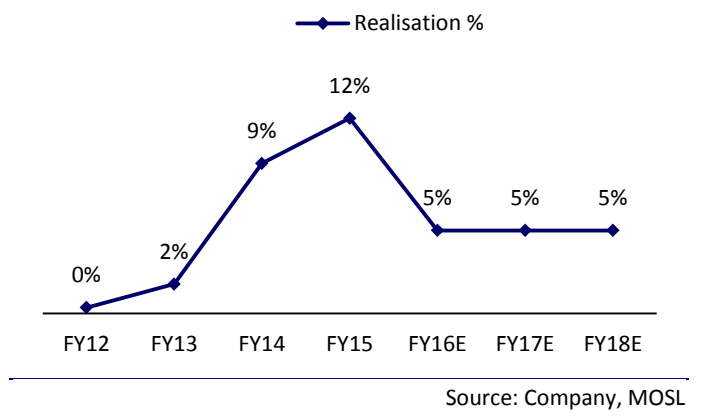
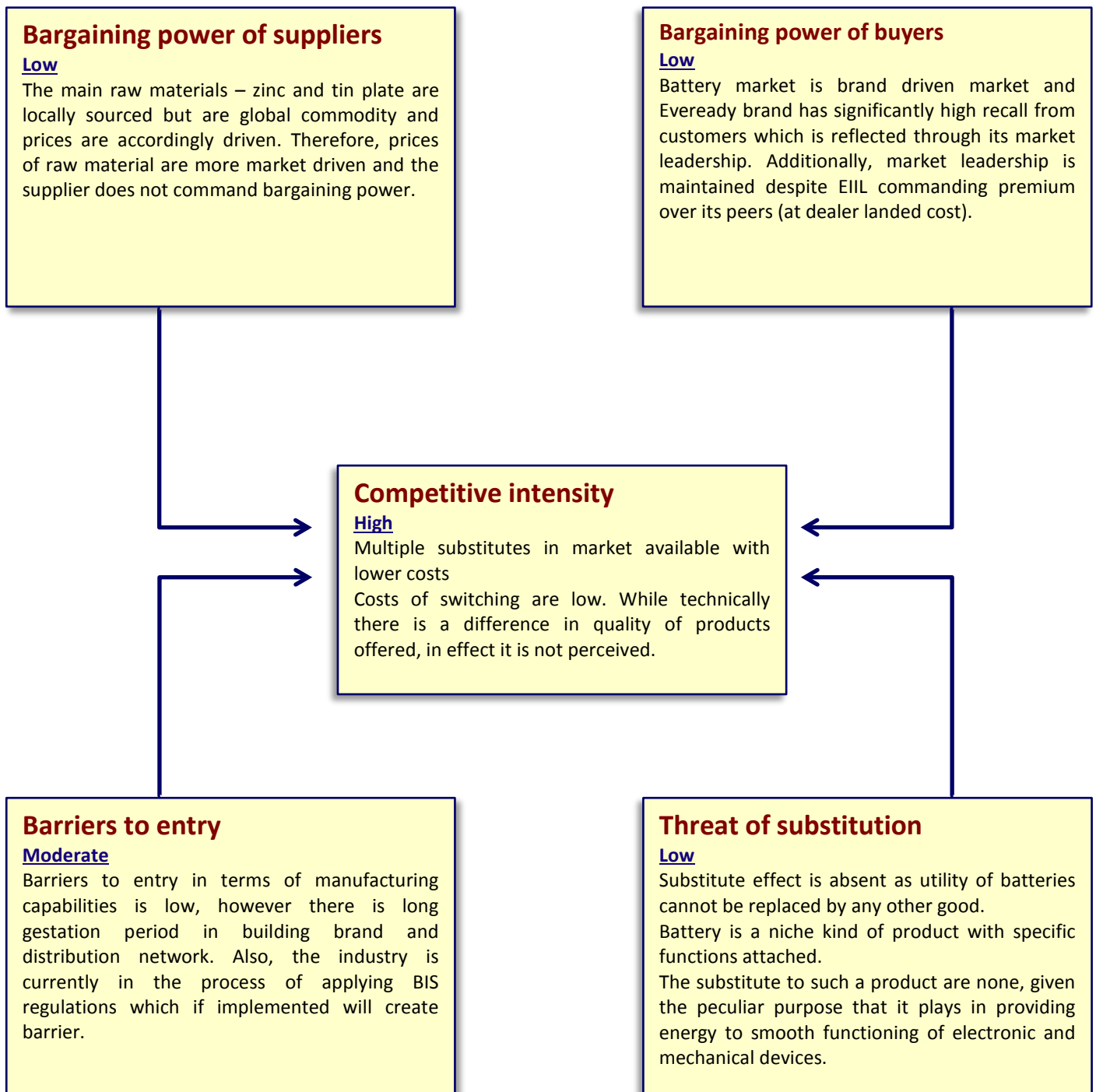


Exhibit 27: Realizations growth testimony of pricing power



Inspite of industry volumes growing at 7% CAGR in FY14 and FY15 which was driven by high growth in remotes due to digitization, branded players have not been able to grow mainly because of low priced Chinese batteries capturing the major share post FY13 due to removal of anti-dumping duty. Currently, the Chinese batteries have garnered 9% share in the market which we expect will not significantly increase from here because the demand in OEM market is equivalent to the growth in remote business. Therefore, of the 40% share of remotes in total market, 20% growth converts into 8% share for OEM's in remotes.

Porters five forces analysis – Battery business



The light ahead: LED provides growth opportunities

EIIL's core strength and track record gives confidence

- Government/association initiatives and inherent benefits of LED over incandescent and CFL in terms of efficiency will drive the future growth for lighting and electrical industry in India. The industry estimates the overall lighting market to be INR376b in 2020, with LED accounting for 60% (INR216b)—a CAGR of 36%.
- EIIL is leveraging its brand strength and vast distribution network to drive the LED lighting business. We believe EIIL is well set to capitalize on this opportunity due to (a) dedicated advertisement and promotional spends, (b) attractive pricing with better performance, (c) increasing reach through electrical outlets (from 30,000 to 60,000) and online channels, (d) setting up of its own manufacturing facility and participating in government orders.
- Our research indicates that there are around 15 major brands—like Phillips, Bajaj, Havells, Syska and Eveready—and many unknown brands present in India involved in LED-based business. As per industry sources, in B2C segment, Syska is currently leading the market with share (~21%) followed by Phillips while Eveready, Bajaj, Havells would be in the range of 6-8%.
- In future, EIIL intends to get into high-margin luminaire business. We believe there is huge opportunity for EIIL to grow in the lighting and electrical segments.

Lighting Industry in India to grow at 15% CAGR driven by LED lighting

The total lighting industry market size in India is pegged at INR160b (including Lamps, luminaires and accessories, and LED) and has grown at 18.5% CAGR over 2010-14; while the LED market has grown from INR5b in 2010 to INR34b in 2014 registering CAGR of 61.4%. Currently, EIIL caters to LED bulbs, CFL, Incandescent and a very small presence in luminaires category.

Exhibit 28: Lighting industry seeing high growth from LEDs

Category (INR b)	2010	2011	2012	2013	2014	CAGR %
Lamps category including Incandescent, FTL, CFL and other lamps	36	40.7	45.2	50.1	52.4	9.8%
Luminaires including High Mast	35	42.7	49.5	56	62.1	15.4%
Accessories, Components and Control Gears	8.5	9.5	10	10.7	11.6	8.0%
Total (Excluding LED Lighting)	79.5	92.9	104.7	116.8	126.1	12.2%
LEDs	5	8.5	12.5	18.3	34	61.4%
Total Lighting Industry (Value)	80.9	101.4	117.2	135	160	18.6%

Source: ELCOMA

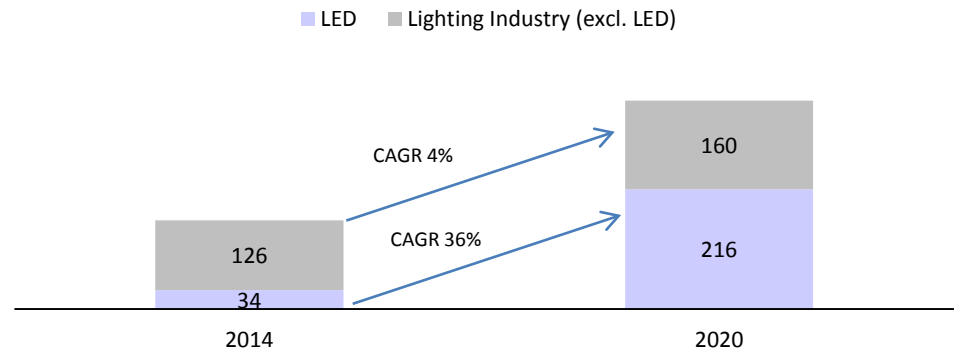
It is reported that 18% of the total electricity produced in India, is consumed by domestic lighting users. However, replacing the out of date incandescent, halogen, fluorescent lamps, etc. with the modern LED lights, will reduce the consumption level of electricity which grants the opportunity to utilize the surplus energy in other sectors.

As per ELCOMA Vision 2020, the lighting industry has initiated efforts to reduce the energy consumption for lighting from 18% at present to 13% by 2020 through introduction of more energy-efficient products and working with the government to execute schemes and awareness programs.

Considering all the above facts, the industry expects the total lighting industry to grow at CAGR of 15.3% to INR376b by 2020 driven by superior CAGR of 36.1% in LED

to INR216b which shall constitute 57% of the total lighting industry market size in 2020. Further, it is expected that within the LED based lighting products, B2B and B2C are expected to contribute ~50% each.

Exhibit 29: Market size break-up within the lighting and electrical industry



Source: ELCOMA

India has a population of above 1.2 billion people, yet 0.3 billion people in India are unconnected from the grid; implying they are not even allowed to be a part of the lighting industry’s market. However this is expected to change, and this large part of the India’s population will be able to join into the market, causing a further rise in the demand for light & light related products. This change is supposed to take place as a result of the recent agreement between US and India, where the US Government has agreed to invest USD4 billion into India’s Energy Production. Prime Minister’s project “Energy to All” shall seek to greatly increase the energy production in India, which will further have great potential to increase the market size of the India’s Lighting Industry.

Reports suggest that India’s energy demand at the end of 2012 was 770 million TOE (Tonne of Oil Equivalent), but this figure is expected to have a drastic rise to nearly double; 1,500 million TOE in 2030. This shows that energy production will increase, but based on the new Indian government policy (Reducing Carbon Emissions by 20 percent by 2020) the rise in production must go hand in hand with a cut in emission levels. This gives an additional opportunity for LED and other Green Light related products to shine.

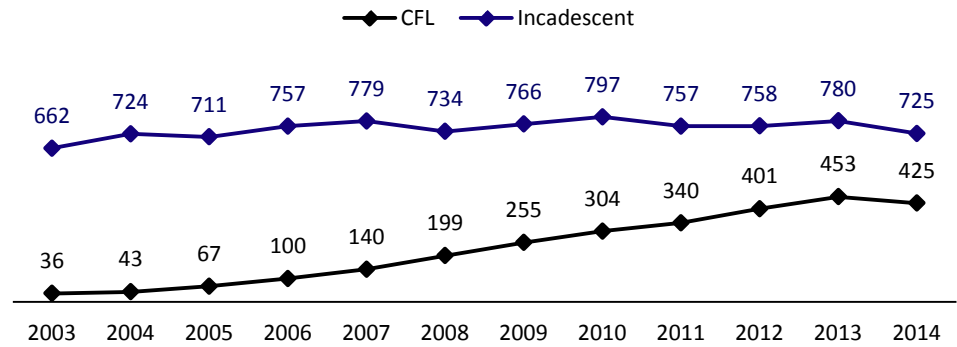
This provides a tremendous growth opportunity for the LED market. A shift from incandescent/CFL bulbs to LEDs will drive the latter’s growth going ahead.

Exhibit 30: Lamp market (India)

	Pcs m	INR/pc
Incandescent bulbs	780	~ 9
Fluorescent tubes	230	~ 30
CFL	425	~ 80
Total	1,435	

Source: ELCOMA, MOSL

Exhibit 31: CFL and incandescent growth maturing with entry of LED (Qty in mn pcs)



Source: ELCOMA

Government/association initiatives: As per white paper by BEE on “Stimulating LED in India”

Exhibit 32: Government initiatives

Government initiatives	Government bulk procurement	Test Labs
The Ministry of Commerce issued notification to Delhi government to ensure all showrooms/show windows using incandescent/ halogen lamps immediately replace them with LED down lighters. More states are expected to follow suit.	Preparing bulk requirement for railways, airport authority, urban housing, highways and other large development projects to create a large demand, which in turn will help in the growth of LED industry.	Government subsidizing (~INR25crores) establishment of LED test facilities at the existing test labs.
The Ministry of Commerce issued advisory to Ministry of Urban Development to ensure all medium and small municipalities switch to LED street lighting.	LED self-ballasted lamp for Bachat Lamp Yojna.	Expect at least three more test labs supported by government.
Bureau of Energy Efficiency started pilot programs to encourage use of LED street lights for municipalities and local bodies for secondary roads, parks, parking areas, etc.; 180 bodies are being funded.	All households within 5km of a power generating plant to be given a free LED bulb.	Expect 12 test labs by 2013.

Source: BEE, MOSL

Exhibit 33: Prime Minister Modi has been personally promoting installation of LED’s, as reflected in a – A snapshot of his recent tweet



Source: twitter

Exhibit 34: Benefits of LED over CFL and Incandescent bulbs – A comparison matrix

	LED (under DELP scheme)	CFL	ICL
Watt	7	14	60
Energy efficiency	88%	50%	0%
Annual cost savings of electricity bill per bulb (INR)	162	85.5	Nil
Life expectancy (Hrs)	50000	8000	1200
Free of cost warranty	3 yrs	1 yrs	Nil
Prices	*	80	10

*Under the DELP scheme, the government provided 4 bulbs at INR10 each; however, the market price for a 7W LED bulb ranges from INR250-400

Note: As per study issued by DELP

Source: DELP, MOSL

High prices of LED a major barrier, but are reducing as the scale is improving (component prices declining and competition increasing)

The key components of an LED lamp are chipset, driver (electronic circuit), heat sink and envelope. **LED chip and driver are the most critical component and constitute ~35% of the total cost.** In India, currently all the requirements for LED chip are being satisfied through imports as Indian companies do not have technology to manufacture LED chips. Whereas in case of driver, few organized players are now developing it in-house based on technology tie-up with American semi-conductor companies. The prices of LED components have seen rapid fall mainly on the back of economies of scale enjoyed by Chinese manufacturers due to high demand globally which has inturn led to drop in prices of LED.

Exhibit 35: LED prices are falling globally

Figure 2: LED Bulb Street Price

Equivalent to 40W Standard Light Bulbs 450~485lm, Warm White (US\$)				August 2015	
	High	Low	Average	Change	K-lm, Average
China	16.9	2.1	4.5	-1%	9.2
Worldwide	37.8	1.9	10.9	-2%	22.9

Source: LEDinside, Sep., 2015

<http://press.trendforce.com/node/view/2056.html>

Source: LEDinside, MOSL

Exhibit 36: LED prices falling in government tender as the volume increases

Period	LED bulbs offered in tender (mn)	Price per bulb (INR)
Jan 2014	0.75	310
Sep 2014	2	204
Nov 2014	3	149
Feb 2015	8	104
Mar 2015	8	82
Jun 2015	50	77

Source: Business Standard – June 20, 2015

Our research indicates that there are around 15 major brands currently operating in LED based lighting space

Our research indicates that there are around 15 major brands and many unknown brands currently present in India involved in LED based business. There are two main areas of where these players function, 1. Lamp source which include bulbs and tube lights, 2.Luminaires/Fixtures. Some of the players may be present in either of the two or in both. While within lamps business, there are three addressable markets which includes Consumer, Professional and Government (Street Lighting).

Exhibit 37: As per our research, 15 major brands present in LED based lighting space in India

Company	Brief about the company	LED Product types
Phillips	Philips Electronics India Limited, a subsidiary of the very popular company named Royal Philips Electronics (headquartered in Netherlands), is one of the most popular and well-known brands among Indian consumers. Philips has been operating in India for more than 75 years and its key business areas include Luminaires, Lamps, Lighting Electronics, Automotive and Special Lighting. Philips is also a leader in LED lighting. It offers a huge collection of LED products in various categories like GreenLED, Professional Luminaires, Lighting Electronics, Lifestyle modular switches with protective technology, Home Decorative Lighting collection, etc.	Bulbs, Wall Lights, Ceiling Lights, Tube Lights, Spot Lights, Downlights, Desk/Table Lights, Suspension Lights and Decor Lights
Osram	OSRAM, the German Lighting Expert, is considered to be one of the world's leading players in the global lighting market. This company has been supplying innovative and sustainable lighting solutions for more than 100 years. At present, OSRAM India has more than 800 employees and an annual income of over INR3b.	Lamps, Spot Lights, Tube Lights, Pendant Luminaires, Wall Luminaires, Ceiling Luminaires, Batten Luminaires, Deco Lights, Under Cabinet Lights, Recessed Luminaires, Floor Luminaires, Table Lights, Night Lights, String Lights, Flood Lights & Spots, Camping Lights, and Street Lights.
Havells	Havells Group is a well-known name in the field of electrical products and its accessories. In the year 2007, Havells created history by acquiring the world-renowned lighting company named Sylvania and by doing so the company registered itself amongst top five lighting companies in the world. Today, Havells possess some of the most prominent international brands such as Crabtree, Luminance & Standard, and Concord.	Lamps, Spot Lights, Down Lights, COB Fixtures, Decorative Wall/Ceiling Lights, Tube Lights, Landscape Lights, commercial lights and street lights.
Wipro (Garnet)	Founded in 1945 as a Vegetable Oil Company, today Wipro becomes the No. 1 lighting company in the area of Landscape Lighting. Also, it is No. 1 lighting suppliers to new generation petrol retail outlets. Wipro lighting is one of the fastest growing lighting companies in India.	Bulbs, Down Lights, Recess/Surface Mounted Luminaires, Suspended Luminaires, Linear Lamps, Desk Lights, Batten Lights, Flexible Strip Lights, and Street Lights
Bajaj Electricals	With over 75 years of experience in lightings, Bajaj Electricals brings world class lighting products with revolutionary LED technology to dazzle India. It is leading consumer durable company of India as well as it has pioneered in street lighting and rural electrification by providing special Solar & LED lightings solutions for major lighting & engineering projects of the country.	Bulbs, Down Lights, Spot Lights, Tube Lights, Flexi Strips, Highbay Luminaires, Street Lights, Landscape Lights, and Flood Lights
SSK Group (Syska LED)	The brand is just two decades old still can make a clear edge in today's LED lighting market for its smart innovation, fair pricing, advanced technology, remarkable energy efficiency, and high durability. These days, so many interesting TV ads of Irfan Khan for SYSKA product line are rolling over the TV.	Lamps, Tube Lights, Down Lights, Panel Lights, Strip Lights, Multibox Lights, Track Lights, Moisture Proof Lights, Flood/Beam Lights, Hi-bay, Tunnel Lights, Industrial Lights, Portable Lights, Corn Lights, Street Lights, Garden Lights Black/White, Garden / Wall Lights, Parking Lights
Ajanta Quartz (Orea)	Ajanta Quartz was considered to be one of the world's largest clock manufacturing companies. Later, this Gujarat-based group was diversified into Lighting & Ceramic products under the brand OREVA and its latest project is LED lamps. Switches, wires, MCBs (multi circuit breakers), lamps, tubelights, power savers, telephones, calculators, watches, etc. are produced by the same group.	Lamps, Night Lamps, Down Lights, Panel Lights, Spot Lights, Tube Lights, and Street Lights
Moser Baer	Worldwide, Moser Baer is well-known for optical storage media like CDs and DVDs and it is the first to market Blu-Ray discs in India. Recently, this 19,000-crore technology group diversified to LED-based lighting segment, launching an exciting range of home and office lighting.	Bulbs, Panel Lights, High Bay Lights, Street Lights, Down Lights and Tube Lights
Surya	Surya Roshni is just ranks after Phillips when it comes to the light. The market is already flooded with more than 50 LED products of Surya Roshni, however the company is planning to launch more than 50 new Led Lighting using top quality LED chips from Nichia, Japan in the next 3-4 months	Lamps, Spot Lights, Battens, Decorative luminaires, Down Lights, Strip Lights, Street lights, Facade lights, High-bays luminaires and Linear Lamps

Our interaction with Syska suggests high growth and sustainable margins in retail LED bulb business

We interacted with Mr. Rajesh Uttamchandani (promoter and director) of SSK group (Syska LED):

- Syska LED has been the frontrunner in promoting the LED lighting in the consumer space (the famous Irfan Khan advertisements). This the first time that the company has entered the B2C business and that is the reason Syska has been the most aggressive in terms of advertisement, which has benefited the company.
- The company claims to enjoy 21% market share in retail bulb business and intends to increase it to 30% and believes that it has overtaken the market leader Phillips.
- It intends to double revenues in the current year from FY15 (has already achieved last full-year's revenue in LED in the first six months) and further double it in FY17.
- It participates only in retail business and is not targeting the government business.
- **There are three addressable markets,**
 1. **Professional/corporate:** The margins are highest in professional/corporate segment, which is highly quality conscious and has insignificant participation from unorganized players. The segment provides 60-90 days of supply time, which allows the company to manage inventory in the light of falling realizations. The company keeps one month of inventory.
 2. **Retail:** In the retail market, the customers are very price sensitive and end up buying low-quality bulbs due to lack of awareness about quality. With BIS now compulsory for bulbs and to be made mandatory for other products also by December, it will bring pressure on unorganized players.
 3. **Government biz:** The government business is low-margin business with high volume, which basically justifies RoCE.
- Currently, it has one factory in Rabale (Mumbai) and it intends to set up three more factories going ahead.
- The company sells its products through 1 lac outlets, which it intends to double in the next 1.5-2yrs
- It has 70 showrooms, and aims to increase it to 175 by FY16 and 300 by FY17
- On the margin front, the company is very confident of maintaining the current levels

Will margins in LED sustain in light of intense competition?

We believe the gross margins across the industry amongst organized players are currently in the 30-40% range; on the EBITDA level, it is in the 12-14% range. In a rapidly growing market with high competitive intensity, it is feared that margins may come under pressure.

Our take is that there are three kinds of markets that a company in LED-based lighting business may address.

1. In case of government street lighting project, the bidding was at very low prices. As per our interaction with industry sources, the margins have been on the lower side; however, from an RoCE perspective, it is very healthy because of high volumes. Also, the bidding companies save on marketing expenses and get

six months to complete the order—which always benefits in a falling price scenario.

2. In case of professional/corporate lighting, the margins are high as it is a very quality-conscious market and presence of unorganized players is negligible.
3. In the third retail/B2C market, there is lot of competition between organized and unorganized players with huge price gap (price of 7W LED bulb ranges INR250-400 in case of an organized branded player; in the case of unorganized player, the price is INR70-90). Along with the gap in prices, there is also a wide gap in quality and guarantee period between organized and unorganized players. In the retail market, we believe a lot will depend on a company's pricing strategy. For instance, as per our interaction with some dealers, Phillips commands a premium pricing and offers lower dealer margins but continues to generate demand. On the other side, players like Syska, Eveready, Bajaj and Havells have priced their product attractively and have been able to garner decent market share.

Therefore, we believe that companies with strong brand and value proposition in B2C business will be able to maintain their margins.

Exhibit 38: Following is price comparison of 7W LED bulb (white light) by leading players available on Flipkart as on 29th Oct 2015 for a pack of 1

Brands	Price (INR)
Eveready	215
Philips	290
Crompton greaves	235
Syska	244
Bajaj	240

Source: Flipkart, MOSL

Exhibit 39: Economics of pricing of a LED Bulb

	INR
Average MRP of 7W bulb (varies from player to player)	200
Less: Trade Margins at 40%	80
Realisation	120
Less: Cost of a bulb	84
Gross Margin at 30%	36

Source: Industry, MOSL

Can Eveready emerge as a winner?

We believe EIL will emerge as the winner in the high-growth and highly competitive LED business owing to the following factors:

Leverage on 'Eveready' brand: EIL will leverage on its existing brand 'Eveready' which is also an advantage over new entrants. EIL is aggressively focusing on advertising and brand promotion of LED bulbs, and has spent majority of INR647m on the same in FY15. The company intends to spend 5% of total revenue towards brand building. 70% of total advertisement spends will be dedicated on promoting lighting business (LED based products) which includes TV commercials while balance will be towards overall brand building. It has also signed Akshay Kumar (a leading Bollywood actor) as its brand ambassador.

As per interaction with industry players, Syska, a relatively new name in the organized B2C LED lighting business, has overtaken Phillips—the strongest LED player—in terms of market share owing to aggressive spending toward branding and promotions by SSK group (which owns the Syska brand).

Exhibit 40: EIL's LED advertisement by brand ambassador "Mr. Akshay Kumar"



Source: Company, MOSL

Expanding reach through electrical outlets and e-commerce sites: EIL already has vast distribution network of 3.2m outlets with a strong rural reach due to upcountry vans program. With its recent entry into the lighting and electrical business, particularly the LED business, the company intends to capture the electrical outlets—which are likely to be the main driver of growth for the segment going ahead.

India currently has ~125,000 electrical outlets, with Eveready capturing 30,000. Phillips has been the leader in the segment, with a reach of around 100,000 outlets. Eveready plans to double its electrical outlets in the next 18 months and has already tied up with 400 dealers/distributors for the same.

Exhibit 41: Eveready to double its electrical outlet reach in the next 18 months

	No. of outlets (lakhs)
Total Universe	~1.25
Phillips	1.0
Bajaj Electricals, Havells, Surya Roshni	0.60 - 0.65 each
Eveready (currently)	0.30
Eveready (projected in next 18months)	0.60

Source: Company, MOSL

The company's products are also available on leading e-commerce sites like Flipkart, Snapdeal and Amazon.

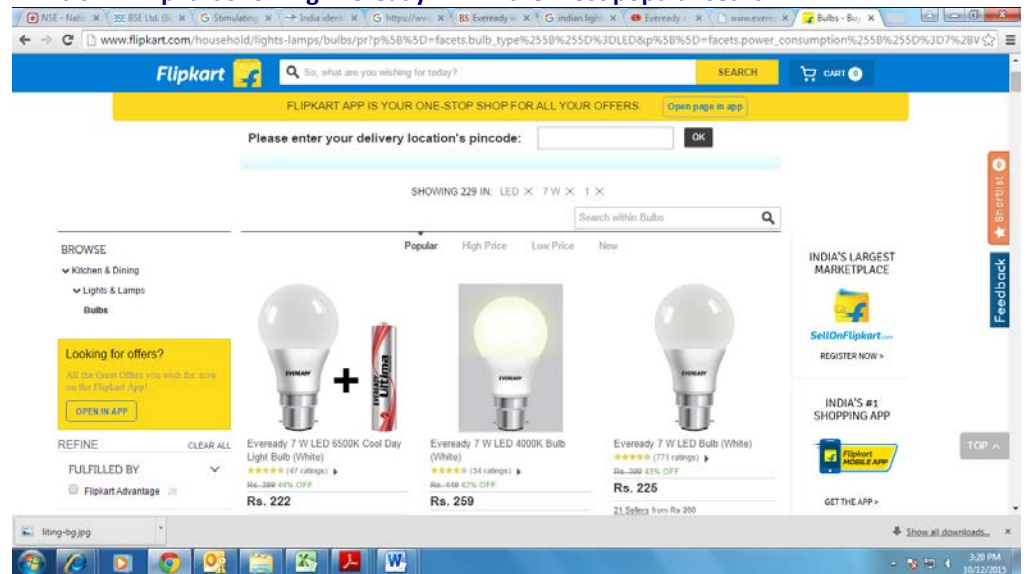
Our interaction with various dealers suggest high acceptance of EIL's LED bulbs amongst consumers coupled with strong demand from rural compared to peers, due to brand power and competitive pricing (Please refer our section on – Interaction with dealers).

Differentiated positioning: The company is positioning its LED bulbs as different from competitors by professing better performance on three parameters—lumens per watt, lumens and MRP.

EIIL recently launched the brightest ever 8W LED bulb, which offers highest lumen efficacy at 120 lumens per watt. The bulb was launched on leading e-commerce website Snapdeal to ensure buying across the country. The product has been offered as a value pack of 2 and is being offered to consumers at INR599 against an MRP of INR799.

On October 12, 2015, our popular product search on Flipkart for LED - 7W – pack of 1 with all brands under the selections criteria saw Eveready occupying the first three results. We also found that Eveready is offering free batteries with some of its products, thus creating value for money.

Exhibit 42: Flipkart showing Eveready LED in the most popular search



Source: Company, MOSL

Set up own manufacturing plant and participate in government orders: The company intends to set up its own manufacturing unit in the form of a JV with a domestic player by January 2016; the move is expected to reduce costs by 5-6% and ensure steady supply. Additionally, it will start participating in government orders which can potentially drive bulk orders. Although, the pricing has been low in government orders, the company saves marketing costs and has 6 months to fulfill the order. This shall safeguard the margins.

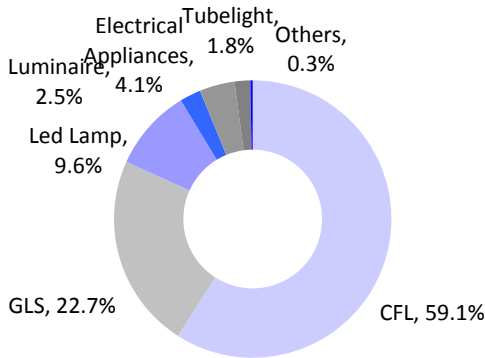
L&E segment to post 47% revenue CAGR over FY15-18 driven by LED business

L&E (Lighting and Electrical) segment contributed 15% to the total topline of EIIL in FY15. We expect, the same to increase to 32% in FY18 as L&E segment is expected to outperform other sectors. L&E to register 47% revenue CAGR from INR1,898m in FY15 to INR6,002m in FY18 driven by superior growth of 164% revenue CAGR in LED based lighting business.

In LED based business, we have factored in 25% increase in realization in FY16E over FY15 as FY15's realization was distorted due to initial launch phase of LED bulbs while we factor in 25% drop in realizations in FY17, in-line with industry and EIIL expectations. Currently, company maintains 1 month of inventory to protect margins from falling realizations. Thus, contribution of LED in the overall business is expected to improve from 1% in FY15 to 18% by FY17.

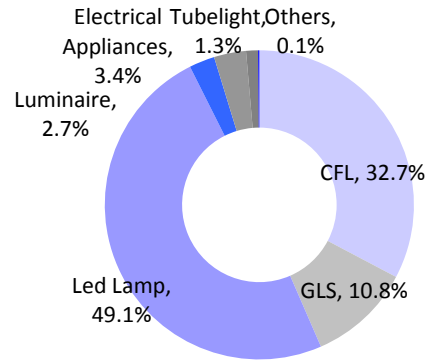
Additionally, as the volumes in LED business grow, we expect it provide significant operating leverage benefits.

Exhibit 43: FY15 contribution within the L&E segment



Source: Company, MOSL

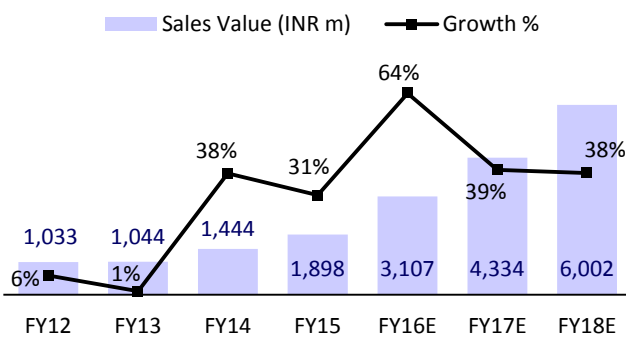
Exhibit 44: FY17 contribution within the L&E segment



Source: Company, MOSL

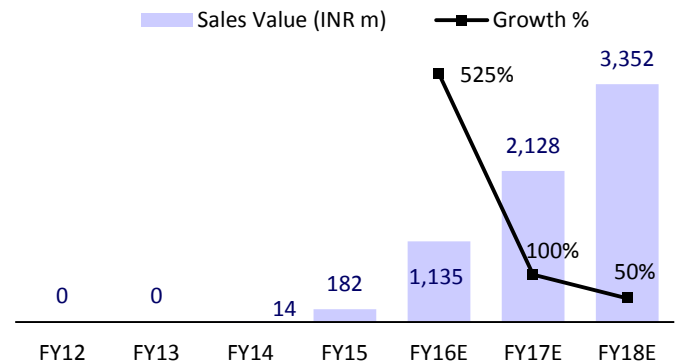
Going ahead, the company also intends to participate in the LED government orders and gradually focus on high-margin luminaire business over a period of time. Additionally, it intends to introduce new products like Iron, Mixer, Toaster, Oven, Induction cooker in small home appliances segment.

Exhibit 45: L&E revenue CAGR of 47% over FY15-18E



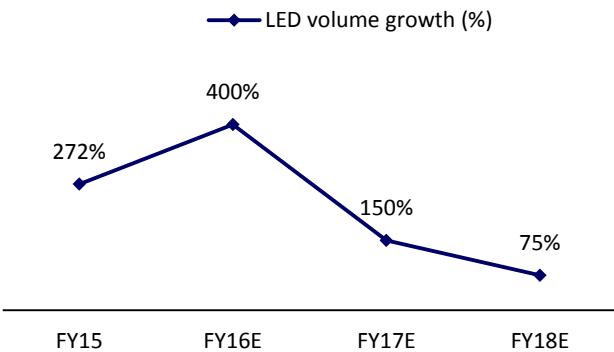
Source: Company, MOSL

Exhibit 46: ...driven by LED revenue CAGR of 164%



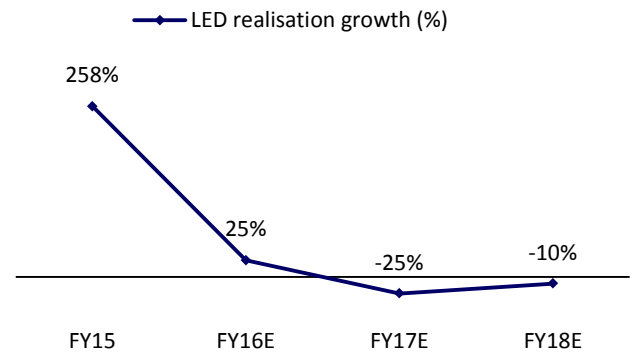
Source: Company, MOSL

Exhibit 47: Robust volume growth expected in LEDs



Source: Company, MOSL

Exhibit 48: Realizations to dip in-line with industry trends



Source: Company, MOSL

Flashlights and packet tea—to be a steady business

Innovation is driving outperformance in flashlights business

- After battery business, flashlight is the second biggest contributor to the revenue at 19% in FY15. EIL has leveraged the ‘Eveready’ brand to build flashlight business and enjoys 70% market share in organized flashlight market.
- EIL is likely to invest in packet tea business to increase visibility and achieve higher penetration in the northern and central regions, which is likely to increase its market share from the current ~1% in the branded segment

Flashlights – Innovation is driving outperformance

After battery business, flashlight is the second biggest contributor to the revenue at 19% in FY15. EIL has leveraged the ‘Eveready’ brand to build flashlight business and enjoys 70% market share in organized flashlight market. The company has a wide product portfolio in the segment catering to almost all price points and market segments. The company sells aluminum and brass torches which cater to the mass and rural markets and Ultra LED and Digi LED torches which are targeted more at the urban markets. Recently, EIL has announced launch of economy range of flashlights which is expected to be INR2.5-3b market.

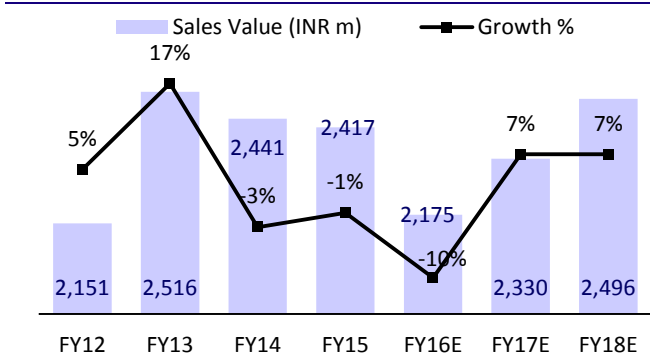
Another key advantage that Eveready enjoys is that it has been an early innovator and first mover in several key products. The company was an early mover in the LED torch segment, and recently introduced Digi LED technology into torches. The flashlights business is driven by rural economy, and therefore the performance of monsoon has a significant impact on the sales.

The demand for flashlights is mainly rural driven which is again dependent on monsoon. As the monsoon during the last three years has been erratic, it has impacted growth of flashlight business. Therefore, we factored 10% decline in sales growth in FY16E.

Packet Tea – to focus on growth

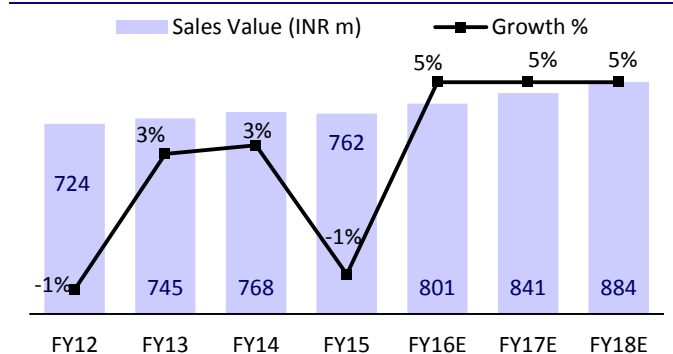
The packet tea segment, which comprises 6% of sales, is likely to see muted growth for the next two years. In this distribution-push model, EIL purchases loose tea from the open market on auction basis. EIL uses its group company’s (McLeod Russel which holds 2.29% stake in EIL) expertise in tracking prices in the industry. The company is likely to focus in this business to increase visibility and achieve higher penetration in the northern and central regions, which is likely to increase its market share from the current ~1% to 3-4% in the branded segment over a period of time.

Exhibit 49: Steady growth in flashlights



Source: Company, MOSL

Exhibit 50: Packet tea revenue growth



Source: Company, MOSL

Summary of dealers' survey

As per our interaction with various dealers, we understand that the battery and LED segments are brand-driven markets and EIL is strongly positioned.

Dry battery

EIL commands a premium over peers—popular batteries of EIL are available at INR5,700 per case (dealer-landed cost) compared with INR5,200 per case in case of Panasonic. In regions like North and East, brand recall is so high that demand is huge despite premium pricing. In South and West, it finds some competition due to premium pricing. The Northeast market is dominated by premium batteries where realization is INR9,000 per case.

There is a new entrant under the brand GP Batteries (from Godrej Group), which has been priced aggressively at INR4,600 per case and can be a threat in future. However, it is difficult to say whether the price will be sustainable in the long run.

Eveready batteries are fast moving and dealer/distributor replenishes the stock every month; the batteries of other players are slow moving. Also, a few distributors have faced payment problems in case of competitors.

The remote control sellers prefer batteries that are available at lowest possible price because for them it does not add value. However, Eveready batteries cater to the replacement market due to strong demand pull from end-customers.

Flashlights

Regions like West are witnessing tough competition from low-priced Chinese rechargeable flashlights available at INR100-150. Eveready has also launched low-priced flashlights at INR150, which are expected to gain traction.

Dealers/distributors in North and East are happy with continuous new launches and innovations in the battery business. EIL launches a new product every 3-4 months.

North and East continue to grow well for flashlights due to electricity shortage in the region. In Northeastern states like Assam, Eveready has a strong brand recall.

Lighting

The lighting business is reported to be growing at a very healthy pace, driven by LED. CFL is also reported to be growing, but at a very low pace. For dealers/distributors, the growth has been in the 50-100% range. Rural penetration of EIL is excellent as it runs upcountry vans, which gives it an edge over new entrants.

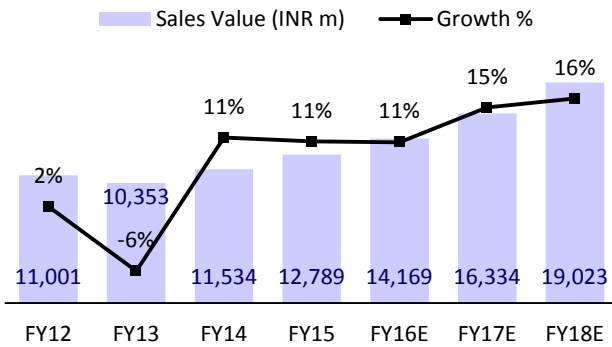
EIL is well placed amongst peers in terms of pricing, which is driving growth. Even if the prices reduce, the company will generate high volumes—which shall compensate for margin decline.

Players like Phillips command a premium and offer lower margins, but continue to see good demand from end-customer due to high brand value.

Current price of a 7W LED bulb (INR160) is comparable to a 14W CFL bulb (INR90) as LED provides a two-year warranty compared with a one-year warranty in case of CFL.

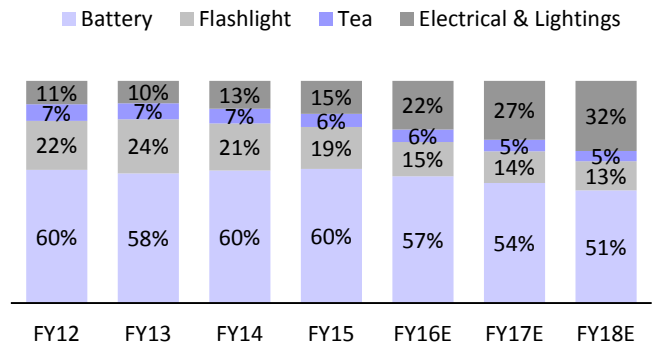
Adj. Earnings to post 31% CAGR over FY15-18

Exhibit 51: Revenue to post 14% CAGR over FY15-18



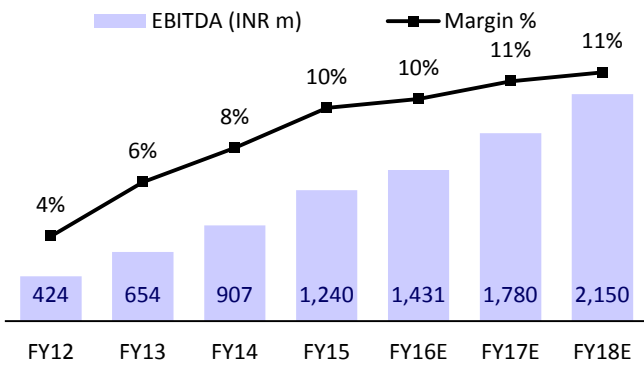
Source: Company, MOSL

Exhibit 52: Revenue contribution increasing in favor of L&E



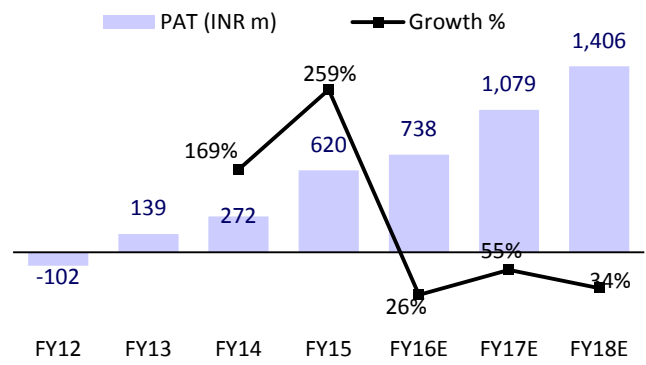
Source: Company, MOSL

Exhibit 53: EBITDA to post 20% CAGR over FY15-18



Source: Company, MOSL

Exhibit 54: PAT to post 31% CAGR over FY15-18



Source: Company, MOSL

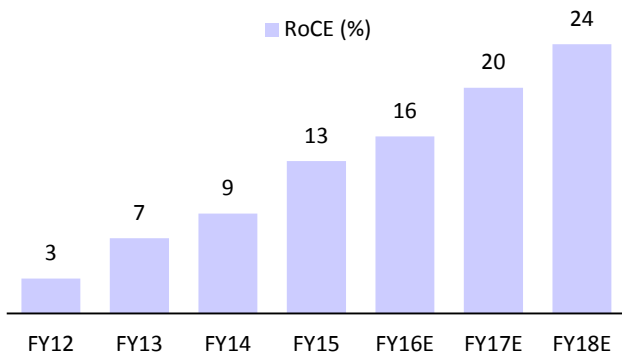
Reported PAT Loss of INR881m in FY12 due to exceptional item

EEIL reported a loss of INR881m in FY12 due to INR768m one-time exceptional provision for diminution in value of investment in subsidiary 'Novener SAS' and workmen separation cost. EEIL had acquired a controlling stake in 'Novener SAS' in July 2009, a rechargeable battery conglomerate marketing batteries under the brand name 'Uniross'.

Amortization of brand—Eveready

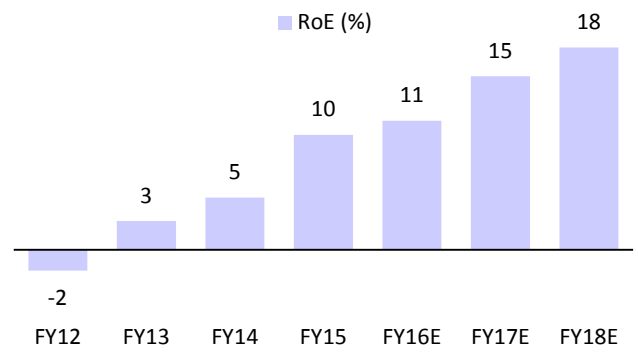
As per the scheme of arrangement between the company and Eveready Company India Ltd—now known as 'Mcleod Russel India Ltd' (MRIL)—in 2004, the entire undertaking of Bulk Tea Division was demerged and transferred to MRIL. Thus, as part of transaction and based on the valuation made, the brand 'Eveready' was valued at INR6600m and was taken into books as Intangible asset. Thus, the company is writing it off as amortization over a period of 40 years. We have exhibited amortization cost as exceptional item in Profit and Loss account and have thus reported adjusted PAT.

Exhibit 55: RoCE to double over FY15-18



RoCE and RoE not adjusted for Brand – Intangible

Exhibit 56: RoE to improve driven by margin expansion



Source: Company, MOSL

Exhibit 57: Strong gross margin profile throughout

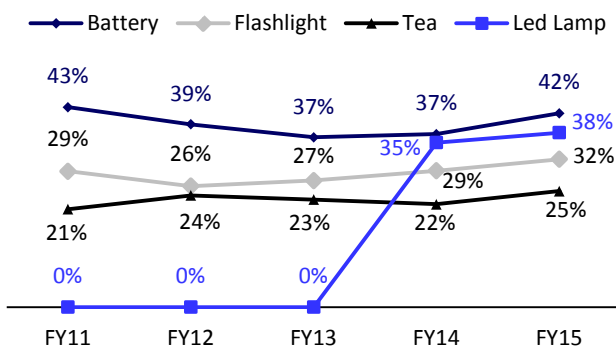
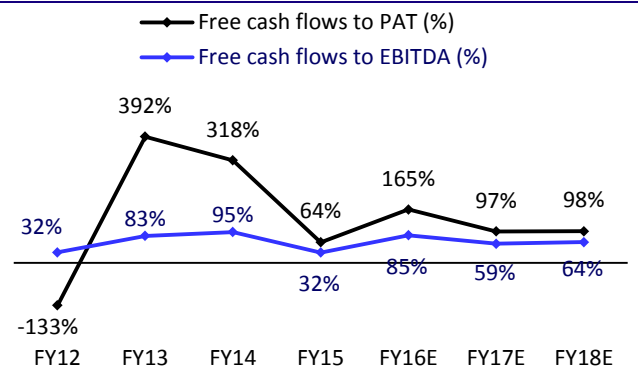


Exhibit 58: Robust earnings to cash conversion



Source: Company, MOSL

Exhibit 59: Quick cash conversion

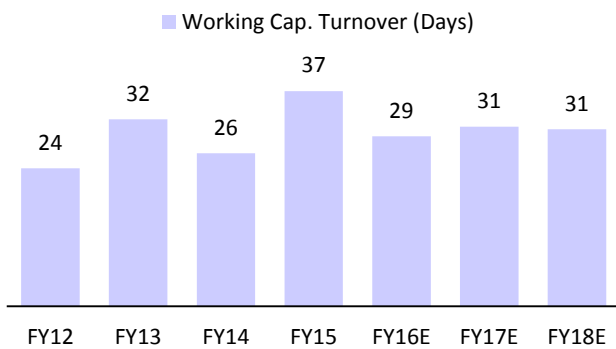
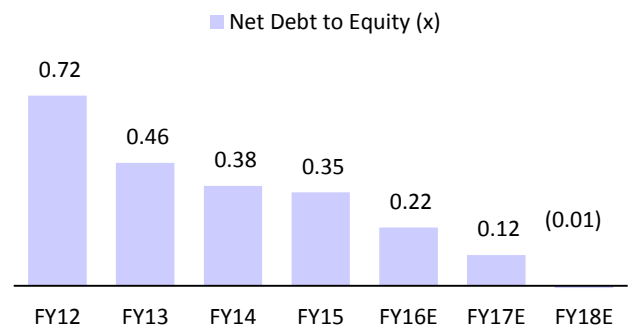


Exhibit 60: Expected to be debt-free by FY18



Source: Company, MOSL

Valuation and view

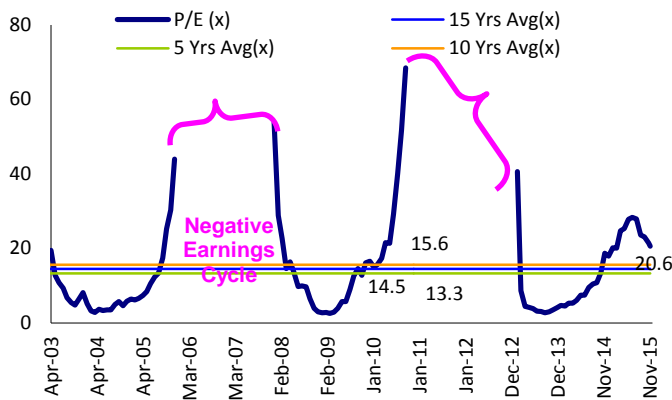
Initiate with a Buy

Over FY15-18, we expect EIL's revenue to grow at 14% CAGR (to INR19b), EBITDA margin to expand 160bp (to 11.3%) and adj. PAT to grow at 31% 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 43% 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.

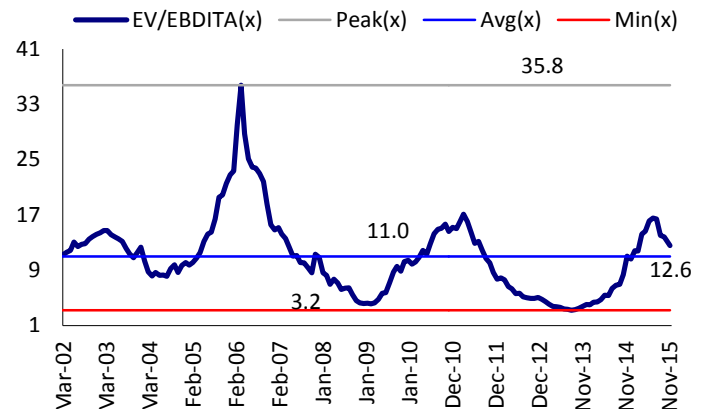
On account of these reasons, we believe EIL should be valued at PE of 20x on FY18E EPS. The stock trades at 29x FY16E, 20x FY17E and 15x FY18E adj. earnings (adjusted for amortization of brand). We initiate coverage with a Buy rating and a target price of INR390 (upside 34%).

Exhibit 61: Price-to-earnings (one-year forward)



Source: Company, MOSL

Exhibit 62: EV/EBITDA (one-year forward)



Source: Company, MOSL

Exhibit 63: Peer Comparison

Peer Companies	Mcap (USD m)	RoE %			EBITDA %			PE (x)			EV/EBITDA (x)		
		FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Dabur India Ltd	7,268	34	33	33	18	18	19	37	32	27	31	26	22.8
Emami Ltd	3,352	39	39	42	27	27	28	42	34	27	31	25	21.37
Marico Ltd	4,422	34	33	33	17	17	17	41	35	28	27	23	20.22
Bajaj Corp Ltd	955	46	51	55	31	31	31	26	22	18	21	18	14.77
Bajaj Electricals Ltd	311.5	15	19	21	6	6	7	19	12	9	9	7	5.31
Havells India Ltd	2,873	26	29	29	10	11	12	36	29	25	22	18	15.91
Eveready Indus*	318	42	43	40	10	11	11	29	20	15	16	12	9.8

*RoE adjusted for goodwill

Source: Company, MOSL

Exhibit 64: Assumption sheet

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	1351	1405	1462
Flashlight	MN	25	26	27	25	24	22	23	24
Tea	Ton	4,615	4,577	4,357	4,386	4,375	4463	4552	4643
CFL	MN	7	7	6	8	10	11	12	14
GLS	MN	28	41	38	44	49	51	53	54
Led Lamp	MN	-	-	-	0	1	5.8	15	25
Volumes Sold Growth %									
Battery	MN		1%	1%	4%	0%	0%	4%	4%
Flashlight	MN		4%	2%	-6%	-4%	-10%	4%	4%
Tea	Ton		-1%	-5%	1%	0%	2%	2%	2%
CFL	MN		-5%	-11%	37%	18%	15%	10%	10%
GLS	MN		48%	-9%	18%	10%	5%	3%	2%
Led Lamp	MN		-	-	-	272%	400%	150%	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	195.3	146.5	131.8
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%	3%	3%	3%
CFL	MN		3%	11%	-3%	2%	0%	0%	0%
GLS	MN		13%	10%	3%	2%	0%	0%	0%
Led Lamp	MN					258%	25%	-25%	-10%
Sales Value (INR Million)									
Battery		5,749	5,854	6,038	6,870	7,700	8,085	8,829	9,641
Flashlight		2,048	2,151	2,516	2,441	2,417	2,175	2,330	2,496
Tea		733	724	745	768	762	801	841	884
Electrical & Lightings		974	1,033	1,044	1,444	1,898	3,107	4,334	6,002
CFL		724	707	699	934	1,121	1,289	1,418	1,560
GLS		190	317	317	385	431	452	466	475
Led Lamp		-	-	-	14	182	1,135	2,128	3,352
Total Sales Value		9,504	9,762	10,343	11,523	12,778	14,169	16,334	19,023
Sales Value Growth %									
Battery			2%	3%	14%	12%	5%	9%	9%
Flashlight			5%	17%	-3%	-1%	-10%	7%	7%
Tea			-1%	3%	3%	-1%	5%	5%	5%
Electrical & Lightings			6%	1%	38%	31%	64%	39%	38%
CFL			-2%	-1%	34%	20%	15%	10%	10%
GLS			67%	0%	21%	12%	5%	3%	2%
Led Lamp			-	-	-	1229%	525%	100%	50%
Total Growth %			3%	6%	11%	11%	11%	15%	16%

*We expect 25% improvement in realization in LED lamp in FY16 over FY15 as the base year realization were distorted due to 1st year of business activation and mix largely skewed towards lower value products.

Key risks

Fall in LED realizations can be higher than expected

LED bulb prices are falling rapidly on the back of higher economies of scale at manufacturing level in china. While we have modeled in 25% fall in realisations in FY17 for LED bulbs, the actual fall can higher than expected which can lead to lower sales growth and absolute margins.

Inability to pass on sharp increase in Zinc price / INR depreciation can bring margins under pressure

Zinc forms ~19% of the total raw material consumption and therefore any sharp increase in prices / impact of INR depreciation with inability to immediately pass on the same can hurt the margins. As the battery business is the major contributor to revenue and profitability, it can adversely impact the overall margins of the business.

Company overview

A century-old legacy

The Eveready Industries India Ltd (EIL) journey started in India in 1905 while the company got incorporated in 1934, and became a part of the Williamson Magor Group in 1993.

In 1994 the Williamson Magor Group through McLeod Russel (India) Limited bought 51% of the equity shareholding of Union Carbide India Limited. The company was renamed Eveready Industries India Limited. Subsequently, McLeod Russel India Limited was merged with Eveready Industries India Limited to form a new company with two Divisions—the Bulk Tea Division (which managed the tea estates of McLeod Russel) and the Battery Division (which produced and marketed the popular Eveready batteries and flashlights). In April 2004 Eveready Industries de-merged the two divisions into McLeod Russel India Limited (Bulk Tea business) and Eveready Industries India Limited (Dry Battery business).

Exhibit 65: Group companies

McLeod Russel India Limited (McLeod) is the world's largest tea producer and exporter, producing 100+ million kilograms of tea in India, Africa and Vietnam.

McNally Bharat Engineering Company Limited (McNally) is one of India's leading engineering companies engaged in providing turnkey solutions to various sectors (Steel, Cement and Power, among others).

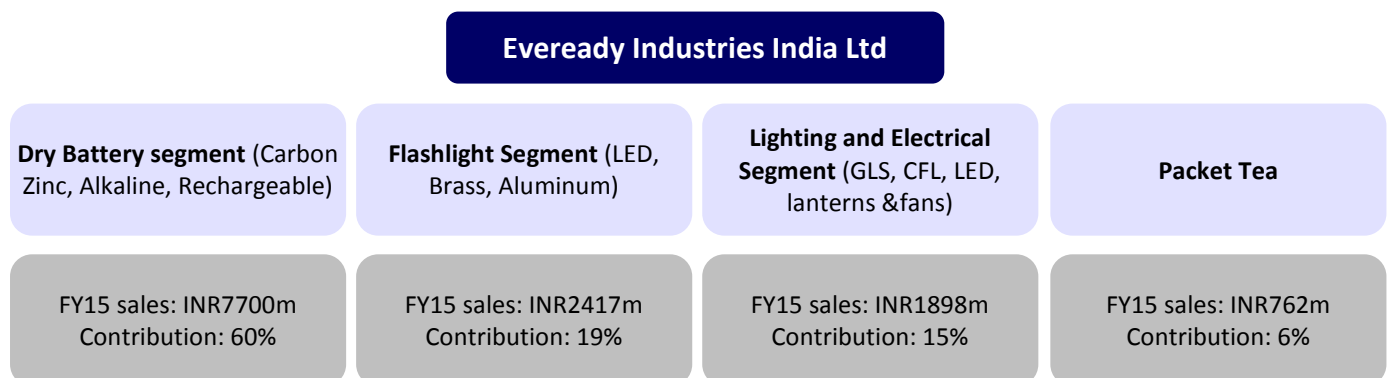
Kilburn Engineering Limited (Kilburn) designs, manufactures and commissions critical customised heat and transfer equipment for several industries.

Source: Company, MOSL

EIL a well-diversified company with leadership in batteries and flashlights industry

EIL has a well-diversified product portfolio spanning four products, with strong leadership in two key products segments—batteries and flashlights. Mr. Amritanshu Khaitan is a third generation promoter who is now leading Eveready Industries in his capacity as the Managing Director.

Exhibit 66: Dry Battery segment is the largest segment



Source: Company, MOSL

Management overview

Mr. Brij Mohan Khaitan, Non-Executive Chairman

Mr. Brij Mohan Khaitan is a renowned Industrialist having interest in tea, batteries and engineering. He served as the President of Indian Chambers of Commerce in 1973. He was elected as Fellow of the Institute of Directors in UK. Mr. Khaitan holds Bachelor of Commerce from Calcutta University.

Mr. Amritanshu Khaitan, Managing Director

Mr. Amritanshu K. Khaitan, B.Com (Hons.), MBA (London Business School), has been Managing Director of EIL Limited since May 5, 2014. He has more than 10 years of industry experience.

Mr. Suvamoy Saha, Whole Time Director

Mr. Suvamoy Saha has been the Chief Financial Officer of EIL since March 22, 2005. Mr. Saha has over 25 years of experience in corporate management in diverse fields both in India and abroad.

Annexure

Types of Battery and their applications

Exhibit 67: Types of Battery

Primary Batteries (Disposable)	Applications	Eveready's Presence
Zinc Carbon	Low power drain items like remote controls, clocks, flashlights, toys	Available in AA, AAA, C, D and 9V
Alkaline	High power drain items like Gaming consols, digital cameras, MP3, radio, wireless mouse, toys.	Available in AA, AAA and 9V
Mercury	Photographic light meters and electronic devices such as - to run the real-time clock of CPU	-
Silver-Oxide	Very expensive batteries and offer better run time than - alkaline. Used in military and submarines	-
Secondary Batteries (Rechargeable)		
Lead-Acid	Starting, lighting and ignition system of automobiles, back-up power supply for high end servers, telephone exchanges, potable emergency lights	-
Lithium ion	Used in portable consumer instruments like calculators, iPods, digital diaries, wrist watches and stop watches, toys, and artificial pacemakers	-
Nickel-cadmium (NiCd)	Main applications are power tools, medical devices, aircraft batteries and UPS. Due to environmental concerns, NiCd is being replaced with other chemistries	-
Nickel-metal-hydride (NiMH)	NiMH is used for medical instruments, hybrid cars and industrial applications. NiMH is also available in AA and AAA cells for consumer use like digital cameras, toys, wireless mouse, MP3 players where eveready is present.	Available in AA and AAA

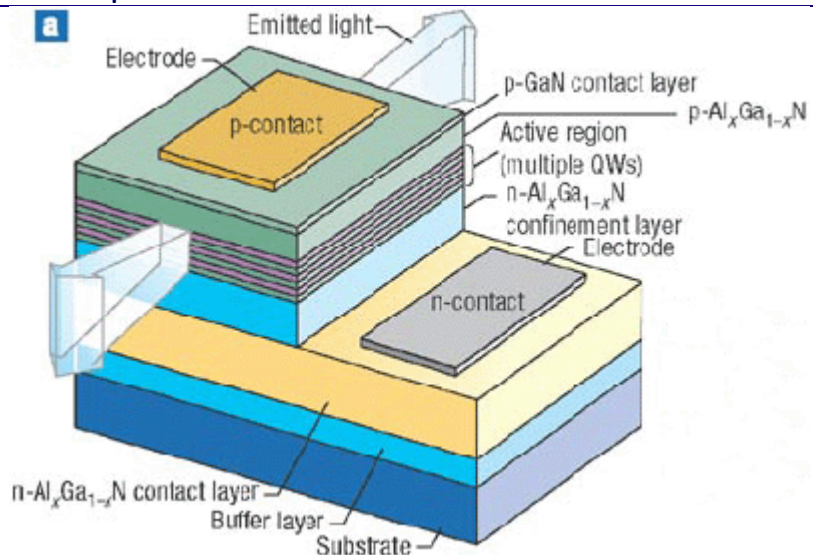
Source: Company, MOSL

Important components of LED

LED Chip

Led chip is a core component of LED. Its main functions are: convert the electrical energy into light, the main material is Monocrystalline.

Exhibit 68: LED Chip



Source: MOSL, Company

LED Light Emitting Diode (LED) is a solid-state semiconductor devices, which can convert electricity directly into to light. LED's heart is a semiconductor chip, one side of the chip is attached to a stent, the end is negative, the other side connect the positive terminal of the power, and the whole chip is packaged by epoxy resin. Semiconductor chip consists of two parts, one is P-type semiconductor, the hole is in it dominant, the other part is the N-type semiconductor, in this part is mainly electronics. And a PN junction is formed between them when the two semiconductor connected. When the current acting on the chip through the wire, electronics will be pushed to P zone, in this areas where electronics recombined with the hole, then emit energy by the form of photon, which is the principle of LED. The wavelength of the light or the color is determined by the material of PN junction.

LED driver

An LED driver is the power supply for an LED system, much like a ballast is to a fluorescent or HID lighting system. LED drivers may be constant voltage types (usually 10V, 12V and 24V) or constant current types (350mA, 700mA and 1A). Some drivers are manufactured to operate specific LED devices or arrays, while others can operate most commonly available LEDs.

One of the most important LED driver features to examine is the quality of the DC output voltage of the driver. To maximize the light output from the LEDs without overstressing them requires a constant DC current to be maintained through them.

Drivers can also be used to enable color-changing or sequencing. This can be achieved by dimming a mix of colored LEDs in an array to change colors. Another option is that the driver can work with a color sequencer, which receives the 10V or 24V LED driver output and converts it into three-channel output - usually red, blue and green - that can be mixed to create a wide, dynamic range of colors

Financials and valuations

Consolidated - Income Statement						(INR Million)
Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Total Income from Operations	10,353	11,534	12,789	14,169	16,334	19,023
Change (%)	-5.9	11.4	10.9	10.8	15.3	16.5
EBITDA	654	907	1,240	1,431	1,780	2,150
Margin (%)	6.3	7.9	9.7	10.1	10.9	11.3
Depreciation	170	253	155	157	160	163
EBIT	484	654	1,085	1,274	1,621	1,987
Int. and Finance Charges	405	411	340	297	179	101
Other Income	94	87	39	47	56	68
PBT bef. EO Exp.	173	330	784	1,025	1,498	1,953
EO Items	-181	-165	-165	-165	-165	-165
PBT after EO Exp.	-8	165	619	860	1,333	1,788
Current Tax	-49	6	128	241	373	501
Deferred Tax	-10	23	1	0	0	0
Tax Rate (%)	753.5	17.5	21.0	28.0	28.0	28.0
Reported PAT	51	136	489	619	960	1,288
Adjusted PAT	139	272	620	738	1,079	1,406
Change (%)	-235.9	96.4	127.7	19.0	46.2	30.4
Margin (%)	1.3	2.4	4.8	5.2	6.6	7.4

Consolidated - Balance Sheet						(INR Million)
Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Equity Share Capital	363	363	363	363	363	363
Total Reserves	5,478	5,571	5,883	6,310	7,015	7,962
Net Worth	5,841	5,935	6,246	6,674	7,378	8,326
Deferred Liabilities	134	149	148	148	148	148
Total Loans	2,761	2,251	2,278	1,678	1,078	478
Capital Employed	8,736	8,334	8,672	8,499	8,604	8,951
Gross Block	13,296	13,173	13,255	13,505	13,755	14,005
Less: Accum. Deprn.	5,659	5,870	6,292	6,613	6,938	7,266
Net Fixed Assets	7,637	7,303	6,964	6,892	6,817	6,740
Capital WIP	89	144	278	209	126	14
Curr. Assets, Loans&Adv.	3,317	3,629	3,715	4,426	5,185	6,364
Inventory	2,210	2,569	2,596	2,854	3,269	3,807
Account Receivables	442	490	489	699	895	1,042
Cash and Bank Balance	46	11	71	202	215	548
Loans and Advances	620	559	559	671	806	967
Curr. Liability & Prov.	2,357	2,785	2,344	3,087	3,584	4,226
Account Payables	2,187	2,566	2,169	2,686	3,077	3,583
Provisions	170	219	175	401	507	643
Net Current Assets	961	845	1,371	1,339	1,601	2,138
Deferred Tax assets	50	43	59	59	59	59
Appl. of Funds	8,736	8,334	8,672	8,499	8,604	8,951

Financials and valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Basic (INR)						
EPS	1.9	3.7	8.5	10.1	14.8	19.4
Cash EPS	4.2	7.2	10.7	12.3	17.0	21.6
BV/Share	80.4	81.7	85.9	91.8	101.5	114.6
DPS	0.0	0.5	0.0	2.3	3.0	4.0
Payout (%)	0.0	31.0	0.0	30.9	26.6	26.4
Valuation (x)						
P/E			77.7	34.1	28.7	19.6
Cash P/E			40.2	27.3	23.6	17.1
P/BV			3.6	3.4	3.2	2.9
EV/Sales			2.0	1.8	1.6	1.3
EV/EBITDA			25.8	18.8	15.8	12.4
Dividend Yield (%)			0.2	0.0	0.8	1.0
FCF per share			11.9	5.4	16.8	14.4
Return Ratios (%)						
RoE	2.5	4.6	10.2	11.4	15.4	17.9
RoCE	6.6	8.8	13.5	15.7	20.0	23.8
Working Capital Ratios						
Asset Turnover (x)	1.2	1.4	1.5	1.7	1.9	2.1
Inventory (Days)	117	122	117	117	117	117
Debtor (Days)	15	15	13	17	19	19
Creditor (Days)	116	122	98	110	110	110
Working Cap. Turnover (Days)	32	26	37	29	31	31
Leverage Ratio (x)						
Current Ratio	1.4	1.3	1.6	1.4	1.4	1.5
Interest Cover Ratio	1	2	3	4	9	20
Debt/Equity	0.5	0.4	0.4	0.3	0.1	0.1

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
OP/(Loss) before Tax	-8	165	619	1,025	1,498	1,953
Depreciation	351	418	320	157	160	163
Interest & Finance Charges	336	408	314	297	179	101
Direct Taxes Paid	76	3	-103	-241	-373	-501
(Inc)/Dec in WC	-134	7	-440	163	-249	-205
CF from Operations	621	1,000	710	1,400	1,214	1,512
Others	23	-69	7	0	0	0
CF from Operating incl EO	644	931	717	1,400	1,214	1,512
(inc)/dec in FA	-101	-66	-323	-181	-168	-138
Free Cash Flow	543	865	394	1,220	1,047	1,374
Others	-55	3	33	0	0	0
CF from Investments	-156	-63	-290	-181	-168	-138
Inc/(Dec) in Debt	-97	-499	36	-600	-600	-600
Interest Paid	-417	-398	-362	-297	-179	-101
Dividend Paid	0	-5	-42	-191	-255	-340
CF from Fin. Activity	-514	-902	-368	-1,088	-1,034	-1,041
Inc/Dec of Cash	-26	-35	60	132	13	333
Opening Balance	72	46	11	71	202	215
Closing Balance	46	11	71	202	215	548

NOTES

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS

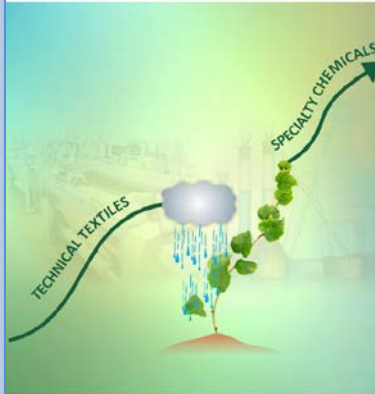
MOTILAL OSWAL Initiating Coverage | 23 September 2015
Sector: Automobiles
Bosch



Heart of vehicles

Jyeshth Ganeshi (Jyeshth.Ganeshi@MotilalOswal.com) +91 22 3982 5435
Nikhil Shah (Nikhil.Shah@MotilalOswal.com) +91 22 3978 4705


MOTILAL OSWAL Initiating Coverage | 10 September 2015
Sector: Diversified
SRF



Growth Renewed

Chaitan Modi (Chaitan.Modi@MotilalOswal.com) +91 22 3982 5422
Nikhil Shah (Nikhil.Shah@MotilalOswal.com) +91 22 3982 5426

MOTILAL OSWAL Initiating Coverage | 19 August 2015
Sector: Business Services
MCX



MCX 2.0: Renewed!

Ashish Chopra (Ashish.Chopra@MotilalOswal.com) +91 22 3982 5424


MOTILAL OSWAL Initiating Coverage | 2 September 2015
Sector: Financials
GRUH Finance



The cash machine

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MOTILAL OSWAL Initiating Coverage | 25 August 2015
Sector: Textiles
Indo Count



Linen craft

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MOTILAL OSWAL Initiating Coverage | 15 June 2015
Sector: Agri
Insecticides India



Bumper yield ahead!

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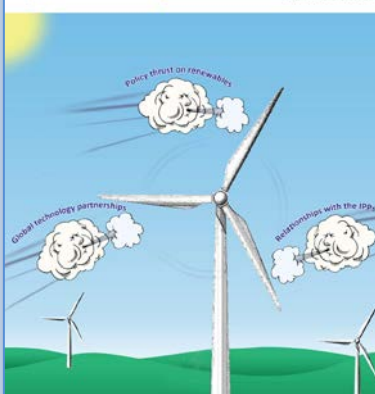
MOTILAL OSWAL Initiating Coverage | 10 June 2015
Sector: Others
Century Plyboards



First choice

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MOTILAL OSWAL Initiating Coverage | 1 July 2015
Sector: Capital Goods
Inox Wind



Favorable winds

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MOTILAL OSWAL Initiating Coverage | 29 May 2015
Sector: Financials
Repco Home Finance



Catch it young

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